Entrepreneurs

New Fish to Fry

Lynn J. Cook, 09.06.04, 12:00 AM ET

Landry's Resturante made its money on mass, not class. What's it doing with a $29 entrée?

Hungry? How about 33 shrimp on a plate for only $11. Or maybe an artery-clogging chicken-fried steak for $10, topped off by a brownie-for-two doused with ice cream and myriad gooey sauces, $12.

That kind of middlebrow menu has worked wonders for Tilman Fertitta, 46, ever since he got control of Landry's Restaurants in 1986. Today the publicly held chain has 300 eateries nationwide, with 18 brands like Joe's Crab Shack, Chart House and Rainforest Cafe.

Catering mainly to the tank-top and flip-flops crowd, Landry's has performed brilliantly since going public in 1993. The stock is up 265% from its offering price. Since 2000 revenue has doubled to $1.1 billion, and earnings before interest and taxes have climbed 132% to $68.4 million.

High-calorie foods have made Fertitta a very rich man. Over the past 11 years he has cashed out enough Landry's stock to pay for a $16 million, 145-foot yacht and a $20 million mini-Versailles mansion in Houston's River Oaks section, while still hanging on to shares worth $180 million.

Mixing a bit of Donald Trump with P.T. Barnum, Fertitta has added big doses of pizzazz to his recipes. In Kemah, Tex., 20 miles south of Houston on Galveston Bay, Fertitta has created a 40-acre carnival-like complex: ten restaurants, a hotel, a marina, dancing water fountains, a Disney-like train ride, lots of retail outlets and a marine-themed eatery called Aquarium-patrons munch on deep-fried fish while watching their close cousins swim around in huge saltwater tanks. "It's all entertainment," says Fertitta.

To get to where he is, Fertitta, who cashed in on videogames during Pac-Man's popular days, got into the restaurant business by buying into a Cajun seafood eatery in Houston owned by the Landry brothers of Louisiana. Since then he's leveraged up like crazy to expand by acquisition-nearly $300 million in debt to buy 14 chains in the past six years. One notable addition: the 34-unit Rainforest Cafe chain, replete with exploding volcanoes, bought in September 2000 for $75 million.

There's $62 million left on a Bank of America line of credit, says the latest filing. But "they've spent money like drunken sailors," says San Antonio forensic accountant Steven Bankler, who reviewed Landry's numbers for Forbes. Landry's debt/equity ratio of 50% is on the high side (industry average: 40%).

Maybe Fertitta is losing his taste for the big-ticket purchases that sweep up dozens of mass-market restaurants. Instead, he has recently developed a fondness for building individual high-end restaurants. A spiffy new Houston steak house, Vic & Anthony's (filet mignon, $29, a side of wild mushrooms, $8.50), just opened to a rave review from *Wine Spectator*. Fertitta is thinking of opening a second, in Manhattan. He also just plunked down $8 million for a trio of swanky Houston bistros, where the average tab is $18 for shrimp scampi or pan-seared snapper. "I don't want to spend the rest of my life opening Joe's Crab Shacks," he says. "It's not fun anymore."

Special Offer for Forbes.com members -- receive a Free Trial Issue of Forbes Magazine... no risk... no obligation! Click here for your Free Issue!

But without the roll-up strategy that produced sizable revenue gains year after year, expanding by fewer units each year will trim the growth curve-and likely take some sizzle out of the stock (recently trading at $26.05, or 12.5 times expected 2004 earnings). No longer, says Matthew DiFrisco, a restaurant analyst at Harris Nesbitt in New York, will there be "acquisitions that immediately boost the top line, with margin improvements following."

Then there's the mysterious disappearance of its chief financial officer. Three months ago, after 11 years on the job, Paul West abruptly departed, supposedly to go to law school, according to Fertitta. Landry's, which had recently fired Ernst & Young as its auditor, issued no official explanation. But his successor, Richard Liem, says West was let go because he "didn't appear to be 100% in the game."

West couldn't be reached for comment. Fertitta insists that Ernst & Young's fees were too high and that West's departure wasn't related. "Don't ever put the two together," he says. Ernst & Young's Houston office didn't return calls.

Separately, a class action by former employees alleges violations of minimum-wage laws and seeks damages in excess of $25 million. The company is contesting the complaint.

Fertitta claims Landry's isn't losing focus or momentum. The restaurants, he says, are like GM's cars: the same basics with "different designs, different garnish. Why couldn't we do both mass and class?" If he can, he may be trading in that yacht for an even swankier model.

Additional reporting by Tatiana Serafin.