

1Q 2012

# Restaurant Industry Insights

## Overview

When the U.S. economy emerged from the 2008 / 2009 recession, the restaurant industry staged a strong rebound in 2010. As 2011 rolled around, rising commodity costs and political turmoil in the Middle East cast a pall of uncertainty on the industry's ability to continue on this path to a healthy recovery. Thankfully, the sustained optimism of the everyday consumer carried the industry into another record year, with all dining segments achieving positive increases

in comparable store sales. This optimism, combined with favorable economic indicators, suggests 2012 may represent the third consecutive year of real sales growth. The National Restaurant Association forecasts 2012 restaurant sales to reach \$631.8 billion.

In 2012, restaurant operators are increasingly shifting gears and focusing away from cost mitigation initiatives required during the recession towards expansion strategies to drive top line growth. Rising commodity

costs will likely remain a key risk for the industry and continue to challenge operating margins. Nonetheless, with the decline in the unemployment rate (8.2% as of March 2012) and increase in consumer sentiment (76.2 as of March 2012), restaurant operators that effectively leverage these positive trends will stand to reap the benefits. We expect financial and strategic buyers to continue a rather solid pace of acquisitions in 2012 given attractive financing, plenty of private equity capital and solid industry fundamentals.

## Inside

2

Comparable Store Sales and Stock Price Trends

3

Organic Growth Driving Premium Valuations

4

Selected Publicly Traded Restaurant Companies

6

Key Themes for 2012

8

Selected Restaurant M&A Transactions

9

Recent Notable Transactions

10

Restaurant Restructuring Activity

11

Recent Duff & Phelps Restaurant Transactions

# Comparable Store Sales and Stock Price Trends

Over the past year, the restaurant industry registered consistent quarterly increases in comparable store sales across all restaurant concepts. In Q4 2011 in particular, the fine dining concept, Ruth's Chris Steak House, outperformed the broader restaurant industry, registering 7.7% of comparable sales growth, as the upscale concept continued to see increased spending from its core corporate traffic. With economic conditions improving, analysts expect the upscale segment to continue on this positive trend. The polished casual segment, however, registered a modest 1.4% comparable sales growth in Q4 2011, as main-

stream consumers continued to favor value over quality. Both fast casual and quick service concepts aggressively utilized promotional offers to drive traffic growth, creating more difficulty for polished casual operators. These comparable store sales trends have significantly influenced stock price valuations over the past year with quick service, fast casual and fine dining segments registering annual growth of 15.3%, 12.3% and 4.4%, respectively. The polished casual dining concept lagged behind its peers, recording an annual decline of -1.8%. All restaurant concepts outpaced the growth of the S&P 500.

## Comparable Store Sales Growth

Restaurant Sub-Sector	CY Q4 2010	CY Q1 2011	CY Q2 2011	CY Q3 2011	CY Q4 2011
D&P Fine Dining Index	9.2%	5.2%	5.8%	2.6%	7.7%
D&P Polished Casual Index	2.3%	3.2%	3.2%	1.2%	1.4%
D&P Mass Casual Index	1.7%	1.9%	2.6%	0.8%	2.7%
D&P Fast Casual Index	5.3%	3.7%	3.5%	2.3%	3.5%
D&P Quick Service Index	2.8%	2.2%	3.4%	3.7%	5.6%
<b>D&amp;P All Restaurants Index</b>	<b>4.3%</b>	<b>3.2%</b>	<b>3.7%</b>	<b>2.1%</b>	<b>4.2%</b>

Source: Capital IQ and SEC Filings

## Y-o-Y Stock Price Performance

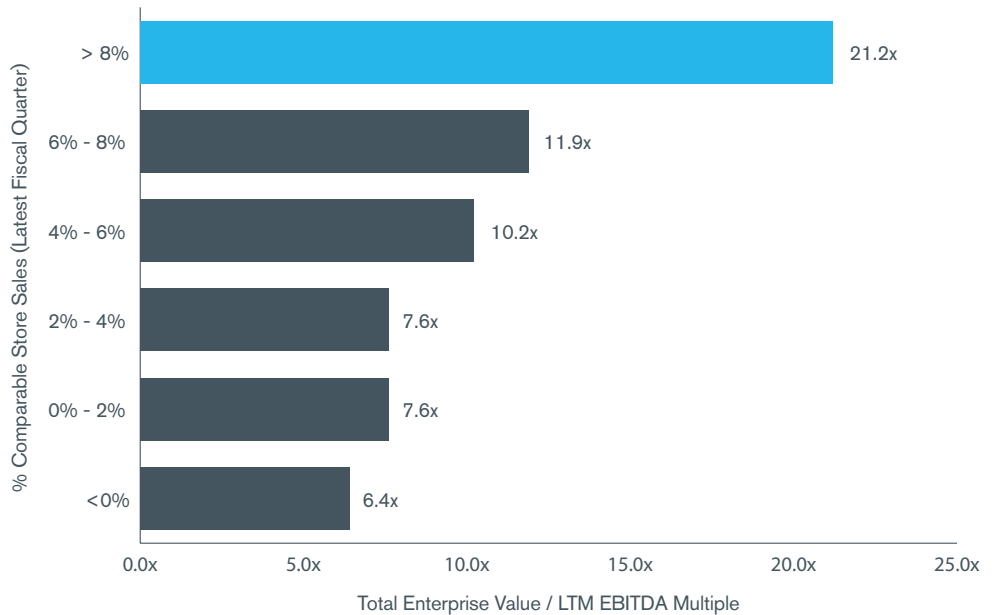
Restaurant Sub-Sector	Annual % Change in Share Price As of March 30, 2012
D&P Fine Dining Index	4.4%
D&P Polished Casual Index	-1.8%
D&P Mass Casual Index	-3.6%
D&P Fast Casual Index	12.3%
D&P Quick Service Index	15.3%
D&P All Restaurants Index	12.3%
S&P 500 Index	-3.7%

Source: Capital IQ

# Organic Growth Driving Premium Valuations

The public markets are supporting premium valuations for those restaurant companies with higher comparable store sales growth performance and strong new store pipelines. Companies that have achieved 8%+ comparable store sales growth over the past year are trading at more than a 100% premium relative to those peers with lower than 4% comparable store sales growth, indicating that investors are willing to pay more for restaurant stocks that register higher organic growth. The overwhelming success within the fast casual sector further validates this trend. Fast casual dining concepts such as Chipotle Mexican Grill, Five Guys Burgers and Fries and Panera Bread continue to grow rapidly and chains such as Famous Dave's, Denny's and Ruby Tuesday are developing limited service prototypes as complementary offshoots to their brands.

**Comparable Store Sales (LFQ) vs. Total EV / LTM EBITDA Multiple for Selected Restaurant Companies**



Source: Capital IQ

>8%	Chipotle Mexican Grill, Buffalo Wild Wings
6%-8%	Ruth's Hospitality Group, Yum! Brands (Global), Dunkin Brands Group, McDonald's Corp., Benihana, Domino's Pizza
4%-6%	AFC Enterprises, Texas Roadhouse, Biglari Holdings, Jack in the Box, BJ's Restaurants, The Wendy's Company, Darden Restaurants, Red Robin Gourmet Burgers, Panera Bread Co.
2%-4%	Cracker Barrel Old Country Store, Sonic Corp., The Cheesecake Factory, Brinker International
0%-2%	Papa John's International, Bob Evans Farms, Einstein Noah Restaurant Group, Denny's Corporation, Frisch's Restaurants, Bravo Brio Restaurant Group, DineEquity
<0%	Luby's, P.F. Chang's China Bistro, CEC Entertainment, Ruby Tuesday

# Selected Publicly Traded Restaurant Companies

Company	17-Apr-12 Stock Price	% of 52 Wk High	Market Capitalization	Enterprise Value	Enterprise Value as a Multiple of						LTM	
					Revenue			EBITDA			EBITDA Margin	Revenue Growth
					LTM	2012E	2013E	LTM	2012E	2013E		
<b>Fine Dining</b>												
Ruth's Hospitality Group Inc.	\$7.42	95.9%	\$261.4	\$303.4	0.82x	0.77x	0.74x	7.2x	6.9x	6.3x	11.4%	4.7%
<b>Median</b>		<b>95.9%</b>			<b>0.82x</b>	<b>0.77x</b>	<b>0.74x</b>	<b>7.2x</b>	<b>6.9x</b>	<b>6.3x</b>	<b>11.4%</b>	<b>4.7%</b>
<b>Mean</b>		<b>95.9%</b>			<b>0.82x</b>	<b>0.77x</b>	<b>0.74x</b>	<b>7.2x</b>	<b>6.9x</b>	<b>6.3x</b>	<b>11.4%</b>	<b>4.7%</b>
<b>Polished Casual</b>												
BJ's Restaurants, Inc.	\$48.78	86.1%	\$1,361.6	\$1,316.2	2.12x	1.84x	1.58x	16.5x	14.1x	11.5x	12.8%	20.8%
Bravo Brio Restaurant Group, Inc.	20.32	80.8%	396.6	419.1	1.14x	1.00x	0.90x	10.1x	8.8x	7.5x	11.3%	7.6%
P.F. Chang's China Bistro, Inc.	39.47	84.0%	837.3	789.8	0.64x	0.62x	0.59x	5.9x	6.2x	5.9x	10.7%	-0.3%
The Cheesecake Factory Incorporated	29.44	86.4%	1,585.1	1,592.0	0.91x	0.87x	0.81x	7.7x	7.2x	6.7x	11.8%	5.9%
<b>Median</b>		<b>85.1%</b>			<b>1.02x</b>	<b>0.93x</b>	<b>0.85x</b>	<b>8.9x</b>	<b>8.0x</b>	<b>7.1x</b>	<b>11.5%</b>	<b>6.8%</b>
<b>Mean</b>		<b>84.3%</b>			<b>1.20x</b>	<b>1.08x</b>	<b>0.97x</b>	<b>10.1x</b>	<b>9.1x</b>	<b>7.9x</b>	<b>11.6%</b>	<b>8.5%</b>
<b>Mass Casual</b>												
Benihana Inc.	\$13.89	97.7%	\$247.9	\$231.6	0.68x	NA	NA	10.0x	NA	NA	6.8%	5.5%
Biglari Holdings Inc.	410.99	93.6%	588.9	652.4	0.91x	0.88x	NA	7.9x	7.3x	NA	11.5%	4.9%
Bob Evans Farms Inc.	37.35	94.1%	1,088.4	1,176.2	0.71x	0.71x	0.69x	6.0x	6.0x	5.8x	11.9%	-2.4%
Brinker International Inc.	28.00	95.5%	2,199.0	2,712.0	0.97x	0.97x	0.95x	7.7x	7.4x	6.9x	12.7%	0.1%
Buffalo Wild Wings Inc.	83.50	88.1%	1,535.5	1,475.0	1.88x	1.40x	1.20x	11.8x	9.2x	7.8x	15.9%	27.9%
CEC Entertainment Inc.	37.55	87.8%	660.0	1,041.9	1.27x	1.25x	1.18x	5.6x	5.6x	5.5x	22.6%	0.5%
Cracker Barrel Old Country Store, Inc.	56.35	94.1%	1,295.7	1,771.6	0.72x	0.69x	0.67x	7.8x	7.1x	7.0x	9.2%	1.5%
Darden Restaurants, Inc.	49.81	92.6%	6,408.3	8,501.6	1.07x	1.06x	0.99x	8.0x	7.8x	7.1x	13.4%	7.5%
Denny's Corporation	3.97	87.3%	381.7	586.3	1.09x	1.16x	1.18x	7.2x	7.0x	7.0x	15.2%	-1.8%
DineEquity, Inc.	46.66	82.2%	858.4	2,571.6	2.39x	2.84x	3.37x	8.9x	9.0x	9.5x	26.9%	-19.4%
Frisch's Restaurants Inc.	27.89	100.0%	137.7	159.2	0.52x	0.52x	NA	5.7x	5.7x	NA	9.2%	0.4%
Luby's Inc.	6.34	93.2%	178.6	196.9	0.55x	0.55x	0.53x	6.7x	7.7x	6.7x	8.3%	22.4%
Red Robin Gourmet Burgers Inc.	34.87	88.7%	511.6	634.0	0.69x	0.64x	0.61x	7.2x	6.3x	5.8x	9.6%	5.9%
Ruby Tuesday, Inc.	7.08	62.5%	451.6	750.0	0.57x	0.56x	0.57x	6.3x	6.5x	NA	9.1%	7.3%
Texas Roadhouse Inc.	16.61	90.3%	1,158.4	1,154.7	1.04x	0.91x	0.81x	8.3x	7.7x	6.8x	12.6%	10.4%
<b>Median</b>		<b>92.6%</b>			<b>0.91x</b>	<b>0.90x</b>	<b>0.88x</b>	<b>7.7x</b>	<b>7.2x</b>	<b>6.9x</b>	<b>11.9%</b>	<b>4.9%</b>
<b>Mean</b>		<b>89.8%</b>			<b>1.00x</b>	<b>1.01x</b>	<b>1.06x</b>	<b>7.7x</b>	<b>7.2x</b>	<b>6.9x</b>	<b>13.0%</b>	<b>4.7%</b>
<b>Fast Casual</b>												
Chipotle Mexican Grill, Inc.	\$432.43	97.7%	\$13,700.1	\$13,247.5	5.84x	4.80x	4.09x	30.7x	24.5x	20.0x	19.0%	23.6%
Cosi Inc.	0.86	63.7%	45.6	38.3	0.38x	0.36x	0.34x	NM	10.5x	4.8x	NM	-6.9%
Einstein Noah Restaurant Group, Inc.	14.70	90.3%	248.1	313.7	0.74x	0.72x	0.69x	7.1x	6.4x	5.9x	10.5%	2.9%
Panera Bread Co.	160.29	96.6%	5,092.2	4,871.2	2.67x	2.32x	2.06x	16.2x	13.9x	11.7x	16.5%	18.1%
<b>Median</b>		<b>93.4%</b>	<b>1.71x</b>			<b>1.52x</b>	<b>1.37x</b>	<b>16.2x</b>	<b>12.2x</b>	<b>8.8x</b>	<b>16.5%</b>	<b>10.5%</b>
<b>Mean</b>		<b>87.1%</b>	<b>2.41x</b>			<b>2.05x</b>	<b>1.79x</b>	<b>18.0x</b>	<b>13.8x</b>	<b>10.6x</b>	<b>15.3%</b>	<b>9.4%</b>

LTM = Latest Twelve Months; NTM = Next Twelve Months; Enterprise Value = (Market Capitalization + Debt + Preferred Stock + Minority Interest) - (Cash & Equivalents)

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; NA = Not Available

Source: Capital IQ

# Selected Publicly Traded Restaurant Companies

Company	17-Apr-12 Stock Price	% of 52 Wk High	Market Capitalization	Enterprise Value	Enterprise Value as a Multiple of						LTM	
					Revenue			EBITDA			EBITDA Margin	Revenue Growth
					LTM	2012E	2013E	LTM	2012E	2013E		
<b>Quick Service</b>												
AFC Enterprises Inc.	\$16.48	92.7%	\$401.8	\$448.2	2.91x	2.63x	2.40x	9.9x	8.6x	7.4x	29.5%	5.1%
Domino's Pizza, Inc.	35.45	84.0%	2,048.0	3,449.0	2.09x	2.02x	1.93x	11.9x	11.4x	10.6x	17.6%	5.2%
Dunkin' Brands Group, Inc.	30.92	95.3%	3,719.9	4,946.7	7.87x	7.51x	6.99x	18.8x	15.1x	13.5x	41.9%	8.8%
Jack in the Box Inc.	23.07	93.8%	1,017.5	1,500.4	0.69x	0.69x	0.67x	8.2x	7.4x	7.0x	8.4%	-4.4%
McDonald's Corp.	97.11	95.0%	98,678.0	108,847.3	4.03x	3.83x	3.62x	11.2x	10.4x	9.7x	35.9%	12.2%
Papa John's International Inc.	38.68	94.8%	938.1	980.9	0.81x	0.79x	0.72x	8.2x	NA	NA	9.8%	8.1%
Sonic Corp.	7.18	60.5%	435.2	924.7	1.69x	1.72x	1.71x	7.3x	7.3x	7.0x	23.1%	0.5%
The Wendy's Company	4.85	86.3%	1,891.7	2,773.5	1.14x	1.10x	1.05x	8.3x	8.2x	7.5x	13.7%	2.4%
Yum! Brands, Inc.	73.19	99.3%	33,680.3	35,882.3	2.84x	2.61x	2.40x	13.7x	12.2x	11.0x	20.7%	11.3%
<b>Median</b>		<b>93.8%</b>			<b>2.09x</b>	<b>2.02x</b>	<b>1.93x</b>	<b>9.9x</b>	<b>9.5x</b>	<b>8.6x</b>	<b>20.7%</b>	<b>5.2%</b>
<b>Mean</b>		<b>89.1%</b>			<b>2.67x</b>	<b>2.54x</b>	<b>2.39x</b>	<b>10.8x</b>	<b>10.1x</b>	<b>9.2x</b>	<b>22.3%</b>	<b>5.5%</b>
<b>Franchises</b>												
Alsea, S.A.B. De C.V.	\$1.48	97.8%	\$897.6	\$1,174.6	1.44x	1.18x	1.05x	12.2x	9.7x	8.1x	11.8%	18.6%
Arcos Dorados Holdings, Inc.	19.00	64.6%	3,981.1	4,335.5	1.19x	1.06x	0.92x	13.4x	11.2x	9.1x	8.8%	21.2%
Carrols Restaurant Group, Inc.	14.99	94.3%	347.2	601.1	0.73x	0.62x	0.56x	8.1x	6.4x	5.7x	9.0%	3.3%
Domino's Pizza UK & Ireland plc	6.77	80.6%	1,096.2	1,133.1	3.39x	2.64x	2.37x	15.7x	14.0x	12.5x	21.6%	11.5%
Domino's Pizza Enterprises Ltd.	9.11	94.5%	636.9	616.4	2.33x	2.20x	2.02x	15.5x	12.7x	11.1x	15.0%	9.0%
<b>Median</b>		<b>94.3%</b>			<b>1.44x</b>	<b>1.18x</b>	<b>1.05x</b>	<b>13.4x</b>	<b>11.2x</b>	<b>9.1x</b>	<b>11.8%</b>	<b>11.5%</b>
<b>Mean</b>		<b>86.4%</b>			<b>1.81x</b>	<b>1.54x</b>	<b>1.38x</b>	<b>13.0x</b>	<b>10.8x</b>	<b>9.3x</b>	<b>13.3%</b>	<b>12.7%</b>

LTM = Latest Twelve Months; NTM = Next Twelve Months; Enterprise Value = (Market Capitalization + Debt + Preferred Stock + Minority Interest) - (Cash & Equivalents)

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; NA = Not Available

Source: Capital IQ

# Key Themes for 2012

## Campaigns to Drive Store Traffic and Top Line Growth

Geopolitical uncertainty has created considerable market volatility and rising commodity costs remain a top concern among restaurant operators. Having already exhausted cost mitigation measures and left with limited ability to increase prices without thwarting customer traffic, many restaurant operators have initiated multi-faceted strategic campaigns to drive top line growth. These campaigns are geared towards enhancing brand image, improving the overall customer experience, diversifying daypart menu offerings and expanding into new dayparts. For instance, fast-food chains such as McDonald's and Burger King are executing plans designed to improve traffic during the breakfast hours. With rent and other costs largely fixed, restaurant operators are hopeful that incremental sales from non-traditional dayparts can offset potential slumps in traffic. In addition, Subway and Dunkin Donuts are expanding into new dayparts hoping to tap into the multi-daypart consumer market. Subway recently launched its breakfast offering and Dunkin Donuts has initiated efforts to expand its lunch offerings. Other strategic initiatives include:

- **Introduction of loyalty programs**

Panera Bread launched the MyPanera loyalty program at the end of November 2010 and has since aggregated approximately 9.5 million enrolled members. Panera Bread will begin leveraging the

collected data to more effectively customize individualized reward offers and anticipates the program to be a core driver of store traffic and average guest check.

- **Development of limited service prototypes as an offshoot of brand**

Uno Restaurant Holdings recently signed a franchise deal with Dallas-based FGR Food Corp. to open 30 fast casual Uno Dué Go concepts across Texas on the heels of the concept's success since its initial launch three years ago. Uno Restaurant Holdings is in discussions with other potential franchisees to open additional units and the firm anticipates the launch of its flagship Uno Dué Go company-owned unit in October.

- **Rendering of stores to improve dining experience**

As the centerpiece of the company's brand turnaround, Wendy's management has initiated a full-scale campaign to remodel 50 restaurants and launch 20 new restaurants with capital expenditures anticipated to reach \$225 million in 2012. The restaurants will have a modern feel and will feature four different prototypes — Urban, Ultra-Modern, Contemporary and Traditional — with each unit remodel to cost between \$750,000 and \$850,000. Elements of the remodel will include a fast casual-style ordering queue, digital signage and menu boards,

a Coca-Cola Freestyle fountain and a "Wi-Fi bar." Management has assured investors of franchisees' support of this grand initiative.

- **Rollout of new menu items**

Burger King recently rolled out a vastly changed menu featuring ten new food items. The new items include three varieties of salads, two types of wraps, 100% white tenderloin chicken strips and beverages including two kinds of fruit smoothies and mocha and caramel frappés. Burger King has lagged behind industry peers in providing healthier and more snackable alternatives and hopes that the revamped menu can better attract mothers, families and Baby Boomers.

- **Full-scale launch of online ordering**

Resulting from the success of online ordering at BRAVO!, Bravo Brio anticipates a full-scale launch of online ordering at BRIO in the second half of 2012. Analysts expect takeout sales could potentially grow from 2% to approximately 7% of total sales in the coming years with the help of this initiative.

While restaurant operators spent the majority of 2010 and 2011 digging themselves out of the proverbial recessionary hole, 2012 will be a pivotal year to lay the foundation for the industry's long-term growth.

## Key Themes for 2012

### Foreign Concepts Establish Presence in the U.S.

Foreign-based restaurant concepts serving Asian-inspired cuisine are poised to establish and expand their footholds in the U.S. market. In 2012, two U.K.-based restaurant chains, Yo!Sushi and wagamama, and one Canadian-based restaurant chain, Wok Box, will significantly bolster their U.S. presence. Yo!Sushi, a unique quick service concept offering fresh Japanese sushi served on a conveyor belt, is opening its first two locations in Washington, D.C. and anticipates operating 12 locations in the U.S. by the end of 2013. In addition, wagamama, a fast-casual concept offering fresh, Asian-inspired noodle dishes, anticipates rolling out a whopping 650 stores in the U.S. over the next five years on top of its three current Boston locations. Lastly, Wok Box, another quick service concept offering innovative, upscale and healthy Asian dishes, will open two franchised locations in Arizona and Oregon in Q1 2012.

### Growth in Ethnic Food Offerings

The diversifying U.S. population, along with expanding consumer tastes, are driving strong demand for ethnic food. At the end of 2011, Italian, Mexican, Chinese, Pan-Asian and Japanese were the most popular cuisines, underscoring the burgeoning

growth of the ethnic food market. To meet the increased demand for authentic ethnic food, restaurant operators are seeking to “spice up” their offerings:

- Carl's Jr. included Sante Fe, teriyaki and guacamole burgers in its burger lineup
- Chipotle announced the launch of an Asian-inspired fast casual concept featuring a menu that will pair the exotic flavors of Southeast Asia with fresh, natural ingredients
- Beautiful Brands International announced the franchise launch of its new brand, Sushi Freak, a fast casual, create-your-own sushi concept targeting locations in 50 states and select countries around the world

### Sustained High Levels of M&A activity at Premium Multiples

The restaurant industry witnessed robust levels of M&A activity over the past 24 months as the U.S. economy rebounded. Though M&A activity was still below the peak 2006-2008 levels, active and liquid financing markets facilitated transaction activity in 2011 that translated into well over \$1 trillion in M&A volume, up 15% from 2010. With low levels of loan maturities and continued low costs of debt, we expect financing markets to drive steady M&A activity in 2012.

Private equity funds have raised far more capital over the past five years than they have invested in transactions. As a result, funds have nearly \$450 billion of “dry powder” and limited partners are clamoring for deal activity. Strategic buyers are also resorting to acquisitions to generate earnings growth as organic growth is increasingly difficult to achieve. M&A activity has remained robust in Q1 2012 as both financial and strategic investors are sitting on unprecedented surpluses of capital (~\$2.5 trillion) and financing markets have been very receptive. There are currently more than 20 middle-market restaurant companies that are actively considering their strategic and financing alternatives either through M&A, IPOs or dual track processes. Concepts with track records of strong growth, compelling unit economic models and credible future expansion opportunities are attracting outsized attention, resulting in premium valuations.

# Selected Restaurant M&A Transactions

Date Announced	Acquiror	Target	Target Segment	Enterprise Value	Enterprise Value as a Multiple of LTM		LTM EBITDA Margin	Strategic (S)/ Financial (F)	Key Transaction Elements
					Revenue	EBITDA			
04/04/12	Justice Holdings Limited	Burger King Worldwide Holdings	QSR	\$6,987.6	3.00x	14.0x	21.4%	F	Global brand and leading fast-food chain; sale of 29% stake
04/03/12	Sentinel Capital Partners	Huddle House	Casual	NA	NA	NA	NA	F	Iconic southern-based family dining concept with strong comparable store sales growth
03/22/12	Argonne Capital Group	The Krystal Company	QSR	\$175.0	0.62x (a)	6.1x (a)	10.0% (a)	F	Leading Southern-based QSR concept with strong growth potential
03/12/12	Frisch's Restaurants	Golden Corral	Casual	NA	NA	NA	NA	S	Golden Corral exercised right of first refusal to purchase substantially all of Frisch's operations and real estate
02/06/12	Fidelity National / ABRH	O'Charley's	Casual	\$232.5	0.28x	6.2x	4.5%	S	Leverage ABRH operating platform to drive profitability
12/16/11	Landry's Holdings	Morton's Restaurant Group	Fine Dining	\$180.0	0.57x	7.4x	7.7%	S	Leading fine dining steakhouse concept, significant synergy potential
11/21/11	Fairfax Financial Holdings Limited	Prime Restaurants	Casual	\$68.0	1.50x	10.7x	14.0%	F	Premium multiple achieved during Go-Shop period
11/08/11	Freeman Spogli	First Watch	Casual	NA	NA	NA	NA	F	Differentiated day-time only concept with strong growth potential
11/08/11	Olympus Partners	NPC International	Fast Casual	\$755.0	0.79x	7.4x	10.6%	F	Largest U.S. Pizza Hut franchise operator
11/08/11	Landry's Restaurant	McCormick's & Schmicks	Fine Dining	\$131.6	0.38x	7.9x	4.8%	S	National multi-concept operator acquires leading fine dining seafood chain
10/12/11	Darden Restaurants	Eddie V's Prime Seafood and Wildfish Seafood Grille	Casual	\$59.0	1.00x (a)	8.0x (a)	12.5%	S	Significant synergies with existing concepts in Darden's Specialty Restaurant Group
09/21/11	J.H. Whitney Capital Partners	Uncle Julio's	Casual	\$100.0	1.09x (a)	7.4x (a)	14.7%	F	Strong demand for 16-unit Mexican chain
07/25/11	Advent International Corporation	Bojangles' Restaurants	QSR	\$360.8 (a)	1.19x (a)	8.0x (a)	14.8% (a)	F	First domestic restaurant brand investment for Advent
06/13/11	Roark Capital Group	Arby's Restaurant Group	QSR	\$349.5	NA	9.0x (a)	NA	F	Second largest fast-food sandwich chain
05/25/11	Golden Gate Capital	California Pizza Kitchen	Casual	\$437.8	0.68x	7.7x	8.9%	F	Valuation gap stalled auction; Golden Gate "strategic" approach prevailed in the end
05/23/11	Roark Capital Group	Il Fornaio / Corner Bakery	Fast Casual	\$300.0	0.84x	8.1x	10.4%	F	Significant franchise opportunities for Corner Bakery played to Roark's strengths
04/25/11	Angelo, Gordon & Co.	Firebirds International	Casual	\$62.5	1.04x	7.8x	13.4%	F	First sector investment by Angelo Gordon. Attractive on-trend growth concept
03/24/11	Duke Street	wagamama Limited	Fast Casual	\$347.1	NA	9.0x (a)	NA	F	Noodle bar with significant growth potential globally
03/16/11	Brentwood Associates	K-MAC Enterprises	QSR Franchisee	\$273.0	NA	6.5x	NA	F	Extremely well run Taco Bell franchisee; Brentwood previously owned another YUM! System asset
03/10/11	Goldman Sachs Private Equity	Apple American Group	Casual Franchisee	\$400.0 (a)	0.60x (a)	7.0x (a)	8.6% (a)	F	Largest Applebee's franchisee, second time around for Goldman Sachs
03/09/11	Groupe Le Duff	Bruegger's Enterprises	Fast Casual	\$91.0 (a)	0.65x (a)	6.5x (a)	10.0% (a)	S	Significant synergies with Le Duff businesses - Le Madeleine, Brioche Doree and Threecaf Brands
01/25/11	Chanticleer Holdings	Hooters of America	Casual	\$250.0 (a)	1.10x (a)	6.9x (a)	16.1% (a)	F	Court rules in favor of Chanticleer right of first refusal
12/28/10	Catterton Partners	Noodles & Company	Fast Casual	NA	NA	NA	NA	F	Och Ziff's desire for liquidity and founder preference for recapitalization vs. IPO were key drivers
11/15/10	Centerbridge Partners	Rock Bottom Restaurants / Gordon Biersch	Casual	NA	NA	NA	NA	F	Significant synergies between Rock Bottom and Gordon Biersch
11/05/10	Landry's Restaurants	Bubba Gump Shrimp	Casual	\$112.5	0.56x	6.5x (a)	8.7% (a)	S	Significant synergies achievable within Landry's system
09/02/10	3G Capital Management	Burger King Holdings	QSR	\$4,020.0	1.61x	9.1x	17.7%	F	Largest restaurant deal in decade
08/30/10	Kelso & Company	LRI Holdings	Casual	\$560.0	1.00x	7.5x	13.4%	F	Sale followed June IPO filing
07/14/10	Fidelity National / ABRH	Max & Ermas Restaurants	Casual	\$28.0	NA	6.5x (a)	NA	S	Bankruptcy auction, rationalize store base and leverage ABR platform
				<b>Median</b>	<b>0.84x</b>	<b>7.6x</b>	<b>10.6%</b>		
				<b>Mean</b>	<b>0.97x</b>	<b>7.9x</b>	<b>11.7%</b>		

LTM = Latest Twelve Months; NTM = Next Twelve Months; Enterprise Value = (Market Capitalization + Debt + Preferred Stock + Minority Interest) - (Cash & Equivalents)

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; NA = Not Available

Source: Capital IQ, Merger Market, Press Releases, The Deal Pipeline

(a) D&P estimates



# Recent Notable Transactions

## Justice Holdings Limited to acquire a 29% stake in Burger King Holdings, Inc.

On April 4, 2012, Justice Holdings Limited ("Justice") announced the pending acquisition of a 29% stake in Burger King Holdings, Inc. ("Burger King") from 3G Capital Partners ("3G Capital") for \$1,400 million, representing an implied equity value of \$4,827 million. 3G Capital will retain the remaining 71% stake. Justice is a publicly listed investment holding company strategically focused on investing in well-established global brands with strong growth opportunities. Justice shareholders expect to benefit from the business growth of Burger King and from Burger King's planned IPO within the next 2-3 months. As a result of the acquisition, Justice will be delisted from the London Stock Exchange and will be merged with Burger King.

## Sentinel Capital Partners acquires Huddle House Inc.

On April 3, 2012, Sentinel Capital Partners ("Sentinel") announced the acquisition of Huddle House Inc. ("Huddle House"), a franchisor of family dining restaurants in the Southeast. Founded in 1964, Huddle House is one of the oldest franchise systems in the country. It operates 376 franchised and 17 company-owned units across 20 states, generating more than \$225 million in annual system-wide sales. The company's comparable store sales have increased in the past two quarters with 7.9% growth in Q4 2011 and 7.2% in Q1 2012. The acquisition of Huddle House adds to Sentinel's roster of franchised brands, which also includes Massage Envy and Southern California Pizza Company.

## Fidelity National Financial Inc. launches buyout bid for O'Charley's Inc.

On February 6, 2012, Fidelity National Financial Inc. ("Fidelity"), an insurance company and turnaround investor, announced its intention to acquire the remaining shares of O'Charley's, Inc. ("O'Charley's") for \$221 million in a cash enterprise value, representing an approximate 42% premium over the announcement date closing price of \$6.27 and approximately 6.2x LTM EBITDA. O'Charley's operates approximately 340 restaurants under its Ninety Nine Restaurant and Stoney River Legendary Steaks brands, generating annual revenue in excess of \$800 million. Although unusual for an insurance company to acquire a restaurant chain, the deal is part of Fidelity's strategy to expand its American Blue Ribbon Holdings LLC portfolio that consists of the Village Inn, Bakers Square and Max & Erma's chains. The deal is expected to close at the end of Q2.

## Freeman Spogli & Co. acquires First Watch Restaurants, Inc.

On December 23, 2011, Catterton Partners, a consumer-focused private equity firm, announced the sale of First Watch Restaurants, Inc. ("First Watch") to private equity firm Freeman Spogli & Co. ("Freeman Spogli"). Operating 92 restaurants across 23 states with plans to open an additional 15 restaurants in 2012, First Watch is the fastest growing "daytime only" concept in the U.S. serving breakfast, brunch and lunch. Since partnering with Catterton Partners, First Watch achieved industry-leading results including consistent comparable store sales increases and earnings that have more than quadrupled over the past five years. The acquisition of First Watch will increase Freeman Spogli's growing portfolio of consumer and retail companies that currently includes Boot Barn, Floor Decor and El Pollo Loco.

## Fairfax Financial Holdings Limited acquires Prime Restaurants Inc.

On January 10, 2012, Prime Restaurants, Inc. ("Prime Restaurants") announced the successful completion of its sale to Fairfax Financial Holdings Limited ("Fairfax"). Shareholders of Prime Restaurants received \$7.50 per share in cash and a special dividend in the amount of \$0.08 per share, which translated to a 10.7x EBITDA transaction valuation. Prime Restaurants owns and operates one of Canada's leading networks of casual dining restaurants and pubs with well-respected brands including East Side Mario's, Casey's, Fionn MacCool's, D'Arcy McGee's, Paddy Flaherty's, Tir Nan Og and Bier Markt. The acquisition of Prime Restaurants will increase Fairfax's growing portfolio of consumer and retail companies that currently includes Sporting Life and William Ashley China. Fairfax's successful acquisition comes on the heels of Cara Operations Limited's failed attempt to acquire Prime Restaurants back in October 2011 after the Canadian-based restaurant operator executed its go-shop provision and secured a higher bid.

Source: The Deal Pipeline, PR Newswire, Yahoo! Finance, Merger Market, Nation's Restaurant News

# Restaurant Restructuring Activity

---

Over the past 24 months, the restaurant industry has experienced a host of bankruptcy filings and restructuring activity, and more is expected during 2012. Various concepts, struggling to stay afloat amidst declining traffic counts and rising input costs, have sought bankruptcy protection as a means to close unprofitable locations, renegotiate lease terms and recapitalize debt-laden balance sheets. The family dining space has been particularly impacted by this restructuring wave as concepts such as Friendly's, Real Mex, Sbarro, Buffets, Max & Erma's, Giordano's and Marie Callender's all filed for bankruptcy protection over the past two years. Those concepts that have emerged from bankruptcy have done so with a rationalized restaurant footprint and significantly cleaner financial position.

Majority investors of underperforming restaurant companies have also been particularly vocal about management competence and have sought the use of proxies to pressure Boards to replace executives. At Cracker Barrel, activist investor Sardar Biglari attempted to gain a seat on the Board of the company, but ultimately lost in a proxy battle. Biglari Holdings and related entities have since spent \$7.4 million to increase their equity stake in Cracker Barrel and now hold a majority investment at 16.3%. At Cosi, majority investor Blum Growth Fund pressured the company to replace its management and ultimately Carin Stutz became the new president and chief executive. We expect key senior management position and Board changes to continue in 2012 as restaurant investors seek complementary management teams that can best execute on company growth initiatives.

# Recent Duff & Phelps Restaurant Transactions

## Case Study: Friendly Ice Cream Corporation

### Financial Advisor

Friendly Ice Cream Corporation has been acquired by Sun Capital Partners, Inc.



Financial Advisor to Friendly Ice Cream Corporation

### Client

Friendly Ice Cream Corporation ("Friendly's" or the "Company") is an iconic family dining restaurant chain and manufacturer of premium ice cream products with a dominant presence in the Northeastern U.S. Since the Company's founding over 75 years ago, Friendly's has provided reasonably priced, high quality food, including its signature premium ice cream, to its loyal customer base in fun and casual neighborhood settings. In addition to its Company-owned and franchised restaurants, Friendly's manufactures and distributes its own brand of packaged ice cream products to its restaurants and third-party retail customers.

### Transaction Description and Role of Duff & Phelps

Duff & Phelps acted as the financial advisor to Friendly's and provided M&A and restructuring advisory services in connection with the Company's \$363 sale.

## Case Study: Real Mex Restaurants

### Financial Advisor



Exclusive Financial Advisor to the Unsecured Creditors Committee

### Client

Real Mex Restaurants, Inc. ("Real Mex" or the "Company") is a leading, sponsor-backed Mexican food casual dining operator with over 200 locations in the U.S. The Company's primary restaurant concepts include El Torito, El Torito Grill, Chevys Fresh Mex and Acapulco Mexican Restaurant. In addition, through its subsidiary, Real Mex Foods, Inc. ("Real Mex Foods"), the Company procures, develops, manufactures and distributes Mexican food products to quick service restaurants and casual dining, retail and foodservice channels. Additionally, Real Mex Foods manufactures, researches and develops a proprietary line of packaged multi-serve entrees under the Real Mex Foods label for retailers.

### Transaction Description and Role of Duff & Phelps

Duff & Phelps acted as the exclusive financial advisor to the unsecured creditors committee in the reorganization of the Company.

# Index Companies

---

## Quick Service

AFC Enterprises Inc. (NasdaqGS:AFCE)  
Domino's Pizza, Inc. (NYSE:DPZ)  
Dunkin' Brands Group, Inc. (NasdaqGS:DNKN)  
Jack in the Box Inc. (NasdaqGS:JACK)  
McDonald's Corp. (NYSE:MCD)  
Papa John's International Inc. (NasdaqGS:PZZA)  
Sonic Corp. (NasdaqGS:SONC)  
The Wendy's Company (NYSE:WEN)  
YUM! Brands, Inc. (NYSE:YUM)

## Fast Casual

Chipotle Mexican Grill, Inc. (NYSE:CMG)  
Cosi Inc. (NasdaqGM:COSI)  
Einstein Noah Restaurant Group, Inc. (NasdaqGM:BAGL)  
Panera Bread Co. (NasdaqGS:PNRA)

## Mass Casual

Benihana Inc. (NasdaqGS:BNHN.A)  
Brinker International Inc. (NYSE:EAT)  
Bob Evans Farms Inc.(NasdaqGS:BOBE)  
Buffalo Wild Wings Inc. (NasdaqGS:BWLD)  
CEC Entertainment Inc. (NYSE:CEC)  
Cracker Barrel Old Country Store, Inc. (NasdaqGS:CBRL)  
Darden Restaurants, Inc. (NYSE:DRI)  
Denny's Corporation (NASDAQCM: DENN)  
DineEquity, Inc. (NYSE:DIN)  
Frisch's Restaurants Inc. (AMEX:FRS)  
Luby's Inc. (NYSE:LUB)  
Red Robin Gourmet Burgers Inc. (NasdaqGS:RRGB)  
Ruby Tuesday, Inc. (NYSE:RT)  
Steak n Shake (NYSE:BH)  
Texas Roadhouse Inc. (NasdaqGS:TXRH)

## Polished Casual

BJ's Restaurants, Inc. (NasdaqGS:BJRI)  
Bravo Brio Restaurant Group, Inc. (NasdaqGS:BBRG)  
P.F. Chang's China Bistro, Inc. (NasdaqGS:PFCB)  
The Cheesecake Factory (NasdaqGS:CAKE)

## Fine Dining

Ruth's Hospitality Group Inc. (NasdaqGS:RUTH)

---

For more information about our industry expertise or to subscribe to Industry Insights, visit:

[www.duffandphelps.com](http://www.duffandphelps.com)

#### The Duff & Phelps Restaurant Industry Group

The Duff & Phelps Restaurant Industry Group provides advisory services to many leading participants in the restaurant industry. Duff & Phelps professionals have significant knowledge of the restaurant industry sector and possess senior-level relationships throughout the restaurant industry community. The firm's world-class capabilities and resources, combined with an agile and responsive delivery, distinguish the Duff & Phelps client experience.

- Investment Banking Services
- Mergers and Acquisitions Advisory
- Capital Raising and Private Placements
- Financial Restructurings and Special Situations
- Fairness and Solvency Opinions
- ESOP and ERISA Advisory

---

#### Industry Insights Contributors

##### **Joshua Benn**

Duff & Phelps Securities, LLC  
Managing Director  
Head of Restaurant, Retail & Consumer  
Investment Banking  
+1 212 450 2840  
[joshua.benn@duffandphelps.com](mailto:joshua.benn@duffandphelps.com)

##### **John Secor**

Duff & Phelps Securities, LLC  
Managing Director  
Restaurant, Retail and Consumer Investment  
Banking  
+1 212 277 0134  
[john.secor@duffandphelps.com](mailto:john.secor@duffandphelps.com)

#### About Duff & Phelps

As a leading global financial advisory and investment banking firm, 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; Pagemill Partners; and GCP 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)