



QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

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TO: Manufacturing Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 1st Quarter, Calendar Year 2013

The 1st Quarter 2013 Same Store Sales Reports

Again mixed results for the industry, another indicator of a mature business. There are a certain number of away from home eating occasions that consumers allow for, which is a function of how they feel about their economics, and that percentage of their income they spend on food away from home. This will vary some, but not widely.

For some brands, the first quarter was rough (Olive Garden, Red Lobster, Famous Dave's, Ruby Tuesday, Burger King). In some cases weather is partly to blame. Some are simply the victims of their own organizational issues, like Burger King - disgruntled franchisees, confused consumers and another new management team. Individually, each of those issues is challenging, in combination they're significant, major problems.

Other brands performed positively (Starbucks, Domino's, Ruth's Chris, Fleming's, Panera, Popeye's). One stellar example that doesn't get much attention is Popeye's. Over a two year period the same store sales performance is over +12%. They have done a great job of creating a unique "Louisiana" flavor experience, which continues to resonate with their core customers, males 25-35, with almost no discounting. The management team at Popeye's believes they can almost double the number of domestic units--much more optimistic than many others. Each of these brands has at least one characteristic in common - they focus on what matters most to their loyal users, and they rarely stray from that approach. You can't help but notice that both Ruth's Chris and Flemings had excellent first quarters, hardly an indication of low consumer confidence!

Egg whites have officially now crossed the threshold into the mainstream. McDonald's, Starbucks and Dunkin Donuts now have egg white offerings in a selection of breakfast sandwiches. Does this mean that enough consumers want egg whites? The jury is out on that subject (certainly they must have tested well enough), but the real issue is that consumers increasingly want to know that the healthier options are available, whether they actually order

the healthy items on each visit or not. We recently heard that insight at an investor conference, as more than one CEO made that very point.

Frankly, we see a bit of a similar pattern with restaurant level menu labeling in California and New York state. Operators differ on whether or not that information influences behavior, or on which occasions. They are fairly consistent in the view that consumers want the information, preferably at their finger tips.

What about all day breakfast? Execution challenges not withstanding (which are admittedly significant), if enough consumers come to value and therefore expect 24 hour availability, is it worth doing? For some chains it is another way to grow SSS - much as going to 24 hour operations has been for some over the past 5-7 years. Are there genuine challenges? Absolutely!

At the same time, these incremental sales out of the same asset become a strategy to help offset additional costs, such as the health insurance regulations coming to reality in 2014. If the sales trends are sustainable, you will see more chains making all day breakfast a part of their standard offerings.

Starbucks, with 12,995 stores domestically as of March 31 this year, is the third largest domestic chain in terms of units, surpassed only by McDonald's and Subway. They are in a position as a strong influencer and connection point for an entire segment of consumers.

For example, Starbucks has influenced two major evolutions with their brand. First, they have changed consumer expectations around ambiance and the environment, of which the store staff interaction is key. Secondly, they have redefined the execution of, and the importance of, effective service recovery protocol. If they make a mistake on your drink, they will fix it. Right now. Other brands have had to raise the bar on both subjects to maintain relevance.

Speaking of coffee - keep an eye on Dunkin Donuts. At over 7,000 units, given their growth plans, they could potentially develop another 3,000-4,000 franchise units domestically over the next ten years, mostly in new markets. There are some states, such as California and Texas, (with a combined population of some 63 million roughly or some 20% of the domestic population), which have very few Dunkin locations (at that mostly in airports and non-traditional venues). This is not the first time that Dunkin has ventured west, so we will watch to see what is different today than in past development attempts.

1st Quarter 2013 SSS Sales by Brand

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited/Quick Service				
Burger King	-3.0%			Closed 28 domestic restaurants
Carl's Jr.	+2.9%			
Chipotle	+1.0%			
Domino's	+6.2%			
Dunkin Donuts	+1.7%			
Hardee's (CKE)	+1.0%			
Jack in the Box	+0.9%			Qdoba-2%
McDonald's	-1.2%			
Panera*	+3.3%	-2.4%	+5.7%	*Company store reports-about 1/2 of the restaurants
Papa John's	+1.6%			
Popeye's	+4.5%			Lapping 8.1% increase from 2012!
Pollo Tropical	+3.8%			
Sonic	+1.3%			
Starbucks	+6%	+5%	+2%	
Taco Cabana	+2%			
Wendy's	+1.0%			
Yum! Brands (US)	+2%			
KFC	-1%			
Pizza Hut	-1%			
Taco Bell	+6%			
Full Service				
Applebee's	-1.3%			Traffic declines, with some price increases
BJ's	+0.4%			
Bob Evans	+0.5%			Mimi's sale to LeDuff North America completed
Bravo Restaurants	-1.6%			
Brio Restaurants	-3.2%			
Buffalo Wild Wings	+1.4%*			*Company stores, +2.2% at franchised locations
Carrabba's	-1.7%			
Cheesecake Factory	+1.6%			
Chili's	-1.1%	-3.2%	+1.5%	
Chuy's	+2.3%			
Cracker Barrel	+3.1%	+0.7%		
Denny's	-0.7%			

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Famous Dave's	-1.8%			
Fleming's	+5%			
IHOP	-0.5%			Traffic declines primarily, some price increases
Longhorn	-1.6%	-2.4%	+2%	
Olive Garden	-4.1%	-3.8%	+1.8%	
Outback	+2.5%			
Red Lobster	-6.6%	-4.4%	+1.2%	
Red Robin	+2.2%			
Ruby Tuesday	-2.8%			-1.7% for franchised stores
Ruth's Chris	+6.6%	+2.9%	+3.6%*	*Positive mix and price driven
Steak 'n Shake	+0.3%			
Texas Roadhouse	+3.5%			On track to open 28 new restaurants in 2013

Implications for Foodservice Manufacturers

Look for chain restaurant brands that are growing--pick 4-5 that align well with what you provide and focus on those. In our view, that is where the growth opportunity will be for much of the manufacturing community. Given a flat industry, there will be pockets of growth. Yet not every growth chain will value what you provide or do well.

Accessibility to all the relevant buying influences is now more of an issue than ever before. It is also the place many manufacturers struggle to make progress. If you expect to be reasonably profitable in the chain restaurant segment, you have to be fairly well penetrated with at least 2-3 buying influences beyond product development and purchasing. In every single one of the chain restaurants we have worked for over the past 2-3 years (around 40), the *last in the loop* on menu strategy, brand direction and menu priorities for the brand is almost always purchasing. When we do our project summary meetings and strategy sessions, product/menu development and purchasing are never in the room.

One of the new realities of success in the chain restaurant industry for manufacturers is the need to connect with new buying influences. Some refer to this as "cold calling." Whatever term you prefer to use, this is a unique and essential skill for success in today's marketplace. We strongly advise having at least 1-2 on your national accounts team who are proficient at this. To be sure, the ability to connect with new buying influences is a unique and valuable skill. It is also one that starts first with talent.

The days of relying only on those contacts you have known for a while, and expecting to be successful are long over. Simply, there have been too many changes in executive roles and responsibilities across the entire industry to expect to be successful relying *only* on your legacy contacts. If you are a sales person who is skilled at, and comfortable, reaching out to and connecting with executives you have never met, you will be in strong demand.

One way to get connected to, and better understand, how the menu development process really works is to work on a limited time offer. Of course there's a chance, as always, you may not get the business, but it is a crash course on how things **really get** done when there's a **real** project.

Often times, the limited time offers get more attention and focus, because there's already a commitment to an offering as a way to communicate with the base of regular consumers. Another issue to consider, since there's a deadline and it isn't a permanent item, is there can be less pricing pressure on the suppliers.

Regards,

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