



Q4 and FY 2018 Financial Results

March 8, 2019



Safe Harbor

Some of the statements contained in this presentation and the Company's March 8, 2019 earnings conference call may constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. These statements reflect the current views of our senior management team with respect to future events, including our financial performance, business and industry in general. Statements that include the words "expect," "intend," "plan," "believe," "project," "forecast," "estimate," "may," "should," "anticipate," and variations of such words and similar statements of a future or forward-looking nature are intended to identify such forward-looking statements. We intend for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement in order to comply with such safe harbor provisions.

Forward-looking statements involve known and unknown risks and uncertainties and are not assurances of future performance. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements, including, among others, the risks and uncertainties disclosed in our annual reports on Form 10-K, quarterly reports on Form 10-Q and other filings made with the Securities and Exchange Commission. Any forward-looking statements you read in this news release reflect our views as of the date of this news release with respect to future events and are subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. You should carefully consider all of the factors identified in this news release that could cause actual results to differ.



Q4 2018 Key Information



Sales

Sales of \$39.1M, up \$0.7M before week 53 impact

53rd week in 2017 added \$3.5M to Q4 2017 sales



S-S-S

Same Store Sales up 2.2%

Traffic up 4.0%



EBITDA

Adjusted EBITDA of \$3.8M, 9.7% of sales

EBITDA up 8.6% before impact of 53rd week in 2017



Margins

Restaurant-level EBITDA of \$5.6M, 14.3% of sales

Margin down 2.8 pts. as a result of higher average wages, higher delivery expenses and impact of 53rd week in 2017



Cashflow

Strong unlevered free cash flow of \$14.2M for the year



FY 2018 Key Information



Sales

Sales of \$153.1M, down 7.4%

53rd Week in 2017 and reduced traffic; sales down 5.4% excluding week 53 in 2017



S-S-S

Same Store Sales off 4.6%

Traffic down 7.2% and average check up 2.6%



EBITDA

Adjusted EBITDA of \$15.8M, 10.3% of sales

Margin down 1.7 pts. as a result of higher average wages and sales deleverage, partially offset by improved commodity cost environment



Margins

Restaurant-level EBITDA of \$23.3M, 15.2% of sales

Margin down 1.9 pts. as a result of higher average wages, higher delivery expenses and sales deleverage



Cashflow

Completed underwritten registered public offering of 6M shares

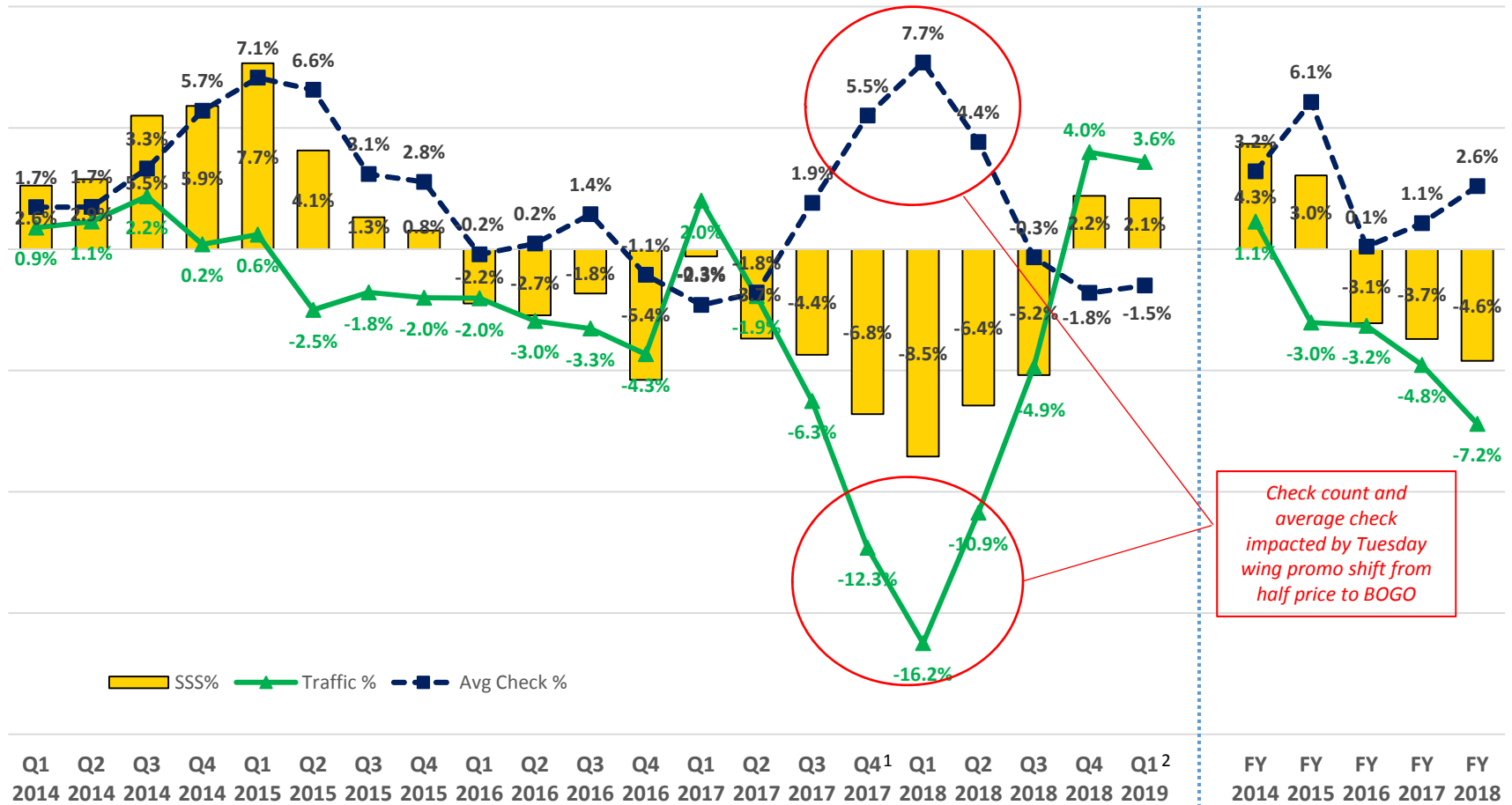
Gross proceeds of \$5.3 million – supplemental liquidity and favorable impact on debt covenant compliance



DRH Average Check and Traffic Trends



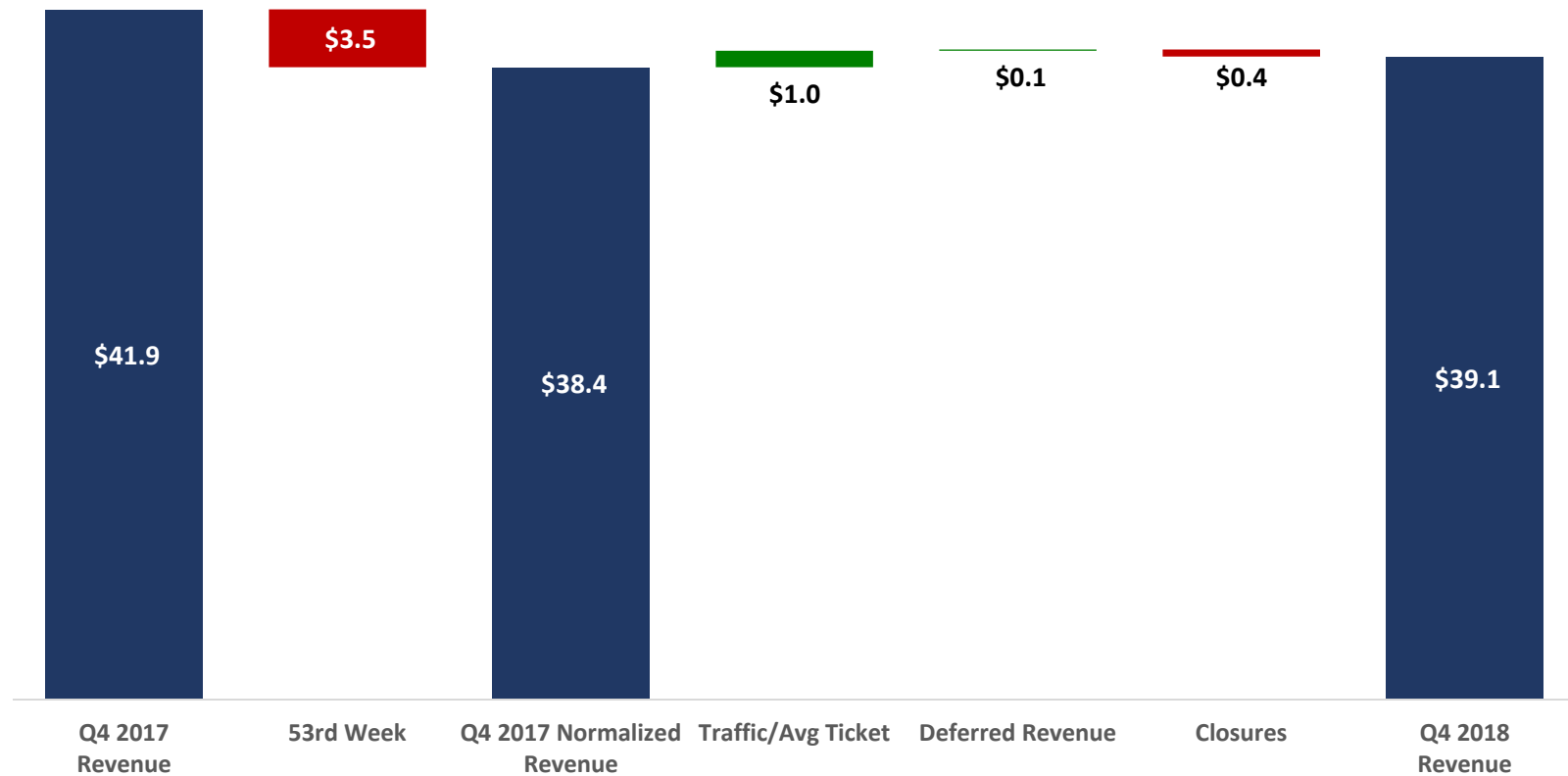
Sharp declines in traffic began in Q3 2017 and persisted through Q3 2018 – but traffic turned positive in Q4 2018 as new media and promotions have had a strong impact, particularly on weekends



NOTE: Average check is predominantly driven by price, but is also influenced by product mix and, to a lesser extent, average guests per check.
 1 – Ramping up of Tuesday Promotion and the Bogo Blitz offering in 2016 drove 170 bp of the 12.3% traffic decline in Q4 2017.
 2 – Q1 2019 results through 3/3 (includes weather impacted days)

Q4 Sales Bridge (\$M)

Excluding the 53rd week in 2017, fourth quarter sales increased on improved traffic



FY 2018 Sales Bridge (\$M)



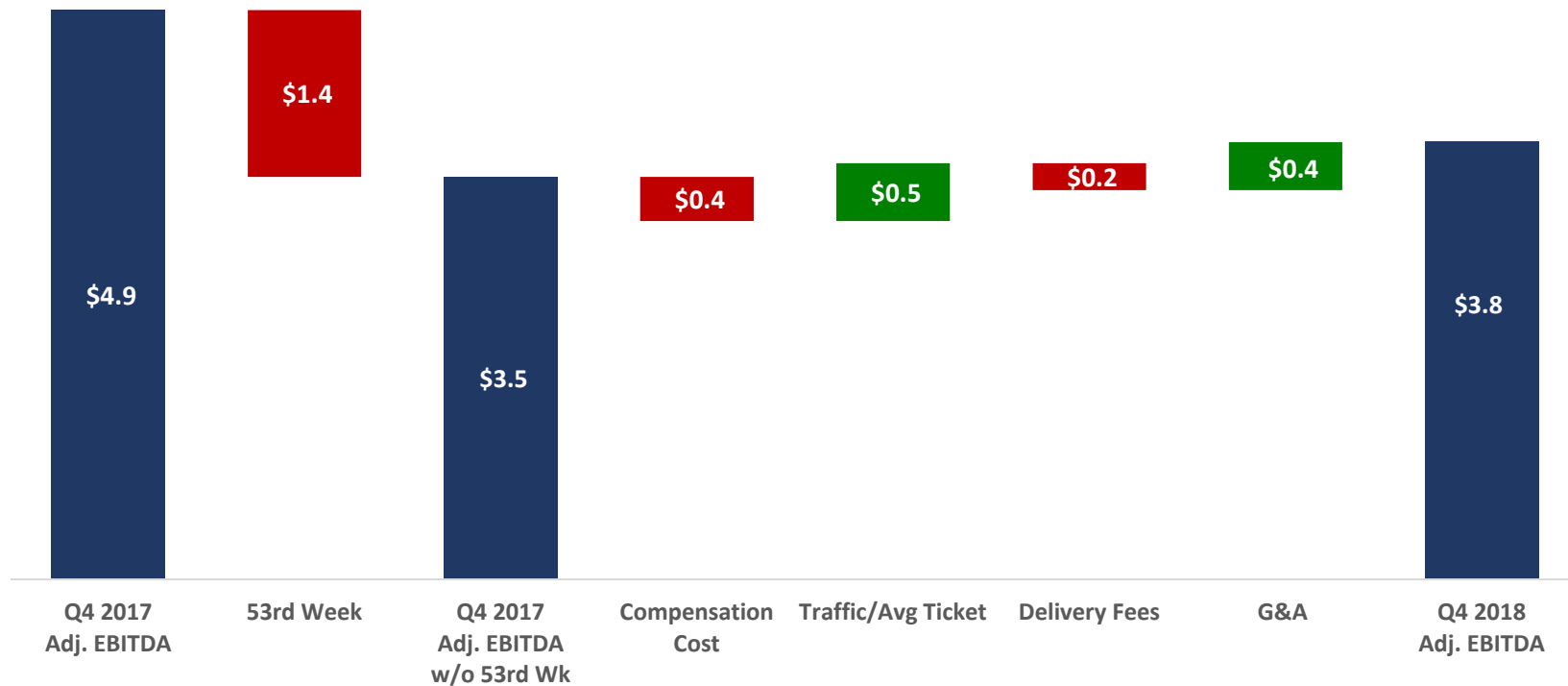
Reduced traffic was the story for much of 2018, as system-wide promotional and media strategies were a drag similar to latter-2017



Q4 Adjusted EBITDA Bridge (\$M)



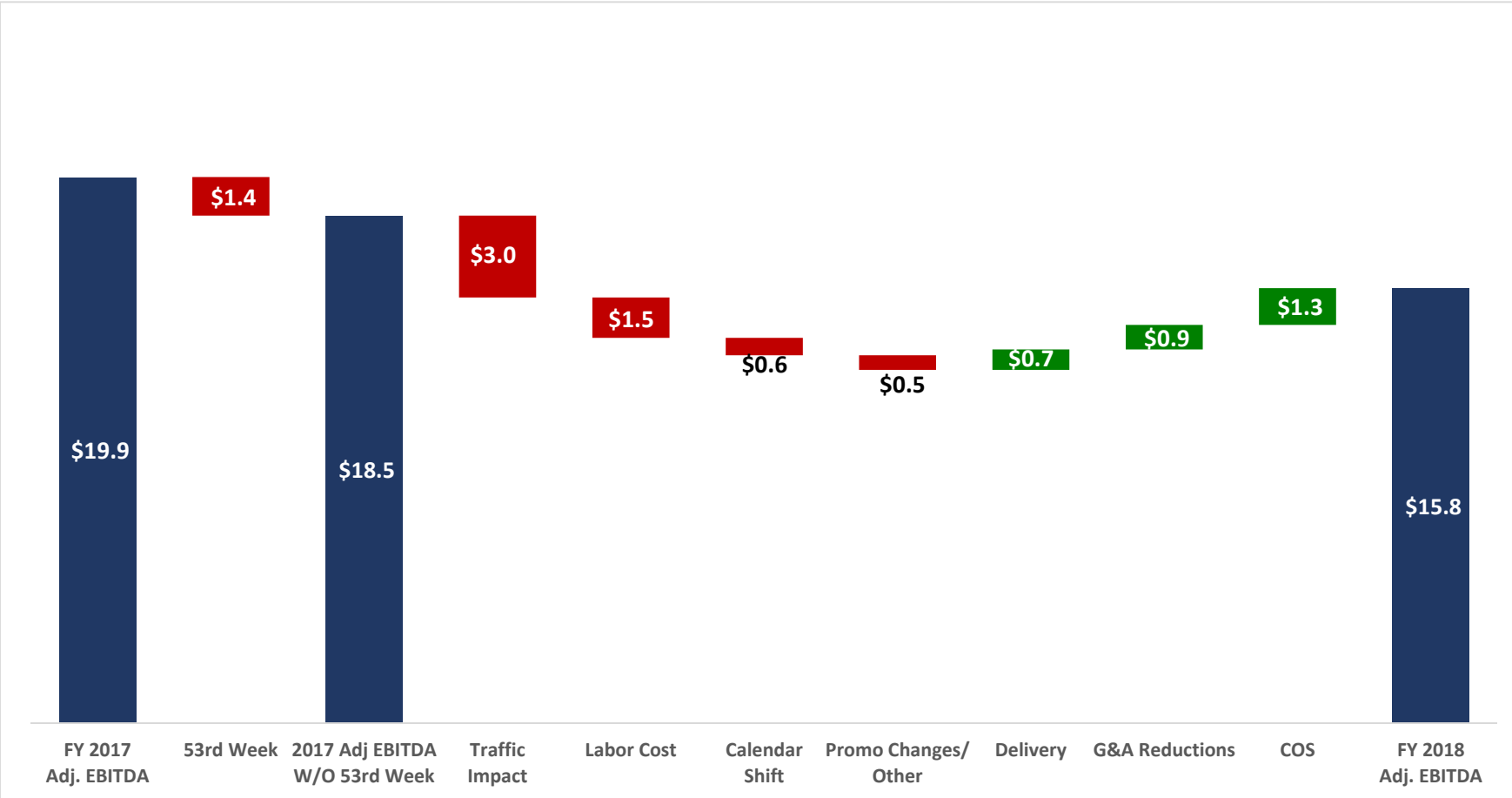
Excluding the 53rd week in 2017, EBITDA increased due to improved traffic and delivery sales as well as lower G&A expense, partially offset by higher labor costs



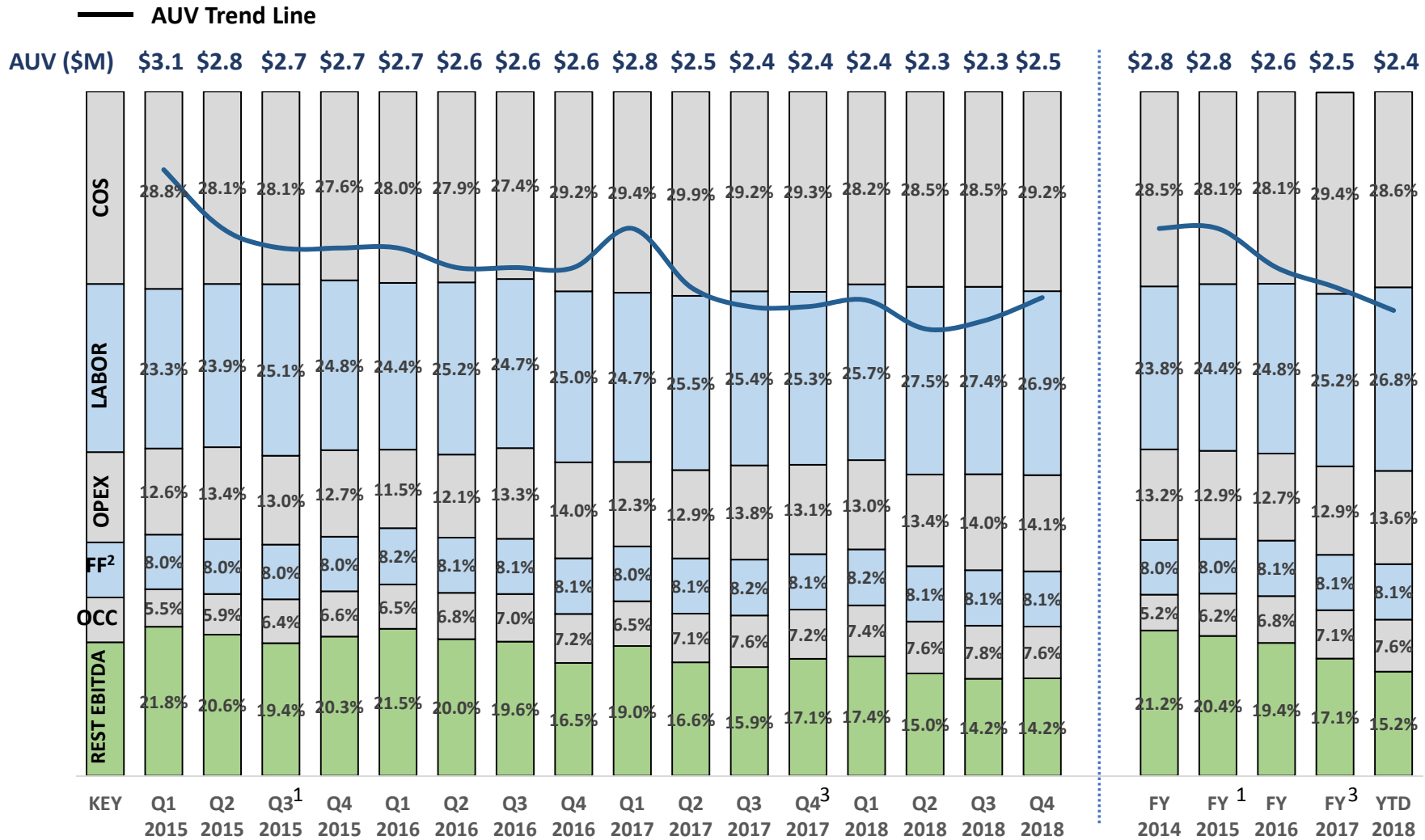
FY 2018 Adjusted EBITDA Bridge (\$M)



Favorable traditional wing costs and lower G&A expenses helped to offset the impact of traffic, an unfavorable calendar shift and higher labor costs



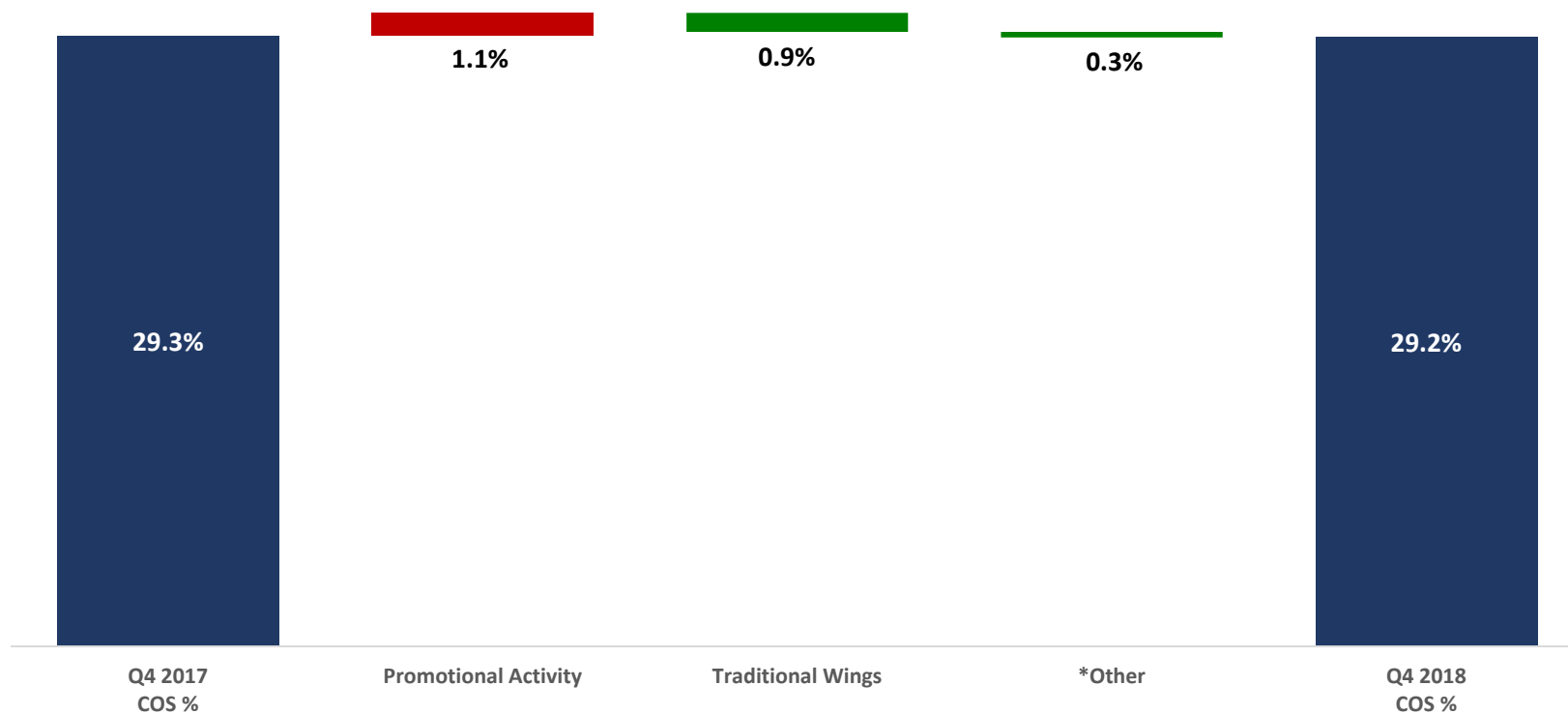
Quarterly Restaurant EBITDA Trend



1 – On June 29, 2015, we acquired 18 locations in the St. Louis market to add to our existing 44 units, which had a dilutive AUV of \$2.3 million
 2 – FF = Franchise-related fees which includes 5.0% royalty and 3.0 – 3.15% NAF (national advertising fund)
 3 – Q4 2017 included a 14th week; 2017 included a 53rd week

Q4 Cost of Sales Bridge (% of Net Sales)

Improved traditional wing costs and other efficiency initiatives more than offset the 110 bp impact of the \$5 Football promotion

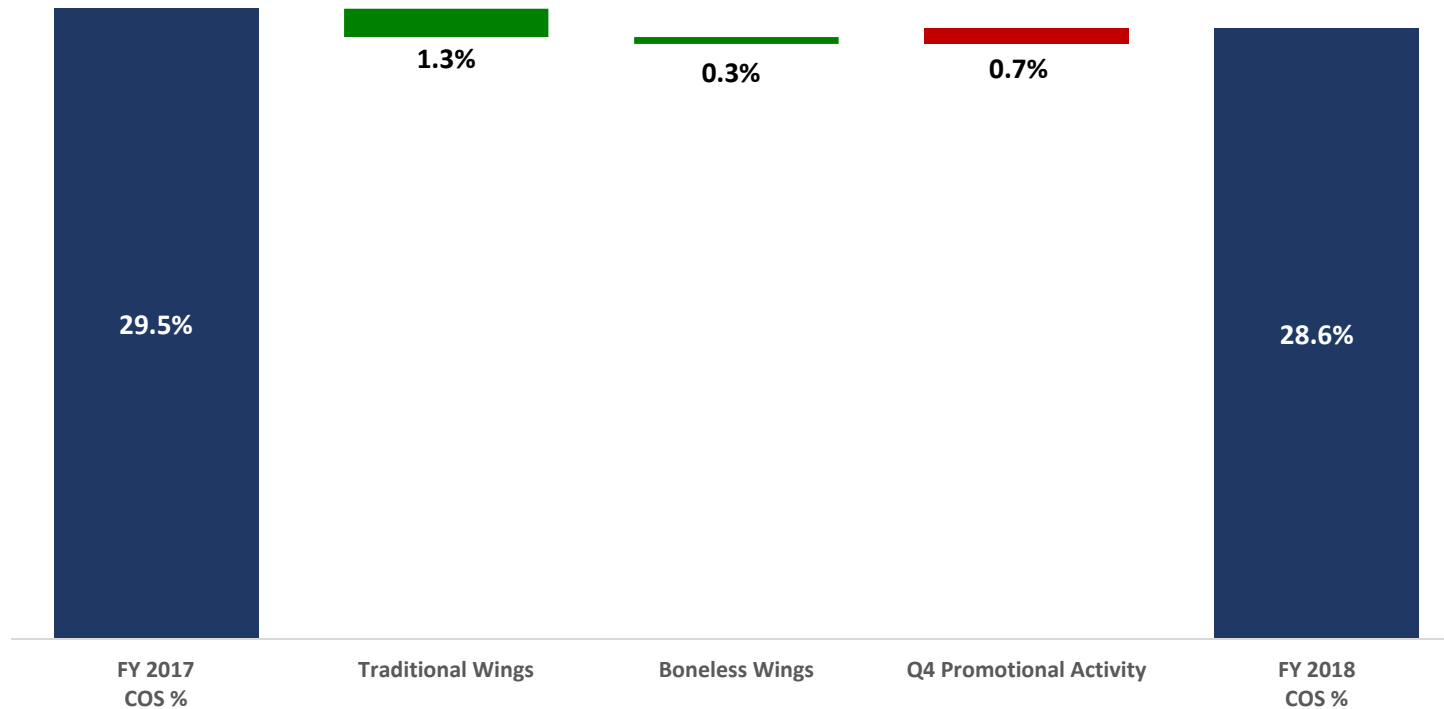


* Other includes Boneless and Paper cost

FY 2018 Cost of Sales Bridge (% of Net Sales)

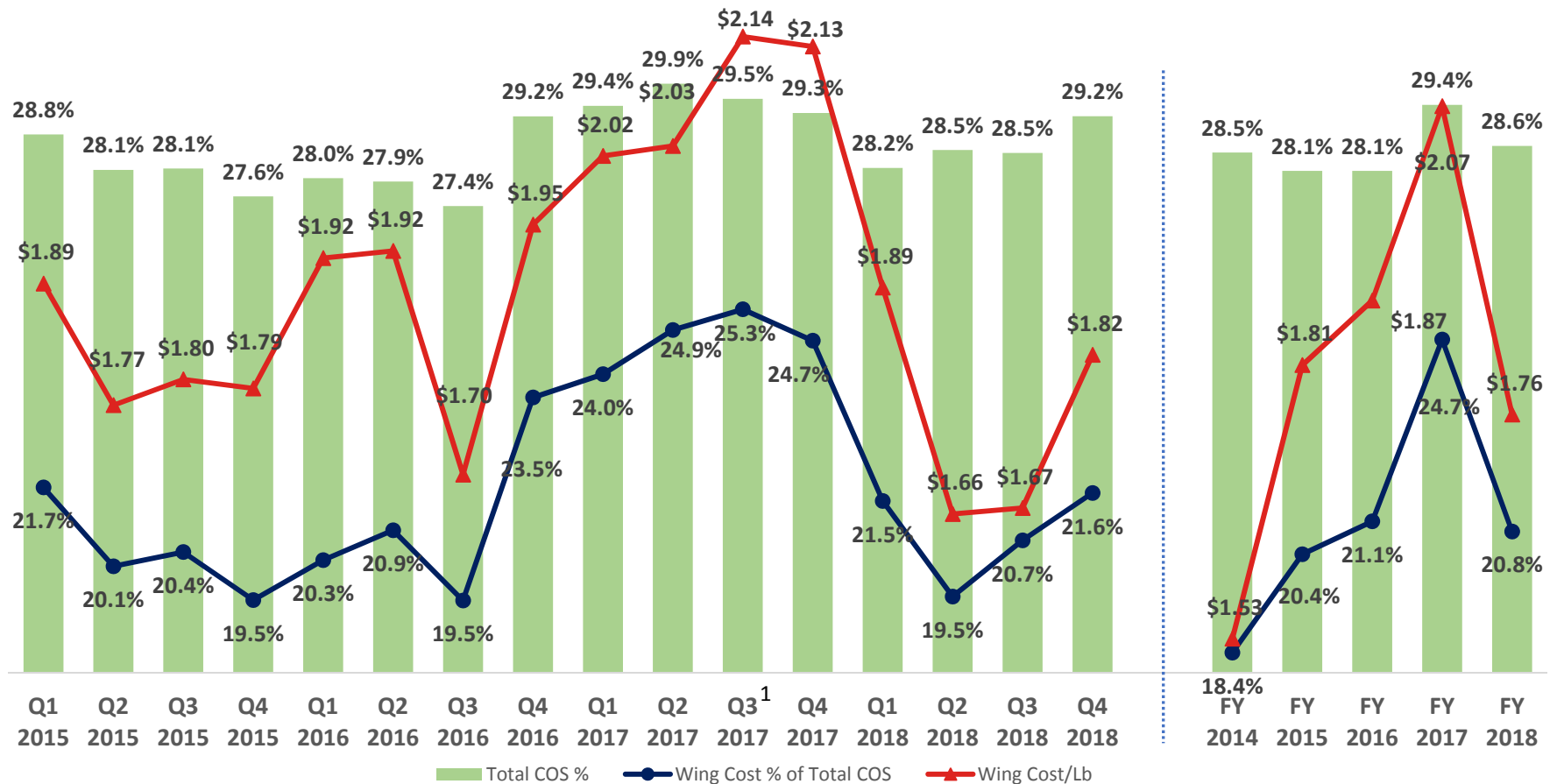


Improved traditional and boneless wing costs led to 90 bp improvement in total cost of sales, partially offset by increased promotional activity in Q4



COS Trends and Wing Impact

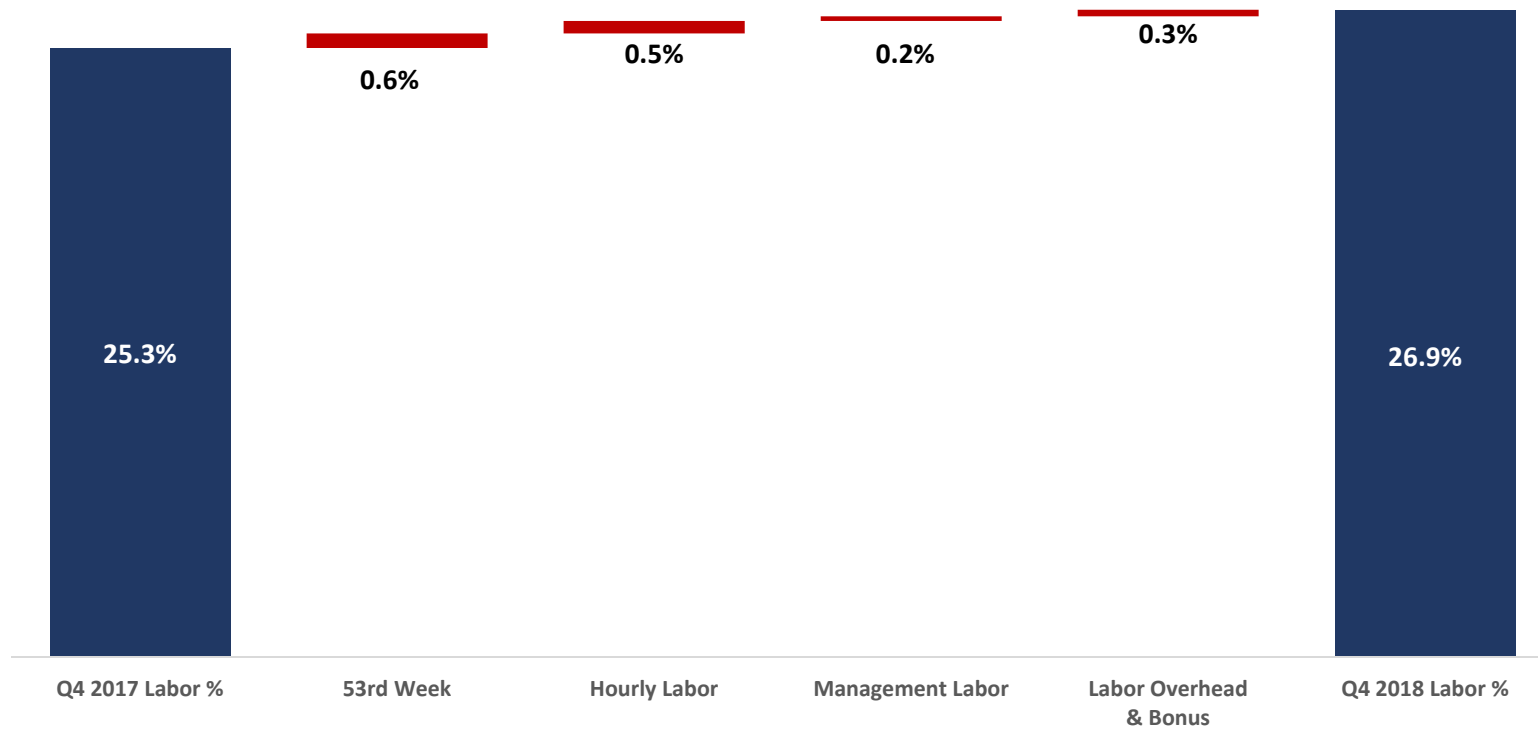
Traditional wing costs were escalated throughout 2017 and hit record highs in Q4, but have declined and returned to more normalized levels in 2018



NOTE: Wing prices shown are the average price paid per pound of fresh, jumbo chicken wings – including distribution costs of approximately \$0.33 per pound in Q3 2018 (2015 – Q2 2018 \$0.29 per pound)
 1 – Q3 actual reported COS was 29.2% which included \$323K in cover charges for the Mayweather/McGregor fight that had no cost associated with it

Q4 Labor Bridge (% of Net Sales)

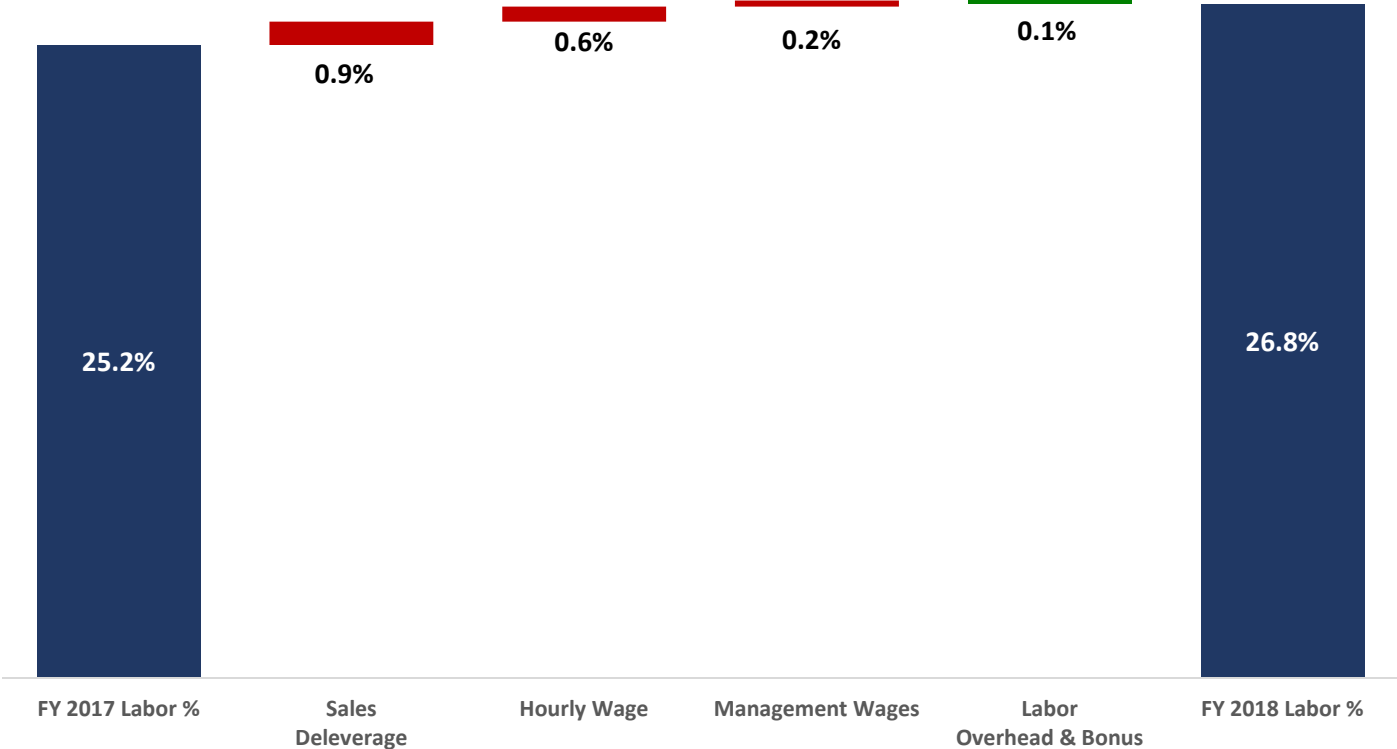
The impact of the 53rd week in Q4 2017 and labor cost headwinds had a 160 bp negative impact on margins in Q4



FY 2018 Labor Bridge (% of Net Sales)

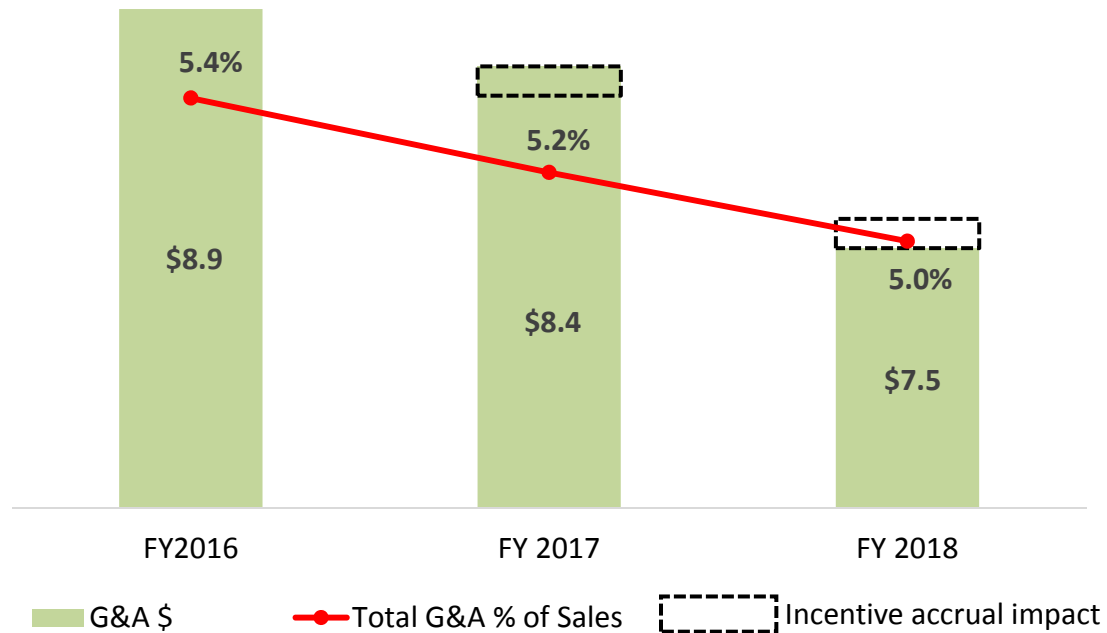


Labor cost headwinds had a 160 bp negative impact on margins in 2018 as wages have increased and efficiencies have been hindered by the lower sales environment



Lower G&A Run Rate (\$M)

G&A costs held in check in 2018, ending the year at 5.0% of net sales
(aided by over-accrued incentives in 2017 and minimal incentive accruals in 2018)



Note: G&A expenses are shown net of non-recurring expenses; 2017 % of sales excludes week 53

Free Cash Flow and Net Debt (\$M)



Unlevered free cash flow remained strong in 2018 as lower capital spend largely offset reduced EBITDA; net debt reduced to \$97 million

	(\$ millions)			
	2015	2016	2017	2018
Total net sales	\$ 144.8	\$ 166.5	\$ 165.5	\$ 153.1
Restaurant level EBITDA	29.7	32.3	28.3	23.3
Adjusted EBITDA	21.6	23.3	19.9	15.8
Capital expenditures	(20.2)	(12.5)	(4.7)	(1.6)
Changes in net working capital	3.9	-	-	-
Taxes	-	-	-	-
Unlevered free cash flow	\$ 5.3	\$ 10.8	\$ 15.2	\$ 14.2
Mandatory debt amortization	\$ (8.2)	\$ (10.0)	\$ (11.5)	\$ (11.6)
Interest	(4.2)	(5.8)	(6.6)	(6.4)
Levered free cash flow	\$ (7.1)	\$ (5.0)	\$ (2.9)	\$ (3.8)
Cash	14.2	4.0	4.4	5.4
Debt	126.3	121.2	113.9	102.4
Net debt	<u>\$ 112.1</u>	<u>\$ 117.2</u>	<u>\$ 109.5</u>	<u>\$ 97.0</u>
Net debt / LTM EBITDA	5.2X	5.0X	5.5X	6.1X



Value Creation – Going Forward

Current Environment

- > Franchisor under new ownership – demonstrated track record
- > Renewed energy and excitement behind the brand
- > Traffic turned positive in Q4 2018 behind new media bridge campaign
- > Significant brand activity rolling out in March 2019

2019

- > Traction from media and promotional changes
- > New menu roll-out and improved food presentation
- > Well positioned to leverage improved commodity cost environment and future sales growth
- > Full re-launch of brand in the fall

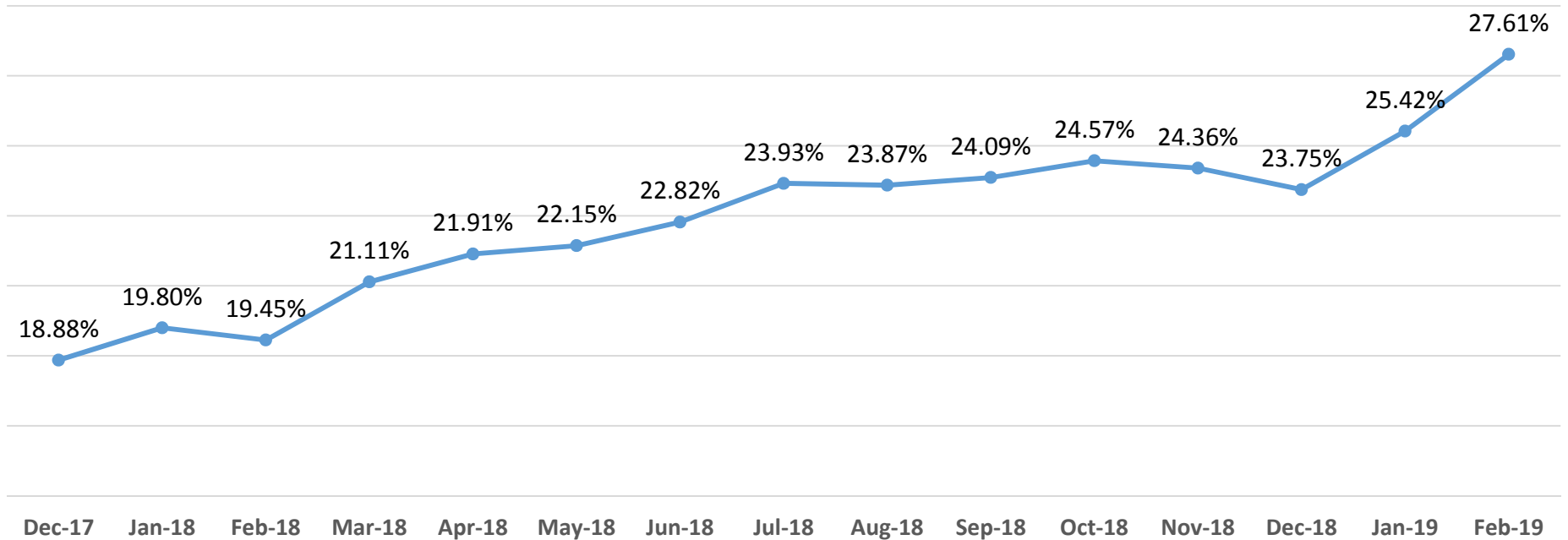
Value Proposition

- > Best in class operations
- > Strong cash flow targeted at debt reduction converts to equity value
- > Tax benefits to offset over \$75 million in pre-tax income



Loyalty Attachment Rates

Blazin' Rewards Loyalty Attachment Rates

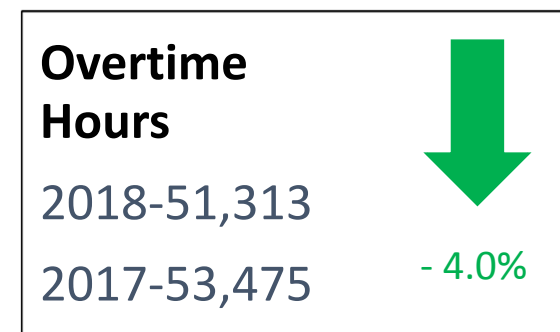
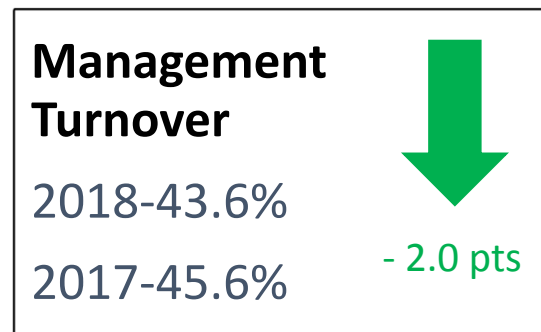
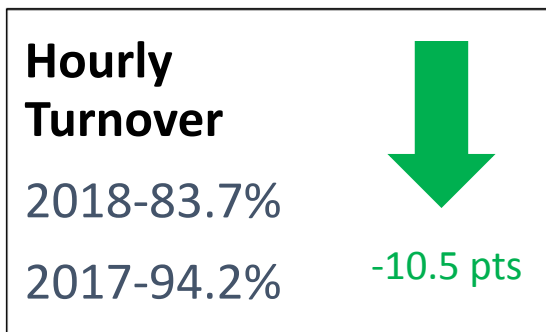
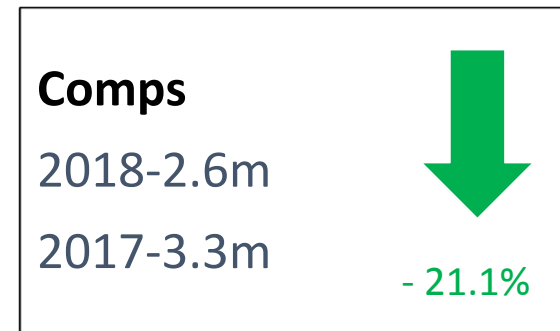
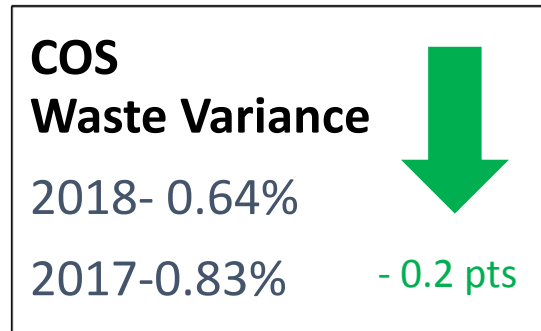
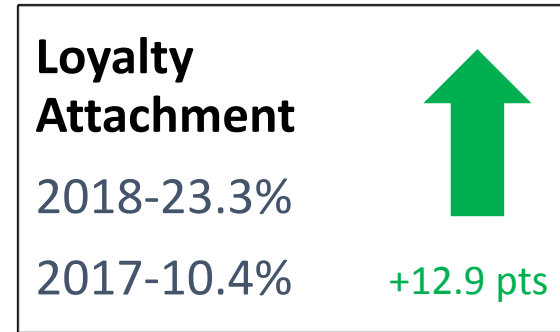
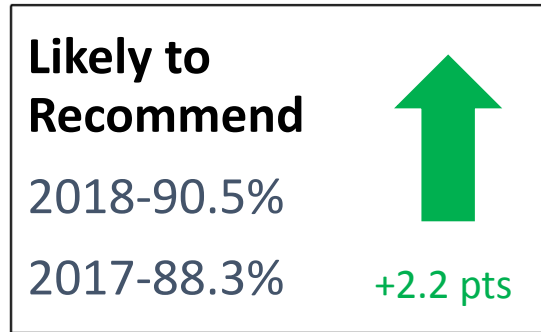


- Our goal is to reach 35% loyalty attachment in 2019
- Multiple data sources suggest that a 35% attachment rate is the point at which the restaurant obtains maximum benefits through higher frequency visits from less regular guests



* Source: internal company data

DRH Continues to Improve its Operations (2018 vs 2017)



¹Consolidated customer ratings from the following sources: Google, Yelp, GrubHub, TripAdvisor, YP, Zomato, Facebook, Foursquare, Insider Pages, and Seamless

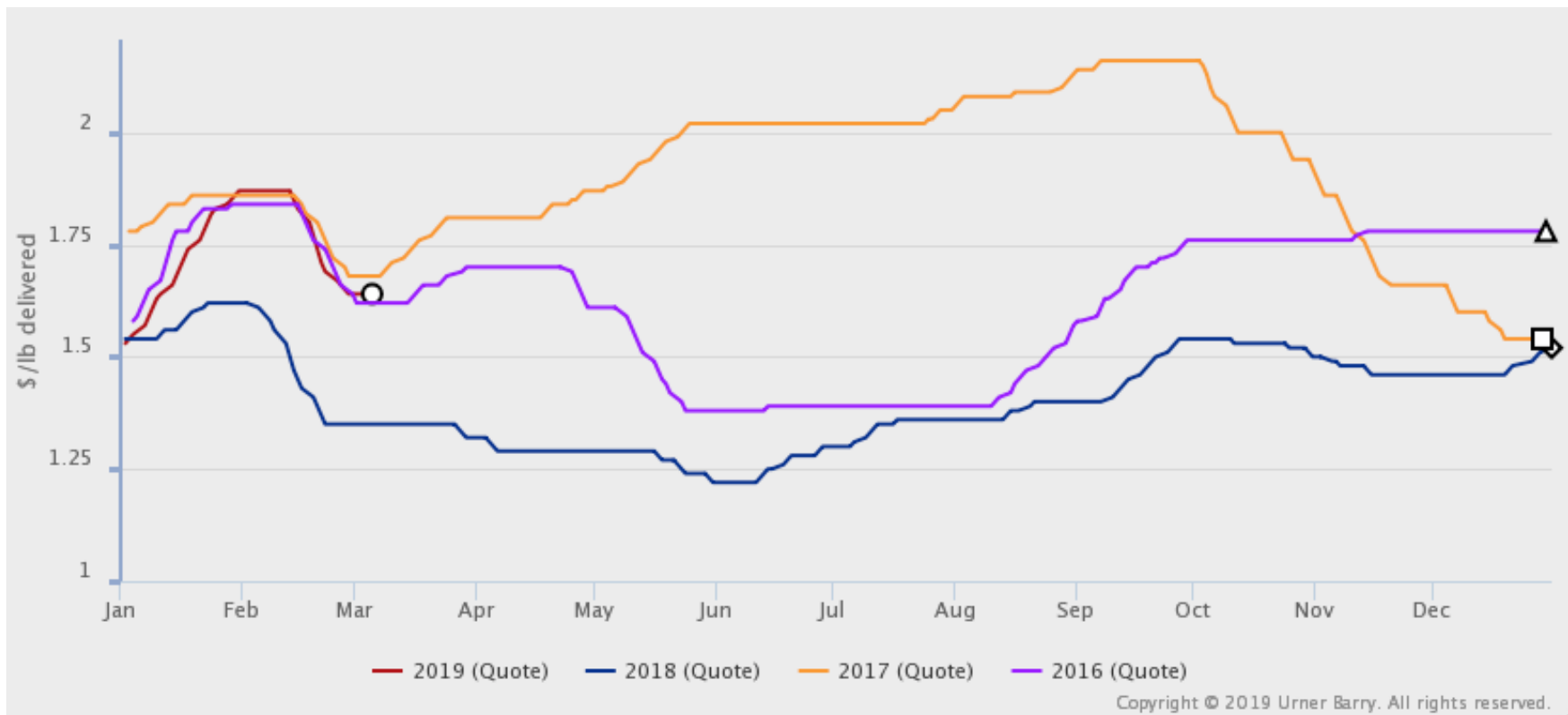


Exhibits

Historical Wing Prices

Volatile fresh wing spot prices had ranged between \$1.41 and \$2.16/lb. since 2015; prices declined significantly since October 2017 and now appear to be following typical seasonal trends

\$ / lb. Fresh Jumbo Northeast Chicken Wing Spot Prices



Source: Urner Barry Comtell™ UB Chicken – Northeast Jumbo Wings as of November 5, 2018
NOTE: Logistics cost to restaurants is now \$0.37 / lb. over the spot price

EBITDA Reconciliation



DIVERSIFIED RESTAURANT HOLDINGS, INC. AND SUBSIDIARIES

Reconciliation between Net Loss and Adjusted EBITDA and Adjusted Restaurant-Level EBITDA

	Three Months Ended (Unaudited)		Fiscal Year Ended (Unaudited)	
	December 30, 2018	December 31, 2017	December 30, 2018	December 31, 2017
Net loss	\$ (2,294,170)	\$ (20,321,712)	\$ (5,003,924)	\$ (20,458,076)
+ Loss from discontinued operations	—	76,564	—	173,925
+ Income tax (benefit) expense	(721,460)	20,513,209	(1,682,995)	18,997,756
+ Interest expense	1,551,223	1,592,573	6,416,531	6,633,709
+ Other income, net	(34,161)	(28,279)	(112,155)	(106,586)
+ Impairment and loss on asset disposal	2,841,235	7,884	3,772,431	310,536
+ Depreciation and amortization	2,356,809	2,966,022	11,532,662	13,115,072
EBITDA	\$ 3,699,476	\$ 4,806,261	\$ 14,922,550	\$ 18,666,336
+ Pre-opening costs	—	—	—	405,448
+ Non-recurring expenses (Restaurant-level)	—	—	166,023	131,000
+ Non-recurring expenses (Corporate-level)	71,355	127,250	721,694	665,333
Adjusted EBITDA	\$ 3,770,831	\$ 4,933,511	\$ 15,810,267	\$ 19,868,117
<i>Adjusted EBITDA margin (%)</i>	<i>9.7 %</i>	<i>11.8 %</i>	<i>10.3 %</i>	<i>12.0 %</i>
+ General and administrative	1,885,625	2,357,429	8,246,709	9,081,866
+ Non-recurring expenses (Corporate-level)	(71,355)	(127,250)	(721,694)	(665,333)
Restaurant-Level EBITDA	\$ 5,585,101	\$ 7,163,690	\$ 23,335,282	\$ 28,284,650
<i>Restaurant-Level EBITDA margin (%)</i>	<i>14.3 %</i>	<i>17.1 %</i>	<i>15.2 %</i>	<i>17.1 %</i>



EBITDA Reconciliation cont.

Restaurant-Level EBITDA represents net income (loss) plus the sum of non-restaurant specific general and administrative expenses, restaurant pre-opening costs, impairment and loss on property and equipment disposals, depreciation and amortization, other income and expenses, interest, taxes, and non-recurring expenses related to acquisitions, equity offerings or other non-recurring expenses. Adjusted EBITDA represents net income (loss) plus the sum of restaurant pre-opening costs, impairment and loss on property and equipment disposals, depreciation and amortization, other income and expenses, interest, taxes, and non-recurring expenses. We are presenting Restaurant-Level EBITDA and Adjusted EBITDA, which are not presented in accordance with GAAP, because we believe they provide an additional metric by which to evaluate our operations. When considered together with our GAAP results and the reconciliation to our net income, we believe they provide a more complete understanding of our business than could be obtained absent this disclosure. We use Restaurant-Level EBITDA and Adjusted EBITDA together with financial measures prepared in accordance with GAAP, such as revenue, income from operations, net income, and cash flows from operations, to assess our historical and prospective operating performance and to enhance the understanding of our core operating performance. Restaurant-Level EBITDA and Adjusted EBITDA are presented because: (i) we believe they are useful measures for investors to assess the operating performance of our business without the effect of non-cash depreciation and amortization expenses; (ii) we believe investors will find these measures useful in assessing our ability to service or incur indebtedness; and (iii) they are used internally as benchmarks to evaluate our operating performance or compare our performance to that of our competitors.

Additionally, we present Restaurant-Level EBITDA because it excludes the impact of general and administrative expenses and restaurant pre-opening costs, which is non-recurring. The use of Restaurant-Level EBITDA thereby enables us and our investors to compare our operating performance between periods and to compare our operating performance to the performance of our competitors. The measure is also widely used within the restaurant industry to evaluate restaurant level productivity, efficiency, and performance. The use of Restaurant-Level EBITDA and Adjusted EBITDA as performance measures permits a comparative assessment of our operating performance relative to our performance based on GAAP results, while isolating the effects of some items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. Companies within our industry exhibit significant variations with respect to capital structure and cost of capital (which affect interest expense and tax rates) and differences in book depreciation of property and equipment (which affect relative depreciation expense), including significant differences in the depreciable lives of similar assets among various companies. Our management team believes that Restaurant-Level EBITDA and Adjusted EBITDA facilitate company-to-company comparisons within our industry by eliminating some of the foregoing variations.

Restaurant-Level EBITDA and Adjusted EBITDA are not determined in accordance with GAAP and should not be considered in isolation or as an alternative to net income, income from operations, net cash provided by operating, investing, or financing activities, or other financial statement data presented as indicators of financial performance or liquidity, each as presented in accordance with GAAP. Neither Restaurant-Level EBITDA nor Adjusted EBITDA should be considered as a measure of discretionary cash available to us to invest in the growth of our business. Restaurant-Level EBITDA and Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies and our presentation of Restaurant-Level EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual items. Our management recognizes that Restaurant-Level EBITDA and Adjusted EBITDA have limitations as analytical financial measures.

