

**AUTHOR:**

**Steve Crichlow**

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	+34.7%
Industry avg. Traffic	+15.0% (estimated)

- **June top performers:** Burger King, Chipotle, Del Taco, McDonald's, Starbucks, Wendy's
- **June bottom performers:** Jack in the Box, KFC, Popeyes
- **Most improved:** Burger King, Noodles, Starbucks

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

- **CONSUMERS:**
  - Confidence rose 2.6 points; venturing out has raised optimism
- **OPERATORS:**
  - Optimism decreased 0.2 points driven by labor shortage and inflation
- **SUPPLY CHAIN:**
  - Protein prices continue to spike; Supply Chain is facing shortages

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

- Labor shortage continues to be major problem.
- Quit Rate highest since 2000.
- Rising food costs with price surge of 5%; highest in 13 years.

**PREDOMINANT SALES DRIVING INITIATIVES FOR MONTH:**

▪ Off premise	95%	▪ Off premise	40%
▪ Menu innovation	43%	▪ Value/Discounts	28%
▪ Digital/loyalty	43%	▪ Messaging	24%

**JULY OUTLOOK:**

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>▪ <b>Brands we expect to out-perform Industry/Peers:</b></li> </ul> <p>Burger King<br/>Chipotle<br/>Del Taco<br/>McDonald's<br/>Noodles</p> | <ul style="list-style-type: none"> <li>▪ <b>Brands we expect to under-perform Industry/Peers:</b></li> </ul> <p>Chuy's<br/>Popeyes<br/>Red Robin</p> |
|--|--|

Please see Page 26 for Important Disclosure

**CONSUMERS – OUR TAKE FOR JUNE 2021:**

	7/20	8/20	9/20	10/20	11/20	12/20	1/21	2/21	3/21	4/21	5/21	6/21
<b>Consumer Sentiment</b>	71.8	72.3	78.1	72.5	74.1	80.4	81.8	76.9	80.7	84.9	82.9	85.5
<b>Current Economy</b>	74.3	82.3	82.1	82.8	82.9	87.8	85.9	87.0	90.0	87.7	89.4	88.6
<b>Consumer Expectations</b>	70.1	65.9	72.3	65.9	68.5	75.6	79.2	70.5	74.6	73.8	78.8	83.5

SOURCE: University of Michigan Sentiment Poll

Consumer Sentiment rose in June. From the response, consumers seem to be more upbeat on short-term expectations. But from our perspective, their overall consumer outlook is very fragile. As indicated in the fluctuating responses this year. June’s gains are based on consumers gauging current economic conditions.

Summer months tend to bring out a more optimistic view of situations and conditions, along with the overall sense of reprieve to get out of confinement certainly plays a role.

**OPERATORS - OUR TAKE FOR JUNE 2021:**

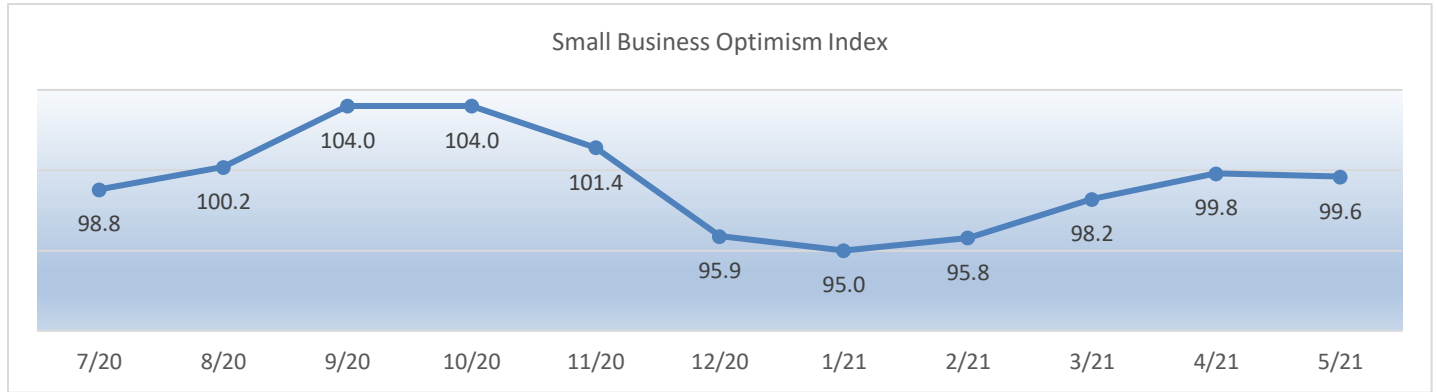
- **OPERATORS:**
  - Current Month Sales:
    - 95.0% ↑ Increase over LY
    - 5.0% ↓ Decrease over LY mainly limited service
  - Current Traffic:
    - 90.0% ↓ Increase over last year
    - 10.0% ↑ Decrease over last year
  - Future Outlook for Business Conditions over the next 6 mos.
    - 75% expect sales to increase in the next 6 months
  - Future Outlook for Sales:
    - 75.0% ↓ Increase over last year
    - 5.0% ↑ Worse than last year
  - Margins Impact:
    - 83.0% ↑ Reported food cost increase (rose 5.2% YOY)
  - Menu Prices:
    - 56.0% ↑ Higher than LY
    - Menu prices increased 2.8% over last 12 months
  - Staffing Issues:
    - 21.0% ↑ Fully Staffed
    - 79.0% ↓ Understaffed
  - Top Concerns:
    - 95% Hiring/retaining employees
    - 75% Increasing food costs
    - 60% New labor/business regulations

Operator Optimism decreased by 0.2 points to 99.6. The labor shortage is holding back sales and other growth plans, as well as inflation which is beginning to impact consumers’ purchases.

When viewing SSS comparisons to 2019, operators reported mixed results. By segment:

- QSR                    91% up  
                              9% down
- Fast Casual        89% up  
                              11% down
- Casual Dining     85% up  
                              15% down
- Fine Dining        99% up  
                              1% down

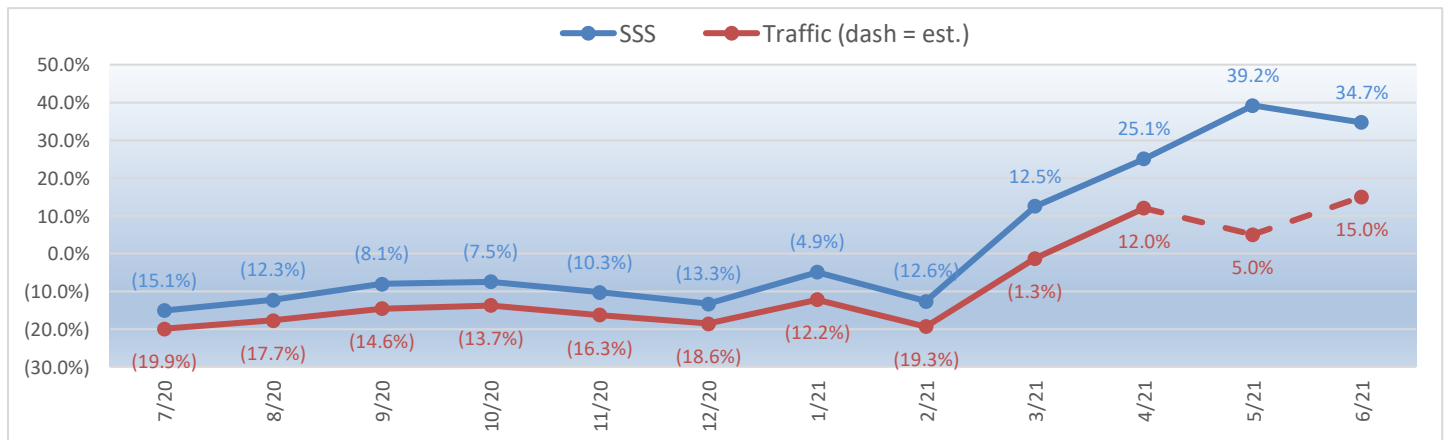
SMALL BUSINESS OPTIMISM INDEX (Source: NFIB and Compass RCR)



RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

		10/20	11/20	12/20	1/21	2/21	3/21	4/21	5/21
	<b>RESTAURANT PERFORMANCE INDEX</b>	98.3	97.5	98.6	99.1	100.1	105.1	106.3	105.5
	<b>CURRENT SITUATIONS</b>								
\$	SSS Increase/Decrease	30%/70%	19%/81%	17%/83%	29%/71%	73%/27%	77%/23%	97%/3%	95%/5%
	Capital Spending	51%	41%	45%	51%	53%	58%	74%	68%
	<b>EXPECTATIONS:</b>								
\$	Sales Outlook Improvement	36%	40%	54%	59%	63%	78%	77%	75%
	Economy Outlook Improvement	33%	51%	60%	56%	66%	69%	64%	74%

SSS AND TRAFFIC: (Source: Compass RCR)



SUPPLY CHAIN – OUR TAKE FOR JUNE 2021:

WHOLESALE COMMODITIES UPDATE	June 2021	May 2021
Beef	\$3.07	\$2.70
Dairy	\$1.79	\$1.90
Pork	\$2.32	\$2.73
Poultry	\$2.77	\$2.44
Produce	\$19.50	\$19.75
Seafood	N/A	\$5.96
Chicken Wings	\$5.92	\$3.25
Basket (limited)	\$5.89	\$5.53
Gasoline – National Average	\$3.09/Gal	\$3.04/Gal

SOURCE: Commodities: USDA / Gasoline: AAA

Total wholesale Basket prices increased 11% in June.

Gasoline national average increased 4 cents per gallon in June. While prices were expected to increase until Labor Day; this increase was higher than expected and created concern that as the Summer continues, the gas prices will go higher than initially expected.

HEADLINES – WHAT WE HAVE HEARD:

**As Summer months advance, the labor shortage issue continues to plague operators.** Not just in the restaurant sector but retail and construction sectors are also experiencing a worker shortage. What’s more alarming is the Quit Rate for the restaurant industry is going through the roof. The Bureau of Labor Statistics reported the Quit Rate for April 2021 was 5.6% or 681,000. This is approximately half of the restaurant industry’s new hires of April’s 1.2 million. With the Quit Rate so high, the restaurant industry will be in a perpetual state of hiring; unlike any other time in the last 21 years. The unfulfilled jobs during the post pandemic period, coupled with a high Quit Rate, will undoubtedly hurt growth of sales and expansion.

The main reason for the high Quit Rate is based on a host of issues stemming from workers’ disenchantment with the jobs in the industry overall. Notwithstanding, there are some operators who are not as encumbered with the struggle to find workers and are operating at near full staffing levels. What are they doing differently? There must be something that works at attracting and retaining employees . . . (more details later).

**Rising food costs is another concern hampering restaurant operators’ optimistic outlook and decision making process.** To raise prices? To reduce menus (again)? To offer new items with lower food costs? The list goes on. This unpredictable situation has no easy solutions as the impact of higher food costs, coupled with the increase in labor costs, will devastate the bottom line.

## **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.