

## Assembly-Line Pizza Draws Hungry Fast-Casual Investors

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Maria Shriver has a thing for pizza -- or at least investing in a chain that sells it.

Shriver and other cheesy-pie aficionados, including Boston Red Sox co-owner Tom Werner, Panda Express founder Andrew Cherng and "Alien vs. Predator" producer John Davis, have dropped \$3 million into what they think will be the next great fast-casual dining brand: Blaze Pizza.

"We love pizza," Shriver, California's former first lady, said in an e-mail. "My son and I are really excited to be in the pizza business. We love this concept."

Investors are looking at chains like Blaze as millennials flock to fast-casual eateries with prices under \$10, fare that's healthier than fast food, speedy service and sleek stores.

While this segment is the fastest-growing among restaurants, few chains are publicly traded for investors to put money into. Everyone is looking for the next Chipotle Mexican Grill Inc. (CMG), which has recently outperformed the dining category and is trading at the third-highest price-to-earnings ratio of all U.S. restaurants with a market capitalization of at least \$150 million, according to data compiled by Bloomberg. Chipotle's price-to-earnings multiple is 35, compared with an average of 24 for all U.S. restaurants, the data show.

Restaurants last year began going public again after a dearth following the recession that ended in June 2009. While many fast-casual chains are still too small for an initial public offering, there may be more of these types of eateries, including Potbelly Sandwich Works, that go public as they expand. Blaze is already talking about a possible IPO in three or four years as it opens locations across the U.S., according to co-founder Rick Wetzel.

### Sales Gains

"The idea of being able to go to a restaurant and decide how to make your individual pizza and have it taste good in less than 2 minutes -- that sounded like a good idea," the Red Sox's Werner said in a telephone interview.

Wetzel, who along with his wife, Elise, co-founded Blaze, wooed the baseball-team owner at a dinner party at his home last year by serving him some pizza, which Werner called "outstanding."

Sales at the top 500 U.S. fast-casual restaurants chains, where customers usually order at a counter, increased 8.6 percent, while fast-food revenue rose 3.1 percent, in 2011, the most recent year for which data is available, according to Chicago-based researcher Technomic Inc. Sales at sit-down restaurants, including fine dining, were up 2.8 percent in the same time, the data show.

"There continues to be strength in the fast-casual segment," said Todd Hooper, a San Francisco-based strategist at consultant Kurt Salmon. "You're getting good food in a nice environment, but you don't have to tip."

### IPO Drought

Still, there has been a dearth of limited-service chains going public. While four U.S. restaurant companies completed initial public offerings last year, the most since 2006, when Chipotle began trading, all four chains were sit-down eateries, according to data compiled by Bloomberg.

Institutional investors need to see that the restaurant's food can be replicated and that it resonates with customers in different areas of the U.S., said Janna Sampson, who helps manage about \$3.2 billion, including McDonald's Corp. and Panera Bread Co. (PNRA) shares, at Oakbrook Investments in Lisle, Illinois.

"You'd really need to see something that makes it different than any other pizza," Sampson said.

"Pizza seems like a tough one because it is done and done."

### Serious Interest

A restaurant needs to have at least 100 units to attract "serious equity-money interest," she said.

Wetzel said Blaze Pizza, which has just two locations in California -- in Irvine and Pasadena -- can get there. The chain is franchising rapidly and will have 15 stores in cities including New York and Chicago by the end of this year, he said.

Blaze earlier this week signed an agreement with Lessing's Hospitality Group to open 10 stores in New York City; Long Island and Westchester County, New York; and Connecticut. It also has locations planned for the Midwest in Milwaukee and Madison, Wisconsin.

Wetzel started his soft-pretzel snack eatery Wetzel's Pretzels in 1994 and has since expanded it to about 300 stores worldwide. He never took it public because the growth opportunity wasn't there, he said. Not so with Blaze, which can have 1,000 locations, almost all of which will be franchised, he said. The first two locations are each on track for \_\_\_\_\_ in sales a year, he said.

Chipotle stores average about \$2 million in annual sales, according to a company filing.

### Chipotle Concept

Similar to Chipotle restaurants, customers at Blaze move along a service line and dress their 11-inch pizzas with toppings including fresh arugula, gorgonzola cheese and grilled chicken. The trick to adhering to the "fast" in fast-casual -- and cooking pizza faster than Yum! Brands Inc. (YUM)'s Pizza Hut and Domino's Pizza Inc. (DPZ) stores -- is the 800-degree oven, which bakes the pies in about 120 seconds, Wetzel said.

"It's Chipotle for pizza," he said.

Along with its \$6.85 pizzas, Blaze sells Caesar and caprini salads as well as beer and wine. While there are no plans yet to expand Blaze overseas, Wetzel has trademarked the name in about 30 countries.

"If these guys want to get to 100 units in the next three or four years, they can do it through franchising," said Rahul Aggarwal, managing director at Los Angeles-based Brentwood Associates, a private-equity investor in fast-casual chains Zoes Kitchen and Veggie Grill. While most fast-casual restaurants aren't yet large enough to be public, "you're going to see that change," said Aggarwal, who has not invested in Blaze.

Panera and Chipotle are really the only ones that are available for institutional investors on the public market, he said.

"Over the next couple of years, there will be more than just two public companies in the fast-casual space."