

Industry Data Report

1H:18 Valuation & Finance Update

Report Highlights

- (1) EBITDA multiple estimates (post G&A) for 45 chains based on survey data from 8 leading appraisal firms; (2) a comparison of public restaurant company and private franchisee valuation multiples; (3) a summary of real estate cap rate trends based on data provided by Marcus & Millichap; and (4) an update on borrower financial condition, changes to underwriting standards, restaurant loan origination volume, and interest rate outlook derived from a survey of leading lenders.

Conclusions

- (1) While 1H:18 unit level franchisee valuation multiples increased because of a scarcity of deals and an abundance of capital, the absolute level remains slightly below 2016 levels and the 6-month outlook is pressured by prospects of higher labor, food & borrowing costs; (2) the franchisee lending environment for large operators in national brands remains mostly favorable although operators are facing increasing headwinds as previously outlined to go with slightly tighter underwriting standards; (3) 21% of lenders indicate a decline in borrower financial condition compared to 17% that are improving although survey trends are pointing in the right direction; (4) multiple premiums for large deals rebounded and are now at or close to relative highs; (5) while there was some recent stock investor 2nd guessing in terms of the validity of an asset-light franchisor model in an operating environment marked by rising costs, it seems like Wall Street has satisfied itself that franchisee health is OK for now, consistent with #2 above; (6) aggregate cap rates for single-tenant net-leased restaurant properties increased slightly as rising interest rates are starting to dictate a more conservative underwriting and exit strategy.

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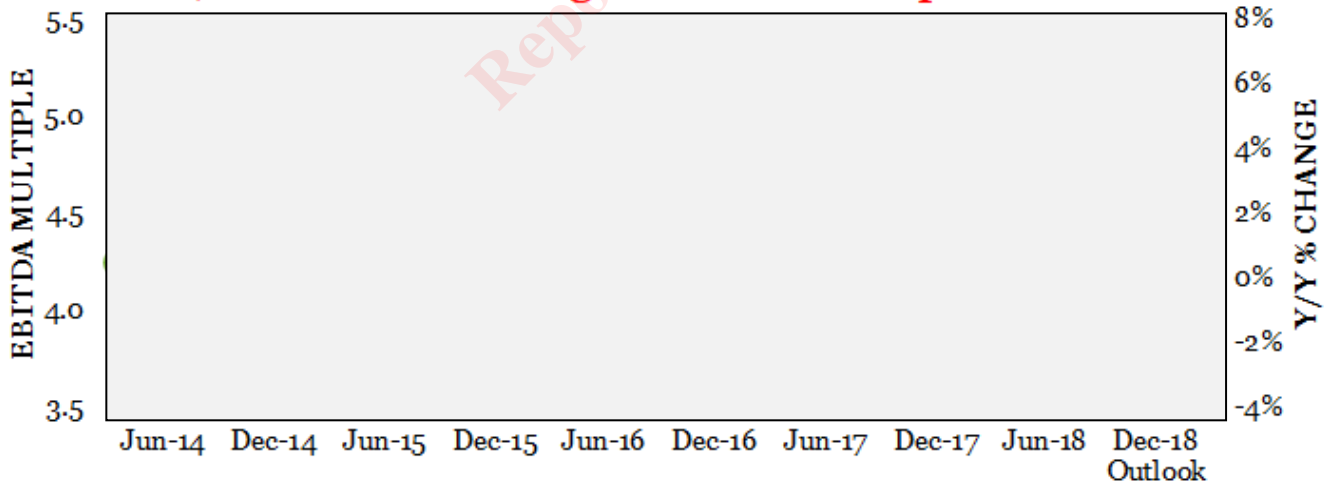
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Estimated Franchise Enterprise Valuations

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Report Outline

\$1B+ Chains Average EBITDA Multiple Estimates



1H:18 Estimated \$1B+ Chains Enterprise Valuations (EBITDA Multiple)

Concept	Jun-14	Dec-14	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17	Dec-17	Jun-18	% Change Jun-18 vs. Dec-17	1H:18 Average & Range			
											Low	High	Median	# Estimates
Applebee's														
Buffalo Wild Wings														
Chili's Grill & Bar														
Red Robin														
Ruby Tuesday														
T.G.I. Friday's														
Texas Roadhouse														
Casual														
Corner Bakery Café														
Moe's Southwest Grill														
Panera Bread														
Qdoba														
Fast Casual														
Denny's														
Golden Corral														
IHOP														
Perkins														
Family														
Arby's														
Burger King														
Carl's Jr.														
Checkers/ Rally's														
Culver's														
Dairy Queen														
Five Guys														
Hardee's														
Jack in the Box														
McDonald's														
Sonic Drive-In														
Taco Bell														
Wendy's														
Zaxby's														
Sandwich														
Firehouse Subs														
Jersey Mike's														
Jimmy John's														
Subway														
Sub-Sandwich														
Dunkin Donuts														
Tim Horton's														
Krispy Kreme														
Coffee/bakery														
Bojangles'														
Church's														
KFC														
Popeyes														
Wingstop														
Chicken														
Domino's														
Little Caesars														
Papa John's														
Pizza Hut														
Pizza														
Average														

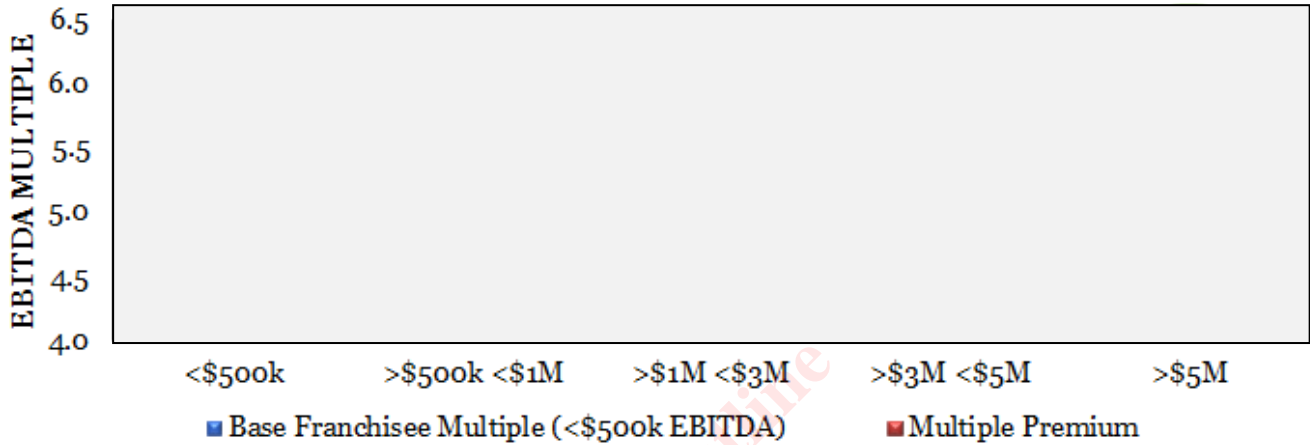
Report Outline

(1) Valuation averages are based on estimates provided by survey participants (not individual transactions) as well as RR estimates and reflect "normal" operating businesses with 5 units after an adjustment for G&A.

(2) June 2018 survey participants include Advanced Restaurant Sales, EPK National Restaurant Appraisal, FranBizNetwork, Hopkins Appraisal Services, National Franchise Sales, National Restaurant Brokers, Praetorian Group and Trinity Capital.



1H:18 Large Deal EBITDA Multiple Premium
Higher Aggregate EBITDA Can Increase Multiple



Large Deal Premium Trends
Deal Size Based on Aggregate EBITDA



Factors Impacting Valuation Trends
(Based on a 1 - Improving to 5 - Weakening Scale)



Source: Restaurant Research LLC June 2018 Valuation Survey

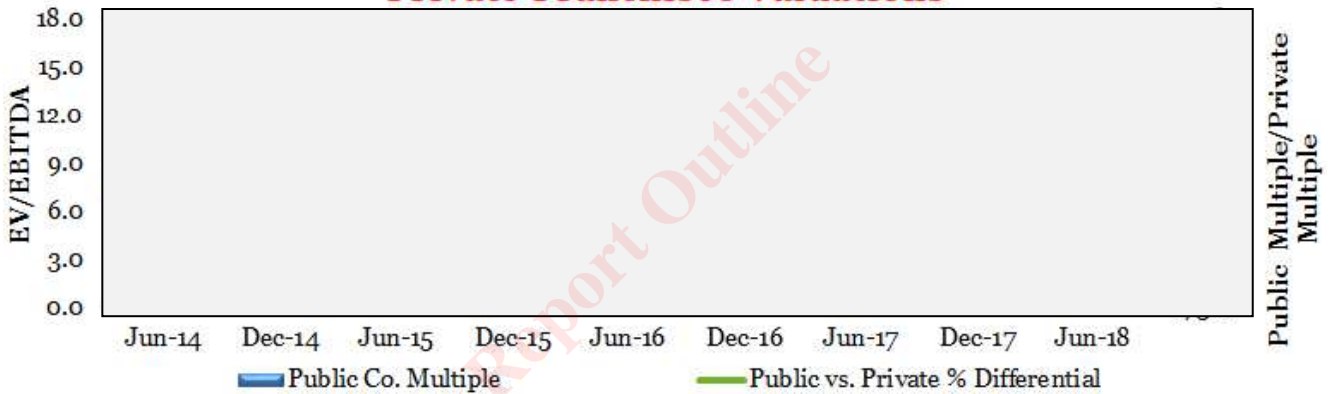
Summary of Valuation Comments	
Availability of Capital	➤
Financing Terms	➤ ➤
Unit Level Economics	➤
Availability of Units for Sale	➤ ➤

Survey Participant Contact Information			
Firm	Contact	Main Number	Email
Advanced Restaurant Sales, LLC			
EPK National Restaurant Appraisal			
FranBizNetwork			
Hopkins Appraisal Services, Inc.			
National Franchise Sales			
National Restaurant Brokers, Inc.			
Praetorian Group			
Trinity Capital LLC			

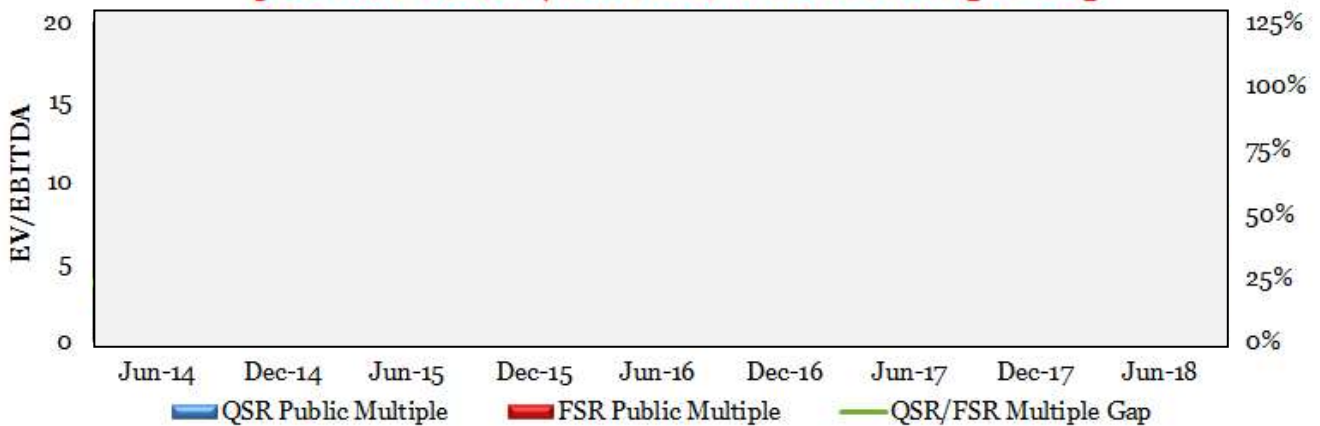
Public Company Valuations (EV/EBITDA)

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- Please note that public restaurant stock market valuation data on pages 6 and 7 were provided by Hedgeye Risk Management.

Public Restaurant Company Valuations vs. Private Franchisee Valuations



QSR vs. FSR (EV/EBITDA) Public Multiple Gap



Public vs. Private Multiples by Chain June 2018
(Sorted by Public Premium)

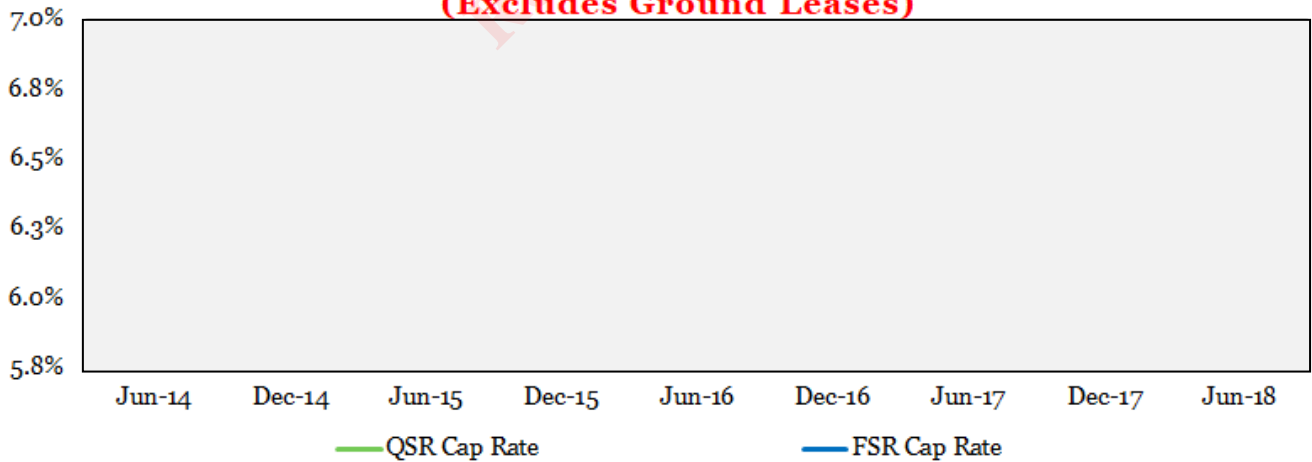
Concept	Parent Company	EV/EBITDA Multiples as of Jun. 2018		
		Public	Private	Public Premium ⁽¹⁾
Wingstop				
Domino's				
Tim Horton's				
Burger King				
Pizza Hut				
Popeyes				
KFC				
Dunkin Donuts				
Wendy's				
Papa John's				
Taco Bell				
Sonic Drive-In				
Jack in the Box				
McDonald's				
Bojangles'				
QSR				
Texas Roadhouse				
Applebee's				
Denny's				
IHOP				
Chili's Grill & Bar				
Red Robin				
FSR				

(1) Public multiple premium = (Public EV/EBITDA)/(Private Franchisee EV/EBITDA)

Marcus & Millichap Net Lease Real Estate Cap Rates



**Marcus & Millichap Net Lease Trends
(Excludes Ground Leases)**



About the Contributing Firm: Marcus & Millichap which specializes in representing institutional and private companies in the disposition of multi-tenant and single tenant retail properties.

For more information, please contact Hank Wolfer of Marcus & Millichap at (206) 826-5730

Valuation Methodology

- There are 2 separate components to valuing a restaurant (1) **Business/Enterprise Value**, and (2) **Real Estate Value**.
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(1) **Business Value** is determined by using an appropriate multiple of adjusted EBITDA.

Some typical *EBITDA adjustments* include:

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(2) **Real Estate Value** (land and building) is determined by:

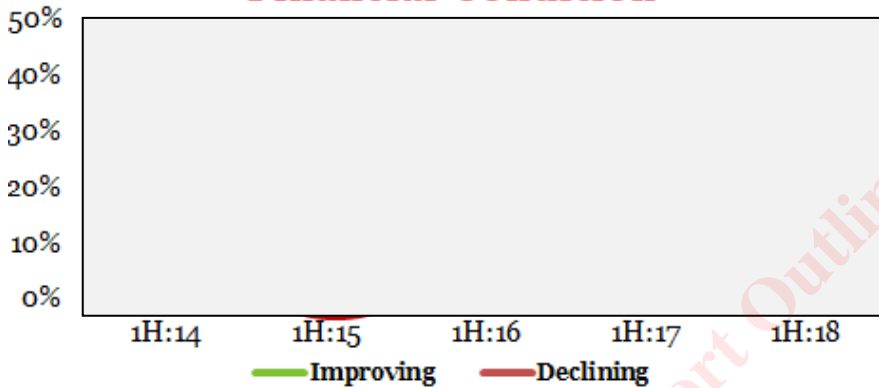
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Example - Fee Restaurant Property			
Business Value		Real Estate Value	
Sales	\$1,000,000	Implied Rent/sales	7.5%
Adjusted EBITDAR	\$ 180,000	Implied Rental Income	\$75,000
Implied Rent	\$ 75,000	Cap Rate	6.25%
Adjusted EBITDA	\$ 105,000	Real Estate Value	\$1,200,000
Multiple	5.00		
Business Value	\$525,000	Total Value	\$1,725,000

Restaurant Finance Update

- Restaurant Research’s mid-year Restaurant Finance Update is based on a recent lender survey which focused on: (1) borrower financial condition trend; (2) changes to underwriting standards; (3) 1H:18 restaurant loan originations vs. forecasted results; (4) 2019 loan origination expectations; and (5) interest rate outlook.
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Change in Restaurant Borrower Financial Condition



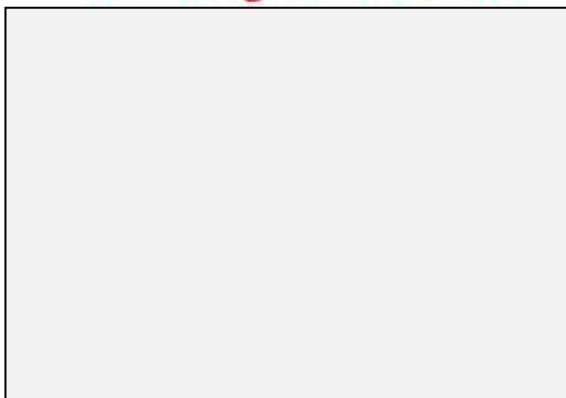
Change in Restaurant Underwriting Standards 1H:18



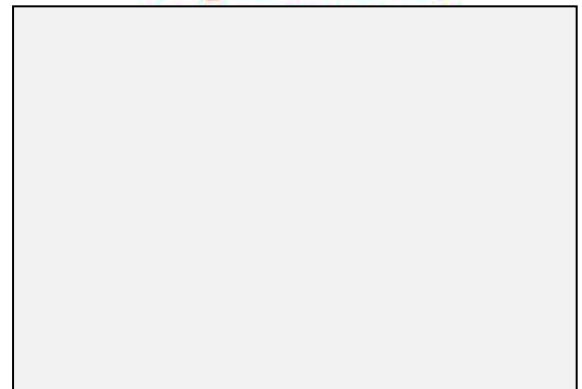
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Actual vs. Projected Loan Originations 1H:18

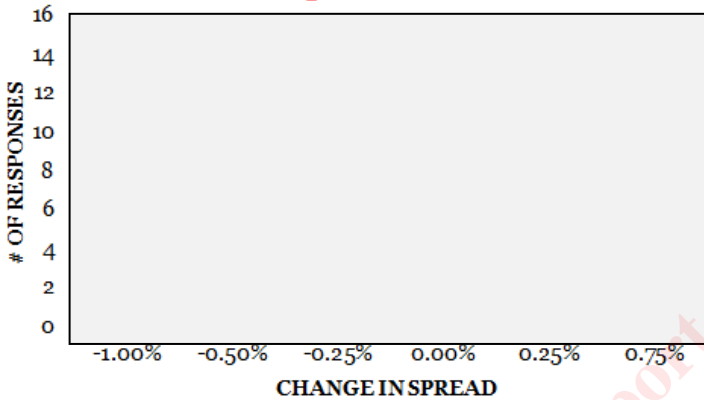


Projected Loan Originations 2019

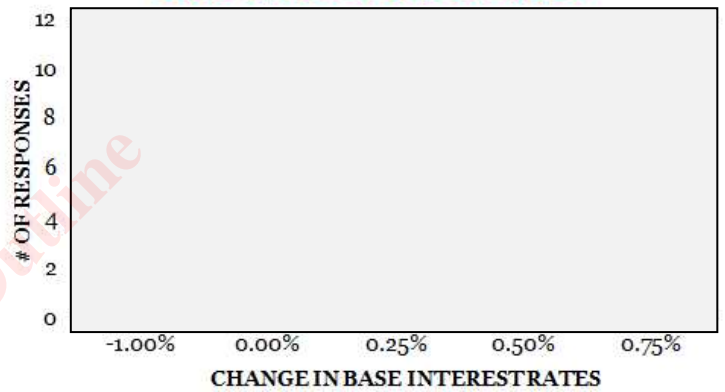




Perceived Change in Interest Rate Spreads 1H:18



Projected Change in Base Interest Rates 2H:18



Survey Participants		
Atlantic Capital Bank	Customers Bank Commercial Finance	Regions Restaurant Banking Group
BMO Harris Bank	First Fidelity Bank	Signature Financial
BOK Financial	First Franchise Capital Corporation	Sterling National Bank
Bridge Funding Group	First Tennessee Bank National Association	TCF Franchise Finance
CIT Franchise Finance	Flagstar Bank	Texas Capital Bank
City National Capital Finance	Gulf Coast Restaurant and Franchise Finance	Vendor Alliance Capital, Inc.
Citizens Bank Restaurant Finance	Huntington National Bank	Wells Fargo Bank
City National Bank	PNC Franchise Finance	Wintrust Franchise Services

All Inclusive Subscription Package

Value-Added Data & Insight for \$1B+ Chains

Concept Benchmarking Reports

Applebee's	Arby's	Burger King	Carl's Jr.
Chili's Grill & Bar	Church's	Denny's	Domino's
Hardee's	IHOP	Jack in the Box	KFC
McDonald's	Panera Bread	Papa John's	Pizza Hut
Popeyes	Sonic Drive-In	Subway	Taco Bell
TGI Friday's	Wendy's	Quarterly Concept Updates*	

Industry Benchmarking (49 Chains)

Store Level	Systemwide	Finance
New Unit Investment Report	Quarterly Same Store Sales Database*	Unit Level Valuations
Remodeling Report	Annual RR Databook*	Report
Unit Economics Report	Unit & Sales Growth Analysis Report	Franchise Finance
Operations Matrix Report	Menu & Promotions Report	Report
Marketing Spend Report	Annual State Unit Databook*	
	Commodities Database*	

* Only available as part of subscription.

FDD/UFOC library for 37 Chains

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