

Valuation update for the restaurant industry

Restaurant industry entering 2011 on positive note, as Restaurant Performance Index posted strong gain in December

A surge in same-store sales and customer traffic levels in December fueled the Restaurant Performance Index (RPI) to its highest level since 2007. More importantly, this month's gain represents a growing optimism among restaurant operators for the future of the restaurant industry. The RPI increased to 101.0 in December, up 1.1 percent from its November decline. This month's bullish RPI gain marks the third time in the last four months that the index stood above 100 and indicates that the recovery in the restaurant industry is gaining momentum.¹

The RPI is a monthly index that tracks the health and outlook for the U.S. restaurant industry on a one-month lag. It is comprised of the Current Situation Index (CSI): a measure of current industry sales, customer traffic, labor, and capital expenditures trends and the Expectations Index (EI): a measure of future six-month sales, staffing, business conditions, and capital expenditures trends. The index is measured in relation to a steady state of 100 with measurements above 100 representing periods of expansion and subsequent measurements below 100 representing contraction within the restaurant industry.¹

The December Current Situation Index increased by 1.0 percent to 99.7 compared to November. The main drivers of the December CSI were an increase in customer traffic and same-store sales of 1.9 percent and 1.7 percent compared to November, respectively. Softness in the labor and capital expenditure indicators kept the CSI slightly below 100. The December Expectations Index increased 1.2 percent to 102.4 compared to November. The main determinants of the December EI were an increase in same-store sales and business conditions of 1.9 percent and 1.5 percent from November, respectively. Overall, the RPI's solid gain in December was attributed to solid improvements in each of the eight current situation and forward-looking indicators. The restaurant industry is expected to post its first positive growth in sales for 2011 after three difficult years as optimism in the industry continues to cultivate.¹

Industry M&A synopsis

There were six transactions that closed in the U.S. restaurant industry this January compared to seven transactions last month and four transactions completed in January 2010. In the global restaurant industry, there were 26 transactions that closed in January 2011 compared to 24 last month and 35 in January 2010, representing an increase of eight percent and a decrease of 26 percent, respectively.²



Notable transactions

Merger and acquisition activity in the restaurant industry remained active in January. The following are among the most notable transactions announced:

- On January 3, 2011 – Private equity firm, **Marcus Investments LLC**, acquired the restaurants of **AJ Bombers, Swig, and Water Buffalo** for an undisclosed amount. Wisconsin-based AJ Bombers, Swig, and Water Buffalo operate as restaurants providing hamburgers, contemporary American cuisine, and American food dining services. The restaurants are all located in Milwaukee, Wisconsin. The transaction will allow Marcus Investments LLC to capitalize on the high-quality service locations and enhance its financial performance.²
- On January 11, 2011 – Food service provider, **Lessing's Inc.**, acquired the **Food Service Division of Next Generation Vending and Food Service Inc.** from Next Generation Vending and Food Service Inc. for an undisclosed amount. The Massachusetts-based Food Service Division of Next Generation Vending and Food Service provides food and catering services for nearly 80 college and business accounts in the greater New England area. New York-based Lessing's owns and operates some of the New York area's finest dining establishments, and is one of the most recognizable names in catering on Long Island. The acquisition will allow Lessing's to expand its commitment to sustainability and its focus on nutrition by developing customers beyond Long Island.³

¹ Restaurant Performance Index. National Restaurant Association. January 31, 2011

² Capital IQ, February 15, 2011.

³ Lessing's Inc. press release. January 11, 2011.

KPMG Corporate Finance LLC – Valuation Update for the Restaurant Industry

| Market Snapshot | | | | | | | | | | | |
|---|-------------------------|-------------|-------------|--------------|---------------------|---------------------|--------------------|-------------------------|---------------------------------------|------------------------|--|
| Company | Market Cap ¹ | Share Price | 52-Week Low | 52-Week High | Price % Change 1 Mo | Price % Change 3 Mo | Price % Change 1Yr | EV ² / Sales | EV ² / EBITDA ³ | EV ² / EBIT | |
| Fine Dining | | | | | | | | | | | |
| Benihana Inc. | 126.7 | 8.16 | 4.29 | 8.51 | -0.2% | -2.7% | 85.0% | 0.5x | 5.3x | 21.5x | |
| Kona Grill Inc. | 46.0 | 5.02 | 2.95 | 5.62 | 22.4% | 50.3% | 36.4% | 0.5x | 13.5x | NM | |
| McCormick & Schmick's Seafood Restaurants, Inc. | 133.8 | 9.00 | 6.14 | 11.98 | -1.0% | 0.8% | 8.8% | 0.4x | 6.5x | 23.2x | |
| Morton's Restaurant Group Inc. | 107.1 | 6.41 | 3.52 | 8.09 | -1.1% | 14.5% | 67.4% | 0.6x | 8.8x | 18.9x | |
| Ruth's Hospitality Group Inc. | 163.8 | 4.66 | 2.57 | 6.60 | 0.6% | 2.2% | 67.0% | 0.7x | 6.5x | 11.1x | |
| Fine Dining Mean | | | | | 4.2% | 13.0% | 52.9% | 0.6x | 8.1x | 18.7x | |
| Casual Dining | | | | | | | | | | | |
| BJ's Restaurants, Inc. | 961.7 | 35.33 | 19.99 | 39.32 | -0.3% | 6.6% | 67.1% | 1.9x | 17.1x | 34.5x | |
| Bob Evans Farms Inc. | 952.0 | 31.48 | 23.10 | 34.86 | -4.5% | 9.7% | 12.8% | 0.7x | 5.6x | 9.9x | |
| Brinker International Inc. | 2,172.2 | 23.53 | 13.96 | 24.41 | 12.7% | 26.9% | 44.2% | 0.9x | 7.7x | 12.6x | |
| Buffalo Wild Wings Inc. | 796.2 | 43.77 | 34.33 | 52.99 | -0.2% | -6.9% | -6.5% | 1.2x | 7.8x | 13.0x | |
| California Pizza Kitchen Inc. | 393.5 | 16.01 | 12.95 | 24.00 | -7.3% | -3.0% | 16.0% | 0.6x | 6.2x | 17.1x | |
| CEC Entertainment Inc. | 758.9 | 36.95 | 30.44 | 41.79 | -4.8% | 11.3% | 11.3% | 1.4x | 5.8x | 9.9x | |
| Cracker Barrel Old Country Store, Inc. | 1,201.6 | 51.48 | 36.18 | 57.79 | -6.0% | -4.5% | 39.3% | 0.8x | 7.7x | 10.4x | |
| Darden Restaurants, Inc. | 6,505.5 | 47.11 | 37.00 | 50.84 | 1.4% | 3.1% | 275% | 1.1x | 8.2x | 11.8x | |
| Denny's Corporation | 376.9 | 3.78 | 2.29 | 3.99 | 5.6% | 17.0% | 56.2% | 1.1x | 7.0x | 10.6x | |
| DineEquity, Inc. | 929.6 | 51.58 | 22.83 | 57.80 | 4.5% | 16.2% | 126.8% | 2.2x | 8.8x | 10.8x | |
| Domino's Pizza, Inc. | 984.7 | 16.40 | 10.38 | 17.28 | 2.8% | 10.5% | 45.1% | 1.6x | 9.6x | 10.8x | |
| Famous Dave's of America Inc. | 84.7 | 10.06 | 6.21 | 11.44 | -9.7% | 6.0% | 61.0% | 0.7x | 6.8x | 10.3x | |
| J. Alexander's Corp. | 30.5 | 5.11 | 3.30 | 5.56 | -2.7% | 16.1% | 52.5% | 0.3x | 6.2x | 35.4x | |
| O'Charley's Inc. | 150.7 | 6.92 | 4.38 | 10.00 | -3.9% | -7.7% | -6.5% | 0.3x | 5.3x | NM | |
| Panera Bread Co. | 2,899.8 | 95.56 | 70.17 | 106.87 | -5.6% | 6.8% | 33.8% | 1.8x | 11.0x | 15.3x | |
| P.F. Chang's China Bistro, Inc. | 1,057.3 | 46.04 | 37.36 | 53.39 | -5.0% | 0.3% | 19.3% | 0.8x | 7.2x | 15.5x | |
| Red Robin Gourmet Burgers Inc. | 321.9 | 20.64 | 16.85 | 29.10 | -3.9% | 1.7% | 12.0% | 0.6x | 6.6x | 31.9x | |
| Ruby Tuesday, Inc. | 875.6 | 13.48 | 6.77 | 15.57 | 3.2% | 11.4% | 95.1% | 1.0x | 7.8x | 13.6x | |
| Texas Roadhouse Inc. | 1,192.8 | 16.62 | 11.52 | 18.52 | -3.2% | 8.0% | 42.9% | 1.2x | 8.9x | 12.7x | |
| The Cheesecake Factory Incorporated | 1,748.7 | 29.51 | 20.86 | 34.00 | -3.8% | 1.3% | 39.6% | 1.1x | 8.9x | 14.1x | |
| Casual Dining Mean | | | | | -1.5% | 6.5% | 39.5% | 1.1x | 8.0x | 15.8x | |
| Quick Service Restaurants | | | | | | | | | | | |
| AFC Enterprises Inc. | 381.5 | 14.90 | 7.75 | 16.11 | 7.2% | 17.2% | 81.7% | 3.0x | 9.5x | 10.4x | |
| Biglari Holdings Inc. | 616.6 | 430.00 | 254.01 | 450.00 | 4.8% | 29.0% | 33.9% | 1.1x | 9.0x | 14.0x | |
| Chipotle Mexican Grill, Inc. | 6,774.6 | 218.92 | 93.81 | 262.78 | 2.9% | 4.1% | 127.0% | 3.7x | 19.2x | 24.0x | |
| Caribou Coffee Company, Inc. | 180.8 | 9.02 | 6.58 | 11.84 | -10.5% | -15.0% | 24.8% | 0.6x | 7.3x | 19.2x | |
| Jack in the Box Inc. | 1,132.9 | 21.94 | 18.42 | 26.37 | 3.8% | -5.3% | 12.5% | 0.6x | 7.7x | 16.4x | |
| Krispy Kreme Doughnuts, Inc. | 442.2 | 6.55 | 2.76 | 8.14 | -6.2% | 17.0% | 132.3% | 1.3x | 15.7x | 21.3x | |
| McDonald's Corp. | 77,832.9 | 73.67 | 62.54 | 80.94 | -4.0% | -5.3% | 18.0% | 3.6x | 9.9x | 11.6x | |
| Papa John's International Inc. | 739.7 | 28.70 | 21.51 | 30.13 | 3.6% | 11.1% | 21.6% | 0.7x | 6.2x | 8.2x | |
| Sonic Corp. | 591.2 | 9.59 | 7.28 | 13.11 | -5.2% | 7.9% | 13.8% | 2.0x | 8.9x | 13.5x | |
| Starbucks Corporation | 23,511.4 | 31.53 | 21.26 | 33.78 | -1.9% | 10.4% | 44.7% | 2.1x | 10.6x | 14.1x | |
| Yum! Brands, Inc. | 21,911.0 | 46.76 | 32.49 | 52.47 | -4.7% | -5.6% | 36.7% | 2.2x | 10.0x | 13.2x | |
| Wendy's/Arby's Group, Inc. | 2,018.9 | 4.83 | 3.83 | 5.55 | 4.5% | 5.0% | 4.8% | 0.9x | 7.7x | 14.1x | |
| Quick Service Restaurants Mean | | | | | -0.5% | 5.9% | 46.0% | 1.8x | 10.2x | 15.0x | |
| Total Restaurant Mean | | | | | -0.4% | 7.2% | 43.4% | 1.2x | 8.7x | 15.9x | |

Source: Capital IQ and company filings as of January 31, 2011

KPMG Corporate Finance LLC regularly monitors performance of a select group of publicly traded companies within the restaurant industry.

¹ Market Capitalization amounts are in US\$ millions, based on closing Share Prices as of January 31, 2011.

² Enterprise Value (EV) equals Market Capitalization plus Debt, and Minority Interest, minus Cash and Cash Equivalents.

³ EBITDA equals Earnings Before Interest, Taxes, Depreciation, and Amortization.

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