

IHP: Raising Price Target to \$50 Based On 10-K Guidance

Current Estimates

EPS Estimates (Before SFAS 123)

| FY Date | 1Q | 2Q | 3Q | 4Q | EPS | EOY P/E |
|---------|----------|----------|----------|----------|----------|---------|
| 2004 | \$0.50 | \$0.21 | \$0.38 | \$0.52 | \$1.61 | 26.0x |
| 2005 | \$0.50 | \$0.60 | \$0.62 | \$0.53 | \$2.24 | 21.4x |
| 2006 | \$0.59 E | \$0.61 E | \$0.65 E | \$0.56 E | \$2.41 E | 21.4x |

Source: Onboard Consulting Estimates

Highlights

- We are raising our price target on IHP to from \$46 to \$50 due to increased unit openings outlined in the company's 10-K and continued confidence in the company's business. We are also maintaining our Neutral Rating based on the company's fair valuation (17.3x 2007E EPS versus historical average of 18.3x), and the uncertainty around its unresolved tax situation.
- Based on the company's guidance of 9 to 14 new company stores over the next two to three years, we are increasing our estimate from 7 to 10 new units over 3 years. In addition, now that the company has broken out its existing Area Licensee's units in Canada (12 in British Columbia), we have now introduced international store counts to our estimates.
- We are also confident about the future growth of its core US franchising operations due to strong replacement rates on franchisee stores. At the end of the year, the company reported more mid to long-term signed openings than it did in last year's 10-K.
- Segment-level economics were also in-line with our estimates for franchised operations in the fourth quarter.

Disclosures

Reg AC, Analyst Certification

I, Kelly C. Peebles, hereby certify that all the views expressed in this review, accurately reflect my personal views about the subject Company or companies and its, or their, securities. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views contained in this review.

Please read additional disclosures located on page 5

| Rating | |
|--------------|---------|
| New: | Neutral |
| Old: | Neutral |
| Price Target | |
| New: | \$50 |
| Old: | \$46 |

| | |
|-------------|-----------------|
| Price | \$48.35 |
| Market Cap. | 905.9m |
| 52wk Range | \$37.97-\$53.80 |
| Div. Yld. | 2.1% |

| 2006E | |
|--------------|---------|
| ROA | 5.7% |
| ROE | 13.7% |
| ROIC | 8.8% |
| BV Per Share | \$17.89 |
| Debt to Cap | 28.5% |

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Information for Decision Makers

Discussion

IHOP recently released its 10-K and provided additional insight into its business. After reviewing the release, we are increasing our price target to \$50 from \$46 based on increased store openings and continued confidence in the company's franchise operations. We are also maintaining our Neutral Rating based on the company's fair valuation (17.3x 2007E EPS versus historical average of 18.3x), and the uncertainty around its unresolved tax situation.

Highlights from the 10-K include:

- **The company looks to expand its own operations.** In 2005, IHOP developed 3 restaurants, and finished the year with 6 company units in its home market. In the future, the company now expects that it will develop 9 to 14 new restaurants in the next two to three years. This result compares to our prior expectation of 7 new units over 3 years. Given this change, we have increased our expected openings from 7 to 10, and the total market's count by the end of 2011 from 17 to 24 units. To us, this increased guidance means that the operational improvements focus on design as much as management. Similarly, more stores give the company a larger base to test new product and marketing ideas.
- **Area Licenses.** Given its pending expansion to international markets (currently Canada and Mexico) the company broke out its area license agreement in British Columbia separately from the Florida agreement. This licensee has 12 units within this providence, and we believe that the pending agreement will increase the number of units in Canada greatly. Using the 12 units as a rough measuring stick, we have introduced conservative unit growth beginning in 2007 for IHOP's international operations. Looking ahead, the large populations of both Canada and Mexico offer an opportunity to expand IHOP's unit base greatly, and its progress there will be tracked closely.
- **Quick Refranchising.** The company restated its goal of not taking possession of the properties it refranchises, but it took back 20 of the 26 restaurants it refranchised in 2005. Though this percentage isn't great, we view the real positive from the fact that it only held these restaurants for 1 month on average. Though take backs may be inevitable, this quick turnaround time gives us confidence that the company can quickly refranchise restaurants before they dilute earnings.
- **Franchise replacements strong.** One of the main areas we monitor is the replacement rate of franchise agreements. Simply stated, if the company can replace newly opened restaurants with signed restaurants (that expect to open in the near-term) then it can continue to grow sales and cash flow. At the end of 2005, company had signed agreements to open 60 IHOP's in 2006 (Figure 1). Though this number is less than 2005's number, its stronger in the mid and late-term, as well as overall. We believe that this case has



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evolved from existing operators committing to open more restaurants. We view these developments as a positive, as larger operator's must view IHOP restaurants as a good return, or they would invest elsewhere. As a confirmation, an examination of franchisee concentration yield's that there are less franchisees overall, but the number of restaurants has increased. This fact means that the concentration of the largest operators is growing and those with 1 restaurant are shrinking (Figure 2).

Figure 1. Scheduled Openings

| | T | T+1 | T+2 | T+3 and beyond | Total |
|-------------|----------|------------|------------|-----------------------|--------------|
| 2005 | 68 | 44 | 36 | 139 | 287 |
| 2006 | 60 | 62 | 55 | 200 | 377 |

Source: The company and Onboard Consulting Estimates

Figure 2. Concentration of Franchisee restaurant holdings

of Franchisees

| | 2004 | 2005 |
|-------|-------------|-------------|
| 1 | 213 | 198 |
| 2-5 | 133 | 136 |
| 6-10 | 22 | 29 |
| 11-15 | 6 | 5 |
| 16+ | 8 | 9 |
| Total | 382 | 377 |

Portfolio Size (# of Restaurants per)

| | 2004 | 2005 |
|-------|-------------|-------------|
| 1 | 213 | 198 |
| 2-5 | 372 | 373 |
| 6-10 | 164 | 212 |
| 11-15 | 78 | 66 |
| 16+ | 201 | 233 |
| Total | 1028 | 1082 |

Source: The company and Onboard Consulting Estimates



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IHOP Corp. - Annual Earnings Model

(Dollars in millions except per-share data. Fiscal year ends Dec)

| | 52 weeks | | 52 weeks | | 52 weeks | | 53 weeks | | 52 weeks | | 2006E | | 2007E | | 2008E | | 2009E | | 2010E | | 2011E | |
|---|---------------|--------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|---------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|-------------|
| | 2001 | % Chg. | 2002 | % Chg. | 2003 | % Chg. | 2004 | % Chg. | 2005 | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. | % Chg. |
| Revenue Detail | | | | | | | | | | | | | | | | | | | | | | |
| Franchise Revenues | 142.9 | 8.0% | 123.1 | (13.9%) | 140.1 | 13.9% | 157.6 | 12.5% | 167.4 | 6.2% | 186.4 | 11.4% | 205.0 | 10.0% | 220.7 | 7.6% | 236.8 | 7.3% | 253.5 | 7.0% | 270.7 | 6.8% |
| Rental Income | 65.8 | 28.6% | 99.6 | 51.4% | 117.3 | 17.7% | 131.8 | 12.4% | 131.6 | (0.1%) | 133.4 | 1.3% | 135.1 | 1.3% | 136.9 | 1.3% | 138.7 | 1.3% | 140.5 | 1.3% | 142.4 | 1.3% |
| Company Restaurant Sales | 68.8 | (5.5%) | 74.4 | 8.2% | 74.9 | 0.6% | 31.6 | (57.8%) | 14.0 | (55.8%) | 16.5 | 18.1% | 23.1 | 39.8% | 28.2 | 22.4% | 33.5 | 18.6% | 37.2 | 11.0% | 40.9 | 10.1% |
| Financing Revenues | 47.0 | (0.1%) | 68.8 | 46.4% | 72.5 | 5.4% | 38.1 | (47.5%) | 35.0 | (8.0%) | 28.4 | (18.9%) | 24.5 | (13.9%) | 21.1 | (13.9%) | 18.2 | (13.9%) | 15.7 | (13.9%) | 13.5 | (13.9%) |
| Total Revenues | 324.4 | 7.0% | 365.9 | 12.8% | 404.8 | 10.6% | 359.0 | (11.3%) | 348.0 | (3.1%) | 364.7 | 4.8% | 387.7 | 6.3% | 406.9 | 4.9% | 427.1 | 5.0% | 446.8 | 4.6% | 467.5 | 4.6% |
| 74.5% | | | | | | | | | | | | | | | | | | | | | | |
| Franchise Expenses | 48.3 | 8.0% | 55.1 | 14.2% | 64.3 | 16.6% | 75.6 | 17.6% | 78.8 | 4.2% | 87.0 | 10.5% | 95.4 | 9.6% | 102.3 | 7.3% | 109.5 | 7.0% | 117.0 | 6.8% | 124.6 | 6.6% |
| Rental Expense | 37.9 | 36.7% | 73.8 | 94.9% | 85.8 | 16.2% | 95.4 | 11.2% | 98.4 | 3.1% | 98.9 | 0.5% | 100.3 | 1.5% | 101.5 | 1.1% | 102.6 | 1.1% | 103.8 | 1.1% | 105.0 | 1.1% |
| Company Restaurant Expenses | 66.3 | (5.4%) | 78.4 | 18.2% | 81.7 | 4.2% | 34.7 | (57.5%) | 15.1 | (56.5%) | 16.5 | 9.3% | 20.6 | 25.0% | 23.9 | 15.7% | 27.0 | 13.1% | 29.1 | 7.7% | 31.1 | 7.1% |
| Financing Expenses | 31.1 | 0.5% | 38.2 | 22.8% | 43.6 | 14.2% | 22.4 | (48.6%) | 20.3 | (9.4%) | 14.4 | (29.4%) | 13.2 | (7.9%) | 11.4 | (13.9%) | 9.8 | (13.9%) | 8.5 | (13.9%) | 7.3 | (13.9%) |
| Restaurant Operating Profit | 140.9 | 8.5% | 120.3 | (14.6%) | 129.4 | 7.5% | 130.9 | 1.1% | 135.4 | 3.5% | 148.0 | 9.3% | 158.1 | 6.9% | 167.8 | 6.1% | 178.2 | 6.2% | 188.5 | 5.8% | 199.5 | 5.8% |
| General and Administrative | 40.6 | 11.3% | 49.5 | 21.9% | 54.6 | 10.2% | 59.9 | 9.7% | 58.8 | (1.8%) | 62.3 | 6.0% | 64.8 | 4.0% | 67.4 | 4.0% | 70.1 | 4.0% | 72.9 | 4.0% | 75.8 | 4.0% |
| Other Expense, net | 0.0 | | 5.4 | | 4.9 | (0.7%) | 3.9 | (20.1%) | 4.9 | 25.6% | 3.2 | (34.3%) | 2.5 | (21.9%) | 2.5 | 0.0% | 2.5 | 0.0% | 2.5 | 0.0% | 2.5 | 0.0% |
| Facility Action Charges | 0.0 | | 0.0 | | 2.0 | | 12.9 | NM | 0.9 | (93.1%) | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | |
| Operating Income | 85.4 | 7.1% | 65.4 | (23.5%) | 67.9 | 3.9% | 54.2 | (20.3%) | 70.9 | 30.8% | 82.4 | 16.3% | 90.8 | 10.2% | 97.9 | 7.8% | 105.6 | 7.9% | 113.1 | 7.1% | 121.1 | 7.1% |
| Interest Expense | (21.1) | (3.0%) | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | |
| Other Income (Expense), Net | 0.1 | (121.7%) | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | | 0.0 | |
| Pre-tax Income | 64.5 | 12.2% | 65.4 | 1.4% | 67.9 | 3.9% | 54.2 | (20.3%) | 70.9 | 30.8% | 82.4 | 16.3% | 90.8 | 10.2% | 97.9 | 7.8% | 105.6 | 7.9% | 113.1 | 7.1% | 121.1 | 7.1% |
| Income Taxes (Benefit) | 24.2 | 9.3% | 24.5 | 1.4% | 25.5 | 3.9% | 20.7 | (18.6%) | 26.9 | 29.8% | 37.5 | 39.3% | 40.3 | 7.4% | 42.8 | 6.1% | 45.4 | 6.2% | 47.9 | 5.5% | 50.6 | 5.6% |
| Net Operating Income | \$40.3 | 14.0% | \$40.8 | 1.4% | \$42.5 | 3.9% | \$33.4 | (21.3%) | \$43.9 | 31.5% | \$44.9 | 2.2% | \$50.5 | 12.5% | \$55.1 | 9.1% | \$60.2 | 9.1% | \$65.2 | 8.4% | \$70.5 | 8.2% |
| Non-recurring | \$5.7 | | | | | | | | | | | | | | | | | | | | | |
| Net Income, Reported | \$40.3 | 14.0% | \$40.8 | 1.4% | \$36.8 | (10.0%) | \$33.4 | (9.1%) | \$43.9 | 31.5% | \$44.9 | 2.2% | \$50.5 | 12.5% | \$55.1 | 9.1% | \$60.2 | 9.1% | \$65.2 | 8.4% | \$70.5 | 8.2% |
| Earnings Per Share | | | | | | | | | | | | | | | | | | | | | | |
| Continuing Operations | \$1.94 | 11.3% | \$1.91 | (1.3%) | \$1.96 | 2.6% | \$1.61 | (18.2%) | \$2.24 | 39.4% | \$2.41 | 7.7% | \$2.78 | 15.3% | \$3.11 | 11.9% | \$3.49 | 12.0% | \$3.88 | 11.3% | \$4.21 | 8.6% |
| Nonrecurring (Gain) Loss | \$0.00 | | \$0.00 | | \$0.26 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | |
| Reported (Diluted) | \$1.94 | 11.3% | \$1.91 | (1.3%) | \$1.70 | (11.1%) | \$1.61 | (5.5%) | \$2.24 | 39.4% | \$2.41 | 7.7% | \$2.78 | 15.3% | \$3.11 | 11.9% | \$3.49 | 12.0% | \$3.88 | 11.3% | \$4.21 | 8.6% |
| Diluted shrs. (Mil.) | 20.8 | 2.5% | 21.3 | 2.8% | 21.6 | 1.3% | 20.8 | (3.8%) | 19.6 | (5.7%) | 18.6 | (5.1%) | 18.2 | (2.4%) | 17.7 | (2.5%) | 17.3 | (2.5%) | 16.8 | (2.6%) | 16.7 | (0.4%) |
| Margin Analysis (as a percent of sales, except tax rate) | | | | | | | | | | | | | | | | | | | | | | |
| Total Non-company Margin | 54.14% | (101) bp | 42.65% | NM | 41.30% | (135) bp | 40.93% | (37) bp | 40.88% | (5) bp | 42.49% | 161 bp | 42.70% | 21 bp | 43.16% | 46 bp | 43.61% | 45 bp | 44.05% | 43 bp | 44.46% | 42 bp |
| Company Store Margin | 3.60 | (15) bp | (5.36) | NM | (9.16) | (380) bp | (9.94) | (78) bp | (8.10) | 184 bp | 0.00 | NM | 10.52 | NM | 15.44 | NM | 19.43 | 399 bp | 21.82 | 240 bp | 23.97 | 215 bp |
| Franchise Rent Margin | 42.43 | (341) bp | 25.89 | NM | 26.84 | 95 bp | 27.60 | 76 bp | 25.25 | (235) bp | 25.87 | 62 bp | 25.75 | (12) bp | 25.88 | 13 bp | 26.01 | 13 bp | 26.14 | 13 bp | 26.27 | 13 bp |
| Franchise Margin | 66.21 | 2 bp | 55.19 | NM | 54.14 | (105) bp | 52.03 | (211) bp | 52.94 | 92 bp | 53.32 | 38 bp | 53.48 | 16 bp | 53.62 | 14 bp | 53.74 | 13 bp | 53.86 | 11 bp | 53.96 | 10 bp |
| Financing Margin | 33.85 | (40) bp | 44.50 | NM | 39.87 | NM | 41.10 | 124 bp | 41.98 | 87 bp | 49.49 | NM | 46.00 | (349) bp | 46.00 | 0 bp | 46.00 | 0 bp | 46.00 | 0 bp | 46.00 | 0 bp |
| Gross Margin | 56.58 | (61) bp | 67.12 | NM | 68.03 | 92 bp | 63.54 | NM | 61.09 | (246) bp | 59.43 | (166) bp | 59.21 | (22) bp | 58.76 | (45) bp | 58.28 | (48) bp | 57.80 | (48) bp | 57.33 | (47) bp |
| General & Administrative Expense | 12.52 | 49 bp | 13.54 | 102 bp | 13.48 | (5) bp | 16.68 | 320 bp | 16.90 | 21 bp | 17.09 | 19 bp | 16.72 | (37) bp | 16.57 | (15) bp | 16.41 | (16) bp | 16.32 | (9) bp | 16.22 | (10) bp |
| Facility Action Charges, Net | 0.00 | 0 bp | 0.00 | 0 bp | 0.50 | 50 bp | 3.60 | 310 bp | 0.26 | (335) bp | 0.00 | (26) bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp |
| Other Expenses | 0.00 | 0 bp | 1.48 | 148 bp | 1.20 | (29) bp | 1.08 | (12) bp | 1.40 | 32 bp | 0.88 | (52) bp | 0.64 | (23) bp | 0.61 | (3) bp | 0.59 | (3) bp | 0.56 | (3) bp | 0.53 | (2) bp |
| Operating Margin | 26.34 | 3 bp | 17.86 | NM | 16.78 | (108) bp | 15.09 | (169) bp | 20.36 | NM | 22.60 | 224 bp | 23.42 | 82 bp | 24.06 | 64 bp | 24.72 | 66 bp | 25.32 | 60 bp | 25.91 | 59 bp |
| Interest Expense | (6.51) | (67) bp | 0.00 | (651) bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp | 0.00 | 0 bp |
| Pretax Margin | 19.87 | 92 bp | 17.86 | (201) bp | 16.78 | (108) bp | 15.09 | (169) bp | 20.36 | NM | 22.60 | 224 bp | 23.42 | 82 bp | 24.06 | 64 bp | 24.72 | 66 bp | 25.32 | 60 bp | 25.91 | 59 bp |
| Net Margin | 12.42 | 76 bp | 11.16 | (125) bp | 10.49 | (68) bp | 9.31 | (118) bp | 12.62 | 332 bp | 12.32 | (31) bp | 13.03 | 72 bp | 13.55 | 52 bp | 14.09 | 54 bp | 14.59 | 51 bp | 15.08 | 49 bp |
| Tax Rate | 37.50 | (100) bp | 37.50 | (0) bp | 37.50 | (0) bp | 38.30 | 80 bp | 38.00 | (30) bp | 38.00 | 0 bp | 38.00 | 0 bp | 38.00 | 0 bp | 38.00 | 0 bp | 38.00 | 0 bp | 38.00 | 0 bp |

Source: The company and Onboard Consulting estimates

Disclosures

Reg AC, Analyst Certification

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Research Coverage Universe

| Company | 3.22.2006 | Initiation Price | 12-month Target Price |
|-------------------------|-----------|------------------|-----------------------|
| IHOP Corporation (IHOP) | \$48.35 | \$47.35 | \$50 |
| Chipotle (CMG) | \$54.50 | \$45.48 | \$53 |

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Onboard defines itself as sector specific analysts. As a result, we only follow a number of restaurant and retail stocks. Onboard's approach is to initiate and provide research on stocks we personally choose to cover. Onboard’s stock rankings system is meant to assist clients in making decisions by defining investment rankings regarding the companies we sponsor in research coverage. All of the rankings correspond to a specific investment action that Onboard recommends taking on the date the research is published. It has been our practice to generate an informational company review when we initiate coverage. A Buy ranking could accompany a price target. These company reviews generally entail that additional information about the company that is needed to determine or clarify the companies approach to the growth opportunity. Thus, "Buy" rankings are presented only for stocks that we would be actively buying at the time the research is published. These are stocks that are demonstrating their vision while meeting expectation and are expected to appreciate at least 15% over the next 12 to 18 months. "Neutral" rankings are presented for stocks that we recommend holding. These are stocks that are making progress strategically and operationally but are not expected to demonstrate significant appreciation in the next 12 to 18 months. "Sell" rankings are assigned to stocks where a Onboard analyst anticipates a stock price decline for any reason. These are stocks that appear not to be able to fulfill or deliver on their disclosed milestones and are expected to depreciate at least 15% over the next 12 to 18 months. In the event an analyst's coverage is terminated, there is a requirement that firms notify investors when coverage is dropped. This notice must include a final ranking or recommendation. The rule specifically calls for notice to be made in the same manner as when research coverage was first initiated.

Distribution of Rankings

| Ranking | Definition |
|---------|---|
| BUY | Stocks ranked "Buy" are those stocks Onboard recommend actively buying. These are stocks that are demonstrating their vision while meeting expectation and should appreciate at least 15% over the next 12 to 18 months. |
| Neutral | Stocks ranked "Neutral" are those stocks Onboard would continue to hold in a portfolio. These are stocks that are making progress strategically and operationally but are not expected to demonstrate significant appreciation in the next 12 to 18 months. |
| SELL | Stocks ranked "Sell" are those Onboard would sell; these are stocks that appear not to be able to fulfill or deliver on their disclosed milestones and are expected to depreciate at least 15% over the next 12 to 18 months. |

Distribution of Rankings Breakdown

| | Buy | Neutral | Sell |
|-------------------------|------|---------|------|
| Companies Ranked | 50 % | 50% | 0% |

Onboard Equity Research, Inc. (Onboard) has an investment ranking on 2 equity securities in 2006. Onboard uses 3 ratings- Buy, Neutral, and Sell - reflecting expected stock price performance relative to our analyst's coverage universe with a 12 to 18 month time horizon.

Company Ranking Time Definition

IHP



| | | | | |
|--------------------------|----------------------|--|--|--|
| Initiation 12-26-2005 | "Hold" 12-26-2005 | | | |
|--------------------------|----------------------|--|--|--|

CMG



| | | | | |
|------------------------|-------------------|--|--|--|
| Initiation 3-3-2006 | "Buy" 3-3-2006 | | | |
|------------------------|-------------------|--|--|--|

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