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Applebee's Benchmarking Analysis

Parent Company DineEquity, Inc.	Market Cap \$518MM	LTM Stock Performance DIN -2% vs. NRN Rest Index +31%	Debt Rating Not rated
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1. Marketing & Menu Strategy

Applebee's, the largest national casual chain, grew in popularity by bringing value to cost conscious customers looking for a fun, sit-down dining experience "in the neighborhood". However, over the years, the chain's relative competitive positioning suffered from declining food quality in a crowded field inhabited by newer, fresher concepts. Resultantly, Applebee's consumers decided that the brand's overall value equation was no longer very compelling in light of this growing competition - thus driving a few years of sales declines. This sparked DineEquity's turnaround efforts at Applebee's - a process we believe is beginning to slowly take shape. As the company seems to understand, the answer for Applebee's turnaround does not have to do with purely lower price points - that is not why consumers go out to a sit-down restaurant in the first place. Rather, consumers are seeking value in the form of food quality and distinctive offerings which are packaged in an appealing way. This seems to be Applebee's general direction and we believe that, in time, the brand will find its way back to its core roots as a good time out for family and friends.

Target market Applebee's has always positioned itself as a grill and bar (as opposed to a bar and grill) - historically targeting slightly less affluent families for dinner as a value player while currently seeking a broader demo of heavy casual concept users. The chain's recent push into late night has acted to broaden its appeal by attracting a younger crowd as well - although its intent is to simply extend the brand's daypart sales. In any case, the chain (and the casual segment in general) continues to compete with QSR and fast casual at lunch for office workers.

Menu strategy Applebee's offers a very diverse menu with 90 offerings that we count - slightly higher than its 84 menu item peer average. Corporate's strategy is to differentiate its menu from the casual pack with unique items available only at Applebee's while simultaneously improving its food quality. This speaks to the historic culprit for casual segment sales weakness - a lack of clear identity for the major players. In any case, it seems to us that Applebee's menu strategy extends beyond distinctive offerings to branded deals that are also unique and memorable. For example, the chain's 2 for \$20 bundle offer (2 entrees and a shared appetizer) is not about food so much as value recognition - driving double-digit total sales percentages (higher if promoted on TV). The chain's Pick 'N Pair lunch combos (any 2 sandwich/soup/salad for around \$6) and its Ultimate Trios (pick any 3 appetizers for around \$12) also represent branded value propositions. On the other hand, the chain's "RealBurger" line is an attempt to create distinction around the food alone (with its recent regional offerings designed to further enhance the uniqueness of this classic grill fare). Bringing it all together, Applebee's 5 for 550 offering combines the deal branding with a unique offering (5 dinner options sporting calorie counts under 550) - which we understand is doing relatively well. Finally, we note that the chain's so far successful late night push has been helping to drive an increase in alcohol sales along with more appetizers.

Ad strategy Applebee's hired a new marketing VP at the beginning of the year with a retail background. As such, it is reasonable to expect that some changes to the chain's marketing strategy could be forthcoming - perhaps with more emphasis on reaching customers in-store. In any case, the chain tweaked its creative at the beginning of the year with "There is no place like the neighborhood" tagline and storylines that highlight how their guests connect with the brand. Applebee's ads continue to feature compelling food shots and humor in a fun setting. Finally, we note that the chain has been pushing late night with an "open midnight and later" tagline along with local initiatives.

Promotion strategy The chain tends to rotate its promotional activities around its various bundled offerings discussed above. This is how Applebee's has been communicating value - bundled discounts around varied price points (as opposed to pure price discounts). We expect the chain will seek to communicate value around quality, taste and uniqueness going forward. In any case, it is notable that Applebee's promotes core menu items as opposed to LTOs - we like this strategy as it is easier from an operational perspective (especially for a chain with such a broad and diverse menu to begin with).

Casual

Chain ⁽¹⁾	Total Items	Appetizers/ Soups	Dinner Entrees ⁽²⁾	Lunch Menu ⁽³⁾	Brunch/ Breakfast	Value Menu	Desserts	Average Check	Lunch	Dinner	Alcohol	Take-out
Applebee's	90	14	66	12	0	Pick'N Pair Lunch Combos - \$5.99+, 2 for \$20 (1 appet, 2 entrees)	10	\$ 12.00	25%	50%	12%	10%
Peer Average	84	18	53	19	3		10	\$ 15.01	N/a	N/a	13%	N/a

(1) Peer average based on 11 casual chains (Applebee's, Buffalo Wild Wings, Cheesecake Factory, Chili's, Olive Garden, Outback, Red Lobster, Red Robin, Ruby Tuesday, Texas Roadhouse and T.G.I. Friday's).

(2) Entrees include entrée salads and any additional diet/healthy items. Combo appetizers and entrees are counted as 1 item.

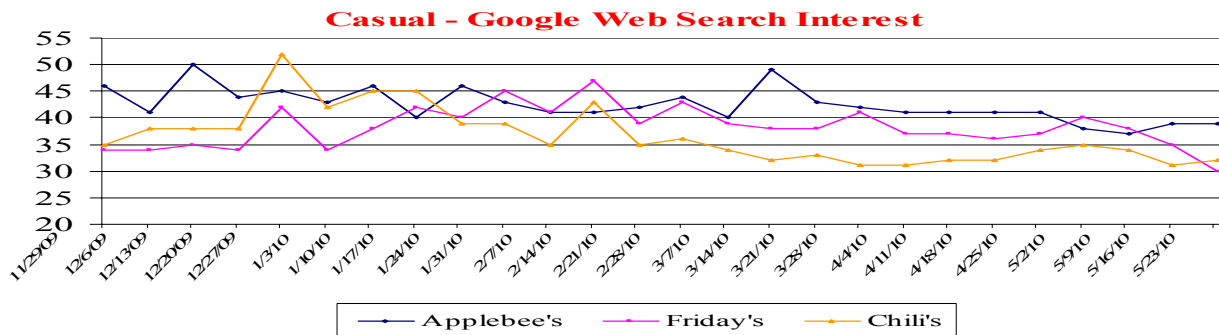
(3) Lunch menu items are excluded from total to avoid double counting.

Recent Promotions

Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Two for \$20 at dinner (1 appetizer and 2 entrees)	Healthy menu - 550 calories or less (including 5 new items - Asiago Peppercorn Steak, Grilled Shrimp & Island Rice, Spicy Shrimp Diavolo, Grilled Dijon Chicken & Portobellos, Asian Crunch Salad)	Healthy menu - 550 calories or less	Ultimate Trio (pick 3 favorites for one low price)	Healthy menu - 550 calories or less, Pick 'n Pair Lunch Combos, RealBurgers (featuring new Philly Burger & Cowboy Burger)	RealBurgers (featuring the new Southwest Jalapeno Burger), highlighting now open until midnight or later to promote bar sales

Bold products represent new items.

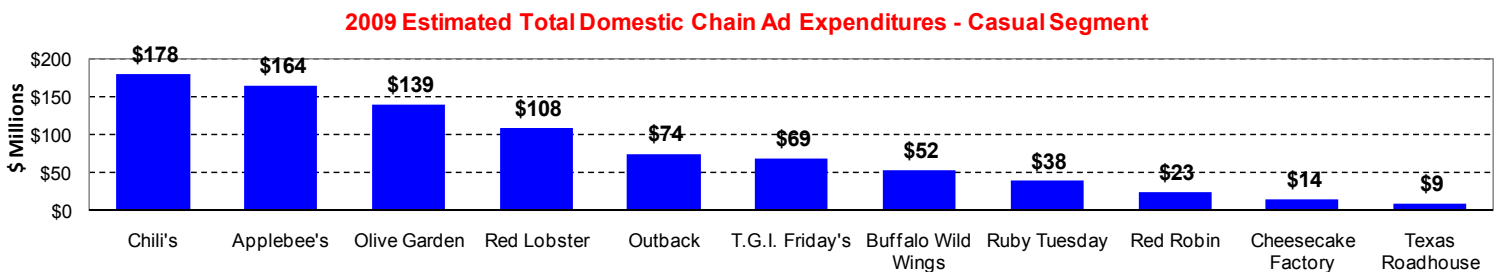
Source: RR



Ad Spending

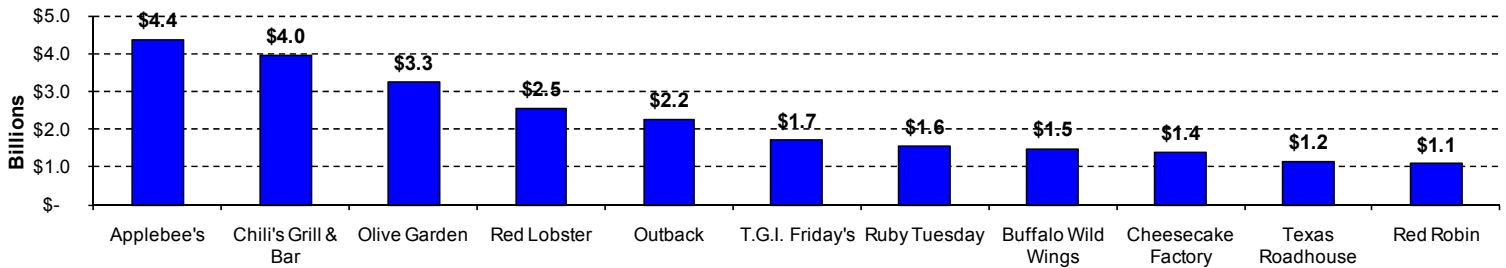
Media Ad Spending		Franchisee Mandated Ad Contribution	
Total 2009	% of System Sales	Media Focus	% of Unit Sales
\$164MM	3.75%	Primarily national TV	3.75%
			National/Local
			2.75%/1.0%

Source: RR



2. Applebee's System Statistics Summary

Casual Segment Competitors by 2009 Domestic System-wide Sales



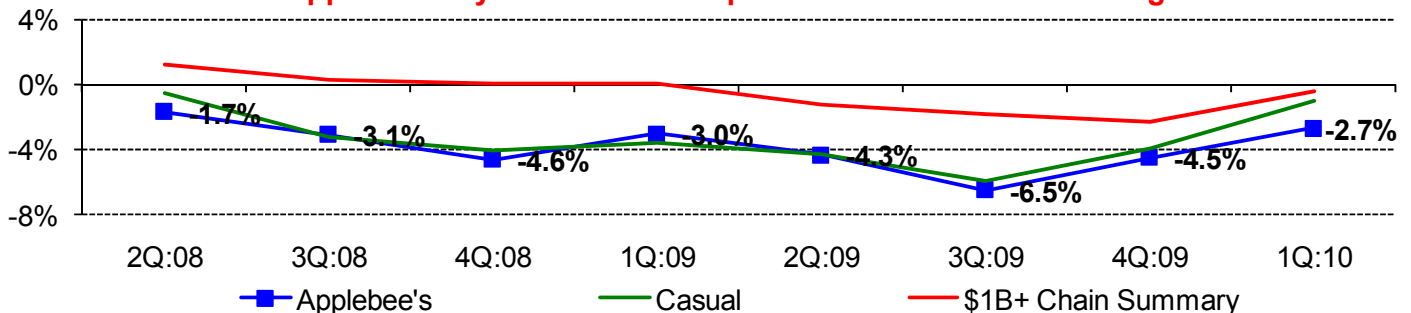
Domestic System Statistics

FYE December	2005	2006	2007	2008	2009	5 yr. ('05-'09) Average
System-wide sales						
System-wide Sales ('000)	4,192,200	4,542,900	4,505,000	4,470,000	4,375,000	
YOY Growth in System-wide Sales	7.8%	8.4%	-0.8%	-0.8%	-2.1%	2.5%
Segment Sales ('000)	21,166,500	23,099,647	24,275,409	24,926,639	24,725,745	
YOY Growth in Segment Sales	8.7%	9.1%	5.1%	2.7%	-0.8%	5.0%
Concept's Segment Market Share	19.8%	19.7%	18.6%	17.9%	17.7%	
YOY Change in Concept Market Share	-0.2%	-0.1%	-1.1%	-0.6%	-0.2%	-0.5%
Same Store Sales						
Franchised	2.6%	-0.5%	-2.0%	-2.4%	-4.4%	-1.3%
Company	-0.9%	-1.0%	-2.0%	-1.3%	-4.8%	-2.0%
Total System	1.7%	-0.6%	-2.1%	-2.2%	-4.5%	-1.5%
Segment Avg.	2.8%	0.7%	-0.1%	-2.2%	-4.2%	-0.6%
Unit Counts						
Franchised	1,246	1,320	1,354	1,470	1,470	
Company	486	521	510	405	398	
Total	1,732	1,841	1,864	1,875	1,868	
% Growth Rate/Existing Units	7.4%	6.3%	1.2%	0.6%	-0.4%	3.0%
Segment Avg.	7.4%	7.3%	5.6%	3.6%	1.2%	5.0%
Gross New Unit Development						
Franchised	78	89	43	28	18	
Company	52	35	14	1	0	
Total	130	124	57	29	18	
% Growth Rate/Existing Units	8.1%	7.2%	3.1%	1.6%	1.0%	4.2%
Segment Avg.	8.3%	8.2%	6.7%	4.8%	3.2%	6.2%
Transfers & Closure Rates						
Franchised Transfers	0.4%	2.4%	6.1%	7.7%	1.0%	3.5%
Franchised Closings	0.8%	0.9%	0.8%	1.1%	1.7%	1.1%
Company Closings	0.2%	0.8%	4.6%	0.6%	0.0%	1.3%
System Closings	0.7%	0.9%	1.8%	1.0%	1.3%	1.1%
Segment Closings	0.9%	0.9%	1.1%	1.3%	2.1%	1.3%

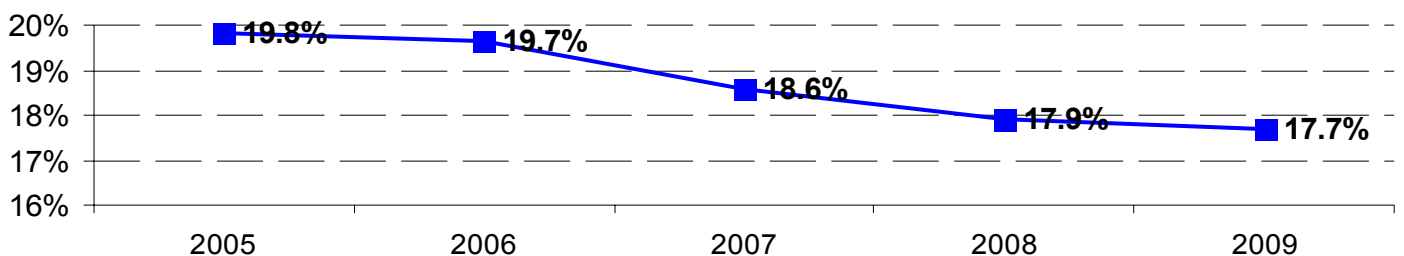
3. Sales Performance

<p>Comp Sales Performance</p>	<ul style="list-style-type: none"> ➤ The casual segment’s underperformance relative to the entire \$1B+ chain average is notable as it reflects market share losses during lunch to QSR/fast casual and dinner trade-down to QSR/fast casual as well. This is more than a price point issue now that many casual players have introduced competitively priced deals – it also represents an inability of casual players to drive sales with food and experience. ➤ In any case, Applebee’s comps have closely tracked the casual segment average over the last couple of years as we can see from the chart below. Resultantly, we hear a lot from Applebee’s leadership about its intention to differentiate itself going forward. ➤ We believe the chain’s 2009 sales weakness mostly represented declining traffic with Applebee’s having taken little pricing +1% to +2%. It is likely that a degrading sales mix is also partially to blame for sales weakness as consumers continue to focus on deals. ➤ The chain’s 1Q10 results were negative -2.7% but still stronger than any quarter since 2Q08. We believe this reflects an improving economy but also easier year-over-year comparisons as Applebee’s laps 7 consecutive quarters of same-store-sales declines. ➤ In conclusion, Applebee’s bundling strategy has not worked adequately by itself to improve the chain’s sales, but rather, it has sparked bundling price competition from its peers. As Applebee’s seems to have learned this lesson, we expect future competition will come in the form of menu quality and innovation - something more difficult to replicate.
<p>Sales Outlook and Drivers</p>	<ul style="list-style-type: none"> ➤ Corporate guidance for 2010 sales is currently in the range of flat to -3%, suggesting continued sales weakness for the balance of the year. ➤ Having said that, we note that the chain’s late-night initiative seems to be gaining traction – driving bar and appetizer sales with new customers (especially in smaller markets which have less of a night life). When this is taken together with the brand’s ongoing turnaround efforts, we believe it is possible that 2010 sales could end-up at the higher-end of corporate’s range.
<p>Market Share</p>	<ul style="list-style-type: none"> ➤ Applebee’s continues to lose market share because of weak comps and, correspondingly, slower new unit development over the recent past. We anticipate that Applebee’s will continue to lose market share to more exciting chains like Buffalo Wild Wings.

Applebee's System-wide Comp Performance vs. Casual Segment

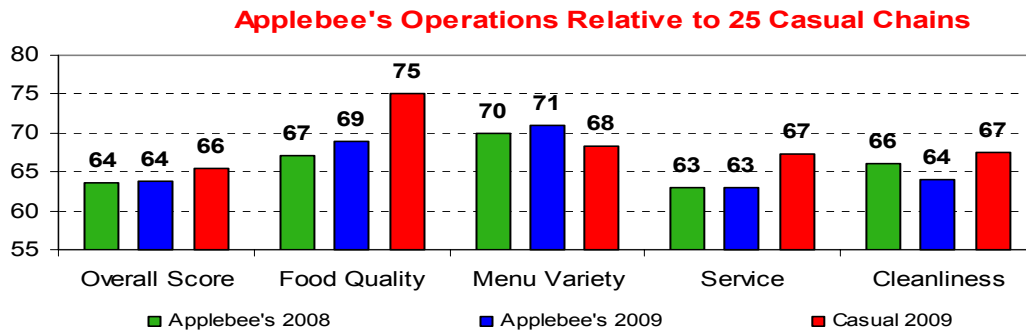


Applebee's Share of \$1B+ Casual Chains



Source: RR

4. Operational Performance



Source: R&I Choice in Chains 3Q09

Customer Operational Ratings & Improvement Initiatives

- Applebee's strategic challenge is clearly revealed by its relatively low food quality score in the above R&I survey – with the chain's 2009 food quality score of 69 tied for just 18th best out of 25 casual chains even though it was up slightly from 2008.
- This is a key point as there are so many casual chains for consumers to choose from – with the majority offering the perception of better food quality relative to Applebee's. Given the importance of food quality to a sit-down dining experience, it seems hard for a chain in this extremely competitive segment to succeed without compelling menu offerings – a point we believe Applebee's brand leadership understands.
- Along this line, R&I's 55 value score (not depicted above) was 6th best among the casual players and its menu variety score was also above average (tied for 7th best) – this shows that pricing and menu size cannot be blamed for the chain's sales problem. Once again, the key issue has to do with food quality.
- Fortunately, Applebee's brand leadership is in the process of addressing operational improvements as part of the chain's turnaround efforts. Improvement efforts include better ingredients, simpler flavor profiles and better operational execution.
- Resultantly, company sponsored market research shows food quality scores have increased from the high 40's during 2008 to the mid-sixties currently.
- We understand that franchisor initiatives to improve operations tend to be more collaborative in nature than is common in other systems. Resultantly, there is no one-size-fits-all operational system improvement initiative underway.
- Having said that, we understand corporate is actively seeking ways to improve the stores' energy efficiency – an effort that will benefit the entire system.

Quality Control

- Corporate's main thrust for quality control comes in the form of quantifiable operational assessments – conducted by franchise consultants on a quarterly basis.
- Operational assessments are measured with A/B operator scorecards - comparable to those instituted in the IHOP system during 2003 (although modified to better fit the Applebee's system). According to the company, 80% of Applebee's operators have currently achieved either an A or B scorecard rating.
- Applebee's also monitors the guest experience through its CSI (Customer Satisfaction Index) program. The CSI program gathers direct guest feedback which allows managers to review up to the minute information via an 800 number or through a company website. In connection with the program, each restaurant receives approximately 40 responses per month.

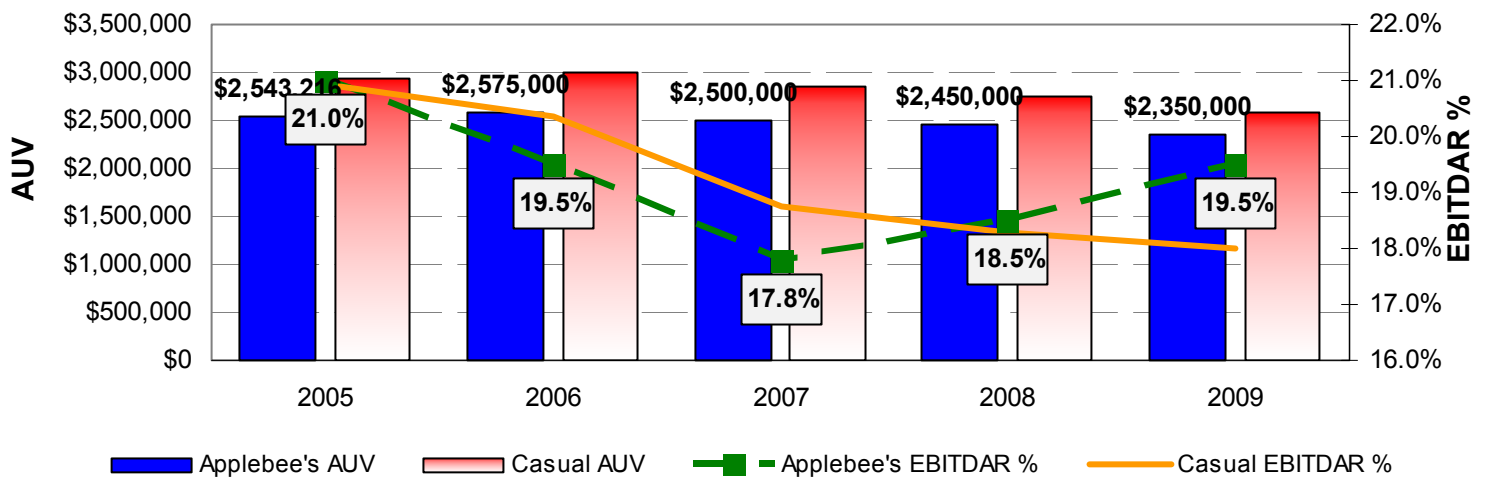
5. Unit Level Data

Peer Operational Comparison		
	Applebee's	Segment Average Casual
Franchisee Unit Level Economics		
Period Ended	<i>Dec-09</i>	
AUV	\$2,350,000	\$2,593,286
Food & Paper	25.5%	28.1%
Labor & Benefits	32.0%	31.8%
Royalty	4.0%	4.1%
Advertising	3.8%	3.1%
EBITDAR (pre G&A)	19.5%	18.0%
New Build Costs		
New build AUV	\$2,400,000	\$3,042,182
Building & Sitework	\$1,400,000	\$1,530,556
Furniture, Equipment & Signage	\$700,000	\$615,500
Small Wares & Inventory	\$63,650	\$54,850
Initial Franchise Fee	\$35,000	\$48,409
Soft Costs (*)	\$422,500	\$315,928
Total	\$2,621,150	\$2,887,727
Typical New Unit Requirements		
Land (sq. ft.)	60,000	61,714
Building size (sq. ft.)	5,410	5,990
# seats	196	206
Operating Statistics		
Sales/sq. ft.	\$443.62	\$507.85
Investment costs/sq. ft.	\$484.50	\$482.06
Sales/investment (excluding land)	0.92	1.05

(*) Soft costs include pre-construction costs such as the initial franchise fee, architectural and engineering fees, permits, opening advertising, training expenses and utility deposits, but excludes liquor license (if applicable) due to the extreme range in costs.

- **Unit economics** – Applebee’s franchisee average AUV continues to trend-down to \$2.35MM during 2009 which represents an amount 9% lower than our peer segment average. All-the-same, 2009 margins improved back to 2006 levels as the chain benefit from lower commodity costs and labor saving initiatives. However, during 1Q10, the company reported that its store level margins decreased 150 basis points reflecting a lower average check driven by an unfavorable sales mix which more than offset a +1.4% increase in pricing. Further, the company reported expectations for its own store level margins to finish 30 – 130 bp lower than 1Q10 levels which suggests to us that Applebee’s is not yet ready to give-up its value promotions while it simultaneously seeks to improve quality – a combination that is sure to pressure margins.

Applebee's Franchisee AUV & EBITDAR Trends



Estimated Franchisee Unit Economic History

	2005	2006	2007	2008	2009
Applebee's					
As of Date	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
AUV	\$2,543,216	\$2,575,000	\$2,500,000	\$2,450,000	\$2,350,000
Food & Paper	26.5%	27.0%	26.6%	26.0%	25.5%
Labor & Benefits	31.0%	32.0%	31.5%	32.5%	32.0%
EBITDAR (Pre G&A)	21.0%	19.5%	17.8%	18.5%	19.5%
Casual Segment					
AUV	\$2,933,387	\$2,995,857	\$2,854,286	\$2,750,714	\$2,593,286
Food & Paper	28.1%	28.1%	28.6%	28.5%	28.1%
Labor & Benefits	30.7%	30.7%	31.2%	31.5%	31.8%
EBITDAR (Pre G&A)	20.9%	20.3%	18.7%	18.3%	18.0%

Source: RR

Estimated Concept Business Valuations (EBITDA Multiple)

Concept	Average Estimated Multiple			YOY % Change '09/'08	1/09 Absolute Range	
	1/09	7/09	1/10		Low	High
Applebee's	4.35	4.38	4.35	-0.6%	4.0	5.0
Casual Average	4.41	4.39	4.30	-1.9%		

Source: January 2010 RR Valuation Survey.

New Unit Development

Growth Plans

- The pace of new unit development continues to lag historical levels which reflect: 1) an unattractive sales-to-investment ratio (2) tight credit conditions (3) less than ideal franchisee buy-in driven by a long period of continued sales weakness, and (4) corporate's recent focus on revitalizing existing stores.
- With 25 unit closures during 2009 and expectations for 19 new gross openings in 2010, we anticipate the chain will experience a net unit decline this year.
- In any case, future new unit development will be driven exclusively by franchisees as DineEquity ownership adopts a pure franchisor role for the Applebee's brand.
- This is consistent with DineEquity's strategy to pare debt with the proceeds of company store sales as the franchisor remains committed to rebrand the majority of its existing portfolio (397 units at the end of 1Q10).
- However, we note that DineEquity has yet to make much progress in selling-off company owned Applebee's units which stood at 405 at the end of 2008. Notably, DineEquity can be more patient to wait for more favorable rebranding terms as its ongoing debt repayments have helped provide some cushion to its debt covenants.
- This is needed as we believe the company's rebranding efforts face the same head-winds as new unit development – including: (1) ongoing weak segment and concept specific fundamentals (2) resultant depressed unit level valuations, and (3) a tight credit market.

Target Markets

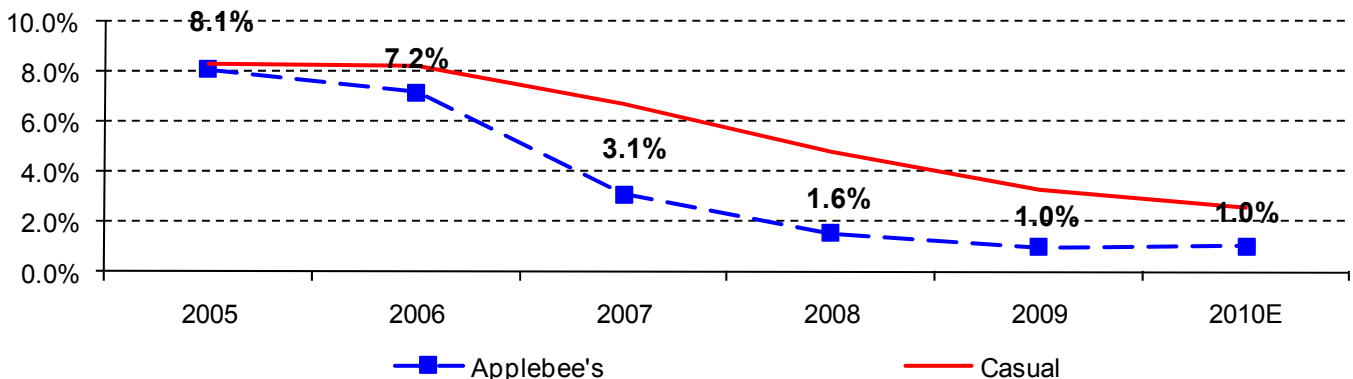
- Domestic development is concentrated on filling-in existing markets.

Gross Domestic New Unit Openings

	2006	2007	2008	2009	2010E
Franchised	89	43	28	18	19
Company	<u>35</u>	<u>14</u>	<u>1</u>	<u>0</u>	<u>0</u>
Systemwide	124	57	29	18	19

Source: Company reports & RR estimates

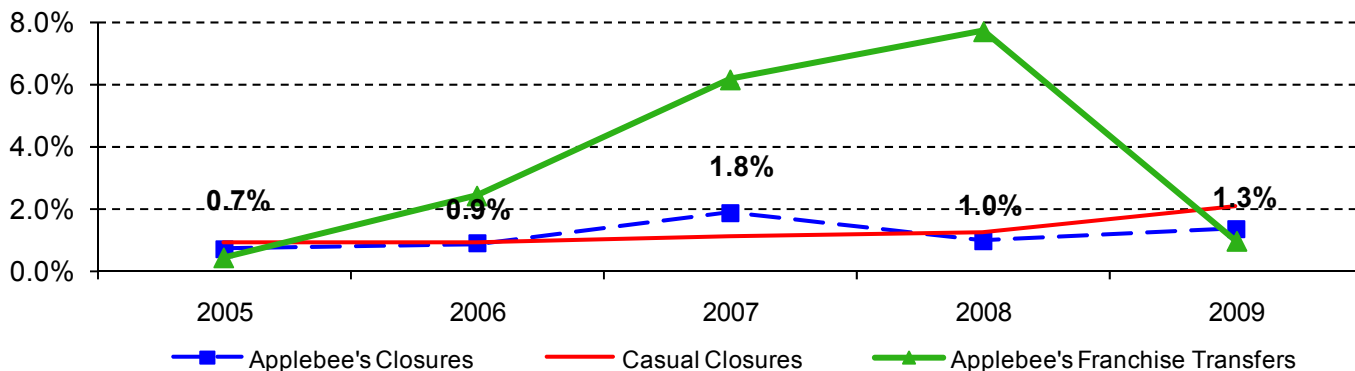
Applebee's Gross New Unit Growth vs. \$1B+ Casual Chain Average



Source: RR

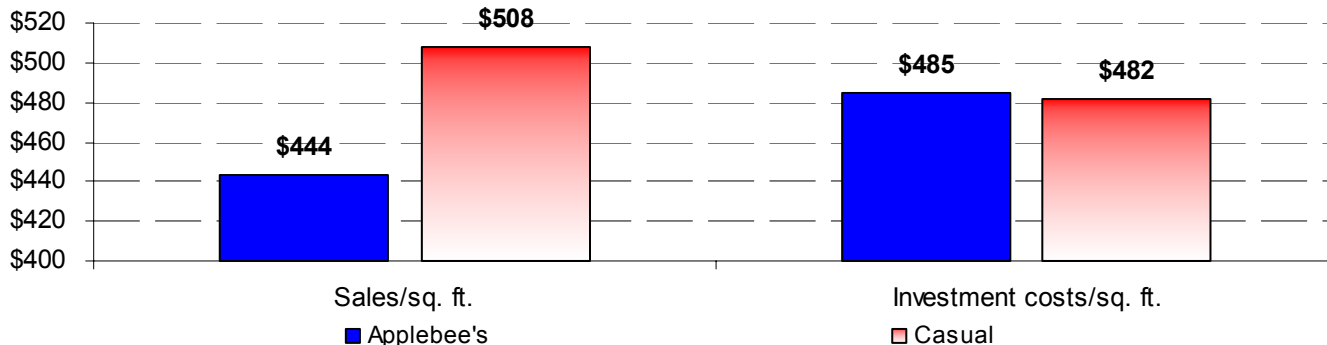
- **Closure Rates** – Applebee’s closure rate has been fairly modest over the years and mostly in-line with the segment average. The sharp spike in systemwide franchise transfers during 2008 mostly reflects refranchising and retirements with some over-leveraged operators selling out to stronger franchisees as a way to prevent foreclosure.

Applebee's Transfer & Closure Rates vs. \$1B+ Casual Chain Average

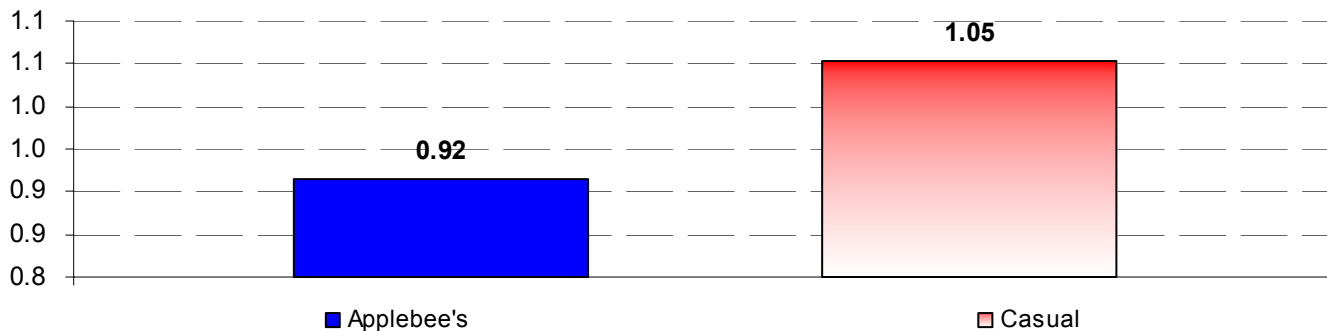


- **Building Efficiency** – Applebee’s new build efficiency is weak compared to the segment average (and on an absolute basis at 0.92) which helps explain why new unit growth has been subdued. We expect DineEquity will work out some of these costs as this is a critical component in their effort to develop an all-franchised business model. In any case, we understand the new purchasing co-op (between Applebee’s and IHOP) is helping to drive lower furniture, equipment and signage costs.

Applebee's Investment Costs vs. \$1B+ Casual Chain Average



Applebee's Sales to Investment vs. \$1B+ Casual Chain Average



Source: RR

6. Remodeling Overview

Remodel initiatives	<ul style="list-style-type: none"> ➤ Applebee's current remodel program is in the beginning stages with very little accomplished during 2009 because of franchisees' financial constraint taken together with corporate's primary focus on marketing and menu initiatives. We understand this program is not cookie-cutter (as is common with other concepts), but rather represents a collaborative effort between strong franchisees and the franchisor. ➤ This reflects that Applebee's wants to allow its operators the ability to customize their "neighborhood" look on a regional basis – something that cannot be achieved with a cookie-cutter approach. ➤ This program begins with a 78 item check list created by the franchisor. In turn, the franchisees choose an update strategy (with corporate's input) from this list (which includes typical updates such as new ceiling and floor tiles, tables, chairs, etc.). ➤ In any case, the underlying "big picture" theme/basis for the new "image" is a work in process – the fruit of many discussions throughout the system. However, we understand the concept is incorporating the use of stone in the exterior and interior. Further, we believe the remodel includes the removal of bar canopies and the installation of flat screen TVs. Finally, we note that there is no standardized color scheme. ➤ Major remodels also include new back-of-the-house equipment packages. ➤ In any case, the chain has historically utilized refreshers to maintain the physical condition of its restaurants every 6 years. The last new prototype was unveiled in December 2003, featuring numerous interior and exterior enhancements – including: (1) a complete kitchen redesign and equipment package (2) removal of the bar canopy and stained glass lights (3) a new color scheme extending from wall coverings to seating, and (4) a greater emphasis on local artifacts – including more local history and updated memorabilia.
% updated	<ul style="list-style-type: none"> ➤ Very little progress so far in this very recent upgrade initiative. We would expect completion over the next ~6 years.
Costs	<ul style="list-style-type: none"> ➤ Minor remodeling efforts could cost in the range of \$150k to \$200k. ➤ Major remodeling efforts (including repairs & maintenance) run around \$350k - \$450k.
Sales bump	<ul style="list-style-type: none"> ➤ Insufficient experience to determine sales lift from the current program.
FDD requirements	<ul style="list-style-type: none"> ➤ Franchisees are required to remodel stores as reasonably required by the franchisor (every 7 years), provided that at least 25% of the company stores meet such standards and specifications.



7. Franchisee Overview

Franchisee Sentiment

The Applebee's franchisee system is concentrated in the hands of large, sophisticated operators - bringing the system a fair amount of stability. We believe that franchisee sentiment is generally positive despite several years of steady sales decline. This likely reflects that favorable 2009 store level margins (as commodity costs declined) helped to improve unit level profitability – always a good thing for sentiment! In any case, these operators generally seem to believe in the Applebee's brand even if they understand that the concept is not where it needs to be. Further, while many feel that the brand is moving in the right direction, they also understand that it takes a long time to correct the course of such a big system. For instance, some operators are more confident of the franchisor's ability to drive sales (2 for \$20 as an example), and more so, how to drive them profitably (i.e. by removing expensive ribs from the 2 for \$20 offering). Finally, it seems that operators also enjoy the collaborative leadership approach to Applebee's brand management (leaving franchisees room at the table) – providing an important contribution to their overall satisfaction.

Franchising start date	1986
Number of franchisees	Applebee's has 42 domestic franchise groups (about 35 units each on average).
Largest Franchisees	According to the company, the 9 largest franchisees operate 54% of system units. The <i>Restaurant Finance Monitor's</i> annual listing of the 200 largest franchisees included 25 Applebee's franchisees that operated 1,224 units (about 83% of the franchised system).
Financial requirements	\$1MM minimum net worth for each restaurant with additional liquidity requirements. Operators should have at least 1 team member with multi-unit foodservice or retail experience.
Franchisee associations	There is a company sponsored Franchise Business Council which provides the company with advice about operations, marketing, product development and other aspects of restaurant operations. The Franchise Business Council consists of 7 franchisee representatives and 2 company representatives and meets 4 times during the year.
Litigation	No domestic litigation according to 2010 FDD.
Royalty	4%, but can be increased after 1/1/2020. In addition, franchisees must pay a 2.5% royalty on the sale of Weight Watchers menu items.
Franchise fee	\$35,000 for 20 years.

10 Largest Applebee's Franchisees

#	Units	Franchisee	#	Units	Franchisee
1	205	Apple American	6	61	Doherty Enterprises, Inc.
2	103	Amrest	7	61	T.L. Cannon Management Corp
3	89	Thomas & King, Inc.	8	59	The Rose Group
4	75	AppleSauce, Inc.	9	56	Quality Restaurant Concepts
5	72	Apple Gold Group	10	47	Casual Restaurant Concepts, Inc.

Source: Restaurant Monitor 200 May 2010

www.ChainRestaurantData.com

Contact Phil Mangieri at (203) 938-4703 or pmangieri@ChainRestaurantData.com with questions related to this report.

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