



DISCUSSION ON THE RESTAURANT INDUSTRY, RECENT PROJECTS AND TURNAROUND CONSIDERATIONS

FEBRUARY, 2021

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FIRM PROFILE

We provide vision, clarity and calm for owners and lenders in difficult business situations.

- For over 30 years, delivering quantifiable results for underperforming middle market companies and their stakeholders
- Market leader in financial and operational consulting
- Recognized as a Top Crisis Management Firm by *The Deal*
- Winner of multiple "Turnaround of the Year" awards and "Firm of the Year" honors from the Turnaround Management Association
- Works collaboratively with management and other stakeholders to create comprehensive action plans to address immediate challenges
- Strategic Partnership with Healthcare MCR, a national healthcare operations firm

WHAT SETS US APART

- Communication – consistent and reliable
- Operational excellence
- Action-oriented
- Trusted advisor relationships
- Solution focused

SPECIALIZED SERVICES

• For Owners, Boards and Companies

- » Refinancing and Capital Acquisition
- » Independent 3rd Party Assessments
- » Business and Turnaround Plans
- » Financial Modeling
- » Cost Reduction and Liquidity Improvements
- » Cash Flow and Supplier Management
- » Operational and Process Improvements
- » Downsizing and Facility Consolidations
- » Debt Restructuring and Lender Negotiations
- » Transaction Advisory
- » Interim Management
- » Board Positions

• For Secured Lenders

- » Independent 3rd Party Assessments
- » Liquidation Valuation and Contingency Planning
- » Financial and Operational Aid in Restructuring Negotiations
- » Receivables and Assignments for Benefits of Creditors
- » Liquidation and Wind Down Management

• For Creditor Committees

- » Budget, Business Viability, Operations, and Management Assessments
- » Assistance to UCC Counsel in Negotiations
- » Valuation and Transactional Analysis
- » Investigations into Financial Transactions

• Legal Team Support

- » CRO and Fiduciary Positions
- » Distressed Business Sales
- » Bankruptcy Services
- » Liquidation/Creditor/Litigation Trustee
- » Claims Management
- » Litigation Management Focusing on Cost/Benefit Decisions
- » Expert Witness Analysis and Testimony

INDUSTRY EXPERIENCE

 AGRIBUSINESS

 AEROSPACE

 AUTOMOTIVE

 BUSINESS SERVICES

 CONSTRUCTION MATERIALS

 CONSUMER PRODUCTS

 ENERGY

 FOOD & BEVERAGE

 FRANCHISE

 HEALTHCARE

 METALS

 PLASTICS

 REAL ESTATE

 TRANSPORTATION/LOGISTICS

SELECT RESTAURANT INDUSTRY ENGAGEMENTS

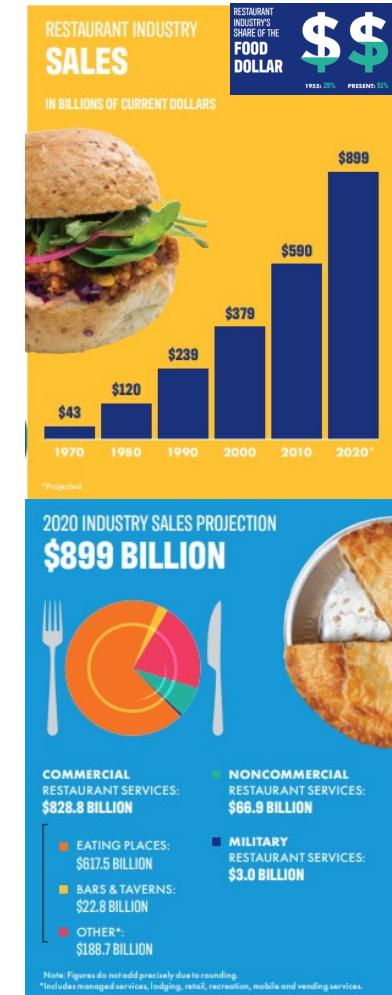


- Apple Gold (Applebees Franchisee)
- Bresler's Ice Cream
- Blimpies (Franchisee)
- Boston Market
- Buckhead Brewery & Grill
- Buffalo Wild Wings
- Burger King (Franchisee)
- Frontier Enterprises (Jim's Restaurants)
- Fuddruckers
- Hardees (Franchisee)
- KFC (Franchisee)
- Kona Grill
- Krystal
- Manna Foods
- McDonald's (Franchisee)
- New York Bagel Company
- Rax Roast Beef
- TGI Friday's (Franchisee)
- Weatherly Hospitality
- Wendy's (Franchisee)
- Zarda Bar-B-Q
- Zin Burger

RESTAURANT INDUSTRY OVERVIEW

SNAPSHOT

- \$899 billion: Restaurant industry's estimated sales in 2020.
- 1 million+: Restaurant locations in the United States.
- 15.6 million: Restaurant industry employees.
- 1.6 million: New restaurant jobs created by 2030.
- 9 in 10 restaurant managers started in entry-level positions.
- 8 in 10 restaurant owners started their industry careers in entry-level positions.
- 9 in 10 restaurants have fewer than 50 employees.
- 7 in 10 restaurants are single-unit operations.
- 63% of consumers would rather spend on an experience than purchase an item.
- The number of middle-class jobs (\$45K-\$75K) in the restaurant industry grew 84% between 2010 and 2018, more than 3 times faster than in the overall economy.

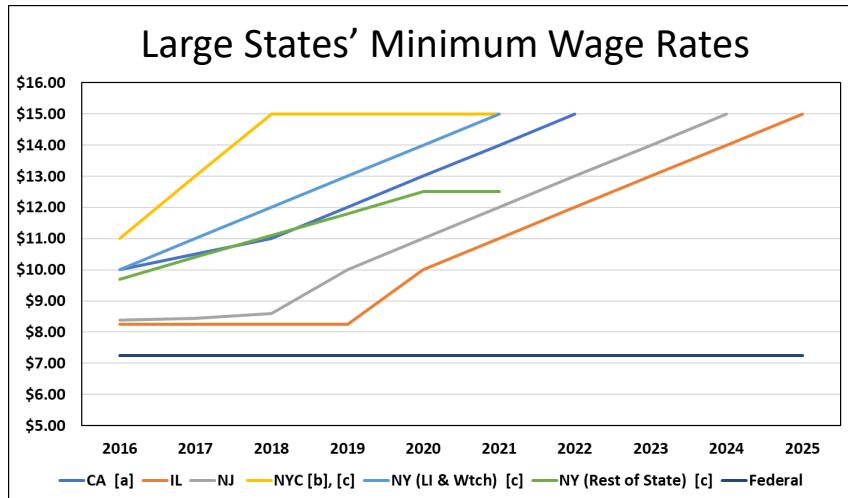


Source: National Restaurant Association.

RESTAURANT INDUSTRY OVERVIEW

TRENDS : PRE-COVID

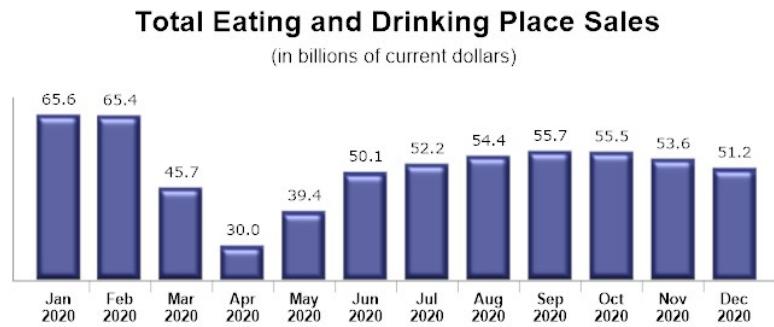
- Raising wage cost Minimum Wage and Labor Turnover
 - Labor turnover (quality of service) has always been a problem and raising wage cost has become a critical issue.
- Competition is **fierce!**
- Distress was most pronounced in Casual Dining, Family Dining, Catering and Buffet/Cafeteria.
 - Each category has too many undifferentiated brands.
- Only the well-capitalized were making the needed investment in technology.
- Many restaurant chains have too many unprofitable restaurants.
 - Franchisors impede Franchisees from closing money-losing restaurants.
- Many restaurant footprints (square feet) are too large.
- Millennial behavior has driven up delivery/take-out at the expense of more profitable dine-in customers.
 - GrubHub, Uber Eats, Postmates, Caviar, etc. take approx. 30% of the check but coming down.



RESTAURANT INDUSTRY OVERVIEW

TRENDS : DURING-COVID

- Only the **well-capitalized** and **drive-thru** windows survive.
- Chapter 11/Chapter 7/Out-of-court restructurings.
 - PPP Loans likely kept many chains alive for 6-9 months.
- Tightening in credit markets but capital remains available for strong operators.
- Rising COVID cases beginning in Nov. 2020 have halted the recovery.



- Accelerated growth in off-premise dining / mobile ordering.
- Third party / Satellite kitchens.
- Stream-lined menus.

Dow Jones Restaurant & Bar Index
1/21/20 to 1/21/21



2020 Restaurant Chapter 11 Filings

Bar Louie	Il Mulino	Ruby Tuesday
Krystal	Garbanzo	Chuck E Cheese
Sweet Tomatoes	K&W Cafeterias	Le Pain Quotidien
California Pizza Kitchen	Maison Kayser	Village Inn / Baker's Square
Sizzler	Brio / Bravo	By Chloe
Friendly's	Le Pain Quotidien	Cosi
Numerous Franchisees		Logan's Roadhouse

RESTAURANT INDUSTRY OVERVIEW

TRENDS : POST-COVID (1-3 Years)

Changes in Consumer Behavior

- Zoom, Peloton, On-line Conferences, Draft-Kings, etc. are cutting into business and leisure travel dine-in restaurant meals.

Will this trend reverse?

Deferred Expenses and Maintenance Capex

- Deferred rent, vendors, sale taxes, etc.

Macro Trends

- Unemployment is high and will new stimulus bill be enough?

New Operational Expenses May Remain

- New training, new cleaning materials, separators, etc.

Availability of Debt Financing and Equity Capital

- Commercial Banks and Non-Bank have and will face significant losses.

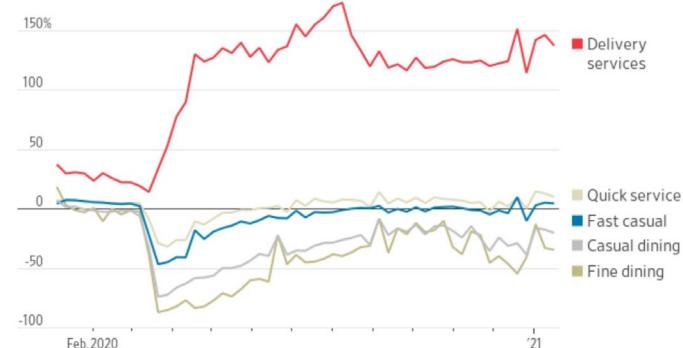
Valuation Challenges

- EBITDA will be scrutinized; leverage will be hard to come by.

Significant Permanent Restaurant Closures are Predicted

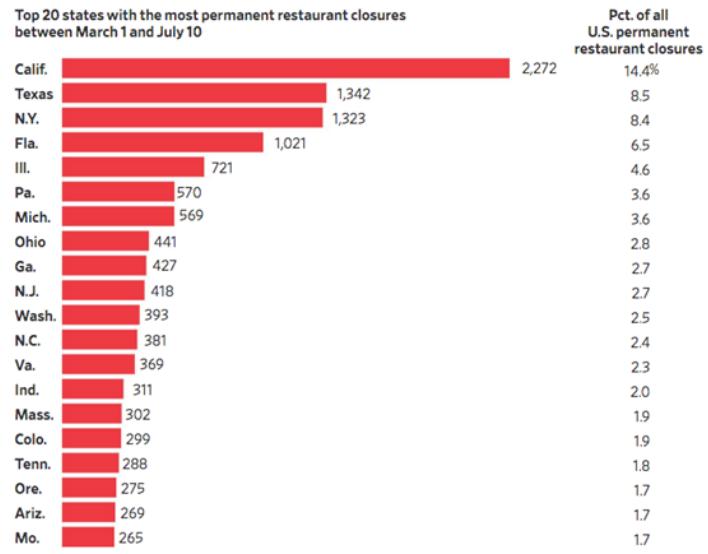
- Aaron Allen & Associates estimates one in three U.S. Restaurants will close and CA, TX, NY, FL & IL will lead the way.

U.S. credit- and debit-card spending at restaurants, change from one year earlier



Source: Earnest Research

Top 20 states with the most permanent restaurant closures between March 1 and July 10



RESTAURANT INDUSTRY OVERVIEW

TRENDS : POST-COVID (3-7 Years)

- **Less Competition!**
 - Will Lead to higher store traffic, better capacity utilization.
- **Greater Investment Discipline**
 - Equity / Debt Capital will require higher returns and more rigor.
 - Fewer Independents and Owners who treat an investment in a bar or restaurant as a hobby.
- **Technological Innovation and Investment**
 - Kitchen automation, digital ordering kiosks, digital marketing make barriers to entry higher.
- **Top Fast Casual and QSR will Increase Market Share**
 - New training, new cleaning materials, separators, etc.
- **High-end/Polished Casual will “up” their Food Game and Provide an Experience.**

CONSULTANT'S PLAYBOOK, COMPLEXITIES AND PITFALLS

Consultants Playbook to Immediately Improve Financials Results

- Close negative cash flow **restaurants** immediately.
 - Challenge Management to make a case to keep it open.
- Renegotiate **leases** if lease costs exceed 8% of sales (6% should be target on good performing restaurants).
 - This is an opportune time as Landlords are willing to be flexible.
- Renegotiate contracts with **vendors**.
- Must reduce **Parent G&A** to no more than 6% to 7% of sales, if not lower.
- Stream-line the **menu** and focus on higher margin items.
- Key thoughts:
 - Location is everything.
 - Each restaurant must contribute financially.
 - Shrink restaurant count and square footage.
 - Differentiate yourself for employees.
 - Focus on convenience.

CONSULTANT'S PLAYBOOK, COMPLEXITIES AND PITFALLS

Complexities and Pitfalls of Restaurant Workouts / Restructurings

- Restaurants are **service businesses** that liquidate for virtually nothing.
- Many chains do not own **real estate** and have limited other assets.
 - Furniture and Fixtures are generally **without** value.
 - Kitchen Equipment is in oversupply and may not be worth the risk to liquidate.
 - Recoveries could range from **\$15K-\$60K** (well maintained and/or new) per location.
 - Net out occupancy costs, rent, transportation, storage, auctioneer commissions.
 - If store locations are similar or standardized, then kitchen equipment may be easier to liquidate.
- Perfected liens on **Leasehold Interests** can be expensive and may provide limited value.
- Restructuring or terminating **leases** is often accomplished on a one-by-one basis.
- **Proceeds** from 363 or out-of-court sales may face large deductions.
 - **Working capital deficits** can consume up to 100% of the transaction proceeds.
 - Current assets can be < 20% of current liabilities and much cannot be left behind in a Ch. 11.
 - Employee wages, true-up of franchisor payments, marketing commitments, soda rebates, food suppliers,
 - Deducts for short-term store leases on positive cash flow locations.
 - Cash needed to collateralize **Workers Comp LCs** that can be tied up for years.

CASE STUDY: RESTAURANTS, HOSPITALITY & LEISURE



**Central Florida
Restaurants (CFR)**

Fremont, CA

- Casual dining restaurant franchisee
- \$191 million sales
- \$20 million debt
- 73 locations in seven states (IL, FL, MI, IN, MN, WI and OH)

THE CHALLENGE

- Brand is struggling to find an appropriate strategy or vision
- Poor performance was heavily driven by the Restaurant's reliance on \$10 Endless Appetizers promotion (approximately \$18 million adverse hit to EBITDA)
- The Company's customer traffic and net sales are declining by 5.0% or more year-over-year
- The Company sales decreased by at least 2.3% for 9 straight quarters (with a 8.7% decrease in last quarter)
- Certain operating restaurants are so unprofitable that there is no reasonable expectation of a financial turnaround (these 11 restaurants lost \$3.3 million of EBITDA over the last twelve months)
- 12 restaurants that have excessive rent expense as a percent of net sales that should be renegotiated
- The Company's relationship with the Restaurant's leadership makes franchisor negotiations challenging
- Recently lost its CFO and the organization is generally devoid of financial analytics
- The Company will start to run tight on the bank's financial covenants in the next quarter

THE SOLUTION

- MorrisAnderson (MA) served as restructuring advisor
- Close 11 significant money losing restaurants
- Renegotiate lease rates at 12 restaurants
- Upgrade the CFO position
- Investigate restaurants that are outliers for targeted performance improvement
- Lobby the Restaurant's brand to develop a realistic brand vision and strategy

THE RESULT

- MA's solutions to close restaurants and renegotiate select leases will improve EBITDA by \$3.4 million in next fiscal year which improves valuation by \$14 million at a 4 times EBITDA multiple

CASE STUDY: RESTAURANTS, HOSPITALITY & LEISURE



Apple Gold Group

Raleigh, NC

- 110 Restaurant
Applebee's Franchisee
- \$185 million sales
- \$75 million debt

THE CHALLENGE

- Company generating \$3 million EBITDA and unable to service \$75 million of debt
- 20 restaurants in loss position
- Applebee's brand in multi-year decline
- Over \$10 million delinquency on Royalty and Advertising payments to Franchisor
- Franchisor demanding Franchisor directed sale that would result in \$20 million loss to bank group and triggering various personal guarantees by Owner
- Owner giving lip service to taking decisive action

THE SOLUTION

- MorrisAnderson engaged as CRO over Franchisor objection
- Cash projections developed which demonstrated company had ability to pay partial royalty fees
- Company closed approximately 20 restaurants with Franchisor approval for \$4 million improvement in EBITDA
- Negotiated early lease termination payments with approximately 10 landlords
- Structured sale process started with restaurant industry investment banker
- Started sale of company-owned restaurant properties

THE RESULT

- Company was sold in two out-of-court sale transactions
- Banks will get 100% loan recovery
- Owner avoided any significant losses due to potential personal guarantee enforcements
- Company avoided bankruptcy
- Approximately 2,000 jobs preserved
- All trade creditors and employees paid in full

TEAM MEMBER PROFILES - DANIEL F. DOOLEY



Daniel F. Dooley, CTP

Principal

CEO

Chicago

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Dan Dooley, CTP, is a Principal and CEO at MorrisAnderson based out of Chicago. He has a strong national reputation in crisis management, operations improvement, debt refinancing/restructuring and C-level positions. He is a frequent speaker at industry conferences and a regular author for industry periodicals. Dan has served on the Board of Directors of both the American Bankruptcy Institute (ABI) and the Turnaround Management Association (TMA).

SERVICES

Dan specializes in interim management/CRO engagements, financial restructurings, creditor workout negotiations, cost and cash improvement plans, debt refinancings, asset sales and fiduciary roles.

INDUSTRIES

Dan has achieved positive and quantifiable results for companies in the following industries: aerospace, agriculture, automotive, capital equipment, distribution, food, healthcare, metals, oil and gas, real estate, restaurants, and transportation.

REPRESENTATIVE WORK EXPERIENCE

- CRO of over 20 clients including 100 restaurant Applebee's franchisee, \$200M trucker, \$100M magazine distributor and others.
- Receiver in Federal and State court in numerous cases.
- Liquidating Trustee for multiple bankruptcy estates.
- Expert Witness in bankruptcy litigation on preferences, plan feasibility and damage claims.
- Negotiated \$100M+ debt restructuring and recapitalization for an oil and gas service company.
- Reduced inventory levels by 20% while maintaining consistent sales volume for a \$600M seafood distributor.
- Structured Plan of Reorganization/refinancing out of Chapter 11 for International Technical Coatings, a Phoenix-based metal products manufacturer.
- Led the successful turnaround and debt restructuring of \$100M+ 25 physician-owned cancer private practice.
- Led the successful \$50M debt restructuring of a large non-profit religion-based community center.
- Successfully sold a \$100M magazine wholesale distribution business into headwinds of a rapidly shrinking industry.
- Led the successful sale(s) of automotive supplier Drivesol Worldwide. Despite 2009 auto industry disaster, was able to sell 3 of 4 businesses which fully paid \$30 million secured debt in 3 ½ months and generated \$10 million for junior secured lender and the unsecured (30¢ dividend) on an out-of-court process.
- Led the successful section 363 sale of aerospace foundry Hitchcock Industries where the company sale netted \$21 million in excess of all liabilities as a return to equity, an amount 3X expectations.
- While acting as Receiver, expanded and grew a chemical test lab business and sold as value of 6 times EBITDA, a value more than 5 times better than prior offers.

Prior to joining MorrisAnderson in 1997, Dan served as an executive with several Fortune 500 manufacturers including Illinois Tool Works (ITW), Allied Signal, Rand McNally and Burroughs. He has served on the Board of Directors and been a key advisor to small and large corporations and non-profit organizations.

Dan is a Certified Turnaround Professional (CTP). He holds a Bachelor's degree in Business Administration and an MBA in Finance, both from the Carlson School of Management at the University of Minnesota in Minneapolis. Dan is on the Board of Directors of the ABI and was previously on the Board of the TMA as well as President of the 1,000 member Chicago TMA chapter.

TEAM MEMBER PROFILES - COLIN MCCLARY



Colin McClary is a Managing Director at MorrisAnderson. He brings valuable financing, banking, restructuring and private equity experience, having formerly worked in the Special Assets/Workout, Debt Private Placement and Corporate Banking Groups at Bank of America and as a Managing Director at Z Capital Partners LLC, a \$2.3BN distressed-for-control private equity fund.

SERVICES

Colin assists clients with contract and lender negotiations, debt restructuring, capital raising, financial and operational analyses, cash flow projections, budgets, business valuations and the preparation of transaction and due diligence materials. Colin also consults with management to support strategic initiatives, corporate development, manages financial staff, and assists in the implement of tighter financial controls.

INDUSTRIES

Colin has worked closely with business owners, CEOs, and CFOs in various industries including: Branded Food and Consumer Products, Equipment Leasing, Trucking, Rail, Business and Consumer Services, Gaming, Manufacturing, Pharmaceutical, Medical Devices, Logistics, Banking, Finance Companies, and Energy firms.

REPRESENTATIVE WORK EXPERIENCE

- Managed and restructured over \$2 billion of troubled middle market C&I loans.
- Negotiated and structured over 150+ loan/note documents and related security, inter-creditor and subordination agreements.
- Restructured approximately \$175 million of Tier 2 capital for commercial bank holding companies, including the conversion of \$35MM of Senior Debt to Tier 2 qualifying Preferred Stock.
- Structured and syndicated debt capital for companies located in Australia, New Zealand, Ireland, United Kingdom, Germany, Netherlands, South Korea, India and Italy.
- Executed a tax-free spin-out of a healthy 500+ employee Canadian subsidiary from its troubled U.S. parent.
- Negotiated with insurance companies to obtain savings on workers-compensation costs of approximately 25%.
- Developed 200+ capital provider relationships with commercial banks, insurance companies, private debt firms, business development cos. and private equity firms.

Prior to joining MorrisAnderson, Colin was a Managing Director at Z Capital Partners where he focused on identifying, sourcing and evaluating potential acquisition targets and managing lender relationships. Duties included preparing industry studies, valuation analysis and legal documentation review. Colin holds a BS degree in economics from DePauw University and a Masters degree in finance from the University of Illinois of Champaign-Urbana.

Colin McClary

Managing Director

Chicago

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