

THE 1999 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:

1. The category of buyer (franchiser acquiring franchisee, foreign company, operator buying unrelated concept, public shareholders, present owner acquiring more stock, etc.).
2. Asset acquired (capital stock, assets, expansion rights, etc.).
3. Reason the seller was selling the target (financial difficulty, divestiture, cash for expansion, pay down debt, etc.).
4. Industry segment (burger, chicken, pizza, family, cafeteria, etc.).
5. Principal reason the buyer acquired the target (investment, conversion, new concept, etc.).
6. 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 1998 and 1999.

1999 Census Overview

The Census captured 115 announced transactions. 34% below the 1998 level. Public market transactions (IPOs and secondaries) were about equal to last year, but well below the record 1997 level. Approximately 92% of the activity was recorded in the private market, equal to that recorded in 1998.

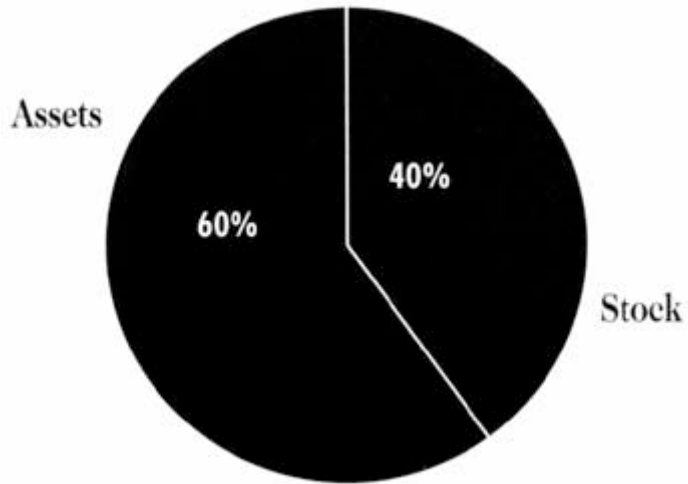
TYPE OF BUYER

Operators acquiring unrelated concepts lead the Census with 48% of all private transactions. Seven IPOs were recorded and two companies filed for secondary offerings. Franchisees buying others in their concept were proportionately as active as last year. Operators continue to acquire unrelated concepts motivated by brand diversification. Buyout groups and management took advantage of the many divestiture opportunities of brand name chains.

Type of Buyer	# of Transactions
Operator acquiring unrelated concept	51 (1999) / 76 (1998)
Franchisees acquiring related units	19 (1999) / 30 (1998)
Management buyout	10 (1999) / 13 (1998)
Franchisors acquiring franchisee of related concept	9 (1999) / 17 (1998)
Public stock offering	9 (1999) / 10 (1998)
Equity Fund	8 (1999) / 13 (1998)
Owner acquiring more ownership	4 (1999) / 6 (1998)
Company not in foodservice	3 (1999) / 3 (1998)
Unidentified	2 (1999) / 1 (1998)
Foreign	0 (1999) / 5 (1998)

TYPE OF DEAL

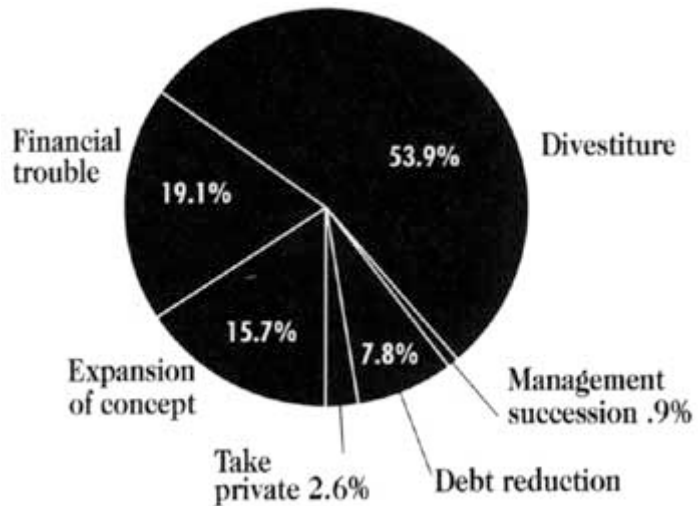
In 78% of the private transactions, sellers accepted payment in cash, up slightly from 1998. 35% of the non-public market transaction sellers chose to sell stock rather than assets, an 8% decrease from 1998. Many of the stock sales involved stock for stock transactions.



	1999	%	1998	%
Assets	69	60.0	93	53.4
Stock	46	40.0	81	46.6
	115	100.0	174	100.0

REASON FOR THE SALE

In 1999 chains implemented divestiture strategies mainly because of poor operating results, change in focus or refranchising. Down from both 1997 and 1998, only 91% of all non-public transactions were caused by financially troubled sellers. Public offerings listed expansion of the chain's concept followed by a reduction of debt as the major reasons for the sale of their stock.



	1999	%	1998	%
Divestiture	62	53.9	99	56.9
Financial trouble	22	19.1	50	28.8
Expansion of concept	18	15.7	14	8.0
Debt reduction	9	7.8	3	1.7
Take private	3	2.6	7	4.0
Management succession	1	.9	0	0.0
Unknown	0	0.0	1	0.6
	115	100.0	174	100.0

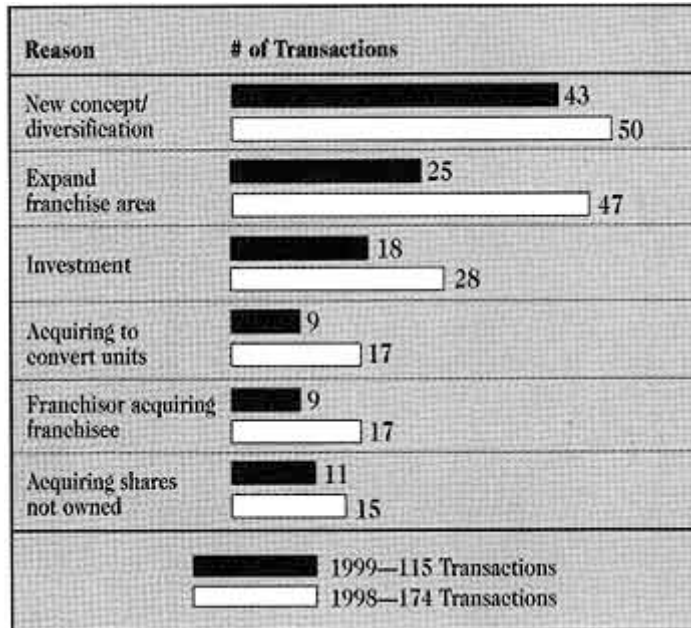
INDUSTRY SEGMENT

The midscale segment dominated the Census with Avado's sale of their Applebee's units. In the pizza segment, Papa John's was an active acquiror while Pizza Hut, Inc. was an active seller. The burger category has lead the Census for many years, however, this year showed significant declines as prior years activities diminished the available chains in this category. In 1998, Boston Chicken purchased most of their franchisees. Quick service concepts continued to lead the Census accounting for 57% of all transactions this year, up from 1998.

	1999	%	1998	%
Midscale Family	16	13.9	23	13.2
Sandwich	14	12.2	14	8.0
Pizza	14	12.2	11	6.3
Ethnic	13	11.3	21	12.1
Family Coffee Shop	11	9.6	16	9.2
Chicken	9	7.8	27	15.5
Contract Feeder	8	7.0	12	6.9
Burger	7	6.1	15	8.6
Steak House	7	6.1	5	2.9
Bakery	5	4.3	13	7.5
Diversified	3	2.6	4	2.3
Seafood	2	1.7	4	2.3
Juice Bar	2	1.7	1	0.6
Dinner House	2	1.7	1	0.6
Cafeteria	1	.9	5	2.9
Ice Cream	1	.9	2	1.1
	113	100.0	174	100.0

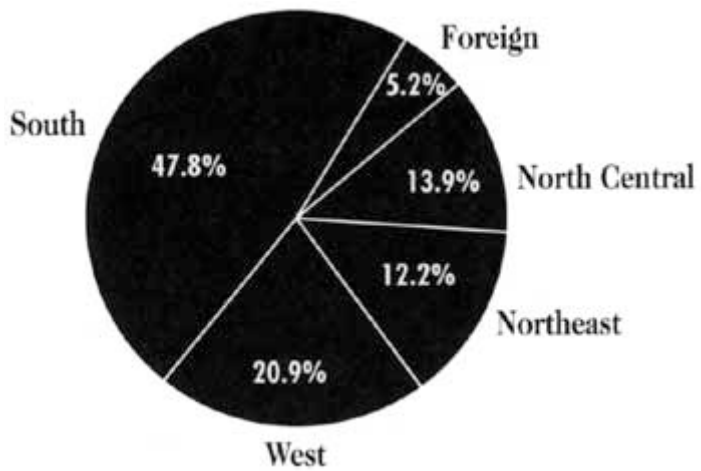
REASON FOR THE PURCHASE

The search for a new concept remains the most frequent reason given by buyers. For the fourth year in a row, the number of transactions declined where converting units to the acquirors' concept was the main objective. Many management groups and financial buyers acted on the significant undervaluation in the public markets.



GEOGRARHICAL REGION OF TARGET COMPANY

The Southern region once again lead all other regions followed by the West. Acquisitions of foreign companies remained low.



Region	1999	%	1998	%
South	55	47.8	60	38.0
West	24	20.9	46	26.4
North Central	16	13.9	23	13.2
Northeast	14	12.2	28	16.1
Foreign/Unknown	6	5.2	11	6.3
	115	100.0	174	100.0

Copyright [J.H. Chapman Group, L.L.C.](#), All Rights Reserved U.S.A.
 Permission to abstract is granted provided proper credit is allowed.