

1H23 Restaurant Valuation & Finance Update

Key Points

Restaurant Finance Update

- Full-year 2023 restaurant originations (excluding sale leaseback financing) are now projected to be \$8.3B, -35% lower than initial expectations at the beginning of the year.
- Lenders report a slight improvement in their borrowers' financial condition due to higher unit-level sales and easing commodity costs, partially offset by higher borrowing costs.
- Underwriting standards have not changed significantly for QSR but have tightened slightly for FSR.
- Borrowing rates have increased +20% since January, primarily reflecting an increase in benchmark interest rates and higher loan spreads to a lesser extent.

Estimated Unit Level Franchisee Enterprise Valuations

- Aggregate 1H23 franchisee unit-level EBITDA valuation multiples increased slightly (+2.0% vs. 2H22) but remains -3.7% below 1H16 peak.
- Expectations for a -4.6% 2H23 EBITDA multiple decline vs 1H23 would represent the largest contraction since 1H20 and reflects current headwinds which include: a more difficult lending environment; significantly higher borrowing costs; and disconnect between buyers & sellers as it relates to unit economic forecasts.

Public Restaurant Company Valuations & M&A Activity

- 1H23 \$1B+ Chain public restaurant company valuation multiple and premium continues to contract and is now below the pre-covid average as stock prices have not kept-up with improving EBITDA margins.

Marcus & Millichap Real Estate Cap Rates

- Increasing cap rates for single-tenant net-leased \$1B+ chain restaurant properties (higher for QSR than FSR) & declining transaction volume reflects high borrowing costs and competing high-rate investment alternatives.

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Data in spreadsheet form available at <http://www.ChainRestaurantData.com>

Restaurant Finance Update

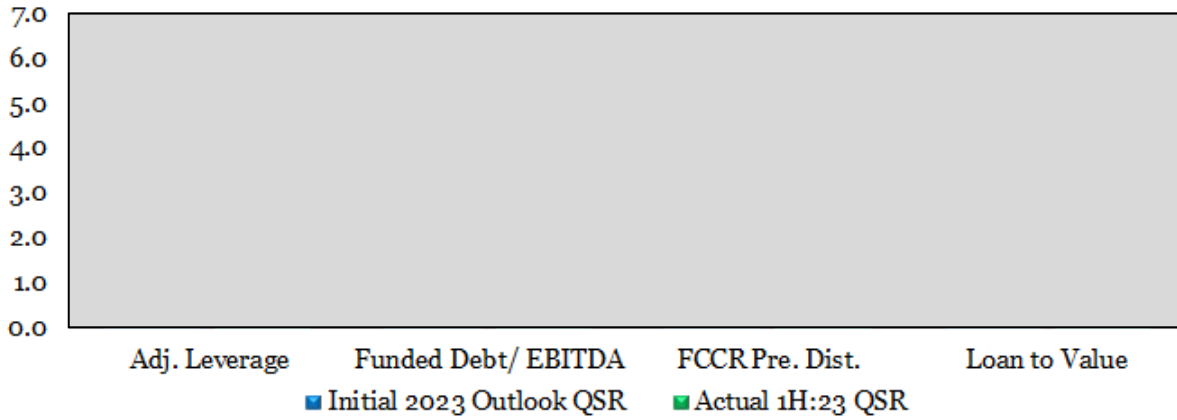
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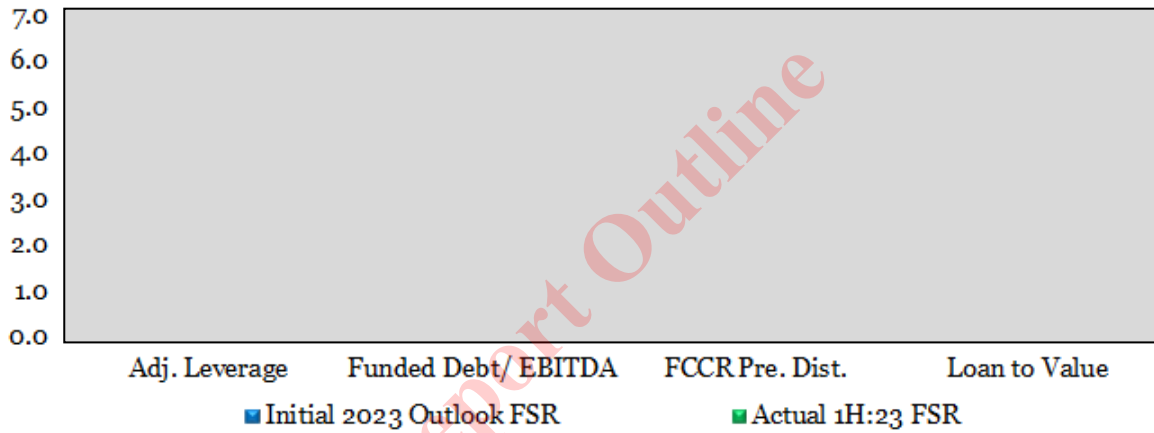
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1H:23 Underwriting Ratios								
	Adjusted Leverage		Funded Debt/EBITDA		FCCR (Pre. Dist.)		Loan to Value	
	QSR	FSR	QSR	FSR	QSR	FSR	QSR	FSR
Low								
High								
Average								

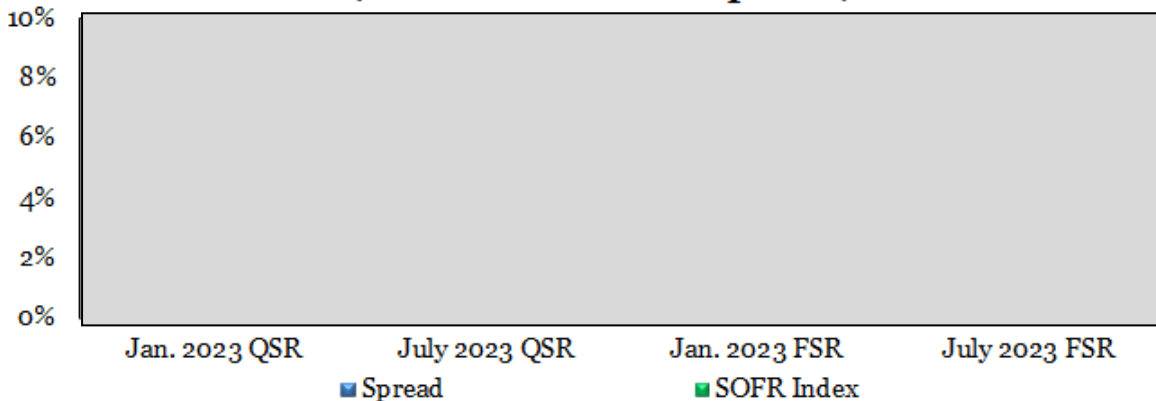
Underwriting Ratios - QSR



Underwriting Ratios - FSR

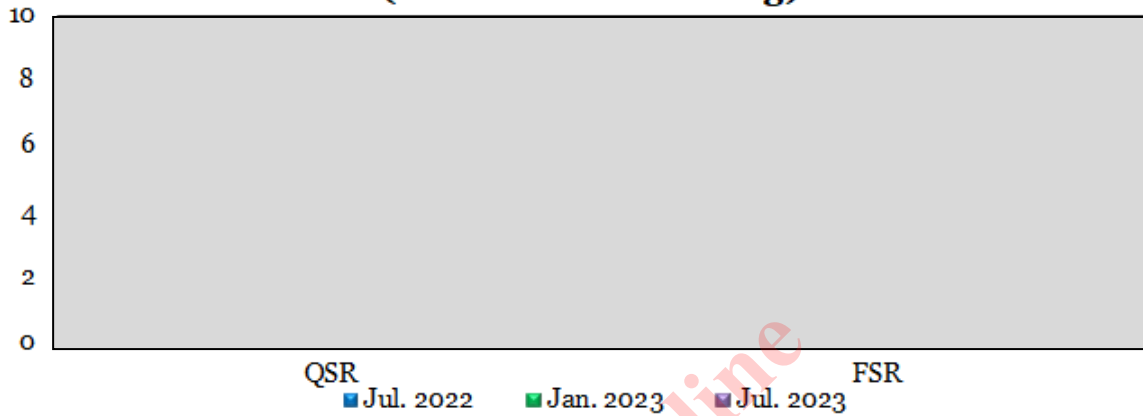


**SOFR Borrowing Rate
(Includes Index + Spread)**



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Borrower Financial Condition (1 - Weak - 10 Strong)



Survey Participants

Amegy Bank	Encore Bank	Pacific Premier
Atlantic Capital Bank	Fifth Third Bank	Pinnacle Commercial Capital
Auxilior Capital Partners, Inc.	First Franchise Capital Corporation	PNC
Bank of America	First Horizon Bank, Restaurant Finance	Preferred Bank
Bank of Hope	Flagstar Bank	Rockland Trust Company
BankRI	Gulf Coast Restaurant and Franchise Finance	Simmons Bank
Bci Capital Franchise Finance	Heartland Financial (HTLF)	Star Hill Financial LLC
BMO Harris Bank	Huntington National Bank	Synovus Bank
Cadence Bank	Live Oak Bank	TD Bank
Capital One	M&T Bank	Texas Capital Bank
Citizens Bank Restaurant Finance	Manufacturers Bank	Vendor Alliance Capital, Inc.
City National Bank	MidCap Financial	Wells Fargo Bank
CrossFirst Bank	MUFG Union Bank	Western Equipment Finance
Customers Bank	NBT Bank	Western Alliance Bank
Eastern Bank	Northern Bank & Trust Company	Wintrust Franchise Services

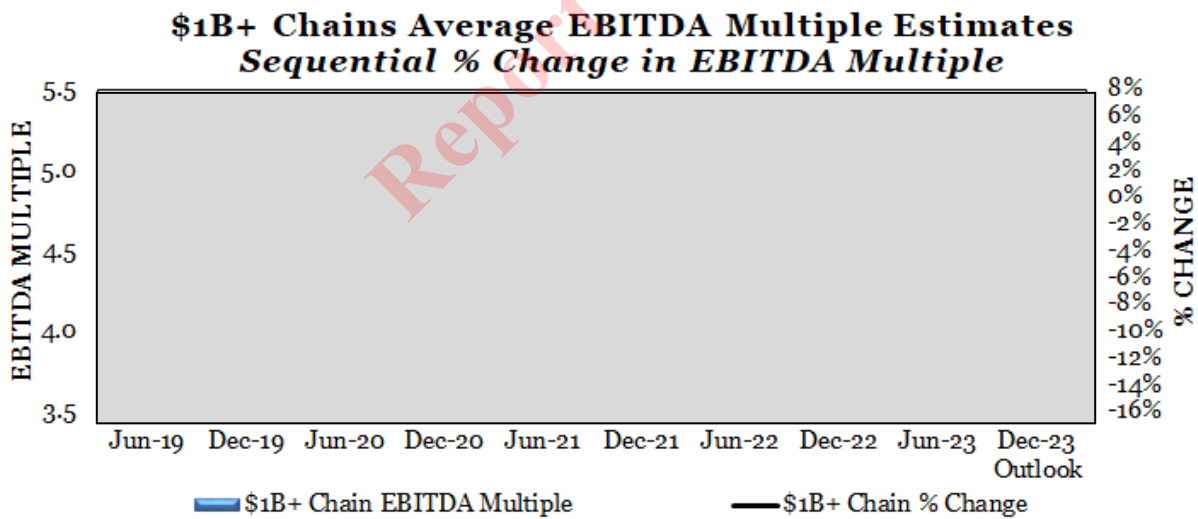
Industry Player Roster Changes

New Entrants/Expanding	Mergers	Exits/On Hold

Estimated Franchise Enterprise Valuations

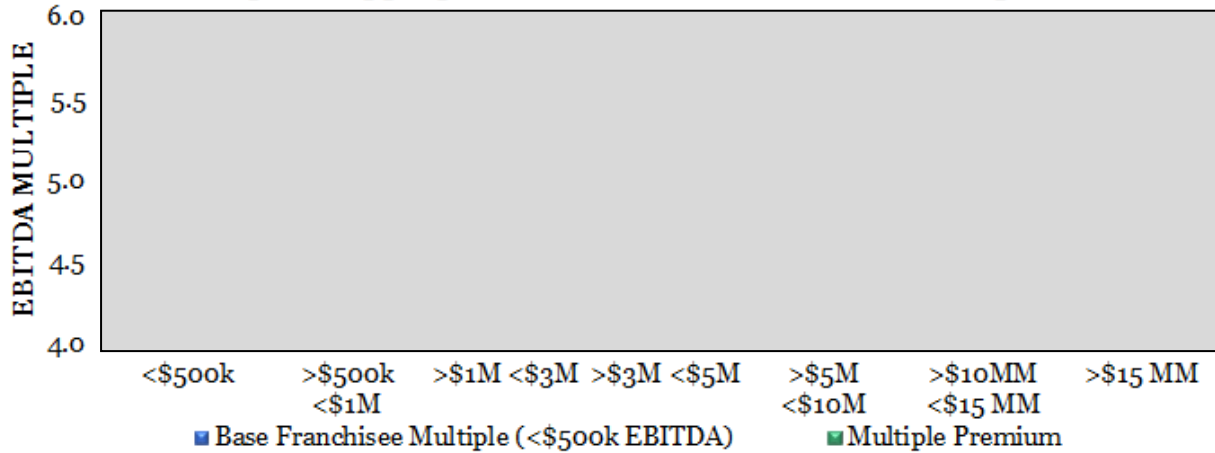
- RR’s franchisee unit-level business valuations (post G&A EBITDA multiple) are based on estimates provided by 8 leading appraisal firms (responsible for approximately 2,000 store valuations over the last 6 months across 45 national chains). Multiples are indicative of deal sizes below \$500k in EBITDA and/or 5 units.

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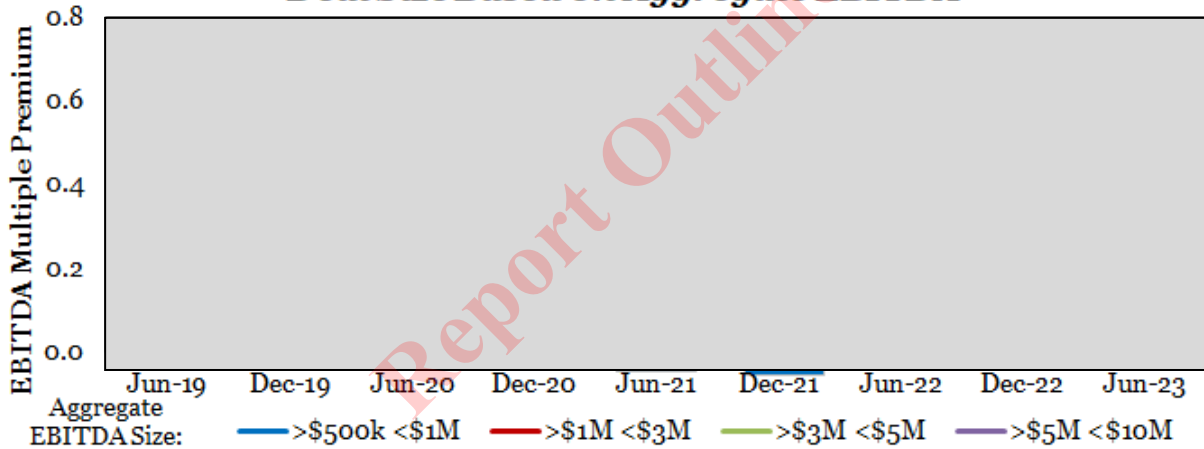


Sequential % Change	Jun-19	Dec-19	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23 Outlook
\$1B+ Chain EBITDA Multiple										
% Change in EBITDA Multiple										
FSR Multiple										
% Change in EBITDA Multiple										
QSR Multiple										
% Change in EBITDA Multiple										

1H:23 Large Deal EBITDA Multiple Premium
Higher Aggregate EBITDA Can Increase Multiple



Large Deal Premium Trends
Deal Size Based on Aggregate EBITDA



Survey Participant Contact Information

Firm	Contact	Main Number	Email
AB Advisory & Analytics			
Advanced Restaurant Sales			
Auspex Capital			
Citizens Capital Markets			
FranBizNetwork			
National Franchise Sales			
Newmark Valuation & Advisory			
Praetorian Group			

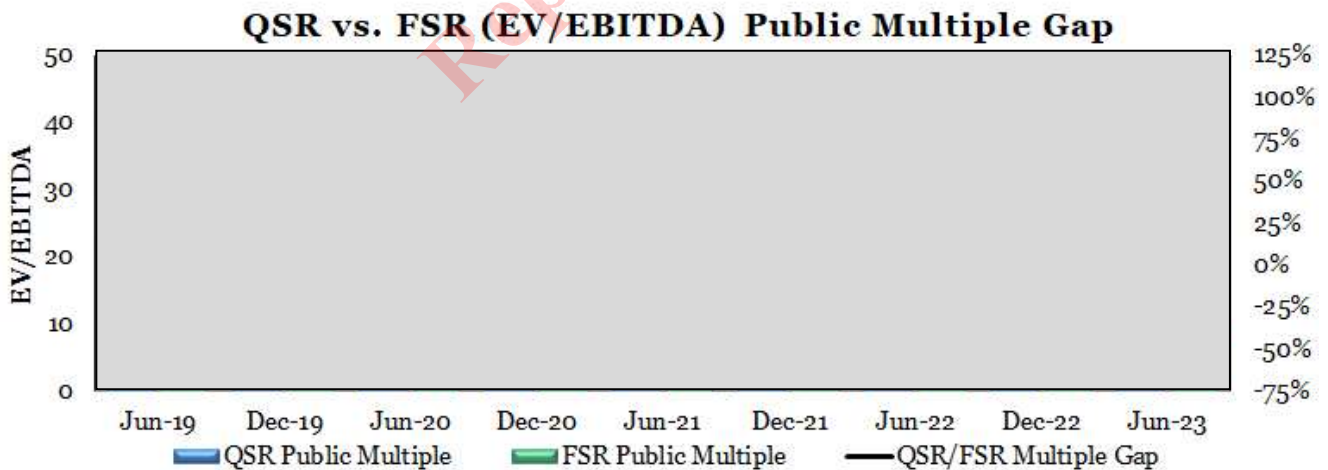
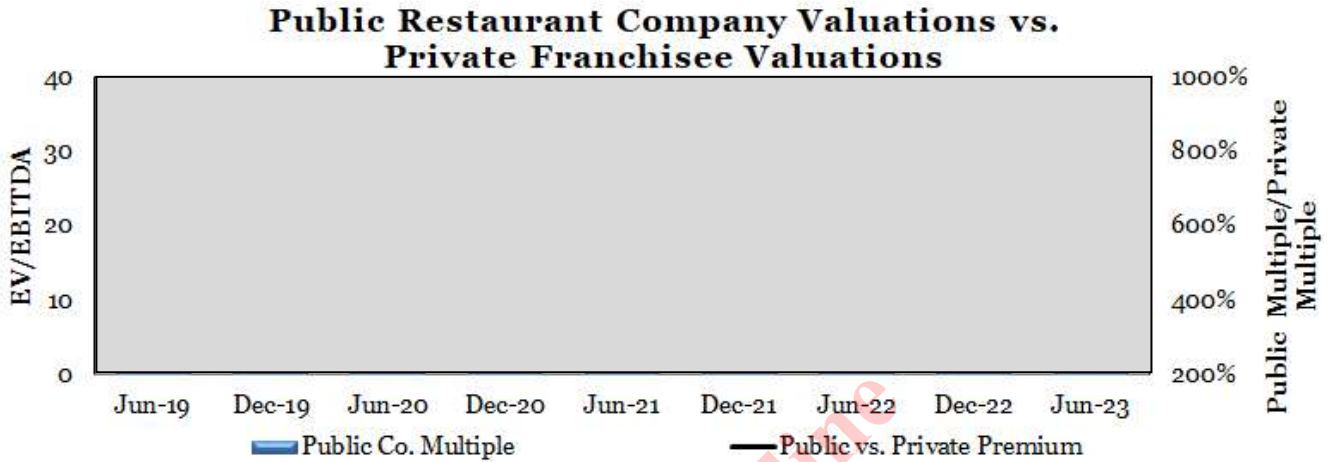
1H:23 Estimated \$1B+ Chains Enterprise Valuations (EBITDA Multiple)

Concept	% Change										1H:23 Average & Range			
	Dec-18	Jun-19	Dec-19	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Jun-23 vs. Dec-22	Low	High	# Estimates
Applebee's														
Buffalo Wild Wings														
Chili's Grill & Bar														
Red Robin														
T.G.I. Friday's														
Texas Roadhouse														
Casual														
Corner Bakery Café														
Moe's Southwest Grill														
Panera Bread														
Qdoba														
Fast Casual														
Denny's														
Golden Corral														
IHOP														
Perkins														
Family														
Arby's														
Burger King														
Carl's Jr.														
Checkers/ Rally's														
Culver's														
Dairy Queen														
Del Taco														
Five Guys														
Hardee's														
Jack in the Box														
McDonald's														
Sonic Drive-In														
Taco Bell														
Wendy's														
Zaxby's														
Sandwich														
Firehouse Subs														
Jersey Mike's														
Jimmy John's														
Subway														
Sub-Sandwich														
Dunkin'														
Tim Horton's														
Krispy Kreme														
Coffee/bakery														
Bojangles'														
Church's														
KFC														
Popeyes														
Wingstop														
Chicken														
Domino's														
Little Caesars														
Papa John's														
Pizza Hut														
Pizza														
FSR Average														
% Change														
QSR Average														
% Change														
Average														
% Change														
10 Year Treasury Rate														

Report Outline

(1) Valuation averages are based on estimates provided by survey participants (not individual transactions) as well as RR estimates and reflect "normal" operating businesses with 5 units after an adjustment for G&A.
 (2) July 2023 survey participants include AB Advisory & Analytics, Advanced Restaurant Sales, Auspex Capital, FranBizNetwork, National Franchise Sales, Newmark Valuation & Advisory, Praetorian Group, and Trinity Capital.

Public Company Valuations (EV/EBITDA)

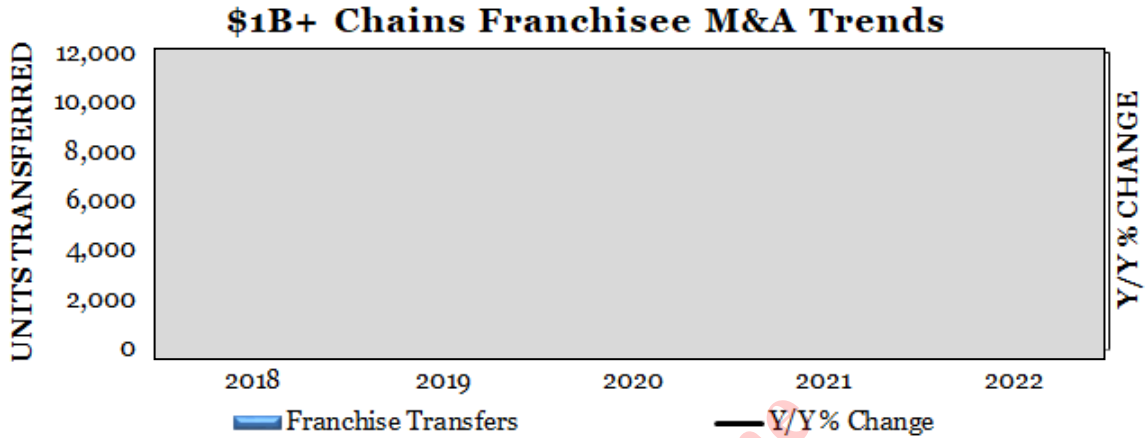


**Public vs. Private Multiples by Chain
(Sorted by Public Premium)**

Concept	Parent Company	EV/EBITDA Multiples 1H:23		
		Public	Private	Public Premium ⁽¹⁾
Wingstop				
Domino's				
Pizza Hut				
KFC				
Tim Horton's				
Burger King				
Popeyes				
Taco Bell				
McDonald's				
Papa John's				
Wendy's				
Jack in the Box				
QSR				
Texas Roadhouse				
Applebee's				
IHOP				
Denny's				
Chili's Grill & Bar				
Red Robin				
FSR				

(1) Public multiple premium = (Public EV/EBITDA)/(Private Franchisee EV/EBITDA)

1H23 Restaurant M&A Activity

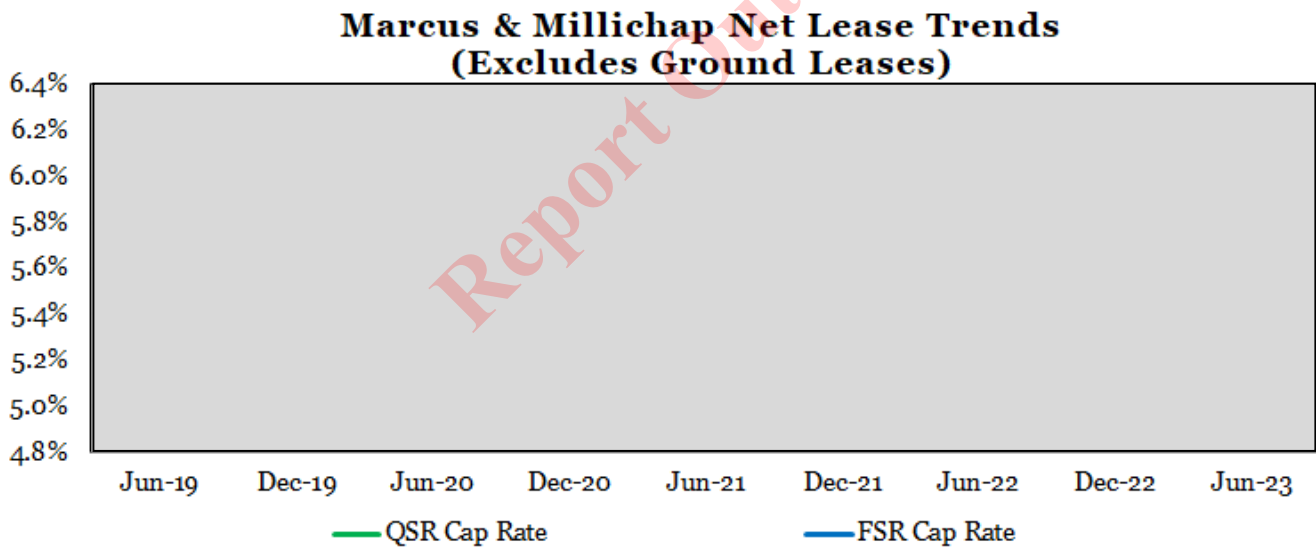


1H23 Restaurant M&A Activity (10+ Unit Transactions)

Concept	Units	Seller	Buyer	Date Closed
Total	0			

Marcus & Millichap Net Lease Real Estate Cap Rates

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About the Contributing Firm: Marcus & Millichap specializes in representing institutional and private companies in the disposition of multi-tenant and single tenant retail properties.

For more information, please contact Hank Wolfer of Marcus & Millichap at (425) 770-2495

Valuation Methodology

- There are 2 separate components to valuing a restaurant (1) **Business/Enterprise Value**, and (2) **Real Estate Value**.

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(1) **Business Value** is determined by using an appropriate multiple of adjusted EBITDA.

Some typical *EBITDA adjustments* include:

(2) **Real Estate Value** (land and building) is determined by:

-

Example - Fee Restaurant Property

Business Value		Real Estate Value	
Sales	\$1,000,000	Implied Rent/sales	7.5%
Adjusted EBITDAR	\$ 180,000	Implied Rental Income	\$75,000
Implied Rent	\$ 75,000	Cap Rate	6.0%
Adjusted EBITDA	\$ 105,000	Real Estate Value	\$1,250,000
Multiple	5.00		
Business Value	\$525,000	Total Value	\$1,775,000



Restaurant Research Coverage

Concept Reports	Industry Data Reports
Applebee's Arby's Burger King Carl's Jr. Chili's Grill & Bar Church's Denny's Domino's Hardee's IHOP Jack in the Box KFC McDonald's Panera Bread Papa John's Pizza Hut Popeyes Sonic Drive-In Subway Taco Bell Wendy's	Restaurant Lending & 2nd Half Unit Valuations Ad Spending Menus & Promotions Unit Growth & Sales Analysis Unit Economics 1st Half Unit Valuations & Lending Update New Build Costs & Franchise Fees Remodeling
	Databases & Special Reports
	RR Databook (Annual Data Summary 50+ Chains) RR LTO Overview (Monthly Promotions 50+ Chains) FDD Library (40+ Chains) Concept Updates (Quarterly 20+ Public Chains) Same Store Sales Database (Quarterly 25+ Chains) New Store ROI Model SBA Lending Database
	www.ChainRestaurantData.com

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