QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: December 12, 2013

TO: Manufacturing/Operator Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 3rd Quarter, Calendar Year 2013

The 3rd Quarter 2013 Same Store Sales Reports

Red Robin, Starbucks, Popeye's, and Buffalo Wild Wings continue to perform well. Each has a unique, compelling brand promise they deliver on very well. Beyond that, each brand continues to innovate not only with the menu, but the overall guest experience. These are the brands who can, in fact, take price and many are doing just that, even in a less than stellar economy.

The theme of new product news continues to resonate. Even if consumers don't actually try one of the new offerings, it is a great reason to communicate with consumers - the widely used "New News" approach. If it drives incremental traffic, it wins.

Red Robin is offering multiple price point ($3, $5, $7, and $9) appetizers. We believe these drove their success this past quarter combined with a focus on customization of the burgers and the guest experience. Popeye's introduced "Chicken Waffle Tenders," which drove traffic and sales. Additionally, about 50% of stores domestically have been reimaged with the new Popeye's Louisiana Kitchen. The remodeled units are averaging a 3-4% sales lift as a result.

Sonic is on the rebound, posting a 5.9% gain. Their innovation includes Classic Spicy Chicken Sandwich, Island Fire™ Spicy Chicken Sandwich, Island Fire™ *Super*SONIC® Cheeseburger and Southwest Chipotle Breakfast Burrito, as well as a new natural cut French fry.

Solid evidence that operators are confident about the future of a brand is the franchise operators and/or brands willingness to build new restaurants. For next year: Buffalo Wild Wings has plans to open 45 company stores, and has firm franchisee commitments for another 40; Sonic will open 40-50 new stores; Popeye's will open 100 domestically (mostly franchised, but at least 8 company stores); and Red Robin will open 20 new restaurants. Others are building as well. Starbucks continues to grow internationally. All good signs.

Regarding Starbucks, beyond the phenomenal performance, they have changed the landscape all around the world. Recently we've done some international travel - Argentina, Italy, Switzerland and the UK. Starbucks imitators and coffee bars are booming in each of these markets. In doing some work recently, we learned that many of the top chain brands in several industrialized countries are coffee shops, most of which have very similar offerings and positioning as Starbucks - even in Asia.

More importantly, Starbucks has re-set the customer interaction, customization and personal technology standards for every other QSR and Fast Casual operator across the industrialized world. For any operator who wants to be successful, the consumer expectations bar is higher than ever.

There is some debate about how much the "no tipping" aspect matters to fast casual consumers. To be sure, it does. However, what we're seeing and hearing in the consumer work we've done for chain restaurants is that having more control over the entire experience is the primary motivation. Another big factor is that there's never any waiting for the check at the end of your meal, which is a huge area of dissatisfaction for consumers. Of course, if you want more of a drink, you simply go get it yourself. Once again, not having to rely on the restaurant staff is key.

This matters most to consumers under the age of 30. Personalization, customization and having more control over consumption of any kind has to fit whatever need state they are in. This is their normal expectation. This applies to not only to restaurants, but also mobile phones, shoes, music, restaurants, and college majors – to name a few. It is all about the individual.

We keep an eye on both Dunkin Donuts and Chik fil A, both in the top ten national chain restaurant brands. Neither is truly a national brand geographically, but both have lots of room for growth. Another one we see with strong growth prospects is Popeye's - they continue to consistently lap strong sales growth. The question is who are they taking traffic from? We don't believe KFC is necessarily the brand they steal from the most. Our experience tells us it mostly fast casual and casual dining, not QSR.

Many are very anxious about the effects on discretionary consumer spending, with the new health law coming into effect next month. Regardless of the final legislative or administrative outcome, uncertainty and confusion dampens consumer confidence, which is not good for discretionary spending in restaurants.

The higher end, and the special treat (Ruth's Chris, Flemings, Capital Grill, Morton's, etc.) consumers will continue to treat themselves, and celebrate certain events. And, business meals aren't going away, at least not yet. The challenges will come if/when consumers begin to trade down/manage the check or cut back on total dining out occasions.

3rd Quarter 2013 SSS Sales by Brand

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited/Quick Service				
Burger King	-0.3%			
Chipotle	+6.2%			
Domino's	+5.4%			
Dunkin Donuts	+4.2%			
Jack in the Box	-1.4%			
McDonald's	+0.7%			
Panera*	+1.3%			
Papa John's	+1.8%			
Popeye's	+5.1%			
Pollo Tropical	+6.5%	+3.2%		
Sonic	+5.9%			
Starbucks	+8%	+5%	+3%	Traffic ++ mostly incremental visits w/current users
Taco Cabana	+1.8%	-0.1%		
Wendy's	+3.2%			Pretzel Bacon Cheeseburger promo driving sales
Yum! Brands (US)	Flat			
KFC	-4%			
Pizza Hut	-1%			
Taco Bell	+2%			
Full Service				
Applebee's	-0.4%			Issue remains traffic, 18 restaurants closed in June
BJ's	-2.2%			
Bob Evans	-1.9%			
Bonefish Grill	-2.7%			
Bravo Restaurants	-3.7%			
Brio Restaurants	-5.1%			
Buffalo Wild Wings	+4.8%			
Capital Grill	+3.2%			
Carrabba's	NC			

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Cheesecake Factory	+1.0%			
Chili's	-1.9%			
Chuy's	+3.1%			
Cracker Barrel	+2.8%	-0.1%	+2.9%	
Denny's	+1.2%			
Famous Dave's	-0.8%			
Fleming's	+4.2%			
IHOP	+3.6%			Slight traffic decline offset by pricing
Longhorn	+3.2%	+1.3%	+1.7%	
Olive Garden	-4.0%	-3.9%	+1.7%	Menu mix negative-1.9%
Outback	-0.3%			
Red Lobster	-5.2%	-5.9%	+1.2%	
Red Robin	+5.7%	+1.1%	+2.3%	Enhanced by +2.3 mix improvement
Ruby Tuesday	-11.4%*			*703 Company stores (-8.4% at 75 franchised stores)
Ruth's Chris	+4.2%			
Steak ‘n Shake	+4.2%	+4.0%		
Texas Roadhouse	+2.6%			+4% at franchised stores

Implications for Manufacturers

There are clear patterns with the winners and those less fortunate.

If you've invested at Ruby Tuesday, that could be problematic. To be sure, there is a very smart, talented team in place there, one that we respect a great deal. The challenge is that it may be too late to turn a brand with some 700 units. The biggest issue is that Ruby Tuesday is not in the normal rotation of brands consumers use regularly, having fallen out of relevance over the past 3-5 years. This hurts more with younger consumers, who see the brand as someplace their parents went.

You need to invest time in brands with solid, or at least sustained, traffic patterns. Otherwise you run the risk of landing business with a declining chain brand - so your margins suffer even more, as the volume actually delivered is underwhelming. Not a good place to be as a sales person or manager!

Many had very strong reactions to our recent recommendations around re-thinking the chain account coverage patterns. The reality is the industry is now mature, so growth is more a function of brands stealing share from others. For manufacturers, this means at least two things - you need to place some bets early on with chains you believe have a chance to grow in your categories, and you can no longer afford to spend a lot of resources in "maintenance" mode.

If accounts need maintenance work, we understand and fully support that. At the same time, you don't need to apply strong talent to simple maintenance work. Put the strong capabilities on the most challenging and best opportunities.

Regards,

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