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COMPANIES MENTIONED IN THIS REPORT:

CORE COVERAGE

COMPANY	TICKER	PAGE
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QSR

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FAST CASUAL

Chipotle	CMG	16
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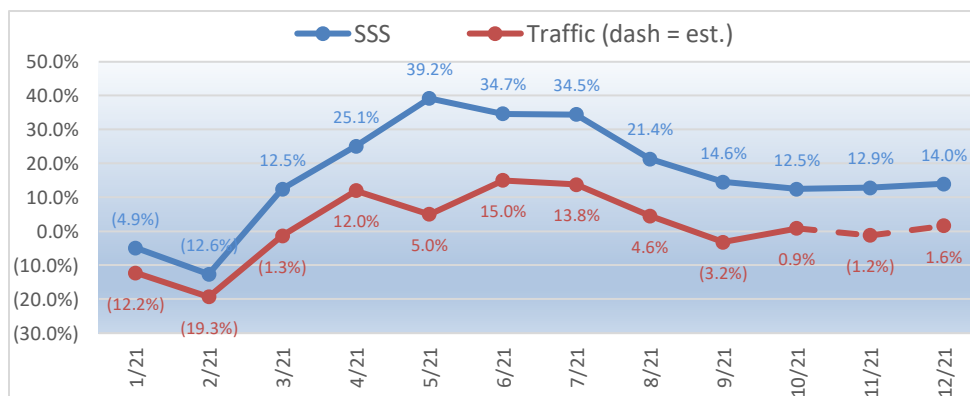
CASUAL

Applebee's	DIN	20
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INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS

SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS +14.0%
Industry avg. Traffic +1.6% (estimated)



ECONOMIC HEADLINES:

- Omicron variant presenting new (old) challenges. Supposed to be a milder form.
- Inflation took a bite out of middle and lower-income consumers – 6.8%

CONSUMER HEADLINES:

- Consumers are not planning on returning to pre-pandemic dining habits.
- Consumers overall confidence improved; but outlook for lower and middle-income bracket on personal finances declined.

OPERATOR HEADLINES:

- New Covid surge causing restaurants to close dining rooms, cancel reservations as new cases rise both among staff and diners.
- Operator optimism improved – then it didn't.

SUPPLY CHAIN HEADLINES:

- Restaurant operators/suppliers meet to tackle issues.
- Restaurant issues were more manageable but grocery and retail were worse.

JOB MARKET:

- The economy registered its smallest monthly employment gain in nearly a year.
- Workforce shortages improved but new Covid protocol struck.

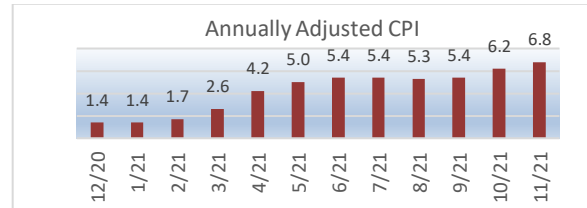
MISCELLANEOUS:

- Gift Cards very popular this year. QSR offered online only.

Please see Page 6 for Important Disclosure

ECONOMIC NEWS (BREAKDOWN):

- CPI/Inflation Rate - Annualized 6.8%
- Commodities wholesale prices rose 12.2%
- Unemployment 4.2%
- Food at Home Index rose 6.4%
- Food Away From Home Index rose 5.8%



SOURCE: TRADINGECONOMICS.COM US Bureau of Labor Statistics

CPI/12 Month % Change: Overall (annualized) increase of 6.8%.

UNEMPLOYMENT – Rate dropped to 4.2%.

WHOLESALE COMMODITIES UPDATE	December 2021	November 2021
Beef	\$3.80	\$3.06
Dairy	\$1.89	\$2.01
Pork	\$3.54	\$3.45
Poultry	\$2.52	\$2.55
Produce	\$21.50	\$24.25
Seafood	N/A	N/A
Chicken Wings	\$2.60	\$2.77
Thighs	\$0.63	\$0.62
Basket (limited)	\$5.21	\$5.53

SOURCE: Commodities: USDA / Gasoline: AAA

Wholesale food prices rose 12.2% YOY in current month; the highest annual pace since 2000.

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
2.87	2.9	3.04	3.09	3.17	3.19	3.18	3.38	3.41	3.29

Gasoline prices took an unexpected drop in December by 12¢ a gallon; good news for consumers.

RETAIL COMMODITIES UPDATE	December 2021	December 2020	November 2021
Ground Beef	\$6.27	\$4.03	\$5.23
Milk	\$3.67	\$3.43	\$3.66
Bacon	\$7.27	\$5.74	\$7.31
Bread	\$1.55	\$1.51	\$1.53
Coffee	\$4.82	\$4.49	\$4.80
Whole Chicken	\$1.58	\$1.63	\$1.53
Eggs	\$1.72	\$1.45	\$1.82
Potatoes	\$0.77	\$0.75	\$0.81
Basket	\$3.46	\$2.88	\$3.34

Retail prices continue to rise amid rumors of shortages in most proteins, wheat, and corn.

Restaurant Summary Report // December 2021

■ **OPERATORS:**

- Current Month Sales (nationally):
 - 86.0% ↑ Increase over last year
 - 7.0% ↓ 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.
 - 38% expect business conditions to worsen
- Future Outlook for Sales:
 - 59.0% ↑ Increase over last year
 - 13.0% ↑ Worse than LY
- Margins Impact:
 - 91.0% ↓ Reported food cost increase (rose 12.2% YOY)
- Menu Prices:
 - 93.0% ↑ Higher than LY
 - Menu prices increased 5.8% over last 12 months
- Staffing Issues:
 - 81.0% ↑ Fully Staffed
 - 19.0% ↓ Understaffed
- Top Concerns:
 - 77% New Covid - Omicron
 - 75% Recruiting/retaining quality employees
 - 75% Rising food costs/inflation
 - 69% Labor costs

OPERATOR COMMENTS: Overall, we got the impression that operators were much more optimistic. There was a positiveness in their voice we haven't heard in many months. We attribute this to consistently better sales and an easing of pressure from staffing issues. More restaurants are fully staffed (or at least at a manageable level), a strong stream of applicants (including qualified workers).

The most recent NFIB Survey reports a slight increase in operator optimism driven by expectation of higher sales from the holidays. The NFIB Uncertainty Index decreased by 4 points as a majority of owners are expecting poor conditions for business through the Spring of 2022. Owners have grown pessimistic about future economic conditions.

■ **NFIB Monthly Survey Summary:**

- Outlook for Business Conditions over the next six months increased to a negative <38%>.
- 48% reported job openings that could not be filled (a one point improvement).
- 41% have openings for skilled workers.
- 22% have openings for unskilled workers.
- 56% reported few or no qualified applicants for positions trying to fill.
- 44% reported increasing compensation
- 63% reported lower profits over the last 6 months.
- 64% raised prices – average of 7%.

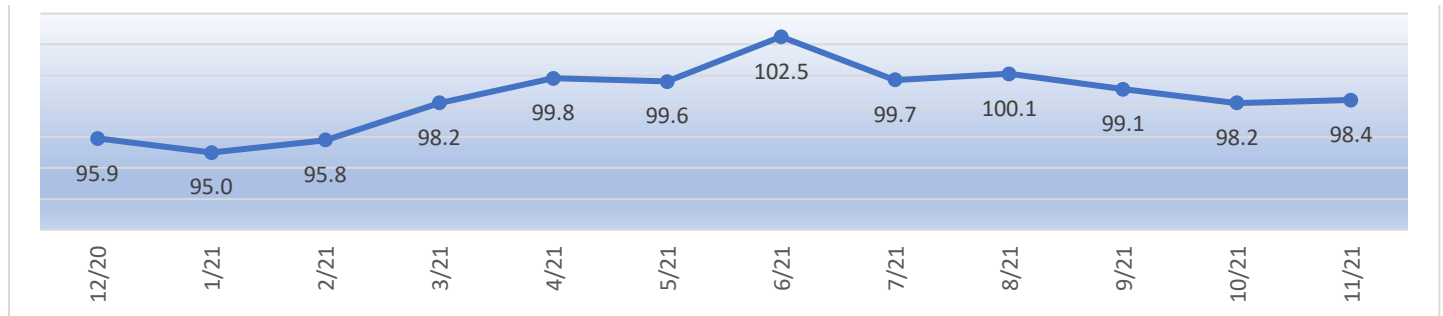
When comparing SSS to 2019, operators reported the following. By segment:

	CURRENT MONTH		LAST MONTH	
	Higher	Lower	Higher	Lower
QSR	87%	13%	70%	30%
Fast Casual	67%	0%	65%	35%
Casual	48%	43%	56%	39%
Fine Dining	40%	60%	32%	68%

SSS 2-Year Comparison (Higher)

	July	August	September	October	November	December
QSR	47%	64%	75%	67%	70%	87%
Fast Casual	67%	50%	50%	71%	65%	67%
Casual	50%	75%	47%	56%	56%	48%
Fine Dining	80%	50%	38%	32%	32%	40%

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



RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

		4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21
	RESTAURANT PERFORMANCE INDEX	106.3	105.5	105.6	105.2	104.2	102.9	104.5	104.8
	CURRENT SITUATIONS								
	SSS Increase/Decrease	97%/3%	95%/5%	84%/16%	85%/15%	73%/11%/16%	76%/24%	85%/11%	86%/7%
	Capital Spending	74%	68%	72%	73%	63%	59%	62%	75%
	EXPECTATIONS:								
	Sales Outlook Improvement	77%	75%	75%	71%	53%	47%	50%	59%
	Economy Outlook Improvement	64%	74%	68%	32%	36%	16%	30%	37%

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

	1/21	2/21	3/21	4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21
Consumer Sentiment	81.8	76.9	80.7	84.9	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6
Current Economy	85.9	87.0	90.0	87.7	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2
Consumer Expectations	79.2	70.5	74.6	73.8	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3

• Top Concerns of Consumers:

- Concerns over the pandemic have receded since August but frustrations remain high. The new Omicron strain is causing an increase in concern.
- Personal health worries have increased.
- Overall economy/inflation (rising prices) have also increased.
- Personal finances are becoming a concern..

	December 2021	November 2021	October 2021	September 2021	August 2021
Health concerns as related to Covid variant	41%	13%	36%	50%	26%
Financial concerns – (Inflation) increased cost of goods	45%	25%	72%	58%	16%
Immigration	50%	77%	76%	52%	11%
Government (new to list)	26%				

SOURCE: Gallup Poll

CONSUMER COMMENTS: The Sentiment Index rose in December primarily driven by the lower 1/3 income bracket had gains in their income. Current economic conditions remained basically unchanged. A recent poll by NPD Group found that 64% of Americans feel comfortable dining in restaurants. 85% preferred to socialize at a restaurant rather than dine at home.

SUPPLY CHAIN NEWS:

In November 2021, the IFMA (International Foodservice Manufacturers Association) hosted a collaborative brainstorming session discussing challenges within the supply chain. Over 600 suppliers, operators, distributors and industry partners attended. Findings (common to all foodservice providers) were labor shortages at every link in the supply chain, complexities in the USDA, fragmented regional/local regulations and spotty communications.

Some solutions posed by the group were:

- Create a “Segment Playbook” for suppliers from a manufacturer’s perspective; a “how to” guide.
- Clarification from operators on product formulation and packaging.
- Simplify the bidding process.
- Clarification from the USDA on all foodhandling standards (currently 3 different departments within the USDA have conflicting guidelines and standards which bogs the system down while waiting on “clarification”).
- Streamlining conduit for sharing information between manufacturers, distributors, and operators.
- Utilize best practices for hiring and retaining quality people. (Solicit information from those chains/institutions that have minimized the staffing shortage problems.)

There was unanimous support for these recommendations, and other than the USDA, implementation and results are expected as soon as QTR-1 2022. Also mentioned, more than 70 food manufacturers announced expansion of current and/or new facilities; stating 33.5 million square feet of new space has been added in 2021. (By way of example – Green Mountain expanded its canning capacity six-fold from 100 cans per minute to 600 cans per minute.) This is one example of efforts being made to meet product demand.

INDUSTRY NEWS:

- **New Covid surge causing restaurants to close dining rooms/cancel reservations as new cases rise both among staff and diners** as restaurants prepare for holiday business (also just before Christmas, major airlines cancel flights as Covid surge triggers staffing problems). The new Omicron Covid variant surge has caused the situation similar to previous Covid outbreaks giving rise to precautionary protocol – closing dining rooms, adjusting for staff shortages, limiting menu, refocusing on Take-Out and Delivery.
- **Consumers changing dining habits.** A recent survey by Deloitte found 64% of consumers do not plan on returning to pre-Covid dining out in restaurants within the next 6 months. Other takeaways from the survey:
 - Take-Out and Delivery are surging even though dining rooms have reopened. 61% of consumers are ordering Take-Out or Delivery at least once a week (up from 18% pre-pandemic).
 - Quality and speed are most important. 60% expect speed and quality and freshness from off-premise as they would find while dining in.
 - 63% order from QSR, 52% from Fast Casual, 40% from Casual Dining.
 - 79% stated they would order from a Ghost Kitchen.
 - 57% use digital App.
 - 79% stated they participate in restaurant loyalty programs.
- **Job Market:** According to the most recent JOLTS report, there were 11 million job openings, 6.5 million hires, and 5.9 million separations. Too many operators chasing too few workers.

Most of our contacts reported being fully staffed or nearly fully staffed through December 25. However, right after Christmas 42% reported significant amounts of employees were quitting (mainly in the QSR sector). From our assessment, this new wave of “resignations” is being driven by several factors. (1) The rapid rise of the new Covid Omicron variant (this is causing some to quit for fear of getting the virus and/or the restaurant began cutting back on hours of operations caused from government mandates or operators anticipation. (2) Another factor weighing in on this new wave of resignations is some workers only wanted to work through the holidays to earn extra money. We are expecting this new “resignation” trend to gain momentum with the rapid spread of the new Covid variant.

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