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Fairway's IPO feeds growth

Potential $500M score shows how niche grocers can win in tough market.

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MARKET FRESH: Fairway's Howard and Daniel Glickberg

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The privately owned Fairway Market is such a beloved New York institution that even its competitors praised the scrappy grocer when it announced plans to become a public company, registering this month with the Securities and Exchange Commission for an initial public offering.

"Fairway has done a fantastic job; it stands for quality and value the way no one else does," said Andy Arons, chief executive of Gourmet Garage, which operates five stores in the city.

Local food businesses will be watching how Fairway is received by the public markets—and not just for competitive reasons. Supermarket consultant Burt Flickinger estimated that the IPO could raise a half-billion dollars. A successful offering by Fairway, which has 10 stores (half of them in the city) and three in the pipeline, could bode well for other niche food retailers looking to expand or cash out.

"The supermarket business typically has a hard time attracting capital, because it's a low-margin business," said Rick Braddock, former chairman and chief executive of online grocer FreshDirect, which reportedly is interested in an IPO once it establishes itself in a second city outside New York. "Fairway has to look different [to investors] than the food industry in aggregate."

Role reversal

Twenty years ago, small local operators like Fairway were a dying breed. Now it's the reverse, with the larger companies struggling. The Great Atlantic & Pacific Tea Co., owner of A&P, Food Emporium and Waldbaum's, emerged from Chapter 11 bankruptcy in March with 75 fewer stores. Analysts predict more of its stores will close.

"For the past 10 years, the big food operators have been watching the smaller ones, wondering whether they are better off owning them or replicating them on their own," said Joshua Goldberg, a managing director of Financo, an investment bank specializing in consumer companies. Gourmet Garage, for example, has had discussions with Whole Foods, which was interested in acquiring the business more than a decade ago, and with Bed Bath & Beyond, which wanted to expand its food offerings with Gourmet Garage fare.

The Fairway IPO, Mr. Arons said, is a sign that the food business is ripe for new expansion ideas. "We looked into taking the business public," he explained, "but we'd have to find a strategic partner like another food business or an equity group to help us get bigger."

Fairway chose the latter path in 2007 when private-equity firm Sterling Investment Partners of Westport, Conn., acquired a controlling interest with a $150 million investment. It has since sunk at least another $30 million into Fairway to open more stores, always with the intention of taking it public. Industry analysts estimate that Fairway is on track to generate as much as $750 million in revenue this year.

One risk Fairway faces: becoming too large and losing its identity as a quirky, value-oriented store that offers high-quality products. Howard Glickberg, the vice chairman of development and former Fairway CEO whose grandfather founded the original store on the Upper West Side 78 years ago, is widely seen as an integral part of the chain's success. He is a hands-on manager who "can ring up customers and stack the shelves," he told *Crain's* several years ago, and he helped develop a proprietary checkout system that keeps Fairway's long lines moving quickly. Mr. Glickberg declined to comment, citing the IPO process.

Industry experts say the IPO's success may hinge on the company's current management team and shareholders staying put and retaining their equity. The Glickberg family remains a significant stakeholder. "Public market investors get wary when they see insiders cash out too much in this current market," Mr. Goldberg said. "They will be thrilled with a little cash-out and a capital growth plan."

The family will likely remain involved in the business: Howard's son, Daniel, 29, is being groomed to succeed his father, 65.

$1M a week

According to industry experts, there is strong demand by both consumers and real estate developers for more Fairways. "Fairway has incredibly high sales volumes, with several of their stores generating well over $1 million per week, which is a very high number in the supermarket world," said Matthew Casey, a principal in Matthew P. Casey & Associates, a consulting group specializing in supermarkets. By comparison, a typical A&P or Pathmark brings in less than half that amount per week, he added.

"Developers are very interested in getting Fairway into their shopping centers because of the traffic they generate," said the consultant.

Fairway filed a confidential IPO, a new option made possible by the JOBS Act passed this year, which allows companies to keep their financial information and plans private until 21 days before they begin a road show to recruit investors. It's possible, too, that the IPO will never happen. A significant number of companies that register with the SEC don't follow through with their plans, noted Tim Jenkinson, a professor of finance at Oxford University.

"It can take many months for the SEC process, and the market can change during that time," he said. "The confidential IPO allows the company to create the option to go public without lifting the veil on their business to their competitors."
