



Del Frisco's Restaurant Group, Inc. Announces Fourth Quarter 2016 Results

Company Provides Outlook for Fiscal Year 2017

SOUTHLAKE, Texas, Feb. 24, 2017 (GLOBE NEWSWIRE) -- Del Frisco's Restaurant Group, Inc. (NASDAQ:DFRG), the owner and operator of the Del Frisco's Double Eagle Steak House, Sullivan's Steakhouse, and Del Frisco's Grille restaurant concepts, reported financial results today for the fourth quarter ended December 27, 2016. The Company also provides its outlook for the fiscal year 2017.

Key highlights from the fourth quarter 2016 compared to the fourth quarter 2015 include:

- | Consolidated revenues increased 4.4% to \$119.2 million from \$114.1 million.
- | Total comparable restaurant sales increased 0.8%.
 - Comparable restaurant sales increased 0.1% at Del Frisco's Double Eagle Steak House comprised of a 0.5% increase in average check and 0.4% decrease in customer counts.
 - Comparable restaurant sales increased 0.9% at Sullivan's Steakhouse comprised of a 1.5% decrease in average check and 2.4% increase in customer counts.
 - Comparable restaurant sales increased 2.1% at Del Frisco's Grille comprised of a 1.5% increase in average check and 0.6% increase in customer counts.
- | Cost of sales, as a percentage of consolidated revenues, improved to 27.8% from 29.0%.
- | GAAP Net Income of \$7.1 million, or \$0.30 per diluted share, compared to GAAP Net Income of \$7.9 million, or \$0.34 per diluted share.
- | Adjusted Net Income* of \$8.6 million, or \$0.37 per diluted share, compared to Adjusted Net Income of \$8.3 million, or \$0.36 per diluted share.
- | Restaurant-level EBITDA* increased 8.7% to \$27.8 million from \$25.6 million.
- | Opened two Del Frisco's Grilles and relocated one Del Frisco's Double Eagle Steak House.

Key highlights from the fiscal year 2016 compared to the fiscal year 2015 include:

- | Consolidated revenues increased 6.1% to \$351.7 million from \$331.6 million.
- | Total comparable restaurant sales decreased 0.8%.
 - Comparable restaurant sales decreased 1.2% at Del Frisco's Double Eagle Steak House.
 - Comparable restaurant sales decreased 0.2% at Sullivan's Steakhouse.
 - Comparable restaurant sales decreased 0.7% at Del Frisco's Grille.
- | Cost of sales, as a percentage of consolidated revenues, improved to 28.2% from 28.9%.
- | GAAP Net Income of \$17.8 million, or \$0.76 per diluted share, compared to GAAP Net Income of \$16.0 million, or \$0.68 per diluted share.
- | Adjusted Net Income* of \$19.5 million, or \$0.83 per diluted share, compared to Adjusted Net Income of \$18.5 million, or \$0.79 per diluted share.
- | Restaurant-level EBITDA* increased 4.7% to \$74.9 million from \$71.6 million.
- | Opened three Del Frisco's Grilles and relocated one Del Frisco's Double Eagle Steak House.

* Adjusted Net Income and Restaurant-level EBITDA are non-GAAP measures. For a reconciliation of Adjusted Net Income and Restaurant-level EBITDA to GAAP net income and why we consider them useful, see the reconciliation of non-GAAP measures accompanying this release.

Norman Abdallah, Chief Executive Officer of Del Frisco's Restaurant Group, Inc., said, "Our blended 0.8% increase in comparable restaurant sales during the fourth quarter 2016 marked the first time that all three concepts generated growth and we are encouraged that these positive trends have since continued into the first quarter of 2017. Still, as we focus on differentiating the brands and elevating the guest experience through various menu, service, and marketing initiatives, we remain cautious in projecting comparable restaurant sales growth this year given the current state of our industry."

Abdallah continued, "Since taking the CEO role last November, I have worked with our leadership team and board to

strengthen our operating platform. Specifically, we have already realigned our organization by implementing Brand Presidents to lead each concept and foster greater brand distinction, we have engaged a strategy consulting firm to conduct consumer research on Del Frisco's Grille, and we are working to enhance our technology platform and identify cost savings within our supply chain and distribution channels. While the significant investments we are incurring this year for onboarding talent and various professional service fees will limit margin growth, we strongly believe they will pay dividends for our business well into the future."

Abdallah concluded, "We are also in the midst of planning and implementing long-term growth strategies for all three concepts. This year, we will be opening a Del Frisco's Double Eagle in Plano, TX and a Del Frisco's Grille in New York City, while our Del Frisco's Grille in Westwood, MA featuring our 'Grille of the future' prototype is now scheduled to open in early 2018. We believe Del Frisco's Grille has considerable development opportunity ahead of it and we will be incorporating learnings from our consumer research project into selecting future real estate sites. Sullivan's Steakhouse will be embarking on a franchise program by year-end targeting small to medium tier markets while we prune the brand of underperforming assets. We are also likely to open two Del Frisco's Double Eagle restaurants in 2018 as we start accelerating development of our flagship brand. Our intention, as always, is to allocate our capital resources properly to the most promising opportunities."

Review of Fourth Quarter 2016 Operating Results

Consolidated revenues increased \$5.1 million, or 4.4%, to \$119.2 million in the fourth quarter of 2016 from \$114.1 million in the fourth quarter of 2015. Total net operating weeks increased to 828 from 813. Total comparable restaurant sales increased 0.8% in the fourth quarter of 2016 following a total comparable restaurant sales decrease of 2.2% in the fourth quarter of 2015. All three restaurant concepts generated positive comparable restaurant sales in the fourth quarter of 2016 despite a 110-basis-point negative impact from our locations in the oil-challenged Houston market.

General and administrative costs increased to \$9.0 million in the fourth quarter of 2016 from \$6.5 million in the fourth quarter of 2015. The increase was due in part to \$0.8 million in reorganizational severance charges and increased legal costs. As a percentage of consolidated revenues, general and administrative costs rose to 7.5% from 5.7%.

GAAP Net Income was \$7.1 million, or \$0.30 per diluted share, in the fourth quarter of 2016 compared to GAAP Net Income of \$7.9 million, or \$0.34 per diluted share, in the fourth quarter of 2015.

Adjusted Net Income* was \$8.6 million, or \$0.37 per diluted share, in the fourth quarter of 2016 compared to Adjusted Net Income of \$8.3 million, or \$0.36 per diluted share, in the fourth quarter of 2015. For the fourth quarter of 2016, adjusted net income included adjustments of \$0.9 million for lease termination costs, \$0.8 million for reorganization severance charges, and \$0.6 million for impairment charges. For the fourth quarter of 2015, adjusted net income primarily included an adjustment of \$1.4 million for lease termination and closing costs.

Restaurant-level EBITDA* increased \$2.2 million, or 8.7%, to \$27.8 million in the fourth quarter of 2016 from \$25.6 million in the fourth quarter of 2015. As a percentage of consolidated revenues, restaurant-level EBITDA increased to 23.4% from 22.4%.

Outlook

The following statements are not guarantees of future performance, and therefore, undue reliance should not be placed upon them. We refer all of you to our recent filings with the SEC for a more detailed discussion of the risks that could impact our future operating results and financial condition.

Based upon current information, we are providing guidance for the 52-week fiscal year 2017, which ends on December 26, 2017.

- n Total comparable restaurant sales of -0.5% to 0.5%. **
- n One Del Frisco's Double Eagle Steak House and one Del Frisco's Grille opening.
- n Two Sullivan's Steakhouse closings.
- n Cost of sales of 27.8% to 28.2% of consolidated revenues.
- n Restaurant-level EBITDA* of 21.1% to 21.4% of consolidated revenues.
- n General and administrative costs of approximately \$27.4 million to \$27.9 million.
- n Consulting engagement costs of approximately \$2.9 million to \$3.1 million, most of which will be incurred in first half of the year.
- n Pre-opening costs of approximately \$2.1 million to \$2.4 million.
- n Effective tax rate of approximately 29% to 31%.
- n Gross capital expenditures (before tenant allowances and inclusive of remodels and expenditures related to 2018 openings) of \$32.8 million to \$33.8 million.
- n Annual adjusted net income* per diluted share between \$0.80 and \$0.84. (Excludes consulting engagement costs referenced above and assumes no share repurchases.)

** includes expected impact of the elimination of lunch operating hours in selected Sullivan's Steakhouse markets.

We have not reconciled guidance for Annual adjusted net income per diluted share to the corresponding GAAP financial measures because we do not provide guidance for the various reconciling items. We are unable to provide guidance for these reconciling items because we cannot determine their probable significance, as certain items are outside of our control and cannot be reasonably predicted due to the fact that these items could vary significantly from period to period. Accordingly, reconciliations to the corresponding GAAP financial measures are not available without unreasonable effort.

Stock Repurchase

During the fourth quarter of 2016, we repurchased 303,187 shares of common stock for \$4.8 million under the authority provided by our Board of Directors in October 2014. At year-end, there was \$17.2 million remaining under our current authorization. Subsequently, our Board of Directors has approved an increase to the remaining authorization to \$50 million to be utilized for the repurchase of our common stock. We will continue putting our capital to work in the right way and view share repurchases as an effective means to enhance value for our shareholders.

Development

During the fourth quarter of 2016, we completed the relocation of the Del Frisco's Double Eagle Steak House in North Dallas to Uptown Dallas as well as opened two Del Frisco's Grille locations in Nashville, TN and Brentwood, TN.

For fiscal year 2017, we will be opening a Del Frisco's Double Eagle Steak House in Plano, TX and a Del Frisco's Grille in downtown New York City. The Del Frisco's Grille in Westwood, MA is now expected to open in early 2018.

Conference Call

We will host a conference call to discuss the financial results for the fourth quarter 2016 ended December 27, 2016 today at 7:30 AM Central Time. Hosting the conference call will be Norman Abdallah, Chief Executive Officer, and Tom Pennison, Chief Financial Officer.

The conference call can be accessed live over the phone by dialing 913-312-0687. A replay will be available afterwards and can be accessed by dialing 858-384-5517; the passcode is 1973109. The replay will be available until Friday, March 3, 2017.

The conference call will also be webcast live from our corporate website at www.DFRG.com under the investor relations section. An archive of the webcast will also be available through the corporate website shortly after the conference call has concluded.

About Del Frisco's Restaurant Group, Inc.

Based in Southlake, Texas, near Dallas, Del Frisco's Restaurant Group, Inc. is a collection of 53 restaurants across 24 states and Washington, D.C., including Del Frisco's Double Eagle Steak House, Sullivan's Steakhouse, and Del Frisco's Grille. Del Frisco's Double Eagle Steak House serves up flawless cuisine that's bold and delicious, an extensive award-winning wine list and a level of service that reminds guests that they're the boss. Sullivan's Steakhouse is a great neighborhood place for a big night out on the town - with outstanding food, hand-shaken martinis, an award winning wine list, and live entertainment all under one roof. Del Frisco's Grille is modern, inviting, stylish and fun, taking the classic bar and grill to new heights, and drawing inspiration from bold flavors and market-fresh ingredients.

For further information about our restaurants, to make reservations, or to purchase gift cards, please visit: www.DelFriscos.com, www.SullivansSteakhouse.com, and www.DelFriscosGrille.com. For more information about Del Frisco's Restaurant Group, Inc., please visit www.DFRG.com.

Forward-Looking Statements

Certain statements in this press release, including statements under the heading "Outlook" are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. We use words such as "anticipate", "believe", "could", "should", "estimate", "expect", "intend", "may", "predict", "project", "target", and similar terms and phrases, including references to assumptions, to identify forward-looking statements. The forward-looking statements in this press release are based on information available to us as of the date any such statements are made and we assume no obligation to update these forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in the statements. These risks and uncertainties include, but are not limited to, the following: factors that could affect our ability to achieve and manage our planned expansion, such as the availability of a sufficient number of suitable new restaurant sites and the availability of qualified employees; the uncertainty of our ability to achieve expected levels of comparable restaurant sales increases; the performance of new restaurants and their impact on existing restaurant sales; increases in the cost of food ingredients and other key supplies; the risk of food-borne illnesses and other health concerns about our food; the potential for increased labor costs or difficulty retaining qualified employees, including as a result of immigration enforcement activities; risks relating to our expansion into new markets; the impact of federal, state or local government regulations relating to our employees and the sale of food or alcoholic

beverages. Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in our reports filed with the Securities and Exchange Commission.

DEL FRISCO'S RESTAURANT GROUP, INC.
Condensed Consolidated Income Statements - Unaudited
(amounts in thousands, except share and per share data)

| | 16 weeks ended | | | | 52 weeks ended | | | |
|---|----------------------|--------|----------------------|--------|----------------------|--------|----------------------|--------|
| | December 27, 2016 | | December 29, 2015 | | December 27, 2016 | | December 29, 2015 | |
| Revenues | \$ 119,164 | 100.0% | \$ 114,104 | 100.0% | \$ 351,681 | 100.0% | \$ 331,612 | 100.0% |
| Costs and expenses: | | | | | | | | |
| Costs of sales | 33,089 | 27.8% | 33,123 | 29.0% | 99,181 | 28.2% | 95,963 | 28.9% |
| Restaurant operating expenses | 55,232 | 46.3% | 52,504 | 46.0% | 169,300 | 48.1% | 156,337 | 47.1% |
| Marketing and advertising costs | 2,994 | 2.5% | 2,863 | 2.5% | 8,260 | 2.3% | 7,745 | 2.3% |
| Pre-opening costs | 1,472 | 1.2% | 1,439 | 1.3% | 3,446 | 1.0% | 5,228 | 1.6% |
| General and administrative costs | 8,971 | 7.5% | 6,500 | 5.7% | 25,924 | 7.4% | 23,111 | 7.0% |
| Lease termination and closing costs | 940 | 0.8% | 1,386 | 1.2% | 1,031 | 0.3% | 1,386 | 0.4% |
| Impairment charges | 598 | 0.5% | (90) | -0.1% | 598 | 0.2% | 3,248 | 1.0% |
| Depreciation and amortization | 6,112 | 5.1% | 5,776 | 5.1% | 18,865 | 5.4% | 16,776 | 5.1% |
| | 109,408 | 91.8% | 103,501 | 90.7% | 326,605 | 92.9% | 309,794 | 93.4% |
| Operating income | 9,756 | 8.2% | 10,603 | 9.3% | 25,076 | 7.1% | 21,818 | 6.6% |
| Other income (expense), net: | | | | | | | | |
| Interest expense | (19) | -0.0% | (33) | -0.0% | (70) | 0.0% | (77) | -0.0% |
| Other | (7) | 0.0% | 2 | 0.0% | (432) | -0.1% | (236) | -0.1% |
| Income before income taxes | 9,730 | 8.2% | 10,572 | 9.3% | 24,574 | 7.0% | 21,505 | 6.5% |
| Income tax expense | 2,605 | 2.2% | 2,646 | 2.3% | 6,808 | 1.9% | 5,507 | 1.7% |
| Net income | \$ 7,125 | 6.0% | \$ 7,926 | 6.9% | \$ 17,766 | 5.1% | \$ 15,998 | 4.8% |
| Basic income per share | \$ 0.31 | | \$ 0.34 | | \$ 0.76 | | \$ 0.68 | |
| Diluted income per share | \$ 0.30 | | \$ 0.34 | | \$ 0.76 | | \$ 0.68 | |
| Shares used in computing net income per common share: | | | | | | | | |
| Basic | 23,282,119 | | 23,298,147 | | 23,321,967 | | 23,380,085 | |
| Diluted | 23,415,161 | | 23,308,180 | | 23,434,898 | | 23,517,288 | |

DEL FRISCO'S RESTAURANT GROUP, INC.
Selected Balance Sheet Data - Unaudited
(dollar amounts in thousands)

| | December 27, 2016 | December 29, 2015 |
|------------------------------|----------------------|----------------------|
| Cash and cash equivalents \$ | 14,622 | \$ 5,176 |
| Total assets | 370,782 | 346,655 |
| Long-term debt | - | 4,500 |
| Total stockholders' equity | 246,366 | 227,699 |

Reconciliation of Non-GAAP Measures

We prepare our consolidated financial statements in accordance with generally accepted accounting principles (GAAP). Within our press release, we make reference to non-GAAP Adjusted Net Income, Adjusted EPS and Restaurant-level EBITDA. Adjusted Net Income represents GAAP net income plus the sum of GAAP income tax expense, impairment charges, lease termination and closing costs, easement clearance, reorganization severance charges, and third party lease guarantees, minus income tax expense at an effective tax rate of 29.0% during 2016, and 29.9% during 2015. We believe that this measure represents a useful internal measure of performance as it excludes certain non-operation related expenditures. Restaurant-level EBITDA is calculated by adding back to net income, income tax expense, other income (expenses), net, depreciation and amortization plus the sum of certain non-operating expenses, including pre-opening costs, lease termination and closing costs, reorganization severance charges and general and administrative costs. We believe that this measure also represents a useful internal measure of performance. Accordingly, we include these non-GAAP measures so that investors have the same financial data that management uses in evaluating performance, and we believe that it will assist the investment community in assessing our underlying performance on a quarter-over-quarter basis. However, because these measures are not determined in accordance with GAAP, such measures are susceptible to varying calculations and not all companies calculate these measures in the same manner. As a result, these measures as presented may not be directly comparable to a similarly titled measures presented by other companies. These non-GAAP measures are presented as supplemental information and not as alternatives to any GAAP measurements. The following tables include a reconciliation of net income to adjusted net income and net income to restaurant-level EBITDA:

Net Income to Adjusted Net Income Reconciliation

| <i>\$ in thousands</i> | 16 Weeks Ended | | 52 Weeks Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2016 | December 29, 2015 | December 27, 2016 | December 29, 2015 |
| Adjusted Net Income: | | | | |
| GAAP Net Income | \$ 7,125 | \$ 7,926 | \$ 17,766 | \$ 15,998 |
| GAAP Income Tax Expense | 2,605 | 2,646 | 6,808 | 5,507 |
| Lease termination and closing costs | 940 | 1,386 | 1,031 | 1,386 |
| Reorganization severance | 793 | - | 793 | - |
| Day Star (dba Lone Star Steakhouse) lease guarantees | - | - | - | 210 |
| Easement clearance on sale of property | - | - | 500 | - |
| Impairment charges | 598 | (90) | 598 | 3,248 |
| Adjusted Pre-tax Income | 12,061 | 11,868 | 27,496 | 26,349 |
| Income Tax | 3,498 | 3,549 | 7,974 | 7,878 |
| Adjusted Net Income | <u>\$ 8,563</u> | <u>\$ 8,319</u> | <u>\$ 19,522</u> | <u>\$ 18,471</u> |
| Adjusted Net Income per diluted share | <u>\$ 0.37</u> | <u>\$ 0.36</u> | <u>\$ 0.83</u> | <u>\$ 0.79</u> |

Net Income to Restaurant-Level EBITDA Reconciliation

| <i>\$ in thousands</i> | 16 weeks ended | | 52 weeks ended | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2016 | December 29, 2015 | December 27, 2016 | December 29, 2015 |
| GAAP Net Income | \$ 7,125 | \$ 7,926 | \$ 17,766 | \$ 15,998 |
| Add: | | | | |
| GAAP Income tax expense | 2,605 | 2,646 | 6,808 | 5,507 |
| Other (income) expenses, net | 26 | 31 | 502 | 313 |
| Pre-opening costs | 1,472 | 1,439 | 3,446 | 5,228 |
| General and administrative costs | 8,971 | 6,500 | 25,924 | 23,111 |
| Lease termination and closing costs | 940 | 1,386 | 1,031 | 1,386 |
| Non-cash impairment charges | 598 | (90) | 598 | 3,248 |
| Depreciation and amortization | 6,112 | 5,776 | 18,865 | 16,776 |
| Restaurant-level EBITDA | <u>\$ 27,849</u> | <u>\$ 25,614</u> | <u>\$ 74,940</u> | <u>\$ 71,567</u> |

| | | | | | | | | |
|---------------------------------|----------|-------|---------|-------|---------|-------|----------|-------|
| Cost of sales | 48,479 | 30.0% | 23,703 | 30.0% | 23,781 | 26.2% | 95,963 | 28.9% |
| Labor | 37,110 | 22.9% | 23,107 | 29.3% | 29,299 | 32.3% | 89,516 | 26.9% |
| Operating expenses | 17,130 | 10.6% | 11,646 | 14.7% | 12,546 | 13.8% | 41,322 | 12.5% |
| Occupancy | 10,447 | 6.5% | 5,113 | 6.5% | 9,939 | 10.9% | 25,499 | 7.7% |
| Restaurant operating expenses | 64,687 | 40.0% | 39,866 | 50.5% | 51,784 | 57.0% | 156,337 | 47.1% |
| Marketing and advertising costs | 2,806 | 1.7% | 2,344 | 3.0% | 2,595 | 2.9% | 7,745 | 2.3% |
| Restaurant-level EBITDA | 45,837 | 28.3% | 13,070 | 16.5% | 12,660 | 13.9% | 71,567 | 21.6% |
| Restaurant operating weeks | 591 | | 957 | | 936 | | 2,484 | |
| Average weekly volume | \$ 273.8 | | \$ 82.5 | | \$ 97.0 | | \$ 133.5 | |

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