



QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: April 11, 2012
TO: Manufacturing Friends and Colleagues
FROM: Bellwether Food Group
RE: Chain Restaurant Same Store Sales (SSS) 4th Quarter, Calendar Year 2011

There are some encouraging signs, especially with the brands that are performing well. We haven't seen this many positive results in one quarter in over three years. Most brands are reporting positive trends – or at least less negative. There are still three groups — clear winners, those playing defense and those really struggling, although the number in the struggling group is smaller than in recent quarters.

The winners include Chipotle, McDonald's, Starbucks, Dunkin Donuts, Texas Roadhouse, Steak 'n Shake, Domino's, Panera, Buffalo Wild Wings and Darden (including Olive Garden). Each of them has unique positioning, and is very disciplined about really understanding what matters most to their loyal consumers. Interestingly, when you talk to one of the senior executives at any of these brands, they don't talk about or ever really worry much about what their competitors are doing or not doing. They focus on executing their strategy and directives.

We recommend the same approach to our manufacturing clients. So many get very invested in understanding what their competitors are doing and not doing. Our advice — don't worry about what you can't control. Focus on what you can control, as your overall approach and strategy really matter today. When our chain restaurant clients talk to us about their best vendors, the ones they respect the most — they never talk about the products these vendors provide. They **do talk about the people** who represent those vendors, the responsiveness and the support provided to help them get done what matters to them.

Taking a deeper look at some of the top performers – Olive Garden had a SSS increase of 2%. Yet, their customers are managing the check as evidenced by the SSS increase of 2%, driven by a traffic increase of 1.7%, even with a price increase of 2.1%. If check management wasn't a factor, the SSS increase would have been 3.8%. Yet the incremental traffic is a good sign.

Red Lobster is very encouraging – the overall SSS increase of 6%, which exceeds the traffic and pricing gains (1.3% and 2.8% respectively) – which means consumers are going out more, and

spending a little more when they do. This is the first surprisingly strong positive indicator in some time — a significant event.

Some brands are growing overall sales only by raising prices, which can be considered a positive. The ability of some operators to pass on price increases while traffic is flat is certainly encouraging. Red Robin, Famous Dave's, and Cracker Barrel are examples, and another sign of improving consumer sentiment overall.

It is interesting to note that 20 years ago, no one was paying much attention to Chipotle, Panera nor Starbucks. These brands all benefit from being all about the customer, being connected to the right generations (even Baby Boomers) and continuing to improve their service experiences, offerings and menu. It is not just one thing; it is all of those together.

Those struggling — Ruby Tuesday, Logan's Roadhouse, Burger King, are suffering from brand relevance and consistency issues – both tough to work through. Be very careful about investing too much with brands that can't seem to turn the corner with sales trends.

On that subject, we are advising our clients to be very thoughtful about investing (or over investing with Subway). Essentially, the net of all the new unit growth over the past five years has been to cannibalize occasions from other Subways. As an example, in 2010 they added some 816 domestic units on a base of 23, 034!

The average unit volume **declined by \$15,000** from \$434,097 to \$419,245. If you are in the Subway system, then it is not a growth business domestically. If you aren't, then be very well aware that while system volumes may be large, the incumbents have huge incentives to maintain their volumes. And there is pressure to manage costs!

All are holding their breath on gas prices. How much it affects consumer behavior in restaurants is subject to much debate. Yet one dynamic is clear; if and when the consumer confidence hits a tipping point of decline, (wherever that point is) then traffic becomes an issue, as the consumer simply won't use restaurants as much.

Account penetration continues to be a focus and a priority for many of our manufacturing clients — as it should be. If you are already working with a customer, the current environment is an excellent time to invest in further penetrating your existing customers. Most manufacturers have relationships only in purchasing and menu development – the key is to crack the code with marketing and eventually the "C" suite.

Your accessibility with a chain is rarely a function of what one of your competitors does or doesn't do. It is a function primarily of how good your firm is at establishing and managing the relationships with the decision makers in that chain.

For more on that subject, please take a look at our recent white paper, Account Penetration. Since January, we have published a total of five white papers on sales process, which you can download on our website: www.bellwetherfoodgroup.com; in case you missed the initial electronic distribution.

We removed both Morton's & McCormick & Schmick's this quarter as both were recently acquired by Landry's, which as a private concern, does not report quarterly earnings.

The 4th Quarter 2011 SSS reports

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited/Quick Service				
Burger King	-2%			Lapping a negative 5.8%
Carl's Jr.	+2.0%			
Chipotle	+11.1%			
Domino's	+6.8%			
Dunkin Donuts	+7.4%			
Hardee's (CKE)	+1.8%			
Jack in the Box	+3.6%			
McDonald's	+7.1%			
Panera	+5.9%			
Papa John's	+1.7%			
Popeye's	+5.9%			Lapping a +2.5%
Sonic	+3.4%			
Starbucks	+9%	+7%	+2%	
Wendy's	+2%			
Yum! Brands (US)	+1%			
KFC	-1%			
Pizza Hut	+6%			
Taco Bell	-2%			
Full Service – Family, Casual and Upscale				
Applebee's	+1.0%			Reporting flat traffic
BJ's	+5.1%			
Bob Evans	+1.6%		+2.0%	Traffic is still an issue-Mimi's down-3.4%
Buffalo Wild Wings	+8.9%			+5.9% at Franchised , 498 Franchise Units of 827 total

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Carrabba's	+3.5%			
Cheesecake Factory	+2.7%			
Chili's	+1.4%	+1.1%		
Cracker Barrel	+3.5%	+1.1%	+2.4%	
Denny's	+1.6%	+0.7%		Projecting 45-50 new units in 2012
Famous Dave's	+3.6%		+3.1%	
IHOP	-1%			Traffic declines offset by modest price increases
Logan's Roadhouse	-0.6%	-4.7%	+4.3%	
Longhorn	+6.7%	+7.0%	+2.3%	Better trends, consumer managing the check
Olive Garden	+2%	+1.7%	+2.1%	Customers managing the check
Outback	+3.6%			
PF Chang's	-2.4%			Set to open 14-19 new units this year
Red Lobster	+6%	+1.3%	+2.8%	Consumers trading up to higher priced items/adding items
Red Robin	+4.8%	-0.8%	+5.6%	Traffic an issue
Ruby Tuesday's	-4.2%			Back to 2009 volumes
Ruth's Chris	+7.7%			
Steak 'n Shake	+5.5%	+5.7%		Lapping a 2.1% SSS increase
Texas Roadhouse	+5.6%			Plans to open 25 new restaurants this year

Implications for Foodservice Manufacturers

As a manufacturer there are a few options. You can protect the business you have with those that are playing defense. Or, you can begin to work towards those showing real growth. The fourth quarter of 2011 is the first time we have seen real growth outside of the obvious winners everyone is continuing to talk about.

Our bias is to focus on those showing positive traffic trends. Admittedly, not every chain posts their traffic numbers, but through your contacts in the chain world, you can develop a sense of which chains are showing positive traffic, and which are not. Beyond traffic through their existing system, we are finally seeing some unit growth after the contractions in many chains through 2007 – 2010. This is another leading indicator of where to place your bets in the chain world.

Overall, while these are positive signs for our industry as a whole, the basic conditions remain largely the same. The world is different than it was in 2005 – 2007, when everything was good. There are winners and losers today in the chain world, and as a manufacturer with limited resources (we don't know of a manufacturer that has more resources today than a few years ago), you need to continue to place your bets cautiously.

We believe that the current environment of winners and losers will persist for a number of years. We have seen how hard it is for even a failed brand (Bennigan's, Ground Round) to completely disappear from the marketplace. As a result, manufacturers should be focused on the real growth stories (increasing traffic, increasing AUV's and building new units) that will drive future success for the chain, and for the chain's suppliers.

Please feel free to contact us with any comments or thoughts, especially if you think we missed something, or you disagree with our conclusions!

Regards,

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