

Famous Brands acquires 100% of Gourmet Burger Kitchen, "the biggest deal the group has ever concluded"

Subject to approval from the South African Reserve Bank, in terms of Exchange Control Regulations, Famous Brands has acquired 100% of UK-based Gourmet Burger Kitchen (GBK) for £120m (approximately R2.1bn).



Pioneer of the premium burger revolution in the UK, the brand was launched in 2001 by three New Zealanders, together with the creative culinary support of eminent New Zealand chef and acclaimed 'father of fusion', Peter Gordon. In 2010, the Yellowwoods Group acquired the business. The acquisition marked a pivotal turning point in the company's history, setting the brand on its current growth trajectory. GBK now comprises 75 company-owned restaurants across the UK and is widely renowned as the market leader in the premium burger category.

The GBK acquisition is rated according to the JSE Listings Requirements as a Category 2 transaction. The purchase consideration will be funded by way of cash accumulated by Famous Brands in its business operations and, to the extent required, short-term funding.

Kevin Hedderwick, Famous Brands' group strategic advisor responsible for M&A activity says, "Enhancing the rationale for this acquisition is the benefit we have derived from the substantial devaluation of the rand since we commenced negotiations with GBK earlier this year.

"As far back as 2007 when we acquired the Wimpy business in the UK, the group is on record as saying that we would use our foray into the UK as a beachhead to expand our presence in the market as and when suitable opportunities presented themselves. Our investment in the Wimpy UK business has given us invaluable learnings in terms of an understanding of and insight into the local market."

Up into new league

"More recently we have stated our intent to pursue opportunities which will enhance our existing income stream with hard currency earned outside of Africa; the GBK acquisition achieves that goal, and simultaneously upweights Famous Brands into a substantially higher league."

“In terms of scale and scope, this is the biggest deal the group has ever concluded and one which will transform the future of the business. It will be as much of a game-changer for the group as our acquisition of Wimpy SA was in 2003. GBK is a best in class business and brand, with growing consumer equity, supported by a phenomenal leadership team.

“In the process of identifying a suitable acquisition target, we scrutinised a wide range of prospective assets over recent years, but none of the other potential targets met our investment criteria, or were aligned with our South African business model. GBK ticks all the boxes; so much so, that we can transfer many of the brand’s best practices back to South Africa. The GBK team has built an outstanding infrastructure and its processes are world-class.”

In terms of the contractual agreement, GBK’s team will continue to manage the business. No changes to personnel are planned and the intention is for the transition in ownership to be effected seamlessly, with no disruption to operations.

“We are delighted to inherit an exceptional, highly experienced senior management unit, supported by an energetic, engaged team.”



Compelling acquisition rationale

The brand features a differentiated, flexible fast casual business model, providing access to its products across a range of channels: eat-in and take away service, online delivery and GBK-branded food products in retail outlets.

“This model creates flexibility across meal times, across a variety of occasions, and a wide range of customers across life stages, social groups and ages,” continues Hedderwick. “The GBK business is a unique asset of substantial scale, positioned in the wider, unexploited bespoke burger market segment. Both the fast casual and premium burger market segments are growing.

“Another significant advantage is the well invested estate, proven across multiple locations, types and site sizes, including

shopping centres, high streets, city centres and residential areas. This flexible model format enables the brand to reach the broadest audience possible. Furthermore, 93% of the restaurant portfolio has either been refurbished or opened in the last five years.

“Through continued transformation, the business has delivered sustained industry-leading like-for-like growth. It has an impressive historical financial track record (five consecutive years of same-store sales growth, at a level well ahead of market norm) – and delivered in the context of an economic downturn.”

The low interest environment in the UK is supportive of continued consumer spend, while the impact of fears of Brexit on this sector appear negligible - endorsed by a recent survey which confirms that despite the generally subdued economy, household spend in the Eating Out category is up 4% year on year in June 2016.*

Rejuvenating burger market

GBK enjoys a unique positioning in the category, being recognised as the catalyst for rejuvenation of the burger in the UK market and setting the standards for freshness, innovation taste and quality. Its market leadership is underpinned by key brand beliefs including: unrivalled farm-to-fork provenance and quality; menu differentiation; and creativity and innovation centred on pioneering and perfecting handcrafted ‘burger comfort’.

“GBK has substantial store growth potential in the UK – with a secure, current pipeline of sites in place, supported by the brand’s excellent track record of successful new store openings. The business has also recently concluded an agreement to re-acquire the franchise rights to own and manage the five GBK restaurants in Ireland, which provides an immediate platform for growth and a significant overseas footprint. Furthermore, there is opportunity to export the brand to South Africa, which would afford Famous Brands representation in the premium burger fast casual dining category where we do not currently compete.

“In this context, we are confident that the existing business model has the potential to double GBK’s restaurant footprint within the next five years,” says Hedderwick.

Part of the team

Alasdair Murdoch, CEO of Gourmet Burger Kitchen, says, “We’re delighted to move onto the next phase of growth, with Famous Brands. Since we started dealing directly with the team, there has been real chemistry and a sense of shared understanding and vision.

GBK has grown rapidly, and has had continuous like-for-like sales growth, but at its heart, it is much more than that. It is based on fantastic restaurant teams and critically, a continuous journey towards excellence in our food. We like to call it real burger obsession. Our aims remain the same: to continue opening 10-15 restaurants a year in the UK, continually elevate our food and look at other growth opportunities. We feel honoured to be the next chapter of the Famous Brands’ story and we are delighted to be part of the team.”

Hedderwick closes, “Personally, concluding this transaction is the pinnacle of a sixteen year executive career, during which I have overseen the value of Famous Brands increase from a market capitalisation of R185m to one close to R15bn. I am humbled to have had the opportunity to play the role I have and I look forward to being instrumental in the integration of this brand into the group’s business. I am confident that the addition of GBK to our portfolio positions the group optimally to attain its audacious future growth targets.”

*Source: Financial Times Business Monitor International, Greene King leisure spend tracker report, July 2016

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