QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: October 2014

TO: Manufacturing Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 2nd Quarter, Calendar Year 2014

The 2nd Quarter 2014 Same Store Sales Reports

Like everyone else, when we first saw the Chipotle report, our immediate reaction was that there must a typo! There wasn't. There's no unique explanation for that type of performance—it's all about how they have built the culture of the organization. They resonate very well with their loyal users, certainly. There was a price increase, but that is still an incredible performance. It all starts with leadership, the culture they live and the examples they set as individuals.

"*Made possible by our special food culture, innovative people culture, and strong business model that are not only creating significant shareholder value, but also helping us realize our vision to change the way people think about and eat fast food,"* said Steve Ells, Founder, Chairman and co-CEO of Chipotle. *"We are deeply committed to these leaders and the unique people culture they are building in their restaurants, which not only helps provide our guests with an exceptional dining experience, but also enables us to deliver great results to our shareholders*."

An output of their culture is that they attract others who are invested in being the best. As a business person and as a consumer you see this almost every day. When considering the best companies you encounter or have worked for, or the places you shop, the one characteristic that often stands out is the quality of the people who work there. It is not a coincidence. In Steve Ells's case, his sincere commitment to sustainable sourcing, quality foods, and the environmental focus is authentic, sincere and genuine. He doesn't concern himself with whether these issues are popular or not, he lives them. That resonates with associates and consumers alike.

On the subject founder involvement, clearly Howard Schultz's return to CEO of Starbucks Coffee Company has been a huge positive. His recent remarks summarize the path, "*The increasing power of the Starbucks brand, the success of our best-in-class mobile, social and digital technologies and our greatest asset, over 300,000 partners who deliver the Starbucks Experience to over 70 million customers around the world each week - position us to continue growing our business around the world and into the future*."

Both brands have two important characteristics in common — they are the places that restaurant industry employees want to work. Sure, the pay and benefits are better than the other options.

But that's not the main reason. The best always want to be around other high performers — that makes everyone better. The other advantage for those associates is that when they decide to move on to another phase in their career, the Starbucks name on the resume opens a lot of doors.

In looking at the second quarter we saw a favorable rebound from the painful first quarter. For example, Pizza delivery continues to perform well (Domino's, Papa John's) with the exception of Pizza Hut. Today, it's a share game. So much so, that when one brand advertises extensively it positively impacts some of the other segment players. That said, as a manufacturer, the overall volume growth potential isn't there unless you can help one of those brands with unique innovation or participation in a seasonal promotion or Limited Time Offer (LTO).

One brand to consider for long-term growth as a supplier is Dunkin Donuts. Of the some 7,800 domestic stores, only about 300 or so are west of the Mississippi River. The two largest states, California and Texas, with almost 20% of the US population between them, are basically new markets for the brand. It is going to be a gradual climb, but the brand is proven, and there is franchisee interest across the country. Some analysts project the brand could eventually be as many as 18,000 units. Very few of their categories can be supplied by only one vendor nationally.

Wendy's has new momentum, due in no small part to the remodels program. By the end of 2014, they will have remodeled some 600 units over the past 2 years. This is under President Emil Brolick, who was also quite successful as Taco Bell's leader. He's followed a similar set of practices and strategy during his tenure at Taco Bell — he's a great listener, he attracts great talent, and he is very good at getting the franchisees to ramp up their individual stores performance.

On leadership, that team at Fiesta Restaurant Group, which includes both Pollo Tropical and Taco Cabana, had another strong quarter. To be sure, both brands are Sun Belt based (Florida and Texas) but both markets are very competitive.

Full service continues to be a mixed bag - an indication of two factors. Many of the legacy full service brands are still struggling to maintain the sales volumes (in traffic) from a few years ago. Some have done well, using some LTOs to generate "news" as both Denny's and IHOP had healthy growth this quarter. Texas Roadhouse continues to grow as well, very consistently.

Our friends in the Italian segment had a very rough quarter, with pain all around for Macaroni Grill, Carraba's, Olive Garden and the Brio/Bravo group. One challenge for these brands is their lack of relevance and connections with the millennials.

2nd Quarter 2014 SSS Sales by Brand

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited/Quick Service				

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Burger King	+0.4%			Includes Canada
Chipotle	+17.3%			Not a typo!
Domino's	+5.4%			
Dunkin Donuts	+1.8%			
Einstein’s	+1.6%			
Jack in the Box	+2.4%			Qdoba +7.5%
McDonald's	1.5%			
Panera*	Flat			
Papa John's	+6%			
Popeye’s	+3.8%			
Pollo Tropical	+6.7%	+5.6%		
Pot Belly	-1.6%			
Sonic	+1.4%			
Starbucks	+7%	+2%	+4%	
Taco Cabana	+2.8%	-0.2%		
Wendy's	+3.9%			+3.1% at franchised restaurants
KFC	-4%			
Pizza Hut	-4%			
Taco Bell	+2%			
Full Service				
Applebee's	+0.6%			
BJ’s	-1.7%			
Bob Evans	-2.0%			
Bonefish Grill	+0.3%			
Bravo Restaurants	-6.0%			
Brio Restaurants	-4.5%			
Buffalo Wild Wings	+7.7%*			*449 Company stores,(+6.5% at 579 franchise stores)
Carraba’s	-1.2%			
Cheesecake Factory	+1.5%			-2.7% @ Grand Lux
Chili's	+2.5%			
Chuy’s	+2.4%	+0.9%	+1.5%	
Cracker Barrel	+1.2%	-1.9%	+3.1%	
Denny's	+1.9%			
Famous Dave’s	-5.2%			
Fleming's	+3.6%			
IHOP	+3.2%			
Joes’ Crab Shack	-4.7%	-6.1%	+0.1%	
Longhorn	+2.8%	-1.0%		
Macaroni Grill	-2.6%	-5.9%	+1.8%	

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Olive Garden	-1.3%	-2.5%		
Outback	+0.9%			
Red Robin	+1.2%	-2.5%	+3.7%	(365 company stores, 130 franchised stores)
Ruby Tuesday	+0.4%			*668 Company stores (+4.9 % at 31 franchised stores)
Ruth's Chris	+2.8%	+2.3%	+0.4%	
Steak 'n Shake	+1%	+0.5%		
Texas Roadhouse	+2.9%*			*357 Company stores, (+3.5% @ 75 franchised stores)
Yard House	+2.3%			

Implications for Manufacturers

Don't let the purchasing folks pull your leg — all the chain operators are taking price increases. For example, this past quarter, Cracker Barrel, Macaroni Grill, Cracker Barrel, Red Robin and Starbucks all took price increases - see above. That doesn't mean the purchasing teams are not under both financial and political pressure to save money. But the reality is that over time, we all have to make money. The trend began about five years ago, when manufacturers first began to fire customers. Finally, for the first time ever, the operators are actually starting to notice!

If they're that cost conscious in your category, it is usually a pretty good indication that what you sell them doesn't really matter to the overall brand experience they work to deliver. If they're only transactional in your categories, then treat them as such and look for more strategically aligned opportunities. Of course, if your primary contacts are only in purchasing you're already at a competitive disadvantage. You've heard us talk and write about this in the past!

If you're working with Darden in their current state of challenges with the investor community, you have one of two strategies. The first is to make the decision to be relational, and expect to be in numerous meetings where not much is really decided for the next few months. The other option is to minimize your investment there for the next few months. From what we hear there are more changes on the horizon. This is no surprise given the management changes and the activist shareholder pressures, combined some very mature brands.

As always, we look forward to your thoughts and feedback.

Regards,

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