



Applebee's International, Inc.
1999 Annual Report

Polishing the apple.

Refining our **goals** and
perfecting our **strategies** for
shining **results**.

Polishing the apple –
enhancing and
elevating every
aspect of our
operations –

begins at our very





Contents

2	Selected Financial Data	15	Intensified Food and Menu Strategy
3	Year in Review	17	Talented and Trained People
5	Singular Focus on the Applebee's Concept	19	Extended Development Potential
6	Experienced Management Team	21	Solid Financial Strength
9	Strengthened Franchise System	22	Financial Review
10	Operations Excellence	44	Corporate Information Corporate Profile
13	Integrated Brand-Building Strategy		Inside Back Cover Directors and Officers

For the freshest information about Applebee's, visit our Web site at www.applebees.com.

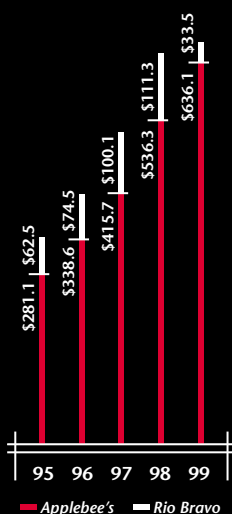
core. Redefining our **goals**. Refocusing our **resources**. Retooling our **strategies**. And renewing our commitment to give our guests a unique dining experience ... one that's **"As American As Applebee's.™"**

Selected Financial Data

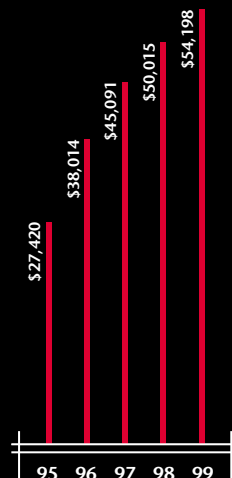
	Fiscal Year Ended				
	Dec. 26, 1999	Dec. 27, 1998	Dec. 28, 1997	Dec. 29, 1996	Dec. 31, 1995
Statement of Earnings Data:					
Company restaurant sales	\$596,754	\$580,840	\$452,173	\$358,990	\$299,824
Franchise income	72,830	66,722	63,647	54,141	43,739
Total operating revenues	\$669,584	\$647,562	\$515,820	\$413,131	\$343,563
Operating earnings	\$ 94,910	\$ 88,562	\$ 71,283	\$ 58,833	\$ 45,712
Earnings before extraordinary item	\$ 54,198	\$ 50,656	\$ 45,091	\$ 38,014	\$ 27,420
Basic earnings per share					
before extraordinary item	\$ 1.91	\$ 1.67	\$ 1.44	\$ 1.22	\$ 0.94
Diluted earnings per share					
before extraordinary item	\$ 1.89	\$ 1.67	\$ 1.43	\$ 1.21	\$ 0.92
Net earnings	\$ 54,198	\$ 50,015	\$ 45,091	\$ 38,014	\$ 27,420
Basic net earnings per share	\$ 1.91	\$ 1.65	\$ 1.44	\$ 1.22	\$ 0.94
Diluted net earnings per share	\$ 1.89	\$ 1.65	\$ 1.43	\$ 1.21	\$ 0.92
Dividends per share	\$ 0.10	\$ 0.09	\$ 0.08	\$ 0.07	\$ 0.06
Basic weighted average shares outstanding	28,403	30,272	31,401	31,188	29,319
Diluted weighted average shares outstanding	28,601	30,385	31,640	31,533	29,860
Balance Sheet Data (at end of fiscal year):					
Total assets	\$442,216	\$510,904	\$377,474	\$314,111	\$270,680
Long-term obligations, including current portion	\$108,100	\$147,188	\$ 29,105	\$ 25,843	\$ 27,427
Stockholders' equity	\$253,873	\$296,053	\$290,443	\$244,764	\$203,993

The table above sets forth for the periods and the dates indicated selected financial data of the company. 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.

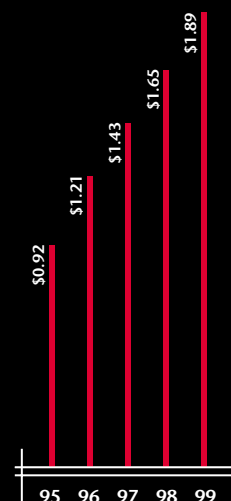
Total Operating Revenues
in millions



Net Earnings
in thousands



Diluted Net Earnings Per Share



Already among the **dominant leaders** in casual dining, Applebee's has developed **strategies** and directed **resources** to achieve its over-riding core objective – creating predictable, sustainable **results** and increasing **shareholder value**.

Applebee's Year in Review

Applebee's leadership in the casual dining segment is boldly reflected in the results achieved in fiscal 1999. System sales for the Applebee's concept, which include both company and franchise restaurant sales, totaled \$2.35 billion, an increase of 14 percent over the prior year. Total company restaurant sales grew 3 percent to \$596.8 million; total company operating revenues, which include company restaurant sales and franchise income, reached \$669.6 million, an increase of 3 percent. Excluding the Rio Bravo Cantina and specialty restaurants which were sold in April 1999, company restaurant sales increased 19 percent to \$563.3 million and operating revenues increased 19 percent to \$636.1 million.

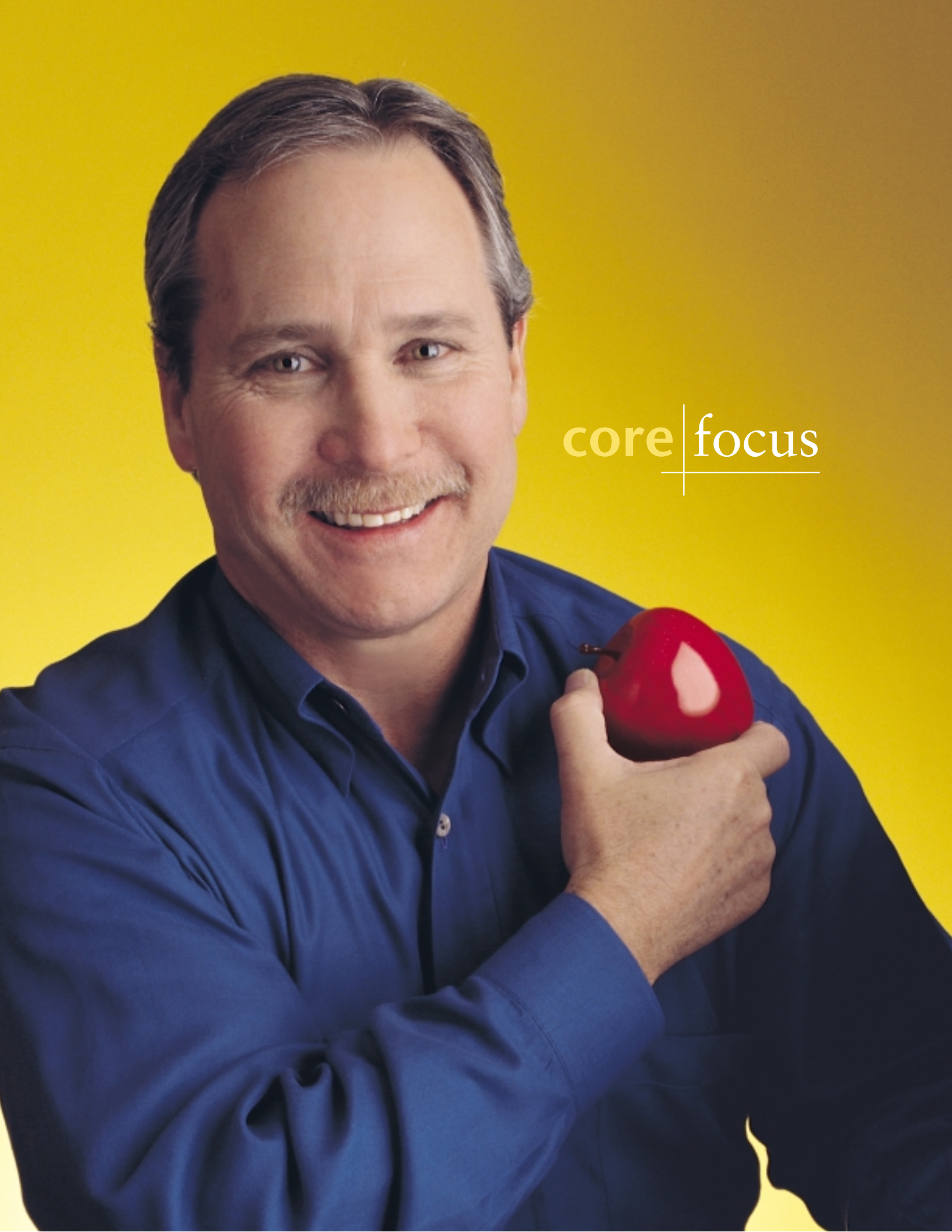
Record basic and diluted earnings per share for 1999 grew 20 percent to \$2.01 and \$2.00, respectively, excluding an 11 cent per share loss on the disposition of restaurants in 1999, and an extraordinary loss of 2 cents per share in 1998. Including the loss on the disposition of restaurants, basic and diluted earnings per share were \$1.91 and \$1.89, respectively.

Systemwide comparable sales for the Applebee's concept, comparing restaurants open for at least 18 months, increased 3.2 percent during 1999. Comparable sales for company restaurants rose 4.4 percent and comparable sales for franchise Applebee's restaurants increased 2.9 percent.

Last year, Applebee's aggressively extended its leadership position as the largest casual dining concept in the world. Opening over 950 restaurants since 1992 – an unprecedented pace of one new unit every other business day – we have established a dominant market presence. Our growth during that period has exceeded that of our next three competitors combined. At year-end, there were 1,168 Applebee's restaurants throughout 49 states and eight international countries – nearly twice the number of our closest competitor.

Our system sales dominate the bar-and-grill segment. During that same seven-year period, system sales grew from \$402 million to \$2.35 billion – greatly exceeding the competition and representing a compound annual growth rate of 29 percent.

Applebee's incredible success in 1999 results from the commitment and contribution of our company associates and franchise partners across the country and around the world. Going forward, our continued success will depend on our ability to recognize the changing tastes and desires of consumers, to change in response to emerging societal trends and lifestyles, to evolve our brand and to elevate our concept. Our success depends on “polishing the apple” with clearly defined and articulated strategies for continued growth.



core|focus

We're **building** on our impressive financial results and have **retooled** our strategic **vision** into nine core initiatives.

Our refined corporate strategies – research based, consumer driven and fully integrated – are targeted at our fundamental goals of creating predictable, sustainable results and increasing shareholder value. Developed and introduced in early 1999, these strategies were steadily implemented throughout the year and are already delivering exciting results.

1

CORE STRATEGY ONE – LLOYD HILL

LLOYD HILL

Q How important is change to your personal management philosophy?

A Change is constant and inevitable, but it's also essential to our business. As a company, we have to continually change, or we will cease to exist – our customers will see to that. So we must be committed to change ... to embracing change.

Q Do you envision Applebee's as something more than a restaurant?

A Increasingly, cooking is becoming a hobby, an activity done for pleasure only in one's spare time. People are dining out more often, seeking food, convenience and, most importantly, social interaction. Applebee's can be "the third place" – a relaxed, comfortable gathering place for socializing beyond the home and workplace. Ultimately, Applebee's can become an enduring institution, an extension of the family dinner table and an American icon.

Singular Focus on the Applebee's Concept

Foremost among our strategies is directing our management attention and company resources to one dominant concept. We determined that the formidable strength of the Applebee's brand eliminates any immediate need for a second concept to sustain our earnings growth objectives. Our renewed, singular focus on the Applebee's concept serves our long-term corporate goals for sustained growth and profitability.

In early 1995, the company acquired the Rio Bravo Cantina concept, consisting of 13 Mexican restaurants together with four other specialty restaurants. Over the next four years, we built the system into a total of 66 units, including 40 company-owned restaurants and 26 franchised restaurants. Despite this unit growth, the secondary concept never aligned with our overall earnings and return on investment expectations, and the restaurants did not meet our unit economic profile or that of our franchisees. As a result, we made the decision to divest the Rio Bravo Cantina system, completing the sale in April 1999.

Our exit from the Mexican segment eliminated a potential downside risk to shareholder value and enabled management to focus its time and energy, together with the company's capital and resources, on one unique and dominant concept – Applebee's Neighborhood Grill & Bar.



A renewed concentration on our core concept focuses our time, energy and resources on one of the strongest concepts in casual dining.



2

CORE STRATEGY TWO – LLOYD HILL

Experienced Management Team

In recent years, Applebee's has thoughtfully and decisively emerged from its entrepreneurial origins into a multibillion-dollar system. We have assembled a premier leadership team capable of supporting the company's industry-leading position and advancing the organization to greater accomplishments.

During 1999, we completed the formation of our senior management team, filling key positions with capable individuals who bring proven experience and leadership in critical areas. In fact, the five executives who report to me have a combined total of nearly 90 years of industry experience.

Julia Stewart joined the company in late 1998 as President of the Applebee's Division. She has 21 years of broad restaurant experience, including operational and franchise experience with Taco Bell, as well as marketing and product development experience with Stuart Anderson's and Burger King.

George Shadid joined the company in 1992 and serves as Executive Vice President and CFO. In 1999, he was also elected to the Board of Directors. George brings nearly 24 years of financial experience to his responsibilities, including 15 in the restaurant industry.

Steve Lumpkin, Executive Vice President of Strategic Development, joined Applebee's in 1995. He brings to the company 22 years of business experience, including five in the restaurant industry.

Larry Cates joined Applebee's as President of the International Division in 1997 and adds 28 years of experience to this position.

Our **senior management team** has the capability to support the company's industry-leading position and advance the organization to greater accomplishments.

Lou Kaucic joined us in 1997 as Senior Vice President of Human Resources. His background of more than 20 years of senior-level human resources experience includes 18 years in the industry.

The following members of the senior management team were added during 1999 and report to Julia Stewart.

Karen Eadon, Senior Vice President of Marketing, has over 20 years of marketing experience, most recently as the top marketing executive with the ARCO AM/PM convenience store chain where she led a brand repositioning effort. Her extensive restaurant, consumer packaged goods, retail and brand management experience includes eight years with Taco Bell.

GEORGE establishes our financial strategies and tracks our operating results.

KAREN ensures that we are the most recognized brand in casual dining.

LOU trains and retains talented performers.

LARRY exports the Applebee's experience.

LLOYD maintains our strong franchise relationships and brings the Applebee's vision to your table.

JOHN creates the food favorites that America craves.

JULIA keeps our whole company and franchise network in sync.

CARIN makes sure company operations run smoothly.

STEVE keeps an eye out for strategic development.

John Koch, Senior Vice President of Research and Development, also adds more than 20 years of industry experience with a strong technical focus on product development. He joined the company from The Olive Garden where he held the top research and development position and was the architect of a major core menu overhaul.

Carin Stutz, Senior Vice President of Company Operations, brings over 20 years of business and operations experience, including 17 years in the food service industry with Wendy's International. She has responsibility for the operations of our 262 company-owned restaurants.

To add to the strength of our outstanding Board of Directors, in December we appointed Douglas R. Conant, President of Nabisco Foods Company. Nabisco Foods is a \$3.5 billion food enterprise with leading consumer brands. He brings a wealth of food and marketing experience and a proven track record in brand building, consumer marketing and business management.

Applebee's today enjoys unprecedented consumer awareness, visibility and market share. Building on our considerable momentum and industry leadership, we are well-positioned to be the most successful brand in casual dining and the world's favorite neighbor.



Lloyd L. Hill
Chief Executive Officer and President
March 2000



Applebee's Senior Management Team

Pictured from left to right: George Shadid, Karen Eadon, Lou Kaucic, Larry Cates, Lloyd Hill, John Koch, Julia Stewart, Carin Stutz and Steve Lumpkin.

core|direction



3

CORE STRATEGY THREE – JULIA STEWART

Strengthened Franchise System

JULIA STEWART

Q Describe your formula for Applebee's success.

A Success is about consistency of operations, calibrating, fine-tuning, keeping a close eye on everything – and inspiring everyone from myself on down to do the best they can every single day.

Q How do you view the future?

A I have an unshakable belief in the future of our concept because I know it will continue to change to meet our customers' demands. Instead of initiating change based on what we think customers want, we must use solid research to fully understand their needs. And change must stem from a singular vision of who we are as a concept and what we want to be in the eyes of the consumer.

Q What do your franchisees bring to Applebee's?

A From the beginning of the franchising of our concept, franchisees have been deeply committed to innovation, excellence and growth. They relish each new challenge – and they've been a critical component of building the largest and most successful casual dining concept in history.

The franchise system has been a fundamental strength of Applebee's since its earliest days. Applebee's leads the casual dining segment in the success of its franchising efforts, and our franchisees have been a critical component of building the largest and most successful casual dining concept in history. As true partners in the growth of the Applebee's system, franchisees inject the operation with energy and enthusiasm, with commitment, creativity and candor.

Our franchise system was substantially strengthened with the completion of the Apple South divestiture in May 1999. As a result of this refranchising, the former 274-unit restaurant group was divided among 14 well-qualified franchise groups, including 11 groups new to the Applebee's system. These smaller, highly motivated franchise groups are providing a tighter geographic focus and a stronger foundation going forward.

This refranchising initiative also offers the potential for strong gains in average unit volume and same store sales. Prior to the Apple South divestiture, the average unit volume of these restaurants lagged behind the average of the entire Applebee's system by approximately 14 percent. During 1999, same-store sales increases for these restaurants exceeded the increases for all other franchisees, and we expect this gap to continue to narrow over time.

During the past year, the growth of our franchise system continued its strong momentum. Franchisees opened a total of 80 new Applebee's restaurants in 1999 – including the first restaurant in Alaska – bringing the year-end total to 906 franchised units in 42 states and eight international countries.

Franchisees opened a total of 80 **new** Applebee's restaurants in 1999 – including the **first** restaurant in **Alaska**.

During 1999, we took our business partnership with franchisees to a higher level, adding additional strength and depth with newly defined positions. Franchise Business Managers will be responsible for the overall relationship with each franchisee, helping them with business planning, development, technology and human resources efforts; Territory Managers will provide an objective perspective to assess franchise operations.

Our international presence was strengthened during 1999 with the opening of eight new restaurants. By year end, 12 franchisees were operating 26 restaurants in eight countries around the world. In Canada, 11 units are open and several more are in the development pipeline, while our franchise group in the Middle East opened a seaside restaurant in Kuwait City last year. In Mexico, three Applebee's restaurants are operating, while in Central America, our newest international franchisee opened its first site in Honduras. Our international plans continue to focus on Canada, Mexico, Central America and the Middle East.

4

CORE STRATEGY FOUR – JULIA STEWART

Operations Excellence

Operations excellence is what sets Applebee's apart from the competition. Our objective is flawless execution on food and service in every restaurant, every day, with every guest. In order to deliver on that promise, we are aggressively developing and implementing a variety of programs, all aimed at improving guest satisfaction, increasing guest traffic and maximizing sales in existing restaurants.

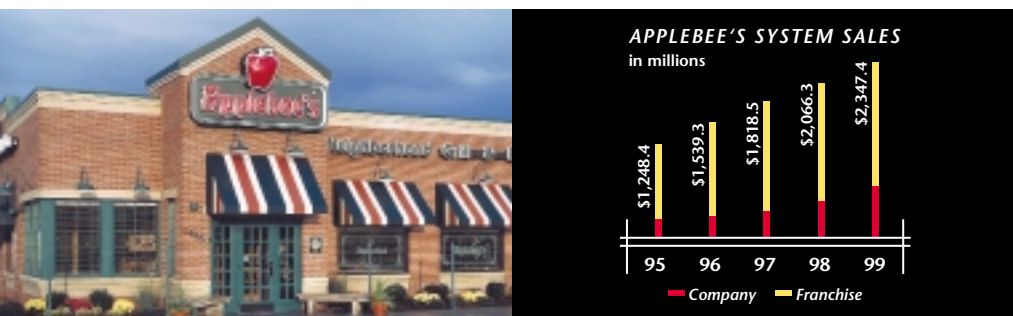
Operations **excellence** is what sets Applebee's **apart** from the competition.

Achieving operations excellence depends, in part, on our ability to gather and measure customer feedback and to respond appropriately when corrective action is needed. Using our automated customer response system, we gather significant guest feedback daily and measure guest opinions in key operating areas. We use traditional mystery shoppers to gauge adherence to our operating standards and procedures, and to ensure that both the restaurant and employees are meeting and exceeding guest expectations. In 1999, we formed a new guest services department and will enhance this support function with additional staff, technology and extensive customer response training.

In 1999, we introduced the Balanced Scorecard in our company restaurants, a new management tool that measures more than just the top and bottom line. It incorporates the impressions of our associates, measured by job satisfaction and turnover; of our guests, measured by customer satisfaction and mystery shopper scores; as well as financial results, measured by sales and profit improvement. These three areas combine into one overall score of a restaurant's performance. Linking this integrated score to compensation, we are emphasizing to our restaurant managers that success involves three critical areas that require equal attention and balance – the associate, the guest and financial results.

The over-riding objective of Applebee's operations excellence is flawless execution on food and service – so that every guest enjoys a satisfying and memorable dining experience.





In conjunction with our focus on operations excellence, we have shifted our primary focus from the development of new units to increasing same-store sales. Formerly, our priorities for earnings growth centered on market penetration, achieving dominance and building market share.

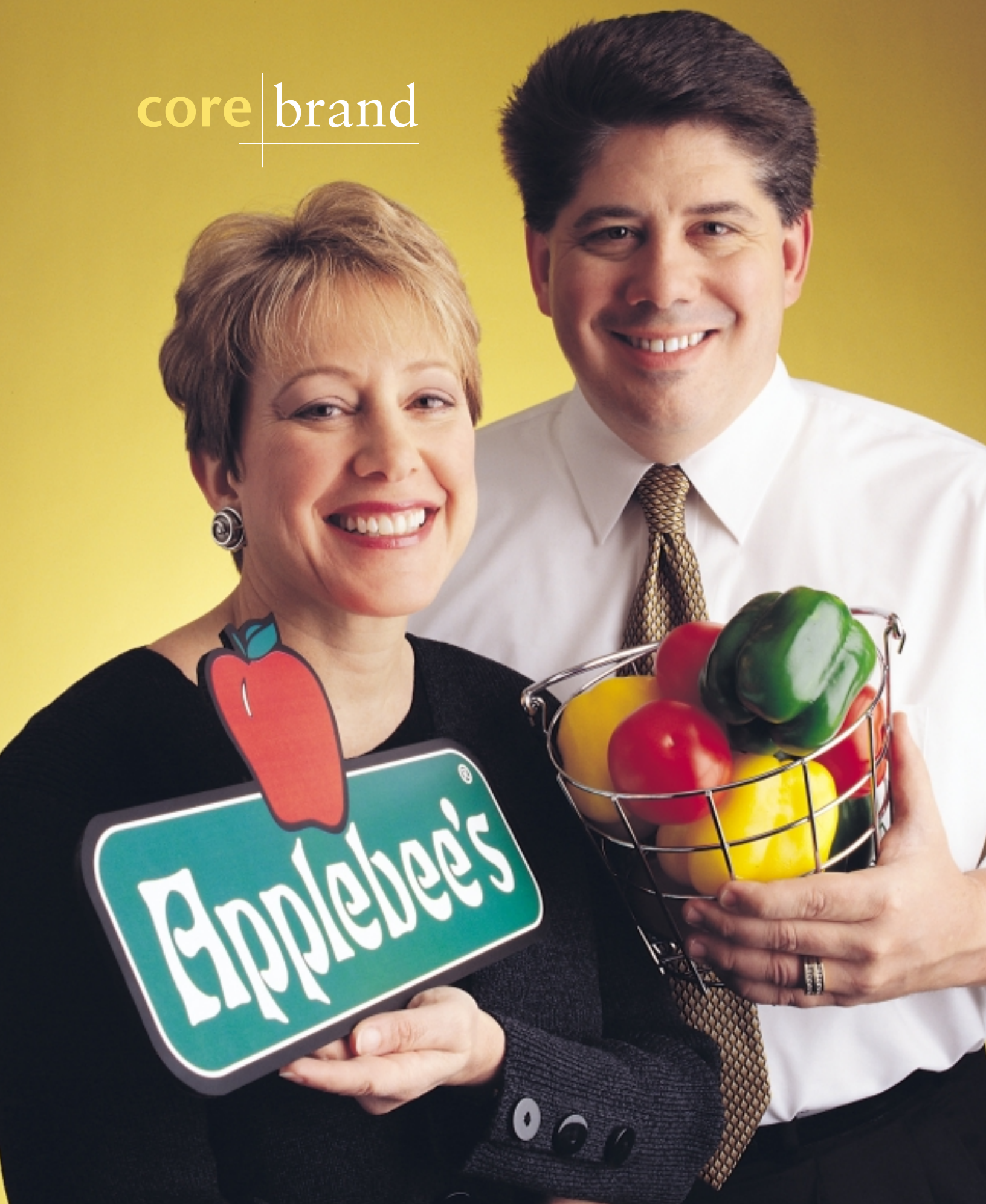
We have been adopting a more balanced approach – placing less reliance on unit growth and more emphasis on same-store sales across the entire restaurant base. Our original target for 1999 was an increase in same-store sales of 1 percent to 1.5 percent. We achieved systemwide gains of 3.2 percent – the highest comparable sales increase since 1994. Based on this success, we have boosted our same-store sales goal for 2000 to an increase of at least 3 percent.

We have been adopting a more **balanced** approach – placing less reliance on unit growth and more emphasis on **same-store sales** across the entire restaurant base.

Other efforts are also targeted at operations excellence. We established a formalized program to gather and share best practices from throughout the company. Innovative ideas are already being used to address increasing sales and retaining talented employees. We are developing and implementing a quality assurance program covering our restaurants, suppliers and distributors.

As part of this strategy, we continue to invest heavily in technology. A new food cost system is being implemented in all company restaurants, incorporating inventory usage controls and theoretical food cost measurements, to enable us to better understand and manage costs. In addition, we are testing a new automated kitchen display system to enable better coordination of orders and cook times.

core|brand



5

CORE STRATEGY FIVE – KAREN EADON

Integrated Brand-Building Strategy

KAREN EADON

Q What does branding Applebee's mean to you?

A A brand is a promise to the consumer – a promise that every contact with that brand will deliver everything they've come to expect from that brand, across time and across markets. A brand has a personality and speaks with a consistent voice.

JOHN KOCH

Q How do you describe value from the guests' perspective?

A Value isn't simply low prices – value is an equation. The consumers' expectations, coupled with the price they paid, measured against the product they received, equals value.

The company's integrated brand-building strategy involves leveraging the power of the Applebee's name by strengthening what the brand stands for among consumers. This effort involves creating effective advertising to drive customer traffic and increase the frequency of visits among existing customers, and increasing brand awareness through an enhanced media presence.

To achieve these objectives, we have significantly strengthened our marketing capabilities, both internal and external. We restructured our marketing department, bringing added strength to the areas of advertising, marketing research and brand marketing. And we built a formidable alliance of outside partners that includes one of the world's largest advertising agencies, a well-known retail identity consulting firm, a leading promotion and merchandising firm and the largest media buying service in the country.

As part of our brand evolution project, we undertook a major consumer research study to determine Applebee's current brand positioning in the marketplace. Drawing on the input of 2,500 participants nationwide, this customer segmentation study benchmarked what consumers want from a casual dining experience and what drives their brand choice.

According to our research, five basic factors in the overall restaurant experience drive repeat visits and motivate customers to return again. They want high-quality food that is bold-tasting and distinctive. They seek value based on reasonable prices and generous portions. They desire convenience and service that is prompt and attentive. And they want a welcoming atmosphere where they can relax and have a pleasant conversation. Based on those findings, we are sharpening our brand strategy to focus on three key areas – bringing to life the idea of a neighborhood place within our restaurants, developing more distinctive and craveable American food, and strengthening our service delivery.

As part of the evolution of the Applebee's brand, we utilized the findings of the segmentation study to examine and evaluate every aspect of our brand that consumers experience – from server uniforms to food taste and presentation, from interior ambiance to exterior appearance, from the design of our menus to the message of our advertising.



Building our brand depends on giving customers generous portions of distinctive food and prompt service in a welcoming, relaxed atmosphere.

CORE STRATEGY FIVE
continued

Our newly introduced advertising campaign provides a positioning platform and establishes an overall theme that will be showcased in all Applebee's commercials throughout the year. This campaign is designed to deliver on our brand positioning and to develop a clearly defined personality for Applebee's – featuring the food customers crave, friendly service, great value and a relaxing atmosphere. The campaign tag line, “As American As Applebee's,”[™] underscores our traditional American food and our position as America's favorite neighbor.

We introduced the new campaign theme in mid-January 2000 with our first food promotion for the year – Sirloin Steak Skillets. Future food promotions will continue the theme and identify featured foods with regions of the country or with something truly American. This year's food promotions will feature dinner menu items as the major focus of our advertising, and the food promotions will run for a longer period to give customers an opportunity to return for a featured item before the promotion ends.

The major focus of our advertising strategy is to build awareness for the Applebee's brand, using our increasing marketing clout and advertising muscle. With restaurants across 49 states, a heavier network television presence makes increasing sense, strategically as well as economically. For 2000, overall marketing spending is expected to exceed \$90 million, based on projected sales volume and a recent increase in the required contribution to the national advertising fund.



Applebee's network television advertising budget will more than double this year to \$37 million from \$16 million in 1999. Advertising will focus on major sports programming and prime-time programs on NBC, CBS, FOX and major cable networks – including Emmy-winning shows such as “Ally McBeal,” “ER” and “Frasier.”

Increased advertising will enable us to leverage our leadership position in casual dining and boost awareness for the Applebee's brand – already one of the highest in our segment.



Beginning with Great Grilled Burgers, the ongoing revitalization of our core menu is designed to create bold-tasting and distinctive new signature items.

6

CORE STRATEGY SIX – JOHN KOCH

Intensified Food and Menu Strategy

In recent years, our food and menu efforts have relied primarily on limited-time, food-specific promotions. Going forward, we are intensifying our focus on our core menu and new product development – with a goal to “create the crave” among consumers. And we are backing that commitment with a substantially increased investment in research and development resources and depth of talent.

Our first priority is to revitalize our core menu and turn it into a competitive strength. This multi-year evolution is a deliberate effort to improve current menu offerings and to create more signature items and dishes with a distinctive flavor profile – while remaining grounded in traditional American favorites consistent with our brand positioning. At the same time, we need to make certain these menu items can be successfully recreated in nearly 1,200 restaurants. The goal of our intensified food and menu strategy is to increase the frequency of guest visits by giving regular customers even more reasons to return to Applebee’s.

These initiatives are based on the single most significant and extensive research ever undertaken by Applebee’s. During 1999, we gathered the opinions of thousands of people in a far-reaching core menu study that will establish benchmarks for the years ahead. Guests in both company and franchised restaurants gave us detailed diagnostic information on all our key menu items – everything from taste, temperature and portion size to aroma, appearance and value. This study was backed by conceptual screening, focus groups and field testing to ensure that the evolution of our core menu and promotional pipeline is totally customer driven.

Drawing on our extensive consumer research, we are developing great new products and we will integrate those successful promotions into our core menu as signature dishes. We have in place a solid, deliberate product screening process to ensure a particular food item fits with the Applebee’s brand before it gains a place on our menu. This methodical process extends from an initial idea through research, development, customer feedback, operations shakedown, market tests and expanded testing systemwide.

In the fall of 1999, we introduced our “You Pick Two” promotion featuring food items that were created, tested and rolled out from start to finish by our strengthened R&D and marketing teams. We offered the customer a choice of two different entrees with bold and distinctive flavors, abundant portions and great value. This successful campaign achieved the highest same-store sales increases in six years.

core|development



7

CORE STRATEGY SEVEN – LOU KAUCIC

Talented and Trained People

Without the right kind of people, our other strategies will fail. Applebee's must recruit and retain talented people who possess the skills and commitment to execute day in and day out.

Staffing and retention have been a growing challenge throughout the restaurant industry for years – and have become increasingly tough. Traditional sources of hourly and management talent continue to dwindle. The skills of potential employees continue to decline at the same time that the sophistication of our technology and management systems requires ever-increasing skill levels.

Using the concept of **cascade training**, we retrained every individual in every restaurant – all **70,000** people.

Further compounding our staffing challenge, a large percentage of Applebee's associates today is comprised of Gen-X and Gen-Y employees – groups that possess far different values, needs and attitudes than previous generations.

LOU KAUCIC

Q What is the greatest staffing challenge facing Applebee's?

A Ironically, we must beef-up the quality of potential candidates while conversely reducing the number of candidates we actually let through the door. For us to accomplish our vision, we must elevate the standards and expectations of potential Applebee's employees.

STEVE LUMPKIN

Q Is the current environment conducive to Applebee's development?

A For the first time in over five years, customer traffic is exceeding new unit growth throughout the industry. So the time is definitely ripe for continued Applebee's development.

The company is confronting this challenge by developing innovative and focused strategies, and by building and maintaining a culture that attracts and retains the most talented performers. We have strengthened our employment methods with new hourly recruitment and selection tools geared to helping identify potential employees with the best chances for success. And we have refined our benefits and compensation programs, tailoring them to the needs of current and potential employees – featuring medical insurance for part-time employees, a stock purchase plan for all associates and a computer purchase program appealing especially to Gen-X and Gen-Y employees.

At the same time, we are taking an aggressive staffing approach for restaurant management. This year we will introduce a new, more sophisticated, but user-friendly restaurant management selection tool designed to improve the quality and simplify the process of staffing our manager ranks. We also developed a new manager/operator deferred compensation plan designed to attract, retain and reward our general managers. And we implemented a new referral reward program that pays employees with cash, trips and other rewards for successfully referring restaurant management candidates to Applebee's.

It's one thing to attract the best people. For them to succeed, we must provide the culture, leadership, training and tools they need. With adequate training and support, our employees execute better, stay longer and contribute more to achieving operations excellence.

During the year, we implemented an entirely new approach to hourly training with a comprehensive program called High Impact Training or "HIT." Using the concept of cascade training, we retrained every individual in every restaurant systemwide – all 70,000 people – on the basics of service and cooking as part of our "You Pick Two"



At Applebee's, we give employees the tools and training they need to do their best, and a culture that rewards talent and initiative.

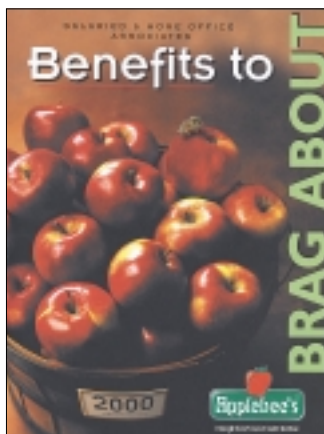


CORE STRATEGY SEVEN *continued*

promotion. And we accomplished this feat in just three weeks. The cooking video covered back-to-basics topics from preparation and cleanup to grill times and temperatures. The service video reinforced concepts from guest expectations and menu knowledge to reading the guest and suggestive selling.

We are adapting this successful concept with a variation termed "HIT'M" or High Impact Training for Managers. We plan to use this approach to reinforce the basics of various management skills and topics, utilizing workbooks, role-playing and video-based training sessions for all managers in all restaurants during the same time period.

We continue to benefit from the success of our two Appleseed restaurants. These real-life laboratories allow us to test and refine new human resources concepts and practices before introducing them into our restaurants systemwide.



Faced with a challenging labor market, Applebee's has developed a variety of innovative programs to recruit and retain skilled associates and restaurant managers.



8

CORE STRATEGY EIGHT – STEVE LUMPKIN

Extended Development Potential

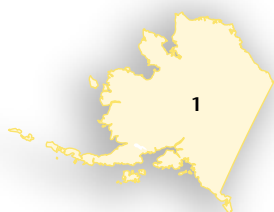
Supported by our strategic focus on a single concept, we have extended our view of the development potential of the Applebee's concept well beyond the historical estimate of 1,200 to 1,500 restaurants. Our most current projections indicate the potential for at least 1,800 Applebee's restaurants across the United States.

While the company has shifted its focus to a more balanced blend of development and same-store sales growth, we are not about to abandon the strategic advantage of being the largest casual dining concept. Convenience is among the leading drivers in a consumer's choice of a casual dining restaurant. Applebee's dominant market presence – with nearly twice as many restaurants as the next closest competitor – clearly makes a visit to Applebee's extremely convenient.

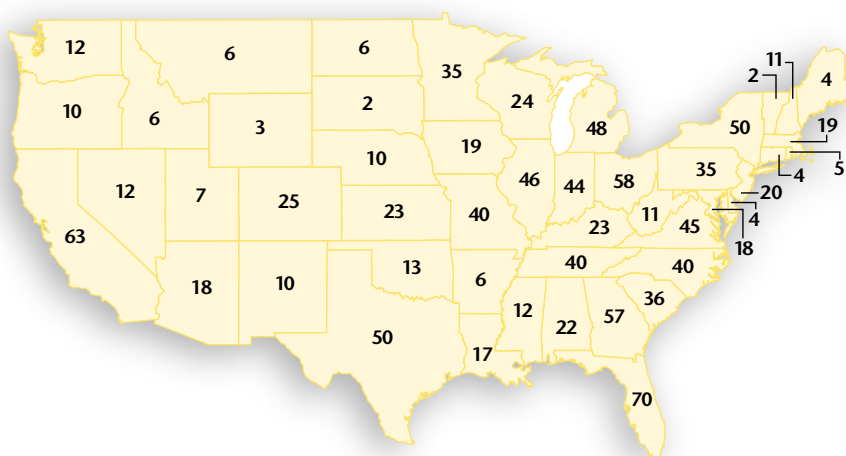
In 1999, a total of 107 new restaurants were added to the system, including 27 company-owned and 80 franchised units. We anticipate overall unit growth of 10-11 percent in 2000, consisting of 25-27 company restaurants and 90-100 franchised units. This pace offers a manageable rate of growth with less cannibalization of unit sales volume.

As part of our development plans, we are seeking opportunities for balanced growth from continued deeper penetration of metro markets and capturing smaller towns. Applebee's has developed building prototypes with various seating configurations that are economical to construct and efficient to operate, while providing plenty of atmosphere and excitement for our guests. Even in the midst of these proven prototypes, there is room for innovation. One of our franchisees is opening a one-of-a-kind Applebee's restaurant in New York City on 42nd Street in the heart of Times Square.

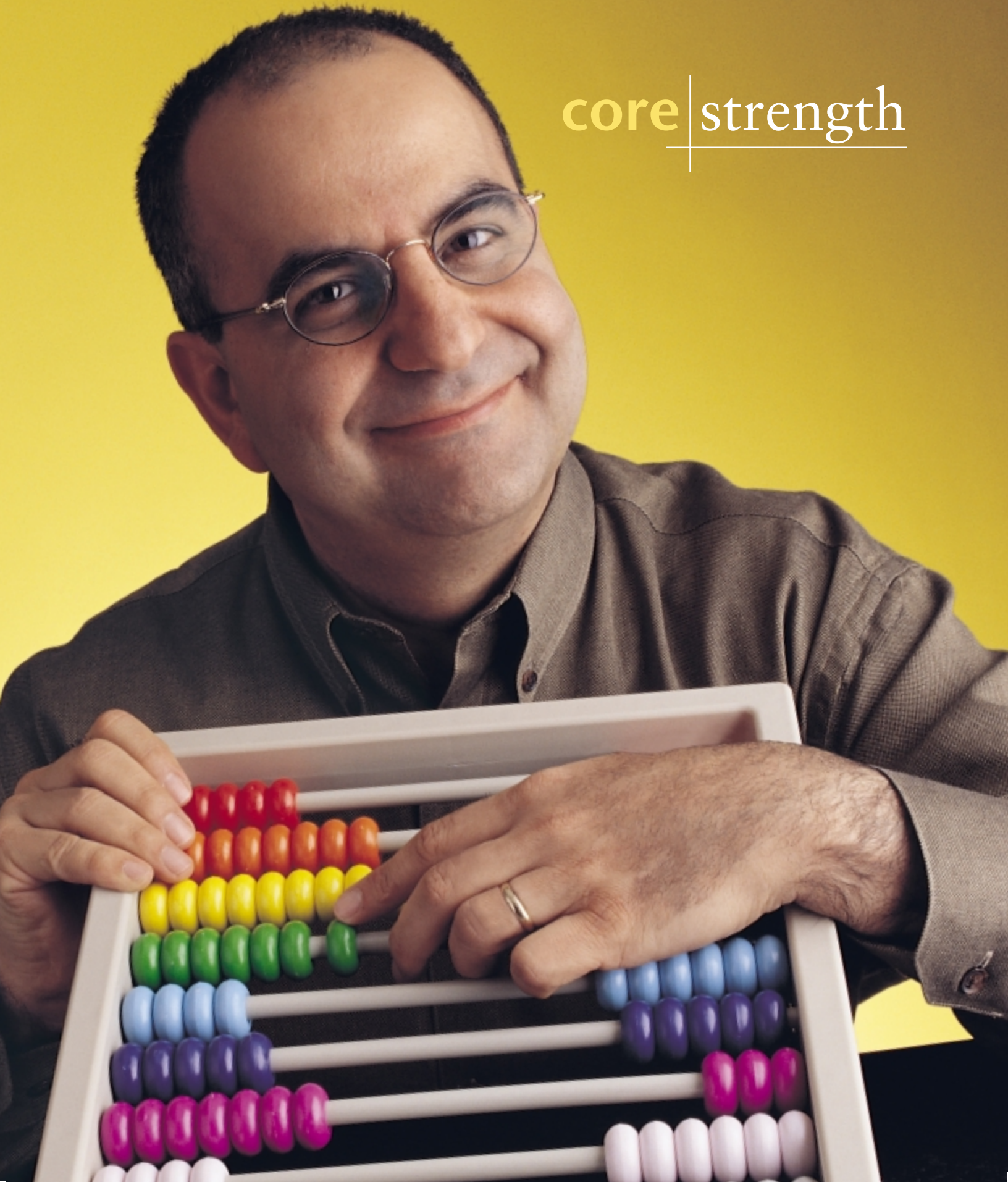
The small-town Applebee's prototypes introduced over a year ago continue to demonstrate strong potential and promise. These scaled-down units are designed for smaller markets with a population of 10,000 to 25,000. We continue to monitor this effort to ensure customer expectations and our return on investment targets are being met. At year-end, a total of 20 of these smaller restaurants were in operation, both company-owned and franchised, and we foresee the potential for at least 150 domestic units within our 1,800 estimate.



Applebee's restaurants operate in 49 states and eight international countries.



core|strength



9

CORE STRATEGY NINE – GEORGE SHADID

Solid Financial Strength

From a financial perspective, Applebee's has never been stronger. Our solid financial strength is based on key factors including a franchising/company model, sustained earnings growth, strong financial position and cash flow, our stock buyback program, and increased financial returns.

As previously discussed, our franchise system provides the company with a group of successful, motivated operators. In addition, our franchise/company model offers substantial financial benefits. Franchising gives the company accelerated expansion capabilities plus annuity-like cash flows with minimal capital investment and lower profit exposure to sales volatility.

In conjunction with this model, our portfolio management efforts are designed to maximize returns by evaluating which territories should be company-owned versus franchisee-owned. In mid-December 1999, the company finalized the sale of 12 company-owned Applebee's restaurants in the Philadelphia market to the Rose Group, an existing franchisee. The transaction, valued at \$23.5 million, will help accelerate expansion in this market with a franchise organization that enjoys a strong local presence.

A top financial priority is sustained annual earnings per share growth. On the heels of a 17 percent increase in 1998, earnings per share for 1999 rose 20 percent to \$2.00, excluding a loss on the disposition of restaurants. We have established a goal of sustained, predictable earnings per share growth of at least 15 percent. This continued momentum will be driven by overall unit growth of approximately 100 units annually, expected same-store sales growth of at least 3 percent in 2000, maintaining restaurant margins in the mid-16 percent range, general and administrative expense leverage, and stock repurchases.

The company's strong financial position is evidenced by a healthy balance sheet with a moderate level of debt, coupled with substantial free cash flow generation. Applebee's generated significant free cash flow for the first time in 1999 as a result of changing cash flow dynamics – Applebee's slower rate of development, the Rio Bravo divestiture, increasing EBITDA and low debt levels. During 1999, we generated EBITDA of \$137 million, up from \$126 million the year before. The company's continued strong financial position has enabled a series of stock repurchase programs. A \$50 million stock repurchase plan was completed in 1998. A subsequent \$100 million buyback program was completed by the end of 1999; and a \$32.5 million repurchase program was authorized in December 1999 through the year 2000. Aimed squarely at enhancing shareholder returns, these stock repurchase programs total \$182.5 million since 1997.

Our effort to increase financial returns includes improving returns on shareholder equity. We reached our goal of increasing return on equity to 20 percent in 1999 – two years ahead of plan and up from 17 percent in 1998. In keeping with Applebee's solid financial performance, the annual dividend at year-end was raised to 10 cents per share, representing an increase of 11 percent and the company's 10th consecutive annual dividend.

GEORGE SHADID

Q What does the shift in free cash flow mean to the company?

A In 1999, we went from being a big user of cash to a generator of excess cash. This gives us flexibility and the ability to control our own destiny, evidenced by our aggressive stock buyback program.

Q What are the sources of Applebee's substantial improvement in return on equity?

A Our strong same-store sales performance, maintaining margins, the divestiture of Rio Bravo and stock repurchases combined to drive this substantial increase in 1999.