GRILLiT, INC.
New Restaurant Chain Could Be Next Chipotle

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August 15, 2013

GRILLIT, INC. (OTC:PK –GRLT - $3.66)	
Price Target: $8.00	Rating: Speculative Buy

COMPANY SNAPSHOT

GRILLiT, Inc. (GRLT) is a growing Latin-Caribbean fusion restaurant concept that marries fast casual with nutritious and healthy food. The company opened its first location in Miami in 2011 and specializes in chef-inspired custom crafted rice bowls, pasta and wraps as well as salads. GRILLiT utilizes domestic growers and delivers healthy cuisine using only fresh proteins, such as never-frozen chicken and Angus beef. GRILLiT currently has two locations and expects to have at least 21 corporate and 58 franchised locations open and operating within the next five years.

KEY STATISTICS

Price as of 8/14/13	$3.66
52 Wk High – Low	$5.35– 0.11
Est. Shares Outstanding	8.3M
Market Capitalization	$30.4M
3 Mo Avg Vol	65,000
Exchange	OTC:PK

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

GRILLiT, Inc. has the right leadership, concept and early wins to become the next major success story in fast casual dining. By marrying an innovative health conscious menu with what may be the only pure play Latin-Caribbean fusion concept chain, GRILLiT has already enjoyed success and acclaim in its 2 South Florida restaurants.

In addition to its 2 corporate owned stores, the Company has signed 3 new franchisees in the past 3 weeks alone. Management plans to have at least 21 corporate and 58 franchised locations operating within the next 5 years.

Investors will benefit from a series of short-term milestones including the opening of GRILLiT's 3rd corporate owned store and additional franchisees coming on line in the next several weeks.

GRILLiT declared a 5 for 1 stock dividend which while past the record date, has not yet become effective. These shares are considered Rule 144 restricted shares and thus cannot be sold for 1 year. Therefore, there will be no change in the roughly 500,000 public float until the restriction is lifted.

When compared with peers Chipotle Mexican Grill (NYSE – CMG), Noodles, (NASDAQ – NDLS) and Panera Bread (NASDAQ – PNRA), which are trading at an average of 55x FY13 EPS and at an average of $4.5M per company store, GRLT appears attractive. Moreover, as the Company continues to grow and open new stores, we believe that GRLT will become a sought after takeover target due to its low-cost, high profit, innovative fast casual concept. Thus we rate GRLT Speculative Buy with an $8.00 intermediate term target price.

COMPANY OVERVIEW

Conceived in 2010, and launched with the opening of its first restaurant in early 2011, GRILLiT, Inc. (OTCPK – GRLT) is a young, high-growth chain of fast casual dining restaurants that specializes in salads, rice bowls, noodles, wraps, and grilled chicken, steak and shrimp. The Company plans to grow the business through the opening of corporate stores and franchises. This Latin-Caribbean fusion restaurant concept marries fast casual with nutritious and healthy food. The Company opened its first location in Miami in 2011 and specializes in chef-inspired custom crafted rice bowls, pasta and wraps as well as salads. GRILLiT utilizes domestic growers and delivers healthy cuisine using only fresh proteins, such as never-frozen chicken and Angus beef.

The typical GRILLiT store is around 1800 square feet on average with around 40-60 seats and food is ordered and served in a style similar to the wildly successful Chipotle Mexican Grill, Inc. (NYSE – CMG). While both firms employ a health-conscious approach to their menus, GRILLiT offers a different cuisine that includes sweeter fresh food that may have a citrus taste to reflect the Latin/Caribbean style. Moreover, GRILLiT has its own proprietary products which include marinades, rice mixes which are shelf-stable and delivered via pallet to its stores and franchisees quickly and cost-effectively.

Image I. Outside of GRILLiT Restaurant
Source: GRILLiT, Inc.

The management team and the company founders have significant experience in the fast casual food industry and GRILLiT's operations reflect this sophistication. Management is focused on offering healthy, fresh, tasty food within its concept that provides GRILLiT with favorable ROIs on each product. In addition, we believe that management's stated corporate store and franchise store goals may prove to be conservative. The combination of management's opportunistic approach to growth, the model's quick ROI of 3 years or less, and the availability of distressed restaurants up for sale that can be easily converted into GRILLiTs sale may prove too good to pass up.

Moreover, it is not uncommon for concepts in the fast casual space to achieve quick expansion growth even in the earliest years of operation. With an estimated capital cost of $200-375K per new store, the ability to acquire and open many new corporate locations is in the cards.

Currently, there are two corporate stores in the Miami area, where the Company is headquartered, with a third slated to open in a few weeks adjacent to the University of Miami campus---a great location. Separately, before the end of 3Q13, the Company's first franchise is slated to officially open in the Nashville area, with 2 others to follow shortly thereafter. GRILLiT has an aggressive franchise strategy and already has master franchise agreements with franchisees for locations in Kentucky, Ohio, New Hampshire, New Jersey, Georgia, Pennsylvania, Tennessee, and North Carolina. Catering services will also be provided to supplement revenue.

Given the unique concept that we don't believe has a true peer or comparable, its strategy, success, and path to big expansion, we believe that GRILLiT may be the next great fast casual dining restaurant, such as Chipotle, Panera Bread (NASDAQ – PNRA), and Noodles (NASDAQ – NDLS.) Moreover, as its growth and success continue, we believe that GRLT will emerge as a takeover candidate within the next 3-5 years.

The images below illustrate the layout, flow, and appearance of the GRILLiT stores, which have been designed with the latest industrial design concepts. The kiosk style grab and grow is increasingly popular for fast casual and quick service restaurants.

Image II. GRILLiT Dining Room
Source: GRILLiT, Inc.

Image III. GRILLiT Menu
Source: GRILLiT, Inc.

As noted in the text and images above, the atmosphere in a GRILLiT is contemporary yet comfortable, and allows for maximum dining space. Clearly, the open kitchen, custom order food preparation model that has become so popular with chains like Chipotle and Subway® is reliable and efficient. In fact, the target for

service per customer is a mere three minutes. Plus, the layout enables the demand for fresh and healthy ingredients, order accuracy, and fast service by the consumer to be met and exceeded.
While the consumer seeks speed and value they also crave a distinct taste. The GRILLiT menu contains chef inspired recipes and six proprietary products including marinades (the secret sauces). The menu features three main staples; first, custom order bowls with rice, noodles, and lettuce, second, salads with several choices of lettuce, 20 different hot and cold toppings with a choice of protein, and third, big stuffed wraps with all of the aforementioned choices of ingredients. The stores also offer low sodium alternatives as an added feature to an existing menu featuring fresh ingredients, enhancing the brand in the eyes of the health conscious consumer.

INDUSTRY OVERVIEW

The fast casual and quick service market is both highly competitive and crowded. In the United States alone, the market size for this industry is over $100 billion annually. Consumers can choose other fast and casual restaurants, fine dining, or simply elect to eat at home. Margins are usually very thin and macroeconomic forces play a major role in profit. To succeed in the industry some sort of differentiation is paramount.

As previously mentioned, the open kitchen model has become a popular and ubiquitous model as it ensures speed, accuracy, and quality to the consumer. Subway® has become a household brand in the U.S. and has gradually proliferated internationally with a 100% franchisee model. Customers can have their own custom-made sub/sandwich made in a matter of minutes. Additionally, the firm has captured a health conscious segment with slogans like “Eat Fresh”, celebrity marketing campaigns, and featured weight loss success stories where people dieted with Subway® as their staple. Today, there are roughly 40,000 stores worldwide. Still, despite its broad popularity, there is a Subway® on just about every corner which is why, according to *QSR Magazine*, the average annual revenue for a Subway® store in the U.S. is just over $400,000 annually.

Fast and casual dining success has been defined by Chipotle Mexican Grill over the last 15-20 years. CMG now trades around $400 per share with a $12.5 billion market cap. The unprecedented growth of the company from one location in Colorado in 1993, to 1,450 stores in 43 states nationwide today is astounding. Similar to the GRILLiT model, Chipotles are designed with an “open kitchen” where customers can order bowls, salads, or large burritos with a choice of meat, beans, vegetables, salsa, and other condiments. In the late 1990’s McDonald’s (NYSE – MCD) took a majority share in the company, and aggressively grew the number of stores nationally. McDonalds’s divested its stake in 2006 and the CMG went public at a share price of $46.50
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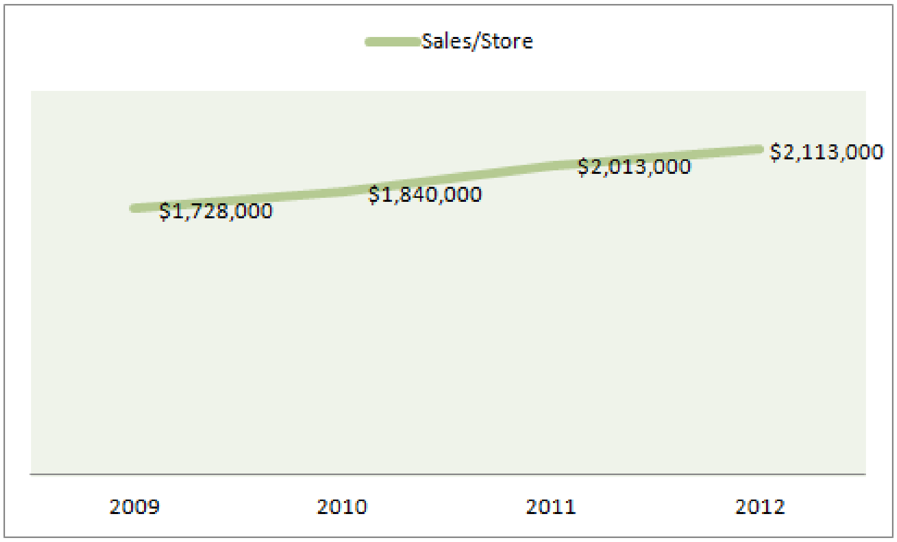
Chipotle operates with corporate stores only with no franchise opportunities. Figure 1 is a chart that depicts the four-year history of the average store revenue for a Chipotle fast and casual restaurant. The annual growth rate for sales per store averages about 10%. CMG is clearly a huge success story.

Figure 1: Average Revenue per Store for Chipotle Mexican Grill, 2009 – 2012



Source: www.Chipotle.com

Of course, Chipotle is not the industry's only success story. Panera Bread has a slightly greater number of stores, but generates around $1.5M per location. The market value for Panera is around $5 billion. Interestingly, Noodles &Co, which just went public, has quickly become a darling. With 350 stores generating around $1M in annual revenue apiece (with a small number of franchise locations as well), the stock has skyrocketed from its recent IPO and now trades a whopping 100x FY13E EPS estimates.

As evidenced by the table below, in addition to price/revenue, or price/earnings ratios, which are some of the highest in the market, another interesting measure is market cap/store. Any way you slice it, this sector is hot and GRILLiT has an opportunity to ride the coattails of these stocks.

Table I. Peer Group Value per Store

	Ticker	Market Cap ($, Bil)	Number of Stores	Mkt Cap/Store ($, Bil)
Chipotle Mexican Grill	CMG	$12.5	1,450	$8.6
Noodles & Company	NDLS	$1.1	343	$3.3
Panera	PNRA	$5.0	1,652	$3.1
Average:				**$5.0**

THE GRILLiT EXECUTIVE TEAM

GrilliT has a core team of seasoned restaurant and food-service industry experts with a combined experience of over 50 years.

Ghazi Hajj - Chairman and Chief Executive Officer
Mr. Hajj has an impressive track record of success and progression in the fast casual and quick service restaurant industry. He has worked for several different related companies and owned his own stores as well. He served as executive vice president for Quizno's Corporation, a consultant for Salad Creations Corporation, and VP of National Operations for Little Caesars Enterprise while owning and operating 36 Little Caesars stores himself.

Ruben Gonzalez – Founder and Operations Manager
Mr. Gonzalez is the founder of GrilliT, Inc. He built the idea for the Company from his extensive experience in the fast casual and quick service stores in specifically chicken and promotional endeavors related to marketing. He served as a district manager for Pollo Tropical, and most recently as senior vice president of operations at Chicken Kitchen USA where he oversaw the day-to-day operations over all franchised and corporate locations which included quality control, budgeting, marketing and maintaining the brand image.

Raimundo Dias - President, Chief Operations Officer, Director
Raimundo Dias has served as our President, Chief Executive Officer and a Director since August 2010. Mr. Dias has 16 years of experience in the financial markets. Since February 2010, Mr. Dias has served as the President, of Fusion Capital Investments Corporation, a private company specializing in business development consulting as well as investing into public and private entities in all sectors. Mr. Dias has over eight years of experience in public company-related matters and management. Mr. Dias received in 1995 a Bachelor's Degree in Marketing and in 1993 an Associate's Degree in Business Management from a prestigious Catholic University and served on the Board of Directors of the Organization of Latin American Students.

RISK FACTORS

There are several challenges or impediments to GRILLiT's success. For example, while the concept is extremely popular in South Florida there is a chance it may not do well in other locales. The variability in food prices due to weather, competition, commodity prices, and seasonality could impact profitability, especially for some of the more common ticket items. Fast expansion may slow and thus the Company signs fewer franchises than forecast. Revenue per store may fall below targets and the break-even level. Separately, in poor economies, the consumer tends to reduce outside the home food spending. Competition from larger firms or even from newer entrants with new or similar concepts is another typical concern and is also consistent with firms of GRILLiT's size and standing.

Nonetheless, we believe that management has the Firm on the right track and that GRILLiT will overcome these obstacles and become a huge success. We should also note that due to the stock's small float (around 500,000) the shares are subject to wild swings in either direction.

CONCLUSION

GRILLiT, Inc. has the right leadership, concept and early success to become the next major success story in fast casual dining. By marrying an innovative health conscious menu with what may be the only pure play Latin-Caribbean fusion concept chain, GRILLiT is on track to meet its objective of 21 corporate stores and 58 franchise locations in operation within 5 years, aided in part by a $3M line of credit with TCA Global Credit Master Fund.

As evidenced by the market cap/store table above, we believe that substantial value will be attributed to these shares with the opening of each corporate store. Moreover, the franchise forecast may prove to be conservative. After all, in the franchise world, success and growth beget growth. In other words, as GRILLiT franchisees exhibit success, not only will they wish to add additional locations but new prospective franchisees will likely approach the Firm in droves as they wish to get on board an exciting new and successful restaurant concept at the earliest of stages. The fees associated with the Master Franchise Agreement are typical of the industry and as evidenced by 3 new franchisees signed in the past 3 weeks alone, this vertical market should be a high growth provider of royalty and other related revenue, much of which will flow directly to the operating profit line.

On the capital structure front, earlier this quarter, GRILLiT announced a 5 for 1 stock dividend for shareholders who owned the stock as of the record date of July 15, 2013. While the dividend has not yet been granted an effective date, it should be noted that the dividend consists of Rule 144 stock that is restricted from sale for one year. As a result, the current float of just under 500,000 shares will remain unchanged. Given that the dividend is not yet effective and the shares themselves are restricted, our assumptions are based exclusively on the current 8.3M shares outstanding.

We stress that due to the small float, investors may experience volatility and potentially large percentage swings in the share price. Still, we believe that those investors with long term horizons or who are adept at quick trading will be rewarded, especially given the series of near term milestones. Going forward we believe that each corporate owned store will initially generate $800-900K and could eventually exceed the $1M mark while franchise locations will fall 15% below the average corporate sales figures. Therefore, in 5 years, GRLT could generate nearly $3M in royalties alone and a 10% operating margin on corporate owned stores. Since GRLT is still relatively early in the growth expansion we have elected not to provide pro forma financials beyond these preliminary estimates at this time.

When compared with peers Chipotle, Noodles, and Panera Bread which are trading at an average P/E of 55x FY13 EPS and at a market value average of $5M per company store, GRLT appears attractive. Moreover, as the Company continues to grow and open new stores, we believe that GRLT will become a sought after takeover target worth hundreds of millions due to its low-cost, high profit, high-growth, innovative fast casual concept. Thus we rate GRLT Speculative Buy with an $8.00 intermediate term target price.

Recent Trading History For GRLT

(Source: Stockta.com)

Senior Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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