

Since the news is happening so rapidly regarding the Coronavirus, we are going to focus on the impact on the “Street” – what consumers are saying and what restaurant operators are saying and doing.

OPERATORS:

We interviewed many of our Chain and Independent operator contacts since noon on Friday. Here are their comments regarding the Coronavirus:

- For both groups, their #1 concern is their employees and being exposed to the virus.
- Most (over 90%) are taking proactive steps to combat the Coronavirus. These steps include:
 - Increasing sanitation procedures for equipment, tables, floors, all customer contact surfaces.
 - Creating and sharing with staff an action plan.
 - Constantly monitoring employees’ health.
 - Increasing frequency for employees’ hand-washing practices.
- When asked of their financial status should they have to close their businesses – 70% of Chain operators stated they could survive 1 to 2 weeks financially if they had to close all their locations. However, 80% of Independents stated they could only survive 3 to 4 days. Because of recent sales declines from the virus outbreak, most Independents are averaging 40% decline in sales since March 1.
- If the distributors (last mile) of their supply chain were to shut down, how many days could they operate with on-hand inventory. 86% stated they could only stay open 3 to 5 days with current on-hand inventories.
- We asked Chain operators their take on what the media is saying about restaurants having the ability to switch over to Take-Out and Delivery models and perhaps close their Dining Rooms. 73% stated, while this sounds good in theory, in reality, there are three major concerns with the Off-Premise model. First – this could still potentially expose employees to the virus from customers or third-party drivers who might have been infected. Secondly, the concern is even greater regarding the third-party Delivery drivers who might have been exposed to the virus from a customer or other driver and brings the contamination to the restaurant environment. In this scenario, any customer that contracts the virus and can trace it back to delivery from a particular restaurant will blame the restaurant – not the delivery driver. This presents a very uncontrolled situation for restaurant operators. While the owner/operators stated the Off-Premise model was a viable option, the third-party delivery piece carried risks. Still, they would opt for supporting the Off-Premise model, but they would monitor this process very closely. Thirdly, since Friday, a variety of operators stated that their Take-Out/Delivery business is not showing increases since March 1, 2020 and further stated that Off-Premise model alone does not generate enough sales to keep the business financially stable.

We asked Independent operators about delivery/carryout options. A clear majority stated they were already doing Take-Out and Delivery prior to the virus outbreak and since March 1 have not seen any

substantial increase in either Take-Out or Delivery sales. If they were to close their Dining Rooms and offer Take-Out/Delivery only, it wouldn't generate enough sales to keep their business solvent.

Additional comments by Independents: The best thing that could happen is for the government to declare closing of all restaurants and bars; therefore, the business interruption insurance would become applicable. Also, while they praise the Government Emergency Plan for paying employees if their work is interrupted, the wording of the Emergency Plan puts the burden on the business owner to pay the employee out of current cash flow and receive a tax credit at the end of the year. In most instances, the operators do not have the cash flow or reserve to pay out of pocket for the additional payroll expense; thus, creating another financial burden on the business owner.

As of 12:00 PM EST Monday, March 16, 2020, these States/municipalities ordered restaurants to close their Dining Rooms: NYC, Pennsylvania (5 counties for now), Los Angeles, New Orleans. States: New Jersey, Washington, Ohio, Illinois, Massachusetts, New York, Connecticut, Kentucky, Michigan, California.

CONSUMERS:

From the consumers in our monthly survey group, we learned there are several very diverse groups.

- Group 1 – Very little awareness of what is going on (therefore have done no precautionary preparations).
- Group 2 – At the stage of hysteria (the sky is falling/it's the end of the world) – these are the toilet paper hoarders; and appear to have lost all semblance of common sense.
- Group 3 – These are the practical, sensible-minded people. They are aware and making conscious efforts to get preparations for their families in place. However, when they go the grocery store to stock up on some basic essentials and encounter the shortage of toilet paper, they are drawn into some of the panic that grips Group 2 (not as bad, but fear what else will be depleted if toilet paper was the first to go!)

RECENT SURVEY:

A recent survey conducted by Datassential (conducted March 10, 2020 before some of the more significant news had taken place). Results: (which our survey group substantiated)

60% Concerned about eating out with 20% definitely avoiding doing so in the near future.

90% Stated they felt safer eating at home.

90% Stated personal health safety is their top of mind.

When asked what establishments they believed carried the highest risk of contracting the virus; the rankings were:

70%	Cruise ships	39%	Hotels
50%	Movie theaters	34%	Limited service restaurant
49%	Bars	27%	Casual Dining
46%	Cafeterias	24%	Grocery stores
45%	Food courts	21%	Fine Dining

When asked their reliance on restaurant meals in light of the Coronavirus outbreak:

- 16% Said they would reduce Delivery orders.
- 12% Said they would reduce Carryout/To-Go purchases
- 54% Stated they would decrease going to a restaurant for a sit-down meal.
- 69% Stated they would increase cooking meals at home

These results do not bode well for the Take-Out/Delivery model as a viable solution for restaurant operators.

SUPPLY CHAIN:

The U.S. economy depends on a wide variety of products produced in Asia. China is the 3rd largest supplier of agricultural products imported in the U.S. The categories produced are fruits and vegetables, fruit and vegetable juices, snack foods, spices and seafood. The major items the U.S. gets from Asian markets: food products – 80% of the Tilapia, 51% of Cod, 30% of Shrimp, and 50% of the apple juice. Other significant imports from Asia include electronics, machinery, furniture and bedding, toys and sports equipment, automobile parts, and machinery parts.

In late January 2020 most of Asia's manufacturing production and transportation (trucking & shipping) system went on quarantine which has created delays in loading and delivery of cargo to transportation hubs (ports, trucking distribution centers). The delays were compounded by lack of available crews to load/unload cargo at distribution points in Asia. The original quarantine timeframe in Asia of 14 days has turned into 30 to 45 days. Once these cargos begin to be shipped out of Asian countries (i.e. ships or planes) they are faced with quarantine in receiving countries. Originally designed for 14 days but a similar situation of crew shortage for loading and unloading further compounds the delays. For example: a smart phone made in China on January 15, 2020 is ready to be shipped to market in U.S. The phone sits at the manufacturers until February 1, 2020 and is then transported to the shipping dock where it is idle for 30 days (until March 1, 2020). Then the phone is loaded on a ship to Los Angeles (average sea freight takes 30-40 days door-to-door). The phone reaches Los Angeles port by April 1 where it begins a 14-day quarantine at the port in Los Angeles along with an additional 14-day delay because current shortage of dock hands to load/off-load at the port. Then there are further delays (14 days) to market because of shortage of truck drivers due to virus. So, the smart phone made on January 15, 2020 does not get to retail markets until May 1, 2020 (105 days). Prior to the Coronavirus outbreak, this delivery journey would take 60 days on average. The supply chain gap averages an additional 60 to 90 days to the process. This supply chain gap will continue to impact sales in a negative way after the crisis passes.

Piper Sandler is hosting a dial-in call with a Virologist and best/worst case discussion on Tuesday, March 17 at 12:00 PM EST. We encourage all to call in for this discussion.

Domestic participants: (844) 348-0013

International participants: (281) 973-6617

Conference ID# 22 66 976

Tuesday, March 17, 2020; 12:00 PM EST