

Bloomin' Brands, Inc.

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The 2007-09 Great Recession took a huge bite out of the U.S. restaurant industry as consumers ate out less often. Even during the subsequent economic recovery, ongoing financial concerns continued to depress the appetite for eating out. The casual dining sector, situated in the middle ground between fast food and fine dining, was particularly hard hit. By the summer of 2016, however, some investors were taking a fresh look at casual dining stocks. Their investment thesis was rooted in the belief that having experienced over a half dozen years of unremarkable, yet consistent economic growth, consumers would feel more inclined to eat out and be willing to splurge a little on those dining experiences.

Casual Dining Restaurants

In 2016, the U.S. restaurant industry was projected to total nearly \$800 billion in sales, accounting for 4% of GDP and employing nearly 1 in 10 Americans.¹ Restaurants varied widely in the experiences they offered customers, from upscale, sit-down venues with exceptional wait staff to walk-in, drive-in or -thru outlets prized for their quick service.

Casual dining restaurants comprised a category of eateries that offered a more comfortable dining experience compared to fast food but were considered more affordable and family friendly than fine dining establishments. Fast casual restaurants represented a variation on the casual dining theme. They provided a step up from fast food in terms of quality, ambiance, and menu options, while continuing to emphasize speed by forgoing table service in favor of having customers place their orders at a counter.

¹ National Restaurant Association, 2016 Restaurant Industry Pocket Factbook.

Bloomin' Brands

In 1988, Bloomin' Brands, opened the first Australian-themed Outback Steakhouse restaurant in Tampa, Florida.² Outback was known for its “No Rules, Just Right” mentality and its bloomin' onion signature appetizer. The bloomin' onion consisted of one large onion, cut to resemble a flower, battered, deep-fried, and served with dipping sauce or a variety of other toppings, including melted cheese, chili, and steak tips.

Bloomin' continued to expand over the years, and the company went public in 2012.³ By June 2016, Bloomin' owned 1,335 restaurants and franchised 166 restaurants across four casual dining brands — Outback, Fleming's Prime Steakhouse & Wine Bar, Bonefish Grill, and Carrabba's Italian Grill.⁴ Approximately 85% were located in the U.S., and almost two-thirds were operated under the Outback brand.⁵

Potential Comparables

The following are brief descriptions of 13 other publicly-traded restaurant companies as of June 2016:

- **Brinker:** 1,646 casual dining restaurants worldwide, 1,595 under the Chili's Grill & Bar brand and 51 under the Maggiano's Little Italy brand. Approximately 75% were located in the U.S., and roughly half were franchised.
- **Buffalo Wild Wings:** Over 1,000 casual dining sports-bar-themed restaurants in the U.S. and Canada, specializing in Buffalo chicken wings. Approximately 50% were franchised.
- **Cheesecake Factory:** 185 company-owned casual dining restaurants, primarily located in the U.S., renowned for large portions and cheesecake desserts.
- **Chipotle Mexican Grill:** More than 2,000 company-owned fast casual restaurants, primarily located in the U.S., serving burritos and tacos prepared with local, fresh, naturally-grown ingredients.
- **Cracker Barrel:** Over 600 casual dining locations throughout the U.S., combining restaurants serving Southern country food with gift shops featuring country general store products.
- **Darden International:** 1,586 mainly casual dining restaurants, operating under the Olive Garden, LongHorn Steakhouse, The Capital Grille, Yard House, Seasons 52, Bahama Breeze, Eddie V's

² http://www.bloominbrands.com/media/pdf/bbi_factsheet.pdf (accessed August 2016).

³ Ibid.

⁴ Bloomin' Brands, Inc. 10-Q, June 30, 2016.

⁵ Ibid.

Prime Seafood, and Wildfish Seafood Grille brands. Almost all restaurants were company-owned and located in the U.S. and Canada.

- **DineEquity:** 2,033 casual dining restaurants under the Applebee's brand and 1,650 under the International House of Pancakes (IHOP) brand. Restaurants were primarily located in the U.S., and 99% were franchised.
- **McDonald's:** World's largest chain of hamburger fast food restaurants with over 36,000 locations, over 80% of which were franchised.
- **Panera Bread:** Nearly 2,000 fast casual bakery-cafes in the U.S. and Canada, serving freshly baked goods, made-to-order sandwiches, soups, fresh salads, and cafe beverages. Approximately 50% were franchised.
- **Shake Shack:** 100 company-owned fast casual restaurants worldwide, renowned for burgers and milkshakes. Approximately 60% were located in the U.S.
- **Sonic:** 3,500 fast food, drive-in locations throughout the U.S., roughly 80% of which were franchised.
- **Texas Roadhouse:** Nearly 500 casual dining cowboy-themed restaurants, primarily located in the U.S., specializing in steak. Approximately 85% were company owned.
- **Zoë's Kitchen:** 170 fast casual restaurants in the U.S., almost all of which were company-owned, serving Mediterranean-style cuisine.

Exhibits 1-3 provide select financial data for these companies as well as Bloomin'.

Exhibit 1 Price-Earnings Multiples (as of August 15, 2016)

Company	Market	PE Multiple (TTM)	PE Multiple (1 yr. forward)	Historical Quarterly	Long-Term EPS Growth Consensus Forecast	PEG Multiple
	Capitalization (\$ billions)			YoY EPS Growth (5 yr. avg.)		
Brinker (EAT)	3.1	15.9	14.3	20.0%	12.6%	1.3
Buffalo Wild Wings (BWLD)	3.0	31.0	24.2	19.4%	19.2%	1.6
Cheesecake Factory (CAKE)	2.5	20.7	17.5	12.6%	13.7%	1.5
Chipotle (CMG)	11.6	58.8	38.1	18.6%	17.7%	3.3
Cracker Barrel (CBRL)	3.8	20.7	17.3	19.9%	9.4%	2.2
Darden Restaurants (DRI)	7.7	21.5	14.5	24.5%	12.5%	1.7
DineEquity (DIN)	1.4	13.9	12.0	22.0%	-6.6%	na
McDonald's (MCD)	101.1	22.8	19.3	2.4%	9.7%	2.4
Panera (PNRA)	5.2	37.4	28.3	8.5%	16.2%	2.3
Shake Shack (SHAK)	1.4	81.8	67.4	75.0%	44.6%	1.8
Sonic (SONC)	1.4	23.2	19.5	33.5%	16.4%	1.4
Texas Roadhouse (TXRH)	3.3	29.5	22.9	14.9%	13.3%	2.2
Zoë's Kitchen (ZOES)	0.7	408.4	154.2	14.6%	30.0%	13.6
Mean	11.2	60.4	34.6	22.0%	16.1%	2.9
Median	3.1	23.2	19.5	19.4%	13.7%	2.0
Bloomin' Brands (BLMN)	2.2	40.2	12.6	20.6%	12.1%	3.3

Notes and Sources:

Data from YCharts.

TTM is trailing twelve months.

The forward PE multiple is calculated using analysts' consensus earnings estimate for the upcoming fiscal year.

YoY is year over year.

PEG multiple = PE multiple (TTM) / (long-term EPS growth consensus forecast * 100).

Exhibit 2 Income Statement Data (TTM as of June 30, 2016 unless otherwise indicated)

	EAT	BWLD	CAKE	CMG	CBRL	DRI	DIN	MCD	PNRA	SHAK	SONC	TXRH	ZOES	BLMN
				4/30/16	5/31/16						5/31/16		3/31/16	
Revenue	3,257	1,944	2,166	4,047	2,886	6,934	658	25,125	2,740	225	619	1,917	244	4,319
Cost of Goods Sold	2,639	1,506	1,740	3,295	924	5,392	259	15,128	2,168	153	366	1,492	192	3,602
Gross Profit	618	439	426	752	1,962	1,541	399	9,997	572	72	254	425	52	717
SG&A	283	286	242	406	1,681	913	169	2,448	317	47	125	252	45	474
Restructuring and Asset Impairments	18	-	6	-	-	6	4	-	-	-	-	1	-	71
Loss (Gain) on Asset Disposal	-	8	-	13	5	-	-	-	16	-	1	5	1	1
Operating Income	317	145	178	333	276	622	226	7,549	239	25	128	167	6	171
Loss on Extinguishment of Debt	-	-	-	-	-	107	-	-	-	-	9	-	-	27
Net Interest Expense	33	2	7	(6)	14	66	58	781	6	-	25	2	3	53
Non-Operating Expense (Income)	(1)	2	-	-	-	-	8	(48)	-	-	-	2	-	-
Pre-Tax Income	286	141	171	339	262	450	160	6,816	232	25	94	167	3	91
Provision for Income Taxes	86	41	45	127	76	90	58	2,109	87	6	29	50	1	26
Income from Continuing Operations	201	101	126	212	186	360	102	4,707	145	19	65	117	2	64
Income to Noncontrolling Interest	-	-	-	-	-	-	-	-	-	(12)	-	(5)	-	(4)
Income from Discontinued Operations	-	-	-	-	-	15	-	-	-	-	-	-	-	-
Net Income	201	101	126	212	186	375	102	4,707	145	8	65	113	2	60
Depreciation and Amortization	156	146	86	138	77	290	33	1,545	144	12	43	76	14	193
EPS	3.43	5.32	2.52	6.76	7.72	2.90	5.46	5.19	5.90	0.46	1.27	1.58	0.09	0.48

Notes and Sources:

Data from YCharts and SEC filings.

Numbers in millions, except per share. Numbers may not reconcile due to rounding.

Exhibit 3 Balance Sheet Data (as of June 30, 2016 unless otherwise indicated)

	EAT	BWLD	CAKE	CMG	CBRL	DRI	DIN	MCD	PNRA	SHAK	SONC	TXRH	ZOES	BLMN
				4/30/16	5/31/16						5/31/16		3/31/16	
Assets														
Cash and Short-Term Investments	31	14	80	270	177	275	118	3,128	160	68	99	95	21	102
Receivables	44	42	46	48	29	64	101	1,267	78	3	39	21	4	55
Inventories	71	14	35	17	146	175	-	87	22	1	-	14	2	68
Prepaid Expenses and Other	31	28	38	52	22	306	85	564	62	4	33	15	2	72
Net PP&E	1,043	600	889	1,269	1,061	2,042	209	22,850	785	111	392	779	140	1,498
Goodwill and Intangibles	194	241	23	22	-	872	1,466	2,499	182	-	76	121	39	846
Other Long-Term Assets	59	39	95	423	63	848	258	2,751	10	280	40	28	-	144
Total Assets	1,473	978	1,204	2,102	1,496	4,583	2,237	33,147	1,298	467	680	1,073	207	2,784
Liabilities														
Payables	174	112	39	75	116	242	69	1,096	51	5	19	88	13	203
Current Portion of Long-Term Debt	4	-	-	-	-	-	-	-	17	-	-	-	-	28
Accrued Expenses and Other	256	72	266	201	200	945	167	1,571	314	17	54	130	12	494
Non-Current Portion of Long-Term Debt	1,114	-	-	-	400	440	1,281	26,010	380	-	578	50	-	1,210
Other Long-Term Liabilities	139	179	303	339	199	1,004	464	3,829	109	267	88	79	55	516
Total Liabilities	1,686	363	607	616	916	2,631	1,981	32,507	872	289	738	348	79	2,451
Shareholders' Equity														
Capital Stock and Additional Paid in Capital	513	157	743	1,206	47	1,499	289	6,154	245	170	236	206	147	1,070
Retained Earnings	2,558	462	1,194	2,197	544	548	371	45,273	1,448	9	874	511	(19)	(633)
Treasury Stock	(3,272)	-	(1,340)	(1,912)	-	(8)	(403)	(48,112)	(1,308)	-	(1,169)	-	-	-
Accumulated Other Comprehensive Income	(12)	(4)	-	(5)	(11)	(87)	-	(2,675)	(9)	-	-	-	-	(140)
Noncontrolling Interest	-	-	-	-	-	-	-	-	50	-	-	8	-	37
Total Shareholders' Equity	(213)	615	597	1,486	580	1,952	256	640	427	179	(58)	725	128	333

Notes and Sources:

Data from YCharts.

Numbers in millions. Numbers may not reconcile due to rounding.