Restaurant Research LLC
www.ChainRestaurantData.com

The Restaurant Research Thermometer

Taking the Temperature of the Restaurant Industry **September 2014**

Industry Dashboard – September Overview

Sector strength is reflected by a mix of IPOs, private equity acquisitions and a healthy franchisee M&A market. Restaurant stocks started to outperform again in September during a seasonally slow back-to-school season which is a good sign given a relatively weak YTD performance. While food costs continue to hurt, consumers may be beginning to show signs of life.

Stock Performance for September					
Sandwich	Pizza	Coffee	Casual	Fast Casual	Family
1.3%	6.4%	10.6%	0.0%	1.3%	4.9%
Stock Valuations (EV/EBITDA) m/m change					
2.1%	-2.5%	3.2%	0.6%	-1.2%	7.9%

Traffic y/y		Discounting		New Product Intros Y/Y	
QSR	Sit-Down	QSR	Sit-Down	QSR	Sit-Down
2.6%	-2.2%	7.42%	6.89%	-26%	31%

Macro					
Personal Income m/m	Consumer Confidence y/y	Unemployment	y/y Gas	y/y Commodities	Cap Rates
0.3%	9.2%	6.1%	-3.1%	5.3%	6.3%

Stock Performance

Stock Price Level Change During Specified Period	2013	YTD 2014	Sep		2013	YTD 2014	Sep
Sandwich	**50.0%**	**10.4%**	**1.3%**	**Casual**	**47.5%**	**-7.8%**	**0.0%**
Burger King	39.1%	29.7%	-7.4%	Bravo Brio	21.1%	-20.3%	-10.2%
Carrols (BK)	10.5%	7.6%	-2.5%	Brinker	49.5%	9.6%	3.9%
Jack in the Box	74.9%	36.3%	14.7%	Buffalo Wild Wing	102.1%	-8.8%	-9.1%
McDonald's	10.0%	-2.3%	1.2%	Cheesecake	47.6%	-5.7%	1.2%
Meritage (Wendy's)	74.5%	16.6%	-1.9%	Darden	20.6%	-5.4%	8.7%
Popeyes	47.3%	5.2%	1.0%	DineEquity	24.7%	-2.3%	-1.9%
Sonic	93.9%	10.7%	5.9%	Red Robin	108.4%	-22.6%	7.2%
Wendy's	85.5%	-5.3%	1.3%	Ruby Tuesday	-11.8%	-15.0%	-4.5%
YUM	13.9%	-4.8%	-0.6%	Texas Roadhouse	65.5%	0.1%	4.7%
Pizza	**62.6%**	**-0.7%**	**6.4%**	**Fast Casual**	**45.2%**	**-20.3%**	**1.3%**
Domino's	59.9%	10.5%	2.0%	Chipotle	79.1%	25.1%	-1.8%
Papa John's	65.3%	-11.9%	1.0%	Noodles		-46.6%	-1.9%
Papa Murphy's			16.2%	Panera	11.2%	-7.9%	8.5%
Coffee	**54.0%**	**4.3%**	**10.6%**	Potbelly		-52.0%	-3.6%
Dunkin'	45.3%	-7.0%	2.9%	Zoe's			5.5%
Einstein Noah	18.8%	39.0%	41.7%	**Family**	**48.2%**	**-5.0%**	**4.9%**
Krispy Kreme	105.7%	-11.0%	0.9%	Bob Evans	25.8%	-6.4%	9.0%
Starbucks	46.2%	-3.7%	-3.0%	Cracker Barrel	71.3%	-6.3%	2.8%
Stock Indexes				Denny's	47.3%	-2.2%	2.9%
S&P 500	29.6%	6.7%	-1.6%				
Consumer Discret (XLY)	40.9%	-0.2%	-3.1%				
RR Overall Avg	51.2%	-3.2%	4.1%				

CBA
Concept Benchmark Analysis

Hardee's	2013 US System Sales: $2.0B	2013 Growth: +3.2%

Today's Hardee's offers a higher-end QSR experience that includes made-from-scratch breakfast biscuits, made-to-order 100% Black Angus burgers, fresh baked buns, hand-breaded chicken tenders and hand-scooped shakes & malts. While the brand is differentiated by its focus on young, hungry males, its chicken, turkey and fish offers also appeal to older customers and women. The nice thing is that Hardee's has been able to transform itself into a more relevant brand without detracting from its core biscuit breakfast business which still drives almost half of all sales. However, while Hardee's has been able to drive comps without engaging in margin eroding price competition, sales trends have been slowing. Further, food margins are under pressure especially as the menu mix continues to move away from its high margin breakfast business. Hopefully, an increase in ad spending (which results in a doubling of ad impressions) will help maintain sales (the solution for every problem). Also, an expected 2014 completion of its remodel program means that the system condition is in pretty good shape (that is, for a system with a plethora of older stores). In conclusion, ***while Hardee's continues to move in the right direction, we believe positive momentum will require a concerted effort to profitably expand lunch/dinner while also improving operations in order to push the brand's AUV steadily closer to the segment average.***

Pizza Hut	2013 US System Sales: $5.7B	2013 Growth: +0.0%

Pizza Hut's core equity as the largest segment player is driven by its historic strength in product innovation that provided first mover advantage in deep dish pizza and gave us the popular stuffed crust format - we also really like the Wingstreet line and it is our opinion that the brand could easily do more with this newly developed asset. We believe the system's unique sit-down "Red Roof" format provides another untapped advantage as the growing carryout industry channel continues to bring customers back into the stores while pizza represents an affordable dine-in option for groups relative to casual. However, it seems to us that the brand has lost momentum by focusing on the core competencies of its competitors rather than building upon its own unique strengths that were once sufficient to help the brand achieve 46% share of the $1B+ national pizza chain segment 10 years ago (having since declined to 38% at the end of 2013). Fortunately, soul searching has yielded a new marketing agency that has worked wonders for Taco Bell and will hopefully return Pizza Hut to its own path of success. In any case, record high cheese prices create an imperative for the brand to quickly determine how to move away from discounting as a way to drive traffic (even if it is designed to build its very important digital platform which requires some catch-up). In conclusion, ***it is our opinion that there is so much to like about Pizza Hut's core equity that a sales fix does not require a repositioning, but rather, a return to its roots.***

Industry Report Announcement

RR's *2014/2015 Industry White Paper Report* provides an analysis of the inherent strengths of the chain restaurant industry and its franchising business model.

Industry White Paper Report

For more info on this report, please contact us at (203) 938-4703 or info@ChainRestaurantData.com

Bigger Deals, Bigger Multiples?

- Empirical evidence suggests that larger franchisee M&A deals in the chain restaurant space tend to trade at higher EBITDA multiples.
- In general, operators may pay more to control an entire market as this provides them with more exclusive marketing and pricing decisions. Also, larger deals (especially as it relates to contiguous stores) may provide operators with corporate overhead cost savings that explain higher multiples (based on the idea that G&A synergies will generate higher pro-forma post deal cash flows).
- Larger deals also appeal to private equity groups which enjoy lower cost of funds than franchisees, allowing them to generate comparable IRR goals even after paying higher multiples (see table below). Smaller private equity firms are incented to grow their investments sufficiently to attract new, larger private equity firms who may pay even higher multiples. In turn, some larger private equity firms could look to the public markets (with their very high multiples) as an exit.

Cost of Funds Analysis

Deal Size by EBITDA

Cost of Funds	<$500k	$500k>$1MM<	$1MM>$3MM<	$3MM>$5MM<	$5MM>
Equity	25.0%	25.0%	25.0%	25.0%	25.0%
Debt	8.0%	7.0%	6.0%	5.5%	5.0%
Weighting					
Equity	30%	20%	20%	20%	20%
Debt	70%	80%	80%	80%	80%
WACC	13.1%	10.6%	9.8%	9.4%	9.0%
Benefit of scale		-19.1%	-25.2%	-28.2%	-31.3%

Source: RR's Valuation Report

M&A Insight from Kevin Burke, Trinity Capital

In your experience, are there examples when smaller buyers are actually paying higher multiples?	In the leading franchised restaurant concepts we've been selling, the larger deals are getting done, for the most part, at purchase price multiples between 6.75x and 7.25x, while the multiples for the smaller deals are materially higher. Smaller franchisee transactions have been getting done in leading concepts between 7.25x and 7.80x! This is largely because lenders are willing to stretch for smaller amounts of lending when a strong balance sheet is involved. The lease-adjusted leverage constraints of financing are not as oppressive on smaller deals and many of the acquirers of the small deals have balance sheet capacity to absorb the additional stores and still maintain adequate financial ratios. In addition, franchisors tend to more carefully scrutinize the financing and capital structure of larger deals, while with some franchisors, smaller deals proceed with less oversight.
Don't private equity buyers have all the advantages?	Strategic acquirers can take on stores with very little material impact to their existing overhead; whereas, private equity buyers generally don't have an overhead infrastructure in place and are therefore responsible for the full burden of G&A expenses. It is important to note here that a private equity backed restaurant operator can be considered a strategic acquirer for this discussion. In addition, private equity buyers are tougher negotiators and more sensitive to purchase price since they are generally exiting in a shorter investment horizon. PE buyers are also very sensitive to financing and projected multiple of capital invested and other financial return metrics. To underscore all of this, in the last 15 restaurant auctions we've run, private equity was the best bid in exactly one transaction although a material competitor in every instance (except two smaller deals). Another issue to consider is that some franchisors are starting to get a little bit wary of institutional ownership and are increasing the scrutiny they put on incoming investors. Private equity investors have the advantage of capital and are experienced buyers, but strategic acquirers can draw a line through much of the fixed cost of operations they acquire and therefore can pay a higher price.

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M&A Insight from Kevin Burke, Trinity Capital - continued

What's going on with restaurant sales and will this affect M&A purchase price multiples anytime soon?	Restaurant sales have been under pressure from grocery stores and changing demographics. There is a balance between consumer discretionary spending on prepared and semi-prepared foods in the grocery store and restaurant spending. Both restaurants and grocery stores are fighting hard to provide convenience, quality and value to their customers. These qualities are frequently mutually exclusive, highlighting the difficulty of achieving breakout sales like Chipotle or Whole Foods (during their respective runs). The grocery stores had their way for a couple of years after the Great Recession; however, restaurants made a fantastic comeback in the last couple years. Nonetheless, the consistent loss of traffic in the casual dining space underscores the difficulty of capturing consumer discretionary spending from working and middle class families with declining purchasing power. One successful element has been to capture the hearts and wallets of millennials. Millennials are not wired like preceding generations, and their tastes and preferences are remarkably different. In addition, they generally have a higher willingness to spend on food and beverage than other demographic groups. A concept that can consistently attract millennials will likely outperform its peers. One of the big struggles McDonald's currently faces, in addition to its busy menu and the difficulty of comp-ing over very high unit-level sales, is its abysmal performance with millennials. Apparently, a significant portion of the mainstream millennial set does not believe it is "cool" to eat at McDonald's. In summation, there is a lot of change within spending and traffic patterns of restaurant customers, and M&A multiples will remain robust for leading-edge concepts that continue to grow traffic and will continue to diminish for concepts that fail to grow their customer base and adapt to changing demographics.

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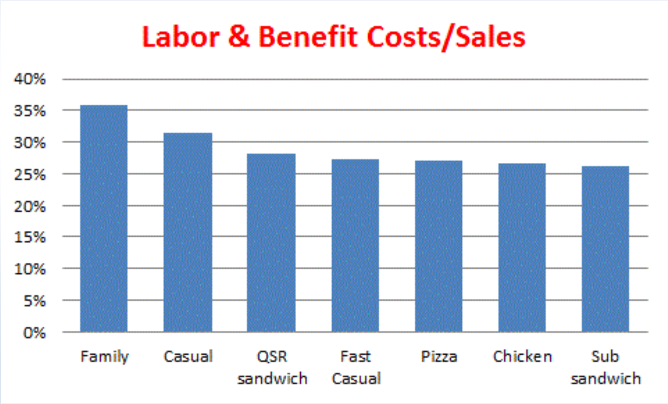
TRINITY CAPITAL
INVESTMENT BANKING

Mr. Burke is the founder and Managing Partner of Trinity Capital. Since its inception in 2000, Trinity Capital has completed over $20 billion in mergers and acquisitions, financial restructurings and financing transactions for restaurant companies. Clients have included such corporations as Taco Bell, Burger King, Ready Pac, Green Earth Fuels and Yum! Brands and such private equity firms as The Carlyle Group, Bain Capital, the Thomas H. Lee Company and Goldman Sachs Capital Partners.

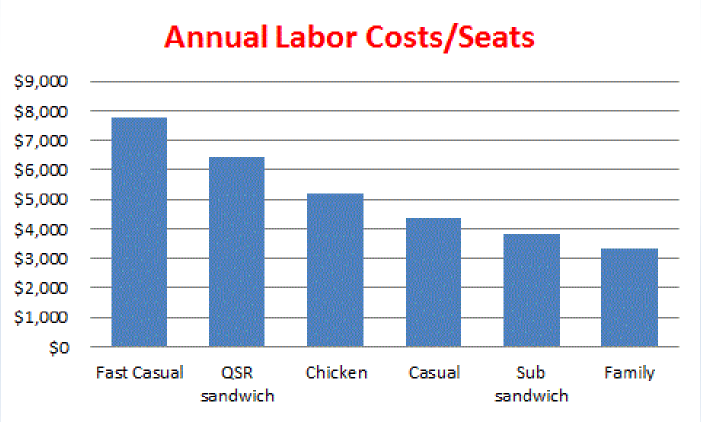
Labor: Cost or Investment?

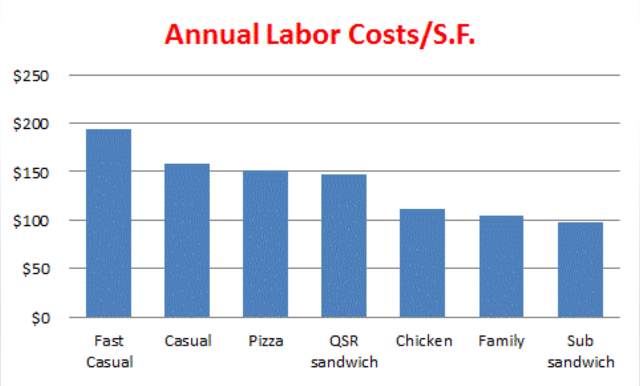
- The traditional way to analyze labor efficiency is to look at staffing and benefit costs as a % of sales. In this case, the lower the ratio the better...



- But is efficiency the only consideration as it relates to labor? **In the hospitality business, staff efficiency may not be sufficient to drive long-term results**. **Well trained, talented people in front of the house positions maybe key to the long-term success of any hospitality business but this is difficult to quantify, to prove**. According to a recent Darden presentation, only 44% of guests in the casual industry acknowledge "pleasant friendly service". It is for this reason that we believe it maybe useful for the industry to consider some other labor metrics.

- As we can see below, a ratio of annual labor costs/seats and labor costs per s.f. tell a very different story than labor costs/sales. The point of these imperfect ratios (which do not consider drive-thru) is to find a way to better tie labor to customers and/or facilities. In any case, **we would like to suggest that the industry should begin to develop better ways to measure how a brand's labor investment can drive higher guest satisfaction scores and sales.**





Source: Restaurant Research Estimates

DelaGet's Industry Traffic Barometer

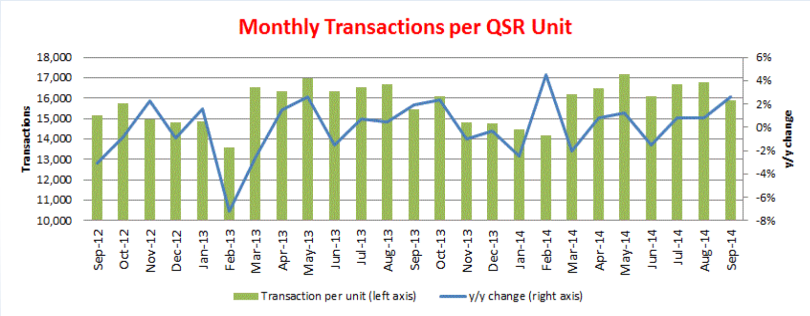
September (back to school) is a seasonally slow month and we see a sharp sequential decline in traffic which is most noticeable in the more expensive sit-down segment. On a y/y basis, QSR traffic improved while sit-down traffic declined, prompting more discounts & new news.

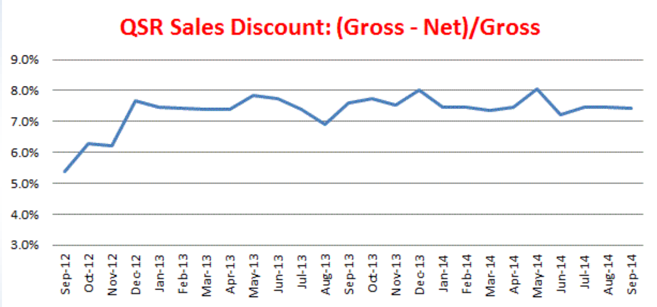
DelaGet transaction data for large brands is aggregated from 4,000+ QSR and 1,700+ sit-down locations

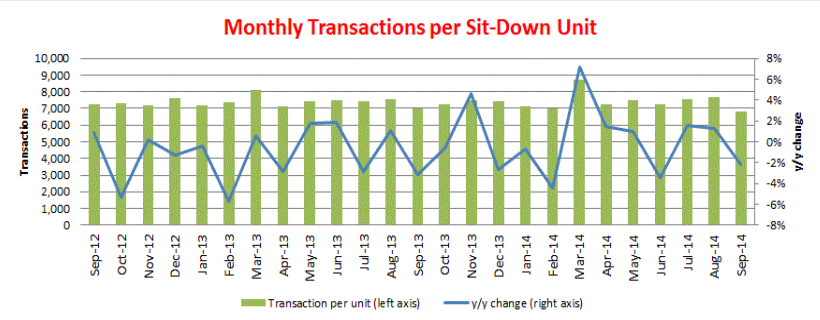
DelaGet
Get the Experts. Get Results.

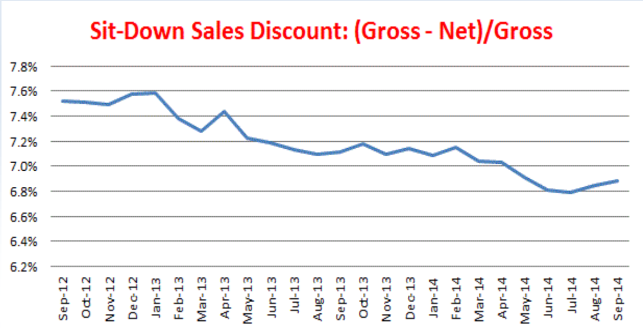
September Summary

	Traffic				Sales
	y/y	Month/Month	2013	YTD 2014	Discount
QSR	2.6%	-5.5%	-0.1%	0.5%	7.42%
Sit Down	-2.2%	-10.6%	-0.7%	0.2%	6.89%









Note: In some cases, gross sales includes sales tax

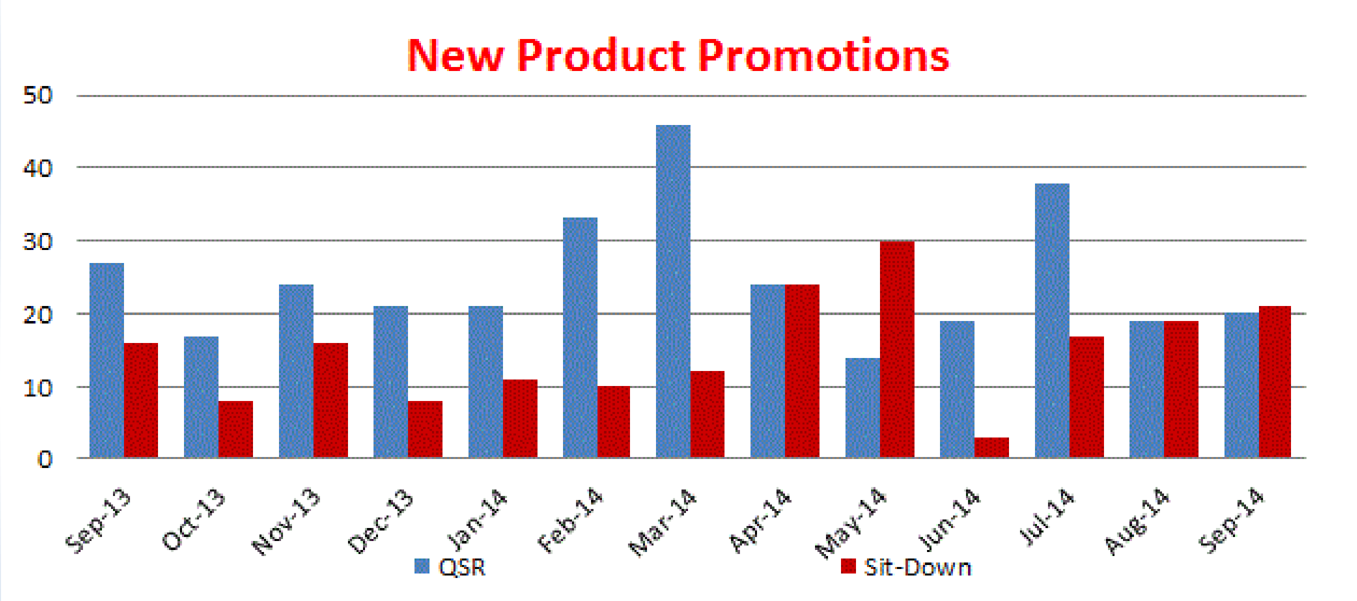
Source: DelaGet

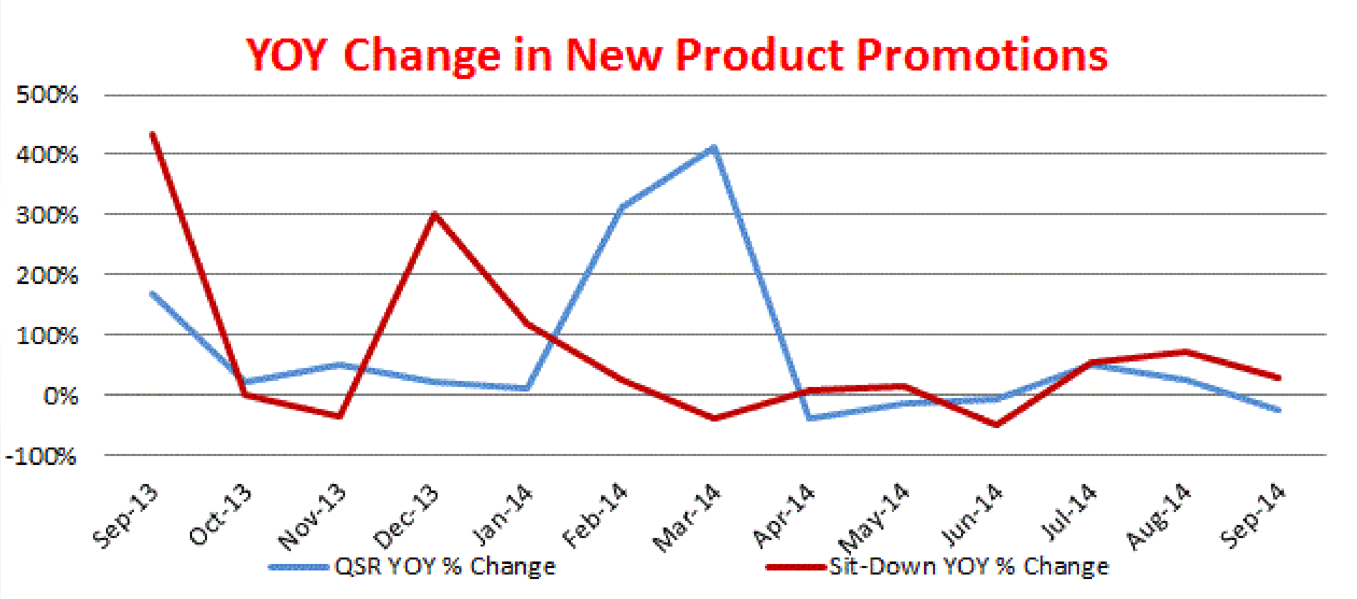
DelaGet is a trusted partner of multi-unit restaurant operators around the world, servicing more than 10,000 restaurants and processing data associated with more than four billion order items annually. By centralizing and consolidating the data from numerous point-of-sale, back-of-house, banks, suppliers, drive-thru timers, etc., DelaGet leverages the data to increase operator efficiency and profitability through its above-store reporting; data integration; loss prevention; marketing measurement and planning; payroll processing; and general ledger accounting services.

Learn more at www.DelaGet.com.

New Product News for $1B+ Chains

- September new product news decreased on a y/y basis for QSR while increasing for the sit-down segment which registered the highest number of new products since May.
- The QSR new product slowdown partially reflects the use of popular, recycled LTOs that coincide with the fall/Halloween season. Conversely, Little Caesar's debuted its first new product of the year (Pretzel Crust Pizza for $6).
- Sit-down's increase in new products was driven primarily by several additions to Denny's $2 $4 $6 $8 Value Menu and LTOs at Buffalo Wild Wings.
- The number of national TV spots increased +6.5% m/m but national airings declined -12.2% for the $1B+ chain restaurants.



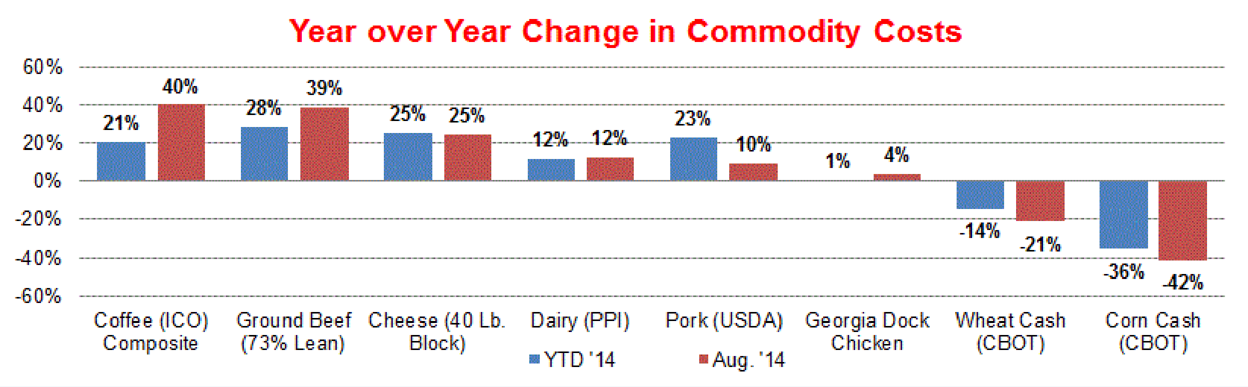


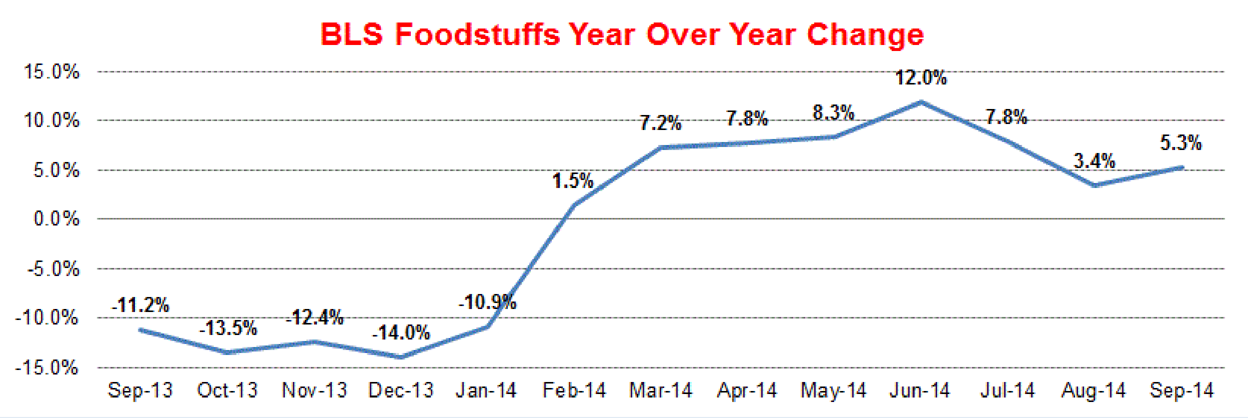
Source: Restaurant Research Menu & Promotions Database

Commodity Trends & Detail

- Coffee, beef and cheese prices increased dramatically during August.
- Wings, wheat and fresh vegetables (excluding potatoes) continued to post lower Y/Y prices.
- According to preliminary September data, both beef and cheese prices continue to rise while the pace of pork price appreciation is slowing to the high single digits.
- Fortunately, feedstock prices are declining which has positive implications for longer-term commodity prices and we note that corn for September delivery on the Chicago Board of Trade recently fell to its lowest price since June 2010.

Year over Year Change	YTD '14	Aug. '14
Coffee (ICO) Composite	21%	40%
Ground Beef (73% Lean)	28%	39%
Cheese (40 Lb. Block)	25%	25%
Dairy (PPI)	12%	12%
Pork (USDA)	23%	10%
Georgia Dock Chicken	1%	4%
Wheat Cash (CBOT)	-14%	-21%
Corn Cash (CBOT)	-36%	-42%





Source: RR's Commodity Database

Unit Level M&A Snapshot from National Franchise Sales

A variety of buyer types combined with motivated sellers and some of the best financing in the history of franchising is keeping multiples high in good brands.

September 2014

(5 increasing – 1 decreasing)	Score	1	2	3	4	5
Buy-side Demand	4	→	→	→	→	
Sell-side Supply	4	→	→	→	→	
Financing Availability	4	→	→	→	→	
Valuation Multiples	4	→	→	→	→	

Comments

Buy-side Demand	• Buyers seizing in-brand and complimentary brand acquisitions are being fueled by inexpensive debt and capital investments by new financial partners. New entrants into franchising are being supported by rebounding home equities and the reemergence of active SBA lending.
Sell-side Supply	• Weaker Balance Sheet sellers challenged by upcoming capital improvement requirements and pressure on existing debt make up a significant part of the market. Additionally, the aging franchise communities recognize this to be one of the better times to sell.
Financing Availability	• Lenders remain competitive both in terms of rates and covenants, and are actively recognizing embedded equity due to increased valuations, thus allowing established franchisees additional sources of expansion capital.
Valuation Multiples	• Valuation multiples are very strong in healthy brands and weak in poor performing brands, as buyers move to the better brands.

Specializing in the resale of franchise businesses since 1978

National Franchise Sales has become an industry leader in franchise business brokerage by successfully assisting franchisees and franchisors in the acquisition and sale of their businesses since 1978.

Headquartered in Newport Beach, CA with eight offices across the country, NFS is staffed by 25 industry professionals serving over fifty brands with transactions ranging from the sale of single units, to multi-unit sales of over 100 units, to refranchising programs, to the sale of Franchise companies.

Alan F. Gallup

National Franchise Sales

Legal Perspectives: Bruce S. Schaeffer, Franchise Valuations Ltd.

Why are the *Huff and Hesco* court decisions important for determining enterprise value?	**At issue in both *Huff* and *Hesco*: Method for determining enterprise value in a "fair value" dispute, i.e. what to pay a dissenting shareholder in a forced buyout. In one case the merger price was adopted; in the other it was rejected.** For many years the Delaware Court of Chancery has been the premier forum for deciding "fair value" in dissenting shareholder disputes. Traditionally, it has expressed a strong preference for the discounted cash flow (DCF) method. Yet in *Huff v. CKx* (2013) the court expressly rejected the DCF method in favor of the actual merger price in a case which involved the company that owned "American Idol" and "So You Think You Can Dance". The issue came up because after 2006, when the show's revenues began to decline, the company was sold for $5.50 per share. The petitioners' expert, using a DCF analysis, concluded it was worth $11.02 per share. In contrast, the company's expert used the DCF method to come up with a value of$4.41—$1.09 below the sales price. **But, the court found neither treatment was reliable because when the merger took place, the future revenue streams related to "American Idol," the company's primary asset, were "in a state of flux."** Therefore, the DCF analysis was *not* the appropriate technique to be used. Instead, the Court adopted the actual merger price, which resulted from a sales process that was "thorough, effective, and free from any spectre of self-interest or disloyalty." The method for determining "fair value" was again the issue before the same judge, this time in *Laidler v. Hesco* (2014). In that subsequent decision involving the buyout of a 10% shareholder by a 90% shareholder, however, the 90% shareholder did no outside offering of the enterprise so the Court ruled: "Under our case law, a statutory appraisal is the sole remedy to which the Petitioner is entitled, and to defer to an interested controlling stockholder's determination of fair value in a transaction such as this would render that remedy illusory. I therefore decline to consider the merger price in determining the fair value of Hesco." Thus the DCF method was used.
What are the implications of these decisions for restaurant operators?	"Fair Value" determinations are important to restaurant operations whenever one of the 3 Ds is present: Death, Disability or Disaffection. A dispute among owners over the value of a closely held business, where a minority owner feels squeezed out or left out, may give rise to costly and lengthy litigation. Owners should check their buy-sell agreements **in advance of a dispute** to mitigate such risk and provide for a smooth transition.

Bruce S. Schaeffer is a tax attorney and valuation specialist in New York City. A nationally recognized expert, he has over 30 years' experience dealing with tax and estate planning issues, complex transactions, and valuations and damages disputes for franchises, dealerships and distributorships. As the founder and president of Franchise Valuations, Ltd. Mr. Schaeffer provides consulting and testifying expertise on money damages and valuations.

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Unit Development & Financing Activity during September 2014

M&A and financing transactions during 9/14 from RR's Unit Development & Financing Activity Database is outlined below. Clients can find complete database with development deals online.

RR's Development & Financing Activity Database

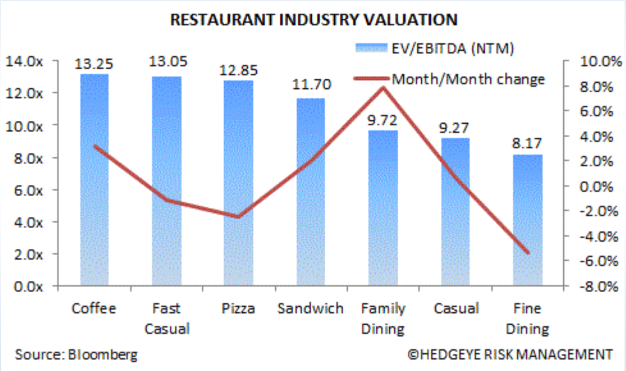
Action	Concept	Operator	Markets	Unit #	Description
Investment	Jimmy John's				Jimmy John's Gourmet Sandwiches has hired North Point Advisors to sell a major stake in the chain. Weston Presidio holds a minority stake and the chain has reportedly completed 2 recapitalizations since that investment in 2007.
IPO	Dave & Busters				In its 3rd attempt in 6 years, Dave & Busters will seek to raise $100MM in an IPO. The 69-unit chain is owned by private-equity firm Oak Hill Capital Partners, which acquired Dave & Buster's in 2010 for $570MM
M&A	Burger King	Houston Foods Inc.		260	Blackstone Group LP plans to sell 260 BK units (owned by its Heartland Food subsidiary) to Houston Foods Inc. for less than $100MM.
M&A	Burger King	Carrols	North Carolina	30	Carrols exercised its right of first refusal to purchase 30 BK stores (including 12 fee sites) in eastern North Carolina for $20MM. Subsequent to closing, Carrols will enter into sale/leaseback transactions for 10 of the fee-owned properties for total estimated proceeds of $13MM to $14MM. Earlier this year, Carrols purchased 64 BK units from Heartland for $18MM and acquired 21 units in the Rochester NY area from Kessler Group Inc., along with 8 units in Pittsburgh and Fort Wayne, Ind.
M&A	Einstein Noah Restaurant Group Inc.	JAB Holding			JAB Beech Inc. (an affiliate of the PE firm Joh. A. Benckiser Group) is acquiring The Einstein Noah Restaurant Group Inc. which also owns Noah's New York Bagels, Manhattan Bagel and a dough production facility for ~$374MM. JAB has a majority stake in Caribou Coffee.
M&A	Elephant Bar Global Grill/Wok Kitchen	Genghis Grill			The Elephant Bar Global Grill/Wok Kitchen has been acquired out of bankruptcy and will be operated by the parent of the Genghis Grill chain (Chalak Mitra which is an investment group with a portfolio that includes about 260 restaurants, including about 100 Genghis Grill units, along with the Baker Bros. American Deli, Twin Peaks, Ruby Tequila's, and a franchise group that operates Taco Bell and KFC units across the Northeast). SKM Equity Fund III LP, which is affiliated with private-equity firm KarpReilly LLP, has retained a majority stake in the company.
M&A	Peter Piper Pizza	Acon Investors			143 unit chain is being shopped for sale by owner Acon Investors who purchased the brand in 2006. The company also announced plans to open 50 new franchised units in the next 5 years.
M&A	Taco Bell	Golden Gate Bell, LLC	CA	72	Dolan Foster Enterprises, LLC sold all 72 units to Golden Gate Bell, LLC.
M&A	The Burger Company	Chanticleer Holdings, Inc.			Chanticleer Holdings, which owns and operates multiple restaurant brands, finalized the purchase of The Burger Company in Charlotte, NC, a flex casual burger concept in the better-burger space.
M&A	Togo's			13	Corporate acquired 13 franchised stores owned by founder Mike Cobler.
Refranchising	TGI Fridays				Corporate refranchising initiative to sell most of its 247 company domestic locations within 18 months to accelerate reimaging and global growth. Fridays was puchased this summer by Sentinel Capital Partners & TriArtisan Capital Partners. Two 20+ store refranchising deals have been negotiated over past several months.

Source: Restaurant Research Development & Financing Activity Database

Stock Valuations from Hedgeye Risk Management

The restaurant industry's +8.5% valuation market premium is -45% below the average premium since 2010, revealing still healthy fundamentals and less froth.

- Coffee has overtaken Fast Casual as the most expensive segment on an EV-to-EBITDA basis, helped by BAGL's buyout offer. DNKN, KKD, SBUX and THI are all trading above their average valuations since 2010.
- Casual Dining, Fast Casual and Fine Dining stocks are currently trading at the most compelling valuations relative to their recent trends.



EV/EBITDA (NTM) 2010-Present

	Min	Max	Average	Current		Min	Max	Average	Current
Casual	**6.30**	**10.45**	**8.47**	**9.27**	**Sandwich**	**7.12**	**12.15**	**9.42**	**11.70**
BJ's Restaurants	7.36	17.35	11.04	10.36	Burger King	11.10	18.50	13.93	16.56
Bloomin' Brands	6.48	9.81	8.27	7.50	Jack in the Box	4.68	11.02	7.22	11.02
Bravo Brio	5.41	12.16	7.74	5.97	McDonald's	8.99	10.89	9.90	10.21
Buffalo Wild Wings	5.53	12.35	8.31	9.04	Popeyes	6.59	15.37	10.46	12.84
Cheesecake Factory	6.10	9.95	7.77	8.57	Sonic	7.02	11.81	8.61	10.63
Chuy's	12.81	23.83	18.07	15.35	Wendy's	6.17	12.35	8.55	9.94
DineEquity	7.26	10.93	9.40	10.45	Yum! Brands	7.78	11.97	10.25	10.69
Darden	6.34	11.63	7.84	10.60	**Fast Casual**	**8.89**	**20.23**	**13.65**	**13.05**
Brinker	4.81	9.76	7.27	8.74	Chipotle	9.10	22.77	16.98	20.62
Ignite Restaurant Group	6.13	10.68	8.46	8.25	Fiesta Restaurant Group	7.76	18.70	12.33	14.90
Red Robin	4.71	10.74	6.63	6.88	Noodles	10.23	27.16	20.57	11.15
Ruby Tuesday	5.25	11.97	7.48	9.57	Potbelly	8.70	29.59	14.39	8.84
Texas Roadhouse	6.17	10.10	8.09	9.18	Panera	7.78	12.67	10.21	9.76
Coffee	**7.66**	**15.11**	**10.97**	**13.25**	**Fine Dining**	**4.56**	**10.80**	**7.32**	**8.17**
Einstein Noah	5.12	8.61	6.38	8.61	Del Frisco's	6.77	13.48	9.63	8.75
Dunkin' Donuts	12.26	17.58	15.18	15.50	Ruth's Chris	4.56	10.82	7.01	7.59
Krispy Kreme	7.66	23.35	13.24	14.20	**Pizza**	**7.04**	**15.68**	**10.23**	**12.85**
Starbucks	7.48	16.01	11.93	13.27	Domino's	8.58	15.71	11.67	14.33
Tim Horton's	8.97	14.80	10.64	14.67	Papa John's	5.46	15.37	8.50	11.11
Family Dining	**5.52**	**9.82**	**7.32**	**9.72**	**Industry Average**	**7.09**	**14.35**	**10.16**	**10.94**
Bob Evans	4.49	10.56	6.57	10.56	SPX	7.43	10.16	8.80	10.08
Cracker Barrel	5.56	10.20	7.50	9.44	Industry Premium	-4.6%	41.3%	15.4%	8.5%
Denny's	5.34	10.33	7.84	9.16					

Source: Bloomberg ©HEDGEYE RISK MANAGEMENT

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HEDGEYE RISK MANAGEMENT, LLC
INVESTMENT IDEAS - LONGS

LONG

BOBE	Bob Evans Farms
JACK	Jack In The Box
CMG	Chipotle Mexican Grill
WEN	The Wendy's Company
KKD	Krispy Kreme
PLKI	Popeyes Louisiana Kitchen
BLMN	Bloomin' Brands

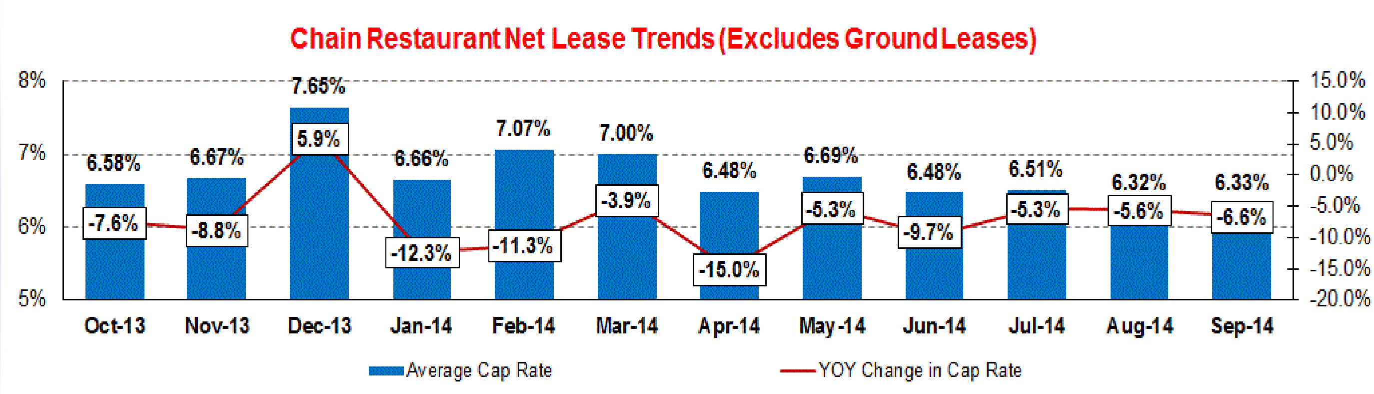
LONG BENCH

LONG

CHUY	Chuy's Holdings
ZOES	Zoe's Kitchen
DRI	Darden Restaurants

Marcus & Millichap's Chain Restaurant Cap Rate Trends

- September cap rates held steady near the August LTM low at 6.33%, representing a -6.6% y/y decline.
- Cap rates are expected to remain mostly unchanged through the end of 2014, but the velocity of transactions should increase as owners and investors look to close by year-end.



Source: The Nisbet Group has been specializing in the disposition and acquisition of Net-Leased properties for the past 15 years under the expertise of Peter Nisbet, the managing partner. By focusing exclusively on the restaurant product type, The Nisbet Group has formed an unmatched understanding of the unique challenges that transpire during a transaction while creating solutions to overcome them. The team is recognized as a market leader for their superior service and outstanding performance by routinely displaying their skills at analyzing market trends, evaluating properties and resolving issues across the transaction process. This dedicated group has closed escrow on over 300 properties; earning clients more than $500 million. The Nisbet Group's success is made possible through the deployment of market segmentation, innovative approaches, detail orientation, and cultivated relationships. The group is able to deliver unmatched service to their clients year after year.

For more information please contact Hank Wolfer of The Nisbet Group at (206) 826-5730

All Inclusive Subscription Package

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

Product outlines available at www.ChainRestaurantData.com

Industry Data Reports (IDR)

Menu & Promotions	**New Build Costs**
Franchise Finance & Valuation Analysis	**Unit Level Valuations Update**
Marketing Spend	**Unit Economics**
Remodeling	**Operations Matrix**
Unit & Sales Growth Analysis	**Quarterly Same Store Sales**

Industry Databases	Concept Books
Menu & Promotions Database	**Chain Restaurant Databook**
Same-Store-Sales Database	**Quarterly Concept Dashboard**
State Unit Count Database	

Concept Benchmark Analyses (CBA) Reports

47 chains covered in total with 22 (Bold Underlined Chains) available as comprehensive reports.

Total Concept Coverage – Bold Underlined Chains are Reviewed Annually

Applebee's	Dairy Queen	**McDonald's**	Ruby Tuesday
Arby's	**Denny's**	Olive Garden	**Sonic Drive-In**
Bob Evans	**Domino's**	Outback	Starbucks
Buffalo Wild Wings	Dunkin Donuts	**Panera Bread**	**Subway**
Burger King	Firehouse Subs	**Papa John's**	**Taco Bell**
Carl's Jr.	**Hardee's**	Perkins	Texas Roadhouse
Cheesecake Factory	**IHOP**	**Pizza Hut**	**TGI Friday's**
Chick-fil-A	**Jack in the Box**	**Popeyes**	Tim Horton's
Chili's Grill & Bar	Jimmy John's	Qdoba	Whataburger
Chipotle	Krispy Kreme	Quizno's	**Wendy's**
Church's	**KFC**	Red Lobster	Zaxby's
Cracker Barrel	Little Caesar's	Red Robin	

FDD/UFOC library for 32 Chains

Please Pass to Your Colleagues