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**COMPANIES MENTIONED IN THIS REPORT:**

**CORE COVERAGE**

COMPANY	TICKER	PAGE
<b>QSR</b>		
McDonald's	MCD	4
Burger King	BKC	5
Wendy's	WEN	6
Jack in the Box	JACK	7
Popeye's	PLKI	8
KFC	YUM	9
Del Taco	TACO	10
Taco Bell	YUM	11
Pizza Hut	YUM	12
Domino's	DPZ	13

**FAST CASUAL**

Chipotle	CMG	14
Starbucks	SBUX	15
Wingstop	WING	16

**CASUAL**

Applebee's	DIN	17
IHOP	DIN	18
Chili's	EAT	19
Chuy's	CHUY	20
Longhorn	DRI	21
Olive Garden	DRI	22
Red Robin	RRGB	23

\*Charts on pages 4-23 "Mean" Source – Company Filings

**SUMMARY OF INDUSTRY BUSINESS CONDITIONS:**

**SAME STORE SALES (SSS) (Includes Independents):**

SSS	
Total Industry-wide avg.	<39%>
QSR	<13%>
Fast Casual	<25%>
Casual Dining	<42%>
Fine Dining	<79%>

- May top performers: Popeyes, Domino's, Wingstop, Jack in the Box, Wendy's.
- May bottom performers: Applebee's, IHOP, Red Robin, Chuy's.

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

- CONSUMERS:**
  - View of personal income declined sharply to 65.9 (previously 70.1).
  - Majority say they will not dine-in at restaurants anytime soon.
- OPERATORS:**
  - Optimism improved; outlook over the next 6 months declined drastically.
  - 74% expect sales & profits to be major challenge during this time.
- INDUSTRY:**
  - Menu changes to adapt to new normal proved successful.
  - Digital sales up 63% during May.
  - Industry begins reopening dining room process.
  - 80% not confident to reopen dining rooms yet.
  - Industry employment falls to lowest level since 1989.
- SUPPLY CHAIN:**
  - Protein shortage – short-term impact on availability at restaurants; hardest hit: Wendy's and Sonic.
  - Changes coming for supply chain model.
  - Beef and pork prices expected to rise - beef 30%/pork 64%.
  - Expect meat processing to not reach 100% until after Labor Day.

**JUNE OUTLOOK**

- Brands we expect to outperform the Industry**
  - Domino's
  - Jack in the Box
  - Popeyes
  - Wendy's
- Brands we expect to underperform the Industry**
  - Casual and Fine Dining sectors
  - Pizza Hut
  - Starbucks

Please see Page 24 for Important Disclosures.

### CONSUMERS – OUR TAKE FOR MAY 2020:

	May	April
Consumer view of the economy	72.3	71.8
Consumer view of their personal finances	65.9	70.1

SOURCE: University of Michigan Sentiment Poll

Consumer sentiment remained relatively unchanged from April to May. However, despite the CARES checks and high unemployment payments, consumers have stated an increasing concern over their future income. Many are expecting a drop in personal income.

Several other interesting findings regarding consumers' attitudes and expectations for a post Covid-19 world:

- Majority of consumers still express concern about dining in as restaurants reopen (56% per Datassentials May 28 survey). While the percentage has been declining from an all time high of 67%, it is still reflective of a majority of consumers. The survey is supported by recent reports from restaurant chains that have begun opening up their dining rooms where dine-in sales are currently only a small percentage of available table tops (regardless of the dine-in percentage allowed, the actual occupancy has started at 5% and gradually grown to 50% but not 100% of allowable capacity).
- Another poll by Atkins (5/20/20) found 70% of consumers want a break from social distancing which helps define what we have seen as communities begin relaxing mandatory Stay at Home rules – more of a desire to get out and move freely; rather than just go out to eat.
- Consumer brand loyalty is proving to be of paramount influence for dining choices and is based on the perception that “this brand will keep me safe”.

### OPERATORS – OUR TAKE FOR MAY 2020:

	Current	Prior
Optimism Index (NFIB)	90.9	96.4
Restaurant Performance Index	94.9	95.0
Fairly confident their business can get through this Crisis	58%	
Believe impact on their business will last 3-6 months (Beginning April and ending August/September)	54%	

- NFIB Optimism Index stood at 90.9; 5.5 points below the previous month. The impact of Covid-19 on businesses continue to have a devastating effect. The collapse in sales has led to lower earnings.
- 58% are fairly confident that their business can survive the Crisis.
- 54% believe the impact will last at least 6 months (from April).
- Only 17% believe their sales volumes will regain previous levels by the end of June.
- The Restaurant Performance Index reports similar findings. With the Index of 94.9 (only slightly lower than the previous 95.0); the sharp decline in sales is the culprit.

### SUPPLY CHAIN – OUR TAKE FOR MAY 2020:

WHOLESALE COMMODITIES UPDATE	MAY 2020	JAN 2020
Beef	\$4.40	\$2.23
Dairy	\$2.18	\$1.56
Pork	\$2.51	\$2.06
Poultry	\$1.25	\$1.28
Produce: Tomato/Lettuce	\$21.00	\$29.50
Gasoline – National Average	\$1.99/Gal	\$2.51/Gal

- Protein shortages have only been short-term as the processors were able to close the gap on demands. Most plant closures were able to reopen after less than seven days and the federal subsidy to farmers encouraged them to provide product to the processors; thus closing the gap.
- However, beef and pork prices are expected to rise; beef by 30% and pork by 64%. Grocery stores have already raised their retail prices.
- Changes are needed to the Supply Chain and the process has already begun. Some of the changes we have heard thus far are: efforts to make the system more resilient, reduce minimum orders, more reliable delivery times, and increase stock at depots.

### INDUSTRY NEWS:

**Reopening Begins** – As the majority of States begin allowing the reopening of dining rooms, progress has been slow with many consumers reluctant to dine inside. Restaurants that have partially opened their dining rooms report a very slow beginning with less than 10% of available/allowable table tops being occupied. This did increase over time but less than 20% reported meeting maximum capacity. On the flip side, the majority of consumers report they are not ready to dine-in at restaurants and 80% of operators report they are not ready to open their dining rooms.

**Industry Employment** – Restaurant industry is the 2<sup>nd</sup> largest employer in the country; with government being #1. The restaurant industry fell to its lowest level since 1989. As of February 2020, the industry employed 12 million workers and due to the Covid-19 Crisis, over 5.5 million are unemployed.

**Digital Sales** – Digital sales were up 63% in May driven by consumers desire to seek touchless contact options.

**Risks Of and Actual Bankruptcies Begin** – Since mid-March nine restaurant concepts or large franchise holdings have filed bankruptcy. Another two-thirds of publicly traded restaurants could be at risk. According to Aaron Allen & Associates, as of May 31 over 500 chain restaurant locations have permanently closed and according to the National Restaurant Association 3% of Independents have closed permanently (this equates to 30,000 restaurants).

#### Quick Facts of the Covid-19 Impact on the Restaurant Industry -

- Average check has increased 67% across the industry.
- 12% no longer accept cash.
- 8% no longer accept credit cards.

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