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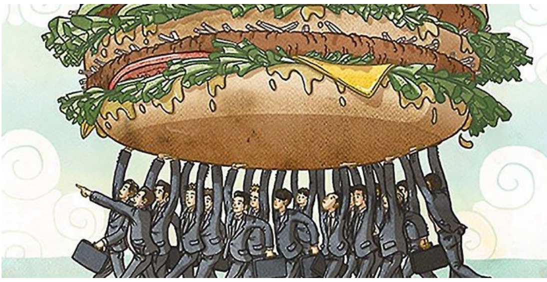
Why Are These High-Profile Franchises Suddenly Going Public?


By Jason Daley

By some estimates, only about 1 percent of franchise systems ever go public…

Wall Street will barely look at a company unless it's trying to raise $100 million or more. Yet there are legitimate reasons for a franchise to go public.

The past year has been a big one for franchises. One of the largest and most successful IPOs of 2013 came in June with Noodles & Company. Shares in the Broomfield, Colo.-based fast-casual chain--which has 310 company-owned units and 58 franchised stores, mainly in the Midwest--opened at $18. By the end of the first day of trading, the price had more than doubled to $36.75.

At press time (toward the end of November), the stock was trading at $42.

The IPO raised some $97 million. For Noodles & Company, which has a large corporate-owned component, going public made sense, because it gave the company capital to help with its expansion to the coasts. The success of the IPO, which many say took Wall Street by surprise, inspired other brands to try their luck.

"With a strong year in restaurant stocks and the highly successful late-June IPO of Noodles & Company," wrote Sharon Zackfia, an analyst with Chicago investment-banking and asset-management firm William Blair & Company, "we suspect that IPO activity in the restaurant space could ramp up in the coming months as investor demand for high-quality growth stocks appears robust."

Indeed, Potbelly Sandwich Shop, a Chicago-based franchise with 295 locations and a cult-like following, went public in October; its stock also doubled in its first day, raising $105 million. According to the prospectus, that cash is being used to pay a dividend to the company's previous investors and to help Potbelly--which, like Noodles, has both company-owned and franchise stores--expand.

RE/MAX, the 41-year-old real-estate franchise, also went public in October. It plans to use some of the $220 million raised to acquire franchises in the Southwest and mid-Atlantic regions.Focus Brands--an Atlanta-based franchise group that comprises Auntie Anne's, Cinnabon, Carvel, Schlotzsky's and Moe's Southwest Grill--has been in talks with investment banks about going public; analysts believe this could be an exit strategy for Roark Capital Group, the private equity firm that created the company in 2004. Papa Murphy's, the popular take 'n' bake pizza franchise, is also rumored to be looking at an IPO.

Hilton Worldwide, which was purchased by investment firm Blackstone in 2007, was on track at press time for a late-2013 IPO; analysts estimate it could raise up to $2 billion.

Stock Stories

Dunkin' Brands knows what it's like to go through the excitement of a public offering. The parent company of Dunkin' Donuts and Baskin-Robbins went public in July 2011, raising $422.75 million.

A Brief History of Franchise IPOs

2009
Hyatt Hotels
In the midst of the worst climate for hotels in living memory, Hyatt raised $950 million, used in part to acquire and invest in new properties.

2011
GNC
The vitamin and bodybuilding-supplement shop's public offering raised $360 million. The company turned out to be a great buy and was the top-performing IPO of 2011, gaining almost 83 percent in its first year on the market.

2011
Dunkin' Brands
The parent company of Dunkin' Donuts and Baskin-Robbins raised $422.75 million in its IPO, part of a strategy to pay down debt and toforge ahead on its quest to open 15,000 stores.

2011
Arcos Dorados
McDonald's has been a stock-market fixture for decades. But its largest Latin American franchisee, Woods Staton, who operates or franchises more than 1,970 units in 20 countries and territories, decided to play the market, too, placing his company Arcos Dorados on the New York Stock Exchange to the tune of more than $1.2 billion.

2012
Burger King
Technically, it wasn't an IPO (and non-technically, it's way too complicated to explain), but Burger King went public, reverse-merging with a special-purpose acquisition company on the NYSE.

2013
Noodles & Company
The sleeper hit of the summer, Noodles surprised Wall Street by raising $96.4 million and more than doubling its share price on its first day of trading.

2013
Potbelly Sandwich Shop
Another surprise, Chicago-based Potbelly raked in $105 million and doubled its share price on its opening day in October. Third-quarter 2013 saw a revenue increase of 11.7 percent.

2013
Re/Max
The RE/MAX IPO in early October raised $220 million, which will fund expansion into new areas of the U.S. Shares rose 20 percent on the first day, indicating that Wall Street is bullish about the housing recovery.