

Franchise Services

Spring 2012 Update



A World View

In the first quarter of 2012, our US recovery continued to gain momentum and prospects brightened accordingly for the US Franchise and Restaurant Franchise sectors. As the European Union made some strides putting its fiscal house in order, the major US stock indices rebounded strongly, hitting highs not seen in several years. As the US election season gears up, 2012 likely will prove a “status quo” year on legislative and regulatory fronts, with few surprises impairing ongoing recovery among US businesses and households alike.

Likely 2013 Tax Increases Drive Increased 2012 M&A Activity

Significant tax hikes loom in 2013, including expiration of the “Bush tax cuts” and the temporary reduction in employees’ Social Security tax rates. In a second Obama administration, new ObamaCare taxes would kick in and capital gains taxes are expected to rise significantly. Thus, 2012 may prove the best year, for several years to come, to execute an exit strategy and middle market M&A activity is increasing accordingly. With successful sales of middle market businesses taking from six to nine months’ time, business owners may wish to review options carefully – and soon – with a trusted middle market investment banker or other advisor. Those deciding to proceed with an exit strategy have little time to lose if they wish to close the sale of a business by yearend 2012.

Small Business Administration 7(a) and 504 Loan Programs

As the US economy recovers, the Administration encourages banks to lend to small businesses to accelerate growth even as regulators maintain risk-averse outlooks that discourage banks from loaning to anyone or any business lacking sterling credit. Small Business Administration 7(a) and 504 Loan Programs can address this Catch 22. The Federal government has authorized \$17.5 billion for the 7(a) program in 2012 which enables banks to make loans of up to \$5 million to franchisees and then sell off the guaranteed 75% portion of those loans to investors who will pay a healthy premium for them given the government guarantee. Meanwhile, the Federal government authorized \$7.5 billion in 2012 for SBA 504 loans of up to \$5 million that offer small businesses long-term, fixed-rate financing traditionally used to acquire fixed assets for expansion and modernization. SBA 7(a) and 504 loan programs should make it easier for entrepreneurs to obtain restaurant and franchise financing for expansion.

Will Consumers Make Quick-Service the Winner in 2012?

GE Capital’s annual Chain Restaurant Industry Review suggests that in 2012, Quick-Service Restaurants (QSRs) may overtake Full-Service Restaurants (FSRs) in market share. In 1975, FSRs held nearly 60% market share vs. QSRs’s 35% for fast-casual concepts, pizza chains, and drink and snack concepts. By 2011, however, FSRs posted \$195.7 billion in revenues to QSRs \$195.1 billion, with QSRs growing much more rapidly because QSR and Limited-Service Restaurants include such fast-growing US chains as: Chipotle, Five Guys, Starbucks, Jimmie John’s, Firehouse Subs and Panera Bread. While full-service restaurant sales have risen, 4Q2011 traffic plunged at its worst rate in some two years. Whether these results are cyclical or part of a long-term trend remains to be seen. But fast casual has proven especially attractive to consumers since the 2008 global recession because it delivers good food rapidly at a lower price point and without incurring a 15% tip for service. QSRs may be a winner for years to come.

Quiznos Restructured

As of yearend 2011, premier quick-service restaurant chain and toasted sandwich pioneer Quiznos reached agreement on a consensual financial restructuring with a significant majority of its first- and second-lien lenders that would reduce its current debt substantially while providing a \$150 million infusion of new equity. The restructuring closed in January 2012, with Avenue Capital providing the equity infusion and thereby becoming the majority owner of Quiznos. However, Quiznos store counts have declined precipitously in recent years, creating opportunities for other sandwich brands to expand.

McDonald's Continues to Lead the Way

Burger King Holdings reported \$2.3 billion in revenues and \$107 million in net income for 2011. By early 2012, a new Burger King advertising campaign featuring David Beckham and Jay Leno spotlighted a healthier-for-you menu that looked a lot like McDonald's own. Burger King is focusing on international growth in Brazil, China, Russia, Turkey, the Middle East, Africa and India. McDonald's continues to focus on growth everywhere, with US same store sales increasing 7.8% in January 2012 and 4.8% for all of 2011. McDonald's 2011 revenues grew by \$1.8 billion in the US. McDonald's year 2011 growth alone would rank it in the 95th percentile of the Top 500 Restaurant Chains, and hot on the heels of Burger King Holdings' total annual sales.

Noteworthy Recent Franchise & Franchise Restaurant Chain Transactions

Closed	Target	Value (\$MM)	Buyers/Investors	Sellers	Transaction Comments
4/4/2012	Huddle House, Inc.	NA	Sentinel Capital Partners	Ares Capital Corporation, Ares Capital Management	Sentinel Capital and Huddle House management (as a minority investor) acquired Huddle House from Ares Capital on 4/4/12.
4/4/2012	Lime Fresh Mexican Grill Inc. (certain Assets)	\$24.00	Ruby Tuesday	Lime Fresh Mexican Grill	Ruby Tuesday (NYSE:RT) acquired seven Lime concept restaurants, the royalty stream from five Lime concept franchised restaurants, the IP of Lime Fresh Mexican Grill, and certain other assets for \$24 million on 4/4/12.
4/3/2012	O'Charley's, Inc.	\$196.04	Fidelity National Financial	Columbia Management Investment Advisors, Crescendo Partners, Dimensional Fund Advisors, Royce & Associates	Fidelity, the nation's largest title insurance firm, holds a minority interest in American Blue Ribbon Holdings, LLC, an owner/operator of the Village Inn, Bakers Square and Maxx & Erma's restaurants.
3/5/2012	Doctor's Express	NA	Immediate Clinic		Immediate Clinic acquired Doctors Express for cash and stock on 3/5/12, issuing shares for consideration that includes put rights exercisable by Doctors Express shareholders. Doctors Express will operate under its own name while its executives remain in various roles.
1/24/2012	QIP Holder, LLC (Quiznos)	\$150.00	Avenue Capital Group		Quizno's \$150 million restructuring made Avenue Capital Group a majority owner.

Mark your calendars!

Burt Yarkin and Brett Lowell from DLA Piper will give a speech entitled "Buying and Selling Franchise Systems" at the International Franchise Expo at Javitz Center in New York City, on June 16, 2012.

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THE MCLEAN GROUP FRANCHISE SERVICES PRACTICE

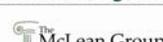
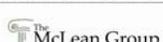
The McLean Group’s Franchise Services division provides advisory services for sell side and buy side M&A transactions, for corporate financial restructuring, refinancing and capital formation. Led by seasoned bankers with extensive experience as senior franchising industry executives, our team understands the unique qualitative and quantitative value drivers impacting franchise companies in the marketplace. Our bankers are supported by research, analysis and valuation staff who have broad expertise with a wide array of leading middle market franchise companies and state-of-the-art research databases.

The McLean Group has completed transactions with many of the industry’s most prominent strategic buyers and private equity firms. We maintain close working relationships with key decision makers in all of the sector’s strategic, large and mid-tier public and private firms and are well-positioned to help you address your company’s financial requirements.

THE MCLEAN GROUP OVERVIEW

The McLean Group is an investment bank providing mergers and acquisitions (M&A), business valuation and strategic consulting services to middle market businesses. Headquartered in the Washington, DC metropolitan region, the firm has a presence in more than 30 cities in the US, serving domestic and international clients with a broad resume of successfully consummated financial transactions. Our research staff leverages state-of-the-art, proprietary corporate information and transaction data, providing our clients with unmatched information on which to make transaction decisions.

Select Franchise Engagements

 FIVE GUYS <small>FAMOUS BURGERS and FRIES</small> Business Valuation 	 Applebee's <small>Neighborhood Grill & Bar</small> Market Intelligence 	TITAN FITNESS acquired  <small>Stores in Nevada</small> Purchase Price Allocation 	 BURGER KING Market Intelligence 
 DUNKIN' DONUTS Market Intelligence 	 HOT STUFF Foods Business Valuation 	KELLY SERVICES Market Intelligence 	 AMICI'S <small>EAST COAST PIZZERIA</small> <small>GREAT PASTAS - FRESH SALADS</small> Business Valuation 