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	PAGE
HEADLINES:	
Industry	1
SSS/Traffic	1
Economic	1
Consumer/Operator	1
Supply Chain	1
Current Trends	1
HEADLINE DETAILS:	
Economic	2
Operator Survey	3-4
Consumer Survey	4
Supply Chain	5

COMPANIES MENTIONED IN THIS REPORT:

CORE COVERAGE

COMPANY	TICKER	PAGE
QSR		
McDonald's	MCD	6
Burger King	BKC	7
Wendy's	WEN	8
Jack in the Box	JACK	9
Popeye's	PLKI	10
KFC	YUM	11
Del Taco	TACO	12
Taco Bell	YUM	13
Pizza Hut	YUM	14
Domino's	DPZ	15
FAST CASUAL		
Chipotle	CMG	16
Starbucks	SBUX	17
Wingstop	WING	18
Noodles & Co.	NDLS	19

CASUAL

CASA L		
Applebee's	DIN	20
IHOP	DIN	21
Chili's	EAT	22
Chuy's	CHUY	23
Longhorn	DRI	24
Olive Garden	DRI	25
Red Robin	RRGB	26

INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS

HEADLINE NEWS:

- Many states are easing Covid mandates.
- Supply Chain is gradually making adaptation to 24/7 operations.
- Meat Substitutes – some observations.

ECONOMIC HEADLINES:

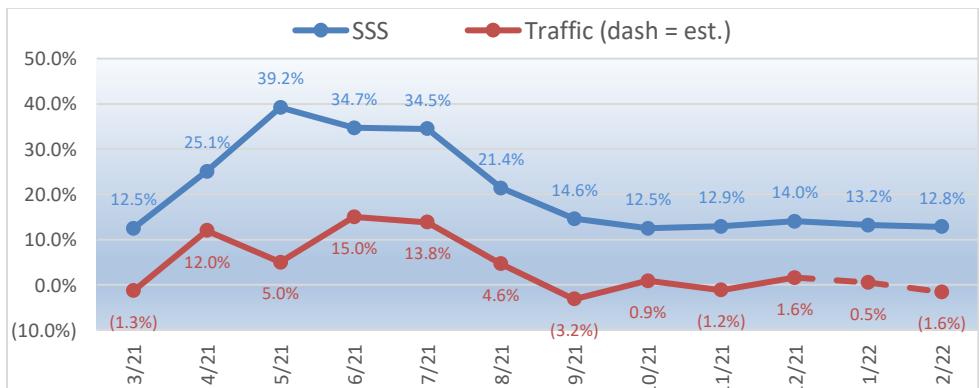
- Off Premise channels are here to stay.
- Fun Numbers – Super Bowl.
- Inflation continues to take a bite out of consumer spending.

OPERATOR HEADLINES:

- California is establishing “Pop Up Yards” for container storage.
- Supply Chain issues return.

SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS +12.8%
Industry avg. Traffic <1.6%> (estimated)



Please see Page 6 for Important Disclosure

NATIONAL NEWS:

- **Covid Mandates Are Easing Across the Country.** Recent survey by Datassentials (February 17, 2022) found 44 states have dropped mask requirements since January with the remainder keeping it in place and some requirements for certain situations. (These numbers do not represent individual cities, municipalities, or businesses that may have their own mask rules.)

Another finding from their survey were people's concerns over the virus have been steadily declining with 13% stating they had no concerns. Another part of the survey asked consumers why they thought the mandates were being dropped. 42% believed it is political, 31% believed it is based on burnout and Covid fatigue among citizens and consumers, and 27% believe that the change is based on the latest data and Covid statistics.

INDUSTRY NEWS:

- **Meat Substitute Products** – Impossible meats, Beyond meats, etc., appear to be having a challenging phase as this industry continues to spread to the restaurant consumer. New chains continue to add a meat substitute product to their menu; like McDonald's recent test expansion to over 600 locations and KFC's national rollout of their Beyond Fried Chicken Nugget (which as of this writing the promotion has ended). Several early advocates have taken the meat substitute off of their menus (Del Taco – limited markets; Dunkin' Donuts). But, others are going all-in to promote it – Starbucks and Chipotle.

We have observed sales going through phases at restaurants: Honeymoon when the product is first launched – sales soar; then the newness wears off and Flavor Profile deteriorates; then promotional efforts stop and awareness is "out of sight/out of mind", Product Fatigue, etc. Then companies like Burger King launch an aggressive marketing campaign for their Impossible Whopper to remind/re-introduce the product and sales tick back up some. We believe there will be a place for these meat substitute products but do not see them taking a predominant position in any of the traditional restaurant concepts in existence today. It's more of a niche product; not main stream.

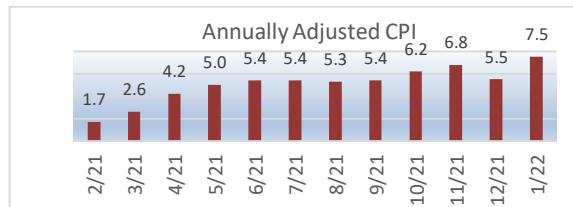
- **Some Updates on Off Premise Sales Channels** – Several recent polls/surveys confirm the view that the Off Premise Sales Channels (this includes Drive Thru, Delivery, Take-Out, Catering, and Ghost Kitchens) will be a permanent part of restaurants' revenue sources. Recent restaurant news published this month supports this. A sampling: Wingstop announcing the opening of a new Digitally focused prototype restaurant, Ruth's Chris returning to promoting Take-Out and Delivery, Smokey Bones is testing Drive Thru, Peter Piper Pizza's new store design offers Take-Out/Delivery only model, Taco Bell's new design – Go Mobile has multiple Drive Thru lanes, Panera Bread's next Generation, etc. Brands that are testing /growing Ghost Kitchens: WalMart, Inspire Brands (owners of Arby's, Buffalo Wild Wings, Jimmy Johns, Sonic, and Rusty Taco, etc.) opened a test Ghost Kitchen in the Atlanta market with their brands called Alliance Kitchen. Other chains like Chili's, Noodles & Co., Marco's Pizza, Wingstop, and Wendy's are testing and/or launching Ghost Kitchens.
- New store designs for many concepts are focusing on Off Premise business. Bento Box QTR-4 2021 Survey findings: 79% of consumers surveyed ordered Take-Out and Delivery per week. Broken down: 1 X per week = 40%, 3 X per week = 11%. 57% of those surveyed plan to order more Take-Out/Delivery in 2022. 48% plan to order directly from the restaurant. The conclusion is that Off Premise is here to stay and will maintain a prominent place in revenue sourcing.
- **Fun Advertising Numbers Regarding Super Bowl 2022:**
 - \$6.5 Million per 30 second ad – ad price increase of 16% from 2021
 - 68 ads shown - Total ad spend - \$545,000,000
 - Top rated Ad – Rocket Mortgage – Dream House w/Anna Kendrick
 - Worst rated Ad – Coinbase (Coinbase Big Game Ad)

SUPPLY CHAIN NEWS:

- Supply Chain is making progress towards 24/7 operations across the system. Many major suppliers are investing in more storage, warehousing, holding spaces to be able to move products closer to end user or at least to the next step along the chain. Additionally, several new companies are entering the distribution phase of the Supply Chain. Every product from dairy to automobiles are making investments in their own infrastructure to adapt to the new demands – primary adaptation is with new technologies to better manage demand.

ECONOMIC NEWS (BREAKDOWN):

- CPI/Inflation Rate (Annualized) 7.5%
- Commodities wholesale prices rose YOY 14.3%
- Unemployment (Jolt Report) 4.0%
- Food at Home Index rose 7.4%
- Food Away From Home Index rose 6.4%



SOURCE: TRADINGECONOMICS.COM US Bureau of Labor Statistics

WHOLESALE COMMODITIES UPDATE		February 2022	February 2021
Beef		\$3.64	\$3.30
Dairy		\$1.99	\$2.14
Pork		\$3.21	\$2.76
Poultry		\$2.74	\$2.67
Produce		\$19.25	\$17.75
Seafood		N/A	N/A
Chicken Wings		\$2.69	\$2.51
Thighs		\$0.56	\$0.47
Basket (limited)		\$4.87	\$4.51

SOURCE: Commodities: USDA / Gasoline: AAA

Major commodities that rose YOY were: Butter 74.4%, Eggs 60.7%, Beef 43.9%, Poultry 26.6%.

NATIONAL GAS AVERAGE - PER AAA														
2/21	3/21	4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22	2/22		
2.62	2.87	2.9	3.04	3.09	3.17	3.19	3.18	3.38	3.41	3.29	3.37	3.92		

Russian/Ukraine war is driving up gas prices. (California was highest at \$4.87 / Mississippi was lowest at \$3.31).

RETAIL COMMODITIES UPDATE		February 2022	February 2021	January 2022
Ground Beef		\$6.17	\$4.53	\$6.31
Milk		\$3.79	\$3.46	\$3.74
Bacon		\$7.22	\$5.83	\$7.21
Bread		\$1.56	\$1.55	\$1.53
Coffee		\$5.14	\$4.59	\$4.52
Whole Chicken		\$1.62	\$1.59	\$1.60
Eggs		\$1.92	\$1.47	\$1.78
Potatoes		\$0.79	\$0.78	\$0.78
Basket		\$3.52	\$2.97	\$3.43

OPERATOR HEADLINES:

- **Supply Issues Flared Up in Second Half of Month.** Most of our contacts reported missing specialty ingredients in the second half of February. Stores reported several instances where they were unable to sell promotional menu items due to the shortages

Restaurant Industry Summary Report // February 2022

OPERATORS:

- Current Month Sales (nationally):
 - 73.0%  Increase over last year
 - 21.0%  Decrease over last year
- Current Traffic:
 - 55.0%  Increase over last year
 - 32.0%  Decrease over last year
- Future Outlook for Business Conditions over the next 6 mos.
 - 76% expect business conditions to worsen
- Future Outlook for Sales:
 - 60.0%  Increase over last year
 - 11.0%  Worse than last year
- Two-Year SSS:
 - 41.0% Higher
 - 51.0% Decline
- Capital Spending:
 - 57.0% Made expenditures in last 3 months
 - 34.0% Expended
- Future Spending Plans:
 - 61.0%  Plan equipment
 - 57.0%  Plan expansion
- Margins Impact:
 - 97.0%  Reported food cost increase (rose 7.9% YOY)
- Menu Prices:
 - 84.0%  Higher than LY
 - Menu prices increased 5.6% over last 12 months
- Staffing Issues:
 - 82.0%  Fully Staffed
 - 18.0%  Understaffed
- Top Concerns:
 - 78.0% Inflation
 - 75.0% Recruiting/retaining quality employees
 - 65.0% Covid

When comparing SSS to 2019, operators reported the following. By segment:

	CURRENT MONTH		LAST MONTH	
	Higher	Lower	Higher	Lower
QSR	57%	29%	70%	20%
Fast Casual	50%	25%	71%	14%
Casual	36%	59%	24%	65%
Fine Dining	20%	80%	21%	65%

SSS 2-Year Comparison (Higher)

	August 2021	September 2021	October 2021	November 2021	December 2021	January 2022	February 2022
QSR	64%	75%	67%	70%	87%	70%	57%
Fast Casual	50%	50%	71%	65%	67%	71%	50%
Casual	75%	47%	56%	56%	48%	24%	36%
Fine Dining	50%	38%	32%	32%	40%	21%	20%

SMALL BUSINESS OPTIMISM INDEX (Source: NFIB and Compass RCR)



Recent survey findings conducted by the National Restaurant Association:

- 78% of operators reported worse business conditions than previous month.
- 88% reported decline in demand for indoor dining. Action taken:
 - 51% reduced hours of operations
 - 34% closed certain days of the week
 - 26% reduced seating capacity
 - 16% only offered Off Premise options

RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22
 RESTAURANT PERFORMANCE INDEX	105.6	105.2	104.2	102.9	104.5	104.8	104.8	103.2
CURRENT SITUATIONS								
 SSS Increase/Decrease	84%/16%	85%/15%	73%/11%/16%	76%/24%	85%/11%	86%/7%	89%/11%	73%/21%
 Capital Spending	72%	73%	63%	59%	62%	75%	48%	57%
EXPECTATIONS:								
 Sales Outlook Improvement	75%	71%	53%	47%	50%	59%	67%	55%
 Economy Outlook Improvement	68%	32%	36%	16%	30%	37%	40%	61%

CONSUMER SENTIMENT: (Source: University of Michigan Sentiment Poll)

	3/21	4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22	2/22
Consumer Sentiment	80.7	84.9	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6	67.2	62.8
Current Economy	90.0	87.7	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2	72.0	68.2
Consumer Expectations	74.6	73.8	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3	64.1	59.4

- Consumer Confidence is at its lowest point in over 10 years with the drop primarily due to the 12.9% decline in personal income due to inflation and falling confidence in the government's economic policies.
- Another poll by Emerson College asked "What were the most important issues facing the country?" – 24% inflation/ 20% Covid-19. And yet other findings by the Conference Board also found inflation to be the #1 concern for consumers; citing current housing prices were up 19% since last year and gasoline was up 37% to name a few of the most mentioned.
- Another poll by Gallup asked if consumers are expecting inflation to go up during the next 6 months. An overwhelming 89% said yes and 49% expect personal hardships from inflation this year.

Regardless of the poll, inflation is the consumer's top concern and with so many expecting it to impact them personally. The situation will drive the consumer to seek value in purchases, limiting/restricting some purchases and be driven back to price shopping.

	February 2022	January 2022	December 2021	November 2021	October 2021	September 2021	August 2021
Health concerns as related to Covid variant	44%	56%	41%	13%	36%	50%	26%
Financial concerns – (Inflation)	82%	73%	45%	25%	72%	58%	16%
Immigration	39%	41%	50%	77%	76%	52%	11%
Government	49%	38%	26%				

SOURCE: Gallup Poll

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