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INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS

HEADLINE NEWS:

- Winter Storm Kenan – impacted East Coast from Maine to Florida on 1/28/22 and brought record low temperatures and heavy snow hampering travel and business. Another winter storm, Landon, is expected to impact the Midwest by 2/1/22.

ECONOMIC HEADLINES:

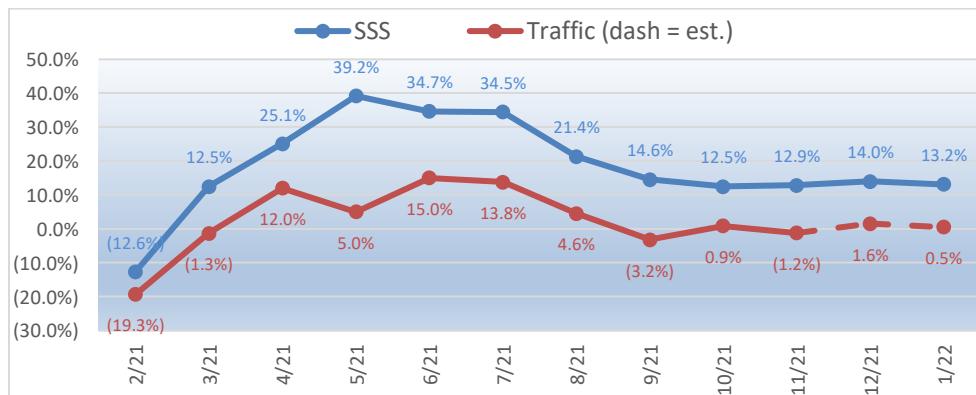
- Inflation is hitting the consumers, operators, and the menu.
- Covid – new Omicron variant forcing new regulations, confusion, etc.
- Sharp decline in Dine-In traffic as Omicron spreads.

OPERATOR HEADLINES:

- Off premise sales remain a powerful source for revenue.
- Loyalty programs emerge as a restaurant's "must have."
- Staffing issues improve a little in January.

SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS	+13.2%
Industry avg. Traffic	+0.5% (estimated)



Please see Page 27 for Important Disclosure

NATIONAL NEWS:

- **Winter Storms:** Kenan's impact brought record snowfall from Maine to North Carolina averaging from 2 to 24 inches; additionally, bringing wind gusts up to 70 mph. More than 5,000 flights were cancelled. Power outages were estimated to impact 100M people.
- **New Winter Storm: Landon** expected to hit the Midwest from Ohio to Texas with heavy snow and ice.

INDUSTRY NEWS:

- **New Covid Variant Omicron** has had an impact on the consumer and the restaurant industry. Increased concerns, confusion over proper protocol, some markets reclosing Dine-In options, losing staff - again, uncertainty as to how and when to respond, what policies to implement, and a reduction in sales as well as profits.
- **Dine-In traffic declined sharply** in late December as the Omicron Variant spread. Open Table reported Dine-In traffic was 33% below 2019 (NYC was 60% below).
- **Off premise sales remain a powerful source for revenue.** A recent study by NPD Crest found that: Online Ordering for Delivery grew 142% in 2021 and accounted for 38% of total restaurant Digital sales (look for upcoming report for more details).
- **Loyalty programs are emerging rapidly since the onset of the pandemic.**
 - Recent survey by Paytronix found:
 - 64% of customers use Loyalty programs at multiple restaurants.
 - 50% of table service partners interact with Loyalty programs via mobile App.
 - Starbucks Earnings Report on 2/1/22 reported 53% of sales are from their Starbucks Rewards program.
 - Another survey by Paytronix found 48% of consumers now use Loyalty programs.
 - Look for upcoming report for more details.

The Supply Chain Disruption Taskforce recently updated the progress being made to relieve some of the chokeholds on the system. Highlights from their meeting:

SUPPLY CHAIN NEWS:

- Retail Inventory – 90% on-shelf availability in retail stores.
- Average Dwell Time for container ships at port is now 5 days; down from 12 day average in October.
- \$17 billion fund available to speed and modernize ports.

The report focuses on the transportation portion of the Supply Chain.

From our conversation, supply issues were minimal in January. Serious shortages were reported primarily in remote locations.

INFLATION:

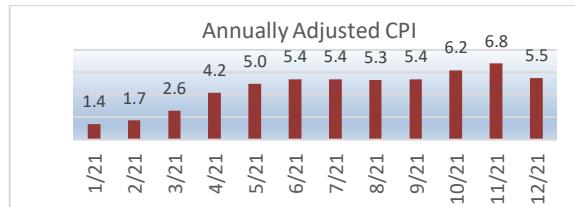
Inflation concerns are causing consumers to diminish savings that were accumulated during the pandemic. For the year 2021, the inflation rate was 7.0%; the highest in over 40 years. The impact on the consumer has seen them once again focusing on price/value purchases which mean restaurants that are sensitive to the consumers demands will be offering "price" focused promotions.

STAFFING ISSUES:

According to the most recent ADP report of February 2, 2022 companies cut 301,000 jobs for the month; a marked contrast to the job growth of 807,000 in December. From our conversations with operators, staffing levels for January were 80-95% full. In the recently released Jobs Report (2/4/22), Non-farm payrolls rose 467,000 in January, well ahead of the 150,000 Wall Street estimates (BLS). (What's going on??) What also helped supply and labor issues has been reduced menus and adjusted hours of operations (including Dining-In of limited seating/limited hours).

ECONOMIC NEWS (BREAKDOWN):

- CPI/Inflation Rate - Annualized 5.5%
- Commodities wholesale prices for 2021 rose 14.0%
- Unemployment (Jolt Report) 3.9%
- Food at Home Index rose 6.5%
- Food Away From Home Index rose 6.0%



SOURCE: TRADINGECONOMICS.COM US Bureau of Labor Statistics

WHOLESALE COMMODITIES UPDATE		January 2022	December 2021
Beef		\$3.30	\$3.80
Dairy		\$2.14	\$1.89
Pork		\$2.76	\$3.54
Poultry		\$2.67	\$2.52
Produce		\$17.75	\$21.50
Seafood		N/A	N/A
Chicken Wings		\$2.51	\$2.60
Thighs		\$0.47	\$0.63
Basket (limited)		\$4.51	\$5.21

SOURCE: Commodities: USDA / Gasoline: AAA

Total Wholesale Basket was down 70¢ primarily due to the result of much lower produce, pork, and poultry costs in January. Wholesale prices declined slightly in January; However, for year 2021, prices rose 14.0%.

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

Gasoline prices rose 8¢ per gallon in January 2022.

RETAIL COMMODITIES UPDATE		January 2022	January 2021	December 2021
Ground Beef		\$6.31	\$5.71	\$6.27
Milk		\$3.74	\$3.53	\$3.67
Bacon		\$7.21	\$5.83	\$7.27
Bread		\$1.53	\$1.53	\$1.55
Coffee		\$4.52	\$4.97	\$4.82
Whole Chicken		\$1.60	\$1.62	\$1.58
Eggs		\$1.78	\$1.48	\$1.72
Potatoes		\$0.78	\$0.75	\$0.77
Basket		\$3.43	\$3.18	\$3.46

Restaurant Industry Summary // January 2022

▪ **OPERATORS:**

- Current Month Sales (nationally):
 - 89.0%  Increase over last year
 - 11.0%  Decrease over last year
- Current Traffic:
 - 75.0%  Increase over last year
 - 9.0%  Decrease over last year
- Future Outlook for Business Conditions over the next 6 mos.
 - 67% expect business conditions to worsen
- Future Outlook for Sales:
 - 65.0%  Increase over last year
 - 26.0%  Worse than LY

○ Margins Impact:

- 96.0%  Reported food cost increase (rose 14.0% YOY)

○ Menu Prices:

- 95.0%  Higher than LY
- Menu prices increased 6.5% over last 12 months

○ Staffing Issues:

- 84.0%  Fully Staffed
- 16.0%  Understaffed

○ Top Concerns:

- Inflation
- Recruiting/retaining quality employees
- Covid

The most recent NFIB Survey findings show a slight increase in operator optimism; possibly driven by improvements in recruiting thus filling staffing gaps – all labor categories improved. Profits were down and material and labor costs increased.

▪ **NFIB Monthly Survey Summary:**

- Optimism Index increased 5 pts.
- 49% reported job openings that could not be filled.
- 39% have openings for skilled workers.
- 22% have openings for unskilled workers.
- 52% reported no qualified applicants for positions.
- 48% reported increasing compensation
- 66% reported lower profits over the last 6 months.
- 70% reported increasing retail prices.
- 29% reported increasing capital spending plan.
- 85% reported increasing wholesale prices.

▪ According to the recent survey conducted by the National Restaurant Association (December 2021):

- 88% of restaurants experienced a decline in customer demand for indoor dining because of the Omicron Variant.
- 78% stated business conditions are worse now than 3 months ago.
- 74% stated they are less profitable now than before the pandemic.

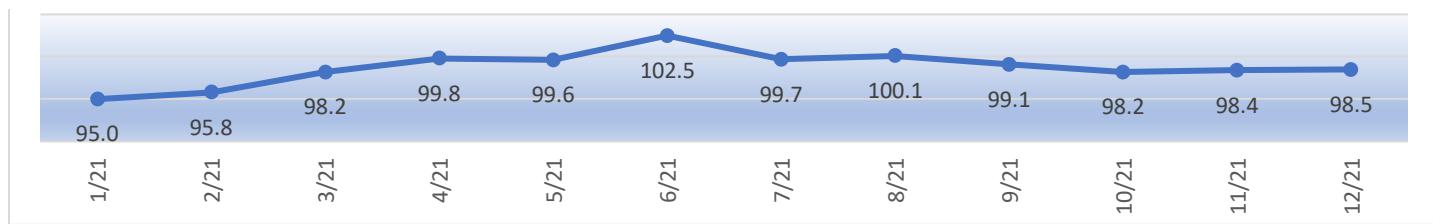
When comparing SSS to 2019, operators reported the following. By segment:

	CURRENT MONTH		LAST MONTH	
	Higher	Lower	Higher	Lower
QSR	70%	20%	87%	13%
Fast Casual	71%	14%	67%	0%
Casual	24%	65%	48%	43%
Fine Dining	21%	65%	40%	60%

SSS 2-Year Comparison (Higher)

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

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



RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

		5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21
	RESTAURANT PERFORMANCE INDEX	105.5	105.6	105.2	104.2	102.9	104.5	104.8	104.8
CURRENT SITUATIONS									
	SSS Increase/Decrease	95%/5%	84%/16%	85%/15%	73%/11%/16%	76%/24%	85%/11%	86%/7%	89%/11%
	Capital Spending	68%	72%	73%	63%	59%	62%	75%	48%
EXPECTATIONS:									
	Sales Outlook Improvement	75%	75%	71%	53%	47%	50%	59%	67%
	Economy Outlook Improvement	74%	68%	32%	36%	16%	30%	37%	40%

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

Consumer Sentiment	76.9	80.7	84.9	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6	67.2
Current Economy	87.0	90.0	87.7	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2	72.0
Consumer Expectations	70.5	74.6	73.8	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3	64.1

- **Top Concerns of Consumers:** (source: Univ. of Michigan and CRRC Survey)
 1. Financial concerns – 88% (inflation/economy in general)
 2. Government – 72% (wrong direction)
 3. Healthcare/Covid – 35%
 4. Immigration – 22%
- According to the latest report from the Federal Reserve, Data Credit Card use soared in November to over \$40 Billion – a strong indicator of online shopping trend.
- As holiday bills became due in January and prices of goods and services continued to increase, consumers concerns over inflation took a significant jump. This was the primary influence in their 3.4 drop in sentiment and 4.2 drop in expectations.

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

SOURCE: Gallup Poll

THE MONTHS AHEAD ...

Due to the barrage of issues facing the consumer and business operator, ranging from inflation to Covid variants to winter weather, we foresee:

- The consumer aggressively seeking price/value (discounts/bargains, etc.) as a priority in shopping. Once again this will drive operators to launch multiple LTOs – some new, others with unique “pricing”, bundles, etc. and continue to push Loyalty offering campaigns with enticing rewards (i.e. a spike in Loyalty program enrollments).
- Off premise sales channels (Drive Thru, Take-Out and Delivery) will maintain a critical role in restaurant sales. Off premise isn’t going anywhere. Delivery will morph into a new model featuring more aggressive discounts to restaurant operators, a new model Ghost Kitchen featuring Delivery and Take-Out, and operators will improve on their blended model of In-House and Third Party Delivery options.
- (A reminder that during the height of Covid, we published a special report on the consumers opinion on Delivery. Price was not their top concern; delivery time was. The consumer wanting delivery was accepting of a 25-35% price increase for delivery (excluding QSRs); but were intolerant of delays greater than 40 minutes.) A copy of this report is available for free upon request.

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