



FIRST HALF 2016 CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: August 2016
TO: Manufacturing Friends & Colleagues
FROM: Bellwether Food Group
RE: Chain Restaurant Same Store Sales (SSS) First Half, Calendar Year 2016

The 1st Half 2016 Same Store Sales Reports

We're sharing our perspective well before many of the larger brands have reported 2nd Quarter 2016, as we're seeing and hearing of major traffic issues in full service. In this update we'll talk about the first quarter, and what we've been able to learn so far about the trends through the end of July.

The first quarter was favorable for most in QSR, or at least they weren't negative, while full service, especially casual dining struggled or had modest gains. The initial reports on the 2nd quarter are cause for caution and concern. Quite simply, traffic is the issue all the way around. There's a feeling that consumers are nervous about debt, safety and the political climate overall.

Some of the early 2nd quarter results being released confirm the trends.

Many QSR/fast casual brands posted positive sales in the 1st Quarter, Sonic (+6.5%), Del Taco (+3.2%), Starbucks (+7% in Q1, +4% in Q2), Wendy's (+3.6%), Wingstop (+4.6%) Panera (+4.7% Q1, +4.2% Q2) Pot Belly (+3.7%), and Zoe's with an impressive performance (+8.1%). McDonald's came in with +1.8%, which they attributed to all-day breakfast and McPick 2. They begin the second half of the year focused on adding more breakfast sandwich favorites - Biscuits, McMuffins and McGriddles - to the All Day Breakfast menu this fall. The mild winter didn't hurt at all.

Starbucks continues to be the industry leader in mobile pay - they're now processing 8 million transactions per month, which has doubled over the past year. Most recently, they reported 12 million active members in the loyalty program.

Chipotle is another story entirely, and has a long road to recovery, (-29.7% in Q1, -23.6% in Q2). Their issues speak not only to consumers' concerns about the integrity of the supply chain, but the power of bad news in the age of instant communications. In fairness, Chipotle's issues are further exacerbated by their historic positioning of "food with integrity." The legal/personal issues with the CMO certainly don't help at all!

Pizza remains healthy as Domino's remains strong (+6.4% in Q1, +9.7% in Q2). Pizza Hut reported +4%, while Papa John's was essentially flat (+0.1%), and Papa Murphy's came in at -2.8%. One issue with Papa Murphy's might be that they are late to mobile technology. Their recent press release mentioned that the complete roll out of mobile ordering would be completed by the end of June this year. Their pizza category competitors have had mobile ordering (and tracking) as far back as 2008 for some.

The resurgence and growth of Domino's over the past 4-5 years is an incredible turn around and growth story. In 2010 the AUV was \$628,000 - since then it has grown to \$937,000 per unit. That's a 30% growth in revenues over a five year period. They've done at least three things well: recognizing the product needed an upgrade, and then delivering on that; continuing menu innovation; and leading in mobile technology. Consumers have responded favorably.

Technology appears to be heading towards being an expectation versus being an added value for full-service - Chili's being a good example. Chili's reported that their Ziosk program has been a hit with consumers, now accounting for 75% of completed checks, as about 25% of consumers are providing customer satisfaction feedback using the table tablets. Yet, their 1st Quarter traffic was off -4.9% in the company restaurants.

There was (and still is based on 2nd Quarter initial reports) pain all around full service, especially in the bar & grill casual dining brands. Bloomin Brands has been suffering through both the 1st and 2nd quarters, with two of the three casual dining brands experiencing sales (mostly traffic) declines respectively, Outback (-1.3%, -2.5%), Carraba's (-2%, -4.8%) and Bonefish (-2.7%, +0.9%) which was able to turn traffic slightly positive. Texas Roadhouse (+4.6%) was an exception.

Darden held their own (Olive Garden +2.4%, with +0.4% traffic increase), but the traffic challenges continue, Longhorn being one example. A +2.2% SSS is great, until a closer look reveals that traffic was off 2%. Applebee's (-3.7%), Buffalo Wild Wings (-1.7%), Brick House Tavern (-4.5%), Red Robin (-2.6%) and Rudy Tuesday (-3.1%) all suffered, and the winter was a mild one.

Overall, the concern is that even some of the casual dining concepts struggling with traffic have remodeled stores, innovated with the menu, and stayed current with technology. Many executives we've spoken with worry that consumers might get *accustomed to* going out to restaurants less often. We saw this to some extent in 2008-2009.

JAB Holdings purchased Keurig Green Mountain in 2015, and in May added Krispy Kreme for \$1.35 billion. Today, their total number of US restaurants is at 1,697 - with annual sales of \$1.8 billion. This portfolio is now in the top 50 US chains in US domestic sales annually and includes Einstein's, Peet's Coffee, and Caribou Coffee.

1st Quarter 2016 SSS Sales by Brand

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited / Quick Service				
Arby's	+8.1%			Calendar year 2015 report
Bojangle's	+2.0%			
Burger King	+4.4%			Hot Dogs a positive factor
Chipotle	-29.7%	-19.3%		Unprecedented declines
Del Taco	+3.2%	-2.6%	+5.4%	
Domino's	+6.4%			21 consecutive quarters positive SSS sales
Dunkin Donuts	+2.0%			
El Pollo Loco	+0.7%			-0.6% @167 Co. stores, + 1.8% @ 237 franchise stores
Habit Burger	+2.0%			
Jack in the Box	N/C			
Jamba Juice	-2.1%			
KFC	N/C			
McDonald's	+1.8%			
Noodle's	-1.0%			
Panera	+4.7%			
Papa John's	+0.1%			
Papa Murphy's	-2.8%			
Pizza Hut	+4%			
Popeye's	+1.1%			
Pollo Tropical	Flat	+0.1%	-0.1%	
Pot Belly	+3.7%			
Qdoba	+2.1%			
Shake Shack	+9.9%			20 units
Sonic	+6.5%			
Starbucks	+7%	+2%	+5%	
Taco Bell	+1%			
Taco Cabana	+1.7%	-0.8%	+2.5%	
Wendy's	+3.6%			
Wingstop	+4.6%			
Zoe's	+8.1%	+6%*	+2.1%	*Number of transactions and mix
Full Service				
Applebee's	-3.7%			
BJ's	+0.6%			
Bob Evans	-3%			
Bonefish Grill	-2.7%			
Bravo Restaurants	-4.1%			Combined -3% traffic decline (both brands)
Brick House Tavern	-4.5%			
Brio Restaurants	-2.1%			Combined -3% traffic decline (both brands)

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Buffalo Wild Wings*	-1.7%			*@ 603 Company stores, -2.4% @ 579 Franchised
Capital Grill	+3.7%			
Carraba's	-2.0%			
Cheesecake Factory	+1.7%			
Chili's*	-3.6%	-4.9%*		*Traffic decline at 993 company stores
Chuy's	+3.2%			5 years of positive SSS
Cracker Barrel	+2.3%	-0.6%	+2.9%	Traffic -2.3% in April
Dave 'N Busters	+3.6%			Strong showing, lapping +9.9%
Denny's	+2.5%			
Famous Dave's	-7.7%			Lapping -4.8%, on top of -2.6% in '13, -6% in '12
Fleming's	+1.3%			
IHOP	+1.5%			
Joes' Crab Shack	-1.3%			
Longhorn	+2.2%	-2.0%		
Olive Garden	+2.4%	+0.4%		
Outback	-1.3%			
Red Robin	-2.6%			
Ruby Tuesday	-3.1%	-5.9%	+2.8%	
Ruth's Chris	+3.1%	+0.9%	+2.2%	
Steak 'n Shake	+1.8%	Flat		
Texas Roadhouse*	+4.6%			*397 Co. Stores ; +3.1% @ 83 Franchise Stores
Yard House	+1.4%			

Implications for Manufacturers

Every manufacturer is facing maturity in their chain portfolio, pricing pressure, and low consumer confidence. New business is the cure.

We're often asked about new ways to connect with brand new customer opportunities, how to penetrate the C suite, and best practices in developing a new business pipeline. To accomplish this, most manufacturers face two hurdles - their own sales process, which is not designed for development work or actually selling to new customers, and how to access the decision makers. These are two different but closely related hurdles.

One approach we've seen be effective is to commission consumer insights work around consumer preference in a specific chain segment. This means the work is about consumer preference and loyalty to a group of chain restaurants in a similar competitive set. Please know that this work must be ***almost exclusively about how consumers use these restaurants***, what they value, their intent to recommend, etc. Otherwise the chains you're targeting won't be interested in it.

You'll need to engage senior level marketing at 3-4 of your key targets. Ask about their consumer insights needs or their competitors (start a discussion with a new buying influence or customer). Many of their insight gaps are pretty similar. Furthermore, the discussion is always helpful for you, as you'll get additional perspective and insights on their business, priorities, and the pressure points. So when you want to talk to the CMO, President, or someone else in the C suite, you have a reason to call and something to talk about and share with them. 3rd party, empirically valid, credible insights on what the consumer thinks - that's powerful in many ways.

Your product or category shouldn't **be** in the survey, otherwise the reports will be viewed as a masked sales pitch. Chain operators see this type of "information" from the soft drink companies and others - those lack credibility. Your objective is enhanced and improved accessibility to the "C" suite. It's a much less difficult sell once you're in their office and they view you as a resource.

Skip the off the shelf, retail-driven insights about your company's brands. Those insights are not helpful at all to the chain operators (we hear this frequently from our chain clients), and really don't add much value to your sales efforts.

Want to learn more about how any of this might work? Give us a call, we'll be happy to share best practices. Additionally, we'll be publishing a white paper on how to make customer insights work for you in September. Stay tuned!

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