



THE SUPER SIZER

Greg Flynn, a Tesla-driving West Coast dealmaker, isn't the kind of guy you'd expect to be running a bunch of Applebee's and Taco Bells. But using plenty of patience, persistence and institutional capital, he's built America's largest franchise restaurant empire—and made a lot of money.

BY AMY FELDMAN

In 1997 Greg Flynn, an overeducated 33-year-old commercial real estate investor based in San Francisco, got a phone call from his father. Donald Flynn was on the Greek island of Corfu and had decided to buy a villa, a fixer-upper. He needed his son to send him \$2 million ASAP.

The elder Flynn, a lawyer, had been funding a retirement of world travel out of the cash thrown off by two Burger Kings he owned in San Francisco. Greg kept an eye on them while his father gallivanted. One was a gold mine, a drive-through on busy Van Ness Avenue that generated \$2.5 million in annual sales. “That one restaurant paid for the rest of his life,” Flynn says. Including the villa. At the time financial firms were happy to give successful franchisees loans against their receivables, Flynn quickly got \$2 million at a then-low 8% and sent the money to Greece.

Flynn had known there was money in franchising, but until his dad’s Corfu purchase he hadn’t realized how much. Now 51, he says, “It’s one of the things that opened my eyes to the opportunity.” Since then, with backing first from Goldman Sachs and then from the Ontario Teachers’ Pension Plan, he’s built Flynn Restaurant Group into the U.S.’ largest restaurant franchisee. The company owns 800 Applebee’s, Taco Bell and Panera Bread outlets and expects revenue of \$1.9 billion this year. *FORBES* estimates the company is worth about \$1.5 billion and that Flynn’s stake is worth roughly \$200 million.

Flynn hasn’t just made money; he’s changed the structure of the franchise industry. While franchisees have traditionally been small, local operators, Flynn created the mold for a new class of giant, well-funded players who are determined to remain private. According to the trade publication *Franchise Times*, ten U.S. restaurant franchisees topped \$500 million in revenue last year (see box, p. 128). Flynn was the first of this class. His company is backed by big institutional money, a development that initially frightened Applebee’s. Before Flynn the chain had scores of franchisees and owned and operated hundreds of locations itself. Now the company—and many others in the industry—has embraced an asset-light model in which it owns no locations and has just 31 franchisees

AMERICA'S BIGGEST RESTAURANT FRANCHISEES



1

FLYNN RESTAURANT GROUP
SAN FRANCISCO

APPLEBEE'S, TACO BELL, PANERA BREAD

REVENUES: \$1,900 MIL

GREG FLYNN STARTED BUYING APPLEBEE'S OUTLETS ALMOST 20 YEARS AGO. LATER, HE GOT BACKING FROM GOLDMAN SACHS. NOW HIS BIGGEST INVESTOR IS THE ONTARIO TEACHERS' PENSION PLAN.



2

NPC INTERNATIONAL
OVERLAND PARK, KANS.

PIZZA HUT, WENDY'S

\$1,223 MIL

STARTED IN 1962 BY INSURANCE SALESMAN TURNED PIZZA HUT OWNER GENE BICKNELL, NPC IS NOW THE WORLD'S LARGEST PIZZA HUT FRANCHISEE AND IS CONTROLLED BY OLYMPUS PARTNERS.



3

DHANANI GROUP
SUGAR LAND, TEX.

BURGER KING, POPEYES

\$871 MIL

SHOUKAT DHANANI, WHO STARTED OUT RUNNING CONVENIENCE STORES, HAS A HISTORY OF TURNING AROUND STRUGGLING RESTAURANTS AND HAS BEEN EXPANDING RAPIDLY SINCE 2010.



4

CARROLS RESTAURANT GROUP
SYRACUSE, N.Y.

BURGER KING

\$859 MIL

HERBERT SLOTNICK STARTED CARROLS IN 1960 AS A NEW YORK LICENSEE OF CARROLS DRIVE-IN RESTAURANTS. TODAY IT OWNS MORE THAN 700 BURGER KINGS.



5

MANNA
LOUISVILLE, KY.

WENDY'S, CHILI'S

\$814 MIL

RETIRED BASKETBALL PLAYER ULYSSES "JUNIOR" BRIDGEMAN MADE A FORTUNE AS A FAST-FOOD FRANCHISEE, PUTTING HIM ON FORBES' LIST OF HIGHEST-PAID RETIRED ATHLETES. IN APRIL COCA-COLA ANNOUNCED THAT BRIDGEMAN WOULD BECOME A COKE BOTTLER.



6

SUMMIT RESTAURANT GROUP
RICHARDSON, TEX.

IHOP, APPLEBEE'S

\$756 MIL

THE LARGEST IHOP FRANCHISEE, SUMMIT RESTAURANT GROUP IS CONTROLLED BY ARGONNE CAPITAL.



7

MUYI COS.
SAN ANTONIO, TEX.

PIZZA HUT, WENDY'S

\$631 MIL

MUYI COS. IS THE LARGEST MANAGEMENT-OWNED FRANCHISEE IN THE U.S. AND A MAJOR YUM BRANDS OPERATOR.



8

COVELLI ENTERPRISES
WARREN, OHIO

PANERA BREAD, DAIRY QUEEN

\$624 MIL

ALBERT COVELLI BECAME A MCDONALD'S FRANCHISEE IN 1959; TODAY HIS SON SAM RUNS THE FAMILY BUSINESS, WHICH HAS SWAPPED OUT MCDONALD'S FOR PANERA AND DQ.



9

YADAV ENTERPRISES
FREMONT, CALIF.

JACK IN THE BOX, T.G.I. FRIDAY'S

\$602 MIL

FOUNDER ANIL YADAV WAS ONCE A TEENAGE FRY COOK AT JACK IN THE BOX. NOW YADAV ENTERPRISES IS A MAJOR FRANCHISEE OF THE CHAIN.



10

SUN HOLDINGS
DALLAS

BURGER KING, POPEYES

\$559 MIL

FOUNDER AND CEO GUILLERMO PERALES, A MEXICAN IMMIGRANT WHO STARTED WITH A SINGLE GOLDEN CORRAL LOCATION IN 1997, BUILT SUN HOLDINGS INTO THE LARGEST LATINO-OWNED FRANCHISE OPERATOR IN THE U.S.

RANKINGS AND REVENUES FROM FRANCHISE TIMES 200; REVENUES AS OF DEC. 31, 2015. SOURCES: FRANCHISE TIMES; FORBES RESEARCH.

running its 1,873 U.S. restaurants. Flynn is by far the largest, and although at first the company did not want Flynn, Applebee's has come to rely on him. During the recession, when Applebee's needed a big buyer to take a lot of locations off its hands, Flynn was the only candidate.

Operators like Flynn have the scale and capital to control

their own destiny in ways little guys can't. After the financial crisis, for instance, Applebee's shelved a planned redesign. Flynn, along with another big franchisee, had the resources to go ahead with it anyway.

Flynn owns more than 25% of the chain's U.S. restaurants and has a seat on its franchise business council, giving him a

WENDY'S: AP; CHILI'S: JOHN CROWE/ALAMY; PIZZA HUT: BRENT LEWIS/THE DENVER POST/GETTY IMAGES; BURGER KING (TOP): ERKAN MEHMET/ALAMY

GREG FLYNN

voice in operational decisions. He's a schmoozer and salesman who can talk to anybody. Confrontation is not his style. "I have a strict policy that we will never fight with a franchisor. I will get out of a system before I fight with them," he says. "We have a symbiotic relationship."

Persistence and persuasion are keys to his success. He's also an astute operator who gives his managers the leeway and funds to run their restaurants. At Flynn-owned Applebee's, for instance, torn seats get fixed and extra bartenders get hired fast. Small improvements spread over 480 restaurants can generate significant revenue. Had you invested in Flynn Restaurant Group when Goldman Sachs did in 2001 and held, your money would have increased 26 times. Over the same period the S&P 500 has not quite doubled.

GREG FLYNN cannot keep still. I met him at his airy corner office, decorated with African and Asian masks along with plaques commemorating deals, on the 18th floor of the historic Standard Oil Building in downtown San Francisco, a property he has bought and sold twice. The day before, he'd run San Francisco's annual 12-kilometer Bay to Breakers race, even though he was recovering from a broken shoulder suffered while mountain biking. (While many entrants make the run in costume or in the nude, Flynn did it in regular running gear.) Wiry and intense, he fixes a listener with his bright blue eyes and speaks rapidly in a level tone, frequently emphasizing a point with his hands. Ask him something he can't answer and he immediately jumps up to find the details on his computer.

Flynn grew up in Ross, Calif., a small Marin County town, the youngest of three children and the only boy. His mother, Roberta, was a homemaker and science fiction writer (part of her "Catscape" trilogy was published in the magazine *Amazing Stories*) who as a young copywriter in her father's ad firm had written a Dr Pepper commercial featuring a then-unknown Johnny Carson. His father, Donald, was a prominent tax lawyer who got into fast food largely because he couldn't stand to be shown up by his formerly under-achieving brother Gary, who'd opened a successful McDonald's in the 1970s. "He was suddenly the rich guy," Flynn says, "and my father was apoplectic."

Flynn himself hardly grew up deprived. He got a bachelor's degree in history from Brown, then went to work in First Boston's real estate group. When his future wife, Julie,

started law school at NYU, Flynn postponed admission to the Stanford M.B.A. program and spent a year earning a master's in American history at Yale. After that he did a brief stint at Goldman Sachs and the couple moved west. Flynn received his M.B.A. from Stanford in 1994, then raised \$1.5 million for a real estate fund based in San Francisco. Today Flynn Properties—which, like Flynn Restaurant Group, is

part of Flynn Holdings—is on its 18th fund. Flynn says 11 of those funds have been fully realized and have given investors an average annualized return of 31.8% after fees.

Flynn views his real estate business, which focuses on large office buildings in San Francisco and Seattle, as a trading operation. With West Coast prices sky-high, Flynn has mostly cashed out, just as he did in 2007. In real estate, he says, "we are market timers. We buy at what we think is the foot of the cycle, and then we just get out of the

business for a while." The restaurant and real estate businesses are separate. With the restaurants, Flynn generally leases the property.

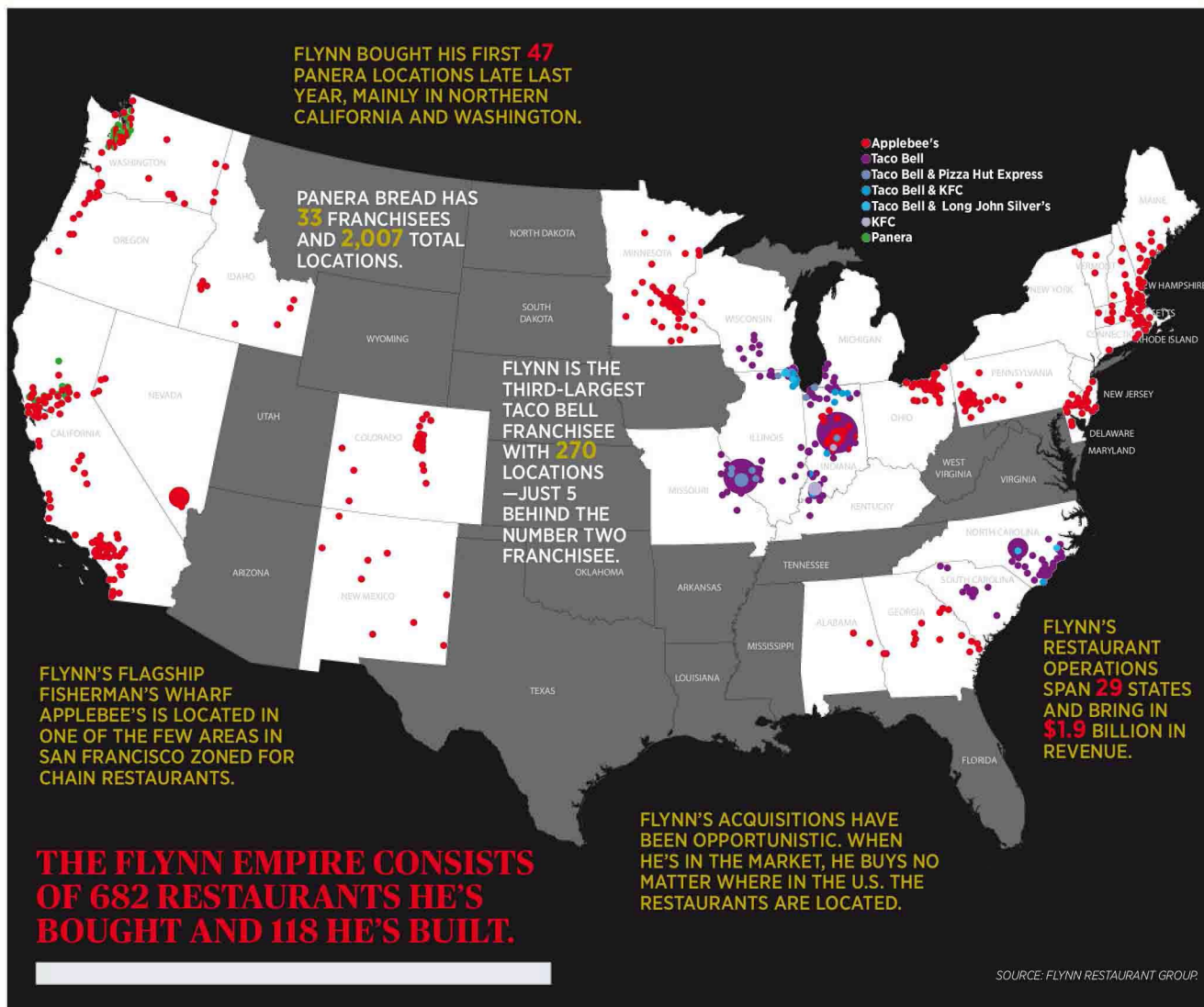
In early 1999 Flynn bought his first Applebee's locations. The economy was booming and so was casual dining. Flynn found eight outlets in the Seattle area, cold-called the owner and struck a deal to buy them for \$14 million, borrowing \$12.8 million. From the start he was thinking big. That same year he met Julia Stewart, then head of Applebee's U.S. operations and now CEO of the chain's corporate parent, DineEquity, in Glendale, Calif. "I remember him even then saying, 'I intend to be your number one franchisee,'" she says. Two years later Flynn doubled down, purchasing another 62 units from the same owner for \$48 million. Flynn used his Goldman Sachs connections to persuade the firm's private equity arm to put up \$40 million.

Corporate Applebee's was not happy. The last thing Lloyd Hill, then the company's chairman, wanted was a franchisee with big ambitions. Hill, who retired from Applebee's in 2006, was smarting from a power struggle with publicly traded Apple South, which had been its largest franchisee before selling its restaurants in 1998. "We were not interested in going back to a situation with someone with a Goldman Sachs connection, who could go public and be a competitor to us in the public arena," he says. Flynn recalls, "When I went to Applebee's for consent, Lloyd Hill paced the room and tore his hair out."

Flynn, however, turned on his sales skills, assuring Hill he



Hoping to jazz up its aging brand, Applebee's has been trying out a new, hipper look at a location Greg Flynn owns in Pooler, Ga.



wanted to run the restaurants. “I wasn’t convinced that he could do it, but he convinced me he meant it,” Hill says. Ultimately, Applebee’s consented—cautiously—requiring Flynn to agree to buy no more than 11% of Applebee’s units.

In 2004 Flynn acquired 13 Pittsburgh restaurants that had been owned by two former Pittsburgh Steelers. Two years later on a flight home from Kansas City, where Applebee’s was then headquartered, he sat next to a woman who owned six Applebee’s in California’s Sonoma and Napa counties. By the time the plane landed, Flynn had a deal to buy them.

By 2006 Applebee’s was under pressure from activist investor Richard Breeden, former chairman of the Securities & Exchange Commission, and the company became a takeover target. Then, in 2007, just before the country plunged into recession, Julia Stewart, then CEO of pancake-house chain IHOP, who had been passed over for the top spot at Applebee’s, led a \$2 billion leveraged buyout that combined IHOP and Applebee’s.

As part of the deal, Stewart sold 525 company-owned Applebee’s outlets. Meanwhile, as the economy faltered, many franchisees decided they wanted out. Flynn went on an acquisition spree, snapping up restaurants cheap. In tough times, when profits are low, restaurants are often priced according to what it would cost to build a new one. On average between 2008 and 2010 Flynn paid just \$500,000 each for restaurants that would have cost about \$1.8 million to build. Between 2008 and 2012 he increased his Applebee’s holdings from 142 to 438. “When the recession hit, there was one group, us, who could buy,” Flynn says. As he bought, the number of Applebee’s franchisees shrank from 43 at the end of 2007 to just 31 today, and the 11% limit was forgotten. “They realized it was ridiculous to cap this franchisee. We’re what they want. We run the restaurants really well, open new restaurants and work collaboratively on everything,” he says. “So it went from a guarded relationship to a partnership.”

FIVE YEARS AGO Flynn began looking to diversify beyond Applebee's. His American history master's thesis was on someone who didn't: John Roach, a 19th-century shipbuilder who had contracted with the U.S. Navy to build a steam-powered fleet and went broke when the government stiffed him on a big part of the bill. Surveying the landscape, he saw that Taco Bell owned the Mexican category in fast food. In fast casual—which offers fresher food without table service—he saw only two big players, Panera Bread and Chipotle, and the latter doesn't franchise.

The Taco Bell deal came together first. A division of publicly traded Yum Brands, Taco Bell called him when it decided to sell off hundreds of company-owned restaurants in 2012. Flynn was repeatedly outbid. Then a restaurant broker told him that Southern Bells, a franchisee with 76 units in Indiana, Illinois and Kentucky and nearly \$100 million in rev-

It also helped that Flynn had recently recapitalized, and his new majority owner was the most patient of patient investors, the giant Ontario Teachers' Pension Plan, which had bought out Goldman Sachs' stake, investing a total of \$300 million. "It was pivotal that we got rid of private equity," Flynn says. Otherwise, he adds, "I don't think [Shaich] would have said yes."

Last November Flynn bought 47 Paneras, mostly in northern California and Washington State, almost all from the company, becoming the chain's first new franchisee in almost a decade. Early this August Flynn was wrapping up another large acquisition of Panera cafes that will add more than \$100 million in sales and make Flynn Restaurant Group the chain's second-largest franchisee.

TIMES ARE tough again at Applebee's. The brand is aging and is being squeezed between less-expensive counter-service places (Chick-fil-A, Chipotle) that have eaten its lunch business and the horde of competitors (Chili's, Olive Garden) fighting for sit-down dollars. In the second quarter Applebee's domestic same-restaurant sales fell 4.2% compared with the same period in 2015, the fourth consecutive quarter of increasing declines. From the time of the Applebee's and IHOP deal through February 2015, DineEquity's stock had roughly tripled in value to \$109 (trouncing the S&P 500 index's 48% rise during that period) but has since fallen 30%.

Hoping to reverse the sales slump, in May, at a cost of \$75 million, the brand rolled out a new menu featuring steaks, chicken and fish grilled over a wood fire. It's also rolling out a new look, adding some hipster touches to Applebee's family-friendly neighborhood-tavern vibe: wooden tables, exposed brick walls and interior lights spelling out the word "BAR." Flynn tested a prototype at his location in Pooler, Ga., near Savannah. Not only does he have the cash to experiment, but DineEquity's Stewart also trusted him to tinker with the design.

I joined Flynn for lunch on the first day of the rollout of the new menu; we drove to his location at Fisherman's Wharf in his top-of-the-line Tesla model S P90D. Out front he greeted a guy in a bumblebee suit (Apple-BEE's, get it?) dancing around trying to drum up business.

The location, opened in 2013, is the first and only Applebee's in San Francisco. Flynn spent years searching for the right spot. The 12,000-square-foot, third-floor space, formerly home to a local dining institution called A. Sabella's, has floor-to-ceiling arched windows overlooking the bay. As we ate—salmon for me, chicken and steak for him—I was surprised by how good the meal was. "The food is much, much, much better," Flynn said, declaring the roasted zucchini and red peppers side dish better than he could cook at home.

Flynn says he doesn't make a lot of money on the location. So why create it? Because he wanted to make a big statement in his hometown. And because he could. "We spent millions to build it, but the rent isn't that bad," he says, "and the views are great." **F**

"I have a strict policy that we will never fight with a franchisor. I will get out of a system before I fight with them. We have a symbiotic relationship."

enues, was for sale, and Flynn grabbed it for an estimated \$75 million. Less than four years later Flynn Restaurant Group became the country's third-largest Taco Bell franchisee, with 270 Taco Bell and related Yum Brands locations. Brian Niccol, chief executive of Taco Bell, says, "One of the reasons I really enjoy working with Greg is he is allocating capital to building new stores. When we have development opportunities, he has the means to do it."

Simultaneously Flynn sought a way in to Panera, which has around 2,000 outlets and has done well at lunchtime, especially since it launched mobile and online ordering and catering. Panera's stores average \$2.5 million in revenues, which puts them near the top of the fast-food heap. But Panera is a tightly controlled operation, and breaking into the small club of franchisees is difficult. In 2012 Flynn bid on a group of Panera outlets in North Carolina. The deal went to contract but was preempted by Panera itself, which had the right of first refusal and outbid him. He increased his bid but still lost out.

Then Panera decided to sell off some company-owned locations. As with Applebee's before, Flynn had to first charm management. He worked his connections (a Goldman buddy had become Panera's chief financial officer) to get a meeting with CEO Ron Shaich. In June 2014 he flew to Boston (Shaich lives in nearby Brookline, although Panera HQ is in St. Louis) to make the pitch in person. The two men spoke for more than two hours. Shaich says he was impressed by how well Flynn understood his business and by his tenacity. "For half a decade he had been trying to get into the Panera system," Shaich says.