
Pacific Northwest Restaurant Industry Market Update

June 2009



Restaurant Industry Trends

PNW Restaurant Roundtable Discussion

Trends in Public Market Valuations

EXVERE inc.
PRIVATE INVESTMENT BANKING

Pacific Northwest Restaurant Market Update

Restaurant Industry Executive Briefing - Key Points

On June 9th, approximately 60 restaurant owners, executives, and service providers met at the Four Seasons to hear industry experts discuss the current state of affairs in the restaurant industry, including obtaining financing, market valuations, preparing your business for sale, and restaurant brands and concepts. Key points of the discussion are listed below.

Current Outlook is Positive

- ◆ In a recent Washington Restaurant Association survey, restaurant owners predict their business will flatten or increase in the next six months.
- ◆ The National Restaurant Association forecasts restaurant sales to increase for both full- and quick-service.
- ◆ Warren Buffet, in his annual meeting, named the restaurant industry as one of the most advantageous types of investments due to demographic trends and growth projections.

Customers Appreciate Value

- ◆ Customers are currently very price-focused.
- ◆ Full-service operators are finding bundling especially important.
- ◆ Drawing customers in with creative restaurant specials is gaining traction.

The Pacific Northwest is a Sheltered Area

- ◆ Restaurant owners in the PNW enjoy better markets than those in California, Arizona, Florida, and many other areas of the country.

Fewer Seats, Fewer Competitors

- ◆ The restaurant business has become more difficult, but this also means that there are fewer competitors.
- ◆ It's more difficult to enter the restaurant business, especially with regards to access to capital.
- ◆ Smart operators are recruiting high performers to position themselves to increase market share.

Capital is Available

- ◆ SBA guarantees are now at 90 percent rather than the previous 75 percent.
- ◆ SBA requirements now extend to a larger number of businesses.
- ◆ Private capital is still a viable option, since there is a lot of money on the sidelines.

Transaction Challenges

- ◆ How (and when) to include your management team, in a transaction.
- ◆ A longer-than-anticipated lead time for the buyer to raise capital.
- ◆ Length of time to clean up financials.

Special thanks to **Purple Wine Bar & Café** featured in front page photo

Pacific Northwest Restaurant Market Update

Restaurant Industry Executive Briefing - Panelists

Our panel was made up of experts on all aspects of the restaurant industry. Brief biographies follow.



Ken Batali
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Ken Batali, President of Batali Associates, has spent more than 25 years in the restaurant industry. During his career, Ken has contributed to the success of numerous organizations. As the Senior Operations Executive at Restaurants Unlimited, he led a diverse group of high-end, full-service restaurants to peak performance levels of service and profitability. At Taco Del Mar, a quick-serve franchise organization, Ken created the training programs and quality-control systems. In addition, he has consulted with a broad range of foodservice businesses, including coffee shops, casinos, private clubs, and independent restaurants.



Robert D. Nowlin, CPA
Financial Solutions
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Bob Nowlin has 43 years of senior financial management, financial structuring, and accounting and auditing experience, and has served companies in the restaurant, manufacturing, publishing, and service industries. Bob's history includes CFO of Restaurants Unlimited, a \$250 million revenues restaurant company. Bob led the company through four acquisitions, including an acquisition of a \$100 million revenue company, bringing total sales to \$250 million. Previously, as a Managing Director with a New York based private equity firm, Bob managed acquisitions and provided management oversight to 5 portfolio companies. His original professional experience was as a CPA with Arthur Young and Co. where he advanced to the position of Partner, managing a broad list of public and private clients in both domestic and international markets.



Kyle Huffman
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Based in Bellevue, WA, Kyle Huffman is a Senior Vice President of Sales at GE Capital, Franchise Finance. He began his career in Seattle at First Interstate Bank as a collateral examiner and then took a position as a risk underwriter. Kyle then went on to a credit analyst and income property account executive position for Pacific First Federal Bank, also in Seattle, until 1990 when he joined MetLife Capital. Kyle held a variety of positions with MetLife Capital, including senior real estate risk analyst, account executive, and, from 1998 to 2009, SVP/Sales manager at GE Capital, Franchise Finance. Kyle has personally originated and closed over \$2 billion in restaurant loans over his career, and leads a team that has far exceeded that number in restaurant financing transactions. Kyle holds a bachelor of arts in business administrator from Colorado College in Colorado Springs. Additionally, Kyle and his wife Sofeea own and operate three Greek/Mediterranean restaurants under the name of Kafe Neo, in Edmonds, Mill Creek, and Marysville, WA.

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Restaurant Industry Executive Briefing - Panelists



Arnold Shain
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Arnold was born and raised in Seattle and attended the University of Washington, majoring in Accounting. Arnold started in the fast food business as an hourly employee and worked his way up to a multi-unit manager in a local multi-

unit, Seattle-based chain. He had a passion to start his own restaurant and proceeded to do with the inception of the Butcher in Bellevue. He sold this to his partners John and Bill Schwartz, which was the inception of Schwartz Brothers Restaurants. He then developed and operated Benjamin's in Bellevue and sold that to them as well. From there on Arnold developed, owned and operated a series of casual dining restaurants in the Seattle market. In the 80's Arnold decided that he was best cut out to develop restaurants for others. He perfected the concept work while assembling the real estate, design, menu, service & management, marketing & merchandising, and the bookkeeping & management reports. To this day he develops restaurants for others via his company Restaurant Group, Inc. Please refer to his website to find out more about his client list and his partners at www.restaurantgroup.com.



Michael Brustkern
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Michael, a native of Washington, has lived and worked in Spokane, Tacoma and Seattle. He is a business owner and entrepreneur, with experience in both start-ups and Fortune 500 management. His background has taught him the

value of having third party representation when buying, selling or refinancing a company; in fact, his current company, Exvere, was founded on the premise that most business owners don't have the necessary staff or experience to effectively manage their own M & A transactions. He brings his keen understanding of the "CEO mindset" - and its inherent strengths and challenges - to the table with each engagement. Michael's use of multiple targets to provide leverage for his clients, combined with his negotiation expertise, has generated an enviable "close rate" exceeding 90%.

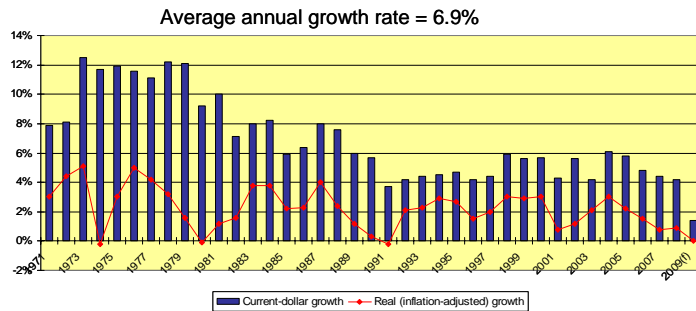
Over the last two decades, Michael and Exvere have represented food industry companies ranging from wineries and restaurants to processing, distribution, retail, and specialty products. Some of the best known include: Olsons Foods and Uddenberg / Thriftway (both sold to QFC / Kroger); Wilcox Family Farms; Columbia, Covey Run, St. Chappelle, Alice White, and Paul Thomas wineries (all owned by Corus Brands); G. Raden and Sons; K&L Distributors; and McCormick and Schmick Restaurant Group. Finally, Michael's range of experience is further augmented with numerous Strategic Assessments and consulting assignments, providing powerful insight into the restaurant and food industries.

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Restaurant Industry Q&A Roundtable Discussion

Question: What is your current outlook on the restaurant industry right now?

Bob Nowlin: I'm reasonably positive about it, and I'll tell you why. A recent survey by WA Restaurant Association came back with 78 percent of operators responding to the survey, saying that over the next six months they think that things will either flatten or improve – the National Restaurant Association did its forecasting that full service restaurants would be up in sales by one percent this year, and quick service would be up by four percent.



Kyle Huffman: Now is the time to right-size your business and survive the recession - and the people who come out at the other end are going to do very well. I do believe there's going to be a lot less restaurant seats out there in the next few months and the people who do survive this are going to rise with the tide.

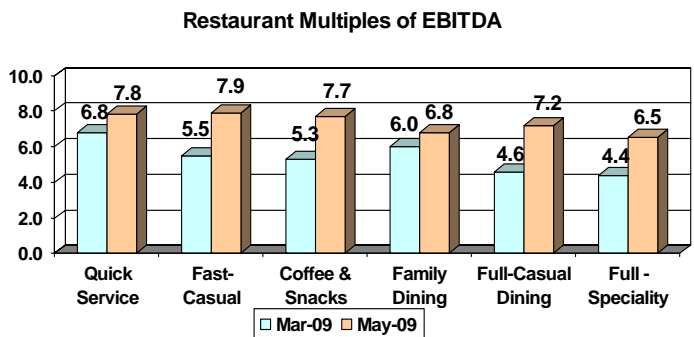
Michael Brustkern: About a month ago I attended Warren Buffett's annual meeting in Omaha, and he went through areas of interest to him from an investment standpoint. The second industry he mentioned was the restaurant industry; he was using it as an example of a business with a future. And his value proposition was that if you find a company that will produce three to five percent more than inflation over time, that's a great investment.

Ken Batali: It's gotten tougher to get in this business so if you're here, you're probably a couple of steps ahead of people who want to be here. You know, in spite of the challenge of the glory days, it was pretty easy for a competitor to open down the street from you. If money was easy and everyone thinks they can cook, there's a lot more competition, so what you have now are a whole lot fewer new seats opening up.

The other silver lining is that staffing has gotten a lot easier.

Question: I know a lot of people are curious about financing - for capital purchases as well as expansions - so lets talk a little bit about that.

Bob Nowlin: Part of the stimulus legislation funded some changes in the metrics of the SBA requirements, so the SBA guarantees are now at 90 percent as opposed to 75 percent, and the size criteria for the SBA has changed and extends to a larger number of business. The size criteria now is 3 million dollars or less of net income, and 8.5 million dollars or less of tangible net worth, so by making those changes, there are a lot of banks interested in working with SBA lending right now.



Question: We typically don't see business owners come to us too soon, so it might be good to cover what a restaurant owner can do to best prepare their company for sale.

Michael Brustkern: Normally speaking, even if you're late, you can adjust the numbers and come to a re-stated number that people will buy into. In terms of preparing a company for sale, the earlier we get engaged in the process, the smoother it will go and the better outcome, just for the simple reason that it gives us an opportunity to sit down with an owner and talk about the way they're organized.

Question: Are you seeing certain restaurant concepts that are working particularly well in this economy?

Arnold Shain: It seems to be a price-focused economy right now, so I think it's about value. I think in full service, which is

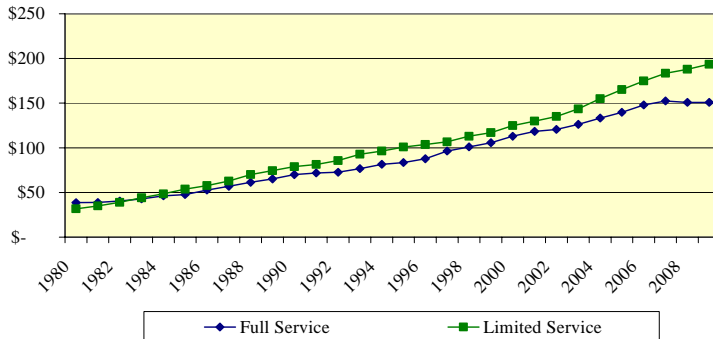
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the majority of operators here, I think that bundling is really important. I've seen a lot of that going on, and it seems to be gaining traction. People are appreciating value right now.

Full Service and Limited Service Retail Sales (\$Billions)



Question: What are some of the typical bumps in the road that owners encounter when they are either looking to finance their business or even looking to sell?

Bob Nowlin: I'll talk about the selling process as I have done it a few times - and during that six month process you're under the microscope from the potential buyer. So one, not being able to clearly articulate your plan. The other surprise that can happen is sometimes it can take longer for the buyer to get financing than they thought, so it's important when you're picking a buyer to find one that can close without having to raise the capital.

Ken Batali: It just kind of comes back to what Bob said: running a business and buying or selling a business are probably both two full-time jobs. Just think how much work it is to keep your house clean when you're trying to sell! And some of these transactions can turn on the quality of

somebody's dinner when they came in and they see that your restaurant is not as good as you said it was. I've seen people who want to sell their business and as soon as they get that first whiff of an offer, their brain is out the door! They're on to their next career, or that big vacation that they've been dreaming about - and taking your eye off the ball, if it doesn't kill a deal, can certainly deteriorate one.

Question: Who are the current buyers out there right now?

Michael Brustkern: Currently there is a good amount of private money available that needs to be placed. And if you look at the comparative statistics, the numbers are pretty reassuring in terms of multiples - it's the other side of the equation that's going to drive the price and ultimately, the structure of the deal. But there's a lot of private money around, and when I say "private money," I'm talking about private equity funds as opposed to private restaurant operators - the best markets right now are going to be on the private equity side.

Question: Are there certain kinds of restaurants that buyers are particularly interested in?

Kyle Huffman: Well, I think that the buyers are looking for something with legs; they typically want something they think is portable. I work with a lot of franchise owners that are starting off, and I tell them that they need to open in a minimum of three different markets, because a lot of buyers out there want to see success and portability. And then there's the people looking at a controlling interest - they're not interested in buying 30 or 40 percent of your restaurant, they want control. So if you're thinking of selling and staying in, you're going to give up control in all likelihood.

Question: If you're looking at selling your business, at what point do you inform your management team?



Our panel, engaged in lively discussion with the audience.

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Bob Nowlin: From my experience, when there is actually a signed letter of intent you need to tell the rest of your team because they'll hear it from somebody else if you don't. It's delicate - the private equity funds don't really want you telling anyone, but in a restaurant company, news travels fast with multiple units, and you really have to be up front with your people.

Michael Brustkern: I would certainly second that. Most people worry too much about what their management team is going to think, but after the initial shock of hearing it, there's usually a sense of relief, because the reasons for selling are normally pretty evident to the people working there.

Question: How important are brand and real estate when a restaurant owner is looking at financing?

Bob Nowlin: Brand is hugely important, and companies that have been able to grow themselves with the same name and brand, and gain the efficiency of marketing, training and everything that goes with one brand, in my experience will sell for a higher multiple than a company that is a bunch of brands. It's not that one company is any better than another, it's just that buyers tend not to really understand multiple brands very well.

Question: What is the difference between what a strategic investor is looking for in valuing a business, versus an institutional investor?

Michael Brustkern: The principal difference would be in the approach to management. In my view, management would be numbers one, two, and three in the list of importance for a financial investor. The interesting thing about this type of business is, if you have the kind of personality and intelligence and drive that it takes to build these businesses, you're usually a very important part of the business. So from an investment standpoint, in order to monetize what you've built, you've got to make it apparent that a transition is possible. Even though your transition can be staged over one, three, or five years, there's still the concern about what's left when you're gone. So that brings us back into the planning process.

Bob Nowlin: The strategic buyers are looking for synergies with the company that they own, and from those synergies they expect to get a result of a much more profitable combined company than of the two separate companies. But they won't pay you for the profit that those synergies create. The other thing with many small or medium-sized companies is that it's a matter of honor that the founder has nursed this company to success over 25 years, and won't sell to a strategic buyer who is going to pretty much gut the company. It's interesting because the better price on the table is from the strategic buyer, but they choose to go with a financial buyer.

{ Thank yous, roundtable concludes. If you would like to be included in next year's restaurant industry briefing, please send an email with your request to admin@exvere.com. }

Perfect weather frames
Stacy Lill of O Wines
who, with her husband
Greg Lill of DeLille Cellars
poured for the
wine reception which followed
the roundtable.



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About Exvere, Inc.

Services

Exvere represents owners of companies in major capital transactions (see partial list of transaction types below). We work closely with our clients to develop targeted lists of strategic and financial counterparties who are qualified to complete the transaction. Exvere employs time-tested processes to maximize value for our clients, and we are active participants in the entire transaction process, from the first conversation through an efficient and timely closing.

Transaction Types

- Acquisitions
- Business Sales (Stock & Assets)
- Business Unit Divestitures
- Management Buy-Outs
- Merger of Equals
- Private Equity Recapitalizations

Industries Served

- Aerospace & Defense
- Building Products
- Computer Hardware
- Construction
- Consumer Products
- Distribution
- Food & Agribusiness
- General Business Services
- Healthcare Services
- Manufacturing
- Telecommunications / Networking
- Wine & Beverage

History

Founded in Seattle in 1992, Exvere has advised on over 100 capital transactions. In 2006, Exvere formed Exvere Securities, LLC, a FINRA broker-dealer. The firm has established a significant reputation by representing Northwest business owners on mergers and acquisitions, recapitalizations, valuations, and financing.

The Exvere Edge

Strategic Assessments — Many owners have not yet developed comprehensive, long-range plans for their businesses. Exvere assists with producing near- and long-term strategies to maximize exit values utilizing our extensive research and analytical capabilities. We also help owners assess appropriate timing considerations and see the business through the eyes of a potential acquirer: normalizing earnings, determining strengths and weaknesses – all of which provides valuable insight and direction resulting in higher valuation at the chosen time of exit.

FINRA Member— Exvere, through its wholly owned subsidiary, Exvere Securities, LLC, is a FINRA broker-dealer. As such, we are subject to high regulatory and financial standards, setting us apart from most M&A firms. Importantly, this qualification allows us to provide a greater array of options to our clients, such as partnering with international investment banks, sharing these banks' extensive research resources, and providing fairness opinions.

Expertise — Exvere's staff includes an Accredited Valuation Analyst (AVA), as well as in-house legal counsel. Our success rate for completing each contracted engagement exceeds 90%.

For more information please visit www.exvere.com or call us at (206) 728-1800.