

# CHAIN RESTAURANT MERGER & ACQUISITION CENSUS

2005 Summary Report



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# Chain Restaurant Merger & Acquisition Census

## 2005 Census Overview

The Census captured 101 announced transactions, 15% fewer than in 2004 and 29% more than in 2003. Twelve public and six going private transactions were recorded demonstrating the strong interest in the public market. Equity funds and management teams found significant value in the industry this year accounting for 40% of all private company transactions, the highest showing in fifteen years. The high prices being paid by equity funds keep strategic buyers, both operators

and franchisers, usually interested in diversifying, on the sidelines.

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, fast casual, full service and cafeteria/buffet firms.

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

## Type of Buyer

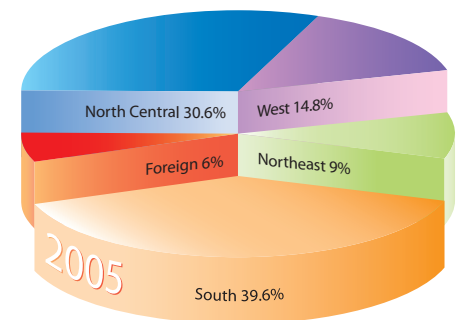
Equity funds and non-restaurant buyers were out in full force with both the largest number of transactions as well as the biggest increase from last year. Most notably, operators significantly reduced their desire to diversify, which had been the leading strategy in many of the prior years. As franchised brands redefine themselves, franchisees found reinvesting in their own units the most preferred capital spending strategy turning away from diversification. The high prices being paid by equity funds and equity fund-sponsored management buyouts deterred strategic buyers from winning auctions. Eight initial public offerings and four secondary offerings nearly matched public market activities last year.

Type of Buyer	# of Transactions
Equity Fund	29
Operator acquiring new concept	15
Franchiser acquiring franchisee of their concept	13
Public Stock Offering	12
Franchisee acquiring franchisee of their concept	11
Management buyout	7
Owner acquiring more ownership	6
Other	4
Company not in foodservice	3
Franchisee acquiring franchisee of another concept	1
2005 Transactions	101
2004 Transactions	119

## Geographical Region of Target Company

The North Central region had the largest increase in activity from last year, yet the Southern region continued to host the largest number of transactions. Several domestic multinational chains crossed borders to acquire their franchisees. Few foreign buyers were attracted to U.S. restaurant chains despite the continuing favorable currency exchange.

Region of Target	2005	%	2004	%
South	40	39.6	45	37.8
North Central	31	30.6	19	16.0
West	15	14.8	32	26.8
Northeast	9	9.0	16	13.5
Foreign	6	6.0	5	4.2
Unknown	0	0.0	2	1.7
<b>Totals</b>	<b>101</b>	<b>100.0</b>	<b>119</b>	<b>100.0</b>



Segment	2005	%	2004	%
Ethnic	14	13.9	13	10.9
Midscale	13	12.9	17	14.3
Burger	12	11.9	25	21.0
Sandwich	11	10.9	10	8.4
Pizza	10	9.9	7	5.9
Family/Coffee Shop	8	7.9	12	10.1
Bakery	8	7.9	8	6.7
Diversified	6	5.9	2	1.7
Steak House	5	5.0	5	4.2
Cafeteria	4	3.9	2	1.7
Chicken	3	2.9	2	1.7
Contract Feeder	2	2.0	5	4.2
Seafood	2	2.0	4	3.4
Ice Cream	1	1.0	5	4.2
Dinner House	1	1.0	1	0.8
Juice Bar	1	1.0	1	0.8
<b>Totals</b>	<b>101</b>	<b>100.0</b>	<b>119</b>	<b>100.0</b>

## Industry Segment

Unlike in prior years, there was no clear market segment leader. The Ethnic, Midscale Casual, Burger, Sandwich and Pizza segments each contributed double digit transaction counts this year. Seven Burger King transactions accounted for the single largest contribution to the Census by any one brand this year as it did last year.

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:

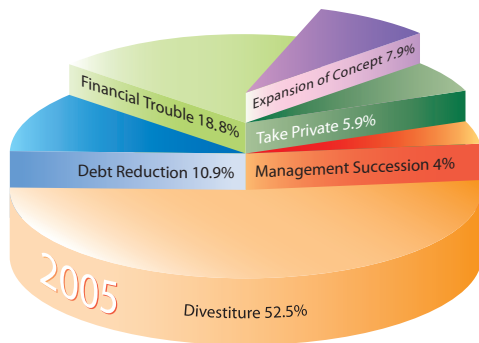
- The category of buyer (franchiser acquiring franchisee, foreign company, operator buying unrelated concept, public shareholders, present owner acquiring more stock, etc.).

- 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.).
- Principal reason the buyer acquired the target (investment, conversion, new concept, etc.).
- Geographical region of target company.
- Industry segment (burger, chicken, pizza, family, cafeteria, etc.).

Because the vast majority of the transactions are private and confidential, purchase price information is normally unavailable. While this information is useful, some buyers and sellers do not allow publication of this information in the Census.

Information is compared with prior years to assist in identifying trends. The following information summarizes and compares the key statistics of the Census for 2004 and 2005.

Reason	2005	%	2004	%
Divestiture	53	52.5	67	56.3
Financial trouble	19	18.8	24	20.1
Debt reduction	11	10.9	14	11.8
Expansion of concept	8	7.9	8	6.7
Take private	6	5.9	2	1.7
Management succession	4	4.0	4	3.4
<b>Totals</b>	<b>101</b>	<b>100.0</b>	<b>119</b>	<b>100.0</b>



## Reason for the Sale

Again this year, very few large chains grew through new acquisitions, while several announced divestitures through outright sales or public market offerings. The escalation in values among quality concepts prompted many privately held chains to test the market. Five public companies announced actions to go private (one announced twice), a significant increase from last year.

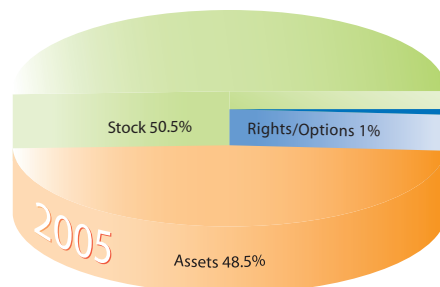
## Reason for the Purchase

Equity funds and management teams responded to the favorable lending environment and perceived discounted brand value of chains relative to the broader market. Several equity funds were new to chain ownership. Only four buyers listed conversion of the acquired units as their primary reason for purchase, nearly the same as last year.

## Type of Deal

Both the drop in bankruptcy auction transactions and the acceptance of equity funds buying stock led to the significant decline in the number of asset purchases. This trend is likely to continue as buyers become comfortable with stock deals and sellers insist upon avoiding the double taxation which is sometimes associated with an asset deal. In 84% of the non-public market transactions, sellers insisted upon payment in cash.

Type	2005	%	2004	%
Stock	51	50.5	43	36.1
Assets	49	48.5	73	61.3
Rights/Options	1	1.0	3	2.6
<b>Totals</b>	<b>101</b>	<b>100.0</b>	<b>119</b>	<b>100.0</b>



Reason	# of Transactions
New concept	40
	39
Investment	21
	27
Acquiring shares not owned	14
	14
Franchiser acquiring franchisee	13
	13
Expand franchise area	9
	23
Acquiring to convert units	4
	3
2005 Transactions	101
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# J. H. CHAPMAN GROUP, L.L.C.

The J.H. Chapman Group is the leading investment banking firm specializing in the food industry. Our advisory services relate to business acquisitions, mergers, divestitures, corporate financing, licensing, and strategic partnerships or ventures. We understand that companies and business owners seek financial advisors with proven track records in their specific industry. Our consulting services include determining the best process to achieve ownership goals, evaluating hidden and synergistic business values, personally contacting prospective targets, preparing presentations, assisting in negotiations, and achieving the objectives for a successful transaction.

The firm was founded in 1982 to serve one under-represented niche—the food industry—and subsequently expanded to include apparel and other consumer products, retailing and services.

Our firm is comprised of eight experienced principals - all with impressive business credentials, particularly in the food industry. We specialize in transactions between \$10 million and \$500 million, working with clients ranging from established, closely held businesses to Fortune 500 companies. Headquartered in Chicago with our European office in Paris, and our affiliates in Buenos Aires, we have established an enviable track record of success and an extensive network of contacts around the globe.

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