



NEW MODEL FOR A NEW AGE

A NEW FRAMEWORK FOR CHAIN RESTAURANTS

SPEAKER SERIES: WALL STREET MEETS MAIN STREET



August 8, 2016



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*“You've got to get the structure right and when the **pace of change** in the world outside is faster than the **pace of change** within, you start to get left behind.”*

-Steve Easterbrook

SPEAKERS



Phil Mangieri



Wally Butkus

Changing cost structures necessitate new industry model.



Kirstie Tiernan

Technology & The Age of Mobility



Neil Howe

Understanding Consumer Behavior



Howard Penney

Understanding the Secular Decline



Joe Langteau

Real World Insights for the Next Cycle

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BACKGROUND

The pace of change for many traditional operators needs to accelerate or they will be left behind. This is not an easy task because too much change can disrupt operations.

Today's operating environment may represent the largest challenge in modern times:

- Changing cost structures
- Evolving consumer behavior & associated sales trends
- Tech solutions in the digital age & new service models
- Social media and new advertising models

Framing the issues facing the restaurant industry:

1. Labor Costs and Increased Regulation
2. Food Costs, Changing Food Preferences & Volatility
3. Bringing it all together at the Bottom Line
4. Technology & the Age of Mobility
5. Understanding Consumer Behavior
6. Understanding the Secular Decline
7. Real World Insights

RESTAURANT RESEARCH

LABOR COSTS AND INCREASED REGULATION

CAN THE INDUSTRY SURVIVE \$15/HR?

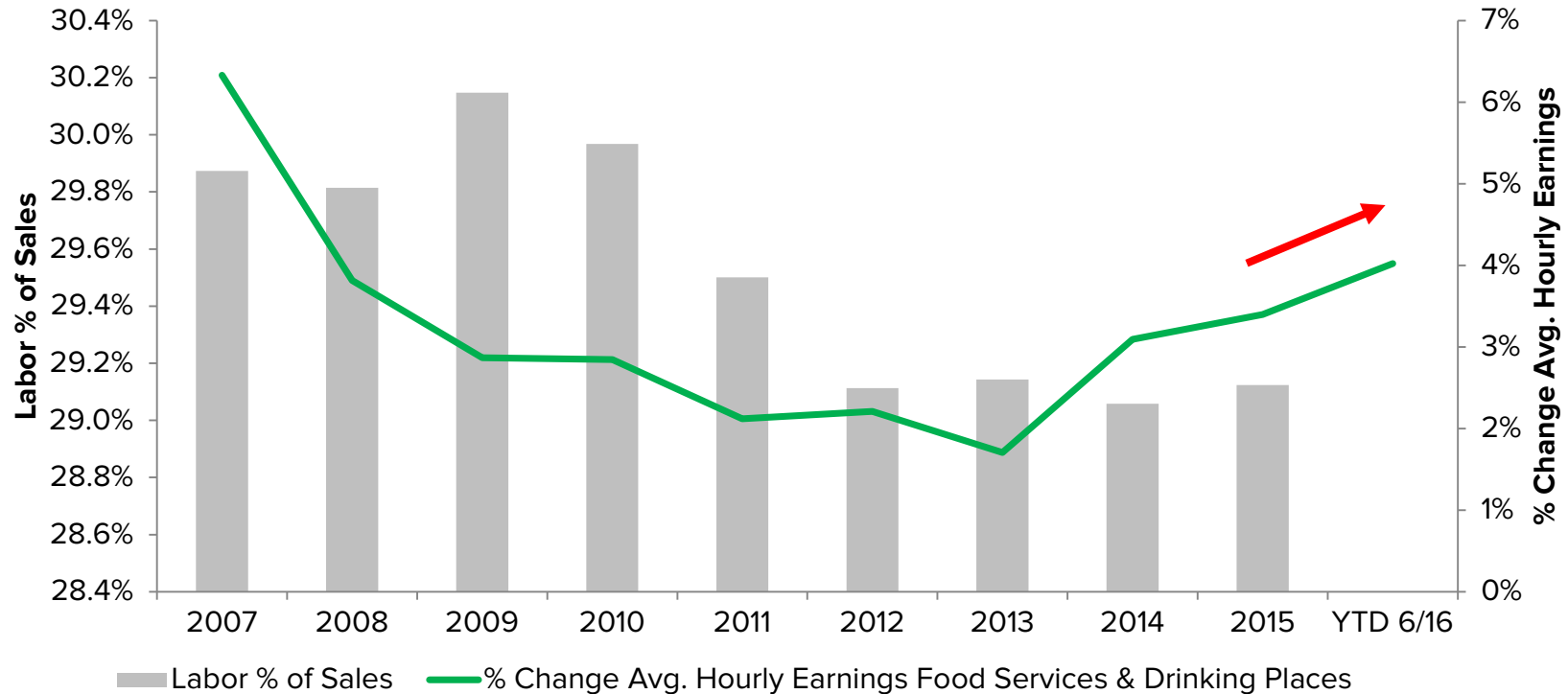
Labor Build-up for Hypothetical Store: Base case								
AUV \$1,400,000								
Position	# of employees	Hourly Salary	Weekly Hours	Annual Salary	Health Benefits	Payroll Taxes	Total Cost	% of sales
General manager	1	\$16.36	55	\$45,000	\$8,000	\$3,375	\$56,375	4.0%
Assistant manager	2	\$14.00	50	\$35,000	\$8,000	\$2,625	\$91,250	6.5%
Crew	25	\$9.00	20	\$9,000		\$675	\$241,875	17.3%
Total							\$389,500	27.8%

Increase to \$15/hr with Same Store-Level Sales								
AUV \$1,400,000								
Position	# of employees	Hourly Salary	Weekly Hours	Annual Salary	Health Benefits	Payroll Taxes	Total Cost	% of sales
General manager	1	\$23.64	55	\$65,000	\$8,000	\$4,875	\$77,875	5.6%
Assistant manager	2	\$20.00	50	\$50,000	\$8,000	\$3,750	\$123,500	8.8%
Crew	25	\$15.00	20	\$15,000		\$1,125	\$403,125	28.8%
Total							\$604,500	43.2%

AUV Must Increase +55% to Restore Labor Margin after \$15/hr Increase								
AUV \$2,175,000								
Position	# of employees	Hourly Salary	Weekly Hours	Annual Salary	Health Benefits	Payroll Taxes	Total Cost	% of sales
General manager	1	\$23.64	55	\$65,000	\$8,000	\$4,875	\$77,875	3.6%
Assistant manager	2	\$20.00	50	\$50,000	\$8,000	\$3,750	\$123,500	5.7%
Crew	25	\$15.00	20	\$15,000		\$1,125	\$403,125	18.5%
Total							\$604,500	27.8%

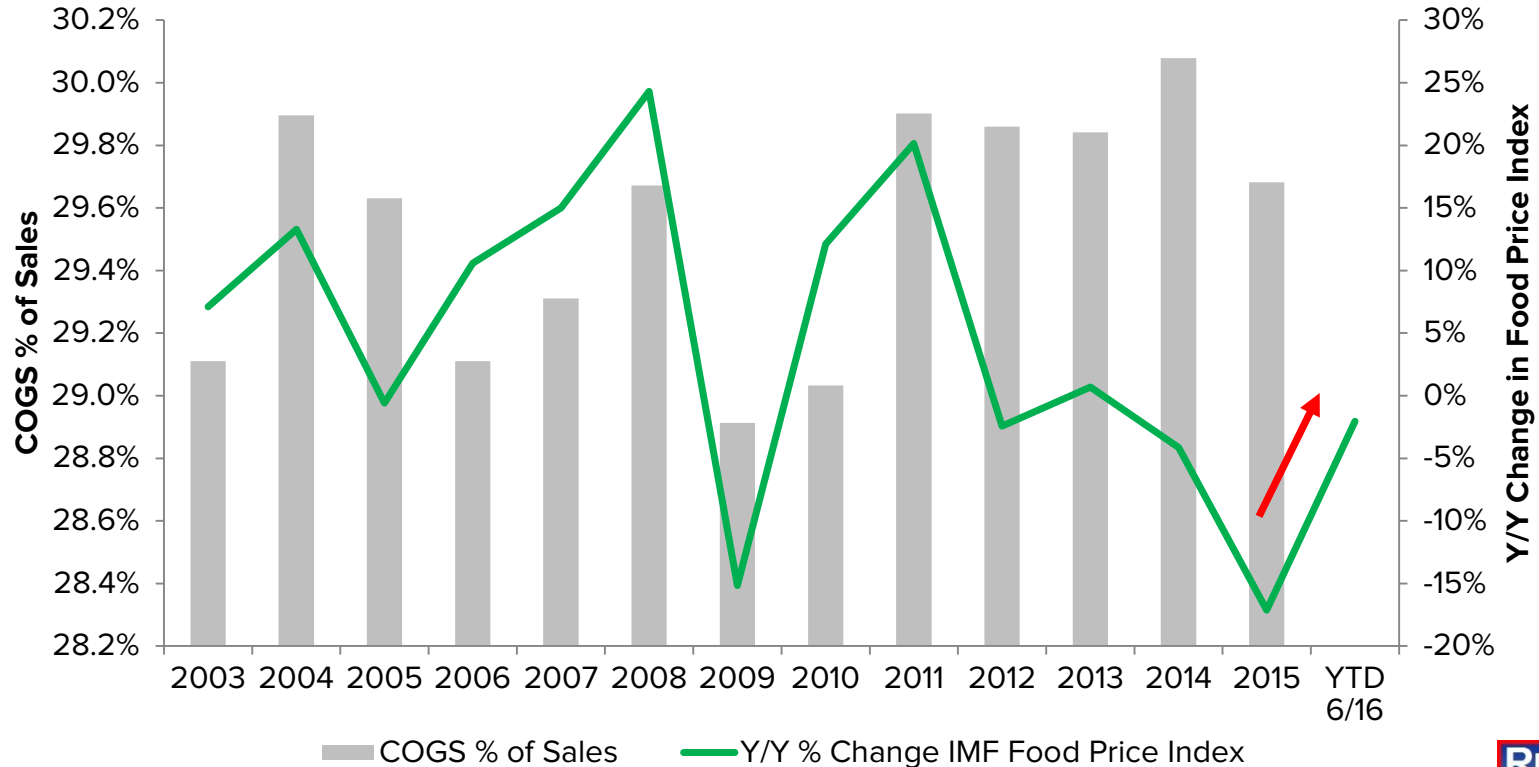
LABOR COST OUTLOOK

MINIMUM WAGE INCREASES ARE STARTING TO TAKE HOLD



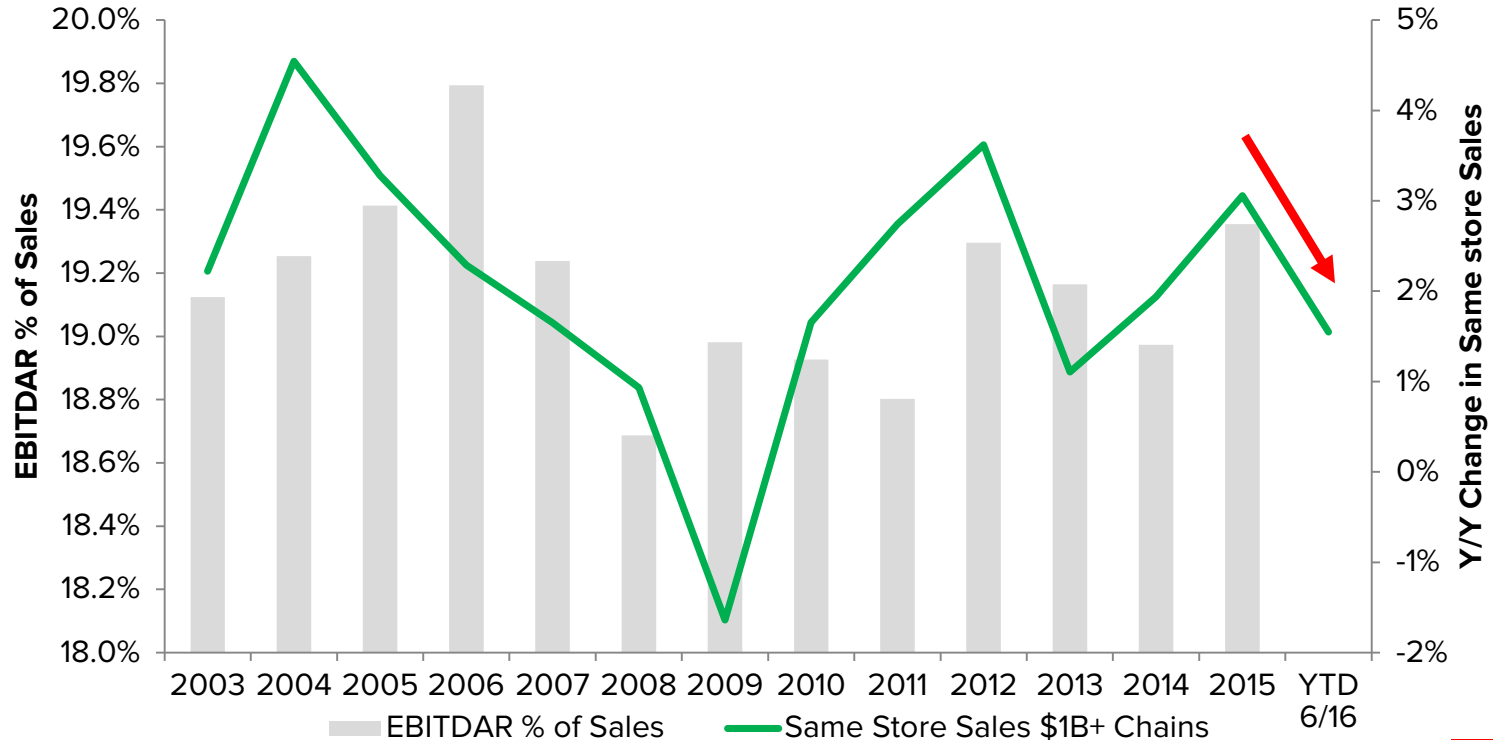
FOOD COSTS, CHANGING FOOD PREFERENCES & VOLATILITY

OPERATORS FIND LOTS OF WIGGLE ROOM IN COGS



UNIT LEVEL EBITDAR & SALES

BRINGING IT ALL TOGETHER AT THE BOTTOM LINE



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TECHNOLOGY & THE AGE OF MOBILITY

THE ROLE OF TECH IN THE NEW INDUSTRY MODEL



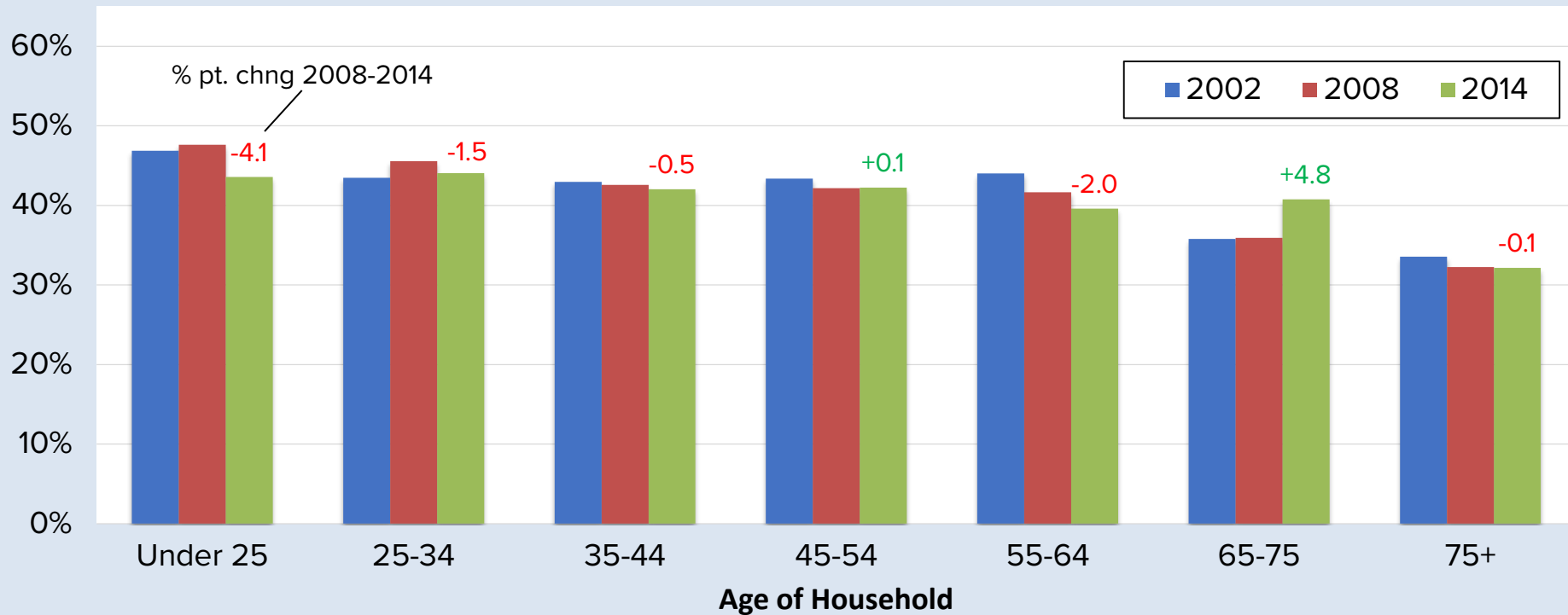
- Digital age is changing consumer behavior.
- Loyalty
- Are tech solutions all they are cracked-up to be?

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GENERATIONAL DINING

YOUTH SHIFTING AWAY FROM EATING OUT

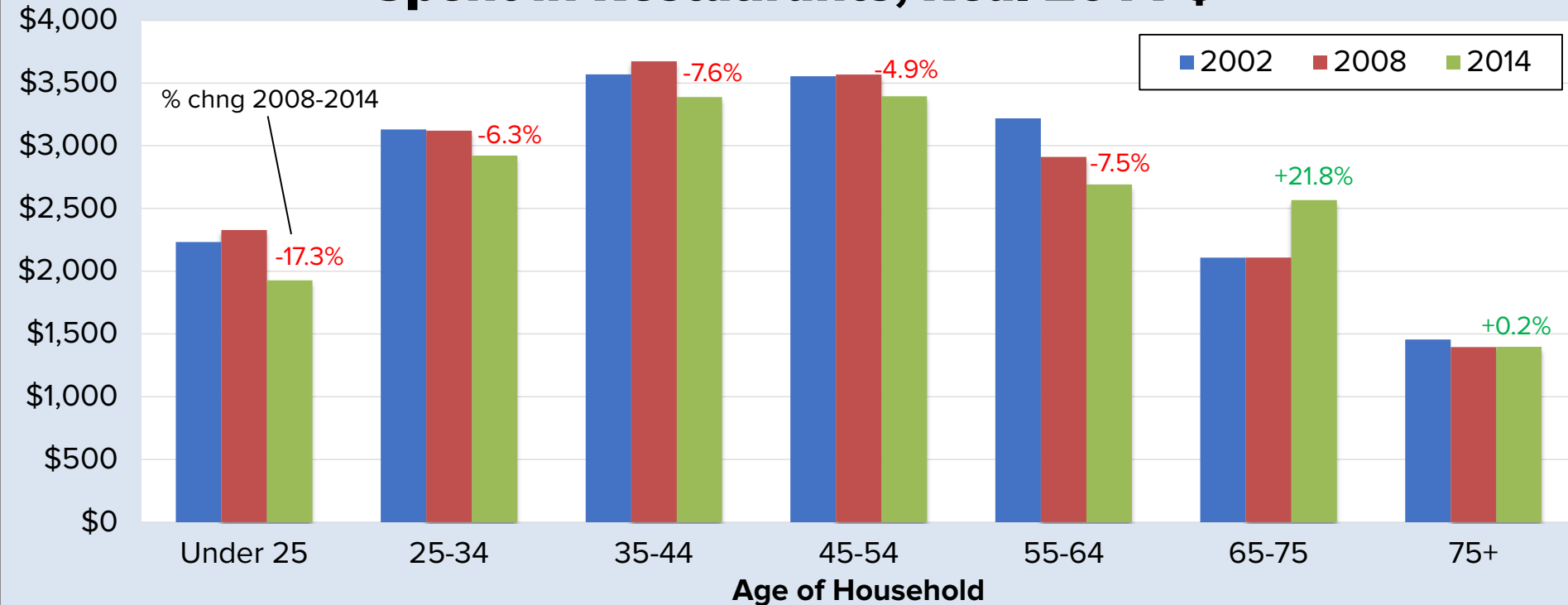
Share of Food Dollars Spent in Restaurants, as a Percent of Total Food Spending



Source: U.S. Bureau of Labor Statistics (2015)

YOUNG SPEND LESS EATING OUT, OLD MORE

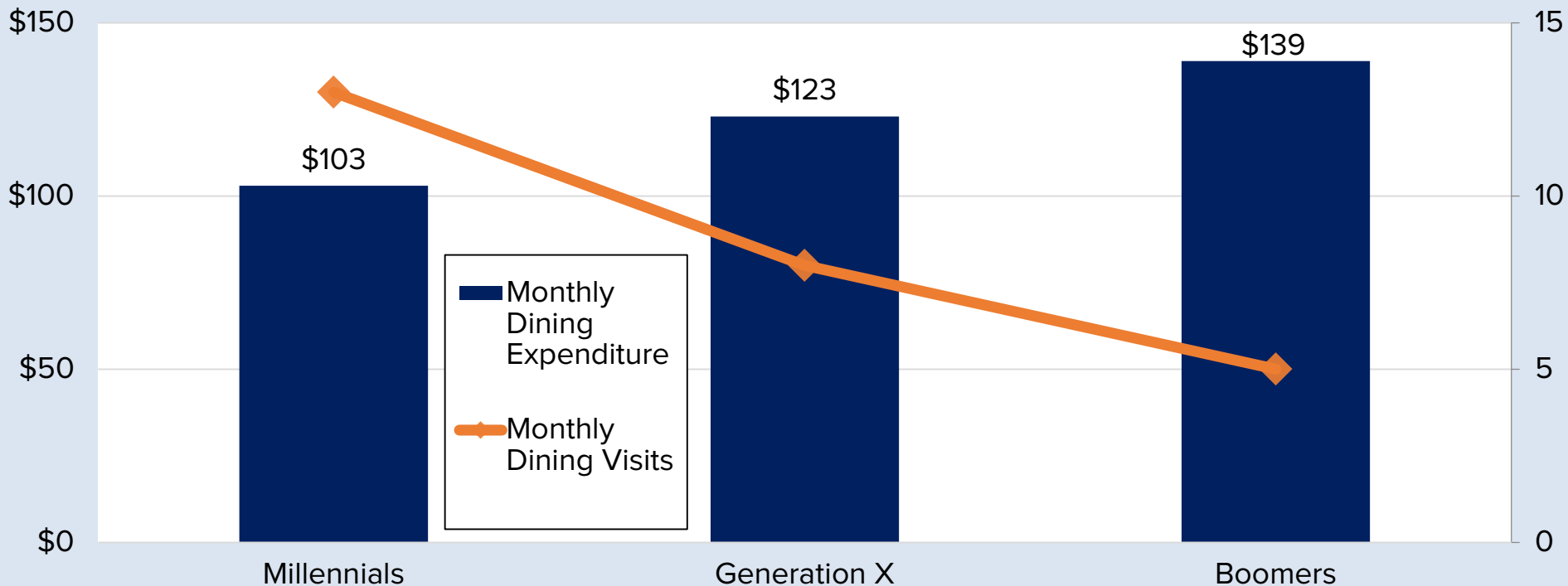
Average Annual Food Dollars Per Household Spent in Restaurants, Real 2014 \$



Source: U.S. Bureau of Labor Statistics (2015)

YOUNG SPEND LESS, MORE OFTEN

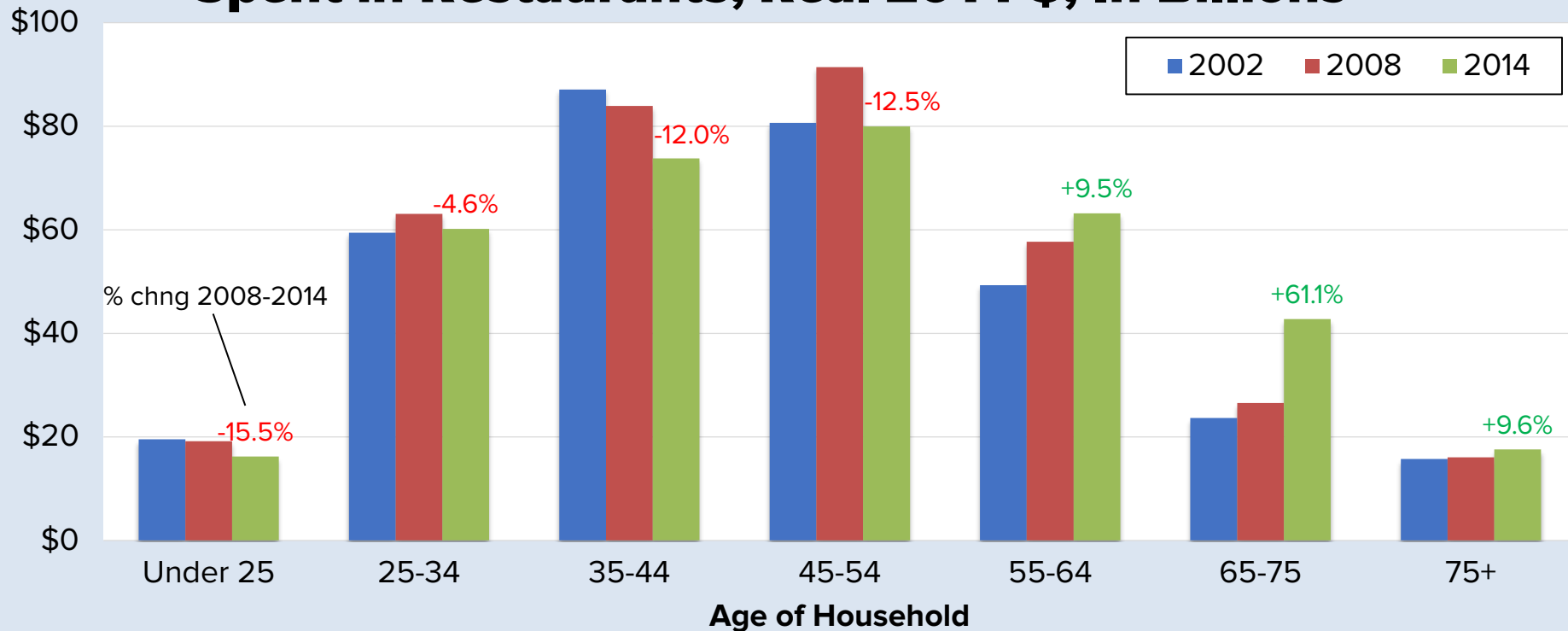
Per-Person Monthly Dining Out Habits, by Generation



Source: CBRE Group (2016)

SPENDING + NUMBERS = BIG AGE INVERSION

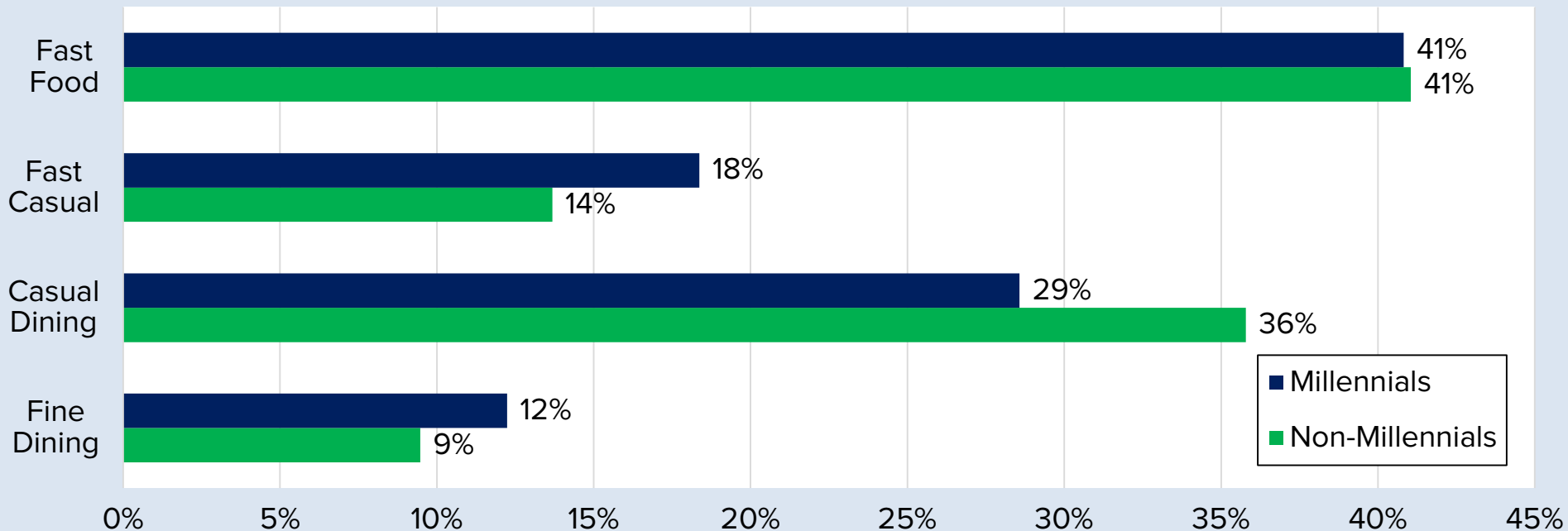
Total Annual Food Dollars Per Household Spent in Restaurants, Real 2014 \$, In Billions



Source: U.S. Bureau of Labor Statistics (2015)

YOUNG GO 'FAST CASUAL,' OLD GO 'CASUAL'

Share of Monthly Spending* by Restaurant Format: Millennials Versus Non-Millennials



* "Other" dining-out expenditures divided proportionally into each category.

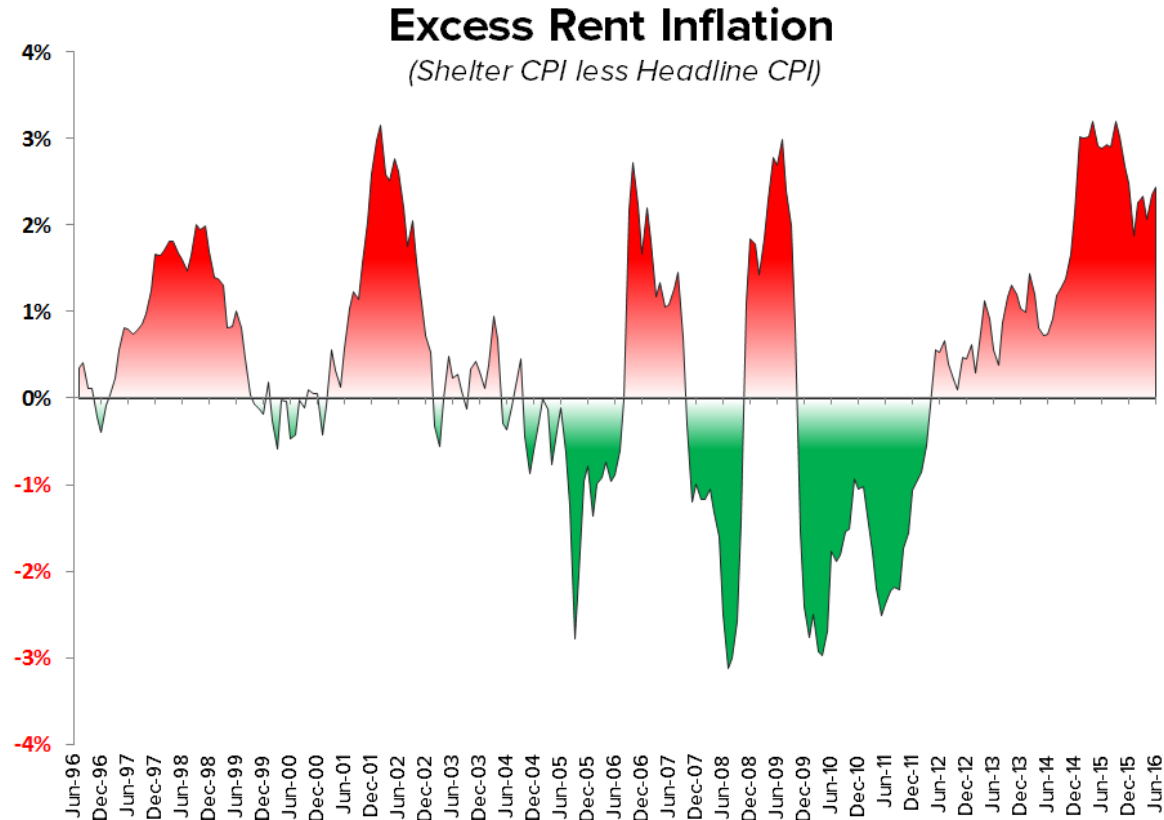
Source: Barkley (2011)

THROUGH THE EYE OF THE CONSUMER

THE CONSUMER HAS A LOT OF CHOICES FOR WHERE TO EAT

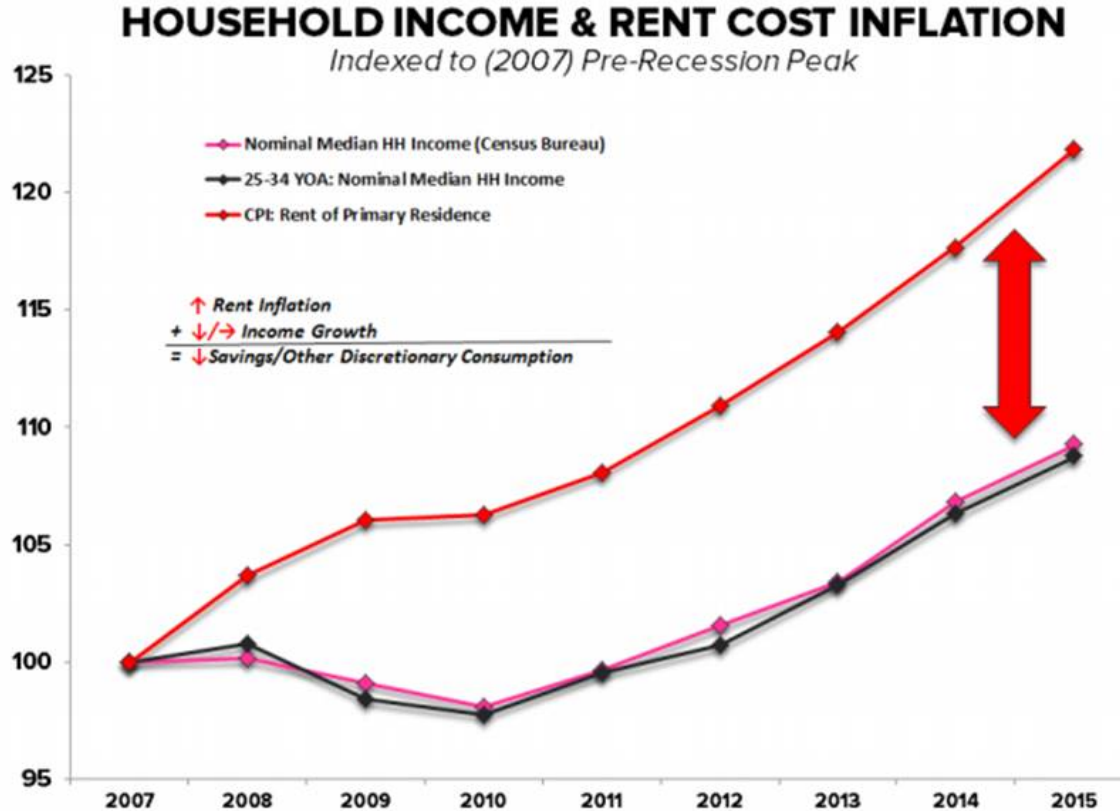


THERE ARE RISING DEMANDS FOR EVERY CONSUMER \$



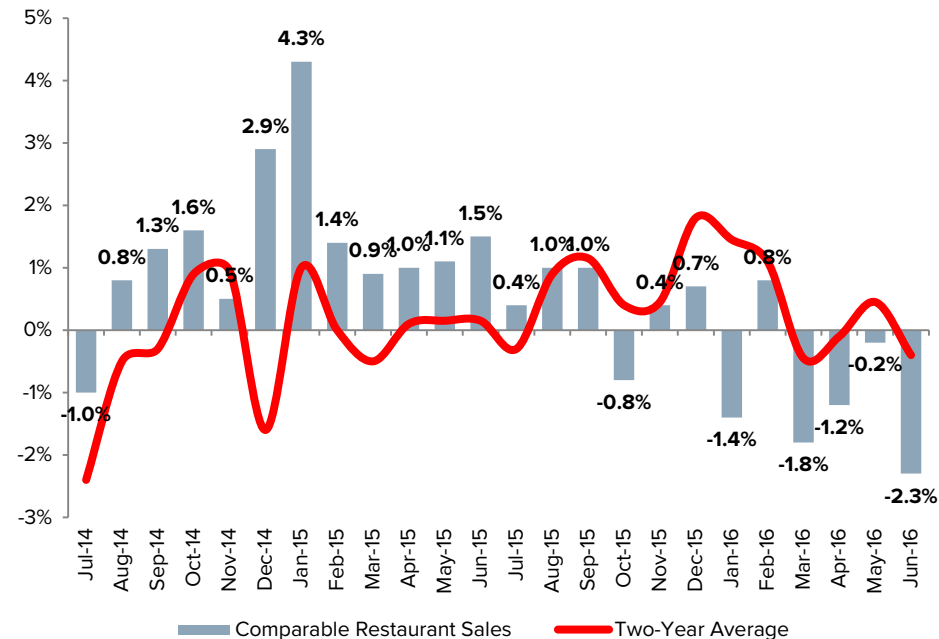
- Medical Cost inflation also accelerating to a 4-year high at +3.6% YoY So excess cost inflation in both Housing and Medical care continue to take a larger share of consumer wallet and drag on capacity for other discretionary consumption.
- In '08 and '09 Knapp traffic was down -5.4% and -5.6%, respectively
- The decline in Knapp traffic re-accelerated to the downside starting in September of 2012

HOUSEHOLD INCOME & RENT COST INFLATION

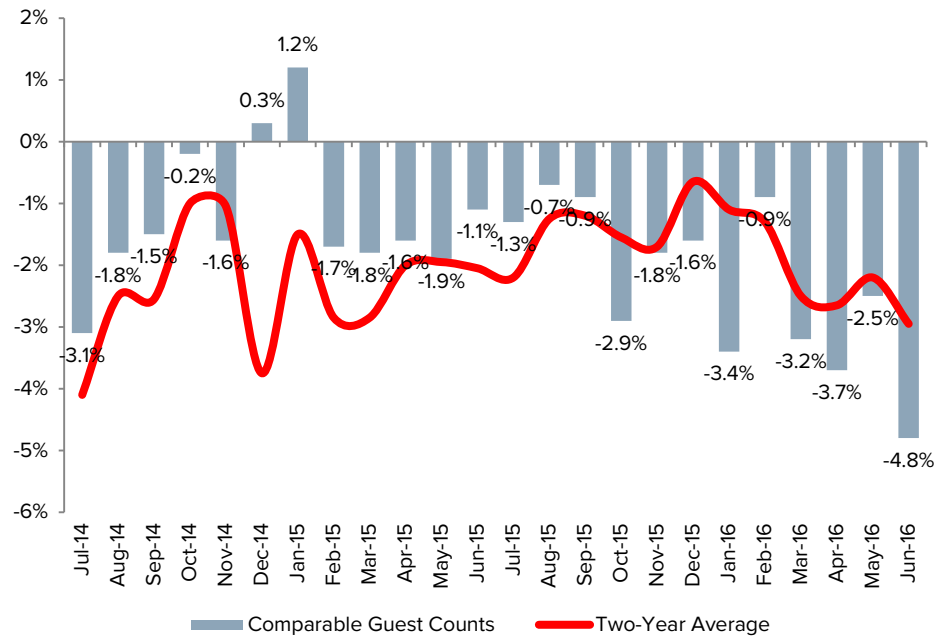


UNDERSTANDING THE SECULAR DECLINE

KNAPP-TRACK COMPARABLE SALES

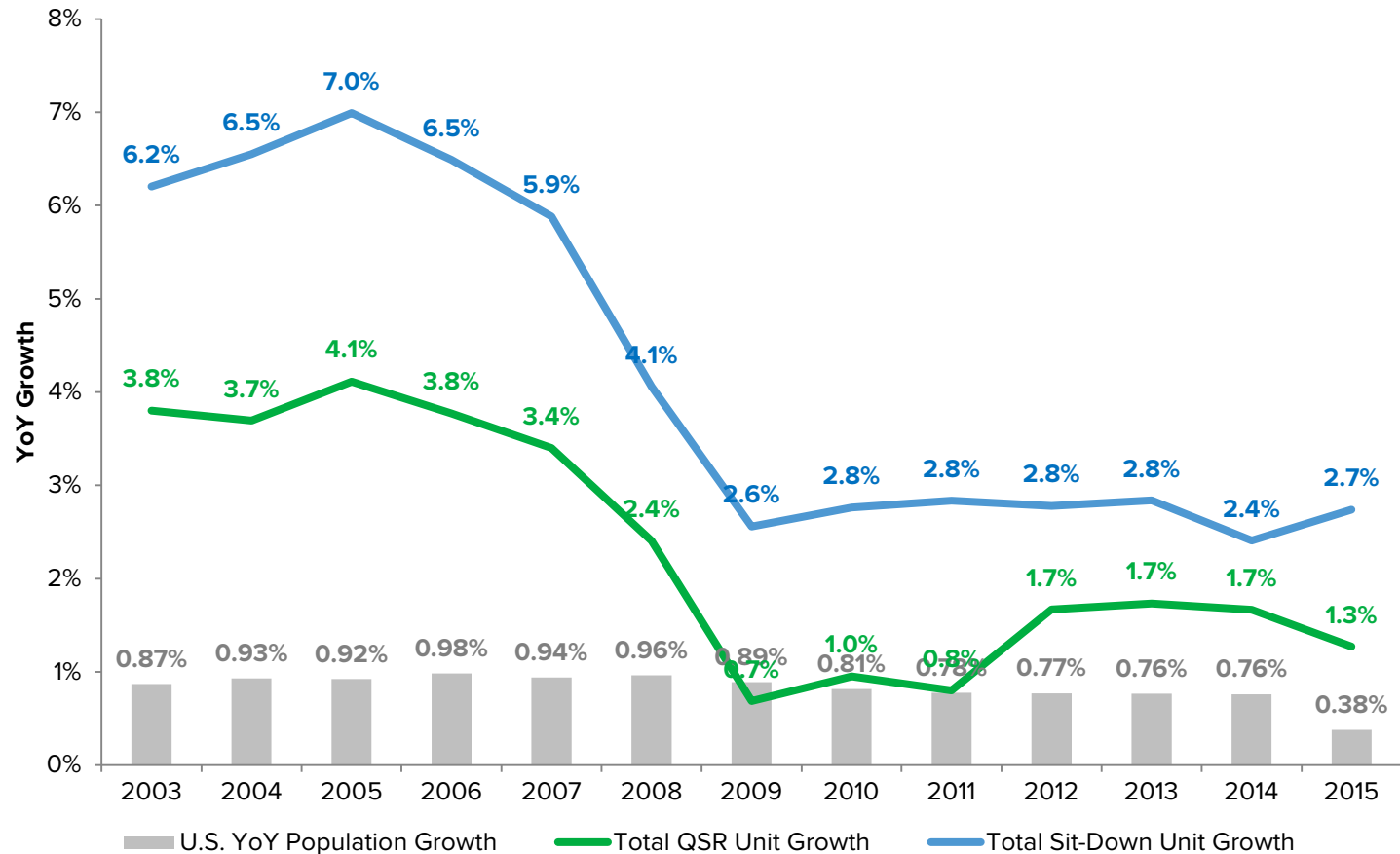


KNAPP-TRACK COMPARABLE GUEST COUNTS



- Casual dining has struggled with 10 years of traffic declines, suggesting less interest in a traditional sit-down format.
- Consumers have not yet recovered from the Great Recession.
- Pricing strategy vs value (What price points work for today)?
- Alternative formats

NET UNIT GROWTH CAUSING OVERSUPPLY



The over supply of restaurants coupled with the increasing demands for every consumer dollar is driving this secular decline in industry trends.

REAL WORLD INSIGHTS

REAL WORLD INSIGHTS FOR THE NEXT CYCLE

OPERATOR CHALLENGES AND GROWTH OPPORTUNITIES

1. 3 critical challenges that operators must overcome.
2. What is a brand's critical point of differentiation?
3. Key attributes of concepts worth investing in for the future.
4. Are legacy brands adapting quick enough to fend off new entrants?



ARGONNE
CAPITAL GROUP

APPENDIX



**Efficient Research Solutions
Value-Added Data & Insight**

*Providing unit level benchmarks to help
maximize investment decisions*

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BDO KNOWS DATA ANALYTICS

OUR DATA ANALYTICS SERVICES

A deeper dive into data.

The complexity and capacity of businesses' systems are constantly increasing - as are the data requirements housed in these systems. As a result, businesses need a cost-effective method to control the widening gap between data management and decision-making. BDO fills that gap by organizing, standardizing, and analyzing clients' increasingly large and complex data sets.

We evaluate and analyze data comprehensively and cost-effectively, regardless of format, database platform, or system. Whether assessing millions of records domestically or culling through terabytes of multi-lingual, cross-border transactions, our professionals provide the insight necessary to make critical business decisions. Our services include:

- ▶ Litigation, forensic, and regulatory analytics
 - Evaluation of data quality
 - Verification of data completeness and accuracy
 - Data standardization across multiple platforms and disparate datasets
 - Identification of anomalies, trends, gaps, and deviations using statistical methods
 - Graphical reports and data visualization
 - Expert testimony
- ▶ Business analytics and intelligence
 - Predictive analytics and modeling
 - Process automation
 - Interactive, web-accessible analytics
 - Fraud prevention and detection analytics

OUR EXPERTISE



Restaurant Industry Expertise

BDO is one of very few CPA firms in the U.S. with a robust and dedicated Restaurant Practice. Our professionals serve more than 350 clients across the country, including franchisors, franchisees, public companies, and independents.



Commitment to Our Clients

To fulfill your client service expectations, we'll solicit your feedback regularly. We want to stay on top of how you're doing and how we're performing. In addition, you'll receive a high-level of responsiveness and attention from your engagement team, including partners. We're just a quick phone call or email away.



Industry Leadership

Our focus and experience is demonstrated both in our relevant client work and our thought leadership, including BDO Restaurant CFO Bootcamps, conferences and targeted newsletters. From proprietary research to timely reports and industry events, BDO is at the forefront of the restaurant-industry conversation.



Geographic Reach

Domestically and internationally, we are where you are. We have 63 US offices, 400+ alliance locations, and 1,328 global offices in 152 countries.

People who know, know BDO.



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