



Investment Banking | **Industry Spotlight**



Restaurants | Q3 2016

Consumer & Retail Investment Banking

Fifth Third Securities' Consumer & Retail Investment Banking Group advises middle market and mid-cap companies on M&A advisory, capital raising, and strategic alternatives in the following sectors:

Consumer

- Apparel, Accessories & Footwear
- Building Products
- Consumer Services
- Household Products
- Interior Furnishings
- Personal Products
- Recreational Products

Food, Beverage & Agribusiness

- Agricultural Inputs
- Beverages
- Dairy Products
- Foodservice Distribution
- Ingredients and Flavors
- Packaged Food/ Snack
- Protein Processing

Restaurants

- Casual Dining
- Coffee & Specialty
- Family Dining
- Fast Casual
- Fine Dining & Polished Casual
- Franchisees
- Quick Service (QSR)

Retail

- Apparel, Accessories & Footwear
- Discount & Off-Price
- Furniture & Furnishings
- Grocery & Pharmacy
- Internet & e-Commerce
- Mass Merchandise
- Specialty

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Representative Transactions


Planet Fitness Midwest
obtained sub-debt financing from

ARROWPOINT PARTNERS
Financial Advisor



has been acquired by
Croton Holding Company
Sell-Side Advisor


\$425,000,000


has been acquired by


Sell-Side Advisor



obtained sub-debt financing from



Financial Advisor


\$80,000,000
Senior Secured Credit Facilities
MasterCraft
Lead Arranger


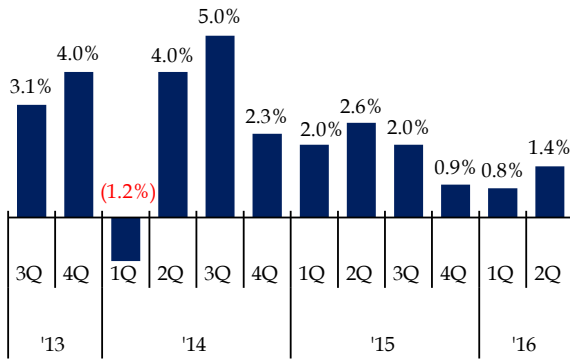
\$1,100,000,000
Senior Secured Credit Facilities
TEMPUR+SEALY
Joint Lead Arranger


\$1,500,000,000
Senior Secured Credit Facilities

Joint Lead Arranger

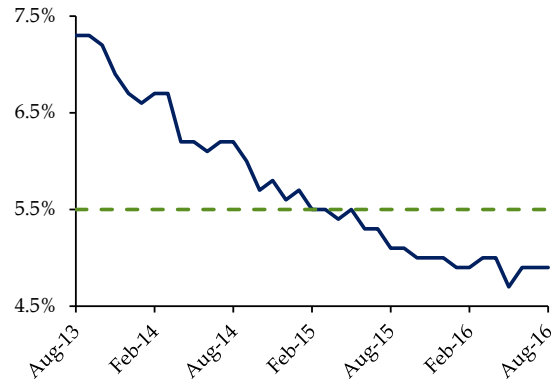

\$2,425,000,000
Senior Secured Credit Facility

Joint Lead Arranger


Real GDP Growth



Source: Bureau of Economic Analysis

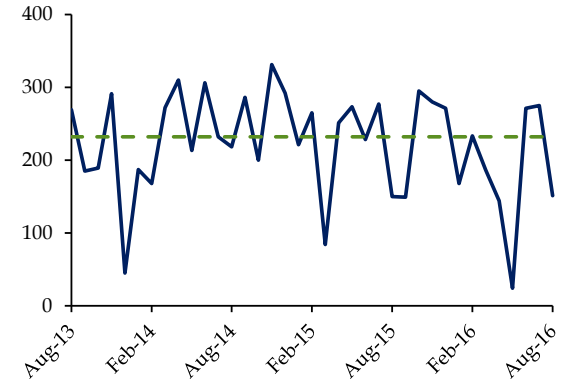
National Unemployment Rate



Source: Bureau of Labor Statistics

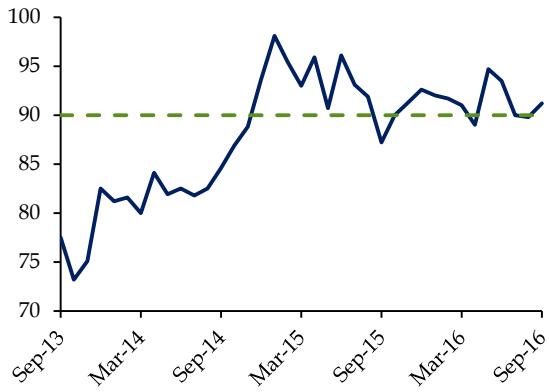
Additions to Non-Farm Payrolls

(in thousands of employees)



Source: Bureau of Labor Statistics

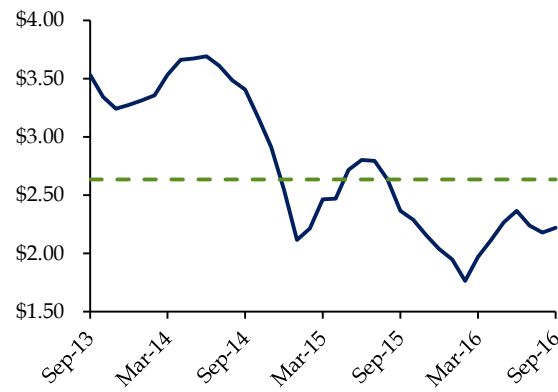
Consumer Sentiment Index



Source: University of Michigan

Retail Gas Prices

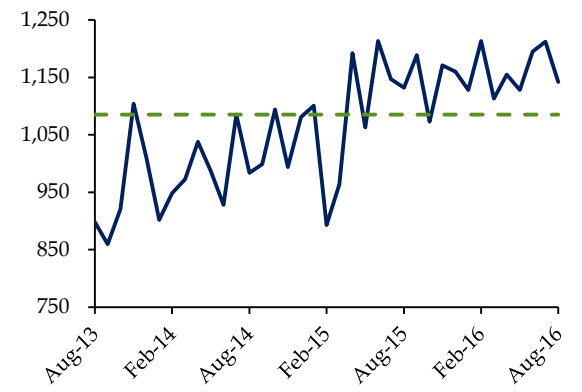
(in \$'s per gallon)



Source: Energy Information Administration

Housing Starts

(in thousands of units)



Source: United States Census Bureau

Are Restaurants in a recession? Stifel analyst Paul Westra suggests so

- Citing a 150 – 200 bps deceleration of restaurant industry comps
- The report was released almost simultaneously with disappointing comp growth results from MCD, SBUX, CMG and DFRG

Fast Casual takes share both down (QSR) and up (Casual) market

- Fast Casual has captured significant market share due to consumers' perception of "value" (food/service/facility)
- Meanwhile, high-end and "polished" casual restaurants are the "fast casuals" of full service restaurants, offering a heightened experience
- 37% of consumers aged 18 – 34 and 18% of consumers aged 35+ are visiting fast casual restaurants more now than two years ago

"Mindful" consumers seek healthy and eclectic options, and are open to new service models such as meal delivery

- Menus evolving towards local sourcing and free of artificial components (rising risk of food borne illness)
- 70% of fast casual and 66% of QSR diners reported that they are more likely to purchase items described as "natural" than otherwise

Trend reversal in food prices lifts operating margins, for now

- Oil/transportation costs and the strength of the U.S. dollar support low inflation, offset by the effect of California's ongoing drought

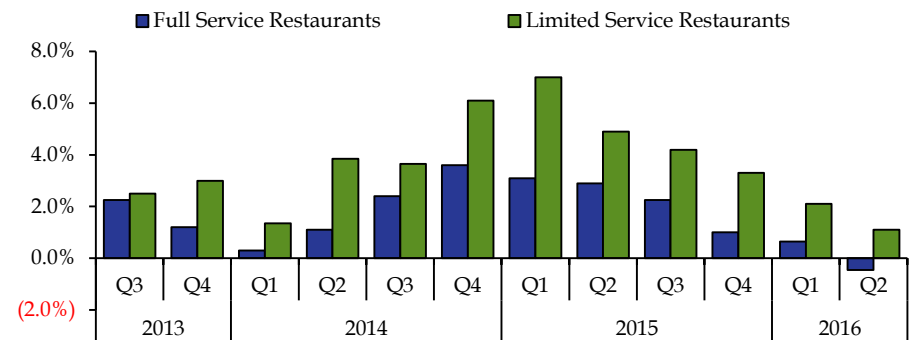
Overtime pay rules, minimum wage trends and the ACA continue to make labor management the greatest challenge for operators

- Restaurants are using technology to automate front and back-office functions (i.e. labor management and scheduling)
- The Democratic party supports a \$15 minimum wage in its platform

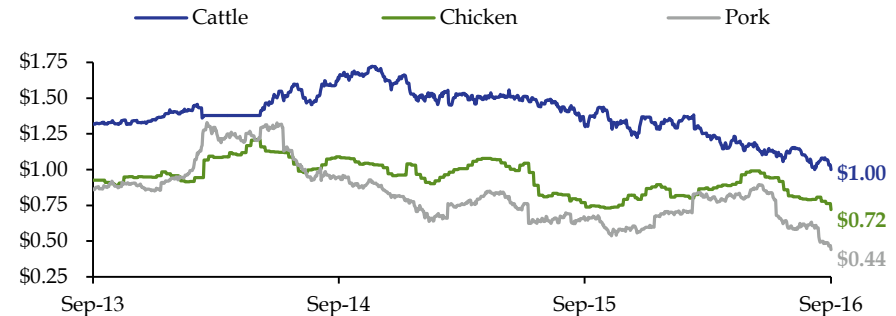
"Low touch" restaurants use on-demand amenities to combat labor cost and appeal to the new generation of consumers

- On-demand amenities cater to convenience-seeking patrons, and can counter disruptive services like GrubHub, Postmates and Uber
- Panera, Chipotle and Burger King expanding mobile-based delivery, while Dunkin' Donuts, KFC, Taco Bell and Starbucks conduct trials

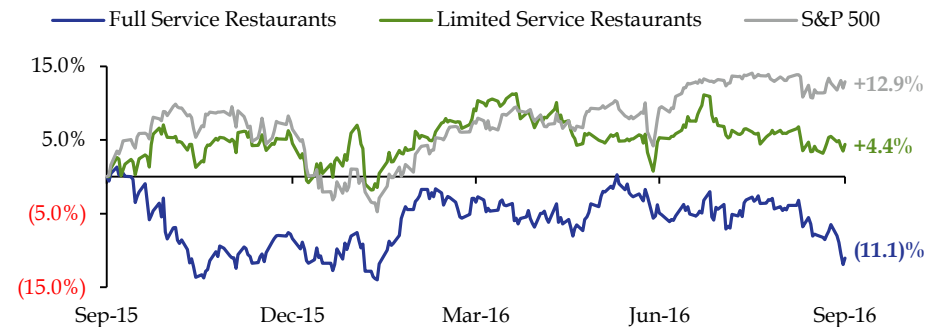
Same Store Sales (SSS) Growth



Food Prices (\$ per pound)

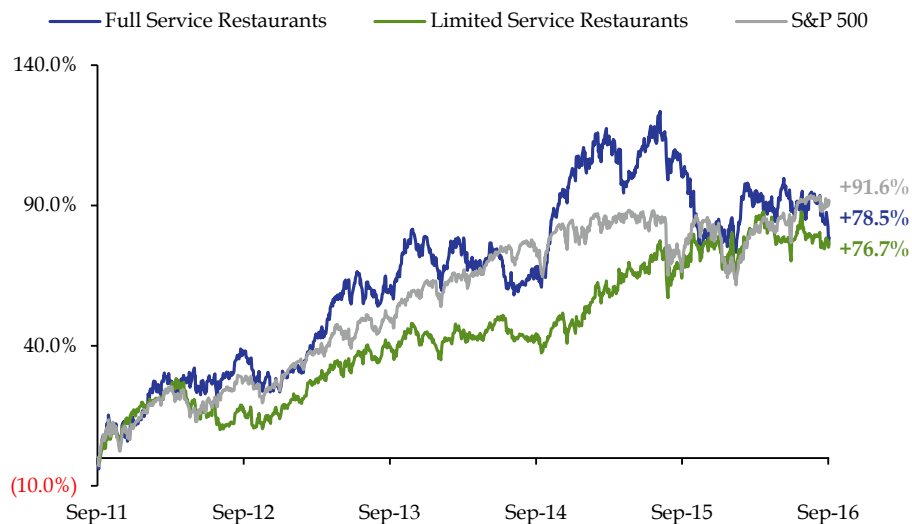


LTM Share Price Performance

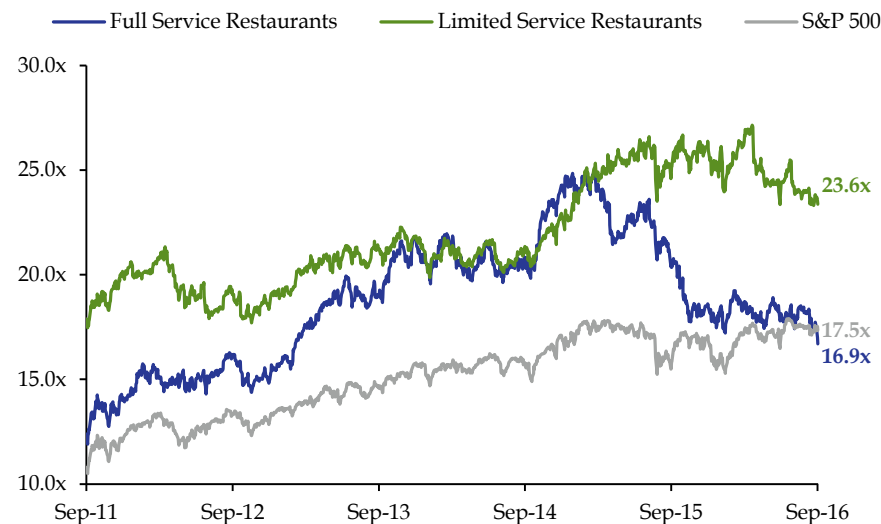


Public Equity Market Valuation Trends

5-Year Share Price Performance



5-Year EV / Forward P/E Performance [1]



Sub-Sector Indices' Share Price Performance [1]

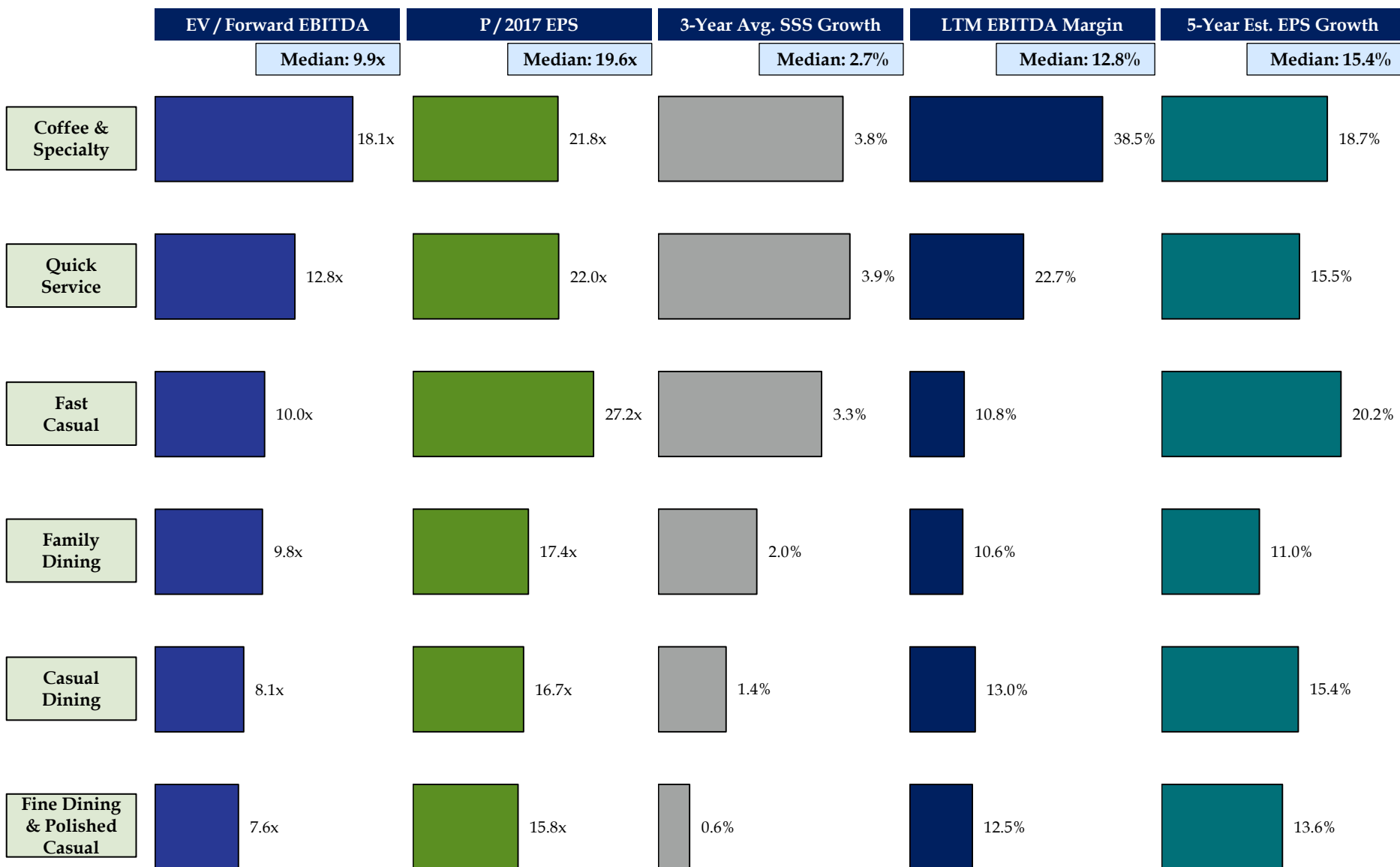
Sector/Sub-Sector	Number of Companies	Median Enterprise Value \$ in Millions	Median TEV/LTM Multiples		Median EV Multiple LTM P/E	Median TEV/Forward Multiples		Median EV Multiple Forward P/E
			Revenue	EBITDA		Revenue	EBITDA	
Full Service Restaurants	24	\$1,112	1.1x	8.7x	19.0x	1.2x	8.1x	19.1x
Casual Dining	13	1,915	1.1x	8.7x	21.6x	1.2x	8.1x	19.1x
Family Dining	4	1,112	1.2x	10.4x	16.8x	1.2x	9.8x	19.5x
Fine Dining & Polished Casual	7	310	0.9x	7.8x	19.0x	0.9x	7.6x	17.2x
Limited Service Restaurants	25	3,239	3.0x	13.3x	33.0x	3.0x	12.8x	25.4x
Coffee & Specialty	3	6,974	3.9x	17.0x	35.0x	3.7x	18.1x	25.4x
Quick Service	13	3,239	3.0x	13.3x	24.7x	3.0x	12.8x	24.4x
Fast Casual	9	445	1.0x	10.8x	33.0x	1.3x	10.0x	31.2x
S&P 500	500	NM	2.2x	11.6x	24.9x	2.1x	10.7x	17.5x

Source: S&P Capital IQ as of September 30th, 2016

* Each index is comprised of the companies noted on page 12

[1] Forward P/E multiples in charts do not match, as 5-year performance chart is market capitalization weighted

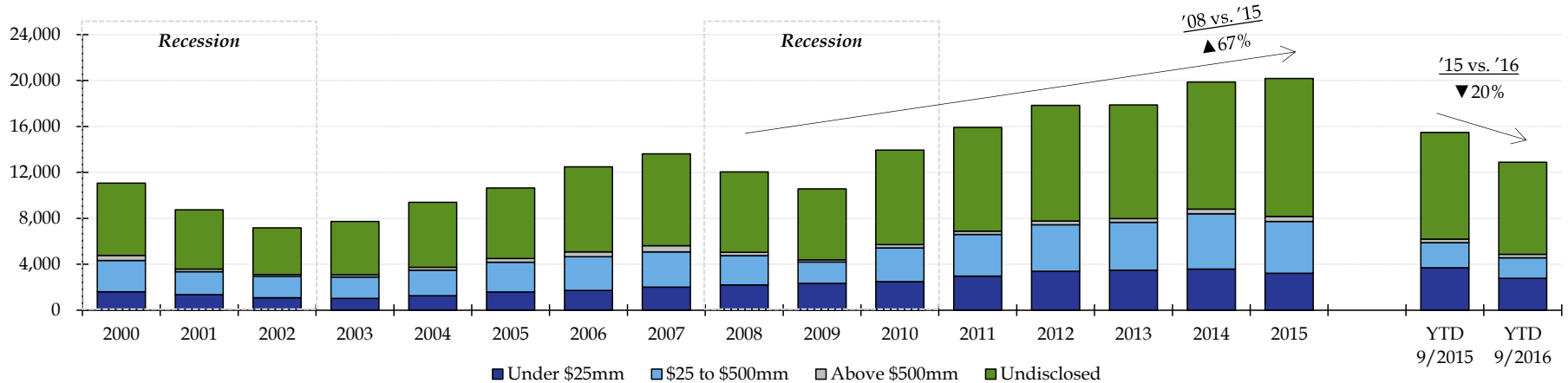
Public Equity Market Valuation Trends (Cont'd)



Source: S&P Capital IQ as of September 30th, 2016
* Each index is comprised of the companies noted on page 12

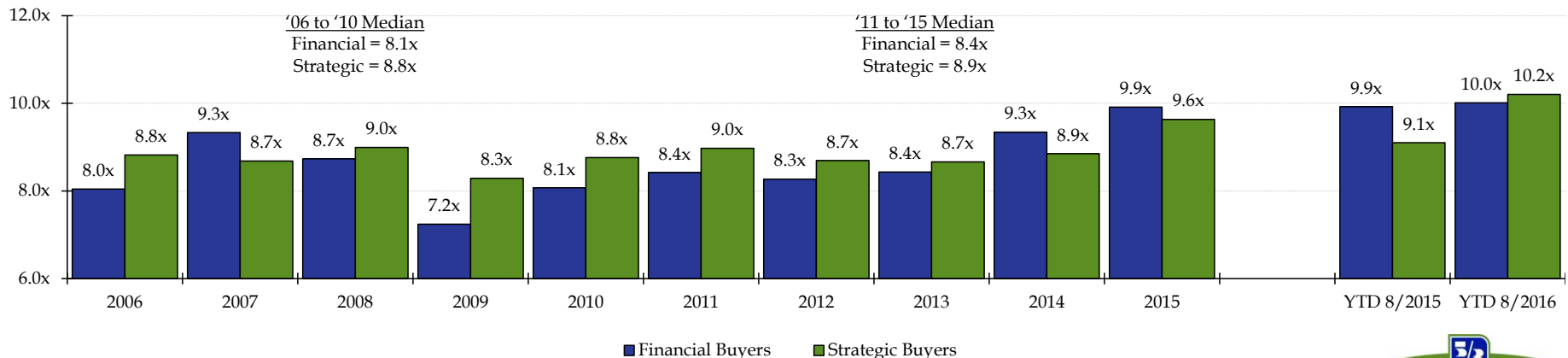
Transaction Volume

- Historically, M&A cycles have not extended past seven years; 2016 is year six of the cycle
 - Relative to past cycles, interest rates are lower, corporate balance sheets are stronger, and private equity firms have more untapped capital
- 2016 has demonstrated signs that the buyout cycle is slowing, however, plenty of positive drivers remain



Median Transaction Multiples (Enterprise Value / LTM EBITDA)

- Purchase multiples by both financial and strategic buyers remain above their five-year median
- Deal multiples may remain elevated due to strong competition for high quality assets as strategic corporate and private equity firms continue to seek acquisitions to fuel growth and deploy capital



Consumer M&A activity skewed towards > \$1 billion transactions

- Strategic buyers: cash-flush, equity market favors consolidators
- Financial investors: record levels of un-invested capital and moderated IRR expectations

Restaurants, given the diversity of concepts, are not as much a threat to merge or consolidate as they are to “bolt on” complimentary brands

- Companies are taking a more exploratory approach to development with concepts that don't threaten the “hero brand”
 - TXRH developing Bubba's 33, a burger & pizza concept
 - BWLD acquired Rusty Taco
- Cyclically high equity market values make takeovers less attractive

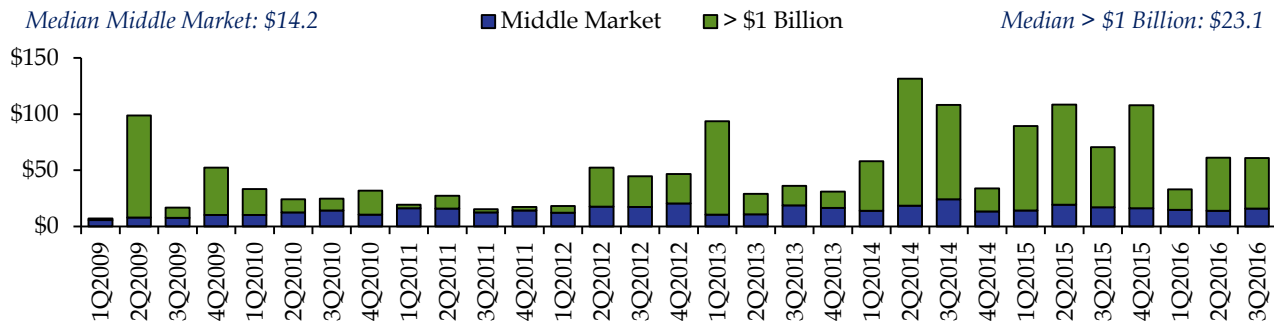
For franchisors, M&A remains active

- “Re-franchising” narrative is playing out, causing franchisee systems to consolidate (ex. WEN)
- Combining concepts to achieve synergies: Burger King/Tim Hortons

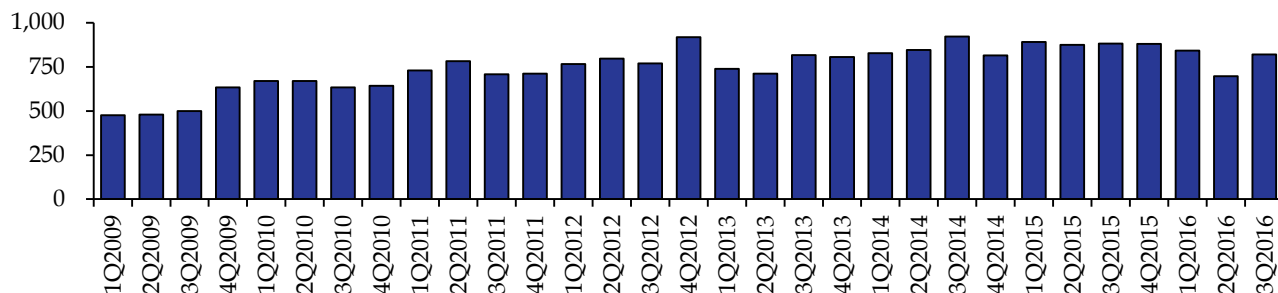
For full service operators, focus is on core concepts versus M&A

- Since 2013, DRI, BLMN, EAT, DIN have combined to acquire zero new brands while divesting two

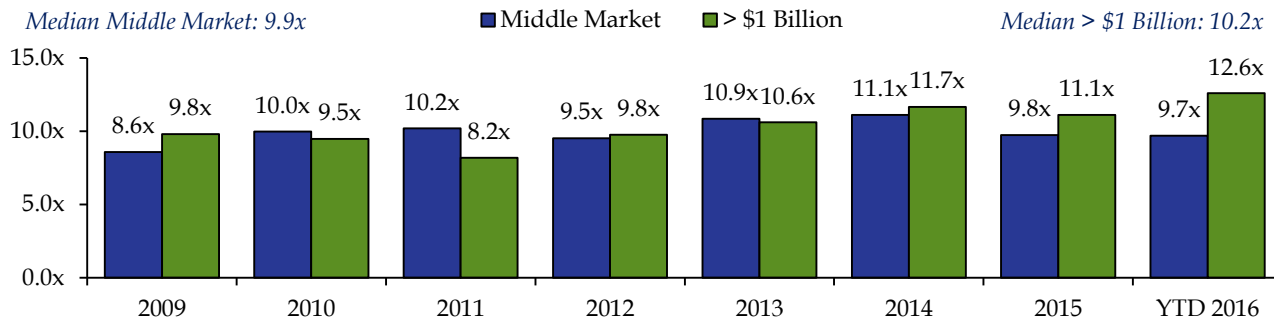
U.S. Consumer & Retail M&A Announced Deal Value (\$ in billions) [1,2]



U.S. Consumer & Retail M&A Announced Deal Volume



U.S. Consumer & Retail M&A Closed Deal Average EV / EBITDA Multiple [1,2]



Source: Fifth Third Securities, S&P Capital IQ

[1] Middle Market transactions defined by transactions with an enterprise value below \$1 billion

[2] U.S. Consumer & Retail transactions include Consumer Discretionary and Consumer Staples transactions, and exclude outlier multiples

Restaurant Sector Precedent M&A Transactions

Restaurant Sector Precedent M&A Transactions (\$ in millions)

Announced Date	Acquirer	Target	Enterprise Value (EV)	LTM		EV / LTM	
				Revenue	EBITDA	Revenue	EBITDA
09/09/16	MTY Food Group (TSX:MTY)	BF Acquisition Holdings, LLC	\$27	\$145	-	0.2x	-
09/08/16	Roark Capital Group	Jimmy John's Franchise, LLC	-	-	-	-	-
09/02/16	CenterOak Partners LLC	Wetzel's Pretzels, LLC	-	-	-	-	-
05/25/16	MTY Food Group (TSX:MTY)	Kalaha Corp. (Multi-Concept Franchisee)	302	729	-	0.4x	-
05/09/16	JAB Holding Co.	Krispy Kreme Doughnuts, Inc.	1,298	519	73	2.5x	17.8x *
07/14/15	BC Partners	Cote Restaurants	391	172	38	2.3x	10.4x
07/07/15	Casual Dining Group	Las Iguanas	131	-	-	-	-
05/22/15	NRD Capital	Frisch's Restaurants, Inc.	173	216	24	0.8x	7.3x
03/12/15	Levy Acquisition Group (n.k.a. NasdaqCM: TACO)	Del Taco Holdings	500	385	59	1.3x	8.5x
09/29/14	JAB Holding Co. and BDT Capital Partners, LLC	Einstein Noah Restaurant Group	163	163	16	1.0x	10.3x
08/26/14	Burger King (n.k.a. NYSE:QSR)	Tim Hortons Inc.	14,620	3,400	840	4.3x *	17.4x *
07/12/14	Hony Capital	PizzaExpress	1,539	637	151	2.4x	10.2x
07/01/14	Berkshire Partners	The Portillo Restaurant Group, Inc.	1,000	303	97	3.3x *	10.3x
05/23/14	Roark Capital Group	Corner Bakery	300	375	29	0.8x	10.3x
05/20/14	Sentinel Capital Partners, LLC	TGI Friday's Inc.	790	1,129	113	0.7x	7.0x
05/15/14	Golden Gate Capital	Red Lobster Seafood, Co.	2,113	2,641	230	0.8x	9.2x
01/16/14	Apollo Global Management (NYSE:APO)	CEC Entertainment, Inc. (NYSE:CEC)	1,309	818	166	1.6x	7.9x
11/19/13	Roark Capital Group	CKE Inc.	1,650	1,320	174	1.3x	9.5x

Transactions over \$100 million of Enterprise Value

Transactions completed or announced over the past three years

Median - Strategic	0.7x	10.3x
Median - Financial	1.3x	9.4x
Median - All	1.0x	9.5x

Deals in the Headlines

M&A / Consolidation Case Study

JAB HOLDINGS



Enterprise Value: \$1.3 Bn
Revenue Multiple: 2.5x
EBITDA Multiple: 17.8x

- KKD to become 10th major coffee and breakfast company in JAB portfolio
- JAB effecting roll-up strategy of coffee roasting brands
- ~90% franchised
- Will be privately owned and HQ stays in Winston Salem

Growth Capital Case Study



Financial Information Not Disclosed
Transaction closed in March 2016

- Undisclosed investment to finance new unit growth and general corp. purposes
- First institutional round of capital raised by Jeni's
- Jeni's had suspended operations twice due to listeria outbreak

Source: Company Filings, S&P Capital IQ

[1] * Excluded from mean and median

[2] Green shading indicates strategic acquisition

Private equity activity has slowed over the first three-quarters of 2016

- 3Q16: \$121 billion deployed (down 10%) in 672 transactions (down 7%)

Expectation that activity will remain muted, with most deal flow coming from add-on acquisitions to platforms

- Bolt-on strategy levels the playing field with strategic buyers: easier to finance and synergies available
- JAB: roll-up of coffee roasters

Valuation multiples are influenced and inflated by structural enhancements

- Used to offset expectation that valuations will compress
- Low-rate and modest-growth macroeconomic environment has moderated IRR expectations

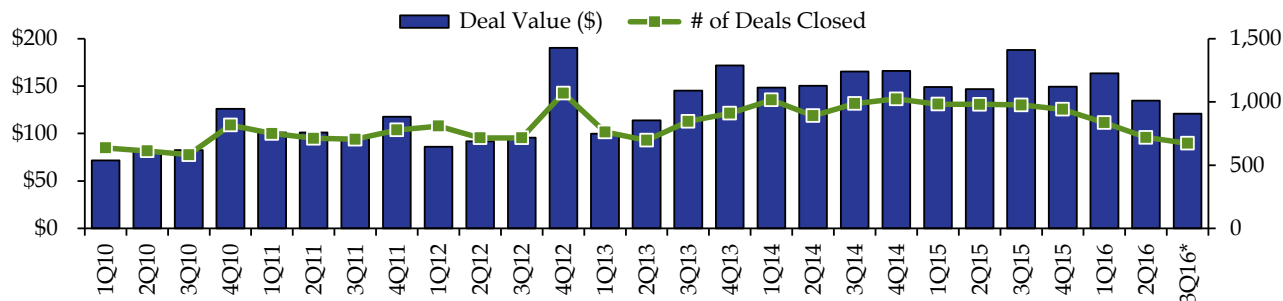
Financial buyers are allocating capital to growth-oriented concepts, earlier

- Greater risk, but greater upside
- Catterton/Chop't Creative Salad Co.

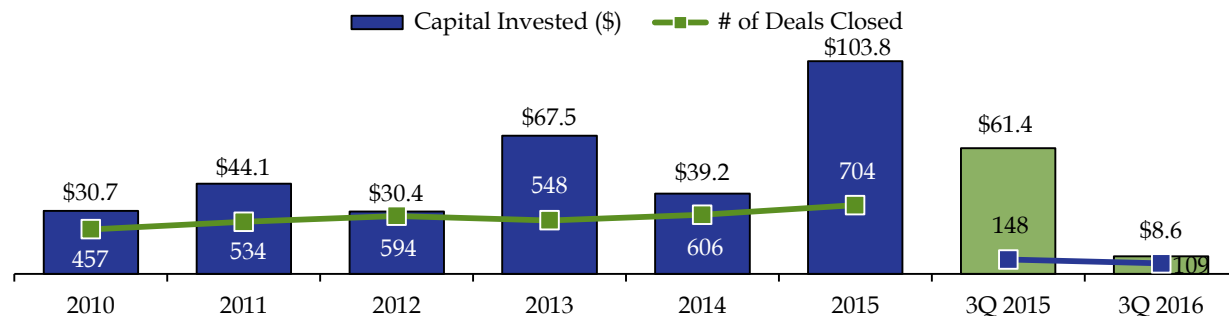
Traditional "buyout" activity has been limited to special situations

- Golden Gate's acquisition of Red Lobster (from DRI): value creation through real estate divestiture
- Sentinel's acquisition of TGI Friday's: transition to asset-light model through re-franchising initiative

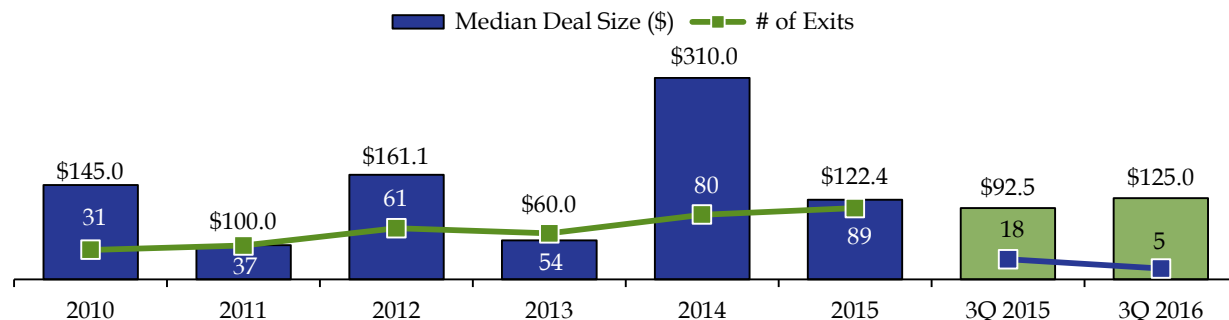
U.S. Private Equity Deal Flow (\$ in billions)



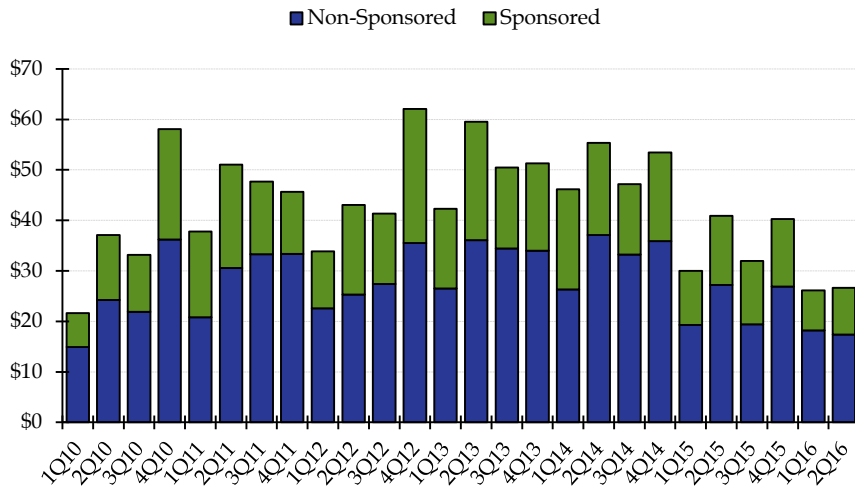
U.S. Consumer & Retail Private Equity Deal Flow (\$ in billions)



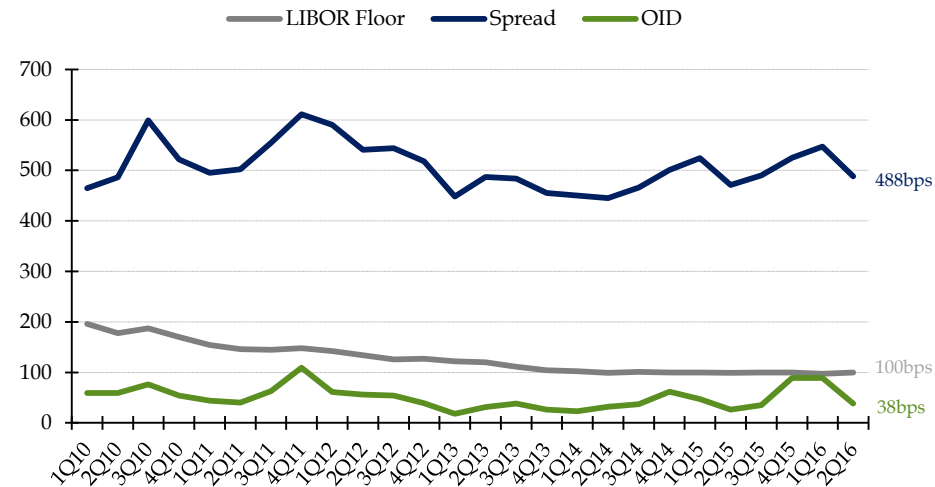
U.S. Consumer & Retail Private Equity Exits (\$ in millions)



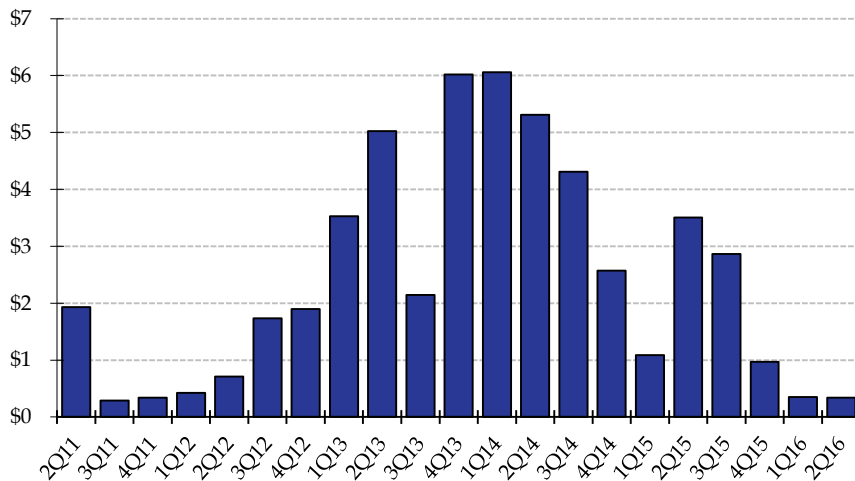
Loan Volume: Low Level of Supply Continues (\$ in billions)



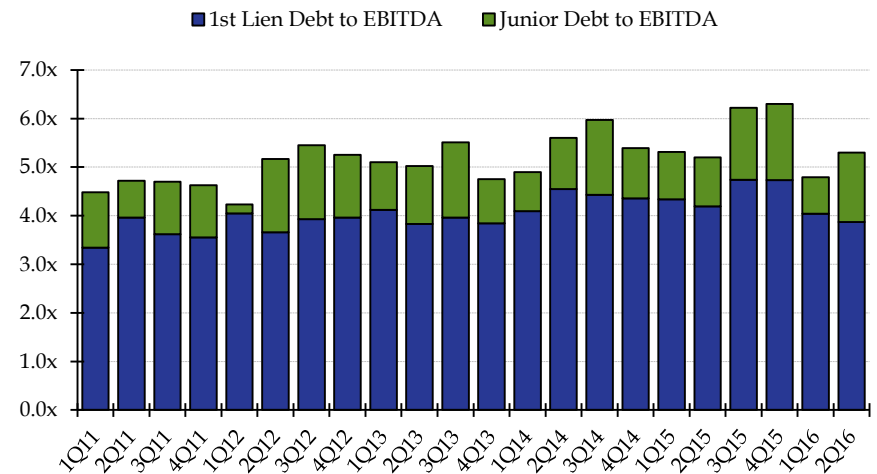
Term Loan Spreads Tightening [1]



Covenant Lite Volume Remains Relatively Low (\$ in billions)



LBO Leverage Climbs Higher, However Lack of Supply Continues



Note: This data represents the entire U.S. middle market (all industries)
 Note: The middle market is defined as deal size ≤ \$100 million and borrower sales ≤ \$500 million
 [1] Includes both non-sponsored and sponsored transactions
 Source: Bloomberg, S&P Capital IQ LCD, and Thomson Reuters LPC

Full Service Restaurants

Casual Dining

- BJRI – BJ’s Restaurants, Inc.
- BLMN – Bloomin’ Brands, Inc.
- BWLD – Buffalo Wild Wings Inc.
- CHUY – Chuy’s Holdings, Inc.
- DAVE – Famous Dave’s of America Inc.
- DIN – DineEquity, Inc.
- DRI – Darden Restaurants, Inc.
- IRG – Ignite Restaurant Group, Inc.
- RRGB – Red Robin Gourmet Burgers Inc.
- RT – Ruby Tuesday, Inc.
- TXRH – Texas Roadhouse, Inc.
- PLAY – Dave and Buster’s Entertainment, Inc.
- EAT – Brinker International, Inc.
- CAKE – The Cheesecake Factory Incorporated
- DFRG – Del Frisco’s Restaurant Group, Inc.
- FOGO – Fogo de Chao, Inc.
- KONA – Kona Grill Inc.
- RUTH – Ruth’s Hospitality Group Inc.
- JAX – J. Alexander’s Holdings, Inc.

Family Dining

- BH – Biglari Holdings Inc.
- BOBE – Bob Evans Farms, Inc.
- CBRL – Cracker Barrel Old Country Store, Inc.
- DENN – Denny’s Corporation

Fine Dining & Polished Casual

- BBRG – Bravo Brio Restaurant Group, Inc.

Limited Service Restaurants

Coffee & Specialty

- DNKN – Dunkin’ Brands Group, Inc.
- JMBA – Jamba, Inc.
- SBUX – Starbucks Corporation
- PNRA – Panera Bread Company
- SHAK – Shake Shack Inc.
- ZOES – Zoe’s Kitchen, Inc.
- FRGI – Fiesta Restaurant Group, Inc.

Fast Casual

- BOJA – Bojangles’, Inc.
- DPZ – Domino’s Pizza, Inc.
- FRSB – Papa Murphy’s Holdings, Inc.
- JACK – Jack in the Box Inc.
- LOCO – El Pollo Loco Holdings
- MCD – McDonald’s Corp.
- PLKI – Popeyes Louisiana Kitchen, Inc.
- PZZA – Papa John’s International Inc.
- QSR – Restaurant Brands International Inc.
- SONC – Sonic Corp.
- WEN – The Wendy’s Company
- YUM – Yum! Brands, Inc.
- WING – Wingstop Inc.

Quick Service Restaurants

- CMG – Chipotle Mexican Grill, Inc.
- COSI – Cosi Inc.
- HABT – The Habit Restaurants, Inc.
- NDLS – Noodles & Company
- PBPB – Potbelly Corporation

S&P 500 Index- A broad index that includes American Companies.

EBITDA- A company's earnings before interest, taxes, depreciation, and amortization, is an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortization are subtracted, as a proxy for a company's current operating profitability.

Dry Powder- Refers to cash reserves kept on hand to cover future obligations or to purchase assets.

GDP- Gross domestic product is the market value of the goods and services produced by labor and property located in the United States

Consumer Sentiment Index- The University of Michigan Consumer Sentiment Index is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in December 1964

National Unemployment Rate- the percentage of the total labor force that is unemployed but actively seeking employment and willing to work.

Non-Farm Payroll- Nonfarm payroll employment is a compiled name for goods, construction and manufacturing companies in the US. It does not include farm workers, private household employees, non-profit organization employees, or government employees . It is an economic indicator released monthly by the United States Department of Labor as part of a comprehensive report on the state of the labor market.

Housing Starts- are the number of new residential construction projects that have begun during any particular month.

The Economist- offers authoritative insight and opinion on international news, politics, business, finance, science, technology and the connections between them

LBO -- leveraged buyout (LBO) is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.

Industrial Production Index (IPI)- is an economic indicator published by the Federal Reserve Board of the United States that measures the real production output of manufacturing, mining, and utilities Capital Goods Orders.

Covenant-lite loans- means that debt is being issued, both personally and commercially, to borrowers with less restrictions on collateral, payment terms, and level of income.

IRR-Internal Rate of Return.

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