



GLOBAL PANDEMIC IS SURPRISE ADDITION TO RESTAURANT'S TURNAROUND MENU

BY JOHN W. GUZZARDO, PARTNER & NATHAN E. DELMAN, ASSOCIATE, HMB LEGAL COUNSEL, AND JOHN B. PIDCOCK, OXFORD RESTRUCTURING ADVISORS LLP

By the spring of 2020, Red, the Steakhouse, in Miami Beach was thriving, poised to capitalize on its success and further expand its brand. With a prime location in the city's fashionable South of Fifth (SoFi) neighborhood, the restaurant boasted a 198-seat main dining room; a 16-person, glass-enclosed VIP room; two additional private dining rooms; and an 800-bottle wine cellar, and was a hot spot for professional athletes and other celebrities.

In early March 2020, however, South Florida was quickly becoming a different kind of hot spot—one for cases of COVID-19. By March 16, the City of Miami Beach ordered the closure of all restaurants, putting the survival of Red South Beach and other area restaurants at risk.

Prior to the pandemic, Red South Beach was profitable and growing. December 2019 marked the restaurant's largest gross monthly sales in its history—exceeding \$700,000—followed by two record months in January and February 2020. But, without question, small businesses like Red are the most vulnerable to the global macroeconomic impact of COVID-19. Even without the forced shuttering of establishments, a large percentage of the customer base would remain wary of the disease's spread and simply stay away. Some predict that one in five restaurants in the United States could permanently close as a result of the lost revenue crushing the entire industry.¹

Luckily for Red South Beach, because of a more typical turnaround and escape from liquidation in 2018, the restaurant's experienced turnaround professional team was already marshalled and ready to act in defense to this new threat. Aaron Hammer, chair of the Horwood, Marcus & Berk law firm's Bankruptcy Group and a longtime turnaround professional, and John Pidcock of Oxford Restructuring Advisors LLP were still on board from the restaurants' 2018 disassociation from its previous partners and significant financial restructuring to the business itself. As such, Red South Beach responded to the COVID-19 crisis by quickly taking a number of actions designed not only to survive but to emerge financially stronger once the crisis is over.

First, the team recognized that open lines of communication with its lenders were critical to the restaurant's survival. The extension of credit is the oxygen of all hospitality enterprises during this pandemic. Not only was Red South Beach able to defer payments, but the turnaround professionals' close relationship with the restaurant's senior lender secured the company's participation in the federal government's Paycheck Protection Program. With the assistance of its turnaround team, the restaurant further sought an Economic Injury Disaster Loan from the federal government and a Small Business Emergency Bridge Loan from the State of Florida to ensure it

would have the most working capital possible coming out of the crisis.

Second, the team cut as many near-term costs as reasonably foreseeable without surrendering Red South Beach's ability to reemerge as a dining destination once governmental restrictions are eased. Out of the gate, Red South Beach furloughed its hourly employees, while salaried employees worked on-site to provide takeout and delivery service to the local community. All of the restaurant's employees retained healthcare benefits during the crisis, and some hourly workers helped with delivery and takeout services as needed. Management did its best to keep Red's workforce as engaged as possible and provide critical support for them while not wasting precious liquidity necessary to restart the business in its entirety after the crisis.

Third, the team understood that Red South Beach could quickly adapt operations to stay engaged in the community—the lifeblood of a small service-industry enterprise. To start, within days of closing its dining room, the restaurant and its turnaround team launched an online delivery portal and devoted substantial additional online market revenue to boost website traffic. It also worked in conjunction with Meals for Heroes Miami to deliver 200 free meals per day to healthcare workers and other first responders on the front line of the COVID-19 crisis.

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Finally, the restaurant launched the online Red Butcher Shop to sell its prized cuts of meat and fresh seafood to locals. The concept's initial success resulted in a long-term plan to launch a national mail-order business by June 2020 to sell certified angus beef and seafood directly to consumers around the United States.

While these are trying times for the hospitality industry as a whole, Red South Beach is no stranger to threats to its survival. A mere 18 months ago, the restaurant was brought back from the brink of oblivion. The business survived that crisis and with the structures and relationships established by its turnaround professionals during that time, Red South Beach found itself more flexible and better able to adapt when the world changed so dramatically in the spring of 2020.

A Recipe for Trouble

Red South Beach began as an offshoot of Red, the Steakhouse, in Beachwood, Ohio. Red Restaurant Group (RRG) opened Red Beachwood in 2004 and, by 2017, had six contemporary steakhouses plus the American bistro Moxie, the Restaurant, in its portfolio. RRG had plans to launch three additional restaurants by 2022 and projected \$43 million in consolidated revenue.

Peter Vauthy, who had worked for RRG since 1999, opened Red South Beach in 2009 and was immediately successful. Revenue peaked at \$7.2 million in 2012.² Six years later, from the outside, all appeared well with the Red

South Beach business. But back in the Midwest, RRG struggled for survival.

Two prototype restaurants developed by the group closed in June 2017. In February 2018, RRG sold Red Cleveland to an investor group, YLT Red LLC. Red Cleveland kept its original name and ultimately acquired the Red "brand," but all other financial ties were severed. The transaction was intended to shore up RRG's treasury and fuel further expansion, but those efforts fell flat. By August 2018, RRG shuttered its newest locations in Indianapolis and Pittsburgh.

Because Red South Beach had contributed so much of its free cash toward RRG's other ventures, the cupboard was bare when it came time to pay its own bills. RRG had further leveraged Red South Beach's assets to bail out its failing new locations, and by September 2018, Red South Beach was substantially in arrears on its rent payments.

As a last-ditch effort to save the enterprise, in June 2018, the majority shareholder of RRG and Red South Beach, BJRP LLC, obtained a secured loan of more than \$1 million and granted a blanket lien cross-collateralized against all of RRG's remaining locations, including Red South Beach. The years of failed expansion and runaway financial mismanagement were too much to overcome, however. A mere four months after taking out this new financing, BJRP filed for Chapter 11 in the U.S. Bankruptcy Court for the Northern District of Ohio, scheduling a \$960,000 claim to its secured lender and another \$770,000 combined to

two other secured lenders. With BJRP now under the protections of the Bankruptcy Code, its lenders began looking southeast to their other potential sources of recovery. Red South Beach was running out of time and options.

The Right Ingredients

The turnaround team understood that, unfettered from the dead weight of Red Restaurant Group, Red South Beach—with Vauthy in the kitchen—could be profitable and successful on its own. Upon BJRP's Chapter 11 filing, Red South Beach's legal and financial turnaround professionals quickly went to work. The first task was to fully analyze the revenue and expenses of the business. Fully understanding the cash situation was critical to Red South Beach implementing a near-term structure necessary for the business as it transitioned ownership. The team focused on critical vendors to maintain operations.

The team then turned to analyzing the multitude of relationships between Red South Beach, BJRP, and its lenders and vendors. Multiple discussions ensued with all the parties, and lines of strategy were formulated by the team. Red South Beach contemplated filing its own Chapter 11 case, but the principal secured lender did not want to impair its ability to credit bid the full value of its loan in BJRP's Chapter 11 case. Absent another strategy, this position would result in effectively forcing Red South Beach to permanently go dark.

It soon became apparent, however, that Red South Beach's landlord wanted to continue the business as a going



John Guzzardo is a partner in HMB's Bankruptcy, Reorganization and Creditors' Rights Group and chair of the firm's Litigation Group. He represents debtors, creditors, trustees, and receivers in local, regional, and national proceedings in Chapters 11 and 7, with a strong emphasis on complex bankruptcy litigation matters.



Nathan Delman is an associate in HMB's Bankruptcy, Reorganization and Creditors' Rights Group. With more than a decade of experience, Delman has handled matters of all sizes, but his practice focuses on business reorganization and the protection of secured and unsecured creditors' rights in insolvency situations. He is also the firm's resident resource on personal bankruptcy.



John Pidcock is the founder of Oxford Restructuring Advisors LLP. With more than 20 years of restructuring experience, he provides crisis management services to underperforming companies and constituencies, including interim management and debtor advisory, bankruptcy preparation and management, post-merger integration, debt restructuring and refinancing, and post-confirmation creditor advisory. Pidcock was previously with Conway MacKenzie.

concern and without interruption. The landlord's costs of carrying empty space and remodeling for a new tenant in a worst-case scenario served as a great incentive for a consensual resolution.

With this motivated partner, Red South Beach and Vauthy found their lifeboat. Florida law grants landlords a statutory lien for unpaid amounts going back to a lease's start date, which in Red South Beach's case was April 2007, well before the senior lenders entered the picture. The landlord maintained a good relationship with Red South Beach's management but, to protect itself, reluctantly filed an eviction action against the restaurant in October 2018. The turnaround team recognized that if Red South Beach's operating company was properly evicted, the landlord could foreclose its statutory lien on the vast majority of the restaurant's working assets—including everything essential to continuing that business.

A new entity, Bisteca LLC, was formed as the investment vehicle in a "new" Red South Beach with Hammer as its managing partner. Bisteca brought new capital to invest and provided the landlord with an upfront lease origination fee and signed a new five-year lease on substantially improved financial terms for the restaurant. Bisteca subsequently entered into a licensing agreement with YLT in Cleveland to use the Red name and

related intellectual property. The landlord then moved ahead to evict "old Red" so that Bisteca could take the wheel on a "new Red" with a substantially deleveraged capital structure.

A Rare Strategy

On a sunny mid-November morning, Vauthy and the entire Red South Beach staff waited nervously outside the premises as the Dade County Sheriff served notice and changed the locks on behalf of the landlord, formalizing and finalizing Red South Beach LLC's eviction. After a stressful (but successful) three-hour negotiation with the landlord over the final lease terms, Bisteca took possession of the space. Service continued that night without missing a beat. Through deft maneuvering and a restructuring team that envisioned and executed an entirely custom workout strategy, Red South Beach, and nearly 50 jobs of treasured staff, were saved.

The next 16 months saw unprecedented stabilization in the business. Free of the weight of the failed decisions of RRG and with most legacy debts now resolved, "new" Red South Beach could now spread its wings. Improvements were made to the space in the form of additional private dining space, among other things. By all accounts, the turnaround of Red South Beach was successful and complete. But, most importantly, the financial rehabilitation

in 2018 gave the enterprise the breathing space and room it needed to maneuver when COVID-19 hit just over a year later.

Despite the current circumstances, Red South Beach and its turnaround team are confident that the restaurant will resume operations as a growing, robust, and vibrant business. In fact, Red South Beach is even planning to expand its reach with a second restaurant several blocks from its current location. The new venture will feature signature burgers and sandwiches, and a line of craft beers and handcrafted cocktails. By the time the quarantine recedes, the company hopes to have its lease in place, investment capital lined up, and a signature menu finalized.

To resuscitate this struggling business, the turnaround professionals employed a strategy that was not immediately apparent and typically used in restructuring an enterprise of this size. Though the solution may not have been on the menu, sometimes the right turnaround team can prepare the perfect recipe. ■

¹ See, e.g., [businessinsider.com/1-in-5-restaurants-could-close-due-to-coronavirus-ubs-2020-4](https://www.businessinsider.com/1-in-5-restaurants-could-close-due-to-coronavirus-ubs-2020-4).

² Roughly 20% of this revenue related to Red South Beach's rooftop operation, which was permanently shuttered by local noise ordinance in 2013.