

AUTHOR:

Steve Crichtlow

Founder & CEO

(251) 370-7011

steve@compassrcr.com

www.compassrcr.com

info@compassrcr.com

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COMPANIES MENTIONED IN THIS REPORT:

CORE COVERAGE

COMPANY	TICKER	PAGE
QSR		
McDonald's	MCD	7
Burger King	BKC	8
Wendy's	WEN	9
Jack in the Box	JACK	10
Popeye's	PLKI	11
KFC	YUM	12
Del Taco	TACO	13
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Pizza Hut	YUM	15
Domino's	DPZ	16
FAST CASUAL		
Chipotle	CMG	17
Starbucks	SBUX	18
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CASUAL		
Applebee's	DIN	21
IHOP	DIN	22
Chili's	EAT	23
Chuy's	CHUY	24
Longhorn	DRI	25
Olive Garden	DRI	26

INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS

HEADLINE NEWS:

- California passes FAST Act bill impacting QSR restaurants.
- Walmart/Target grocery sales soar.
- In & Out wins restaurant wars for Talent – 7 years in a row.

ECONOMIC HEADLINES:

- Inflation Reduction Act will hurt the restaurant industry.
- ADP – August Jobs Report: U.S. companies added just 132,000 new jobs.

OPERATOR HEADLINES:

- Positive outlook for sales drops to 35% and future outlook for economy drops to 25%.

CONSUMER HEADLINES:

- Back to School season shows early signs of being strong.

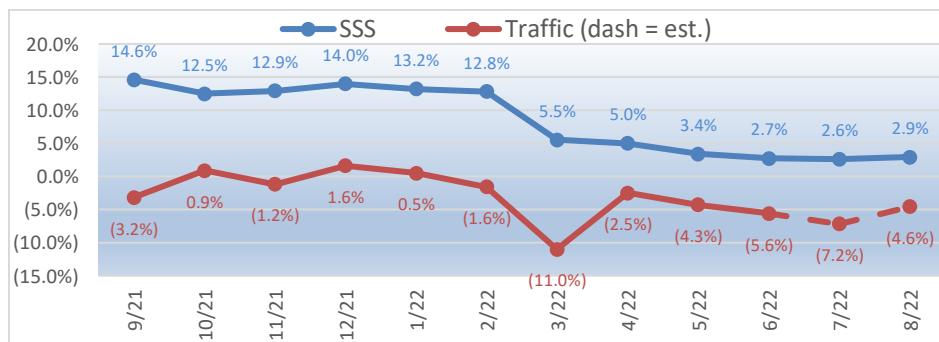
SUPPLY CHAIN HEADLINES:

- Technology adaptations accelerates in July/August.

SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS	+2.9%
Industry avg. Traffic	<4.6%> (estimated)

- SSS were positive.
- Traffic was negative; driven by higher prices causing less visits.



Please see Page 27 for Important Disclosure

Restaurant Pulse Report // August 2022

HEADLINE NEWS AND (BREAKDOWN):

- **CALIFORNIA PASSES FAST ACT BILL** – Implications are the law would lead to operators having to raise menu prices and seek investments in Technology/Automation in attempts to reduce labor and protect profits.
QSR's with high percentage of locations in California are JACK 47%, LOCO 80%, TACO 41%, YUM 11%, MCD/QSR/DPZ all have 9%. Long-term raising prices would undermine the QSR's perceived "value proposition" with consumers.
- **WALMART/TARGET GROCERY SALES SOAR IN QTR-2** according to Earnings Call) – Walmart reported grocery sales up nearly 30%. This supports earlier data that consumers are switching to Walmart/Target for grocery needs as branded grocery store chains continue to raise prices.
- **IN & OUT WINS WAR FOR TALENT** – According to Glassdoor's review of the Annual Employee Satisfaction Survey:

Employee Satisfaction Ranking

-	In & Out Burger	87%
-	Barcelona Wine Bar	79%
-	Snooze On A.M. Eatery	77%
-	Black Rifle Coffee	76%
-	Dutch Brothers	76%
#8	- Chuy's	73%
#9	- First Watch	73%
#11	- Longhorn Steakhouse	72%
#12	- Chick fil A	71%
#15	- Starbucks	71%
#68	- Chipotle	53%

Top 5 and Notable Other Brands

This might help explain why some brands struggle to find adequate staff and others don't.

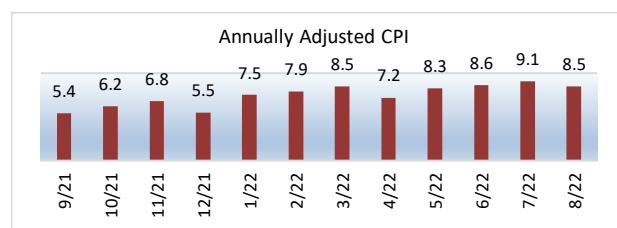
ECONOMIC NEWS AND (BREAKDOWN):

- **INFLATION REDUCTION ACT WILL HURT RESTAURANT INDUSTRY** – According to a recent study by the National Restaurant Association (NRA), the Inflation Reduction Act will hurt the restaurant industry by increasing Supply Chain costs. Additionally, the Bill provides no relief for the restaurant industry.

According to the Bill, it creates a new \$313 Billion Corporate Alternative Minimum Tax (CAMT) which impacts manufacturers and wholesalers who will be responsible for paying 59% of the \$313 Billion. For the restaurant industry this will impact manufacturers and producers of patty meats, frozen foods, soft drinks and alcohol. The cost will be passed on to the restaurant industry according to the NRA.

- **ADP AUGUST JOBS REPORT** – Added 132,000 new jobs; well below the expected number of 288,000. This supports other news of employers slowing pace of hiring due to current economic headwinds.

- **Economic News (Breakdown) (source: BLS)**
 - GDP <0.6%>
 - CPI/Inflation Rate (Annualized) 8.5%
 - Commodities wholesale prices rose YOY (PPI) 9.8%
 - Unemployment 3.5%
 - Food at Home Index rose 13.1%
 - Food Away From Home Index rose 7.6%



SOURCE: TRADINGECONOMICS.COM US Bureau of Labor Statistics

NATIONAL GAS AVERAGE - PER AAA												
9/21	10/21	11/21	12/21	1/22	2/22	3/22	4/22	5/22	6/22	7/22	8/22	
3.18	3.38	3.41	3.29	3.37	3.92	4.24/LA 6.03	4.12/1.74 2020	4.82	4.87	4.32	3.85	

Gasoline was averaging \$3.85 in August 2022. August 2021 was \$3.12.

SUPPLY CHAIN NEWS AND (BREAKDOWN):

- Adaptation to technology by all major links in the Supply Chain are beginning to pay off. Major improvements have been in inventory management. All links are making efforts to be ahead of holiday season demands. The only black spot continues to be labor relations with most links.

COMMODITIES:

WHOLESALE COMMODITIES UPDATE		August 2022	August 2021
Beef		\$3.18	\$3.20
Dairy		\$2.10	\$2.04
Pork		\$3.54	\$4.31
Poultry		\$3.57	\$2.85
Produce		\$23.50	\$18.25
Seafood		N/A	N/A
Chicken Wings		\$1.68	\$3.16
Thighs		\$0.81	\$0.64
Basket (limited)		\$5.48	\$4.92

SOURCE: Commodities: USDA Market Report

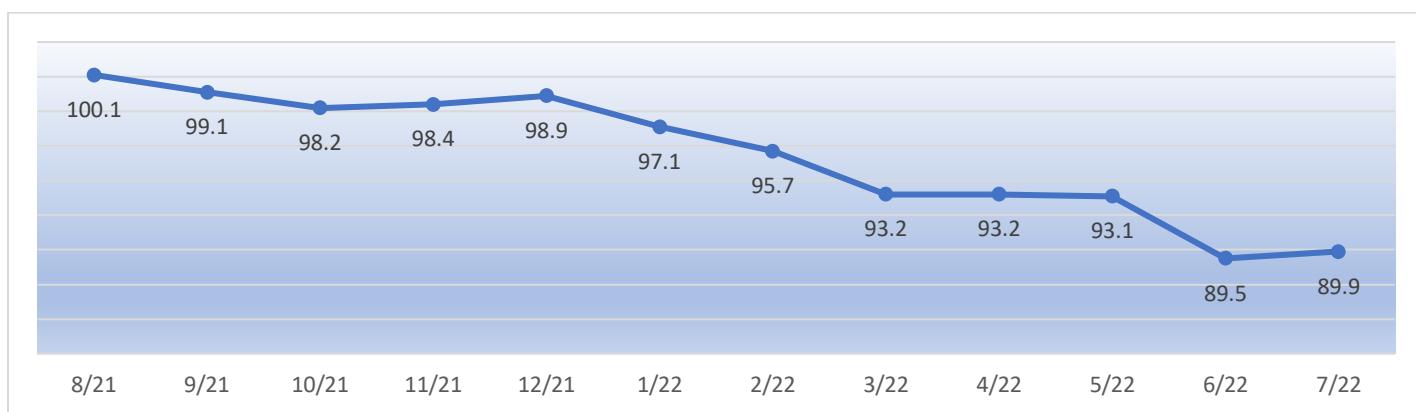
COMMENTARY: There are considerable conversations regarding a potential reduction in beef supply for the winter season. Wholesale food prices have risen an average of 26% over last year and 4% over last month.

RETAIL COMMODITIES UPDATE		August 2022	August 2021	July 2022
Ground Beef		\$5.07	\$4.52	\$4.99
Milk		\$2.94	\$1.64	\$4.15
Bacon		\$7.42	\$6.86	\$7.40
Bread		\$1.71	\$1.49	\$1.69
Coffee		\$6.11	\$4.56	\$5.79
Whole Chicken		\$1.88	\$1.44	\$1.83
Eggs		\$2.94	\$1.64	\$2.70
Potatoes		\$0.95	\$0.78	\$0.89
Basket		\$3.63	\$2.87	\$3.68

OPERATOR NEWS (BREAKDOWN):

- **Current Month Sales (nationally):**
 - 45.0%  Increase over last year
 - 47.0%  Decrease over last year
- **Current Traffic:**
 - 26.0%  Increase over last year
 - 58.0%  Decrease over last year
- **Future Outlook for Business Conditions over the next 6 mos.**
 - 33.0% expect business conditions to be better
- **Future Outlook for Sales:**
 - 28.0%  Increase over last year
 - 62.0%  Worse than last year
- **Capital Spending:**
 - 59.0%  Equipment expenditures in last 3 mos
 - 41.0%  Expanded/remodel
- **Future Spending Plans:**
 - 57.0%  Plan equipment
 - 41.0%  Plan expansion/remodel
- **Margins Impact:**
 - 92.0%  Reported food cost increase rose 7.0% YOY
- **Menu Prices:**
 - 89.0%  Higher than LY
 - Menu prices rose 7.7% over last 12 months
- **Staffing Issues:**
 - 86.0% Fully Staffed
 - 14.0% Understaffed
- **Top Concerns:**
 - 91.0% Economy/Inflation
 - 89.0% Food and labor costs rising
 - 75.0% Staffing issues – recruiting/retaining

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



OPERATOR COMMENTARY:

- **SSS Trend:** For the first time in 17 months, the majority of operators reported sales were less than last year.
- **Regarding Traffic:** Majority reported below last year (55%).
- Historically, July is the second busiest month of the year, September the worst and August the 5th busiest.
- **Staffing Issues Breakdown:**
While most operators stated they were fully staffed, a large portion defined the need for qualified employees was their biggest shortfall. More applicants are coming in but very few are classified as highly qualified. 42% listed high qualified employees as their most urgent need.

RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

	12/21	1/22	2/22	3/22	4/22	5/22	6/22	7/22
 RESTAURANT PERFORMANCE INDEX	104.8	104.8	103.2	103.8	103.7	102.1	101.3	100.8
CURRENT SITUATIONS								
 SSS Increase/Decrease	86%/7%	89%/11%	73%/21%	82%/16%	75%/10%	63%/24%	64%/22%	45%/47%
 Capital Spending	75%	48%	57%	69%	53%	60%	63%	57%
EXPECTATIONS:								
 Sales Outlook Improvement	59%	67%	55%	61%	63%	49%	48%	35%
 Economy Outlook Improvement	37%	40%	61%	29%	28%	20%	20%	25%

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

	9/21	10/21	11/21	12/21	1/22	2/22	3/22	4/22	5/22	6/22	7/22	8/22
Consumer Sentiment	72.8	71.7	67.4	70.6	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2
Current Economy	80.1	77.7	73.6	74.2	72.0	68.2	67.2	69.4	63.3	53.8	58.1	58.6
Consumer Expectations	68.1	67.9	63.5	68.3	64.1	59.4	54.3	62.5	55.2	47.5	47.3	58.0

CONSUMER COMMENTARY:

Most of the improvements in consumer sentiment concentrated in improvement in expectations – of year ahead outlook; most are expecting improvements. Additionally, overall gains in personal financial situation improved. However, lower income bracket, which has fewer resources to buffer against inflation's impact, continue to remain less optimistic.

A recent survey (completed August 11, 2022) by Ipsos shed some additional light on August's consumer behavior. Consumer Confidence was down 10.5 pts since March 2020 but up 0.8 pts since July. Broken down by category:

- Overall Confidence includes personal financial situation, employment security, purchasing capabilities.
- The Survey's detailed findings overall for the remainder of 2022:
 - 53% believe inflation will go up.
 - 52% believe mortgage interest rates will go up.
 - 51% believe regular monthly bills will go up.
 - 27% believe unemployment will go up.
 - 22% believe standard of living will go down.
- Broken down by age demographic:

<u>Position</u>	<u>Confidence Rating</u>
○ 18-34	54.3%
○ 35-54	46.5%
○ 55 plus	48.5%

- Broken down by income demographic:

<u>Position</u>	<u>Confidence Rating</u>
○ Under \$50K	44.0%
○ \$50K-\$100K	49.0%
○ \$100K plus	55.8%

CONCLUSION OF IPSOS SURVEY: The older demographic (55 plus) has a better outlook for the current economy than the 35-54 age group. Regarding income, it's naturally expected that the higher income the better the outlook because they have better resources to deal with inflation.

TOP CONCERNS:

	August 2022	July 2022	June 2022	May 2022	April 2022	March 2022
Inflation impact on discretionary spending – reduced plans	89%	N/A	92%	91%	91%	87%
Dissatisfied with the way country/government is going	71%	N/A	82%	78%	78%	78%
Health in general/ Covid concerns	22%	N/A	29%	27%	39%	46%
Immigration	18%	N/A	18%	22%	28%	35%

CONSUMER COMMENTS:

- Bloomberg reported "strong Back to School shopping ..." This would indicate an easing of consumer worries (supported by the recent Michigan Sentiment Report); thus, an overall improvement in potential spending attitude and a lessening of recession fears.

Consumers have been forced to reprioritize what matter most to them and are seeking shopping experiences and products that cater to their needs. Many have totally different sets of priorities than before Covid and with this year's squeeze by inflation, they are beginning to show new patterns in what they are willing to pay and those products and services that address their real-life needs.

For many, spending intentions center around two primary factors, in-home consumption and contending with income restraints. Consumers of all income groups are being mindful of the costs of items (and budgets) and switching more to in-home lifestyles which are contributing to less out of home spending.

This is the time where brands focusing and asserting their value propositions will become more relevant to the consumer.

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