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## COMPANIES MENTIONED IN THIS REPORT:

## CORE COVERAGE

COMPANY	TICKER	PAGE
<b>QSR</b>		
McDonald's	MCD	6
Burger King	BKC	7
Wendy's	WEN	8
Jack in the Box	JACK	9
Popeye's	PLKI	10
KFC	YUM	11
Del Taco	TACO	12
Taco Bell	YUM	13
Pizza Hut	YUM	14
Domino's	DPZ	15
<b>FAST CASUAL</b>		
Chipotle	CMG	16
Starbucks	SBUX	17
Wingstop	WING	18
Noodles & Co.	NDLS	19
<b>CASUAL</b>		
Applebee's	DIN	20
IHOP	DIN	21
Chili's	EAT	22
Chuy's	CHUY	23
Longhorn	DRI	24
Olive Garden	DRI	25
Red Robin	RRGB	26

\*Charts on pages 6-26 “Mean” Source – Company Filings

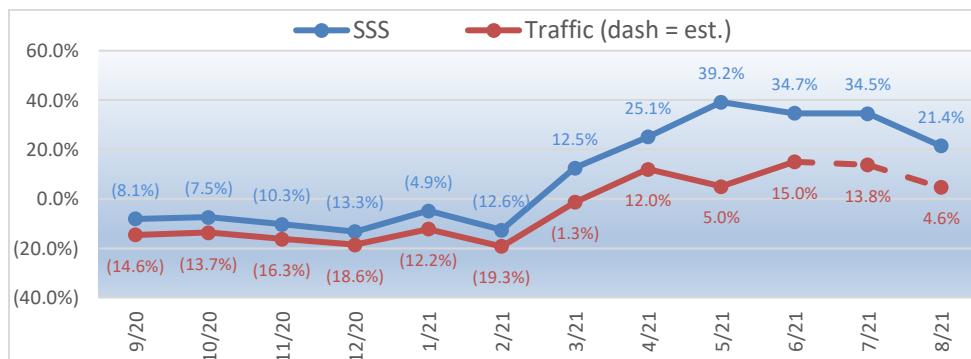
## INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS

## HEADLINE NEWS:

- Covid Delta Variant is impacting consumer confidence
- Inflation soars
- Restaurant industry within one million jobs of pre-pandemic peak (July BLS)
- Plant based foods expected to be 10% of all protein by 2025

## SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS +21.4%  
Industry avg. Traffic +4.6% (estimated)



## ECONOMIC HEADLINES:

- CPI remains high - Annualized 5.4%
- Commodities wholesale prices rose 2.5%
- Unemployment 5.2%

## CONSUMER HEADLINES:

- Confidence takes a big dive.
- Inflation remains top concern.

## OPERATOR HEADLINES:

- Staffing issues ease.
- Delta Variant taking toll.

## CURRENT TRENDS:

- Loyalty Programs across the industry are impacting sales.

Please see Page 27 for Important Disclosure

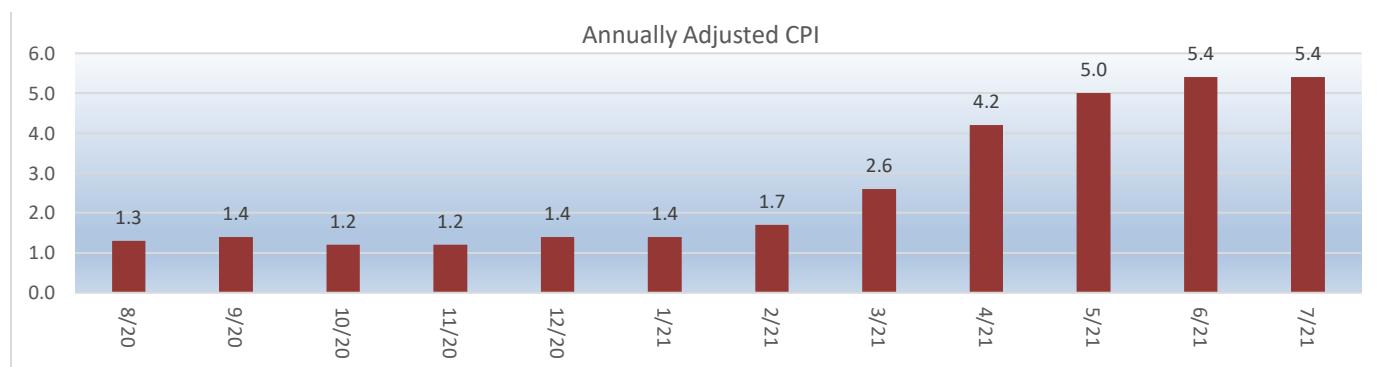
INDUSTRY HEADLINES:

**Delta Variant of Covid** is beginning to impact the economy in various ways. Many consumers are not so eager to engage in social contact showing down and even falling back to earlier attitudes during height of Covid lockdown. Several businesses are re-imposing Mask Mandates for employees and beginning October 1 WalMart will require customers to once again wear masks. What it is doing to the restaurants in many cases is causing customers to pull back to off premise channels for dining (return to Drive Thru/Delivery/Pick-Up) and if a restaurant requires proof of vaccine an average of 30% of customers will cancel reservations and dine elsewhere. Overall, it is adding caution, doubt and confusion; all just adding to a consumer that's exhausted from the Covid Crisis and wants life to return to some sense of normalcy.

An additional impact on the restaurant industry, according to the Bureau of Labor Statistics, the industry cut 44,000 jobs in August due to overall slowdown in sales which was caused in part by the resurgence of the Covid Virus Delta Variant.

ECONOMIC NEWS HEADLINES:

**Inflation** – Annually adjusted CPI remains high at 5.4% in July according to the Bureau of Labor Statistics and has been rising steadily since March of this year (see chart).



SOURCE: TRADINGECONOMICS.COM US Bureau of Labor Statistics

Several key factors are causing this escalation in inflation. Supply chain bottlenecks, extraordinarily high consumer demand as the Covid crisis eases and the economy begins to reopen. Increase in the money supply (too many dollars chasing too few goods).

WHOLESALE COMMODITIES UPDATE	August 2021	July 2021
Beef	\$3.20	\$3.15
Dairy	\$2.04	\$1.98
Pork	\$4.31	\$2.83
Poultry	\$2.85	\$2.87
Produce	\$18.25	\$19.00
Seafood	N/A	N/A
Chicken Wings	\$3.16	\$3.19
Thighs	\$0.64	\$0.61
Basket (limited)	\$4.92	\$4.80
Gasoline – National Average	\$3.19/Gal	\$3.17/Gal

SOURCE: Commodities: USDA / Gasoline: AAA

Total Wholesale Basket prices rose 2.5% in August. Issues within the supply chain, inflation, and demand continue to impact prices. In their August report, the USDA predicted wholesale commodity prices to increase in 2021:

- Beef 14-17%
- Dairy 0-2%
- Pork 18-21%
- Poultry 19-22%
- Vegetables <18-15%>

Gasoline national average increased 2 cents per gallon in August. Gas prices have been steadily increasing over the last 6 months. With Labor Day weekend, prices are expected to be the highest in seven years (gasoline per gallon prices in 2015 were \$2.40/gal) and 90 cents per gallon higher than Labor Day weekend 2020. While higher prices are expected, demand has steadily been slowing due to the Delta Variant of Covid sweeping the country causing many consumers to cut back driving/vacation plans.

RETAIL COMMODITIES UPDATE	July 2021	July 2020
Ground Beef	\$6.08	\$6.05
Milk	\$3.62	\$3.25
Bacon	\$6.86	\$5.77
Bread	\$2.10	\$2.14
Coffee	\$4.56	\$4.53
Whole Chicken	\$1.44	\$1.71
Eggs	\$1.64	\$1.40
Potatoes	\$0.78	\$0.85
Basket	\$3.38	\$3.21

According to the CPI, food prices rose 0.7% in July and is expected to continue rising for the remainder of 2021.

**Unemployment:**

(1) **The Employment Situation:** Total USA unemployment stands at 5.4% at the end of July (most recent report). Job growth continued at a healthy pace adding a net 943,000 jobs according to the Bureau of Labor Statistics (BLS). Notable job gains occurred in leisure, hospitality and business services. Unemployed persons fell to 8.7 million (5.4%), well above levels prior to the Covid crisis of 5.7 million (3.5% February 2020). The number of job openings increased to 10.1 million with the quit rate increasing to 2.7%.

**Our Take:** The trajectory is positive in filling employment vacancies; but there are strong indications that the new Covid Delta Variant will slow this improvement down.

(2) **Restaurant Industry Employment Situation:** The rebuilding of the restaurant workforce continued in July, as robust consumer demand bolstered the industry's need for employees. Eating and drinking places added a net 253,200 jobs in July according to preliminary data from the BLS. That was the strongest increase since February (335,500), and represented the third consecutive month with gains above 200,000. For context, prior to the Coronavirus pandemic, the restaurant industry had never added over 100,000 jobs in a single month. In total, during the first seven months of 2021, eating and drinking places added a net 1.3 million jobs. That brought the sector within one million jobs of returning to its pre-pandemic employment level of 12.3 million.

**Definition of Net Change in Employment:** Large numbers of hires and separations occur every month throughout the business cycle. Net employment change results from the relationship between hires and separations. When the number of hires exceeds the number of separations, employment rises, even if the hires level is steady or declining. Conversely, when the number of hires is less than the number of separations, employment declines, even if the hires level is steady or rising.

Over the 12 months ending in June, hires totaled 72.1 million and separations totaled 65.2 million, yielding a net employment gain of 6.9 million. These totals include workers who may have been hired and separated more than once during the year.

**BRAND NEWS:**

**PREDOMINANT SALES DRIVING INITIATIVES AMONGST ALL BRANDS FOR THE MONTH:**

▪ Value/Discounts	88%	▪ Off premise	42%
▪ Digital/Loyalty	86%	▪ Messaging	29%
▪ Menu Innovation	71%		

- **July top performers:** Chipotle, KFC, Taco Bell
- **July bottom performers:** Pizza Hut, Popeyes, Del Taco, Wendy's
- **Most improved:** Chuy's, Noodles, Starbucks

**AUGUST OUTLOOK:**

- **Brands we expect to out-perform Industry/Peers:**  
Applebee's  
Chipotle  
McDonald's  
Noodles  
Starbucks  
Taco Bell
- **Brands we expect to under-perform Industry/Peers:**  
Burger King  
Pizza Hut  
Red Robin  
Wendy's

▪ **OPERATORS:**

- **Current Month Sales:**
  - 85.0%  Increase over LY
  - 15.0%  Decrease over LY mainly limited service
- **Current Traffic:**
  - 80.0%  Increase over last year
  - 20.0%  Decrease over last year
- **Future Outlook for Business Conditions over the next 6 mos.**
  - 32% expect business conditions to improve
- **Future Outlook for Sales:**
  - 71.0%  Increase over last year
- **Margins Impact:**
  - 89.0%  Reported food cost increase (rose 6.5% YOY)

○ **Menu Prices:**

- 77.0%  Higher than LY
- Menu prices increased 4.4% over last 12 months

○ **Staffing Issues:**

- 35.0%  Fully Staffed
- 65.0%  Understaffed
- 49.0%  Job openings not filled
- 39.0%  Reported raising compensation

○ **Top Concerns:**

- 92% Hiring/retaining employees
- 78% Increasing food and labor costs
- 73% Inflation
- 72% Negative impact from Delta Variant of Covid

Based on a consensus from conversations with operators, data from the NFIB Survey, and National Restaurant Association's Monthly Survey, SSS increased both over 2020 and 2019. Traffic increases were also positive; both indicators of the improving health of the restaurant industry. Overall, compared to July there were improvements with staffing issues as more operators reported being fully staffed (up 9 points). However, the damper to this good news was operators increased the number of staff needs due to the higher volume in sales ending the "job openings not filled" category.

The most notable change in this report was the drop in operator optimism. The Optimism Index from the NFIB dropped 2.8 points. The components making up this drop were the Uncertainty Index decreased 7 points, overall business conditions expectations declined 8 points and the increase in unfilled job openings all impacted the decline. Coupled with this, the National Restaurant Association Survey found only 32% of operators expect economic conditions to improve in the next 6 months; down sharply from the last report.

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

	CURRENT MONTH		LAST MONTH	
	Higher	Lower	Higher	Lower
QSR	61%	29%	53%	47%
Fast Casual	50%	50%	72%	28%
Casual	75%	25%	55%	45%
Fine Dining	50%	50%	80%	20%

Most operators reported their 2021 sales exceeded 2019 levels.

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



**RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)**

		12/20	1/21	2/21	3/21	4/21	5/21	6/21	7/21
	<b>RESTAURANT PERFORMANCE INDEX</b>	98.6	99.1	100.1	105.1	106.3	105.5	105.6	105.2
<b>CURRENT SITUATIONS</b>									
	SSS Increase/Decrease	17%/83%	29%/71%	73%/27%	77%/23%	97%/3%	95%/5%	84%/16%	85%/15%
	Capital Spending	45%	51%	53%	58%	74%	68%	72%	73%
<b>EXPECTATIONS:</b>									
	Sales Outlook Improvement	54%	59%	63%	78%	77%	75%	75%	71%
	Economy Outlook Improvement	60%	56%	66%	69%	64%	74%	68%	32%

**CONSUMER SENTIMENT**

	9/20	10/20	11/20	12/20	1/21	2/21	3/21	4/21	5/21	6/21	7/21	8/21
<b>Consumer Sentiment</b>	78.1	72.5	74.1	80.4	81.8	76.9	80.7	84.9	82.9	85.5	81.2	70.3
<b>Current Economy</b>	82.1	82.8	82.9	87.8	85.9	87.0	90.0	87.7	89.4	88.6	84.5	78.5
<b>Consumer Expectations</b>	72.3	65.9	68.5	75.6	79.2	70.5	74.6	73.8	78.8	83.5	79.0	65.1

SOURCE: University of Michigan Sentiment Poll

**Consumer Concerns:**

	August 2021	July 2021
New Covid Delta Variant	26%	12%
Government	16%	17%
Immigration	11%	8%
Economy	8%	6%

SOURCE: August 24, 2021 Gallup Poll

Consumer Sentiment Index fell by 10.9 points from July according to the Michigan Consumer Survey. This is the worst one-month drop in more than a decade according to Richard Curtin, Chief Economist. From Gallup's August 24, 2021 Consumer Satisfaction Survey, concerns over the surging Delta Variant has risen to the top concern. From both surveys, it is clear to see that consumers reactions to several elements (surge in new Covid cases, higher inflation – thinks costing more; especially food at grocery stores and restaurants, and the slowing of wage growth) are creating the situation where consumers are beginning to pause on spending plans and the resulting blow to their hopes of the crisis ending and lives returning to normal.

Additionally, The National Restaurant Association conducted a survey in August to assess the ongoing economic impact of the Covid crisis. Below are the key findings:

- 60% of those surveyed changed their restaurant usage as a result of the Delta Variant. Of those:
  - 37% switched to Take-Out or Delivery from dining in.
  - 19% chose to sit outside.
  - 19% completely stopped going to restaurants in August.
  - 9% cancelled previous reservations.
- 30% stated they would be less likely to go to a restaurant that required masks.
- 30% stated they would be less likely to go to a restaurant if proof of vaccine were required.

Conclusion: Consumers are weary from the impact of the Covid crisis and subsequent lockdowns, disruptions to their daily lives and income. They still want to "get out" and probably will but with a re-awakening of the Covid safety protocols back in place and caution with slower willingness for social contact.

Inflation has put pressure on living standards at a greater pace than the last 15 plus years and is causing consumers to pause their spending plans for discretionary purchases.

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