



Investment Banking | **Industry Spotlight**



Restaurants | Q1 2017

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

Key Contacts

Investment Banking

Charlie Hurt
Managing Director
(404) 279-4518
Charles.Hurt@53.com

John Shoffner
Managing Director
(704) 688-1813
John.Shoffner@53.com

Red Farha
Vice President
(704) 808-5129
Redmond.Farha@53.com

John Boisture
Director
(704) 688-4522
John.Boisture@53.com

Sponsor Coverage

Bill Tyson
Co-Head, Capital Markets
(804) 916-1481
William.Tyson@53.com

Eric Welsch
Managing Director
(216) 274-5793
Eric.Welsch@53.com

Debt & Equity Capital Markets

Mike Brothers
Managing Director (DCM)
(312) 704-7362
Michael.Brothers@53.com

Mike Ryan
Managing Director (ECM)
(615) 687-3123
Michael.Ryan@53.com

Katie Marano
Vice President (DCM)
(312) 704-7328
Katherine.Marano@53.com








Susannah Lunke
Director (ECM)
(615) 687-3047
Susannah.Lunke@53.com

Corporate Banking

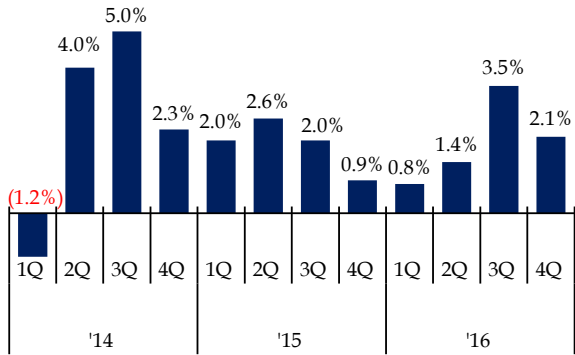
Craig Wolf
C&R Group Head
(312) 704-2994
Craig.Wolf@53.com

Jeff Hoffmann
National Restaurant Vertical
(312) 704-6246
Jeff.Hoffmann@53.com

Representative Transactions

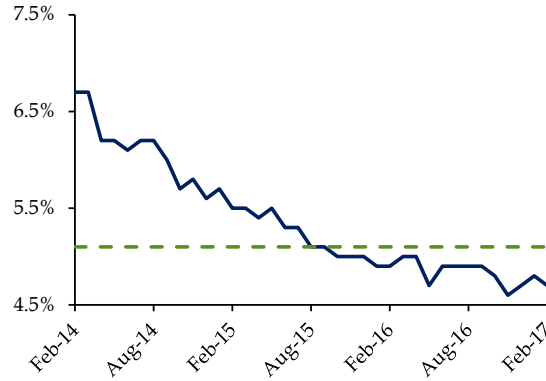
 <p>Planet Fitness Midwest obtained sub-debt financing from</p>  <p>ARROWPOINT PARTNERS</p> <p>Financial Advisor</p> 	 <p>MILLER MILLER INDUSTRIAL LUBRICANTS, LLC</p> <p>has been acquired by</p>  <p>PetroChoice Lubrication Solutions</p> <p>a portfolio company of</p>  <p>GOLDEN GATE CAPITAL</p> <p>Sell-Side Advisor</p> 	<p>\$425,000,000</p>  <p>Flash Foods</p> <p>has been acquired by</p>  <p>CST</p> <p>Sell-Side Advisor</p> 	<p>\$250,000,000</p> <p>First and Second Lien Credit Facilities</p>  <p>TURNING POINT BRANDS</p> <p>Lead Arranger</p> 	<p>\$650,000,000</p> <p>Senior Unsecured Notes</p> <p>NORDSTROM</p> <p>Co-Manager</p> 	<p>\$51,000,000</p> <p>Senior Secured Credit Facilities</p> <p>BENTLEY™</p> <p>Lead Arranger</p> 	<p>\$442,000,000</p> <p>Senior Secured Credit Facilities</p>  <p>K-MAC</p> <p>Joint Lead Arranger</p> 	<p>\$74,000,000</p> <p>Senior Secured Credit Facilities</p>  <p>planet fitness</p> <p>Franchisee</p> <p>Lead Arranger</p> 
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Real GDP Growth



Source: Bureau of Economic Analysis

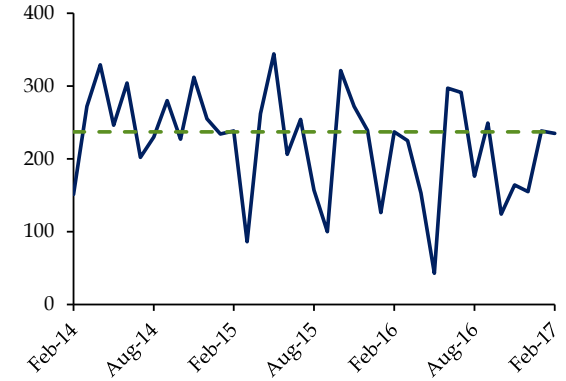
National Unemployment Rate



Source: Bureau of Labor Statistics

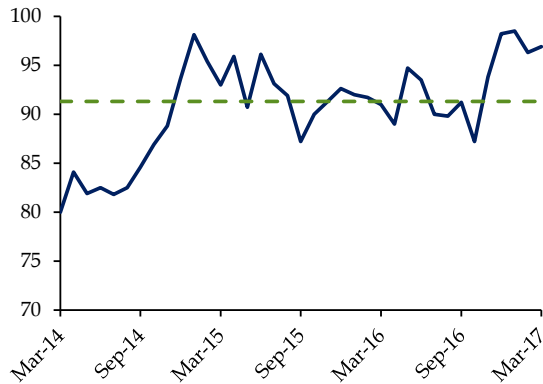
Additions to Non-Farm Payrolls

(in thousands of employees)



Source: Bureau of Labor Statistics

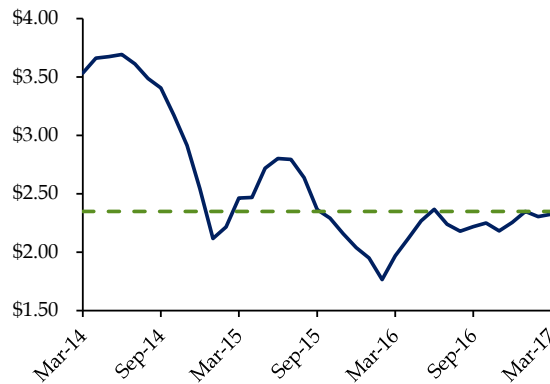
Consumer Sentiment Index



Source: University of Michigan

Retail Gas Prices

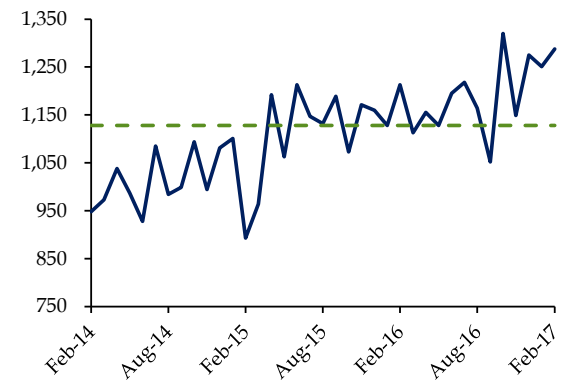
(in \$'s per gallon)



Source: Energy Information Administration

Housing Starts

(in thousands of units)



Source: United States Census Bureau

Traffic Struggles Accelerate in Q1

- Q4 trends were effectively flat from Q3, if modestly positive
- However, widely cited delays in federal tax refunds drove restaurant traffic to decline by ~5% in February alone
- February is expected to have a significant impact on Q1 results, with the pain expected to spread amongst all restaurant segments

Political Environment Continues to Have an Outsized Impact

- The IRS delayed the “Earned Income” and “Additional Child” tax credits, delaying some 40 million tax refunds
- The GOP’s failure to repeal and replace the Affordable Care Act may cause consumers to continue their cautious approach to spending
- Executive action (or the threat thereof) on immigration has inspired more restaurant operators to invest in automation technology

MCD’s Evolution is a Microcosm of Sector Struggles

- Customer visits have fallen by 500 million since 2012
- “Mobile order and pay” available at all U.S. restaurants by the fall
- Delivery service will help access the 75% of people who live within three miles of a restaurant
- Introducing fresh beef patties in most U.S. locations

Activists Return to the Forefront of Public Markets in Q1

- BOBE divested its restaurant business after a years-long stand-off
- BWLD is being pressured to re-franchise company-owned stores
- Bill Ackman continued to increase his stake (now ~10%) in CMG, which has struggled to rebound since its E. Coli issues began in 2015
- DRI’s strong performance alleviated Starboard concerns, meanwhile BBRG’s activist stepped up its pressure on the struggling brand

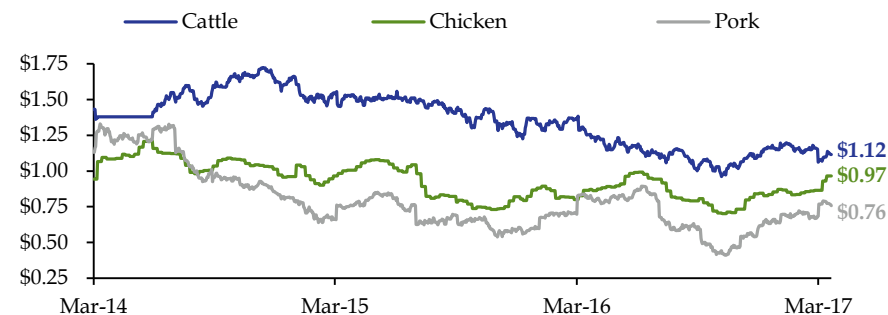
Major M&A Transactions Announced

- Four restaurant M&A transactions announced in Q1 totaled \$3.7 billion, exceeding M&A volume for all of 2016 combined
- Q1 pickup was consistent with guidance from restaurant executives

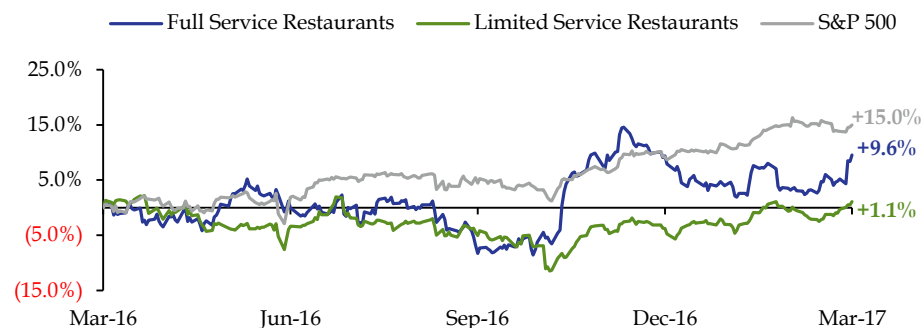
Same Store Sales (SSS) Growth



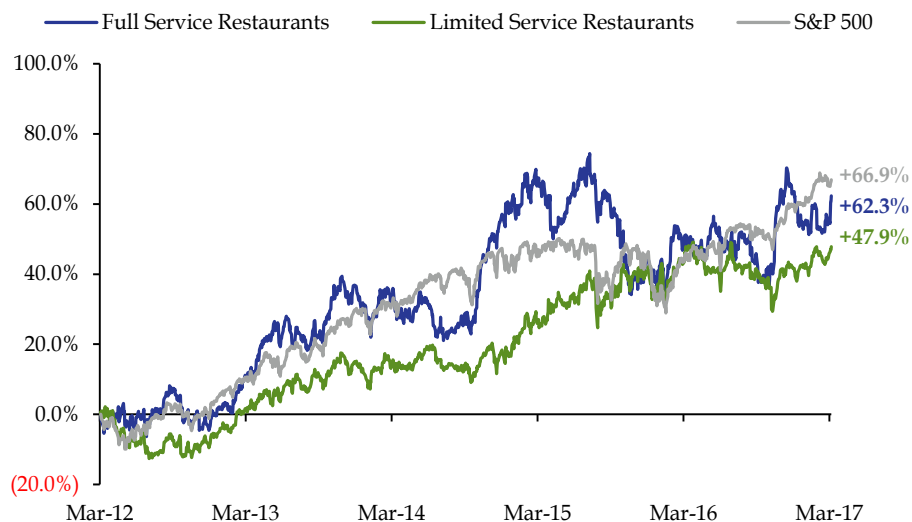
Food Prices (\$ per pound)



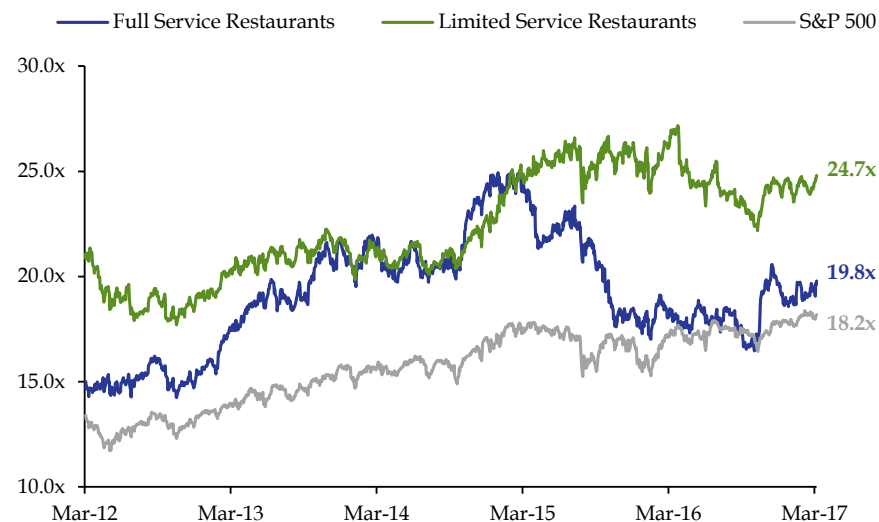
LTM Share Price Performance



5-Year Share Price Performance



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



Sub-Sector Indices' Share Price Performance [1]

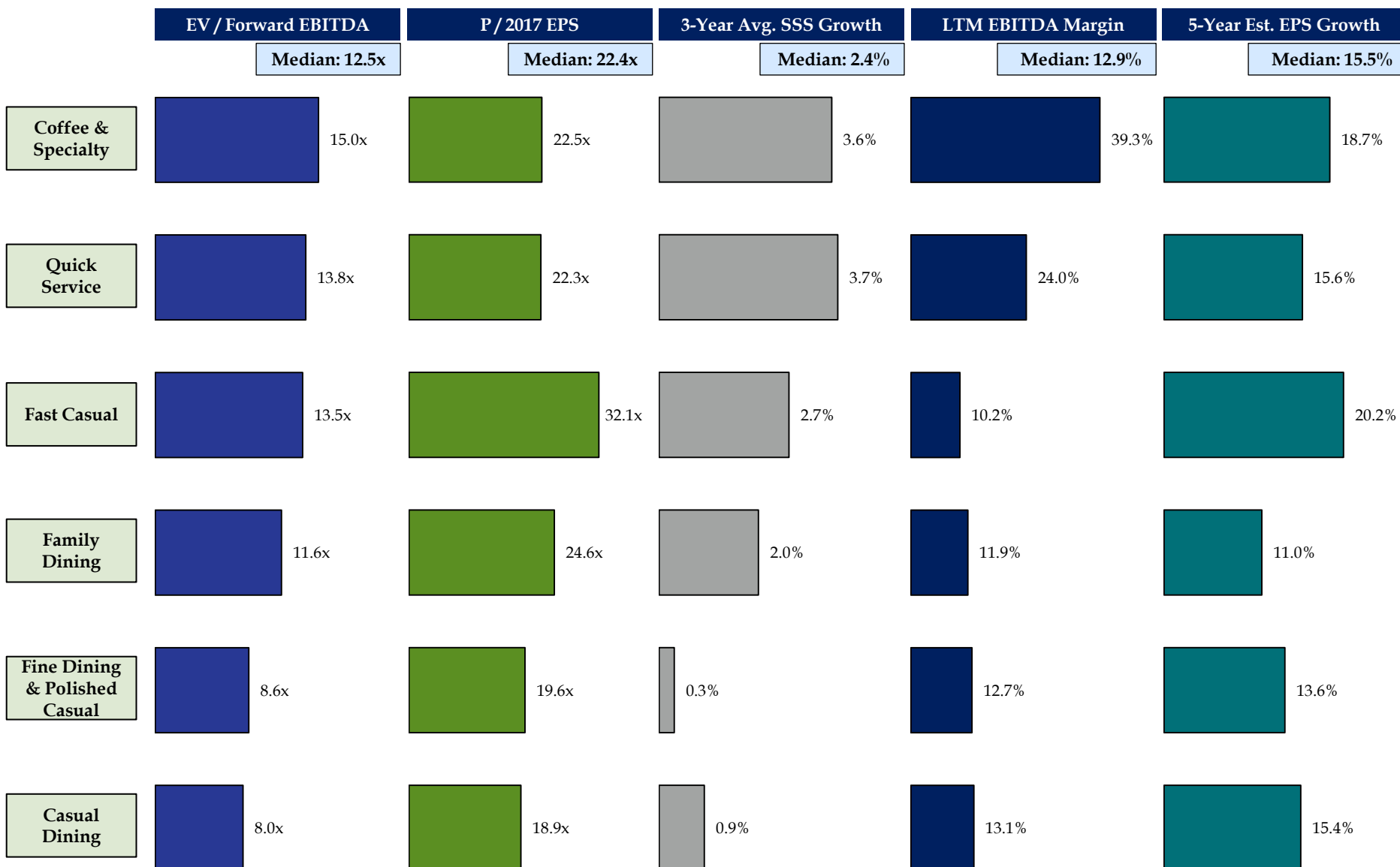
Sector/Sub-Sector	Number of Companies	Median Enterprise Value \$ in Millions	Median TEV/LTM Multiples		Median EV Multiple	Median TEV/Forward Multiples		Median EV Multiple
			Revenue	EBITDA	LTM P/E	Revenue	EBITDA	Forward P/E
Full Service Restaurants	24	\$1,365	1.2x	10.2x	20.9x	1.2x	8.6x	22.2x
Casual Dining	13	2,241	1.2x	8.6x	25.8x	1.2x	8.0x	22.2x
Family Dining	4	1,365	1.3x	11.5x	19.1x	1.3x	11.6x	27.5x
Fine Dining & Polished Casual	7	408	1.2x	10.2x	20.9x	1.2x	8.6x	21.7x
Limited Service Restaurants	24	3,754	3.5x	16.2x	27.9x	3.4x	13.8x	27.1x
Coffee & Specialty	3	7,108	4.0x	16.9x	27.9x	4.0x	15.0x	27.1x
Quick Service	12	3,754	3.5x	14.0x	26.1x	3.4x	13.8x	25.7x
Fast Casual	9	385	1.2x	16.2x	42.4x	1.3x	13.5x	37.2x
S&P 500	500	NM	2.4x	12.2x	26.7x	2.2x	11.0x	18.2x

Source: S&P Capital IQ as of March 31st, 2017

* 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)

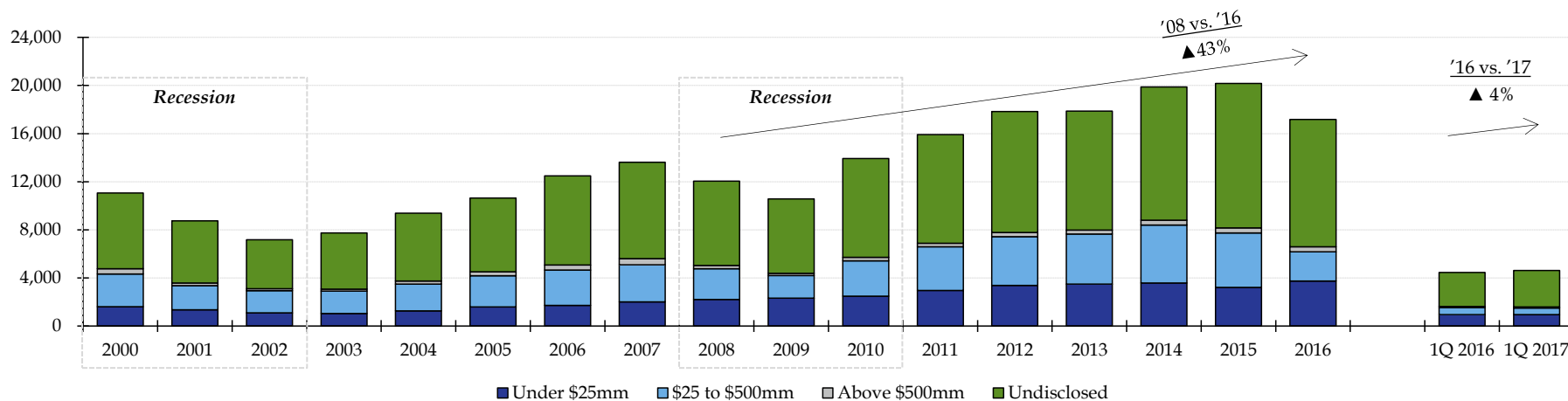


Source: S&P Capital IQ as of March 31st, 2017

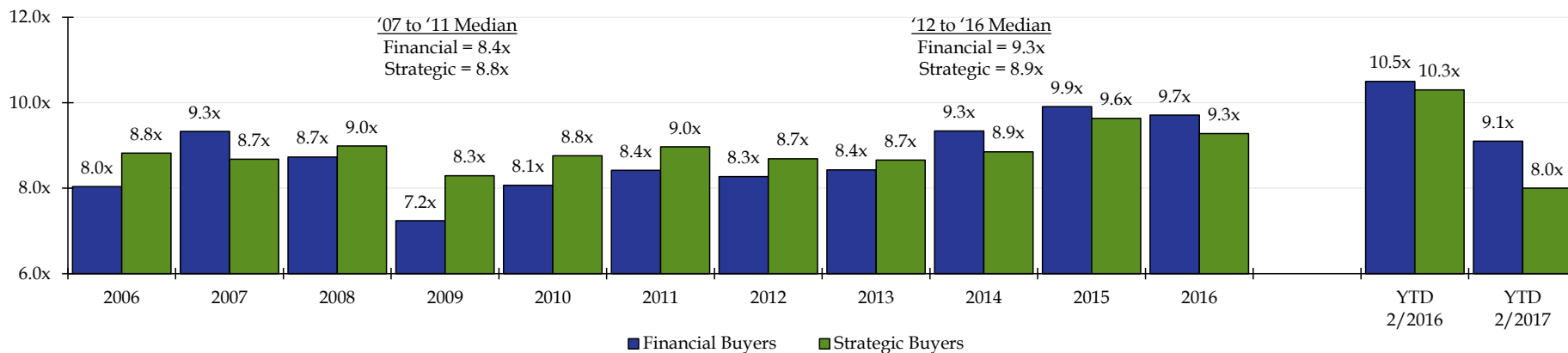
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U.S. M&A Volume and Valuation Trends

Transaction Volume



Median Transaction Multiples (Enterprise Value / LTM EBITDA)



Restaurant M&A volume in Q1 surpassed volume from all of 2016

- Average deal size of ~\$950 million for disclosed public transactions
- For the first time since 2011, the average C&R middle market multiple exceeded that of > \$1 billion deals

Four transactions alone accounted for nearly all of M&A volume in Q1

- DRI's acquisition of Cheddar's for \$780 million was its first since 2012 – citing Cheddar's 20% historical CAGR and ability to scale the concept
- QSR's acquisition of Popeyes', which had been rumored for some time, fills a gap in the high-performing chicken segment – but came with a significant price tag (> 20x trailing EBITDA)
- Golden Gate Capital acquired Bob Evans' restaurant business, marking a transitional period where BOBE will focus on its branded foods business
- Oak Hill Capital acquired Checkers from Sentinel Capital, citing the concept's outsized growth versus the rest of the QSR segment

YUM's divestiture of corporate stores is expected to generate significant activity

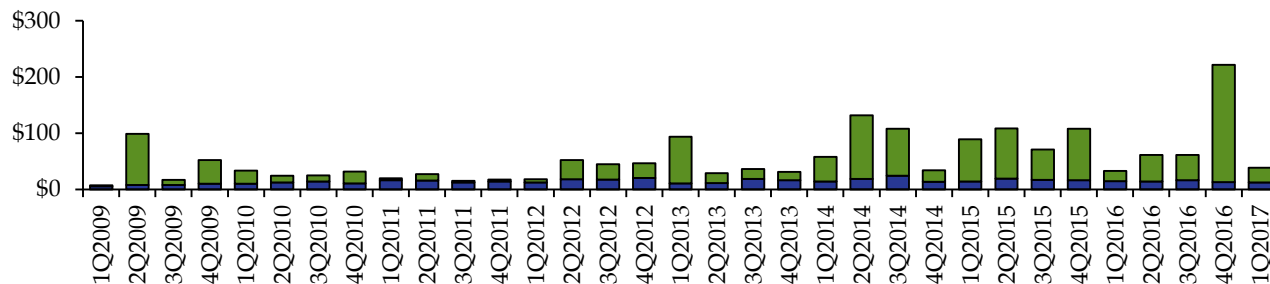
- KFC's domestic performance has rebounded, while Taco Bell has built out its breakfast day-part successfully
- Re-franchised 230+ restaurants in Q4

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

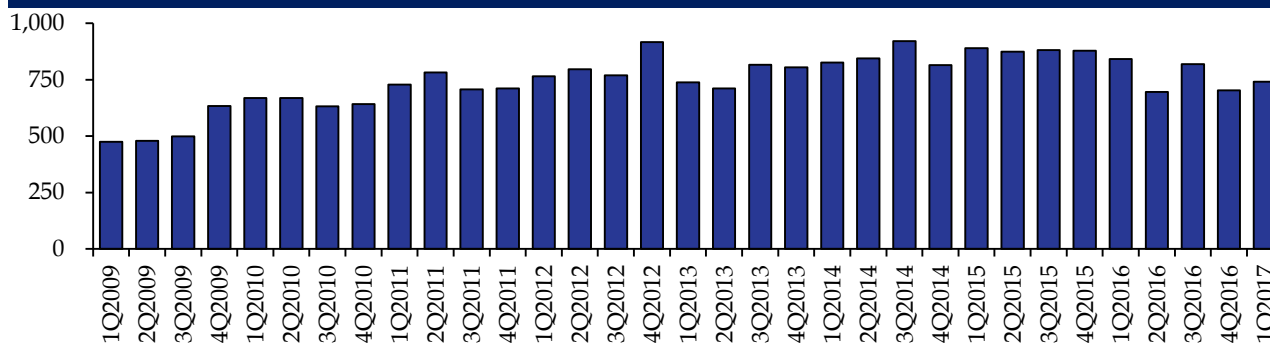
Median Middle Market: \$14.2

■ Middle Market ■ > \$1 Billion

Median > \$1 Billion: \$26.0



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

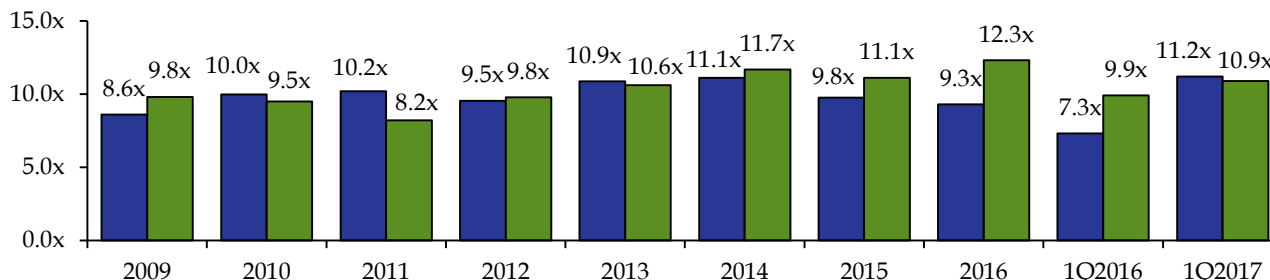


U.S. Consumer & Retail M&A Closed Deal Average EV/ EBITDA Multiple [1,2]

Median Middle Market: 10.0x

■ Middle Market ■ > \$1 Billion

Median > \$1 Billion: 10.6x



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) ^[1,2]

Announced Date	Acquirer	Target	Enterprise Value (EV)	LTM		EV / LTM	
				Revenue	EBITDA	Revenue	EBITDA
03/27/17	Darden Restaurants (NYSE:DRI)	Cheddar's Scratch Kitchen	\$780	-	\$75	-	10.4x
03/23/17	Oak Hill Capital Partners	Checkers Drive-In Restaurants, Inc.	525	-	-	-	-
02/21/17	Restaurant Brands International Inc. (NYSE:QSR)	Popeyes Louisiana Kitchen, Inc.	1,815	267	89	6.8x *	20.5x *
01/24/17	Golden Gate Capital	Bob Evans Farms, LLC	565	899	113	0.6x	5.0x
10/26/16	Restaurant Brands New Zealand Ltd. (NZSE:RBD)	Pacific Island Restaurants	105	120	19	0.9x	5.5x
10/10/16 ^[3]	Thai Union Group Public Company Limited (SET:TU)	Red Lobster Master Holdings, L.P.	1,265	2,479	144	0.5x	8.8x
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

Transactions completed or announced over the past three years

Median - Strategic	0.9x	9.5x
Median - Financial	1.1x	10.2x
Median - All	0.9x	10.2x

M&A Deals in the Headlines

Darden Restaurants (NYSE: DRI) Acquires Cheddar's



Enterprise Value: \$780 million
Revenue Multiple: N/A
EBITDA Multiple: 10.4x

- DRI cited Cheddar's broad appeal, value consciousness and strong average unit volumes
- Cheddar's has grown at a 10-year CAGR of ~20%
- DRI plans to scale the Cheddar's concept while incurring modest incremental G&A

Oak Hill Capital Partners Acquires Checkers Drive-In Restaurants



Enterprise Value: \$525 million
Revenue Multiple: N/A
EBITDA Multiple: N/A

- Oak Hill's investment thesis involves capturing and augmenting Checkers' impressive growth that has outpaced the QSR industry
- Checkers' strong unit-level economics and loyal following made Checkers an attractive target in a modest-growth environment

Source: Company Filings, S&P Capital IQ

[1] * Excluded from mean and median

[2] Green shading indicates strategic acquisition

[3] SET:TU acquired a 25% minority stake from Golden Gate Capital

Private equity activity declined in Q1 for the fifth successive quarter

- Activity remains fairly heightened by historical standards
- Private equity firms continue to sit on record levels of un-invested capital
- Private equity participants cite a lack of deal flow as the major impediment to transacting

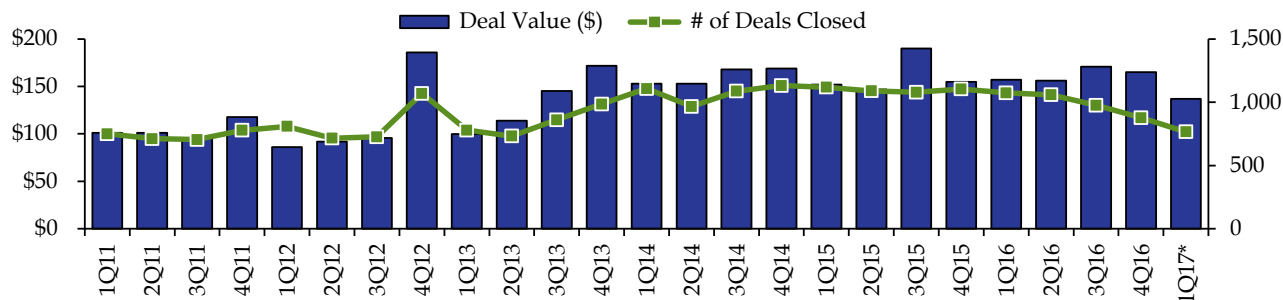
The Election's impact on public equity markets has thus far been more pronounced than on the M&A market

- Strong public market valuations may have accelerated the timing of certain public company-related transactions
- Meanwhile, the backload of IPO activity has grown as markets seem to have strengthened (ex. Snap's marquis IPO went off successfully)
- Both dynamics make it more difficult for private equity to compete on price

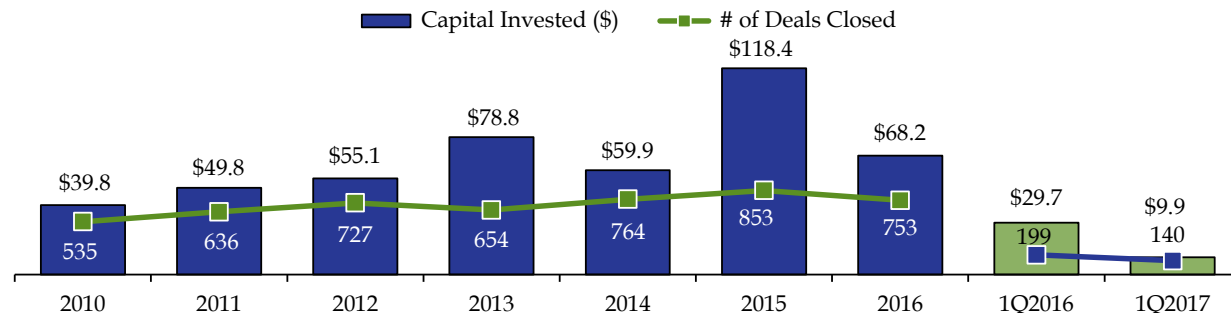
That private equity investments and exits were down from last year may imply one of two things:

- The M&A market is weakening and there are both fewer opportunities to monetize investments, as well as fewer attractive targets; or
- The economy is strengthening, and sponsors are focused on harvesting portfolio companies as organic growth opportunities arise

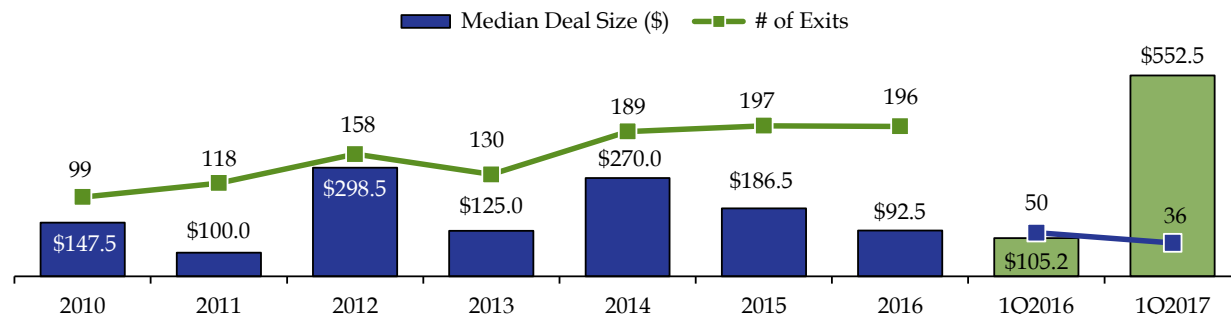
U.S. Private Equity Deal Flow (\$ in billions)



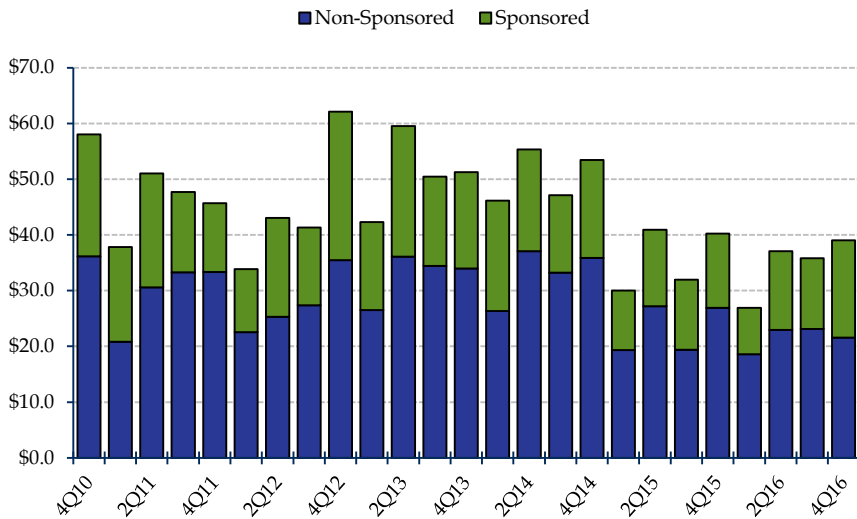
U.S. Consumer & Retail Private Equity Deal Flow (\$ in billions)



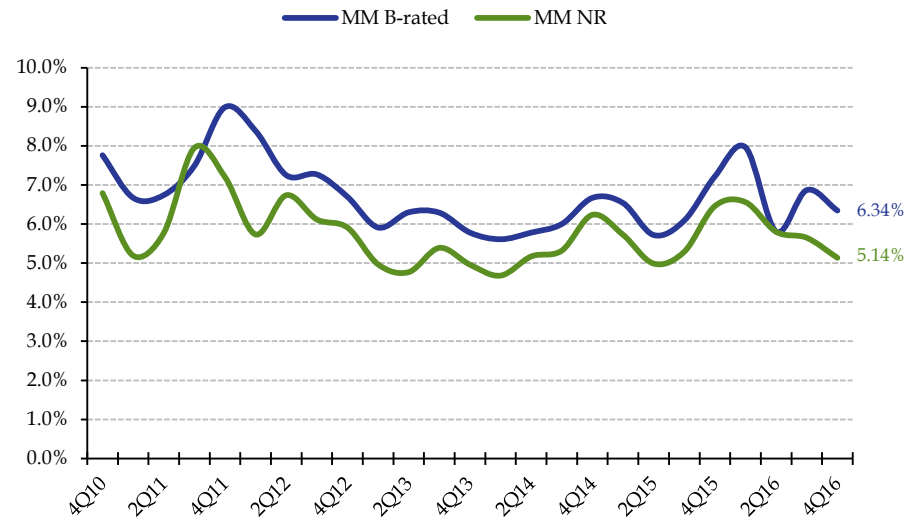
U.S. Consumer & Retail Private Equity Exits (\$ in millions)



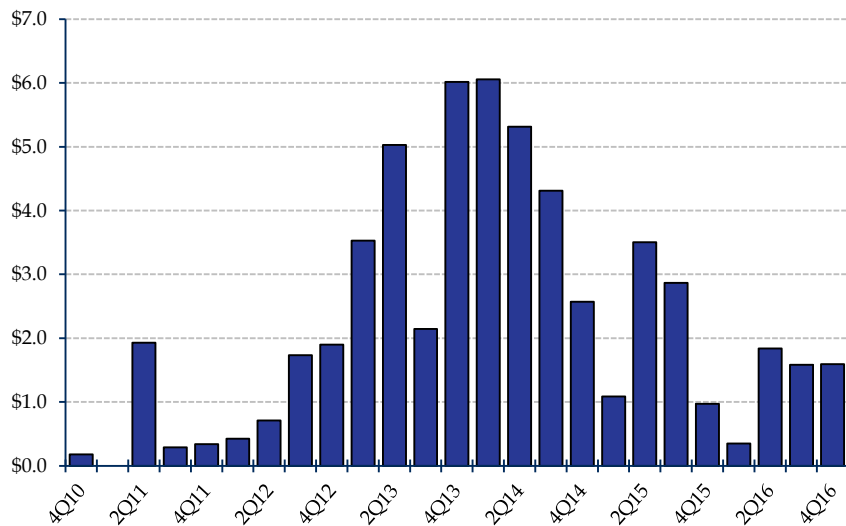
Loan Volume: Low Level of Supply Continues (\$ in billions)



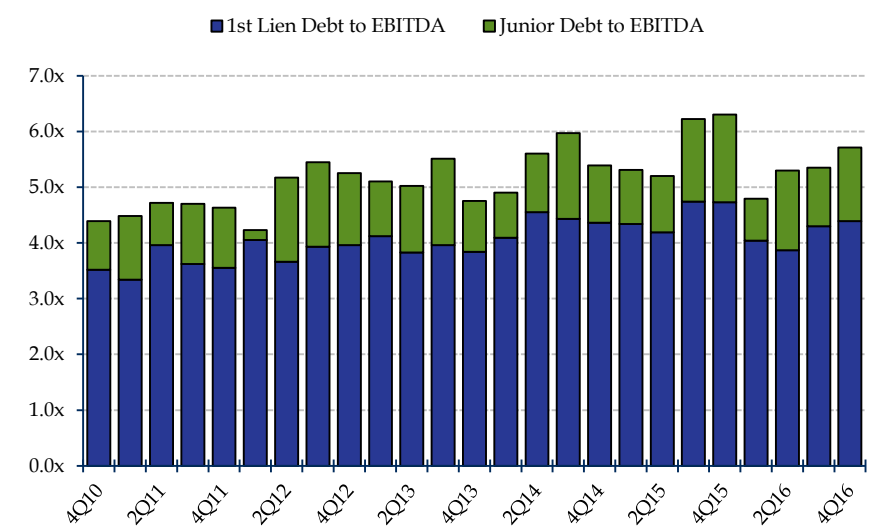
Term Loan Spreads Tighten [1]



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



LBO Leverage Again Climbs Higher; 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
- WEN – The Wendy’s Company
- YUM – Yum! Brands, Inc.
- WING – Wingstop Inc.

Fast Casual

- CMG – Chipotle Mexican Grill, Inc.
- COSI – Cosi Inc.
- HABT – The Habit Restaurants, Inc.
- NDLS – Noodles & Company
- PBPB – Potbelly Corporation
- PNRA – Panera Bread Company
- SHAK – Shake Shack Inc.
- ZOES – Zoe’s Kitchen, Inc.
- FRGI – Fiesta Restaurant Group, Inc.

Quick Service Restaurants (QSR)

- BOJA – Bojangles’, Inc.
- DPZ – Domino’s Pizza, Inc.
- FRSH – Papa Murphy’s Holdings, Inc.
- JACK – Jack in the Box Inc.
- LOCO – El Pollo Loco Holdings
- MCD – McDonald’s Corp.
- PZZA – Papa John’s International Inc.
- QSR – Restaurant Brands International Inc.
- SONC – Sonic Corp.

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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Are Not Insured By Any Federal Government Agency		Are Not A Deposit

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