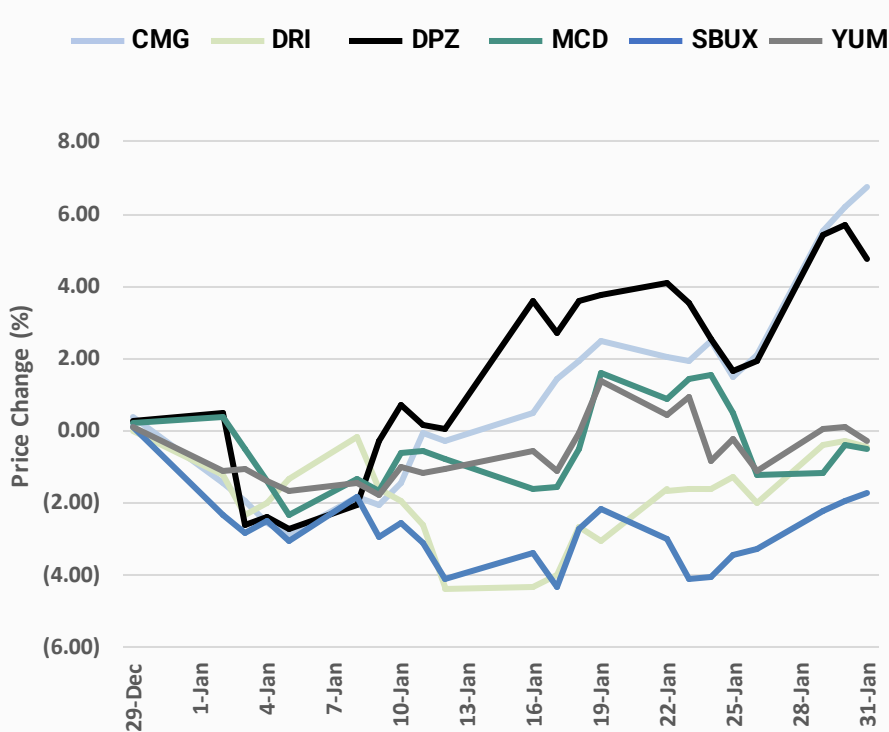




Restaurant Sector

January 2024

RESTAURANT INDEX PERFORMANCE



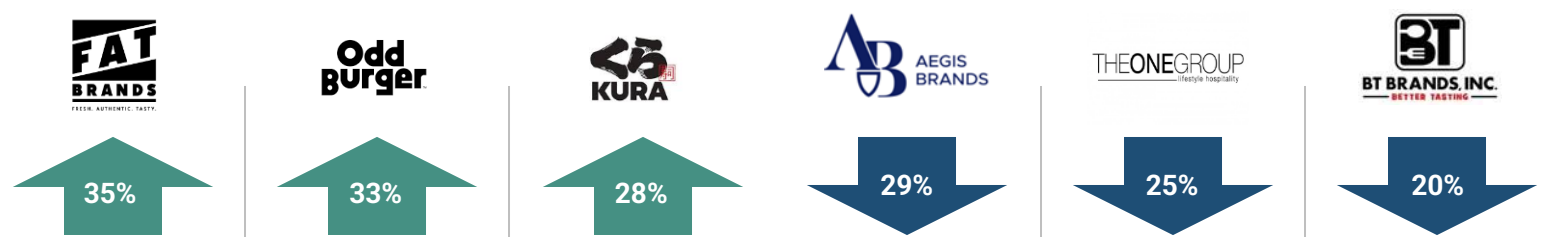
The Restaurant Index underperformed the S&P 500 and Nasdaq markets by 1.9% and 1.6%, respectively, over the last month, recording a **gain of 0.32%**.

STOCK	PRICE CHANGE
CMG – Chipotle	6.59%
DRI – Darden	(-0.65%)
DPZ – Domino's	4.71%
MCD – McDonald's	(-0.53%)
SBUX – Starbucks	(-1.74%)
YUM – Yum Brands	(-0.35%)
RESTAURANT INDEX*	0.32%

*Weighted change of S&P 500 Restaurants (Sub Ind)
Source: Capital IQ as of January 31st, 2024

WINNERS, LOSERS ACROSS BROADER INDUSTRY

One month price change as of January 31st, 2024



* Criteria: market capitalization >\$10m, USA or CAN location; Full service, Fast food or Tea/Coffee shop classification Source: Capital IQ

HAPPENINGS ACROSS THE INDUSTRY

QUICK SERVICE



Starbucks **now allows customers to use personal reusable mugs** for in-app and drive-thru orders at all U.S. and Canada locations.

If applied, customers will receive either a 10-cent or 25 bonus star reward in an attempt to cut back on paper and plastic waste.

FAST CASUAL



Tropical Smoothie Café is reportedly **exploring a sale** at a \$2 billion price tag.

The announcement, along with other news, may be a sign that restaurant M&A activity is on the rise after decreased activity in previous years due to high-interest rates.

CASUAL DINING



TGI Fridays has announced the **closure of 36 underperforming corporate-owned stores** in the United States, after a swing of Q4 C-suite changes.

With the announcement, the company has now closed 128 units since 2020, bringing the restaurant's global count down to 614 units.

FINE DINING



High-end sushi chain, Nobu, **catered the 81st Golden Globes** in January for a star-studded list of over 1,100 guests.

Chef Nobu Matsuhisa opened his first location in Los Angeles in 1987 and has expanded the chain globally with partner Robert De Niro.

The Big Story

On January 16, Restaurant Brands International (RBI) announced an agreement to acquire Carrols Restaurant Group (Carrols) for \$1 billion in an all-cash transaction. Carrols, the largest franchisee of Burger King, operates 1,022 units, along with 60 Popeyes restaurants, across 23 states. Carrols reported \$1.8 billion in revenue for the fiscal-year ended September 30, 2023. The acquisition would mark the first billion-dollar deal of the year and is expected to close in Q2.

ABOUT THE COMPANY

- RBI: Owner/operator of over 30,000 restaurant sites globally
- Restaurant portfolio includes Burger King, Tim Hortons, Popeyes, and Firehouse Subs
- The company is the fifth-largest fast-food restaurant operator in the world with \$39.8 billion in 2022 system-wide sales
- Global headquarters in Toronto, Canada

THINGS TO NOTE

- The company stated that the acquisition is a part of the "Reclaim the Flame" initiative announced in September 2022 to remodel existing stores, improve operations, and prioritize the brand's technology and digital footprint
- In the company release, RBI stated Burger King plans to invest \$500 million of capital to remodel approximately 600 of the acquired units to bring them up to the brand's "modern image"

FINANCE FUNDAMENTALS CORNER

Navigating the current restaurant landscape (e.g., falling traffic, compressed margins, limited access to capital, etc.) demands strategic acumen from Finance leaders. Recognizing the pivotal role of franchisee investments, understanding remodeling efficiency, and prioritizing cash flow management are essential. The sooner CFOs and their teams proactively address these challenges, the better equipped they'll be to capitalize on opportunities in the future.

Strategic (Co)Investment and Franchisee Health

Understanding the value of investments and co-investments into the broader restaurant system is pivotal for Finance leaders. Staying abreast to the financial health of franchise operators is critical for sustained growth and franchisor risk management.

Capital Expenditure and Remodeling Efficiency

Efficient CapEx management is paramount for Finance leaders aiming to drive comp sales growth through remodeling initiatives. Building an FP&A team that offers valuable insights into various scenarios (e.g., remodel vs. new build) is a crucial factor.

Cash Flow Management and Future Planning

Franchisee royalty payments, rent checks, etc. are a sure thing... until they're not. Creating robust cash flow modelling ensures that short-term liquidity needs are balanced with long-term shareholder returns.

HOW WE SUPPORT RESTAURANT CLIENTS

- ✓ Improve existing daily cash reporting; set cash goals and incorporate into existing packages
- ✓ Perform detailed review of NUG model assumptions; update assumptions based on current market
- ✓ Streamline the integration of NUG plans with core financial planning reports (e.g., BOD packages, long range plans, etc.)
- ✓ Uplevel existing models and forecasts to seamlessly toggle between multiple scenarios, assumptions, etc.