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COMPANIES MENTIONED IN THIS REPORT:

CORE COVERAGE (Subscription Required)

COMPANY	TICKER	PAGE
QSR		
McDonald's	MCD	6
Burger King	BKC	7
Wendy's	WEN	8
Jack in the Box	JACK	9
Popeye's	PLKI	10
KFC	YUM	11
Del Taco	TACO	12
Taco Bell	YUM	13
Pizza Hut	YUM	14
Domino's	DPZ	15
FAST CASUAL		
Chipotle	CMG	16
Starbucks	SBUX	17
Wingstop	WING	18
Noodles & Co.	NDLS	19
CASUAL		
Applebee's	DIN	20
IHOP	DIN	21
Chili's	EAT	22
Chuy's	CHUY	23
Longhorn	DRI	24
Olive Garden	DRI	25

INDUSTRY: HEADLINES / BUSINESS CONDITIONS

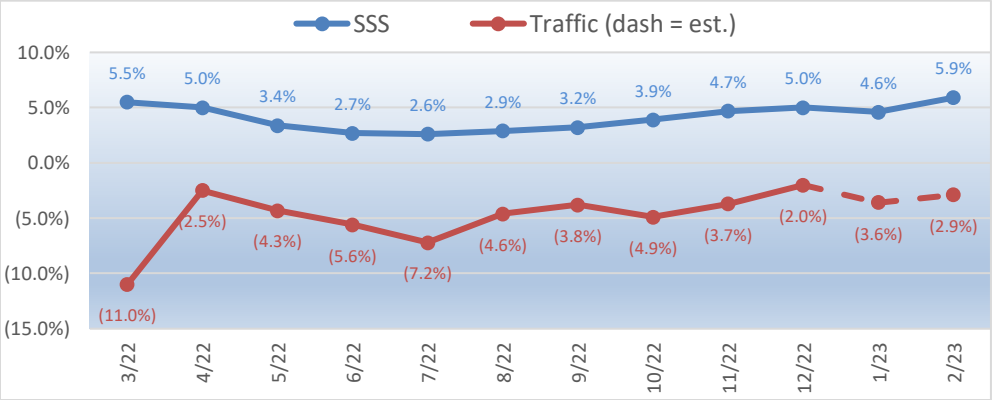
HEADLINE NEWS:

- Several common sales drivers from QTR-4 Earnings Calls mentioned.

SALES & TRAFFIC: (Compass RCR coverage average):

Industry avg. SSS	+5.9%
Industry avg. Traffic	<2.9%> (estimated)

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



INDUSTRY HEADLINES:

- Majority of chains have upgraded their websites; upbeat, moving graphics, improved messaging – part of new technologies.
- More chains are joining monthly subscription trend.

ECONOMIC HEADLINES:

- California's new bill would establish joint franchisor/franchisee liability for QSR.
- Off Premise – DoorDash's latest tool allows merchants to download sales data.

COMMODITIES HEADLINES:

- IRS proposes new Tip Reporting program that would affect restaurants, tipped workers

Please see Page 26 for Important Disclosure

INDUSTRY HEADLINES BREAKDOWN:

- **Monthly Subscription Fees** are growing in popularity. Consumers are willing to pay fees for streaming services, pet food, and now some restaurant chains are jumping on the bandwagon. Panera Bread and PF Chang are currently experimenting with the idea. The average American paid for 6.7 subscription programs in 2022. On the Border, Taco Bell, Arby's, and several others have been experimenting with the idea.

- **California Bill AB1228 reopens the legislative fight between fast food groups and organized labor**. The Bill is to be heard in committee on March 19.

- **DoorDash launched a Reporting API that allows partner restaurants to access data directly about their sales and operations**. The tool allows users to create customized analyses. A deeper dive per brand is available on our full monthly Pulse Report (includes Independent restaurant concepts).

- **Common Sales Drivers mentioned in QTR-4 Earnings Calls:**

  1. **Menu Price Increases** – 8.2% annualized/average. While these increases go a long way in mitigating the overall impact from inflation, they do not completely cover the total rising costs impact on profits.

  2. **Digital Sales (online purchases)** – All brands reported this category improving in sales in 2022; however, the catalyst that makes this a "favorite" for consumers was the ease of use capability. Chipotle #1, Wingstop #2, and McDonald's #3 offered the most seamless usage. The bottom 3 chains were: Popeyes, Longhorn Steakhouse, and Burger King (although later in the year Burger King made major improvements); a confirmation of consumers desire for control and convenience.

  3. **Loyalty Memberships (e-Club)** – While Loyalty "Clubs"/"Memberships" are tied to digital sales, Loyalty Memberships offer rewards to members primarily in the form of redeemable "points" for free or discounts on menu items.
     a. The top 3 chains as rated by customers for rewards: Chipotle, Starbucks and McDonald's.
     b. The bottom 3 chains as rated by customers were: Longhorn Steakhouse, Olive Garden, Outback Steakhouse.

  4. **Operational Improvements** – Although the majority of chains discussed this in their Earnings Calls, very few actually inplemented real front line initiatives to improve operations. (Many mentioned adding more field staff to "support" franchise operations). To most franchisees this is insulting; implying operators either don't know how or don't want to be proficient at functionality of operations; specifically quality and service. The chains that are implementing real efforts to improve operations – like new training concepts, new technologies to improve cooking and food prep procedures, improving proceures for better guest experiences are Chipotle, Starbucks, Shake Shack, and Burger King (although Burger King was late in the year with their implementation.)

  5. **Menu Innovation** – The process of analyzing existing menus, eliminating dishes that do not sell well, adding new dishes, improving/enhancing existing dishes. The majority of chains went through various forms of menu innovation in 2022 but the winners are McDonald's, Jack in the Box, and Noodles & Company (Del Taco receives honorable mention at #4). The bottom 3 chains were: Popeyes, Domino's, and Chili's.

  6. **Technology Improvements** – All chains made strides to upgrade/add on, and overall improve their technology platform during 2022. The chains making the most significant improvements were: Chipotle, McDonald's, Burger King (late in the year). The bottom 3 were: Chili's, Applebee's, IHOP, and Chuy's.

  7. **Human Capital** – Last but not least; just not embraced by the majority of chains. This is where they not only spoke of putting employees first but actually implemented initiatives to accomplish this (efforts to retain people: benefits, career avenues, involving empowering employees). Top chains focusing on people: Chipotle, KFC, Shake Shack, Texas Roadhouse, Olive Garden, Starbucks (late in the year), McDonald's to a lesser degree. The rest did not mention it.

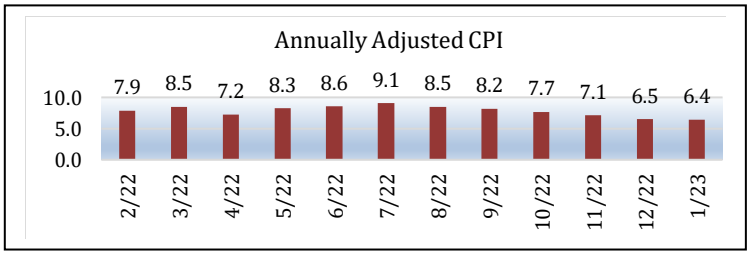
ECONOMIC HEADLINES BREAKDOWN (source BLS) :

- **Economic News (Breakdown) (source: BLS)**

CPI/Inflation Rate (Annualized)	6.4%	Decreased
Commodities wholesale prices rose YOY (PPI)	6.0%	Decreased
Unemployment	3.4%	Decreased
Food at Home Index rose	11.3%	Decreased
Food Away From Home Index rose	8.2%	Decreased
U-6 Unemployment	7.4%	Increased

Economic/Commodities

	Food Away From Home	Food At Home
January 2023	8.2%	11.3%
December 2022	8.3%	11.8%
Full Year 2022	7.7%	11.4%
Full Year 2021	4.5%	3.5%
Full Year 2020	3.4%	3.5%
Full Year 2019	3.1%	0.9%



NATIONAL GAS AVERAGE - PER AAA

3/22	4/22	5/22	6/22	7/22	8/22	9/22	10/22	11/22	12/22	1/23	2/23
4.24/LA 6.03	4.12/1.74 2020	4.82	4.87	4.32	3.85	3.67	3.74	3.54	3.06	3.52	3.34

PPI Chart

	2023	2022	2021	2020	2019
JANUARY	6.0	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
SEPTEMBER		8.5	8.8	0.3	1.5
OCTOBER		8.0	8.9	0.6	1.0
NOVEMBER		10.1	9.9	0.8	1.0
DECEMBER		6.2	10.0	0.8	1.4

COMMENTARY ON ECONOMICS:

- Inflation rate declined 0.1% according to the latest report. This is the fourth month in a row that the inflation rate has slowed.
- PPI – Prices declined 0.5% according to the latest report. This marks the sixth month that wholesale prices have declined.
- Unemployment Rate was 3.4%; that is 0.1% lower than prior month. This is the third month in a row that unemployment has declined.
- U-6 Unemployment Rate rose by 1.0% to 7.4% compared to last month. This is the highest level since 7.6% was reported in February 2022.
- Food At Home declined 0.5% compared to previous month.
- Food Away From Home declined 0.5% compared to previous month.
- The gap closed 0.1% between Food At Home and Food Away From Home. This gap continues to be at a record high since March 2022. The gap favors restaurants and is one of the factors currently driving positive restaurant sales among some demographics.

COMMENTARY ON COMMODITIES:

- Gasoline prices dropped 15¢ per gallon. The primary reason was a drop in oil prices and a reduction in demand by consumers.
- Commodities – Retail: 4 of the 6 major grocery food group indexes rose:
  - Indexes for Meats, Poultry, and Fish rose 0.7%
    while Eggs rose 8.5%
  - Index for Cereals and Bakery Products rose 1.0%
  - Index for Non-Alcoholic Beverages increased 0.4%
  - In contrast, the Index for Fruits & Vegetables fell 0.5%
- According to the most recent USDA Report, they forecast "greater volatility" in farm and wholesale level prices leading to much wider predictions for food items. Poultry and Egg production is expected to increase along with Vegetable prices. USDA is predicting higher yields thus lowering these prices.

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

	3/22	4/22	5/22	6/22	7/22	8/22	9/22	10/22	11/22	12/22	1/23	2/23
Consumer Sentiment	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0
Current Economy	67.2	69.4	63.3	53.8	58.1	58.6	59.7	65.6	58.8	59.4	68.4	79.7
Consumer Expectations	54.3	62.5	55.2	47.5	47.3	58.0	58.0	56.2	55.6	59.9	62.7	64.7

TOP CONCERNS:

The recent January 2023 Monthly Consumer Survey conducted by Deloitte stated the impact of rising prices on food shopping behaviors – economizing bottom line.

- 45% Spend more time planning grocery shopping
- 33% Shopping several stores to get best deal
- 29% Purchasing more store brands
- 30% Only buying essentials
- 74% Expect grocery prices to continue rising in the near future

COMMENTARY:

- Consumer Sentiment rose 2.1 points over January. This is the third straight month of improvements, but sentiment remains 17 pts below historical averages. View of current economy rose 2.3 points. The increase was supported by those consumers with large stockholdings.

- Expectations Index rose 2.0 points, but this category has displayed a high degree of uncertainty lately.

OPERATORS SURVEY (Source: NFIB and Compass RCR)

- Current Month Sales (nationally):
  - 75.0% ⇧ Increase over last year
  - 23.0% ⇩ Decrease over last year

- Current Traffic:
  - 60.0% ⇧ Increase over last year
  - 30.0% ⇩ Decrease over last year

- Future Outlook for Business Conditions Over Next 6 Months:
  - 61.0% ⇧ Expect conditions to worsen; expect a recession this year

- Future Outlook for Sales:
  - 58.0% ⇧ More optimistic over last year
  - 16.0% ⇧ Less optimistic over last year

- Capital Spending:
  - 61.0% ⇧ Made equipment expenditures
  - 41.0% ⇧ Expansion/remodel

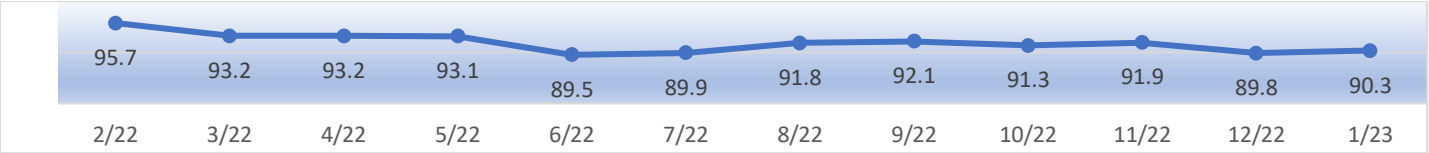
- Margins Impact:
  - 70.0% ⇩ Reported food cost increase
    Food cost up 9.0%

- Menu Prices:
  - 80.0% ⇩ Higher than LY
  - Menu prices increased 7.0% over last 12 months

- Staffing Issues:
  - 91.0% ⇩ Fully Staffed (Chains/Independents)
  - 9.0% ⇧ Understaffed

- Top Concerns:
  - 93.0% Recruiting & retaining quality employees
  - 88.0% Economy/Recession/Inflation
  - 70.0% Rising costs

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



An increase of 0.5 but remains below 49-year average of 98.0.

RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

	6/22	7/22	8/22	9/22	10/22	11/22	12/22	1/23
RESTAURANT PERFORMANCE INDEX	101.3	100.8	100.9	101.0	101.9	101.1	101.8	102.8
CURRENT SITUATIONS								
SSS Increase/Decrease	64%/22%	45%/47%	47%/27%	51%/28%	63%/26%	54%/29%	63%/36%	75%/23%
Capital Spending	63%	57%	63%	58%	59%	50%	54%	61%
EXPECTATIONS:								
Sales Outlook Improvement	48%	35%	57%	38%	43%	45%	44%	58%
Economy Outlook Improvement	20%	25%	8%	8%	11%	3%	16%	26%

COMMENTARY:

- The NFIB Operators Optimism rose slightly. Some saw an easing of inflation as a good sign for future business.
- General – Operators listed staffing as a concern with job openings increasing over hire rate by 4 pts. Employees quitting rate is creating a gap. The majority (61%) of operators now believe the country is headed for a recession this year.
- Key Takeaways from the most recent NRA (National Restaurant Association) Survey:
  - Labor retention is becoming a problem once again. 68% reported higher than expected turnover.
  - Food Cost increases slowed down; taking some pressure off rising costs issues.
  - 75% reported sales increase up from 63% in the previous month.

BRANDS SUMMARY - 2022

Many chains have shifted their strategic growth plans to focusing more on human capital – their people and guest experience. Worth noting, those that are actually implementing these initiatives have the best SSS and retention levels in the industry.

Several chains have quietly switched marketing efforts to attract back the lower income demographic that has been mostly overlooked since Covid. They are realizing that their future is reliant on including this demographic.

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