



Investment Banking | **Industry Spotlight**



Restaurants | Q3 2018

Introduction to Fifth Third Investment Banking

FULL SERVICE INVESTMENT BANKING PLATFORM

Fifth Third Investment Banking provides Merger & Acquisition (M&A), capital raising and other strategic and financial advisory services to Fifth Third's corporate and financial sponsor clients

SERVICES PROVIDED

- Sell-Side M&A Advisory
- Buy-Side M&A Advisory
- Acquisition Strategy
- Capital Raising
- Corporate Finance Advisory
- Strategic Alternatives Review

TYPICAL M&A CLIENT

- EBITDA of \$3 - \$50+ million
- Private or Financial Sponsor-Owned
- Within Fifth Third Bank Footprint
- Within Core Industry Verticals



CONSUMER & RETAIL



DIVERSIFIED INDUSTRIALS



HEALTHCARE
COKER CAPITAL



TECH-ENABLED
BUSINESS SERVICES

SENIOR BANKERS

CHARLIE HURT
Consumer & Retail

JOHN SHOFFNER
Consumer & Retail

JOE CARSON
Diversified Industrials

JEREMY EBERLEIN
Diversified Industrials

ROB BOHN
Diversified Industrials

DAN DAVIDSON
Healthcare

JAMIE HEIDBREDER
Healthcare

BO HINTON
Healthcare

JOHN REIBOLDT
Healthcare

MCNEILL WESTER
Healthcare

ALAN MCCLURE
Business Services

JIM PARRINO
Buy-Side Advisory

MICHAEL HO
Buy-Side Advisory

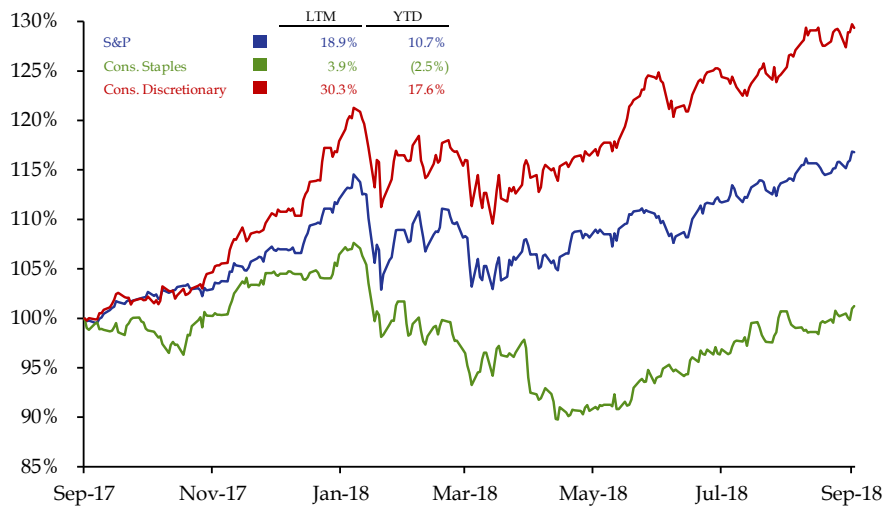
ROB TYNDALL
Corporate Finance

MELINA AUDINELLE
M&A Execution

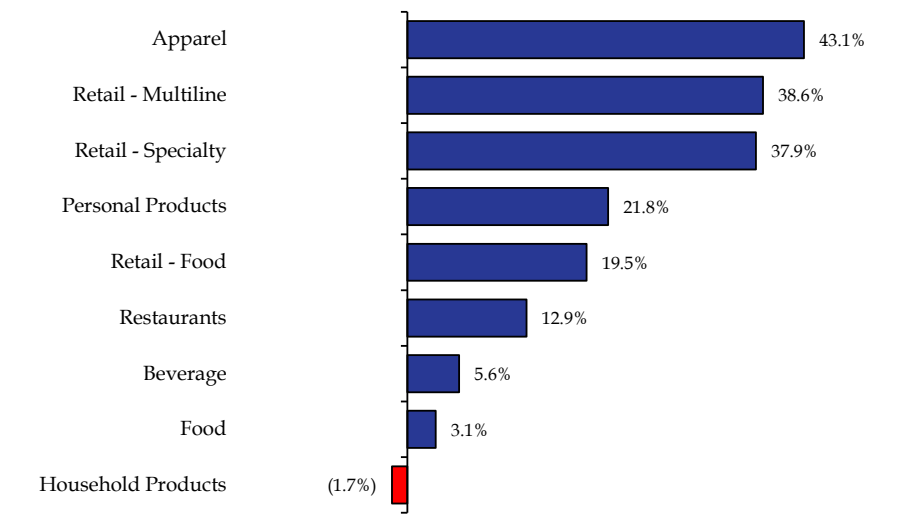
RECENT M&A ADVISORY TRANSACTIONS

<p>Business Services</p>  <p>has been recapitalized by</p>  <p>Staffing</p>	<p>Healthcare</p>  <p>has been recapitalized by</p>  <p>Senior Living</p>	<p>Healthcare</p> <p>SUN CITY IMAGING</p> <p>has been acquired by</p>  <p>a portfolio company of</p>  <p>Radiology</p>	<p>Industrials</p>  <p>has been acquired by</p>  <p>a portfolio company of</p>  <p>Distribution</p>	<p>Consumer & Retail</p>  <p>has been recapitalized by</p>  <p>Consumer Products</p>	<p>Industrials</p>  <p>has been acquired by</p>  <p>a portfolio company of</p>  <p>Automation</p>	<p>Healthcare</p>  <p>has been acquired by</p>  <p>Behavioral Health</p>	<p>Healthcare</p>  <p>has been acquired by</p>  <p>Behavioral Health</p>
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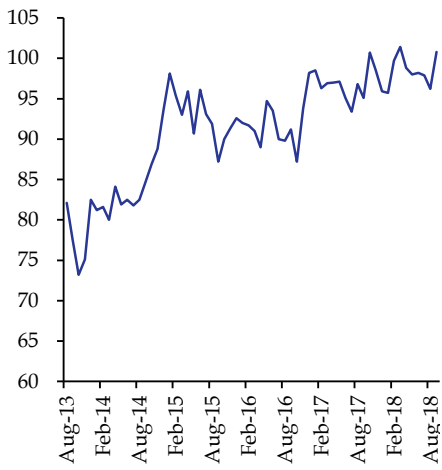
Relative Performance (LTM)



Returns by Sector (LTM)



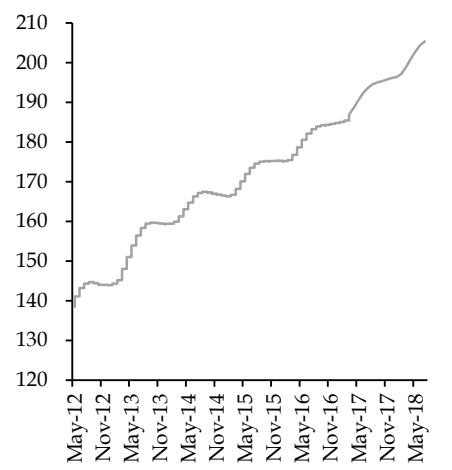
Consumer Sentiment



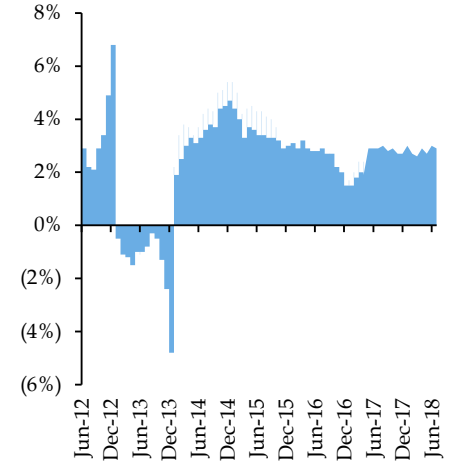
Retail Gas Prices (\$/gallon)



Case Schiller Index



% Δ Disposable Income (YoY)



Same Store Sales (SSS) Growth Continued to Grow in Q2

- Restaurants have now experienced three consecutive quarters with positive SSS growth
- August was a strong month for restaurant same-store sales, which had the highest growth rate recorded since September 2015
- Continued momentum in improving household income after two years of lag has led to a positive consumer outlook
- Restaurant operators are still challenged by declining guest counts year-over-year, which have been offset by increasing guest checks

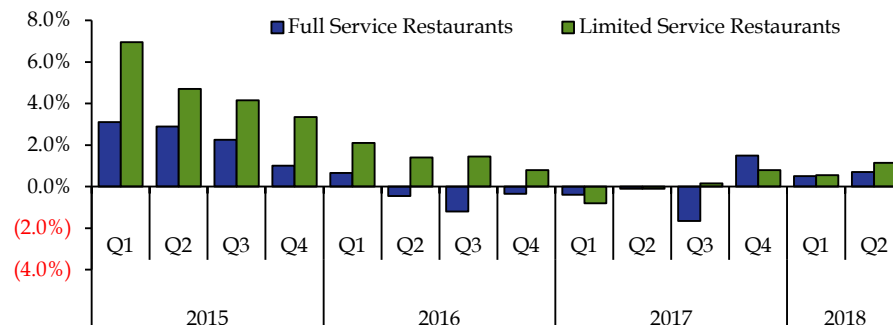
Keeping Restaurants Fully Staffed is Still a Key Challenge Faced by Operators Today

- The US unemployment rate averaged at 3.9% over the last four months, which has led operators to scramble for hourly workers
 - In addition, staffing is even more challenged in certain parts of the country as 20 states reported unemployment of 3.6% or less
- In light of the problem, turnover rates for both managers and hourly employees dropped slightly during the summer period
- Looking ahead, top performing brands will continue to implement best-in-class people practices and training programs to increase employee retention and guest satisfaction

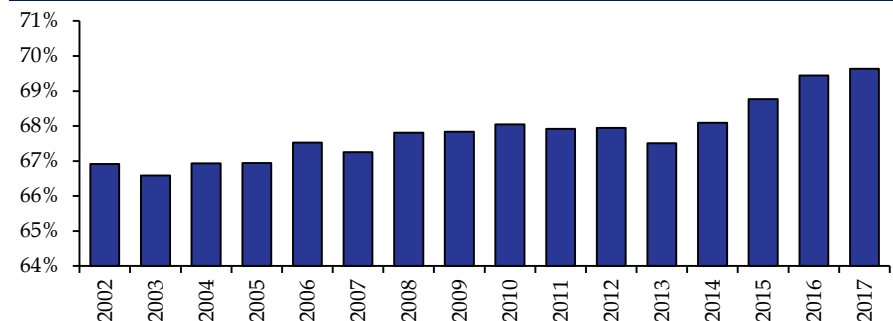
“Ghost Restaurants” Set to Disrupt Traditional Eatery Industry

- Increasing wages and falling foot traffic has created innovated eateries that skip the storefront and bring food straight to consumers by delivery
- “Ghost restaurants” offer little to no direct contact between the customer and kitchen, rather food is ordered via a third-party food-delivery company
- The model allows brands to be more agile and adapt easily to new dining trends and shifting consumer preferences

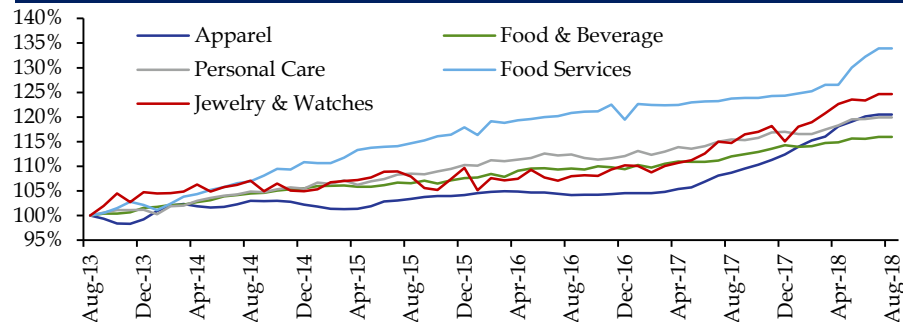
Same Store Sales (SSS) Growth



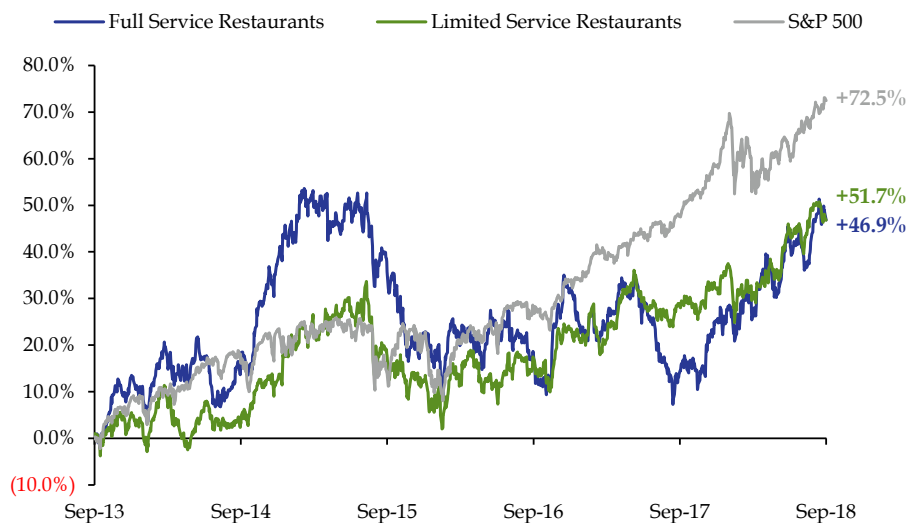
Consumer Spending as a % of Real GDP



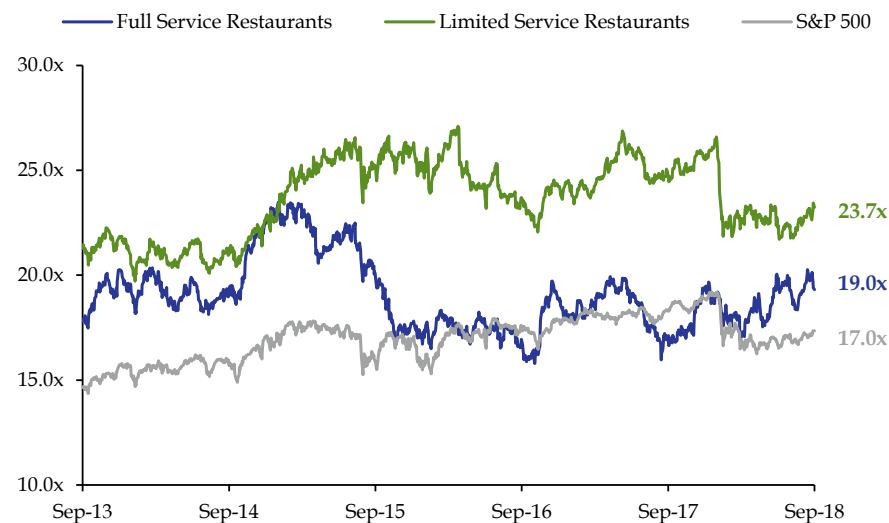
Personal Expenditure - Primary Consumer Segments



5-Year Share Price Performance



5-Year Forward P/E Performance ^[1]



Sub-Sector Indices' Share Price Performance ^[1]

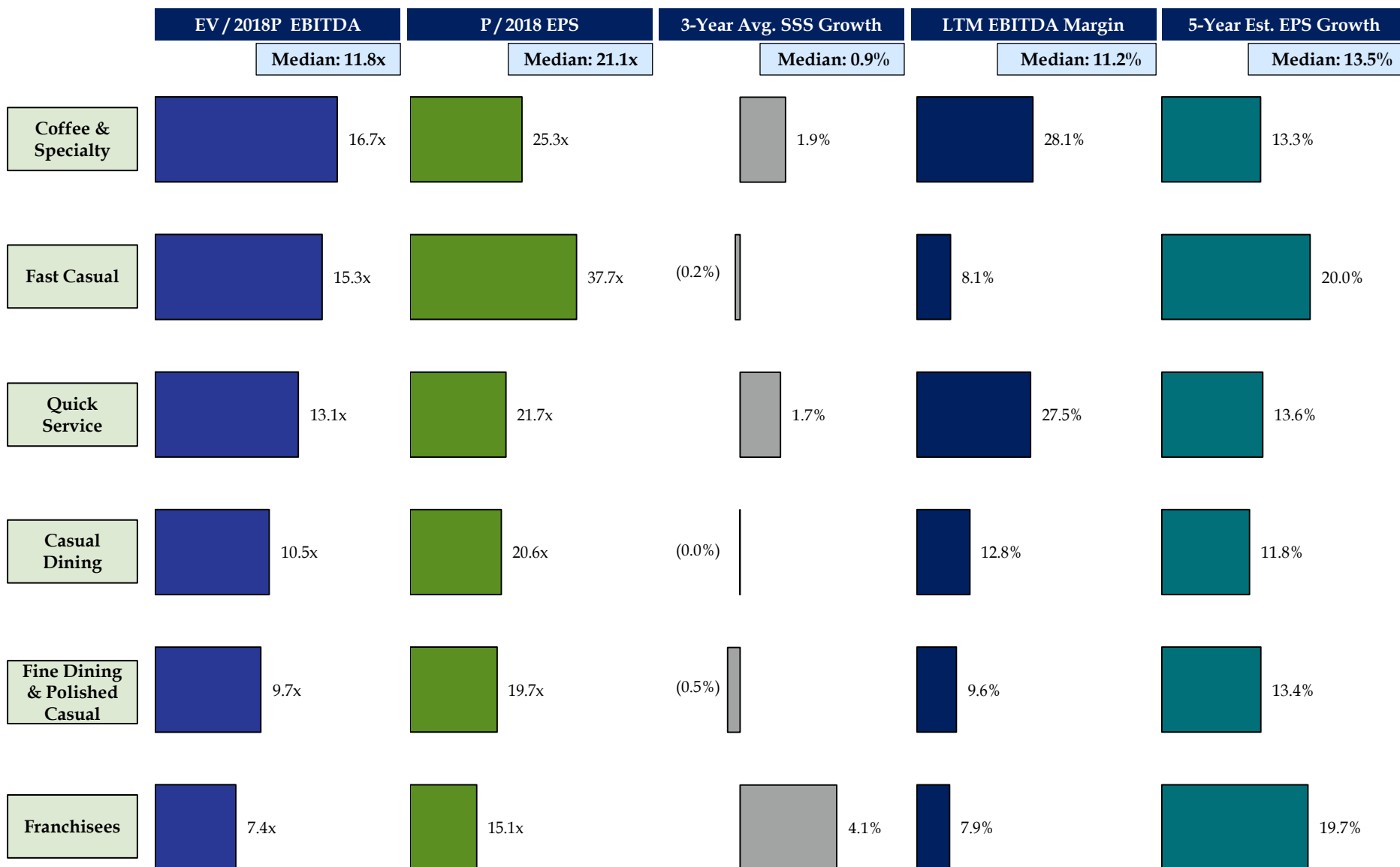
Sector/Sub-Sector	Number of Companies	Median Enterprise Value \$ in Millions	Median TEV/LTM Multiples		Median EV Multiple	Median TEV/Forward Multiples		Median Multiple
			Revenue	EBITDA	LTM P/E	Revenue	EBITDA	Forward P/E
Full Service Restaurants	21	\$1,494	1.1x	10.4x	21.1x	1.1x	10.1x	20.2x
Casual Dining	14	2,778	1.4x	11.5x	21.8x	1.3x	10.5x	20.6x
Fine Dining & Polished Casual	7	210	0.9x	9.3x	20.4x	0.9x	9.7x	19.7x
Limited Service Restaurants	25	1,709	2.7x	14.7x	17.8x	2.8x	14.2x	23.5x
Coffee & Specialty	3	8,796	4.2x	16.1x	17.8x	5.0x	16.7x	25.3x
Fast Casual	6	674	1.2x	16.5x	NM	1.2x	15.3x	37.7x
Quick Service	12	2,744	4.8x	13.4x	20.0x	4.3x	13.1x	21.7x
Franchisees	4	494	0.7x	9.3x	14.3x	0.6x	7.4x	15.1x
S&P 500	500	NM	2.6x	13.1x	27.5x	2.4x	11.2x	17.0x

Source: S&P Capital IQ as of September 28th, 2018

* Each index is comprised of the companies noted on page 12

[1] Forward P/E multiples in charts do not match the table, as 5-year performance chart is market capitalization weighted

Public Equity Market Valuation Trends (Cont'd)



Source: S&P Capital IQ as of September 28th, 2018
* Each index is comprised of the companies noted on page 12

M&A Market Commentary

We are in the 9th year of the post-Great Recession recovery

- Typical expansion lasts 7 years
- M&A deal flow and transaction volume have declined for 3 straight years, though still above pre-recession levels

We expect 1 - 2 more years of strong M&A market conditions

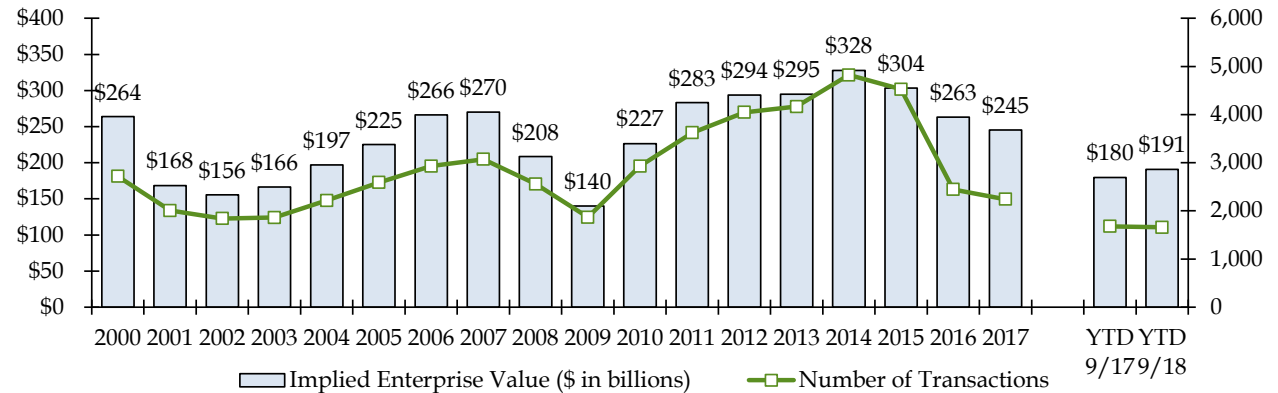
- Tax reform and the de-regulatory environment provide a boost after several years of ~2% growth
- The labor market is tight, but job-seekers may be tempted to return after low participation
- Interest rates are stabilizing, but are expected to continue rising
- Financial leverage is at cyclical highs, representing a risk

It is still a seller's market given:

- Record levels of un-invested private equity capital
- Healthy corporate profits and strategic buyer balance sheets

U.S. Middle Market M&A Activity

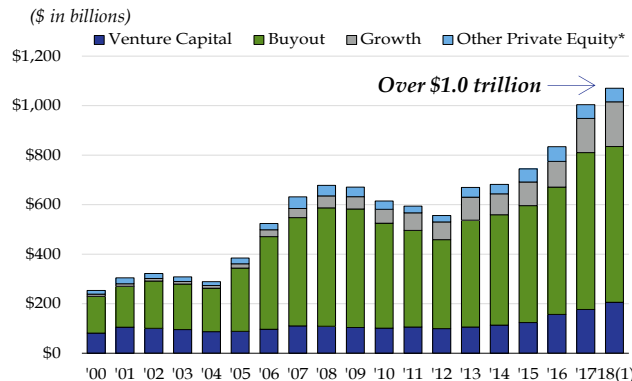
- Historically, M&A cycles have not extended past seven years; 2017 was the 8th year of the current cycle
- 2017 demonstrated signs that the buyout cycle is slowing, however, numerous positive drivers remain
 - 2018 tax policy changes and cash repatriation expected to support continued M&A activity



Market Conditions Today Make the Environment a "Sellers' Market"

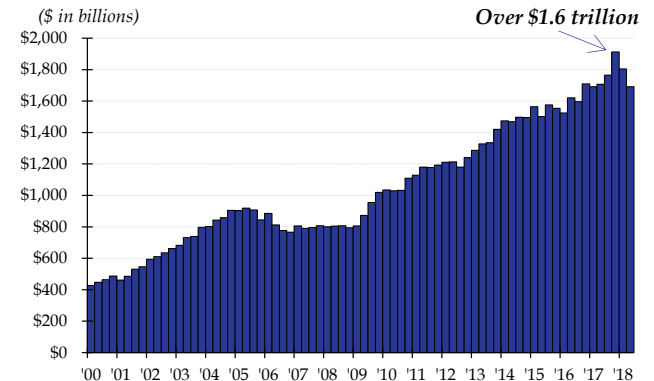
Private Equity Dry Powder by Fund Type

Private equity firms continue to sit on a built up level of dry powder, driving a need to deploy it for acquisitions



Strategic Buyer (Corporate) Cash

U.S. corporate cash balances remain at record levels and are driving activity in strategic buyer M&A



(1) As of June 30, 2018

* = "Other Private Equity" includes balanced, co-Investment, co-Investment multi-manager, direct secondaries, and turnaround funds

Source: Pitchbook, Prequin, and S&P Capital IQ

Q3 M&A Dynamics Drag

- Overall 3Q18 Consumer & Retail deal value and volume decreased compared to 3Q17
- Companies are still feeling the effects of the tax overhaul with increased cash on hand
 - Active consolidators are increasingly seeking transformational acquisitions to deploy dry powder

Investors Remain Active in Franchisee Consolidation

- Spurred by franchisor's increasing reimage demands and sales of company-operated units
- Acquisitions led by large multi-concept consolidators benefit from economies of scale
 - Consolidators typically have an established infrastructure that allows them to deliver a level of professional management and leverage fixed overhead costs that smaller franchisees can't match

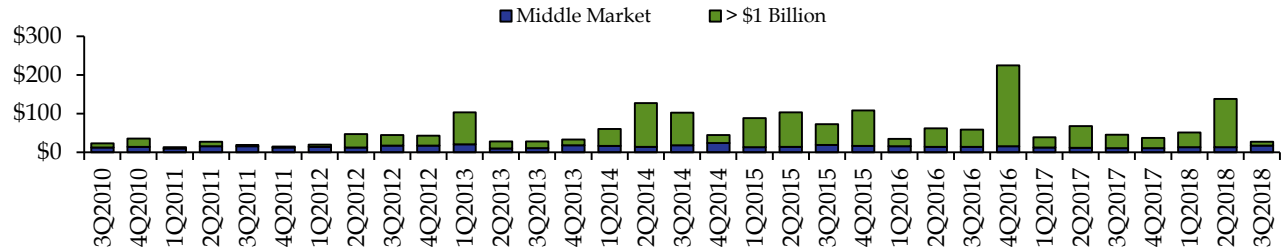
Franchisor Activity Driven by Large Sponsors

- Apollo Global Management, JAB Holding and Roark Capital have catalyzed the franchise M&A market
- Brand acquisitions lead to increasing consolidation in franchise systems

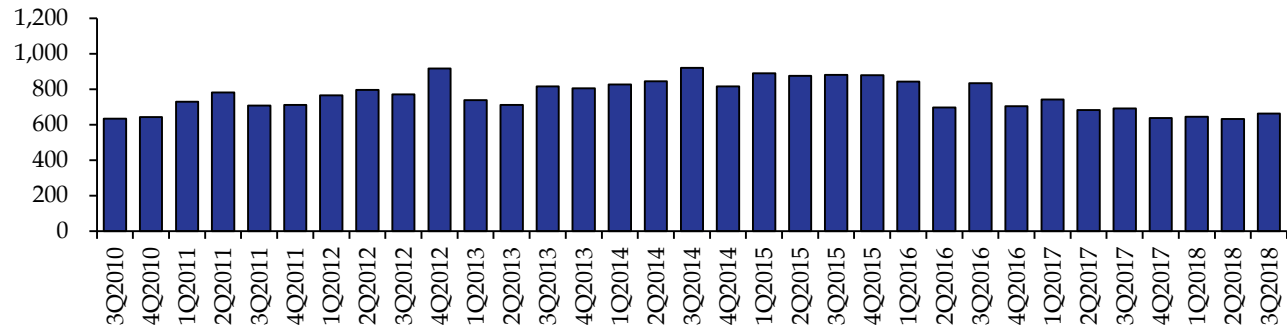
U.S. Consumer & Retail M&A Announced Deal Value (\$ in billions) ^[1,2]

Median Middle Market: \$14.2

Median > \$1 Billion: \$27.1



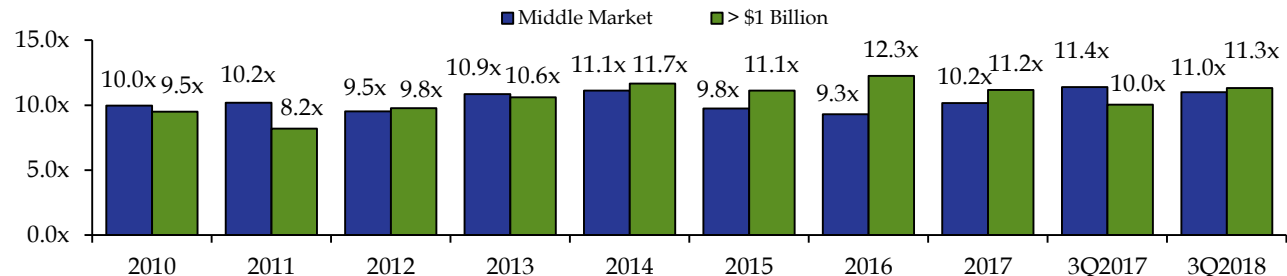
U.S. Consumer & Retail M&A Announced Deal Volume



U.S. Consumer & Retail M&A Closed Deal Average EV/ EBITDA Multiple ^[1,2]

Median Middle Market: 10.2x

Median > \$1 Billion: 11.1x



Source: Fifth Third Securities, S&P Capital IQ

[1] Middle Market transactions defined by transactions with an enterprise value below \$1 billion

[2] U.S. Consumer & Retail transactions include Consumer Discretionary and Consumer Staples transactions, and exclude outlier multiples

Precedent M&A Transactions: Restaurants

Restaurants | Industry Spotlight
Q3 2018

\$ in millions

Announced Date	Target	Acquirer	Target Sub-Sector	Enterprise Value (EV)	LTM Financials		EV/LTM	
					Revenue	EBITDA	Revenue	EBITDA
Sep-18	Sonic Corp. (SONC)	Inspire Brands (Roark Capital Group)	QSR	\$2,270	\$434	\$146	5.2x *	15.6x
Aug-18	Zoe's Kitchen (ZOES)	Cava Group & Consortium of Investors	Fast Casual	300	333	18	0.9x	16.7x
Aug-18	Jamba Juice (JMBA)	FOCUS Brands (Roark Capital Group)	Coffee & Specialty	205	78	4	2.6x	56.9x *
May-18	Pret A Manger	JAB Holding	Fast Casual	2,000	1,188	133	1.7x	15.0x
May-18	Barteca Restaurant Group	Del Frisco's Restaurant Group (DFRG)	Fine Dining	325	128	32	2.5x	10.3x
Mar-18	Bravo Brio Restaurant Group (BBRG)	Spice Private Equity	Casual Dining	101	505	27	0.2x *	3.7x *
Feb-18	Fogo de Chao (FOGO)	Rhone Capital	Casual Dining	560	311	53	1.8x	10.6x
Feb-18	Huddle House	Elysium Management	Casual Dining	-	-	-	-	-
Dec-17	Qdoba Restaurant Corporation	Apollo Global Management (APO)	Fast Casual	305	457	38	0.7x	8.0x
Nov-17	Buffalo Wild Wings (BWLD)	Inspire Brands (Roark Capital Group)	Casual Dining	2,885	2,061	255	1.4x	11.3x
Nov-17	Au Bon Pain Corporation	Panera Bread Co. (JAB Holding)	Fast Casual	-	-	-	-	-
Oct-17	Ruby Tuesday (RT)	NRD Capital Management	Casual Dining	314	1,046	37	0.3x	8.5x
Aug-17	Bruegger's Enterprises	Caribou Coffee Company	Coffee & Specialty	-	-	-	-	-
Jun-17	Ignite Restaurant Group (IRG)	Landry's	Casual Dining	55	550	17	0.1x *	3.3x *
Apr-17	Back Yard Burgers	Axum Capital Partners	Fast Casual	-	-	-	-	-
Apr-17	Panera Bread Co. (PNRA)	JAB Holding	Fast Casual	7,500	2,885	424	2.6x	17.7x
Mar-17	Cheddar's Scratch Kitchen	Darden Restaurants (DR)	Casual Dining	780	-	75	-	10.4x
Mar-17	Checkers Drive-In Restaurants	Oak Hill Capital Partners	QSR	525	-	-	-	-
Feb-17	Popeyes Louisiana Kitchen (PLKI)	Restaurant Brands International (QSR)	QSR	1,815	267	89	6.8x *	20.5x *
Jan-17	Bob Evans Farms (BOBE)	Golden Gate Capital	Casual Dining	565	-	-	-	-
Oct-16	Pacific Island Restaurants	Restaurant Brands New Zealand	Franchisee	105	120	19	0.9x	5.5x
Oct-16	Red Lobster Master Holdings	Thai Union Group Public Company	Casual Dining	1,265	2,479	144	0.5x	8.8x
Sep-16	Jimmy John's Franchise	Roark Capital Group	Fast Casual	-	-	-	-	-
Sep-16	Wetzel's Pretzels	CenterOak Partners	Coffee & Specialty	-	-	-	-	-
May-16	Kalaha Corp.	MTY Food Group (TSX:MTY)	Casual Dining	302	729	-	0.4x	-
May-16	Krispy Kreme Doughnuts (KKD)	JAB Holding	Coffee & Specialty	1,298	519	73	2.5x	17.8x
Dec-15	Taco Bueno	TPG Growth	Fast Casual	185	188	33	1.0x	5.7x
Oct-15	Smashburger	Jollibee Worldwide	Fast Casual	99	-	7	-	13.3x
Jul-15	Cote Restaurants	BC Partners	Casual Dining	391	172	38	2.3x	10.4x
May-15	Frisch's Restaurants (FRS)	NRD Capital	Casual Dining	173	216	24	0.8x	7.3x
Mar-15	Del Taco Holdings	Levy Acquisition Group (n/k/a TACO)	Fast Casual	500	385	59	1.3x	8.5x

Median	0.9x	9.0x
Average	1.2x	9.9x

Source: Fifth Third Securities, S&P Capital IQ

U.S. Private Equity deal flow was up on a value basis and down on a volume basis during the third quarter of 2018

- A handful of large buyouts drove total deal value, including Keurig Green Mountain's completed buyout of Dr. Pepper Snapple Group
- Median deal sizes are expected to continue to increase, with larger fund sizes pushing fund managers to pursue larger deals, along with lofty purchase multiples
- Deal flow is expected to be continually strong throughout 2018 driven by current dry powder levels and easy access to debt financing

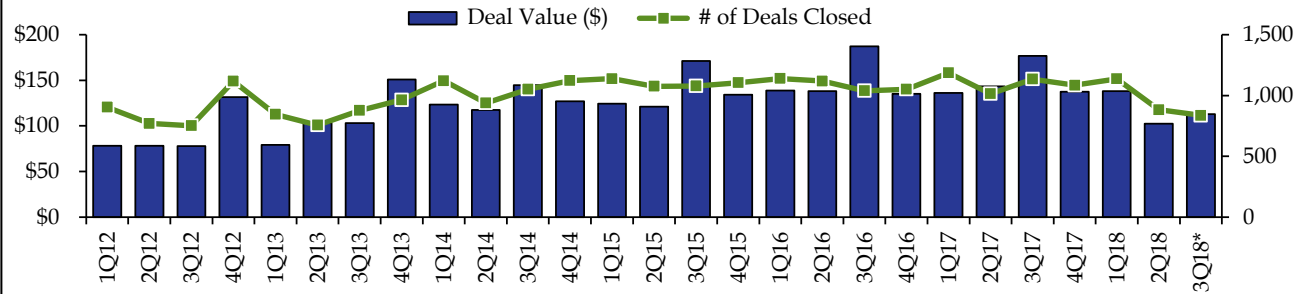
Inspire Brands Continues to Consolidate the Restaurant Industry

- Inspire Brands will acquire Sonic Corp. (a quick-service drive-in restaurant) for \$2.3 billion
- With the addition of Sonic to Inspire Brand's portfolio of companies, the Company will operate more than 8,000 restaurants and have combined system sales in excess of \$12 billion

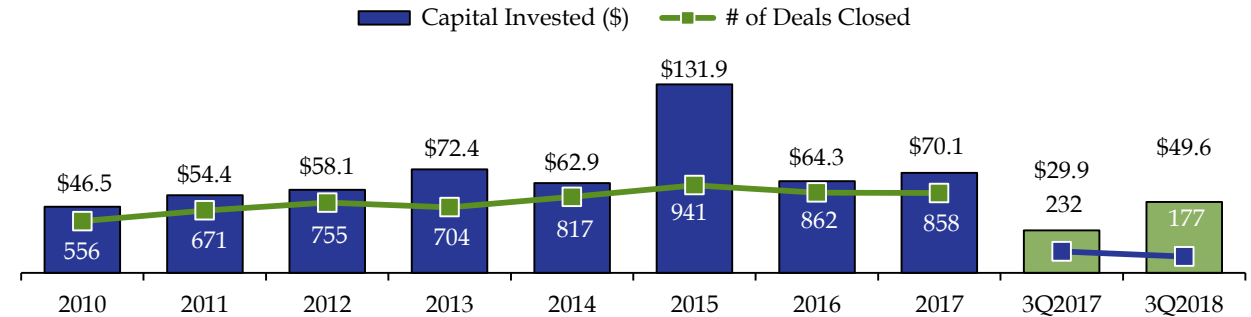
Zoe's Kitchen Goes Private through Cava Group's Acquisition

- Calculated move to leverage scale and a larger footprint to expand investments in people, culinary, and tech innovation

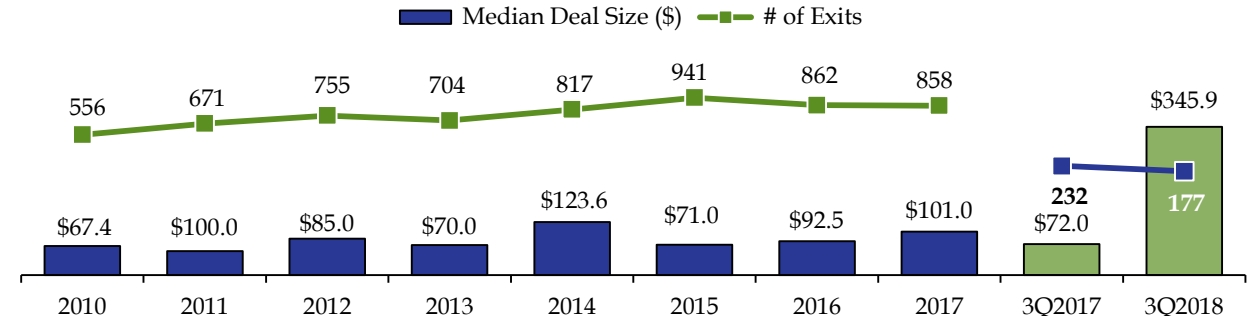
U.S. Private Equity Deal Flow (\$ in billions)



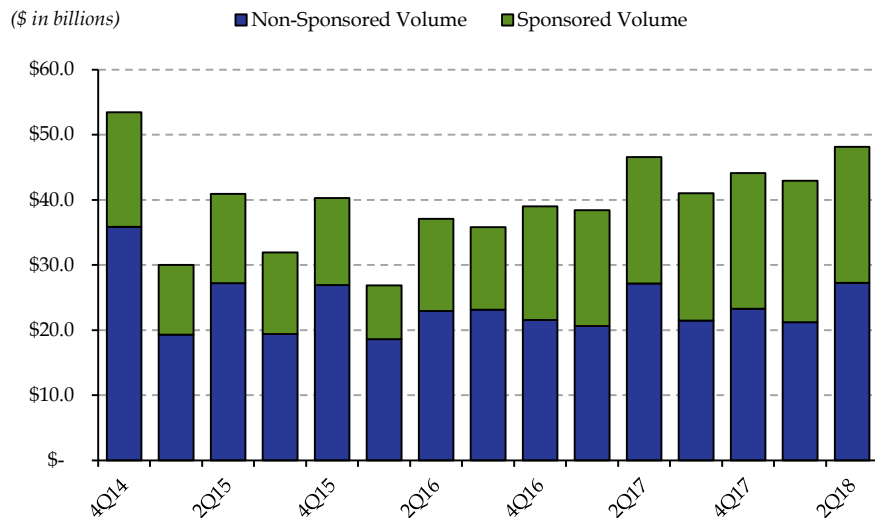
U.S. Consumer & Retail Private Equity Deal Flow (\$ in billions)



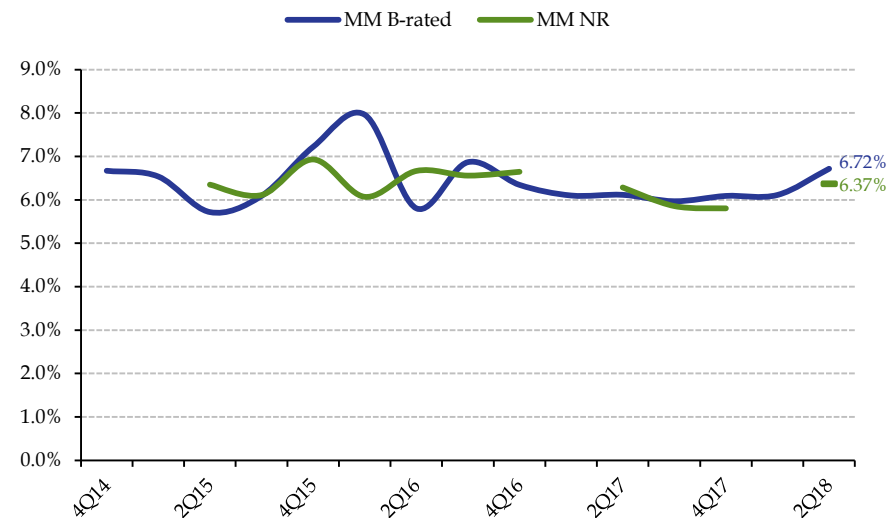
U.S. Consumer & Retail Private Equity Exits (\$ in millions)



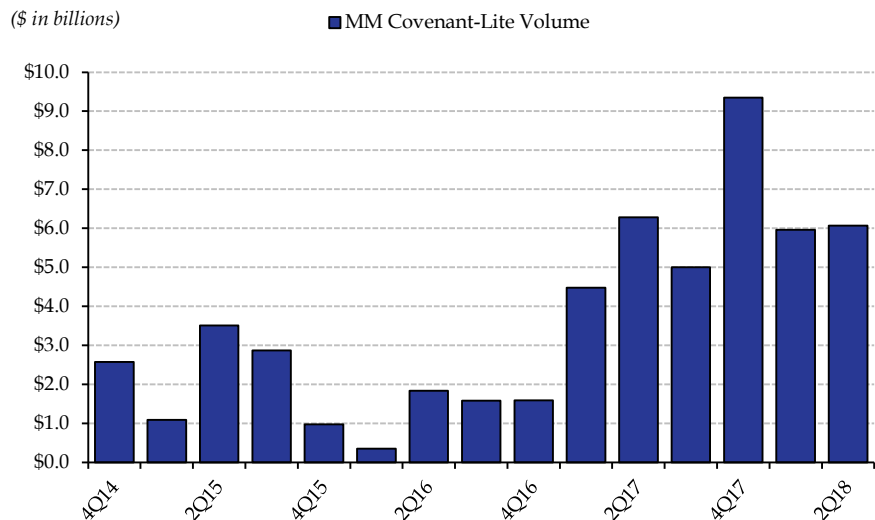
Loan Volume: Level of Supply Regains Momentum in 2Q 2018



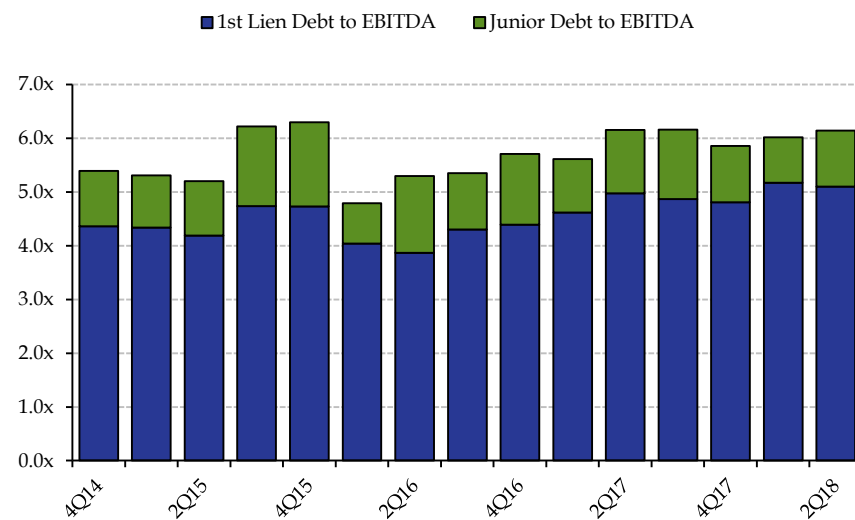
After Relative Stability in 1Q, B-rated Yields Widen in 2Q 2018^[1]



Middle Market Covenant-Lite Volume Remains Flat in 2Q 2018



Middle Market LBO Leverage Levels Stay Consistent Around 6.0x



Note: This data represents the entire U.S. middle market (all industries)
 Note: The middle market is defined as deal size ≤ \$100 million and borrower sales ≤ \$500 million
 [1] Includes both non-sponsored and sponsored transactions; sufficient data not available for MM NR loans in 1Q15, 1Q17, and 1Q18
 Source: Bloomberg, S&P Capital IQ LCD, and Thomson Reuters LPC

Full Service Restaurants

Casual Dining

- BH – Biglari Holdings Inc.
- BJRI – BJ’s Restaurants, Inc.
- BLMN – Bloomin’ Brands, Inc.
- CBRL – Cracker Barrel Old Country Store, Inc.
- CHUY – Chuy’s Holdings, Inc.
- DAVE – Famous Dave’s of America Inc.
- DENN – Denny’s Corp.
- DIN – DineEquity, Inc.
- DRI – Darden Restaurants, Inc.
- EAT – Brinker International, Inc.
- GTIM – Good Times Restaurants, Inc.
- PLAY – Dave and Buster’s Entertainment, Inc.
- RRGB – Red Robin Gourmet Burgers, Inc.
- TXRH – Texas Roadhouse, Inc.

Fine Dining & Polished Casual

- ARKR – Ark Restaurants Corp.
- CAKE – The Cheesecake Factory Incorporated
- DFRG – Del Frisco’s Restaurant Group, Inc.
- JAX – J. Alexander’s Holdings, Inc.
- KONA – Kona Grill Inc.
- RUTH – Ruth’s Hospitality Group Inc.
- STKS – One Group Hospitality, Inc.

Limited Service Restaurants

Fast Casual

- CMG – Chipotle Mexican Grill, Inc.
- FRGI – Fiesta Restaurant Group, Inc.
- HABT – The Habit Restaurants, Inc.
- NDLS – Noodles & Company
- PBPB – Potbelly Corporation
- SHAK – Shake Shack Inc.

Quick Service Restaurants (QSR)

- BOJA – Bojangles’, Inc.
- DPZ – Domino’s Pizza, Inc.
- FRSH – Papa Murphy’s Holdings, Inc.
- JACK – Jack in the Box Inc.
- LOCO – El Pollo Loco Holdings
- MCD – McDonald’s Corp.
- PZZA – Papa John’s International
- QSR – Restaurant Brands International Inc.
- SONC – Sonic Corp.
- WEN – The Wendy’s Company
- YUM – Yum! Brands, Inc.
- WING – Wingstop Inc.

Coffee & Specialty

- DNKN – Dunkin’ Brands Group, Inc.
- NATH – Nathan’s Famous, Inc.
- SBUX – Starbucks Corporation

Franchisees

- ARCO – Arcos Dorados Holdings, Inc.
- OTCPK:MHGU – Meritage Hospitality Group, Inc.
- SAUC – Diversified Restaurant Holdings, Inc.
- TAST – Carrols Restaurant Group, Inc.

S&P 500 Index- A broad index that includes American Companies.

EBITDA- A company's earnings before interest, taxes, depreciation, and amortization, is an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortization are subtracted, as a proxy for a company's current operating profitability.

Dry Powder- Refers to cash reserves kept on hand to cover future obligations or to purchase assets.

GDP- Gross domestic product is the market value of the goods and services produced by labor and property located in the United States

Consumer Sentiment Index- The University of Michigan Consumer Sentiment Index is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in December 1964

National Unemployment Rate- the percentage of the total labor force that is unemployed but actively seeking employment and willing to work.

Non-Farm Payroll- Nonfarm payroll employment is a compiled name for goods, construction and manufacturing companies in the US. It does not include farm workers, private household employees, non-profit organization employees, or government employees . It is an economic indicator released monthly by the United States Department of Labor as part of a comprehensive report on the state of the labor market.

Housing Starts- are the number of new residential construction projects that have begun during any particular month.

The Economist- offers authoritative insight and opinion on international news, politics, business, finance, science, technology and the connections between them

LBO -- leveraged buyout (LBO) is the acquisition of another company using a significant amount of borrowed money to meet the cost of acquisition. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.

Industrial Production Index (IPI)- is an economic indicator published by the Federal Reserve Board of the United States that measures the real production output of manufacturing, mining, and utilities Capital Goods Orders.

Covenant-lite loans- means that debt is being issued, both personally and commercially, to borrowers with less restrictions on collateral, payment terms, and level of income.

IRR-Internal Rate of Return.

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Are Not Insured By Any Federal Government Agency		Are Not A Deposit

+ Services and activities offered through Fifth Third Bank

++ Services and activities offered through Fifth Third Securities, Inc