Why is Private Equity (PE) interested in Restaurants?

- PE firms hope to attain synergies
- Restaurants thought to be: simple businesses, a service that everyone needs, to throw off steady, predictable, bond-like low risk cash flows
- Investors demand: have need to balance their portfolios
- Restaurants that franchise have low/lower needs of CAPEX, may enhance growth
- Put PE investor funds (dry powder) to work
- Fewer publicly traded restaurants=IPO latent demand

Restaurant Potential Returns Universe: Sources of return?

- Operating Restaurants
- Franchising Restaurants
- Supply chain, consumer package goods (CPG), licensing
- Rationalizing (selling) assets: sum of the pieces theory
- PE management fees and dividends
- Exit strategy: selling to another firm (str. or PE)
- Exit strategy: IPO: sell stock (equity) gradually to replace debt and payback PE initial investment, potential stock price appreciation

PE Firm is a risk taker, but has advantages

PE firm itself invests its own cash

PE invests its client's money

PE utilizes debt for bulk of purchase price

PE gets bulk of its return upon hitting performance goals or holding/selling to gain

PE firms can take dividends/fees out based if bank agreement/debt market and company performance warrants

Issue: How is PE Restaurant success defined?

WOMEN'S FOODSERVICE FORUM

Definitions key

Who benefits?

Who are the stakeholders: investors, PE firms, the brand itself, franchisees, employees, creditors, consumers

Data challenge: PE is private, not much data. Sources: industry events, press services, earnings calls for some, SEC filings (S-1), other SEC filings, IPO road shows, Ch.-11/7 filings, business intel.

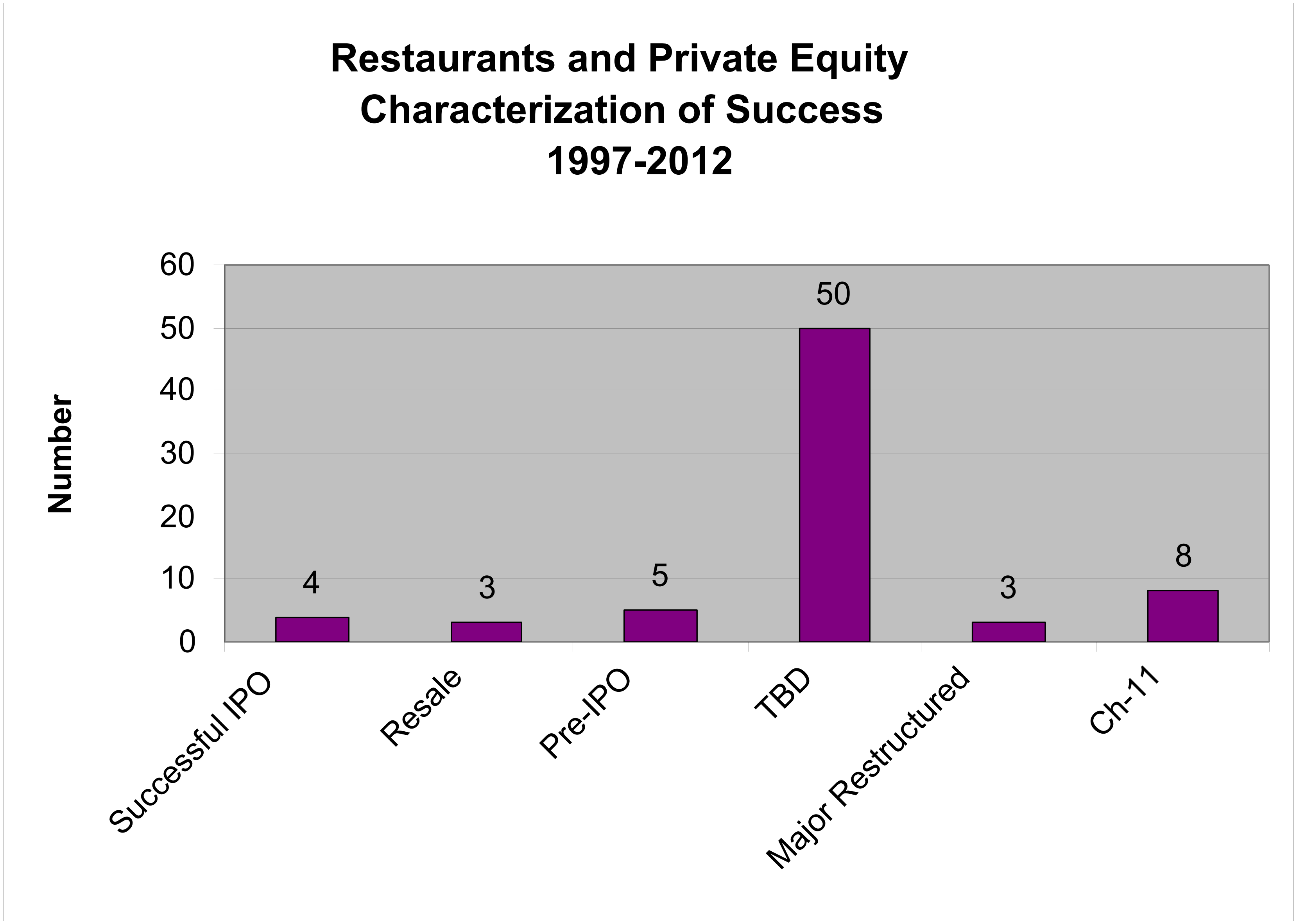
Tracking Universe: larger companies, established major brands

IPO, pre-IPO, resale: assumed to be "successful"

Ch-11/7, major restructuring: not successful

Vast majority in TBD, working status

Impossible thus far to measure all stakeholders gains/losses



Per press reports, publicly available data, and Pacific Management Consulting Group analysis.

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PE Statistics, 1997-2012

73 deals tracking, app. $26 Billion

Most frequently appearing: Burger King

Avg. debt at Ch-11: 7.4X (EV/EBITDA)

2005/2006 deals most challenged

Avg. debt at restructuring: 9.5X (EV/EBITDA)

Largest investor loss: Quizno's, app. $280M

90 major brands tracking

PE Ownership Pros/Cons: too complex for bumper sticker analysis

WOMEN'S FOODSERVICE FORUM

- PE is here to stay
- Ability to provide capital, maturity and scope to startups
- Gives companies a “time out” from hyper pressure of Wall Street, chance to get fixed

- Risk is complicated mutual support systems are broken apart
- Older, declining brands may not be turnaround-able
- Debt/PE dividends may undermine the company, how does the debt ever get paid off?

What could the future be?

Companies will go back and forth between public and private status more frequently

Collaboration among companies to manage bloated restaurant inventory ?

Clumps of PE firm purchases (2004-2007), (2010-2011) will affect out year market characteristics

PE restaurant staff specialists corps

Questions?

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