

# CHAIN RESTAURANT MERGER & ACQUISITION CENSUS

2009 Summary Report



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# Chain Restaurant Merger & Acquisition Census

## 2009 Census Overview

The Census captured 67 announced transactions, a 42% decline from 2008. Only one public and four going private transactions were recorded as the difficult public markets focused on other industries. Chains in trouble found fewer new owners than in prior years. Franchise unit sales remained a component of the participants' external growth strategy. Equity funds continued to acquire in the industry representing 28% of all transactions, despite the dismal debt markets. Buyers reduced their desire to diversify but still accounted for a quarter of all transactions. Significantly more asset transactions were announced with many structures that favored cash.

## Type of Buyer

Equity funds continued to make significant investments in the industry despite the weak credit markets. Nineteen equity fund deals were announced, half of last year's reported transactions. Franchisees continued to take advantage of opportunities to expand their territory, which represented 27% of this year's activity. Likewise, franchisers found value in purchasing their own franchisees, yet the frequency of these transactions was less than 30% of last year's activity. Operators buying new concepts fell by 40%, nearly the same decline as last year. Management taking control or buying out other owners doubled, reflecting the types of decisions taking place in boardrooms.

Type of Buyer	# of Transactions
Equity Fund	19
Franchisee acquiring units of their concept	18
Operator acquiring new concept (Non-franchised)	12
Franchisee acquiring franchisee of another concept	5
Franchiser acquiring franchisee of their concept	4
Owner acquiring more ownership	4
Management buyout	3
Public stock offering	1
Other	1
Foreign buyer	0
Company not in foodservice	0
2009 Transactions	67
2008 Transactions	116

The Chain Restaurant Merger and Acquisition 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.

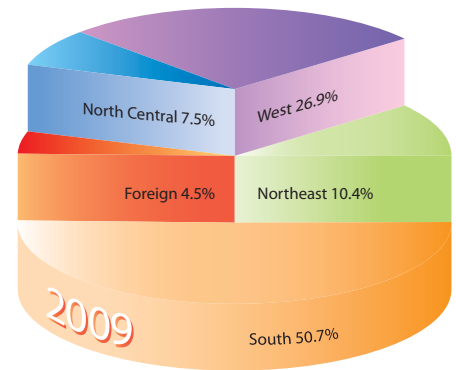
Restaurant chains qualify for the Census if either the acquirer or the target is headquartered in the United States and has at least four separate foodservice establishments of the same or different concept. Qualifying candidates include quick service, fast casual, full service and cafeteria/buffet firms.

The Census lists those transactions which have been announced

## Geographical Region of Target Company

The North Central region had the largest decline in activity from last year. As in the last several years, the Southern region posted the largest number of transactions. Acquisitions of foreign companies involved domestic firms acquiring operations in Canada, China and France.

Region of Target	2009	%	2008	%
South	34	50.7	48	41.4
West	18	26.9	30	25.9
Northeast	7	10.4	14	12.1
North Central	5	7.5	19	16.3
Foreign	3	4.5	5	4.3
<b>Totals</b>	<b>67</b>	<b>100.0</b>	<b>116</b>	<b>100.0</b>



Segment	2009	%	2008	%
Ethnic	12	17.9	18	15.5
Burger	10	14.9	14	12.1
Family/Coffee Shop	9	13.4	7	6.0
Midscale	8	11.9	20	17.2
Pizza	5	7.5	14	12.1
Steak House	5	7.5	6	5.2
Seafood	4	6.0	3	2.6
Chicken	3	4.5	3	2.6
Contract Feeder	3	4.5	3	2.6
Juice Bar	3	4.5	1	0.9
Sandwich	2	3.0	13	11.2
Bakery	1	1.5	6	5.2
Cafeteria	1	1.5	2	1.7
Diversified	1	1.5	2	1.7
Ice Cream	0	0	4	3.4
<b>Totals</b>	<b>67</b>	<b>100.0</b>	<b>116</b>	<b>100.0</b>

## Industry Segment

QSR led this year's activity with 55%, followed by Full Service Chains with 43%, near identical to last year. Almost all segments showed reductions from last year. Several midscale and buyer refranchising programs stalled as the availability of acquisition financing continued to be constrained.

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.)

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

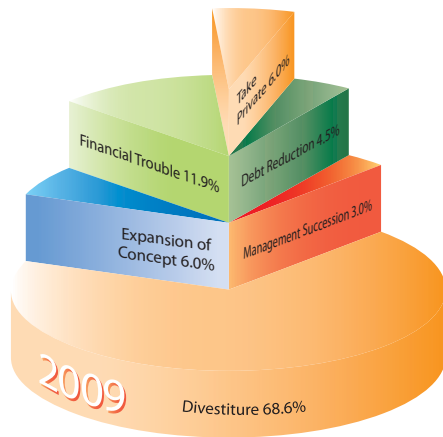
Because the vast majority of the transactions are private and confidential, purchase price information is normally unavailable. While this information is useful, some buyers and sellers do not allow publication of this information in the Census.

Information is compared with prior years to assist in identifying trends. The following information summarizes and compares the key statistics of the Census for 2009 and 2008.

Reason	2009	%	2008	%
Divestiture	46	68.6	81	69.8
Financial trouble	8	11.9	21	18.1
Expansion of concept	4	6.0	8	6.9
Take private	4	6.0	3	2.6
Debt reduction	3	4.5	3	2.6
Management succession	2	3.0	0	0.0
<b>Totals</b>	<b>67</b>	<b>100.0</b>	<b>116</b>	<b>100.0</b>

## Reason for the Sale

Fewer troubled chains found new owners than the last two years, signifying that new ownership was either difficult to locate or would not solve the chain's problems. As in prior years, most sellers indicated that their primary reason for selling was that the chain no longer fit their goals or objectives. Only four companies announced plans to go private, none of which closed during the year.



## Reason for the Purchase

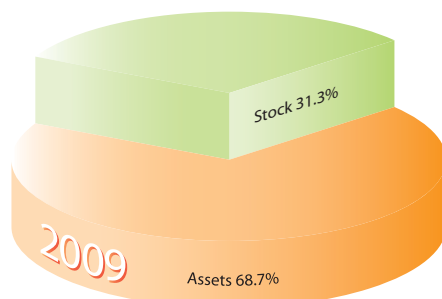
Buyers of all types acquiring new concepts declined by 58% this year, following the 14% decline in 2008. Investors buying minority positions remained interested in the sector as equity funds and individuals acquired 22% of the companies included in the Census. Franchise acquisitions aimed at expanding territorial boundaries led the reasons for making an acquisition, for the first time in several years.

Reason	# of Transactions
Expand franchise area	23
	26
New concept	16
	38
Investment	15
	32
Acquiring shares not owned	7
	3
Franchiser acquiring franchisee	4
	15
Acquiring to convert units	2
	2
2009 Transactions	67
2008 Transactions	116

## Type of Deal

Significantly more asset than stock deals were recorded, with several structures that favored cash. The large number of asset purchases continues the trend from the last several years where buyers favor purchasing assets for tax reasons. In almost all cases, franchisee purchases were asset transactions. Equity fund buyers seemed to be creative in developing structures to bridge the ever-present gap between buyer and seller valuations.

Type	2009	%	2008	%
Assets	46	68.7	83	71.6
Stock	21	31.3	33	28.4
<b>Totals</b>	<b>67</b>	<b>100.0</b>	<b>116</b>	<b>100.0</b>



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

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