

Strategic Report for Brinker International



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Executive Summary

Brinker International is the 2nd largest American restaurant operator, with over 1700 units worldwide and annual revenues exceeding \$4 billion. The company which was to become Brinker was founded in Dallas in 1975 with the opening of the first Chili's restaurant. Chili's is now the flagship brand of the Brinker portfolio, as Chili's restaurants comprise about 90% of the total restaurants Brinker operates or franchises.

In the last year, Brinker witnessed net profit shrink to its lowest number in years, in large part as a result of a write-down after selling 80% of its Macaroni Grill franchise. Despite the down year in FY08, Brinker is still considered a good buy and a strong company in the industry. The problem, in fact, isn't so much Brinker itself but everything going on around it. The casual dining industry has been softening ever since 2005, and now in the current economic malaise the outlook is even bleaker. Brinker must find a way to continue to attract Americans who are less inclined to spend money on food outside the home or at restaurants that are more expensive than the fast food variety.

In light of the stated problems, Oasis Consulting has made six key recommendations that can be summarized as follows: cut costs carefully; franchise domestically; expand internationally; offer a small number of cheaper entrees; improve and promote convenience in ordering by phone and install online ordering option; and decrease debt load. Brinker is not in need of a major overhaul; rather, it needs to continue to cultivate the Chili's brand while implementing savvy improvements as needed.

Company & Industry Overview

History

1970s/1980s

Before the company was Brinker, it was just a single Chili's Bar and Grill that opened its doors in Dallas in March 1975. Chili's was established by Dallas restaurateur Larry Levine, who sought to provide an informal full-service dining environment with a menu that emphasized different varieties of hamburgers offered at reasonable prices. Levine's restaurant did quite well, and 22 more Chili's restaurants were opened in the late 1970s and early 1980s.

In 1983, Levine's restaurant chain was purchased by Norman E. Brinker, who purchased a significant share in the Chili's chain, becoming its chairperson and chief executive officer. When Brinker bought the chain, it had less than \$1 million in equity, was \$8.5 million in debt, and was earning less than \$1 million a year. With intentions of expanding the franchise, Brinker took Chili's public in 1984 under the ticker symbol EAT. Brinker had a strong reputation in the restaurant industry, and his name contributed to a successful IPO.

By 1984, Chili's 23 restaurants were producing \$40 million in sales from a menu that banked on burgers, French fries, and margaritas. To increase the chain's profitability and allow for expansion, Brinker began the process of fine-tuning Chili's operations. As a way of gathering feedback, Brinker made a habit of cruising around the parking lots of eating establishments, informally asking customers how they liked their meals and what changes they would like made. On the basis of this research, he began to shift the focus of Chili's menu away from burgers to include a broader selection of salads and chicken and fish entrees.

By the late 1980s, the company was ready to expand into other types of restaurants. With \$41 million in capital obtained through a stock sale, Chili's purchased the rights to the Romano's Macaroni Grill concept in 1989. Texas restaurateur Phil Romano had opened the prototype restaurant in 1988 in a location north of San Antonio, Texas. He fashioned the

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restaurant in a style reminiscent of the communal way of dining that he remembered from growing up in an Italian family. Just as his grandfather had always provided a four-liter jug of wine on the dinner table, patrons in Romano's restaurant were given casks of house red wine.

1990s

In May 1991, Chili's decided to change the corporate name to Brinker International, Inc. Brinker told the Dallas Morning News that “this new name is a way to bridge our past with our future as a multi-concept corporation in the midst of international expansion.” The first international markets Brinker entered were Canada and Mexico.

Brinker again focused on figuring out what customers wanted. As U.S. demographic studies and patron feedback began to suggest that the average age of a Chili's customer had increased, the restaurant took action to cater to the older crowd. The volume of music played over restaurant loudspeakers was lowered, the size of the print on Chili's menus was increased, sizes of some portions were reduced, and more low-fat entrees were added. At the same time, the company still worked to establish Chili's as a friendly locale for younger couples with children, providing fast and efficient service and low prices.

By the end of 1991, Brinker's had sales totaling \$426.8 million and earnings of \$26.1 million, a 44 percent increase over the previous year. Already operating a total of 271 restaurants by the spring of 1992, Brinker was opening one new restaurant a week, and the company earned a 23 percent rate of growth in sales, despite a general recession in the restaurant industry.

At the end of June 1992, Brinker posted annual revenues of \$519.3 million, with earnings of \$26.1 million; 300 Chili's Bar & Grills, 20 Grady's American Grills, and 17 Romano's outlets were in operation. Later that year, Brinker announced plans for further foreign expansion, signing an agreement with Pac-Am Food Concepts, based in Hong Kong, to franchise 25 Chili's restaurants in the Far East over the next 15 years. Pac-Am planned to duplicate the Chili's decor and menu in locations such as Jakarta, Indonesia, and Seoul, South Korea, with

some changes to satisfy local tastes. As Brinker approached the mid-1990s, it appeared well positioned for strong growth, enhanced by an experienced management team and a track record of success with a variety of different restaurant concepts.

Still not satisfied, Brinker was determined to carve out its niche in the Mexican cuisine market. In February 1994 it acquired the On the Border restaurant chain, comprised of 21 units, and in May it opened the first Cozymel's Coastal Mexican Grill. The success of Cozymel's in Texas led to the announcement in May 1995 of the opening of an additional 12 locations nationwide. The following March the company embarked on an aggressive marketing campaign to promote the franchising of On the Border, and by early 1997 it announced the opening of two new On the Border locations in Columbus, Ohio.

By the end of the decade Brinker had nearly doubled its sales over a five-year period, from \$1.2 billion in 1996 to nearly \$2.2 billion in 2000, and increased its restaurant total to more than 1,000. Although economic indicators suggested a decline in the casual restaurant market in the future, the outlook for the industry in general remained promising. Brinker's prospects were perhaps brighter than most chains, as it had consistently demonstrated an ability to bolster growth through adaption and innovation.

2000s

Since the new millennium began, Brinker has made several key decisions. As the casual restaurant industry began to show signs of a slow-down in the mid '00s, Brinker took decisive action. In 2004, the company sold Big Bowl Asian Kitchen back to Lettuce Entertain You Enterprises. In 2005, the company also sold off the 90-unit Corner Bakery chain. These two moves were part of a strategy to make operations leaner and focus greater emphasis on more highly valued properties. Continuing this trend, late in 2008, Brinker sold 80% of its Macaroni Grill franchise as a result of its perpetually underwhelming performance. Now that Brinker is back down to only three properties—Chili's, On the Border, and Romano's—the focus of the company is mostly on its Chili's brand. This has been the star of its team for a long time, and divesting itself of underperforming assets will allow Brinker to ramp up its efforts in growing Chili's—especially internationally.

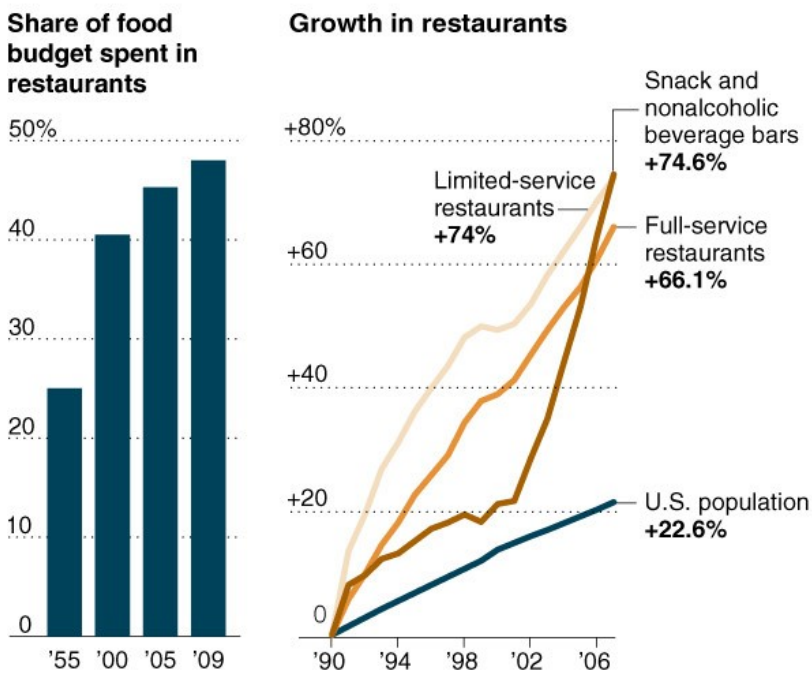
Casual Dining: Overzealous Growth?

The current economic climate is negatively impacting almost all industries, and the casual dining industry is no exception. Yet, this is an industry that has been vulnerable since 2005, the last year that the segment actually saw a year-over-year growth in customer traffic.

According to the National Restaurant Association, since 1990, the number of restaurants and bars has grown to 537,000 from 361,000—a 49 percent increase. This rapid expansion occurred over a period in which the population grew only 23 percent.

Oversaturated Restaurant Industry

During the boom, Americans got used to eating out, which led chains to build many new restaurants. Experts say some parts of the industry were already saturated by 2005, and now the poor economy is putting many restaurants out of business.



Source: Bureau of Labor Statistics

Despite the fact that 2005 was the last year growth in restaurant traffic occurred, this did not stop businesses from opening more units. This continued growth was a by-product, in large part, of larger restaurant operators opening 300 or more new units a year. In FY08 Brinker International opened 145 stores.

Approximately half of these new stores Brinker opened were franchised stores. This is an important point. Many restaurant chains choose to franchise their businesses to enjoy superior returns. Franchising enables the firm to shed the responsibility of closely watching the day-to-day activities of all the operating units. And, at the same time, franchising produces recession-proof royalty fees. This is because franchise royalties are based on a percentage of sales, not profits, so this model allows for a continuous stream of revenue even in rocky economic times. In return, the franchisee enjoys the perks of brand-name recognition in addition to training and marketing support from the parent company. The franchisee also can engage in cooperative purchasing, allowing it to sell food at a cheaper price than an independent operator is capable of.

To date, Brinker has only franchised about a third of its restaurants. Avidity for franchising varies from firm to firm. Darden, Brinker's biggest competitor, doesn't franchise any of its domestic restaurants. On the other hand, Brinker's competitors in the "fast food" sector such as McDonalds or Subway franchise at a very high rate—often 80% or more of its units are franchised. Of course, franchising can cause problems if downsizing is necessary due to sticky and cumbersome franchising laws. Therefore, companies that might have expanded too rapidly will have a more difficult time shutting down underperforming stores. This is not, and has never been a problem for Brinker. This is true for two reasons. First, Brinker has been more cautious than other operators in opening new units so heavy downsizing is not an issue, even in this economy. And, second, as mentioned above Brinker only franchises a relatively small percentage of its stores so closing them is not a problem *even* if the situation significantly deteriorated.

Business Model

Brinker has taken a somewhat more cautious, yet deft approach to growing its business over the past few years. While many other companies tried to fully capitalize on the ever-increasing wave of consumers eating outside the home, Brinker didn't become overly ambitious.

The casual dining industry really started to slow down in 2006. Commodity prices increased, in large part because gasoline was on a torrid rise—eclipsing three dollars in that year. It was then that Brinker began to implement a strategy that is now viewed by analysts as quite smart. There were three key components to their approach. The first involved closing hundreds of stores that were underperforming. If profit margins weren't sufficient, the unit was eliminated. In addition, Brinker sold its underperforming chain of restaurants, Corner Bakery, in 2006.

The second part of Brinker's make-over involved selling a number of company-owned stores to franchisees. Brinker has taken a more conservative (and perhaps quite savvy) approach by carrying out most of its franchising with just a few firms with a lot of restaurant know-how. For example, in January of 2007 Brinker sold 89 Chili's units to Pepper Dining, a firm that has become a strong and successful partner. These cautious franchising moves are providing the benefits discussed above, such as a constant stream of royalties even in an economic downturn.

The third phase of Brinker's plan to improve is by remodeling and upgrading many of its restaurants. Instead of adding units as voraciously as possible, Brinker is instead focusing a good deal of its efforts on maintaining the look and atmosphere of its current units; this is another example of Brinker's solid, yet safe approach to doing business. Part of the problem Brinker faces is that many other restaurant chains did not follow this same approach. Consequently, the industry has become saturated with options, which of course creates additional competition for Brinker. Evidence of the wild and ill-conceived growth is the fact that almost ten different casual dining concepts filed for bankruptcy in 2007, representing over \$3 billion in sales. Unfortunately, many of these firms continue to operate. Until there a sufficient number of stores exit the market—which is what most expect to happen in the next couple of years as supply and demand move closer to equilibrium—Brinker will continue to face an excess of competitors.

Competitive Analysis

Brinker International Inc. operates in the casual dining industry, also called the full service sector. This classification puts EAT in the same category as other full service sit-down restaurants such as Olive Garden, Cheesecake Factory, and PF Chang's China Bistro. This group is distinguished from full service restaurants of either a higher price range, such as Ruth's Chris Steakhouse, that they do not compete directly against, or a lower price range, such as IHOP. This is not to say that these sub-categories do not interact or impact one another, but in a traditional sense are not deemed direct competitors. Another sub-category of restaurants not associated with Brinker but impacting its business are the quick-service or fast-food restaurants, such as McDonald's or Wendy's; why the two groups may influence one another's success is to be explored later. This section will analyze EAT in the context of Michael Porter's five forces (plus a sixth, complements, suggested by R. Preston McAfee). Much of the analysis will focus on Brinker's flagship brand, Chili's Bar and Grill, as this entity comprises almost 90% of the company's 1700 restaurants. As the summary table below indicates, overall Brinker faces a very high threat to profitability as a result of the industry it operates in.

<i>Force</i>	<i>Threat to Profitability</i>
Internal Rivalry	High
Supplier Power	Low
Buyer Power	High
Entry and Exit	Med
Substitutes and Complements	High

Internal Rivalry

The casual dining sector is a highly rivalrous one, as consumers are offered a variety of options with comparable prices. Of course, greater rivalry results in weaker profit margins and a more strenuous competitive environment. The more rivalrous the sector, the more the members compete on price, and price wars shrink profit margins. The industry composition could be described as having a dominant upper tier of firms—those big chain operators—and then the rest of the industry is comprised of many fragmented competitors—from smaller chains to singular “Mom and Pop” restaurants.

Leading the pack of casual dining restaurants (not operators) is Applebee's Neighborhood Grill & Bar with \$4.5 billion total systemwide sales in 2007, followed by Chili's Grill & Bar (\$3.9 billion in the fiscal year ended June 2008), Olive Garden (operated by Darden Restaurants Inc.; \$3.0 billion), and Outback Steakhouse (operated by OSI Restaurant Partners LLC; \$2.6 billion). These "top dogs" of the casual dining segment all offer meals at a similar price point, with many of the main course prices hovering around the 12-15 dollar range. Chili's average revenue per meal in fiscal year 2008 was \$12.93, a 3.9% increase from \$12.45 in 2007.

There are six major factors that impact rivalry in an industry. The first is the number of competitors. The casual dining industry is one with a plethora of options, some of which were provided above. There are a number of options in the full service casual sector that are priced several dollars below restaurants such as Chili's. These include chains such as IHOP or Denny's. In addition, pizza chains that aren't full service but are sandwiched—price-wise—in between casual and fast-food such as Pizza Hut are competing for disposable "food dollars" as well. All of these options do not consider the non-chain offerings in every city in America; the local flavors that are always trying to take a bite out of the market share of the conglomerates such as Brinker.

Another influence on price competition is the possibility of a natural industry leader. These are the firms that, for one reason or another, are capable of stifling the competition and monopolizing an industry. No such dominant firm exists in the casual dining sector, but a long-valued brand does produce dividends, and the value a consumer places on brands is an important factor and one to be considered later.

A third aspect of rivalry is the cost structure of the industry's firms. The worst situation for a firm is to be a part of an industry in which there are high fixed costs and low marginal costs. In this case, price competition can push prices below average total cost, because variable costs are still covered. The restaurant industry is one in which there are moderate fixed costs to enter (property, building, etc.) and marginal costs are not *that* great. This cost make-up contributes to the difficult playing field in the sector. The margins, while not substantial, are

not razor-thin, either; over the past five years Brinker has averaged profit margins between 4% and 6%, which lags behind industry peers.

Product differentiation and switching costs are two critical contributors to the degree of rivalry in an industry. As the amount of either increase, the ability to steal customers also increases. If a customer deems the burgers at Wendy's significantly tastier than those at McDonald's (i.e. noticeably differentiated), the latter might be able to offer the same-sized burger for half the price and the customer won't budge. As for switching costs, if the customer is tied to Wendy's in some way then he would be less likely to switch to McDonald's because the change would cost him and eat away at the price saving he seeks by switching to McDonald's.

In the casual dining segment, product differentiation plays a serious role. There are meals customers can order at Chili's that they just cannot purchase at Applebee's. Yet, the true amount of product differentiation is not clear. While the taste and value differ at each restaurant, the distance between the two is not extraordinarily great. Therefore, it is unlikely that Chili's can create a dish so tasty that it is price inelastic (though especially popular dishes can make a major impact on elasticity). As for switching costs, this element does not really come into play in the discussion. While gift cards are offered by all the firms in the industry, there aren't any significant programs that attach customers to a particular store. This is perhaps an area of opportunity for Brinker in the form of some sort of customer loyalty program.

A fifth ingredient in firm rivalry is the minimum efficient scale (MES) of a player in an industry. Essentially, a large MES means that increases in production require large capital investments. As a result, it is far less likely that firms will tinker with price cuts and only expand output when market growth justifies it. This is not the case in the restaurant industry. While adding a store to a chain does warrant an investment, it is by no means a very large one relative to the capital of a given firm. This is why a firm like Brinker can easily expand its number of stores by 69 in FY 08 but only by 15 in FY 09. The ability to rather quickly expand contributes to a more fluctuating competitive landscape. And this contributes to

greater rivalry as firms ratchet up offerings in booms but have more problems contracting in downturns. Franchising laws and lease agreements make closing restaurants more difficult than opening them and this is a reason for the glut of restaurants in the industry right now.

The sixth and final major determinant of rivalry is exit barriers. While I will discuss *entry* barriers later—a separate force in Porter’s model—exit barriers should not be overlooked. In a struggling industry, the ability to exit is crucial to the maintenance of reasonable prices. If firms cannot exit as an affordable price, they will stay in the industry and instead engage in a price war to grab market share—which is negative for all parties involved. Paradoxically, during the growth phase of an industry low exit barriers encourage entry which produces greater rivalry.

In the restaurant industry, exit barriers are often problematic because firms are locked into leases with property holders. The extent to which a company’s strategy is dictated by a lease is mitigated if the firm owns its own land or if the franchisee is liable for the property on which the store operates. As of June 25, 2008, Brinker owned the land and building for 282 of its 1265 company operated restaurant locations. For the 983 restaurants leased by Brinker, 774 were ground leases (where it leases the land only, but owns the building) and 203 are retail leases (where it leases the land/retail space and building). Another factor to consider: Brinker only franchises out about one third of its restaurants, perhaps relinquishing some of the burden if contraction is necessary (unlikely, but possible, in the coming months). Overall, exit barriers are not too great to inhibit the influx of new restaurants that appear in the casual dining industry every year.

These six elements of rivalry provide insight into the nature of the industry. Given the absence of all of the following: few competitors, a natural industry leader, increasing variable costs, a large minimum efficient scale, or high exit barriers— it is not surprising to witness the gritty competition that exists in the industry. In a highly rivalrous industry, it is all the more important that a firm like Brinker realizes ways to differentiate itself from the competition.

Supplier Power

Brinker does not face very high supplier bargaining power. While the costs of food greatly impact its business, there is no shortage of potential food suppliers to choose from. Also, given that Brinker is the 2nd largest American restaurant operator (behind Darden's), it has even greater bargaining power with its food and beverage suppliers. Decreasing food prices in the current recession will only increase Brinker's bargaining power and lead to lower input costs.

As for labor, Brinker again has most of the power in this supply relationship. For casual dining restaurants, industry reports estimate that labor accounts for about a third of a business's total costs. While the cost is large, it is typically not very difficult to find individuals to fill the lower-paying wage jobs at Brinker restaurants. As for managers (not direct service staff), the supplier power is greater but still not a significant hurdle. Brinker is part of a group of restaurant companies (along with Starbucks, for example) that utilize stock options to motivate and compensate store management. This strategy likely helps Brinker retain its highest performing managers better than some of its competition that does not provide stock options.

Brinker estimates that the average cost for land, or the value of the lease for the land when capitalized (valued as an asset on the balance sheet), is \$946,000 for a Chili's unit and \$4.8 million for its upscale Maggiano's Little Italy chain. Purchases are either financed with loans or paid out of current funds. For prime locations, supplier power is obviously a major factor; with less attractive locations Brinker holds much of the power when purchasing or leasing land and buildings.

Buyer Power

In the relationship between Brinker restaurants and casual dining patrons, the customers hold a significant bargaining position over Brinker. First, buyers can easily switch to other restaurants; there are countless options on every block. Restaurants do not lock customers into any sort of long-term relationship—what to eat is an open-ended decision every day.

In today's world, consumers are provided an abundance of eating options, both in restaurants and at home (or by Internet), so they do not "rely" on Brinker by any means. The fact that buyers can credibly threaten not to buy the good at all strengthens their position. Additionally, prices of competitors and substitutes are readily available, so the firm holds no "knowledge advantage" over customers.

There are two reasons why buyers do not hold *absolute* power over Brinker. The first is that no single buyer is overly important to Brinker. While management would not like to lose a single mouth, the fact that buyers are millions of individual customers and not huge purchasing blocks insulates Brinker from mass defection by losing a single "contract." Second, Brinker does not sell a homogenous good. Its restaurants sell differentiated products unlike the offerings of any of its competitors. While Brinker restaurants do not serve food that will be bought at any price, the demand elasticity of its customers is clearly not zero. In fact, excelling at differentiating its dining experience is the greatest way for Brinker to survive the likely decrease in people eating out for the indeterminate future. The overall market for eating in casual dining restaurants will probably decrease, but Brinker can aspire to grab greater market share in the process.

Entry and Exit

The casual dining industry is not a very difficult one to enter. Startup costs to open a restaurant are not too great, as evidenced by the plethora of eateries available to consumers. All that is required to enter is the property and the physical structure (which can be bought or leased) and then inputs (food—which is readily accessible) and labor (typically low paid staff that can be hired easily). These easily acquired inputs welcome entry. As for property, this is a barrier to entry in the restaurant industry to the extent that many of the best locations have already been snapped up by competitors. Yet, this barrier can be overcome somewhat by savvy research and location scouting.

Due to the relatively low cost of opening a single restaurant, firms are not deterred from "testing" the market with its own eating option and seeing how diners respond. If the restaurant is successful, then expansion can occur at the optimal pace. This absence of a

minimum efficient scale is conducive to easy entry. Also, patents or government regulations do not play a strong role in deterring entry.

There are several barriers that exist in the industry. One is brand reputation. Chili's has worked hard to earn a strong reputation among consumers; patrons have come to expect a certain level of quality and service from each of the 1200 plus locations. It has differentiated itself by providing fresh, tasty, and varied food options in an upbeat and lively atmosphere. While similar restaurants exist, this strong reputation is a valuable asset to Chili's. Brinker's two other restaurant chains do not possess the same value in diners' minds.

While there is not a minimum efficient scale in the restaurant industry, there are economies of scale that can be realized by large chains. These advantages come in the form of greater purchasing power in negotiating food and packaging supply contracts, as well as increased sophistication in real estate purchasing, location selection, menu development, and marketing.

Another key entry barrier is the slope of the learning curve. One could argue that there is very little learning that needs to take place: good food sells itself. Yet, most restaurateurs would probably agree that there is much to be learned about the nuances of serving customers; whether it's the types of foods customers enjoy most or the level of service that should be provided, there are aspects of owning a restaurant that require experience. Yet, one certainty when it comes to entry barriers is the lack of customer switching costs. A customer can effortlessly abandon a long-running patronage with a given restaurant for the "hot new joint" down the block.

Substitutes

Substitution away from eating out will be a key determinant of not only Brinker's success but the entire restaurant industry's well-being during the economic downturn. Over the past several decades, eating out has become more and more of a way of life for many Americans. In 1960, eating out comprised only 26% of total food expenditures in the US. By 2007, that number had risen to 46%. This trend will likely not continue given the current economic recession. The most critical factor determining the amount Americans eat out is their

disposable income. As mortgage and credit card payments pile up, Americans will need to make budgetary cuts, and meals outside the home might be one of the first to go.

Another key determinant of the frequency with which Americans eat out is their amount of free time. The increasing number of women in the work force and generally more time-crunched lifestyles Americans lead has been beneficial to the restaurant industry in recent years. Yet, as more and more Americans become unemployed (and income drops off), it is likely that they will have more time to go to the grocery store and prepare meals at home.

While grocery stores might be the biggest substitute to Brinker's restaurant chains, there are other substitutes that need to be considered. They are the lower-priced casual dining eateries as well as fast food restaurants. With less disposable income, will Americans substitute down to a cheaper chain such as Denny's or will they eschew eating out entirely? Or, instead, Americans might eat out but at fast food restaurants like McDonald's—where there are a variety of low-priced options that will satiate consumers. Both of these possibilities deserve consideration.

Complements

Complements to the casual dining restaurants include high traffic businesses that are typically near a Brinker restaurant. While these will vary greatly from one location to another, some common businesses might be movie theaters or areas such as airports. Brinker has placed some Chili's restaurants in highly trafficked airports in order to capture some new customer groups (such as the business traveler).

SWOT

Strengths

- Brand portfolio: Brinker operates under three major brand names: Chili's Grill and Bar, On the Border Mexican Grill and Cantina, and Maggiano's Little Italy. In

- addition, Brinker's still possesses some operating control over Romano's Macaroni Grill. These branded operations leads to strong customer recognition.
- Low percentage of franchised restaurants allows flexibility in today's economy: On average, about 28% of Brinker's restaurants are franchised. This gives Brinker the flexibility to downsize, if needed, without facing unfavorable franchise laws.
 - Strong worldwide business: Brinker is one of the largest casual dining restaurant companies in the world, with more than 1,700 restaurants in 50 states and 27 foreign countries.
 - Awards and accolades: Brinker is best recognized as an employer of choice. It is listed in the Forbes 400 best companies in America for the fifth consecutive year.

Weaknesses

- Inconsistent sales volumes: Sales volumes fluctuate seasonally and are generally higher in the summer months and lower in the winter months.
- Mediocre liquidity: The company's balances sheets show a unimpressive liquidity standing and an excessive debt load—two factors that may deter expansion

Opportunities

- Foreign growth: As of June 25, 2008, Brinker had 44 total development arrangements in expanding internationally.
- Strategic alliance: the company adopts an inorganic growth strategy to complement its organic growth, entering into agreements with ERJ Dining and Pepper Dining, Inc, as well as joint ventures investment agreements with CMR, SAB De CV.

Threats

- Competition: The restaurant business is highly competitive as to price, restaurant location, nutritional and dietary trends and food quality.
- Government regulation: Each of Brinker's restaurants are subject to licensing and regulation by alcoholic beverage control, health, sanitation, safety, and fire agencies. Also subject to the Fair Labor Standards Act.

- Inflation/Food price fluctuations: Inflation and food price fluctuations may increase operating expenses.
- Poor economy: As the economy worsens, people have less disposable income, substituting casual dining for fast food or home cooked meals. This may adversely affect Brinker's operating performance.

Financial Analysis

Overview

Brinker International is the 2nd high revenue-grossing firm in the casual dining industry with \$4.08 billion in revenues in 2008 (Darden's is 1st with \$7.07bil). Net income for the previous year was \$51.72 million. There are a little less than 102 million shares outstanding at a price of just under \$17 (52 week high is 23.90) resulting in a market capitalization of \$1.70 billion. Darden's and DineEquity, owner of IHOP and Applebee's Restaurants, are probably Brinker's two biggest competitors. A quick comparison of key financial numbers among the three companies follows.

Company	Market Cap (\$)	P/B	EPS (ttm)	D/E	ROA
Brinker	1.70bil	2.93	-.38	1.51	3.64
Darden	5.08bil	3.41	2.48	1.32	11.40
DineEquity	247mil	45.67	-10.09	43.21	-.62

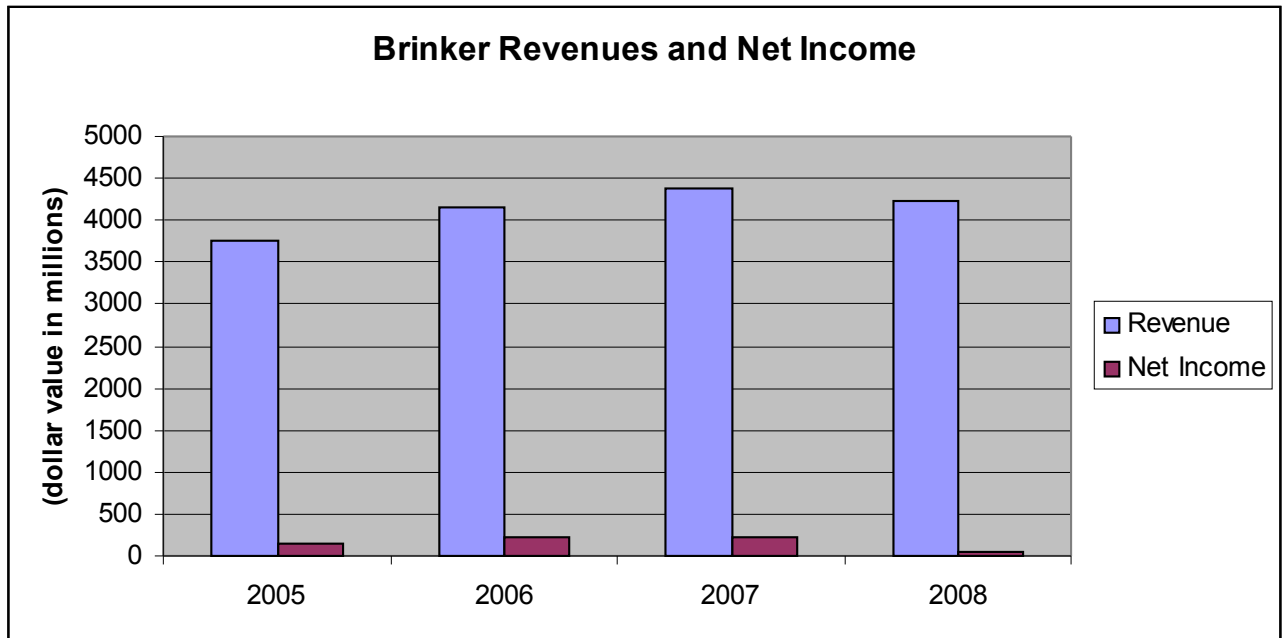
Profitability and Growth

Revenues

Brinker's revenues for 2008 were down 3.2% from 2007. This decrease was mostly a result of declines in capacity at company-owned restaurants as well as a drop in comparable restaurant sales. Taking into account the increase in franchised restaurants, Brinker experienced a net decrease of 47 company-owned restaurants from June of 2007 to June of 2008. In addition, comparable restaurant sales decreased 0.5% in fiscal 2008. This was a

result of decreased customer traffic, a trend as I pointed out earlier, that has been occurring industry-wide since 2005.

As Chili’s comprises the vast majority of all restaurants owned by Brinker (almost 90%), an explanation of its revenue sources is important. For FY08, entrée choices on its menu ranged from \$5.99 to \$17.29. The average revenue per meal, including alcoholic beverages, was approximately \$12.93 per person. Food and non-alcoholic beverage sales accounted for 86.8% of Chili’s total restaurant revenues, while alcoholic beverage sales accounted for the remaining 13.2%. In 2008, menu prices increased 2.9%.



As you can see from the chart above, both revenues and net income were increasing from 2005 through 2007, but then both took a dip in 2008. To be fair, the reported net income for 2008 is significantly lower than 2007 because of an impairment charge of \$152.69 mil incurred in the sale of Macaroni Grill (of which Brinker now holds a minority interest of 20%). Yet, even if one excludes this charge, net income drops 26%. Clearly, revenues are decreasing from slowing traffic but costs are also rising—a potent combination for profit depletion.

Expenses

There are several factors contributing to the rise in costs experienced by both Brinker and the industry at large. For Brinker, cost of sales, as a percent of revenue, rose 0.5% in FY08 as a result of increased inventory costs. The cost increase was caused mostly by higher than expected prices for major inputs such as beef, ribs, chicken, and dairy products.

Restaurant expenses, as a percent of revenues, rose 0.9% in fiscal 2008 mostly due to minimum wage increases and higher insurance costs. This increase in expenses was partially offset by a decrease in restaurant opening expenses.

Depreciation and amortization decreased \$23.9 million in fiscal 2008. The decrease in depreciation expense was primarily due to the sale of restaurants to franchisees as well as the classification of Macaroni Grill assets as held for sale in September 2007, at which point the assets were no longer depreciated.

General and administrative expenses decreased \$23.6 million in fiscal 2008. This drop was a byproduct of lower annual performance and stock-based compensation expense. Also, there was a reduction in salary and team member related expenses subsequent to a restructuring that eliminated certain administrative jobs during the third quarter of 2008.

As discussed earlier, Brinker committed to sell an 80% stake in Macaroni Grill which resulted in a \$152.7 million charge to write down the MG long-lived assets held for sale to estimated fair value less costs to sell. Further, Brinker closed or declined lease renewals for 61 under-performing restaurants. This decision contributed another \$58.5 million charge related to impairment of long-lived assets as well as lease obligation charges. A notable gain under “other expenses” includes \$29.7 million earned from the sale of 76 company-owned Chili’s restaurants to ERJ Dining IV, LLC.

Interest expense increased \$14.9 million in FY08 primarily due to outstanding debt on a \$400 million three-year loan taken to fund share buybacks in FY07 and for “general corporate purposes.”

In looking at overall profitability, a few key points should be made. First, while Brinker earned its lowest net income over the past four years, this is largely a result of the write-down of Macaroni Grill upon its sale. Brinker's operating profit margin has been about 6.7% for the past five years; thus, its diminished NI in FY08 is not really a result of poor cost management. In looking at the most recent announced figures from the second quarter of FY09, it appears that Brinker is keeping costs from rising. Cost of sales, as a percent of revenues, decreased from 28.3% in the prior year to 28.2% in the second quarter of fiscal 2009. During the quarter, favorable menu price changes more than counteracted the adverse effect on cost of sales of unfavorable commodity prices related to chicken, produce and oils and sauces. Further, restaurant expenses, as a percent of revenues, only increased slightly from 56.8% to 58.0% from FY08 to FY09. This was a result of sales deleverage on fixed costs and increased utility and labor costs, but was partially offset by lower "pre-opening" expenses.

So while Brinker is has been able to keep costs level, it is on the revenue side where the restaurant operator is really starting to hurt. Revenues from 2nd quarter of FY08 to the 2nd quarter of FY09 decreased 7.8%. This was a byproduct of a 5.4% decrease in sales and a decline in capacity of 3.3% due to restaurant closures and the sale of 189 Macaroni Grill restaurants. In addition, despite selling 76 Chili's restaurants to a franchisee in the 2nd quarter of the previous year, Brinker only saw a \$1.4 million increase in royalty revenues.

From a profitability standpoint, it appears that Brinker is doing a solid job of keeping costs constant, but, like most of the casual dining industry, experiencing declining traffic and sales. Keeping costs down will obviously be critical to Brinker's near-term success while how exactly to boost ailing revenue streams is a topic of exploration in the recommendation section.

Liquidity

Brinker's liquidity position is adequate, but could and should be better. Brinker's current ratio is 0.86. While analysts like to see current ratios of at least one, Brinker's number is not hugely problematic. Brinker's two main competitors, DineEquity and Darden, have current

ratios of 0.41 and 1.41, respectively. Interestingly, DineEquity has the highest current ratio of the three but is considered to be in the worst position of the group.

Another measure of short term liquidity is number of days in inventory—the amount of days it takes to sell inventory. Brinker’s days in inventory are 10.4, while DineEquity and Darden’s days in inventory are 15.1 and 4.1, respectively. Therefore, one can again assert that Brinker has a fairly solid liquidity position by another measure.

Solvency

As one can observe from the previous three-company comparison table, Brinker has a debt to equity ratio of 1.5. Brinker’s biggest competitor, Darden, has a slightly lower D/E ratio of 1.3. By comparing these two, we can see that Brinker’s D/E is not out of control; but, it has been growing over the years and industry analysts believe that it is advisable that Brinker start to work it down a bit. For FY06, Brinker’s D/E ratio was .5 and in FY07 it was about 1, so we can see that Brinker is taking on more and more debt each year. This is a trend that is true of many companies that chased the cheap credit of the past few years, but it is a trend that Brinker should work to stop and hopefully work a little bit in the other direction.

Stock Analysis

Like most other firms these days, Brinker’s stock price has been lower (currently about \$17) than historical values (52 week high: \$23.90; 3 year high: \$35.28) yet been up recently, as evidenced by the rise from about \$10 to \$17 in just over a month.

There are a couple reasons for the recent surge in stock price. The first is investors’ optimism in regards to Brinker’s international plans. Brinker announced at the end of March that it plans to open 50 international restaurants in 2009 and up to 500 in the next five years. It believes that the Chili’s brand carries great potential in overseas markets such as Russia, China, South America, and the Middle East.

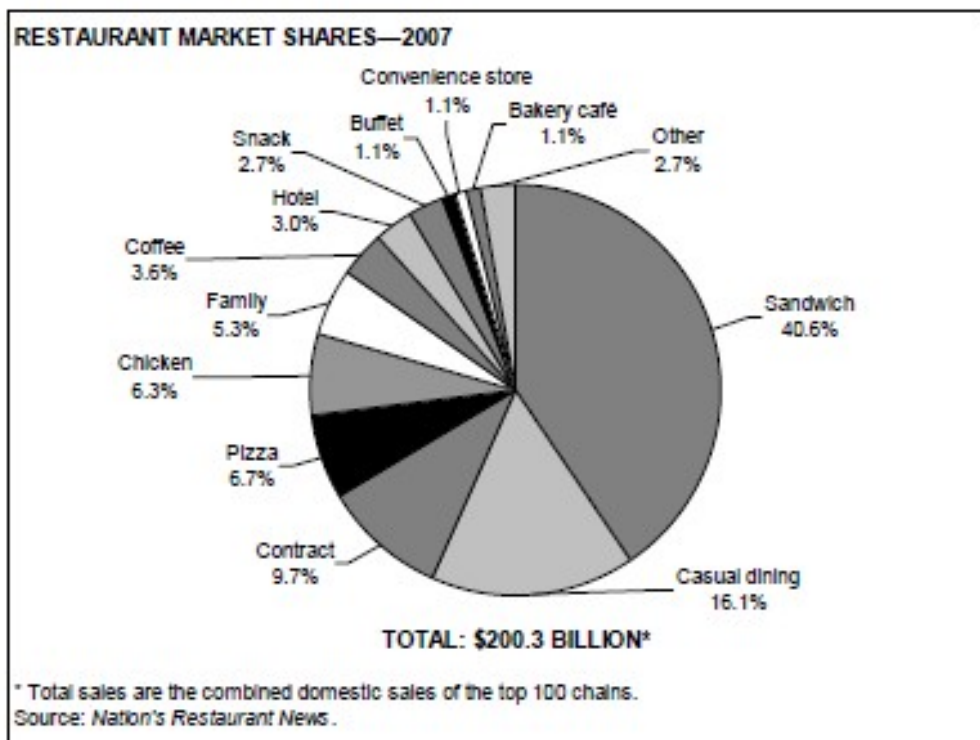
A second reason for the improved stock price for Brinker is the recent announcement that it expects to report third quarter profits for FY09 of \$0.44 to \$0.45 per share excluding charges. This is better than most analysts expected and demonstrates how Brinker has been pretty resilient amid the brutal economic climate. While overall comparable restaurant sales were down 5.6% in the quarter, the company was able to create profits as a result of three key factors: aggressive cost savings in regards to purchasing commodities and other restaurant expenses, closing underperforming stores, and slowing unit growth.



Strategic Recommendations

We live in a society that has grown quite fond of eating outside the home: according to the National Restaurant Association, 48 cents of every food dollar is now spent at restaurants, compared with just 40.5 cents per dollar in 1985. Despite this fact, we are beginning to see signs that Americans will buck this trend and begin to eat in the home more frequently. This is problematic for the casual dining industry and a firm like Brinker. This is also just one of what I consider two major problems facing Brinker.

The second problem facing Brinker—and this is an issue not specific to Brinker but one that all “moderately-priced” casual restaurants face—is the wide availability of options to eat outside the home but are somewhat to significantly cheaper than chains like Chili’s or Little Italy. These threats could be placed into one of two categories: fast food restaurants and “low-priced” casual restaurants such as IHOP or Denny’s. Brinker faces the possibility that Americans might start eating outside the home less often, and *if* they do decide to eat out might choose lower priced alternatives to restaurants like Chili’s, where most entrees cost at least \$10.



The pie chart on the previous page should convey at least a couple points. The first is that “sandwich” shops comprise almost half the restaurant industry, as giants like McDonald’s and Burger King grab a large share of diners “eating-out” wallet. The second is that casual dining is a large chunk of the industry, but faces a plethora of competitors in all sorts of sub-categories. If restaurant patrons decide that, given the current recession, they need to substitute to eating out at a cheaper place, they have no shortage of alternatives in cheaper categories like Pizza (e.g. Pizza Hut) or Family (e.g. IHOP).

Unfortunately, a magical solution to propel Brinker to the top of the food industry heap does not exist. There is not a glaring problem in its strategy or operations. Brinker is widely considered to be a well-run company stuck in a previously booming but now ailing industry. Looking ahead, Brinker must determine the key components of success and how to optimize its performance for each dimension. The first question is: what does it take to be successful in the restaurant industry? While myriad answers are possible, I believe most of the ingredients for success can be captured by three categories: quality of the food, value, and convenience. The even more important question, of course, is: what does Brinker need to do to excel in these three categories?

Perhaps the most important criterion a consumer contemplates when making a dining decision is the actual quality of the food. Quality means fresh and tasty products, and often it means—for Brinker it certainly does—the availability of natural and healthy food options. Brinker would like to gain market domestic market share with its Chili’s brand, but even greater profit waits in the more nascent international markets it seeks to enter. In order to carry out successful entry into foreign markets, Brinker *must* not skimp on quality of its ingredients, furnishings of its stores, or emphasis on the fun and exciting atmosphere it has established in the US. Essentially, this means no “short-cuts.” Brinker restaurants are not luxury brands, but they are also not bargain buys. Brinker prides itself on affordable yet high-quality dining experiences. This mindset must remain, despite the suffering industry and potential weak sales it must endure for the near-future. The Chili’s brand has been carefully and skillfully cultivated over the years, and it would be a major mistake to let it slip to earn an extra buck in the short run.

One way to assure that the continued international foray is firmly grounded in Brinker values is to favor company-owned stores as opposed to franchised stores. While franchised stores offer the prospect of royalty fees amid a downturn, they also run the risk of a dilution of the brand if franchisees do not perform up to par and the “principal-agent problem” comes into play. In order to avoid this risk, it is advised that most of the units opened internationally—at least for now—are company owned and therefore brand maintenance is assured. Another reason why this is a good idea is because it is much easier to shut down company owned stores. This is because backing out of franchise arrangements can be tricky and costly.

Domestically, though, I recommend ramping up the percentage of total units that are franchised for all the positive benefits of franchising mentioned previously. This should be executed in a diligent and calculated manner so that the franchised units do not run rampant across the US and the restaurants remain true to everything Chili’s has come to stand for.

The second key area for success in the restaurant industry is value. While I just affirmed how crucial it is for Chili’s not to let its brand slip in the pursuit of major cost cutting, this does not mean careful cost cutting is critical to its financial success over the next year or so. One of the reasons Brinker has been able to perform *relatively* well as of late—even in a seemingly dire market—is its adept cost cutting measures in purchasing commodities and keeping down restaurant expenses. As long as these measures sacrifice no more than a modicum of quality then these are potentially smart moves; but when cost cutting clips away at quality in a serious way, then Brinker is slowly murdering its brand.

As previously discussed, there are plenty of dining options available that are cheaper than Brinker. This poses problems in a recessionary economy, as consumers are likely to spend less outside the home. While Brinker should not dilute its brand in an effort to steal these customers—by offering all sorts of lower-quality, cheaper menu options—it is recommended that Brinker offer a number of “value items” at every restaurant. Brinker does not want to slowly creep into the low-priced casual dining market roamed by chains such as IHOP (where profit margins are thinner), but it should not be oblivious to the economic

conditions and should provide some cheaper options for patrons. The average menu price should not fall by very much at all, but it is advisable to begin to offer a greater selection of entrees that fall in the \$7 to \$9 range that are still of high quality. These options should be marketed strongly so that consumers know they can still eat at Chili's and not feel like they are overly "splurging." At the same time, though, Chili's doesn't lose its position as a mid-level priced restaurant—a space that has served it well for so many years. Of course, promotional offers sprinkled in would not hurt either, and deals such as two entrees for \$20 have already begun to be offered lately.

The third major criterion for success in the restaurant industry is convenience. It has been well-documented by a variety of media outlets how our society has become full of people with more things to do and less time to do them. Part of the appeal of going to McDonald's versus Chili's is not only the money that will be saved but the *time* that will be saved as well. In the current recession, some people might have more time (as more people will be out of jobs) while others will have less time (because they might be working two jobs to stay afloat instead of just one). Therefore, it is difficult to say if the current economy will give more or less weight to the importance of convenience to diners. And Chili's has no desire to become a fast-food style restaurant. Part of the charm and pleasure derived from eating at Chili's is the fun atmosphere in the restaurant, the bustling bar showing the "big sports game," and the friendly and carefree demeanor of the staff. All of these "atmospheric attributes" should be constantly monitored for quality control in the same way that the freshness of the ingredients should be observed and kept at a high level.

Chili's has already made an effort to cater to the time-constrained customer by offering "Chili's To Go," a service in which customers can order ahead of time by phone and pick up their food quickly at the restaurant. This is a good service because it both saves time for the customer and saves him money, as he now does not need to pay a tip. I believe this dual-benefit to the customer is something that should be advertised more prominently in Chili's marketing efforts. Also, this option is not available (or at least not prominently displayed) at all restaurants.

Management should consider implementing this option at more units as well as possibly adding an online ordering feature in which customers can, for example, order off the menu

at work before leaving and pick up the food on the way home. In a time in which the Internet is so ubiquitous, it seems logical that Chili's could put into place the infrastructure so that consumers could order online by providing a credit card and would be able to choose the time at which he or she would like to pick up the food. Perhaps this option would steal some of the customers who, when sitting at work or at home and deciding if they should just whip something up at home, will decide to treat themselves to a sizzling Chili's entrée (with a few entrees available as low as \$7).

A final recommendation is based on a topic I briefly touched on earlier, and that is Brinker's increasing debt load. Brinker's debt to equity ratio has tripled in the past three fiscal years, and I believe it should start to trim away at its debt. This is not a major problem, as explained earlier, but it is worth noting and should be something that, at the very least, is on the management team's collective mind moving forward.

To review, there are six primary actionable items that Oasis is recommending for Brinker:

1. Work to keep costs down when possible, but by no means allow cost cutting to erode quality and value of brand
2. Continue to expand into more fertile international markets, but do so with company-owned stores to ensure value proposition stays consistent
3. Increase percentage of domestic units that are franchised, but do so in a deliberate and gradual manner
4. Begin to offer a number of select entrees offered in the \$7 to \$9, but keep these options to a small number so that customers know Chili's is not becoming a low-priced casual dining chain
5. Expand presence of "Chili's To Go" to more domestic units and promote this service more heavily. Also, begin to implement an online ordering service and tout both the money saved (by not needing to tip) as well as convenience of online ordering in marketing efforts.
6. Begin to trim away at debt load and decrease D/E ratio

After a comprehensive review by Oasis Consulting, it is clear that there is no magic wand that can be waved to allow Brinker to reap enormous profits anytime soon. In the same way that Brinker has worked to cultivate a reliable and admired brand, it needs to continue to take actions that improve its restaurants and provide an optimal dining experience. Given the domestic saturation in the casual dining industry, the best route to greater profits lies in international markets. Brinker should continue to expand Chili's presence in these markets but do so in a modest and not overly ambitious fashion. At home, Brinker should work to maintain the brand value Chili's has earned over the years, while at the same time enacting careful cost cutting measures and implementing select programs such as online ordering to better cater to the consumer with less disposable income and a potentially busier lifestyle in this recession.

A massive overhaul is not necessary. Coaches often say to successful teams before important playoff games, "Remember what got you here and do those things tonight." The same could be said to Brinker. Stay true to the values that have resulted in 1500 Chili's restaurants worldwide and continue to bring this top-notch brand to more people in new markets. At the same time, somewhat tweak the menu and ordering options to cater to consumers in the current economy. If Brinker remembers what has made Chili's so successful and works to maintain and improve these qualities, it should be able to ride out the economic malaise and come out the other side a stronger and more widely consumed company.

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Appendix

Brinker International

Annual Balance Sheet

	6/25/2008	6/27/2007	6/28/2006
Currency	USD	USD	USD
Consolidated Scale	No Thousands	No Thousands	No Thousands
Cash & cash equivalents	54,714	85,237	55,615
Accounts receivable	52,304	49,851	52,540
Inventories	35,534	33,514	40,330
Prepaid opening supplies	41,247	-	-
Restricted cash	34,435	-	-
Other prepaid expenses & other current assets	30,790	-	-
Prepaid expenses & other current assets	106,472	-	-
Prepaid expenses & other current assets	-	86,137	85,187
Deferred income taxes	71,595	16,100	8,638
Assets held for sale	134,102	93,342	-
Total current assets	454,721	364,181	242,310
Land	198,554	255,037	279,369
Buildings & leasehold improvements	1,573,305	1,732,209	1,715,917
Furniture & equipment	669,201	726,790	745,812
Construction-in-progress	35,106	101,163	94,734
Gross property & equipment	2,476,166	2,815,199	2,835,832
Less accumulated depreciation & amortization	945,150	1,044,624	1,043,108
Net property & equipment	1,531,016	1,770,575	1,792,724
Goodwill	140,371	138,876	145,479
Deferred income taxes	23,160	4,778	-
Other assets	43,854	39,611	41,266
Total other assets	207,385	183,265	186,745
Total assets	2,193,122	2,318,021	2,221,779
Current installments of long-term debt	1,973	1,761	2,197
Accounts payable	168,619	167,789	151,216
Accrued payroll	94,389	107,629	117,940
Accrued gift cards	85,897	83,105	66,600
Accrued property tax	32,996	31,976	28,140
Accrued insurance	32,512	31,091	29,021
Accrued sales tax	30,433	31,002	29,158
Other accrued liabilities	55,716	46,160	43,650
Accrued liabilities	331,943	330,963	314,509
Income taxes payable	5,946	21,555	29,453
Liabilities associated with assets held for sale	17,688	3,014	-
Total current liabilities	526,169	525,082	497,375
Long-term notes	-	-	298,755
Term loan	400,000	-	-
Credit facilities	158,000	481,498	143,200
5.75% notes	299,070	298,913	-

Capital lease obligations	46,507	48,268	49,833
Mortgage loan obligations	-	-	10,924
Long term debt before current installments	903,577	828,679	502,712
Less current installments	1,973	1,761	2,197
Long-term debt, less current installments	901,604	826,918	500,515
Deferred income taxes	-	-	7,016
Other liabilities	170,260	160,932	141,041
Common stock	17,625	17,625	11,750
Additional paid-in capital	464,666	450,665	406,626
Accumulated other comprehensive income (loss)	-168	-37	773
Retained earnings	1,800,300	1,791,311	1,608,661
Total shareholders' equity before treasury stock	2,282,426	2,259,654	2,027,810
Less treasury stock, at cost	1,687,334	1,454,475	951,978
Total shareholders' equity	595,089	805,089	1,075,832

Annual Income Statement

	6/25/2008	6/27/2007	6/28/2006
Currency	USD	USD	USD
Consolidated Scale	No Thousands	No Thousands	No Thousands
Revenues	4,235,223	4,376,904	4,151,291
Cost of sales	1,200,763	1,222,198	1,160,931
Restaurant expenses	2,397,908	2,435,866	2,264,525
Depreciation & amortization	165,229	189,162	190,206
General & administrative expenses	170,703	194,349	207,080
Restructure charges & other impairments	-	-	1,950
Gains on sale of restaurants	29,684	19,116	-
Macaroni Grill fair value impairment	152,692	-	-
Restaurant closures & impairments	58,504	12,854	-
Development-related costs	13,223	-	-
Severance & other benefits	6,735	-	-
Other gains & charges, net	2,480	-2,737	-
Other gains & charges	203,950	-8,999	-
Total operating costs & expenses	4,138,553	4,032,576	3,824,692
Operating income	96,670	344,328	326,599
Interest expense	45,862	30,929	22,857
Other income (expense), net	4,046	5,071	1,656
Income (loss) before provision for income taxes	54,854	318,470	305,398
Current income tax expense - federal	59,500	94,418	98,267
Current income tax expense - state	10,959	13,259	12,170
Current income tax expense - foreign	1,808	1,431	1,391
Total current income tax expense	72,267	109,108	111,828
Deferred income tax expense (benefit) - federal	-62,646	-18,756	-18,638
Deferred income tax expense (benefit) - state	-6,489	-1,931	-1,742
Total deferred income tax expense (benefit)	-69,135	-20,687	-20,380
Provision for income taxes	3,132	88,421	91,448

Income from continuing operations	51,722	230,049	213,950
Income (loss) from discontinued operations, net of tax	-	-	-1,555
Net income (loss)	51,722	230,049	212,395
Weighted average shares outstanding - basic	103,101	121,062	128,766
Weighted average shares outstanding - diluted	104,897	124,116	130,933.50
Year end shares outstanding	101,316.46	110,127.07	125,309.47
Income (loss) per share from continuing operations - basic	0.5	1.9	1.66
Income (loss) per share from discontinued operations - basic	-	-	-0.013
Net income (loss) per share - basic	0.5	1.9	1.647
Income (loss) per share from continuing operations - diluted	0.49	1.85	1.633
Income (loss) per share from discontinued operations - diluted	-	-	-0.013
Net income (loss) per share - diluted	0.49	1.85	1.62
Cash dividends per share	0.42	0.34	0.3
Total number of employees	100,400	113,900	110,800
Number of common stockholders	917	938	1,095

Annual Cash Flow

	6/25/2008	6/27/2007	6/28/2006
Currency	USD	USD	USD
Consolidated	No	No	No
Scale	Thousands	Thousands	Thousands
Net income (loss)	51,722	230,049	212,395
Depreciation & amortization	165,229	189,162	190,206
Restructure charges & other impairments	225,945	13,812	1,950
Stock-based compensation	16,577	29,870	32,200
Deferred income taxes	-68,064	-18,823	-34,219
Loss (gain) on sale of assets	-29,682	-21,207	-19,278
Amortization of deferred costs	283	-130	-39
Income (loss) from discontinued operations, net	-	-	1,555
Receivables	-	3,394	-8,948
Accounts receivable	-972	-	-
Inventories	-6,640	3,229	8,474
Prepaid expenses & other current assets	1,454	25,541	-3,773
Other assets	459	-5,168	19,198
Income taxes payable	2,581	-1,945	11,994
Accounts payable	13,320	-1,978	18,120
Accrued liabilities	-20,458	19,945	54,016
Other liabilities	9,786	19,225	-13,346
Net cash flows from operating activities of continuing operations	361,540	484,976	470,505
Payments for property & equipment	-270,413	-430,532	-354,607
Proceeds from sale of assets	127,780	180,966	48,462
Increase in restricted cash	-34,435	-	-
Payments for purchases of restaurants	-2,418	-	-23,095
Disposition of (investment in) equity method investee	-8,711	-	1,101
Proceeds from sale of investments	-	5,994	-

Net cash flows from investing activities of continuing operations	-188,197	-243,572	-328,139
Net proceeds from issuance of long-term debt	399,287	-	-
Net borrowings (payments) on credit facilities	-323,586	338,188	80,300
Payments of long-term debt	-1,062	-12,979	-1,581
Purchases of treasury stock	-240,784	-569,347	-305,714
Proceeds from issuances of treasury stock	5,277	66,287	53,808
Payments of dividends	-42,914	-40,906	-25,417
Excess tax benefits from stock-based compensation	330	7,139	2,107
Net cash flows from financing activities of continuing operations	-203,452	-211,618	-196,497
Net cash flows from operating activities of discontinued operations	-	-	5,042
Net cash flows from investing activities of discontinued operations	-	-	62,845
Net cash flows from discontinued operations	-	-	67,887
Net change in cash & cash equivalents	-30,109	29,786	13,756
Cash & cash equivalents at beginning of year	84,823	55,451	41,859
Cash & cash equivalents at end of year	54,714	85,237	55,615
Income taxes, net of refunds	62,260	100,593	115,877
Interest, net of amounts capitalized	48,919	26,167	22,319