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New Ownership Begins Revitalization of Regional Chinese QSR Brand

When we arrived at 12:30 p.m. during the lunch hour, Lorne Goldberg couldn't have been prouder: The new, flagship Leeann Chin restaurant that had recently opened in the City Center of downtown Minneapolis had 30 people waiting in line to order.

Goldberg is the majority owner of Mandarin Holdings, LP, which operates the Mandarin Express chain, a quick-serve Chinese restaurant chain located in 10 states. Earlier this year, the Minnesota-based Leeann Chin fast food concept, with 36 locations dotting the Twin Cities landscape, was acquired by Goldberg.

Reluctant to talk about the acquisition when it first happened in March 2007, Goldberg began to contact the press when he had revamped the new restaurants. Within 14 months, Leeann Chin had remodeled approximately 80 percent of the chain's locations, opened the new flagship City Center Store, added six new food items and launched Red Cherry, a new frozen yogurt dessert. Will it all be enough to turn around a concept even Goldberg says was "tired?"

"Average unit volumes were about \$1.0 million before the remodels," reports Goldberg, and he adds that at the time of the acquisition, stores were comping a negative 4 percent. "Now, we are comping a positive 4 percent across the board—an 8 percent increase in same store sales that first year," he adds.

Goldberg, who is by trade an investment banker, not a restaurateur, cut his teeth on restaurants with the Mandarin Express acquisition in 2004 from Kuolin, Inc. As the founder of investment banking firm West Coast Capital, he'd seen a lot of deals come across his desk, and the Mandarin deal was one he wanted a piece of. He formed Mandarin Holdings, and with capital infusion from GE Capital Solutions, became a multi-unit restaurant operator. About three years later, he bought Leeann Chin with the help of his friends at Wells Fargo. He has a minority investor, but Goldberg himself is the operating partner with the biggest stake in the deal. And there is no private equity involved in the company's ownership. "I don't believe in private equity," he said. "I prefer to fund deals with my own capital," he said. The GE Capital Solutions loan has since been paid off, he adds.

An institution in the Twin Cities metro area, Leeann Chin, the chain's namesake, opened up the first stores in the 1980s and expanded. She later sold the chain to Pillsbury, then bought it back when the company failed to expand. Two private equity companies were involved, and Chin had a minority stake in the company when it was sold to Goldberg.

In the year that followed, Goldberg hired chefs to revitalize the menu and make it more attractive to those who love the traditional fried (and breaded) Chinese food, and to those who like healthier fare—thus, new grilled and stir-fried items were added, such as the Grilled Bourbon Chicken and Gai Pan Stir Fry.

Goldberg is excited about Red Cherry, the new frozen yogurt made exclusively for the chain. The two flavors—original, which has a citrus flair; and raspberry—can be eaten plain or customers can add fruit and candy toppings. Goldberg, who hails from Los Angeles, had seen the sensation the frozen dessert Pinkberry created in his city, and thought he could capitalize on that trend within Leeann Chin stores. "Four percent of sales comprise yogurt alone," in the 24 stores that carry it, he reports. It wasn't R&D that cost him a lot of cash, it was the investment in the yogurt machines in each of the locations that shook him—an investment that was unproven until a few weeks ago when Red Cherry began to have a following.

He must be bullish on the restaurant industry: It took him about seven figures to invest in the Red Cherry concept and remodel the existing 35+ locations—all locations have been updated with sleek designs and a modern red, orange and lime green color palate. And four more stores are slated to open this year, with an additional five locations scheduled to open in 2009.

In the midst of what some would call an economic recession, Goldberg says its full steam ahead. "Listen, these are bullish times for QSR," he said.

Fortress and Buffet's Lease Battle *continued from page 8*

Is Fortress serious about operating 127 buffet restaurants or just bluffing to get a better rent deal? If they are, they made a convincing argument to run the stores in front of the judge. However, the cost of acquiring the restaurant equipment, providing working capital and developing a management team for that many restaurants could easily top \$10 million in start-up costs. Plus there are licensing, purchasing and many other issues to consider as an operator. The eventual brand change would hurt them too.

For Buffet's, the rejection of the master lease calls into serious question the decisions made by the company only two years earlier when it acquired Ryan's. How is that Buffets is willing to walk away from almost a third of the stores that it acquired just two years ago?

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