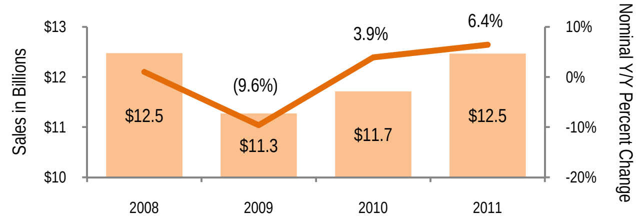
Foodservice Equipment and Supplies Industry Trends

In 2012, the foodservice equipment and supplies industry continued its recovery from the Great Foodservice Recession. The 100 largest U.S. foodservice equipment and supplies manufacturers saw their aggregate sales grow 6.4% to $12.5 billion in 2011, which marked a return to record 2008 levels, according to Foodservice Equipment Reports (FER). The strong growth that emerged in 2011 is expected to continue into 2013 but at a moderate rate. After a steep three-year decline and a sharp two-year ascent, the foodservice equipment and supplies industry is now in the midst of a prolonged period of slow but steady growth, according to Foodservice Equipment and Supplies (FES).

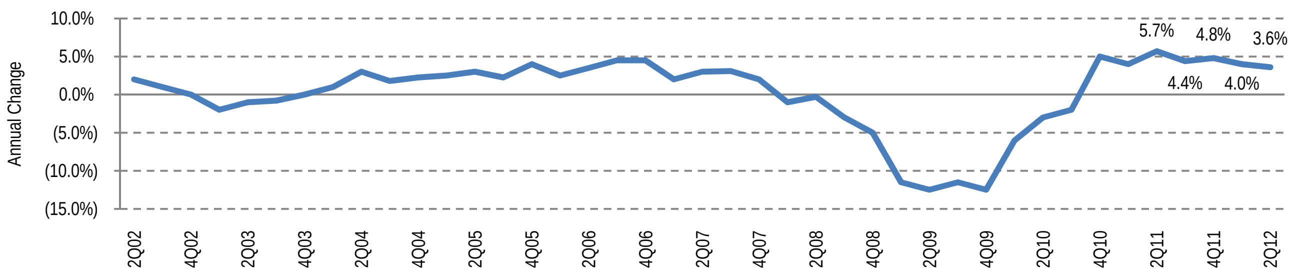
Top 100 E&S Manufacturers' Sales



Source: FER

In the second quarter of 2012, the MAFSI Business Barometer—an indicator of non-food sales to the foodservice industry published by the Manufacturers' Agents for the Food Equipment Industry (MAFSI)—marked its seventh consecutive quarter of expansion after a three-year recession. However, it was the slowest quarterly growth since the Barometer went positive in the fourth quarter of 2010. Sales slowed to a 3.6% year-over-year growth in the second quarter of 2012, as compared to 4.0% in the previous quarter and a record 5.7% a year earlier.

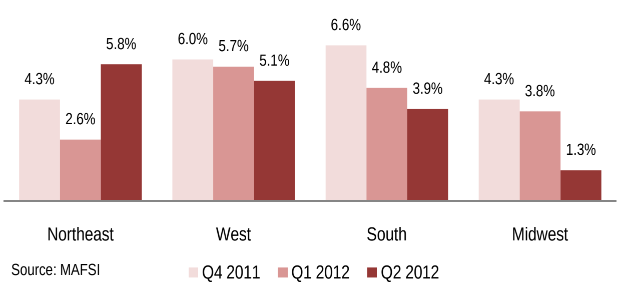
MAFSI Business Barometer



Source: MAFSI

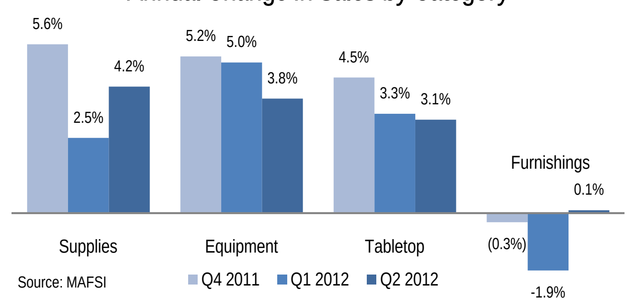
There were distinct differences by region as sales increased 5.8% in the Northeast, 5.1% in the West, 3.9% in the South and 1.3% in the Midwest. By product categories, sales increased 4.2% in supplies, 3.8% in foodservice equipment and 3.1% in tabletop, while remaining relatively flat in furnishings—which is an improvement from declines in the past two quarters. The Northeast region and the supplies category were the only groups that saw an acceleration of growth from the prior year.

Annual Change in Sales by Geography



Source: MAFSI

Annual Change in Sales by Category



Source: MAFSI

Signs of further moderation were underscored by a reduction in the percentage of manufacturers' representatives reporting an increase in quotation activity for the second quarter, falling to 44% of respondents from 59% in the first quarter. Moreover, the percentage of representatives reporting an increase in consultant activity fell to 33% in the second quarter from 50% in the previous quarter. Industry players are still optimistic for the remainder of the year and forecast a strong 4.1% gain in industry sales in the third quarter of 2012, according to MAFSI.

Price increases for equipment and supplies have moderated as well, as the average list price increase by manufacturers was 2.2% in the year ending June 30, 2012, down from 2.7% a year prior, according to AutoQuotes, a catalog of more than 350,000 foodservice equipment products. Moreover, the quantity of price increases has also fallen, declining 20% to 330 this year from January through July as compared to the year before. According to FER, with most materials and commodities prices stable or falling, large customers are resisting increases despite a strengthening market.

Sources: FES, FER, MAFSI

Foodservice and Hospitality Mergers and Acquisitions

Successful strategic players, such as suppliers of services, equipment and other products to the foodservice and hospitality industry, will continue to seek acquisitions as a vital part of their growth strategy. The motivations for this trend, in addition to top line and bottom line accretion, include:

1) operating synergies derived from more efficient use of existing resources and infrastructure;
2) international penetration, as foreign markets in Asia and Europe represent opportunities;
3) channel diversification, as direct-to-consumer or retail market entry can offset some of the volatility in foodservice; and
4) increasing brand or corporate awareness.

Foodservice and hospitality suppliers benefit from attractive valuations by institutional investors which enhances their ability to execute accretive transactions. We expect this factor to fuel expansion in sector M&A through 2013 as underlying growth in customers levels off later this year and into next year.

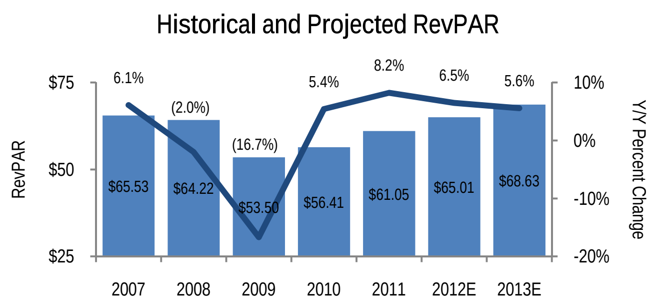
Hotel Industry Business Trends

Despite a year marked by macroeconomic uncertainty and wavering consumer confidence, the U.S. hotel industry ended 2011 on a strong note and has continued a steady recovery in 2012. The hotel industry is measured by three key performance metrics: (1) RevPAR, or revenue per available room, is calculated by dividing total guest revenue by the total number of rooms available; (2) ADR, or average daily rate, is calculated by dividing room revenue by the number of rooms sold; and (3) occupancy rates are calculated by dividing the total number of guest rooms by the total number of rooms occupied—multiplying the occupancy rate by the ADR will equate to the RevPAR. The U.S. hotel industry reported increases in all three key indicators in 2011 for the first time since 2007 and is on track to continue a steady improvement through 2013.

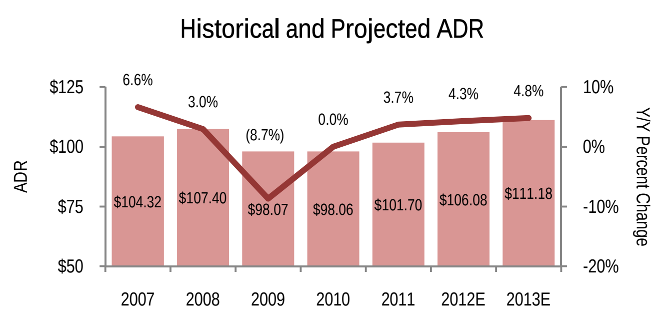
RevPAR is expected to reach $65.01 in 2012, up 6.5% from $61.05 in 2011 and up 21.5% from a recession low of $53.50 in 2009, according to PwC's latest lodging forecast. RevPAR growth in 2012 will be driven by an expected 4.3% increase in the ADR to $106.08, which is the highest year-over-year change since 2007, and a 61.3% occupancy rate, which exceeds the trailing five-year average of 58.9%. Despite a still-uncertain economic environment, improved occupancy levels and a recovery in travel are expected to give hotels the confidence to increase prices in 2012 and lift RevPAR very close to its 2007 peak, according to PwC. The overall positive trends in the hotel industry are expected to continue in 2013, as RevPAR is forecasted to increase 5.6% to $68.63, the ADR is forecast to increase 4.8% to $111.18, and occupancy rates are forecast to reach 61.7%, according to Smith Travel Research (STR). Despite a projected deceleration of growth in RevPAR for two consecutive years, signs that the hotel industry is reaching a moderate sustainable rate of growth appear promising.

The positive outlook by the hotel industry can be further supported by the industry's August 2012 monthly performance, as increases were reported in all three key performance metrics, according to STR. The U.S. hotel industry's occupancy rate increased 2.8% to 67.8%, the ADR increased 4.3% $107.00, and RevPAR increased 7.2% to $72.55 from the previous month. Moreover, in July 2012, the U.S. hotel industry sold an all-time record high 105,964,171 rooms, breaking the former record of 104,957,596 rooms hit in July 2011. According to STR, record levels of demand will continue to stimulate ADR growth, particularly as group rooms are sold to firms in the historically heavy convention months of September, October and November.

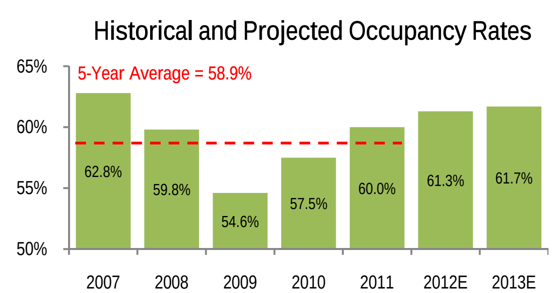
Sources: Hospitality Directions US Report by PricewaterhouseCooper, August 2012; Smith Travel Research



Sources: PwC; STR



Sources: PwC; STR

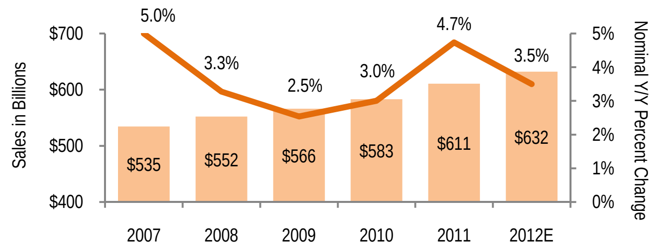


Sources: PwC; STR

Restaurant Industry Business Trends

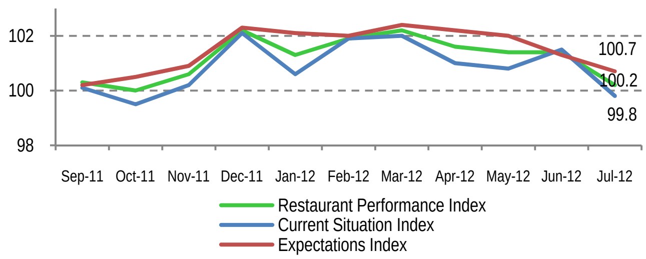
Although restaurant operators reported positive same-store sales for the fourteenth consecutive month in July 2012, their near-term outlook on the overall economy continues to soften, according to the National Restaurant Association (NRA). However, despite ongoing global economic challenges, restaurateurs still remain relatively optimistic about continued sales growth for the remainder of 2012. Restaurant sales appear to be buoyed by falling gasoline prices and frugality fatigue even though consumer confidence and jobs growth has weakened in the past few months, according to the NRA. Restaurant industry sales are projected to increase 3.5% to $632 billion in 2012 from the previous year. Note that while restaurant industry sales have seen nominal year-over-year growth since 2007, from an inflation-adjusted perspective, this will only be the third consecutive year of real growth.

Restaurant Industry Sales



Source: NRA

NRA Performance Indices

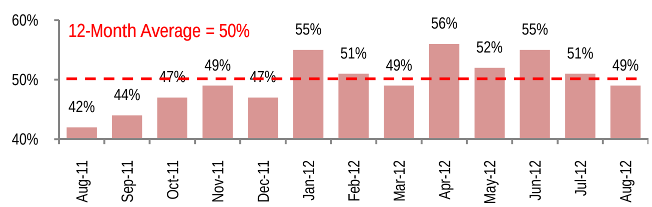


Note: Values greater than 100 = Expansion; Values less than 100 = Contraction
Source: NRA

In July 2012, the NRA's Restaurant Performance Index (RPI)—a measurement of the health of the U.S. restaurant industry—fell to its lowest level in nine months due to softer customer traffic and a dampened outlook among restaurant operators. However, with a score of 100.2, the RPI still represented the ninth consecutive month that the RPI exceeded 100, which signifies an expansionary period. The RPI is comprised of two components: (1) the Current Situation Index, which measures current trends (same-store sales, traffic, labor and capital expenditures) in the hotel industry; and (2) the Expectations Index, which measures restaurant operators' six-month outlook for the hotel industry. The Current Situation Index was 99.8 in July, representing a score below 100 for the first time in nine months. The Expectations Index was 100.7 in July, representing a score above 100 for the eleventh consecutive month but the weakest level in nine months.

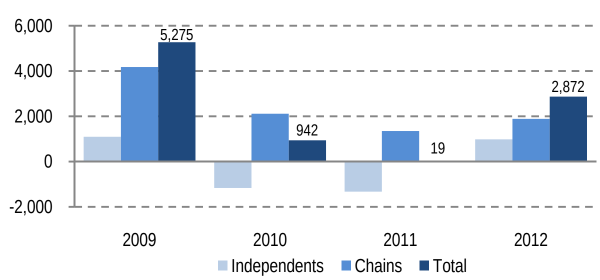
Based on findings from the RPI, the NRA concludes that restaurant operators remain cautiously optimistic that their sales levels will improve going into 2013, with 42% of restaurant operators expecting to have higher sales in six months. However, restaurant operators are noticeably less optimistic about the direction of the overall economy, with only 22% of restaurant operators expecting economic conditions to improve in six months. Despite the uneasiness in the economy, restaurant operators' capital spending outlook remains robust with 49% of restaurant operators planning to make a capital expenditure for equipment, expansion or remodeling in the next six months—this is a positive indicator for both the industry's supply chain and the overall economy.

Percentage of Restaurants Expected to Make
Capital Expenditures in 6 Months



Source: NRA

Annual Change in Number of U.S. Restaurants



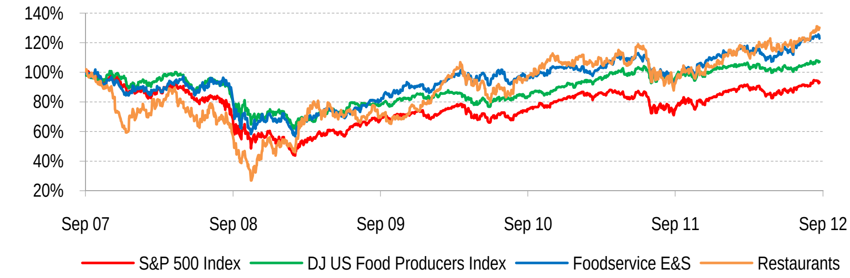
Note: Annual reporting based on 12 months ended March 31
Source: The NPD Group

The positive outlook by restaurateurs can also be underscored by the positive trend being seen in the quantity of U.S. restaurants. The number of total U.S. restaurants increased by 2,872, or 0.5%, year-over-year to 592,960 in the spring of 2012, according to the most recent restaurant census conducted by The NPD Group. This was the first positive change for both independent restaurants and chain restaurant units since 2009, with independents growing 0.3% to 320,193 and chain units growing 0.7% to 272,367 from the previous year. Restaurants are also categorized as quick-service or full-service restaurants, with the latter including casual dining, mid-scale dining and fine dining. Quick-serve restaurants increased 0.7%, while full-service restaurants increased 0.2%. The NPD Group also concluded that visits to U.S. restaurants improved by 1% in the spring of 2012 from the year prior.

The restaurant industry's job growth has outpaced the national economy's job growth for 12 consecutive years, from 2000 through 2011, and, in the year ended June 30, 2012, restaurant industry jobs grew twice as fast as general employment, according to the NRA. Eating and drinking place employment grew by 2.7%, more than double the 1.3% increase in U.S. employment for the same period. The NRA claims that current industry staffing levels stand 193,000 above the pre-recession peak, with 20% of restaurant operators planning to further increase staffing levels in six months. The restaurant industry employs nearly 13 million people and is the second-largest private-sector employment sector.

Sources: NRA, The NPD Group

Public Market Trading and Performance



Source: Capital IQ as of September 30, 2012

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Public Company Valuation and Performance

Foodservice Equipment and Supplies

Company Name	Ticker	Stock Price 9/30/2012	% of 52-Week High	% of 52-Week Low	Market Cap	Enterprise Value	Cash	EV / Revenue LTM	EV / Revenue 2012E	EV / Revenue 2013E	EV / EBITDA LTM	EV / EBITDA 2012E	EV / EBITDA 2013E	P/E LTM	P/E 2012E	P/E 2013E
Compass Group PLC	LSE:CPG	$11.04	94 %	135 %	$20,460	$22,054	$1,806	0.8 x	NA	NA	9.8 x	NA	NA	17.8 x	NA	NA
Sysco Corporation	NYSE:SYY	31.27	100	125	18,343	20,670	691	0.5	0.5	0.4	8.2	8.5	8.2	16.5	15.6	15.1
Cintas Corporation	NasdaqGS:CTAS	41.43	97	157	5,184	6,163	330	1.5	1.5	1.4	8.7	8.2	7.6	17.6	16.9	15.2
Middleby Corp.	NasdaqGS:MIDD	115.64	94	174	2,164	2,406	35	2.5	2.4	2.2	12.9	11.8	10.4	19.3	19.0	16.8
Lancaster Colony Corporation	NasdaqGS:LANC	73.25	98	124	1,999	1,807	192	1.6	1.6	1.5	11.0	10.3	10.3	20.9	19.2	18.2
UniFirst Corp.	NYSE:UNF	66.79	96	156	1,332	1,357	79	1.1	1.1	1.0	6.5	6.5	6.0	14.7	14.9	13.7
Core-Mark Holding Company	NasdaqGS:CORE	48.11	95	163	553	604	17	0.1	0.1	0.1	7.6	5.9	5.3	18.1	13.2	11.6
Standex International Corp.	NYSE:SXI	44.45	94	154	561	557	55	0.9	0.8	0.7	7.4	7.0	6.2	12.1	12.5	9.6
The Chefs' Warehouse, Inc.	NasdaqGS:CHEF	16.38	60	145	344	415	2	1.0	0.9	0.8	13.5	11.8	9.4	30.0	20.3	16.5
		Mean	**92 %**	**148 %**				**1.1 x**	**1.1 x**	**1.0 x**	**9.5 x**	**8.8 x**	**7.9 x**	**18.6 x**	**16.4 x**	**14.6 x**
		Median	**95**	**154**				**1.0**	**1.0**	**0.9**	**8.7**	**8.4**	**7.9**	**17.8**	**16.2**	**15.1**

Casual and Fine Dining Restaurants

Company Name	Ticker	Stock Price 9/30/2012	% of 52-Week High	% of 52-Week Low	Market Cap	Enterprise Value	Cash	EV / Revenue LTM	EV / Revenue 2012E	EV / Revenue 2013E	EV / EBITDA LTM	EV / EBITDA 2012E	EV / EBITDA 2013E	P/E LTM	P/E 2012E	P/E 2013E
Darden Restaurants, Inc.	NYSE:DRI	$55.75	96 %	137 %	$7,170	$9,272	$52	1.1 x	1.1 x	1.0 x	8.4 x	8.3 x	7.5 x	15.3 x	15.4 x	13.9 x
Brinker International, Inc.	NYSE:EAT	35.30	97	180	2,610	3,166	59	1.1	1.1	1.1	8.7	8.3	7.4	18.9	16.5	14.1
The Cheesecake Factory Inc.	NasdaqGS:CAKE	35.75	99	151	1,887	1,893	48	1.1	1.0	1.0	8.8	8.3	7.7	20.2	18.7	16.5
Texas Roadhouse, Inc.	NasdaqGS:TXRH	17.10	88	140	1,203	1,187	77	1.0	0.9	0.8	7.8	7.4	6.7	18.2	17.0	15.1
DineEquity, Inc.	NYSE:DIN	56.00	98	159	1,026	2,681	32	2.7	3.1	3.9	9.6	9.6	10.0	11.5	13.6	12.8
Del Frisco's Restaurant Group	NasdaqGS:DFRG	14.90	96	127	355	410	6	1.9	1.7	1.5	11.1	10.3	8.9	19.4	17.4	15.6
Ruth's Hospitality Group Inc.	NasdaqGS:RUTH	6.39	83	169	226	293	4	0.8	0.8	0.7	6.9	6.9	6.7	NM	13.5	12.1
		Mean	**94 %**	**152 %**				**1.4 x**	**1.4 x**	**1.4 x**	**8.8 x**	**8.4 x**	**7.8 x**	**17.2 x**	**16.0 x**	**14.3 x**
		Median	**96**	**151**				**1.1**	**1.1**	**1.0**	**8.7**	**8.3**	**7.5**	**18.5**	**16.5**	**14.1**

Source: Capital IQ as of September 30, 2012. Amounts in millions of U.S. dollars, except per share data.

Recent M&A Activity in Foodservice and Hospitality

Date	Target	Acquirer	Enterprise Value	Revenue	EBITDA	EV / Revenue	EV / EBITDA	Description
Aug 12	Spotless Group Ltd.	Pacific Equity Partners	$1,029	$2,979	$173	0.3 x	6.0 x	Cleaning, food, laundry and managed services
Aug 12	Yard House USA, Inc.	Darden Restaurants, Inc.	585	262	29	2.2	20.2	Upscale casual dining American restaurant chain (32)
Aug 12	Benihana Inc. (1)	Angelo, Gordon & Co.	275	352	30	0.8	9.1	Japanese hibachi steakhouses (111)
Jul 12	P.F. Chang's China Bistro, Inc. (2)	Centerbridge Partners, L.P.	1,054	1,240	124	0.8	8.5	Asian-themed casual dining restaurants (374)
Jun 12 A	J. Alexander's Corp.	American Blue Ribbon Holdings	92	161	11	0.6	8.3	Upscale casual dining American restaurant chain (33)
May 12	Solo Cup Co.	Dart Container Corporation	958	1,636	107	0.6	9.0	Food and beverage single-use products
Apr 12	O'Charley's Inc.	Fidelity National Financial, Inc.	198	827	37	0.2	5.3	Multi-concept casual dining restaurants (336)
Feb 12	Morton's Restaurant Group, Inc.	Undisclosed	184	316	24	0.6	7.6	Upscale steakhouse restaurants (77)
Dec 11	F.R. Drake Co., Inc.	Middleby Corp.	22	20	-	1.1	-	Automated loading systems for food processing industry
Dec 11	McCormick & Schmick's Seafood	Landry's Restaurants Inc.	132	346	17	0.4	7.9	Upscale seafood restaurants (94)
Nov 11	Ample Industries, Inc.	Huhtamaki Americas, Inc.	31	61	-	0.5	-	Nested paperboard cartons for foodservice industry
Oct 11	Diversey Holdings, Inc. (3)	Sealed Air Corporation	4,242	3,225	374	1.3	11.3	Industrial cleaning products for foodservice industry
Aug 11	Auto-Bake Proprietary Limited	Middleby Corp.	22	20	-	1.1	-	Automated commercial baking ovens and systems
		Mean				**0.9 x**	**9.1 x**	
		Median				**0.8**	**8.4**	

Source: Capital IQ as of September 30, 2012. Amounts in millions of U.S. dollars.

(1) Enterprise value calculated on equity value of $291.7 million, plus total debt of $0.0 million, less total cash of $20.6 million, plus $3.9 million in other considerations.
(2) Enterprise value calculated on equity value of $1098.4 million, plus total debt of $1.7 million, less total cash of $55.7 million, plus $9.3 million in other considerations.
(3) Enterprise value calculated on equity value of $2630.4 million, plus total debt of $1563.7 million, less total cash of $109.3 million, plus $157.0 million in other considerations.