

The most expensive burger in the world

By Japhtha Mamalema

This is a story of how Famous Brands overpaid on acquiring GBK and wasted R1.82 billion (£120 million)



The announcement by Famous Brands (FBR) to cut-off financial support to its UK subsidiary: Gourmet Burger Kitchen (GBK) and writing-off the investment is an admission of failure and the loss of R1.82 billion.

GBK now has to stand on its own two amidst a debt-pile, store closures and a global recession.

The following is a retrospective look and author's opinion of the GBK acquisition by FBR.

The GBK acquisition was effective on 7 October 2016 at a price of R1.82 billion (£120 million).

The purchase price was based on

- A recent EBITDA of £9.6 million and
- GBK being a leader in the premium UK burger market among other factors.

In the 5 years leading up to the acquisition GBK performed as follows:

Table: GBK Revenue, EBITDA & Net profits

	2016	2015	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000	£000	£000
Revenue	67417	55807	50496	40653	39050	37579	37322
EBITDA	10205	7261	4893	3403	3251	5072	6354
Profit (loss) after tax	2351	1223	-91	-206	-381	-5416	-2461
Operating Profit	5675	3178	1217	687	821	2402	3957
Depreciation	4525	4080	3673	2712	2426	2666	2394
Amortisation	5	3	3	4	4	4	3

Source: GBK annual financial statements (2016-2010)

After the acquisition, GBK performed as follows:

	2019	2018	2017
	£000	£000	£000
Revenue	76 054	81 744	77 912
EBITDA	- 31	6 551	11 504
Profit (loss) after tax	- 23 482	- 5 816	4 150
Operating Profit	- 5 639	402	6 181
Depreciation	5 595	6 137	5 311
Amortisation	13	12	12

Source: GBK annual financial statements (2019-2017)

In September 2018

GBK entered into company voluntary arrangement (CVA) negotiations with creditors as it was struggling to meet its debts.

It had to close 14 burger joints afterwards.

In my opinion: GBK's value was nowhere near the excessive £120 million.

The use of EBITDA to value GBK was a complete disregard for fixed costs and income taxes.

For any restaurant chain like GBK,

Building space and equipment are necessary things to have in order to operate.

EBITDA ignores the cost of the use of such vital assets and income taxes.

Despite being a leader in the UK Premium burger segment,

GBK's numbers were not impressive.

The investment was very optimistic on the part of the FBR board.

From the table below, which is a reproduction of the tables in the previous page,

Using the 2016 EBITDA of £10 million,

FBR expected to recover its £120 million investment in under 12 years.

This was flawed as shareholders of any business only benefits from profits after tax.

At the time of purchase (2016) GBK's net profits had never exceeded £2 million.

In shelling out £120 million,

FBR was in effect willing to wait 60 years to make back its investment;

Equivalent to investing money at 2% per annum.

Table: GBK Revenue, EBITDA & Net profits

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Revenue	76 054	81 744	77 912	67 417	55 807	50 496	40 653	39 050	37 579	37 322
EBITDA	- 31	6 551	11 504	10 205	7 261	4 893	3 403	3 251	5 072	6 354
Profit (loss) after tax	- 23 482	- 5 816	4 150	2 351	1 223	- 91	- 206	- 381	- 5 416	- 2 461
Operating Profit	- 5 639	402	6 181	5 675	3 178	1 217	687	821	2 402	3 957
Depreciation	5 595	6 137	5 311	4 525	4 080	3 673	2 712	2 426	2 666	2 394
Amortisation	13	12	12	5	3	3	4	4	4	3

Source: GBK annual financial statements (2019-2010)

The GBK purchase was financed by R2 billion worth of debt which FBR still has.

The worst is not out yet.

While R1.82 billion of shareholders money got squandered,

R21.3 million was paid out in cash bonuses and stock to executives over the past 3 years.

FBR remains liable for the R2 billion debt used to purchase GBK for which it has dim prospects of recovering.

Extract of Remuneration policy:

“The scorecard comprises three technical goals plus one development goal. The technical goals include Operational profit, HEPS growth at CPI plus 50% of CPI, **EBITDA growth** at CPI plus 50% of CPI, market share and customer service components.”

Source: 2017 integrated report

Table: Executives cash bonuses and stock awarded

	2019		2018		2017		Total
	Cash	Stock	Cash	Stock	Cash	Stock	
	R000	R000	R000	R000	R000	R000	
DP Hele	1 418	3 489	2 500	3 840	1 565	2 317	15 129
K Ntlha	495	1 238	600	1 250	-	654	4 237
NS Richards	-	-	-	-	586	1 395	1 981
							21 347

Source: 2019-2017 integrated reports

Resources used

FBR AFS- <https://famousbrands.co.za/investor-relations/financial-results/>

GBK AFS link -<https://beta.companieshouse.gov.uk/company/03970045/filing-history>

“The lesson here is that a business does not earn more money because of the higher price paid for it.”