

# AlixPartners 2009 Restaurant and Foodservice Review<sup>SM</sup>

*Highlights – Full Review Available Upon Request for Presentation and Discussion*

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**April 2009**

**AlixPartners**  
*When it really matters.*

# Study Overview: More Than 110 'Concepts,' Owned By 63 Companies

## QSR<sup>1</sup> & Specialty

- AFC Enterprises (Popeye's)
- Burger King Holdings Inc.
- Carrols Restaurant Group, Inc. (Burger King franchises, Taco Cabana, Pollo Tropical)
- CKE Restaurants Inc. (Carl's Jr., Hardee's)
- Domino's Pizza Inc.
- Jack in the Box, Inc. (Jack in the Box, Qdoba Mexican Grill)
- Krispy Kreme Doughnuts inc.
- McDonald's Corp.
- Papa John's International Inc.
- Pizza Limited
- Prizm Income Fund (KFC Canada, YUM! Franchises)
- Sbarro, Inc.
- Sonic Corp.
- Tim Horton's Inc.
- Wendy's/Arby's Group, Inc.
- Wendy's International Inc.
- Yum! Brands Inc. (KFC, Pizza Hut, Taco Bell)

## Fast Casual

- Buffalo Wild Wings, Inc.
- California Pizza Kitchen Inc.
- Caribou Coffee Company, Inc.
- Chipotle Mexican Grill, Inc.
- Cosi Inc.
- Einstein Noah Restaurant Group
- Panera Bread Co.
- Peet's Coffee & Tea Inc.
- Rubio's Restaurants, Inc. (Rubio's Baja Grill)
- Starbuck's Corp.

## Fine Dining

- Ark Restaurants Corp. (Bryant Park Grill, Center Café )
- Benihana Inc.
- J. Alexander's Corp.
- Keg Restaurants Ltd.
- McCormick & Schmick's Seafood Restaurants Inc.
- Morton's Restaurant Group Inc.
- Ruth's Hospitality Group Inc.

## Casual Dining

- BJ's Restaurants Inc.
- Bob Evans Farms Inc.
- Brinker International Inc. (Chili's, On the Border Mexican Grill)
- BUCA, Inc.
- Buffets Holdings Inc. (Home Town Buffet, Old Country Buffet)
- CEC Entertainment Inc. (Chuck E. Cheese)
- Cracker Barrel Old Country Store
- Darden Restaurants Inc. (Red Lobster, Olive Garden)
- Dave & Buster's Inc.
- Denny's Corporation
- DineEquity, Inc. (IHOP, Applebee's)
- Famous Dave's of America Inc.
- Frisch's Restaurants Inc.(Big Boy)
- Grill Concepts Inc. (Daily Grill)
- Landry's Restaurants Inc.
- Luby's Inc.
- Max & Erma's Restaurants Inc.
- NPC International (Pizza Hut)
- O'Charley's Inc.
- OSI Restaurant Partners, LLC (Outback Steakhouse)
- Perkins & Marie Callendar's Inc.
- PF Chang's China Bistro Inc.
- Real Mex Restaurants, Inc.
- Red Robin Gourmet Burgers Inc.
- Ruby Tuesday, Inc.
- Steak n' Shake Co.
- Texas Roadhouse Inc.
- The Cheesecake Factory
- VICORP (Village Inn)

**These companies represent over \$110B in revenue for 2008 (~20% of the industry)**

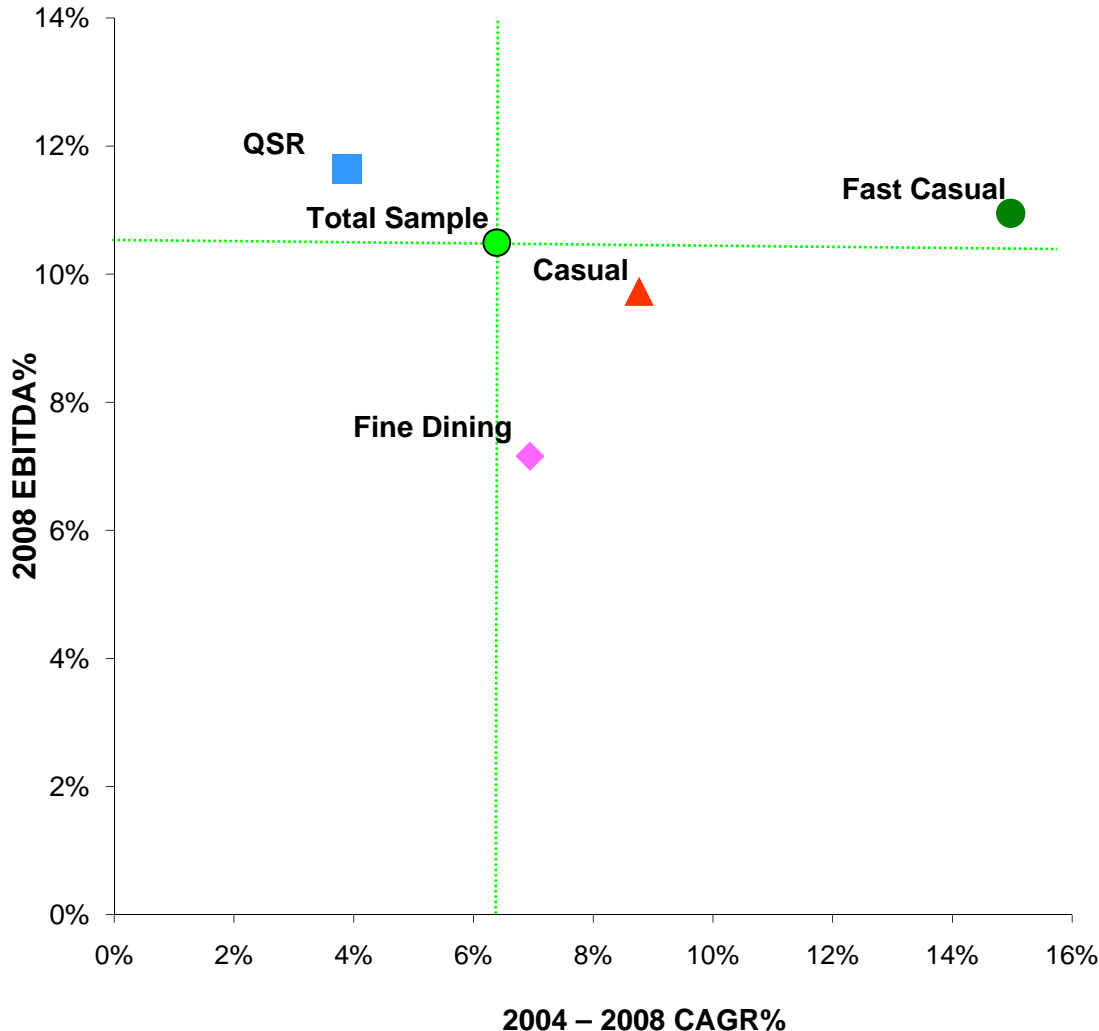
# Recent Economic Value Creation: Concentrated In Quick-Service and Fast-Casual Segments

## Last 12 Months v. 2007 Annual Restaurant Financial Metrics

	# Co's	Total Revenues (\$M)	Net Income (\$M)	EBIT (%)	EBITDA (%)	EBITDA (YOY%)	Net Margin (%)	OCF (%)	ROCE (%)
QSR	17	\$ 52,841	\$ 6,346	17.8%	22.6%	0.7%	12.0%	16.7%	22.7%
Fast Casual	10	\$ 15,233	\$ 480	6.5%	12.1%	-2.5%	3.2%	12.1%	17.6%
Casual	29	\$ 37,067	\$ (409)	5.9%	10.5%	-1.1%	-1.1%	6.6%	9.7%
Fine Dining	7	\$ 1,936	\$ (20)	4.0%	8.2%	-2.6%	-1.0%	8.6%	6.6%
Top sales band	17	\$ 81,676	\$ 6,320	13.7%	18.4%	-0.4%	7.7%	13.7%	20.1%
Middle sales band	31	\$ 22,422	\$ 101	6.3%	11.4%	-1.1%	0.5%	8.5%	10.1%
Bottom sales band	15	\$ 2,979	\$ (24)	3.6%	8.8%	-0.6%	-0.8%	6.8%	8.1%
<b>Total</b>	<b>63</b>	<b>\$ 107,077</b>	<b>\$ 6,397</b>	<b>11.8%</b>	<b>16.7%</b>	<b>-0.5%</b>	<b>6.0%</b>	<b>12.4%</b>	<b>17.9%</b>

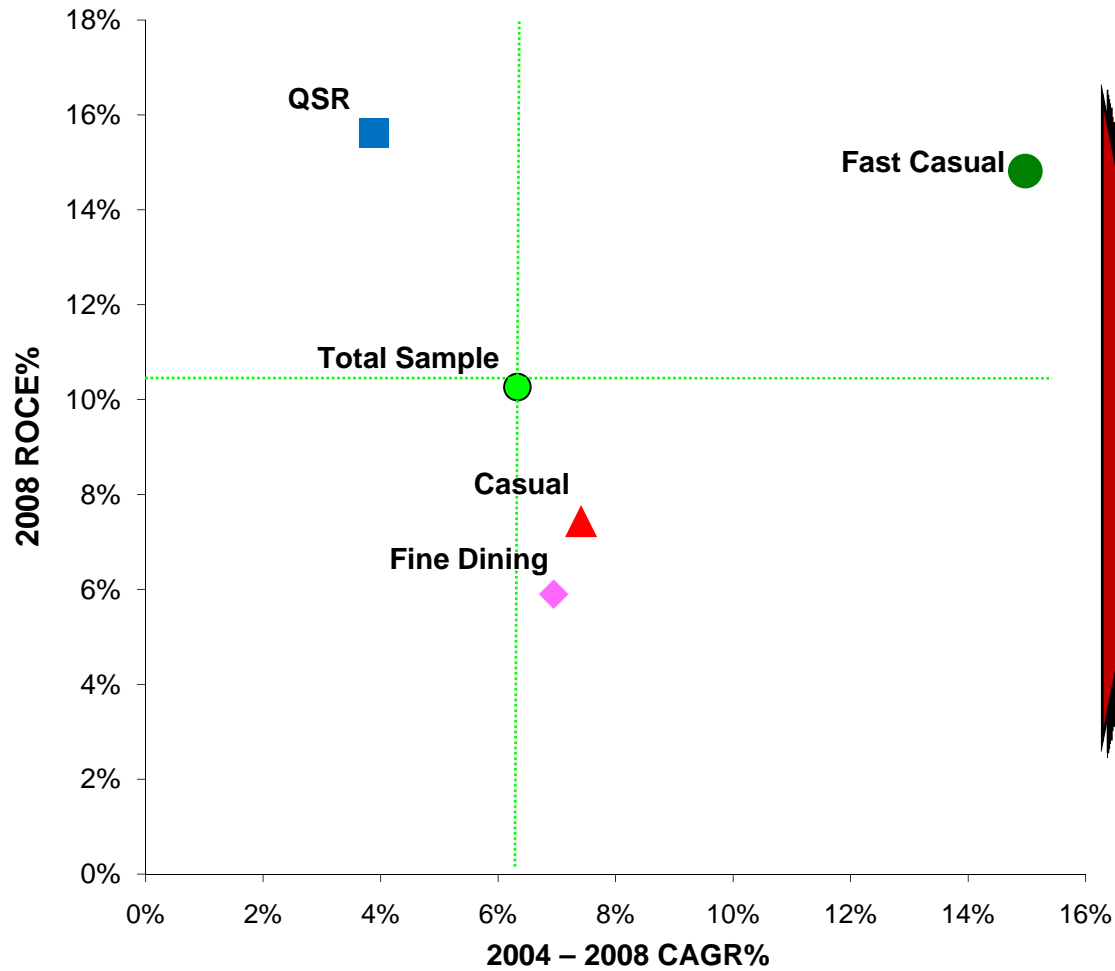
Larger companies by revenue tend to outperform, perhaps indicating scale advantages in purchasing, overhead and operational practices

# 2004-2008 CAGR vs. 2008 EBITDA: QSR and Fast-Casual Best



- **Fast-Casual and QSR segments are outperforming Fine Dining and Casual Dining over the last 5 years**
- **CAGR trends for Casual and Fine would indicate a dramatic shift to the left over the last 12 months**
- **Beyond the recession, demographics and dietary trends underlie much of the growth in QSR and Fast Casual**
- **Sector level performance obscures operational and strategic differentiators among the firms within each peer group**

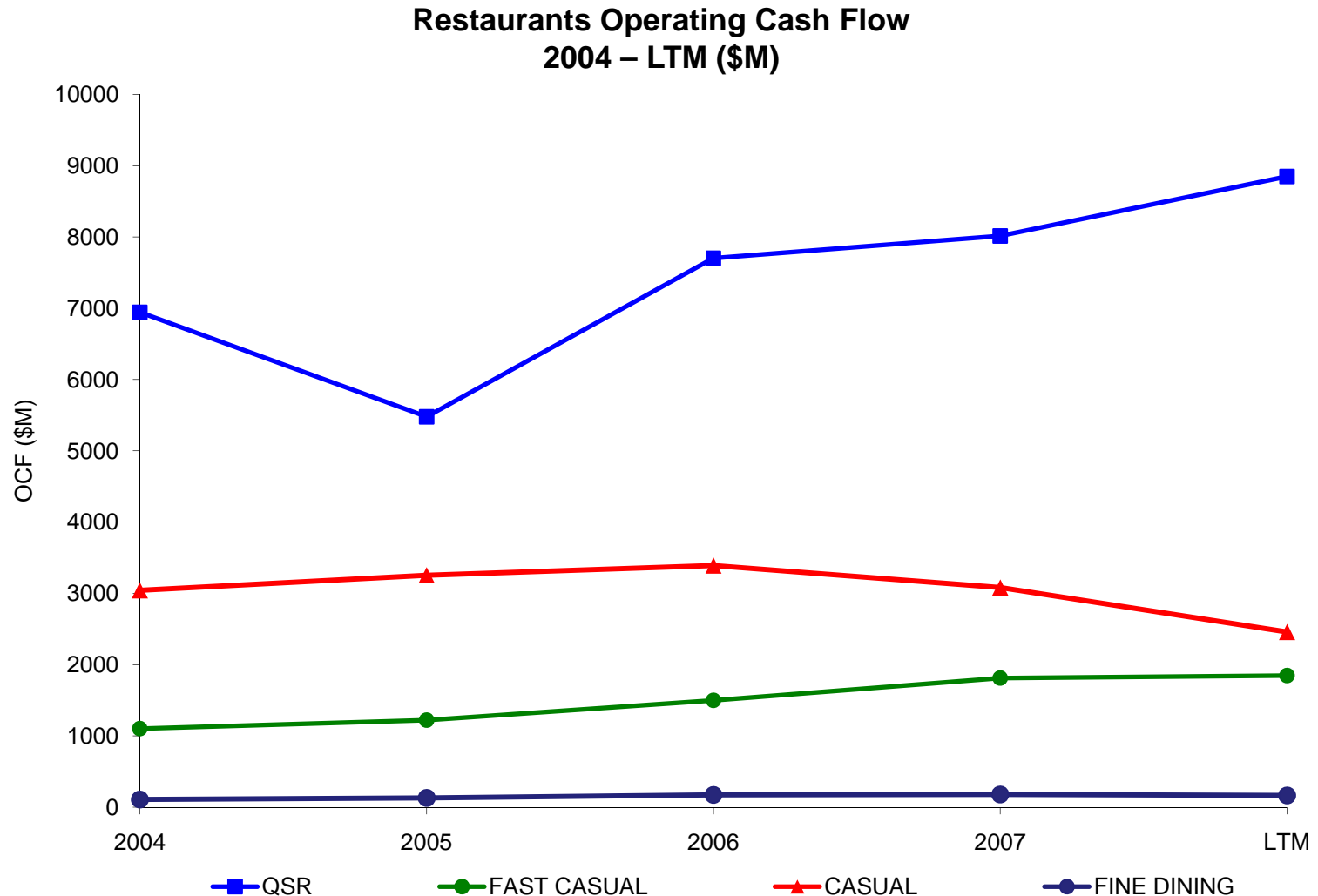
# 2004-2008 CAGR vs. 2008 Return On Capital Employed (ROCE): Casual and Fine Dining Fall Further Behind



- Mapping is nearly identical to EBITDA; ROCE drives margin and cash performance
- Fast Casual segment has exceeded other segments in terms of growth over time even more so
- Fine Dining has seen lowest ROCE and while QSR lags slightly in sales growth, ROCE% is higher than the other four segments
- Could suggest potential to turnaround Casual and Fine operations for good ROI once economic pick-up occurs

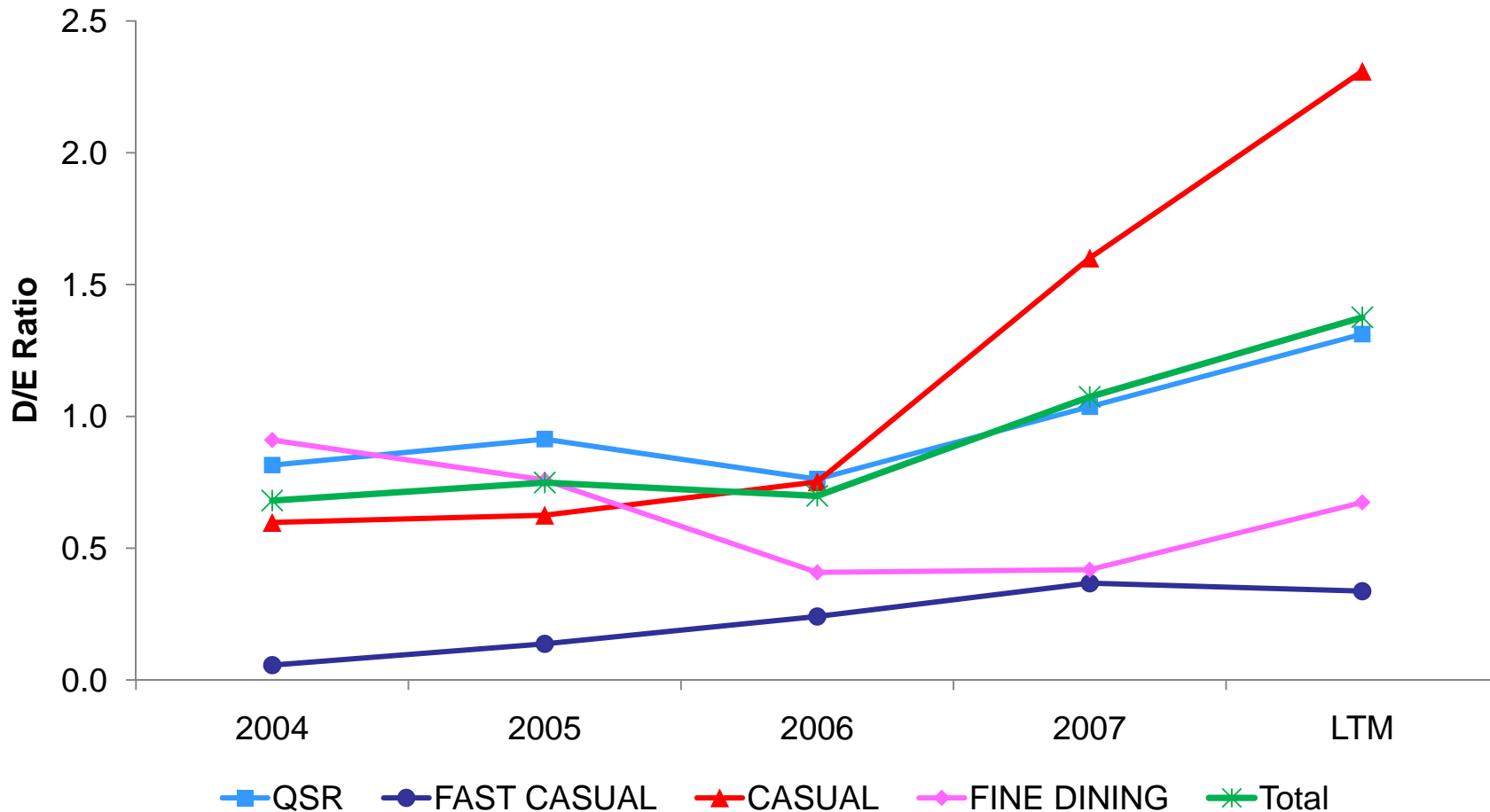
ROCE = Pretax Op Profit/Capital Employed = (Op Rev – Op Exp)/(Total Assets – Current Liabilities)

# Operating Cash Flows: QSR Continues to Increase, While Others Are Flat to Declining



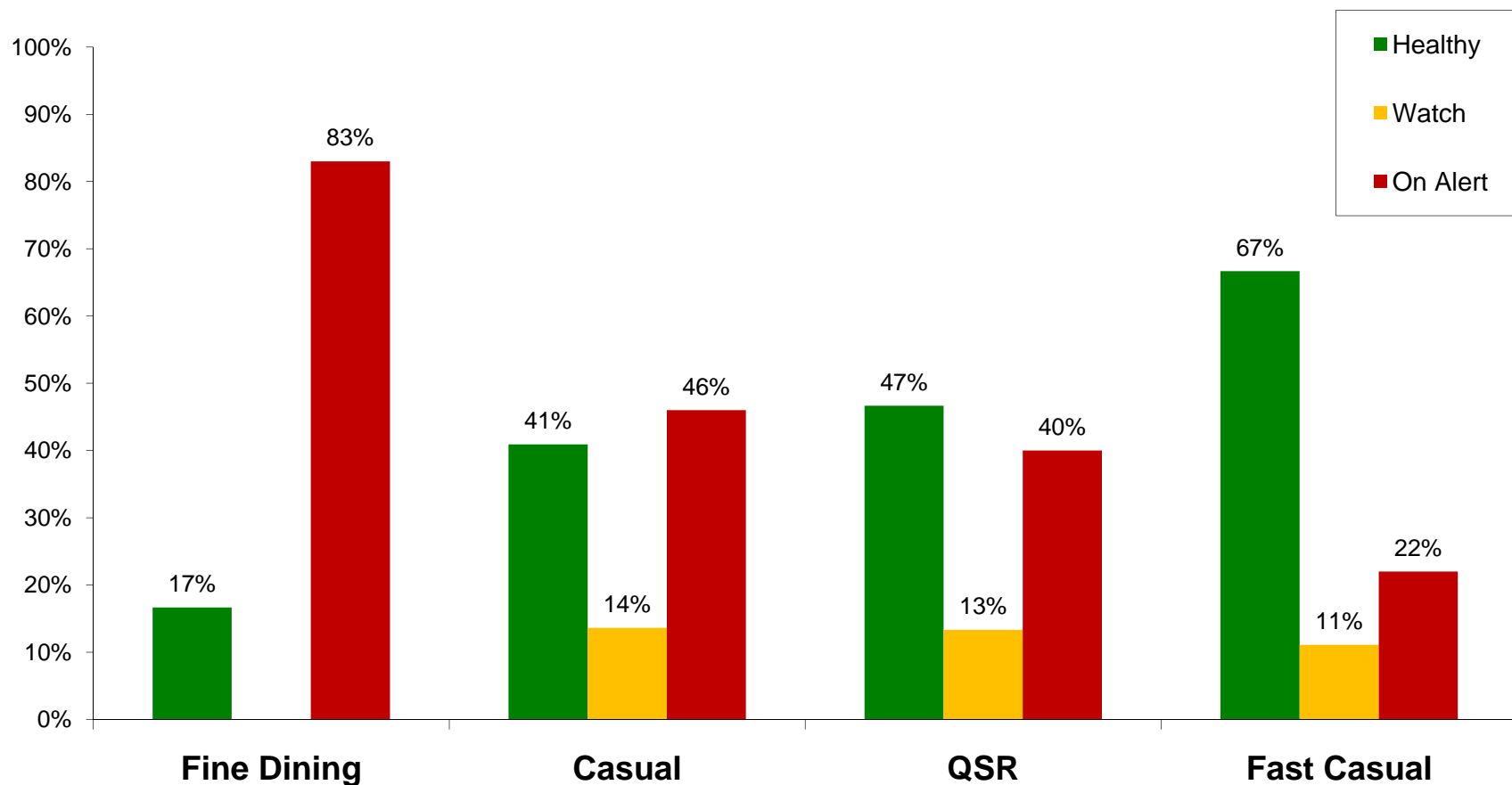
# Debt: Industry Has More Than Doubled Leverage, Leaving Less Breathing Room to Handle the Slowdown

Debt/Equity  
Time Series (2004-2008)



# Operational Excellence and Customer Responsiveness Drive Big Differences in Who Faces Financial Distress in 2009

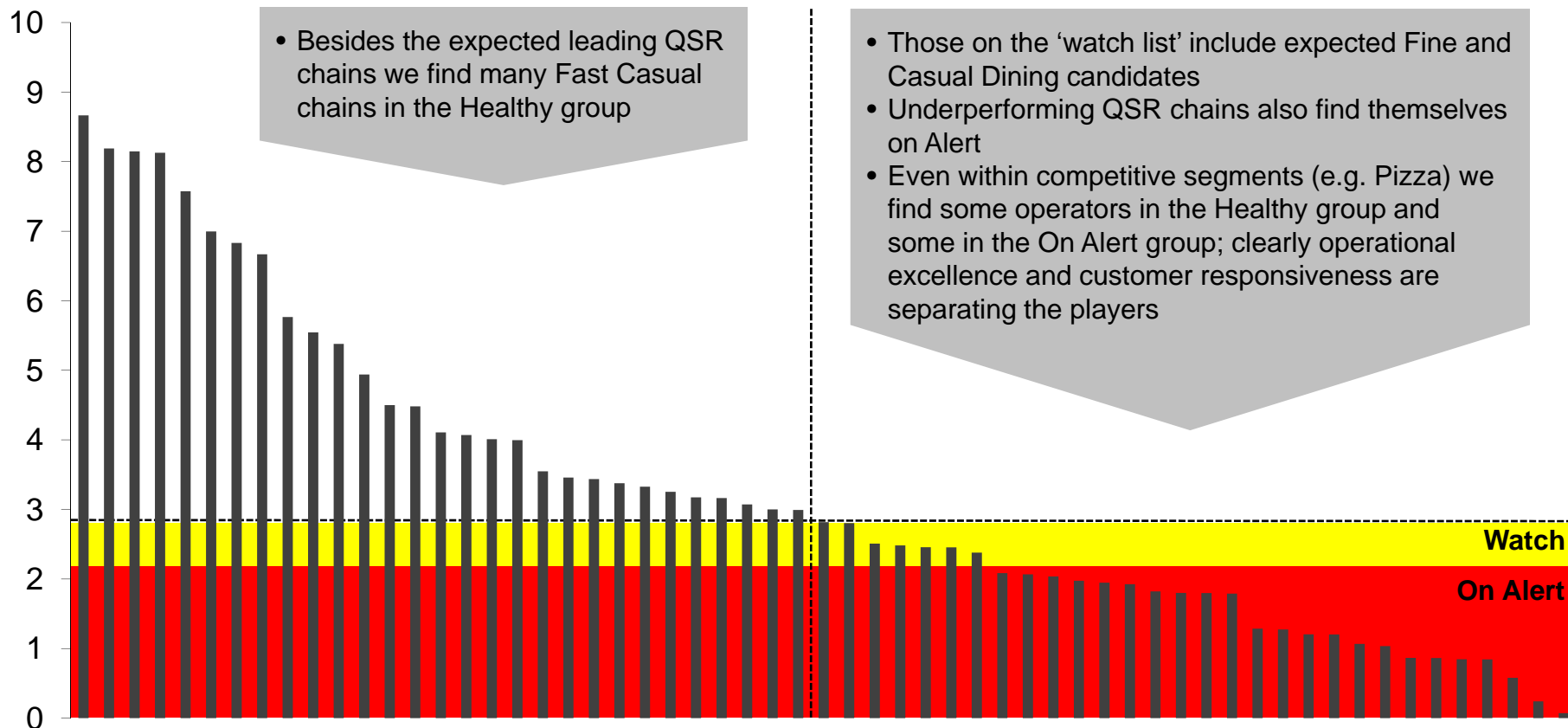
**% of Companies by Distress Category<sup>1</sup> and Segment  
Latest Measure (2007 or 2008)**



1) AlixPartners Early Warning Indicators and Altman Z Score analysis

# Overall, 40% of The Restaurants In Our Sample Are “On Alert” For Potential Financial Distress

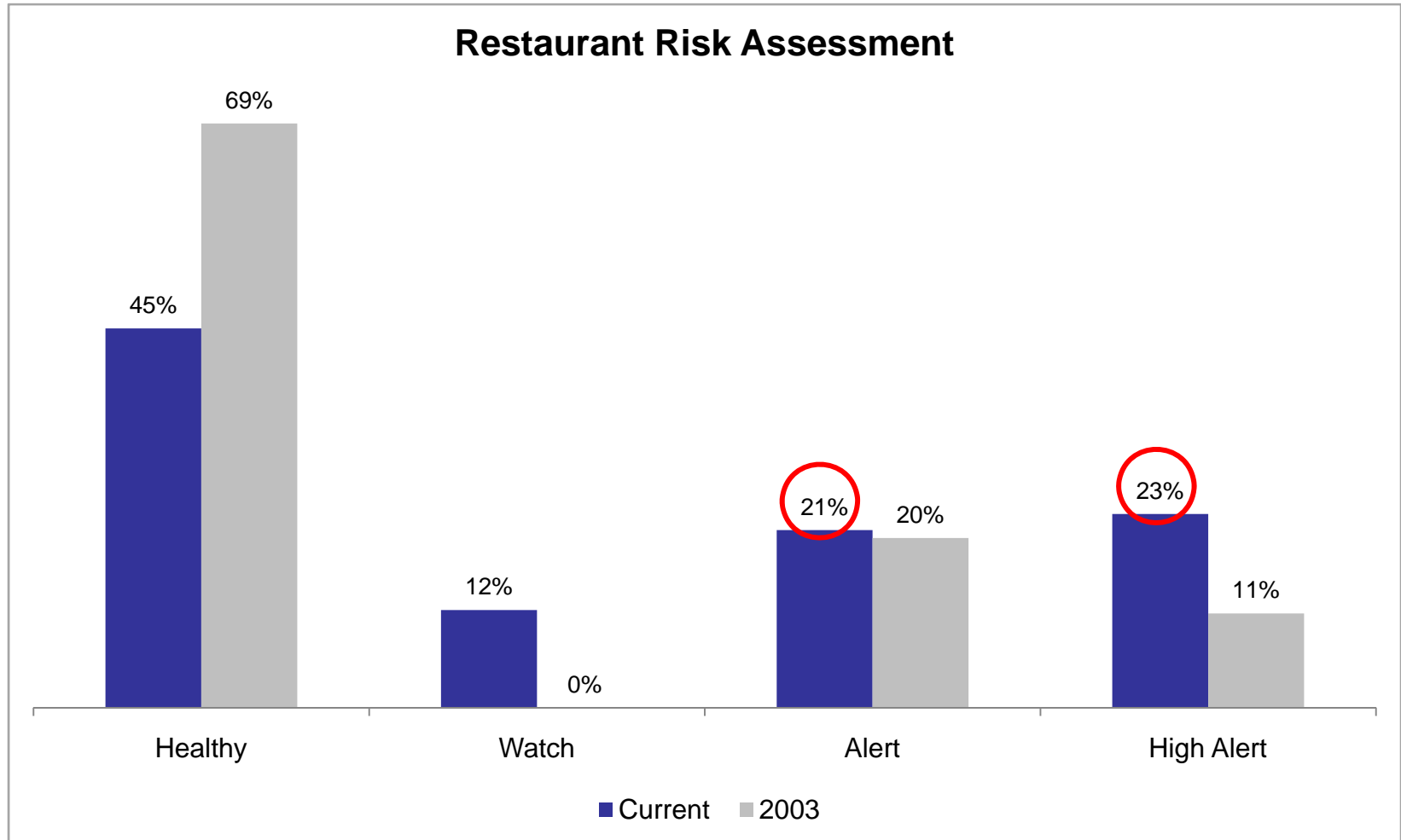
## Measure of Likelihood of Financial Distress<sup>1</sup> Latest Measure (2007 or 2008)



**Pro-active operational improvements and evolution of customer traffic patterns in later 2009 will dictate how many of those “On Alert” actually face distress**

1) AlixPartners Early Warning Model<sup>SM</sup> indicators and Altman Z Score analysis

# In Historical Context, This is Higher Than the Industry Typically Sees



# Consumer Research Overview

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## Survey Specifications

- **Date:** January 26-27, 2009
- **Population:** 1,000 adults nationwide, age 18+
- **Demographics:** Respondent group was representative of the U.S population across all key demographics and income ranges
- **Survey Focus:**
  - Planned frequency of dining occasions
  - Expected spending on meals outside the home
  - Preferred type of restaurants
  - Key criteria for consumer preference in restaurant selection

# The Recession May Be Driving a Structural Behavior Shift to Higher Value Options (Lower Price, Higher Quality Per Dollar Spent)

## 2009 Restaurant Consumer Sentiment Survey Summary of Key Insights

Section	Question	Answer	Answer Rank	Implication
Dining Out	What have you already cut back on?	Dining outside the home	#1	Dining is the first causality in this recession and the cuts are not done
	What you do plan to cut back on further?	Dining outside the home	#1	
	How much do you plan to spend per meal in 2009 when dining out?	\$13.60 (a reduction of 7.5%), <\$10 meals with a large jump in intention	n/a	QSR and value menus will drive success
	Why are you cutting back on dining out?	Current financial situation, planning for future, meals too expensive	#1, #2, #3	Price, price and price BUT...
	How will you cut back?	Coupons, less expensive restaurants, cheaper food	#1, #2, #3	
		How do you select the restaurant, what is most important for total value?	Food quality, price	#1, #2
General Economy	When do you expect a recovery?	2011	#1	May combine for a long term behavioral change
	What are your biggest economic worries in 2009?	Personal debt, job losses	#1, #2	

Source: AlixPartners Economic Research, February 2009 (n=5031)  
AlixPartners Restaurant Survey, January 2009 (n=1000)

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***To discuss the impact of the AlixPartners 2009  
Restaurant & Foodservice Review<sup>SM</sup> on your  
business, please click on the “Contact” link at:***

**[www.alixpartners.com](http://www.alixpartners.com)**

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