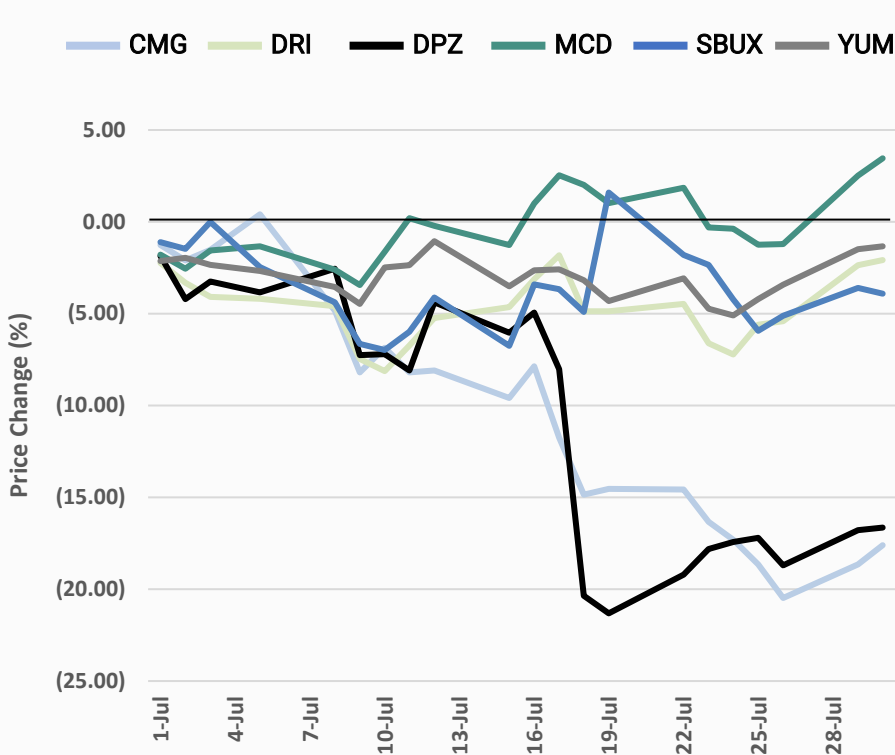


Restaurant Sector

July 2024

RESTAURANT INDEX PERFORMANCE



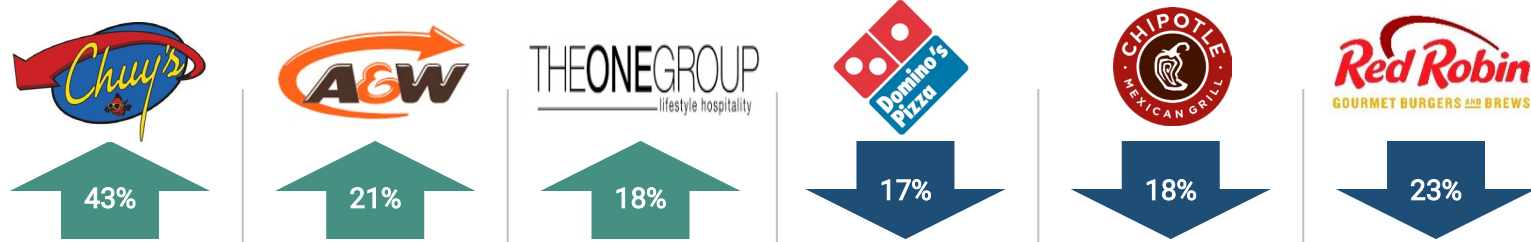
The Restaurant Index underperformed compared to the S&P 500 (-0.63%) and Nasdaq (-3.18%) markets over the last month, recording a loss of -3.78%.

STOCK	PRICE CHANGE
CMG – Chipotle	(-17.62%)
DRI – Darden	(-2.04%)
DPZ – Domino’s	(-16.78%)
MCD – McDonald’s	3.53%
SBUX – Starbucks	(-3.94%)
YUM – Yum Brands	(-1.34%)
RESTAURANT INDEX*	(-3.78%)

*Weighted change of S&P 500 Restaurants (Sub Ind)
Source: Capital IQ as of July 30th, 2024

WINNERS, LAGGARDS ACROSS BROADER INDUSTRY

One month price change as of July 30th, 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



Sonic has permanently launched a \$1.99 value menu featuring items like the Bacon Ranch Queso Wrap, Quarter Pound Double Cheeseburger, and a 16-ounce shake.

This contrasts with temporary deals from other chains like McDonald's and KFC. Sonic emphasizes variety and affordability, appealing to a wide range of consumers and dayparts.

FAST CASUAL



Elite Restaurant Group acquired 100% of Mod Pizza, helping the chain avoid potential bankruptcy. Mod has been closing locations and refreshing its brand.

Leadership changes included Beth Scott as CEO and Jennifer Anderson as CMO. Elite has a history of acquiring struggling restaurant brands.

CASUAL DINING



Perkins launched the Great American Trio, offering three breakfast meals priced at \$5, \$6, and \$7.

This move aligns with the trend of affordable menu options, competing with Denny's and IHOP. Perkins aims to deliver high-quality, value-driven meals and is planning further menu innovations.

FINE DINING



Swahili Village in Washington, D.C. settled a wage theft lawsuit for \$525,000, paying over \$260,000 in back wages to 72 workers.

The settlement mandates compliance with wage laws and documentation for three years. No admission of guilt was made.

The Big Story

Darden Restaurants, Inc. announced the acquisition of Chuy's, marking their second transaction in the past year. This acquisition expands Darden's portfolio to 10 brands and adds 101 full-service Tex-Mex restaurants across 15 states, generating over \$450 million in LTM revenue. Darden's purchase price of \$605 million implies a 10.3x LTM EV/EBITDA, or 8.2x including targeted run-rate synergies, with anticipated pre-tax net synergies of approximately \$15 million by FY26. The acquisition is expected to have a neutral impact on FY25 EPS and add \$0.12-0.15 or ~1% EPS accretion by FY27. Despite mixed initial investor feedback regarding the deal's size and purchase price, Darden sees long-term growth opportunities and strategic fit in Chuy's, given its strong unit economics and position in the growing full-service Mexican category. Darden remains confident in its ability to enhance Chuy's profitability and drive sales without pressuring margins.

ABOUT THE COMPANY

Darden Restaurants, Inc., a leading full-service dining company, owns renowned brands like Olive Garden and LongHorn Steakhouse, focusing on exceptional dining experiences across North America.

THINGS TO NOTE

Key points: \$605 million purchase price, expected \$15 million synergies by FY26, neutral FY25 EPS impact, and ~1% EPS accretion by FY27. Mixed investor feedback.

FINANCE FUNDAMENTALS CORNER

Integrating a newly acquired restaurant chain into an existing brand's operations involves several critical financial and accounting considerations. Here are key areas to focus on:

FINANCIAL REPORTING: Early, foundational alignment is crucial. Establish a unified chart of accounts and ensure consistency in financial reporting practices to facilitate smoother consolidation and provide a clear financial picture post-acquisition.

BUDGETING AND FORECASTING: Within the first 60 days, align on budgeting and forecasting processes. Develop a consolidated budget reflecting the combined entity's goals. Regular forecasting updates will help manage performance and identify potential issues early.

INTERNAL CONTROLS: Review and harmonize internal controls across both organizations to maintain financial integrity and reduce the risk of fraud or errors. This is especially important in instances where the acquisition involves a private company and/or the combined company plans an IPO in the near future.

COST MANAGEMENT: Evaluate cost structures and identify potential synergies to streamline operations and reduce redundant expenses, enhancing profitability and supporting long-term growth.

HOW WE SUPPORT RESTAURANT CLIENTS

- ✓ Build automated KPI dashboards to provide real-time data analytics and key business insights.
- ✓ Deploy automation to business processes to maximize time for high-value add initiatives.
- ✓ Institute dynamic tools with driver-based budgeting and forecasting capabilities.
- ✓ Conduct operations carve-out of redundant capabilities post AI implementations.