

2002
CHAIN RESTAURANT
MERGER & ACQUISITION
CENSUS

SUMMARY REPORT

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THE 2002 CHAIN RESTAURANT MERGER & ACQUISITION CENSUS

CENSUS CRITERIA

The Census reports change of ownership activity for chain restaurants in the United States. In order to be counted in the Census, a meaningful change of ownership must have been announced. The Census does not include routine trades of restaurant securities on a formal exchange, but does include initial public offerings, subsequent stock offerings, significant investments and, of course, traditional mergers and acquisitions.

Restaurant chains qualify for the Census if either the acquirer or the target are headquartered in the United States and have at least four separate foodservice establishments of the same or different concept. Qualifying candidates include quick service, full service and limited service firms.

The Census lists those transactions which have been announced during the census year. Some of the transactions may not have been completed.

The goal of the Census is to provide restaurant executives with comparative industry information to assist in making major strategic growth decisions. In addition to buyer, seller and target names and locations, the Census obtains the following information:

- The category of buyer (franchiser acquiring franchisee, foreign company, operator buying unrelated concept, public shareholders, present owner acquiring more stock, etc.).
- Asset acquired (capital stock, assets, expansion rights, etc.).
- Reason the seller was selling the target (financial difficulty, divestiture, cash for expansion, pay down debt, etc.).
- Industry segment (burger, chicken, pizza, family, cafeteria, etc.).
- Principal reason the buyer acquired the target (investment, conversion, new concept, etc.).
- Geographical region of target company.

Because the vast majority of the transactions are private and confidential, purchase price information is normally unavailable. While this information would be useful, some buyers and sellers have been unwilling to share this information for the Census.

Information is compared with prior years to assist in identifying trends. The following information summarizes the key statistics of the Census for 2001 and 2002.

2002 CENSUS OVERVIEW

The Census captured 82 announced transactions, nearly equal to the 2001 level and 38% below 2000. At only half of last year's activity, public market transactions were split evenly between IPOs and secondary offerings. Approximately 93% of the activity was recorded in the private market, up from that recorded in 2001.

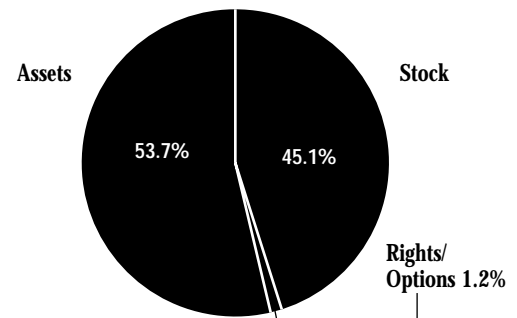
TYPE OF BUYER

Operators acquiring an unrelated or new concept continued to lead the Census with 33% of all activity. Three IPO filings and three secondary offerings were recorded. With low public market values, equity funds and management groups were able to complete transactions at relatively low valuations. In three transactions, creditors gained ownership of troubled chains.

Type of Buyer	# of Transactions
Operator acquiring unrelated concept	27
Equity Fund	12
Franchisees acquiring related units	10
Franchisers acquiring franchisee of related concept	9
Management buyout	7
Public stock offering	6
Company not in foodservice	5
Owner acquiring more ownership	3
Other	2
Franchisee acquiring franchisee of unrelated concept	1
	0
	2002—82 Transactions
	2001—81 Transactions

TYPE OF DEAL

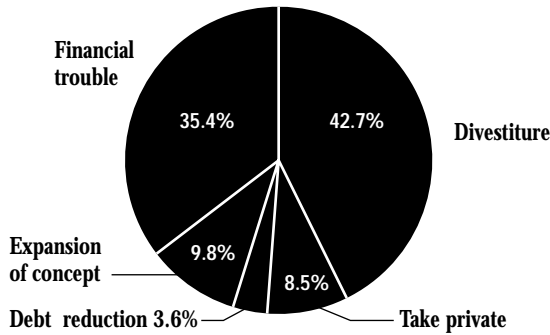
In 84% of the private transactions, sellers insisted upon payment in cash. In 58% of the non-public market, transaction buyers chose to buy assets rather than stock. The shift from stock to assets reflects the operational challenges facing the industry this year.



	2002	%	2001	%
Assets	4	53.7	31	38.3
Stock	37	45.1	46	56.8
Rights/Options	1	1.2	4	4.9
	<u>82</u>	<u>100.0</u>	<u>81</u>	<u>100.0</u>

REASON FOR THE SALE

Divestitures of chains controlled by individuals or investment groups were much more prevalent than spinoffs by large restaurant chains. Distressed companies seemed to find buyers at suitable prices. Public offerings listed a reduction of debt and new unit construction as the major reasons for the sale of their stock. Continuing the trend established two years ago, seven public companies went private, more than twice the number that went public.



	2002	%	2001	%
Divestiture	35	42.7	35	43.2
Financial trouble	29	35.4	12	14.8
Expansion of concept	8	9.8	9	11.1
Take private	7	8.5	9	11.1
Debt reduction	3	3.6	13	16.1
Management succession	0	0.0	3	3.7
Unknown	0	0.0	0	0.0
	<u>82</u>	<u>100.0</u>	<u>81</u>	<u>100.0</u>

INDUSTRY SEGMENT

The Midscale segment led the Census as it has in several prior years. Three of the public transactions were midscale concepts. Almost all of the companies taken private were full service concepts - a departure from last year. Full service concepts increased their share of the number of transactions captured to over 50% of all transactions.

	2002	%	2001	%
Midscale	15	18.3	9	11.1
Family/Coffee Shop	9	11.0	8	9.9
Sandwich	9	11.0	8	9.9
Steak House	9	11.0	1	1.2
Ethnic	7	8.5	10	12.4
Burger	7	8.5	7	8.7
Seafood	5	6.1	2	2.5
Diversified	5	6.1	3	3.7
Contract Feeder	4	4.9	9	11.1
Chicken	4	4.9	4	4.9
Bakery	4	4.9	4	4.9
Pizza	3	3.6	6	7.4
Cafeteria	1	1.2	1	1.2
Ice Cream	0	0.0	5	6.2
Fine Dining	0	0.0	2	2.5
Dinner House	0	0.0	1	1.2
Juice Bar	0	0.0	1	1.2
	<u>82</u>	<u>100.0</u>	<u>81</u>	<u>100.0</u>

REASON FOR THE PURCHASE

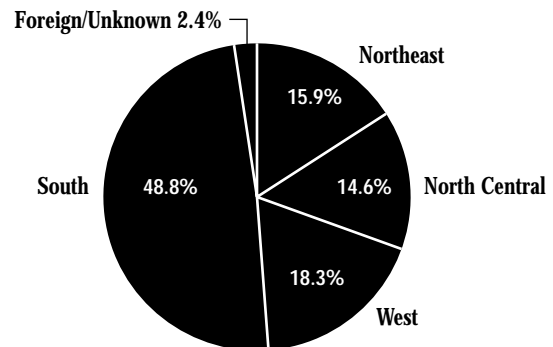
Acquiring a new growth concept remains the most frequent reason given by buyers. Public chains were more active in their diversification strategy. Prompted by adequate franchisee financing and lower values, many franchisees once again expanded their franchise territories.

Reason	# of Transactions
New concept/diversification	30
Investment	23
Expand franchise area	14
Franchiser acquiring franchisee	9
Acquiring shares not owned	8
Acquiring to convert units	0
	1

2002—82 Transactions
 2001—81 Transactions

GEOGRAPHICAL REGION OF TARGET COMPANY

Reversing a recent trend, the Southern region gained ground on the Western region. As in prior years, few foreign buyers have been attracted to restaurant chains in the U.S.



Region	2002	%	2001	%
South	40	48.8	27	33.3
West	15	18.3	25	30.9
Northeast	13	15.9	12	14.8
North Central	12	14.6	15	18.5
Foreign/Unknown	2	2.4	2	2.5
	<u>82</u>	<u>100.0</u>	<u>81</u>	<u>100.0</u>

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