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COMPANIES MENTIONED IN THIS REPORT:

| CORE COVERAGE | | |
|----------------------|--------|------|
| 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 |
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| FAST CASUAL | | |
| Chipotle | CMG | 16 |
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| 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

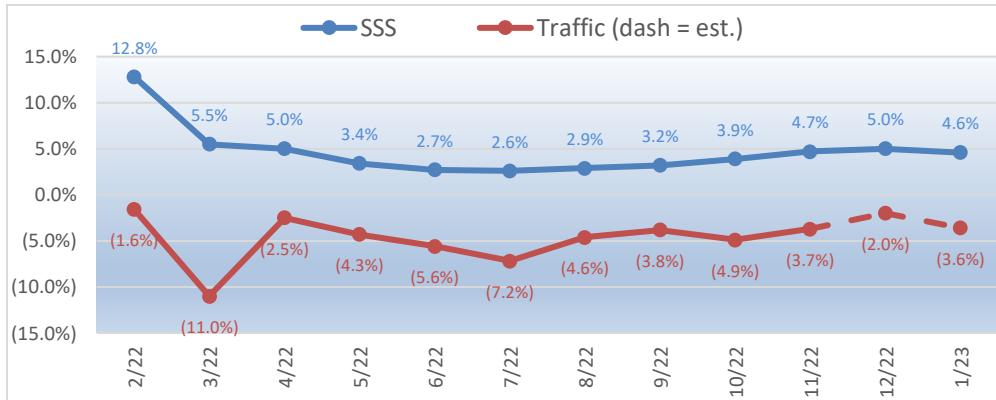
HEADLINE NEWS:

- California halts FAST ACT – after voters petition halt. Implementation postponed until November 2024.
- State of Virginia introduces FAST ACT Food Labor Bill.

SALES & TRAFFIC: (Compass RCR coverage average):

| | |
|-----------------------|--------------------|
| Industry avg. SSS | +4.6% |
| Industry avg. Traffic | <3.6%> (estimated) |

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



BRAND HEADLINES:

- Recent survey conducted by Pricelisto.com ranks highest price menus in the industry.
- Several chains are reducing hiring time from 14 days to 2 days.

ECONOMIC HEADLINES:

- Inflation seems to be cooling.
- GDP higher than expected – more than forecast.
- U.S. initial jobless claims fall to their lowest level since April 2022.

OPERATOR HEADLINES:

- Appetite for new store growth is mixed.
- Optimism is mixed.

CONSUMER HEADLINES:

- Consumers pick their favorite restaurants.
- Consumer Sentiment rose to 64.9; 9% above December.
- Why has consumer spending held up?

Please see Page 6 for Important Disclosure

ECONOMIC NEWS AND (BREAKDOWN):

■ COMMENTARY ON ECONOMICS:

The CPI Index declined in the Bureau of Labor Statistics latest report <0.1%> in line with expectations from economists and would indicate inflation moderating.

The PPI Index fell 1.1% over previous month yet another indicator that inflation is slowing.

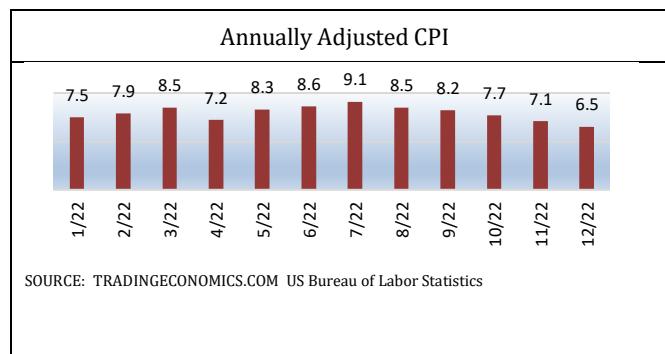
The Unemployment Rate edged down to 3.5%. Notable gains occurred in Leisure & Hospitality, Healthcare, Construction and Social Assistance according to the BLS. Additionally the U.S. Unemployment Rate stayed level at 6.4%.

Retail sales for December declined 1.1%. Some experts attribute this to rising costs of using credit cards (higher interest rates). This, with other macro news, suggest a slowing to consumers spending trend.

■ Economic News (Breakdown) (source: BLS)

| | | |
|---|-------|-----------|
| ○ CPI/Inflation Rate (Annualized) | 6.5% | Decreased |
| ○ Commodities wholesale prices rose YOY (PPI) | 6.2% | Decreased |
| ○ Unemployment | 3.5% | Decreased |
| ○ Food at Home Index rose | 11.8% | Decreased |
| ○ Food Away From Home Index rose | 8.3% | Decreased |
| ○ S&P 500 Restaurant Index | 5.57% | Increased |
| ○ Interest Rates – Current Fed | 4.5% | Unchanged |
| ○ U-6 Unemployment | 6.4% | Unchanged |

| | Food Away From Home | Food At Home |
|----------------|---------------------|--------------|
| December 2022 | 8.3% | 11.8% |
| November 2022 | 8.5% | 12.0% |
| October 2022 | 8.6% | 12.4% |
| September 2022 | 8.5% | 13.0% |
| August 2022 | 8.0% | 13.5% |
| July 2022 | 7.6% | 13.1% |
| June 2022 | 7.7% | 12.2% |
| May 2022 | 7.4% | 11.9% |
| April 2022 | 7.2% | 10.8% |
| March 2022 | 6.9% | 10.0% |
| February 2022 | 6.8% | 8.6% |
| January 2022 | 6.4% | 7.4% |
| 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 | | | | | | | | | | | | |
|--------------------------------|--------------|----------------|------|------|------|------|------|-------|-------|-------|------|--|
| 2/22 | 3/22 | 4/22 | 5/22 | 6/22 | 7/22 | 8/22 | 9/22 | 10/22 | 11/22 | 12/22 | 1/23 | |
| 3.92 | 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 | |

PPI Chart

| | 2022 | 2021 | 2020 | 2019 |
|-----------|------|------|-------|------|
| JANUARY | 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 COMMODITIES:

- According to the latest BLS Report, total Food At Home prices rose 11.8% and Food Away From Home rose 8.3%. In the 3 major food categories:
 - Cereals and Bakery products rose 16.1%
 - Fruits & Vegetables rose 8.4%
 - Meats, Poultry, Fish & Eggs rose 7.7%
- Industry experts expect gas prices to spike soon based on recent crude oil price increases. West Texas Intermediate, American benchmark for crude oil, was nearly \$77 a barrel at the beginning of January and on Wednesday, 1/25/23, the price surpassed the \$80 mark.
- Gasoline prices declined from October 28 until December 31 and have been steadily increasing in January from a low of \$3.10 to today's price of \$3.52. As gas prices came down, consumer spending and confidence rose.

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

| | 2/22 | 3/22 | 4/22 | 5/22 | 6/22 | 7/22 | 8/22 | 9/22 | 10/22 | 11/22 | 12/22 | 1/23 |
|------------------------------|------|------|------|------|------|------|------|------|-------|-------|-------|------|
| Consumer Sentiment | 62.8 | 59.4 | 65.2 | 58.4 | 50.0 | 51.5 | 58.2 | 58.6 | 59.9 | 56.8 | 59.7 | 64.9 |
| Current Economy | 68.2 | 67.2 | 69.4 | 63.3 | 53.8 | 58.1 | 58.6 | 59.7 | 65.6 | 58.8 | 59.4 | 68.4 |
| Consumer Expectations | 59.4 | 54.3 | 62.5 | 55.2 | 47.5 | 47.3 | 58.0 | 58.0 | 56.2 | 55.6 | 59.9 | 62.7 |

TOP CONCERNs:

The Consumer Sentiment Index rose 9% in January over December reflecting consumers attitude about their personal financial situation. They see it as being better and buying conditions for durable goods as improved.

Notably, the survey points at consumers still see rising inflation but believe it slowed in January.

COMMENTARY:

OUR TAKE: Consumers continue to be worried about the economy but are spending anyway – all income levels.

- A recent survey conducted by Media Post found the following:
 - 81% of consumers were concerned about rising prices.
 - 69% believe inflation is here for a long time.
 - 62% believe the economy will get worse in the next 12 months.
- Credit card debt is rising (data from the Federal Reserve Bank of New York). Currently, credit card debt, nationally, is at \$925 billion in QTR-3 2022. This is an increase of \$38 billion since QTR-1; a 15% increase. The average American household credit card debt is \$8,900 at an average interest charge of 23.3%. This is not on the consumers worry list.
- Why has consumer spending remained strong? A question asked by many. From analyzing data related to Covid lockdown and income, some possible insight emerges. Employees (consumers) at all income levels saw their income increase during Covid lockdown; both in pay and government benefits. Lower income benefitted the most; experiencing almost a 20% increase in wages from 2017 to 2021. Amplifying the growth in income was the savings that increased from the lockdown and the pent-up demand that also evolved.

As the lower income demographic tends to spend more of their income, the wages, savings, and government benefits increased their income and has translated into higher consumption and a lower sensitivity to inflationary price increases (this applies to all income levels). However, these spending levels are not sustainable long-term, and we are beginning to see some slight slowdown in consumer spending.

OPERATORS SURVEY (Source: NFIB and Compass RCR)

- **Current Month Sales (nationally):**
 - 63.0% Increase over last year
 - 30.0% Decrease over last year
- **Current Traffic:**
 - 46.0% Increase over last year
 - 40.0% Decrease over last year
- **Future Outlook for Business Conditions Over Next 6 Months:**
 - 31.0% Expect conditions to worsen
- **Future Outlook for Sales:**
 - 44.0% More optimistic over last year
 - 13.0% Less optimistic over last year
- **Capital Spending:**
 - 51.0% Made equipment expenditures
 - 36.0% Expanded
- **Margins Impact:**
 - 78.0% Reported food cost increase
 - Food cost up 9.0%
- **Menu Prices:**
 - 91.0% Higher than LY
 - Menu prices increased 6.9% over last 12 months
- **Staffing Issues:**
 - 94.0% Fully Staffed (Chains/Independents)
 - 6.0% Understaffed
- **Top Concerns:**
 - 93.0% Retention of quality employees
 - 88.0% High quality people/strong work ethic
 - 70.0% Economy/Recession
 - 75.0% Labor & Food Costs

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



RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

| | 5/22 | 6/22 | 7/22 | 8/22 | 9/22 | 10/22 | 11/22 | 12/22 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| RESTAURANT PERFORMANCE INDEX | 102.1 | 101.3 | 100.8 | 100.9 | 101.0 | 101.9 | 101.1 | 101.8 |
| CURRENT SITUATIONS | | | | | | | | |
| SSS Increase/Decrease | 63%/24% | 64%/22% | 45%/47% | 47%/27% | 51%/28% | 63%/26% | 54%/29% | 63%/36% |
| Capital Spending | 60% | 63% | 57% | 63% | 58% | 59% | 50% | 54% |
| EXPECTATIONS: | | | | | | | | |
| Sales Outlook Improvement | 49% | 48% | 35% | 57% | 38% | 43% | 45% | 44% |
| Economy Outlook Improvement | 20% | 20% | 25% | 8% | 8% | 11% | 3% | 16% |

COMMENTARY: The restaurant industry added 26,300 jobs according to a recent NRA report. Despite adding nearly 2.2 million jobs over the last 24 months, the industry is still 450,000 or 3.6% below pre-pandemic staffing levels. The employee retention problem is impacting 80% of all restaurants. One operator stated the obvious – many new hires are only lasting less than 5 days on the job. When he says he is looking for quality workers – he is looking for potential workers with a strong work ethic.

Restaurant Industry Summary Report // January 2023

5 KEY TAKEAWAYS from the National Restaurant Association's most recent Operator Survey:

1. 96% say they have experienced supply delays or shortages in the past 6 months.
2. Due to rising costs:
 - a. 92% stated food costs are a significant challenge
 - b. 89% labor costs
 - c. 63% utility costs
3. 87% state plans to hire additional employees in the next 6-12 months **IF** quality applicants are available (57% say they are likely to lay off employees if business conditions deteriorate).
4. 81% stated they are adding fees or surcharges to customer checks.
5. 78% stated they have experienced delays or shortages of equipment or service items in recent months.

BRAND NEWS

Consumers choose their favorite restaurant chains in 2022. Here are the results from this year's annual survey.

| | | |
|---------------|-----------------|-----|
| QSR/Burger | In & Out Burger | 82% |
| QSR/Chicken | Chick fil A | 84% |
| QSR/Pizza | Papa Murphy's | 72% |
| QSR/Mexican | Taco Johns | 61% |
| Sandwich | Jersey Mike's | 74% |
| Snack/Coffee | Dutch Brothers | 74% |
| Fast Casual | First Watch | 63% |
| Casual Dining | Maggiano's | 79% |
| Fine Dining | Ruth's Chris | 86% |

A complete listing will be provided later this month.

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