



## THE MARKET

Texas Roadhouse, which was recently named the #1 Steak House in America by *Nation's Restaurant News*, is unlike any other restaurant. For 20 years, Texas Roadhouse has served hand-cut steaks, fall-off-the-bone ribs, and made-from-scratch sides. Upon entering a Texas Roadhouse, guests are greeted by the sounds of upbeat country music playing from the jukebox, the smell of fresh-baked bread, the sight of steaks cooking on an open grill, and the taste of legendary margaritas or ice-cold beer. The company tops it off with a focus on taking care of employees. "Happy employees make happy guests," says founder and CEO Kent Taylor.

Even during the recession, when many competitors struggled, Texas Roadhouse focused on the basics of providing Legendary Food and Legendary Service. This simple yet difficult-to-execute strategy has allowed the company to grow to nearly 400 restaurants in 48 states. As a result of its laser focus, the company has grown diluted earnings per share by 15 percent a year for the past five years on a compounded basis and increased cash flow from operations an average of 15 percent a year during the same time period. The stock price has also performed well, rising 36 percent above the S&P 500 Index the past five years.

## ACHIEVEMENTS

Texas Roadhouse's success is largely attributable to the company's unique culture, which Taylor says is by design, not by default. A key element is the company's commitment to recognizing, rewarding, and motivating employees.

"We are a people company that happens to serve steaks," says Taylor.

Recognition within the company takes place on a daily basis as Roadies — as the company's employees are known — love to show appreciation for a job well done. Employees cheer one another on during daily team "Alley Rallies." The company also names a Managing Partner of the Year, recognition that comes with a \$25,000 check and a new car. Additional awards include Line Dance Team of the Year, Meat Cutter of the Year, and even Spouse of the Year — in recognition that Texas Roadhouse truly is a family affair. Each restaurant also has a "fun budget" to spend



on employee activities, such as pizza parties and other outings.

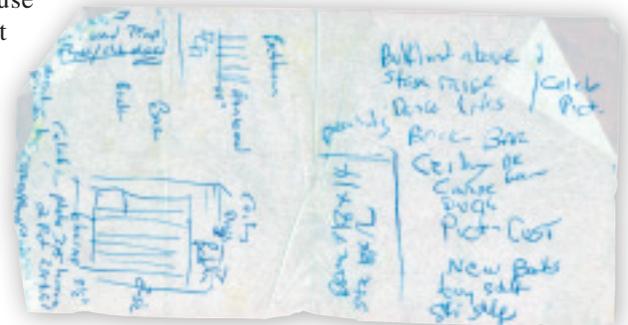
In 2012, Kent Taylor received the Legacy Award from The People Report, given to an individual for lifelong dedication to balancing people and profits and making the restaurant industry a great place to work. In 2009, the company earned the coveted Carrot Culture Award from O. C. Tanner. The winner is selected from more than 8,000 companies, including many Fortune 100 Companies. *Forbes* also named Texas Roadhouse one of the 200 Best Small Companies in 2007 and 2008.

The USO Volunteer of the Year Award is one shining testament of how Texas Roadhouse makes a difference in local communities across the nation. This award pays tribute to the company's dedication to supporting the military. Departments at the company headquarters, or Support Center, adopt local charities, providing money and much-appreciated volunteer hours to organizations in

need. The company is also a three-time winner of the Kentucky Restaurant Association's Good Neighbor Award, which is given for outstanding community service.

## HISTORY

It all started on a napkin in 1992, onto which Kent Taylor sketched out the Texas Roadhouse concept. This sketch became a reality on February 17, 1993, when the first Texas Roadhouse opened in Clarksville, Indiana. Kent's goal was to own not just a steak restaurant but a place where everyone could enjoy Legendary Food and Legendary Service at an amazing value.



That first opening didn't happen without Taylor encountering some speed bumps. Few investors wanted to hear his idea for a new concept. He was turned down over 80 times while pitching his dream. After finding investors, the troubles continued as three of the first five



restaurants failed. Taylor eventually prevailed, though, and only four years after the initial Texas Roadhouse opened, Ernst & Young recognized Taylor as an Emerging Entrepreneur. The company went public in October 2004 and continues to make history in the casual dining industry.

### THE PRODUCT

The typical Texas Roadhouse restaurant is 7,000 square feet and seats 250 guests. Each restaurant has a staff of approximately 100 employees, each of whom is crucial to the restaurant's operation.

Among these Roadies is the Managing Partner, or single-unit operator. The company believes that the MPs are the "center of the company's universe."

"We have the best MPs in the business, and their entrepreneurial spirit is the fuel that makes Texas Roadhouse run faster than the competition," said Taylor. To work at Texas Roadhouse,



the MPs sign a five-year contract, pay the company \$25,000, and in return receive 10 percent of their store's net profits.

Every restaurant has an onsite Meat Cutter who hand cuts each steak that is served. The company also employs bakers who are responsible for making the company's yeast rolls from scratch. This world-famous bread, along with homemade honey cinnamon butter, is served piping hot to guests as they are seated.

The menu also features chicken and seafood selections as well as several salads and burgers. All of the entrees and side items are based on proprietary recipes and are made-from-scratch, including the dressings, croutons, and bacon

bits. Food and beverages are offered at moderate price points that the company tries to keep lower than its competitors'.

While it's not on the menu, an essential part of the brand is the fun atmosphere that makes guests feel at home. Restaurants feature rustic southwestern lodge decor accentuated with custom, hand-painted murals that reflect the local community and a corner booth dedicated to country music legend Willie Nelson. The restaurants also feature neon signs, artifacts, and jukeboxes that play upbeat country music. In addition, employees perform line dance routines throughout the night. Employees add to the fun atmosphere with creative games, such as mashed-potato-eating contests or peanut-stomping contests during Kids Nights.

Texas Roadhouse generally features a dinner-only concept during the week. Although the restaurants are open for lunch on the weekends, the dinner-only

philosophy enhances operational execution and affords managers a better lifestyle, allowing the brand to continue to attract and retain the best management personnel.

### RECENT DEVELOPMENTS

As much as Texas Roadhouse wants its Roadies to have fun, the plans for the future are ambitious. The company has long-term strategies for increasing cash flow and earnings per share, not to mention further establishing its international presence. The company's first overseas restaurant opened in Dubai in 2011, and two additional Middle East restaurants opened in 2012. The company is focusing additional expansion efforts in Mexico, Canada, and Russia.

Texas Roadhouse plans on continuing to expand its domestic restaurant base as well, believing that the concept can support several hundred additional U.S. restaurants. Maintaining or improving restaurant-level profitability is also a company goal — through a combination of increased comparable restaurant sales and operating cost management.

The company also wants to ensure that Texas Roadhouse remains an attractive investment via a conservative balance sheet, consistently paying a dividend and opportunistically repurchasing its common stock.

### PROMOTION

Unlike competitors, Texas Roadhouse doesn't pour money into high-price TV advertisements. Texas Roadhouse spreads the word about its brand the old-fashioned way: person to person, using a Local Store Marketing approach. That's why you're likely to see the company's mascot, Andy Armadillo, at a local Little League game or visiting with children at locals schools. Texas Roadhouse also hosts thousands of fundraisers throughout the year to help raise money for those in need and in particular is dedicated to showing thanks to U.S. veterans.

On Veterans Day 2011, Texas Roadhouse showed its appreciation to thousands of veterans and active military by presenting them with free meals — \$1.2 million worth. Stores decorated tables, made special shirts, decorated and handed out flags — all ways to make veterans and their guests feel special. Texas Roadhouse's involvement in the community is recognized by guests with genuine gratitude, such as thank-you letters that show the impact felt in communities.



After the events of the day, one veteran wrote to the company to say, "I would just like to thank Texas Roadhouse for recognizing veterans this past Veterans Day. I was discharged from the Navy in 1969, and this is the first time that veterans have been recognized. The meal that I was given along with the service was superb. I just want to thank you."

### BRAND VALUES

Since the doors opened in 1993, Texas Roadhouse has been putting employees first.

Nothing demonstrates this more than Andy's Outreach, which is an internal employee fund designed to help Roadies in need. Funds are designated to help employees during crisis situations, such as death, fire, dire illnesses, personal injuries, or other tragedies. In 2009, the company opened a Texas Roadhouse in Logan, Utah to help fund Andy's. The restaurant donates 100 percent of its profits to the fund so that Andy's can continue to help Roadies in need.

### THINGS YOU DIDN'T KNOW ABOUT TEXAS ROADHOUSE

- Meat Cutters work in 34-degree coolers and cut an average of \$500,000 of meat a year per store.
- The company's Fresh-Baked Bread with Honey Cinnamon Butter is baked fresh every five minutes.
- Texas Roadhouse restaurant managers and area managers are known as "Managing Partners" and "Market Partners," respectively.
- As of year-end 2011, the company employed approximately 33,000 Roadies.