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Q&A: Will Slabaugh

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Managing Director

Will is a research analyst leading the restaurant industry. Previously, Will was a research associate in the IT services and digital marketing industries and an analyst in the Corporate Finance department, where he focused on various industries including consumer, information technology and telecommunications services. Will joined Stephens in 2007. He graduated with honors and holds a B.S. in international business from the Sam M. Walton College of Business at the University of Arkansas.

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Will Slabaugh, Managing Director, has been a Stephens Research Analyst leading the restaurant industry practice since 2011 after joining the firm in 2007. He talks about his path from Corporate Finance to Research, how the slow consumer recovery is affecting the restaurant industry, and his “boots on the ground” approach, which includes being a part owner of the first franchise of Memphis-based Gus’s Fried Chicken.

How and why did you make the switch from corporate finance to research?

I was in the Corporate Finance program right out of school for a year and a half, and just as I was finishing up, I spoke with one of our research analysts, who opened my eyes to what research was really about.

I didn’t know there was so much in the way of customer relationships and travel to meet with both clients and management teams. I had thought of it primarily as a writing job, but the larger and more exciting part of the job is picking and pitching stocks, as well as developing on-going dialog with clients. I worked on the marketing side in the consumer area for a few years and then I was offered the chance to take over the restaurant practice in early 2011.

Was it daunting to go into an area where you didn’t have industry experience?

It was an opportunity and one I was excited by. One of the reasons Stephens is a great place to work is there is no set or typical career path. If you prove yourself, they will help you find a fit that makes sense for them and you, which generally comes with a lot of flexibility. I was able to go from Research Associate to Analyst in less than two years, where it might typically take three to five, because I was fortunate to have been part of a terrific team that was performing well and scoring highly with institutional clients. I also believe my experience in corporate finance gave me an added advantage.

How did you leverage being new to the sector into an asset?

I saw it as a fresh start for the practice as well as for me. We cleaned the slate, dropping coverage of all of our companies and starting over, going from 0 to 12 in the first year. We now cover about two dozen restaurants, ranging from quick service to full service dining and fast casual.

We reinitiated coverage of many of those we had covered before, but only after I met every management team. It isn’t necessarily the most difficult business model to understand, but I wanted to make sure I knew the teams, took the thoughts and ideas of franchisees’ into account, and understood the companies’ individual strategies. I’ve found it’s a boots on the ground approach that has served me best in this business.

What have you seen in the 4-plus years you’ve been covering the industry?

We have experienced a slow and steady recovery that, until recently, has been skewed away from my companies’ core consumer of around $75K in annual income. While fundamentals have been improving, there has been a misconception that lower gas prices would translate into consumers spending more elsewhere. However, the data we've seen from credit card companies, restaurants, and Federal Reserve banks around the country hasn't supported that.

A lot of investors have looked at restaurants as a way to play the consumer recovery, but the recovery has been very slow in most of the restaurant realm. This is especially true at the lower and middle end of the spectrum, which is where most of the customers are.

According to the KNAPP TRACK index, restaurants below the $15 average check level – mostly full-service dining – actually have lower guest counts now than they did at the end of the recession. I think this reflects both a spring-loaded opportunity for restaurants to continue to recover for an extended period of time and a clear sign that up-and-coming fast casual brands are taking share from the former industry leaders.

How are restaurants coping with the slow recovery?

Fast casual restaurants -- where you can typically customize an order at the counter, with an average check of around $10 -- have seen and seized the opportunity by offering a strong value proposition and better quality for just a few dollars more than people would spend at quick service restaurants or maybe even at the grocery store. Certain full service and quick service restaurant brands dramatically improved their price/value mix as well, though protecting margins has become an issue.

In fact, given food and labor inflation, many brands are knowingly sacrificing profit margins through lower prices in order to maintain or grow their guest base, which they view as a healthier long-term strategy.

What's the danger with that strategy?

The question is, when customers feel a little more confident about spending money will they continue to eat at the current "hot" concepts, such as many of the fast casual establishments, or will they move toward a more full-service experience. The market is clearly betting on fast casual continuing to take share.

I think that the full-service restaurants will ultimately benefit from a more confident consumer who is earning a little more and is willing to spend a little, but that will take time.

The other risk is the value proposition to dining out could change. When you can get a meal for about what you spend at the grocery store, it's a good deal. If food prices drop, that will generally be reflected at the grocery store but not at restaurants, which rarely lower their prices. However, we're currently looking for an improving consumer to increasingly demand a high quality eating-out experience.

How has owning a restaurant changed your perspective on the sector?

It's given me a better view of commodity purchasing, brand management, and people management, even though I don't do that daily. Overall, I have a better appreciation of the day-to-day jobs of the management teams I follow.

I see my job as very black or white: I am here to help clients outperform the market. If I am not doing that I'm not doing my job. I believe my boots on the ground approach – and owning Gus's is part of that – helps me see the opportunities that others don't.