# QUARTERLY CHAIN RESTAURANT UPDATE

*BELLWETHER FOOD GROUP, Inc.*

DATE: March 22, 2013

TO: Manufacturing Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 4th Quarter, Calendar Year 2012

**The 4th Quarter 2012 Same Store Sales Reports**

The landscape in the chain restaurant industry continues to change. Admittedly, these changes are moving slowly and in some cases are modest, yet they matter. An example that stands out is the change in the composition of the senior management teams at some of the leading firms. Bloomin Brands comes to mind.

Over the past five years, the organization has undergone a complete makeover, driven largely by the diverse backgrounds of the current management team members. The C suite at Bloomin includes veterans from such consumer juggernauts as Avon, Best Buy, Charles Schwab, USAA, Mars, and General Nutrition Centers - a wide range of disciplines across a number of consumer centric businesses. This is quite a change from just a few years ago when the entire team was comprised of only legacy industry veterans.

Realizing the chain industry is clearly now a share game, the leaders have recruited accomplished talent that has been successful in financial services, candy, cosmetics and electronics retailing. Another example of a CEO/President from outside the industry is Sandy Cochran, who was in the book retailing business prior to joining Cracker Barrel in 2009. She also served in the US Army early in her career.

New product news, even with the legacy brands Taco Bell and KFC, really does matter. The results validate this. Following Nacho Cheese Doritos Locos Tacos is Cool Ranch® Doritos® Locos Tacos at Taco Bell for the 2nd quarter. The new products are signature to the brand and another reason to connect with their loyalists. Impressive what KFC has done, with "couchgating." They have begun to turn a legacy, previously tried, brand around by connecting with millennials in ways that are meaningful to them. Oh, by the way, they continue to emphasize the fresh food. Both brands are in flat traffic segments.

The fact remains that overall industry traffic growth is basically flat, meaning there are the same number of folks coming through the doors. Casual Dining traffic is flat, with a few

exceptions - BJ's and Buffalo Wild Wings are both relatively young brands. Both resonate very well with younger consumers who are still in that life phase where socializing and dining out are often connected. The layouts of each store, with the newer consumer technology touch points, are also factors.

To be sure, some of the legacy brands, especially in QSR, are showing SSS increases. However, digging deeper and looking at the trends over the past 3-4 years indicates many are simply working their way back to where they were pre-recession.

For example, if we look back 3 years to the 4th quarter of 2009, Carl's Jr. was -8.7%; Jack in the Box was -11%; Sonic was -6.5%; KFC was -8%, Pizza Hut-12%! In Casual Dining, the numbers were challenging as well, with Applebee's reporting negative sales (-4.5%), IHOP (-3.1%), Chili's (-3.2%), and Red Robin (-10.2%).

Since that time, the vast majority of net sales increases have been a function of increasing prices to the consumer and menu mix, not traffic increases. By our calculations, the aforementioned QSR brands have just recently gotten back to pre-recession traffic levels, which is of course the primary driver of sales. Kudos to those "turn arounds," but again, they are simply getting back to pre-recession sales performance.

The recent incremental income tax increases, modest as some suggest, nonetheless create another emotional trigger which reminds consumers, once again, that they don't have the financial confidence and comfort they remember from just a few years ago. That is not likely to change any time soon.

**4th Quarter 2012 SSS Sales by Brand**

| Brand | Same Store Sales Versus Prior Year | Traffic Change | Pricing | Comments |
|---|---|---|---|---|
| **Limited/Quick Service** | | | | |
| Burger King | +3.7% | | | |
| Carl's Jr. | +5.5% | | | Strong California presence challenging sales |
| Chipotle | +3.8% | | | |
| Domino's | +4.7% | | | |
| Dunkin Donuts | +3.2% | | | |
| Hardee's (CKE) | +3.6% | | | |
| Jack in the Box | +1.9% | | | |
| McDonald's | +0.3% | | | |
| Panera* | +5.1% | -0.3% | +5.4% | *Company stores only, total system +4.9% |

| Brand | Same Store Sales Versus Prior Year | Traffic Change | Pricing | Comments |
|---|---|---|---|---|
| Papa John's | +5.2% | | | |
| Popeye's | +6.4% | | | |
| Pollo Tropical | +8.3% | +6.7% | | |
| Sonic | +3.0% | | | |
| Starbucks | +7% | +4% | +2% | The momentum continues |
| Taco Cabana | +6.8% | +4.2% | | |
| Wendy's | -0.2% | | | |
| Yum! Brands (US) | +3% | | | |
| KFC | +4% | | | New products making a difference |
| Pizza Hut | -1% | | | |
| Taco Bell | +5% | | | |
| | | | | |
| Applebee's | +0.9% | | | Traffic declines continue, growth all average check |
| BJ's | +3% | | | |
| Bob Evans | +1.6% | | | Agreement in principal made to sell Mimi's Cafe |
| Bravo Restaurants | +1.7% | | | |
| Brio Restaurants | -0.5% | | | |
| Buffalo Wild Wings | +5.8% | | | +7.4% at franchised locations |
| Carrabba's | -0.4% | | | |
| Cheesecake Factory | +1.3% | | | |
| Chili's | +1% | | | |
| Cracker Barrel | +3.3% | +0.2% | | |
| Denny's | +1.7% | | | |
| Famous Dave's | -6% | | | -4% at franchised units, troubles in the BBQ segment |
| Fleming's | +4.0% | | | |
| IHOP | -2.6% | | | Decrease in traffic and average check |
| Longhorn | -1.5% | -2.4% | | Company estimate, final report next week |
| Mimi's Cafe | -4.0% | | | |
| Olive Garden | -4% | -3.8% | | Company estimate, final report next week |
| Outback | +5.3% | | | Open for weekend lunch @ approx. 25% of stores |
| Red Lobster | -7% | -4.4% | | Company estimate, final report next week |
| Red Robin | +1.4% | +0.3% | +1.1% | |
| Ruby Tuesday's | +0.3% | | | |
| Ruth's Chris | +5.4% | | | |
| Steak 'n Shake | +1.3% | +1.6% | | |
| Texas Roadhouse | +4.4% | | | |

**Implications for Foodservice Manufacturers**

On the subject of changing landscape - have you noticed that it is increasingly difficult to get appointments with your chain customers? That the decision makers are less accessible? That there is continued pricing pressure? That no one seems to care about value? Sound familiar?

You're not alone. The fundamental issue, especially in heavily franchised systems (Applebee's, Sonic, BK, Wendy's, etc.) is that unit economics are challenged by incremental labor, food cost, energy cost, with only flat to single digit traffic increases. What this means is that the franchisee community is feeling the pressure. They push back on almost every initiative the franchisor seeks to initiate because they all involve spending money, which is scarce.

The way past this accessibility issue is simple - but as we all know, simple is difficult. The answer is sales talent. For so long, product and brand names carried relationships and provided accessibility, and they still do if you have a brand name or advantage that really matters - but those are dwindling.

Improving and enhancing accessibility inside customer and prospective customer organizations is paramount today, and very few manufacturers we have talked to or worked with have this issue figured out. Ultimately, it is not about a gimmick, nor being clever. It's about positioning your people and your firm as a resource, and that takes time, diligence and consistent focus.

Yes, part of this is about cold calling - that is, connecting with those who don't know you yet. Another part is further penetrating organizations that you do business with today. If your national accounts team is stuck in purchasing and menu development, you are at a competitive disadvantage. That is just as bad as learning about the RFP when everyone else does. When that happens, you are starting from a weak position.

Another reality is the evolving structure of the leadership teams, as we mentioned about Bloomin Brands and Cracker Barrel. These executives are disciplined, using data to drive decisions and process to execute. As such, connecting to become a vendor to these firms requires a much more disciplined approach - driven primarily by deciding early on, which opportunities don't fit you.

The chain industry sales return on investment is not what it was even 4-5 years ago. To be successful you need strong sales talent. Without strong talent, the best strategy, tools and approach won't be effective. You'll do much better over time with strong talent and middle of the road offerings than the other way around!

In looking at your own talent, are you staffed for the market position and realities of the chain restaurant and foodservice marketplace? It is now, and has been, a share capture game, and it appears to be headed that way for the next 24-36 months. If want to improve your performance in national accounts - start with the most important thing - the caliber of the professional representing you inside these complex organizations, struggling to capture a finite number of consumer occasions from their competitors.

Regards,


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