

2003
CHAIN RESTAURANT
MERGER & ACQUISITION
CENSUS

SUMMARY REPORT

PREPARED BY:
DAVID L. EPSTEIN, PRINCIPAL
J.H. CHAPMAN GROUP, L.L.C.

DEPSTEIN@JHCHAPMAN.COM
773.693.4800

THE 2003 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 2002 and 2003.

2003 CENSUS OVERVIEW

The Census captured 78 announced transactions, nearly equal to the 2001 and 2002 levels. Only four public and two going private transactions were recorded continuing the softness in public market activity. Approximately 92% of the activity was recorded in the private market, the same as that recorded in 2002.

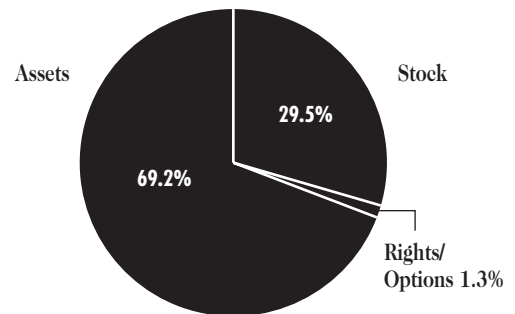
TYPE OF BUYER

Operators acquiring an unrelated or new concept continued to lead the Census with 39% of all activity up from 33%. Three IPO filings and one secondary offering were recorded compared with three IPOs and three secondary offerings last year. Franchisers increased their interest in reacquiring franchisees with attractive territories. Leveraged purchases were down from the prior two years reflecting buyer risk aversion and weak loan availability.

Type of Buyer	# of Transactions
Operator acquiring unrelated concept	30
Franchisees acquiring related units	13
Franchisers acquiring franchisee of related concept	11
Equity Fund	9
Public stock offering	4
Management buyout	3
Owner acquiring more ownership	3
Franchisee acquiring franchisee of unrelated concept	2
Other	2
Company not in foodservice	1
	2003—78 Transactions
	2002—82 Transactions

TYPE OF DEAL

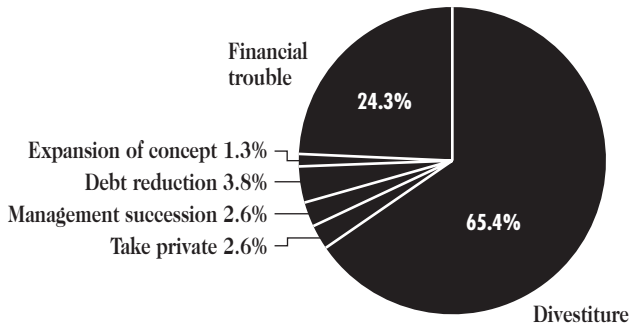
In 77% of the private transactions, sellers insisted upon payment in cash, down from last year. In 73% of the non-public market transactions, buyers chose to buy assets rather than stock, up sharply from 2002. The shift from stock to assets reflects the significant number of troubled company transactions this year.



	2003	%	2002	%
Assets	54	69.2	44	53.7
Stock	23	29.5	37	45.1
Rights/Options	1	1.3	1	1.2
	<u>78</u>	<u>100.0</u>	<u>82</u>	<u>100.0</u>

REASON FOR THE SALE

Large chains grew through acquisitions while choosing to hold rather than divest marginal brands. Buyers of distressed companies continued to negotiate bargain prices. Public offerings listed a reduction of debt and new unit construction as the major reasons for the sale of their stock. Only two public companies went private, down significantly from the last two years.



	2003	%	2002	%
Divestiture	51	65.4	35	42.7
Financial trouble	19	24.3	29	35.4
Debt reduction	3	3.8	3	3.6
Take private	2	2.6	7	8.5
Management succession	2	2.6	0	0.0
Expansion of concept	1	1.3	8	9.8
	<u>78</u>	<u>100.0</u>	<u>82</u>	<u>100.0</u>

INDUSTRY SEGMENT

The Burger segment led the Census as it surpassed the Midscale Casual segment, which has recorded the most transactions in past years. Sandwich chains, which accounted for approximately 10% of transactions since 2001, dropped below historical levels. Quick service concepts increased their share of the number of transactions captured to almost 60% of all transactions.

	2003	%	2002	%
Burger	14	17.9	7	8.5
Ethnic	11	14.1	7	8.5
Midscale	10	12.8	15	18.3
Steak House	8	10.3	9	11.0
Chicken	7	9.0	4	4.9
Bakery	5	6.4	4	4.9
Pizza	5	6.4	3	3.6
Family/Coffee Shop	4	5.1	9	11.0
Contract Feeder	4	5.1	4	4.9
Cafeteria	3	3.8	1	1.2
Sandwich	2	2.6	9	11.0
Diversified	2	2.6	5	6.1
Seafood	1	1.3	5	6.1
Ice Cream	1	1.3	0	0.0
Dinner House	1	1.3	0	0.0
	<u>78</u>	<u>100.0</u>	<u>82</u>	<u>100.0</u>

REASON FOR THE PURCHASE

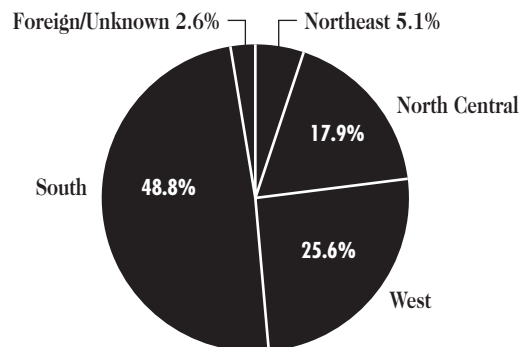
As in prior years, buyers sought new growth concepts abandoning the uneconomical strategy of acquiring to convert. Public chains were more active in their acquisition strategy. Prompted by adequate franchisee financing and lower values, many franchisees once again expanded their franchise territories. Franchisers expanded their interest in their own franchisees, usually reacquiring territories with significant, untapped potential.

Reason	# of Transactions
New concept/ diversification	36
	30
Expand franchise area	13
	15
Investment	11
	20
Franchiser acquiring franchisee	11
	9
Acquiring shares not owned	5
	8
Acquiring to convert units	2
	0

2003—78 Transactions
 2002—82 Transactions

GEOGRAPHICAL REGION OF TARGET COMPANY

For the third year, the Southern region gained ground on the Western region. The Northeast saw the least amount of activity. As in prior years, few foreign buyers have been attracted to restaurant chains in the U.S.



Region	2003	%	2002	%
South	38	48.8	40	48.8
West	20	25.6	15	18.3
North Central	14	17.9	12	14.6
Northeast	4	5.1	13	15.9
Foreign/Unknown	2	2.6	2	2.4
	<u>78</u>	<u>100.0</u>	<u>82</u>	<u>100.0</u>

J.H.
CHAPMAN
GROUP, L.L.C.

9700 HIGGINS ROAD
ROSEMONT, ILLINOIS 60018
773.693.4800 FAX 773.693.6255
WWW.JHCHAPMAN.COM

8117 PRESTON ROAD, #300
DALLAS, TEXAS 75225
214.365.5271 FAX 214.365.5270

65 AVENUE KLEBER
75116 PARIS, FRANCE
331.44340857 FAX 331.44340858