QUARTERLY CHAIN RESTAURANT UPDATE

BELLWETHER FOOD GROUP, Inc.

DATE: July 2015

TO: Manufacturing Friends and Colleagues

FROM: Bellwether Food Group

RE: Chain Restaurant Same Store Sales (SSS) 1st Quarter, Calendar Year 2015

The 1st Quarter 2015 Same Store Sales Reports

In March, everyone was very concerned that the weather would negatively impact the first quarter numbers. For the most part, those fears were unfounded, even though some markets, Boston and others, were impacted. Overwhelmingly, 1st Quarter 2015 sales were healthy. In QSR, the only brands that didn't have SSS increases were Pizza Hut (flat) and McDonald's at minus 2.6%.

In Hamburger QSR, all the other brands turned in great numbers. There was strong individual brand performance (Sonic +6.1%; Jack in the Box +8.9% - it's best quarterly performance since 1999; Burger King +6.9%; Wendy's+3.2%) and the emergence of regional brands (Habit Burger +12.6%). These numbers appear to be the result of better execution and some share capture from McDonald's.

The data suggests that for many brands, lower gas prices favorably impacted overall sales trends. In looking at February 2014 ($3.23 per gallon) compared to February 2015 ($2.06 per gallon) the decline has been 40% (*U.S. Energy Information Administration, Independent Statistics and Analysis, June 8, 2015)*. That's significant, and of course provided some help in driving the business for some - mostly full service. At the same time, if a brand is a regular habit, such as Dunkin Donuts, gas prices don't impact their business at all (According to CFO Paul Carbone).

Pizza category performance overall is strong, and frankly impressive. Domino's tells us that just over 50% of their orders are now placed electronically. Beyond the fact that this is how the consumer now prefers to order from many restaurants, that system facilitates a number of efficiencies for Domino's. It reduces errors, takes fewer employees (saving money), and enhances order accuracy. The fact is that this technology actually saves money over time for the operator and is more convenient and faster for the consumer. Adoption rates continue to increase, even among baby boomers. Another example is Panera 2.0, it's having a very positive impact on the brand.

Many QSRs have introduced healthier options, which have generated minimal sales, and haven't done much to enhance the overall image of that segment. The reality is that despite those efforts

and that it's a good story and the right thing to do, most of the QSR brands don't get much consumer credit for having those options. The higher income consumers have questions about sourcing and the lower income consumers are less concerned overall.

What the QSRs are getting credit for is using technology in both some traditional and new ways. Credit cards are more important than ever. At Sonic, the PAYS system (pay at your stall) has been a big success, mostly in speeding up the payment process and not having to handle as much cash. Today, Sonic tells us that 55% of their sales are by credit card ($2.3 billion), and that credit cards have been a big factor in their sales growth.

Mobile payments and the entire "guest facing technology" are emerging factors. Dunkin Donuts and Starbucks are both focused on growing mobile payment programs as they to continue to respond to consumer preference. The technology makes the entire transaction seamless and smoother. The anecdotal data suggests that mobile payment programs play a role in driving loyalty. Beyond the convenience, speed and insightful data these programs generate, the financial benefits are significant. Dunkin Donuts reports that a credit card transaction costs 23 cents, each time. A transaction with a loyalty card is right at 5 cents per transaction. Over time, that can be a significant number.

With few exceptions, every single Casual dining brand had a positive quarter. Some did extremely well, such as Dave N' Busters (+10.5%), Texas Roadhouse (+8.9%), Buffalo Wild Wings (+7% at company stores, over a +6.6% in 2014) and our friends at Denny's posting +7.2%. All continue to enhance their offerings, while staying true to their brand DNA, and focusing on execution.

Challenges continue at Famous Dave's, Ruby Tuesday and Bob Evans. Despite the sluggish SSS results, the Brio/Bravo management team is optimistic and continuing to open new restaurants. We sat in on their recent presentation at the Piper-Jaffray conference in June, and believe they have the right overall focus – the enhanced loyalty program, new use of technology for reservations combined with a focus on the chef-driven menu for both brands.

If you're working with one of the troubled brands, caution should be your strategy. Bob Evans, Joe's Crab Shack and Famous Dave's are examples. When you have management turnover, or are selling or closing stores, that creates a very unstable and nervous environment inside the organization. One of the first moves is usually to work the vendors for cost breaks. Our advice - don't flinch. Giving away 2-3 points of margin to a brand in an overall decline is probably not a good investment for you. Spend that energy on a better qualified customer.

The minor savings you might offer, relative to all the other food costs, rent costs, and labor costs, isn't going to help a brand in trouble or on the decline. It might help your purchasing contacts politically, but the food costs are not what have caused declining traffic. No chain restaurant is ever going to "cost save" their way to solving a declining traffic issue. As a manufacturer, you don't impact traffic in a negative way, but can help brands impact traffic in a positive way. That's a function of the overall brand experience, which the chain is responsible for delivering.

We removed Macaroni Grill from the report - as reported last quarter, Ignite sold the brand.

1st Quarter 2015 SSS Sales by Brand

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Limited / Quick Service				
Burger King	+6.9%			Includes Canada
Chipotle	+10.4%			
Domino's	+14.5%			
Dunkin Donuts	+2.7%			
El Pollo Loco	+5.1%			
Habit Burger	+12.6%			
Jack in the Box	+8.9%			
KFC	+6%			
McDonald's	-2.6%			
Noodle's	+0.9%			
Panera	+0.7%			
Papa John's	+6.5%			
Pizza Hut	NC			
Popeye's	+7.1%			Lapping +4.3%
Pollo Tropical	+6.4%	+0.9%		
Pot Belly	+5.4%			
Qdoba	+8.3%			
Shake Shack	+11.7%			
Sonic	+6.1%			
Starbucks	+7%	+2%		
Taco Bell	+6%			Breakfast making an impact
Taco Cabana	+3.8%	+0.7%		
Wendy's	+3.2%			
Zoe's	+7.7%			
Full Service				
Applebee's	+2.9%			
BJ's	+3.2%			
Bob Evans	-3.8%			Announced the closing of 20 restaurants
Bonefish Grill	+0.9%			
Bravo Restaurants	-1.7%			Traffic is the challenge at both brands
Brick House Tavern	+5.4%			
Brio Restaurants	-1.0%			
Buffalo Wild Wings	+7.0%*			*501 company stores, +6% @ 593 franchised stores
Capital Grill	+4.4%			

Brand	Same Store Sales Versus Prior Year	Traffic Change	Pricing	Comments
Carraba's	+1.9%			
Cheesecake Factory	+4.2%			
Chili's	+1.9%			
Chuy's	+1.9%	-1.4%	+3.3%	
Cracker Barrel	+5.2%	+1.8%		
Dave 'N Busters	+10.5%			
Denny's	+7.2%			
Famous Dave's	-4.9%			Lapping a -4.9%
Fleming's	+3.0%			
IHOP	+4.8%			
Joes' Crab Shack	-3.8%			
Longhorn	+5.2%	+1.9%	+2%	
Olive Garden	+3.4%	-1.5%	+1.9%	+2.8% positive menu mix
Outback	+5.0%			
Red Robin	+3.1%			
Ruby Tuesday	-0.3%	-1%		
Ruth's Chris	+2.8%			
Steak 'n Shake	+6.0%	+4.1%		
Texas Roadhouse	+8.9%			
Yard House	+3.2%			

Implications for Manufacturers

We're often asked about the latest best industry practices, and recently we've fielded a number of questions and inquiries about how to stay on top of the plethora of emerging brands, especially in fast casual. (*This is not to suggest that most of these chains would necessarily be targets for your offerings, although they may be.)* There are a couple of ways to best approach accomplishing that.

We believe it is important for manufacturers as way to stay on top of the latest consumer trends and patterns, to better understand what these emerging brands are doing to create preference and loyalty. Your customers and prospects are watching these emerging brands as never before, and your non-commercial operators are watching as well - doing whatever they can to best copy these commercial offerings. If you're a sales person, your understanding and knowledge of what these emerging brands are doing, enhances your overall credibility, and can be a tool to improve your access to the decision makers.

Often times, it is beyond the menu, although that is still the most important thing. The environment, service and associate interaction play a critical role in the success of these brands. This is important to know. Most of your chain customers are watching and trying to learn about

these brands and what makes them successful, or at least interesting. (*For more on emerging brands, see our recent article from Restaurant Finance Monitor.)*

If you have an informed viewpoint, that's something you can share with your customers and prospects. We have seen these types of conversations enhance our clients' accessibility to the decision makers, but you have to have an informed perspective.

If you would like to learn more about how to stay on top of the emerging brands and how those brands are impacting their larger competitors, call any time. We have some tools that can help.

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