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Restaurant Sector

CQ3 - 2023 UPDATE

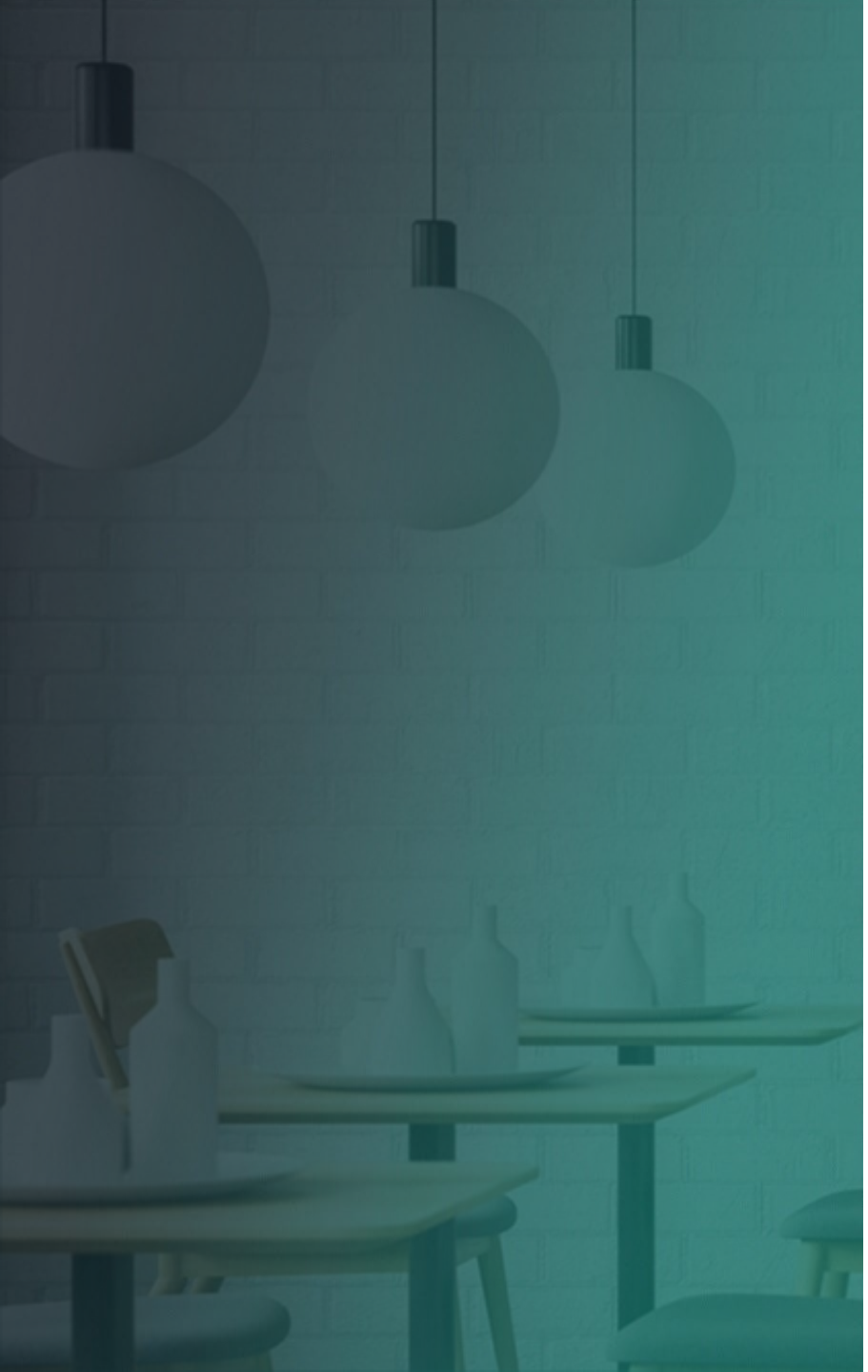


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Executive Summary

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Top Level Review

Summary

The restaurant sector experienced a slight setback during CQ3-2023, despite finishing closely in line with the broader market at the end of the quarter **(the Restaurant Index and S&P both down ~3.8%)**

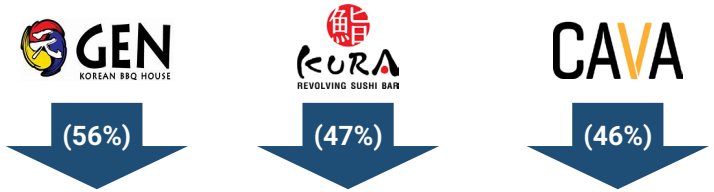
In 2022 and the first half of 2023, brands largely **maintained margins by raising prices**. However, in Q3, they **shifted focus to operational efficiencies** - often leveraging new technology - to sustain margins.

Only a handful of companies managed to increase their respective share prices during CQ3-2023. Among those to beat the declining trend of the market were **Carrols, Wingstop, Chipotle, and Starbucks.**

Share Price % Change Winners

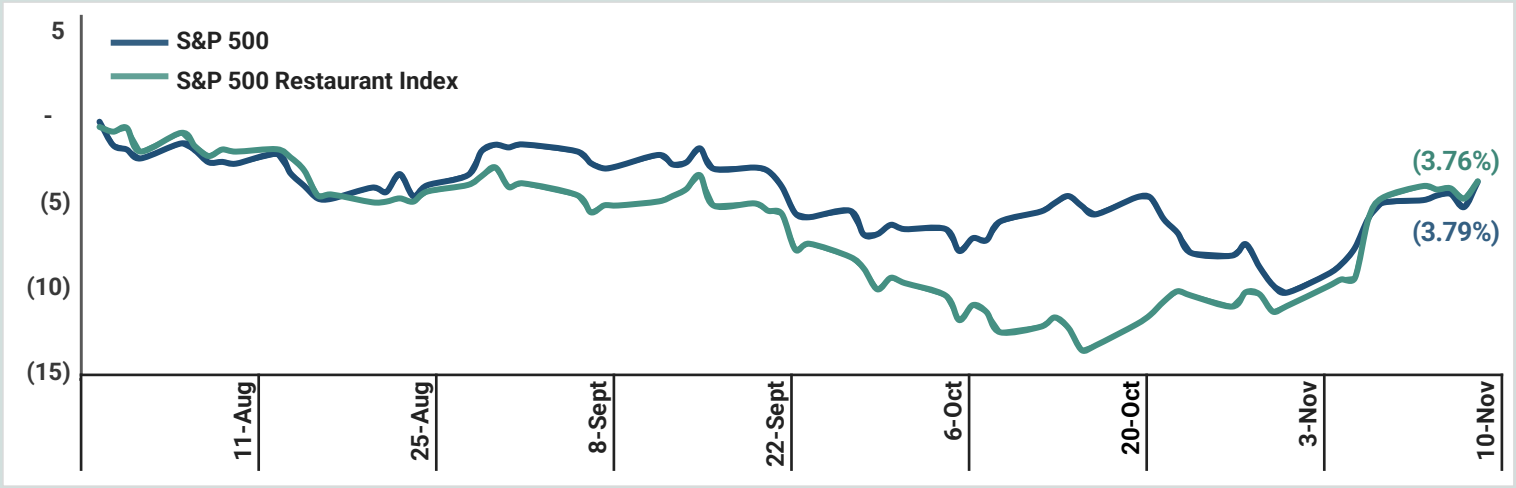


Share Price % Change Losers

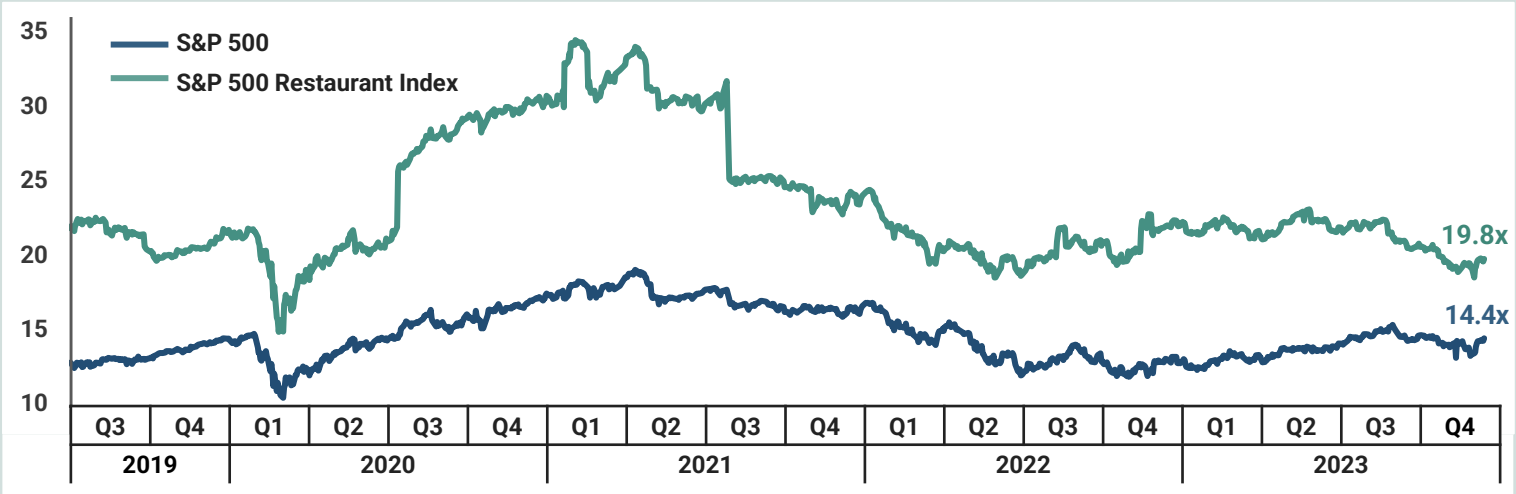


Source: Capital IQ; trailing 3 months ending November 10, 2023

CQ3-2023 % Price Change: Restaurant Index vs. S&P 500 Index



Historical EV/EBITDA Multiples: Restaurant Index vs. S&P 500 Index



Source: Capital IQ; includes Q4 2023 calendar data through November 10, 2023

Key Themes

1 Digital Engagement and Customer Loyalty

Multiple companies - including Yum Brands and McDonald's - reported **20%+ YoY growth in digital sales**, emphasizing the importance of online channels *(see image below on top mobile apps in Apple app store)*.

Several players are focusing on **improving their loyalty programs** by introducing new features, providing easier access across channels, and offering more exclusive experiences.

These themes reflect the industry's commitment to **leveraging technology to build stronger customer relationships and enhance brand loyalty**.

Top 10 Food Apps in Apple Store

Top 10 mobile apps include expected titans such as 3PDs, MCD and SBUX; recent investments at Yum continue to drive growth at Pizza Hut and Taco Bell brands



Source: SimilarWeb as of November 14, 2023

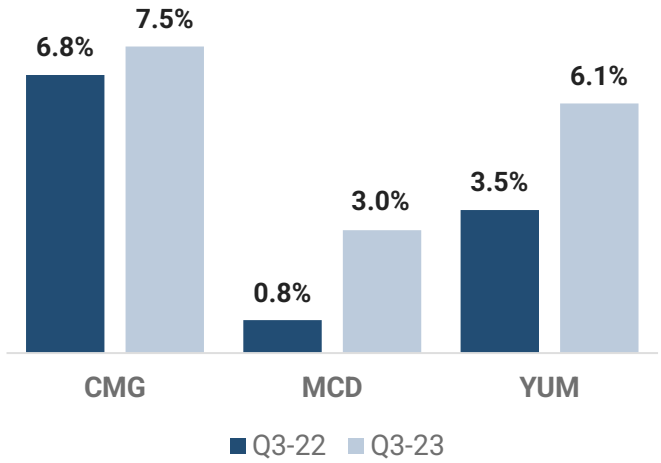
2 Global Expansion and Unit Development

Several major brands **reported record-breaking unit development in Q3** - opening new units globally remains a key growth strategy, with a focus on entering new markets, increasing brand penetration, and adapting to local preferences *(see image below on YUM, CMG and MCD)*.

When thinking **international growth – think franchisees**: franchise partners, such as the Serrano Group for KFC in Latin America, are playing a crucial role in driving growth.

Franchisee's investments in opening new units reflect the industry's emphasis on **building a network of growth-minded franchise partners to achieve long-term profitable growth**.

YoY Growth in Total Unit Count



Source: Company Reports; Ankura Analysis

3 Headwinds on the Horizon

Rising debt service costs, sticky wage inflation, and **softening traffic trends** continue to impact major brands, prompting several notable franchisee bankruptcies (e.g., Premier Kings, Starboard Group, etc.).

Additionally, **large franchisors like McDonald's** and **Papa John's announced increased royalty fees** (or similar) for new franchisees, adding more pressure to operators' economics.

These headwinds may be best captured in the most recent National Restaurant Association's Restaurant Performance Index (RPI), **which shows a continued business outlook decline since mid-2021** (*see image below*).

Restaurant Performance Index



Source: National Restaurant Association - September 2023 report

Performance to Plan

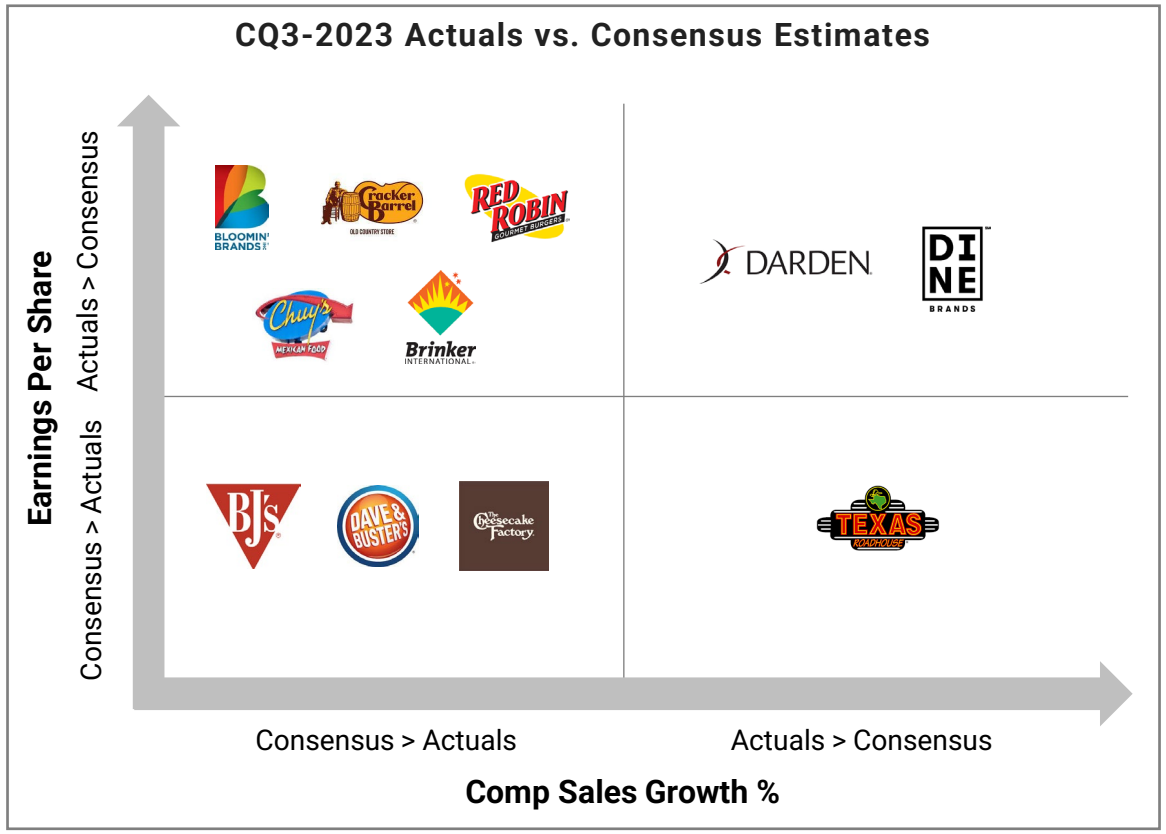
QSR & Fast Casual
*8 of 15 beat EPS and Comp Sales estimates in CQ3-2023**

- While **almost all companies beat EPS** estimates, **more than one-third fell short of analysts' comp sales** growth expectations for the quarter.
- Notable EPS misses included **Papa Johns** (missing estimates by ~7%) and **Jack in the Box** (missing estimates by 5%).

Casual & Fine Dining
*2 of 11 beat EPS and Comp Sales estimates in CQ3-2023**

- Most companies met the mark on EPS for the period, but the **majority fell short of analysts' comp sales expectations for the second straight quarter.**
- Darden and Dine Brands were the only 2 Casual & Fine Dining companies to **beat estimates on both EPS and comp sales growth** for Q3.





Source: Capital IQ - "Plan" and "Consensus" and "Estimates" refer to consensus estimates per Capital IQ

** Cracker Barrel and Dave & Busters – quarter ended July-23; DRI – quarter ended Aug-23*

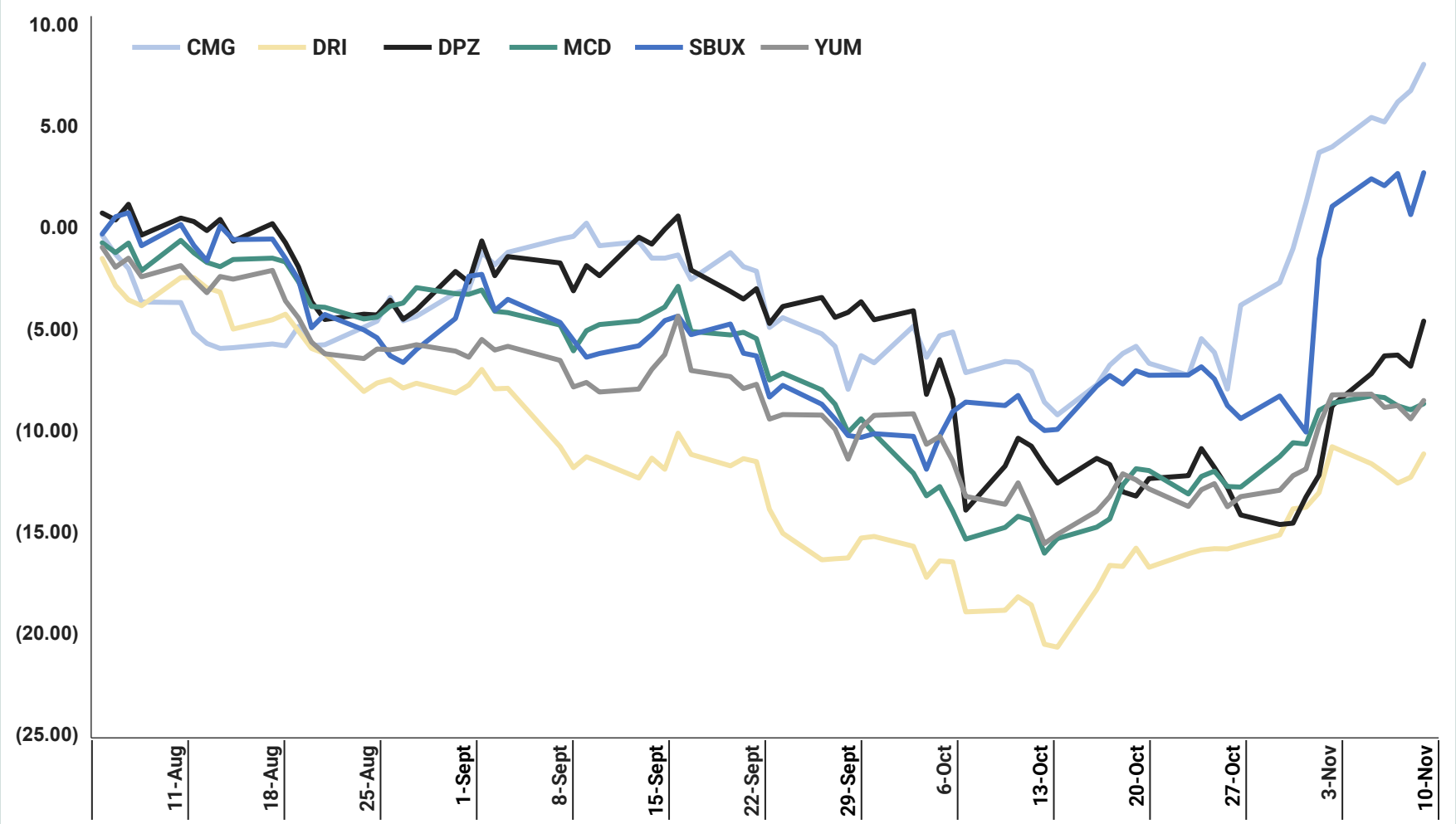
Restaurant Index Performance

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Restaurant Index Performance

CQ3-2023 Price Change: Restaurant Index Stocks



Stock	Price Change
CMG – Chipotle	8.1%
DRI – Darden	(11.1%)
DPZ – Domino's	(4.6%)
MCD – McDonald's	(8.7%)
SBUX – Starbucks	2.7%
YUM – Yum Brands	(8.5%)
Restaurant Index*	**(3.8%)**

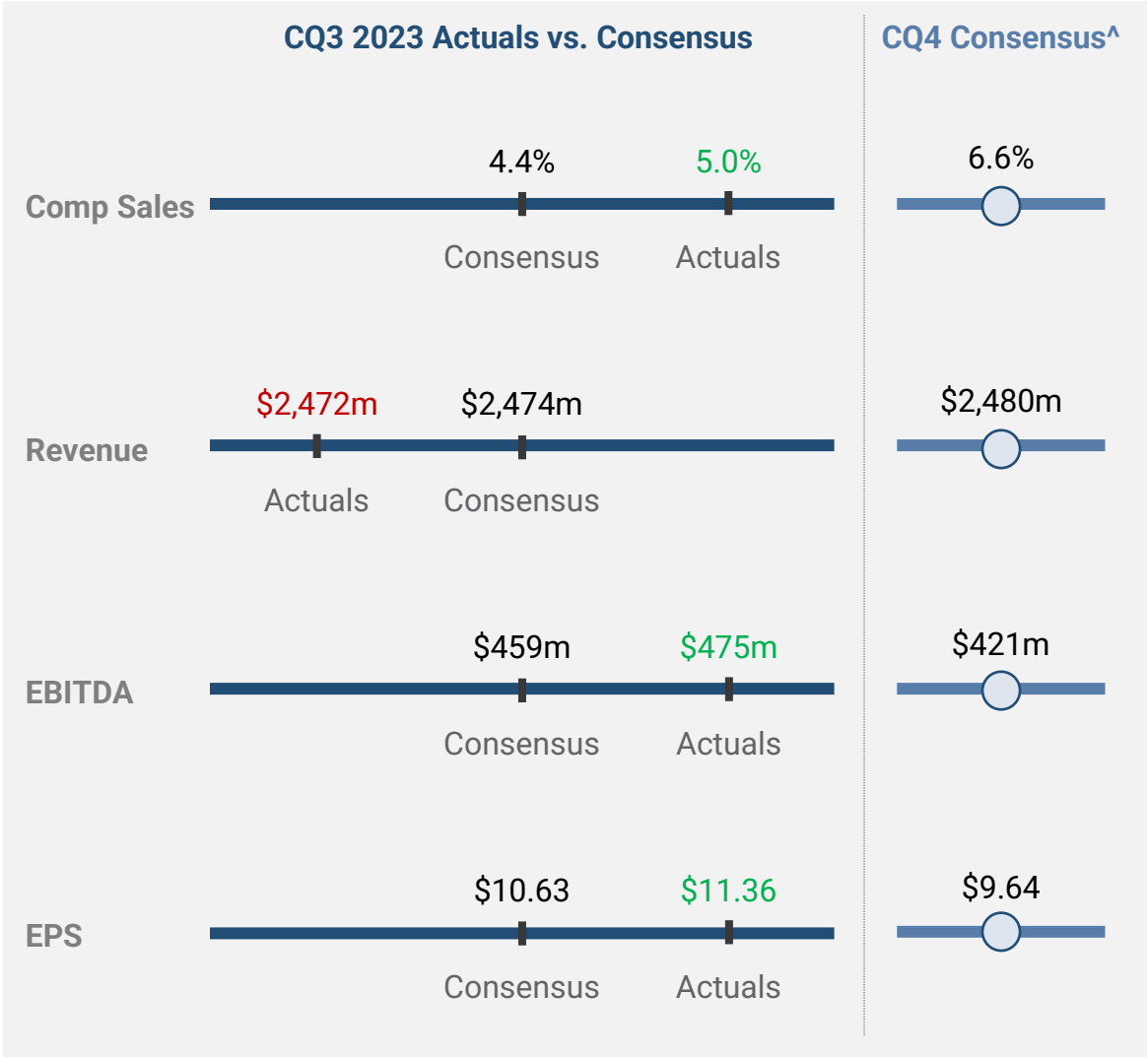
Select Commentary

- Among the six stocks making up the Restaurant Sector Index, **Chipotle was the clear winner of Q3 with an 8% gain during the period.**
- CMG experienced a sharp rise in early November after beating Q3 revenue estimates despite the company's **decision to raise pricing** across all menu items.
- Starbucks was the only other stock of the six to see an increase in share price during Q3. In a similar result to CMG, **SBUX's surge came in early November after a strong quarterly earnings announcement.**

Source: Capital IQ; trailing 3 months ending November 10, 2023

**Weighted change of S&P 500 Restaurants Index*

Restaurant Index Performance Chipotle



^Consensus estimates as of November 10, 2023 / Source: Capital IQ

CQ3-2023 Headlines

1 Strong Financial Performance

- Chipotle reported a robust 11.3% increase in total revenue, reaching $2.5 billion in Q3 2023, reflecting the success of its value proposition and sustained positive transaction growth.
- Diluted earnings per share rose by 23.0% to $11.32, showcasing the company's financial strength and effective operational strategies.

2 Operational Efficiency and Expansion

- Restaurant level operating margin saw an increase of 100 basis points to 26.3%, driven by sales leverage and new locations.
- Opened 62 new restaurants, including 54 locations with Chipotlanes, highlighting the benefits of enhancing guest access, convenience, and further contributing to sales growth.

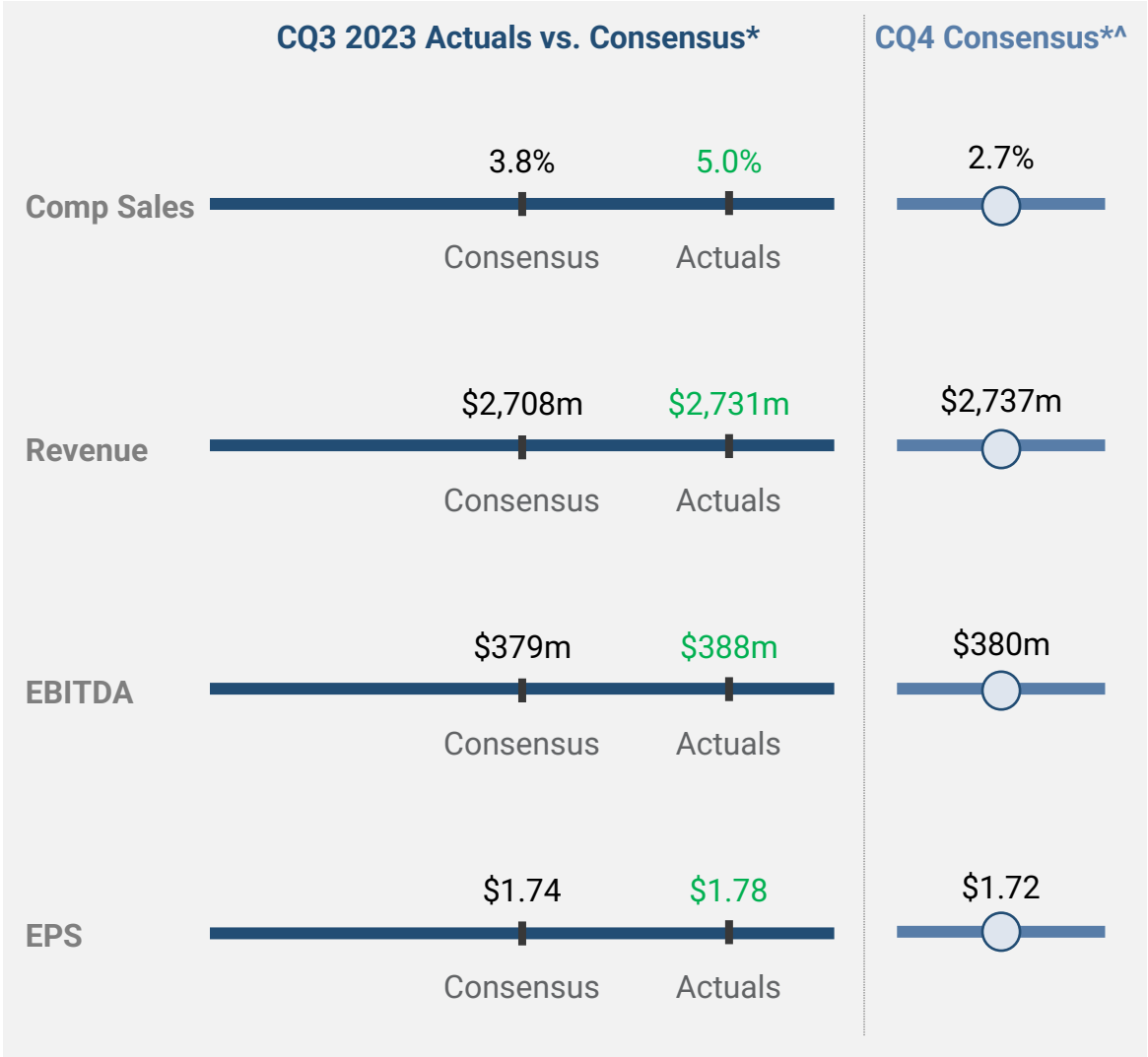
3 Digital Sales and Cost Management

- Digital sales represented 36.6% of total food and beverage revenue, demonstrating the effectiveness of CMG's digital strategy in catering to changing consumer preferences.
- Despite challenges such as food inflation, Chipotle managed its food, beverage, and packaging costs well, with a decrease to 29.7% of total revenue.

4 Strategic Financial Moves and Future Outlook

- Management provided a positive outlook for 2023, expecting mid to high-single-digit comparable restaurant sales growth in Q4, and for 2024, anticipating 285 to 315 new restaurant openings.
- The Board approved an additional $300 million for share repurchases, demonstrating confidence in the company's financial position.

Restaurant Index Performance Darden



*CQ3 2023 includes DRI's fiscal quarter ended Aug-23; CQ4 2023 includes DRI's fiscal quarter ending Nov-23

^Consensus estimates as of Nov 10, 2023 / Source: Capital IQ

CQ3-2023 Headlines

1 Strategic Acquisitions and Synergies

- Darden completed the acquisition of Ruth's Chris Steak House, enhancing its scale advantage, fitting its culture, and complementing its brand portfolio.
- The company anticipates achieving approximately $20 million in run-rate synergies by the end of fiscal 2025, primarily through supply chain and G&A savings.

2 Robust Fiscal Performance

- Achieved an impressive 8.9% sales growth, reaching $10.5 billion for the full fiscal year. Diluted net EPS were $8 highlighting strong results.
- The market responded positively, with a total shareholder return of 32.6% for the fiscal year, demonstrating the company's consistent ability to deliver strong long-term shareholder returns.

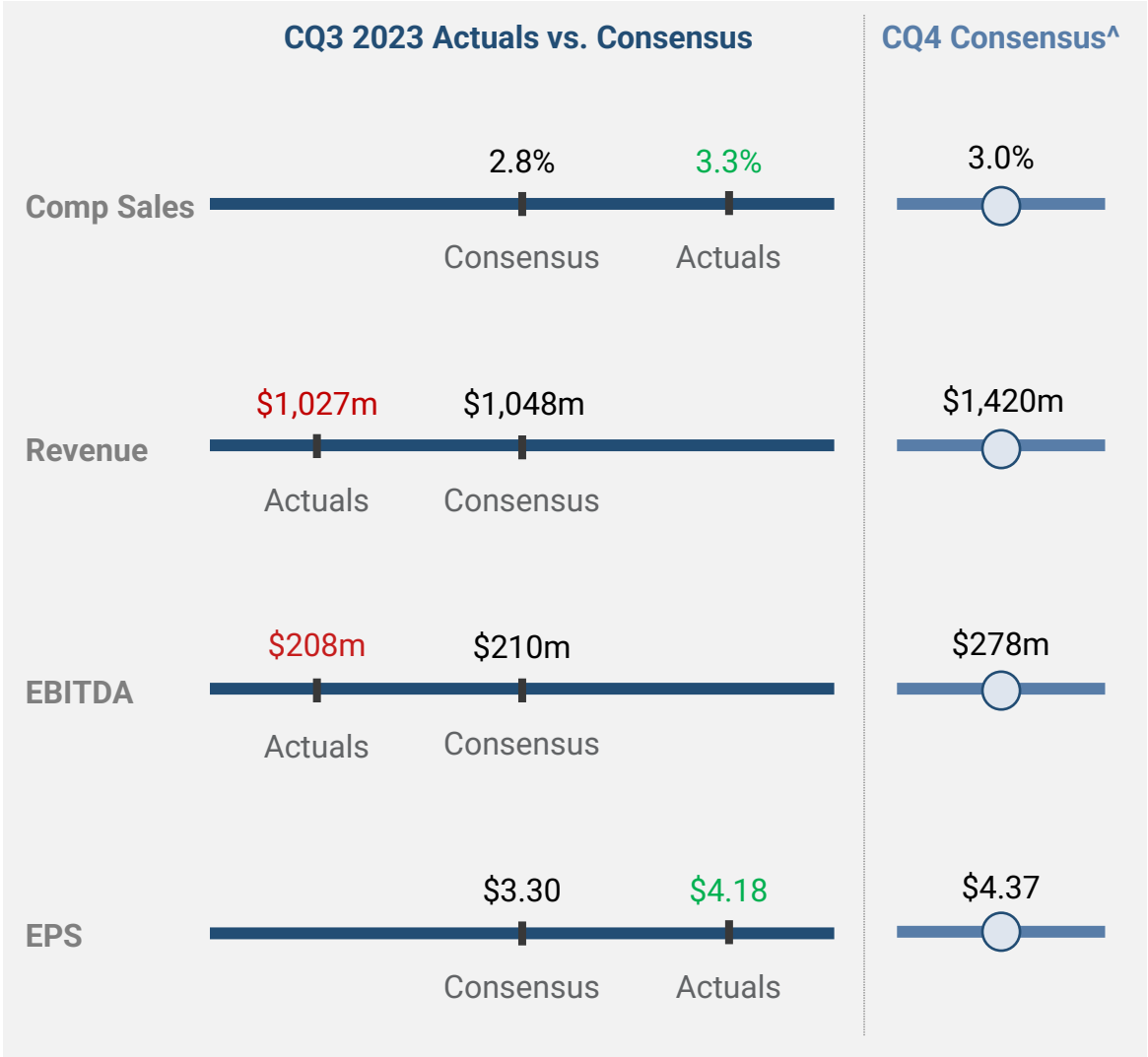
3 Operational Excellence and Brand Strength

- Darden's Back-to-Basics operating philosophy, emphasizing food, service, and atmosphere, contributed to record-level performances, particularly highlighted by Olive Garden's historic sales day and week during Mother's Day.

4 Positive Outlook for 2024

- Outlook for fiscal 2024 includes total sales of $11.5 billion to $11.6 billion, driven by the addition of Ruth's Chris. Same-restaurant sales growth is expected to be 2.5%-3.5%.
- The Board approved an 8% increase in the regular quarterly dividend to $1.31 per share, indicating financial strength and commitment to shareholder value.

Restaurant Index Performance Domino's



^Consensus estimates as of Nov 10, 2023 / Source: Capital IQ

CQ3-2023 Headlines

1 Strategic Loyalty Program Enhancements

- Introduction of Domino's Rewards program, featuring lower spend thresholds and more attainable redemption options, aims to enhance customer engagement.
- Despite being recently launched, the program has already shown meaningful redemptions at the 20 and 40-point levels, indicating positive customer engagement.

2 Entry into 3rd Party Delivery Marketplace

- Delivery orders offered through Uber Eats platform is progressing as planned. The integration will provide incremental volume from new customers, increase market share, and enhance economics for the company and franchisees.
- Achieved pre-pandemic Q3 2019 delivery times for enhanced customer experiences.

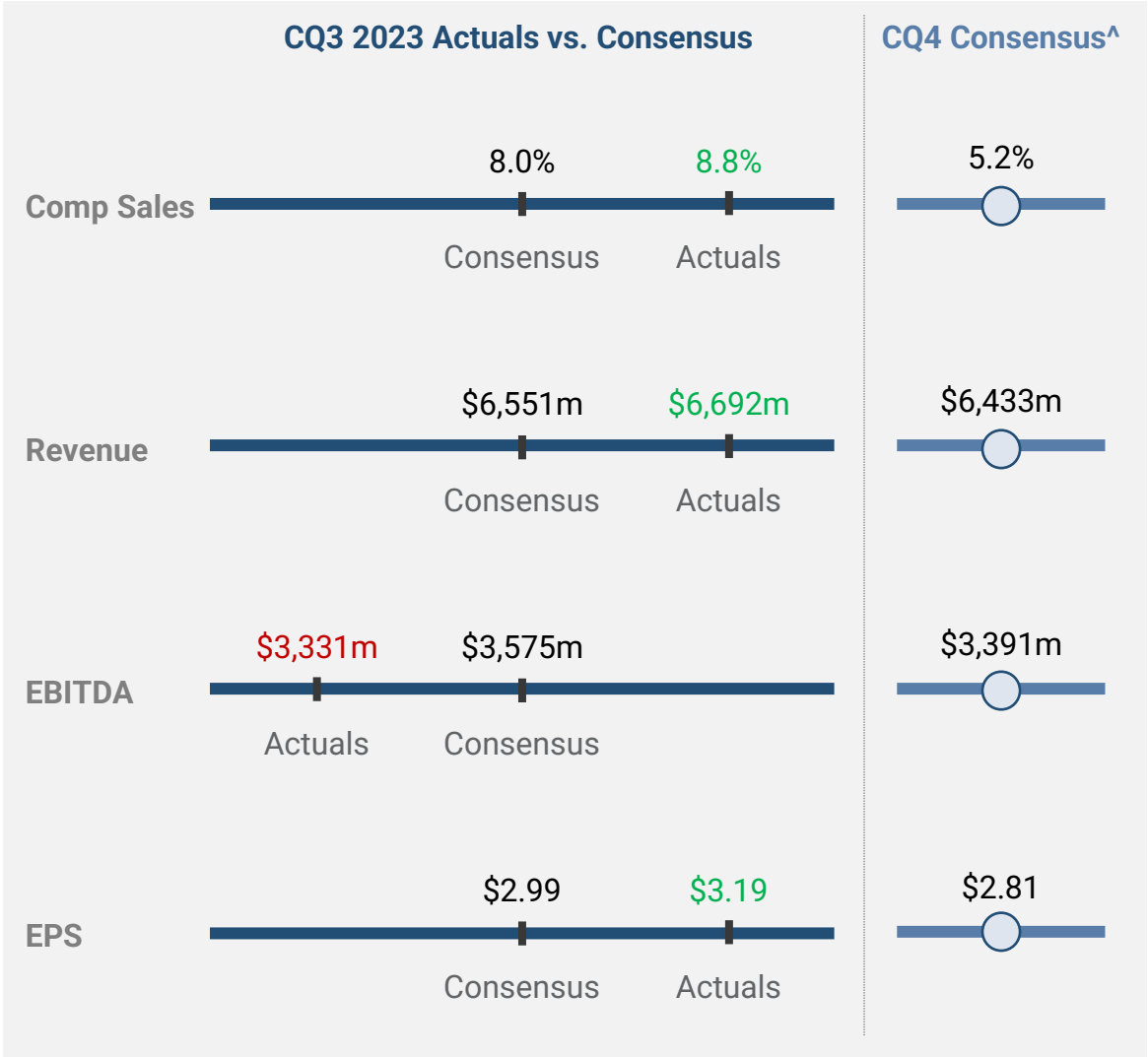
3 Purposeful Innovation and Marketing Strategies

- Launched the Pepperoni Stuffed Cheesy Bread and the Emergency Pizza promotion, offering unique and customer-centric experiences.
- Announced a partnership with Microsoft to create AI solutions by leveraging technology to simplifying the ordering process and streamline operations using predictive tools.

4 Financial Resilience and Profitability

- Despite soft U.S. sales, improved operating income margin and franchisee profitability.
- Global retail sales grew by 5.1%, and despite challenges such as store closures in certain markets, Domino's maintains strong unit economics, with positive EBITDA growth for U.S. franchisees.

Restaurant Index Performance McDonald's



^Consensus estimates as of Nov 10, 2023 / Source: Capital IQ

CQ3-2023 Headlines

1 Global Sales Momentum

- McDonald's achieved nearly 9% comparable global sales growth in the third quarter, showcasing a resilient business model.
- Despite moderating top-line growth, McDonald's continues to outperform competitors, maintaining its leadership position in market share.

2 Marketing Innovation

- Launched globally in over 100 markets, the campaign celebrates McDonald's references in entertainment, reinforcing its status as a cultural touchstone.
- The campaign garners an 85% positive consumer sentiment and stands in the top 30% of campaigns for customer engagement.

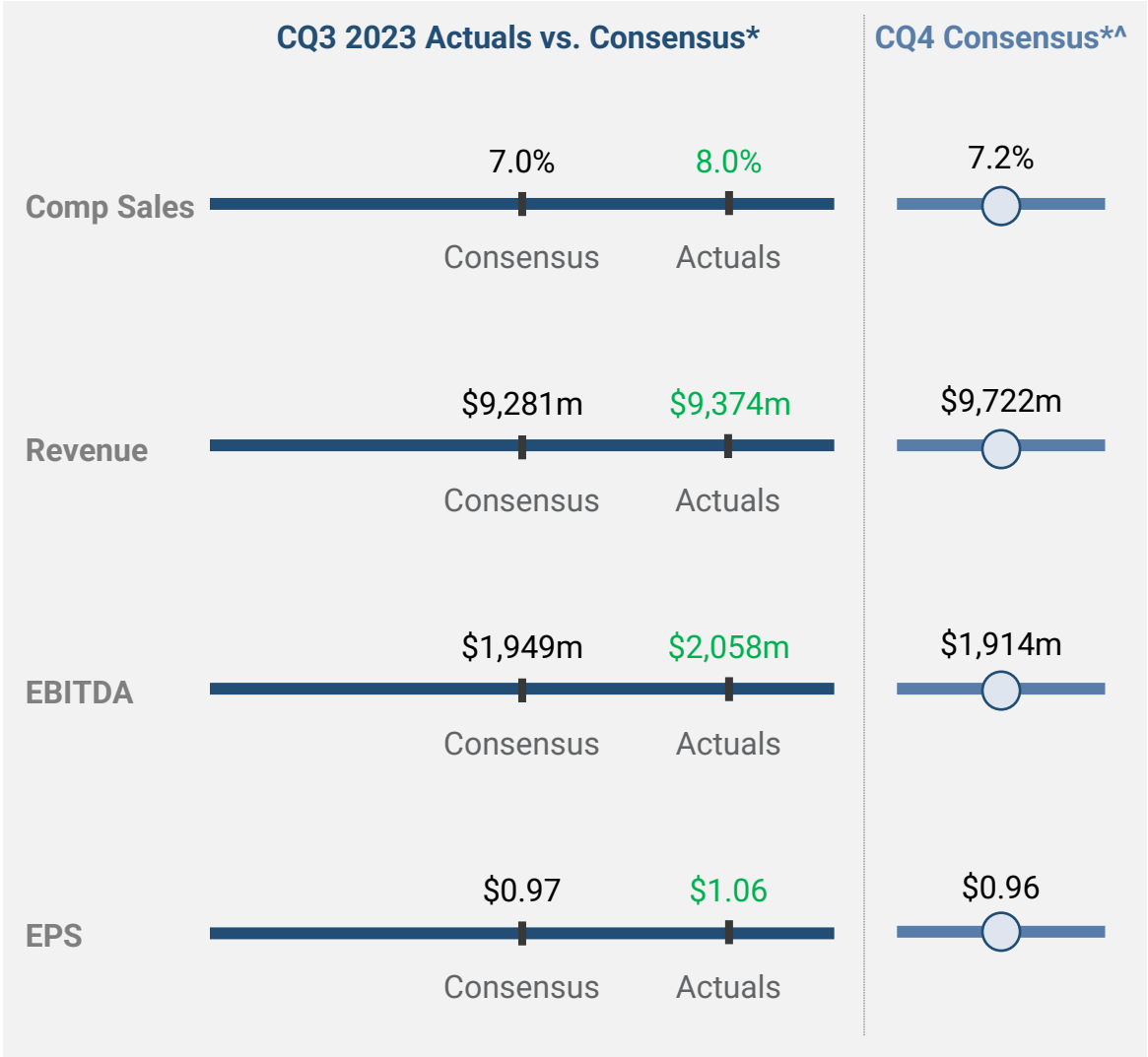
3 Value-Centric Approach

- Success stories from Germany's McSmart menu and Canada's breakfast affordability serve as prime examples of McDonald's customer-centric adaptability.
- McDonald's thrives amid global economic challenges by strategically offering affordability and value to discerning consumers.

4 Digital and Menu Evolution

- McDonald's continues to experience substantial digital expansion, with over $9 billion in digital sales and more than 57 million active members.
- 'One McDonald's Way' approach to remain at the forefront of the evolving fast-food landscape, sustaining focus on the McCrispy Chicken Sandwich and innovations.

Restaurant Index Performance Starbucks



*Starbucks CQ3 represents company's Fiscal 2023 Q4; CQ4 represents company's Fiscal 2024 Q1

^Consensus estimates as of Nov 10, 2023 / Source: Capital IQ

CQ3-2023 Headlines

1 Record Breaking CQ3 Revenue

- Starbucks achieved record total company revenue of $9.4 billion in CQ3, marking an 11% increase year-over-year.
- The company exceeded expectations with net new store growth of 7%, reaching over 38,000 stores globally, setting the stage for continued expansion.

2 Impressive U.S. Market Performance

- In the U.S., Starbucks reported a 12% increase in revenue for CQ3, propelled by a record 8% growth in comparable store sales.
- The Starbucks Rewards program hit a new milestone of nearly 33 million 90-day active members, showcasing robust digital engagement and loyalty.

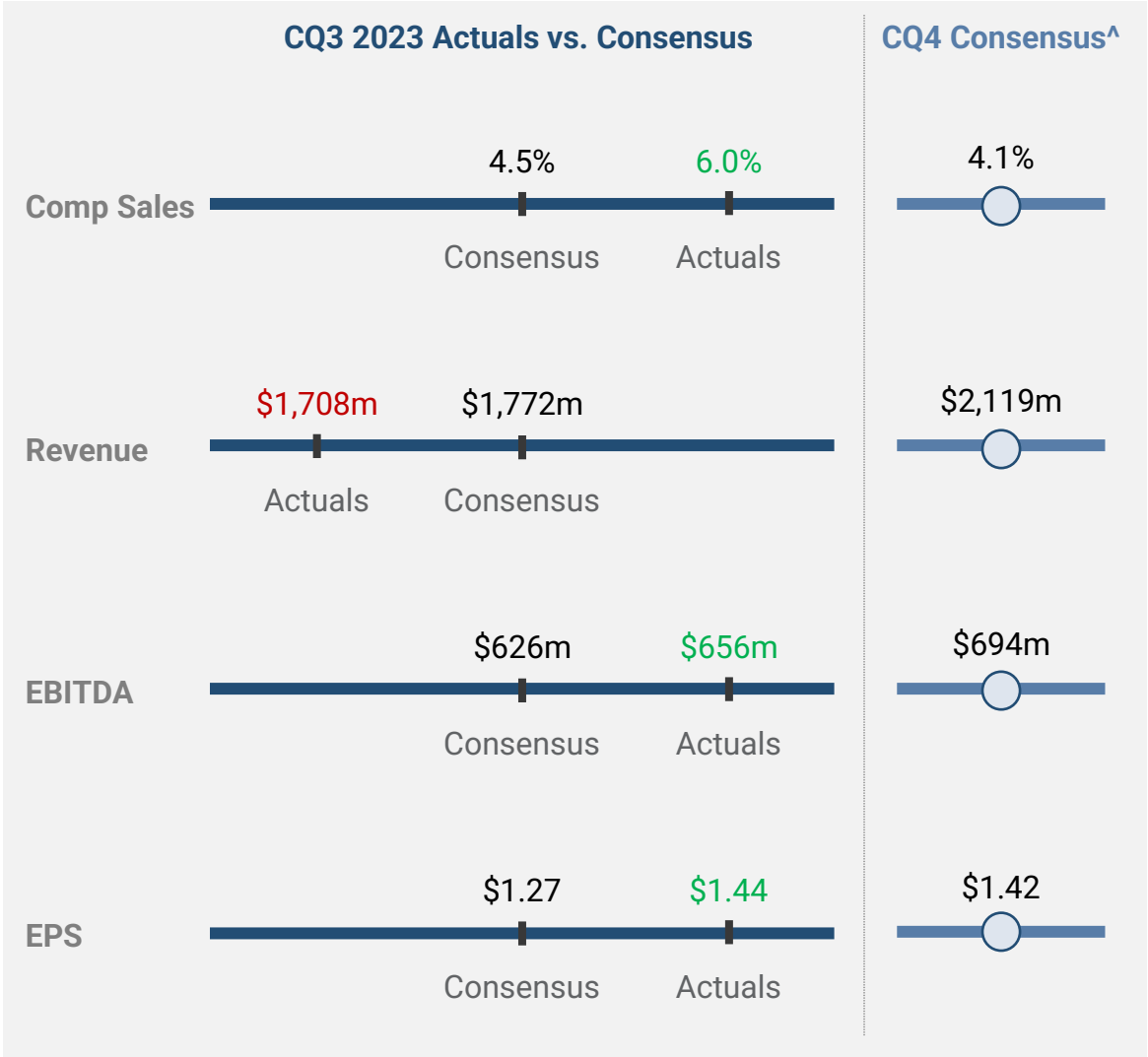
3 International Expansion and China's Growth

- Starbucks experienced record store growth internationally, with revenue growing by double digits in many regions.
- In China, revenue increased by 8% in CQ3, with a 5% growth in comparable store sales, demonstrating resilience and growth momentum.

4 Triple Shot Reinvention

- Emphasis on the commitment to a "Triple Shot Reinvention," concentrating on store elevation, digital innovation, global outreach, operational efficiency, and enhancing partner culture.
- Projections for 2024 include 5% to 7% global sales growth, 7% new store growth, and a consolidated revenue increase of 10% to 12%.

Restaurant Index Performance Yum! Yum Brands



^Consensus estimates as of Nov 10, 2023 / Source: Capital IQ

CQ3-2023 Headlines

1 KFC Global Expansion and Taco Bell Margins

- Q3 performance showcased a 12% growth in system sales, fueled by an 8% increase in unit growth and a 6% rise in same-store sales including standout performances in Africa/Australia (+9%) and Latin America/the Caribbean (+8%).
- Taco Bell achieved an impressive 11% system sales growth with industry-leading margins of 24%.

2 Strong System Sales Growth

- Yum! Brands reported a notable 10% growth in system sales for Q3 2023, driven by a 6% increase in both same-store sales and unit growth.
- The company's digital sales exceeded $7 billion, marking a remarkable 20% YoY increase.

3 Record Breaking Unit Growth

- Yum! Brands achieved a Q3 record with 1,130 gross new unit openings, reflecting a 6% growth in unit count across 65 countries. The company's franchise partners, exemplified by the Serrano Group in Latin America, are driving dynamic growth, with a focus on technology-forward development.

4 Innovation and Technology Integration

- Investments in AI-driven capabilities and a global data hub for personalized customer experiences including a voice-enabled AI drive-thru platform and automated drinks fulfillment tool.
- Strategic deployment of technologies such as in-store kiosks and AIM (Automated Inventory Management).

Macro Environment

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Macro Environment: Commodities

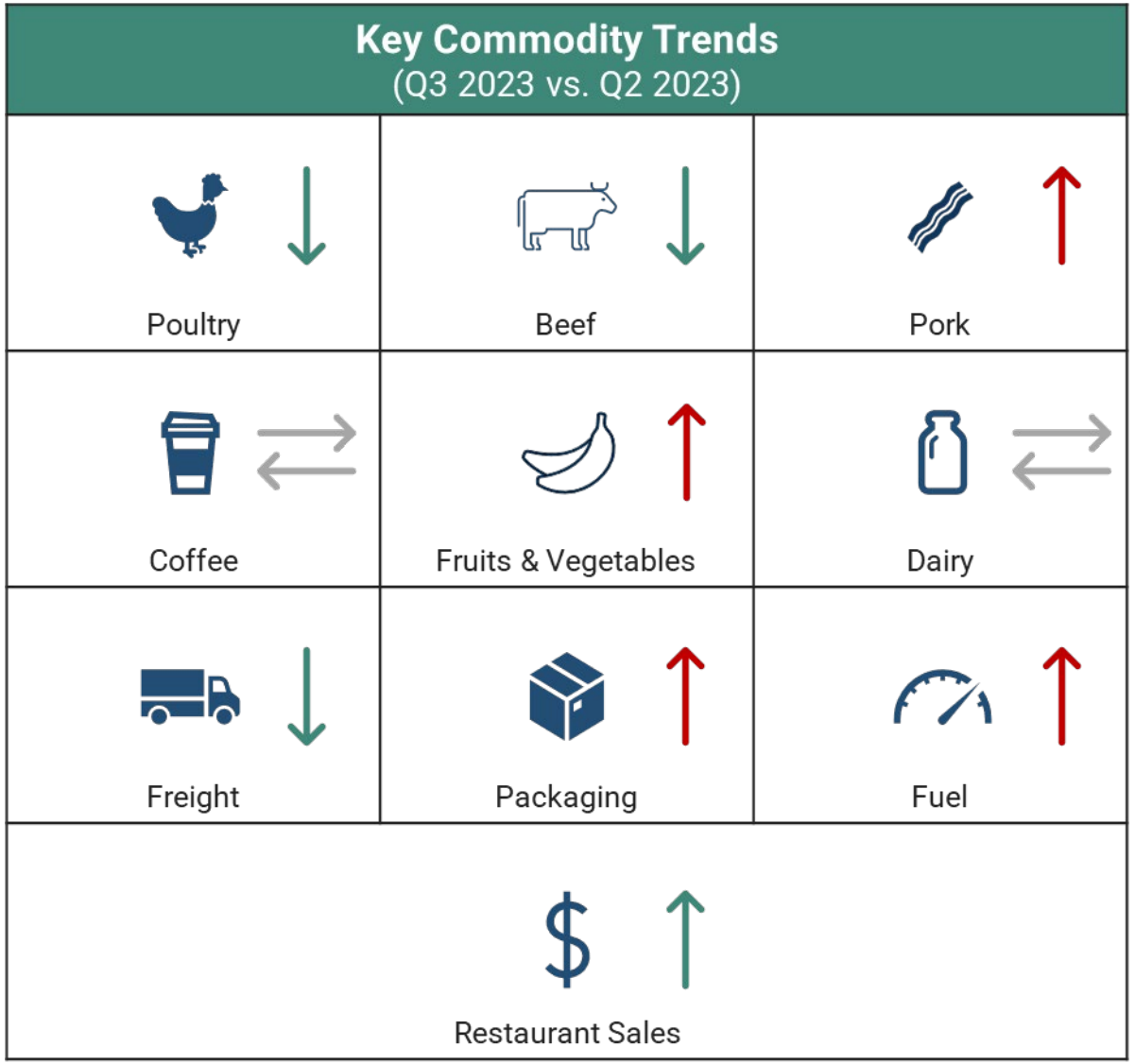
Quarterly Overview

CQ3 2023 is a mixed bag in terms of overall commodity pricing trends:

- Operators will be pleased to note a decline in the prices of poultry and beef, continuing the downward trend observed since the relative peaks of 2022.
- Although coffee prices are cooling off in 2023, they remain 20% higher than pre-COVID levels.
- The persistent increase in paper and plastic packaging prices since Q1 2020 continues to impact operators' profit margins. However, with a recent decline in plastic and paper input costs, there is optimism for potential relief in packaging prices in Q4 2023 and into 2024.
- Quarter over quarter, restaurant sales demonstrated improvement in Q3, a reassuring development amidst concerns of an impending recession for both operators and consumers.

Commodity Outlook

Despite pricing relief for many commodities in 2023, none of the listed items have returned to within 10% of their 2019 prices. Inflation remains a persistent challenge for operators, poised to continue into Q4.



Source: U.S. Department of Agriculture
Source: U.S. Bureau of Labor Statistics

Macro Environment: Labor

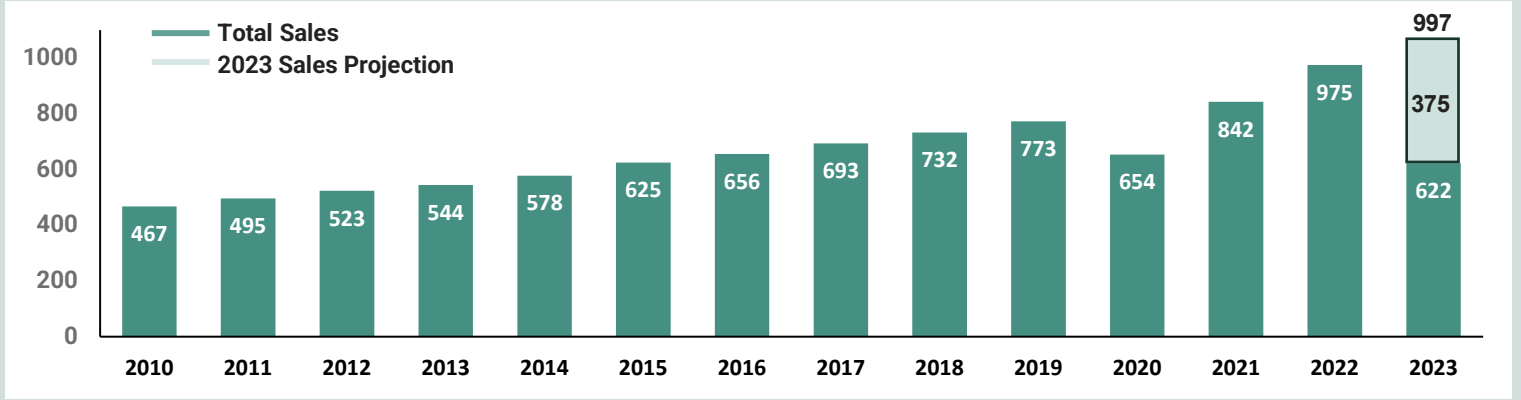
Key Labor Market Challenges

- Labor market pressure is easing, indicated by a decrease in the jobs-per-person-seeking-work ratio from 1.8 to 1.4 in the past year. However, this statistic is misleading as salaried employees are opting to remain in their current roles due to concerns of a potential recession. There is a prevailing mindset that the last person hired will be the first to be let go . This mindset, however, does not apply to the hourly workforce:

- Operators will continue to grapple with hiring and retaining hourly employees. The hourly workforce is expected to continue job hopping through 2024. This poses financial and cultural challenges for operators, with potential consequences to the consumer experience.

- Job hopping, often driven by marginal wage differences, disrupts restaurant operations and hinders effective teamwork due to the resulting fragile work culture or lack thereof. Attracting and retaining talent will remain a top priority for building organizational culture and remaining competitive in the market in the latter half of 2023.

Retail Sales: Food Services and Drinking (Billions of Dollars)



Source: "2023 State of the Restaurant Industry Report" by the National Restaurant Association
Source: U.S. Bureau of Labor Statistics

Total Employees and Job Openings: Accommodation and Food Services (Thousands)



Source: U.S. Bureau of Labor Statistics

Digital Engagement

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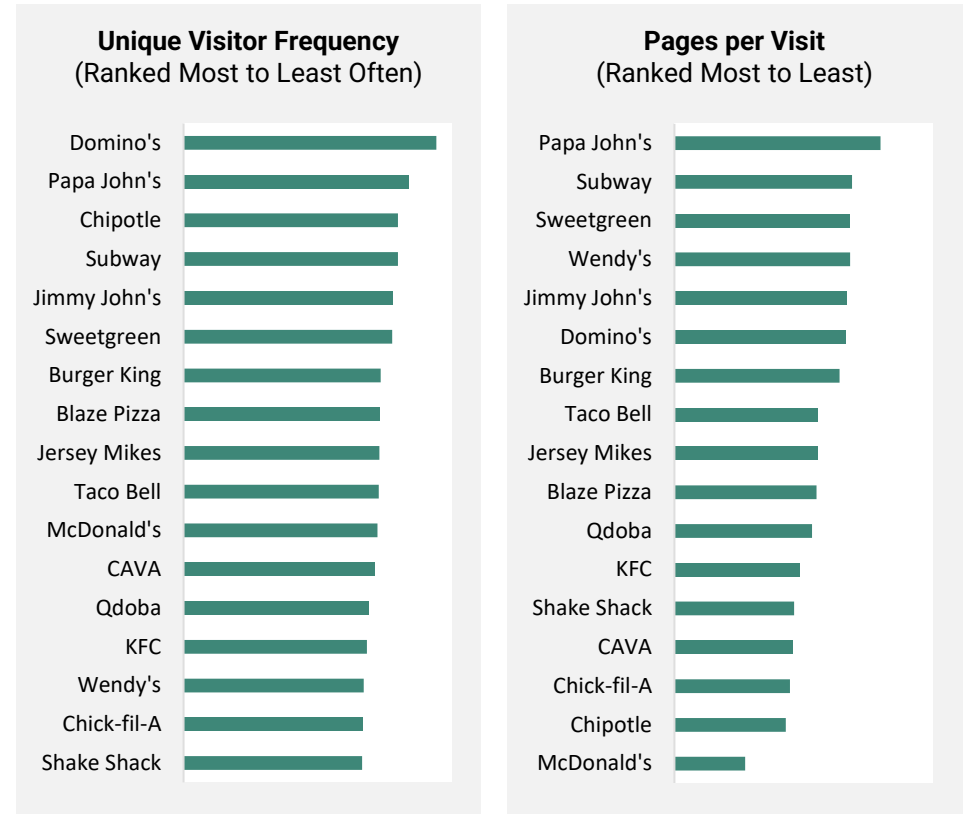
Digital Engagement

Key Metrics: Site Speed, Unique Traffic, and Engagement

			Mobile Web	Site Speed (Seconds)	Est. Traffic (Millions)		Engagement			
			US Rank	Mobile	Monthly Visits	Monthly UVs	Visits / UV	Pages per Visit	Bounce	Time on Site
Subs		Jersey Mikes	2,123 ↑	2.3	5.4	3.7	Average	Average	Average	Average
		Jimmy John's	2,076 ↓	3.9	4.2	2.7	Leading	Leading	Leading	Leading
		Subway	819 ↓	5.4	13.1	8.2	Leading	Leading	Average	Lagging
Burgers		Burger King	1,489 ↓	5.9	5.9	4.0	Average	Leading	Lagging	Lagging
		McDonald's	1,037 ↑	1.7	23.5	16.3	Average	Lagging	Lagging	Lagging
		Shake Shack	7,687 ↑	3.0	1.4	1.0	Lagging	Lagging	Leading	Lagging
		Wendy's	1,185 ↓	3.0	8.0	6.0	Lagging	Leading	Leading	Average
CHX		Chick-fil-A	871 ↓	3.0	12.3	9.2	Lagging	Lagging	Lagging	Lagging
		KFC	1,855 ↓	8.8	5.9	4.3	Lagging	Lagging	Lagging	Average
Mexican		Chipotle	974 ↑	7.6	10.0	6.2	Leading	Lagging	Average	Leading
		Qdoba	8,282 ↓	2.8	1.2	0.9	Lagging	Average	Lagging	Leading
		Taco Bell	828 ↓	2.7	11.9	8.1	Average	Average	Average	Average
Pizza		Blaze Pizza	12,871 ↑	5.0	0.8	0.6	Average	Average	Lagging	Lagging
		Domino's	177 ↑	5.6	35.2	18.7	Leading	Leading	Leading	Leading
		Papa John's	555 ↓	7.3	13.3	7.9	Leading	Leading	Leading	Leading
Other		CAVA	7,140 ↑	1.6	1.3	0.9	Average	Lagging	Average	Average
		Sweetgreen	8,107 ↓	2.4	0.9	0.6	Leading	Leading	Lagging	Lagging

Sources: Site Speed: Largest Contentful Paint (LCP) from Google Site Speed (11/26/23); Traffic and Engagement Data: 3-month (Aug-Oct 2023) estimated website traffic data provided by Similarweb (11/26/23); Global site ranking data: Similarweb and Ankura database.

Mobile Sites Unique Visitor Frequency and Pages/Visit



Source: Ankura Datasets and Analysis; Similarweb Mobile Web data from the 3-month period of Aug-Oct 2023 (Data extracted 11/26/23)

Digital Engagement: Audience Overlap

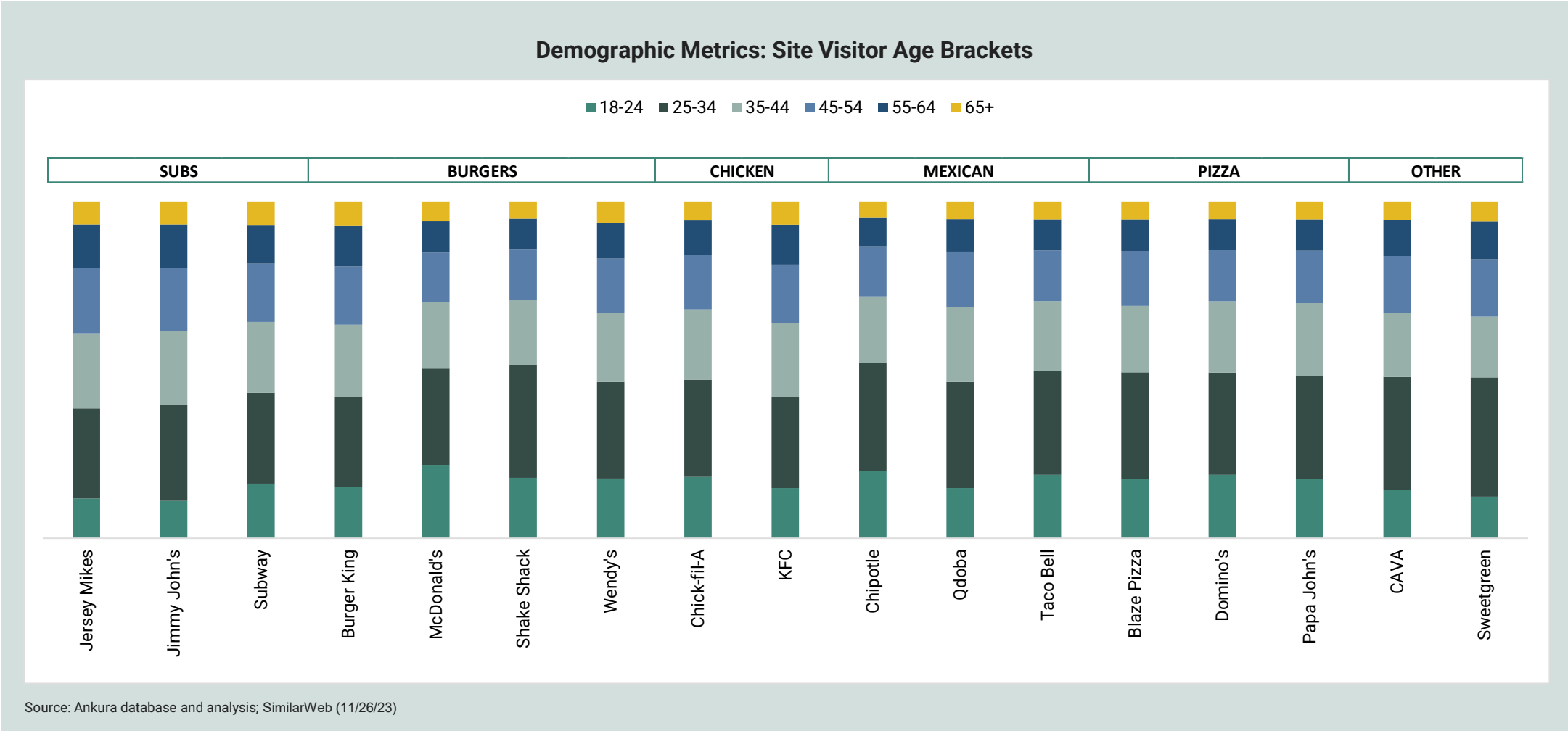
Visitors to a "Primary Site" who also visited a "Secondary Site" over the April-June 2023 period

Cross-Browsing Behaviors

	Visitors to (i.e. Primary Site) ... / ... Also Visited (i.e. Secondary Sites)	Jersey Mikes	Jimmy John's	Subway	Burger King	McDonald's	Shake Shack	Wendy's	Chick-fil-A	KFC	Chipotle	Qdoba	Taco Bell	Domino's	Papa John's	CAVA	Sweetgreen
SUBS	Jersey Mikes		4.7%	4.1%	1.9%	2.5%	NA	2.1%	2.0%	1.4%	2.3%	NA	2.1%	3.0%	1.9%	0.5%	NA
	Jimmy John's	4.3%		2.3%	1.6%	1.5%	NA	0.9%	1.6%	1.5%	1.5%	0.4%	1.8%	5.2%	3.8%	NA	NA
	Subway	1.8%	1.2%		1.0%	2.1%	NA	1.4%	0.9%	1.8%	1.5%	NA	1.5%	1.9%	9.9%	NA	NA
BURGERS	Burger King	1.8%	1.2%	2.1%		7.9%	1.0%	5.7%	2.8%	2.8%	2.4%	NA	4.9%	3.1%	2.5%	NA	NA
	McDonald's	0.6%	0.3%	0.9%	1.7%		0.3%	1.7%	1.0%	0.9%	0.6%	0.1%	1.5%	0.1%	0.6%	1.1%	NA
	Shake Shack	NA	NA	NA	3.2%	4.9%		3.0%	5.2%	NA	3.6%	NA	3.3%	NA	NA	1.2%	2.7%
	Wendy's	1.4%	0.9%	2.4%	4.7%	6.5%	0.7%		2.5%	2.5%	2.3%	0.4%	4.5%	2.6%	1.6%	NA	NA
CHIC KEN	Chick-fil-A	1.5%	0.9%	1.8%	1.3%	2.2%	1.1%	1.4%		1.5%	2.0%	0.4%	1.8%	1.8%	1.0%	0.9%	NA
	KFC	1.4%	0.7%	3.6%	3.2%	4.0%	NA	3.6%	3.1%		2.7%	NA	4.7%	4.1%	2.9%	NA	NA
MEXICAN	Chipotle	1.0%	0.7%	2.2%	0.7%	1.4%	0.5%	0.8%	1.9%	1.0%		0.9%	1.4%	1.5%	0.8%	0.8%	0.6%
	Qdoba	NA	3.0%	NA	NA	3.0%	NA	3.8%	5.8%	NA	12.5%		2.3%	4.6%	NA	NA	NA
PIZZA	Taco Bell	1.3%	0.9%	1.6%	2.3%	3.4%	0.5%	2.4%	1.8%	1.8%	1.6%	2.3%		2.1%	1.3%	0.6%	NA
	Domino's	0.3%	0.3%	0.5%	0.4%	0.6%	NA	0.4%	0.4%	0.5%	0.6%	0.1%	0.6%		4.3%	0.2%	NA
	Papa John's	0.8%	0.7%	0.8%	0.7%	0.9%	NA	0.7%	0.7%	0.9%	0.7%	NA	1.0%	11.0%		NA	NA
OTHER	CAVA	1.0%	NA	NA	NA	1.3%	1.0%	NA	3.4%	NA	4.3%	NA	2.4%	3.4%	0.5%		3.6%
	Sweetgreen	NA	NA	0.6%	NA	NA	1.3%	NA	NA	NA	3.2%	NA	NA	NA	NA	3.1%	

Source: Ankura database and analysis; SimilarWeb (11/26/23)

Digital Engagement: Audience Overlap



Source: Ankura database and analysis; SimilarWeb (11/26/23)

Ankura's Restaurant Practice



Ankura's Restaurant Practice

Performance Improvement



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Senior Managing Director | New York



Rick Maicki
Senior Managing Director | Florida



Michael Casey
Managing Director | Kansas



Frank Jones
Managing Director | Virginia



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Managing Director | New York



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Ryan Patrick
Director | Texas

Labor Strategy



John Frehse
Senior Managing Director | New York

Data & Technology



Sean Ennis
Senior Associate | Illinois

About Ankura

2,000+	600+
Full-Time Employees	Consultants with Advanced Degrees or Industry Certifications

~64%	~34%
of Projects Involve Staffing from Multiple Business Groups	of Projects Include Data & Analytics

Case Study: Third-Party Delivery Accounting

The company - a $15B Private Equity Owned Restaurant Group - experienced a massive uptick in third-party delivery orders driven by COVID-19. The accounting team was unable to reconcile third-party delivery accounts receivable and cash collections, which resulted in $6 million in write-offs due to unexplained variances. The company has 8 delivery partners across 6 brands. Data from each provider comes directly from the third-party delivery vendor's website portal.

Engagement Execution

Phase 1 – Accounting Assessment

- Two-week assessment to determine current state of third-party delivery accounting

Phase 2 – Build

- Develop stable current state accounting model
- Prepare for the future state through,
    - Collaborating across all lines of service
    - Understanding third-party delivery data source, both internal and external

Phase 3 – Automate and Iterate

- Create repeatable future state accounting models leveraged across all brands and delivery providers
- Develop dashboard analytics to capture daily results and identify data integrity issues faster
- Improve cash collections through analytics and quarterly assessments

Results

Revenue Accounting:

- Defined 3PD accounting procedures that are repeatable and auditable.
- Set up new accounts for increased transparency, improved time to close, and improved accuracy of entries.

Data Governance / IT:

- *Internal:* Identified internal data integrity weaknesses and worked with key IT stakeholders to improve data quality
- *External:* Identified data integrity failures at 6/8 third party vendors listed. Worked with 3PD's directly to enact change to 3PD data for all restaurants nationally.

Operations

- Identified and negotiated $150K in promotional spend credits due to delivery vendor malpractice
- Identified and collected over $2M in missing payments from third party providers.

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35+
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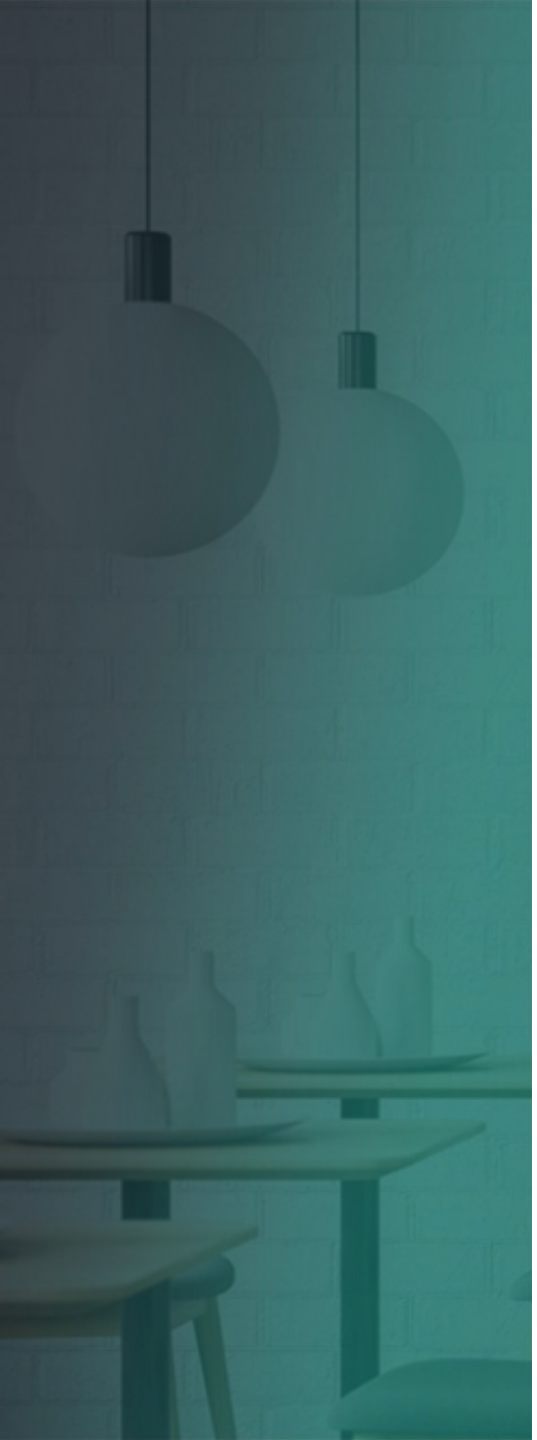
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