

# NEW BEST IDEA LONG

## **ZOËS STANDING OUT FROM THE CROWD**

April 8, 2015

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# HEDGEYE RESTAURANTS IDEA LIST

## LONG LIST

### LONG

|             |                        |
|-------------|------------------------|
| <b>YUM</b>  | Yum! Brands*           |
| <b>ZOES</b> | Zoe's Kitchen*         |
| <b>WEN</b>  | The Wendy's Company    |
| <b>CMG</b>  | Chipotle Mexican Grill |

## LONG BENCH

### LONG

|             |                           |
|-------------|---------------------------|
| <b>JACK</b> | Jack In The Box           |
| <b>PLKI</b> | Popeyes Louisiana Kitchen |

## TRADE TREND TAIL

|   |   |   |
|---|---|---|
| - | ✓ | ✓ |
| ✓ | - | ✓ |
| - | ✓ | ✓ |
| ✓ | ✓ | ✓ |
|   |   |   |
| - | ✓ | ✓ |
| - | ✓ | ✓ |

## SHORT LIST

### SHORT

|             |                          |
|-------------|--------------------------|
| <b>SHAK</b> | Shake Shack*             |
| <b>DFRG</b> | Del Frisco's Rest. Group |
| <b>NDLS</b> | Noodles & Co.            |
| <b>CHUY</b> | Chuy's Holdings          |
| <b>MCD</b>  | McDonald's Corp          |

## SHORT BENCH

### SHORT

|             |                        |
|-------------|------------------------|
| <b>PLAY</b> | Dave & Busters Ent.    |
| <b>HABT</b> | Habit Restaurants      |
| <b>CBRL</b> | Cracker Barrel         |
| <b>CAKE</b> | The Cheesecake Factory |
| <b>DRI</b>  | Darden Restaurants     |

## TRADE TREND TAIL

|   |   |   |
|---|---|---|
| - | X | X |
| X | X | - |
| X | X | - |
| X | X | - |
| X | X | ✓ |
|   |   |   |
| - | X | - |
| - | X | - |
| X | X | ✓ |
| - | X | - |
| X | X | - |

\*Denotes Hedgeye Best Idea

Bench = timing is not right, or research is in progress.

# KEY POINTS

1

## STRONG BRAND POSITIONING

Zoe's is a fast casual concept serving a menu of fresh, wholesome Mediterranean-inspired meals. In addition to being a first mover in the space, the brand primarily appeals to educated, affluent, and active females – a demographic that is traditionally difficult to capture. With more than 70% of dining decisions in America made by women, Zoe's is uniquely positioned for success. Zoe's boasts an unparalleled catering program (16% of sales) that drives, consumer trial, brand awareness, and mix and serves as a direct competitive differentiator versus peers.

2

## IMPRESSIVE EARLY STAGE PROFITABILITY

ZOES has very impressive early stage profitability for a fast casual concept. In fact, it's the best we've ever seen. Young, high growth restaurant concepts are typically not very profitable as they face significant investment costs in conjunction with efforts to achieve critical mass in individual markets. Zoe's was able to generate \$120k in restaurant level EBITDA per store at only 84 units. This is a level that took Chipotle 400+ units to reach. In addition, at 102 stores, Zoe's was achieving higher AUVs (\$1.470mm) than both Panera (\$1,274mm) and Chipotle (\$1,056) did at 113 and 227 units, respectively.

3

## DISCIPLINED GROWTH STRATEGY

Zoe's has a focused, systematic approach to its new unit expansion strategy that separates it from its competitors. Aside from stringent requirements, Zoe's approach to new market expansion is refreshingly calculated. The concept entered into one new market (Philadelphia) in 2013 and 2014 and plans to do the same in 2015 (Kansas City). This rapid penetration approach drives brand awareness and benefits these new units as they ramp. Management has pegged the long-term domestic potential of the concept at ~1,600 units, but the fashion in which they plan to get there is what stands out to us.

# **EXECUTIVE SUMMARY**

# ABOUT ZOË'S KITCHEN

- Zoe's is a fast casual restaurant concept that serves a menu of fresh, wholesome, Mediterranean inspired dishes delivered with Southern hospitality.
- Founded in 1995 in Birmingham, Alabama, Zoe's has since grown to over 135 restaurants across 15 states in the U.S.
- Zoe's takes pride in selecting high quality ingredients that they wash, cut, and hand prepare in their kitchens daily.
- Management views Zoe's as a lifestyle brand that appeals to customers' attitudes and emotions.
- The brand has wide appeal, but is particularly appealing to women, a demographic that represents more than 70% of its customer visits.
- Typical customers are affluent, educated, and lead active lifestyles.
- Strong value proposition with a \$9.98 average check.
- Impressive new unit economics that typically exceeds ~18% restaurant level margins and 30%+ cash-on-cash returns by year three.

# FINANCIAL SUMMARY

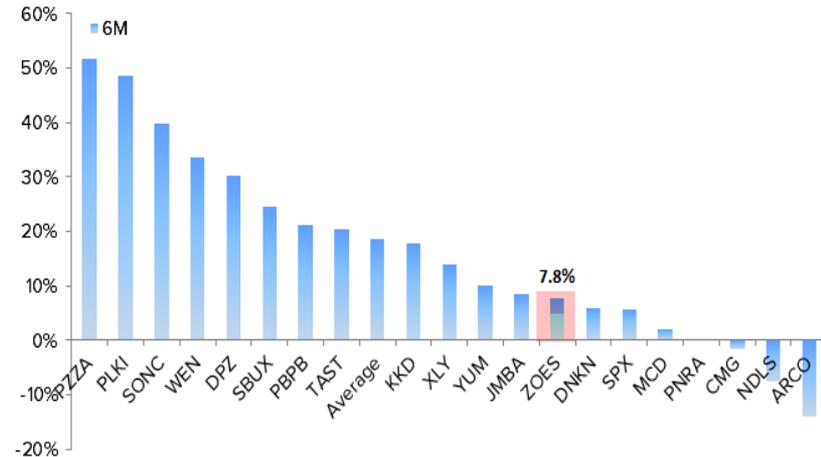
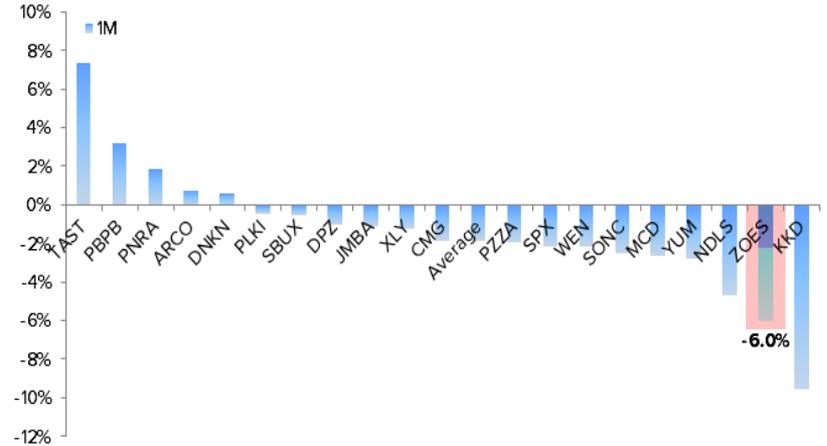
| <b>Zoe's Kitchen (ZOES) TTM Financials</b> |         |
|--------------------------------------------|---------|
| Last Price                                 | \$31.21 |
| Shares Outstanding                         | 19.3    |
| Market Capitalization                      | \$631.6 |
| Revenue                                    | \$171.7 |
| EBITDA                                     | \$5.7   |
| EBITDA Margin                              | 3.30%   |
| Net Income                                 | -\$10.0 |
| EPS                                        | -\$0.69 |
| Price/TTM EPS                              | -       |
| Total Assets                               | \$178.7 |
| Total Liabilities                          | \$57.4  |
| Total Equity                               | \$121.3 |
| Book Value per Share                       | 6.29x   |
| Price/Book Value per Share                 | 5.21x   |
| Net Tangible Assets per Share              | 4.2x    |
| Cash From Operations                       | \$17.8  |
| Cash Flow per Share                        | 1.0x    |
| Free Cash Flow                             | -\$13.3 |
| Net Changes in Cash                        | \$28.2  |

*All figures in mm, except per share data and multiples*

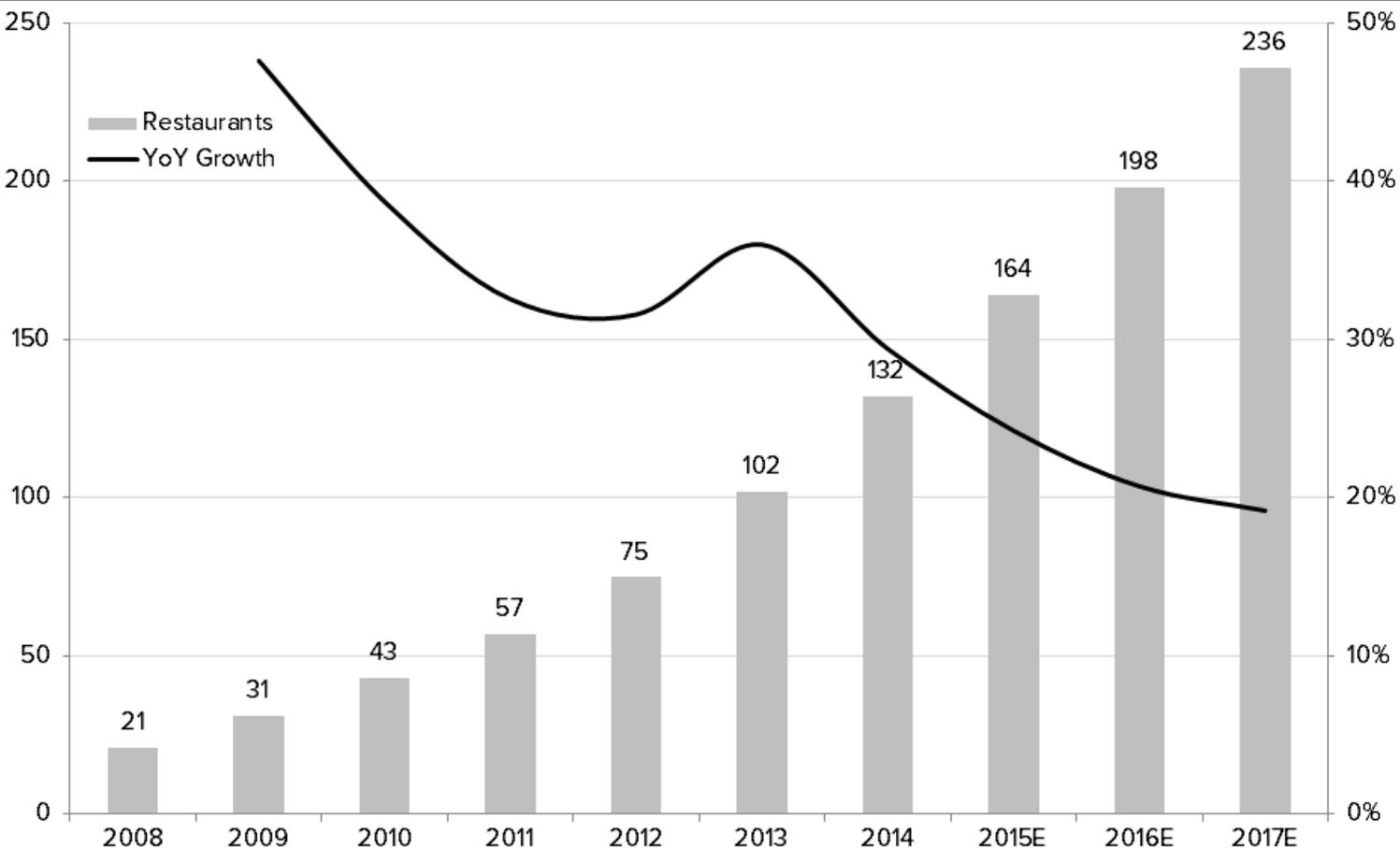
# ZOES RELATIVE UNDERPERFORMANCE (1M, 6M)

## Quick Service Relative Performance vs XLY

|      | 1 Week | 1 Month | 3 Months | 6 Months |        |      |        |
|------|--------|---------|----------|----------|--------|------|--------|
| PNRA | 4.5%   | TAST    | 8.6%     | WEN      | 16.2%  | PZZA | 37.8%  |
| TAST | 2.2%   | PBPB    | 4.4%     | SONC     | 9.8%   | PLKI | 34.6%  |
| ARCO | 1.5%   | PNRA    | 3.1%     | SBUX     | 9.4%   | SONC | 25.8%  |
| WEN  | 0.8%   | ARCO    | 2.0%     | DNKN     | 6.6%   | WEN  | 19.8%  |
| PLKI | 0.4%   | DNKN    | 1.9%     | TAST     | 6.5%   | DPZ  | 16.3%  |
| ZOES | 0.2%   | PLKI    | 0.8%     | PZZA     | 4.7%   | SBUX | 10.7%  |
| PBPB | 0.2%   | SBUX    | 0.8%     | YUM      | 4.2%   | PBPB | 7.1%   |
| JMBA | 0.2%   | DPZ     | 0.2%     | ZOES     | 3.8%   | TAST | 6.6%   |
| YUM  | -0.4%  | JMBA    | 0.2%     | PBPB     | 3.8%   | KKD  | 3.8%   |
| DPZ  | -0.6%  | CMG     | -0.6%    | DPZ      | 2.7%   | YUM  | -3.8%  |
| DNKN | -1.5%  | PZZA    | -0.7%    | PLKI     | 2.2%   | JMBA | -5.5%  |
| MCD  | -1.9%  | WEN     | -0.9%    | MCD      | -1.2%  | ZOES | -6.2%  |
| CMG  | -2.0%  | SONC    | -1.3%    | KKD      | -4.0%  | DNKN | -8.0%  |
| KKD  | -2.1%  | MCD     | -1.4%    | JMBA     | -4.7%  | MCD  | -11.8% |
| PZZA | -2.3%  | YUM     | -1.5%    | ARCO     | -6.2%  | PNRA | -14.0% |
| NDLS | -2.5%  | NDLS    | -3.4%    | CMG      | -8.6%  | CMG  | -15.5% |
| SBUX | -2.9%  | ZOES    | -4.8%    | PNRA     | -9.9%  | NDLS | -21.5% |
| SONC | -3.6%  | KKD     | -8.3%    | GMCR     | -18.9% | GMCR | -26.2% |
| GMCR | -4.3%  | GMCR    | -10.5%   | NDLS     | -38.0% | ARCO | -27.9% |
| SPX  | -0.1%  | SPX     | -0.9%    | SPX      | -3.9%  | SPX  | -8.2%  |



# CONSENSUS RESTAURANT GROWTH

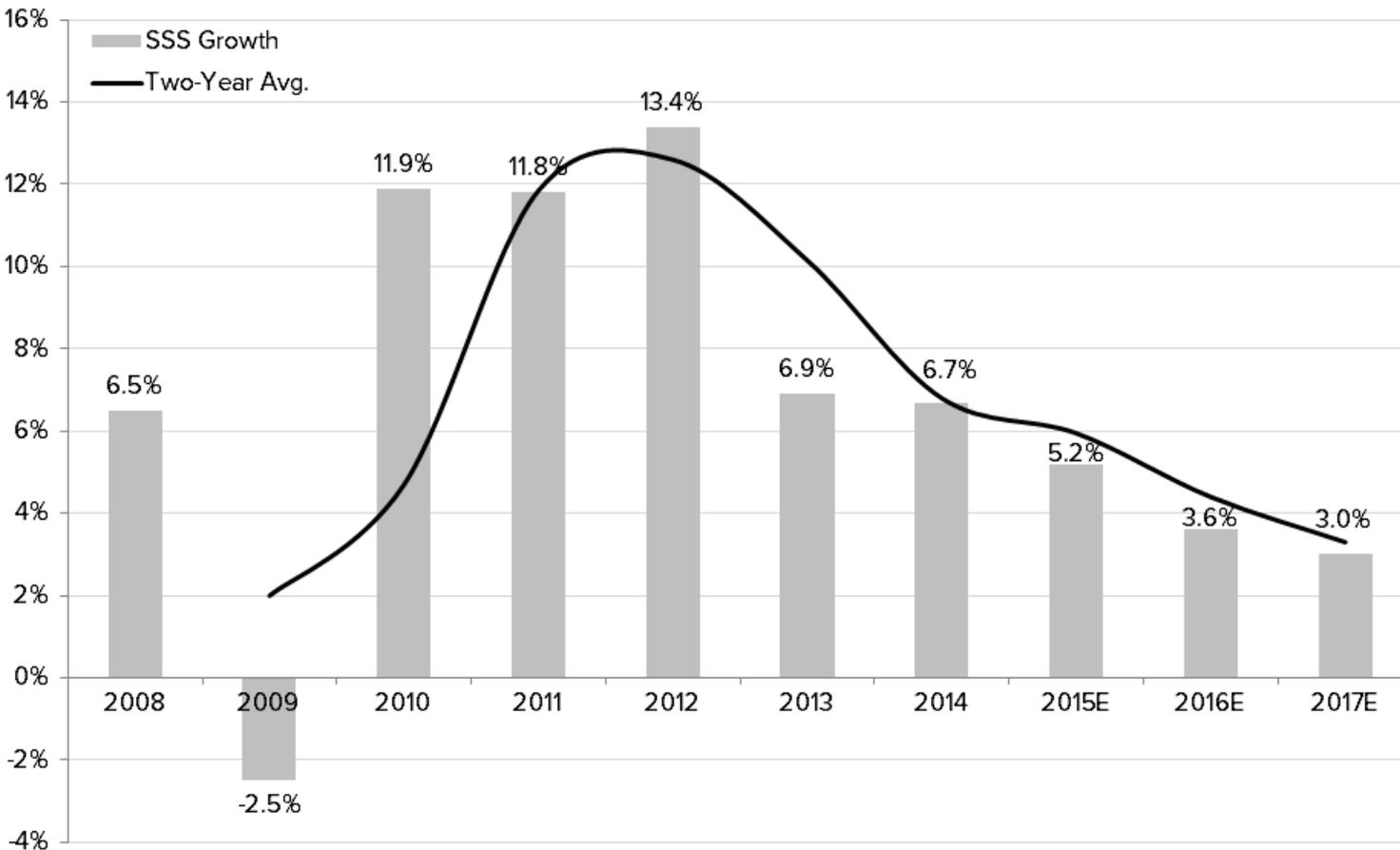


Zoe's has grown its restaurant base by ~30%+ each of the last six years and intends to grow by ~20%+ for the next few.

Importantly, Zoe's financials will benefit as its growth rate slows due to its larger restaurant base.

New units typically generate AUVs of \$1.1 million in year one and grow past \$1.3mm by year three.

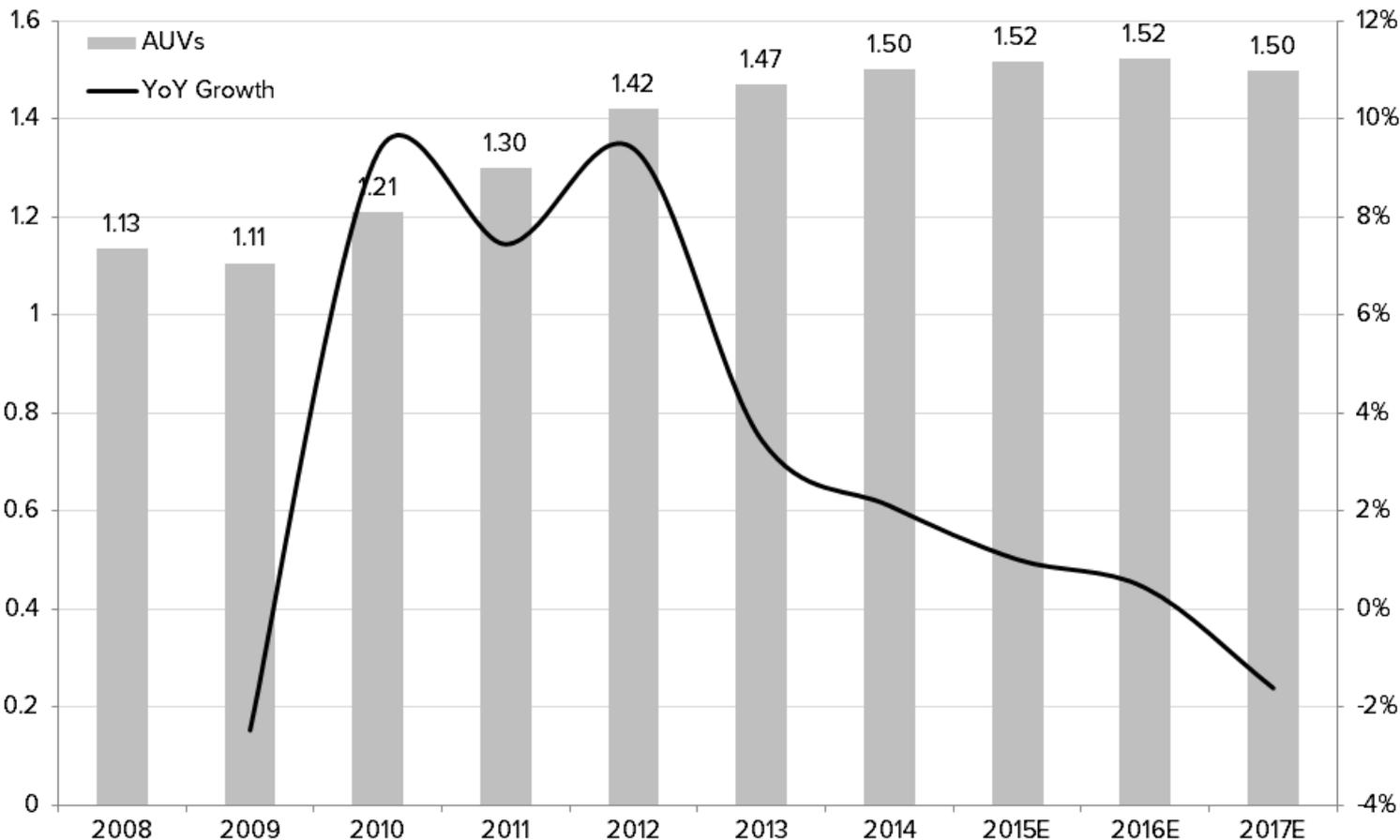
# CONSENSUS SAME-STORE SALES GROWTH



Consensus is modeling in an appreciable deceleration in same-store sales growth that we believe could prove overly conservative.

Given the effort to make dinner a larger % of the sales mix and a best-in-class catering program, management has the levers in place to sustain considerable same-store sales momentum.

# CONSENSUS AVERAGE UNIT VOLUME GROWTH



Another metric the street is modeling conservatively is AUV growth.

We expect to see steady improvement in AUVs as the recent onslaught of newer stores ramp to critical mass, and new units become a smaller % of the overall base.

**STRONG BRAND POSITIONING**

# SEASONED GROUP OF EXECUTIVES

CAFÉ PATRIQUE



**KONA GRILL**<sup>®</sup>  
kitchen • sushi • cocktails



# VIBRANT LEADERS

## KEVIN MILES, PRESIDENT & CEO



Kevin Miles originally joined ZOES in 2009 as Executive VP of Operations before being promoted to CEO in late 2012. He previously held various positions at LA Madeleine Inc, Baja Fresh Mexican Grill, and Pollo Campero.

## JASON MORGAN, CFO



Jason Morgan has served as CFO of ZOES since joining the firm in early 2008. He previously served as CFO of Simplex Diabetic Supply and, prior to that, CFO of Video Gaming Technologies Inc.

# A CATEGORY OF ITS OWN

## Burger Category



## Chicken Category



## Burrito Category



## Mediterranean Category



# MEDITERRANEAN FOOD

## THE HEALTH BENEFITS OF MEDITERRANEAN FOOD & DIET ARE WIDELY PUBLICIZED

**“Mediterranean Diet Keeps You Genetically Young.”** – ZME Science (Dec. 3, 2014)

**“Mediterranean Diet Cuts Risk of Heart Disease Nearly in Half.”** – CBS News (Mar. 5, 2015)

**“Mediterranean Diet Secret to Happy and Healthy Life.”** – Guardian Liberty Voice (Mar. 8, 2015)

**“Modified Mediterranean Diets Also Good for Weight Loss.”** – Reuters (Mar. 10, 2015)

**“More Evidence the Mediterranean Diet May Reduce Stroke Risk.”** – Medscape (Mar. 12, 2015)

**“Is a Mediterranean Diet the Key to Avoiding Alzheimer’s?”** – Gazette Inquirer (Mar. 25, 2015)

***“People who most closely followed a Mediterranean diet were 47% less likely to develop heart disease than those who did not closely follow the diet. The researchers also found that sticking to a Mediterranean diet was more protective against heart disease than physical activity.”***

– CBS News (Mar. 5, 2015)

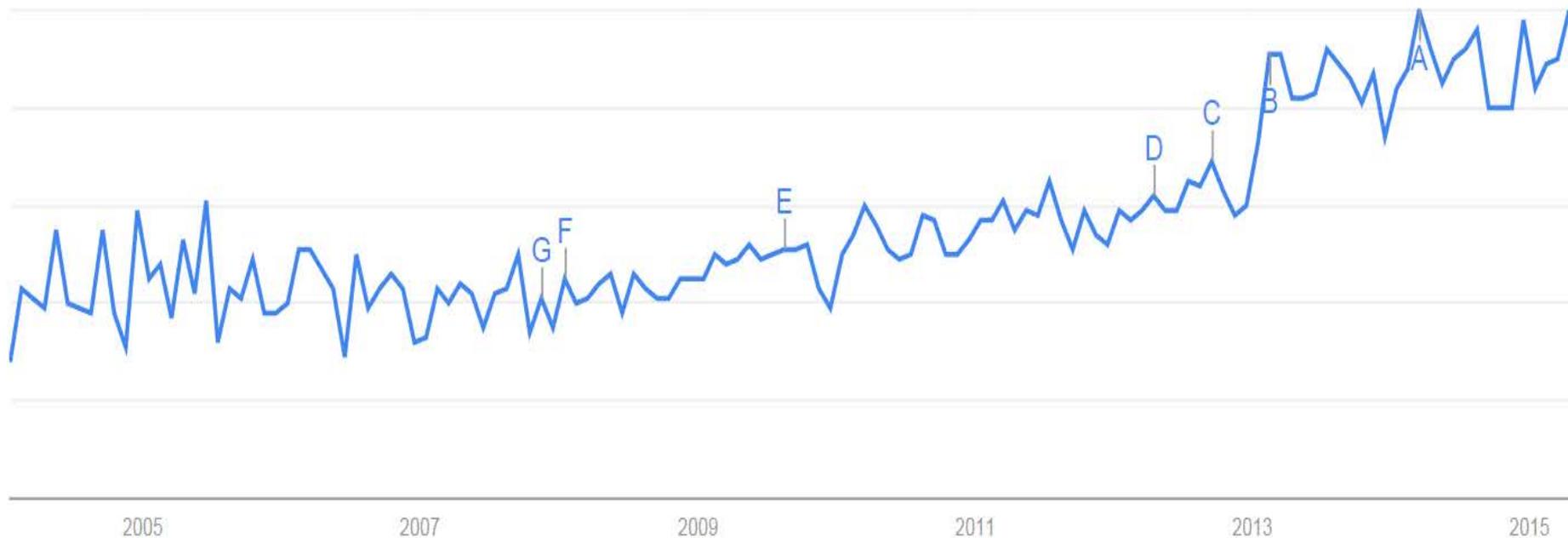
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***“This follows a decade of study into this diet and Alzheimer’s on 1000 people, the results of which showed an impressive 53% reduction in their risks of developing the disease, and the new recommendation is to follow the MIND diet – the Mediterranean DASH Intervention for Neurological delay.”***

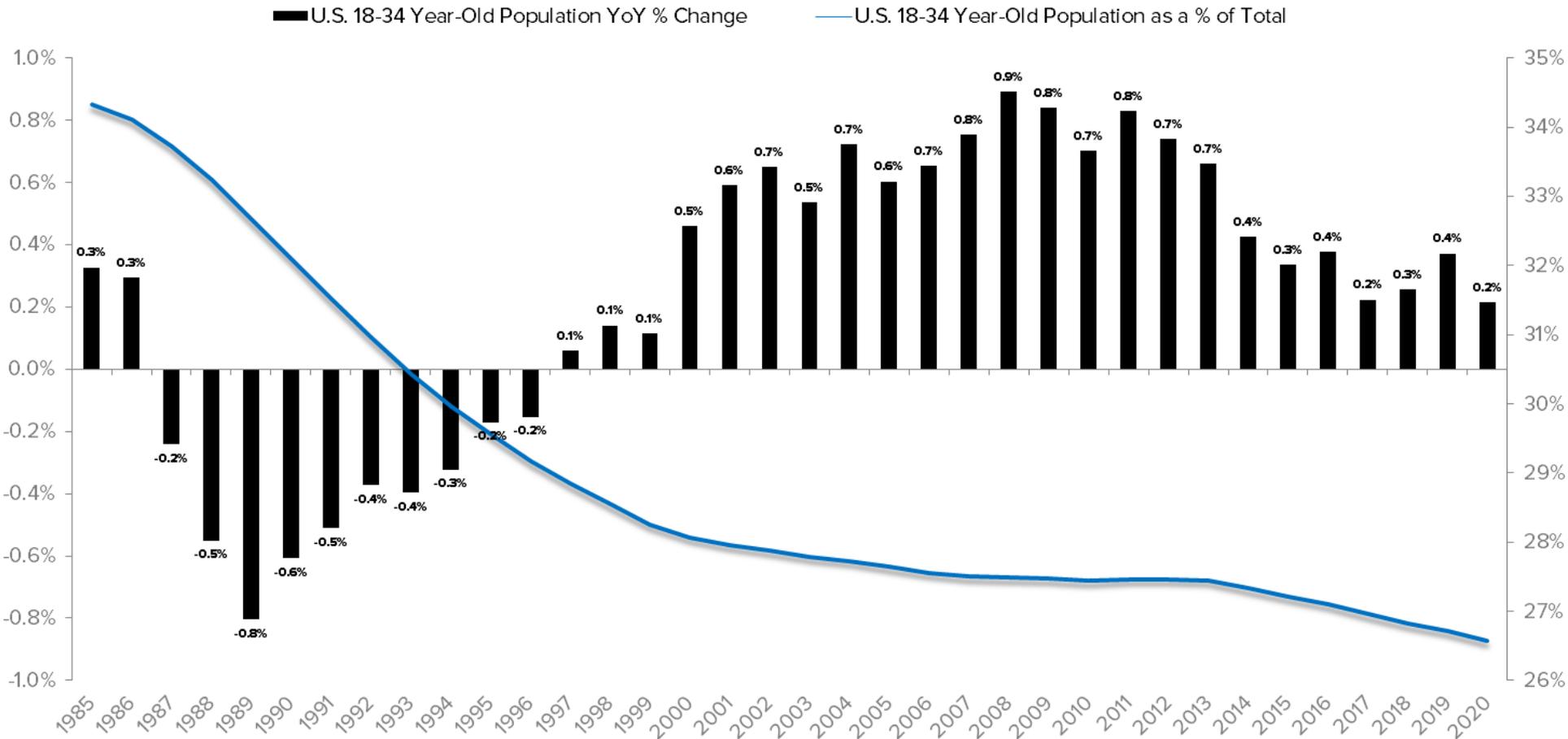
– Gazette Inquirer (Mar. 25, 2015)

# MEDITERRANEAN FOOD

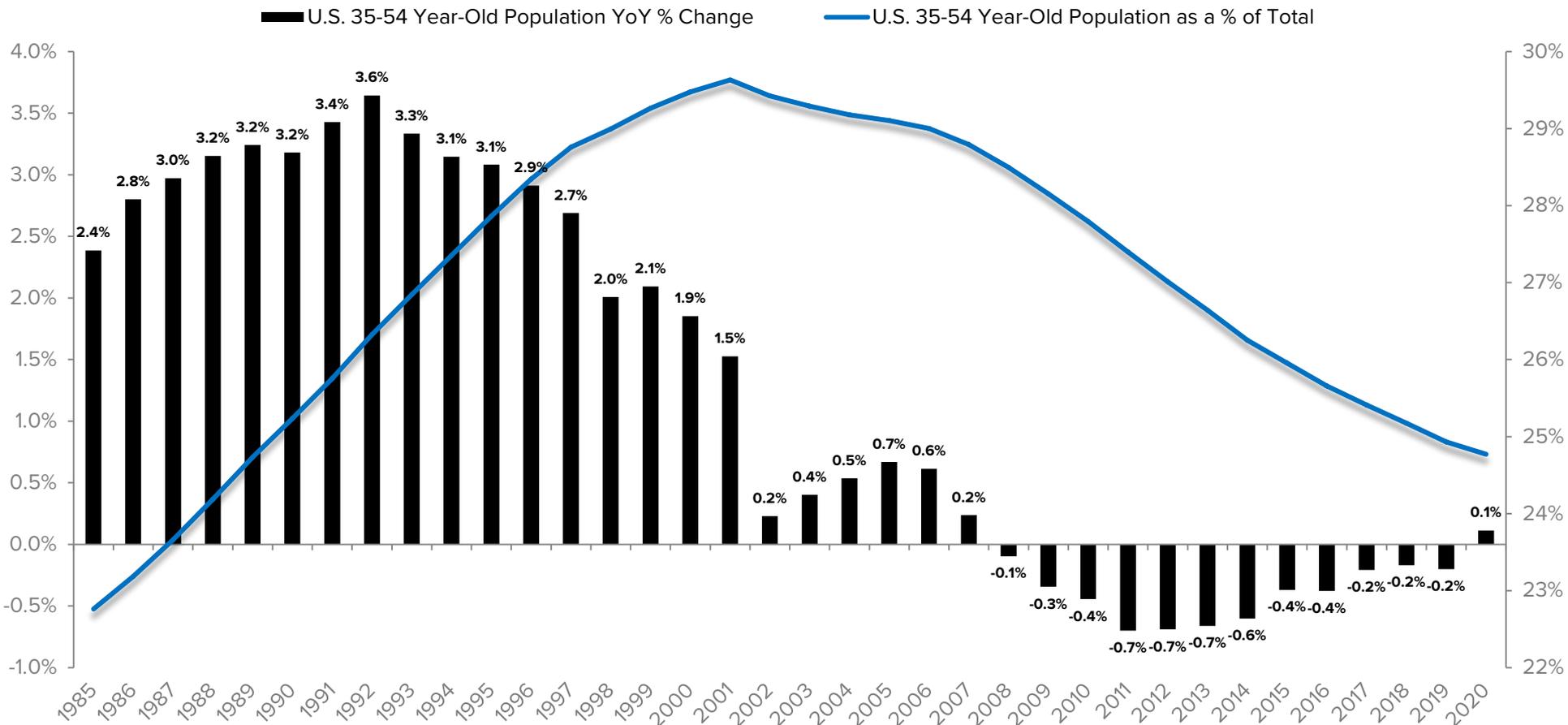
## GROWING CONSUMER INTEREST IN MEDITERRANEAN FOOD



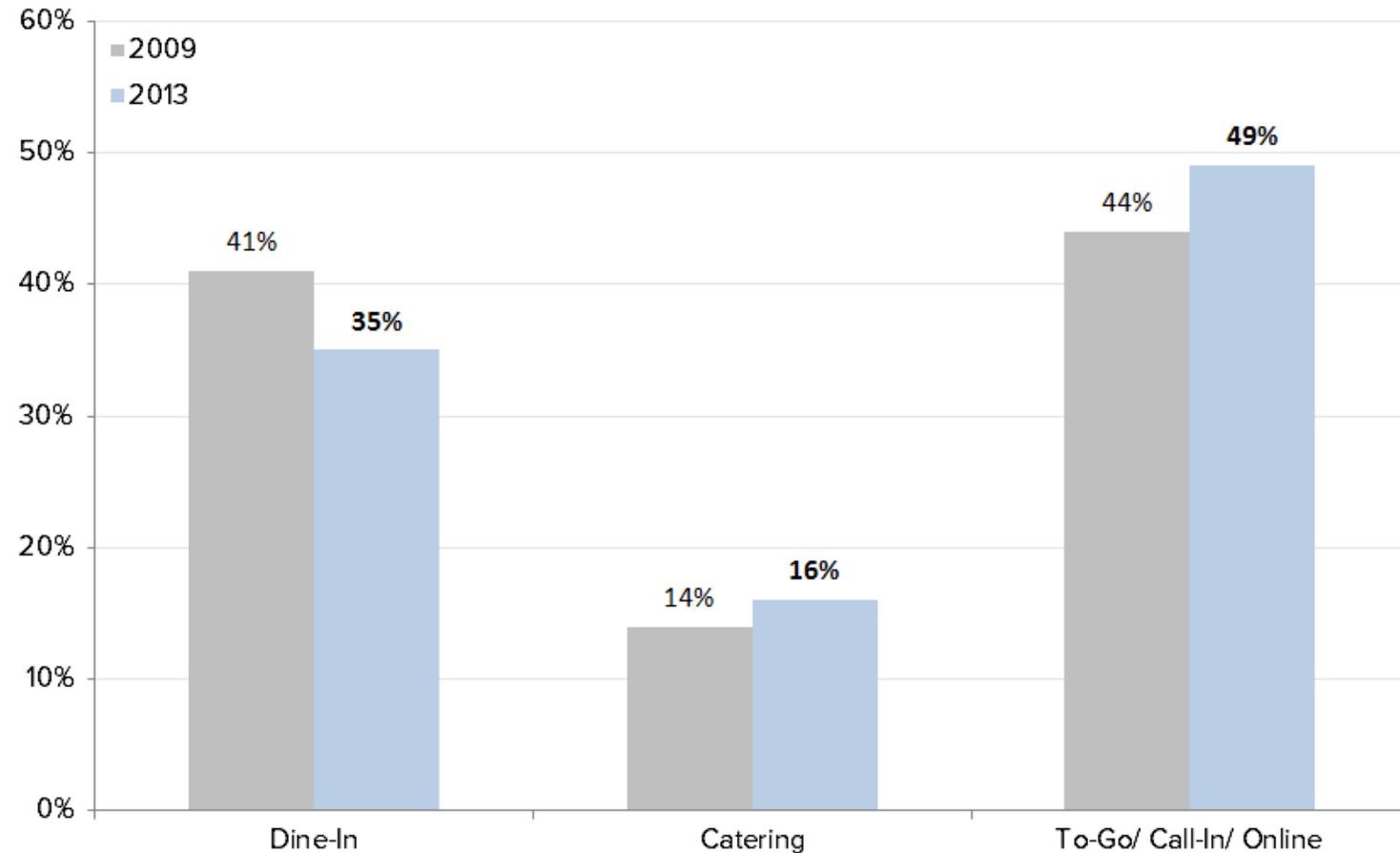
# SECULAR EXPANSION



# SECULAR STAGNATION



# ZOE'S GROSS SALES MIX

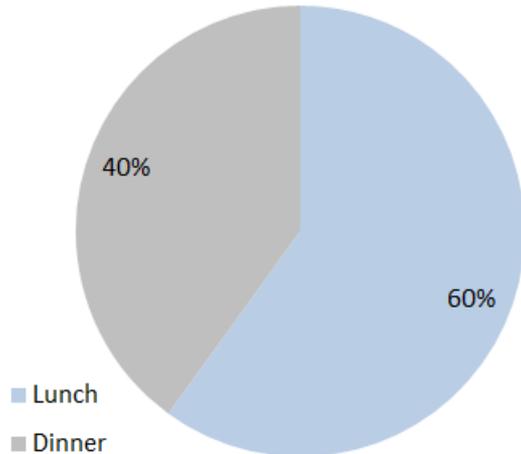


This balanced dine-in/take-out mix, in addition to a strong catering business, gives Zoe's the potential to deliver best-in-class AUVs.

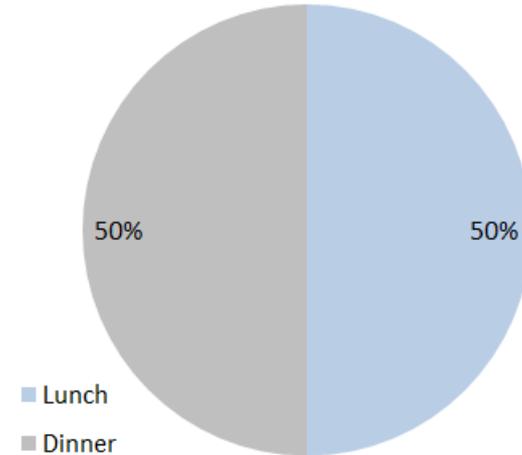
# ZOE'S DAY PART MIX

ZOE'S BALANCED DAY PART MIX IS A COMPETITIVE STRENGTH AND A CONCERTED EFFORT TO GROW THE DINNER BUSINESS SHOULD DRIVE AVERAGE CHECK AND HELP IMPROVE AUVS

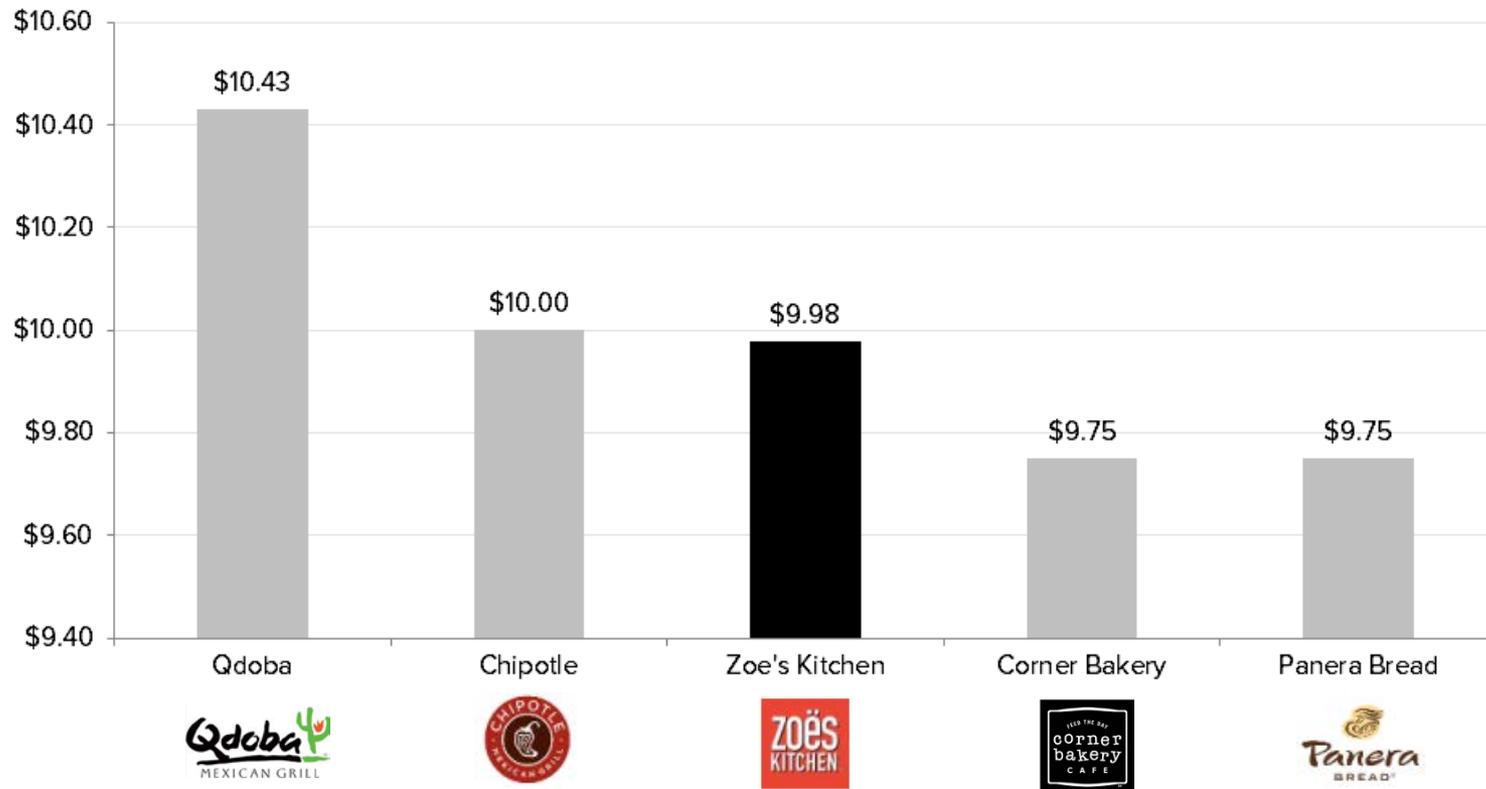
## 2014 DAY PART MIX



## TARGETED DAY PART MIX



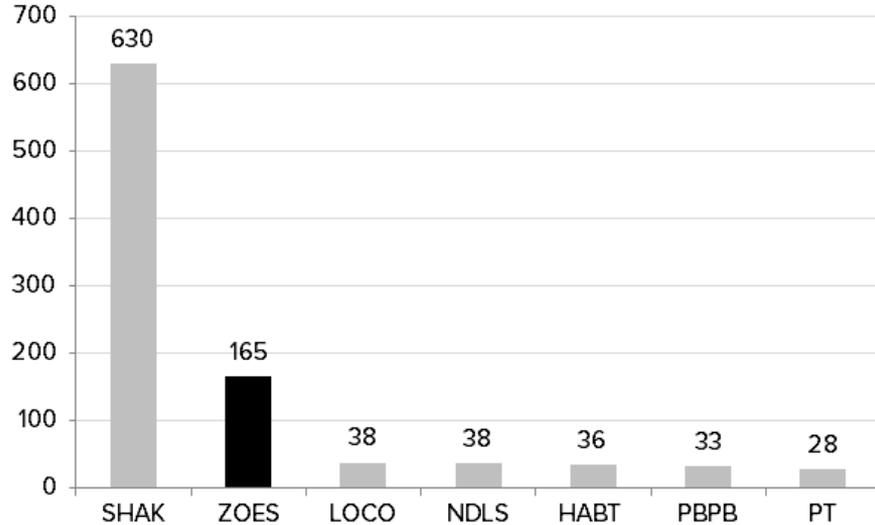
# FAST CASUAL AVERAGE CHECK



Zoe's has a reasonable average check, particularly given the quality of its food, when compared to other competitors which gives it the ability to take price increases in the future.

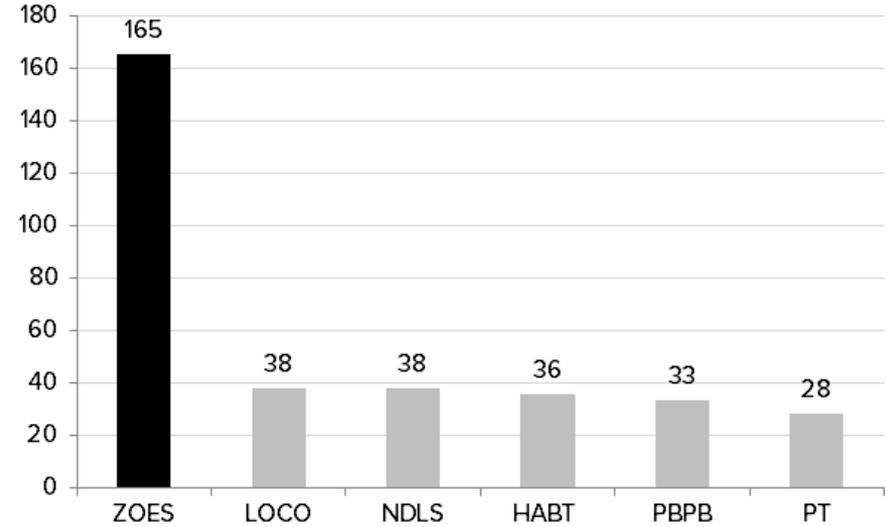
# SOCIAL MEDIA PRESENCE

## TWITTER FOLLOWERS PER STORE



SHAK has a dominant social media presence compared to other emerging fast casual restaurant brands. ZOES is a distant second, but is impressively positioned relative to others.

## TWITTER FOLLOWERS PER STORE



ZOES, as a Mediterranean concept, may not have the name recognition of a better-burger concept centered in NYC, but it does have an impressive following. We believe this speaks to the lifestyle brand positioning of the company.

**IMPRESSIVE EARLY STAGE PROFITABILITY**

# FIRST CLASS NEW UNIT ECONOMICS

| Targeted New Unit Economics          |             |             |             |             |
|--------------------------------------|-------------|-------------|-------------|-------------|
|                                      | ZOES        | LOCO        | HABT        | FRGI (PT)   |
| Average Unit Volume                  | \$1.30      | \$1.80      | \$1.50      | \$2.20      |
| Restaurant Level EBITDA              | \$225       | \$526       | \$225       | \$413       |
| Restaurant Contribution Margin       | ~18%        | 18.90%      | 15%         | 18.80%      |
| Buildout Cost                        | \$750       | \$1,400     | \$750       | \$1,650     |
| <b>Sales to Investment Ratio (1)</b> | <b>1.7x</b> | <b>1.3x</b> | <b>2.0x</b> | <b>1.3x</b> |
| <b>Cash-on-Cash Return</b>           | <b>30%+</b> | <b>25%+</b> | <b>30%+</b> | <b>25%+</b> |

Source: Company Filings and estimates

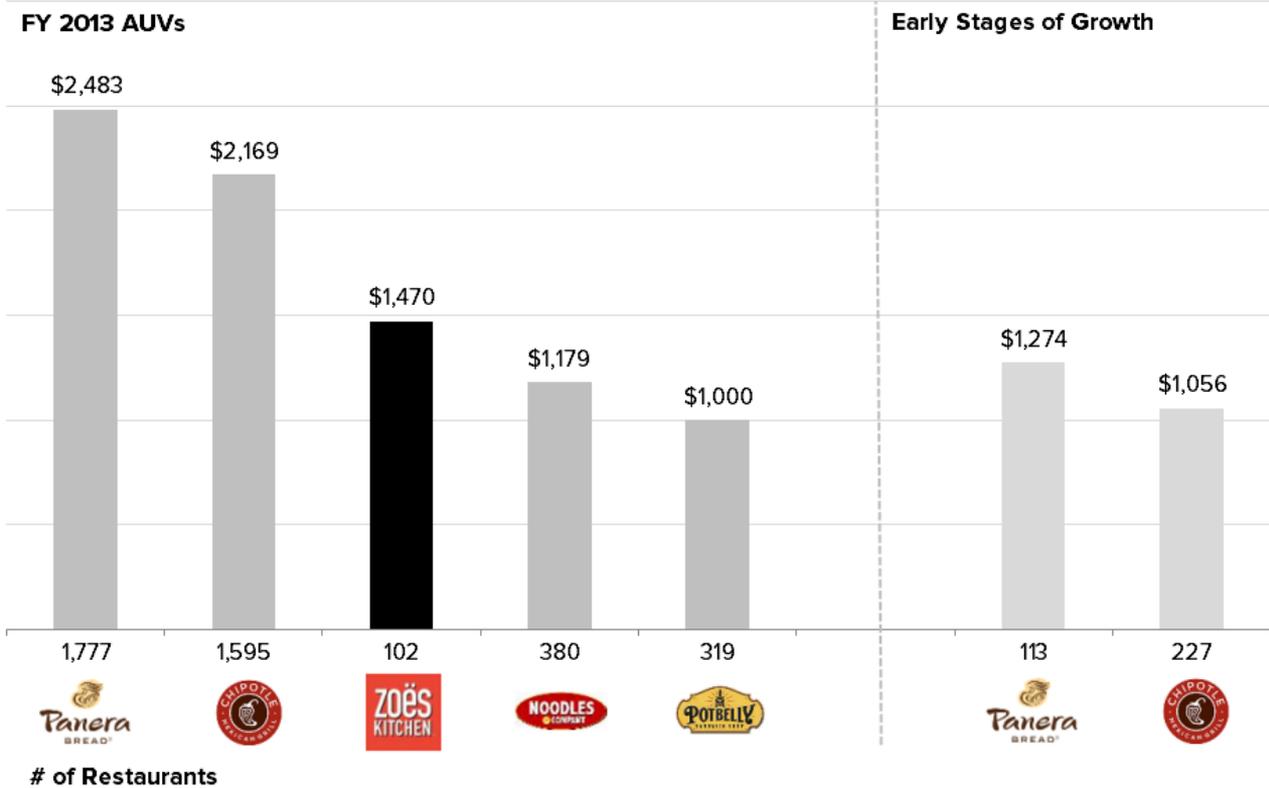
Note: Cash-on-Cash Return = Restaurant-Level EBITDA / Net Cash Investment excl. Pre-Opening Exp.

(1) Represents targeted Year 1 Sales to Investment Ratio

Solid restaurant level margins in addition to best-in-class build out costs and cash-on-cash returns highlight ZOES' new unit economics.

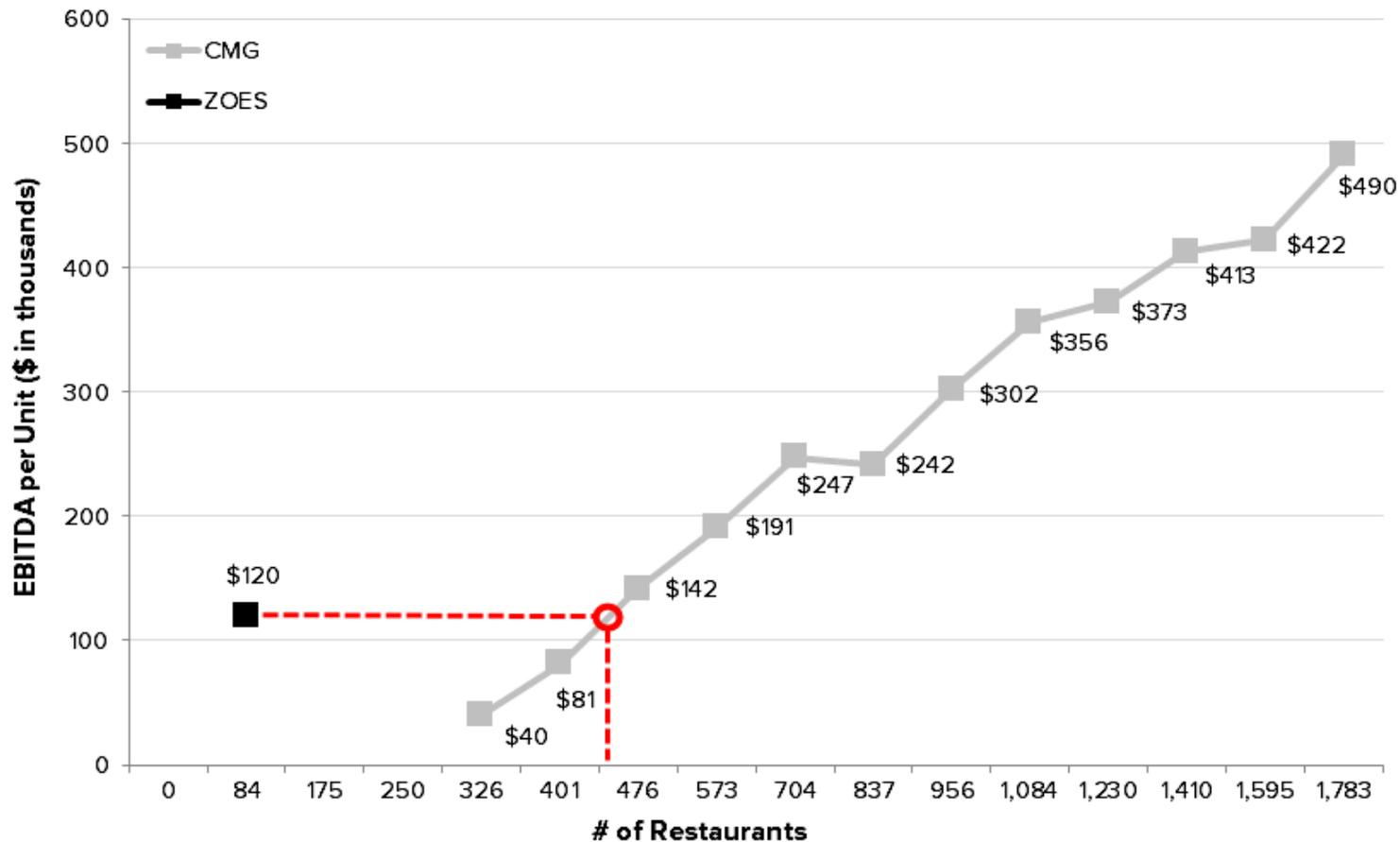
We believe ZOES' new units are exceeding these targets, driven by higher than expected year 3 AUVs.

# AVERAGE UNIT VOLUMES



At 102 stores, Zoe's was achieving higher AUVs (\$1.470mm) than both Panera (\$1,274mm) and Chipotle (\$1,056) did at 113 and 227 units, respectively.

# EARLY STAGE PROFITABILITY



Zoe's generated \$120k in restaurant level EBITDA per store at only 84 units.

This is a level that took Chipotle 400+ units to reach.

In addition, at 102 stores, Zoe's is achieving higher AUVs (\$1.460mm) than both Panera (\$1,274mm) and Chipotle (\$1,056) did at 113 and 227 units, respectively.

# PEER MARGIN ANALYSIS

| 2014 Margin Analysis            |               |               |               |               |               |               |               |               |               |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                 | ZOES          | CMG           | FRGI          | LOCO          | HABT          | NDLS          | PBPB          | PNRA          | SHAK          |
| Cost of Sales                   | 33.19%        | 34.89%        | 31.59%        | 31.82%        | 33.38%        | 26.87%        | 28.79%        | 30.03%        | 31.18%        |
| Labor Costs                     | 28.20%        | 22.01%        | 25.49%        | 25.01%        | 29.73%        | 30.20%        | 28.63%        | 30.74%        | 26.16%        |
| Other Expenses                  | 18.64%        | 16.19%        | 21.04%        | 21.25%        | 15.57%        | 23.84%        | 23.37%        | 21.28%        | 18.69%        |
| <b>Restaurant Level Margins</b> | <b>19.97%</b> | <b>27.21%</b> | <b>21.87%</b> | <b>21.93%</b> | <b>21.32%</b> | <b>13.18%</b> | <b>19.22%</b> | <b>17.95%</b> | <b>23.97%</b> |
| G&A                             | 10.87%        | 6.67%         | 8.08%         | 8.50%         | 10.82%        | 7.59%         | 9.71%         | 5.44%         | 13.09%        |
| D&A                             | 6.10%         | 2.69%         | 3.77%         | 3.35%         | 4.85%         | 6.14%         | 6.00%         | 4.91%         | 4.90%         |
| <b>Operating Margins</b>        | <b>1.92%</b>  | <b>17.30%</b> | <b>9.71%</b>  | <b>13.97%</b> | <b>4.59%</b>  | <b>4.87%</b>  | <b>3.37%</b>  | <b>10.91%</b> | <b>4.90%</b>  |

## SIGNIFICANT LEVERAGE UNREALIZED

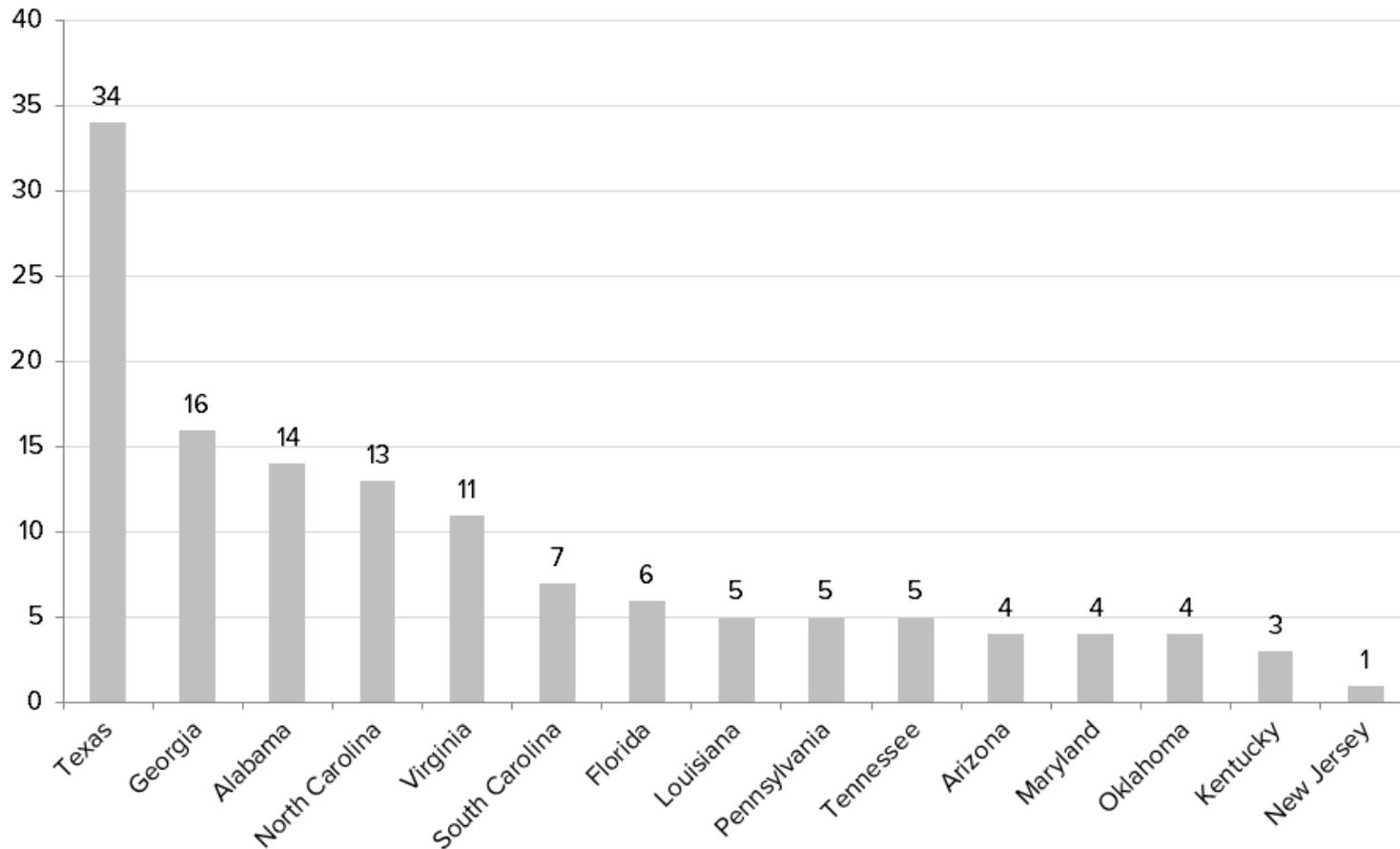
We believe ZOES will realize significant leverage as it continues to grow its AUVs, particularly on the Other Expenses, G&A, and D&A lines, ultimately pushing operating margins materially higher.

# **DISCIPLINED GROWTH STRATEGY**

# RESTAURANT LOCATIONS



# SUCCESS IN DISPARATE MARKETS



At the end of 2014, Zoe's operated 135 restaurants across 15 states.

As of year-end 2013, Zoe's top 20 restaurants by revenue were located in seven different states, showing the widespread appeal of the brand.

Importantly, Zoe's has yet to penetrate the Northeast and West Coast, two regions we believe the concept will flourish in.

# REAL ESTATE SITE SELECTION

| Demographics               | 1 Mile       | 2 Miles       | 3 Miles        |
|----------------------------|--------------|---------------|----------------|
| Population                 | 6,000-12,000 | 30,000-75,000 | 85,000-150,000 |
| Minimum Daytime Population | 10,000       | 20,000        | 75,000         |
| Median HH Income           | \$70,000     | \$70,000      | \$60,000       |
| % of College Grads         | 60%          | 60%           | 50%            |
| Household Size             | 2.2-2.8      | 2.2-2.8       | 2.2-2.8        |

## Requirements

- 2,500-2,800 square feet (preferably 2,800)
- End-cap with patio
- Hood required
- 7 day per week trade areas
- 20,000 minimum traffic count on street in front of store, non intersection, both ways
- 30,000-35,000 minimum traffic count at a corner

## Lease Terms

- 10 year term with (3) 4 year options
- TI Allowance or free rent a requirement

| Access | 1 Mile | 2 Miles | 3 Miles |
|--------|--------|---------|---------|
|        |        |         |         |
|        |        |         |         |
|        |        |         |         |
|        |        |         |         |

- 2 to 3 curb cuts to center
- Signaled entry & intersection
- Left turn obstructed
- Ample and convenient parking

## Traffic Generators

Minimum 3 of the following within one half mile:

- Office buildings
- Health clubs
- Hospitals
- High-end, high-frequency specialty retail
- High-density, white collar
- Retail entertainment centers
- High-density residential
- High-end grocery

## Visibility

- Exterior signage, minimum 2 sides of building
- 35' minimum store front

**AVOIDING THE MISTAKES OF OTHERS**

***“Our development in that year included nine new units in eight new markets located within six new states. And because of the low brand awareness in these new markets, these units have been slower to reach our targeted new store metrics.”***

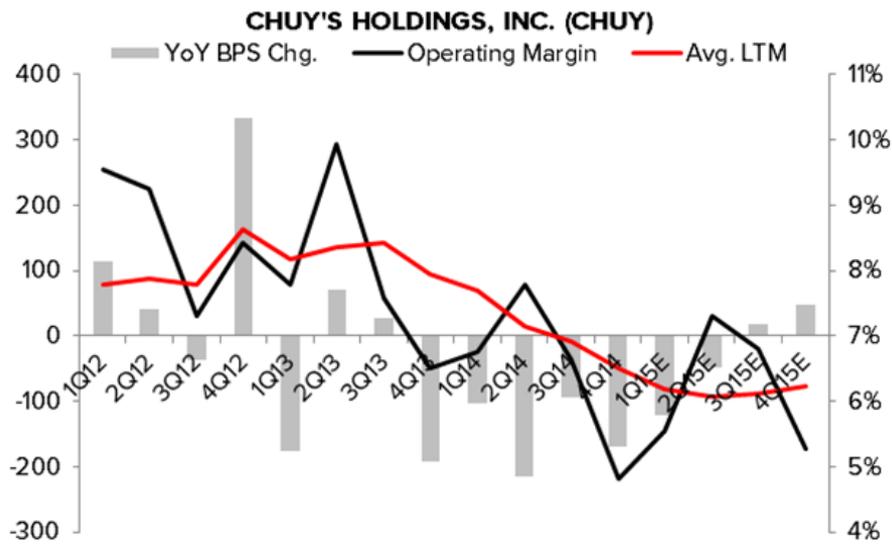
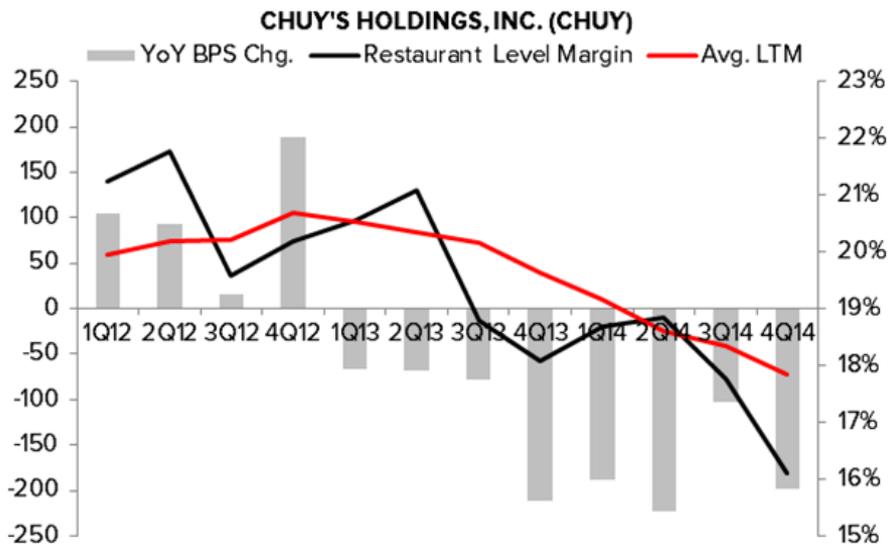
– Steven Hislop, President and CEO of Chuy’s on the 2Q14 earnings call

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***As most of you know, the class of 2013 skewed heavily towards new markets, where we lacked the same level of brand awareness that we have in our existing markets.”***

– Steven Hislop, President and CEO of Chuy’s on the 4Q14 earnings call

# GROWING PAINS EXHIBIT A



## MARGIN DELEVERAGE

Avg. LTM restaurant level margins have declined 284 bps since the end of 2012

Avg. LTM operating margins have declined 213 bps since the end of 2012

# NOODLES & COMPANY

***“Brand awareness continues to be the largest barrier to trial and frequency for Noodles & Company.”***

– Keith Kinsey, President and COO of Noodles on the 3Q14 earnings call

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***“Brand awareness is ultimately what has distinguished our top performers from our lower performers and we’re going to be able to allocate a lot of the openings next year into some of those markets where right now our brand awareness is relatively low.”***

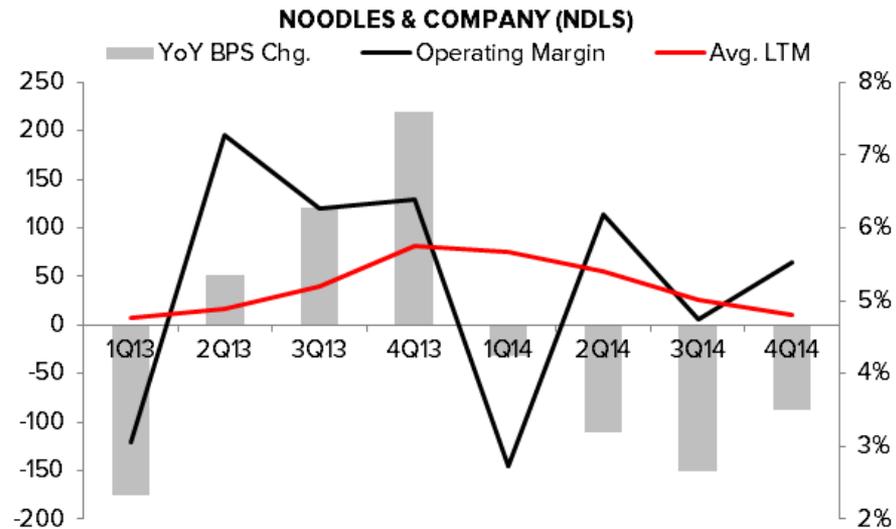
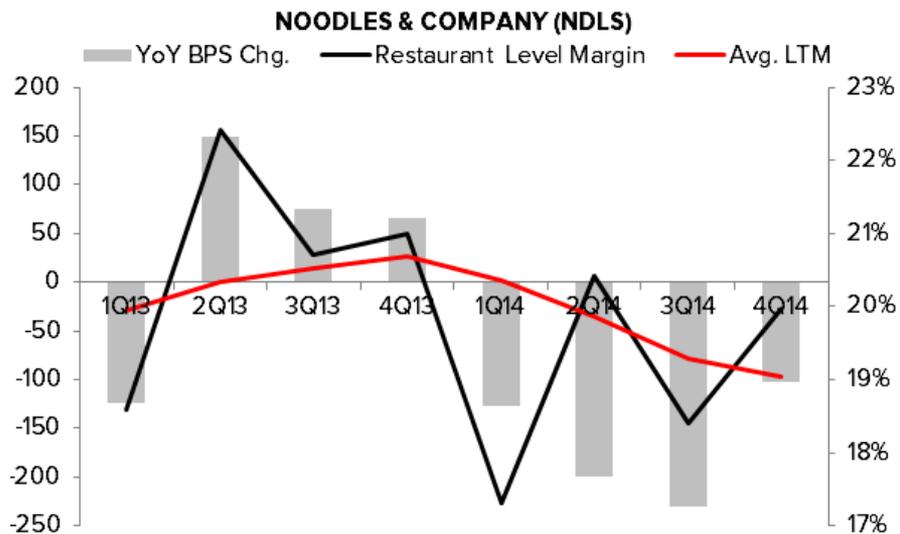
– Dave Boennighausen, CFO of Noodles on the 3Q14 earnings call

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***“Our 2015 development will be skewed a bit more towards new and developing markets compared to 2014.”***

– Keith Kinsey, President and COO of Noodles on the 4Q14 earnings call

# GROWING PAINS EXHIBIT B



## MARGIN DELEVERAGE

Avg. LTM restaurant level margins have declined 165 bps since the end of 2013

Avg. LTM operating margins have declined 95 bps since the end of 2013

# POTBELLY CORPORATION

***“The legacy to new market opening mix will vary year-to-year as we move forward, but we will target our new unit development to be split evenly between new and legacy markets over time.”***

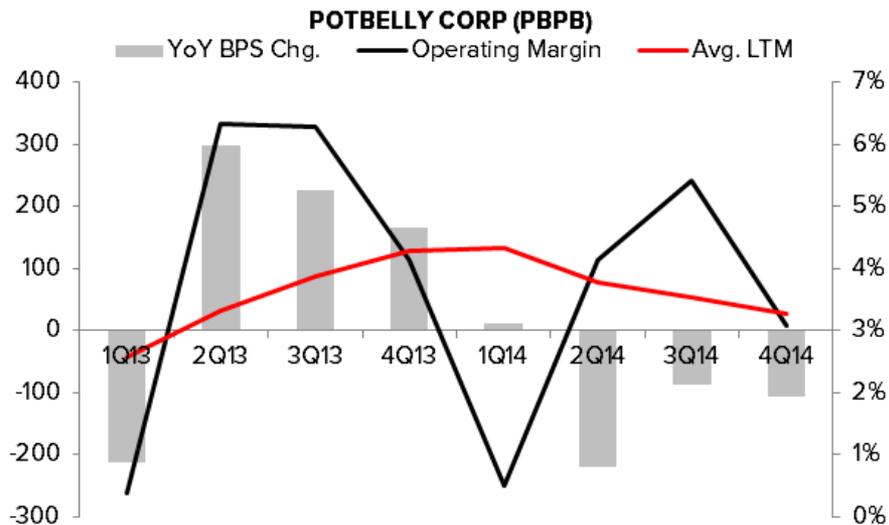
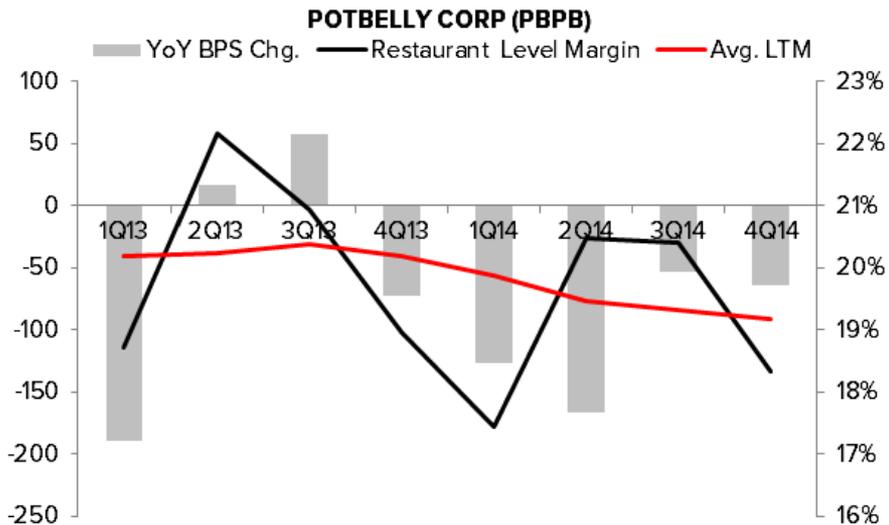
– Chris Talbot, former CFO of Potbelly on the 4Q14 earnings call

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***“If you go into a new market and you’re not as successful as you want in that first stage growth. Instead of worrying about whether it’s a brand issue, we looked at the execution. And so there are some things we should execute better on the real estate selection side, as well as running the shops better.”***

– Aylwin Lewis, Chairman, President, and CEO of Potbelly at the BoA Consumer & Retail Conference

# GROWING PAINS EXHIBIT C



## MARGIN DELEVERAGE

Avg. LTM restaurant level margins declined 103 bps since the end of 2013

Avg. LTM operating margins declined 101 bps since the end of 2013

# ZOES: AVOIDING THE MISTAKES OF OTHERS

***“I think for why we picked Kansas City, it’s contiguous to some of the other states that we’re currently in and it makes the most sense from a brand awareness standpoint and continues our momentum kind of up through the Midwest versus just jumping over Kansas City into Chicago or some other market like that. So you’re going to see us really try to stay focused closer to markets where we are as we enter new markets.”***

– Jason Morgan, CFO of Zoe’s Kitchen on the 3Q14 earnings call

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***“Basically, the stores in new markets are performing back to what we have told you guys from the model standpoint. So Philadelphia has been open a little over a year, first year has been at or exceeded that \$1.1 million that we put out there for restaurant sales in the new market. That’s really the only new market we’ve been in, in 2013 or 2014.”***

– Jason Morgan, CFO of Zoe’s Kitchen on the 4Q14 earnings call

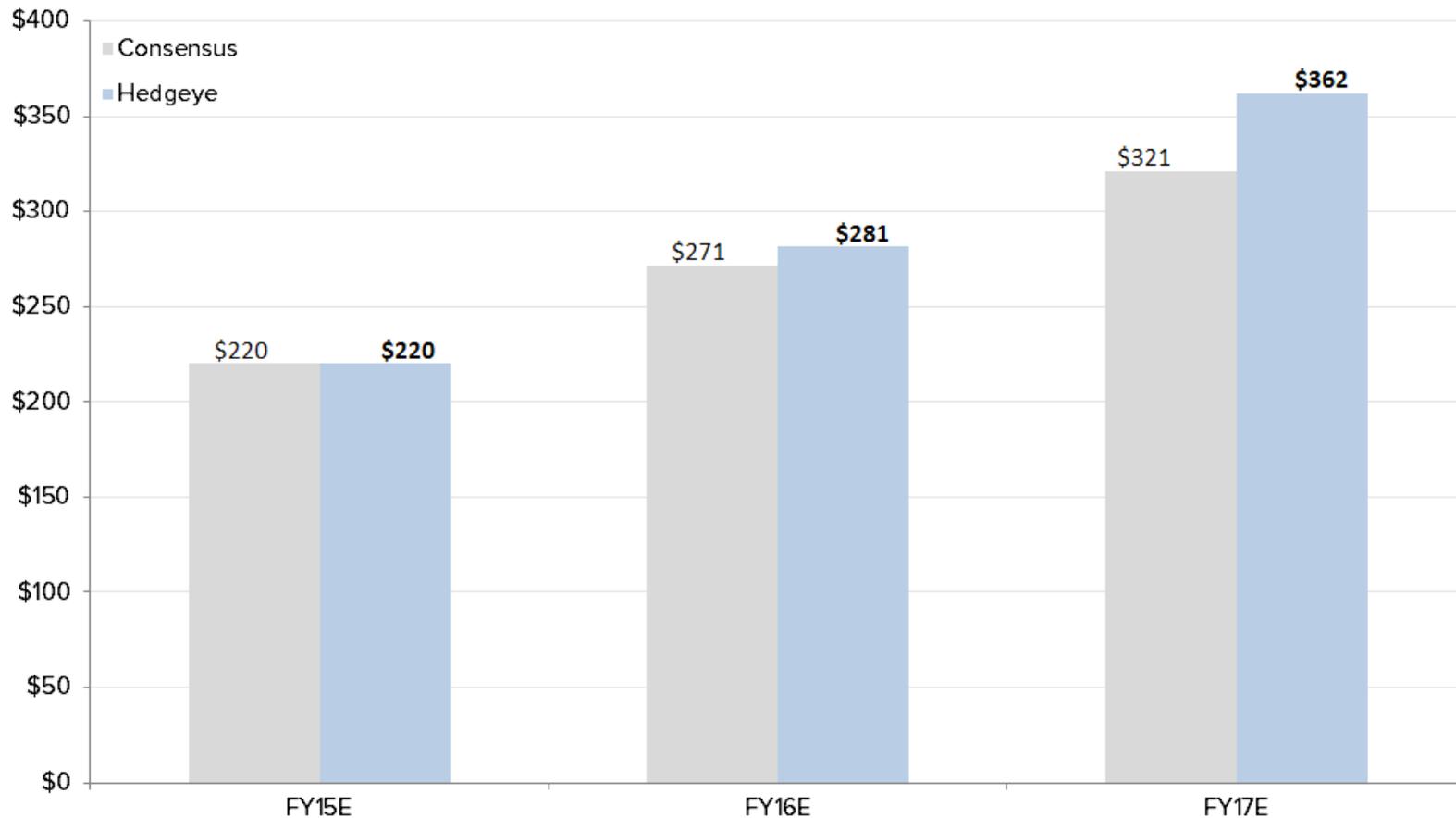
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***“Again our goal would be that 75/25 which kind of constitutes about eight to nine new locations in a new market. That said it’s probably going to be a little shy of that, at least how it’s shaping up right now which would point you to more openings in existing markets as it stands. We might have something that we could report either second quarter or third quarter but nothing today that we can report on as far as additional new markets.”***

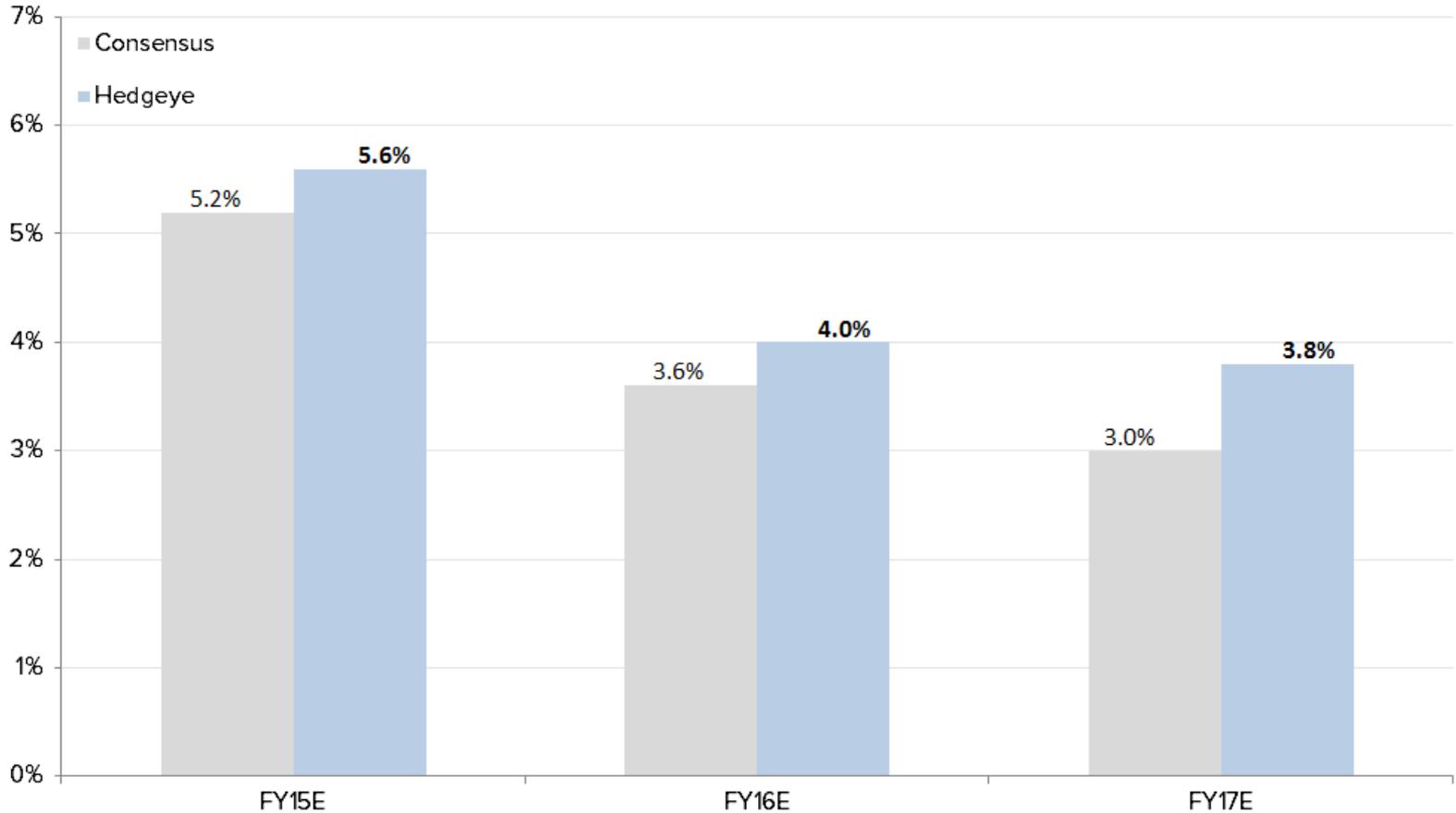
– Kevin Miles, President and CEO of Zoe’s Kitchen on the 4Q14 earnings call

# **LEVERAGEABLE OPERATING MODEL**

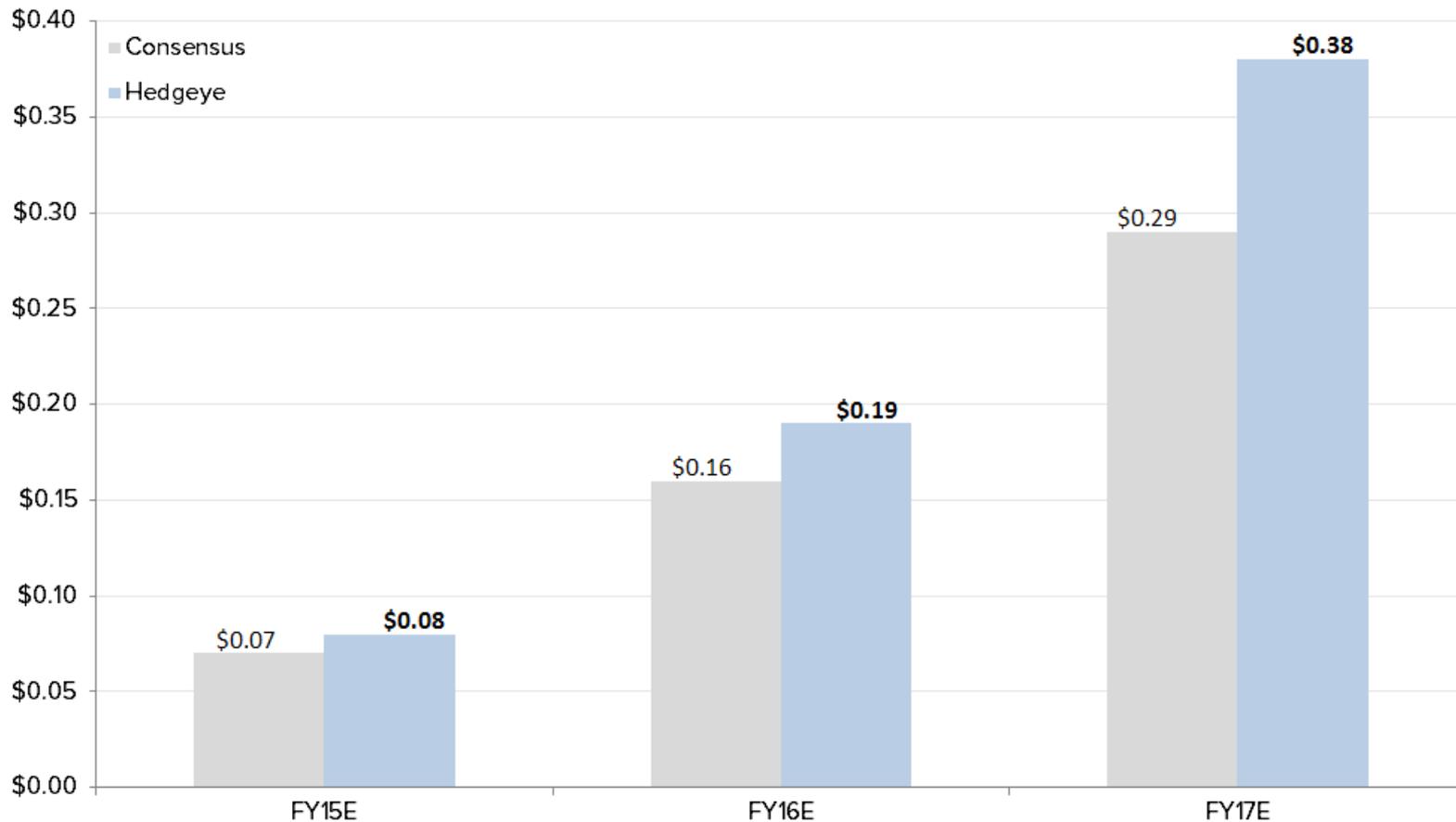
# TOTAL REVENUES



# SAME-STORE SALES

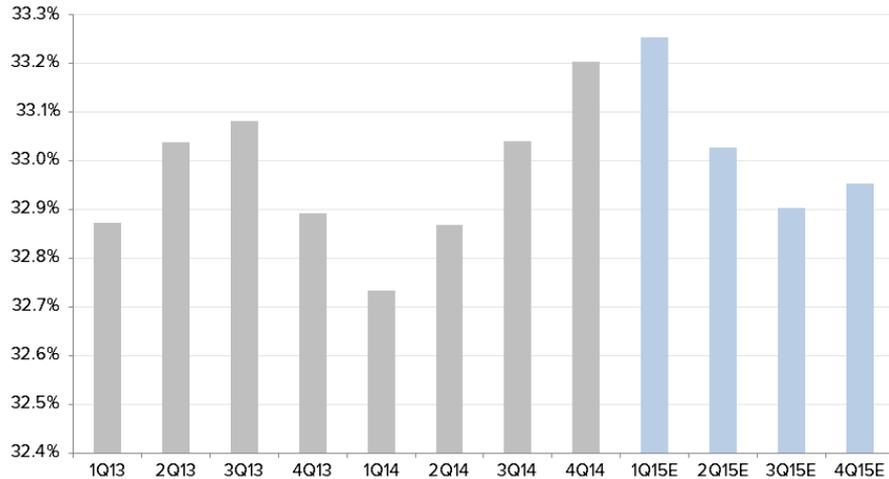


# EARNINGS PER SHARE

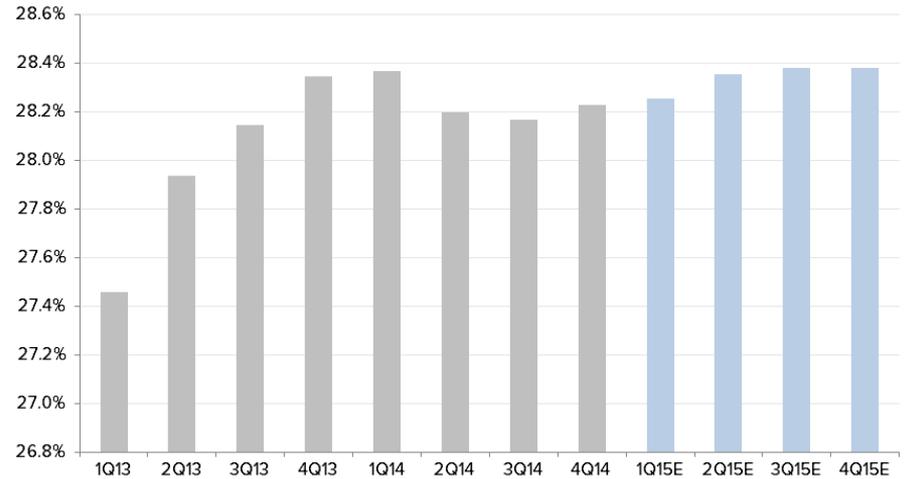


# COST OF SALES & LABOR COST

## COST OF SALES (AVG LTM)

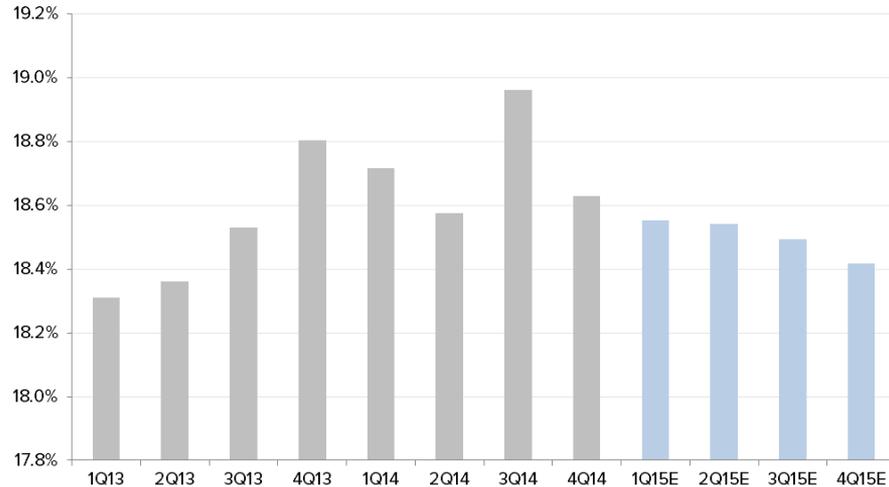


## LABOR COST (AVG LTM)

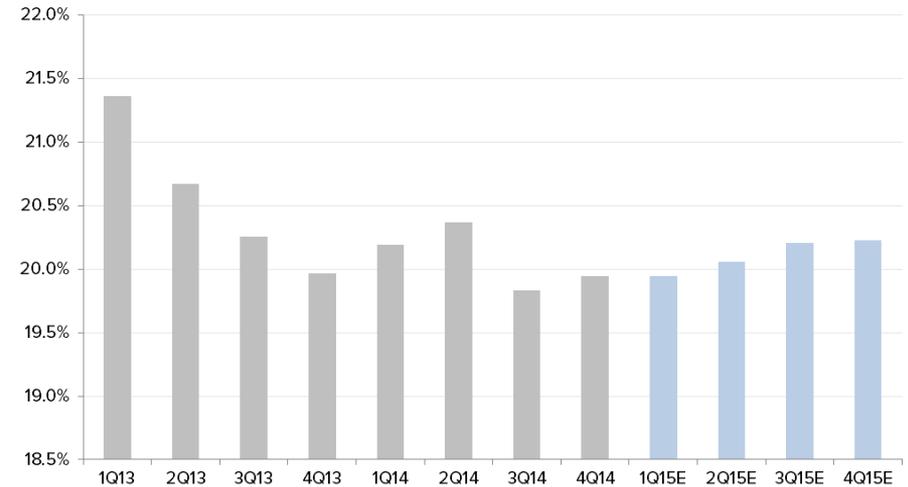


# STORE OPERATING COSTS & RESTAURANT LEVEL MARGIN

## STORE OPERATING COSTS (AVG LTM)

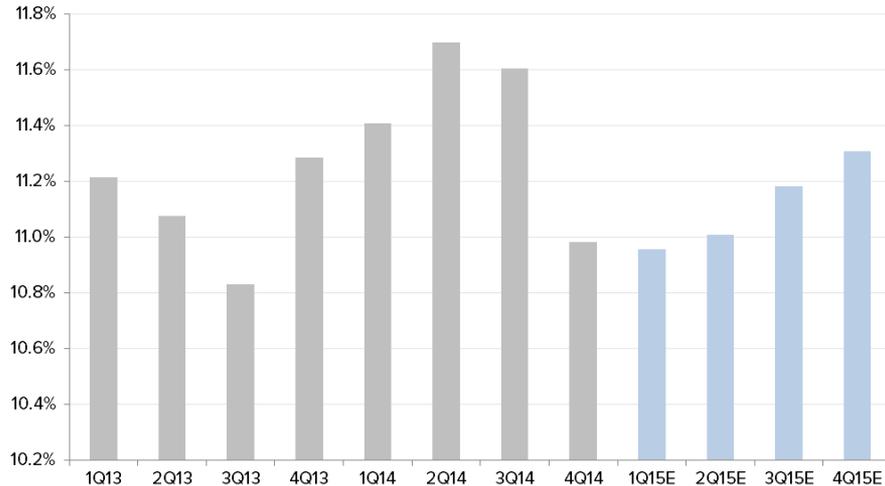


## RESTAURANT LEVEL MARGIN (AVG LTM)

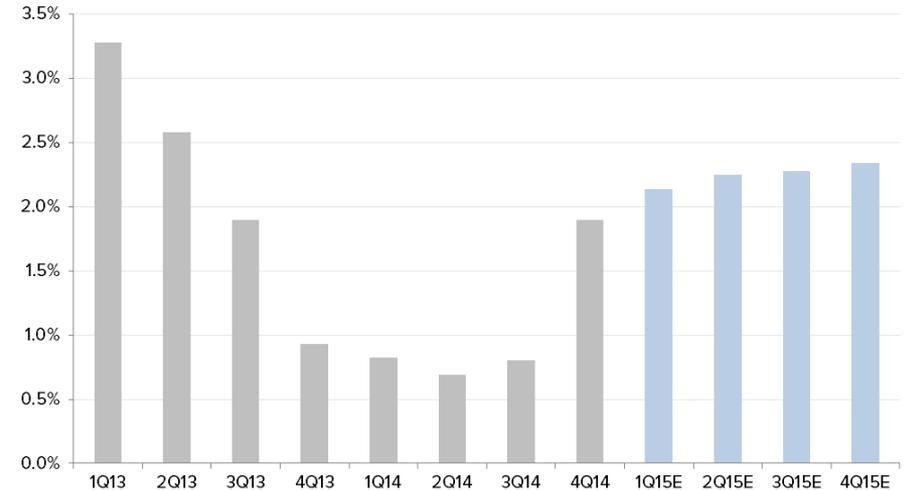


# G&A COSTS & OPERATING MARGIN

## GENERAL & ADMINISTRATIVE (AVG LTM)



## OPERATING MARGIN (AVG LTM)



# MARGIN ANALYSIS

| <b>ZOES</b>                     | <b>FY15E</b> | <b>FY16E</b> | <b>FY17E</b> |
|---------------------------------|--------------|--------------|--------------|
| <b>Cost of Sales</b>            |              |              |              |
| Consensus                       | 32.90%       | 32.82%       | 32.86%       |
| Hedgeye                         | 32.97%       | 32.82%       | 32.77%       |
| <b>Δ (bps)</b>                  | <b>7</b>     | <b>0</b>     | <b>-9</b>    |
| <b>Labor Cost</b>               |              |              |              |
| Consensus                       | 28.30%       | 28.31%       | 28.27%       |
| Hedgeye                         | 28.36%       | 28.31%       | 28.24%       |
| <b>Δ (bps)</b>                  | <b>6</b>     | <b>0</b>     | <b>-3</b>    |
| <b>Store Operating Expenses</b> |              |              |              |
| Consensus                       | 18.43%       | 18.40%       | 18.74%       |
| Hedgeye                         | 18.42%       | 18.22%       | 18.13%       |
| <b>Δ (bps)</b>                  | <b>-1</b>    | <b>-18</b>   | <b>-61</b>   |

| <b>ZOES</b>                         | <b>FY15E</b> | <b>FY16E</b> | <b>FY17E</b> |
|-------------------------------------|--------------|--------------|--------------|
| <b>Restaurant Level Margin</b>      |              |              |              |
| Consensus                           | 20.36%       | 20.48%       | 20.13%       |
| Hedgeye                             | 20.24%       | 20.64%       | 20.87%       |
| <b>Δ (bps)</b>                      | <b>-12</b>   | <b>16</b>    | <b>74</b>    |
| <b>General &amp; Administrative</b> |              |              |              |
| Consensus                           | 11.13%       | 10.77%       | 10.82%       |
| Hedgeye                             | 11.33%       | 10.95%       | 10.68%       |
| <b>Δ (bps)</b>                      | <b>20</b>    | <b>18</b>    | <b>-14</b>   |
| <b>Operating Margin</b>             |              |              |              |
| Consensus                           | 2.16%        | 2.90%        | 2.93%        |
| Hedgeye                             | 2.33%        | 3.12%        | 4.03%        |
| <b>Δ (bps)</b>                      | <b>17</b>    | <b>22</b>    | <b>110</b>   |

# EPS ESTIMATES



FY16 earnings estimates have consistently grown over time as the vitality of the concept continues to prove out.

We believe this chart also reflects the (rightfully) conservative nature of management given the struggles its public market peers have faced due to high expectations.

# **VALUATION & SENTIMENT**

# VALUATION

2017 P/S Multiple

|               |        | 1.5x         | 1.7x  | 1.9x  | 2.1x  | 2.3x  | 2.5x         | 2.7x    | 2.9x    | 3.1x    | 3.3x    | 3.5x           |
|---------------|--------|--------------|-------|-------|-------|-------|--------------|---------|---------|---------|---------|----------------|
| Hedgeye Sales | \$ 334 | <b>\$502</b> | \$569 | \$635 | \$702 | \$769 | \$836        | \$903   | \$970   | \$1,037 | \$1,104 | \$1,171        |
|               | \$ 341 | \$512        | \$580 | \$648 | \$716 | \$785 | \$853        | \$921   | \$989   | \$1,057 | \$1,126 | \$1,194        |
|               | \$ 348 | \$522        | \$592 | \$661 | \$731 | \$800 | \$870        | \$939   | \$1,009 | \$1,079 | \$1,148 | \$1,218        |
|               | \$ 355 | \$532        | \$603 | \$674 | \$745 | \$816 | \$887        | \$958   | \$1,029 | \$1,100 | \$1,171 | \$1,242        |
|               | \$ 362 | \$543        | \$615 | \$688 | \$760 | \$833 | <b>\$905</b> | \$977   | \$1,050 | \$1,122 | \$1,195 | \$1,267        |
|               | \$ 369 | \$554        | \$628 | \$702 | \$775 | \$849 | \$923        | \$997   | \$1,071 | \$1,145 | \$1,218 | \$1,292        |
|               | \$ 377 | \$565        | \$640 | \$716 | \$791 | \$866 | \$942        | \$1,017 | \$1,092 | \$1,168 | \$1,243 | \$1,318        |
|               | \$ 384 | \$576        | \$653 | \$730 | \$807 | \$884 | \$960        | \$1,037 | \$1,114 | \$1,191 | \$1,268 | \$1,345        |
|               | \$ 392 | \$588        | \$666 | \$744 | \$823 | \$901 | \$980        | \$1,058 | \$1,136 | \$1,215 | \$1,293 | <b>\$1,371</b> |

BEAR

**-20%**

Stock Price

\$25.08

BASE

**43%**

Stock Price

\$45.25

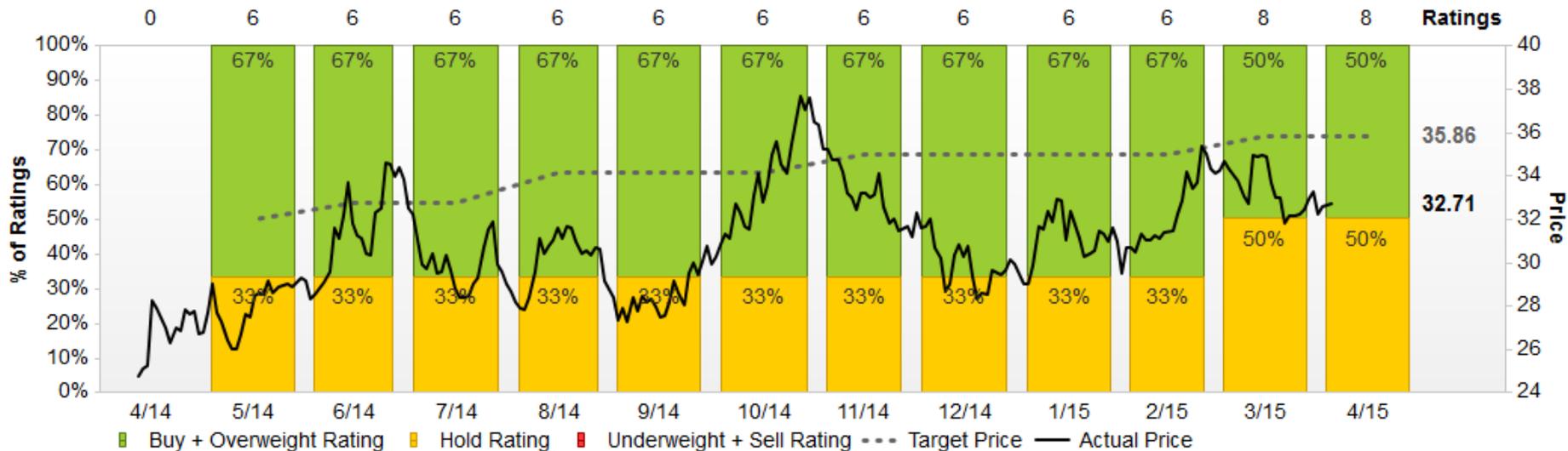
BULL

**117%**

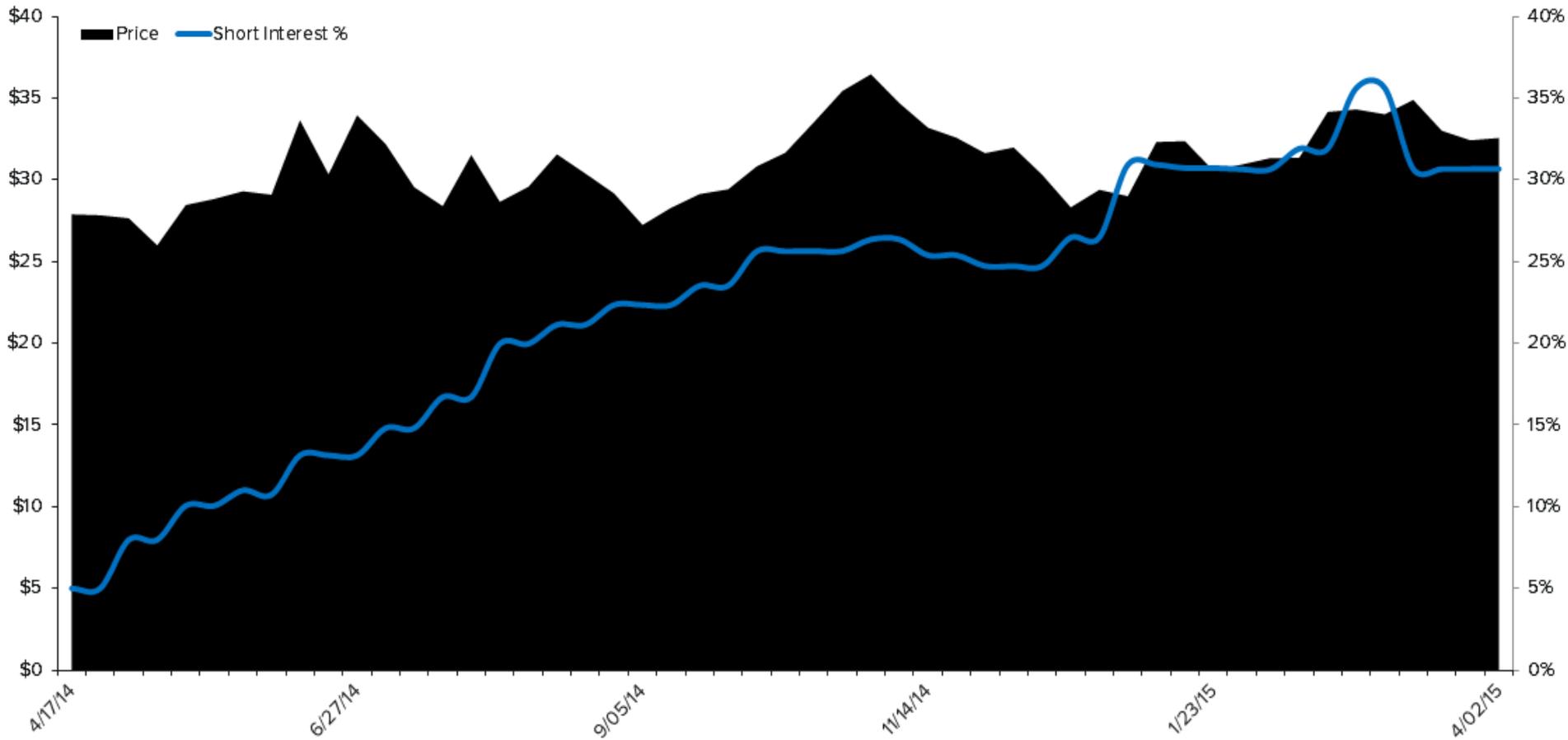
Stock Price

\$68.57

# SELL-SIDE RATINGS



# SHORT INTEREST



# KEY RISKS

# WHERE WE COULD BE WRONG (RISKS)

- Our outlook is highly dependent on management's ability to execute on its unit expansion program.
- The delivery of below consensus same-store sales could have a negative impact on the stock.
- Any deterioration in the macro environment (employment, wages, confidence, etc.) could have a material negative impact on all restaurant stocks, particularly those with premium valuations such as ZOES.
- Significant unforeseen increases in food costs, labor costs, and health care costs could negatively affect ZOES margins.

There are several risks to our thesis that could negatively impact ZOES shares over the intermediate-term.

# **APPENDIX**

**FRESH.  
FLAVORFUL.  
FULL OF LIFE.**

Mediterranean cooking is a *celebration of goodness*, in foods and ingredients that make you feel as good as they taste. At Zoës Kitchen, that celebration continues – with delicious meals *made fresh daily* in our own kitchen. And served with our *Southern hospitality*.



## STARTERS

*made from scratch daily*

**NEW!** HUMMUS TRIO **6.79**

basil pesto, red pepper and classic hummus, pita bread, cucumber

**NEW!** BASIL PESTO HUMMUS **5.29**

infused with basil pesto, pita bread

**NEW!** RED PEPPER HUMMUS **5.29**

infused with red pepper, pita bread

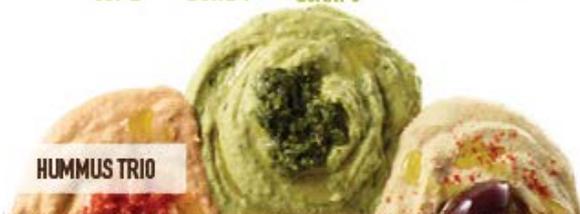
HUMMUS **4.99**

freshly made on premises, pita bread



**CHICKEN & ORZO or TOMATO BISQUE SOUP** **6.99**

CUP 2.99 BOWL 4.99 QUART 8.99



HUMMUS TRIO

## SANDWICHES

*all sandwiches include a FRESH SIDE*

**CLASSIC SANDWICHES** **7.39**



**CHICKEN SALAD SANDWICH**

all white chicken, lettuce, tomato, 7-grain



**PIMENTO CHEESE**

lettuce, tomato, rye *may 17.99*

**PICK TWO!** **6.89**

*enjoy half of a CLASSIC SANDWICH for the sandwiches listed and CHOOSE 1 of*

BOWL OF SOUP • FRESH SIDE • SIDE GREEK SALAD • DESSERT



CHICKEN SALAD SANDWICH

# SALADS

## QUINOA SALAD 6.99

quinoa tossed with tomatoes, cucumbers, celery, broccoli, green onion, olives and lemon vinaigrette, topped with feta, served over a bed of greens



## GREEK SALAD 7.89

tomato, cucumber, peppers, olives, onions, feta, pita bread, greens, over potato salad (with GRILLED CHICKEN) 2.99

## THE TOSSED GREEK 8.99

flat grilled chicken, greens, pasta salad, caramelized onions, tomatoes, cucumbers, red onions, feta, olives, tossed with Zoe's dressing, pita bread



## CHICKEN SALAD SAMPLER 8.99

slaw, pasta salad, potato salad, over greens, pita bread

## CHICKEN SALAD & FRUIT PLATE 8.99

chicken salad over greens, seasonal fruit, pita bread

## ORZO "TABOULI" SALAD 7.49

baby spinach, mixed greens, cucumbers, cherry tomatoes, feta, lemon vinaigrette  
(with CHICKEN KABOBS) 3.99 (with SHRIMP or SALMON KABOBS) 4.99

## HUMMUS & SALAD PLATE 7.29

with greek salad, cucumber raita, olives, pita bread



QUINOA SALAD

## PITA SANDWICHES 7.79

### GRILLED CHICKEN & SLAW PITA

all white chicken topped with slaw

### GREEK CHICKEN PITA

lettuce, tomato, caramelized onions, feta

### MEDITERRANEAN TUNA PITA

#1 albacore, capers, red onions, olives, lettuce, tomato (no mayo)

### ZOË'S CLUB PITA

grilled chicken, ham, swiss, lettuce, tomato, spicy mustard

### LEAN TURKEY PITA

sliced turkey breast, slaw, cheese on request  
(also available on 7-grain)



GREEK CHICKEN PITA

## GRILLED SANDWICHES 7.79



### GRÜBEN

grilled turkey, swiss, slaw, spicy mustard, rye

### TURKEY STACK

sliced turkey breast, mozzarella, feta spread, lettuce, tomato, sourdough, rosemary oil

### STEAK STACK

sliced steak, portobello, mozzarella, caramelized onions, feta spread, tomato, sourdough, rosemary oil

# ENTRÉES

**NEW!** MEDITERRANEAN CHICKEN 9.29

flat grilled, caramelized onions, braised white beans, side greek salad, pita bread

SPINACH ROLL-UPS 7.79

tortillas, mozzarella, fresh mushrooms, feta, sundried tomatoes, scallions, fresh side, dipping salsa

WITH GRILLED CHICKENS 1.00

CHICKEN ROLL-UPS 7.99

tortillas, feta, tomato, caramelized onions, fresh side, dipping salsa

STEAK ROLL-UPS 8.99

tortillas, sliced tri-tip, swiss, sauteed mushrooms, caramelized onions, fresh side, dipping sauce

GREEK CHICKEN MARINARA 8.99

flat-grilled, orzo pasta, marinara, side greek salad

CHICKEN PITA PIZZA 8.99

mozzarella, feta, fresh basil, marinara, side greek salad

VEGGIE PITA PIZZA 8.59

roasted vegetables, mozzarella, feta, fresh basil, caramelized onions, mushrooms, side greek salad

**20%** CHICKEN KABOBS 8.99

two kabobs, grilled peppers and onions, tomato, pilaf, side greek salad, pita bread

**20%** STEAK KABOBS\* 11.79

two kabobs, red bell pepper, onions, grilled potatoes, roasted vegetables

SHRIMP KABOBS 10.09

two charbroiled kabobs, zucchini, rice pilaf, cucumber raita, side greek salad, pita bread

VEGGIE KABOBS 8.89

charbroiled portobello, zucchini, peppers, onions, tomato, braised white beans, side greek salad, pita bread

SALMON KABOBS\* 11.69

two charbroiled kabobs, zucchini, hummus, cucumber raita, side greek salad, pita bread

PROTEIN POWER PLATE 7.99

flat-grilled chicken, caramelized onions, over slaw



MEDITERRANEAN CHICKEN



STEAK KABOBS

## KIDS MENU \*12 & UNDER

includes chips or small fruit cup

### KIDS QUESADILLA 3.79

american cheese, salsa (add GRILLED CHICKEN 1.00)

### GRILLED CHICKEN FINGERS 3.89

not breaded or fried!

### GRILLED TURKEY & CHEESE 3.99

wheat bread (white upon request)

### CHICKEN SALAD SANDWICH 3.69

all white meat, wheat bread (white upon request)

### KIDS ROLL-UP 4.09

chicken, mozzarella, tortilla, side of marinara

### KIDS FRESH FRUIT CUP 1.49

## DRINKS

### FRESH SQUEEZED LIMEADE 2.29

fresh limes, sweetened with cane sugar

### DRINKS 1.89-2.59

soda, bottled water, juices, milk, tea (sweet, unsweet or hibiscus)

### REUSABLE TRAVEL CUP 32oz 2.59

350 or 300ml 1.00

## FRESH SIDES

### ALL SIDES 2.09

#### BRAISED WHITE BEANS 0.13

with fresh rosemary

#### RICE PILAF 0.13

with fresh seasonings

#### SEASONAL FRESH FRUIT 0.13

delicious assorted fruits

#### PASTA SALAD 0.13

fresh basil, feta (no mayo)

#### ROASTED VEGETABLES 0.13

mixed and lightly seasoned

#### MARINATED SLAW 0.13

feta, scallions, light vinaigrette (no mayo)

#### POTATO SALAD 0.13

baby reds (no mayo)

#### SIDE GREEK SALAD 0.13 3.69

(add GRILLED CHICKEN 2.00)

### ADDITIONAL SIDES

#### PITA CHIPS .99

wheat or white (sun-dried)

#### CHIPS .99

regular, baked or sun chips

## DESSERTS

### HOUSE-BAKED COOKIES 1.99

chocolate chip or oatmeal

### YAYA'S HAND-MADE CHOCOLATE CAKE

slice 2.29 whole 10.99



HOUSE-BAKED COOKIES

# MEDITERRANEAN FAMILY MEALS

**39.99**

Serves  
4 to 6

## YOUR CHOICE OF ONE ENTRÉE:

CHICKEN OR VEGGIE KABOBS

SUB: SHRIMP, STEAK\* or SALMON\* 1<sup>st</sup> EACH

GRILLED CHICKEN BREASTS

CHICKEN MARINARA

CHICKEN OR SPINACH ROLL-UPS

SUB: STEAK or SPINACH WITH CHICKEN 1<sup>st</sup> EACH

## YOUR CHOICE OF 2 FRESH SIDES

**PLUS:** greek salad, hummus and pita bread or cucumbers

**29.99**

Serves  
3 to 5

CHOOSE ONE ENTRÉE  
AND 2 FRESH SIDES

**zoës** **fresh take**  
TUBS TO GO



HUMMUS (pint) **V** **G**

7.99

BASIL PESTO HUMMUS (pint) **V**

8.49

RED PEPPER HUMMUS (pint) **V**

8.49



PIMENTO CHEESE (pint) **V** **G**

8.99

FRESH FRUIT (quart) **V** **G**

7.99



CHICKEN SALAD (pint) **G**

8.99

all white meat

POTATO SALAD (pint) **V** **G**

6.99

baby reds (no mango)

PASTA SALAD (pint) **V**

6.99

fresh basil (no mango)

MARINATED SLAW (quart) **V** **G**

6.99

feta, scallions, light vinaigrette (no mango)

MEDITERRANEAN TUNA (pint)

8.99

capers, red onions, olives (no mango)

\*Consuming raw or undercooked meats or seafood may increase your risk of food borne illness.



vegetarian



vegan



gluten-free (when ordered without pita bread)

FOR MORE INFORMATION, CONTACT US AT:

**[SALES@HEDGEYE.COM](mailto:SALES@HEDGEYE.COM)**

**(203) 562-6500**