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The Panera Bread LBO

It was early April 2017, and Bloomberg News had just broken the story that several major suitors were negotiating the possible take-private of Panera Bread, a rapidly growing company in the fast-casual chain restaurant industry:

> *Panera Bread Co. is exploring strategic options including a possible sale after receiving takeover interest, people with knowledge of the matter said.*
>
> *The bakery chain, which has a market value of about $6.5 billion, is working with advisers to study the options, said the people, who asked not to be named discussing the private process. Potential suitors could include JAB Holding Co., Starbucks Corp., and Domino's Pizza Inc., one of the people said.*
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> *There's no certainty a deal of any sort will be reached for St. Louis–based Panera, the people added.*[1]

Panera Bread was a very attractive business within the struggling restaurant industry. The fast-casual operator had thrived in 2016 as the greater restaurant market shrank. Robust same-store sales and new restaurants drove Panera Bread's revenues to $2.8 billion, growing by 4.2%. A spate of recent buyouts, such as the $1.8 billion purchase of Popeyes Louisiana Kitchen and the $525 million purchase of Checkers Drive-In Restaurants, had paved the way for further purchases in the sector. Restaurant operators seeking inorganic growth and financial buyers keen to put capital to work were actively considering acquisitions in the industry.

Tom Denning, a managing director at the private equity firm KLG, was caught off guard by the news from Bloomberg. After receiving a confidential investment memorandum from investment bank Morgan Sterling in February, Denning and his team had been quietly conducting due diligence on Panera Bread. The public news story meant that the deal process was broadening and KLG would have to act quickly if the firm hoped to prevail.

Picking up the telephone, Denning first called Susan Fowley at Morgan Sterling. The conversation confirmed that Panera Bread's board and management were seriously considering several offers but were still open to timely competing bids. Panera Bread would consider a non-binding bid that exceeded a 12% premium to the 30-trading-day volume-weighted average stock price of $242.31 (which would be $271.38 per share / $6.6 billion enterprise value). Leaning back in his chair and considering the impact on his upcoming family vacation, Denning pondered whether a leveraged buyout of Panera Bread would be a good investment for KLG. The next few weeks would be grueling for both Denning and his team.

The Fast-Casual Industry Overview

Industry Description

Fast-casual dining emerged in the mid-1990s and achieved significant growth. The fast-casual model offers consumers quality meals, rapidly prepared. The dining experience falls between restaurants that offer fast food (e.g., McDonald's) and those that offer standard casual dining (e.g., The Cheesecake Factory). Fast-casual menus often consist of tailored dishes built from quick-to-assemble basic foods. Upon entering the restaurant, customers place their orders either while waiting in line or at a main counter. Line cooks assemble the meal and might offer additional customizations. After paying a cashier, the customer then takes the meal to go or to eat at a table in the restaurant.

Fast-casual restaurants primarily aimed at affluent adults 18 to 34 years old. Shifting American eating habits had created a segment of customers who demanded bold and diverse flavor profiles. These consumers prioritized what they saw as healthy eating habits and authentic food with fewer frozen and pre-processed ingredients. The growing demand for quality and an increasing preference to eat out was expected to cause fast-casual restaurants to become more mainstream and the customer base to grow.

Fast-casual meals typically cost between $9 and $14, a significant price premium relative to fast food that was justified by the fresh and high-quality ingredients. Innovative fast-casual meal options, such as a steak and arugula sandwich, a soba noodle broth bowl with chicken, and bacon mac and cheese, reflected the quality of a genuine dining experience, but the meal was delivered faster and at a lower cost, compared with standard casual dining. In addition, the made-to-order nature of fast-casual meals allowed customers to personalize their foods.

A small store footprint allowed fast-casual restaurants to thrive in suburbs and cities where space was at a premium. The interior of a fast-casual restaurant was commonly a brightly lit, 2,000-to-4,000-square-foot space that featured modern décor. Focused menu offerings allowed a fast-casual kitchen to be smaller than a full-service operator. Often the kitchens operated in full view of the customer, inviting interaction and meal customization. The seating space for fast-casual restaurants was carefully gauged to allow guests to readily find a table but to give the impression the restaurant was busy.[2]

Sales and Growth

Fast-casual restaurants represented a vibrant and growing portion of the limited-service restaurant industry. In 2016, this sector generated $291 billion in domestic revenue (**Exhibit 1** and **Exhibit 2**). Fast-casual establishments comprised 18% ($47 billion) of the sector's revenue. Among fast-casual operators, the top 20 brands accounted for more than half of that, $26 billion. The five-year compounded annual growth rate of 10.1% for fast-casual restaurants substantially exceeded the growth rate of the broader restaurant industry.

A significant portion of the fast-casual segment revenues came from taking market share from fast food companies. Industry analysts projected that, within five years, fast-casual dining would represent 22% of the expected $348 billion in limited-service restaurant revenue. Within this segment, cuisines such as pizza, seafood, and healthy foods were experiencing exceptionally rapid growth (**Exhibit 3**). Another key factor driving fast-casual restaurant growth was technological innovation. Restaurants adopted digital ordering systems to increase service speed and reduce labor costs. Many companies created phone-based loyalty apps to build their customer engagement further.[3]

Panera Bread Overview

Company Description

Panera Bread was a national chain of company-owned and franchise-operated fast-casual bakery-cafés. With 2,036 stores across North America, the business served approximately 9 million customers each week. Panera Bread aimed to provide tasty, flavorful, and wholesome food in a warm and welcoming environment. The company stated a commitment to using fresh and clean ingredients and instituted several company-wide policies to accomplish this goal.

The Panera menu was composed of year-round products and seasonal specials. Store bakeries offered a selection of pastries and other goods baked on-site daily. The café offered soups, salads, pastas, sandwiches, and specialty drinks. High-quality ingredients such as select antibiotic-free meats, whole grains, and organic components were used to prepare Panera Bread's foods.

The company's strong competitive position relied on providing first-rate food, superior customer service, and an elevated dining experience. Each bakery-café was designed to provide a distinct environment that blended with the local community. Specific fixtures and construction materials that complemented the neighborhood were designed to engage customers. Comfortable indoor and outdoor seating areas encouraged customers to use Panera as an oasis-like gathering spot. Store associates were trained to greet customers by name, display friendly personalities, and make each visit enjoyable. To differentiate itself from competitors, Panera Bread introduced the MyPanera loyalty program to encourage customers to build deep relationships with the brand by rewarding them for returning often. This program gave Panera Bread valuable insight into customer preferences.

Panera Bread operated three business segments: company-owned bakery-café operations, franchise-contracted bakery-café operations, and fresh dough and other product operations. As of December 27, 2016, the company's bakery-café operations consisted of 902 company-owned bakery-cafés, 1,134 franchise-operated bakery-cafés, and 24 fresh-dough facilities. In addition, the company's Panera Catering delivered breakfast and lunch entrees (see **Exhibit 4**).

Panera Bread viewed innovation and technology as a major differentiator in the restaurant business. The Panera 2.0 initiative was an ongoing investment to provide customers with a greater degree of convenience through technology. Digital ordering and rapid pickup for to-go orders allowed customers to interact with Panera Bread bakery-cafés in new ways. As of December 27, 2016, approximately 70% of the company-owned bakery-cafés had transitioned to Panera 2.0.[4]

History of Panera Bread

Panera Bread began as a Boston bakery called the Cookie Jar in August 1980. Ron Shaich, the founder, initially subleased a 400-square-foot storefront from a jewelry store. To expand the Cookie Jar's food selection, Shaich became a licensee of Au Bon Pain, a chain of three French bakeries struggling under enormous debt. In 1981, Shaich and his father purchased Au Bon Pain. The merged company took the Au Bon Pain name and slowly grew the restaurant franchise over the next decade. The company leveraged its croissants and bread as a platform to sell soups, salads, and sandwiches. By the time it completed an IPO in 1991, Au Bon Pain had 125 stores.

In 1993, Shaich met the founders of a 19-store chain called the St. Louis Bread Company, which focused on serving lunchtime soups, salads, and sandwiches to suburban markets. Up to this point, Au Bon Pain franchisees primarily were located within city centers, and Shaich viewed the St. Louis Bread Company as a gateway to expand into the suburbs. As a result, Au Bon Pain purchased the business for $23 million and renamed it Panera Bread.

While the Panera business grew, Au Bon Pain stagnated. By 1995, half of Au Bon Pain's stores had closed, and the company's stock had fallen from a high of $27 to $6. The company's aggressive expansion into the Midwest was undermined as store sales sharply declined and operating costs increased. Furthermore, the company struggled to repay expensive senior subordinated debt interest used to fuel its Midwest expansion. Viewing Panera as a diamond in the rough, Shaich suggested to the board that the company should divest everything but Panera. In 1999, the Au Bon Pain division was sold to private equity firm Bruckmann, Rosser, Sherrill & Co. The sale erased $65 million in debt that Au Bon Pain had accrued and left Panera with about 180 bakery-cafés and a surplus of cash.[5]

Management Team

Ronald M. Shaich: Founder and CEO

Ron Shaich, the founder and current CEO, oversaw six major iterations of the firm as it evolved from the Cookie Jar into Panera Bread. Shaich demonstrated an uncanny ability to anticipate consumer preferences and scale franchise businesses. He initially guided the business to success as a niche purveyor using French baked goods as a platform to sell soups, salads, and sandwiches to the urban market. As growth stalled, Shaich rebuilt and re-scaled the company as a gathering-place business. When he expressed an interest in stepping away from being CEO of Panera Bread to focus on creative initiatives and other interests, such as politics, other key Panera executives, including Blaine Hurst and Chuck Chapman, became candidates to succeed Shaich.[6]

Blaine E. Hurst: Chief Transformation & Growth Officer, President

Blaine Hurst joined Panera Bread in late 2010 to oversee the Panera 2.0 initiative. His career had focused largely on assisting restaurant and distribution companies in seeking innovative ways to grow by leveraging new technologies in their operations. Prior to Panera, Hurst served as president of Restaurant Technology Solutions and vice-chairman and president of Papa John's International. At Papa John's, he oversaw the development and implementation of a proprietary point-of-sale restaurant operating system throughout the company. In 2014, Hurst launched Panera Bread's delivery initiative, a successful and rapidly growing portion of the business.[7]

Charles J. Chapman III: Chief Operating Officer

Chuck Chapman joined Panera in November 2011 and was promoted to chief operating officer a year later. Prior to Panera, he had worked as the COO of Dairy Queen and of Bruegger's Bagels Inc. At each position, Chapman demonstrated an impressive ability to build sales. Skilled at rolling out concepts and developing best-in-class operating systems at national restaurant companies, and with a background in consulting, Chapman oversaw company and franchise operations at Panera Bread.[8]

Michael J. Bufano: Chief Financial Officer and Executive Vice President

Mike Bufano joined Panera in 2010 as the vice president of planning. In April 2015, Bufano was promoted to chief financial officer, responsible for the finance, accounting, and investor relations departments. He previously had worked within PepsiCo's soft-drink and bottled-water business. As director of strategic and financial planning at PepsiCo, Bufano helped build the sales strategy and analysis function. During his nine-year tenure at PepsiCo, he was involved in various strategic, financial planning, and business-analysis roles. Bufano also worked at Accenture and consulted for clients in the telecommunications, banking, and pharmaceutical industries.[9]

Competition

The restaurant industry was extremely competitive. Large chains competed with independent local operators across a spectrum of cuisines, price points, and service types. As a bakery-café concept with fast-casual service, Panera claimed a unique niche within the restaurant market, stating that no specific competitor matched Panera Bread's scope, culinary expertise, and service concept.

Bakery-café menus include flour-based foods and complimentary items, such as pre-made sandwiches, salads, and soups. The gourmet and healthy nature of these dishes meshed with recent changes in consumer tastes. Panera Bread commanded a 68% share of this segment's revenues. Einstein Noah Group, the second-largest bakery-café operator, held only an 8% market share, followed by Corner Bakery Café (4.8%) and Au Bon Pain (4.6%). A majority of bakery-cafés were located in major metropolitan areas.[10]

Panera Bread's closest competitors were other fast-casual restaurants, including those with different menu types, such as Mexican, Asian, or burgers. With fast-casual restaurant companies expanding rapidly within the United States in the 2010s, Panera as a pioneer in the segment enjoyed significant success. The firm's scale and revenues ranked with such other leading fast-casual brands as Chipotle and Jimmy John's Gourmet Sandwiches. Although several major chains dominated the industry, savvy independent companies developed profitable niche businesses. Strong market fundamentals resulting from high consumer spending and disposable income created a profitable operating environment. Many fast-casual restaurant brands found success in city centers as well as in suburban markets. As geographic expansion becomes saturated, fast-casual operators expected to pursue the less-competitive breakfast market.

The growth of fast-casual restaurants came at the expense of traditional fast-food companies. To remain competitive, larger fast-food companies responded by leveraging their marketing and pricing strengths. In a 2016 *Fortune* feature article entitled "Free Bird," McDonald's proudly announced its commitment to high-quality ingredients and cage-free eggs.[11] Taco Bell took advantage of favorable beef costs to aggressively price meat-heavy menu items such as burritos for as low as $1.[12] As fast-casual restaurants continued to capture market share, larger fast-food operators were likely to redouble their efforts to compete vigorously and win back their customer base.

Figure 1: Comparable Public Competitors

Logo	Chain Name	Segment	Menu Type	2016 FYE Revenue ($ M)	2016 FYE US Restaurants
	Panera Bread	Fast Casual	Bakery-Café	$2,795	2,036
	FAST CASUAL RESTAURANTS				
	Chipotle	Fast Casual	Mexican	$3,904	2,198
	Noodles & Company	Fast Casual	Asian/Noodle	$487	530
	Pollo Tropical	Fast Casual	Chicken	$402	182
	Taco Cabana	Fast Casual	Mexican	$310	173
	The Habit Burger Grill	Fast Casual	Burger	$284	172
	Zoës Kitchen	Fast Casual	Burger	$276	204
	Shake Shack	Fast Casual	Burger	$268	71
	Wingstop Inc.	Fast Casual	Chicken	$91	922
	Freshii	Fast Casual	Bakery-Café	$18	N/A
	MULTINATIONAL QUICK SERVICE RESTAURANTS				
	McDonald's	Quick Service	Burger	$24,622	14,155
	Starbucks	Quick Service	Coffee Café	$21,316	13,172
	KFC	Quick Service	Chicken	$3,232	4,167
	Tim Hortons	Quick Service	Coffee Café	$3,001	683
	Domino's	Quick Service	Pizza	$2,217	5,371
	Taco Bell	Quick Service	Mexican	$2,025	6,278
	Burger King	Quick Service	Burger	$1,144	7,161
	Pizza Hut	Quick Service	Pizza	$1,111	7,689
	Potbelly	Quick Service	Sandwich	$407	454
	Popeyes Louisiana Kitchen	Quick Service	Chicken	$269	2,067

Figure 1 *(continued)*

		DOMESTIC QUICK SERVICE RESTAURANTS			
	Wendy's	Quick Service	Burger	$8,964	5,739
	Papa John's	Quick Service	Pizza	$1,714	3,331
	Jack in the Box	Quick Service	Burger	$1,599	2,255
	Dunkin' Donuts	Quick Service	Coffee Café	$662	8,828
	Sonic Drive-In	Quick Service	Burger	$606	3,557
	Bojangles'	Quick Service	Chicken	$532	713
	Del Taco	Quick Service	Mexican	$452	551
	El Pollo Loco	Quick Service	Chicken	$380	460
	Baskin Robbins	Quick Service	Frozen Desserts	$167	2,538

Source: Restaurant Business Technomic Top 500 Chain Restaurant Report (2017), company FYE 2016 10K SEC filings, and company websites.

Figure 2: Other Selected Competitors

				2016 FYE	
Logo	Chain Name	Segment	Menu Type	Revenue ($ M)^{T}	US Restaurants
	Subway	Quick Service	Sandwiches	$11,300	25,908
	Chick-fil-A	Quick Service	Chicken	$6,743	2,261
	Jimmy John's Gourmet Sandwiches	Fast-Casual	Sandwiches	$2,220	2,819
	Five Guys Burgers and Fries	Fast-Casual	Burger	$1,437	1,500
	Einstein Bros. Bagels	Fast-Casual	Bakery-Café	$381	707
	Corner Bakery Cafe	Fast-Casual	Bakery-Café	$376	185
	Au Bon Pain	Fast-Casual	Bakery-Café	$352	212
	Peet's Coffee	Quick Service	Bakery-Café	$272	246
	Bruegger's Bagels	Fast-Casual	Bakery-Café	$197	220
	Blaze Pizza	Fast-Casual	Pizza	$185	150

Note: ^{T} Technomic estimate.

Source: Restaurant Business Technomic Top 500 Chain Restaurant Report (2017), company FYE 2016 10K SEC filings, and company websites.

The 2017 Private Equity Industry

The private equity industry performed robustly and grew increasingly crowded in 2017. Strong economic growth propelled the value of buyouts and exits to new heights around the globe. As private equity outperformed other assets, a tidal wave of capital flooded the industry. During that year, 7,775 funds raised $701 billion in new capital, a five-year peak. (See **Exhibit 5** for previous annual totals.)

The search for attractive buyouts grew more difficult as competition escalated. Many private equity funds began to explore a wider range of investment opportunities. A number of firms combed portfolios of competitors to find new assets to buy. Other private equity investors introduced funds with extended holding periods of up to 15 years. These funds charged lower fees but benefited from lower transaction costs and more flexible exit timing. Other common buyout activities, such as add-on and growth investments, continued to be popular (**Exhibit 6**).

Despite the creativity in sourcing deals, valuations continued to soar. During 2017, the average EBITDA purchase price multiple climbed to a three-year high of 12.1x (**Exhibit 7**). Flush with cash, many funds began to buy larger businesses to deploy greater amounts of capital. Although the total number of buyouts remained flat, globally invested capital (including add-ons) swelled $440 billion during 2017, up 19% from the previous year. The US market experienced a similar 9% growth in deal value, whereas the number of transactions remained relatively stable compared with those in the previous year (**Exhibit 8** and **Exhibit 9**). High purchase prices in the market were partially mitigated by accommodating debt markets. The average debt multiple exceeded 6x, and covenant-lite loans dominated three-quarters of the overall loan volume (see **Exhibit 10** for previous years' figures).

Add-ons were an increasingly important source of value in 2017. Funds stimulated portfolio growth by purchasing smaller companies to combine with existing portfolio companies. Small businesses had comparatively lower purchase premiums, and anticipated portfolio company synergies helped to justify purchase prices. Despite accounting for only 25% of total deal value, add-ons comprised nearly half of all investments during the year.

During the previous twelve months, US private equity exits were accomplished principally through sales to strategic buyers and financial buyers (**Exhibit 11**). Increased activity in the secondary market, where sponsors sold to one another, became a more common option for PE funds. Dividend recapitalizations, which were dependent on an accommodating debt market, saw some measure of success, as did partial exits, where funds sold a stake in portfolio companies. The overall IPO market cooled as investors shied away from taking companies public because of the length of time an IPO took to translate into a full cash realization.[13]

KLG Overview

Fund Description

KLG, Tom Denning's firm, was a private equity fund founded in the early 1990s. The firm regularly engaged in leveraged buyouts of upper-middle-market and large-cap companies located in the United States. Each partner of the firm specialized in a particular sector, including a focus on consumer businesses. The firm was investing a tenth fund, of $8.8 billion, largely undrawn since its inception in late 2016.

KLG described its investment approach as flexible and opportunistic. The firm focused on pursuing deals for high-quality businesses with strong prospects and experienced leadership teams. KLG principally took a control position when it invested, but sometimes a minority position. In the past, KLG executed smaller deals on its own and syndicated larger investments with its peers.

Transaction Process

As at many other private equity firms, KLG's new-deal transaction process could be broken up broadly into five major steps: deal sourcing, due diligence, closing, ownership, and exit. Each step of the process represented a distinct phase of work with different responsibilities and goals. A managing director and vice president were responsible for shepherding the investment process and keeping a fund's investment committee abreast of the progress. The investment committee, a formal panel, judged the merits of an investment and either accepted or rejected use of the firm's funds for a transaction.

Deal-sourcing occurs through a variety of structured and unstructured processes. Many firms leverage proprietary resources and use business relationships, industry analysis, and cold-calling to identify investment opportunities. A larger firm, such as KLG, also can source potential deals from investment banks that conduct auctions on behalf of selling companies. A confidential information memorandum (CIM) is developed by the investment bank advisor to the seller, and it is provided to both financial sponsors (PE firms) and strategic buyers (companies in the same industry as the selling company) to increase competition and to bid up the price of a company. Of the hundreds of deals a PE firm looks at, only a handful warrant serious consideration by the investment committee.

When an investment was worth a closer look, a KLG deal team would begin the due-diligence process. The broader goal of due diligence is to understand the key risks and to verify the health of a target business. The qualitative portion of initial due diligence focuses on building a detailed overview of the company and on broader market dynamics. Quantitative due diligence is used to build a leveraged buyout (LBO) model and to project the potential returns of an investment. The culmination of research is the creation of an investment thesis that articulates the rationale that justifies an investment. The investment thesis and supporting information is then transcribed as an investment memorandum for the consideration of the investment committee. The due-diligence process generally lasts between one and three months.

In a private deal that did not involve an auction conducted by an investment bank, KLG might approach an investment target directly. In a direct approach, the KLG deal team would try to hold an introductory meeting with the management team and ask initial due-diligence questions about the business. Topics often included financial information, major customer detail, competitive positioning, sales strategy, management and personnel, and key drivers of future growth. Additional due-diligence meetings would be held with management as KLG further refined its understanding of the target company. This would enable the firm to create a comprehensive LBO model and an investment memorandum that summarized the transaction for the investment committee. Upon the investment committee's approval, the deal team would make an initial non-binding offer to the target's board of directors (often provided as a valuation range).

If the non-binding offer appealed to the target company, another round of due diligence would begin. Given access to a virtual data room, the KLG deal team would examine detailed confidential information. Further due-diligence meetings would be held with management as KLG continued to refine its understanding of the company. This due diligence would be used to create a more comprehensive LBO model and investment memorandum summarizing the transaction for the investment committee. If the committee maintained its support for this investment, the deal team would provide a binding offer to acquire the target company. If the offer was accepted, KLG would enter the final closing phase of the transaction, which sometimes took several months.

The closing phase of a deal would be dedicated to confirming all financial information and other relevant data and to establishing the legal framework for the transaction. Often, an independent third party would be hired to prepare a quality-of-earnings report to assess the quality and accuracy of the company's historical financials. Key legal documents, such as the merger agreement, and the purchase price would then be finalized before cash was wired to pay for the acquisition.

The ownership phase of a transaction began once KLG acquired the target. This phase focused on building the acquired company's value by increasing revenue, reducing costs, considering add-on acquisitions, paying down debt, and enhancing the management team. Over a typical investment holding period of four to seven years, these initiatives usually resulted in a substantial increase in the company's value.

The exit of a portfolio company investment is a major event that needs careful planning. Many portfolio companies are sold to strategic buyers (companies operating in the same or adjacent industries). Strategic buyers often provide the highest purchase price because they benefit from synergies that can justify a higher price. Sales to financial buyers (i.e., other PE firms) is another popular exit method. However, these buyers are not always as willing to pay as high a purchase price without the benefit of synergies. Initial public offerings (IPOs) are an alternative exit strategy, but this market is difficult to forecast, and sometimes pricing and demand are too low. Furthermore, an IPO usually results in the sale of less than 35% of the company, which means that the balance of at least 65% needs to be sold over a multiple-year period through follow-on public or private market transactions. As a result, this liquidity event takes more time compared to other exit methods, and during this period, the company's value might increase or decrease, which then affects the overall return of the investment.

Denning's Due Diligence

Tom Denning and his team had been performing initial due diligence on Panera Bread since receiving the CIM from Morgan Sterling. With rumors of Panera Bread's buyout leaking to the public, KLG needed to submit a bid fairly soon if it wanted to compete for this acquisition. Due diligence on Panera Bread had yielded a number of encouraging facts about the fast-casual industry and the company itself. During the past three years, Panera Bread had deftly navigated several public-relations problems and had laid the foundation for more growth (**Exhibit 12**). A review of recent equity analyst reports revealed that Panera 2.0 and a new delivery initiative had eroded Panera Bread's profit margins, and the company had yet to reap the full economic benefit of these projects (**Exhibit 13**). However, analyst models projected significant future gains (**Exhibit 14**). Furthermore, the management team appeared confident in the company's capabilities, as demonstrated in its financial forecasts and in the following summary of expected performance for fiscal years 2017 to 2021 (**Exhibit 15**):

> *Revenue growth in the low double-digits each year as a result of our efforts to become a better competitive alternative through innovation in food, operations, marketing, and store design, and our initiatives to build expanded runways for growth by pursuing an omni-channel strategy that leverages our brand credibility into new sales channels such as catering, delivery, high return on investment unit growth, and consumer packaged goods.*
>
> *Modest operating margin expansion as a result of the cresting of our investments in "Panera 2.0" and delivery, margin improvement efforts in our bakery-cafes, and disciplined general and administrative spending.*[14]

Same-store sales growth was viewed by both Panera Bread's management team and by industry analysts as a key indicator of sector performance (**Exhibit 16**). Major investments in value-improving services, such as Panera 2.0 and deliveries, were designed to improve the performance of existing stores. White-space mapping had revealed that delivery was a quickly growing component of the fast-casual industry space. Yet many other companies relied upon third-party services such as Uber Eats or Postmates to fulfill customers' unmet delivery needs. As these services were rolled out, management expected to see resulting industry growth. Sales would likely increase, and as the company gained experience and improved its costs, profit growth was predicted to follow. However, the capital investment in these services had reduced the rate at which Panera Bread could expand its geographic footprint by opening new stores. Additional management insight on key topics was available in the most recent earnings-call transcript (**Exhibit 17**).

Pricing

To support KLG's bid, Denning and his team gathered information to help determine an accurate market price for the company. Comparable public companies (**Exhibit 18**) and precedent transactions (**Exhibit 19**) indicated the range of sales values and premiums to be considered for the fast-casual and broader quick-service restaurant markets. Other data, such as the mean Wall Street consensus stock price targets (**Exhibit 20**) and earnings predictability (**Exhibit 21**), could also be considered. Panera Bread's historical EBITDA multiples (**Exhibit 22**) could be used to examine the company's past performance. In addition, a significant factor affecting the price KLG should offer depended on the debt that Panera Bread could support.

Debt-Financing Terms

KLG's banking partners were eager to finance a Panera buyout. Panera Bread was viewed broadly as a company with a particularly bright future. Multiple banks sought to offer competitive financial terms to deploy a large amount of capital and collect high interest and financing fees. Denning anticipated that his team would be able to negotiate a total debt amount of $3 billion with a covenant of 7.44x FYE 2016 EBITDA. The capital structure would likely consist of a revolver, a term loan, and subordinated debentures. The revolver would likely limit the total amount to $1.5 billion, an amount Denning would not want to draw down fully. A term loan of up to $2.25 billion would comprise the bulk of the senior debt financing available to KLG. A tranche of subordinated debt was also available to KLG, with usage limited at most to $120 million (**Exhibit 23**).

Additional Due Diligence

An area of due diligence that Denning's team had yet to explore fully was potential value-creation initiatives, including add-on acquisitions, the ramping up of new-store openings, expanding to new markets, better management of raw materials, and the application of cost efficiencies across the store base. Demonstrating how Panera Bread could be leveraged as an investment platform could make the investment more appealing. Adding a smaller company to Panera Bread could create value for the combined firm in a number of ways, including potential future multiple expansion. In addition, expanding the sales footprint, increasing product offerings, and/or eliminating duplicate management could improve Panera Bread's return on investment and drive incremental EBITDA growth.

The Case Assignment

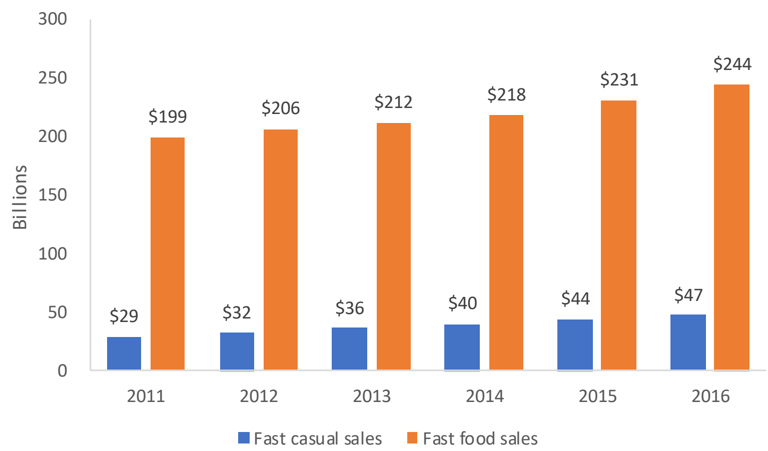
This case is designed to simulate the private equity investment process from the perspective of a private-equity-fund managing director. The case provides a pathway to 1) understanding how to evaluate an investment opportunity by gathering information, analyzing risks, and identifying opportunities; 2) determining what additional information is needed to make a good investment decision; and 3) developing a viable exit strategy (including interim strategic decisions) to 4) make a compelling investment recommendation.

You will take on the role of Tom Denning, a managing director at KLG, as he prepares to present a recommendation to his firm's investment committee regarding a potential buyout of Panera Bread. An analysis of the buyout opportunity should be completed in preparation for the upcoming investment committee meeting. The following outline may be used to help organize the PowerPoint presentation:

- Executive Summary
  (Situation overview, investment thesis, key merits/risks, and recommendation)
- Company Overview
  (Company description, product overview, management team)
- Industry Dynamics
  (Industry description, historical/future trends, major competitors)
- Investment Merits and Risks
- Value Creation Potential
  (Key drivers of ROI and multiple of invested capital, growth strategy)
- Transaction Overview
  (Transaction summary, enterprise value multiple & leverage summary, and sources & uses)
- Historical Financial Summary
  (Income statements)
- Projected Financial Summary (for Base, Upside, and Downside Cases)
  (Summary financial results, case income statements, including assumptions)
- Returns (for Base, Upside, and Downside Cases)
  (Income statements, cash flow, sensitivity analysis based on EBITDA multiples)
- Follow-up Diligence Questions
- Investment Recommendation
  (Expected exit strategy, recommended acquisition price range, sensitivities based on purchase premiums to unaffected price)
- Appendix
  (Attach financial models to support your presentation)

You should project expected financial results for Panera Bread after considering content in the case, including potential value-creation opportunities, and use the provided financial model to determine the key inputs that drive IRR and multiples of invested capital. Your analysis should support the determination of a proposed acquisition price range.

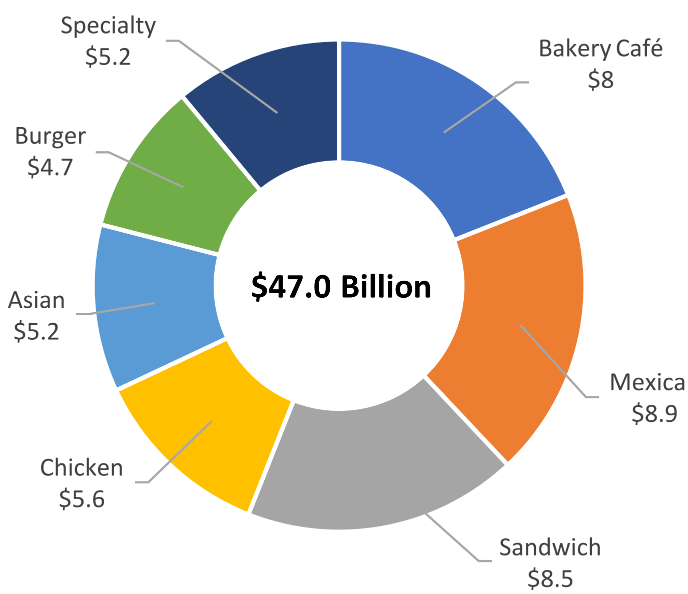
Exhibit 1: US Limited-Service Revenues ($ in Billions)



	2011	2012	2013	2014	2015	2016
Fast food sales	$199	$206	$212	$218	$231	$244
YoY % growth		*3.7%*	*2.6%*	*3.0%*	*5.9%*	*5.6%*
Fast casual sales	$29	$32	$36	$40	$44	$47
YoY % growth		*10.3%*	*12.5%*	*11.1%*	*10.0%*	*6.8%*
as a % of fast-food sales	*14.6%*	*15.5%*	*17.0%*	*18.4%*	*19.1%*	*19.3%*

Source: Technomic State of the Fast Casual Industry, IBISWorld—Fast Food Report.

Exhibit 2: Fast-Casual 2016 US Sales by Menu Type ($ in Billions)



Source: Technomic State of the Fast Casual Industry.

Exhibit 3: Fast-Casual Growth by Menu Type

Menu Type	2016 Growth (%)
Pizza	37%
Seafood	25%
Healthy	21%
BBQ	18%
Chicken	17%
Burger	13%
Asian/Noodle	12%
Sandwich	11%
Bakery-Café	4%
Mexican	-5%

Source: Technomic State of the Fast Casual Industry.

Exhibit 4: Panera Bakery-Cafés

	2012	2013	2014	2015	2016
Company-owned	809	867	925	901	902
Franchise-operated	843	910	995	1,071	1,134
System-wide	1,652	1,777	1,920	1,972	2,036

Source: Panera Bread FYE 2016 10K SEC filing.

Exhibit 5: PE Dry Powder ($ in Billions)

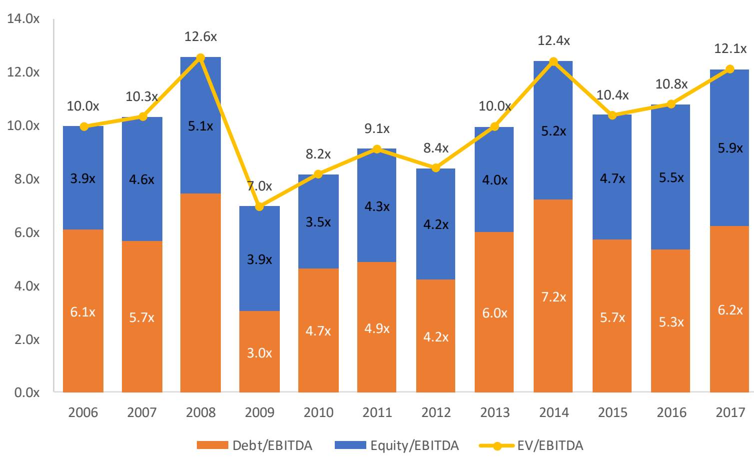
Source: PitchBook 2017 PE & VC Fundraising Annual Report.

Exhibit 6: Number of US PE Deals by Type and Year

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1 2017
Buyout/ LBO	1,218	1,392	1,028	606	936	1,012	1,179	972	1,178	1,249	1,175	313
Add-on	1,058	1,491	1,132	792	1,192	1,404	1,587	1,528	1,999	2,086	2,163	573
Recap	12	14	8	6	13	19	28	56	48	39	24	8
PE growth/ expansion	498	620	542	470	608	664	693	829	965	991	988	291
Platform creation	78	72	69	50	61	67	74	85	102	78	87	39

Source: PitchBook 3Q 2018 US PE Breakdown Summary.

Exhibit 7: US PE Buyout Multiples



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EV/EBITDA	10.0x	10.3x	12.6x	7.0x	8.2x	9.1x	8.4x	10.0x	12.4x	10.4x	10.8x	12.1x
Debt/EBITDA	6.1x	5.7x	7.5x	3.0x	4.7x	4.9x	4.2x	6.0x	7.2x	5.7x	5.3x	6.2x
Equity/EBITDA	3.9x	4.6x	5.1x	3.9x	3.5x	4.3x	4.2x	4.0x	5.2x	4.7x	5.5x	5.9x
Debt percent	61%	55%	59%	44%	57%	53%	50%	60%	58%	55%	50%	52%

Source: PitchBook 3Q 2018 US PE Breakdown Summary.

Exhibit 8: US PE Deals by Size ($ in Billions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1 2017
Under $25M	8.6	10.3	11.4	6.9	8.0	9.0	10.1	10.9	12.3	13.9	13.9	3.4
$25M-$100M	33.8	37.8	39.4	18.8	23.1	28.3	36.2	31.0	40.6	38.6	45.0	9.1
$100M-$500M	131.5	157.9	103.1	49.0	98.7	125.9	139.3	153.2	202.4	166.7	175.0	51.0
$500M-$1B	99.8	122.3	52.7	26.0	103.3	88.2	104.1	105.4	159.7	162.6	133.5	55.6
$1B-$2.5B	54.4	90.7	32.7	12.9	29.1	39.1	59.5	41.0	75.4	58.0	69.5	12.4
$2.5B+	136.2	395.3	90.7	29.8	37.0	55.4	32.7	106.5	46.4	123.6	176.7	11.6
Total	464.2	814.4	330.1	143.4	299.1	345.7	381.9	447.9	536.7	563.4	613.6	143.2

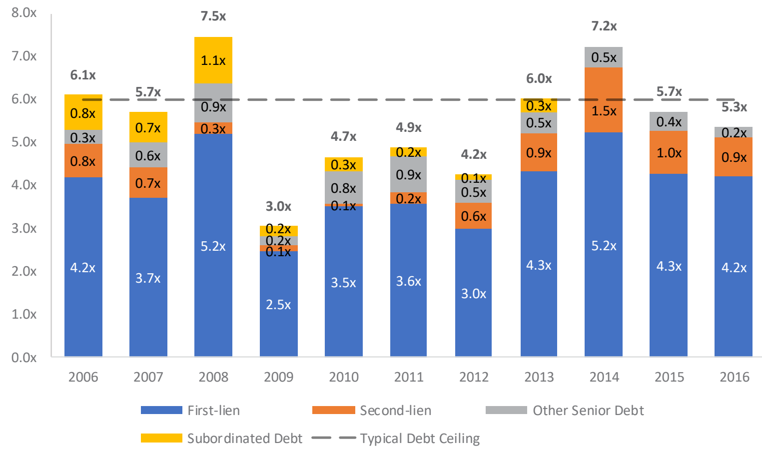
Source: PitchBook 3Q 2018 US PE Breakdown Summary.

Exhibit 9: Number of US PE Deals by Size

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Q1 2017
Under $25M	1,101	1,367	1,271	1,086	1,297	1,455	1,545	1,598	1,855	2,099	2,004	601
$25M-$100M	800	950	841	479	623	741	957	768	973	1,001	1,104	222
$100M-$500M	730	937	535	293	649	757	804	864	1,117	978	1,004	283
$500M-$1B	176	229	95	50	213	175	207	197	282	311	257	106
$1B-$2.5B	36	61	25	9	21	27	39	29	52	40	46	8
$2.5B+	21	44	12	7	8	12	8	13	12	14	22	3
Total	2,864	3,588	2,779	1,924	2,811	3,167	3,560	3,469	4,291	4,443	4,437	1,223

Source: PitchBook 3Q 2018 US PE Breakdown Summary.

Exhibit 10: Average Debt/EBITDA Multiples for Large LBO Transactions



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
First-lien	3.7x	4.0x	3.3x	3.2x	3.5x	3.8x	3.7x	4.0x	4.2x	4.2x	4.2x
Second-lien	0.7x	0.7x	0.2x	0.2x	0.1x	0.3x	0.7x	0.8x	1.2x	1.0x	0.9x
Other senior debt	0.3x	0.6x	0.6x	0.2x	0.7x	0.9x	0.6x	0.4x	0.4x	0.4x	0.2x
Subordinated debt	0.7x	0.8x	0.7x	0.3x	0.3x	0.2x	0.2x	0.3x	0.0x	0.0x	0.0x

Note: Large LBO transactions are defined as issuers with EBITDA greater than $50 million. Ratios are not calculated cumulatively, unlike in the given model.

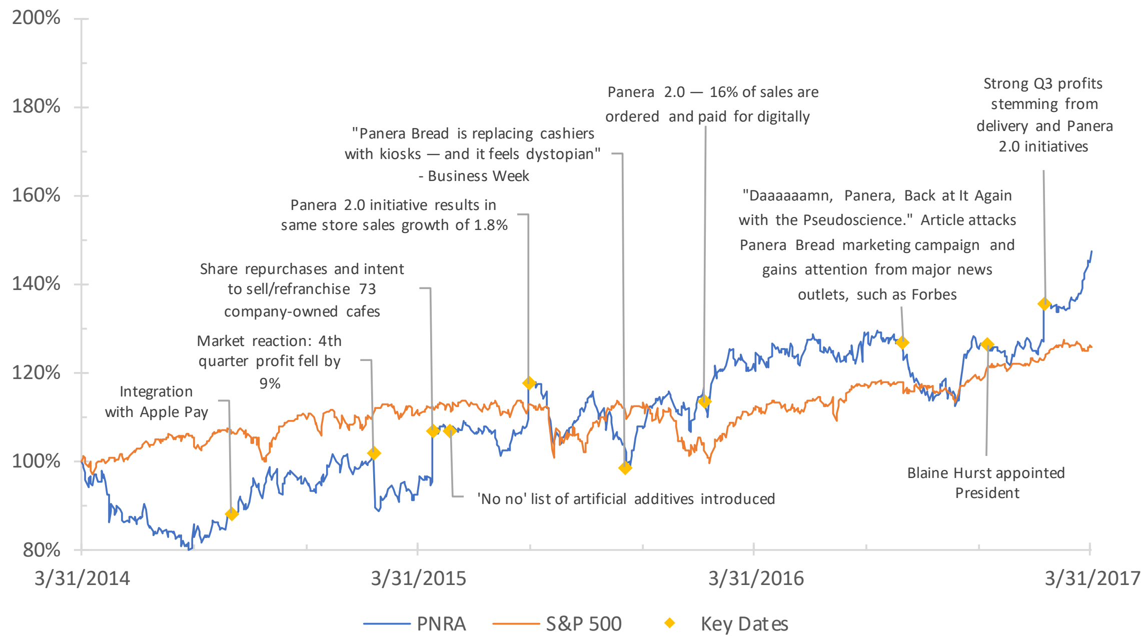
Source: S&P CapIQ LCD and Bain & Company Global Private Equity Report 2018.

Exhibit 11: Percentage of US PE Exits by Type (Past Twelve Months)

	Strategic Buyer	Financial Buyer	IPO
Total	46%	42%	12%

Source: PitchBook 3Q 2018 US PE Breakdown Summary.

Exhibit 12: Panera Bread Annotated Stock Chart



Source: Mergent Online and Yahoo Finance.

Exhibit 13: Analyst Quotes

"We believe Panera's ongoing comp outperformance vs. the industry (500bps+ in '16) provides further validity that the strategic plan is working, with investor comfort in the turnaround on the rise."[15]

"Panera is at an inflection point, as 2.0 start-up and transition costs begin to ease and sales continue to gain momentum, and well positioned for outsized EPS growth starting 2017."[16]

"We believe 4Q validates our thesis that PNRA's 2.0 investment cycle has positioned the company to outperform peers and set the stage for double-digit EPS growth over the coming years . . . the widening gap between the strength of PNRA's business and that of the rest of the industry (+500bps sales gap to industry in 4Q and LTM) argues for a premium to history and peers . . . The opportunity for margin recovery (2016 EBIT margin is ~400bps below 2013 peak) offers further support for a premium multiple, in our view."[17]

"Panera's strategic approach has helped improve the brand's image and drive top-line results, but its ongoing investments have not yet materialized in the form of sustained profit growth or improved returns. In our view, PNRA's management is moving the company in the right direction by capitalizing on trends including better food, customization, digitalization, and greater guest insight (1:1 marketing, its loyalty program)."[18]

"Better than expected 1Q SSS guidance suggests that trends remain strong in Jan and that the 'digital flywheel' continues to build on itself. Quarterly EPS will be lumpy due to Easter shifts (1Q to 2Q), start-up costs for delivery (2Q), and SBC tax benefit (3Q). Labor inflation remains a headwind."[19]

"Delivery roll out is still expected to be 35-40% system-wide by end of 2017 (not a decrease to 30-40% that was published in the release), with ~30% franchised units targeted implying ~40-50% of company conversions. PNRA is now citing a ~$5k/store lift within 6-9M (vs 6 M prior)."[20]

"Key Value Drivers 2.0 SSS Lift: Panera 2.0 supports comps lift of ~1.5% in '17 and '18. Delivery: Delivery could add an additional 1-3% comp lift on top of 2.0 lift. Operating margins will be less constrained by labor investments, IT spend, P2.0 and other investments aimed at throughput and operational capability as 2.0 rollout is complete, and margins should start to lever in '17 and '18. New store volumes – still strong at both franchise & company stores."[21]

"We believe PNRA's mix of food value proposition, service model, and flexibility in customer access/asset format, combined with clear solutions to prior year headwinds can sustain years of high-teens EPS growth beginning in 2017, and a ~20% CAGR over the next few years. We are optimistic that benefits from rapid pick-up, 2.0 and delivery will drive traffic and sales over time, with leverage and cost efficiencies supportive of improved margins. With upside to consensus and optionality from several promising growth adjacencies and strategic initiatives, risk/reward remains attractive."[22]

"Q: Against soft industry trends, are PNRA's initiatives enough to support ~MSD?

Yes, multiple sales initiatives and greater awareness and rollout of 2.0 cafes, rapid pick-up, catering and delivery, and more drive our estimated ~4% system CAGRs over the next several years.

Q: Can margins return to prior peak levels, and if not, how much margin can be recovered?

We think by 2020 PNRA can recover ~120 bps (from 2015) of the 400 bps of restaurant margin lost since prior peak. Some structural cost increases will limit full recovery anytime soon, but gains will come from: sales leverage, technology driven savings, supply chain efficiencies, & reduced investment."[23]

"We are raising our valuation range to better reflect a higher scarcity premium for stocks within the restaurant sector related to companies with visibility into same store sales, margin improvement and EPS growth in the years ahead."[24]

Exhibit 14: Mean Wall Street Consensus Estimates ($ in Millions)

	2017E	2018E	2019E	2020E	2021E
Income Statement					
Revenue	$2,846.1	$3,083.1	$3,374.4	$3,886.9	$4,220.0
Growth	*1.8%*	*8.3%*	*9.4%*	*15.2%*	*8.6%*
EBITDA	$440.9	$489.4	$561.1	$631.6	$692.1
Growth		*11.0%*	*14.7%*	*12.6%*	*9.6%*
Margin	*15.5%*	*15.9%*	*16.6%*	*16.3%*	*16.4%*
EBIT	$278.5	$322.0	$380.8	$425.3	$471.7
Growth		*15.6%*	*18.3%*	*11.7%*	*10.9%*
Margin	*9.8%*	*10.4%*	*11.3%*	*10.9%*	*11.2%*
Net income	$170.0	$192.3	$231.7	$256.1	$285.3
Margin	*6.0%*	*6.2%*	*6.9%*	*6.6%*	*6.8%*
Cash Flow					
Capital expenditures	$210.9	$199.8	$195.9	$196.4	$192.7
Margin	*7.4%*	*6.5%*	*5.8%*	*5.1%*	*4.6%*

Source: Barclays, Credit Suisse, Morgan Stanley, UBS, Wells Fargo, Piper Jaffrey, and Guggenheim equity research reports retrieved from Thomson Reuters database.

Exhibit 15: Management Estimates ($ in Millions)

	2017E	2018E	2019E	2020E	2021E
Income Statement					
Revenue	$2,987.0	$3,296.0	$3,667.0	$4,062.0	$4,504.0
Growth	*6.9%*	*10.3%*	*11.3%*	*10.8%*	*10.9%*
EBITDA	$458.0	$533.0	$624.0	$722.0	$821.0
Growth		*16.4%*	*17.1%*	*15.7%*	*13.7%*
Margin	*15.3%*	*16.2%*	*17.0%*	*17.8%*	*18.2%*
EBIT	$287.0	$346.0	$412.0	$486.0	$562.0
Growth		*20.6%*	*19.1%*	*18.0%*	*15.6%*
Margin	*9.6%*	*10.5%*	*11.2%*	*12.0%*	*12.5%*
Net income	$175.0	$214.0	$256.0	$306.0	$360.0
Margin	*5.9%*	*6.5%*	*7.0%*	*7.5%*	*8.0%*
Cash Flow					
Capital expenditures	$187.0	$200.0	$240.0	$255.0	$258.0
Margin	*6.3%*	*6.1%*	*6.5%*	*6.3%*	*5.7%*

Source: Company Schedule 14A SEC filings.

Exhibit 16: Panera Bread Same-Store Sales Growth

	2012	2013	2014	2015	2016
Company-owned	6.5%	2.6%	1.4%	3.0%	4.2%
Franchise-operated	5.0%	2.0%	0.9%	1.0%	0.7%
System-wide	5.7%	2.3%	1.1%	1.9%	2.4%

Note: Panera Bread does not record franchise-operated net bakery-cafe sales as revenues.

Source: Panera Bread FYE 2016 10K SEC filing.

Exhibit 17: Excerpts from Panera Bread's Q4 2016 Earnings Call Transcript

Ronald M. Shaich

Great. Good morning, everybody, and I do hope you got a better sleep. Thank you, Steve, and let's let it rock. For the last several years, you've heard us talk about our strategy to evolve Panera, and you've heard us talk about the themes that we believe will define success in our business in the future. Let's start by discussing our multiyear strategic plan. That strategic plan has four objectives and a number of initiatives.

Our first objective is to make Panera bakery-cafés a better competitive alternative, so that customers choose us over competitors. Our intent is to better compete by intensifying desire and reducing friction at Panera. Initiatives to deliver against this objective include Panera 2.0, which is inclusive of both digital access and operational integrity, and it includes innovation in food, innovation in operations, innovation in marketing, and innovation in store design, consistent with our North Star, which we call Concept Essence.

Our second objective is to build expanded runways for growth by pursuing an omni-channel strategy that leverages our brand credibility into new sales channels. To that end, we are focused on initiatives that generate growth through traditional and new formats and in several multimillion-dollar adjacent businesses including catering, delivery, and consumer packaged goods, which we call Panera at Home.

Our third objective is to build capabilities to execute our strategy. These capabilities include both human capabilities and technological capabilities. And our fourth objective is to execute value-enhancing initiatives to fund our strategic plan. To that end, we've undertaken initiatives including an intensive margin improvement effort and returning cash to shareholders. The expected byproduct of this multiyear strategic plan, indeed what we are aiming for, is sustained double-digit EPS growth.

Underlying this strategic plan are themes we've been working on the past half-decade. We believe these themes will shape our industry long into the future. These themes include: first, using digital to create a frictionless and joyful eat-in, to-go, and delivery guest experience, and thereby driving frequency; second, to build on our two-decade-long commitment to food that can be trusted by offering 100% clean food, genuine transparency, and real options, and thus truly being recognized by our guests as their ally in wellness; third, creating the largest and most successful loyalty program in the industry and using that program to drive more relevant one-to-one marketing; fourth, utilizing rapid pickup, catering, delivery, and Panera at Home to offer an omni-channel experience; and fifth, developing new formats that allow us to shift our paradigm from attempting to maximize the number of cookie-cutter cafés we can open, to maximizing the amount of high ROI sales we can extract from a given ZIP code through diverse format.

. . .

Brian Bittner

It's not easy following those thoughtful words, Ron. On just delivery, big-picture question here, you're targeting 35% to 40% of the system. It's a very ambitious target to go from 15% just in one year. I'm actually wondering, do you have any initial thoughts on where we go from there? Have you identified yet what amount of the system you think can ultimately support delivery over the long-term?

Ronald M. Shaich

Brian, first on your first comment, ambitious, I think it was ambitious getting to 15% in one year, and that was tough because we had to start the machine up. I think Blaine and the team have built an extraordinary capability now. There's tremendous enthusiasm as results are coming in. This is probably as powerful an initiative as we've seen in Panera in a long, long time, maybe the initiative of the decade in Panera. It's really the big deal.

So, there's tremendous capability, tremendous traction, and tremendous enthusiasm behind getting this done, and most importantly, getting it done right. I think our mission now is set on getting to the 35% to 40% goal; doing it well, that's more important than anything else, instead of hitting the number; and continuing to reap the kinds of data that Blaine shared with you since that we are the best performing delivery experience among all 25 delivery companies. That's what's going to drive the future. That's the leading indicator.

And so, I think we'll take that step into 2017. We'll make the commitment we're going to get there to 35% to 40%. We'll make the commitment we're going to get there with high sales volumes and build this into a mass market opportunity by doing it well. And as we complete that, we'll reappraise, we'll learn, and we'll give you an assessment of where we're going in 2018.

. . .

Brett Levy

Would you be able to talk a little bit more about the macro landscape? And I know you've spoken in the past that 2.0 seems to be the differentiator between your company and your franchise comps, but it seemed that the gap widened this quarter. Would you be willing to share a little bit more on your internal and your external thoughts? Thank you.

Ronald M. Shaich

I would start and say, we as a rule don't spend a lot of time studying or thinking about the external environment. And I say that to you straight up because we don't control it and don't have much ability to influence it, and simply are at the effect of it. So, what we spend our time thinking about is how we take market share in whatever environment is going to come, and that's the gut split for us.

I think clearly we see the same data you do. I think the fourth quarter was weak for this industry, December was particularly weak for this industry, and we're gratified to see that our gap through the industry as measured in Black Box has continued to grow and I think hit a record in December. You can look at the data, but I think we were pushing nearly 900 basis points. And I wouldn't say that's going to continue, but it's reflective of what Panera is doing.

Relative to the question of franchise versus company comps, as Blaine had said, we were with our franchisees two weeks ago, and I think everybody completely understands and gets the power of these initiatives, and I think that there's tremendous excitement in it. Again, one of the things about us have been that we're trying to do it in a very disciplined way, to rationalize both ops integrity and the necessary capabilities and capacity, to rationalize the right markets to put delivery into versus 2.0 and vice versa. But I think in its core, we take that variation or the gap between company and franchise as a statement about the power of these initiatives. What I can tell you is, when things work, people get them done.

. . .

Operator

Okay. Our last question comes from Greg Francfort with Bank of America Merrill Lynch. Please go ahead.

Gregory Francfort

Just can you talk a little bit about who you are taking share from on delivery? Is this people who would be otherwise you get home, is it food otherwise ordering delivery from another concept, just what customer are you sort of drawing over and where are they coming from?

Ronald M. Shaich

I don't think we fully know yet. I would tell you this. I think generally most of these food markets are highly fragmented. So when you take share, you don't necessarily take it out of somebody specifically tied, I think it's in a general sense. I will say that there was an analyst report that said Panera is building up momentum in delivery and will take share down the road from people like Domino's.

My own view, and I'll be restrained, we don't think that's the way it's going to play at all. We think that folks like Domino's and Papa John's, the pizza guys, they serve one need state. It's Friday night for the kids, it's Sunday during the Super Bowl game. We think Panera serves a very different need state; it completes a different job for guests.

Panera serves the need for lunch Monday through Friday generally, not only, but serves that job in that role for those folks that are sitting in their office, two or three people, are hungry for lunch, don't have an executive assistant to go get them lunch or he isn't getting them lunch, and they call Panera. It's the place and its quality and it's real, and we think that it's that need thing that we're there. And therefore, we think of our friends at Domino's and elsewhere as non-competitive for using the skills of delivery to serve a different need state, just to clarify. If you want to add anything. . .

Source: Transcripts, SA. "Panera Bread's (PNRA) CEO Ronald Shaich on Q4 2016 Results - Earnings Call Transcript." Seeking Alpha, February 8, 2017, seekingalpha.com/article/4044012-panera-breads-pnra-ceo-ronald-shaich-q4-2016-results-earnings-call-transcript.

Exhibit 18: Comparable Public Companies

	EV/EBITDA		P/E	
Company	2017E	2018E	2017E	2018E
FAST CASUAL				
Chipotle	25.9x	18.8x	54.8x	37.1x
Shake Shack	14.8x	11.7x	66.8x	53.0x
Wingstop Inc.	24.7x	21.2x	44.2x	36.3x
Potbelly	7.7x	7.0x	30.2x	26.2x
Zoe's Kitchen	16.0x	12.8x	NM	NM
Habit Restaurants	10.2x	8.6x	60.0x	54.5x
Freshii	26.5x	18.5x	42.0x	28.8x
Noodles & Company	8.1x	7.2x	NM	NM
MULTINATIONAL QSR				
Domino's	20.2x	17.7x	35.4x	29.7x
McDonald's	13.6x	13.3x	21.0x	19.6x
Starbucks	14.8x	13.0x	26.4x	23.3x
Yum! Brands	15.5x	15.0x	23.4x	20.3x
Restaurant Brands[a]	13.5x	12.5x	29.7x	22.9x
DOMESTIC QSR				
Dunkin' Brands	15.0x	14.1x	23.1x	20.5x
Wendy's	14.4x	13.3x	29.6x	24.3x
Jack in the Box	11.4x	10.9x	21.5x	18.4x
Papa John's	15.9x	14.9x	28.6x	25.4x
Sonic	11.4x	11.0x	19.7x	17.6x
Bojangles'	12.1x	11.3x	22.0x	20.5x
Fiesta Restaurant Group	8.1x	7.5x	21.4x	19.1x
El Pollo Loco	8.7x	7.7x	18.1x	16.7x
Del Taco	9.4x	8.7x	24.3x	22.1x

[a] Pro forma for announced acquisition of Popeyes Louisiana Kitchen by Restaurant Brands.

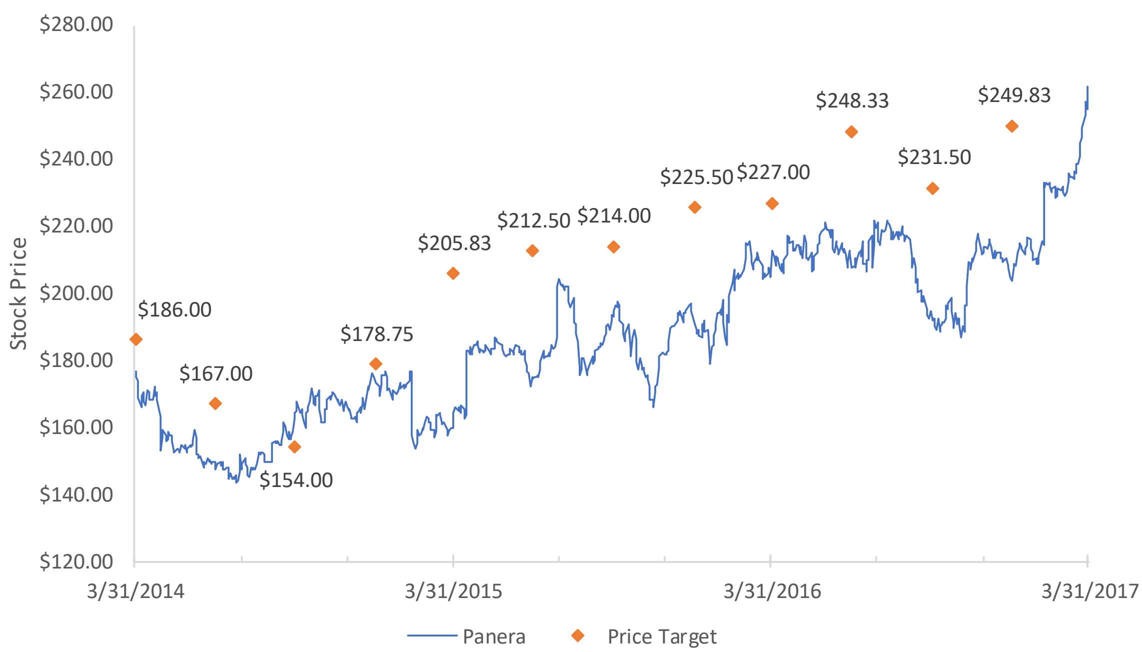
Source: Company Schedule 14A SEC filings.

Exhibit 19: Precedent Transactions

Acquirer	Target	EV/LTM EBITDA	Premium to Trailing 30-Trading-Day VWAP
JAB	Peet's Coffee & Tea	22.3x	26%
Restaurant Brands Int'l	Popeyes Louisiana Kitchen	20.5x	27%
JAB	Krispy Kreme Doughnuts	18.3x	25%
Starbucks	Teavana	17.4x	34%
Darden Restaurants	Yard House	15.0x	N/A
Burger King Worldwide	Tim Hortons	14.8x	40%
JAB	Caribou Coffee	11.3x	36%
JAB	Einstein Noah Restaurant Group	10.1x	47%
Golden Gate Capital	Red Lobster	9.2x	N/A
Angelo, Gordon & Co.	Benihana	9.1x	47%
Levy Acquisition Corp.	Del Taco Restaurants	8.7x	N/A
Centerbridge Partners	P.F. Chang's China Bistro	8.3x	29%

Source: Company Schedule 14A SEC filings.

Exhibit 20: Mean Wall Street Consensus Stock Price Targets



Source: Mergent Online and Barclays, Credit Suisse, Morgan Stanley, UBS, Wells Fargo, Piper Jaffrey, and Guggenheim. Barclays, Credit Suisse, Deutsche Bank, Morgan Stanley, Piper Jaffray, UBS, and Wells Fargo equity research reports retrieved from Thomson Reuters databases.

Exhibit 21: Earnings Predictability

	EPS		%
Year	Actual	Estimate	Difference
2013	$6.68	$6.66	0.3%
2014	$6.53	$6.51	0.3%
2015	$6.21	$6.12	1.5%
2016	$6.74	$6.70	0.6%
2017	N/A	$7.67	N/A
2018	N/A	$9.14	N/A

Source: Thompson Reuters Consensus Estimates (via Morgan Stanley equity research reports).

Exhibit 22: Panera Bread's Historical EBITDA Multiples ($ in Millions)

	2011	2012	2013	2014	2015	2016
Enterprise value	$4,834.6	$4,432.6	$4,676.4	$4,639.4	$5,065.6	$5,596.4
EBITDA	$300.2	$373.8	$416.3	$400.1	$394.1	$403.2
EV/EBITDA	16.1x	11.9x	11.2x	11.6x	12.9x	13.9x

Source: Company 14A and 10K SEC filings.

Exhibit 23: Available Debt-Financing Terms

	Maximum Amount ($)	**Origination Fee**	**Interest Rate**	**Loan Term**	**Maximum Total Debt x FYE 2016 EV / EBITDA**
Bank revolver	$1,500,000,000	2.25%	3.7%	5 years	7.44x
Bank term loan	$2,250,000,000	2.25%	6.3%	15 years	7.44x
Subordinated debentures	$120,000,000	3.00%	9.5%	15 years	7.44x

Source: Created by the authors.

Endnotes

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