

Second Half of 2011

# Restaurant Industry Insights

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About Duff & Phelps

Despite all of the stomach churning volatility in the debt and equity markets and the plentiful number of restaurant financings in support of recapitalizations, refinancings and new buyouts that have hit the market this year, there continues to be plenty of appetite for new restaurant deals, particularly in the middle market.

M&A activity continues to be robust with J.H. Whitney acquiring Uncle Julio's and Advent International acquiring Bojangles' Restaurants and a number of companies reportedly exploring strategic alternatives. That said, a slumping economy and escalating commodity costs are pressuring margins for many companies and as a result, some chains have sought bankruptcy protection like Friendly's, Perkins & Marie Callender's, Real Mex Restaurants and Sbarro. We completed over a dozen restaurant engagements in the last 12 months across our spectrum of advisory services - valuation, M&A, private placements and restructuring - and we are currently working on multiple investment banking mandates.

The slowing economy and remarkable market volatility have no doubt wreaked havoc in the capital markets and created a lot of uncertainty and as a result we have seen spreads increase and terms get tighter. That said, middle market activity has not ground to a halt.

Quite to the contrary, we are seeing strong continued interest from financing sources.

While regulated commercial banks look for the proven, diversified concept showing solid comps, there are dozens of alternative capital providers that are being much more aggressive on terms for less high-flying chains. These financing sources can structure flexible debt terms or passive equity investments to meet even the most voracious appetites for cash.

With all of that said, keep an eye on the horizon. A sustained decline in consumer confidence, a move by customers to an even lower average check, or that dreaded back to back comp sales decline, could materially alter financing processes.

So, if you desire capital for diversification of personal wealth, an acquisition, new unit growth or deferred capex, do it now. Let's not wait to see what happens with the European debt crisis or comes out of the deficit reduction panel. As we saw in August, waiting on politicians to take action rarely turns out well.

Our relationships with hundreds of providers of debt and equity capital, combined with our extensive experience in the restaurant space enables us to generate attractive, flexible and quick feedback from the market.

We will be attending the Restaurant Finance & Development Conference in Las Vegas on November 7 – 9, 2011 and we would be delighted to meet with you.

**Contact us to arrange a time to meet or stop by our booth.**

# Junior Capital Provider Perspectives

## Buyersiders' Perspective on Market Activity



**Darius Mozaffarian**  
 Managing Director  
 White Oak Global Advisors



**Jeffrey Sangalis**  
 President and Managing Partner  
 Capital Point Partners



**Tom Aronson**  
 Managing Director  
 Monroe Capital

While the markets digest the latest news on European sovereign concerns and US economic health, deal flow is relatively strong for companies seeking middle market private debt. Summer was active as issuers were motivated to secure attractive rates, and lenders were incented to put capital to work to meet budgets. Though many of these opportunities were refinancings of near-term maturities, dividend recapitalizations and out-of-court restructurings, some were attractive new-issue opportunities.

During the latter half of Q3 following the market dislocation, lenders used their newfound leverage to flex pricing upward, though total debt multiples stayed in the 4.0x to 4.5x range.

Additionally, it's becoming more common for non-bank senior lenders seeking incremental yield to bifurcate term loans into first-out and second-out tranches. While second-out tranches are junior in the waterfall, they hold the same security / covenant package with more yield. This structure can be an attractive solution for well-collateralized or high cash flow credits.

As providers of mezzanine and structured equity to the lower middle market, we have seen a healthy flow of transaction opportunities for both change of control and minority transactions. The lower middle market continues to require cash flow lenders beyond traditional senior lending sources given tight bank underwriting standards.

In addition, overall competition has increased throughout the year as capital providers are operating under relatively aggressive 2011 budgets. Some believe that desire by some financing sources to provide capital to lower middle market companies has outpaced demand. Many capital providers may be "busy" but chasing the same deals as others. The end result is that overall leverage and purchase price multiples have increased throughout the year.

Recent weak economic indicators may be tempering the year's run-up in leverage and purchase price multiples. However, there seems to be enough demand by capital providers in the system to keep leverage and capital structures at or close to current levels.

With each new day, the popular press is suggesting how M&A activity is grinding to a screeching halt. However, we are seeing a very different picture as conversations with our referral sources point to numerous deals and increasing purchase price multiples being obtained for strong middle-market companies. For those middle-market businesses that have been able to manage expenses and continue to perform in the sluggish economy, there is no shortage of capital providers and interested buyers.

As the economy slows and banks become even more conservative, private equity funds and middle-market businesses looking for growth capital are increasingly looking towards alternative financing sources to supplement their traditional bank relationships. We continue to see a strong demand for uni-tranche financing. Uni-tranches are flexible, efficient and quick with no inter-creditor agreement and one document.

## Stats Say It All

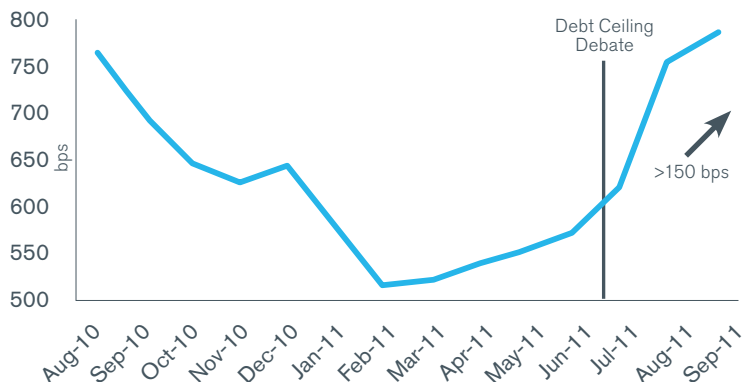
### Rising Volatility Means Rising Borrowing Costs

Market Volatility



Source: Bloomberg.

Average New-Issue Yield to Maturity for Leveraged Loans



Source: Standard & Poor's LCD.

## Current Junior Capital Money Terms

### For Businesses with \$10 Million to \$25 Million of EBITDA

Key Terms	Uni-Tranche	Mezzanine	Structured Equity
Leverage	Total leverage up to 4.0x	Total leverage up to 4.75x	Funded capital (inclusive of debt) up to 5.50x
Pricing	700 to 850 bps over Libor	12% to 15% (cash and PIK)	8% to 12% dividend with a total yield target of 18% to 21%, including warrants
Call Protection	NC1, 3%, 2%, 1%, 0%	3%, 2%, 1%, 0%	No non-call period, 2%, 1%, 0%
Maturity	5 year term	6 year term	6 to 7 year term
Amortization	No mandatory amortization prior to maturity	No mandatory amortization prior to maturity	No mandatory redemption prior to maturity

Source: Standard & Poor's LCD; Duff & Phelps estimates.

## Recent Restaurant Financing Transactions

Launch Date	Name	Purpose	Deal Size	Rating	Size / Pricing	Leverage
August 11	Bojangles	LBO	\$215	B/B1	RC \$25M / NA TLB \$190M / NA	4.4x
August 11	California Pizza Kitchen	LBO	\$365	NR/NR	RC \$30M / NA TLA \$75M / NA TLB \$260M / NA	3.2x
June 11	El Pollo Loco	Corp. Purposes	\$183	Caa3/CC	TLA \$170M / L+775 RC \$13M / NA	NA
June 11	Yard House	Corp. Purposes	\$113	NR/NR	RC \$25M / L+250 TL \$88M / L+250	NA
June 11	Il Fornaio	SBO	\$145	NR/NR	RC \$15M / L+525 TL \$130M / L+525	NA
May 11	Dave & Buster's	Corp. Purposes	\$149	B-/NR	TLA \$149M / L+400	NA
May 11	Apple American	Acquisition Line	\$270	NR/NR	RC \$60M / L+400 TL \$210M / L+400	2.2x
March 11	Apple American	Corp. Purposes	\$290	CCC+/B2	RC \$50M / L+375 TL \$120M / L+475	NA
Feb 11	Ignite Restaurant Group	Recap / Dividend	\$145	NR/NR	RC \$25M / L+525 TL \$120M / L+475	NA
Feb 11	Sarku Japan Restaurant	Recap / Dividend	\$90	NR/NR	RC \$15M / L+350 TL \$75M / L+350	3.2x
Jan 11	Burger King Corp	Refinancing	\$1,950	B-/B2	RC \$150M / NA TLB \$160M / L+300 TLB 200M / €Euribor+325	NA

Source: Standard & Poor's LCD; Duff & Phelps estimates.

## Select Duff & Phelps Restaurant Transactions

### M&A Advisor

Rock Bottom Restaurants has been acquired by Centerbridge



Financial advisor to Rock Bottom Restaurants

### M&A Advisor

Craftworks has been acquired by Gordon Biersch



Financial advisor to CraftWorks Restaurants and Breweries

### M&A Advisor

Noodles Company has been acquired by Catterton Partners



Financial advisor to Catterton Partners

### Board Advisor

CKE Holdings, Inc. has completed a leveraged dividend recapitalization



Financial advisor to the board of directors of CKE Holdings, Inc.

### Financial Advisor

Friendly Ice Cream Corporation has entered into Chapter 11 §363 Sale Process



Financial advisor to Friendly Ice Cream Corporation

### Board Advisor

Burger King Worldwide Holdings, Inc., a portfolio company of 3G Capital Management, has completed a leveraged dividend recapitalization



Financial advisor to the board of directors of Burger King Worldwide Holdings, Inc.

### About Duff & Phelps

As a leading global provider of financial advisory and investment banking services, Duff & Phelps balances analytical skills, deep market insight and independence to help clients make sound decisions. The firm provides expertise in the areas of valuation, transactions, financial restructuring, alternative assets, disputes and taxation, with more than 1,000 employees serving clients from offices in North America, Europe and Asia. Investment banking services in the United States are provided by Duff & Phelps Securities, LLC. Member FINRA/SIPC.

M&A Advisory services in the United Kingdom and Germany are provided by Duff & Phelps Securities Ltd. Duff & Phelps Securities Ltd. is authorized and regulated by the Financial Services Authority. Investment banking services in France are provided by Duff & Phelps SAS. For more information, visit [www.duffandphelps.com](http://www.duffandphelps.com). (NYSE: DUF)

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