

[ Applebee's International, Inc. - 1998 Annual Report ]

## THE MAKING OF AN AMERICAN ICON



HOW WE'RE BUILDING THE APPLEBEE'S BRAND

## [ Corporate Profile ]

Applebee's International, Inc., headquartered in Overland Park, Kansas, develops, franchises and operates casual dining restaurants in 48 states as well as Canada, Europe and Mexico under the Applebee's Neighborhood Grill & Bar® brand. In 1998, Applebee's became the first casual dining concept to operate 1,000 restaurants and the first concept in the bar and grill segment to surpass \$2 billion in system sales.

Each Applebee's Neighborhood Grill & Bar is designed as an attractive, friendly, neighborhood establishment featuring moderately priced, high-quality food and beverage items, table service and a comfortable atmosphere that appeals to all ages. At December 27, 1998, there were 1,064 Applebee's Neighborhood Grill & Bar restaurants,

of which 817 were operated by franchisees and 247 were operated by the company.

Total system sales for the Applebee's concept reached \$2.07 billion in 1998, an increase of 14 percent from total system sales of \$1.82 billion in 1997.

At the close of 1998, there were also 66 Rio Bravo Cantina® restaurants, of which 26 were operated by franchisees and 40 were operated by the company. In early 1999, the company entered into an agreement to sell the Rio Bravo Cantina concept in order to focus on its Applebee's brand.

The company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol APPB.



## [ Contents ]

Financial Highlights	2
To Our Shareholders	3
The Applebee's Brand	6
Hospitality	8
Empowerment	10
Leadership	12
Financial Review	14
Directors and Officers	36
Corporate Information	Inside Back Cover

AMERICA STANDS FOR TRADITIONAL  
VALUES – FAMILY AND FRIENDSHIP,  
OPPORTUNITY AND OPTIMISM.

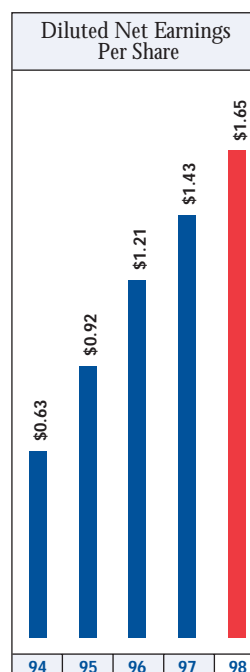
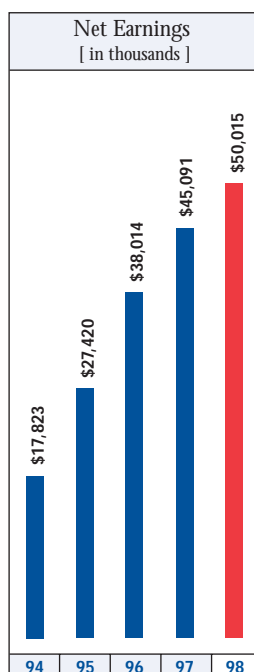
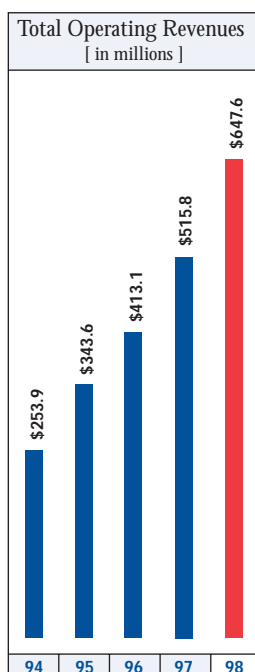


WE DO, TOO.  
THAT'S WHY APPLEBEE'S IS RAPIDLY  
BECOMING AN AMERICAN ICON.

[ Selected Financial Data ]

(in thousands, except per share amounts)	Fiscal Year Ended				
	Dec. 27, 1998	Dec. 28, 1997	Dec. 29, 1996	Dec. 31, 1995	Dec. 25, 1994
<b>Statement of Earnings Data:</b>					
Company restaurant sales	\$580,840	\$452,173	\$358,990	\$299,824	\$222,445
Franchise income	66,722	63,647	54,141	43,739	31,419
<b>Total operating revenues</b>	<b>\$647,562</b>	<b>\$515,820</b>	<b>\$413,131</b>	<b>\$343,563</b>	<b>\$253,864</b>
Operating earnings	\$ 88,562	\$ 71,283	\$ 58,833	\$ 45,712	\$ 29,311
Earnings before extraordinary item	\$ 50,656	\$ 45,091	\$ 38,014	\$ 27,420	\$ 17,823
Basic earnings per share					
before extraordinary item	\$ 1.67	\$ 1.44	\$ 1.22	\$ 0.94	\$ 0.64
Diluted earnings per share					
before extraordinary item	\$ 1.67	\$ 1.43	\$ 1.21	\$ 0.92	\$ 0.63
Net earnings	\$ 50,015	\$ 45,091	\$ 38,014	\$ 27,420	\$ 17,823
Basic net earnings per share	\$ 1.65	\$ 1.44	\$ 1.22	\$ 0.94	\$ 0.64
Diluted net earnings per share	\$ 1.65	\$ 1.43	\$ 1.21	\$ 0.92	\$ 0.63
Dividends per share	\$ 0.09	\$ 0.08	\$ 0.07	\$ 0.06	\$ 0.05
Basic weighted average shares outstanding	30,272	31,401	31,188	29,319	27,970
Diluted weighted average shares outstanding	30,385	31,640	31,533	29,860	28,472
<b>Balance Sheet Data (at end of fiscal year):</b>					
Total assets	\$510,904	\$377,474	\$314,111	\$270,680	\$180,014
Long-term obligations, including current portion	\$147,188	\$ 29,105	\$ 25,843	\$ 27,427	\$ 38,697
Stockholders' equity	\$296,053	\$290,443	\$244,764	\$203,993	\$108,788

The table above sets forth for the periods and the dates indicated selected financial data of the Company. All amounts reflect the mergers with Pub Ventures of New England, Inc. and Innovative Restaurant Concepts, Inc., which were accounted for as poolings of interests. The fiscal year ended December 31, 1995 contained 53 weeks, and all other periods presented contained 52 weeks. The preceding should be read in conjunction with the Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report.



# TO OUR SHAREHOLDERS

We're continuing to build Applebee's into the leading brand in casual dining – a brand that's widely recognized for both value and values, much like any good neighbor.

The momentum behind the increasing reach and growing popularity of the Applebee's brand was clearly captured in major milestones achieved during fiscal 1998. Sales for the Applebee's system surpassed \$2 billion – the first concept in the restaurant industry's bar and grill segment to reach such a dominant position. By mid-year, we became the first casual dining concept with 1,000 restaurants – solidifying our leadership position as the world's largest brand in the industry's fastest-growing segment.

**System sales for the Applebee's concept**, including both company and franchise restaurant sales, increased 14 percent over the prior year to \$2.07 billion. Total company restaurant sales grew 28 percent to \$580.8 million. Total company operating revenues, which include company restaurant sales and franchise income, were \$647.6 million, an increase of 26 percent over the year before.

**Earnings per share reached a record level** of \$1.67 (before an extraordinary charge of 2 cents per share) on both a basic and diluted basis, an increase of 16 percent on a basic and 17 percent on a diluted basis over 1997. Net earnings before the extraordinary charge increased 12 percent over the previous year to \$50.7 million.

**These solid results** reflect the strong continuing growth of the Applebee's brand, coupled with our successful efforts to stabilize labor costs and improve other controllable expenses. Restaurant earnings, in particular, benefited from the positive impact of the Virginia acquisition. However, overall results were adversely influenced by the lackluster performance of our Rio Bravo Cantina concept last year and, as explained later in this letter, we have reached an agreement to sell this concept.

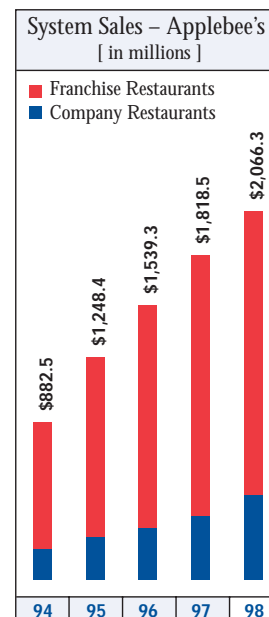
**Systemwide comparable sales** for the Applebee's concept, comparing restaurants open for at least 18 months, decreased a slight 0.2 percent for 1998 reflecting improved trends during the last half of the year. Comparable sales for company Applebee's restaurants were down 0.4 percent and comparable sales for franchise Applebee's restaurants were down 0.1 percent.

**Continuing our established trend**, the company declared its ninth consecutive annual dividend which was distributed this past January. The dividend of 9 cents per share represents a 12 percent increase over the prior year.

**The Applebee's system** continues to gain momentum and market share – more than doubling in size over the last four years. At the end of 1994, a total of 505 Applebee's restaurants operated in 43 states and two international countries; by the close of 1998, there were 1,064 restaurants in all 48 contiguous states and six other countries. Applebee's not only became the first casual dining concept to reach 1,000 restaurants, but extended its lead to more than 400 units over the next largest casual dining competitor in the bar and grill segment. This pace of development, together with the strength of our concept, reinforces our confidence that we can continue to expand successfully. We now believe that the Applebee's system can reach at least 1,800 domestic locations.

**Although we are intensifying our focus** on issues beyond development, 1998 emerged as another strong year for growth of the Applebee's system. During the year, we opened a total of 116 new Applebee's restaurants, including 32 company and 84 franchise units – a 12 percent increase over the 1997 year-end total and the sixth consecutive year of opening over 100 restaurants. We anticipate an equally strong 1999 with more than 100 restaurants expected to open systemwide.

**In addition to our domestic growth**, we continue to extend our international operations. During the fourth quarter, the company opened its first franchise Applebee's restaurant in Mexico in the city of Monterrey, with plans for future units in





**Applebee's senior management from left to right:** Robert A. Martin, Lloyd L. Hill, Lawrence M. Folk, Julia A. Stewart, Louis A. Kaucic, George D. Shadid, Steven K. Lumpkin, Larry A. Cates.

Ciudad Juarez and Guadalajara. In addition to Mexico, franchise groups operate 17 other Applebee's restaurants in Canada and Europe.

**During 1998 and up to the present**, we initiated a number of transactions designed to strengthen our overall growth and return-on-investment objectives. At the end of the first quarter of 1998, we finalized the acquisition of 33 Applebee's restaurants in Virginia from Apple South, Inc. as the initial step in that franchisee's exit from the Applebee's system. This acquisition brought the company a seasoned management team, led by John Kretsinger, now our regional vice president of operations, and a restaurant group with strong growth and sales performance. We opened two additional restaurants in the Virginia region during 1998, and sales were \$52.7 million during the nine months of company ownership. The remaining 241 former Apple South restaurants have been or are

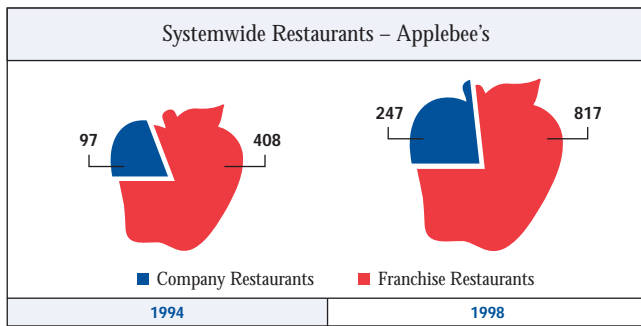
being acquired by 14 acquisition groups, including 11 new franchisees, bringing a new level of energy and commitment to our system.

**During the second quarter**, we completed the sale of six company-owned Applebee's restaurants in Long Island, New York. The restaurants were sold to Ed Doherty, a current franchisee with 10 units in the New York City market. By solidifying operations with an organization having a strong local presence, this transaction will help bolster aggressive expansion in this important market.

**Last month, we announced a definitive agreement** to sell the 66-unit Rio Bravo Cantina concept, including 40 company restaurants and 26 franchised restaurants, to Chevys, Inc., operator of 94 company-owned and franchised Chevys Fresh Mex® restaurants. According to the terms of the agreement, Chevys will become the franchisor of the Rio Bravo system and will continue to operate the company-owned restaurants. The transaction will enable us to focus our attention and resources on our core Applebee's brand.

**We have also reached an agreement** to sell our specialty restaurants, originally acquired in 1995 with the Rio Bravo concept. The transaction is expected to close late in the first quarter of 1999. The new owners, Applebee's Chairman Abe Gustin and certain members of his family, also recently purchased seven existing Applebee's restaurants in Orlando, Florida, from another franchisee.

# Renewing our focus, reinforcing the basics, revitalizing our team.



A new \$225 million senior credit facility was put in place in 1998 and provided the funding for the Virginia acquisition, as well as additional liquidity. Also, our Board of Directors approved a \$50 million stock repurchase plan and, by year-end, 2.4 million shares had been purchased in open market transactions at an aggregate price of approximately \$49.3 million. Subsequent to year-end, the Board has approved plans to repurchase an additional \$100 million of stock over a two-year period, subject to market conditions.

To help us continue to build the Applebee’s brand and extend our dominance of the casual dining segment, we have added new energy, enthusiasm and experience to our executive management team and Board of Directors. In October, Julia Stewart joined the company as president of the Applebee’s division, bringing 20 years of proven restaurant industry experience in operations, franchising and marketing with Taco Bell, Burger King and Stuart Anderson’s Black Angus/Cattle Company Restaurants. She brings exceptional leadership to the company, combined with additional strength brought in over the last two years in the key areas of operations, human resources and international franchising. Last year, R.J. Dourney moved into the newly created position of vice president of franchise partnerships, underscoring the critical importance and value of our franchise system. In February 1999, John Koch joined us as senior vice president of research and development, adding an exceptional level of talent and experience, most recently with The Olive Garden. In addition, Karen Eadon has accepted the position of senior vice president of marketing, coming to us from ARCO AM/PM and, previously, Taco Bell.

In addition, we added considerable depth and vision to our Board with the election of two new members in the third quarter. Mark Hansen, recently named CEO of The Fleming Companies, has over 20 years of retailing and business experience including serving as president and CEO of SAM’S Club, Wal-Mart’s \$20 billion membership wholesale club

operation. Erline Belton is the president and founder of The Lyceum Group, a human resource consulting firm based in Roxbury, Massachusetts, and formerly held several senior-level human resource and organizational development positions with Progressive Corporation and Digital Equipment Corporation. In March 1999, George Shadid, executive vice president and chief financial officer, was also elected to the Board.

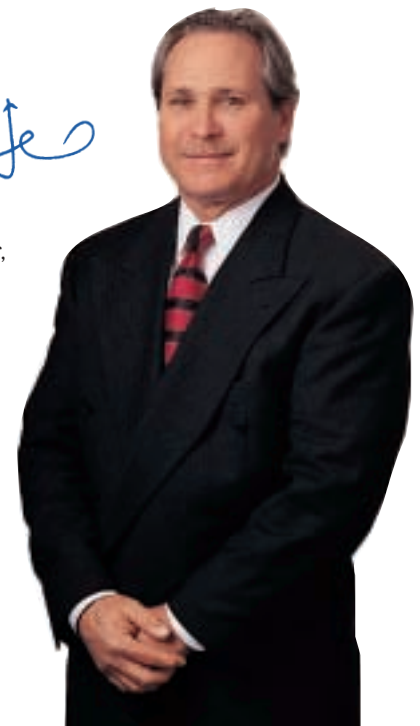
Lastly, the transition in executive leadership has proceeded well and is now complete. Beginning in January 1999, Abe Gustin moved to a non-management chairman role. After leading Applebee’s with keen insight and commitment for over a decade, he is returning to his original roots with the company as an Applebee’s franchisee. We will continue to rely on Abe’s wit and wisdom and interpersonal skills in both his roles – and we will continue to build on the exceptional foundation he laid as this company’s co-founder.

Our original goal – to become the dominant brand in casual dining – has been accomplished. Our vision is more ambitious still – to rise above our competitors into a brand recognized and respected as a symbol for superior quality, value, service and convenience ... and eventually to achieve the status of an American icon. An icon can be a person or product, a place or state of mind. Like the cowboy, Coca-Cola and the Corvette, like John Wayne, Route 66 and Levi’s, an icon epitomizes the unique American experience and embodies the American spirit.

Applebee’s has the power to bring people together and touch their lives. We can become an extension of the family dinner table ... a dependable haven of warmth and community ... a place that nourishes both the body and the spirit. An American icon ... in every neighborhood.

**Lloyd L. Hill**  
 Chief Executive Officer,  
 President and Chief  
 Operating Officer

March 1999



THE APPLEBEE'S BRAND stands for good food, good value, good service and good neighbors. We delight our guests with neighborly hospitality. We enrich our associates with opportunity. We reinforce our industry leadership by continually raising our sights and our standards.

That's Applebee's.  
That's what we stand for.



# Hospitality

## [ DELIGHTING OUR GUESTS ]

**B**uilding the Applebee's brand begins with delighting our guests and enhancing the brand strengths that keep them coming back again and again. In 1998, we delighted over 210 million guests with the key ingredients of the Applebee's brand – a concept with broad appeal; quality food, value and variety; exceptional service; our neighborhood feel and focus; and convenience that comes from our number of locations. Our ongoing research echoes the importance of these brand strengths among customers. Consistently, they pinpoint high-quality, tasty food, prompt and friendly service, and a welcoming atmosphere as the most critical factors for satisfaction. And Applebee's delivers.

**It all starts with the Applebee's concept.** Since the first Applebee's Neighborhood Grill & Bar opened in 1980, the concept has centered around a casual, comfortable atmosphere that combines fun and festivity. Applebee's embraces a neighborhood feeling of inclusiveness that is reinforced in our ambience and advertising, and is reflected in our strong local community involvement. The concept's unique neighborhood feel appeals to a broad spectrum of customers – from young adults to seniors, from singles to families with children. And this consistent, predictable familiarity lets customers feel right at home, even when they're traveling or on vacation.



[ Bar and grill patrons nationwide have proclaimed Applebee's House Sirloin as America's favorite sirloin steak. ]

**Appetizing food, coupling value and variety,** continues among the pillars of the brand's strength. Our menu strategy, typically combining 60 core and optional items, enables restaurants to tailor the menu to local preferences and tastes. While continuing the use of food-specific, limited-time promotions to highlight our menu variety in 1999, we are also launching a major effort to strengthen our core menu. This new focus began by relaunching the burger category in February and will continue until the full menu has been revitalized with fresh, exciting offerings. Our menu enhancement is backed by major investments in research and development, including the recent recruitment of a talented senior executive and a significantly expanded R&D department.

**We have successfully positioned Applebee's** as an affordable, moderately priced restaurant concept, offering personable service together with a variety of selections and prices across all menu categories. This allows guests to dine out at a price that fits their budget. Menu entrees are typically priced between \$5 and \$10, and the average guest check ranges between \$9.25 and \$9.75, depending on the particular market. We are increasing efforts to reinforce that value leadership position among the increasingly value-driven casual dining customer.

### Teaming up against cancer ...

Last year, the company teamed up with the National Association of Basketball Coaches and its "Coaches vs. Cancer" campaign to raise over \$1 million systemwide to benefit child-oriented research and educational programs. The company and 17 franchise groups received the American Cancer Society's Excalibur Award for their achievements.



[ Strengthening Applebee's core menu begins in the R&D test kitchen with a burger category relaunch. ]

[ The Applebee's concept fosters broad appeal with a welcoming, inclusive, neighborhood atmosphere. ]



EARLY WEEK SPECIALS



[ At the core of Applebee's continued success are associates who constantly keep the guest in mind. ]



[ The AppleSeed human resources initiative is dedicated to identifying, training and retaining talented service performers. ]

# Empowerment

## [ ENRICHING OUR ASSOCIATES ]

For our 20,000 company associates, the strengths of the Applebee's brand are more personal – for them, the brand means fairness, opportunity, challenge. The words of our mission statement and guiding principles speak volumes about what it means to be part of Applebee's. We strive to nourish, enrich and celebrate our associates; to create balance between work life and personal life; to treat one another with dignity, fairness and respect – and always look for reasons to laugh.

**In an increasingly tight labor market**, we are giving our restaurant managers more control over the employment process and developing innovative practices and practical tools – beginning with a new application form and hourly hiring guide – aimed at employee hiring, satisfaction and retention. A new compensation plan, designed to pay for long-term performance, is also being implemented in an effort to increase retention and promote longevity of service.

**The importance we place on our employees** is clearly evident in an exciting new human resources initiative called "AppleSeed." We have designated two Applebee's restaurants as performance laboratories dedicated to hiring and retaining the most talented associates. These restaurants report directly to Lou Kaucic, senior vice president of human resources. This experiment, launched in early

### The 1,000th neighbor ...

Last June, Steve Grove, our largest franchisee, opened the 1,000th Applebee's restaurant in our system. The milestone celebration solidly focused on the neighborhood and community where number 1,000 was located – Aurora, Colorado. Prior to the grand opening, the restaurant hosted a party for youngsters from the local Make-A-Wish Foundation and donated 1,000 teddy bears to local law enforcement for use with children involved in auto accidents, domestic disputes and other emergency situations.

1998, is already producing positive results – sales and profits are over budget, and hourly turnover has been cut in half in these restaurants. The lessons learned and concepts proven through the AppleSeed program will provide valuable guidelines for restaurants throughout the system.

**Our strong, entrepreneurial franchise system** continues to represent a strategic advantage for the Applebee's concept – with franchisees currently operating approximately 77 percent of the system's units. When concluded in the first half of 1999, the Apple South divestment plan will place 241 restaurants with 14 franchise groups, including 11 new franchisee partners. This landmark event builds on the competitive strength of our franchise system, provides concentrated geographic focus, and brings in new experience, energy and enthusiasm.



## Our Vision

Becoming the World's Favorite Neighbor.

## Our Mission

We nourish, enrich and celebrate our associates, guests and communities all around the world.

## Our Guiding Principles

**Balance:** Between your work life and your personal life; between short-term and long-term.

**Innovation:** Continuously improve; take measured risks, make mistakes, allow mistakes and learn from them; think cutting edge; focus on adding value.

**Guest Driven:** Make sure everything you do keeps the restaurant guest in mind; provide the right food fast at the right price.

**Fun:** Keep smiling and look for reasons to laugh.

## Our Values

**Teamwork:** Cooperate and collaborate for the good of the team, its members and the company. Treat each other with dignity, fairness and respect. Foster open communication in all directions with candor and effective feedback.

**Results:** Continuously establish and achieve measurable, challenging goals, staying true to our values and guiding principles.

**Integrity:** Through our words and actions establish trust and trustworthiness – in ourselves first, then in our teams and our company.

**Passion for Service:** Enthusiasm and excitement about serving others without expectations of recognition or reward.

# Leadership

## [ EXTENDING OUR DOMINANCE ]

From a business and investor point of view, Applebee's strengths of size, reach and market share represent measurable mileposts in our growing dominance of the casual dining industry segment.

Measured in both number of restaurants and total sales, Applebee's ranks as the world's largest casual dining concept – with year-end totals of 1,064 restaurants in the 48 contiguous states and six international countries, and \$2.07 billion in system sales. In terms of market share, Applebee's captured an estimated 18.5 percent of the U.S. restaurant industry's bar and grill segment in 1998. Adding perspective, the \$248 million of new market share gained last year is the equivalent of a sizable, entire new restaurant chain.

This unprecedented size and scope provide valuable benefits beyond heightened marketplace visibility and consumer awareness. System size and market penetration enable greater purchasing power and advertising strength – and Applebee's is increasingly capitalizing on that advantage. In 1999, the company will nearly triple its national television advertising budget with increased use of network cable and the addition of network advertising presence with major networks like ABC and CBS.

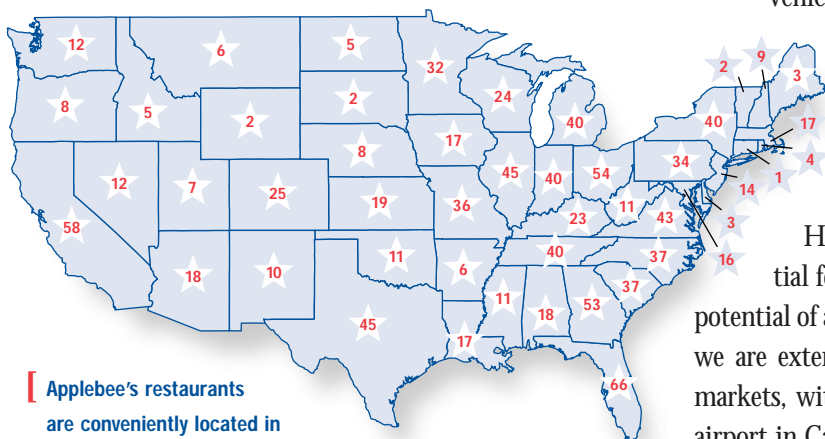
To date, our dramatic growth and momentum have evolved from a distribution strategy that combines aggressive unit expansion and smaller scale buildings. This strategy allows restaurants to draw from a tighter radius than most competing concepts, typically three to five miles. This key competitive advantage has enabled Applebee's to achieve a dominant position in major metropolitan and suburban markets, as well as secondary and tertiary markets. We plan to continue our development at a formidable pace, but will now begin placing increased emphasis on building store sales.

### A gift from the heart ...

Touched by the story of a local youngster awaiting a life-saving heart transplant, General Manager Scott Sinotte of the Applebee's in Okemos, Michigan, decided to do something. His team launched a promotion with all servers and bartenders donating their tips to help the family of a 5-year-old little boy – and they challenged the nearby West Lansing restaurant to a head-to-head competition. The two restaurants raised over \$5,500 for the family. And the little boy? He and his family celebrated his successful heart transplant at the Okemos Applebee's ... and he's now a regular.

While continuing to penetrate established markets, we are targeting new opportunities as well. We recently launched a new Applebee's prototype style and operating approach specifically for small towns. This development vehicle focuses on smaller, less competitive markets with populations under 25,000. These units are designed with a lower cost of entry, lower-cost menu and lower cost of operations. During 1998, we opened the first prototypes in Warrensburg, Missouri, and Hutchinson, Minnesota, and we project a potential for at least 150 of these units as part of a system potential of at least 1,800 domestic restaurants. In addition, we are extending the Applebee's brand to nontraditional markets, with initial sites opened in 1998 that include an airport in California and a military base in Virginia.

### U.S. Restaurant Locations



[ Applebee's restaurants are conveniently located in neighborhoods throughout all 48 contiguous states. ]

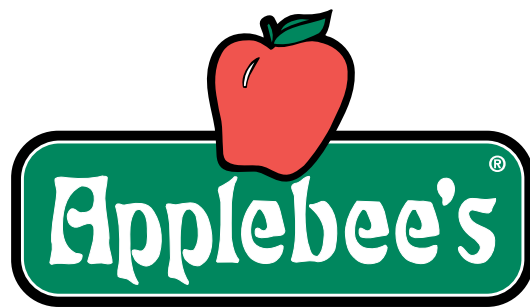


[ The new small-town Applebee's prototype is designed specifically for markets with populations under 25,000. ]

[ With nearly 1,100 restaurants in 48 states, Applebee's enjoys high marketplace visibility and consumer awareness. ]



Applebee's International, Inc.  
4551 West 107th Street  
Overland Park, Kansas 66207



Neighborhood Grill & Bar

SHARING THE VALUES OF AMERICA



(Click here to continue.)