

Restaurant industry update

Restaurant performance index stood above 100 for the fifth time in the last six months

Despite January's weather-dampened levels, the February Restaurant Performance Index (RPI) improved to 100.7, an increase of 0.4 percent from January. The RPI was driven by a recovery in same-store sales and customer traffic in February. More importantly, the February reading represents the fifth time in the last six months that the RPI stood above 100, which signifies expansion of key industry indicators. There is also a growing optimism among restaurant operators in the outlook for the industry.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 expenditure 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 measurements below 100 representing contraction within the restaurant industry.²

The February CSI increased by 0.9 percent to 99.4 compared to January. The main drivers of the increase were an increase in same-store sales and customer traffic of 1.7 percent and 1.1 percent, respectively, compared to January. Restaurant operators reported steady capital expenditures for equipment, expansion, or remodeling over the past three months. The February EI increased by 0.1 percent to 101.9 compared to January. The main determinants of the February EI were a decrease in business conditions and an increase in capital expenditures of 1.3 percent and 0.7 percent from January, respectively. Also during February, the restaurant industry's outlook for capital spending hit a 40-month high, and expectations for staffing growth reached their highest level in nearly four years. Restaurant operators remain solidly optimistic that sales levels will improve in the months ahead.³

Industry M&A synopsis

There were 10 transactions that closed in the U.S. restaurant industry this March compared to 10 transactions in February and 7 transactions completed in March 2010. In the global restaurant industry, there were 23 transactions that closed in March 2011 compared to 35 in February and 35 in March 2010.⁴



Notable transactions

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

- On March 16, 2011 – Private equity firms **Arlon Capital Partners, Brentwood Associates, and Northwestern Mutual Capital**, acquired **K-MAC Enterprises, Inc.** for an undisclosed amount from Olympus Partners. Arkansas-based K-MAC Enterprises is a leading quick-service restaurant franchise founded in 1964. It is one of the largest Taco Bell franchises in the country and also operates KFC restaurants and Golden Corral restaurants. The company has restaurants located in Arkansas, Indiana, Missouri, Oklahoma, Tennessee, and Texas. The transaction will allow K-MAC Enterprises to leverage the investor consortium's expertise in growing consumer businesses.⁵
- On March 22, 2011 – Restaurant operator **Local Kitchen Catering** acquired **Cater To You, LLC** for an undisclosed amount. Tennessee-based Cater To You specializes in food catering services in Nashville utilizing local family-owned farms. The acquisition will allow Local Kitchen Catering to join forces with Cater To You to become representatives of accessible food grown sustainably through the preservation of the environment.⁶

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

² Ibid.

³ Ibid.

⁴ Capital IQ, April 17, 2011.

⁵ Arlon Capital Partners press release, March 16, 2011.

⁶ Capital IQ, April 17, 2011.

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. | 130.6 | 8.45 | 4.82 | 9.50 | -8.2% | 3.3% | 30.0% | 0.5x | 4.8x | 13.6x |
| Kona Grill Inc. | 48.3 | 5.25 | 3.00 | 5.80 | 0.4% | 28.0% | 35.9% | 0.5x | 11.1x | NM |
| McCormick & Schmick's Seafood Restaurants, Inc. | 107.9 | 7.27 | 6.14 | 11.98 | -29.2% | -20.0% | -27.8% | 0.3x | 4.7x | 14.4x |
| Morton's Restaurant Group Inc. | 122.1 | 7.21 | 4.13 | 8.09 | 7.8% | 11.3% | 18.4% | 0.6x | 9.3x | 19.0x |
| Ruth's Hospitality Group Inc. | 181.5 | 5.16 | 3.15 | 6.60 | 3.0% | 11.4% | -2.6% | 0.7x | 6.2x | 10.1x |
| Fine Dining Mean | | | | | -5.2% | 6.8% | 10.8% | 0.5x | 7.2x | 14.3x |
| Casual Dining | | | | | | | | | | |
| BJ's Restaurants, Inc. | 1,078.9 | 39.33 | 21.11 | 39.55 | 9.4% | 11.0% | 68.8% | 2.0x | 17.0x | 32.8x |
| Bob Evans Farms Inc. | 987.9 | 32.60 | 23.10 | 34.86 | 4.0% | -1.1% | 5.5% | 0.7x | 5.6x | 9.8x |
| Brinker International Inc. | 2,258.6 | 25.30 | 13.96 | 25.72 | 7.0% | 21.2% | 31.2% | 1.0x | 7.9x | 12.8x |
| Buffalo Wild Wings Inc. | 991.9 | 54.43 | 34.33 | 57.36 | 2.7% | 24.1% | 13.1% | 1.5x | 9.4x | 15.8x |
| California Pizza Kitchen Inc. | 414.9 | 16.88 | 12.95 | 24.00 | 0.2% | -2.3% | 0.5% | 0.6x | 6.8x | 19.2x |
| CEC Entertainment Inc. | 765.9 | 37.73 | 30.44 | 41.79 | -2.5% | -2.8% | -0.9% | 1.4x | 6.0x | 10.4x |
| Cracker Barrel Old Country Store, Inc. | 1,138.8 | 49.14 | 43.65 | 57.79 | -1.4% | -10.3% | 6.0% | 0.7x | 7.2x | 9.7x |
| Darden Restaurants, Inc. | 6,784.5 | 49.13 | 37.08 | 50.84 | 4.2% | 5.8% | 10.3% | 1.1x | 8.1x | 11.5x |
| Denny's Corporation | 402.6 | 4.06 | 2.29 | 4.30 | 4.4% | 13.4% | 5.5% | 1.2x | 7.9x | 12.5x |
| DineEquity, Inc. | 1,003.7 | 54.98 | 24.92 | 60.11 | -3.9% | 11.3% | 39.1% | 2.2x | 8.8x | 10.7x |
| Domino's Pizza, Inc. | 1,105.3 | 18.43 | 10.66 | 18.49 | 9.2% | 15.5% | 35.1% | 1.6x | 9.7x | 11.0x |
| Famous Dave's of America Inc. | 78.8 | 9.75 | 7.50 | 12.20 | -5.0% | -12.6% | 21.1% | 0.7x | 6.4x | 10.0x |
| J. Alexander's Corp. | 36.7 | 6.15 | 3.73 | 6.82 | 18.3% | 17.1% | 47.1% | 0.3x | 5.7x | 21.0x |
| O'Charley's Inc. | 129.4 | 5.97 | 4.38 | 10.00 | -6.0% | -17.1% | -33.2% | 0.3x | 5.1x | NM |
| Panera Bread Co. | 3,859.4 | 127.00 | 72.50 | 127.41 | 8.8% | 25.5% | 66.0% | 2.4x | 14.3x | 19.6x |
| P.F. Chang's China Bistro, Inc. | 1,055.2 | 46.19 | 37.36 | 53.39 | -0.5% | -4.7% | 4.7% | 0.8x | 6.9x | 15.3x |
| Red Robin Gourmet Burgers Inc. | 420.0 | 26.89 | 16.85 | 29.10 | 12.7% | 25.3% | 10.0% | 0.6x | 7.5x | 30.4x |
| Ruby Tuesday, Inc. | 851.5 | 13.11 | 7.63 | 15.57 | -1.9% | 0.4% | 24.0% | 0.9x | 7.7x | 13.4x |
| Texas Roadhouse Inc. | 1,230.8 | 16.99 | 11.94 | 18.52 | 0.1% | -1.0% | 22.3% | 1.2x | 9.0x | 13.0x |
| The Cheesecake Factory Incorporated | 1,780.5 | 30.09 | 21.56 | 34.00 | 3.6% | -1.9% | 11.2% | 1.1x | 8.7x | 13.7x |
| Casual Dining Mean | | | | | 3.2% | 5.8% | 19.4% | 1.1x | 8.3x | 15.4x |
| Quick Service Restaurants | | | | | | | | | | |
| AFC Enterprises Inc. | 389.0 | 15.13 | 8.56 | 16.11 | 2.3% | 8.8% | 41.0% | 3.0x | 9.7x | 10.6x |
| Biglari Holdings Inc. | 607.4 | 423.55 | 254.01 | 464.77 | -1.0% | 3.3% | 11.1% | 1.1x | 8.9x | 13.8x |
| Chipotle Mexican Grill, Inc. | 8,453.7 | 272.37 | 113.00 | 275.00 | 11.2% | 28.1% | 141.7% | 4.4x | 22.3x | 27.6x |
| Caribou Coffee Company, Inc. | 208.0 | 10.17 | 6.67 | 11.84 | 3.4% | 0.9% | 53.6% | 0.7x | 7.6x | 18.3x |
| Jack in the Box Inc. | 1,151.4 | 22.68 | 18.42 | 26.37 | 3.1% | 7.3% | -3.7% | 0.7x | 8.2x | 17.9x |
| Krispy Kreme Doughnuts, Inc. | 475.4 | 7.04 | 3.25 | 8.14 | 12.3% | 0.9% | 75.1% | 1.4x | 18.0x | 24.7x |
| McDonald's Corp. | 79,384.6 | 76.09 | 65.31 | 80.94 | 0.5% | -0.9% | 14.0% | 3.7x | 10.1x | 11.9x |
| Papa John's International Inc. | 817.1 | 31.67 | 22.51 | 31.94 | 8.5% | 14.3% | 23.2% | 0.8x | 7.3x | 10.0x |
| Sonic Corp. | 557.9 | 9.05 | 7.28 | 13.11 | 1.9% | -10.6% | -18.2% | 2.1x | 9.1x | 13.7x |
| Starbucks Corporation | 27,564.7 | 36.95 | 22.50 | 38.21 | 12.0% | 15.0% | 52.2% | 2.4x | 12.3x | 16.4x |
| Yum! Brands, Inc. | 24,017.4 | 51.38 | 37.54 | 53.19 | 2.1% | 4.8% | 34.0% | 2.3x | 10.6x | 13.9x |
| Wendy's/Arby's Group, Inc. | 2,107.6 | 5.03 | 3.83 | 5.55 | 5.7% | 8.9% | 0.6% | 0.9x | 8.5x | 15.7x |
| Quick Service Restaurants Mean | | | | | 5.2% | 6.7% | 35.4% | 1.9x | 11.1x | 16.2x |
| Total Restaurant Mean | | | | | 2.7% | 6.3% | 23.4% | 1.3x | 9.0x | 15.5x |

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

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

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

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

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

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