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Ignite Restaurant Group looks for bonanza in acquisition of Romano's Macaroni Grill



Ignite Restaurant Group's announcement in February that it agreed to acquire Romano's Macaroni Grill from Golden Gate Capital, including its management and investors, raised some eyebrows. The \$55M all-cash transaction is being funded by a \$50M increase in Ignite's credit line. Comparing its existing Joe's Crab Shack and Brick House Tavern + Tab brands to the Romano's Macaroni Grill concept — the brands couldn't be more disparate in nature, say some experts.

But Ray Blanchette, Ignite president and CEO, who refers to the casual dining segment of the concepts he runs as "polished casual," disagrees, saying the concepts fit well: "We consider Macaroni Grill to be a pioneer in this segment and we believe there are economies of scale between the brands that we expect to realize."

John A. Gordon, principal of Pacific Management Consulting Group, a chain earnings and economic advisory and consulting group, says, "The Italian and crab concepts couldn't be further apart and little dual concept synergies can be seen. It is true that it is almost impossible to come up with large number of quality locations in the US today without a massive purchase or re-flagging, which IRG seems to be doing."

Blanchette tells *Chain Pulse Magazine* that the Ignite management team will accelerate innovation with the brand and "look for ways to drive that innovation

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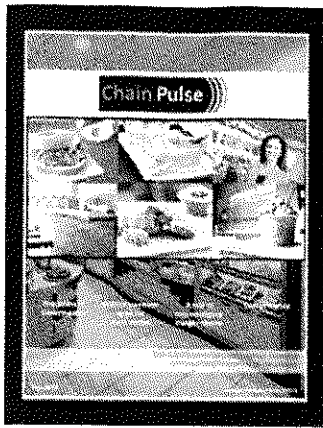
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across menus, marketing, service and real estate." He says he'll deploy a similar strategy to the one he used in up-scaling the Joe's Crab Shack.

Gordon says that if the leases are affordable, some of the locations might be worth converting to the Brick House Tavern + Tap concept down the road.

Finance bloggers on investment/earnings sites like Seeking Alpha have also expressed concern about the risks, particularly as fast casual chains continue to struggle in a challenging environment, face pressure on menu pricing strategies and deal with increasing competition from other segments; but turnaround, they say, is also a strong possibility.

Romano's Macaroni Grill has 186 locations in 36 states, while Ignite's two concepts have less than 140 combined locations. Gordon notes that there's opportunity because of where Macaroni Grill has fallen: average unit sales volume (AUV) of the restaurants is \$2.1M versus \$3.3M just four years ago.

Total system sales at Macaroni Grill fell about 8 percent in 2012, and margins are razor thin. But the transaction was somewhat affordable, suggests Gordon, and Ignite may walk away with a chain that generates \$385M in revenues. "The EV/EBITDA (enterprise value to earnings before interest taxes and depreciation) price multiple paid (ratio to price paid) was very low, perhaps 3.7 times, approximately," he says.

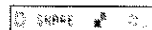
Macaroni Grill competes with other high-profile Italian casual dining concepts, including the Olive Garden and Carrabbas Italian Grill. The Olive Garden, a subsidiary of Dardens Restaurants, has struggled as of late. Sales fell 4.0 percent in the Q3 after dropped 3.2 percent in the Q2 of its fiscal 2013.

Olive Garden's same stores sales decreased 1.2 percent in Dardens' fiscal 2012, leaving the door open for competitors like Carrabbas and Macaroni Grill.

Ignite's CEO remains optimistic of the acquisition and the future of Macaroni's Grill: "Our focus continues to be on serving chef-inspired cuisine in a distinctive atmosphere, and we see the opportunity to accelerate innovation in a similar way with Macaroni Grill. It's about our commitment to provide guests with memorable, matchless dining experiences."

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