

## Research Highlights

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### Industry Update: Casual Dining 2

We believe competitive pressures and increasing input and labor costs will continue to create a difficult operating environment for casual dining restaurants. Stagnant wage growth and the recent uptick in gas prices is also putting pressure on consumer spending. Consumers are looking for better value and healthier choices. Casual-dining chains are fighting to regain share lost to fast-casual rivals. Business Performance is showing signs of improving as operators leveraging technology to increase sales, improve customer service, control costs and enhance the dining experience.

### Research Upgrades

#### **BJ's Restaurants, Inc. (BJRI-US)** 3

We are upgrading our rating on BJRI from Neutral to Buy. Management continues to execute well on both its growth and efficiency strategies and the company's above industry average traffic and consistently positive comp restaurant sales give us confidence that BJRI can drive Economic Profit growth and greater shareholder value.

#### **Darden Restaurants, Inc. (DRI-US)** 4

We are upgrading DRI from Neutral to Buy. We find DRI attractively valued given our view that the company can deliver sustainable Return on Capital (ROC) above its Cost of Capital over the long term.

### Research Updates

#### **Cheesecake Factory Incorporated (CAKE-US)** 5

We reiterate our Buy rating on CAKE. CAKE continues to make perceptive investments in technology, delivery service expansion and selective store expansion which we believe will continue to drive top line revenue growth, and in conjunction with operating improvements will drive Economic Profit growth and greater shareholder value creation.

#### **Brinker International, Inc. (EAT-US)** 6

We reiterate our Neutral rating on EAT. Q3 disappointed for the largest casual dining and polished casual dining company. We do not see any positive or negative drivers in the NTM that will drive significant outperformance, leading us to maintain our Neutral rating.

### Dropping Coverage

#### **Red Robin Gourmet Burgers, Inc. (RRGB-US)** 7

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**Industry Update: Casual Dining**

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We believe competitive pressures and increasing input and labor costs will continue to create a difficult operating environment for casual dining restaurants. Stagnant wage growth and the recent uptick in gas prices is also putting pressure on consumer spending. Consumers are looking for better value and healthier choices. Casual-dining chains are fighting to regain share lost to fast-casual rivals. Business Performance is showing signs of improving as operators leveraging technology to increase sales, improve customer service, control costs and enhance the dining experience.

To remain competitive, casual dining operators have to increase their capital investments in new technology, store remodeling and upgrading and increased marketing. Many chains are offsetting the costs of additional capital investments and increasing returns on capital through re-franchising. Casual dining restaurants are winning back customers by offering better ingredients, greater customization and fresh preparation along with incorporating loyalty and rewards programs. Investing in tabletop tablets and systems like Ziosk for diners to manage the ordering and paying process will reduce labor involvement and increase operating efficiencies, increase margins and average check and improve the dining experience.

Tabletop tablets are increasing average checks and same-store sales by increasing table turnover. Brinker (EAT-US, Neutral Rated) and Darden (DRI-US, Buy Rated) both have reported usage rates as high as 80% as diners use entertainment features and add check-building items such as appetizers, drinks and desserts while experiencing increasing table turnover. Customer-facing applications improve order accuracy, speed up workflow, reduce errors and associated waste and allow employees to focus more on customer service.

Restaurant chains are focusing on increasing returns in capital and greater shareholder value creation by separating poorer performing brands, international expansion, and refranchising. Refranchising has been the best way to increase capital returns, growth and productivity. Selling existing restaurants and expanding by granting new stores to franchised operators offers more stable cash flow, greater return on capital and having an operating partner with capital at risk has proven to increase profitability at the store level.

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## Research Highlights

### Company Notes

### BJ's Restaurants, Inc. (BJRI-US) Hotels Restaurants & Leisure

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#### Research Action:

Upgrade Rating

Rating: Buy

Prior Rating: Neutral

Price 06/22/2016: \$45.39

52 Week High / Low: \$52.37 / \$38.49

#### Key Data: (TTM as of Mar-16)

Excess Cash per Share: -\$0.82

Annual Dividend: \$0.00

Dividend Yield: 0.00%

Ave. Volume (30 Day): 0.2M

Shares Outstanding: 24.1M

Float: 22.7M

Equity MV: \$1,095.1M

Sales TTM: \$937.9M

Beta: 0.84

EBITDAR: \$180.2M

NOPAT: \$58.1M

Total Invested Capital: \$939.1M

Return on Capital: 6.39%

Cost of Capital: 4.49%

Economic Profit: \$15.1M

Market Value Added: \$740.9M

Current Operations Value: \$1,324.5M

Future Growth Value: \$355.5M

- **We are upgrading our rating on BJRI from Neutral to Buy.** Management continues to execute well on both its growth and efficiency strategies and the company's above industry average traffic and consistently positive comp restaurant sales give us confidence that BJRI can drive Economic Profit growth and greater shareholder value. BJRI reported positive 0.6% comp sales during Q1 surpassing a very tough 3.2% comparable and notching the seventh consecutive quarter of positive comps. Sales and traffic topped both Knapp-Track and Black Box figures indicating the brand is taking share in the highly competitive Casual Dining space.
- **Economic Profit has inflected positively and Business Performance Metrics are trending higher.** Economic Profit has positively inflected from -3.4M to 15.1M over the LTM. We believe BJRI's Economic Profit will increase 10.4% over the NTM to \$16.7M. We anticipate sales growth accelerating from 8.5% to 11.7%. Management has been improving efficiencies across the organization and we have seen notable improvement in the company's EBITDAR and NOPAT margins: EBITDAR margin improved from 17.6% to 19.2% over the LTM and NOPAT margin improved from 5.1% to 6.2%.
- **BJRI has significant room for expansion.** We have become increasingly optimistic about BJRI's expansion plans. BJRI currently operates 176 restaurants, mainly on the West Coast and throughout the Southern U.S. Relative to other comparable casual dining restaurants BJRI is significantly underpenetrated. For example, Texas Roadhouse (Not rated) and Red Robin (RRGB-US, Neutral rated) operate 480 and 535 locations respectively and larger national brands such as Outback Steakhouse and the Olive Garden operate 800 and 844 each. Based on the BJRI's continued regional success, we believe the company can easily translate this success to the Midwest and the Northeast where they are currently underpenetrated.

For more information or a copy of our complete report, please contact us at (646) 780-8880 or [research@tigressfp.com](mailto:research@tigressfp.com)

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## Research Highlights

### Company Notes

## Darden Restaurants, Inc. (DRI-US)

### Hotels Restaurants & Leisure

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#### Research Action:

Upgrade Rating

Rating: Buy

Prior Rating: Neutral

Price 06/22/2016: \$67.18

52 Week High / Low: \$75.60 / \$53.38

#### Key Data: (TTM as of Feb-16)

Excess Cash per Share: -\$1.06

Annual Dividend: \$2.00

Dividend Yield: 2.98%

Ave. Volume (30 Day): 1.5M

Shares Outstanding: 126.7M

Float: 125.8M

Equity MV: \$8,513.5M

Sales TTM: \$7,021.6M

Beta: 0.78

EBITDAR: \$1,130.4M

NOPAT: \$531.3M

Total Invested Capital: \$3,699.1M

Return on Capital: 12.05%

Cost of Capital: 4.90%

Economic Profit: \$315.3M

Market Value Added: \$6,307.7M

Current Operations Value: \$10,133.7M

Future Growth Value: -\$126.9M

- **We are upgrading DRI from Neutral to Buy.** Business performance metrics are being bolstered by DRI's new value-based menu as well as their growing take-out business, both of which are helping to mitigate the competitive environment. We find DRI attractively valued given our view that the company can deliver sustainable Return on Capital (ROC) above its Cost of Capital over the long term. Strength across all of the company's concepts also gives us conviction that DRI can deliver sustainable Economic Profit growth and increasing shareholder value.
- **Business Performance Metrics are trending higher.** Same-Restaurant Sales increased 4.9% during DRI's Q3, topping quarterly growth going back 5 quarters. Overall sales increased 7.4% to \$7.0B over the LTM and we expect growth over the NTM to be driven in part by accelerating to go sales at DRI's Olive Garden, which have yet to cannibalized restaurant sales, and also continued comp growth at its smaller concepts. Given DRI's above industry growth, it is clear that company is consolidating market share in the Casual Dining space and we believe that as DRI invests in restaurant upgrades and expansions it will continue to gain share.
- **Despite recent share price appreciation, valuation looks attractive.** The market is currently underpricing DRI's ability to drive long term Economic Profit growth, as evidenced by the company's -13.7% Future Growth Value Reliance. Furthermore, at 30.1x EV/EP we believe the shares are undervalued given a 5yr average of 40x and 3yr average of 48.7x and the company's renewed prospect for growth.

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### Company Notes

## Cheesecake Factory Incorporated (CAKE-US)

### Hotels Restaurants & Leisure

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#### Research Action:

#### Reiterate Rating

|                     |                   |
|---------------------|-------------------|
| Rating:             | Buy               |
| Prior Rating:       | Buy               |
| Price 06/22/2016:   | \$49.16           |
| 52 Week High / Low: | \$58.86 / \$44.16 |

#### Key Data: (TTM as of Mar-16)

|                           |            |
|---------------------------|------------|
| Excess Cash per Share:    | -\$1.09    |
| Annual Dividend:          | \$0.80     |
| Dividend Yield:           | 1.63%      |
| Ave. Volume (30 Day):     | 0.5M       |
| Shares Outstanding:       | 48.5M      |
| Float:                    | 45.2M      |
| Equity MV:                | \$2,384.3M |
| Sales TTM:                | \$2,136.3M |
| Beta:                     | 0.73       |
| EBITDAR:                  | \$419.6M   |
| NOPAT:                    | \$148.8M   |
| Total Invested Capital:   | \$1,654.4M |
| Return on Capital:        | 9.28%      |
| Cost of Capital:          | 4.32%      |
| Economic Profit:          | \$79.4M    |
| Market Value Added:       | \$1,713.1M |
| Current Operations Value: | \$3,497.6M |
| Future Growth Value:      | -\$130.2M  |

- We reiterate our Buy rating on CAKE.** CAKE has been under pressure following strong Q1 results but weaker than anticipated FY guidance for the premier brand in the casual dining space; we view this sell-off as a buying opportunity. CAKE offers strength in Business Performance and multiple industry surveys rank CAKE as the number one casual dining brand. Management continues to make perceptive investments in technology, delivery service expansion and selective store expansion which we believe will continue to drive top line revenue growth, and in conjunction with operating improvements will drive Economic Profit growth and greater shareholder value creation.
- CAKE's Business Performance remains strong and Valuation is increasingly attractive.** Y/Y revenue was up 6.12% from \$2.01B to \$2.14B, and Operating Cash Flow (EBITDAR) rose 8.56% from \$386.4M to \$419.6M. NOPAT and operating margins grew Y/Y with NOPAT expanding from \$132.4M to \$148.8M. CAKE continues to outperform the Casual Dining space which has seen Y/Y declines in same store sales and overall traffic, down 2.7% according to NRN, while CAKE's results have been flat to positive. Economic Profit rose from \$58.7M to \$79.4M over the LTM and we anticipate this will rise further to \$85.5M. CAKE's valuation metrics have lowered in LTM, with all significant valuation multiples declining and the company's Future Growth Value Reliance dropping from 21.79% to 3.70%, implying the market's lack of expectation for future value creation.
- CAKE's focus on Guest-Facing initiatives are driving consistent growth.** CAKE was rated the number one casual dining brand in Nation's Restaurant News Consumer Picks survey, number one casual dining brand for millennials in a Technomic survey, and was named one of Fortune's 100 Best Companies to Work For list for the third year in a row. This excellence in customer and employee satisfaction will drive outperformance in NTM – we believe employees who are more satisfied than those at the competition drive top line outperformance. We anticipate upcoming guest-facing initiatives, such as the mobile payment app, Cake Pay, which allows you to pay your bill and split it at the restaurant, and expansion of home and office delivery via third party vendors will generate operating margin improvement and excess Economic Profit as the company takes market share from competition in the home delivery space and improves table turns and guest satisfaction through its modern payment system.

For more information or a copy of our complete report, please contact us at (646) 780-8880 or [research@tigressfp.com](mailto:research@tigressfp.com)

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## Research Highlights

### Company Notes

### Brinker International, Inc. (EAT-US) Hotels Restaurants & Leisure

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**Chief Investment Officer**  
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#### Research Action:

Reiterate Rating

Rating: Neutral

Prior Rating: Neutral

Price 06/22/2016: \$45.11

52 Week High / Low: \$60.34 / \$43.20

#### Key Data: (TTM as of Mar-16)

Excess Cash per Share: -\$1.55

Annual Dividend: \$1.28

Dividend Yield: 2.84%

Ave. Volume (30 Day): 1.2M

Shares Outstanding: 55.7M

Float: 55.1M

Equity MV: \$2,513.2M

Sales TTM: \$3,140.0M

Beta: 0.67

EBITDAR: \$589.5M

NOPAT: \$231.6M

Total Invested Capital: \$1,360.2M

Return on Capital: 17.35%

Cost of Capital: 3.89%

Economic Profit: \$179.7M

Market Value Added: \$2,775.8M

Current Operations Value: \$5,979.2M

Future Growth Value: -\$1,843.1M

- **We reiterate our Neutral rating on EAT.** Q3 disappointed for the largest casual dining and polished casual dining company. EAT features industry leading margins, a strong cash flow profile, a modern experience due to menu improvements and integration of Plenti points in Ziosk, and a long term tailwind in its polished casual dining concept, Maggiano's. However, comp headwinds, now negative for a fourth consecutive quarter, will continue to impact top line growth. We do not see any positive or negative drivers in the NTM that will drive significant outperformance, leading us to maintain our Neutral rating.
- **Maggiano's is a minor tailwind.** Maggiano's has been rated "America's Favorite Chain Restaurant" by Marketforce, was 2015's Consumer Choice Award from Technomic, and features a higher "Would you Recommend" score than competitors Cheesecake Factory (CAKE-US, Buy rated) and Olive Garden (DRI-US, Buy rated). We believe Maggiano's will bolster comp performance for EAT in NTM, however, Maggiano's represents only 51 of EAT's approximately 1650 restaurants, and with restaurant growth anticipated at two per year, any upside is effectively limited.
- **Plenti points provides synergistic benefits with Ziosk.** EAT will integrate Plenti points, a rewards program featuring an amalgamation of brands including AT&T (T-US, Underperform rated) and Macy's (M-US, Buy rated), towards the end of Q1 into its Ziosk platform. Plenti's integration will further improve EAT's strong cash flow profile by offering users a place to trade points for menu items on the spot - we believe the ability to utilize Ziosk to see the user's balance will drive Plenti's millions of current users to choose to spend their Plenti points at Chili's, making EAT a net redeemer. We also anticipate EAT will begin to leverage its massive database of Ziosk data to further bolster its industry leading margin profile through strategic decision making.
- **Business Performance is mixed.** We anticipate that positive comp trends for Q4 will assist in improving weaker than anticipated same-store sales, which saw total company-owned restaurants down (3.6%) as a result of Chili's miss of (4.1%) vs. expected (1.2%). However, EAT has seen four straight quarters of negative comps, largely driven by intense competition and declining overall traffic. EAT does feature a fifth straight year of positive Economic Profit growth, however, we believe comp headwinds will not abate in NTM and see the company continuing to perform inline within the industry.

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## Research Highlights

### Company Notes

### Red Robin Gourmet Burgers, Inc. (RRGB-US) Hotels Restaurants & Leisure

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 Director of Research  
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**Research Action:**

Dropping Coverage

Rating: No Rating

Prior Rating: Neutral

Price 06/22/2016: \$52.17

52 Week High / \$95.00

Low: \$46.82

**Key Data: (TTM as of Apr-16)**

Excess Cash per Share: -\$2.79

Annual Dividend: \$0.00

Dividend Yield: 0.00%

Ave. Volume (30 Day): 0.3M

Shares Outstanding: 13.6M

Float: 13.5M

Equity MV: \$712.0M

Sales TTM: \$1,264.8M

Beta: 0.84

EBITDAR: \$235.9M

NOPAT: \$67.2M

Total Invested Capital: \$1,156.5M

Return on Capital: 6.36%

Cost of Capital: 4.12%

Economic Profit: \$23.7M

Market Value Added: \$309.1M

Current Operations Value: \$1,732.8M

Future Growth Value: -\$267.2M

- We are dropping coverage of RRGB.

*For more information or a copy of our complete report, please contact us at (646) 780-8880 or [research@tigressfp.com](mailto:research@tigressfp.com)*

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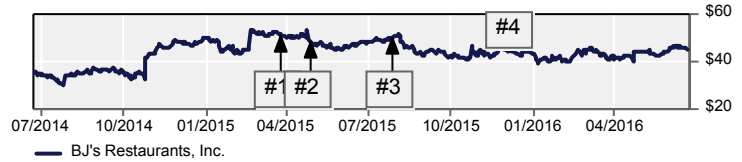
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# Research Highlights

## Ratings History

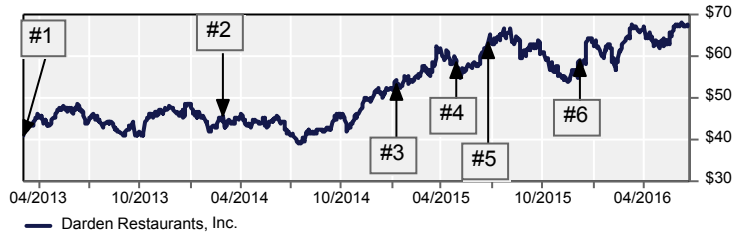
### BJ's Restaurants, Inc. (BJRI-US)

| Item # | Date       | Research Action        | Rating       | Price   |
|--------|------------|------------------------|--------------|---------|
| #4     | 12/08/2015 | Upgrade                | Neutral      | \$44.86 |
| #3     | 07/28/2015 | Reiterate Rating       | Underperform | \$50.29 |
| #2     | 04/27/2015 | Reiterate Rating       | Underperform | \$48.46 |
| #1     | 03/25/2015 | Initiation of Coverage | Underperform | \$51.34 |



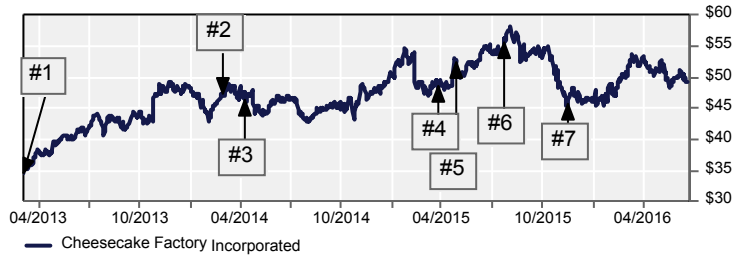
### Darden Restaurants, Inc. (DRI-US)

| Item # | Date       | Research Action        | Rating       | Price   |
|--------|------------|------------------------|--------------|---------|
| #6     | 12/08/2015 | Reiterate Rating       | Neutral      | \$59.18 |
| #5     | 06/25/2015 | Reiterate Rating       | Neutral      | \$63.78 |
| #4     | 04/27/2015 | Reiterate Rating       | Neutral      | \$59.04 |
| #3     | 01/09/2015 | Upgrade                | Neutral      | \$53.63 |
| #2     | 02/28/2014 | Reiterate Rating       | Underperform | \$45.72 |
| #1     | 03/01/2013 | Initiation of Coverage | Underperform | \$41.35 |



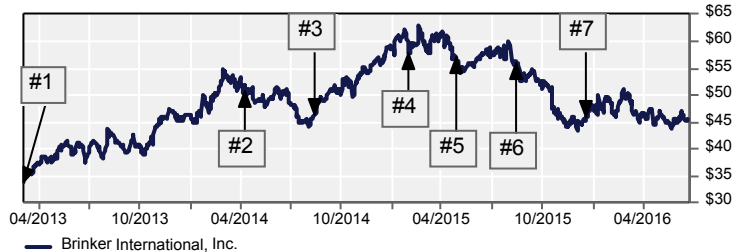
### Cheesecake Factory Incorporated (CAKE-US)

| Item # | Date       | Research Action        | Rating  | Price   |
|--------|------------|------------------------|---------|---------|
| #7     | 11/17/2015 | Reiterate Rating       | Buy     | \$45.70 |
| #6     | 07/24/2015 | Reiterate Rating       | Buy     | \$55.72 |
| #5     | 04/27/2015 | Reiterate Rating       | Buy     | \$52.53 |
| #4     | 03/25/2015 | Reiterate Rating       | Buy     | \$48.56 |
| #3     | 04/10/2014 | Upgrade                | Buy     | \$46.57 |
| #2     | 02/28/2014 | Reiterate Rating       | Neutral | \$47.52 |
| #1     | 03/01/2013 | Initiation of Coverage | Neutral | \$34.49 |



### Brinker International, Inc. (EAT-US)

| Item # | Date       | Research Action        | Rating  | Price   |
|--------|------------|------------------------|---------|---------|
| #7     | 12/21/2015 | Reiterate Rating       | Neutral | \$46.09 |
| #6     | 08/14/2015 | Reiterate Rating       | Neutral | \$56.04 |
| #5     | 04/27/2015 | Downgrade              | Neutral | \$56.90 |
| #4     | 02/02/2015 | Reiterate Rating       | Buy     | \$57.72 |
| #3     | 08/14/2014 | Reiterate Rating       | Buy     | \$46.51 |
| #2     | 04/10/2014 | Reiterate Rating       | Buy     | \$50.65 |
| #1     | 03/01/2013 | Initiation of Coverage | Buy     | \$33.87 |



### Red Robin Gourmet Burgers, Inc. (RRGB-US)

| Item # | Date       | Research Action        | Rating       | Price   |
|--------|------------|------------------------|--------------|---------|
| #6     | 05/25/2016 | Reiterate Rating       | Neutral      | \$50.31 |
| #5     | 12/21/2015 | Reiterate Rating       | Neutral      | \$62.04 |
| #4     | 08/14/2015 | Reiterate Rating       | Neutral      | \$83.74 |
| #3     | 01/09/2015 | Upgrade                | Neutral      | \$79.91 |
| #2     | 02/28/2014 | Reiterate Rating       | Underperform | \$77.93 |
| #1     | 03/01/2013 | Initiation of Coverage | Underperform | \$43.75 |



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**Tigress Research Methodology Overview**

We employ proprietary quantitative valuation models combined with dynamic fundamental analysis based on the principles of Economic Profit to formulate timely and insightful investment ratings, analysis, strategies and recommendations.

We make key adjustments to reported financial data eliminating GAAP-based accounting distortions and measuring all companies on a cash operating basis.

Our proprietary research framework is a multi-factor model that scores and ranks companies based on their risk-adjusted ability to create Economic Profit relative to their current market value focusing on three key components:

**Business Performance:** Measuring economic profitability, growth and operating efficiency.

**Risk:** Measuring business sustainability, volatility, strength and consistency.

**Valuation:** Linking business performance to market value. Measuring value created relative to capital employed and enterprise multiples of economic profit and cash flow.

We score and rank 24 key measurements of performance, risk and value into relative market and industry investment recommendations.

*For more information on our research methodology, please review the Tigress Investment Research Guide to Company Valuation and Analysis.*

**Glossary of Key Terms and Measures**

**Excess Cash per Share:** Excess Cash per Share is the amount of excess cash divided by basic shares outstanding. Excess Cash consists of all cash and short-term securities less operating cash needed to run the business. Operating Cash is 5% of TTM net sales revenue.

**EBITDAR:** Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring and Rent Costs. This is especially important when comparing companies that use a significant amount of leased assets like restaurants and retailers.

**NOPAT:** Net Operating Profit after Tax. Represents a company's after-tax cash operating profit excluding financing costs.

**Total Invested Capital:** Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of company.

**Return on Capital:** Return on Capital equals NOPAT divided by Total Invested Capital. It is a key measure of operating efficiency. ROC quantifies how well a company generates cash flow relative to the capital invested in its business.

**Cost of Capital:** Is the proportionately weighted cost of each category of capital – common equity, preferred equity and debt.

**Economic Profit:** Economic Profit is the net operating income after tax less the opportunity cost of the total capital invested. It is the most important driver of shareholder value.

**Current Operations Value:** Current Operations Value is the portion of market value based on the discounted present value of the current earnings stream assuming it remains constant forever.

**Future Growth Value:** Future Growth Value is the portion of market value based on un-earned Economic Profit

*For more information on the key terms and measures, please review the Tigress Investment Research Guide to Company Valuation and Analysis.*

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## Research Highlights

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|----------------------|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-----|----------------------------------------|-----|
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