



**THE MARKET**

The restaurant industry is benefiting from a long-term trend toward eating out. According to the U.S. Department of Agriculture, consumption of food away from home accounted for 46.1 percent of total food expenditures in 2002, up from 44.6 percent in 1990 and 26.3 percent in 1960.

Boosting this trend is a significant decline in the cost difference between dining out and cooking at home, as well as the decline in free time. In many families, both parents hold full-time jobs, which leaves less time to prepare meals at home. With the rise of dual-income and single-parent families (more than 50 percent of families were dual-earner households in 2002, according to the Bureau of Labor Statistics), and numerous moderately priced restaurants to choose from, dining out is often the most convenient choice.

Finally, with steady growth in disposable income, Americans can more readily afford to eat out. Add to that the aging of the baby boom generation and demographic trends pointing to an older and wealthier population, and restaurant traffic should grow well into the future.



The National Restaurant Association estimates that by 2010, total sales in the restaurant industry will exceed \$577 billion. At that time, consumers will spend 53 percent of every food dollar on meals, snacks, and beverages prepared away from home — including food eaten in restaurants and taken out.

Applebee's competes in the casual dining category of the restaurant industry and is the largest national chain within the category. The casual dining category includes restaurants specializing in

steak, seafood, Italian or Mexican cuisine. Applebee's is part of the "varied menu" subsegment of this category, and derives a competitive advantage from a menu that offers a little something for everyone. Casual dining was a \$70 billion business in 2003, and the average person spends about \$11.34 per visit to a casual dining restaurant.

**ACHIEVEMENTS**

Applebee's Neighborhood Grill & Bar is the largest casual dining concept in America, both in number of restaurants and market share. As of March 2004, there were over 1,600 Applebee's restaurants, of which roughly 1,200 were operated by franchisees and

400 by the company. Applebee's estimates the development potential of the concept to be at least 2,300 restaurants domestically.

**HISTORY**

Bill and T. J. Palmer founded Applebee's in Atlanta in 1980. The Palmers envisioned a restaurant that would provide full quality service, consistently good food, and reasonable prices in a neighborhood setting.

In 1982, the Palmers opened their second Applebee's in Atlanta, and in 1983, to fulfill a dream of nationwide expansion, the Palmers sold the Applebee's concept to W. R. Grace and Co. As part of the transaction, Bill Palmer was named president of the Applebee's Division of an indirect subsidiary of W. R. Grace. In that capacity, Palmer guided the operation from its entrepreneurial beginnings to a full-fledged franchise system. He became an Applebee's franchisee in 1985 and today owns more than three dozen Applebee's restaurants.

In 1988, Applebee's International, Inc. became the restaurant chain's franchisor when Kansas City franchisees Abe Gustin and John Hamra purchased the rights to the Applebee's concept from W. R. Grace.

Applebee's International, Inc. completed an initial public offering of its common stock in 1989 and is currently traded on the NASDAQ stock market, under the symbol APPB. When Applebee's International, Inc. acquired Applebee's in 1988, there were 54 restaurants. In 1998, Applebee's

became the first casual dining concept with 1,000 restaurants. In January 2003, Applebee's celebrated the opening of its 1,500th restaurant by serving free lunches to firefighters and law enforcement officials across the country.

**THE PRODUCT**

Each Applebee's Neighborhood Grill & Bar is designed as an attractive, friendly, neighborhood establishment featuring moderately priced, high-quality food and beverage items, table service, and a unique, comfortable atmosphere that appeals to all ages.

Applebee's offers a full-service lunch and dinner menu. Signature items include Applebee's Riblets, Oriental Chicken Salad, the House Sirloin, and Fiesta Lime Chicken™. In addition, there is a full drink menu featuring a variety of specialty drinks and the signature Perfect Margarita™ or the super-size draft beer called Brewtus®.

Each Applebee's restaurant distinctly reflects the surrounding neighborhood or community.

In most Applebee's, guests find memorabilia on the walls from the local high school or college. Inside the front door, guests see tributes to local firefighters and law enforcement agencies, including uniforms and photos. Historical photos from the community or neighborhood appear in the waiting area.

Some restaurants reflect other local flair, including a Tiki bar at an Applebee's in Florida and a double-decker, waterfront restaurant in Wisconsin that once served a hungry guest who arrived via a pontoon plane that landed in the bay.

**RECENT DEVELOPMENTS**

From 1993 to 2003, Applebee's has opened 100 or more new restaurants each year. This rate of development — growing from 250 restaurants at the end of 1992 to



over 1,600 currently — is unprecedented in the casual dining industry.

In July of 2003, Applebee's announced an exclusive agreement with Weight Watchers® to launch new menu items. In November 2003, jointly developed menu items were available in five test markets, with a planned national launch in May 2004.

In 2003, Applebee's also launched its Carside To Go™ service in all company markets. This service, which gives a guest the option of picking up to-go food without leaving the car, was the fastest-growing part of Applebee's business. Franchisees are quickly moving to implement Carside To Go nationally in 2004.

**PROMOTION**

Applebee's advertising is a multimedia strategy of TV, radio, and in-restaurant merchandising. It combines hard-hitting, appetite-appealing food promotions with neighborhood stories that showcase the heart and soul of Applebee's. The campaign, "Eatin' Good in the Neighborhood," has become well known and the line is often heard being sung.



Applebee's food promotions highlight key menu items, along with thematically tied new or limited-time offerings in order to offer the guest constant variety. The consistent theme in all these product offerings is value; regardless of the promotion, you can count on getting an ample portion of delicious food for the money. Some of Applebee's advertising for these food promotions that has received accolades feature songs like Johnny Cash's "Ring of Fire" and The Newbeat's "Bread & Butter."

In addition to food promotions, Applebee's is known for being "America's Favorite Neighbor" since the break of that campaign over ten years ago. In recent years, some of the advertising has strived to illustrate this notion for guests. One commercial includes a retiring high school basketball coach who is surprised and touched at an Applebee's when he sees the server hanging a photo of the coach on the wall in honor of his career.

Another ad brings to life Applebee's focus on local heroes. A little boy is fascinated by the wall in his neighborhood Applebee's that honors such individuals, and then he is thrilled when a group of firefighters comes into the restaurant for a meal and he has the chance to meet them.

**BRAND VALUES**

Applebee's Neighborhood Grill & Bar is the place that honors the neighborhood. It embodies the values of small towns and suburban neighborhoods. It's a place where everyday folks can come



and be who they are, where you can walk in the door and see someone you know from the neighborhood.

This quote from the 2002 Applebee's annual report best sums up the values of the company: "The fabric of our country is woven together from threads of countless communities and diverse neighborhoods. It's here that our nation's values are practiced, our families are supported and our dreams are encouraged. In search of the best of America, a natural stop is Applebee's — where the American dream lives and thrives. It's a dream alive in each of our restaurants — embodied in our associates' and our guests' willingness to extend a helping hand to those in need and to make each of our neighborhoods a better place to live."

**THINGS YOU DIDN'T KNOW ABOUT APPLEBEE'S**

- The first restaurant in the chain had the name T. J. Applebee's Rx for Edibles & Elixirs. The name changed to Applebee's Neighborhood Grill & Bar in 1986.
- In 2002, Applebee's established the Heidi Fund to help employees who are in need. The fund is named in honor of Heidi Tomassi, a former Applebee's server who found \$3,300 in cash in an empty booth during the 2002 Christmas season. Despite her family's significant debt from heart surgeries for her infant son, she turned the money in, and it was returned to person who left it. When stories about her honest act spread, Tomassi received thousands in donations, including one from Applebee's that more than covered the medical bills. The fund that carries her name now provides money to other associates who face hardships.
- Applebee's restaurants can be found in 49 states and nine other countries, including Egypt, where you can dine at Applebee's on a barge on the Nile River.