

**AUTHOR:**

**Steve Crichtlow**

Founder & CEO

(251) 370-7011

[steve@compassrcr.com](mailto:steve@compassrcr.com)

[www.compassrcr.com](http://www.compassrcr.com)

[info@compassrcr.com](mailto:info@compassrcr.com)

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

**COMPANIES MENTIONED IN THIS REPORT:**

**CORE COVERAGE**

| COMPANY         | TICKER | PAGE |
|-----------------|--------|------|
| <b>QSR</b>      |        |      |
| 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 |
| Noodles & Co. | NDLS | 18 |

**CASUAL**

|              |      |    |
|--------------|------|----|
| Applebee's   | DIN  | 19 |
| IHOP         | DIN  | 20 |
| Chili's      | EAT  | 21 |
| Chuy's       | CHUY | 22 |
| Longhorn     | DRI  | 23 |
| Olive Garden | DRI  | 24 |
| Red Robin    | RRGB | 25 |

\*Charts on pages 5-25 "Mean" Source -

**SUMMARY OF INDUSTRY BUSINESS CONDITIONS:**

Due to the fact that some brands are comparing SSS to 2020 while others are comparing SSS to 2019, we are suspending the "Mean" percentage in the individual Brand charts. Once uniformity is restored, we will resume our calculations.

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

|                       |                   |
|-----------------------|-------------------|
| Industry avg. SSS     | +39.2%            |
| Industry avg. Traffic | +5.0% (estimated) |

- **May top performers:** Applebee's, Burger King, IHOP, Noodles, Red Robin, Starbucks, Taco Bell
- **May bottom performers:** KFC, Pizza Hut, Popeyes
- **Most improved:** Burger King, Starbucks

**CONSUMERS, OPERATORS, & SUPPLY CHAIN PROVIDE THEIR TAKE:**

- **CONSUMERS:**
  - Confidence fell 5.5 points due to rising prices.
- **OPERATORS:**
  - Optimism increased 0.2 points driven by improvement in sales.
- **SUPPLY CHAIN:**
  - All protein prices rose; Supply Chain is facing shortages.

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

- **Workforce Shortage** – Growing exponentially.
- **Price Inflation** – Bigger hit than expected.

**PREDOMINANT SALES DRIVING INITIATIVES FOR MONTH:**

|                     |     |                   |     |
|---------------------|-----|-------------------|-----|
| ▪ Off premise       | 96% | ▪ Messaging       | 53% |
| ▪ Dine-In Sales Mix | 96% | ▪ Digital         | 52% |
| ▪ Menu innovation   | 85% | ▪ Value/Discounts | 43% |
|                     |     | ▪ Brand Equity    | 19% |

**JUNE OUTLOOK:**

- **Brands we expect to out-perform Industry/Peers:**
  - Applebee's
  - Burger King
  - Chipotle
  - IHOP
  - KFC
  - McDonald's
  - Noodles
  - Red Robin
  - Starbucks
- **Brands we expect to under-perform Industry/Peers:**
  - Chili's
  - Jack in the Box
  - Longhorn
  - Olive Garden
  - Pizza Hut
  - Popeyes

Please see Page 26 for Important Disclosure

## CONSUMERS – OUR TAKE FOR MAY 2021:

|                              | 6/20 | 7/20 | 8/20 | 9/20 | 10/20 | 11/20 | 12/20 | 1/21 | 2/21 | 3/21 | 4/21 | 5/21 |
|------------------------------|------|------|------|------|-------|-------|-------|------|------|------|------|------|
| <b>Consumer Sentiment</b>    | 71.8 | 72.3 | 78.1 | 72.5 | 74.1  | 80.4  | 81.8  | 76.9 | 80.7 | 84.9 | 88.3 | 82.8 |
| <b>Current Economy</b>       | 74.3 | 82.3 | 82.1 | 82.8 | 82.9  | 87.8  | 85.9  | 87.0 | 90.0 | 87.7 | 93.0 | 88.0 |
| <b>Consumer Expectations</b> | 70.1 | 65.9 | 72.3 | 65.9 | 68.5  | 75.6  | 79.2  | 70.5 | 74.6 | 73.8 | 79.7 | 75.3 |

SOURCE: University of Michigan Sentiment Poll

Consumer Sentiment fell in May due to higher inflation which grew at the highest rate in a decade. The rising inflation also meant that real income expectations were the weakest in 5 years. However, Michigan Consumer Sentiment pointed out that they expect consumer spending to continue despite higher prices due to pent up demand and record savings balance accumulated during the crisis lockdowns. However, it is not surprising that consumers anticipate a booming economy over the next year or so including rapid job gains as well as increases in the inflation rate.

According to the most recently published BLS Commissioner's Report: "The Consumer Price Index for all urban consumers (CPI-U) increased 0.8% in April 2021 on a seasonally adjusted basis after rising 0.6% in March. Over the past 12 months, the All Items Index increased 4.2%. This is the largest 12 month increase since the 4.9% increase in September 2008." Ultimately, inflation is related to price increases which will impact consumers' pocketbooks.

Another note, the Federal Reserve stated that as of October 2020, Americans had an extra \$1.1 trillion of savings. This unprecedented sum is due largely to the pandemic's stay-at-home restrictions. Many are expecting the combination of people getting out again with their pent up demand and all this savings will generate an economic boom.

## OPERATORS - OUR TAKE FOR MAY 2021:

### ▪ OPERATORS:

- Current Month Sales:
  - 94.0%  Increase over LY
  - 6.0%  Decrease over LY mainly limited service
- Current Traffic:
  - 93.0%  Increase over last year
  - 7.0%  Decrease over last year
- Future Outlook for Business Conditions over the next 6 mos.
  - Not expecting significant changes until late fall
- Future Outlook for Sales:
  - 79.0%  Increase over last year
  - 21.0%  Same as last year
- Margins Impact:
  - 66.0%  Reported food cost increase (rose 3% YOY)
- Menu Prices:
  - 59.0%  Higher than LY
  - Menu prices increased 3.1% over last 12 months
- Staffing Issues:
  - 13.0%  Full Staff
  - 87.0%  Understaffed
- Top Concerns:
  - 95% Hiring/retaining employees
  - 37% New labor/business regulations
  - 35% Covid-19 impact

Operator Optimism increased by 0.2 points to 103.5. This was primarily driven by improvement in sales; but dampened by the increasing workforce shortage problems. Unfilled job openings continue to mount and the strain on operations and current staff is beginning to take a toll.

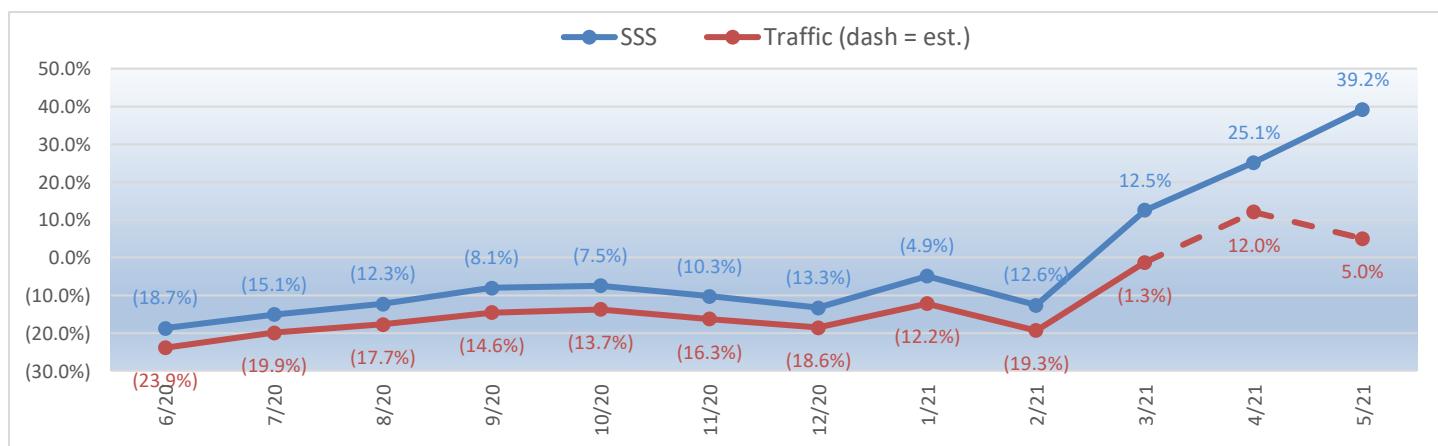
SMALL BUSINESS OPTIMISM INDEX (Source: NFIB and Compass RCR)



RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

|                              | 9/20    | 10/20   | 11/20   | 12/20   | 1/21    | 2/21    | 3/21    | 4/21   |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|--------|
| RESTAURANT PERFORMANCE INDEX | 98.1    | 98.3    | 97.5    | 98.6    | 99.1    | 100.1   | 105.1   | 106.3  |
| CURRENT SITUATIONS           |         |         |         |         |         |         |         |        |
| SSS Increase/Decrease        | 32%/68% | 30%/70% | 19%/81% | 17%/83% | 29%/71% | 73%/27% | 77%/23% | 97%/3% |
| Capital Spending             | 46%     | 51%     | 41%     | 45%     | 51%     | 53%     | 58%     | 74%    |
| EXPECTATIONS:                |         |         |         |         |         |         |         |        |
| Sales Outlook Improvement    | 32%     | 36%     | 40%     | 54%     | 59%     | 63%     | 78%     | 77%    |
| Economy Outlook Improvement  | 36%     | 33%     | 51%     | 60%     | 56%     | 66%     | 69%     | 64%    |

SSS AND TRAFFIC: (Source: Compass RCR)



SUPPLY CHAIN – OUR TAKE FOR MAY 2021:

| WHOLESALE COMMODITIES UPDATE | May 2021   | Apr 2021   |
|------------------------------|------------|------------|
| Beef                         | \$2.70     | \$2.06     |
| Dairy                        | \$1.90     | \$2.08     |
| Pork                         | \$2.73     | \$2.49     |
| Poultry                      | \$2.44     | \$1.88     |
| Produce                      | \$19.75    | \$16.00    |
| Seafood                      | \$5.96     | \$5.42     |
| Chicken Wings                | \$3.25     | \$2.83     |
| Basket (limited)             | \$5.53     | \$4.98     |
| Gasoline – National Average  | \$3.04/Gal | \$2.90/Gal |

SOURCE: Commodities: USDA / Gasoline: AAA

Total wholesale Basket prices increased 11% in May. The Supply/Demand imbalance caused from the seasonal, Memorial Day, and reopening of foodservice outlet demands, and weaker supplies from lower margins and labor challenges at supply chain facilities has been the major contributors to the current inflationed prices. Beef is expected to rise to all time highs by mid to late Summer. All food products are expected to increase as well.

Gasoline prices increased 14 cents per gallon; at this point, the rise is attributed more to Summer price increases rather than inflation.

HEADLINES – WHAT WE HAVE HEARD:

**Chicken Sandwich Wars – May 2021 Survey Update:** During May we conducted our own Chicken Sandwich Survey and compared results with 2 other sources' May surveys. Both Thrillist.com and FastFoodMenuPrices.com included the new Crispy Chicken Sandwich from Burger King. Our Survey utilized the following ratings process: Taste/Flavor, Price/Value, Healthy (perception), and Brand Appeal.

|    | CRCR              | THRILLIST         | FAST FOOD MENU         |
|----|-------------------|-------------------|------------------------|
| 1  | Popeyes           | Popeye's          | Chick fil A            |
| 2  | Burger King (new) | McDonald's (new)  | McDonald's             |
| 3  | Chick fil A       | Burger King (new) | Popeye's               |
| 4  | McDonald's (new)  | KFC               | Burger King (new)      |
| 5  | KFC               | Chick fil A       | Chick fil A Spicy      |
| 6  | Shake Shack       | Carl's            | Shake Shack            |
| 7  | Church's          | Church's          | Raising Cane's         |
| 8  | Checkers          | Jollibee          | Zaxby's                |
| 9  | Culvers           | Culvers           | Culvers                |
| 10 | Raising Cane's    | Arby's            | Arby's                 |
| 11 | Wendy's           | Checkers          | Burger King (Original) |
| 12 | Arby's            | Wendy's           | Wendy's                |
| 13 |                   | Jack in the Box   | What A Burger          |

**Workforce Shortage – growing exponentially.** The workforce shortage problem has created an unprecedeted crisis for all industries; not just restaurants. The most recent Federal Jobs Report (April 2021) reported new job openings/not filled of 8.1 million. The economy is still 5% down in unemployment from February 2020 peak. Overall, restaurant employment rose in May (according to the latest report from the Bureau of Labor Statistics-BLS) as eating and drinking establishments added 186,000 jobs. In total, during the last 5 months, restaurants have added a net 830,000 jobs. This employment gain is a step in the right direction. But to achieve employment levels equivalent to pre-Covid days remains a long, uncertain path. Currently, restaurants are 1.5 million employees (12%) short of pre-pandemic staffing levels. Over 90% of our contacts stated that recruiting and retaining employees is their top challenge.

**Inflation – bigger hit than expected.** Labor Department's recent report shows inflation rose 4.2% over 12 months ending in April 2021; the highest in several years. Based on this and an unexpected food supply shortage, the food-at-home prices (grocery store prices) are expected to rise 2.0 to 2.5% and restaurant prices are expected to rise 3.0-3.5%. All proteins increased by an average of 2.5% and we expect them to rise even further during the summer months.

## 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.