

Restaurant Research's Industry Data Report

Franchise Finance Update

1/30/09

Executive Summary for Franchise Finance Industry Data Report

Restaurant Research's Industry Data Report – 7th Annual Franchise Finance Update seeks to provide insight on the state of restaurant lending as it pertains to the target market of the national franchise lenders – specifically, large established operators of national brands. This year's survey is based on responses from 29 finance companies including traditional cash flow franchise lenders, sale/leaseback companies, SBA lenders, equipment finance companies and financial consultants/advisors.

Key Data Points

- Identify major players and changes in their aggregate loan portfolios and total originations for 2007, 2008 and 2009E.
- Outline current lending parameters including projected and current interest rates, equity requirements, leverage ratios and loan terms (refer to sample table on page 2).
- An update to our July 2008 valuation survey which includes estimates on national chain restaurant EBITDA multiples and cap rates for the last 5 years as well as projections for the next 12 months. Additionally, current EBITDA multiple estimates are provided for 30 national restaurant chains (refer to sample table on page 2).
- Survey participant contact list highlighting each one's lending/advisory focus (refer to sample table on page 3).

Supplemental Industry Commentary

Please refer to Restaurant Research's think piece on restaurant finance starting on page 4.

RR Clients

Includes major lenders, investors, major US restaurant chains, operators and industry consultants. Please check www.restaurantresearch.info for a partial client list and customer testimonials.

More About Us

Restaurant Research LLC leverages an extensive network of industry players as part of its annual Concept Benchmark Analysis due diligence process for 22 large US restaurant chains. Also, RR tracks store level data for all major chains with system-wide sales in excess of \$1B across all major restaurant segments in order to produce 11 key Industry Data Topic reports. For more information please contact us at info@restaurantresearch.info or 860-274-4962.

Restaurant Research's 7th Annual Franchise Finance Overview			
	2007	2008	2009E
Survey Participant Portfolios			
% Change			
Annual Originations			
% Change			
Rates & Spreads ⁽¹⁾			
Lending Rate - 3 Month Libor Index			
Lending Rate - 10-Yr. Treasury Index			
Lending Rate - Prime Index			
Cap Rate			
Leverage Ratios			
Debt/ EBITDA			
Minimum FCOR			
Debt+Leases/ EBITDAR			
Loan to Value			
Minimum Equity Requirements			
Refinance			
Acquisitions			
New Construction			
Equipment			
Sale Leaseback			
Loan Terms			
Equipment			
Enterprise			
Building/ Ground Lease			
Fee Simple			

January 2009 Estimated Concept Business Valuations (EBITDA Multiple)

Concept	Average EBITDA Multiple Estimate					% Change Jan-09 vs. Jul-08	2009 Absolute Range			2009 Outlook	
	Jul-05	Jul-06	Jul-07	Jul-08	Jan-09		Low	High	# Estimates	Neg	Pos
Chili's											
Buffalo Wild Wings											
TGI Friday's											
Red Robin											
Applebee's											
Texas Roadhouse											
Ruby Tuesday											
Casual											
Panera Bread											
Fast Casual											
Denny's											
IHOP											
Family											
McDonald's											
Taco Bell											
Jack in the Box											
Burger King											
Carl's Jr.											
Sonic											
Arby's											
Wendy's											
Subway											
Hardee's											
Dairy Queen											
Quizno's											
Sandwich											
Dunkin Donuts											
Coffee/bakery											
KFC											
Popeyes											
Church's											
Chicken											
Pizza Hut											
Papa John's											
Domino's											
Little Caesar's											
Pizza											
Total/Average											

(1) 2009 survey participants include Advanced Restaurant Sales, LLC, The Cypress Group, Hopkins Appraisal Services, Inc., National Franchise Sales, Praetorian Group, Sohlen Franchise Advisors, LLC and Valuation Associates.

(2) Valuation averages are based on estimates provided by survey participants (not individual transactions) and reflect "normal" operating businesses after an adjustment for G&A.

Results from Restaurant Research's Franchise Finance Survey

According to a recent Restaurant Research survey of leading chain restaurant lenders, appraisal firms and restaurant unit brokerage firms, we estimate industry-wide acquisition transactions were off around 70% - 75% during 4Q08 (with perhaps more activity for smaller acquisition deals). Further, we estimate debt refinance transactions for restaurant operators declined between 50% - 75% during the fourth quarter. Not surprisingly, survey respondents indicate that equity requirements for all debt deals (including acquisitions and refis) have effectively doubled and now typically range between 20% - 35% of collateral value.

To quote one of the industry's leading restaurant unit brokerage players, "Debt refinancing will be unilaterally more conservative with lower loan-to-values, shorter amortizations and increased spreads to attract the secondary markets for the paper. This will include more onerous pre-payment provisions and additional collateral."

For more information on how to purchase Restaurant Research's complete Franchise Finance Survey, please reply to this email.

Who will Capitalize on the Franchise Finance Opportunity?

With national franchise lenders having dwindled down to just a few remaining players, there seems to be an excellent opportunity for some new, forward thinking lenders to step-into what could be a golden opportunity. This reflects our opinion that new entrants would enjoy an even better time of franchise lending than the exiting players not just because of better demand/supply dynamics but also because of the benefit of tougher underwriting standards and better lending rates (driven by a reduced supply of capital to the chain restaurant industry).

As far as we can tell, the franchise lender exits had nothing to do with poorly performing franchise loans but rather reflect a lack of external funding (i.e. the famous credit crunch). It seems to us that the franchise finance asset class still enjoys the same attributes that it always has – namely, a multitude of strong operators, strong brands, predictable and recurring revenue and valuable real estate collateral. Sure, we are in a recession – but this will not last forever and people still have to eat. At least commodity prices have come down... After this business cycle runs its course, we expect the industry will ultimately look leaner and fitter than before the recession's onset – it's funny how the fight for survival can help brands improve so readily!

After thinking about all this, we decided to see for ourselves if there were any banks left that have the size and profitability to capitalize on this glaring franchise finance opportunity. As you can see from the table below, we have identified about 54 of them (give or take). So the interesting thing we found from this exercise is that there are more banks than we would have expected that are still very much open for business (at least through 3Q08).

In conclusion, we would like to reiterate an idea from a client (a very large operator) who believes now may be the time for the re-emergence of the FMACs, EMACs, etc. of old – however, this time with the twist of leveraging bank funding as opposed to securitization funding. To his point, banks still have to lend and they may very well be open to funding a third

party originator, underwriter and servicer of franchise loans – especially if the debt is syndicated among a number of banks such that they can enjoy the diversity of a pool of loans without having to commit huge sums of capital. However, we thought the operator’s last point was key – such a company would have to bring to the table a reputation of both top-notch skills and utmost trustworthiness. Any takers?

Possible Franchise Finance Players of Tommorrow?

Ticker	Company	\$000's Market Cap	Net Profit 3Q08
BBT	BB & T Corp.	\$10,230	13.8%
STT	State Street Corp.	\$6,430	14.6%
RF	Regions Financial Corp.	\$3,180	3.5%
CBSH	Commerce Bancshares Inc.	\$2,590	8.2%
CFR	Cullen/Frost Bankers, Inc.	\$2,360	20.1%
BOKF	BOK Financial Corp.	\$2,340	14.9%
UMBF	UMB Financial Corp.	\$1,590	12.8%
BOH	Bank of Hawaii Corporation	\$1,570	24.7%
CYN	City National Corp.	\$1,550	6.1%
ZION	Zions Bancorp.	\$1,540	3.8%
HBAN	Huntington Bancshares Inc.	\$1,390	6.8%
BXS	BancorpSouth, Inc.	\$1,380	11.9%
NAL	New Alliance Bancshares Inc.	\$1,290	9.8%
WABC	Westamerica Bancorp.	\$1,200	69.2%
PRSP	Prosperity Bancshares Inc.	\$1,120	15.3%
HBHC	Hancock Holding Co.	\$1,050	14.0%
FFIN	First Financial Bankshares Inc	\$937	25.0%
ONB	Old National Bancorp.	\$933	12.6%
UBSI	United Bankshares Inc.	\$900	16.0%
TRMK	Trustmark Corporation	\$890	14.4%
BNCL	Beneficial Mutual Bancorp Inc.	\$806	7.3%
NPBC	National Penn Bancshares Inc.	\$784	12.0%
WTNY	Whitney Holding Corp.	\$775	4.3%
SBNY	Signature Bank	\$742	9.6%
NBTB	NBT Bancorp, Inc.	\$741	16.1%
STBA	S&T Bancorp Inc.	\$722	23.5%
CATY	Cathay General Bancorp	\$712	4.6%
GBCI	Glacier Bancorp Inc.	\$695	13.7%
FNB	F.N.B. Corporation	\$690	17.5%
FCF	First Commonwealth Financial C	\$678	10.5%
CWBF	CVB Financial Corp.	\$668	18.5%
SIVB	SVB Financial Group	\$666	17.3%
MBFI	MB Financial Inc.	\$653	10.1%
CBU	Community Bank System Inc.	\$612	14.8%
ORIT	Oritani Financial Corp.	\$583	11.4%
TRST	TrustCo Bank Corp. NY	\$578	19.1%
WSBC	WesBanco Inc.	\$548	13.9%
HUVL.O	Hudson Valley Holding Corp.	\$546	22.0%
UMPQ	Umpqua Holdings Corp.	\$500	8.0%
FMBL.O	Farmers & Merchants Bank of Lo	\$498	35.2%
IBKC	IberiaBank Corp.	\$481	9.9%
PNFP	Pinnacle Financial Partners In	\$476	14.4%
TMP	Tompkins Financial Corporation	\$472	16.6%
NFBK	Northfield Bancorp, Inc.	\$426	16.3%
BUSE	First Busey Corporation	\$413	12.4%
SRCE	1st Source Corporation	\$407	5.7%
RBCAA	Republic Bancorp Inc.	\$406	8.5%
HNBC	Harleysville National Corp.	\$353	10.9%
INDB	Independent Bank Corp.	\$339	16.1%
SFNC	Simmons First National Corpora	\$327	12.9%
SBIB	Sterling Bancshares Inc.	\$327	8.9%
UVSP	Univest Corp. of Pennsylvania	\$317	12.1%
SYBT	SY Bancorp Inc.	\$306	18.6%
TCBI	Texas Capital BancShares Inc.	\$306	10.9%

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Contact Restaurant Research at (860) 274-4962 or info@restaurantresearch.info
with questions related to this report.

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