

Pizza Deal Participant Thinks Bigger Is Better

By Beina Xu

9/16/2008 – In spite of the depressed food industry, Sentinel Capital Partners-backed franchisee Southern California Pizza Co. has bought 123 restaurants from Pizza Hut Inc.

The deal price wasn't disclosed, but the transaction included a \$29.3 million senior secured credit facility arranged by CIT Group Inc. and New Star Financial Inc. Sentinel executives did not return calls for comment.

The purchase of the 123 Los Angeles-area Pizza Huts closed on Aug. 18, according to Robert Bielinski, a CIT managing director who leads the restaurant industry practice in corporate finance. He said that because of the volatile restaurant industry, CIT has been cautious.

"What you don't want to be in this environment is Joe's corner pizza," he said, citing weak consumer spending and high commodity costs as dampers to business. "Scale is the key thing in this industry. Bigger is better."

The advantage of large companies is marketing power and product expansion, said Bielinski. Pizza Hut has introduced several new products in the past year including its new pasta line, Tuscani Pastas, which is priced at \$12.99, including breadsticks. Bielinski called it the most successful product launch in the company's history.

"What they know how to do is draw the consumer in without relying on blind discounting," he said.

Bielinski said the company will use the pasta platform to introduce more products and flavors. Pizza Hut's Wing Street brand, a line of chicken wings, has also boosted sales.

Sentinel isn't the only one investing in the chain either; Merrill Lynch Global Private Equity-backed Pizza Hut franchisee NPC International Inc. agreed to buy 99 units from Colonial Foods LLC for \$35 million in August.

But it hasn't all been successful; Midland Food Services, a Pizza Hut franchisee based in Ohio, filed for Chapter 11 in August, citing minimum wage increases, food costs and unfavorable lease terms.

New York-based Sentinel held a \$765 million final closing on its latest mid-market buyout fund, Sentinel Capital Partners IV LP, in July. The fund came in well above its \$600 million target.