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FAST CASUAL

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INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS

HEADLINE NEWS:

- President states Americans need to be prepared for food shortages due to the Ukraine war.
- Supply Chain disruptions rise sharply again in March.

ECONOMIC HEADLINES:

- Inflation concerns have taken over as the top issue for consumers and operators. This is compounded by apprehension over the Ukraine war's potential impact.

OPERATOR HEADLINES:

- 48% believe economic recovery to pre-Covid levels won't happen until 2023 or later. Staffing, supply availability, and rising cost of goods are the top concerns.

CONSUMER HEADLINES:

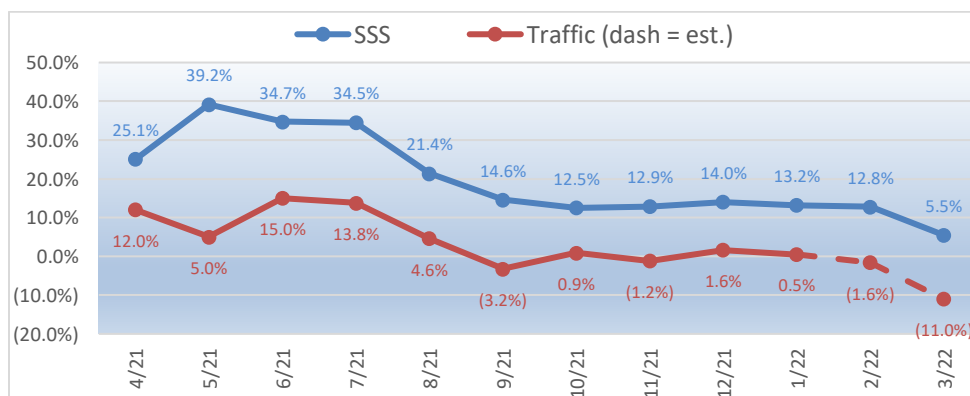
- Consumer Sentiment is at one of the lowest levels in 40 years driven by record high inflation and consumers' expectations that their personal financial situations will get worse throughout 2022.

SUPPLY CHAIN HEADLINES:

- Supply Chain issues showed signs of improving at the beginning of March but worsened as the month progressed; primarily the result of multiple businesses collaborating together. But the Ukraine war brings new concerns.

SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS +5.5%
Industry avg. Traffic <11.0%> (estimated)



Please see Page 27 for Important Disclosure

NATIONAL NEWS:

- **President Biden speaking to reporters at NATO HQ in Brussels on Thursday 3/24/22 warning Americans a food shortage is coming.** Citing the war between Russia and Ukraine as the cause, in addition, the sanctions being imposed on Russia. Specifically, he mentioned shortages of fertilizer which impact all aspects of the food chain and shortages/higher prices for fuel supply (includes gasoline and home heating fuel).

A critical portion of the world's wheat, corn, barley, and fertilizer is trapped in Russia and Ukraine because of the war. Since the invasion, wheat prices have increased 21%, barley 13%, and fertilizer 40%.

OUR TAKE: The food supply chain challenges have been compounded in recent years due to the impact from the pandemic, shopping constraints, overworked supply chain, high energy costs, and recent weather situations (droughts, floods and fires). In addition, staffing issues have been at every step along the process – from farm to table.

SUPPLY CHAIN NEWS:

- **Supply Chain Issues** – While universally the supply chain is continuing to struggle with all of its many challenges, there are pockets of progress being made to improve the current quandry.
 - During March:
 - South Carolina ports opened container terminals on weekends (but not 24/7).
 - Several ports delay import dwell fees. This will help reduce the rising cost of container delivery fees to the end customers. (Currently fees are \$13,000 to \$18,000 since Covid. Prior to Covid, fees ranged from \$1,400 to \$2,200.)
 - J.B. Hunt (Trucking Company) signed an agreement with BNSF (largest freight railroad network in North America) to grow intermodal capacity; thus, increasing efficiencies at rail terminals. BNSF owns several large properties in Southern California, Chicago, and other major markets which will now be available as holding lots to relieve the congestion at the ports.

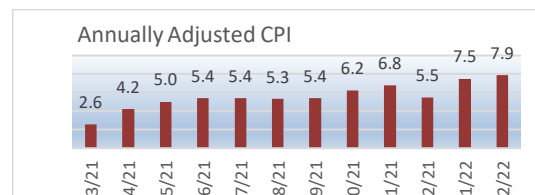
However, at the restaurant/grocery store levels an unexpected rise in product shortages reappeared. At restaurants: RRGB (Red Robin) had problems procuring Brisket products for their new promotional Burger. Most other chains experienced difficulty in sourcing paper products to unable to procure many less popular menu item ingredients. This created new concerns about availability in the coming months.

ECONOMIC NEWS AND (BREAKDOWN):

- **Inflation – annualized inflation rate has risen to 7.9% in February 2022; the highest level since January 1982.** Energy remains the biggest contributor at 25.6% in February (27% in January) with gasoline prices surging 38%. Food has risen 7.9% - the highest since July 1981.

OUR TAKE: The ongoing war in the Ukraine, coupled with the ongoing supply chain constraints, strong consumer demand, and staffing issues will probably cause inflation to remain on its current trajectory for a while longer; at least through QTR-3 2022 (provided there are no other unforeseen challenges). However, the impact on higher prices for everything is beginning to influence some consumer groups buying patterns now (price shopping and less visits to restaurants). This will only get worse for the lower income/lower middle income group if prices and scarcity continue to rise.

- CPI/Inflation Rate (Annualized)
 - Commodities wholesale prices rose YOY 7.9%
 - Unemployment (Jolt Report) 10.0%
 - Food at Home Index rose 3.8%
 - Food Away From Home Index rose 8.6%
 - Food Away From Home Index rose 6.8%



SOURCE: TRADINGECONOMICS.COM US Bureau of Labor Statistics

WHOLESALE COMMODITIES UPDATE	March 2022	March 2021
Beef	\$3.51	\$2.14
Dairy	\$2.43	\$1.79
Pork	\$3.50	\$2.24
Poultry	\$2.80	\$1.83
Produce	\$15.50	\$16.75
Seafood	N/A	N/A
Chicken Wings	\$2.05	\$3.69
Thighs	\$0.53	\$0.56
Basket (limited)	\$4.33	\$4.14

SOURCE: Commodities: USDA / Gasoline: AAA

The USDA announced in their 2022 Commodity Outlook Report that all sectors will be dependant on Spring weather and anticipate a year of moderate to strong growth with relatively strong prices; especially in the dairy and livestock sectors, as labor and shipping logistics continue to challenge the sectors.

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	2/22	3/22
2.87	2.9	3.04	3.09	3.17	3.19	3.18	3.38	3.41	3.29	3.37	3.92	4.24/LA 6.03

RETAIL COMMODITIES UPDATE	March 2022	March 2021	February 2022
Ground Beef	\$5.20	\$4.56	\$6.17
Milk	\$3.88	\$3.37	\$3.79
Bacon	\$7.10	\$5.78	\$7.22
Bread	\$1.58	\$1.53	\$1.56
Coffee	\$5.25	\$4.67	\$5.14
Whole Chicken	\$1.63	\$1.58	\$1.62
Eggs	\$2.01	\$1.60	\$1.92
Potatoes	\$0.80	\$0.76	\$0.79
Basket	\$3.43	\$2.98	\$3.52

As grocery store prices continue to rise, consumers are switching to price value shopping – higher coupon usages / stores with lower prices – such as Wal-Mart, etc.

OPERATOR NEWS (BREAKDOWN):

OPERATORS:

- Current Month Sales (nationally):
 - 82.0% ↑ Increase over last year
 - 16.0% ↓ Decrease over last year
- Current Traffic:
 - 65.0% ↑ Increase over last year
 - 25.0% ↓ Decrease over last year
- Future Outlook for Business Conditions over the next 6 mos.
 - 29% expect business conditions to be better
 - 42% expect business conditions to worsen
- Future Outlook for Sales:
 - 61.0% ↑ Increase over last year
 - 21.0% ↑ Worse than last year
- Capital Spending:
 - 69.0% ↑ Made expenditures in last 3 months
 - 33.0% ↓ Expanded
- Future Spending Plans:
 - 69.0% ↑ Plan equipment
 - 49.0% ↓ Plan expansion
- Margins Impact:
 - 91.0% ↓ Reported food cost increase (rose 8.2% YOY)
- Menu Prices:
 - 93.0% ↑ Higher than LY
 - Menu prices increased 7.6% over last 12 months
- Staffing Issues:
 - 88.0% ↑ Fully Staffed
 - 12.0% ↓ Understaffed
- Top Concerns:
 - 67.0% Food costs/availability
 - 40.0% Recruiting/retaining quality employees
 - 38.0% Gas and energy prices

Restaurant Industry Summary Report // March 2022

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

	CURRENT MONTH		LAST MONTH	
	Higher	Lower	Higher	Lower
QSR	67%	33%	57%	29%
Fast Casual	86%	14%	50%	25%
Casual	48%	52%	36%	59%
Fine Dining	22%	78%	20%	80%

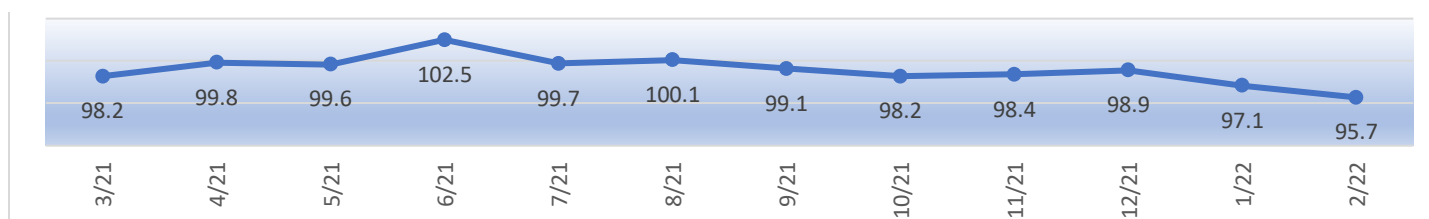
SSS 2-Year Comparison (Higher)

	August 2021	September 2021	October 2021	November 2021	December 2021	January 2022	February 2022	March 2022
QSR	64%	75%	67%	70%	87%	70%	57%	67%
Fast Casual	50%	50%	71%	65%	67%	71%	50%	86%
Casual	75%	47%	56%	56%	48%	24%	36%	48%
Fine Dining	50%	38%	32%	32%	40%	21%	20%	22%

In March, SSS trends slowed across most brands but definitely all sectors. There are many interacting parts contributing to this slow down. The obvious – going up against tough comparisons (but this doesn't explain the slow down). The real answer lies in:

- The slow down in consumer spending.
- Unfavorable weather in early March in the South and Northeast.
- Record high gas prices.
- Overall – inflation.
- Lagging income tax refunds.
- Higher menu prices at restaurants.

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



Optimism Index decreased by 1.4 points. Majority of small business owners listed inflation as the single most important problem they are encountering in operating their business. Only 35% expect business conditions to be good over the next 6 months.

A sudden spike in Supply Chain issues – product availability, that began mid-month was another factor impacting operator optimism.

RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

		7/21	8/21	9/21	10/21	11/21	12/21	1/22	2/22
	RESTAURANT PERFORMANCE INDEX	105.2	104.2	102.9	104.5	104.8	104.8	103.2	103.8
	CURRENT SITUATIONS								
\$	SSS Increase/Decrease	85%/15%	73%/11%/16%	76%/24%	85%/11%	86%/7%	89%/11%	73%/21%	82%/16%
	Capital Spending	73%	63%	59%	62%	75%	48%	57%	69%
	EXPECTATIONS:								
\$	Sales Outlook Improvement	71%	53%	47%	50%	59%	67%	55%	61%
	Economy Outlook Improvement	32%	36%	16%	30%	37%	40%	61%	29%

Restaurant Industry Summary Report // March 2022

New chart covering customer NPS Scores and employee input on corporate culture and review ranked by highest NPS score to lowest. This data was assembled from Comparably.com which conducts annual surveys on all major industries and companies. Data from this report was completed in March 2022.

We believe this data to be of high value as it reveals the current employees' attitudes about their workplace as well as providing a sense of how customers currently view a chain.

BRAND	NPS SCORE		EMPLOYEE RANKINGS	
	Promoters	Detractors	Culture	Favorable Review
CMG	58%	21%	4.6/A+	88%
SBUX	45%	30%	4.5/A-	82%
DPZ	44%	33%	4.3/A-	89%
KFC	39%	43%	3.5/C	72%
LONGHORN	39%	45%	3.4/C	67%
RRGB	37%	46%	3.0/C-	65%
CHUY	36%	55%	2.4/D-	40%
IHOP	35%	54%	2.8/D-	60%
OLIVE GARDEN	35%	47%	3.3/C	69%
PIZZA HUT	34%	46%	3.1/C-	64%
CHILI'S	33%	52%	3.1/C-	62%
TACO BELL	33%	49%	3.0/C-	67%
WEN	33%	48%	3.1/C-	65%
MCD	32%	45%	3.3/C	67%
APPLEBEE'S	31%	48%	2.8/C-	62%
TACO	28%	59%	2.5/D	60%
BURGER KING	27%	56%	2.6/D	59%
JACK	27%	55%	2.5/D	46%
WINGSTOP	22%	67%	2.3/F	51%
FOR REFERENCE:				
CHICK-FIL-A	81%	10%	4.0/B	77%
IN & OUT BURGER	68%	22%	4.5/A+	88%

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

	4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22	2/22	3/22
Consumer Sentiment	84.9	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6	67.2	62.8	59.4
Current Economy	87.7	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2	72.0	68.2	67.2
Consumer Expectations	73.8	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3	64.1	59.4	54.3

- Consumer Confidence declined again in March as inflation concerns and actual decreases in personal income (buying power) took place. Also impacted was a further decline in belief that the government was willing or even capable of fixing these issues.

Compounding the consumers top concerns is the sharp increase in gasoline and grocery store prices (inflation) but also the gradual, occasional absence of random products occurring at grocery stores and the President warning Americans on 3/24/22 to be prepared for a food shortage. All of this has created a degree of alarm among some consumers.

- A recent survey by Coupon Follow found, on average, consumers would stop using a delivery app if delivery fees reached \$9. (FYI: UberEats has the highest average price mark up of 75%; GrubHub is 66%; DoorDash is 59%.)

OUR TAKE: With consumers increasingly becoming more price sensitive, these high fees could undermine restaurants loyalty customer base as well as their push with new loyalty programs to expand that base.

	March 2022	February 2022	January 2022	December 2021	November 2021	October 2021
Anxious about personal finances/standard of living	83%	82%	73%	45%	25%	72%
Inflation impact on discretionary spending - reduced plans	87%					
Dissatisfied with the way country/government is going	78%	49%	38%	26%		
Health in general/ Covid concerns	46%	44%	56%	41%	13%	36%
Immigration	35%	39%	41%	50%	77%	76%

SOURCE: Gallup Poll

Consumer Comments: Increases in restaurant menu prices are impacting guests' visits. (We mentioned this in our previous report.) Skyrocketing price increases throughout the economy are eroding the consumers' purchasing power forcing consumers to revert to price value shopping as well as reduce frequency of visits.

OUR TAKE – Several Key Influences in March 2022:

- Overall, SSS trends are declining.

A major part of this is the increasing gap between SSS and Traffic. In January 2020 the gap averaged 3 points with SSS at 2.3% and Traffic at <0.7%>. March's gap was 16.5 points; with SSS at 5.5% and Traffic at <11.0%>. This gap is indicative of consumers quietly pushing back on rising prices and deteriorating experiences at restaurants. Consumers are quickly getting to a tipping point.

Initially they were tolerant of rising prices and patient with slower service and incorrect orders. But prices have risen to the extent that their tolerance is questioning their acceptance of below par service and menu items losing their price/value relationship. The industry is getting close to tipping points.

- Inflation –

*Inflation was at 7.9% YOY for February 2022 with all food items (away from home at 7.9% and food at home at 8.4%), energy at 25.6%.

This translates to consumers spending **an extra \$430 per month on the same goods as last year. Inflation is now the consumer's top concern with the latest surveys reporting inflation as the top concern by 87% of the population. Inflation is becoming unstable with many income groups.

*CPI Report

**Bloomberg Report

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