



*Estimated Impact of
“America’s Affordable Health
Choices Act of 2009”
on the
U.S. Restaurant Industry*

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Restaurant Industry Introduction

- **The restaurant industry is a low net income¹ business with a typical restaurant earning \$25,000 to \$100,000 after taxes**
 - **These restaurants cannot afford to pay healthcare costs across the board for all their full and part-time employees**
- **The employer healthcare mandate will lead to massive store closings, raise unemployment and increased consumer costs**
- **The restaurant industry provides millions of entry-level and part-time jobs to the U.S. economy**
- **Restaurants generate billions of sales taxes and other state revenues**
- **Small businesses are under tremendous pressure due to the weak economy and reduced consumer spending**
- **The health and profitability of small business will be critical to any economic recovery**

¹ Net income is calculated after taxes and interest expense, but does not include capital expenditures (capex) or principal payments on debt



Restaurant Industry Overview

The restaurant industry is one of largest in the United States accounting for 9% of the workforce and 4% of gross domestic product.

- **Number of Restaurants** **945,000**
- **Number of Employees** **13 million**
- **Sales Revenue** **\$566 billion**
- **Estimated Annual Sales Tax** **\$45 billion**
- **Estimated Payroll Taxes** **\$50 billion**



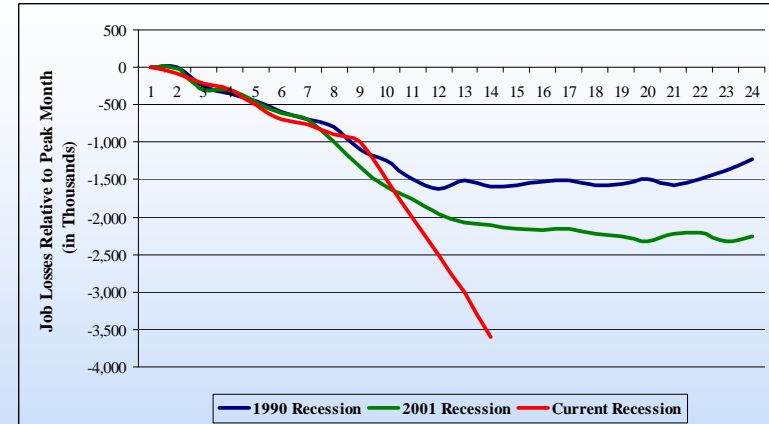
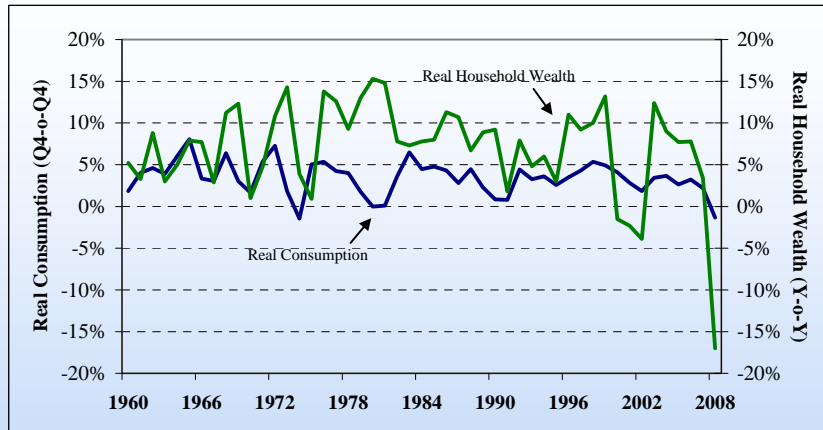
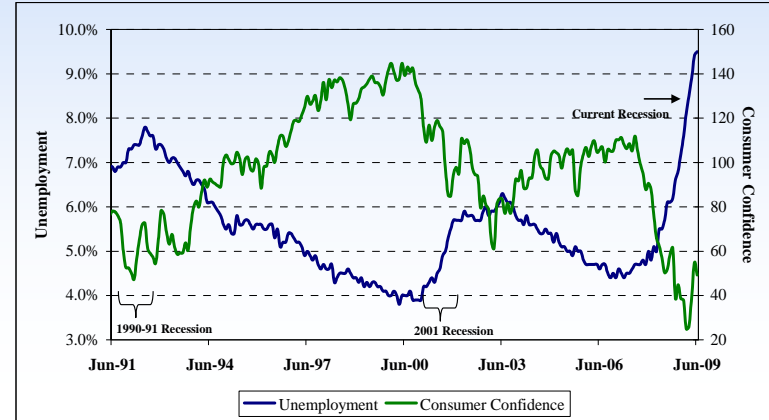
Restaurant Labor Considerations

- **Restaurants in the United States employ anywhere from approximately 5 to 200 full-time or part-time equivalent employees**
- **Over 50% of restaurant employees are between 16 and 24 years of age, are single, are not the head of household, are not the key breadwinners in their abode nor are they interested in healthcare**
 - **Most of these employees do not make employment decisions based on healthcare benefits**
 - **Many of these employees are students who live at home and supplement tuition, other educational expenses and transportation costs with their income**
 - **The average employment tenure of these employees is approximately 150 days**



Economic Overview

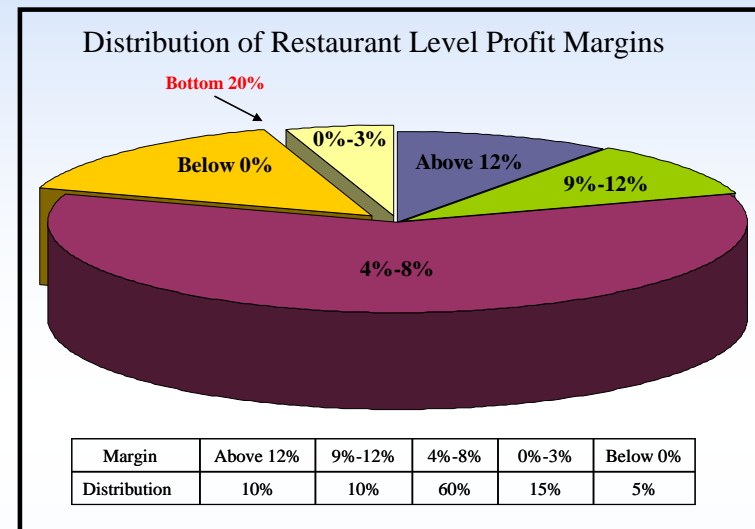
- **Restaurant success depends on consumer confidence**
- **Consumers are struggling with unemployment, failing businesses, home equity evaporation, maxed-out credit cards and limited credit**
- **Accordingly, the industry is in no position to underwrite significant new costs.**





*Economics of the Restaurant Industry*¹

Thin Profit Margins	<0% to >12%
Cost of Goods Sold	30% to 35%
Labor Costs	25% to 35%
Occupancy Costs	6% to 10%
Typical Store Level Profit	\$25K to \$100K



- **The bottom 20% of restaurants break even after taxes, capex and debt service**
- **These restaurants are covering their fixed costs and debt service with little to no additional profit**

¹ Aggregate industry estimates



Cost of Healthcare Bill - QSR

Healthcare Penalties on an average QSR Restaurant

Healthcare Penalty Under House Plan:

<u>% of Labor Penalty</u>		<u>Average Store Labor Cost</u>		<u>Additional Cost Per Store</u>
8.0%	x	\$285,000	=	\$22,800

Healthcare Penalty Under Senate Plan:

Full-Time Employees (\$750 x 10 Employees) \$7,500

Part-Time Employees (\$375 x 25 Employees) \$9,375

Additional Cost Per Store	\$16,875
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Note: Current insurance premiums per employee are more expensive than the proposed penalties and therefore excluded from this analysis



Cost of Healthcare Bill - QSR (cont.)

	Before Healthcare Bill P&L			After House Plan P&L ¹			After Senate Plan P&L ²		
Average QSR Restaurant	Net Sales	\$ 1,000,000	100.0%	Net Sales	\$ 1,000,000	100.0%	Net Sales	\$ 1,000,000	100.0%
	Cost of Sales	324,000	32.4%	Cost of Sales	324,000	32.4%	Cost of Sales	324,000	32.4%
	Gross Profit	676,000	67.6%	Gross Profit	676,000	67.6%	Gross Profit	676,000	67.6%
	<u>Store Operating Expenses</u>			<u>Store Operating Expenses</u>			<u>Store Operating Expenses</u>		
	Payroll Related Expenses	285,000	28.5%	Payroll Related Expenses	285,000	28.5%	Payroll Related Expenses	285,000	28.5%
	Occupancy	85,000	8.5%	Occupancy	85,000	8.5%	Occupancy	85,000	8.5%
	Other Costs	202,000	20.2%	Other Costs ¹	224,800	22.5%	Other Costs ²	218,875	21.9%
	Store Operating Expenses	572,000	57.2%	Store Operating Expenses	594,800	59.5%	Store Operating Expenses	588,875	58.9%
	Store Operating Profit	104,000	10.4%	Store Operating Profit	81,200	8.1%	Store Operating Profit	87,125	8.7%
	G&A	50,000	5.0%	G&A	50,000	5.0%	G&A	50,000	5.0%
EBITDA	54,000	5.4%	EBITDA	31,200	3.1%	EBITDA	37,125	3.7%	
Debt Service ³	26,200		Debt Service	26,200		Debt Service	26,200		
FCCR (Industry Standard)	1.25x		FCCR	1.04x		FCCR	1.10x		
DSCR	2.06x		DSCR	1.19x		DSCR	1.42x		
Under Performing Restaurant	Net Sales	\$ 750,000	75.0%	Net Sales	\$ 750,000	100.0%	Net Sales	\$ 750,000	100.0%
	Cost of Sales	251,250	33.5%	Cost of Sales	251,250	33.5%	Cost of Sales	251,250	33.5%
	Gross Profit	498,750	66.5%	Gross Profit	498,750	66.5%	Gross Profit	498,750	66.5%
	<u>Store Operating Expenses</u>			<u>Store Operating Expenses</u>			<u>Store Operating Expenses</u>		
	Payroll Related Expenses	221,250	29.5%	Payroll Related Expenses	221,250	29.5%	Payroll Related Expenses	221,250	29.5%
	Occupancy	67,500	9.0%	Occupancy	67,500	9.0%	Occupancy	67,500	9.0%
	Other Costs	151,500	20.2%	Other Costs ¹	174,300	23.2%	Other Costs ²	168,375	22.5%
	Store Operating Expenses	440,250	58.7%	Store Operating Expenses	463,050	61.7%	Store Operating Expenses	457,125	61.0%
	Store Operating Profit	58,500	5.9%	Store Operating Profit	35,700	4.8%	Store Operating Profit	41,625	5.6%
	G&A	37,500	5.0%	G&A	37,500	5.0%	G&A	37,500	5.0%
EBITDA	21,000	2.8%	EBITDA	(1,800)	-0.2%	EBITDA	4,125	0.6%	
Debt Service	26,200		Debt Service	26,200		Debt Service	26,200		
FCCR	0.94x		FCCR	0.70x		FCCR	0.76x		
DSCR	0.80x		DSCR	N/A		DSCR	0.16x		

¹ Increase in insurance expense (\$22,800) under the House Plan

² Increase in insurance expense (\$16,875) under the Senate Plan

³ New debt issuance typically requires a minimum 1.25x FCCR



Cost of Healthcare Bill - Family Dining

Healthcare Penalties on an average Family Dining Restaurant

Healthcare Penalty Under House Plan:

<u>% of Labor Penalty</u>		<u>Average Store Labor Cost</u>		<u>Additional Cost Per Store</u>
8.0%	x	\$504,000	=	\$40,320

Healthcare Penalty Under Senate Plan:

Full-Time Employees (\$750 x 20 Employees) \$15,000

Part-Time Employees (\$375 x 30 Employees) \$11,250

Additional Cost Per Store \$26,250

Note: Current insurance premiums per employee are more expensive than the proposed penalties and therefore excluded from this analysis



Cost of Healthcare Bill - Family Dining (Cont.)

	Before Healthcare Bill P&L			After House Plan P&L ¹			After Senate Plan P&L ²		
Average Family Dining Restaurant	Net Sales	\$ 1,800,000	100.0%	Net Sales	\$ 1,800,000	100.0%	Net Sales	\$ 1,800,000	100.0%
	Cost of Sales	504,000	28.0%	Cost of Sales	504,000	28.0%	Cost of Sales	504,000	28.0%
	Gross Profit	1,296,000	72.0%	Gross Profit	1,296,000	72.0%	Gross Profit	1,296,000	72.0%
	<u>Store Operating Expenses</u>			<u>Store Operating Expenses</u>			<u>Store Operating Expenses</u>		
	Payroll Related Expenses	576,000	32.0%	Payroll Related Expenses	576,000	32.0%	Payroll Related Expenses	576,000	32.0%
	Occupancy	153,000	8.5%	Occupancy	153,000	8.5%	Occupancy	153,000	8.5%
	Other Costs	376,200	20.9%	Other Costs ¹	416,520	23.1%	Other Costs ²	402,450	22.4%
	Store Operating Expenses	1,105,200	61.4%	Store Operating Expenses	1,145,520	63.6%	Store Operating Expenses	1,131,450	62.9%
	Store Operating Profit	190,800	10.6%	Store Operating Profit	150,480	8.4%	Store Operating Profit	164,550	9.1%
	G&A	90,000	5.0%	G&A	90,000	5.0%	G&A	90,000	5.0%
EBITDA	100,800	5.6%	EBITDA	60,480	3.4%	EBITDA	74,550	4.1%	
Debt Service ³	50,040		Debt Service	50,040		Debt Service	50,040		
FCCR (Industry Standard)	1.25x		FCCR	1.05x		FCCR	1.12x		
DSCR	2.01x		DSCR	1.21x		DSCR	1.49x		
Under Performing Restaurant	Net Sales	\$ 1,400,000	100.0%	Net Sales	\$ 1,400,000	100.0%	Net Sales	\$ 1,400,000	100.0%
	Cost of Sales	406,000	29.0%	Cost of Sales	406,000	29.0%	Cost of Sales	406,000	29.0%
	Gross Profit	994,000	71.0%	Gross Profit	994,000	71.0%	Gross Profit	994,000	71.0%
	<u>Store Operating Expenses</u>			<u>Store Operating Expenses</u>			<u>Store Operating Expenses</u>		
	Payroll Related Expenses	462,000	33.0%	Payroll Related Expenses	462,000	33.0%	Payroll Related Expenses	462,000	33.0%
	Occupancy	126,000	9.0%	Occupancy	126,000	9.0%	Occupancy	126,000	9.0%
	Other Costs	296,800	21.2%	Other Costs ¹	337,120	24.1%	Other Costs ²	323,050	23.1%
	Store Operating Expenses	884,800	63.2%	Store Operating Expenses	925,120	66.1%	Store Operating Expenses	911,050	65.1%
	Store Operating Profit	109,200	7.8%	Store Operating Profit	68,880	4.9%	Store Operating Profit	82,950	5.9%
	G&A	70,000	5.0%	G&A	70,000	5.0%	G&A	70,000	5.0%
EBITDA	39,200	2.8%	EBITDA	(1,120)	-0.1%	EBITDA	12,950	0.9%	
Debt Service	50,040		Debt Service	50,040		Debt Service	50,040		
FCCR	0.94x		FCCR	0.71x		FCCR	0.79x		
DSCR	0.78x		DSCR	N/A		DSCR	0.26x		

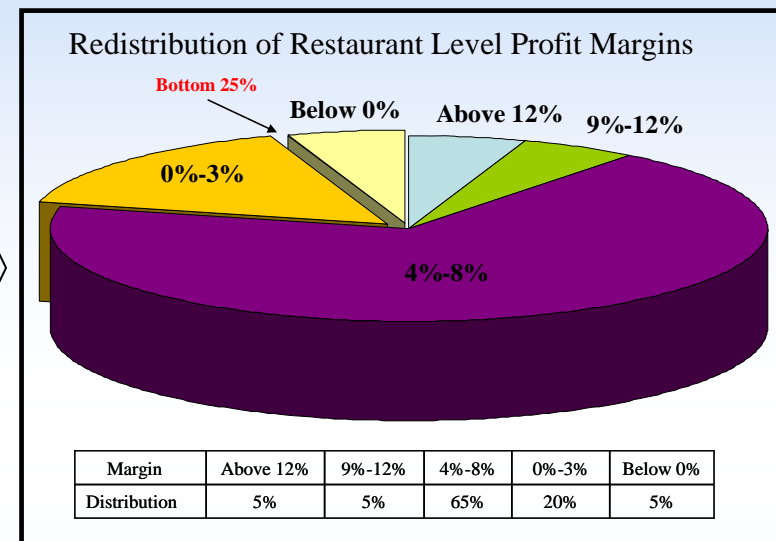
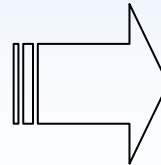
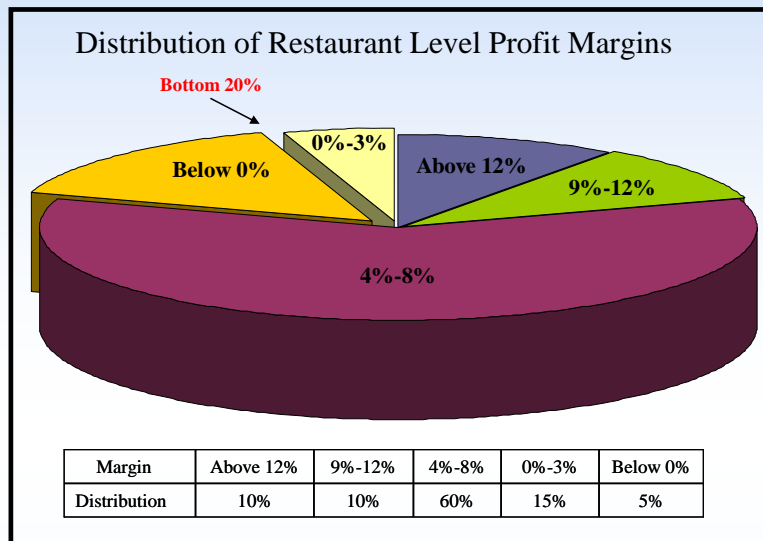
¹ Increase in insurance expense (\$40,320) under the House Plan

² Increase in insurance expense (\$26,250) under the Senate Plan

³ New debt issuance typically requires a minimum 1.25x FCCR



Economic Impact of Legislation



- **The bottom 20% of restaurants may shut down due to the increased insurance costs resulting from this bill**
- **25% of the remaining healthy restaurants would be breaking even in the resulting environment putting them in jeopardy if they were forced to absorb any additional costs**
- **The bill would reduce the financial health of all restaurants, thereby putting more jobs at risk**



Economic Impact of Legislation (cont.)

US Restaurant Industry

Impact of 20% Restaurant Closures

Number of Restaurant Closures	189,000
Lost Jobs	2.6 million
Sales Impact	\$113.2 billion
<i>Loss of Sales due to restaurant closures</i>	
Annual Sales Tax Impact	\$9.0 billion
<i>Loss of Sales Tax Revenue due to restaurant closures</i>	
Payroll Tax Impact	\$10.0 billion
<i>Loss of Payroll Tax Revenue due to restaurant closures</i>	



Conclusion

- **Pending healthcare reform legislation could ravage the low net income restaurant industry**
- **Increased costs and penalties associated with the proposed legislation would add \$15,000 to \$40,000 in annual costs to a small business where restaurants typically earn \$25,000 - \$100,000 per year in profit**
- **These added costs may result in the closure of over 180,000 restaurants and the subsequent loss of roughly 2.6 million jobs**
- **Store closures of that scale would eliminate more than \$19 billion in state and federal tax revenues**



Overview of Trinity Capital

- **Trinity Capital is a private investment bank offering the sophistication and expertise of Wall Street firms and the intensive, value-added service of a boutique**
 - Founded in 2000
 - Closed over 300 transactions
 - Senior professionals are veterans of large Wall Street investment banks and have closed over \$60 billion in transactions
 - FINRA (formerly the NASD) registered broker-dealer
- **Trinity's transaction expertise includes the following:**
 - Valuation, consulting and forensic accounting
 - Restructuring/distressed company advisor
 - Mergers and acquisitions
 - Private debt, equity and real estate capital raising
- **Trinity has substantial expertise in the restaurant, agriculture, food and multi-unit retail industries**
 - Trinity is recognized as a preeminent authority on restaurants and franchise finance
 - Senior professionals have both originated and restructured billions of dollars of restaurant franchisee loans



Data Sources

- **Restaurant Industry Data**
 - National Restaurant Association (www.restaurant.org)
- **Employment Data**
 - Bureau of Labor Statistics
- **Economic Data**
 - Conference Board, Federal Reserve Board, Bureau of Economic Analysis, Bureau of Labor Statistics, Commerce Department
- **Restaurant Income Statement Data**
 - National Restaurant Association, Technomic, Internally Compiled Data
- **House and Senate Bill Information**
 - Proposed legislation at www.house.gov and www.senate.gov