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Recommendation: SELL

Quantitative Highlights:

- ◆ Overvalued according to the DCF analysis with assumptions by 27%.
 - Slower growth rate due to saturation
 - Margin compression due to increasing COGS
- ◆ Profitability decreasing due to compressed margins.
- ◆ Decreasing revenue growth due to market saturation.
- ◆ Projected earnings seem out of reach.
- ◆ ROE and ROA low compared to top competitors meaning lower efficiency.

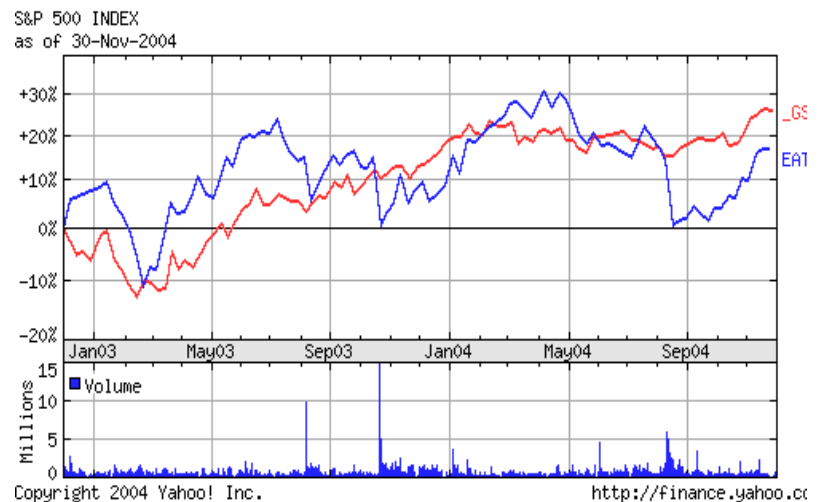
Qualitative Highlights:

- ◆ There has been a 6% increase in wholesale food prices in the last year causing COGS to increase and profits to decrease.
- ◆ Market saturation leading to a decrease in revenue growth.
- ◆ Recent change in top management signals instability.
- ◆ Struggles in 2004:
 - Rockfish underperforms
 - On The Border halts development
 - Announcement of the sale of Big Bowl
- ◆ Such factors as staggering economy, low carb diets and high gas prices have a negative impact.

Financial Highlights

| | |
|---------------------------------|-------------------|
| Price as of 11/29/2004 | \$34.75 |
| Symbol | EAT |
| Exchange | NYSE |
| 52 - Week Range | \$28.92 - \$39.80 |
| Shares Outstanding | 3.0 B |
| Market Cap (\$B) | 86.4 |
| Beta (ValueLine) | 0.9 |
| 5 yr Projected EPS Growth | 15% |
| CFY P/E | 16.55 |
| 04 P/E to 04-05 EPS Growth Rate | 1.16 |
| ROA | 6.10% |
| ROE | 11.60% |
| Current Ratio | 0.71 |
| Debt/Equity (Book) | 0.75 |
| Fiscal Year Ends | 6/30/2004 |

Exhibit: EAT vs 2 yr S&P Return



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Investment Thesis

At this time we feel that we should sell Brinker International Inc. Even though the numbers show Brinker to be relatively healthy, the growth potential in the casual dining sector is extremely limited as it becomes mature. We believe that Brinker will fail to meet the forecasted EPS estimates for its current fiscal year and the next fiscal year. The casual dining industry has become saturated and customers have become bored with the existing fare. Brinker has struggled throughout 2004, with Rockfish underperforming, On The Border slowing development, and a recent divesting of Big Bowl in October. In November alone, the Vice President and Chief Strategic Officer and the Chairman of the Board of Directors both resigned. This may be an early indication that managers lack confidence in Brinker's future growth. Growth in same store sales has slacked with the slowing economy in Brinker's largest and most important dining concepts, Chili's and Macaroni Grill. In order to compensate for its other division, Brinker plans to open 110 new Chili's by 2005 and increase advertising. Success in the industry continues to become more difficult due to the lackluster economy and a 6% increase in wholesale food prices.

Company Profile

Brinker International, Inc., incorporated in September 1983, is principally engaged in the ownership, operation, development and franchising restaurant concepts. The Company's restaurant concepts include Chili's Grill & Bar (Chili's), Romano's Macaroni Grill (Macaroni Grill), Maggiano's Little Italy (Maggiano's), On The Border Mexican Grill & Cantina (On The Border), Corner Bakery Cafe (Corner Bakery), Big Bowl Asian

Kitchen (Big Bowl) and Rockfish Seafood Grill (Rockfish) restaurant concepts.

Chili's Grill & Bar

Chili's is a full-service restaurant, featuring a casual atmosphere and a varied menu of chicken, beef and seafood entrees, steaks, fajitas, sandwiches, salads, appetizers, desserts, as well as big mouth burgers and baby back ribs. The full-service Margarita Bar is available at each Chili's restaurant that serves a variety of specialty margaritas, including the Presidente Margarita, offered as the concept's signature drink. Service personnel are dressed casually in jeans, knit shirts, t-shirts and aprons. The decor of a Chili's restaurant consists of booth seating, tile-top tables, hanging plants and wood and brick walls covered with memorabilia. During the fiscal year ended June 30, 2004 (fiscal 2004), food and non-alcoholic beverage sales constituted approximately 86.6% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 13.4%.

Romano's Macaroni Grill

Macaroni Grill is a casual Italian restaurant with sights, sounds and aromas of Italy. Guests can taste Italian culinary from regions all over Italy, as well as a few American Italian foods. These selections include pastas, grilled features, seafood, salads and pizza from Rome, Sicily, Portofino, Milan, Bologna and Naples. Macaroni Grill features ovens, lights, flowers, a broad selection of wine and display cooking. During fiscal 2004, food and non-alcoholic beverage sales constituted approximately 87.2% of



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the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 12.8%.

Maggiano's Little Italy

Maggiano's restaurants are re-creations of dinner houses found in New York's Little Italy in the 1940s. Each of the Maggiano's restaurants is a casual, full-service Italian restaurant with a family-style menu, as well as a full lunch and dinner menu. The restaurants offer Southern Italian appetizers, homemade bread, pasta, chicken, seafood, veal and prime steaks, as well as a full range of alcoholic beverages. A majority of Maggiano's restaurants also feature banquet facilities. During fiscal 2004, food and non-alcoholic beverage sales constituted approximately 79.4% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 20.6%.

On The Border Mexican Grill & Cantina

On The Border is a full-service, national, casual-dining Mexican restaurant chain. On The Border's menu offers a wide variety of Mexican food, including fajitas and margaritas. On The Border also offers a variety of menu items that allow guests to explore Mexico. As a full-service restaurant, On The Border offers full bar service, in-restaurant dining and patio dining in all locations. On The Border also offers the convenience of a To-Go menu and To-Go entrance to expedite take-out service in all locations. In addition, On The Border offers catering service, from simple drop-off delivery to full-service event planning. During fiscal 2004, food and non-alcoholic beverage sales constituted approximately 80.5% of the concept's total restaurant revenues, with alcoholic

beverage sales accounting for the remaining 19.5%.

Corner Bakery Café

Corner Bakery Cafe is a quick-casual bakery cafe. Beneath black and white awnings, Corner Bakery Cafe serves breakfast, lunch and dinner. Breakfast choices include egg scramblers, breakfast pastries and mixed-berry parfaits. Lunch and dinner feature soups, salads, sandwiches, panini and desserts. Corner Bakery Cafe's have both indoor seating and inviting outdoor patios. During fiscal 2004, food and non-alcoholic beverage sales constituted over 99% of the concept's total restaurant revenues.



Big Bowl Asian Kitchen

Big Bowl Asian Kitchen is a full-service, casual dining concept with a menu featuring appetizers and entrees influenced by the varied cuisines and flavor profiles of Asia, including Chinese, Japanese, Thai and Vietnamese. Big Bowl offers an assortment of non-alcoholic beverages, such as ginger soda, as well as cocktails and Asian beers. Big Bowl's atmosphere is casual and evocative, with decor elements built on the color palette and icons of the Far East. During fiscal 2004, food and non-alcoholic beverage sales constituted approximately 90.2% of the concept's total restaurant revenues, with alcoholic beverage sales accounting for the remaining 9.8%.



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Rockfish Seafood Grill



Rockfish offers seafood dishes. The Rockfish decor features piney wood tables, river rock fireplaces and an open kitchen with chefs preparing the catch of the day. The restaurant serves a wide variety of seafood, such as catfish, shrimp and crab. Daily chalkboard specials featuring various items, including, when in-season, Copper River salmon, are also served with diners. All locations feature full-service bars and patio seating availability. During fiscal 2004, food and non-alcoholic beverage sales constituted approximately 86.7% of the concept's total revenues, with alcoholic beverage sales accounting for the remaining 13.3%.

Comparable Analysis

| | <u>EAT</u> | <u>DRI</u> |
|---------------|------------|------------|
| Gross margins | 17.65% | 22.14% |
| EPS | \$1.29 | \$1.41 |
| ROE | 11.60% | 18.54% |
| ROA | 6.10% | 8.37% |
| EV/EBITDA | 8.22 | 8.28 |
| 2003 P/E | 26.94 | 19.44 |
| 2004 P/E | 16.55 | 16.51 |
| 2005 P/E | 14.58 | 15.14 |
| 2004 PEG | 1.16 | 1.83 |

We chose to compare Brinker International to their main rival, Darden Restaurants who owns eateries such as Red Lobster and Olive Garden. Brinker's gross margins are lower than Darden's, meaning they have a lower percent of net income compared to their sales. This also means that Brinker has lower profitability. Compared to Darden, Brinker's return

on equity and return on assets are lower indicating a lower rate of efficiency.

Discounted Cash Flow Analysis

The DCF analysis revealed an average value across the models of \$25.32 which is 27% lower than its market price of \$34.75. When completing this analysis we modeled in two assumptions that we derived from current industry trends. Since the casual dining industry is on its way to saturation we assumed a slower growth rate for the up coming years. Another factor is the increasing costs of wholesale food prices. This should cause margin compression since Brinker's costs of goods sold are increasing at a higher rate than their revenue over the next two years. If these two assumptions were excluded from the DCF then their market value is only approx \$2.00 over their intrinsic value. We believe that these assumptions are key to the derivation of Brinker's true intrinsic value. Our bet is that Brinker will suffer from slower top line growth and more margin compression than historical projections would imply.

| Key Assumptions for the models: | |
|--|------------|
| Date of valuation | 11/30/2004 |
| Risk Free Rate: | 3.60% |
| Equity Market Risk Premium: | 7.00% |
| Long term inflation: | 2.50% |
| Terminal Growth: | 5.00% |
| Equity beta based on VL: | 0.9 |
| No. of shares (diluted): | 96.70 |
| Current Market Price per share: | \$34.75 |

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COMPARABLE ANALYSIS

| Company Name | Brinker EAT | Comp Aggregate | Darden DRI | Applebee's APPB | Outback OSI | Cheesecake CAKE |
|--|----------------|-------------------|---------------|--------------------|----------------|--------------------|
| Ticker | | | | | | |
| <i>(LFY Income Statement):</i> | | | | | | |
| Latest Fiscal Year End Date (as if we are at Dec. 2003) | 30-Jun-04 | | 30-May-04 | 28-Dec-03 | 31-Dec-03 | 30-Dec-03 |
| Revenue | \$3,707.49 | \$9,511.7 | \$5,003.36 | \$990.14 | \$2,744.37 | \$773.84 |
| Gross Profit | \$654.19 | | \$1,107.64 | \$249.72 | \$519.16 | \$339.08 |
| EBITDA | \$436.04 | \$1,253.2 | \$601.26 | \$194.87 | \$346.37 | \$110.68 |
| <i>(Per Share Income Statement Data)</i> | | | | | | |
| LTM EPS Date | | | | | | |
| LTM EPS* | \$1.29 | | \$1.41 | \$1.30 | \$2.13 | \$1.19 |
| CFY EPS Estimate | \$2.10 | | \$1.66 | \$1.32 | \$2.17 | \$1.32 |
| NFY EPS Estimate | \$2.40 | | \$1.81 | \$1.50 | \$2.54 | \$1.68 |
| *Excl. extra. Items, write-offs, & one time charges | | | | | | |
| <i>(Balance Sheet Data - Most Recent Quarter):</i> | | | | | | |
| Cash and Cash Equivalents | \$50.72 | \$148.2 | \$38.60 | \$0.77 | \$74.19 | \$34.65 |
| Total Debt (incl. ST Debt and leases) | \$658.45 | \$894.4 | \$670.47 | \$43.74 | \$180.18 | \$0.00 |
| Total Common Equity (Book Value) | \$883.54 | \$3,361.7 | \$1,272.38 | \$484.47 | \$1,082.39 | \$522.49 |
| <i>(Stock Data):</i> | | | | | | |
| Stock Price | \$34.75 | | \$27.41 | \$26.13 | \$43.24 | \$49.00 |
| Common Shares Outstanding | 86.4 | | 157.22 | 81.08 | 73.77 | 51.86 |
| Market Capitalization (MV of Equity) | \$3,003.79 | \$12,159.0 | \$4,309.40 | \$2,118.62 | \$3,189.81 | \$2,541.14 |
| Total Mkt. Capitalization (Tot. Net Debt+MV of Equity) | \$3,662.24 | \$13,053.4 | \$4,979.87 | \$2,162.36 | \$3,369.99 | \$2,541.14 |
| <i>(Financial Ratios excl. debt ratios-see Risk Section)</i> | | | | | | |
| LFY Gross Margin | 17.65% | | 22.14% | 25.22% | 18.92% | 43.82% |
| LFY EBITDA Margin | 11.76% | | 12.02% | 19.68% | 12.62% | 14.30% |
| ROE | 11.6% | 17.7% | 18.54% | 23.43% | 15.76% | 13.00% |
| ROA | 6.1% | 29.4% | 8.37% | 16.40% | 10.95% | 10.37% |
| Receivable Turnover | 97.17 | | 158.57 | 27.71 | NM | 28.60 |
| Inventory Turnover | 101.03 | | 17.59 | 30.61 | 34.45 | 32.76 |
| Current Ratio | 0.71 | | 0.53 | 0.66 | 0.61 | 1.16 |
| <i>(Growth/Return):</i> | | | | | | |
| Historical 3 Year Revenue Growth Rate | | | | | | |
| Historical 5 Year EPS Growth Rate | 15.2% | | 13.00% | 16.60% | 7.90% | 21.80% |

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| | | | | | | |
|--|----------|----------|-----------|-----------|-----------|----------|
| Projected ROE (CFY) | 20.55% | | 20.51% | 22.09% | 14.79% | 13.10% |
| CFY - NFY EPS Growth Rate | 14.29% | 14.1% | 9.04% | 13.64% | 17.05% | 27.27% |
| Proj. Growth in EPS 5 Years | 15.0% | 14.5% | 12.00% | 15.00% | 15.00% | 22.00% |
| Dividend Yield | na | | 0.29 | 0.18 | 1.20 | na |
| VL Timeliness | | | | | | |
| <i>(Risk):</i> | | | | | | |
| Beta | 0.52 | 0.61 | 0.45 | 0.30 | 0.78 | 0.95 |
| VL Safety | | | | | | |
| LT Debt / Market Capitalization (MV of Equity) | 0.22 | 0.07 | 0.16 | 0.02 | 0.06 | 0.00 |
| LT Debt / Common Equity (BV of Equity) | 0.75 | 0.26 | 0.53 | 0.09 | 0.17 | 0.00 |
| <i>(Valuation):</i> | | | | | | |
| MV of Equity / Book Value | 3.40 | 3.62 | 3.39 | 4.37 | 2.95 | 4.86 |
| LTM Price / EPS Ratio ("P/E") | 26.94 | 22.27 | 19.44 | 20.10 | 20.30 | 41.18 |
| CFY Price / EPS Ratio ("P/E") | 16.55 | 20.38 | 16.51 | 19.80 | 19.93 | 37.12 |
| NFY Price / EPS Ratio ("P/E") | 14.48 | 17.86 | 15.14 | 17.42 | 17.02 | 29.17 |
| Total Market Capitalization / EBITDA | 8.40 | 10.42 | 8.28 | 11.10 | 9.73 | 22.96 |
| Relative P/E (CFY) | | | | | | |
| CFY P/E to CFY-NFY EPS Growth Rate | 1.16 | 1.45 | 1.83 | 1.45 | 1.17 | 1.36 |
| CFY P/E to Proj. Growth in EPS 5 Years | 1.10 | 1.41 | 1.38 | 1.32 | 1.33 | 1.69 |
| EV | 3611.522 | 12905.15 | 4941.2692 | 2161.5904 | 3295.8058 | 2506.487 |
| EBIT | 251.3 | \$841.2 | \$340.0 | 153.7 | 264.8 | 82.7 |
| ev/ebit | 14.37 | 15.34 | 14.53 | 14.06 | 12.45 | 30.31 |
| ev/ebitda | 8.28 | 10.30 | 8.22 | 11.09 | 9.52 | 22.65 |
| ev/sales | 0.97 | 1.36 | 0.99 | 2.18 | 1.20 | 3.24 |

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DISCOUNTED CASH FLOW ANALYSIS

| Valuation model used | Summary | |
|---------------------------------|--------------|--------------|
| | Equity \$M | \$ Per Share |
| Unlevered value | \$2,288 | \$23.66 |
| Adjusted Present Value | \$2,485 | \$25.70 |
| Flow to Equity | \$2,036 | \$21.06 |
| WACC with FCF | \$2,588 | \$26.76 |
| AT-WACC with UFCF | \$2,683 | \$27.75 |
| Average across models | \$2,448 | \$25.32 |
| Price deviation across models | \$31 | 31.8% |
| Key Assumptions for the models: | Without APV: | 31.8% |
| Date of valuation | 11/30/2004 | |
| Risk Free Rate: | 3.60% | |
| Equity Market Risk Premium: | 7.00% | |
| Long term inflation: | 2.50% | |
| Terminal Growth: | 5.00% | |
| Equity beta based on VL: | 0.9 | |
| No. of shares (diluted): | 96.70 | |
| Current Market Price per share: | \$34.75 | |