

ALSEA: A NEW CEO COMES ON BOARD

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“This transition is the most important Alsea has confronted.”—Independent Alsea director

Renzo Casillo had been busy since his appointment as the chief executive officer (CEO) of Alsea, a family-founded conglomerate, was announced in November 2016. From mid-November to mid-March, he had been out in the field visiting and learning about Alsea’s various restaurant operations, and most importantly, getting to know many of the Alsea people—and not just the senior managers but also many of the frontline employees. As Casillo did not have a background in the restaurant business, those months in the field had provided a valuable learning experience. He was to assume his duties as CEO after his intense induction period. That first day back in the office, Casillo and Alberto Torrado had set aside the morning to meet. The agenda was open. Torrado, one of the founders of Alsea, was executive chairman of Alsea’s board and had been one of Alsea’s CEOs. Casillo knew Torrado would want to hear what he had learned from his time in the field and discuss his immediate and longer-term priorities. During his recruitment process, Casillo had spoken with Torrado many times and at some length. He was looking forward to working with him. In addition to his meeting with Torrado, Casillo had scheduled meetings with most of the other Alsea senior executives and the independent members of the board of directors during the remainder of that week (see Exhibits 1 and 2).

BACKGROUND

Alsea’s precursor company began in 1990 as a Domino’s Pizza (Domino’s) franchisee in a suburb of Mexico City. In those early days, the young Torrado brothers and their families “lived for the pizza shops, working directly in the operations.”¹ The entrepreneurial founders were close to their employees. When Domino’s International decided to have a master franchisor for Mexico, the Torrado brothers’ proposal was accepted. The Domino’s formula proved to be successful, and substantial growth ensued. Subsequently, agreements with other international franchise operators were added to Alsea’s portfolio, notably Burger King and Starbucks, enabling further growth.

¹ José Antonio Davila and Daniela Clavijo, *Alsea* (Mexico City, Mexico: IPADE, 2016).

Alsea quickly grew to become the leading quick service restaurant (QSR), coffee shop, casual dining, and family restaurant business in Latin America and Spain (see Exhibit 3). Alsea had more than 3,000 corporate and sub-franchisee restaurant units under 14 different brands in six countries (see Exhibit 4) in Latin America and Europe. Alsea also operated a large distribution business (Distribuidora e Importadora Alsea, or DIA) to supply its Mexican restaurants with most of their consumables. Revenues had grown at a compound annual growth rate (CAGR) of more than a 24.4 per cent during the past five years, reaching MXN\$37.7 billion² for 2016. The earnings before interest, taxes, depreciation, and amortization (EBITDA) and operating income were, respectively, 19.8 per cent and 17.6 per cent of sales, and had grown more rapidly than revenues. Current sales were 69 per cent from Mexico, 14.1 per cent from South America, and 16 per cent from Spain. Alsea had more than 65,000 employees. See Exhibit 5A for financial results for the past five years.

In the fourth quarter of 2015, Alsea had announced the following five-year goals for 2020: sales to grow at a CAGR of more than 15 per cent; EBITDA to grow at a CAGR in the high teens; EBITDA margin expansion to be more than 15 per cent; dividends to be more than an accumulated \$5; adjusted earnings per share to grow at a CAGR of more than 25 per cent; and return on invested capital and return on earnings to be more than 20 per cent. On January 23, 2017, Alsea announced its guidance to investors for 2017 (see Exhibit 5B), which indicated that the company expected to open between 170 and 190 Alsea proprietary restaurants and between 50 and 60 sub-franchisee restaurant units.

In the guidance for 2017, Alberto Torrado, Alsea's chairman of the board, stated:

We ended 2016 with a positive trend in consumption, where even with the pressure generated by the exchange rate of the Mexican peso against the dollar, we will succeed in surpassing the goal proposed in our guidance, which was to exceed 5 billion pesos in our consolidated EBITDA, mainly due to a growth in same-store sales above estimates and a record year in the number of openings of corporate units.

The company currently has a solid position in the industry, backed by a broad portfolio of brands that serve different demographic segments, as well as the geographically diversified structure with which it operates, where more than 45 per cent of the company's total consolidated sales will come from Alsea International. We remain focused on the continuous operational improvement of our units, always seeking to add profitability to our consolidated results and continuing to generate value for our shareholders.

Diego Gaxiola, Alsea's finance and administration director, said:

Thanks to the geographic diversification of Alsea's business portfolio, we are in a much better position to face the effects that the devaluation of the Mexican peso will have on our results; this is why today each peso of devaluation affects us slightly above 1 per cent of the estimated EBITDA for 2017, and this is without executing any pricing strategies and operating efficiencies. During 2017, we will accelerate our savings plan of administrative expenses and operational efficiencies in stores, so that through these actions we manage to compensate part of the pressure in margins due to the inflationary effects that we estimate for the year, as well as for the extraordinary expenses derived from the launch of operations of the COA [Centro de Operaciones, the new Alsea Operations Center], which will have a negative effect of approximately 25 basis points in the EBITDA margin.

² \$ = MXN = Mexican peso; all currency amounts are in MXN\$ unless otherwise specified; US\$1 = MXN\$20.4745 on December 1, 2016.

Quick Service Restaurants (QSRs)

Alsea operated 1,590 units in the QSR segment under the Domino's and Burger King brands. In 2016, approximately 50 per cent of Alsea's sales had come from this segment. QSRs were characterized by fixed menus, quickly delivered food, no tableside service, and either limited or non-existent customer seating. In Latin America, QSRs were perceived as a discretionary expense, were sensitive to consumers' discretionary incomes, and faced pressure from the newly popular fast casual model, which offered options that were considered to be healthier. QSRs also relied on high and repeat purchase frequency, due to the lower overall price per bill.

Coffee Shops

Alsea operated 803 coffee shops for Starbucks International. A coffee shop primarily served hot coffee, related coffee beverages, tea, and other hot beverages. Many also served cold beverages such as iced coffee and iced tea, as well as some type of food, such as light snacks, muffins, or pastries. Coffee shops ranged from owner-operated small businesses to large multinational corporations. Of Alsea's total sales, 22 per cent came from its coffee shops.

Casual Dining

Alsea operated 498 units in the casual dining industry under 10 brands, including Foster's Hollywood, Italianni's, El Portón, P. F. Chang's, and Chili's Bar & Grill. In 2016, 23 per cent of the company's sales came from the casual dining segment. Casual dining was typically defined as restaurants where servers took orders in an informal, family-friendly atmosphere. The food served in these restaurants ranged from fast food to gourmet, but brands strived to offer reasonable prices. Casual dining demand in Latin America was perceived to be highly cyclical and tied to the performance of the local economy.

Family Dining

In 2014, Alsea had entered the family dining restaurant segment with the 252 VIPS units it had acquired from Walmart Mexico. In 2016, 15 per cent of Alsea's sales came from this segment. Family dining was characterized by low-cost, simple dining options served in a family-friendly environment. In Mexico, this segment had been highly fragmented. However, VIPS represented one of the largest family dining chains in the country. This segment, especially VIPS, was believed to be more recession-proof, due to the low-price perception of the offerings.

Distribuidora e Importadora Alsea (Alsea Distributor and Importer—DIA)

In 1992, Alsea entered the distribution industry in an effort to support its Domino's restaurants and capture economies of scale. Alsea's distribution operation imported and distributed raw materials needed for its food services operations through five distribution centres, one commissary, and three sandwich assembly locations in Mexico. Alsea also owned a distribution centre in Colombia and four facilities operated by third parties in Argentina and Colombia. As a highly specialized distribution operator, Alsea faced little competition and had leveraged DIA to reduce costs and support its stores and sub-franchisees.

successfully through various economic downturns. In 2016, DIA accounted for 4 per cent of Alsea's sales and 12 per cent of the company's EBITDA.

Retail and Distribution

In 2013, Alsea had acquired a 25 per cent stake in Grupo Axo, an apparel, cosmetics, housewares, and home furnishings distributor and retailer. It represented 2.8 per cent of Alsea's consolidated net earnings. Grupo Axo distributed through 2,276 locations within department stores and 116 stand-alone retail stores selling high-end fashion brands, such as Marc Jacobs, Brooks Brothers, and Kate Spade.³ While Grupo Axo operated primarily in Mexico, it planned to expand to additional Latin American markets. Although it was a profitable business venture, its shares could be sold at a substantial gain, allowing Alsea to focus on its restaurant brands. But, some Alsea executives and at least one board member saw value in Grupo Axo and believed its operations could utilize some of the same competencies Alsea had developed in the QSR restaurant segment, particularly if Alsea acquired all of Grupo Axo and perhaps divested several casual dining brands.

INDUSTRY AND ENVIRONMENTAL ANALYSIS

Alsea primarily operated in four food service industries: coffee shops, quick service restaurants (QSRs), family dining, and casual dining (see Exhibit 6). The food service industry in Latin America was highly fragmented and informal. Although the use of credit and debit cards was increasing, cash payment for restaurant meals was still commonplace. Consequently, many of Alsea's smaller competitors, especially in Mexico and Brazil, did not fully account for all their revenues, thereby avoiding taxes and realizing lower costs. Food service had also recently evolved through Latin America, with greater consumer demand for healthier options and a wider availability of quick service food offerings and fresh coffee.⁴ Fortunately, these trends were a focus for Alsea, which worked consistently to evolve its menu offerings and ensure that its brands were keeping up with market trends.

While Alsea primarily operated in Mexico, it had expanded operations into Argentina, Chile, Colombia, Brazil, and Spain. While the VIPS chains were perceived to be lower-priced and therefore less volatile to the state of the economy, most of Alsea's other offerings were considered more discretionary and were tied to consumer confidence.

In Mexico, which accounted for more than 70 per cent of Alsea's EBITDA, the economy had seen consistent economic growth and a rise in consumer spending.⁵ However, new uncertainty emerged after Donald J. Trump was elected U.S. president in November 2016. During his election campaign, Trump had called for a border wall to be built between Mexico and the United States. The president had also promised significant amendments to, or the revocation of, the North American Free Trade Agreement. Upon taking office in January 2017, President Trump's relationship with Mexico's President Enrique Peña Nieto had become further strained, resulting in President Nieto cancelling his first visit to the United States after President Trump renewed vows to have Mexico pay for the planned border wall.⁶ This political uncertainty had caused significant fluctuations in the value of the Mexican peso relative to the

³ Robert E. Ford Aguilar, Melissa Byun and Vinicius Saraiva, *Bank of America Merrill Lynch Alsea Analyst Report 2016*, 5.

⁴ Aguilar, Byun and Saraiva, *op. cit.*, 24.

⁵ Aguilar, Byun and Saraiva, *op. cit.*, 7.

⁶ David Agren, Ben Jacobs, and Julian Borger, "Mexican President Cancels U.S. Visit over Trump's Order to Build Border Wall," *Guardian*, January 26, 2017, accessed February 3, 2017, www.theguardian.com/world/2017/jan/26/mexican-president-cancels-us-visit-border-wall-nieto-trump.

U.S. dollar. After the United States election, the peso had fallen 13 per cent, the largest drop since 1994, and had not recovered by the end of January 2017.⁷ Alsea had responded by reducing its capital expenditures in Mexico by roughly 50 per cent. The company had also begun to focus its efforts toward improving Alsea's bottom line, given uncertainty about top-line revenue growth due to a reduction in consumer confidence in the country.⁸

Uncertainty also continued in Alsea's other Latin American markets. Argentina had started to see a rebound in its economy. However, consumer uncertainty had led to lowered demand. Colombia had seen multi-year lows in consumer confidence but a recovery was expected. Chile had been growing slowly, and expected labour reforms could potentially raise costs for Alsea in the future.⁹

In 2014, Alsea entered Spain with its purchase of 71.76 per cent of Grupo Zena, which operated Burger King, Foster's Hollywood, Cañas y Tapas, LAVACA, Il Tempietto, and the master franchise for Domino's in Spain.¹⁰ As a result of this acquisition, Alsea now operated 498 restaurants in Spain. Spain's economy had begun to turn around in 2014 and continued to report positive growth. Unemployment, while down from a high of 26.9 per cent in 2013, was still relatively high at 21 per cent in 2016. Consumers were still highly leveraged following the years of economic downturn, and there was political uncertainty after the 2015 general elections. Roughly 19 per cent of Alsea's revenue currently came from Spain, making this country's economic future of great concern.¹¹

Brazil was one of Alsea's biggest challenges. In the past, this country had been a bright spot for Alsea, given its growing middle class; however, Brazil now faced political uncertainty, rising unemployment, and real wage erosion that had led to a shrinking economy.¹² While Brazil represented only 1 per cent of Alsea's sales through three P. F. Chang's locations, Alsea had signed master franchise agreements with P. F. Chang's and The Cheesecake Factory to open new locations in Brazil over the next few years. Brazil's economic outlook made at least one board member question the near-term growth prospects for this region. In addition, whereas Spanish was the main language in the other five countries in which Alsea operated, in Brazil it was Portuguese.

RECENT GROWTH

Alsea's had achieved growth by adding more restaurants (for which it had franchising rights) and by acquiring brands, franchises, and master franchise rights to well-known restaurant brands. Acquisitions had been the focus of Alsea's activities over the past four years, when it acquired Grupo Zena (and its Spanish brands), Archie's (in Colombia), and VIPS. These acquisitions had taken many more resources than expected but had also provided much growth.¹³ The company had achieved its most profitable year ever in 2015, just one year after the VIPS acquisition. While Alsea had been focused on growth, margin improvement was also a key objective. The company was consistently working to drive increased year-over-year, same-store sales while also increasing operational efficiencies. Alsea had also consistently invested in its centralized distribution and procurement, real estate operations, and human resource processes, which it managed through its head office. Also, one of Alsea's primary advantages was its

⁷ "USDMXN Spot Exchange Rate:USDMXN:CUR," Bloomberg Markets, accessed February 3, 2017, www.bloomberg.com/quote/USDMXN:CUR.

⁸ "Mexico Consumer Confidence Index: MXCFCONF:IND," Bloomberg Markets, accessed February 3, 2017, www.bloomberg.com/quote/MXCFCNF:IND.

⁹ Aguilar, Byun and Saraiva, op. cit., 8.

¹⁰ Davila and Clavijo, op. cit., 13.

¹¹ Aguilar, Byun and Saraiva, op. cit., 10.

¹² Aguilar, Byun and Saraiva, op. cit., 9.

¹³ Davila and Clavijo, op. cit.

demonstrated ability to efficiently replicate existing franchise business models such as Starbucks, Burger King, and Domino's. Another advantage was its strong reputation in Mexico and Latin America, which was considered vital to future growth.

OWNED BRANDS VERSUS FRANCHISING

To date, approximately 70 per cent of Alsea's annual revenue was generated through third-party and franchised brands that were not proprietary to Alsea. Alsea was good at replicating restaurants within an established franchise formula. Master franchising rights allowed Alsea to both own locations (i.e., corporate stores) and license sub-franchisees. Alsea was so well established in the franchise space that it was invariably approached by any franchise restaurant chain considering a master franchise arrangement in Mexico or within Latin America. Although master franchise agreements had fixed expiry dates, they were typically renewed after some renegotiations (see Exhibit 7).

Although Alsea had been successful as a master franchisor, it owned and controlled the most recent additions to its brand portfolio. These brands, which had been acquired through the VIPS deal and the acquisition of Grupo Zena, had given Alsea ownership rights to Foster's Hollywood, Cañas y Tapas, and LAVACA. Ownership and control of these brands allowed Alsea the freedom to modify the formula and build out the chains either through corporate-owned stores or with franchisees. With this freedom came new complexities as Alsea sought not only to be a capable replicator with established formulae but also to be successful at growing and developing its own acquired brands.

LOOKING BACK

As Casillo reviewed Alsea's brands and their respective financial performances (see Exhibit 8), he recognized the big role Starbucks played in the company's overall positive results. For example, in the third quarter of 2016, Starbucks had accounted for 22 per cent of Alsea's sales and 25 per cent of its EBITDA. Conversely, Burger King had accounted for 21 per cent of Alsea's sales but only 11 per cent of its EBITDA. Casillo wondered whether there was room for improvement in the operations of the Burger King franchises or other efficiencies that could improve the chain's profitability.

The VIPS acquisition had added considerable revenue growth for Alsea. VIPS accounted for 15 per cent of Alsea's revenue and 15 per cent of its EBITDA. Typically, the restaurants that Alsea took on as part of its portfolio experienced year-over-year, same-store sales improvements and profit margin improvement. Most VIPS outlets were corporate-owned and co-located with Walmart stores. Establishing VIPS outlets at other locations and perhaps employing additional franchisees would enable more organic growth. While VIPS was a great opportunity for Alsea, Mexico lacked an infinite supply of similarly large acquisition targets to support future growth.

LEADERSHIP AND ORGANIZATIONAL CHANGE

Casillo's appointment marked the first time someone not involved with the founding or the early development of Alsea had become the CEO. The three Torrado brothers—Alberto, Cosme, and Armando—had been involved from the company's early days, and all brothers still served on Alsea's board and were significant shareholders (see Exhibit 9). Alberto, the original leader of the company, had remained the most engaged. However, Cosme and Armando continued to hold senior leadership positions at Alsea. Fabián Gosselin and Federico Tejado, both long-serving members of senior management, had

joined Alsea a few years after its founding from their own respective Burger King and Domino's franchises. Both Gosselin and Tejado had turned to Alberto Torrado for partnership during the financial crises in the early 1990s and then had contributed their stores to the Alsea portfolio; in return, they received equity stakes in the company, became proprietary board members, and joined active management.¹⁴ More recently, Steven J. Quamme, through Cartica (a U.S.-based alternative asset management firm focused on active ownership of companies in emerging markets) had acquired 9.9 per cent of Alsea's shares and negotiated a seat on the company's board.¹⁵

Casillo was aware that Alsea had recently undergone a reorganization. The most significant structural change was the creation of an international division with separate country heads for Spain, Argentina, Colombia, and Chile, all reporting to Fabián Gosselin. These country heads were responsible for all of Alsea's operations within their respective regions. The various brands located in Mexico reported to Federico Tejado. It was hoped this organizational change would enable and encourage more revenue growth outside of Mexico.

The members of Alsea's board of directors had assessed potential CEOs against two critical attributes: first, the need to be a great operator of a multi-business unit enterprise; and, second, the need to be a team builder with a strong focus on developing leaders. Casillo knew that the three Torrado brothers and Fabián Gosselin had previously served as Alsea's CEO and were proprietary board members (see Exhibits 1 and 2).

THE FIRST 90 DAYS

As Casillo stepped back and reflected on what he had learned about Alsea, he got out his notebook and started to plan for his meetings scheduled during the first week after his induction period. He knew that the first 90 days after his induction period would be critical, that great execution would be needed to accomplish Alsea's current strategic commitments (see Exhibit 5A), and that he was expected to work toward the five-year goals established in the fourth quarter of 2015. Despite not having a background in the restaurant business, Casillo had considerable organizational experience having worked at Walmart Mexico and Latin America in executive roles for nearly 18 years. How should he engage the current executives in building a world class senior management team? How could he best demonstrate his value to Alsea's board? Casillo did not have all of the answers regarding how he would achieve Alsea's short- and long-term goals, but he looked forward to his meetings with Alberto, the other members of Alsea's senior management team, and the independent members of Alsea's board of directors.

¹⁴ Davila and Clavijo, 5, op. cit.

¹⁵ "About Us," Cartica, accessed January 13, 2017, www.cartica.com/about-us/.

EXHIBIT 1: ALSEA'S MANAGING DIRECTORS

Alberto Torrado: Chair, board of directors (BOD) since 2007; born in Mexico City in 1963; graduated from Instituto Tecnológico Autónomo de México; postgraduate degree from Instituto Panamericano de Alta Dirección de Empresas (IPADE). Corporate director of Distribuidora e Importadora Alsea (DIA), 1998 to 2001; chair, BOD (2002); CEO, 2004 to 2007. Part of Alsea's management team since 1989.

Renzo Casillo: CEO; born in Colombia in 1964; bachelor of science degree in Management Data Processing/International Marketing, Northwest Missouri State University; led several Walmart businesses in Latin America: president/CEO, Walmart Puerto Rico, EVP/COO Walmart Brazil, and EVP & general director Self Service of Walmex. At Walmex, he reorganized Self Service's leadership structure and strengthened marketing and merchandising to increase operational productivity and improve the customer experience, resulting in same store sales growth that outpaced peers. Prior to joining Walmart, Casillo was president and general director at ICI Paints in Puerto Rico. Before that, he worked in various management positions for Procter & Gamble. Joined Alsea's management team in 2016.

Federico Tejado: Alsea Mexico; born in Puebla in 1960; degree from Universidad Nacional Autónoma de México; MBA from IPADE. CEO of Domino's Pizza Mexico, director of Casual Dining in 2010, director of Starbucks México 2011 to 2015. Joined Alsea's management team in 1997.

Fabián Gosselin: Alsea International; born in Mexico City in 1963; degree from Universidad del Nuevo Mundo; postgraduate degree in Business Administration, IPADE. First franchisee for Burger King in Mexico; CEO, Burger King & director, Alsea's Shared Services Center (SSC); CEO, Alsea, 2010 to 2015. Joined Alsea's management team in 1991.

Rafael Herrero: Alsea Spain; Economics/Business Administration, Universidad Complutense de Madrid & MBA, Instituto de Estudios Superiores de la Empresa (IESE) Business School; Deputy finance director, Leche Pascual Group; CFO, Grupo Uralita. Joined Zena Group in 2008 as CFO. Joined Alsea's management team in 2015.

Pablo de los Heros: Alsea Argentina; born in Buenos Aires in 1966; studied Management Development, Escuela de Negocios IAE at Universidad Austral; franchise manager course at Burger King University; GM of Burger King, Argentina, and since 2012, director, Argentina-Chile Region. Joined Alsea's management team in 2006.

Germán Ramírez: Alsea Colombia, country manager, 2016; degree in Mechanical Engineering, Universidad de los Andes in Bogota; postgraduate degree in International Business, Tecnológico de Monterrey; 20 years of experience in business management, sales, retail, and supply chain.

José Luis Portela: Alsea Chile; born in Madrid, Spain, 1967; Economics/Business Administration, Universidad Autónoma de Madrid; postgraduate degree in senior management (PADE), ESE, Universidad de Los Andes, Santiago de Chile; 20 years in gastronomic retail in various brands/markets, including Spain, Poland, Mexico, Peru, and Chile. Joined Alsea's management team in 2012.

Rodrigo Riveroll: Director, Domino's Pizza Mexico; born in Mexico City in 1966; degree, Universidad Iberoamericana; postgraduate degree, Upper-Level Business Administration, IPADE; director of Marketing, Domino's Pizza, 1998–2002; regional director, Domino's Pizza Jalisco, 2002–2009; national director (Operations), Domino's Pizza México 2009–2011; country manager, (Colombia) responsible for Domino's Pizza, Burger King, and P. F. Chang's brands. Joined Alsea's management team in 1998.

Juan Zamora: Director, Burger King Mexico; born in Mexico City in 1970; postgraduate studies IPADE/Ross Business School. Chief operations manager, Domino's Pizza México; business development manager, Mexico/Central America Region, Domino's Pizza; chief operations manager, Burger King Mexico until October 2016. Joined Alsea's management team in 2016.

EXHIBIT 1 (CONTINUED)

Francisco Demesa: Director Starbucks Mexico; born in México City in 1974; marketing degree, Instituto Tecnológico y de Estudios Superiores de Monterrey; postgraduate studies, Business Management, Harvard Business School. GM Burger King Mexico until October 2016. Joined Alsea's management team in 2014.

Christian Gurria: Director, Casual Dining Mexico since 2012; born in Mexico City in 1971; regional director, Operations, Domino's Pizza Mexico (South). Regional manager, Operations Center Starbucks Mexico for six years; director of operations, P. F. Chang's México, 2009–2012. Joined Alsea's management team in 2001.

Gerardo Rojas: Director, VIPS, 2014 to present; born in Mexico City in 1973; graduated from Instituto Tecnológico Autónomo de México; postgraduate degree in Business Management, IPADE. Director of Starbucks México. In 2010, assumed leadership of Domino's Pizza México. Joined Alsea's management team in 2002.

Diego Gaxiola: Chief financial officer; born in Mexico City in 1971; degree, Universidad Iberoamericana—Newport University; master's degree, Finance, Universidad Anáhuac; director of administration and finance, 2012 to present. Joined Alsea's management team in 2005.

Cory Guajardo: Director of Human Resources; born in Monterrey, Nuevo León in 1971; graduated from the Instituto Tecnológico y de Estudios superiores de Monterrey, degree in Communication Sciences and an MBA. Joined Alsea's management team in 2013.

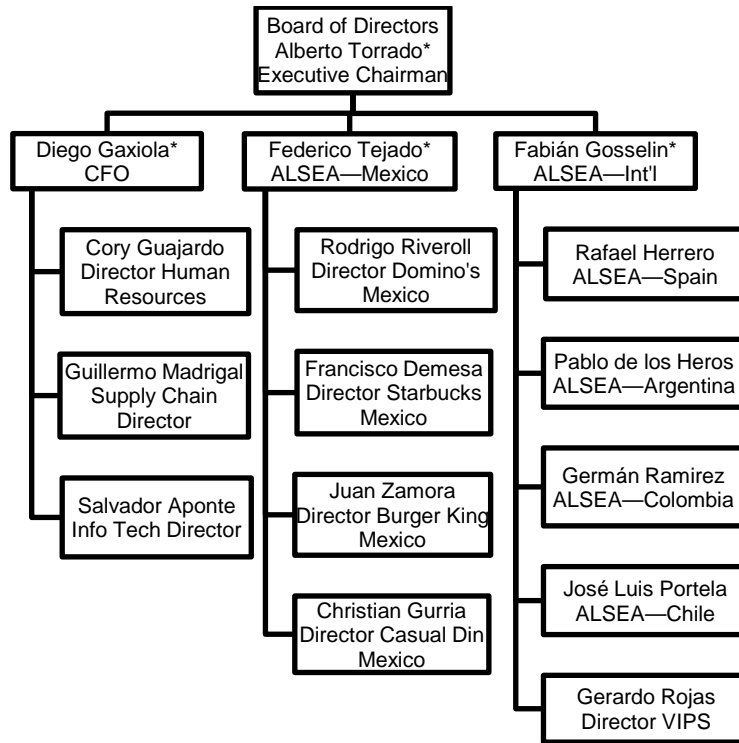
Guillermo Madrigal: Supply chain director; born in Mexico City in 1962; graduated from Universidad Iberoamericana as an Industrial Engineer; postgraduate degree from Instituto Tecnológico Autónomo de México. Joined Alsea's management team in 2015.

Salvador Aponte: Information technology director; born in Mexico City in 1963; degree from La Salle University; postgraduate degree from IPADE; master's degree in Planning and Enterprise Systems from La Salle University. Joined Alsea's management team in 2012.

Note: CEO = chief executive officer; EVP = executive vice-president; COO = chief operating officer; CFO = chief financial officer; GM = general manager.

Source: "Investor Relations: Managing Directors," Alsea, accessed December 16, 2016, www.alsea.net/relacion-con-inversionistas/directivos.

EXHIBIT 2: ALSEA'S ORGANIZATIONAL CHART—2016



Proprietary Board Members	Independent Board Members
Alberto Torrado	Raul Mendez
Cosme Torrado	Ivan Moguel
Armando Torrado	Carlos Piedrahita
Fabián Gosselin	Julio Gutierrez
Federico Tejado	Leon Kraig
Diego Gaxiola	Steven J. Quamme

Notes: CFO = chief financial officer; Proprietary board members are members of Alsea's senior management team and/or members of the Torrado family.

Source: Constructed by case writers from Alsea, *2016 Annual Report: The Winning Recipe*, accessed October 6, 2017, www.alsea.net/uploads/pdf/en/alsea_ar_2016.pdf.

EXHIBIT 3: ALSEA'S HISTORY

Date	Event
1990	Domino's Pizza opens in Mexico, and Alsea receives master franchising rights.
1992	Alsea opens Distribuidora e Importadora Alsea, or DIA—its first centralized distribution centre.
1995	Alsea invests in Burger King in Mexico.
1999	Alsea launches its initial public offering on the Mexican Stock Exchange.
2002	Alsea launches a joint venture with Starbucks (Mexico). Integrates Burger King into Alsea's portfolio.
2004	Opens 500th unit. Acquires Mexican master franchise for Popeye's Chicken & Seafood from AFC Enterprises.*
2005	Acquires Chili's Mexico and enters the fast casual dining segment.
2006	Acquires Burger King rights for Argentina and Chile, allowing Alsea to expand internationally into Latin America.
2007	Acquires Starbucks franchise rights for Argentina and Chile.
2008	Acquires Domino's and Burger King, Argentina. Reaches agreement with AFC to exit Popeye's master franchise contract.
2009	Acquires California Pizza Kitchen in Mexico. Acquires P. F. Chang's in Mexico.
2010	Alsea opens its 1000th unit.
2011	Launches P. F. Chang's in Argentina, Chile, and Colombia.
2012	Alsea is assigned master franchising agreement for Burger King in Mexico. Alsea acquires Italianni's—its first proprietary brand.
2013	Alsea earns exclusive rights for P. F. Chang's in Brazil. Alsea enters master franchise rights for The Cheesecake Factory in Latin America. Alsea acquires 25 per cent of Grupo Axo. Opens P. F. Chang's in Brazil. Opens The Cheesecake Factory in Mexico. Alsea acquires 100% of Starbucks units in Mexico, Argentina, Chile, and Colombia.
2014	Alsea acquire VIPs, El Portón, and Grupo Zena (Spain). Opens Starbucks in Colombia.
2016	Alsea acquires Archie's in Colombia.

* AFC has more than 4,000 units in the United States and also owns Church's Chicken, Cinnabon (pastries), and Seattle's Best Coffee.

Source: "History," Alsea, accessed June 01, 2017, www.alsea.net/alsea/historia.

EXHIBIT 4: ALSEA'S UNITS BY CATEGORY AND COUNTRY (AS OF DECEMBER 2016)

Restaurants	Countries						Total
	Mexico	Spain	Argentina	Colombia	Chile	Brazil	
<i>Quick Service:</i>							
Domino's Pizza	407 ^c + 247 ^f	180 ^c +17 ^f		52 ^c + 21 ^f			924
Burger King	208 ^c + 250 ^f	61	97	16	34		666
<i>Coffee Shops:</i>							
Starbucks	589		106	13	95		803
<i>Casual Dining:</i>							
Foster's Hollywood ^a		87 ^c + 129 ^f					216
Italianni's	68 ^c + 13 ^f						81
El Portón ^a	67						67
Chili's Bar & Grill	57						57
Archie's ^a				39			39
P. F. Chang's Bistro	23		1	2	2	3	31
California Pizza Kitchen	20 ^c + 2 ^f						22
Cañas y Tapas ^a		6 ^c + 9 ^f					15
LAVACA ^A		9					9
Cheesecake Factory ^a	3						3
<i>Family Dining:</i>							
VIPS ^a	256 ^c /5 ^f						261
Total	2,215	498	204	143	131	3	3,194

Note: ^a = Alsea proprietary brand; ^c = Corporate-owned store; ^f = sub-franchise

Source: "Alsea 4Q16 Quarterly Report: Results and Important Events for the Fourth Quarter and Full Year 2016," Hoja Membretada, February 2016, accessed January 2, 2017, www.alsea.net/uploads/pdf/en/alsea_earnings_release_4q16.pdf.

EXHIBIT 5A: ALSEA SUMMARY FINANCIAL INFORMATION, 2011–2015

	2011	2012	2013	2014	2015	2016
Net Sales	10,689	13,519	15,718	22,787	32,288	37,702
Gross Profit	6,881	8,764	10,491	15,515	22,139	25,922
Operating Income	453	797	1,115	1,469	2,354	2,767
EBITDA	1,123	1,608	2,038	2,802	4,302	5,155
Net Profit	236	402	663	624	1,033	1,127
Total Assets	9,374	9,797	12,382	30,872	32,854	37,995
Current Assets	4,163	2,475	2,608	3,785	4,006	2548
Long-term Assets	5,211	7,322	9,774	27,086	28,847	32,356
Total Liabilities	4,969	4,966	7,878	21,280	23,005	28,071
Current Liabilities	2,594	2,594	3,067	6,245	6,275	8,769
Long-term Liabilities	2,374	2,374	4,809	15,035	16,730	19,302
Shareholders' Equity	4,829	4,829	4,503	8,758	8,948	9,114
Share Price	14.08	25.78	40.73	40.77	59.85	59.33
Earnings per Share	.34	.57	.99	0.847	1.171	1.190
Dividend per Share	.20	.50	.50	–	0.50	0.77
Shares Outstanding	606	687.8	687.8	837.6	837.5	1068.0
Number of Units	1,283	1,421	1,862	2,784	2,954	3,195
Employees	23,212	27,619	32,362	60,051	61,822	67,340

Note: All figures are shown in millions of pesos, except for Share Price, Earnings per Share, Dividends per Share, Number of Units, and Employees; US\$1 = MXN\$20.4745 on December, 1, 2016; EBITDA = earnings before interest, taxes, depreciation, and amortization

Source: Alsea 2016 Annual Report: "The Winning Recipe," accessed October 6, 2017. http://www.alsea.net/uploads/pdf/en/alsea_ar_2016.pdf

EXHIBIT 5B: ALSEA: 2017 GUIDANCE

Item	Estimate
Sales	Low to mid-double-digit
EBITDA	Low to mid-double-digit
EBITDA Margin	Flat compared with 2016
CAPEX	4.0 billion–4.5 billion pesos
Corporate Unit Openings	170–190
Sub-Franchise Unit Openings	50–60
Total Unit Openings	220–250
Net Debt/EBITDA	2.2–2.4 times

Note: EBITDA = earnings before interest, taxes, depreciation, and amortization; CAPEX = capital expenditures

Source: Alsea, "Alsea Announces Its Guidance for 2017," Alsea: Press Room, January 23, 2017, accessed June 27, 2017, www.alsea.net/sala-de-prensa/sala-de-prensa/news-detail/en/54.

EXHIBIT 6: INFORMATION ON ALSEA'S BRAND

Brand	Industry	Description
Starbucks	Coffee Shop	Founded in 1971 in Seattle, Washington, Starbucks had 15,000 stores in 50 countries. The chain offered an extensive hot and cold beverage menu, baked goods, and an assortment of quick service food options.
Burger King	Quick Service	Burger King was founded 50 years ago and was known for its flame-grilled burgers. There were approximately 15,000 locations in 100 countries. In 2014, 3G Capital, a Brazilian private equity firm, acquired the company.
Domino's	Quick Service	Domino's was a pizza restaurant founded in 1960 in Ypsilanti, Michigan. Domino's operated more than 12,000 stores throughout the world and was known for its innovations in pizza delivery.
Foster's Hollywood	Casual Dining	Founded in 1971 by American expatriates in Spain, Foster's Hollywood was a chain focused on providing American-style menus. It was managed by Grupo Zena. Spain had more than 186 Foster's locations.
Italianni's	Casual Dining	Italianni's was an Italian-themed restaurant founded in 2002 by Carlson Restaurants (parent company of TGI Friday's). The restaurant focused on delivering authentic Italian meals at an affordable price. Alsea acquired rights to the restaurant in 2012.
El Portón	Casual Dining	El Portón was a casual, family-focused restaurant founded in 1978 in Mexico. Alsea acquired El Portón as part of its acquisition of VIPS.
Chili's Bar & Grill	Casual Dining	Chili's was a southwest-inspired restaurant founded in Dallas, Texas, in 1975. It had expanded to 1,500 units in 32 countries.
Archie's	Casual Dining	Archie's was an Italian-themed restaurant founded in 1993. Alsea began operating the brand in Colombia in 2016.
P. F. Chang's Bistro	Casual Dining	P. F. Chang's was an Asian food restaurant focused on family-style share plates, founded in 1993 in Scottsdale, Arizona. It operated more than 250 restaurants in 13 countries.
California Pizza Kitchen	Casual Dining	California Pizza Kitchen was founded in 1986 in Beverly Hills, California. The chain focused on fresh, quality pizzas inspired by California. The chain operated 250 locations in 11 countries and was acquired by Golden Gate Capital in 2011.
Cañas y Tapas	Casual Dining	Cañas y Tapas served tapas plates and Spanish beers, wines, and cocktails. The chain opened in Spain and expanded to 87 restaurants across Spain, England, Portugal, and France. Cañas y Tapas was managed by Grupo Zena.
LAVACA Argentina	Casual Dining	LAVACA was the largest steakhouse chain in Spain and focused on high-quality cuts. LAVACA was managed by Grupo Zena.
The Cheesecake Factory	Casual Dining	The Cheesecake Factory was a high-end casual dining restaurant with an extensive menu of more than 200 items. The chain, with approximately 200 restaurants, was founded in 1978 in Beverly Hills, California.
VIPS	Family Dining	VIPS was founded 50 years ago in Mexico and acquired by Alsea from Walmart Mexico in 2014. VIPS focused on providing affordable, family dining and provided food-delivery services. VIPS operated 263 locations.

Source: "About Us: Our Heritage," Starbucks, accessed January 2, 2017, www.starbucks.ca/about-us/our-heritage; "About BK®: Great Food Comes First," accessed January 2, 2017, <http://burgerking.ca/about-bk>; "About Domino's: History," Domino's, accessed January 2, 2017, <https://biz.dominos.com/web/public/about-dominos/history>; "Foster's Hollywood: The Brand," Foster's Hollywood, accessed January 2, 2017, <https://fostershollywood.es/empresa>; "Alsea's Brands: Italianni's," Alsea, accessed January 2, 2017, www.alsea.net/marcas-de-alsea/italiannis; "Alsea's Brands: El Portón," Alsea, accessed January 2, 2017, www.alsea.net/marcas-de-alsea/el-porton; Brinker International, "Home: Our Story," Chili's, accessed January 2, 2017, www.chilisjobs.com/our-story/; "Alsea's Brands: Archies," Alsea, accessed January 2, 2017, www.alsea.net/marcas-de-alsea/Archies; "About Us: Our Story," P.F. Chang's, accessed January 2, 2017, www.pfchangs.com/info/ourstory; "About Us: From a Legendary Pizza to a Global Brand," California Pizza Kitchen, accessed January 2, 2017, www.cpk.com/Company/AboutUs; "About," Cañas y Tapas, accessed January 2, 2017, www.canasytapas.co.uk/about-canas-y-tapas/; "Alsea's Brands: Lavaca," Alsea, accessed January 2, 2017, www.alsea.net/marcas-de-alsea/vaca-argentina.

EXHIBIT 7: EXPIRATION DATES OF ALSEA'S FRANCHISE AGREEMENTS

Brand	Markets	Expiration Dates
Starbucks	Mexico, Argentina, Chile, and Colombia	Mexico (2037), Argentina (2027), Chile (2027), Colombia (2033)
Burger King	Mexico, Argentina, Chile, Colombia, and Spain	Acquired Master Franchise in 2013 (expiration dates vary based on opening dates, but Alsea has been given 10 years for each store with rights to a 10-year extension)
Domino's	Mexico, Colombia, and Spain	Mexico (2025), Colombia (2026), Spain (2028, given auto-renewal in 2018)
Chili's Bar and Grill	Mexico	2018
Italianni's	Mexico	2031
P. F. Chang's	Mexico, Argentina, Brazil, Chile, Colombia	Mexico (2019), Argentina (2021), Brazil (2021), Chile (2021), and Colombia (2021)
The Cheesecake Factory	Mexico, Chile (options for Argentina, Brazil, Colombia, and Peru)	Vary based on opening dates (Alsea has agreed to open 12 stores over the next eight years and each restaurant will have a 10-year contract with a 10-year renewal).
California Pizza Kitchen	Mexico	2022

Source: Alsea, 2015 Annual Report: *Stirring People's Spirits*, 2016, accessed January 2, 2017, www.alsea.net/uploads/pdf/en/alsea_ar_2015.pdf; Merrill Lynch 2016 Alsea Ratings Report (company document).

EXHIBIT 8: ALSEA BRANDS—UNITS, SALES, AND EBITDA, BY PERCENTAGE

Brand	Units %	Sales %	Adjusted EBITDA %
Starbucks	25	22	25
Burger King	21	21	12
Domino's	29	17	16
VIPS	8	13	15
Foster's Hollywood	7	8	9
Chili's	*	4	5
Italianni's	*	4	5
DIA	—	4	8
Others	10	7	5

Note: EBITDA = earnings before interest, taxes, depreciation, and amortization; DIA = Distribuidora e Importadora Alsea
Source: Alsea 2016 Annual Report: *The Winning Recipe*. Accessed on October 6, 2017, http://www.alsea.net/uploads/pdf/en/alsea_ar_2016.pdf

EXHIBIT 9: ALSEA'S MAJOR SHAREHOLDERS

Name	Percentage Ownership
Cosme Alberto Torrado Martínez	11.6
Armando Torrado Martínez	11.5
Alberto Torrado Martínez	11.2
Alicia Martínez Alvarado	4.9
Fabián Gerardo Gosselín Castro	1.4
Federico Tejado Bárcena	1.4
Trust	0.1
Others (Market)	57.7
Treasury Shares	0.1
Total	100.0

Note: Included under "Others (Market)" is 9.9 per cent share ownership by Quamme, a U.S.-based shareholder, through his activist investment firm Cartica.

Source: Company files.