QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: December 9, 2010

TO: Foodservice Industry Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 3rd Quarter, Calendar Year 2010

The 3rd Quarter 2010 SSS reports

Once again there are clear patterns in the brands that are performing well in this new environment (which isn't so new anymore) and those that are not. Three loosely defined groups are emerging:

- Legacy brands, which have adapted to the new, evolving consumer expectations and the moving target reality of the marketplace today. Examples are McDonald's, Golden Corral, and Domino's. The new McDonald's coffee beverage program and the news around it is still driving customers through the door. Interestingly, it seems the cold beverages tend to be getting more traction than the hot drinks. While Golden Corral (we recently visited one of the newer units) continues to evolve their brand successfully — the latest is a series of unique stations, which includes Mexican and Italian offerings.

- Newer generation brands — these are the brands we see as most relevant to the core chain consumers today, who tend to be in a life-phase which is conducive to what these brands offer and more importantly, how they connect emotionally to these consumers. Examples are Panera, Chipotle, Starbucks, California Pizza Kitchen, and Buffalo Wild Wings. Their stores are newer, more contemporary, and they continue to focus on what matters to ***their core*** consumers, in the overall experience.

- Legacy brands that are ***not*** connecting. These brands are simply not as relevant as their stronger competitors — to the consumers that matter most today. To be sure, the functional benefits of the brand may be there, but these organizations continue to struggle with sustaining an emotional connection to the consumers. Sonic, Chili's, TGIFriday's, Jack in The Box, and Arby's — all of whom are lapping declines from as long as 2 years now.

The reality is simply that we are in a flat to declining industry (over the last five years casual dining traffic is off 20%), and shouldn't expect any real net industry growth for at least another 24 months.

The economic times notwithstanding the fundamental shift, remain the same — consumers have realized that their lives are just as fulfilled without going out to eat as often, that trading down works, or looking for better value is something everyone does now. For the chains, this means it remains a share capture game. At the same time, as pent up consumer demand has turned around, declining traffic and consumers are not spending as much per occasion as they used to, they are venturing out, as well as the higher end – fine dining.

With discretionary spending likely to be challenged for some time, the fast casual players, with improved offerings, better execution and the no tipping environment are poised for success.

Two Challenged Brands

Sonic is off some 10% over the past 24 months and they expect the trend to continue. This trend, if it continues, may begin to cause significant pressure on some franchise operators. One challenge is that they simply don't have as many levers to pull to drive sales — their beverage business was already strong, with an industry leading 80% capture rate.

Chili's is suffering from traffic declines of about 15% over the past 24 months, while some of their peers have at least stopped some of the bleeding. It can be debated whether or not the discounting has really hurt them. The key question is can they recover. The other challenge is the lack of relevance to a core group of new consumers who simply don't connect with brands their parents used.

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited/Quick Service				
Arby's	-5.9%	NA	NA	
Burger King	-4.2%	NA	NA	
Carl's Jr.	-7.4%	-5%	NA	Company stores-5% decline in average check
Chipotle	+11.4%	NA	NA	Growth primarily in traffic
Domino's	+11.7%	NA	NA	New products news is the key as is their honesty
El Pollo Loco	-4.9%	NA	NA	
Hardee's (CKE)	+6.8%	+2.3%	NA	Company stores-3.3% average check increase
Jack in the Box	-3.3%	NA	NA	Qdoba +5.6%
McDonald's	+5.3%	NA	NA	
Panera	+6.9%	NA	+2%	Improving product mix a key driver
Papa John's	-0.6%	NA	NA	
Popeye's	+5.3%	NA	NA	Effectively merchandising a better tasting chicken than KFC
Sonic	-6.4%	NA	NA	Lapping a -4.5% decline-two year trend-10% decline SSS

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Starbucks	+8%	+5%	+2%	
Wendy's	-1.7%	NA	NA	
Yum Brands	+1%	NA	NA	
KFC	-8%	NA	NA	
Pizza Hut	+8%	NA	NA	
Taco Bell	+3%	NA	NA	
Full Service				
Applebee's	+3.3%	NA	NA	
BJ's	+6.7%	NA	NA	
Bob Evan's	-0.9%	NA	NA	
Buffalo Wild Wings	+2.6%	NA	NA	
California Pizza Kitchen	+0.7%	NA	NA	
Cheesecake Factory	+2.9%	NA	NA	
Chili's	-5.0%	+1.1%	-8.1%	Traffic issues continue
Cracker Barrel	+2.4%	+0.5%	+1.9%	
Denny's	-0.9%	NA	+2.3%	
Famous Dave's	+2.4%	NA	+1.0%	A turnaround of over 9% over the last 12 months
IHOP	+0.1%	NA	NA	
Longhorn	+2.2%	-0.2%	+2.5%	
McCormick & Schmick's	-4.6%	NA	NA	
Morton's	+3.2%	NA	NA	
Olive Garden	+2.7%	+2.6%	+1.7%	
Outback	+2.7%	NA	NA	
Perkins	-5.1%	NA	NA	
PF Chang's	+2.3%	+2.8%	NA	Average ticket declined by -0.5%
Red Lobster	-1.7%	-4.7%	+1.6%	
Red Robin	+0.9%	+2.6%	NA	
Ruby Tuesday's	+1.2%	NA	NA	Closing 7-9 units, opening 1-2 smaller foot print stores
Ruth's Chris	+4.9%	NA	NA	
Steak N Shake	+7.5%	+9.6%	NA	
Texas Roadhouse	+4.3%	NA	NA	

Implications for Foodservice Manufacturers

Give additional consideration to those chains actually building units. Darden will open 70-75 new restaurants next year, Chipotle will open 120-130; Popeye's will open 30-50; Buffalo Wild Wings will build 100, Texas Roadhouse will add 20, and we understand that Panda will also continue to open units in 2011.

A theme very familiar to those of you who know us well — place your bets and make your customer investments very judiciously and carefully. The fundamentals — targeting & prioritization, deep dive due diligence, using the needs assessment process, etc. None of this is very sexy, but is very important. Use caution with the troubled brands.

The manufacturers winning today are doing it with business literacy. By this we mean — those suppliers understand:

- The culture of the customer organizations, both senior management and the restaurants
- The priorities for their customers' business — the 2-3 key primary focus areas for the next 6-18 months
- How the customer organization makes decisions

Understanding the culture of the customer organization, the politics, the key players as well the chain's overall business goals and objectives are critical to success today. We realize we've talked about this at length, yet many of the chains we work with, and talk to, tell us that most of the manufacturers are still using an old, tired, product-driven sales approach. It doesn't work anymore; everyone has great products or they wouldn't be in business.

What is interesting, is that it is immediately obvious to any director, manager or executive if the sales person knows their business or not — just as someone who works in a branded or manufacturing environment, you can tell right away if an outsider knows your company, brand, capabilities, organizational culture and focus or not.

The difference between those manufacturers that are being successful in this environment and those that are struggling comes down to really knowing the chain's strategy and approach (not just *thinking* that you know). Secondly, manufacturers need to pick the chains where they have the best chance of success. As we've seen, not all chains are good customers any more. Some will hurt your business over the long term (and your credibility within your own organization) as they struggle to reclaim customers and sales, others will continue to grow and expand in the marketplace.

For manufacturers, it all starts with the strategy for each product and business line. Have you sat down and determined what are your strengths, weaknesses, opportunities and threats? Do you understand how you compete in the food service arena versus their competitors? Do you have a solid plan of action, with built-in flexibility to build and grow the business?

We've written incessantly about the need to segment your customers, and apply a set of screening criteria such as:

- **Strategic Fit:** Are the strategies, and goals of the chain aligned with your strategies and goals?
- **Size of the Prize:** How big is the opportunity on a quantitative or relative measure? Does it justify the investment?
- **Accessibility:** How much access do you have to those who make and influence the decisions? How much do you know about how the chain makes decisions?
- **Transactional / Relational:** How does the account typically behave when selecting products in your categories?
- **Innovation Score:** How important is innovation to the chain? Are they known for entering new categories and driving culinary innovation, or not?
- **Financial Health:** Do they have cash (public companies)? Are the franchisees in trouble? Are they able to get financing to expand? Are they in bankruptcy?

Finally, please go to our newly launched website, http://www.bellewetherfoodgroup.com for all of our other updates and reports.

Please give any of us a call if you have further questions or comments.

Regards

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