

CHAIN RESTAURANT MERGER & ACQUISITION CENSUS

2008 Summary Report



Prepared by David L. Epstein, Principal
J.H. Chapman Group, L.L.C.
773.693.4800

Chain Restaurant Merger & Acquisition Census

2008 Census Overview

The Census captured 116 announced transactions, 3.6% more than in 2007. Five public and three going private transactions were recorded in one of the worst public markets in recent history. Chains in trouble found new owners through court supervised sales and lender “encouraged” changes. Franchise unit sales increased significantly as several major franchisers embarked on refranchising programs. Equity funds continued to acquire in the industry representing

33% of all transactions. Buyers reduced their desire to diversify but still accounted for 33% of all transactions. Significantly more asset transactions were announced with many structures that favored cash.

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.

Type of Buyer

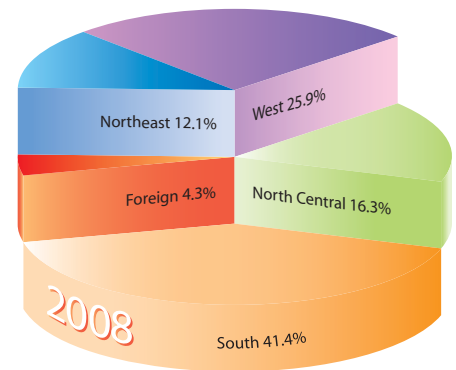
Equity funds continued to make significant investments in the industry despite the weak credit markets. Thirty-eight deals were announced, up 12% from last year, with nearly one-third of all reported transactions. Franchisees took advantage of several refranchising parent programs which together represented 22% of this year’s activity, up 56% from last year. Likewise, franchisers found more value in purchasing their own franchisees than diversifying into new brands. Operators buying new concepts fell by 44% yet franchisee purchases still represented one out of five announced private transactions, demonstrating that deals were negotiated at acceptable values. The public market remained essentially closed as only two chains announced registration for initial public offerings, two private placements of listed securities and one public stock exchange.

Type of Buyer	# of Transactions
Equity Fund	38
Franchisee acquiring units of their concept	25
Operator acquiring new concept (Non-franchised)	20
Franchiser acquiring franchisee of their concept	15
Franchisee acquiring franchisee of another concept	5
Public stock offering	5
Foreign buyer	4
Management buyout	3
Company not in foodservice	1
Owner acquiring more ownership	0
Other	0
2008 Transactions	116
2007 Transactions	112

Geographical Region of Target Company

The North Central region had the largest increase in activity from last year, yet as in the last several years, the Southern region posted the largest number of transactions. Acquisitions of foreign companies involved domestic equity funds acquiring Canadian operations as well as operating companies acquiring their franchisees and new concepts.

Region of Target	2008	%	2007	%
South	48	41.4	51	45.5
West	30	25.9	27	24.1
North Central	19	16.3	15	13.4
Northeast	14	12.1	16	14.3
Foreign	5	4.3	3	2.7
Totals	116	100.0	112	100.0



Segment	2008	%	2007	%
Midscale	20	17.2	20	17.9
Ethnic	18	15.5	15	13.4
Burger	14	12.1	15	13.4
Pizza	14	12.1	6	5.4
Sandwich	13	11.2	7	6.3
Family/Coffee Shop	7	6.0	8	7.1
Steak House	6	5.2	8	7.1
Bakery	6	5.2	7	6.3
Ice Cream	4	3.4	3	2.6
Chicken	3	2.6	7	6.3
Seafood	3	2.6	2	1.8
Contract Feeder	3	2.6	4	3.6
Cafeteria	2	1.7	1	.9
Diversified	2	1.7	3	2.6
Juice Bar	1	.9	1	.9
Dinner House	-	-	2	1.8
Fine Dining	-	-	3	2.6
Totals	116	100.0	112	100.0

Industry Segment

QSR led this year’s activity with 54%, followed by Full Service Chains with 42%. The Midscale Casual and Pizza segments reflected the refranchising goals of three large players in their respective segments. Several relatively small transactions dominated the Sandwich segment.

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.)
- 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.)

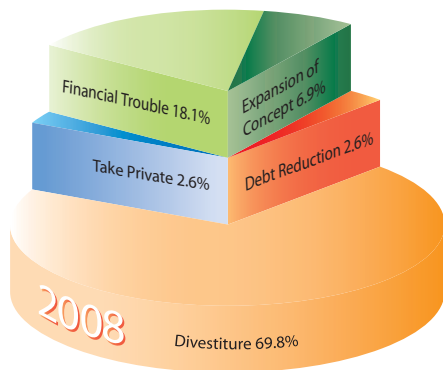
Because the vast majority of the transactions are private and confidential, purchase price information is normally unavailable. While this information is useful, some buyers and sellers do not allow publication of this information in the Census.

Information is compared with prior years to assist in identifying trends. The following information summarizes and compares the key statistics of the Census for 2008 and 2007.

Reason	2008	%	2007	%
Divestiture	81	69.8	72	64.3
Financial trouble	21	18.1	16	14.3
Expansion of concept	8	6.9	15	13.4
Take private	3	2.6	8	7.1
Debt reduction	3	2.6	1	.9
Totals	116	100.0	112	100.0

Reason for the Sale

More troubled chains found new owners than last year. Several sales involved court supervised arrangements. 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 three companies announced plans to go private, none of which were completed.



Reason for the Purchase

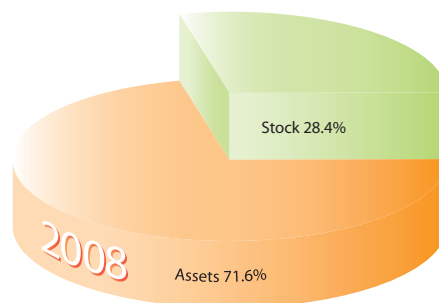
Buyers of all types acquiring new concepts declined by 14% this year, yet still represented the largest category with 33% of total activity. Investors remained interested in the sector as many equity funds and individuals acquired significant positions in 28% of the companies included in the Census. Strategic buyers expanding their brand reach dominated the franchise purchases this year.

Reason	# of Transactions
New concept	38
	44
Investment	32
	34
Expand franchise area	26
	17
Franchiser acquiring franchisee	15
	9
Acquiring shares not owned	3
	6
Acquiring to convert units	2
	2
2008 Transactions	116
2007 Transactions	112

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. Some new acquisition structures involved seller financing, earn-outs and existing loan purchase discounts. Equity fund buyers seemed to be creative in developing structures to bridge the ever-present gap between buyer and seller valuations.

Type	2008	%	2007	%
Assets	83	71.6	67	59.8
Stock	33	28.4	45	40.2
Rights/Options	-	-	-	-
Totals	116	100	112	100.0



David L. Epstein can be contacted at depstein@jhchapman.com and at (773) 693-4800.

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 by former food industry executives to serve 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 affiliates in India, Chile, Argentina, Brazil, China and Mexico, we have established an enviable track record of success and an extensive network of contacts around the globe.

Howard I. Bernstein
David L. Epstein
Marco V. Galante
Miles R. Greer

Robert S. Hill
John W. Loeb
Mervyn C. Phillips
Jacques Wenig

9700 Higgins Road · Rosemont, Illinois 60018 · 773.693.4800 · Fax 773.693.6255

65 Avenue Kleber · 75116 Paris, France · 331.4434.0857 · Fax 331.4434.0858

www.jhchapman.com