



PAST EXPIRATION

SHORT: CHEESECAKE FACTORY (CAKE)

November 21, 2016

DISCLAIMER

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PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

HEDGEYE RESTAURANTS IDEAS LIST

LONG LIST

		TRADE	TREND	TAIL
1) PNRA	Panera Bread Company	✓	✓	✓
2) BWLD	Buffalo Wild Wings	✓	✓	✓
3) RRGB	Red Robin Gourmet Burger	✓	✓	✓
4) DFRG	Del Frisco's Rest. Group	✓	✓	-

LONG BENCH

SONC	Sonic			
WING	Wingstop			
EAT	Brinker International			
MCD	McDonald's			

SHORT LIST

		TRADE	TREND	TAIL
1) CMG	Chipotle Mexican Grill	X	X	X
2) PLAY	Dave & Buster's	X	X	X
3) SBUX	Starbucks	X	X	-
4) DNKN	Dunkin' Brands	X	X	X
5) BLMN	Bloomin' Brands	X	X	X
6) JACK	Jack In The Box	X	X	-
7) CAKE	Cheesecake Factory	X	X	X

SHORT BENCH

SHAK	Shake Shack			
TXRH	Texas Roadhouse			
YUM	Yum! Brands			
ARCO	Arcos Dorados Holdings			
YUMC	Yum China			
DRI	Darden Restaurants			

Bench = timing is not right, or research is in progress.

KEY POINTS

1

CAKE IS IN A SECULAR DECLINE

One look at CAKE's traffic declines since 1Q12 and it's clear where this concept is headed! Is it a function of the industry in a secular decline or a conceptual problem? What about the decline in mall traffic? Is the CAKE business model broken? Why does management have such a casual attitude to the problem? Is there nothing that they can do? The bottom line is that management needs to reinvest in the brand to build traffic.

2

PEAK MARGINS?

Obviously, if management needs to invest in the brand, margins are too high. That being said, CAKE's operating margins are at peak levels, while their most important commodity, dairy, is at multi-year lows. We see both of these trends reversing in 2017. This pick up in commodity inflation will complicate the labor inflation the company will see in 2017. CAKE can't manage margins by raising price forever. Something has to give!

3

FINANCIALLY STRONG

Working against our **SHORT** case is the company's strong balance sheet and cash flow. After generating \$169 million in free cash flow in 2016, CAKE will likely generate another \$129 million in 2017, according to Consensus Metrix. The company expects to buy back \$150 million of stock in 2016, and \$117 million in 2017. CAKE has the authority to purchase 9.5 million additional shares under their current authorization.



COMPANY OVERVIEW

COMPANY OVERVIEW

FUNDAMENTAL & TECHNICAL SNAPSHOT

Cheesecake Factory Incorporated

CONSENSUS ESTIMATES

Year	SALES			CAKE SAME-STORE SALES			EBITDA		
	LY	QTR	Growth	LY	QTR	2-yr Avg	LY	QTR	Growth
	\$527	\$596	13.1%	1.0%	1.4%	1.2%	\$61	\$71	17.0%
	TTM	NTM					TTM	NTM	
Year	\$2,199	\$2,365	7.5%				\$279	\$291	4.3%
Year	EBIT			EPS			FREE CASH FLOW		
	LY	QTR	Growth	LY	QTR	Growth	LY	QTR	Growth
	\$39	\$47	21.7%	\$0.54	\$0.67	24.1%	\$29	\$42	45.8%
	TTM	NTM					TTM	NTM	
Year	\$193	\$199	3.5%	\$2.70	\$3.00	11.1%	\$175	\$138	(21.2%)

MARGIN ANALYSIS

QTR.	COGS			LABOR			RESTAURANT LEVEL MARGIN		
	LY	QTR	BPS Chg.	LY	QTR	BPS Chg.	LY	QTR	BPS Chg.
QTR.	23.8%	23.1%	-64	32.9%	33.5%	64	19.7%	19.7%	8
QTR.	G&A			EBITDA			EBIT		
	LY	QTR	BPS Chg.	LY	QTR	BPS Chg.	LY	QTR	BPS Chg.
QTR.	6.8%	6.7%	-8	11.5%	11.9%	39	7.4%	7.9%	56

CAPITAL STRUCTURE & TRADING

MKT CAP	EV	D/EV	DEBT	CASH	INT COV	SI %	BETA, 1Y
2,763	2,796	4%	99	66	20.21X	15.80%	0.76

PRICE

CURRENT	vs. 52W High	vs. 52W Low
\$57.92	96.3%	131.2%

NTM VALUATIONS

EV/EBITDA	P/E
9.6X	19.1X

INSIDER ACTIVITY: 6M

SOLD	BOUGHT
-48,510	0
AVG PRICE	AVG PRICE
\$55.66	\$0.00

RELATIVE PERFORMANCE

vs. SPX				
1 Week	1 Month	3 Month	6 Month	
-4.5%	13.1%	11.4%	12.1%	
vs. XLY				
1 Week	1 Month	3 Month	6 Month	
-5.6%	11.9%	11.5%	13.6%	

REVISION TRENDS

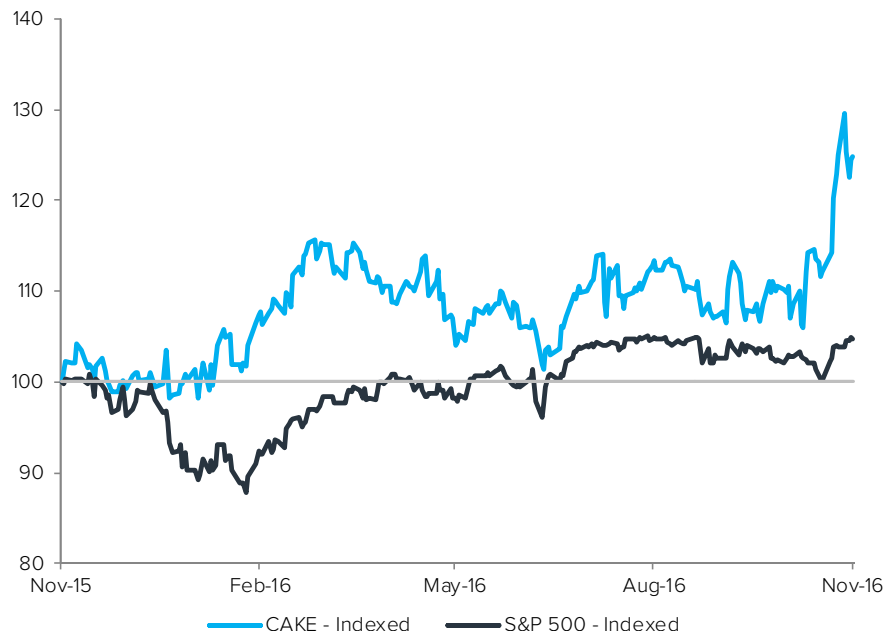
NTM REVENUE				
1 Week	1 Month	3 Month	6 Month	
0%	1%	1%	2%	
NTM EPS				
1 Week	1 Month	3 Month	6 Month	
0%	4%	5%	9%	

Cheesecake Has a National Footprint

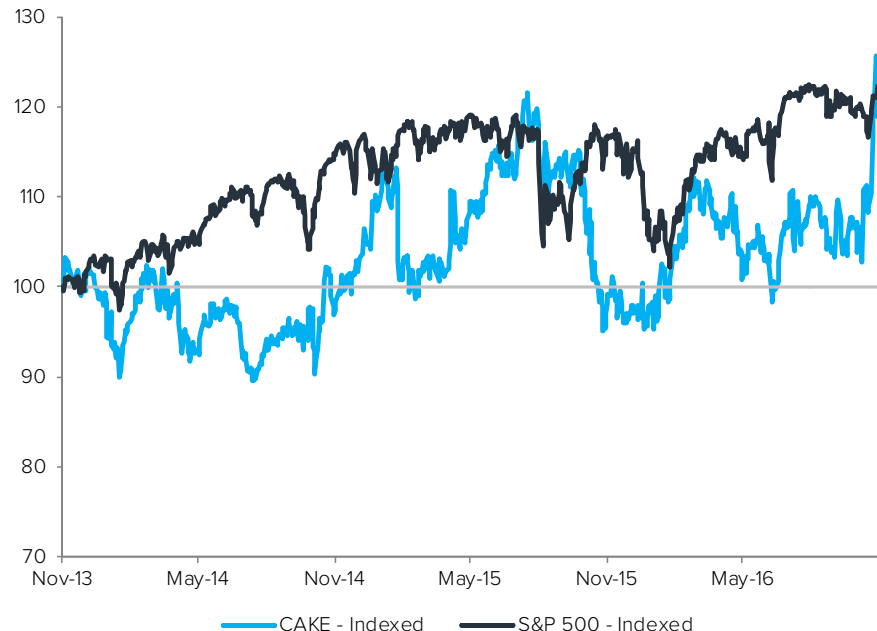


PRICE PERFORMANCE

1 Year Performance vs. S&P 500

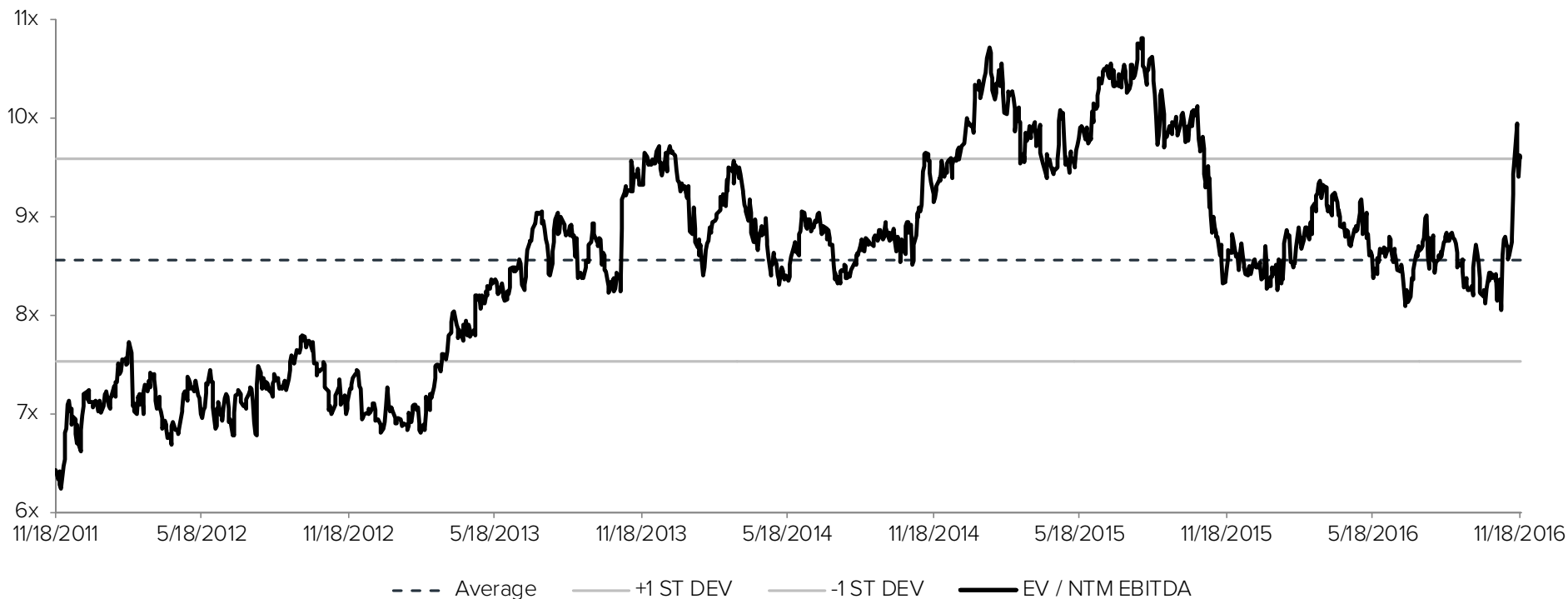


3 Year Performance vs. S&P 500



- CAKE stock has generally outperformed the S&P, after underperforming in the past. However, the differences through periods of outperformance and underperformance were not very drastic.
- The recent outperformance makes for a great entry point for the SHORT.

5 YEAR VALUATION TREND



- CAKE is trading roughly 1 standard deviation above its 5 year average valuation.
- The late 2014, early 2015 peak level will unlikely ever be seen again.
- On the other hand, the lows of 7-8x are not out of the question.

NTM EARNINGS REVISIONS



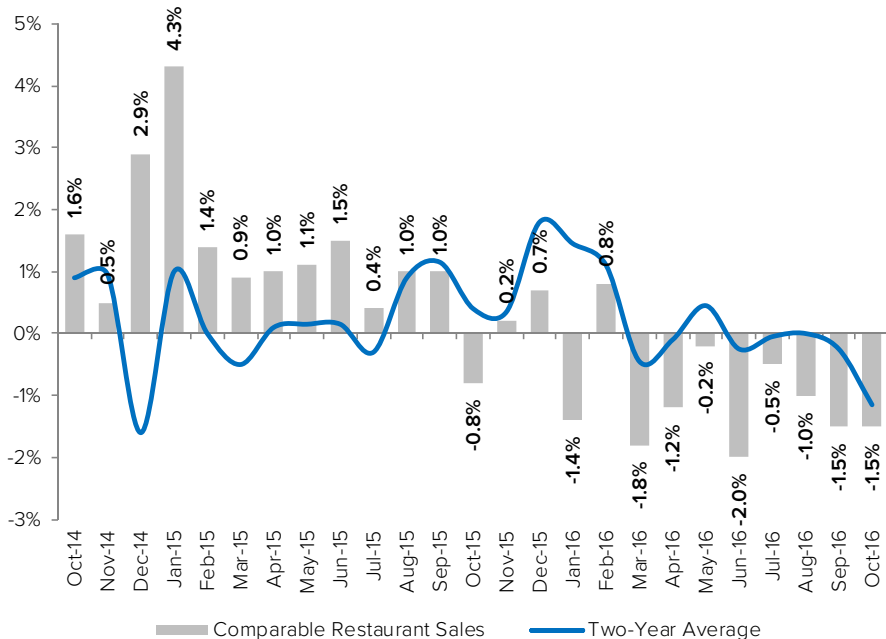
- As we head into 2017, the consensus estimates for 2017 look aggressive.
- The wild card for earnings in 2017 will be any inflation pressure from dairy.



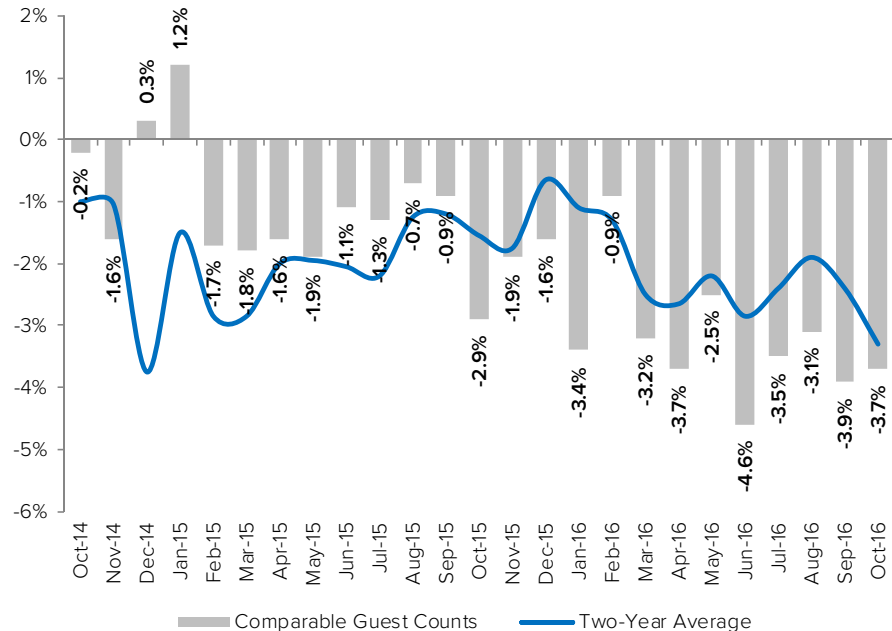
INDUSTRY TRENDS

KNAPP-TRACK SALES AND TRAFFIC TRENDS

KNAPP-TRACK COMPARABLE SALES



KNAPP-TRACK COMPARABLE GUEST COUNTS



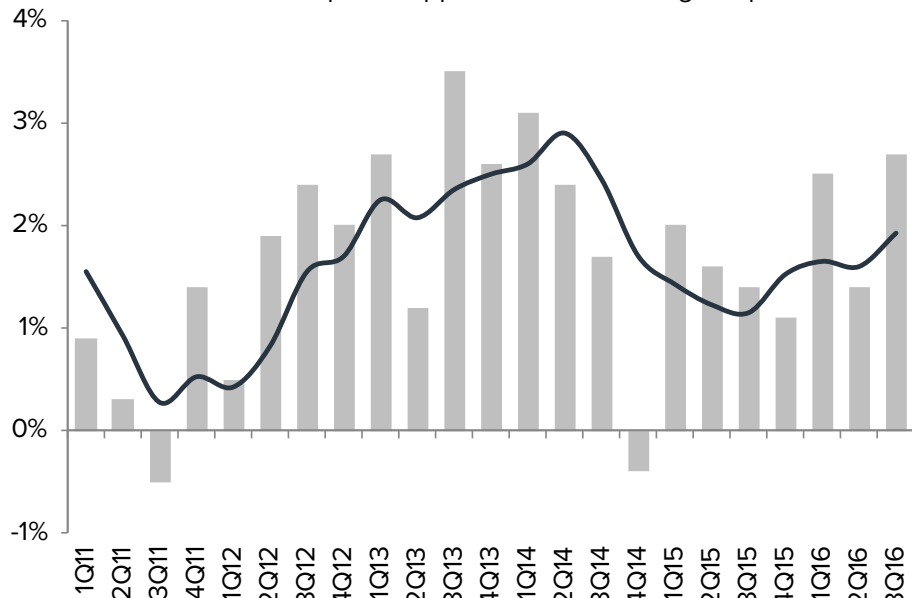
AND THE DECLINE CONTINUES

- Comparable sales and guest count figures, according to Knapp-Track, paint a grim picture for the industry, with a rebound nowhere in sight.

GAP TO KNAPP

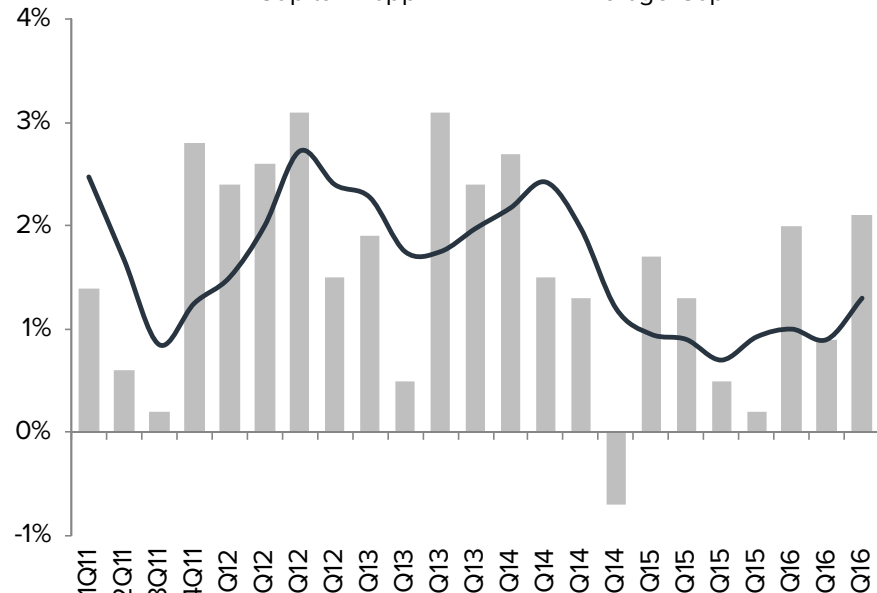
Gap to Knapp - SSS

Gap to Knapp LTM Average Gap



Gap to Knapp - Traffic

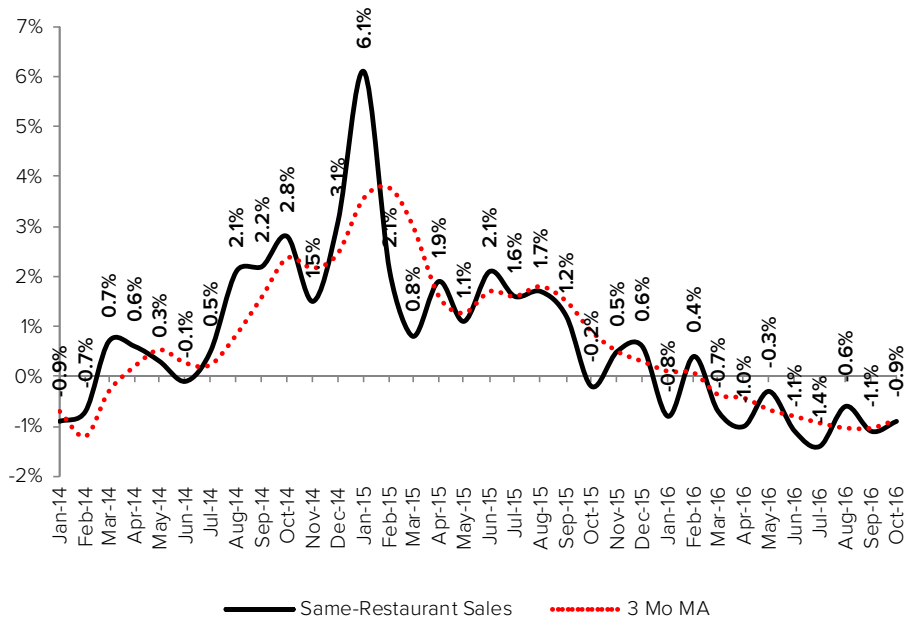
Gap to Knapp LTM Average Gap



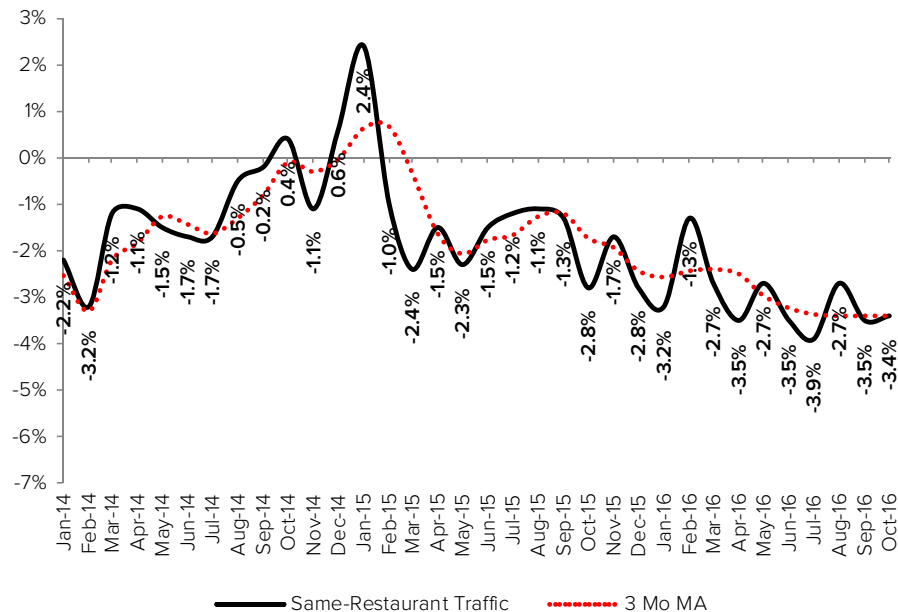
- CAKE has fared better than most tracked by Knapp-Track
- Looking at the slope of the LTM average line it is apparent that CAKE's SSS line (driven by price) is fairing better as of late

BLACK BOX SALES AND TRAFFIC TRENDS

Same Restaurant Sales



Same Restaurant Traffic



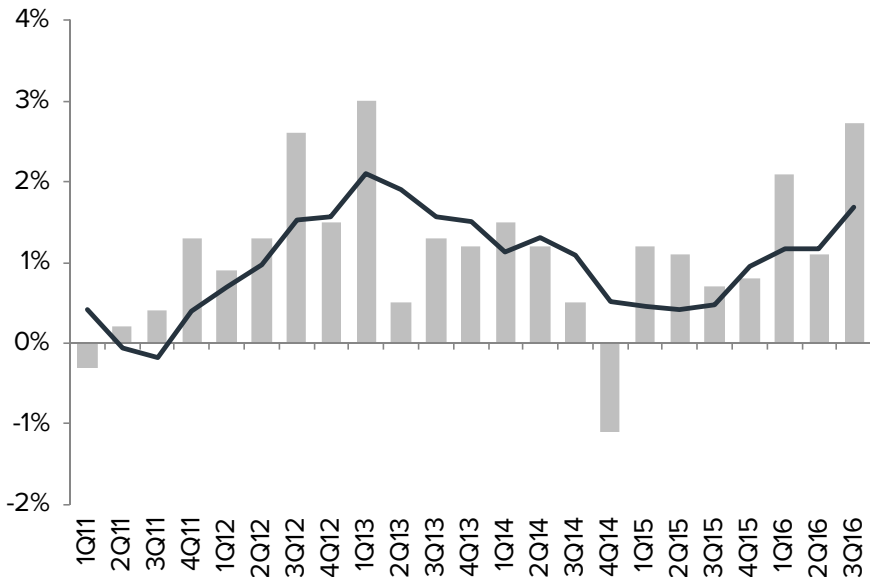
FADE THE RALLY!

- Same-restaurant sales and traffic continue to be in a sequential decline, with a recovery nowhere on the horizon.
- Most recent Black Box data shows that Q4 is off to a slow start, and with the holiday season coming up fast, we can only assume that this trend will continue.

GAP TO BLACK BOX

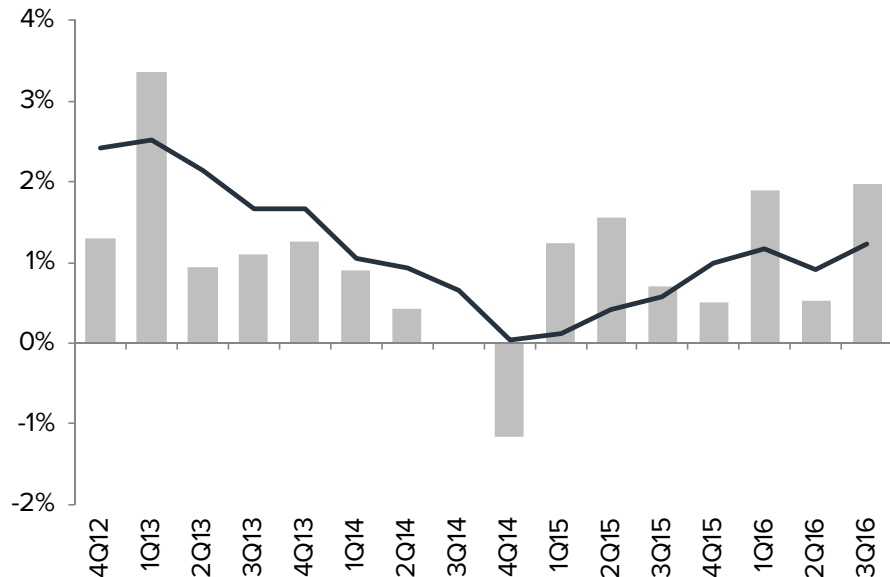
Gap to Black Box - SSS

Gap to Black Box LTM Average Gap



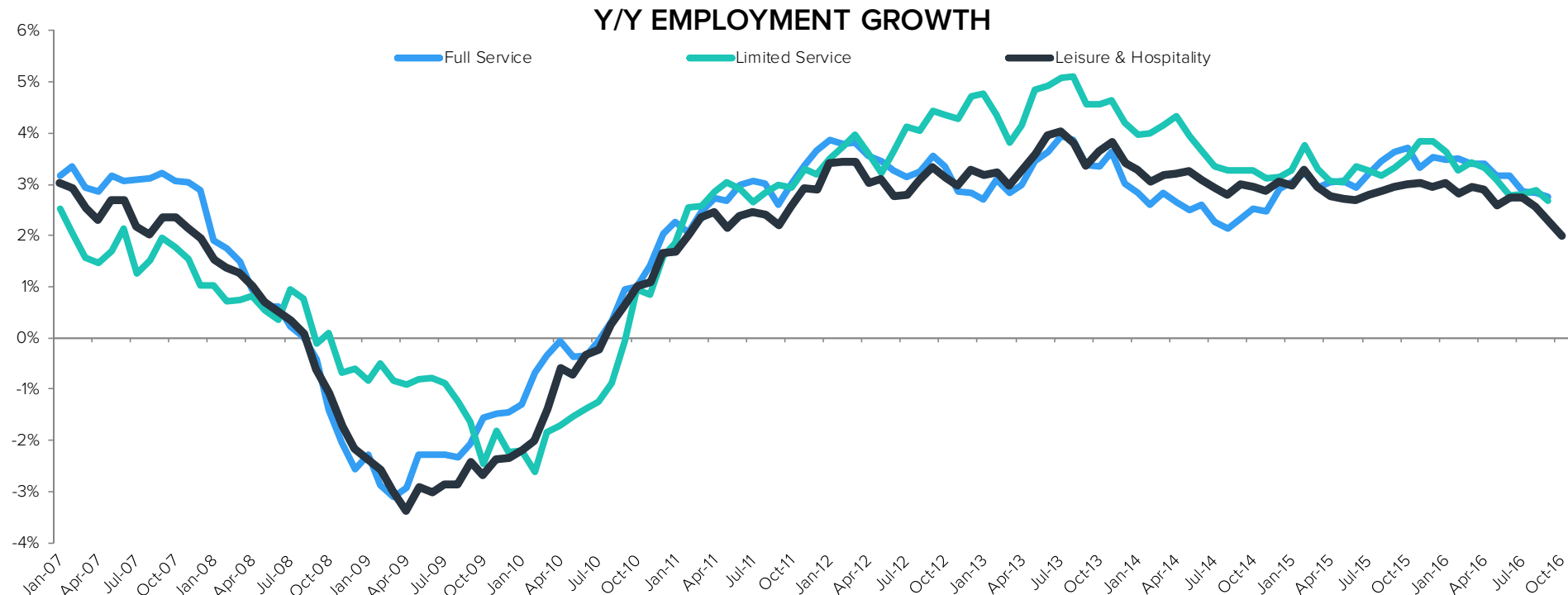
Gap to Black Box - Traffic

Gap to Black Box LTM Average Gap



- Black Box further confirms that Cheesecake's over performance versus the industry is built off price not traffic, as they continue to struggle to generate positive traffic, although slightly better than the industry overall.

EMPLOYMENT GROWTH SLOWING



MOVING IN LOCKSTEP

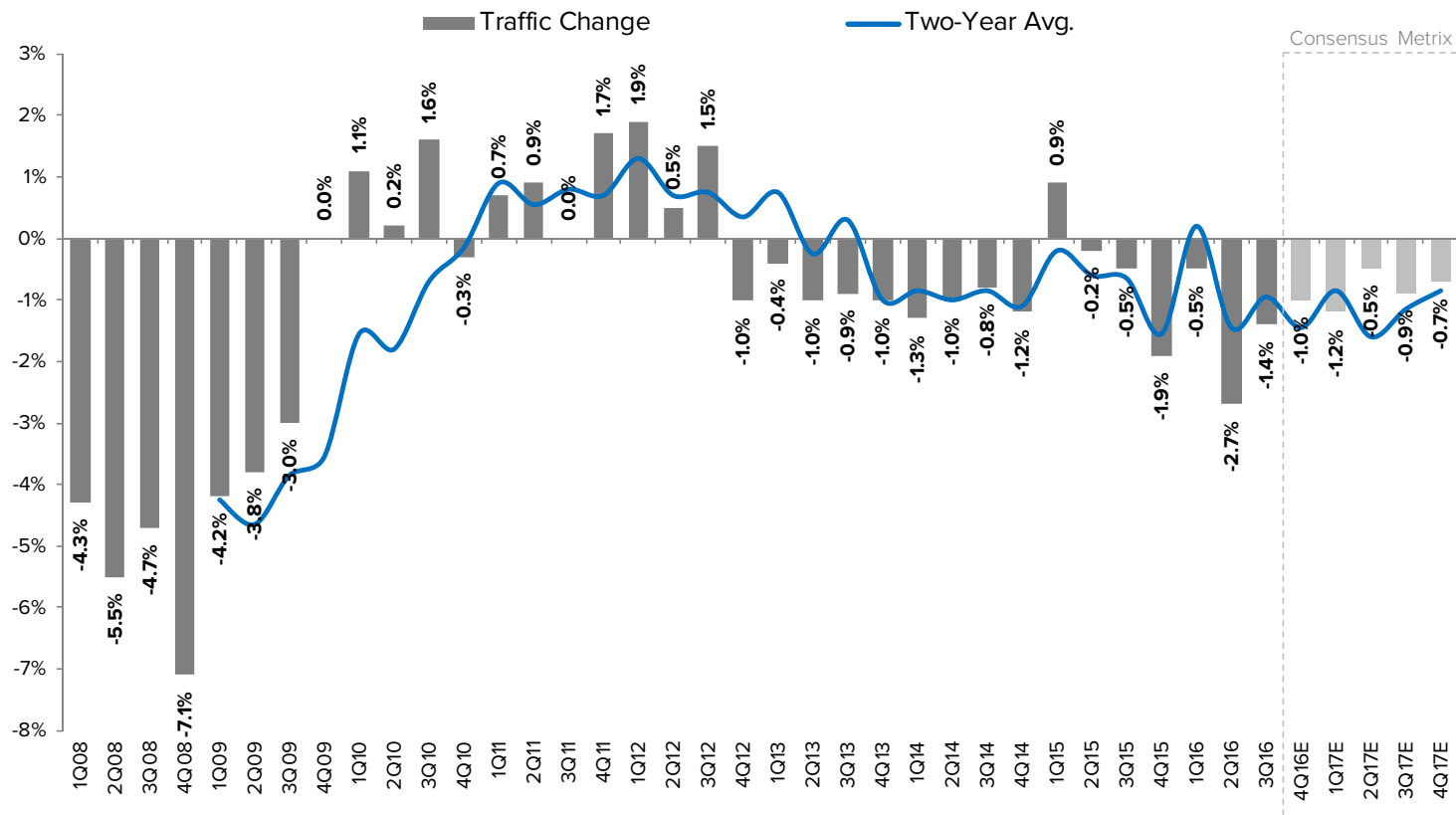
- As a description of the broader economy, it's clear that corporate pockets are tight and getting tighter as we see a flattening and subsequent decline in employment growth.
- However you slice it, the picture does not look good, as growth continues to slow.



TOP LINE DRIVERS

TRAFFIC IS IN A SECULAR DECLINE FOR CAKE

NO SURPRISES HERE BUT WHAT IS THE PLAN?

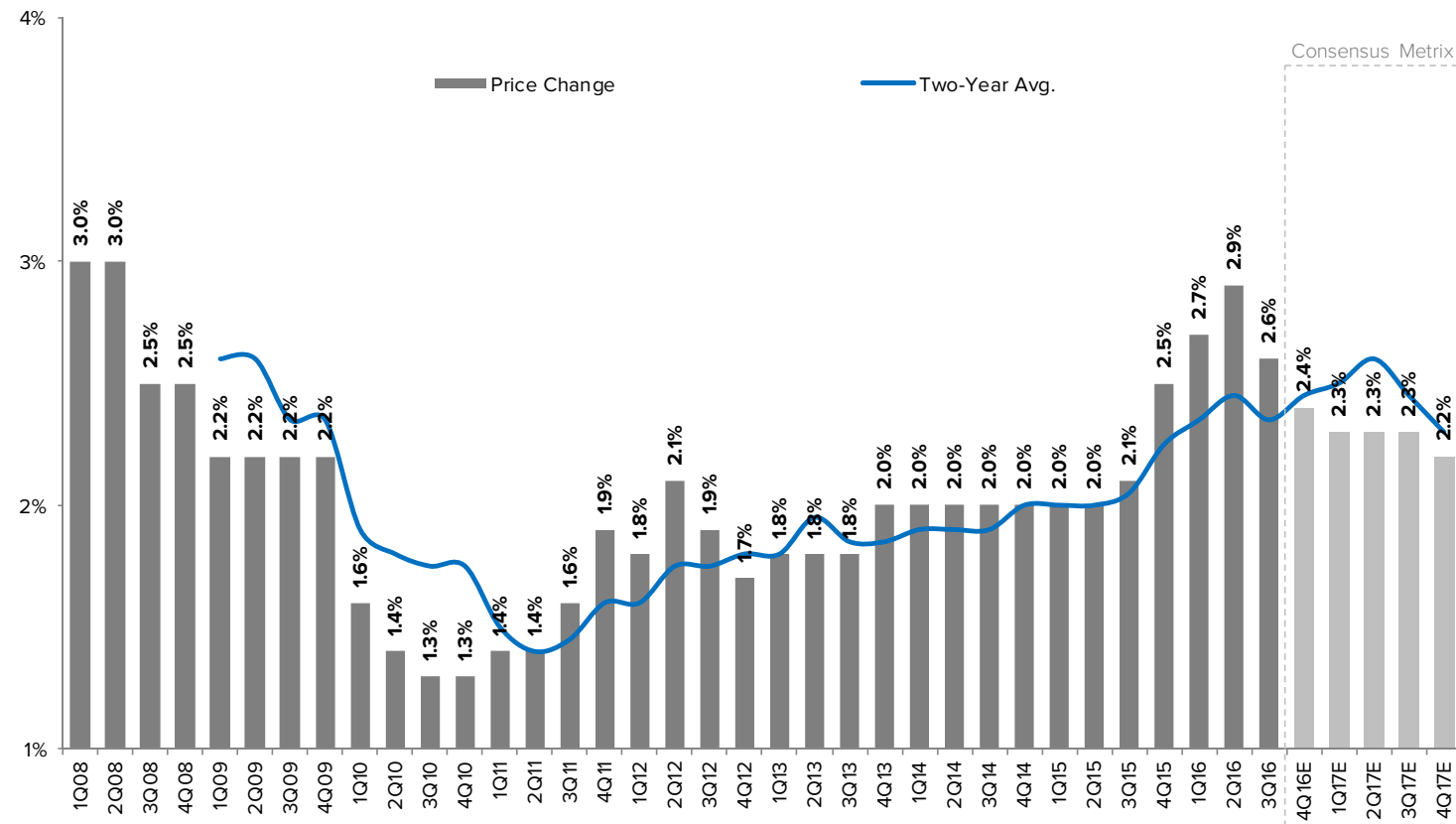


- CAKE's traffic trend reflects what we are seeing in the overall industry.
- An overpopulation of restaurants and broader macro issues have contributed to such a bleak visual.
- CAKE needs to act fast in order to correct this, or things could get much uglier, much faster.

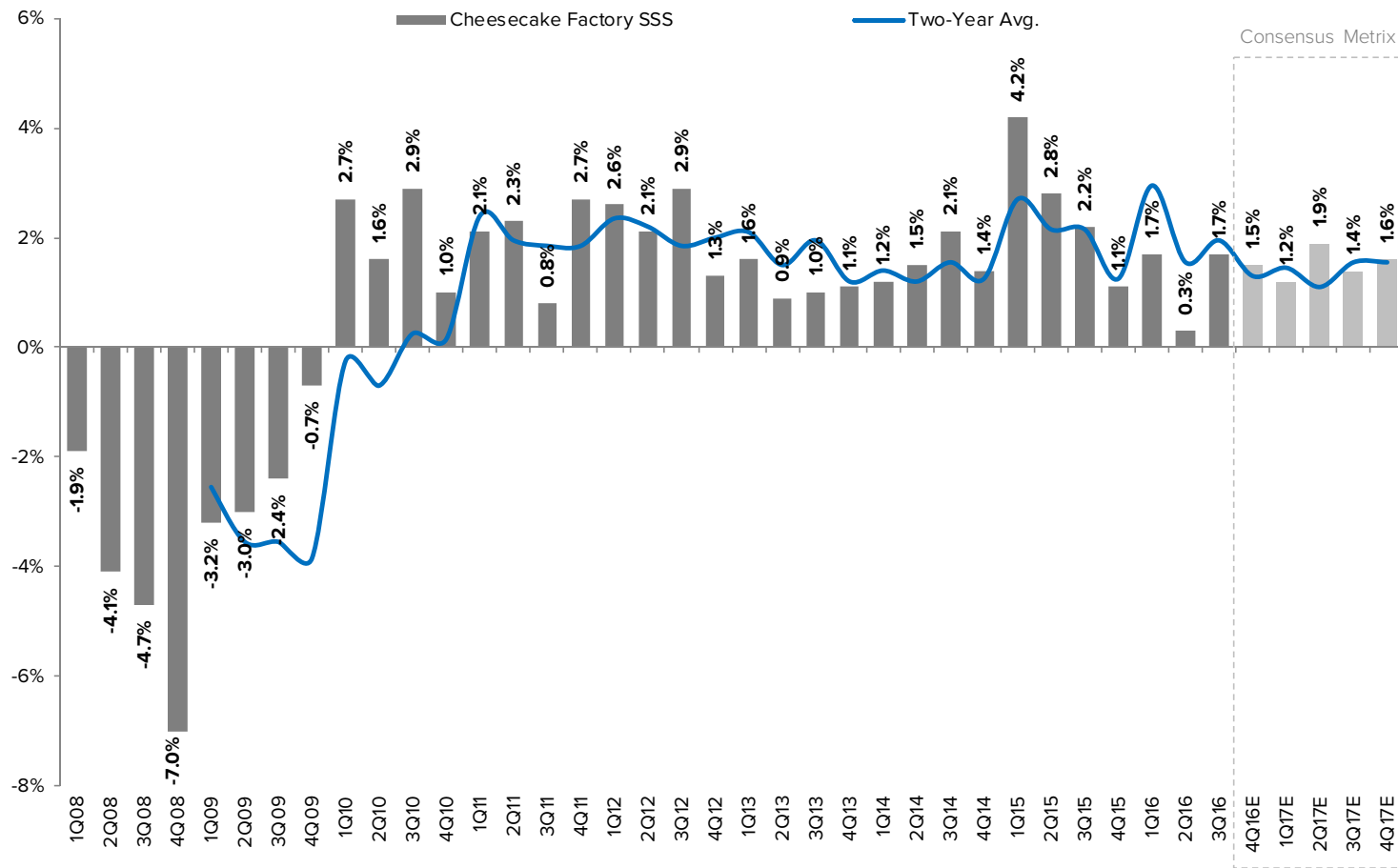
PRICE ACCELERATION WILL NOT HELP TRAFFIC

BETWEEN A ROCK AND A HARD PLACE

- CAKE uses price to manage margins when traffic declines.
- How much pricing flexibility do they have left?



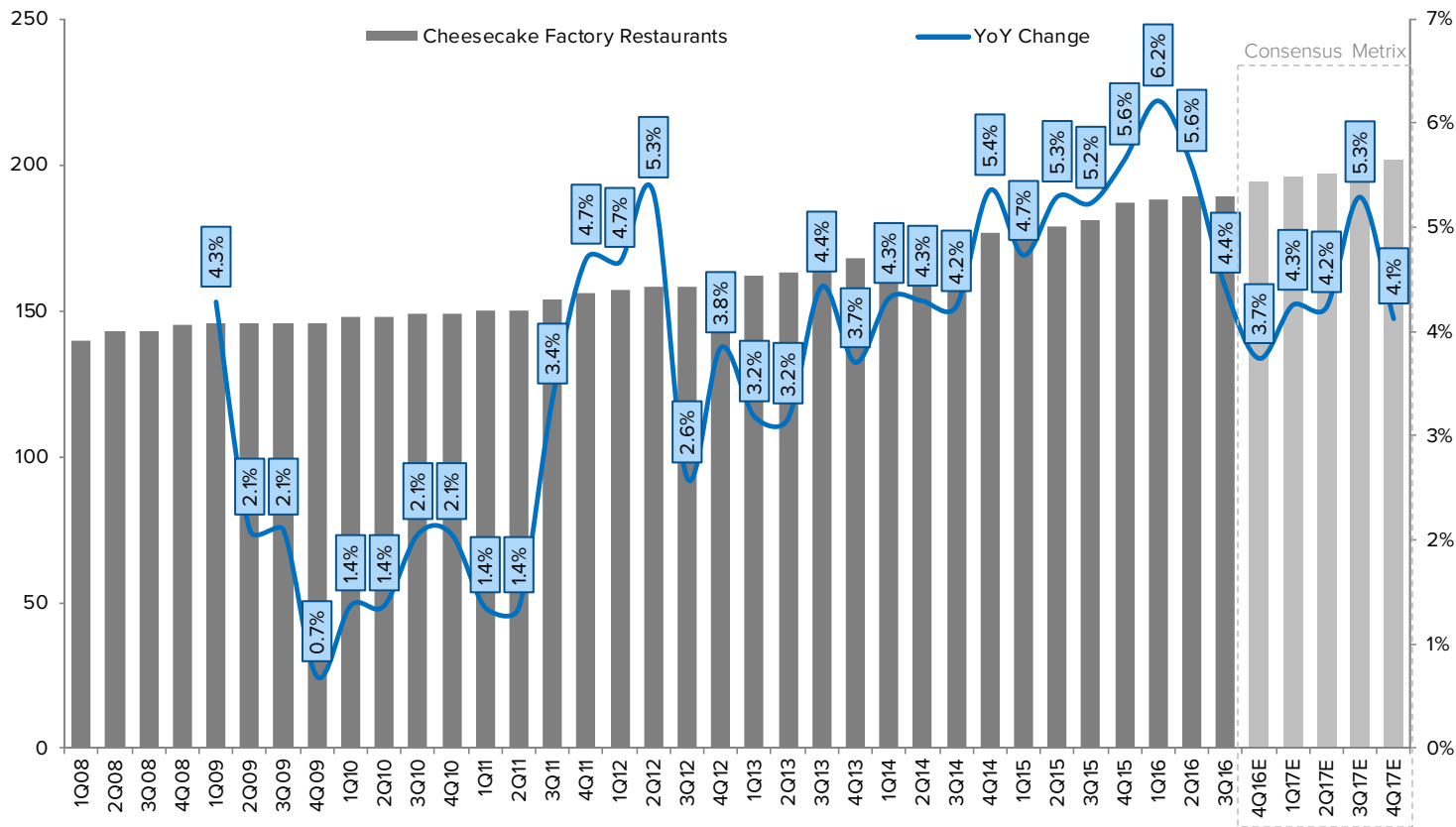
CHEESECAKE SAME-STORE SALES LIVING ON PRICE



- An inverse correlation of -0.54 can be seen between price change and same store sales at CAKE, as SSS appears to edge upward when price goes down, and vice versa. This correlation tightens to -0.60 when you pull SSS forward two quarters.
- However, the current macro environment, coupled with current practices within the restaurant industry, will push CAKE to the brink, as this practice is unsustainable.

CHEESECAKE UNIT GROWTH

ADDING CAPACITY AT AN AGGRESSIVE RATE

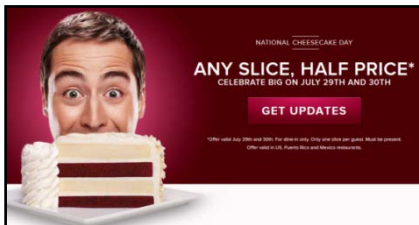


- Continued unit growth in an environment like this one can prove to be detrimental to the brand, but CAKE is in a different position, as it must reinvest in the business in order to drive traffic.

VARIOUS GROWTH INITIATIVES

CakePay / Rewards

CakePay / Rewards



- “In addition to continuing to provide something for everyone with our innovative menu, we are encouraged by the results of our technology-enabled initiatives,” (David Overton, CEO)
- “We are seeing incremental sales in many locations from the delivery service we have been piloting with a third-party partner,” (David Overton, CEO)
- “We have 78 restaurants in 16 states being served, and we plan to continue to introduce delivery to additional locations as our partner expands their coverage,” (David Overton, CEO)

Delivery



DOORDASH



The Cheesecake Factory

Save \$3.00 • American

- Mobile pay and delivery are services that many casual dining and quick service brands are beginning to rollout, as it offers an increased convenience to customers
- CAKE is conducting a phased roll-out of their mobile app, and only have delivery at 78 of their 193 company-owned units
- CAKE's destination locations will limit the potential success of delivery/rewards.

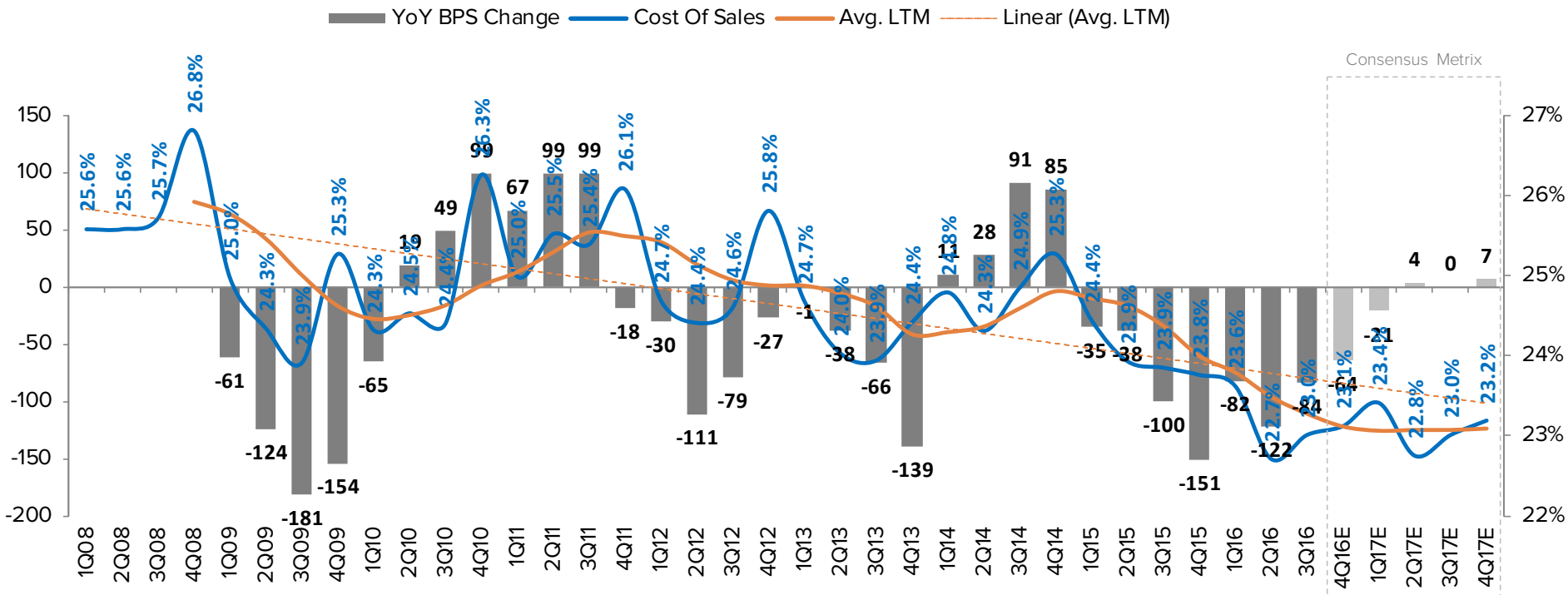
Secondary Brands

- As of November 3, 2016, the Company operated **12 Grand Lux Cafés** and **one RockSugar Pan Asian Kitchen**, both of which are upscale, casual dining concepts offering approximately 150 and 75 menu items, respectively.
- On November 14, 2016, the Company announced that it had entered into agreements with two subsidiaries of Fox Restaurant Concepts LLC (FRC), Flowerchild Holding Company LLC, and North Restaurants LLC.
 - Under the agreements, CAKE is making an initial minority equity investments in, and will provide growth capital and consulting services for North Restaurants and Flower Child.
 - The agreements also give CAKE the option to acquire a 100% ownership in Flower Child and/or North Restaurants
- **HEDGEYE:** Such investments are taking management's focus away from their core business. It is imperative that they focus their efforts (and dollars) on the Cheesecake concept, in order to drive growth in that particular business. Investing in niche brands will only hurt them going forward.



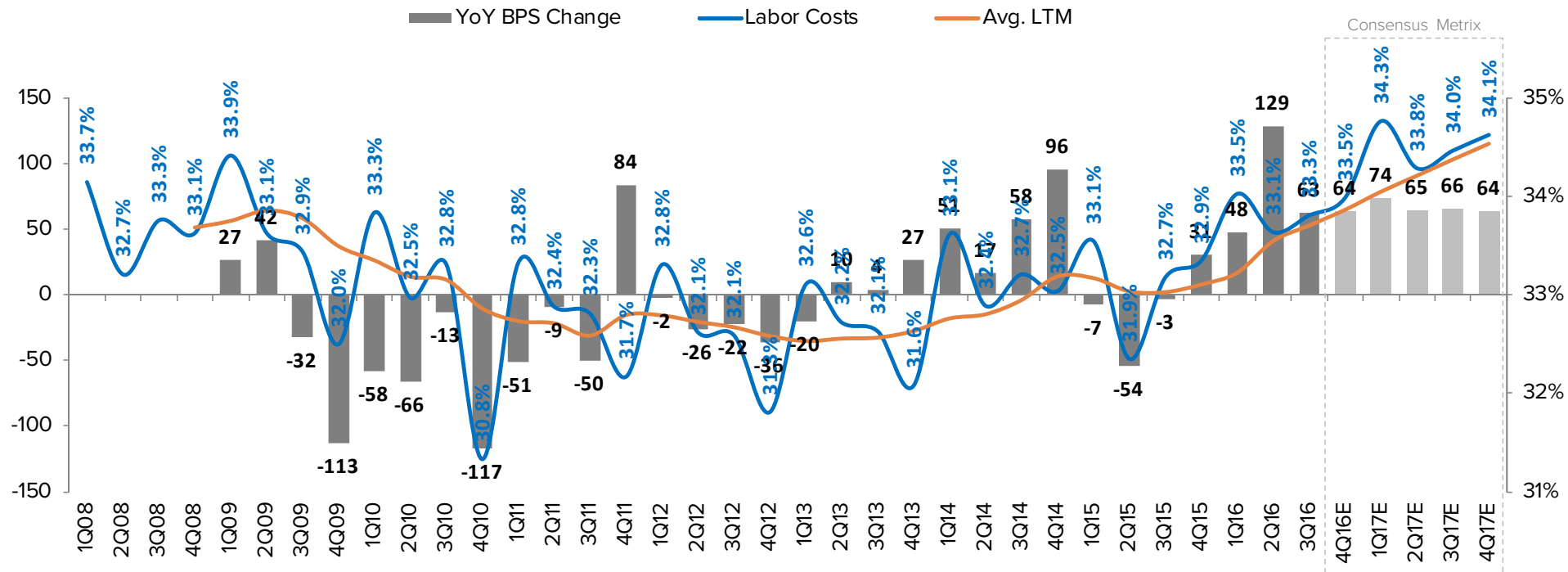
MARGIN ANALYSIS

COST OF SALES



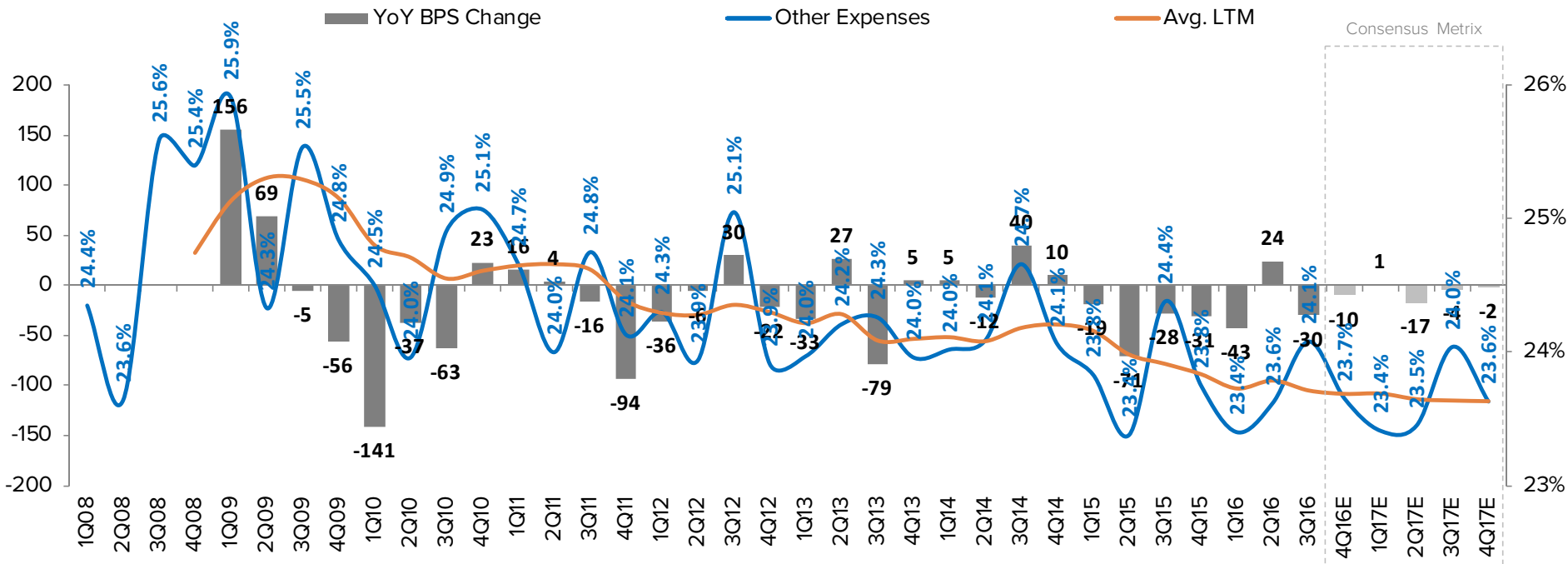
- How much has the steady decline over the last 5+ years caused the traffic declines?
- With commodity price inflation as a headwind, and dairy prices on the up and up, COGS will continue to grow and put more strain on earnings.
- Will they need to invest in food to bring traffic back?

LABOR



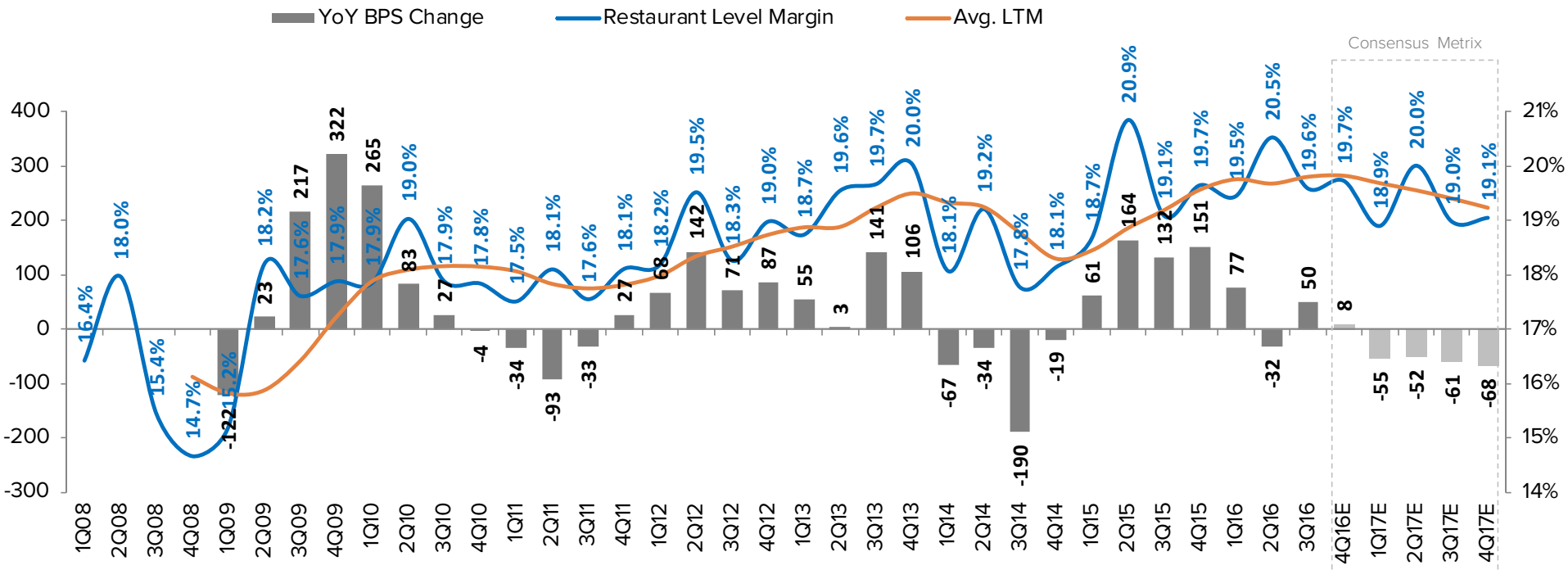
- Labor costs will undoubtedly continue to be a headwind for CAKE going forward as legislation governing worker pay will add to this line item.

OTHER EXPENSES

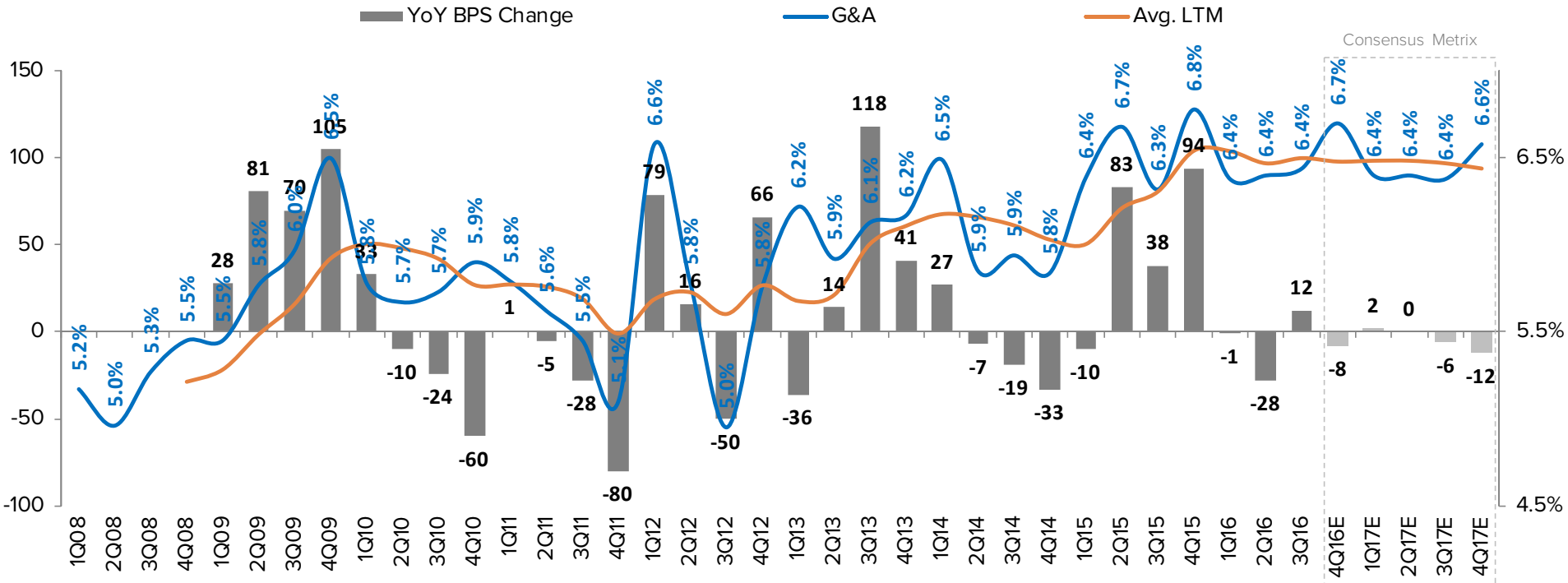


- Other expenses have been trending lower since 2009.
- How much more relief can there be moving forward?

RESTAURANT LEVEL MARGIN

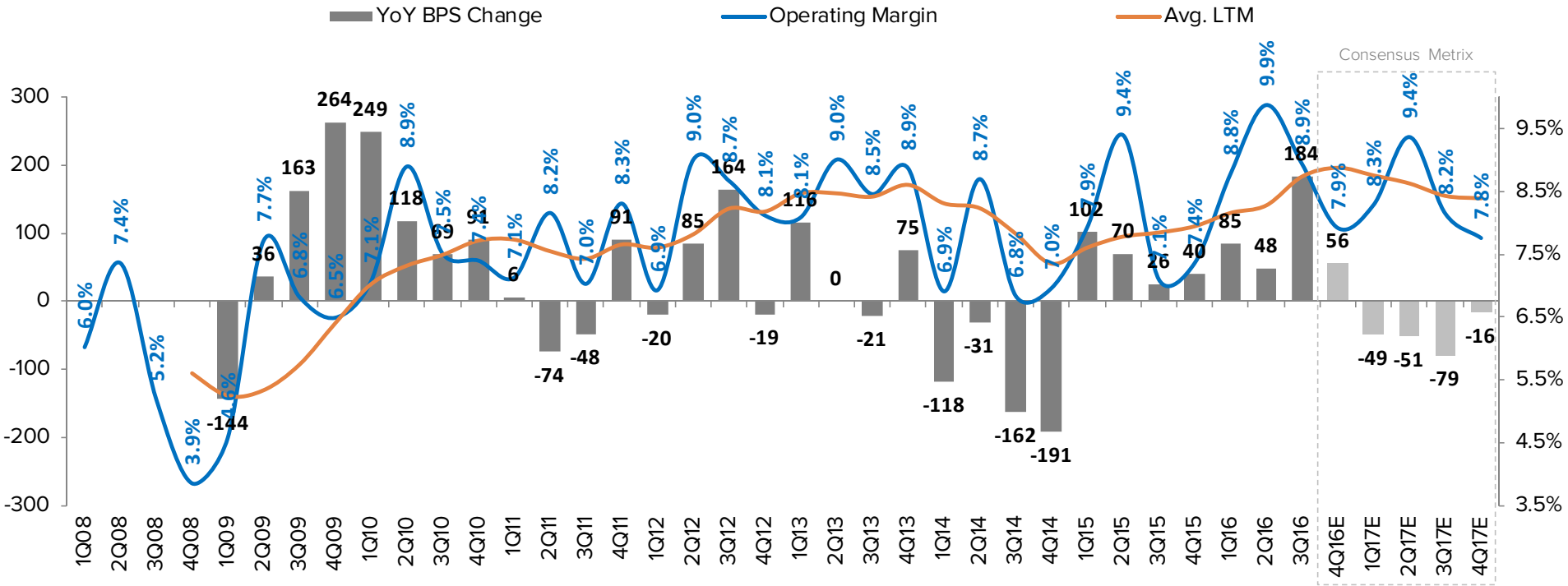


- CAKE is seeing peak restaurant level margins, with margins rolling over in 2017.
- The current estimates look aggressive, and we see further downside.
- Declining margins will put pressure on the valuation.
- CAKE restaurant level margins have a -0.72 correlation to the change in PPI – Dairy Products.



- The company might be able to manage this line, limiting the downside in EPS
- That being said, the company needs to invest back in the business.

OPERATING MARGIN

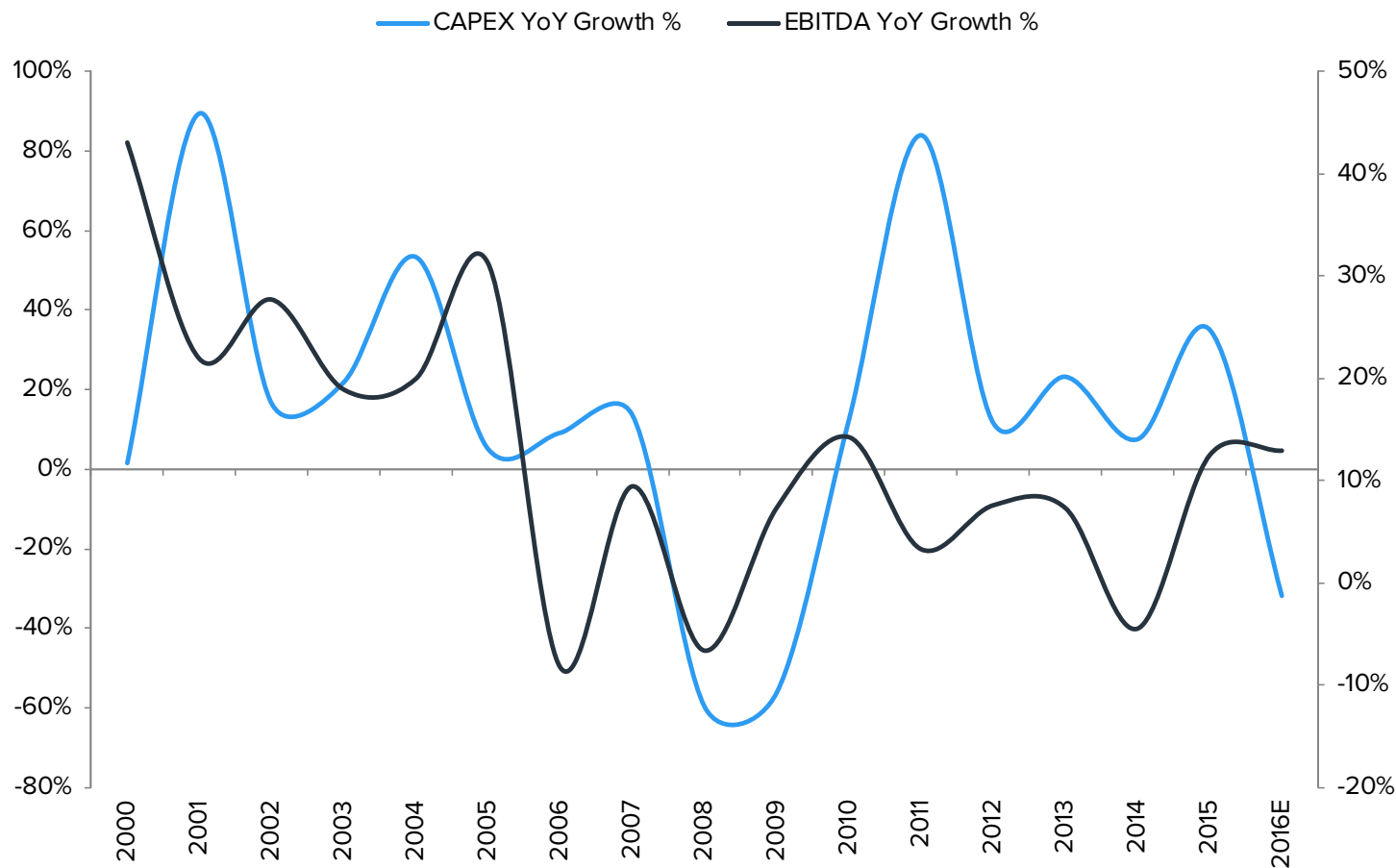


- How much more upside is left in operating margins?
- After a big recovery from 4Q14 (thanks to lower dairy, PPI – Dairy was down an average of -8.1% YoY per quarter from 1Q15 – 3Q16), operating margins are rolling over.
- With CAKE trading at a peak valuation, declining margins will put pressure on valuation.
- CAKE operating margins have a -0.64 correlation to the change in PPI – Dairy Products.



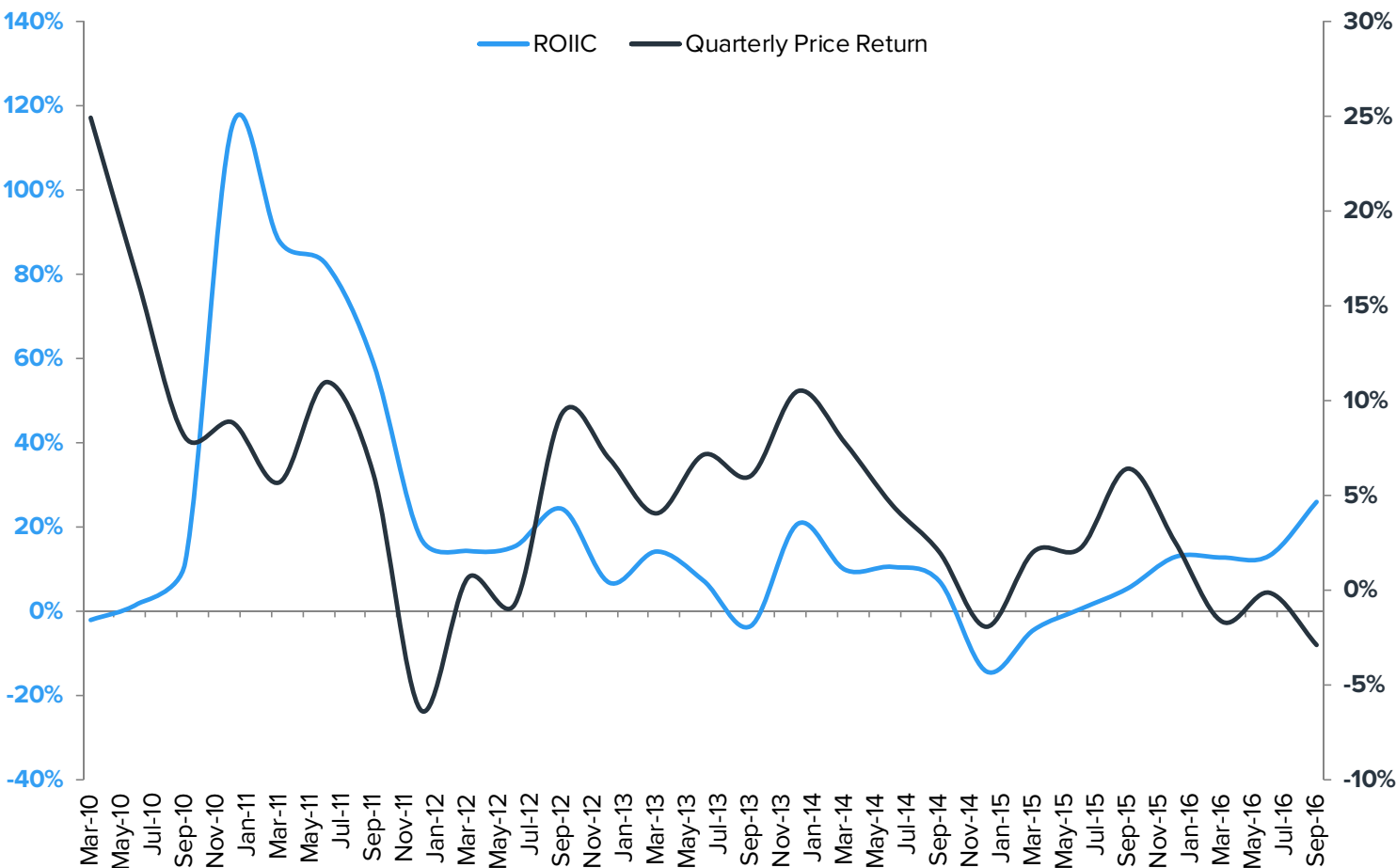
CAPITAL DEPLOYMENT & SUSTAINABILITY

YEAR OVER YEAR GROWTH IN CAPEX VS. EBITDA



- CAKE has benefited from lower Cap-Ex in 2016.
- CAKE is aggressively moving into the delivery space. This, along with other technology-enabled initiatives, is much-needed from the perspective of the customer and will allow CAKE to reach a broader audience and gain share-of-stomach.
- As a result, we expect to see an increase in CAPEX going forward.

ROIIC



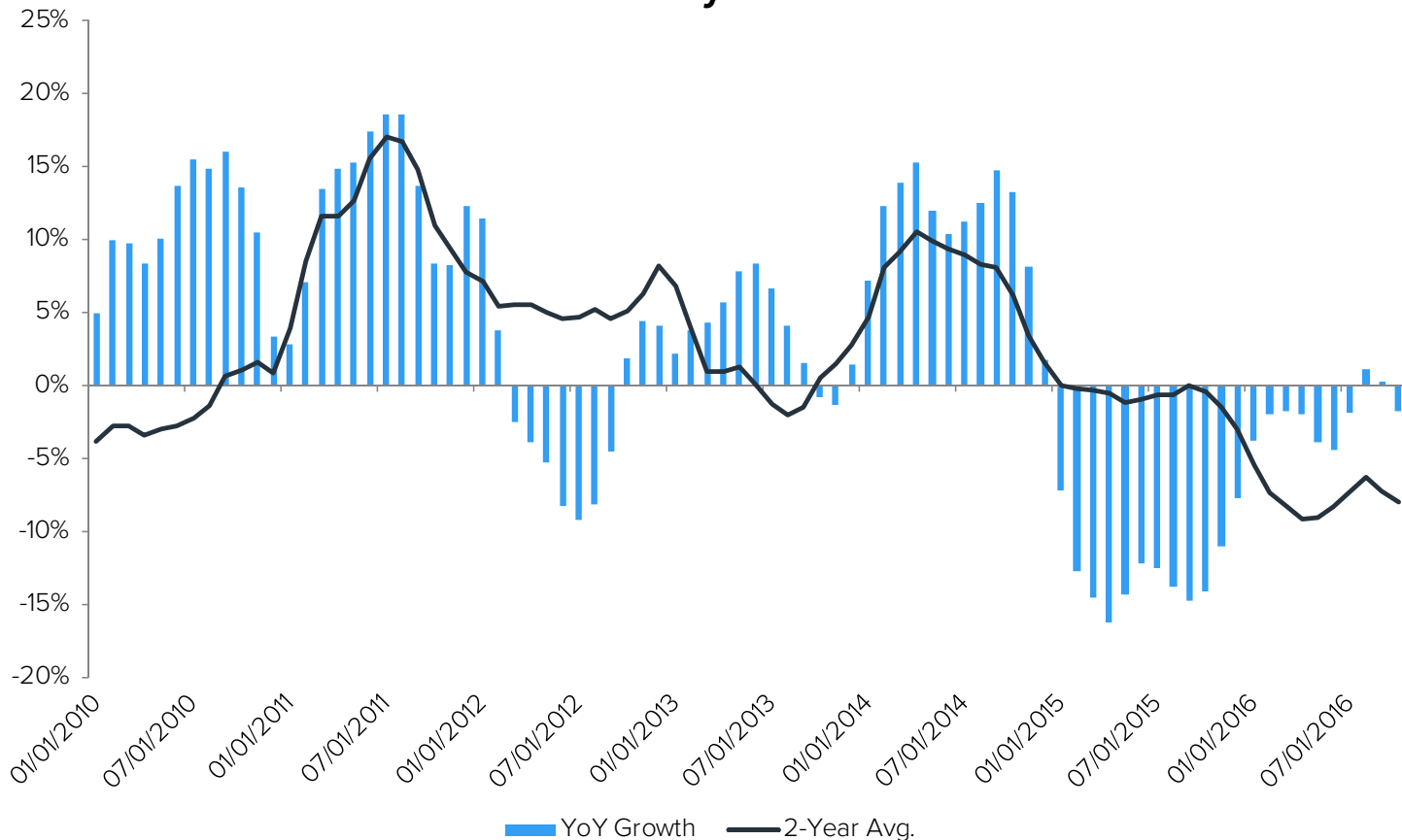
- For the past 18 months ROIIC has benefited from lower capital spending and improving margins
- In 2017, it's likely we will see these trends reversed



COMMODITIES

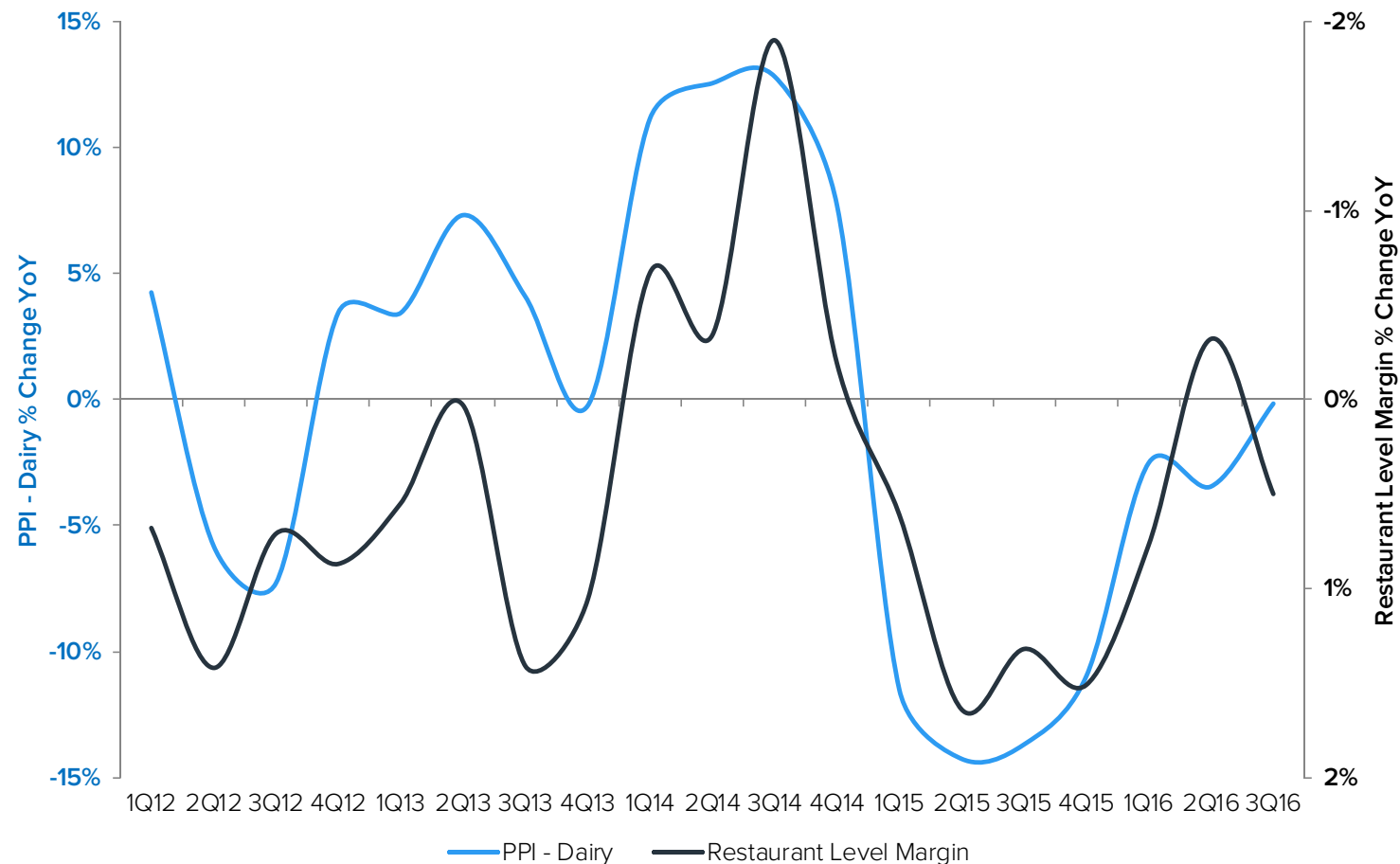
DAIRY COSTS APPEAR TO BE HEADING HIGHER

PPI – Dairy Products



- Dairy prices are reversing direction and turning inflationary. Although it will take some time for prices to significantly move away from prices seen during the major price crash in 2009, a gradual recovery is occurring.

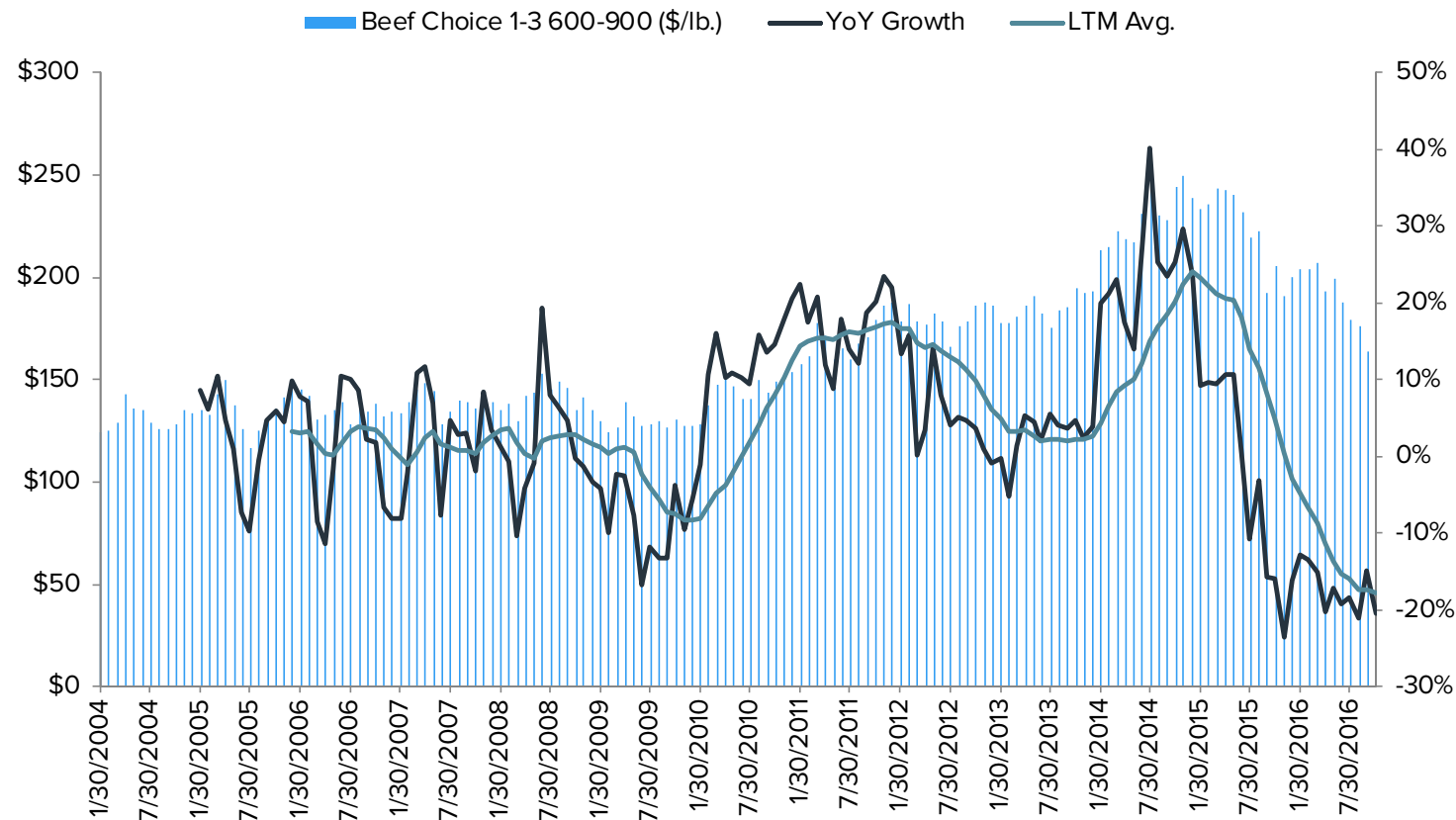
PPI – DAIRY PRODUCTS CORRELATION TO CAKE RLM



- The correlation between PPI – Dairy Products and CAKE's Restaurant Level Margin is -0.72

BEEF REMAINS DEFLATIONARY

BUT APPEARS TO BE BOTTOMING

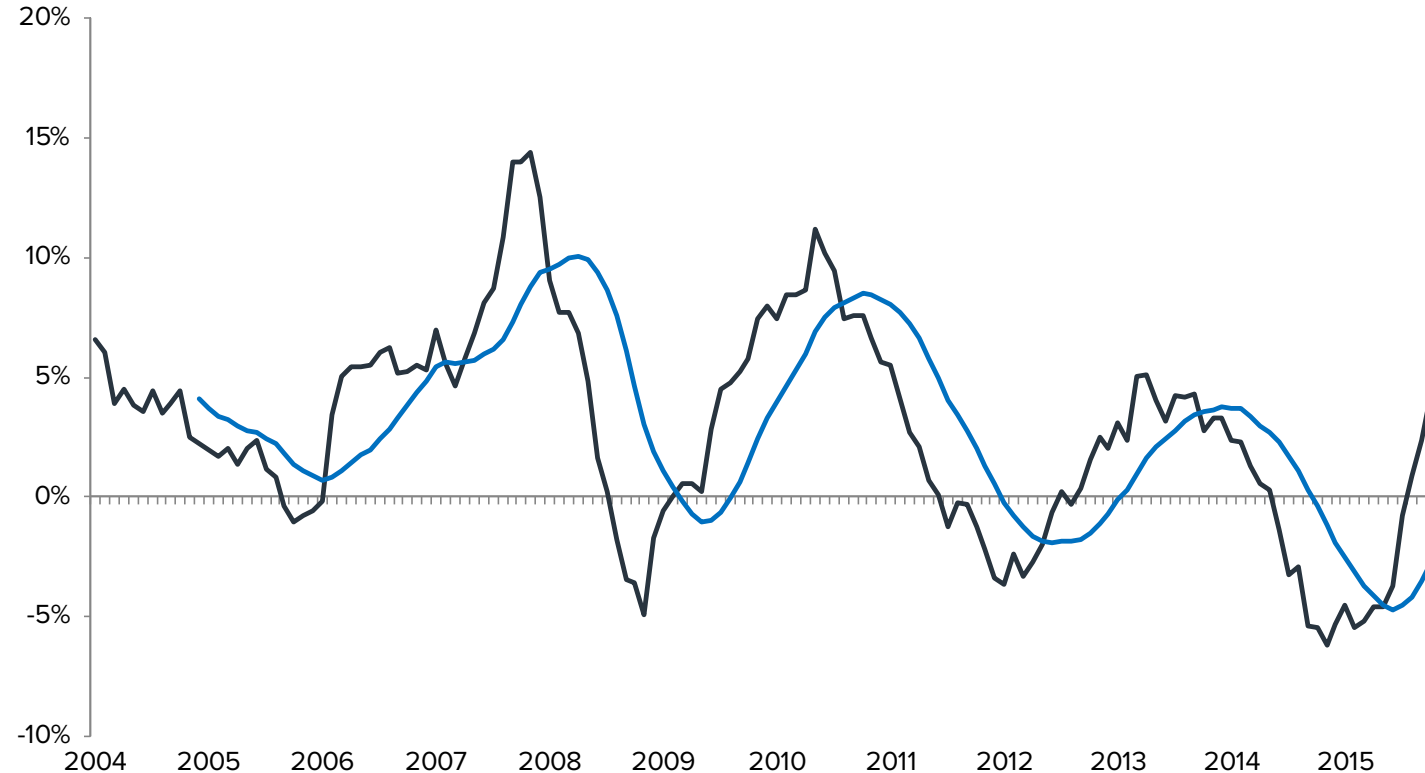


- The business is feeling some relief from the deflation in beef prices, but the tricky part will be how long will it stay at the bottom...

SALMON / BROADER SEAFOOD BASKET TURNING INFLATIONARY

PPI - Seafood

— YoY Growth — LTM Average



- After gradually edging lower, seafood appears to be reversing direction, and will surely come into play as a headwind for the business going forward.



VALUATION & SENTIMENT

MANAGEMENT COMPENSATION / OWNERSHIP

Management/Board Compensation

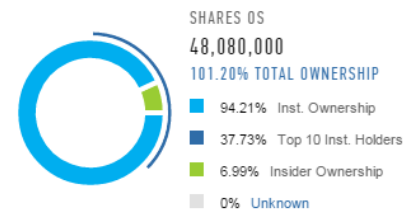
Name	Tenure (Years)	Title	Salary	Total Compensation
David Overton	44	Chairman of the Board and CEO	\$995,000	\$5,917,619
David M. Gordon	23	President	\$575,000	\$1,766,820
W. Douglas Benn	7	EVP and CFO	\$515,000	\$1,338,362
Debby R. Zurzolo	17	EVP, General Counsel and Secretary	\$482,000	\$1,227,381
Max S. Byfuglin	34	President, The Cheesecake Factory Bakery, Inc.	\$425,000	\$1,111,231
Jerome I. Kransdorf	19	Lead Independent Director	\$197,000	\$197,000
David B. Pittaway	7	Independent Director	\$185,000	\$185,000
Alexander L. Cappello	8	Independent Director	\$180,000	\$180,000
Laurence B. Mindel	4	Independent Director	\$170,000	\$170,000
Herbert Simon	5	Independent Director	\$170,000	\$170,000

- According to the Company's 14A, filed on April 27, 2016, a significant portion of executive compensation is tied to stockholder value creation, as well as Company and individual performance, calling it "Pay for Performance."
 - "Under the Performance Incentive Plan for 2015, for executives other than those in our bakery division, the Compensation Committee established that **75% of potential awards would be based on a Company-wide consolidated operating income objective and that 25% would be based on strategic objectives**. However, the 25% of potential awards based on strategic objectives only could be achieved if the Company also achieved a threshold consolidated operating income objective the achievement of which, in and of itself, would not result in any award.
 - The "Strategic Objectives" are approved by stockholders at the annual meeting and include: Fiscal operating income margin greater than the average of financial peer group; continued international expansion, including milestones in LatAm, Asia, and the Middle East; technology and infrastructure scalability; and enhanced commodities management objectives.
 - "We design our executive compensation program, and particularly the compensation of our CEO, to reflect the Company's performance and our stock performance over time."

Ownership

Name	% OS	Position (000)
David Overton	6.14	2,950
David M. Gordon	0.05	26
W. Douglas Benn	0.14	65
Debby R. Zurzolo	0.08	40
Max S. Byfuglin	0.11	52
Alexander L. Cappello	0.01	5
Jerome I. Kransdorf	0.03	14
Laurence B. Mindel	0.01	5
David B. Pittaway	0.02	12
Herbert Simon	0.35	170

Ownership Statistics



SHORT INTEREST	FLOAT	INST. OWNERSHIP
9.4 DAYS / 15.8% FLOAT	93.0%	101.3% OF FLOAT

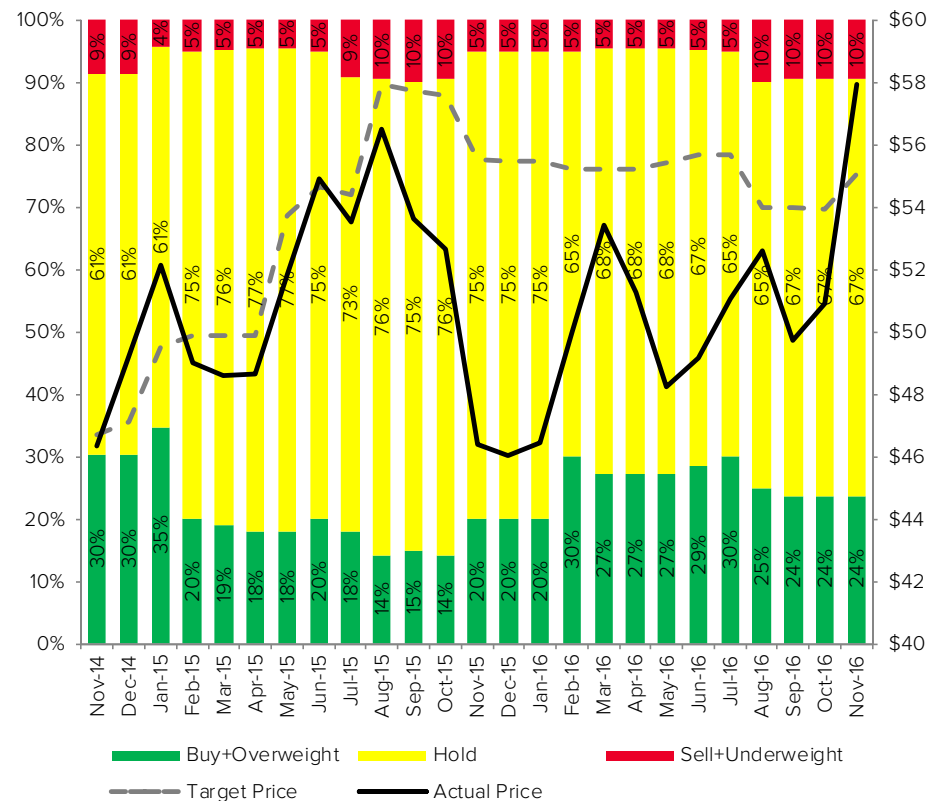
30 Sep '16 13F Filing Count	304 (83.29%)
30 Jun '16 13F Filing Count	34 (9.32%)
Other Filings	27

Detailed Ownership

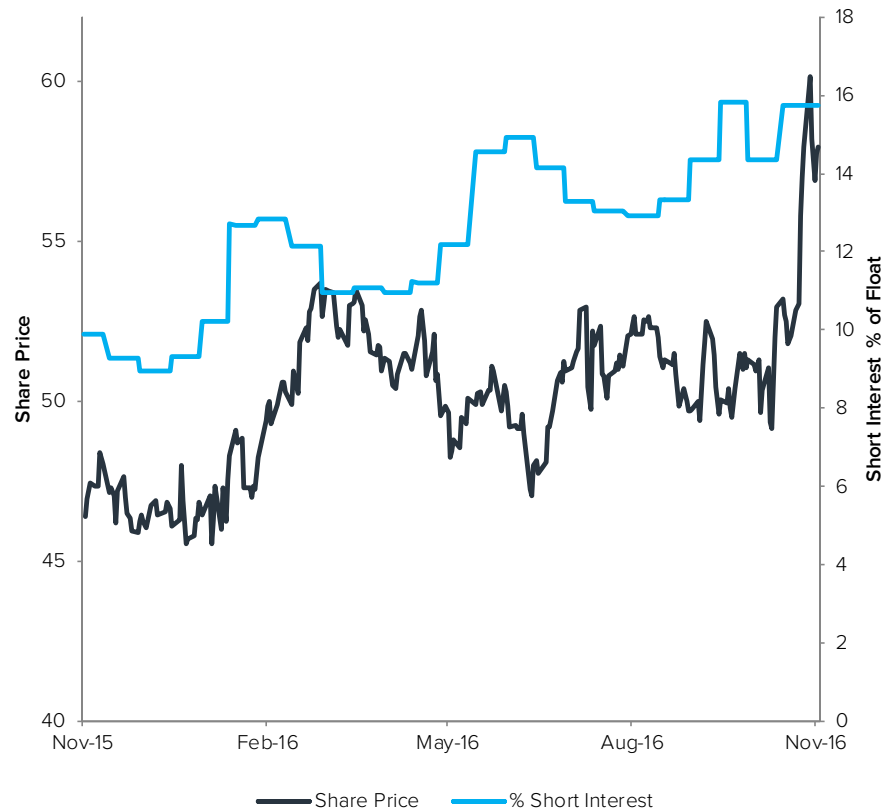
Data as of: 14 Nov '16

SENTIMENT

Sell-Side Sentiment



Short Interest



PUBLIC COMPANY COMPARABLES – VALUATION

							Sentiment			Earnings				EBITDA					
			Shares	Equity	Net	Enterprise	Short	Dividend	Analyst			% Change	NTM			% Change	EV/ NTM	Net Debt/	
Name	Ticker	Price	Out	Value	Debt	Value	Interest	Yield	Rating	FY1	FY2	YoY	P/E	FY1	FY2	YoY	EBITDA	EBITDA	
Casual Dining																			
Wingstop, Inc.	WING	\$ 29.61	29	\$ 851	\$ 151	\$ 1,002	11.6%	0.0	1.1	\$ 0.57	\$ 0.65	13.4%	46.7x	\$ 35	\$ 39	14.4%	25.9x	4.4x	
Chuy's Holdings, Inc.	CHUY	\$ 31.45	17	\$ 529	\$ (14)	\$ 515	13.5%	0.0	1.7	\$ 1.07	\$ 1.20	11.9%	26.7x	\$ 43	\$ 48	14.0%	10.9x	-0.3x	
Buffalo Wild Wings, Inc.	BWLD	\$ 166.40	18	\$ 3,029	\$ 64	\$ 3,092	8.9%	0.0	1.6	\$ 5.57	\$ 6.63	19.0%	25.8x	\$ 304	\$ 341	12.4%	9.3x	0.2x	
Bravo Brio Restaurant Group, Inc.	BBRG	\$ 4.15	15	\$ 61	\$ 51	\$ 112	2.1%	0.0	2.0	\$ 0.14	\$ 0.18	34.1%	23.3x	\$ 23	\$ 28	20.2%	4.1x	2.2x	
Texas Roadhouse, Inc.	TXRH	\$ 45.40	71	\$ 3,202	\$ (29)	\$ 3,181	7.8%	1.7	1.9	\$ 1.77	\$ 2.00	13.1%	22.9x	\$ 268	\$ 300	12.0%	10.7x	-0.1x	
Dave & Buster's Entertainment, Inc.	PLAY	\$ 45.49	42	\$ 1,914	\$ 267	\$ 2,180	13.4%	0.0	1.2	\$ 1.94	\$ 2.24	15.6%	21.0x	\$ 236	\$ 269	13.8%	8.3x	1.1x	
BJ's Restaurants, Inc.	BJRI	\$ 38.50	23	\$ 895	\$ 83	\$ 979	5.7%	0.0	1.9	\$ 1.74	\$ 1.94	11.0%	20.2x	\$ 126	\$ 135	6.8%	7.4x	0.7x	
Cheesecake Factory Incorporated	CAKE	\$ 57.92	47	\$ 2,747	\$ 33	\$ 2,780	15.8%	1.7	1.9	\$ 2.84	\$ 3.07	8.1%	19.1x	\$ 289	\$ 290	0.1%	9.6x	0.1x	
Del Frisco's Restaurant Group, Inc.	DFRG	\$ 16.00	24	\$ 376	\$ (1)	\$ 376	2.8%	0.0	1.8	\$ 0.80	\$ 0.88	10.4%	18.3x	\$ 46	\$ 50	8.8%	7.5x	0.0x	
Darden Restaurants, Inc.	DRI	\$ 72.84	123	\$ 8,965	\$ 326	\$ 9,291	9.1%	3.1	1.7	\$ 3.93	\$ 4.30	9.5%	17.7x	\$ 987	\$ 1,038	5.1%	9.2x	0.3x	
Red Robin Gourmet Burgers, Inc.	RRGB	\$ 52.35	13	\$ 673	\$ 300	\$ 973	9.6%	0.0	1.8	\$ 2.89	\$ 3.11	7.7%	17.1x	\$ 143	\$ 149	3.9%	6.6x	2.1x	
Fogo de Chao, Inc.	FOGO	\$ 14.00	28	\$ 394	\$ 155	\$ 551	1.4%	0.0	1.6	\$ 0.86	\$ 0.92	6.2%	15.4x	\$ 55	\$ 60	9.4%	8.8x	2.8x	
Brinker International, Inc.	EAT	\$ 53.64	50	\$ 2,664	\$ 1,412	\$ 4,075	15.9%	2.5	1.8	\$ 3.42	\$ 3.79	10.8%	15.1x	\$ 450	\$ 462	2.7%	9.0x	3.1x	
DineEquity, Inc.	DIN	\$ 84.90	18	\$ 1,536	\$ 1,267	\$ 2,803	2.6%	4.6	1.6	\$ 6.02	\$ 6.32	5.0%	13.6x	\$ 264	\$ 265	0.6%	10.6x	4.8x	
Bloomin' Brands, Inc.	BLMN	\$ 19.00	105	\$ 2,002	\$ 1,133	\$ 3,150	5.0%	1.5	1.4	\$ 1.31	\$ 1.45	10.6%	13.3x	\$ 441	\$ 437	-1.0%	7.3x	2.6x	
Ruby Tuesday, Inc.	RT	\$ 3.14	60	\$ 189	\$ 155	\$ 344	7.3%	0.0	0.0	\$ -	\$ -	0.0%	0.0x	\$ -	\$ -	0.0%	0.0x	0.0x	
Average							8.3%	0.9	1.6	19.8x				9.1x					1.5x
Quick Service Restaurants																			
Wendy's Company	WEN	\$ 12.15	257	\$ 3,123	\$ 2,075	\$ 5,198	12.4%	2.1	1.7	\$ 0.41	\$ 0.45	10.7%	27.6x	\$ 396	\$ 398	0.3%	13.2x	5.2x	
Restaurant Brands International Inc	QSR	\$ 46.20	234	\$ 10,815	\$ 7,455	\$ 23,248	2.5%	1.5	1.6	\$ 1.55	\$ 1.75	12.7%	26.6x	\$ 1,850	\$ 2,005	8.4%	11.7x	4.0x	
Carrols Restaurant Group, Inc.	TAST	\$ 13.35	36	\$ 478	\$ 217	\$ 695	4.5%	0.0	1.0	\$ 0.54	\$ 0.52	-2.5%	25.5x	\$ 90	\$ 96	6.2%	7.3x	2.4x	
Popeyes Louisiana Kitchen, Inc.	PLKI	\$ 60.13	21	\$ 1,246	\$ 116	\$ 1,363	6.7%	0.0	1.7	\$ 2.11	\$ 2.46	17.0%	24.8x	\$ 87	\$ 95	8.8%	14.5x	1.3x	
Yum! Brands, Inc.	YUM	\$ 62.36	367	\$ 22,886	\$ 6,094	\$ 29,044	1.7%	3.3	1.6	\$ 2.67	\$ 2.76	3.5%	22.5x	\$ 2,145	\$ 2,049	-4.5%	14.0x	2.8x	
Sonic Corp.	SONC	\$ 27.16	46	\$ 1,243	\$ 512	\$ 1,755	12.9%	2.1	1.6	\$ 1.26	\$ 1.42	12.6%	20.8x	\$ 158	\$ 160	1.3%	11.0x	3.2x	
Fiesta Restaurant Group, Inc.	FRGI	\$ 29.00	27	\$ 781	\$ 64	\$ 845	10.6%	0.0	1.5	\$ 1.29	\$ 1.39	8.2%	21.1x	\$ 94	\$ 104	10.7%	8.3x	0.7x	
Jack in the Box Inc.	JACK	\$ 101.67	33	\$ 3,322	\$ 890	\$ 4,212	6.6%	1.2	1.5	\$ 3.73	\$ 4.75	27.4%	20.8x	\$ 326	\$ 366	12.3%	11.4x	2.7x	
Arcos Dorados Holdings, Inc. Class A	ARCO	\$ 5.75	131	\$ 752	\$ 471	\$ 1,223	0.1%	0.0	1.7	\$ 0.38	\$ 0.28	-27.3%	20.3x	\$ 219	\$ 247	12.9%	7.0x	2.1x	
McDonald's Corporation	MCD	\$ 120.00	830	\$ 99,653	\$ 23,740	\$ 123,394	1.4%	3.1	1.5	\$ 5.65	\$ 6.19	9.5%	19.5x	\$ 9,471	\$ 9,812	3.6%	12.6x	2.5x	
Bojangles, Inc.	BOJA	\$ 18.85	36	\$ 688	\$ 183	\$ 871	2.3%	0.0	1.4	\$ 0.94	\$ 1.01	7.7%	18.7x	\$ 81	\$ 87	7.5%	10.0x	2.3x	
Average							5.6%	1.2	1.5	22.6x				11.0x					2.7x

PUBLIC COMPANY COMPARABLES – PRICE PERFORMANCE

Quick Service Restaurant

Company	Ticker	Price	Mkt Cap	1D % Chg	5D % Chg	1M % Chg	3M % Chg	6M % Chg	YTD % Chg
S&P 500	SPX	2,182		-0.24	0.81	1.98	-0.23	6.56	6.75
CONSUMER DISCRETIONARY SEL SECT SP	XLY	81.20		-0.31	1.86	3.10	-0.31	5.10	3.89
Jack in the Box Inc.	JACK	101.67	3,322	-0.85	3.10	4.65	2.93	36.07	31.97
Arcos Dorados Holdings, Inc. Class A	ARCO	5.75	752	0.00	5.50	-7.26	0.88	28.64	84.89
Fiesta Restaurant Group, Inc.	FRGI	29.00	781	0.35	2.29	6.23	21.04	25.32	-13.69
Wendy's Company	WEN	12.15	3,123	-0.41	5.65	11.78	20.54	19.00	12.81
Popeyes Louisiana Kitchen, Inc.	PLKI	60.13	1,246	-0.07	1.09	16.28	5.73	15.24	2.79
Restaurant Brands International Inc	QSR	46.20	10,808	0.46	6.26	3.06	-3.77	14.81	23.66
Bojangles, Inc.	BOJA	18.85	688	1.89	7.41	17.45	12.14	13.28	18.78
Yum! Brands, Inc.	YUM	62.36	22,886	2.63	2.73	0.66	-4.45	8.18	18.72
Carrols Restaurant Group, Inc.	TAST	13.35	478	4.71	5.95	4.54	-0.96	5.70	13.71
McDonald's Corporation	MCD	120.00	99,653	0.46	5.06	7.87	2.45	-4.92	1.57
Sonic Corp.	SONC	27.16	1,243	1.91	4.74	6.43	-7.18	-8.61	-5.33
Mean				1.01	4.53	6.52	4.48	13.88	17.26
Median				0.46	5.06	6.23	2.45	14.81	13.71

Casual Dining

Company	Ticker	Price	Mkt Cap	1D % Chg	5D % Chg	1M % Chg	3M % Chg	6M % Chg	YTD % Chg
Dave & Buster's Entertainment, Inc.	PLAY	45.49	1,914	0.35	-1.04	12.29	1.72	21.73	25.42
Buffalo Wild Wings, Inc.	BWLD	166.40	3,029	1.16	2.78	19.80	-0.92	21.35	4.23
Cheesecake Factory Incorporated	CAKE	57.92	2,747	0.31	-0.07	13.72	10.05	20.04	25.61
Brinker International, Inc.	EAT	53.64	2,664	-0.69	0.09	6.75	-1.12	19.79	17.81
Wingstop, Inc.	WING	29.61	851	-1.10	9.75	2.49	-6.59	15.71	29.81
Darden Restaurants, Inc.	DRI	72.84	8,965	0.51	3.88	15.56	16.32	15.55	7.39
Red Robin Gourmet Burgers, Inc.	RRGB	52.35	673	-1.23	-1.04	22.74	4.51	8.63	-15.21
Del Frisco's Restaurant Group, Inc.	DFRG	16.00	376	1.91	0.00	15.11	3.69	6.74	-0.12
DineEquity, Inc.	DIN	84.90	1,536	0.22	2.93	8.32	11.29	5.43	0.27
Texas Roadhouse, Inc.	TXRH	45.40	3,202	-0.13	0.75	18.57	-1.65	5.04	26.92
Bloomin' Brands, Inc.	BLMN	19.00	2,002	0.26	-1.45	10.59	-1.61	2.87	12.49
Fogo de Chao, Inc.	FOGO	14.00	394	0.00	3.70	22.81	9.80	-2.10	-7.65
Chuy's Holdings, Inc.	CHUY	31.45	529	-0.16	3.28	19.26	-3.35	-2.15	0.35
BJ's Restaurants, Inc.	BJRI	38.50	895	0.52	-1.91	8.70	-5.71	-10.00	-11.43
Ruby Tuesday, Inc.	RT	3.14	189	-0.95	2.95	1.29	0.96	-21.89	-19.07
Bravo Brio Restaurant Group, Inc.	BBRG	4.15	61	2.47	17.73	-13.54	-11.32	-39.86	-53.89
Mean				0.22	2.65	11.53	1.63	4.18	2.68
Median				0.24	1.77	13.01	0.02	6.08	2.29

VALUATION MATRIX

NTM EV/EBITDA Multiple

EBITDA

	6.0x	6.4x	6.8x	7.2x	7.6x	8.0x	8.4x	8.8x	9.2x	9.6x	10.0x
\$269	\$33.15	\$35.41	\$37.67	\$39.92	\$42.18	\$44.43	\$46.69	\$48.95	\$51.20	\$53.46	\$55.71
\$272	\$33.49	\$35.77	\$38.05	\$40.33	\$42.61	\$44.89	\$47.16	\$49.44	\$51.72	\$54.00	\$56.28
\$274	\$33.83	\$36.14	\$38.44	\$40.74	\$43.04	\$45.34	\$47.64	\$49.94	\$52.24	\$54.55	\$56.85
\$277	\$34.18	\$36.50	\$38.83	\$41.15	\$43.48	\$45.80	\$48.13	\$50.45	\$52.77	\$55.10	\$57.42
\$280	\$34.53	\$36.88	\$39.22	\$41.57	\$43.92	\$46.27	\$48.61	\$50.96	\$53.31	\$55.66	\$58.00
\$283	\$34.88	\$37.25	\$39.62	\$41.99	\$44.36	\$46.74	\$49.11	\$51.48	\$53.85	\$56.22	\$58.59
\$286	\$35.24	\$37.63	\$40.03	\$42.42	\$44.81	\$47.21	\$49.60	\$52.00	\$54.39	\$56.79	\$59.18
\$288	\$35.60	\$38.01	\$40.43	\$42.85	\$45.27	\$47.69	\$50.11	\$52.53	\$54.94	\$57.36	\$59.78
\$291	\$35.96	\$38.40	\$40.84	\$43.29	\$45.73	\$48.17	\$50.62	\$53.06	\$55.50	\$57.94	\$60.39

BEAR

-43%

BASE

-20%

BULL

4%

PEAK MULTIPLES OF '14 AND '15 WILL NOT RETURN

- Beyond a reduction in profitability the downside will be bolstered by a multiple contraction into the 7.0x to 8.0x as macro headwinds continue to impact casual dining traffic and commodities turn into a headwind.

SUMMARY OF OUR THOUGHTS

Key Points

- 1 Concept is in a secular decline
- 2 Margins are at peak
- 3 Business is highly susceptible to inflationary cost pressures (Dairy, Beef, Labor etc.)

Risks to the Short

- 1 CAKE reignites traffic growth
- 2 FCF surprises to the upside, leading to more buybacks

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