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Yum Brands to Buy Habit Burger Grill

Taco Bell, KFC parent looks to expand into fast-casual market



Yum Brands, the owner of Taco Bell, agreed to buy Habit Restaurants for about \$375 million.

By Heather Haddon

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Yum Brands Inc. said it would buy fast-casual burger chain Habit Restaurants as it seeks to broaden its range of restaurants and reach more customers. Yum said it had struck a deal to buy the California-based parent of Habit Burger Grill for \$14 a share, or about \$375 million. Habit's shares closed Friday at \$10.51, giving it a valuation of around \$275 million. The companies said they expect the deal to close by early this summer.

Habit's shares rose 33% on Monday to about \$14. Yum's shares traded roughly flat around \$102.

Yum, the parent company of fast-food chains KFC, Pizza Hut and Taco Bell, said Habit's fast-casual model has strong potential for international expansion. The chain of around 280 restaurants in the U.S. and China has specialized in chargrilled burgers since opening in 1969.

The deal is Yum's first acquisition of a stand-alone fast-casual restaurant chain since the company went public in 1997. Yum, formed by a spinoff of the restaurant holdings of PepsiCo Inc., is the world's largest restaurant company by stores, with more than 49,000 in 145 countries.

More U.S. restaurant companies have expanded to own a suite of brands as they seek to keep up with changing dining trends and grow internationally. Fast-casual burger chains in particular have proliferated in recent years. Premium burger brands have faced tough times as the concept has grown saturated.

"We thought it was a sweet spot within fast-casual," Yum Chief Executive David Gibbs said in an interview. Mr. Gibbs took the helm of Louisville, Ky.-based Yum this month, succeeding veteran CEO Greg Creed.

Private-equity backed Inspire Brands Inc. last year bought Jimmy John's Gourmet Sandwiches, adding it to a portfolio that includes the Sonic burger chain, Arby's and Buffalo Wild Wings. Privately held JAB Holding Co. and Focus Brands are also broadening their brand holdings.

Habit said it hopes to grow to more than 2,000 locations with backing from Yum. "There is plenty of runway left," Habit CEO Russell Bendel said in an interview. Yum said the deal would have a minimal impact on earnings this fiscal year, with profits expected from the acquisition beginning in 2021. Habit will be run independently within Yum, as are Yum's other brands, Mr. Gibbs said. The company expects to maintain Habit's existing management team and headquarters in Irvine, Calif.

Instructions: Critique this article within the context of our discussions about diversification and acquisition strategies.