

2008 Wasn't So Bad for Restaurant Stocks, Take a Look...

2008 Restaurant Stock Performance

	<u>12/31/2008</u>	<u>52 week</u>		<u>Up from</u>	<u>Down</u>
		<u>Low</u>	<u>High</u>	<u>Low</u>	<u>from High</u>
MCD	\$62.2	\$45.8	\$67.0	35.8%	-7.2%
PNRA	\$52.2	\$30.6	\$61.2	70.7%	-14.6%
BKC	\$23.9	\$16.6	\$31.0	44.2%	-22.8%
YUM	\$31.5	\$21.5	\$41.7	46.5%	-24.5%
DRI	\$28.2	\$13.2	\$37.8	113.3%	-25.5%
JACK	\$22.1	\$11.8	\$30.4	86.9%	-27.2%
PFCB	\$20.9	\$14.5	\$33.0	44.3%	-36.5%
CPKI	\$10.7	\$5.2	\$16.9	104.6%	-36.6%
PZZA	\$18.4	\$12.8	\$30.7	44.2%	-39.9%
CKR	\$8.7	\$4.9	\$14.5	77.9%	-39.9%
BOBE	\$20.4	\$12.5	\$34.7	63.3%	-41.1%
BWLD	\$25.7	\$14.5	\$45.0	76.9%	-43.0%
CBRL	\$20.6	\$10.7	\$38.9	93.0%	-47.0%
SONC	\$12.2	\$5.8	\$23.3	110.6%	-47.8%
WEN	\$4.9	\$2.6	\$9.8	87.8%	-49.7%
DENN	\$2.0	\$1.2	\$4.1	68.6%	-51.5%
DINE	\$2.6	\$2.0	\$5.5	29.5%	-53.1%
EAT	\$10.5	\$3.9	\$23.9	171.6%	-55.9%
CAKE	\$10.1	\$5.0	\$23.3	103.6%	-56.6%
AFCE	\$4.7	\$2.9	\$11.3	64.6%	-58.6%
CMG	\$62.0	\$36.9	\$150.0	68.1%	-58.7%
RRGB	\$16.8	\$7.5	\$43.6	124.7%	-61.4%
DPZ	\$4.7	\$2.6	\$15.2	80.5%	-69.0%
RT	\$1.6	\$1.0	\$9.7	62.5%	-83.9%
CHUX	\$2.0	\$1.2	\$15.3	68.1%	-86.9%
COSI	\$0.3	\$0.2	\$3.2	91.7%	-91.1%
Average				78.2%	-47.3%
S&P 500	903.3	752.4	1,468.4	20.0%	-38.5%

They say timing is everything and how true it is. If we consider calendar 2008 year-end stock prices for 26 large cap restaurant stocks, we can see that every last one of them were up substantially from their 52 week lows. In fact, the whole group averaged UP +78% from their lows just to show how profitable it could have been for long players with perfect timing in this space during 2008! Conversely, shorts would have JUST captured +47% on average if they had managed to sell at the 52 week highs before buying the shares back at the end of the year.

In any case, the interesting thing about all this is what the market may be telling us about the economy. With restaurant stocks representing an undeniably consumer discretionary sector, it would seem that such a strong rebound from 52 week lows suggest that an economic recovery is in the brewing – especially when considering that our restaurant stock universe's rebound handily trounced the S&P 500's 20% bounce off its low. Of course, this is not to say that a full rebound in the restaurant sector is here with year-end stock prices still 47% below their 52 week highs. Rather, may be it would be fair to say that economic concerns are only half as bad as anyone originally thought! Can someone say the glass is half full?

Further, it is easy to see the premium rewarded by the market for a strong value proposition with top of the table names like McDonald's, Burger King, Taco Bell & KFC & Pizza Hut (YUM) and Darden (as far as casual goes) all benefiting from things like dedicated value menus and/or low price points. However, Panera's second best 2008 performance (at least in terms of percentage down from its 52 week high) suggests that a debt free balance sheet is also in high demand in today's deleveraging world.

In any case, we believe 2008 restaurant stock performance seems to have most to do with brand strength – not surprising to us when considering that fast growth is most definitely out of vogue for the time being. So we see the top QSR sandwich names, the top fast casual name and the top casual name representing the top four names on our 2008 list. Do you think investors smell possible market share shifts from the weak to the strong? Without a rising tide to raise all ships, we suspect this may well be the case during 2009 and beyond.

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For more information please contact us at (860) 274-4962 or info@restaurantresearch.info with questions related to this report.

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