

Date: 9 December 2002

Definition of Ratings:

Buy: Undervalued by 20%

Hold: Fairly Valued

Sell: Overvalued by 20%

Time Frame: 12 Months

Industry: Restaurants

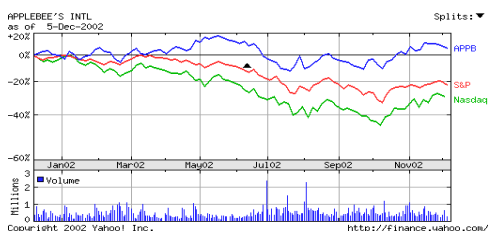
Market Cap: \$1.39B
Shares Outstanding: 55.2M
Price: \$25.22/share
52 -wk High: \$27.667/share
52 -wk Low: \$19.03 / share
Target Price: \$ 32 /share
EPS (mrq): \$0.37 /share
Beta: 0.33

Applebee's Internationals, Inc.



McDonald's of Casual Dining!

- Buy!



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Executive Summary:

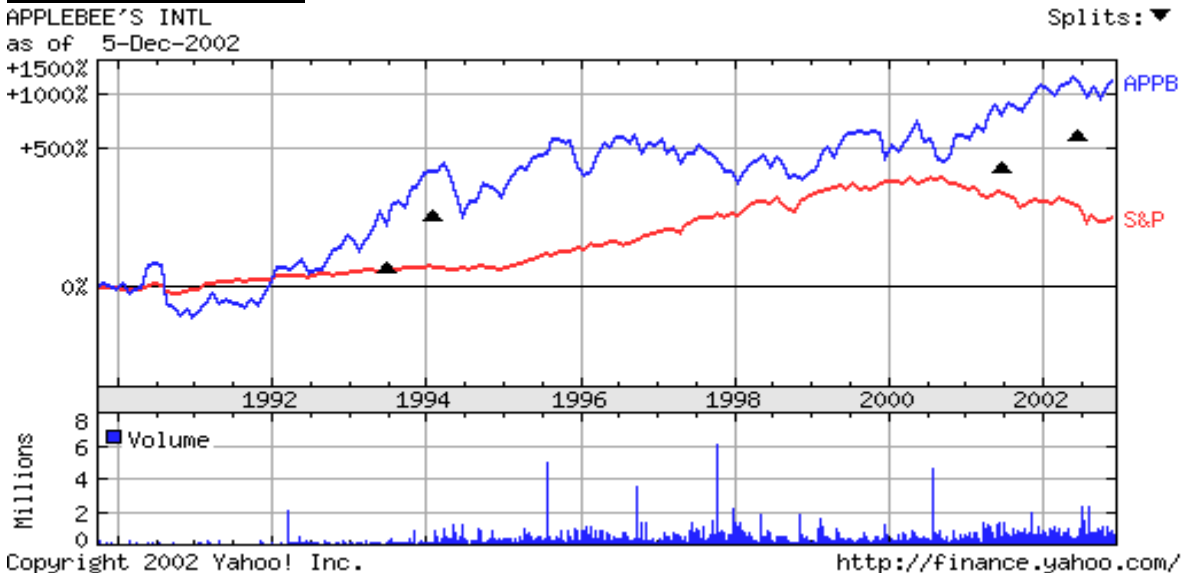
- Despite the economic downturn, APPB is still able to maintain same stores sales growth. APPB has initiated the "To Go" concept as a tactical strategy to spur same stores sales growth.
- The company should be able to maintain current growth rates (new stores) for the next five years. However, long-term growth for the company remains weak.
- 77% of the restaurants are franchises and the company intends to reduce this percentage to 70% in the coming years. We think that the plan to reduce the number of franchises may signify possible problems with the franchise network.
- APPB's P/E ratio is slightly higher than the mean P/E ratio for the casual dining segment. However, we think that APPB should have a higher P/E ratio given that APPB has the lowest beta in the casual dining segment (0.33 for APPB vs 0.51 for casual dining segment).
- Our base case discounted cash flow valuation scenario estimates the intrinsic value of the shares at \$32 per share, almost 30% higher than closing price of \$25.22 on 6 December 2002.



Recent Development

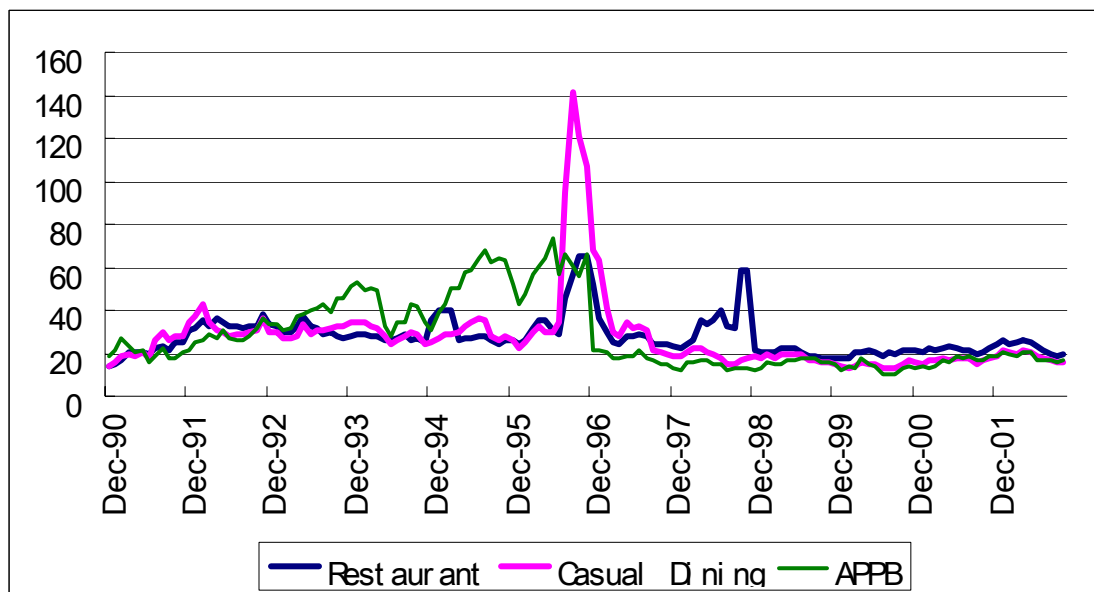
- Nov. 7, 2002--Applebee's International, Inc. announced today that it has completed the previously announced acquisition of 21 franchise restaurants located in the Washington, D.C. area. Lloyd L. Hill, chairman and chief executive officer, said, "We welcome this team of associates to Applebee's International, and look forward to accelerating development in this market. The addition of these restaurants brings our company ownership to 24 percent of the system total."
- Applebee's International Inc.'s November system-wide same-store sales rose 5.2%, helped by the shift of Thanksgiving into the fiscal December period. In a press release Monday, the casual dining restaurant chain said the exclusion of the Thanksgiving holiday this year boosted same-store sales for the four weeks ended Nov. 24 between 3% and 3.5%. However, the company anticipates this shift will hurt December 2002 same-store sales.
- Applebee's International Inc. formed Neighborhood Insurance Inc. on Sept. 20, according to a Form 10-Q filed with the Securities and Exchange Commission. The company said in the filing from Friday that it established the captive insurance company unit, based in Vermont, to provide it and its franchisees with workers' compensation and general liability insurance.

Trading Performance



When we look back at Applebee's stock price performance ever since its public offering. We see a clear higher growth than the market. However, the stock has a beta of around 0.3, which indicates weak relationship with the market performance, which may be a good pick for today's market situation.

P/E Ratio



Comparable analysis (Based on Dec.4th prices)

	Ticker	Beta	Leverage Ratio	P/E	PEG	P/B	P/S	EV/EBITDA	Short Ratio
Casual Dining									
Applebee's International	APPB	0.33	0.1	18.32	1.17	3.65	1.76	3.26	4.26
O'Charley's Inc.	CHUX	0.61	0.57	16.86	0.83	1.71	0.82	7.46	7.52
Darden Restaurants	DRI	0.38	0.57	15.18	0.93	2.81	0.78	4.63	1.33
Brinker International	EAT	0.67	0.45	18.64	0.91	2.98	1.01	4.65	5.17
Landy's Seafood Restaurant	LNY	0.32	0.18	15.52	0.98	1.12	0.7	6.68	6.84
Outback Steakhouse Inc.	OSI	0.92	0.03	17.04	1.16	2.47	1.14	3.01	7.74
Ruby Tuesday	RI	0.36	0.64	18.88	0.64	2.77	1.36	9.15	10.7
Mean		0.51	0.36	17.21	0.95	2.50	1.08	5.55	6.22
Median		0.38	0.45	17.04	0.93	2.77	1.01	4.65	6.84

Restaurant Industry									
Mean		0.56	0.5	20.91		3.16	1.36		5.75
Median		0.56	0.19	14.14		2.23	1.01		3.14

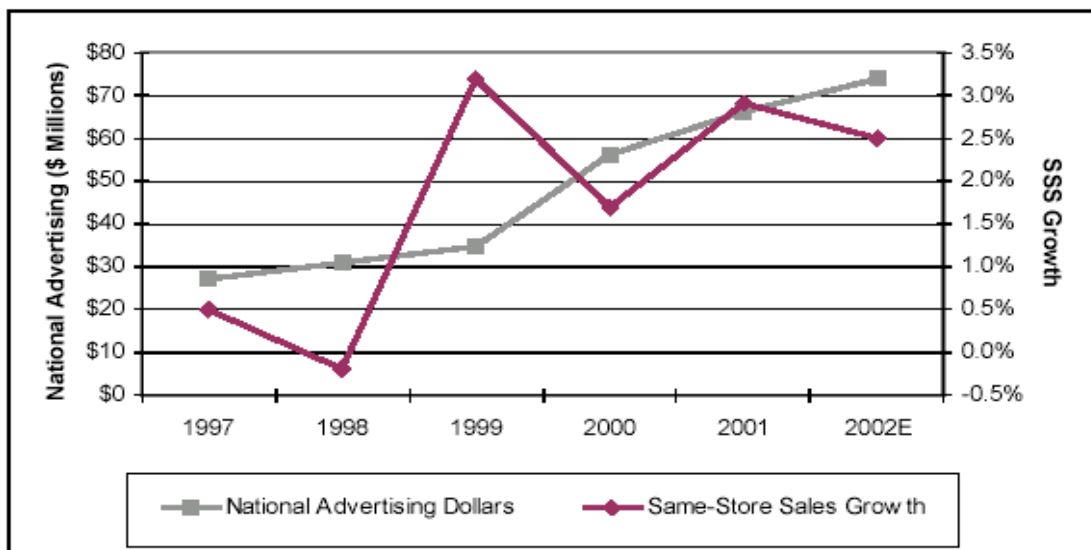
Data source: Yahoo!
Finance

From the historical P/E ratios comparison, Applebee used to be traded at a premium compared to the restaurant industry average and the casual dining sector. However, ever since 1996, when Applebee bought the Rio Bravo, the stock was traded almost at an industry average level. After the company sold out those not well managed new concept restaurants, the stock trading position began to recover a little bit, but still hanging round the industry average and the sector average. Currently, according to 12/05/2002 price, the stock was traded at a P/E of 18, slight higher than the sector average of 17. However, we

consider this stock should be traded constantly higher than the sector average, therefore, we foresee a big room of recovery for the stock in the future.

Business Strategy

- 78% units are from franchise. Average over 100 new restaurants opening annually. Franchising is not normal in casual dining sector. Most of the companies in this sector tend to have their owned restaurants due to relative complicated food processing and menus. This strategy of Applebee has enables it to grow faster than other casual dining restaurants, while still gaining specialty in franchise management.
- Applebee brand focused restaurants, target 2300 restaurants nationwide for this brand name alone. Most other casual dining companies have a portfolio of brand names.
- New Concepts to be developed or purchased should be supplementary to Applebee and be a nationwide acceptable concept or brand name.
- Cautious international expansion strategy.
- Powerful and worthy advertising nationwide. The company spends above 70 million dollars in national advertising, and the advertising dollars does seem to pay back in terms of sales growth.



Source: CIBC World Markets Corp. and company information

Cautious International Expansion

The company is currently focusing on international franchising in Canada, Latin America and the Mediterranean/Middle East and has development agreements with 15 international franchisees.

Business Concept

Each Applebee's restaurant is designed as an attractive, friendly, neighborhood establishment featuring moderately priced, high quality food and beverage items, table service and a comfortable atmosphere. The restaurants appeal to a wide range of customers including young adults, senior citizens and families with young children.

New Concepts Strategy

- Will finally purchase new concepts in the future, but not in near term
- The concept should be a nationwide acceptable
- The new concepts won't detriment Applebee's brand name
- Will history repeat itself (as in the case of Rio Bravo Cantina)?

Company acquired the Rio Bravo Cantina chain of Mexican casual dining restaurants in March 1995. On April 12, 1999, they completed the sale of the Rio Bravo Cantina concept, which was comprised of 65 restaurants. They operated 40 of these restaurants and franchisees operated the remaining 25 restaurants. On April 26, 1999, they completed the sale of our four specialty restaurants, which they had also acquired in 1995.

Though a late-comer to the take-out business, Applebee's is now positioned to aggressively pursue take-out sales. Without a formal program, take out runs 4% of sales. Take out will be rolled out in two phases:

Phase one: By end of summer 2002, all stores had in-store signage and newly designed packaging that keeps the food organized, easy to carry and visible. We think this is a first in casual dining, providing a slight near-term competitive advantage. The company does not plan to advertise the *To Go* service in phase one.

Phase two: By next spring, stores will add curb side services, where the customer can have a server deliver the food to the car in the parking lot. Once the kinks have been worked *To Go* will begin getting national advertising support.

The new focus on *To Go* will include new food packaging, which we have seen and think is distinctly different from competitive packaging. We expect that these efforts will result in a higher percentage of total sales generated from takeout business as customers realize how convenient takeout at Applebee's will be. Due to its market penetration and "neighborhood" locations, Applebee's may very well be the ultimate "fast casual" concept for investors looking for a play in this area.

Growth

In 1992 the Applebee's restaurant chain consisted of 250 units. Today, just ten years later, there are more than 1,400 units, and the concept is still growing. This casual dining concept is going on ten years of opening more than 100 units per year, or more units annually than most chains have units. In May 2002, the Company revised its unit potential to 2,300, up from its previous target of 1,800 units.

Revenue

By end of 3rd quarter of 2002, APPB has 1458 restaurants of which, 1129 are franchises and 329 are self-operated. Aside from the \$30,000 to \$35,000 initial fee, the franchises pay royalties of 4% of sales to APPB. As APPB does not need to bear the operating costs of the franchise restaurants, most of the franchise income (averaging about \$90,000 per franchise) flows directly to the net income after accounting for general and administrative expenses.

With the 77% and 23% franchise/self-operated restaurants breakdown in the APPB chain, the franchise income constitutes a large portion of APPB's earnings. The management had expressed that it plans to acquire more franchises, expecting franchises to have a 70% proportion of total restaurants in the next few years (we will follow up with a discussion of the management's franchise acquisition strategy in the following section when we discuss APPB's growth opportunities). Our model assumes that management will put their plan in play and will slowly increase the proportion of self-operated restaurants in the next few years.

An analysis of change in comparable restaurant sales provided by the company shows that restaurants sales have shown annual increases ranging from 1.6% to 4.4% for the past three years.

Change in comparable restaurant sales

	2001	2000	1999
Company	2.5%	1.8%	4.4%
Franchise	3.0%	1.6%	2.9%
Total	2.9%	1.7%	3.2%

Although comparable store sales for franchises have been significantly higher than comparable store sales for the company for the past few quarters, research by US Bancorp has shown that neither sales from company-operated stores nor franchise-operated stores were consistently superior.

We assume conservatively that going forward, comparable store sales growth will be about 2% after considering the current economic environment as well as the company's new "To Go" concept. Although there may be some upside to the new concept, we believe that a large portion of new sales will come at the expense of dining-in sales, resulting in marginal increase in net sales.

The management has also expressed that it believes the full market potential in the US for APPB is 2,300 restaurants instead of 1,800 restaurants (management's earlier estimate). APPB had been opening more than 100 restaurants annually for the past three years and given that APPB had 1,392 restaurants at end of 2001, we believe that APPB will continue to expand at about 100 stores for the next five years. Although we have concerns whether the new estimate of 2,300 restaurants is a ploy to convince investors of



continuing growth for APPB, we do think that having 1,992 stores by end of 2007 is an achievable one.

Costs

Likewise in our CAKE report, the costs for APPB have been constant (in relation to sales) for the past few years. We do not see any significant changes in the cost structure for the next few years.

However, unlike CAKE, a large portion of APPB's cost is general and administrative expenses, which includes advertising. APPB spent about 4.3% of self-operated restaurants sales on advertising while franchises have to spend 2.25% of sales for national advertising as well as 1.5% of sales on local advertising. According to US Bancorp, APPB's advertising is among the largest for casual dining chains. The advertising by APPB has a significant impact in reinforcing APPB's image and presence as a casual dining chain in the consumer market. The advertising arrangement with APPB also ensures that APPB will continue to have adequate financial resources to conduct national advertising.

Given the advertising arrangement with the franchises, we believe that APPB will continue to maintain the same advertising/sales proportion for self-operated restaurants to keep the system intact. Since general and administrative expenses have been fairly constant (in relation to sales) for the past few years, we assume that the similar cost structure will continue in the following years.

Self-Operated Restaurants vs. Franchises

We are concerned with the management's plan to acquire franchises to bring the proportion of franchise restaurants from 77% to 70% in the next few years. In our analysis of self-operated companies, we find that on average, the net margin for self-operated restaurants is about 5% to 6% of sales. Even if we are to argue that general and administrative expenses are largely fixed, considering that gross margin is about 15% of sales, we think that acquiring a franchise and converting it into a self-operated restaurant is not to APPB's financial advantage.

On average, a self-operated restaurant generates about \$2.2 million revenue annually. 15% of that provides \$330,000 of gross income. Capital expenditure for a new APPB restaurant is about \$2.1 million. Not counting the pre-opening expenses of about \$72,000, this means that APPB will need 6 to 7 years to generate enough gross earnings to get back its capital expenditure. Of course, the back of the envelope analysis does not consider time value of money, the annual increase in restaurant sales as well as the possibility that franchises might sell to APPB at a discount of the capital expenditure that is required to open a new store.

However, considering that franchises are paying royalties of about 4% of sales and contributing 2.25% of sales to national advertising, it does not make financial sense for APPB to proactively acquire franchises that are already generating to APPB's bottom line. Indeed, in our NPV analysis, we find that reducing the proportion of franchises causes the valuation of the company to decrease. Nonetheless, in our model, we assume that management will carry out their plan and we have hence, modeled it as such.

Since the plan does not seem to improve APPB financially, why would APPB plan to reduce the proportion of franchise restaurants? There are two reasons that we can think of for doing so. A plan to actively acquire franchises could be used to resolve any quality issues or inconsistent service standards caused by the franchises. The plan could also be conceived to "rescue" franchises that are not doing well. Either way, this signifies that there are inherent problems with the chain and the plan to acquire franchises should have a depressing effect on the stock.

Valuation

Our DCF valuation result gives us a target price of \$32, within a range of \$26 to \$42 per share, by assuming the company's perpetual growth rate to be 2% and a CAPM discount rate ranging from 5.62% to 7.62% (risk free rate is 4.25% and market risk premium is 8.5%).

Competition

Applebee's is presently the largest casual dining chain in the country. The company operates more than 1400 single concept units; almost double the nearest competitor as the chart below demonstrates:

Unit Count as of 12/31/01	
Applebee's	1354
Chili's Grill and Bar	712
Ruby Tuesday	525
TGI Friday's	512
Bennigan's	280

The casual dining segment is divided by size into mega, large, medium, small, and small town markets. In each sector, Applebee's is a dominant player with either the number one or number two positions¹.

- **Mega Markets**

Mega markets are those markets with more than 1.75 Million households. In the mega market segment, Applebee's shares the number one position with Chili's. Management intends to increase the penetration of this market by opening approximately 187 additional stores, which represents a 63.82% increase.

- **Large markets**

These are markets with between 750,000 and 1,750,000 households. In this market, Applebee's enjoys the number one position with a clear margin. The next

¹ CIBC World Markets, Equity Report, October 8, 2002



closest competitor, Chili's, only operates roughly half the number of Applebee's stores.

- ***Medium markets***

Medium markets are defined as markets with between 275,000 and 750,000 households. Applebee's™s enjoys a dominant position in this segment. Management plans to expand the number of stores in this segment by 57%.

- **Small markets**

In markets with between 50,000 and 275,000 households, Applebee's enjoys a substantial leadership position and outpaces the competition significantly with over three times as many stores as the closest competitor.

- **Small town markets**

Small town markets are defined as those towns with households of 50,000 or less. Applebee's™s currently dominates this sector as well. Management expects to expand their presence in small town markets by approximately 100%

Applebee is a clear leader in the casual dining segment and employs a three prong competitive strategy that works. The company focuses on growth/expansion of stores, a solid advertising campaign that reinforces the brand and a menu pricing structure at the lower end of the casual dining segment.

Management

Applebee's's management team lineup is made up of seasoned industry veterans who have been with the firm for seven years or more. The key executives are:

Lloyd L. Hill is chairman of the board of directors, chief executive officer, and president. Mr. Hill joined Applebee's's International, Inc. in February 1994. Prior to Mr. Hill's joining Applebee's, he was president of Olsten Kimberly Quality Care in Boston, Massachusetts.

George D. Shadid is the chief operating officer of Applebee's's International, Inc. Mr. Shadid joined Applebee's's International, Inc. as chief financial officer in August 1992. Prior to joining Applebee's, Mr. Shadid served as vice president and chief financial officer at Gilbert/Robenson.

Steven K. Lumpkin is the chief financial officer of Applebee's's International, Inc. Mr. Lumpkin was promoted to this position in January 2002. Mr. Lumpkin has been with the firm for seven years. Before joining the Company, he was a senior vice president with a division of the Olsten Corporation.

The management team has a clear track record of implementing a careful yet rapid expansion of the company's business. The major concern surrounding the management – the Rio Bravo acquisition – has been resolved.



Risk & Concerns

Slowing Economy: This is an industry-wide and economy wide problem, a prolonged downturn in the economy affects revenues, and therefore profits as consumers reduce their purchases or frequency of purchases. Restaurants are typically less affected than other sectors and Applebee's should be less affected than other players in the casual dining sector as their menu is priced at the lower end of the group.

Expansion Delays: The Company's growth rate of revenues and profits are highly dependent on new store openings. A delay in the rate of store openings would negatively affect earnings. Expansion delays can occur for a variety of reasons such as construction delays and the lack of availability of choice site locations.

Slower Same-Store Sales: With over 1400 existing stores, same store sales are an important component of the Company's financial health, a significant decrease in same store sales would have a material impact on the firm's financial condition.

Ownership Structure¹

Insiders and large owners presently own approximately 33% of the company. Institutional investors own a large percentage of the company estimated at 85%. In the last quarter, there was net institutional buying of two hundred and ninety nine thousand shares.

Import Disclaimer

Please read this document before reading this report.

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Appendix 1

¹ Source: Yahoo *Finance*

Applebee's International Inc. - Assumptions

General Information

Project Name	APPB
Fiscal Year	31-Dec
Update Time	8-Dec
Years of Cash Flow	5

Terminal Value

Perpetual Growth Rate (%)

Perpetual Growth Rate (%)	1.00	2.00	3.00
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Leverage ratio 0.1

Tax rate 36.5%

Cost of debt prime rate

	upside case	Base case	downside case
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<u>WACC</u>	<u>5.62%</u>	<u>6.62%</u>	<u>7.62%</u>
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Risk Free Rate (prime rate)

4.25%

Risk Premium

8.5%

Beta

0.33

Cost of Equity

7.06%

Data from Yahoo! Finance**Appendix 2**

Applebee's International, Inc. - Financials

Based on management's expansion plan												
in thousand dollars, except per share data												
	Historical							Projections				
	1,998	1,999	2,000	2,001	Q1'02	Q2'02	Q3'02	Q4'02E	2,002	2,003	2,004	2,005
Income Statement												
Revenue	647,562	669,584	690,152	744,344	199,813	204,377	208,840	208,556	821,586	912,592	1,034,603	1,158,984
<i>Growth Rate %</i>		3.4%	3.1%	7.9%	2.3%	2.2%	2.2%	-0.1%	10.4%	11.1%	13.4%	12.0%
Company Restaurants Sales	580,840	596,754	605,414	651,119	174,973	178,893	182,807	183,150	719,823	806,718	921,274	1,037,755
<i>Growth Rate %</i>		2.7%	1.5%	7.5%	2.2%	2.2%	2.2%	0.2%	10.6%	12.1%	14.2%	12.6%
Franchise income	66,722	72,830	84,738	93,225	24,840	25,484	26,033	25,406	101,763	105,874	113,329	121,229
<i>Growth Rate %</i>		9.2%	16.4%	10.0%	2.6%	2.2%	2.2%	-2.4%	9.2%	4.0%	7.0%	7.0%
Cost of Goods Sold												
Costs of food, beverages, and supplies	159,420	163,865	166,014	175,977	47,407	47,073	47,765	47,855	190,100	210,785	240,717	271,151
<i>as % of Restaurant Revenue</i>	27.4%	27.5%	27.4%	27.0%	27.1%	26.3%	26.1%	26.1%	26.4%	26.1%	26.1%	26.1%
Labor	185,260	188,538	191,402	208,996	57,457	58,881	60,054	60,167	236,559	265,015	302,648	340,913
<i>as % of restaurant Revenue</i>	31.9%	31.6%	31.6%	32.1%	32.8%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%
Direct and occupancy	146,693	145,747	151,611	164,965	42,872	44,291	47,009	47,097	181,269	207,448	236,907	266,860
<i>as % of restaurant Revenue</i>	25.3%	24.4%	25.0%	25.3%	24.5%	24.8%	25.7%	25.7%	25.2%	25.7%	25.7%	25.7%
Pre-opening expense	3,093	1,582	1,659	1,701	335	305	792	576	2,008	3,240	2,952	3,096
<i>as % of restaurant Revenue</i>	0.5%	0.3%	0.3%	0.3%	0.2%	0.2%	0.4%	0.3%	0.3%	0.4%	0.3%	0.3%
Total cost of company restaurant sales	494,466	499,732	510,686	551,639	148,071	150,550	155,620	155,695	609,936	686,488	783,223	882,021
<i>as % of restaurant Revenue</i>	85.1%	83.7%	84.4%	84.7%	84.6%	84.2%	85.1%	85.0%	84.7%	85.1%	85.0%	85.0%
General and administrative	58,044	63,338	65,060	72,935	19,246	19,553	20,049	20,856	79,704	91,259	103,460	115,898
<i>as % of Revenue</i>	9.0%	9.5%	9.4%	9.8%	9.6%	9.6%	9.6%	10.0%	9.7%	10.0%	10.0%	10.0%
Amortization of intangible assets	5,538	5,997	5,934	5,851	138	52	95	1,877	2,162	8,213	9,311	10,431
<i>as % of Revenue</i>	0.9%	0.9%	0.9%	0.8%	0.1%	0.0%	0.0%	0.9%	0.3%	0.9%	0.9%	0.9%
Loss on disposition of restaurants and equipment	952	5,607	1,265	1,493	294	727	458	626	2,105	2,738	3,104	3,477
<i>as % of Revenue</i>	0.1%	0.8%	0.2%	0.2%	0.1%	0.4%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%
Operating income	88,562	94,910	107,207	112,426	32,064	33,495	32,618	29,503	127,680	123,894	135,504	147,157
<i>as % of Revenue</i>	13.7%	14.2%	15.3%	15.1%	16.0%	16.4%	15.6%	14.1%	15.5%	13.6%	13.1%	12.7%
Interest Expense (net)	(9,922)	(10,814)	(9,304)	(7,456)	(633)	(555)	(414)	(348)	(1,950)	(8,192)	(9,287)	(10,404)
<i>as % of Revenue</i>	-1.5%	-1.6%	-1.3%	-1.0%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.9%	-0.9%	-0.9%
Interest Income	1,131	1,195	1,484	1,650	397	381	346	417	1,541	1,784	2,022	2,266
<i>as % of Revenue</i>	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Other income (expense)	638	-444	551	(2,744)	101	482	513	122	1,218	44	50	56
<i>as % of Revenue</i>	0.1%	0.1%	0.1%	-0.4%	0.1%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%
Income before Tax and extraordinary items	80,409	85,735	99,938	103,876	31,929	33,803	33,063	29,694	128,489	117,530	128,290	139,075
<i>Pretax margin</i>	12.4%	12.8%	14.5%	14.0%	16.0%	16.5%	15.8%	14.2%	15.6%	12.9%	12.4%	12.0%
Income tax	29,753	31,537	36,777	38,226	11,654	12,338	12,068	10,838	46,898	42,898	46,826	50,763
<i>Tax rate</i>	37.0%	36.8%	36.8%	36.8%	36.5%	36.5%	36.5%	36.5%	36.5%	36.5%	36.5%	36.5%
Net income before non-recurring	50,656	54,198	63,161	65,650	20,275	21,465	20,995	18,855	81,590	74,631	81,464	88,313
Non-recurring charge	641		1,249									
Net income after non-recurring	50,015	54,198	63,161	64,401	20,275	21,465	20,995	18,855	81,590	74,631	81,464	88,313
<i>as % of Revenue</i>	7.7%	8.1%	9.2%	8.7%	10.1%	10.5%	10.1%	9.0%	9.9%	8.2%	7.9%	7.6%
Working Capital Schedule												
Accounts Receivable	17,159	13,563	22,101	22,827	22,827	23,706	25,207	24,396	24,027	25,313	28,698	32,148
<i>Turnover</i>	10	7	12	11					11	10	10	10
<i>as % of Revenue</i>	2.6%	2.0%	3.2%	3.1%	11.4%	11.6%	12.1%	11.7%	2.9%	2.8%	2.8%	2.8%
Inventory	6,709	11,247	12,616	10,165	12,011	10,653	7,070	10,240	10,029	13,132	14,983	16,873
<i>Turnover</i>	5	8	9	7					6	7	7	7
<i>as % of COGS</i>	1.4%	2.3%	2.3%	1.8%	8.1%	7.1%	4.5%	6.6%	1.6%	1.9%	1.9%	1.9%
Other current assets	4,395	5,419	6,389	12,260	10,292	10,161	13,782	11,625	11,449	9,955	11,286	12,643
<i>Turnover</i>	2	3	3	6					5	4	4	4
<i>as % of Revenue</i>	0.7%	0.8%	0.9%	1.6%	5.2%	5.0%	6.6%	5.6%	1.4%	1.1%	1.1%	1.1%
Total Current Assets excluding cash and T/S	28,263	30,229	41,106	45,252	45,130	44,520	46,059	46,261	45,504	48,401	54,966	61,663
<i>as % of Revenue</i>	4.4%	4.5%	6.0%	6.1%	22.6%	21.8%	22.1%	22.2%	5.5%	5.3%	5.3%	5.3%
Accounts Payable	17,427	16,966	26,556	22,196	23,658	25,588	28,106	26,486	25,940	28,003	31,949	35,979
<i>Turnover</i>	13	12	19	15					16	17	17	17
<i>as % of COGS</i>	3.5%	3.4%	5.2%	4.0%	16.0%	17.0%	18.1%	17.0%	4.3%	4.1%	4.1%	4.1%
Current debt	1,666	1,807	894	43	45	47	375	157	154	1,245	1,420	1,599
<i>Turnover</i>	1	1	1	0	0	1	1		0	0	0	0
<i>as % of COGS</i>	0.3%	0.4%	0.2%	0.0%	0.0%	0.0%	0.2%	0.1%	0.0%	0.2%	0.2%	0.2%
Other Payables	46,858	58,889	66,385	75,507	65,772	93,108	38,600	68,022	66,619	80,827	92,217	103,849
<i>as % of COGS</i>	9.5%	11.8%	13.0%	13.7%	44.4%	61.8%	24.8%	43.7%	10.9%	11.8%	11.8%	11.8%

Appendix 3 Revenue and Cost Projection



	1998	1999	2000	2001	2002 1Q	2002 2Q	2002 3Q	2002 4Q	2002	2003	2004	2005	2006
Revenue													
Restaurant Sales	580,840	596,754	605,414	651,119	174,973	178,893	182,807	183,150	719,823	806,718	921,274	1,037,755	1,163,290
percentage of total rev	89.7%	89.1%	87.7%	87.5%	87.6%	87.5%	87.5%	87.8%	87.6%	88.4%	89.0%	89.5%	90.0%
Franchise Income	66,722	72,830	84,738	93,225	24,840	25,484	26,033	25,406	101,763	105,874	113,329	121,229	129,205
	10.3%	10.9%	12.3%	12.5%	12.4%	12.5%	12.5%	12.2%	12.4%	11.6%	11.0%	10.5%	10.0%
Total Revenue	647,562	669,584	690,152	744,344	199,813	204,377	208,840	208,556	821,586	912,592	1,034,603	1,158,984	1,292,495
Restaurant operating expenses													
Cost of sales	159,420	163,865	166,014	175,977	47,407	47,073	47,765	47,855	190,100	210,785	240,717	271,151	303,952
Labor & Benefits	185,260	188,538	191,402	208,996	57,457	58,881	60,054	60,167	236,559	265,015	302,648	340,913	382,153
Other operating expenses	146,693	145,747	151,611	164,965	42,872	44,291	47,009	47,097	181,269	207,448	236,907	266,860	299,141
Preopening expenses	3,093	1,582	1,659	1,701	335	305	792	576	2,008	3,240	2,952	3,096	3,240
Total restaurant opex	494,466	499,732	510,686	551,639	148,071	150,550	155,620	155,695	609,936	686,488	783,223	882,021	988,486
G & A expenses	58,044	63,338	65,060	72,935	19,246	19,553	20,049	20,856	79,704	91,259	103,460	115,898	129,249
Amort. Of intangibles & other	5,538	5,997	5,934	5,851	138	52	95	1,877	2,162	8,213	9,311	10,431	11,632
Other operating expenses	952	5,607	1,265	1,493	294	727	458	626	2,105	2,738	3,104	3,477	3,877
Total other expenses	64,534	74,942	72,259	80,279	19,678	20,332	20,602	23,358	83,970	102,210	115,876	129,806	144,759
Gross margin	88,562	94,910	107,207	112,426	32,064	33,495	32,618	29,503	127,680	123,894	135,504	147,157	159,250
	13.7%	14.2%	15.5%	15.1%	16.0%	16.4%	15.6%	14.1%	15.5%	13.6%	13.1%	12.7%	12.3%
Cost of sales	27%	27%	27%	27%	27%	26%	26%	26%	26%	26%	26%	26%	26%
Labor & Benefits	32%	32%	32%	32%	33%	33%	33%	33%	33%	33%	33%	33%	33%
Other operating expenses	25%	24%	25%	25%	25%	25%	26%	26%	26%	26%	26%	26%	26%
Preopening expenses		105	72	68	84	76	72	72	72	72	72	72	72
G & A expenses	9%	9%	9%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Amort. Of intangibles & other	0.9%	0.9%	0.9%	0.8%	0.1%	0.0%	0.0%	0.90%	0.9%	0.9%	0.9%	0.9%	0.9%
Other operating expenses	0.1%	0.8%	0.2%	0.2%	0.1%	0.4%	0.2%	0.30%	0.3%	0.3%	0.3%	0.3%	0.3%
Number of stores at beginning of year		247	262	285	310	314	318	329	310	337	382	423	466
Number of new stores (net)		15	23	25	4	4	11	8	27	45	41	43	45
Number of stores at end of year		262	285	310	314	318	329	343	337	382	423	466	511
Number of franchises at beginning of year		817	906	1001	1082	1090	1103	1129	1082	1153	1210	1269	1326
Number of new franchises (net)		89	95	81	8	13	26	24	71	57	59	57	55
Number of franchises at end of year		906	1001	1082	1090	1103	1129	1149	1153	1210	1269	1326	1381
Total number at beginning of year		1064	1168	1286	1392	1404	1421	1458	1392	1492	1592	1692	1792
Total new (net)		104	118	106	12	17	37	34	100	100	100	100	100
Total number at end of year		1168	1286	1392	1404	1421	1458	1492	1492	1592	1692	1792	1892
Average sales per restaurant		2,213	2,214	2,189				2,200	2,200	2,244	2,289	2,335	2,381
										2%	2%	2%	2%
Average income per franchise		85	89	90				90	90	92	94	96	97
										2%	2%	2%	2%
Stores		22%	22%	22%	22%	22%	23%	23%	23%	24%	25%	26%	27%
Franchise		78%	78%	78%	78%	78%	77%	77%	77%	76%	75%	74%	73%
Capex per new store		3596.333	2009.565	2003.44					2614.737	2000	2040	2080.8	2122.416
Sales/capex		0.61546	1.101522	1.092439					0.841385	1.122	1.122	1.122	1.122
Capex									70597.89	90000	83640	89474.4	95508.72



Appendix 4

Applebee's International Inc. - Valuation Matrix

	2002	2003	2004	2005	2006	2007
Earning/share	1.46	1.34	1.46	1.58	1.71	1.84
EBIDTA/share	3.16	3.15	3.45	3.74	4.05	4.38
Revenue/share	14.72	16.35	18.54	20.77	23.16	25.73
Free Cash Flow / share	0.96	1.03	1.27	1.39	1.54	1.69
Number of shares (weighted)	55,801.00					
Total Debt (mrq)	35,192.00					
Total Cash and TS (mrq)	8,026.00					
Net Debt	27,166.00					

	5.62%			6.62%			7.62%		
	1%	2%	3%	1%	2%	3%	1%	2%	3%
Discount Rate									
Perpetual Growth Rate (%)									
PV of Cash Flows	376,946	376,946	376,946	313,961	313,961	313,961	304,840	304,840	304,840
Terminal Value	1,561,263	2,012,354	2,807,873	1,223,631	1,503,260	1,937,407	990,819	1,178,697	1,447,919
Enterprise Value	1,965,375	2,389,300	3,184,818	1,537,592	1,817,221	2,251,368	1,295,660	1,483,538	1,752,759
Terminal Value as % of EV	79%	84%	88%	80%	83%	86%	76%	79%	83%
Equity Value	1,938,209	2,362,134	3,157,652	1,510,426	1,790,055	2,224,202	1,268,494	1,456,372	1,725,593
Price/share	34.73	42.33	56.59	27.07	32.08	39.86	22.73	26.10	30.92
Implied Multiples (2003E)									
P/E	25.97	31.65	42.31	20.24	23.99	29.80	17.00	19.51	23.12
EV/EBITDA	11.17	13.57	18.09	8.74	10.32	12.79	7.36	8.43	9.96
P/Revenue	2.12	2.59	3.46	1.66	1.96	2.44	1.39	1.60	1.89
P/Cash Flow	33.66	41.02	54.84	26.23	31.09	38.63	22.03	25.29	29.97

