BUSI 4609C: Strategic Management
Professor: Cheryl Volesky
Capstone Project

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Executive Summary

Fiesta Restaurant Group, Inc. operates in the full-service restaurant industry via its 2 brands; Pollo Tropical and Taco Cabana. Fiesta has struggled significantly in recent years, as evidenced by its decline in market cap from $803 million to $515 million in 2017. When analyzing the environment, technological opportunities and threats included M-Commerce application integration into businesses which are opportunities for firms to increase consumer interactions, or a threat if firms don't adapt. Another opportunity is the low price of chicken, which dropped to $1.99 a pound in 2017. Sociocultural opportunities include the Hispanic population rising by 13% providing firms a large consumer base. Fiesta has done a done an average job responding to opportunities and threats, with an EFE rating of 2.50. When considering Porter's 5 forces, the threat of rivalry (rank 9) was significant due to the saturated market. The buyer power in the industry is also significant (ranked 8), mostly due to the non-existent switching costs and technological advancements increasing their power. Substitutions (rank 7) were also significant as consumer behavior is shifting to meal kits and home cooking. The threat of entry (rank 5) was mainly low due to the low marginal returns in the industry, while supplier power (rank 3) is also low due to the large number of suppliers in the industry. Overall, the industry received a weighted average score of 7.2, making it an unattractive industry.

In terms of internal value chain activities, the firm has a competitive disadvantage in terms of corporate leadership and operations, evidenced by its -11% ROIC in 2017. The firm also has a disadvantage in marketing and customer service with no customer loyalty program in place, while there is no R&D. Fiesta also has issues with supply chain management, with days in payables of about 35 days indicating liquidity issues. Fiesta also has a competitive disadvantage in human resource management, with the firm declining to 10,290 employees in 2017 due to high turnover. Based on Fiesta's internal problems, the IFE determined Fiesta's score at 1.975, which is well below the industry average of 2.50 and indicates Fiesta has weak internal structures.

When looking at Fiesta's current metrics, the negative ROIC of 11% and decline in market cap from $803 to $515 million showcases that the current corporate and business strategies need changes. The current corporate strategy includes heavy geographic concentration, with 83% of Pollo Tropical locations present in Florida and 99% of Taco Cabana's being in Texas. The recommendation for Fiesta is to expand Taco Cabana into New Mexico and Pollo Tropical into Georgia. This would be funded by liquidating 7 current locations of Pollo Tropical due to negative covenants restricting capital restructuring. The expected NPV of Pollo Tropical expansion is $10.4 million, while Taco Cabana's is $1.4 million. The expected implementation time is 21 weeks.

After analyzing Fiesta's value chain activities, it was determined the firm uses a cost-leadership strategy. Given Fiesta's issues with the activities previously mentioned, the firm is incurring additional costs that hinder its ability to be a cost leader. The primary recommendation for Fiesta is to introduce a new mobile application to improve operations, marketing, research, and customer service. The expected net present value is $78 million, while it will take 26 weeks to implement. The secondary recommendation for Fiesta involves improving the human resource function through improved hiring, employee autonomy and exit interviews to reduce employee turnover. The expected net present value is $4 million, and implementation will take 27 weeks.

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Part I: Macro/ General Environment

General Environment

Technology Environment (Hussam)

Mobile-Experience (Threat)

One of the major technological trends in the retailing market is the rapid adoption and the demand for mobile and online integration to the business model of consumer experience. As indicated in Figure 1 below, Starbucks, a limited-service restaurant, has done significantly well in this aspect. The process of merging the digital and loyalty experience to the customer daily activities enabled Starbucks to top other mobile payments services including Apple Pay and Google Pay.[1]

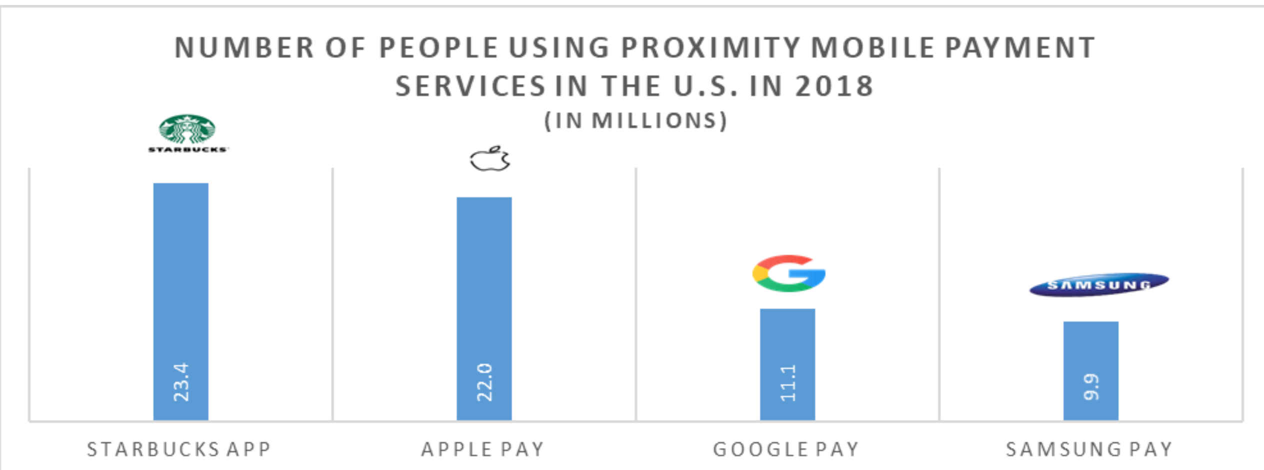

Figure 1 - Source: Dignan, Larry. "Why Starbucks remains the mobile payment app leader ahead of Apple, Google, Samsung". ZDNET. Accessed on Sep 23, 2018 https://www.zdnet.com/article/why-starbucks-remains-the-mobile-payment-app-leader-ahead-of-apple-google-sams

The M-commerce model is an indicator of the consumer movement towards a digital market. The change in the consumer activity from offline purchasing and loyalty programs towards the online comparable version is considered a threat to the full-

[1] Euromonitor. "Digital Consumer – USA". Accessed on Sep 23, 2018 http://www.portal.euromonitor.com.proxy.library.carleton.ca/portal/analysis/tab

service restaurant industry. One example is the Starbucks App, which provides benefits to customers. The added feature of the app include a mobile payment service. Furthermore, Artificial Intelligence (AI) bots that record customer behaviour have helped Starbucks optimize the customer experience, even before they enter the store. Accordingly, the mobile experience allows firms to gather important customer data while also establishing loyalty to increase retention. This is especially important, as it is shown below in Figure 2 that smartphone ownership is at about 80% in the United States alone.

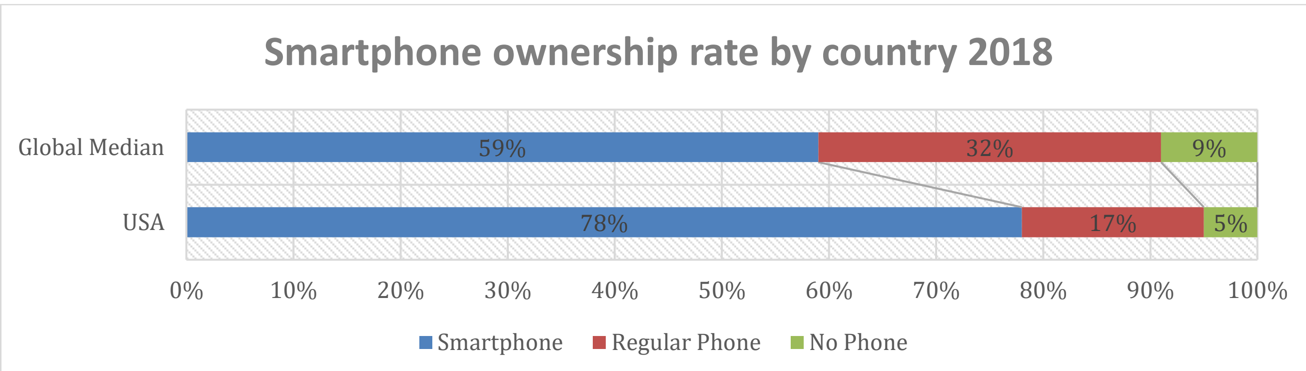

Figure 2 - Source: Alaimo, Dan. "Starbucks Has the Most-used Mobile Payment App.". Accessed September 22, 2018. https://www.retaildive.com/news/starbucks-has-the-most-used-mobile-payment-app/524043/

As the concept of Mobility and App usage continues to rise, the full-service restaurant industry has seen a strong growth of online ordering. As shown in Figure 3 below, the shift from offline transactions toward online transactions is an indicator of the technological need for mobile and internet integrated business models for consumer faced-businesses. With a projection of 11.5% of total sales being online by 2021, firms in the industry without a mobile-integrated business model have a significant incentive to shift towards this model, however those that have not yet adapted face a significant threat that needs to be addressed.

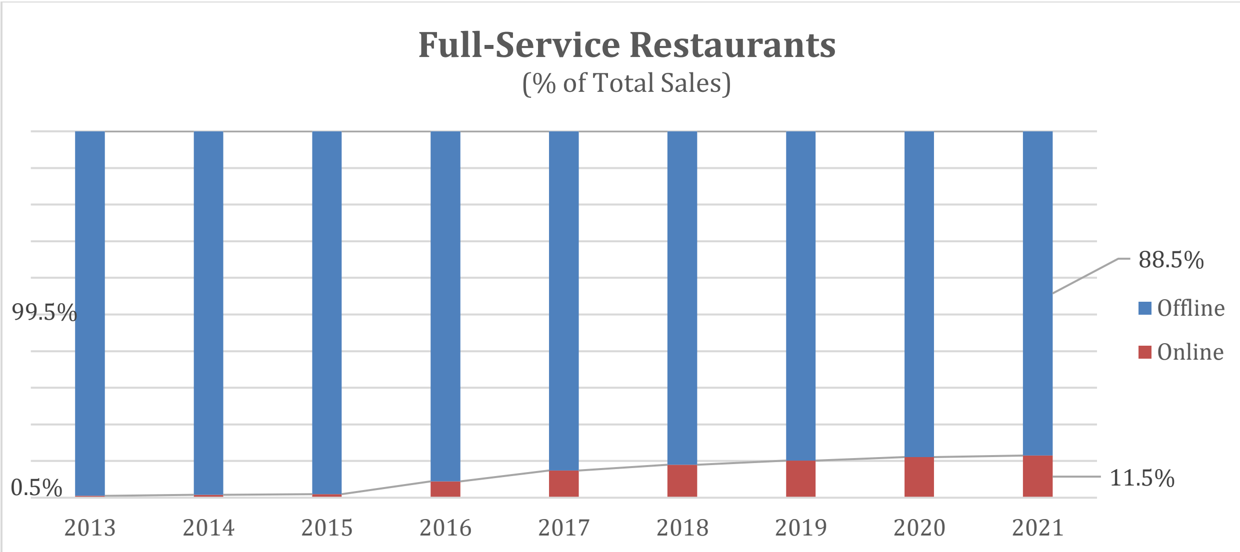

Figure 3 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 23, 2018 http://www.portal.euromonitor.com.proxy.library.carleton.ca/portal/statisticsevolution/index

Furthermore, mobile payment systems account for $124 billion of all the transactions within the United States.[2] On average, the mobile proximity payment market is expected to grow at 54.53% per year.[3] This growth is a strong indicator of the market shifting from traditional offline shopping towards mobile-driven shopping.

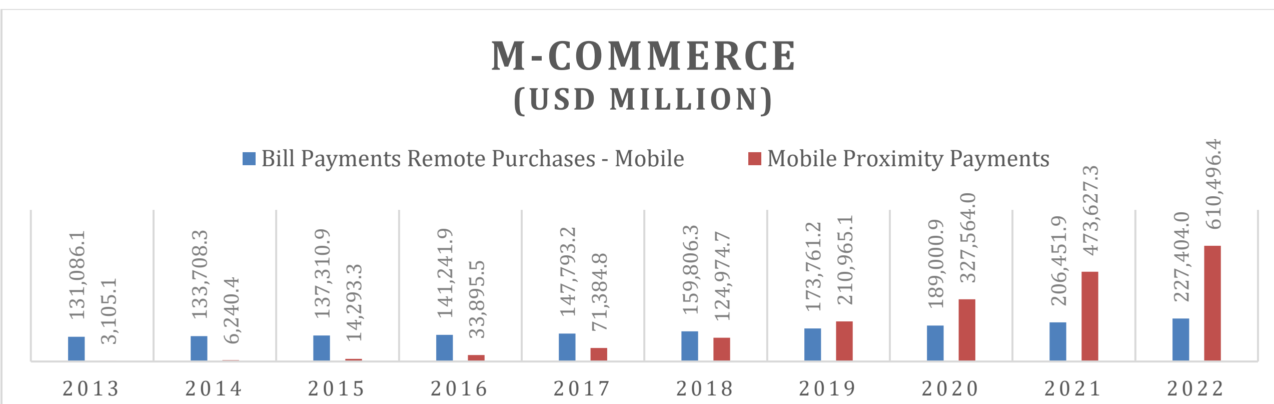

Figure 4 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 23, 2018

Furthermore, as shown in Figure 4 above, the US market is expected to see growth in mobile proximity payments, where it is going to reach $610.4 billion by 2022.

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[2] Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 23, 2018
[3] Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 23, 2018

Accordingly, the shift towards the mobile experience by consumers is clearly trending in a direction where growth is expected to continue.

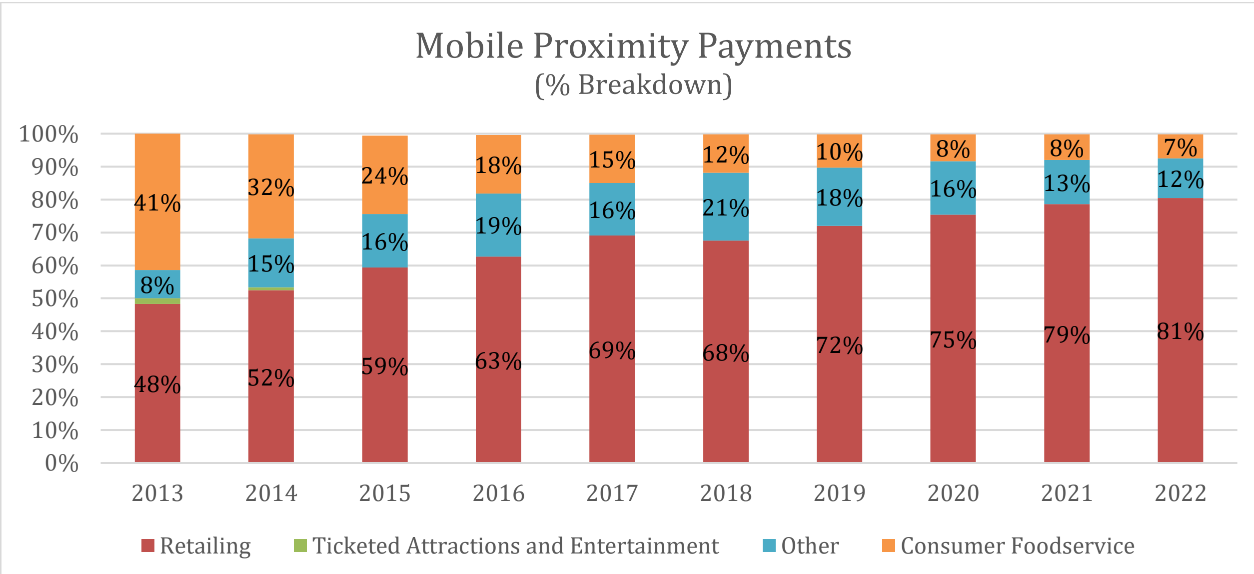

Figure 5 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 23, 2018

The breakdown of the proximity of mobile purchases is highlighted above in Figure 5. As shown in consumer food services, 41% of payments were via mobile proximity in 2013. However, in 2017 it only accounted for 12%. While this trend might seem against mobile proximity adaption, the size of the market has grown by 3,925% since in 2022 to $837 billion from $132 billion (as shown in Figure 5). Therefore, it is important to for successful businesses to adapt to such technology in order to survive.

To conclude, quality and price are still primary factors to consumers but becoming a mobile-integrated business is also very important in the US; where having a mobile application to attract consumers allows firms to engage in a more significant manner and increase retention. Successful restaurant brands tend to adapt to changes in the technological environment and this move towards a mobile-friendly business model is one in which firms will need to adapt to moving forward. Including mobile integration has two positive effects for the full-service restaurant industry; the increase of both delivery and takeaway sales.

The Voice (Alexa) (Threat)

With the market moving towards a more mobile-integrated industry, smart-speakers have started to emerge in the industry[4]. Smart-speakers essentially allow consumers to complete transactions or make commands through voice commands in an application. [5] Led by TGI Friday, smart-speakers, like Alexa and Siri were tested to attract the younger and more tech-savvy consumers. The rise of smart-speakers became possible after the innovations the market underwent with Chatbots.[6] By leveraging big data and the digital foot-print, many companies have a better understanding of their consumers. These Chatbots grow and learn the more they interact with humans using simple training environments and controlled data exposure to replace the human engagement part of the interaction and automate the process for efficiency without the need of human supervision. Therefore, the introduction of smart-speakers has attracted many people to visit TGI Friday's after years of not going there.[7]

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[4] CNET. "Alexa, Feed Me! Amazon adds voice-order restaurant delivery". Accessed October 23, 2018 https://www.cnet.com/news/alexa-amazon-restaurant-food-delivery-restaurants-voice-order-command-echo/

[5] CNET. "Alexa, Feed Me! Amazon adds voice-order restaurant delivery". Accessed October 23, 2018 https://www.cnet.com/news/alexa-amazon-restaurant-food-delivery-restaurants-voice-order-command-echo/

[6] Eydman, M. (2018). "Smart Chatbots And Virtual Assistants Are Coming! – Chatbots Life". *Chatbots Life*. https://chatbotslife.com/smart-chatbots-and-virtual-assistants-are-coming-591638108933

[7] Euromonitor. "Full-Service Restaurants in the USA 2018". Accessed on September 23, 2018.

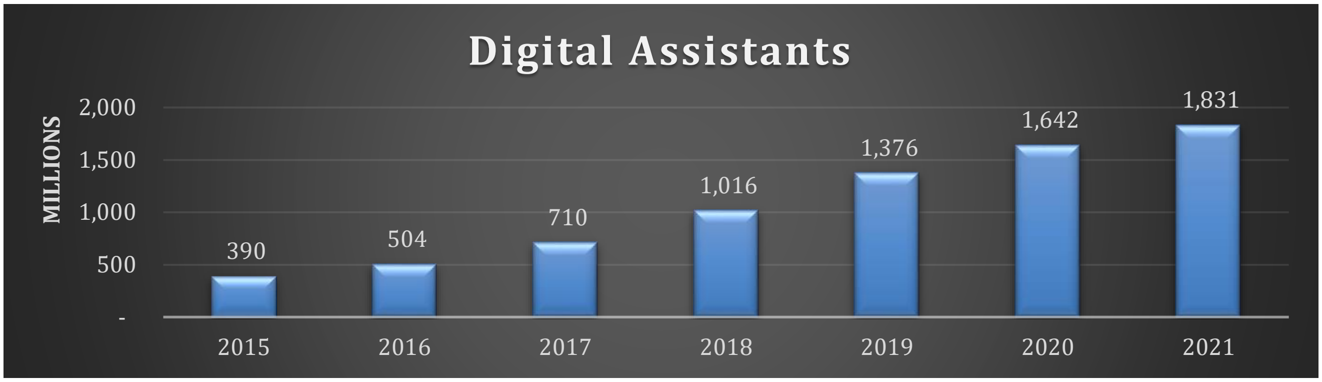

Figure 6 - Source: ING. "Digital Assistants | Reordering Consumer Live and Redefining Digital Marketing". Accessed on September 22, 2018. http://thoughtleadership.dentsuaegisnetwork.com/?edmc=323

As shown in Figure 6 above, the digital market for the smart-speakers has great potential. The number of users is expected to grow at 22% annually.[8] This growth could present a threat to offline and tech-illiterate businesses, especially those in the full-service restaurant industry. Coupled with the usage of smart-speakers, the advance in this regard presents a threat to firms in the full-service restaurants industry as not adapting leaves firms in a position where they are not leveraging the increase in digital assistants.

Third-Party Deliveries (Opportunity)

Third-party deliveries and takeaways have seen strong growth across the US over the past few years. Currently, the market for home delivery/takeaway has reached 24.6 billion USD.[9] The growth of delivery and takeaways has pushed the consumers' demand for convenience in terms of accessibility. With the usage of third-party delivery apps, the competitive landscape has changed to include online competition. The gap that the old business model had for takeaway and home delivery has now been filled by companies like UberEats, DoorDash and Grubhub. Traditionally, restaurants were

[8] Bing. "Digital Assistants | Reordering Consumer Live and Redefining Digital Marketing". Accessed on Sep 23, 2018. http://thoughtleadership.dentsuaegisnetwork.com/?edmc=323
[9] Euromonitor. "100% Home Delivery/Takeaway in the USA". Accessed on Sep 23, 2018.

responsible for its own delivery logistics. However, the convenience of home-delivery technology has allowed the market to see a rise in home delivery and takeaway by an average of 10.3% and 2.5% respectively on an annual basis.[10]

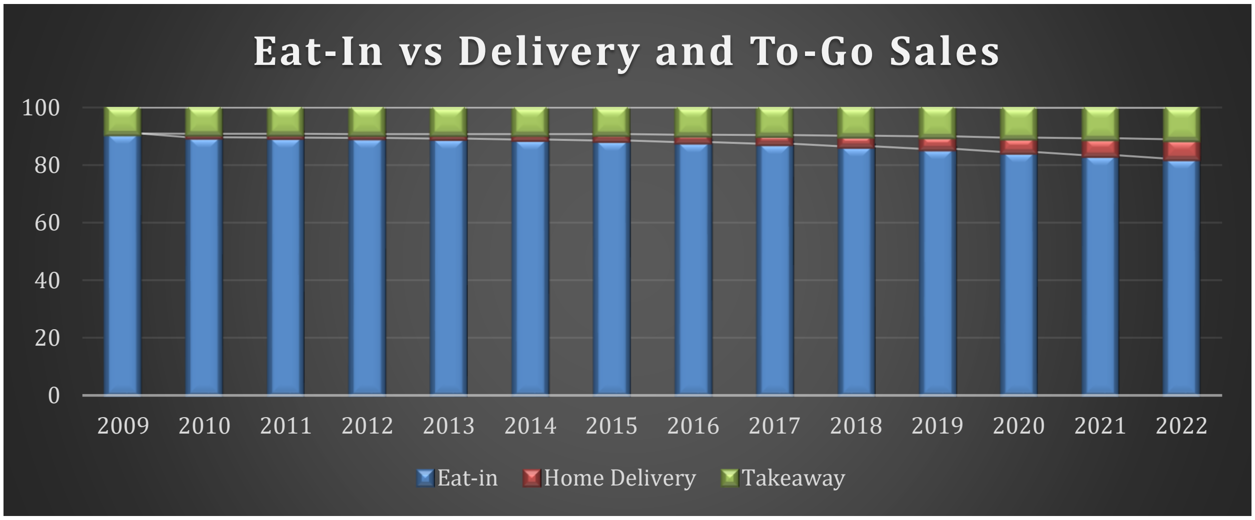

Figure 7 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 22, 2018

As shown in Figure 7 above, the size of home delivery started to creep-up after 2010 to reach 3.6% of the total sales by 2018 and the size is continuing to grow with an expected figure of 6.7% of all the sales in the market in 2022; this would be equivalent to $48.4 billion. The significance of home-delivery is that it is attractive to both consumers and businesses, as it increases consumer accessibility and allows firms to save money on delivery logistics which can then be used for further firm growth. Accordingly, firms have an opportunity they can realize here with the emergence of third-party delivery applications allowing firms to increase their customer accessibility and reduce distribution costs.

[10] Euromonitor. "Full-Service Restaurants in USA Statistics". Accessed September 22, 2018.

Economic Environment (Matthew)

The economic environment controls the full-service restaurant industry by shaping its market size, consumer behavior and costs of expenditures. Identified below are the key economic indicators that are the most influential on the full-service restaurant industry and whether or not they can be perceived as an opportunity or a threat to the industry.

Real GDP per Capita (Threat)

The first indicator that will be examined is real GDP per capita in the United States. GDP is the metric used to reflect the total goods and services produced by a nation. What has led the United States to having a significantly large economy is derived from the strong consumer economy, durable private spending habits, circulation of money and high consumer confidence. About 60% of all GDP in nominal terms is established from services,[11] in which the full-service restaurant industry is a part of. Real GDP and revenues generated from full-service restaurants have historically had a strong correlation, with GDP and revenues following a similar cyclical trend with GDP leading the trend but with the market size for the full-service restaurant industry being more volatile which can be observed in Figure 8 below.

[11] Trading Economics. "United States GDP from Private Services Producing Industries". Accessed on September 22, 2018 https://tradingeconomics.com/united-states/gdp-from-services

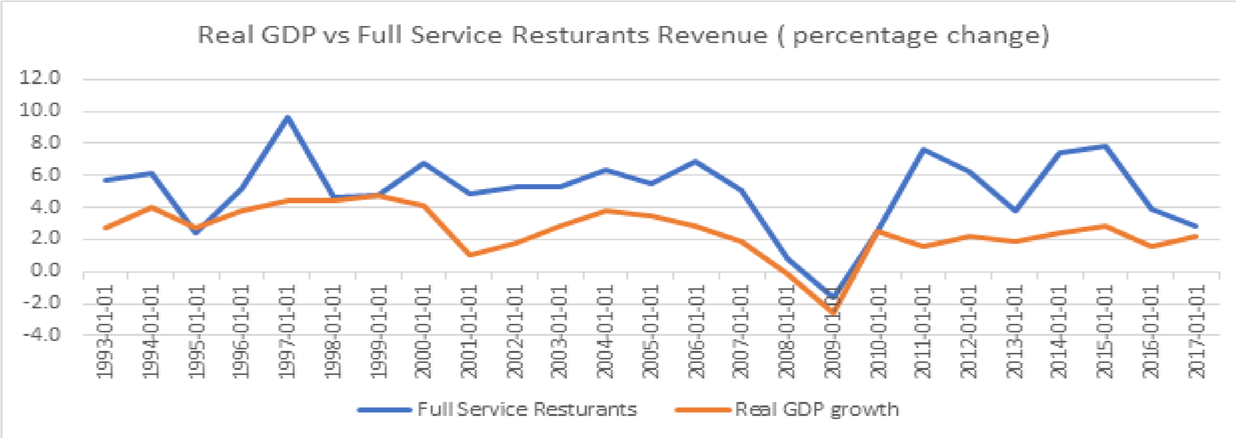

Figure 8 - Source: Federal Reserve Bank of St. Louis. "Real Gross Domestic Product". Accessed on September 19, 2018 https://fred.stlouisfed.org/series/GDPC1

It is forecasted that real GDP growth will stagnate overtime. As observed by Figure 9 below, we can expect a future decline in real GDP in the United States from a 2% increase in real terms in 2019 down to a 1.6% increase in real terms in 2020.[12] With the volatility factor of the market size for the full-service restaurant industry, a decline in GDP growth will most likely lead to a reduction of potential revenue growth within the industry creating a threat to existing and new firms looking to enter the market.

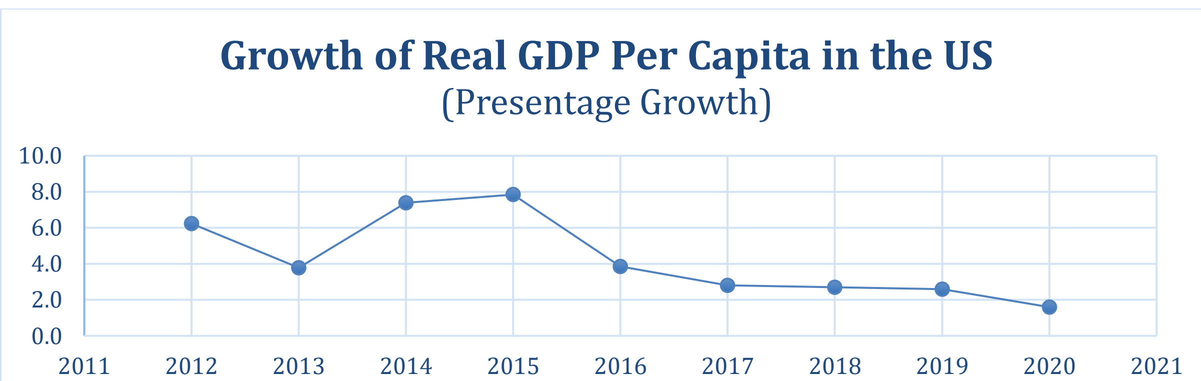

Figure 9 - Source: Trading Economies. "United States GDP Growth Rate – Forecast", Accessed on September 20th 2018 https://tradingeconomics.com/united-states/gdp-growth/forecast

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[12] Source: Trading Economies. "United States GDP Growth Rate – Forecast", Accessed on September 20th 2018 https://tradingeconomics.com/united-states/gdp-growth/forecast

Interest Rates (Threat)

Following a decade of low interest rates, intense quantitative easing and an inflation rate nearing the targeted 3%, it seems inevitable that the federal reserves will intervene with restrictive monetary policy, whether it be a decrease to the money supply or an increase to interest rates.[13] As indicated in Figure 10 below, the forecast is that the federal funds rate will increase by 100 basis points over the next 6 fiscal quarters.

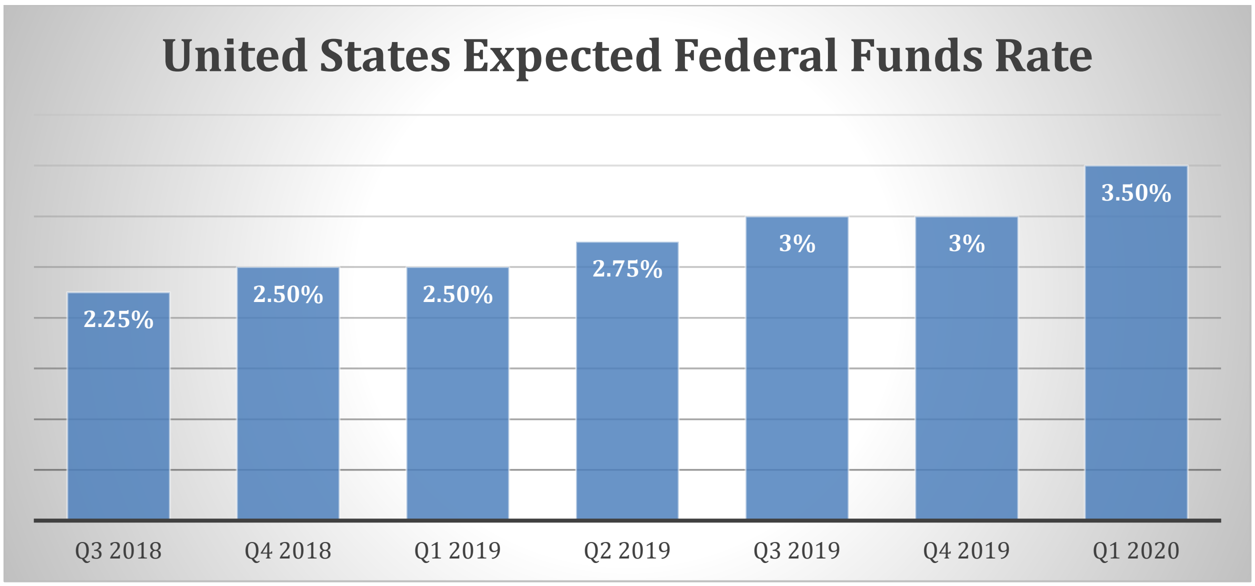

Figure 10 - Source: Trading Economies: "United States Fed Funds Rate Forecast", Accessed September 20th, 2018, https://tradingeconomics.com/united-states/interest-rate/forecast

Rising interest rates hurt service-based industries and the full-service restaurants industry is no exception. When interest rates increase, the cost of lending increases which makes saving more favorable. A decrease in current consumption is the result of consumers choosing to save their disposable income at the new level of increased interest. This may also lead to increased saving habits in the future period depending on the consumer's preference.[14] The uncertainty that arises around hiking interest rates

[13] Trading Economics. "United States Inflation Rate." Accessed on September 19, 2018 https://tradingeconomics.com/united-states/inflation-cpi

[14] University of Southampton: Economics Division. "A Two-Period Model: The Consumption-Savings Decision". Accessed on September 19, 2018 http://www.economics.soton.ac.uk/staff/alicesch/Teaching/200910/Econ2004/ch6a_slides_hand.pdf

creates a threat towards the full-service restaurant industry as it provides an incentive for the consumer to save in the current period and leads to uncertainty in the future on whether the consumer will spend their earned wealth. The result of this threat is a depleted market potential for the industry which contributes to a lower level of overall revenue.

Price of Beef and Chicken (Opportunity)

Prices of beef and chicken contribute heavily to the full-service restaurant industry's margins. These commodities are critical in determining the appropriate levels of expense a firm will have to take on. From historical market spot prices over the past five years, the prices of beef and chicken have been relatively favorable for the full-service restaurant industry and create an opportunity for industries that are in demand for these commodities. The price of beef has declined over the past five years going from $2.56 a pound in July 2014 to $1.99 a pound in 2017.[15] In relative terms, the price of chicken has not declined, however it has stayed relatively stable over the past five years experiencing little to no volatility and does not bare the commodity risk that a comparable commodity may experience.[16] As demonstrated in Figure 11 below, full-service restaurants are presented with an opportunity to cut costs through the purchase of cheap commodities which are beneficial to the firm and assist with the overall output of companies in the full-service restaurant industry. This is ultimately an opportunity for firms in this industry as it allows them to achieve economies of scale and they can fund their profit-seeking opportunities at a lower price.

[15]Federal Reserve Bank of St. Louis. "Price of Beef". Accessed on September 20, 2018 https://fred.stlouisfed.org/series/PBEEFUSDQ
[16]Federal Reserve Bank of St. Louis. "Price of Poultry". Accessed on September 20, 2018 https://fred.stlouisfed.org/series/PPOULTUSDA

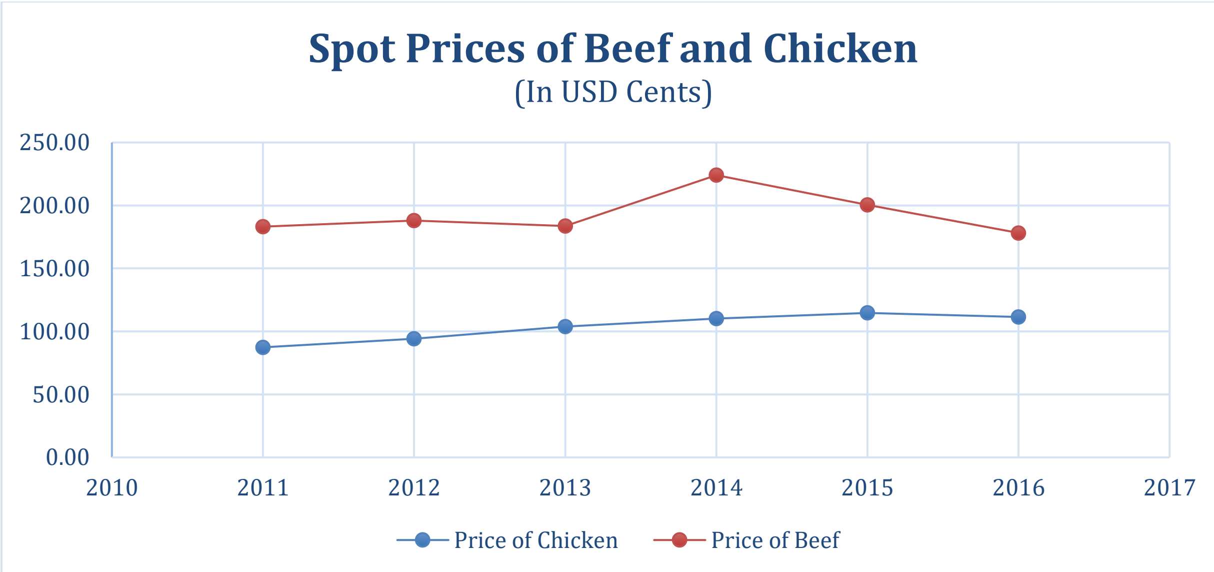

Figure 11 - Sources: Federal Reserve Bank of St. Louis. "Global Price of Poultry & Beef". Accessed on September 20, 2018 https://fred.stlouisfed.org/series/PPOULTUSDA

Labour Force (Opportunity)

The current level of unemployment in the United States is situated at 3.8%, while inflation is at 2.7%.[17] The labour force has benefited tremendously despite appeals to wage growth. The steadiness of the United States labour force presents itself with an opportunity for the full-service restaurant industry. As demonstrated in Figure 12, where the labour supply for this industry has steadily increased over the past few years from 7,905 full time workers in 2012 to 9,344 full time workers in 2017 (in thousands).[18] The balance of this labour force represents an opportunity for firms in this industry as it increases productivity for food service restaurants and allows an increase to output. Additionally, the job satisfaction from its employees is a main driver which helps firms to

[17]Trading Economics. "United States – Economic Indicators". Accessed on September 20, 2018 https://tradingeconomics.com/united-states/indicators

[18]Federal Reserve Bank of St. Louis. "Full-time equivalent employees: Domestic private industries: food services and drinking places". Accessed on September 20, 2018 https://fred.stlouisfed.org/series/N4398C0A173NBEA

maximize their output by promoting working opportunities and more capital through increased production.

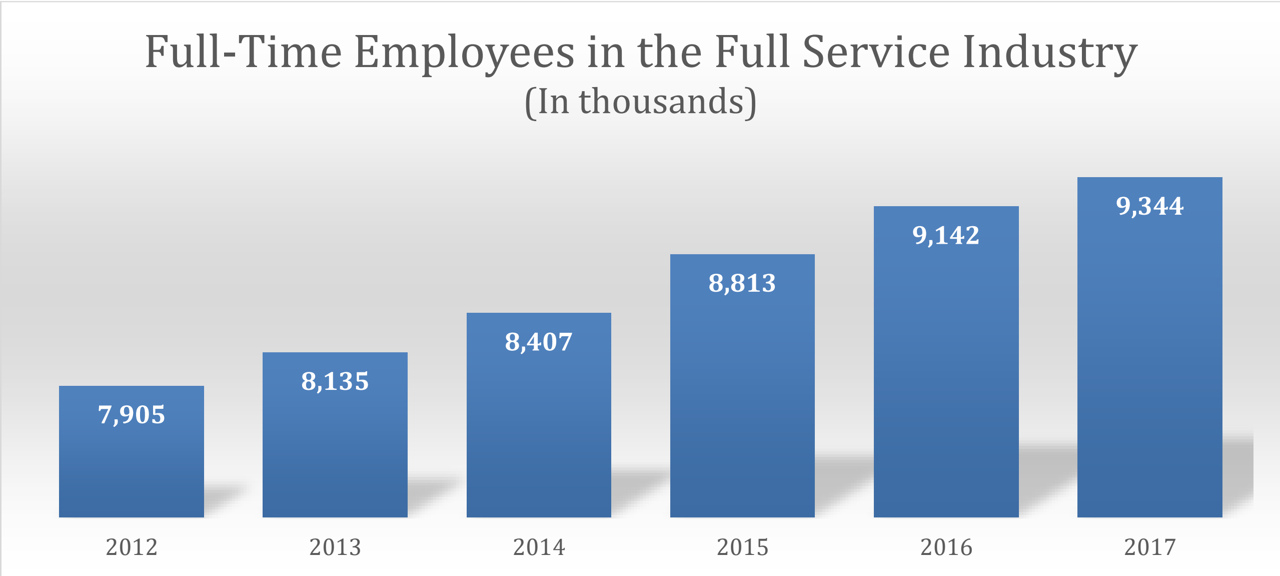

Figure 12 - Source: Federal Reserve Bank of St. Louis. "Full-time equivalent employees: Domestic private industries: food services and drinking places". Accessed on September 20, 2018 https://fred.stlouisfed.org/series/N4398C0A173NBEA

Individual Disposable Income (Opportunity)

Disposable income per capita is the average income a person receives after tax deductions. An increase in disposable income leads to an increase towards investment as well as consumption. Expenditures on restaurants can be treated as normal goods, thus meaning an increase to disposable income can result in a surge in the current overall consumption.

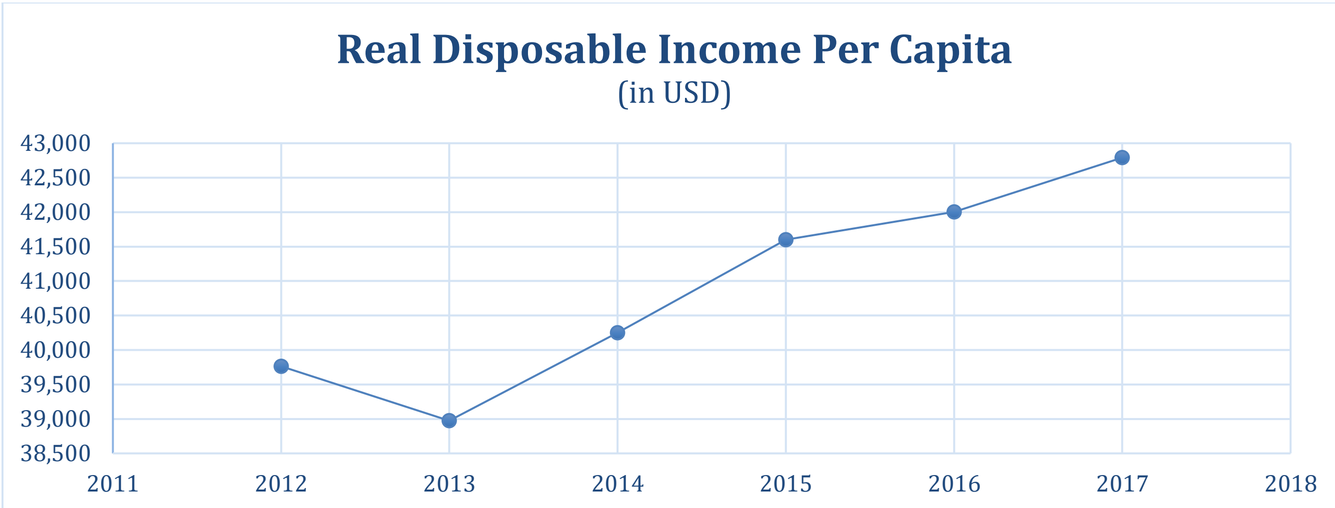

Figure 13 - Source: Federal Reserve Bank of St. Louis. "Real Disposable Personal Income: Per Capita". Accessed on September 20, 2018 https://fred.stlouisfed.org/series/A229RX0#0

As Figure 13 above demonstrates, real disposable income in the United States has increased over the past five years.[19] The belief is that consumers will spend more on services as their Income increases. This trend may continue upon the current United States fiscal policy which enforces tax cuts and have benefited consumers with more disposable income, thus increasing nominal consumer spending.[20] This consumption incentivizes the consumer to spend more on services and non-durables goods which creates an opportunity to the industry of potential increase in revenues.

Socio-Cultural Environment (Abbas)

There are multiple socio-cultural factors that impact how firms in the restaurant industry operate and in turn how they adjust in the face of ever-changing conditions in order to succeed. A company must be aware of the socio-cultural environment in order to succeed as the environment ultimately shapes its consumer base. The section below

[19] Federal Reserve Bank of St. Louis. "Real Disposable Personal Income: Per Capita". Accessed on September 20, 2018 https://fred.stlouisfed.org/series/A229RX0#0
[20] Bloomberg. "Real Disposable Incomes in U.S. Increase Most Since 2015". Accessed on September 20, 2018 https://www.bloomberg.com/news/articles/2018-03-01/u-s-real-disposable-incomes-up-most-in-five-years-on-tax-cuts

contains analyses relating to demographic metrics and consumer behavioral trends in the United States.

Demographic Trends

Population Growth and Mortality Rate (Opportunity)

The population in the United States as recently as July 2017 was estimated to be 326,625,791.[21] As indicated in Figure 14 below, the population has continued to grow over the last 2 decades, with the most recent growth rate in 2017 reaching 0.71%. However, despite the growth rate remaining at a positive figure, there has been a decline in the rate considerably, especially when comparing this figure to 1997, which had a growth rate of 1.2%. This is as a result of many factors, including that birth rates have declined steadily in the United States over the past decades while significant political policies have impacted the number of international migrants in recent years. Despite the overall drop, the total growth rate in the United States still continues to be influenced by the following factors: natural increase and migrations into the country.[22]

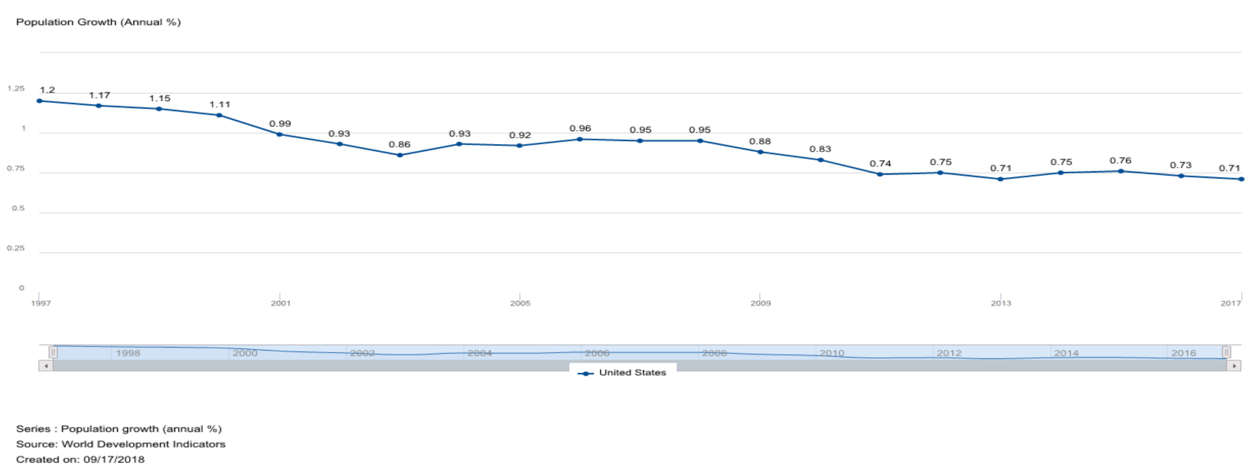

Figure 14 - Source: The World Bank. "Population Growth (Annual %): United States". Accessed on September 17, 2018 https://data.worldbank.org/indicator/SP.POP.GROW?end=2017&locations=US&start=1996

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[21] Central Intelligence Agency. "The World Factbook". Accessed on September 16, 2018. https://www.cia.gov/library/publications/the-world-factbook/geos/us.html

[22] United States Census Bureau. "Demographic Turning Points for the United States: Population Projections from 2020 to 2060". Accessed on September 16, 2018. https://www.census.gov/content/dam/Census/library/publications/2018/demo/P25_1144.pdf

The CIA World Factbook breaks down the population in the United States into the following ranges: 0-14 years old (18.73% of the total population), 15-24 years old (13.27%), 25-54 years old (39.45%), 55-64 years old (12.91%) and 65+ (15.63%).[23]

The opportunity arising from this growing population is that firms operating in the restaurant industry will have both a continuously increasing market to supply as demand inevitably increases, as well as a sizeable demographic that range from 15 to 64 that represents a large portion of the population. Accordingly, firms have an opportunity to further expand their operations in order to capture the increasing market size and realize additional earnings.

Regional Distribution of the Population (Opportunity)

As the United States has a very sizeable population, it is important to differentiate between where the country is most populated. As per Figure 15, the most populated states as recently as 2016 were Texas, California, Florida, New York, etc. (the ones shaded in the darkest shade of red represent states with greater than 10 million residents).

[23] Central Intelligence Agency. "The World Factbook". Accessed on September 16, 2018. https://www.cia.gov/library/publications/the-world-factbook/geos/us.html

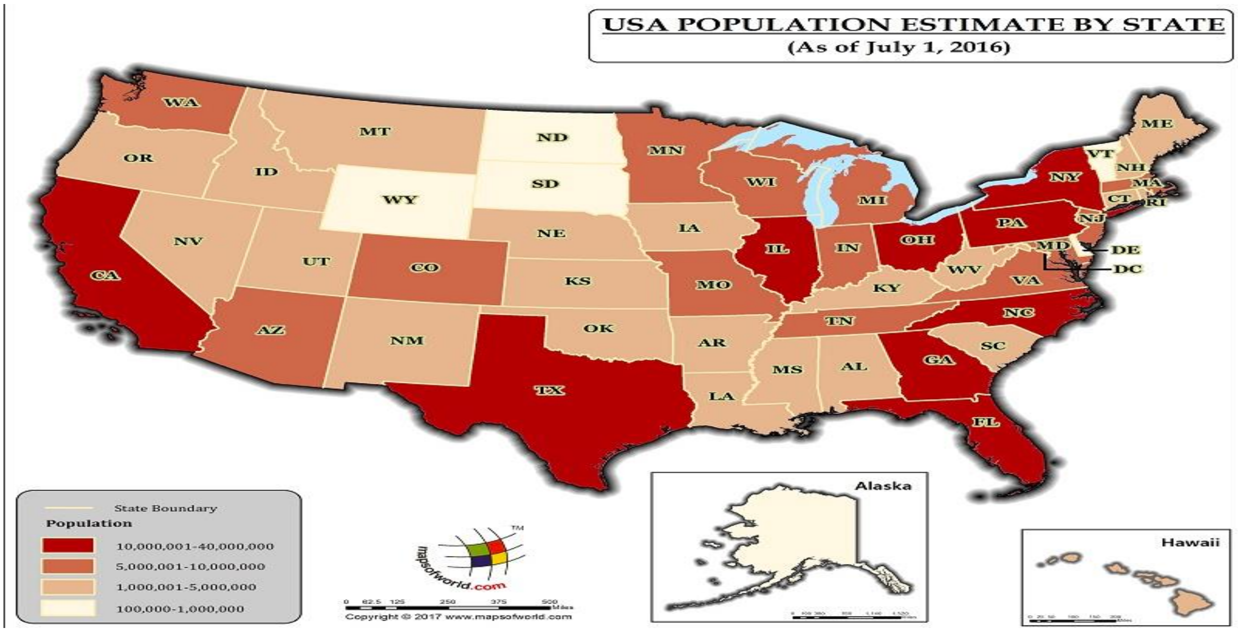

Figure 15 - Source: Maps of the World. "USA Population Map". Accessed on September 20, 2018 https://www.mapsofworld.com/usa/thematic-maps/usa-population-map.html

Furthermore, the most populated states are also still growing. As indicated in Figure 16 below, the most populated states mentioned above except for Illinois have been experiencing growth and Texas, California, Florida and Georgia are continuing to grow. It is important to note that the growth in California and Texas, the 2 most populated states, is rather misleading as they have a larger population base that is used to measure the overall growth by year. For example, California has approximately 37 million residents, Texas has approximately 25 million, and the fastest growing population in Idaho has about 1.7 million.[24] This means that a 2% increase in California would be about 740,000 people, while in Idaho, where a rate of for example 5% would represent an increase of only 85,000. It is quite clear that the states that are well established such as California, Florida, Texas and New York already have a very sizeable population that will continue to grow.

[24] United States Census. "Annual Estimates of the Resident Population: 2010 to 2017". Accessed on September 20, 2018. https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk

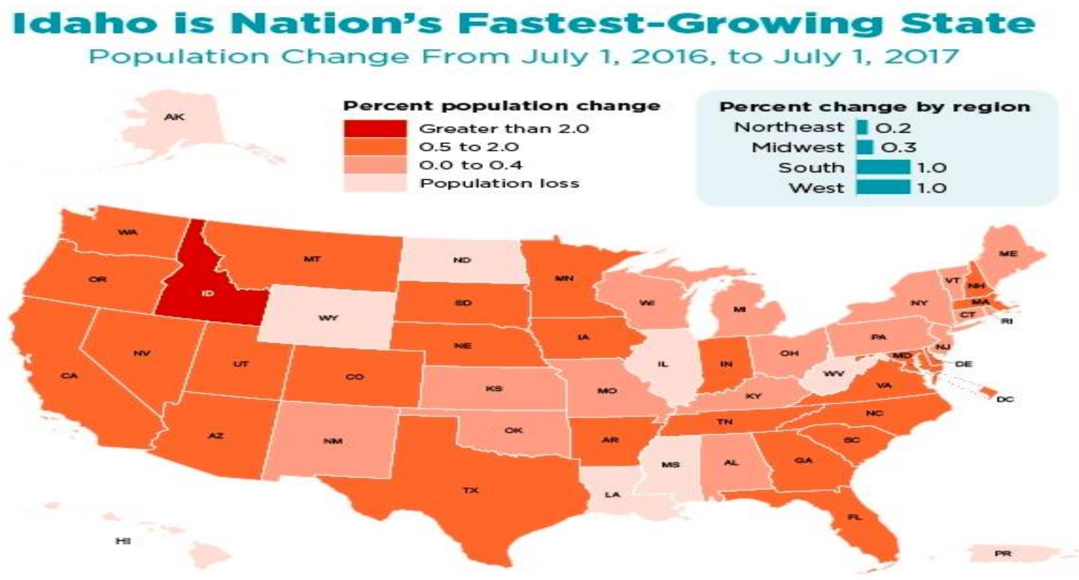

Figure 16 - Source: United States Census. "Idaho is Nation's Fastest Growing State, Census Bureau Reports". Accessed on September 20, 2018 https://www.census.gov/newsroom/press-releases/2017/estimates-idaho.html

Overall, it is important to state that firms have an excellent opportunity on their hands with the overall population distribution, as the market in areas such as California and Texas are densely populated and continue to grow.

US Rising Hispanic Population (Opportunity)

For firms in the full-service restaurant industry, especially those serving Mexican, Caribbean, or other Latin dishes, the rise in the Hispanic population in the United States presents an important opportunity. As indicated below in Figure 17, the overall Hispanic population in the U.S. has increased from 50.8 million in 2010 to 57.5 million in 2016; an increase of approximately 13%.

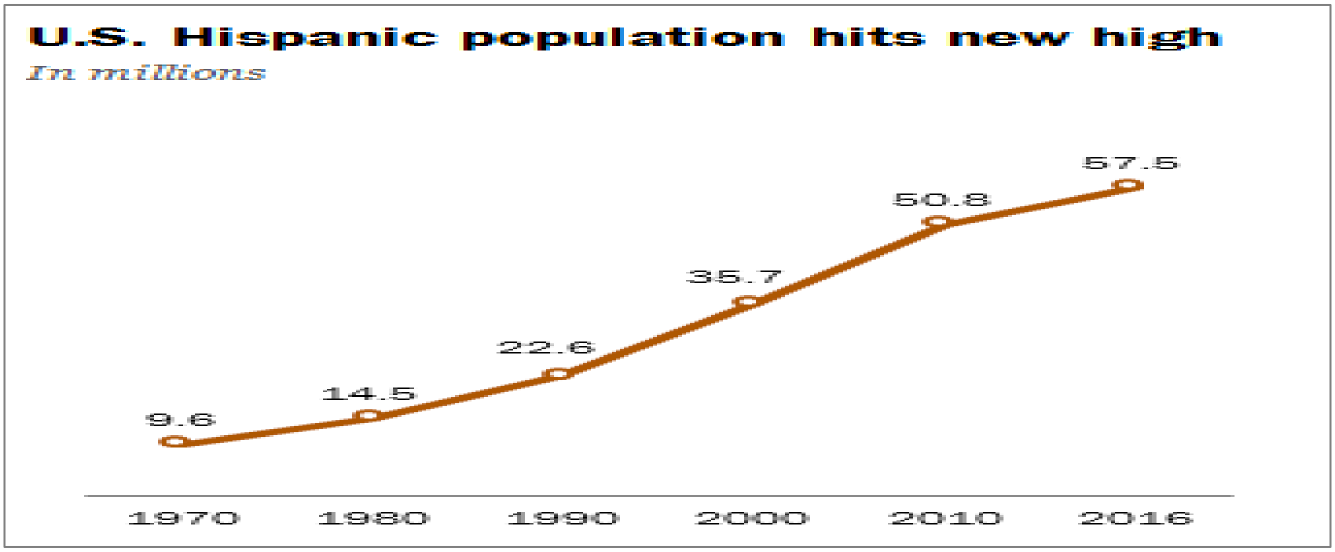

Figure 17 - Source: PEW Research. "How the U.S. Hispanic Population is Changing". Accessed October 20, 2018 http://www.pewresearch.org/fact-tank/2017/09/18/how-the-u-s-hispanic-population-is-changing/

This increase in the Hispanic population allows firms such as Chipotle, Fiesta and others that specialize in Mexican, Caribbean or other types of similar food to have a larger consumer base to target. This means that the opportunity presented by the increasing Hispanic population would be that it allow firms that specialize in their traditional food in order to have a large consumer base that could then become a more likely recurring consumer.

Behavioral Trends

US Consumer Dietary Trends (Opportunity/Threat)

Recent trends in the United States include a dietary trend towards a healthier lifestyle. As indicated in a study by Fortune, the US population is now shifting towards a more healthy diet which includes low calorie ingredients and fresh produce.[25]

This is a threat that is prevalent to firms in the full-service restaurant industry, as many firms tend to not pay much attention to keeping calories at a minimum and focus

[25] Fortune. "Fresh Healthy Food is not a Trend. It is a Movement". Accessed October 10, 2018 http://fortune.com/2016/11/30/food-healthy-trend-mpw/?mc_cid=4645d7c860&mc_eid=7a04b229d7

on processed goods and other cheaper inputs in order to maintain as high a margin as possible. [26] This means that firms who wish to adapt to this emerging trend of a healthier diet have a significant threat as changing menus, changing the inputs for meals that have been successful historically and renegotiating deals with suppliers for healthier goods make for a significantly difficult transition in order to help mitigate this threat.

However, an opportunity with this trend is also prevalent. As previously mentioned, many firms in the industry emphasizing low cost inputs in order to maintain a sufficient profit margin. This means that the firms who are willing to adapt to service this trend would be able to attract new consumers that have taken ahold of this trend, especially with the likelihood that many competitors would not be able to adapt to this opportunity. This means that firms who do meet this trend have an opportunity of increasing their overall consumer base.

Overall, the trend in the US towards a healthier diet is a threat for firms as what were traditional consumers may switch over to this diet. However, this could also be an opportunity as firms could adapt to this trend in order to attract more consumers.

US Consumer Spending (Threat)

As indicated below in Figure 18, the trend towards spending more at home and eating via takeout has increased, with the percentage projected to increase up to 10.9% for takeout and 6.7% for home delivery in 2022 from 9.6% and 2% in 2017 respectively.

[26] Business Insider. "These Healthy Chains Should Scare McDonalds". Accessed October 10, 2018 https://www.businessinsider.com/new-healthy-fast-food-chains-better-than-mcdonalds-2017-2

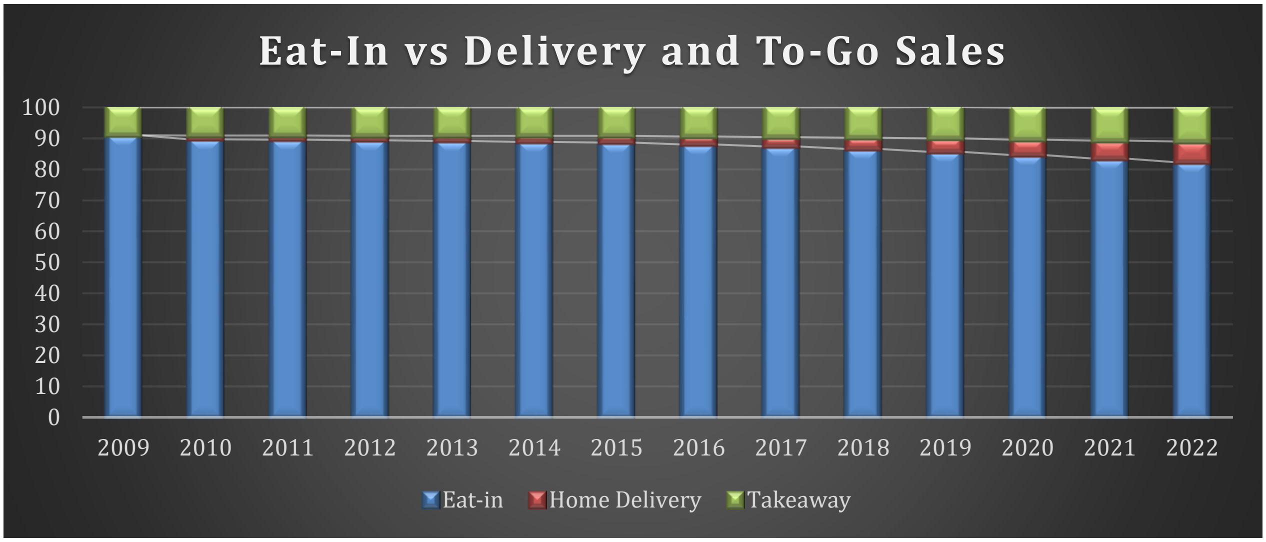

Figure 18 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 22, 2018

This represents a threat for the full-service restaurant industry as firms in this industry are oriented on dining-in and eating at the establishment. [27] The rise of home delivery as well as the introduction of takeout has increasingly gained traction in recent years. As mentioned in the technological section of the external analysis, the introduction of 3rd-party delivery applications has allowed many restaurants to increase their ability to attract consumers via delivery as opposed to them having to dine in at the restaurant. Therefore, the introduction and increased usage of delivery has helped contribute to home delivery and with the full-service restaurant industry oriented on dining at the establishment, this represents a threat as individuals have a different alternative that could save them the time from having to travel and could simply eat at home.

[27] Euromonitor International. "Full-Service Restaurant Industry in the US". https://www.euromonitor.com/full-service-restaurants-in-the-us/report

The speed of takeout and delivery has also become an important point for Americans in their busy everyday lives.[28] As American's are becoming busier in their everyday, convenience has become something that is extremely important for them and this is where takeout and delivery have come in. Many individuals do not have time to spend dining in at a full-service restaurant and as a result opt to eat at home or work via delivery or to pick-up. This poses a threat for firms who specialize in dining in as the increasingly busy population will have less time to spend at their restaurants and will start to look towards more convenient and quick alternatives.[29] Therefore, firms need to take into account the increasingly busy nature of Americans which can be a threat to the traditional full-service industry restaurant experience.

Overall, there are many significant opportunities present in the full-service restaurant industry. The population will continue growing via new births and migration, which in turn is a major opportunity for firms in this industry as they will have more individuals to target. The overall population distribution is also a major opportunity for firms as significant operations in Texas and California, the most populated states in the country that continue to grow by the greatest number of migrants every year, provide an excellent opportunity for firms as they will have a much larger consumer base to target. The overall income levels and the consumer spending in the United States have also both increased, and this is no coincidence. In fact, wage growth is now expected moving forward and this is intertwined with the continued growth in employment in the

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[28] Washington Post. "Delivery Nation: What Americans Want from their food today". Accessed October 20, 2018 https://www.washingtonpost.com/news/wonk/wp/2015/07/10/why-americans-will-pay-5-for-a-1-taco/?utm_term=.c5031bda6be6

[29] Washington Post. "Delivery Nation: What Americans Want from their food today". Accessed October 20, 2018 https://www.washingtonpost.com/news/wonk/wp/2015/07/10/why-americans-will-pay-5-for-a-1-taco/?utm_term=.c5031bda6be6

country along with the overall increase in consumer spending.[30] The key idea here is that the increase in employment allows the population to increase their disposable income which they are then more willing to use. This presents a major opportunity as the economic outlook is bright and firms in this industry look to have consumers who will be willing to spend and with have the means to do so.

Political and Legal Environment (Abbas)

Restaurants in the United States are subject to substantial government regulations that impact their operations. Threats include government legislation that may hinder their day-to-day operations and ultimately affect how their operations are structured, while opportunities include the funds the government allocates to farms who supply many firms in the industry via subsidies.

U.S. Food and Drug Administration (FDA) (Threat)

The U.S. Food and Drug Administration (FDA) is responsible for ensuring public safety by ensuring that the food supply in the country is safe and meets the required standards established by the administration. This is done by monitoring firms operating in the United States via inspections, while also rigorously inspecting internationally imported goods. This also includes other provisions such as maintaining labels on menus that outline the contents of meals, including calorie count. This is required for establishments carrying on over 20 locations.[31]

Regulations enforced by the FDA pose a threat to firms in the full-service restaurant industry as they are forced to comply with strict regulations relating to their

[30] VISA. “Consumer Spending Highlights - Restaurant Spending”. Accessed on September 20, 2018 https://usa.visa.com/dam/VCOM/global/partner-with-us/documents/us-restaurant-spending-june-2017.pdf
[31] Food and Drug Administration. “What We Do”. Accessed on September 20, 2018 https://www.fda.gov/AboutFDA/WhatWeDo/default.htm

offerings. Firms are forced to disclose all the contents of their meals, which may start putting off consumers who are health conscious. This would result in a loss of revenue, and as a result is a significant threat to firms operating in this industry.

Labour Laws (Threat)

The Department of Labour in the United States (DOL) has enacted very stiff labour laws that employers are required to comply with. This includes laws enacted by the DOL to guide employers in ensuring that minimum wage, hours of work, public holidays and other employment standards are met. Employers are also required to offer adequate training and ensure compliance in all related provisions to health and safety in the workplace. Inadequate compliance with regulations established by the DOL poses the risk of facing stiff fines, and in extreme cases, criminal charges.[32] Other provisions that restaurants are required to comply with relate to hiring. Restaurants are required to comply with the Americans with Disabilities Act (ADA), which makes it illegal to discriminate based on disability, while restaurants must also adhere with standards issued by the Equal Employment Opportunity Commission – which makes it illegal to discriminate based on various grounds including age, race and sex.[33]

The threat posed here is that employers are required to comply with the standards set by the DOL, which becomes quite costly as firms implement measures to ensure compliance. Firms must now also ensure that employees are treated adequately as the consequences related to non-compliance are significant.

[32] US Department of Labour. "Employment Standards". Accessed on September 23, 2018 https://www.labour.gov.on.ca/english/es/

[33] United States Department of Labour. "Employment Law Guide". Accessed September 24, 2018 http://webapps.dol.gov/elaws/elg/

Subsidies (Opportunity)

The United States Federal Government spends a significant amount of taxpayer revenue on subsidizing the suppliers of many firms in the full-service restaurant industry (i.e. farms). As recently as the 2017 fiscal year, the US Government has subsidized about $13.2 billion to US farms.[34] Farms use these subsidies to help grow their crops, purchase machinery required for farming activities, and to increase the overall efficiency of the activities on the farm. As a result of the farms receiving this significant cash flow from the government, they are able to maintain their operations which then benefits firms in the full-service restaurant industry. The benefits derived for firms in this industry is as a result of farms now have the adequate cash flow to offer competitive pricing on their supplies. This results in 2 significant benefits: the reduction of supplier power and a reduction in the consequential costs due to lower prices set by suppliers.

Industry Associations (Opportunity)

One of the largest advocates for the full-service restaurant industry in the United States is the National Restaurant Association (NRA). This federal-wide association works with an umbrella of a further 52 state restaurant associations to create a state-wide support structure for restaurants. The goal of this industry is to help provide an association aimed at assisting restaurants increase revenues, profitability and other functions such as improving and developing employees as well as helping restaurants who aim to develop new products. The association also works for restaurants by helping them find optimal partnerships so that the restaurants could ultimately grow. [35]

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[34] Forbes. “Mapping the U.S. Farm Subsidy $1 Million Club”. Accessed on September 23, 2018 https://www.forbes.com/sites/adamandrzejewski/2018/08/14/mapping-the-u-s-farm-subsidy-1-million-club/#fa176de3efc0

[35] National Restaurant Association. “About us – Partners”. Accessed October 20, 2018 https://www.restaurant.org/About-Us/NRA-Partners

Working with the NRA provides firms in the industry an opportunity as they would have an industry association that could assist them in improving their operations, introducing and developing new products and ultimately reach a higher revenue and profitability level. Therefore, working with an industry association would provide firms a valuable opportunity to try to attain.

Summary of Macro-Environment (Abbas)

In regard to the technological advancements in today's world, there are various opportunities and threats. This includes the establishment of M-commerce which many firms in the industry are yet to adapt to that could help improve their operations. Essentially, many consumers are trending towards mobile rewards based applications in order to facilitate savings, which presents both an opportunity for firms to potentially realize or a threat should they not implement these necessary technological changes. Furthermore, digital voice platforms such as "Alexa" are giving multiple firms in the industry problems as companies such as Starbucks are realizing a competitive advantage by reducing wait times amongst other things. Finally, a major opportunity is represented by third-party delivery apps, such as Uber and Skip the Dishes. This allows firms to increase consumer engagement by providing a new medium to connect with customers while also reducing costs related to establishing in-house delivery logistics.

When considering economic factors, there are multiple threats and opportunities. Threats include that the real GDP in the US is expected to stagnate which will in turn reduce spending on services. Interest rates in the United States could also be altered at any time, and when interest rates rise, individuals are more inclined to save and as a result revenues in service-based industries typically reduce. However, some significant opportunities present for this industry include that the service-based sector in the economy has allowed firms to have a large supply of individuals looking for minimum wage employment. Another opportunity includes the growing disposable individual income throughout the country which in turn increases the amount of cash individuals have to spend. Furthermore, the prices of inputs for products used in restaurants have historically been on the favorable side for firms in this industry, which is an opportunity realized as firms will likely be able to take advantage of the lower costs and maintain profits.

The socio-cultural environment holds a number of opportunities for firms in this industry, as well as some threats. This includes the overall population growth via migration and births. In addition, the regional distribution of the population in the U.S. is a significant opportunity as the states with the largest number of people living in them represent an opportunity for firms to exploit. This is because states with a significant population have more consumers present and building a restaurant in a densely populated area will also likely increase revenues. Furthermore, the increasing Hispanic population allows firms serving Mexican, Caribbean and other similar foods to similarly have a larger consumer base to target. However, one threat is that the consumer dietary trends are moving towards a more health-conscious diet. This means that firms that do not take into account these shifts in dietary preferences are at risk of falling behind and not being able to meet the needs of those who want a lower calorie intake and more healthy alternatives.

Finally, the political/legal environment mainly poses threats related to government legislations that firms in the full-service restaurant industry must comply with. This includes having to follow FDA regulations (which is essential in this case given the impact food has on health) and other DOL regulations (which is also essential as human capital is relatively expensive). Non-compliance results in significant fines, public humiliation and in extreme cases, even criminal charges. This is a huge threat as firms must now ensure that they are compliant with regulations in order to avoid stiff fines and humiliation - which is significant in today’s information age where information spreads relatively quickly. However, some opportunities in this industry include the government subsidies to farms, which translate to the lower input costs firms benefit from as farms will then charge lower prices on their supplies based on the income they’ve received from the subsidies. Additionally, industry associations such as the National Restaurant Association also provide an opportunity for firms, as it provides assistance with employee development, product development and helping firms reach profitability.

Part II: Industry Analysis

Industry Overview (Abbas)

Over the last 47 years, the restaurant sector in the United States has continued to grow. As indicated below in Figure 19, the sales in the restaurant sector has grown at a very fast rate and continues to do so, exhibiting an increase of $32.7 million in 2017 from 2016 (4.2% increase).

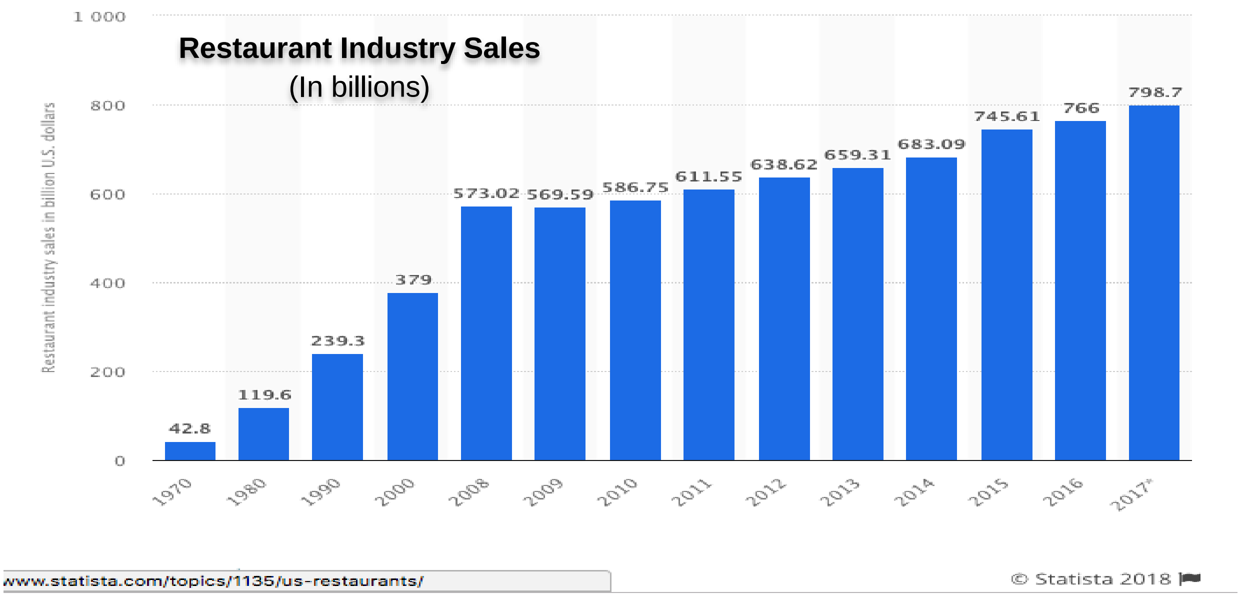

Figure 19 - Statista. "Restaurant Industry: total sales U.S. 2017". Accessed on September 16, 2018. https://www.statista.com/statistics/203358/food-and-drinks-sales-of-us-restaurants-since-1970/

To further reinforce the idea that the restaurant industry still continues to grow at a high rate, Figure 20 below shows the comparison on a decade-by-decade basis of the total restaurant industry (which includes fast-food and other types of establishments). Illustrated below is the trend that shows how the restaurant industry has grown at a very fast rate over the last 6 decades. For instance, revenues increased from $586.7 billion in 2010 to $798.7 billion in 2017 (a 36% increase). One possible explanation behind this increase could be the advancements in technology that have swept the restaurant industry. This includes the implementation of M-commerce applications as well as the rise of 3rd-party delivery applications.[36] In addition, technology is now being used to assist with not just food and other service related functions, but also administrative ones. This includes tracking consumer behavior, increasing sales via delivery through technology and other functions crucial to a restaurant's success. The overall incorporation of technology in the restaurant industry has helped pave the way for the increases indicated in the chart below.

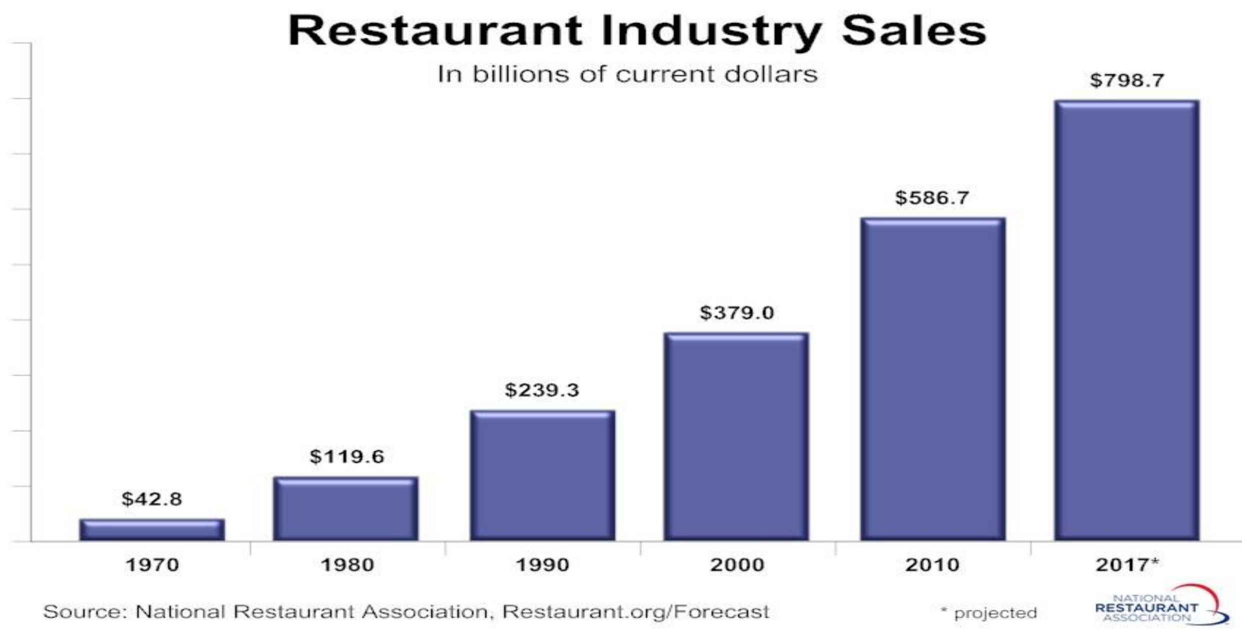

Figure 20 - Source: National Restaurant Association. "Facts at a Glance". Accessed on September 16, 2018. *https://www.restaurant.org/News-Research/Research/Facts-at-a-Glance*

While the industry's revenues have grown, the growth rate of the ROIC of firms in the industry has varied, as seen in Figure 21 below. For example, the ROIC in 2016 for Jack in the Box was at about 18.67% and increased in 2017 to 20.62%. However, Fiesta Restaurants, declined from 5.54% in 2016 to -10.64% in 2017. The ROIC is calculated as the after-tax profits divided by the operating capital. A negative ROIC means a firm experienced a loss in the year. This could be as a result of more

[36] Forbes. "How Restaurants Are Using Technology to Deliver Better Customer Service". Accessed on September 16, 2018. https://www.forbes.com/sites/caroltice/2012/12/07/how-restaurants-are-using-technology-to-deliver-better-customer-service/#67c6cd326b76

investments being made, lower sales or even a sharp increase in costs. The important takeaway from the ROIC is that even as the value and overall revenue in this industry has grown, there will still be circumstances where certain firms do not operate at a level that is on par with the overall industry and as a result suffer losses.

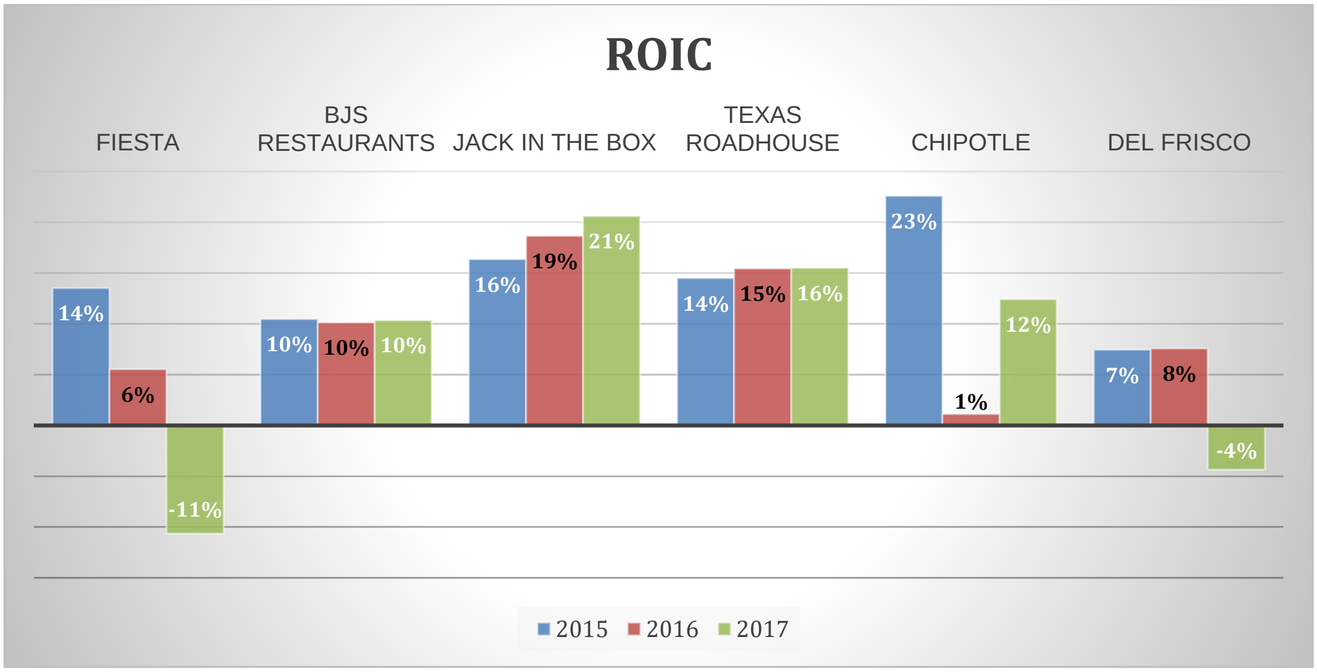

Figure 21 - Source: Bloomberg Terminal. "ROIC 2015, 2016 and 2017 for Texas Roadhouse, Jack in the Box, BJ's Restaurants, and Fiesta Restaurant Group Inc.". Retrieved on September 18, 2018.

In terms of the number of firms in this industry present in the United States, there has been a small increase on a year-by-year basis. As indicated in Figure 22 below, the increase in 2017 from 2016 was by 354 restaurants (a 0.1%increase). Furthermore, as indicated in Figure 22, the last 7 years following the 2008 recession have all seen an increase in the number of firms present. This is a clear indication that even as some firms have suffered in recent years (as indicated above with the negative ROICs), the industry is still rather competitive as new entrants are making way and increasing the overall competition.

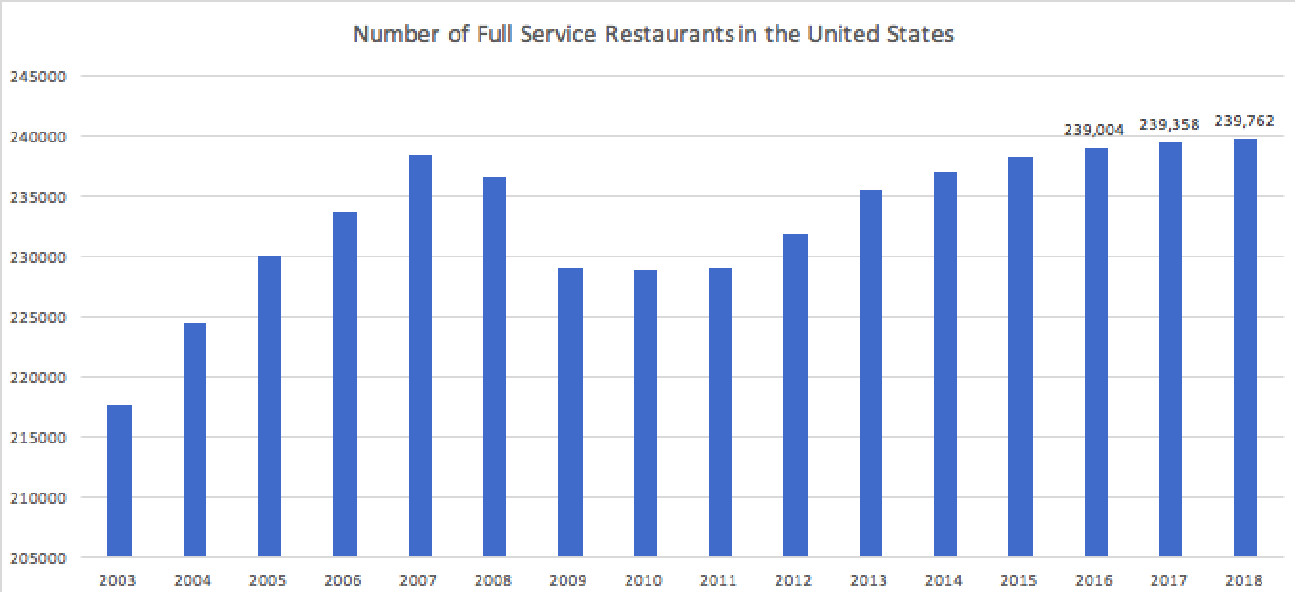

Figure 22 - Source: Euromonitor. "USA Full Service Restaurants from 2003 to 2018". Retrieved on September 19, 2018.

One closely correlated figure in relation to the number of firms in the restaurant industry is the number of employees. As indicated in Figure 23 below, the total number of employees over the last 3 years has continued to increase. The overall increase in employees suggests that the competition in this industry is relatively stable as there is a continuously increasing number of new entrants which ultimately results in more jobs. Looking ahead, this is further illustrated by the fact that in the US economy, fast food jobs account for 10% of the overall workforce with an additional 1.6 million restaurant jobs expected to be created over the next decade.[37] This suggests that the overall competition in the fast food industry is what helps drive the growing number of employment opportunities in restaurants in the United States.

[37] National Restaurant Association. "Facts at a Glance". Accessed on September 16, 2018. https://www.restaurant.org/News-Research/Research/Facts-at-a-Glance

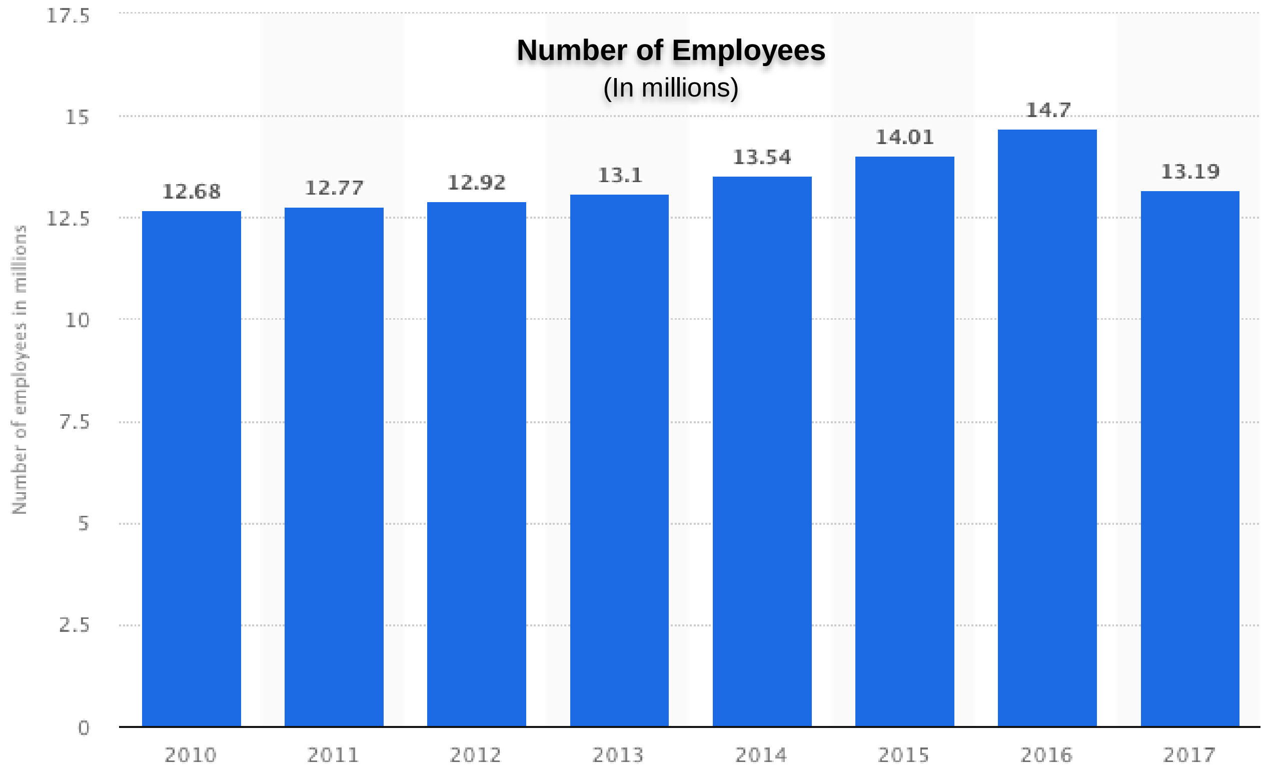

Figure 23 - Source: Statista. "Number of Employees in the Restaurant Industry in the United States from 2010 to 2017". Accessed on September 17, 2018. https://www.statista.com/statistics/196630/number-of-employees-in-us-fast-food-restaurants-since-2002/

In conclusion, this industry has shown a continuously increasing revenue stream that will likely continue to grow as more technological applications are incorporated into the restaurant industry to help improve customer service and in turn improve the value of firms in this industry. The ROIC has also varied on a firm-by-firm basis, which showcases the strength some firms have in this industry as well as the shortcomings of others. The competition in this industry is also significant as the number of firms prevalent helps generate more employment opportunities. In the short-term, the restaurant industry will continue to operate at margins consistent with the historical performance as the revenue of the industry should continue to grow similarly, as in past years.

Five Forces Analysis of the Industry

Rivalry of Direct Competitors (Hussam) (Ranking: 9)

Similar to other developed countries, the restaurant industry in the United States is presently in a mature market, where the expected growth of this market is at 2.6% annually compared to 4.4% growth in GDP, as indicated below. Looking at Figure 24 below, it is obvious that restaurant industry is stagnating as it is growing at rate lower than overall market.

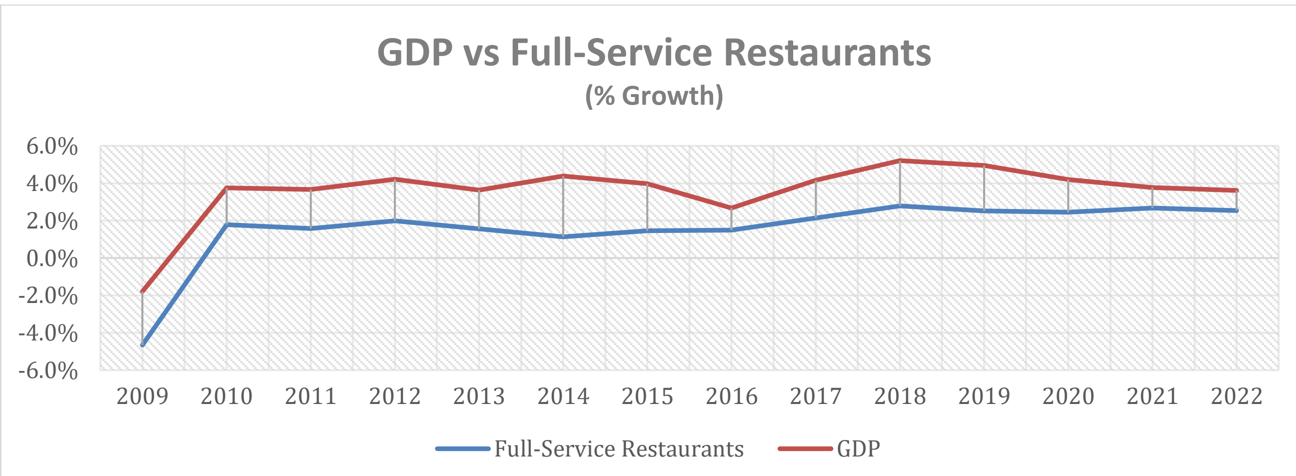

Figure 24 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 19, 2018

While other sub-sectors maintain their share from the overall growth as shown in Figure 25 below, the full-service restaurant is slightly decreasing in size. Note that the stability of the size represents consumers and investors' confidence this market.

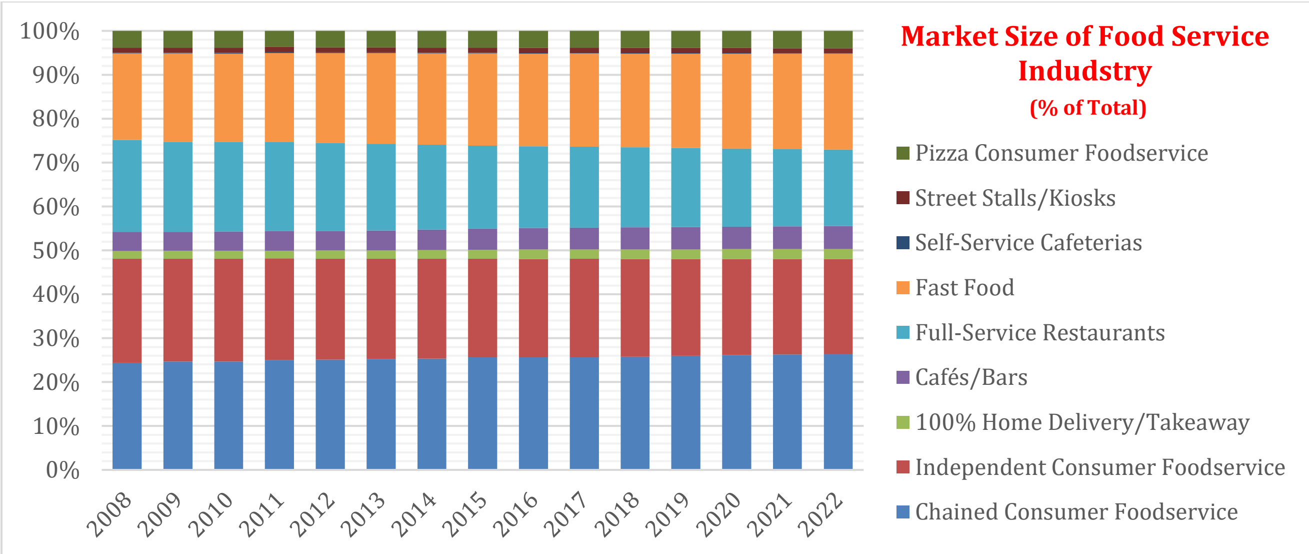

Figure 25 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed September 19, 2018

So, from a business cycle perspective, the market should be saturated with competitors and more importantly the number of successful competitors is on a declining trend. By looking at the aggregate market competition, the brand concentration of the top competitors fluctuates around 4% and less. This, and the other 30 competitors had a market concertation of less than 0.1%.

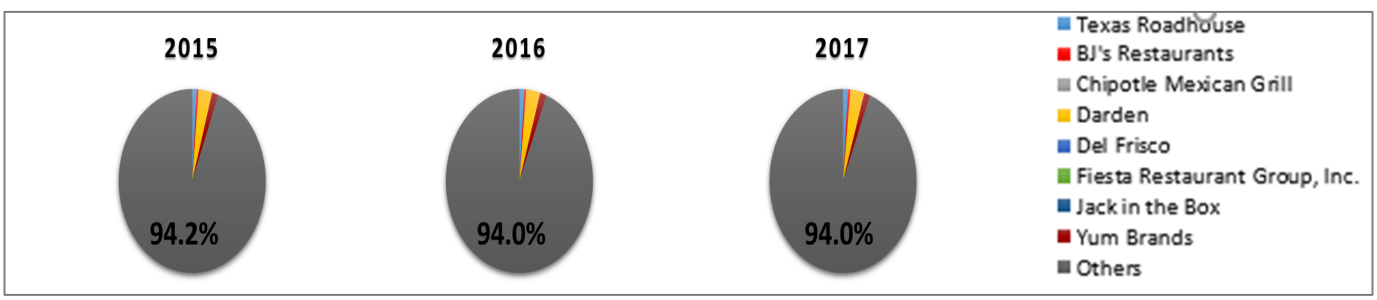

Figure 26 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 19, 2018

This is a great indicator of the extreme market competition which characterizes a mature market. Moreover, the rivalry is intense due to the lack of adequate market differentiation, which is going to represent a threat to small and growing companies. As an illustration, the market shares of firms within the full-service restaurant is depicted in Figure 26 above. These top competitors continue to dominate this sector while maintaining their current market share without any major change. Yet, the revenue of these competitors differs dramatically, as showcased below in Figure 27, due to the difference in the target consumer.

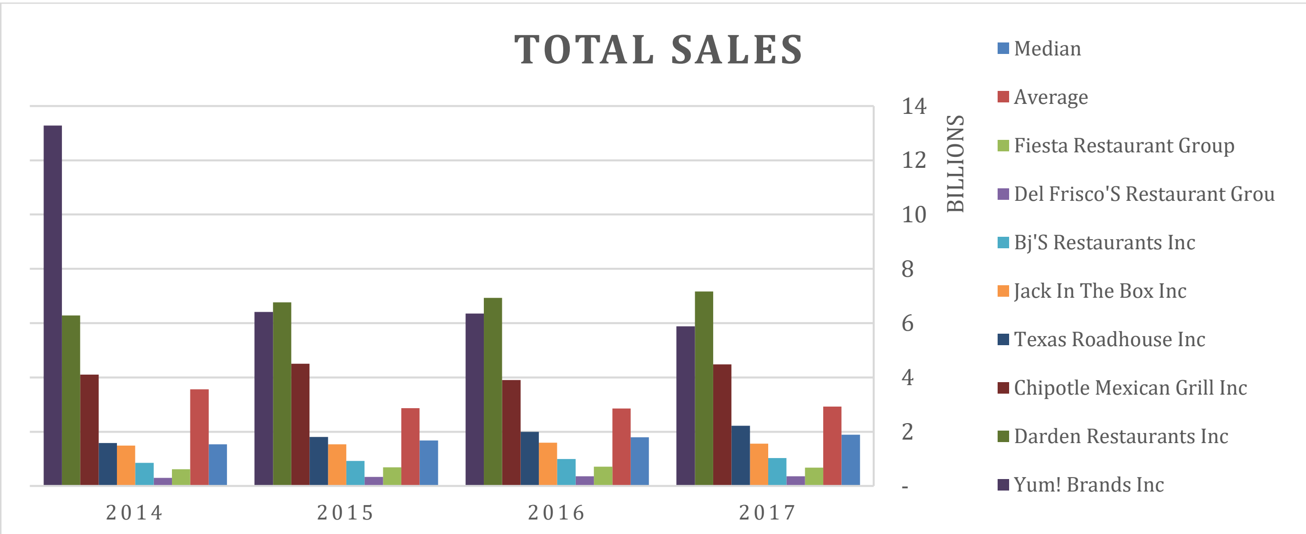

Figure 27 - Source: Bloomberg. "Revenue Data for Full-Service Restaurant Industry". Accessed on October 7, 2018

While the overall market for full-service restaurants is stagnating, the top competitors continue to perform well and maintain their profitability – albeit with low margins. Looking at the figure above, the total sales position is stable across the industry which indicates the level of maturity for this market. Moreover, the majority of free cash flows (FCF) these firms have, are used for stock buybacks and dividend payouts.[38] So, it is extremely tough to grow from year-to-year with an extremely small re-investment rate. Furthermore, the re-investment opportunities that often arise come from expansion. The average return on investment (ROI) for the top competitors sits at 15.4%, compared to the 6.17% industry average.[39] Thus, the full-service restaurant

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[38] NASDAQ. "A Look beyond Dividends and Buybacks". Accessed October 1, 2018 https://business.nasdaq.com/media/Nasdaq%20US%20Shareholder%20Yield%20Index%20Research%20FNL_tcm5044-27800.pdf

[39] Reuters. "Fiesta Restaurant Group Inc. (FRGI.O) Financials." Accessed on September 23, 2018. https://www.reuters.com/finance/stocks/financial-highlights/FRGI.O.

industry is highly saturated with competitors who do not have significant power over the consumers. Therefore, the rivalry is considered a significant threat to any business that wishes to remain profitable over the next few years and as a result receives a ranking of 9 out of 10.

Threat of Entry (Hussam) (Ranking: 5)

The threat of entry in the food service is low mainly due to the high number of competitors in this market and highly intense rivalry these competitors have. But, with the rise of home-deliveries, new competitors are able to enter this market without the need of an extensive overlay of capital in order to grow by increasing the number of locations they own or via franchising agreements. Instead, new competitors are focusing on expanding their online presence through strong online marketing campaigns and consumer friendly interfaces. Yet, many new competitors find it resourcefully challenging to enter this market due to the strong presence of multi-national brands like Yum! Brand and McDonalds. Accordingly, the market seems less attractive for new entries. This is further elaborated on below.

Costs of Entry

One of the major barriers to entry is the essential need for economies of scale. Due to the presence of high fixed cost in this industry, which includes rent, payroll and other large capital expenditures, the only possible way for a competitor to turn profit is through the economy of scale effect.[40] But, to achieve such effect, the business must obtain stable demand and invest a significant portion of revenues back to capital

[40] Intuit. “The Biggest Barriers to Entry for New Restaurants”. Accessed on September 26, 2018 https://quickbooks.intuit.com/ca/resources/starting-business/barriers-entry-restaurants/

expenditure. As shown in Figure 21, firms return on invested capital tend to vary dramatically which indicates that the riskiness of this market. Therefore, many new entrants are going to avoid joining this market. Furthermore, many of these startups are going to have tough time raising capital to achieve this goal which aids in blocking new entrants even further.

In addition, the average cost of starting a full-service restaurant ranges from $450 to $525 thousand dollars.[41] This figure is moderately low for individuals who are planning on starting a business. Therefore, the cost of entry is quite low.

Presence of Well-Established Brand Names

The convenience aspect that restaurants provide can seem unnecessary in times of economic downturns, which often causes downturns in the industry. Switching costs are low, consumers are free to navigate for their preferences or to simply cook at home. Strong brand names establish themselves by adapting expansion strategies, and through frequent acquisitions and franchising, the firm would be able to spread out the cost (i.e. the franchisee would cover a portion of the cost related to expanding). The opportunity for new entrants is still present as consumers appreciates varieties. Distribution channels are easily accessible due to the large numbers of buyers and suppliers which provides new entrants with access to a variety of supply chains.

Government regulation

Another challenge new entrants must deal with is getting the approval from the Food and Drug Administration (FDA), which as mentioned above has an extensive requirement listing that must be met by entrants. These requirements include labels,

[41] Pace, G. “The Cost of Starting Up a Restaurant”. Retrieved October 29, 2018, from https://www.inc.com/articles/201111/business-start-up-costs-restaurant.html

nutritional facts, secured packing and many others. While these requirements might appear to be simple at first, they are cost intensive, especially when considering to expand to multiple locations, let alone nationally. Poor adoption of FDA standards may push the consumers to different establishments that offers better alternatives.

In addition to FDA, the Fair Labor Standards Act requires the employee to hire and train every single employee and ensure that the staff have minimal of training duration that is fully paid from the start. Furthermore, with continuing rise of the minimum wage, the United States government has been experiencing constant pressure from citizens to close the gap between the low and the high class by increasing the minimum-wage.[42] Most recently, the eighteen states have increased their minimum wage during this year of 2018 with states implementing some plans to reach $15.00 over the next five years. This pressure presents a threat to the existent competitors and pushed new entrants away from this market due to low margin this market has seen over the past few years.

To further add to the costs related to employment, as the US market continue to grow, the employment turnover rate has reached all time high since the housing crisis in 2007-2008.

[42] National Conference of State Legislatures. "State Minimum Wages". Accessed on September 26, 2018. http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx

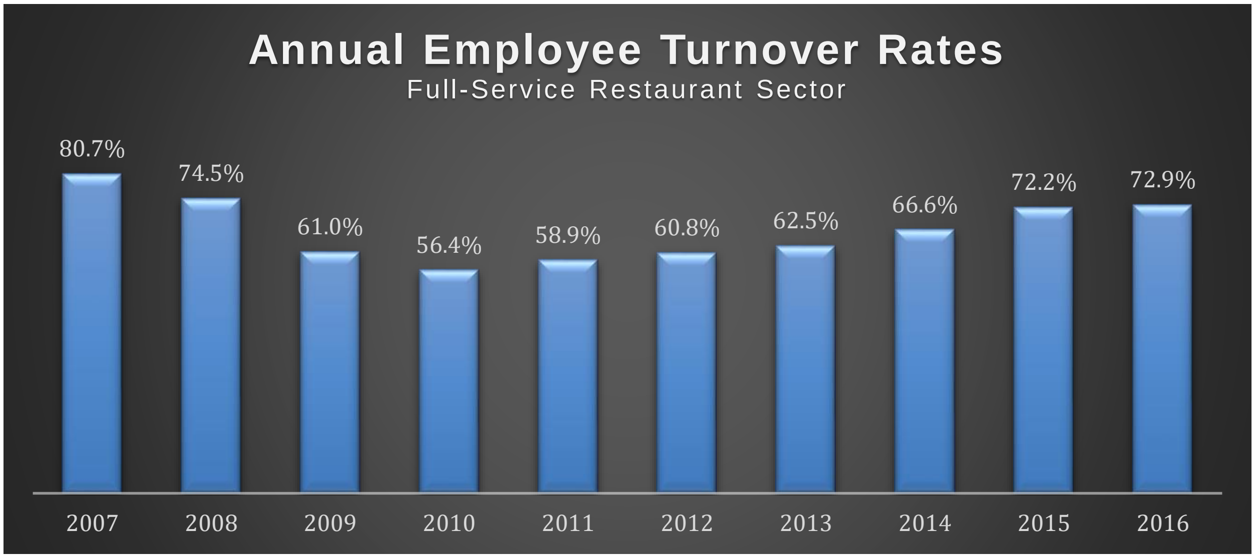


Figure 28 - Source: National Restaurant Association. "Employee Turnover Rate Edged Higher in 2016". Accessed September 26, 2018 https://www.restaurant.org/News-Research/News/Hospitality-employee-turnover-rate-edged-higher-in

As shown in Figure 28 the turnover rate has reach 72.9%, so as employers continue to look for new staff the cost they accumulate due to this rate is damaging the bottom-line of the firm. So, overall the margin of creating wealth and value in this market is fading away which is going to push new entrants away from this market and forces current competitors to exit and liquidate their holding within this industry.

Due to the strong presence of well-established brands and the low level of profit margins, the threat of entry is considered to be moderate in this industry.

Threat of Substitution (Hussam) (Ranking: 7)

Threat of substitution seems to be a significant threat for competitors in this market. Due to the nature of the industry, many types of substitutions arise. Therefore when the economy begins to head downwards, the benefit of switching to other alternatives becomes less attractive to the average consumer. In terms of substitutes in this industry, some significant substitutes include healthy-alternatives, home-cooking and fine dining services. As for the first alternative, due to the increase in health consciousness, healthy-options are becoming more attractive among young consumers.[43]

Dietary Preferences/Preferred Food Attributes						
PURCHASE CRITERIA	**2013**	**2014**	**2015**	**2016**	**2017**	**Chart**
Is All Natural	40%	N/A	36%	40%	42%	
Good For Heart Health	N/A	N/A	N/A	38%	40%	
Reduced Or Low Calorie	24%	N/A	32%	30%	33%	
Is Organic	21%	N/A	24%	28%	29%	

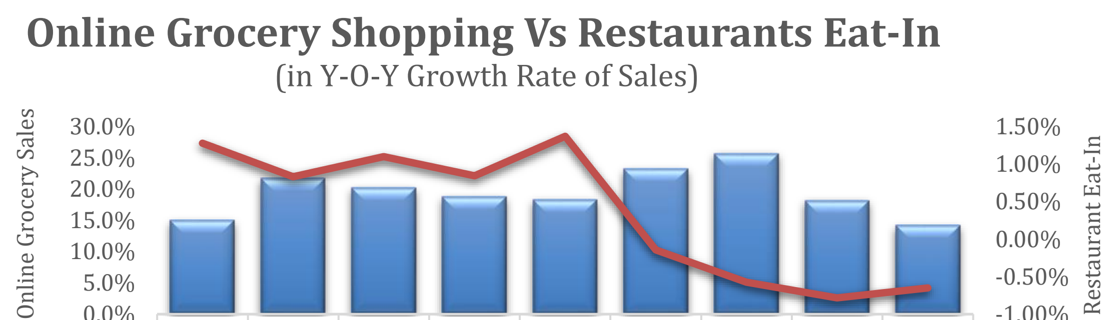
Figure 29 - Source: Euromonitor. “Consumer Lifestyles, Food Survey”. Accessed September 19, 2018

As shown in Figure 29 above, the US population is looking for healthier, and more natural sources of food. This represent a threat to the full-service restaurant industry mainly because it is known for it is highly-caloric foods and processed ingredients.[44] Therefore, the rise of healthy eating presents a significant substitute for firms in this industry, especially since the current trend for consumers is towards that type of food.

Moreover, the food industry experiencing a strong shift in consumer behavior as mentioned in the technological trends. The rise of third-party delivery was an opportunity for restaurants until grocery stores rode this wave for deliveries. This is indicated below in Figure 30, where the clear trend shows that online grocery shopping has increased relative to the restaurants eat-ins.

[43] Nielson. “We Are What We Eat: Healthy Eating Trends Around the World 2015”. Accessed on September 23, 2018. https://www.nielsen.com/content/dam/nielsenglobal/eu/nielseninsights/pdfs/Nielsen%20Global%20Health%20and%20Wellness%20Report%20-%20January%202015.pdf

[44] Accenture. “The Future of Food: New Realities for the Industry”. Accessed September 23, 2018. https://www.accenture.com/us-en/_acnmedia/PDF-70/Accenture-Future-Of-Food-New-Realities-For-The-Industry.pdf



	2013	2014	2015	2016	2017	2018	2019	2020	2021
Online Grocery Sales	15.0%	21.7%	20.2%	18.8%	18.3%	23.2%	25.7%	18.2%	14.2%
Restaurant Eat-In	1.28%	0.83%	1.10%	0.85%	1.37%	-0.14%	-0.57%	-0.78%	-0.65%

Figure 30 - Source: Euromonitor. "Full-Service Restaurants in USA 2018, Technological Trends in USA 2018". Accessed September 19, 2018

Furthermore, the full-service restaurant industry is saturated with firms which provides many alternatives. As a result, pricing is a significant driver for consumers and since. But, since consumers could access their favorite restaurants remotely using home-delivery, the industry tend to be more stable in terms of how often the consumer switch among competitors. However, most consumers cook their own food at home mainly due to the cost difference, which is highlighted below in Figure 31. It is quite clear the pattern that is being established here; consumers are setting the price ranges for which restaurants are being forced to comply with.

Meals Where You Save the Most Money Cooking Instead of Delivery

Restaurant delivery price versus ingredients cost of home cooking

Rank	Recipe	Restaurant Price	Home Cooking	$ Saved
1	Beef Wellington	$36.49	$4.53	$31.96
2	Pork Tenderloin	$33.94	$4.70	$29.24
3	Sausage & Peppers	$31.49	$5.72	$25.77
4	Fish with Kale & Rice	$25.94	$3.94	$22.00
5	Pork Chops	$24.94	$3.11	$21.83
6	Herb Chicken	$23.49	$2.38	$21.11
7	Chicken Schnitzel	$22.94	$2.12	$20.82
8	Teriyaki Chicken	$21.94	$1.30	$20.64
9	Cherry Pork	$24.94	$5.12	$19.82
10	Sesame Chicken	$21.94	$2.13	$19.81
11	Broccoli Alfredo Pasta	$21.49	$1.78	$19.71
12	Chicken Parmesan	$21.98	$2.44	$19.54
13	Dill Chicken	$21.49	$1.96	$19.53
14	Mac & Cheese	$20.78	$1.33	$19.45
15	Meatballs & Polenta	$21.49	$2.27	$19.22
16	Pasta Carbonara	$21.49	$2.54	$18.95
17	Chicken Meatballs	$21.49	$2.59	$18.90
18	Soba Noodles	$20.94	$2.15	$18.79
19	Pasta Bolognese	$21.49	$3.11	$18.38
20	Vegetable Pad Thai	$19.94	$1.68	$18.26
21	Beef & Broccoli	$20.94	$3.00	$17.94
22	Shrimp Pasta	$24.94	$7.02	$17.92
23	Chicken Wings	$19.98	$2.09	$17.89
24	Broccoli Pasta	$20.94	$3.09	$17.85
25	Chicken Tacos	$18.94	$1.14	$17.80

Prices include restaurant delivery fee $5, wellio delivery is free.

wellio

Figure 31 - Source: Wellio. "How Much Money Do You Save By Cooking at Home?" Accessed September 23, 2018 http://www.getwellio.com/ranking-least-nutritious-meal-dollar-2/

As shown in Figure 32 below, the average cost of a restaurant meal is five time more expensive than cooking at home.[45] Due to this large difference, a new market emerged to aggregate the benefits of both markets. The meal-kit market allows the consumers to acquire the raw ingredients they need to cook their favorite meals and satisfy their carving without the need to over-spend on restaurant meals. The rise of Blue-Apron, Home Chef, Plated and many others is an indicator of how the consumer feels about the current conditions of the food service industry.

[45] Wellio. "How Much Money Do You Save by Cooking at Home?". Accessed September 23, 2018. http://www.getwellio.com/ranking-least-nutritious-meal-dollar-2/

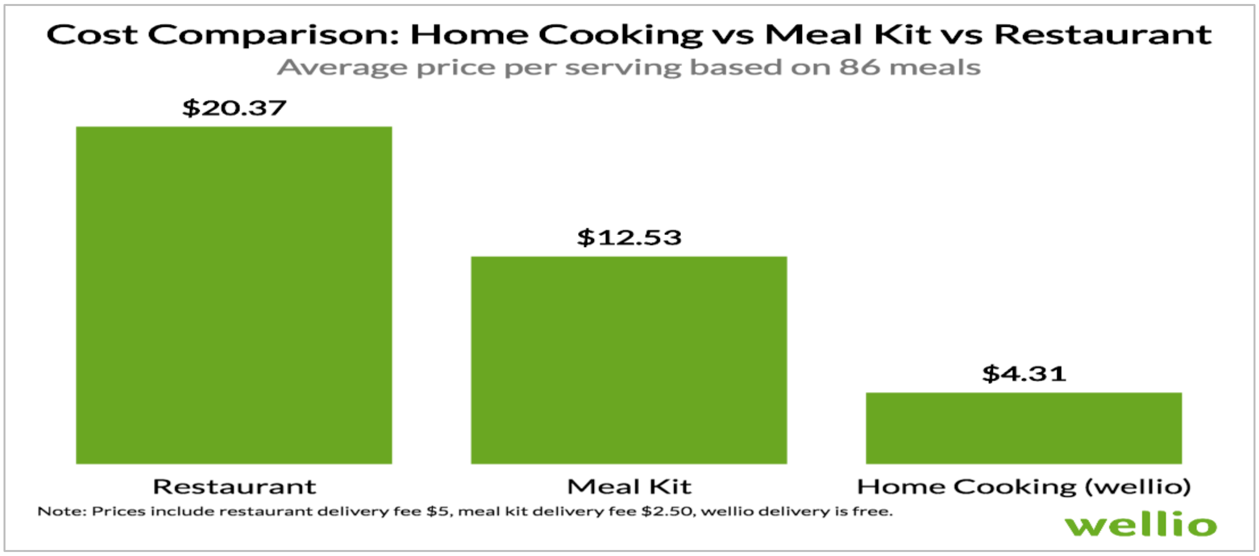


Figure 32 - Source: Wellio. "How Much Money Do You Save By Cooking at Home?". http://www.getwellio.com/ranking-least-nutritious-meal-dollar-2/

Furthermore, as shown in Figure 32 above, meal-kit services allow the consumer to spend less compared to the average cost of a restaurant meal. In addition, these services employ a subscription business model, which is considered as a threat to full-service restaurants, mainly due the negative psychological behaviour that is common when it comes to the cancellation of membership or monthly subscriptions.[46]

With the virtual switching cost to consumers being zero, the threat of substitution represents a significant threat to this market. While the food industry as whole is saturated with alternatives the consumer could opt to buy, the full-service restaurant industry has a significant threat due to the change of consumer preference toward healthier options, the rise of home delivery for groceries and the use of meal-kits and home-cooking. Therefore, it is safe to conclude that the threat of substitution is 7 out of 10.

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[46] Bucher, A. (2017). "Behavioral Economics Black Magic: Fixed Schedule Billing." *Amy Bucher, Ph.D*. Accessed September 23, 2018. http://www.amybucherphd.com/behavioral-economics-black-magic-fixed-schedule-billing/

Threat of Buyers (Hussam) (Ranking: 8)

The buyers in the full-service restaurants are the consumers, as they consume the final product in this industry. Moreover, the shift of the consumer preferences could be the biggest deciding factor in the success of this industry. As indicated in the sociocultural section of the general environment, the consumer preferences are currently undergoing a significant change in terms of their behavior. This includes shifts towards healthier options, and this also showcases how consumer preferences continue to change and how buyers have a significant power to simply switch restaurants in order to satisfy their needs. Furthermore, the full-service restaurant industry is saturated with competitors, which allows the consumer to switch at no cost. For example, if consumers feel that a restaurant is too costly, they could simply switch to a lower-cost alternative restaurant or opt to cook at home as shown in the threat of substitution. Therefore, with consumers having no switching costs, the threat of buyers is very significant in this industry.

Additionally, buyers in the restaurant industry are individual consumers who have various alternatives and a high number of competitors to choose from. Recently, various online services like Yelp, Google Review and other customer-review services provide information to help consumers make a quick decision. These services also provide consumers with a medium to further identify even more competitors or new restaurants to try out. This increases the power of the buyers dramatically, as they now possess a tool that allows them to identify all competitors and make decisions that benefit themselves at no cost. Based on that, the consumer could now switch between competitors with simple Google Search. Due to the difficulty and the limitation of what a restaurant could do in order to counteract this strength gained by buyers in the industry, the buyer power has received a ranking of 8, which indicates it is significant.

Threat of Suppliers (Abbas) (Ranking: 3)

In the full service restaurant industry, the large number of overall suppliers results in the supplier power being relatively low.[47] In terms of leveraging power onto firms in the restaurant industry, the size of the firm typically dictates how much power a supplier may have. For instance, larger firms tend to have a larger number of suppliers whereas smaller firms such as Fiesta tend to consolidate suppliers.[48] Furthermore, larger suppliers serving a smaller firm are able to pressure smaller firms more so than they are able to pressure larger firms who have a larger number of suppliers due to their dependence. However, due to the larger number of suppliers in the industry, the overall supplier power remains at a low rating since the large number of suppliers is driving prices down and provides firms a large number of alternative suppliers to choose from.

While there is an abundance of suppliers in the US for firms to choose from, many restaurants have enacted some policies which contributes to the low supplier power by becoming their "own" suppliers. For instance, Panera creates its items from scratch and buys raw ingredients nationwide from multiple suppliers, while Chipotle has emphasized local production, which in turn has allowed them to charge lower prices.[49] By emphasizing more local options and using a more diverse pool, firms are able to lower the overall supplier power. However, this is usually mostly possible for larger firms

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[47] Gourmet Marketing. "Bargaining Power of Suppliers in the Restaurant Industry". Accessed on September 18, 2018 https://www.gourmetmarketing.net/bargaining-power-suppliers-restaurant-industry/
[48] Gourmet Marketing. "Bargaining Power of Suppliers in the Restaurant Industry". Accessed on September 18, 2018 https://www.gourmetmarketing.net/bargaining-power-suppliers-restaurant-industry/
[49] Gourmet Marketing. "Bargaining Power of Suppliers in the Restaurant Industry". Accessed on September 18, 2018 https://www.gourmetmarketing.net/bargaining-power-suppliers-restaurant-industry/

who are able to negotiate effectively with suppliers as they tend to have more flexibility. As a result, larger firms are able to offer more competitive prices, which is key in the full-service restaurant industry.

Taking this into account, the overall supplier level in the full-service restaurant industry is low. This is because larger firms tend to have more of an advantage bargaining due to the fact that they have a large number of suppliers, while the mid and lower sized firms may consolidate but have a very large number of suppliers to choose from in the market, which means they have more leverage and bargaining power. Furthermore, suppliers are also limited in that they can’t pressure firms as effectively into paying larger rates, especially with many firms such as Chipotle becoming their “own” suppliers and thus reducing their dependence on suppliers. Simply put, the large number of suppliers in the industry as well as the bargaining power firms have and create allows the threat to be rated a 3 out of 10.

Five Forces Summary (Matthew)

Porter’s Forces	Weights	Score
Rivalry	0.3	9
Buyers	0.2	8
Substitution	0.3	7
Entries	0.1	5
Suppliers	0.1	3
	Weighted Average	7.2

Due to the high large number of rivals in this industry, the threat of rivalry received not only the highest score, but also the highest weight at 0.3. This is because the low market share for even large firms indicates the overall level of rivalry is intense and with that being a significant force, it received the highest weighting. The threat of buyers received the second highest score at 8 and a significant weight of 0.2 as well, as buyers in this industry tend to have significant power due to no switching costs and a significant number of alternatives providing buyers the opportunity to exercise their power. The threat of substitution received a score of 7 while it had a significant weighting of 0.3. This is because there is a very large number of alternatives available, while the consumers' preferences can continuously shift towards new options, such as healthy diets. Threat of entry received a score of 5, which is moderate, as well as a weighting of 0.1. This is because entry is not as much of a threat as other forces previously mentioned, and the industry is highly saturated with large and small competitors. This means that even though the cost is low, it is not an attractive industry to enter due to low margins available. Finally, the threat of suppliers is ranked the lowest at 3, and due to this threat being significantly low, it received a low rating of 0.1. Typically, there are many suppliers in this industry, which means it is difficult for suppliers to leverage their power significantly as firms have a large number of alternatives to choose from. Therefore, the power of suppliers is low because firms will not likely be leveraged by suppliers into deals they do not gain any positive outcomes from. Overall, the rating of 7.2 indicates that the industry suffers from significant powers and is highly competitive. Therefore, it is not attractive.

Driving Forces (Matthew)

Technological Advances

In the full-service restaurant industry, it is essential to outline the major drivers that have the greatest impact on the industry. The biggest determinants to how the full-service restaurant industry will perform leading into the future can be categorized by the US's aging demographics and disruptive technologies that lead to hyper competition between competing full-service restaurant industry. The 18-26 age demographic has a strong preference for efficiency and convenience, with the introduction of non-face to face transactions having been received with overwhelming positivity amongst customers[50]. Services such as UberEats, and DoorDash allows customers to order from their favorite restaurants without leaving the comfort of their own homes. The added benefit that these services provide are quick delivery, specialty meal offers, and real time tracking.[51] The feedback from these 3rd-party delivery services has resulted in 79% of consumers believing convenience has been increased and 70% of smartphone users preferring to view menus from their phones.[52] For firms in this industry to remain competitive they must become innovative and move in tangent with emerging technologies, as failure to do so my lead to loss in market share. Another impact that technological advancement creates for the full-service restaurant industry is that it introduces stronger barriers to entry within the market. Competing firms looking to enter the industry must have stronger capital requirements and brand exposure. This means

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50 KPMG. "An Appetite for Change". Accessed on November 16th, 2018 https://assets.kpmg.com/content/dam/kpmg/pdf/2016/07/kr-gtl-an-appetite-for-change.pdf
51 KPMG. "An Appetite for Change". Accessed on November 16th, 2018 https://assets.kpmg.com/content/dam/kpmg/pdf/2016/07/kr-gtl-an-appetite-for-change.pdf
52 KPMG. "An Appetite for Change". Accessed on November 16th, 2018 https://assets.kpmg.com/content/dam/kpmg/pdf/2016/07/kr-gtl-an-appetite-for-change.pdf

that emerging companies looking to enter this industry may be unable to capture a large enough market share as established firms rush to take advantage of the technological advances and grab a stranglehold of the market share. This ultimately results in a strategic barrier as well, as failure to adapt to these disruptive technologies may prevent new firms from being able to effectively position themselves upon entry to the full-service restaurant industry. The introduction of services such as UberEats also results in larger competitive rivalry in the industry, as firms that have used these disruptive technologies vie for stronger market positions by using these technologies to create value for the customer that competitors without these technologies will be unable to create.

Changing Consumer Behaviour

The second driving force that is identified within the full-service restaurant industry is the approach to adapt to changing consumer behavior. With Generation Z entering adulthood and beginning to have more disposable income on hand, they will start to build a stronger consumer presence within the full-service restaurant industry.[53] To utilize the potential of creating appeal in order to take advantage of this driving force, competing firms will benefit from taking a more non-traditional approach. Since Generation Z is far more tech savvy then their older counterparts, exploiting social media as a means of connecting to consumers can lead to effective marketing and create opportunities growth opportunities for competing firms. This also works in conjunction with the primary driving force, which involves the advancement of

[53] KPMG. "An Appetite for Change". Accessed on November 16th, 2018 https://assets.kpmg.com/content/dam/kpmg/pdf/2016/07/kr-gtl-an-appetite-for-change.pdf

technology in the industry. Modernizing the way a restaurant operates can have a lasting effect on the competitive position it holds in the future.

Overall, by appealing through social media and other technological means to younger generations more technologically-adept, firms can help amplify their competitive standing with respect to Porter's forces.[54] By working towards taking advantage of driving forces to improve a firm's position, competing firms will have to adjust strategically by focusing more resources towards appealing to modernized trends. This means that the technological advances and changing consumer behavior have a significant impact on the competitive rivalry, while the buyer power continues to be significant, especially with new ways for consumers to take advantage.

Key Success Factors

To build off the driving forces in the full-service restaurant industry, the key success factors that competing firms in this industry need to succeed is the ability to invest in and capitalize on technological innovations that mold the performance of the market as well as including differentiated menus to accommodate for changing consumer behaviour, especially in terms of dietary trends. Technological adaptation has a lasting effect on the performance of restaurants within the full-service restaurant industry. Opportunities can be arise by taking advantage of disruptive technologies that enable competitors to engage in non-face to face transactions. The introduction of technologies that allow companies to enter into transactions through online metrics or mobile devices have been widely successful. These include the likes of DIY delivery

[54] KPMG- "An Appetite for Change" Accessed on November 16th, 2018 https://assets.kpmg.com/content/dam/kpmg/pdf/2016/07/kr-gtl-an-appetite-for-change.pdf

services like Skip the Dishes and UberEats.[55] Competitors who are unable to maximize the potential realized through these means will struggle with profit potential and market share, and market leaders may struggle with core rigidities as a result of being able to engage in the appropriate level of technological adaption.

Another Key Success Factor within this industry is the ability to accommodate differentiated preferences within the full-service restaurant industry. With the threat of substitution being relatively high, competing restaurants will benefit heavily from enhancing the ability to generate strong customer satisfaction along with the use of differentiated products. As previously mentioned, millennials and Generation Z put more value towards health-conscious food items and have more preference towards unique tastes of food rather than similarity. It can be noted that 80% of participants that engaged in a survey from the NRA stated that they prefer to eat at least one “ethnic” meal per month.[56] This means that individuals are more interested now in what they are eating than ever before. Accordingly, menu modifications are often rewarded, especially ones that take into account the ever changing consumer preferences. Therefore, a key success factor for firms is to ensure their menu keep up with the times and take into account consumer behavioural trends.

[55] KPMG- “An Appetite for Change” Accessed on November 16th, 2018
https://assets.kpmg.com/content/dam/kpmg/pdf/2016/07/kr-gtl-an-appetite-for-change.pdf
[56] KPMG- “An Appetite for Change” Accessed on November 16th, 2018
https://assets.kpmg.com/content/dam/kpmg/pdf/2016/07/kr-gtl-an-appetite-for-change.pdf

External Factor Evaluation Matrix (All)

External Factor Evaluation Matrix (EFE): Full-Service Restaurant Industry	**Weight**	**Rating**	**Weighted Score**
Opportunities:			
M-Commerce and digital voice platforms also provide an opportunity as increased mobile application usage by customers as well as potential to collect data and increase loyalty provide an opportunity to firms	0.15	2	0.3
3rd-party apps such as UberEats provide firms a new medium to deliver food to customers and reduce delivery logistic costs	0.15	3	0.45
Industry associations provide an opportunity for firms to receive help from a federal organization that advocates in increasing restaurant profitability and efficiency in their operations	0.05	1	0.05
Population growth (including rising Hispanic population) and the regional distribution of the population provides an opportunity for firms to expand to areas that are densely populated and increase their target consumers	0.10	3	0.3
Increase in disposable income and industry spending in the U.S. which in turn presents an opportunity for firms as families will have more disposable income to spend at restaurants	0.10	3	0.3
Labour force opportunities present which allow firms to increase their outputs by virtue of the low unemployment rates. The low rate means individuals have more income to spend while firms have a smaller prospective employee pool to select from (which reduces labour costs)	0.05	2	0.1
Prices of inputs related to the restaurant industry have been relatively favourable which allows firms to realize excellent savings in relation to the costs of production	0.05	3	0.15
Subsidies reduce the cost of inputs for restaurants as suppliers will have a revenue stream allowing them to charge low prices	0.05	1	0.05
Threats			
M-commerce and digital voice platforms which provide employees with incentive programs and reduce wait times - relatively new and not fully adapted in the market	0.05	2	0.1
Consumer behavioural trends in regard to spending and movement towards healthier diets have resulted in many consumers shifting towards healthier alternatives through takeout and home delivery ordering	0.10	2	0.2
Real GDP expected to stagnate over time in the U.S. which means that the total consumer spending may drop	0.05	2	0.1
Interest rate fluctuations may occur which in turn will cause more individuals to save money and spend less	0.05	2	0.1
FDA and DOL regulations that impact the operations of the firms in the restaurant industry by having strict consequences	0.05	3	0.3
Total	**1**		**2.50**

The firm scored 2.50 on the EFE matrix. This means the firm is average when it comes to responding to external opportunities and threats. The firm has done particularly well in taking advantage of various opportunities - namely the introduction of third-party applications and the growth of the population and economy (as evidenced by the growing income) by offering excellent menu and delivery options that serve to meet their target consumers' needs. Furthermore, the firm has done well in ensuring that legal regulations are met as they are not sanctioned by the FDA or DOL for any wrongdoings, while the firm still has also made strides when it comes to M-commerce applications. Fiesta has also done adequately in responding to the opportunity afforded by the increasing disposable income and the threats posed by the potential stagnation of GDP, interest rate fluctuations and the changing consumer behavior in terms of spending. They have done this by offering an extensive menu that offers meals at different prices to take advantage of the income opportunities and mitigate the impact of a stagnating economy which could be a significant factor in terms of consumer behaviour. However some areas Fiesta has not responded well to is taking advantage of low supplier costs and the low costs offered by farms, as they are subsidized. Fiesta acquires most of its supplies from Performance Food Group and consequently, they aren't taking advantage of low prices offered by farms. Furthermore, the firm has not taken advantage of the opportunity presented by being part of an industry association (i.e. NRA) that could help use their operational background to help Fiesta improve their operational methods and increase efficiencies. Overall, Fiesta is just under the industry average and are responding well to opportunities and threats which sets the basis for moves that could push them over the top.

Strategic Group Map

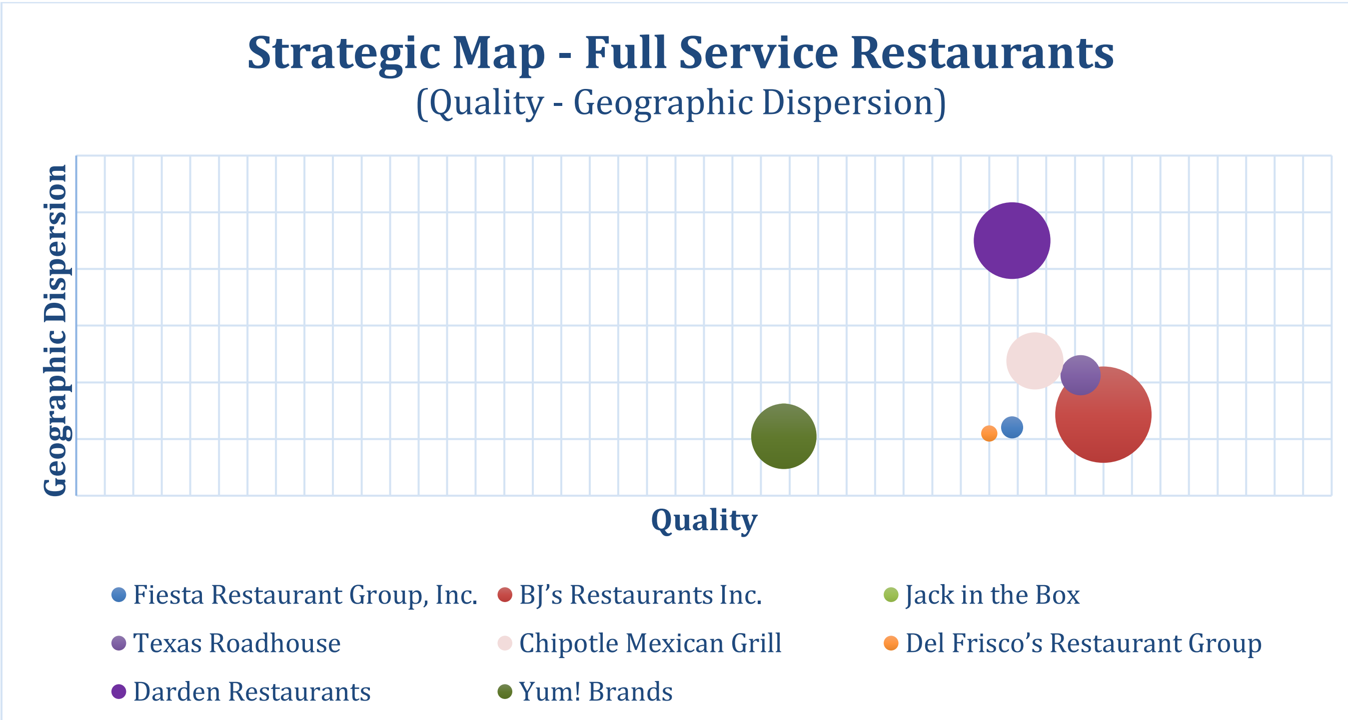

Figure 33

The overall number of locations and the quality of food were used as a basis for the strategic group map. The total number of locations was analyzed using the most recent 10-K filings with the SEC, as well as the annual reports located on the firms' respective websites. The quality of food was compared by looking at multiple factors, including the total offerings as well as the overall price of its menus. Additionally, ratings from Yelp and Google were looked at for each firm in order to arrive at a perceived quality. Each firm offers a different type of overall menu, but as a reference from Fiesta's 2 restaurants, Pollo Tropical serves a wide variety of meals, including grilled chicken platters, chicken sandwiches, and quesadilla wraps while having a kids and dessert menu. The prices from Pollo Tropical range from under $2 to a high of $15. Taco Cabana operates as a Mexican cuisine. The prices from Taco Havana as well as the menu options (i.e. kids menu and desserts) are also in the same range as Pollo Tropical - which is understandable given the ownership by Fiesta Restaurants.

Regarding locations of restaurants, Fiesta Restaurant Group, Inc.'s 2 main restaurants operate in Florida (Pollo Tropical), as well as Texas (Taco Cabana). Many main competitors such as Yum! Brands, Darden Restaurants, Jack in the Box and Del Frisco operate in the 2 states mentioned above as well as in multiple other ones including the most populated state in the United States, California.

In relation to the table below, the NAICS codes were extracted from Mergent. The NAICS code from Fiesta Restaurant Group is 561110 which represents an administration office. This is because the firm operates as a managing corporation for its 2 brands (Pollo Tropical and Taco Cabana), who then file its 10-K report with the 722511 NAICS code (full-service restaurants).

Fiesta's strategic group includes Chipotle, Del Frisco, Texas Roadhouse and BJ's Restaurants. This is based on the strategic group map above, which indicates that the firms' qualities are in close proximity, while the overall geographic dispersion is not too distant from one another. Accordingly, Fiesta can expect more intense competition with these firms located closer in the strategic group map than those distances from it (i.e. Yum! Brands and Darden).

Firm Name	NAICS Code[57]	Quality (Out of 10)[58]	Number of Location[59]	2017 Revenue (in millions USD)[60]
Fiesta Restaurant Group, Inc.	561110 (Office Administrative Service)	8.2	312	669.1
BJ's Restaurants Inc.	722511 (Full-service restaurants)	9	197	12,754.6
Jack in the Box	722511	6.2	2,977	1,553.9
Texas Roadhouse	722511	8.8	549	2,219.5
Chipotle Mexican Grill	722511	8.4	2,408	4,476.4
Del Frisco's Restaurant Group	722511	8	53	361.4
Darden's Restaurants	722511	8.2	1,746	8,080.1
Yum! Brands	722511	6.2	2,381	5,878.0

Summary of Industry Analysis (Abbas)

Based on the analysis conducted using Porter's Five Forces, it has been established that the full-service restaurant industry is highly competitive. This is evidenced by the significantly large rivalry in the industry due to it being highly saturated with a large number of competitors. Accordingly, the rivalry in the industry received a score of 9. The threat of substitution is also significant as consumers now have many new ways to replace their spending at restaurants. This includes the use of meal kits as well as home cooking which have become a viable substitution to consumers. As a result, the threat of substitution received a ranking of 7. The buyer power is also significantly high as there are many alternatives in the market for consumers to switch

[57]Mergent Online. Fiesta Restaurant Group, Inc. Accessed on September 20, 2018 http://www.mergentonline.com.proxy.library.carleton.ca/companyfinancials.php?compnumber=134596

[58] The quality out of 10 are extracted from ratings across various external sources including Yelp

[59] Annual Reports. "Fiesta Restaurant Group, Inc., BJ's Restaurants, Jack in the Box, Texas Roadhouse, Chipotle Mexican Grill, Del Frisco, Darden's Restaurants, Yum! Brands.". Accessed October 8, 2018

[60] Securities Exchange Commission. "Company Filings". Accessed on September 20, 2018 https://www.sec.gov/edgar/searchedgar/companysearch.html

to if their needs aren’t being met. Additionally, the new technological innovations that are a driving force in this industry help increase buyer power through the use of technology that allows them to have greater access and virtually no switching costs. This as a result meant that the score for buyer power was a 7. The threat posed by suppliers is low, at 3, as there is a very large number of suppliers in the industry. Despite the low cost of entry, the threats to entrants is moderate at 5, as the low margins prevalent in the industry and the highly saturated market makes it unattractive for new entrants. The significant driving forces in this industry are technology related and consumer behaviour related. Technology helps increase the intensity of various forces, including buyer power and substitution, as previously discussed. Consumer behavioural trends such as movements towards healthier diets force restaurants to adapt or face falling behind in the face of competitors who take advantage of these trends to capture additional market share. However, with the overall 5 forces score being at 7.2, it is clear that the industry is unattractive.

Part III: Value Chain Analysis

Introduction to the Value Chain Analysis (Abbas)

Fiesta Restaurant Group, Inc. owns and operates 2 main restaurants under the Taco Cabana and Pollo Tropical brands. The company's Pollo Tropical brand offers citrus marinated, fire-grilled chicken and other tropical-inspired menu items. Taco Cabana provides Mexican food that is prepared on-site by hand.[61]

Taco Cabana was founded by Felix Stehling in September 1978, with the first restaurant opening being on San Pedro and Hildbrande Avenue in Midtown San Antonio. Stehling had past experience running night-clubs and other restaurants. Stehling initially purchased a vacant Dairy Queen in September 1978 with the intention of using the space as a parking lot for the bar across the street – called the Crystal Pistol. However, Stehling then decided to open up a Taco Stand with an "open-air" design that later came to define the locations today. Stehling's wife, Billie Jo, decorated the restaurant and after the furniture being stolen following the first night of business, Stehling converted the restaurant into a 24-hour restaurant. The restaurant grew in popularity and Stehling then expanded it to 9 locations in San Antonio with the help of his brothers. In 1990, following further growth in popularity, the restaurant expanded into neighbouring states and by 1992, it had 17 restaurants and offered its first IPO. In 1994, Stehling resigned as chairman despite the increase in sales. Following Stehling's resignation, the restaurant continued to experience growth in sales but stock prices remained low. This opened the door for Carrols Restaurant Group to acquire them in 2001. Carrols continued to make changes to the restaurant operations including introducing the Mexican grill concept which proved popular and by 2005 the restaurant

[61] Bloomberg. "Company Overview of Fiesta Restaurant Group, Inc.". Accessed on October 1, 2018 https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=138296738

had 120 locations. In 2011, Carrol's announced its intention to sell Taco Cabana and Fiesta Restaurant Group, Inc. agreed to the spin-off that allowed it to acquire Taco Cabana in May 2012.[62]

Pollo tropical was founded in 1988 by 2 brothers from Miami; Larry and Stuart Harris. Larry and Stuart had spent considerable time studying cookbooks on Latin American cuisines and had the goal of grilling chicken while the customers watched. By 1993, the firm had 8 stores and went public. The firm initially tried to expand too early by opening 19 stores in areas such as New York and Chicago, which were all later closed within a year due to inadequate performance. By 1998, Pollo Tropical was sold to Carrols Restaurant Group who then underwent a period of massive expansion. In May 2012, Pollo Tropical had become a full-subsidiary of Fiesta Restaurant Group and is still presently managed and operated by the firm.

Following the spin-offs of Pollo Tropical and Taco Cabana from Carrol's Restaurant Group in May 2012, Fiesta Restaurant Group, Inc. was formed with the intention of managing these 2 "tropical" restaurants. Tthe firm then went public on NASDAQ on May 8, 2012. As of January 2017, Pollo Tropical and Taca Cabana only operate in the United States, with each having 177 and 166 locations active locations respectively.[63]

By 2017, the annual revenue for Fiesta Restaurant group had total revenues of $669,132,000 with a net loss of $36,232,000. The company also employed 10,290

[62] Funding Universe. "Taco Cabana History". Accessed October 1, 2018 http://www.fundinguniverse.com/company-histories/taco-cabana-inc-history/
[63] Mergent Online. "Fiesta Restaurant Group, Inc." Accessed October 1, 2018 http://www.mergentonline.com.proxy.library.carleton.ca/companydetail.php?pagetype=business&compnumber=134596

people in 2017.[64] The market share in the United States for Fiesta Restaurant Group, Inc. is less than 0.1%.

Primary Value Creating Activities

Supply Chain Management (Matthew)

In relation to the internal analysis of Fiesta's value chain, the supply chain activity will first be analyzed. In order to analyze firms, a comparison of how cost efficient the firm is relative to its competitors is completed below by providing quantitative data to represent how well the firm is performing. In order to determine the firm's overall competitive standing, a VRIO analysis is completed in order to analyze the overall strengths and weaknesses of the firm in relation to supply chain management functions.

Inventory Turnover Ratio (Weakness)

A high inventory indicates that the firm's goods are in demand. This ratio is calculated by looking at cost of goods sold and dividing it by average annual inventory. When calculated, it will show how many times inventory can be sold in a year, whereas a low inventory turnover ratio will indicate the opposite as it suggests that the firm struggles to get rid of inventory and that stock remain on hand for longer periods of time**.** Relative to its competitors, Fiesta is a much smaller firm in scale as it only managed close to an average annual inventory of 3 million USD per year[65] and an annual cost of goods sold of $203 million USD in 2017.[66] In comparison, Texas

[64] Mergent Online. "Fiesta Restaurant Group, Inc.". Accessed October 1, 2018 http://www.mergentonline.com.proxy.library.carleton.ca/companyfinancials.php?pagetype=asreported&compnumber=134596&period=Annuals&dataarea=PL&range=5&currency=AsRep&scale=1&Submit=Refresh
[65] The Wall Street Journal. "FRGI Annual Income Statement". Accessed October 7, 2018 https://quotes.wsj.com/FRGI/financials/annual/income-statement
[66] The Wall Street Journal. "FRGI Annual Income Statement" Accessed October 7, 2018 https://quotes.wsj.com/FRGI/financials/annual/income-statement

Roadhouse had an inventory of $16 million USD in 2017 with a reported cost of goods sold of $1.747 Billion USD.[67] Despite being a firm that is less capital intensive, Fiesta has demonstrated an inability to convert its inventory into sales as indicated in Figure 34 below - where the inventory turnover ratio was 67.67. This 67.67 represents how many time a firm has sold and replaced inventory during the year. In comparison, Jack in the Box had an annual inventory turnover of 151.33 and Texas Roadhouse was a turnover of 112.31. Based on the inventory turnover, Fiesta is operating at a weakness as it has plenty of room to improve.

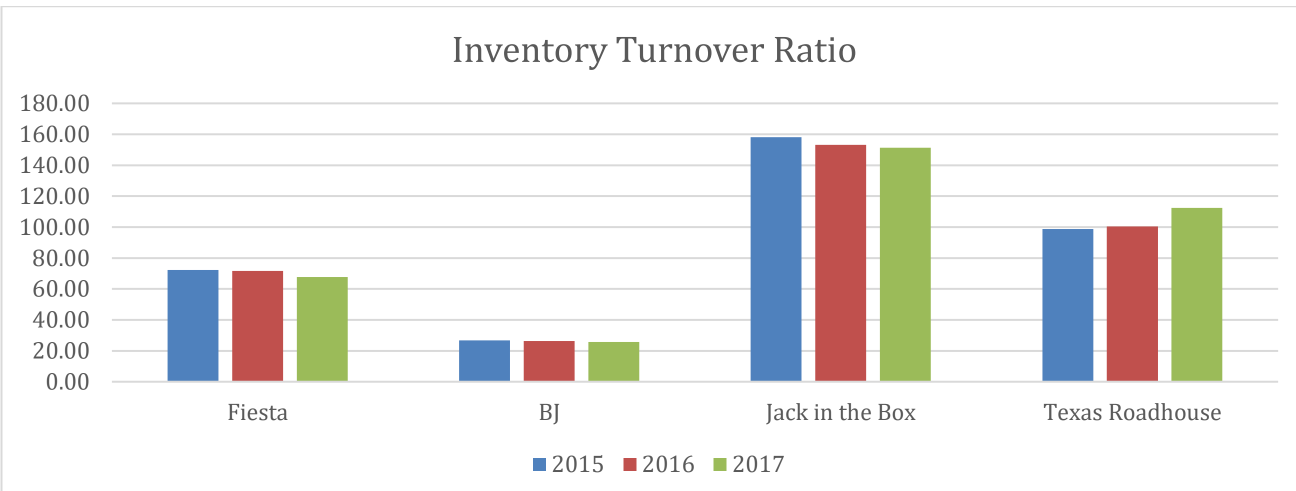

Figure 34 - Source: Bloomberg. "Inventory Turnover Ratio calculated for Fiesta Group, BJ Restaurants, Jack in the Box, Texas Roadhouse". Accessed September 30, 2018

Average Days in Inventory (Weakness)

The average days in inventory is a metric used in determining a rough estimate how many days it will take the firm to sell inventory. The calculation is to take average annual inventory and to divide it by cost of goods sold by the amount of days in the year. As shown in Figure 35, Fiesta is slightly efficient in its ability to turn inventory into sales relative to its competitors. In the firm's most recent year, it is estimated that

[67] The Globe and Mail. "Texas Roadhouse Inc (TXRH- Q) Financials" Accessed October 7, 2018 https://www.theglobeandmail.com/investing/markets/stocks/TXRH-Q/financials/

inventory would be in stock for 5.39 days. When compared to its competitors; BJ's Restaurants sits at 14.24, Jack in the Box at 3.10 and Texas Roadhouse 4.92.[68] This metric shows that Fiesta has a weakness in this regard. This is because Fiesta has not done a good enough job turning the overall inventory into sales.

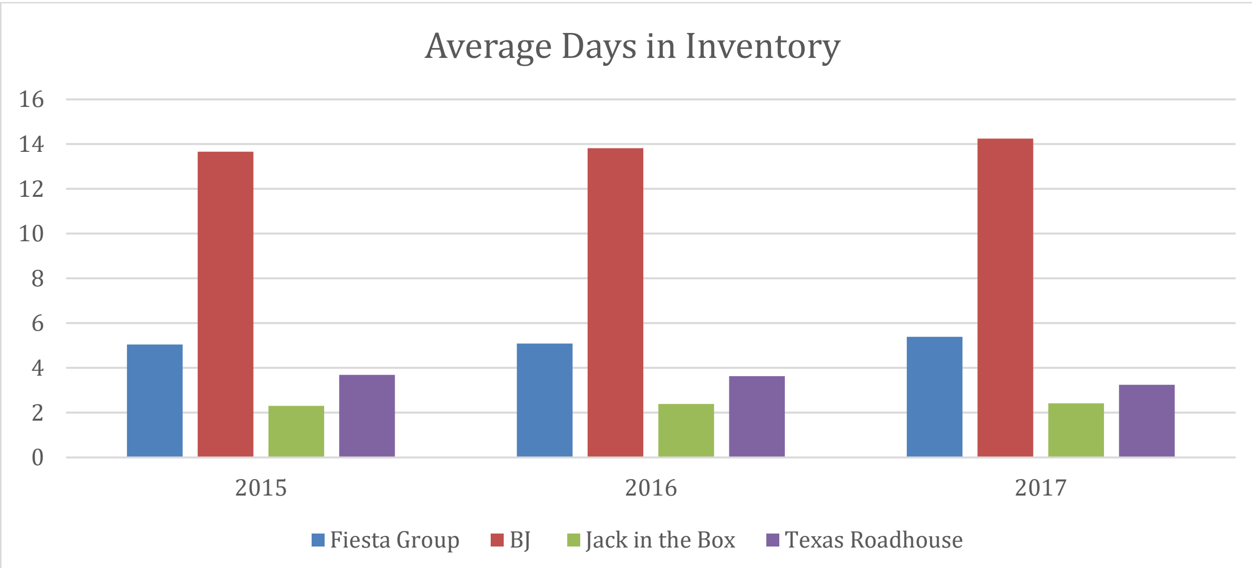

Figure 35 - Source: Bloomberg. "Average Days in Inventory for Fiesta group, BJ's Restaurants, Jack in the Box, Texas Roadhouse". Accessed September 30, 2018

Days in Accounts Payable (Weakness)

The days in accounts payable ratio is used in determining a rough estimate of how many days the average creditor can be expected to be fully reimbursed for a credit purchase by the firm. The ratio is calculated by taking the average annual accounts payable and dividing it by cost of goods sold. Based on this calculation in Figure 36 below, the average creditor can expect compensation from Fiesta after 35.96 days. This is extremely detrimental to the firm as it was forecasted to make a full credit reimbursement by 20.18 days in 2015. From 2015 to 2016, Fiesta saw a 33.33%

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[68] Bloomberg. "Inventory Turnover Ratio calculated for Fiesta Group, BJ Restaurants, Jack in the Box, Texas Roadhouse". Accessed September 30, 2018

increase in accounts payable, followed by a 25% increase in accounts payable in 2017.[69] With the sharp increase in accounts payable, Fiesta now has a low credit rating relative to its competitors. This is taken as an enormous weakness for the firm as the high days in payable ratio does not only suggests that Fiesta is inefficient, but also suggests that the firm has liquidity problems as well.

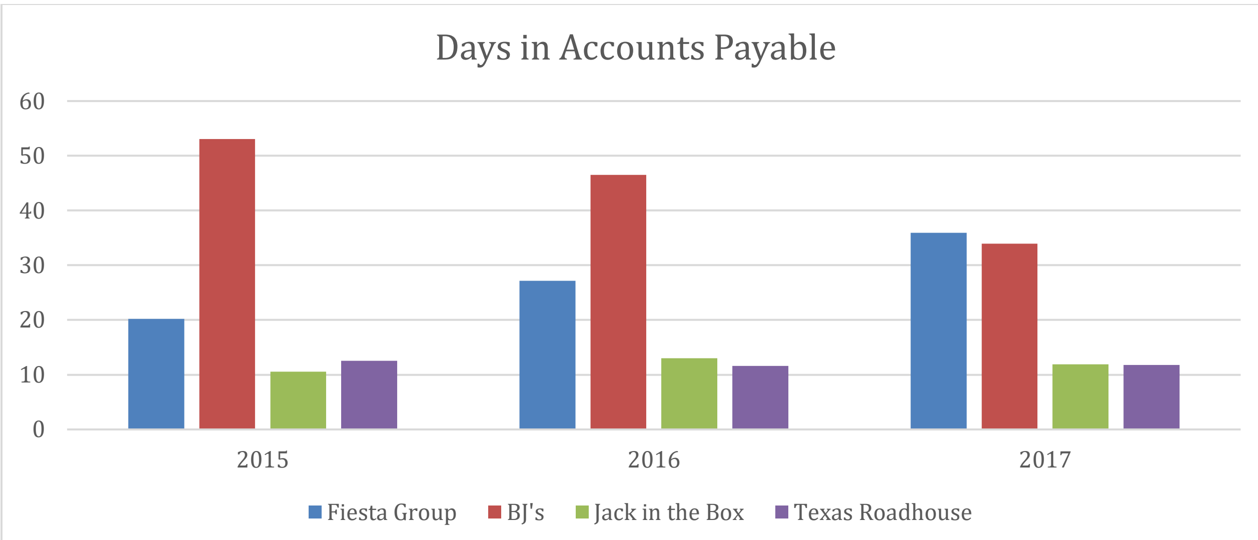

Figure 36 - Source: Bloomberg. "Days in Accounts Payable Calculated for Fiesta Group, BJ's, Jack in the Box and Texas Roadhouse". Accessed on September 30, 2018

Days in Sales Outstanding (Strength)

The days in sales outstanding is used to calculate the level in which a firm can accurately collect credit sales by providing an estimate as to how many days a credit sale will be collected. From the 2016 fiscal year to the 2017 fiscal year, Fiesta has experienced a 75% increase to accounts receivable.[70] Fiesta has managed to increase its level of sales performed on credit, and this is shown from the sharp increase in days

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[69] The Globe and Mail. "BJ's Restaurants Inc. (BJRI-Q) Financials". Accessed on October 7, 2018 https://www.theglobeandmail.com/investing/markets/stocks/BJRI-Q/financials
[70] The Globe and Mail. "Fiesta Restaurant GP (FRGI-Q) Financials". Accessed October 7, 2018 https://www.theglobeandmail.com/investing/markets/stocks/FRGI-Q/financials/

in sales from 6.15 in 2016 to 11.45 in 2017, as indicated in Figure 37 below.[71] Accordingly, the firm has an overall collection period that beats out Jack in the Box and Texas Roadhouse in 2017, while falling under BJ's Restaurants at 5.0. Accordingly, Fiesta's ability to convert credit sales to cash is a strength as the firm has done a good job increasing its efficiency in its overall collection.

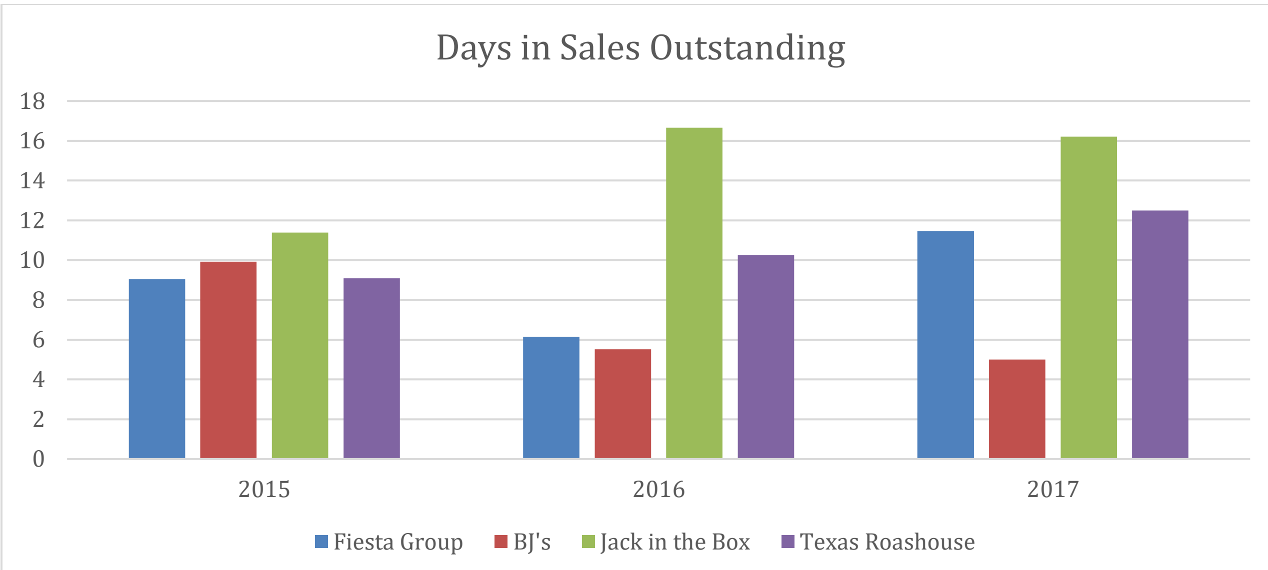

Figure 37 - Source: Bloomberg. "Days in Sales Outstanding calculated for Fiesta Group, BJ Restaurants, Texas Roadhouse, and Jack in the Box". Accessed on September 28, 2018

[71] Bloomberg. "Days in Sales Outstanding calculated for Fiesta Group, BJ Restaurants, Texas Roadhouse, Jack in the Box". Accessed on September 28, 2018

Supply Chain Management – Core Competency Evaluation

Criteria	Y	N	Explanation
Value		**X**	Fiesta has demonstrated strong inefficiencies and liquidity problems. The inability to sell inventory and pay creditors relative to its most comparable competitors is seen as a huge weakness as the firm is unable to generate value. This, along with the firm's smaller overall economies of scale draws concerns for the firm's direction.
Rare		**X**	There are not very many outliers in Fiesta's supply chain analysis. None of the data collected indicates that the firm's figures are rare in relation to the market and in fact indicate a higher inefficiency overall.
Costly to Imitate		**X**	It would not be a challenge for a full-service restaurant to imitate Fiesta's supply chain management. Non-of the firm's efficiency ratios suggests that there would be anything to challenging for a competing firm to imitate.
Organized to be Explained		**X**	Fiesta's supply chain is not organized efficiently. This is demonstrated from the firm's weak liquidity to market. The firm has an uncompetitive position compared to BJ's, Jack in the Box and Texas Roadhouse due to its poor performance across various metrics.

In conclusion Fiesta has a **competitive disadvantage** in regards to supply chain management. The firm not only has less capital then its competition, but is also less efficient overall and less liquid when managing inventory and accounts. The firm has a weak overall inventory turnover ratio and days in inventory ratio along with a declining credit rating. The only success that Fiesta was able to find was from its credit collection ability which was emphasized by the firm having a strong days in sales ratio. With an effective days in sales ratio, Fiesta has a foundation to build upon moving forward as the collection is a strength. However, the firm's weaknesses in other metrics means that the overall supply chain activity for Fiesta is lacking behind competitors and thus grants it the competitive disadvantage rating. Accordingly, Fiesta can expect below average returns.

Operations (Hussam)

Fiesta operates two distinct brands, Taco Cabana, a Mexican inspired full-service establishment, and Polo Tropical, the Caribbean inspired cuisine. Fiesta's business model is similar to many restaurants prevalent in the United States, with Fiesta generating revenue through the direct sale of finished goods and collecting royalties from its franchisees.[72] However, Fiesta is lacking in the franchise-franchisee department due to the low market penetration and consumer awareness (which will be discussed in the marketing and sales section below). As a result, asset acquisition plays a major part in ensuring the business flow of its core operations are smooth.

Restaurant Distribution (Weakness)

Looking into Fiesta's 2 restaurants, the firm owns 16 restaurants with the remainder being franchised/leased.[73] On average, 95% of Fiesta's locations are operating by using long-term lease agreements ranging up 45 years.[74] By entering into those contracts, Fiesta Group is taking over a massive portion of liability that requires a stable cash inflow in order to meet obligations. Furthermore, with most of Fiesta's

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[72] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 7, 2018 http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf
[73] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 7, 2018 http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf
[74] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 7, 2018 http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf

restaurants being located in Texas and Florida (as indicated below), a cannibalization effect may result.

Restaurant Distribution of Pollo Tropical (Blue) & Taco Cabana (Red)

Figure 38 - Source: Google MyMap. "Restaurant Locations: Pollo Tropical, Taco Cabana". Accessed October 8, 2018. Manually Created.

As shown in the Figure 38 above, Fiesta Group has limited most of its locations to two states, where management was to continue maintaining the brand recognition to a single state – Texas for Taco Cabana and Florida for Pollo Tropical. The locations of operation are considered a weakness mainly due to the fact that these two brands are yet to expand and have potentially created a cannibalizing effect.

Same Store Sales (Weakness)

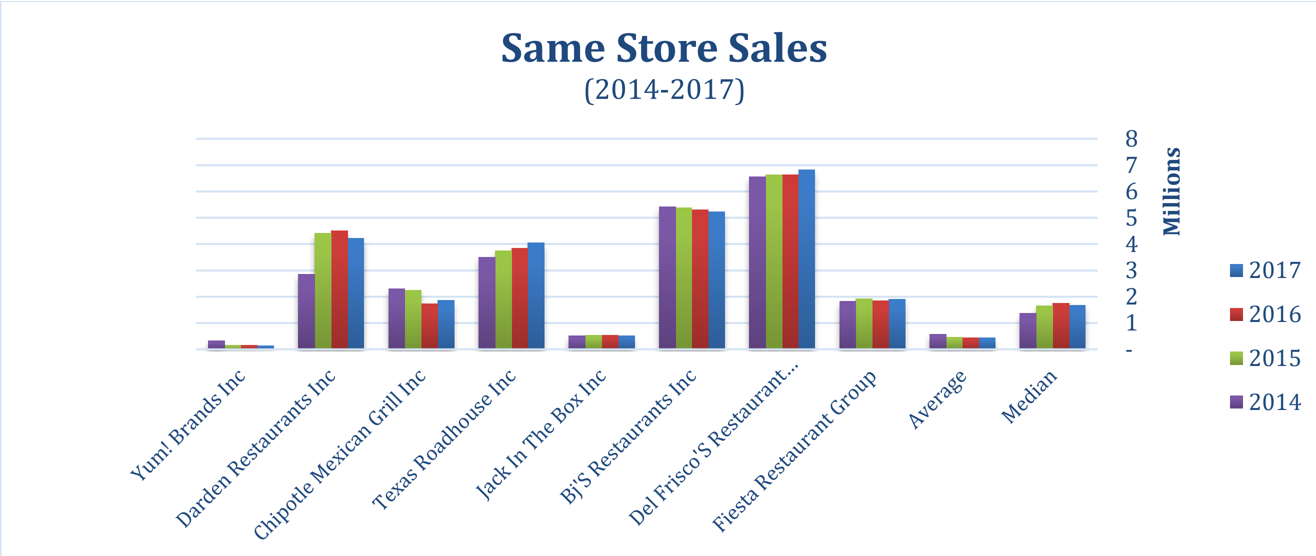

Figure 39 - Source: Bloomberg. "Terminal, Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry." Retrieved October 9, 2018

Fiesta is considered to be a small firm relative to the industry as shown in Figure 39 above, as the firm has low revenues per location. While the graph was built using firms with similar market capitalization and market share, Fiesta just meets the market median in terms of revenue per location. More importantly, the data above pinpoints the impact of how expanding locations impacts revenues. While increasing the number of locations might be seen as attractive to increase the bottom-line net income, it is more critical to maintain the current revenue the firm has if it is operating at a healthy margin. This means that firms need to be wary of when and where to expand based on firm's health. Overall, the market expansion seems to slow down as revenue stagnates and the number of locations begin to flatten. The full-service restaurant industry has reached a point of saturation where the marginal number location does not necessarily provide the firm with a higher return. Even though Fiesta is at the market median, the revenue per location is still a weakness for Fiesta, especially when comparing with competitors such as Del Frisco's and BJ's Restaurants. Going beyond the number of locations, looking into the operation sensitivity to sales is essential and this is analyzed next.

Degree of Operating Leverage (Weakness)

As highlighted in Figure 40 below, the operational side of the industry varies for firms across the market. This makes sense, since the operational business model in this industry is limited to one single transaction (i.e. a customer purchasing a meal at a restaurant). Therefore, the deciding factor for success in this industry is determined by the number of visits and the average purchase per customers. As a result, it is clear that the overall operating efficiency varies for each firm as each one has a different level of traffic and overall transactions.

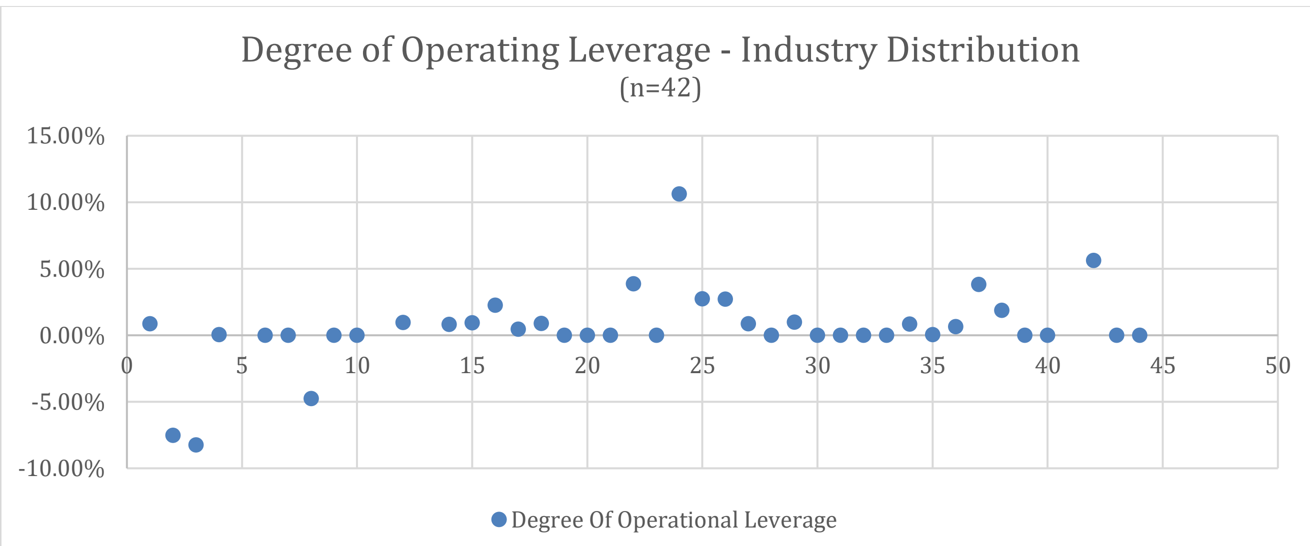

Figure 40 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018.

Based on Figure 41 below, Fiesta has a degree of operating leverage of -8.24%. This indicates that Fiesta is suffering from a high level of indirect and overhead costs relative to its sales, while the industry is able to take on more sales and continue to generate higher operational income as shown by the market median of 0.87%. Furthermore, the negative DOL ratio indicates inefficiency, whereas when sales increase by 1%, the operating income will drop by 8.24%. This tends to occur when the firm is experiencing diseconomies of scale. As a result, it is clear that Fiesta's losses in the past year are associated with the negative degree of operating leverage. Therefore, it can be concluded that Fiesta's operations are inefficient and poorly managed relative to the industry median.

Firm	Degree of Operational Leverage (DOL)
Median	0.87%
Fiesta Restaurant Group	-8.24%
Del Frisco's Restaurant Group	1.04%
BJ's Restaurants Inc.	0.00%
Jack In The Box Inc.	1.24%
Texas Roadhouse Inc.	0.00%
Chipotle Mexican Grill Inc.	1.00%
Darden Restaurants Inc.	1.26%
Yum! Brands Inc.	0.00%

Figure 41 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018.

Revenues & Growth (Strength)

Figure 42 below compares the change in sales for Fiesta and its competitors over the past four years. Excluding Yum! Brands, most of Fiesta's competitors have maintained the same revenue over the past 4 years. This is good news for Fiesta, especially considering the circumstances in 2017 where Texas and Florida suffered from Hurricane's Harvey and Irma – which caused significant losses to the firm. While Fiesta is one of the many firms that suffered from the hurricanes, its overall revenues and growth did not get significantly impacted, as shown in Figure 43 below. Fiesta only experienced a drop of 5.99% in 2017, despite having to close multiple restaurants that were impacted by Hurricane's Irma and Harvey for an indefinite period.[75] Therefore, it is evident that Fiesta's revenues are stable and as a result are a strength.

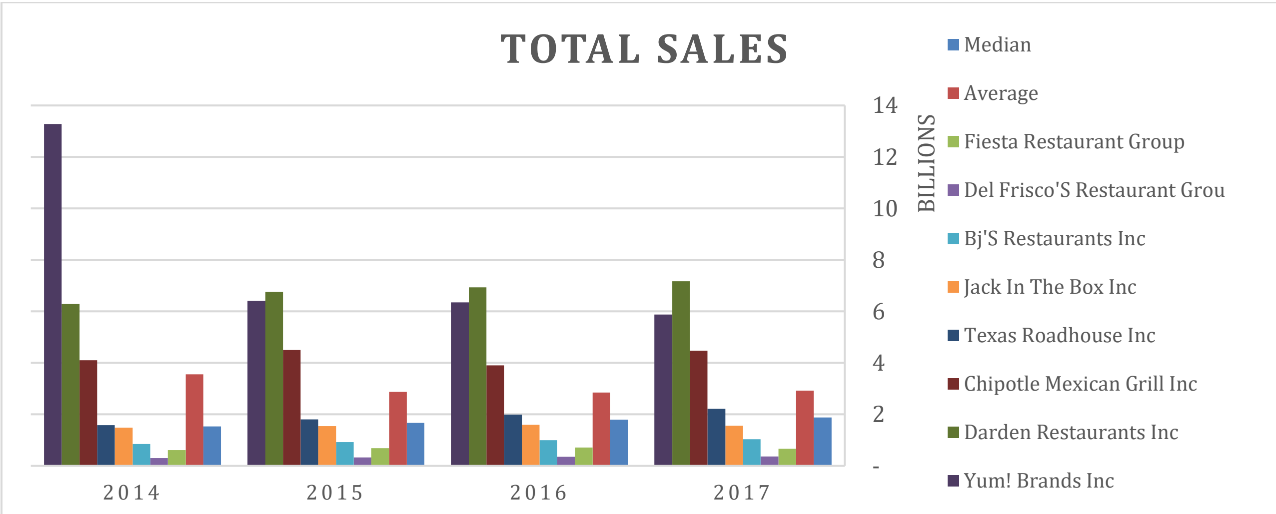

Figure 42 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018.

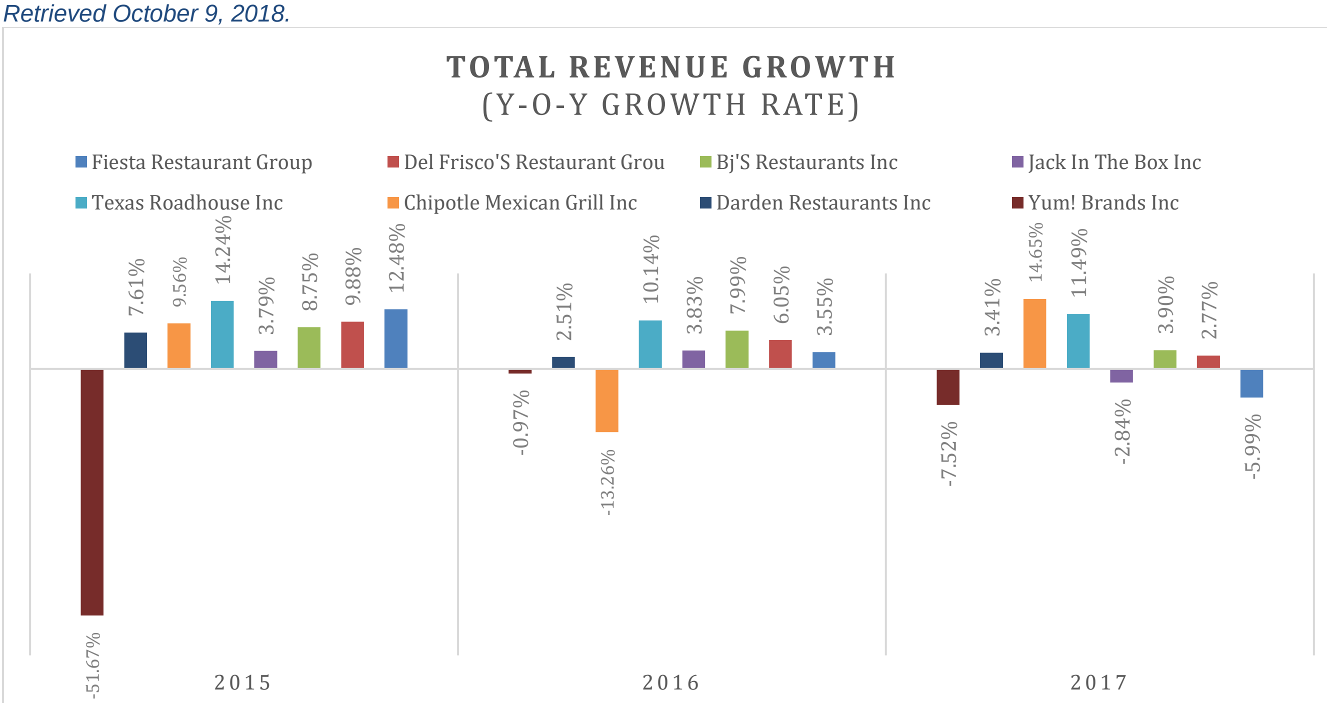

Figure 43 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018

[75] Annual Report. "Fiesta Restaurant Group, Inc.". Retrieved October 8, 2018

EBIT (Weakness)

Figure 44 below highlights how the indirect operational expenses relate to the total revenue. Fiesta is below the industry median (n=42) at -6.14% in 2017. Based on that figure, the operational expenses were greater than the revenues. Furthermore, Figure 44 shows the impact of depreciation and amortization on the firm's earnings. However, it is important to note that non-cash items significantly affect EBIT calculations. This includes depreciation expenditures which are non-cash and may ultimately put a firm at a negative income level. However, when comparing Fiesta to its competition, Fiesta seems to be poorly managed in terms overhead costs as highlighted by the low EBIT Margins. Looking at Yum! Brands, Darden’s and BJ’s as a comparison, Fiesta Restaurant needs to improve its margins to match these competitors. In fact Fiesta had the lowest EBIT altogether from its direct competitors as indicated in the figure below. The firm must minimize this gap as cash flows are necessary for operations and if the firm cannot meet its overall debt obligations, there will be a going concern. Accordingly, maximizing the EBIT margin is necessary, especially following the losses sustained in 2017. Overall, the ongoing operations of Fiesta lack efficiency, with a high level of expenditures putting it at a loss. Therefore, dedicating some attention to the entire business instead of focusing on the revenue is critical for the survival of this firm. By lowering the indirect and overhead costs, the firm, can reach market and operational stability.

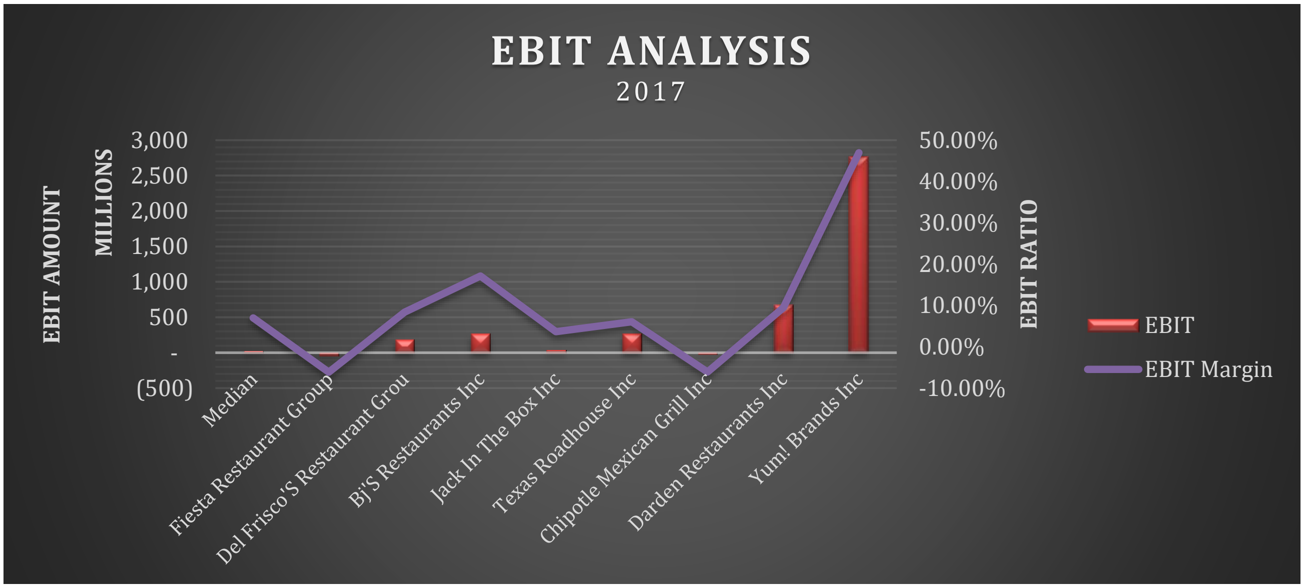

Figure 44 -Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018

ROA & Asset Turnover (Weakness)

Figure 45 below compares the ROA and the asset turnover ratio of the full-service restaurant industry. As shown, the ROA and asset turnover tend to be close amongst the competitors with the asset turnover surpassing the ROA for all competitors. As indicated in the summary in Figure 46, the ROA is roughly stable across the competition pool ranging around 1.47. As for Fiesta, the firm had a 1.55 Asset Turnover Ratio which was higher than most of its peers. As previously established, the revenues have been stable for competing firms in this industry and as a result, the asset turnover ratio is stable – especially for firms such as Fiesta who have a stable revenue growth. For ROA, the net income is the numerator, and this may fluctuate on a year-by-year basis. This means that it makes more sense for asset turnover to be more stable than ROA.

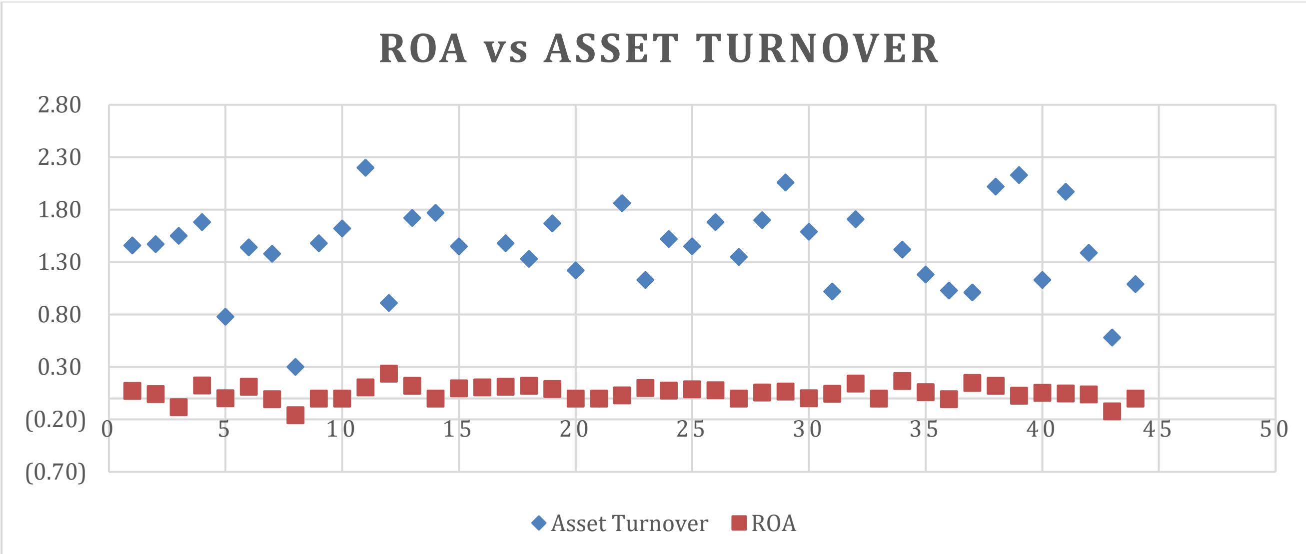

Figure 45 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018

	Asset Turnover	**ROA**
Median	**1.46**	**7%**
Average	**1.47**	**4%**
Fiesta Restaurant Group	**1.55**	**-8%**
BJ's Restaurants Inc.	1.48	0%
Texas Roadhouse Inc.	1.77	0%
Darden Restaurants Inc.	1.45	10%
Yum! Brands Inc.	1.09	0%
Del Frisco's Restaurant Group	1.04	-3%
Chipotle Mexican Grill Inc.	2.20	8%

Figure 46 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018

By looking closer at the competition, Fiesta has outperformed the majority of its competitors in asset turnover but underperformed in ROA. This indicates a weakness in the bottom line as highlighted in the sections before. Therefore, minimizing the cost of operations is critical moving forward and as Fiesta has been unable to do that, it clearly has a weakness in relation to managing costs.

Inventory Management (Weakness)

In terms of inventory management, most firms in the industry are using a FIFO method of accounting for accounting for inventory (as indicated in Figure 48 based on a sample of 42 firms). With FIFO, it is expected that there will be an increase in the inventory level over time, but as highlighted in Figure 47 below, the overall levels of inventory are stable, which indicates that consumption levels are stable and that management is adjusting for the consumption levels.[76] By correcting the inventory levels based on consumption levels, you could see that firms are adequately paying attention to consumption levels and this is prevalent across the industry with average levels slightly differing.

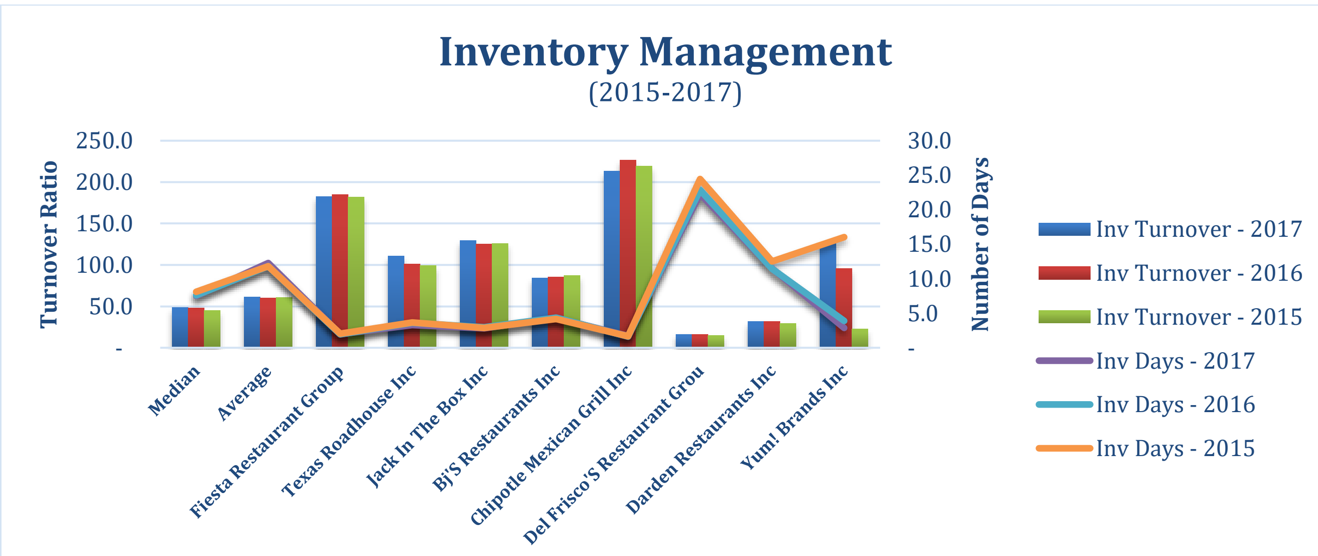

Figure 47 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018 – Average Inventory was used in the calculation

Inventory Method	**# of Firms**
FIFO (First-in-first-out)	21
Last purchase price	3
Mixed method	11
Moving average	1
Weighted average	6

Figure 48 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry." Retrieved October 9, 2018

[76] Investopedia. "How FIFO can be used to minimize taxes". Accessed October 9, 2018 https://www.investopedia.com/ask/answers/052915/how-can-firstin-firstout-fifo-method-be-used-minimize-taxes.asp

The inventory/sales ratio is a metric that shows how effectively a firm is at turning inventory into sales. The lower the ratio, the more a firm struggles turning inventory into sales. However, it is important to note that inventory level also correlates with overall restaurant traffic as well as the effort being put to manage it. This means that if a restaurant has more visitors on a daily basis, restaurants will need to keep a larger amount of inventory on hand. Taking that into account, in Figure 49 below, the industry average has been consistent over the last 3 years at about 0.9, while Fiesta's ratio has remained at around 0.4 in that time frame. Based on these observations, Fiesta is exerting significant resources to manage the inventory which in turn contributes to the declining EBIT and as a result there is a weakness in the inventory management.

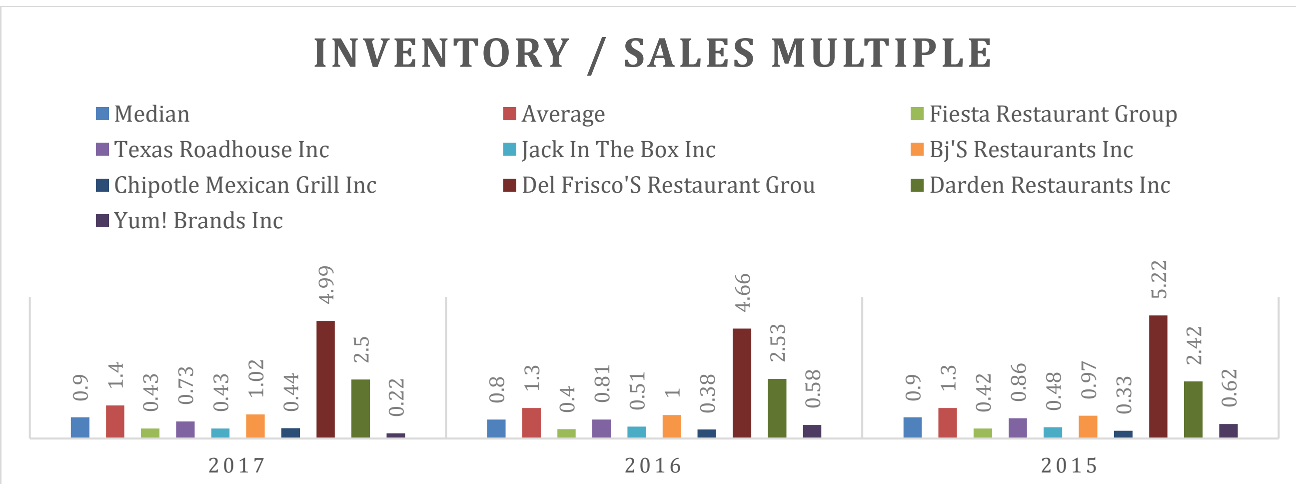

Figure 49 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018

<u>Operations – Core Competency Evaluation</u>

Criteria	Y	N	Explanation
Valuable		X	Fiesta’s revenue from its operations during and post hurricanes showcased growth, however the overall operation seems to be expensive and resourcefully intensive on Fiesta as evidenced by the weak returns and losses the firm is sustaining.
Rare		X	Fiesta’s strategies are uniform industry wide and its operations are mostly in 2 states. As a result, its operations can not be said to be rare.
Imitability		X	Fiesta has not demonstrated any unique activity that competitors within the full-service restaurant industry cannot replicate. It is difficult to distinguish the operational strategies among different competitors in a way that competition can’t feasibly copy it.
Organized to Be Exploited		X	As evidenced by the losses sustained in 2017, the firm had a bad management team leading it (although the firm hired a new CEO which will be further emphasized in the secondary value chain analysis). Furthermore, the firm is small as it operates in only 2 states and when comparing it to competitors who are at the multinational level, you can see that the firm has not realized its full potential.

Overall, the operational section of the value chain is considered to be a weakness for Fiesta. Due to the extremely low profit margins and limited number of locations the firm operates in, Fiesta has a **<u>competitive disadvantage</u>**. By connecting the dots, Fiesta has weaknesses due to inadequate location management, negative EBIT and the inability to maintain above average returns. As a result, Fiesta is unable to maximize its profitability by having a big portion of the cash flows going out to the firm lessors and decreasing the earnings before interest and taxes (EBIT). In addition, the firm has an average inventory control with low inventory day’s outstanding and high level of inventory turnover. Thus, the firm is spending a large amount of its resources to manage its inventory even though the size of Fiesta’s inventory potential is small relative to its peers. Accordingly, Fiesta could expect to realize below average returns.

Distribution (Abbas)

Fiesta's Distributor Relationship (Weakness)

Since Fiesta is in the full-service restaurant industry, the firm does not operate any distribution centres – rather as part of its agreements, it monitors its suppliers' distribution centres instead of operating its own.[77] Fiesta's main concern is offering high-quality food for its consumers and it does this by ensuring it maintains a high-quality relationship with reliable suppliers who also take care of distribution for the restaurants. Fiesta has consolidated its distributor for certain food and beverages to Performance Food Group, Inc. – who has been the distributor for the firm since 2014 and currently has a contract running until July 26, 2019.[78] Fiesta's chicken distributor for Pollo Tropical is Kelly Food Service who has an agreement expiring in December 2018. Fiesta also depends – to a smaller a degree – on 6 smaller distributors of chicken for its Pollo Tropical location. Fiesta's main reasoning as to why it wants to consolidate its distributors and has put in distribution centre inspections as part of contracts is because the firm wants to ensure that chicken distributors are NAE certified and if they aren't, they are immediately removed from the firm's supply chain network.[79] The overall dependence on a small number of firms by Fiesta is significant because it opens the firm up to the possibility of potential shortages, price risks and other potential interruptions (i.e. contamination at a plant that delivers supplies). With Fiesta having built a strong relationship with its top suppliers, it does not need to maintain a central

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[77] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 1, 2018 http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf

[78] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 1, 2018 http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf

[79] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 1, 2018 http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf

warehouse for production and shipping of food supplies as it has distributors readily available to ensure adequate supplies are present at the restaurants. Historically, Fiesta has not experienced any delays in terms of supplies being delivered and does not engage in forward contracts (i.e. the firm only operates with contracts over a given time period without a commitment for any period beyond the expiration of the contract). As a result, Fiesta does not engage in intentional price-fluctuation strategies but it could however benefit from entering into a fixed supply and pricing agreement where the cost will not then be subject to potential fluctuations by the supplier, as the firm's current contract is volume-based.[80]

Fiesta's dependence on its consolidated supplier – namely Performance Food Group, Inc. is considered a weakness because it opens the firm up to dependence and limits its bargaining power which puts the firm at a disadvantage as the supplier will then have more power based on the reliance. For example, should Performance Food Group's factories face a major issue that prevents it from distributing, both Taco Cabana and Pollo Tropical could face significant shortage of supplies which would then put the restaurants at a crisis. Fiesta's competitors such as Chipotle Mexican Grill and BJ's Restaurants depend on national and regional food distributors, as well as third-party brewers for alcoholic beverages (in BJ's Restaurant's case) from a diverse network.[81] Furthermore, Chipotle and BJ's Restaurants are also well-established in the United States, with Chipotle being present in Canada and Europe as well.[82] With these firms

[80] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 1, 2018
http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf
[81] Annual Report. "BJ's Restaurants" Accessed October 1, 2018
http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_BJRI_2017.pdf
[82] Annual Report. "Chipotle Mexican Grill". Accessed October 1, 2018
http://www.annualreports.com/HostedData/AnnualReports/PDF/NYSE_CMG_2017.pdf

using more national and regional suppliers who can distribute for them, they face a lower risk compared to Fiesta who, who has consolidates its distributors.

Distribution Logistics (Strength)

Logistics relate to the process of how a firm is able to get supplies from one location to another in an efficient manner. Many firms face significant transportation expenses – especially when they have multiple suppliers who do not have a distribution center nearby and shipping takes an extended period of time. This is also very significant as firms need to worry about shipping times given the potential of contamination of the food supplies and their short shelf-lives. This applies to restaurants such as Fiesta who follow quality assurance procedures to ensure that food is served fresh and in the utmost quality.

Based on that, one bright side of Fiesta consolidating its supplier network is that it would spend less on transportation. As indicated in Figure 50 below, Performance Food Group, Inc. has 76 distribution centers with a large number being located in Florida and Texas – where the majority of the Pollo Tropical and Taco Cabana restaurants are located. Given that these distribution centers are in the core-locations that Fiesta's restaurants operate, there are significant cost savings associated with having the supplier in close proximity.

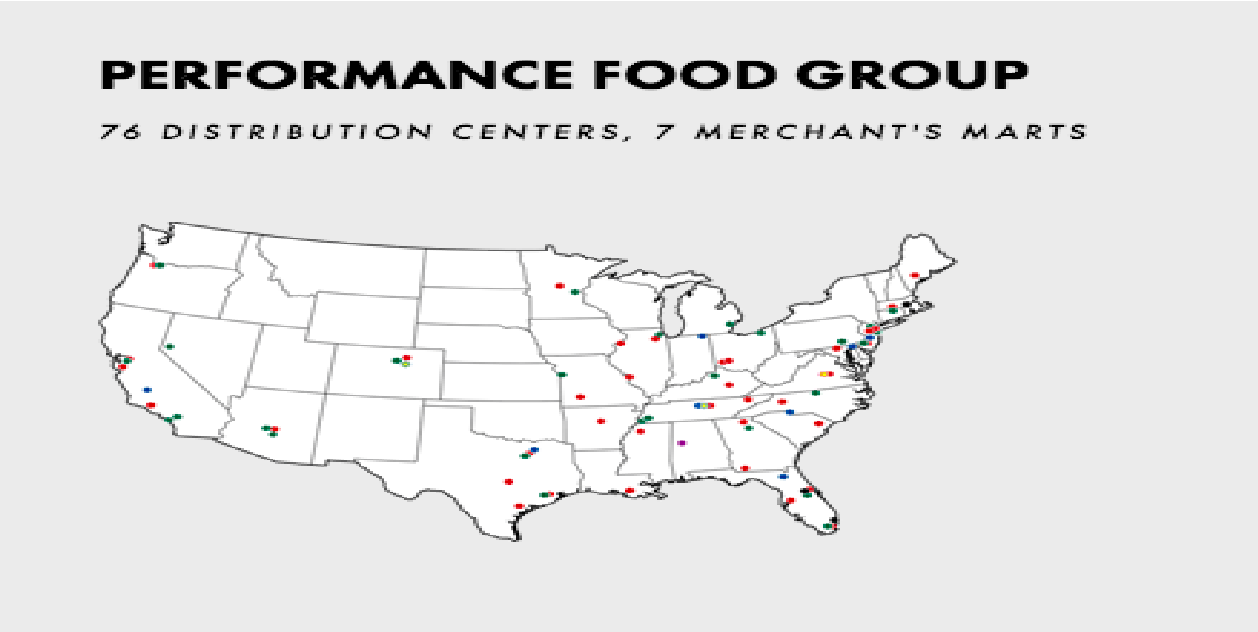


Figure 50 - Source: Performance Food Group. "Our Locations". Accessed October 1, 2018 *http://www.pfgc.com/About/Our-Locations.aspx*

However, in the cases such as Chipotle and BJ's Restaurants – who have national and regional distributors, the costs will be significantly larger as they must ship over longer distances via express as the firms need the food in a timely manner to ensure they receive them in the right quality.

Distribution – Core Competency Evaluation

Criteria	Y	N	Explanation
Valuable		X	Fiesta is significantly reliant on its consolidated supplier – Performance Food Group, Inc. who it has an agreement with until July 26, 2019. Product distribution is also not a significant in this context as Fiesta relies on external suppliers. As a result, Fiesta does not have a valuable criteria in relation to its distribution.
Rare		X	Given the large number of suppliers in the industry in the U.S., firms can purchase from many suppliers to choose from. Accordingly, the distribution process is not rare.
Costly to imitate		X	Distribution methodology amongst restaurants – especially those of a similar size – are usually similar. Fiesta's 2 brands also do not have any specialized processes or outputs that are difficult for external suppliers to imitate.
Organized to be exploited		X	As most competitors have external distributors as well, there is no advantage in this case for Fiesta.

Based on the table above, it could be said that Fiesta has a **competitive disadvantage.** This is because Fiesta does not have any strategies that give it an advantage in its supplier-buyer relationship and since it has consolidated its distributor for both restaurants to Performance Food Group, Inc., it is heavily dependent on them. Comparing it to its competitors such as Chipotle and BJ's Restaurants who have a diverse distributor network, Fiesta will need to improve its distributor network in order to increase its competitive standing relative to its competitors and help mask its overall weaknesses in this department, even though they realize significant cost savings as they are at risk from a potential disaster with their consolidated supplier should there be any issues such as contaminations, transport problems or other matters. Based on this disadvantage, the firm could expect below average returns.

Marketing and Sales (Hussam)

Market Share (Weakness)

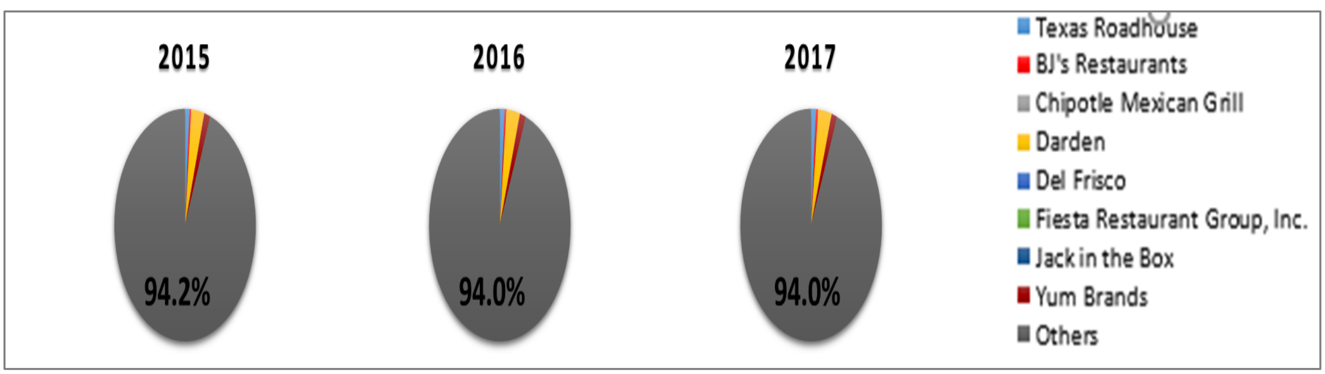


Figure 51 - Source: Euromonitor. "Full-Service Restaurants in USA 2018". Accessed on September 19, 2018

Firm Market Share	**2015**	**2016**	**2017**
Texas Roadhouse	1.00%	1.10%	1.10%
BJ's Restaurants	0.40%	0.40%	0.50%
Chipotle Mexican Grill	<0.1%	<0.1%	<0.1%
Darden	3.00%	3.10%	3.10%
Del Frisco	<0.1%	<0.1%	<0.1%
Fiesta Restaurant Group, Inc.	<0.1%	<0.1%	<0.1%
Jack in the Box	<0.1%	<0.1%	<0.1%
Yum Brands	1.40%	1.40%	1.30%
Others	94.20%	94.00%	94.00%

Figure 52 - Source: Bloomberg. "Market Share Data for Fiesta Restaurant Group, Inc., Texas Roadhouse, BJ's Restaurants, Chipotle Mexican Grill, Darden Restaurants, Del Frisco, Jack in the Box, Yum Brands and Market". Accessed October 6, 2018

In Figure 52 above, the market share in the full-service industry in the United States for the year 2015, 2016 and 2017 is broken down in terms of sales. By comparing the year-over-year change, the full-service restaurant seems to be highly stable with 94% of the market owned by smaller brands with less than 0.1% of the share individually. For Fiesta, the firm owns less than 0.1% of the market share in the United States, while Fiesta's larger competitors such as Darden and Yum! Brands own 3.10% and 1.30% respectively. It is important to note that Fiesta Restaurants operates mostly in two states; Florida and Texas. This in turn impacts its overall market share as they operate in a smaller geographic area when compared to competitors, as the size of the competitors are different in terms of locations of operations. In fact, Darden and Yum! Brands are multinational brands which helps the brands to increase its recognition. Looking at other local competitors such as Jack in The Box and BJ's Restaurants, Fiesta Group is falling behind in terms brand recognition.

Search Trends and Exposure (Weakness)

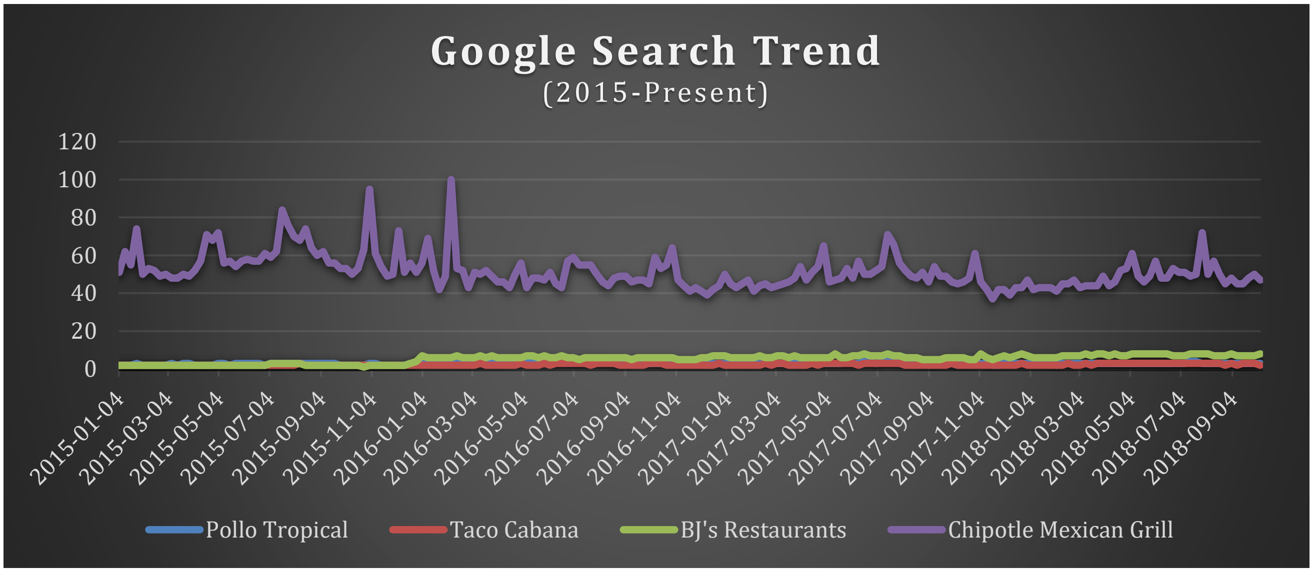


Figure 53 - Source: Google Trends. "Compare: BJ's Restaurants, Chipotle Mexican Grill, Taco Cabana & Pollo Tropical Search Traffic". Accessed on October 8, 2018 *https://trends.google.com/trends/explore?geo=US&q=taco%20cabana,inc.,%2Fm%2F01b566,%2Fm%2F07l6p9*

Referring to Figure 53 above, the average number of searches for Chipotle Mexican Grill is 50 times more than both Taco Cabana and Pollo Tropical across the United States. The ratio of searches for BJ's Restaurants to Taco Cabana and Pollo Tropical is 5-to-3. However, looking at the chart you could see Taco Cabana is steadily increasing in search traffic which means the restaurant is increasingly getting similar exposure to firms such as BJ's Restaurants (as the search gap is beginning to decline as shown above). The jump in 2016 is mainly due the improvement of the collected data.[83] However moving forward, Fiesta will look to further capitalize on its overall increasing exposure and strive to surpass some competitors.

[83] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8, 2018

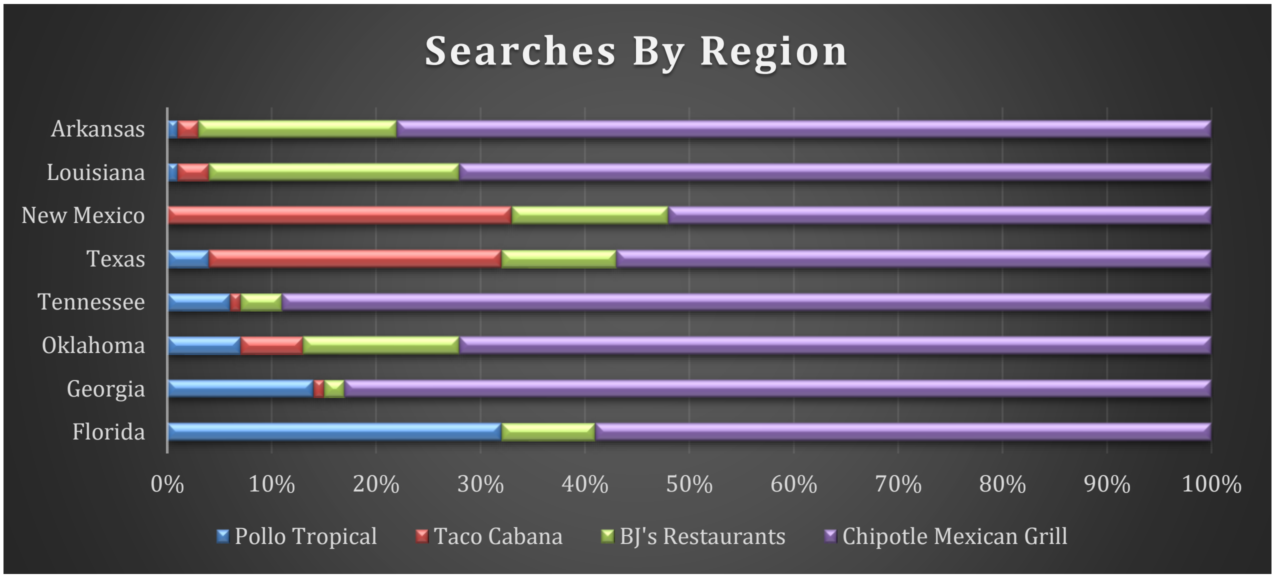


Figure 54 - Source: Google Trends. "Compare: BJ's Restaurants, Chipotle Mexican Grill, Taco Cabana & Pollo Tropical Search Traffic by Region". Accessed on October 8, 2018
https://trends.google.com/trends/explore?geo=US&q=taco%20cabana,inc.,%2Fm%2F01b566,%2Fm%2F07

When looking at the restaurants in Figure 54 above, Taco Cabana and Pollo Tropical have a significant percentage of searches in their primary states of operations (Texas and Florida). This highlights the local market penetration that the two brands have relative to competitors. Therefore, in terms of local search traffic, Fiesta has a significant holding which it should look to exploit but given that it still has a smaller percentage when comparing to Chipotle, it is clear that the firm is at a disadvantage.

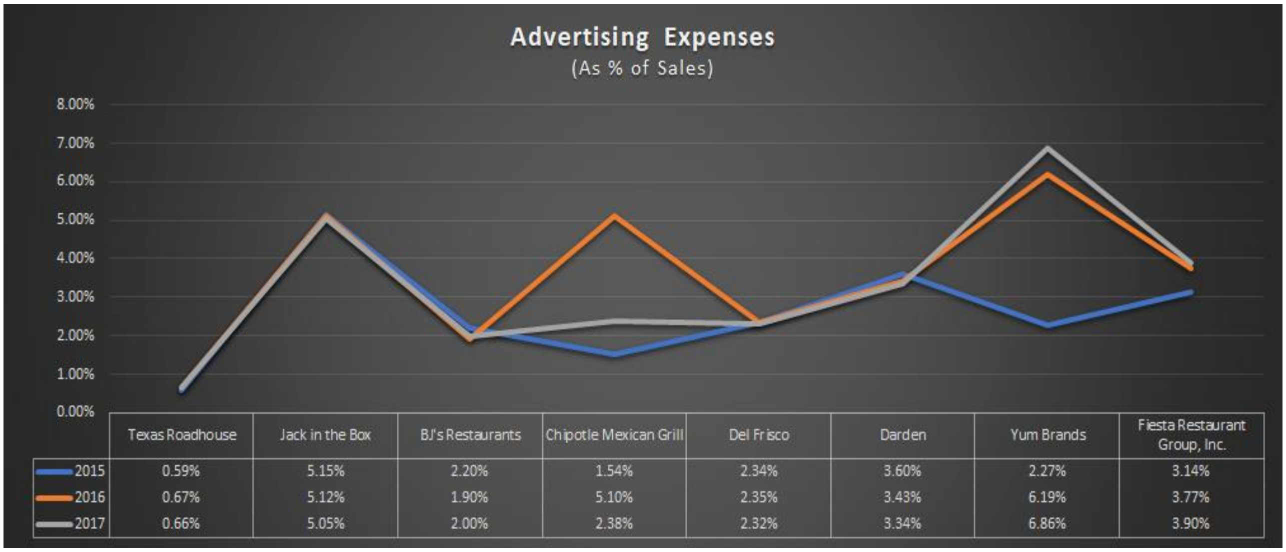
When looking at the overall share in most states, Chipotle Mexican Grill has a significant percentage of the overall search traffic in all states indicated in Figure 54 above, with the firm's overall presence being over 50% in all. Therefore, the conclusion to be made here is that establishing a strong market share is dependent on the direct competition with Chipotle Mexican Grill – especially in Texas, New Mexico and Florida. This means that in order to proceed and improve, Fiesta needs to try to overcome Chipotle in the firm's primary regions of operations.

Advertising Metrics (Weakness)

Referring to Figure 55, Fiesta's marketing expenses did not significantly change. In fact, the overall advertising expenditure as a percentage of sales increased only marginally from 3.77% to 3.90%. Furthermore, the marketing expenses declined to $26.1 million in 2017 from $26.8 million in 2016. This decline is mainly due to the loss the firm had incurred last year as a result of multiple hurricanes.[84] However, looking forward, the commitment for a brand repositioning for Fiesta is highly visible in the overall margin, which puts them at a higher percentage than all competitors in 2017 except for Jack in the Box and Yum! Brands. Most firms also maintained a close percentage from the prior year, with an important development being that Chipotle, who as mentioned above holds a significant search traffic percentage in Florida and Texas – has had to do significant damage control in relation to multiple recalls and food poisoning. This is what ultimately resulted in a large increase in the expenditures in 2015 and has damaged the reputation of Chipotle.[85] However Fiesta has maintained a consistent expenditure for the last 3 years but moving forward, as part of the "The Plan" established by the new CEO, Stockinger, the firm is planning to expand its marketing budget to re-establish its brand and improve the image of the firm's quality.[86] While this is to be completed subsequent to 2017, Fiesta has a plan to establish moving forward and will look to be successful, however given that this is untested and is yet to yield results, Fiesta is operating at a weakness – especially with the firm having large

[84] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8, 2018
[85] AdAge. "Chipotle's Marketing Menu for 2017". Accessed October 9, 2018 https://adage.com/article/cmo-strategy/chipotle-s-marketing-menu-2017-biggest-campaign-fewer-promos/307461/
[86] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8, 2018

expenditures that have not necessarily increased the firm's exposure relative to competitors at a large scale as indicated in the search trends.



	Texas Roadhouse	Jack in the Box	BJ's Restaurants	Chipotle Mexican Grill	Del Frisco	Darden	Yum Brands	Fiesta Restaurant Group, Inc.
2015	0.59%	5.15%	2.20%	1.54%	2.34%	3.60%	2.27%	3.14%
2016	0.67%	5.12%	1.90%	5.10%	2.35%	3.43%	6.19%	3.77%
2017	0.66%	5.05%	2.00%	2.38%	2.32%	3.34%	6.86%	3.90%

Figure 55 - Source: Annual Reports. :Fiesta Restaurant Group, Inc., Yum! Brands, Darden Restaurants, Del Frisco, Chipotle Mexican Grill, BJ's Restaurants, Jack in the Box and Texas Roadhouse." Accessed October 8, 2018

Social Media (Weakness)

Social media is a significant tool for advertising and exposure, especially in today's world. Instagram is the leading tool for social media reach and as a result of minimal activity, Fiesta's 2 main brands have fallen behind.[87] Based on Figure 56, restaurants such as KFC (who operate under Yum! Brands) have over 2,000 new unique followers every new post, Olive Garden (who operate under Darden) had over 300 new unique followers for every new post, Chipotle had over 700 new unique followers while Fiesta had only generated 16 unique followers. The large gap behind these competitors contributes to how Fiesta's 2 brands have weak recognition outside Florida and Texas. Building a strong brand on Instagram is essential for consumer

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[87] Hashoff. "2017 State of the Union Report". Accessed October 8 ,2018 http://www.hashoff.com/download-report-fall-2017/

faced businesses – especially as it is the leading social media platform.[88] Social media is especially important now, as it is powered by what is called "Generation Yum", who through social media have helped shine a light on the overall food industry.[89] With half of today's millennials identifying themselves as "foodies" [90], it critical to establish an online presence on a social platform that could capture the value of ethnic food – and with Fiesta clearing lagging in overall activity on Instagram, there is definitely a need to improve that weakness.

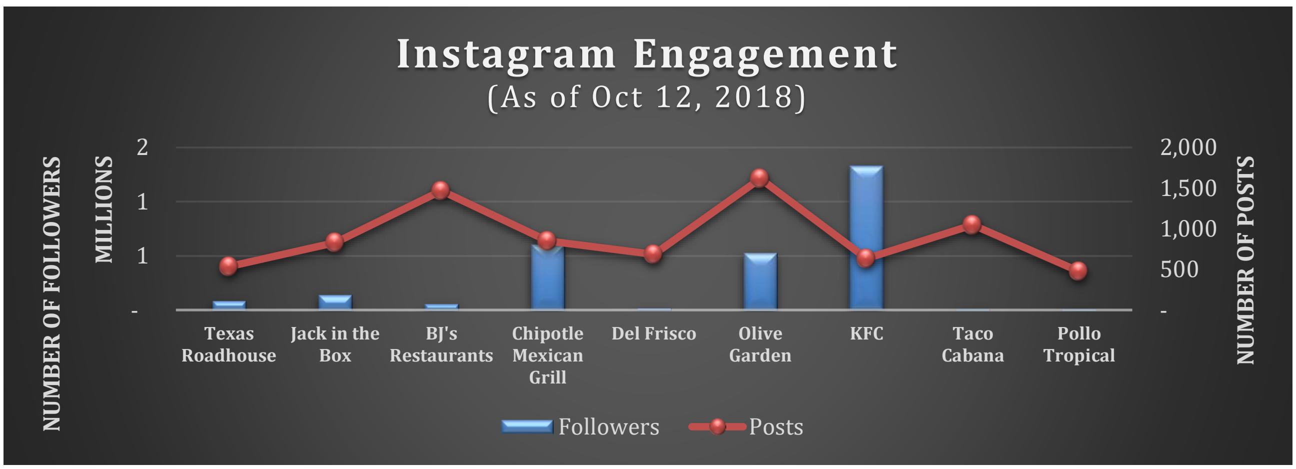

Figure 56 - Source: Instagram. "KFC, Taco Cabana, Pollo Tropical, Olive Garden, Chipotle Mexican Grill, BJ's Restaurants, Jack in the Box & Texas Roadhouse Profiles." Accessed October 8, 2018

Sales (Strength)

As indicated in Figure 57, Fiesta's sales from 2014-2017 have been stable, while the competitors also appear to be stable. However, when looking at the percentage changes in Figure 58, the sales of Fiesta have dropped 5.99% in 2017 after a strong growth in the prior years. Various factors influenced the decrease in revenue, including Hurricane's Irma and Harvey that had huge economic losses in the region as well as

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[88] Hashoff. "2017 State of the Union Report". Accessed October 8 ,2018 http://www.hashoff.com/download-report-fall-2017/
[89] Forbes. "How "Generation Yum" is Stoking the Foodie Frenzy". Accessed October 8, 2018 https://www.forbes.com/sites/neilhowe/2017/07/20/how-generation-yum-is-stoking-the-foodie-frenzy/#1d64f868613f
[90] Forbes. "How "Generation Yum" is Stoking the Foodie Frenzy". Accessed October 8, 2018 https://www.forbes.com/sites/neilhowe/2017/07/20/how-generation-yum-is-stoking-the-foodie-frenzy/#1d64f868613f

significantly affecting the operations of many stores.[91] Therefore, using 2017 data as benchmark for future performance is highly subjective and inaccurate medium to forecast the future – especially when considering that in the years prior to these 2 large hurricanes, Fiesta actually experienced growth in terms of revenues.

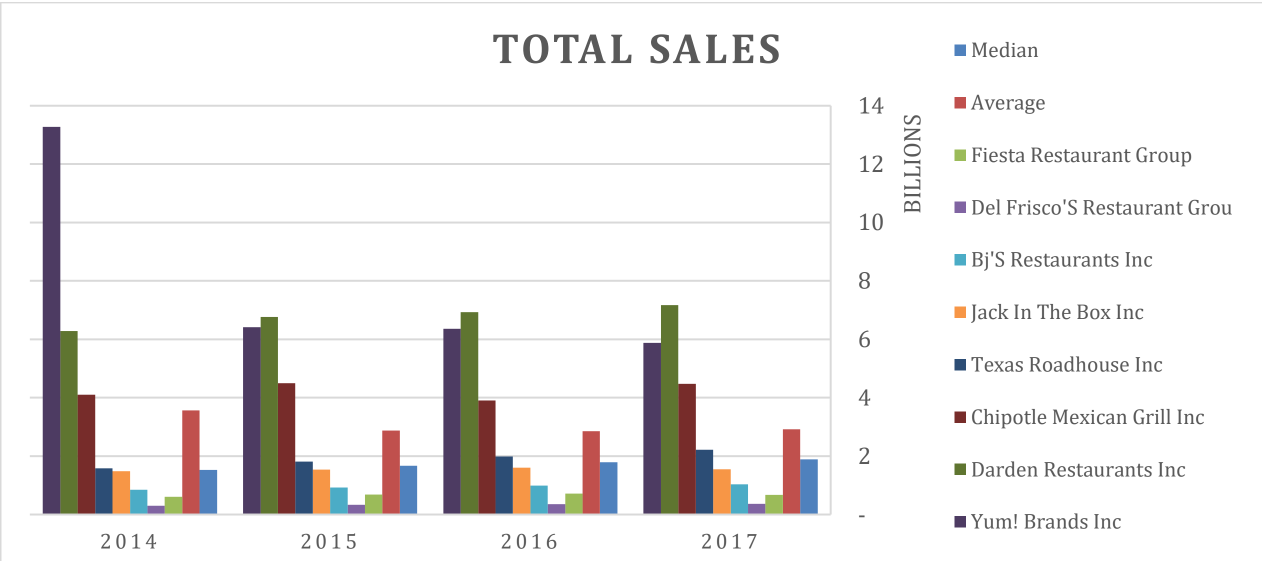
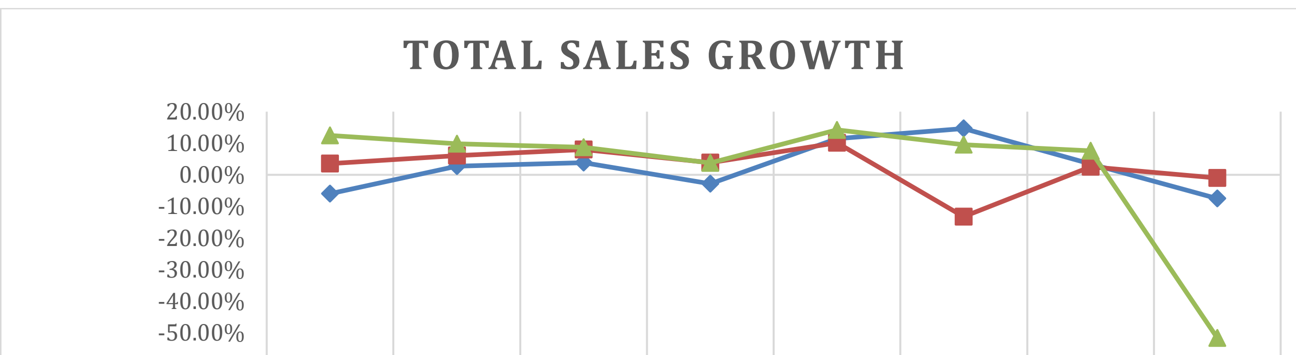


Figure 57 - Source: Bloomberg. "Revenue Data for Full-Service Restaurant Industry". Accessed on October 7, 2018



	Fiesta Restaurant Group	Del Frisco'S Restaurant Grou	Bj'S Restaurants Inc	Jack In The Box Inc	Texas Roadhouse Inc	Chipotle Mexican Grill Inc	Darden Restaurants Inc	Yum! Brands Inc
Growth - 2017	-5.99%	2.77%	3.90%	-2.84%	11.49%	14.65%	3.41%	-7.52%
Growth - 2016	3.55%	6.05%	7.99%	3.83%	10.14%	-13.26%	2.51%	-0.97%
Growth - 2015	12.48%	9.88%	8.75%	3.79%	14.24%	9.56%	7.61%	-51.67%

Figure 58 - Source: Bloomberg. "Revenue Data for Full-Service Restaurant Industry". Accessed on October 7, 2018

[91] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8, 2018

While looking at the advertising expenditures as a ratio of sales contextually, Fiesta did not have a strategic spending cap in terms of the overall advertising expenditure – even in its annual report which was rather vague. The annual report, did not mention any tactics regarding the short-term advertising expense and focused most of their notes reporting on the long-term where they are focused on brand repositioning, without mentioning any monetary or percentage target in that regard either. Therefore, the firm has not done a good enough job outlining what its true targets are in monetary terms and have been very vague in terms to what scope its “Plan” will be. As a result, the overall advertising expenditures of the firm appear to be a burden on the bottom line and are a weakness for the firm – especially as the firm lacks a scope in its marketing targets.

Marketing Mix:

Place:

The “Place” of Full-Service Restaurants tends to be very similar across the competitors – especially for Fiesta. The industry is limited to physical place to provide services and products (i.e. restaurants). It is where these firms sell their products through company-owned and company-controlled stores via franchisor-franchisee agreements. Unlike some competitors, Fiesta Group has limited its operations to two primary states, Florida and Texas, whereas, some competitors such as Chioptle, Yum and Texas Roadhouse expand nationally through franchises. The difference is that a firm such as Fiesta owns most of stores through long-term financial leases.[92]

[92] Annual Report. “Fiesta Restaurant Group, Inc.”. Accessed October 8, 2018

Product:

Regarding products, Fiesta offers two different product breadths under its brand. For Taco Cabana, it offers Mexican cuisine menus for all meals of the day including breakfast, lunch and dinner.[93] As for Pollo Tropical, the restaurant offers Caribbean inspired food for lunch and dinner.[94] The competitors for Fiesta offer similar menu-structures, with Chipotle's menu being very similar to Fiesta's brands and thus acts as a direct substitute.[95] Given that the firm operates in a market with many direct competitors, it is difficult to draw an exact comparison to see if Fiesta has an advantage in this case. While the products that Fiesta offers are generic, majority of the competitors tend to offer different generic product to their customers ranging from burgers, burritos and many other products. This is emphasized by the fact that companies such as Chipotle offer similar menu, while others such as BJ's offer different types.

Promotion and Price:

The price of these comparable products does not significantly differ among competitors in this industry, as the nature of this industry results in many firms looking to cut costs significantly. As a result, the price is very driven by the overall costs. However, one common trend in the industry is that firms claim to be "high-quality and low cost". This is again as a result of the restaurant's prices being cost driven, so the firm that can minimize its cost is going to be the leader in this industry. For example, Taco Cabana sells it Flame-Grilled USDA Choice Steak Fajita Taco for $3.29[96], whereas Chipotle

[93] Taco Cabana. "Menu". Accessed October 8, 2018 https://www.tacocabana.com/menu
[94] Pollo Tropical. "Menu". Accessed October 8, 2018 https://www.pollotropical.com/menu
[95] Chipotle Mexican Grill. "Menu". Accessed October 8 ,2018 https://www.chipotle.com/menu
[96] Taco Cabana. "Menu". Accessed October 8, 2018 https://www.tacocabana.com/menu

Mexican Grill sells its Steak Taco for $2.85.[97] Clearly, the difference in price is not big. The primary basis for promotion for many firms, including Fiesta, has been through low prices and this will likely continue moving forward as the firm looks to continue offering its lower prices.[98]

Physical Evidence:

Taco Cabana's restaurants include interior dinning, semi-enclosed, and outdoor patios which provides customers with a vibrant and contemporary atmosphere. Taco Cabana is also open 24 hours a day for 7 days a week.[99] Pollo Tropical features dining areas which are designed in an inviting, festive and tropical atmosphere. However, the physical evidence that the restaurants could provide the customer with can sometimes be irrelevant as the firm's restaurants offers drive-thru windows and in some locations, delivery is readily available.[100] As for competitors, the physical landscape tend to be similar in terms of operating hours and physical locations.

Productivity:

Fiesta's productivity in its core operations are lacking. As shown in the EBIT margin in the operations section above, Fiesta is having a difficult time minimizing its overhead costs. Therefore, the net income of this firm is falling significantly. While Fiesta is extremely good at generating revenue through its products, once the cost gets added to the equation, the firm struggles to maintain profitability. Looking at same store sales, as shown in Figure 59 below, Fiesta falls within the average of its competitors whereas, the firm is slightly above some competitors, including Darden's, BJs and

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[97] Chipotle Mexican Grill. "Menu". Accessed October 8 ,2018 https://www.chipotle.com/menu
[98] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8 ,2018
[99] QSR Web. "Taco Cabana Showcases New Restaurant Design". Accessed October 7, 2018 https://www.qsrweb.com/articles/taco-cabana-showcases-new-restaurant-design/
[100] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8 ,2018

Texas Roadhouse. This is however misleading as the firm has reduced the overall number of locations in 2017, mostly due to the hurricanes and significant losses incurred.[101] This in turn inflated the overall revenue per employee.

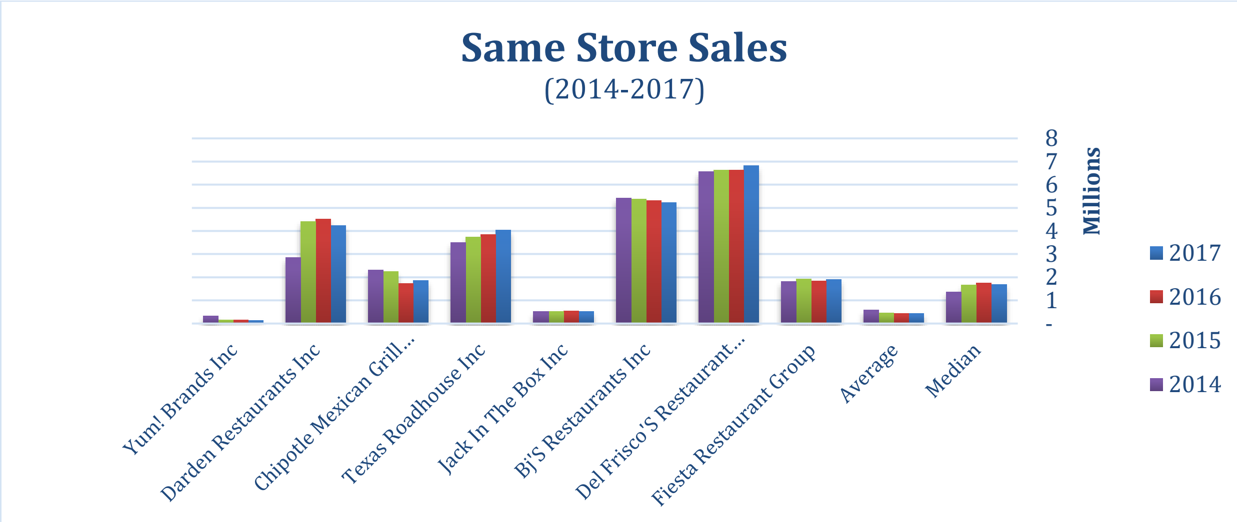

Figure 59 - Figure 6 - Source: Bloomberg. "Terminal, Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry." Retrieved October 9, 2018

Process:

The firm is currently improving systems and process through adapting tighter management spans of control and regional chiefs to ensure consistency of operations in both brands in addition to new labor scheduling tools. The open kitchen layout displays the fresh preparation of the customer's food.[102]

People:

The restaurants are staffed with hourly employees who are supervised by salaried restaurant managers, assistant managers and shift leaders while also employing chefs. Staff is educated through the ServSafe program for proper food handling and preparation techniques.[103] The firm also hires third party inspectors that

[101] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8 ,2018
[102] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8, 2018
[103] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8, 2018

conduct internal inspections for matters concerning product quality, hygiene and safety regularly.[104] As of December 31, 2017, the firm employed a total of 10,290 employees including 200 corporate and administrative personnel. [105]

Marketing and Sales – Core Competency Evaluation

Criteria	Y	N	Explanation
Valuable		X	Fiesta's marketing and sales strategy is not valuable since all its competitors share similar features to the same market of customers. Furthermore, the lack of a short-term plan in scope does not allow the firm neutralize threats or exploit opportunities.
Rare		X	The 8 P's indicate that Fiesta offers various services which meet industry standards but do not necessarily offer an advantage or protect them from potential weaknesses. Therefore, these capabilities are not exclusive to Fiesta Group.
Costly to imitate		X	Due to the similarity of products, marketing strategies are generally easily copied by competitors. In this case, Fiesta doesn't offer an exclusive marketing strategy in the short-term which shows its capabilities are not costly to imitate.
Organized to Be Exploited		X	The marketing strategies do not contain firm specifics in terms of speciality or strength. Therefore, it is concluded that it is substitutable since other competitors possess strategic equivalents (i.e. Chipotle's menu).

Overall, Fiesta is operating at a **competitive disadvantage**. This is due the lack of a specialized marketing strategy for the short-term, a lack of a target spending cap on marketing expenses, inactivity on social media compared to competitors and not differentiating its services (through the 8 Ps) from the competitors. As a result of not having any strength to take advantage of or protect, and being behind in many marketing metrics previously mentioned, the marketing and sales value-chain function in considered to be a weakness for this firm and as a result, the firm can expect below average returns.

[104] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8, 2018
[105] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 8, 2018

Customer Service (Matthew)

In the full food service industry providing excellent customer service is essential for the success of a business. The first point of contact is between consumer and service worker. Satisfactory experiences create business relationships and returning clients. Through social media platforms, the consumer can express his or her discomfort or gratification in relation to his or her experience at the restaurant. A full-service food restaurant should be able to go above and beyond towards catering to the needs of their consumers. The introduction of promotional programs, welcoming environments and strong support are essential in striving towards approval. Accordingly, Fiesta's customer service is to be analyzed to further identify any strengths or weaknesses at play with the quality of service the firm is providing and whether or not the firm exceeds expectations to create a competitive advantage in the market that cannot be replicated.

Customer Outreach (Strength)

Fiesta has done an exemplary job in providing upstanding community involvement. With both Pollo Tropical and Taco Cabana being primarily located within Texas and Florida, both brands were devastated by the impact of Hurricane Irma and Hurricane Harvey. This resulted in the closure of 43 Taco Cabana restaurants, two Pollo Tropical restaurants in Houston and most of Pollo Tropical locations in Florida being impacted – which varied from minor property damages to indefinite closure.[106] Despite this level of devastation affecting Fiesta's cash flows, the business took a fiduciary obligation to be prominently involved within its community. The social responsibility of Fiesta is one to be admired as they made an enormous effort to provide exceptional

[106] Annual Report. "Fiesta Restaurant Group, Inc." Accessed October 8, 2018

support to those devastated by both hurricanes in the respective communities. The firm provided hundreds of hot meals to first responders and victims who were impacted by both hurricanes.[107]

Fiesta's community involvement does not end there. Upon news of the Parkland shooting, the firm provided free hot meals for FBI agents, first respondents as well as the families and students impacted by the shooting.[108] Given that Florida is a prominent location for both subsidiaries of the corporation, the tragedies that took place at Stoneman Douglas High school were devastating for the community and the assistance provided by Fiesta will aim to have a lasting impact for a strong example of an ethical firm.

In terms of competitor involvement, BJ's Restaurants and Jack in the Box are also involved in the community. This includes the 2 firms being partners with the No Kid Hungry organization, who provides foods to schools as part of breakfast programs as well as summer meals when schools are closed.[109] The organization also advocates for the less fortunate, especially those children to help increase their living standards and have food available for them.[110] Based on competitor activity, it is clear that firms in this industry tend to be active in the community.

Rewards & Loyalty Programs (Weakness)

As specified in Fiesta's annual shareholders report, the firm is driving towards the long-term goal of providing comprehensive loyalty rewards programs for its customers

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[107] Annual Report. "Fiesta Restaurant Group, Inc." Accessed October 8, 2018
[108] Annual Report. "Fiesta Restaurant Group, Inc." Accessed October 8, 2018
[109] No Kid Hungry. "Restaurant Partners". Accessed October 11, 2018 https://www.nokidhungry.org/partners/restaurants

[110] No Kid Hungry. "What We Do". Accessed October 11, 2018 https://www.nokidhungry.org/what-we-do

by providing discounts and loyalty programs.[111] The services that Fiesta seeks to develop are the creation of newly improved loyalty programs, online ordering, gift cards services, and discounts for loyal consumers.[112] The firm is looking to reward its frequent customers by providing them with access to brand loyalty programs and the right to services that would not be readily available for infrequent consumers. The building of new loyalty and reward programs is essential for the overall success of the firm, as having a strong customer base is critical in the creation of a flourishing business. Fiesta's loyalty programs are a key factor in the addition of a high level of customer service. However, despite Fiesta's plan outlined in the annual report, the firm is very ambiguous in its quarterly and annual shareholder reports to the actual services it is now providing. The firm specifies providing discounts for its consumers but fails to provide any details regarding any loyalty programs. This ambiguity provides a great deal of concern as it suggests that the firm fails to connect with its consumers in this regard. Although there is a great deal of social costs and plans to introduce a new long-term goal, Fiesta currently has no loyalty rewards program and has failed to meet the expectations outlined in the 2017 Annual Shareholder Report, where the firm promised to offer additional value to consumers and improve customer service. Accordingly, this significant weakness puts Fiesta at a weakness in relation to the loyalty programs. With regards to the competitors in the industry BJ's has a points rewards program that involves 1 point for every dollar spent which can convert 100 points to $10 rewards creating value for the customers.[113] As well as Chipotle Mexican Grill who has Loyalty

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[111] Annual Report. "Fiesta Restaurant Group, Inc." Accessed October 8, 2018
[112] Annual Report. "Fiesta Restaurant Group, Inc." Accessed October 8, 2018
[113] BJ's Restaurants and Brew house. - " Rewards" https://www.bjsrestaurants.com/rewards Accessed on November 18th 2018

rewards programs which involves ten points for every $1 spent and fifteen points for every $1 spent through online transaction.[114]

Customer Service – Core Competency Evaluation

Criteria	**Y**	**N**	**Explanation**
Value	X		Despite Fiesta's lack of a customer loyalty program, the firm's community involvement especially following the hurricanes and shooting provides value to the firm. This is mostly due to the fact that this goes above and beyond what customers expect and thus increases Fiesta's standing in the community.
Rare	X		Fiesta's upstanding community involvement is one of a kind, the providence of hot meals for Hurricane Harvey and Irma survivors are one of a kind and is a service that is rare amongst Full Service Restaurants as it is clearly unique to Fiesta's social responsibility.
Costly to imitate		X	Fiesta's customer service is not irreplaceable is the offer very little in terms a brand loyalty. It would not be a difficult task for a firm to imitate the level of customer service.
Organized to be exploited		X	Fiesta's customer service is not organized up to par at all. The 2017 Shareholder's Annual Report brought promise of rewards programs, but the corporation failed to fall up on its promise investing nearly nothing towards customer loyalty.

In terms of strengths, Fiesta has done well in terms of its community outreach and found a rarity in what they have done following Hurricane Harvey. However, in terms of weaknesses, the firm has failed to offer an adequate loyalty rewards program and offers very little in terms of brand loyalty altogether (which is not expensive to imitate). In addition, the firm is not living up to promises made in its 2017 annual report which indicated plans to introduce loyalty programs which have yet to occur. As a result of failing to offer these new programs, the firm operates at a **competitive disadvantage** and can expect below average returns.

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[114] Chipotle. " Turn eating into earning"- Accessed on November 18th 2018 https://www.chipotle.com/rewards

Secondary Value Creating Activities

Human Resource Management (Abbas)

Number of Employees Declining (Weakness)

The data in Figure 60 below indicates that Fiesta had 11,550, 12080 and 10,290 employees in 2015, 2016 and 2017 respectively. Based on that, it is quite clear that the number of employees working for Fiesta has decreased due to the declining performance and need to save costs, based on the operating loss sustained in the past year (indicated on the statements shown in the appendices. However, in terms of the overall restaurant industry, you can easily see how some competitors have a large workforce – but have also downsized significantly. Yum Brands broke off with its international division and as a result, its overall number of employees has declined with it reaching 60,000 in 2015.[115] Darden, who experienced the largest growth, have followed up on plans to enhance the overall workforce by investing more into it. This was to strengthen its overall position in regard to its employees, which will in turn improve the guest experience and set the firm up for long-term success.[116] Compared to its competitors, it is clear that Fiesta's workforce composition is largely a reactive one based on the firm's performance. This conclusion is based on the fact that when Fiesta faces significant losses (i.e. in 2017), it cut the workforce levels in order to save significant costs and as a result the firm has a significant weakness in this case.

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[115] AdAge. "Fast-food Giant Yum Sees Less Risk after China Split". Accessed October 6, 2018 https://adage.com/article/cmo-strategy/fast-food-giant-yum-sees-risk-china-split/306255/

[116] Food Newsfood. "Surging Darden to Invest $20 million in Workforce". Accessed October 6, 2018 https://www.foodnewsfeed.com/fsr/chain-restaurants/surging-darden-invest-20-million-workforce

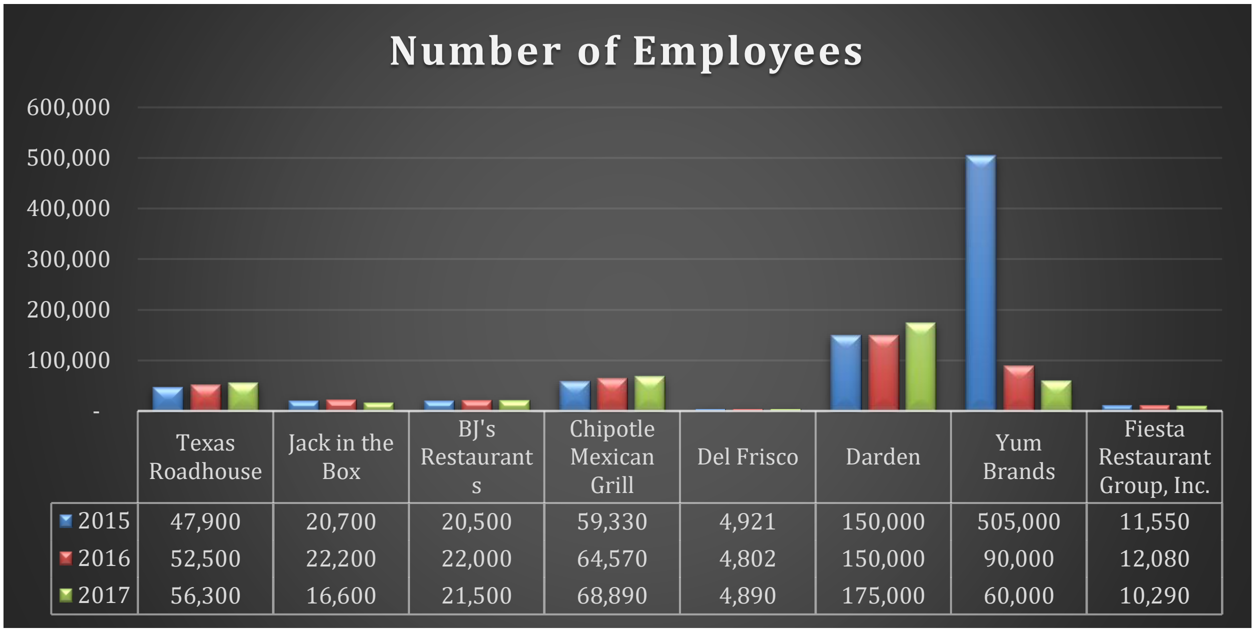
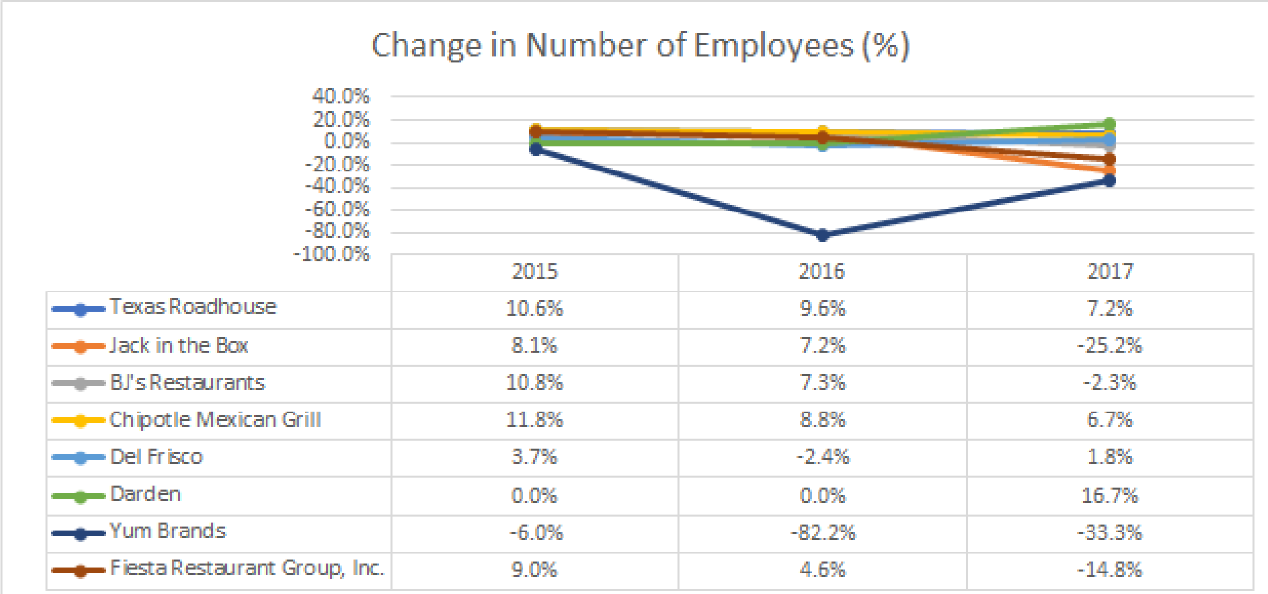


Figure 60 - Source: 2015-2017 Annual Reports, for Fiesta, Yum! Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box and Texas Roadhouse. Accessed October 6, 2018

Based on Figure 61, the percentage change of employees for Fiesta in 2017 was a decrease of 14.8%, while there were small increases in 2015 and 2016. As Fiesta only operates in the United States, the only employees are those who work at the Pollo Tropical locations and Taco Cabana – as well as corporate executives. Compared to other competitors such as Chipotle, Yum! Brands and Darden who operate on a multinational scale, it makes sense that the total number of employees for Fiesta in 2017 was 10,290 while Chipotle had grown to 68,890 and Yum! Brands had 60,000. Based on the overall number of employees it is clear which firms are operating only in the US on a more limited scale and which ones are far more established. The percentage changes also indicate the entity's ability to retain and attract employees – with Fiesta losing a portion of its workforce in 2017 while competitors such as Darden grew significantly.



	2015	2016	2017
Texas Roadhouse	10.6%	9.6%	7.2%
Jack in the Box	8.1%	7.2%	-25.2%
BJ's Restaurants	10.8%	7.3%	-2.3%
Chipotle Mexican Grill	11.8%	8.8%	6.7%
Del Frisco	3.7%	-2.4%	1.8%
Darden	0.0%	0.0%	16.7%
Yum Brands	-6.0%	-82.2%	-33.3%
Fiesta Restaurant Group, Inc.	9.0%	4.6%	-14.8%

Figure 61 - Source: 2015-2017 10-K Reports, for Fiesta, Yum! Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box and Texas Roadhouse. Accessed October 6, 2018

Revenues per Employee (Strength)

As indicated in Figure 62 below, Fiesta's revenue per employees has increased over the last couple of years with the amount in 2017 reaching $66,801.94. The figures in 2017 have also been prevalent in all other competitors, with the exception of Darden who experienced a small decrease. It is important to note that this metric is directly related to the number of employees and from those with the highest, Jack in the Box, Fiesta and Yum Brands experienced large declines in the number of employees (see Figure 61 above). However, from the competitors, Del Frisco and Chipotle managed increases as well while also increasing the total number of employees. Overall, when comparing to the competitors, Fiesta seems to fall in the middle of the pack with them having Revenue per Employee between those at the top (i.e. Jack in the Box and Yum Brands) and those at the bottom (Texas Roadhouse, Darden and BJ's). This metric is an important measure as the higher the revenue per employee is, the higher the indication that the productivity and use of firm resources are adequate.[117] Based on that, Fiesta falls right in the middle when comparing to its competition. However, it is important to note that when looking at this metric, the number of employees Fiesta has is directly related to the ratio. This means that in the case of Fiesta having a bad year and cutting the workforce (i.e. in 2017), its revenue per employee may in fact go up. This means that while Fiesta falls between the competitors in revenue per employee, the firm may in fact actually be in a situation where it is worse off than some firms below them and as a result, the favourable metric needs to be viewed with some skepticism.

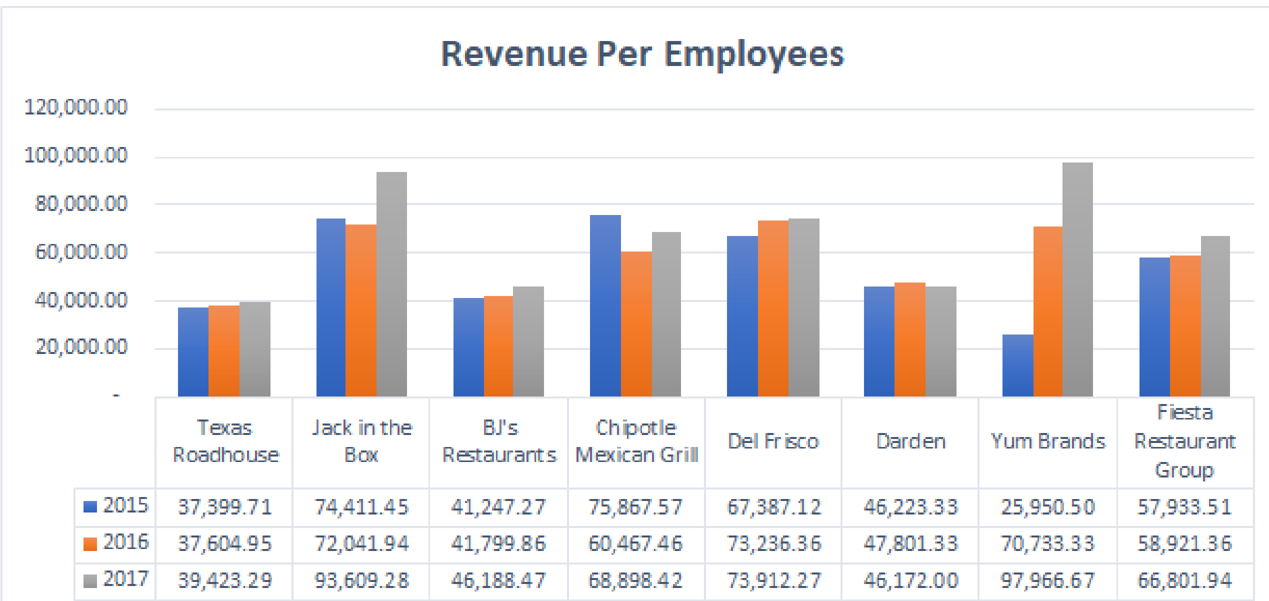


Figure 62 - Source: Mergent Online. 2015-2017 Income Statements of Fiesta Restaurant Group, Inc., Yum Brands Inc., Darden Restaurants, Del Frisco, Chipotle Mexican Grill, BJ's Restaurants, Inc., Jack in the Box, Inc. & Texas Roadhouse, Inc.. Accessed October 8, 2018

[117] Staff, I. "Revenue Per Employee". Accessed September 30, 2017, from http://www.investopedia.com/terms/r/revenueperemployee.asp

Educational Level (None)

In the Figure 63 below, you will find a summary of the jobs available at Fiesta and what the educational requirements are. This also includes jobs at the restaurant level (i.e. at Pollo Tropical and Taco Cabana) and at the corporate level (with Fiesta).

Job Title	Educational Requirements
Restaurant Manager (Pollo & Taco)	- 2 years experience in restaurant services - High school diploma
Shift/team-leader (Pollo & Taco)	- 1-2 years experience in restaurant services - High school diploma
Team member (Pollo & Taco)	- No educational requirements
Management (Corporate)	- Bachelor's Degree of Commerce - MBA preferred
Regional Director (Corporate)	- Bachelors Degree of Commerce - Multi-year experience in the restaurant industry
Management – Planning and Analysis (Corporate)	- Bachelors Degree of Commerce - MBA preferred

Figure 63 - Source: Fiesta Restaurant Group, Inc. "Fiesta Careers". Accessed October 6, 2018 https://www.frgi.com/careers/default.aspx

For employees at the restaurant level, there is no significant educational requirements – with management only needing significant work-related experience in the field. This is due to the jobs at these levels being low-skilled and as a result being close to minimum wage. As the position ranking increases, you start to see that the experience and education required starts to also increase with jobs at the corporate level requiring Bachelor Degrees and extensive industry-related experience.[118]

Compensation (Weakness)

As firms in the industry are not required to disclose the overall salary levels for employees, a secondary source (Glassdoor) was used to determine the overall salary level of restaurant-level employees at Pollo Tropical and Taco Cabana. Similar to other

[118] Fiesta Restaurant Group, Inc. "Fiesta Careers". Accessed on October 8, 2018 https://www.frgi.com/careers/default.aspx

firms in the industry, restaurant level employees typically earn the minimum wage given the low-level skill that is required. At the corporate level, the salary is also determined on a basis of many factors including the prevalent salary in the market for similarly qualified individuals, the number of candidates and the overall qualifications of the individual. The salary is tailored for each individual and with every individual having different qualifications and the market continuously changing, Fiesta tends to offer salaries competitive with the prevalent rates existing in the market. At the corporate level, the average employee makes from $40,000 to $120,000 with some senior executives making over $200,000 a year.[119]

In terms of retirement plans and other benefits, Fiesta offers corporate employees the option to participate in a corporate sponsored retirement savings plan that is pursuant to the 401(k). The maximum contribution is established by the IRS each year but employees then decide if they are to undertake the option. Fiesta also offers stock-option plans to corporate employees. As of the 2017 fiscal year, the corporation is authorized to issue 3,300,000 stocks for distribution to employees, with 182,522, 50,087 and 24,401 options being granted in the 2017, 2016 and 2015 fiscal year-ends.[120] These benefits and other forms of compensation allows the firm to remain competitive relative to its rivals in terms of what it could offer to potential executives. However, the overall compensation structure which is competitive with the firms in this industry could be considered a weakness. This is because the firm is paying significant wages to a corporate group that is not doing enough to justify the expenditure based on the

[119] Glassdoor. “Fiesta Restaurant Group, Inc. Salaries”. Accessed October 8, 2018 https://www.glassdoor.ca/Salary/Fiesta-Restaurant-Group-Salaries-E1009642.htm?countryRedirect=true
[120] Fiesta Restaurant Group, Inc. “Annual Report”. Accessed October 8, 2018 http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf

declining performance. Accordingly, Fiesta needs to start thinking about making its corporate salary somewhat performance based in order to reduce the unnecessary spending.

Employee Turnover (Weakness)

Similar to the salary figures above, firms in this industry are not required to disclose what their overall employee turnover level is. As a result, Figure 64 is used below to compare the overall turnover ratio of the restaurant industry with the overall private sector. As indicated in the figure below, the employee turnover ratio in the restaurant industry is very high at 72.9% compared to the private sector, which is at 46.1%. This is due to multiple factors, with the most significant being that the restaurant industry is composed of many jobs that are not viewed by incumbents as careers and are thus short-term in nature that require continuous replacement.[121] This is also further evidenced by the fact that the overall number of employees for Fiesta and its competitors have continued to fluctuate. Due to the nature of a large portion of the jobs at the restaurant level, it is understandable that the overall employee turnover rate in this industry is high and Fiesta is no exception as a large portion of the firm's jobs relate to restaurant jobs with corporate jobs being more stable due to the career-nature associated with them. However, given the decline in total employees in 2017, this is clearly a weakness for Fiesta.

[121] National Restaurant Association. "Hospitality Employee Turnover Rate Edged higher in 2016". Accessed October 6, 2018 https://www.restaurant.org/News-Research/News/Hospitality-employee-turnover-rate-edged-higher-in

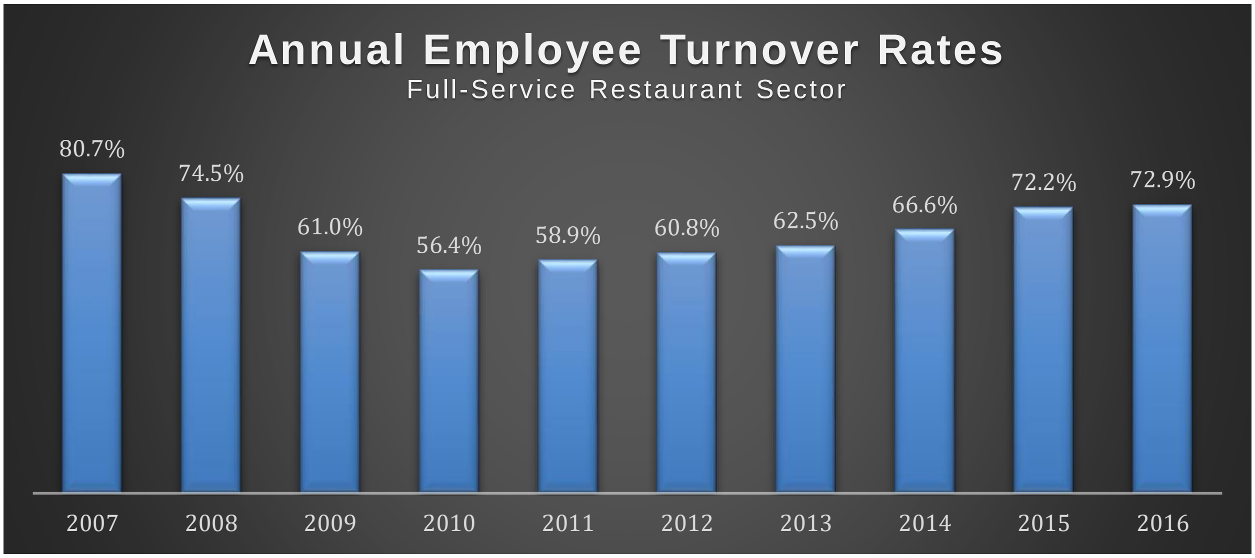


Figure 64 - Source: National Restaurant Association. "Facts at a Glance". Accessed October 8, 2018 [*https://www.restaurant.org/News-Research/Research/Facts-at-a-Glance*](https://www.restaurant.org/News-Research/Research/Facts-at-a-Glance)

HRM – Core Competency Evaluation

Criteria	Y	N	Explanation
Valuable		X	While Fiesta has an adequate system in place that allows the firm to remain competitive in terms of employees and executives hired and retained (as these figures do not differentiate at a significant level), Fiesta meets the basic requirements that most firms in this industry also meet. As a result, Fiesta does not have a significant value that other firms would strive to achieve.
Rare		X	Given that there is a large number of firms in this industry with a large number of potential applicants in a pool to select from, there is no advantage for Fiesta to hold. In addition, at the restaurant levels there are not any significant educational constraints for applicants and as a result there is a large pool of candidates also available to other firms.
Costly to imitate		X	Fiesta's HRM is not costly to imitate as it offers pricing similar to the market level and selects from a wide pool of candidates that is available to other firms in the industry. Given the continuous recycling of employees as well, the costs associated have been minimized industry-wide.
Organized to be exploited	X		While Fiesta's performances and total employees declined in 2017, the firm still offers an effective retirement and stock option plans to executives. With the firm being authorized to issue 3,300,000 shares to employees, the firm has put itself in a position where they meet the rates offered to executives and offer additional compensation which is significant. Despite the firm's performance declining, the overall compensation has remained competitive with the market.

Despite the decrease in employees by Fiesta in 2017 from 2016, the firm's employee figures still fluctuate around a similar number and the fact that the large losses sustained in the 2017 fiscal year did not result in significant employees being let off, there is a sign of potential growth for Fiesta. Compared to rivals, Fiesta meets the operational salaries offered to lower-level staff while also offering competitive amounts including benefits to those at the corporate level. However, in terms of weaknesses, the fact that there is no rarity in employees given the large candidate pool and that it is not costly to imitate, Fiesta has not done well enough in attracting employees that will be worth retaining and that will add more value to the firm. As a result, Fiesta needs to work more on finding employees that are more qualified at all levels and put efforts to retain them. This may require additional educational requirements for employees to attain which would also result in higher salaries being paid – which means that any decision made would need to be carefully analyzed. Accordingly, Fiesta has achieved a **competitive disadvantage** in this function based and can expect below average returns.

Research and Development (Hussam)

Research and development (R&D) measures how much the firm is willing to invest in innovation. While many firms across the U.S. continue to invest in R&D, the full-service restaurant industry has seen little activity. In addition, many of the firms in this industry continue to use the same products and methodologies that have helped them reach success historically. Outside the full-service restaurant, Dominos[122] and

[122] Witsil, F. 2018. "How Domino's Used Technology to Woo Millennials And Beat Rival Pizza Hut". *Freep.Com*. https://www.freep.com/story/money/business/2018/03/06/dominos-pizza-technology-app-millennials-ecommerce/373753002/.

Starbucks[123] have worked on introducing more R&D via technology and analytics teams. This is feasible because of the margins Starbucks and Dominos have been able to achieve, while the firms in the full-service restaurant industry typically try to minimize costs of operations due to the lower overall margin. [124]

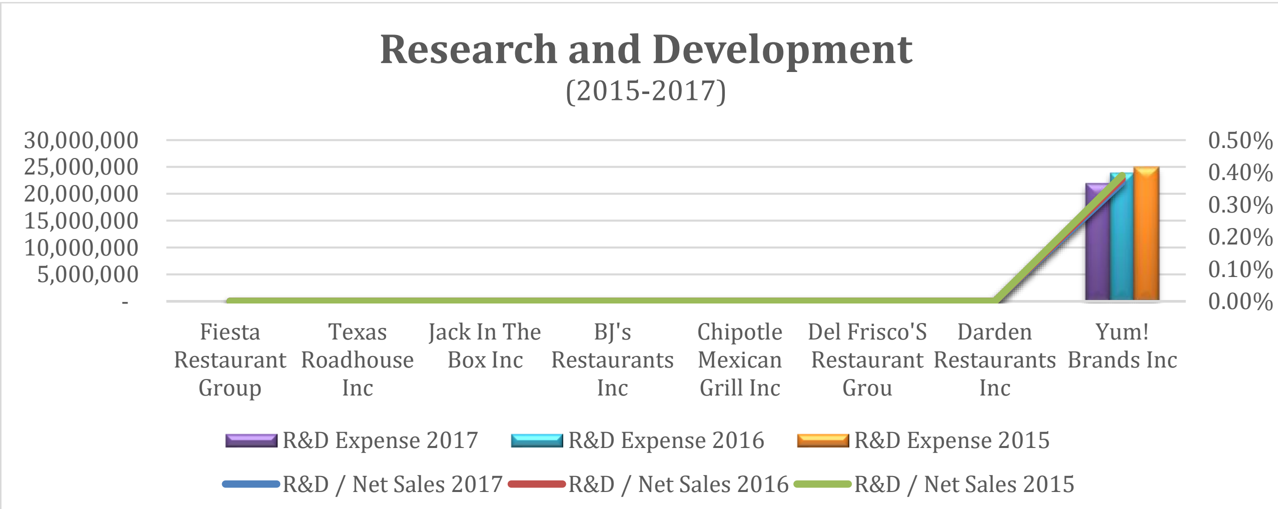


Figure 65 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018

As shown in Figure 65 above, the majority of Fiesta's competitors did not have any investment in R&D for the past three years. While this may seem like a strength for Fiesta due to the unnecessary costs being avoided, the firm has not pursued R&D due to the declining margins (which is emphasized by the loss incurred in 2017 fiscal year). With the full-service restaurant industry not showcasing growth in the R&D sector, other industries have begun to do so, with McDonald's, a fast-food establishment, taking the lead in the fast-food world in terms of innovation, where the firm has recently invested over $2.4 Billion USD in R&D what the CFO called an "Experience of the Future".[125]

[123] Grill-Goodman, J. 2018. "Starbucks to Invest $275M in Partners and Digital". *RIS News*. https://risnews.com/starbucks-invest-275m-partners-and-digital.
[124] Witsil, F. 2018. "How Domino's Used Technology to Woo Millennials And Beat Rival Pizza Hut". *Freep.Com*. https://www.freep.com/story/money/business/2018/03/06/dominos-pizza-technology-app-millennials-ecommerce/373753002/.
[125] "Mcdonald's To Invest $2.4 Billion On Upgrades In 2018". 2018. *QSR Magazine*. https://www.qsrmagazine.com/news/mcdonalds-invest-24-billion-upgrades-2018.

This involved installing thousands of kiosks to increase serving efficiency and decrease the pressure on the staff to focus more on preparing the meals instead of standing behind the cash register. Accordingly, the full-service restaurant is going to have a tough time maintaining its current level of innovation with its substitutes like the fast-food industry pouring resourced into R&D.

Furthermore, the full-service restaurant industry has multiple barriers to innovations. Due to the large labor force each firm has, there seems to be a lack of an innovative culture across the firms, especially with Fiesta and many competitors simply showing next to no innovation. Due to the lack of an innovative culture, the tone passes down from the top with managers not making any recommendations or providing other ideas at the restaurant levels that could give a competitive advantage.

Another barrier to innovation is the marketing of the innovation. While it is difficult to assess the strength of Fiesta's R&D, recent years have shown that Fiesta has taken a different approach for its operations. As previously mentioned, the firm dubbed it "The Plan". This plan includes dramatic changes to the firm's strategies. One of the major changes is the off-premises focus. In recent years, Fiesta has noticed few changes in consumer behavior from visitors to its restaurants' locations. As highlighted in the 2017 Annual Report, there is a strong shift toward off-premise products, which include sandwiches and grab-and-go eligible products. Moving forward, the firm is planning to focus on expanding its drive-through and sandwich menus to accommodate for this change. [126]

[126] Annual Report. "Fiesta Restaurant Group, Inc." Accessed October 8, 2018

Pollo Tropical	Year Ended		
	2017	**2016**	**2015**
Average sales transaction	$11.16	$10.94	$10.76
Drive-through sales (% of Sales)	*47.9%*	*46.3%*	*45.7%*
Day-part Sales percentages:			
Lunch	*47.2%*	*47.1%*	*46.8%*
Dinner and Late night	*52.8%*	*52.9%*	*53.2%*

Figure 66 - Source: Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 7, 2018

As shown in Figure 66 above, the drive-through is slowly rising to account for half of the restaurant sales for Pollo Tropical. Fiesta has realized the potential and the opportunity the firm is going to have once the grab-and-go is expanded via "The Plan". Therefore, Fiesta has done a great job in researching and understanding its consumers' shift toward off-premises consumption. This finding represents why Fiesta is planning on investing resources to understand its consumers and increasing its innovation in its services offered.

Taco Cabana	Year Ended		
	2017	**2016**	**2015**
Average sales transaction	$9.43	$9.27	$9.16
Drive-through sales (% of Sales)	*56.4%*	*55.7%*	*54.7%*
Day-part Sales percentages:			
Breakfast	*23.5%*	*22.3%*	*20.8%*
Lunch	*21.8%*	*22.0%*	*22.4%*
Dinner	*24.7%*	*24.9%*	*25.4%*
Late Night (9 PM to Midnight)	*11.4%*	*11.8%*	*12.1%*
Afternoon (2 PM to 5 PM)	*12.7%*	*12.6%*	*12.7%*
Overnight (Midnight to 6 AM)	*5.9%*	*6.4%*	*6.6%*

Figure 67 - Source: Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 7, 2018

Similar to Pollo Tropical, Taco Cabana's drive-through sales are increasing on a yearly basis. While more than half of Taco Cabana sales came from the drive-through, the average size of the transaction is far lower than Pollo Tropical. Furthermore, Taco Cabana's operational hours differ from Pollo Tropical. This provides Taco Cabana with an advantage that allows it to diversify the sales per portion of the day. As shown in Figure 67 above, the dinner tends to generate the highest revenue for Taco Cabana. However, over the past three years, this amount of dinner is declining and the breakfast menu is increasing. Based on that, Fiesta is planning to expand its breakfast burritos menu going forward in order to accommodate for this change.

Overall, Fiesta has done a good job accumulating the necessary data related to R&D in its annual report. However similar to competitors, Fiesta's current activity is minimal. Accordingly, if Fiesta were to expand its operations in relation to R&D and innovation (which is what they hope to do with "The Plan"), the firm could set itself up for a potential future advantage. In order to do this, many full-service restaurants use surveys and competitors to consider innovation. This reactive strategy is unsustainable and highly costly for a smaller firm such as Fiesta. Moving toward a proactive approach like the indirect competitors, Starbucks and McDonalds, is going to provide Fiesta with a competitive edge to take on large firms such as Yum! Brands Inc. and Chipotle Mexican Grill. Therefore, increasing the size of the R&D department is essential. However based on the historical inactivity, the overall R&D activity is considered a weakness, although there is hope for future with the new plan introduced by the CEO.

<u>R&D – Core Competency Evaluation</u>

Criteria	Y	N	Explanation
Value	X		Fiesta, like many of its competitors, does not spend enough resources on R&D. However, the "Plan" Fiesta wants to implement presents a potentially high value. Moving forward, increasing the data analytics is critical to generate higher values and to extract key market metrics.
Rare		X	Due to the lack of R&D expenses in the past three years, Fiesta does not carry any rarity.
Costly to imitate		X	Choosing to avoid spending the resources on research and development is highly imitable. But in this case, Fiesta cannot force its competitors to spend or withhold the investment in research and development.
Organized to Be Exploited		X	While coming up with new products and new menus is extremely achievable, without a R&D department, it is a matter of understanding the consumer preference at that point in time. Therefore, full-service restaurants try to minimize the R&D budget and in Fiesta's case, there is no organization as they have no R&D department and there is no expenditures.

Overall, the research and development link of the value chain is at a **<u>competitive parity</u>**. This is due to the fact that Fiesta, as well as its competitors, have spent nothing on R&D in the past couple of years. Looking forward, "The Plan" looks to offer Fiesta a potential advantage in the future and if the firm could set up its overall R&D function similar to that of its fast-food counterparts (i.e. McDonalds and Starbucks), the firm could set itself up for a potential competitive advantage – especially as other firms in the industry lack a R&D function altogether. For the time being however, the lack of activity puts Fiesta at a competitive parity and the firm can thus expect average returns.

Corporate Leadership (Abbas)

Fiesta Leadership

The current CEO and president of Fiesta is Richard Stockinger – who has occupied this role since February 2017. Mr. Stockinger holds a Bachelor's Degree from

Seton Hall University. Mr. Stockinger has held multiple notable positions from prior to his tenure as the president and CEO of Fiesta, and this includes being President and CEO of Benihana, Inc. (a restaurant based in Florida) from 2009 to 2014. Stockinger also spent 2 decades at The Patina Restaurant Group LLP based in New York. Following these stints, he developed a reputation as being involved with the turnaround of multiple successful restaurant firms. It was from that point on that Stockinger had become a consultant for Bruckmann, Rosser, Sherrill & Co., a private equity firm, before his current stint as CEO and President of Fiesta. Given Fiesta's recent struggles financially which was emphasized by its losses in the 2017 fiscal year, Stockinger has been tasked with turning around the firm, as he has a significant history of success in turning struggling businesses around. [127] Stockinger aims to work on "lower-risk" and "higher-return". This includes plans to open up new Taco Cabana locations, renovate 20 in Florida – all while improving field operations via evolving menus (to cater to changing preferences such as the off-premises foods) and improved marketing. [128]

One of Fiesta's Vice Presidents (since February 2015) and the CFO (since July 2012), is Lynn Schweinfurth. Schweignfurth brings forward over 20 years of financial management experience primarily in the restaurant and retail industry where she has held various domestic and international led strategic planning positions, while also dealing with mergers and acquisitions, franchise finance and investor relations. Schweinfurth has an MBA from the University of Chicago and a BA in Economics from University of California, Los Angelas (UCLA). Schweinfurth is tasked with significant

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[127] Bloomberg. "Fiesta Restaurant Group, Inc.". Accessed October 6, 2018 https://www.bloomberg.com/research/stocks/people/person.asp?personId=7912342&privcapId=138296738

[128] Kezar, K. "Fiesta Restaurant Group Names CEO; suspends talks of sale". *Dallas Business Journal.* Accessed October 6, 2018 https://www.bizjournals.com/dallas/news/2017/02/27/fiesta-restaurant-group-names-ceo-suspends-talks.html

strategic planning at Fiesta while also ensuring that the firm has sufficient capital required to continue operations. [129]

Another one of Fiesta's senior executives is COO and vice-president (since February 2017) Danny Meisenheimer. Danny has 20 years of experience in the family dining services industry which provides him the basis to provide valuable input to ensure the business operations of the firm are moving smoothly. Furthermore, Danny has also held another significant role with Fiesta; the interim CEO and President from October 2016 to February 2017. This is valuable experience that allows Danny to see how all operations are ran in the firm from a position at the top. Danny has Bachelor Degree in Liberal Studies from the University of Oklahoma.[130]

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[129] Bloomberg. "Fiesta Restaurant Group, Inc.". Accessed October 6, 2018 https://www.bloomberg.com/research/stocks/people/person.asp?personId=7912342&privcapId=138296738

[130] Bloomberg. "Fiesta Restaurant Group, Inc.". Accessed October 6, 2018 https://www.bloomberg.com/research/stocks/people/person.asp?personId=768233&privcapId=138296738

Firm and CEO	Description	Tenure in the Firm
Texas Roadhouse: Kent Taylor	Kent Taylor has served as the CEO since August 11, 2018. Kent has over 35 years of experience in the restaurant industry.	7 years (2011-Present)
Jack in the Box: Leonard Comma	Leonard has served as the CEO since January 1, 2014. Comma is responsible for operations of all Jack in the Box Restaurants and oversees 1,200 restaurant locations across the U.S.	17 years (joined in 2001 as a Director of convenience store and fuel operations working his way up to CEO in 2014)
BJ's Restaurants: Gregory Torjan	Trojan has served as CEO since February 1, 2013. Trojan has significant experience in the entertainment industry with his roles involving blending music, food and retail into an exciting adventure.	6 years (became a Director in 2012 and has been associated with BJ's since)
Chipotle: Brian Niccol	CEO since March 5, 2018. Previously, Niccol served as the CEO of Taco Bell (a division of Yum! Brands from 2015 to 2018). Niccol has over a decade of experience in the restaurant industry. He is known for integrating food innovation and consumer insights to bring excellent results.	<1 year (placement as CEO was in 2018).
Del Frisco: Norman Abdallah	CEO since November 2016. Abdallah has over 25 years of experience in the restaurant, franchise and concept industry. He is known for being able to manage international operations based on prior experience.	2 years (2016-Present)
Darden: Eugene Lee Jr.	CEO since February 23, 2015. Eugene has over 20 years of experience in the restaurant industry. Eugene is well known for his experience in the restaurant and marketing sectors and has used that to great effect throughout his career.	11 years (2007-Present)
Yum Brands: Greg Creed	CEO since January 1, 2015. Creed has over 30 years of experience related to marketing and operations in the restaurant industry. He previously served as CEO of Taco Bell from 2011 to 2015.	3 years (2015-Present)
Fiesta Restaurant Group: Richard Stockinger	CEO since February 1, 2017. Stockinger has an outstanding experience in managing in crisis and turning businesses around.	1 year (2017-Present)

Note: Data extracted from the annual reports of the above-mentioned firms.

Market Cap Decline (Weakness)

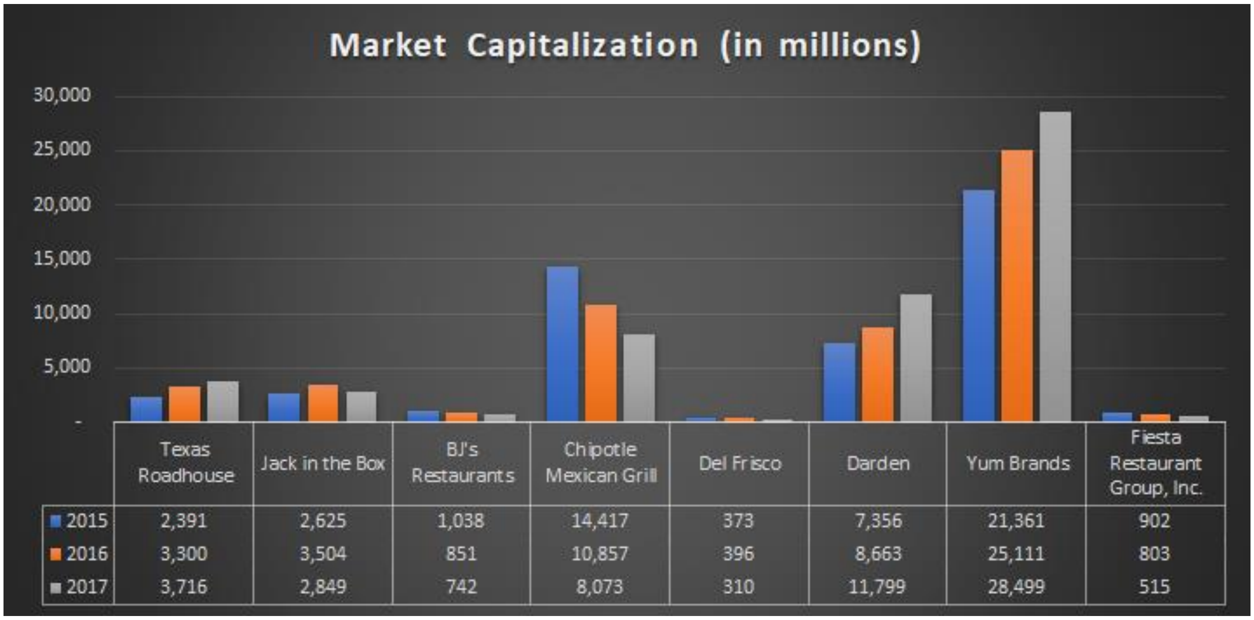
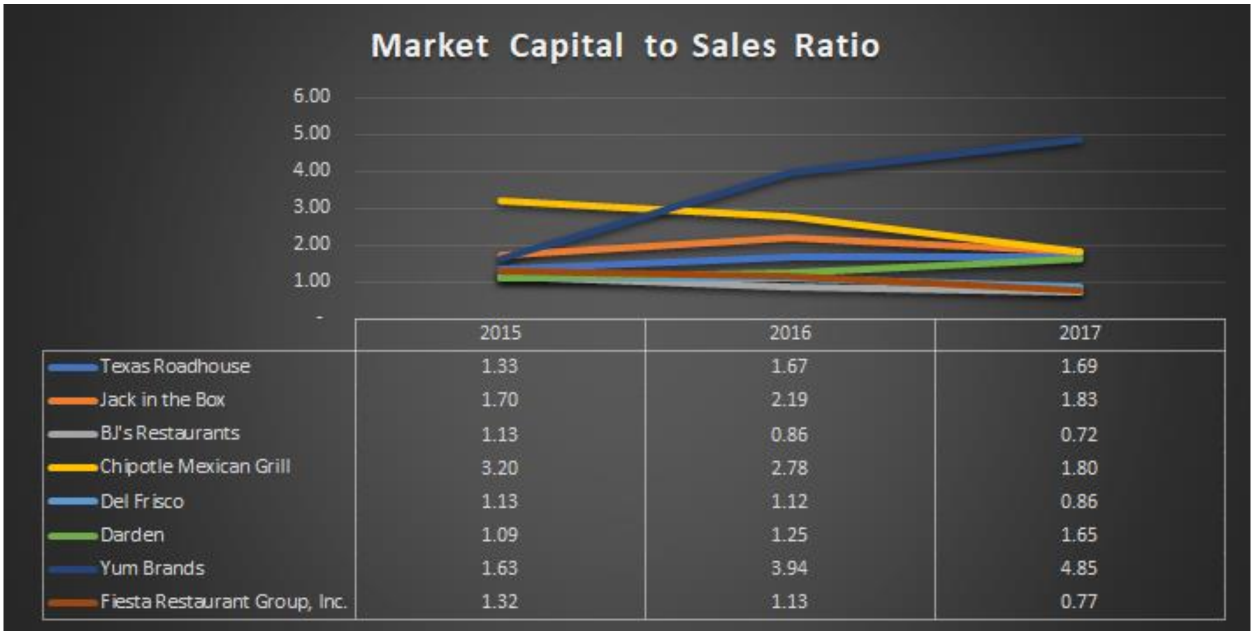


Figure 68 - Source: Bloomberg. "2015-2017 Market Capitalization of Fiesta, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018

Figure 69 - Source: Bloomberg. "2015-2017 Market Capitalization Growth of Fiesta, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018



	2015	2016	2017
Texas Roadhouse	1.33	1.67	1.69
Jack in the Box	1.70	2.19	1.83
BJ's Restaurants	1.13	0.86	0.72
Chipotle Mexican Grill	3.20	2.78	1.80
Del Frisco	1.13	1.12	0.86
Darden	1.09	1.25	1.65
Yum Brands	1.63	3.94	4.85
Fiesta Restaurant Group, Inc.	1.32	1.13	0.77

Figure 70 - Source: Bloomberg. "2015-2017 Market Capital to Sales Ratio, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018

Market capitalization refers to the total dollar market value of a company's outstanding shares. It is commonly referred to as "market cap" and is used to segregate the categories into 3 parts; the large-cap, mid-cap and small-cap firms. Large cap firms have a market cap over $10 billion and as indicated in Figure 68 above, only 2 firms fall under that category in 2017 (Darden and Yum!) as Chipotle fell out in 2017. From these firms, Yum! Brands continues to have the largest market cap by a large margin as it approached $28 billion in 2017. This shows that the current strategy by Yum! has been very effective. However, Fiesta's market cap has continued to decrease over the years. In 2017, it decreased to $515 million from $803 million in 2016. As indicated in Figure 68 with the exception of Yum!, Darden and Texas Roadhouse, all other competitors including Fiesta have experienced a decline in the market cap for 2017. Based on the overall decline in the industry as shown by the declines in market cap, it is quite clear that shareholders are losing interest in investing in firms in the industry given the recent losses – especially by Fiesta. As illustrated in Figure 70, the overall market cap to sales ratio in 2017 went under 1.0 for a few firms, including Fiesta. This indicates that shareholders are selling the shares and that the overall market cap has reached a point where it is below the overall sales level – which in Fiesta's case is significant as the firm experienced a significant loss in 2017. Based on these observations, it is clear that Fiesta has significant work to do to experience growth.

Share Prices Decline (Weakness)

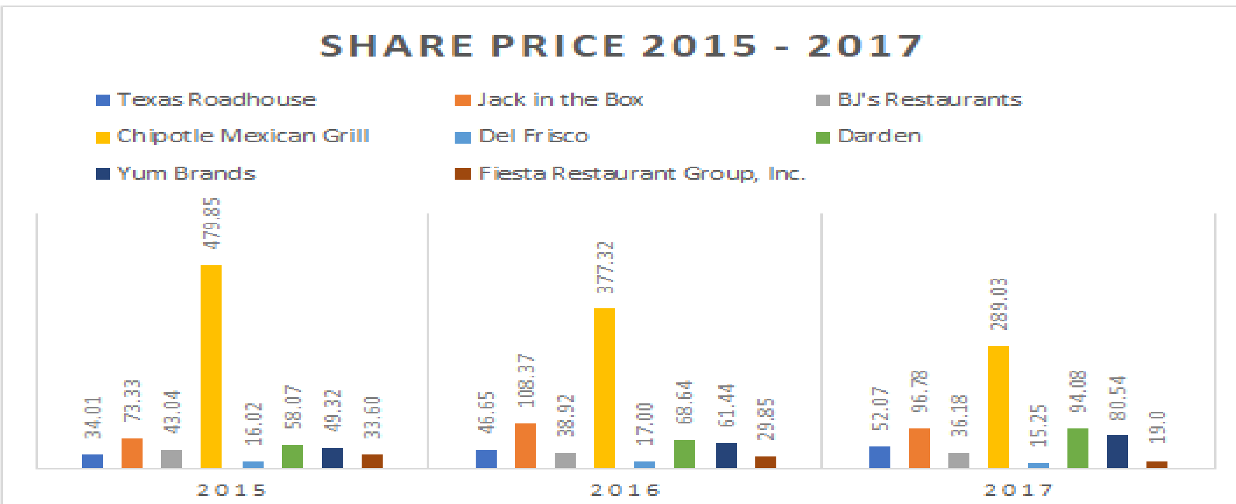
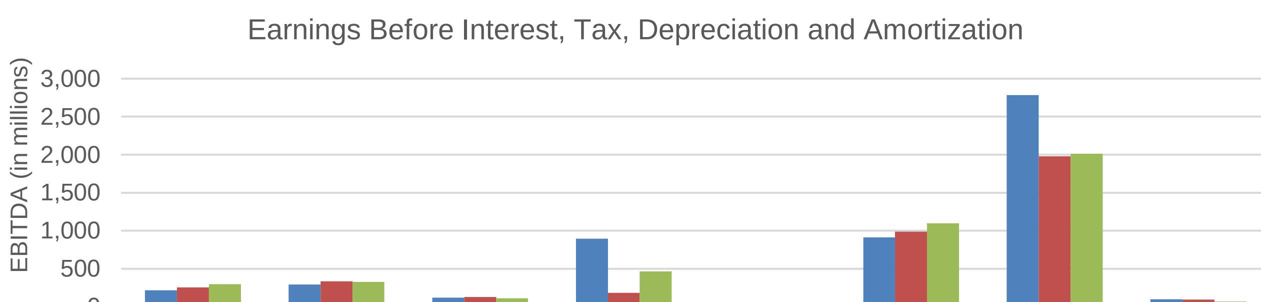


Figure 71 - Source: Yahoo Finance. 2015-2017 Closing Share Prices of Fiesta, Yum Brands, Darden, BJ's Restaurants, Chipotle, Texas Roadhouse, Del Frisco & Jack in the Box. Accessed October 6, 2018

As indicated in Figure 71 above, the share price for Fiesta has fluctuated significantly over the past couple of years. Due to declining performances and the recent losses in 2017, the price of the shares dropped from $29.85 in 2016 to $19.00 in 2017. This marks a decline of about 36% in the share price, which indicates poor performance. Accordingly, this indicates that Fiesta has not done a good enough job meeting the returns shareholders require and as a result, the share prices are declining. From the competitors, Darden, Texas Roadhouse and Yum! Brands continued the pattern of growth with them being the only firms whose shares increased from 2016 relative to 2017. Jack in the Box, Del Frisco and BJ's Restaurants continued to decline while Chipotle's stock price has also significantly dropped.

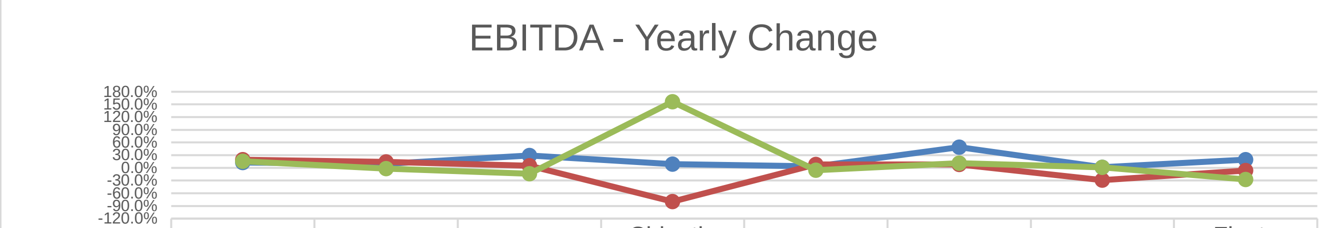
EBITDA Decline (Weakness)

Another measure - EBITDA compares the profit of the major competitors in the restaurant industry. This is an accurate representation of profit as it represents cash earnings with interest, taxes and depreciation added. As indicated below in Figure 72, the EBITDA for Fiesta in 2017 declined to $67.4 million (which represents a 27.37% decline as shown in Figure 73). Texas Roadhouse, Darden and Yum! Brands continued to experience growth with Chipotle also showing some growth in that department. The continued decline by Fiesta indicates that the firm has not done a good enough job meeting operational requirements and as a result, cash earnings are continuing to decline on a year-by-year basis.



	Texas Roadhouse	Jack in the Box	BJ's Restaurant s	Chipotle Mexican Grill	Del Frisco	Darden	Yum Brands	Fiesta Restaurant Group, Inc.
2015	214.00	290.00	120.00	894.00	43.40	912.00	2,784.00	99.00
2016	255.00	332.00	126.00	181.00	46.90	987.00	1,981.00	92.80
2017	295.00	326.00	109.00	464.00	44.40	1,099.00	2,013.00	67.4

Figure 72 - Source: Bloomberg. "2015-2017 Relative Valuation, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018



	Texas Roadhouse	Jack in the Box	BJ's Restaurants	Chipotle Mexican Grill	Del Frisco	Darden	Yum Brands	Fiesta Restaurant Group, Inc.
2015	12.63%	9.43%	29.03%	8.89%	3.33%	48.94%	1.49%	19.28%
2016	19.16%	14.48%	5.00%	-79.75%	8.06%	8.22%	-28.84%	-6.26%
2017	15.69%	-1.81%	-13.49%	156.35%	-5.33%	11.35%	1.62%	-27.37%

Figure 73 - Source: Bloomberg. "2015-2017 Relative Valuation, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018

EPS Decline (Weakness)

A final measure significant measure to take into account under the current corporate leadership would be the Basic EPS. The basic EPS is essentially the amount of income/loss during the period that is available to the outstanding common stock of its company. [131] This essentially indicates either a net income or net loss for the period. In Fiesta's case, as indicated in Figure 74 below, the EPS in 2017 was (1.35) which indicates a loss. This followed the trend from 2016, which experienced a significant drop to 0.62 from 1.44 in 2015. As indicated in Figure 75, the firm experienced a significant decline in the EPS for all years except 2014. This is further corroborated by the continuing decline in the business income, as the declining income is represented by the declining EPS for Fiesta. For the competitors, as indicated in Figure 75 below, Texas Roadhouse, Jack in the Box, BJs Restaurants, and Yum Brands have all continued to experience growth from 2015 to 2017. This illustrates that these firms have done well enough to offer growing returns to their shareholders. One further correlation noticed is that considering EPS growth, the firms with CEOs that have longer tenure

[131] Corporate Finance Institute. "Earnings Per Share (EPS)". Accessed October 8, 2018 https://corporatefinanceinstitute.com/resources/knowledge/finance/what-is-earnings-per-share-eps/

than the others (Texas Roadhouse – 7 years, Jack in the Box – 17 years, BJ's Restaurants – 6 years) have shown growth in recent years. This indicates that the firms who have had an established core for quite some time do well and in the case of Fiesta, one note we could take is that the senior executives have not worked together for a considerable amount of time. This lack of experience working with each other results in the firm not being at an ideal fit altogether – although this could change over time – especially with the new appointments (i.e. Stockinger).

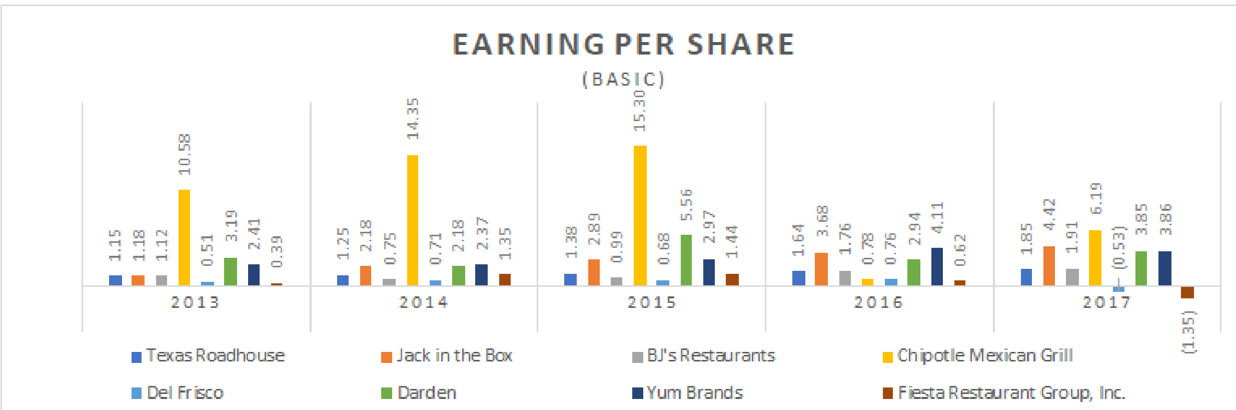
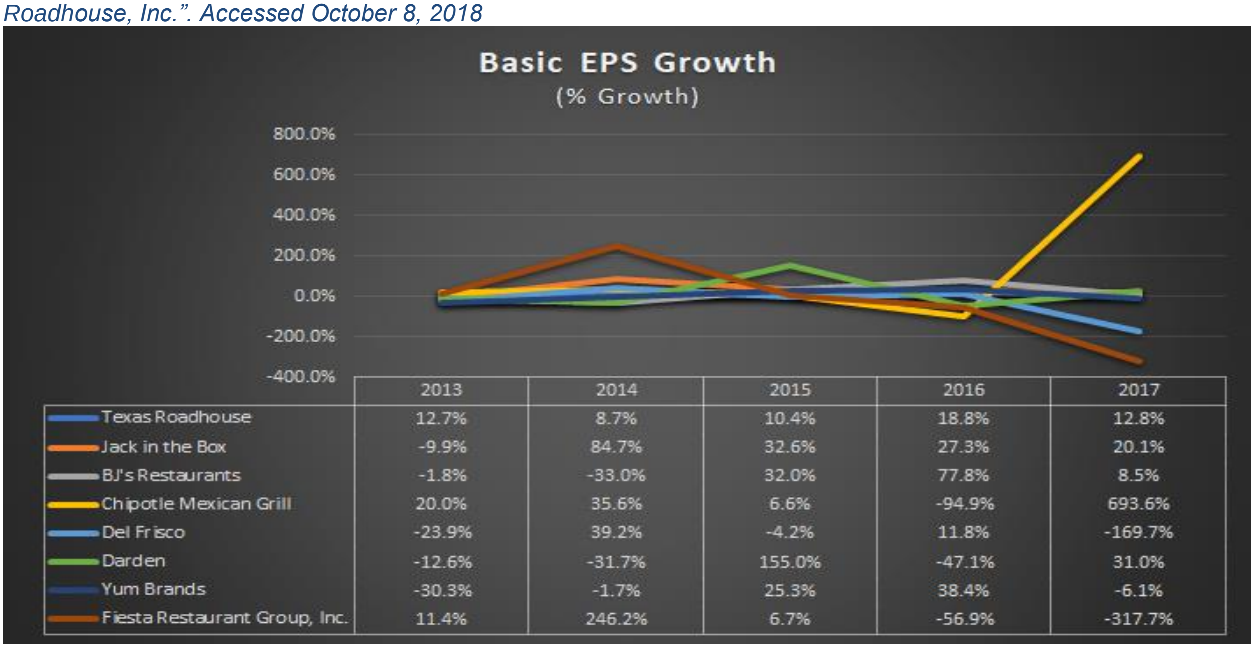


Figure 74 - Source: Mergent Online. "2015-2017 Income Statements of Fiesta Restaurant Group, Inc., Yum Brands Inc., Darden Restaurants, Del Frisco, Chipotle Mexican Grill, BJ's Restaurants, Inc., Jack in the Box, Inc. & Texas Roadhouse, Inc.". Accessed October 8, 2018



	2013	2014	2015	2016	2017
Texas Roadhouse	12.7%	8.7%	10.4%	18.8%	12.8%
Jack in the Box	-9.9%	84.7%	32.6%	27.3%	20.1%
BJ's Restaurants	-1.8%	-33.0%	32.0%	77.8%	8.5%
Chipotle Mexican Grill	20.0%	35.6%	6.6%	-94.9%	693.6%
Del Frisco	-23.9%	39.2%	-4.2%	11.8%	-169.7%
Darden	-12.6%	-31.7%	155.0%	-47.1%	31.0%
Yum Brands	-30.3%	-1.7%	25.3%	38.4%	-6.1%
Fiesta Restaurant Group, Inc.	11.4%	246.2%	6.7%	-56.9%	-317.7%

Figure 75 - Source: Mergent Online. "2015-2017 Income Statements of Fiesta Restaurant Group, Inc., Yum Brands Inc., Darden Restaurants, Del Frisco, Chipotle Mexican Grill, BJ's Restaurants, Inc., Jack in the Box, Inc. & Texas Roadhouse, Inc.". Accessed October 8, 2018

<u>Corporate Leadership – Core Competency Evaluation</u>

Criteria	Y	N	Explanation
Valuable	X		Stockinger has extensive experience bringing struggling firms back to healthy margins. Compared to other industry competitors who already have growth figures (i.e. Darden, Yum! and Texas Roadhouse), Fiesta has had to look for specialized help in order to help lead the charge to growth.
Rare		X	The restaurant industry has no shortage of CEOs who are qualified to lead firms and help establish them in the markets. The restaurant industry is one of the most extensive in the U.S. especially and despite Fiesta picking a leadership team with extensive experience, there are many qualified individuals to select from.
Costly to imitate		X	Given the nature of the industry, the restaurant industry CEOs do not provide any indication that imitating each other is costly (in terms of the corporate leadership structure). This is because firms tend to negotiate with leadership their salaries and new positions and this is highly driven by the market standards.
Organized to be exploited		X	Given the recent performance in market capital to sales as well as the declining share prices and EPS, there is no indication that the entity has a significant strength in this criterion.

The CEO for Fiesta has significant experience which is recognized by the public and industry insiders. He hopes to do well in restoring Fiesta's performance to a high-level and growth but it will be difficult given the recent drops Fiesta has experienced. The professional knowledge Stockinger has related to this industry will lead to what is hopefully a more competitive position in the future and he has already started implementing new measures (i.e. renovations) to help lead the charge. Overall, Fiesta's position in this case however is one in which they lack a rarity as there is a large candidate pool with extensive experience in the restaurant industry which is not expensive to imitate. As a result, Fiesta has a **<u>competitive disadvantage</u>** in the overall corporate leadership and clearly has an issue in terms of the teams overall fit.

Secondary Value Chain Analysis – Overall VRIO

Criteria	Y	N	Explanation
Valuable	X		Fiesta has a significant value in its secondary value chain. While Fiesta does not have a significant value in terms of its HRM (they only meet industry standards in some cases and fall short in others), they have a sufficient plan to move forward with R&D that will add value in the future. In addition, it's hiring of Stockinger as CEO as well as numerous other top positions has given them significant value – especially at the CEO level as Stockinger has extensive experience turning struggling firms around.
Rare		X	Fiesta does not contain a rarity in its secondary VC as they have had little R&D ongoing in the past year while in terms of HRM its structure is not differentiated in that basically meet industry standards. At the corporate level, they have staff which is very experienced but that is not difficult to find in an industry as large as the full-restaurant industry in the U.S.
Costly to imitate		X	In terms of HRM, there is no advantage for Fiesta as the industry is standardized (i.e. wages, education level for certain positions) and market driven. As Fiesta only meets these requirements, along with other firms, there is no significant cost. For R&D, many firms have also copied Fiesta and decided not to pursue R&D over the last couple of years which is not costly. Finally, the corporate leadership is hired based on experience and every competitor needs to maintain an adequate leadership with rates and experience driving the market. As a result, there is no strength here either.
Organized to be exploited		X	In terms of HRM, Fiesta offers an adequate salary and additional compensation that retains employees. In terms of R&D, the firm has an adequate plan moving forward however in the past 3 years there was no activity to capture consumer input which puts them at a disadvantage. In terms of corporate leadership, the firm has no advantage based on the metrics such as market cap and share prices and EPS that continue to decline.

Overall, the activities of the secondary value chain of Fiesta put the firm at a **competitive disadvantage**. This is emphasized by its metrics such as market cap and share price continuing to decline as well as the under average returns experienced in 2017 – especially when compared to its competitors. Therefore, the firm can expect below average returns.

Summary of Internal Environment (IFE)

CSF	Weight	Fiesta Rating	Weighted Score
Strengths			
Revenue per Employee **– increasing which indicates good productivity**	0.025	3	0.075
Customer outreach – **excellent work done, especially after hurricanes**	0.05	4	0.20
Distribution logistics – **lower costs due to close supplier distribution centres**	0.05	3	0.15
Revenue growth and sales – **firm has continued to experience growth**	0.10	4	0.40
Days Sales O/S – **Low figure indicates adequate credit collection levels at the firm**	0.05	3	0.15
Weaknesses			
Inventory turnover and Average days in Inventory **– firm spends a significant amount managing inventory**	0.10	2	0.20
Days in A/P – **firm has a significant amount of payables which cause liquidity problems**	0.05	1	0.05
Degree of operating leverage & DFOL – **negative DOL indicates high indirect and operational costs**	0.025	2	0.05
EBIT, EBITDA, Market Cap & ROE – **decline indicates the firm's operations are costly and not being matched by revenues while the corporate leadership is not doing a good job leading the firm**	0.15	1	0.15
Supplier relations – **With the firm having a consolidated supplier, it relies on 1 party for most products which gives the supplier more leverage and puts the firm at risk**	0.10	2	0.20
Market share – **very low amount relative to larger competitors**	0.05	1	0.05
Search trends, advertising and social media **– no advertising plan is put in place while the firm has little social media activity to reach new customers**	0.10	1	0.10
Loyalty program – **No program put in place**	0.05	1	0.05
Number of employees & Employee turnover – **number of employees declined albeit not significantly due to the loss sustained in 2017 fiscal**	0.05	2	0.10
Research and development – **Lack of a R&D program ultimately limits potential innovation**	0.05	1	0.05
Total	1.0		**1.975**

Fiesta received a score of 1.975 on its IFE. Interpretation of this score indicates that Fiesta has a very weak average internal structure, especially when comparing to the industry average (2.50). Although this score is heavily influenced by multiple factors, Fiesta's main strength is that the revenue has continued to grow despite various factors potentially hindering it (i.e. hurricanes causing closures). Other strengths include the customer outreach via its work done following the hurricanes, its distribution logistics being cost-effective, its collection being adequate and its overall revenues per employee increasing, which indicates good productivity. From these strengths, customer outreach and revenue growth received scores of 4 as Fiesta has done well despite many store closures during the hurricane season while also going above and beyond in assisting the community. However, in terms of weaknesses, the declines in EPS, EBIT, market cap and ROE indicate inadequate performance by the firm and poor corporate leadership. As a result, the firm has received a rating of 1 while also being the factor with the highest weight (0.15). Another significant weakness is the overall advertising and social media presence which has a weight of 1.0. Fiesta has very little social media presence (especially on Instagram) while they also lack a marketing plan for the short-term. As a result, they received a rating of 1. Other weaknesses include the lack of a loyalty program, no formal R&D program, inventory and employee turnover, market share decline and a negative degree of operating leverage. Overall, the number of weaknesses for this firm internally outnumber the strengths and this ultimately resulted in the under-average IFE rating of 1.975 which makes Fiesta an **unattractive firm**.

Summary of Internal Environment

Activity	Competitive Consequences
Primary Value Chain Activities	
Supply Chain Management	Competitive Disadvantage
Operations	Competitive Disadvantage
Distributions	Competitive Disadvantage
Marketing and sales	Competitive Disadvantage
Customer Service	Competitive Disadvantage
Secondary Value Chain Activities	
Human Resource Management	Competitive Disadvantage
R&D	Competitive Parity
Corporate leadership	Competitive Disadvantage
Average	**Competitive Disadvantage**

In conclusion, Fiesta falls under the competitive disadvantage category when looking at the primary and secondary value chain activities. The most important value chain activities are ones which are essential in the restaurant industry. This includes operations which deal with the running of the overall business, which includes making strategies and ultimately decides the overall efficiency level. Secondly, customer service is essential to restaurants as it is what the firm uses to communicate with customers and arguably distinguishes one restaurant from another. Supply chain and distribution are also significant functions as firms must be able to receive their goods in an efficient manner in both price and timing.

Fiesta competes with many firms in the full-service restaurant industry, and this includes much larger firms such as Yum! Brands, Chipotle Mexican Grill and Darden Restaurants.

When looking at the supply chain for Fiesta, the firm has been underperforming in terms of inventory turnover and average days in inventory. The overall inventory ratio is low relative to its competitors and this indicates that the firm is struggling to get rid of inventory and holds a significant amount of inventory for a while which may then need to get thrown out and will increase costs to replace the lost inventory. When comparing with its competitors, Fiesta clearly lags behind and needs to implement a new supply chain strategy that will correct the inventory level and meet the demands of customers as they currently operate at a competitive disadvantage.

Despite Fiesta having stable revenues in the operations activity, some significant issues remain. The first is that the firm has a declining EBIT and ROA which indicates inefficient operations. Secondly, the firm’s degree of operating leverage (which indicates how a firm’s operating income changes with more sales) is negative – which means if the firm makes more sales, there will be larger losses due to inefficient costs. Finally, the firm operates mostly in Texas and Florida while competing with firms such as Yum! Brands and Chipotle who are nationally renowned. This means that they are competing with firms with a much larger exposure and brand name. As a result, this is a weakness for Fiesta as it operates in a limited area and its recent losses indicate inefficient operational processes.

In terms of distribution, Fiesta has a competitive disadvantage. This is because Fiesta has consolidated its supplier (Performance Food Group) for its main restaurant chains. This results in Fiesta being fully dependent on the distributor and should there be issues such as contamination, Fiesta could be forced to shut down for a while. Furthermore, competitors have diversified their distributor networks or simply turned parts of it into in-house functions (i.e. with Chipotle), which means they are less reliant on any individual distributor and give them less power (unlike Fiesta). However, one advantage with Fiesta consolidating its supplier is that Performance Food Group has many distribution centers in Texas and Florida which ultimately saves them costs.

Moving forward, Fiesta should look at the potential trade-off of reducing its dependency with the overall cost as they currently operate at a disadvantage.

In terms of a marketing plan, Fiesta operates at a competitive disadvantage. This is shown by the low market share (which indicates Fiesta has not done a good enough job capturing customers) as well as the lack of social media and advertising. Given that social media is very important in marketing today, the lack of activity is harming Fiesta. Furthermore, there is no short-term plan indicated in the annual report. This means that Fiesta has been harming its bottom line with excessive advertisement spending that is not yielding significant results (as shown in the lack of market share). Fiesta needs to make a change and introduce a coordinated marketing plan in order to get out of a competitive disadvantage.

Fiesta's customer service is one in which they operate at a disadvantage. While the firm has done will with the activities conducted following Hurricanes Harvey and Irma, the lack of a loyalty and rewards program harms the firm immensely, especially when many major firms now contain these. Without a loyalty program, Fiesta will have difficulty developing and introducing its corporate culture to consumers and as a result it operates at a competitive disadvantage.

Fiesta's overall number of employees has declined while the turnover in the restaurant industry continues to remain high relative to the private sector. With Fiesta's performance requiring it cut costs, the firm needs to do better with retaining staff. Even though the overall revenue per employee increased (which is a slight strength in this case), the statistic is affected by the fact that the firm has experienced stable growth but the losses sustained in the prior year resulted in a reduction of employees and an increase in the overall revenue per employee. Accordingly, the statistic is rather misleading. With the staff reduction and employee turnover increasing, the firm needs to implement new HR measures to leave the competitive disadvantage it operates at.

Research and development is difficult to achieve in the restaurant industry. In fact, Fiesta has been virtually non-existent until recently along with other firms such as BJ's Restaurants and Texas Roadhouse having no R&D expenditures in the last 3 years. Larger firms such as Yum! Brands do have R&D and continue to look for new innovations. With Fiesta spending nothing on R&D in the prior years, there is definitely room to start looking for new ideas and this includes those mentioned in the annual report such as the introduction of off-premise products. With Fiesta's idea moving forward; "The Plan", the firm is establishing a way to receive more consumer input. This will allow them to be able to get more ideas for R&D and accordingly meet consumer demands. As a result, the firm as at a competitive parity in this case.

Fiesta's corporate leadership is a competitive disadvantage. The firm's decline in market cap, EBITDA, EPS and Share Price indicate that it is being inadequately ran. However, one important note is that the firm has recently hired a new CEO. Stockinger has experience turning struggling restaurants around and this may have been a very smart strategic move. Despite this, the firm continues to experience declines with key metrics and as a result the corporate leadership clearly has issues in terms of the teams overall fit and is classified as a competitive disadvantage.

After considering the primary and secondary value chain activities, it is determined that Fiesta is **not** an attractive firm in the industry, as evidenced by its IFE rating of 1.975. The firm currently operates at an overall competitive disadvantage and will need to improve in many of the facets mentioned above which will take significant work as the firm will need significant resources in order to do so. Fiesta's introduction of a new corporate leadership aims to kick-start this, however there is much work to be done at both the primary and secondary activity levels.

Part IV: Corporate Strategy

Corporate Strategy

Important Corporate Metrics (Abbas)

Market Capitalization

Market capitalization refers to the total value of a company's outstanding stock. This is calculated by multiplying the total shares currently outstanding by the market price of a firm's shares. This metric is important to investors because it allows them to analyze the size of a firm while also providing an indication of the firm's value on the open market. Market cap also allows investors to analyze past performance and use it to determine potential patterns for estimates related to the future as it ultimately reflects what investors are willing to pay for the stock. Firms could be classified as large-cap companies (market cap greater than $10 billion), medium-cap ($2 billion to $10 billion) and small-cap ($300 million to $2 billion). Mid-cap companies typically are ones that are in established industries and have prospective growth. Small-cap firms typically have a higher level of unsystematic risk. Large-cap firms are well-established firms and are thus typically lower risk.[132]

Figure 76 below depicts Fiesta's market capitalization along with its competitors. As indicated, the market cap for Fiesta, Del Frisco and BJ's Restaurants all fall within the small-cap range ($300 million to $2 billion). Texas Roadhouse, Jack in the Box and Chipotle are mid-cap firms ($2 billion to $8 billion), while Darden and Yum! Brands are large-cap (over $8 billion market cap).

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[132] Fidelity. "Understanding Market Capitalization". Accessed October 21, 2018 https://www.fidelity.com/learning-center/trading-investing/fundamental-analysis/understanding-market-capitalization

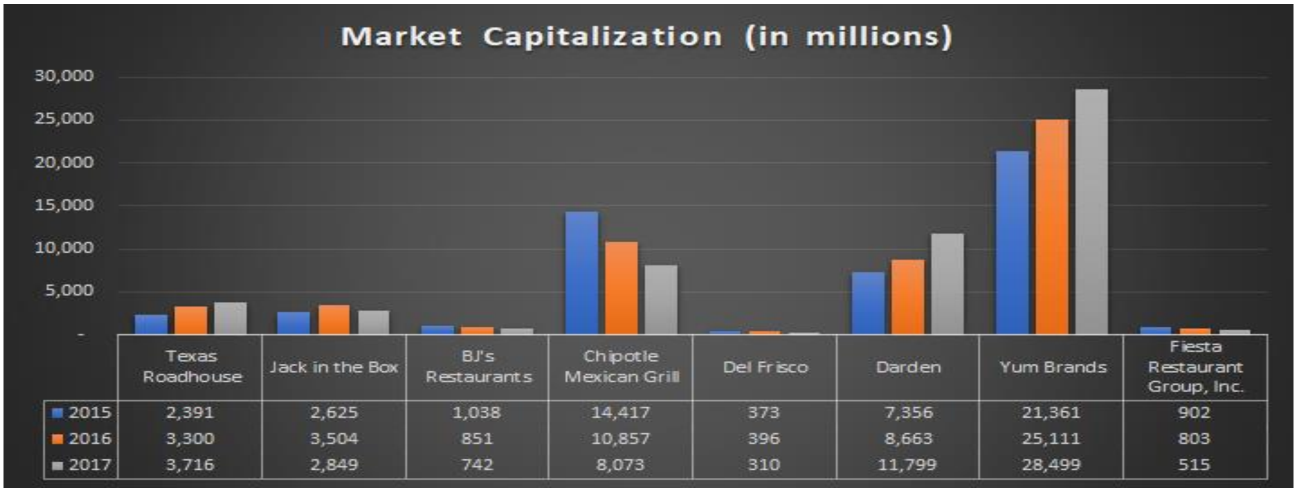


Figure 76 - Source: Bloomberg. "2015-2017 Market Capitalization of Fiesta, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018

Figure 77 below shows the yearly growth (decline) of the market capitalization of Fiesta and its competitors. As indicated, Fiesta has suffered a significant decline in the last 3 years, with the most recent decline in 2017 being 35.86%. Additionally, Del Frisco (21.71%), Chipotle (25.64%), BJ's Restaurants (12.80%) and Jack in the Box (18.71%) also declined, while Yum! Brands, Darden and Texas Roadhouse significantly increased. For Fiesta, this decline could largely be attributed to the decline in performance during the 2017 fiscal year in which there was a loss experienced.[133] This loss experienced by Fiesta puts the firm in a tough position – especially as the firm has declined the most relative to its competitors. With Fiesta being a small-cap firm (which already has a significant risk associated with it), this decline in the market cap shows that investors have recognized the risk associated with Fiesta and as a result there has been less investments overall, as indicated by the declining share price (discussed below). Based on the decline in the market cap, it is clear that investors are losing trust

[133] Investopedia. "Is FRGI Too Cheap After Declining?". Accessed October 21, 2018 https://www.investopedia.com/news/frgi-too-cheap-after-declining-frgi/

in Fiesta's leadership and that the current corporate strategy is not yielding the results that are attractive to the investors.

When a firm buys back outstanding shares, it is typically a signal that the outstanding shares are undervalued.[134] Fiesta has not repurchased any shares in the 2015, 2016 and 2017 fiscal years. This is because due to various covenant restrictions from the firm's debt, the capital restructuring operations were limited and this included the firm not being allowed to repurchase shares. [135] However, as recently as 2018, the firm announced on February 26, 2018 that the Board of Directors had approved a share repurchase plan for up to 1.5 million outstanding shares.[136] This is subject to multiple factors including share price, trade volume and general market conditions. However there has been no repurchase yet and as a result, the firm's approval has yet to yield any activity related to share repurchases.

	2015	2016	2017
Fiesta Restaurant Group, Inc.	-44.64%	-10.98%	-35.86%
Yum Brands	1.10%	17.56%	13.49%
Darden	20.70%	17.78%	36.20%
Del Frisco	-32.89%	5.93%	-21.71%
Chipotle Mexican Grill	-32.11%	-24.70%	-25.64%
BJ's Restaurants	-20.55%	-18.00%	-12.80%
Jack in the Box	-9.96%	33.51%	-18.71%
Texas Roadhouse	7.67%	37.98%	12.61%

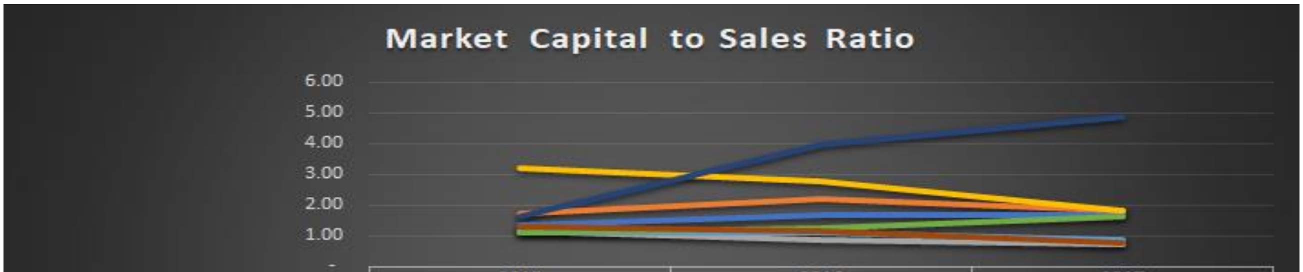
Figure 77 - Source: Bloomberg. "2015-2017 Market Capitalization Growth of Fiesta, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018

[134] Globe and Mail. "Boom in Share Buybacks is big and Possible Dumb". Accessed October 21, 2018 https://www.theglobeandmail.com/globe-investor/investment-ideas/boom-in-share-buybacks-is-big-and-possibly-dumb/article38217681/
[135] Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx
[136] Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx

Market Capitalization to Sales Ratio

The market-cap to sales ratio specifies the firm's stock price relative to overall revenues. Ultimately, this provides an indication of the value of each dollar a firm earns in revenue. A lower value typically indicates a more attractive stock (as it has a lower market cap and higher revenue) while a higher ratio is typically unattractive, although this is not binding as revenue is only one of many factors related to market price and capitalization. [137] As indicated in Figure 78 below, the decline in market capital to sales ratio is evident in 2017, when it reached 0.77. Of the competitors, Yum! Brands had the highest ratio in 2017 at 4.85, while BJ's Restaurants had the lowest at 0.72 followed by Fiesta at 0.77. As mentioned, the lower a ratio is, the better and in Fiesta's case, this could be seen as favourable in a sense that compared to its competitors, the ratio is low. However, one direct part of the calculation is the market cap and with the market cap declining for Fiesta over the last few years due to inadequate corporate strategies and performance, it is quite clear that a major reasons the ratio has declined was due to the declining market cap. One significant factor for Fiesta however is that the firm has significant outstanding debt (as do competitors) and this is a factor in the market cap. Many firms issue additional shares in order to use the proceeds to reduce the debt, however Fiesta is restricted from being able to do that due to the covenants in place that restrict share repurchases and other capital restructuring. As Fiesta is restricted from raising capital, it has impacted the firm's corporate strategies which have led to a decline in investment of the firm, despite stable revenues.

[137] Investopedia. "How to Use Price-to-Sales Ratio to Value Stocks". Accessed October 21, 2018 https://www.investopedia.com/articles/fundamental/03/032603.asp



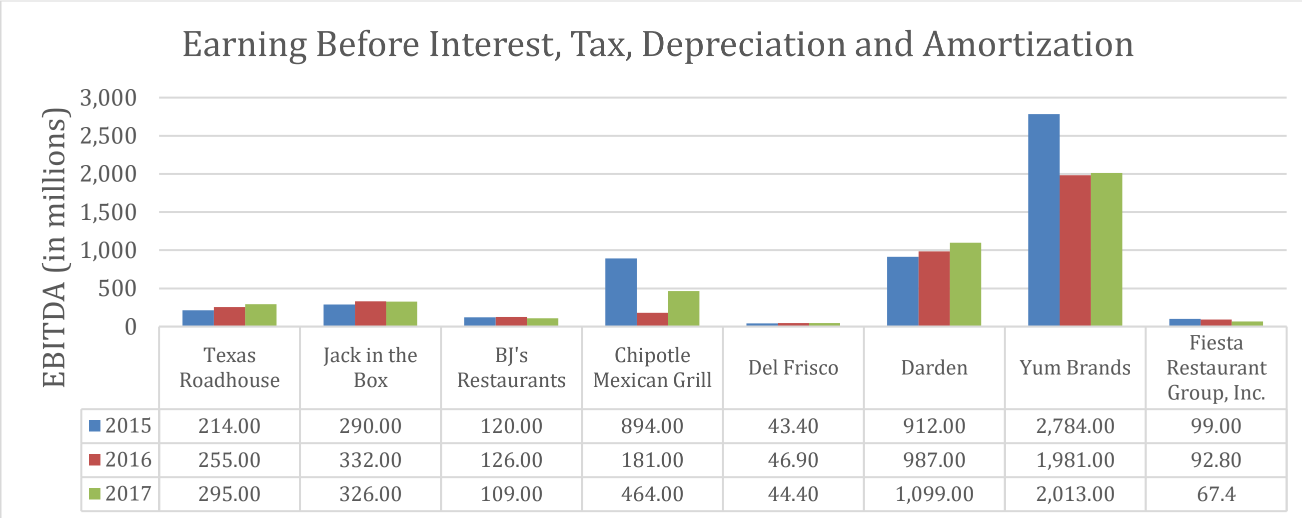
	2015	2016	2017
Texas Roadhouse	1.33	1.67	1.69
Jack in the Box	1.70	2.19	1.83
BJ's Restaurants	1.13	0.86	0.72
Chipotle Mexican Grill	3.20	2.78	1.80
Del Frisco	1.13	1.12	0.86
Darden	1.09	1.25	1.65
Yum Brands	1.63	3.94	4.85
Fiesta Restaurant Group, Inc.	1.32	1.13	0.77

Figure 78 - Source: Bloomberg. "2015-2017 Market Capital to Sales Ratio, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018

EBITDA Analysis

EBITDA is an important metric for investors, especially when comparing firms in this industry. This measurement includes a measure of profit which excludes items such as interest, depreciation and taxes. EBITDA provides investors the figures of how much a firm is making before superfluous deductions. With growth, EBITDA indicates that the firm's corporate strategy is working, and that value is being derived with the investors' money. [138] As indicated in Figure 79 below, the EBITDA for Fiesta has declined in 2017 to $67.4 million from $92.8 million in 2016. Texas Roadhouse, Darden, Yum Brands and Chipotle all experienced growth, while Del Frisco, BJ's Restaurants and Jack in the Box also experienced declines.

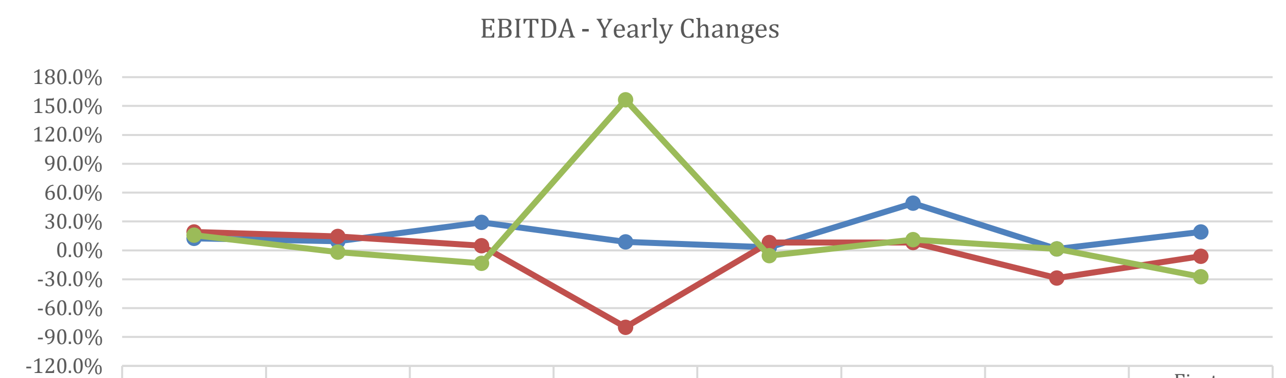
[138] CNBC. "EBITDA: CNBC Explains". Accessed October 21, 2018 https://www.cnbc.com/id/45467003



	Texas Roadhouse	Jack in the Box	BJ's Restaurants	Chipotle Mexican Grill	Del Frisco	Darden	Yum Brands	Fiesta Restaurant Group, Inc.
2015	214.00	290.00	120.00	894.00	43.40	912.00	2,784.00	99.00
2016	255.00	332.00	126.00	181.00	46.90	987.00	1,981.00	92.80
2017	295.00	326.00	109.00	464.00	44.40	1,099.00	2,013.00	67.4

Figure 79 - Source: Bloomberg. "2015-2017 Relative Valuation, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018

As shown in Figure 80 below, Fiesta's EBITDA has declined over the past 2 years, with the decline in 2016 being 6.26% and the decline in 2017 substantially increasing to 27.37%. This metric indicates that Fiesta's operational performance has been declining in the past 2 years, especially in 2017 where the EBITDA declined by almost a third. This also helps provide a rationale as to why the market cap decreased, as investors likely did not respond well to the decline in the company's performance. Based on that, it is clear that Fiesta's operational performance declined and that since the indication is that the firm has not done a good job using investors' money, the risk of investing in the firm has significantly increased.



	Texas Roadhouse	Jack in the Box	BJ's Restaurants	Chipotle Mexican Grill	Del Frisco	Darden	Yum Brands	Fiesta Restaurant Group, Inc.
2015	12.63%	9.43%	29.03%	8.89%	3.33%	48.94%	1.49%	19.28%
2016	19.16%	14.48%	5.00%	-79.75%	8.06%	8.22%	-28.84%	-6.26%
2017	15.69%	-1.81%	-13.49%	156.35%	-5.33%	11.35%	1.62%	-27.37%

Figure 80 - Source: Bloomberg. "2015-2017 Relative Valuation, Yum Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box & Texas Roadhouse." Accessed October 8, 2018

Share Price and EPS

Figure 81 below showcases closing share prices of Fiesta and its competitors from 2015 to 2017. Share prices are affected by multiple factors, but the two primary influences are the firm's performance and the economic environment around it. Share price also indicates mismanagement in the firm and ultimately measures the overall financial health. Additionally, creditors tend to look more favourably at firms with a higher performance and share price, and are more willing to negotiate more workable financing agreements with them. [139] As indicated below, Fiesta's share price has declined in 2017 to $19/share from $29.85/share in 2016. This marks a decline of 36% in share price (which is also a similar percentage decline to the market cap). The major takeaway from the decline in share price is that the firm has been unable to meet the returns shareholders expect and as a result, the prices decline due to inadequate performance. This is a major problem for Fiesta as the firm now looks unattractive to

[139] Investopedia. "Why Do Companies Care About Stock Price". Accessed October 21 ,2018 https://www.investopedia.com/investing/why-do-companies-care-about-their-stock-prices/

potential investors, while creditors may offer more unfavourable terms in the event that Fiesta needs additional funds to carry on operations. Accordingly, the decline in price indicates mismanagement at the overall corporate level.

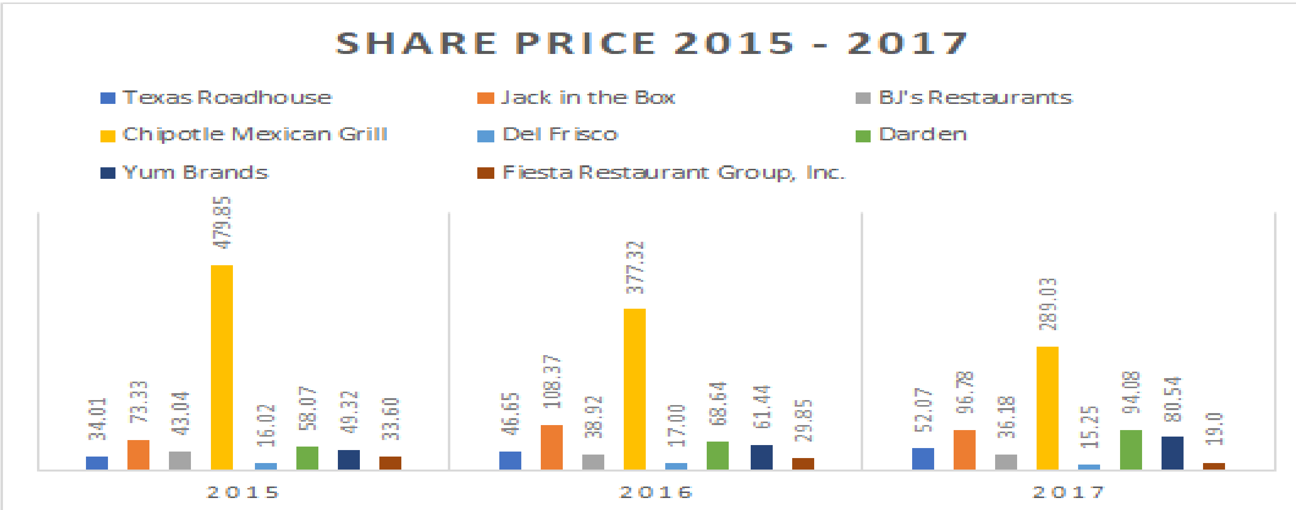


Figure 81 - Source: Yahoo Finance. 2015-2017 Closing Share Prices of Fiesta, Yum Brands, Darden, BJ's Restaurants, Chipotle, Texas Roadhouse, Del Frisco & Jack in the Box. Accessed October 6, 2018

Earnings per Share (EPS) serve as an indicator of a firm's profitability. The calculation for EPS is by dividing the net income of the firm by the weighted average outstanding number of common shares. The metric is a sole calculation isolating net income to come to a dollar value of what shareholders have gained by investing in the company, and as a result, it is a leading metric used by investors to make decisions. [140] An increasing EPS indicates that the investor is getting an increasing portion of the firm's growing profits, which is the driving force behind the decision of investing. As shown below in Figures 82 and 83, the EPS for Fiesta has declined significantly due to the losses sustained in the 2017 fiscal year (down to -$1.35 and a percentage decline of 317.7%). This negative EPS is a major problem for Fiesta as from an investors perspective, Fiesta would appear to not have enough funds to pay any dividends or

[140] NASDAQ. "Earnings per Share – The NASDAQ Dozen". Accessed October 21, 2018 https://www.nasdaq.com/investing/dozen/earnings-per-share.aspx

further invest in assets to facilitate growth. With Fiesta experiencing a decline in EPS in both 2016 and 2017, investors may start looking away from the firm as they will likely feel that they will not achieve adequate returns. Accordingly, the low EPS indicates that the firm has an overall low profitability and that significant changes are required in order to turn the firm around.

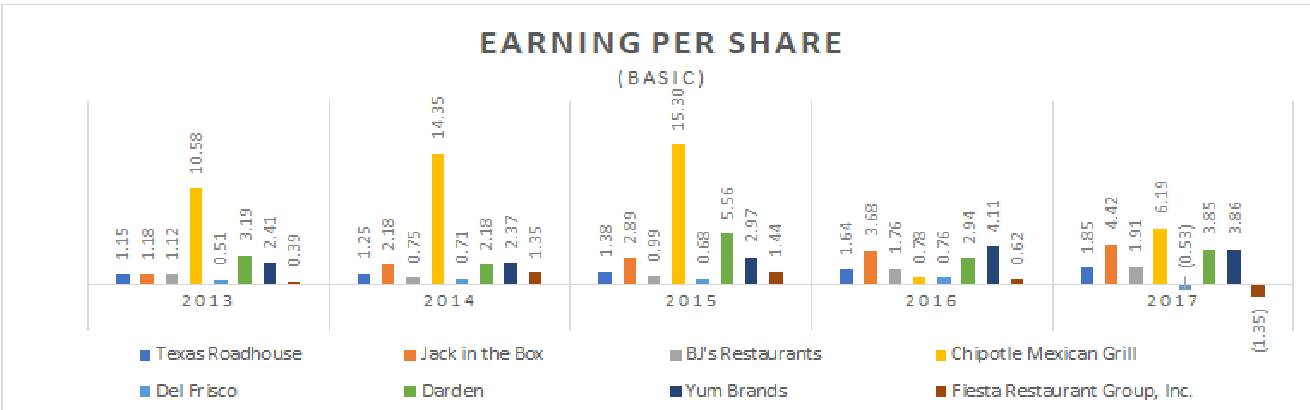
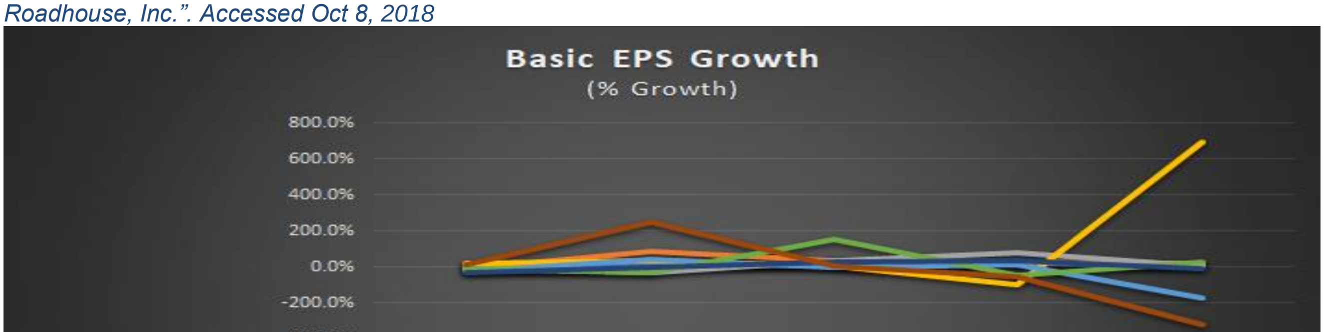


Figure 82 - Source: Mergent Online. "2015-2017 Income Statements of Fiesta Restaurant Group, Inc., Yum Brands Inc., Darden Restaurants, Del Frisco, Chipotle Mexican Grill, BJ's Restaurants, Inc., Jack in the Box, Inc. & Texas Roadhouse, Inc.". Accessed Oct 8, 2018



	2013	2014	2015	2016	2017
Texas Roadhouse	12.7%	8.7%	10.4%	18.8%	12.8%
Jack in the Box	-9.9%	84.7%	32.6%	27.3%	20.1%
BJ's Restaurants	-1.8%	-33.0%	32.0%	77.8%	8.5%
Chipotle Mexican Grill	20.0%	35.6%	6.6%	-94.9%	693.6%
Del Frisco	-23.9%	39.2%	-4.2%	11.8%	-169.7%
Darden	-12.6%	-31.7%	155.0%	-47.1%	31.0%
Yum Brands	-30.3%	-1.7%	25.3%	38.4%	-6.1%
Fiesta Restaurant Group, Inc.	11.4%	246.2%	6.7%	-56.9%	-317.7%

Figure 83 - Source: Mergent Online. "2015-2017 Income Statements of Fiesta Restaurant Group, Inc., Yum Brands Inc., Darden Restaurants, Del Frisco, Chipotle Mexican Grill, BJ's Restaurants, Inc., Jack in the Box, Inc. & Texas Roadhouse, Inc.". Accessed Oct 8, 2018

Mission Statement (Matthew)

Fiesta does not have a mission or vison statement. This is an issue for the firm as a mission statement effectively outlines a corporation’s goals and makes it known what objectives they hope to achieve. Having no mission or vision is a weak sign for a business as it does not specify the direction the firm wants to head in relative to its competitors in the market and as a result it offers no differentiation for a firm, while it also does not help with strategic decision making, especially since a corporate mission and vision statement should be consulted when making significant corporate strategy changes. Accordingly, Fiesta should design a mission and vision statement aimed at providing stakeholders a clear indication of what the firm aims to achieve, especially as the lack of a statement appears to be very harmful in the eyes of key stakeholders, including investors. Based on that, the recommended mission statement for Fiesta would touch upon key requirements that are aimed at establishing why the firm exists as well as guiding management decisions. With the firm’s corporate leadership being ineffective, as emphasized by the poor performance in various key metrics, having a mission statement would help guide managerial decision making and set management up for more effective decisions as well as provide a roadmap to the firm’s future.

Current Corporate Strategy (Matthew)

Vertical Integration:

Fiesta is engaged in downstream vertical integration. The firm’s revenue stream consists of one primary source (restaurant sales) and one minor source (royalties from franchising). Both activities are consistent with the engagement of products and consumers. Therefore the firm is vertically integrated in the downstream portion of its value chain. Approximately 99.5% of Fiesta's $669 million annual revenue was generated from restaurant sales.[141] A further breakdown shows that $371 million were generated from Pollo Tropical and $295 Million from Taco Cabana. With reference to Figure 84, the overall revenue sources for the firm is outlined below for the past 4 years. The remaining 0.5%[142] of revenue generated from Fiesta was royalty fees from franchisee of Pollo Tropical and Taco Cabana brands.

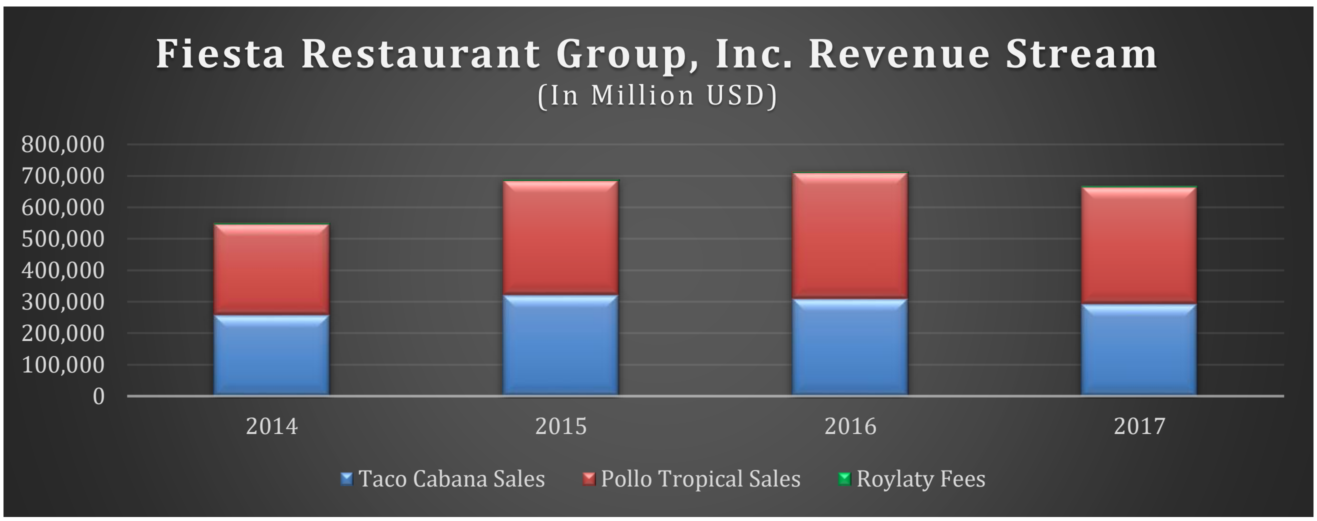


Figure 84 – Source: Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx

In addition to this, Fiesta has taken measures to engage in backward vertical integration in its current corporate strategy. This is done with the company vertically integrating its chicken supply chain for.[143] As of January 2018, Fiesta has full control of the feed and breed of all chicken purchased for Pollo Tropical's operations. While this

[141] Fiesta Restaurant Group Inc- Fiesta Restaurant Group Inc 2017 Annual Shareholder Report http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf (Accessed on October 19th, 2018)
[142] Fiesta Restaurant Group Inc- Fiesta Restaurant Group Inc 2017 Annual Shareholder Report http://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_FRGI_2017.pdf (Accessed on October 19th, 2018)
[143] Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx

corporate strategy does not generate any revenue for the firm it allows it to have a stronger position in the distribution of the commodity expenditures the firm incurs by creating backward vertical integration for the firm by taking stronger control of midstream activities.

Horizontal Integration:

Fiesta has two NAICS classifications. For its 2 brands, the firm has the following NAICS code: 722511, which is the code for full-service restaurants.[144] These 2 brands are responsible for providing value to the downstream portion of the value chain by being responsible for all of Fiesta's revenue. Fiesta as a holder is characterized under the following NAICS code: 561110, which entails office and administrative services.[145] This classification is used as a result of the firm's function being the management towards both of its restaurants and thus being a holding company for its brands. Given Fiesta's current corporate strategy, there is no activity towards acquisition of businesses within its corresponding industries. Furthermore, Fiesta's loan obligations under its current senior crediting facility has implemented negative covenants that would make it impossible for Fiesta to acquire any businesses.[146]

Geographic Diversification:

Fiesta owns 146 Pollo Tropical restaurants, 166 Taco Cabana restaurants and is engaged in 37 franchise agreements.[147]Of the 146 Pollo Tropical restaurants, 141 of

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[144] US Census Bureau. "North American Classification System (NAICS)". Accessed October 20, 2018 https://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart=2017

[145] US Census Bureau. "North American Classification System (NAICS)". Accessed October 20, 2018 https://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart=2017

[146] Fiesta Restaurant Group, Inc. "Fiesta Restaurant Group, Inc. Q2 2018 Shareholders Report". Accessed October 20, 2018 http://d18rn0p25nwr6d.cloudfront.net/CIK-0001534992/40ea50bc-5870-457e-94a4-573cec608b0d.pdf

[147] Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx

them are in Florida – primarily in the Miami Dade area, with the remaining five locations being in Georgia. In addition to this, Pollo Tropical has 25 franchise locations outside of Texas, Florida, and New Mexico, with seventeen in Puerto Rico, four in Panama, two in Guyana, one in Venezuela (although this location has since been closed) and one in the Bahamas.[148] Taco Cabana on the other hand has remained one hundred percent domestic, as all of the 166 locations are situated in Texas, whereas six of Taco Cabana's franchises are located in Texas with the remaining two being in New Mexico. Fiesta is not a geographically diverse firm and chooses to engage in a domestic strategy. Apart from franchising, the firm does not operate any businesses outside the United States and given that franchising comprised less than one percent of all revenue being generated, it is determined that international markets are an insignificant portion of Fiesta's current corporate strategy. Furthermore, these franchise agreements in Guyana and Panama are insignificantly monitored by Fiesta. This means that all costs associated with operations are incurred by the franchisee and Fiesta does not control any activities. [149] From Figure 85 below, the lack of geographic disbursement is clear, with 83% of Pollo Tropical's locations being situated in Florida. Furthermore, from Figure 86 below, the geographic distribution of Taco Cabana's restaurants is 99% situated in Texas.

[148] Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx

[149] Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx

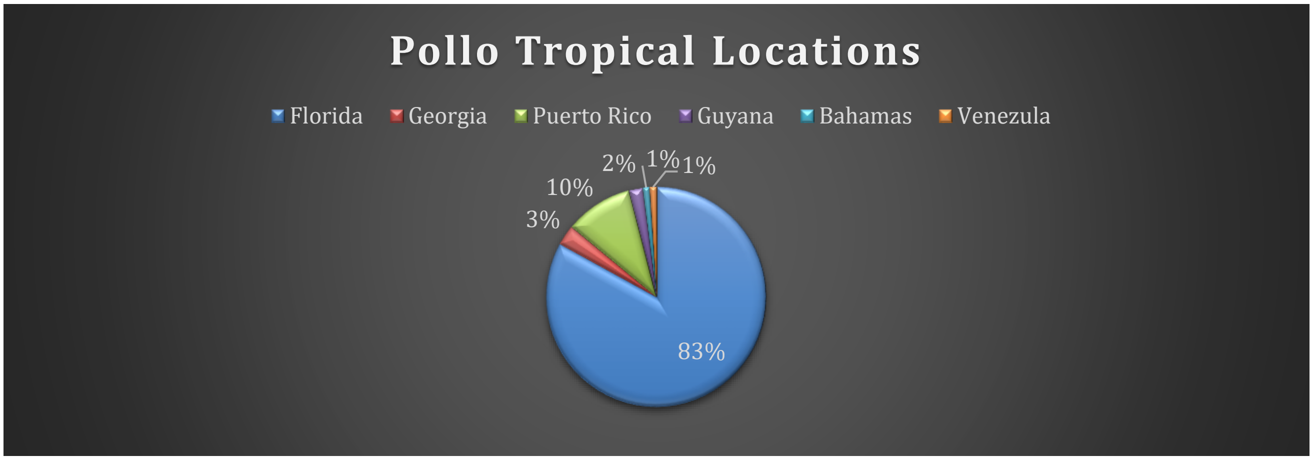

Figure 85 - Source: Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 *https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx*

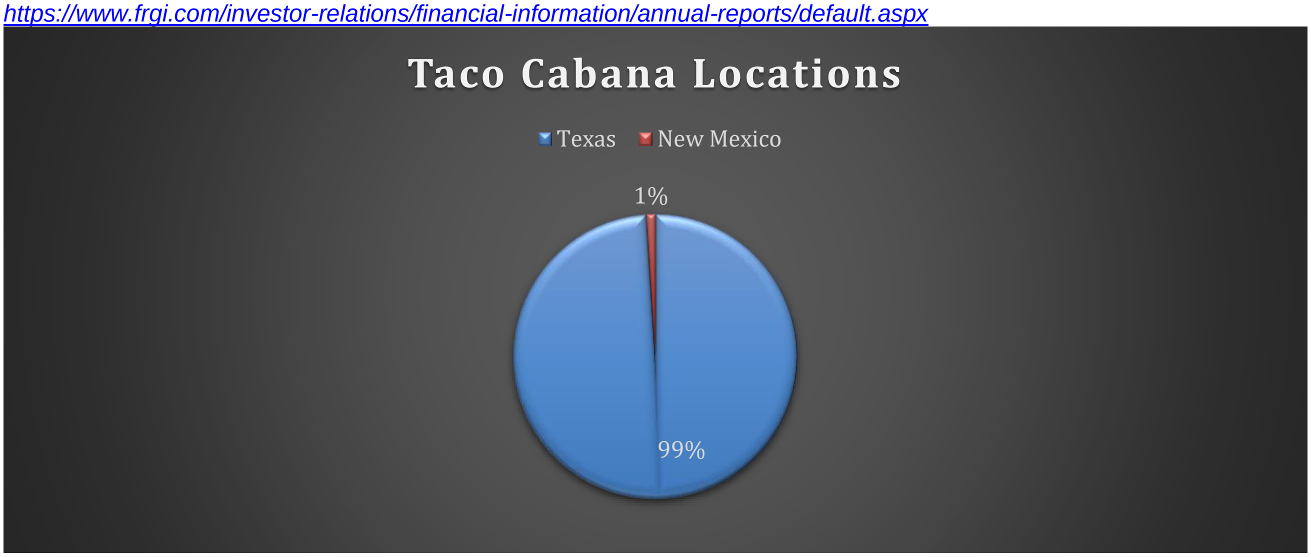

Figure 86 - Source: Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 *https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx*

Problems with Current Corporate Strategy (Matthew)

Issues with Vertical Location:

Fiesta is using unnecessary resources by engaging in mid-stream value chain activities. The firm made the decision to take control of the feed and breed of the chicken supply chain for Pollo Tropical in hopes that NAE chicken will appeal to a more health conscious demographic. Based on firm news and SEC filings, it is unclear as to whether or not Fiesta has actually engaged in any significant market research as to how the NAE chicken would substantially benefit the firms business. There is also no detail on the implementation or costs of the firms need for NAE chicken. Substituting non-anti biotic chicken for chicken with antibiotics cuts into the company's expenditures and is uncertain as to whether or not it will create any attractiveness for the consumer. Fiesta is currently under contract with two primary distributors and 6 minor distributors. All agreements expire on December 31, 2018.[150] Based on the current agreement, Fiesta is better not expanding its supply chain as the cost benefit it provides is not certain, especially with the firm not having done significant research. Accordingly, the firm should remain in the downstream portion of the value chain.

Issues with Horizontal Integration:

Fiesta's core business is concentrated within the full-service restaurants. Given that it is impossible for the firm to acquire another firm due to its covenants,[151] there is no synergy being generated throughout the firm through the use of business combinations. Fiesta is missing out on opportunities by staying horizontally concentrated in a single industry. The firm generated 99.5% of its revenues from restaurant sales. By taking an undiversified approach, the firm is missing out on possible synergies from other industries. Through entering new markets, Fiesta can diversify its holdings and reach new revenue streams in different markets, while also realizing the opportunity to grow its market capitalization.

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[150] Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx

[151] Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx

Issues with Geographic Location:

Fiesta engages in a national strategy with extreme geographic concentration. 83% of all Pollo Tropical restaurant locations are in Florida and 99% of all Taco Cabana locations are in Texas. With a high amount of concentration in these two states, Fiesta is limiting itself by averting the ability to enter into new markets. The concentration of the company has cut off potential revenue growth by not penetrating new markets through geographic diversification. In 2017, Pollo Tropical had to close 44 locations and Taco Cabana had to close 6 due to the impact caused from both Hurricane Irma and Hurricane Harvey[152]. With reference to Figure 87, the frequency of natural disaster by state is clear. Texas has been the state to experience the most natural disasters and Florida is in fifth[153]. By not being geographically diverse, the impact that the Hurricanes had on Fiesta was devastating reporting and resulted in a $36 million loss on the annual income statement, which is in contrast to the $16.7 million annual net income in 2016. [154] Failing to engage in strategic placement has resulted in the company experiencing event risk caused from natural disasters.

[152] Fiesta Restaurant Group, Inc. “SEC Filings 2015, 2016 and 2017”. Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx

[153] *Source: World Atlas. “Frequency of Natural Disasters by State since 1953”. Accessed October 24, 2018* https://www.worldatlas.com/articles/the-10-states-most-prone-to-natural-disasters.html

[154] Fiesta Restaurant Group, Inc. “SEC Filings 2015, 2016 and 2017”. Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx

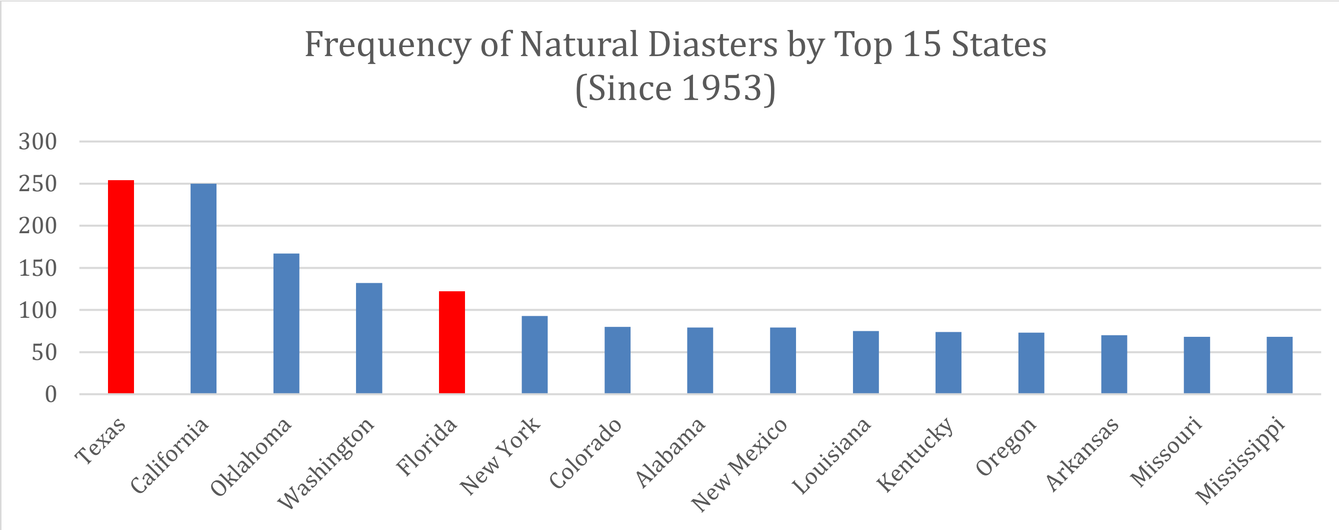

Figure 87 - Source: World Atlas. "Frequency of Natural Disasters by State since 1953". Accessed October 24, 2018 https://www.worldatlas.com/articles/the-10-states-most-prone-to-natural-disasters.html

Corporate Strategy Recommendation (Matthew)

National Expansion

By placing nearly all of Taco Cabana's locations in Texas and nearly all of Pollo Tropical's locations in Florida, Fiesta is over penetrating the geographic markets it is located in. This stagnates growth potential and places restrictions on the overall level of market share the firm is able to effectively attain. Essentially, Fiesta should continue its national strategy given the size of the firm and the barriers to enter into international markets. It would be best to gain brand reputation within the United States before relocating abroad. However, there is concern drawn from the placement of both brands. Our recommendation is to strategically reposition Pollo Tropical and Taco Cabana by opening new locations New Mexico, and Georgia. Both brands already have established themselves there but having a larger market presence can be beneficial to the firm and assist in new growth opportunities.

New Mexico:

With just two franchised Taco Cabana locations in New Mexico, the state comprises just 1% of all geographic placement[155]. However, the popularity of the two locations has exceeded expectations in contrast to Taco Cabana's Texas locations. As shown in Figure 88, the Google Trend analysis showcases that Taco Cabana is a far more widely searched topic within New Mexico than in Texas, despite having a far lower presence in terms of number of locations. The success of Taco Cabana's New Mexico locations have won over its consumer as being a far more attractive brand within the state. Furthermore, the level of online attractiveness is comparable to that of Chipotle Mexican Grill, who is the leader in the state.

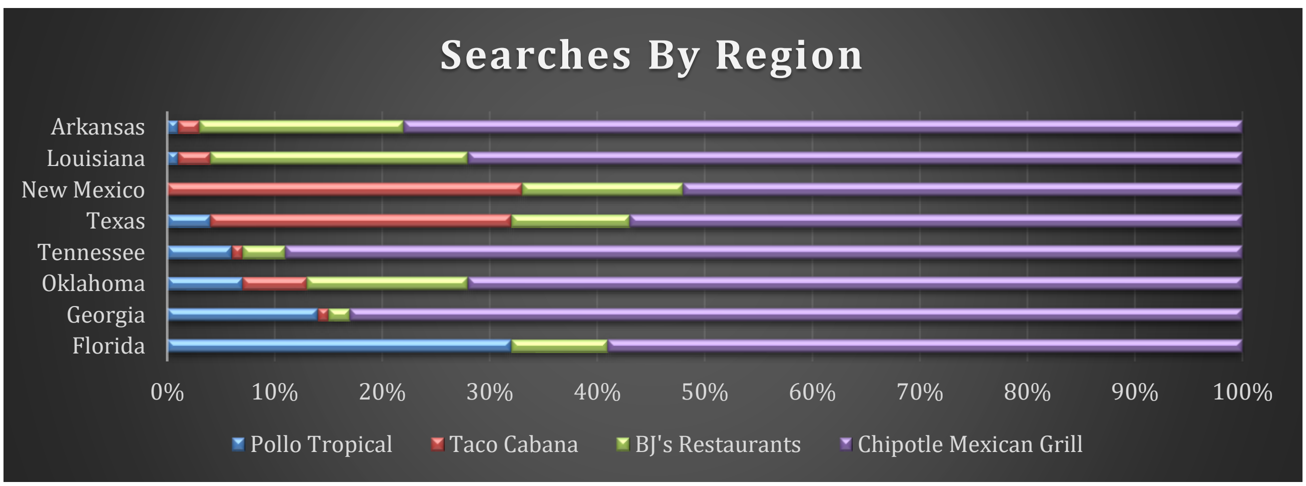

Figure 88 - Source: Google Trends. "Compare: BJ's Restaurants, Chipotle Mexican Grill, Taco Cabana & Pollo Tropical Search Traffic by Region". Accessed on October 8, 2018

Despite New Mexico being a much smaller market than Texas, the racial demographics of the state could be beneficial in determining the success of Fiesta's expansion. New Mexico has the largest proportion of Latin-Americans relative to any other state in the country. As shown in Figure 89, the percentage of Latin population in

[155] Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx

New Mexico is 48.8%, which puts them far above the national average of 18.1%.[156] Given that Taco Cabana specializes with Mexican cuisine, New Mexico's demographics could be provide an advantage over other themed full-service restaurants by being more appealing towards the local demographics of the community. Accordingly, the expansion of Taco Cabana into New Mexico is an attractive strategy.

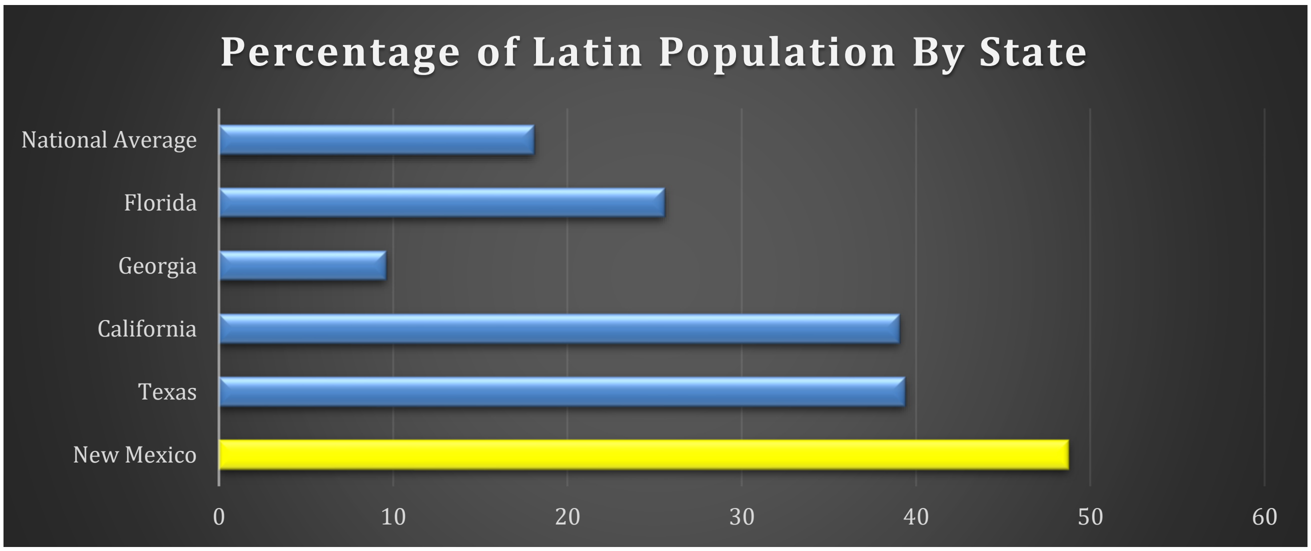

Figure 89 - Source: United States Census. "Quickfacts: Georgia, California, Florida, Texas, New Mexico". Accessed October 21, 2018 https://www.census.gov/quickfacts/fact/table/ga,ca,fl,US,tx,nm/RHI725217

Given the devastating impact that Hurricane Harvey caused to Taco Cabana and the overall impact that natural disasters have caused the state of Texas, expanding to New Mexico is an effective tool to alleviate the risk of this occurring again. Texas has experienced the largest frequency of natural disasters exceeding any other state in the country. As demonstrated from Figure 89 above, New Mexico has had 79 natural disasters in the past sixty five years whereas, Texas has had 254 despite the two states neighboring each other.[157] Fiesta could soften the blow of any lost cash flows caused

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[156] United States Census. "Quickfacts: Georgia, California, Florida, Texas, New Mexico". Accessed October 21, 2018 https://www.census.gov/quickfacts/fact/table/ga,ca,fl,US,tx,nm/RHI725217
[157] World Atlas. "Frequency of Natural Disasters by State since 1953". Accessed October 24, 2018 *https://www.worldatlas.com/articles/the-10-states-most-prone-to-natural-disasters.html*

from natural disasters by taking on a more geographically diverse approach and relocating to a safer area such as New Mexico.

Georgia:

Pollo Tropical currently has five locations within the Atlanta area comprising 3% of the overall geographic disbursement of this brand. In reference to the socio-cultural portion of the external analysis, it was determined that population growth presents an opportunity within the full-service restaurant industry. According to the 2017 Census data, Georgia is the eight largest state in America with a population of 10.412 Million inhabitants, while also displaying a strong growth rate of 1.1% annually. [158] Georgia is already a large market for full-service restaurant industry, but with the potential to become an even greater market in the near future due to population growth, Pollo Tropical should exploit this opportunity. The firm already has a market presence within the state, and with the expected continued population growth, the firm has an opportunity to further expand.

Given Pollo Tropical's misfortunes in 2017 which saw the closure of 44 restaurants as a result of Hurricanes Irma and Harvey and other stores experiencing some level of property damage, Georgia is an excellent candidate for geographic diversification. From Figure 90 below, it is displayed that Georgia has the lowest frequency of natural disasters relative to any other southern state. By contrast, Florida has had 122 natural disasters since 1953 and Georgia has only had 60.[159] Taking a

[158]United States Census. "Idaho Is Nation's Fastest Growing State, Census Bureau Reports". Accessed October 22, 2018 https://www.census.gov/newsroom/press-releases/2017/estimates-idaho.html
[159] World Atlas. "Frequency of Natural Disasters by State since 1953". Accessed October 24, 2018 *https://www.worldatlas.com/articles/the-10-states-most-prone-to-natural-disasters.html*

sample of twelve states that border Mexico as well as ones near the border, Georgia exhibits the most safety relative to any of its neighbors.

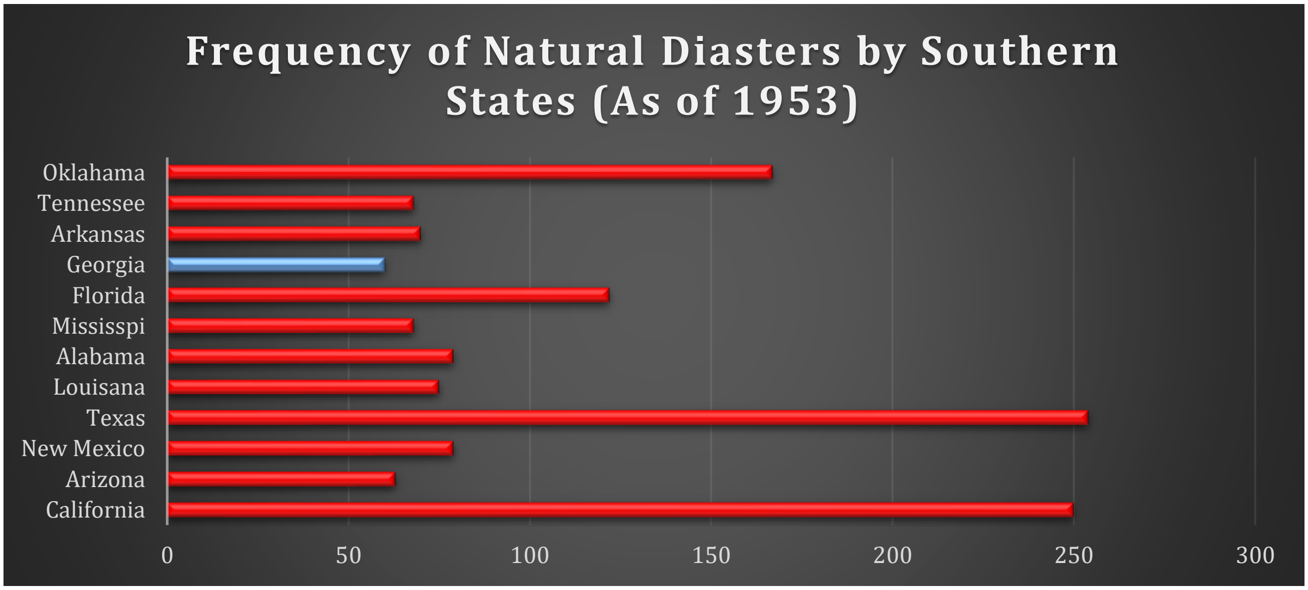

Figure 90 - Source: Source: World Atlas. "Frequency of Natural Disasters by State since 1953". Accessed October 24, 2018 https://www.worldatlas.com/articles/the-10-states-most-prone-to-natural-disasters.html

Pollo Tropical lost $42.372 million in 2017.[160] This was primarily because of the impact that Hurricanes Irma and Harvey caused the firm. With a diverse geographic placement, Pollo Tropical could have alleviated this risk. With the mixture of Georgia having a stable population and having a lower natural disaster rate, it is within Fiesta's best interest to redistribute a few of its locations to the state of Georgia.

Action Plan:

The corporate strategy recommendation is to strategically place Taco Cabana in New Mexico and Pollo Tropical in Georgia. This will give the firm a more diversified geographic presence. Raising capital is currently an issue for Fiesta, given its negative covenant. This makes it difficult for the firm to raise debt or take on any form of loan

[160] Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx

obligation that would allow the firm to change its corporate strategy.[161] The plan for Fiesta to expand and thus meet the current capital requirements is to have the firm liquidate three Taco Cabana locations and Pollo Tropical locations. With 95% of Fiesta locations being leased and 5% being owned[162], in order to effectively raise capital for this project liquidation will only occur for the stores that are owned to reduce fees that would be incurred from cancelling capital leases before expiration date. After liquidation, the goal is to use the proceeds to pay for Pollo Tropical and Taco Cabana's locations, which will be leased. It is estimated that the interior costs for Pollo Tropical be in the range of $500-700 thousand annually with the exterior costs being $1.1-1.4 million annually. For Taco Cabana, the estimate for interior costs is in the range of $400-700 thousand dollars annually, with exterior costs expected to be between $500 thousand and $1.3 million annually. [163] Previous supply chain agreements with Performance Food Inc. and Kelly's Food Inc. will be expedited to the new locations along with the training and hiring of new employees. The average carrying value for one of Fiesta's locations is between $2.9-3.6 million which is within the range of money required to open up the new locations.

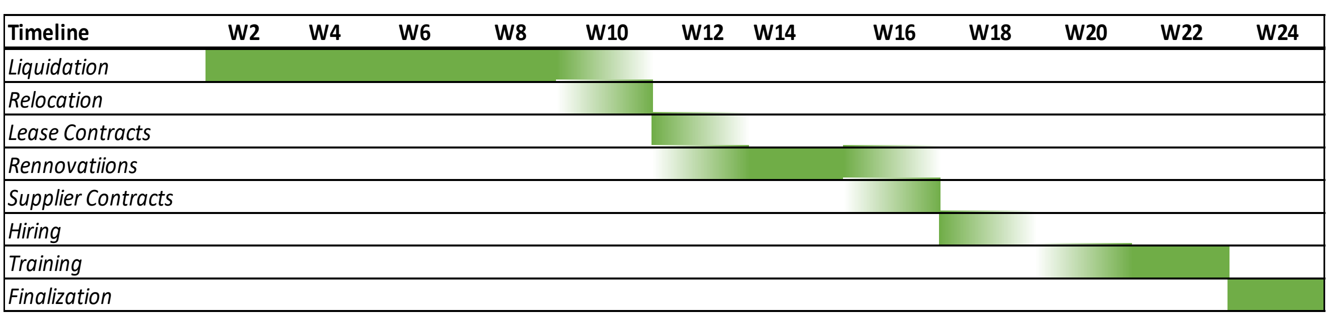

Figure 91 - Action Plan Gantt chart

[161] Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx
[162] Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx
[163] Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx

From Figure 91 above, the liquidation phase is expected to take two months to complete. This is followed by a period which involves relocating to the new store space. Both Pollo Tropical and Taco Cabana will experience a waiting period which is designed to fulfil the required lease obligation contracts. Once these contracts are concluded, renovations will take place to ensure that the restaurants are kept up in peak condition. When this is finalized, Performance Inc. and Kelly's Food's contracts will have been expanded to the new locations, as well as hiring and training provided for the new employees.

Cost-Benefit Analysis

Pollo Tropical:

The average Pollo Tropical generates $2.3 million in revenue annually.[164] This is used as an assumption in determining the feasibility of this strategy. Pre-leasing, the restaurants are subject to interior and exterior costs. Interior costs are typically the likes of signage, equipment and working capital requirements, whereas exterior costs are related to capital expenditures such as costs that are allocated towards building and land. The average Pollo Tropical Restaurant pays $1.6-2.4 million in these costs per restaurant. [165] With Fiesta's cost of capital at 7.84%, the calculated discount rate given the riskiness of the project providing was 10.05%. Using these figures, the net present value of the strategy after five years was $10,414,681.25, as shown in Figure 92 below. The assumed organic growth rate per year was at 2%. This was based on the risk-free rate. Although the present value of this project is below the average revenue of a Pollo

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[164]x Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx
[165] Fiesta Restaurant Group, Inc. "SEC Filings 2015, 2016 and 2017". Accessed October 21, 2018 https://www.frgi.com/investor-relations/financial-information/sec-filings/2018/default.aspx

Tropical restaurant the project brings beneficial gains in the long run as it presents the brand with the ability to geographically diversify and eliminate risk caused from natural disasters in the future.

Costs		Year 1	Year 2	Year 3	Year 4	Year 5	
(Start Up Costs)	-$ 7,200,000.00						
Revenue		$ 9,200,000.00	$ 9,292,000.00	$ 9,384,920.00	$ 9,478,769.20	$ 9,573,556.89	
Wages Expense		-$2,321,300	-$2,344,513	-$2,367,958	-$2,391,638	-$2,415,554	
Rent Expesne		-$473,540	-$478,275	-$483,058	-$487,889	-$492,768	
Lease Charges		-$789,940	-$797,839	-$805,818	-$813,876	-$822,015	
Dep Expense		-$451,512	-$456,027	-$460,587	-$465,193	-$469,845	
Other Expense		-$587,326	-$600,834	-$614,654	-$628,791	-$643,253	
EBIT		$ 4,576,382.00	$4,622,146	$4,668,367	$4,715,051	$4,762,201	
EBIT (1-T)		$ 3,111,939.76	$3,143,059	$3,174,490	$3,206,235	$3,238,297	
Add Back Dep		$ 3,563,451.76	$3,599,086	$3,635,077	$3,671,428	$3,708,142	
OCF		$ 3,563,451.76	$ 3,599,086.28	$ 3,635,077.14	$ 3,671,427.91	$ 3,708,142.19	Total DCF
DOCF	-$ 7,200,000.00	$ 3,526,424.30	$ 3,524,679.41	$ 3,522,935.39	$ 3,521,192.22	$ 3,519,449.92	$ 17,614,681.25
						NPV	$ 10,414,681.25

Figure 92 - Cost-Benefit Analysis of Corporate Recommendation (Pollo Tropical)

Given a breakdown of Pollo Tropical operating expenses, an overwhelming amount is from wages. For year 1, the percentage of all operating expenses for wages is expected to be 50.21%, with the figure reducing uniformly over the next few years. This high percentage being from wages is not a surprise, especially given the turnover for the industry and amount of part time employees. This is demonstrated below in Figure 93.

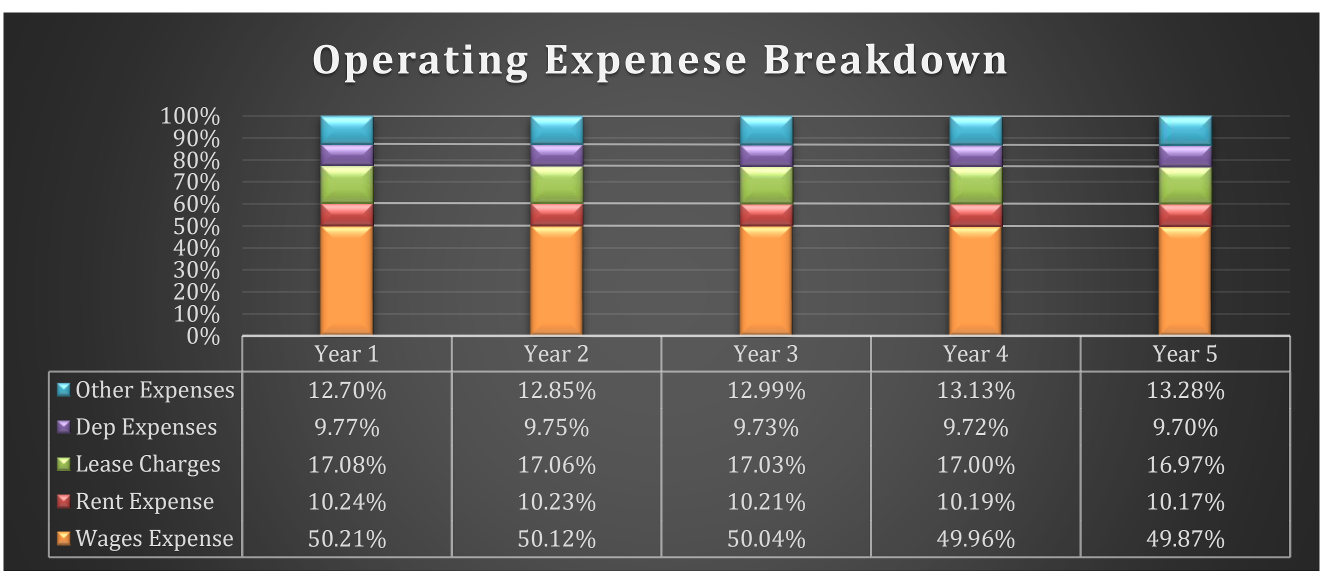

Figure 93 - Source: Based on the Cost –Benefit Analysis in Figure 92 above.

Taco Cabana:

Taco Cabana generates roughly $1.8 million in revenue. [166] The combined interior to exterior costs are in the range of $900 thousand to $2 million, however the rent and lease expenditures are approximately the same in comparison to Pollo Tropical.

For Taco Cabana, the action plan requires the reopening of three locations in New Mexico rather than four, however given that this is a riskier market, the hurdle rate is increased from 10.05 percent to 12 percent. From the analysis in Figure 94 below, the calculated NPV of the following 5 years is $1,453,578.66. As with Pollo Tropical, the risk-free rate of 2% is used as an organic revenue growth rate. Although the present value of this project is below the average revenue of a Taco Cabana restaurant the project brings beneficial gains in the long run as it presents the brand with the ability to geographically diversify and eliminate risk caused from natural disasters in the future.

Costs	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	
Startup Costs	-$4,500,000	1	2	3	4	5	
Revenue		$ 5,400,000.00	$ 5,508,000.00	$ 5,618,160.00	$ 5,730,523.20	$ 5,845,133.66	
Wages Expense		-$ 1,776,365.00	-$ 1,847,419.60	-$ 1,921,316.38	-$ 1,998,169.04	-$ 2,078,095.80	
Rent Expense		-$ 355,555.00	-$ 359,110.55	-$ 362,701.66	-$ 366,328.67	-$ 369,991.96	
Lease Expesne		-$ 592,455.00	-$ 598,379.55	-$ 604,363.35	-$ 610,406.98	-$ 616,511.05	
Other OE		-$ 440,494.00	-$ 449,303.88	-$ 458,289.96	-$ 467,455.76	-$ 476,804.87	
Dep Expense		-$ 338,634.00	-$ 342,020.34	-$ 345,440.54	-$ 348,894.95	-$ 352,383.90	
EBIT		$ 1,896,497.00	$ 1,911,766.08	$ 1,926,048.11	$ 1,939,267.80	$ 1,951,346.09	
EBIT (1-T)		$ 1,289,617.96	$ 1,300,000.93	$ 1,309,712.72	$ 1,318,702.11	$ 1,326,915.34	
Add Back Deprecation		$ 1,628,251.96	$ 1,642,021.27	$ 1,655,153.26	$ 1,667,597.06	$ 1,679,299.24	
OCF		$ 1,628,251.96	$ 1,642,021.27	$ 1,655,153.26	$ 1,667,597.06	$ 1,679,299.24	Total
DCF		$ 1,453,796.39	$ 1,309,009.31	$ 1,178,105.40	$ 1,059,788.08	$ 952,879.49	$ 5,953,578.66
						NPV	$ 1,453,578.66

Figure 94 - Cost-Benefit Analysis of Corporate Strategy Recommendation (Taco Cabana)

As shown in Figure 95 below, similar to the Pollo Tropical relocation, wages expenses were the majority of Taco Cabana’s total expenses ranging from 50.70% of the project’s expenses in the first year to 53.37% in Year 5.

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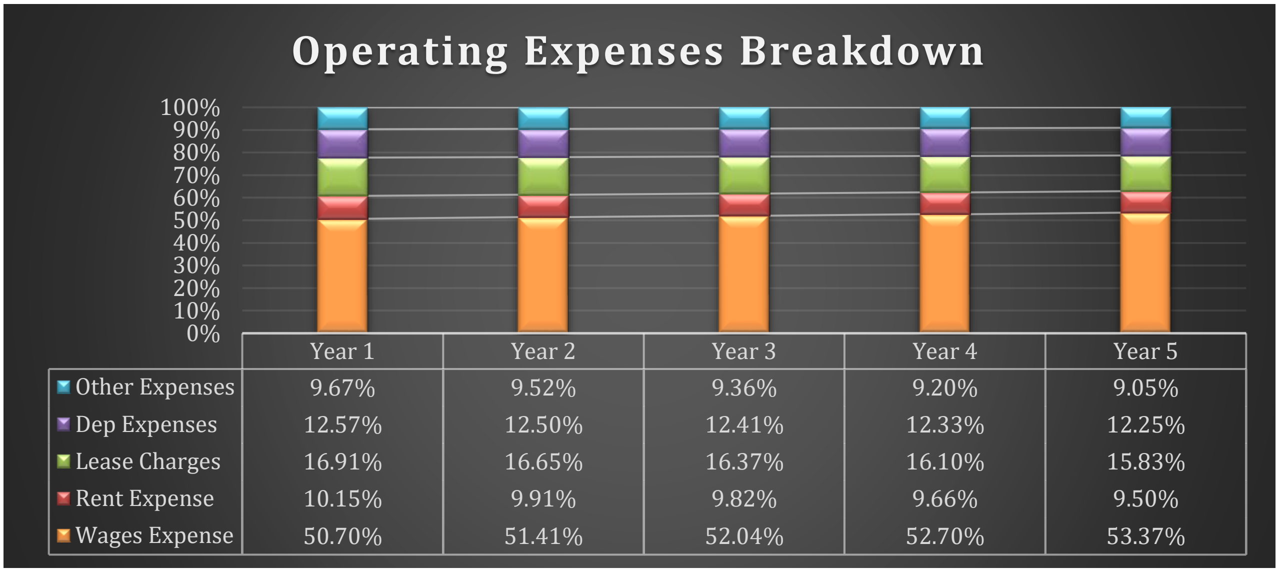
[166] Fiesta Restaurant Group, Inc. “Annual Report 2017”. Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx



	Year 1	Year 2	Year 3	Year 4	Year 5
Other Expenses	9.67%	9.52%	9.36%	9.20%	9.05%
Dep Expenses	12.57%	12.50%	12.41%	12.33%	12.25%
Lease Charges	16.91%	16.65%	16.37%	16.10%	15.83%
Rent Expense	10.15%	9.91%	9.82%	9.66%	9.50%
Wages Expense	50.70%	51.41%	52.04%	52.70%	53.37%

Figure 95 - Source: Bloomberg Terminal. "Operating Expenses of Fiesta Restaurant Group, Inc.". Accessed October 24, 2018

Summary of Corporate Strategy (Matthew)

Fiesta is currently engaged in a downstream vertical integration of the value chain. The firm distributes its services through the operations of its 2 restaurant brands, Pollo Tropical and Taco Cabana and currently receives 99.5% of its revenue from the operations of these 2 restaurants. These 2 restaurants operate mostly in Texas, which has 99% of Taco Cabana locations, and Florida, which has 83% of Pollo Tropical locations. The firm also operates solely in the full-service restaurant industry and given covenant restrictions, the firm is not in a position to acquire other competitors horizontally or enter any new markets. Thus, the firm has low synergy with other types of businesses.

Fiesta's earnings are still significantly behind some competitors, with the EBITDA declining significantly in 2017, while the share price and EPS also significantly declined. Furthermore, the market cap for Fiesta has declined the most from its direct competitors. This indicates issues at the corporate strategy level, as the returns associated with the current activities of the firm are not sufficient.

Issues related to the vertical integration include the unnecessary costs associated with the attempted backward integration and control of the chicken supply. The firm has not conducted enough research to indicate that the use of NAE chicken is significant for the revenue stream and as a result, the control of the chicken supply seems unwarranted. Furthermore, in terms of horizontal integration, the covenants related to the firm's debt have limited the firm in terms of acquiring other businesses and have thus prevented the firm from entering new markets. Geographically, the firm is very condensed with 99% of Taco Cabana locations being in Texas and 83% of Pollo Tropical being in Florida. This represents a problem for the firm as it lacks geographic diversity required to capture revenues from nearby markets of other significant states.

The corporate plan for Fiesta involves introducing 4 new locations of Pollo Tropical in Georgia and 3 new locations of Taco Cabana in New Mexico. The idea behind expanding Taco Cabana to New Mexico is to take advantage of the fact that there are already a few locations open there, while there is also a significant Latin population that the firm could target. The net present value of opening the Taco Cabana locations was calculated to be $1,453,578. Expanding Pollo Tropical to Atlanta, Georgia is aimed at taking advantage of one of the largest USA populations, while moving to a Southern State with a lower natural disaster rate. The net present value of opening the Pollo Tropical locations in Atlanta was calculated to be $10,414,681.

The funds to open up the new locations will be generated by liquidating 3 Taco Cabana and 3 Pollo Tropical locations. The other inherent benefits of closing these locations is that the firm will reduce the number of locations prevalent in areas with a high natural disaster rate, while also diverting costs saved to the opening of the new locations of the 2 brands.

In conclusion, the expansion of the 2 brands to New Mexico and Georgia will allow the firm to achieve a significant net present value, while also improving the diversity of the firm’s geographic distribution. This would allow Fiesta to enter new geographic markets and generate a new geographic revenue stream.

Part V: Business-Funcational Strategy

Business Strategy

Current Business Strategy (Hussam)

CURRENT BUSINESS-FUNCTIONAL STRATEGIES

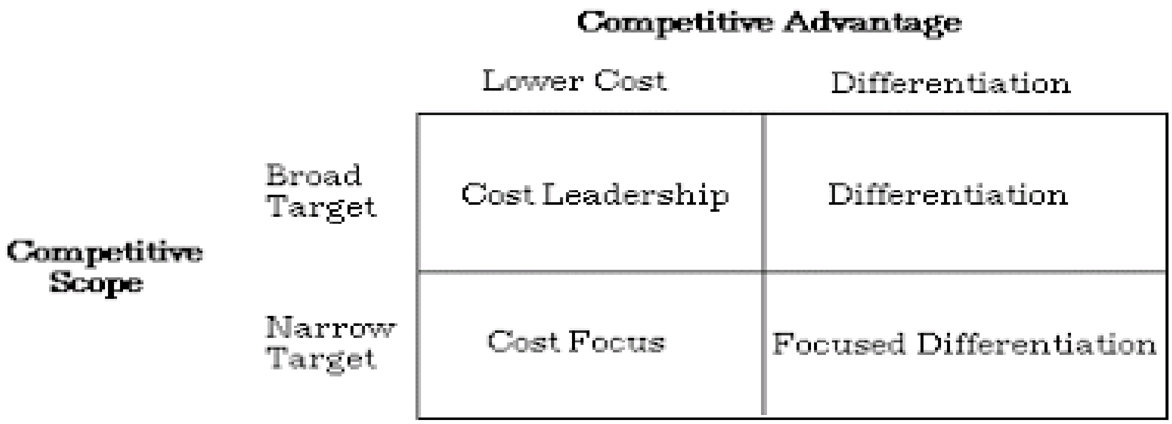


Figure 96 – Source : Michail, Dr. Antony. "Business Models & Strategy." An Introduction to Porter's Generic Strategies. January 01, 1970. Accessed October 27, 2018. http://strategy-models.blogspot.com/2011/06/introduction-to-porters-generic.html

To verify Fiesta's business strategy, an analysis using Porter's Generic Strategies is conducted. According to the framework, the firm should choose between market share through cost leadership and revenue maximizing through product differentiation. The firm should then choose the size of the target market and whether the firm is going to have a niche or generalized strategy.

Restaurant Services Breadth

Fiesta offers different product breadths under its two brands, Taco Cabana and Pollo Tropical. There is a Mexican inspired menu at Taco Cabana and a Caribbean inspired menu at Pollo Tropical. Notably, Fiesta has a broad competitive scope by focusing on efficiency over customer satisfaction in the two brands. While the firm tries to differentiate itself from the rest of the competitors by claiming to be a high quality[167],

[167] Fiesta Restaurant Group, Inc. "Annual Report 2017". Accessed October 24, 2018 https://www.frgi.com/investor-relations/financial-information/annual-reports/default.aspx

Fiesta continues to focus on offering affordable and low-cost options for both brands to attract a broader segment of the market. Therefore, it is quite clear that Fiesta is following a broad cost leadership strategy in an attempt to achieve a competitive advantage. Accordingly, the firm manages to offer affordable and cost-incentive generic products to bring in more customers every day without specifications as to who the firm is targeting. Similarly, many competitors within the full-service restaurant industry are also using the cost leadership strategy due to the generic product offerings and minimal differentiation that limits the ability to choose between the other strategies.[168] Since many competitors compete using the same cost leadership strategy, economies of scale and lower operating costs are the determining factor for success of the business; followed by customer satisfaction. Currently, Fiesta seems to be lagging behind as shown in the low operating margins (i.e. EBITDA Margin). Taking that into account, the strategy that Fiesta employs is ineffective at this point and it is damaging the firm's profitability.

Problems with Current Business Strategy (Hussam & Abbas)

Significant Problems with Primary Strategy (Broad Cost Leadership)

Fiesta's most significant problems related to the current business strategy include the following activities and functions of the firm:

- Ineffective Corporate Leadership & Inadequate Operations
- Supply Chain Issues
- Marketing, Research and Development & Customer Service
- Human Resources

[168] University of Minnesota. "Focused Cost Leadership & Differentiation". Accessed October 24, 2018 https://open.lib.umn.edu/strategicmanagement/chapter/5-5-focused-cost-leadership-and-focused-differentiation/

The problems associated with the above activities are ultimately making Fiesta's application of using a cost-leadership strategy ineffective, as the firm's costs are not being controlled in an efficient manner.

Overview of Weaknesses, Threats and Opportunities

After extensive research, a clear pattern has emerged that the significant problems that are driving Fiesta's profitability down and resulting in significant difficulties in the firm's ability to attain cost leadership arise from weaknesses of internal value chain activities. The table below emphasizes the significant weaknesses associated with the firm's value chain activities that are hindering its ability to achieve cost-leadership. Additionally, the table also includes potential opportunities and threats present in the industry that the firm will need to take advantage of or protect against.

Factors	O/T/W	Description
Supply Chain Management	W	Firm has an inadequate inventory turnover and days in payable which indicates that the firm has liquidity issues and difficulty converting all inventory to sales.
Marketing and Sales	W	Firm has inefficient spending on advertisements with a lower customer engagement on social media
Customer Service	W	Firm lacks the loyalty/rewards programs necessary to retain consumers.
Operations	W	Weak profitability and ROIC indicates bottom-line issues for Fiesta in managing costs.
	W	High operating costs which indicate significant costs associated with more sales.
Human Resource Management	W	High employee turnover and fluctuating total employees.
Corporate Leadership	W	Market cap, share price and EBIT of the firm have declined over the last 3 years.
Research & Development	W	Firm has no research and development team in place to collect data.
Technology	O/T	The rise of M-Commerce presents opportunities for firms in the industry to increase profitability as well as consumer engagement.
Consumer Behavior	T	Consumer spending patterns indicate a shift towards healthier alternatives.

Inadequate Operations & Corporate Leadership

Fiesta follows a cost leadership strategy; this strategy primarily focuses on the reduction of cost. However, when considering that under the current corporate leadership the average profit margin for Fiesta in comparison to its competitors has declined, as shown in Figure 97 below. This implies that the current leadership of the firm is having a difficult time maintaining this strategy and that the operations are not at an adequate level that will help create a profit for the firm via minimized costs. Therefore, Fiesta is not keeping costs at a controlled level through its operations efficiently enough to warrant an adequate cost leadership strategy, especially as the earnings continue to decline.

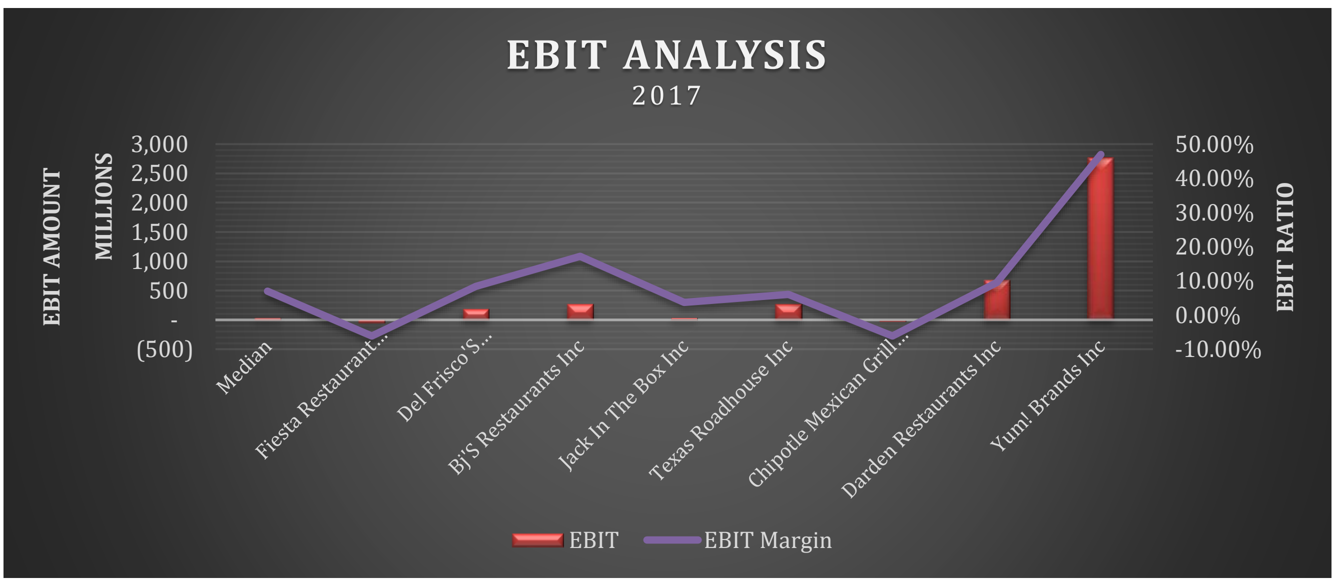


Figure 97 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018

Furthermore, when considering the low ROIC of Fiesta, as seen in Figure 98 below, it is indicative of a weakness in the overall return on investment for investors. This poor investment analysis raises few problems to the business, especially for corporate leaders when and their current cost leadership strategy. Due to the cost leadership strategy having a large dependence on minimizing costs, having low and negative ROIC present clearly indicates that the current operations being run by the leadership are not doing enough to minimize costs, and this has damaged the firm's returns which ultimately has reduced investor returns. This means Fiesta becomes extremely dependent on cash and short-term returns to fund operations, while the declining metrics reduce the firm's ability to obtain disposable capital for future investments and growth. Therefore, without the new capital coming in, Fiesta lacks the resources that the firm could utilize to be more productive and profitable and thus have more efficient operations. For example, with limited access to capital due to declining performances and inadequate corporate leadership, the ability to increase the number of restaurants becomes hindered. Therefore, the lack of operational efficiency is ultimately one that is essentially removing any cost leadership benefits Fiesta hoped to achieve with its current strategies.

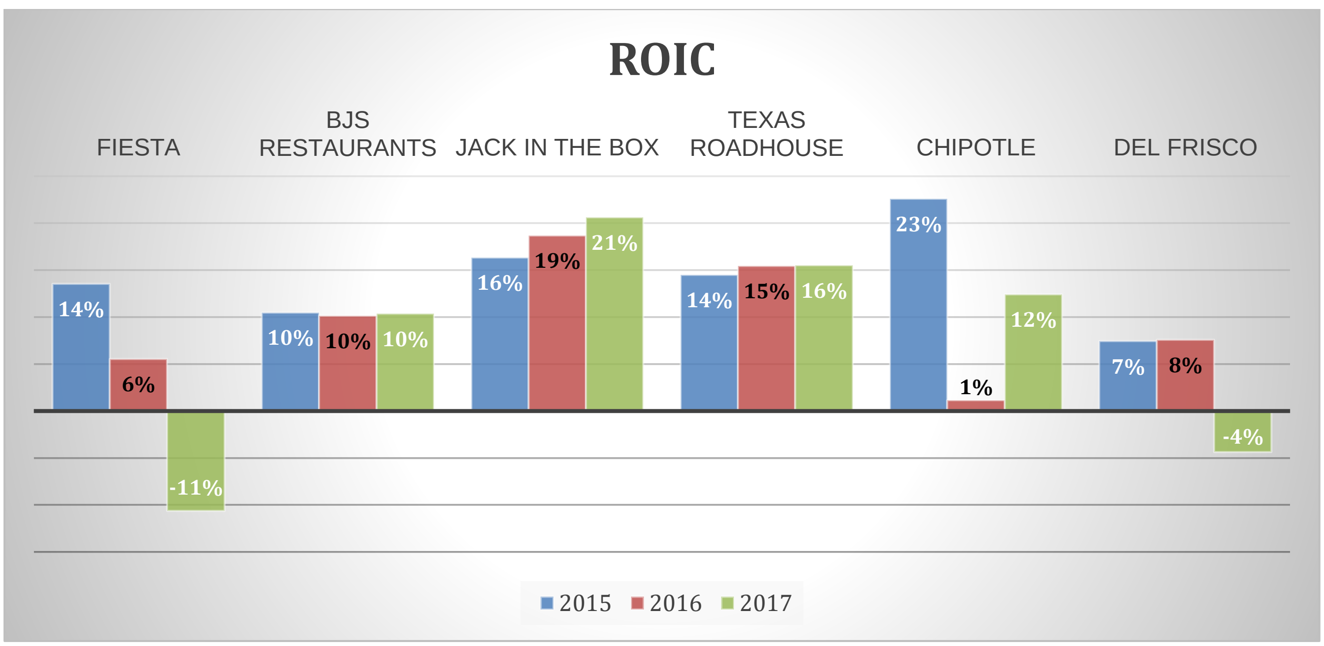


Figure 98 - Source: Bloomberg Terminal. "ROIC 2015, 2016 and 2017 for Texas Roadhouse, Jack in the Box, BJ's Restaurants and Fiesta Restaurant Group Inc.". Retrieved on September 18, 2018

Supply Chain Issues

Supply chain is a significant part of Fiesta's operational problems. With Fiesta and many other firms in this industry following a cost-leadership strategy, if the supply chain is managed correctly, firms would be able to realize a potential competitive advantage by virtue of achieving cost efficiency, which is essential for a cost-leadership strategy.

A primary issue for Fiesta is the inventory rate. As evidenced in Figure 99 below, Fiesta has a very low inventory ratio, with the metric declining from 2015 to 2017. This decline in Inventory Turnover ratio serves to introduce supply chain issues as it usually indicates problems in sales for the amount of inventory held (i.e. there is large waste at the end of a cycle) or liquidity issues. With Fiesta's lagging behind, it is clear that the firm is having difficulty selling all of its inventory (which may indicate over-purchasing) and this ultimately results in more waste as not all of the goods are used. Accordingly, this further plays against cost-leadership strategies as there are unnecessary purchases being made.

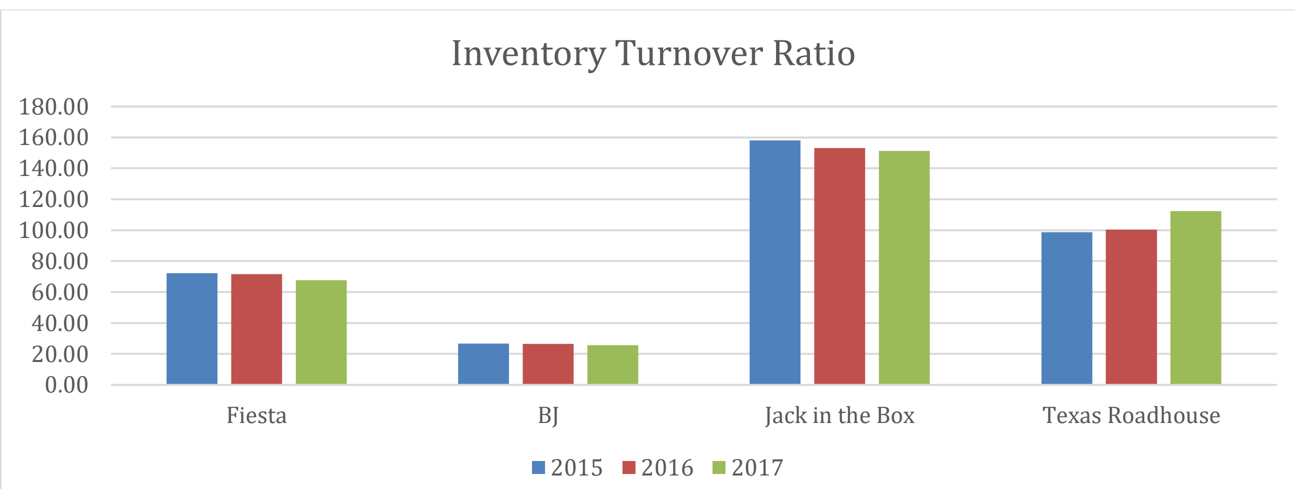


Figure 99 - Source: Bloomberg. "Inventory Turnover Ratio calculated for Fiesta Group, BJ Restaurants, Jack in the Box, Texas Roadhouse". Accessed September 30, 2018

Another issue in the supply chain is the days in accounts payable. This ratio indicates within how many days a supplier can be expected to be paid by Fiesta. This also directly relates to the inventory management, as with Fiesta having an expected 36 days to pay their suppliers in 2017 (as evidenced in Figure 100 below), the firm is clearly over purchasing supplies and is not able to fund its large purchases immediately. Accordingly, with Fiesta not being able to fund its purchases due to a large amount of the inventory being held for a longer time period, the firm is essentially counteracting its cost-leadership strategy by putting itself in a situation with a considerable number of payables.

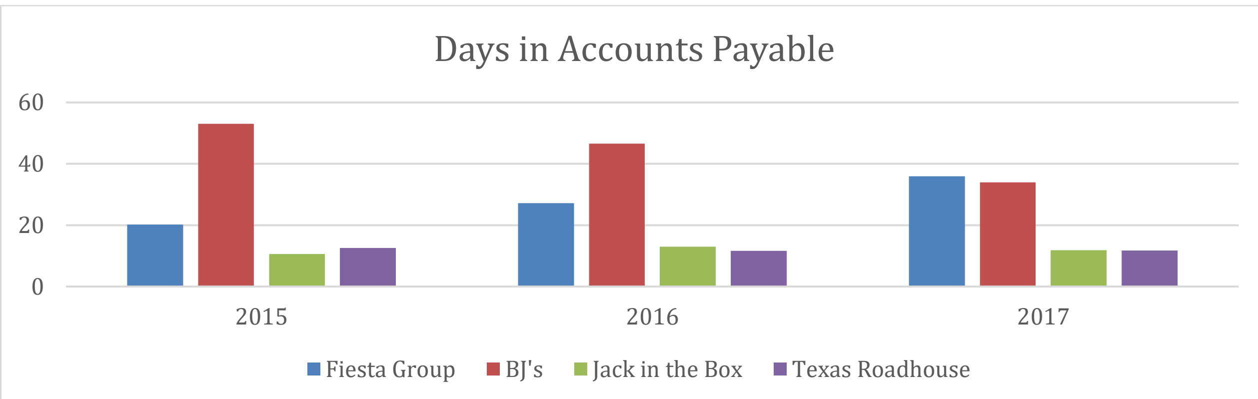


Figure 100 - Source: Bloomberg. "Days in Accounts Payable Calculated for Fiesta Group, BJ's, Jack in the Box and Texas Roadhouse". Accessed on September 30, 2018

These issues in the working capital management need to be rectified by Fiesta in order for the firm to become more competitive, especially as these problems are resulting in unnecessary costs that are damaging Fiesta's aim to be a cost-leader in the industry. Fiesta has a significant amount of inventory held throughout the year that is associated with high purchasing and holdings costs as well as significant payables, which reduce the firm's liquidity and attractiveness to investors. Fiesta's inefficient supply chain is ultimately costing the firm in both attractiveness as well as resulting in unnecessary costs generating losses for the firm.

Marketing, R&D and Customer Service

Fiesta's marketing is very ineffective. Instagram, which is the leading social media network[169] has been a point of weakness for Fiesta, with the firm's 2 brands having an extremely low number of followers, as indicated below in Figure 101. Marketing is extremely important, especially in the restaurant industry where brand recognition is essential. For Fiesta, the problem with the firm not being recognizable (as indicated in the low number of Instagram followers) is coupled with the fact that the firm spends a considerable amount on advertising. As indicated in Figure 102 below, the firm has spent a consistent amount of advertising, yet yielded little results. This is in direct confliction with the cost-leadership strategy as the firm's current strategy is resulting in costs that are not generating enough revenue or value at a sufficient level to offset the costs associated with marketing. As a result, Fiesta needs to revamp its marketing function in order to come up with a more cost-friendly alternative that will generate value.

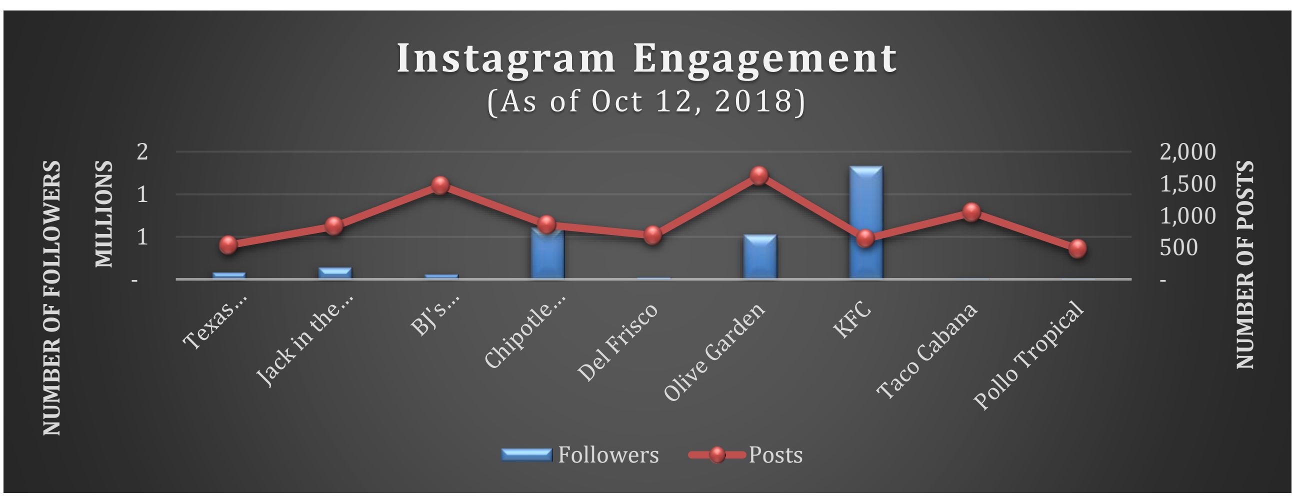


Figure 101 - Source: Instagram. "KFC, Taco Cabana, Pollo Tropical, Olive Garden, Chipotle Mexican Grill, BJ's Restaurants, Jack in the Box & Texas Roadhouse Profiles." Accessed October 8, 2018.

[169] Forbes. "Why Instagram is the Top Social Media Platform for Engagement". Accessed October 21, 2018 https://www.forbes.com/sites/jaysondemers/2017/03/28/why-instagram-is-the-top-social-platform-for-engagement-and-how-to-use-it/#1e1576036bdc

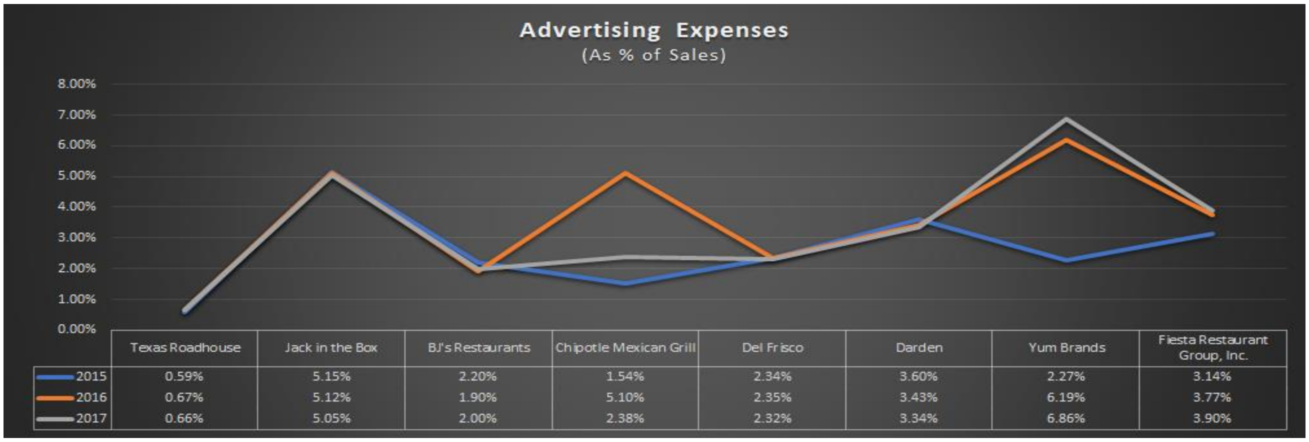


Figure 102 - Source: Annual Reports. Fiesta Restaurant Group, Inc., Yum! Brands, Darden Restaurants, Del Frisco, Chipotle Mexican Grill, BJ's Restaurants, Jack in the Box and Texas Roadhouse." Accessed October 8, 2018

Fiesta also lacks an R&D function in the firm. This is evidenced in Figure 103 below, where the firm has spent nothing on R&D in the past 3 years. While the full-service restaurant industry is relatively stable, firms that continue to grow while achieving cost efficiencies are ones that tend to be more innovative and find a way to do things in a more efficient and cost-effective manner. With Fiesta investing nothing in this regard, the firm has not set itself up for a potential future benefit by virtue of innovation that will lead to or maintain minimized costs in the future and as a result, the firm has not set itself up to maintain a cost-leadership strategy.

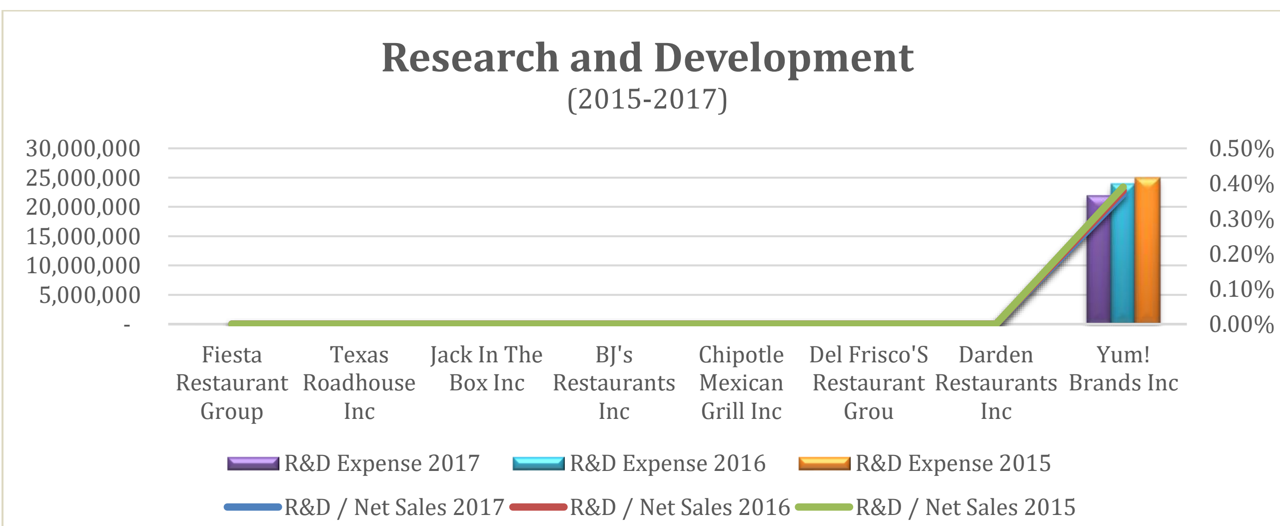


Figure 103 - Source: Bloomberg. "Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry". Retrieved October 9, 2018.

Fiesta also lacks a customer service function at the restaurant level. Customer service is essential as it typically determines whether or not a customer will return and in the restaurant industry, this is huge as revenues are volume-based (i.e. based on how many customers are received). Satisfactory customer service between employees and customers are essential in forging lasting relationships that generate real value for the firm and Fiesta should be able to meet the needs of customers. However, a major problem for Fiesta is the lack of a customer loyalty program. In the last 2 annual reports, Fiesta has mentioned implementing a loyalty program for both restaurants but that has yet to occur. By implementing a loyalty program rewarding recurring customers, Fiesta would drastically increase the number of customers retained and thus generate more revenues. However, Fiesta’s lack of activity in that regard is ultimately costing the firm revenues while keeping the firm lagged behind. Furthermore, the lack of a loyalty program will do no favors in retaining consumers, and this also relates to the overall inventory turnover level as an adequate loyalty program would result in more returning customers and thus higher revenues. This would help further implement the cost-leadership strategy by Fiesta.

Human Resources

Human resources are a significant issue for Fiesta. Fiesta’s issue is also an industry-wide problem, with the full-service restaurant industry having one of the highest turnover rates in the United States, as indicated in Figure 104 below. Furthermore, the number of employees at Fiesta fluctuates yearly, which is shown below in Figure 105. A high employee turnover rate ultimately results in more employees being hired throughout the year as the overall number of employees fluctuate. With Fiesta trying to maintain a cost-leadership strategy, the continued fluctuation of the number of employees is a significant cost the firm has continued to incur in order to continue operations. This also drives up costs which ultimately hinders the profitability of Fiesta.

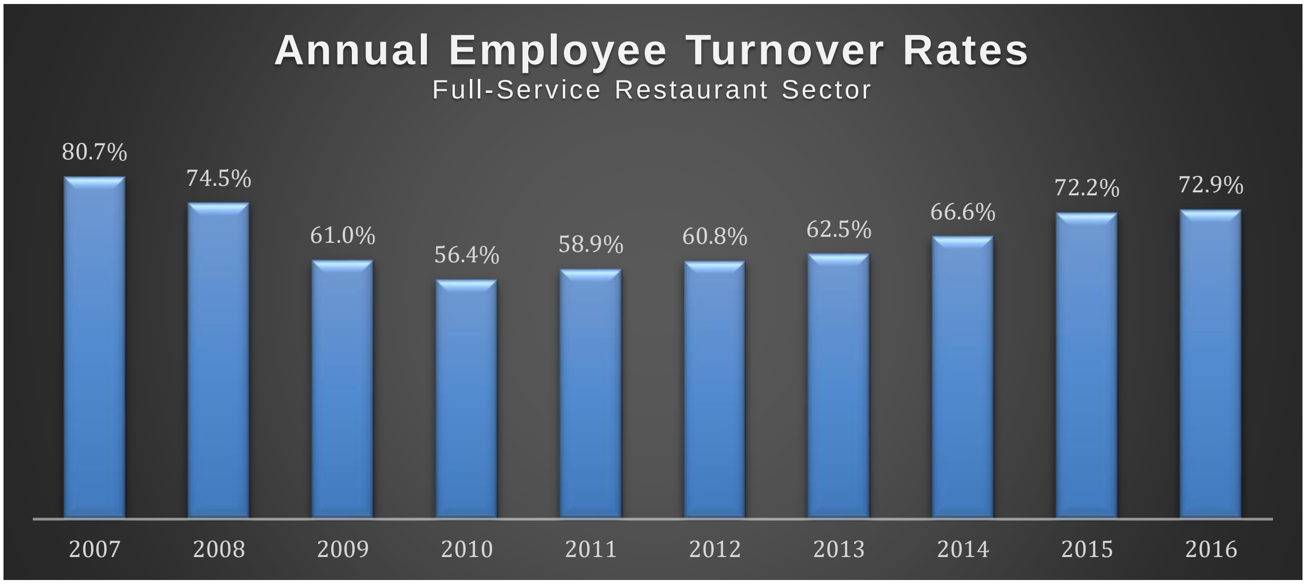


Figure 104 - Source: National Restaurant Association. "Facts at a Glance". Accessed October 8, 2018 [*https://www.restaurant.org/News-Research/Research/Facts-at-a-Glance*](https://www.restaurant.org/News-Research/Research/Facts-at-a-Glance)

	Texas Roadhouse	Jack in the Box	BJ's Restaurants	Chipotle Mexican Grill	Del Frisco	Darden	Yum Brands	Fiesta Restaurant Group, Inc.
2015	47,900	20,700	20,500	59,330	4,921	150,000	505,000	11,550
2016	52,500	22,200	22,000	64,570	4,802	150,000	90,000	12,080
2017	56,300	16,600	21,500	68,890	4,890	175,000	60,000	10,290

Figure 105 - Source: 2015-2017 Annual Reports, for Fiesta, Yum! Brands, Darden, Del Frisco, Chipotle, BJ's Restaurants, Jack in the Box and Texas Roadhouse. Accessed October 6, 2018

Based on the continued fluctuation of employees at Fiesta, especially at the restaurant level, the firm needs to generate a strategy that will reduce costs related to human resources, which include hiring, training and managing new employees. Should

Fiesta be able to retain a large portion of the workforce on a yearly basis and try to reduce the overall fluctuation, the firm would be able to realize significant cost savings and thus further contribute to its desired cost-leadership strategy.

Technological and Consumer Behavior Opportunities and Threats

With the rise of M-Commerce applications in the full-service restaurant industry, firms have a significant opportunity to realize should they adapt to the technological advances. However, if a firm does not adapt, there is a risk that it could lag behind as consumers are increasingly targeted by competitors utilizing these advances in order to further increase their overall consumer engagement. Accordingly, the technological advances in the industry are both an opportunity and a threat, as firms who take advantage could ultimately realize increase increased profits while those not adapting are more at risk.

As Fiesta does not have an effective mobile application, the firm has put itself at risk of lagging behind competitors in terms of the m-commerce usage. Therefore, Fiesta is opening itself up to this threat by not mitigating against the emergence and importance of M-Commerce.

Furthermore, consumer behaviors and preferences continue to shift. This presents an issue for firms that do not study the changes and address their business operations to accommodate them. Since Fiesta is not collecting enough consumer data, these shifts present a threat as the firm is opening itself up to the possibility that it will lose track of what consumers want and what their preferences are. As a result, the firm lacks flexibility in meeting consumer demand.

Overall, the problems in Fiesta's current strategy include that the firm lags behind in adapting to technological advances such as M-Commerce while also not sufficiently collecting consumer behaviour data. This means that the lack of innovation and technological adaptation has reduced Fiesta's ability to maintain its low-cost leadership, which is a requirement under this business strategy.

Business Strategy Recommendations (Hussam & Abbas)

Primary Recommendation: M-Commerce – Mobile Application

Currently Pollo Tropical has a Mobile Application that allows users to find the nearest restaurant location, and it also has the option to check the menu. As for Taco Cabana, there is no mobile application. However, the application that Pollo Tropical is running is outdated and does not operate outside of certain geographic areas. Therefore, the strategy is to implement an entirely new consolidated application for the two brands.

Fiesta needs to re-establish itself in a positive light to current and future investors. Subject to multiple weaknesses coming from low profit margins due to various factors previously mentioned, the non-existent use of an application by Fiesta is a frightening proposition – especially in today's information age. By the large short interest ratio of 60%[170], Fiesta must re-establish its market presence as a strong buy. In order to achieve that, an M-Commerce (Mobile Commerce) solution can resolve Fiesta's weaknesses. By focusing on the end of the value chain to increase sales per restaurants and strengthen brand loyalties, mobile-enabled solutions will provide Fiesta

[170] Bloomberg. "Relative Valuation 2017 for Fiesta Restaurant Group, Inc.". Retrieved October 9, 2018.

with the essentials to turn the business around. In a swift analysis of all competitors under the *overall* restaurants umbrella, McDonalds, a limited-service restaurant, and Domino's, also a limited-service restaurant, dominate the online market through mobile and online innovations. Due to their platform's sophistication, these limited-service restaurants were able to obtain a growth far more than any other restaurants. By connecting the online and offline world, both restaurants were able to attract more customers than ever before.[171] With the current online presence of Fiesta lacking, an M-Commerce strategy is one that will turn the firm around and help reap benefits. This will include improvements to the various metrics that have been lacking, such as the declining ROIC previously mentioned and the declining EBIT through the expected increase in the profitability of this plan.

To connect the dots, the introduction of a mobile App that is compatible with Apple iOS and Android Smartphone is going to help attract more customers. While the revenue per store for Fiesta has experienced growth in 2017, there are signs for optimism due to the fact that Fiesta closed down multiple stores during 2017 but the figure still marginally increased from the prior year. As shown in Figure 106 below, revenue per location have increased from $1.84 million in 2016 to reach $1.91 million by the end of 2017. While the number locations dropped from 385 to 351 in 2017.[172] Therefore, introducing m-commerce applications with integrated mobile orders is going to enhance Fiesta's revenue per location without any necessary expansion of restaurant square footage. Using this strategy, Fiesta is going to be able to gain some economies

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[171] National Restaurant Association. "Catch onto mobile app crazes to drive restaurant sales". Accessed October 24, 2018 https://www.restaurant.org/Manage-My-Restaurant/Marketing-Sales/Mobile/Catch-onto-mobile-app-crazes-to-drive-restaurant-t

[172] Fiesta Restaurant Group, Inc. "Annual Report". Accessed October 24, 2018

of scale benefits through the significant increase in quantity produced. This will result in healthier profit margins and thus further improve margins related to profitability and ROIC. In addition, researchers have found that using online remote ordering platforms have helped increase sales by 30%.[173] This provides a benchmark for Fiesta to aim to optimize over a 5 year-period.

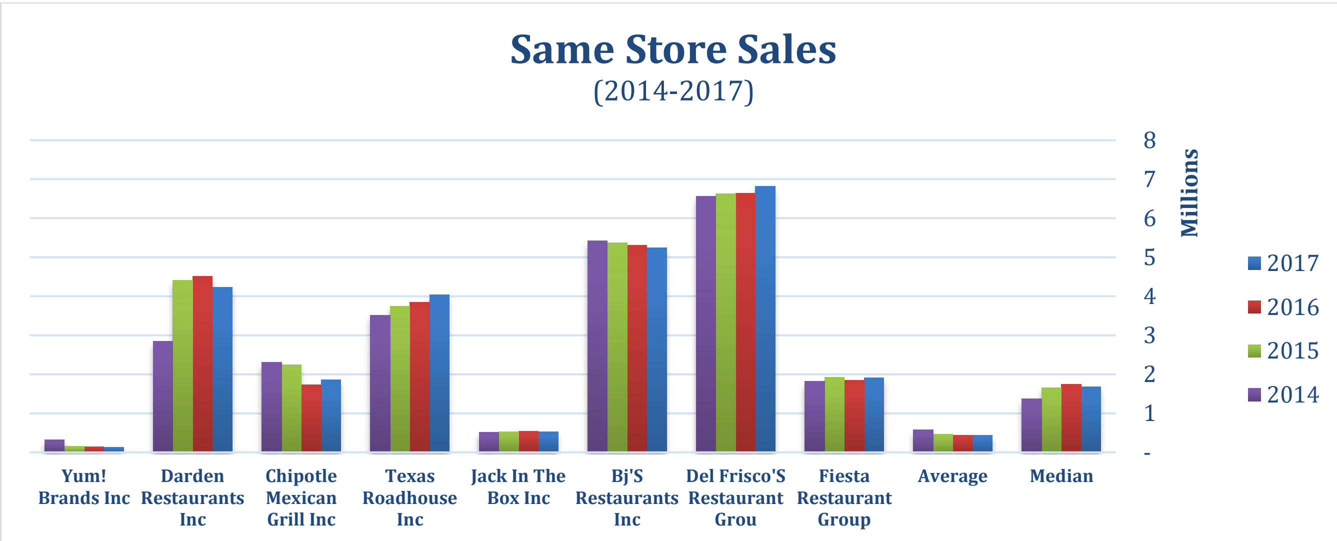

Figure 106 - Source: Bloomberg. "Terminal, Relative Valuation 2014, 2015, 2016, 2017 for Full-service Restaurant Industry." Accessed October 20, 2018

As shown in Figure 107 below, the digital consumer is moving from using personal computers purchases towards mobile remote purchases. Therefore, implementing a complete mobile phone application that allows Fiesta to access more of the foodservice consumers is beneficial in this regard. Following this strategic recommendation, Fiesta be able to improve its ROIC, and turn around some of the short-sellers in the market. This will help Fiesta increase the cash flow and capital access and increase the underlying value of its shares.

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[173] "This Is How Restaurants Can Boost Revenue By 30%". 2018. Business Insider. https://www.businessinsider.com/sc/online-ordering-helps-restaurant-business-2015-10?fbclid=IwAR2GuUehIn-7cYxIs3YmJICs-RJGOIH9NoiCoMkz9dQwsosFIT-vbqsCDZ4.

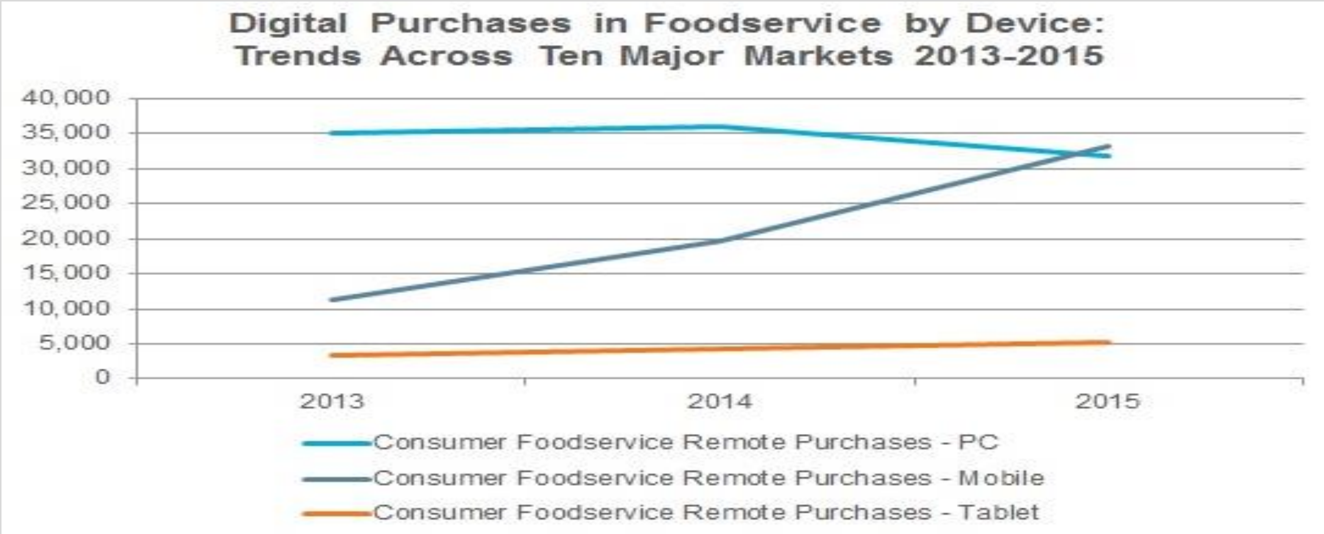

Figure 107 - Source: Passport. "Online and Mobile Spending in Foodservice: What Consumer Data Can tell us About Restaurant Strategy". Accessed October 24, 2018
http://www.portal.euromonitor.com.proxy.library.carleton.ca/portal/analysis/tab

To further add to the point above of how mobile remote purchases has exceed PC ordering, Figure 108 below showcases how the United States is one of the top leaders in remote purchases in the food service industry. The full-service restaurant industry is considered to be subsector in this industry, with the large attraction of remote purchases mainly due to the efficiency that is created to the final consumer. Thus, investing in efficiency to allow consumers to order in shorter time is highly valuable. This is emphasized by the fact that the remote purchase market is expected to rise to $20 billion in 2018 and $30 billion in 2020, as seen in Figure 109 below. The derived value from this continued growth is as a result of the final consumers increasingly spending via remote purchases.

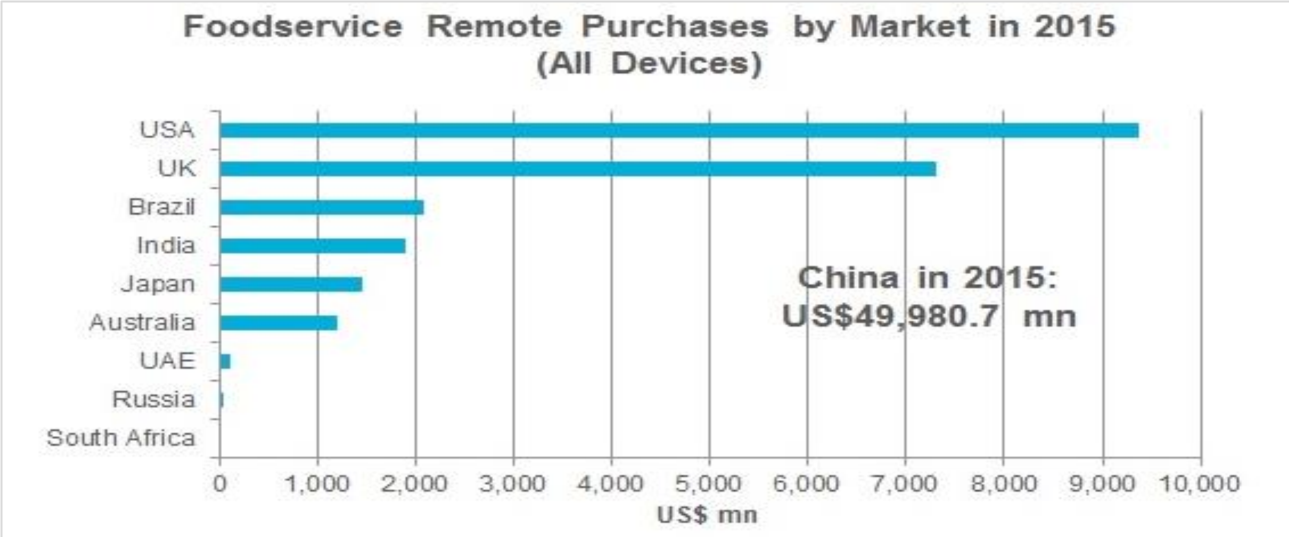

Figure 108 - Source: Passport. "Online and Mobile Spending in Foodservice: What Consumer Data Can Tell us About Restaurant Strategy". Accessed October 24, 2018
http://www.portal.euromonitor.com.proxy.library.carleton.ca/portal/analysis/tab

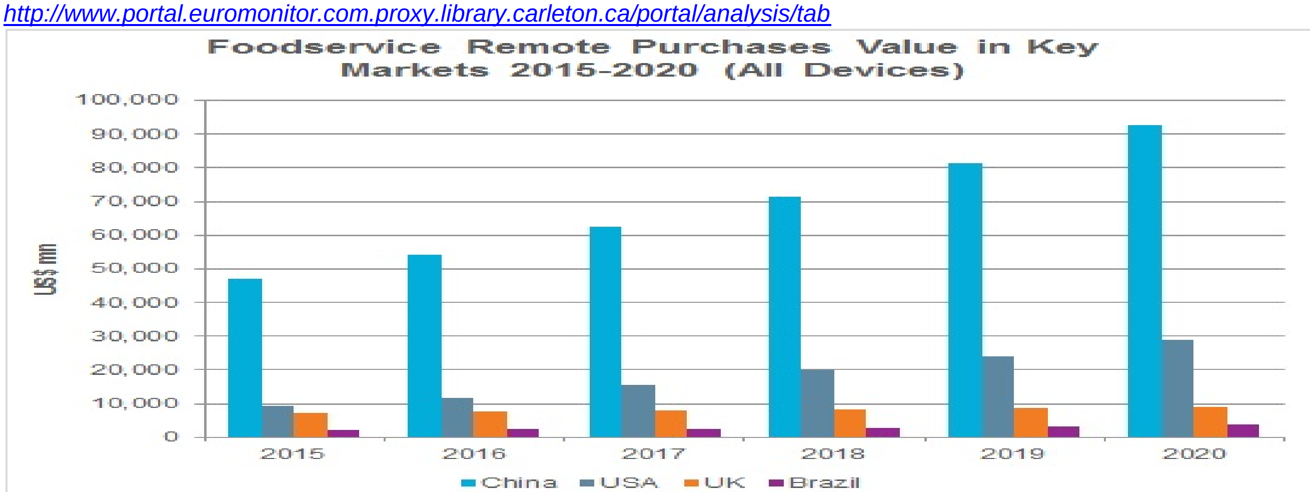

Figure 109 - Source: Passport. "Online and Mobile Spending in Foodservice: What Consumer Data Can Tell us About Restaurant Strategy". Accessed October 24, 2018
http://www.portal.euromonitor.com.proxy.library.carleton.ca/portal/analysis/tab

In order to improve the customer experience even further and enhance the firm's customer service, the App is going to include a loyalty program. The App is going to be able to track the consumer spending and reward them according to how much they spend. As indicated below in Figure 110, consumers prefer to spend more time using mobile Apps, with the figure showcasing how much time consumers spend on a mobile phone using Apps. This is shown in below with today's consumers spending over 85%

of their time on their smartphones using mobile applications.[174] Thus, by allowing the consumer to use something they enjoy, ordering from any of Fiesta's brands is going to increase the brand equity among its customers. Furthermore in the United States, companies have a strong potential for loyalty programs. This is evidenced by the fact that companies that increased customer retention by 5% saw a 25% increase in profitability.[175] In addition, 89% of US consumers claimed to be enrolled in a reward/ loyalty programs in 2017.[176] Furthermore, 71% of customers also chose to sign up to receive product discounts and 63% have joined to receive free products. However, the majority (77%) of consumers have said mobile offers have a positive impact when it comes to loyalty rewards.[177]

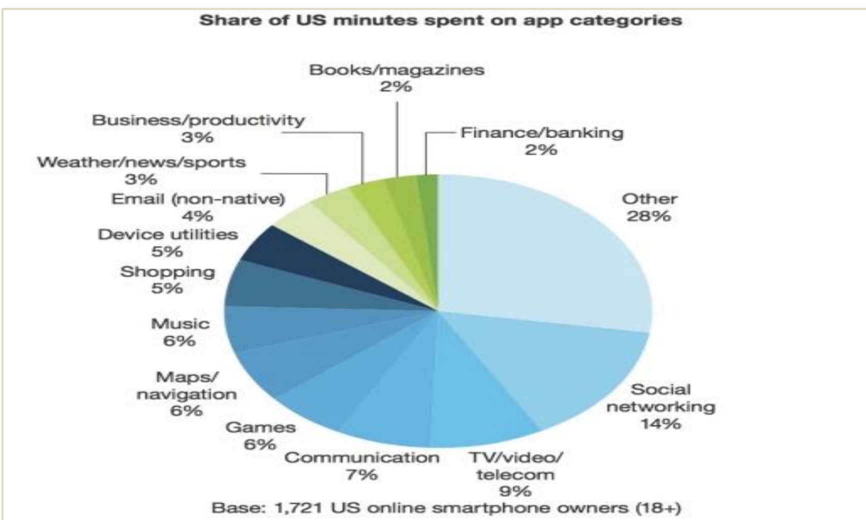

Figure 110 - Source: Tech Crunch. "Consumers Spend 85% of Time on Smartphones in Apps, but Only 5 Apps See Heavy Usage". Accessed October 24, 2018 https://techcrunch.com/2015/06/22/consumers-spend-85-of-time-on-smartphones-in-apps-but-only-5-apps-see-heavy-use/

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[174] Tech Crunch. "Consumers Spend 85% of Time on Smartphones in Apps, but Only 5 Apps See Heavy Usage". Accessed October 24, 2018 https://techcrunch.com/2015/06/22/consumers-spend-85-of-time-on-smartphones-in-apps-but-only-5-apps-see-heavy-use/

[175] Bain & Company. "Prescription for Cutting Costs". Accessed October 27, 2018 http://www2.bain.com/Images/BB_Prescription_cutting_costs.pdf

[176] First American. "12 Statistics on Loyalty Programs in 2017". Accessed October 25, 2018 https://www.first-american.net/resources/blog/12-statistics-on-loyalty-programs-for-2017

[177] First American. "12 Statistics on Loyalty Programs in 2017". Accessed October 25, 2018 https://www.first-american.net/resources/blog/12-statistics-on-loyalty-programs-for-2017

On the other hand, the two main reasons why consumers choose to drop out of loyalty programs is because the program did not offer rewards that were of interest (56%), or it was too challenging to earn points towards rewards.[178] Therefore, offering a user-friendly interface is key to App success. As previously mentioned, increasing the customer retention rate by 5% will allow Fiesta to generate an additional 25% of revenue[179]. Accordingly, this makes implementing a loyalty program component highly attractive to resolve historical customer service challenges and improve the profit margins for the firm.

The application is going to be able to collect data on consumer behavior and preferences. This will offer consumers an appropriate personalized deal through historical transactions and hereby improve customer service and the consumer experience. As shown in Figure 111 below, the food products industry has seen a 20% improvement in sales for a 10% improvement in data analytics. Fiesta could utilize this opportunity to understand consumers to further its sales metrics. By looking at the average time spent in the checkout and picking up the meal and demographic data, Fiesta is going to have better understanding of it is regular customers and will be able to offer more effective customer service, while also using the collected data to notice patterns and further increase the firms insight on consumer behavior to help facilitate innovation and improve efficiency.

[178] Bain & Company. “Prescription for Cutting Costs”. Accessed October 27, 2018 http://www2.bain.com/Images/BB_Prescription_cutting_costs.pdf
[179] Bain & Company. “Prescription for Cutting Costs”. Accessed October 27, 2018 http://www2.bain.com/Images/BB_Prescription_cutting_costs.pdf

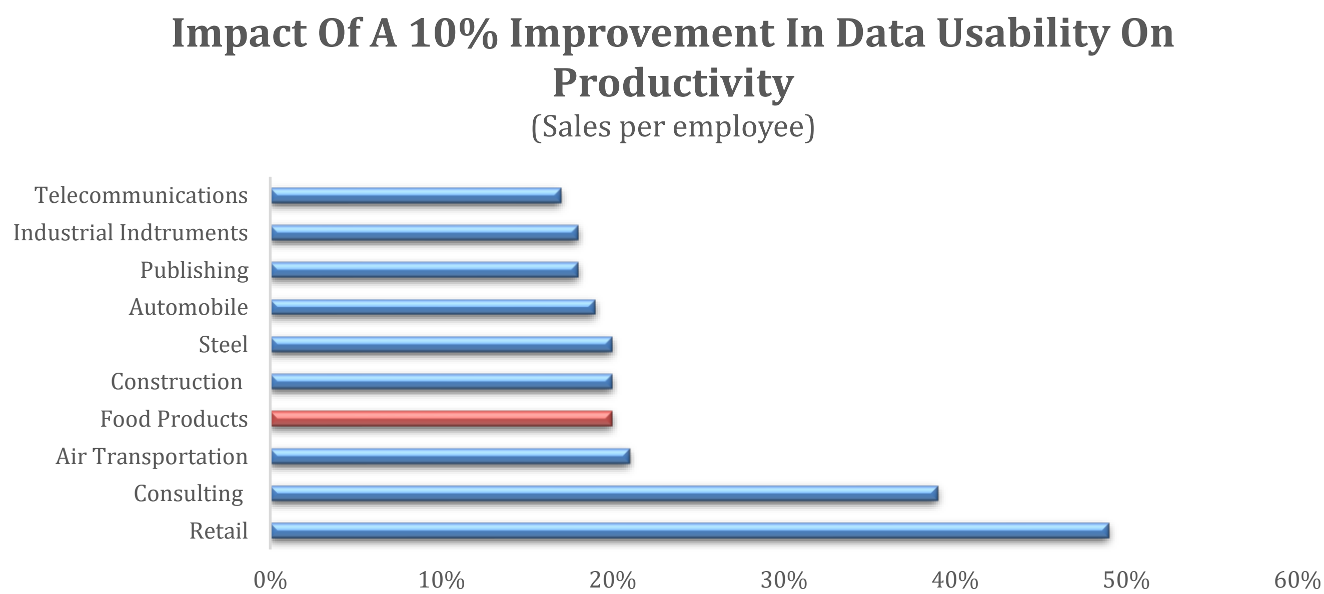

Figure 111 - Source: University of Texas. "Measuring the Business Impact of Effective Data". Accessed October 25, 2018 http://middleman.heltenkelt.se/anvandbart.se/images/drupalbilder/blogsource/div/EffectiveDataStudyPt1-MeasuringtheBusinessImpactsofEffectiveData-W

As shown in Figure 112 below, a large portion of consumers are willing to give out their personal information in exchange for a personalized deal. Fiesta could maximize on this trend by recording its consumers behavior through the mobile app including tracking time, location, demographic info, average basket size and many other useful metrics. Furthermore, Fiesta is going to move SMI (slow moving inventory) to the final consumer better than traditional TV commercials, which tend to be very costly. Instead, Fiesta is going to be able to incorporate the mobile app to reach these customers and offer them SMI according to their historical data. With a fraction of the cost, Fiesta is going to be able to minimize its marketing expenses, yet continue to improve its customer outreach. With consumers also willing to share their personal information, Fiesta will have a significant pool of consumers to collect data from to facilitate innovation. This is essential because it will also provide a cost-effective method of improving the overall R&D function of Fiesta.

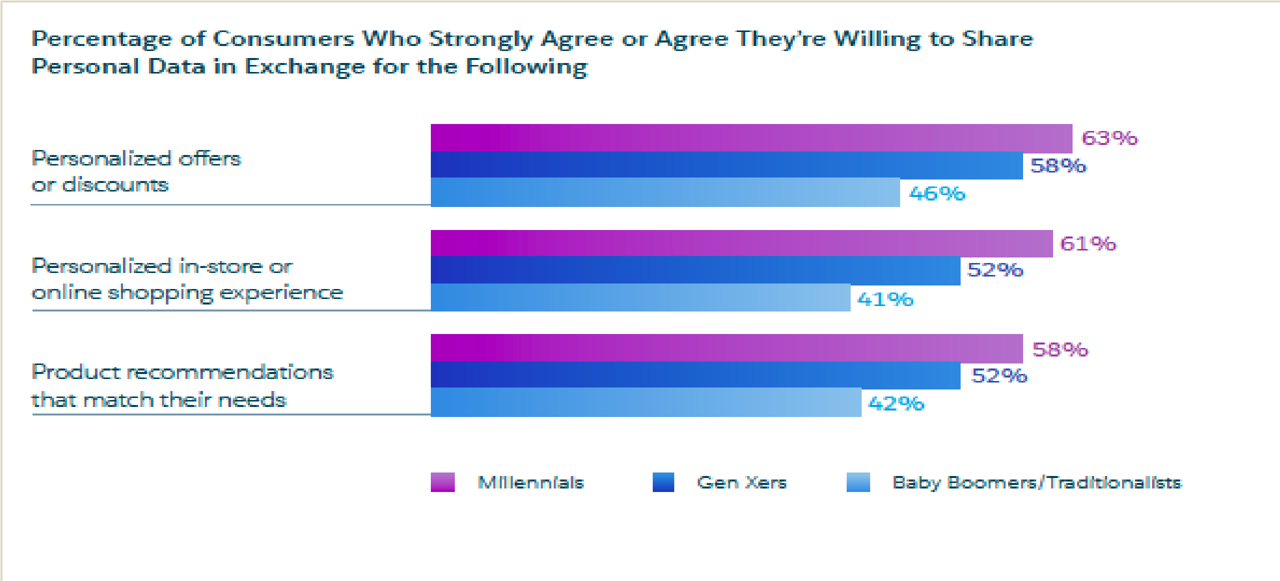

Figure 112 - Source: Sales Force. "Why Consumers Want More Personalized Marketing". Accessed October 20, 2018 https://www.salesforce.com/blog/2016/12/consumers-want-more-personalized-marketing.html

Regarding sales and marketing, the app is going to help Fiesta reach its customers through in-app advertisements. As shown in Figure 113 below, advertisements as a percentage of sales are at 3.90%. This is equivalent to $26 million. By controlling the media platform, the firm is going to be able to minimize its marketing expenses far better than it historically used to.

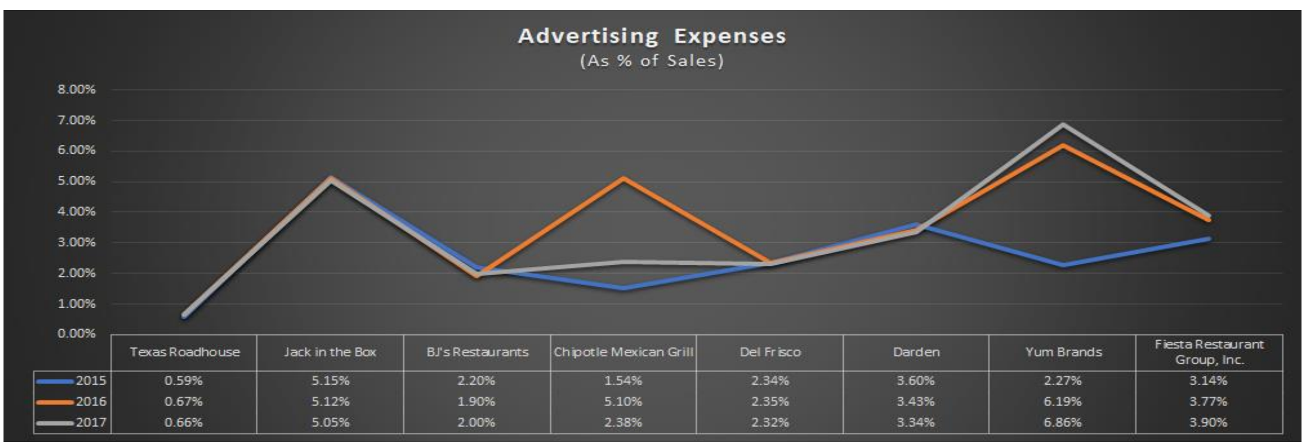

Figure 113 - Source: Annual Reports. : Fiesta Restaurant Group, Inc., Yum! Brands, Darden Restaurants, Del Frisco, Chipotle Mexican Grill, BJ's Restaurants, Jack in the Box and Texas Roadhouse." Accessed October 8, 2018

In regards to marketing expenses, the average cost to reach 1,000 consumers is $8.00 and $7.00 for radio and TV respectively. For online marketing, Google AdWords and Facebook Ads tend to cost a lot lower, as indicated below in Figure 114. By moving away from traditional marketing streams, Fiesta is going to be able to save around 3,000% because the firm is going to rely on social media to market its brand and the mobile application. As for in-App advertising, Fiesta is going to be in control of the landscape. Based on that, cost of in-App advertisement is going to be close to nil, especially with the firm taking the initiative of controlling the landscape of the application.

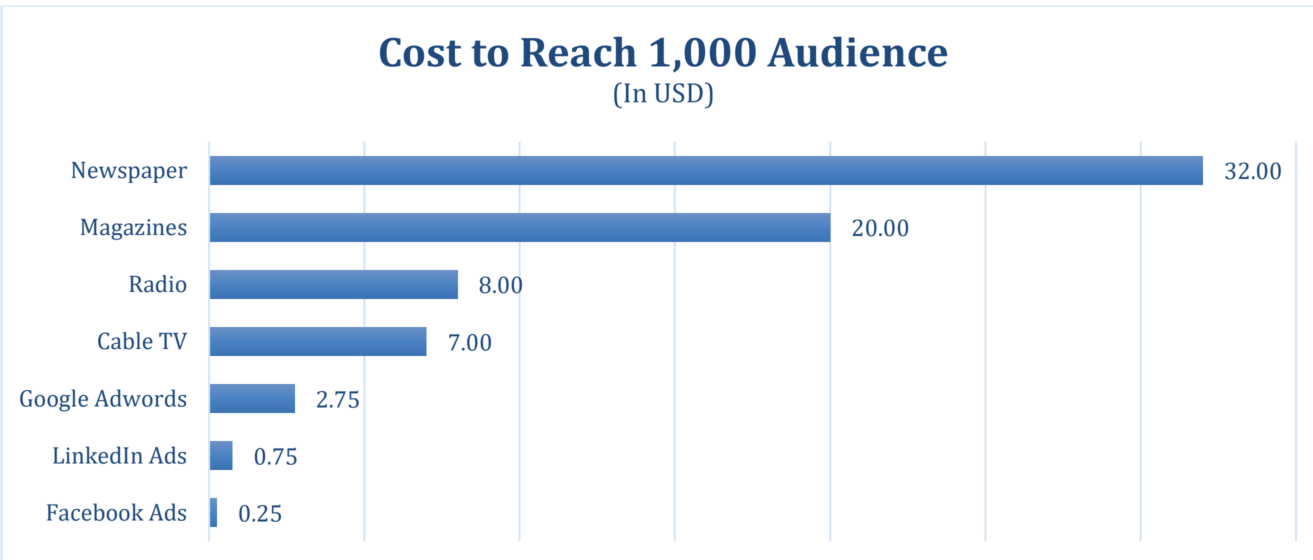

Figure 114 - Source: LinkedIn. "Costs of Reaching an Audience". Accessed October 22, 2018

To further illustrate the success potential of using mobile marketing, Figure 115 below shows that mobile marketing accounts for 67% of all brand traffics, compared to the traditional desktop traffic which accounts for 33% of the brand visits. Therefore, it is clear that the benefits of using mobile ads has surpassed the costs. Therefore, using in-app advertisement is cost-effective to reach the customers and does not hinder on the firm’s cost-leadership strategy. Thus, Fiesta will be able to save some of its advertisement expenses; especially those related to TV, radio and billboard and increase its marketing outreach.

Mobile Marketing – Mobile Share of Site Traffic and Impressions

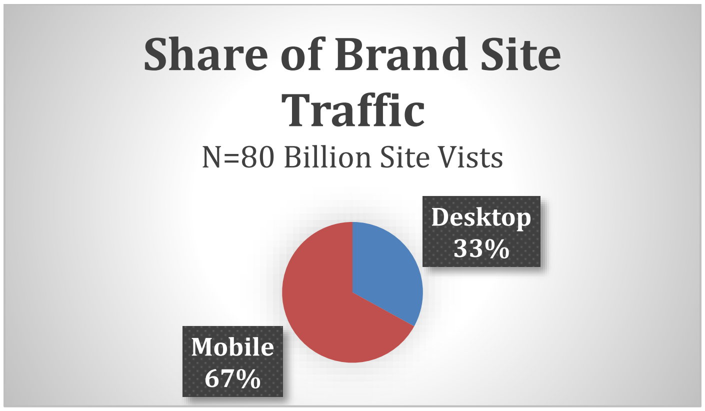

Figure 115 - Source: Gartner. "Mobile Marketing 2018: Intelligence Report". Accessed October 24, 2018 *https://www.l2inc.com/research/mobile-marketing-2018*

Fiesta has an inadequate inventory turnover and days in payable which indicates that the firm has liquidity issues and difficulty converting all inventory to sales. Due to delayed conversion of inventory to sales, Fiesta is having a tough time keeping up with its short-term obligations. Therefore, expanding the R&D team to include data analytics members who could use the collected user data from the mobile application to offer these customers more personalized and discounts will help turnover slow-moving inventory. This will yield a better return and minimize the inventory loss and speed up the process and thereby help improve the issues prevalent in the supply chain activities. In return, Fiesta is going to have a larger access to liquidity, thus providing the additional benefit of making the firm more efficient when comes to paying back its short-term obligations. Based on the improved liquidity, the overall health of the firm is going to be attractive for suppliers due to the fact that Fiesta is able to meet its dues faster than it used to.

Action Plan Chart

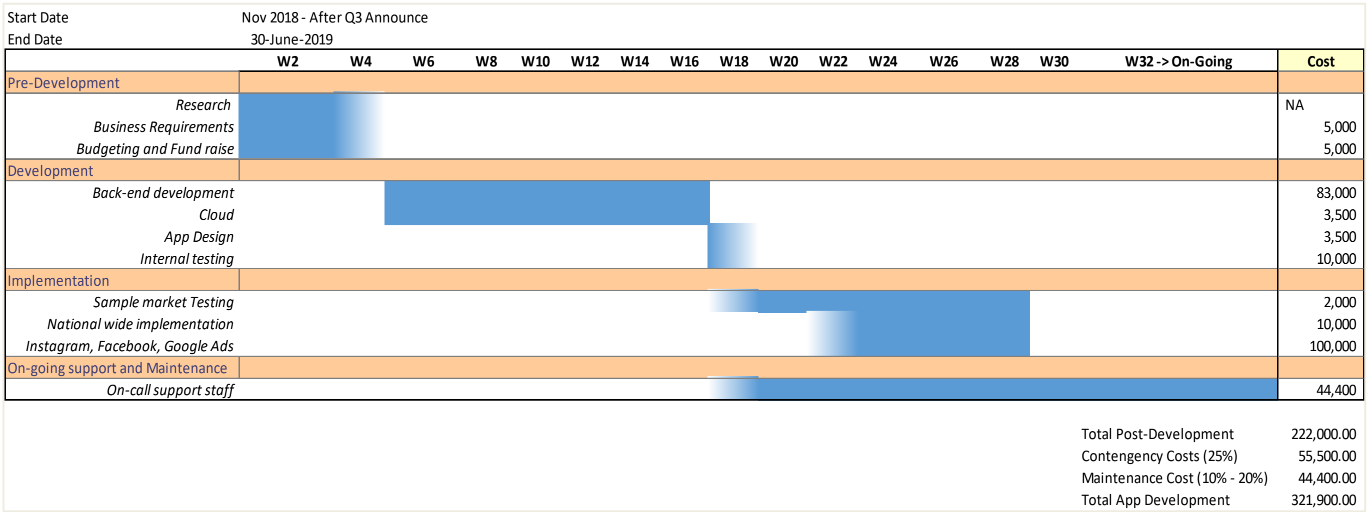

Figure 116 - Mobile App Action Plan

In terms of rolling out the application, the following is a summary of the action plan required to implement this strategy:

- For 3-4 weeks, the firm will work on researching the requirements for an effective application as well as the business requirements, while also completing budgeting.
- The development of the application will take a further 14-16 weeks, which will include cloud development, app design and internal testing. This stage will be completed through the hiring of two developers who will undertake the project.
- Following the development, the implementation will take a further 9-10 weeks. This will include sample market testing in areas with the most Fiesta restaurant. This will then be followed with a nation-wide implementation and the use of new mediums to advertise this application (i.e. Facebook, Google, etc.).
- Part of the ongoing maintenance cost is associated with the development staff previously hired continuing to deal with the management of the application.

At the development stage, Fiesta will use the hired developers that specialize in mobile application development in order to ensure smooth development. Finally, the implementation will include rolling out the application and using appropriate mediums to advertise the application’s features. This is to be done on Facebook, Google and other useful advertising mediums.

In relation to the application features, the developers will work on including the following:

- Mobile Flexibility to order, pay and set the pickup time at any specific location the user wants
- Offers personalized deals and suggestions to the user based on historical aggregated data (User specific and market specific)
- Allows for in-App advertisements
- Allows for voice-over orders (like if you order to Siri or Alexa)
- In App customer IT support
- Loyalty program that tracks the user historical transactions and compensate them accordingly
- Link to third-party deliveries; like DoorDash, Uber Easts and many others
- Track popularity of menu items used for inventory purposes

Cost-Benefit Analysis:

As indicated below in the cost-benefit analysis of introducing the M-Commerce plan (i.e. the mobile application), the firm has various costs associated with implementing the strategy. This includes an initial outlay of $321,900. From the initial outlay, the cost is $222,000, which includes, the total amounts at the pre-development, development and implementation stages. These costs are based on the average cost of an application development. [180] Two data analysts will be hired, with the average salary being $113,436, which is based off of the average data analyst salary in the United States.[181] These analysts are part of an ongoing cost of the new data analytics team aimed at enhancing the R&D function of the firm. The ongoing maintenance costs are typically 10-20% of the total implementation cost, which excluding the contingency cost shown above of $55,500 is at $222,000.[182] Therefore, the calculated maintenance cost on a yearly basis is $44,400 (20%). In terms of revenue growth, to measure the incremental benefit of this strategy, the baseline growth of organic revenue is at 2%.

[180] Comentum. "Mobile App/Web Application Development Process, Project Functional Requirements and Cost". Accessed October 27, 2018 https://www.comentum.com/mobile-app-development-planning-process.html
[181] Glassdoor. "Data Analyst: Average Salary in the United States". Accessed October 25, 2018 https://www.glassdoor.ca/Salaries/us-data-analyst-salary-SRCH_IL.0,2_IN1_KO3,15.htm
[182] Segue Technologies. "How Much Does a Mobile App Maintenance Contract Cost". Accessed October 26, 2018 https://www.seguetech.com/how-much-mobile-app-maintenance-contract-cost/?fbclid=IwAR06Y7MlkolchvKpAaL_1PqpQz871kWgKl7vQsQEBuIB9MLEVUyBy26dkNI

This is the growth before further adjusting the expected revenue growth due to the introduction of the App. The growth following the implementation of the App has been analyzed in the analysis below, with a worst-case scenario being an incremental growth of 6.25%, an expected growth of 12.5% and a best-case growth percentage of 25%. Furthermore, advertising expenses as per the annual report were at $26 million in 2017. Part of the plan is to reduce the more expensive advertising methods, such as billboards, radio and TV. This would allow the firm to reduce the unnecessary costs associated with the inefficient advertising which will be used for financing the strategy. Accordingly, based on the costs and the savings of the plan, the firm can expect a NPV of $78,652,150 over 5 years, while a worst-case scenario would show a NPV of $12,073,819 and a best-case scenario would be a NPV of $211,808,811.

Benefits	**Expected Benefits (Increase in Revenue)**
M-Restaurant Environment	30.00%
Personalized Deals	20.00%
In-App advertisements	Savings in Ads Exp.
Loyalty programs (+5% retention)	25.00%
Average Growth	25.00%

Figure 117 - Expected Growth Rates for App Benefits

Fiesta Restaurant Group Inc.	**Capital Allocations**
Market Value of Equity	723,095,000
Market Value of Debt	85,606,864
Total	**808,701,864**
Market Premium	5.6%
Risk-Free Rate	2.88%
Cost of Equity	8.48%
Cost of Debt	3.73%
Tax	33.90%
WACC	**7.84%**

Figure 118 - Capital Structure Calculations

Note: All figures calculated above such as the market value of equity, debt, market premium, risk free-rate, etc. are all based off of calculations using the most recent data from Bloomberg.

	2017	2018	2019	2020	2021	2022	Assumption
Initial Investment		- 277,500.00					From Project Chart
Ongoing Cost		- 44,400.00	- 44,400.00	- 44,400.00	- 44,400.00	- 44,400.00	IT Support Staff
Growth							
Organic Growth		2.00%	2.00%	2.00%	2.00%	2.00%	Organic growth of the market
Worst Case		1.25%	2.50%	3.75%	5.00%	6.25%	The Revenue to going to grow to reach 6.25%
Normal Case		2.50%	5.00%	7.50%	10.00%	12.50%	The Revenue to going to grow to reach 12.5%
Best Case		5.00%	10.0%	15.0%	20.0%	25.0%	The Revenue to going to grow to reach 25%
Total Revenue	669,132,000	682,514,640	696,164,933	710,088,231	724,289,996	738,775,796	Expected growth in revenue without doing anything
Worst Case		- 5,018,490	- 10,304,633	- 15,863,781	- 21,701,396	- 27,823,046	Incremental revenue above the organic Growth
Normal Case		3,345,660	6,423,667	9,228,669	11,755,204	13,997,704	Incremental revenue above the organic Growth
Best Case		20,073,960	39,880,267	59,413,569	78,668,404	97,639,204	Incremental revenue above the organic Growth
COGS	202,888,000	206,945,760	211,084,675	215,306,369	219,612,496	224,004,746	Same growth in organic revenue
Worst Case		- 1,521,660	- 3,124,475	- 4,810,069	- 6,580,096	- 8,436,246	Incremental COGS above the organic COGS
Normal Case		1,014,440	1,947,725	2,798,231	3,564,304	4,244,254	Incremental COGS above the organic COGS
Best Case		6,086,640	12,092,125	18,014,831	23,853,104	29,605,254	Incremental COGS above the organic COGS
Advertising Expense	26,091,000						Most recent Advertising Expense
Advertising Expense		18,263,700	12,784,590.0	8,949,213.0	6,264,449.1	4,385,114.4	Expected Advertising Expenses
Advertising Savings		- 7,827,300	- 13,306,410	- 17,141,787	- 11,999,250.9	- 21,705,886	Ad Savings from retiring TV, Radio and BillBoards
Data Analytics Team (2)		226,872	226,872	226,872	226,872	226,872	Two new hires for the data analytics - $113,436
Net Cash Flow							Assume other Expenses remain the Same
Worst Case		3,781,698	5,854,980	5,816,802	- 3,393,321	2,047,814	Net Gain before operating expenses
Normal Case		9,609,748	17,511,080	23,300,952	19,918,879	31,188,064	Net Gain before operating expenses
Best Case		21,265,848	40,823,280	58,269,252	66,543,279	89,468,564	Net Gain before operating expenses
DCF							
Worst Case		3,506,659	5,034,298	4,637,720	- 2,508,718	1,403,861	
Normal Case		8,910,842	15,056,582	18,577,782	14,726,238	21,380,707	
Best Case		19,719,206	35,101,151	46,457,906	49,196,149	61,334,398	
NPV							
Worst Case	12,073,819						
Normal Case	78,652,150						
Best Case	211,808,811						

Figure 119 - Cost-Benefit Analysis of M-Commerce Solution

Secondary Recommendation: HR Plan

Fiesta has significant issues identified in the prior section. A large contributor to these issues is the continued fluctuation of the number of employees, which increases costs significantly as the costs associated with hiring, training and compensation are high, especially when this is an activity done year-round due to the nature of the industry that has a high employee turnover rate. Currently, Fiesta also has a significant employee turnover issue, with the firm dropping from 12,080 total employees to 10,290.[183] Accordingly, the firm has an option to help reduce the issues associated with the human resource functions and thus help contribute more to a low-cost leadership it

[183] Fiesta Restaurant Group, Inc. “Annual Report”. Accessed October 24, 2018

is striving to achieve. With an appropriate strategy, Fiesta would result in more employee loyalty, more effort during work and a more enthusiastic staff.[184] Additionally, a more motivated staff will help result in more efficiency at the operational level as well as reduce the employee turnover. This would result in significant gains that would offset significant costs associated with a high employee turnover.

Fiesta's programs to implement includes 2 components. The first component involves allowing managers to adopt a combination of 3 things: improved hiring/selection process, increased employee autonomy, and conducting exit interviews. Currently, Fiesta does not conduct exit interviews, and as a result, when employees are leaving, Fiesta is not collecting adequate data that indicates the reason why. Furthermore, employees currently are limited and controlled by their supervisors with little decision making required.[185] As evidenced in Figure 120 below, by having more autonomy, employees are more likely to showcase innovation, report higher job satisfaction and showcase better workplace performance. The benefits from workplace autonomy include more efficiency operations (which will result in more productivity and an improvement in the margins of the firm's key performance indicators), a more satisfied workforce that will result in a lower employee turnover rate and a higher overall employee performance. Finally, Fiesta does not have a rigorous hiring process and depends on the use of an "E-Verify" program to determine employee eligibility, as opposed to management judgement.[186] With a more detailed hiring program, Fiesta

[184] American Express. "101 Ways to Reward Employees". Accessed October 24, 2018 https://smallbusiness.americanexpress.com/ca/en/big-ideas-for-small-business/employee-retention-and-engagement/101-Ways-to-Reward-Employees-Without-Giving-them-Cash
[185] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 24, 2018
[186] Annual Report. "Fiesta Restaurant Group, Inc.". Accessed October 24, 2018

would be able to find more suitable job candidates that would be less likely to cost the firm significant training costs and in turn drop the employee turnover rate.

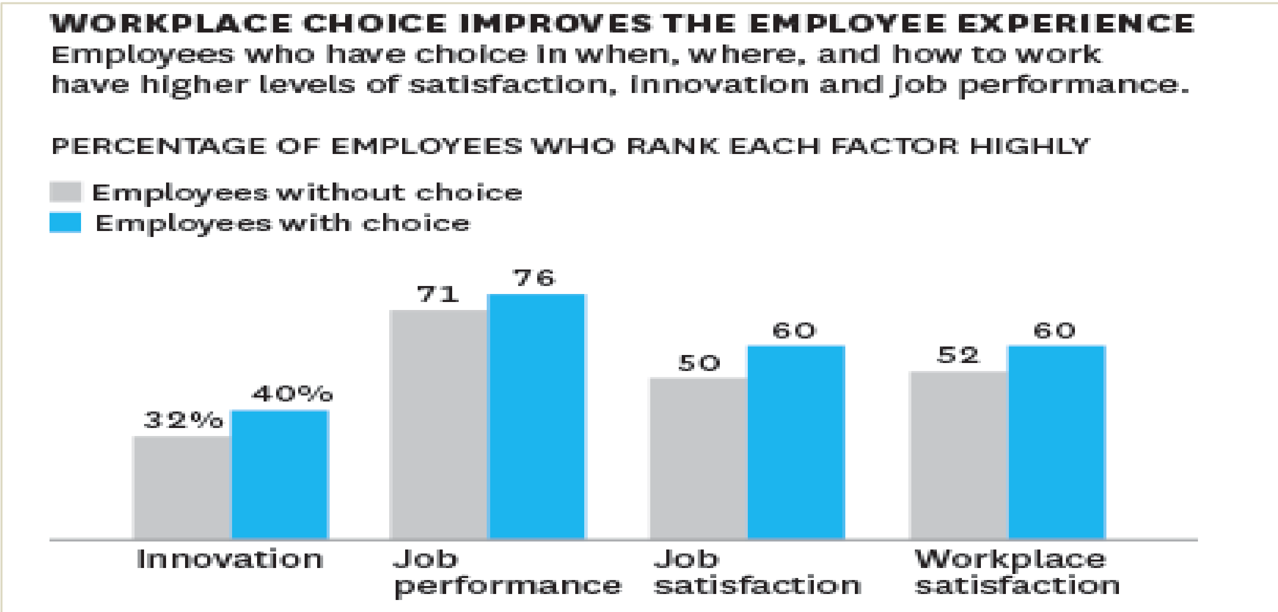

Figure 120 - Source: Harvard Business Journal. "Employees Perform Better When They Can Control Their Space". Accessed October 24, 2018 https://hbr.org/2014/01/employees-perform-better-when-they-can-control-their-space

Currently, restaurants are running in a uniform manner across both Taco Cabana and Pollo Tropical, with management at each location making decisions and staff following their instructions. The firm could increase employee autonomy in dealing with customers, as well as making front-line decisions in dealing with issues. This is to be done in a revamped training process for employees that involves dealing with customer issues and matters such as customer problems with orders, finding more efficient ways in producing products of the same value and other issues that typically require management intervention. By collecting employee input related to what ways more autonomy could be achieved, restaurants would be able to find new/innovative ways to conducting operations in a more efficient manner, while also having employees more satisfied with their work and showcasing more efforts, which leads to a reduction in employee turnover.

The second component for Fiesta to implement is one related to the employee recognition. This could include having restaurants recognize outstanding performers on a monthly basis via employee of the month recognition. The key idea behind having the firm recognize top performers, especially those at the restaurant level, is that the firm would be showing the lower level employees that they matter and their efforts are recognized, especially when their efforts are being showcased via official channels. As previously mentioned, employees feeling valued is a significant driver in ensuring long-term employee commitment and retention. By using strategies such as “employees of the month”, the firm would help foster the sense of recognition for employees, which would then in turn reduce employee turnover as well as increase operational efficiency.

Action Plan of Secondary Recommendation

Before launching a full-scale implementation, Fiesta will need to first determine the overall autonomy level and job satisfaction via surveys across all of its locations, as well as design a new hiring process and exit interview protocols. This is expected to take about 3 weeks as Fiesta has a significant number of locations and 10,090 restaurant level employees (as of 2017) that need to be surveyed.[187] By using the 3 weeks to analyze the job satisfaction and current perceived level of autonomy, Fiesta will be able to determine what type of changes need to be made. Furthermore, Fiesta could also in the meantime design the new hiring process aimed at ensuring the firm hires more capable individuals and conduct exit interviews to arrive at reasons why employees are leaving. Following the survey results, Fiesta should start running a trial over 12 weeks across 5 locations of Pollo Tropical and 5 locations of Taco Cabana. The

[187] Annual Report. “Fiesta Restaurant Group, Inc.”. Accessed October 23, 2018

trial includes the specified training for employees in order to deal with customer issues as well as using results for suggested improved employee autonomy via surveys and implementing the suggestions in the training methods. Following the 12-week period, Fiesta will uniformly apply the training for all current employees at the other existing locations, while also applying this prospectively. This will be another 2 weeks. Finally, Fiesta will continue to monitor employee satisfaction and perceived autonomy via surveys conducted on a continuous basis, while also conducting exit interviews prospectively. This will allow the firm to compile adequate data related to employee job satisfaction, turnover and other feedback from employees in follow-up surveys, while also collecting further data from employees leaving.

In terms of implementing the employee of the month honors held to recognize excellent employee performances, Fiesta should start formalizing the procedures necessary to recognize employees of the month at participating locations. This will take 2 weeks to plan at the corporate level. The planning at the corporate level includes the criterions that stores are to use in determining top performers, the medium through which the employee recognition will be established through and the expected results in terms of employee satisfaction and turnover. Following the planning phase in 2 weeks, Fiesta will compile data regarding job performance of employees recognized for good performances for the first 12 weeks (3 months) to determine the changes in levels of job satisfaction and effort from those employees recognized. Following the 12-week period, Fiesta will uniformly apply this throughout the firm’s locations and start reaping the benefits of a more cohesive and motivated staff.

Figure 121 - Timeline of Implementation

Timeline	W2	W4	W6	W8	W10	W12	W14	W16	W18	W20	W22	W24	W26	W28	W30	W32	W34 -> On-Going	Duration	Comment
Phase I: Strategy Start																			
Conducting Research And Surveys																		3 Weeks	Conduct research and surveys with existing employees regarding job satisfaction and autonomy
Design New Hiring Process																		3 Weeks	Design new hiring process and exit interviews
Phase II: Implementation																			
Market Testing - Sample Analysis																		12 Weeks	Implement & monitor results of training program aimed at increasing autonomy as a test run on 5 locations of Pollo Tropical and 5 of Taco Cabana
Nation Wide Implementation																		2 Weeks	Uniform application of the new training method & hiring process prospectively
Reshaping The Employee Valuation Metrics																		2 Weeks	2 week planning phase for the criterions and medium decisions
Milestore - Employee Satisfaction Surveys																		12 Weeks	Data collection on employee satisfaction through surveys
Phase II: On-Going Operations																			
Continuous Strategy Support																		On-Going	Continuous application of the employee recognition through social media

Cost-Benefit Analysis

Since Fiesta's second component of the newly designed program is one hindered on employee recognition, there is little monetary cost associated with planning it or implementing it. Furthermore, the costs associated with revising the training program are a one-time cost as it will initially involve research and will be replacing the current program prospectively (which means that there will not be a significant shift in training costs, only the initial outlay). Furthermore, the benefits associated with the new training and exit interviews are designed to allow management to ensure maximum employee satisfaction while also collecting data as to why employees are leaving and rectify those reasons. The ideal outcome in this case would be lower costs arising due to lower employee turnover. The following tables below provide a summary of the cost and benefit under a worst, expected and best-case scenario, with the associated notes providing the rationale behind the basis for which the costs and benefits were determined.

Figure 122 - Cost/Benefit Analysis Cash Flows

Employment Incentive Program	Worst (+10%)	Expected	Best (-10%)	Reference
Cost				
Conducting surveys, preparation and development of new program	13,475	12,250	11,025	*Note 1*
Cost of training employees	900,000	1,000,000	1,100,000	*Note 2*
Total Cost	913,475	1,012,250	1,111,025	
Benfits				
Reduced employee turnover cost savings	4,500,000	5,000,000	5,500,000	*Note 3*
Net Cash Flow	**3,586,525**	**3,987,750**	**4,388,975**	

Note 1:

The average cost of developing a new and comprehensive training program is up to **$12,250.**[188] This includes costs associated with planning, testing and evaluating to ensure effectiveness.

Note 2:

The expected cost associated with training the current employees is calculated as follows:

- As per a study conducted by Cornell University, the average cost for employee retraining and orientation is 14% of the original cost.[189] In this case, the average cost per training originally was $824, so a 14% calculation would then be $115/employee. With the firm employing 10,090 front-line employees, the total cost would then be **approximately $1 million.**

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[188] University of Washington. "Training Program Costing". Accessed October 26, 2018 https://depts.washington.edu/cfar/sites/default/files/uploads/core-program/user164/Session5_Weaver_CostTrainingOfPrograms_2016v2.pdf

[189] Cornell University. "The Costs of Employee Turnover: When the Devil is in the Details". Accessed October 27, 2018 https://scholarship.sha.cornell.edu/cgi/viewcontent.cgi?referer=http://www.therail.media/stories/2016/3/17/hidden-costs-restaurant-staff-turnover&httpsredir=1&article=1148&context=chrpubs

Note 3:

The average cost of employee turnover per full-service restaurant in the United States is $146,600.[190] With an expected reduction of 10% in employee turnover, then the expected cost recovery per restaurant for Fiesta would be $14,660. With the firm having 171 Pollo Tropical locations and 171 Taco Cabana locations, the firm would realize an expected saving of approximately **$5 Million (342 locations * $14,660).**

It is important to note that while the costs associated with the retraining have been monetized above, there are still significant costs that cannot be monetized. This includes time spent by corporate staff and management. Furthermore, for the implementation, it is important that **all** restaurant-level staff participate in the training. This is essential in that the firm would then be able to ensure application across all locations and adequate training has been provided and then reliably measure results.

In terms of benefits, the savings mostly relate to the reduced employee turnover, however there are still significant benefits associated with this recommendation. This includes more employee satisfaction and innovation (due to autonomy), as well as more operational efficiency. Essentially, the firm is generating both intrinsic and extrinsic rewards by investing in a new training and hiring process.

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[190] Cornell University. "The Costs of Employee Turnover: When the Devil is in the Details". Accessed October 27, 2018
https://scholarship.sha.cornell.edu/cgi/viewcontent.cgi?referer=http://www.therail.media/stories/2016/3/17/hidden-costs-restaurant-staff-turnover&httpsredir=1&article=1148&context=chrpubs

Funds Raised (Hussam & Abbas)

Due to the current negative covenants, the financing for these strategies will be done through the savings associated with unnecessary advertisement expenses that that were identified in the primary recommendation above. Based on the last 3 fiscal years, the advertisement expenses ranged from 3% to 4% of revenue, which is approximately $25 million to $27 million. Part of the primary recommendation included reducing expenses paid for billboard, radio and TV advertising. With the combined initial cost of the two business recommendations being under $2 million, a saving of 8% from the total average advertising expenses, assuming the figure remains within the same range for 2018 fiscal as the average from the prior 3 years, will provide the necessary funds in order for these strategies to move forward.

Summary of Business Strategy (Abbas)

Fiesta's main business function is associated with the firm operating 2 restaurant brands; Pollo Tropical and Taco Cabana. Fiesta's strategy consists of the use of a cost-leadership strategy by offering quality food at a low price in order to attain profitability. The goal for Fiesta is to achieve operational efficiency while continuing to offer low-cost goods to consumers.

However, Fiesta has had significant issues in various facets of its business, especially in the internal value chain. This includes the corporate leadership and operations being ineffective in achieving adequate margins related to significant metrics (i.e. EBITDA and Share Price). The decline in these metrics indicates that the current corporate leadership has not done well enough in the operations activities at reducing costs and allowing the firm to achieve a competitive advantage. Furthermore, the firm has had significant supply chain issues, with the firm's inventory turnover and average days in accounts payable being at an inadequate level, indicating liquidity issues and inefficiency with purchase orders. Marketing, R&D and Customer Service functions are also a significant issue as the firm does not have an effective loyalty program, pays a substantial amount of funds on marketing that has not done a good enough job increasing the brand exposure and has spent no amounts on R&D in the last 3 fiscal years. Human Resource issues are also significant, as the firm's total number of employees continues to fluctuate and given the nature of the industry, costs of employee turnover are significant in the overall wage expenditures, which hinders the firm's ability to reach a competitive advantage via cost-leadership.

In terms of the external environment, the firm does not take advantage of opportunities or minimize threats that can help maintain a cost-leadership strategy. The lack of M-Commerce adaptations means the firm lacks the innovation necessary in the industry to maintain cost-leadership. Additionally, the firm lacks the consumer behaviour data that would allow it to shape its operations to help meet these changes. As a result, the firm is not taking advantage of opportunities or reducing threats that allow it to enhance its position as a cost leader.

Taking into account the issues associated with the firm, the primary recommendation for Fiesta is to develop a mobile application that incorporates various features such as loyalty points for customers, deals, in-app advertising, customer feedback, support, data tracking to establish patterns and popularity of certain items, links to third-party delivery programs and others. The use of these will help rectify issues at the operational level as it is expected that the use of a successful application will increase revenues at a significant rate over 5 years. Furthermore, the application will also allow the firm to correct its marketing and research and development, as well as take advantage of technological opportunities and collect consumer behaviour data as the firm will be able to use feedback from consumers to help improve service or introduce new innovations. The application will also help with the supply chain as the firm will be able to track product popularity and patterns while also increasing sales. This will help the inventory turnover ratio and days in payable metrics, especially with the increased revenue providing a stable cash flow. Based on this application correcting the weaknesses currently prevalent, the expected net present value is $78,652,150 over 5 years.

The secondary recommendation is aimed at correcting the human resource weaknesses, while also improving operations and the resulting metrics. Firms in the full-service restaurant industry currently suffer from a very high turnover rate and the recommendation is for Fiesta to implement a new training program aimed at increasing employee autonomy. Increased employee autonomy is associated with improved job satisfaction, effort and productivity which in turn will help the restaurant improve operational efficiency. Furthermore, it will also reduce employee turnover, especially with the employees being more satisfied. The other parts of this recommendation include revamping the hiring process to ensure qualified personnel are hired (which is significant in employee retention), conducting exit interviews to determine reasons as to why employees are leaving and introducing a new employee recognition program aimed at increasing job satisfaction through showing employees they are valued. While most of this recommendation is non-monetary, costs associated with training and benefits associated with the reduced employee turnover, which have been analyzed. The expected net present value of this recommendation is $3,987,750 on a yearly basis.

It is expected that if Fiesta implements these recommendations at the business level, the firm's operations will drastically improve with the firm rectifying its weaknesses and achieving a significant low-cost leadership strategy aimed at providing it a competitive advantage.

Figure 123 - Business Functional Strategy Synergy

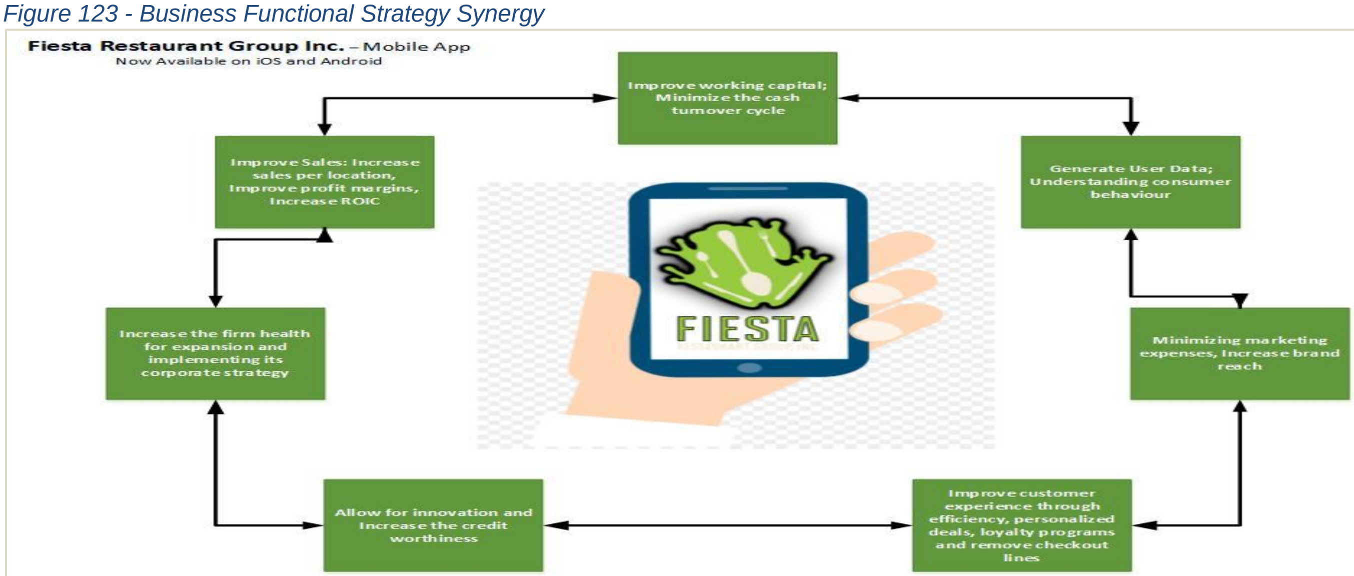

Figure 124 - What Does the Business Strategies Addresses

Factors	O/T/W	Description	Recommendations M-Commerce	Recommendations HR Plan
Supply Chain Management	W	Firm has an inadequate inventory turnover and days in payable which indicates that the firm has liquidity issues and difficulty converting all inventory to sales.	✓	
Marketing and Sales	W	Firm has inefficient spending on advertisements with a lower customer engagement on social media	✓	
Customer Service	W	Firm lacks the loyalty/rewards programs necessary to retain consumers.	✓	
Operations	W	Weak profitability and ROIC indicates bottom-line issues for Fiesta in managing costs.	✓	
	W	High operating costs which indicate significant costs associated with more sales.	✓	
Human Resource Management	W	High employee turnover and fluctuating total employees.		✓
Corporate Leadership	W	Market cap, share price and EBIT of the firm have declined over the last 3 years.	✓	
Research & Development	W	Firm has no research and development team in place to collect data.	✓	
Technology	O/T	The rise of M-Commerce presents opportunities for firms in the industry to increase profitability as well as consumer engagement.	✓	
Consumer Behaviour	T	Consumer spending patterns indicate a shift towards healthier alternatives.	✓	

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Appendices

Income Statement

In Millions of USD	Fiesta Restaurant Group Inc. FY 2015	Fiesta Restaurant Group Inc. FY 2016	Fiesta Restaurant Group Inc. FY 2017	Yum! Brands Inc. FY 2015	Yum! Brands Inc. FY 2016	Yum! Brands Inc. FY 2017	Darden Restaurants Inc. FY 2015	Darden Restaurants Inc. FY 2016	Darden Restaurants Inc. FY 2017	Darden Restaurants Inc. FY 2018
Revenue	**687.4**	**711.8**	**669.1**	**6,418.0**	**6,356.0**	**5,878.0**	**6,764.0**	**6,933.5**	**7,170.2**	**8,080.1**
+ Sales & Services Revenue	687.4	711.8	669.1	6,418.0	6,356.0	5,878.0	6,764.0	6,933.5	7,170.2	8,080.1
- Cost of Revenue	511.9	533.9	523.5	3,867.0	3,690.0	3,191.0	5,341.5	5,392.4	5,600.8	6,334.7
+ Cost of Goods & Services	511.9	533.9	523.5	3,867.0	3,690.0	3,191.0	5,341.5	5,392.4	5,600.8	6,334.7
Gross Profit	**175.5**	**177.9**	**145.6**	**2,551.0**	**2,666.0**	**2,687.0**	**1,422.5**	**1,541.1**	**1,569.4**	**1,745.4**
+ Other Operating Income	0.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Operating Expenses	110.0	121.7	117.1	1,010.0	1,044.0	924.0	992.8	865.4	864.1	955.8
+ Selling, General & Admin	74.5	82.9	86.2	1,033.0	1,105.0	906.0	673.5	622.9	627.4	662.1
+ *Selling & Marketing*	21.6	26.8	26.1	—	—	—	243.3	238.0	239.7	252.3
+ *General & Administrative*	52.9	56.1	60.1	1,033.0	1,105.0	906.0	430.2	384.9	387.7	409.8
+ Research & Development	0.0	0.0	0.0	25.0	24.0	22.0	—	0.0	0.0	0.0
+ Depreciation & Amortization	30.6	36.8	35.0	0.0	0.0	0.0	319.3	290.2	272.9	313.1
+ Other Operating Expense	4.9	2.1	-4.1	-48.0	-85.0	-4.0	0.0	-47.7	-36.2	-19.4
Operating Income (Loss)	**66.1**	**56.3**	**28.5**	**1,541.0**	**1,622.0**	**1,763.0**	**429.7**	**675.7**	**705.3**	**789.6**
- Non-Operating (Income) Loss	1.9	2.2	2.9	181.0	337.0	487.0	192.3	71.0	40.2	58.9
+ Interest Expense, Net	1.9	2.2	2.9	141.0	305.0	440.0	192.3	172.5	40.2	161.1
+ *Interest Expense*	1.9	2.2	2.9	—	—	—	192.9	173.6	41.5	161.9
- *Interest Income*	0.0	0.0	0.0	—	—	—	0.6	1.1	1.3	0.8
+ Foreign Exch (Gain) Loss	0.0	—	0.0	20.0	-6.0	5.0	0.0	0.0	0.0	0.0
+ (Income) Loss from Affiliates	0.0	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Non-Op (Income) Loss	0.0	0.0	0.0	20.0	38.0	42.0	0.0	-101.5	0.0	-102.2
Pretax Income (Loss), Adjusted	**64.2**	**54.2**	**25.7**	**1,360.0**	**1,285.0**	**1,276.0**	**237.4**	**604.7**	**665.1**	**730.7**
- Abnormal Losses (Gains)	3.6	29.1	69.6	107.0	-60.0	-998.0	62.1	155.0	27.8	125.0
+ Disposal of Assets	—	—	—	0.0	0.0	0.0	-4.2	-5.9	-10.4	-1.1
+ Early Extinguishment of Debt	—	—	—	—	—	—	—	101.5	—	102.2
+ Asset Write-Down	2.4	—	0.5	16.0	15.0	3.0	66.3	11.7	2.0	4.5
+ Legal Settlement	1.6	1.9	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Restructuring	—	0.5	3.1	—	67.0	23.0	—	-4.0	—	—
+ Insurance Settlement	—	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Abnormal Items	-0.4	26.7	63.4	91.0	-142.0	-1,024.0	—	51.7	19.9	—
Pretax Income (Loss), GAAP	**60.6**	**25.0**	**-44.0**	**1,253.0**	**1,345.0**	**2,274.0**	**175.3**	**449.7**	**637.3**	**605.7**
- Income Tax Expense (Benefit)	22.0	8.3	-7.8	327.0	327.0	934.0	-21.1	90.0	154.8	1.9
+ Current Income Tax	16.6	14.2	-4.9	428.0	299.0	300.0	-13.8	93.7	184.0	20.9
+ Deferred Income Tax	5.5	-5.7	-2.7	-101.0	28.0	634.0	-7.3	-3.7	-29.2	-19.0
+ Tax Allowance/Credit	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- (Income) Loss from Affiliates	—	—	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income (Loss) from Cont Ops	**38.5**	**16.7**	**-36.2**	**926.0**	**1,018.0**	**1,340.0**	**196.4**	**359.7**	**482.5**	**603.8**
- Net Extraordinary Losses (Gains)	0.0	0.0	0.0	-357.0	-625.0	0.0	-513.1	-15.3	3.4	7.8
+ Discontinued Operations	0.0	0.0	0.0	-357.0	-625.0	0.0	-513.1	-15.3	3.4	7.8
+ XO & Accounting Changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income (Loss) Incl. MI	**38.5**	**16.7**	**-36.2**	**1,283.0**	**1,643.0**	**1,340.0**	**709.5**	**375.0**	**479.1**	**596.0**
- Minority Interest	0.0	0.0	0.0	—	0.0	0.0	0.0	0.0	0.0	0.0
Net Income, GAAP	**38.5**	**16.7**	**-36.2**	**1,283.0**	**1,643.0**	**1,340.0**	**709.5**	**375.0**	**479.1**	**596.0**
- Preferred Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Other Adjustments	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income Avail to Common, GAAP	**38.1**	**16.7**	**-36.2**	**1,283.0**	**1,643.0**	**1,340.0**	**709.5**	**375.0**	**479.1**	**596.0**

In Millions of USD	el Frisco's Restaurant Group In FY 2015	el Frisco's Restaurant Group In FY 2016	el Frisco's Restaurant Group In FY 2017	Chipotle Mexican Grill Inc. FY 2015	Chipotle Mexican Grill Inc. FY 2016	Chipotle Mexican Grill Inc. FY 2017	BJ's Restaurants Inc. FY 2015	BJ's Restaurants Inc. FY 2016	BJ's Restaurants Inc. FY 2017	Jack in the Box Inc. FY 2015	Jack in the Box Inc. FY 2016	Jack in the Box Inc. FY 2017	Texas Roadhouse Inc. FY 2015	Texas Roadhouse Inc. FY 2016	Texas Roadhouse Inc. FY 2017
Revenue	**331.6**	**351.7**	**361.4**	**4,501.2**	**3,904.4**	**4,476.4**	**919.6**	**993.1**	**1,031.8**	**1,540.3**	**1,599.3**	**1,553.9**	**1,807.4**	**1,990.7**	**2,219.5**
+ Sales & Services Revenue	331.6	351.7	361.4	4,501.2	3,904.4	4,476.4	919.6	993.1	1,031.8	1,540.3	1,599.3	1,553.9	1,807.4	1,990.7	2,219.5
- Cost of Revenue	252.3	268.5	281.1	3,326.9	3,406.2	3,720.2	736.7	801.4	859.8	937.0	977.6	963.3	1,480.7	1,605.3	1,796.6
+ Cost of Goods & Services	252.3	268.5	281.1	3,326.9	3,406.2	3,720.2	736.7	801.4	859.8	937.0	977.6	963.3	1,480.7	1,605.3	1,796.6
Gross Profit	**79.3**	**83.2**	**80.3**	**1,174.3**	**498.2**	**756.2**	**182.9**	**191.6**	**172.0**	**603.3**	**621.7**	**590.6**	**326.7**	**385.4**	**422.9**
+ Other Operating Income	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Operating Expenses	52.8	55.2	60.2	397.5	439.8	472.1	119.8	126.6	128.0	394.8	379.6	348.4	181.1	200.9	221.2
+ Selling, General & Admin	30.9	34.2	36.8	319.5	379.2	402.7	53.8	55.4	55.4	221.1	203.8	165.8	92.3	103.9	123.3
+ *Selling & Marketing*	7.7	8.3	8.4	69.3	103.0	106.3	—	—	—	0.0	0.0	0.0	—	—	—
+ *General & Administrative*	23.1	25.9	28.4	250.2	276.2	296.4	53.8	55.4	55.4	0.0	0.0	0.0	92.3	103.9	123.3
+ Research & Development	0.0	0.0	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Depreciation & Amortization	16.8	18.9	23.4	130.4	146.4	163.3	59.4	64.3	68.7	—	—	—	69.7	83.0	93.5
+ Other Operating Expense	5.2	2.2	0.0	-52.3	-85.8	-94.0	6.6	7.0	3.9	173.7	175.8	182.7	19.1	14.0	4.4
Operating Income (Loss)	**26.5**	**28.0**	**21.2**	**776.8**	**58.4**	**284.1**	**63.1**	**65.0**	**44.0**	**208.5**	**242.1**	**242.2**	**145.5**	**184.5**	**201.8**
- Non-Operating (Income) Loss	0.3	0.5	2.2	-6.3	-4.2	-4.9	1.0	0.6	2.5	18.8	31.1	46.5	0.3	0.1	0.1
+ Interest Expense, Net	0.1	0.1	0.8	—	—	—	1.0	1.7	4.5	18.8	31.1	46.5	2.0	1.3	1.6
+ *Interest Expense*	0.1	0.1	0.8	—	0.0	0.0	—	—	—	19.2	31.4	46.6	—	—	—
- *Interest Income*	0.0	0.0	0.0	—	—	—	—	—	—	0.4	0.3	0.1	—	—	—
+ Foreign Exch (Gain) Loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ (Income) Loss from Affiliates	—	—	—	0.0	0.0	0.0	—	—	—	—	—	—	-1.6	-1.1	-1.5
+ Other Non-Op (Income) Loss	0.2	0.4	1.4	-6.3	-4.2	-4.9	-0.1	-1.2	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income (Loss), Adjusted	**26.2**	**27.5**	**18.9**	**783.1**	**62.6**	**289.1**	**62.1**	**64.5**	**41.5**	**189.7**	**211.0**	**195.6**	**145.2**	**184.4**	**201.7**
- Abnormal Losses (Gains)	4.7	2.9	43.3	13.2	23.9	13.3	0.0	3.4	6.1	11.3	12.2	-24.0	1.0	12.6	15.6
+ Disposal of Assets	0.0	0.5	—	13.2	9.4	13.3	2.9	—	—	1.3	2.8	3.6	—	5.1	—
+ Early Extinguishment of Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	—	—	0.9	0.0	0.0	0.0
+ Asset Write-Down	3.2	0.6	37.1	—	14.5	—	0.0	0.0	0.0	0.6	0.5	3.1	1.0	0.2	0.7
+ Legal Settlement	—	—	0.9	0.0	0.0	0.0	—	0.4	—	0.0	0.0	0.0	—	7.3	14.9
+ Restructuring	—	0.8	1.1	0.0	0.0	0.0	—	—	0.4	6.3	10.1	8.8	0.0	0.0	0.0
+ Insurance Settlement	—	—	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	—	—	-2.4	0.0	0.0	0.0
+ Other Abnormal Items	1.4	1.0	5.4	0.0	0.0	0.0	-2.9	3.0	5.7	—	—	—	0.0	0.0	0.0
Pretax Income (Loss), GAAP	**21.5**	**24.6**	**-24.4**	**769.9**	**38.7**	**275.7**	**62.1**	**61.1**	**35.4**	**178.4**	**198.8**	**219.6**	**144.2**	**171.8**	**186.1**
- Income Tax Expense (Benefit)	5.5	6.8	-12.9	294.3	15.8	99.5	16.8	15.5	-9.4	65.8	72.6	81.3	43.0	51.2	48.6
+ Current Income Tax	2.0	5.2	2.0	282.6	30.0	117.5	11.5	8.5	7.1	69.0	37.6	93.5	42.6	45.2	53.7
+ Deferred Income Tax	3.5	1.6	-15.0	9.4	-16.6	-18.3	5.3	7.1	-16.5	-3.2	35.0	-12.2	0.4	6.0	-5.1
+ Tax Allowance/Credit	—	—	—	2.3	2.4	0.2	—	—	—	—	—	—	—	—	—
- (Income) Loss from Affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income (Loss) from Cont Ops	**16.0**	**17.8**	**-11.5**	**475.6**	**22.9**	**176.3**	**45.3**	**45.6**	**44.8**	**112.6**	**126.3**	**138.3**	**101.3**	**120.6**	**137.5**
- Net Extraordinary Losses (Gains)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8	2.2	3.0	0.0	0.0	0.0
+ Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8	2.2	3.0	0.0	0.0	0.0
+ XO & Accounting Changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income (Loss) Incl. MI	**16.0**	**17.8**	**-11.5**	**475.6**	**22.9**	**176.3**	**45.3**	**45.6**	**44.8**	**108.8**	**124.1**	**135.3**	**101.3**	**120.6**	**137.5**
- Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.4	5.0	6.0
Net Income, GAAP	**16.0**	**17.8**	**-11.5**	**475.6**	**22.9**	**176.3**	**45.3**	**45.6**	**44.8**	**108.8**	**124.1**	**135.3**	**96.9**	**115.6**	**131.5**
- Preferred Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Other Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income Avail to Common, GAAP	**16.0**	**17.8**	**-11.5**	**475.6**	**22.9**	**176.3**	**45.3**	**45.6**	**44.8**	**108.8**	**124.1**	**135.3**	**96.9**	**115.6**	**131.5**

Income Statement – Common Size

In Millions of USD	Fiesta Restaurant Group Inc. FY 2015	Fiesta Restaurant Group Inc. FY 2016	Fiesta Restaurant Group Inc. FY 2017	Yum! Brands Inc. FY 2015	Yum! Brands Inc. FY 2016	Yum! Brands Inc. FY 2017	Darden Restaurants Inc. FY 2015	Darden Restaurants Inc. FY 2016	Darden Restaurants Inc. FY 2017	Darden Restaurants Inc. FY 2018	el Frisco's Restaurant Group In FY 2015	el Frisco's Restaurant Group In FY 2016	el Frisco's Restaurant Group In FY 2017
Revenue	**687.4**	**711.8**	**669.1**	**6,418.0**	**6,356.0**	**5,878.0**	**6,764.0**	**6,933.5**	**7,170.2**	**8,080.1**	**331.6**	**351.7**	**361.4**
+ Sales & Services Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
- Cost of Revenue	74.5%	75.0%	78.2%	60.3%	58.1%	54.3%	79.0%	77.8%	78.1%	78.4%	76.1%	76.3%	77.8%
+ Cost of Goods & Services	74.5%	75.0%	78.2%	60.3%	58.1%	54.3%	79.0%	77.8%	78.1%	78.4%	76.1%	76.3%	77.8%
Gross Profit	**25.5%**	**25.0%**	**21.8%**	**39.7%**	**41.9%**	**45.7%**	**21.0%**	**22.2%**	**21.9%**	**21.6%**	**23.9%**	**23.7%**	**22.2%**
+ Other Operating Income	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%
- Operating Expenses	16.0%	17.1%	17.5%	15.7%	16.4%	15.7%	14.7%	12.5%	12.1%	11.8%	15.9%	15.7%	16.7%
+ Selling, General & Admin	10.8%	11.6%	12.9%	16.1%	17.4%	15.4%	10.0%	9.0%	8.8%	8.2%	9.3%	9.7%	10.2%
+ Selling & Marketing	*3.1%*	*3.8%*	*3.9%*	—	—	—	*3.6%*	*3.4%*	*3.3%*	*3.1%*	*2.3%*	*2.3%*	*2.3%*
+ General & Administrative	*7.7%*	*7.9%*	*9.0%*	*16.1%*	*17.4%*	*15.4%*	*6.4%*	*5.6%*	*5.4%*	*5.1%*	*7.0%*	*7.4%*	*7.9%*
+ Research & Development	0.0%	0.0%	0.0%	0.4%	0.4%	0.4%	—	0.0%	0.0%	0.0%	0.0%	0.0%	—
+ Depreciation & Amortization	4.4%	5.2%	5.2%				4.7%	4.2%	3.8%	3.9%	5.1%	5.4%	6.5%
+ Other Operating Expense	0.7%	0.3%	-0.6%	-0.7%	-1.3%	-0.1%	0.0%	-0.7%	-0.5%	-0.2%	1.6%	0.6%	0.0%
Operating Income (Loss)	**9.6%**	**7.9%**	**4.3%**	**24.0%**	**25.5%**	**30.0%**	**6.4%**	**9.7%**	**9.8%**	**9.8%**	**8.0%**	**8.0%**	**5.9%**
- Non-Operating (Income) Loss	0.3%	0.3%	0.4%	2.8%	5.3%	8.3%	2.8%	1.0%	0.6%	0.7%	0.1%	0.1%	0.6%
+ Interest Expense, Net	0.3%	0.3%	0.4%	2.2%	4.8%	7.5%	2.8%	2.5%	0.6%	2.0%	0.0%	0.0%	0.2%
+ Interest Expense	*0.3%*	*0.3%*	*0.4%*	—	—	—	*2.9%*	*2.5%*	*0.6%*	*2.0%*	*0.0%*	*0.0%*	*0.2%*
- Interest Income	*0.0%*	*0.0%*	*0.0%*	—	—	—	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
+ Foreign Exch (Gain) Loss	0.0%	—	0.0%	0.3%	-0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ (Income) Loss from Affiliates	0.0%	—	—				0.0%	0.0%	0.0%	0.0%	—	—	—
+ Other Non-Op (Income) Loss	0.0%	0.0%	0.0%	0.3%	0.6%	0.7%	0.0%	-1.5%	0.0%	-1.3%	0.1%	0.1%	0.4%
Pretax Income (Loss), Adjusted	**9.3%**	**7.6%**	**3.8%**	**21.2%**	**20.2%**	**21.7%**	**3.5%**	**8.7%**	**9.3%**	**9.0%**	**7.9%**	**7.8%**	**5.2%**
- Abnormal Losses (Gains)	0.5%	4.1%	10.4%	1.7%	-0.9%	-17.0%	0.9%	2.2%	0.4%	1.5%	1.4%	0.8%	12.0%
+ Disposal of Assets	—	—	—				-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.1%	—
+ Early Extinguishment of Debt	—	—	—	—	—	—	—	1.5%	—	1.3%	0.0%	0.0%	0.0%
+ Asset Write-Down	0.3%	—	0.1%	0.2%	0.2%	0.1%	1.0%	0.2%	0.0%	0.1%	1.0%	0.2%	10.3%
+ Legal Settlement	0.2%	0.3%	0.4%				0.0%	0.0%	0.0%	0.0%	—	—	0.3%
+ Restructuring	—	0.1%	0.5%	—	1.1%	0.4%	—	-0.1%	—	—	—	0.2%	0.3%
+ Insurance Settlement	—	—	—				0.0%	0.0%	0.0%	0.0%	—	—	-0.3%
+ Other Abnormal Items	-0.1%	3.7%	9.5%	1.4%	-2.2%	-17.4%	—	0.7%	0.3%	—	0.4%	0.3%	1.5%
Pretax Income (Loss), GAAP	**8.8%**	**3.5%**	**-6.6%**	**19.5%**	**21.2%**	**38.7%**	**2.6%**	**6.5%**	**8.9%**	**7.5%**	**6.5%**	**7.0%**	**-6.7%**
- Income Tax Expense (Benefit)	3.2%	1.2%	-1.2%	5.1%	5.1%	15.9%	-0.3%	1.3%	2.2%	0.0%	1.7%	1.9%	-3.6%
+ Current Income Tax	2.4%	2.0%	-0.7%	6.7%	4.7%	5.1%	-0.2%	1.4%	2.6%	0.3%	0.6%	1.5%	0.6%
+ Deferred Income Tax	0.8%	-0.8%	-0.4%	-1.6%	0.4%	10.8%	-0.1%	-0.1%	-0.4%	-0.2%	1.1%	0.4%	-4.1%
+ Tax Allowance/Credit	0.0%	0.0%	0.0%				0.0%	0.0%	0.0%	0.0%	—	—	—
- (Income) Loss from Affiliates	—	—	—				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income (Loss) from Cont Ops	**5.6%**	**2.3%**	**-5.4%**	**14.4%**	**16.0%**	**22.8%**	**2.9%**	**5.2%**	**6.7%**	**7.5%**	**4.8%**	**5.1%**	**-3.2%**
- Net Extraordinary Losses (Gains)	0.0%	0.0%	0.0%	-5.6%	-9.8%	0.0%	-7.6%	-0.2%	0.0%	0.1%	0.0%	0.0%	0.0%
+ Discontinued Operations	0.0%	0.0%	0.0%	-5.6%	-9.8%	0.0%	-7.6%	-0.2%	0.0%	0.1%	0.0%	0.0%	0.0%
+ XO & Accounting Changes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income (Loss) Incl. MI	**5.6%**	**2.3%**	**-5.4%**	**20.0%**	**25.8%**	**22.8%**	**10.5%**	**5.4%**	**6.7%**	**7.4%**	**4.8%**	**5.1%**	**-3.2%**
- Minority Interest	0.0%	0.0%	0.0%	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income, GAAP	**5.6%**	**2.3%**	**-5.4%**	**20.0%**	**25.8%**	**22.8%**	**10.5%**	**5.4%**	**6.7%**	**7.4%**	**4.8%**	**5.1%**	**-3.2%**
- Preferred Dividends	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Other Adjustments	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income Avail to Common, GAAP	**5.5%**	**2.3%**	**-5.4%**	**20.0%**	**25.8%**	**22.8%**	**10.5%**	**5.4%**	**6.7%**	**7.4%**	**4.8%**	**5.1%**	**-3.2%**

In Millions of USD	Chipotle Mexican Grill Inc. FY 2015	Chipotle Mexican Grill Inc. FY 2016	Chipotle Mexican Grill Inc. FY 2017	BJ's Restaurants Inc. FY 2015	BJ's Restaurants Inc. FY 2016	BJ's Restaurants Inc. FY 2017	Jack in the Box Inc. FY 2015	Jack in the Box Inc. FY 2016	Jack in the Box Inc. FY 2017	Texas Roadhouse Inc. FY 2015	Texas Roadhouse Inc. FY 2016	Texas Roadhouse Inc. FY 2017
Revenue	**4,501.2**	**3,904.4**	**4,476.4**	**919.6**	**993.1**	**1,031.8**	**1,540.3**	**1,599.3**	**1,553.9**	**1,807.4**	**1,990.7**	**2,219.5**
+ Sales & Services Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
- Cost of Revenue	73.9%	87.2%	83.1%	80.1%	80.7%	83.3%	60.8%	61.1%	62.0%	81.9%	80.6%	80.9%
+ Cost of Goods & Services	73.9%	87.2%	83.1%	80.1%	80.7%	83.3%	60.8%	61.1%	62.0%	81.9%	80.6%	80.9%
Gross Profit	**26.1%**	**12.8%**	**16.9%**	**19.9%**	**19.3%**	**16.7%**	**39.2%**	**38.9%**	**38.0%**	**18.1%**	**19.4%**	**19.1%**
+ Other Operating Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Operating Expenses	8.8%	11.3%	10.5%	13.0%	12.8%	12.4%	25.6%	23.7%	22.4%	10.0%	10.1%	10.0%
+ Selling, General & Admin	7.1%	9.7%	9.0%	5.9%	5.6%	5.4%	14.4%	12.7%	10.7%	5.1%	5.2%	5.6%
+ Selling & Marketing	*1.5%*	*2.6%*	*2.4%*	—	—	—	*0.0%*	*0.0%*	*0.0%*	—	—	—
+ General & Administrative	*5.6%*	*7.1%*	*6.6%*	*5.9%*	*5.6%*	*5.4%*	*0.0%*	*0.0%*	*0.0%*	*5.1%*	*5.2%*	*5.6%*
+ Research & Development	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ Depreciation & Amortization	2.9%	3.7%	3.6%	6.5%	6.5%	6.7%	—	—	—	3.9%	4.2%	4.2%
+ Other Operating Expense	-1.2%	-2.2%	-2.1%	0.7%	0.7%	0.4%	11.3%	11.0%	11.8%	1.1%	0.7%	0.2%
Operating Income (Loss)	**17.3%**	**1.5%**	**6.3%**	**6.9%**	**6.5%**	**4.3%**	**13.5%**	**15.1%**	**15.6%**	**8.1%**	**9.3%**	**9.1%**
- Non-Operating (Income) Loss	-0.1%	-0.1%	-0.1%	0.1%	0.1%	0.2%	1.2%	1.9%	3.0%	0.0%	0.0%	0.0%
+ Interest Expense, Net	0.0%	0.0%	0.0%	0.1%	0.2%	0.4%	1.2%	1.9%	3.0%	0.1%	0.1%	0.1%
+ Interest Expense	*0.0%*	*0.0%*	*0.0%*	—	—	—	*1.2%*	*2.0%*	*3.0%*	—	—	—
- Interest Income	*0.0%*	*0.0%*	*0.0%*	—	—	—	*0.0%*	*0.0%*	*0.0%*	—	—	—
+ Foreign Exch (Gain) Loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+ (Income) Loss from Affiliates	0.0%	0.0%	0.0%	—	—	—	—	—	—	-0.1%	-0.1%	-0.1%
+ Other Non-Op (Income) Loss	-0.1%	-0.1%	-0.1%	0.0%	-0.1%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax Income (Loss), Adjusted	**17.4%**	**1.6%**	**6.5%**	**6.8%**	**6.5%**	**4.0%**	**12.3%**	**13.2%**	**12.6%**	**8.0%**	**9.3%**	**9.1%**
- Abnormal Losses (Gains)	0.3%	0.6%	0.3%	0.0%	0.3%	0.6%	0.7%	0.8%	-1.5%	0.1%	0.6%	0.7%
+ Disposal of Assets	0.3%	0.2%	0.3%	0.3%	—	—	0.1%	0.2%	0.2%	—	0.3%	—
+ Early Extinguishment of Debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	—	—	0.1%	0.0%	0.0%	0.0%
+ Asset Write-Down	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.0%	0.0%
+ Legal Settlement	0.0%	0.0%	0.0%	—	0.0%	—	0.0%	0.0%	0.0%	—	0.4%	0.7%
+ Restructuring	0.0%	0.0%	0.0%	—	—	0.0%	0.4%	0.6%	0.6%	0.0%	0.0%	0.0%
+ Insurance Settlement	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	—	—	-0.2%	0.0%	0.0%	0.0%
+ Other Abnormal Items	0.0%	0.0%	0.0%	-0.3%	0.3%	0.6%	—	—	—	0.0%	0.0%	0.0%
Pretax Income (Loss), GAAP	**17.1%**	**1.0%**	**6.2%**	**6.8%**	**6.2%**	**3.4%**	**11.6%**	**12.4%**	**14.1%**	**8.0%**	**8.6%**	**8.4%**
- Income Tax Expense (Benefit)	6.5%	0.4%	2.2%	1.8%	1.6%	-0.9%	4.3%	4.5%	5.2%	2.4%	2.6%	2.2%
+ Current Income Tax	6.3%	0.8%	2.6%	1.2%	0.9%	0.7%	4.5%	2.4%	6.0%	2.4%	2.3%	2.4%
+ Deferred Income Tax	0.2%	-0.4%	-0.4%	0.6%	0.7%	-1.6%	-0.2%	2.2%	-0.8%	0.0%	0.3%	-0.2%
+ Tax Allowance/Credit	0.1%	0.1%	0.0%	—	—	—	—	—	—	—	—	—
- (Income) Loss from Affiliates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income (Loss) from Cont Ops	**10.6%**	**0.6%**	**3.9%**	**4.9%**	**4.6%**	**4.3%**	**7.3%**	**7.9%**	**8.9%**	**5.6%**	**6.1%**	**6.2%**
- Net Extraordinary Losses (Gains)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.2%	0.0%	0.0%	0.0%
+ Discontinued Operations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.2%	0.0%	0.0%	0.0%
+ XO & Accounting Changes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income (Loss) Incl. MI	**10.6%**	**0.6%**	**3.9%**	**4.9%**	**4.6%**	**4.3%**	**7.1%**	**7.8%**	**8.7%**	**5.6%**	**6.1%**	**6.2%**
- Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.2%	0.3%
Net Income, GAAP	**10.6%**	**0.6%**	**3.9%**	**4.9%**	**4.6%**	**4.3%**	**7.1%**	**7.8%**	**8.7%**	**5.4%**	**5.8%**	**5.9%**
- Preferred Dividends	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Other Adjustments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income Avail to Common, GAAP	**10.6%**	**0.6%**	**3.9%**	**4.9%**	**4.6%**	**4.3%**	**7.1%**	**7.8%**	**8.7%**	**5.4%**	**5.8%**	**5.9%**

Balance Sheet

In Millions of USD	Fiesta Restaurant Group Inc. FY 2015	FY 2016	FY 2017	Yum! Brands Inc. FY 2015	FY 2016	FY 2017	Darden Restaurants Inc. FY 2015	FY 2016	FY 2017	FY 2018
Total Assets										
+ Cash, Cash Equivalents & STI	5.3	4.2	3.6	313.0	725.0	1,522.0	535.9	274.8	233.1	146.9
+ Cash & Cash Equivalents	5.3	4.2	3.6	313.0	725.0	1,522.0	535.9	274.8	233.1	146.9
+ ST Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receiv	9.2	8.8	9.8	324.0	370.0	400.0	78.0	64.0	75.9	83.7
+ Accounts Receivable, Net	9.2	8.8	9.8				78.0	64.0	75.9	83.7
+ Notes Receivable, Net	0.0	0.0	0.0				0.0	0.0	0.0	0.0
+ Inventories	2.9	2.9	2.9	40.0	37.0	13.0	163.9	175.4	178.9	205.3
+ Raw Materials				—	—	—	—	—	—	—
+ Work In Process				—	—	—	—	—	—	—
+ Finished Goods				—	—	—	—	—	—	—
+ Other Inventory				—	—	—	—	—	—	—
+ Other ST Assets	13.8	11.1	24.7	1,010.0	373.0	572.0	278.6	306.1	100.0	117.7
+ Prepaid Expenses	3.2	3.6	3.3				18.9	46.1	6.2	15.9
+ Derivative & Hedging Assets	0.0	0.0	0.0	2.0	71.0	34.0	4.0	3.8	0.0	1.1
+ Assets Held-for-Sale							32.9	20.3	13.2	11.9
+ Deferred Tax Assets	—	—	—	—	—	—	157.4	163.3	—	—
+ Misc ST Assets	3.2	4.2	10.1	234.0	302.0	538.0	65.4	72.6	80.6	88.8
Total Current Assets	**31.2**	**26.9**	**41.0**	**1,687.0**	**1,505.0**	**2,507.0**	**1,056.4**	**820.3**	**587.9**	**553.6**
+ Property, Plant & Equip, Net	249.0	270.9	234.6	2,347.0	2,113.0	1,697.0	3,215.8	2,041.6	2,272.3	2,429.8
+ Property, Plant & Equip	446.0	517.4	454.7	4,395.0	4,108.0	3,177.0	5,520.4	3,860.6	4,269.1	4,661.5
- Accumulated Depreciation	197.0	246.4	220.2	2,048.0	1,995.0	1,480.0	2,304.6	1,819.0	1,996.8	2,231.7
+ LT Investments & Receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ LT Investments							—	—	—	—
+ LT Marketable Securities							—	—	—	—
+ Other LT Assets	135.4	143.7	147.7	4,027.0	1,835.0	1,107.0	1,722.5	1,720.7	2,432.1	2,486.2
+ Total Intangible Assets	123.5	123.5	123.5	735.0	687.0	622.0	1,447.0	1,528.8	2,233.8	2,212.8
Product/Brand Segments	**415.6**	**441.6**	**423.3**				**574.6**	**1,446.9**	**2,151.9**	**2,134.5**
+ *Goodwill*	123.5	123.5	123.5	571.0	536.0	512.0	872.4	872.3	1,201.7	1,183.7
Product/Brand Segments	**415.6**	**441.6**	**423.3**				**574.6**	**1,446.9**	**2,151.9**	**2,134.5**
+ *Other Intangible Assets*	0.0	0.0	0.0	164.0	151.0	110.0	574.6	656.5	1,032.1	1,029.1
+ Derivative & Hedging Assets	0.0	0.0	0.0	2.0	71.0	34.0	4.0	3.8	0.0	1.1
+ Prepaid Pension Costs				—	—	—	—	—	—	16.6
+ Misc LT Assets	3.4	5.8	7.0	311.0	360.0	297.0	275.5	191.9	198.3	256.8
Total Noncurrent Assets	**384.4**	**414.6**	**382.3**	**6,374.0**	**3,948.0**	**2,804.0**	**4,938.3**	**3,762.3**	**4,704.4**	**4,916.0**
Total Assets	**415.6**	**441.6**	**423.3**	**8,061.0**	**5,453.0**	**5,311.0**	**5,994.7**	**4,582.6**	**5,292.3**	**5,469.6**
Liabilities & Shareholders' Equity										
+ Payables & Accruals	34.1	35.4	37.9	1,129.0	1,103.0	936.0	415.4	426.1	462.0	518.6
+ Accounts Payable	12.4	16.2	20.3	181.0	142.0	119.0	198.8	241.9	249.5	277.0
+ Accrued Taxes	—	—	—	55.0	36.0	123.0	12.6	0.0	1.9	0.0
+ Interest & Dividends Payable	—	—	—				11.4	—	7.3	7.5
+ Other Payables & Accruals	21.7	19.2	17.6	893.0	925.0	694.0	192.6	184.2	203.3	234.1
+ ST Debt	0.1	0.1	0.1	921.0	66.0	375.0	18.6	4.0	5.3	6.6
+ ST Borrowings	0.0	0.0	0.0	609.0	66.0	289.0	0.0	0.0	0.0	0.0
+ ST Capital Leases	—	—	—	—	0.0	0.0	3.6	4.0	5.3	6.6
+ Current Portion of LT Debt	0.1	0.1	0.1	312.0	—	86.0	15.0	0.0	0.0	0.0
+ Other ST Liabilities	12.1	11.3	21.8	1,037.0	137.0	201.0	762.7	757.0	821.9	859.3
+ Deferred Revenue	0.0	0.0	0.0	0.0	0.0	0.0	328.6	360.4	388.6	415.8
+ Derivatives & Hedging	0.0	0.0	0.0	0.0	3.0	46.0	0.0	0.0	0.4	0.0
+ Misc ST Liabilities	12.1	11.3	21.8	103.0	134.0	155.0	434.1	396.6	432.9	443.5
Total Current Liabilities	**46.3**	**46.8**	**59.8**	**3,087.0**	**1,306.0**	**1,512.0**	**1,196.7**	**1,187.1**	**1,289.2**	**1,384.5**
+ LT Debt	74.3	73.1	76.4	3,007.0	9,059.0	9,429.0	1,578.5	564.0	1,090.9	1,093.4
+ LT Borrowings	72.6	71.4	74.9	3,007.0	8,939.0	9,324.0	1,452.3	440.0	936.6	926.5
+ LT Capital Leases	1.7	1.7	1.5	—	120.0	105.0	126.2	124.0	154.3	166.9
+ Other LT Liabilities	51.1	57.5	55.5	992.0	703.0	704.0	886.0	879.5	810.5	796.9
+ Accrued Liabilities	16.0	28.3	31.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Pension Liabilities	0.0	0.0	—	117.0	140.0	135.0	288.4	298.5	64.1	18.5
+ Deferred Revenue	0.0	0.0	0.0	0.0	0.0	0.0	328.6	360.4	388.6	415.8
+ Deferred Tax Liabilities				—	—	—	341.8	255.2	145.6	114.0
+ Derivatives & Hedging	0.0	0.0	0.0	0.0	3.0	46.0	0.0	0.0	0.4	0.0
+ Misc LT Liabilities	3.3	0.0	0.0	620.0	556.0	563.0	255.8	325.8	600.8	664.4
Total Noncurrent Liabilities	**125.4**	**130.6**	**132.0**	**3,999.0**	**9,762.0**	**10,133.0**	**2,464.5**	**1,443.5**	**1,901.4**	**1,890.3**
Total Liabilities	**171.7**	**177.4**	**191.8**	**7,086.0**	**11,068.0**	**11,645.0**	**3,661.2**	**2,630.6**	**3,190.6**	**3,274.8**
+ Preferred Equity and Hybrid Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	160.0	163.5	167.1	0.0	0.0	0.0	1,405.9	1,502.6	1,614.6	1,631.9
- Treasury Stock				0.0	0.0	0.0	7.8	7.8	7.8	7.8
+ Retained Earnings	84.0	100.7	64.4	1,150.0	-5,157.0	-6,063.0	1,026.0	547.5	560.1	657.6
+ Other Equity	0.0	0.0	0.0	-239.0	-458.0	-271.0	-90.6	-90.3	-65.2	-86.9
Equity Before Minority Interest	**244.0**	**264.2**	**231.5**	**911.0**	**-5,615.0**	**-6,334.0**	**2,333.5**	**1,952.0**	**2,101.7**	**2,194.8**
+ Minority/Non Controlling Interest	0.0	0.0	0.0	64.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	**244.0**	**264.2**	**231.5**	**975.0**	**-5,615.0**	**-6,334.0**	**2,333.5**	**1,952.0**	**2,101.7**	**2,194.8**
Total Liabilities & Equity	**415.6**	**441.6**	**423.3**	**8,061.0**	**5,453.0**	**5,311.0**	**5,994.7**	**4,582.6**	**5,292.3**	**5,469.6**

In Millions of USD	el Frisco's Restaurant Group In FY 2015	FY 2016	FY 2017	Chipotle Mexican Grill Inc. FY 2015	FY 2016	FY 2017	BJ's Restaurants Inc. FY 2015	FY 2016	FY 2017	Jack in the Box Inc. FY 2015	FY 2016	FY 2017	Texas Roadhouse Inc. FY 2015	FY 2016	FY 2017
Total Assets															
+ Cash, Cash Equivalents & STI	5.2	14.6	4.6	663.2	417.7	509.0	34.6	22.8	24.3	17.7	17.0	7.6	59.3	112.9	150.9
+ Cash & Cash Equivalents	5.2	14.6	4.6	248.0	87.9	184.6	34.6	22.8	24.3	17.7	17.0	7.6	59.3	112.9	150.9
+ ST Investments	0.0	0.0	0.0	415.2	329.8	324.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receiv	0.0	0.0	0.0	38.3	40.5	40.5	25.4	14.7	13.9	37.2	65.7	61.3	45.4	56.1	76.5
+ Accounts Receivable, Net	0.0	0.0	0.0	38.3	40.5	40.5	25.4	14.7	13.9	35.4	64.1	60.0	45.4	56.1	76.5
+ Notes Receivable, Net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	1.6	1.3	0.0	0.0	0.0
+ Inventories	17.3	16.4	18.0	15.0	15.0	19.9	8.9	9.9	10.5	7.4	8.2	6.6	15.6	16.1	16.3
+ Raw Materials				—	—	—	0.0	0.0	0.0	—	—	—	—	—	—
+ Work In Process				—	—	—	0.0	0.0	0.0	—	—	—	—	—	—
+ Finished Goods				—	—	—	8.9	9.9	10.5	—	—	—	—	—	—
+ Other Inventory				—	—	—	0.0	0.0	0.0	—	—	—	—	—	—
+ Other ST Assets	14.5	15.7	14.4	98.1	49.2	60.3	24.1	29.7	11.6	45.7	64.5	63.7	13.4	15.1	13.4
+ Prepaid Expenses	4.3	5.2	5.9							16.2	40.4	29.1	11.3	13.1	13.4
+ Derivative & Hedging Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Assets Held-for-Sale										15.5	14.3	24.1			
+ Deferred Tax Assets	—	—	—	—	—	—	17.0	18.4	0.0	—	—	—	2.1	2.0	0.0
+ Misc ST Assets	4.8	6.9	5.1	40.0	44.1	50.9	7.2	11.3	11.6	13.9	9.8	10.4	0.0	0.0	0.0
Total Current Assets	**37.0**	**46.7**	**37.0**	**814.6**	**522.4**	**629.5**	**93.0**	**77.1**	**60.3**	**108.0**	**155.4**	**139.3**	**133.8**	**200.3**	**257.1**
+ Property, Plant & Equip, Net	183.2	196.0	175.4	1,217.2	1,303.6	1,338.4	561.8	601.3	589.8	728.3	719.1	633.0	751.3	830.1	912.1
+ Property, Plant & Equip	254.0	284.2	280.2	1,938.1	2,149.0	2,317.3	907.6	1,006.0	1,054.5	1,563.4	1,605.6	1,522.6	1,147.2	1,287.2	1,439.9
- Accumulated Depreciation	70.8	88.2	104.8	720.9	845.5	978.9	345.8	404.7	464.7	835.1	886.5	889.6	395.9	457.1	527.7
+ LT Investments & Receivables	0.0	0.0	0.0	622.9	125.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ LT Investments				622.9	125.1	0.0	—	—	—				—	—	—
+ LT Marketable Securities							—	—	—				—	—	—
+ Other LT Assets	126.5	128.1	114.4	70.3	75.1	77.8	26.8	30.5	34.8	467.8	470.6	456.2	147.6	149.7	161.4
+ Total Intangible Assets	112.2	112.8	99.2	21.9	21.9	21.9	4.7	4.7	4.7	163.8	180.1	183.1	121.4	120.2	123.7
Product/Brand Segments	**254.0**	**284.2**	**280.2**				**561.8**	**601.3**	**—**	**149.0**	**—**	**—**			
+ *Goodwill*	75.4	75.4	62.2	21.9	21.9	21.9	4.7	4.7	4.7	149.0	166.0	169.0	116.6	116.6	121.0
Product/Brand Segments	**254.0**	**284.2**	**280.2**				**561.8**	**601.3**	**—**	**149.0**	**—**	**—**			
+ *Other Intangible Assets*	36.9	37.4	37.0	0.0	0.0	0.0	0.0	0.0	0.0	14.8	14.0	14.1	4.8	3.6	2.7
+ Derivative & Hedging Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Prepaid Pension Costs															
+ Misc LT Assets	14.2	15.3	15.2	48.3	53.2	55.9	22.2	25.8	30.1	185.8	172.9	174.3	26.2	29.5	37.7
Total Noncurrent Assets	**309.7**	**324.1**	**289.8**	**1,910.4**	**1,503.7**	**1,416.2**	**588.7**	**631.8**	**624.6**	**1,196.0**	**1,189.6**	**1,089.1**	**898.9**	**979.7**	**1,073.5**
Total Assets	**346.7**	**370.8**	**326.8**	**2,725.1**	**2,026.1**	**2,045.7**	**681.7**	**708.9**	**685.0**	**1,304.0**	**1,345.0**	**0.0**	**1,032.7**	**1,180.0**	**1,330.6**
Liabilities & Shareholders' Equity															
+ Payables & Accruals	22.0	20.2	21.4	279.9	281.8	323.9	116.9	125.7	122.5	99.9	99.7	73.2	155.2	149.8	173.4
+ Accounts Payable	16.5	12.8	13.9	85.7	78.4	82.0	33.0	31.1	25.3	32.1	40.7	37.3	51.0	50.8	57.6
+ Accrued Taxes	0.0	0.0	0.0	0.0	—	—	0.0	0.0	0.0	67.8	58.9	35.9	18.9	19.7	24.5
+ Interest & Dividends Payable	—	—	—	0.0	—	—	0.0	0.0	0.0	0.0	0.0	0.0	11.9	13.4	14.9
+ Other Payables & Accruals	5.5	7.4	7.4	194.2	203.4	241.9	83.9	94.6	97.3	0.0	0.0	0.0	73.4	65.9	76.3
+ ST Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.7	55.9	64.4	0.1	0.2	0.0
+ ST Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ ST Capital Leases	0.0	0.0	0.0	—	—	—	0.0	0.0	0.0	3.2	—	2.0	0.0	—	—
+ Current Portion of LT Debt	—	—	—							23.4	55.9	62.4	0.1	0.2	0.0
+ Other ST Liabilities	25.4	30.9	30.5	0.0	0.0	0.0	0.0	0.0	0.0	102.8	122.3	124.4	101.3	129.6	156.6
+ Deferred Revenue	17.6	18.7	17.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	101.3	129.6	156.6
+ Derivatives & Hedging	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Misc ST Liabilities	7.7	12.2	12.8	0.0	0.0	0.0	0.0	0.0	0.0	102.8	122.3	124.4	0.0	0.0	0.0
Total Current Liabilities	**47.4**	**51.1**	**51.8**	**279.9**	**281.8**	**323.9**	**116.9**	**125.7**	**122.5**	**229.4**	**277.9**	**262.0**	**256.6**	**279.5**	**330.0**
+ LT Debt	4.5	0.0	24.5	0.0	0.0	0.0	100.5	148.0	163.5	688.6	935.4	1,080.9	25.6	52.4	52.0
+ LT Borrowings	4.5	0.0	24.5	0.0	0.0	0.0	100.5	148.0	163.5	671.6	935.4	1,071.9	25.6	52.4	52.0
+ LT Capital Leases	0.0	0.0	0.0	—	—	—	0.0	0.0	0.0	17.0	—	9.0	0.0	—	—
+ Other LT Liabilities	67.1	73.3	61.4	317.2	341.8	357.4	147.8	160.3	140.2	370.1	348.9	273.5	73.3	89.8	97.3
+ Accrued Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.4	0.0	0.0	0.0	0.0	0.0
+ Pension Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	208.1	187.9	131.4	—	—	—
+ Deferred Revenue	17.6	18.7	17.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	101.3	129.6	156.6
+ Deferred Tax Liabilities	16.6	18.2	3.2	32.3	18.9	0.8	46.7	55.2	21.7	—	—	—	6.4	12.3	5.3
+ Derivatives & Hedging	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Misc LT Liabilities	36.4	39.9	46.8	284.8	322.9	356.5	101.1	105.1	118.5	139.0	113.3	119.2	66.9	77.6	92.0
Total Noncurrent Liabilities	**71.6**	**73.3**	**85.9**	**317.2**	**341.8**	**357.4**	**248.3**	**308.3**	**303.7**	**1,058.6**	**1,284.3**	**1,354.5**	**98.9**	**142.2**	**149.2**
Total Liabilities	**119.0**	**124.4**	**137.7**	**597.1**	**623.6**	**681.2**	**365.2**	**434.0**	**426.2**	**1,288.0**	**1,562.2**	**1,616.5**	**355.5**	**421.7**	**479.2**
+ Preferred Equity and Hybrid Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	137.6	143.3	147.5	1,173.0	1,239.2	1,305.4	70.7	66.2	68.9	403.8	433.4	454.3	201.1	219.7	236.6
- Treasury Stock	13.0	17.8	67.8	1,234.6	2,049.4	2,334.4	0.0	0.0	0.0	1,571.4	1,863.3	2,190.4	0.0	0.0	0.0
+ Retained Earnings	103.1	120.8	109.4	2,197.9	2,220.8	2,397.1	245.8	208.7	189.8	1,316.1	1,399.7	1,485.8	468.7	530.7	602.5
+ Other Equity	0.0	0.0	0.0	-8.3	-8.2	-3.7	0.0	0.0	0.0	-132.5	-187.0	-137.8	-0.1	-0.2	0.0
Equity Before Minority Interest	**227.7**	**246.4**	**189.1**	**2,128.0**	**1,402.5**	**1,364.4**	**316.5**	**274.9**	**258.7**	**16.0**	**-217.2**	**-388.0**	**669.7**	**750.2**	**839.1**
+ Minority/Non Controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.5	8.0	12.3
Total Equity	**227.7**	**246.4**	**189.1**	**2,128.0**	**1,402.5**	**1,364.4**	**316.5**	**274.9**	**258.7**	**16.0**	**-217.2**	**-388.0**	**677.2**	**758.2**	**851.4**
Total Liabilities & Equity	**346.7**	**370.8**	**326.8**	**2,725.1**	**2,026.1**	**2,045.7**	**681.7**	**708.9**	**685.0**	**1,304.0**	**1,345.0**	**1,228.4**	**1,032.7**	**1,180.0**	**1,330.6**

Balance Sheet – Common Size

	Fiesta Restaurant Group Inc.			Yum! Brands Inc.			Darden Restaurants Inc.			
In Millions of USD	FY 2015	FY 2016	FY 2017	FY 2015	FY 2016	FY 2017	FY 2015	FY 2016	FY 2017	FY 2018
Total Assets	**416**	**442**	**423**	**8,061**	**5,453**	**5,311**	**5,995**	**4,583**	**5,292**	**5,470**
+ Cash, Cash Equivalents & STI	1%	1%	1%	4%	13%	29%	9%	6%	4%	3%
+ Cash & Cash Equivalents	1%	1%	1%	4%	13%	29%	9%	6%	4%	3%
+ ST Investments	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Accounts & Notes Receiv	2%	2%	2%	4%	7%	8%	1%	1%	1%	2%
+ Accounts Receivable, Net	2%	2%	2%				1%	1%	1%	2%
+ Notes Receivable, Net	0%	0%	0%				0%	0%	0%	0%
+ Inventories	1%	1%	1%	0%	1%	0%	3%	4%	3%	4%
+ Raw Materials				—	—	—	—	—	—	—
+ Work In Process				—	—	—	—	—	—	—
+ Finished Goods				—	—	—	—	—	—	—
+ Other Inventory				—	—	—	—	—	—	—
+ Other ST Assets	3%	3%	6%	13%	7%	11%	5%	7%	2%	2%
+ Prepaid Expenses	1%	1%	1%				0%	1%	0%	0%
+ Derivative & Hedging Assets	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%
+ Assets Held-for-Sale							1%	0%	0%	0%
+ Deferred Tax Assets	—	—	—	—	—	—	3%	4%	—	—
+ Misc ST Assets	1%	1%	2%	3%	6%	10%	1%	2%	2%	2%
Total Current Assets	**8%**	**6%**	**10%**	**21%**	**28%**	**47%**	**18%**	**18%**	**11%**	**10%**
+ Property, Plant & Equip, Net	60%	61%	55%	29%	39%	32%	54%	45%	43%	44%
+ Property, Plant & Equip	107%	117%	107%	55%	75%	60%	92%	84%	81%	85%
- Accumulated Depreciation	47%	56%	52%	25%	37%	28%	38%	40%	38%	41%
+ LT Investments & Receivables	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ LT Investments							—	—	—	—
+ LT Marketable Securities							—	—	—	—
+ Other LT Assets	33%	33%	35%	50%	34%	21%	29%	38%	46%	45%
+ Total Intangible Assets	30%	28%	29%	9%	13%	12%	24%	33%	42%	40%
+ *Goodwill*	30%	28%	29%	7%	10%	10%	15%	19%	23%	22%
Product/Brand Segments										
+ *Other Intangible Assets*	0%	0%	0%	2%	3%	2%	10%	14%	20%	19%
+ Derivative & Hedging Assets	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%
+ Prepaid Pension Costs				—	—	—	—	—	—	0%
+ Misc LT Assets	1%	1%	2%	4%	7%	6%	5%	4%	4%	5%
Total Noncurrent Assets	**92%**	**94%**	**90%**	**79%**	**72%**	**53%**	**82%**	**82%**	**89%**	**90%**
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Liabilities & Shareholders' Equity	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
+ Payables & Accruals	8%	8%	9%	14%	20%	18%	7%	9%	9%	9%
+ Accounts Payable	3%	4%	5%	2%	3%	2%	3%	5%	5%	5%
+ Accrued Taxes	—	—	—	1%	1%	2%	0%	0%	0%	0%
+ Interest & Dividends Payable	—	—	—				0%	—	0%	0%
+ Other Payables & Accruals	5%	4%	4%	11%	17%	13%	3%	4%	4%	4%
+ ST Debt	0%	0%	0%	11%	1%	7%	0%	0%	0%	0%
+ ST Borrowings	0%	0%	0%	8%	1%	5%	0%	0%	0%	0%
+ ST Capital Leases	—	—	—	—	0%	0%	0%	0%	0%	0%
+ Current Portion of LT Debt	0%	0%	0%	4%	—	2%	0%	0%	0%	0%
+ Other ST Liabilities	3%	3%	5%	13%	3%	4%	13%	17%	16%	16%
+ Deferred Revenue	0%	0%	0%	0%	0%	0%	5%	8%	7%	8%
+ Derivatives & Hedging	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%
+ Misc ST Liabilities	3%	3%	5%	1%	2%	3%	7%	9%	8%	8%
Total Current Liabilities	**11%**	**11%**	**14%**	**38%**	**24%**	**28%**	**20%**	**26%**	**24%**	**25%**
+ LT Debt	18%	17%	18%	37%	166%	178%	26%	12%	21%	20%
+ LT Borrowings	17%	16%	18%	37%	164%	176%	24%	10%	18%	17%
+ LT Capital Leases	0%	0%	0%	—	2%	2%	2%	3%	3%	3%
+ Other LT Liabilities	12%	13%	13%	12%	13%	13%	15%	19%	15%	15%
+ Accrued Liabilities	4%	6%	7%	0%	0%	0%	0%	0%	0%	0%
+ Pension Liabilities	0%	0%	—	1%	3%	3%	5%	7%	1%	0%
+ Deferred Revenue	0%	0%	0%	0%	0%	0%	5%	8%	7%	8%
+ Deferred Tax Liabilities				—	—	—	6%	6%	3%	2%
+ Derivatives & Hedging	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%
+ Misc LT Liabilities	1%	0%	0%	8%	10%	11%	4%	7%	11%	12%
Total Noncurrent Liabilities	**30%**	**30%**	**31%**	**50%**	**179%**	**191%**	**41%**	**31%**	**36%**	**35%**
Total Liabilities	**41%**	**40%**	**45%**	**88%**	**203%**	**219%**	**61%**	**57%**	**60%**	**60%**
+ Preferred Equity and Hybrid Capital	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Share Capital & APIC	38%	37%	39%	0%	0%	0%	23%	33%	31%	30%
- Treasury Stock				0%	0%	0%	0%	0%	0%	0%
+ Retained Earnings	20%	23%	15%	14%	-95%	-114%	17%	12%	11%	12%
+ Other Equity	0%	0%	0%	-3%	-8%	-5%	-2%	-2%	-1%	-2%
Equity Before Minority Interest	**59%**	**60%**	**55%**	**11%**	**-103%**	**-119%**	**39%**	**43%**	**40%**	**40%**
+ Minority/Non Controlling Interest	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%
Total Equity	**59%**	**60%**	**55%**	**12%**	**-103%**	**-119%**	**39%**	**43%**	**40%**	**40%**
Total Liabilities & Equity	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

	el Frisco's Restaurant Group In			Chipotle Mexican Grill Inc.			BJ's Restaurants Inc.		
In Millions of USD	FY 2015	FY 2016	FY 2017	FY 2015	FY 2016	FY 2017	FY 2015	FY 2016	FY 2017
Total Assets	**347**	**371**	**327**	**2,725**	**2,026**	**2,046**	**682**	**709**	**685**
+ Cash, Cash Equivalents & STI	1%	4%	1%	24%	21%	25%	5%	3%	4%
+ Cash & Cash Equivalents	1%	4%	1%	9%	4%	9%	5%	3%	4%
+ ST Investments	0%	0%	0%	15%	16%	16%	0%	0%	0%
+ Accounts & Notes Receiv	0%	0%	0%	1%	2%	2%	4%	2%	2%
+ Accounts Receivable, Net	0%	0%	0%	1%	2%	2%	4%	2%	2%
+ Notes Receivable, Net	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Inventories	5%	4%	6%	1%	1%	1%	1%	1%	2%
+ Raw Materials				—	—	—	0%	0%	0%
+ Work In Process				—	—	—	0%	0%	0%
+ Finished Goods				—	—	—	1%	1%	2%
+ Other Inventory				—	—	—	0%	0%	0%
+ Other ST Assets	4%	4%	4%	4%	2%	3%	4%	4%	2%
+ Prepaid Expenses	1%	1%	2%						
+ Derivative & Hedging Assets	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Assets Held-for-Sale									
+ Deferred Tax Assets	—	—	—	—	—	—	2%	3%	0%
+ Misc ST Assets	1%	2%	2%	1%	2%	2%	1%	2%	2%
Total Current Assets	**11%**	**13%**	**11%**	**30%**	**26%**	**31%**	**14%**	**11%**	**9%**
+ Property, Plant & Equip, Net	53%	53%	54%	45%	64%	65%	82%	85%	86%
+ Property, Plant & Equip	73%	77%	86%	71%	106%	113%	133%	142%	154%
- Accumulated Depreciation	20%	24%	32%	26%	42%	48%	51%	57%	68%
+ LT Investments & Receivables	0%	0%	0%	23%	6%	0%	0%	0%	0%
+ LT Investments				23%	6%	0%	—	—	—
+ LT Marketable Securities							—	—	—
+ Other LT Assets	36%	35%	35%	3%	4%	4%	4%	4%	5%
+ Total Intangible Assets	32%	30%	30%	1%	1%	1%	1%	1%	1%
+ *Goodwill*	22%	20%	19%	1%	1%	1%	1%	1%	1%
Product/Brand Segments									
+ *Other Intangible Assets*	11%	10%	11%	0%	0%	0%	0%	0%	0%
+ Derivative & Hedging Assets	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Prepaid Pension Costs									
+ Misc LT Assets	4%	4%	5%	2%	3%	3%	3%	4%	4%
Total Noncurrent Assets	**89%**	**87%**	**89%**	**70%**	**74%**	**69%**	**86%**	**89%**	**91%**
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Liabilities & Shareholders' Equity	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
+ Payables & Accruals	6%	5%	7%	10%	14%	16%	17%	18%	18%
+ Accounts Payable	5%	3%	4%	3%	4%	4%	5%	4%	4%
+ Accrued Taxes	0%	0%	0%	0%	—	—	0%	0%	0%
+ Interest & Dividends Payable	—	—	—	0%	—	—	0%	0%	0%
+ Other Payables & Accruals	2%	2%	2%	7%	10%	12%	12%	13%	14%
+ ST Debt	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ ST Borrowings	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ ST Capital Leases	0%	0%	0%	—	—	—	0%	0%	0%
+ Current Portion of LT Debt	—	—	—						
+ Other ST Liabilities	7%	8%	9%	0%	0%	0%	0%	0%	0%
+ Deferred Revenue	5%	5%	5%	0%	0%	0%	0%	0%	0%
+ Derivatives & Hedging	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Misc ST Liabilities	2%	3%	4%	0%	0%	0%	0%	0%	0%
Total Current Liabilities	**14%**	**14%**	**16%**	**10%**	**14%**	**16%**	**17%**	**18%**	**18%**
+ LT Debt	1%	0%	7%	0%	0%	0%	15%	21%	24%
+ LT Borrowings	1%	0%	7%	0%	0%	0%	15%	21%	24%
+ LT Capital Leases	0%	0%	0%	—	—	—	0%	0%	0%
+ Other LT Liabilities	19%	20%	19%	12%	17%	17%	22%	23%	20%
+ Accrued Liabilities	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Pension Liabilities	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Deferred Revenue	5%	5%	5%	0%	0%	0%	0%	0%	0%
+ Deferred Tax Liabilities	5%	5%	1%	1%	1%	0%	7%	8%	3%
+ Derivatives & Hedging	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Misc LT Liabilities	11%	11%	14%	10%	16%	17%	15%	15%	17%
Total Noncurrent Liabilities	**21%**	**20%**	**26%**	**12%**	**17%**	**17%**	**36%**	**43%**	**44%**
Total Liabilities	**34%**	**34%**	**42%**	**22%**	**31%**	**33%**	**54%**	**61%**	**62%**
+ Preferred Equity and Hybrid Capital	0%	0%	0%	0%	0%	0%	0%	0%	0%
+ Share Capital & APIC	40%	39%	45%	43%	61%	64%	10%	9%	10%
- Treasury Stock	4%	5%	21%	45%	101%	114%	0%	0%	0%
+ Retained Earnings	30%	33%	33%	81%	110%	117%	36%	29%	28%
+ Other Equity	0%	0%	0%	0%	0%	0%	0%	0%	0%
Equity Before Minority Interest	**66%**	**66%**	**58%**	**78%**	**69%**	**67%**	**46%**	**39%**	**38%**
+ Minority/Non Controlling Interest	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Equity	**66%**	**66%**	**58%**	**78%**	**69%**	**67%**	**46%**	**39%**	**38%**
Total Liabilities & Equity	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

	Jack in the Box Inc.			Texas Roadhouse Inc.		
In Millions of USD	FY 2015	FY 2016	FY 2017	FY 2015	FY 2016	FY 2017
Total Assets	**1,304**	**1,345**	**1,228**	**1,033**	**1,180**	**1,331**
+ Cash, Cash Equivalents & STI	1%	1%	1%	6%	10%	11%
+ Cash & Cash Equivalents	1%	1%	1%	6%	10%	11%
+ ST Investments	0%	0%	0%	0%	0%	0%
+ Accounts & Notes Receiv	3%	5%	5%	4%	5%	6%
+ Accounts Receivable, Net	3%	5%	5%	4%	5%	6%
+ Notes Receivable, Net	0%	0%	0%	0%	0%	0%
+ Inventories	1%	1%	1%	2%	1%	1%
+ Raw Materials	—	—	—	—	—	—
+ Work In Process	—	—	—	—	—	—
+ Finished Goods	—	—	—	—	—	—
+ Other Inventory	—	—	—	—	—	—
+ Other ST Assets	4%	5%	5%	1%	1%	1%
+ Prepaid Expenses	1%	3%	2%	1%	1%	1%
+ Derivative & Hedging Assets	0%	0%	0%	0%	0%	0%
+ Assets Held-for-Sale	1%	1%	2%			
+ Deferred Tax Assets	—	—	—	0%	0%	0%
+ Misc ST Assets	1%	1%	1%	0%	0%	0%
Total Current Assets	**8%**	**12%**	**11%**	**13%**	**17%**	**19%**
+ Property, Plant & Equip, Net	56%	53%	52%	73%	70%	69%
+ Property, Plant & Equip	120%	119%	124%	111%	109%	108%
- Accumulated Depreciation	64%	66%	72%	38%	39%	40%
+ LT Investments & Receivables	0%	0%	0%	0%	0%	0%
+ LT Investments				—	—	—
+ LT Marketable Securities				—	—	—
+ Other LT Assets	36%	35%	37%	14%	13%	12%
+ Total Intangible Assets	13%	13%	15%	12%	10%	9%
+ *Goodwill*	11%	12%	14%	11%	10%	9%
Product/Brand Segments						
+ *Other Intangible Assets*	1%	1%	1%	0%	0%	0%
+ Derivative & Hedging Assets	0%	0%	0%	0%	0%	0%
+ Prepaid Pension Costs						
+ Misc LT Assets	14%	13%	14%	3%	2%	3%
Total Noncurrent Assets	**92%**	**88%**	**89%**	**87%**	**83%**	**81%**
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Liabilities & Shareholders' Equity	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
+ Payables & Accruals	8%	7%	6%	15%	13%	13%
+ Accounts Payable	2%	3%	3%	5%	4%	4%
+ Accrued Taxes	5%	4%	3%	2%	2%	2%
+ Interest & Dividends Payable	0%	0%	0%	1%	1%	1%
+ Other Payables & Accruals	0%	0%	0%	7%	6%	6%
+ ST Debt	2%	4%	5%	0%	0%	0%
+ ST Borrowings	0%	0%	0%	0%	0%	0%
+ ST Capital Leases	0%	—	0%	0%	—	—
+ Current Portion of LT Debt	2%	4%	5%	0%	0%	0%
+ Other ST Liabilities	8%	9%	10%	10%	11%	12%
+ Deferred Revenue	0%	0%	0%	10%	11%	12%
+ Derivatives & Hedging	0%	0%	0%	0%	0%	0%
+ Misc ST Liabilities	8%	9%	10%	0%	0%	0%
Total Current Liabilities	**18%**	**21%**	**21%**	**25%**	**24%**	**25%**
+ LT Debt	53%	70%	88%	2%	4%	4%
+ LT Borrowings	52%	70%	87%	2%	4%	4%
+ LT Capital Leases	1%	—	1%	0%	—	—
+ Other LT Liabilities	28%	26%	22%	7%	8%	7%
+ Accrued Liabilities	0%	0%	0%	0%	0%	0%
+ Pension Liabilities	16%	14%	11%	—	—	—
+ Deferred Revenue	0%	0%	0%	10%	11%	12%
+ Deferred Tax Liabilities	—	—	—	1%	1%	0%
+ Derivatives & Hedging	0%	0%	0%	0%	0%	0%
+ Misc LT Liabilities	11%	8%	10%	6%	7%	7%
Total Noncurrent Liabilities	**81%**	**95%**	**110%**	**10%**	**12%**	**11%**
Total Liabilities	**99%**	**116%**	**132%**	**34%**	**36%**	**36%**
+ Preferred Equity and Hybrid Capital	0%	0%	0%	0%	0%	0%
+ Share Capital & APIC	31%	32%	37%	19%	19%	18%
- Treasury Stock	121%	139%	178%	0%	0%	0%
+ Retained Earnings	101%	104%	121%	45%	45%	45%
+ Other Equity	-10%	-14%	-11%	0%	0%	0%
Equity Before Minority Interest	**1%**	**-16%**	**-32%**	**65%**	**64%**	**63%**
+ Minority/Non Controlling Interest	0%	0%	0%	1%	1%	1%
Total Equity	**1%**	**-16%**	**-32%**	**66%**	**64%**	**64%**
Total Liabilities & Equity	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**