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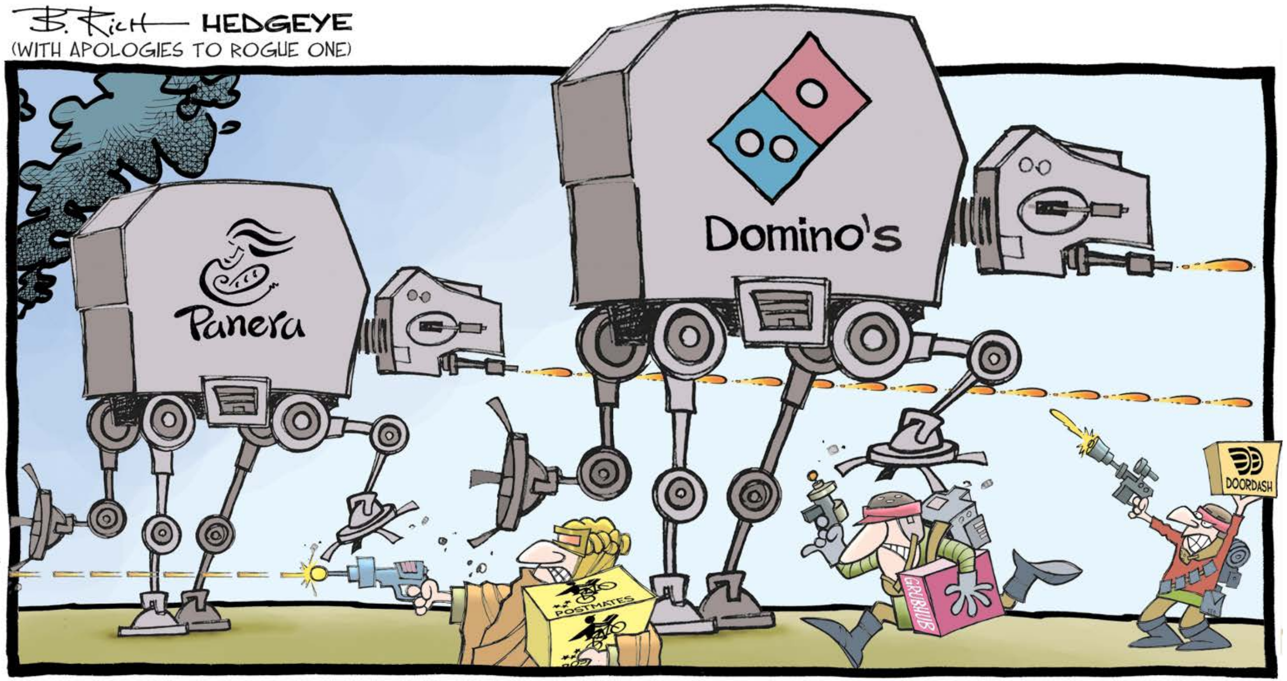

DELIVERY WILL CHANGE THE INDUSTRY FOREVER

BEST IDEA: LONG PNRA; SHORT GRUB

January 5, 2017

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**ANSWERED AT THE END OF THE CALL*

HEDGEYE RESTAURANTS IDEAS LIST

LONG LIST

	Ticker	Company	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
JE - GB	JUST EAT plc
TXRH	Texas Roadhouse

SHORT LIST

	Ticker	Company	TRADE	TREND	TAIL
1)	**CMG**	Chipotle Mexican Grill	X	X	X
2)	**GRUB**	GrubHub	-	X	X
3)	**DNKN**	Dunkin' Brands	X	X	X
4)	**BLMN**	Bloomin' Brands	X	X	X
5)	**CAKE**	Cheesecake Factory	X	X	X
6)	**DIN**	DineEquity, Inc.	X	X	X

SHORT BENCH

SHAK	Shake Shack
YUM	Yum! Brands
ARCO	Arcos Dorados Holdings
YUMC	Yum China
MCD	McDonald's
DPZ	Domino's
EAT	Brinker International
SBUX	Starbucks

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

KEY POINTS

1 RESTAURANTS ON-DEMAND

Delivery will be the most disruptive change to the restaurant industry in this generation. We see a current addressable market for delivery in the United States of roughly $90bn, with growth rates that outpace the sluggish restaurant industry growth. Right now the delivery market is dominated by Pizza, but this will drastically change over the next five years as the industry is further introduced to delivery. Players such as PNRA intend to do it on their own, while others will lean on third-parties in order to take part in this trend.

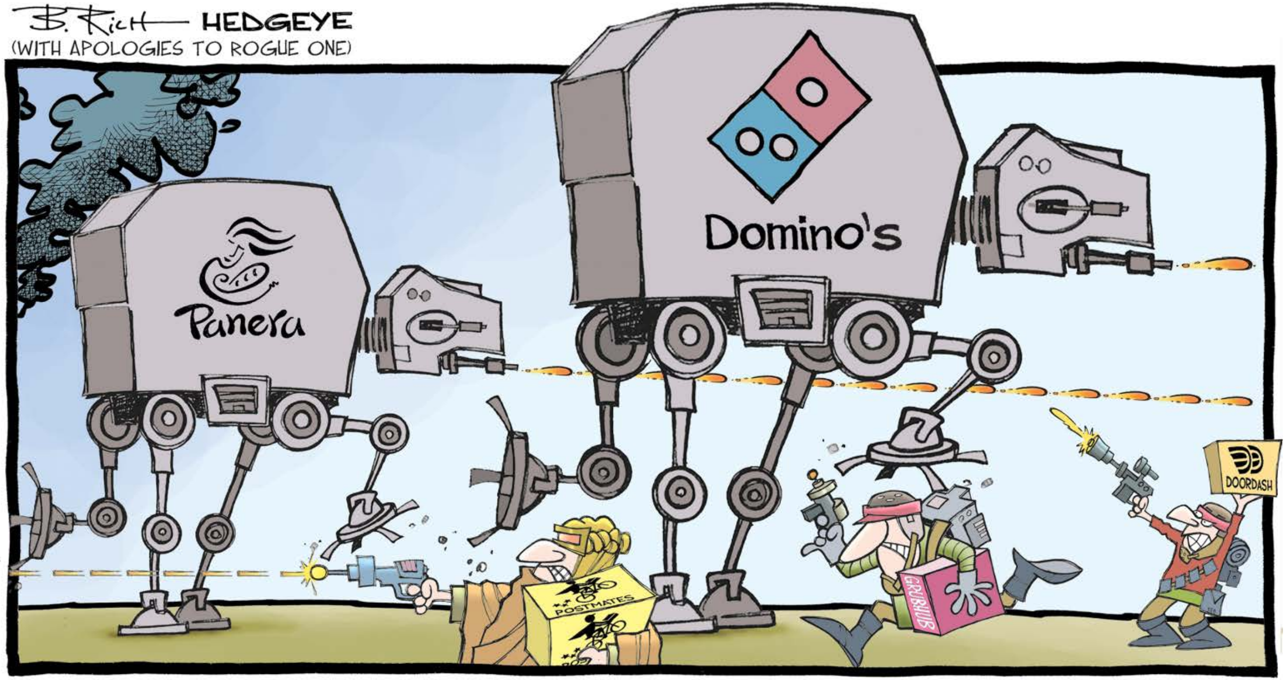
2 PNRA SET TO DOMINATE THE TREND

We view PNRA as one of the best positioned companies to take advantage of the new delivery paradigm. Coming towards the end of their investment cycle in Panera 2.0, they are now better enabled to leverage these enhancements to delve into delivery at a nominal additional cost. PNRA will have delivery available at 15% of locations by the end of 2016 and 35% to 40% of system-wide locations by the end of 2017. In the highest penetrated markets such as Louisville, PNRA has begun to see the positive impacts of marketing delivery – the impact of marketing will further impact sales as they are able to do it on a national scale.

3 GRUB AND DPZ WILL BE PRESSURED LONG-TERM

The GRUB business model will be marginalized and the likelihood of being able to make sustainable profits in the delivery business is a stretch. The DPZ business will be pressured longer-term as the days of parents giving their kids $20 for pizza specifically on a Friday night will go by the wayside as families have more option to choose from for convenience. Currently, DPZ has significant momentum and the market isn't quite there yet, but it will get there and that is not factored into the stock at this point.

Data Source: NRN, Company Filings, Hedgeye.



DELIVERY IS THE NEXT FRONTIER

THE ON-DEMAND ECONOMY

According to Intuit, “the current number of people working in the on-demand economy (3.2 million) is based on an online survey of 2,276 adult (18 and older) U.S. residents conducted between July 27 and Aug. 5. The forecasted growth to 7.6 million by 2020 was developed by using a combination of analysis of historical data on the on-demand economy, and the use of a diffusion of innovation (S curve) model. The on-demand economy is defined as an online marketplace or application that connected providers/freelancers with customers.”

This includes:

- Transportation and/or logistics for people or products (e.g. Uber, Lyft, GrubHub, Postmates & Doordash)
- Finding work via online talent marketplaces (e.g. Upwork, OnForce, Work Market HourlyNerd, Fiverr)
- Renting out space (e.g. Airbnb, Couch Surfing, etc.)
- Providing other miscellaneous services (e.g. Task Rabbit, Gig Walk, Wonolo).

Restaurants On-Demand

Restaurant delivery is the most disruptive trend to hit the restaurant space this generation.

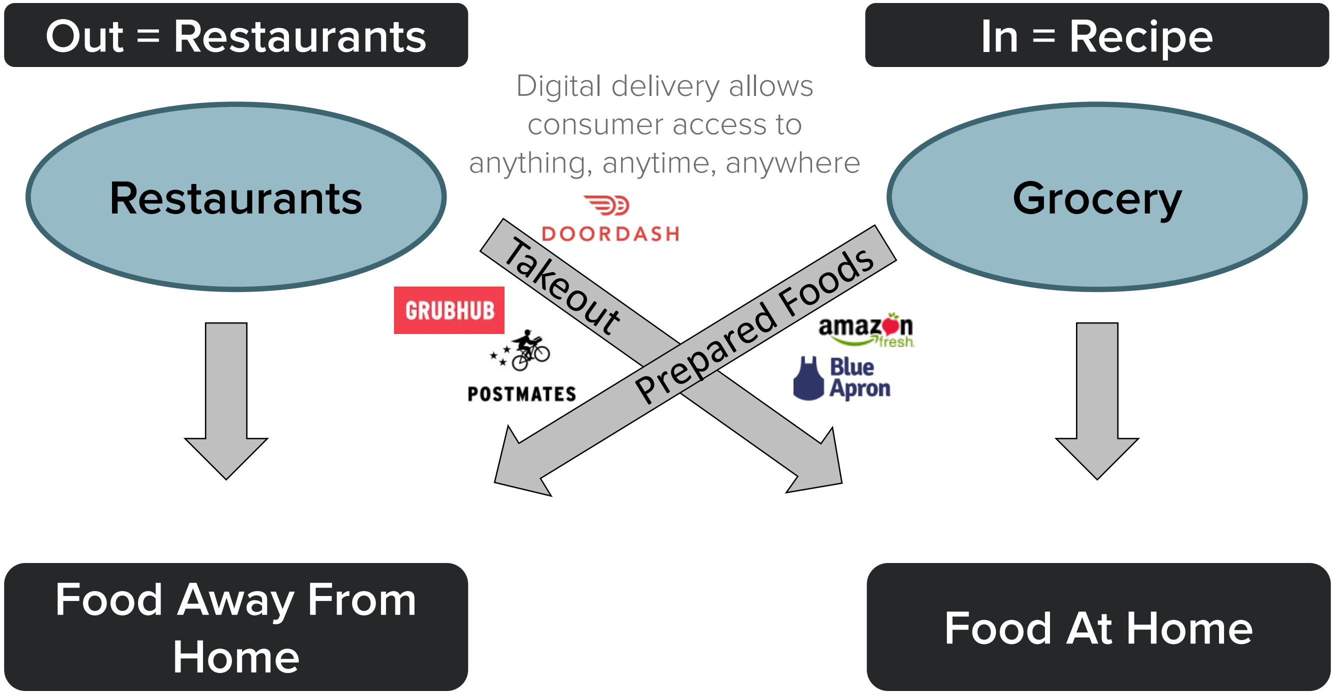
“Even the restaurant industry, with its physical locations and products, faces digital disruption.” – MIT Sloan & Deloitte Digital study

We have started to see immense amounts of VC funding flood the restaurant delivery landscape in hopes of providing the consumer what they want better and faster than the next competitor.

As this space continues to develop we will increasingly see consolidation as scale is critical, and those who control and perform best in the ‘last mile’ will win out in the end.

Data Source: Intuit, MIT, Deloitte, Hedgeye.

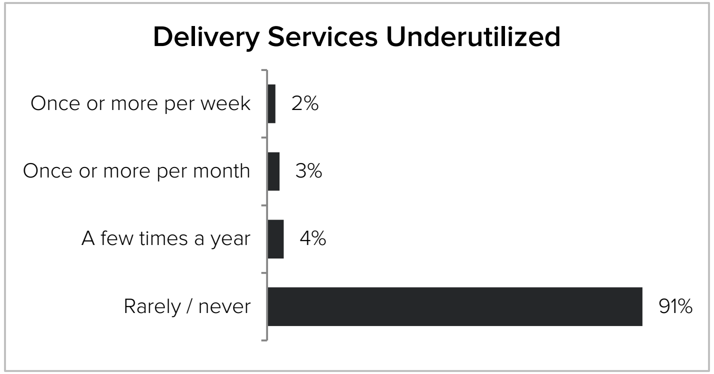
DIGITAL DELIVERY BLURRING THE LINES OF FAH & FAFH

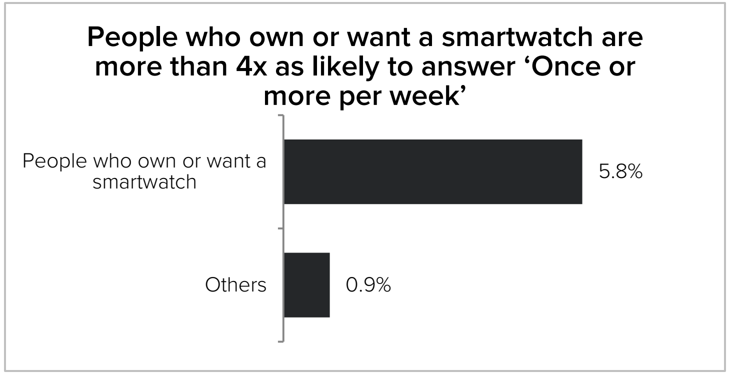


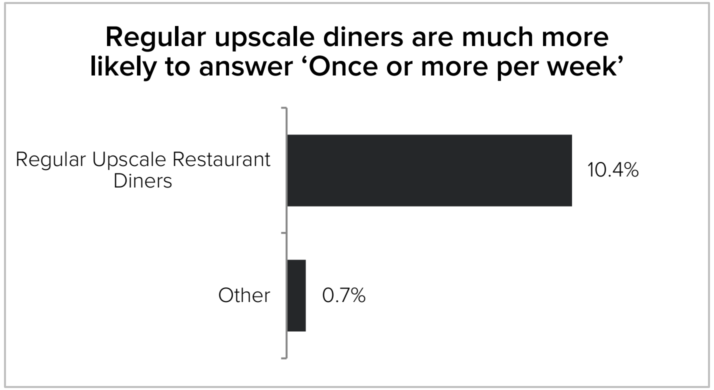
- The way food is reaching consumers is changing faster than ever before
- Grocers are expanding prepared food options creating another option for consumers versus a quick-service of fast-casual restaurant
- Restaurants are providing more takeout options which compete with at home meal prep
- And you have the emergence of companies such as Blue Apron and Munchery bringing the ingredients to you or even a prepared meal

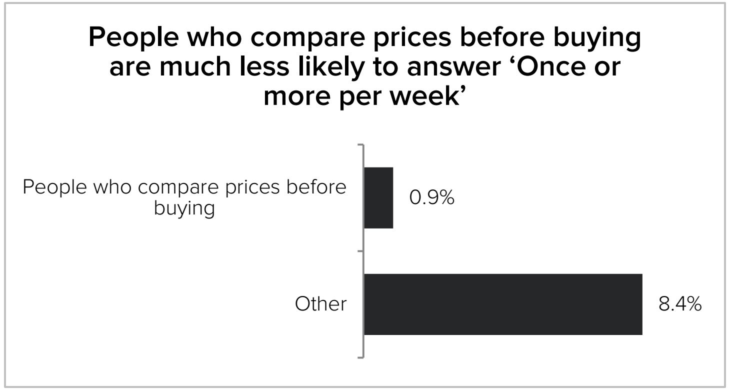
DELIVERY SERVICES STILL UNDERPENETRATED

QUESTION: HOW OFTEN DO YOU USE ONLINE FOOD DELIVERY SERVICES, SUCH AS SEAMLESS, GRUBHUB OR POSTMATES, TO GET FOOD FROM RESTAURANTS THAT TYPICALLY DON'T DELIVER?





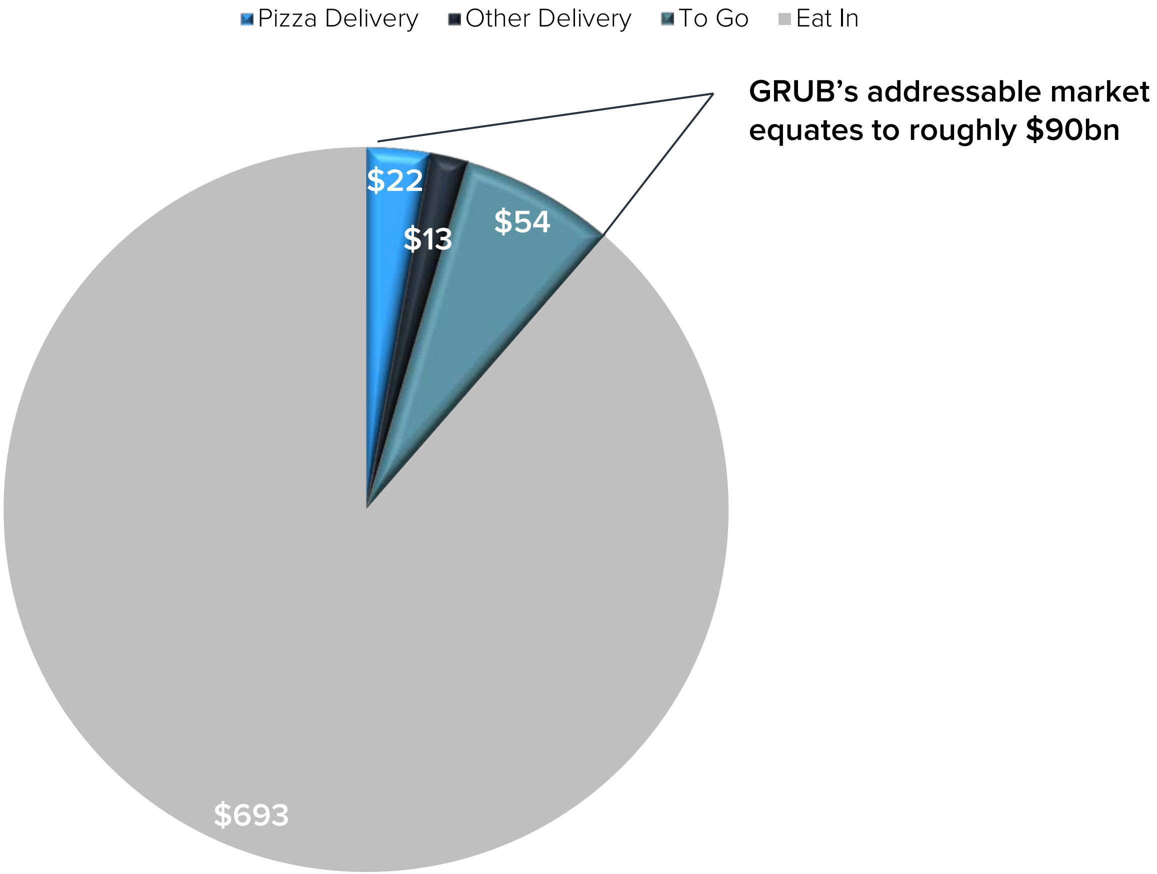




- As you can see from the chart on the far left, roughly only 5% of the population uses online food delivery services on a regular basis (more than once per month)
- The data breaks down pretty much how you would predict, as wealthier, tech savvy people are more likely to use these delivery services
- As third party delivery services and restaurants themselves expand delivery availability economies or scale will kick in, broadening the awareness and making delivery more accessible

Data Source: CivicScience, Results Filtered by U.S. Adults 18+ and Weighted by U.S. Adults. Responses: 60,015.

RESTAURANT DELIVERY/TAKEOUT ADDRESSABLE MARKET



- We see the addressable market growing as a percent of the pie over time given deliveries growing popularity.
- GRUB has quoted their TAM to be "well over $200 billion," which would equate to roughly 26% of industry sales as we stand today. We don't see the delivery market growing to quite this level.
- Top notch casual dining chains will likely land somewhere in the mid teens level, while some brands' food does not travel well, leaving them out of the equation entirely.

Data Source: NRN, Euromonitor International, Hedgeye.

A STRONG DELIVERY MODEL MUST CONTROL ALL THREE CHARACTERISTICS

At this stage GRUB has 7 million active consumers but its business model is inconsistent with national brand digital operating models and margin structure. In addition, GRUB's logistic business is small and requires significant investment to be more competitive. GRUB itself has limited brand awareness outside of tier 1 cities and does not offer any real competitive advantage to the big chains.

Data Source: Boston Consulting Group, Company Filings.

POOR PERCEPTION OF THIRD PARTIES AFFECTING BRANDS

According to Boston Consulting Group, poor perceptions of aggregators influence consumer experience of restaurant brands:

- Condition of the food when it arrives
- Time for delivery
- Value
- Variety of restaurants

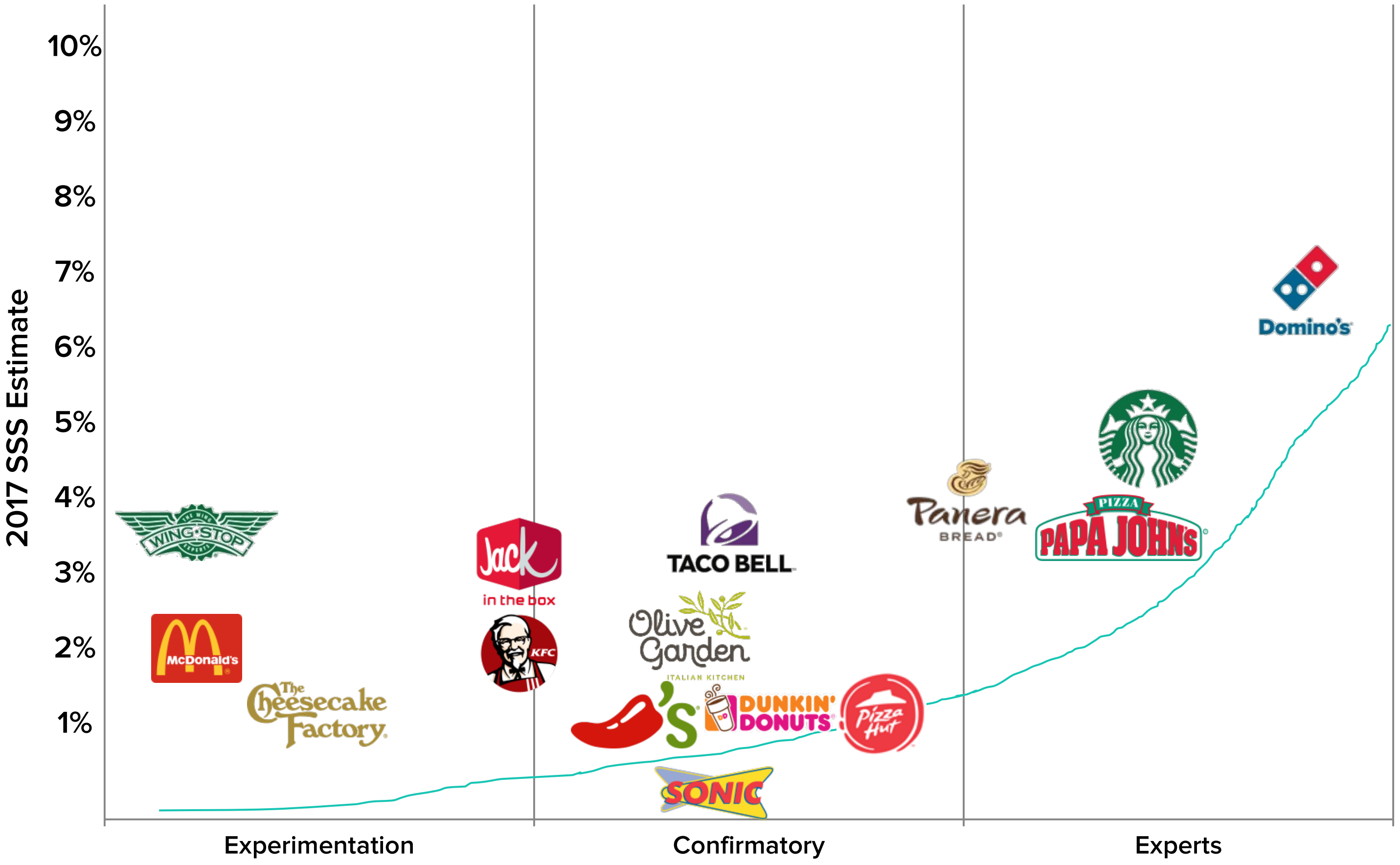
Third party delivery companies have a habit of delivering food they are not authorized to, some brands such as Panera let it happen as long as there are no issues, while others take a more serious approach:

- **March 6, 2016: Legal Seafood sued DoorDash for unauthorized deliveries, alleging they illegally utilized Legal Seafood's logo and delivered their food without permission (click HERE for article).**
  - Legal Seafood further alleged that DoorDash increased Legal's menu prices beyond in restaurant prices, tarnishing the brand image.
  - Legal Seafood has since been removed from the DoorDash website.

- **November 11,2015: In-N-Out Burger filed a lawsuit against DoorDash accusing DoorDash of trademark infringement and unfair competition and sought a permanent injunction to prevent DoorDash from serving their food (click HERE for article).**
  - In-N-Out specifically cited concerns over how DoorDash would handle their burgers and fries given they have no control how long it would take DoorDash to make the delivery.

Panera has been subject to 3rd party delivery services delivering their food without formal permission, and to date has had mixed reviews, in some cases telling 3rd parties to move along if they perform poorly or below standards that Panera expects.

TECHNOLOGY / DELIVERY PROFICIENCY MATRIX



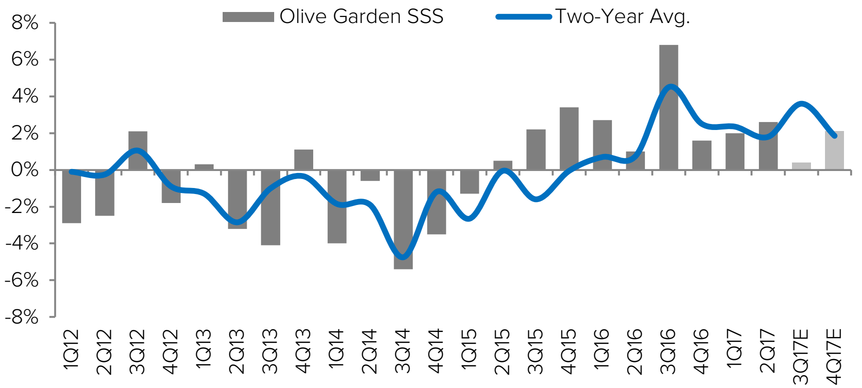
- Technology and delivery is clearly the wave of the future and those that are ahead of the curve have benefited from being proactive.
- DPZ for instance is a darling in the industry as they have been the leader in technology and delivery for some time, being the first to develop the ability to watch your order progress from placement to delivery.
- Others such as CAKE and MCD have lagged behind for one reason or another and you have seen what has happened to their sales.

DELIVERY INITIATIVE ACROSS THE INDUSTRY

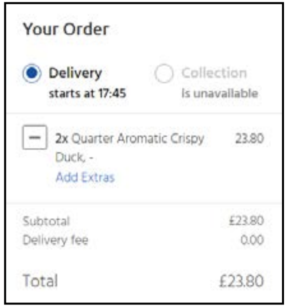
Delivery space covers the spectrum…

Company	City	Delivery Charge to Consumer	Commission for Restaurants
UberEats	Chicago	Flat booking fee of $4.99	~30%
Amazon	Chicago	Must be a Prime Member	Reported to be charging in the high 20% range
Caviar	Chicago	18% service fee (variable in Chicago)	N/A
DoorDash	Chicago	$2.99	25%
Postmates	Chicago	$2.99 and 9% service fee	20%
GrubHub	Chicago	Free to ~$5+	15-30%
Delivery.com	Chicago	$2- $6 and automatic tip (sliding)	5-7%
Eat 24	Chicago	Free - $10	13%
Deliveroo	London	£2.50	15%
Just Eat	London	Free - £2.00	13%
Delivery Hero	London	Free - ~£3.00	10%

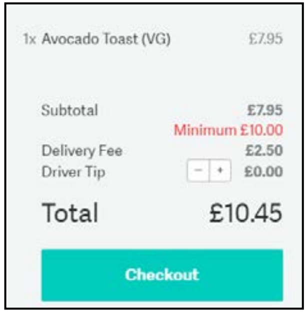
"I agree. Delivery is going to be disruptive…We can be developing our own network that can handle the one-off deliveries. We think what we're doing today around catering is kind of our own network. Then, could you actually build a kitchen in a warehouse district and deliver in a major city out of that?" – Eugene Lee, CEO Darden Restaurants, Inc.



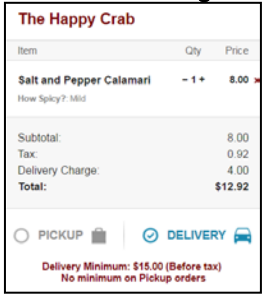
Just Eat London



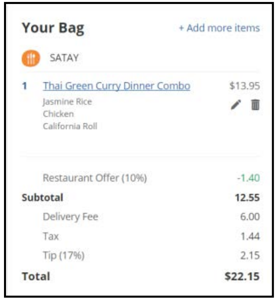
Deliveroo London



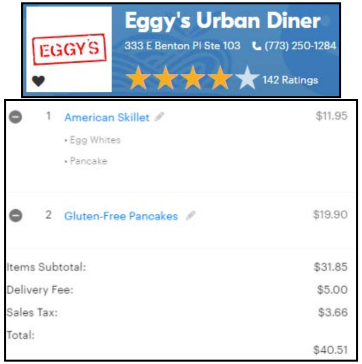
Eat24 Chicago



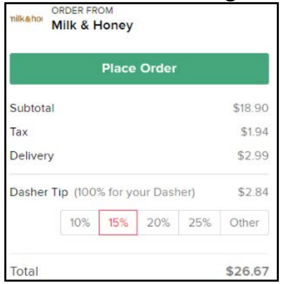
Delivery.com Chicago



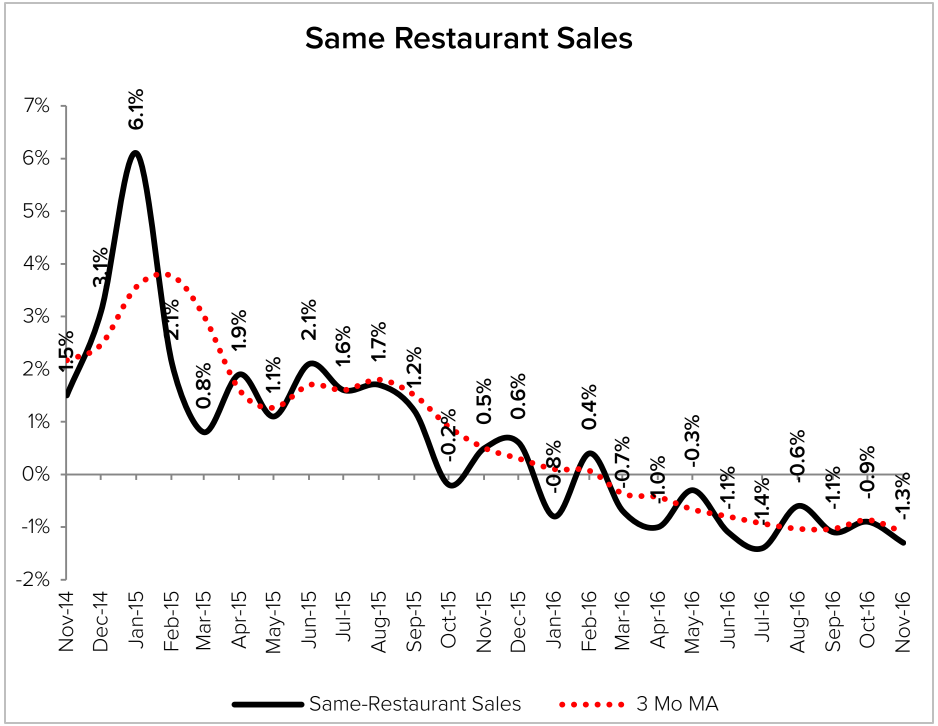
GrubHub Chicago

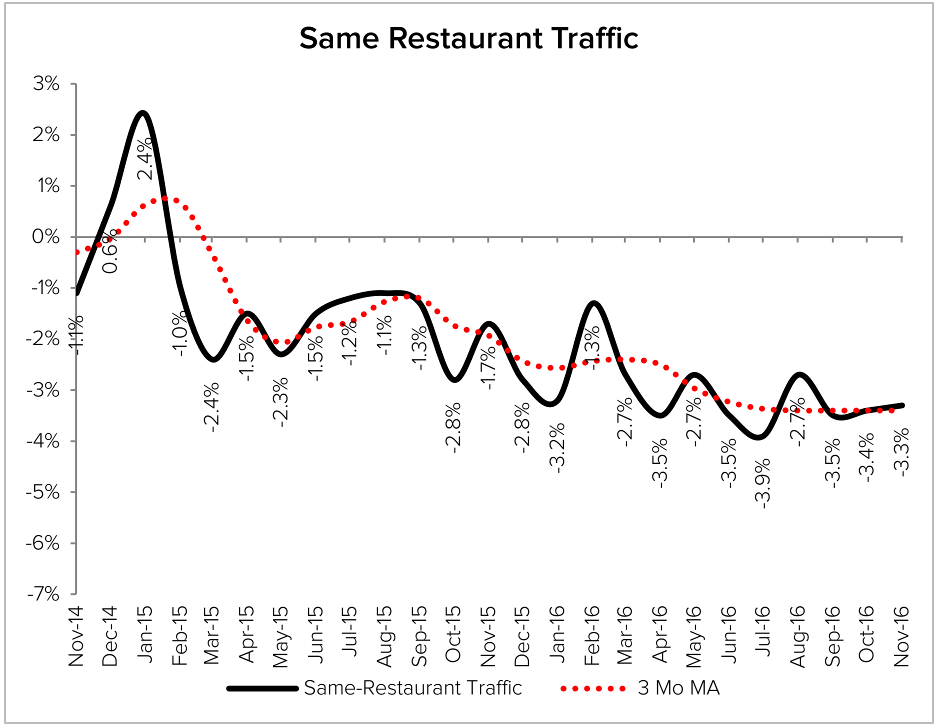


DoorDash Chicago



DELIVERY UNLIKELY TO BE THE SAVING GRACE FOR ALL





SOME CONCEPTS WILL FARE BETTER THAN OTHERS WITH THE EMERGENCE OF DELIVERY

Industry sales have been in decline for the better part of two years and the industry hasn't seen positive traffic since January 2015. Not all concepts are created equal when it comes to the benefits of delivery. Pizza has been a mainstay in the delivery space for sometime and we expect it to continue to be a leader, but with the emergence of third party delivery services we will increasingly see more concepts step further into delivery. We anticipate that the QSR industry will have a tougher time but Taco Bell has proved otherwise in the latest tests.

Data Source: Black Box Intelligence.

DELIVERY ECONOMICS – SCALE IS CRITICAL

Panera

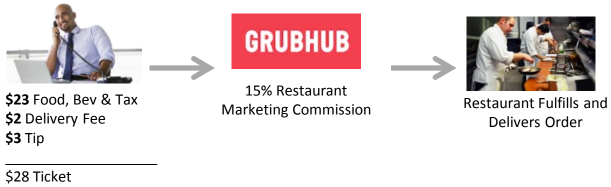
- Unlike other brands that are partnering with third parties, PNRA is building out their own delivery system in order to control the vital last mile.
- PNRA typically charges $3 per delivery to the consumer in the majority of their markets
- Start-up costs will be $20-$25k per restaurant
- PNRA restaurants reach a breakeven on delivery at $3,000 in AWS, with a flow through of 25% to 30% on the first dollar over, versus a typical order around 35%
- At $5,000 in AWS delivery is profitable but still margin dilutive
- And then stores doing $10,000 in AWS are both profitable and margin accretive
- Drivers are paid a split wage, when in the store not doing delivery they are paid the minimum wage. When on the road they are paid a tip scale wage

DoorDash

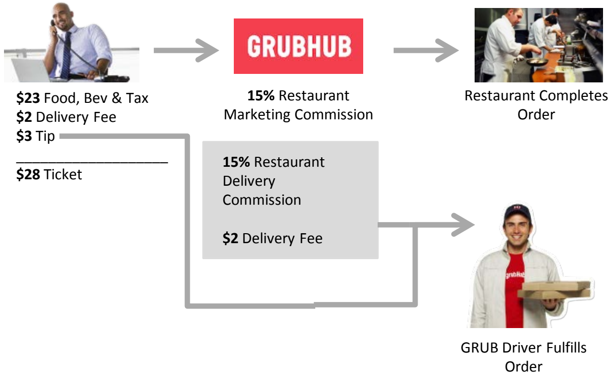
- DoorDash charges a 25% commission (DoorDash keeps this charge entirely) to the restaurant, they are doing the delivery so they deserve more
- Consumer will pay the delivery fee, and that is different depending on the market, the delivery fee goes entirely to the Dasher
- Driver gets the tip as well, usually 10-20% of total order amount.
- In markets like San Francisco, they have to reduce the delivery fee because the hourly wage is higher than in most parts of the country, due to the higher cost of living in that region. However, the Dasher still gets to keep the full delivery fee.
  - Markets like this are less profitable for DoorDash

GrubHub

GRUB Order with Restaurant Delivering



GRUB Order with GRUB Delivering



PROFITABILITY OF A SANDWICH

	PNRA
Average Delivery Order	**$20.00**
Variable Cost Flow Thru	30.0%
$ Flow Thru	**$6.00**
Fixed Costs Associated with Delivery	**13.0%**
	$2.60
Operating Profit per Order	$3.40
Operating Margin per Order	**17.0%**
Delivery Charge to Consumer	$3.00
Net Profit	$6.40
Net Profit Margin	**32.0%**

	GrubHub Delivery	
Average Delivery Order	**$20.00**	
Variable Cost Flow Thru	30%	
$ Flow Thru	**$6.00**	
Commission % Paid to GRUB	**10%**	**30%**
	$2.00	$6.00
Net Profit per Order	$4.00	$0.00
Net Profit Margin per Order	**20.0%**	**0.0%**

DELIVERY INDUSTRY FIELD NOTES - DOORDASH

GRUBHUB

seamless

POSTMATES

DOORDASH

OVERVIEW: We recently spoke with a senior executive at Doordash in an effort to gain a deeper understanding of not only their company, but also the broader food delivery space. Below is an amalgamation of both first hand information and proprietary research; combined to offer deeper insight into how those in the delivery business view both their business and those of their competitors.

KEY TAKEAWAYS:

- At this point, VC funding is the lifeblood of the business; if VC appetite for the space continues, the growth will continue, but if funding dries up, the space could be put under pressure.
- From a leadership perspective, the two names leading the pack are GrubHub and Seamless, both of which have no physical infrastructure (but trying to build out his part of the business).
  - Both names are aggregators taking on the responsibility of directing orders to restaurants who complete the order by eventually delivering the food.
  - This works in high-density markets like Chicago and New York, but not so well in markets like Houston.
- Companies that do have the infrastructure include Doordash, Postmates, Amazon, Saver, and UberEats.
  - Realizing that not having infrastructure may put them at a disadvantage, GRUB has purchased smaller regional “mom and pop” players in Boston and Los Angeles and have rolled them into their business. However, despite these purchases, 80% of GRUB’s business is supported by their non-infrastructure model.
- Doordash functions as a 3-layer model consisting of consumers, merchants, and drivers (Dashers)
  - Admits that creating more restaurant partnerships is pivotal, but the great majority of these business do not have drivers and this is where much consolidation could be had in the near to medium term.
  - GRUB has a consumer edge, Uber has a consumer/driver edge…but no one has a significant edge with regard to merchants.

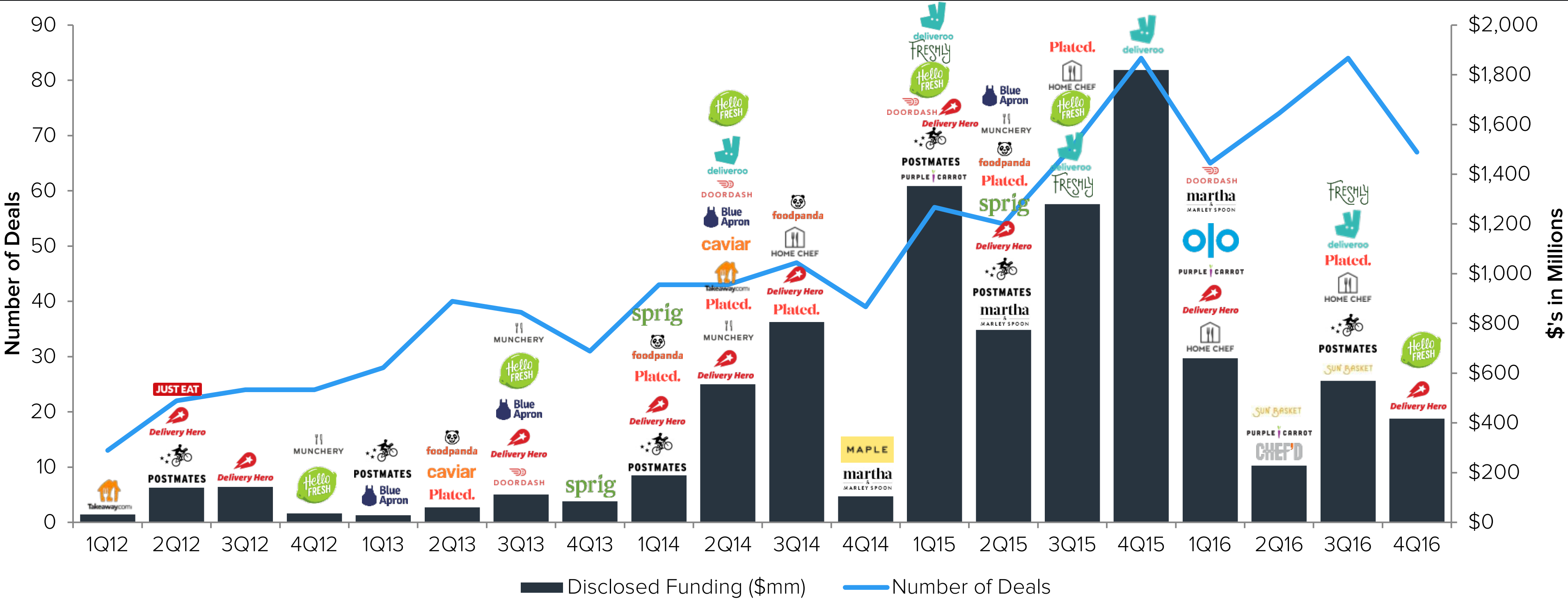
WHAT LIES AHEAD:

- The senior executive we spoke with expects to see meaningful consolidation in the delivery space because scale is critical…
- For example, Uber has drivers, and consumers, but is lacking with regard to relationships with merchants.
  - There drivers are not 1-to-1 transferable to the food delivery model
  - Uber has a very large pool of drivers, but not all of them are willing to deliver food, for various reasons.
- AMZN has consumers, especially when you consider their Prime platform, but they do not have restaurant partnerships or an infrastructure for a delivery network.
- Despite being the first mover in this space, Postmates still struggles with regard to technical expertise and thinking like a logistics company.
- All of these tidbits point to consolidation in the space, as these companies are essentially racing to see who can obtain the necessary components.

Hedgeye Opinion:

- Whoever controls the last mile is going to win!
- GRUB buying businesses is an admission that their base business model is broken.
- Buying companies will only take you so far; you still must figure out how to sustain and how to operate like a true logistics company.

VC FUNDING IN FOOD & GROCERY



IS FUNDING DRYING UP? HOW WILL CONSOLIDATION IMPACT THE INDUSTRY?

The food and grocery delivery industry has largely been dependent on venture capital funding to spur growth. But the amount of disclosed funding has now been down YoY in four straight quarters and the numbers of deals declined for the first time since 1Q13 in 4Q16. This could be that investors have finally seen who is rising to the top and shifting funds or a lost interest in this increasingly competitive landscape. It is conceivable that the food delivery industry will have multiple public players given the TAM available, so with that being said we don't expect VC to dry up completely.

Data Source: CB Insights, Company Filings, Crunch Base, Hedgeye.

PRIVATE FUNDING IS DYNAMIC – M&A ALREADY OCCURRING

Big Players Raising Cash

- Big and small players continue to raise capital but not always at improving terms, as some companies have hit the skids in the increasingly competitive world of food delivery.
- According to Fortune, citing data from VC Experts DoorDash's Series C round in which they raised $127 million at a $700 million post money valuation, price per share was 16% below Series B, so a down round when it comes to the share price, which is bad for employees while the valuation in total went up.
- Looking across the space, VC funding has slowed down considerably in the last year and it will be critical for these companies going forward that the well does not dry up.

	POSTMATES	DOORDASH	deliveroo	Delivery Hero
Valuation	$600mm	$700mm	$800mm	$3.1bn
Total Raised	$278mm	$187mm	$475mm	$1.3bn
Last Raise	Sep, 2016 $140mm Series D	Mar, 2016 $127mm Series C	Aug, 2016 $275mm Series E	Jun, 2015 $110mm Series H

Consolidation Will Continue

- The food delivery space is a very competitive market globally in which having a top share is critical to support sustainable profitability. We have begun to see consolidation occur both internationally and domestically, Just Eat sold off some non-core markets, Yelp acquired Eat24 and Square acquired Caviar just to name a few.
- We view M&A as the biggest risk to the short for GRUB, but with that being said they don't have anything completely proprietary besides a number of email addresses that a would be acquirer would find useful.
- It is likely that GRUB will continue to acquire smaller regional players in an effort to build out their delivery business as they have realized their base business is antiquated.
- Square acquired Caviar a premium delivery services that operates with higher fees, less selection but higher quality. There were rumors that both GRUB and UBER were interested in taking Caviar off of their hands in 2016.
- Former rivals Delivery Hero and Food Panda, also joined forces in December of 2016 in order to better compete in core markets.
- Needless to say the M&A landscape is very fluid in this industry with plenty of moving pieces, as Europe is set to have three publicly traded food delivery players in the next year, we can reasonably expect more to join GRUB in the US in short order.

Data Source: Techcrunch, Fortune, VC Experts, Crunchbase, Company Filings, Hedgeye.

GRUBHUB

SHORT GRUBHUB (GRUB): BLINDED BY THE LIGHT

KEY POINTS

1

GRUB COMMISSION MODEL IS UNSUSTAINABLE

GRUB's non-delivery business charges a rather simple commission of between 15% and 30%, and with the introduction of delivery, now charges a $2 delivery fee and an additional commission of roughly 15% for the drivers efforts. This math can add up to a considerable rate that often makes it an unprofitable proposition from a restaurateurs point of view. As GRUB continues to round out its coverage of independents it has turned to chain restaurants for growth. We do not prescribe to managements commentary that chains do not come onto the platform at a discount. And as chains become a more prominent piece of the business this fact will shine through.

2

MISSING A CRITICAL COMPONENT

GRUB has gone on an acquisition spree over the last two years acquiring four businesses worth a combined value of $155mm. The change in strategy is an admittance that the company is not competitive outside of it core markets of NYC and Chicago without being a logistics company. We believe the company's guidance of "de minimis" investment in delivery by 4Q17 will prove to be a strategic mistake.

3

COMPETITION ENCROACHING ON GRUB'S TERRITORY

Although competition has not yet impacted GRUB's business as evidenced by their continued growth we believe that UberEats, Amazon Restaurants and others will begin slowly chipping away at GRUB's market share domestically. As domestic growth stalls and GRUB looks to international for opportunities, they will have considerable difficulties breaking into an already dense field of robust competition in key markets. Well funded private as well as publicly traded players such as Just Eat have deep penetration and market knowledge, making it nearly impossible for GRUB to compete internationally.

Data Source: Company Filings.

COMPANY OVERVIEW & MANAGEMENT

Company Overview

- Grubhub is a top player in the online and mobile food ordering business in the US
- Grubhub was founded in 2004, and Seamless was founded in 1999. In late 2013, the companies merged.
- In February 2014 the company filed registration for an IPO and opened for trading on the NYSE in the same month (ticker: GRUB)
- The company's online and mobile ordering platforms allow diners to order directly from more than 45,000 takeout restaurant in over 1,100 U.S. cities and London.
- The Grubhub portfolio of brands includes Grubhub, Seamless, MenuPages, Allmenus, LAbite, Restaurants on the Run, Diningin, and Delivered Dish.

Quick Facts:

- In 2016, GRUB will have processed ~$3bn in gross food sales to local takeout restaurants and processes an average of 270,000 daily orders.
- Serves ~7.7 million active users.
- Nearly 60% of GRUB and Seamless orders are placed through mobile devices.
- Offices in Chicago, New York City, and London.

Management

Matt Maloney, Founder & CEO

Matt has helped to grow GRUB's active diner network to 7.7 million users, ordering from over 45,000 takeout restaurants in over 1,100 cities. He led the company through 5 rounds of investment funding, a 2013 merger with Seamless, and a 2014 initial public offering. He holds a bachelor's degree from Michigan State University and two master's degrees, including an MBA, from the University of Chicago.

Adam DeWitt, Chief Financial Officer

Prior to serving as CFO of GRUB, Adam was the CFO at Seamless, joining GRUB after the merger. In addition to leading Grubhub's financial operations, Adam oversees customer service and corporate development. During his tenure, GRUB's annual revenues have grown from $22M to ~$362M, and helped the company through its IPO in 2014. Adam holds a bachelor's degree in economics from Dartmouth College.

Barbara Martin Coppola, Chief Marketing Officer

Barbara has over 17 years of technology marketing experience and is responsible for driving the company's marketing programs. Her team's programs focus on growing brands affinity and user adoption. Prior to joining GRUB, Barbara spent seven years at Google. Barbars holds multiple master's degrees, including a master's in mobile communication from E.N.S.T. (Telecom Paris).

THE GRUB PITCH

Restaurant Benefits

More Orders	Restaurants receive an average of 30% more takeout orders in the first year
Broadest Reach	Reach more diners that are primarily incremental
High ROI	Low risk with no up-front cost / high return with full priced orders
Efficiency	Internet / mobile orders are 50% more efficient than phone

HEDGEYE OPINION

We disagree with the statement that GRUB diners are “primarily incremental” to the business. If you want to eat at Zoe’s Kitchen but it is raining so you opt to have it delivered instead of picking it up, is that truly incremental? You were going to go anyway but it was just more convenient and comfortable to have someone else walk in the rain.

Diner Benefits

Choice	Largest network with >40,000 restaurants across the country
No Mark Ups	Menu price parity with ordering direct from the restaurant
Low Fees	Industry low delivery fees of $1.50 -3 vs. most others at >$5
Transparency	Customize and control the order, knowing it’s sent accurately
Service	Diner focus with every order backed by 24/7 customer service

HEDGEYE OPINION

Recent delivery acquisitions exceed their $1.50 to $3 quoted price.

Data Source: Company Filings

M&A IS AN ADMISSION OF TROUBLE IN THE BASE BUSINESS

BASE BUSINESS IS BROKEN SO GRUB HAS FELT THE NEED TO GO OUT AND ACQUIRE DELIVERY COMPANIES

Close Date	Acquired Co.	Price (mm)	Estimated Sales	Multiple	Strategic Rational	Notes
5/11/2016	LAbite.com	$65.0	$24	2.7x	Delivery in California & Texas	$80mm in gross food sales, EBITDA margin around 25%
12/7/2015	Delivered Dish	$89.9*			Delivery in PNW and Southwest	Higher delivery fee than GRUB, $3.99+
3/2/2015	Restaurants on the Run				Delivery on the West Coast	$10 delivery fee, focus on corporate food delivery
2/5/2015	DiningIn				Delivery in Boston, Chicago, Dallas, Philly and Minneapolis	$2.99 delivery fee, preexisting partnership existed between the companies, focused on corporate and catering orders

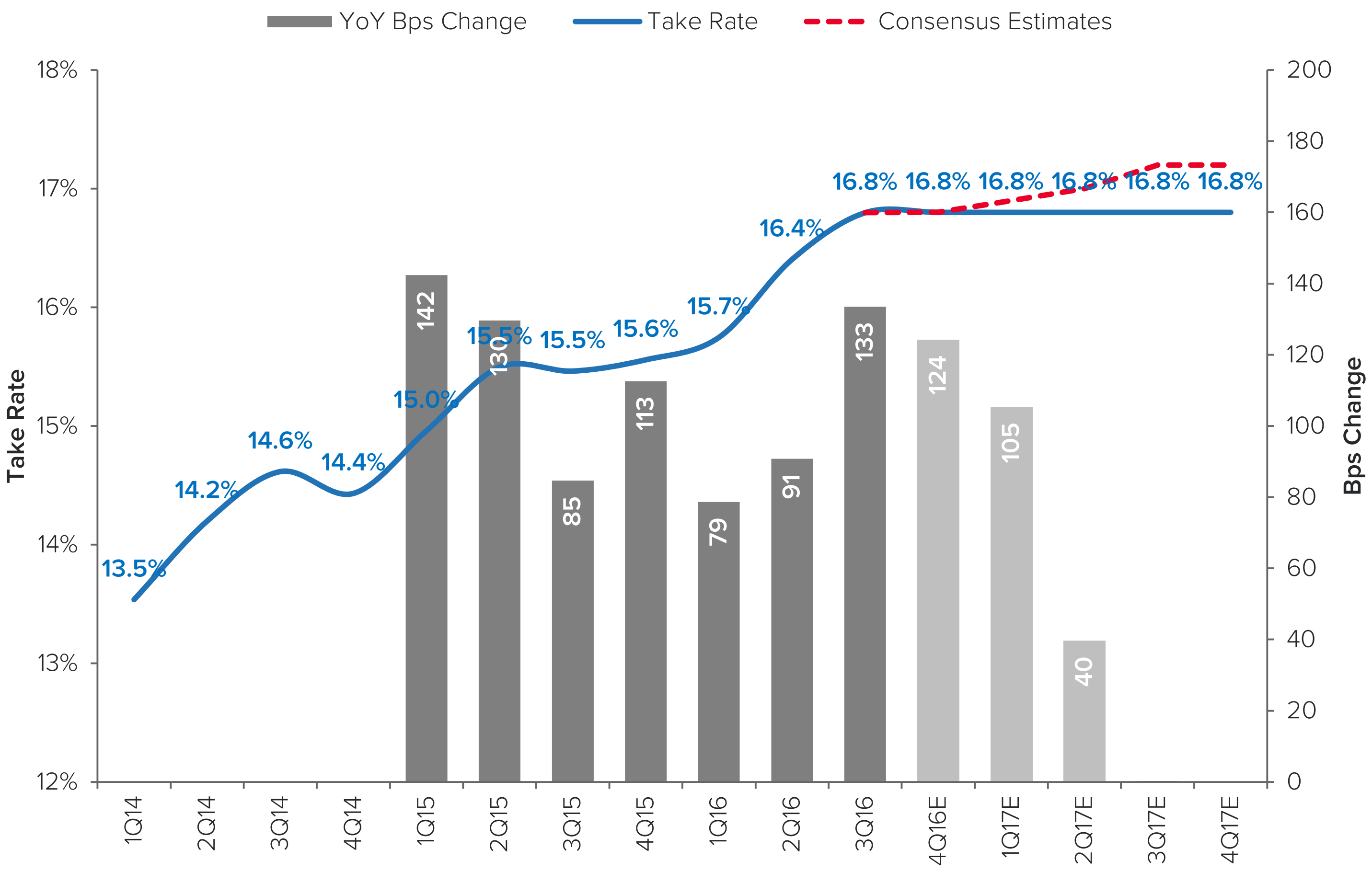
*$89.9mm represents the aggregate purchase price for all three acquisitions in 2015

- Acquisitions of delivery businesses have been the core tenant for GRUB's delivery expansion
- Management disclosed that LAbites is expected to generate $2mm in monthly revenue and $500k in EBITDA equating to a 25% EBITDA margin, ~400bps below company wide margins
- Delivered Dish charges a considerably higher delivery charge than GRUB, $3.99 seems like the minimum
- GRUB - Transcript: Q1 2016, Matt Maloney on incorporating new platforms, "We are going to work as hard as we can to get those restaurants live on our platform, and then we are going to migrate the drivers second and then, finally, we are going to see if we fully migrate the brands in from a diner perspective or not. It is still kind of TBD." We see consolidation risk as GRUB transfers businesses, will users drift to competitor services?

GRUBHUB

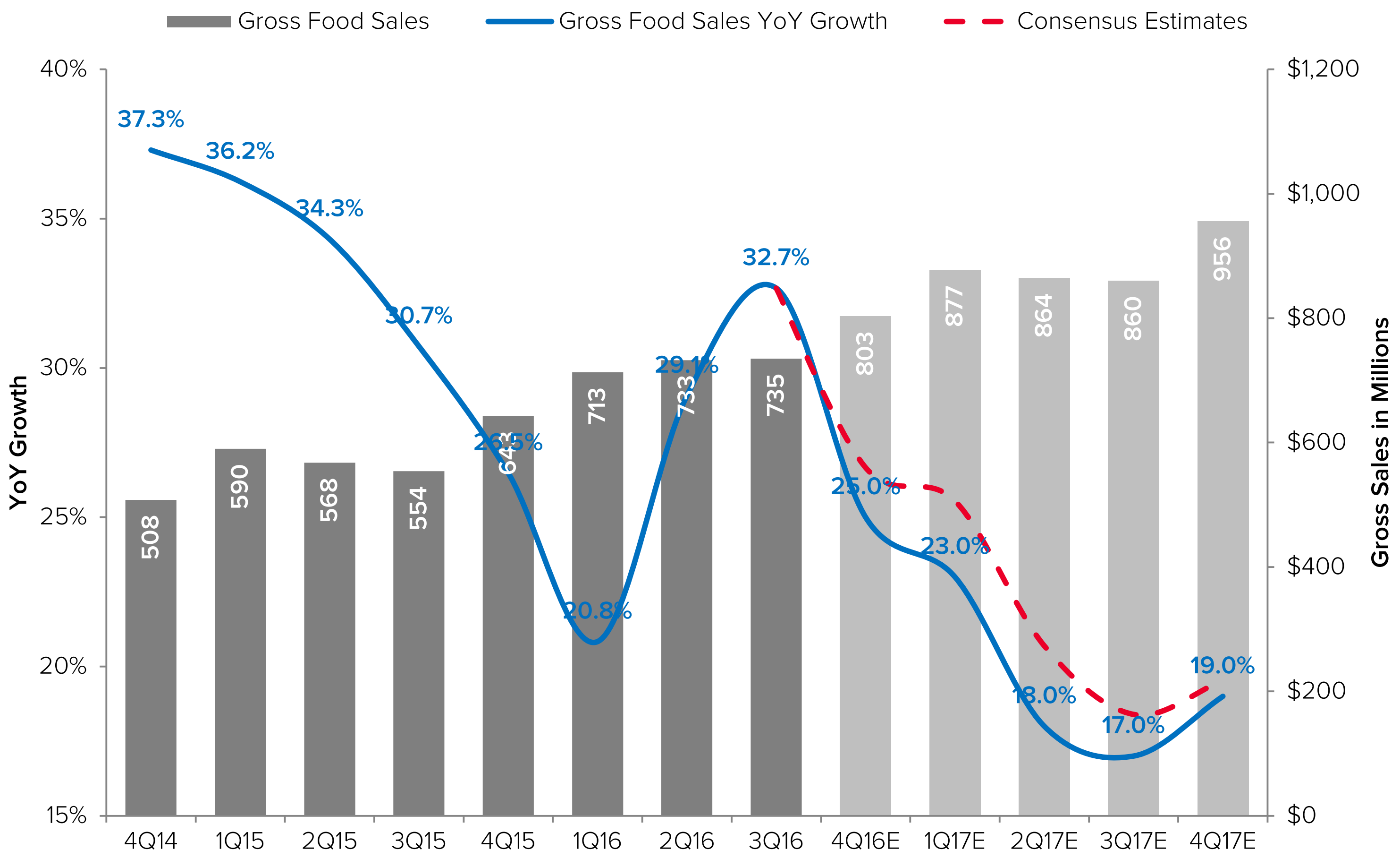
KEY METRICS

TAKE RATE DEPENDENT ON GROWTH IN DELIVERY



- Much of the increase in take rate throughout 2014 was due to the increase in higher commission paying restaurants driven by the GRUB auction model, and Seamless adopting the auction sort versus their default alphabetical sort previously.
- GRUB stated during their 3Q14 call that when they initially introduced the auction based ordering to Seamless there was an initial step-up and then it leveled off as the market matured, and they expect it to return to normalized growth
- This initial bump provided a great tailwind and was further supported by acquisitions and growth in their delivery business.
- Take rate was up 133bps YoY in 3Q16 driven primarily by acquisitions and expansion of GrubHub delivery, ex. these impacts it was up "slightly."

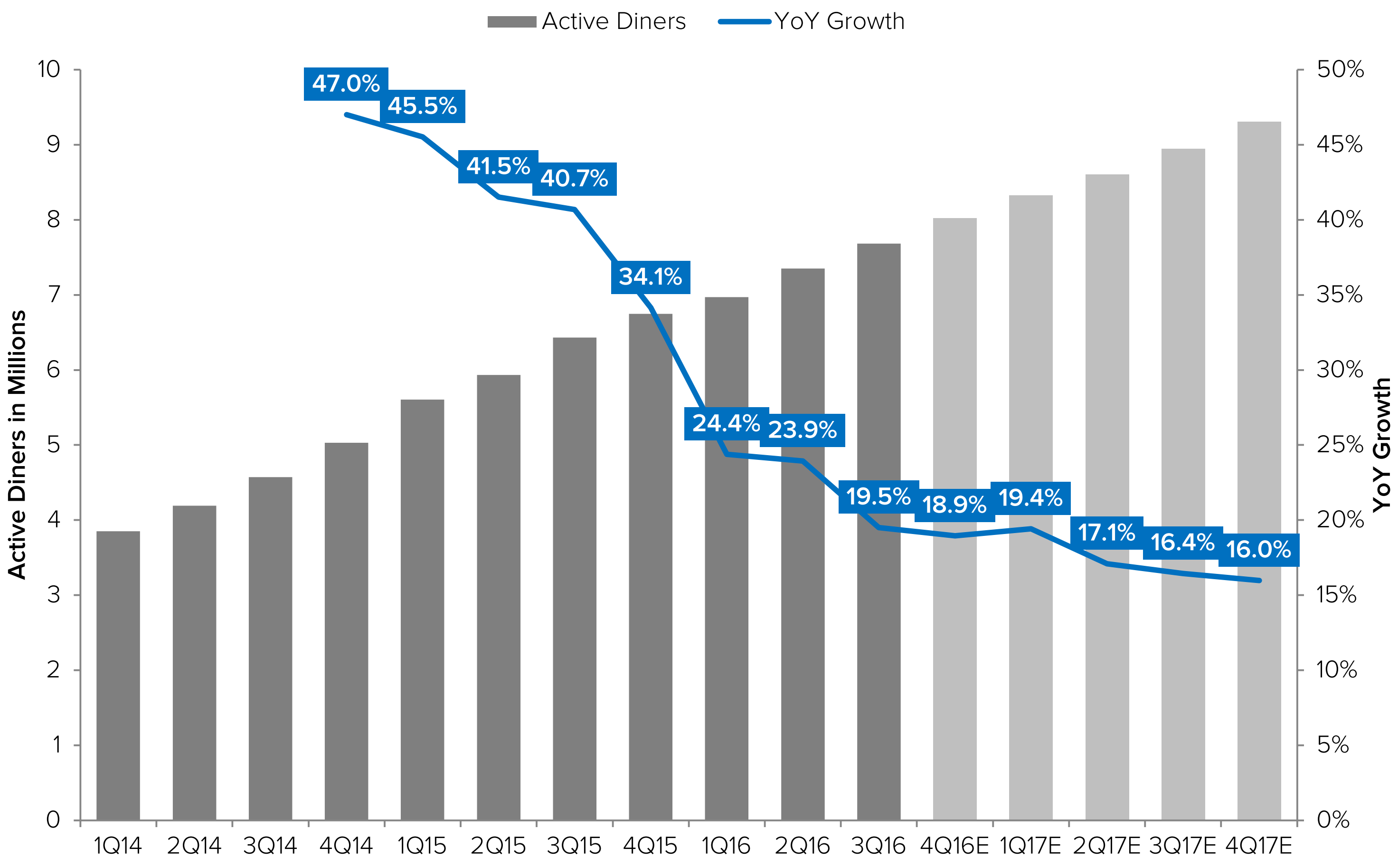
GROSS FOOD SALES



- Gross Food Sales = the total value of food, beverages, taxes, prepaid gratuities, and any delivery fees processed through the Company's platform. The company includes all revenue generating orders placed on its platform in this metric; however, revenues are only recognized for the Company's commissions from the transaction, which are a percentage of the total gross food sales for such transactions.
- In 3Q16 gross food sales increased 32.7%, excluding acquisitions this number would have been 27.5%, a 517bps spread, which widened from the 407bps spread in 2Q16

Data Source: Company Filings, FactSet, Hedgeye Estimates

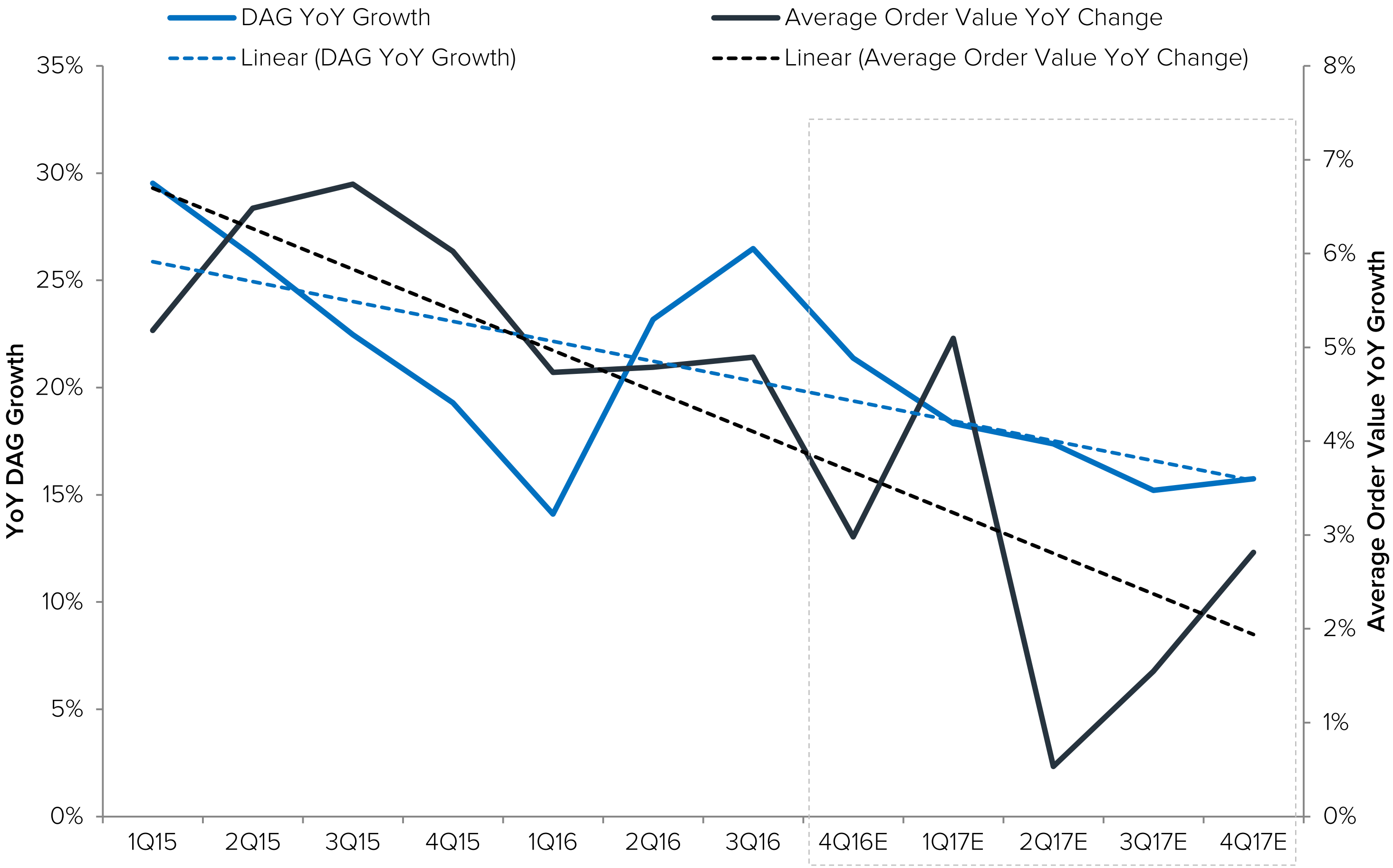
ACTIVE DINERS



- Active diners represents the number of unique diner accounts from which an order has been placed in the LTM. The company prefaces this metric saying that some diners could have more than one account, and as a result the metric may count certain diners more than once.
- In 3Q16 active diners grew 19.5% to 7.7mm.
- Management explains away the continued deceleration in the growth of active diners to their focus on gaining higher quality diners.

Data Source: Company Filings, FactSet, Hedgeye Estimates

AVERAGE ORDER VALUE VS DAG GROWTH

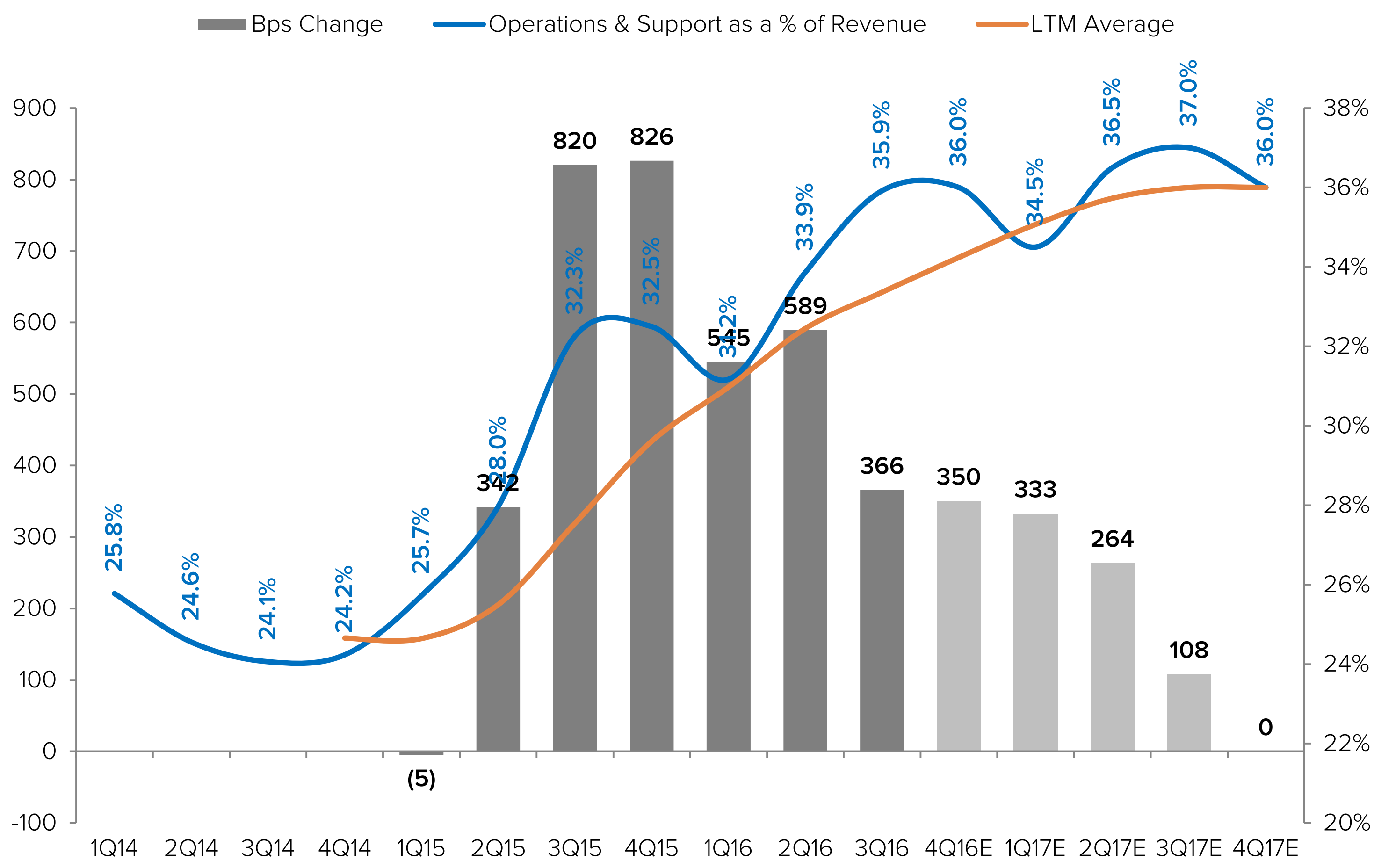


- Where is the bottom for average order value, as growth continues to slow down.

GRUBHUB

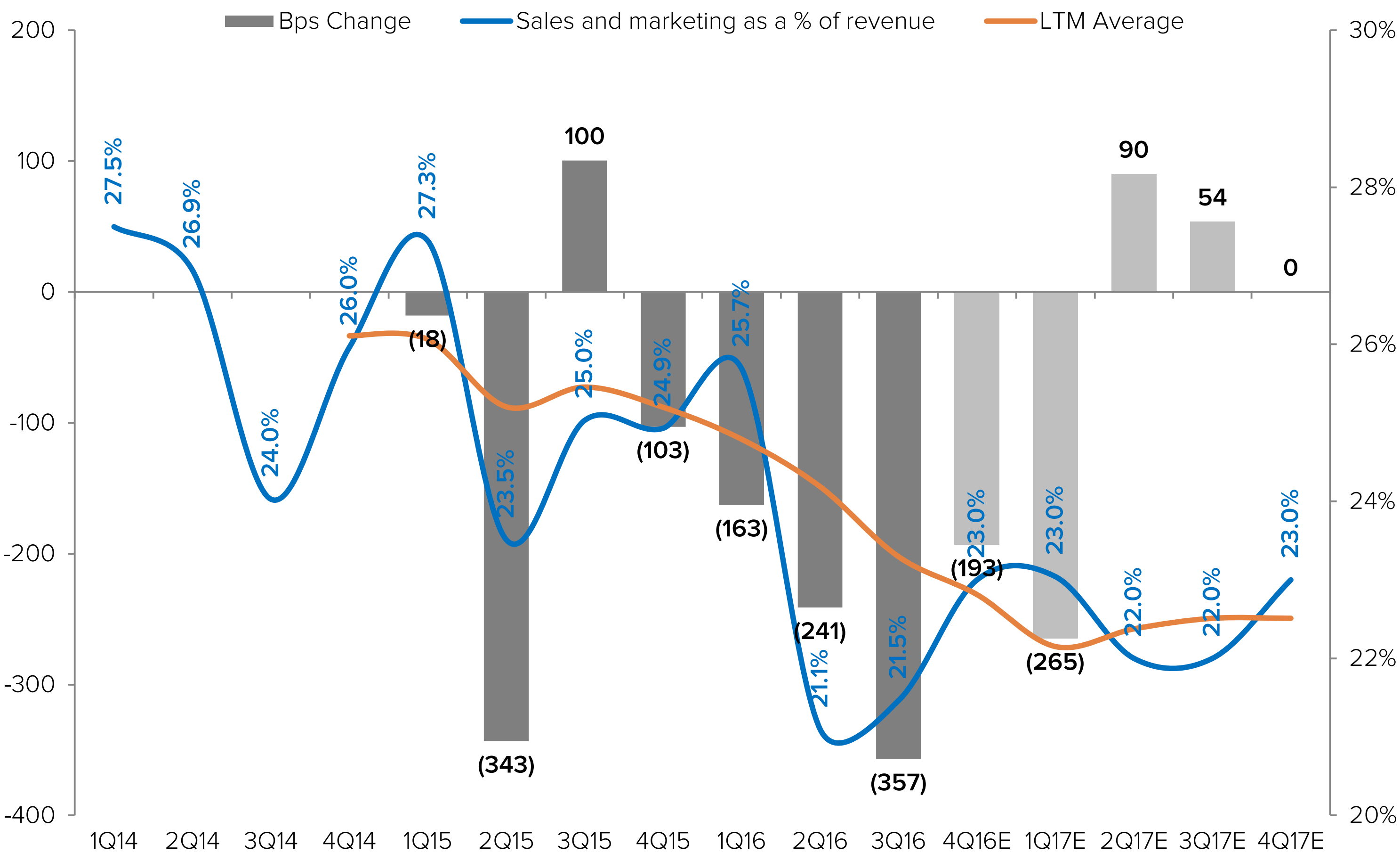
MARGIN ANALYSIS

OPERATIONS AND SUPPORT AS A % OF SALES



- Operations and support as a % of sales hit an all-time high as a public company at 35.9% in 3Q16, this represents a $16.7mm or 60% increased versus last year.
- This increase was primarily driven by delivery investment (organic delivery investment, or the amount GRUB spent on delivery in excess of incremental delivery revenue was $4mm in the quarter), the inclusion of recent acquisitions and higher customer service and operational costs to support more volume.
- GRUB anticipated Q4 will be similar to Q3 and that the organic delivery investment will trend lower in 2017, but with competition heating up as well, will this be a reality?

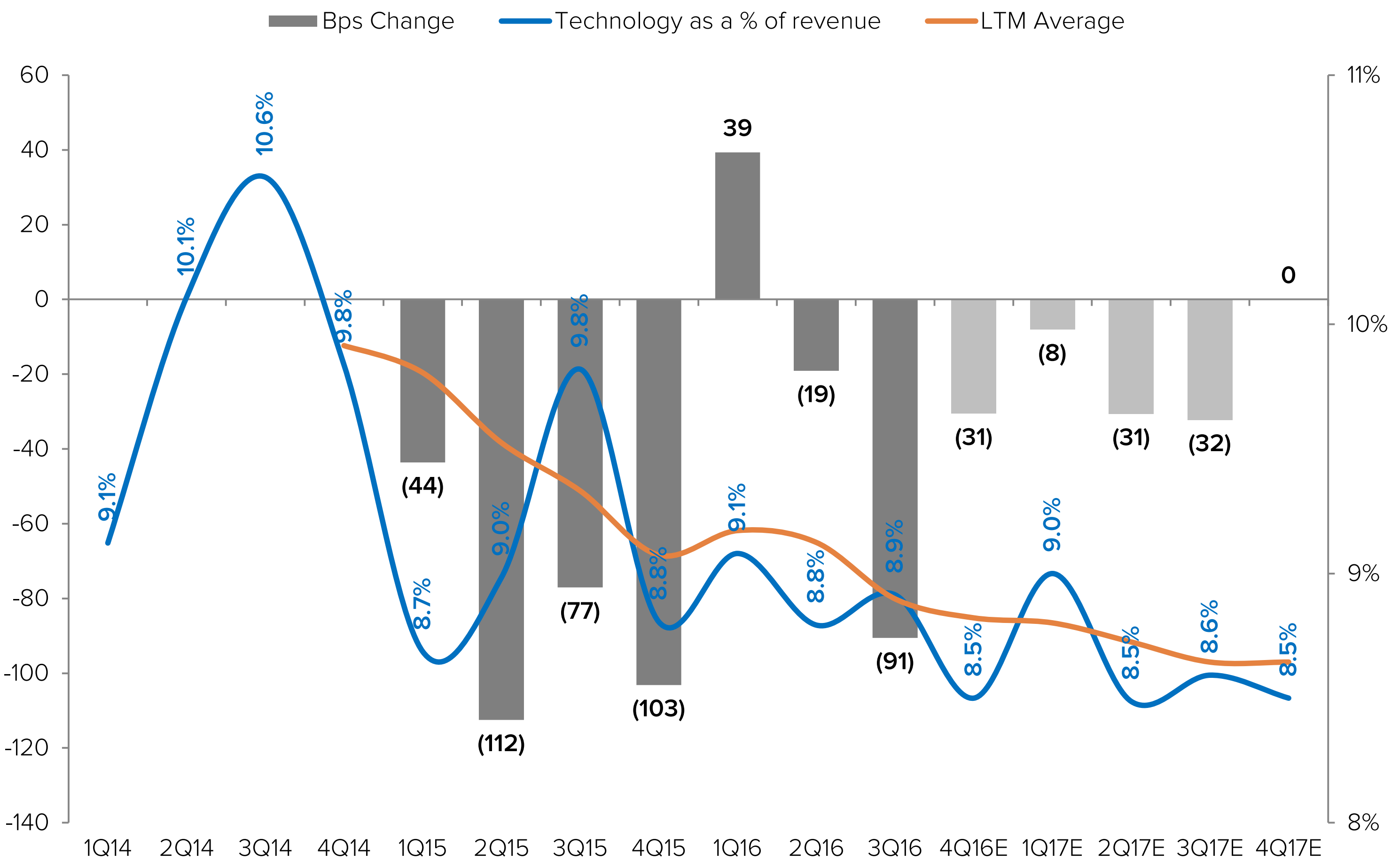
SALES AND MARKETING AS A % OF SALES



- Although sales and marketing expenses increased 24% YoY to $26.5 million in 3Q16 and up 5% sequentially they were still down as a % of sales by 357bps.
- With management's increased focus on reaching higher quality diners that order more frequently, they increased their advertising campaigns by $3.0 million which was the largest contributor to the increase.
- Going forward, the bulls think this number can get sub-20% as a percent of sales.
- If you were to pull our chart out four more quarters you would see that we are maintaining this spend at roughly 22% of sales through 2018 as we believe continued investment will be needed in order to maintain/capture share in an increasingly competitive market.

Data Source: Company Filings, FactSet, Hedgeye Estimates

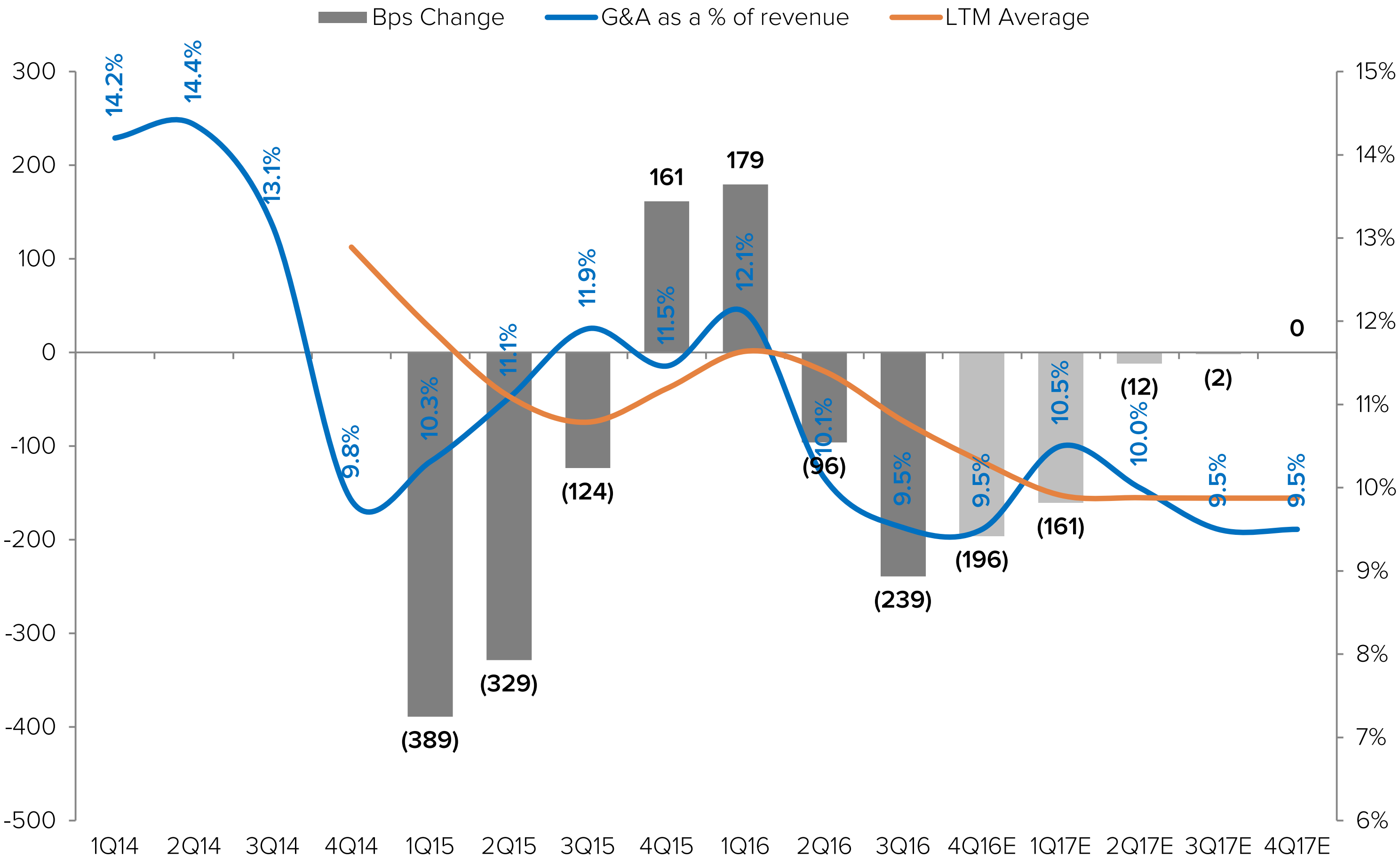
TECHNOLOGY AS A % OF SALES



- Technology expenses increased by 31% YoY in the quarter while declining as a % of sales by 91bps as they realize sales gains partially due to technological improvements to the system.
- During the quarter the company grew its technology team and increased salaries, benefits and stock based comp for the team to "support the growth and development of the Seamless and Grubhub platforms."
- This is a critical line item as this industry is an arms race for the best technological talent.
- Comparing to consensus estimates we are more or less in line, as it is widely recognized that maintaining the spend in this area is critical.

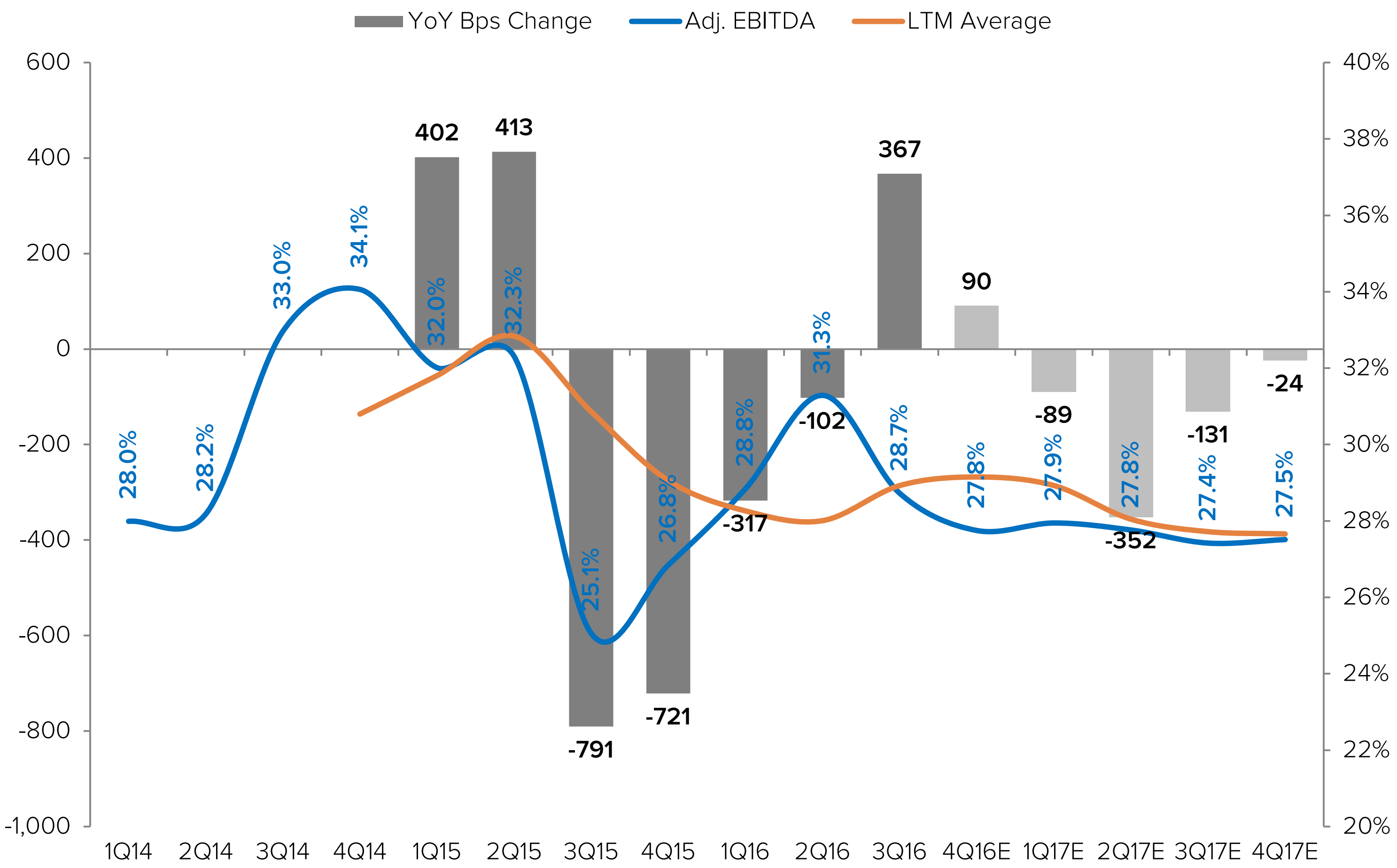
Data Source: Company Filings, FactSet, Hedgeye Estimates

G&A AS A % OF SALES



- G&A costs were $11.8 million in 3Q16 down 3% sequentially from $12.2 million, while up 15.2% YoY.
- The YoY increase in dollar value is attributable to recent acquisitions as well as miscellaneous expenses.
- We are roughly 50- 100bps above of consensus models as we look out to 2018, as we believe that investments in this area will need to be maintained in order to maintain growth.

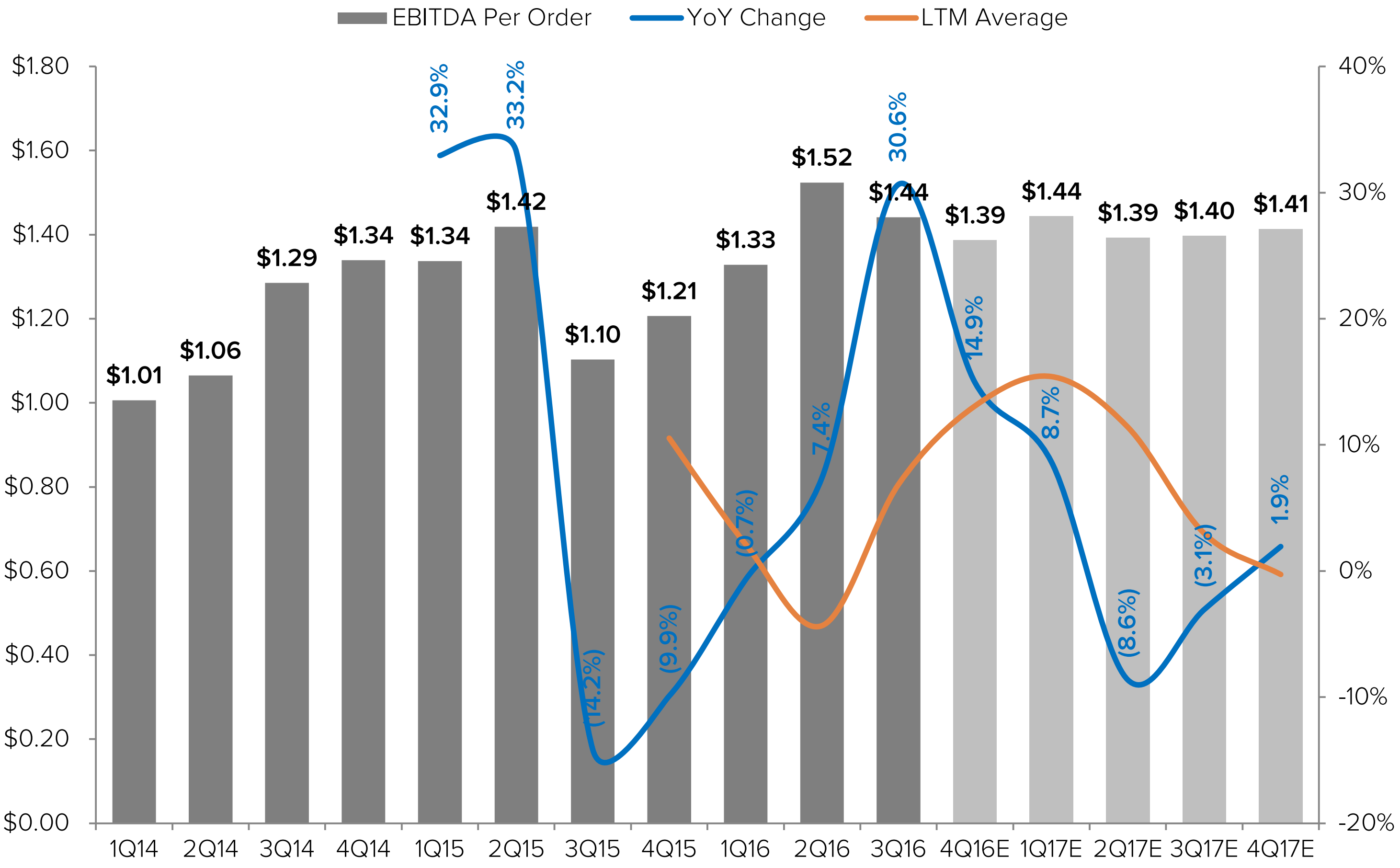
ADJ. EBITDA MARGIN



- Adjusted EBITDA was up 367bps in 3Q16 to 28.7%.
- Delivery continues to weigh on EBITDA margin growth, while the dollar value accelerated, growing by 65% in 3Q16.

Data Source: Company Filings, FactSet, Hedgeye Estimates

ADJ. EBITDA PER ORDER



- GRUB's high margin non-delivery model may drift away in favor of delivery model which will ultimately bring down margins in our view.
- GRUB claims they will be able to capture a similar margin for both delivery and pass through orders, we believe that to be unlikely.
- During GRUB's 2Q16 they touted their "highest ever" EBITDA per order of $1.52 while still aggressively growing delivery, only to follow it up the next quarter with a 5.4% decline to $1.44.

GRUBHUB

COMPETITION MUTED, UNTIL IT'S NOT

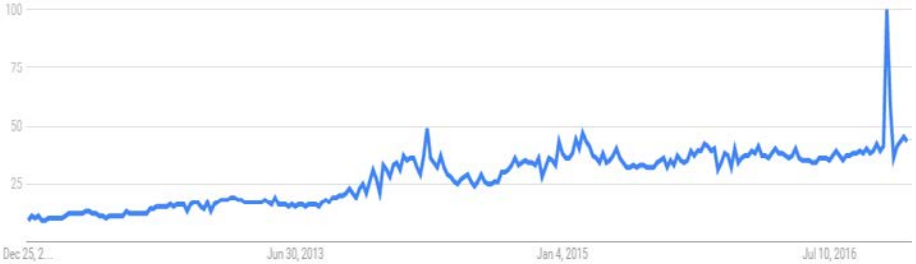
MAJOR COMPETITION SADDLING UP

DoorDash	Postmates	GrubHub	UberEats

- There is quite a bit of overlap, but DoorDash and Postmates are far ahead of the pack when it comes to partnerships with large brands

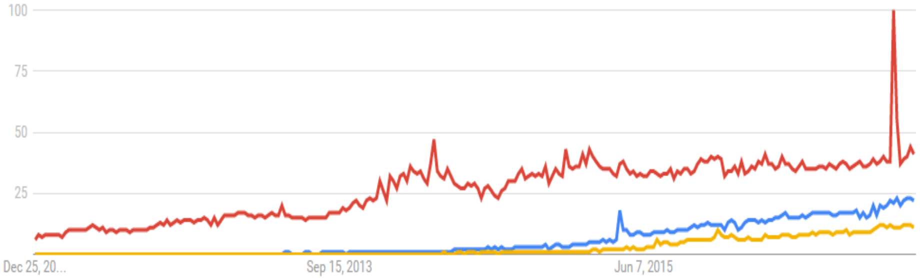
GOOGLE TRENDS SHOW COMPETITION CREEPING UP

'GrubHub'



'DoorDash'

Comparison



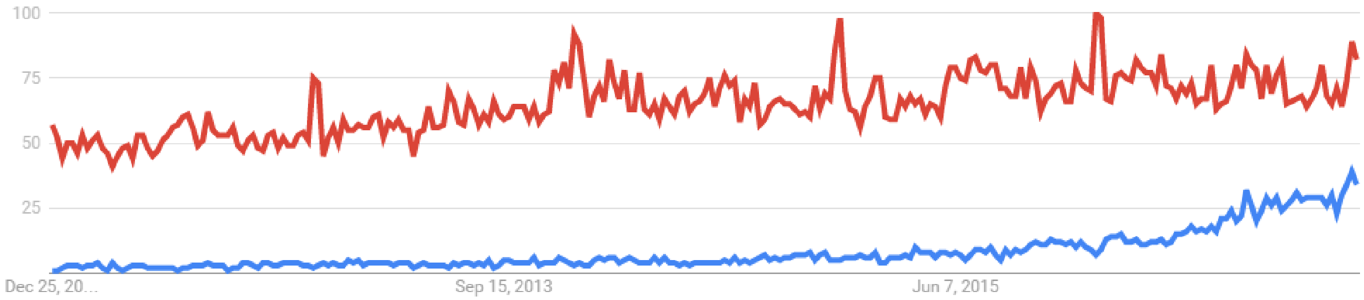
'Postmates'

- GrubHub
- Postmates
- DoorDash

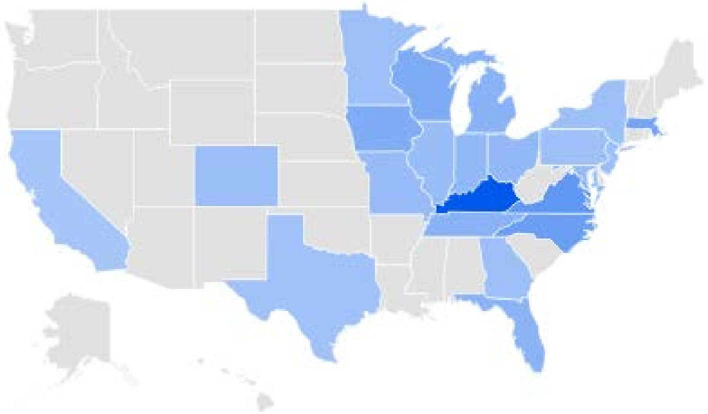
Fast track startups are quickly stealing share in the marketplace. GRUB still has strong holds in Illinois and New York but others are encroaching on their territory

PANERA CONSUMERS RECOGNIZING DELIVERY

'Panera Delivery' vs. 'Domino's Delivery'



PNRA Delivery Growing in Popularity Nationally



- Panera delivery will be available at 15% of restaurants by the end of 2016 and 35-40% by the end of 2017 so we expect this upward momentum to continue.

Data Source: Google Trends.

NO ROOM FOR GRUB INTERNATIONALLY

- **Just Eat (JE-GB)** is a UK based company that operates throughout Europe, North America (not the US), Australia/New Zealand and South America. JE is expected to generate ~$370 million in rev. in 2016. JE has a robust infrastructure across the majority of their markets and has been making critical acquisitions to gain scale.
- **Takeaway.com (TKWY-NL)** is a food delivery company that operates out of the Netherlands and serves nine countries throughout Europe as well as Vietnam. TKWY is expected to have revenue of roughly $110 million in 2016. TKWY also recently acquired Just Eat Benelux for €22.5million. Just Eat has clear priorities stating at the time of the deal, *"that the competitive dynamics of our industry demand a clear market leader to drive sustainable profitability."*
- **Delivery Hero** is a German based company operating in 33 markets across Europe, The Middle East and South America. According to CB Insights they have raised $1.3 billion to date, they are rumored to be looking to go public in 2017.
- Our primary risk to the short side for GRUB is M&A activity in the space, but we find it unlikely that one of these international companies would want to buy into a hyper competitive market such as the US at this stage in the game.

- Looking below at some key metrics for UK based food delivery, Just Eat has surpassed Domino's in the UK, as they continue to climb up the ladder and gain more notoriety when it comes to delivery.
- Looking past market share and to consumer awareness, although Domino's is still number 1 due to long-term brand marketing a penetration Just Eat is a very respectable number 3 for only being around for a short while.

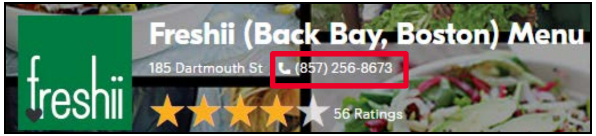
GRUBHUB

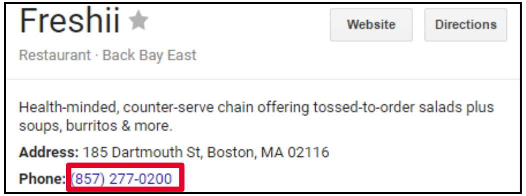
SOMETHING DOESN'T SMELL RIGHT

SKETCHY ANTICS

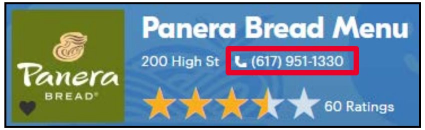
Phone Numbers

GrubHub utilizes different phone numbers than the actual stores phone numbers to route calls through their system in order to capture commissions.





Larger brands do not allow this!



Differing Commission Rates

- GRUB – 3Q16 10-Q: **"Most of the restaurants on the Company's platform can choose their level of commission rate, at or above the minimum rate, to affect their relative priority in the Company's sorting algorithms, with restaurants paying higher commission rates generally appearing higher in the search order than restaurants paying lower commission rates."**
- From our research we have found that restaurants pay anywhere from 15% to 30% commission to be on GrubHub.
- Restaurants are not making money when they pay a 30% commission to GrubHub it is breakeven at best
- These antics will not pass the smell test of chains. Chains will demand top priority for a low rate, for the privilege of GRUB having their restaurants on its website.
- "And so because we are bringing the business and fulfilling it, they are more than happy to pay the standard rack rates and they are -- there is no economic preference given to chains in contracts whatsoever." Matt Maloney GRUB CEO - 1Q16
- **We have talked to multiple chain operators that are paying under 15% commission rates.**

Data Source: Company Website, Company Filings, Tribecacitizen.com, Hedgeye.

THE PERFECT RESTAURANT STORM

Rising labor costs, rent increases, a pandemic of similar restaurants, demanding customers unwilling to come to terms with higher prices – it's the perfect restaurant industry storm.- Kevin Alexander, *Thrillist*

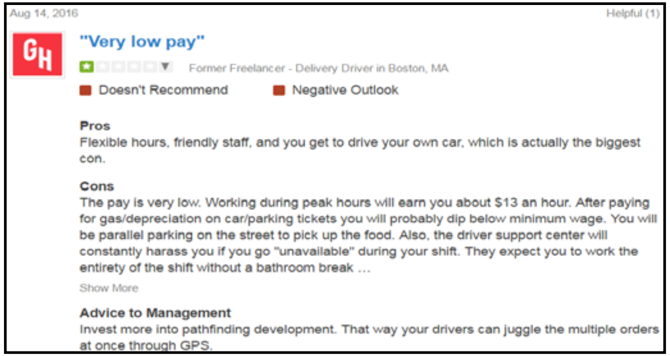
According to BLS, of the 2.6 million people earning around the minimum wage in 2015, the highest percentage came from service jobs in the food industry.

With restaurants looking to cut costs in order to stay afloat, and a great deal of GRUB's employees being these minimum wage workers, it is safe to say that GRUB will soon be feeling the heat from all directions.

- GRUB's commissions structure will be challenged going forward
- Minimum wage pressure will force GRUB to increase labor costs, subsequently putting pressure on margins.

However, this pressure is not only governmental, as GRUB drivers are documented as expressing disapproval with wage rates, believing that pay is subpar and inequitable.

- According to one driver, during peak hours you can earn ~$13/hr. However, after paying for gas, parking tickets, etc, there is a high likelihood that your pay will drop below minimum wage.



Aug 14, 2016 Helpful (1)

"Very low pay"

Former Freelancer - Delivery Driver in Boston, MA

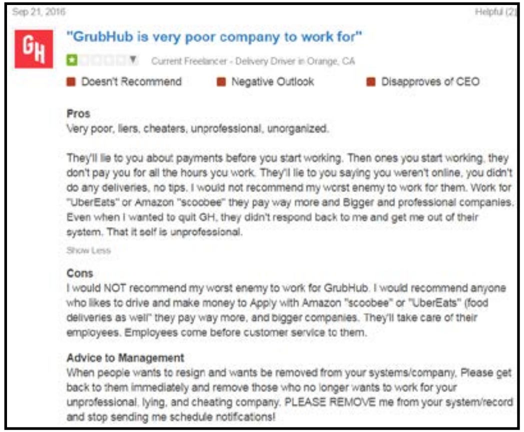
Doesn't Recommend Negative Outlook

Pros
Flexible hours, friendly staff, and you get to drive your own car, which is actually the biggest con.

Cons
The pay is very low. Working during peak hours will earn you about $13 an hour. After paying for gas/depreciation on car/parking tickets you will probably dip below minimum wage. You will be parallel parking on the street to pick up the food. Also, the driver support center will constantly harass you if you go "unavailable" during your shift. They expect you to work the entirety of the shift without a bathroom break …

Show More

Advice to Management
Invest more into pathfinding development. That way your drivers can juggle the multiple orders at once through GPS.



Sep 21, 2016 Helpful (2)

"GrubHub is very poor company to work for"

Current Freelancer - Delivery Driver in Orange, CA

Doesn't Recommend Negative Outlook Disapproves of CEO

Pros
Very poor, liers, cheaters, unprofessional, unorganized.

They'll lie to you about payments before you start working. Then ones you start working, they don't pay you for all the hours you work. They'l lie to you saying you weren't online, you didn't do any deliveries, no tips. I would not recommend my worst enemy to work for them. Work for "UberEats" or Amazon "scoobee" they pay way more and Bigger and professional companies. Even when I wanted to quit GH, they didn't respond back to me and get me out of their system. That it self is unprofessional.

Show Less

Cons
I would NOT recommend my worst enemy to work for GrubHub. I would recommend anyone who likes to drive and make money to Apply with Amazon "scoobee" or "UberEats" (food deliveries as well" they pay way more, and bigger companies. They'll take care of their employees. Employees come before customer service to them.

Advice to Management
When people wants to resign and wants be removed from your systems/company, Please get back to them immediately and remove those who no longer wants to work for your unprofessional, lying, and cheating company. PLEASE REMOVE me from your system/record and stop sending me schedule notifcations!

Dec 1, 2016

"Good Company but Subpar Pay"

Current Employee - Anonymous Employee in Chicago, IL

Recommends Positive Outlook Approves of CEO

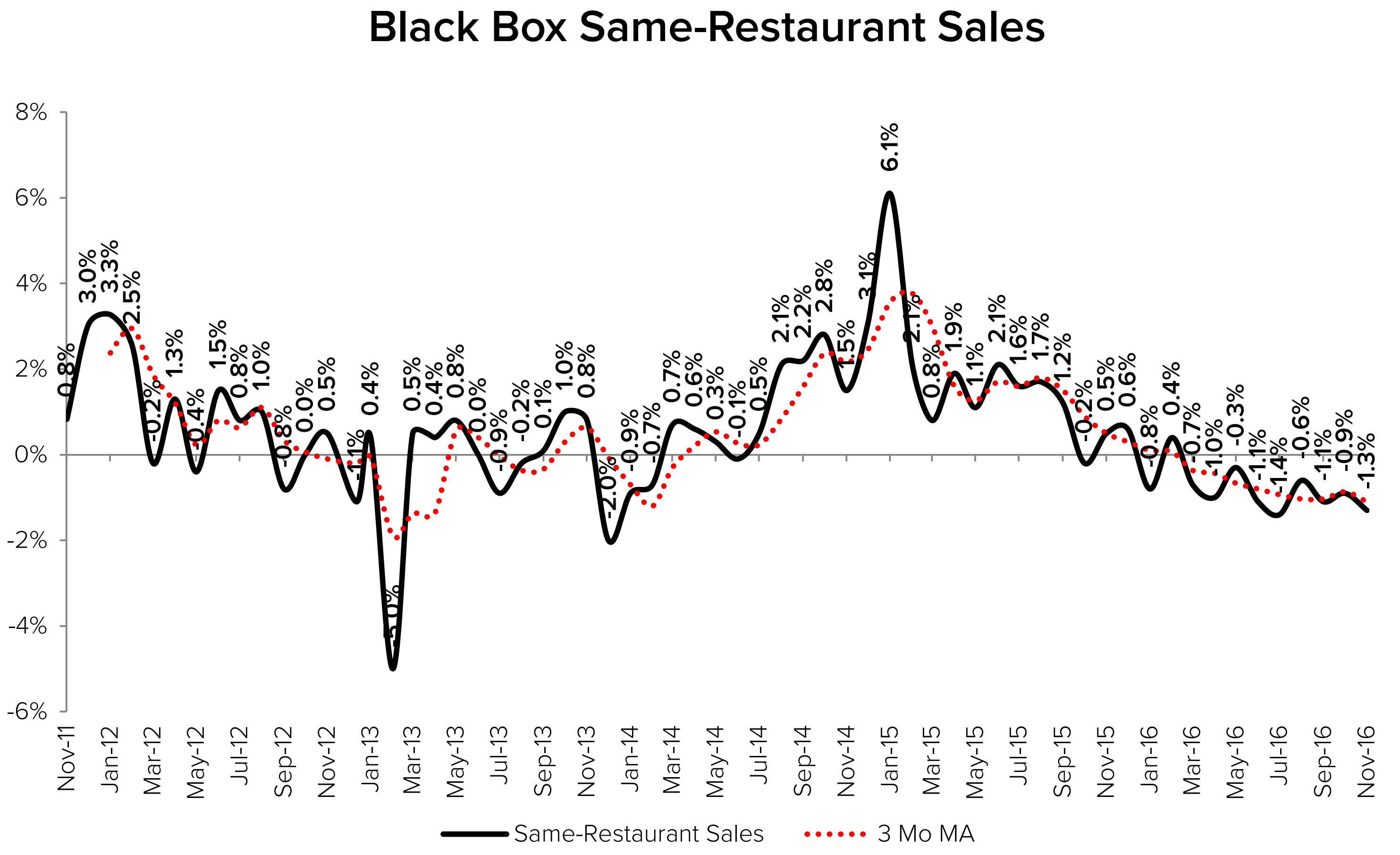
I have been working at GrubHub full-time (More than 3 years)

Pros
Fun work environment with a recently updated office. Dynamic teams and plenty of perks.

Cons
Payscale well below average and increases seem to be slowing over time. Changes in structure inderdepartmentally not well publicized.

Advice to Management
Keep open lines of communication above all else. Additional pay would be nice, but it's secondary to keeping communication active.

LONGER TERM, GRUB WILL BE SUBJECT TO INDUSTRY SALES VOLATILITY



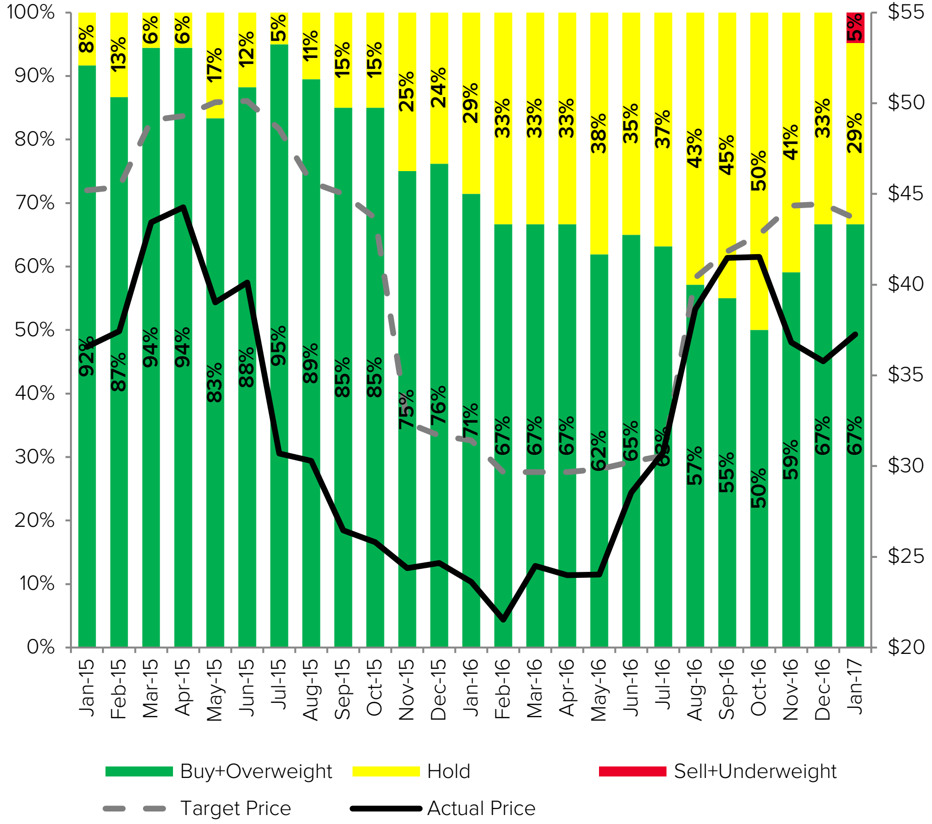
- To date, GRUB has been a notable beneficiary of the growth of delivery.
- However, as their user adoption reaches a saturation point, GRUB will be increasingly affected by the industry volatility
- Namely, if a restaurant industry recession is imminent, GRUB's business will face significant pressure

GRUBHUB

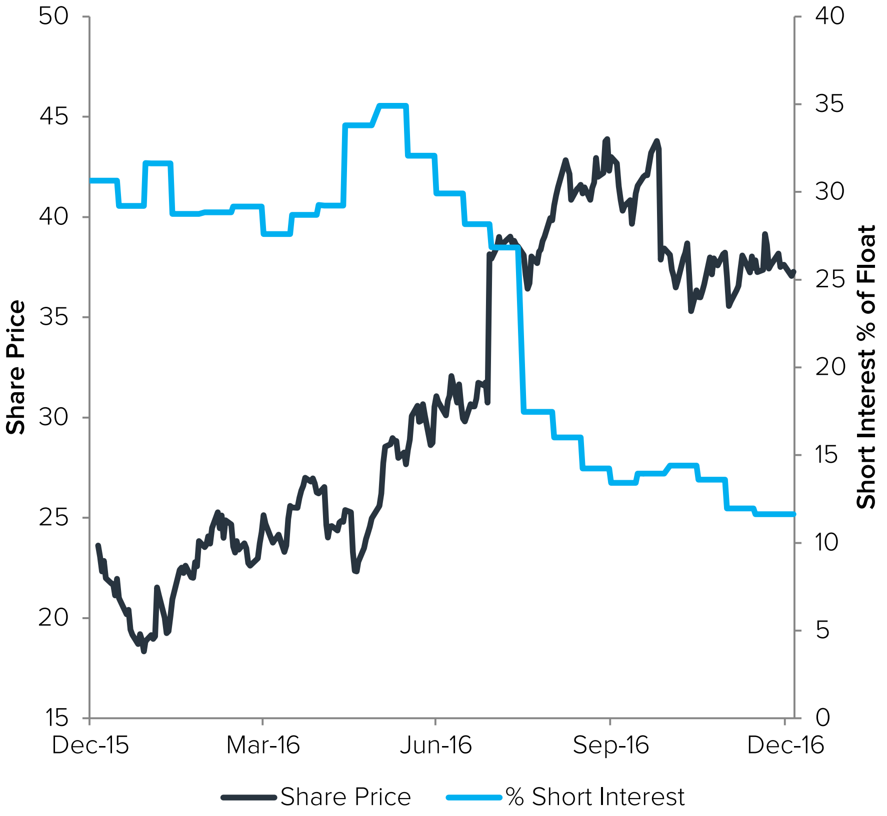
VALUATION AND SENTIMENT

OUTSIDER SENTIMENT

Sell-Side Sentiment

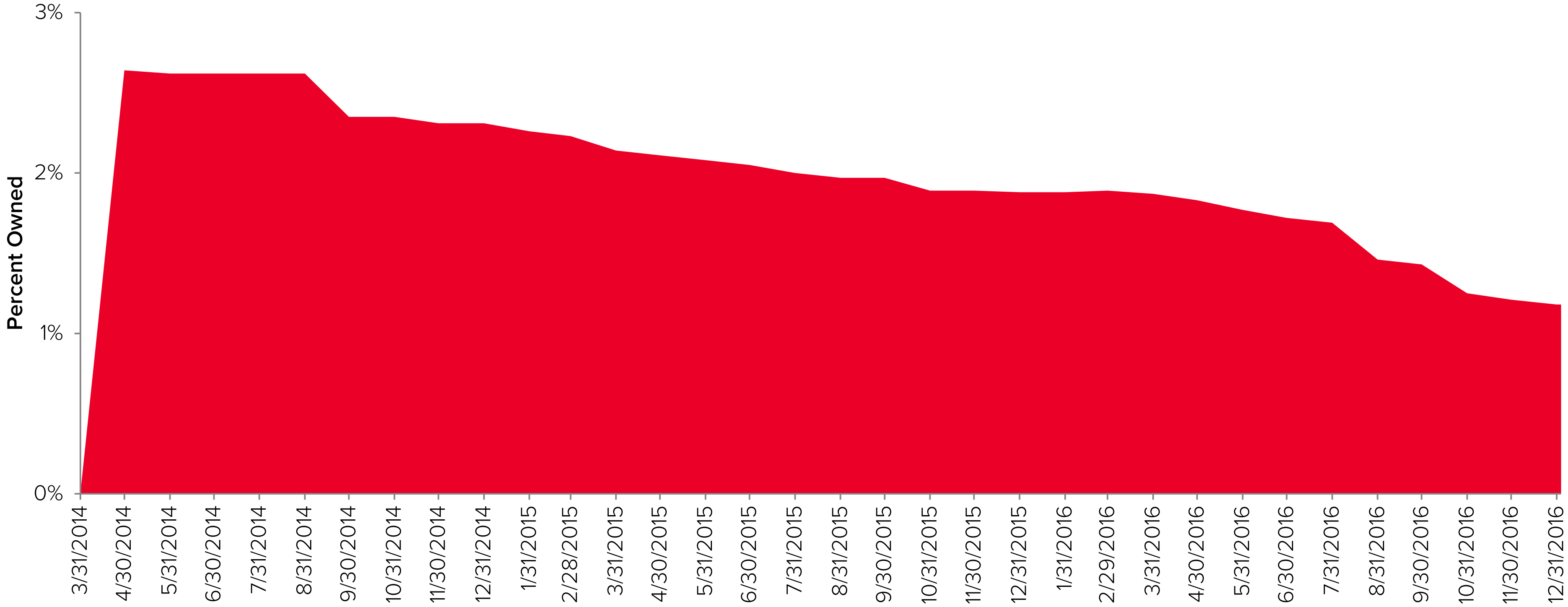


Short Interest



Data Source: FactSet. Updated on 1.4.17.

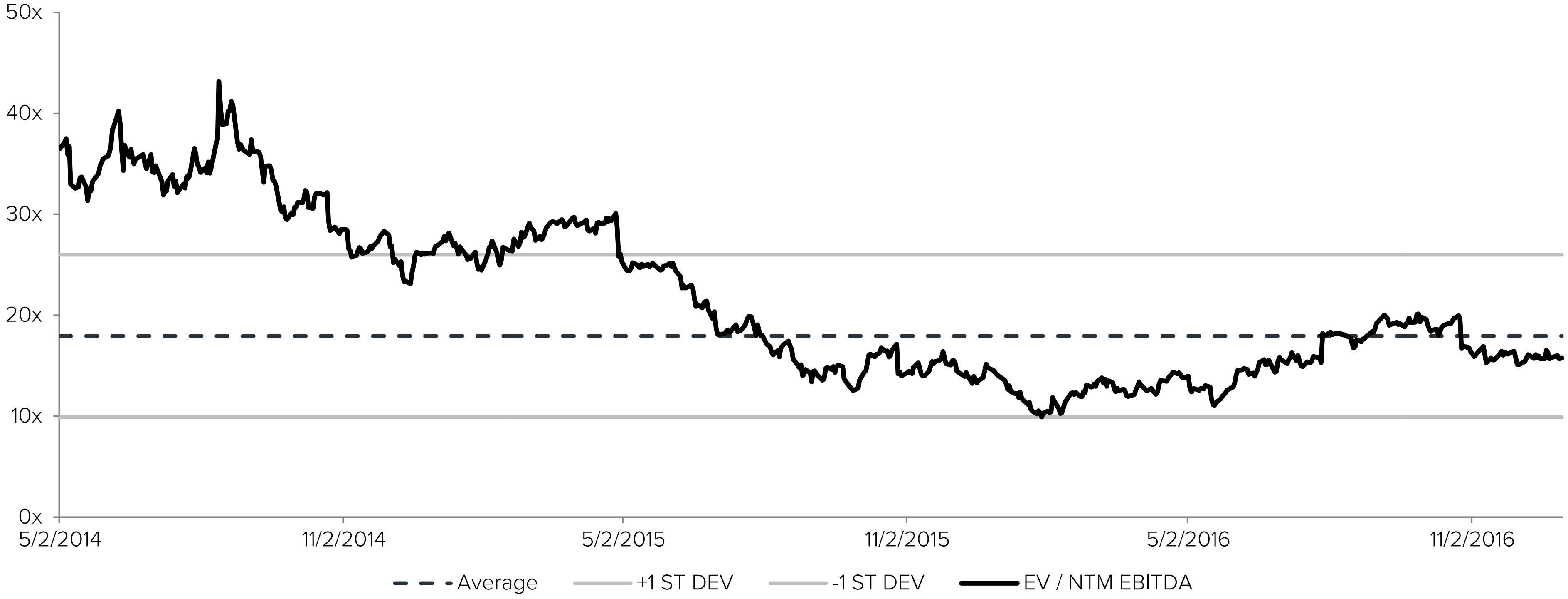
INSIDER SENTIMENT – CEO SELLING OUT



RUNNING FOR COVER?

Matt Maloney, CEO of GRUB, sold approximately $25 million worth of stock in 2016 cutting his investment in the company by 37%YoY.

EV / NTM EBITDA TREND



EBITDA MULTIPLE HAS COME IN A LOT SINCE THE IPO

The IPO was an unsustainable level for a company like this. We see meaningful downside in the multiple given some prevailing trends that could affect GRUB. These include, increased competitive pressures, restaurant recession and lofty expectations that need to be reigned in.

DIFFERENT WAYS OF LOOKING AT THE VALUATION

Peer Companies	Year Founded	Year Listed	Value (Mil)	Approx. # of Merchants	Current Approx. Value of Merchants	Number of Users (millions)	Current Approx. Value of Users
Yelp	2004	2012	$ 2,660	90,000	$29,561	72.0	$37
GrubHub	2004	2014	$ 2,893	40,000	$72,315	8.0	$362
AirBnB	2008	PRIVATE	$ 24,000	2,000,000	$12,000	60.0	$400
JustEat (LON)	2001	2014	$ 4,604	60,000	$76,733	15.0	$307
Takeaway.com (AMS)	2000	2016	$ 1,100	30,500	$31,429	7.6	$145
Average				**493,929**	**33,033**	**27.3**	**$247**
Max				**2,000,000**	**76,733**	**72.0**	**$400**
Min				**30,500**	**2,917**	**7.6**	**$37**

Data Source: Company Filings, Hedgeye.

VALUATION MATRIX

NTM EV/EBITDA Multiple

EBITDA	12.5x	12.8x	13.1x	13.4x	13.7x	14.0x	14.3x	14.6x	14.9x	15.2x	15.5x
$147	$24.96	$25.48	$25.99	$26.51	$27.03	$27.54	$28.06	$28.57	$29.09	$29.61	$30.12
$150	$25.46	$25.99	$26.51	$27.04	$27.57	$28.10	$28.62	$29.15	$29.68	$30.21	$30.73
$154	$25.96	$26.50	$27.04	$27.58	$28.12	$28.66	$29.20	$29.74	$30.28	$30.82	$31.36
$157	$26.48	$27.03	$27.59	$28.14	$28.69	$29.24	$29.79	$30.35	$30.90	$31.45	$32.00
$161	$27.01	$27.57	$28.14	$28.70	$29.27	$29.83	$30.40	$30.96	$31.53	$32.09	$32.66
$165	$27.55	$28.13	$28.71	$29.29	$29.86	$30.44	$31.02	$31.60	$32.18	$32.75	$33.33
$168	$28.11	$28.70	$29.29	$29.88	$30.47	$31.06	$31.65	$32.24	$32.84	$33.43	$34.02
$172	$28.67	$29.28	$29.88	$30.49	$31.09	$31.70	$32.30	$32.91	$33.51	$34.12	$34.72
$176	$29.25	$29.87	$30.49	$31.11	$31.73	$32.35	$32.96	$33.58	$34.20	$34.82	$35.44

BEAR	BASE	BULL
-34%	-21%	-6%

WE SEE CONSIDERABLE DOWNSIDE DRIVEN BY BOTH A MULTIPLE COMPRESSION AS WELL AS A REDUCTION IN EBITDA

Data Source: FactSet, Hedgeye.

SUMMARY OF OUR THOUGHTS

Key Points

1. GRUB's commission model is unsustainable
2. Margin projections are too high
3. Competitive intrusions will begin to occur domestically, and when GRUB looks to international markets for growth they will not be able to do it organically

Risks to the Short

1. M&A is the primary concern we have when recommending a SHORT on GRUB, given we expect to see considerable consolidation in the space
2. Acquirers could be both domestic and internationally based players

Data Source: Hedgeye

Panera
BREAD®

LONG PANERA BREAD (PNRA)

KEY POINTS

1 MAKING CRITICAL INVESTMENTS TO GET AHEAD

From the beginning, Panera Bread has actively invested in building out facets of the business geared toward driving growth and differentiation. In particular, their devotion to menu transparency and clean food was ahead of the curve. Also, their Panera 2.0 initiative offers an enhanced customer experience powered by technology, and supported by delivery hubs and a solid operational infrastructure. Panera at Home, PNRA's take on private label products, allows for the brand to reach a broader audience through distribution at retailers.

2 OWNING DELIVERY WILL SET THEM APART

As many in the fast casual space race to delivery, the convenience and transparency of PNRA's Panera 2.0, delivery, and catering processes have set PNRA apart from the rest. In support of their bakery-cafes, PNRA operates catering-only units, referred to as delivery hubs, with 32 delivery hubs currently in operation. These hubs offer PNRA amazing capacity, and allow for increased efficiency.

3 EARNINGS ARE SET TO ACCELERATE

We believe the aforementioned investments into the business will lead to an acceleration of comps and outperformance against the broader industry as a result of an improved customer experience and value proposition. There are indications that PNRA has started turning the corner, as management expressed a confidence that they have successfully moved down the learning curve, and any previous delivery friction has dissipated, paving the way for an improvement in the guest experience, throughput, and overall sales.

Data Source: Hedgeye

COMPANY OVERVIEW & MANAGEMENT

Company Overview

- The PNRA legacy began in 1991 as Au Bon Pain Co., Inc. founded by Louis Kane and Ron Shaich.
- In 1993, Au Bon Pain Co., Inc. purchased St. Louis Bread Company, a chain of 20 bakery cafes concentrated in the St. Louis area.
- From 1993 to 1997, average unit volumes increased by 75%, with the concept's name ultimately being changed to "Panera Bread."
- In May 1999, all of Au Bon Pain's business units were sold, with the exception of Panera Bread
  - Since these transactions, company stock had grown tremendously, with the company currently having a market capitalization of $4.5B
- In 2007, PNRA purchased a majority stake in Paradise Bakery & Café, a Phoenix, AZ-based concept with over 70 location in 10 states
  - PNRA purchased the remainder of the company in June 2009.
- As of September 27, 2016, there are 2,024 bakery-cafes in 46 states, the District of Columbia, and in Ontario, Canada operating under the Panera Bread, St. Louis Bread Co. and Paradise Bakery & Café names.

Management

Ronald M. Shaich, Founder, Chairman & CEO

After purchasing St. Louis Bread Co. in 1993, Ron has transformed the brand into what is now Panera Bread. Mr. Shaich has been recognized repeatedly for his industry defining skill and visionary leadership, with features in Fortune, Forbes, TIME, among many others.

Blaine Hurst, President

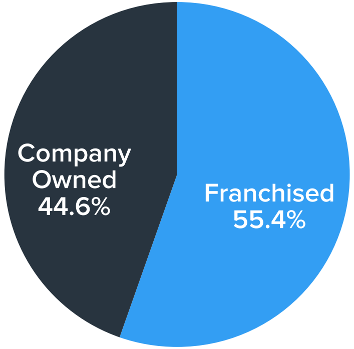
Mr. Hurst was recently named President, effective December 12, 2016. He joined Panera Bread in May, 2010 to work on the development of Panera 2.0.He was EVP of Technology and Transformation in May 2013, and EVP Chief Transformation and Growth Officer in October 2014

William W. Moreton, Executive Vice Chairman

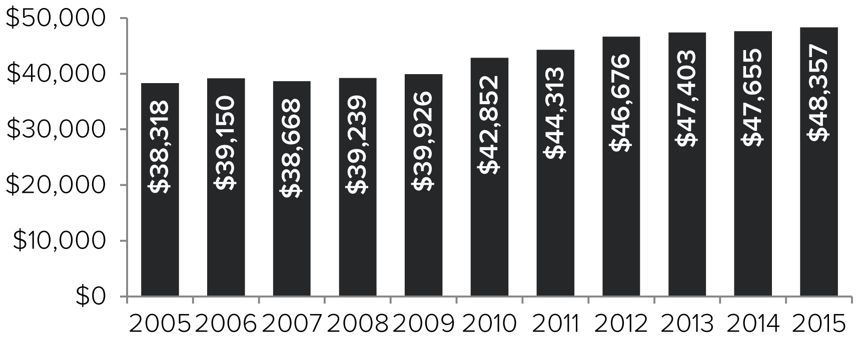
Mr. Moreton has spent 13 years with Panera and has served in his current role since August 2013. From 1998 to 2003, he served as the company's Executive Vice President, CFO and Chief Administrative Officer.

SYSTEM STATS

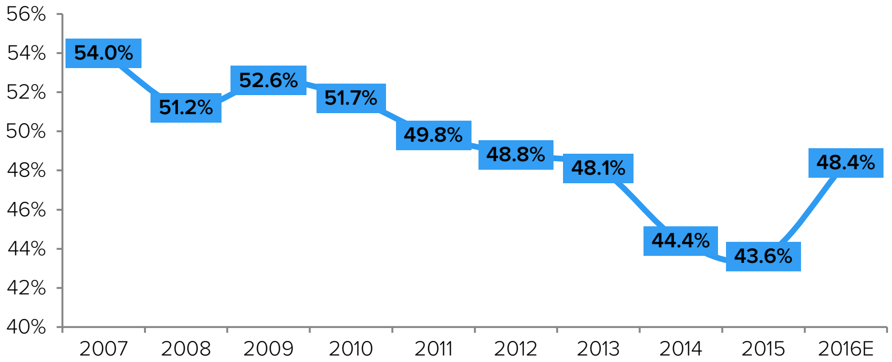
Company Owned vs. Franchised



System-Wide Average Weekly Sales



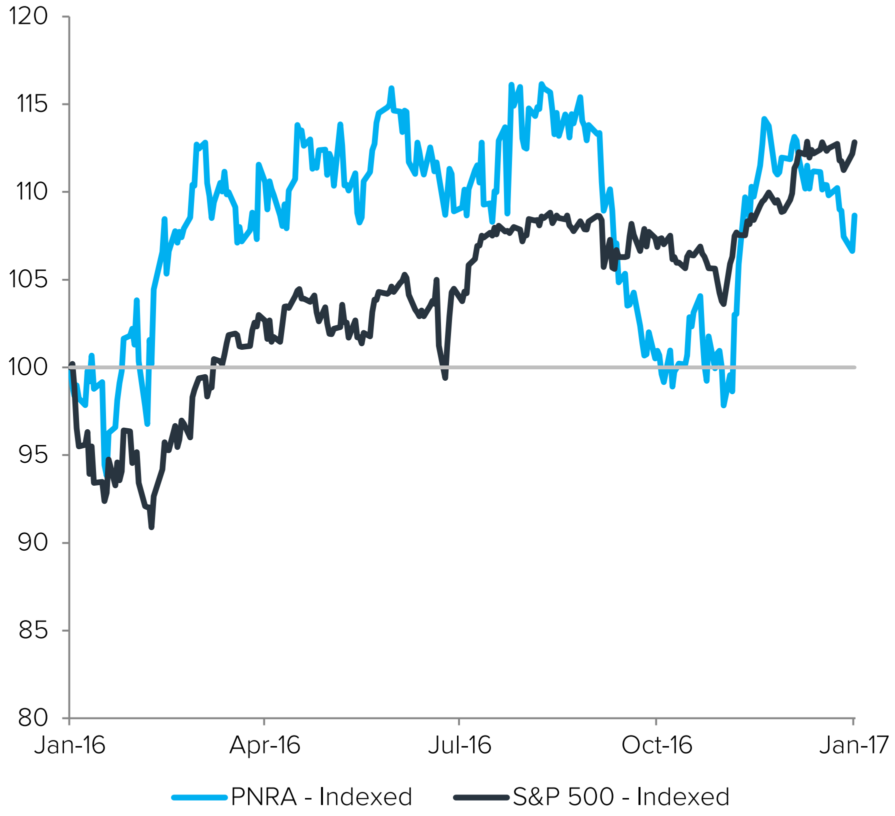
PNRA Share of $1bn+ Fast Casual Chains



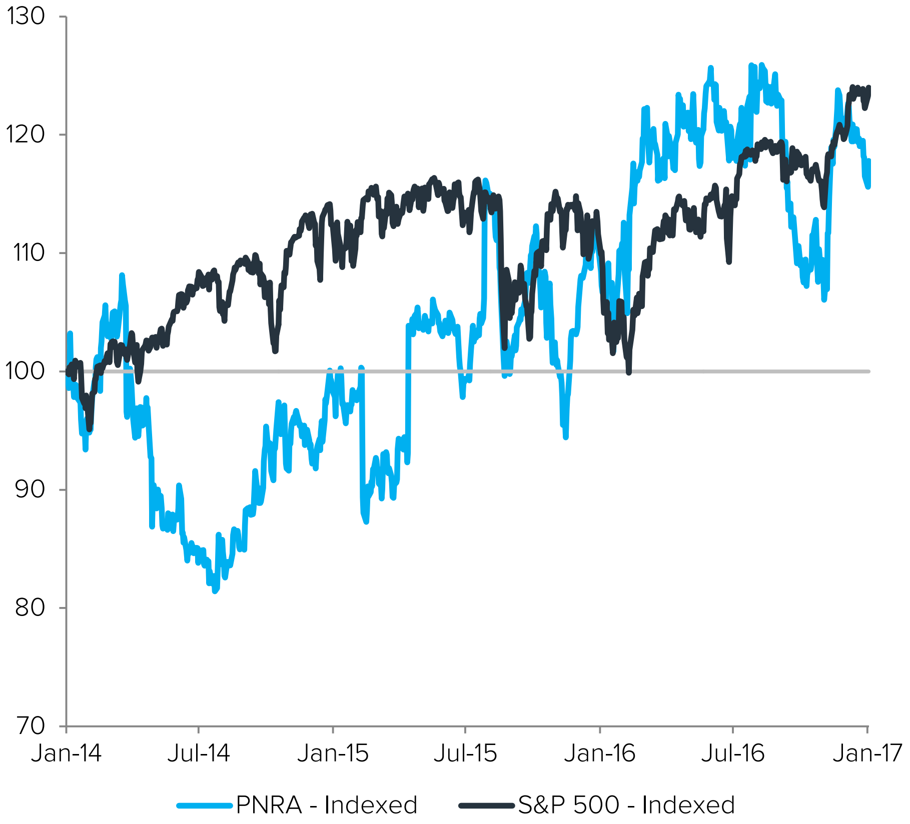
Data Source: Company Filings, Restaurant Research, Hedgeye.

PRICE PERFORMANCE

1 Year Performance vs. S&P 500

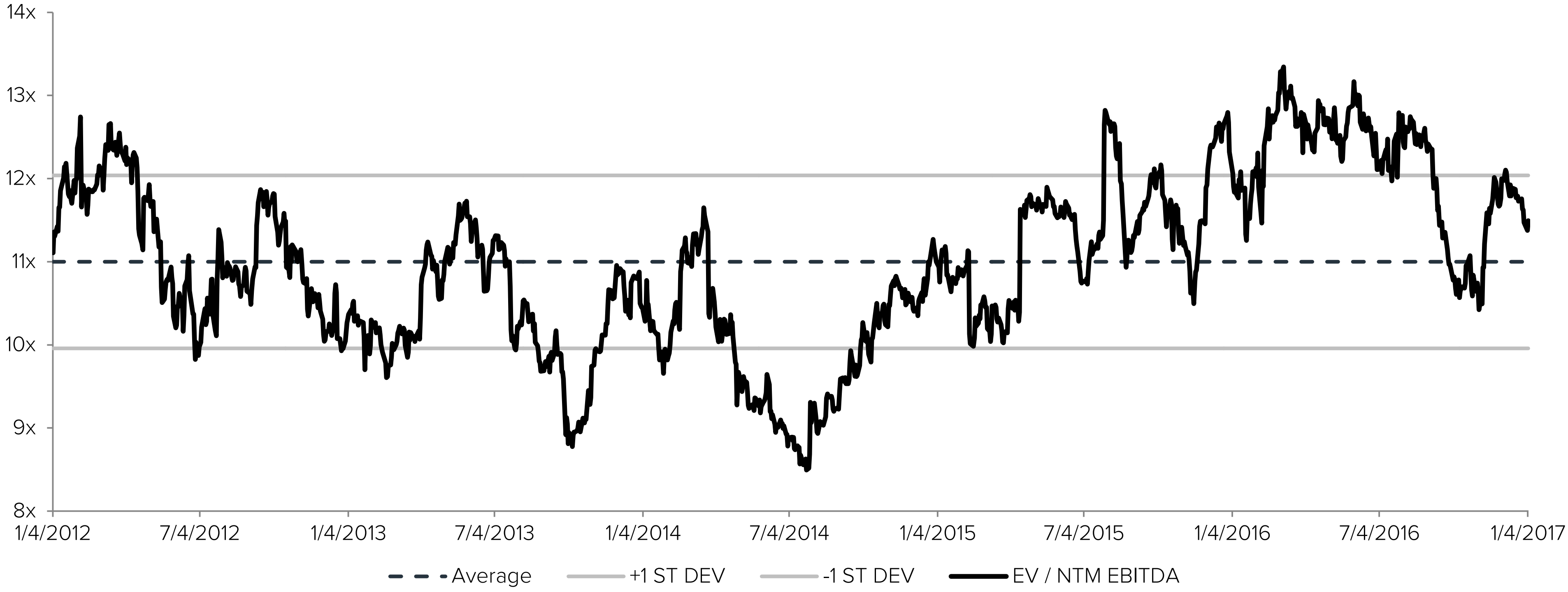


3 Year Performance vs. S&P 500



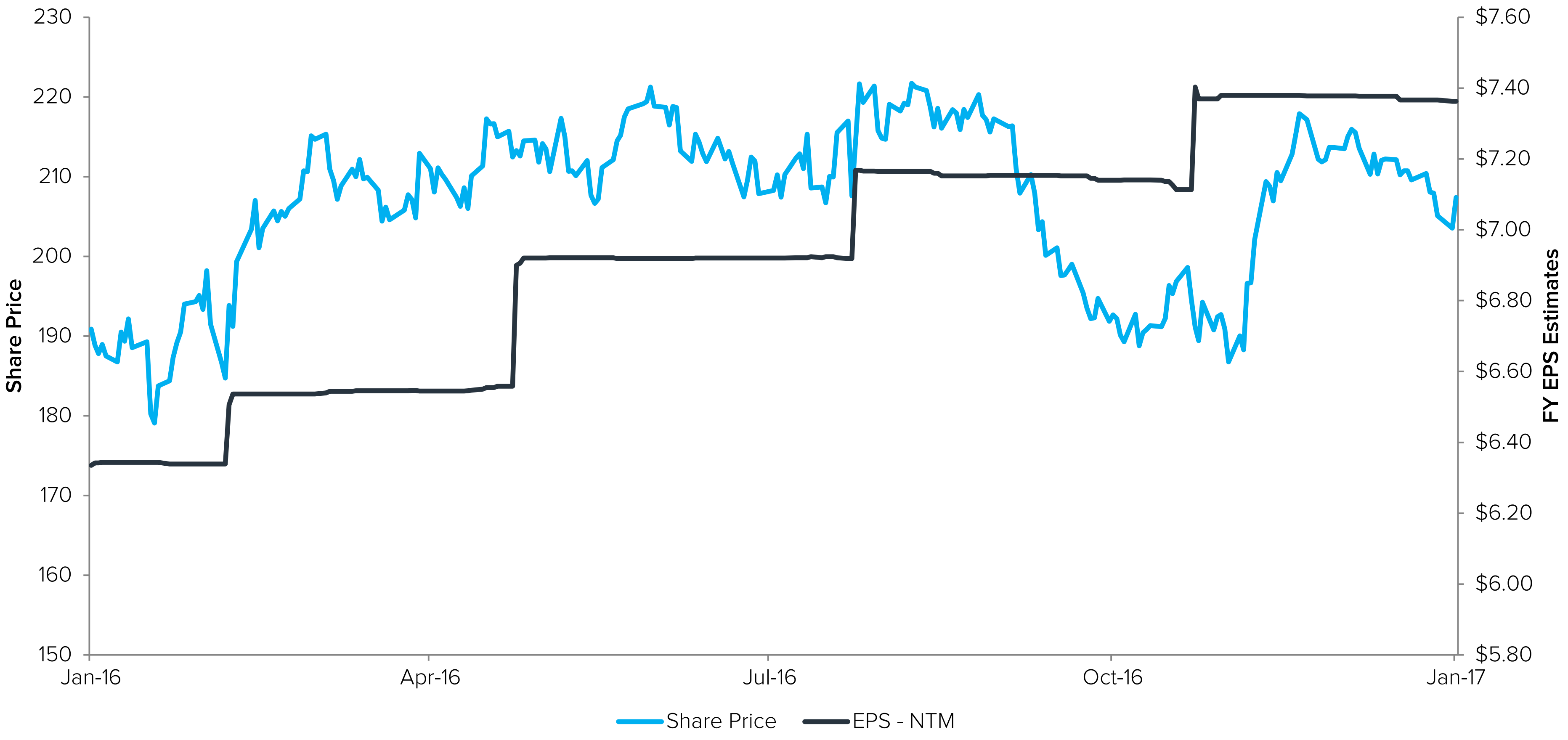
Data Source: FactSet. Updated on 1.4.17.

5 YEAR VALUATION TREND



RECENT PULLBACK PROVIDES GREAT BUYING OPPORTUNITY

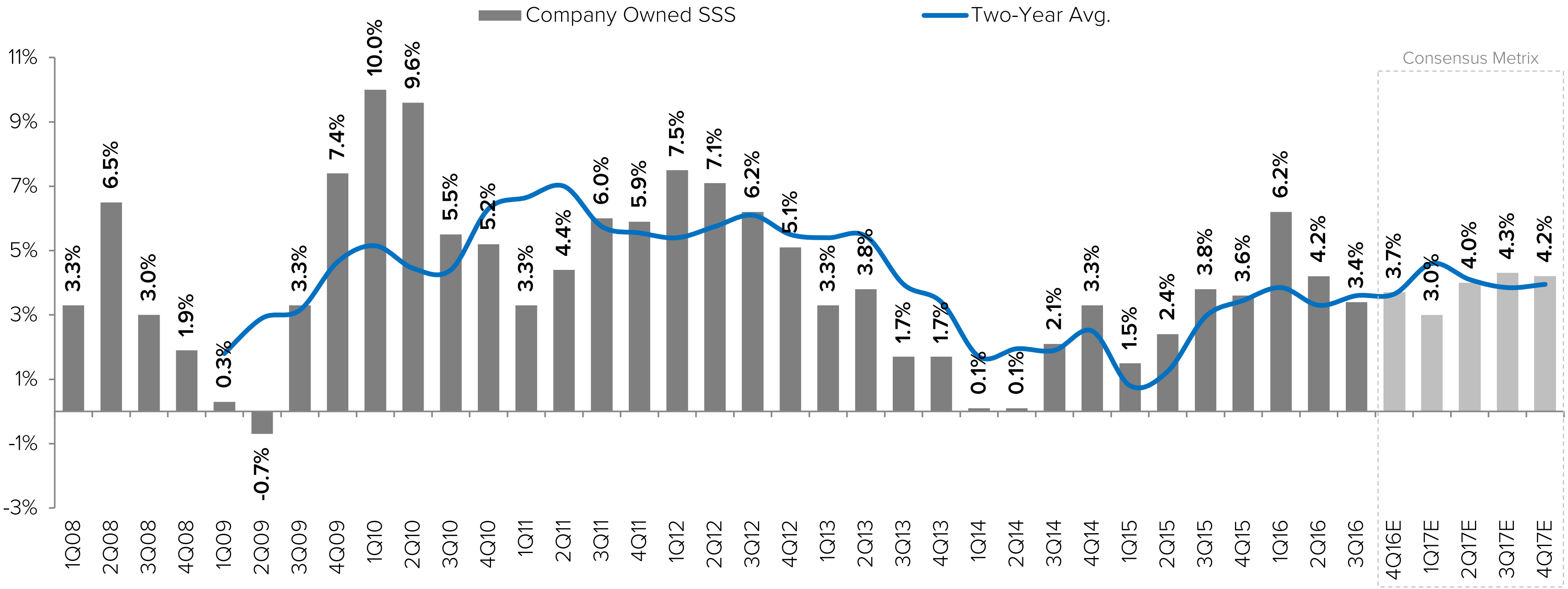
NTM EARNINGS REVISIONS



Data Source: FactSet. Updated on 1.3.17.

PNRA TOP-LINE TRENDS

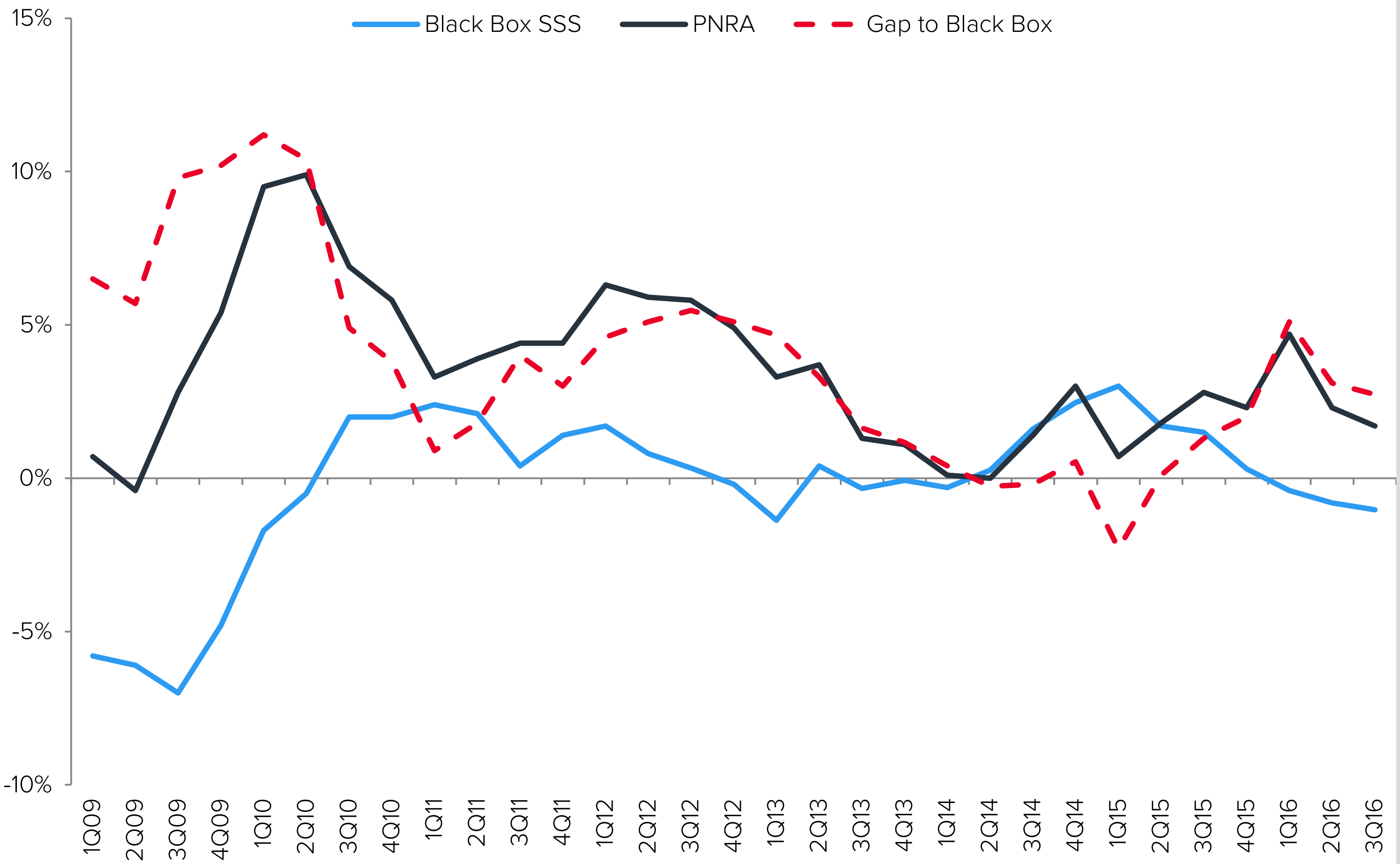
PNRA COMPANY-OWNED SSS



SOLID AND TRENDING UPWARDS

Company-owned same-store sales have remained in the green and have maintained somewhat constant, despite the difficulties facing the fast-casual environment.

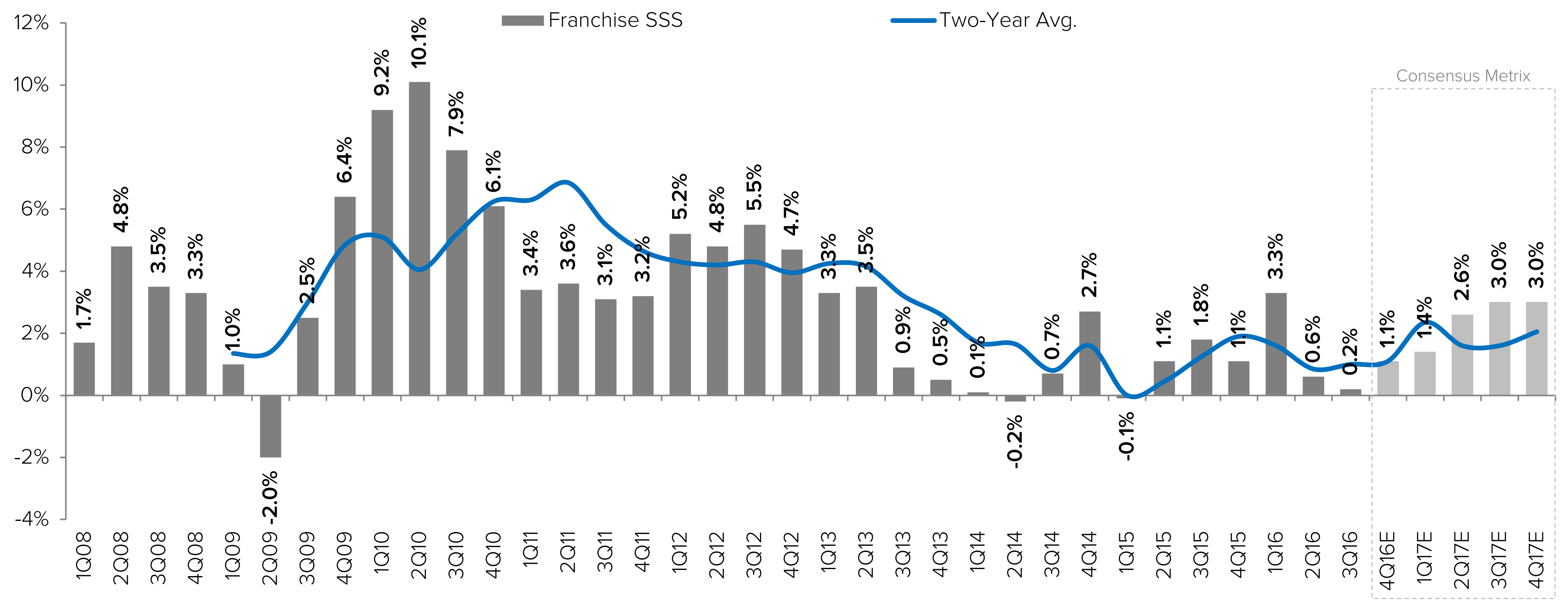
GAP TO BLACK BOX SET TO RE-ACCELERATE



- Black box being the most broad based metric for restaurant industry sales we think it is a fitting comparison for PNRA.
- Although the straight correlation is not strong at just 0.14 we believe that speaks to the strength of the PNRA concept and that is further confirmed by the gap to black box being positive in all quarters going back to 1Q09 except for 2Q14, 3Q14 and 1Q15.
- A simple explanation for this underperformance can be explained by the investments Panera was making into the business to propel future outperformance.
- Now as we get to a point where most company-owned stores have Panera 2.0 and franchised locations are beginning to roll it out we are set to see an acceleration in the outperformance of the industry.

Data Source: Company Filings, Black Box Intelligence, Hedgeye.

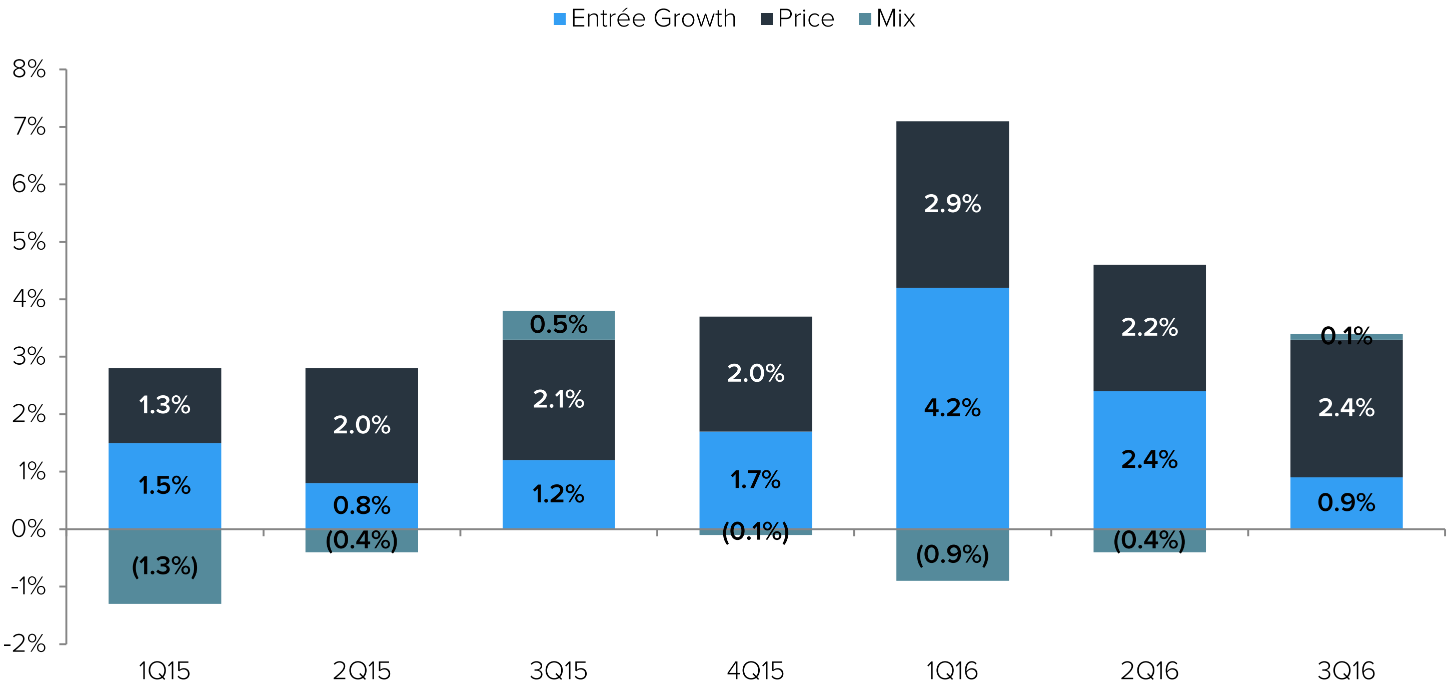
PNRA FRANCHISE SSS



PRIMED FOR A RESURGENCE

Franchise same-store sales are positioned to take off, especially given the continued rollout of delivery and value proposition of Panera 2.0.

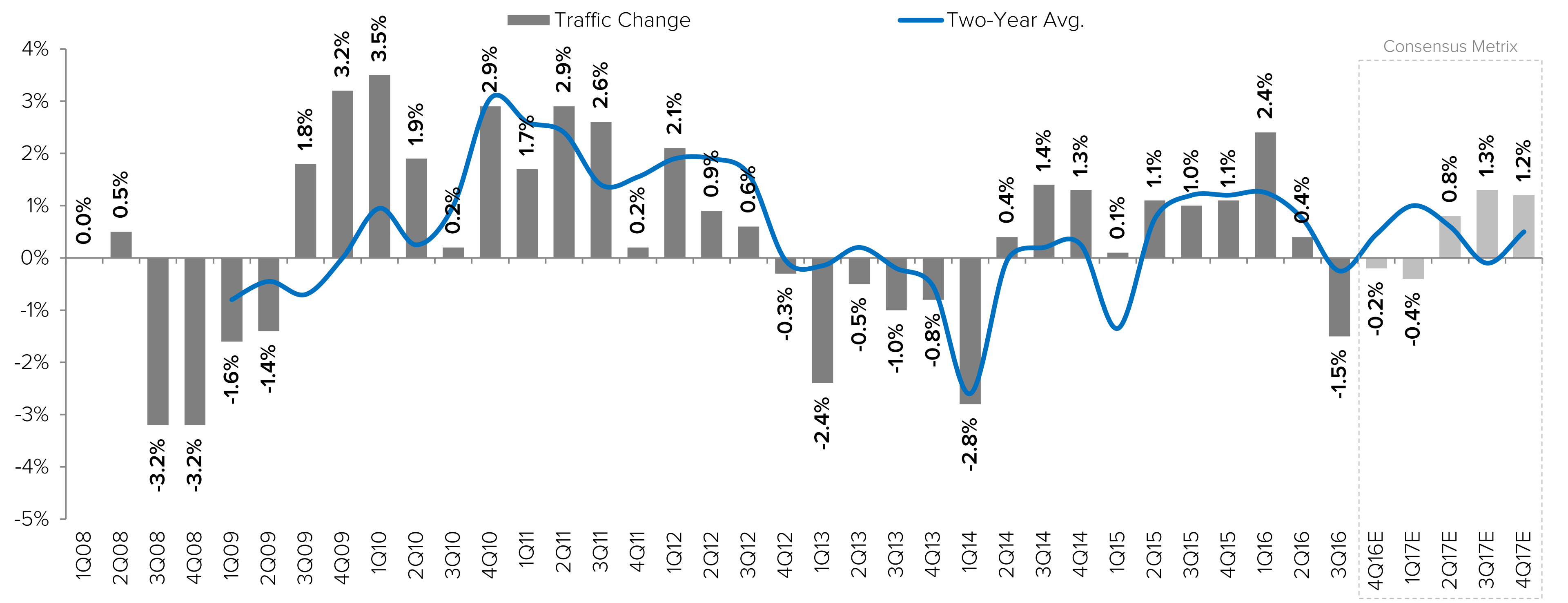
PNRA'S NEW OMNI-CHANNEL VIEW



	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
Entrée Growth	1.5%	0.8%	1.2%	1.7%	4.2%	2.4%	0.9%
Price	1.3%	2.0%	2.1%	2.0%	2.9%	2.2%	2.4%
Mix	(1.3%)	(0.4%)	0.5%	(0.1%)	(0.9%)	(0.4%)	0.1%

- Last quarter PNRA announced a new way of looking at their performance to better capture diner growth given the mix shift to catering and delivery.

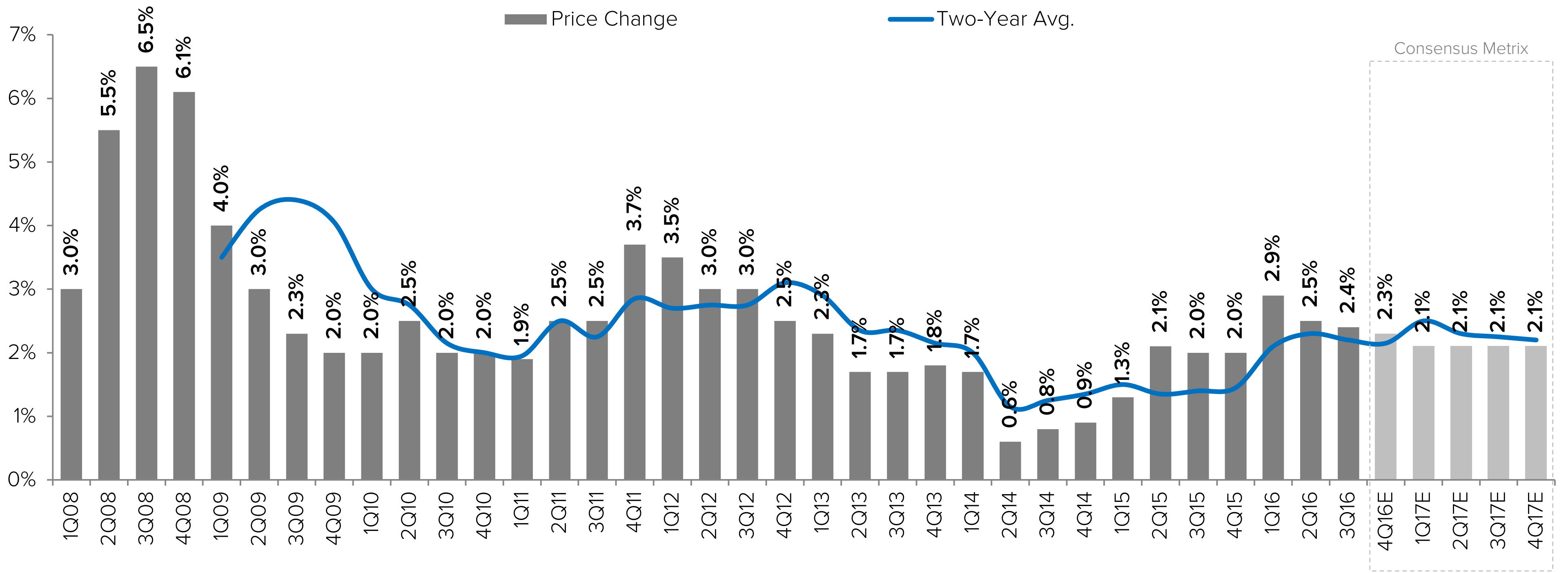
PNRA TRAFFIC



TRAFFIC FOLLOWING SUIT…

PNRA is undoubtedly positioning itself as a go-to brand, with its differentiated customer experience, anchored by its Panera 2.0 platform. The seamless nature and convenience offered by Panera 2.0 will help to drive sustainable traffic growth above the industry average.

PNRA PRICE



PRICE SET TO WORK IN THEIR FAVOR

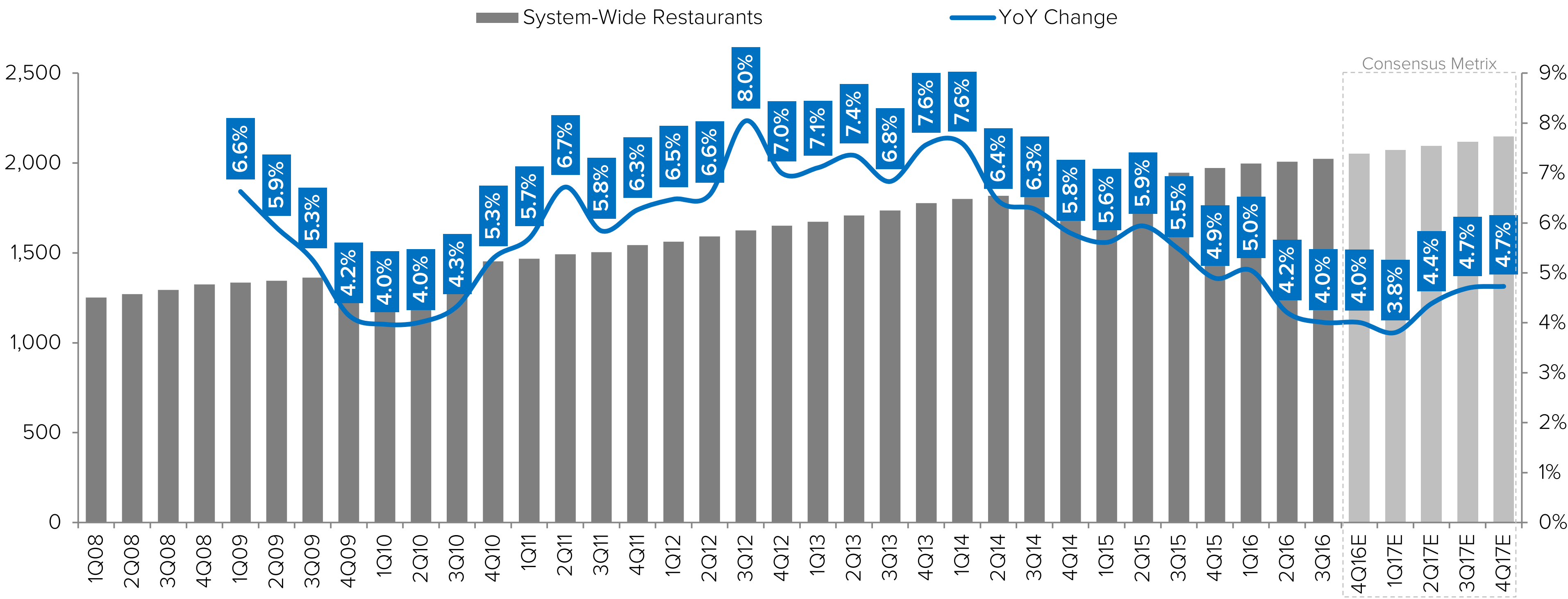
Projections have price changes staying steady, and this will undoubtedly work to PNRA's advantage, as the quality of their product offerings are far superior to industry peers.

Data Source: Company Filings, Consensus Metrix.

Panera BREAD®

UNIT GROWTH

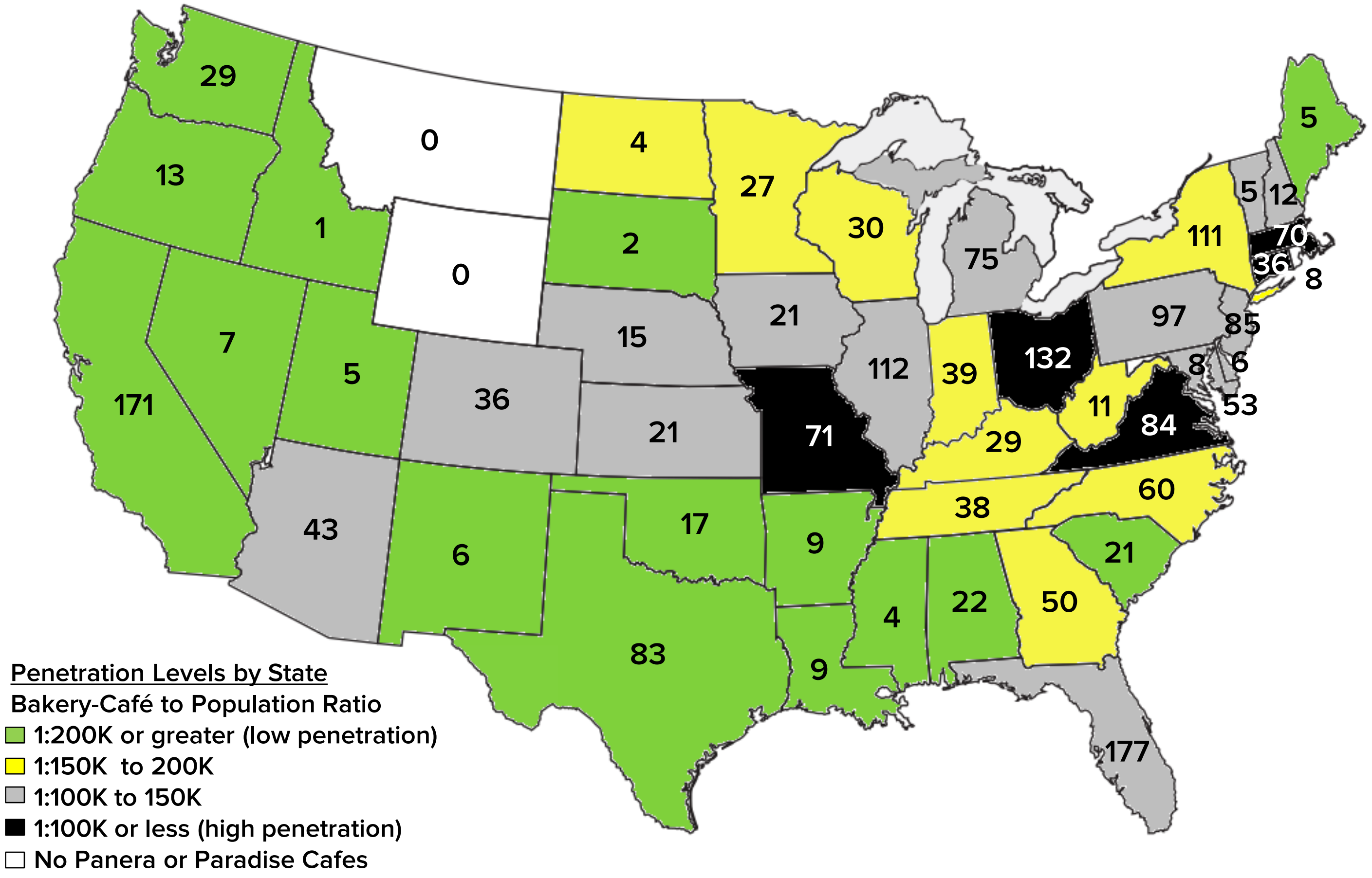
INTELLIGENT UNIT GROWTH



UNIT GROWTH THE WAY IT SHOULD BE

Slowed unit growth as the company was investing in Panera 2.0 and other initiatives, now coming out of that investment cycle PNRA is ready to pick up the pace of growth modestly.

ROOM TO RUN



- PNRA still has plenty of room to grow.
- With so much of the country still underpenetrated, Panera Bread is tasked with expanding their brand and riding the "craveable wellness" wave.

MENU INNOVATION HAS BEEN CRITICAL

“CRAVEABLE WELLNESS” = ELEVATED EXPERIENCE

CLEAN FOOD = FOOD AS IT SHOULD BE

- PNRA is committed to clean ingredients, a transparent menu, and having a positive impact on the food system.
  - Clean Ingredients: sourcing and serving high-quality ingredients without artificial additives.
  - Transparent Menu: Laying out all pertinent information (caloric information) and empowering guest to choose how they want to eat.
  - Positive Impact: Working to ensure the highest possible animal welfare standards and the reduction of antibiotic use in the meat supply.
- Panera Bread is committed to removing preservatives, sweeteners, and flavors, along with colors from artificial sources, with completion pegged for the end of 2016.
- An extension of this commitment is their “No-No List”, an extensive list of ingredients in which the company has uncovered to be created artificially or through unnatural means.

DAYPART MIX & KEY DRIVERS

- After moving away from the breakfast daypart to focus on lunch, PNRA has pivoted back and breakfast is now their fastest growing daypart.
  - Breakfast is 20% of sales and 30% of traffic.
  - Dinner is currently their slowest day-part.
- 50% of orders placed are customized in some way, and this reflects the foodies nature of the customer base.
- Average check has been trending upward, and this can be attributed to Panera 2.0 and delivery adding convenience for customers, in addition to the MyPanera loyalty program.
  - Digitally enabled, larger-party sized channels, such as delivery, catering, and Rapid Pick-Up have larger checks and more entrees per transaction and are growing disproportionately quicker.
- A key differentiator and efficiency driver is the Company's utilization of 32 catering-only units, referred to as delivery hubs, which process 30% of catering orders
  - These hubs relieve the bakery-cafes of any catering orders, thereby increasing capacity and efficiency.

Data Source: Company Filings, Consensus Metrix.

TECHNOLOGY IS A CRITICAL DIFFERENTIATOR

PANERA 2.0 IS A GAME CHANGER

FUELING THE ENGINE…

Create a café that is a better competitive alternative	→ Panera 2.0 activating innovation in food/bakery, marketing, operations, design and sourcing
Create runways for expanded growth	→ Delivery/Catering, Panera At Home, Unit Growth (traditional & new formats)
Strengthen capabilities to execute key initiatives	→ E-commerce strategy/IT execution; MyPanera; Human Capabilities in Place
Resources to Invest	→ Same-store sales growth ahead of industry; Intensive margin improvement effort

- Technology, and to a greater extent Panera 2.0, has helped to push PNRA to rarefied air.
- The brand's aggressive expansion to delivery/catering and the emergence of their Panera At Home products, have expanded reach.
- 50% of transactions are done by MyPanera members, showing that the loyalty program is strong customer engagement

Data Source: Company Filings, Hedgeye

PANERA 2.0 IS A GAME CHANGER (CONT.)

Panera 2.0 Order Lifecycle

“We believe Charlotte’s digital utilization rate will continue to grow as will the rate seen in the rest of our system. In fact, there is not reason to think we can’t get very close to the QSR pizza player’s digital utilization rate of 50% or more over time.” -Andrew Madsen, Former President

Dine-In

- Customers place order on mobile device, tablets at fast lane kiosks, or at counter in bakery-café.
- Customers take their seat and their meal is brought to where they are seated.

Order From My Table

To-Go

- Customers place their order online.
  - Order is transferred to the kitchen display system.
  - Meal is prepared.
- Customer picks up their meal at the Rapid Pick-Up counter, allowing them to skip the line.

Rapid Pick-Up

Delivery/Catering

- Customers place their order online or via phone.
  - Order is transferred to the kitchen display system or delivery hub.
  - Meal is prepared at delivery hub.
- Panera delivery service transports order to customer.

Delivery

INVESTMENTS ACTING AS DIFFERENTIATORS

- **Technology**
  - — Panera 2.0 is an enhanced customer experience powered by technology and "delivered with Panera Warmth."
  - — Leading-edge 2.0 technology reduces transaction friction and improves operational efficiency (e.g.- PNRA's drive-thru times are comparable to QSR speeds despite its made-to-order model).
  - — This multi-faceted order fulfilment system is PNRA's way of transitioning the brand into an omni-channel world.
  - — This model meets the differentiated needs of To-Go, Large-Order Delivery, and Eat-In customers through new mechanisms for ordering, payment, production and consumption.
  - — Elements of Panera 2.0 include Rapid Pick-Up, and the ability to order from your seat within the bakery-café, and have the meal brought to your seat.
  - — Results have been evident, as entrée growth (sale of more entrées per transaction through digitally-enabled, larger party-sized channels) has grown by 2.5% through 3Q, as opposed to 1.2% over the same period a year ago.

- **Delivery/Catering**
  - — PNRA currently operates 32 delivery hubs processing ~30% of catering sales and utilizes dedicated professional sales teams.
  - — Began 2016 with a goal of having 10% of total system converted by year end (13% of total system and 20% of company stores have been converted thus far.
  - — PNRA is now targeting to have 35-40% of the system completed by the end of 2017.
  - — Currently, investment stands at $20-25k per store.
  - — PNRA plans to use in-house delivery drivers instead of a third-party delivery service, in an effort to ensure consistent quality and a faster delivery time.

TECHNOLOGY & DELIVERY: QUID PRO QUO

- **PNRA's delivery initiative started with a small test in the Boston area in the latter half of 2012.**
  - The initiative was started in markets where unemployment was still relatively high.
  - The company saw this as an opportunity to build out their delivery service, as it would easier to find workers in these markets
- **Company has expressed plans to do national advertising once they get enough critical mass.**
  - National advertising will push PNRA in to the conversation with DPZ, and allow them to start bleeding into weaker dayparts and weekends.
  - Currently, the slowest part of the business is dinner and weekends
- **Initial startup expense is in the $20-25K range.**
  - Management is expecting delivery to generate $5K in average weekly sales (80-90% incremental).
  - At $3k per week, the business will break even; At $5K the business achieves a profit; $10K is both profitable and margin accretive.
- **Technology is playing a pivotal role in PNRA's delivery initiative…**
  - Currently, PNRA is at $0.22 per digital transaction (vs. DPZ's $0.11).
  - As delivery ramps up, and the number of deliveries increases, PNRA will close this gap.

Data Source: Company Filings, Hedgeye

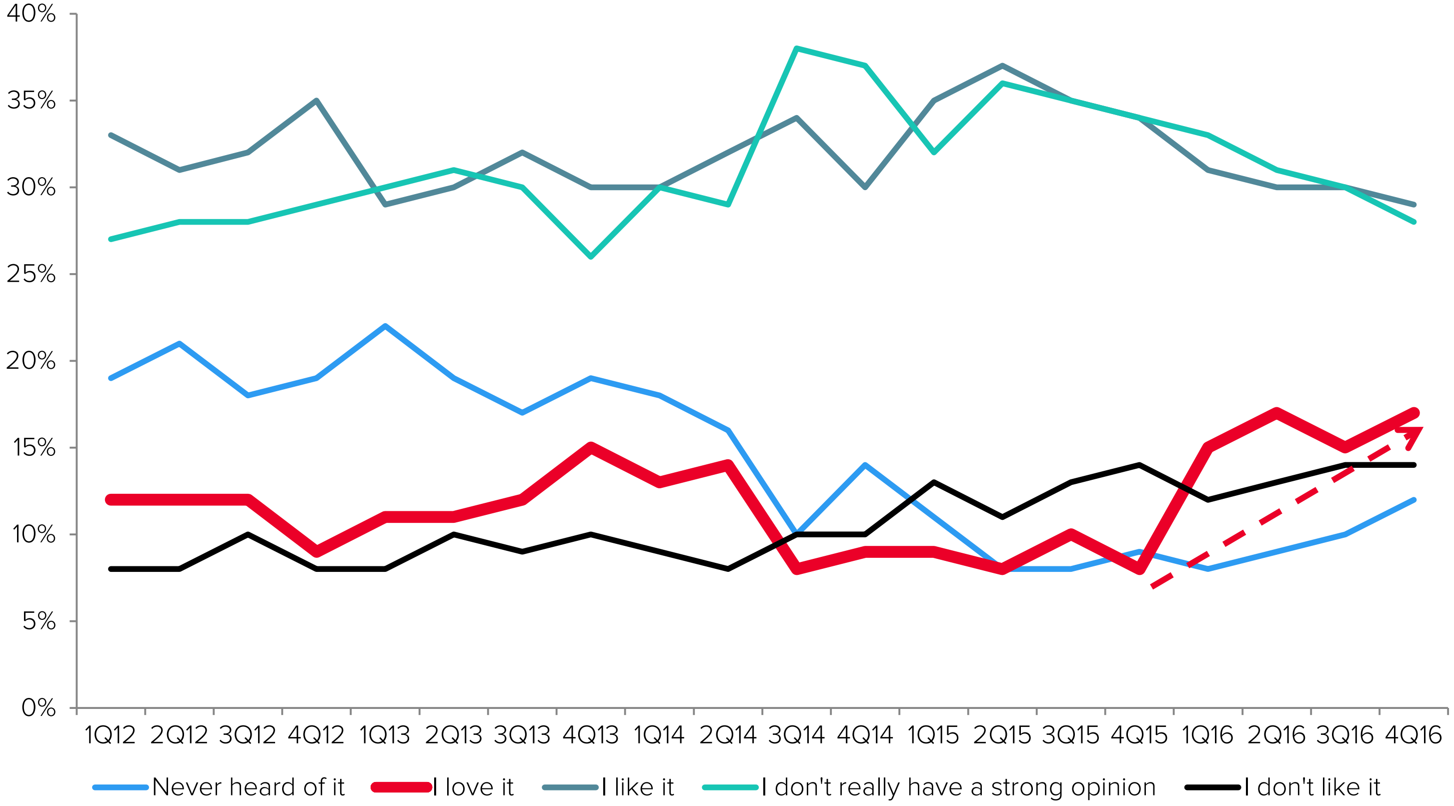
CIVIC SCIENCE

HEDGEYE SURVEY SERIES

PEOPLE SAYING "I LOVE IT" ACCELERATING

CIVIC SCIENCE

QUESTION: HOW MUCH DO YOU LIKE TO EAT AT PANERA?



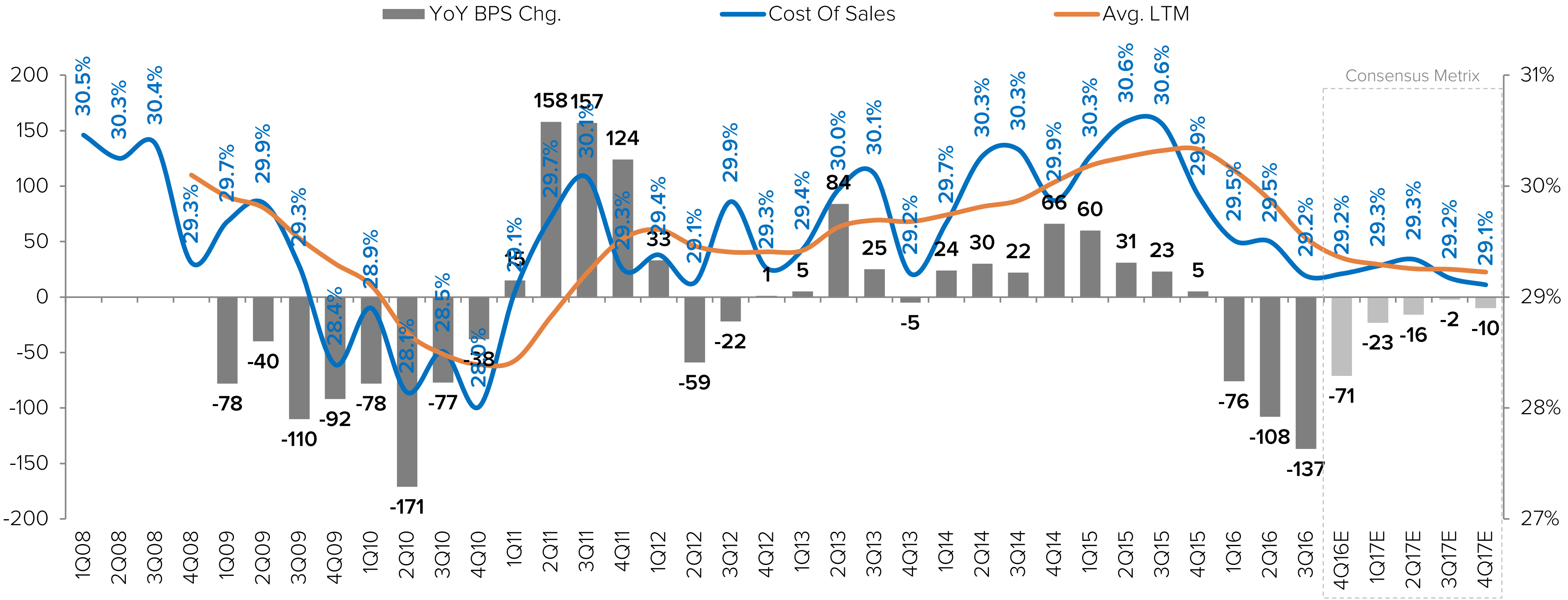
- You can see the positive affects of Panera 2.0 in the survey results.
- People saying "I love it" have increased from 8% in 4Q15 to 17% in 4Q16.
- In addition, people saying "I love it" overtook people saying "I don't like it" for the first time since 3Q14.
- Noticeably, although up since 2012, people saying "I don't like it" is flat from 4Q15 to 4Q16 at 14%.

Data Source: CivicScience, Results Filtered by U.S. Adults 18+ and Weighted by U.S. Adults. Responses: 81,734.

Panera BREAD®

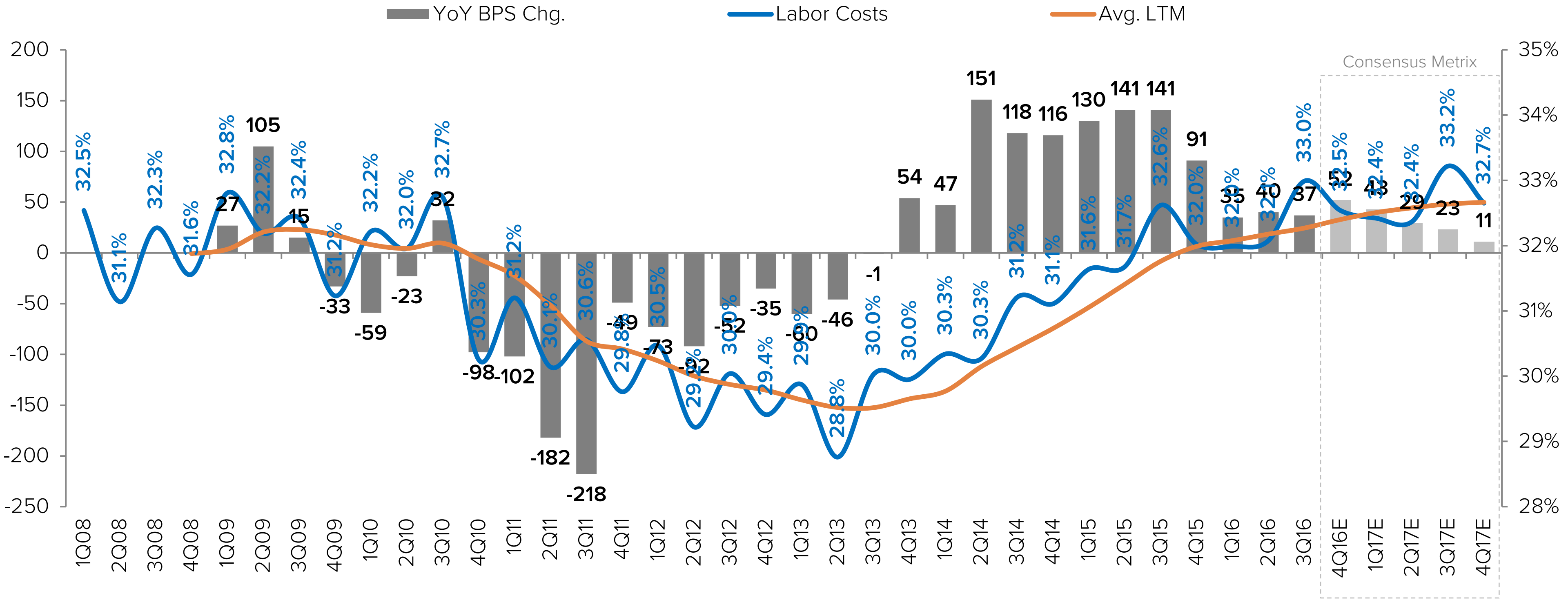
MARGIN ANALYSIS

COST OF SALES



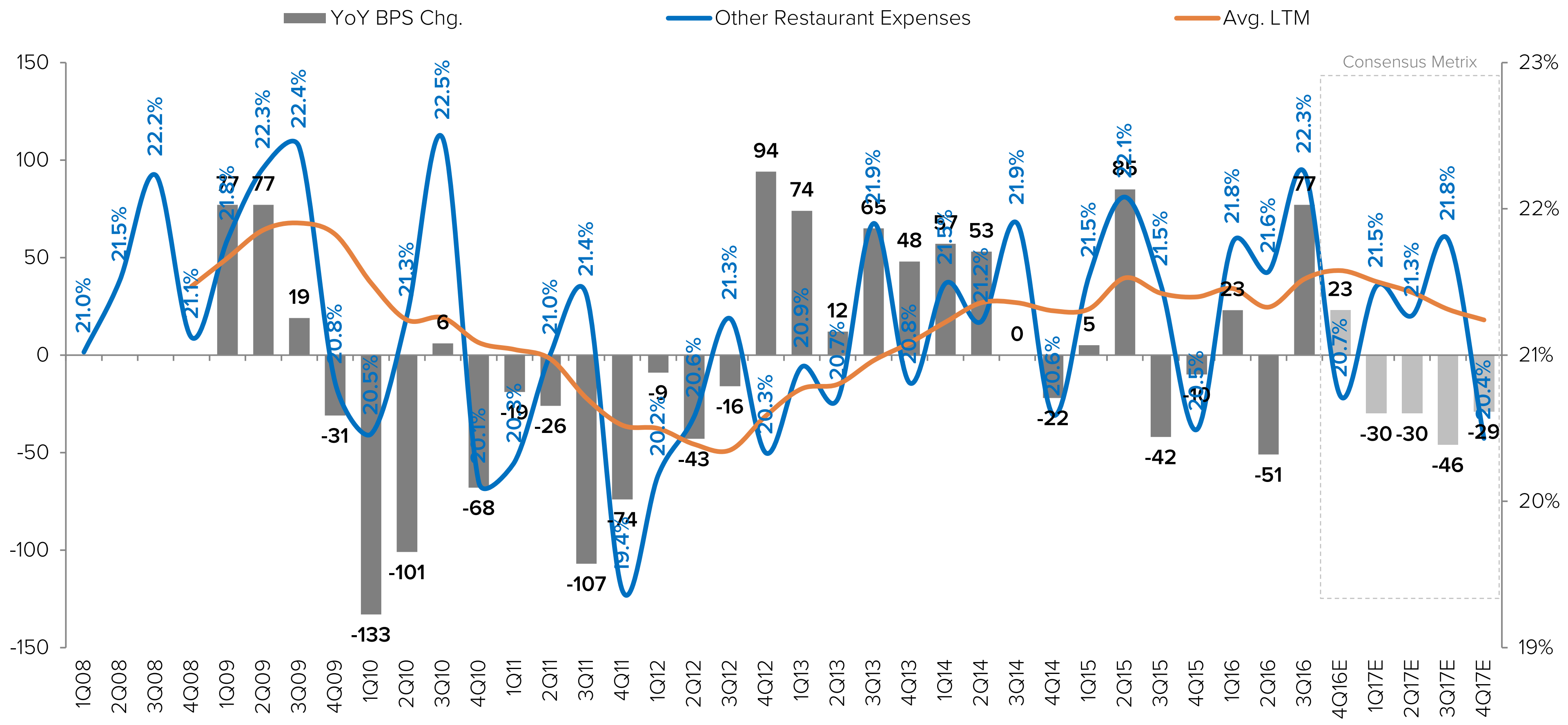
- PNRA is seeing COGS margin come in, with continued reduction projected to come.

LABOR

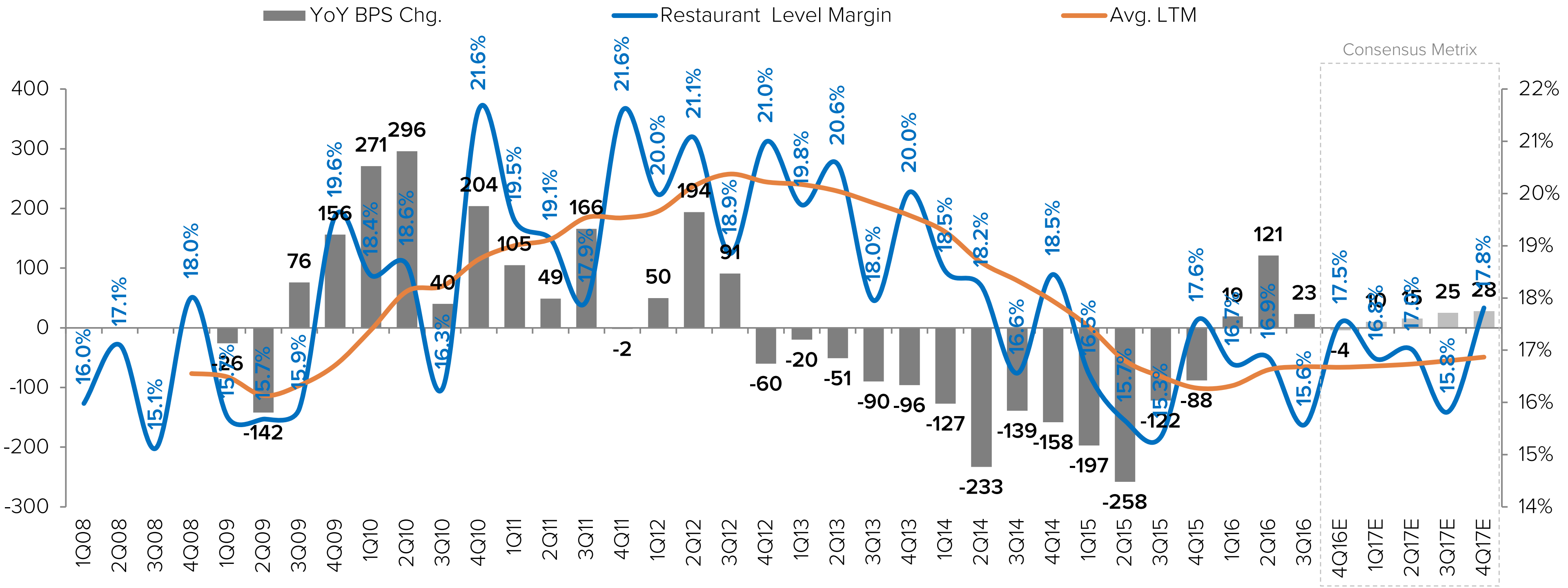


- Company management called out the fact that they experienced 5% structural wage inflation in 3Q16 as responsible for almost all of the deleverage that occurred in the quarter.
- To a lesser extent, the ongoing Panera 2.0 conversions and delivery rollout costs have weighed on labor costs, and management believes wages will continue to be headwind moving forward.

OTHER EXPENSES

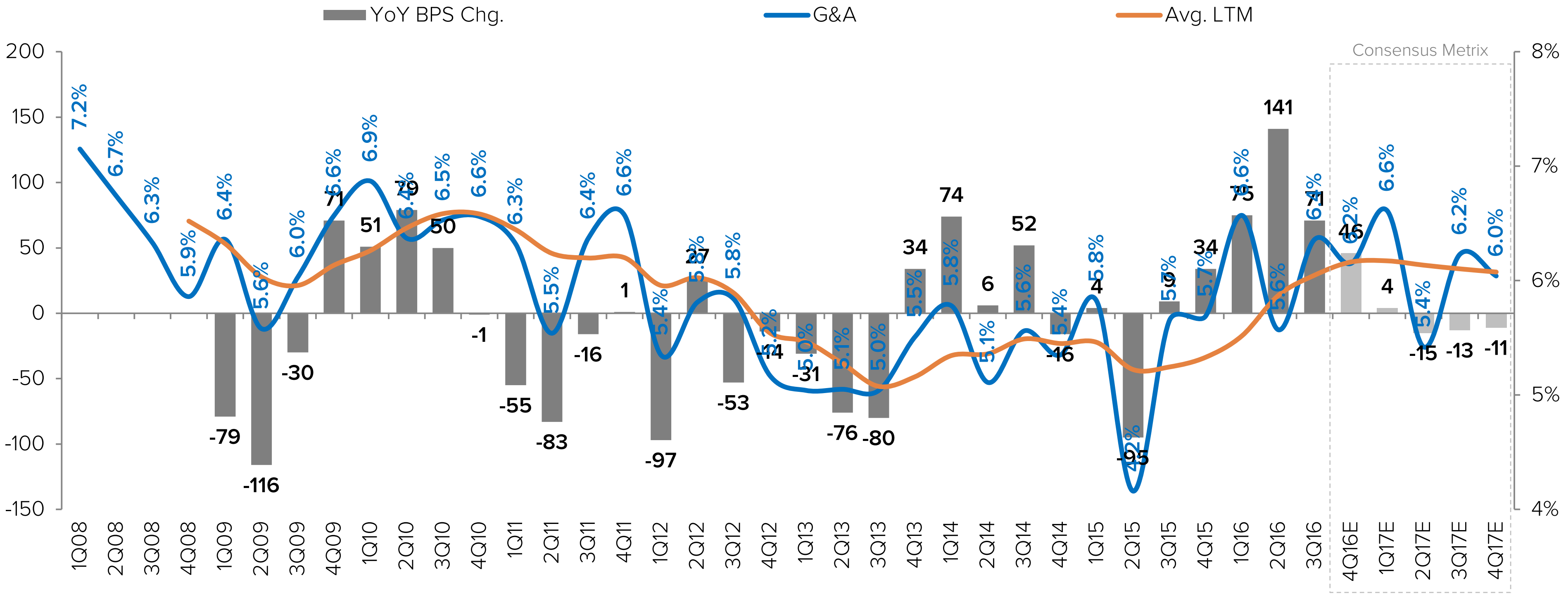


RESTAURANT LEVEL MARGIN



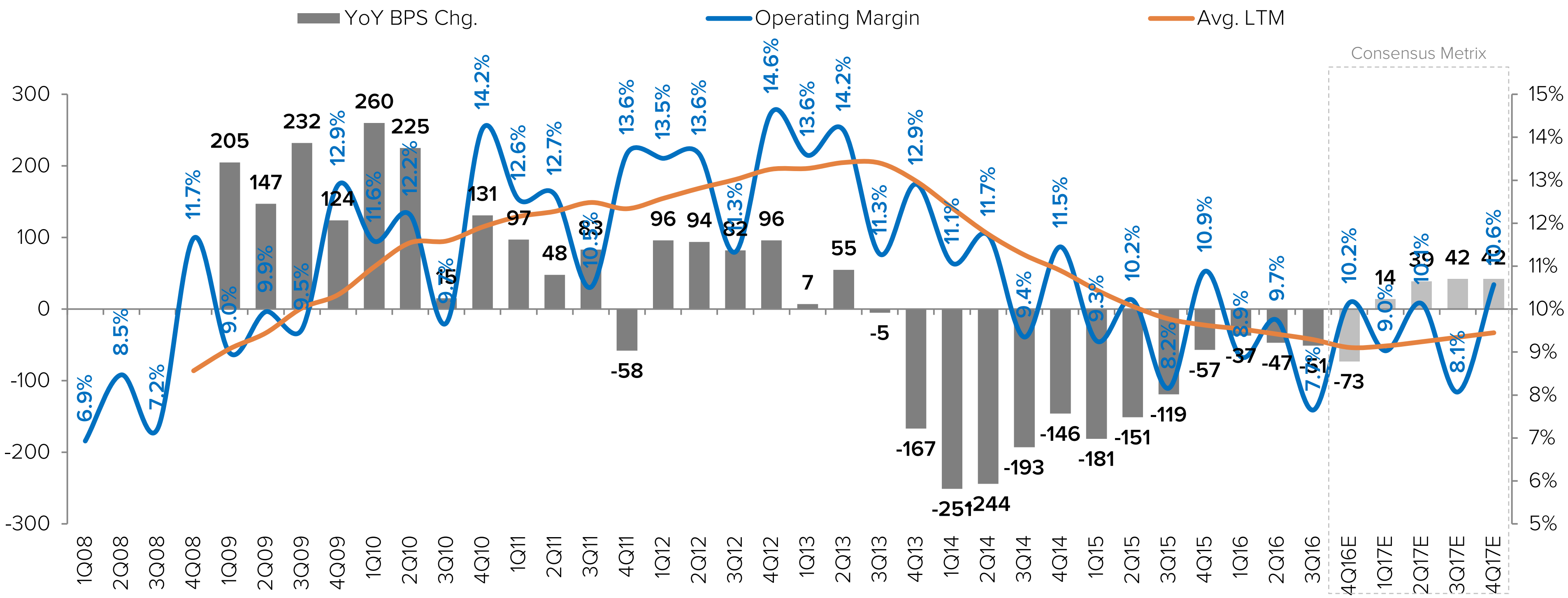
- PNRA's restaurant level margin has been trending downward, with projections pushing it a bit lower through FY2017. As they come out of their investment cycle, expect to see a resurgence in this metric.

SG&A



- After a recent jump, SG&A is projected to pull back as PNRA's recently aggressive investments in technology and other strategic initiatives, such as catering and delivery, will start to taper a bit.

OPERATING MARGIN

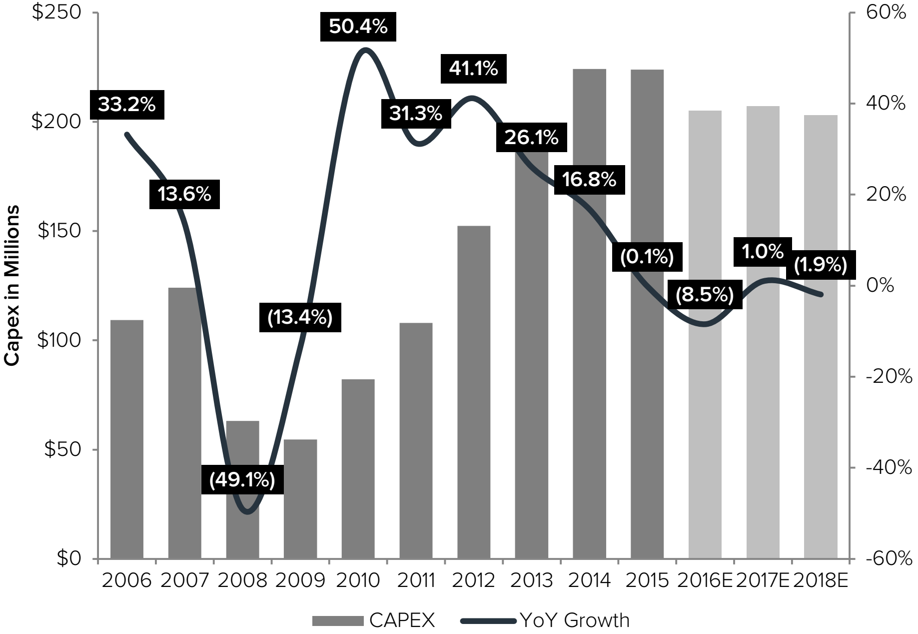


- After seeing significant declines starting in 4Q12, projections have operating margins rebounding a bit.

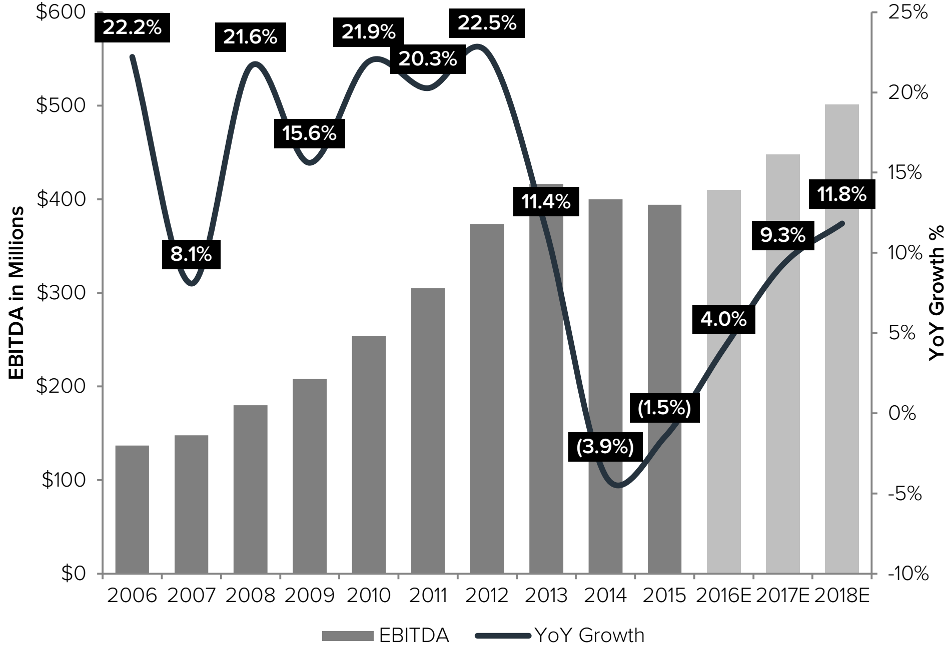
CAPITAL DEPLOYMENT

SLOWING CAPEX GROWTH – ACCELERATING EBITDA GROWTH

Capital Expenditures



EBITDA



PROFIT GROWTH RE-ACCELERATING

We have seen this story play out time and time again. First the company slows capital spending to re-collect itself, then it comes out the other side with accelerating earnings growth. PNRA has an extra benefit of Panera 2.0 providing a strong tailwind, while the introduction of delivery at a relatively low cost will further accelerate earnings growth.

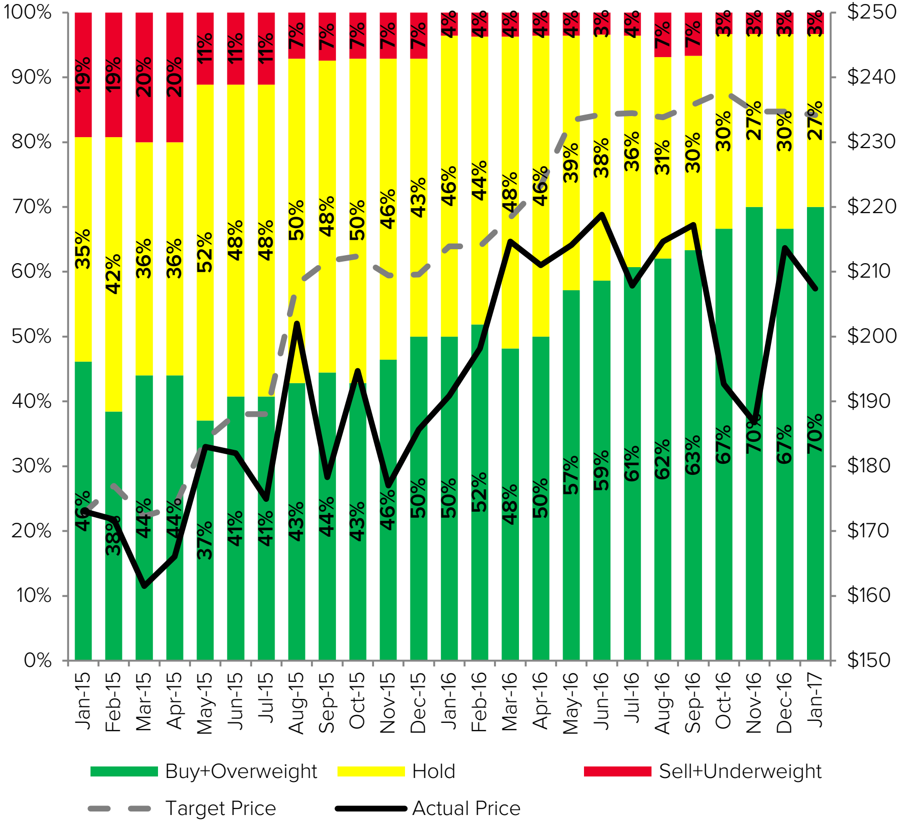
Data Source: Company Filings, FactSet, Consensus Metrix.

Panera BREAD®

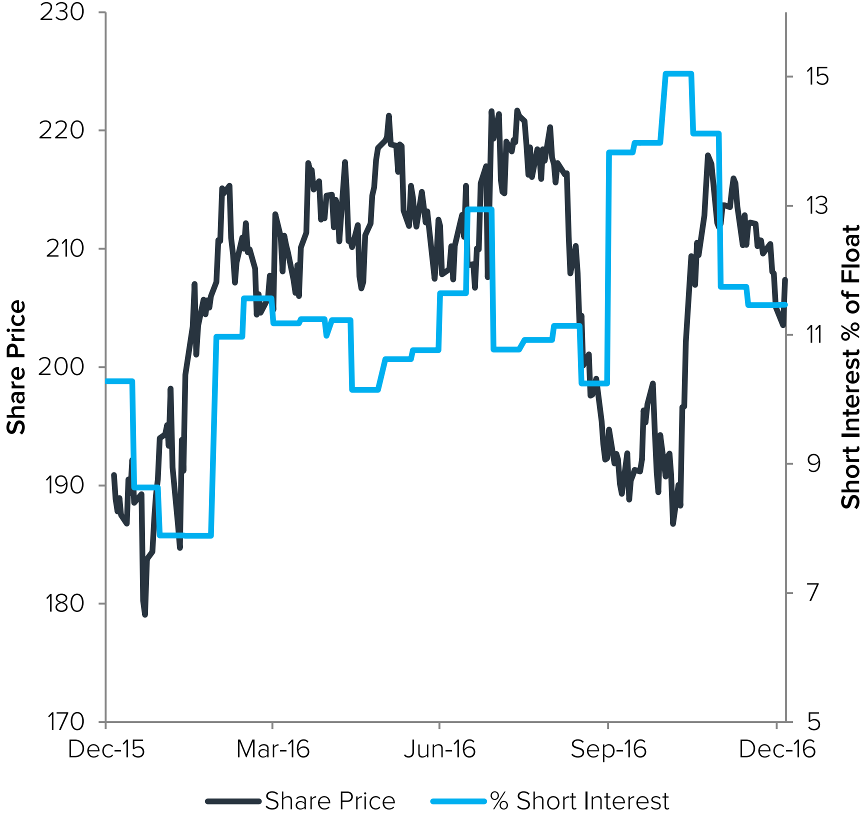
VALUATION & SENTIMENT

SENTIMENT

Sell-Side Sentiment



Short Interest



PUBLIC COMPANY COMPARABLES – VALUATION

							Sentiment			Earnings				EBITDA				
Name	Ticker	Price	Shares Out	Equity Value	Net Debt	Enterprise Value	Short Interest	Dividend Yield	Analyst Rating	FY1	FY2	% Change YoY	NTM P/E	FY1	FY2	% Change YoY	EV/ NTM EBITDA	Net Debt/ EBITDA
Quick Service Restaurants																		
Popeyes Louisiana Kitchen, Inc.	PLKI	$ 61.79	21	$ 1,281	$ 116	$ 1,397	3.7%	0.0	1.7	$ 2.11	$ 2.47	17.2%	24.5x	$ 87	$ 95	8.6%	14.5x	1.3x
Wendy's Company	WEN	$ 13.63	257	$ 3,503	$ 2,075	$ 5,579	10.0%	1.9	1.7	$ 0.41	$ 0.45	10.6%	29.8x	$ 396	$ 397	0.1%	14.0x	5.2x
Jack in the Box Inc.	JACK	$ 108.98	32	$ 3,524	$ 978	$ 4,502	5.2%	1.5	1.5	$ 4.70	$ 5.62	19.5%	21.9x	$ 373	$ 399	7.1%	11.8x	2.6x
Restaurant Brands International Inc	QSR	$ 47.95	234	$ 11,226	$ 7,455	$ 20,361	2.5%	1.4	1.6	$ 1.56	$ 1.74	12.1%	27.7x	$ 1,849	$ 1,997	8.0%	12.0x	4.0x
Sonic Corp.	SONC	$ 26.20	47	$ 1,223	$ 512	$ 1,736	12.5%	2.1	1.7	$ 1.27	$ 1.42	12.2%	20.3x	$ 154	$ 156	1.6%	11.4x	3.3x
Bojangles, Inc.	BOJA	$ 20.15	36	$ 735	$ 183	$ 918	1.6%	0.0	1.4	$ 0.94	$ 1.01	7.7%	19.9x	$ 81	$ 87	7.5%	10.5x	2.3x
Average							**5.9%**	**1.2**	**1.6**				**24.0x**				**12.4x**	**3.1x**
Casual Dining																		
Wingstop, Inc.	WING	$ 29.71	29	$ 854	$ 151	$ 1,005	17.3%	0.0	1.2	$ 0.57	$ 0.65	13.4%	43.8x	$ 35	$ 39	14.4%	24.5x	4.4x
Texas Roadhouse, Inc.	TXRH	$ 48.53	71	$ 3,422	$ (29)	$ 3,401	5.9%	1.6	1.9	$ 1.77	$ 2.00	12.9%	23.8x	$ 268	$ 300	12.0%	11.1x	-0.1x
Cheesecake Factory Incorporated	CAKE	$ 59.39	47	$ 2,817	$ 33	$ 2,850	15.8%	1.6	1.9	$ 2.84	$ 3.07	8.1%	19.1x	$ 289	$ 290	0.1%	9.7x	0.1x
Buffalo Wild Wings, Inc.	BWLD	$ 153.85	18	$ 2,800	$ 64	$ 2,864	7.9%	0.0	1.7	$ 5.56	$ 6.58	18.4%	22.7x	$ 303	$ 340	12.2%	8.2x	0.2x
Brinker International, Inc.	EAT	$ 48.59	50	$ 2,413	$ 1,412	$ 3,824	16.6%	2.8	1.9	$ 3.42	$ 3.77	10.4%	13.4x	$ 449	$ 461	2.7%	8.3x	3.1x
Bloomin' Brands, Inc.	BLMN	$ 18.29	105	$ 1,928	$ 1,133	$ 3,075	6.0%	1.5	1.4	$ 1.31	$ 1.45	10.6%	12.3x	$ 441	$ 437	-1.0%	7.0x	2.6x
BJ's Restaurants, Inc.	BJRI	$ 38.95	23	$ 906	$ 83	$ 989	6.2%	0.0	2.0	$ 1.74	$ 1.93	10.9%	19.2x	$ 126	$ 135	6.7%	7.0x	0.7x
Red Robin Gourmet Burgers, Inc.	RRGB	$ 54.05	13	$ 695	$ 300	$ 995	9.8%	0.0	1.7	$ 2.88	$ 3.10	7.6%	17.0x	$ 143	$ 148	3.6%	6.6x	2.1x
Average							**10.7%**	**0.9**	**1.7**				**21.4x**				**10.3x**	**1.6x**
Fast Casual																		
Zoe's Kitchen, Inc.	ZOES	$ 24.63	19	$ 479	$ 18	$ 497	34.8%	0.0	1.8	$ 0.10	$ 0.13	30.0%	189.9x	$ 24	$ 27	13.8%	18.5x	0.8x
Chipotle Mexican Grill, Inc.	CMG	$ 381.86	29	$ 11,054	$ (359)	$ 10,695	17.2%	0.0	1.9	$ 1.56	$ 9.02	477.5%	42.4x	$ 213	$ 578	171.4%	18.6x	-1.7x
Shake Shack, Inc. Class A	SHAK	$ 38.90	25	$ 969	$ (74)	$ 946	24.3%	0.0	1.9	$ 0.46	$ 0.55	20.9%	69.9x	$ 43	$ 56	29.6%	16.9x	-1.7x
Panera Bread Company Class A	PNRA	$ 207.39	22	$ 4,528	$ 345	$ 4,877	11.3%	0.0	1.4	$ 6.71	$ 7.68	14.5%	27.0x	$ 407	$ 449	10.1%	11.5x	0.8x
Habit Restaurants, Inc. Class A	HABT	$ 17.60	19	$ 337	$ (44)	$ 330	11.2%	0.0	1.2	$ 0.28	$ 0.31	10.9%	55.8x	$ 30	$ 35	16.8%	9.0x	-1.5x
Noodles & Co. Class A	NDLS	$ 4.55	26	$ 120	$ 82	$ 202	8.4%	0.0	2.0	$ (0.17)	$ (0.13)	-24.3%	0.0x	$ 24	$ 27	11.0%	7.6x	3.4x
Potbelly Corp.	PBPB	$ 13.50	25	$ 340	$ (30)	$ 311	5.8%	0.0	1.8	$ 0.38	$ 0.46	22.5%	28.6x	$ 39	$ 44	14.9%	6.9x	-0.8x
Average							**16.1%**	**0.0**	**1.7**				**59.1x**				**12.7x**	**-0.1x**

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	2,239		-0.46	-0.98	1.82	3.25	6.67	0.00
CONSUMER DISCRETIONARY SEL SECT SPD	XLY	81.40		-0.84	-1.49	-0.55	1.70	4.28	0.00
Wendy's Company	WEN	13.52	3,475	-1.39	-1.82	7.56	25.19	40.54	25.53
Jack in the Box Inc.	JACK	111.64	3,610	-0.81	0.33	7.33	16.36	29.93	16.36
Restaurant Brands International Inc	QSR	47.66	11,164	-0.54	-0.48	0.27	6.91	14.57	0.00
Popeyes Louisiana Kitchen, Inc.	PLKI	60.48	1,254	-1.19	-0.79	1.00	13.81	10.69	3.38
Bojangles, Inc.	BOJA	18.65	680	-1.84	-2.86	4.19	16.85	10.03	17.52
Sonic Corp.	SONC	26.51	1,238	-2.61	-2.10	1.57	1.26	-2.00	-7.60
	Mean			-1.40	-1.29	3.65	13.40	17.29	9.20
	Median			-1.29	-1.30	2.88	15.09	12.63	9.87

Casual Dining

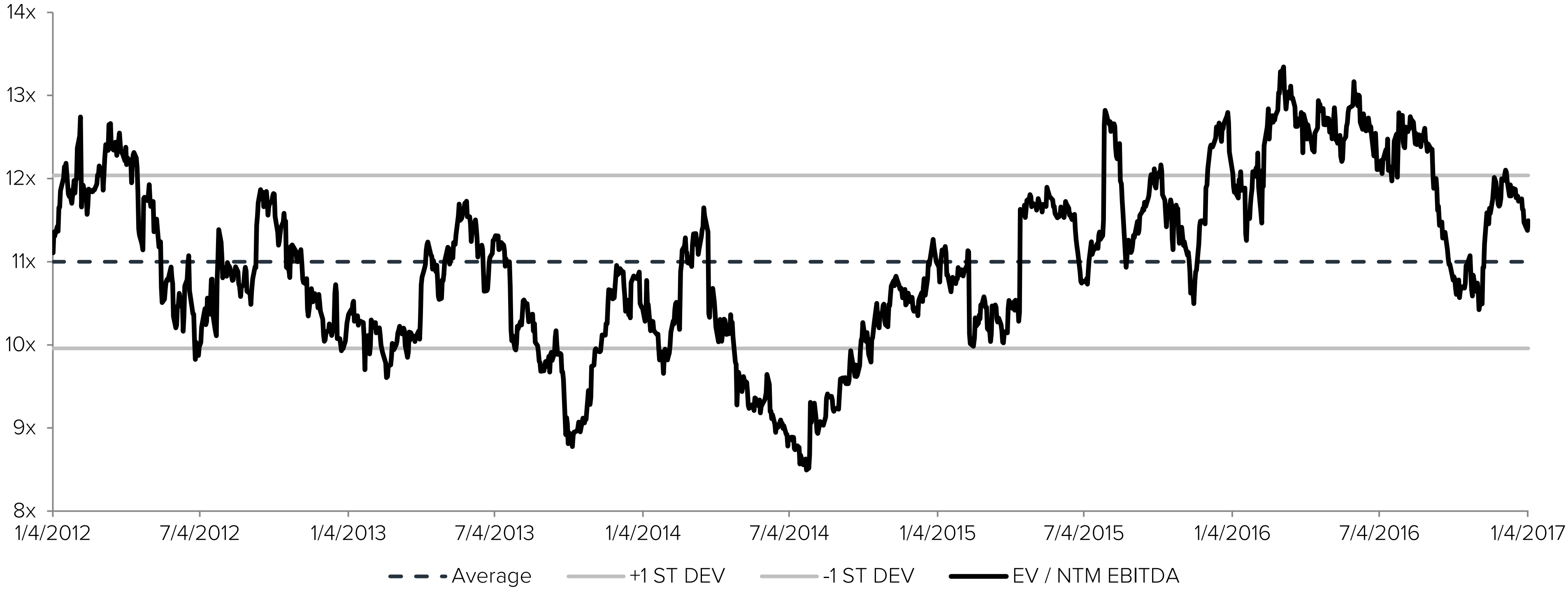
Company	Ticker	Price	Mkt Cap	1D % Chg	5D % Chg	1M % Chg	3M % Chg	6M % Chg	YTD % Chg
Cheesecake Factory Incorporated	CAKE	59.88	2,840	-2.22	-2.41	1.20	19.62	24.39	29.86
Wingstop, Inc.	WING	29.59	850	-0.34	0.31	-3.58	0.99	8.59	29.72
Buffalo Wild Wings, Inc.	BWLD	154.40	2,810	-2.40	-2.77	-8.42	9.71	11.12	-3.29
Brinker International, Inc.	EAT	49.53	2,459	-1.00	-1.92	-6.74	-1.78	8.79	8.79
Texas Roadhouse, Inc.	TXRH	48.24	3,402	-1.61	-1.37	2.88	23.60	5.79	34.86
Red Robin Gourmet Burgers, Inc.	RRGB	56.40	725	-0.27	0.18	9.62	25.50	18.91	-8.65
Bloomin' Brands, Inc.	BLMN	18.03	1,900	-1.21	-1.53	-3.06	4.58	0.90	6.75
BJ's Restaurants, Inc.	BJRI	39.30	914	-2.12	1.68	5.93	10.55	-10.34	-9.59
	Mean			-1.39	-0.98	-0.27	11.59	8.52	11.06
	Median			-1.41	-1.45	-0.93	10.13	8.69	7.77

Fast Casual

Company	Ticker	Price	Mkt Cap	1D % Chg	5D % Chg	1M % Chg	3M % Chg	6M % Chg	YTD % Chg
Potbelly Corp.	PBPB	12.90	325	-3.73	-5.15	-5.49	3.78	2.87	10.16
Shake Shack, Inc. Class A	SHAK	35.79	892	-0.72	-2.96	-2.96	3.23	-1.76	-9.62
Habit Restaurants, Inc. Class A	HABT	17.25	331	-0.58	-2.27	2.68	23.21	5.31	-25.20
Chipotle Mexican Grill, Inc.	CMG	377.32	10,923	0.19	-3.54	-4.80	-10.90	-6.32	-21.37
Zoe's Kitchen, Inc.	ZOES	23.99	467	-1.40	-4.00	-2.72	8.11	-33.86	-14.26
Panera Bread Company Class A	PNRA	205.09	4,478	-1.37	-2.67	-3.31	5.33	-3.23	5.29
Noodles & Co. Class A	NDLS	4.10	108	-4.65	-9.89	-2.38	-13.87	-58.08	-57.69
	Mean			-1.75	-4.35	-2.71	2.70	-13.58	-16.10
	Median			-1.37	-3.54	-2.96	3.78	-3.23	-14.26

Data Source: FactSet, Hedgeye. Updated on 1.4.17.

5 YEAR VALUATION TREND



RECENT PULLBACK PROVIDES GREAT BUYING OPPORTUNITY

Data Source: FactSet. Updated on 1.3.17.

VALUATION MATRIX

NTM EV/EBITDA Multiple

EBITDA	11.5x	11.7x	11.9x	12.1x	12.3x	12.5x	12.7x	12.9x	13.1x	13.3x	13.5x
$420	$191.67	$195.27	$198.86	$202.45	$206.05	$209.64	$213.23	$216.82	$220.42	$224.01	$227.60
$430	$196.43	$200.10	$203.78	$207.45	$211.13	$214.80	$218.48	$222.15	$225.83	$229.50	$233.18
$440	$201.29	$205.05	$208.81	$212.57	$216.33	$220.09	$223.85	$227.61	$231.37	$235.13	$238.89
$450	$206.26	$210.11	$213.95	$217.80	$221.64	$225.49	$229.34	$233.18	$237.03	$240.88	$244.72
$460	$211.35	$215.28	$219.22	$223.15	$227.09	$231.02	$234.96	$238.89	$242.83	$246.76	$250.70
$471	$216.55	$220.58	$224.60	$228.63	$232.65	$236.68	$240.70	$244.73	$248.75	$252.78	$256.80
$481	$221.87	$225.99	$230.11	$234.23	$238.35	$242.46	$246.58	$250.70	$254.82	$258.94	$263.05
$492	$227.32	$231.53	$235.75	$239.96	$244.17	$248.38	$252.60	$256.81	$261.02	$265.23	$269.45
$504	$232.89	$237.20	$241.51	$245.82	$250.13	$254.44	$258.75	$263.06	$267.37	$271.68	$275.99

BEAR	BASE	BULL
-8%	11%	33%

WE ARE LOOKING FOR THE MULTIPLE TO INCREASE WITH THE EXPANSION OF DELIVERY

- The anticipated increase in profitability, driven by their delivery business and increased value proposition presented by Panera 2.0, will push multiples and EBITDA higher.

Data Source: FactSet, Hedgeye

SUMMARY OF OUR THOUGHTS

Key Points

1. Key investments into the business, namely Panera 2.0, will continue to play a huge role in differentiating the brand

2. The efficiency created by their delivery hubs, will continue to push their delivery capabilities to the forefront

3. Earnings acceleration from enhancements

Risks to the Long

1. Unforeseen slowdown in delivery rollout, allowing for competition to gain share

2. Input cost inflation from labor and commodities will be a headwind for the industry

Data Source: Hedgeye

DOMINO’S (DPZ) COMPETITIVE ADVANTAGE DISSIPATING?

KEY POINTS: DPZ IS A DURATION CALL

1 TRADE: MOMENTUM TOO STRONG TO SHORT

We have no particular call on DPZ right now, but their current positioning in the industry, with over 28% pizza delivery market share, makes them a behemoth in the industry. The brand's track record with regard to product innovation and delivery puts them head and shoulders above the competition and they show no signs of slowing down, as they are constantly retooling their methods and improving the customer experience.

2 TREND: PRESSURE BUILDING BUT LIKELY NOT NOTICABLE

In the immediate-term, DPZ may feel some pressure from competitors, especially as they ramp up their technology initiatives. However, as we stated above, DPZ has positioned itself as a leader in the space, therefore making it tough to unseat them in the short to medium term.

3 TAIL: COMPETITIVE ACTIONS WILL START TAKING A TOLL

DPZ will feel pressure from other restaurants' delivery capabilities, as the catch-up effect really begins to take hold. In this case, time is not DPZ's friend.

Data Source: Company Filings, Hedgeye.

THE DELIVERY MEAL IS CHANGING

2005

It's Friday night after a long week. Mom and Dad give you $20 to order dinner...what do you get?

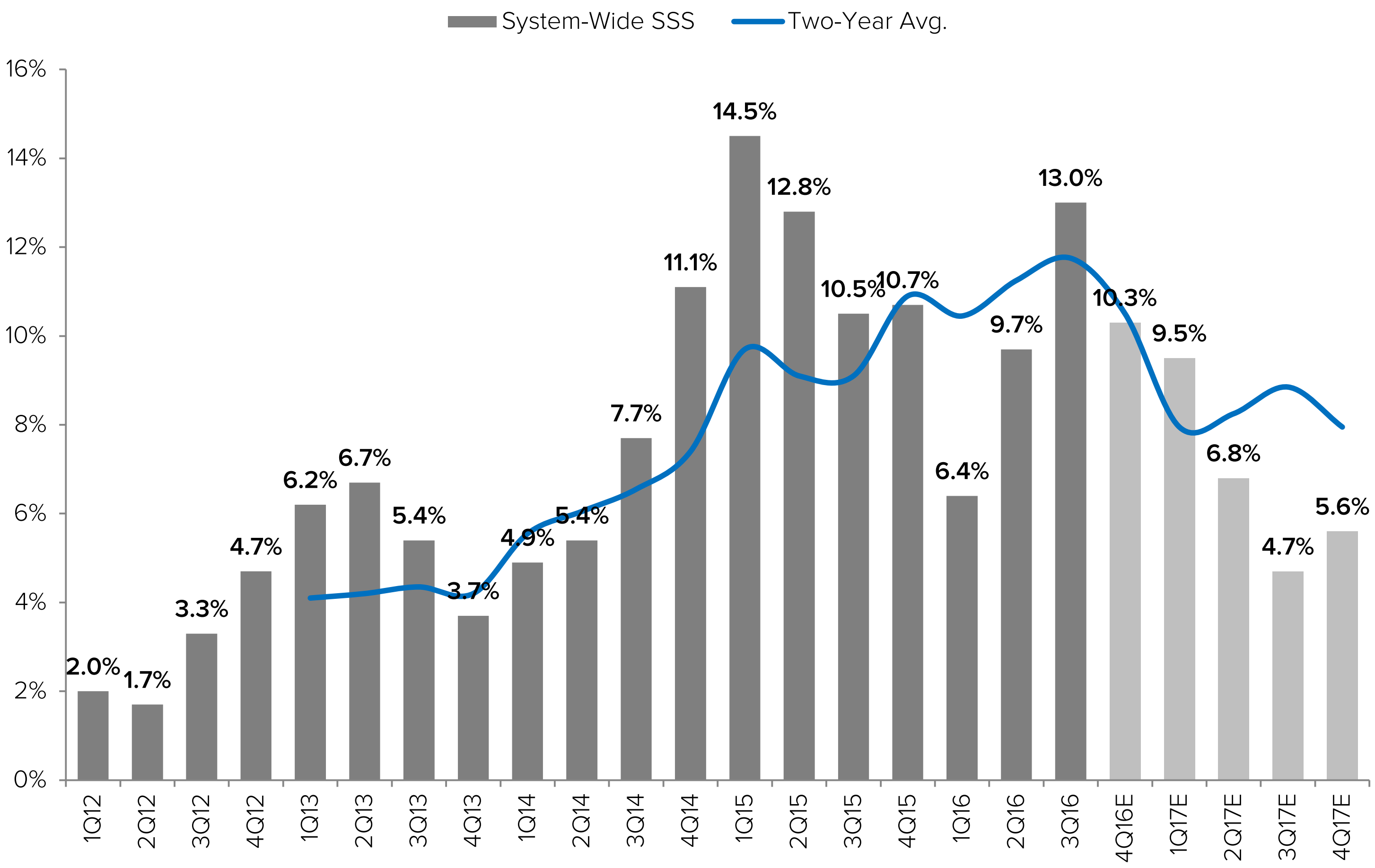
- It's no wonder why Friday nights were known as "pizza nights"!
- Limited options made moments like this a mandatory pizza occasion, as these were the only choices offering customers convenience and relative speed.

2020

It's Friday night after a long week. Mom and Dad give you $20 to order dinner...what do you get?

...just to name a few!

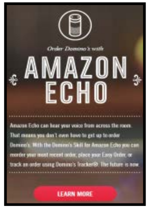
THEIR DELIVERY TECHNOLOGY TAILWIND IS STRONG



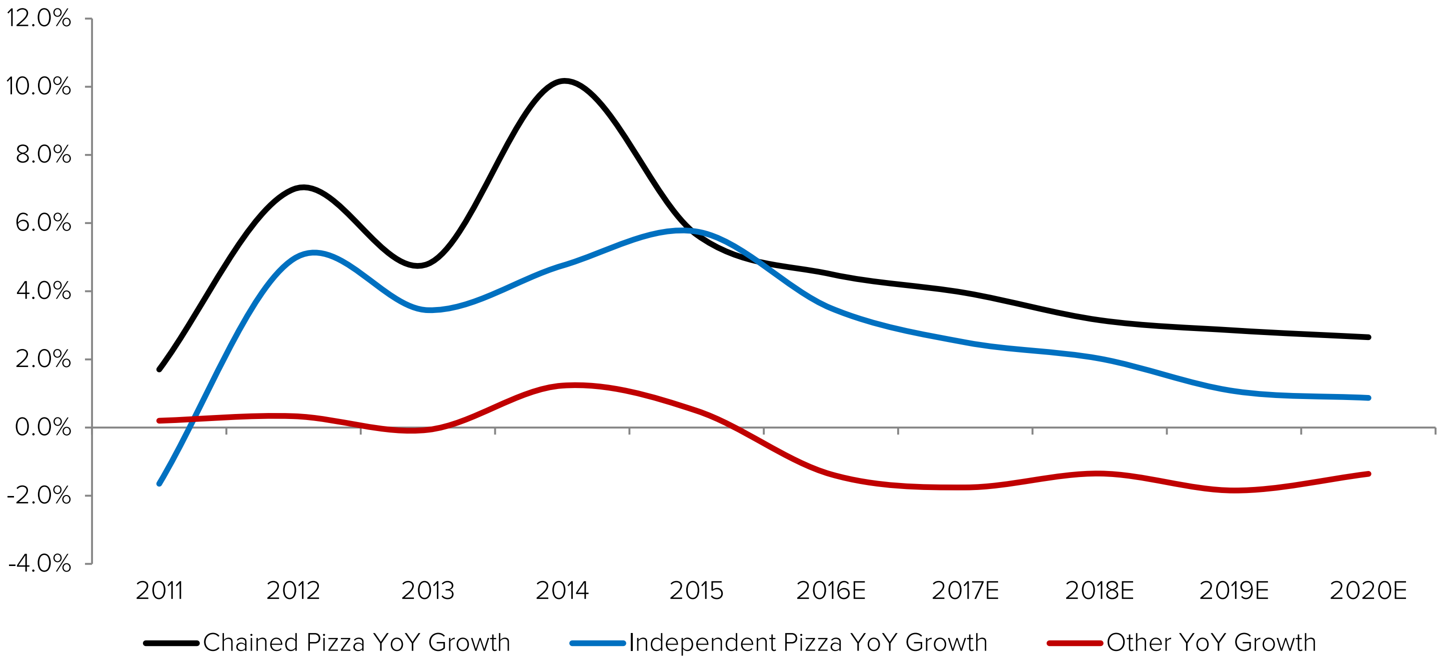
- Delivery accounts for ~29% of DPZ's business
- Innovative technology leader with ~$4.7B in annual global digital sales
  - Nine markets with digital sales over 50%
  - DPZ's share of QSR Pizza online dollars stands at 33%
  - More than 50% of sales come via digital channels

DPZ & TECHNOLOGY: A LOVE STORY

- In December 2009, CEO Patrick Doyle publicly acknowledged that DPZ was lacking, and with this, the company embarked on what they dubbed “The Pizza Turnaround.”
  - Doyle apologized for the poor ingredients and promised to improve the recipe.
  - DPZ has gone above and beyond, also completely revamping the customer experience.
- The key ingredient for DPZ’s success has been the Company’s investments in digital and mobile where it focused on making it faster and easier for customers to place and track orders.
- Launched revamped digital ordering platform (GOLO – Global Online Ordering) in July 2014, supporting 12 markets (9 in the Americas and 3 in Europe & Asia)
  - DPZ set the bar with regard to digital ordering in the pizza delivery space.
  - The company has mobile ordering apps that cover all smartphones and their Pizza Profile allows customers who order online to save their information and reorder their favorite order in as little as five clicks.
  - According to CEO Patrick Doyle, both customer retention and frequency are higher as a result of their digital ordering system, and the Company remains focused on growing online ordering and improving the digital customer experience through their technology platforms.
- Most recently, DPZ launched mobile ordering via Google Home on December 19, 2016.
  - Google Home is the fifth platform added to Dominos AnyWare ordering capabilities this year.



SALES IN 100% HOME DELIVERY/TAKEAWAY (2010 – 2020)

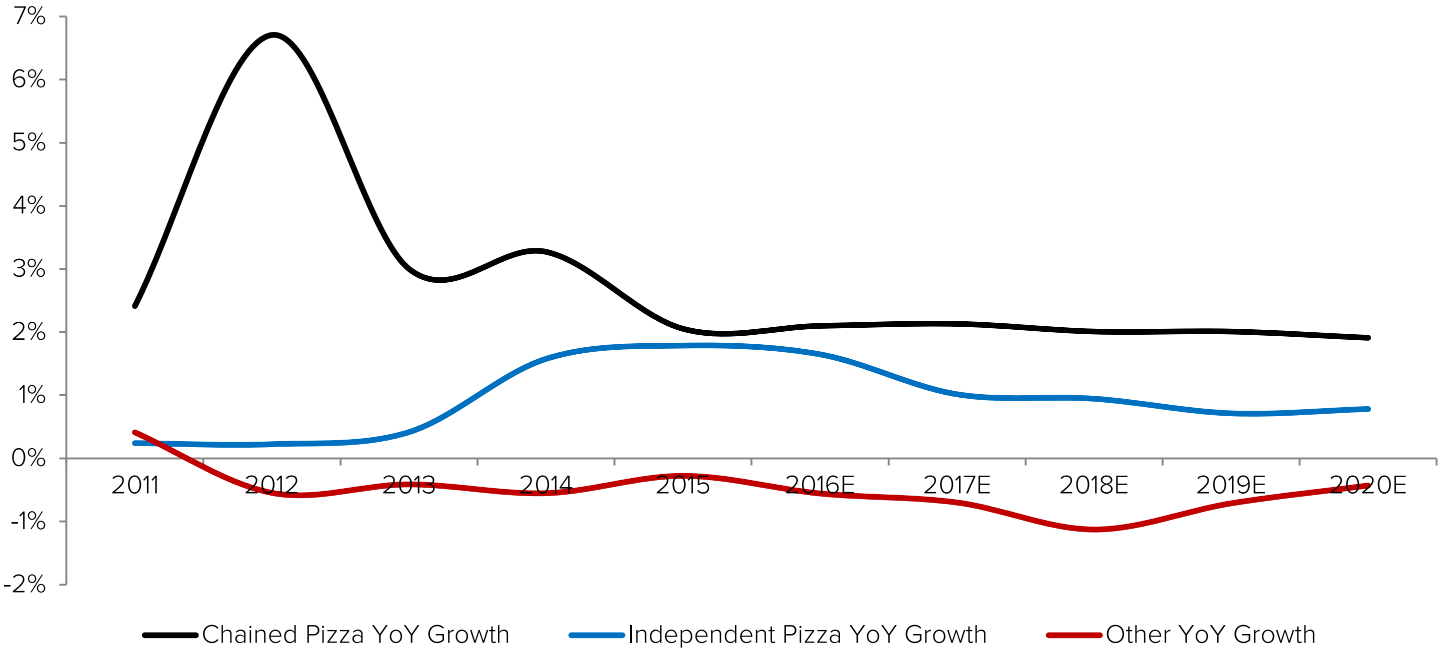


(USD Billions)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Chained Pizza 100% Home Delivery/Takeaway	**$13.0**	**$13.2**	**$14.1**	**$14.8**	**$16.3**	**$17.2**	**$18.0**	**$18.7**	**$19.3**	**$19.9**	**$20.4**
Chained Pizza YoY Growth		*1.7%*	*7.0%*	*4.8%*	*10.2%*	*5.7%*	*4.5%*	*3.9%*	*3.2%*	*2.9%*	*2.6%*
Independent Pizza 100% Home Delivery/Takeaway	**$4.0**	**$3.9**	**$4.1**	**$4.3**	**$4.5**	**$4.7**	**$4.9**	**$5.0**	**$5.1**	**$5.2**	**$5.2**
Independent Pizza YoY Growth		*-1.6%*	*4.9%*	*3.4%*	*4.7%*	*5.7%*	*3.5%*	*2.5%*	*2.0%*	*1.1%*	*0.9%*
Other 100% Home Delivery/Takeaway	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**
Other YoY Growth		*0.2%*	*0.3%*	*-0.1%*	*1.2%*	*0.5%*	*-1.4%*	*-1.8%*	*-1.3%*	*-1.8%*	*-1.4%*

- Delivery and takeaway sales in the pizza space (chained, independent, and other) has shown sustained growth, with growth expected to continue for the foreseeable future.
- Such growth buttresses our position that DPZ will continue to see considerable dominance in the space, given their size, expertise and technological capabilities.

Data Source: Euromonitor International, Hedgeye

100% HOME DELIVERY/TAKEAWAY (2010 – 2020): UNITS



- Unit growth for Chained and Independent Pizza restaurants with 100% Home Deliver/Takeaway is expected to rebound a bit before flat-lining going forward.
- "Other" units have seen a decline in unit growth, but a recovery is expected in the out years.

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Chained Pizza 100% Home Delivery/Takeaway	**22,133**	**22,667**	**24,187**	**24,913**	**25,728**	**26,256**	**26,807**	**27,378**	**27,928**	**28,489**	**29,033**
Chained Pizza YoY Growth		*2.4%*	*6.7%*	*3.0%*	*3.3%*	*2.1%*	*2.1%*	*2.1%*	*2.0%*	*2.0%*	*1.9%*
Independent Pizza 100% Home Delivery/Takeaway	**6,227**	**6,242**	**6,256**	**6,282**	**6,381**	**6,495**	**6,602**	**6,669**	**6,732**	**6,780**	**6,833**
Independent Pizza YoY Growth		*0.2%*	*0.2%*	*0.4%*	*1.6%*	*1.8%*	*1.6%*	*1.0%*	*0.9%*	*0.7%*	*0.8%*
Other 100% Home Delivery/Takeaway	**729**	**732**	**728**	**725**	**721**	**719**	**715**	**710**	**702**	**697**	**694**
Other YoY Growth		*0.4%*	*-0.5%*	*-0.4%*	*-0.6%*	*-0.3%*	*-0.6%*	*-0.7%*	*-1.1%*	*-0.7%*	*-0.4%*

DPZ'S POSSIBLE STRATEGIC ALTERNATIVES

WILL DPZ HAVE CRITICAL MASS IN PERPETUITY?

- DPZ is the most efficient delivery system out there for food and has been perfecting efficiencies around delivery for 56 years.

- "Delivery is far more about people and logistics and managing a very large distributed group of people making those deliveries than it is about kind of the technology behind it." Patrick Doyle, Domino's Pizza, Inc. - President, CEO

- DPZ currently has critical mass in delivery, but what if that position begins to erode as the competition gets more efficient and gains critical mass?

- Currently, ~29% of DPZ's sales come through delivery orders; this presents a possible strategic opportunity for the brand.

- Could DPZ "spin out" their delivery business to create value for shareholders

  — This value proposition is far-reaching, as DPZ specializes in not only pizza delivery, but also chicken, salad, pasta, sandwiches, and desserts.
  — Could DPZ offer their delivery services to other brands? Essentially leveraging its capabilities to expand brand reach and foster growth.

- Management dismissed this idea, but times they are a changing…

THE PARTY ISN'T OVER QUITE YET FOR DPZ

- **Momentum in the DPZ business is still strong, especially as the Company continues to rollout value adding capabilities, most recently its AnyWare campaign.**
  - Therefore, the brand is still well positioned and to SHORT it would be imprudent.
- **However, as meal delivery becomes more common-place, soon they will no longer be the only place to obtain an easy Friday night meal.**
  - This transition will cause DPZ's business to slow.

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