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COMPANIES MENTIONED IN THIS REPORT:

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INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS

HEADLINE NEWS:

- 7 Companies testing Driverless Cars for delivery.

ECONOMIC HEADLINES:

- Recap last 3 years and looking forward.
- Inflation – GDP <1.4%>: First negative growth number since Spring 2020.
- Staffing Issues – The available jobs to unemployment gap unexpectedly increases.

OPERATOR HEADLINES:

- Short-term optimism was negative; long-term mixed. Better sales/worse economy.

CONSUMER HEADLINES:

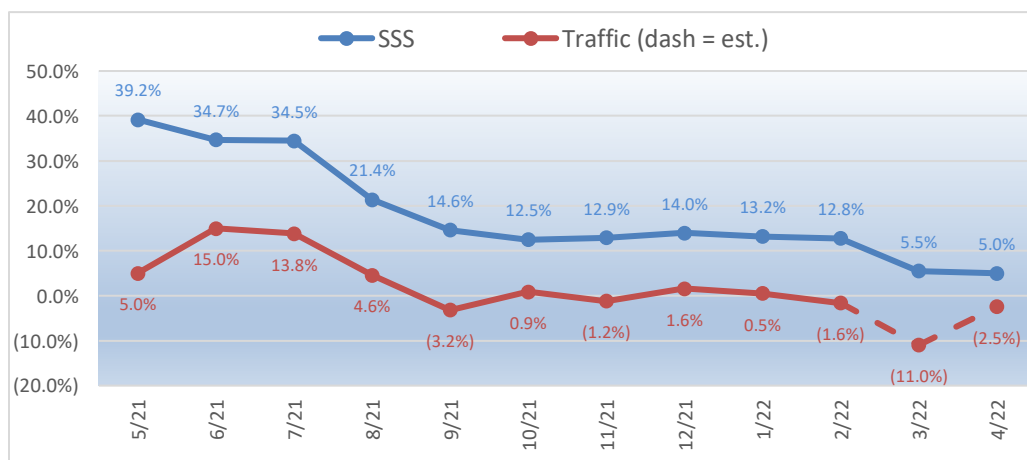
- Lower income getting squeezed by inflation.

SUPPLY CHAIN HEADLINES:

- Updates – can't get a break; one step forward and 2 steps back.

SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS +5.0%
Industry avg. Traffic <2.5%> (estimated)



Please see Page 27 for Important Disclosure

NATIONAL NEWS:

- **7 Companies are now testing Driverless Delivery.**
 - Domino's
 - Walmart
 - Amazon
 - CVS Pharmacy
 - Staph Shop
 - Postmates
 - Autox and Krogers

OUR TAKE: While we do not expect this mode of delivery to take huge amounts of market share from standard delivery models, we do believe Driverless Delivery will carve out a niche in the delivery business.

SUPPLY CHAIN NEWS:

- **Supply Chain Issues** – In the last several months progress has been made on most fronts to “fix” and upgrade the old system. But in April, China partially closed the port of Shanghai due to Covid surge. Shanghai is significant for 1 major reason – it is the largest port in the world. Couple this with the workers at the Port of LA and Long Beach threatening to strike, independent truck drivers beginning to refuse certain shipments due to high diesel fuel costs, the current conflict in Ukraine, and the persistent staffing problems at every step of the supply chain, put the supply chain system in jeopardy of major setbacks.

ECONOMIC NEWS AND (BREAKDOWN):

As we concluded our calls this month, one interesting fact stood out regarding the supply chain issues at the store level. Smaller chains such as Red Robin and Chuys continue to have major issues obtaining key ingredients while larger chains reported little to no problems in April. Both RRGB and CHUY stated problems getting liquor yet they could go to local liquor stores and find their product available. A weak buying power equates to low product availability.

- **Recap the last 3 years and looking forward** – The world economies and societies were thrown into a multitude of course altering, catastrophic events with the advent of the Covid 19 virus. Businesses changed, governments changed, societies changed, and consumers/employees changed. What has been amazing is the speed of adaptability and resilience of business leaders and consumers to meet these unprecedented challenges.

Businesses have adapted new models with flexibility to continue to adjust and adapt to the new emerging era. The acceptance and adaptation of technology has been the dominant catalyst to navigate these changes; and the end is not in sight for the frontier.

Everything abruptly stopped in March 2020 (except for essentials). Businesses, governments, schools, churches, whole countries went on lockdown. People sheltered in place and began to learn new things, repositioning their priorities – an awakening was taking place; a new reality of self and the world. But the consumer side of people have shown patience and understanding with less than expected purchasing experiences.

Pre-Covid the world supply chain was fragilly getting by. Then the sudden and abrupt reopening caused it to crash. The supply chain couldn't keep up with demand. While policy makers around the world are struggling to offer fixes to free up the bottlenecks, many businesses have launched initiatives on their own to help eliminate the congestion. A multitude of new ideas, innovations, experiences and new perspectives and priorities have been put in place. To be continued ...

- **Inflation** – Overall impact from inflation is the negative GDP of <1.4%> for QTR-1 2022. However, consumer spending, the bedrock of the economy, climbed 2.7% after inflation. The major cause of the negative GDP was the U.S. International Trade Deficit. The Trade Deficit reduced GDP 3.2%; the third worst number on record.

Overall, inflation impacts consumers of all income groups but hitting the working class the hardest. However, even the majority of higher income consumers are cutting back on spending according to the latest CNBC Poll. Other significant findings from the survey:

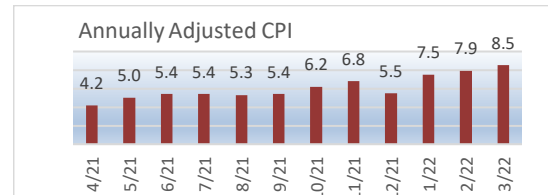
- 60% of consumers are living paycheck to paycheck.
- 52% of higher income consumers (over \$100,000) reported cutting back.
- 51% of lower income consumers (below \$50,000) stated they have already cut back on multiple expenses due to higher prices (this is the main demographic for QSR).

Restaurant Industry Summary Report // April 2022

- **Staffing Issues** – The latest JOLT Report findings of the number of available job openings increased to 11.3 million. On the flip side, the unemployment rate decreased by 0.2% to 3.8% bringing the number of unemployed to 6.3 million. The Quit Rate was 2.9%; in line with the last 3 months with little change.

A new trend is emerging in the restaurant/retail sector – the rise of Unions. Places like Starbucks, Google, Apple, and Amazon pre-Covid would have been viewed as “Union Proof” because they have a history of being industry leaders in offering employees perks and benefits. So what is happening is the consumer/employee has become more self-aware since Covid, and as a part of that, employees don’t believe they are getting a fair shake. Prior to Covid, these companies shared the spoils of their business with their employees – at least enough to keep them satisfied. But since Covid, employees see the numbers and realize the income and wealth gaps have grown too wide (CEO to worker ratio was 351 to 1; in 1965 the ratio was 21 to 1). Unions offer a stronger voice for workers to improve this gap.

- **Economic News (Breakdown) (source: BLS)**
 - CPI/Inflation Rate (Annualized) 8.5%
 - Commodities wholesale prices rose YOY (PPI) 11.2%
 - Unemployment (Jolt Report) 3.6%
 - Food at Home Index rose 10.0%
 - Food Away From Home Index rose 8.8%



SOURCE: TRADINGECONOMICS.COM US Bureau of Labor Statistics

WHOLESALE COMMODITIES UPDATE	April 2022	April 2021
Beef	\$3.31	\$2.06
Dairy	\$2.39	\$2.08
Pork	\$3.80	\$2.49
Poultry	\$3.15	\$1.88
Produce	\$22.80	\$16.00
Seafood	N/A	N/A
Chicken Wings	\$2.43	\$2.83
Thighs	\$0.68	N/A
Basket (limited)	\$5.51	\$4.56

SOURCE: Commodities: USDA Market Report

The USDA outlook for: Dairy – expect growth in milk supplies to be slow throughout 2022 due to increase in demand and reduction in production.
Grains – Expect modest increase in supply; won’t match increase in demand.
Poultry/Livestock – Cattle inventory is expected to decline while demand remains high.
Pork – Expecting 1-2% lower growth rate this year; falling behind demand.

NATIONAL GAS AVERAGE - PER AAA													
4/21	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22	2/22	3/22	4/22	
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	4.12/1.74 2020	

RETAIL COMMODITIES UPDATE	April 2022	April 2021	March 2022
Ground Beef	\$6.48	\$5.78	\$5.20
Milk	\$3.91	\$3.35	\$3.88
Bacon	\$7.20	\$5.86	\$7.10
Bread	\$1.61	\$1.52	\$1.58
Coffee	\$5.41	\$4.67	\$5.25
Whole Chicken	\$1.72	\$1.54	\$1.63
Eggs	\$2.05	\$1.63	\$2.01
Potatoes	\$0.82	\$0.79	\$0.80
Basket	\$3.65	\$3.14	\$3.43

USDA is predicting a 4.5-5.0% increase in grocery store prices this year.

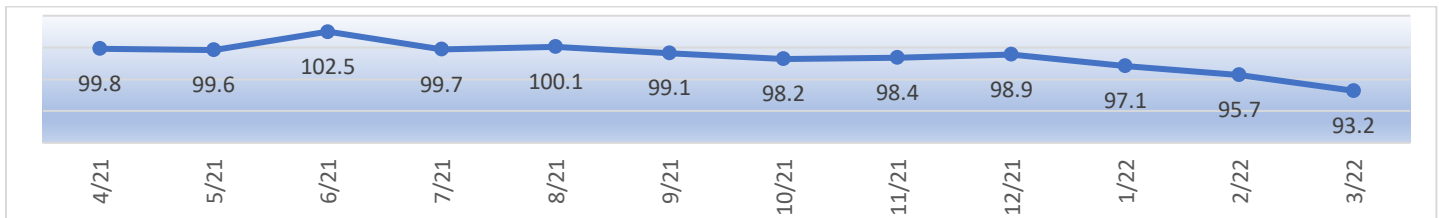
YOY RETAIL GROCERY			
		Increases	Store Prices
		2021-2022	Predicted 2022 Changes
Beef		16.2%	3.4%
Pork		14.0%	3-4%
Poultry		12.5%	6-7%
Fruits/Veggies		7.7%	3-4%
Seafood		10.4%	3.5-4.5%
Dairy		5.2%	4-5%

OPERATOR NEWS (BREAKDOWN):

OPERATORS:

- Current Month Sales (nationally):
 - 75.0% ↓ Increase over last year
 - 10.0% ↓ Decrease over last year
- Current Traffic:
 - 69.0% ↑ Increase over last year
 - 17.0% ↓ Decrease over last year
- Future Outlook for Business Conditions over the next 6 mos.
 - 59% expect business conditions to be worse
- Future Outlook for Sales:
 - 59.0% ↓ Increase over last year
 - 10.0% ↓ Worse than last year
- Capital Spending:
 - 63.0% ↓ Made expenditures in last 3 months
 - 32.0% ↓ Expanded
- Future Spending Plans:
 - 55.0% ↓ Plan equipment
 - 51.0% ↑ Plan expansion
- Margins Impact:
 - 92.0% ↑ Reported food cost increase (rose 5.0% YOY)
- Menu Prices:
 - 85.0% ↓ Higher than LY
 - Menu prices increased 7.4% over last 12 months
- Staffing Issues:
 - 83.0% ↓ Fully Staffed
 - 14.0% ↑ Understaffed
- Top Concerns:
 - 74.0% Inflation: food costs/energy costs
 - 68.0% Recruiting/retaining quality employees with 47% reporting job openings couldn't be filled
 - 22.0% Covid

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






The Owner Optimism Index of 93.2 is below the 48-year average of 98 and has shown a steady decline since June 2021 where the number was 102.5.

Restaurant operators short-term optimism is negative; however, their outlook is positive expecting SSS to grow during the next 6 months. This could be driven by the fact that Congress passed a new Restaurant Revitalization Fund Bill on April 7, 2022.

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RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

		8/21	9/21	10/21	11/21	12/21	1/22	2/22	3/22
	RESTAURANT PERFORMANCE INDEX	104.2	102.9	104.5	104.8	104.8	103.2	103.8	103.7
CURRENT SITUATIONS									
\$	SSS Increase/Decrease	73%/11%/16%	76%/24%	85%/11%	86%/7%	89%/11%	73%/21%	82%/16%	75%/10%
	Capital Spending	63%	59%	62%	75%	48%	57%	69%	53%
EXPECTATIONS:									
\$	Sales Outlook Improvement	53%	47%	50%	59%	67%	55%	61%	63%
	Economy Outlook Improvement	36%	16%	30%	37%	40%	61%	29%	28%

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

	5/21	6/21	7/21	8/21	9/21	10/21	11/21	12/21	1/22	2/22	3/22	4/22
Consumer Sentiment	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6	67.2	62.8	59.4	65.2
Current Economy	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2	72.0	68.2	67.2	69.4
Consumer Expectations	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3	64.1	59.4	54.3	62.5

- The probability of consumers reaching a tipping point is real and will depend on prospects of a strong labor market and easing inflation.
- Consumer Sentiment unexpectedly rose to 65.2. A jump of 9.8%. Most of the surge is attributable to improvement in expectations with a gain of 21.6% future expectations and an 18.3% rise in personal income expectations. All driven by a sharp drop in the rising gasoline prices; previously, March gasoline rose 49¢ per gallon while April saw a 4¢ per gallon rise. Even though Sentiment rose in April, it is still lower than any prior month in over 10 years.

A proper perspective – the downward slide in confidence represents the impact of uncertainty among consumers. The uncertainty began with Covid and has been reinforced by the negative impact of inflation, growing conflict in the Ukraine, and continued supply chain disruptions.

- A March 9, 2022 survey conducted by Chicory Co. regarding Omni Channel Grocery Shopping in 2022 reported the following key findings:
 - Since Covid, most shoppers utilize digital channels to complete grocery purchases – 66% of respondents have purchased groceries online in the last 60 days.
 - Off Premise channels are where most meal planning takes place: food blogs and recipe sites are the #1 source of meal inspiration.
 - Grocery and food delivery Apps are taking market share away from big name grocers. These platforms are almost tied with Target as one of the most popular grocery retailers.
 - Online shoppers display high levels of Brand loyalty, almost 80% are likely to repeat purchases.
 - Consumers are comfortable purchasing groceries directly from food centers.
 - Top retailer for online grocery shopping: WalMart 37%.
- OUR TAKE:** While the consumer was moving in the direction of omni channel purchasing prior to Covid, the pandemic certainly accelerated and expanded its usage and popularity.

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	April 2022	March 2022	February 2022	January 2022	December 2021	November 2021
Anxious about personal finances/standard of living	86%	83%	82%	73%	45%	25%
Inflation impact on discretionary spending – reduced plans	91%	87%				
Dissatisfied with the way country/government is going	78%	78%	49%	38%	26%	
Health in general/ Covid concerns	39%	46%	44%	56%	41%	13%
Immigration	28%	35%	39%	41%	50%	77%

SOURCE: Gallup Poll

Consumer Comments: See notes on inflation. Lower income group are the primary customer of QSR and are being hit hardest by inflation.

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