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SAN FERNANDO VALLEY BUSINESS JOURNAL

Vol. 25, No. 7 — THE COMMUNITY OF BUSINESS™ — March 30 – April 12, 2020 • $4.00

Vacant: Interior at IHOP, a chain of Dine Brands Global in Glendale.

EMPTY DINING ROOMS

Restaurants brace for an extended shutdown – with takeout option.

By ANDREW FOERCH *Staff Reporter*

The coronavirus outbreak and response has wreaked havoc on the Valley's restaurant industry, from mom-and-pop eateries to chains such as IHOP and Cheesecake Factory.

Market fears over the pandemic's long-term economic implications have resulted in a massive stock slide that has left public restaurant companies battered.

After seeing shares drop more than 60 percent in less than a month, **Cheesecake Factory Inc.** has notified its landlords that it would be unable to pay rent on April 1.

Meanwhile, government restrictions resulting from the outbreak have temporarily stopped all dine-in business at Valley restaurants, leaving them without stable revenue for weeks, if not longer.

With no end date in sight, restaurants of all sizes and cuisines are in a lurch. The National Restaurant Association predicted industry sales would decline by $225 billion during the next three months, resulting in the forced elimination of between 5 million and 7 million U.S. restaurant jobs.

Since the stock market began contracting

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Divergent Strategies for Valley Region's Biotechs

SPECIAL REPORT: Clusters focus on drugs and medical devices.

By AMY STULICK *Staff Reporter*

In the biotech industry, the Conejo Valley and Santa Clarita are hotspots – but it depends on what you're looking for.

Bioscience startups in Thousand Oaks and Westlake Village hunt for the next commercial drug. Many firms recruit former executives of **Amgen Inc.**, the region's largest biotech.

Meanwhile, in Valencia new companies try to invent medical devices, following the lead of the **Alfred Mann Foundation**.

"In the coming years, I think there will be a lot of interesting work coming out of the Valley," Dr. **Robert Greenberg**, chairman of the foundation, told the Business Journal.

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THE LIST
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PHOTO BY DAVID SPRAGUE

Innovator: Dr. Robert Greenberg.

Is Pandemic an Interruption?

INSURANCE: Virus often excluded from business policies.

By ANDREW FOERCH *Staff Reporter*

Valley businesses suffering revenue disruptions related to the coronavirus pandemic and resulting restrictions from government regulators are looking to their insurance policies to see if a business interruption claim would cover their losses.

According to two local brokers, determining coverage isn't a simple task. It depends on the cir-

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Alliance CEO's Exit Interview

NONPROFITS: Kenn Phillips leaves business advocacy group.

By MARK R. MADLER *Staff Reporter*

"It has been a good run." That's how **Kenn Phillips**, retiring chief executive of **Valley Economic Alliance** in Sherman Oaks described his 20 years at the business organization. During that stretch, "the Alliance has reinvented itself many times," he told the Business Journal.

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Property Flops At Ballot Box

REGULATION: Measures defeated in Burbank and Calabasas.

By MICHAEL AUSHENKER *Staff Reporter*

Two measures on the March 3 ballot dealing with commercial real estate were defeated, based on the latest vote count.

The first was a parcel tax in Burbank, while the other was an apartment expansion in Calabasas that would have preserved affordable housing.

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Restaurants: Takeout Trend to Outlast Health Crisis

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in late February, the Valley's public restaurant groups have suffered extreme losses. Shares of Cheesecake Factory in Calabasas dropped from $41.72 on Feb. 24 to a low of $15.71 on March 23 – a nosedive of 62 percent.

And **Dine Brands Global Inc.** in Glendale, franchisor of the Applebee's and IHOP chains, saw shares fall from $96.36 on Feb. 24 to just $17.41 on March 20 – a slide of 82 percent in less than a month.

Overall, the market's losses were a bit less dramatic. The Dow Jones Industrial Average has dropped about 26 percent since Feb. 24.

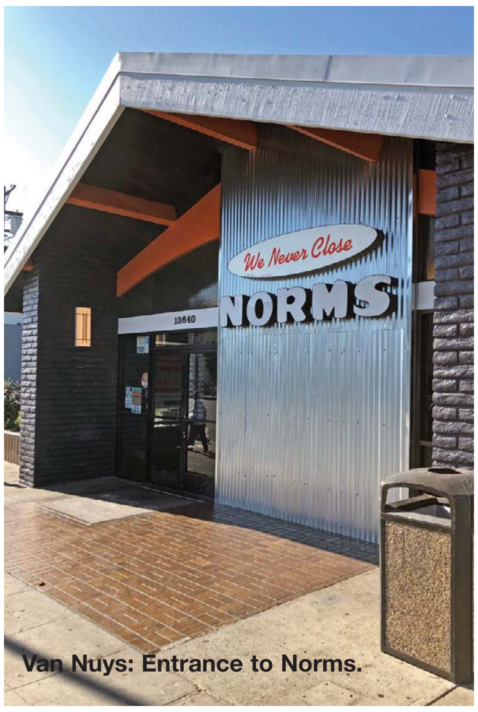
Cheesecake Factory and Dine Brands were particularly hard hit by the stock selloff because their brands specialize in dine-in food service, which regulators in most U.S. states have stopped altogether. Drive-through and delivery-oriented companies such as **Domino's Pizza Inc.** have avoided the worst of the carnage. As of March 25, Domino's shares dropped just 12 percent in the previous month.

Last week, the tides seemed to turn for restaurant stocks. Dine Brands climbed back slightly, closing March 25 at $29.65. And Cheesecake Factory rebounded more than 20 percent to close at $18.94 on March 25.

Even so, the revenue interruptions have left Cheesecake Factory desperate for cash.

Chief Executive **David Overton** sent a letter to the company's landlords last week

Lean Times: Cheesecake Factory taps $90 million credit to 'preserve financial flexibility.'



Van Nuys: Entrance to Norms.

notifying them that the group won't pay rent for April 1.

"The severe decrease in restaurant traffic has severely decreased our cash flow and inflicted a tremendous financial blow to our business," Overton said in the letter. "Due to these extraordinary events, I am asking for your patience and, frankly, your help."

That's a stark contrast to a press release Cheesecake Factory issued just days prior, in which the company claimed it had enough volume of delivery and takeout customers to "operate sustainably at present under this model."

Most of the group's landlords are shopping mall operators, including **Simon Property Group** and **Unibail-Rodamco-Westfield**. Cheesecake Factory has 294 restaurants in North America, 39 in California and six in Valley markets of Glendale, Sherman Oaks, Canoga Park, Thousand Oaks, Santa Clarita and Oxnard.

The company also dipped into its revolving credit facility to the tune of $90 million to "preserve financial flexibility," according to the press release. It additionally halted all planned expansion for the year to keep overhead low.

The company declined to speak with the Business Journal.

Dine Brands has not released any public statements from its corporate offices and did not respond to multiple inquiries from the Business Journal. But its Applebee's division put out a statement from President **John Cywinski** outlining the brand's response efforts, such as ramping up the frequency with which all high-touch surfaces such as door handles, restrooms, condiments and tabletop technology are cleaned.

Like Cheesecake Factory, Dine Brands has leveraged its revolving credit facility to prevent any potential liquidity problems, drawing $223 million of an available credit line of $225 million.

Independent operators

According to Tujunga-based restaurant consultant **Liz Thompson**, the fine dining and small, independent restaurant sectors will be hurt the most in the long run, while fast-casual brands and franchise chains with low prices and high name recognition will fare best.

"Unfortunately, a lot of smaller restaurants are going to close," Thompson said. "You've got to be incredibly creative (to survive)."

Interruptions to regular operations are, indeed, inspiring creative approaches from local restaurateur **Norms**, a chain of 20 diners and a Southern California institution since 1949.

Since dine-in services stopped, Norms has pivoted to a model similar to a meal delivery service, charging a $35 flat rate for family-sized mixes of proteins, vegetables, starches and ancillary ingredients needed to prepare a particular meal. A New York Strip care package, for example, comes with six 8-ounce strip steaks, six baked potatoes, 1.5 pounds of vegetables, 2 pounds of yellow onion and a bottle of Norms steak sauce.

"We're trying to give back to the community," said Norms Chief Executive **Mike Colonna**. "We have limited stock available, but … we think we could be a short-term outlet (for groceries)."

According to publications like Forbes, some restaurants have temporarily converted to grocery or convenience store models, selling raw ingredients including fresh produce, meat, eggs and milk off makeshift shelves. Doing so lets restaurants shed perishable inventory, collect much-needed cash and help local residents avoid long lines and crowds at grocery stores. Colonna said he would consider such a model for Norms to sell its canned goods and nonperishable items, depending on how long regular business stays shut down.

Norms has a location at 13636 Sherman Way in Van Nuys.

Thompson, the consultant, said focusing on dine-in and takeout services won't be enough to keep many small restaurants afloat through the crisis.

"The formula that nobody ever follows is you shouldn't open up a restaurant unless you have enough capital in the bank to assume that you're not going to make a dime for a year. Unfortunately, nobody follows that rule," she said. "It's survival of the fittest."

For restaurants that close, the hard times will trickle down to their employees, she added. For now, most restaurant employees in L.A. County have been left in a state of uncertainty regarding their job security.

"All of a sudden, they're cut off without an income. A lot of them are sort of on hold; they're not necessarily fired, so they can't go on unemployment," Thompson said.

Looking ahead

While many restaurants will close shop, Thompson said their disappearance will present new opportunities for restaurateurs.

Retail landlords will scramble to fill vacancies in a slow market, she said, and restaurant equipment will be cheaper and more readily available than ever at auction.

Thompson said she's involved with a project to open a chef-driven barbeque joint in the Valley that has become delayed due to the virus. She said she feels conflicted about potentially using other restaurants' misfortunes – like low-cost kitchen equipment or operating space – to her benefit.

"You hate to think you're taking advantage, but unfortunately businesses would rather take pennies on the dollar for their smoker than just give everything up," she said.

Thompson predicted most new restaurants that pop up in the wake of the coronavirus pandemic will skew towards fast-casual business models featuring low prices that ensure a steady stream of customers even through a potential economic downturn.

That would have an interesting effect on the San Fernando Valley's restaurant scene, which, until now, has seen an influx of what Thompson called "mid-range, hip restaurants that draw crowds."

Another potential leftover of the dine-in ban, Thompson predicted, is sky-high delivery numbers that don't drop when the outbreak wanes.

"People are going to get used to having things delivered," she said.