



Restaurants

25

2017

The annual report on the world's most valuable restaurants brands

March 2017

Foreword



David Haigh, CEO, Brand Finance

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be 'to make money'.

Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers.

As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Skeptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but

steady downward spiral of poor communication, wasted resources and a negative impact on the bottom line.

Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line.

By valuing brands, we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximises profits.

Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and branded business valuations to help answer these questions.

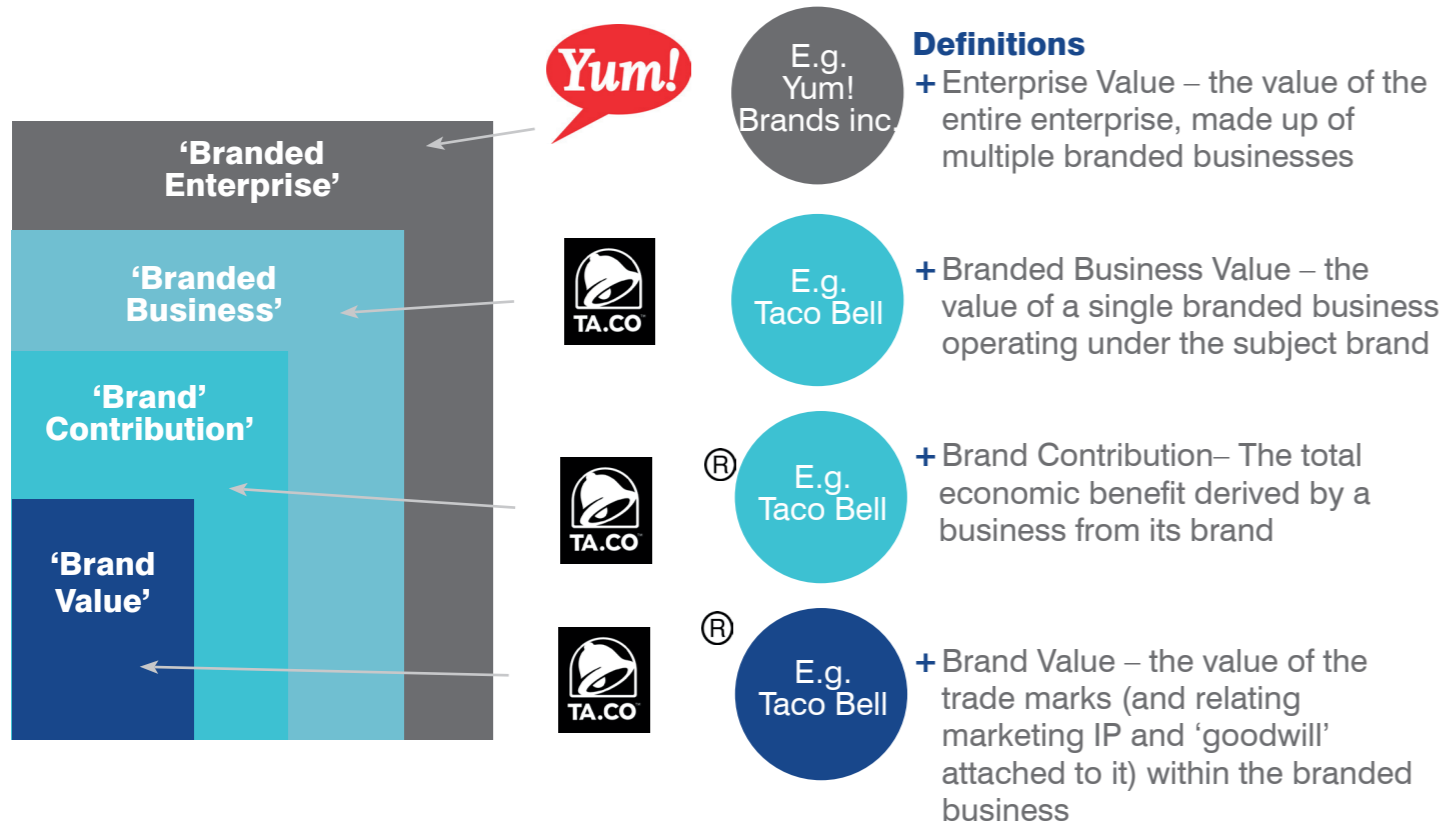
Brand Finance's recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most highly branded companies would lead to a return almost double that of the average for the S&P 500 as a whole.

Acknowledging and managing a company's intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.

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Definitions



Branded Business Value

A brand should be viewed in the context of the business in which it operates. For this reason Brand Finance always conducts a Branded Business Valuation as part of any brand valuation. Where a company has a purely mono-branded architecture, the business value is the same as the overall company value or 'enterprise value'.

In the more usual situation where a company owns multiple brands, business value refers to the value of the assets and revenue stream of the business line attached to that brand specifically. We evaluate the full brand value chain in order to understand the links between marketing investment, brand tracking data, stakeholder behaviour and business value to maximise the returns business owners can obtain from their brands.

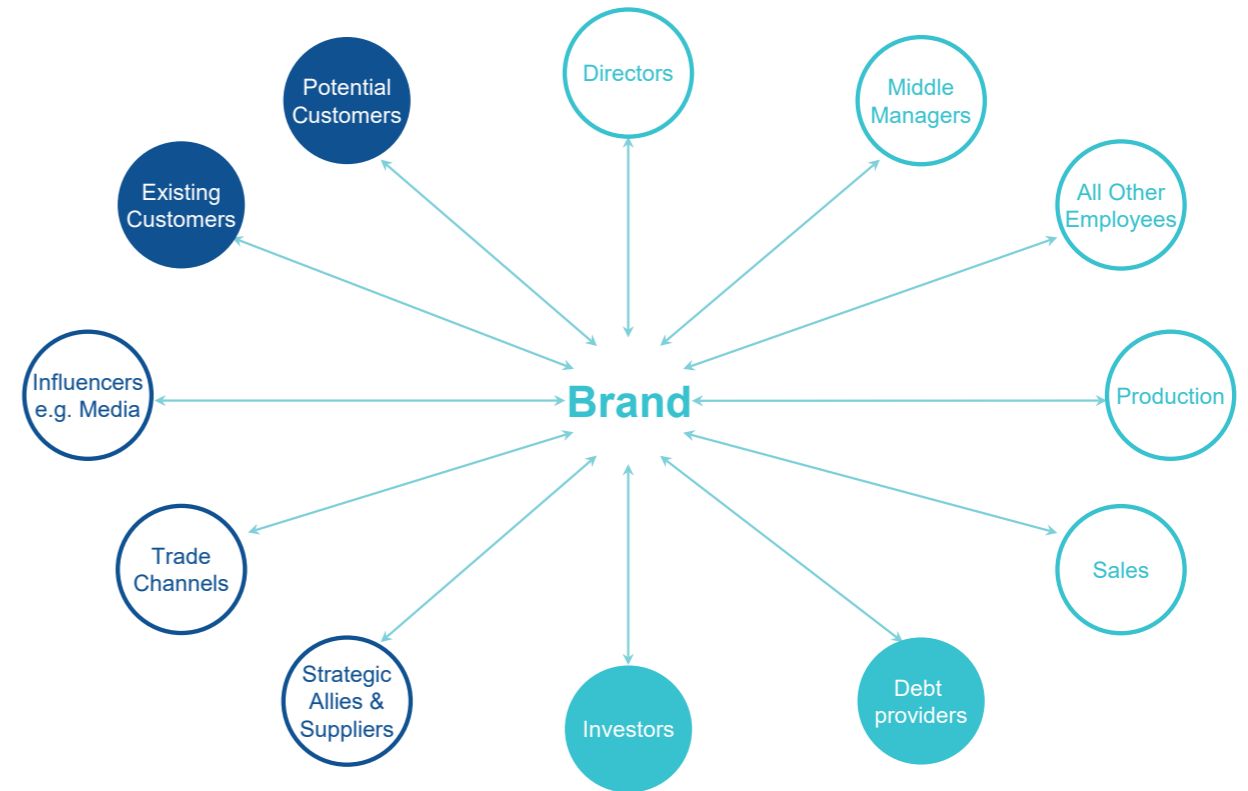
Brand Contribution

The brand values contained in our league tables are those of the potentially transferable brand asset only, but for marketers and managers alike, an assessment of overall brand contribution to a business provides powerful insights to help optimise performance.

Brand Contribution represents the overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

Brands affect a variety of stakeholders, not just customers but also staff, strategic partners, regulators, investors and more, having a significant impact on financial value beyond what can be bought or sold in a transaction.

Effect of a Brand on Stakeholders



Brand Value

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However, when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required.

Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as "a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value"

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance.

Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

Methodology

League Table Valuation Methodology

Brand Finance calculates the values of the brands in its league tables using the 'Royalty Relief approach'. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand—assuming it were not already owned.

The steps in this process are as follows:

1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world's largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

2 Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance's extensive database of license agreements and other online databases.

3 Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand's sector is 1-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4.2%.

4 Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.

5 Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.

6 Apply the royalty rate to the forecast revenues to derive brand revenues.

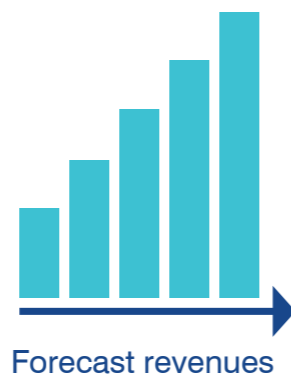
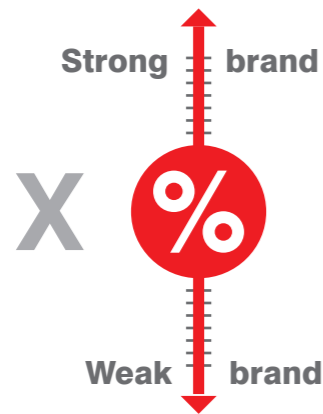
7 Brand revenues are discounted post tax to a net present value which equals the brand value.

Brand strength index (BSI)

Brand 'Royalty rate'

Brand revenues

Brand value



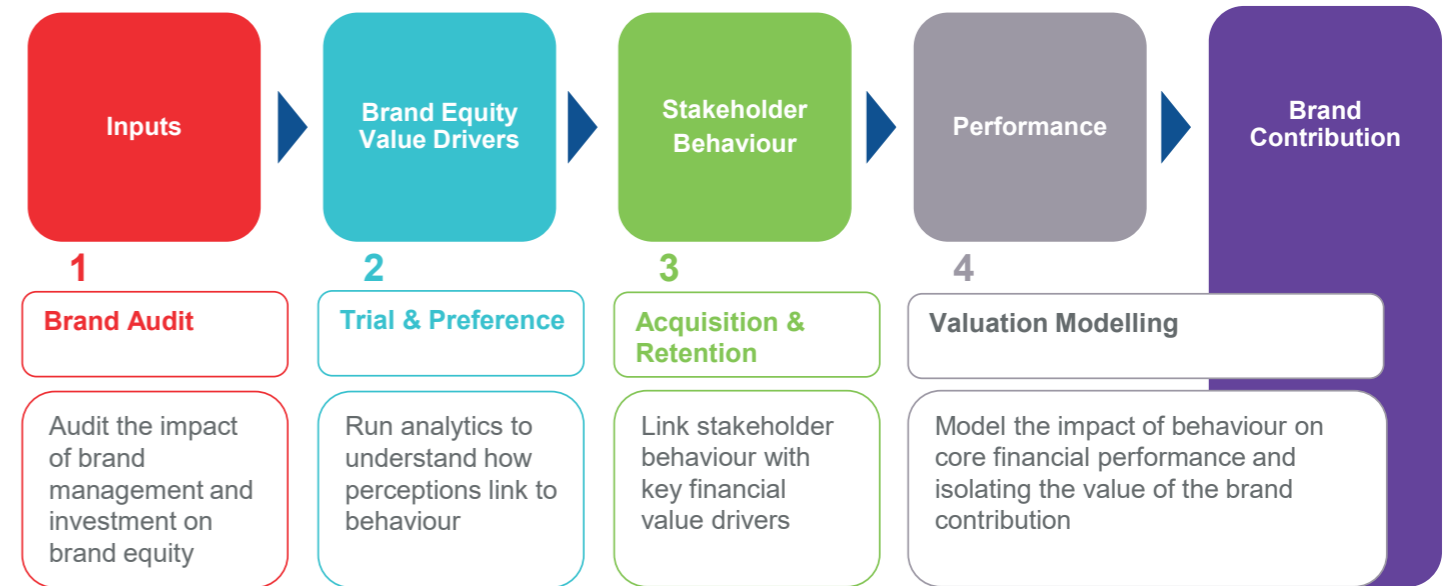
Brand strength expressed as a BSI score out of 100.

BSI score applied to an appropriate sector royalty rate range.

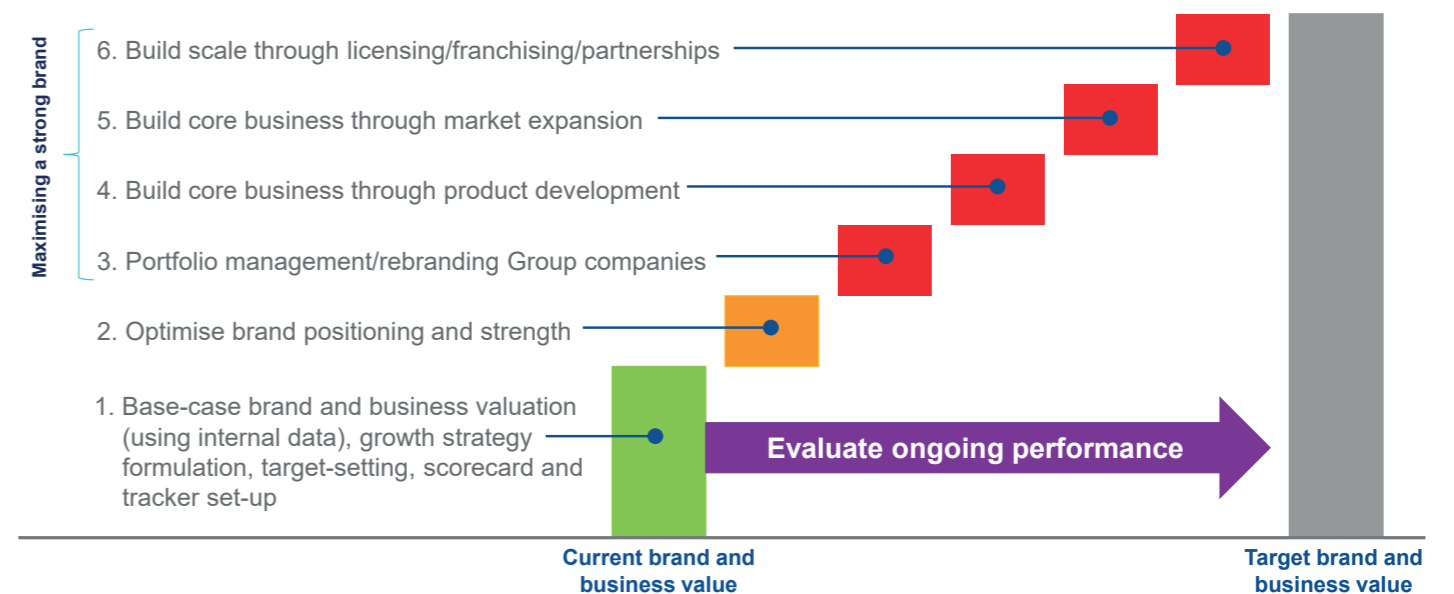
Royalty rate applied to forecast revenues to derive brand values.

Post-tax brand revenues are discounted to a net present value (NPV) which equals the brand value.

Brand Finance Typical Project Approach



How We Help to Maximise Value



Executive Summary

Restaurants 25



The brand values of McDonald's, KFC, Subway and Domino's have all fallen heavy competition in an increasingly fragmented market with healthier challenger brands offering greater choice for consumers.











Panera Bread, regularly lauded as the healthiest fast food chain, is a beneficiary of this trend for slightly healthier, fast-casual options. Panera's communications and advertising (developed with lead agency Anomaly since 2015) draw heavily upon this theme, stressing the importance of 'clean', natural food as the foundation of a full and healthy life. The brand is going from strength to strength, with its Brand Index Score increasing from 71 in 2015 to 76 in 2016 and 80 this year. Brand value is up 32% to US\$1.9 billion.

The same cannot be said for follow fast-casual pioneer Chipotle Mexican Grill. Its brand value is down 13% to US\$2.9 billion. Though consumer

trends are in its favour and the brand had been growing rapidly, reputational issues have dogged Chipotle over the last 18 months. In late 2015, dozens of customers were taken ill in several separate incidents due to outbreaks of Salmonella, E Coli and Norovirus.

Though firm steps have now been taken to address hygiene standards, sales for 2016 were down 13% on the year before and profits were down over 75%. Some tentative signs of recovery are just starting to emerge however, suggesting that Chipotle has been able to develop a sufficiently strong brand to weather the crisis long term.

Bucking the healthy eating trend is Papa John's, this year's fastest growing restaurant brand. The firm continues to expand and is rapidly approaching a total of 5,000 locations. Franchisee fees are relatively high, including an ad royalty of 8%, though with brand value growth of 52% and a 5

	1 Rank 2017: 1 2016: 1 ← BV 2017: \$ 38,966m BV 2016: \$ 42,937m -9% Brand Rating: AAA		6 Rank 2017: 6 2016: 5 ↓ BV 2017: \$ 3,983m BV 2016: \$ 4,764m -16% Brand Rating: AAA-
	2 Rank 2017: 2 2016: 2 ← BV 2017: \$ 25,615m BV 2016: \$ 23,185m +10% Brand Rating: AAA		7 Rank 2017: 7 2016: 8 ↑ BV 2017: \$ 3,717m BV 2016: \$ 3,756m -1% Brand Rating: AAA-
	3 Rank 2017: 3 2016: 4 ↑ BV 2017: \$ 7,681m BV 2016: \$ 5,282m +45% Brand Rating: AA+		8 Rank 2017: 8 2016: 7 ↓ BV 2017: \$ 3,295m BV 2016: \$ 4,238m -22% Brand Rating: AAA-
	4 Rank 2017: 4 2016: 3 ↓ BV 2017: \$ 6,155m BV 2016: \$ 8,453m -27% Brand Rating: AAA-		9 Rank 2017: 9 2016: 9 ← BV 2017: \$ 2,935m BV 2016: \$ 3,377m -13% Brand Rating: AA+
	5 Rank 2017: 5 2016: 6 ↑ BV 2017: \$ 5,068m BV 2016: \$ 4,569m +11% Brand Rating: AA+		10 Rank 2017: 10 2016: 10 ← BV 2017: \$ 2,212m BV 2016: \$ 2,464m -10% Brand Rating: AA+

point increase in its Brand Strength Index score, CEO and founder John Schnatter will feel confident in justifying the royalties.

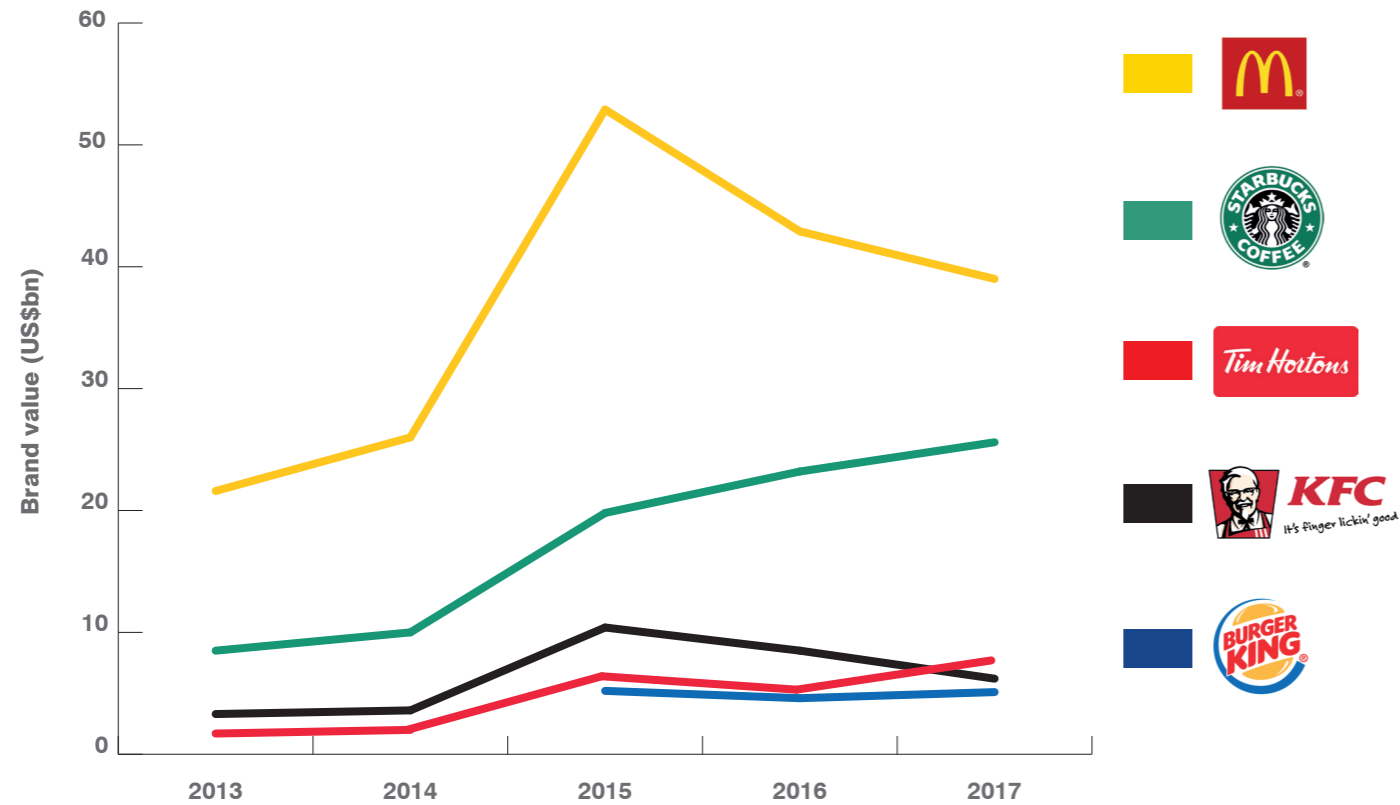
Papa John's product and advertising are fairly traditional, Papa John's has pioneered digital technology. It was the first pizza chain to offer online ordering, back in 2002, its first mover advantage netting it additional market share. This year, it is trialling 'Papa Priority' which will enable customers to move their orders to the front of the queue for a \$3 fee. Though there is every chance that this will prove popular with some customers and generate extra revenue, there is a significant risk this will alienate others, undermining Papa's everyman image, weakening the brand. Papa John's should ensure that it has done its brand due diligence in addition to examining the short-term financial case before proceeding.

Tim Horton's is another strong performer, with a 45% increase in brand value. The coffee chain offering may be considered run-of-the-mill to some, but its surge indicates that there is an under-exploited appetite for reasonably priced rather than premium coffee.

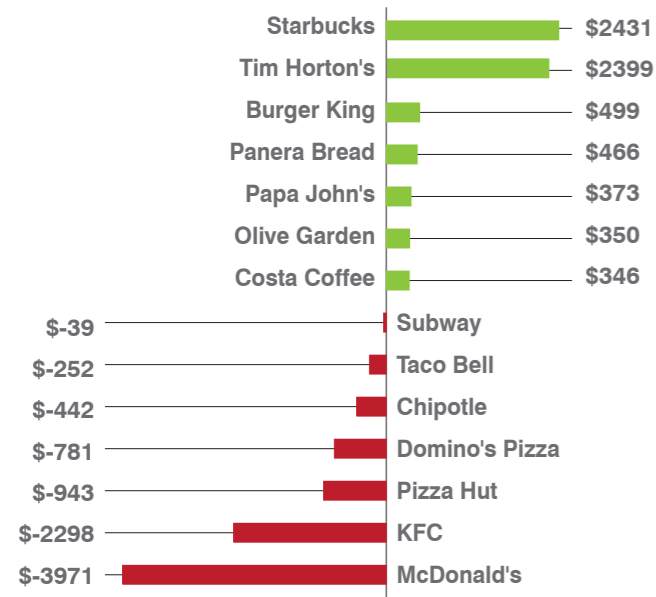
Its merger with Burger King has benefitted both brands (Burger King's brand value is up 11%) as well as shareholders; the brand's combined market capitalization is US\$4 billion higher now than at the time of the merger. The deal provides opportunities for improved distribution and cost saving. Tim Horton's devotees may be concerned at the loss of a Canadian icon but the strength and unique identities of both brands would make the disappearance of either almost unthinkable.

Executive Summary Restaurants 25

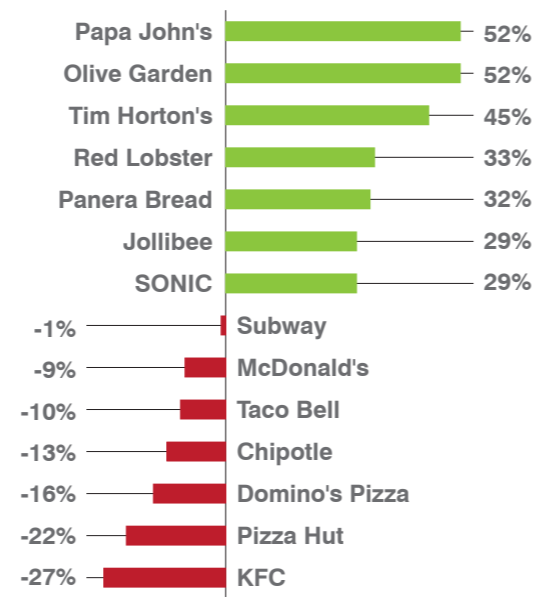
Brand Value Over Time



Brand Value Change 2016-2017 (US\$m)



Brand Value Change 2016-2017 (%)



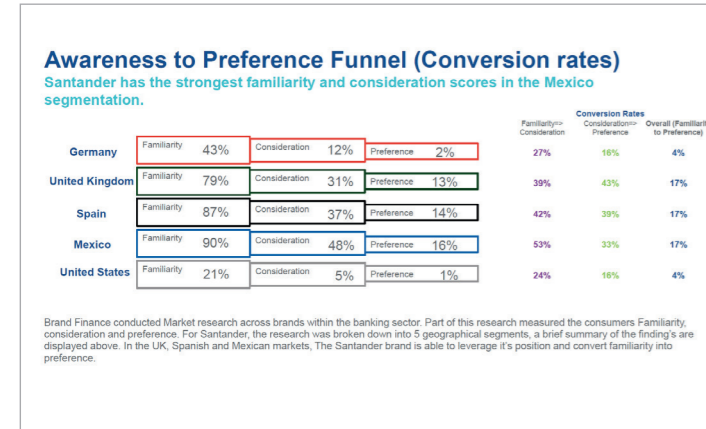
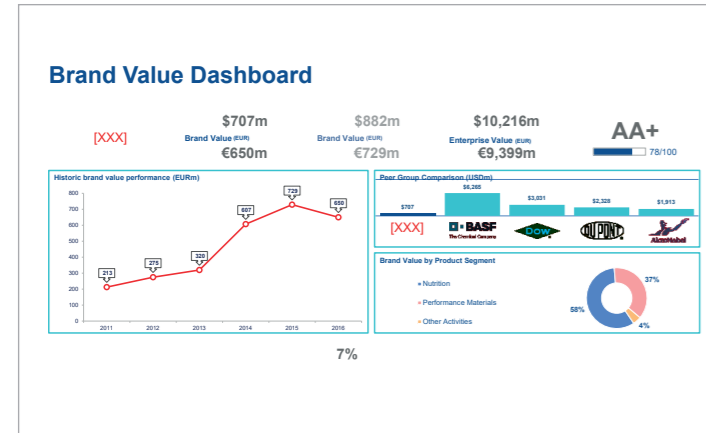
Brand Finance Restaurants 25 (USDm)

Top 25 most valuable restaurants brands 1 - 25.

Rank 2017	Rank 2016	Brand name	Domicile	Brand value (USDm) 2017	% change	Brand value(USDm) 2016	Brand rating 2017	Brand rating 2016
1	1	McDonald's	United States	38,966	-9%	42,937	AAA	AAA
2	2	Starbucks	United States	25,615	10%	23,185	AAA	AAA-
3	4	Tim Horton's	Canada	7,681	45%	5,282	AA+	AA+
4	3	KFC	United States	6,155	-27%	8,453	AAA-	AA+
5	6	Burger King	United States	5,068	11%	4,569	AA+	AAA-
6	5	Domino's Pizza	United States	3,983	-16%	4,764	AAA-	AA+
7	8	Subway	United States	3,717	-1%	3,756	AAA-	AAA-
8	7	Pizza Hut	United States	3,295	-22%	4,238	AAA-	AA+
9	9	Chipotle	United States	2,935	-13%	3,377	AA+	AA+
10	10	Taco Bell	United States	2,212	-10%	2,464	AA+	AA+
11	12	Costa Coffee						
12	13	Panera Bread						
13	11	Jack In The Box						
14	16	Jollibee						
15	15	Dunkin' Donuts						
16	14	Buffalo Wild Wings						
17	17	Papa John's						
18	18	Chili's						
19	19	Olive Garden						
20	20	Red Lobster						
21	22	SONIC						
22	21	Cracker Barrel						
23	24	Cheesecake Factory						
24	23	Denny's						
25	25	Texas Roadhouse						



Understand Your Brand's Value



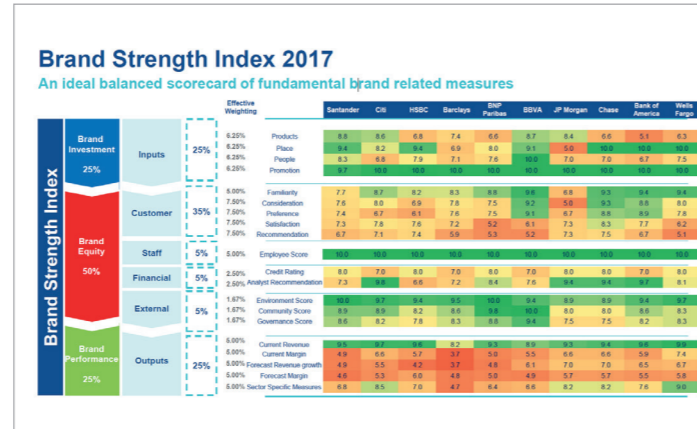
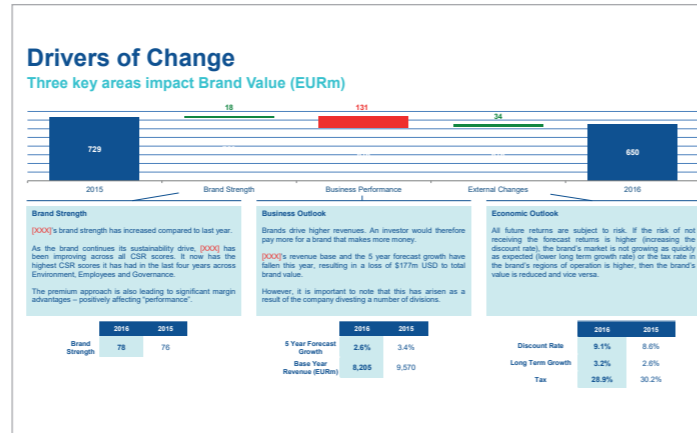
A Brand Value Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand's value.

Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary

Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

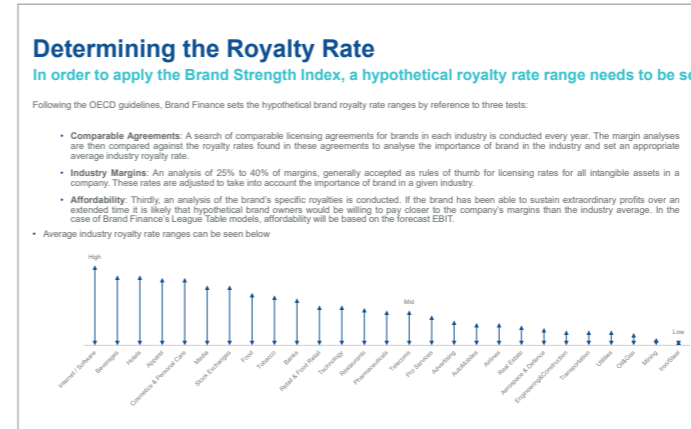
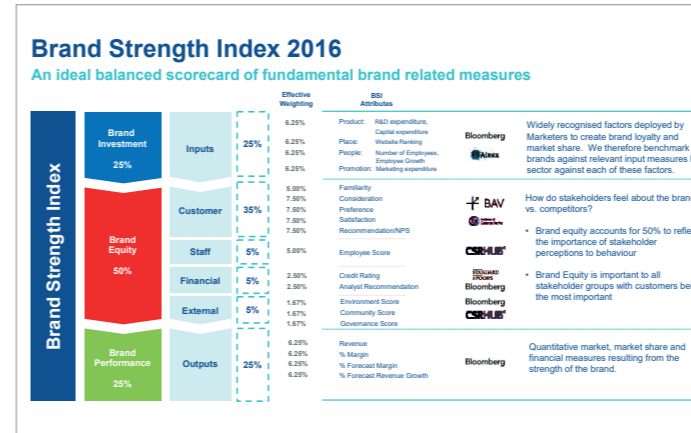


- + Internal understanding of brand
- + Brand value tracking
- + Competitor benchmarking
- + Historical brand value

Brand Strength Index

A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.

- + Brand strength tracking
- + Brand strength analysis
- + Management KPI's
- + Competitor benchmarking



Royalty Rates

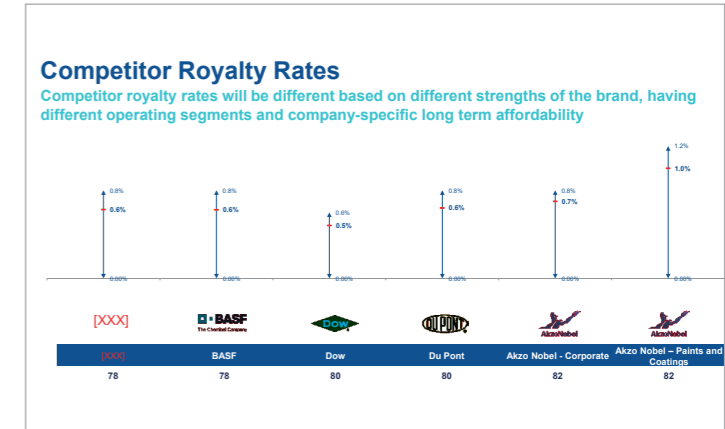
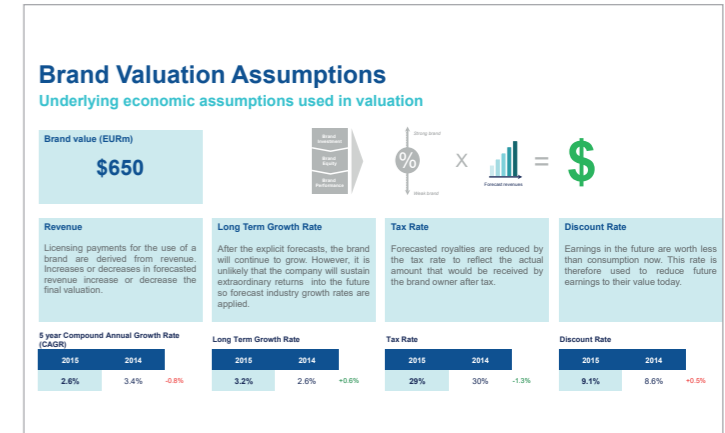
Analysis of competitor royalty rates, industry royalty rate ranges and margin analysis used to determine brand specific royalty rate.

- + Transfer pricing
- + Licensing/ franchising negotiation
- + International licensing
- + Competitor benchmarking

Cost of Capital

A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

- + Independent view of cost of capital for internal valuations and project appraisal exercises



Trademark Audit

Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

- + Highlight unprotected marks
- + Spot potential infringement
- + Trademark registration strategy

For more information regarding our League Table Reports, please contact:

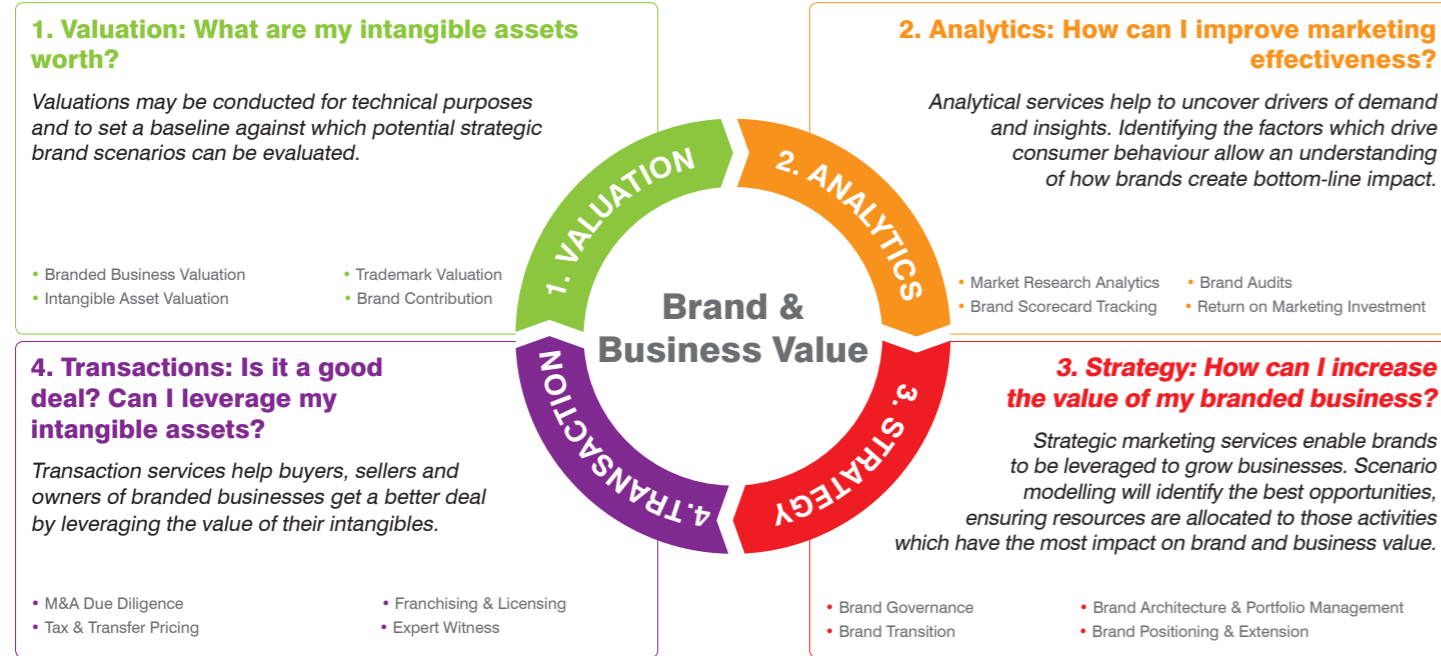
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How we can help



MARKETING

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand based decisions and strategies.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Brand Scorecard Tracking
- + Return on Marketing Investment
- + Brand Transition
- + Brand Governance
- + Brand Architecture & Portfolio Management
- + Brand Positioning & Extension
- + Franchising & Licensing

FINANCE

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Brand Scorecard Tracking
- + Return on Marketing Investment
- + Brand Transition
- + Brand Governance
- + Brand Architecture & Portfolio Management
- + Brand Positioning & Extension
- + Mergers, Acquisitions and Finance Raising Due Diligence
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

TAX

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing and brand ownership arrangements.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Tax & Transfer Pricing
- + Expert Witness

LEGAL

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in and outside of the courtroom.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Tax & Transfer Pricing
- + Expert Witness

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