DARDEN RESTAURANTS®

The Wall Street Transcript Publishes Investing in Restaurant Industry Issue

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NEW YORK, Jan. 4 -- Three leading analysts and top management from ten Major Restaurant Industry firms examine the Restaurant Industry sector in the latest issue of The Wall Street Transcript (212-952-7433) or http://www.twst.com/info24.htm.

In a vital review of this sector for investors and industry professionals, this valuable 71-page report features:

1) Investing in the Restaurant Industry -- In an in-depth Analyst Roundtable (14,200 words), Damon Brundage, Vice President of Equity Research with J.P. Morgan Securities, Janice Meyer, Vice President and Senior Restaurant Analyst with Donaldson, Lufkin & Jenrette and Paul Westra, Equity Research Analyst with Credit Suisse First Boston examine investor concerns with multi-concept strategies, eater-ertainment difficulties, minimum wage increases, comps slowdown, overcapacity, vulnerable sectors, industry consolidation, dual branding attempts, overseas markets, the outlook for the sector and specific stock recommendations.

On overcapacity, Westra asserts that in almost all cases, there aren't any companies or sectors where he could see overcapacity creeping back, "A few companies may have modest, nominal unit increases -- Brinker International (NYSE: EAT), which is adding maybe 10 or so more stores in 2000 versus 1999 -- but no major chains come to mind that are materially increasing their unit growth rates in percentage terms. The only sector that may scare us a bit in the near future is the pizza category. There, we see Pizza Hut and Little Caesers continuing to close units, but this segment could face an accelerated rollout of Donato's, which was recently purchased by McDonald's (NYSE: MCD). The industry has never experienced zero supply growth in any year other than in a recession. What is interesting is that investors are myopically focused on restaurant demand because, from prior experience, they know to only buy restaurant stocks when demand is at recessionary lows. However, we firmly believe that it is not demand in and of itself that creates the Goldilocks environment during recessions because real demand growth swings only about 200 basis points, from about +3.5% at peak levels to about +1.5%, during recessionary lows. As a result, it is really how changes in demand affect supply growth that drive industry fundamentals."

On labor issues, "Fast food chains pay much higher than the minimum wage in order to get the quality work force that they need," says Meyer, "But again, it's true through the whole spectrum of restaurants. They are giving stock options to tie people in more closely to the company. Outback (Nasdaq: OSSI) and P.F. Chang's (Nasdaq: PFCB) have a partner program whereby they offer certain employees participation in the cash flows of the restaurant to make them act and feel like owners rather than hired hands. Companies are focusing on better training, recruiting, and benefits."

According to Meyer, "we're going to see almost everybody raise prices. Frankly, if they cannot take pricing in this environment, they ought to be rethinking their careers! Outback and Carrabba's just took a price increase; Cracker Barrel (Nasdaq: CBRL) is going to take one; Bob Evans (Nasdaq: BOBE) already has. I do not think most will be north of 5%, but 1-4% is probably a reasonable range. It will be an interesting test of the strength of demand. Normally, when you raise prices you lose customers, so the customer reaction will tell us a lot about how great, or how fragile, this environment really is. We are optimistic, as long as the price increases are modest."

Westra states "TRICON (NYSE: YUM) has the most potential dual-branding opportunity. They have had small successes on a local basis, but they are still far away from achieving national results. As a result, we are still waiting to see what the data suggests as TRICON rolls out additional dual-branded sites. Like a multiple concept strategy, dual-branding works on paper because it can help a dinner-focused brand like KFC add lunch sales by offering Taco Bell products through the same fixed-cost facility. However, the dual-branding model adds a lot of complexity inside the restaurant that could result in substandard execution, such as slower service times and lower order-accuracy rates -- not to mention that there could be a qualitative weakening of the overall brands."

On international expansion, Brundage states, "Wendy's has had a miserable record when it comes to expanding outside of the U.S. Just about anything that could have gone wrong has gone wrong. It's been a combination of poor site selection, not doing a really good job operating the stores and selecting franchisees who perhaps didn't have as good a feel for the market and weren't as committed to the Wendy's brand as McDonald's international franchisees are. Wendy's does a very good job of running restaurants in this country, but as of today they have not demonstrated much of an ability to grow the brand outside North America and I don't see this changing much in the next three to five years."

On the multi-concept strategy, Brundage says, "In the casual dining sector, there seems to be an upper limit of around 1,500-2,000 stores. That is, even successful, well regarded brands will probably not be able to grow much beyond this point. So at some point, every company is going to need to develop a credible second concept. Having said that, there is one exception, Darden Restaurants (NYSE: DRI), which has two successful chains. I cannot identify another company that has successfully cracked this code -- developed an appealing 300-400 second act unit."

For a free brief interview excerpt in which Meyer explains why she likes P.F. Chang's, see http://archive.twst.com/notes/articles/jae480.html.

The panel goes on to offer recommendation about which sector stocks are most likely to reward investors.

For a free brief interview excerpt in which Westra explains he is recommending investors be aggressive buyers of The Cheesecake Factory (Nasdaq: CAKE), see http://archive.twst.com/notes/articles/jae480a.html

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    This 71-page Investing in Restaurant Industry Issue also includes:
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2) The TWST confidential Off-The-Record survey of management performance at 20 Restaurant Industry firms asked market insiders about the ability of management teams to create shareholder value by successfully promoting their firm's growth and effectively handling labor issues.

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    Firms reviewed in Off-The-Record include:
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Bob Evans Farms, Brinker International, Buca, The Cheesecake Factory, CEC Entertainment, CBRL Group, Darden Restaurants, Dave&Buster's, IHOP Corporation, Max & Erma's Restaurants, McDonald's, Outback Steakhouse, Papa John's, P.F. Chang's China Bistro, PJ America, Rare Hospitality, Roadhouse Grill, Sonic Corporation, Starbucks, Tricon Global Restaurants, Inc.

3) Ten (average 2,500 words) CEO Interviews with top management from the following sector firms discussing their future plans and outlook for their firm and the Restaurant Industry sector:

Applebee's International, Arthur Treacher's, Berentzen-Gruppe AG; Eateries, Inc, Frisch's Restaurants, Main Street & Main, Inc., New World Coffee - Manhattan Bagel, P.F. Chang's China Bistro, Soul Food Concepts and Total Environment Restaurant Corp.

To obtain a copy of this insightful 71-page report, see http://www.twst.com/info24.htm or call 212-952-7433. This special section is also included in the CONSUMER Sector of TWST Online at http://www.twst.com/subscribe/consum.html.