

Press Release

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Steakhouse Del Frisco's to acquire tapas restaurant owner Barteca for \$325 million

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Key Points

- Del Frisco's will acquire Barteca Restaurant Group for \$325 million in cash.
- Barteca is a 20-year-old company with two brands, Barcelona and Bartaco.
- The deal represents a calculated move by Del Frisco's to expand and gain access to new customers.

Del Frisco's Restaurant Group, known for its upscale steakhouses, told CNBC it will acquire Barteca Restaurant Group for \$325 million in cash in a bid to expand its footprint and balance its portfolio.

The deal announced Monday represents a calculated move by Del Frisco's, which owns Del Frisco's Grill, Del Frisco's Double Eagle and Sullivan's Steak House, to grow in scale and reach new customers. It's a big step for a company with a market cap of \$344.8 million.

Barteca is a 20-year-old company with two brands, Barcelona, an upscale casual dining restaurant that specializes in Spanish and Mediterranean cuisine, and Bartaco, which features a menu of "upscale street food" with bold South American, Mediterranean and Asian flavors.

Both restaurants are known for wine, small plates and a comfortable, yet stylish atmosphere inspired by tapas bars in Spain and the beach culture of South America and Southern California.

These brands offer more than just a unique dining experience and locally sourced ingredients: They have small footprints, which make them ideal for placement in high-traffic urban areas where rent is inflated and large spaces are hard to find.

Growing its urban footprint

"We've been looking for growth concepts, not maintenance concepts," Del Frisco's CEO Norman Abdallah told CNBC. "They have to have proven growth."

Barteca has been methodically expanding its number of restaurants over the last 20 years and currently has 15 Barcelona locations and 16 Bartaco locations. Abdallah expects over time the company would be able to open 50 to 100 Barcelona restaurants in the U.S. and 200 to 300 Bartacos.

Del Frisco's is expecting unit growth over the next five years to be 10 to 12 percent for all of its restaurant brands.

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Del Frisco's has 25 Del Frisco's Grill locations, 13 Double Eagle locations and 15 Sullivan's steakhouses, predominantly situated in the major cities in the Northeast.

Barcelona and Barteca restaurants are smaller in size than Del Frisco's current brands. At about 4,500 to 5,000 square feet, they are dwarfed by Del Frisco's 14,000- to 17,000-square-foot steakhouses.

While Barteca has been slow to grow its number of locations, its restaurants have a proven track record of strong sales. Barcelona has had positive same-store sales growth for 20 straight years and Bartaco has had mid-single to low double-digit same-store sales growth for the four years that it has been open.

In the first quarter ended April 3, Barcelona saw same-store sales grow 1.7 percent, while Bartaco saw growth of 2.6 percent. Abdallah expects these sales trends to continue after the acquisition.

Broadening its horizons

Barteca and Del Frisco's brands focus on wine and an upscale menu, but their customers tend to be quite different, meaning there is less of a chance of sales being cannibalized if one brand is located near another, Abdallah said.

Diners that frequent Barcelona and Bartaco are similar to its Del Frisco Grill patrons in that they are looking for an experience when they eat out, not just a place to fuel up on food, and tend to be interested in socializing and purchasing alcohol. Customers typically spend about \$33 to \$40 per person at Barcelona and \$22 to \$28 per person at Barteca.

The Double Eagle diner, however, is looking for a fine-dining restaurant for business dinners, company outings, anniversaries, birthdays or holidays, Abdallah said. These patrons tend to spend \$115 to \$125 per person.

Barteca's two brands allow Del Frisco's to hedge its bets against seasonality issues like weather or changes in customer food needs. While Barcelona and Bartaco tend to fare well in the spring and summer, Double Eagle is more favorable during the fall and winter, he said.

Bartaco, in particular, is susceptible to inclement weather, including rain, snow and cold temperatures because it relies on its patio as a core part of its business.

The deal with Barteca is expected to close by the end of the second quarter, according to Del Frisco's. Barteca's CEO Jeff Carcara will remain in his post and report directly to Abdallah.

Del Frisco's is set to report its first-quarter earnings before the opening bell on Monday.