Mossberg's Investor Digest

Best Idea Profile: **Carrols Restaurant Group, Inc. (NASDAQ:TAST)**

DESCRIPTION:

Carrols Restaurant Group is the largest Burger King franchisee with 572 restaurants in 13 states from Maine to Michigan to South Carolina. The Company, based in Syracuse, New York, was founded in 1960 and employs 17,000. Carrols has operated Burger King restaurants since 1976. It became a public company for the second time with an IPO in 2006, and in 2012, Carrols spun off its Fiesta Restaurant Group to focus on its Burger King operations.

KEY INVESTMENT CONSIDERATIONS:

Strength of Brand – Burger King is the second largest fast-food hamburger restaurant in the world with a 58-year history. It boasts more than 12,900 restaurants in 86 countries, with 7,500 of these across the U.S. and Canada. This size and reputation provides significant advantages to Carrols, not the least of which is its significant marketing power. Despite this strength, Burger King is going through a major transformation and turnaround related to its menu, marketing program, image and operations. It is broadening its marketing to focus on bringing back women, children and seniors. It is introducing new signage and featuring A-list celebrities in its new advertising campaign.

Opportunities Abound in Recent Acquisition – Carrols acquired 278 restaurants from Burger King Corporation in May 2012. This brings even greater economies of scale to its operations and solidifies its position as the largest Burger King franchisee. Carrols also agreed to remodel 455 of its restaurants by 2016 and completed a financing that put $70 million of cash on the balance sheet for remodeling. There are 90 to 120 remodels planned for 2013 with total capital spending projected to be $40 to $50 million. The partnership with Burger King Corporation enhances Carrols' ability to deliver a consistent marketing message, improve its restaurant image and upgrade the consumer experience.

Ability to Boost Performance – Carrols' management has proven a superior ability to operate restaurants compared with corporate owned stores. In 2011 Carrols restaurant level EBITDA margin was 12.7%, compared with Burger King Corporation owned stores margin of 7.2%. Carrols' near-term focus is to capitalize on this financial opportunity by improving the operating and financial performance of recently acquired restaurants. It will roll out proprietary POS software that provides better cash controls and implement other cost saving initiatives while increasing sales.

Right of First Refusal – With the acquisition, Burger King Corporation assigned its right of first refusal on franchisee restaurant sales to Carrols in 20 states. Carrols was also preapproved to expand to 1,000 restaurants. Since there are more than 2,000 franchised restaurants in the 20-state right-of-first-refusal territory, this provides an almost-surefire path for acquisition growth for the company.

Acquisitions Only Part of the Growth – Carrols' first quarter of 2013 was the seventh consecutive quarter of comparable restaurant sales increases. This quarter's comparisons were a positive surprise given the challenging consumer market early in the year and the exceptional growth experienced in the prior quarter.

VALUATION:

Carrols stock is modestly valued given its expectations and opportunities for growth and improvement in operating results of its recently acquired restaurants. TAST represents a relatively inexpensive way to own restaurant stocks that are resistant to recession.

Carrols Restaurant Group, Inc. (NASDAQ:TAST)
Investment Data (as of 6/11/13)

Recent Price	**$5.83**
52-Week Range	$4.65 - $6.82
Fiscal Year End	Dec 29
Dividend	NA
Yield	NA
Shares Outstanding	22.9 M
Average Trading Volume (3 mos)	104k
Market Capitalization	$133 M
Cash	$27 M
Long-term Debt	$161 M
Enterprise Value (EV)	$267 M
Book Value	$3.72
TTM Revenue	$610 M
P/ Revenue	0.2x
TTM EPS	$(0.90)
P/ EPS	NA
TTM EBITDA	$18 M
EV/ EBITDA	14.8x