SIRONA DENTAL SYSTEMS, INC.
Form 425
September 16, 2015

FILED BY SIRONA DENTAL SYSTEMS, INC. PURSUANT TO RULE 425

UNDER THE SECURITIES ACT OF 1933, AS AMENDED AND DEEMED

FILED PURSUANT TO RULE 14a-12

UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

SUBJECT COMPANY: SIRONA DENTAL SYSTEMS, INC.

COMMISSION FILE NO. 000-22673

DENSTPLY/SIRONA

Moderator: Bret Wise

9-15-15/5:30 p.m. ET

Confirmation # 41327193

Page 1

DENSTPLY/SIRONA

Moderator: Bret Wise

September 15, 2015

5:30 p.m. ET

Operator:	This is Conference #:	41327193

Operator: Ladies and gentlemen, thank you for standing by. Good afternoon and welcome to today's conference to discuss the combination of Dentsply and Sirona Dental, which was announced this afternoon.

At this time, all participants are currently in a listen-only mode. The call will be open for your questions following the presentation, and instructions will be given at that time. As a reminder, today's call is being recorded and a copy of the slide presentation is available on the investor relations sections of Dentsply and Sirona's Web sites.

An audio archive of this call will be available shortly after the call has concluded, and will also be available until September 29, 2015. I would now like to turn the conference over to Mr. Derek Leckow, Vice President Investor Relations of Dentsply.

Mr. Leckow, please go ahead, sir.

Derek Leckow: Hello, everyone, and thank you for taking the time to join us on this call to talk about our announcement of the combination of Dentsply and Sirona.

Before we begin, I would like to note that today's discussion contains forward-looking statements that are subject to the risks identified in both company's SEC filings and other written communications related to the merger announcement.

Actual results may differ materially from those discussed here. You should refer to the information on slide 1 of the presentation, as well as, the additional information contained in the SEC filings of both Sirona and Dentsply.

Joining me on the call today are Mr. Bret Wise, Chairman and Chief Executive Officer of Dentsply International, Mr. Jeff Slovin, President and Chief Executive Officer of Sirona, Christopher Clark, President and Chief Financial Officer of Dentsply, and Ulrich Michel, Executive Vice President and Chief Financial Officer of Sirona.

With that, I am pleased to turn the call over to Mr. Bret Wise, Chairman and CEO of Dentsply. Bret?

Bret Wise: Well, thank you, Derek. Good afternoon, everyone. Thanks for joining us on our call today, especially on such short notice. As always, we appreciate your interest in our story. Today is a historic day for the dental community as we bring together two global dental leaders combining Dentsply and Sirona in a $13.3 billion merger of equals.

This transaction creates the largest global manufacturer of professional dental products and technologies with net revenues of approximately $3.8 billion, and adjusted EBITDA of over $900 million on a trailing 12-month basis.

As we will explain on our call this afternoon, there's also a significant synergy opportunity to accelerate growth in both sales and earnings over a relatively short period of time.

This is an important milestone for our customers, our employees and shareholders. As one united company, Dentsply/Sirona will have enhanced technology, scale, and product ref partnering with the dental professional to address every dental procedure with world-class products on a global basis.

Our combined company will be able to offer dental practitioners, integrated solutions, encompassing the best in consumables, equipment and technology, with the end result being enhanced patient care.

Dentists and dental laboratories across the globe will also be supported by the industry's largest sales and service infrastructure combining the world-class sales forces of both Dentsply and Sirona.

This creates a global sales organization of over 4,000 sales professionals combined with the best distributors in the global market. It's important to note that both of our companies have proud records and strong cultures of innovation and are supported by industry-leading investment and continuing professional education.

Together, we'll have a combined team of over 600 scientists and R&D staff, and we will have the largest investment and clinical education in our markets.

Reinvesting in fundamental sciences that support dentistry, as well as, the continuing knowledge base of the dental professional is the foundation on which we will build the future of our markets.

Looking ahead, Dentsply/Sirona will be well-positioned to unlock significant shareholder value and capitalize on key industry trends such as accelerating adoption of digital dentistry providing us with growth opportunities over the long term.

In particular, the combination of Sirona's digital capabilities with Dentsply's leading position in the dental specialties creates a unique opportunity advance technology in our markets.

Lastly, together, the two companies will be very strong financially. We'll have a very strong balance sheet with robust free cash flow to invest in growth and returning capital to shareholders.

As evidence of this, our confidence in the combination, we expect to repurchase $500 million of the combined company stock as soon as possible. This will be executed quickly after the combination and will compliment a robust business development program, both designed to enhance shareholder value.

The transaction is expected to be accretive to each company's shareholders within the first year, and is expected to deliver at least $125 million plus in annual pre-tax synergies in the third year post-close.

We're confident that bringing together these two innovative industry leaders will make dentistry better, faster, and safer around the globe. Slide three provides an overview of the transaction structure, initial announcement of the governance of the company and the path towards closing this transaction.

Now, this transaction is a stock-for-stock merger of equals that was unanimously approved by both company's board of directors, and it is expected to be tax-free to the shareholders of both companies.

Once the deal closes, Dentsply shareholders will own 58 percent and Sirona shareholders will own 42 percent of the combined company. In addition, when the deal closes, I will become executive chairman of the board of the combined company. Jeff Slovin, the current CEO of Sirona, who you'll hear from here shortly, will be assuming the role of CEO of the new company.

I've known Jeff for more than 10 years and we've worked together on numerous collaborations and industry matters and I look forward to working with him and our combined team to execute our corporate strategy and to integrate the two companies and cultures.

We also are blessed with a very strong management team, which I'll cover more in a moment, including their bios on a subsequent slide. The Dentsply/Sirona board of directors will consist of 11 members, 6 of which including myself are current Dentsply directors, and 5 of which, including Jeff, are current Sirona directors.

Together, with approximately 15,000 employees in more than 120 countries, we will bring scale and product breadth to the market on a global basis. The combined company will be called Dentsply/Sirona and will trade on the NASDAQ under the ticker symbol, XRAY.

The global headquarters will be in York, Pennsylvania, and the international headquarters will be in Salzburg, Austria.

We expect the transaction to be completed in the calendar quarter of 2016, subject to the receipt of regulatory approvals, other customary closing conditions, and the approval of shareholders of both Dentsply and Sirona.

Slide 4 presents an overview of each company. I'll hand the call over to Jeff to highlight Sirona in a moment, but for those of you that are not familiar with Dentsply, the company was founded in 1899, has $2.7 billion in revenue, and we currently have approximately 11,600 employees across the globe.

Today, we believe we serve an estimated 600,000 professionals worldwide reaching customers in more than 120 countries. Dentsply is known as the leader in value-added dental consumables with 6 global strategic business units focused on each of the major treatment categories in dentistry.

This encompasses preventive, restorative and prosthetic dentistry, as well as, the three specialties including implants, endodontics and orthodontics. In addition, we have a seventh SBU which serves several important categories in the medical markets focused on value-added consumables that can enhance people's lives and living conditions.

Over our history spanning more than a century, we've maintained a focus on innovation and clinical education. We're very proud of our capacity to introduce more than 30 significant new products every year and the commitment we've made to clinical research as evidence by one of the largest libraries of clinical research in our markets.

In addition, our commitment to continuing clinical education is evidence by the more than 300,000 dental professionals who attend at least one of our clinical programs each year. This commitment to continuing clinical education is the broadest in our market and it's the key investment that we continue to make in advancing the science of dentistry globally.

Dentsply also has the core competency in and a long history of growth via acquisition, expanding technology and product reached through our global infrastructure. Since 2000, Dentsply has completed 25 acquisitions covering each of our strategic verticals. As evidence of our global reach, essentially anywhere that you find professional dentistry practice around the world, you'll also find Dentsply products.

We have this global reach through our own sales and distribution resources, but also combined with solid distributor relationships to engage essentially every practitioner around the world.

With that, let me turn the call over to Jeff Slovin, President and CEO of Sirona and soon to be the CEO of the new Dentsply/Sirona. Jeff?

Jeff Slovin: Thank you very much, Bret. I'm very excited to be talking to you all today. I believe this transaction is truly in the best interest of Sirona and Dentsply. For our shareholders, customers and employees, for those of you who aren't familiar with Sirona, let me start with a brief overview and then I'd like to spend some time providing a deeper look at the combined company benefits that Bret touched on in his opening remarks.

Staying on slide 4, Sirona is the leader in dental technology and in equipment with approximately 3,500 employees and 1.1 billion in revenue. Innovation is at the core of what we do and we've introduced many firsts to the dental industry like the first electric dental drill, the first panoramic X-Ray system, and (Sirec), the first dental chairside CAT scan system, just to name a few.

These innovations and many others have supported our strong track record of top and bottom line growth and have positioned us at the forefront of many dental growth trends. For over 30 years, Sirona has been driving the adoption of digital technologies and enabling single visit dentistry to improve patient care.

We have made significant investments in our sales and service infrastructure and selling more than 120 countries and operate in 29 locations worldwide. Like Dentsply, we are supported by some of the leading distributors in the industry led by Patterson in the U.S. and Henry Shine in Europe.

Turning to slide 5, we have provided an overview of the dental markets so you can better understand the opportunity ahead of us. Dental is an attractive and growing global market, favorable demographics such as aging population and a driving demand for specialties, prosthetics restorative, esthetic dentistry.

In addition, there is a growing demand for higher quality dentistry in emerging markets. This represents approximately 80 percent of the global population. We're seeing a couple of important trends as a result. The adoption of digital technology is accelerating and the demand for efficiency in driving a need for integrated solutions.

Dentsply/Sirona will be well-positioned to capitalize on these trends. Combining our two companies will result in the most comprehensive dental solutions offering available to meet customer's demands in every major dental category across consumables, specialty, equipment and the global basis.

Together, we will create the dental solutions company. Moving to slide 6. I will now provide you with a little more color around the scale and offering breadth of the combined company.

As Bret mentioned earlier, the combination will result in a company with net revenues of approximately 3.8 billion, an adjusted EBITDA of more than 900 million excluding the incremental benefits of synergies.

We'll – we will have the complimentary suite of product offerings bringing dental consumables and equipment under one roof. Our combined product offering will consist of approximately 70 percent of sales driven from consumables and approximately 30 percent from equipment and technology.

This product mix will provide scale and stability and is essential to a perfect match to a product mix of broader dental market, and as discussed on the prior page, we will be geographically balanced, with 34 percent of our sales in the

U.S., 40 percent of sales in Europe, and 26 percent in the rest of the market, rest of the world, including a significant presence in Asia-Pacific.

Dental practices in labs across the globe also will be supported by the leading education sales and service infrastructure in the industry. Slide 7 covers in more detail the combined company's significant broadened platform of well-established brands and products with strong market positions.

By combining Dentsply's leading consumables platform with Sirona's leading dental technology and equipment offerings, we will be at end-to-end solution provider and we believe this represents a key competitive advantage in our industry.

When you have a little more time to study this slide, you'll get a real sense of the breadth of our offering and the dozens of well-established brands we have in the different niche dental markets.

With consumables, equipment and technology under one roof, the new company will be able to deliver differentiated digital technologies and integrated solutions and workloads to enhance efficiencies in patient care for general practitioners and specialists.

Adding total solution provider, Dentsply/Sirona will be well-positioned to better serve dental practitioners. As many of you know and as slide 8 highlights, Dentsply and Sirona have significant R&D capabilities.

We believe that we are shared commitment to innovation will contribute to a smooth integration and allow us to retain and cross-pollinate our leading talent of scientists and engineers.

In particular, Sirona has a reputation for innovation and equipment and that is matched and complemented by Dentsply's achievements in consumables innovation. Our combined brands are built on thousands of clinical studies and well over 3,000 patents and patent applications.

The work continues and we remain committed and focused on new product introductions that improve clinical outcomes and provide increased value for dentists and patients.

Turning to slide 9, I want to zero in on how we will be positioned to capitalize on key industry trends and drive growth. The dental industry is becoming increasingly focused on the adoption of CADCAM 3-D imaging and digital solutions.

Dental practitioners are taking on more specialized procedures that require advanced technologies and patients are demanding a better overall experience. Integrated solutions and workloads are being driven by this demand both in developed and developing markets.

As a combined company, we will be a leader in digital technologies and solutions. That means we will have complimentary offering of chairside solutions with a digital work flow for restorative and specialty procedures like implants and ortho.

Dentist labs and specialists will be digitally connected so that a procedure can be seamlessly planned and executed. The combination will drive adoption of single visit dentistry resulting in reduced chairside time and better patient experience overall.

We will also increase dental practice efficiency providing better outcome for everyone involved. And importantly, we will have an – the global infrastructure to execute on these evolving trends and demands.

In short, we will create better, faster and safer dentistry, and this is our promise to dental professionals and patients around the globe. Here on slide 10, we expand on the benefits of this transaction for our dentists.

With this transaction will be better able to improve solutions and advance patient care, and enabling better dentistry. Among other benefits, practitioners will see faster technologies and workflow solutions, as well as, more innovative and better integrated product offerings.

This will improve the efficiency and the profitability of the dental practice and labs, and with dentists benefiting from improved solutions, this means patients will benefit from better and more advanced care.

This is very important and something we're very excited about. After all, we're all patients. Patients will have shorter and fewer visits, safer procedures and improved clinical outcomes.

Moving to slide 11, the combination of Dentsply and Sirona is expected to generate substantial synergies, at least 125 million of annual pre-tax synergies in the third year following completion of the transaction.

Let me walk you through our thinking here. The combined company plans to choose – achieve these synergies by enhancing growth in optimizing its infrastructure. We will work toward offering integrated solution, expanding product lines, and pursuing potential cross-selling opportunities across the combined company's expanded customer base.

In terms of optimizing infrastructure, we will look towards manufacturing efficiencies, procurement savings, and corporate savings. With that, let me turn it back to Bret to discuss our commitment to delivering shareholder value.

Bret Wise: Thank you, Jeff. Through the achievement of these synergies, the combination is expected to unlock significant shareholder value and be accretive to both Dentsply and Sirona shareholders on an adjusted earnings per share basis in the first year.

As we mentioned earlier on the call, Dentsply/Sirona is expected to benefit from a very strong financial profile and significant cash flow, enabling continued growth reinvestment, broadening our M&A scope and return of capital to shareholders.

To that end, in connection with the closing of this transaction, we expect to execute a $500 million share buyback as soon as possible to drive incremental shareholder value.

We will also maintain the capacity for additional share buybacks in the future. The new company also plans to maintain Dentsply's current dividend level of 29 cents per common share. We will have a highly flexible capital structure that will enable us to not only to continue to return capital to shareholders, but also continue to be very active in business development and M&A opportunities.

Slide 13 highlights our experienced management team that will lead the combined company. As I mentioned, Jeff and I have known and respected each other for quite some time and have worked together in the dental industry.

We share a common set of values and a passion for dentistry. Jeff is a seasoned dental executive having been CEO of two publically traded dental companies and has a strong track record of driving growth and creating shareholder value.

I'm also pleased to announce that in addition to Jeff and myself, the new leadership team of Dentsply/Sirona, will include talent from both companies. From Dentsply, Chris Clark will serve as president and chief operating officer of Dentsply/Sirona's technology segment building on his 23 years of experience in the dental market.

Also from Dentsply, Jim Mosh will serve as president and chief operating officer of Dentsply/Sirona's dental and health care consumable segment capitalizing on his 22 years of dental experience.

From Sirona, Uli Michel, a seasoned executive with 25 years of financial management, and close to 10 years of experience as the CFO of 2 public – U.S. publically traded companies will serve as executive vice president and chief financial officer.

Combine the senior leadership team has more than 75 years of dental market experience. Of course, there's a number of additional senior executive positions to be named. We are blessed by the depth of the executive talent in both organizations, and we view the combined team as a core strength of this combination.

So as you can see, the combined management team is highly experienced and proven in dental. Once more, their expertise and leadership will provide stability and continuity as we work to integrate the two organizations.

Together, we will accelerate the global adoption of digital dentistry and differentiated integrated solutions. All with the view towards creating greater shareholder value with the benefits of the combined management and governance structure.

With a strong track record of growth in leadership and integrating and optimizing global product offerings, the management team will be well-positioned to drive Dentsply/Sirona forward.

I know we are all excited to work together at integrating our two companies and setting the stage for continued growth through product development, additional capabilities and both on acquisitions.

So I can now hand the call back to Jeff.

Jeff Slovin:	Thank you, Bret. And I echo the support for the new management team and the rich talent that we have, and certainly I'm looking forward to working with you, Bret.

Slide 14 highlights the pathway to completion for our merger of equals. Again, we expect to close the transaction in the first quarter of calendar year 2016.

I want to express my enthusiasm for this transactions. I'm excited for the bright future we have ahead. I truly believe this transaction is in the best interest of our shareholders, dentists, labs and our employees, and our partners around the globe.

I want to thank all of the Sirona employees who have worked so hard to get Sirona to where we are today and we'll be instrumental in creating the dental solutions company with Dentsply.

I also want to thank our key distributors and material partners as we look to continue to collaborate for the benefit of all of our stakeholders. I look forward to seeing some of you at (Sirec 30) on Thursday where we will announce some additional exciting developments.

I will now turn the call back to Bret before we take your questions.

Bret Wise: All right. Thank you, Jeff. So to summarize, we believe this is an exciting step forward for Dentsply and Sirona, as well as, our customers, our investors and our employees. The transaction creates significant shareholder value and will lead to enhanced product offerings for dentists and laboratories across the globe.

I'm proud of the Dentsply employees and what they've accomplished in our more than 100-year history, and I look forward to executing on the expanded potential that we'll have when combined with the strong employee base of Sirona.

With the combined management talent of these two organizations, we will be well-positioned to improve the experience of dental professionals and the patient and accelerate our growth and the impact we have on the market.

The combination is a big win for our customers who will realize meaningful improvements in their ability to serve patients and grow their practices. So thank you once again for joining us today to discuss the announcement. We look forward to working with the Sirona team to complete the combination.

I'd like to now turn the call back to the operator for questions. Thank you.

Operator: Thank you, sir. The floor is now open for questions. At this time, if you have a question, please press star one on your touchtone phone. If at any point your question has been answered, you may remove your question from the cue by pressing the pound key.

In the interest of time, we do ask that you limit your question – I'm sorry – to one initial and one follow-up question. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from the line of (Brandon Collier) with Jefferies.

(Brandon Collier): Hey, good afternoon. Thanks for taking the question. Bret, if we look back 10 or 15 years ago, I mean, Dentsply got out of the equipment business. I mean, philosophically, why is now the right time to – you know for the combined franchise? Why does it make sense today? What's different?

Bret Wise: Well, I think if you look back 10 or 15 years, we were basically in one category of dental equipment and it was a pretty narrow category. This is a completely different circumstance. What we're doing today is we're combining the strongest player in dental technologies and dental equipment with the strongest player in dental consumables, and it's clear that the market is trending towards increased use of integrated systems, digital technologies and consumables that can do more when combined with the equipment.

So I really think of this as not reintroduction into a – in an equipment play, but a reintroduction into a technology play, and I'd like to let Jeff comment on that as well.

Jeff Slovin: And thank you, Bret. Yes, (Brandon), I think the fact of the matter that we're so complimentary that we can create differentiated integrated solution in this day in age. It's a big deal to the patient and the dental practitioners you know?

The ability to understand that you can create solutions that really can lead to better clinical outcomes, we can't do this alone and that's why we're better together. And frankly, when you look at it from a standpoint of where we're at as the innovator in technology and where Dentsply is, it's a different calculation today.

We bring so much to the marketplace with our innovative capabilities that we're so well-positioned.

(Brandon Collier): Super. And then maybe a question for Uli. In terms of the combined free cash flow of the company, I mean, I believe Dentsply had a channel to access overseas cash through the (Astrotech) deal and Sirona had more of a problem accessing OU.S. cash you know?

How much of the free cash flow you know is really accessible for the combined company going forward?

Ulrich Michel: I think it's a bit early to really give you exact numbers on this, but this is definitely one of the values that this combination will unlock.

We will have a better opportunity to use our strong foreign cash flows to either return them to our shareholders in the U.S. or to reinvestment – reinvest them wherever we want in the world for future growth and shareholder value creation.

Chris, do you want to add?

Chris Clark: No, I'd agree with that. Again, the company's – the combination is complimentary in a number of ways. Obviously, we have planning we need – we need to do in this area, but I would expect this to be complimentary as well.

Jeff Slovin: I think it's an extraordinary cash flow and fire power. It's exactly what our shareholders would like to see when you combine these two market-leading companies.

(Brandon Collier): Super. Thank you.

Operator: Thank you. Our next question comes from (Tyco Peterson) with J.P. Morgan.

(Tyco Peterson): Hey, thanks. You know Jeff, on the question of why now, why does this combination makes sense you know I have a number of people highlighting today that you know you're not really – you're not getting a premium here, and obviously you have a lot of momentum you know with the (Sirec 30th) and the ortho J.V. with a line and your expand to Patterson Agreement.

So why – you know why this price now and not more of a premium?

Jeff Slovin: I think this is a unique opportunity in time and our shareholders will get the benefit from the value creation that we are able to deliver, and I think the way I look at it is there's so much upside to what we're creating, and if being a stock for stock expected to be tax-free transaction, they receive all of the benefits that this combination creates, and it's going to be significant.

And you know we see real synergies here you know 120 – at least 125 million in the third year post-close. So this, to me, when you have the opportunity of a lifetime, you have to seize it in the life of the opportunity and I think that's what we see here.

(Tyco Peterson): And then can you talk on the closing timelines? One Q16 seems a little bit aggressive. Maybe what's your confidence around the regulatory approvals and maybe talk to any FDC risks?

And then lastly, just can you give us a split between revenue synergies and cost synergies in that $125 million number?

Bret Wise: OK. (Tyco), I'll take the first question and Jeff, maybe you can follow-up on the synergies.

Jeff Slovin: Yes.

Bret Wise: The timeline we're giving you is within the first quarter of next year. Of course, there's not a lot of direct product overlap between the two companies, but as you point out, we'll have to go through the customary regulatory filings to get – before we can close the deal.

But we feel reasonably confident that we'll get it done in that timeframe.

Jeff Slovin: Yes. With regard to the synergies, there is a bias towards – slight bias towards the cost synergies, but you know we have so many growth opportunities that I would not underestimate what we're able to do from a revenue synergies when we look at the cross-selling opportunities expansion of our product suites, and truly the differentiated integrated solutions that we'll bring to market.

(Tyco Peterson): OK. Thank you.

Operator: Thank you. Our next question comes from the line of (Jeff Johnson) with Robert Baird.

(Jeff Johnson): Yes, thanks. Good afternoon, guys. Jeff, let me just follow-up on that – on the answer you just gave there on the 125 million. So am I to read that as out of the 125 million, a little over half of that is cost synergies and a little over half of that is revenue synergies or…

Jeff Slovin: Yes. Yes, that's a fair assessment. That's a fair assessment.

(Jeff Johnson): OK. That's helpful. And just from a tax rate perspective, I mean, you both have low 20 percent tax rates, so I don't think an inversion here is even really a question, but can you talk to me maybe about the sustainability of those tax – of that – of the tax rates and where you think they could go over time? Is there any play here at all with this deal?

Jeff Slovin: Sure. If you don't mind, I'd like to ask Chris to (inaudible).

Chris Clark: Yes, sure. I mean, as you know (Jeff), I mean, both companies have been pretty efficient on the tax side you know? This is one that with the post-integration planning, obviously teams come together in a you know far more dedicated manner to address that.

I guess I would say based on some early looks you know we're optimistic that there's some opportunities here. So I would just leave it at that and you know say we'll know more as we get into this.

(Jeff Johnson): OK. And then my last question, Jeff, in the emerging markets, Jeff, you guys sell a lot of your stuff direct there. Bret, you go through distribution, I think, in a lot of those markets for your general consumables.

It – what is the more likely you know surviving entity there selling model? Bret, is there an opportunity to put your consumables through the Sirona sales force, or do you need to stay in distribution channels in those kind of emerging markets where Sirona may already have a presence?

Jeff Slovin: Let me start and then I'll pass it to Bret.

(Jeff Johnson): Sure.

Jeff Slovin: But I think that the beauty of this situation in the emerging markets is that you know we've got to look country-by-country. We have a rich pool of talent. We have to look at what are the dynamics, who are the distributors that they're working with and how we go about it.

So there's nothing definitive that we want to say, just that we understand there's a huge opportunity and we have the confidence that we'll figure it out together. Bret?

Bret Wise: Yes, I think that's fair, and I think it's also fair to say that at this point, we would not anticipate any disruption to the channels that we use today because, as you know (Jeff), we sell about half of our products direct, both those are typically the specialties where we have to have you know a highly trained sales force to move those products in the restorative and preventative products. We typically go through distribution almost everywhere in the world, and at this point I don't view there as being a disruption to any of that.

(Jeff Johnson): All right. Well, thanks, guys.

Jeff Slovin: This is a win across the board for everyone.

Bret Wise: Operator, next question, please.

Operator: Thank you, sir. Our next question comes from the line of (John Crager) with William Blair.

(John Crager): Hi. Thanks very much. Jeff and Bret, could you guys just maybe elaborate a little bit more on drivers of some of the opportunities to accelerate revenues that you talked about at the beginning of the call, maybe just an example or two? Thanks.

Jeff Slovin: Sure. You know again, we're both big believers that digital dentistry is here to stay and it's defining the standard of care and with all of the outstanding clinical programs that Dentsply has, this will help.

Also, when you think about from a standpoint of 3-D, the things that we can do on the ortho side together, on CADCAM with regard to implants, there's so many different things that we can do providing unique end-to-end solutions while respecting the relationship we have with our partners.

It is unique to the two of us combining together.

Bret Wise: Yes, I think – and I'll just add to that, I mean, if you look at the R&D resources, the innovation resources we have today, and bringing some of those resources together to focus on integrated solutions, I'm very positive and very confident that we'll come up with some pretty unique solutions that we would not have otherwise gotten on our own.

(John Crager): Great. Thanks. And then follow-up, I think to (Tyco's) question about any FTC risks, can you remind us how big the combined company will be in the CADCAM block business? What sort of market share do you think you'll have in that category?

Jeff Slovin: No, I don't think that it will be significant at this point, so I don't see that as being an issue. Again, the fact that we're so complimentary, I think we have to go through the process, but you know we have also given a target date of the first quarter of '16 because you know we – in dealing with our advisors, we believe that we can do that, but that's a process we need to go through.

(John Crager): OK. Great. Thanks.

Operator: Thank you. Our next question comes from the line of (Robert Jones) with Goldman Sachs.

(Robert Jones): Thanks for the questions, Bret and Jeff. Yes, I guess just sticking with the synergies because it does seem to be you know clearly a key part of this deal, I mean, candidly either of you guys have acknowledged at the overlap is not that obvious to us.

So maybe just to come back to this, could you guys share some more specifics on what exactly the source is of the synergies will be whether it be you know the less than half from revenue and the more than half from costs you know just anything specific on you know the due diligence you guys put in place to come up with that 125 million number would be really helpful for us.

Jeff Slovin: Yes. Again you know it – we still need to operate as two separate companies you know and there will be more to this integration, but you know when you look at manufacturing efficiencies and you look at the manufacturing throughput, there's some real opportunities for improvement in overhead utilization on that logistics and procurement when you look at being a 3.8 billion and what the opportunities for our supply chain.

They're not insignificant, and, of course, when you look at our potential for shared services, there's a lot of opportunity on that. I think the revenue side of this is really going to be significant because as Bret talked about earlier, and we tried to elude, when you get our engineering and scientists together working together, we will have unique offerings that will differentiate ourselves, and this is what the dentist is looking to and the patient.

And it's all – it's around single-visit dentistry and better clinical outcomes, and there's a lot that is possible for us to do not only you know in North America, but around the globe.

The infrastructure alone that we have is substantial you know? Education, sales and service, being able to drive better customer satisfaction is the key component that we think will lead to loyalty as well.

Bret Wise: Yes. And I'd like to add to that. We have specific product offering ideas that are on the table. We have the specifics, but most of its competitively sensitive. We wouldn't want to telegraph that to our competitors at this point.

(Robert Jones): Understood. And I guess just a quick follow-up, and I know we'll probably get more of this with the filing, but any background you can share just as far as how the deal came together? I get specifically curious were there any other parties interested in either company?

Bret Wise: Of the – well, the background I'm willing to give or we're willing to give at this point is Sirona and Dentsply have been partners collaborating on product, mainly materials, offerings that could go to market for some time.

I think you've seen that over the last couple of IDSs. There's been a lot of cross-work that's been done in launching products and so forth, and I think it's reasonable to assume that the two companies kind of grew together closely through that process.

You're right that when we file the merger documents, you'll see the history that describes this in more detail. I'd – I would resist, or I'm reluctant, to get into any more discussion of that though at this time.

Jeff Slovin: Yes, I would echo that sentiment.

(Robert Jones): Got it. Thanks for the comments.

Bret Wise: OK.

Jeff Slovin: Thanks.

Operator: Thank you. Our next question comes from the line of (Erin Wilson) with BofA Merrill Lynch.

(Erin Wilson): Great. Thanks for taking my questions. On the distribution front, just to follow-up on that, so do you plan on maintaining the exclusive clauses, like, with the Patterson relationship, and how would you characterize your current relationship with Patterson at this point, and do you expect it to continue going forward?

Jeff Slovin: Absolutely, and you know we've – we have – both have excellent relationships with both Patterson and Shine. They're aware of this announcement, supportive, recognize that this is historic as Bret led the call talking about it, two legends of dentistry coming together, over a 100-year history you know?

This is a game-changer and distribution is part of that. So (Erin), I think both Patterson and Shine see the possibilities. As Bret eluded you know these revenue synergies that we're talking about you know we have clear ideas how we do the – are able to do this and distribution is part of that process and plan because at the end of the day, this is also about being able to execute this in the dental office.

(Erin Wilson):	OK. Great. And can you speak to the strategy going forward with some of the product lines where there may be some sort of conflict of interest, like, in clear liners on the orthodontic side, as well as, in implants and do you

continue our plan to continue to take a more agnostic approach as to the interoperability with your systems or any sort of color on what – how you expect that to unfold would be great?

Jeff Slovin: Yes, first of all, I would say there's no conflicts you know? We're the most open on the ortho. We've been telling you that from the get-go that the Omni Cam will have the most open platform there, and when it comes to implant, we're also very open, but we're excited about the possibilities, what our engineers can do to differentiate ourselves, but we welcome partnerships you know?

This is not about being a closed system. This is about expanding. This is accelerating the adoption of technologies.

Bret Wise: And (Erin), I would – I would echo that you know? If you look at Dentsply's partnerships with other companies in the market, they're all built upon open systems. So you know I see this being a furtherance of that strategy rather than a change in direction.

Jeff Slovin: You know I mean, where we expect to continue our relationship with their material partners, they've been important drivers of our success, and we're looking forward to continuing that.

This is really about a growth opportunity in dentistry.

(Erin Wilson): OK. Great. Thanks so much.

Operator: Thank you. Our next question comes from the line of (John Blanc) with (Inaudible).

(John Blanc): Great. Thanks. And good evening. You mentioned accretive to shareholders in year one. Any comments you can give on you know on level of accretion and/or when we think about the annual synergies that you talked about of 125 million in year 3, any details around maybe the ramp to get there in year 1 versus year 3?

Bret Wise: Sure. And I'll take a stab at that, (John). The reason we said, "accretive" within year one was at the outset, of course, Dentsply is the issuer here. There is a difference in trading multiples. It'll take us a while to get the synergies ramped up, and so we're much more comfortable towards the end of the first year rather than on the first day of closing.

I don't want to characterize the level of synergies by year here, but if you're thinking a third, a third, a third, the amount in the first year would be less than a third because you may – you may exit the year at a run rate of a third, but you're certainly not going to get a third in the first year.

So a couple of things to consider is the earnings multiples of both companies and where they both trade, the half a billion dollar stock buyback, the normal stock buyback programs that we've historically had under way, and then on top of that, the benefits of the synergy program.

Jeff Slovin: Well said.

(John Blanc): OK. Great. Very helpful. And then just to shift gears you know looking at maybe leverage on a pro forma basis, it looks like it's maybe roughly one time, just assuming (inaudible) million in EBITDA before the share repo.

You mentioned the 500 million in the share repo and a willingness to get more aggressive. Just trying to – use of cash, is there sort of this combined entity leverage target that we should start thinking about that we want to sort of conceptualize on how aggressive you can be on the share repo side of things? Thanks, guys.

Jeff Slovin: Yes, I would say we don't want to talk right now about the optimum leverage point, but I would say that, look, we're a fantastic platform for M&A opportunities and there's great scope and scale with what we've created.

Certainly, we feel very comfortable with this leverage, and let's not forget about the net cash that Sirona has as well. So there's a lot of opportunity for Dentsply and Sirona in the future here.

Bret Wise: Yes. And I would add to that, if you looked at the balance sheet, the pro forma balance sheet that we'll have, will be well under 1.0, and leverage at closing if the – if you looked to the balance sheets today.

And even with the half a billion dollar share buyback will be between one and one and a quarter times leverage ratio, so I think we're going to have a lot of flexibility to do more internally, to do more in the business development in M&A area, and obviously we'll have more to return to shareholders while generating a lot of cash flow in each year moving forward.

So we feel pretty positive about that.

(John Blanc): Perfect. Thanks, guys.

Bret Wise: Yes.

Operator: Thank you. Our next question comes from the line from (Steve Bashaw) with Morgan Stanley.

(Steve Bashaw): Hi. Good afternoon. Thanks for taking the questions. So we've touched a little bit on revenue and cost synergies, but I wonder if you could spend a minute on other operational drivers of incremental cash flow?

I know this is a big topic at Dentsply. Can you talk about how the combinations of companies might potentially unlock other components of the balance sheet other than access to international cash at Sirona? And Chris, if you wouldn't mind giving us an update on how you're thinking about the targets that you've laid out for you know accessing capital via working efficiencies at Dentsply? Thanks.

Bret Wise: OK. (Steve), I'm going to start on that, and then I think Chris will have some things to offer here as well.

As you identified you know we have a global efficiency program going at Dentsply. We've seen some pretty good margin accretion from that program. We've also seen some improvements in the balance sheet. I expect those to continue.

When we look at the possibility to bring these two companies together, we kind of look at the platform that we've created to go after those efficiencies including the balance sheet efficiencies that you're communing on here.

So for us, there's a pretty clear path to bring the two companies together. Of course, they'll have multiple logistics points that we can probably combine. Jeff commented on that earlier.

So we do see a pathway to kind of continue along that path. So Chris, do you have anything you'd like to add onto this question?

Chris Clark: No, I think – I think it's a good point. I mean, bottom line is obviously, we have made some progress relative to working capital and unlocking that, we have considerable progress yet to – yet to mate.

A number of initiatives under way with that, I think this helps us in the context of moving those initiatives forward. Bret his the logistic synergies. I think those are not small and frankly, help us in terms of unlocking really cap – cash that's capped – really captured at this point in time on our balance sheet.

So I view this as a helpful enabler to really accelerate our efforts.

Jeff Slovin: Yes, I would echo that. I think that clearly integrating the companies will be a priority and a focus and we've got a good platform that Dentsply has started with their project one. So we look at this as an opportunity to be able to do this better and faster because of what they have in place.

(Steve Bashaw): That's helpful. And so if I just take the 125, the $125 million, for total synergies and I say, OK, a little less than half of that is revenue, $50 million, and I think about that over the next 3 years you know on a base of $3.8 billion, it's frankly just not a very big number.

And when I think about the different footprints of the two companies and the many ways – we didn't touch on very many of them here today – the many ways that you can go about leveraging product lines across different call points, I'm wondering you know how much conservatism there is in this $125, particularly on the top line.

Are there constraints to going about more effective cross-selling and call point leverage that I'm not thinking about? Thanks.

Jeff Slovin: (Steve), I appreciate that you see the value that we see in combining the two companies together you know? It's clear to us that at least $125 is the appropriate synergy to talk about, and we're excited to get together and explore what is possible when we're one team, but that's the number that we're coming out with, and that's the one we feel comfortable with.

(Steve Bashaw): OK. Thanks so much.

Operator: Thank you. Our next question comes from the line of (Steven Belakit) with UBS.

(3
)

154

Total
740

2

(9
)

733

48
Carrabba’s Italian Grill

Company-owned
225

—

(1
)

224

Franchised
3

—

—

3

Total
228

—

(1

)

227

31
Bonefish Grill

Company-owned
194

—

(4
)

190

Franchised
7

—

—

7

Total
201

—

(4
)

197

32
Fleming's Prime Steakhouse & Wine Bar

Company-owned
69

1

—

70

28
Other

Company-owned
2

3

—

5

1
U.S. Total
1,240

6

(14
)

1,232

International

Company-owned

Outback Steakhouse - Brazil (1)
87

5

—

92

Other
37

6

(10
)

33

Franchised

Outback Steakhouse - South Korea
72

10

(6
)

76

Other
53

3

(1
)

55

International Total
249

24

(17
)

256

System-wide total
1,489

30

(31
)

1,488

---

(1) The restaurant counts for Brazil are reported as of November 30, 2018 and 2017, respectively, to correspond with the balance sheet dates of this subsidiary.

RESTAURANT DESIGN AND DEVELOPMENT

Site Design - We generally construct freestanding buildings on leased properties, although certain leased sites are also located in strip shopping centers. Construction of a new restaurant typically takes 60 to 180 days from the date the location is leased or under contract and fully permitted. In the majority of cases, future restaurant development will result from the lease of existing third-party retail space. We typically design the interior of our restaurants in-house, utilizing outside architects to develop construction documents. We have an ongoing remodel program across all of our concepts to maintain the relevance of our restaurants' ambiance. During 2018, we remodeled the exterior of 42 Outback Steakhouse restaurants and we are currently testing prototypes for our new Outback Steakhouse interior remodel program. Once the prototype is finalized, we expect to substantially complete the Outback Steakhouse interior remodel program over a three-year period, including approximately 35 in 2019.

Site Selection Process - We have a central site selection team comprised of real estate development, property/lease management and design and construction personnel. This site selection team also utilizes a combination of existing field operations managers, internal development personnel and outside real estate brokers to identify and qualify potential sites.

7

Table of Contents

We have a relocation initiative in process, primarily related to the U.S. Outback Steakhouse brand. This multi-year relocation plan is focused on driving additional traffic to our restaurants by moving legacy restaurants to prime locations within the same trade area. During 2018, we relocated 14 U.S. Outback Steakhouse restaurants and we plan to relocate another 11 U.S. Outback Steakhouse restaurants in 2019.

Restaurant Development

We utilize the ownership structure and market entry strategy that best fits the needs for a particular market, including Company-owned units, joint ventures and franchises, as determined by demand, cost structure and economic conditions.

International Development - We continue to pursue international expansion opportunities, leveraging established equity and franchise markets in South America and Asia, and in strategically selected emerging and high-growth developed markets, with a focus on Brazil.

See Item 2 - Properties for disclosure of our international restaurant count by country.

U.S. Development - We opportunistically pursue unit growth across our concepts through existing geography fill-in and market expansion opportunities based on current location mix.

RESEARCH & DEVELOPMENT / INNOVATION

We utilize a global core menu policy to ensure consistency and quality in our menu offerings. Before we add an item to the core menu, our research and development ("R&D") team performs a thorough review of the item, including conducting consumer research. Internationally, we have teams in our developed markets that tailor our menus to address the preferences of local consumers.

We continuously evolve our product offerings based on consumer trends and feedback. We have a 12-month pipeline of new menu and promotional items across all concepts that allows us to quickly make adjustments in response to market demands, when necessary. In addition, we continue to focus on productivity across the portfolio. For new menu items and significant product changes, we have a testing process that includes direct consumer feedback on the product and its pricing.

Menu innovation and simplification remains a high priority across all concepts. In recent years, we increased certain portion sizes at Outback Steakhouse and Carrabba's Italian Grill, and introduced a new center-cut sirloin at Outback Steakhouse. At Bonefish Grill, we resumed sourcing fresh fish specials locally and rolled out a new brunch menu in 2018. During 2018, Fleming's Prime Steakhouse & Wine Bar began localizing menu selections to differentiate the brand from the traditional high-end steakhouse.

INFORMATION SYSTEMS

We leverage technology to support customer engagement, labor and food productivity initiatives and restaurant operations.

To drive customer engagement, we continue to invest in technology infrastructure, including brand websites, online ordering and mobile apps. To increase customer convenience, we are leveraging our existing online ordering infrastructure to facilitate expanded off-premises dining. Additionally, we developed systems to support our new customer loyalty program with a focus on increasing traffic to our restaurants. Investments are also being made in a global supply chain management system to provide better inventory forecasting and replenishment to our restaurants, which will help manage food quality and specifications. We also continue to invest in a range of tools and infrastructure to support risk management and cyber security.

Our integrated point-of-sale system allows us to transact business in our restaurants and communicate sales data through a secure corporate network to our enterprise resource planning system and data warehouse. Our Company-owned restaurants, and most of our franchised restaurants, are connected through a portal that provides our employees and franchise partners with access to business information and tools that allow them to collaborate, communicate, train and share information.

ADVERTISING AND MARKETING

We advertise through a diverse set of media channels including but not limited to national/spot television, radio, social media, search engines and other digital tactics. Our concepts have active public relations programs and also rely on national promotions, site visibility, local marketing, digital marketing, direct mail, billboards and point-of-sale materials to promote our restaurants. Recently, we increased our focus on data segmentation and personalization, customer relationship management and digital advertising to be more efficient and relevant with our advertising expenditures. Internationally, we have teams in our developed markets that engage local agencies to tailor advertising to each market and develop relevant and timely promotions based on local consumer demand.

Our multi-branded loyalty program, Dine Rewards, is designed to drive incremental traffic and provide data for customer segmentation and personalization opportunities. Additionally, to help maintain consumer interest and relevance, each concept leverages limited-time offers featuring seasonal specials. We promote limited-time offers through integrated marketing programs that utilize all of our advertising resources.

RESTAURANT OPERATIONS

Management and Employees - The restaurant management staff varies by concept and restaurant size. Our restaurants employ primarily hourly employees, many of whom work part-time. The Restaurant Managing Partner has primary responsibility for the day-to-day operation of the restaurant and is required to follow Company-established operating standards. Area Operating Partners for our casual dining concepts are typically responsible for overseeing the operations of six to 12 restaurants and Restaurant Managing Partners within a specific region.

Area Operating Partner, Restaurant Managing Partner and Chef Partner Programs - In addition to base salary, Area Operating Partners, Restaurant Managing Partners and Chef Partners generally receive performance-based bonuses for providing management and supervisory services to their restaurants, certain of which may be based on a percentage of their restaurants' monthly operating results or cash flows and/or total controllable income.

Restaurant Managing Partners and Chef Partners in the U.S. may participate in deferred compensation programs and are eligible to receive payments upon completion of their five-year employment agreement. Others receive performance-based bonuses payable upon completion of their five-year employment agreement. To fund deferred compensation arrangements, we may invest in corporate-owned life insurance policies, which are held within an irrevocable grantor or "rabbi" trust account for settlement of certain of our obligations under the deferred compensation plans. Also, on the fifth anniversary of the opening of each new U.S. Company-owned restaurant, the Area Operating Partner supervising the restaurant during the first five years of operation receives an additional performance-based bonus.

Many of our International Restaurant Managing Partners are given the option to purchase participation interests in the cash distributions of the restaurants they manage. The amount, terms and availability vary by country.

Supervision and Training - We require our Area Operating Partners and Restaurant Managing Partners to have significant experience in the full-service restaurant industry. All Area Operating Partners and Restaurant Managing Partners are required to complete a comprehensive training program that emphasizes our operating strategy, procedures and standards. The Restaurant Managing Partners and Area Operating Partners, together with our Presidents, Regional Vice Presidents, Vice Presidents of Training and Directors of Training, are responsible for selecting and training the employees for each new restaurant.

Service - In order to better assess and improve our performance, we use third-party research firms to conduct ongoing satisfaction measurement programs that provide us with industry benchmarking information for our Company-owned and franchise locations in the U.S. We have a similar consumer satisfaction measurement program for our international Company-owned and certain international franchise locations and we obtain industry benchmarking information for

9

the international markets in which we operate, when available. These programs measure satisfaction across a wide range of experience elements.

SOURCING AND SUPPLY

Sourcing and Supply - We take a global approach to procurement and supply chain management, with our corporate team serving all U.S. and international concepts. In addition, we have dedicated supply chain management personnel for our international operations in South America and Asia. The supply chain management organization is responsible for all food and operating supply purchases as well as a large percentage of purchases of field and corporate services.

We address the end-to-end costs associated with the products and goods we purchase by utilizing a combination of global, regional and local suppliers to capture efficiencies and economies of scale. This "total cost of ownership" ("TCO") approach focuses on the initial purchase price, coupled with the cost structure underlying the procurement and order fulfillment process. The TCO approach includes monitoring commodity markets and trends to execute product purchases at the most advantageous times.

We have a distribution program that includes food, beverage, smallwares and packaging goods in all major markets. This program is managed by a custom distribution company that only provides products approved for our system. This customized relationship also enables our staff to effectively manage and prioritize our supply chain.

Beef represents the majority of purchased proteins and of our overall global commodity procurement. In 2018, we primarily purchased our U.S. beef raw materials from four beef suppliers and our Brazil beef raw materials from two beef suppliers. Due to the nature of our industry, we expect to continue purchasing a substantial amount of our beef from a small number of suppliers. Other major commodity categories purchased include produce, dairy, bread and pasta, and energy sources to operate our restaurants, such as natural gas and electricity.

Quality Control - Our R&D facility is located in Tampa, Florida and serves as a global test kitchen and vendor product qualification site. Our quality assurance team manages internal auditors responsible for supplier evaluations and external third parties who inspect supplier adherence to quality, food safety and product specification. We have a program that ensures suppliers comply with quality, food safety and other specifications. Our suppliers also utilize third-party labs for food safety and quality verification. We develop sourcing strategies for all commodity categories based on the dynamics of each category. In addition, we require our supplier partners to meet or exceed our quality assurance standards.

Our operational teams have multiple touch points in the restaurants ensuring food safety, quality and freshness throughout all phases of the preparation process. In addition, we employ third-party auditors to verify our standards of food safety, training and sanitation.

RESTAURANT OWNERSHIP STRUCTURES

We generate our revenues from our Company-owned restaurants and through ongoing royalties from our franchised restaurants and sales of franchise rights.

Company-owned Restaurants - Company-owned restaurants are restaurants wholly-owned by us or in which we have a majority ownership. Our cash flows from entities in which we have a majority ownership are limited to the portion of our ownership. The results of operations of Company-owned restaurants are included in our consolidated operating results and the portion of income or loss attributable to the noncontrolling interests is eliminated in our Consolidated Statements of Operations and Comprehensive Income.

We pay royalties that range from 0.5% to 1.5% of U.S. sales on the majority of our Carrabba's Italian Grill restaurants, pursuant to agreements we entered into with the Carrabba's Italian Grill founders ("Carrabba's Founders"). Each Carrabba's Italian Grill restaurant located outside the U.S. pays a one-time lump sum fee to the Carrabba's Founders, which varies depending on the size of the restaurant. No continuing royalty fee is paid to the Carrabba's Founders for Carrabba's Italian Grill restaurants located outside the U.S.

Unaffiliated Franchise Program - Our unaffiliated franchise agreements grant third parties rights to establish and operate a restaurant using one of our concepts. Franchised restaurants are required to be operated in accordance with the franchise agreement and in compliance with their respective concept's standards and specifications.

Under our franchise agreements, each of our franchisees is required to pay an initial franchise fee and monthly royalties based on a percentage of gross restaurant sales. Initial franchise fees are generally $40,000 for U.S. franchisees and range between $40,000 and $75,000 for international franchisees, depending on the market. Some franchisees may also pay administration fees based on a percentage of gross restaurant sales. Following is a summary of royalty fee percentages based on our existing unaffiliated franchise agreements:

(as a % of gross Restaurant sales)	MONTHLY ROYALTY FEE PERCENTAGE
U.S. franchisees (1)	3.50% - 5.75%
International franchisees (2)	3.00% - 6.00%

(1) U.S. franchisees must also contribute a percentage of gross sales for national marketing programs and also spend a certain percentage of gross sales on local advertising. For U.S. franchisees, there is a maximum of 8.0% of gross restaurant sales for combined national marketing and local advertising.

(2) International franchisees must also spend a certain percentage of gross sales on local advertising, which varies depending on the market.

COMPETITION

The restaurant industry is highly competitive with a substantial number of restaurant operators that compete directly and indirectly with us in respect to price, service, location and food quality, and there are other well-established competitors with significant financial and other resources. There is also active competition for management personnel, attractive suitable real estate sites, supplies and restaurant employees. In addition, competition is influenced strongly by marketing and brand reputation. At an aggregate level, all major U.S. casual dining restaurants and casual dining restaurants in the international markets in which we operate would be considered competitors of our concepts. Further, we face growing competition from the supermarket industry and home delivery services, with improved selections of prepared meals, and from quick service and fast casual restaurants, as a result of higher-quality food and beverage offerings. Internationally, we face increasing competition due to an increase in the number of casual dining restaurant options in the markets in which we operate.

GOVERNMENT REGULATION

We are subject to various federal, state, local and international laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities, which may include, among others, alcoholic beverage control, health and safety, nutritional menu labeling, health care, environmental and fire agencies in the state, municipality or country in which the restaurant is located.

U.S. - Alcoholic beverage sales represent 14% of our U.S. restaurant sales. Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county or municipal authorities for a license or permit to sell alcoholic beverages on the premises and to provide service for extended hours and on Sundays.

Our restaurant operations are also subject to federal and state laws for such matters as:

- immigration, employment, minimum wages, overtime, tip credits, worker conditions and health care;
- nutritional labeling, nutritional content, menu labeling and food safety;
- the Americans with Disabilities Act, which, among other things, requires our restaurants to meet federally mandated requirements for the disabled; and
- information security, privacy, cashless payments, gift cards and consumer credit, protection and fraud.

Table of Contents
BLOOMIN' BRANDS, INC.

International - Our restaurants outside of the U.S. are subject to similar local laws and regulations as our U.S. restaurants, including labor, food safety and information security. In addition, we are subject to anti-bribery and anti-corruption laws and regulations.

See Item 1A - Risk Factors for a discussion of risks relating to federal, state, local and international regulation of our business.

EXECUTIVE OFFICERS OF THE REGISTRANT

Below is a list of the names, ages, positions and a brief description of the business experience of each of our executive officers as of February 15, 2019.

NAME	AGE	POSITION
Elizabeth A. Smith	55	Chairman of the Board of Directors and Chief Executive Officer
David J. Deno	61	Executive Vice President and Chief Financial and Administrative Officer
Jeffrey Carcara	48	Executive Vice President and President of Bonefish Grill
Donagh M. Herlihy	55	Executive Vice President and Chief Information Officer
Joseph J. Kadow	62	Executive Vice President and Chief Legal Officer
Michael Kappitt	49	Executive Vice President and President of Carrabba's Italian Grill
Gregg Scarlett	57	Executive Vice President and President of Outback Steakhouse
Sukhdev Singh	55	Executive Vice President and Chief Development Officer - International and Franchising

Elizabeth A. Smith was appointed Chairman in January 2012. Since November 2009, Ms. Smith has served as Chief Executive Officer and as a member of our Board of Directors. Ms. Smith is a member of the Board of Directors of Hilton Worldwide Holdings, Inc. and was previously a member of the Board of Directors of Staples, Inc. from September 2008 to June 2014.

David J. Deno has served as Executive Vice President and Chief Financial and Administrative Officer since October 2013 and previously served as Executive Vice President and Chief Financial Officer from May 2012 to October 2013. From December 2009 to May 2012, Mr. Deno served as Chief Financial Officer of the international division of Best Buy Co. Inc. Mr. Deno previously served as President and later Chief Executive Officer of Quiznos and Chief Financial Officer and later Chief Operating Officer of YUM! Brands, Inc.

Jeffrey Carcara has served as Executive Vice President and President of Bonefish Grill since February 2019. Prior to joining Bloomin' Brands, Mr. Carcara served as Chief Executive Officer of Emerging Brands at Del Frisco's Restaurant Group from June 2018 to January 2019; Chief Executive Officer at Barteca Restaurant Group from August 2015 to June 2018; and Chief Operating Officer at Del Frisco's Restaurant Group from November 2012 to August 2015.

Donagh M. Herlihy has served as Executive Vice President and Chief Information Officer since April 2018. Mr. Herlihy previously served as Executive Vice President and Chief Technology Officer from January 2018 to April 2018 and Executive Vice President, Digital and Chief Information Officer from September 2014 to January 2018. Prior to joining Bloomin' Brands, Mr. Herlihy was Senior Vice President, Chief Information Officer and eCommerce of Avon Products, Inc. from March 2008 to August 2014.

Joseph J. Kadow has served as Executive Vice President and Chief Legal Officer since April 2005 and has served as Assistant Secretary since February 2016. Mr. Kadow previously served as Secretary from April 1994 to February 2016.

Michael Kappitt has served as Executive Vice President and President of Carrabba's Italian Grill since February 2016. Mr. Kappitt served as Senior Vice President and Chief Marketing Officer of Bloomin' Brands from December 2013 to

February 2016 and Chief Marketing Officer of Outback Steakhouse from March 2011 to December 2013.

Gregg Scarlett has served as Executive Vice President and President of Outback Steakhouse since July 2016. Mr. Scarlett previously served as Executive Vice President and President of Bonefish Grill from April 2015 to July 2016; Senior Vice President, Casual Dining Restaurant Operations from January 2013 to April 2015; and Senior Vice President of Operations for Outback Steakhouse from March 2010 to January 2013.

Sukhdev Singh has served as Executive Vice President and Chief Development Officer - International and Franchising since April 2018. Mr. Singh previously served as Executive Vice President and Chief Development Officer and Franchising from May 2015 to April 2018 and Senior Vice President, Chief Development Officer from January 2014 to May 2015. Prior to joining Bloomin' Brands, Mr. Singh was Chief Development Officer for Darden Restaurants, Inc. from July 2006 to January 2014.

EMPLOYEES

As of December 30, 2018, we employed approximately 93,000 persons, of which approximately 800 are corporate personnel, including 200 in international markets. None of our U.S. employees are covered by a collective bargaining agreement. Various jurisdictional industry-wide labor agreements apply to certain of our employees in Brazil. We consider our employee relations to be in good standing.

TRADEMARKS

We regard our Outback®, Outback Steakhouse®, Carrabba's Italian Grill®, Bonefish Grill®, and Fleming's Prime Steakhouse & Wine Bar® service marks and our Bloomin' Onion® trademark as having significant value and as being important factors in the marketing of our restaurants. We have also obtained trademarks for several of our other menu items and for various advertising slogans. We are aware of names and marks similar to the service marks of ours used by other persons in certain geographic areas in which we have restaurants. However, we believe such uses will not adversely affect us. Our policy is to pursue registration of our marks whenever possible and to oppose vigorously any infringement of our marks.

We license the use of our registered trademarks to franchisees and third parties through franchise arrangements and licenses. The franchise and license arrangements restrict franchisees' and licensees' activities with respect to the use of our trademarks, and impose quality control standards in connection with goods and services offered in connection with the trademarks.

SEASONALITY AND QUARTERLY RESULTS

Our business is subject to seasonal fluctuations. Historically, customer traffic patterns for our established U.S. restaurants are generally highest in the first quarter of the year and lowest in the third quarter of the year. International customer traffic patterns vary by market. For example, Brazil historically experiences minimal seasonal traffic fluctuations. Additionally, holidays and severe weather may affect sales volumes seasonally in some of our markets.

Quarterly results have been and will continue to be significantly affected by general economic conditions, the timing of new restaurant openings and their associated pre-opening costs, restaurant closures and exit-related costs and impairments of goodwill, definite and indefinite-lived intangible assets and property, fixtures and equipment. As a result of these and other factors, our financial results for any given quarter may not be indicative of the results that may be achieved for a full year.

ADDITIONAL INFORMATION

We make available, free of charge, through our internet website www.bloominbrands.com, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission ("SEC"). Our reports and other materials filed with the SEC are also available at www.sec.gov. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this Report.

Table of Contents
BLOOMIN' BRANDS, INC.

Item 1A. Risk Factors

The risk factors set forth below should be carefully considered. The risks described below are those that we believe could materially and adversely affect our business, financial condition or results of operations, however, they are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations.

Risks Related to Our Business and Industry

Food safety and food-borne illness concerns in our restaurants or throughout the industry or supply chain may have an adverse effect on our business by reducing demand and increasing costs.

Regardless of the source or cause, any report of food-borne illnesses and other food safety issues, whether at one of our restaurants or in the industry or supply chain generally, could have a negative impact on our traffic and sales and adversely affect the reputation of our brands. Food safety issues could be caused by suppliers or distributors and, as a result, be out of our control. Health concerns or outbreaks of disease in a food product could also reduce demand for particular menu offerings. Even instances of food-borne illness, food tampering or food contamination occurring solely at restaurants of other companies could result in negative publicity about the food service industry generally and adversely impact our sales. Social media has dramatically increased the rate at which negative publicity, including as it relates to food-borne illnesses, can be disseminated before there is any meaningful opportunity to respond or address an issue. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, resulting in higher costs and lower margins.

The restaurant industry is highly competitive and consumer options for other prepared food offerings continue to expand. Our inability to compete effectively could adversely affect our business, financial condition and results of operations.

A substantial number of restaurant operators compete directly and indirectly with us with respect to price, service, location and food quality, some of which are well-established with significant resources. There is also active competition for management and other personnel, and attractive suitable real estate sites. Consumer tastes, nutritional and dietary trends, traffic patterns and the type, number and location of competing restaurants often affect the restaurant business, and our competitors may react more efficiently, creatively and effectively to those conditions. In addition, our competitors may generate or better implement business strategies that improve the value and relevance of their brands and reputation, relative to ours. For example, our competitors may more successfully implement menu or technology initiatives, such as remote ordering, social media or mobile technology platforms that expedite or enhance the customer experience. Further, we face growing competition from quick service and fast casual restaurants, the supermarket industry and meal kit and food delivery providers, with the improvement of prepared food offerings and the trend towards convergence in grocery, deli, retail and restaurant services. We believe all of the above factors have increased competitive pressures in the casual dining sector in recent periods and we believe they will continue to present a challenging competitive environment in future periods. If we are unable to continue to compete effectively, our traffic, sales and margins could decline and our business, financial condition and results of operations would be adversely affected.

We are subject to various federal and state employment and labor laws and regulations.

Various federal and state employment and labor laws and regulations govern our relationships with our employees and affect operating costs, and similar laws and regulations apply to our operations outside of the U.S. These laws and regulations relate to matters including employment discrimination, minimum wage requirements, overtime, tip credits, unemployment tax rates, workers' compensation rates, working conditions, immigration status, tax reporting and other wage and benefit requirements. Any significant additional government regulations and new laws governing our relationships with employees, including minimum wage increases, mandated benefits or other requirements that impose additional obligations on us, could increase our costs and adversely affect our business and results of operations.

As a significant number of our food service and preparation personnel are paid at rates related to the applicable minimum wage, federal, state and local proposals related to minimum wage requirements or similar matters could, to the extent implemented, materially increase our labor and other costs. Several states in which we operate have recently approved minimum wage increases. As minimum wage increases are implemented in these states or any other states in which we operate in the future, we expect our labor costs will continue to increase. Our ability to respond to minimum wage increases by increasing menu prices depends on the responses of our competitors and consumers. Our distributors and suppliers could also be affected by higher minimum wage, benefit standards and compliance costs, which could result in higher costs for goods and services supplied to us.

We rely on our employees to accurately disclose the full amount of their tip income, and we base our FICA tax reporting on the disclosures provided to us by such tipped employees. Inaccurate employee FICA tax reporting could subject us to monetary liabilities, which could harm our business, results of operations and financial condition.

Challenging economic conditions may have a negative effect on our business and financial results.

Challenging economic conditions may negatively impact consumer spending and thus cause a decline in our financial results. For example, international, domestic and regional economic conditions, consumer income levels, financial market volatility, social unrest, governmental, political and budget matters and a slow or stagnant pace of economic growth generally may have a negative effect on consumer confidence and discretionary spending, which the restaurant industry depends upon. In recent years, we believe these factors and conditions may have affected consumer traffic and comparable restaurant sales for us and throughout our industry and may continue to contribute to a challenging sales environment in the casual dining sector. A decline in economic conditions or negative developments with respect to any of the other factors mentioned above, generally or in particular markets in which we operate, and our consumers’ reactions to these trends could result in increased pressure with respect to our pricing, traffic levels, commodity and other costs and the continuation of our innovation and productivity initiatives, which could negatively impact our business and results of operations. These factors could also cause us to, among other things, reduce the number and frequency of new restaurant openings, close restaurants or delay remodeling of our existing restaurant locations. Further, poor economic conditions may force nearby businesses to shut down, which could cause our restaurant locations to be less attractive.

Cyber security breaches of confidential consumer, personal employee and other material information may adversely affect our business.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data or the theft or exposure of confidential information or intellectual property. A cyber incident that compromises the information of our consumers or employees could result in widespread negative publicity, damage to the reputation of our brands, a loss of consumers, an interruption of our business and legal liabilities.

The majority of our restaurant sales are by credit or debit cards. We also maintain certain personal information regarding our employees and confidential information about our customers, franchisees and suppliers. We segment our card data environment and employ a cyber security protection program, which is based upon proven industry frameworks. This program includes but is not limited to cyber security techniques, tactics and procedures including the deployment of a robust set of security controls, continuous monitoring and detection programs, network protections, stringent vendor selection criteria, secure software development programs and ongoing employee training, awareness and incident response preparedness. In addition, we continuously scan and improve our environment for any vulnerabilities, perform penetration testing, engage third parties to assess effectiveness of our security measures and collaborate with members of the cyber security community. Our cyber security protection program is headed by our Chief Information Security Officer, who briefs our Audit Committee quarterly on cyber security measures in place. However, there are no assurances that such programs will prevent or detect cyber security breaches.

Table of Contents

Despite our security measures, our technology systems may be vulnerable to damage, disability or failures due to physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, employee error or malfeasance, denial of service attacks, viruses, worms and other disruptive problems. From time to time we have been, and likely will continue to be, the target of attempted cyber and other security threats. In recent years our reliance on technology has increased, and consequently so have the scope and severity of risks posed to our systems from cyber threats. Malicious attacks and intrusion efforts are continuous and evolving, and are perpetuated by many different parties with varying motives, including identity thieves, contractors, vendors, employees, competitors, prospective insider traders, so-called "hacktivists," terrorists and others. We continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact.

Our operations and corporate functions rely heavily on information systems, including point-of-sale processing in our restaurants, management of our supply chain, payment of obligations, collection of cash, data warehousing to support analytics, finance and accounting systems, mobile technologies to enhance the customer experience and other various processes and procedures, some of which are handled by third parties. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, system maintenance problems, upgrading or transitioning to new platforms, or any cyber incident relating to these systems could expose our systems or information to cyber threats, result in delays in consumer service, reduced efficiency in our operations or result in negative publicity. For example, a weakness in vendor's systems or software products may provide a mechanism for a cyber threat. In recent years, certain retailers have experienced security breaches in which customer information was stolen through vendor access channels. While we select our third-party suppliers carefully, cyber attacks and security breaches at a supplier could compromise confidential information or adversely affect our ability to deliver products and services to our customers. These problems could negatively affect our results of operations, and remediation could result in significant, unplanned capital investments.

As a merchant and service provider of point-of-sale related services, we are subject to the Payment Card Industry Data Security Standard ("PCI DSS"), issued by the Payment Card Industry Council. PCI DSS contains compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. Despite our information security measures and our efforts to comply with PCI DSS guidelines, we cannot be certain that all of our information technology systems are able to prevent, contain or detect any cyber incidents from known malware or malware that may be developed in the future.

We may in the future become subject to lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our consumers' credit or debit card information or if consumer or employee information is obtained by unauthorized persons or used inappropriately. Any such claim or proceeding, or any adverse publicity resulting from such an event, may have a material adverse effect on our business and the potential of incurring significant remediation costs.

Increased commodity, energy and other costs could decrease our profit margins or cause us to limit or otherwise modify our menus or increase prices, which could adversely affect our business.

The performance of our restaurants depends on our ability to anticipate and react to changes in the price and availability of food commodities. Our business also incurs significant costs for energy, insurance, labor, marketing and real estate. Prices may be affected by supply, market changes, increased competition, the general risk of inflation, changes in laws, shortages or interruptions in supply due to weather, disease or other conditions beyond our control, or other reasons. Increased prices or shortages could affect the cost and quality of the items we buy or require us to raise prices, limit our menu options or implement alternative processes or products. As a result, these events, combined with other more general economic and demographic conditions, could impact our pricing and negatively affect our sales and profit margins.

Table of Contents

Our failure to comply with government regulation related to our restaurant operations, and the costs of compliance or non-compliance, could adversely affect our business.

We are subject to various federal, state, local and foreign laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of governmental authorities, which may include, among others, alcoholic beverage control, food safety, nutritional menu labeling, health care, environmental and fire agencies in the state, municipality or country in which the restaurant is located. Our suppliers are also subject to regulation in some of these areas. Any difficulties or inabilities to retain or renew licenses, or increased compliance costs due to changed regulations, could adversely affect operations at existing restaurants. Additionally, difficulties in obtaining or failing to obtain the required licenses or approvals could delay or prevent the development of new restaurants.

Alcoholic beverage sales represent 14% of our consolidated restaurant sales and are subject to extensive state and local licensing and other regulations. The failure of a restaurant to obtain or retain a liquor license would adversely affect that restaurant's operations. In addition, we are subject to "dram shop" statutes in certain states. These statutes generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

The food service industry is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may lessen the demand for our products, which would reduce sales and harm our business.

Food service businesses are affected by changes in consumer tastes and demographic trends. For instance, if prevailing health or dietary preferences cause consumers to avoid steak and other products we offer in any of our concepts in favor of foods or ingredients that are perceived as healthier or otherwise reflect popular demand, our business and operating results would be harmed. Various factors such as: (i) the Food and Drug Administration's menu labeling rules, (ii) nutritional guidelines issued by the United States Department of Agriculture and issuance of similar guidelines or statistical information by state or local municipalities, and (iii) academic studies, may impact consumer choice and cause consumers to select foods other than those that are offered by our restaurants. If we are unable to anticipate or successfully respond to changes in consumer preferences, our results of operations could be adversely affected, generally or in particular concepts or markets.

Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the United States and numerous foreign jurisdictions. Our effective income tax rate and other taxes in the future could be adversely affected by a number of factors, including changes in the mix of earnings in countries with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws or other legislative changes, including the Tax Cuts and Jobs Act (the "Tax Act") and the Base Erosion Profit Shifting initiative being conducted by the Organization for Economic Co-operation and Development, and the outcome of income tax audits. Although we believe our tax estimates are reasonable, the final determination of tax audits could be materially different from our historical income tax provisions and accruals. The results of a tax audit could have a material effect on our results of operations or cash flows in the period or periods for which that determination is made. In addition, our effective income tax rate and our results may be impacted by our ability to realize deferred tax benefits, including our FICA tip credit carryforwards, and by any increases or decreases of our valuation allowances applied to our existing deferred tax assets. Additional tax regulations and interpretations of the Tax Act are expected to be issued, and no assurance can be made that future guidance will not adversely affect our business or financial condition.

Table of Contents

Risks associated with our remodeling, relocation and expansion plans may have adverse effects on our operating results.

As part of our business strategy, we intend to continue to remodel, relocate and expand our current portfolio of restaurants. Our 2019 development schedule calls for approximately 35 Outback Steakhouse interior remodels, 11 U.S. Outback Steakhouse relocations and the construction of approximately 20 new system-wide locations. A variety of factors could cause the actual results and outcome of those plans to differ from the anticipated results, including among other things:

- the availability of attractive sites for new or relocated restaurants;
- acquiring or leasing those sites at acceptable prices and other terms;
- funding or financing our development, given competing priorities for use of capital;
- obtaining all required permits, approvals and licenses on a timely basis;
- recruiting and training skilled management and restaurant employees and retaining those employees on acceptable terms;
- weather, natural disasters and other events or factors beyond our control resulting in construction or other delays; and
- consumer tastes in new geographic regions and acceptance of our restaurant concepts and awareness of our brands in those regions.

It is difficult to estimate the performance of newly opened restaurants. Earnings achieved to date by restaurants open for less than two years may not be indicative of future operating results. If new restaurants do not meet targeted performance, it could have a material adverse effect on our operating results, including as a result of any impairment losses that we may be required to recognize. There is also the possibility that new restaurants may attract consumers away from other restaurants we own, thereby reducing the revenues of those existing restaurants, or that we will incur unrecoverable costs in the event a development project is abandoned prior to completion.

Some of the challenges described above could be more significant in international markets in which we have more limited experience, either generally or with a particular brand. Those markets are likely to have different competitive conditions, consumer tastes, discretionary spending patterns and brand awareness, which may cause our new restaurants to be less successful than restaurants in our existing markets or make it more difficult to estimate the performance of new restaurants.

In addition, in an effort to increase same-restaurant sales and improve our operating performance, we continue to make improvements to our facilities through our remodeling and relocation programs. We also close underperforming restaurants from time to time in order to improve the performance of our brands. As demographic and economic patterns change or there are declines in neighborhoods where our restaurants are located or adverse economic conditions in local areas, current locations may not continue to be attractive or profitable. Because we lease a significant majority of our restaurants, we incur significant lease termination expenses when we close or relocate a restaurant and are often obligated to continue rent and other lease related payments after restaurant closure. We also incur significant asset impairment and other charges in connection with closures and relocations. If the expenses associated with remodels, relocations or closures are higher than anticipated, we cannot find suitable locations or remodeled or relocated restaurants do not perform as expected, these programs may not yield the desired return on investment, which could have a negative effect on our operating results.

We face a variety of risks associated with doing business in foreign markets that could have a negative impact on our financial performance.

We have a significant number of restaurants outside of the United States, and we intend to continue our efforts to grow internationally. There is no assurance that international operations will be profitable or international growth will continue. In addition, if we have a significant concentration of restaurants in a foreign market the impact of any negative local conditions can have a sizable impact on our results.

Our foreign operations are subject to all of the same risks as our U.S. restaurants, as well as additional risks including, among others, international economic, political, social and legal conditions and the possibility of instability and unrest, differing cultures and consumer preferences, diverse government regulations and tax systems, corruption, anti-American sentiment, the ability to source high quality ingredients and other commodities in a cost-effective manner, uncertain or differing interpretations of rights and obligations in connection with international franchise agreements and the collection of ongoing royalties from international franchisees, the availability and costs of land, construction and financing, and the availability of experienced management, appropriate franchisees and area operating partners.

During 2018, unrest surrounding the presidential election in Brazil led to protests and a lengthy truckers strike that negatively impacted the Brazilian economy, causing supply shortages and transportation gridlock that resulted in lost operating days for many businesses, including our restaurants.

Currency regulations and fluctuations in exchange rates could also affect our performance. We have operations in many foreign countries, including direct investments in restaurants in Brazil and Hong Kong/China, as well as international franchises. Brazil is our largest international market and will continue to be our top international development priority. As a result, we may experience losses from fluctuations in foreign currency exchange rates or any hedging arrangements that we enter into to offset such fluctuations, and such losses could adversely affect our overall sales and earnings.

We are subject to governmental regulation of our foreign operations, including antitrust and tax requirements, anti-boycott regulations, import/export/customs regulations and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Any new regulatory or trade initiatives could impact our operations in certain countries. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition.

Loss of key management personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success will continue to depend, to a significant extent, on our leadership team and other key management personnel. If we are unable to attract and retain sufficiently experienced and capable management personnel, our business and financial results may suffer.

Failure to recruit, train and retain high-quality restaurant management and team members may result in lower guest satisfaction and lower sales and profitability.

Our restaurant-level management and team members are largely responsible for the quality of our service. Our guests may be dissatisfied and our sales may decline if we fail to recruit, train and retain managers and team members that effectively implement our business strategy and provide high quality guest service. There is active competition for quality management personnel and hourly team members. If we experience high turnover, we may experience higher labor costs and have a shortage of adequate management personnel required for future growth.

Our success depends substantially on the value of our brands and our ability to execute innovative marketing and consumer relationship initiatives to maintain brand relevance and drive profitable sales growth.

Our success depends on our ability to preserve and grow our brands. Our brand value and reputation are especially important to differentiate our concepts in the highly competitive casual dining sector to achieve sustainable same-restaurant sales growth and warrant new unit growth. Brand value and reputation is based in large part on consumer perceptions, which are driven by both our actions and by actions beyond our control, such as new brand strategies or their implementation, business incidents, ineffective advertising or marketing efforts, or unfavorable mainstream or social media publicity involving us, our industry, our franchisees, or our suppliers. A failure to innovate and extend our brands in ways that are relevant to consumers and occasions in order to generate sustainable same-restaurant traffic growth, and produce non-traditional sales and earnings growth opportunities, could have an adverse effect on our results of operations. Additionally, insufficient focus on our competition or failure to adequately address declines in the casual dining industry, could adversely impact results of operations.

If our competitors increase their spending on advertising, promotions and loyalty programs, if our advertising, media or marketing expenses increase, or if our advertising, promotions and loyalty programs become less effective than those of our competitors, or if we do not adequately leverage technology and data analytic capabilities needed to generate concise competitive insight, our results of operations could be materially and adversely effected.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could have a material adverse impact on our business.

There has been a marked increase in the use of social media platforms and similar devices that allow individuals to access a broad audience of consumers and other interested persons. The availability of information on social media platforms is virtually immediate as is its impact, and users can post information often without filters or checks on the accuracy of the content posted. Adverse or inaccurate information concerning our company or concepts may be posted on such platforms at any time, and such information can quickly reach a wide audience. The harm may be immediate without affording us an opportunity for redress or correction, and it is challenging to monitor and anticipate developments on social media in order to respond in an effective and timely manner. We could also be exposed to these risks if we fail to use social media responsibly in our marketing efforts. These factors could have a material adverse effect on our business. Regardless of its basis or validity, any unfavorable publicity could adversely affect public perception of our brands.

Although search engine marketing, social media and other new technological platforms offer great opportunities to increase awareness of and engagement with our brands, a failure to use social media responsibly in our marketing efforts may further expose us to these risks. Many of our competitors are expanding their use of social media and new social media platforms are rapidly being developed, potentially making more traditional social media platforms obsolete. As a result, we need to continuously innovate and develop our social media strategies in order to maintain broad appeal with guests and brand relevance. As part of our marketing efforts, we rely on search engine marketing and social media platforms to attract and retain guests. We also continue to invest in other digital marketing initiatives that allow us to reach our guests across multiple digital channels and build their awareness of, engagement with, and loyalty to our brands. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues, increased employee engagement or brand recognition. In addition, a variety of risks are associated with the use of social media, including the improper disclosure of proprietary information, negative comments about us, exposure of personally identifiable information, fraud, or out-of-date information. The inappropriate use of social media vehicles by our guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

An impairment in the carrying value of our goodwill or other intangible or long-lived assets could adversely affect our financial condition and results of operations.

Along with other intangible assets, we test goodwill for impairment annually and whenever events or changes in circumstances indicate that its carrying value may not be recoverable. We also evaluate long-lived assets on a quarterly basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We cannot accurately predict the amount and timing of any impairment of assets. A significant amount of judgment is involved in determining if an indication of impairment exists. Should the value of goodwill or other intangible or long-lived assets become impaired, there could be an adverse effect on our financial condition and consolidated results of operations.

We have limited control with respect to the operations of our franchisees, which could have a negative impact on our business.

Our franchisees are contractually obligated to operate their restaurants in accordance with our standards and we provide training and support to franchisees. However, franchisees are independent third parties that we do not control, and these franchisees own, operate and oversee the daily operations of their restaurants. As a result, the ultimate success and quality of any franchise restaurant rests with the franchisee. If franchisees do not successfully operate restaurants

21

in a manner consistent with our product and service quality standards and contractual requirements, our image and reputation could be harmed, which in turn could adversely affect our business and operating results.

We have a limited number of suppliers for our major products and rely on one custom distribution company for our national distribution programs in the U.S. and Brazil. If our suppliers or custom distributors are unable to fulfill their obligations under their contracts or we are unable to develop or maintain relationships with these or new suppliers or distributors, if needed, we could encounter supply shortages and incur higher costs.

We depend on frequent deliveries of fresh food products that meet our specifications, and we have a limited number of suppliers for our major products, such as beef. In 2018, we purchased: (i) more than 90% of our U.S. beef raw materials from four beef suppliers that represent more than 80% of the total beef marketplace in the U.S and (ii) more than 90% of our Brazil beef raw materials from two beef suppliers that represent approximately 40% of the total Brazil beef marketplace. Due to the nature of our industry, we expect to continue to purchase a substantial amount of our beef from a small number of suppliers. We also primarily use one supplier in the U.S. and Brazil, respectively, to process beef raw materials to our specifications and we use one distribution company to provide distribution services in the U.S and Brazil, respectively. Although we have not experienced significant problems with our suppliers or distributors, if our suppliers or distributors are unable to fulfill their obligations under their contracts, we could encounter supply shortages and incur higher costs.

In addition, if we are unable to maintain current purchasing terms or ensure service availability with our suppliers and distributors, we may lose consumers and experience an increase in costs in seeking alternative supplier or distribution services. The failure to develop and maintain supplier and distributor relationships and any resulting disruptions to the provision of food and other supplies to our restaurant locations could adversely affect our operating results.

Failure to achieve our projected cost savings from our efficiency initiatives could adversely affect our results of operations and eliminate potential funding for growth opportunities.

In recent years, we have identified strategies and taken steps to reduce operating costs and free up resources to reinvest in our business. These strategies include improved supply chain management, implementing labor scheduling tools and integrating restaurant information systems across our brands. We continue to evaluate and implement further cost-saving initiatives. However, the ability to reduce our operating costs through these initiatives is subject to risks and uncertainties, such as our ability to obtain improved supply pricing and the reliability of any new suppliers or technology, and we cannot assure that these activities, or any other activities that we may undertake in the future, will achieve the desired cost savings and efficiencies. Failure to achieve such desired savings could adversely affect our results of operations and financial condition and curtail investment in growth opportunities.

There are risks and uncertainties associated with strategic actions and initiatives that we may implement.

From time to time, we consider various strategic actions and initiatives in order to grow and evolve our business and brands and improve our operating results. These actions and initiatives could include, among other things, acquisitions or dispositions of restaurants or brands, new joint ventures, new franchise arrangements, restaurant closures and changes to our operating model. There can be no assurance that any such actions or initiatives will be successful or deliver their anticipated benefits. We may be exposed to new and unforeseen risks and challenges, particularly if we enter into markets or engage in activities with which we have no or limited prior experience, and it may be difficult to predict the success of such endeavors. If we incur significant expenses or divert management, financial and other resources to a strategic initiative that is unsuccessful or does not meet our expectations, our results of operations and financial condition would be adversely affected. We may also incur significant asset impairment and other charges in connection with any such initiative. Regardless of the ultimate success of a strategic initiative, the implementation and integration of new business or operational processes could be disruptive to our current operations. Even if we test and evaluate an initiative on a limited basis, the diversion of management time and resources could have an adverse effect on our business.

Our business is subject to seasonal and periodic fluctuations, and past results are not indicative of future results.

Historically, consumer traffic patterns for our established restaurants are generally highest in the first quarter of the year and lowest in the third quarter of the year. Holidays may also affect sales volumes seasonally in some of the markets in which we operate. In addition, our quarterly results have been and will continue to be affected by the timing of new restaurant openings and their associated preopening costs, as well as restaurant closures and exit-related costs, debt extinguishment and modification costs and impairments of goodwill, intangible assets and property, fixtures and equipment. As a result of these and other factors, our financial results for any quarter may not be indicative of the results that may be achieved for a full year.

Significant adverse weather conditions and other disasters or unforeseen events could negatively impact our results of operations.

Adverse weather conditions and natural disasters and other unforeseen events, such as winter storms, severe temperatures, thunderstorms, floods, hurricanes and earthquakes, terrorist attacks, war and widespread/pandemic illness, and the effects of such events on economic conditions and consumer spending patterns, could negatively impact our results of operations. Temporary and prolonged restaurant closures may occur and consumer traffic may decline due to the actual or perceived effects from these events. For example, severe winter weather conditions and hurricanes have impacted our traffic, and that of our franchises, and results of operations in recent years.

Our failure or inability to enforce our trademarks or other proprietary rights could adversely affect our competitive position or the value of our brand.

Our trademarks, including Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill, Fleming's Prime Steakhouse & Wine Bar and Bloomin' Onion, and other proprietary rights are important to our success and our competitive position. The protective actions that we take may not be sufficient to prevent unauthorized usage or imitation by others, which could harm our image, brand or competitive position. Furthermore, our ability to protect trademarks and other proprietary rights may be more limited in certain international markets where we operate.

Litigation could have a material adverse impact on our business and our financial performance.

We are subject to lawsuits, administrative proceedings and claims that arise in the regular course of business. These matters typically involve claims by consumers and others regarding issues such as food borne illness, food safety, premises liability, "dram shop" statute liability, promotional advertising and other operational issues common to the food service industry, as well as contract disputes and intellectual property infringement matters. We are also subject to employee claims against us based on, among other things, discrimination, harassment, wrongful termination, disability, or violation of wage and labor laws. These claims may divert our financial and management resources that would otherwise be used to benefit our operations. The ongoing expense of any resulting lawsuits, and any substantial settlement payment or damage award against us, could adversely affect our business and results of operations. Significant legal fees and costs in complex class action litigation or an adverse judgment or settlement that is not insured or is in excess of insurance coverage could have a material adverse effect on our financial position and results of operations.

Our insurance policies may not provide adequate levels of coverage against all claims, and fluctuating insurance requirements and costs could negatively impact our profitability.

We carry insurance programs with specific retention levels or high per-claim deductibles for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, liquor liability, employment practices liability, property, health benefits, cyber security and other insurable risks. However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure. These losses, if they occur, could have a material and adverse effect on our business and results of operations. Additionally, if our insurance costs increase, there can be no assurance that we will be able to successfully offset the effect of such increases and our results of operations may be adversely affected.

Failure to maintain effective systems of internal control over financial reporting and disclosure controls and procedures could adversely affect our business and financial results.

Effective internal control over financial reporting is necessary for us to provide accurate financial information. If we are unable to adequately maintain effective internal control over financial reporting, we may not be able to accurately report our financial results, which could cause investors to lose confidence in our reported financial information and negatively affect the trading price of our common stock. Furthermore, we cannot be certain that our internal control over financial reporting and disclosure controls and procedures will prevent all possible error and fraud, including through cyber attacks. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of error or fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake, which could have an adverse impact on our business. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our common stock, increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

Future changes to existing accounting rules, accounting standards, new pronouncements and varying interpretations of pronouncements, or the questioning of current accounting practices may adversely affect our reported financial results. Additionally, our assumptions, estimates and judgments related to complex accounting matters could significantly affect our financial results. Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to, revenue recognition, impairment of long-lived assets, leases and related economic transactions, derivatives, intangibles, self-insurance, income taxes, property and equipment, unclaimed property laws and litigation, and stock-based compensation are highly complex and involve many subjective assumptions, estimates and judgments by us. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

Risks Related to Our Indebtedness

Our substantial leverage and our ability to refinance our indebtedness in the future could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and expose us to interest rate risk in connection with our variable-rate debt.

We are highly leveraged. As of December 30, 2018, our total indebtedness was $1.1 billion and we had $378.5 million in available unused borrowing capacity under our revolving credit facility, net of undrawn letters of credit of $22.0 million.

Our high degree of leverage could have important consequences, including:

- making it more difficult for us to make payments on indebtedness;
- increasing our vulnerability to general economic, industry and competitive conditions and the various risks we face in our business;
- increasing our cost of borrowing;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures, dividend payments, share repurchases and future business opportunities;
- exposing us to the risk of increased interest rates because certain of our borrowings are at variable rates of interest;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

- limiting our ability to obtain additional financing for working capital, capital expenditures, restaurant development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who may not be as highly leveraged.

24

Table of Contents

We may incur substantial additional indebtedness in the future, subject to the restrictions contained in our senior secured credit facilities (the "Senior Secured Credit Facility"). If new indebtedness is added to our current debt levels, the related risks that we now face could increase.

We had $1.1 billion of variable-rate debt outstanding under our Senior Secured Credit Facility as of December 30, 2018. We also have variable-to-fixed interest rate swap agreements with various counterparties to hedge a portion of the cash flows of our variable rate debt. Our active swap agreements have an aggregate notional amount of $400.0 million and mature on May 16, 2019. In October 2018, we entered into new swap agreements that have an aggregate notional amount of $550.0 million, a forward start date of May 16, 2019 and mature on November 30, 2022. While these agreements limit our exposure to higher interest rates, an increase in the floating rate could nonetheless cause a material increase in our interest expense due to the total amount of our outstanding variable rate indebtedness.

We cannot be certain that our financial condition or credit and other market conditions will be favorable when our Senior Secured Credit Facility matures in 2022, or at any earlier time we may seek to refinance our debt. If we are unable to refinance our indebtedness on favorable terms, our financial condition and results of operations would be adversely affected.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

Certain of our debt agreements limit our and our subsidiaries' abilities to, among other things, incur or guarantee additional indebtedness, pay dividends on, redeem or repurchase our capital stock, make certain acquisitions or investments, incur or permit to exist certain liens, enter into transactions with affiliates or sell our assets to, merge or consolidate with or into, another company. Our debt agreements require us to satisfy certain financial tests and ratios. Our ability to satisfy such tests and ratios may be affected by events outside of our control.

If we breach the covenants under our debt agreements, the lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable and terminate all commitments to extend further credit. If we are unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure that indebtedness. We have pledged substantially all of our assets as collateral under our debt agreement. If our lenders accelerate the repayment of borrowings, we cannot be certain that we will have sufficient assets to repay them.

We may not be able to generate sufficient cash to service all of our indebtedness and operating lease obligations, and we may be forced to take other actions to satisfy our obligations under our indebtedness and operating lease obligations, which may not be successful. If we fail to meet these obligations, we would be in default under our debt agreements and the lenders could elect to declare all amounts outstanding under them to be immediately due and payable and terminate all commitments to extend further credit.

Our ability to make scheduled payments on our debt obligations and to satisfy our operating lease obligations depends upon our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to financial, business and other factors, many of which are beyond our control. We cannot be certain that we will maintain a level of cash flow from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, or to pay our operating lease obligations. If our cash flow and capital resources are insufficient to fund our debt service obligations and operating lease obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of sufficient operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations or take other actions to meet our debt service and other obligations. Our debt agreements restrict our ability to dispose of assets and how we may use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could otherwise realize from such dispositions and any such proceeds that are realized may not be adequate to meet any debt service obligations then due. The failure to meet our debt service obligations or the failure to remain in compliance with the financial covenants under our debt agreements would constitute an event of default under those agreements and the lenders could elect to declare all amounts outstanding under them to be immediately due and payable and terminate all commitments to extend further credit.

Risks Related to Our Common Stock

Our stock price is subject to volatility.

The stock market in general is highly volatile. As a result, the market price of our common stock is similarly volatile. The price of our common stock could be subject to wide fluctuations in response to a number of factors, some of which may be beyond our control. These factors include actual or anticipated fluctuations in our operating results, changes in or our ability to achieve estimates of our operating results by analysts, investors or management, analysts' recommendations regarding our stock or our competitors' stock, sales of substantial amounts of our common stock by our stockholders, actions or announcements by us or our competitors, the maintenance and growth of the value of our brands, litigation, legislation or other regulatory developments affecting us or our industry, natural disasters, cyber attacks, terrorist acts, war or other calamities and changes in general market and economic conditions.

If we are unable to continue to pay dividends or repurchase our stock, your investment in our common stock may decline in value.

In 2015, we initiated a quarterly dividend program. Our Board of Directors has also authorized several stock repurchase programs commencing in late 2014 and we have repurchased a significant amount of our stock since that time. The continuation of these programs, at all or consistent with past levels, will require the generation of sufficient cash flows and the existence of surplus earnings. Any decisions to declare and pay dividends and continue stock repurchase programs in the future will be made at the discretion of our Board of Directors and will depend on, among other things, our results of operations, financial condition, cash requirements, borrowing capacity, contractual restrictions including debt covenants and other factors that our Board of Directors may deem relevant at the time.

If we discontinue our dividend or stock repurchase programs, or reduce the amount of the dividends we pay or stock that we repurchase, the price of our common stock may fall. As a result, you may not be able to resell your shares at or above the price you paid for them.

Provisions in our certificate of incorporation and bylaws, our Senior Secured Credit Facility and Delaware law may discourage, delay or prevent a change of control of our company or changes in our management and, therefore, may depress the trading price of our stock.

Our certificate of incorporation and bylaws include certain provisions that could have the effect of discouraging, delaying or preventing a change of control of our company or changes in our management.

In addition, our Senior Secured Credit Facility includes change of control provisions that require that no stockholder or "group" within the meaning of Sections 13(d) and 14(d) of the Exchange Act has obtained more than 40% of our voting power.

These provisions may discourage, delay or prevent a transaction involving a change in control of the Company that is in the best interests of our stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging future takeover attempts.

Section 203 of the Delaware General Corporation Law may affect the ability of an "interested stockholder" to engage in certain business combinations, including mergers, consolidations or acquisitions of additional shares, for a period of three years following the time that the stockholder becomes an "interested stockholder." An "interested stockholder" is defined to include persons owning directly or indirectly 15% or more of the outstanding voting stock of a corporation. Although we have elected in our certificate of incorporation not to be subject to Section 203 of the Delaware General Corporation Law our certificate of incorporation contains provisions that have the same effect as Section 203, except that they provide that our former private equity sponsors will not be deemed to be "interested stockholders," regardless of the percentage of our voting stock owned by them, and accordingly will not be subject to such restrictions.

Our ability to raise capital in the future may be limited, which could make us unable to fund our capital requirements.

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds through the issuance of new equity securities, debt or a combination of both. Additional financing may not be available on favorable terms or at all. If adequate funds are not available on acceptable terms, we may be unable to fund our capital requirements. If we issue new debt securities, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. If we issue additional equity securities, existing stockholders may experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest.

Item 1B. Unresolved Staff Comments

Not applicable.

Table of Contents
BLOOMIN’ BRANDS, INC.

Item 2. Properties

We lease substantially all of our restaurant sites from third parties. We had 1,490 system-wide restaurants located across the following states, territories or countries as of December 30, 2018:

COMPANY-OWNED

U.S.						INTERNATIONAL	
Alabama	19	Kentucky	17	Ohio	48	Brazil (1)	112
Arizona	13	Louisiana	23	Oklahoma	11	China (Mainland)	1
Arkansas	11	Maryland	40	Pennsylvania	45	Hong Kong	12
California	14	Massachusetts	15	Rhode Island	3		
Colorado	14	Michigan	34	South Carolina	37		
Connecticut	11	Minnesota	8	South Dakota	1		
Delaware	4	Mississippi	1	Tennessee	36		
Florida	222	Missouri	13	Texas	69		
Georgia	48	Nebraska	7	Utah	1		
Hawaii	6	Nevada	6	Vermont	1		
Illinois	25	New Hampshire	3	Virginia	60		
Indiana	23	New Jersey	39	West Virginia	8		
Iowa	7	New York	41	Wisconsin	12		
Kansas	7	North Carolina	65				
Total U.S. company-owned					1,068	Total International company-owned	125

FRANCHISE

U.S.				INTERNATIONAL			
Alabama	1	Montana	3	Australia	8	Malaysia	2
Alaska	1	Nevada	10	Bahamas	1	Mexico	5
Arizona	14	New Mexico	5	Brazil	1	Philippines	4
California	60	Oregon	6	Canada	2	Puerto Rico	4
Colorado	16	South Dakota	1	Costa Rica	1	Qatar	1
Florida	1	Tennessee	3	Dominican Republic	2	Saudi Arabia	5
Georgia	1	Utah	5	Ecuador	1	Singapore	1
Idaho	6	Virginia	1	Guam	1	South Korea	76
Kentucky	1	Washington	20	Indonesia	4	Thailand	1
Mississippi	7	Wyoming	2	Japan	10	Turks and Caicos	1
Total U.S. franchise			164	Total International franchise			131

(1) The restaurant count for Brazil is reported as of November 30, 2018 to correspond with the balance sheet date of this subsidiary.

Following is a summary of the location and leased square footage for our corporate offices as of December 30, 2018:

LOCATION	USE	SQUARE FEET	LEASE EXPIRATION
Tampa, Florida	Corporate Headquarters	168,000	1/31/2025
São Paulo, Brazil	Brazil Operations Center	17,000	7/31/2021

Item 3. Legal Proceedings

For a description of our legal proceedings, see Note 19 - Commitments and Contingencies of the Notes to Consolidated Financial Statements of this Report.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents
BLOOMIN' BRANDS, INC.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION AND DIVIDENDS

Our common stock is listed on the Nasdaq Global Select Market under the symbol "BLMN".

In 2014, our Board of Directors (our "Board") adopted a dividend policy under which we have paid quarterly cash dividends on shares of our common stock since 2015. Future dividend payments will depend on earnings, financial condition, capital expenditure requirements, surplus and other factors that our Board considers relevant. The terms of our debt agreements permit regular quarterly dividend payments, subject to certain restrictions.

HOLDERS

As of February 15, 2019, there were 10 holders of record of our common stock. The number of registered holders does not include holders who are beneficial owners whose shares are held in street name by brokers and other nominees.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table presents the securities authorized for issuance under our equity compensation plans as of December 30, 2018:

(shares in thousands)	(a)	(b)	(c)
PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a)) (1)
Equity compensation plans approved by security holders	6,190	$ 18.30	4,635

(1) The shares remaining available for issuance may be issued in the form of stock options, restricted stock, restricted stock units or other stock awards under the 2016 Omnibus Incentive Compensation Plan.

Table of Contents
BLOOMIN' BRANDS, INC.

STOCK PERFORMANCE GRAPH

The following graph depicts total return to stockholders from December 31, 2013 through December 30, 2018, relative to the performance of the Standard & Poor's 500 Index and the Standard & Poor's 500 Consumer Discretionary Sector, a peer group. The graph assumes an investment of $100 in our common stock and in each index on December 31, 2013 and the reinvestment of dividends paid since that date. The stock price performance shown in the graph is not necessarily indicative of future price performance.

	DECEMBER 31, 2013	DECEMBER 28, 2014	DECEMBER 27, 2015	DECEMBER 25, 2016	DECEMBER 31, 2017	DECEMBER 30, 2018
Bloomin' Brands, Inc. (BLMN)	$ 100.00	$ 98.92	$ 72.04	$ 78.18	$ 92.95	$ 77.93
Standard & Poor's 500	100.00	115.29	116.17	130.42	157.17	148.98
Standard & Poor's Consumer Discretionary	100.00	109.75	121.21	129.76	157.47	157.03

30

Table of Contents
BLOOMIN' BRANDS, INC.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table provides information regarding our purchases of common stock during the thirteen weeks ended December 30, 2018:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS (1)
October 1, 2018 through October 28, 2018	—	$ —	—	$ 51,032,265
October 29, 2018 through November 25, 2018	691,066	$ 21.71	691,066	$ 36,032,538
November 26, 2018 through December 30, 2018	—	$ —	—	$ 36,032,538
Total	691,066		691,066	

(1) On February 16, 2018, our Board of Directors authorized the repurchase of $150.0 million of our outstanding common stock as announced in our press release issued on February 22, 2018 (the "2018 Share Repurchase Program"). On February 12, 2019, our Board of Directors canceled the remaining $36.0 million of authorization under the 2018 Share Repurchase Program and approved a new $150.0 million authorization (the "2019 Share Repurchase Program"), as announced in our press release issued on February 14, 2019. The 2019 Share Repurchase Program will expire on August 12, 2020.

Table of Contents
BLOOMIN' BRANDS, INC.

Item 6. Selected Financial Data

(in thousands, except share and per share data)	FISCAL YEAR 2018	2017 (Restated) (1)	2016 (Restated) (1)	2015	2014
Operating Results:					
Revenues					
Restaurant sales	$4,060,871	$4,164,063	$4,221,920	$4,349,921	$4,415,783
Franchise and other revenues	65,542	59,073	38,753	27,755	26,928
Total revenues (2)	$4,126,413	$4,223,136	$4,260,673	$4,377,676	$4,442,711
Income from operations (3)	$145,253	$138,686	$123,750	$230,925	$191,964
Net income including noncontrolling interests (3) (4)	$109,538	$103,608	$43,987	$131,560	$95,926
Net income attributable to Bloomin' Brands (3) (4)	$107,098	$101,293	$39,388	$127,327	$91,090
Basic earnings per share	$1.16	$1.05	$0.35	$1.04	$0.73
Diluted earnings per share (5)	$1.14	$1.02	$0.34	$1.01	$0.71
Cash dividends declared per common share	$0.36	$0.32	$0.28	$0.24	$—
Balance Sheet Data:					
Total assets	$2,464,774	$2,561,894	$2,622,810	$3,032,569	$3,338,240
Total debt, net	$1,094,775	$1,118,104	$1,089,485	$1,316,864	$1,309,797
Total stockholders' equity (1)(6)	$54,817	$81,231	$226,063	$454,970	$556,449
Common stock outstanding (6)	91,272	91,913	103,922	119,215	125,950
Cash Flow Data:					
Investing activities:					
Capital expenditures	$(208,224)	$(260,589)	$(260,578)	$(210,263)	$(237,868)
Proceeds from sale-leaseback transactions, net	16,160	98,840	530,684	—	—
Financing activities:					
Repurchase of common stock (6)	$(113,967)	$(272,916)	$(310,334)	$(170,769)	$(930)

Note: This selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto, included in Item 8 of this Report and Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this Report.

(1) See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing Accounting Standards Update No. 2014-09 "Revenue Recognition (Topic 606), Revenue from Contracts with Customers ("ASU No. 2014-09").

(2) There were 53 operating weeks in 2017, versus 52 operating weeks for all other periods presented. This additional week resulted in an increase in Total revenues of $80.4 million during 2017. Due to the change in our fiscal year end in 2014, Total revenues for 2015 include $24.3 million of higher restaurant sales and Total revenues in 2014 include $46.0 million of lower restaurant sales.

(3) 2018 includes: (i) $29.5 million of asset impairments and closing costs primarily related to the restructuring of certain international markets, including Puerto Rico and China, certain approved closure and restructuring initiatives, reclassification of assets to held for sale in connection with refranchising certain restaurants and the restructuring of our Express concept, (ii) $8.6 million of asset impairments and restaurant closing costs related to the relocation of certain restaurants and (iii) $3.5 million of severance expense from the restructuring of certain functions. 2017 results include: (i) $42.8 million of asset impairments and closing costs primarily related to certain closure and restructuring initiatives, the remeasurement of certain surplus properties and for our China subsidiary, (ii) $12.5 million of asset impairments and restaurant closing costs related to the relocation of certain restaurants and (iii) $11.0 million of severance expense incurred as a result of a restructuring event. 2016 results include: (i)

$51.4 million of asset impairments and closing costs related to certain closure and restructuring initiatives, (ii) $43.1 million of asset impairments related to the refranchising of Outback Steakhouse South Korea and for our Puerto Rico subsidiary, (iii) $7.2 million of asset impairments and restaurant closing costs related to the relocation of certain restaurants and (iv) $5.5 million of severance expense as a result of a restructuring event and the relocation of our Fleming's operations center to the corporate home office. 2015 includes: $4.9 million of higher income from operations due to a change in our fiscal year end and $31.8 million of asset impairments and restaurant closing costs related to certain closure and restructuring initiatives. 2014 includes: (i) $9.2 million of lower income from operations due to a change in our fiscal year end, (ii) $26.8 million of asset impairments due to certain closure and restructuring initiatives, (iii) $24.0 million of asset impairments related to our Roy's concept and corporate airplanes and (iv) $9.0 million of severance related to our organizational realignment.

(4) Includes $27.0 million in 2016 and $11.1 million in 2014 of loss on defeasance, extinguishment and modification of debt.

(5) Fiscal year 2017 includes $0.11 of additional diluted earnings per share from a 53rd operating week.

(6) During 2018, 2017, 2016 and 2015, we repurchased 5.1 million, 13.8 million, 16.6 million and 7.6 million shares, respectively, of our outstanding common stock. During 2018, we issued 4.0 million shares of our common stock through the exercise of stock options.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes.

Overview

We are one of the largest casual dining restaurant companies in the world with a portfolio of leading, differentiated restaurant concepts. As of December 30, 2018, we owned and operated 1,193 restaurants and franchised 297 restaurants across 48 states, Puerto Rico, Guam and 20 countries. We have four founder-inspired concepts: Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill and Fleming's Prime Steakhouse & Wine Bar.

Executive Summary

Our 2018 financial results include:

- A decrease in total revenues of 2.3% to $4.1 billion in 2018 as compared to 2017, driven primarily by restaurant sales during the 53rd week of 2017, domestic refranchising and the effect of foreign currency translation. This decrease was partially offset by higher comparable restaurant sales and the net impact of restaurant openings and closures.

- Income from operations increased to $145.3 million in 2018 as compared to $138.7 million in 2017, primarily due to increases in average check per person, productivity initiatives, lower general and administrative expense, and lower impairment charges and restaurant closing costs. These increases were partially offset by commodity, labor and operating expense inflation, the impact of the 53rd week in 2017, increased rent expense and increased depreciation and amortization expense.

Following is a summary of factors that impacted our operating results and liquidity in 2018 and significant actions we have taken during the year:

International Restructuring - During the thirteen weeks and fiscal year ended December 30, 2018, we recognized asset impairment and closure charges of $4.8 million and $13.9 million, respectively, related to restructuring of certain international markets, including Puerto Rico and China.

Express Concept Restructuring - During the thirteen weeks and fiscal year ended December 30, 2018, we recognized asset impairment of $7.4 million related to the restructuring of our Express concept. As a part of the restructuring, three Express locations closed in January 2019.

Assets Held for Sale - In December 2018, we signed a purchase agreement with a buyer to sell 18 of our existing U.S. Company-owned Carrabba's Italian Grill locations for $3.6 million, less certain purchase price adjustments. In connection with the decision to sell these restaurants, we recognized impairment charges of $5.5 million. After the expected completion of the sale in the first half of 2019, these restaurant locations will be operated as franchises. See Note 4 - Disposals of the Notes to the Consolidated Financial Statements for further information.

Share Repurchase Programs and Dividends - We repurchased 5.1 million shares of common stock during 2018 for a total of $114.0 million and paid $33.3 million of dividends. On February 12, 2019, our Board canceled the remaining $36.0 million of authorization under the 2018 Share Repurchase Program and approved a new $150.0 million authorization. The 2019 Share Repurchase Program will expire on August 12, 2020.

33

Impact of Political Unrest in Brazil

Recently, unrest in Brazil ahead of the October presidential election, including a truckers strike, resulted in lost operating days for many businesses, including our restaurants. We have already seen stronger trends in Brazil, including positive comparable restaurant sales in the fourth quarter of 2018 and believe consumer confidence will resume an upward trend in 2019.

Fiscal Year

We utilize a 52-53 week year ending on the last Sunday in December. In a 52 week fiscal year, each of our quarterly periods comprise 13 weeks. The additional operating week in a 53 week fiscal year is added to the fourth quarter. Fiscal year 2017 consisted of 53 weeks and fiscal years 2018 and 2016 consisted of 52 weeks. The additional operating week during fiscal year 2017 resulted in increases of $80.4 million of Total revenues and $0.11 of diluted earnings per share.

Business Strategies

In 2019, our key business strategies include:

- Enhance the 360-Degree Customer Experience. We plan to continue to make investments to enhance our core guest experience, increase off-premises dining occasions, remodel and relocate restaurants, invest in digital marketing and data personalization and utilize the Dine Rewards loyalty program and multimedia marketing campaigns to drive traffic.

- Maximize International Opportunity. We continue to focus on existing geographic regions in South America, with strategic expansion in Brazil, and pursue global franchise opportunities.

- Drive Long-Term Shareholder Value. We plan to drive long-term shareholder value by reinvesting operational cash flow into our business, improving our credit profile and returning excess cash to shareholders through share repurchases and dividends.

- Enrich Engagement Among Stakeholders. We take the responsibility to our people, customers and communities seriously and continue to invest in programs that support the wellbeing of those engaged with us.

We intend to fund our business strategies, drive revenue growth and margin improvement, in part by reinvesting savings generated by productivity initiatives across our businesses.

Table of Contents

Key Performance Indicators

Key measures that we use in evaluating our restaurants and assessing our business include the following:

- Average restaurant unit volumes—average sales (excluding gift card breakage) per restaurant to measure changes in consumer traffic, pricing and development of the brand;

- Comparable restaurant sales—year-over-year comparison of sales volumes (excluding gift card breakage) for Company-owned restaurants that are open 18 months or more in order to remove the impact of new restaurant openings in comparing the operations of existing restaurants;

- System-wide sales—total restaurant sales volume for all Company-owned and franchise restaurants, regardless of ownership, to interpret the overall health of our brands;

- Restaurant-level operating margin, Income from operations, Net income and Diluted earnings per share — financial measures utilized to evaluate our operating performance.

Restaurant-level operating margin is widely regarded in the industry as a useful metric to evaluate restaurant level operating efficiency and performance of ongoing restaurant-level operations, and we use it for these purposes, overall and particularly within our two segments. Our restaurant-level operating margin is expressed as the percentage of our Restaurant sales that Cost of sales, Labor and other related and Other restaurant operating expense (including advertising expenses) represent, in each case as such items are reflected in our Consolidated Statement of Operations. The following categories of our revenue and operating expenses are not included in restaurant-level operating margin because we do not consider them reflective of operating performance at the restaurant-level within a period:

(i) Franchise and other revenues which are earned primarily from franchise royalties and other non-food and beverage revenue streams, such as rental and sublease income.
(ii) Depreciation and amortization which, although substantially all is related to restaurant-level assets, represent historical sunk costs rather than cash outlays for the restaurants.
(iii) General and administrative expense which includes primarily non-restaurant-level costs associated with support of the restaurants and other activities at our corporate offices.
(iv) Asset impairment charges and restaurant closing costs which are not reflective of ongoing restaurant performance in a period.

Restaurant-level operating margin excludes various expenses, as discussed above, that are essential to support the operations of our restaurants and may materially impact our Consolidated Statement of Operations. As a result, restaurant-level operating margin is not indicative of our consolidated results of operations and is presented exclusively as a supplement to, and not a substitute for, net income or income from operations. In addition, our presentation of restaurant operating margin may not be comparable to similarly titled measures used by other companies in our industry;

- Adjusted restaurant-level operating margin, Adjusted income from operations, Adjusted net income, Adjusted diluted earnings per share—non-GAAP financial measures utilized to evaluate our operating performance, which definitions, usefulness and reconciliations are described in more detail in the “Non-GAAP Financial Measures” section below; and

• Consumer satisfaction scores—measurement of our consumers' experiences in a variety of key areas.

35

Table of Contents
BLOOMIN' BRANDS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Selected Operating Data

The table below presents the number of our restaurants in operation at the end of the periods indicated:

	DECEMBER 30, 2018	DECEMBER 31, 2017	DECEMBER 25, 2016
Number of restaurants (at end of the period):			
U.S.			
Outback Steakhouse			
Company-owned (1)	579	585	650
Franchised (1)	154	155	105
Total	733	740	755
Carrabba's Italian Grill			
Company-owned (1)	224	225	242
Franchised (1)	3	3	2
Total	227	228	244
Bonefish Grill			
Company-owned	190	194	204
Franchised	7	7	6
Total	197	201	210
Fleming's Prime Steakhouse & Wine Bar			
Company-owned	70	69	68
Other			
Company-owned	5	2	—
U.S. Total	1,232	1,240	1,277
International			
Company-owned			
Outback Steakhouse - Brazil (2)	92	87	83
Other	33	37	29
Franchised			
Outback Steakhouse - South Korea	76	72	73
Other	55	53	54
International Total	256	249	239
System-wide total	1,488	1,489	1,516

(1) In 2017, we sold 53 Outback Steakhouse restaurants and one Carrabba's Italian Grill restaurant, which are now operated as franchises.

(2) The restaurant counts for Brazil are reported as of November 30, 2018, 2017 and 2016, respectively, to correspond with the balance sheet dates of this subsidiary.

Results of Operations

The following table sets forth, for the periods indicated, the percentages of certain items in our Consolidated Statements of Operations in relation to Total revenues or Restaurant sales, as indicated:

	FISCAL YEAR		
	2018	2017 (1)	2016 (1)
Revenues			
Restaurant sales	98.4 %	98.6 %	99.1 %
Franchise and other revenues	1.6	1.4	0.9
Total revenues	100.0	100.0	100.0
Costs and expenses			
Cost of sales (2)	31.9	31.6	32.1
Labor and other related (2)	29.5	29.3	28.7
Other restaurant operating (2)	23.8	23.9	23.8
Depreciation and amortization	4.9	4.6	4.5
General and administrative	6.9	7.3	6.3
Provision for impaired assets and restaurant closings	0.9	1.2	2.5
Total costs and expenses	96.5	96.7	97.1
Income from operations	3.5	3.3	2.9
Loss on defeasance, extinguishment and modification of debt	—	(*)	(0.6)
Other (expense) income, net	(*)	0.4	*
Interest expense, net	(1.1)	(1.1)	(1.1)
Income before benefit for income taxes	2.4	2.6	1.2
(Benefit) provision for income taxes	(0.3)	0.1	0.2
Net income	2.7	2.5	1.0
Less: net income attributable to noncontrolling interests	0.1	0.1	0.1
Net income attributable to Bloomin' Brands	2.6 %	2.4 %	0.9 %

(1) See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.
(2) As a percentage of Restaurant sales.
* Less than 1/10th of one percent of Total revenues.

Revenues

RESTAURANT SALES

Following is a summary of the change in Restaurant sales for the periods indicated:

	FISCAL YEAR	
(dollars in millions):	2018	2017 (1)
For fiscal years 2017 and 2016 (1)	$4,164.1	$4,221.9
Change from:		
Impact of the 53rd week in 2017	(79.9)	79.9
Divestiture of restaurants through refranchising transactions	(64.4)	(209.4)
Effect of foreign currency translation	(43.7)	36.0
Restaurant closings	(42.7)	(84.3)
Comparable restaurant sales (2)	68.3	45.9
Restaurant openings (2)	59.2	74.1
For fiscal years 2018 and 2017	$4,060.9	$4,164.1

(1) Restaurant sales have been restated for 2017 and 2016. See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

(2) Summation of quarterly changes for restaurant openings and comparable restaurant sales will not total to annual amounts as the restaurants that meet the definition of a comparable restaurant will differ each period based on when the restaurant opened.

The decrease in Restaurant sales in 2018 as compared to 2017 was primarily due to: (i) restaurant sales during the 53rd week of 2017, (ii) domestic refranchising in 2017, (iii) the effect of foreign currency translation, due to the depreciation of the Brazilian Real and (iv) the closing of 65 restaurants since December 25, 2016. The decrease in Restaurant sales was partially offset by higher comparable restaurant sales and sales from 49 new restaurants not included in our comparable restaurant sales base.

The decrease in Restaurant sales in 2017 as compared to 2016 was primarily due to refranchising internationally and domestically and the closing of 57 restaurants since December 27, 2015. The decrease in Restaurant sales was partially offset by: (i) restaurant sales during the 53rd week of 2017, (ii) sales from 69 new restaurants not included in our comparable restaurant sales base, (iii) higher comparable restaurant sales and (iv) the effect of foreign currency translation, due to the appreciation of the Brazilian Real.

Table of Contents
BLOOMIN' BRANDS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Average Restaurant Unit Volumes and Operating Weeks

Following is a summary of the average restaurant unit volumes and operating weeks, for the periods indicated:

	FISCAL YEAR		
(dollars in thousands)	2018	2017 (Restated) (1)	2016 (Restated) (1)
Average restaurant unit volumes:			
U.S.			
Outback Steakhouse	$3,580	$ 3,514	$ 3,329
Carrabba's Italian Grill	$2,887	$ 2,946	$ 2,845
Bonefish Grill	$3,012	$ 3,058	$ 2,991
Fleming's Prime Steakhouse & Wine Bar	$4,358	$ 4,390	$ 4,221
International			
Outback Steakhouse - Brazil (2)	$3,856	$ 4,429	$ 3,856
Operating weeks:			
U.S.			
Outback Steakhouse	30,265	31,969	33,812
Carrabba's Italian Grill	11,660	12,125	12,658
Bonefish Grill	9,981	10,411	10,667
Fleming's Prime Steakhouse & Wine Bar	3,628	3,585	3,469
International			
Outback Steakhouse - Brazil	4,711	4,441	4,096

(1) Restaurant sales have been restated for 2017 and 2016. See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.
(2) Translated at average exchange rates of 3.59, 3.20 and 3.50 for 2018, 2017 and 2016, respectively.

Comparable Restaurant Sales, Traffic and Average Check Per Person Increases (Decreases)

Following is a summary of comparable restaurant sales, traffic and average check per person increases (decreases), for the periods indicated:

	FISCAL YEAR		
	2018 (1)	2017 (2)	2016
Year over year percentage change:			
Comparable restaurant sales (stores open 18 months or more) (3):			
U.S.			
Outback Steakhouse	4.0 %	1.8 %	(2.3)%
Carrabba's Italian Grill	0.2 %	(1.2)%	(2.7)%
Bonefish Grill	0.5 %	(1.7)%	(0.5)%
Fleming's Prime Steakhouse & Wine Bar	0.8 %	(0.4)%	(0.2)%
Combined U.S.	2.5 %	0.5 %	(1.9)%
International			
Outback Steakhouse - Brazil (4)	(1.5)%	6.3 %	6.7 %
Traffic:			
U.S.			
Outback Steakhouse	0.9 %	0.3 %	(5.7)%
Carrabba's Italian Grill	(4.1)%	(4.2)%	(2.7)%
Bonefish Grill	(2.6)%	(2.8)%	(3.7)%
Fleming's Prime Steakhouse & Wine Bar	(4.3)%	(5.5)%	(2.2)%
Combined U.S.	(0.8)%	(1.3)%	(4.7)%
International			
Outback Steakhouse - Brazil	(4.4)%	(0.2)%	0.2 %
Average check per person increases (5):			
U.S.			
Outback Steakhouse	3.1 %	1.5 %	3.4 %
Carrabba's Italian Grill	4.3 %	3.0 %	— %
Bonefish Grill	3.1 %	1.1 %	3.2 %
Fleming's Prime Steakhouse & Wine Bar	5.1 %	5.1 %	2.0 %
Combined U.S.	3.3 %	1.8 %	2.8 %
International			
Outback Steakhouse - Brazil	2.8 %	6.3 %	6.5 %

____

(1) For 2018, U.S. comparable restaurant sales compare the 52 weeks from January 1, 2018 through December 30, 2018 to the 52 weeks from January 2, 2017 through December 31, 2017.

(2) For 2017, U.S. comparable restaurant sales compare the 53 weeks from December 26, 2016 through December 31, 2017 to the 53 weeks from December 28, 2015 through January 1, 2017.

(3) Comparable restaurant sales exclude the effect of fluctuations in foreign currency rates. Relocated international restaurants closed more than 30 days and relocated U.S. restaurants closed more than 60 days are excluded from comparable restaurant sales until at least 18 months after reopening.

(4) Includes trading day impact from calendar period reporting.

(5) Average check per person increases includes the impact of menu pricing changes, product mix and discounts.

Table of Contents

BLOOMIN' BRANDS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Franchise and other revenues

	FISCAL YEAR		
(dollars in millions)	2018	2017 (Restated) (1)	2016 (Restated) (1)
Franchise revenues (2)	$52.9	$ 47.0	$ 32.3
Other revenues	12.6	12.1	6.5
Franchise and other revenues	$65.5	$ 59.1	$ 38.8

(1) See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

(2) Represents franchise royalties, advertising fees and initial franchise fees.

COSTS AND EXPENSES

Cost of sales

	FISCAL YEAR			FISCAL YEAR		
(dollars in millions):	2018	2017	Change	2017	2016	Change
Cost of sales	$1,295.6	$1,317.1		$1,317.1	$1,354.9	
% of Restaurant sales	31.9 %	31.6 %	0.3 %	31.6 %	32.1 %	(0.5)%

Cost of sales, consisting of food and beverage costs, increased as a percentage of Restaurant sales in 2018 as compared to 2017 primarily due to 0.8% from higher beef and other commodity costs, partially offset by decreases as a percentage of Restaurant sales primarily due to 0.7% from increases in average check per person.

Cost of sales decreased as a percentage of Restaurant sales in 2017 as compared to 2016 was primarily due to: (i) 0.4% from increases in average check per person, (ii) 0.4% from lower beef costs and (iii) 0.3% from the impact of certain cost savings initiatives. These decreases were partially offset by increases as a percentage of Restaurant sales primarily due to 0.5% from higher other commodity costs.

In 2019, we expect commodity costs to increase approximately 2%.

Labor and other related expenses

	FISCAL YEAR			FISCAL YEAR		
(dollars in millions):	2018	2017	Change	2017	2016	Change
Labor and other related	$1,197.3	$1,219.6		$1,219.6	$1,211.3	
% of Restaurant sales	29.5 %	29.3 %	0.2 %	29.3 %	28.7 %	0.6 %

Labor and other related expenses include all direct and indirect labor costs incurred in operations, including distribution expense to Restaurant Managing Partners, costs related to field deferred compensation plans and other field incentive compensation expenses. Labor and other related expenses increased as a percentage of Restaurant sales for 2018 as compared to 2017 primarily due to 1.0% from wage rate increases. This increase was partially offset by decreases as a percentage of Restaurant sales primarily due to 0.5% from increases in average check per person and 0.3% impact from certain cost savings initiatives.

Labor and other related expenses increased as a percentage of Restaurant sales for 2017 as compared to 2016 primarily due to 1.5% of higher kitchen and service labor costs due to higher wage rates and investments in our service model. This increase was partially offset by decreases as a percentage of Restaurant sales primarily due to 0.6% from increases in average check per person and 0.2% impact from the refranchising of Outback Steakhouse South Korea in 2016.

In 2019, we anticipate approximately 4% labor cost inflation.

Other restaurant operating expenses

(dollars in millions):	FISCAL YEAR 2018	2017 (Restated) (1)	Change	FISCAL YEAR 2017 (Restated) (1)	2016 (Restated) (1)	Change
Other restaurant operating	$967.1	$996.2		$996.2	$1,004.4	
% of Restaurant sales	23.8 %	23.9 %	(0.1)%	23.9 %	23.8 %	0.1 %

(1) See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

Other restaurant operating expenses include certain unit-level operating costs such as operating supplies, rent, repairs and maintenance, advertising expenses, utilities, pre-opening costs and other occupancy costs. A substantial portion of these expenses is fixed or indirectly variable. Other restaurant operating expenses decreased as a percentage of Restaurant sales for 2018 as compared to 2017 primarily due to: (i) 0.3% from the impact of certain cost savings initiatives, (ii) 0.2% from increases in average check per person and (iii) 0.1% from lower advertising expense. These decreases were partially offset by increases as a percentage of Restaurant sales primarily due to 0.3% from operating expense inflation and 0.2% from higher rent expense.

Other restaurant operating expenses increased for 2017 as compared to 2016 and was the result of increases as a percentage of Restaurant sales primarily due to 0.5% from operating expense inflation and 0.3% from higher rent expense due to the sale-leaseback of certain properties. These increases were partially offset by a decrease as a percentage of Restaurant sales primarily due to 0.6% from lower advertising expenses and 0.2% from the impact of certain cost savings initiatives.

Depreciation and amortization

(dollars in millions):	FISCAL YEAR 2018	2017	Change	FISCAL YEAR 2017	2016	Change
Depreciation and amortization	$201.6	$192.3	$ 9.3	$192.3	$193.8	$ (1.5)

Depreciation and amortization increased for 2018 as compared to 2017 primarily due to additional depreciation expense related to restaurant openings and relocations, and technology projects. These increases were partially offset by the impact of: (i) fewer remodeled restaurants, (ii) domestic refranchising and (iii) assets impaired in connection with international restructuring in 2017.

Depreciation and amortization decreased for 2017 as compared to 2016 primarily due to: (i) disposal of assets related to the sale-leaseback of certain properties, (ii) refranchising internationally and domestically and (iii) assets impaired in connection with the 2017 Closure Initiative (as defined below), partially offset by additional depreciation expense related to the opening of new restaurants and the relocation or remodel of our existing restaurants.

General and administrative expenses

General and administrative expense includes salaries and benefits, management incentive programs, related payroll tax and benefits, other employee-related costs and professional services. Following is a summary of the changes in General and administrative expense for the periods indicated below:

	FISCAL YEAR	
(dollars in millions):	2018	2017
For fiscal years 2017 and 2016	$307.0	$268.0
Change from:		
Compensation, benefits and payroll tax	(8.7)	(4.9)
Severance	(7.2)	4.4
Incentive compensation (1)	(6.9)	23.0
Foreign currency exchange	(2.6)	2.6
Computer expense	3.0	1.7
Life insurance and deferred compensation	0.7	2.8
Legal and professional fees	0.5	5.9
Other	(3.1)	3.5
For fiscal years 2018 and 2017	$282.7	$307.0

(1) Includes retention compensation and excludes stock-based compensation.

Provision for impaired assets and restaurant closings

	FISCAL YEAR			FISCAL YEAR		
(dollars in millions):	2018	2017	Change	2017	2016	Change
Provision for impaired assets and restaurant closings	$36.9	$52.3	$(15.4)	$52.3	$104.6	$(52.3)

Restructuring and Closure Initiatives - Following is a summary of expenses related to the 2017 Closure Initiative and Bonefish Restructuring (the "Closure Initiatives") recognized in Provision for impaired assets and restaurant closings in our Consolidated Statements of Operations and Comprehensive Income for the periods indicated:

	FISCAL YEAR		
(dollars in millions)	2018	2017	2016
Impairment, facility closure and other expenses			
2017 Closure Initiative (1)	$1.7	$20.4	$46.5
Bonefish Restructuring (2)	1.4	3.8	4.9
Impairment, facility closure and other expenses for Closure Initiatives	$3.1	$24.2	$51.4

(1) In February and August 2017, we decided to close 43 underperforming restaurants in the U.S. and two Abbraccio restaurants outside of the core markets of São Paulo and Rio de Janeiro in Brazil (the "2017 Closure Initiative").
(2) In February 2016, we decided to close 14 Bonefish restaurants (the "Bonefish Restructuring").

International Restructuring - During the thirteen weeks and fiscal year ended December 30, 2018, we recognized asset impairment and closure charges of $4.8 million and $13.9 million, respectively, related to restructuring of certain international markets, including Puerto Rico and China, within the International segment. During 2017, we recognized asset impairment and closure charges of $6.3 million related to restructuring of our China subsidiary, within the

International segment.

Express Concept Restructuring - During the thirteen weeks and fiscal year ended December 30, 2018, we recognized asset impairment of $7.4 million related to the restructuring of our Express concept, within the U.S. segment. As a part of the restructuring, three Express locations closed in January 2019.

Refranchising - In December 2018, we entered into an agreement to sell certain existing U.S. Company-owned Carrabba's Italian Grill locations. In connection with the decision to sell these restaurants, we recognized impairment charges of $5.5 million during the thirteen weeks and fiscal year ended December 30, 2018, within the U.S. segment.

Surplus Properties - During 2017, we recognized impairment charges of $10.7 million in connection with the remeasurement of certain surplus properties currently leased to the owners of our former restaurant concepts, within the U.S. segment.

Sale of Outback Steakhouse South Korea - In connection with the decision to sell Outback Steakhouse South Korea, we recognized an impairment charge of $39.6 million during 2016, within the International segment.

Other Impairments - During 2016, we recognized impairment charges of $3.5 million for our Puerto Rico subsidiary, within the U.S. segment.

The remaining restaurant impairment and closing charges primarily resulted from locations identified for remodel, relocation, sale or closure and lease liabilities.

Income from operations

	FISCAL YEAR			FISCAL YEAR		
(dollars in millions):	2018	2017 (Restated) (1)	Change	2017 (Restated) (1)	2016 (Restated) (1)	Change
Income from operations	$ 145.3	$ 138.7		$ 138.7	$ 123.8	
% of Total revenues	3.5 %	3.3 %	0.2 %	3.3 %	2.9 %	0.4 %

(1) See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

The increase in income from operations during 2018 as compared to 2017 was primarily due to: (i) increases in average check per person, (ii) the impact of certain cost saving initiatives, (iii) lower general and administrative expense and (iv) lower impairment charges and restaurant closing costs. These increases were partially offset by: (i) commodity, labor and operating expense inflation, (ii) the impact of the 53rd week in 2017, (iii) increased rent expense and (iv) higher depreciation and amortization expense.

The increase in income from operations during 2017 as compared to 2016 was primarily due to lower impairment charges, primarily related to the 2017 Closure Initiative and refranchising of Outback Steakhouse South Korea in 2016, the impact of the 53rd week in 2017, increases in franchise and other revenues and increases in average check per person. These increases were partially offset by higher general and administrative expense and labor costs.

Loss on defeasance, extinguishment and modification of debt

We recognized losses on defeasance, extinguishment and modification of debt in connection with defeasance of the 2012 CMBS loan in 2016, the amendment of our mortgage loan in 2016 and refinancing of our Senior Secured Credit Facility in 2017.

Other (expense) income, net

Other (expense) income, net, includes items deemed to be non-operating based on management's assessment of the nature of the item in relation to our core operations. We recorded Other (expense) income primarily in connection with gains on sale of 55 of our U.S. Company-owned locations in 2017 and gain on refranchising of Outback Steakhouse South Korea in 2016.

We continue to pursue refranchising opportunities in select markets as we look to further optimize our restaurant portfolio. As a result of these transactions, we may record future net gains or losses, impairment charges and transaction related expenses.

Interest expense, net

	FISCAL YEAR			FISCAL YEAR		
(dollars in millions):	2018	2017	Change	2017	2016	Change
Interest expense, net	$44.9	$41.4	$ 3.5	$41.4	$45.7	$ (4.3)

The increase in Interest expense, net in 2018 as compared to 2017 was primarily due to: (i) additional draws on our revolving credit facility, (ii) our May 2017 incremental term loan borrowing and (iii) higher interest rates. These increases were partially offset by lower interest expense from our derivative instruments and repayment of our mortgage loan in 2017.

The decrease in Interest expense, net in 2017 as compared to 2016 was primarily due to refinancing of the 2012 CMBS loan in February 2016 and subsequent repayment of our mortgage loan in April 2017, partially offset by additional draws on our revolving credit facility and increasing interest rates.

(Benefit) provision for income taxes

	FISCAL YEAR			FISCAL YEAR		
	2018	2017 (1)	Change	2017 (1)	2016 (1)	Change
Effective income tax rate	(9.2)%	6.8%	(16.0)%	6.8%	16.4%	(9.6)%

(1) See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

The net decrease in the effective income tax rate in 2018 as compared to 2017 was primarily due to the reduction in the U.S. federal corporate tax rate from 35% to 21% as part of the Tax Act. The remaining decrease was primarily due to employment-related credits being a higher percentage of net income in 2018 and excess tax benefits from equity-based compensation arrangements recorded in 2018. These decreases were partially offset by the domestic manufacturing deduction and the cumulative effect of the Tax Act recorded in 2017.

The net decrease in the effective income tax rate in 2017 as compared to 2016 was primarily due to impairment and additional tax liabilities recorded in connection with the refranchising of Outback Steakhouse South Korea in 2016. The remaining decrease was primarily due to a domestic manufacturing deduction and excess tax benefits from equity-based compensation arrangements recorded in 2017. These decreases were mostly offset by employment-related credits being a lower percentage of net income in 2017 relative to 2016 and the impact of implementing the Tax Act.

The effective income tax rate for 2018 was lower than the blended federal and state statutory rate of approximately 26%, primarily due to the benefit of tax credits for FICA taxes on certain employees' tips and excess tax benefits from equity-based compensation arrangements. The effective income tax rate for 2017 was lower than the blended federal and state statutory rate of approximately 39%, primarily due to the benefit of tax credits for FICA taxes on certain employees' tips and the cumulative effective of the Tax Act. The effective income tax rate for 2016 was lower than the blended federal and state statutory rate of approximately 39%, primarily due to the benefit of tax credits for FICA taxes on certain employees' tips.

Segments

We consider our restaurant concepts and international markets to be operating segments, which reflects how we manage our business, review operating performance and allocate resources. Resources are allocated and performance is assessed by our Chief Executive Officer, whom we have determined to be our Chief Operating Decision Maker. We aggregate our operating segments into two reportable segments, U.S. and International. The U.S. segment includes all restaurants operating in the U.S. while restaurants operating outside the U.S. are included in the International segment.

Revenues for both segments include only transactions with customers and excludes intersegment revenues. Excluded from income from operations for U.S. and International are legal and certain corporate costs not directly related to the performance of the segments, most stock-based compensation expenses and certain bonus expenses.

Refer to Note 20 - Segment Reporting of the Notes to Consolidated Financial Statements for a reconciliation of segment income (loss) from operations to the consolidated operating results.

U.S. Segment

	FISCAL YEAR		
	2018	2017	2016
(dollars in thousands)		(Restated) (1)	(Restated) (1)
Revenues			
Restaurant sales	$3,634,198	$3,713,666	$3,773,770
Franchise and other revenues	53,041	47,201	31,865
Total revenues	$3,687,239	$3,760,867	$3,805,635
Restaurant-level operating margin	14.2 %	14.5 %	15.0 %
Income from operations	$288,959	$289,971	$282,791
Operating income margin	7.8 %	7.7 %	7.4 %

(1) See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

Restaurant sales

Following is a summary of the change in U.S. segment Restaurant sales for the periods indicated:

	FISCAL YEAR	
(dollars in millions)	2018	2017 (1)
For fiscal years 2017 and 2016 (1)	$3,713.7	$3,773.8
Change from:		
Impact of the 53rd week in 2017	(79.9)	79.9
Divestiture of restaurants through refranchising transactions	(64.4)	(118.9)
Restaurant closings	(31.4)	(81.2)
Comparable restaurant sales (2)	74.9	28.0
Restaurant openings (2)	21.3	32.1
For fiscal years 2018 and 2017	$3,634.2	$3,713.7

(1) Restaurant sales have been restated for 2017 and 2016. See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

(2) Summation of quarterly changes for restaurant openings and comparable restaurant sales will not total to annual amounts as the restaurants that meet the definition of a comparable restaurant will differ each period based on when the restaurant opened.

The decrease in U.S. Restaurant sales in 2018 as compared to 2017 was primarily due to: (i) restaurant sales during the 53rd week of 2017, (ii) the refranchising of certain Company-owned restaurants during 2017 and (iii) the closing of 52 restaurants since December 25, 2016. The decrease in U.S. Restaurant sales was partially offset by higher comparable restaurant sales and sales from 15 new restaurants not included in our comparable restaurant sales base.

The decrease in U.S. Restaurant sales in 2017 as compared to 2016 was primarily due to the refranchising of certain Company-owned restaurants during 2017 and the closing of 52 restaurants since December 27, 2015. The decrease in U.S. Restaurant sales was partially offset by: (i) restaurant sales during the 53rd week of 2017, (ii) sales from 21 new restaurants not included in our comparable restaurant sales base and (iii) higher comparable restaurant sales.

Income from operations

The decrease in U.S. income from operations generated in 2018 as compared to 2017 was primarily due to: (i) labor, commodity and operating expense inflation, (ii) the impact of the 53rd week in 2017, (iii) increased rent expense and (iv) higher depreciation and amortization expense. These decreases were partially offset by: (i) increases in average check per person, (ii) the impact of certain cost saving initiatives and (iii) lower impairment and restaurant closing costs, primarily related to the Closure Initiatives and the remeasurement of certain surplus properties in 2017.

The increase in U.S. income from operations generated in 2017 as compared to 2016 was primarily due to: (i) increases in average check per person, (ii) lower impairment and restaurant closing costs, primarily related to the 2017 Closure Initiative in 2016, (iii) the impact of the 53rd week in 2017, (iv) lower advertising expense, (v) the impact of certain cost saving initiatives and (vi) increases in franchise and other revenues. These increases were partially offset by: (i) higher kitchen and service labor costs due to higher wage rates and investments in our service model, (ii) an increase in operating expense due to inflation and timing and (iii) higher net rent expense due to the sale-leaseback of certain properties.

47

International Segment

	FISCAL YEAR		
(dollars in thousands)	2018	2017 (Restated) (1)	2016 (Restated) (1)
Revenues			
Restaurant sales	$426,673	$450,397	$448,150
Franchise and other revenues	12,501	11,872	6,888
Total revenues	$439,174	$462,269	$455,038
Restaurant-level operating margin	18.8 %	20.6 %	18.8 %
Income from operations	$22,001	$28,798	$(5,918)
Operating income margin	5.0 %	6.2 %	(1.3)%

(1) See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

Restaurant sales

Following is a summary of the change in International Segment Restaurant sales for the periods indicated:

	FISCAL YEAR	
(dollars in millions)	2018	2017
For fiscal years 2017 and 2016	$450.4	$448.2
Change from:		
Effect of foreign currency translation	(43.7)	36.0
Restaurant closings	(11.3)	(3.1)
Comparable restaurant sales (1)	(6.6)	17.9
Restaurant openings (1)	37.9	41.9
Refranchising of Outback Steakhouse South Korea	—	(90.5)
For fiscal years 2018 and 2017	$426.7	$450.4

(1) Summation of quarterly changes for restaurant openings and comparable restaurant sales will not total to annual amounts as the restaurants that meet the definition of a comparable restaurant will differ each period based on when the restaurant opened.

The decrease in Restaurant sales in 2018 as compared to 2017 was primarily due to: (i) the effect of foreign currency translation due to depreciation of the Brazilian Real, (ii) the closing of 13 restaurants since December 25, 2016 and (iii) lower comparable restaurant sales. The decrease in Restaurant sales was partially offset by sales from 34 new restaurants not included in our comparable restaurant sales base.

The increase in Restaurant sales in 2017 as compared to 2016 was primarily due to: (i) sales from 48 new restaurants not included in our comparable restaurant sales base, (ii) the effect of foreign currency translation due to appreciation of the Brazilian Real and (iii) higher comparable restaurant sales. The increase in Restaurant sales was partially offset by the refranchising of 72 Outback Steakhouse South Korea restaurants in July 2016.

Income from operations

The decrease in International income from operations in 2018 as compared to 2017 was primarily due to: (i) labor, operating expense and commodity inflation, (ii) impairment charges and restaurant closing costs in connection with restructuring of certain markets, including Puerto Rico and China, (iii) changes in product mix and (iv) higher advertising expense. These decreases were partially offset by an increase in average check per person and lower general and administrative expense, primarily related to foreign currency translation and lower incentive compensation.

The increase in International income from operations in 2017 as compared to 2016 was primarily due to: (i) lower impairment charges and operating costs, related to the refranchising of Outback Steakhouse South Korea in 2016, (ii) increases in average check per person, (iii) increases in franchise and other revenues and (iv) the impact of certain cost saving initiatives. These increases were partially offset by labor, commodity and operating expense inflation and higher general and administrative expense. General and administrative expense for the International segment increased primarily from the effects of foreign currency translation.

Non-GAAP Financial Measures

In addition to the results provided in accordance with U.S. GAAP, we provide certain non-GAAP measures, which present operating results on an adjusted basis. These are supplemental measures of performance that are not required by or presented in accordance with U.S. GAAP and include the following: (i) system-wide sales, (ii) Adjusted restaurant-level operating margins, (iii) Adjusted income from operations and the corresponding margins, (iv) Adjusted net income and (v) Adjusted diluted earnings per share.

We believe that our use of non-GAAP financial measures permits investors to assess the operating performance of our business relative to our performance based on U.S. GAAP results and relative to other companies within the restaurant industry by isolating the effects of certain items that may vary from period to period without correlation to core operating performance or that vary widely among similar companies. However, our inclusion of these adjusted measures should not be construed as an indication that our future results will be unaffected by unusual or infrequent items or that the items for which we have made adjustments are unusual or infrequent or will not recur. We believe that the disclosure of these non-GAAP measures is useful to investors as they form part of the basis for how our management team and Board of Directors evaluate our operating performance, allocate resources and establish employee incentive plans.

These non-GAAP financial measures are not intended to replace U.S. GAAP financial measures, and they are not necessarily standardized or comparable to similarly titled measures used by other companies. We maintain internal guidelines with respect to the types of adjustments we include in our non-GAAP measures. These guidelines endeavor to differentiate between types of gains and expenses that are reflective of our core operations in a period, and those that may vary from period to period without correlation to our core performance in that period. However, implementation of these guidelines necessarily involves the application of judgment, and the treatment of any items not directly addressed by, or changes to, our guidelines will be considered by our disclosure committee. Refer to the reconciliations of non-GAAP measures for descriptions of the actual adjustments made in the current period and the corresponding prior period.

System-Wide Sales - System-wide sales is a non-GAAP financial measure that includes sales of all restaurants operating under our brand names, whether we own them or not. Management uses this information to make decisions about future plans for the development of additional restaurants and new concepts, as well as evaluation of current operations. System-wide sales comprise sales of Company-owned and franchised restaurants. For a summary of sales of Company-owned restaurants, refer to Note 3 - Revenue Recognition of the Notes to Consolidated Financial Statements.

Table of Contents

BLOOMIN' BRANDS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

The following table provides a summary of sales of franchised restaurants, which are not included in our consolidated financial results. Franchise sales within this table do not represent our sales and are presented only as an indicator of changes in the restaurant system, which management believes is important information regarding the health of our restaurant concepts and in determining our royalties and/or service fees.

	FISCAL YEAR		
FRANCHISE SALES (dollars in millions):	2018	2017	2016
U.S.			
Outback Steakhouse (1)	$513	$459	$334
Carrabba's Italian Grill (1)	12	10	11
Bonefish Grill	14	14	13
U.S. Total	$539	$483	$358
International			
Outback Steakhouse-South Korea (2)	$208	$186	$74
Other	112	115	111
International Total	$320	$301	$185
Total franchise sales (3)	$859	$784	$543

(1) In 2017, we sold 53 Outback Steakhouse restaurants and one Carrabba's Italian Grill restaurant, which are now operated as franchises.

(2) In 2016, we sold our restaurant locations in South Korea, converting all restaurants in that market to franchised locations.

(3) Franchise sales are not included in Total revenues in the Consolidated Statements of Operations and Comprehensive Income.

Adjusted restaurant-level operating margin - Restaurant-level operating margin is calculated as Restaurant sales after deduction of the main restaurant-level operating costs, which includes Cost of sales, Labor and other related and Other restaurant operating expense. Adjusted restaurant-level operating margin is Restaurant-level operating margin adjusted for certain items, as noted below. The following tables show the percentages of certain operating cost financial statement line items in relation to Restaurant sales on both a U.S. GAAP basis and an adjusted basis, as indicated:

	FISCAL YEAR					
	2018		2017		2016	
	U.S. GAAP	ADJUSTED (1)	U.S. GAAP	ADJUSTED (1)	U.S. GAAP	ADJUSTED (1)
Restaurant sales	100.0%	100.0 %	100.0%	100.0 %	100.0%	100.0 %
Cost of sales	31.9 %	31.9 %	31.6 %	31.6 %	32.1 %	32.1 %
Labor and other related	29.5 %	29.5 %	29.3 %	29.3 %	28.7 %	28.7 %
Other restaurant operating	23.8 %	23.9 %	23.9 %	24.1 %	23.8 %	23.9 %
Restaurant-level operating margin	14.8 %	14.7 %	15.2 %	15.0 %	15.4 %	15.4 %

(1) Includes adjustments recorded in Other restaurant operating expense for the following activities, as described in the Adjusted income from operations, Adjusted net income and Adjusted diluted earnings per share table below:

FISCAL YEAR

(dollars in millions)	2018	2017	2016
Restaurant and asset impairments and closing costs	$3.4	$4.8	$4.9
Restaurant relocations and related costs	0.7	0.9	0.7
Legal and contingent matters	—	—	(2.3)
	$4.1	$5.7	$3.3

Adjusted income from operations, Adjusted net income and Adjusted diluted earnings per share - The following table reconciles Adjusted income from operations and the corresponding margins, Adjusted net income and Adjusted diluted earnings per share to their respective most comparable U.S. GAAP measures for the periods indicated:

	FISCAL YEAR		
(in thousands, except share and per share data)	2018	2017	2016
Income from operations (1)	$145,253	$138,686	$123,750
Operating income margin (1)	3.5 %	3.3 %	2.9 %
Adjustments:			
Restaurant and asset impairments and closing costs (2)	$29,542	$42,767	$90,486
Restaurant relocations and related costs (3)	8,647	12,539	8,971
Severance (4)	3,493	11,006	5,463
Legal and contingent matters (5)	1,068	553	2,340
Transaction-related expenses (6)	—	1,447	1,910
Total income from operations adjustments	$42,750	$68,312	$109,170
Adjusted income from operations	$188,003	$206,998	$232,920
Adjusted operating income margin	4.6 %	4.9 %	5.5 %
Net income attributable to Bloomin' Brands (1)	$107,098	$101,293	$39,388
Adjustments:			
Income from operations adjustments	42,750	68,312	109,170
Loss on defeasance, extinguishment and modification of debt (7)	—	1,069	26,998
Gain on disposal of business and other costs (8)	—	(14,854)	(1,632)
Total adjustments, before income taxes	$42,750	$54,527	$134,536
Adjustment to provision for income taxes (1)(9)	(8,944)	(24,513)	(33,100)
Net adjustments	$33,806	$30,014	$101,436
Adjusted net income	$140,904	$131,307	$140,824
Diluted earnings per share	$1.14	$1.02	$0.34
Adjusted diluted earnings per share	$1.50	$1.32	$1.23
Diluted weighted average common shares outstanding	94,075	99,707	114,311

---

(1) Income from operations and Net income attributable to Bloomin' Brands for 2017 and 2016 have been restated. See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09. Adjustment to provision for income taxes for 2017 has been restated to include the $5.6 million benefit from the enactment of the Tax Act on the adoption of ASU No. 2014-09, consisting of the re-measurement of additional deferred tax balances related to the adoption.

(2) Represents asset impairment charges and related costs primarily related to: (i) approved closure and restructuring initiatives, (ii) the restructuring of certain international markets in 2018 and 2017, (iii) the restructuring of our Express concept in 2018, (iv) reclassification of assets to held for sale in connection with refranchising certain restaurants in 2018, (v) the remeasurement of certain surplus properties in 2017, (vi) the decision to sell Outback Steakhouse South Korea in 2016 and (vii) our Puerto Rico subsidiary in 2016.

(3) Represents asset impairment charges and accelerated depreciation incurred in connection with our relocation program.

(4)

Relates to severance expense incurred primarily as a result of restructuring of certain functions and the relocation of our Fleming's operations center to the corporate home office in 2016.

(5) Represents fees and expenses related to certain legal and contingent matters, including the Sears litigation in 2016.

(6) Relates primarily to professional fees related to certain income tax items in which the associated tax benefit is adjusted in Adjustments to provision for income taxes in 2017 and costs incurred in connection with our sale-leaseback initiative.

(7) Relates to: (i) refinancing of our Senior Secured Credit Facility in 2017, (ii) modification of our Credit Agreement (as defined below) in 2017 and (iii) amendment of our mortgage loan and defeasance of the 2012 CMBS loan in 2016.

(8) Primarily relates to: (i) gains on the sale of 55 U.S. Company-owned restaurants in 2017, (ii) expenses related to certain surplus properties in 2017 and (iii) a gain on the refranchising of Outback Steakhouse South Korea during 2016.

(9) Includes the impact of the Tax Act, including the benefit from the adoption of ASU No. 2014-09 discussed in footnote 1 above, other discretionary tax adjustments and the income tax effect of non-GAAP adjustments.

Liquidity and Capital Resources

LIQUIDITY

Our liquidity sources consist of cash flow from operations, cash and cash equivalents and credit capacity under our credit facilities. We expect to use cash primarily for general operating expenses, share repurchases and dividend payments, principal and interest payments on our debt, remodeling or relocating older restaurants, obligations related to our deferred compensation plans and investments in technology.

We believe that our expected liquidity sources are adequate to fund debt service requirements, lease obligations, capital expenditures and working capital obligations during the 12 months following this filing and beyond. However, our ability to continue to meet these requirements and obligations will depend on, among other things, our ability to achieve anticipated levels of revenue and cash flow and our ability to manage costs and working capital successfully.

Cash and Cash Equivalents - As of December 30, 2018, we had $71.8 million in cash and cash equivalents, of which $27.5 million was held by foreign affiliates. The international jurisdictions in which we have significant cash do not have any known restrictions that would prohibit the repatriation of cash and cash equivalents.

As of December 30, 2018, we had aggregate accumulated foreign earnings of approximately $88.3 million. This amount consists mainly of historical earnings (2017 and prior) previously taxed in the U.S. under the Tax Act and post-2017 foreign earnings that we may repatriate to the U.S. without additional U.S. federal income tax. These amounts are no longer considered indefinitely reinvested in our foreign subsidiaries. See Note 18 - Income Taxes of the Notes to the Consolidated Financial Statements for further information regarding the Tax Act and our indefinite reinvestment assertion.

Closure Initiatives - Total aggregate future undiscounted cash expenditures of $15.7 million to $19.2 million for the Closure Initiatives, primarily related to lease liabilities, are expected to occur over the remaining lease terms with the final term ending in January 2029.

Capital Expenditures - We estimate that our capital expenditures will total approximately $175 million to $200 million in 2019. The amount of actual capital expenditures may be affected by general economic, financial, competitive, legislative and regulatory factors, among other things, including restrictions imposed by our borrowing arrangements.

Table of Contents
BLOOMIN' BRANDS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Credit Facilities - As of December 30, 2018, we had $1.1 billion of outstanding borrowings under our Senior Secured Credit Facility. We continue to evaluate whether we will make further payments of our outstanding debt ahead of scheduled maturities. See Note 13 - Long-term Debt, Net of the Notes to Consolidated Financial Statements for further information. Following is a summary of principal payments and debt issuance from December 25, 2016 to December 30, 2018:

	FORMER CREDIT FACILITY		SENIOR SECURED CREDIT FACILITY		MORTGAGE LOAN	TOTAL CREDIT FACILITIES
(dollars in thousands)	TERM LOANS	REVOLVING FACILITY	TERM LOAN A	REVOLVING FACILITY		
Balance as of December 25, 2016	$399,375	$ 622,000	$—	$—	$ 47,202	$ 1,068,577
2017 new debt	125,000	654,500	500,000	697,000	—	1,976,500
2017 payments	(524,375)	(1,276,500)	—	(97,000)	(47,202)	(1,945,077)
Balance as of December 31, 2017	—	—	500,000	600,000	—	1,100,000
2018 new debt	—	—	—	478,000	—	478,000
2018 payments	—	—	(25,000)	(478,500)	—	(503,500)
Balance as of December 30, 2018	$—	$ —	$475,000	$ 599,500	$ —	$ 1,074,500
Weighted-average interest rate, as of December 30, 2018			4.14 %	4.17 %		
Principal maturity date			November 2022	November 2022		

Credit Agreement - On November 30, 2017, we and OSI, as co-borrowers, entered into a credit agreement (the "Credit Agreement") with a syndicate of institutional lenders, providing for senior secured financing of up to $1.5 billion, consisting of a $500.0 million Term loan A and a $1.0 billion revolving credit facility (the "Senior Secured Credit Facility"), including letter of credit and swing line loan sub-facilities. As of December 30, 2018, we had $378.5 million in available unused borrowing capacity under our revolving credit facility, net of letters of credit of $22.0 million.

The Credit Agreement contains mandatory prepayment requirements of 50% of our annual excess cash flow, as defined in the Credit Agreement. The amount outstanding required to be prepaid may vary based on our leverage ratio and year end results. Other than the required minimum amortization premiums of $25.0 million, we do not anticipate any other payments will be required through December 29, 2019.

Debt Covenants - Our Credit Agreement contains various financial and non-financial covenants. A violation of these covenants could negatively impact our liquidity by restricting our ability to borrow under the revolving credit facility and cause an acceleration of the amounts due under the credit facilities. See Note 13 - Long-term Debt, Net of the Notes to our Consolidated Financial Statements for further information.

As of December 30, 2018 and December 31, 2017, we were in compliance with our debt covenants. We believe that we will remain in compliance with our debt covenants during the next 12 months and beyond.

Cash Flow Hedges of Interest Rate Risk - We have variable-to-fixed interest rate swap agreements with eight counterparties to hedge a portion of the cash flows of our variable rate debt that have an aggregate notional amount of $400.0 million and mature on May 16, 2019 (the "2014 Swap Agreements"). We pay a weighted-average fixed rate of 2.02% on the $400.0 million notional amount and receive payments from the counterparties based on the 30-day

LIBOR rate.

In October 2018, we entered into variable-to-fixed interest rate swap agreements with 12 counterparties to hedge a portion of the cash flows of our variable rate debt (the “2018 Swap Agreements”). The 2018 Swap Agreements have an aggregate notional amount of $550.0 million, a forward start date of May 16, 2019 (the maturity date of the 2014 Swap Agreements), and mature on November 30, 2022. Under the terms of the 2018 Swap Agreements, we will pay a weighted-average fixed rate of 3.04% on the notional amount and receive payments from the counterparties based on the one-month LIBOR rate. See Note 16 - Derivative Instruments and Hedging Activities of the Notes to Consolidated Financial Statements for further information.

SUMMARY OF CASH FLOWS

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the periods indicated:

	FISCAL YEAR		
(dollars in thousands)	2018	2017	2016
Net cash provided by operating activities	$288,074	$409,002	$340,587
Net cash (used in) provided by investing activities	(177,296)	(123,115)	295,248
Net cash used in financing activities	(164,352)	(293,505)	(657,978)
Effect of exchange rate changes on cash and cash equivalents	(4,146)	975	2,955
Net decrease in cash, cash equivalents and restricted cash	$(57,720)	$(6,643)	$(19,188)

Operating activities - Net cash provided by operating activities decreased in 2018 as compared to 2017 primarily as a result of the following: (i) the timing of collections of receivables, (ii) higher inventory payments, (iii) the timing of payments of accounts payable and other accrued liabilities and (iv) an increase in incentive compensation payments. These decreases were partially offset by lower income tax payments.

Net cash provided by operating activities increased in 2017 as compared to 2016 primarily as a result of lower income tax payments and the timing of collections of holiday gift card sales from third party vendors. These increases were partially offset by lower gift card sales and the timing of purchases of inventory.

Investing activities - Net cash used in investing activities during 2018 consisted primarily of capital expenditures, partially offset by proceeds from sale-leaseback transactions and proceeds from the disposal of property, fixtures and equipment.

Net cash used in investing activities during 2017 consisted primarily of capital expenditures, partially offset by proceeds from sale-leaseback transactions and proceeds from refranchising transactions.

Net cash provided by investing activities during 2016 consisted primarily of proceeds from sale-leaseback transactions and proceeds from the refranchising of Outback Steakhouse South Korea, partially offset by capital expenditures.

Financing activities - Net cash used in financing activities during 2018 was primarily attributable to the following: (i) the repurchase of common stock, (ii) payment of cash dividends on our common stock, (iii) the net repayment of long-term debt and (iv) repayments of partner deposits and accrued partner obligations. Net cash used in financing activities was partially offset by net proceeds from share-based compensation.

Net cash used in financing activities during 2017 was primarily attributable to the following: (i) repayments due to the refinancing of our former credit facility, (ii) repayment of our mortgage loan, (iii) voluntary repayments of our revolving credit facility, net of drawdowns and (iv) the repurchase of common stock. Net cash used in financing activities was partially offset by proceeds from our new Senior Secured Credit Facility.

Net cash used in financing activities during 2016 was primarily attributable to the following: (i) the defeasance of the 2012 CMBS loan and payments on our mortgage loan, (ii) the repurchase of common stock, (iii) the purchase of outstanding noncontrolling interests and limited partnership interests in certain restaurants, (iv) payment of cash dividends on our common stock and (v) repayments of partner deposits and accrued partner obligations. Net cash used in financing activities was partially offset by the following: (i) proceeds from the mortgage loan, (ii) drawdowns on our revolving credit facility, net of repayments and (iii) proceeds from the sale of certain properties, which are considered financing obligations.

FINANCIAL CONDITION

Following is a summary of our current assets, current liabilities and working capital (deficit) as of the periods indicated:

(dollars in thousands)	DECEMBER 30, 2018	DECEMBER 31, 2017
Current assets	$ 335,483	$ 360,209
Current liabilities	791,039	813,392
Working capital (deficit)	$ (455,556)	$ (453,183)

Working capital (deficit) included Unearned revenue primarily from unredeemed gift cards of $342.7 million and $330.8 million as of December 30, 2018 and December 31, 2017, respectively. We have, and in the future may continue to have, negative working capital balances (as is common for many restaurant companies). We operate successfully with negative working capital because cash collected on restaurant sales is typically received before payment is due on our current liabilities, and our inventory turnover rates require relatively low investment in inventories. Additionally, ongoing cash flows from restaurant operations and gift card sales are used to service debt obligations and make capital expenditures.

Deferred Compensation Programs - Certain Restaurant Managing Partners and Chef Partners in the U.S. ("U.S. Partners") participate in deferred compensation programs that are subject to the rules of section 409(a) of the Internal Revenue Code. The deferred compensation obligations due under these plans was $69.6 million and $96.3 million as of December 30, 2018 and December 31, 2017, respectively. We invest in various corporate-owned life insurance policies, which are held within an irrevocable grantor or "rabbi" trust account for settlement of our obligations under these deferred compensation plans. The rabbi trust is funded through our voluntary contributions and the unfunded obligations were $26.3 million and $36.6 million as of December 30, 2018 and December 31, 2017, respectively.

We use capital to fund the deferred compensation plans and currently expect annual cash funding of $14.0 million to $16.0 million for 2019. Actual funding of the deferred compensation obligations and future funding requirements may vary significantly depending on the actual performance compared to targets, timing of deferred payments of partner contracts, forfeiture rates, number of partner participants, growth of partner investments and our funding strategy.

Other Compensation Programs - Certain U.S. Partners participate in a non-qualified long-term compensation program that we fund as the obligation for each participant becomes due.

DIVIDENDS AND SHARE REPURCHASES

Dividends - In 2018, 2017 and 2016, we declared and paid quarterly cash dividends of $0.09, $0.08 and $0.07 per share, respectively.

In February 2019, our Board declared a quarterly cash dividend of $0.10 per share, payable on March 8, 2019. Future dividend payments are dependent on our earnings, financial condition, capital expenditure requirements, surplus and other factors that our Board considers relevant.

Share Repurchases - On February 12, 2019, our Board canceled the remaining $36.0 million of authorization under the 2018 Share Repurchase Program and approved a new $150.0 million authorization. The 2019 Share Repurchase Program will expire on August 12, 2020. Following is a summary of our share repurchase programs as of December 30, 2018 (dollars in thousands):

SHARE REPURCHASE PROGRAM	BOARD APPROVAL DATE	AUTHORIZED	REPURCHASED	CANCELED	REMAINING
2014	December 12, 2014	$ 100,000	$ 100,000	$ —	$ —
2015	August 3, 2015	$ 100,000	69,999	$ 30,001	$ —
2016	February 12, 2016	$ 250,000	139,892	$ 110,108	$ —
July 2016	July 26, 2016	$ 300,000	247,731	$ 52,269	$ —
2017	April 21, 2017	$ 250,000	195,000	$ 55,000	$ —
2018	February 16, 2018	$ 150,000	113,967	$ —	$ 36,033
Total Share Repurchase Programs			$ 866,589		

The following table presents our dividends and share repurchases for the periods indicated:

(dollars in thousands)	DIVIDENDS PAID	SHARE REPURCHASES (1)	TOTAL
Fiscal year 2018	$ 33,312	$ 113,967	$147,279
Fiscal year 2017	30,988	272,736	303,724
Fiscal year 2016	31,379	309,887	341,266
Fiscal year 2015	29,332	169,999	199,331
Total	$ 125,011	$ 866,589	$991,600

(1) Excludes share repurchases for the settlement of taxes related to equity awards of $180, $447, and $770 for fiscal years 2017, 2016 and 2015, respectively.

Our ability to pay dividends and make share repurchases is dependent on our ability to obtain funds from our subsidiaries, have access to our revolving credit facility and the existence of surplus. Based on our Credit Agreement, restricted dividend payments can be made on an unlimited basis provided we are compliant with our debt covenants.

OFF-BALANCE SHEET ARRANGEMENTS

None.

Table of Contents
BLOOMIN' BRANDS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

OTHER MATERIAL COMMITMENTS

Our contractual obligations, debt obligations and commitments as of December 30, 2018 are summarized in the table below:

	PAYMENTS DUE BY PERIOD				
(dollars in thousands)	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Recorded Contractual Obligations					
Long-term debt (1)	$1,094,775	$27,190	$64,425	$983,742	$19,418
Deferred compensation and other partner obligations (2)	85,632	20,866	37,254	17,011	10,501
Other recorded contractual obligations (3)	38,037	7,876	9,719	6,637	13,805
Unrecorded Contractual Obligations					
Interest (4)	213,706	49,447	99,189	45,465	19,605
Operating leases (5)	1,663,941	188,803	342,777	273,672	858,689
Purchase obligations (6)	364,250	264,798	48,659	40,815	9,978
Total contractual obligations	$3,460,341	$558,980	$602,023	$1,367,342	$931,996

(1) Includes capital lease obligations. Amount is net of unamortized debt issuance costs and discount of $3.5 million.

(2) Includes deferred compensation obligations, deposits and other accrued obligations due to our restaurant partners. Timing and amounts of payments may vary significantly based on employee turnover, return of deposits and changes to buyout values.

(3) Includes other long-term liabilities, primarily consisting of non-partner deferred compensation obligations and restaurant closing cost liabilities. As of December 30, 2018, unrecognized tax benefits of $25.2 million were excluded from the table since it is not possible to estimate when these future payments will occur.

(4) Projected future interest payments on long-term debt are based on interest rates in effect as of December 30, 2018 and assume only scheduled principal payments. Estimated interest expense includes the impact of financing obligations and our variable-to-fixed interest rate swap agreements.

(5) Amounts represent undiscounted future minimum rental commitments under non-cancelable operating leases, excluding unexercised renewal terms.

(6) Purchase obligations include agreements to purchase goods or services that are enforceable, legally binding and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. We have purchase obligations with various vendors that consist primarily of inventory, restaurant-level service contracts, advertising and technology.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these accompanying consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities during the reporting period. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We consider an accounting estimate to be critical if it requires assumptions to be made and changes in these assumptions could have a material impact on our consolidated financial condition or results of operations.

Impairment or Disposal of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows independent of other assets. For long-lived assets deployed at our restaurants, we review for impairment at the individual restaurant level.

When evaluating for impairment, the total future undiscounted cash flows expected to be generated by the assets are compared to the carrying amount. If the total future undiscounted cash flows expected to be generated by the assets are less than the carrying amount, this may be an indicator of impairment. An impairment loss is recognized in earnings when the asset's carrying value exceeds its estimated fair value. Fair value is generally estimated using a discounted cash flow model. The key estimates and assumptions used in this model are future cash flow estimates, with material changes generally driven by changes in expected use, and the discount rate.

Goodwill and Indefinite-Lived Intangible Assets - Goodwill and indefinite-lived intangible assets are tested for impairment annually in the second fiscal quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

We may elect to perform a qualitative assessment to determine whether it is more likely than not that a reporting unit is impaired. In considering the qualitative approach, we evaluate factors including, but not limited to, macro-economic conditions, market and industry conditions, commodity cost fluctuations, competitive environment, share price performance, results of prior impairment tests, operational stability and the overall financial performance of the reporting units.

If the qualitative assessment is not performed or if we determine that it is not more likely than not that the fair value of the reporting unit exceeds the carrying value, the fair value of the reporting unit is calculated. Fair value of a reporting unit is the price a willing buyer would pay for the reporting unit and is estimated by utilizing a weighted average of the income approach, using a discounted cash flow model, and the market approach including the guideline public company method and guideline transaction method. The key estimates and assumptions used in these models are future cash flow estimates, which are heavily influenced by revenue growth rates, operating margins and capital expenditures. The fair value of the trade name is determined through a relief from royalty method.

The carrying value of the reporting unit is compared to its estimated fair value, with any excess of carrying value over fair value deemed to be an indicator of impairment.

The carrying value of goodwill as of December 30, 2018 was $295.4 million, which related to our U.S. and International reporting units. We performed our annual impairment test in the second quarter of 2018 by utilizing the quantitative approach and determined that the excess of fair value over carrying value of our reporting units was substantial.

Sales declines at our restaurants, unplanned increases in commodity or labor costs, deterioration in overall economic conditions and challenges in the restaurant industry may result in future impairment charges. It is possible that changes in circumstances or changes in our judgments, assumptions and estimates could result in an impairment charge of a portion or all of our goodwill or other intangible assets.

Insurance Reserves - We carry insurance programs with specific retention levels or high per-claim deductibles for a significant portion of expected losses under our workers' compensation, general or liquor liability, health, property and management liability insurance programs. For some programs, we maintain stop-loss coverage to limit the exposure relating to certain risks.

We record a liability for all unresolved claims and for an estimate of incurred but not reported claims at the anticipated cost that falls below our specified retention levels or per-claim deductible amounts. Our liability for insurance claims was $55.8 million and $59.4 million as of December 30, 2018 and December 31, 2017, respectively. In establishing our reserves, we consider certain actuarial assumptions and judgments regarding economic conditions, the frequency and severity of claims and claim development history and settlement practices. Reserves recorded for workers' compensation and general or liquor liability claims are discounted using the average of the one-year and five-year risk-free rate of monetary assets that have comparable maturities.

We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate our insurance claim liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material. A 50 basis point change in the discount rate in our insurance claim liabilities as of December 30, 2018, would have affected net earnings by $0.7 million in 2018.

Stock-Based Compensation - We have a stock-based compensation plan that permits the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based awards to our management and other key employees. We account for our stock-based employee compensation using a fair value-based method of accounting.

We use the Black-Scholes option pricing model to estimate the weighted-average grant date fair value of stock options granted. Expected volatility is based on historical volatility of our stock. The expected term of options granted represents the period of time that options granted are expected to be outstanding. Expected term is estimated based on historical exercise experience of our stock options. Dividend yield is the level of dividends expected to be paid on our common stock over the expected term of our options. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect as of the grant date. Forfeitures of share-based compensation awards are recognized as they occur.

Estimates and assumptions are based upon information currently available, including historical experience and current business and economic conditions. A simultaneous 10% change in our volatility, forfeiture rate, weighted-average risk-free interest rate, dividend rate and term of grant in our stock option pricing model for 2018 would not have a material effect on net income.

Our performance-based share units ("PSUs") require assumptions regarding the likelihood of achieving certain Company performance criteria set forth in the award agreements. Assumptions used in our assessment are consistent with our internal forecasts and operating plans.

If we assumed that the PSU performance conditions for stock-based awards were not met, stock-based compensation expense would have decreased by $6.9 million for 2018. If we assumed that all granted PSU share awards met or will meet their maximum threshold, expense would have increased by $6.0 million for 2018.

Income Taxes - Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the tax rates, based on certain judgments regarding enacted tax laws and published guidance, in effect in the years in which we expect those temporary differences to reverse. As of December 30, 2018, tax loss carryforwards and credit carryforwards that do not have a valuation allowance are expected to be recoverable within the applicable statutory expiration periods.We currently expect to utilize general business tax credit carryforwards within a four to six year period. However, our ability to utilize these tax credits could be adversely impacted by, among other items, a future "ownership change" as defined under Section 382 of the Internal Revenue Code. A valuation allowance is established against the deferred tax assets when it is more likely than not that some portion or all of the deferred taxes may not be realized. Changes in assumptions regarding our level and composition of earnings, tax laws or the deferred tax valuation allowance and the results of tax audits, may materially impact the effective income tax rate.

Our income tax returns, like those of most companies, are periodically audited by U.S. and foreign tax authorities. In determining taxable income, income or loss before taxes is adjusted for differences between local tax laws and generally accepted accounting principles. A tax benefit from an uncertain position is recognized only if it is more likely than not that the position is sustainable based on its technical merits. For uncertain tax positions that do not meet this threshold, we recognize a liability. The liability for unrecognized tax benefits requires significant management judgment regarding exposures about our various tax positions. These assumptions and probabilities are periodically reviewed and updated based upon new information. An unfavorable tax settlement generally requires the use of cash and an increase in the amount of income tax expense we recognize.

Revenue Recognition - We sell gift cards to customers in our restaurants, through our websites and through select third parties. A liability is initially established for the value of the gift card when sold. We recognize revenue from gift cards when the card is redeemed by the customer. There is uncertainty when calculating gift card breakage, the amount of gift cards which will not be redeemed, because management is required to make assumptions and to apply judgment regarding the effects of future events. We recognize gift card breakage revenue using estimates based on historical redemption patterns. If actual redemptions vary from the estimated breakage, gift card breakage revenue may differ from the amount recorded. We periodically update our estimates used for breakage and apply that rate to gift card redemptions. A change in our breakage rate estimates by 50 basis points would have resulted in an adjustment in our breakage revenue of $2.1 million for 2018.

Recently Issued Financial Accounting Standards

For a description of recently issued Financial Accounting Standards that we adopted in 2018 and, that are applicable to us and likely to have material effect on our consolidated financial statements, but have not yet been adopted, see Note 2 - Summary of Significant Accounting Policies of the Notes to the Consolidated Financial Statements of this Report.

Table of Contents
BLOOMIN' BRANDS, INC.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates on debt, changes in foreign currency exchange rates and changes in commodity prices.

Interest Rate Risk

We are exposed to market risk from fluctuations in interest rates, which could affect our consolidated balance sheet, earnings and cash flows. Stockholders' equity can be adversely affected by changing interest rates, as after-tax changes in the fair value of interest rate swaps designated as cash flow hedges are reflected as increases and decreases to a component of stockholders' equity.

We manage our exposure to market risk through regular operating and financing activities and when deemed appropriate, through the use of derivative financial instruments. We use derivative financial instruments as risk management tools and not for speculative purposes. See Note 16 - Derivative Instruments and Hedging Activities of the Notes to our Consolidated Financial Statements for further information.

As of December 30, 2018, our interest rate risk was primarily from variable interest rate changes on our Senior Secured Credit Facility. To manage the risk of fluctuations in variable interest rate debt, we have interest rate swaps for an aggregate notional amount of $400.0 million that mature on May 16, 2019. In October 2018, we entered into interest rate swaps for an aggregate notional amount of $550.0 million with a forward start date of May 16, 2019 (the maturity date of the 2014 Swap Agreements) and a maturity date of November 30, 2022.

We utilize valuation models to estimate the effects of changing interest rates. The following table summarizes the changes to fair value and interest expense under a shock scenario. This analysis assumes that interest rates change suddenly, as an interest rate "shock" and continue to increase or decrease at a consistent level above or below the LIBOR curve.

	DECEMBER 30, 2018	
(dollars in thousands)	INCREASE	DECREASE
Change in fair value (1):		
Interest rate swap	$19,243	$ (20,127)
Change in annual interest expense (2):		
Variable rate debt	$5,714	$ (5,714)

(1) The potential change from a hypothetical 100 basis point increase (decrease) in short-term interest rates.

(2) The potential change from a hypothetical 100 basis point increase (decrease) in short-term interest rates based on the LIBOR curve. The curve ranges from our current interest rate of 251 basis points to 257 basis points.

Foreign Currency Exchange Rate Risk

We are subject to foreign currency exchange risk for our restaurants operating in foreign countries. Our exposure to foreign currency exchange risk is primarily related to fluctuations in the Brazilian Real relative to the U.S. dollar. Our operations in other markets consist of Company-owned restaurants on a smaller scale than Brazil. If foreign currency exchange rates depreciate in the countries in which we operate, we may experience declines in our operating results.

For 2018, 10.6% of our revenue was generated in foreign currencies. A 10% change in average foreign currency rates against the U.S. dollar would have increased or decreased our Total revenues and Net income for our foreign entities by $47.4 million and $1.5 million, respectively.

Commodity Pricing Risk

Many of the ingredients used in the products sold in our restaurants are commodities that are subject to unpredictable price volatility. Although we attempt to minimize the effect of price volatility by negotiating fixed price contracts for the supply of key ingredients, there are no established fixed price markets for certain commodities such as produce and wild fish, and we are subject to prevailing market conditions when purchasing those types of commodities. Other commodities are purchased based upon negotiated price ranges established with vendors with reference to the fluctuating market prices. The related agreements may contain contractual features that limit the price paid by establishing certain price floors and caps. Extreme changes in commodity prices or long-term changes could affect our financial results adversely. We expect that in most cases increased commodity prices could be passed through to our customers through increases in menu prices. However, if there is a time lag between the increasing commodity prices and our ability to increase menu prices, or if we believe the commodity price increase to be short in duration and we choose not to pass on the cost increases, our short-term financial results could be negatively affected. Additionally, from time to time, competitive circumstances could limit menu price flexibility, and in those cases margins would be negatively impacted by increased commodity prices.

Our restaurants are dependent upon energy to operate and are impacted by changes in energy prices, including natural gas. In 2017 and 2016, we utilized derivative instruments to mitigate some of our overall exposure to material increases in natural gas prices. Mark-to-market changes in the fair value of our natural gas derivative instruments recorded in earnings and the related assets and liabilities were not material for 2017 and 2016.

In addition to the market risks identified above, we are subject to business risk as our U.S. beef supply is highly dependent upon a limited number of vendors. If these vendors were unable to fulfill their obligations under their contracts, we could encounter supply shortages and incur higher costs to secure adequate supplies. See Note 19 - Commitments and Contingencies of the Notes to Consolidated Financial Statements for further details.

This market risk discussion contains forward-looking statements. Actual results may differ materially from the discussion based upon general market conditions and changes in U.S. and global financial markets.

Table of Contents
BLOOMIN' BRANDS, INC.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL INFORMATION

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial and Administrative Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 30, 2018 using the criteria described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) ("COSO"). Based upon our evaluation, management concluded that our internal control over financial reporting was effective as of December 30, 2018.

The effectiveness of our internal control over financial reporting as of December 30, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Bloomin' Brands, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Bloomin' Brands, Inc. and its subsidiaries (the "Company") as of December 30, 2018 and December 31, 2017, and the related consolidated statements of operations and comprehensive income, of changes in stockholders' equity and of cash flows for each of the three years in the period ended December 30, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue recognition in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Table of Contents

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida
February 27, 2019

We have served as the Company’s auditor since 1998.

Table of Contents

BLOOMIN' BRANDS, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	DECEMBER 30, 2018	DECEMBER 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 71,823	$ 128,263
Current portion of restricted cash and cash equivalents	—	1,280
Inventories	72,812	51,264
Other current assets, net	190,848	179,402
Total current assets	335,483	360,209
Property, fixtures and equipment, net	1,115,929	1,173,414
Goodwill	295,427	310,234
Intangible assets, net	503,972	522,290
Deferred income tax assets, net	92,990	60,486
Other assets, net	120,973	135,261
Total assets	$ 2,464,774	$ 2,561,894
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 174,488	$ 185,461
Accrued and other current liabilities	246,653	270,840
Unearned revenue	342,708	330,756
Current portion of long-term debt	27,190	26,335
Total current liabilities	791,039	813,392
Deferred rent	167,027	160,047
Deferred income tax liabilities	14,790	16,926
Long-term debt, net	1,067,585	1,091,769
Long-term portion of deferred gain on sale-leaseback transactions, net	177,983	188,086
Other long-term liabilities, net	191,533	210,443
Total liabilities	2,409,957	2,480,663
Commitments and contingencies (Note 19)		
Stockholders' equity		
Bloomin' Brands stockholders' equity		
Preferred stock, $0.01 par value, 25,000,000 shares authorized; no shares issued and outstanding as of December 30, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value, 475,000,000 shares authorized; 91,271,825 and 91,912,546 shares issued and outstanding as of December 30, 2018 and December 31, 2017, respectively	913	919
Additional paid-in capital	1,107,582	1,081,813
Accumulated deficit	(920,010)	(913,191)
Accumulated other comprehensive loss	(142,755)	(99,199)
Total Bloomin' Brands stockholders' equity	45,730	70,342
Noncontrolling interests	9,087	10,889
Total stockholders' equity	54,817	81,231
Total liabilities and stockholders' equity	$ 2,464,774	$ 2,561,894

The accompanying notes are an integral part of these consolidated financial statements.

BLOOMIN' BRANDS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEAR		
	2018	2017	2016
Revenues			
Restaurant sales	$4,060,871	$4,164,063	$4,221,920
Franchise and other revenues	65,542	59,073	38,753
Total revenues	4,126,413	4,223,136	4,260,673
Costs and expenses			
Cost of sales	1,295,588	1,317,110	1,354,853
Labor and other related	1,197,297	1,219,593	1,211,250
Other restaurant operating	967,099	996,180	1,004,374
Depreciation and amortization	201,593	192,282	193,838
General and administrative	282,720	306,956	267,981
Provision for impaired assets and restaurant closings	36,863	52,329	104,627
Total costs and expenses	3,981,160	4,084,450	4,136,923
Income from operations	145,253	138,686	123,750
Loss on defeasance, extinguishment and modification of debt	—	(1,069)	(26,998)
Other (expense) income, net	(11)	14,912	1,609
Interest expense, net	(44,937)	(41,392)	(45,726)
Income before benefit for income taxes	100,305	111,137	52,635
(Benefit) provision for income taxes	(9,233)	7,529	8,648
Net income	109,538	103,608	43,987
Less: net income attributable to noncontrolling interests	2,440	2,315	4,599
Net income attributable to Bloomin' Brands	$107,098	$101,293	$39,388
Net income	$109,538	$103,608	$43,987
Other comprehensive income:			
Foreign currency translation adjustment	(36,132)	8,959	37,075
Unrealized (loss) gain on derivatives, net of tax	(7,100)	627	(1,250)
Reclassification of adjustment for loss on derivatives included in Net income, net of tax	120	2,381	3,807
Comprehensive income	66,426	115,575	83,619
Less: comprehensive income attributable to noncontrolling interests	2,884	2,338	8,008
Comprehensive income attributable to Bloomin' Brands	$63,542	$113,237	$75,611
Earnings per share:			
Basic	$1.16	$1.05	$0.35
Diluted	$1.14	$1.02	$0.34
Weighted average common shares outstanding:			
Basic	92,042	96,365	111,381
Diluted	94,075	99,707	114,311
Cash dividends declared per common share	$0.36	$0.32	$0.28

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

BLOOMIN' BRANDS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	BLOOMIN' BRANDS COMMON STOCK						
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUM-ULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	NON-CONTROLLING INTERESTS	TOTAL
Balance, December 27, 2015	119,215	$ 1,192	$ 1,072,861	$ (485,290)	$ (147,367)	$ 13,574	$ 454,970
Net income	—	—	—	39,388	—	3,622	43,010
Other comprehensive income (loss), net of tax	—	—	—	—	36,224	(43)	36,181
Cash dividends declared, $0.28 per common share	—	—	(31,379)	—	—	—	(31,379)
Repurchase and retirement of common stock	(16,647)	(166)		(309,721)	—	—	(309,887)
Stock-based compensation	—	—	23,539	—	—	—	23,539
Excess tax benefit on stock-based compensation	—	—	454	—	—	—	454
Common stock issued under stock plans (1)	1,354	13	6,831	(447)	—	—	6,397
Purchase of noncontrolling interests, net of tax of $1,504	—	—	9,301	—	—	581	9,882
Change in the redemption value of redeemable interests	—	—	(2,024)	—	—	—	(2,024)
Distributions to noncontrolling interests	—	—	—	—	—	(5,818)	(5,818)
Contributions from noncontrolling interests	—	—	—	—	—	738	738
Balance, December 25, 2016	103,922	$ 1,039	$ 1,079,583	$ (756,070)	$ (111,143)	$ 12,654	$ 226,063
Cumulative-effect from a change in accounting principle	—	—	—	14,364	—	—	14,364
Net income	—	—	—	101,293	—	3,099	104,392
Other comprehensive income (loss), net of tax	—	—	—	—	11,944	(3)	11,941
Cash dividends declared, $0.32 per common share	—	—	(30,988)	—	—	—	(30,988)
Repurchase and retirement of common stock	(13,807)	(138)	—	(272,598)	—	—	(272,736)
Stock-based compensation	—		23,721	—	—	—	23,721
Common stock issued under stock plans (1)	1,798	18	10,421	(180)	—	—	10,259
Purchase of noncontrolling interests, net of tax of $45	—	—	(713)	—	—	(180)	(893)
Change in the redemption value of redeemable interests	—	—	(211)	—	—	—	(211)
Distributions to noncontrolling interests	—	—	—	—	—	(5,973)	(5,973)

Contributions from noncontrolling interests	—	—	—	—	—	873	873
Other	—	—	—	—	—	419	419
Balance, December 31, 2017	91,913	$ 919	$ 1,081,813	$ (913,191)	$ (99,199)	$ 10,889	$ 81,231

(CONTINUED...)

Table of Contents
BLOOMIN' BRANDS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	BLOOMIN' BRANDS COMMON STOCK SHARES	BLOOMIN' BRANDS COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUM-ULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	NON-CONTROLLING INTERESTS	TOTAL
Balance, December 31, 2017	91,913	$ 919	$ 1,081,813	$ (913,191)	$ (99,199)	$ 10,889	$ 81,231
Net income	—	—	—	107,098	—	2,770	109,868
Other comprehensive (loss) income, net of tax	—	—	—	—	(43,556)	444	(43,112)
Cash dividends declared, $0.36 per common share	—	—	(33,312)	—	—	—	(33,312)
Repurchase and retirement of common stock	(5,062)	(50)	—	(113,917)	—	—	(113,967)
Stock-based compensation	—	—	23,059	—	—	—	23,059
Common stock issued under stock plans (1)	4,421	44	36,568	—	—	—	36,612
Purchase of noncontrolling interests, net of tax of $75	—	—	(216)	—	—	(110)	(326)
Change in the redemption value of redeemable interests	—	—	(330)	—	—	—	(330)
Distributions to noncontrolling interests	—	—	—	—	—	(6,943)	(6,943)
Contributions from noncontrolling interests	—	—	—	—	—	2,037	2,037
Balance, December 30, 2018	91,272	$ 913	$ 1,107,582	$ (920,010)	$ (142,755)	$ 9,087	$ 54,817

(1) Net of forfeitures and shares withheld for employee taxes.

The accompanying notes are an integral part of these consolidated financial statements.

70

Table of Contents

BLOOMIN' BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FISCAL YEAR		
	2018	2017	2016
Cash flows provided by operating activities:			
Net income	$109,538	$103,608	$43,987
Adjustments to reconcile Net income to cash provided by operating activities:			
Depreciation and amortization	201,593	192,282	193,838
Amortization of deferred discounts and issuance costs	2,561	2,868	7,857
Amortization of deferred gift card sales commissions	27,227	26,751	28,045
Provision for impaired assets and restaurant closings	36,863	52,329	104,627
Stock-based and other non-cash compensation expense	27,433	25,938	21,522
Deferred income tax benefit	(29,490)	(28,051)	(76,845)
Loss on defeasance, extinguishment and modification of debt	—	1,069	26,998
Gain on sale of a business or subsidiary	—	(15,632)	(1,633)
Recognition of deferred gain on sale-leaseback transactions	(12,336)	(11,872)	(5,981)
Excess tax benefit from stock-based compensation	—	—	(2,252)
Other, net	4,358	5,412	830
Change in assets and liabilities:			
(Increase) decrease in inventories	(24,707)	11,065	15,053
Increase in other current assets	(25,405)	(12,262)	(22,778)
(Increase) decrease in other assets	(3,190)	(1,585)	5,752
(Decrease) increase in accounts payable and accrued and other current liabilities	(39,871)	53,880	(8,222)
Increase in deferred rent	8,737	12,079	12,426
Increase (decrease) in unearned revenue	12,199	(5,855)	11,948
Decrease in other long-term liabilities	(7,436)	(3,022)	(14,585)
Net cash provided by operating activities	288,074	409,002	340,587
Cash flows (used in) provided by investing activities:			
Proceeds from sale-leaseback transactions, net	16,160	98,840	530,684
Proceeds from sale of a business, net of cash divested	—	39,196	28,635
Capital expenditures	(208,224)	(260,589)	(260,578)
Proceeds from disposal of property, fixtures and equipment	14,041	1,020	1,726
Other investments, net	727	(1,582)	(5,219)
Net cash (used in) provided by investing activities	$(177,296)	$(123,115)	$295,248

(CONTINUED...)

Table of Contents

BLOOMIN' BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FISCAL YEAR		
	2018	2017	2016
Cash flows used in financing activities:			
Proceeds from issuance of long-term debt, net	$1,637	$621,603	$364,211
Defeasance, extinguishment and modification of debt	—	(1,193,719)	(478,906)
Repayments of long-term debt	(26,686)	(75,528)	(355,616)
Proceeds from borrowings on revolving credit facilities, net	476,829	1,345,761	729,500
Repayments of borrowings on revolving credit facilities	(478,500)	(676,500)	(539,500)
Proceeds from failed sale-leaseback transactions, net	—	5,942	18,246
Proceeds from share-based compensation, net	36,612	10,439	6,843
Distributions to noncontrolling interests	(6,943)	(5,973)	(5,818)
Contributions from noncontrolling interests	2,037	873	738
Purchase of limited partnership and noncontrolling interests	(2,112)	(5,713)	(39,476)
Repayments of partner deposits and accrued partner obligations	(19,947)	(16,786)	(18,739)
Repurchase of common stock	(113,967)	(272,916)	(310,334)
Excess tax benefit from stock-based compensation	—	—	2,252
Cash dividends paid on common stock	(33,312)	(30,988)	(31,379)
Net cash used in financing activities	(164,352)	(293,505)	(657,978)
Effect of exchange rate changes on cash and cash equivalents	(4,146)	975	2,955
Net decrease in cash, cash equivalents and restricted cash	(57,720)	(6,643)	(19,188)
Cash, cash equivalents and restricted cash as of the beginning of the period	129,543	136,186	155,374
Cash, cash equivalents and restricted cash as of the end of the period	$71,823	$129,543	$136,186
Supplemental disclosures of cash flow information:			
Cash paid for interest	$41,681	$40,475	$41,645
Cash paid for income taxes, net of refunds	15,839	33,392	88,823
Supplemental disclosures of non-cash investing and financing activities:			
Purchase of noncontrolling interest included in accrued and other current liabilities	$—	$—	$1,414
Increase (decrease) in liabilities from the acquisition of property, fixtures and equipment or capital leases	2,699	(4,747)	9,610
Deferred tax effect of purchase of noncontrolling interests	—	—	1,504

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents
BLOOMIN' BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Bloomin' Brands, Inc. ("Bloomin' Brands" or the "Company") is one of the largest casual dining restaurant companies in the world, with a portfolio of leading, differentiated restaurant concepts. OSI Restaurant Partners, LLC ("OSI") is the Company's primary operating entity.

The Company owns and operates casual, upscale casual and fine dining restaurants. The Company's restaurant portfolio has four concepts: Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill and Fleming's Prime Steakhouse & Wine Bar. Additional Outback Steakhouse, Carrabba's Italian Grill and Bonefish Grill restaurants in which the Company has no direct investment are operated under franchise agreements.

2. Summary of Significant Accounting Policies

Basis of Presentation - The Company's consolidated financial statements include the accounts and operations of Bloomin' Brands and its subsidiaries.

To ensure timely reporting, the Company consolidates the results of its Brazil operations on a one-month calendar lag. There were no intervening events that would materially affect the Company's consolidated financial position, results of operations or cash flows as of and for the year ended December 30, 2018.

Principles of Consolidation - All intercompany accounts and transactions have been eliminated in consolidation.

The Company consolidates variable interest entities where it has been determined that the Company is the primary beneficiary of those entities' operations. The Company is a franchisor of 295 restaurants as of December 30, 2018, but does not possess any ownership interests in its franchisees and does not provide financial support to its franchisees. These franchise relationships are not deemed variable interest entities and are not consolidated.

Investments in entities the Company does not control, but where the Company's interest is generally between 20% and 50% and the Company has the ability to exercise significant influence over the entity, are accounted for under the equity method.

Fiscal Year - The Company utilizes a 52-53 week year ending on the last Sunday in December. In a 52 week fiscal year, each quarterly period is comprised of 13 weeks. The additional week in a 53 week fiscal year is added to the fourth quarter. Fiscal year 2017 consisted of 53 weeks and fiscal years 2018 and 2016 consisted of 52 weeks.

Use of Estimates - The preparation of the accompanying consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Cash and Cash Equivalents - Cash equivalents consist of investments that are readily convertible to cash with an original maturity date of three months or less. Cash and cash equivalents include $47.1 million and $51.6 million, as of December 30, 2018 and December 31, 2017, respectively, for amounts in transit from credit card companies since settlement is reasonably assured.

Concentrations of Credit and Counterparty Risk - Financial instruments that potentially subject the Company to a concentration of credit risk are gift card, vendor and other receivables. Gift card, vendor and other receivables consist primarily of amounts due from gift card resellers and vendor rebates. The Company considers the concentration of credit risk for gift card, vendor and other receivables to be minimal due to the payment histories and general financial condition of its gift card resellers and vendors.

Financial instruments that potentially subject the Company to concentrations of counterparty risk are cash and cash equivalents, restricted cash and derivatives. The Company attempts to limit its counterparty risk by investing in certificates of deposit, money market funds, noninterest-bearing accounts and other highly rated investments. Whenever possible, the Company selects investment grade counterparties and rated money market funds in order to mitigate its counterparty risk. At times, cash balances may be in excess of FDIC insurance limits. See Note 16 - Derivative Instruments and Hedging Activities for a discussion of the Company's use of derivative instruments and management of credit risk inherent in derivative instruments.

Fair Value - Fair value is the price that would be received for an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants on the measurement date. Fair value is categorized into one of the following three levels based on the lowest level of significant input:

Level 1	Unadjusted quoted market prices in active markets for identical assets or liabilities
Level 2	Observable inputs available at measurement date other than quoted prices included in Level 1
Level 3	Unobservable inputs that cannot be corroborated by observable market data

Inventories - Inventories consist of food and beverages and are stated at the lower of cost (first-in, first-out) or net realizable value.

Restricted Cash - From time to time, the Company may have short-term restricted cash balances consisting of amounts pledged for settlement of deferred compensation plan obligations.

Property, Fixtures and Equipment - Property, fixtures and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of the assets. Improvements to leased properties are depreciated over the shorter of their useful life or the lease term, which includes renewal periods that are reasonably assured. Estimated useful lives by major asset category are generally as follows:

Buildings and building improvements	20 to 30 years
Furniture and fixtures	5 to 7 years
Equipment	2 to 7 years
Leasehold improvements	5 to 20 years
Computer equipment and software	3 to 7 years

Repair and maintenance costs that maintain the appearance and functionality of the restaurant, but do not extend the useful life of any restaurant asset are expensed as incurred. The Company suspends depreciation and amortization for assets held for sale. The cost and related accumulated depreciation of assets sold or disposed of are removed from the Company's Consolidated Balance Sheets, and any resulting gain or loss is generally recognized in Other restaurant operating expense in its Consolidated Statements of Operations and Comprehensive Income.

The Company capitalizes direct and indirect internal costs associated with the acquisition, development, design and construction of Company-owned restaurant locations as these costs have a future benefit to the Company. Upon restaurant opening, these costs are depreciated and charged to depreciation and amortization expense. Internal costs of $6.9 million, $9.1 million and $7.6 million were capitalized during 2018, 2017 and 2016, respectively.

For 2018 and 2017, computer equipment and software costs of $13.5 million and $19.1 million, respectively, were capitalized. As of December 30, 2018 and December 31, 2017, there was $33.2 million and $31.4 million, respectively, of unamortized computer equipment and software included in Property, fixtures and equipment, net on the Company's Consolidated Balance Sheets.

Goodwill and Intangible Assets - Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations and is assigned to the reporting unit in which the acquired business will operate. The Company’s indefinite-lived intangible assets consist of trade names. Goodwill and indefinite-lived intangible assets are tested for impairment annually, as of the first day of the second fiscal quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company may elect to perform a qualitative assessment to determine whether it is more likely than not that a reporting unit is impaired. If the qualitative assessment is not performed or if the Company determines that it is not more likely than not that the fair value of the reporting unit exceeds the carrying value, the fair value of the reporting unit is calculated. The carrying value of the reporting unit is compared to its estimated fair value, with any excess of carrying value over fair value deemed to be an indicator of impairment.

Definite-lived intangible assets, which consist primarily of trademarks, franchise agreements, reacquired franchise rights and favorable leases, are amortized over their estimated useful lives and are tested for impairment, using the discounted cash flow method, whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Derivatives - The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. If the derivative qualifies for hedge accounting treatment, any gain or loss on the derivative instrument is recognized in equity as a change to Accumulated other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements, foreign currency exchange rate movements, changes in energy prices and other identified risks. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. The Company has elected not to offset derivative positions in the balance sheet with the same counterparty under the same agreement.

Deferred Financing Fees - For fees associated with its revolving credit facility, the Company records deferred financing fees related to the issuance of debt obligations in Other assets, net on its Consolidated Balance Sheets. For fees associated with all other debt obligations, the Company records deferred financing fees as a reduction of Long-term debt, net.

The Company amortizes deferred financing fees to interest expense over the term of the respective financing arrangement, primarily using the effective interest method. The Company amortized deferred financing fees of $2.6 million, $2.9 million and $7.1 million to interest expense for 2018, 2017 and 2016, respectively.

Liquor Licenses - The fees from obtaining non-transferable liquor licenses directly issued by local government agencies for nominal fees are expensed as incurred. The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and included in Other assets, net on the Company's Consolidated Balance Sheets.

Insurance Reserves - The Company carries insurance programs with specific retention levels or high per-claim deductibles for a significant portion of expected losses under its workers' compensation, general or liquor liability, health, property and management liability insurance programs. The Company records a liability for all unresolved claims and for an estimate of incurred but not reported claims at the anticipated cost that falls below its specified retention levels or per-claim deductible amounts. In establishing reserves, the Company considers certain actuarial assumptions and judgments regarding economic conditions, the frequency and severity of claims, claim development history and settlement practices. Reserves recorded for workers' compensation and general liability claims are discounted using the average of the one-year and five-year risk-free rate of monetary assets that have comparable maturities.

Share Repurchase - Shares repurchased are retired. The par value of the repurchased shares is deducted from common stock and the excess of the purchase price over the par value of the shares is recorded to Accumulated deficit.

Revenue Recognition - The Company records food and beverage revenues, net of discounts and taxes, upon delivery to the customer. Franchise-related revenues are included in Franchise and other revenues in the Company's Consolidated Statements of Operations and Comprehensive Income. Royalties, which are a percentage of net sales of the franchisee, are recognized as revenue in the period which the sales are reported to have occurred.

Proceeds from the sale of gift cards, which do not have expiration dates, are recorded as deferred revenue and recognized as revenue upon redemption by the customer. The Company applies the portfolio approach practical expedient to account for gift card contracts and performance obligations. Gift card breakage, the amount of gift cards which will not be redeemed, is recognized using estimates based on historical redemption patterns. If actual redemptions vary from the estimated breakage, gift card breakage income may differ from the amount recorded. The Company periodically updates its estimates used for breakage. Breakage revenue is recorded as a component of Restaurant sales in the Company's Consolidated Statements of Operations and Comprehensive Income. Approximately 86% of the current deferred gift card revenue is expected to be recognized over the next 12 months. Gift card sales that are accompanied by a bonus gift card to be used by the customer at a future visit result in a separate deferral of a portion of the original gift card sale. Revenue is recorded when the bonus card is redeemed at the estimated fair market value of the bonus card.

Gift card sales commissions paid to third-party providers are capitalized and subsequently amortized to Other restaurant operating expense based on historical gift card redemption patterns. See Note 3 - Revenue Recognition for rollforwards of deferred gift card sales commissions and unearned gift card revenue.

Advertising fees charged to franchisees are recognized as Franchise revenue in the Company's Consolidated Statements of Operations and Comprehensive Income. Initial franchise and renewal fees are recognized over the term of the franchise agreement and renewal period, respectively. The weighted average remaining term of franchise agreements and renewal periods was approximately 14 years as of December 30, 2018.

The Company maintains a customer loyalty program, Dine Rewards, in the U.S., where customers have the ability to earn a reward after a number of qualified visits. The Company has developed an estimated value of the partial reward earned from each qualified visit, which is recorded as deferred revenue. Each reward has a maximum value and must be redeemed within three months of earning such reward. The revenue associated with the fair value of the qualified visit is recognized upon the earlier of redemption or expiration of the reward. The Company applies the practical expedient to exclude disclosures regarding loyalty program remaining performance obligations, which have original expected durations of less than one year.
The Company collects and remits sales, food and beverage, alcoholic beverage and hospitality taxes on transactions with customers and reports revenue net of taxes in its Consolidated Statements of Operations and Comprehensive Income.

Operating Leases - Rent expense for the Company's operating leases, which generally have escalating rentals over the term of the lease and may include rent holidays, is recorded on a straight-line basis over the initial lease term and those renewal periods that are reasonably assured. The difference between rent expense and rent paid is recorded as deferred rent and is included in the Company’s Consolidated Balance Sheets. Rent expense is recorded in Other restaurant operating expense in the Company’s Consolidated Statements of Operations and Comprehensive Income. Payments received from landlords as incentives for leasehold improvements are recorded as deferred rent and amortized on a straight-line basis over the term of the lease as a reduction of rent expense. Favorable and unfavorable lease assets and liabilities are amortized on a straight-line basis to rent expense over the remaining lease term.

Effective December 31, 2018, the Company's lease accounting policies will change in conjunction with its adoption of Accounting Standards Update ("ASU") No. 2016-02: Leases (Topic 842) ("ASU No. 2016-02"), ASU No. 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transitioning to Topic 842," ("ASU No. 2018-01") and ASU No. 2018-11: Leases (Topic 842): Targeted Improvements ("ASU No. 2018-11"). See discussion of ASU No. 2016-02, ASU No. 2018-01 and ASU No. 2018-11 in Recently Issued Financial Accounting Standards Not Yet Adopted below.

Pre-Opening Expenses - Non-capital expenditures associated with opening new restaurants are expensed as incurred and are included in Other restaurant operating expense in the Company's Consolidated Statements of Operations and Comprehensive Income.

Consideration Received from Vendors - The Company receives consideration for a variety of vendor-sponsored programs, such as volume rebates, promotions and advertising allowances. Advertising allowances are intended to offset the Company's costs of promoting and selling menu items in its restaurants. Vendor consideration is recorded as a reduction of Cost of sales or Other restaurant operating expense when recognized in the Company's Consolidated Statements of Operations and Comprehensive Income.

Impairment of Long-Lived Assets and Costs Associated with Exit Activities - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows independent of other assets. For long-lived assets deployed at its restaurants, the Company reviews for impairment at the individual restaurant level. When evaluating for impairment, the total future undiscounted cash flows expected to be generated by the asset are compared to the carrying amount. If the total future undiscounted cash flows of the asset are less than its carrying amount, recoverability is measured by comparing the fair value of the assets to the carrying amount. An impairment loss is recognized in earnings when the asset's carrying value exceeds its estimated fair value. Fair value is generally estimated using a discounted cash flow model.

Restaurant closure costs, including lease termination fees, are expensed as incurred. When the Company ceases using the property rights under a non-cancelable operating lease, it records a liability for the net present value of any remaining lease obligations as a result of lease termination, less the estimated sublease income that can reasonably be obtained for the property. Any subsequent adjustment to that liability as a result of lease termination or changes in estimates of sublease income is recorded in the period incurred. The associated expense is recorded in Provision for impaired assets and restaurant closings in the Company's Consolidated Statements of Operations and Comprehensive Income.

Restaurant sites and certain other assets to be sold are included in assets held for sale when certain criteria are met, including the requirement that the likelihood of selling the assets within one year is probable.

Advertising Costs - Advertising production costs are expensed in the period when the advertising first occurs. All other advertising costs are expensed in the period in which the costs are incurred. Advertising expense of $147.8 million, $151.4 million and $173.0 million for 2018, 2017 and 2016, respectively, was recorded in Other restaurant operating expense in the Company's Consolidated Statements of Operations and Comprehensive Income. Advertising expense for 2017 and 2016 has been restated for the reclassification of franchise advertising fees, which are presented within Franchise and other revenues, upon adoption of ASU No. 2014-09 "Revenue Recognition (Topic 606), Revenue from Contracts with Customers" ("ASU No. 2014-09"). See Recently Adopted Financial Accounting Standards below for further details of the impact of implementing ASU No. 2014-09.

Legal Costs - Settlement costs are accrued when they are deemed probable and reasonably estimable. Legal fees are recognized as incurred and are reported in General and administrative expense in the Company's Consolidated Statements of Operations and Comprehensive Income.

Research and Development Expenses ("R&D") - R&D is expensed as incurred in General and administrative expense in the Company's Consolidated Statements of Operations and Comprehensive Income. R&D primarily consists of payroll and benefit costs. R&D was $3.8 million, $3.9 million and $5.2 million for 2018, 2017 and 2016, respectively.

Partner Compensation - In addition to base salary, Area Operating Partners, Restaurant Managing Partners and Chef Partners generally receive performance-based bonuses for providing management and supervisory services to their restaurants, certain of which may be based on a percentage of their restaurants' monthly operating results or cash flows and/or total controllable income ("Monthly Payments"). The expense associated with the Monthly Payments for Restaurant Managing Partners and Chef Partners is included in Labor and other related expenses, and the expense associated with Monthly Payments for Area Operating Partners is included in General and administrative expense in the Company's Consolidated Statements of Operations and Comprehensive Income.

Certain Restaurant Managing Partners and Chef Partners in the U.S. ("U.S. Partners") may participate in deferred compensation programs that are subject to the rules of section 409(a) of the Internal Revenue Code and are eligible to receive payments upon completion of their five-year employment agreement. Others receive performance-based bonuses payable upon completion of their five-year employment agreement. Also, on the fifth anniversary of the opening of each new U.S. Company-owned restaurant, the Area Operating Partner supervising the restaurant during the first five years of operation receives an additional performance-based bonus. The Company may invest in corporate-owned life insurance policies, which are held within an irrevocable grantor or "rabbi" trust account for settlement of certain of the Company's obligations under the deferred compensation plans.

Many of the Company's International Restaurant Managing Partners are given the option to purchase participation interests in the cash distributions of the restaurants they manage. The amount, terms and availability vary by country.

The Company estimates future bonuses and deferred compensation obligations to U.S. Partners and Area Operating Partners, using current and historical information on restaurant performance and records the long-term portion of partner obligations in Other long-term liabilities, net on its Consolidated Balance Sheets. Deferred compensation expenses for U.S. Partners are included in Labor and other related expenses and bonus expense for Area Operating Partners is included in General and administrative expense in the Company's Consolidated Statements of Operations and Comprehensive Income.

Stock-based Compensation - Stock-based compensation awards are measured at fair value at the date of grant and expensed over their vesting or service periods. Stock-based compensation expense is recognized only for those awards expected to vest. The expense, net of forfeitures, is recognized using the straight-line method. Forfeitures of share-based compensation awards are recognized as they occur.

Foreign Currency Translation and Transactions - For non-U.S. operations, the functional currency is the local currency. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date with the translation adjustments recorded in Accumulated other comprehensive loss in the Company's Consolidated Statements of Changes in Stockholders' Equity. Results of operations are translated using the average exchange rates for the reporting period. Foreign currency exchange transaction losses are recorded in General and administrative expense in the Company's Consolidated Statements of Operations and Comprehensive Income.

Income Taxes - Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in the tax rate is recognized in income in the period that includes the enactment date of the rate change. A valuation allowance may reduce deferred income tax assets to the amount that is more likely than not to be realized.

Table of Contents
BLOOMIN' BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The Company records a tax benefit for an uncertain tax position using the highest cumulative tax benefit that is more likely than not to be realized. The Company adjusts its liability for unrecognized tax benefits in the period in which it determines the issue is effectively settled, the statute of limitations expires or when more information becomes available. Liabilities for unrecognized tax benefits, including penalties and interest, are recorded in Accrued and other current liabilities and Other long-term liabilities, net on the Company's Consolidated Balance Sheets.

Recently Adopted Financial Accounting Standards - On January 1, 2018, the Company adopted ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," ("ASU No. 2017-04") on a prospective basis. ASU No. 2017-04 eliminates the second step of goodwill impairment, which requires a hypothetical purchase price allocation. Under ASU No. 2017-04, goodwill impairment is calculated as the amount a reporting unit's carrying value exceeds its calculated fair value. The adoption of ASU No. 2017-04 did not impact the Company's consolidated financial statements. Goodwill and indefinite-lived intangible assets are tested for impairment annually, as of the first day of the second fiscal quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. See Note 10 - Goodwill and Intangible Assets, Net for details regarding the Company's annual impairment assessment.

On January 1, 2018, the Company adopted ASU No. 2014-09 using the full retrospective transition method. ASU No. 2014-09 provides a single source of guidance for revenue arising from contracts with customers. Under ASU No. 2014-09, revenue is recognized in an amount that reflects the consideration an entity expects to receive for the transfer of goods and services. The standard also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under the new standard, the Company recognizes gift card breakage proportional to redemptions, which are highest in the Company's first fiscal quarter. Previously, under the remote method, the majority of breakage revenue was recorded in the Company's fourth fiscal quarter corresponding with the timing of the original gift card sale. Advertising fees charged to franchisees, which were previously recorded as a reduction to Other restaurant operating expense, are recognized as Franchise revenue. In addition, initial franchise and renewal fees are recognized over the term of the franchise agreements. In connection with the adoption of ASU No. 2014-09, a cumulative effect adjustment of $33.1 million, net of tax, was recorded as a credit to the ending balance of Accumulated deficit as of December 27, 2015.

The following table includes a restatement of the Company's Consolidated Statement of Operations for the retrospective adoption of ASU No. 2014-09 during the periods indicated:

	FISCAL YEAR					
	2017			2016		
(dollars in thousands, except per share data)	AS REPORTED	2014-09 IMPACT	AS RESTATED	AS REPORTED	2014-09 IMPACT	AS RESTATED
Revenues						
Restaurant sales	$4,168,658	$(4,595)	$4,164,063	$4,226,057	$(4,137)	$4,221,920
Franchise and other revenues	44,688	14,385	59,073	26,255	12,498	38,753
Total revenues	$4,213,346	$9,790	$4,223,136	$4,252,312	$8,361	$4,260,673
Costs and expenses						
Other restaurant operating	$978,984	$17,196	$996,180	$992,157	$12,217	$1,004,374
Income from operations	$146,092	$(7,406)	$138,686	$127,606	$(3,856)	$123,750
Income before benefit for income taxes	$118,543	$(7,406)	$111,137	$56,491	$(3,856)	$52,635
Provision for income taxes	$15,985	$(8,456)	$7,529	$10,144	$(1,496)	$8,648
Net income	$102,558	$1,050	$103,608	$46,347	$(2,360)	$43,987
Net income attributable to Bloomin' Brands	$100,243	$1,050	$101,293	$41,748	$(2,360)	$39,388

Basic earnings per share	$1.04	$0.01	$1.05	$0.37	$(0.02)	$0.35
Diluted earnings per share	$1.01	$0.01	$1.02	$0.37	$(0.02)	$0.34

79

Table of Contents
BLOOMIN' BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table includes a restatement of the Company's Consolidated Balance Sheet as of December 31, 2017 for the retrospective adoption of ASU No. 2014-09:

(dollars in thousands)	DECEMBER 31, 2017		
	AS REPORTED	2014-09 IMPACT	AS RESTATED
ASSETS			
Deferred income tax assets, net	$71,499	$(11,013)	$60,486
Total assets	$2,572,907	$(11,013)	$2,561,894
LIABILITIES AND STOCKHOLDERS' EQUITY			
Unearned revenue			
Deferred gift card revenue	$371,455	$(47,827)	$323,628
Deferred loyalty revenue	6,667	—	6,667
Deferred franchise fees - current	105	356	461
Total Unearned revenue	$378,227	$(47,471)	$330,756
Total current liabilities	$860,863	$(47,471)	$813,392
Other long-term liabilities, net (1)	$205,745	$4,698	$210,443
Total liabilities	$2,523,436	$(42,773)	$2,480,663
Bloomin' Brands stockholders' equity			
Accumulated deficit	$(944,951)	$31,760	$(913,191)
Total Bloomin' Brands stockholders' equity	$38,582	$31,760	$70,342
Total stockholders' equity	$49,471	$31,760	$81,231
Total liabilities and stockholders' equity	$2,572,907	$(11,013)	$2,561,894

(1) Includes the non-current portion of deferred franchise fees.

See Note 3 - Revenue Recognition for required disclosures under ASU No. 2014-09.

Effective July 2, 2018, the Company adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU No. 2017-12"), which provides guidance for reporting the economic results of hedging activities and simplifies the disclosures of risk exposures and hedging strategies. Upon adoption, the Company revised its accounting policies and certain disclosures, however there was no impact on its consolidated financial statements. For derivatives that qualify for hedge accounting, any gain or loss on the derivative instrument is recognized in equity as a change to Accumulated other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. See Note 16 - Derivative Instruments and Hedging Activities for required disclosures under ASU No. 2017-12.

Recently Issued Financial Accounting Standards Not Yet Adopted - In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, which requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. In January 2018, the FASB issued ASU No. 2018-01, which allows an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the Company's adoption of ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-11 that allows for an additional transition method, which permits use of the effective date of adoption as the date of initial application of ASU No. 2016-02 without restating comparative period financial statements and provides entities with a practical expedient that allows entities to elect not to separate lease and non-lease components when certain conditions are met.

ASU No. 2016-02, ASU No. 2018-01 and ASU No. 2018-11 are effective for the Company beginning on December 31, 2018 and the Company will adopt ASU No. 2016-02 using the effective date as the date of initial application. Consequently, financial information will not be updated, and the disclosures required under the new standard will not be provided for dates and periods before December 31, 2018. The Company also plans to elect a transition package including practical expedients that permits it not to reassess the classification and initial direct costs of expired or existing contracts and leases. In addition, the Company plans to elect the practical expedients to not separate lease and non-lease components of its restaurant facility leases executed subsequent to adoption, and to not evaluate land easements that exist or expired before the adoption. In preparation for adoption, the Company implemented a new lease accounting system.

Adoption of ASU No. 2016-02 is expected to have a material impact on the Company's consolidated financial statements. While the Company continues to assess all the effects of adoption, it currently believes the most significant effects relate to: (i) recognition of right-of-use assets and lease liabilities related to real estate and equipment under operating lease agreements, (ii) derecognition of existing assets and liabilities for certain sale-leaseback transactions and (iii) providing significant new disclosures about its leasing activities.

Adoption of ASU No. 2016-02 is expected to result in the following, as of December 31, 2018:

(i) recording of right-of-use assets of $1.1 billion to $1.5 billion and lease liabilities of $1.3 billion to $1.7 billion;

(ii) a credit to the beginning balance of Accumulated Deficit of $190.4 million to derecognize deferred gains on sale-leaseback transactions and a debit to the beginning balance of Accumulated Deficit of $49.2 million to derecognize the related deferred tax assets; and

(iii) derecognition of existing debt obligations of $19.6 million and existing fixed assets of $16.1 million related to restaurant properties sold and leased back from to third parties that currently do not qualify for sale accounting, with gains or losses associated with this change recognized in Accumulated Deficit.

Other restaurant operating expense will increase in future periods since the Company will not recognize the benefit of deferred gains on sale-leaseback transactions through its statements of operations over the corresponding lease term. During 2018, the Company recorded $12.3 million of sale-leaseback deferred gain amortization.

Reclassifications - The Company reclassified certain items in the accompanying consolidated financial statements for prior periods to be comparable with the classification for the current period. These reclassifications had no effect on previously reported net income.

3. Revenue Recognition

The following table includes the categories of revenue included in the Company's Consolidated Statements of Operations and Comprehensive Income for the periods indicated:

	FISCAL YEAR		
(dollars in thousands)	2018	2017 (Restated) (1)	2016 (Restated) (1)
Revenues			
Restaurant sales	$4,060,871	$4,164,063	$4,221,920
Franchise and other revenues:			
Franchise revenue	$52,906	$47,021	$32,281
Other revenue	12,636	12,052	6,472
Total Franchise and other revenues	$65,542	$59,073	$38,753
Total revenues	$4,126,413	$4,223,136	$4,260,673

(1)

See Note 2 - Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements for details of the impact of implementing ASU No. 2014-09.

Table of Contents
BLOOMIN' BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table includes the disaggregation of Restaurant sales and Franchise revenue, by restaurant concept and major international market, for the periods indicated:

(dollars in thousands)	FISCAL YEAR 2018 RESTAURANT SALES	2018 FRANCHISE REVENUE	2017 RESTAURANT SALES (Restated) (1)	2017 FRANCHISE REVENUE (Restated) (1)	2016 RESTAURANT SALES (Restated) (1)	2016 FRANCHISE REVENUE (Restated) (1)
U.S.						
Outback Steakhouse (2)	$2,098,696	$ 40,422	$2,141,506	$ 34,978	$2,186,052	$ 24,222
Carrabba's Italian Grill (2)	647,454	601	673,872	553	692,631	534
Bonefish Grill	578,139	833	600,717	925	613,499	854
Fleming's Prime Steakhouse & Wine Bar	304,064	—	296,982	—	281,572	—
Other	5,845	—	589	—	16	—
U.S. Total	$3,634,198	$ 41,856	$3,713,666	$ 36,456	$3,773,770	$ 25,610
International						
Outback Steakhouse-Brazil	$348,394	$ —	$377,158	$ —	$302,856	$ —
Other	78,279	11,050	73,239	10,565	145,294	6,671
International Total	$426,673	$ 11,050	$450,397	$ 10,565	$448,150	$ 6,671
Total	$4,060,871	$ 52,906	$4,164,063	$ 47,021	$4,221,920	$ 32,281

(1) See Note 2 - Summary of Significant Accounting Policies for details of the impact of implementing ASU No. 2014-09.
(2) In 2017, the Company sold 53 Outback Steakhouse restaurants and one Carrabba's Italian Grill restaurant, which are now operated as franchises.

The following table includes a detail of assets and liabilities from contracts with customers included on the Company's Consolidated Balance Sheets as of the periods indicated:

(dollars in thousands)	DECEMBER 30, 2018	DECEMBER 31, 2017
Other current assets, net		
Deferred gift card sales commissions	$ 16,431	$ 16,231
Unearned revenue		
Deferred gift card revenue (1)	$ 333,794	$ 323,628
Deferred loyalty revenue	8,424	6,667
Deferred franchise fees - current (1)	490	461
Total Unearned revenue	$ 342,708	$ 330,756
Other long-term liabilities, net		
Deferred franchise fees - non-current (1)	$ 4,531	$ 4,698

(1) See Note 2 - Summary of Significant Accounting Policies for details of the impact of implementing ASU No. 2014-09 on the Company's Consolidated Balance Sheet as of December 31, 2017.

The following table is a rollforward of deferred gift card sales commissions for the periods indicated:

FISCAL
YEAR