PACIFIC MANAGEMENT CONSULTING GROUP

chain restaurant analysis and advisory

Sardar Biglari (BH) v. Cracker Barrel (CBRL): Battle of Restaurant Analytics
by: John A. Gordon, Principal

We took a detailed look at the chain restaurant analytical topics raised by the ongoing Sardar Biglari attempt to win a single seat on the Cracker Barrel Board of Directors. Biglari has claimed in the past (1) bad SEC disclosure (2) poor performance by CBRL and former CEO and now senior Chair Michael Woodhouse, among other issues.

Monday, CBRL fired back, claiming Biglari used bad analytical benchmarks. **Versus our selected peer, CBRL restaurant profitability did underperform, but not by much.** One difficulty is that all three companies in this analysis—CBRL, BOBE and BH, don't disclose restaurant concept profitability well.

Selection of the right peer group for benchmarking is critically important for this drill.

CBRL is a breakfast, lunch and dinner house, with a more limited highway site profile and a midpriced $9 approximate average check. Comparing CBRL to broader restaurant space indices and the likes of the worldwide behemoth McDonald's (MCD), and the fast growing, more runway for growth (and ultra-nosebleed multiple) Chipotle (CMG), Panera (PNRA) and BJ's Brewhouse (BJRI) does not seem right.

CBRL is not fast food, has store CAPEX investment close to that of casual dining (app. $2.2 M plus), but is not casual dining (no alcoholic service). It also has attached retail gift shops.

We think that Bob Evans (BOBE), specifically the Bob Evans Restaurant component is the best peer. It also has US Midwestern roots and competes in similar dayparts. Inclusion of Denny's (DENN) and IHOP (DINE) is not right since those are more a 24-hour coffee shop/pancake house oriented. And they franchise. But similar to BH and CBRL, BOBE does not breakout Bob Evans and Mimi's profitability.

Looking solely at 2000/2005/2010 10K reported Restaurant annual average volume (AUV) and restaurant level operating margin (CRM), CBRL percentage and dollar profitability per store underperforms Bob Evans on a 10 year compound average annual growth rate (CAGR)basis.

CBRL AUV, Restaurant Margin % Margin and $ per unit, vs. Bob Evans

Year	CBRL AUV ($000s)	CBRL Retail only AUV ($000s)	CBRL CRM, %	BOBE AUV (Bob Evans) $000s)	BOBE CRM
2000	$4152	$1005	12.3%	$1569K	21.1%
2005	$3291	$876K	13.1%	$1731K	19.4%
2010	$3226	$832K	12.9%	$1726K	17.6%
AUV CAGR. 2010 v. 2000	-2.49%	-1.87%	NM	+.96%	NM
CAGR CRM Profit $ per unit			-2.04%		-.88%

Source: SEC 10K reporting, with AUV and CRM calculated from text. CBRL FY-00 and BOBE FY-10 CRM estimated. BOBE acquired Mimi's in 2004 which are not separately broken out in 2005 and 2010.

5980 Mission Center Road, Unit A | San Diego, CA 92123 | (619) 379-5561
jgordon@pacificmanagementconsultinggroup.com
www.pacificmanagementconsultinggroup.com

CBRL1990s-2000s M&A resulted in tangled display

When Mr. Biglari and group were researching the CBRL trends, we bet they did have trouble with CBRL displays back in the late 1990s to 2007. CBRL acquired Logan's Roadhouse in 1999 and sold it at about a $307M profit in 2006 to PE firm Bruckman Rosser. CBRL's Cracker Barrel and Logan's separate 10Q/10K segment displays in that time period were difficult, almost impossible to track to separate concept profitability, now. In fact, the face of the displays violated the guideline noted in 1998 by the then CBRL founder and then Chair, Dan Evins, to run Logan's as a standalone entity.

Interestingly, Logan's was growing rapidly in the early-mid 2000s and had positive same store sales results, which CBRL did not.

Biglari claimed tangled CBRL restaurant/retail displays, but we always saw retail and restaurant sales separated, and an inventory dollar breakout. Retail sales (and any profits) were a subset of restaurant profitability. Retail gross profit was not disclosed.

Today, the CBRL website features minimal management displays other than routine SEC disclosure, perhaps in reaction to Mr. Biglari. Its 2010/2011 disclosure is clearer, but now it has only one concept.

BH Restaurant Margin Disclosure Also Poor

Interestingly, BH's own 10K (and annual management letter) disclosure format has the same problem as did CBRL, giving poor visibility to its two restaurant concepts, Steak N Shake and Western Sizzlin. It is impossible to breakout restaurant operating margin or EBITDA, or even free cash flow by individual concept. AUVs are not immediately viewable, nor of course franchisee results of any kind. At year end, BH operated 412 Steak N Shake units, franchises 71, and operates 5 Western Sizzlin and franchises 91.

BH does not do quarterly earnings calls but has an annual meeting and issues an annual letter to stockholders.

More analysis is required: because of the disclosure problems, separation to separate concept CAPEX from CBRL and BOBE is required so that free cash flow for each concept can be calculated. Use of proper benchmarks all areas of the analysis, including stock price, is needed.

John A. Gordon
Pacific Management Consulting Group
Chain restaurant analysis and advisory
www.pacificmanagementconsultinggroup.com