QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: March 22, 2011

TO: Foodservice Industry Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 4th Quarter, Calendar Year 2010

For the successful Chain Restaurant Brands, it really is about the culture of the organization — selection and leadership. What is becoming a clear trend – are the different characteristics of the management teams of the successful and not as successful chains. The three brands that continue to do well – Panera, Starbucks, and Chipotle are as much about their individual organizational cultures as their offerings and consumer experience.

This quote from Monty Moran, Co-CEO of Chipotle says it well as he commented on what is driving their success. This is a great example of what the high-performing brands are doing, and their overall approach.

> "*Our top performers, along with a culture of empowerment and striving to reach high standards come together naturally to produce great results. Our top performers demonstrate that they can run better restaurants, cook and serve better food, provide better service, increase throughput in their peak times and operate an efficient business. And our managers do all this while hiring and developing our future leaders. So of course we're pleased with the great results our high performing teams generate, but it's even more pleasing to know that it's our special people culture that's enabling these results".*

Follow the traffic

This topic gets a high degree of interest from our friends in the supplier community. When looking at the chains' sales numbers, the most important metric for you to consider is overall traffic. Those trends and patterns, over the course of the last 3-4 years are the true measure of a chain's overall health — how many (more or fewer) consumer visits they are capturing over this time period.

This is not to suggest the overall sales patterns don't matter, they absolutely do. But the real measure of how well your customer is doing is the traffic trends.

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For example, some other brands which have weathered the industry storms pretty well — BJ's, McDonald's, Steak N Shake, Texas Roadhouse, Longhorn and Domino's. These brands continue to connect with consumers on value, quality, and overall experience and, in some cases, by upgrading or reinventing themselves.

Some have not done so well, such as Jack in the Box, Sonic, Arby's, Chili's and Ruby Tuesday's. Each of these brands has suffered consistent traffic declines since the 1st Quarter of 2009.

For example, Sonic has suffered quarterly traffic declines of 4%, 6.5%, and most recently 2.4% — this means that consumers coming through their restaurants has declined 13% over the past 2 years. This is a trend which is very difficult for any restaurant operator. The patterns at Arby's and Jack in the Box, are similar with cumulative traffic declines of 16-17% and 11% over the past two years – although both appear to have stabilized in the most recent reports – it means going forward that the unit volumes will be smaller.

As a manufacturer, you must be very judicious about when and with which chains to invest in product development, marketing support or much more than RFP dollars. Finally, some of the chain executives have begun to realize that the manufacturers are beginning to become more than a little fatigued about the high levels of support provided.

We are suggesting that each of our clients makes significant investments with individual chains, only after significant due diligence. One key is to know the overall strategy and growth tactics of the chain. It is quite telling when a publicly-traded company is projecting a decline in sales for the upcoming year!

If it is an RFP situation, that's fine, just make sure the support levels are consistent with the value of the business.

The 4th Quarter 2010 SSS reports

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited/Quick Service				
Arby's	+2.0%			Has the turnaround finally begun?
Carl's Jr.	-0.4%		NA	
Chipotle	+12.6%			
Domino's	+6.3%			
El Pollo Loco	-2.2%			
Hardee's (CKE)	+5.7%		NA	
Jack in the Box	+1.1%			Lapping a -11.1%, Qdoba SSS +6.4%

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
McDonald's	+4.4%			
Panera	+5.2%			
Papa John's	+0.7%			
Popeye's	+6.2%			
Sonic	-2.4%			
Starbucks	+8%	+6%	+2%	
Wendy's	+0.2%			
Yum Brands				
KFC	+1%			Have the traffic declines finally stopped?
Pizza Hut	+10%			
Taco Bell	+4%			
Applebee's	+2.9%		+2.1%	
BJ's	+5.9%	NA	NA	Continued strong performance even in California
Bob Evans	-0.5%	NA	NA	-3.2% SSS at Mimi's Café, menu prices up 2.1%, a 5% traffic drop, guidance range for 2011- is -2% to -5% SSS
Buffalo Wild Wings	-1.1%, -0.3%	NA	NA	-1.1% at Franchisee stores, (473), -0.3% at Corporate stores (259)
California Pizza Kitchen	-1.1%	NA	NA	
Cheesecake Factory	+0.9%	NA	NA	
Chili's	-4.9%	-7.1%	NA	Traffic declines continue
Cracker Barrel	+0.3%	-1.5%	+1.8%	
Denny's	-3.6%	-1.9%		
Famous Dave's	-0.8%	NA	+1.2%	Corporate Stores SSS+3.3% (52 of the 180 stores are company owned)
IHOP	+1.1%	NA	NA	
Logan's Roadhouse	+2.6%	+1.3%	+1.3%	
Longhorn	+4.5%	NA	NA	
McCormick & Schmick's	-1.0%	NA	NA	
Morton's	+5.3%	NA	NA	Encouraging rebound for this higher end operator
Olive Garden	+1.5%	NA	NA	
Outback	+2.4%	NA	NA	
Perkins	-2.8%	NA	NA	
PF Chang's	+0.1%	-0.9%	+1.0%	
Red Lobster	-1.0%	NA	NA	
Red Robin	+0.8%	+1.1%	-0.3%	Consumers managing the check
Ruby Tuesday's	+4.2%	NA	NA	
Ruth's Chris	+9.2%	NA	NA	Strength indicates some increase in consumer confidence

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Steak N Shake	+2.1%	+3.5%	NA	Continued solid traffic growth
Texas Roadhouse	+3.1%	NA	NA	

Implications for Foodservice Manufacturers

We have said it before, and we'll say it again – **Follow the traffic!** The only thing that equates to volume for manufacturers is changes in restaurant traffic. Just because a chain has been able to raise their prices, that doesn't mean you as a manufacturer have any pricing power with the chain. For existing chain business, continue to evaluate where you will invest. As pointed out above — Arby's, Chili's and others with cumulative traffic declines of 15+% over the past two years will not likely yield a return of any sort.

Continue to invest in the innovators if your product category is relevant to them. The ability of Domino's to reinvent themselves over the past 18 months is quite startling. Remember when McDonald's was left for dead by the industry and financial press a few years ago? Consumers will give the brands a second chance, so look for those that have been underperforming in the past, but are committed to change going forward.

One theme we have seen with our chain clients that is important for manufacturers to consider — owners (boards of directors or private equity firms) have reached their limit for poorly performing management teams. Many concepts have seen significant senior leadership changes in the past several months (some as many as three leadership teams in 18 to 24 months). These changes pose both opportunities and risks for manufacturers and make it more important than ever that the relationships go as far up in the organization as possible. If your only relationship is with R&D, and the chain gets a new CEO, COO and VP of Marketing – chances are the R&D contacts are at risk in the organization as well. On the opportunity side, with so many leadership changes in the past few months, you may find yourself with a good friend in a high place.

Regards

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