

AUTHOR:

Steve Crichlow

Founder & CEO

(251) 370-7011

steve@compassrcr.com

www.compassrcr.com

info@compassrcr.com

	PAGE
Industry Conditions & News	
SSS / Traffic	1
Consumers/Operators & Supply Chain Take	1
Outlook	1
Consumers Survey	2
Operators' Survey	2
RPI/Supply Chain Survey	3
Headline News	4

COMPANIES MENTIONED IN THIS REPORT:

CORE COVERAGE

COMPANY	TICKER	PAGE
QSR		
McDonald's	MCD	5
Burger King	BKC	6
Wendy's	WEN	7
Jack in the Box	JACK	8
Popeye's	PLKI	9
KFC	YUM	10
Del Taco	TACO	11
Taco Bell	YUM	12
Pizza Hut	YUM	13
Domino's	DPZ	14
FAST CASUAL		
Chipotle	CMG	15
Starbucks	SBUX	16
Wingstop	WING	17
CASUAL		
Applebee's	DIN	18
IHOP	DIN	19
Chili's	EAT	20
Chuy's	CHUY	21
Longhorn	DRI	22
Olive Garden	DRI	23
Red Robin	RRGB	24

*Charts on pages 5-24 "Mean" Source – Company Filings

SUMMARY OF INDUSTRY BUSINESS CONDITIONS:

SAME STORE SALES (SSS)/Traffic (Compass RCR coverage average):

Industry avg. SSS	<1.1%>
Industry traffic	<11.5%>

- **January top performers:** Burger King, Chipotle, McDonald's, Noodles, Starbucks
- **January bottom performers:** Applebee's, Longhorn, Popeyes
- **Most improved:** Burger King, Starbucks

CONSUMERS, OPERATORS, & SUPPLY CHAIN PROVIDE THEIR TAKE:

- **CONSUMERS:**
 - Confidence declined 1.5 points.
 - View of personal income decreased 2.3 points.
- **OPERATORS:**
 - Optimism decreased 5.5 points.
 - Outlook for next 6-month survival – negative responses shifted to 85%.
 - Restaurant Performance Index was 98.6; an increase of 1.1 points.
- **SUPPLY CHAIN:**
 - New Administration orders a review of supply chain gaps.

HEADLINES: What we have heard around the Industry (see pg. 4 for details)

- Many experts expect increase in dining out by late Spring/early Summer.
- Major labor issues ahead in 2021.
- Second round of Stimulus Checks provide a small boost for the restaurant industry.
- ICR quick overview.

PREDOMINANT SALES DRIVING INITIATIVES FOR MONTH:

▪ Menu Innovation	63%	▪ Brand App	24%
▪ Value/Discounts	57%	▪ To-Go	24%
▪ Delivery	29%	▪ Loyalty/Rewards	19%
▪ Gift Cards	24%		

FEBRUARY OUTLOOK:

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Brands we expect to out-perform Industry/Peers: <ul style="list-style-type: none"> ○ Chipotle ○ Domino's ○ KFC ○ McDonald's ○ Noodles | <ul style="list-style-type: none"> ▪ Brands we expect to under-perform Industry/Peers: <ul style="list-style-type: none"> ○ Applebee's ○ Longhorn ○ Olive Garden ○ Popeyes |
|--|---|

Please see Page 25 for Important Disclosure

CONSUMERS – OUR TAKE FOR JANUARY 2021:

	4/20	5/20	6/20	7/20	8/20	9/20	10/20	11/20	12/20	1/21
Consumer Sentiment	71.8	72.3	78.1	72.5	74.1	80.4	81.8	76.9	80.7	79.2
Current Economy	74.3	82.3	82.1	82.8	82.9	87.8	85.9	87.0	90.0	87.7
Consumer Expectations	70.1	65.9	72.3	65.9	68.5	75.6	79.2	70.5	74.6	73.8

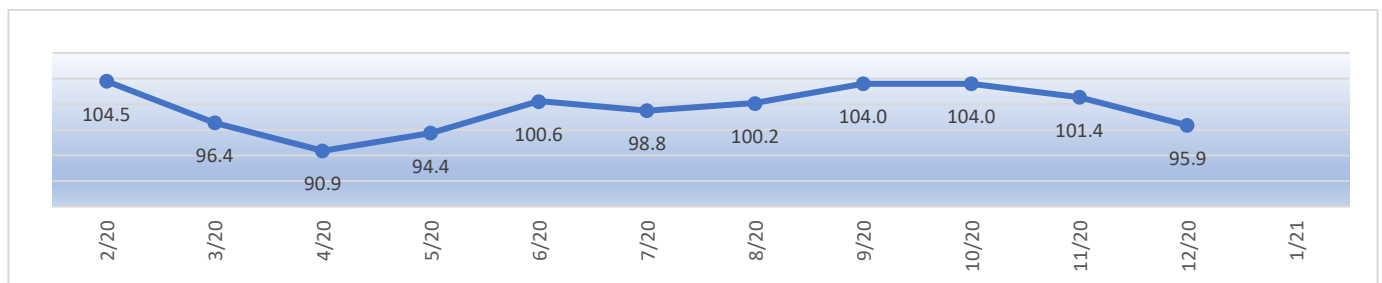
SOURCE: University of Michigan Sentiment Poll

Consumer Sentiment declined in January on a very small scale (1.5 pts.) despite the strong rise in Covid-19 deaths and all the political events in the early part of the month. The news regarding a Covid-19 vaccine and its actual implementation was the most positive impact on consumer confidence as the Covid’s threat to physical and mental health proved to be more important to consumers in January than any political repercussions (70% listed as top concern). Additionally, listed as second top concern, consumers stated it was the economic impact of the pandemic on personal income/employment situation. Interestingly, 20% of respondents stated they have spent more than their income over the last 3 months (dipping into savings and using credit cards). Another 40% of consumers stated they were concerned about their employment situation.

OPERATORS - OUR TAKE FOR JANUARY 2021:






- **OPERATORS:**
 - Current Month Sales:
 - 17.0% ↓ Increase over LY
 - 83.0% ↑ Decrease over LY
 - Current Traffic:
 - 8.0% ↓ Increase over last year
 - 92.0% ↑ Decrease over last year
 - Future Outlook for Business Conditions over the next 6 mos.
 - Declined to <16%>
 - Margins Impact:
 - 53.0% ↓ Reported food cost increase
 - Menu Prices:
 - Menu prices increased 2.7% over last 12 months
 - Top Concerns:
 - Overall impact of Covid-19
 - Financial survival
 - Hiring/retaining qualified employees
 - Unknown regarding new taxes and regulations

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



Operator Optimism Index fell 5.5 points. The continued uncertainty regarding the impact of the Covid crisis, sharp increase in concerns over the new Administration’s flurry of Executive Orders and what impact they potentially have on their businesses, and the lack of the specified Economic Relief Package (that has been expected since August 2020) for the restaurant industry all weighed in on the drop in optimism. Many Independents expressed lost hope of surviving.

RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

	6/20	7/20	8/20	9/20	10/20	11/20	12/20
 RESTAURANT PERFORMANCE INDEX	96.4	97.1	97.5	98.1	98.3	97.5	98.6
CURRENT SITUATIONS							
 SSS Increase/Decrease	10%/90%	25%/75%	27%/73%	32%/68%	30%/70%	19%/81%	17%/83%
 Capital Spending	25%	47%	41%	46%	51%	41%	45%
EXPECTATIONS:							
 Sales Outlook Improvement	75%	58%	20%	32%	36%	40%	54%
 Economy Outlook Improvement	56%	33%	27%	36%	33%	51%	60%

SUPPLY CHAIN – OUR TAKE FOR JANUARY 2021:

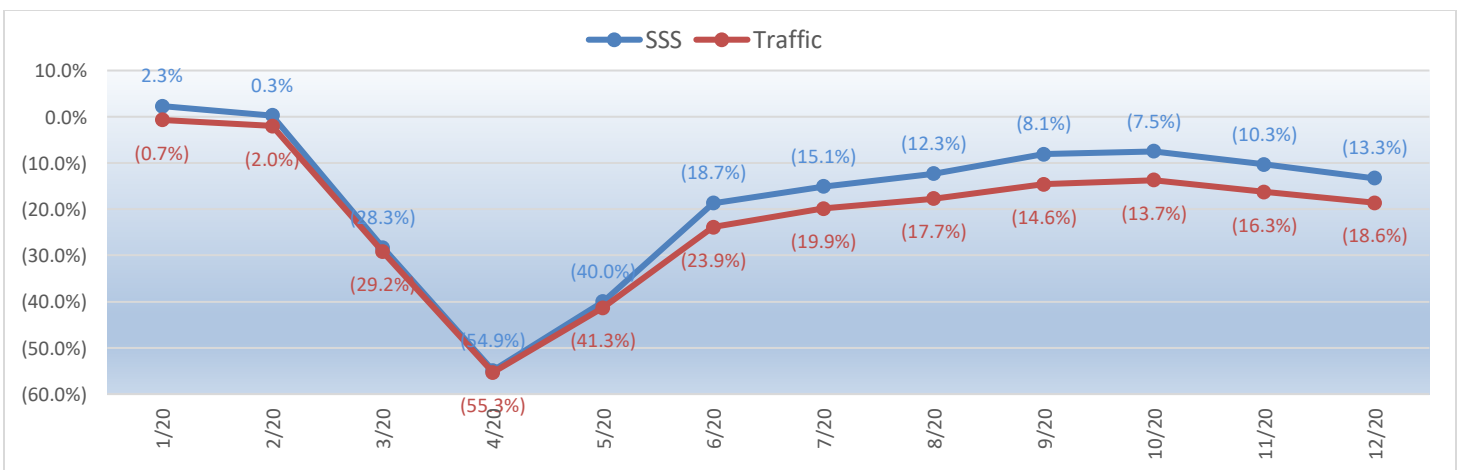
WHOLESALE COMMODITIES UPDATE	Jan 2021	Dec 2020
Beef	\$1.86	\$2.55
Dairy	\$2.20	\$2.24
Pork	\$1.89	\$1.87
Poultry	\$1.68	\$1.53
Produce	\$22.00	\$25.00
Basket (limited)	\$5.92	\$6.63
Gasoline – National Average	\$2.40/Gal	\$2.25/Gal

SOURCE: Commodities: USDA / Gasoline: AAA

Total wholesale basket price declined 71¢ in January. According to the USDA, this trend continues to be the result of the Covid-19 impact. Consumers switched to lower priced proteins as their income shrank. According to sources at the Chicago Mercantile Exchange, a “stabilization” of wholesale prices is not expected until after the pandemic.

Gasoline prices rose in January an average of 15¢ a gallon. According to AAA this was a result of more people getting out and driving around from the Covid lockdown.

INDUSTRY NEWS – SSS AND TRAFFIC: (Source: Black Box)



HEADLINES – WHAT WE HAVE HEARD:

Many industry experts are anticipating a major return of consumers dining out by late Spring, early Summer.

According to several key industry polls, consumers' pent up demand for dining out is very high. According to Datassential's most recent poll, 59% of consumers are willing to dine out again. And according to Morning Consults latest poll (1/21/21) only 36% of U.S. consumers are willing to eat out but 54% stated they would feel comfortable eating out again within the next 6 months.

Major labor issues ahead in 2021. The new Administration has promised a host of potential changes to labor; all of which will have an impact on the restaurant industry.

- **Raising Minimum Wage to \$15 Per Hour** – “This creates an impossible challenge for the restaurant industry. While other businesses are starting to see a recovery, restaurants are struggling to stay open amidst indoor dining bans or limits that have been in place for most of ten months”, stated Sean Kennedy, VP of Public Affairs at National Restaurant Association. The restaurant industry, second largest employer in the country (second only to the U.S. Government), laid off over 2.5 million workers and permanently closed 1 in 6 locations since the pandemic began.
- **Ending Tipped Minimum Wages** – This will actually lower the take home pay of tipped employees who currently make between \$16-\$25 an hour.
- **Passing the PRO** – Protective Right to Organize Act allows employees the right to unionize in a restaurant (1 unit or chain).

Second Round of Stimulus Checks (delivered approximately 1/1/2021). This had a positive impact on restaurant sales. Several chains: McDonald's, Church's Chicken, Checkers, Noodles, Beef O' Brady's, Brass Top, and TGI Fridays reported a bump in sales the first week of January and attribute this 6% bump to the new Stimulus check.

ICR Brief Overview:

1. Generally, corporate management expressed optimism that restaurant traffic will improve based on widespread availability of the Covid-19 vaccine.
2. Most agree, substantial return of sales won't take place until late Summer.
3. Most expect to take market share (mainly from areas that have a high rate of permanent closures and a surge from consumers' pent up demands).

Other notable comments:

1. Delivery is here to stay and everyone is finding ways to make it work.
2. Reduced menu will also stay.
3. Loyalty programs grew exponentially and have been rediscovered as a valuable source of sales.

DISCLOSURES AND DISCLAIMERS

Analyst Certification and Independence of Research.

The Compass Restaurant Consulting and Research analyst(s) whose names appear on the front page of this report hereby certify that all the views expressed in this Report accurately reflect our personal views about any and all of the subject securities or issuers and that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views of in this Report.

Compass Restaurant Consulting and Research (the "Company") is an independent research provider. The Company is not a member of the FINRA or the SIPC and is not a registered broker dealer or investment adviser. The Company has no other regulated or unregulated business activities which conflict with its provision of independent research.

Limitations of Research and Information.

This Report has been prepared for distribution to only qualified institutional or professional clients of Compass Restaurant Consulting and Research. The contents of this Report represent the views, opinions, and analyses of its author(s). The information contained herein does not constitute financial, legal, tax or any other advice. All third-party data presented herein were obtained from publicly available sources which are believed to be reliable; however, the Company makes no warranty, express or implied, concerning the accuracy or completeness of such information. In no event shall the Company be responsible or liable for the correctness of, or update to, any such material or for any damage or lost opportunities resulting from use of this data.

Nothing contained in this Report or any distribution by the Company should be construed as any offer to sell, or any solicitation of an offer to buy, any security or investment. Any research or other material received should not be construed as individualized investment advice. Investment decisions should be made as part of an overall portfolio strategy and you should consult with a professional financial advisor, legal and tax advisor prior to making any investment decision. Compass Restaurant Consulting and Research shall not be liable for any direct or indirect, incidental, or consequential loss or damage (including loss of profits, revenue, or goodwill) arising from any investment decisions based on information or research obtained from Compass Restaurant Consulting and Research.

Reproduction and Distribution Strictly Prohibited.

No user of this Report may reproduce, modify, copy, distribute, sell, resell, transmit, transfer, license, assign or publish the Report itself or any information contained therein. Notwithstanding the foregoing, clients with access to working models are permitted to alter or modify the information contained therein, provided that it is solely for such client's own use. This Report is not intended to be available or distributed for any purpose that would be deemed unlawful or otherwise prohibited by any local, state, national or international laws or regulations or would otherwise subject the Company to registration or regulation of any kind within such jurisdiction.

Copyrights, Trademarks, Intellectual Property.

Compass Restaurant Consulting and Research and any logos or marks included in this Report are proprietary materials. The use of such terms and logos and marks without the express written consent of Compass Restaurant Consulting and Research is strictly prohibited. The copyright in the pages or in the screens of the Report, and in the information and material therein, is proprietary material owned by Compass Restaurant Consulting and Research unless otherwise indicated. The unauthorized use of any material on this Report violates numerous statutes, regulations, and laws, including, but not limited to, copyright, trademark, trade secret or patent laws.