

DealReader Restaurants

2H 2017



Key Highlights

- The end of 2017 saw an improvement in consumer traffic, but operators remain cautious about the outlook for 2018
- Despite ongoing headwinds, Restaurants M&A activity remains robust with strategic and financial buyers very active and paying high multiples for attractive concepts – this trend is expected to continue
- Some larger Restaurant groups will potentially seek to divest under-performing brands in 2018
- The narrowing gap between “food at home” and “food away from home” prices and the fast growing food delivery industry remain bright spots for operators seeking to take advantage of changing consumer trends

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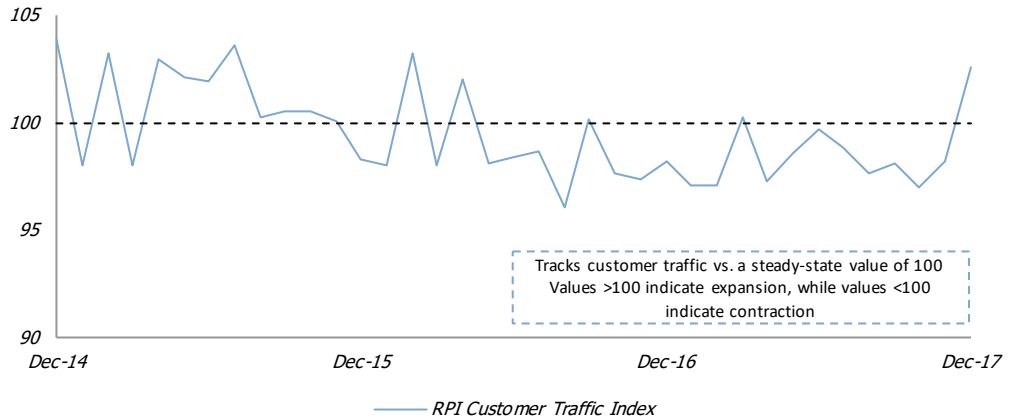
Selected M&A Activity

Commentary

- Restaurant customer traffic remained in contraction throughout 2017 until the final month of the year
- The positive end to 2017 followed multiple periods of consecutive weak traffic and overall soft restaurant performance
- While encouraging, it is too early to assume the tide has turned and restaurant operators remain cautious about the outlook for 2018
- Another positive dynamic is the narrowing gap between grocery and restaurant prices, with the gap the narrowest it has been since April 2015
- Restaurants have focused on taking price over the last 2-3 years amid falling traffic, with food-away-from-home inflation consistently above 2.0% since Q1 2015
- However, with the rise in food-at-home prices across 2H 2017, the environment is improving for Restaurants operators
- Another bright spot for Restaurants is the fast-growing food-delivery industry, with multiple options available to operators, as off-premise consumption continues to grow
- Yum! Brands's recent \$200m investment in Grubhub demonstrates the continued focus in this space and aligns with Yum!'s long-term strategy to make its iconic brands easier for consumers to access and drive profitable incremental sales growth for franchisees

Restaurant Industry Update

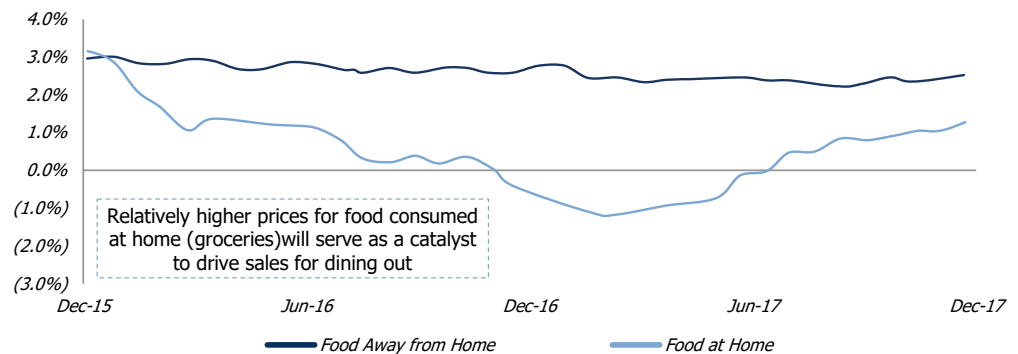
Decline in Traffic – RPI Customer Traffic Indicator



Source: National Restaurant Association, Restaurant Performance Index

The Restaurant-Grocery Gap Narrows

Rising Prices: "Food at Home" vs. "Food Away from Home"



Source: U.S. Bureau of Labor Statistics

Growth of the Restaurant Delivery Industry

Technology Changing the Landscape

Roughly 75% of all restaurant deliveries are still made over the phone, but with the rise of delivery mobile apps and customer's growing acceptance of technology, the entire industry is transitioning to digital

High Growth Space

Restaurant delivery companies continue to attract significant growth capital from investors around the world, with newer delivery start-ups out-funding older ones

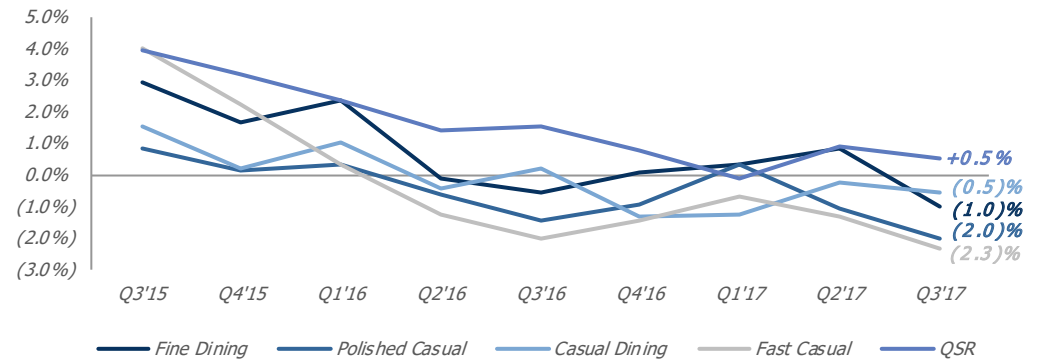


Commentary

- All sub-verticals continue to face challenges in attempting to drive positive same-store-sales growth, with Restaurants finding it hard to attract consumers
- Most Restaurants have taken price as much as they feel comfortable with and will need to turn to alternative strategies to drive sales growth (e.g., rolling out delivery initiatives)
- However, the trend of Restaurants operators reporting lower same-store-sales than the same month in the previous year is improving, in line with the uptick in customer traffic seen at the end of 2017
- The reporting % remains near the average for the last 3 years and well-above the 20%-30% experienced in 2H 2015 and 1Q 2016
- In terms of same-store-sales, the steak category has generally performed well across all sub-verticals
- In particular, LongHorn Steakhouse, Outback Steakhouse, Stoney River Steakhouse and Grill and Texas Roadhouse all reported positive data in YTD 2017
- However, the price of beef is expected to increase in 2018 vs. 2017, which may impact profitability in the near term

Same-Store-Sales Analysis

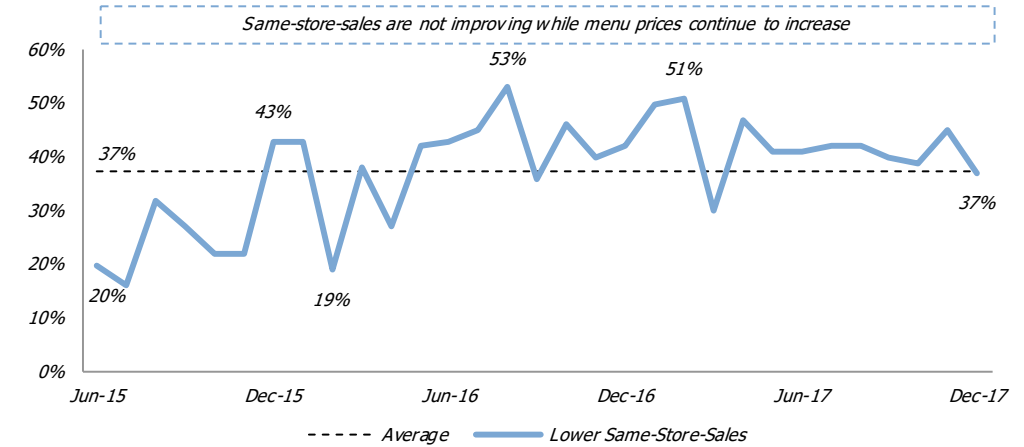
Same-Store-Sales by Sub-Sector



Source: Company annual and quarterly filings; analyst research

Deteriorating Same-Store-Sales Environment

Restaurant Operators' Reporting of Lower Same-Store-Sales vs. Same Month in Previous Year



Source: National Restaurant Association, Restaurant Industry Tracking Survey

Focus on Steak: Selected Concept Same-Store-Sales

	2015			2016			2017			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Del Frisco's Double Eagle Steak House	1.0%	(1.4)%	(1.6)%	(0.1)%	(1.9)%	(3.7)%	0.1%	(0.5)%	(0.5)%	(1.1)%
Fleming's	3.2%	(0.6)%	(0.3)%	1.3%	(0.8)%	(1.9)%	0.2%	(2.9)%	(1.3)%	(1.0)%
LongHorn Steakhouse	5.2%	4.4%	2.6%	5.2%	1.1%	0.6%	0.1%	0.2%	3.9%	3.8%
Outback Steakhouse	4.0%	0.1%	(2.2)%	(1.3)%	(2.5)%	(0.7)%	(4.8)%	1.4%	0.3%	0.6%
Ruth's Chris	4.2%	3.3%	3.2%	3.1%	1.5%	2.1%	0.0%	0.7%	2.9%	(1.6)%
Stoney River Steakhouse & Grill	N/A	4.7%	6.2%	0.7%	1.8%	1.8%	(1.7)%	0.4%	2.5%	3.7%
Sullivan's	(3.0)%	1.2%	(1.8)%	(1.8)%	2.9%	(3.2)%	0.9%	1.1%	(5.2)%	(7.7)%
Texas Roadhouse	8.0%	7.0%	4.4%	4.3%	4.5%	3.4%	1.2%	3.1%	4.0%	4.5%

Source: Company annual and quarterly filings; analyst research

Public Comparable Statistics

		Stock Price	% of Yr High	Enterprise LTM Value	LTM Revenue	EBITDA	YoY Revenue Growth	EBITDA Margin	EV / LTM Revenue	EBITDA	EV / NTM EBITDA
Fine Dining	Del Frisco's Restaurant Group, Inc.	\$15.25	81.1%	\$408	\$359	\$40	3.1%	11.2%	1.14x	10.1x	8.4x
	Fogo de Chao, Inc.	11.60	68.0%	456	306	51	8.1%	16.8%	1.49x	8.9x	7.8x
	The ONE Group Hospitality, Inc.	2.39	90.5%	70	79	1	9.5%	1.0%	0.89x	n/a	0.0x
	Ruth's Hospitality Group, Inc.	21.65	89.6%	711	398	60	6.7%	15.2%	1.79x	11.8x	10.4x
	Median	N/A	85.4%	432	333	46	7.4%	13.2%	1.31x	10.1x	8.1x
Fast Casual	Chipotle Mexican Grill, Inc.	\$289.03	57.9%	\$6,946	\$4,476	\$448	8.2%	10.0%	1.55x	15.5x	13.8x
	El Pollo Loco Holdings, Inc.	9.90	66.7%	438	399	62	5.7%	15.5%	1.10x	7.1x	6.9x
	Fiesta Restaurant Group, Inc.	19.00	65.9%	540	678	61	(6.8%)	9.0%	0.80x	8.8x	8.2x
	Freshii Inc.	5.85	48.9%	133	17	2	10.7%	13.8%	7.72x	55.8x	13.7x
	The Habit Restaurants, Inc.	9.55	48.4%	167	320	28	17.1%	8.9%	0.52x	5.9x	5.8x
	Noodles & Company	5.25	82.7%	294	473	16	(6.7%)	3.3%	0.62x	18.7x	9.5x
	Potbelly Corporation	12.30	86.1%	269	418	39	5.4%	9.3%	0.64x	6.9x	7.2x
	Shake Shack Inc.	43.20	91.2%	1,028	359	55	32.4%	15.4%	2.87x	18.6x	15.9x
	Wingstop Inc.	38.98	78.4%	1,415	102	36	14.6%	35.6%	13.87x	39.0x	31.3x
	Zoe's Kitchen, Inc.	16.72	70.7%	303	305	23	13.9%	7.5%	0.99x	13.2x	11.7x
	Median	N/A	68.7%	370	379	38	9.5%	9.6%	1.05x	14.4x	10.6x
Polished Casual	BJ's Restaurants, Inc.	\$36.40	76.6%	\$916	\$1,036	\$117	3.7%	11.3%	0.88x	7.8x	7.7x
	Bravo Brio Restaurant Group, Inc.	2.50	47.2%	91	400	23	(1.2%)	5.9%	0.23x	3.9x	3.8x
	The Cheesecake Factory Incorporated	48.18	71.8%	2,083	2,292	270	(0.4%)	11.8%	0.91x	7.7x	8.2x
	Kona Grill, Inc.	1.75	18.4%	50	180	4	5.8%	2.0%	0.28x	13.7x	0.0x
	Median	N/A	59.5%	503	718	70	1.7%	8.6%	0.58x	7.8x	5.8x
Mass Casual	Biglari Holdings Inc.	\$414.40	91.9%	\$993	\$837	\$32	n/a	3.8%	1.19x	31.2x	26.5x
	Bloomin' Brands, Inc.	21.34	92.9%	3,010	4,130	388	(1.7%)	9.4%	0.73x	7.8x	7.4x
	Brinker International, Inc.	38.84	84.1%	2,908	3,127	429	(0.8%)	13.7%	0.93x	6.8x	7.1x
	Chuy's Holdings, Inc.	28.05	87.4%	409	353	39	11.7%	11.0%	1.16x	10.5x	9.3x
	Cracker Barrel Old Country Store, Inc.	158.89	88.7%	4,253	2,927	396	4.2%	13.5%	1.45x	10.7x	10.1x
	Darden Restaurants, Inc.	96.02	95.9%	12,257	7,631	1,003	12.9%	13.1%	1.61x	12.2x	10.8x
	Dave & Buster's Entertainment, Inc.	55.17	75.1%	2,109	1,105	268	13.4%	24.3%	1.91x	7.9x	7.6x
	Denny's Corporation	13.24	85.1%	1,230	529	98	4.5%	18.6%	2.32x	12.5x	11.6x
	DineEquity, Inc.	50.73	74.7%	2,263	610	224	(4.7%)	36.7%	3.71x	10.1x	11.0x
	Famous Dave's of America, Inc.	6.55	67.9%	50	92	4	(15.1%)	3.8%	0.54x	14.2x	11.9x
	Luby's, Inc.	2.64	71.7%	114	376	13	n/a	3.6%	0.30x	8.6x	n/a
	Red Robin Gourmet Burgers, Inc.	56.40	76.1%	947	1,330	136	5.6%	10.2%	0.71x	7.0x	6.4x
	Texas Roadhouse, Inc.	52.68	87.2%	3,856	2,159	287	11.5%	13.3%	1.79x	13.4x	12.0x
	Median	N/A	85.1%	2,109	1,105	224	4.5%	13.1%	1.19x	10.5x	10.5x
Quick Service	Bojangles', Inc.	\$11.80	52.8%	\$589	\$539	\$74	2.7%	13.7%	1.09x	8.0x	8.5x
	Domino's Pizza, Inc.	188.96	85.1%	11,786	2,716	529	13.4%	19.5%	4.34x	22.3x	19.4x
	Jack in the Box Inc.	98.11	86.8%	3,521	1,554	335	(38.1%)	21.6%	2.27x	10.5x	12.7x
	McDonald's Corporation	172.12	96.3%	152,676	22,820	9,714	(7.8%)	42.6%	6.69x	15.7x	14.7x
	Nathan's Famous, Inc.	75.50	74.8%	356	104	29	n/a	27.5%	3.43x	12.5x	n/a
	Papa John's International, Inc.	56.11	64.5%	2,353	1,755	199	4.2%	11.4%	1.34x	11.8x	11.9x
	Papa Murphy's Holdings, Inc.	5.38	79.1%	182	123	17	(6.8%)	13.4%	1.47x	10.9x	8.6x
	Restaurant Brands International Inc.	61.48	89.2%	27,145	4,576	2,076	10.9%	45.4%	5.93x	13.1x	11.9x
	Sonic Corp.	27.48	91.4%	1,587	453	148	(5.3%)	32.6%	3.50x	10.8x	10.4x
	The Wendy's Company	16.42	93.0%	6,288	1,224	382	(14.5%)	31.2%	5.14x	16.5x	14.5x
	Yum! Brands, Inc.	81.61	93.9%	33,614	5,878	1,929	(18.5%)	32.8%	5.72x	17.4x	16.8x
	Median	N/A	86.8%	3,521	1,554	335	(6.1%)	27.5%	3.50x	12.5x	12.3x
Franchisees	Alsea S.A.B. De.	\$3.28	86.0%	\$3,531	\$2,280	\$312	13.0%	13.7%	1.55x	11.3x	10.4x
	Arcos Dorados Holdings Inc.	10.35	95.8%	2,399	3,230	260	12.9%	8.0%	0.74x	9.2x	7.7x
	Carrols Restaurant Group, Inc.	12.15	69.2%	679	1,045	81	14.4%	7.8%	0.65x	8.4x	7.3x
	Domino's Pizza Group plc	4.67	85.8%	2,256	504	117	28.3%	23.1%	4.48x	19.4x	15.0x
	Domino's Pizza Enterprises Limited	36.48	69.7%	3,577	854	161	12.9%	18.8%	4.19x	22.2x	16.8x
	Median	N/A	85.8%	2,399	1,045	161	13.0%	13.7%	1.55x	11.3x	10.4x

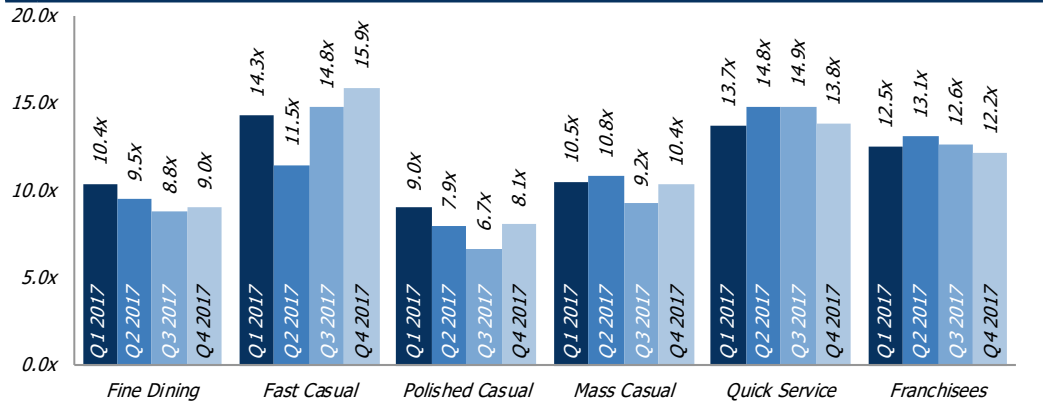
Source: Capital IQ as of 12/31/17

Note: \$ in millions, except stock price

Commentary

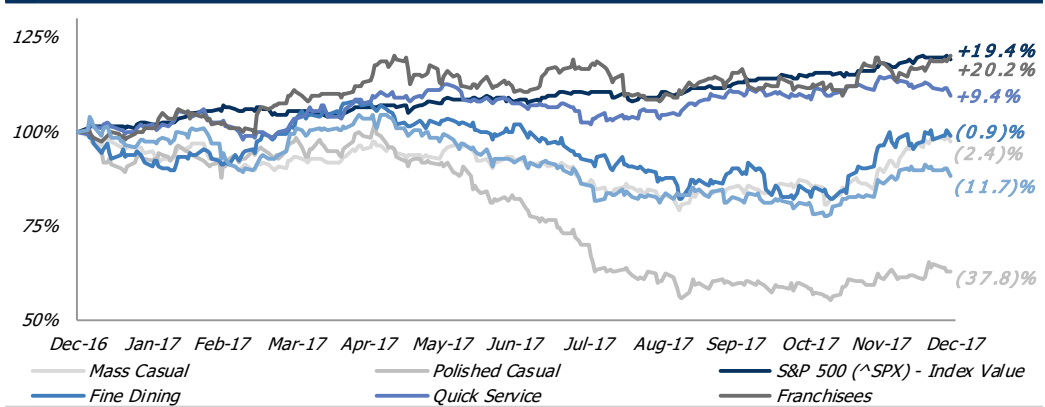
- 2017 saw a speight of acquisitions of public restaurant companies, with JAB Holding acquiring Panera Bread and Au Bon Pain, Arby's announcing the acquisiton of Buffalo Wild Wings and NRD Capital announcing the acquisition of Ruby Tuesday
- Despite public restaurant companies continuing to trade at attractive valuations, some restaurant groups are under pressure to divest under-performing brands
- For example, Jack in the Box announced the divestiture of Qdoba in December 2017 to Apollo Global, as the company sought to focus on one brand going forward

Historical Median TTM EV to EBITDA




Source: Capital IQ as of 12/31/17

Relative Stock Performance



Source: Capital IQ as of 12/31/17

Selected 2H 2017 M&A Activity

Date	Target Company	Target Description	Acquiring Company	Private Equity Involvement
17-Dec	Qdoba Restaurant	Owns, operates and franchises a chain of Mexican restaurants	Apollo Global Management	✓
17-Dec	Captain D's	Owns, operates and franchises seafood restaurants in the United States	Sentinel Capital Partners	✓
17-Dec	Imvescor Restaurant Group	Operates franchised and corporate restaurants under the Pizza Delight, Toujours Mikes, Scores and Baton Rouge brands	MTY Food Group	
17-Nov	 Bento Sushi	Operates a chain of sushi restaurants in host retail environments	Yo! Sushi	✓
17-Nov	Another Broken Egg	Owns and operates a chain of restaurants for breakfast, brunch and lunch	The Beekman Group	✓
17-Nov	Mendocino Farms	Operates a chain of restaurants offering salads, cocktail sandwiches and small bites	TPG Growth	✓
17-Nov	Au Bon Pain	Operates a chain of café bakeries in the U.S., India, Thailand and internationally	Panera Bread (JAB Holding)	✓
17-Oct	Ruby Tuesday	Owns, operates and franchises casual dining restaurants in the United States and internationally	NRD Capital Management	✓
17-Oct	Uncle Julio's	Operates Mexican food restaurants in Texas, Georgia, Illinois, Maryland, Virginia, Florida and Pennsylvania	L Catterton	✓
17-Sep	Blue Bottle Coffee	Operates a network of cafes in the U.S. and Japan and also offers its coffee products through wholesale partners	Nestlé	
17-Sep	Cafe Rio	Operates a chain of restaurants specializing in Mexican cuisine	Freeman Spogli	✓
17-Jul	Panera Bread Company	Operates retail bakery cafes	JAB Holding	
17-Jul	Blaze Pizza ⁽¹⁾	Owns and operates a chain of fast-casual pizza stores	Brentwood Associates	✓

Source: Capital IQ as of 12/31/17

(1) Represents minority investment

 Indicates Lincoln acted as the sell-side advisor

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