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COMPANIES MENTIONED IN THIS REPORT:

CORE COVERAGE

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INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS

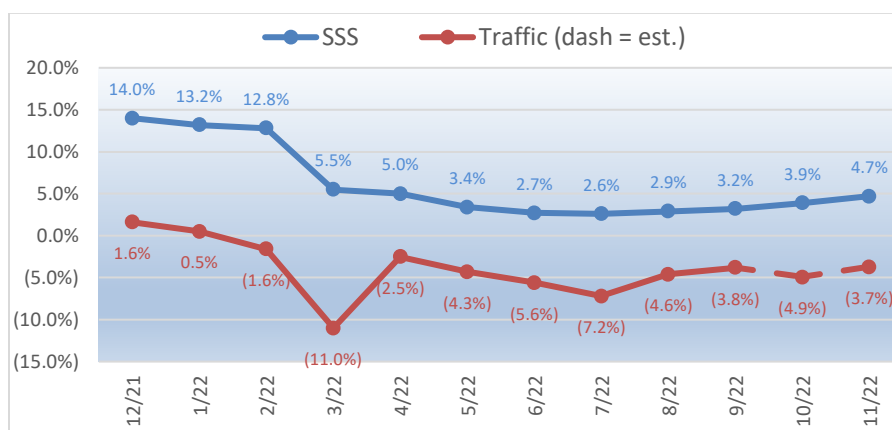
HEADLINE NEWS:

- Majority of Chains are focusing on hiring quality workers; cutting back on others.
- Rail Strike – possibility increases; impact on economy = \$2 billion per day.
- Inflation cooling.
- Black Friday/Cyber Monday sales.

SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS +4.7%
Industry avg. Traffic <3.7%> (estimated)

- Overall SSS grew reflecting price increases and offsetting traffic declines.



BRAND HEADLINES:

- Job market adds more jobs than expected in November (263,000); well above the 200,000 estimates.

ECONOMIC HEADLINES:

- Inflation appears to be slowing.

INDUSTRY HEADLINES:

- Menu price increase – most significant sales driver in November.

COMMODITIES HEADLINES:

- Beyond Meat is launching Beyond Steak – impressive reviews.
- Tech layoffs are good news for restaurant industry.

OPERATOR HEADLINES:

- Optimism Index is the 10th consecutive month below the 49-year average of 98.0.

CONSUMER HEADLINES:

- Inflation remains the top concern across all income groups.

Please see Page 26 for Important Disclosure

INDUSTRY HEADLINES (BREAKDOWN):

- **STAFFING** - There are many headlines about businesses cutting back on hiring in recent months but a deeper look behind the headlines found that is not exactly the case. Specific to the restaurant industry, our research found that: (1) there are now an ample supply of applicants coming in for jobs. So operators have filled the basic staffing needs and have been switching to seeking qualified workers; not just bodies. This translates into more selective hiring thus the speculation that businesses are slowing down hiring. With all the tech industry layoffs, a majority of operators believe this offers an opportunity to upgrade some of their staff to a better quality worker.

Most recent data from the National Restaurant Association reported the national economy added 261,000 jobs in October; lowest in the last 18 months. However, the economy has added 10.8 million jobs in the last 22 months and now total employment stats at 800,000 above pre-pandemic levels. The restaurant industry added just 6,000 jobs in October. An interesting note – the healthcare industry has the highest job openings of any group at 2,096,000.

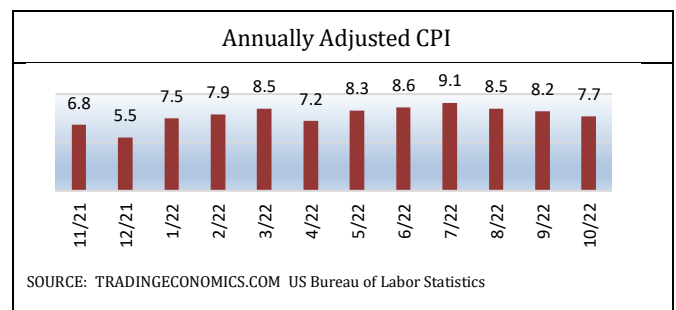
- **RAIL STRIKE UPDATE:** As of 12/1/22 the Senate voted to head off the strike. Bill to block strike was signed by the president.

ECONOMIC NEWS AND (BREAKDOWN):

- **INFLATION:** According to recent data from the BLS: inflation seems to be cooling. Latest report shows inflation stood at 7.7%; down from 8.2% in October and the lowest in 9 months. Major components effected: gasoline down 0.7%, food down 0.3%, electricity was down 1.4%.
- **HOLIDAY SALES:** Black Friday sales were up 12% YOY. Online sales on Black Friday hit \$9 billion; 2.3% higher than last year. Focus was on toys and electronics. Cyber Monday sales were \$11.3 billion. The significance of these sales is verifying the state of today's consumer. They are concerned about inflation but still willing to spend on select items.

- **Economic News (Breakdown) (source: BLS)**
 - CPI/Inflation Rate (Annualized) 7.7%
 - Commodities wholesale prices rose YOY (PPI) 8.0%
 - Unemployment 3.7%
 - Food at Home Index rose 12.4%
 - Food Away From Home Index rose 8.6%
 - S&P 500 Restaurant Index 5.73%
 - Interest Rates – Current Fed 5.0%
 - U-6 Unemployment 8.2%

	Food Away From Home	Food At Home
November 2022	8.6%	12.4%
October 2022	8.5%	13.0%
August 2022	8.0%	13.5%
July 2022	7.6%	13.1%
June 2022	7.7%	12.2%
May 2022	7.4%	11.9%
April 2022	7.2%	10.8%
March 2022	6.9%	10.0%
February 2022	6.8%	8.6%
January 2022	6.4%	7.4%
Full Year 2021	4.5%	3.5%
Full Year 2020	3.4%	3.5%
Full Year 2019	3.1%	0.9%



COMMENTARY ON ECONOMICS:

Several key indicator points to slowing inflation – 7.7%. This is the lowest since January 2022 and below forecasts of 8.0%. There has been 3 consecutive months of a slowdown for the consumer – food, shelter and gasoline prices have all decreased.

According to the USDA, 2023 food prices are expected to grow more slowly at a 3-4% rate. (Broken down: Food at Home 2.5-3.5%; Food Away From Home 4-5%).

Restaurant Industry Summary Report // November 2022

NATIONAL GAS AVERAGE - PER AAA

12/21	1/22	2/22	3/22	4/22	5/22	6/22	7/22	8/22	9/22	10/22	11/22
3.29	3.37	3.92	4.24/LA 6.03	4.12/1.74 2020	4.82	4.87	4.32	3.85	3.67	3.74	3.51

Down 5.7% from October over concerns that protest in China against Covid lockdown will dent demand.

WHOLESALE COMMODITIES UPDATE	November 2022	November 2021
Beef	\$3.11	\$3.06
Dairy	\$2.15	\$2.01
Pork	\$2.54	\$14.29
Poultry Tenders	\$2.78	\$2.55
Produce	\$39.00	\$24.25
Chicken Wings	\$0.76	\$2.77
Thighs	\$1.20	\$0.62
Basket (limited)	\$7.36	\$7.07

SOURCE: Commodities: USDA Market Report

PPI Chart

	2022	2021	2020	2019
JANUARY	10.1	1.6	2.0	1.9
FEBRUARY	10.1	3.0	1.1	1.9
MARCH	10.4	4.1	0.3	2.0
APRIL	11.7	6.5	(1.5)	2.4
MAY	11.2	7.0	(1.1)	2.1
JUNE	11.3	7.6	(0.7)	1.6
JULY	9.8	8.0	(0.3)	1.6
AUGUST	8.7	8.7	(0.3)	1.9
OCTOBER	8.5	8.8	0.3	1.5
NOVEMBER	8.0	8.9	0.6	1.0
DECEMBER		9.9	0.8	1.0
DECEMBER		10.0	0.8	1.4

RETAIL COMMODITIES UPDATE	November 2022	November 2021	October 2022
Ground Beef	\$4.78	\$4.86	\$4.89
Milk	\$4.18	\$3.66	\$4.18
Bacon	\$7.61	\$7.31	\$7.39
Bread	\$1.81	\$1.53	\$1.76
Coffee	\$6.41	\$4.80	\$6.17
Whole Chicken	\$1.86	\$1.53	\$1.89
Eggs	\$3.42	\$1.82	\$2.90
Potatoes	\$0.99	\$0.81	\$1.02
Basket	\$3.88	\$3.29	\$3.78

COMMENTARY ON COMMODITIES:

- **WHOLESALE PRICES:** This impacts restaurant operators Wholesale prices are up 13.2% over last year. Menu prices rose 6.9% YOY. During November we took a deeper dive into the impact of rising food costs on restaurant operators' P&L's. We spoke with operators ranging in size of over 250 units to those with only 1 unit; both chains and independents. Here is our findings and data provided by the National Restaurant Association. Operators of larger unit counts have been better able to weather the rising costs of goods than smaller unit count owners. Typical restaurant with annual sales of \$900,000 – menu price increases of 6.9% = \$962,000. Cost of food and beverage prior to inflation equaled \$297,000 (33.0%). After 17.1% impact of inflation, food and beverage equals \$347,800 (36.2%) or 3.2% increase in costs of food and beverage. Operators at all levels state this increase is unsustainable. Even with raising menu prices, they are falling behind on maintaining profitable margins of 5.0% pre tax income.

COMMENTARY ON COMMODITIES (Continued):

- **RETAIL PRICES:** This impacts consumer grocery store purchases. Once again, we went deeper in our research to gain a better view of how consumers are reacting to higher grocery prices in recent months. Not surprising, purchase amounts and types are significantly impacted by income levels. But a general consensus is all income groups are looking for value. The lower the income the more this plays into grocery purchases. Switching from name brands to store brands, more purchases from warehouse clubs such as Sam's and Costco. Many families in the middle- and lower-income brackets are "sharing" purchases from warehouse clubs to save costs. Trading down on home menu plans, using less expensive cuts of meats vs higher price such as whole chickens and less purchases of Chicken Tenders, etc. and much fewer impulse purchases at grocery stores. If it's not on the list don't buy it.

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

	12/21	1/22	2/22	3/22	4/22	5/22	6/22	7/22	8/22	9/22	10/22	11/22
Consumer Sentiment	70.6	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8
Current Economy	74.2	72.0	68.2	67.2	69.4	63.3	53.8	58.1	58.6	59.7	65.6	58.8
Consumer Expectations	68.3	64.1	59.4	54.3	62.5	55.2	47.5	47.3	58.0	58.0	56.2	55.6

TOP CONCERNS:

Consumer Concerns: Consensus from all major polls rank the following as Consumer top concerns:

Results from November 30, 2022 Gallup Poll:

- 89% The economy
- 70% Crime
- 69% Government policy

Specific categories broken down under the "Economy" heading:

- 79% Price of food and goods
- 65% Cost of housing
- 61% Price of gasoline and energy

Consumer Sentiment fell 5% below October. View of Current Economic conditions was down 6.8 pts and Consumer expectations was down 0.6 pts. The survey also found 60% of all consumers have already scaled back on spending in response to inflation. 19% of all households have made cutbacks of some type on food purchases (for restaurants this is trading down and/or reducing visits.) For grocery store purchases this is trading down on name brand labels to private labels, bulk purchasing and/or trading down on types of menu purchases i.e., whole chickens instead of tenders, etc.

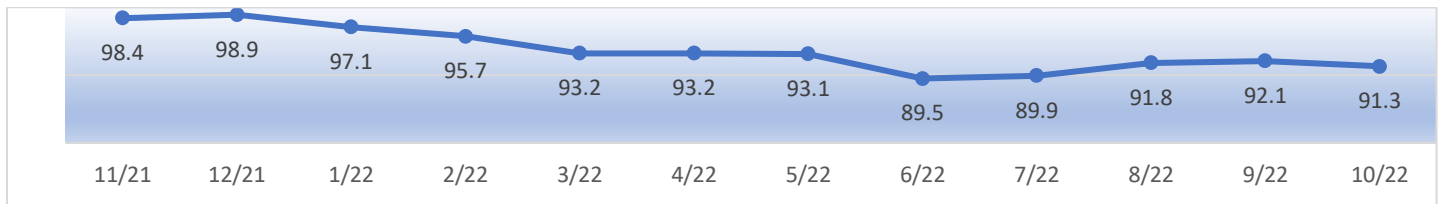
COMMENTARY:

Some observations: (1) Majority of consumers are offering little pushback on higher priced LTO's and new menu items. These items are proving to be very popular. (2) Consumers of all income groups are being weighed down by inflation and its impact on purchasing power which they view as deteriorating. (Hardest hit are lower and fixed income consumers.) Part of the inflation impact are concerns over rising costs to borrow and decline in asset value.

Inflation remains consumers top concern. These concerns are widely shared across demographic groups and income categories.

- **Current Month Sales (nationally):**
 - 63.0% ↑ Increase over last year
 - 26.0% ↓ Decrease over last year
- **Current Traffic:**
 - 40.0% ↑ Increase over last year
 - 43.0% ↓ Decrease over last year
- **Future Outlook for Sales:**
 - 43.0% ↑ More optimistic over last year
 - 17.0% ↓ Less optimistic over last year
- **Margins Impact:**
 - 67.0% ↓ Reported food cost increase
- **Menu Prices:**
 - 97.0% ↑ Higher than LY
 - Menu prices increased 7.8% over last 12 months
- **Staffing Issues:**
 - 90.0% ↑ Fully Staffed (Chains/Independents)
 - 10.0% ↓ Understaffed
- **Top Concerns:**
 - 91.0% Recruiting & Retaining Quality Workers
 - 80.0% Inflation/Economic Conditions
 - 69.0% Food Costs/Product Availability

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



RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

		3/22	4/22	5/22	6/22	7/22	8/22	9/22	10/22
	RESTAURANT PERFORMANCE INDEX	103.8	103.7	102.1	101.3	100.8	100.9	101.0	101.9
	CURRENT SITUATIONS								
\$	SSS Increase/Decrease	82%/16%	75%/10%	63%/24%	64%/22%	45%/47%	47%/27%	51%/28%	63%/26%
	Capital Spending	69%	53%	60%	63%	57%	63%	58%	59%
	EXPECTATIONS:								
\$	Sales Outlook Improvement	61%	63%	49%	48%	35%	57%	38%	43%
	Economy Outlook Improvement	29%	28%	20%	20%	25%	8%	8%	11%

COMMENTARY: 66% of small business owners plan to reduce as much risk as possible in lieu of a likely recession. According to a recent Bloomberg report, 37% of small business owners couldn't pay rent in October. (Small businesses employ almost half of the private sector workforce.) Investments in Supply Chain issues, new or upgraded equipment, etc. are hampered in the current environment. Inflation slowing sales, and Federal Reserve actions at raising interest rates increase the cost of capital and reduces the expected gains from investments. According to the recent NFIB Survey, the 91.3% Optimism Index is the 10th consecutive month below the 49-year average of 98.0.

Further data from the most recent NFIB survey:

- 33% stated inflation was their single most important problem – 3 pts. above last month.
- 46% are expecting better business conditions over the next 6 months.
- 45% reported job openings they could not fill.
- 40% of these openings were for skilled employees
- 54% reported capital outlays in last 6 months; down 2 pts. from previous report.

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