



ALWAYS FIRST IN LINE

BEST IDEA LONG: **SONIC (SONC)**

January 24, 2017

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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	SHORT LIST		TRADE	TREND	TAIL
1) PNRA	Panera Bread Company	✓	✓	✓	1) CMG	Chipotle Mexican Grill	X	X	X
2) BWLD	Buffalo Wild Wings	✓	✓	✓	2) GRUB	GrubHub	-	X	X
3) RRGB	Red Robin Gourmet Burger	✓	✓	✓	3) DNKN	Dunkin' Brands	X	X	X
4) DFRG	Del Frisco's Rest. Group	✓	✓	-	4) BLMN	Bloomin' Brands	X	X	X
5) SONC	Sonic	-	-	✓	5) CAKE	Cheesecake Factory	X	X	X
					6) DIN	DineEquity, Inc.	X	X	X
LONG BENCH					SHORT BENCH				
WING	Wingstop				SHAK	Shake Shack			
JE - GB	JUST EAT plc				YUM	Yum! Brands			
TXRH	Texas Roadhouse				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

DYNAMIC TECHNOLOGY TAKING HOLD

SONC, a trailblazer on the personalized service front, has continued to phase-in its Point of Personalized Service (POPS) digital menus during the past year, now in year three of its four-year rollout. At the end of FY16, approximately two-thirds of system-wide units had implemented this modernized customer interface (now stands at ~71% implementation as of 1Q17), allowing for personalized messaging, store segmentation, data-informed suggestive selling, and dynamic promotions. Additionally, SONC's planned implementation of Mobile Order & Pay is expected to drive improved customer loyalty and increased convenience, with the end goal of driving increased transactions.

2

COMPETITIVE PRESSURES ARE FADING...

SONC has been facing a number of headwinds over the last 12-months. First, SONC has not been immune to the general downturn in the restaurants space. Second, the brand has been impacted by a significant increase in the bundled discounting by its larger competitors. Third, the success of MCD's All-Day Breakfast made life difficult in 2016. As time progresses, these headwinds will become tailwinds, at the same time the company will be putting the finishing touches on its technology initiatives. Longer term, we believe the company could be in the best position of any QSR concept to benefit from mobile technology and other consumer-centric initiatives.

3

PUSH TO 95% FRANCHISE MODEL & INCREASED FREE CASH FLOW

On their 3Q16 earnings call, SONC management announced its plan to rebrand ~140 company-owned drive-ins, moving the company to a 95% franchised system. Such a move allows SONC to improve efficiency and reduce earnings volatility. Due in part to these actions, free cash flow is projected to increase by 34.3%, from \$52 million in FY17 to \$70 million in FY18.



COMPANY OVERVIEW



COMPANY OVERVIEW

FUNDAMENTAL & TECHNICAL SNAPSHOT

Sonic Corp.

CONSENSUS ESTIMATES

Year	QTR.	SALES			SONC SAME-STORE SALES			EBITDA		
		LY	QTR	Growth	LY	QTR	2-yr Avg	LY	QTR	Growth
		TTM	NTM					TTM	NTM	
		\$590	\$463	(21.5%)	6.5%	(3.6%)	1.5%	\$31	\$27	(14.1%)
								\$166	\$153	(8.0%)
Year	QTR.	EBIT			EPS			FREE CASH FLOW		
		LY	QTR	Growth	LY	QTR	Growth	LY	QTR	Growth
		TTM	NTM					TTM	NTM	
		\$20	\$17	(14.3%)	\$0.18	\$0.15	(16.7%)	\$4	\$2	(32.4%)
		\$122	\$116	(5.1%)	\$1.30	\$1.31	0.8%	\$112	\$57	(49.2%)

MARGIN ANALYSIS

QTR.	LY	COGS		BPS Chg.	LY	LABOR		BPS Chg.	LY	RESTAURANT LEVEL MARGIN		BPS Chg.
		QTR	QTR			QTR	QTR			QTR	QTR	
		27.5%	27.5%	0		37.1%	38.0%	89		14.3%	13.2%	-114
QTR.	LY	G&A		BPS Chg.	LY	EBITDA		BPS Chg.	LY	EBIT		BPS Chg.
		QTR	QTR			QTR	QTR			QTR	QTR	
		15.6%	19.7%	407		23.5%	25.5%	194		15.2%	16.4%	121

CAPITAL STRUCTURE & TRADING

MKT CAP	EV	D/EV	DEBT	CASH	INT COV	SI %	BETA, 1Y
1,161	1,700	35%	588	50	3.37X	11.30%	2.15

PRICE

CURRENT	vs. 52W High	vs. 52W Low
\$25.40	69.9%	120.3%

NTM VALUATIONS

EV/EBITDA	P/E
10.8X	19.1X

INSIDER ACTIVITY: 6M

SOLD	BOUGHT
-7,797	0
AVG PRICE	AVG PRICE
\$27.30	\$0.00

RELATIVE PERFORMANCE

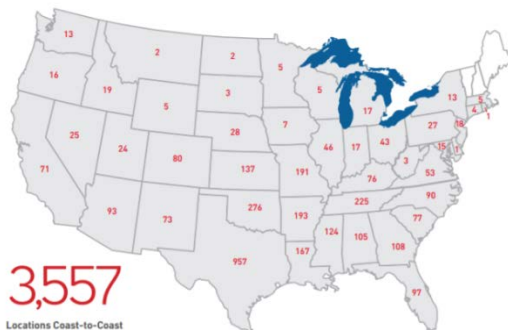
vs. SPX			
1 Week	1 Month	3 Month	6 Month
-3.8%	-6.9%	-5.8%	-12.0%

vs. XLY			
1 Week	1 Month	3 Month	6 Month
-3.9%	-7.3%	-6.0%	-10.5%

REVISION TRENDS

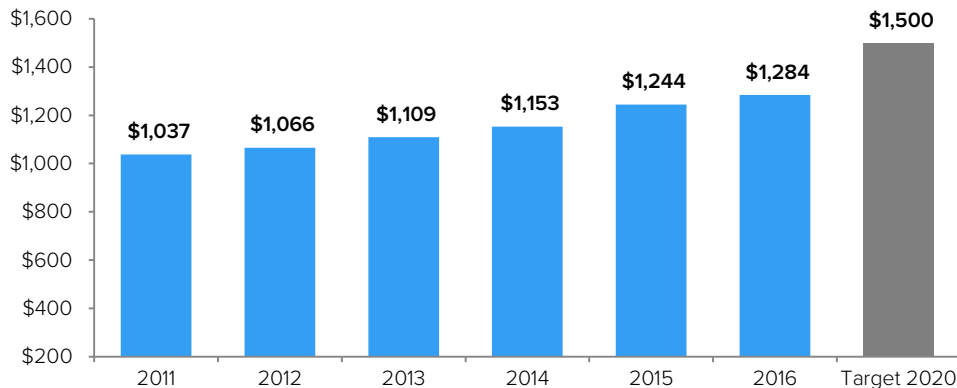
NTM REVENUE			
1 Week	1 Month	3 Month	6 Month
(0%)	(3%)	(12%)	(19%)
NTM EPS			
1 Week	1 Month	3 Month	6 Month
0%	2%	(10%)	(11%)

SONC Footprint



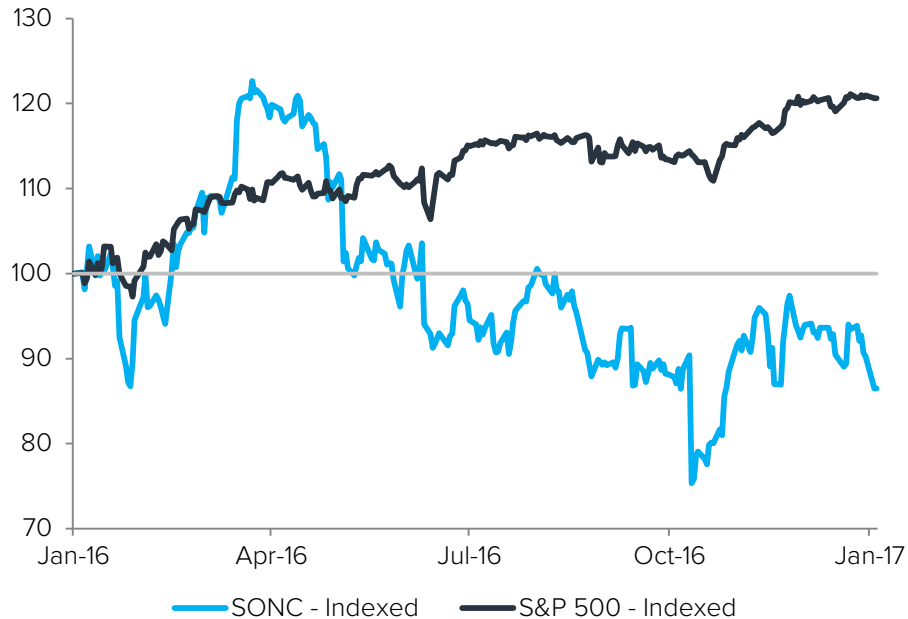
- 345 Company-owned drive-ins
- 3,212 Franchise drive-ins
- SONC has entered 15 new markets since 2005

AUV Growth

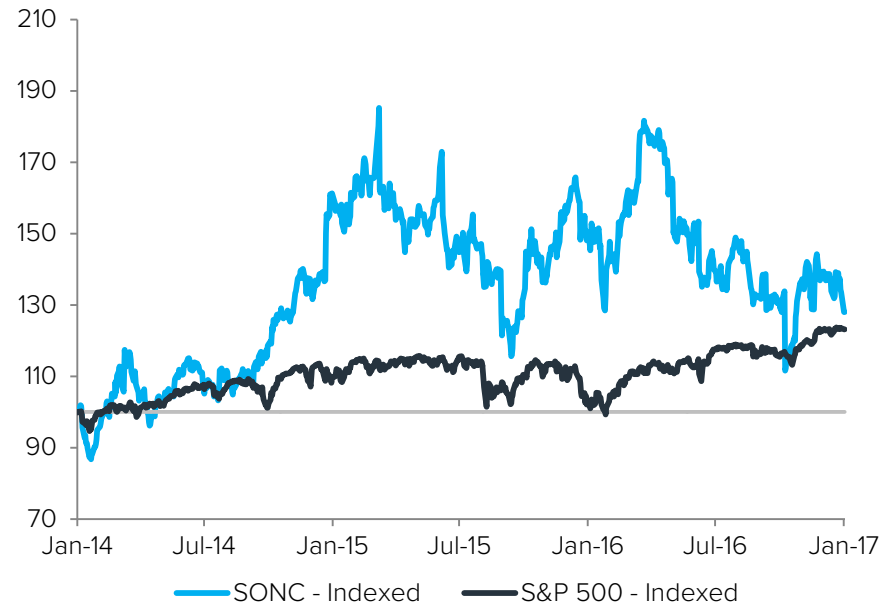


PRICE PERFORMANCE

1 Year Performance vs. S&P 500

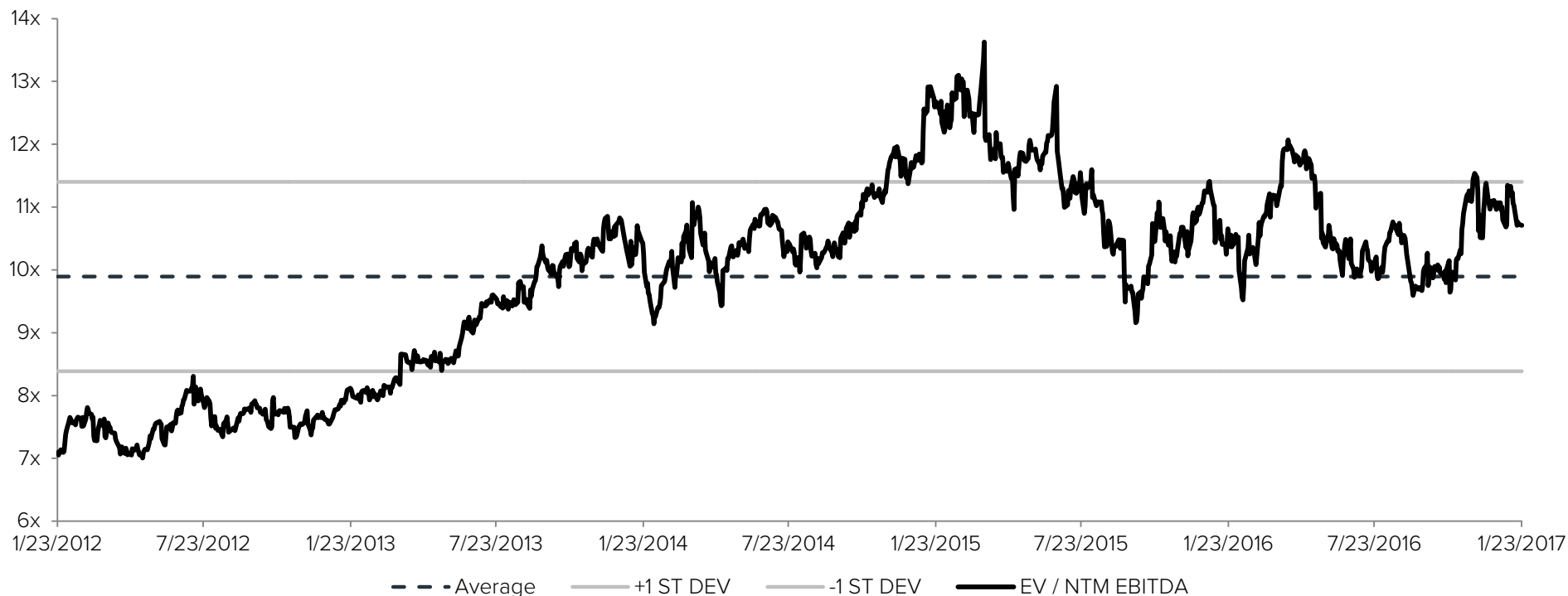


3 Year Performance vs. S&P 500



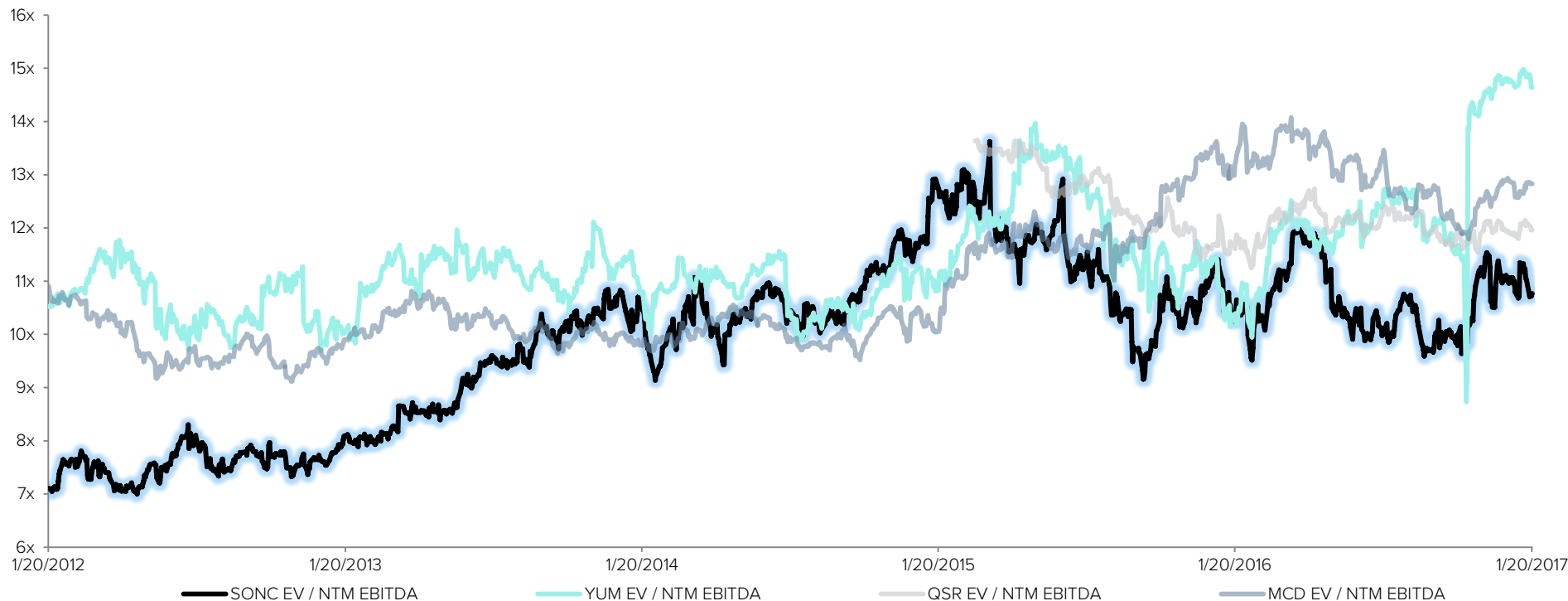
- SONG stock has generally outperformed the S&P over the medium-term, but has underperformed over the last 7-8 months.
- The recent underperformance makes it a great entry point for the **LONG**.

5 YEAR VALUATION TREND



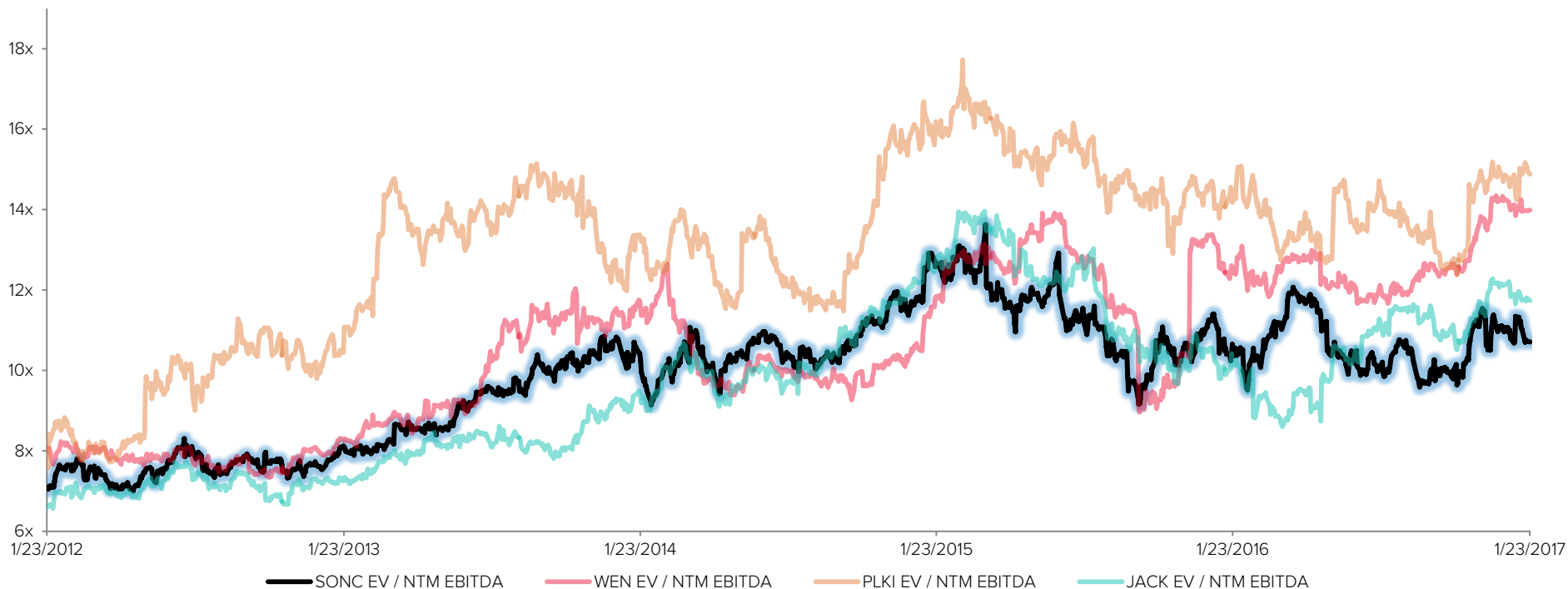
- SONC has recently pulled back from trading at approximately 1 standard deviation above its 5-year average valuation.

5 YEAR VALUATION TREND VS. GLOBAL ASSET-LIGHT MODELS



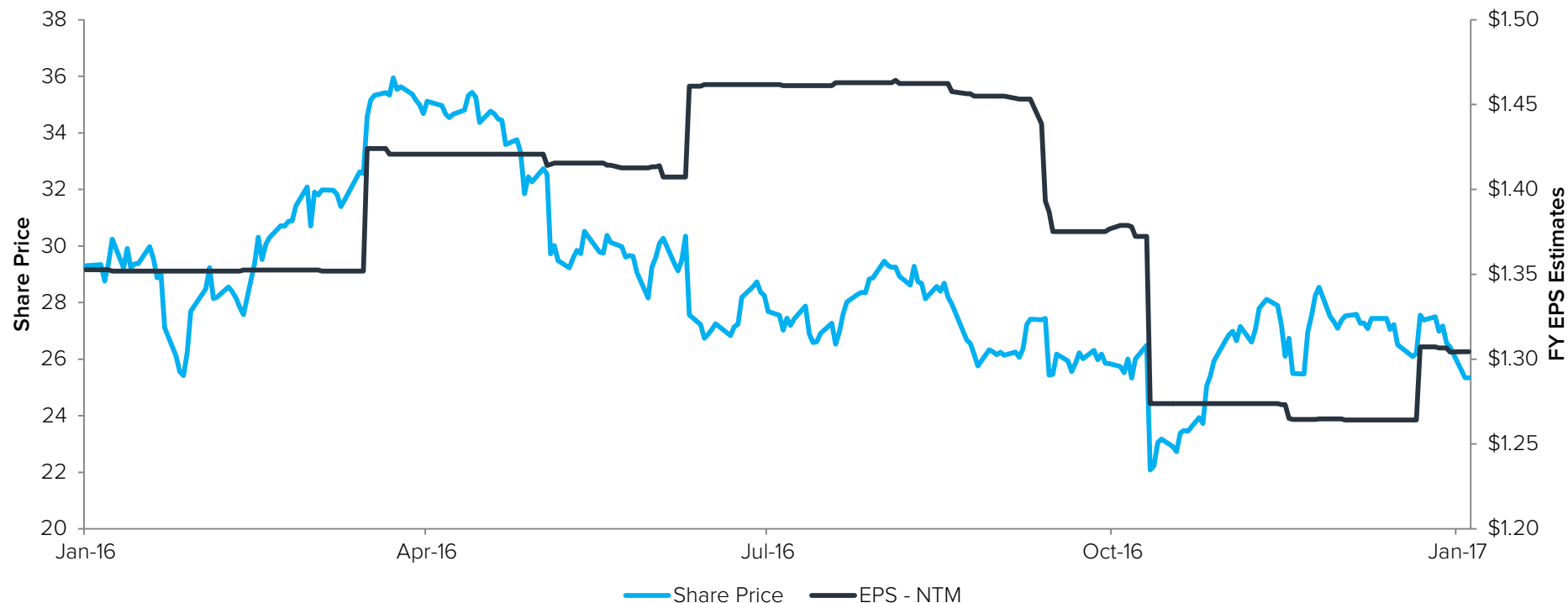
- When compared to global competitors with asset-light models, it is clear that SONC is well below on an EV/NTM EBITDA basis.

5 YEAR VALUATION TREND VS. DOMESTIC ASSET-LIGHT MODELS



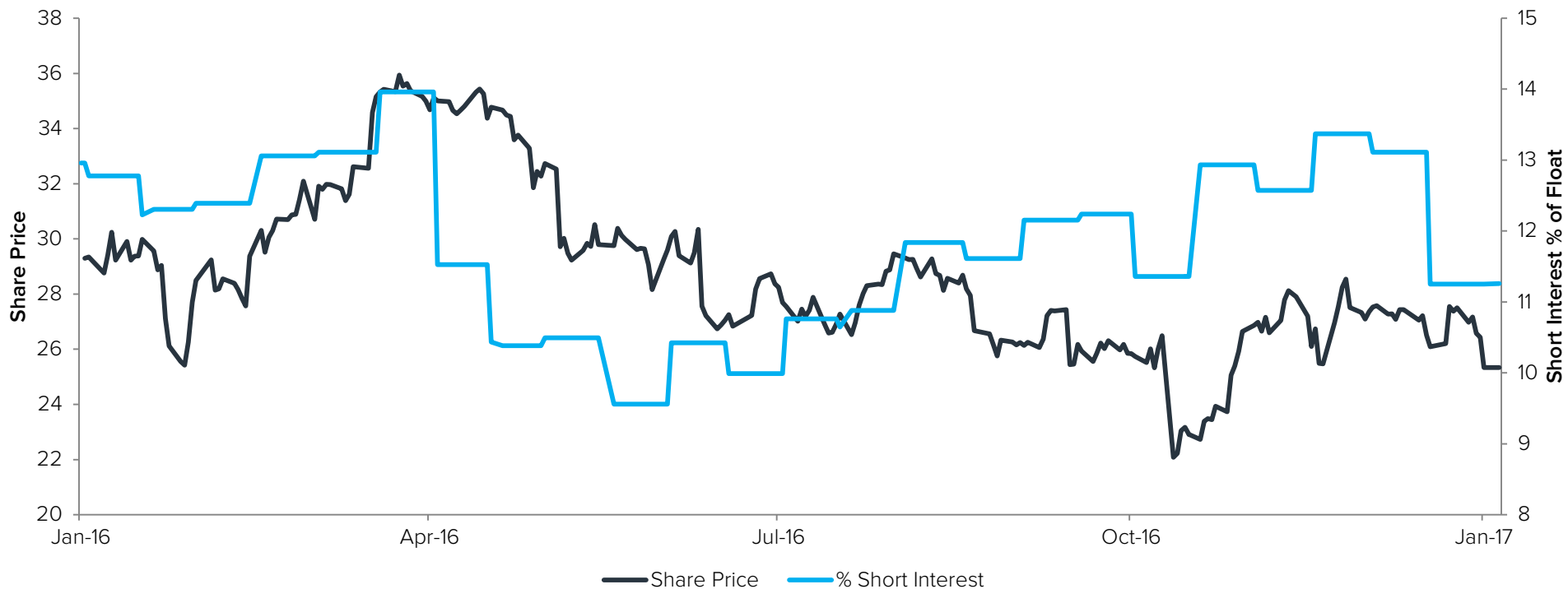
- SONC still lags when compared to asset-light domestic competitors on an EV/NTM EBITDA basis.

NTM EARNINGS REVISIONS



- The biggest roadblock to earnings going forward will be labor costs, but return on SONC's technology initiatives in the form of increased check size should provide the company with some cushion in the medium to long term.

SHORT INTEREST



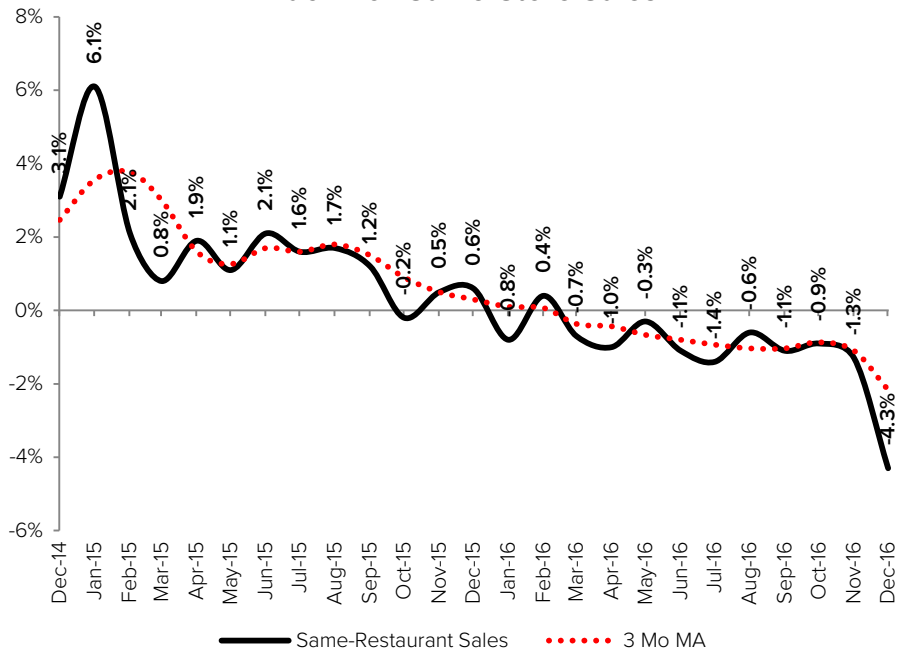
- Investors have started to come around on SONC, as short interest has pulled back from its recent peak in December of 13.4%, but is still elevated at 11.3%.
- For some perspective, average short interest among SONC's asset-light peer group (WEN, PLKI, YUM, MCD, and QSR) is just **3.46%**.



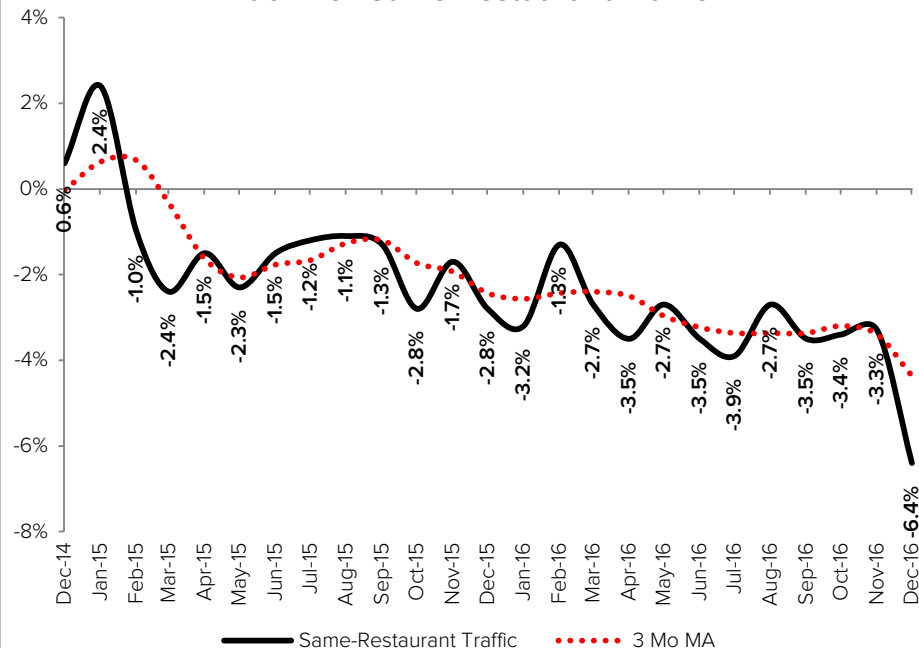
INDUSTRY TRENDS

BLACK BOX SALES AND TRAFFIC TRENDS

Black Box Same-Store Sales



Black Box Same-Restaurant Traffic

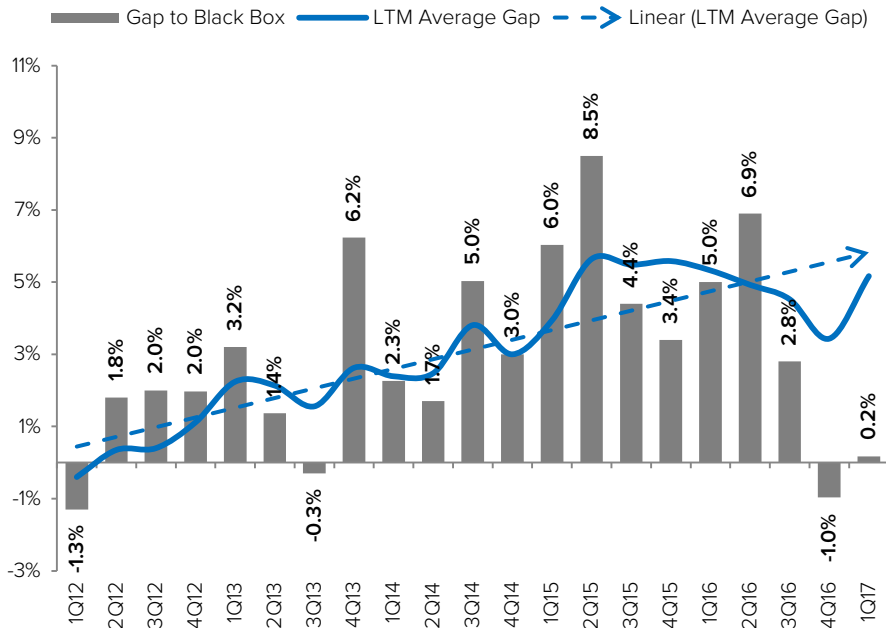


THE SALES AND TRAFFIC SLUMP CONTINUES

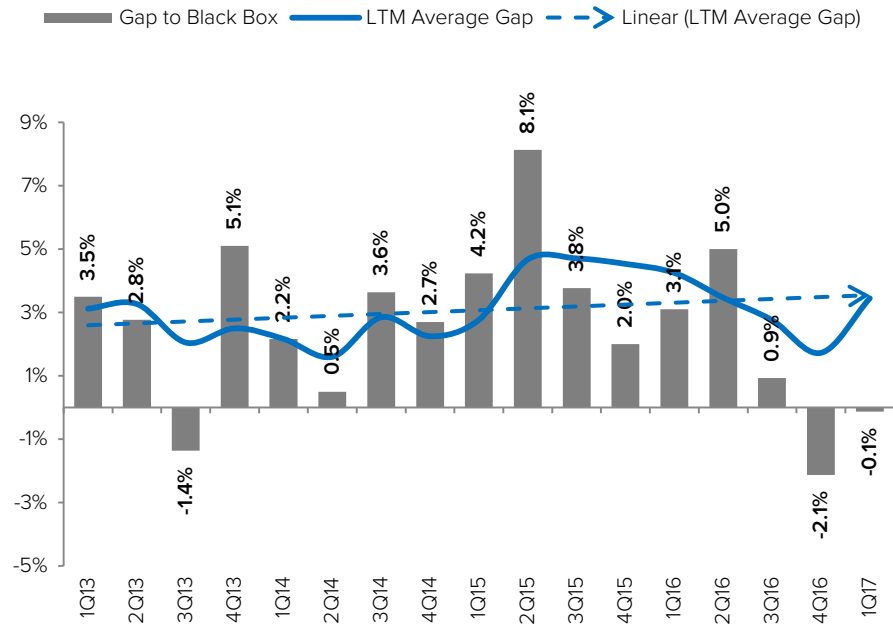
- According to Black Box metrics, same-restaurant sales and traffic continue to be in a sequential decline, with a recovery nowhere on the horizon.
- Most recent Black Box data shows that the holiday season did not provide the restaurant space with any meaningful gains, so we can only deduce that this trend will continue.

GAP TO BLACK BOX

Gap to Black Box - SSS



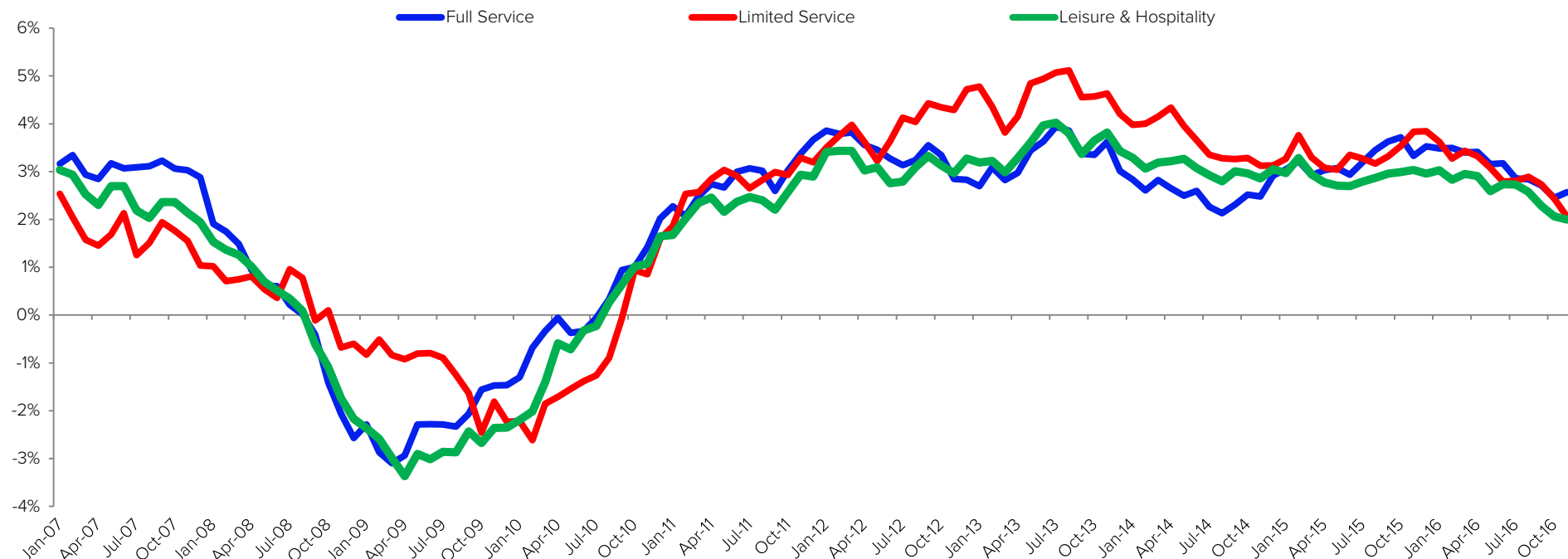
Gap to Black Box - Traffic



- Historically, SONC has fared better than most tracked by Black Box, as seen above.
- The recent decline in SONC's Gap to Black Box margin is a reflection of the SSS and traffic headwinds it has faced; headwinds affecting the general restaurants space.
- Despite this, the metrics continue to trend upward (LTM Average Gap), and should continue to do so, as we see sales and traffic riding SONC's initiatives to a recovery.

EMPLOYMENT GROWTH SLOWING

Y/Y EMPLOYMENT GROWTH



OVERALL, EMPLOYMENT GROWTH CONTINUES TO SLOW

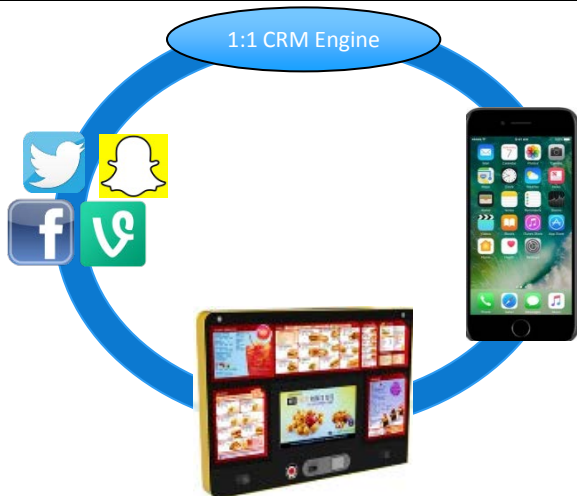
- Corporate pockets have continued to tighten, as we see a flattening and subsequent decline in employment growth.
- In November, restaurant employment growth across leisure & hospitality and limited service continued to slow, but full service employment saw a slight growth of 12bps to 2.57%.
- Overall, the picture does not look good, as general employment growth continues to slow.



GROWTH INITIATIVES

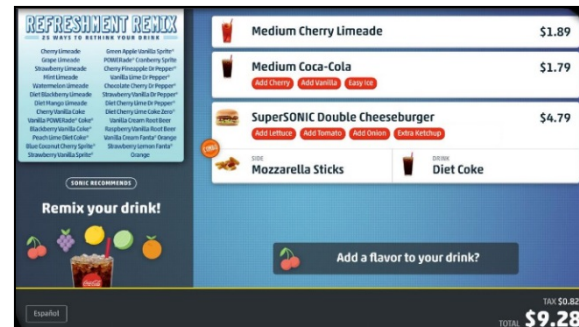
A LITTLE BACKGROUND...

Integrated Customer Engagement (ICE)



- Titled “New Rules of Engagement,” management rolled out its new consumer-centric digital growth engine, which they refer to as “ICE”, on their 4Q13 earnings call.
- According to CEO Cliff Hudson, “*The integration of the POPS and ICE network will allow us to engage with the customer when they’re online, in stall, in a way that I think is, as SONC strives to do it at all times, differentiated versus our competitors and one that should help us with loyalty, thus traffic/sales.*” (4Q13 Earnings Call)
- The enhanced ICE functionality will allow for the Company to change board messaging according to ticket affinity.

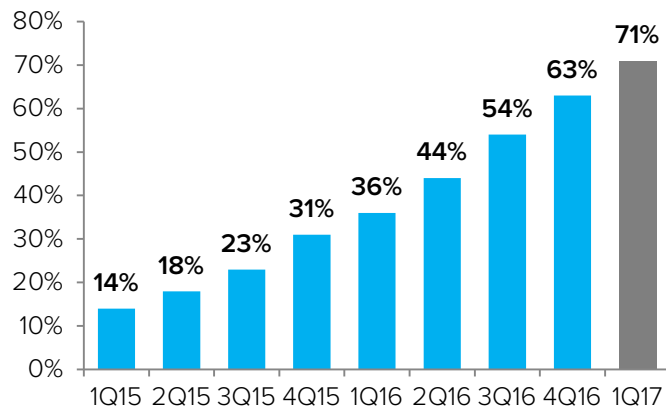
Point of Personalized Service (POPS)



- **POPS** was originally and formally announced on SONC’s 4Q13 earnings call, as a portion of what the company refers to as ICE (Integrated Customer Engagement).
- The initial purpose of the endeavor was to increase traffic, offer a personalized experience, and provide targeted messaging.
- According to CEO Cliff Hudson, “*We see an ability to focus on customers in a different way than we would have historically, in terms of getting news out about our brand...an attempt to connect with them on a more individualized basis with a targeted message that yields much greater potential in personalizing the transaction.*” (4Q13 Earnings Call)
- Now the **SMART POPS** system has taken on an expanded role, with the ability to display personalized menu item offers, based on a specific order.
- SMART POPS will give SONC the ability to perform smart suggestive selling, with the goal of increasing customer interaction and average check value.

GROWTH INITIATIVES LEAD THE CHARGE

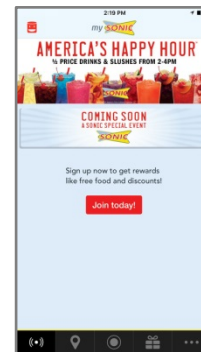
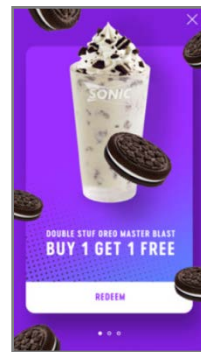
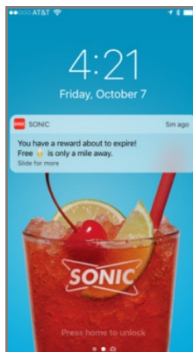
% of System with POPS Installed



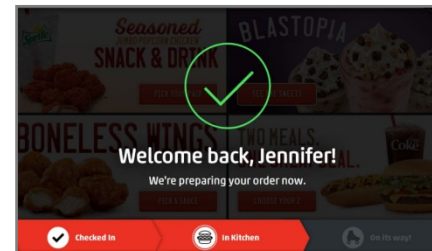
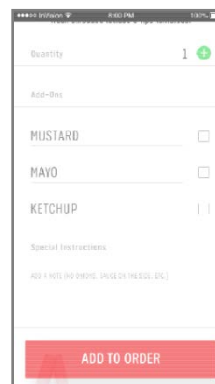
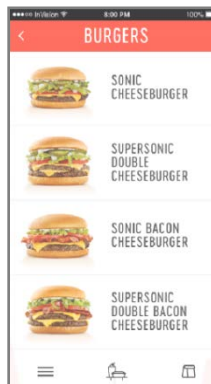
“Store segmentation and smart suggestive sell.”

- **POPS** is an integral part of SONC’s ICE (Integrated Customer Engagement) platform, which leverages the company’s point of sales system overall.
- **Store segmentation** allows for differentiated POPS content depending on store type (even varying among drive-ins within the same market).
- **Smart suggestive sale** uses an algorithm to present suggested and complementary products as customers place their orders.
- **Order Ahead**, allowing for the customer to order ahead and pay on their mobile device and pick up their order at a SONC location, will be rolled out in the spring/early summer of 2017.

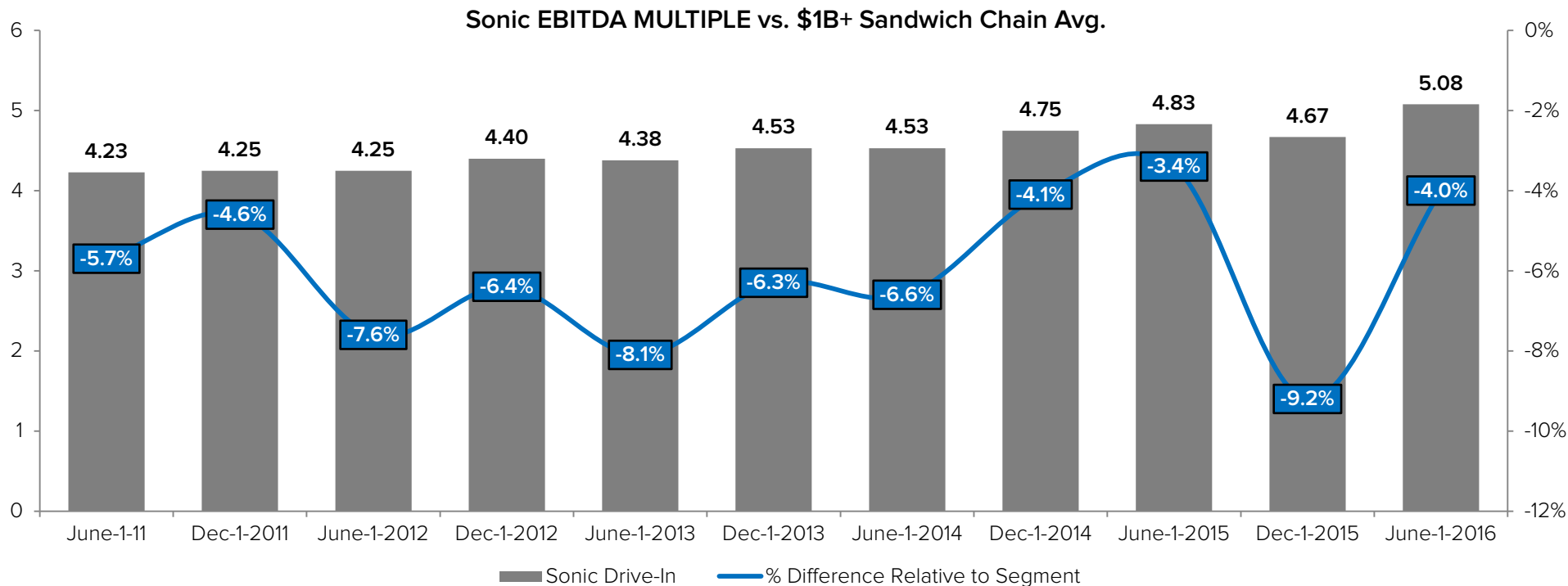
SONC’s ICE platform and Smart POPS system will be used to enable unique regional and customized individual promotions, through the use of transaction data.



Coming Soon... Order Ahead



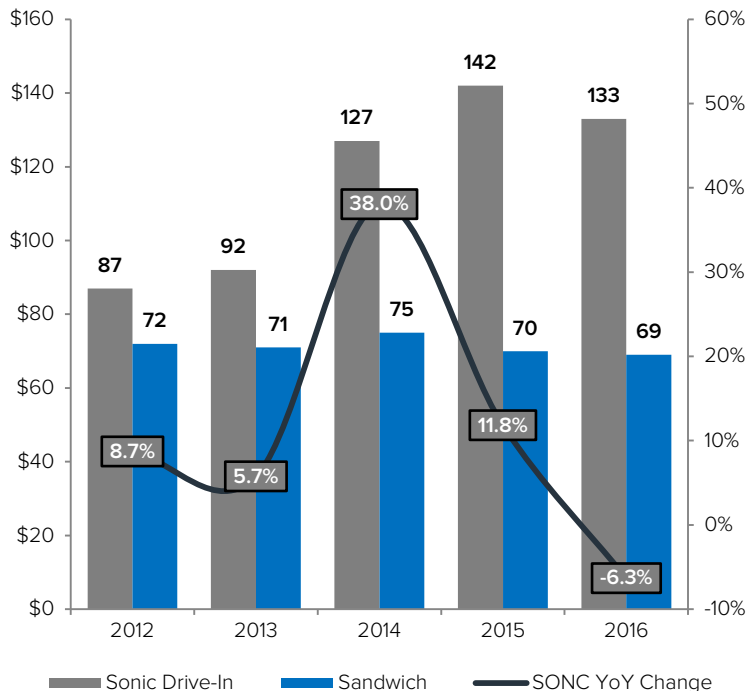
EBITDA WILL DRIVE REFRANCHISING!



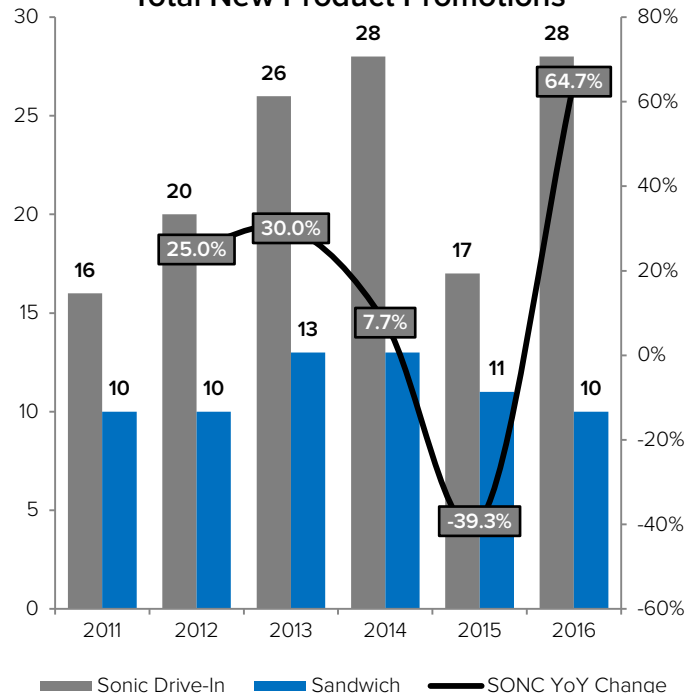
- SONC's drive-in EBITDA will be crucial as the company continues its journey to 95% franchised, and must show unit profitability to possible franchisees.
- Unit level EBITDA valuation multiple currently represents the system's all-time high, though still underperforming the segment average.

MENU SIZE & PROMOTIONAL STRATEGY WORKING IN TANDEM

Menu Size Trends



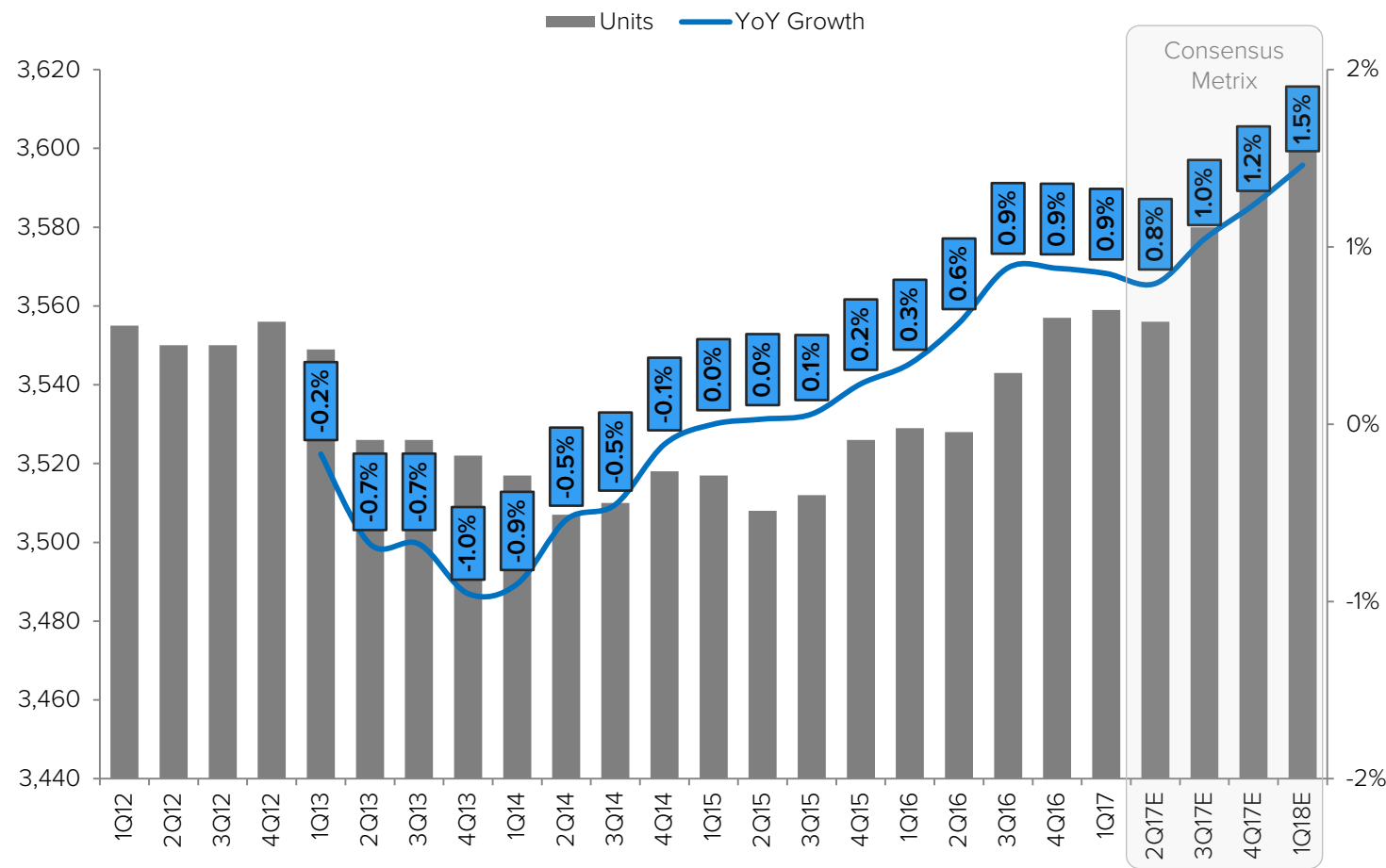
Total New Product Promotions



- SONC prides itself on having a craveable and fun menu (all made to order), which is designed to target a broad range of customers across various dayparts, with the full menu available all day.
- SONC has the most diverse menu in QSR, with a menu item count that is 93% higher than the average; the menu consists of a steady stream of new products supported by aggressive new product development and marketing, which works well for SONC's ability to address 5 dayparts.
- SONC has adapted to the current operating environment by increasing its focus on value promotions.



SONC UNIT GROWTH

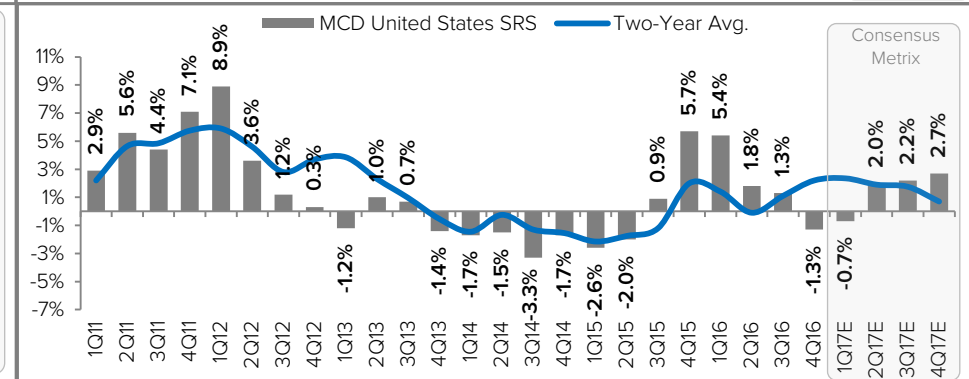
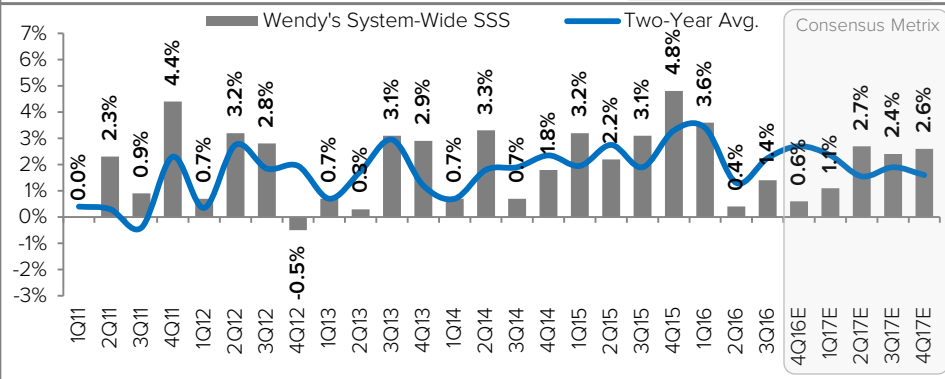
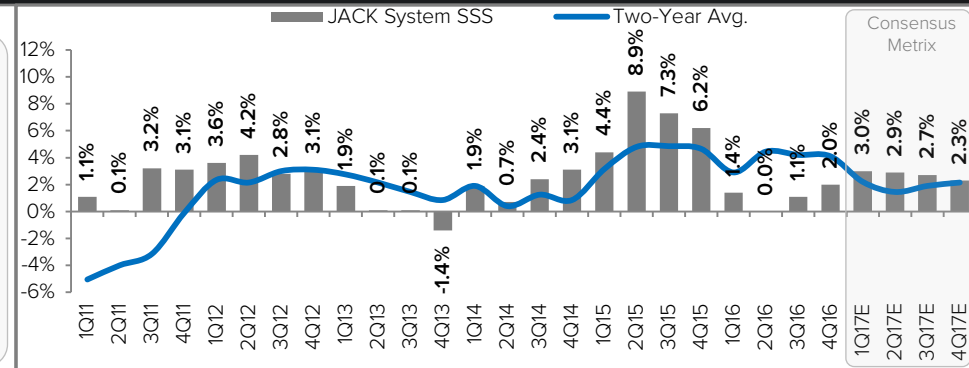
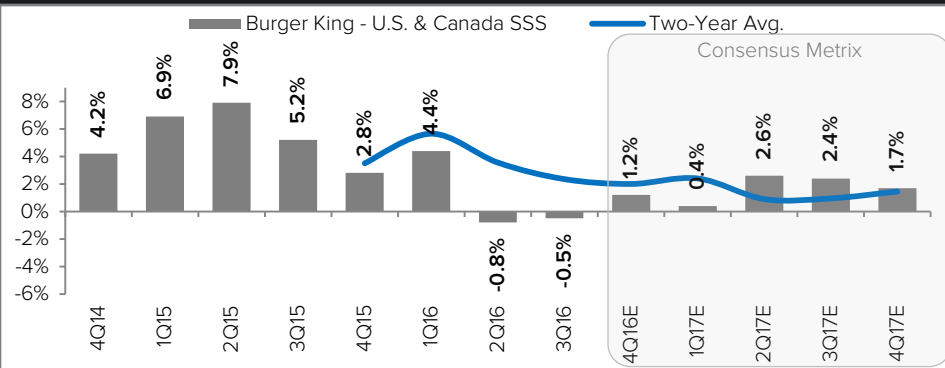


- Accelerating unit growth will help support the current valuation.
- The company anticipates 40-50 net new drive-in openings in FY17, as it pushes toward a long term goal of 2%-3% annual net new unit growth.



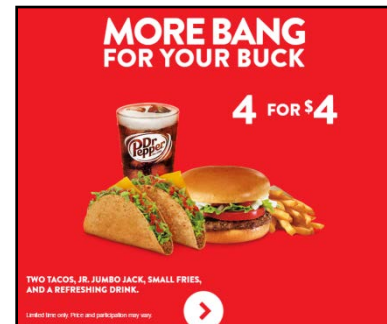
COMPETITORS FADING

THEY WEREN'T WHO WE THOUGHT THEY WERE!



- Initially, our prior SHORT thesis on SONC was based on key competitors, namely MCD, gaining traction and sales momentum, in turn hurting SONC along the way. However, for numerous reasons, both macro and self-inflicted, this did not happen.
- QSR, JACK, WEN, and MCD, all significant competitors of SONC, have seen same-store sales and traffic deteriorate, despite a significant increase in discounting. What do they do for an encore when beef prices start to inflate?

ONCE PROMOTIONS SUBSIDE...SONC WILL SHINE THROUGH



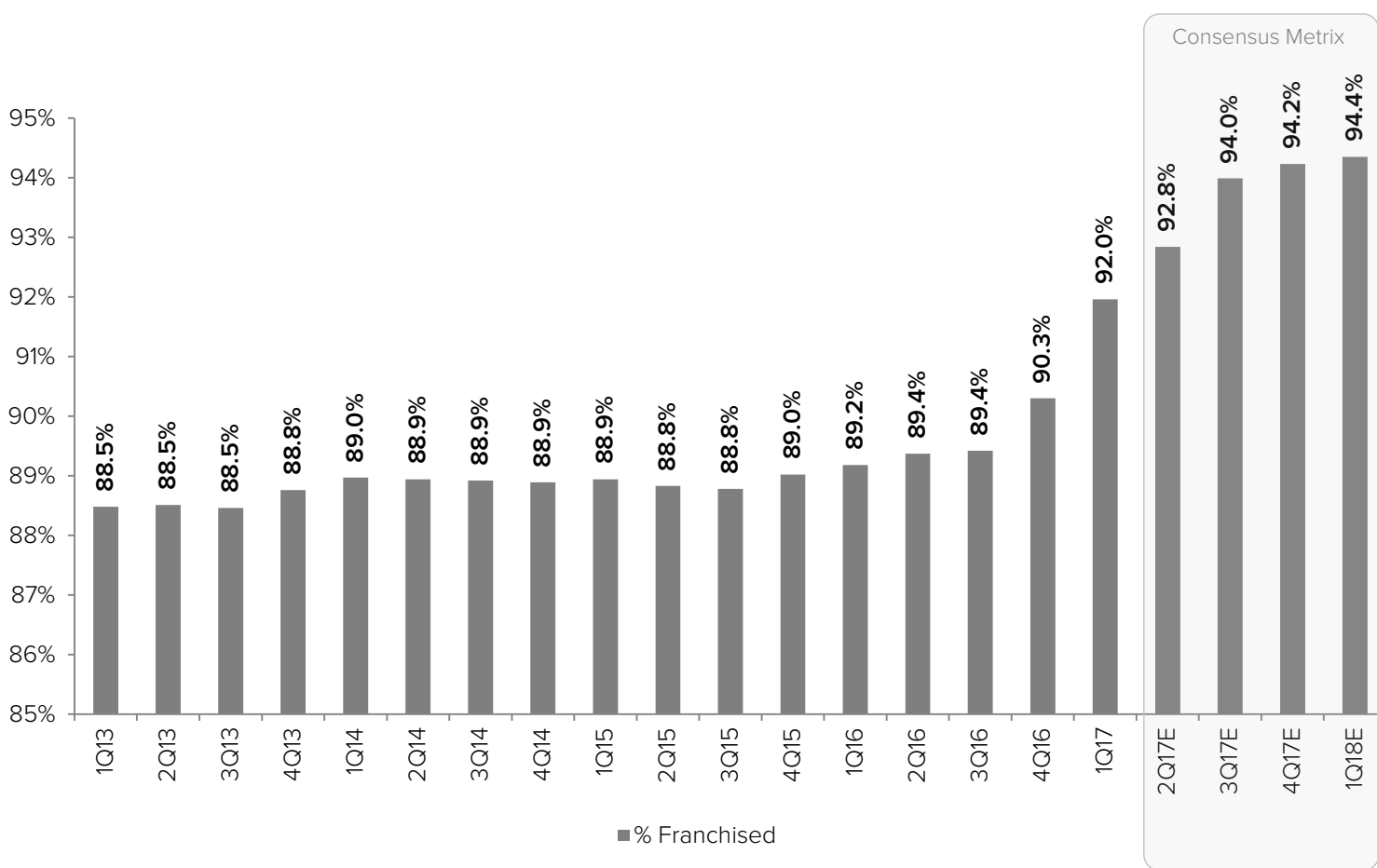
AGGRESSIVE BUNDLING WILL COME BACK TO BITE COMPETITORS!

- SONC's tendency to selectively offer bundling promotions, will prove to be advantageous, as competitors will be forced to reposition themselves and create a new game plan when commodities reverse direction.



PUSH TO 95% FRANCHISED

THE RACE TO 95% FRANCHISED



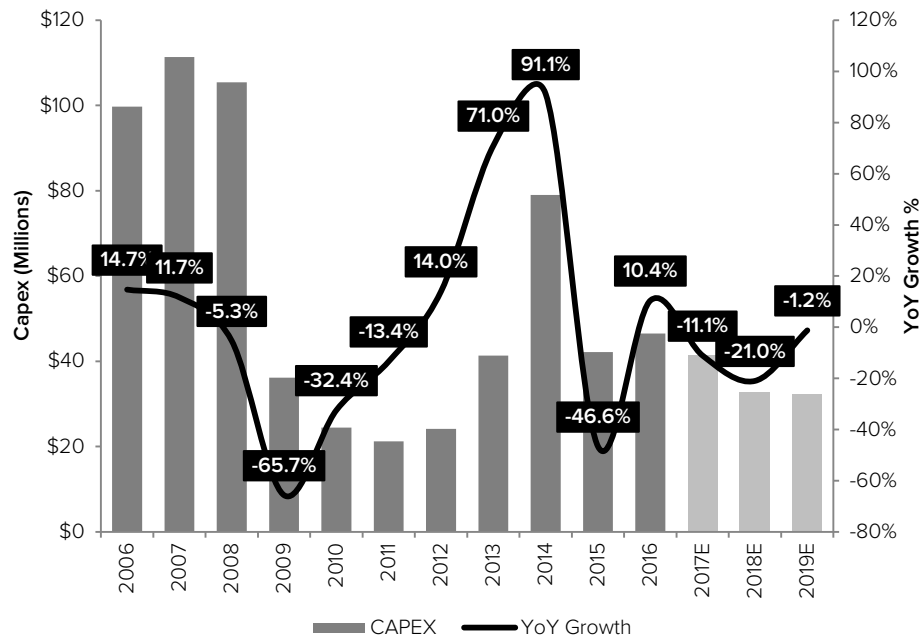
- SONC's push to rebrand ~140 company-owned drive-ins will prove to be beneficial to the company.
- Moving towards a 95% franchised model will help limit business volatility and increase efficiency throughout the business.



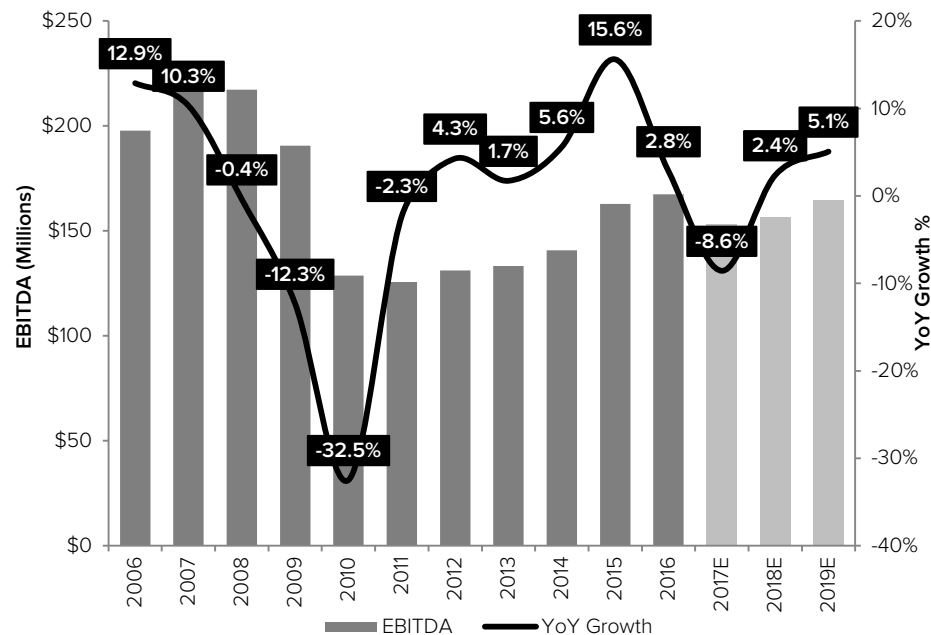
CAPITAL DEPLOYMENT & SUSTAINABILITY

SLOWING CAPEX GROWTH → ACCELERATING EBITDA GROWTH

Capital Expenditures



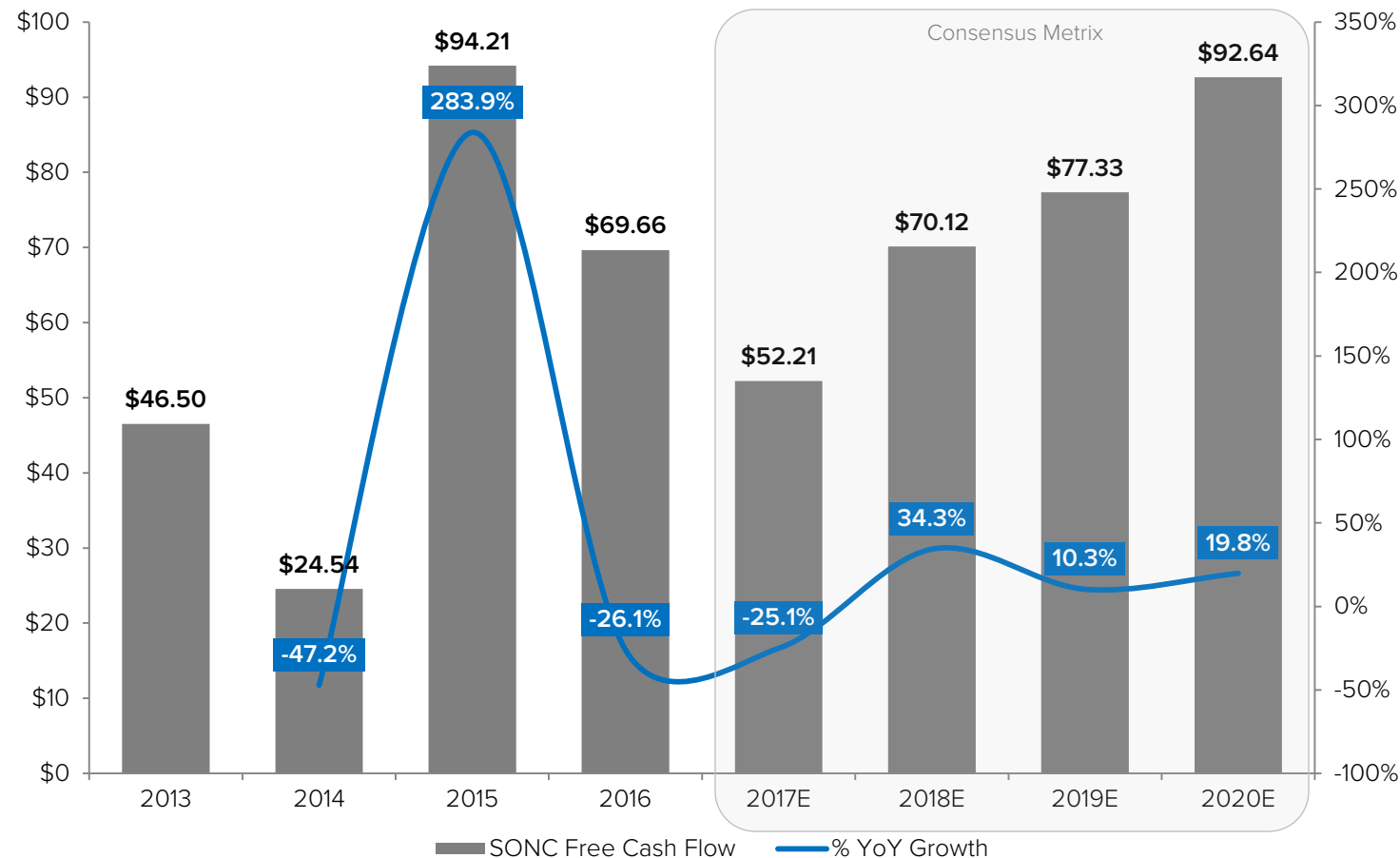
EBITDA



PROFIT GROWTH POISED TO ACCELERATE

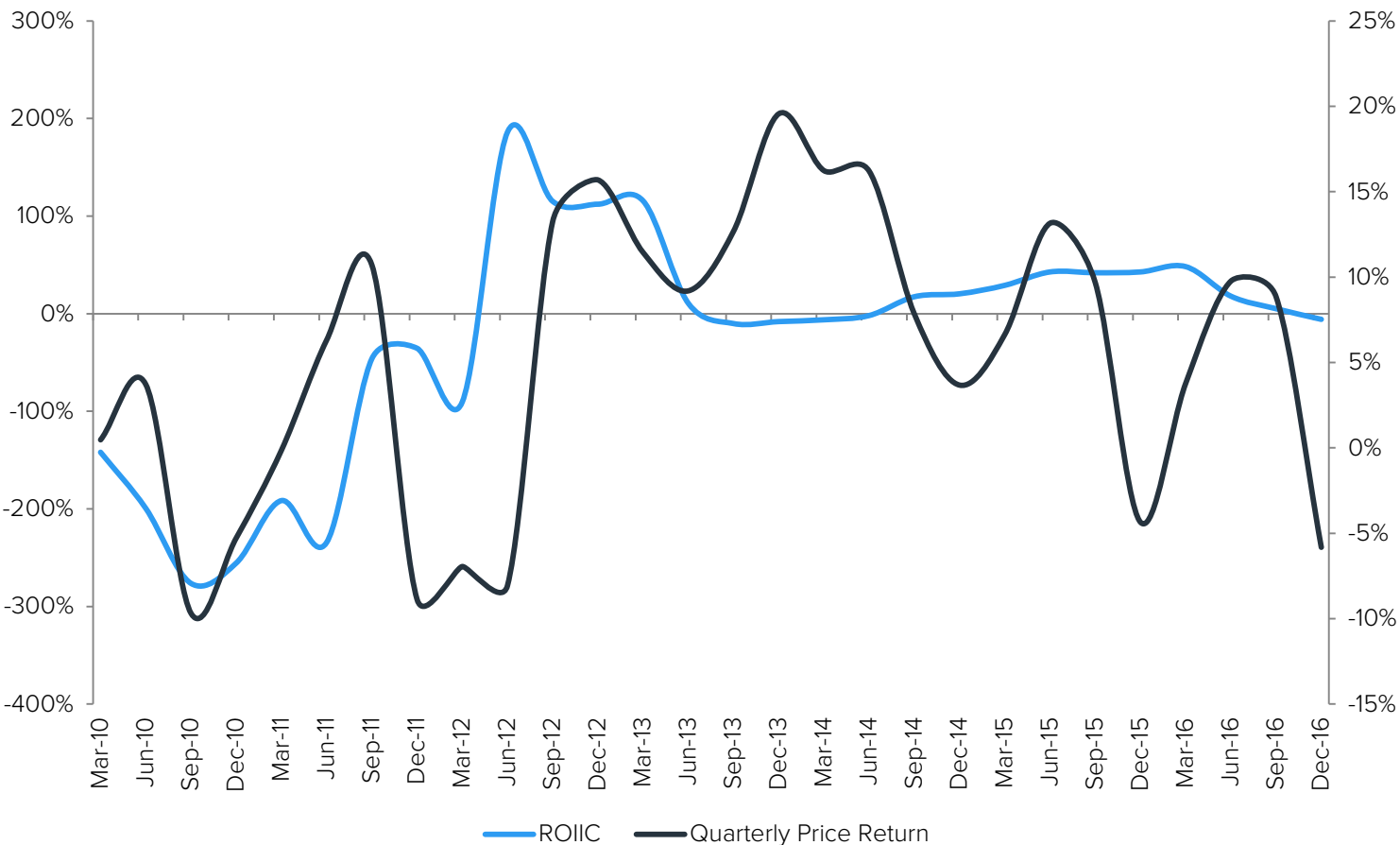
- SONC's capital expenditures are set to continue decelerating, as the company enters into year three of its four year technology initiative (POPS is now installed in 71% of system). With technology investments tapering, and POPS taking hold, SONC is in a position to accelerate earnings growth.

GREATER EFFICIENCY & LESS VOLATILITY



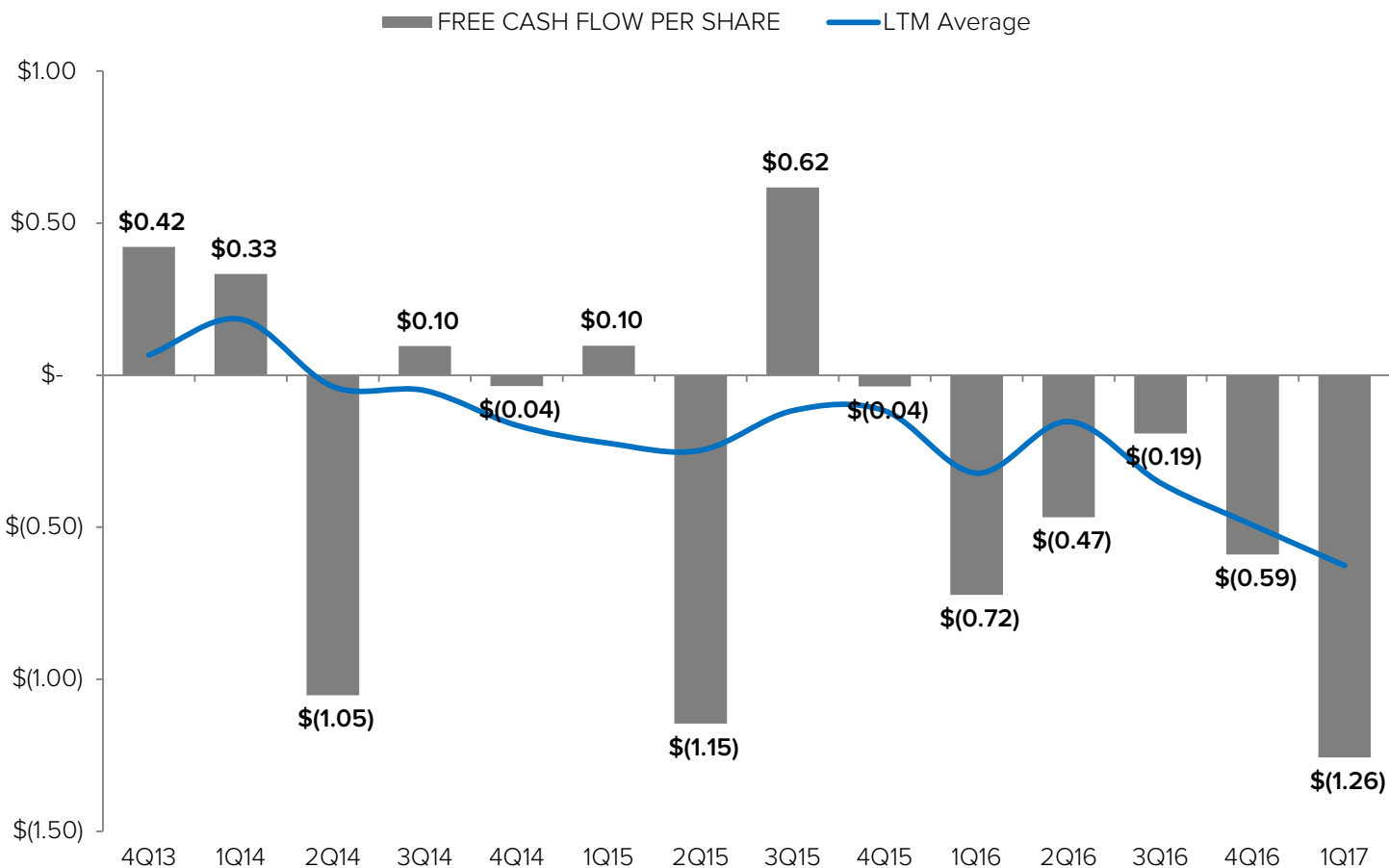
- The Company announced their plan to rebrand ~140 company-owned drive-ins, in a move that management believes will allow the company to improve restaurant operating efficiency and reduce earnings volatility.
- Going forward, the use of free cash flow is going to be increasingly important, and consensus projects steady FCF growth.
- Free cash flow and new unit development, shown earlier, will become increasingly important contributors to earnings growth going forward.

ROIIC (RETURN ON INCREMENTAL INVESTED CAPITAL)



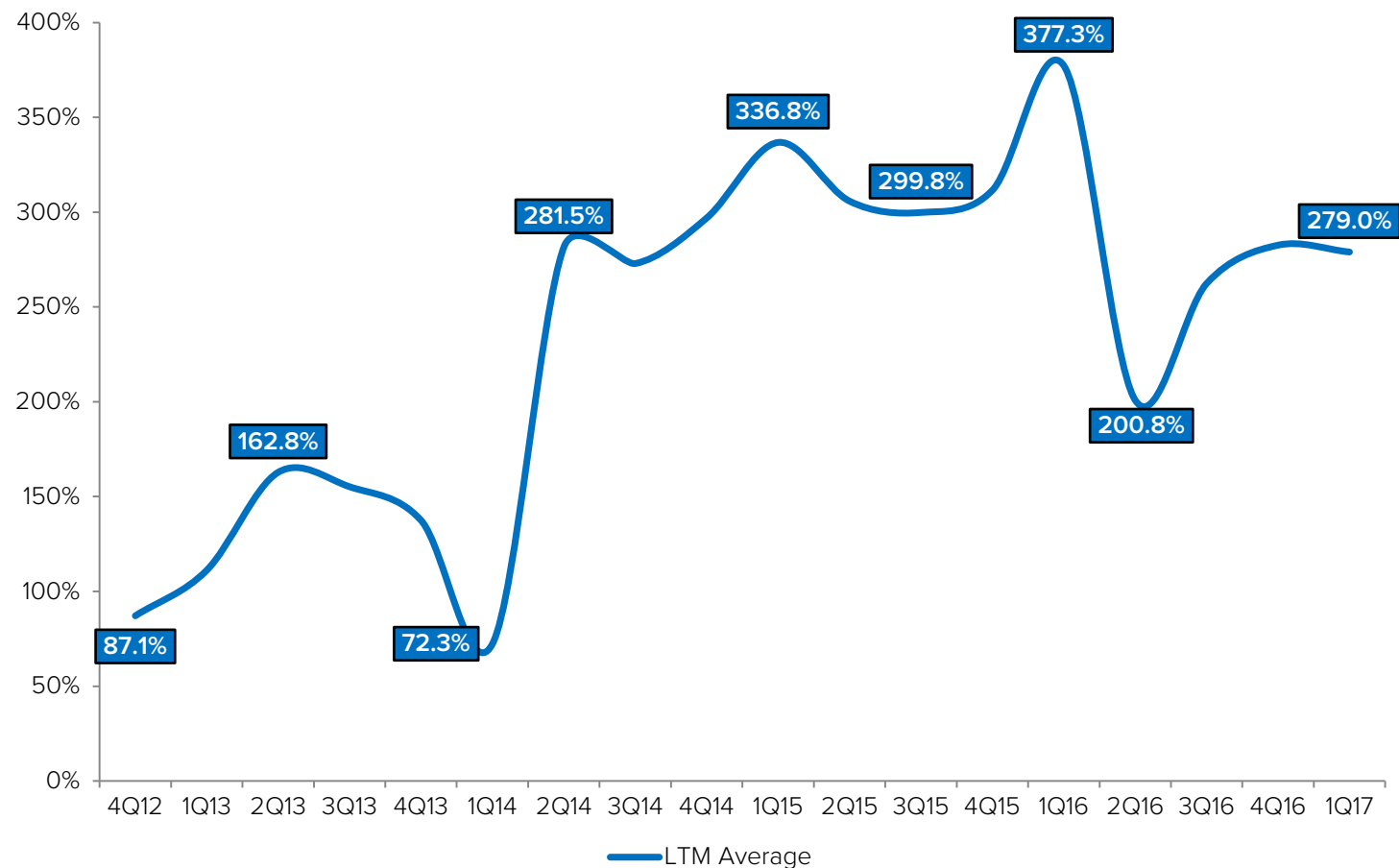
- ROIIC should benefit from lower capital spending going forward, as SONC's technology initiatives begin to taper.

HEDGEYE FREE CASH FLOW PER SHARE



- This graphic paints a similar picture, as Free Cash Flow per Share has been trending down.

TOTAL CASH RETURNED (LTM AVERAGE)

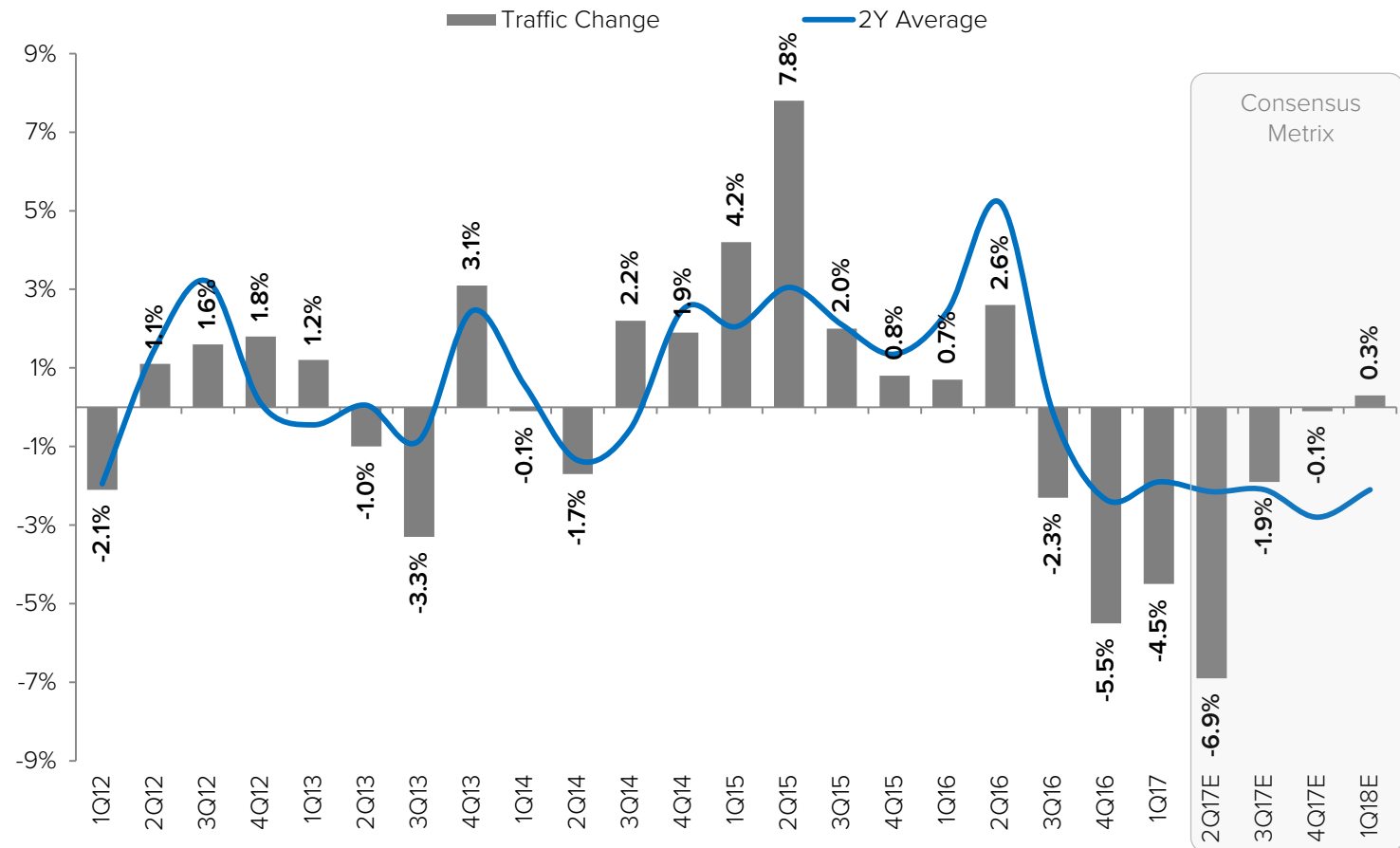


- SONC has been aggressively using its balance sheet to leverage and buy back stock, a practice that is not sustainable at this rate.



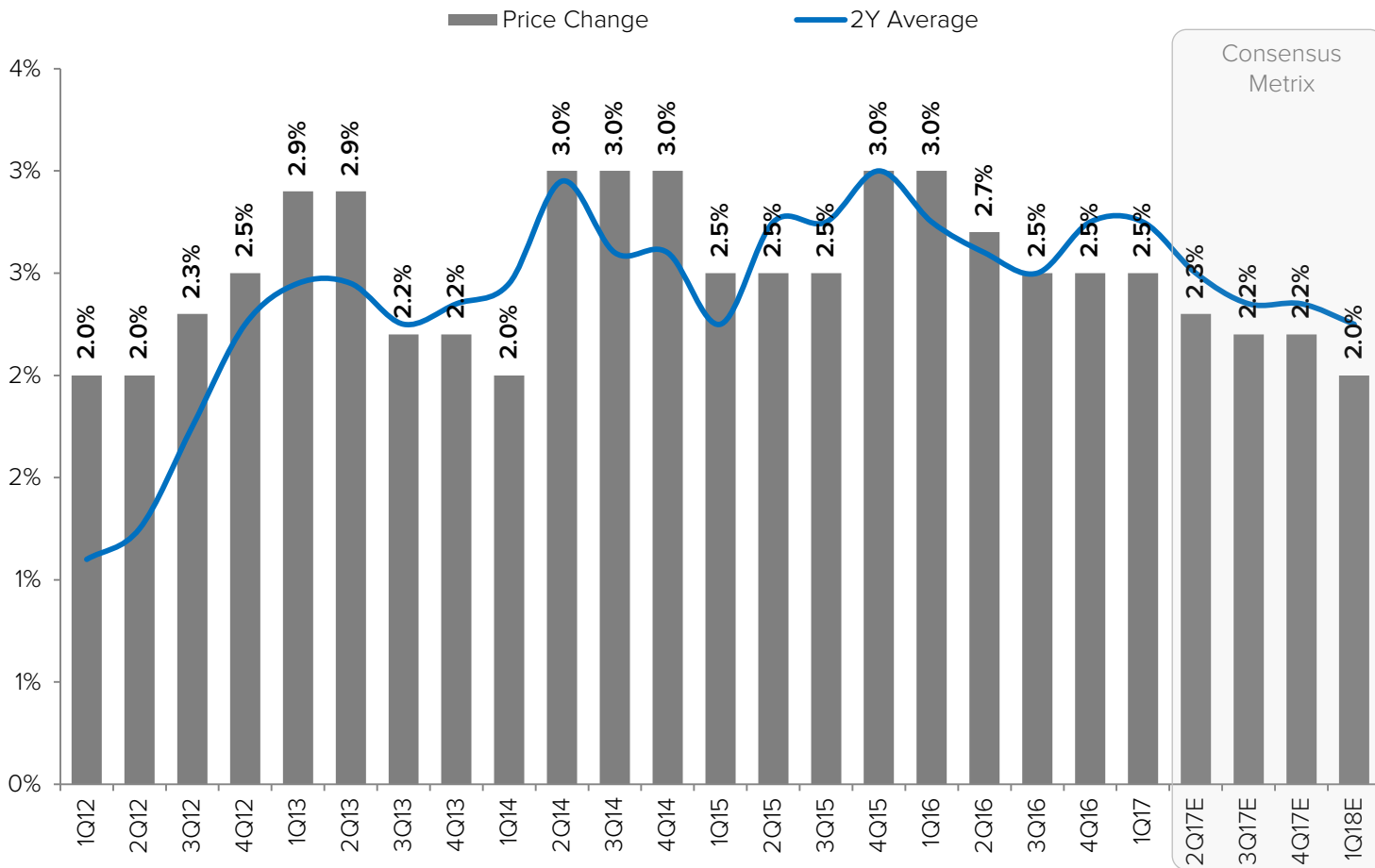
TOP LINE DRIVERS

TRAFFIC DOWN, BUT NOT OUT



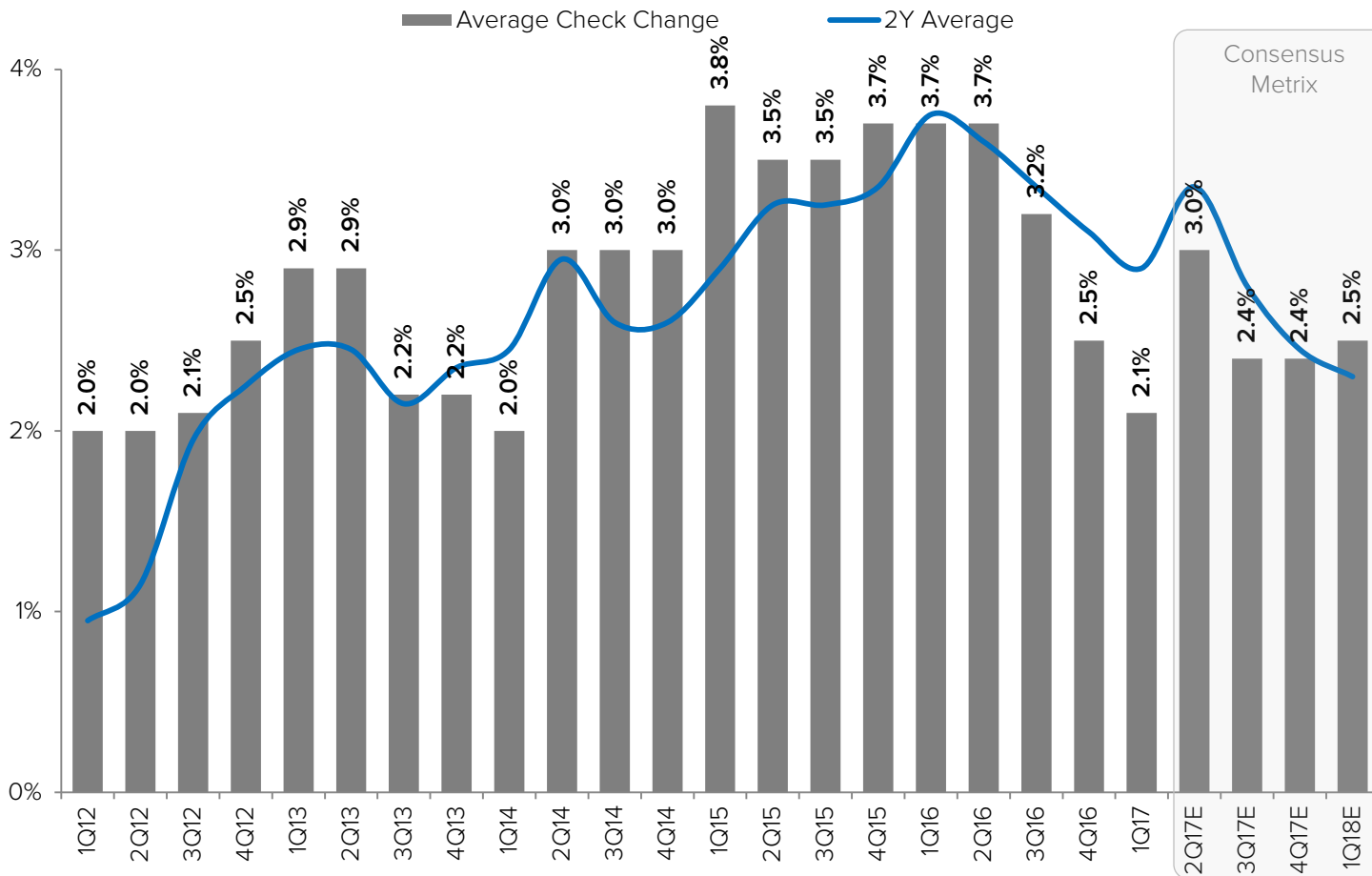
- It is worth noting that SONC's traffic in 3Q16 was negatively impacted by unseasonably rainy and cool weather in April and May, coupled with a ~200bps traffic deceleration in the industry overall.
- SONC management assumes continued negative traffic for the industry, but plans to use promotions and smart suggestive sale to driving sales and traffic going forward.

PRICE CHANGE



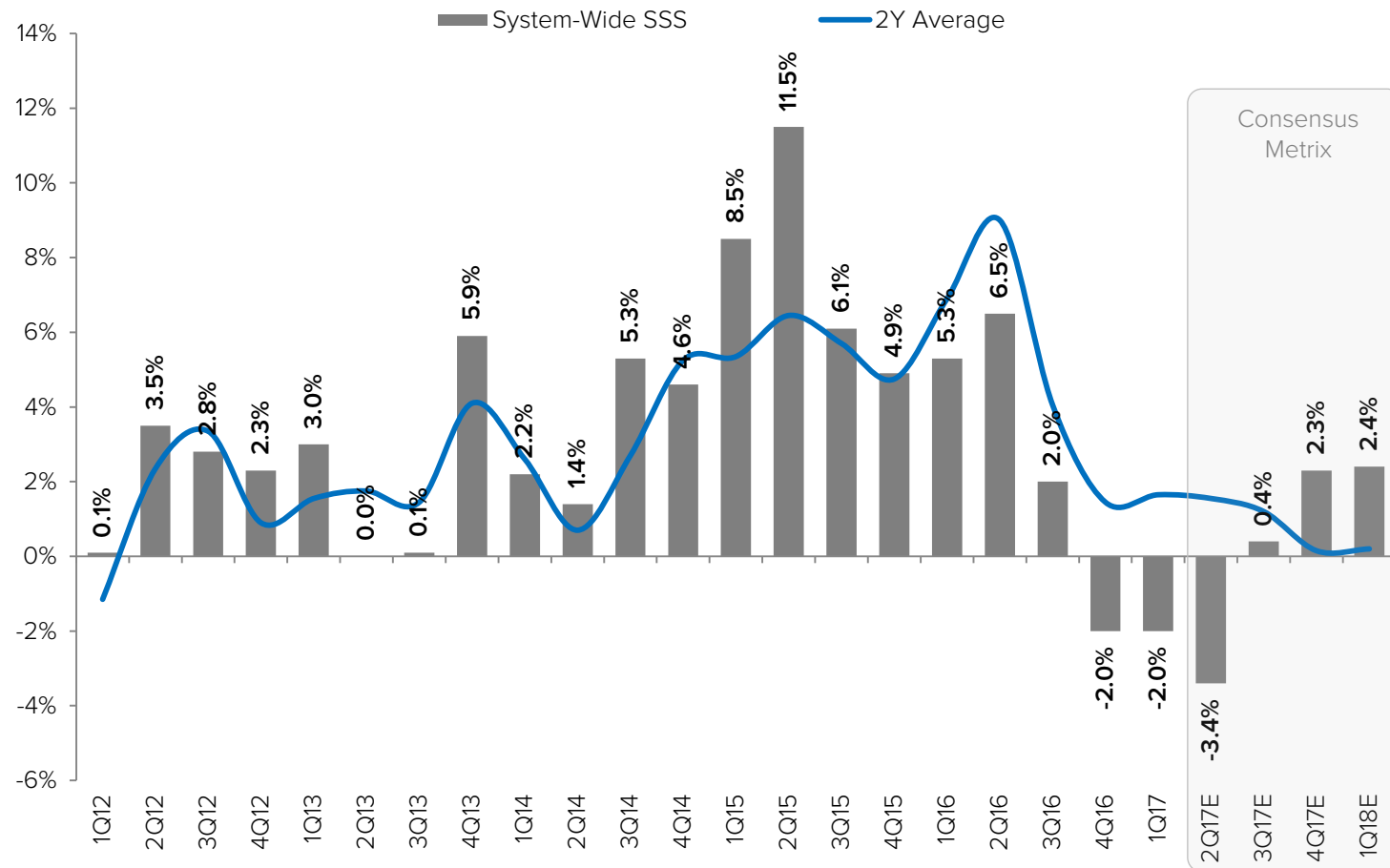
- After what was a period of price increases that were above the industry average, prices have started to come down.
- SONC is known as a value brand, with efforts centered around promotions and LTO's.
- SONC's multi-promotional layers include steady value offers to go with the aforementioned LTOs targeting various dayparts and seasons.

AVERAGE CHECK



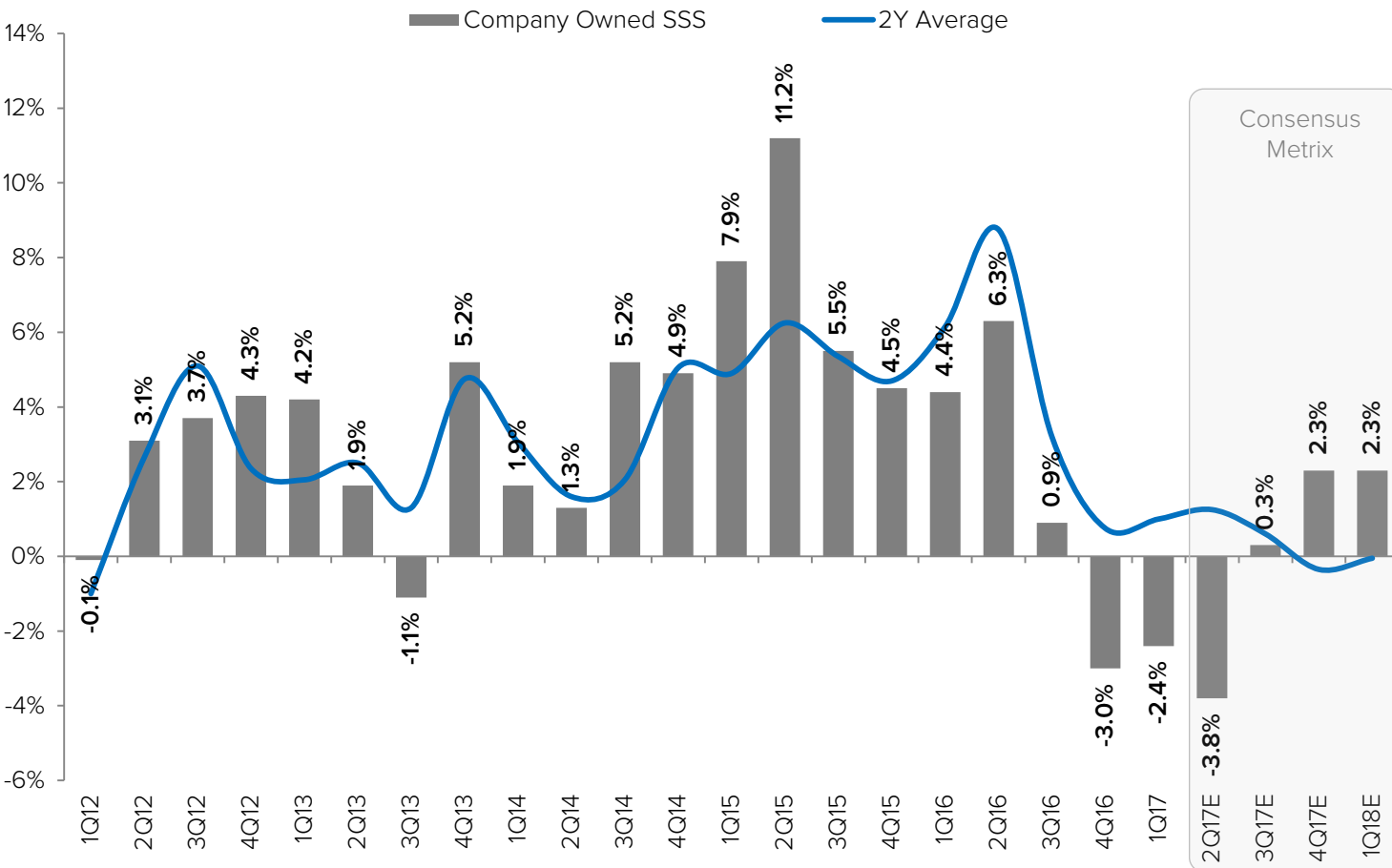
- Average Check is projected to improve slightly in the near-term.
- SONC's ICE (Integrated Customer Engagement) and POPS implementation will work simultaneously to enable SONC to broaden its points of engagement with a customer (i.e. – tablet, smartphone, SONC app), aiding average check size.

SYSTEM-WIDE SAME-STORE SALES



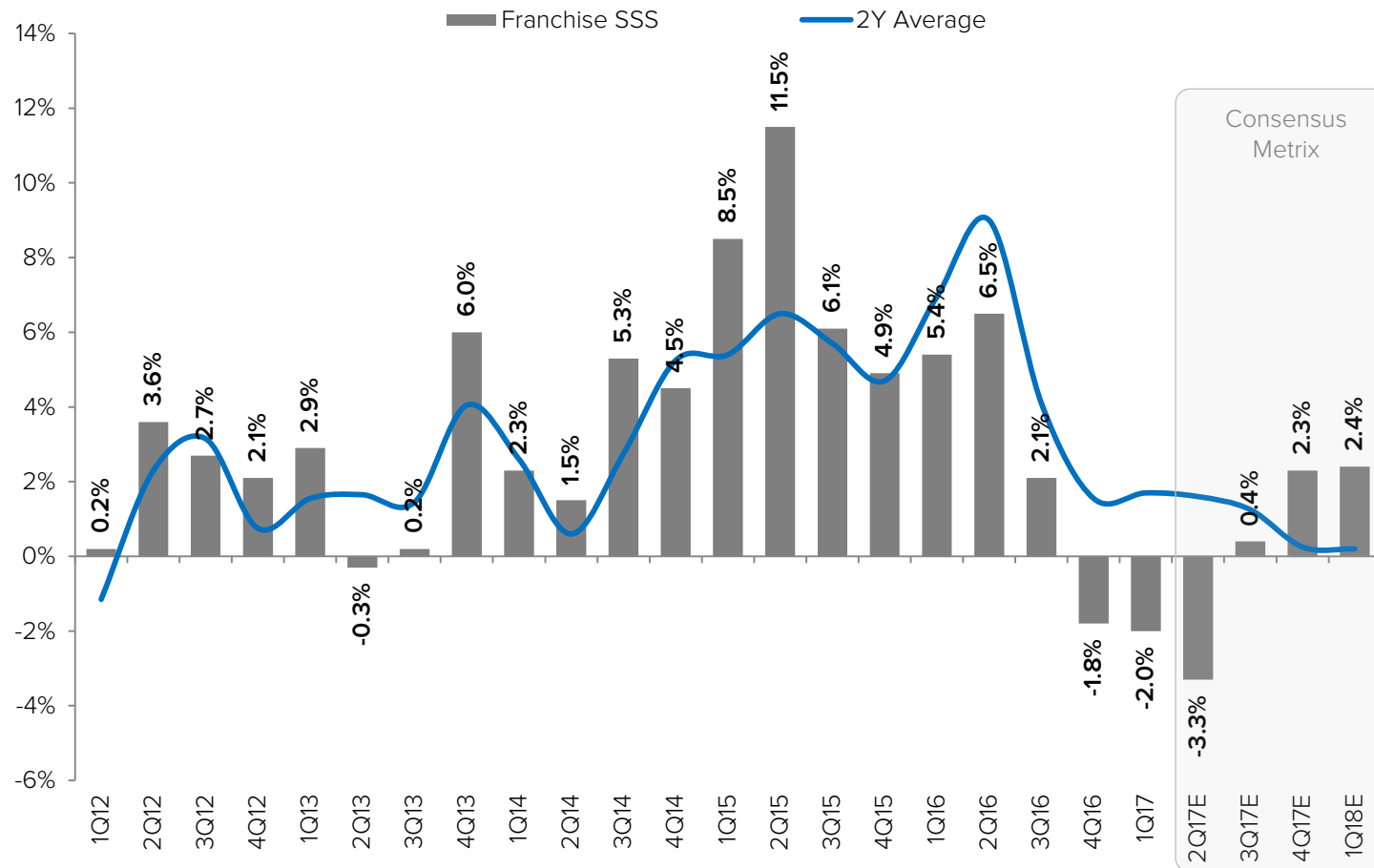
- SONC's system-wide same-store sales has seen the effect of the overall downturn in the restaurants space.
- The company's technology implementations and differentiated value offerings will begin to drive sales and traffic.

COMPANY-OWNED SAME-STORE SALES



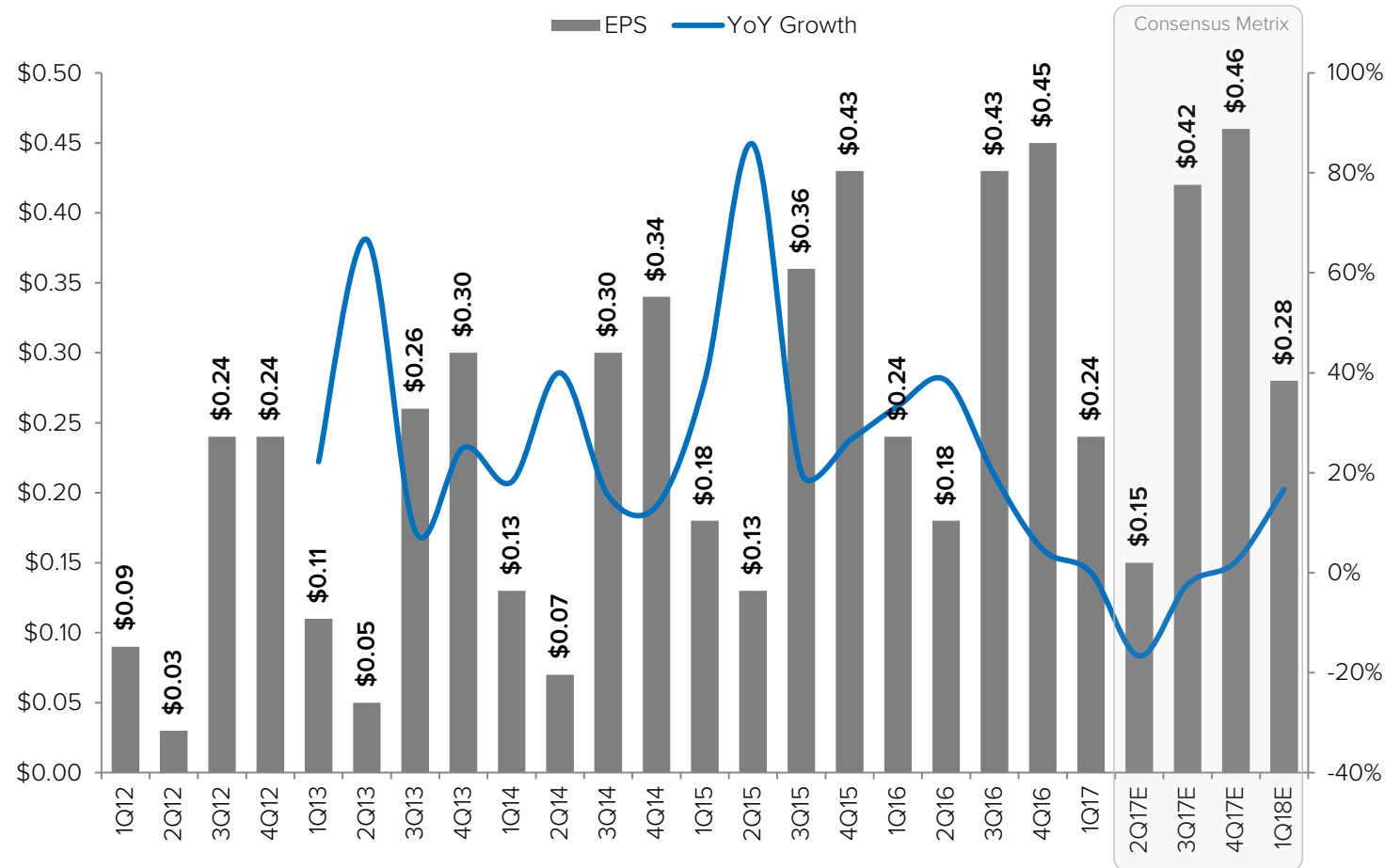
- Company-owned same-store sales has also seen the effects of the overall downturn in the restaurants space.
- Projections have same-store sales turning positive in mid-2017, as SONC laps an easy SSS comp and technology implementations begin to drive sales and traffic.

FRANCHISE SAME-STORE SALES



- This chart in particular will garner the most focus, as SONC moves to a 95% franchised system.
- Franchise same-store sales has not been immune to the overall downturn in the restaurants space.
- Same-store sales are projected to turn positive in mid-2017, as SONC's technology implementations begin to drive sales and traffic.

QUARTERLY EPS PROGRESSION

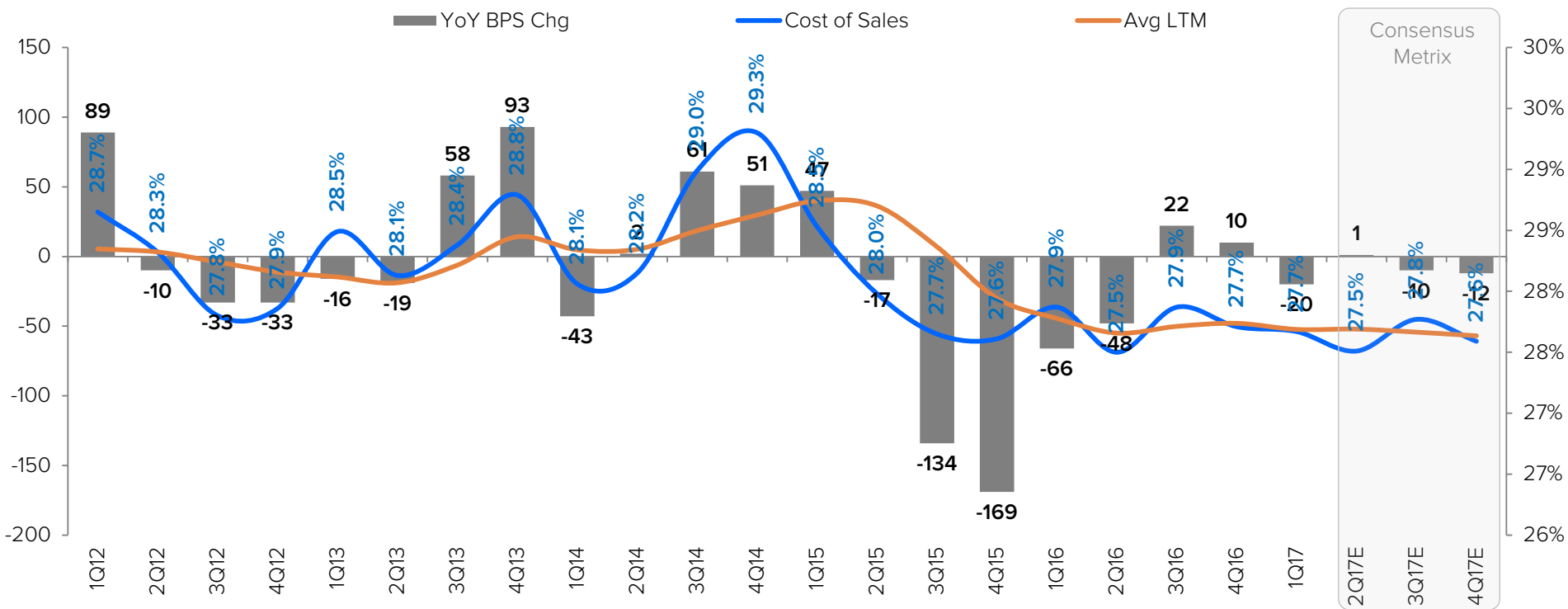


- EPS is projected to accelerate after steady deceleration during SONC's aggressive investment phase.



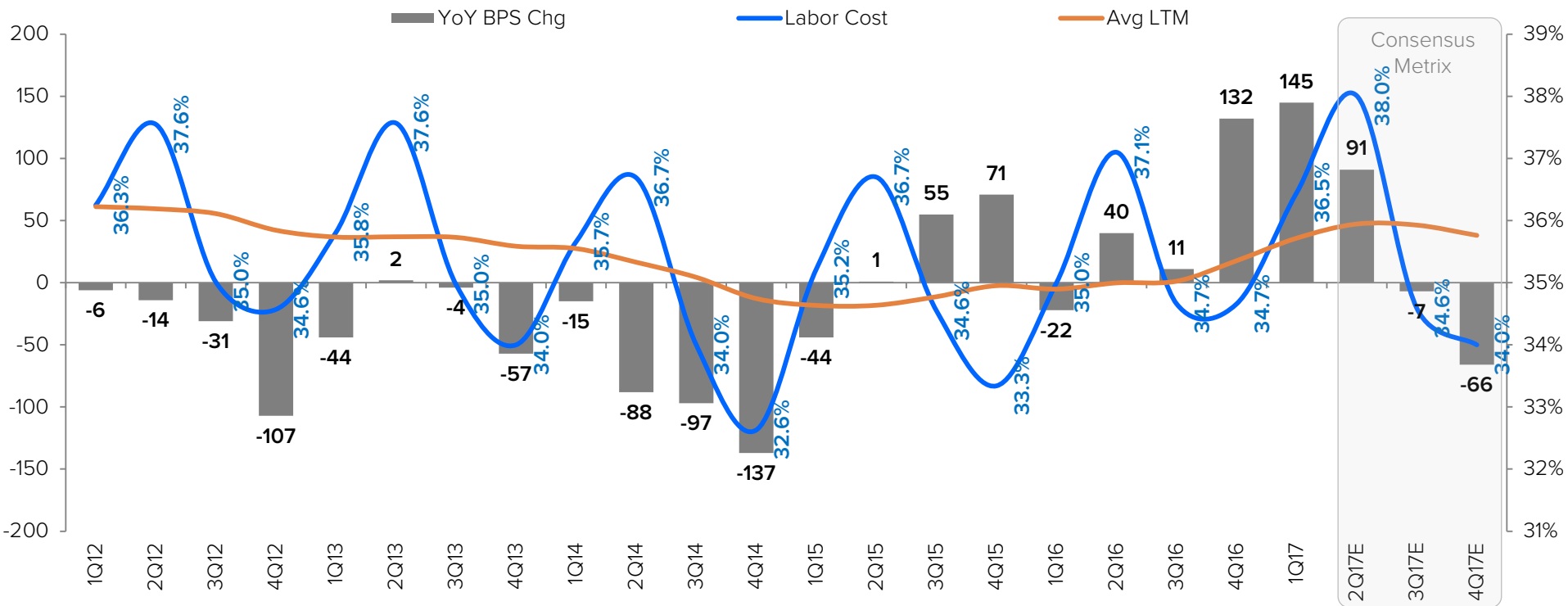
MARGIN ANALYSIS

COST OF SALES



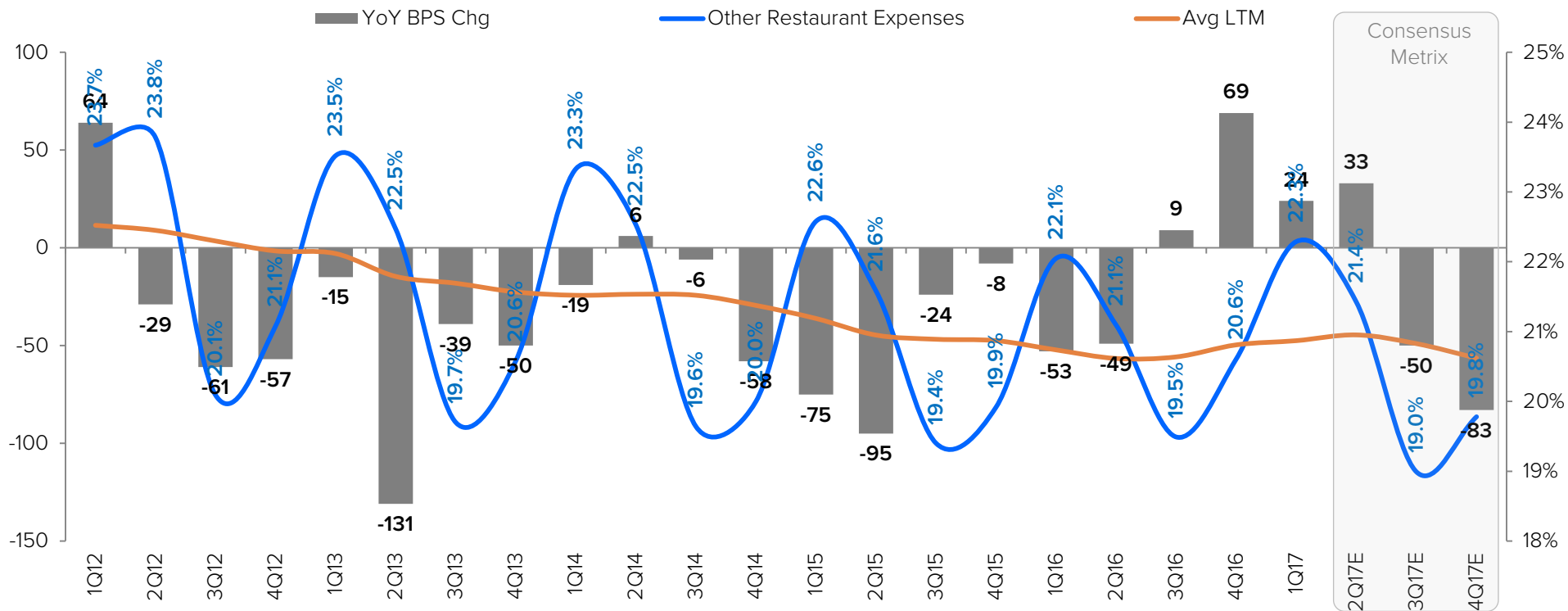
- Cost of Sales has been trending lower since the end of 2014.
- Food and packaging costs were favorable by 20bps during 1Q17, as a result of moderate commodity cost improvement.
- With commodity costs expected to be flat for the balance of the year, COGS impact will likely be benign in 2017

LABOR



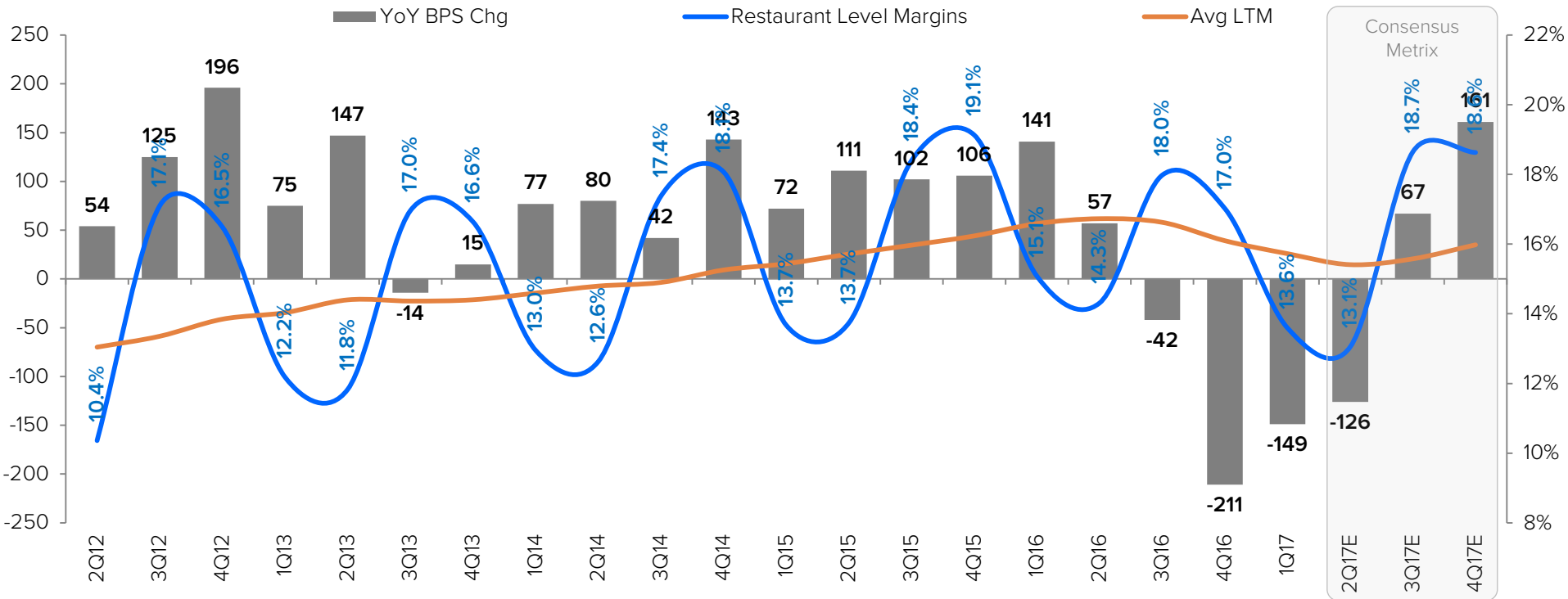
- Labor expenses was unfavorable by ~140bps in 1Q17, and half of this amount is attributable to labor investments made in the prior year to assistant manager wages and bonuses, as well as the Company's Employee Meals Program.
- A change to the drive-in manager incentive comp program instituted in December 2016 is expected to result in a 20bps labor headwind for the remainder of fiscal 2017.

OTHER RESTAURANT EXPENSES

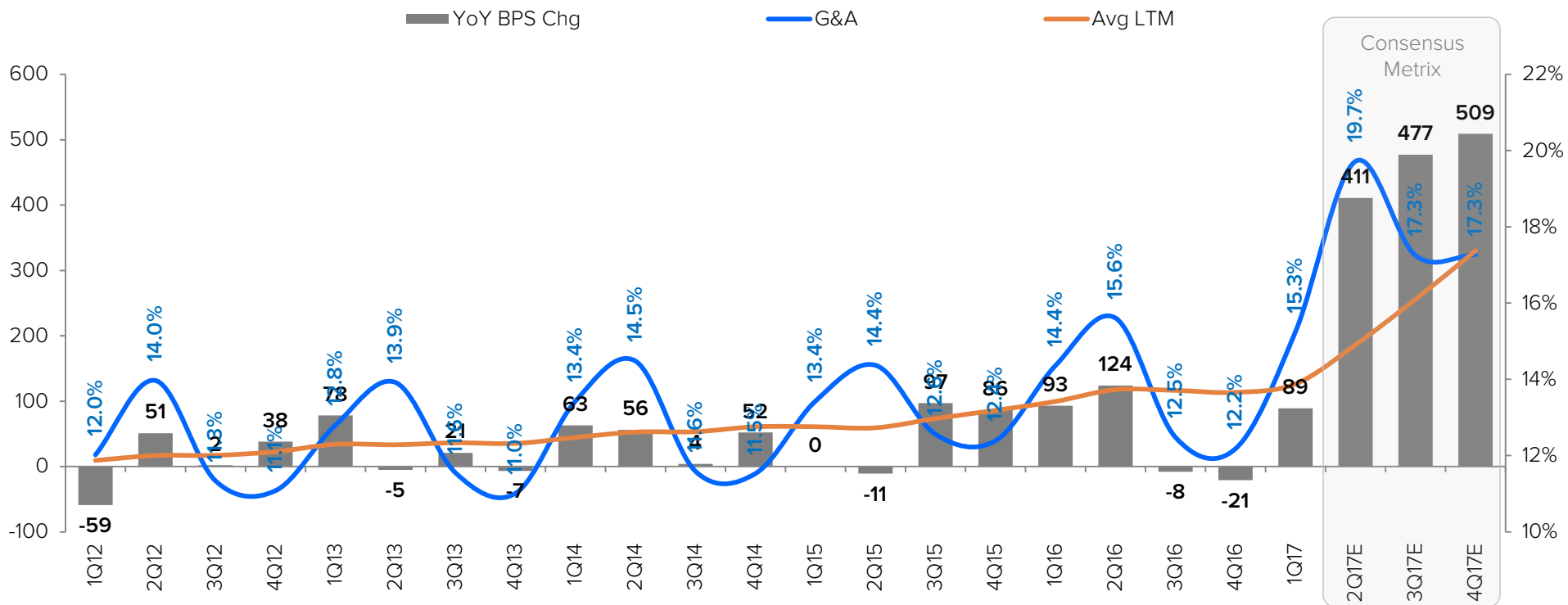


- Other Restaurant Expenses is trending downward, although experiencing some unfavorability to the tune of 30bps during the first quarter of fiscal year 2017.
- Management attributed this tightening to the fees paid by all drive-ins into the system Brand Technology Fund (BTF), established in 3Q16.

RESTAURANT LEVEL MARGIN

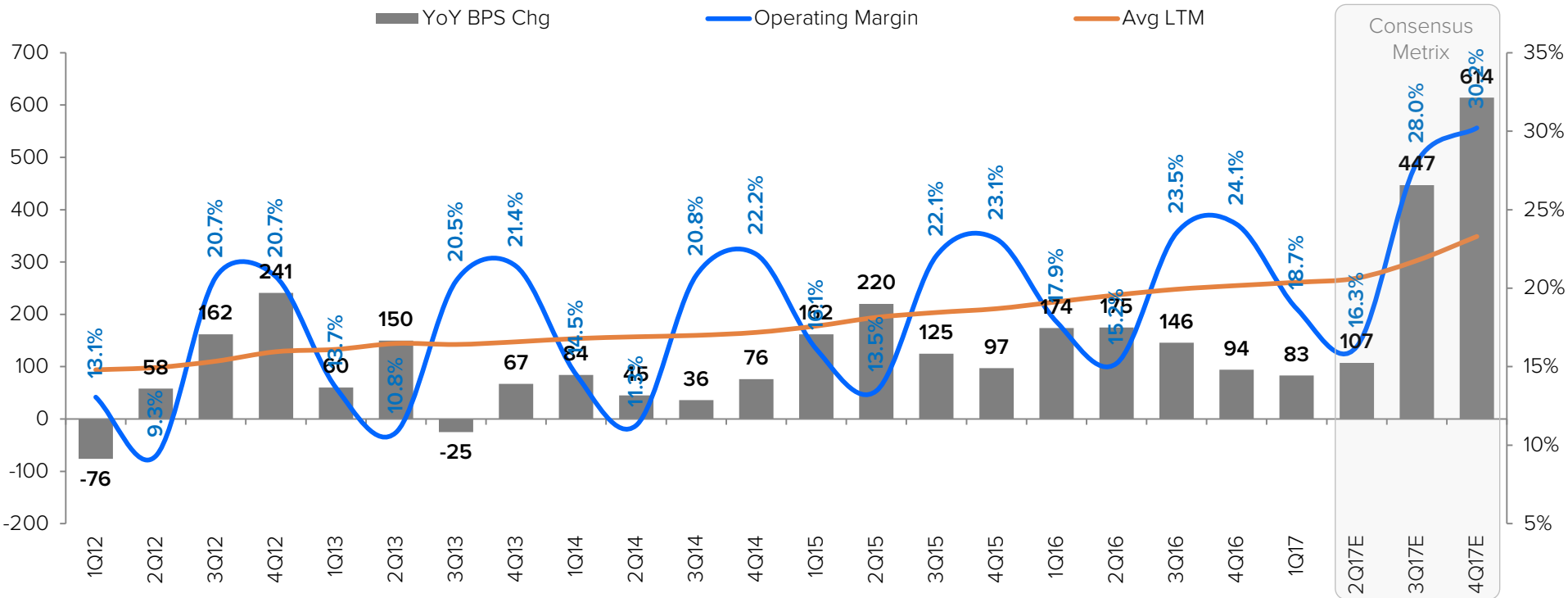


- SONC is projected to approach peak margins in late-2017, however labor headwinds will provide a roadblock going forward.
- With favorable commodity costs, the majority of its commodity costs locked in through 3Q17, and flat commodity basket inflation expected for the balance of the year, SONC is well positioned to reach margin expectations.



- Driven by their refranchising efforts, SONC's G&A as a percent of sales is projected to increase 370bps from FY16 to FY17, while dollar spend is expected to stay relatively flat at \$84 million, driven by their initiatives to continue to re-invest strong top line performance against technology initiatives, particularly in increased head count.
- Going forward, G&A expenses will reflect an increased investment in human resources and technology to support brand initiatives and align the business for future success.

OPERATING MARGIN



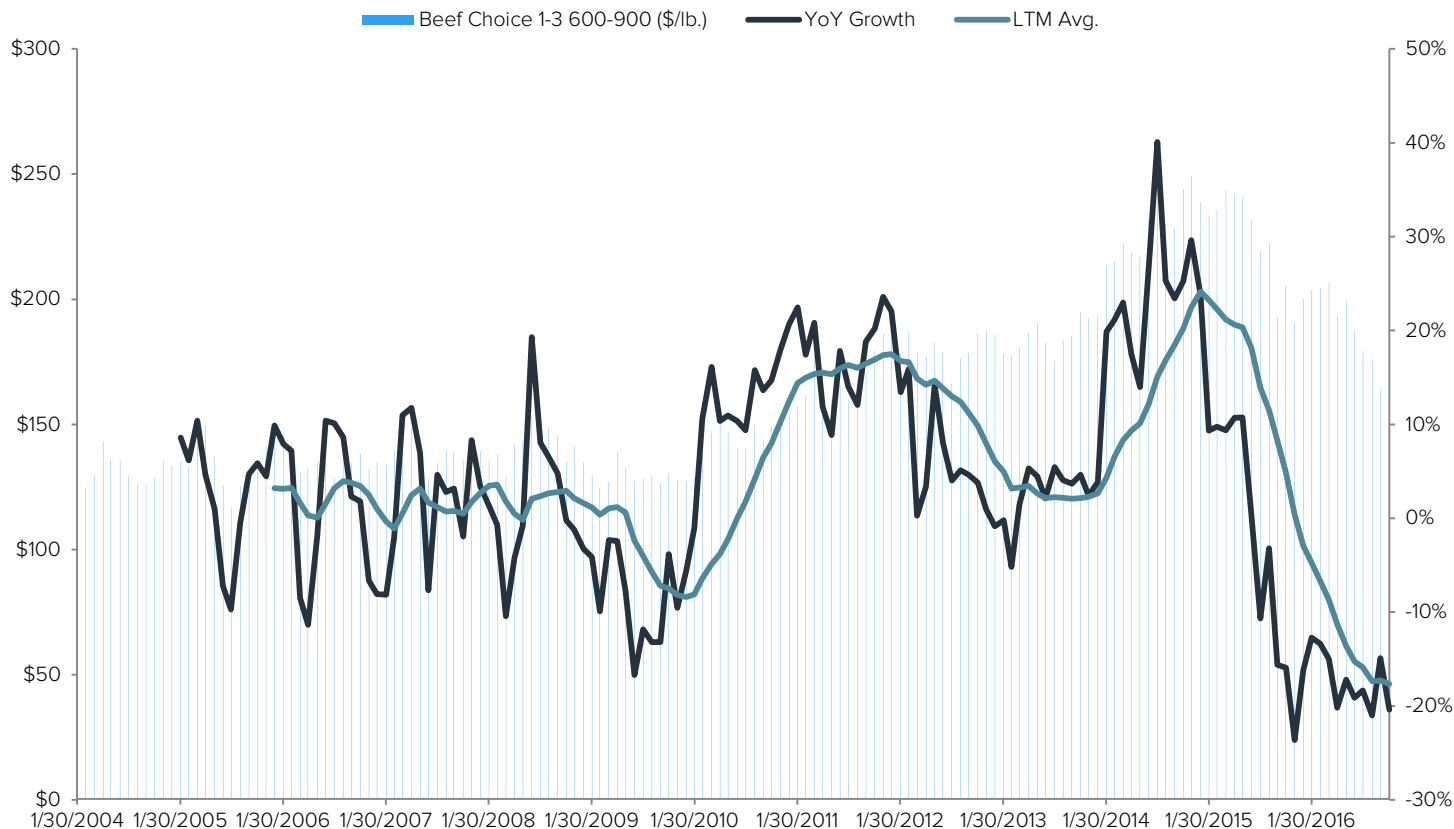
- Operating margin has been trending upward, with an improvement of 80bps in 1Q17.
- This improvement was driven primarily by lower than expected SG&A and a higher mix of franchise stores.
- With SONC moving to a 95% franchised model, it can only be expected that this will continue to move in SONC's favor.



COMMODITIES

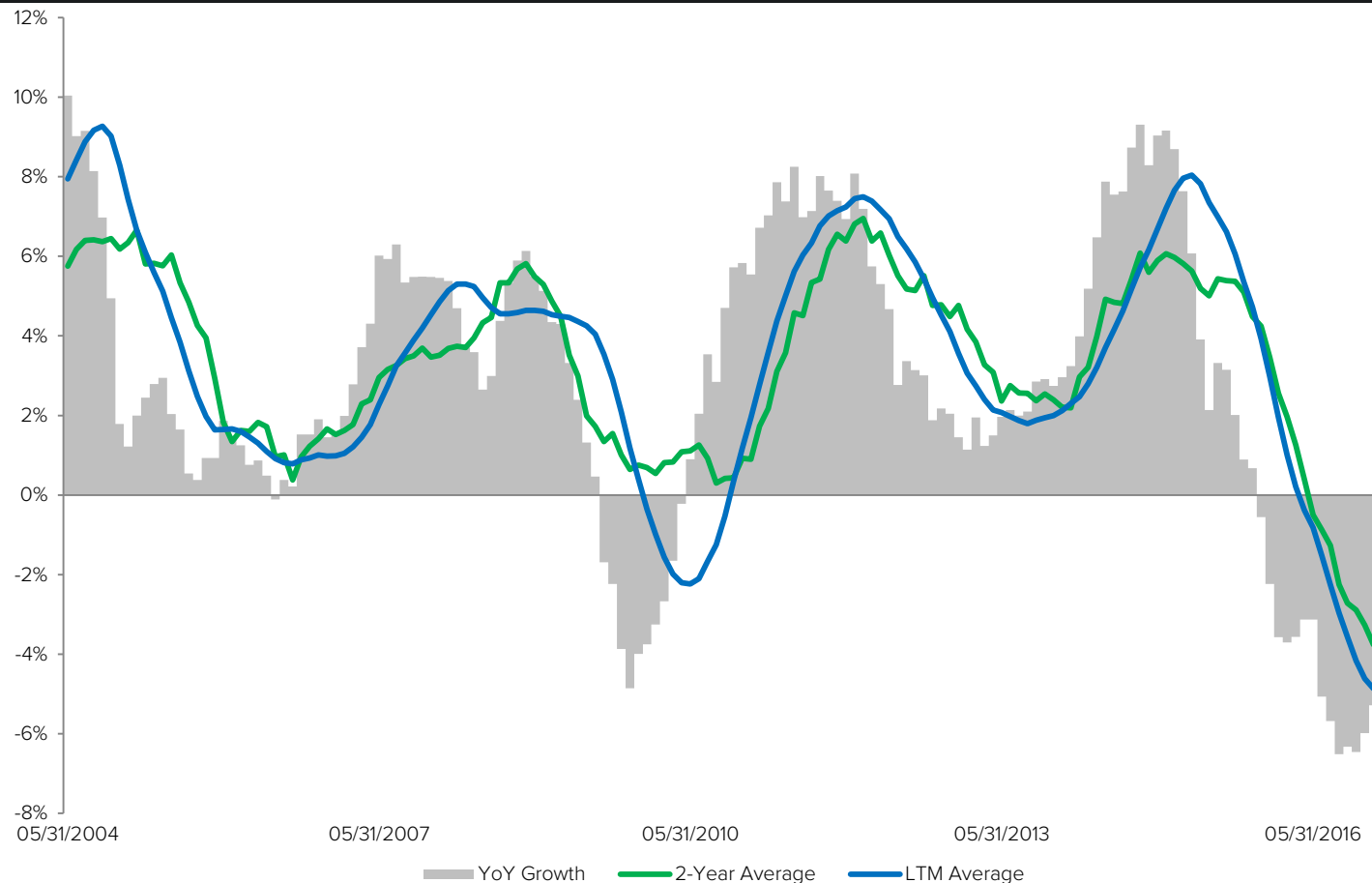
BEEF REMAINS DEFLATIONARY...

...BUT APPEARS TO BE BOTTOMING



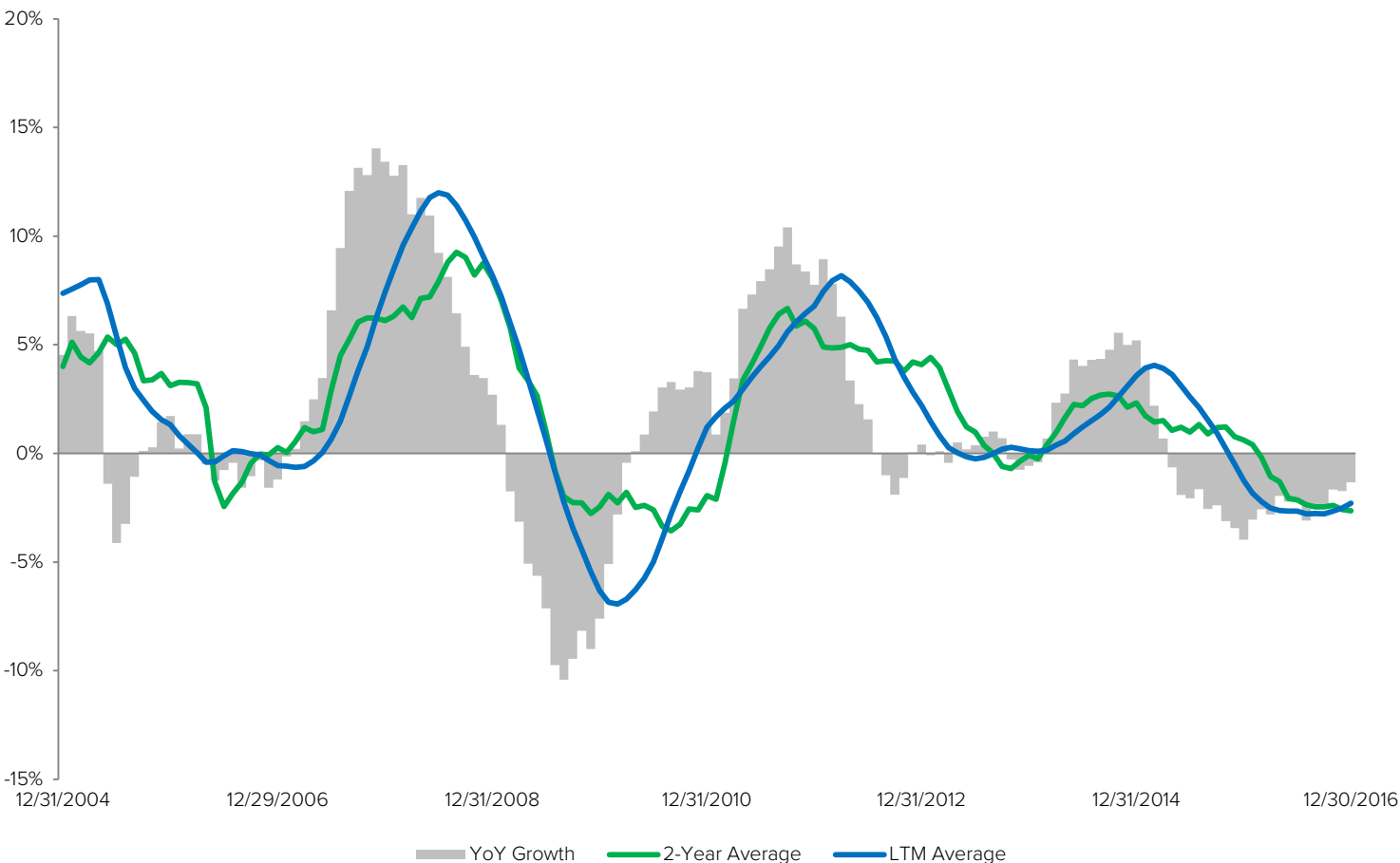
- The restaurants space is feeling some relief from the deflation in beef prices, however, it is unclear how long this relief will last.

CPI - BEEF, POULTRY, FISH AND EGGS



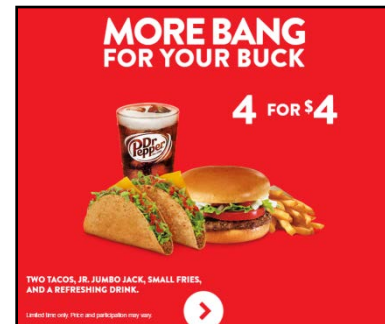
- December readings show that Beef, Poultry, Fish and Eggs continue to be deflationary, but improved by 70bps to -5.3%.

CPI – DAIRY AND RELATED PRODUCTS



- Dairy has become less deflationary, and prices appear to be heading higher.
- This is crucial for SONC, as a great deal of its menu are items containing dairy.

ONCE PROMOTIONS SUBSIDE...SONC WILL SHINE THROUGH



AGGRESSIVE BUNDLING WILL COME BACK TO BITE COMPETITORS!

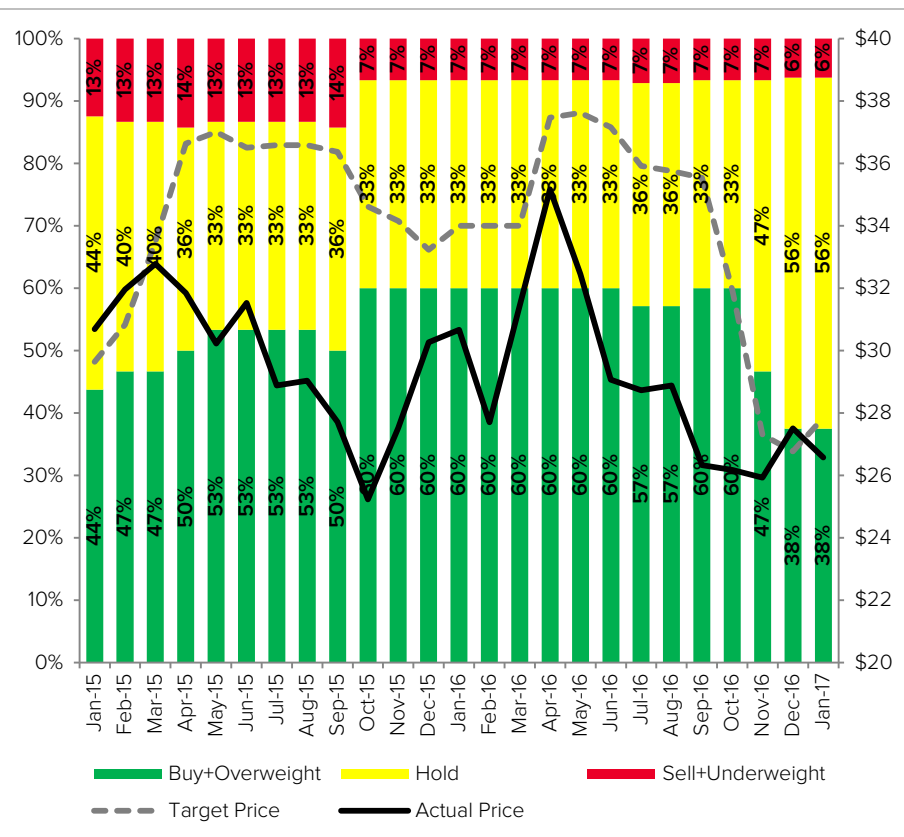
- SONC's tendency to selectively offer bundling promotions, will prove to be advantageous, as competitors will be forced to reposition themselves and create a new game plan when commodities reverse direction.



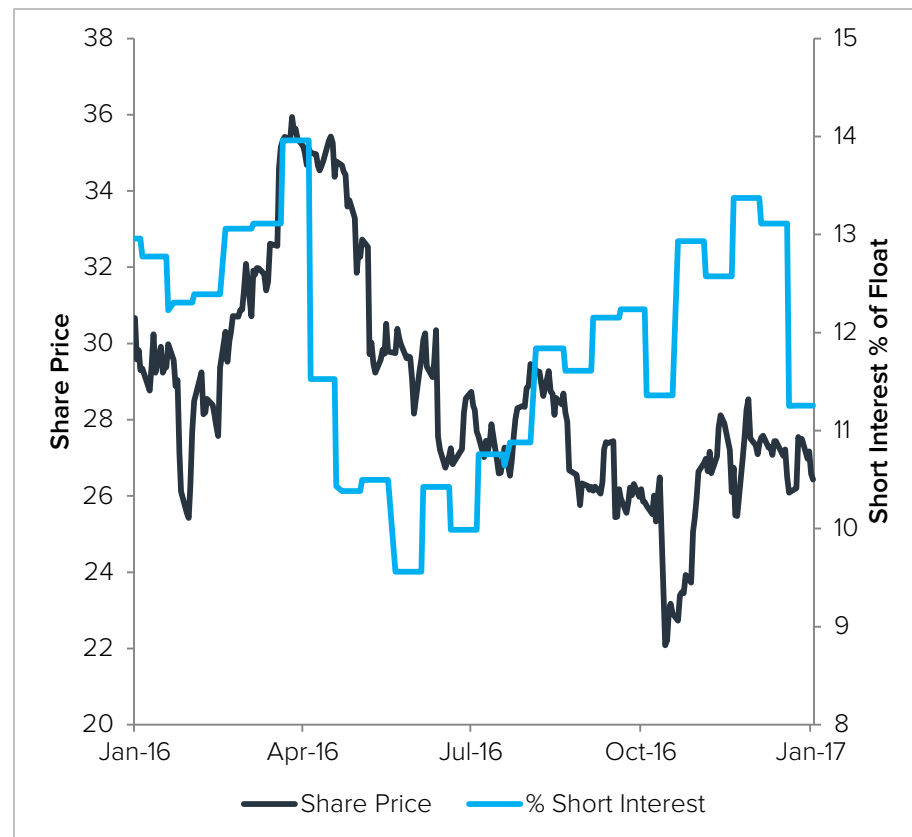
VALUATION & SENTIMENT

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/ EBITDA	NTM EBITDA	Net Debt/ EBITDA
Quick Service Restaurants																			
Wendy's Company	WEN	\$ 13.89	257	\$ 3,570	\$ 2,075	\$ 5,646	7.9%	1.9	1.7	\$ 0.41	\$ 0.45	10.8%	30.4x	\$ 396	\$ 397	0.2%	14.2x	5.2x	
Restaurant Brands International Inc	QSR	\$ 49.77	234	\$ 11,652	\$ 7,455	\$ 20,787	2.3%	1.4	1.6	\$ 1.55	\$ 1.74	11.8%	28.2x	\$ 1,849	\$ 1,995	7.9%	12.1x	4.0x	
Carrols Restaurant Group, Inc.	TAST	\$ 15.05	36	\$ 539	\$ 217	\$ 756	3.6%	0.0	1.0	\$ 0.53	\$ 0.59	12.3%	25.5x	\$ 91	\$ 102	11.8%	7.4x	2.4x	
Popeyes Louisiana Kitchen, Inc.	PLKI	\$ 61.87	21	\$ 1,282	\$ 116	\$ 1,399	3.3%	0.0	1.7	\$ 2.11	\$ 2.45	16.2%	25.1x	\$ 87	\$ 94	7.8%	14.8x	1.3x	
Yum! Brands, Inc.	YUM	\$ 64.66	367	\$ 23,731	\$ 6,094	\$ 29,888	2.0%	1.9	1.6	\$ 2.65	\$ 2.76	4.2%	23.3x	\$ 2,145	\$ 2,041	-4.8%	14.6x	2.8x	
Jack in the Box Inc.	JACK	\$ 107.93	32	\$ 3,490	\$ 978	\$ 4,468	4.7%	1.5	1.5	\$ 4.71	\$ 5.63	19.6%	21.7x	\$ 372	\$ 399	7.2%	11.8x	2.6x	
Sonic Corp.	SONC	\$ 26.43	44	\$ 1,161	\$ 539	\$ 1,700	11.4%	2.1	1.7	\$ 1.27	\$ 1.43	12.7%	19.9x	\$ 152	\$ 156	2.9%	11.1x	3.5x	
Arcos Dorados Holdings, Inc. Class A	ARCO	\$ 5.70	131	\$ 745	\$ 471	\$ 1,216	0.1%	0.0	1.7	\$ 0.39	\$ 0.29	-26.1%	19.9x	\$ 226	\$ 249	10.2%	6.7x	2.1x	
Fiesta Restaurant Group, Inc.	FRGI	\$ 27.65	27	\$ 744	\$ 64	\$ 809	7.6%	0.0	1.5	\$ 1.29	\$ 1.40	8.5%	19.7x	\$ 94	\$ 104	10.8%	7.8x	0.7x	
McDonald's Corporation	MCD	\$ 121.50	830	\$ 100,899	\$ 23,740	\$ 124,639	1.2%	3.1	1.6	\$ 5.66	\$ 6.17	9.0%	19.6x	\$ 9,464	\$ 9,772	3.3%	12.7x	2.5x	
Bojangles', Inc.	BOJA	\$ 19.80	36	\$ 722	\$ 183	\$ 906	1.1%	0.0	1.4	\$ 0.94	\$ 1.01	7.7%	19.4x	\$ 81	\$ 87	7.5%	10.3x	2.3x	
Average							4.1%	1.1	1.6	23.0x				11.2x					2.7x
Casual Dining																			
Wingstop, Inc.	WING	\$ 28.86	29	\$ 829	\$ 151	\$ 981	18.1%	0.0	1.2	\$ 0.57	\$ 0.65	13.5%	44.0x	\$ 35	\$ 40	14.5%	24.6x	4.4x	
Chuy's Holdings, Inc.	CHUY	\$ 29.80	17	\$ 501	\$ (14)	\$ 487	10.9%	0.0	1.7	\$ 1.07	\$ 1.20	11.6%	24.8x	\$ 42	\$ 48	13.6%	10.1x	-0.3x	
Dave & Buster's Entertainment, Inc.	PLAY	\$ 55.02	42	\$ 2,315	\$ 263	\$ 2,578	10.6%	0.0	1.2	\$ 2.05	\$ 2.36	15.1%	23.4x	\$ 239	\$ 275	14.9%	9.4x	1.1x	
Texas Roadhouse, Inc.	TXRH	\$ 46.96	71	\$ 3,312	\$ (29)	\$ 3,290	5.7%	1.6	1.9	\$ 1.77	\$ 2.00	12.9%	23.4x	\$ 269	\$ 301	11.9%	10.9x	-0.1x	
Buffalo Wild Wings, Inc.	BWLD	\$ 150.05	18	\$ 2,731	\$ 64	\$ 2,795	7.4%	0.0	1.7	\$ 5.56	\$ 6.58	18.4%	22.6x	\$ 303	\$ 340	12.2%	8.2x	0.2x	
Del Frisco's Restaurant Group, Inc.	DFRG	\$ 17.20	24	\$ 405	\$ (1)	\$ 404	2.5%	0.0	1.7	\$ 0.80	\$ 0.87	8.8%	19.7x	\$ 46	\$ 50	8.0%	8.1x	0.0x	
Cheesecake Factory Incorporated	CAKE	\$ 60.42	47	\$ 2,866	\$ 33	\$ 2,898	16.6%	1.6	1.9	\$ 2.83	\$ 3.07	8.2%	19.6x	\$ 289	\$ 290	0.3%	10.0x	0.1x	
Bravo Brio Restaurant Group, Inc.	BBRG	\$ 3.70	15	\$ 54	\$ 51	\$ 105	5.3%	0.0	2.0	\$ 0.13	\$ 0.19	42.5%	19.6x	\$ 23	\$ 28	20.2%	3.8x	2.2x	
BJ's Restaurants, Inc.	BJRI	\$ 35.95	23	\$ 836	\$ 83	\$ 919	7.5%	0.0	2.0	\$ 1.74	\$ 1.93	11.0%	18.6x	\$ 126	\$ 134	6.7%	6.8x	0.7x	
Darden Restaurants, Inc.	DRI	\$ 73.37	124	\$ 9,110	\$ 324	\$ 9,434	9.6%	3.1	1.7	\$ 3.93	\$ 4.31	9.5%	17.6x	\$ 975	\$ 1,038	6.5%	9.3x	0.3x	
Red Robin Gourmet Burgers, Inc.	RRGB	\$ 51.50	13	\$ 662	\$ 300	\$ 963	13.6%	0.0	1.7	\$ 2.78	\$ 2.95	5.9%	17.3x	\$ 142	\$ 146	3.3%	6.6x	2.1x	
Fogo de Chao, Inc.	FOGO	\$ 14.25	28	\$ 401	\$ 125	\$ 528	1.2%	0.0	1.6	\$ 0.86	\$ 0.91	5.6%	15.5x	\$ 55	\$ 60	9.4%	8.7x	2.3x	
Brinker International, Inc.	EAT	\$ 47.31	50	\$ 2,349	\$ 1,412	\$ 3,761	17.0%	2.9	2.0	\$ 3.40	\$ 3.75	10.2%	13.2x	\$ 449	\$ 460	2.4%	8.3x	3.1x	
Bloomin' Brands, Inc.	BLMN	\$ 17.35	105	\$ 1,829	\$ 1,133	\$ 2,976	6.6%	1.6	1.5	\$ 1.31	\$ 1.45	10.4%	12.0x	\$ 441	\$ 436	-1.1%	6.9x	2.6x	
DineEquity, Inc.	DIN	\$ 75.56	18	\$ 1,367	\$ 1,267	\$ 2,634	3.9%	5.1	1.6	\$ 6.02	\$ 6.32	5.0%	11.9x	\$ 264	\$ 265	0.6%	9.9x	4.8x	
Ruby Tuesday, Inc.	RT	\$ 2.24	61	\$ 136	\$ 185	\$ 320	5.1%	0.0	0.0	\$ -	\$ -	0.0%	0.0x	\$ -	\$ -	0.0%	0.0x	0.0x	
Average							8.9%	1.0	1.6	18.9x				8.8x					1.5x

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	2,275		0.18	-0.10	0.13	6.66	5.68	1.60
CONSUMER DISCRETIONARY SEL SECT SPD	XLY	83.96		0.37	0.77	-0.47	6.31	3.64	3.14
Wendy's Company	WEN	13.89	3,570	0.65	4.83	-0.50	28.73	42.61	28.97
Carrols Restaurant Group, Inc.	TAST	15.05	539	1.01	5.61	11.07	17.21	21.57	28.19
Bojangles', Inc.	BQJA	19.80	722	-0.75	-3.88	4.49	26.44	14.58	24.76
Yum! Brands, Inc.	YUM	64.66	23,731	0.00	0.37	0.06	0.62	4.88	23.10
Jack in the Box Inc.	JACK	107.93	3,490	-0.97	1.55	-3.06	13.54	24.07	12.50
Popeyes Louisiana Kitchen, Inc.	PLKI	61.87	1,282	-0.24	4.07	0.41	19.81	10.66	5.76
Arcos Dorados Holdings, Inc. Class A	ARCO	5.70	745	0.00	0.88	-0.87	-4.84	9.83	5.56
Restaurant Brands International Inc	QSR	49.77	11,662	1.12	0.61	1.10	14.26	19.41	4.43
McDonald's Corporation	MCD	121.50	100,899	-0.49	0.61	-0.96	5.28	-1.07	2.84
Sonic Corp.	SONC	26.43	1,161	-0.56	-3.47	-3.29	2.24	-6.84	-7.88
Fiesta Restaurant Group, Inc.	FRGI	27.65	744	-0.90	-1.25	-5.15	8.86	12.90	-17.71
Mean				-0.10	0.90	0.30	12.01	13.87	10.05
Median				-0.24	0.61	-0.50	13.54	12.90	5.76

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	55.02	2,315	-0.86	-2.12	-2.08	33.93	15.78	51.70
Texas Roadhouse, Inc.	TXRH	46.96	3,312	-0.38	2.76	-5.91	22.90	0.64	31.28
Cheesecake Factory Incorporated	CAKE	60.42	2,866	-0.79	3.55	-4.96	18.33	19.38	31.03
Wingstop, Inc.	WING	28.86	829	-0.21	2.09	-9.56	2.67	11.47	26.52
Darden Restaurants, Inc.	DRI	73.37	9,110	-0.60	2.54	-4.54	18.00	17.05	8.17
Del Frisco's Restaurant Group, Inc.	DFRG	17.20	405	-1.99	7.50	-5.49	31.50	17.65	7.37
Brinker International, Inc.	EAT	47.31	2,349	-1.13	-0.48	-10.02	-5.30	-1.23	3.91
Bloomin' Brands, Inc.	BLMN	17.35	1,829	-2.47	-0.34	-7.66	2.06	-4.77	2.72
Chuy's Holdings, Inc.	CHUY	29.80	501	-1.81	-4.79	-13.25	11.78	-15.44	-4.91
Fogo de Chao, Inc.	FOGO	14.25	401	0.00	-1.04	-1.72	27.46	3.79	-6.00
Buffalo Wild Wings, Inc.	BWLD	150.05	2,731	-2.15	-0.79	-11.86	7.69	6.18	-6.01
DineEquity, Inc.	DIN	75.56	1,367	-1.38	-0.57	-10.81	-3.54	-10.96	-10.76
Red Robin Gourmet Burgers, Inc.	RRGB	51.50	662	-0.58	5.42	0.29	21.18	3.21	-16.59
BJ's Restaurants, Inc.	BJRI	35.95	836	-0.28	0.14	-7.82	3.84	-18.85	-17.30
Ruby Tuesday, Inc.	RT	2.24	136	3.23	-15.79	-34.50	-20.85	-42.27	-42.27
Bravo Brio Restaurant Group, Inc.	BBRG	3.70	54	-2.63	-5.13	-10.84	-21.44	-54.93	-58.89
Mean				-0.88	-0.44	-8.80	9.39	-3.33	0.00
Median				-0.83	-0.41	-7.74	9.73	1.92	-1.10

5 YEAR VALUATION TREND



- SONC has recently pulled back from trading at approximately 1 standard deviation above its 5-year average valuation.

VALUATION MATRIX

NTM EV/EBITDA Multiple

EBITDA

	9.6x	10.0x	10.4x	10.8x	11.2x	11.6x	12.0x	12.4x	12.8x	13.2x	13.6x
\$149	\$20.29	\$21.64	\$23.00	\$24.35	\$25.71	\$27.07	\$28.42	\$29.78	\$31.13	\$32.49	\$33.85
\$150	\$20.61	\$21.98	\$23.35	\$24.72	\$26.09	\$27.46	\$28.83	\$30.20	\$31.57	\$32.94	\$34.31
\$152	\$20.94	\$22.32	\$23.71	\$25.09	\$26.47	\$27.86	\$29.24	\$30.62	\$32.01	\$33.39	\$34.77
\$153	\$21.27	\$22.67	\$24.07	\$25.46	\$26.86	\$28.26	\$29.65	\$31.05	\$32.45	\$33.85	\$35.24
\$155	\$21.61	\$23.02	\$24.43	\$25.84	\$27.25	\$28.66	\$30.07	\$31.48	\$32.90	\$34.31	\$35.72
\$157	\$21.95	\$23.37	\$24.80	\$26.22	\$27.65	\$29.07	\$30.50	\$31.92	\$33.35	\$34.77	\$36.20
\$158	\$22.29	\$23.73	\$25.17	\$26.61	\$28.05	\$29.48	\$30.92	\$32.36	\$33.80	\$35.24	\$36.68
\$160	\$22.63	\$24.09	\$25.54	\$26.99	\$28.45	\$29.90	\$31.36	\$32.81	\$34.26	\$35.72	\$37.17
\$161	\$22.98	\$24.45	\$25.92	\$27.39	\$28.86	\$30.32	\$31.79	\$33.26	\$34.73	\$36.20	\$37.67

BEAR

-23%

BASE

8%

BULL

43%

IN DUE TIME...

- Given the macro headwinds facing the restaurants space, we do not see SONC achieving significant multiple expansion in the near term, but a multiple of 13.0x-14.0x is possible on a long term TAIL basis (3yrs <).

SUMMARY OF OUR THOUGHTS

Key Points

- 1 Consumer-centric technology at the core of future SONC growth
- 2 Competitors, believed to have posed biggest risk to SONC's success, are now fading
- 3 SONC's push to a 95% franchised model will enable them to improve efficiency and reduce earnings volatility

Risks To The Short

- 1 FAH vs FAFH working against SONC and overall industry, as inflation differential stands at -4.3%
- 2 Revamped technology rollout not equating to higher trial & adoption

FOR MORE INFORMATION, CONTACT US AT:

SALES@HEDGEYE.COM
(203) 562-6500