

CONSUMER & RETAIL

Q3 2023 MARKET UPDATE

Accolades, Accusations, Acquisition: 3 Applicable Insights from Subway's Wild Ride

In this quarter's industry update, we will consider the current market through the lens of the Subway acquisition and discuss franchisees' opportunities for optimization.

Owners of three franchise units or three hundred can learn from the largest restaurant chain acquisition of 2023—and the third largest in restaurant M&A history.ⁱ

Private equity firm Roark Capital, well known for owning high-profile restaurant brands like Buffalo Wild Wings, Dunkin' Donuts, Arby's, Baskin-Robbins, Jimmy John's, and Sonic—acquired sandwich giant Subway through an eight-month auction. Roark is expected to pay \$9.6 billion for the sale.ⁱⁱ Subway's size and storied history may seem unrelatable to the average franchisee, but at G2, we believe the opposite is true. Here, we will review three stretches of Subway's journey and identify translatable tips franchisees can consider for their business.

Accolades

By 2023, Subway had come a long way from its first restaurant, which opened in the summer of 1965 in Bridgeport, Connecticut. In 58 years, Subway grew in the US and abroad through franchising, resulting in over 37,000 units globally. During its expansion, the brand built a reputation for delivering reliably fast service, a transparent, walk-along sandwich-making process, made-to-order options, and consistent customer experiences across its units. For years, Subway reaped the rewards of its model.

While Subway's scale may only be achieved by a few, franchisees looking for inspiration should start with a focused, customer-centered concept and work to ensure every operational detail supports it. For example:

- Create concept-aligned stores that consider usability (e.g., inclusive technology), visibility (e.g., open concept kitchen), and comfort (e.g., inviting lighting and décor).
- Invest in staff training beyond the basics, focusing on communication skills, empathy, and problem-solving.
- Assess every element of your model to ensure it can be easily replicated across multiple units to create concept consistency.

Accusations

Subway has had a disruptive decade. The brand navigated the notorious Jared Fogle crisis, the death of founding CEO Fred DeLuca, sales declines, thousands of US store closures, franchisee frustration with the unprofitable "\$5 Footlong,"ⁱⁱⁱ and public concerns about food quality. But new leadership and a refreshed outlook—a nod to the 2021 "Eat Fresh, Refresh" campaign featuring Steph Curry, Serena Williams, and Megan Rapinoe—helped the brand reconnect to its roots: fast service, good food for a great value, and ongoing investment in the brand.

Franchisees with clear strategic principles are more likely to get back on track after derailment. Consider the following turnaround tactics:

Invest strategically, aligning with consumer tastes and technologies while maintaining market differentiation.

- Shed ineffective leadership and destructive brand behaviors.
- Address unprofitable areas of the business, including historical practices like promotions, through financial and operational restructuring.

Acquisition

Prior to being acquired, Subway was making turnaround efforts. Closing underperforming stores, enhancing in-store design with brighter lighting and sleeker furniture, overhauling the menu, and modernizing the logo—Subway was metamorphosing.

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In 2019, management wooed ex-Burger King executive John Chidsey out of retirement to steer the company as CEO. Under Chidsey's leadership, Subway has increased same-store sales after several difficult years, up to 9.8% globally in the first half of 2023.^{iv} Chidsey is optimistic about Subway's continued growth with Roark as he eyes further expansion in international markets.

For franchisees, take a hard look at areas of underperformance and opportunity and adopt an action-oriented mindset:

- Sell stagnant or cannibalistic units.
- Discontinue lagging products and services.
- Invest in the company's best-performing assets—such as its brand, facilities, and premier products—and markets.











With the help of an advisor, franchisees can implement an optimization strategy that can yield near-term benefits, like improved operations and sales growth, and long-term impacts—like a more robust sell-side process and higher exit value.

In Closing

Restaurants have always operated on thin margins, but changing consumer expectations—including varied menu items, an emphasis on convenience, and total tech-enablement—in combination with the havoc caused by the pandemic have rocked the industry. The Subway story offers a glimpse into one company's tug-of-war with internal and external complexities. The company arrived at success by using its core brand tenets to direct it through strategic and disciplined divestments and investments.

The key takeaway for all G2 clients across the subsectors we serve? *Know who you are and where you win, and vet every decision by its contribution to those two dimensions.*

NOTABLE Q3 M&A TRANSACTIONS

ACQUIRER	TARGET	DESCRIPTION	ENTERPRISE VALUE (\$MM)	REVENUE	EBITDA
		Doctor's Associates Inc., doing business as SUBWAY, owns and operates a chain of sandwich restaurants in the United States and internationally.	-	-	-
		Sovos Brands, Inc., through its subsidiaries, operates as a consumer-packaged food company that manufactures and distributes consumer food products in the United States.	\$2,786.8	3.0x	15.7x
		The Rockport Company, LLC manufactures and retails men's and women's shoes.	-	-	-
		Renzi Bros., Inc. distributes fresh meats and frozen seafood.	\$143.0	0.8x	-
		Pooch And Mutt Limited engages in the production and distribution of Pet food and animal feeds.	-	-	-

Endnotes

- Subway says it continues to generate sales growth. Restaurant Business. (2023, July 25). <https://www.restaurantbusinessonline.com/financing/subway-says-it-continues-generate-sales-growth>
- Why Subway franchisees hate the \$5 Footlong. Restaurant Business. (2020, May 29). <https://www.restaurantbusinessonline.com/financing/why-subway-franchisees-hate-5-footlong>
- Roark Capital has a deal to buy Subway. Restaurant Business. (2023, August 24). <https://www.restaurantbusinessonline.com/subways-decline-sale>
- Subway Sandwich Chain Agrees to Sale to Roark Capital. The Wall Street Journal. (2023, August 24). <https://www.wsj.com/business/deals/subway-sandwich-chain-agrees-to-sale-to-roark-capital-11812c1f>

FEATURED ONGOING G2 PROJECTS

Retail Agency

PROJECT CANYON

Sell-Side

About the Mandate:

G2 is currently serving as the exclusive sell-side advisor to a leading retail and visual marketing provider that services retail apparel, accessories, beauty, footwear, technology, home and houseware brands.

Consumer Product Goods

PROJECT ROUGHNECK

Sell-Side

About the Mandate:

G2 is currently serving as the exclusive sell-side advisor to a leading consumer products company producing branded and white label household products.

Produce, Meat & Dairy Distributor

PROJECT NATIVE

Buy-Side

About the Mandate:

G2 is currently serving as the exclusive buy-side advisor to a distributor of fresh produce, meats, and dairy products.

Seafood Distributor

PROJECT YELLOWTAIL

Buy-Side

About the Mandate:

G2 is currently serving as the exclusive buy-side advisor to a seafood distributor.

Fitness Franchisee

PROJECT FIT

Restructuring

About the Mandate:

G2 is currently engaged as the Chief Restructuring Officer. It is focused on an assessment of financial performance, liquidity forecasting, and executing a change of control transaction for a large fitness franchisee.

KEY C&R TRADING STATISTICS

Sector	Number of Companies	Median Enterprise Value (\$MM)	LTM ¹			
			Median Revenue Growth	Median EBITDA Growth	Median EV / Revenue	Median EV / EBITDA
Fast Moving Consumer Goods	12	\$190,442	1.6%	2.4%	3.5x	16.6x
Food, Drug & Mass-Merchandise	8	\$66,400	1.3%	1.3%	0.5x	11.0x
QSR & Fast Casual Restaurants	15	\$4,378	2.1%	2.4%	3.6x	19.5x
Marketing Services	10	\$11,563	0.5%	-2.4%	1.0x	8.1x

1) LTM September 30, 2023
Source: S&P Capital IQ

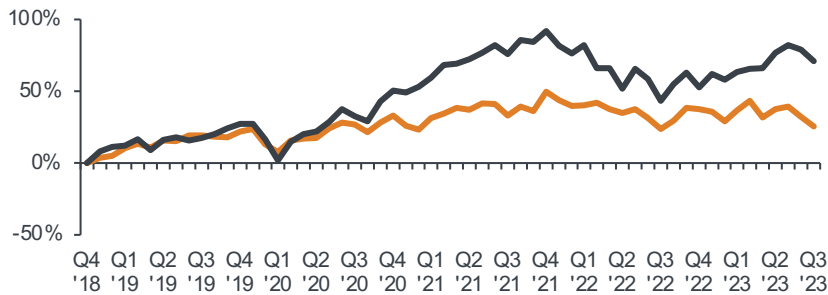
SELECT Q3 2023 M&A TRANSACTIONS

DATE	ACQUIRER	TARGET	DESCRIPTION	ENTERPRISE VALUE	REVENUE	EBITDA
Sept-2023	Authentic Brands Group LLC	Boardriders, Inc.	Boardriders, Inc., together with its subsidiaries, designs, develops, and distributes branded apparel, footwear, accessories, and related products primarily for men, women, and children.	0	-	-
Sept-2023	Staple Street Capital LLC	Delaware Valley Floral Group, Inc.	Delaware Valley Floral Group, Inc., an importer, broker, and distributor of grower direct flowers, provides fresh cut flowers, floral supplies, and botanicals for professional retail florists and distributors in the Mid-Atlantic and Northeast. It offers bouquets, consumer bunches, seasonal flowers, Calla lilies, French and German garden roses, and hydrangeas.	0	-	-
Sept-2023	The J. M. Smucker Company	Hostess Brands, Inc.	Hostess Brands, Inc. develops, manufactures, markets, sells, and distributes snack products in the United States and Canada.	\$5,531.8	4.0x	18.2x
Sept-2023	GS Foods Group, Inc.	Lamm Food Service, LLC	Lamm Food Service, LLC markets and distributes food products.	0	-	-
Sept-2023	FAT Brands Inc.	Barbeque Integrated, Inc.	Barbeque Integrated, Inc., doing business as Smokey Bones, owns and operates restaurants in Florida.	\$30.0	-	-
Sept-2023	John B. Sanfilippo & Son, Inc.	Certain Assets Relating to the Snack Bars Business Unit of Treehouse Foods, Inc.	As of September 29, 2023, Certain Assets Relating to the Snack Bars Business Unit of Treehouse Foods, Inc. was acquired by John B. Sanfilippo & Son, Inc. Certain Assets Relating to the Snack Bars Business Unit of Treehouse Foods, Inc. comprises food manufacturing facility.	\$63.0	-	-
Aug-2023	Roark Capital Management LLC	Doctor's Associates Inc.	Doctor's Associates Inc., doing business as SUBWAY, owns and operates a chain of sandwich restaurants in the United States and internationally.	-	-	-
Aug-2023	Bain Capital Private Equity, LP	Fogo de Chão, Inc.	Fogo de Chão, Inc. owns and operates full-service Brazilian steakhouse restaurants under the Fogo de Chão brand name.	-	-	-
Aug-2023	Authentic Restaurant Brands	Fiesta Restaurant Group, Inc.	Fiesta Restaurant Group, Inc., together with its subsidiaries, owns, operates, and franchises fast-casual restaurants.	\$353.2	0.9x	7.6x
Aug-2023	Campbell Soup Company	Sovos Brands, Inc.	Sovos Brands, Inc., through its subsidiaries, operates as a consumer-packaged food company that manufactures and distributes consumer food products in the United States.	\$2,786.8	3.0x	15.7x
Aug-2023	Mars, Incorporated	CalChef Foods, LLC	CalChef Foods, LLC doing business as Kevin's Natural Foods, offers healthy, refrigerated meat entrees and vegetable sides, and a complementary line of sauces and seasonings.	-	-	-
Jul-2023	Brynwood Partners Management LLC	Dean Foods Co., Marie's Dressings and Dean's Dips Businesses	Dean Foods Co., Marie's Dressings and Dean's Dips Businesses produces and markets dips and salad dressings under the brand names, Marie's and Dean's.	-	-	-
Jul-2023	Authentic Brands Group LLC	The Rockport Company, LLC	The Rockport Company, LLC manufactures and retails men and women shoes.	-	-	-
Jul-2023	FreshEdge, LLC	Sirna & Sons, Inc. (nka:STV Holdings, Inc.)	STV HOLDINGS, INC. engages in the distribution of food.	-	-	-
Jul-2023	Performance Food Group, Inc.	Orion Food Systems, LLC	Orion Food Systems, LLC provides custom food service solutions for organizations around the globe.	-	-	-
Jul-2023	Bimbo Bakeries USA, Inc.	Twin City Bagel, Inc.	Twin City Bagel, Inc., doing business as National Choice Bakery, owns and operates a bagel bakery in the United States.	-	-	-
Jul-2023	US Foods Holding Corp.	Renzi Bros., Inc.	Renzi Bros., Inc. distributes fresh meats and frozen seafood.	\$143.0	0.8x	-
Jul-2023	VAFO PRAHA s.r.o.	Pooch And Mutt Limited	Pooch And Mutt Limited engages in the production and distribution of Pet food and animal feeds.	-	-	-

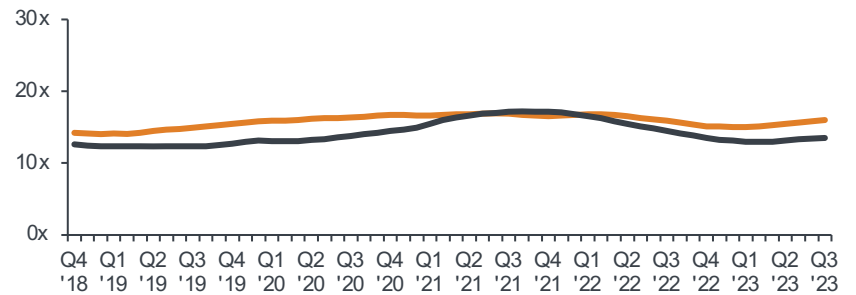
Source: S&P Capital IQ

MARKET INDICATORS

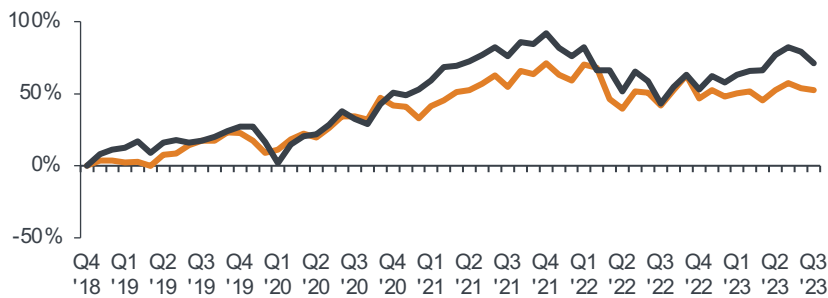
Fast Moving Consumer Goods Market Cap



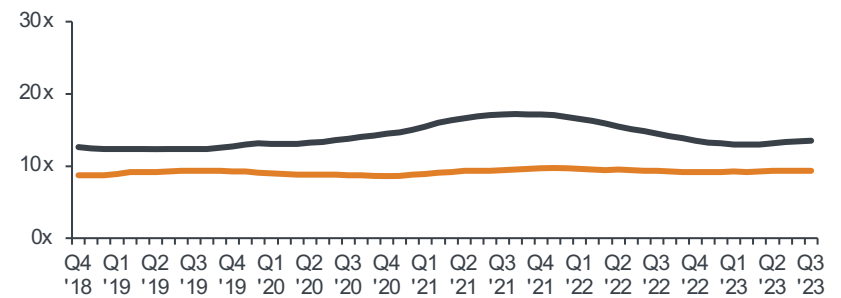
Fast Moving Consumer Goods EV / EBITDA



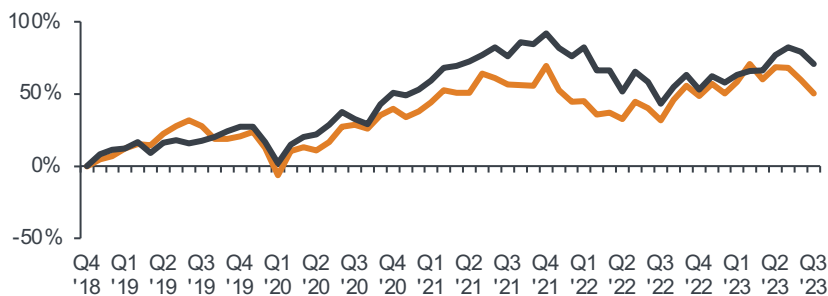
Food, Drug & Mass-Merchandise Market Cap



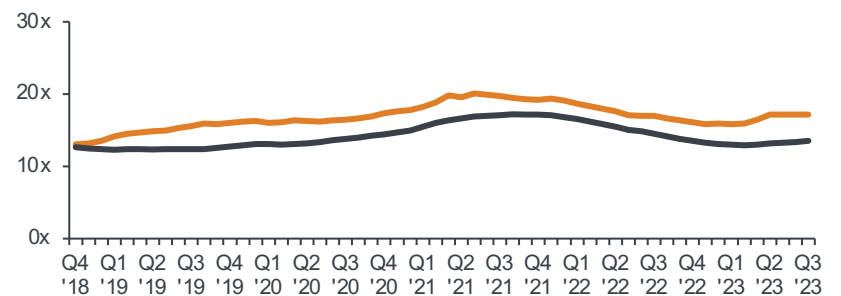
Food, Drug & Mass-Merchandise EV / EBITDA



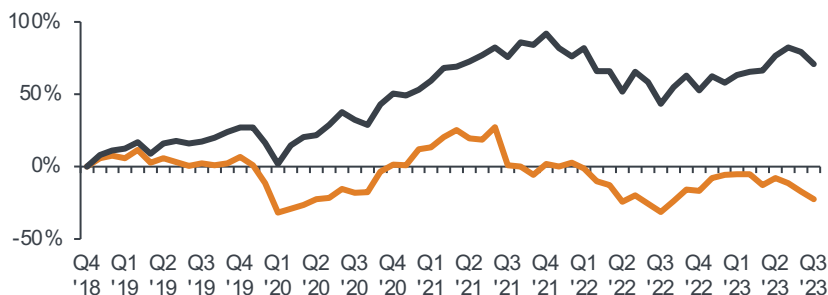
QSR & Fast Casual Restaurants Market Cap



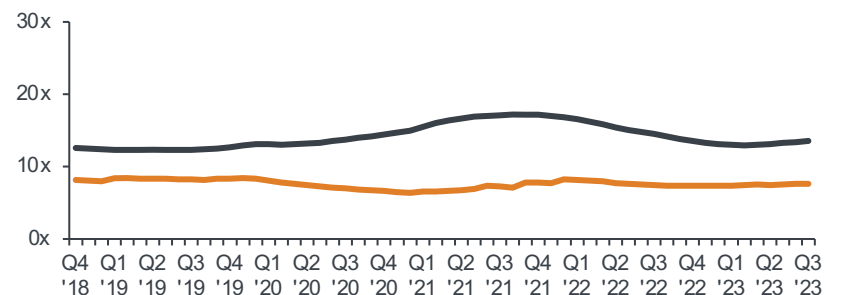
QSR & Fast Casual Restaurants EV / EBITDA



Marketing Services Market Cap



Marketing Services EV / EBITDA



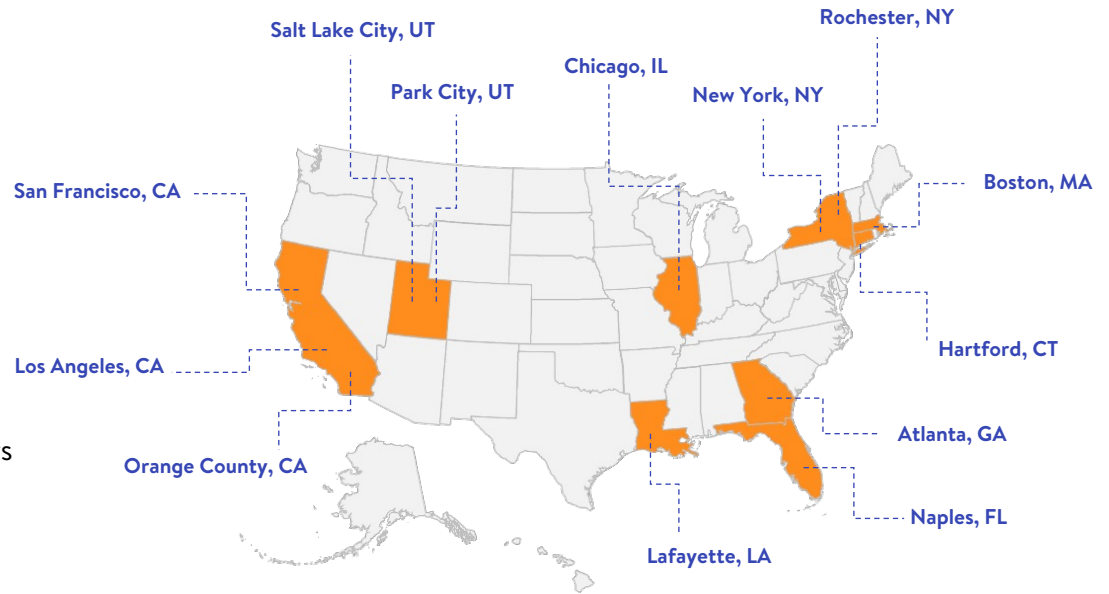
— C&R Sector — S&P 500

Source: S&P Capital IQ as of trading on September 30, 2023

G2 FIRM OVERVIEW

Overview:

- 450+ mandates in 10 years
- \$4.5B+ total executed transaction value
- Extensive industry experience
- Robust strategic and sponsor relationships
- Active touchpoints with logical sellers and buyers



A Multi-faceted Platform:

Focused on crafting bespoke operational and financial advisory solutions for our corporate and investor clients. G2 works with clients across a range of situations.



Sector Expertise:



Consumer & Retail

C&R Focus Sectors:

- Fast Moving Consumer Goods
- Retail & E-Commerce
- Quick Serve Restaurants
- Fast Casual Dining
- Marketing Services



Transportation & Logistics

T&L Focus Sectors:

- Freight Forwarding
- Trucking / Final Mile
- Warehousing / Distribution
- Third Party Logistics (3PL)
- e-Commerce Fulfillment



Industrials & Manufacturing

I&M Focus Sectors:

- Building Products / Construction
- Metals / Materials
- Container / Packaging
- Niche Manufacturing
- Distribution



Technology & Business Services

TBS Focus Sectors:

- Tech-enabled Services
- BPO
- Managed Services
- Internet & Digital Media
- Business Services

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