

Restaurant industry update

Restaurant industry recovery hits speed bump as concerns about economy resurface

The Restaurant Performance Index (RPI) stood below 100 in May for the first time in six months, suggesting contraction in key industry indicators. The index declined from 100.9 in April to 99.9 in May as both of its constituent indices, the Current Situation Index (CSI) and Expectations Index (EI), registered decreases during the month. The CSI was primarily affected by poor same-store sales and traffic levels and came in at 99.2, falling below 100 for the first time in three months. Although the EI remained above 100, at 100.6, it registered its fourth decline in five months reflecting the deterioration in optimism about sales and the overall economy among restaurant operators.

The RPI is a monthly index that tracks the health and outlook for the U.S. restaurant industry on a one-month lag. It comprises the CSI: a measure of current industry sales, customer traffic, labor, and capital expenditure trends; and the 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 measurements below 100 representing contraction within the restaurant industry.

Despite some recent discouraging news in the restaurant industry, similar to the economy as a whole, industry experts believe that overall fundamentals of the business remain encouraging and will likely lead to stronger performance in the months ahead.¹

Industry M&A synopsis

There were 14 transactions that closed in the U.S. restaurant industry this June compared to 9 transactions last month and 6 transactions completed in June 2010. In the global restaurant industry, there were 45 transactions that closed in June 2011 compared to 26 last month and 24 in June 2010.²

¹ Restaurant Performance Index, National Restaurant Association, June 30, 2011.

² Capital IQ, July 8, 2011.

³ Roark Capital purchases Corner Bakery, Il Fornaio, "www.nrn.com, June 12, 2011.

⁴ Arby's sold to Roark Capital for \$430M, "www.nrn.com, June 13, 2011.

⁵ Salsarita's Fresh Cantina purchased, "www.nrn.com, June 20, 2011.



Notable transactions

The following are among the most notable transactions announced during the month of June 2011:

- On June 12, 2011 – Private equity firm **Roark Capital Group** announced the acquisition of **Il Fornaio America Corp.**, the owners of Il Fornaio, Canelletto Ristorante Veneto, and Corner Bakery Café, from its financial owners, Bruckmann Rosser Sherrill & Co. The financial terms of the transaction were not disclosed. The 22 Il Fornaio and Canelletto restaurants average US\$5 million in annual sales while the 119 company-owned and franchised Corner Bakery units average a total of US\$2.2 million annually. Roark, which has made more than 10 investments in the restaurant space, intends to leverage its background and resources into accelerating the growth in franchising these brands.³
- On June 13, 2011 – Private equity firm **Roark Capital Group** acquired an 81.5 percent equity stake in **Arby's Restaurant** from the Wendy's/Arby's Group in a transaction estimated at US\$430 million. The Wendy's/Arby's Group began looking for strategic options surrounding Arby's in January 2011 as part of a turnaround effort after both chains had been experiencing struggling sales since their merger in 2008. Roark plans to inject US\$50 million immediately into Arby's and another US\$50 million over time to provide the struggling chain with liquidity and growth capital.⁴
- On June 22, 2011 – Former chief executive of **McAlister's Deli** and veteran restaurant operator Phil Friedman acquired **Salsarita's Fresh Cantina**, an 11-year-old fast-casual Mexican chain based in Charlotte. The terms of the transaction were not disclosed. Salsarita's has 80 franchises and two company-owned locations in the Southeast region of the United States having average annual sales of US\$0.8 million per location. With plans already in place for seven new locations this year, Friedman is seeking multiunit franchisees to help continue development and growth as he hopes to replicate his past success at McAlister's, which grew from 27 to 300 locations in the 11 years while he was at the helm.⁵

KPMG Corporate Finance LLC – Restaurant Industry Update

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.	172.7	10.49	4.82	10.81	3.8%	24.1%	77.2%	0.6x	8.2x	NM
Kona Grill Inc.	51.5	5.59	3.00	5.80	14.5%	6.5%	52.3%	0.5x	10.2x	NM
McCormick & Schmick's Seafood Restaurants, Inc.	127.7	8.59	6.14	10.47	(6.1)%	18.2%	15.1%	0.4x	5.7x	17.6x
Morton's Restaurant Group Inc.	122.6	7.25	4.13	7.75	(2.4)%	0.6%	40.0%	0.6x	8.7x	16.8x
Ruth's Hospitality Group Inc.	197.4	5.61	3.15	5.87	4.9%	8.7%	34.2%	0.7x	6.4x	10.3x
Fine Dining Mean					2.9%	11.6%	43.8%	0.6x	7.8x	14.9x
Casual Dining										
BJ's Restaurants, Inc.	1,442.7	52.36	21.11	52.72	2.2%	33.1%	121.9%	2.6x	NM	NM
Bob Evans Farms Inc.	1,061.3	34.97	23.10	35.18	11.5%	7.3%	42.0%	0.7x	6.0x	10.7x
Brinker International Inc.	2,074.0	24.46	13.96	26.11	(5.1)%	(3.3)%	69.2%	0.9x	7.2x	11.6x
Buffalo Wild Wings Inc.	1,214.9	66.31	35.01	67.30	5.9%	21.8%	81.3%	1.7x	10.7x	17.4x
CEC Entertainment Inc.	796.0	40.11	30.44	42.04	(1.4)%	6.3%	13.8%	1.4x	5.9x	10.2x
Cracker Barrel Old Country Store, Inc.	1,132.9	49.31	42.79	57.79	4.1%	0.3%	5.9%	0.7x	7.2x	9.8x
Darden Restaurants, Inc.	6,788.8	49.76	37.08	52.12	(1.8)%	1.3%	28.1%	1.1x	7.9x	11.2x
Denny's Corporation	383.8	3.88	2.29	4.30	(5.1)%	(4.4)%	49.2%	1.1x	7.7x	12.2x
DineEquity, Inc.	968.3	52.27	24.92	60.11	(2.8)%	(4.9)%	87.2%	2.2x	8.4x	10.2x
Domino's Pizza, Inc.	1,558.2	25.24	10.66	25.86	1.3%	37.0%	123.4%	1.8x	11.0x	12.4x
Famous Dave's of America Inc.	80.5	10.01	7.50	12.20	0.5%	2.7%	19.9%	0.7x	6.7x	10.4x
J. Alexander's Corp.	39.3	6.56	3.73	7.00	7.7%	6.7%	34.4%	0.3x	5.9x	20.4x
O'Charley's Inc.	158.7	7.31	4.38	8.26	0.8%	22.4%	37.9%	0.3x	5.9x	NM
Panera Bread Co.	3,821.7	125.66	72.64	129.99	0.5%	(1.1)%	66.9%	2.2x	13.4x	18.2x
P.F. Chang's China Bistro, Inc.	919.2	40.24	37.36	53.39	(0.4)%	(12.9)%	1.5%	0.7x	5.9x	12.8x
Red Robin Gourmet Burgers Inc.	554.5	36.38	16.93	38.58	(0.9)%	35.3%	112.0%	0.8x	8.7x	31.2x
Ruby Tuesday, Inc.	701.8	10.78	7.63	15.57	1.7%	(17.8)%	26.8%	0.9x	7.5x	13.7x
Texas Roadhouse Inc.	1,248.4	17.54	11.94	18.52	1.8%	3.2%	38.9%	1.2x	9.1x	13.2x
The Cheesecake Factory Incorporated	1,828.3	31.37	21.56	34.00	(1.3)%	4.3%	40.9%	1.1x	9.0x	13.9x
Casual Dining Mean					1.0%	7.2%	52.7%	1.2x	8.0x	14.1x
Quick Service Restaurants										
AFC Enterprises Inc.	407.3	16.45	8.56	16.83	(0.8)%	8.7%	80.8%	3.1x	10.1x	11.1x
Biglari Holdings Inc.	560.4	391.05	258.92	464.77	(1.9)%	(7.7)%	36.3%	1.0x	8.3x	12.9x
Chipotle Mexican Grill, Inc.	9,590.6	308.19	127.30	308.93	6.6%	13.2%	125.3%	4.8x	NM	NM
Caribou Coffee Company, Inc.	272.3	13.24	8.50	14.20	24.6%	30.2%	39.8%	0.9x	9.5x	20.7x
Jack in the Box Inc.	1,132.1	22.78	18.42	24.51	2.6%	0.4%	17.1%	0.7x	9.0x	21.5x
Krispy Kreme Doughnuts, Inc.	642.2	9.51	3.28	10.08	13.2%	35.1%	182.2%	1.7x	NM	NM
McDonald's Corp.	87,488.5	84.32	65.31	84.91	3.4%	10.8%	28.0%	4.0x	10.9x	12.8x
Papa John's International Inc.	856.4	33.26	22.51	34.75	0.4%	5.0%	43.9%	0.8x	7.5x	10.3x
Sonic Corp.	656.9	10.63	7.28	11.86	(7.5)%	17.5%	37.2%	2.2x	9.4x	13.8x
Starbucks Corporation	29,601.7	39.49	22.50	39.79	7.3%	6.9%	62.5%	2.5x	13.1x	17.5x
Yum! Brands, Inc.	25,717.9	55.24	38.25	56.98	(0.1)%	7.5%	41.5%	2.4x	11.1x	14.5x
Wendy's/Arby's Group, Inc.	2,124.4	5.07	3.83	5.22	0.8%	0.8%	26.8%	0.9x	8.5x	15.5x
Quick Service Restaurants Mean					4.1%	10.7%	60.1%	2.1x	9.7x	15.1x
Total Restaurant Mean					2.3%	9.0%	53.9%	1.4x	8.5x	14.5x

Source: Capital IQ and company filings as of June 30, 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 June 30, 2011.

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

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

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