QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: November 2015

TO: Manufacturing Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 2nd Quarter, Calendar Year 2015

The 2nd Quarter 2015 Same Store Sales Reports

This was another strong quarter across segments for many brands. Some organizations had their best performance in quite a while. Strong traffic drove significant SSS increases, including Domino's (+12.8%), Dave N Busters (+11.1%), Habit Burger (+8.9%), Texas Roadhouse (+8.2%), Denny's (+7.3%), IHOP (+6.2%), Popeye's (+7.9%), and Qdoba (+7.7%), while their parent brand, Jack in the Box, recorded SSS of +7.3%. Even the high end showed strength with Capital Grill posting a +7.2%, and Ruth's Chris gaining 4.2%.

We can't help but notice that two legacy brands are performing well. Denny's and IHOP are both older brands that have experienced a resurgence. Denny's President, John Miller, attributed the recent success to *"Brand revitalization strategy to enhance our food, service and atmosphere."* The strategy has included enhanced food, combined with DreamWorks and NASCAR tie-ins. At IHOP, part of the approach has been to reinforce that each order is made fresh to order, something that is not always obvious to consumers.

Later, John Miller commented on how the enhancements had a positive impact on their employees - a critical constituency. Over the past year, Denny's has remodeled 25% of the system. We've seen consistently that remodels and other enhancements almost always have a positive impact on the employees. Those positive employee feelings are felt immediately by customers.

Consumer confidence is still fairly strong as gasoline prices continue to be favorable, interest rates remain favorable, and the employment numbers are at least heading in the right direction for the time being. These positive feelings are consistent with what we're heard in the consumer work we've done over the past few months.

The millennial generation is now the driver of industry patterns and trends. There are some who believe that the millennial generation's impact on the industry will be as significant as working women's influence has been over the past 25-30 years. Expect to see continued operational innovation, ongoing product innovations, new product news and technology upgrades. For brands that expect to be successful, these factors are important, as is transparency on food/ingredient sourcing, and nutritional information.

Some full service brands have implemented innovative elements, especially technology. The interactive tablets are one way to innovate. Over time, the question becomes - at what point does the interactive technology evolve from a competitive advantage to something a brand must have to remain relevant? With innovations in technology, if they “stick” with the consumer, adoption curves can be rapid. Then the question becomes – “What role does the technology play in delivering the brand experience?”

Expect the importance of loyalty programs and the technology trends to continue. For millennials, mobile pay is their way of life - and baby boomers are adopting these tools as well. Almost immediately, transactions become quicker and easier for everyone. Among the big advantages for the chain operators are improved order accuracy (which helps with foods costs) and consumer preference data. The insights and patterns that can be learned and gained are invaluable, especially since they’re in real time. Operators can react much quicker to any competitive activity or consumer patterns - assuming they have the awareness and ability to identify and understand changing patterns.

For consumers, there’s the control factor, combined with time savings and the tracking of their individual spending and preferences. Early indicators suggest that the average spend per transaction is higher with the mobile pay option.

The two big players in coffee are using these tools to their advantage. Starbucks has just over 10 million members in their loyalty program who generate some 29% of their retail sales. Dunkin Donuts has about 3 million in their loyalty programs. One of the big opportunities is harnessing the depth and richness of the consumer data.

Even with all the positives, there are still some challenged brands out there. Famous Dave’s continues to decline, as do the patterns at Bravo/Brio, Joe’s Crab Shack and a few others. The large concern is the declining traffic patterns, which is something for manufacturers to monitor, If traffic is down, there’s a likelihood that sales of your products will be as well.

A word about McDonald’s sales issues: they’re still the industry leader and there’s every reason to believe they will do whatever is needed to right the ship. They’ve been here before, and have figured it out before. We wouldn’t take them any less seriously than in the past - it’s a strong culture.

As many of you already know, McDonald’s domestic average unit sales volume (AUV) is around $2.4 million, and their closest national competitor is Wendy’s at $1.48 million, with less than half the total domestic units. In some regions, their direct competition is often most intense from regional brands. In-N-Out Burger is at $2.5 Million AUV, Texas based Whataburger is at $2.3 Million, while Wisconsin-based Culver’s sales average is right at $2 Million.

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2nd Quarter 2015 SSS Sales by Brand

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited / Quick Service				
Burger King	+7.9%			Includes Canada
Chipotle	+4.3%			
Domino's	+12.8%			
Dunkin Donuts	+2.9%			
El Pollo Loco	+1.3%			
Habit Burger	+8.9%			
Jack in the Box	+7.3%			
KFC	+1%			
McDonald's	-2.0%			
Noodle’s	Flat			
Panera	+2.4%			
Papa John's	+5.5%			
Pizza Hut	+1%			
Popeye’s	+7.9%			
Pollo Tropical	+4.3%	-0.2%	+4.5%	
Pot Belly	+4.9%			
Qdoba	+7.7%			
Shake Shack	+12.9%			
Sonic	+4.9%			
Starbucks	+8%	+4%		
Taco Bell	+6%			
Taco Cabana	+5.6%	+1.0%	+4.6%	
Wendy's	+2.2%			
Zoe’s	+5.6%			
Full Service				
Applebee's	+1.0%			
BJ’s	+0.5%			
Bob Evans	-0.3%			
Bonefish Grill	-4.6%			
Bravo Restaurants	-2.1%			
Brick House Tavern	+2.8%	-0.9%*	+3.7%	*Traffic and mix decline
Brio Restaurants	-1.6%			Both brands combined traffic decline of -6.3%
Buffalo Wild Wings	+4.2%*			*@ 517 Company stores, +2.5% @ Franchised (593)
Capital Grill	+7.2%			

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Carraba’s	+0.9%			
Cheesecake Factory	+2.8%			
Chili's	+0.1%			Sluggish traffic
Chuy’s	+3.2%			
Cracker Barrel	+3.8%	+0.8%		
Dave ‘N Busters	+11%			
Denny's	+7.3%			
Famous Dave’s	-9.2%			
Fleming's	+3.2%			
IHOP	+6.2%			
Joes’ Crab Shack	-4.0%	-5.4%	+2.5%	-1.1% decrease in mix
Longhorn	+4.4%	+2.4%	+2.0%	
Olive Garden	+2.7%	+0.3%	+1.3%	
Outback	+4.0%			
Red Robin	+2.9%			
Ruby Tuesday	+0.6%			
Ruth's Chris	+4.2%	+0.7%	+3.5%	
Steak ‘n Shake	+4.8%			
Texas Roadhouse	+8.2%			Reported +9.4% food inflation costs
Yard House	+3.4%			

<u>Implications for Manufacturers</u>

We’re often asked how to get good insights to start the VP or C level conversation with chain customers. Here’s something you can do individually from your office, at absolutely no cost. Use the Investor Relations tools, which require a time investment.

To better understand what’s going on with your customers and targets, listen in on the quarterly investor calls. The discussion is around the previous quarter’s results, and how management is thinking about and driving the business. They’ll comment on the business and even answer some questions from the analysts (or someone else). This is an easy, simple, free way to gain insights about what is going on with your customers, their consumers and how they’re thinking about the competition.

There are two additional footnotes to this suggestion. First, if you have customers or targets in casual dining (the same approach to QSR, Fast Casual, etc.) you should probably be listening in on the Darden, Brinker and/or Bloomin Brands calls. If you are working with any of these brands, we suggest listening to all three - something will come up that you can talk to your contacts about the next time you’re in front of them. If you’re working in casual dining, say Houlihan’s, BJ’s, or Cheesecake Factory, you should at least know about what’s going with the category leaders. You can be sure your contacts and the senior leadership teams are listening in and paying attention.

The knowledge, insights and context gained from listening in can provide some great ideas for questions/discussion points in a customer meeting. You'll learn about their priorities, the terminology they use, the challenges, their views on their competitors, etc. This readily available information is accessible to anyone who is willing to take the time to do the legwork. Even today, we don't hear of many manufacturers taking advantage of this. So until your competitors figure that out, you have an information advantage - that's free!

For more detail on how to use this approach, give any of the three of us a call. We're happy to talk further and share best practices.

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