

**AUTHOR:**

**Steve Crichlow**

Founder & CEO

(251) 370-7011

[steve@compassrcr.com](mailto:steve@compassrcr.com)

[www.compassrcr.com](http://www.compassrcr.com)

[info@compassrcr.com](mailto:info@compassrcr.com)

	PAGE
Industry Conditions & News	
SSS	1
Consumers/Operators	
Industry & Supply Chain	1
Outlook	1
Consumers Survey	2
Operators' Survey	2
Supply Chain Survey	3
Headline News	3-4

**COMPANIES MENTIONED IN THIS REPORT:**

**CORE COVERAGE**

COMPANY	TICKER	PAGE
<b>QSR</b>		
McDonald's	MCD	5
Burger King	BKC	6
Wendy's	WEN	7
Jack in the Box	JACK	8
Popeye's	PLKI	9
KFC	YUM	10
Del Taco	TACO	11
Taco Bell	YUM	12
Pizza Hut	YUM	13
Domino's	DPZ	14

**FAST CASUAL**

Chipotle	CMG	15
Starbucks	SBUX	16
Wingstop	WING	17

**CASUAL**

Applebee's	DIN	18
IHOP	DIN	19
Chili's	EAT	20
Chuy's	CHUY	21
Longhorn	DRI	22
Olive Garden	DRI	23
Red Robin	RRGB	24

\*Charts on pages 5-24 "Mean" Source – Company Filings

**SUMMARY OF INDUSTRY BUSINESS CONDITIONS:**

**SAME STORE SALES (SSS)/Traffic (Compass RCR coverage average):**

Industry avg. SSS	<0.7%>
Industry traffic	<10.7%>

- **December top performers:** Burger King, Del Taco, Domino's, Jack in the Box, McDonald's, Pizza Hut, Wingstop
- **December bottom performers:** Applebee's, Chili's, IHOP, Olive Garden, Popeyes, Wendy's
- **Most improved:** Applebee's, Burger King, Jack in the Box

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

- **CONSUMERS:**
  - Confidence rose 3.8 points.
  - View of personal income increased 4.1 points.
- **OPERATORS:**
  - Optimism decreased 2.6 points.
  - Outlook for next 6-month survival – negative responses shifted to 85%.
  - Restaurant Performance Index was 97.5; a decrease of 0.8 points.
- **SUPPLY CHAIN:**
  - New business model incorporates new technologies for better collaborative operations.

**HEADLINES: What we have heard around the Industry (see pg. 3-4 for details)**

- New Stimulus Bill passed.
- Conflicting polls are issuing reports that are the exact opposite regarding American's attitude toward taking the Covid vaccine.
- NYC/California ban indoor dining ...
- NRA reports additional 10,000 restaurants closed permanently in last 3 months; total now 110,000.
- 18 major Brands unveil new store prototypes.
- New technology being developed by Cara that will redesign App in attempt to recreate In-Store experiences.
- More chains are considering higher menu prices for 3<sup>rd</sup>-party delivery.

**PREDOMINANT SALES DRIVING INITIATIVES FOR MONTH:**

▪ Value/Discounts	75%	▪ Brand App	40%
▪ Delivery	45%	▪ Loyalty/Rewards	30%
▪ Gift Cards	40%	▪ To-Go	25%

**JANUARY OUTLOOK**

- **Brands we expect to out-perform Industry/Peers:**
  - Applebee's
  - Burger King
  - Domino's
  - Jack in the Box
  - Wingstop
- **Brands we expect to under-perform Industry/Peers:**
  - Chili's
  - IHOP
  - Olive Garden
  - Popeyes

Please see Page 25 for Important Disclosures.

## CONSUMERS – OUR TAKE FOR DECEMBER 2020:

	4/20	5/20	6/20	7/20	8/20	9/20	10/20	11/20	12/20
<b>Consumer Sentiment</b>	71.8	72.3	78.1	72.5	74.1	80.4	81.8	76.9	80.7
<b>Current Economy</b>	74.3	82.3	82.1	82.8	82.9	87.8	85.9	87.0	90.0
<b>Consumer Expectations</b>	70.1	65.9	72.3	65.9	68.5	75.6	79.2	70.5	74.6

SOURCE: University of Michigan Sentiment Poll

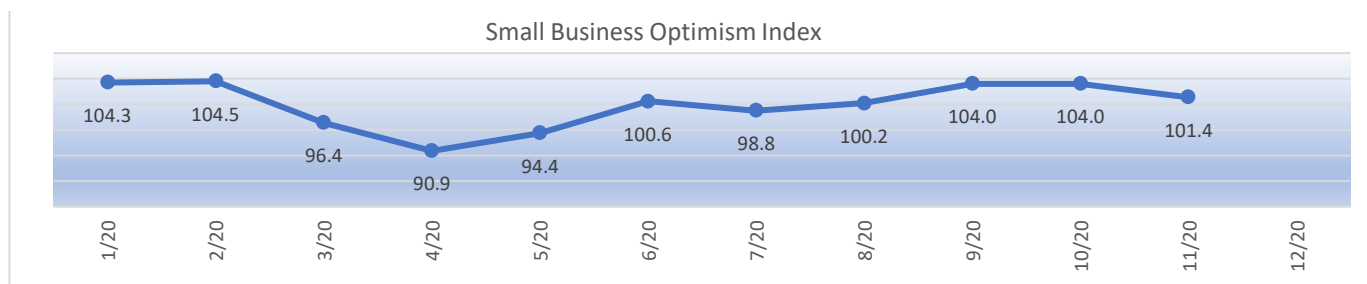
Consumer Sentiment increased in December despite the ongoing surge in the Covid crisis. This improvement was due to a large and rapid partisan shift with Democrats becoming more positive since the election. The Covid-19 crisis has had a much greater impact on consumers assessments of the overall economy than on their own personal income. Assessments have followed a close association of those who remain positive followed mainly by those that have continued to be employed and working at home; while those that have lost their job and incomes have been quite negative.

This “gap” points out some of the reasons for swings in consumer confidence since the crisis began. While news of the vaccine has been initially greeted with optimism, there is a significant number of Americans skeptical of its effectiveness.

## OPERATORS – OUR TAKE FOR DECEMBER 2020:

### OPERATORS:

- Current Month Sales:
  - 19.0% ⬇ Increase over LY
  - 81.0% ⬆ Decrease over LY
- Current Traffic:
  - 10.0% ⬇ Increase over last year
  - 90.0% ⬆ Decrease over last year
- Future Outlook for Sales – next 6 months:
  - 40.0% ⬆ Better than last year
  - 60.0% ⬇ Worse than last year
- Margins Impact:
  - 60.0% ⬆ Reported food cost increase (33% median)
- Menu Prices:
  - Menu prices increased 3.3% over last 12 months
- Top Concerns:
  - Impact from Covid-19 resurgence
  - Financial survival
  - Hiring/retaining qualified employees



Operator Optimism Index declined 2.6 points. Operators are still facing major uncertainties regarding future business conditions, the Covid crisis continues to be a deterrent, as well as what will be the impact on businesses as a result of the elections. Additionally, the late signing of the Stimulus Bill meant relief for December was not possible. Many operators were hoping for an early signing which would allow for a quicker filing for assistance. Because of the late signing, many have lost hope of surviving. Finding qualified employees remain a big problem. 89% of operators reported few or no qualified applicants for the positions they were trying to fill – a paradox since unemployment is so high.

## SUPPLY CHAIN – OUR TAKE FOR DECEMBER 2020:

WHOLESALE COMMODITIES UPDATE	Dec 2020	Nov 2020
Beef	\$2.55	\$1.84
Dairy	\$2.24	\$2.31
Pork	\$1.87	\$3.11
Poultry	\$1.53	\$1.60
Produce	\$25.00	\$25.00
Basket (limited)	\$6.63	\$6.77
Gasoline – National Average	\$2.25/Gal	\$2.13/Gal

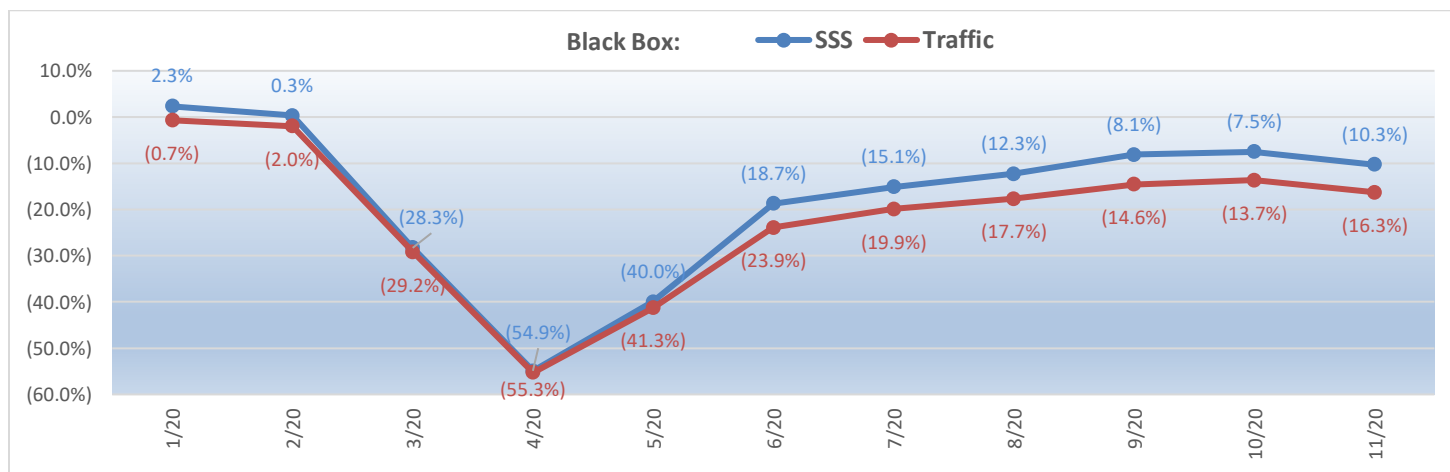
SOURCE: Commodities: USDA / Gasoline: AAA

The selected wholesale commodities price Basket declined slightly with the big decline in pork. Cheese went up slightly which will impact the Pizza sector.

Gasoline prices rose in December; more as a result of holiday seasonal adjustments.

## INDUSTRY NEWS:

Black Box Intelligence shared key highlights:



## HEADLINES – What we have heard:

**New Stimulus Bill passed.** However, what is not in the Bill is direct aid for the restaurant industry without which the IRC (Independent Restaurant Coalition) and the industry will continue to face unprecedented risks of more closures and laying off more employees. “The restaurant industry is the second largest employer in the country and why no specific aid was given is perplexing” to quote the IRC.

**NYC along with CA, WA, D.C., OR, NM, CO, MN, MI, MO, KY, IL and PA halted or reduced indoor dining** during December which exasperated the ability to survive among many operators. Many operators are at the boiling point over these new mandates coupled with many states are even banning outdoor dining.

**Thus far, 18 major Brands have unveiled new store prototypes** that have adapted to the many paradigm shifts brought about by the Covid-19 crisis. The most notable common change is the major reduction in dining room space. Some concepts are even eliminating the dining room altogether. Others are adding Drive-Thru's like Shake Shack. Some will be a Fast Casual/Casual hybrid like P.F. Chang and Applebee's. At the end of the day, these Brands are probably just the beginning and demonstrate the industry adaptability to adverse situations. The current Chains mentioning new prototypes are: McDonald's, Burger King, KFC, Taco Bell, Chipotle, Aussie Grille, Shake Shack, Popeyes, What-A-Burger, Sonic, Applebee's, P.F. Chang, Captain D's, Burger Fi, El Pollo Loco, La Madeleine, Burgerville, Starbucks, Panera Bread.

**More chains are considering higher menu prices** for 3<sup>rd</sup>-party delivery orders due to delivery agents discontinuing the current Covid-19 discounts.

**A medical software design company, Cara, is developing an App** that will create the In-Store experience for Casual Dining, Fine Dining and Fast Casual.

**Conflicting polls are issuing reports that are exact opposites** regarding American's attitude toward taking the Covid vaccine. Rasmussen reported in late December that 63% of Americans were unwilling to take the vaccine if offered in December. Gallup reported that 62% of Americans were willing to take the vaccine if offered in December.

---

## DISCLOSURES AND DISCLAIMERS

### **Analyst Certification and Independence of Research.**

The Compass Restaurant Consulting and Research analyst(s) whose names appear on the front page of this report hereby certify that all the views expressed in this Report accurately reflect our personal views about any and all of the subject securities or issuers and that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views of in this Report.

Compass Restaurant Consulting and Research (the "Company") is an independent research provider. The Company is not a member of the FINRA or the SIPC and is not a registered broker dealer or investment adviser. The Company has no other regulated or unregulated business activities which conflict with its provision of independent research.

### **Limitations of Research and Information.**

This Report has been prepared for distribution to only qualified institutional or professional clients of Compass Restaurant Consulting and Research. The contents of this Report represent the views, opinions, and analyses of its author(s). The information contained herein does not constitute financial, legal, tax or any other advice. All third-party data presented herein were obtained from publicly available sources which are believed to be reliable; however, the Company makes no warranty, express or implied, concerning the accuracy or completeness of such information. In no event shall the Company be responsible or liable for the correctness of, or update to, any such material or for any damage or lost opportunities resulting from use of this data.

Nothing contained in this Report or any distribution by the Company should be construed as any offer to sell, or any solicitation of an offer to buy, any security or investment. Any research or other material received should not be construed as individualized investment advice. Investment decisions should be made as part of an overall portfolio strategy and you should consult with a professional financial advisor, legal and tax advisor prior to making any investment decision. Compass Restaurant Consulting and Research shall not be liable for any direct or indirect, incidental, or consequential loss or damage (including loss of profits, revenue, or goodwill) arising from any investment decisions based on information or research obtained from Compass Restaurant Consulting and Research.

### **Reproduction and Distribution Strictly Prohibited.**

No user of this Report may reproduce, modify, copy, distribute, sell, resell, transmit, transfer, license, assign or publish the Report itself or any information contained therein. Notwithstanding the foregoing, clients with access to working models are permitted to alter or modify the information contained therein, provided that it is solely for such client's own use. This Report is not intended to be available or distributed for any purpose that would be deemed unlawful or otherwise prohibited by any local, state, national or international laws or regulations or would otherwise subject the Company to registration or regulation of any kind within such jurisdiction.

### **Copyrights, Trademarks, Intellectual Property.**

Compass Restaurant Consulting and Research and any logos or marks included in this Report are proprietary materials. The use of such terms and logos and marks without the express written consent of Compass Restaurant Consulting and Research is strictly prohibited. The copyright in the pages or in the screens of the Report, and in the information and material therein, is proprietary material owned by Compass Restaurant Consulting and Research unless otherwise indicated. The unauthorized use of any material on this Report January violate numerous statutes, regulations, and laws, including, but not limited to, copyright, trademark, trade secret or patent laws.