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CAPITAL MANAGEMENT

DECEMBER 2012

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I. Introduction

Introduction

- We appreciate the opportunity to share our thoughts on DineEquity ("DIN" or "the Company")
- Marcato has been an investor in DIN for over 2 years (since Marcato's inception, October, 2010)
- Today Marcato owns 5.5% of DIN's outstanding common shares, making Marcato the Company's fourth largest shareholder

Overview of Marcato

Marcato and its investment professionals have significant experience working with management teams to unlock and increase value for shareholders

- Value-oriented strategy includes taking large ownership stakes in businesses we believe in
- Long-term investment horizon typified by multi-year holding periods
- Concentrated portfolio approach with few investments at any given time allows us to conduct heavy diligence and focus our full energy on each investment
- Significant experience investing in and actively engaging with restaurant franchising companies to create shareholder value

Wendy's
Alexander & Baldwin, Inc.
Corrections Corporation of America
McDonald's
Landry's Restaurants, Inc.

Executive Summary

- **Attractive Business**
  - High quality franchised business model results in stable, predictable royalty stream
  - High margins + low capital requirements = significant free cash flow generation
- **Undervalued by the Market**
  - Equity trading at significant discount to pure-play franchised peers
- **Conservative Capital Structure**
  - Now under 5x leverage target
  - No near-term maturities and opportunity to refinance bonds at lower interest rate in 2014
- **How Can the Company Create the Maximum Value from this Opportunity?**
  - <u>Pay out all free cash flow as dividends</u>
  - Stable, predictable annual dividend would attract new investors and be highly prized in persistent low interest rate environment
  - We believe this will lead to significant long-term value creation

II. A Review of DineEquity

DineEquity, Inc.

dineEquity™

Ticker: "DIN"

Recent Stock Price: $63.00

- DineEquity is the largest full-service restaurant company in the world
  - Operates or franchises 1,565 IHOP restaurants and 2,016 Applebee's restaurants
  - System will be 99% franchised by year-end 2012
- Capitalization:
  - Equity market value: $1.2 billion
  - Enterprise Value: $2.6 billion
- Operating Statistics:
  - 2013E Revenue: $665 million
  - 2013E EBITDA: $287 million
  - 2013E CapEx: $15 million
  - 2013E Free Cash Flow: $116 million
- Valuation Multiples:
  - EV / EBITDA: 8.9x
  - EV / EBITDA – CapEx: 9.4x
  - FCF Yield: 9.7%

Source: Company documents, Marcato estimates

Dominant Market Position

- DineEquity operates and franchises restaurants under two brands:

- America's largest Family Dining restaurant chain

Top U.S. Family Dining Concepts, by System Sales

	Estimated % of Top 100
1. IHOP	11%
2. Denny's	9%
3. Cracker Barrel	8%
4. Bob Evans	6%
5. Waffle House	5%

- America's largest Casual Dining restaurant chain

Top U.S. Casual Dining Concepts, by System Sales

	Estimated % of Top 100
1. Applebee's	11%
2. Chili's	9%
3. Olive Garden	8%
4. Red Lobster	6%
5. Outback Steakhouse	5%

Source: Technomic, Marcato estimates

Case Study of Old IHOP: Refranchising Creates Value

In January 2003, IHOP announced its strategy to transition to a franchise-only business model

↑ *Franchise Mix*

=

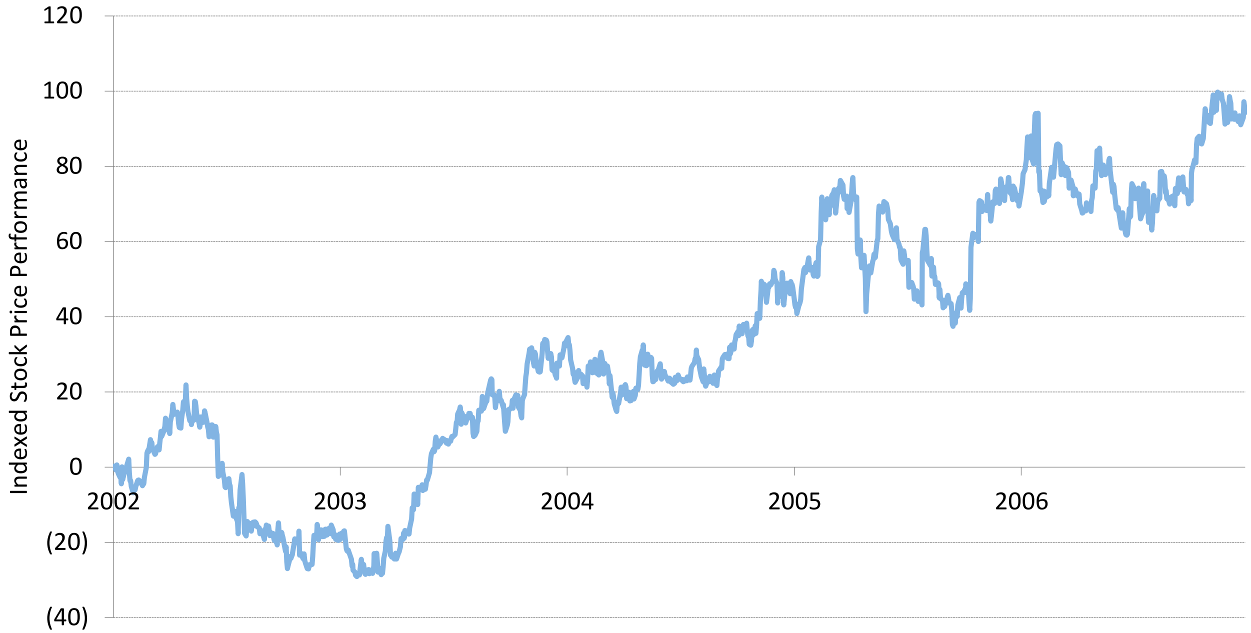
↑ *Margin*

=

↑ *ROIC*

=

↑ *Multiple*



	2002	2003	2004	2005	2006
Company-Operated Stores	76	44	10	7	10
Franchised Stores	1,027	1,121	1,176	1,235	1,292
% Franchised	***93.1%***	***96.2%***	***99.2%***	***99.4%***	***99.2%***
Revenue	$365.9	$404.8	$359.0	$348.0	$349.6
EBITDA	81.8	88.7	87.0	100.0	100.8
% EBITDA Margin	***22.4%***	***21.9%***	***24.2%***	***28.7%***	***28.8%***
CapEx	(141.7)	(80.5)	(16.6)	(7.4)	(9.4)
CapEx % of Sales	***38.7%***	***19.9%***	***4.6%***	***2.1%***	***2.7%***
Return on Invested Capital	***13.9%***	***10.6%***	***14.0%***	***17.1%***	***18.1%***
EPS	$1.92	$1.70	$1.96	$2.24	$2.43
Avg Stock Price	$28.13	$30.25	$37.11	$44.44	$48.92
Avg P/E Multiple	**14.6x**	**17.8x**	**18.9x**	**19.8x**	**20.1x**

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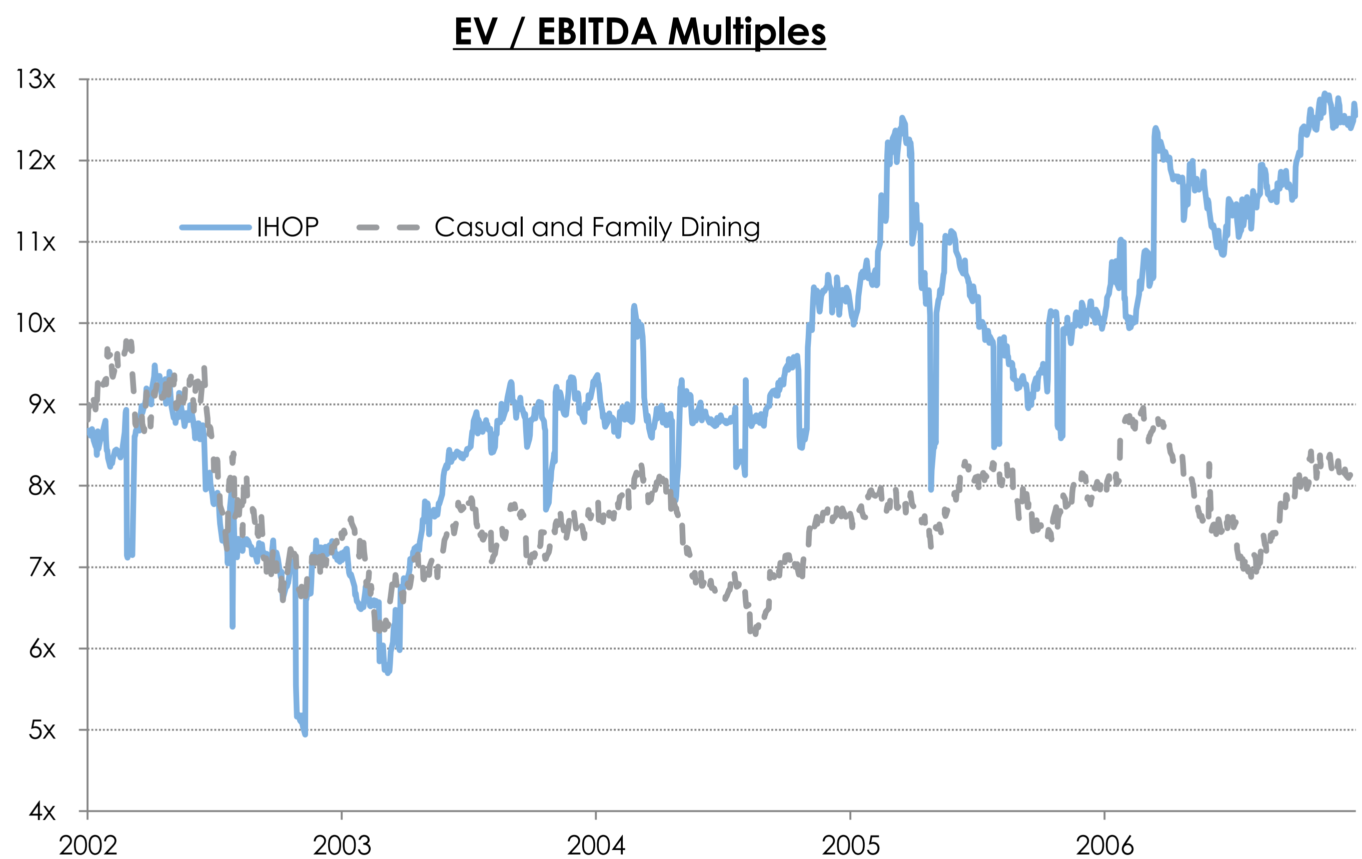
Source: Company documents, Capital IQ

Case Study of Old IHOP: Refranchising Drives Multiple Expansion

IHOP's trading multiples expanded more than those of its peers as it completed its refranchising initiative



Note: Peer group includes EAT, DRI, BOBE, and CBRL

Source: Capital IQ

DineEquity: Applebee's = IHOP (The Sequel)

- In 2007, IHOP acquired Applebee's (roughly 74% franchised at the time) **with the stated goal of replicating its strategy and transitioning Applebee's to a franchise-only business model**
- The Company recently completed this refranchising initiative, and based on announced sales, **the Applebee's system will be 99% franchised by the end of this year**

	2007	2008	2009	2010	2011	2012E
Franchised Applebee's	1,465	1,598	1,609	1,701	1,842	2,016
Company-Operated Applebee's	511	406	399	309	177	23
% Franchised	***74%***	***80%***	***80%***	***85%***	***91%***	***99%***
Refranchisings	0	103	7	83	132	154

Source: Company documents

DineEquity = a high margin royalty stream that grows without capital

	Restaurant Operator	Restaurant Franchisor
Contribution Margins	Mid-teens	**90%+**
Earnings Sensitivity to Changes in SSS	High	**Minimal**
Effect of Cost Inflation	Pressures Margins	**↑ Franchise Fees**
Maintenance CapEx	High	**None**
Unit Growth	Capital Intensive	**Requires No Capital**

Franchisees are Healthy

Company-operated Applebee's restaurants are solidly profitable, and franchisee-operated stores have higher unit volumes, higher 4-wall operating margins, and have had consistently better SSS performance

	Company Stores LTM	Franchisee Stores LTM
Average Unit Volumes	$2,200	$2,400
2012E % SSS Guidance	*0.5% - 2.5%*	*0.5% - 2.5%*
Food and Beverage	(572)	
% of Sales	*26.0%*	
Labor	(708)	
% of Sales	*32.2%*	
Direct and Occupancy	(561)	
% of Sales	*25.5%*	
Total Restaurant expenses	(1,841)	
% of Sales	*83.7%*	
4-Wall Restaurant Operating Profit (1)	**$359**	**> $392**
% Margin	***16.3%***	***> 16.3%***

Note: Dollars in thousands

(1) Analysis shows franchisee profits excluding franchise fees (4% of sales), advertising contributions (3.75% of sales), and overhead

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Source: Company documents, Marcato estimates

Growth Opportunities Do Not Require Capital Investment

- Improved brand management and execution
- SSS recovery as economy improves and unemployment declines
  - Applebee's and IHOP AUVs 10% and 7% below peak, respectively
- Unit count increases in newly refranchised territories
- International expansion
- Royalties from food product sales in national retail outlets

Source: Company documents

Undervalued by the Market

- DineEquity is currently trading at a significant discount to other similar, fully-franchised businesses

	DineEquity	Choice Hotels	Domino's Pizza	Dunkin' Brands	Burger King	Tim Hortons	
% Franchised	*99.0%*	*100.0%*	*96.1%*	*99.8%*	*95.3%*	*99.4%*	
Stock Price	$63.00	$32.53	$41.77	$31.44	$17.09	$46.75	
Market Cap	$1,206.6	$1,888.5	$2,371.2	$3,318.8	$5,983.4	$7,208.6	
Total Enterprise Value	$2,558.8	$2,592.4	$3,903.6	$5,010.3	$8,559.1	$7,541.5	
							Average
TEV / 2013E EBITDA	**8.9x**	12.1x	12.0x	13.5x	12.9x	9.4x	**12.0x**
TEV / 2013E EBITDA - CapEx	**9.4x**	13.0x	13.1x	14.2x	14.6x	13.3x	**13.6x**
2013E FCF Yield %	***9.7%***	*5.6%*	*6.0%*	*5.8%*	*4.9%*	*4.9%*	***5.4%***
Price / 2013E FCF per Share	**10.4x**	18.0x	16.8x	17.3x	20.3x	20.4x	**18.5x**

1) Why?

2) What can be done to narrow this gap?

Source: Capital IQ, Marcato estimates

III. Capital Allocation Proposal

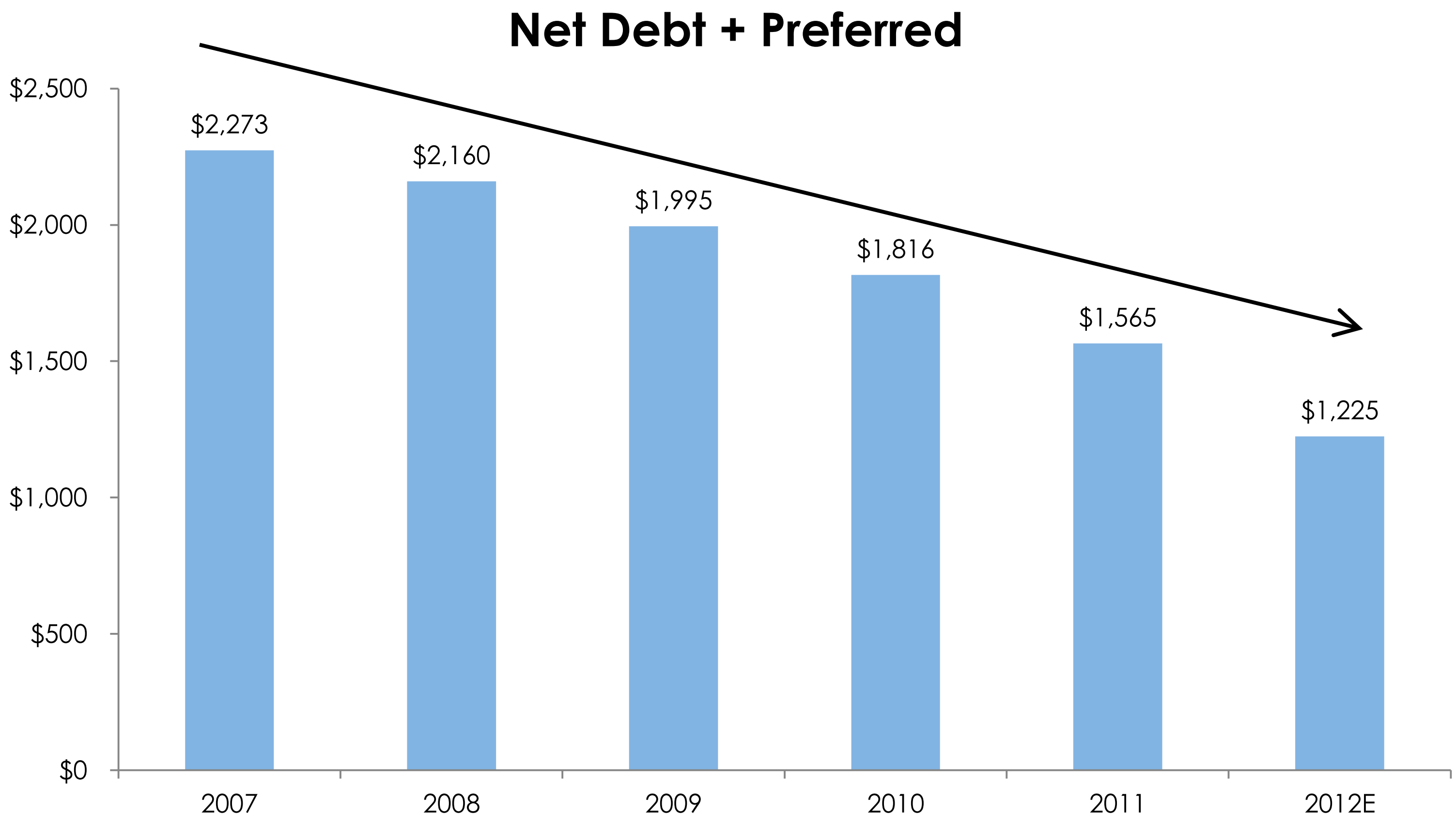
Capital Allocation Alternatives

DIN has only four options for deploying its Free Cash Flow:

- 1) Pay down debt
  - We strongly believe further debt reduction is unnecessary given current coverage ratios and lack of operating leverage in the business
- 2) Reinvest in the existing business
  - Minimal opportunities exist given pure-play franchisor business model
- 3) Make acquisitions
  - We would not be supportive of another acquisition at this time
- 4) Return cash to shareholders
  - **We believe paying out 100% of Free Cash Flow as dividends will create maximum value for shareholders**

DIN Has De-Levered Significantly Since The Applebee's Acquisition

- The Company has used its significant free cash flow and proceeds from refranchisings to reduce its debt



Source: Company documents

Note: Excludes long-term capital lease

Coverage Ratios At Current Leverage Levels Are Excellent

With such ample coverage ratios and minimal operating leverage, we believe the Company's current capital structure is highly sustainable.

DineEquity's leverage creates value for equity holders, and ***<u>we strongly believe that further debt reduction is unnecessary.</u>***

	2013E
EBITDA	$287
Cash Interest	(111)
Cash Taxes	(46)
CapEx	(15)
LT Receivables Run-off	13
Working Capital / Other	(12)
Excess Cash Flow Cushion	**$116**

<u>Coverage Ratios</u>

Net Debt / EBITDA	**4.7x**
EBITDA / Interest	**2.6x**
(EBITDA - CapEx) / Interest	**2.5x**

Source: Marcato estimates

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Bond Refinancing Will Improve Coverage Ratios Further

- DIN's 9.5% bonds are currently trading above 113, **at a 4.3% yield**
- The Company has an opportunity to call these bonds in 2014, and should be able to realize significant interest savings, further improving coverage ratios and available annual free cash flow

9.5% Sr Unsec Notes due 2018 - Current Amount Outstanding	$761
Current Trading Price	113.55
Current Yield-to-Worst	**4.3%**

	Today	Pro Forma Assuming Bonds Refi'd @ 7%	Increase / (Decrease)
Annual Interest on Bonds	$72	$53	**($19)**
Total Company Interest Payments	111	92	**(19)**
Annual EBITDA	$287	$287	**$0**
Annual Excess Free Cash Flow Cushion	116	129	**12**
EBITDA / Interest	**2.6x**	**3.1x**	**0.5x**

Assumes NO growth from new units or improved SSS

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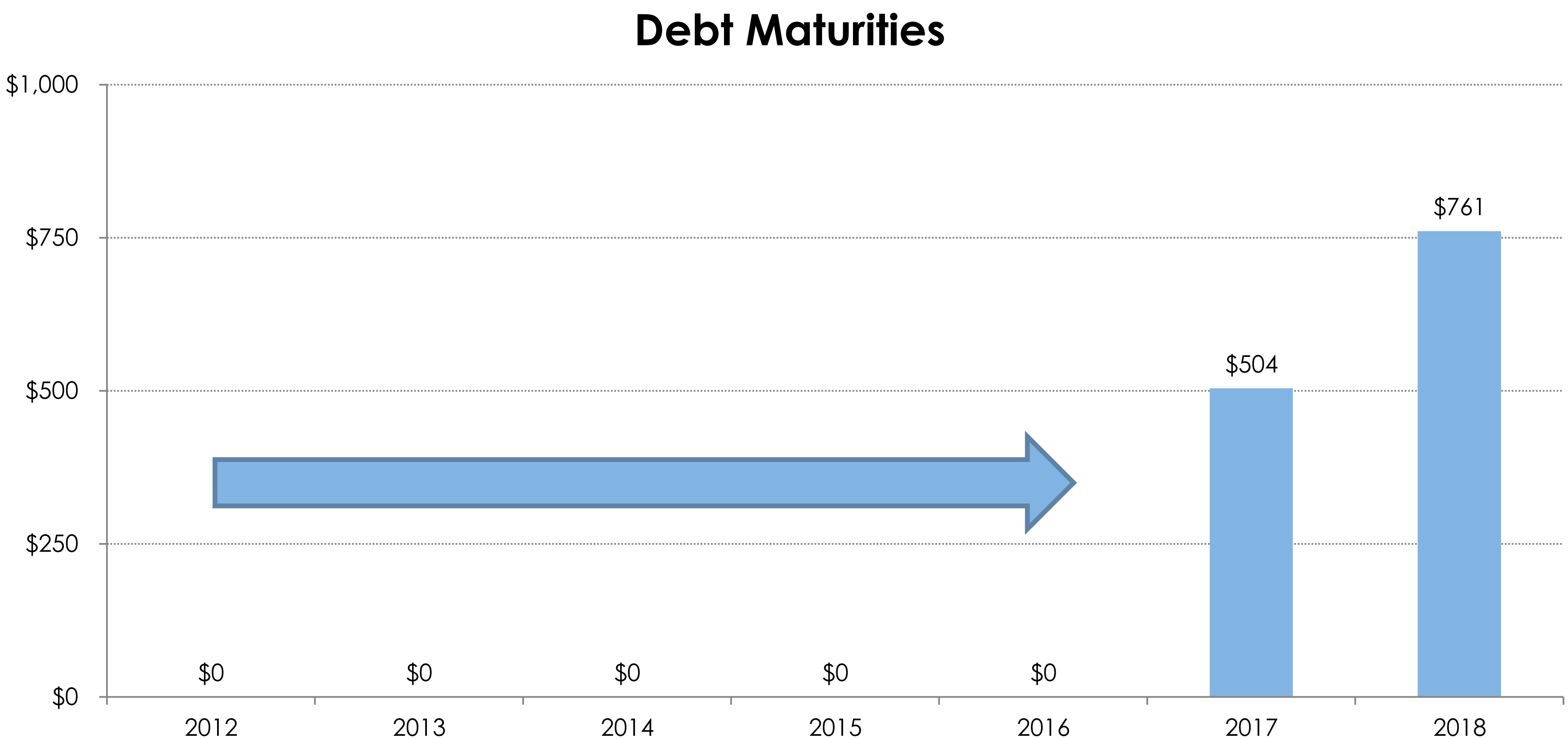
Source: Trace, Marcato estimates

Capital Structure is an Asset for Equity Holders

- Given the long duration of its debt, DIN has no liquidity concerns



Source: Company documents

Existing Business Requires Minimal Capital

- Even after spending significantly to remodel then-owned Applebee's restaurants, DIN was only spending ~$20m / year in CapEx since the 2007 acquisition

	2007	2008	2009	2010	2011	LTM	'07 - '11 Average
Capital Expenditures	$12	$32	$15	$19	$26	$19	**$21**

Source: Company documents

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Management Agrees There is No Need For Capital

"We'll always have a couple million dollars invested in IT, but I've always said in steady state, I don't know how to spend $10 million, because you're 99% franchised. There just won't be a capital need long-term of any substance."

– Julia Stewart, DineEquity Chairman and CEO, Goldman Sachs Restaurant Conference, June 2010

Source: Bloomberg

Acquisitions Have Failed to Create Value for the Company's Shareholders

- On 7/16/2007, the day the Company announced the Applebee's acquisition, the stock closed at $61.24. **The cumulative return of the stock in the nearly 5.5 years since has been 2.2%**
- **As such, we would not be supportive of another acquisition at this time**

Source: Capital IQ

Restaurant Companies That Pay Dividends Trade at 2 – 3% Dividend Yields

Restaurant companies that pay dividends currently trade at 2 – 3% dividend yields.

All of these companies have either significantly higher capital requirements or growth opportunities than DIN, and the average payout ratio among them is still >45%.

	Stock Price	Market Cap	TEV	Net Debt / EBITDA	CapEx % of EBITDA	'13E EPS Growth	Payout Ratio	Dividend Yield
Yum! Brands, Inc.	$66.30	$29,955	$32,176	0.8x	28.1%	12.3%	41.1%	2.0%
Tim Hortons Inc.	46.75	7,209	7,542	0.5x	22.5%	11.9%	31.3%	1.8%
Darden Restaurants, Inc.	46.66	6,001	8,103	1.9x	50.3%	3.6%	56.0%	4.3%
Burger King Worldwide, Inc.	17.09	5,983	8,559	4.0x	12.0%	20.8%	27.1%	0.9%
Dunkin' Brands Group, Inc.	31.44	3,319	5,010	5.1x	5.4%	18.1%	47.2%	1.9%
Brinker International, Inc.	30.58	2,237	2,871	1.7x	29.8%	21.4%	39.2%	2.6%
The Cheesecake Factory Incorporated	33.09	1,738	1,738	0.0x	32.3%	13.2%	25.3%	1.5%
The Wendy's Company	4.71	1,842	2,846	3.1x	42.4%	30.8%	123.1%	3.4%
Cracker Barrel Old Country Store, Inc.	61.34	1,453	1,888	1.7x	29.5%	13.4%	45.5%	3.3%
Texas Roadhouse, Inc.	16.11	1,138	1,115	-0.1x	50.3%	9.8%	35.3%	2.2%
Bob Evans Farms, Inc.	40.16	1,128	1,321	1.0x	39.8%	18.8%	45.7%	2.7%
CEC Entertainment Inc.	31.71	550	927	2.3x	53.3%	6.3%	35.4%	3.0%
Einstein Noah Restaurant Group, Inc.	15.77	268	323	1.1x	36.4%	12.6%	52.6%	3.2%
Average				**1.8x**	**33.2%**	**14.8%**	**46.5%**	**2.5%**
Median				**1.7x**	**32.3%**	**13.2%**	**41.1%**	**2.6%**

Source: Capital IQ, Marcato estimates

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Numerous Companies With High Payout Ratios Trade at Tight Yields

These companies generate stable cash flows and participate in mature industries (utilities, movie theaters, furniture, document storage).

We believe the stability and predictability of the large annual dividends offered by these companies with very high payout ratios are highly prized by investors.

	Stock Price	Market Cap	TEV	Net Debt / EBITDA	P / E 2012E	P / E 2013E	'13E EPS Growth	Payout Ratio	Dividend Yield
Verizon Communications Inc.	$44.41	$126,746	$224,206	2.5x	18.1x	15.5x	16.7%	84.1%	4.6%
Duke Energy Corporation	64.32	45,297	83,073	5.5x	15.0x	14.6x	3.0%	71.5%	4.8%
Southern Company	43.73	38,225	59,800	3.5x	16.7x	15.7x	6.5%	74.8%	4.5%
Williams Companies, Inc.	31.22	19,585	31,567	4.8x	27.1x	25.4x	7.0%	113.0%	4.2%
Spectra Energy Corp.	27.32	17,840	31,264	4.9x	18.2x	16.1x	13.3%	81.3%	4.5%
Paychex, Inc.	33.19	12,063	11,672	-0.4x	20.7x	19.3x	7.5%	82.5%	4.0%
Iron Mountain Inc.	31.34	5,941	9,357	3.7x	25.1x	25.3x	-0.8%	86.4%	3.4%
Pepco Holdings, Inc.	19.51	4,477	9,790	4.8x	16.3x	15.4x	5.8%	90.0%	5.5%
Integrys Energy Group, Inc.	53.37	4,158	6,696	3.9x	16.4x	15.5x	5.8%	83.4%	5.1%
Leggett & Platt, Incorporated	26.86	3,795	4,604	1.7x	18.0x	16.4x	10.1%	77.9%	4.3%
Regal Entertainment Group	14.40	2,221	3,986	3.3x	16.4x	15.2x	8.0%	95.5%	5.8%
Average				**3.5x**	**18.9x**	**17.7x**	**7.5%**	**85.5%**	**4.6%**
Median				**3.7x**	**18.0x**	**15.7x**	**7.0%**	**83.4%**	**4.5%**

Source: Capital IQ, Marcato estimates

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DIN is Similar to a Tobacco Company, but BETTER

- A purely franchised DIN is similar to a tobacco company given its stable, recurring revenue, high margins, minimal capital requirements, and limited organic growth opportunities
- We note the tobacco companies pay out ~80% of their earnings as dividends, consistently use the rest to buy back shares, and all trade under 5.5% dividend yields
- DIN does not face the risk of secular decline or unknown litigation exposure that the tobacco companies do

		Market		P / E		EBITDA	CapEx %	EBITDA	EPS	Payout	Dividend
	Stock Price	Cap	TEV	2012E	2013E	Margin	of EBITDA	Growth	Growth	Ratio	Yield
Altria Group Inc.	$33.47	$68,145	$79,872	15.1x	14.1x	44.2%	2.2%	3.3%	7.2%	79.6%	5.3%
Reynolds American Inc.	43.03	24,052	26,674	14.6x	13.8x	36.8%	4.7%	4.1%	5.8%	80.0%	5.5%
Lorillard, Inc.	121.48	15,725	17,116	14.5x	13.3x	41.8%	3.0%	5.2%	8.5%	73.9%	5.1%
Average				**14.7x**	**13.8x**	**40.9%**	**3.3%**	**4.2%**	**7.2%**	**77.8%**	**5.3%**
Median				**14.6x**	**13.8x**	**41.8%**	**3.0%**	**4.1%**	**7.2%**	**79.6%**	**5.3%**

Source: Capital IQ, Marcato estimates

Payout Ratio Must Be Based on Free Cash Flow, Not Net Income

DIN's Free Cash Flow significantly exceeds its Net Income due to non-cash amortization charges and non-cash interest expense.

As a result, we highly encourage the Company to think about its payout ratio in terms of its Free Cash Flow, not its Net Income.

2013E Net Income	$85
D&A	40
CapEx	(15)
Non-Cash Interest	6
Free Cash Flow	**$116**
% of Net Income	***136%***

Source: Marcato estimates

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We Believe A High Payout Ratio Will Create Significant Equity Value

*We believe the equity would trade at a mid-single-digit dividend yield, **creating significant long-term value for equity holders***

2013E Free Cash Flow	$116
Assumed Payout Ratio	100%
Implied Dividend	$116
Per Share	***$6.08***
Assumed Dividend Yield	5%
Implied Stock Price	**$121.63**
% Premium to Current	***93.1%***
Implied Trading Multiples	
TEV / EBITDA	12.8x
TEV / EBITDA - CapEx	13.5x
% Equity FCF Yield	5.0%
Price / FCF per Share	20.0x
% Equity FCF Yield PF for Refi (1)	5.5%
Price / FCF per Share PF for Refi (1)	18.1x

Source: Marcato estimates

(1) Assuming the 9.5% bonds are refinanced at a cost of 7%

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We Believe A High Payout Ratio Will Create Significant Equity Value (Cont'd)

We believe if the Company announces a policy of paying out 100% of its annual Free Cash Flow, a stock price over $100 is highly likely

Stock Price at Different Dividend Payouts and Yields

		FCF Payout Ratio			
		80%	90%	100%	110%
	3%	$162.17	$182.44	$202.71	$222.99
Dividend	4%	121.63	**136.83**	**152.04**	167.24
Yield	5%	97.30	**109.47**	**121.63**	133.79
	6%	81.09	91.22	101.36	111.49

Source: Marcato estimates

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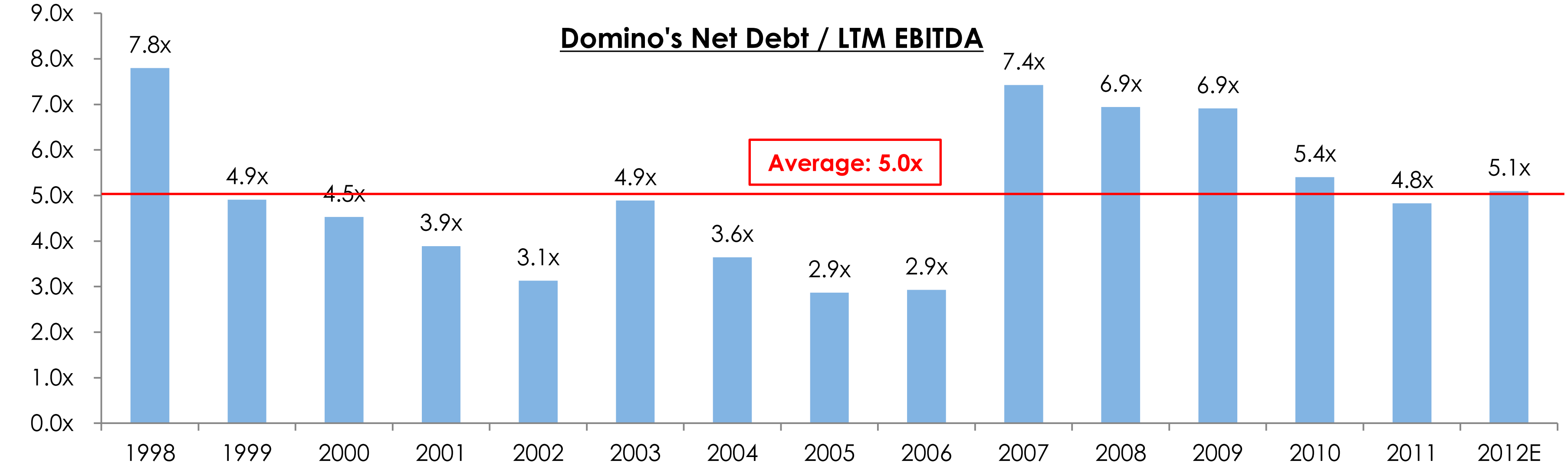
Capital Allocation Case Study: Domino's Pizza

- Over time, Domino's, another pure-play franchisor, has continually re-levered and returned capital to shareholders
- Domino's has been comfortable sustaining even higher leverage levels (7x – 8x) given its highly franchised business
- While Domino's has favored special dividends and share repurchases over regular dividends, **they have paid out 140% of their cumulative Free Cash Flow since IPO**



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012E
Special Dividends	$188	$0	$0	$0	$897	$0	$0	$0	$0	$171
Share Repurchases	201	11	75	145	55	43	0	5	165	79
FCF Generated	$74	$72	$112	$113	$42	$56	$78	$103	$57	$125
Cumulative Since IPO (2004)		$72	$185	$298	$340	$395	$474	$577	$634	$759
Cumulative Dividends Paid Out Since IPO		$0	$0	$0	$897	$897	$897	$897	$897	$1,068
% of FCF Generated ("Cumulative Payout Ratio")		***0%***	***0%***	***0%***	***264%***	***227%***	***189%***	***155%***	***142%***	***141%***
Including Share Repurchases		***14%***	***46%***	***77%***	***348%***	***310%***	***259%***	***213%***	***220%***	***217%***

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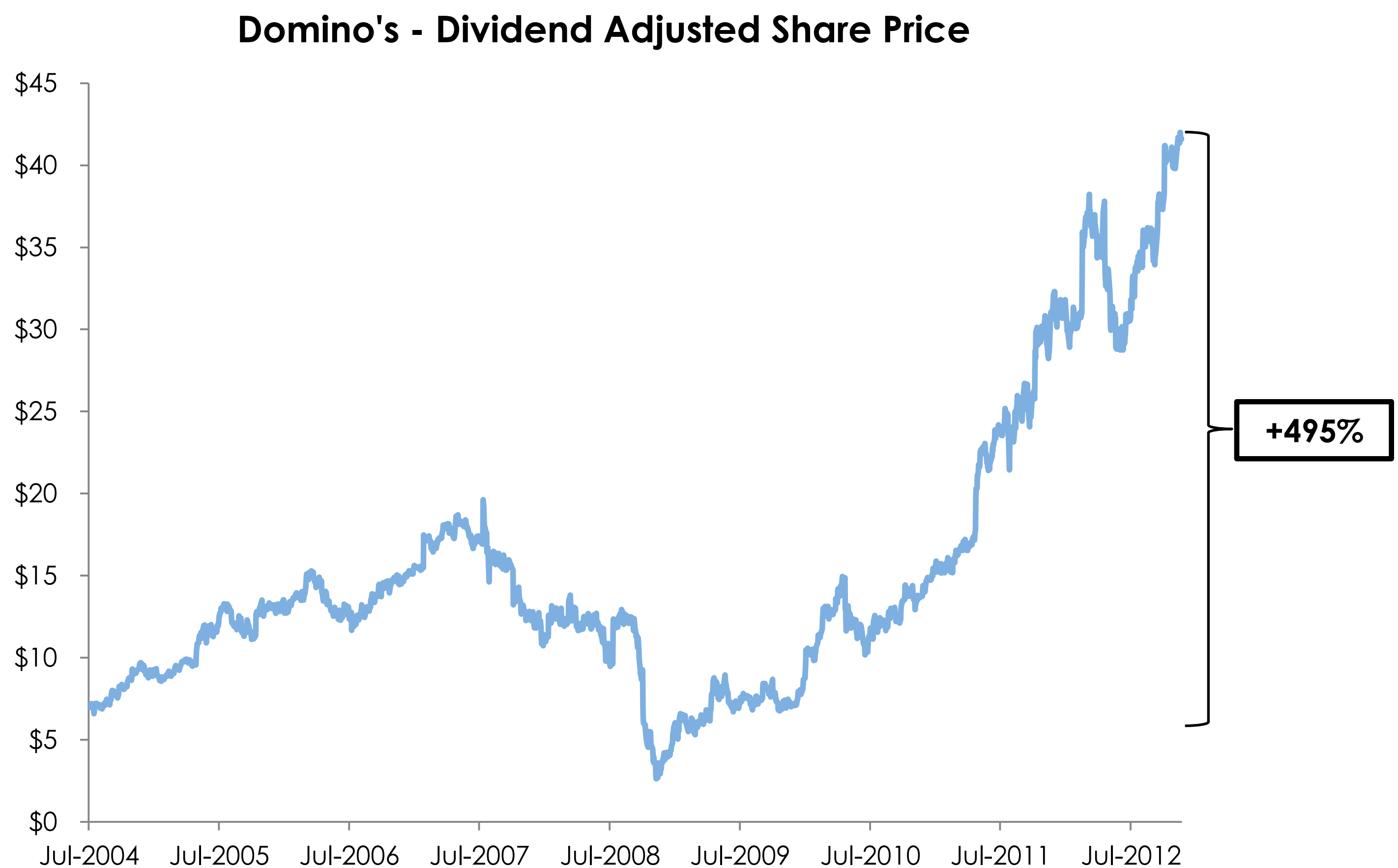
Source: Public documents, Capital IQ, Marcato estimates

Capital Allocation Case Study: Domino's Pizza (Cont'd)

DPZ has been richly rewarded by the market for this policy, as its stock has appreciated 495% since its 2004 IPO



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Source: Capital IQ

Analysts Think Domino's Would Have Done Even Better Paying Regular Dividends

"A higher payout ratio is appropriate given Domino's highly franchised business model that requires relatively low rates of capital investment. But we question whether a more defined annual dividend payout could have accomplished a similar total time adjusted payout without the drama and risk around a recapitalization and in a more defined, transparent way."

– Joseph Buckley, Bank of America Merrill Lynch Restaurant Analyst, 3/20/2012

Source: Bank of America Merrill Lynch

DIN Should Maintain a Minimum of 5x Leverage and Pay Out 100% of FCF

- DIN's current leverage ratio of 4.7x is **arguably conservative** given ample liquidity and coverage ratios, and lack of operating leverage
  - DPZ's most recent refinancing, in March 2012, was done at 5.7x net leverage and a 5.2% rate
- This is especially true given ability to call bonds in 2014, which should lower interest expense and take excess FCF from ~$116m to ~$129m or more [1]
- Given these facts, we believe that **<u>DIN should announce and pay an annual dividend of $6 / share, which would represent a ~100% payout ratio on 2013E FCF, and set an explicit leverage target of 5.0x – 5.5x Net Debt / EBITDA, paying periodic special dividends in addition to organic dividend growth</u>**

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Source: Marcato estimates

(1) Assuming the 9.5% bonds are refinanced at a cost of 7%

We Believe a 75% Payout Ratio Would Be Too Low

We believe a 75% payout ratio would quickly lead to sub-optimal leverage

	2012	2013E	2014E	2015E	2016E
Total Revenue		$665	$685	$705	$727
% Growth			*3%*	*3%*	*3%*
EBITDA		$287	$297	$308	$319
% Margin		*43.2%*	*43.4%*	*43.7%*	*43.9%*
Cash Interest		(111)	(98)	(87)	(86)
Cash Taxes		(46)	(57)	(65)	(69)
CapEx		(15)	(15)	(15)	(15)
LT Receivables Run-off		13	13	13	13
Working Capital / Other		(12)	(10)	(8)	(8)
Free Cash Flow		**$116**	**$131**	**$146**	**$154**
% Payout		*75%*	*75%*	*75%*	*75%*
Dividend Paid Out		$87	$98	$109	$115
Cash Left Over		$29	$33	$36	$38

	12/31/2012E	12/31/2013E	12/31/2014E	12/31/2015E	12/31/2016E
Net Debt	$1,352	$1,323	$1,290	$1,254	$1,215
EBITDA / Interest		**2.6x**	**3.0x**	**3.5x**	**3.7x**
Net Debt / Trailing EBITDA		**4.6x**	**4.3x**	**4.1x**	**3.8x**
Net Debt / Forward EBITDA	**4.7x**	**4.4x**	**4.2x**	**3.9x**	**3.7x**

Source: Marcato estimates

Note: Analysis is illustrative and assumes 9.5% bonds are refinanced at 7% during 2014

Why Now?

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- **Leverage Now Under 5x and Declining**
  - Coverage ratios are excellent and will improve with bond refinancing in 2014
  - Capital structure highly sustainable and arguably conservative
- **Transitional Point in Company's History**
  - With the multi-year refranchising effort finally completed, it is time to define your future priorities
- **Yield-Starved World**
  - We believe such a large, stable, recurring annual dividend would be highly prized by investors
  - **<u>We believe it would attract an entirely new group of income-oriented investors, leading to significant and permanent value creation</u>**

IV. Thoughts on Execution

Proposal is Readily Executable Under Current Credit Documents

- After reviewing the credit agreement governing the Company's bank debt and the indenture governing the Company's bonds, we believe the capital allocation proposal we've outlined is readily executable
- **The most restrictive provision in the credit documents is the mandatory prepayment clause in the bank debt agreement, a provision we strongly believe is unnecessary for lenders to require given the Company's current credit profile.** As such, we highly recommend that the Company:
  - 1) Seek an amendment to its bank debt agreement eliminating the requirement that 50% of each fiscal year's Excess Cash Flow be used to prepay bank debt
  - 2) Simultaneously look to other banks to refinance the bank debt on similar terms to the existing facility, without this restrictive Excess Cash Flow payment requirement, given that the current bank debt is prepayable at par at any time without penalty
- We believe that the Company should announce its dividend policy while pursuing the above initiatives related to its bank debt
  - We believe that if the Company announces its dividend policy now but waits until Q3 2013 to begin paying its dividend, **<u>it will have until early 2015 to complete an amendment or refinancing of its bank debt without violating the mandatory prepayment clause in the facility's credit agreement</u>**

Company Should Amend or Refinance Its Bank Debt As Soon As Possible

- We believe the most restrictive term in DIN's credit documents is the mandatory prepayments clause in its bank debt agreement - specifically, Section 2.05(b)(i)
  - This requires that the Company use 50% of its Excess Cash Flow in any given year to prepay its term loan
- We strongly believe that this provision is unnecessary for a loan of this size to a business of this quality
  - **With just over $500m outstanding, this loan is <2x levered and should no longer require such mandatory prepayment**
- Given that the term loan is now pre-payable at par at any time without penalty, we believe that **the single most important thing the Company can do at this time is simultaneously:**

1. Seek an amendment to its bank debt facility eliminating this 50% Excess Cash Flow "Sweep"
2. In parallel, look to other banks to refinance this senior credit facility on similar terms, but without this 50% Excess Cash Flow "Sweep" (1) (2)

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(1) This will effectively give existing lenders the option of accepting a fee to amend this term, or being refinanced out of their investment

(2) Marcato would be happy to facilitate introduction to several other banks not participating in the existing credit facility who would be interested in competing to win this business

Company Should Announce Dividend Policy and Begin Payment in Q3 2013

- According to the credit agreement, the payment of 50% of each fiscal year's Excess Cash Flow ("ECF Payment") is due to bank debt holders five business days after the financial statements for that year have been delivered
  - For example, 2012's ECF Payment will be due in early 2013, 2013's ECF Payment will be due in early 2014, etc.
- The Company has confirmed that no ECF Payment will need to be made for FY 2012 in early 2013, since the Company already used nearly all of its cash flow during 2012 to pay down bank debt
- If the Company were to wait until Q3 2013 to begin paying its regular dividend, it could retain its Free Cash Flow during Q1 and Q2 2013 and be positioned to make its 2013 ECF Payment in early 2014 in the unlikely event it cannot refinance or amend its bank debt by then
- **<u>With this approach, the Company can announce its dividend policy now, begin paying its regular dividend in Q3 2013, and not have to worry about covering another ECF Payment until early 2015</u>**
  - This would give the Company more than two years to refinance or amend its bank debt facility, in a favorable credit market environment [1]

(1) We note that the Company has already suggested it is planning to refinance its bonds prior to that date, in fall 2014, and might want to consider a franchise securitization to replace all of its borrowings at that point in time

Financial Covenants Not a Problem

Financial Covenants: Bank Debt Agreement

	2013E	2014E	2015E	2016E
Interest Coverage - Covenant	1.75x	1.75x	1.75x	2.00x
Interest Coverage - Marcato Estimate [(1)]	2.59x	2.99x	3.42x	3.54x

	2013E	2014E	2015E	2016E
Leverage Ratio - Covenant	7.00x	6.75x	6.50x	6.00x
Leverage Ratio - Marcato Estimate [(1)]	4.71x	4.55x	4.39x	4.24x

Financial Covenants: Bond Indenture

None

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Source: Company documents, Marcato estimates

(1) Assumes a dividend payout ratio equal to100% of Free Cash Flow annually, and a refinancing of the 9.5% bonds in 2014 at a 7% interest rate

Restricted Payments Baskets Not a Problem

- Assuming a refinancing of the bonds and bank debt by early 2015, there should be ample room in the Restricted Payments baskets to pay out 100% of Free Cash Flow as dividends, beginning in Q3 2013

Restricted Payments: Bank Debt Agreement

	2012E	2013E	2014E
Restricted Payments Basket [1]			
Beginning of Year		$112	$112
Dividends Paid [2]		(58)	(130)
Additional Capacity Earned [1]		58	65
End of Year	**$112**	**$112**	**$47**

Restricted Payments: Bond Indenture

	2012E	2013E	2014E
Restricted Payments Basket [3]			
Beginning of Year		$123	$126
Dividends Paid [2]		(58)	(130)
Additional Capacity Earned [3]		60	66
End of Year	**$123**	**$126**	**$62**

Source: Company documents, Marcato estimates

(1) Calculated as $35m plus aggregate cumulative Excess Cash Flow not required for mandatory prepayments for all full fiscal years after the Closing Date, as defined in the senior credit agreement

(2) Assumes a dividend payout ratio equal to100% of Free Cash Flow annually, beginning in Q3 2013, and a refinancing of the 9.5% bonds in 2014 at a 7% interest rate

(3) Calculated as $35m plus 50% of aggregate cumulative Consolidated Net Income for all fiscal quarters beginning in the quarter in which the Issue Date occurred, as defined in the bond indenture

Illustrative Timeline

Now: Company should:

1) Seek to amend its bank debt facility, removing 50% Excess Cash Flow Sweep
2) Look to other banks to refinance its bank debt facility without an Excess Cash Flow Sweep
3) Announce an annual dividend of $6 / share, to be paid quarterly beginning in Q3 2012

1/1/2013

Early 2013: No ECF Payment due for 2012 due to optional prepayments made during the year

Q1 and Q2, 2013: Company can hold onto its Free Cash Flow to cover its 2013 ECF Payment, to be made in early 2014, in the unlikely event it cannot amend or refinance its bank debt facility by then

Q3 2013: Begin paying $6 / share annualized dividend

1/1/2014

Early 2014: ECF Payment due for 2013, in the unlikely event the Company has not yet amended or refinanced its bank debt facility

October, 2014: 9.5% bonds are callable; Company should refinance at a lower interest rate and consider replacing all of its borrowings with a franchise securitization

1/1/2015

Early 2015: First ECF Payment date the Company would have to worry about if it retains its Free Cash Flow for Q1 and Q2 2013.

Company would have until now to amend or refinance its bank debt facility if it waits until Q3 2013 to begin paying its regular dividend.

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V. Summary

Executive Summary

- **Attractive Business**
  - High quality franchised business model results in stable, predictable royalty stream
  - High margins + low capital requirements = significant free cash flow generation
- **Undervalued by the Market**
  - Equity trading at significant discount to pure-play franchised peers
- **Conservative Capital Structure**
  - Now under 5x leverage target
  - No near-term maturities and opportunity to refinance bonds at lower interest rate in 2014
- **How Can the Company Create the Maximum Value from this Opportunity?**
  - Pay out all free cash flow as dividends
  - Stable, predictable annual dividend would attract new investors and be highly prized in persistent low interest rate environment
  - We believe this will lead to significant long-term value creation

We Believe A High Payout Ratio Will Create Significant Equity Value

We believe if the Company announces a policy of paying out 100% of its annual Free Cash Flow, a stock price over $100 is highly likely

Stock Price at Different Dividend Payouts and Yields

		FCF Payout Ratio			
		80%	90%	100%	110%
	3%	$162.17	$182.44	$202.71	$222.99
Dividend	4%	121.63	**136.83**	**152.04**	167.24
Yield	5%	97.30	**109.47**	**121.63**	133.79
	6%	81.09	91.22	101.36	111.49

Source: Marcato estimates

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