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Top Gun

Tilman Fertitta leads Landry's Restaurants into an aggressive new era

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Photo courtesy of Landry's Restaurants

The operator is in

Tilman Fertitta takes Landry's Restaurants private, enters ambitious growth phase

By James Wright

Tilman Fertitta is all in. After more than two years of negotiations to take Houston-based Landry's Restaurants private and become the sole owner of the near-300-unit casual dining, hospitality, gaming and entertainment company, the deal finally got done in early October, 24 years after he was named company president and CEO. Fertitta says his passion is making deals and this was undoubtedly his biggest.

But he wasn't done — not by a long shot. Within weeks of closing the \$1.4 billion transaction, Fertitta proved again that he is one of the top dealmakers in the restaurant business by acquiring both Claim Jumper, a casual-dining chain with locations throughout California, and Bubba Gump Shrimp Co., the 32-unit international restaurant chain inspired by the Oscar-winning 1994 movie "Forrest Gump." Those

moves followed the acquisition of upscale dining chain The Oceanaire Seafood Room earlier in the year. In two of those deals, Fertitta saw promise where others saw struggling properties operating in an industry hit hard by the economic recession. The third was simply Fertitta jumping on a good opportunity, a talent he takes great pride in.

Three acquisitions in one calendar year might seem an

overwhelming proposition for most companies, but for those following the 53-year-old, father-of-four, high-profile Houstonian (Fertitta owns 55 restaurants in the Houston-Galveston area alone) and his business dealings, nothing comes as a surprise.

"He's passionate, creative, accomplished — Tilman is an operator, he operates the hell out of everything he owns," says Dave Jacquin, managing director of North Point Advisors, a San Francisco mergers-and-acquisitions (M&A) consulting firm that worked with Landry's during its 2000 acquisition of Rainforest Café for \$60 million. Jacquin says the once-struggling chain is probably worth \$400 million now.

"He's gotten very good at buying chains and making them better. And he likes seafood. Seafood is a big space and there's not a lot of

Landry's is now owned solely by Texas businessman Tilman Fertitta.

good competition in it," says Jacquin, adding that North Point is involved with about half of all restaurant industry M&A activities. "Seafood is in his blood; he knows it and understands it and he thinks a lot of people don't do it well. If you go to a Chart House, you don't go back to Red Lobster."

Fertitta first got into the foodservice game in 1986, hired as a real estate specialist by Landry's, a single restaurant looking to expand. Within months, he invested in two Houston restaurants, Willie G's and Landry's, and within three years the budding chain issued its first IPO. Under Fertitta's leadership, Landry's became a corporation that today has assets estimated at \$4 billion.

A hospitality and retail star in an oil-tycoon town, Fertitta approaches risk and day-to-day operations with

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meticulous preparation, keen timing and spectacle befitting the glamour of his crown jewel, the behemoth Kemah Boardwalk southeast of Houston on the Gulf

is also so heavily invested in gaming and in recent years completely revamped and rebranded the Golden Nugget Hotel and Casino in Las Vegas and Laughlin, Nev., which are home to several of Landry's bars and seafood and steakhouse chains. The

bid to take Landry's private would come together. It's no wonder, as the process took several twists and turns along the way.

Fertitta's original bid in 2008 for \$24 a share came at a time when he owned 39 percent of the company, and

time, was particularly vocal in his opposition to the deal; a settlement with Ackman was the final step in Fertitta's privatization. And about 18 months after Landry's peeled off 120-unit chain Joe's Crab Shack in 2006, the buyer, JCS Holdings of New Canaan, Conn. (now Ignite Restaurant Group), sued Landry's, claiming it was coerced into overpaying for the company (\$192 million) by a misrepresentation of the restaurants' financials. An Ignite spokesperson says the dispute was settled out of court in 2009.

Nobody said life at the top was easy.

"Going private is the hardest thing to do," says Jacquin. "It's complicated. There are special committees, all kinds of attorneys around and hedge funds stepping in. But [Fertitta] was persistent and did this all in the middle of a recession."

Jacquin, however, feels the restaurant industry's comeback has long since begun, stating that every restaurant chain his company works with has positive comps, or comparable store sales, in relation to 2009. This bodes well for Landry's, a company with 50-plus brands in its stable expected to generate \$1.5 billion in sales for 2010. Even his competitors' success should benefit Fertitta, at least personally: On the day before Thanksgiving, he upped his stake in McCormick & Schmick's Seafood Restaurants by 150,000-plus shares. Fertitta is now the largest single stockholder of the Portland, Ore.-based restaurant chain, owning about 10 percent of the company — more than anyone named McCormick or Schmick. (McCormick & Schmick's stock value



Photo courtesy of Landry's Restaurants

Fertitta has overseen a major overhaul of the Golden Nugget casinos in Las Vegas.

of Mexico shore. There sits one of four Aquarium restaurants, home of the "underwater dining adventure" replete with floor-to-ceiling views of more than 100 species of colorful tropical fish. Other Aquarium sites are in Denver, Houston and Nashville, Tenn.

In Fertitta's world, a restaurant is more than a kitchen, tables, silverware and good food — it's entertainment and real bang for the buck. That's why Fertitta, a minor partner in the National Football League's Houston Texans franchise,

resorts now have a more updated, upscale feel to them and Fertitta is excited about the potential, even with the gaming industry in a funk.

"We like the gaming business. We like the hotel business. We like the seafood business. We like the amusement business," Fertitta told *SeaFood Business* in a late November interview. "We're very opportunistic. That's why we make a lot of money and that's what we're gonna do. The consumer is out spending money today."

Getting better all the time

Even Fertitta, a Rolls Royce and Bentley dealership owner who exudes confidence, grudgingly admits there were times he had doubts that his

the remaining shareholders rejected it despite mounting debts near \$1 billion. Subsequent bids fell back to around \$12 a share during the roughest periods of the recession before coming back up to \$21, \$23.50 and then eventually the final price of \$24.50.

"I paid a higher price because business got better," says Fertitta, alluding to a recovery in the restaurant industry.

The economy wasn't the only concern: Lawsuits filed by fellow Landry's shareholders followed the takeover bid. William Ackman, head of New York-based hedge fund Pershing Square Capital Management LP and a 10 percent shareholder at the

increased roughly \$1 per share within a week of Fertitta's filing with the U.S. Securities and Exchange Commission, to \$8.71.)

Whether he aims to be a more involved stakeholder in McCormick & Schmick's remains to be seen. He clearly is expecting more from the restaurant chain, however. Restaurant traffic should increase "across the industry" in 2011, he says, adding this caveat: "You're always going to have a few weak sisters. It's very disappointing that somebody like McCormick & Schmick's is still running negative 4 to 5 percent comps when everybody else is positive."

While many Landry's restaurant banners are faring well, others are in need of repair, such as new asset Claim Jumper, which Jacquin called "a mess." The 42-unit chain was snapped up for \$76.6 million (including \$28.3 million in liabilities and debt) in a bankruptcy auction; two stores in California closed in early December.

Fertitta leans on his sense of timing for his deals, jumping on properties that are either struggling through bankruptcy (Claim Jumper, The Oceanaire Seafood Room) and can be had at a bargain, or healthier properties like Bubba Gump Shrimp Co., which has expanded overseas in recent years to places like Kuala Lumpur, Tokyo and Hong Kong. (Ironic twist: Landry's sued Bubba Gump in 2000 for use of the Rusty Pelican trademark.)

"Landry's is built on strong, iconic locations," says Fertitta. "That's why Landry's was still successful and grew even in '08 and '09 because people continued to go

out and eat at great locations. Bubba Gump has iconic locations. Look where we are: We're not in suburbia. We average over \$5 million per unit and make over \$1 million a unit, even today."

Lots to digest

Fertitta's moves can be summed up with one word: opportunity. Whether a restaurant chain is struggling or succeeding, just about all of them have a time and a price for sale. Fertitta has made a career of picking his next move.

"Sometimes there's just an opportunity. Coming out of recession sometimes, there just seems to be opportunity," he says. When asked if he intends to keep up the

Landry's bought for \$35 million, and a \$300 million to \$400 million value on Saltgrass Steakhouse, which was purchased for \$75 million. "He's very good at making risk-adjusted bets. You know, he owns a casino. And remember, he started with just one restaurant. Now he's worth billions."

The Oceanaire Seafood Room is already reaping the benefits of Fertitta ownership. The 12-unit chain's unit-level sales should be up 50 percent this year, Fertitta says, adding that he's looking into opportunities to grow the brand.

Wade Wiestling, VP of culinary development for Oceanaire, is grateful for the change in scenery both in

restaurant: new china patterns and glassware, more modern décor, updated bars with more TVs to lure business travelers — even how wine is presented at the tables.

"We're moving into the 21st Century," says Wiestling, who says the changes are dramatic but necessary. "Landry's did save Oceanaire. Without them coming in and making a bid on our small company we would not be having this conversation right now."

"You gotta change, and what makes Landry's so

Under Fertitta, Oceanaire has ditched the ocean-liner themed decor.



Photo courtesy of Landry's Restaurants

pace of acquisitions in lieu of organic growth, he says the timing of the 2010 deals were simply coincidental.

"If you look at his track record, what he buys he makes better," says Jacquin, who puts a \$200 million value on Chart House, which

the boardroom and the dining rooms, which are ditching the iconic '30s ocean-liner theme.

"It's more of a 2010 yacht versus a '30s and '40s supper club," says Wiestling, adding that Landry's ordered wholesale changes to the

successful is they're not afraid to change. It's not that we didn't embrace change, but we felt entrapped to the concept and we weren't adapting to the changing demographics and dining habits over the past several years."

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Point of View

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protects against income losses or increased expenses suffered as a result of damage by an insured peril to the property of another business or individual upon which the insured

suffers due to an order of civil authority that prohibits access to the premises because of covered damage to, or destruction of, property belonging to third parties. This coverage could respond to losses caused by the closures of fishing waters and

policyholder to provide notice of a loss insured under the policy “as soon as possible” or “as soon as practicable” after a loss occurs.

Both the Claims Fund and private insurers will require businesses to prove the amount of losses. Businesses should put in place accounting procedures to track lost earnings or profits, and develop documentation to support the claim. Businesses should take care to avoid errors in the measurement of

release may impact private insurance recovery. Given the legal and financial complexity of these claims, it is often necessary to consult with legal counsel and expert consultants.

By presenting a timely and well-documented claim, seafood businesses will better protect their interests and maximize their potential recovery from both the Claims Fund and private insurance.

Kenneth Trotter and Laura Dellatorre are attorneys with Dickstein Shapiro LLP (www.dicksteinshapiro.com) and devote a significant portion of their practice to the representation of policyholders in complex insurance disputes with their insurance companies.

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Growing larger and larger as a company has helped Landry's seafood procurement, which is handled by five regional managers across all banners. Fertitta says seafood is key to the company's

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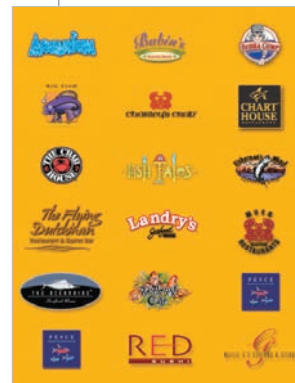
depends. This coverage could potentially apply, for example, if seafood buyers or processors have lost income or incurred increased costs due to the significantly reduced supply of Gulf seafood; and

- Civil authority coverage, which typically protects an insured business from losses it

oyster beds by federal and state governments.

To ensure the availability of private insurance recovery, businesses should carefully review their insurance policies and make sure that they comply with any applicable notice requirements. Such notice requirements typically require the

losses, and not commit to firm numbers until a comprehensive investigation of losses is completed. Also, to obtain final payment from the Claims Fund, a business must sign a release waiving its rights to pursue further legal action to obtain recovery for its oil spill-related losses. Signing such a



Of Landry's 50-plus restaurant brands, many of them focus on seafood.

ever-changing recipe for success, and isn't afraid to boast: "We have steak brands, but we prefer seafood because we feel like anybody can do steak and only a few people can do seafood and we feel like we do it really well."

Does continual change mean that Landry's shopping spree isn't over? Will Fertitta, the self-proclaimed "deal junkie" buy yet another well-known restaurant chain in the near future?

"I hope not!" Fertitta says with a laugh. "I need to digest these."

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Top Species

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attractive compared with many other species, he says, such as tuna that is selling at \$9 or \$10 a pound.

"It's a good fish," Lycke says, "and if it's priced right, people will eat it."

No small fry wanted

However, not everyone is looking to stock imported mahimahi in their seafood cases. And if the domestic supply isn't fitting specifications, some stores may be mahimahi-free zones.

At Tuckahoe Seafood in Richmond, Va., owner Brian O'Donohue says he's been without mahimahi since spring. Not because he can't source imported product, but because he prefers the domestic fish from the Atlantic and it hasn't been available in the sizes he needs.

"Mahi is popular with my customers," says O'Donohue. "We sell it as the ideal fish taco fish. But I haven't had it all summer."

O'Donohue's local wholesalers are only able to get 6- to 8-pound fish, which

aren't large enough to provide him with 1.5-inch or larger fillets. "We're a high-end fish market and we like to get it [according] to our specifications."

The fillets that come out of a 6-pound fish are too thin, he says, and the fish from the Caribbean or South America takes too long to get to him. It may look good for a day or two, but then it starts to go bad, he says.

"It's a good seller when we have it," says O'Donohue, who adds that there isn't a good substitute for a thick mahi fillet. "We did

some wahoo and then we get into the other white-fleshed fish like grouper and cod."

O'Donohue works with six different suppliers as well as regional wholesalers, and says the reason the fish are smaller is because the bigger ones didn't find their way up the coast this year. Both his suppliers and sport fishermen he knows have said the same thing, he says. "They just weren't catching the big ones."

Contributing Editor Joanne Friedrick lives in Portland, Maine