

Restaurants DealReader 2H 2018



Market Insights

2018 was a busy year for M&A in the restaurant sector and appetite for investments remains robust headed into 2019. Despite recent macro variability and the sector facing a number of challenges, primarily related to traffic and minimum wage hikes, strategic acquirers, private equity groups and family offices continue to be active. Investors with multi-brand portfolios are typically seeking investments that can either provide incremental growth (particularly if their current portfolio has experienced flat-to-negative comps), expand their competencies (especially related to digital technology) or provide meaningful synergies from day one (although buyers are not as forthcoming in pricing in such synergies to the valuations).

In regards to growth equity, we expect strong activity to continue in 2019, especially for differentiated fast casual concepts. Investors will continue to be interested in concepts that are on-trend (e.g., healthy, better-for-you menu), have demonstrated strong consumer engagement, have a model that is proven across multiple geographies (without any store closures) and that have a well-defined growth story in terms of scaling up.

Selected Upcoming Industry Events

Restaurant Leadership Conference (April 7-10, 2019 - Phoenix, AZ)

UCLA Annual Restaurant Industry Conference (April 25, 2019 - Los Angeles, CA)

National Restaurant Association Show (May 18-21, 2019 - Chicago, IL)

Commentary

The restaurant industry experienced a more encouraging end to 2018, highlighted by seven months of consecutive same-store sales growth from June through December, compared to 2017, which posted positive same-store sales for only two months during the entire year

The 2.0% same-store sales growth in December marked the single highest monthly growth rate since August 2015

Annual same-store sales growth reached 0.7% in 2018, marking the best industry performance since 2015

In part driven by recent industry challenges, the mix of franchise vs. corporate models continues to grow

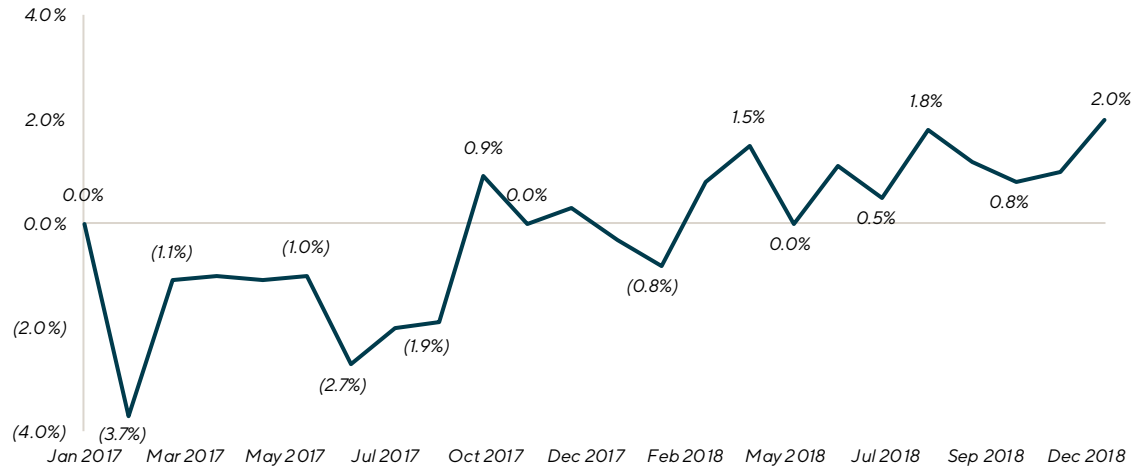
Industry leading companies such as McDonald's have focused their growth strategy on increasing their franchise mix. For example, McDonald's is taking a market-by-market approach to refranchise 3,500 locations over the next three years

Delivery sales are expected to continue to drive sales growth, increasing 11% (CAGR) through 2023, driven by a 20% (CAGR) in digital delivery sales and a generational shift in consumers who increasingly prefer the convenience of eating at home

According to Technomic, 60% of operators surveyed said that offering delivery has generated incremental sales

Restaurant Industry Trends

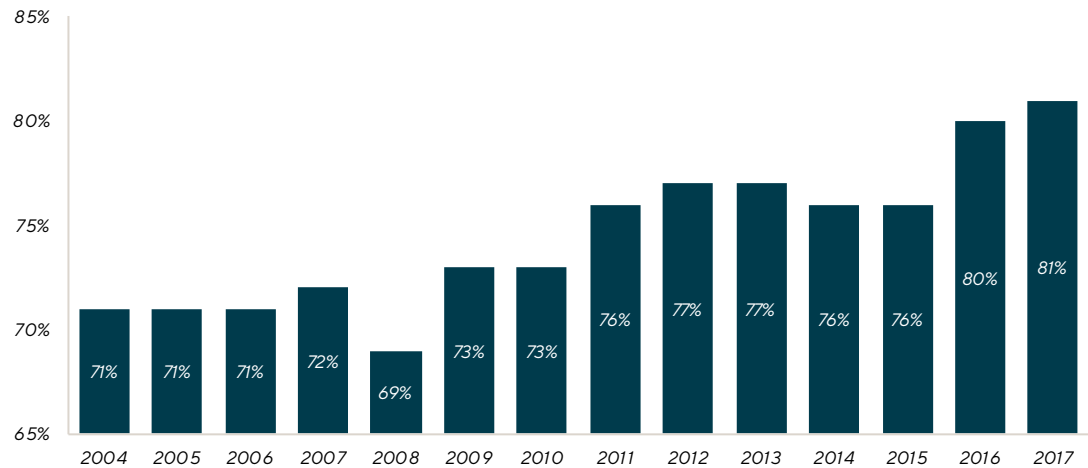
Monthly Same-Store Sales Growth



Source: Nation's Restaurant News, TDn2K's Black Box Intelligence Report

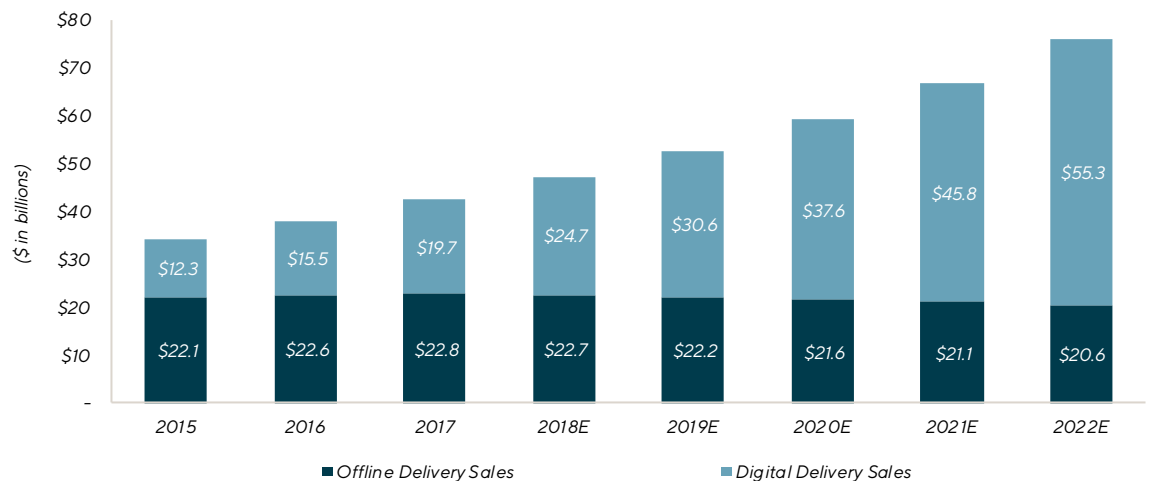
Ongoing Shift to Asset-Light Model

% of Franchised Locations vs. Corporate Locations



Source: Company filings and estimates

Growth of Delivery



Source: The NPD Group and Cowen and Company as cited by Cowen and Company

Restaurant Public Comparable Metrics

	Stock Price 12/31/18	% of Yr High	Enterprise Value	LTM Revenue	LTM EBITDA	YoY Revenue Growth	EBITDA Margin	EV / LTM Revenue	EV / LTM EBITDA	EV / NTM EBITDA
Fine Dining										
Del Frisco's Restaurant Group	\$715	37.9%	\$584	\$422	\$36	13.2%	8.5%	1.38x	16.2x	10.5x
The ONE Group Hospitality	3.07	83.4%	96	81	6	6.3%	7.1%	1.18x	16.7x	7.5x
Ruth's Hospitality Group	22.73	67.0%	743	449	72	9.0%	16.1%	1.65x	10.3x	9.9x
Median	N/M	67.0%	\$584	\$422	\$36	9.0%	8.5%	1.38x	16.2x	9.9x
Fast Casual										
Chipotle Mexican Grill	\$431.79	79.4%	\$13,963	\$4,750	\$548	8.0%	11.5%	2.94x	25.5x	22.9x
El Pollo Loco Holdings	15.17	82.1%	685	425	59	8.2%	13.9%	1.61x	11.6x	10.7x
Fiesta Restaurant Group	15.51	50.2%	463	683	53	3.3%	7.8%	0.68x	8.7x	6.5x
Freshii	1.88	33.4%	41	22	3	17.0%	12.2%	1.87x	15.4x	6.9x
The Habit Restaurants	10.50	57.4%	227	385	30	20.3%	7.9%	0.59x	7.5x	6.5x
Noodles & Company	6.99	51.8%	351	457	31	0.4%	6.8%	0.77x	11.3x	9.8x
Potbelly Corporation	8.05	56.9%	182	432	34	(1.0%)	7.9%	0.42x	5.3x	5.7x
Shake Shack	45.42	64.8%	1,430	431	65	26.5%	15.2%	3.32x	21.9x	18.1x
Wingstop	64.19	84.9%	2,195	120	46	45.4%	38.6%	18.28x	47.4x	40.7x
Median	N/M	57.4%	\$463	\$431	\$46	8.2%	11.5%	1.61x	11.6x	9.8x
Polished Casual										
BJ's Restaurants	\$50.57	66.1%	\$1,140	\$1,098	\$128	8.0%	11.7%	1.04x	8.9x	8.6x
Cheesecake Factory	43.51	72.3%	2,171	2,337	231	4.3%	9.9%	0.93x	9.4x	8.9x
Kona Grill	1.05	35.0%	43	164	7	(12.1%)	4.2%	0.26x	6.3x	3.9x
Median	N/M	66.1%	\$1,140	\$1,098	\$128	4.3%	9.9%	0.93x	8.9x	8.6x
Mass Casual										
Biglari Holdings	\$113.58	42.9%	\$581	\$824	\$16	(1.9%)	2.0%	0.71x	35.2x	0.0x
Bloomin' Brands	17.89	71.6%	2,834	4,180	368	(2.8%)	8.8%	0.68x	7.7x	7.1x
Brinker International	43.98	81.2%	2,894	3,174	390	2.3%	12.3%	0.91x	7.4x	7.8x
Chuy's Holdings	17.74	52.0%	366	397	37	7.9%	9.4%	0.92x	9.8x	9.7x
Cracker Barrel Old Country Store	159.86	86.4%	4,388	3,054	381	0.8%	12.5%	1.44x	11.5x	11.0x
Darden Restaurants	99.86	80.5%	14,182	8,297	1,127	5.4%	13.6%	1.71x	12.6x	11.6x
Dave & Buster's Entertainment	44.56	66.5%	2,287	1,238	275	10.6%	22.2%	1.85x	8.3x	7.8x
Denny's	16.21	85.6%	1,412	606	101	18.9%	16.6%	2.33x	14.0x	13.6x
Dine Brands Global	67.34	70.8%	2,731	617	195	26.3%	31.7%	4.43x	14.0x	10.4x
Famous Dave's of America	4.59	51.0%	33	54	7	(18.2%)	13.2%	0.61x	4.6x	4.5x
Luby's	1.20	39.2%	92	355	(3)	n/a	(0.7%)	0.26x	n/a	n/a
Red Robin Gourmet Burgers	26.72	39.8%	628	1,369	130	(3.0%)	9.5%	0.46x	4.8x	5.0x
Texas Roadhouse	59.70	79.3%	4,351	2,397	294	10.4%	12.3%	1.82x	14.8x	13.5x
Median	N/M	70.8%	\$2,287	\$1,238	\$195	3.9%	12.3%	0.92x	10.6x	8.7x
Quick Service										
Del Taco Restaurants	\$9.99	67.4%	\$564	\$495	\$63	7.2%	12.8%	1.14x	8.9x	7.5x
Domino's Pizza	247.99	81.2%	15,420	3,242	599	23.4%	18.5%	4.76x	25.8x	22.5x
Jack in the Box	77.63	82.6%	3,183	870	261	4.5%	30.0%	3.66x	12.2x	12.1x
McDonald's	177.57	93.0%	167,100	21,025	10,050	(0.5%)	47.8%	7.95x	16.6x	15.5x
Nathan's Famous	66.45	62.1%	376	100	28	n/a	28.4%	3.77x	13.3x	n/a
Papa John's International	39.81	62.0%	1,952	1,667	125	(10.6%)	7.5%	1.17x	15.6x	16.1x
Papa Murphy's Holdings	4.75	82.6%	180	103	23	3.6%	22.0%	1.74x	7.9x	9.2x
Restaurant Brands International	52.30	80.3%	28,749	5,207	2,153	17.3%	41.3%	5.52x	13.4x	12.5x
The Wendy's Company	15.61	83.5%	6,237	1,256	404	29.9%	32.2%	4.96x	15.4x	14.1x
YUM! Brands	91.92	96.3%	38,977	5,707	1,854	(3.0%)	32.5%	6.83x	21.0x	19.4x
Median	N/M	81.9%	\$4,710	\$1,462	\$332	4.5%	29.2%	4.26x	14.4x	14.1x
Franchisees										
Alsea S.A.B. De.	\$2.60	69.6%	\$3,152	\$2,402	\$339	6.9%	14.1%	1.31x	9.3x	8.4x
Arcos Dorados Holdings	7.90	79.0%	2,212	3,225	198	(5.5%)	6.1%	0.69x	11.2x	8.0x
Carrols Restaurant Group	9.84	60.0%	595	1,156	97	8.2%	8.4%	0.52x	6.1x	5.7x
Domino's Pizza Group	2.97	58.8%	1,807	689	140	15.2%	20.3%	2.62x	12.9x	11.7x
Domino's Pizza Enterprises	28.65	69.6%	3,261	845	164	13.3%	19.4%	3.86x	19.9x	15.5x
Median	N/M	69.6%	\$2,212	\$1,156	\$164	8.2%	14.1%	1.31x	11.2x	8.4x

Source: Capital IQ as of 12/31/18

Note: \$ in millions, except stock price

Commentary

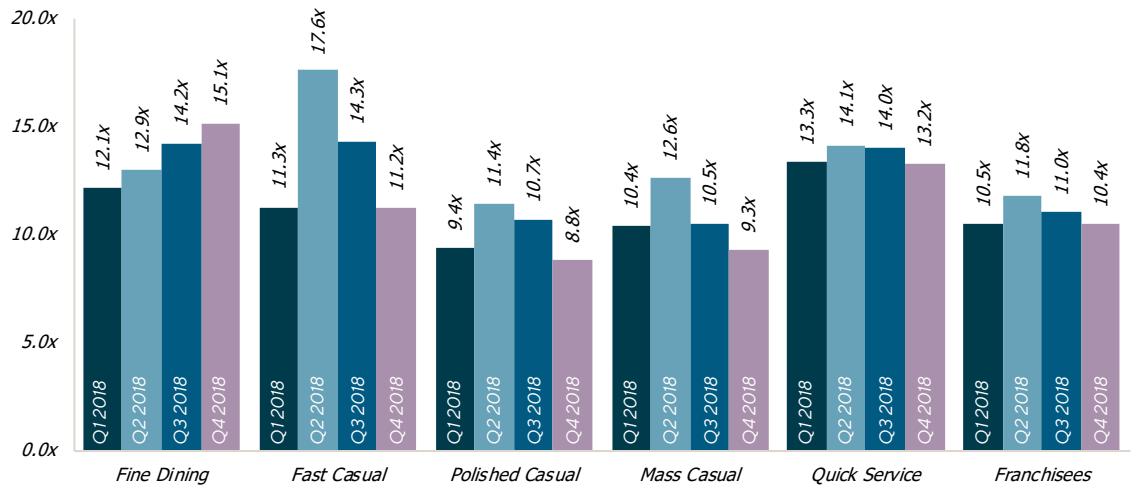
Public restaurant companies saw a drop in EV / EBITDA multiples in Q4 2018 vs. Q3 2018 across all sectors excluding fine dining largely due to the stock market downturn late in the year

Notable M&A transactions during 2H 2018 involving public restaurant companies include Inspire Brands' acquisition of Sonic and The Restaurant Group's acquisition of Wagamama to achieve cost savings and replace some of its existing outlets with better-performing Wagamama units

One other notable transaction in 2H 2018 was Cava Group's acquisition of Zoe's Kitchen to broaden their geographical footprint and create a leader in the Mediterranean fast casual space

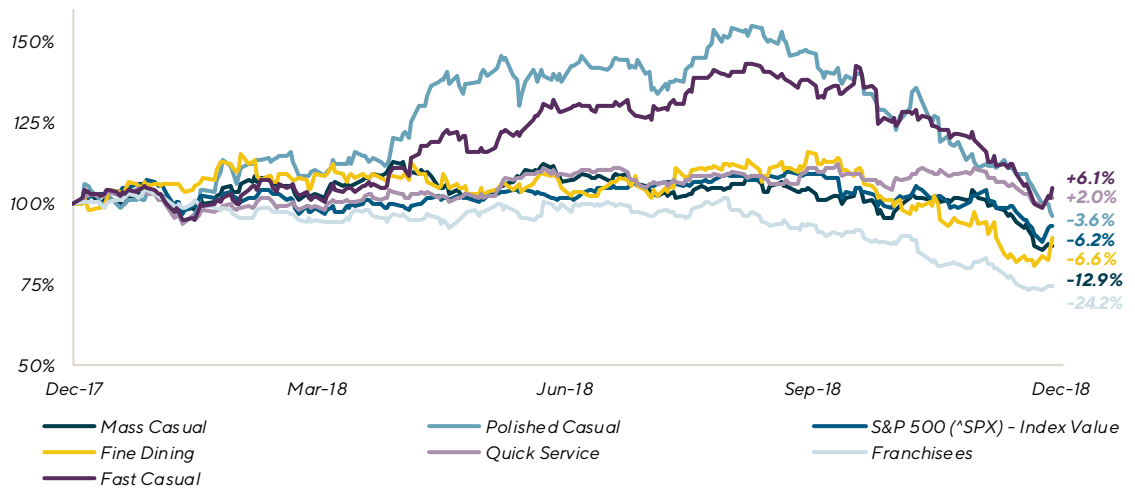
Private equity and family office investors remain very active, both on the sell side and buy side

Historical Median TTM EV to EBITDA



Source: Capital IQ as of 12/31/18

Relative Stock Performance



Source: Capital IQ as of 12/31/18

Selected M&A Activity in 2H 2018

Date	Target Company	Target Description	Acquiring Company	Private Equity Involvement
Dec-18	Mabel Midco Limited (Wagamama)	Owns and operates a chain of Japanese cuisine restaurants in the United Kingdom and New York	The Restaurant Group plc (LSE: RTN)	X
Dec-18	Sonic Corp. (NasdaqGS: SONC)	Operates and franchises a chain of quick-service drive-in restaurants in the U.S.	Inspire Brands (ARG Holding Corp.)	X
Dec-18	U.S. Beef Corp. (368 Arby's Restaurants)	Largest franchisee of Arby's restaurants with total of 368 operated restaurants	Flynn Restaurant Group LP	X
Nov-18	Zoe's Kitchen, Inc. (NYSE: ZOES)	Develops and operates a chain of fast-casual Mediterranean restaurants	Cava Group, Inc.	X
Nov-18	Hojiej Branded Foods, Inc.	Operates a chain of food and beverage restaurants in U.S. based airports	Paradies LaGardere, Inc.	X
Sep-18	Stacked Restaurants, LLC	Owns and operates a chain of American restaurants in the U.S.	Hargett Hunter / TrisSpan	X
Aug-18	Jamba, Inc. (NasdaqGM:JMBA)	Owns, operates, and franchises a chain of Jamba Juice stores	FOCUS Brands Inc.	X
Jul-18	SAS Sushi Shop Group	Operates a chain of Japanese cuisine restaurants in France	AmRest Holdings SE (WSE:EAT)	X
Jul-18	Taco Del Mar Franchising Corp.	Owns and operates a chain of fast casual restaurants in the U.S. and Canada	High Bluff Capital Partners	X

Source: Capital IQ; MergerMarket as of 12/31/18



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