

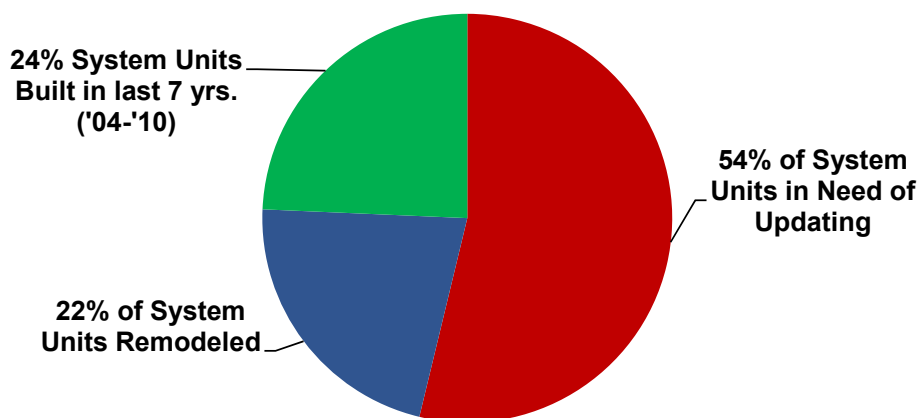
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### Restaurant Research Think Piece – November 2011

#### How Do We Pay for Desperately Needed Remodels?

In our recent series of *Think Pieces*, we outlined how estimated unit level EBITDAR profits (for \$1B+ chains) have declined 12% over the last 5 years to \$275k in 2010 which resulted in slowing new unit development (a trend which has been aggravated by increasing construction costs). In our opinion, this increases the pressure to upgrade existing facilities which grows more costly as store bases age. Further, we can see from the chart below that the majority of \$1B+ chain stores are in need of updating according to our estimates. All this is problematic as depressed unit level profitability means less ability for operators to invest in facilities. This has the potential to create a downward spiral in which cash-strapped operators can't invest in facilities which is exactly what is needed to jump start their profitability. Further, we note that facility inconsistencies (i.e. when a system has only some % of its units remodeled) can hurt overall brand sales. Hopefully, lenders will help solve this conundrum by financing the chain restaurant industry facility overhaul that has become key to the future. Also, we hope that franchisors can assist by making remodels more cost effective.

#### Many Units are Outdated or Have Inconsistent Formats



Source: RR estimates for \$1B+ chains

Data is derived from Restaurant Research's Industry Data Report on Remodeling Costs. Clients use this information to make more profitable decisions. For information on how to order the complete report, please contact us at (203) 405-1901 or [info@ChainRestaurantData.com](mailto:info@ChainRestaurantData.com).

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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.

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