THE CHANGING FACE OF **FUNDING**

Following the global financial crisis, banks have ceded their funding power to funds, private equity (PE) firms and financial institutions. These funds, unlike banks, grant higher ceiling-loans, mentorship, networking and coaching, as well as on-board services.

Funding networks

Beirut-based FFA Private Bank signed a deal in 2014 funding Semsom's expansion in the US. The deal anticipated 200 outlets in 2020 (including franchises), through a first-round USD 4 million fund and additional USD 3 million in the second round. Julien Khabbaz, director, head of corporate & investment banking, revealed that the brand has been doing really well in the US. The first few restaurants have opened in New York and the second round of funding will take place at the end of summer, to continue expansion plans.

Khabbaz said that PE funds have always been willing to invest in hospitality, but it all depends on how good the deal is, the returns and the balanced risk. "Funds would not look into standalone restaurants for example, but would look into hospitality companies that have numerous branches or different chains of restaurants, or even F&B clusters."

He explained that as an investment bank, their work includes advising on and structuring transactions for clients, hiring them for either selling a company or raising funds (conducting a private placement). Each transaction is different and internal rates of return (IRR) vary for every deal. However, as in any business, hospitality has its risks. "Hospitality is definitely interesting, but it is a question of finding the smartest deal."

Adding corporate governance and discipline

Last September, Emerging Investment Partners (EIP), announced its first investment in the Lebanese market, acquiring a majority stake in Venture Group's The Backyard Hazmieh, an F&B cluster with over 20 different concepts. EIP is an investment management structure, established in 2014 by the Obegi group and Generation Alfa, together with Wassim Heneine and Karim Burhani. EIP's objective is to invest in high growth, medium enterprises with regional expansion prospects in diverse sectors in the Levant, North Africa and selected African countries.

Burhani said that co-funding The Backyard assured the company's bet on the Lebanese entrepreneurial spirit. According to Heneine, the concept's success was highly anticipated. "The outlets were fully leased way before the cluster's opening. This demonstrates the strength of the concept and the market demand." Burhani said that this cluster model is still very new to the market and appeals to the current clientele. By associating with established F&B brands, EIP lessened its risk for The Backyard. The company also aims to replicate this model on a regional level. Project feasibility studies are underway in Egypt, Nigeria and elsewhere.

As a growth capital provider, EIP drives the company, along with its founders, to the next level. It also helps the company's management with its corporate governance, especially when dealing with creative spirits, who might be less 'financially disciplined', highlighted Heneine. EIP also stressed on their preference for funding hospitality over technology. "Lebanese have always been known for their hospitality, which has the added value of being exportable," Heneine said. EIP is also considering funding interesting startups, or emerging concepts that have a lower price point.

Focus on regional growth potential

For the past several years, Beirut-based EuroMena has been an active player in the regional private equity scenery. In F&B, it financed companies such as Siniora Foods, a major cold-cuts manufacturer in Jordan. Over a four to five year period, EuroMena managed to substantially grow the business, leading to its successful

sale to Foursan Group. In the broader F&B space, EuroMena has also invested in Wadi Holding, one of the largest poultry groups in Egypt. EuroMena invests in a wide range of sectors and industries, excluding real estate.

"Our aim is to invest in solid, local businesses, with substantial growth potential," stressed Romen Mathieu, the fund's managing partner. EuroMena's 'fundable' concepts are well established and profitable local companies, with plans to grow regionally. They must also exhibit clear potential for international growth and export, as this serves as a natural hedge against currency devaluation, witnessed in major regional companies. Accordingly, concepts that could be easily scaled through franchises, could represent an interesting investment potential. EuroMena's investment ticket could go well over USD 25 million per project. Therefore, small concepts do not fall under its scope.

Ideally, the fund looks to exit its investments within four to five years. However, within the current regional environments, exits are sometimes being extended to more few years, to achieve the expected level of returns.

> *A successful investment in the F&B industry could generate 25 to 30 percent return on investment on a yearly basis*

Comparing banks to PE firms, Mathieu believes a company can resort to both, depending on its need. "The bank has a role if the company has no debt and has a strategy with corporate governance. It can secure a loan with six to eight percent interest. Whereas the PE's role comes to place if a company is seeking regional growth, an association with international strategic partners, corporate governance, and board members representation, all of which contribute towards institutionalizing the business. According to Paul Khoury, senior director of EuroMena, established businesses looking for PE intervention are open-minded enough to seek institutional support, helping them grow the right way. By inviting a PE firm and injecting this expensive capital, businesses are looking to accelerate their growth in preparation for their next phase.

Funding and managing

Besides funding hospitality, another breed of companies, is also managing and acquiring F&B concepts. eathos, a specialized restaurant operating company, headquartered in Dubai, is the franchisee of Kababji Grill in UAE, among other concepts. It raised more than USD 150 million two years ago to open or acquire interesting hospitality concepts in the MENA and Turkey. A few months ago, eathos made its first acquisition - SushiArt.

According to Nadim Majdalani, chief financial officer and business development director, 'eathos' is interested in being in control of the business operations, especially that homegrown concepts require more follow up. Therefore, it usually acquires a majority share, allowing it to operate the concept. Majdalani believes that emerging concepts cannot easily access bank financing in the early stages of their development. Moreover, traditional lenders would mostly be focused on getting their loans reimbursed, and will be limited in helping the concept achieve its full potential. A company such as eathos brings to the table its managerial know-how, network and infrastructure, with all its support functions. "Before buying into any new chained concept, we explore its growth potential while always keeping in mind the risk-return profile. The smaller it is, the higher growth potential it entails, but the higher the risk, as the concept is yet to be fully proven. Established concepts, on the other hand, carry lower risk and thus, are not expected to generate similar returns to emerging ones."

Julien Khabbaz
Director, FFA Private Bank

Karim Burhani
Managing Director, EIP

Wassim Heneine
Managing Director, EIP

Romen Mathieu
Managing Director, EuroMena

Paul Khoury
Senior Director, EuroMena