Considerations For Initiating An International Expansion Effort

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The Alternative Board®

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CKE Restaurants, Inc.

Discussion Topics

• Why International?  
• When Is The Right Time To Expand?  
• Organizational Readiness  
• Developing The Expansion Plan
Why go global?

Global economic map

Top ten:
- USA 26.8%
- Japan 9.7%
- China 5.9%
- Germany 5.8%
- UK 4.8%
- France 4.8%
- Italy 3.7%
- Canada 2.6%
- Spain 2.5%
- Brazil 2.2%

Rest of World:
- 10 – 19th economies 13.9%
- All the rest 17.6%

Growth in BRICS economies:
- Brazil 3.4%
- India 6%
- Russia -7%
- China 7.9%

Considerations:
- Business know-how is valuable
- Capitalisation strategy
- Economic opportunity for all
- Driver of employment
- Development of people
- National & international growth

Global business & franchise map

Number of businesses / franchise systems:
- Australia 1 million / 1200
- UK 3 million / 750
- USA 15 million / 3700
- India > 20 million / 10007
- China > 20 million / 20007
- Global > 50 million / 10,0007
Why go global?
The three non-negotiables

- Strong cash flow and profitability
- Domestic market strength
- Dedicated executive management resources

International expansion demands a pro-active approach

- GFC is an opportunity
- Why now? – Fear, Uncertainty, Indecision
- Less competition / growing opportunity

What's your expansion strategy?

Critical considerations

Non Negotiables
- Cash flow + profitability
- Senior management resources
- Domestic growth achievement

Key Focus
- Division of responsibilities

What's your expansion strategy?

It's all about the depth

"There is a tendency at the senior level to be too big-picturish and superficial. One can formulate brilliant global strategies whose executability is zero. It's only through the familiarity with details – the capability of the individuals who have to execute, the marketplace, the timing – that a good strategy emerges."

Andy Groves
CEO, Intel

Work up from the details to the big picture....
What is your expansion strategy?
Lessons from success

<table>
<thead>
<tr>
<th>Direct Entry</th>
<th>Joint Venture</th>
<th>Distributor</th>
<th>Dealership</th>
<th>Franchise</th>
<th>License</th>
<th>Agency</th>
<th>Online</th>
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Lessons from success

Going Global
Building a Serious International Business

Key reasons for failure

- Expanding an immature business
- Inappropriate business model
- Irrational country selection
- Ignoring market nuance
- Inadequate capital base
- Insufficient senior resource
- Inadequate start-up strategy

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Going Global
Building a Serious International Business

Pitfall 1: Expanding an immature business

<table>
<thead>
<tr>
<th>Factor</th>
<th>Immature</th>
<th>Expansion ready</th>
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</thead>
<tbody>
<tr>
<td>Cash flow</td>
<td>Weak position</td>
<td>Strong cash-flow</td>
</tr>
<tr>
<td>Capital</td>
<td>Under-capitalised</td>
<td>Capital readily available</td>
</tr>
<tr>
<td>Systems and processes</td>
<td>Under development</td>
<td>Locked down</td>
</tr>
<tr>
<td>Human resources</td>
<td>Stretched</td>
<td>Senior resources available</td>
</tr>
<tr>
<td>Domestic growth</td>
<td>Substantial remaining</td>
<td>Exhausted</td>
</tr>
</tbody>
</table>
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Pitfall 2: Selecting an inappropriate business

Key issues:
- Profitability and ROI
- Roles and responsibilities
- Remuneration
- Engagement model
- Support and training
- Scalability
- Head office implications

International Business Models:
- Direct Entry
- Joint Venture
- Distributor
- Dealership
- License
- Franchise
- Agency
- Product/Service Expert

Pitfall 3: Irrational selection of target countries

Typical factors:
- Holiday destination
- Approach from foreign market
- Family resident in foreign market
- Friend recommendation

Ideal considerations:
- What makes a market attractive?
- Hygiene factors
- Comparative factors
- Ease of doing business factors

Pitfall 4: Ignoring foreign market nuances

Diagram showing percentages of market shares for different companies.

Starbucks Coffee
KFC
McDonald's
Pizza Hut

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Building a Serious International Business

Pitfall 5: Inadequate capital base

Key issues
- Understanding the expansion model
- What capital is required?
- Timing of capital requirements
- Startup cash flow implications
- Mix between debt and equity

Capital raising issues
- Blue sky optimism
- Inability to show:
  - How funds will be applied
  - Effect the funds will have
- Unrealistic multiple expectations
- Issues of control and risk

Avoiding the pitfalls
- Meet the three non-negotiables
- Be proactive
- Make fact-based decisions
- Consider foreign market nuances
- Expansion doesn’t have to be one-model-fits-all

Jason P. Zickerman, CFE
President and CEO
The Alternative Board®
ORGANIZATIONAL READINESS

- Mindset needed to truly plan a global expansion (CEO to Reception)
- Education, preparation and planning paramount to your success...do not underestimate the amount of time this takes
- Understanding negotiations in different cultures
- Profitable domestic operations
- Strong franchisee validation

There is no perfect model
- Direct Franchising
- Area Developer
- Area Representative
- Master Franchise
- Joint Venture

- Able to ensure your company’s ability to support your contractual commitments

Organization must be very well documented
- Clearly establish a pro forma that demonstrates profitability at all levels
  - Unit Franchisees
  - Area or Masters
  - Franchisor
- Proper communication about your global expansion to your domestic franchisees
- How to get your domestic franchisees to support you in your global expansion
• Critical step – your partner selection
  – Is usually the biggest mistake people make

• Be clear and willing to spend the necessary budget to prepare you for global expansion

• Training: be prepared to train them on your system, and train them to be a franchisor

Ned Lyerly
SVP Global Franchise Development
CKE Restaurants, Inc.

CKE System Snapshot

<table>
<thead>
<tr>
<th>Restaurants</th>
<th>Carl’s Jr.</th>
<th>Hardee’s</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>423</td>
<td>481</td>
<td>904</td>
</tr>
<tr>
<td>Franchise</td>
<td>803</td>
<td>1,439</td>
<td>2,242</td>
</tr>
<tr>
<td>&gt; Domestic</td>
<td>668</td>
<td>1,234</td>
<td>1,902</td>
</tr>
<tr>
<td></td>
<td>(85%)</td>
<td>(85%)</td>
<td>(85%)</td>
</tr>
<tr>
<td>&gt; International</td>
<td>135</td>
<td>205</td>
<td>340</td>
</tr>
<tr>
<td></td>
<td>(15%)</td>
<td>(15%)</td>
<td>(15%)</td>
</tr>
<tr>
<td>Total</td>
<td>1,226</td>
<td>1,920</td>
<td>3,146</td>
</tr>
<tr>
<td>Franchise % of Total</td>
<td>66%</td>
<td>75%</td>
<td>71%</td>
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</tbody>
</table>
International Overview

• Brands: Carl’s Jr./Hardee’s
• Countries Today: 15
• Restaurants Today: 340
• FY’11 New Unit Projection: 50
• FY’11-15 Projected Unit Growth: +440
• 5 Year Projected CAGR Unit Growth: +17.8%
• Goal of 1,000 Restaurants By FY17

1,000 Restaurants
How Will We Get There?

• Board Level Buy-In
• Profitable and Sustainable Business Model
• Resource Commitment
• Focused Development Plan
• Transition To Regional Development and Support Structure
• Strong Business Partners