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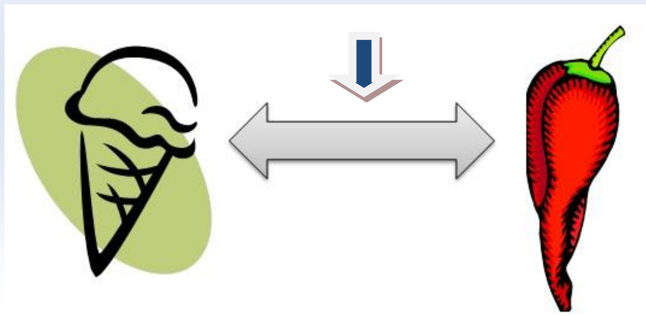
The Restaurant Research Thermometer Magazine

Efficient Research Solutions & Value-Added Insight

RR is used by 74% of $1B+ QSR concepts ($94B system sales) &
93% of national franchise lenders ($19.5B loan portfolio)

Taking the Temperature of the Restaurant Industry



March 2013

All that a Restaurant Operator Needs to Know about the Big Picture

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March 2013 Wrap-Up

- **Stock performance**: Restaurant stocks continue to handily outperform both the broader consumer discretionary sector and the overall S&P 500 as investors position for an economic rebound they expect to manifest.
- **Macro**: 2013 got off to a tough start with the expiration of the payroll tax holiday and tax refund delays. Material comp declines through February are beginning to abate but 1Q13 sales results will suffer. Employment numbers and gas prices are improving slightly but food inflation won't go away. Net/net, consumer confidence is down as Main Street pessimism contrasts with Wall Street enthusiasm.
- **Industry Traffic**: According to DelaGet, March traffic did indeed rebound sharply as consumers regain their footing. On a sequential month/month basis, QSR traffic increased nearly +22% and sit-down traffic grew +11% in March. *Does this indicate the start of a sustainable recovery as sector stock performance suggests??*
- **Restaurant Finance & Unit Level Valuations**: We estimate that 2012 restaurant loan originations increased +73% above 2011 originations, resulting in +10% y/y aggregate loan portfolio growth. EBITDA valuation multiple expansion for national chains is expected to continue over the next 6 months, driven by slightly more favorable lending terms and capital availability. Sale leaseback financing mix has increased from 5% to 14% during this same period.
- **Private Equity Trends**: According to Trinity Capital's Kevin Burke, private equity firms have significantly increased their interest in the restaurant sector while substantially reducing their return ambitions from the halcyon days prior to the recession to a current range of between 15% to 25%.
- **Geoff Bailey & RR: New Business Government/Industry Model Needed**: Our new role as entrepreneurs is to work in a bipartisan way to forge a mutually beneficial relationship between government and business. We believe the model of the relationship between franchisor and franchisee provides a relevant road map to follow.
- **Real Estate**: According to Marcus Millichap, transaction velocity was up 17% y/y and cap rates compressed more than 30 b.p. during March. Most franchised restaurants are transacting in the low 7% cap range.

Price Level Change During Specified Period

	2012	YTD	March		2012	YTD	March
Sandwich	**36.2%**	**17.2%**	**7.5%**	**Casual**	**9.1%**	**15.3%**	**6.9%**
AFC (Popeyes)	55.1%	39.0%	21.1%	Bravo Brio	-30.2%	17.9%	5.0%
Burger King	N/A	16.2%	4.7%	Brinker	21.2%	21.5%	12.8%
Carrols (BK)	100.7%	-13.2%	-2.4%	Buffalo Wild Wing	9.4%	20.2%	11.2%
Jack in the Box	34.9%	20.9%	9.3%	Cheesecake	10.6%	18.0%	11.4%
McDonald's	-9.6%	13.0%	4.0%	Darden	-0.9%	14.7%	11.7%
Meritage (Wendy's)	50.0%	26.3%	7.3%	DineEquity	41.0%	2.7%	-1.6%
Sonic	52.0%	23.7%	14.1%	Red Robin	14.9%	29.2%	6.3%
Wendy's	1.1%	20.9%	-0.4%	Ruby Tuesday	4.7%	-6.2%	0.4%
YUM	5.3%	8.3%	9.9%	Texas Roadhouse	11.4%	20.2%	4.4%
Pizza	**43.0%**	**15.3%**	**13.4%**	**Fast Casual**	**-4.0%**	**0.7%**	**-5.0%**
Domino's	44.1%	18.1%	8.0%	Chipotle	-19.0%	9.6%	2.9%
Papa John's	41.9%	12.5%	18.9%	Cosi	0.0%	-11.5%	-20.7%
				Panera	7.1%	4.0%	2.9%
Coffee	**11.2%**	**22.2%**	**5.7%**				
Dunkin'	21.1%	11.2%	-0.6%	**Family**	**17.4%**	**16.8%**	**4.7%**
Einstein Noah	-16.9%	21.5%	10.3%	Bob Evans	15.4%	6.0%	4.7%
Krispy Kreme	28.0%	53.9%	9.4%	Cracker Barrel	23.1%	25.8%	7.4%
Starbucks	12.6%	2.3%	3.8%	Denny's	13.8%	18.4%	2.1%
Food (BLS data)	2012	YTD	March	**Stock Indexes**	2012	YTD	March
Beef	10.2%	4.5%	4.4%	S&P 500	8.7%	10.0%	3.6%
Chicken	10.9%	5.3%	6.2%	Consumer Discret (XLY)	21.8%	11.7%	4.1%
Cheese	-0.3%	4.8%	6.8%	RR Overall Avg	18.8%	14.6%	5.5%
Vegetables	-23.6%	34.0%	21.2%	Consumer Confidence	19.6%	-8.1%	-14.1%
Employment*	8.1%	7.8%	7.7%	Gas prices	2.5%	-0.8%	-3.0%

* February

Key Developments for $1B+ Chains during March 2013

Value
• **Subway** offers Six-Inch Selects promotion for $3.00. • **Pizza Hut** launches "Hut Lovers Deal" during college hoops season – large 2 topping pizza for $7.99 or $9.99 for any pizza (including specialties) when carried out.
Menu & Promotions
• **Denny's** is reprising its "Baconalia" menu with associated marketing push. • **McDonald's** believes diners seek more premium ingredients and healthier image. Also, brand seeks to do a better job with Millenials (18-32 year olds) who want variety, choices, customization and personal food experience. Resultant new offerings include: Egg White Delight; blueberry-pomegranate smoothie (May); and permanent premium chicken McWrap platform. McDonald's believes that 22% of its Millenial customers would eat at Subway if McWrap was unavailable. • **Burger King's** new "Burger Fest" menu features Turkey & Veggie burgers and Chipotle flavoring. • **Sonic** is increasing its new product pipeline and using more frequent, shorter LTOs. • **Taco Bell** plans to sell ½ billion Doritos Locos Tacos during 2013 with plans to add a 3rd flavor (spicier chili-lime flamas). Also planning $5.49 fajitas. • **Wendy's** launches flatbread sandwiches for $3.49 to $3.99 - grilled chicken on multigrain artisan flatbread resembles fast casual offering. Notably, only Subway & Wendy's currently offer flatbread.
Marketing
• **Arby's** marketing and menu development focuses on "modern day traditionalists" which represent 18% of customers driving 66% of traffic. These customers (defined by beliefs about life, God, Country and living) prefer familiar with twists rather than new initiatives. • **Panera** launches "Live Consciously. Eat Deliciously." campaign which emphasizes the brand's values/philanthropy and food quality. 2013 ad budget will exceed last year's ad spend by +30%. Marketing focus on Millenials, Baby Boomers and females. • **Taco Bell** will continue switching from local to more efficient national advertising. • **Domino's** national campaign expresses that hand-made Pan Pizzas take longer to make.
Facilities
• **Sonic's** smaller prototype costs $150-$200k less to build and works well in smaller markets. Testing new POS capable of integrating 25-30 ordering stations (stalls).
Strategy
• **Quizno's** faces a new round of franchisee lawsuits over alleged food mark-ups while bracing for the end of a royalty rebate program. Brand seeks to reposition with higher menu quality, increased national ads, greater field support and new POS. • **Buffalo Wild Wing** invested in Pizza Rev (considered the Chipotle of artisanal pizza). • **Darden** seeks to balance affordability with desire of more affluent for distinctive, higher-quality dishes. The brand is focused on tempering average check growth at larger brands and expanding its specialty restaurant group sales. Company reports that lunch in particular requires greater affordability, speed and convenience.

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Restaurant Research's Report Summaries for March

IHOP Summary	US System Sales: $2.6B	2011 Growth: +9.5%

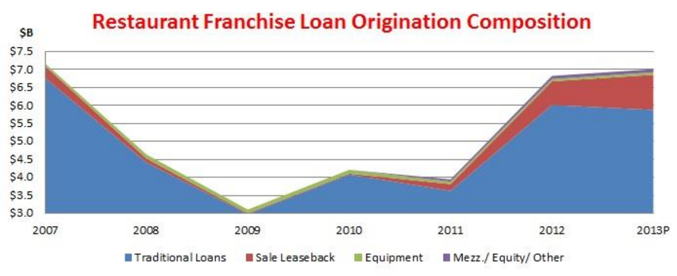
IHOP has great brand equity because of its strong positioning as expert in breakfasts which have provided a fun treat for generations of Americans. We like that IHOP has returned to its breakfast legacy after a brief hiatus and it is our opinion that this brand has set the right course of direction in supporting this positioning with its marketing message and efforts to improve operations. While IHOP must continue to adjust to heightened competition around breakfast at a time when ongoing economic weakness makes it difficult for a brand generally targeting the less affluent to drive sales, we believe the brand will enjoy long-term success in the form of improving unit level profitability by keeping true to its heritage.

Chili's Summary	US System Sales: $3.6B	2012 Growth: +1.6%

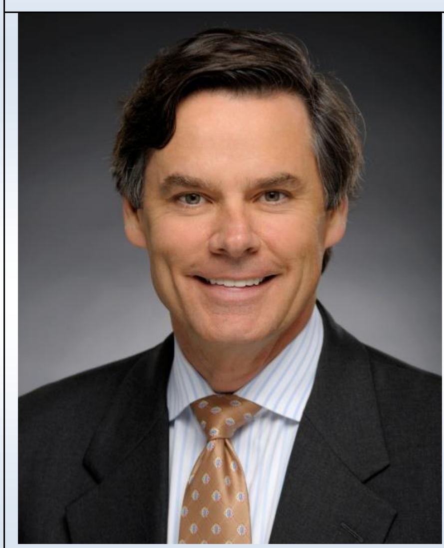
Chili's continues to execute on its "Plan to Win" initiative which entails: (1) updating the system's physical appearance through a comprehensive remodel program; (2) improving operational execution with increased training; (3) enhancing menu breadth and food quality through kitchen equipment upgrades; and (4) lowering food and labor costs with the installation of a new POS system. New kitchens and the introduction of a new service model are intended to drive significant improvements to the core menu and value platforms with faster ticket times and improved food consistency. This foundation provides a solid base for new products – especially as it relates to Chili's Two for $20 platforms and at lunch. While we believe these improvements are prudent, we note that results have yet to manifest in terms of sales outperformance (relative to casual peers) while the chain continues to post mixed third-party customer satisfaction scores. In any case, it is our opinion that Chili's is headed in the right direction and has chosen well by focusing on operational improvements rather than seeking a fix with low prices and marketing alone.

Finance & Valuation Report Summary

- We estimate that 2012 restaurant loan originations increased +73% above 2011 originations (resulting in +10% y/y aggregate loan portfolio growth) which primarily reflects: (1) an increased willingness to provide financing from existing franchise lenders; (2) new lenders entering this space; (3) improving unit level valuations helped by lower interest rates and increased private equity interest in restaurant investments, and; (4) greater supply from operators seeking to sell before onset of 2013 capital gain tax increases and from heightened refranchising activity.
- EBITDA valuation multiple expansion for national chains are expected to continue over the next 6 months driven by slightly more favorable lending terms and capital availability.
- Traditional franchise bank loans in the chain restaurant space have steadily decreased as a percent of total funding with the mix falling from a pre-recession level of 94% to 84% expected this year as the sale leaseback financing mix has increased from 5% to 14% during this same period.
- Sale leaseback financing growth has been incremental to total origination growth with the arrival of Store Capital in the middle of 2011 having a big impact on the overall market. Increased sale leaseback activity benefits from steadily lower cap rates which, in turn, increase real estate collateral value.
- **Real estate appreciation provides a valid reason to invest in a restaurant franchise. While unit level P&L fundamentals have been driving the business for some time (as the real estate market tanked), a rising real estate market provides added confidence to both operators and lenders.**



Private Equity Q&A with Trinity Capital's Kevin Burke

1. *How would you characterize private equity interest in the restaurant space currently?*	Private equity firms have significantly increased their interest in the restaurant sector because of the equity market appreciation in many of the prominent restaurant chains, the abundance of unused private equity capital and the fact that restaurants are a "need" as opposed to a "want" in the waterfall of consumer expenditures. In addition, there have been several successful private equity exits from the restaurant business recently which has served to pique interest in the industry.
2. *What is the current sweet-spot for private equity investors in 2013?*	We believe private equity investors are looking for fair valuations, low-cost leverage, concepts that resonate with the consumer, adequate sales to investment ratios, good reimaging solutions, good capex status and meaningful growth opportunities. Private equity firms are looking for opportunities to receive two to four times the capital they invest which predicates good decision-making in the key disciplines of their target companies: finance, marketing, sales, ops, etc.
3. *What type of returns are private equity players currently targeting?*	Private equity firms have significantly reduced their return ambitions from the halcyon days prior to the recession. Many funds now are promising returns of approximately 20%, some are even giving a range of 15% to 25% and this is based on the vintage, size and pedigree of the fund.
4. *Do you think the rush to do deals before 2012 year-end in an effort to avoid capital gain increases will impact 2013 deal flow?*	We are not experiencing any diminishment in transaction flow in 2013 due to the 2012 year end rush; however, it is a fair question. More important than the capital gains tax increase are the potential economic headwinds caused by regulatory nonsense, hostility to the business community, Obama care, minimum wage hikes, etc. We believe that 2013 will be a good year for transaction flow, however the environment will become trickier as the year progresses.
	**Kevin T. Burke** *Managing Director* Mr. Burke is the Managing Partner of Trinity Capital. Since its founding in 2000, Trinity Capital has completed over $10 billion in mergers and acquisitions, financial restructurings and financing transactions. 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. Prior to founding Trinity Capital, Mr. Burke was Executive Vice President of Franchise Mortgage Acceptance Company (*Nasdaq: FMAX*), responsible for Capital Markets and Administration, including securitization, investor relations, loan syndication and mergers and acquisitions. Mr. Burke was instrumental in developing and broadening the $12 billion franchise loan securitization market and is a frequent industry lecturer/speaker. Trinity Capital LLC 11755 Wilshire Blvd., Suite 2450 Los Angeles, CA 90025 Main: 310-268-8330 Direct: 310-231-3100 kburke@trinitycapitalllc.com

Geoff Bailey & RR: New Government/Industry Model Needed

By Geoff Bailey
President, The Bailey Company, LLP
Operating 50 Arby's in three rocky mountain states

By Phil Mangieri & Wally Butkus
Partners, Restaurant Research LLC

There is a shift taking place in this country that concerns business owners in every state. It is the belief that being successful, having an entrepreneurial drive and responsibly bettering one's lot no longer defines the American Dream.

Frequently the daily press depicts business in an unfavorable light. Congress often fails to appreciate the private sector's contribution to society. Employees believe their employers make too much money.

This creates challenges for business owners (small and otherwise) to carry more and more of the burden of expanding social services and increasing costs. Where are the rewards for risk taking and capital investments that fuel job creation? **How is the tide against the free market system going to be stemmed? When will someone stand up and lead a pro-business movement?**

The answer to these questions and a host of other related questions rests with us. It is up to us as business leaders to self-organize by working and standing together in order to communicate our side of the story to our political leaders and to the public at large.

We all must realize that the government's growth and impositions are not going away, but rather, are likely to increase following the momentum of the political pendulum.

Our new role as entrepreneurs is to work in a bipartisan way to forge a mutually beneficial relationship between government and business. We believe the model of the relationship between franchisor and franchisee provides a relevant road map for us all to follow.

In short, **the government's role, as franchisor to business**, is to provide a stable environment which fosters economic growth by assuring an opportunity for businesses to make a profit. Like a franchisor, the government relies upon a royalty stream (taxes). Protecting the revenue stream by providing sound systems, principles, and processes is in the best interest of a franchisor, and in this case, the government.

Reality dictates that we must accept that **the government cannot be wished away** and a huge amount of work is now required to demonstrate that we can play a bipartisan role in leading the discussion of how to partner with the government towards a mutually beneficial result. Also, we believe there is a growing need for a public relations campaign to re-educate everyone about why the traditional American Dream still makes sense for our country. **The alternative? We remain inactive and continue to have no say in the development and enforcement of our steadily deteriorating playing field.**

In conclusion, if business works with government as we have learned to work with our teams, communities, suppliers, and guests, there is no end to what can be expected to be accomplished.

Help us strengthen our business interests by participating in a dialogue of what to do next.

Please share your ideas of how the industry can partner with the government at info@ChainRestaurantData.com

RR's Data Laboratory: Monthly Indices

- **DelaGet's Traffic & Sales – page 7**
- **Marcus Millichap's Cap Rates – page 8**

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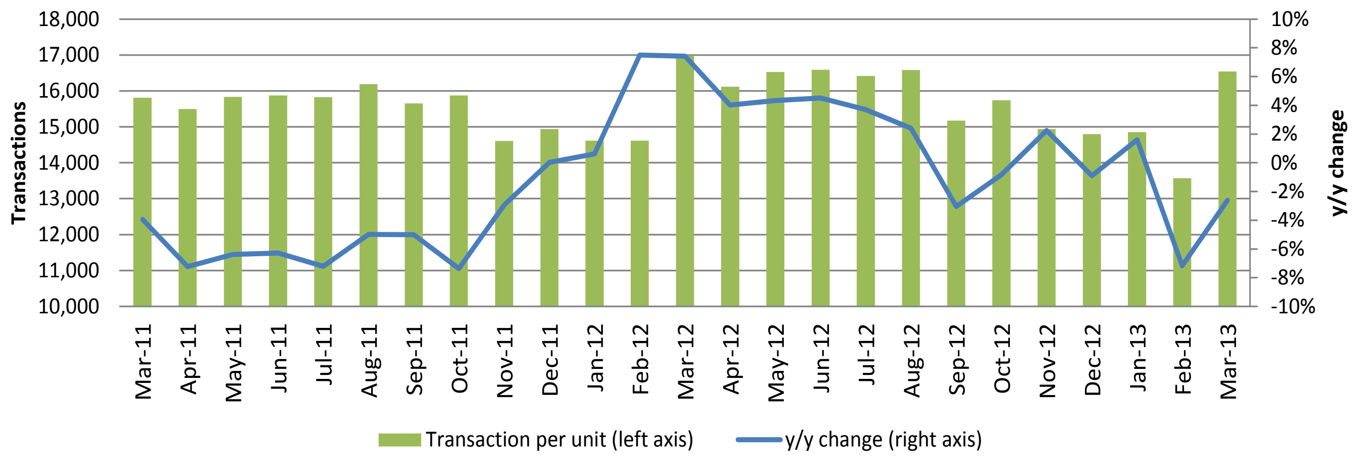
DelaGet's Industry Traffic Barometer

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

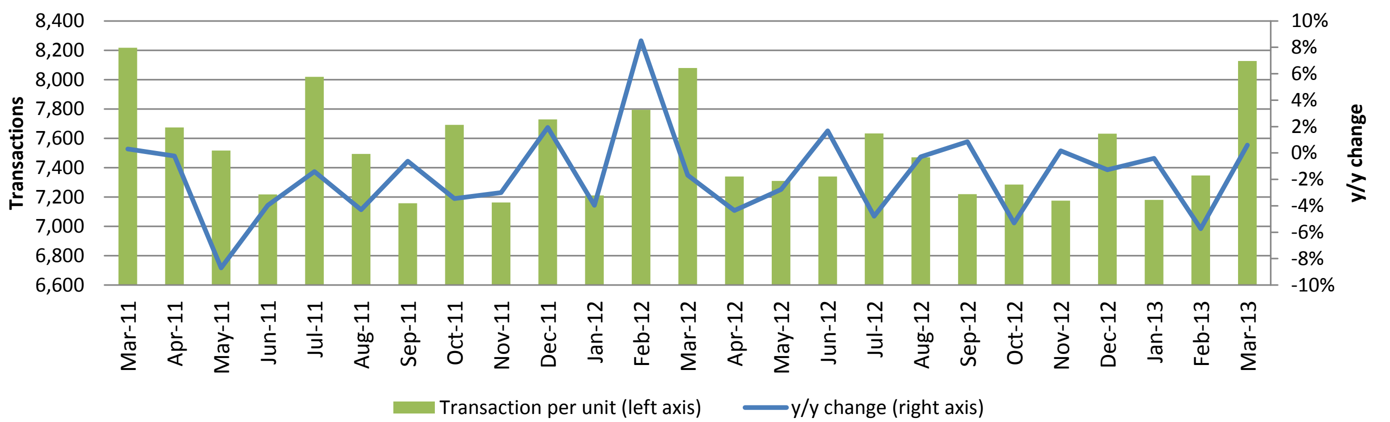
March Traffic Summary

	y/y	month/month	Delta with Historical Avg.
QSR	-2.6%	21.9%	5.7%
Table serve	0.6%	10.6%	6.9%

Monthly Transactions per QSR Unit



Monthly Transactions per Sit-Down Unit



Source: DelaGet

DelaGet helps multi-unit restaurant operators put more money on their top and bottom lines by providing low-cost, cloud-based information services such as loss prevention, payroll, and operational and financial reporting. DelaGet serves a client base of more than 8,500 restaurants and processes data associated with over 1 billion transactions annually. Learn more at www.DelaGet.com.

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Marcus & Millichap's Chain Restaurant Cap Rate Detail

Buyer interest in net-leased properties continues to intensify as investors seek alternatives to stocks and bonds. In March of 2013 transaction velocity was up 17% from 2012 and cap rates compressed more than 30 basis points year over year. The majority of franchised restaurants are transacting in the low-7 percent cap range. With that said, some buyers are choosing to increase their returns by purchasing restaurants operated by small to medium size franchisees (those operating 20-50 units). When the cost of debt eventually increases the cap rates will follow suite and while no one can pinpoint when this will occur; few argue that it won't. Marcus & Millichap activated 70 new triple-net restaurant listings in March of 2013, a 23% increase over prior year. This upsurge is the result of franchisees and fee real estate owners electing now as the time to leverage the cap rate compressed market.

Marcus & Millichap Closed Escrow NNN Restaurants for March 2012

Property Name	State	SqFt	CAP	Price	COE
Five Guys Burgers and Fries	NC	2,475	7.89%	$1,050,000	3/30/2012
Church's Chicken	MI	1,104	7.98%	$348,000	3/29/2012
Burger King	NC	4,220	9.30%	$1,470,000	3/30/2012
KFC	MT	2,712	8.33%	$600,000	3/30/2012
Mimi's Café	AZ	6,500	5.35%	$1,725,000	3/29/2012
Red Robin	AZ	6,300	5.33%	$1,875,000	3/29/2012
KFC	MO	2,243	7.69%	$765,000	3/14/2012
Schlotzsky's Deli	CO	2,730	9.47%	$950,000	3/29/2012
KFC	IA	3,078	8.00%	$1,194,000	3/28/2012
IHOP	TX	4,972	7.29%	$2,600,000	3/23/2012
Pizza Hut	VA	1,950	8.25%	$531,000	3/27/2012
Burger King	MN	4,500	7.83%	$1,475,000	3/23/2012
KFC/Taco Bell	CO	2,953	9.00%	$1,366,000	3/21/2012
Wendy's	FL	2,959	6.71%	$1,033,075	3/22/2012
Starbucks	TN	1,850	9.52%	$965,000	3/20/2012
Tim Horton's	OH	2,592	6.02%	$665,000	3/16/2012
McDonald's	TX	5,902	4.80%	$1,667,000	3/12/2012
Olive Garden	CO	7,537	6.87%	$1,026,000	3/15/2012
Jack in the Box	WA	2,857	7.25%	$2,125,000	3/15/2012
Burger King	IL	3,011	7.75%	$1,843,000	3/9/2012
Hardee's	FL	2,474	7.75%	$1,354,800	3/13/2012
Wendy's	FL	2,810	8.54%	$1,140,000	3/8/2012
Outback Steakhouse	CA	6,763	5.75%	$2,174,000	3/8/2012
		AVG	7.51%	$1,301,821	

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

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Contact Phil Mangieri at (203) 938-4703 or pmangieri@ChainRestaurantData.com
with questions or comments.