

HEDGEYE

# Restaurants

## HEDGEYE LIVE

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May 2, 2024



[Hedgeye Restaurants](#)

Howard Penney | [hpenney@hedgeye.com](mailto:hpenney@hedgeye.com)

# Changes To The Restaurant Position Monitor

## HEDGEYE RESTAURANTS POSITION MONITOR

### LONG

TICKER	COMPANY	Price	Mkt. Cap (M)	2023 EV/EBITDA
EAT	Brinker International, Inc.	\$ 49.66	\$ 2,160	7.0x
FWRG	First Watch Restaurant Group, Inc.	\$ 24.77	\$ 1,428	12.2x
BJRI	BJ's Restaurants, Inc.	\$ 33.19	\$ 781	7.4x

### SHORT

TICKER	COMPANY	Price	Mkt. Cap (M)	2023 EV/EBITDA
KRUS	Kura Sushi USA, Inc. Class A	\$ 110.80	\$ 1,280	45.5x
SG	Sweetgreen, Inc. Class A	\$ 24.53	\$ 2,778	93.6x
BROS	Dutch Bros, Inc. Class A	\$ 28.35	\$ 5,294	21.9x
SBUX	Starbucks Corporation	\$ 88.33	\$ 99,917	85.9x
BYND	Beyond Meat, Inc.	\$ 6.72	\$ 414	12.3x

### LONG BIAS

TICKER	COMPANY
DPZ	Domino's Pizza, Inc.
BLMN	Bloomin' Brands, Inc.
TXRH	Texas Roadhouse, Inc.
CHEF	Chefs' Warehouse, Inc.
DRI	Darden Restaurants, Inc.

### SHORT BIAS

TICKER	COMPANY
DNUT	Krispy Kreme, Inc.
MCD	McDonald's Corporation
CBRL	Cracker Barrel Old Country Store, Inc.
SYF	Sysco Corporation
RRGB	Red Robin Gourmet Burgers, Inc.

### CURRENTLY NO POSITION

TICKER	COMPANY
JACK	Jack in the Box Inc.
CAVA	CAVA Group, Inc.
WING	Wingstop, Inc.
THCH	TH International Limited
DASH	DoorDash, Inc. Class A
PZZA	Papa John's International, Inc.
YUM	Yum! Brands, Inc.
QSR	Restaurant Brands International, Inc.
ARCO	Arcos Dorados Holdings, Inc. Class A

TICKER	COMPANY
CMG	Chipotle Mexican Grill, Inc.
PTLO	Portillo's, Inc. Class A
GENK	GEN Restaurant Group, Inc. Class A
WEN	Wendy's Company
PZZA	Papa John's International, Inc.
SHAK	Shake Shack, Inc. Class A
PLAY	Dave & Buster's Entertainment, Inc.
YUMC	Yum China Holdings, Inc.

Hedgeye's "Bias" lists represent Hedgeye's outlook on companies currently under Hedgeye's review, or for which the timing is not right for greater coverage. Hedgeye may or may not provide further commentary on any or all companies represented on this list and representation of a company on the bench does not forecast whether Hedgeye will or will not issue any additional material on that company.

# Restaurant Industry Price Performance

RESTAURANT INDUSTRY										
Company Name	U.S. Ticker	Price		Week	Month	3-Months	6-Months	YTD	1-Year	
Sweetgreen, Inc. Class A	SG	\$ 19.91	\$ 2,789.61	19.64	-3.76	118.03	137.17	115.13	206.17	
CAVA Group, Inc.	CAVA	\$ 67.45	\$ 7,859.01	15.42	-1.78	44.42	117.52	60.07	-	
Domino's Pizza, Inc.	DPZ	\$ 516.42	\$ 22,473.91	11.42	5.68	21.15	54.17	27.38	65.40	
Chipotle Mexican Grill, Inc.	CMG	\$ 3,138.66	\$ 90,774.49	11.05	10.19	33.21	69.69	40.06	54.91	
Shake Shack, Inc. Class A	SHAK	\$ 103.33	\$ 5,108.20	9.72	0.62	33.00	90.34	41.22	90.97	
Toast, Inc. Class A	TOST	\$ 23.00	\$ 11,664.03	9.66	-2.53	29.55	54.03	33.02	33.46	
GEN Restaurant Group, Inc. Class A	GENK	\$ 9.80	\$ 159.19	9.21	-12.67	22.60	20.14	30.27	-	
Red Robin Gourmet Burgers, Inc.	RRGB	\$ 7.54	\$ 697.97	8.76	-5.72	-31.94	-8.36	-42.09	-44.75	
Wingstop, Inc.	WING	\$ 383.98	\$ 12,027.24	8.52	5.07	37.99	116.21	50.05	92.39	
Olo, Inc. Class A	OLO	\$ 4.92	\$ 469.25	8.19	-7.38	-6.18	-2.21	-11.10	-25.77	
Yum China Holdings, Inc.	YUMC	\$ 35.92	\$ 17,304.00	8.06	1.11	11.38	-23.39	-5.19	-34.24	
Noodles & Co. Class A	NDLS	\$ 1.55	\$ 361.61	7.69	-26.70	-49.64	-35.48	-55.56	-71.66	
First Watch Restaurant Group, Inc.	FWRG	\$ 24.97	\$ 2,005.89	7.38	-2.82	10.87	42.92	19.03	48.79	
Beyond Meat, Inc.	BYND	\$ 6.79	\$ 1,435.52	7.22	-20.23	-6.84	10.63	-25.79	-51.22	
Deliveroo plc Class A	ROO-LON	\$ 1.31	\$ 1,671.53	6.41	13.61	10.25	12.47	5.33	22.85	
Brinker International, Inc.	EAT	\$ 54.95	\$ 4,262.07	6.25	-1.17	20.70	50.02	13.71	23.00	
BJ's Restaurants, Inc.	BJRI	\$ 32.09	\$ 1,290.42	6.07	-6.85	-5.84	31.59	-6.41	3.56	
Domino's Pizza Enterprises Limited	DMP-ASX	\$ 39.34	\$ 4,906.46	5.61	-9.33	-1.48	-21.38	-33.25	-21.98	
Just Eat Takeaway.com N.V.	TKWY-AMS	\$ 13.87	\$ 3,789.13	5.24	3.80	-2.53	32.63	3.47	-10.20	
DoorDash, Inc. Class A	DASH	\$ 127.46	\$ 48,363.36	3.77	-4.10	19.57	86.94	33.55	115.84	
Texas Roadhouse, Inc.	TXRH	\$ 157.06	\$ 11,258.57	3.72	2.78	25.81	62.48	29.89	43.52	
Kura Sushi USA, Inc. Class A	KRUS	\$ 102.50	\$ 1,340.78	3.71	-1.04	19.04	84.22	49.95	65.35	
Cheesecake Factory Incorporated	CAKE	\$ 33.82	\$ 3,537.78	3.58	-1.69	1.98	18.74	1.51	5.49	
Dine Brands Global, Inc.	DIN	\$ 43.19	\$ 2,093.10	2.83	-2.17	-4.45	-6.92	-8.42	-29.97	
BurgerFi International, Inc.	BFI	\$ 0.40	\$ 181.63	2.78	-29.02	-40.51	-57.75	-52.33	-59.01	
Wendy's Company	WEN	\$ 19.62	\$ 7,811.25	2.64	7.38	4.28	6.31	3.85	-8.46	
Lightspeed Commerce Inc	LSPD	\$ 13.21	\$ 1,335.90	2.59	-4.13	-30.19	8.89	-35.78	2.67	
US Foods Holding Corp.	USFD	\$ 50.68	\$ 17,770.50	2.20	-4.48	13.57	39.59	13.52	34.24	
Yum! Brands, Inc.	YUM	\$ 135.33	\$ 51,746.45	2.03	2.33	8.68	18.79	8.59	0.92	
Bowlero Corp. Class A	BOWL	\$ 11.90	\$ 4,540.32	1.80	-13.14	1.45	15.09	-15.96	-18.66	
Domino's Pizza Group plc	DOM-LON	\$ 3.23	\$ 1,822.94	1.77	-3.19	-5.98	-2.74	-11.46	13.39	
Chefs' Warehouse, Inc.	CHEF	\$ 34.92	\$ 2,408.04	1.76	-10.75	5.79	87.24	14.20	1.05	
Cracker Barrel Old Country Store, Inc.	CBRL	\$ 56.36	\$ 2,451.75	1.52	-16.81	-23.24	-6.37	-21.50	-43.01	
Darden Restaurants, Inc.	DRI	\$ 151.15	\$ 25,333.34	1.35	-6.29	-4.27	9.92	-4.67	3.09	
Restaurant Brands International, Inc.	QSR	\$ 73.22	\$ 48,822.38	1.28	-6.56	-5.70	12.69	-4.98	5.86	
Papa John's International, Inc.	PZZA	\$ 60.95	\$ 3,033.79	1.28	-3.86	-16.53	-1.79	-16.00	-14.39	
Aisea, S.A.B. de C.V.	ALSSF	\$ 4.20	\$ 5,869.99	1.18	-12.51	11.25	23.21	15.59	65.38	
Bloomin' Brands, Inc.	BLMN	\$ 25.04	\$ 4,584.40	0.67	-5.89	-0.63	16.14	-4.12	8.96	
Sysco Corporation	SYU	\$ 73.05	\$ 51,032.56	0.53	-4.25	3.41	20.53	6.29	1.29	
Chuy's Holdings, Inc.	CHUY	\$ 28.99	\$ 663.40	0.53	-9.46	-12.89	-8.40	-20.12	-12.44	
FAT Brands Inc. Class A	FAT	\$ 7.27	\$ 1,562.22	0.48	-4.34	-11.23	26.22	19.97	32.18	
Starbucks Corporation	SBUX	\$ 74.44	\$ 121,745.15	0.40	-3.13	-5.62	-3.79	-7.79	-22.54	
Denny's Corporation	DENN	\$ 8.04	\$ 842.59	0.12	-8.37	-26.30	-3.64	-24.54	-26.76	
Carrols Restaurant Group Inc	TAST	\$ 9.51	\$ 1,785.55	0.05	0.05	1.22	67.22	20.75	147.14	
Potbelly Corp.	PBPB	\$ 10.12	\$ 472.44	-0.23	-12.01	-16.43	28.37	2.26	1.67	
Arcos Dorados Holdings, Inc. Class A	ARCO	\$ 10.80	\$ 3,752.04	-0.27	-1.71	-14.21	19.85	-13.87	37.66	
McDonald's Corporation	MCD	\$ 274.43	\$ 248,495.61	-0.58	-2.82	-6.27	7.13	-7.60	-7.36	
Jack in the Box Inc.	JACK	\$ 55.25	\$ 4,282.01	-0.77	-13.78	-26.54	-5.91	-27.67	-36.30	
Dutch Bros, Inc. Class A	BROS	\$ 27.00	\$ 2,629.31	-0.83	-13.45	3.25	15.39	-9.82	-8.31	
Portillo's, Inc. Class A	PTLO	\$ 12.03	\$ 1,367.12	-1.23	-15.23	-15.77	-19.33	-24.54	-44.40	
Krispy Kreme, Inc.	DNUT	\$ 12.49	\$ 3,637.75	-2.69	-14.41	-4.47	1.40	-13.59	-15.21	
Dave & Buster's Entertainment, Inc.	PLAY	\$ 52.30	\$ 5,260.43	-3.60	-15.95	-0.39	51.89	-2.29	48.38	
Maplebear Inc.	CART	\$ 35.46	\$ 7,574.11	-3.88	-6.97	34.04	39.26	47.81	-	
TH International Limited	THCH	\$ 1.06	\$ 409.19	-4.03	3.48	-31.61	-26.99	-32.00	-73.61	

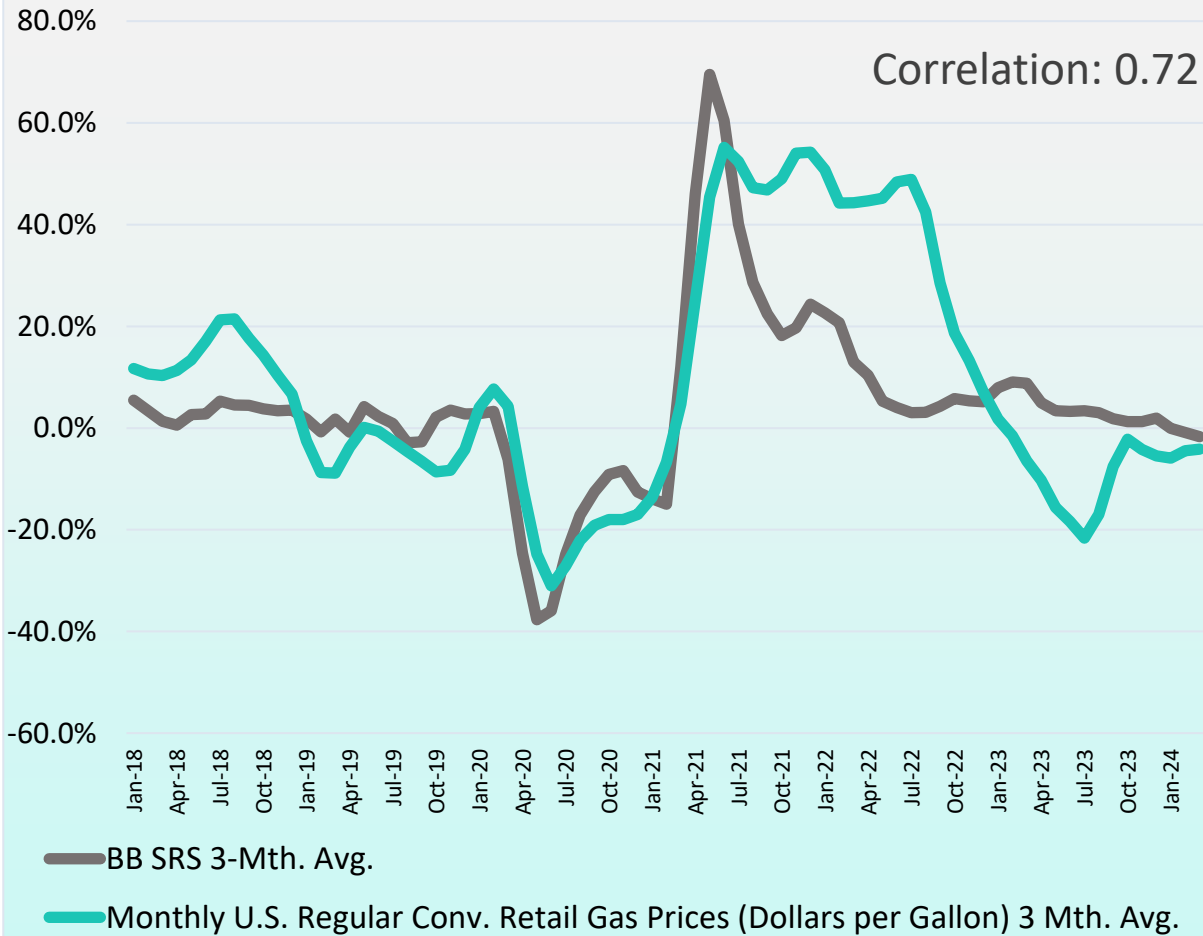
# Restaurant Macro

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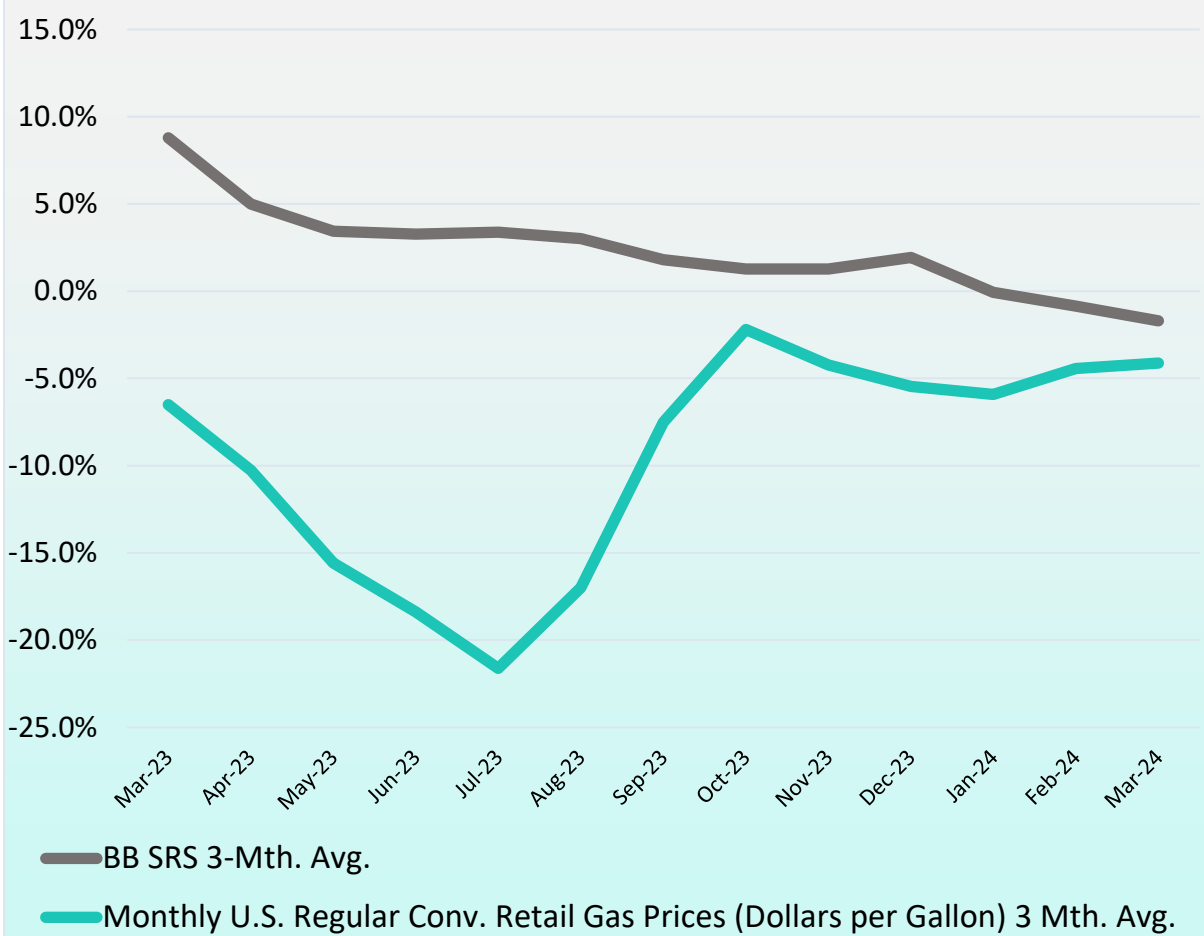


# Factors that Drive Restaurant Sales: Gasoline

Black Box SRS vs. Gasoline Prices

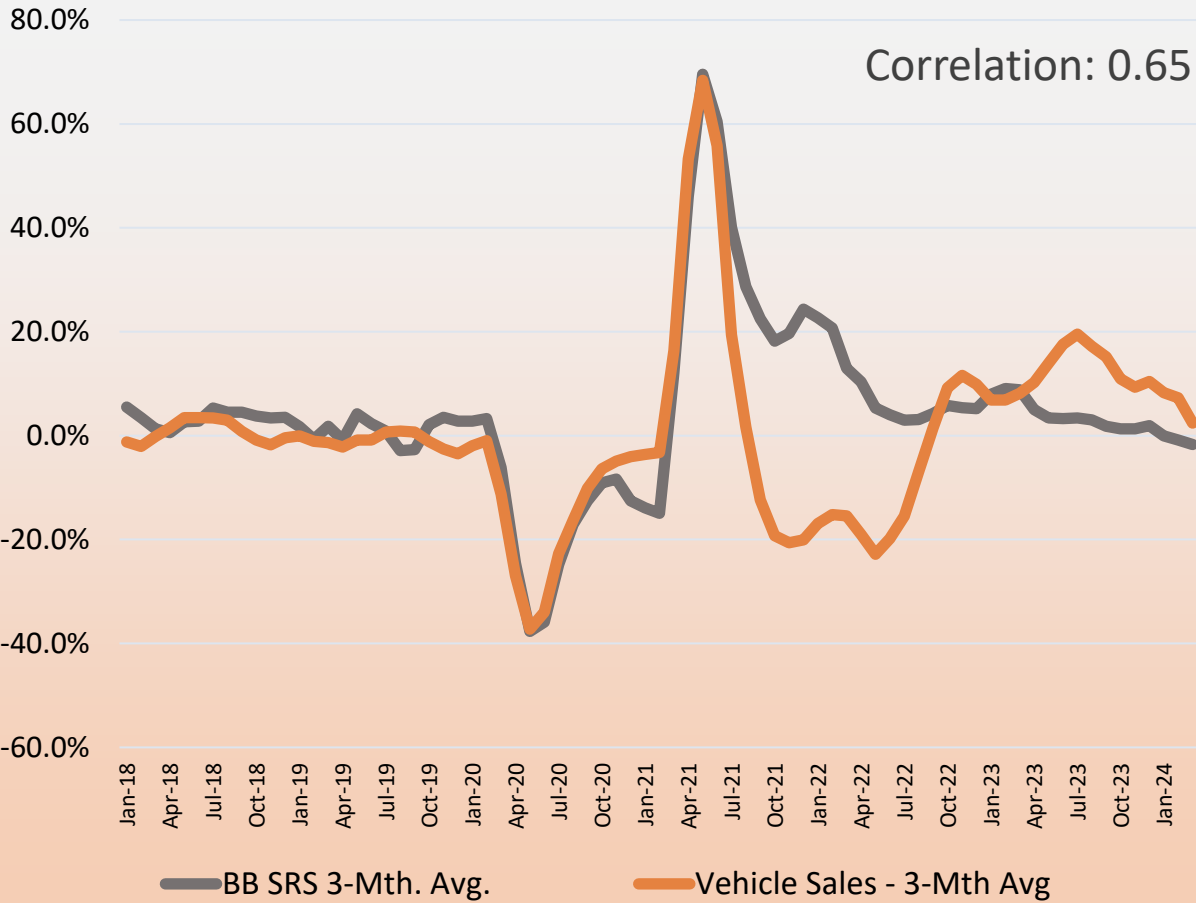


LTM Snapshot

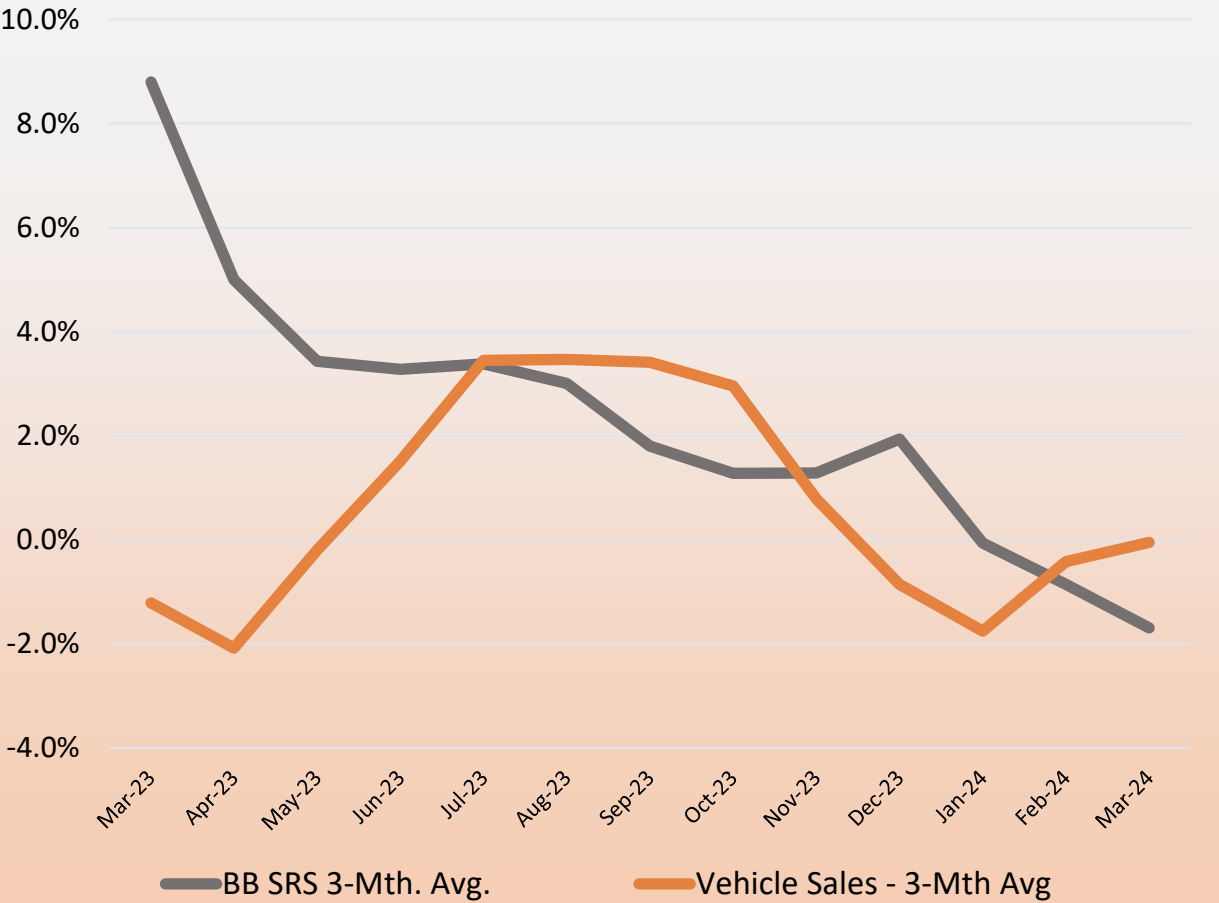


# Factors that Drive Restaurant Sales: **Vehicle Sales**

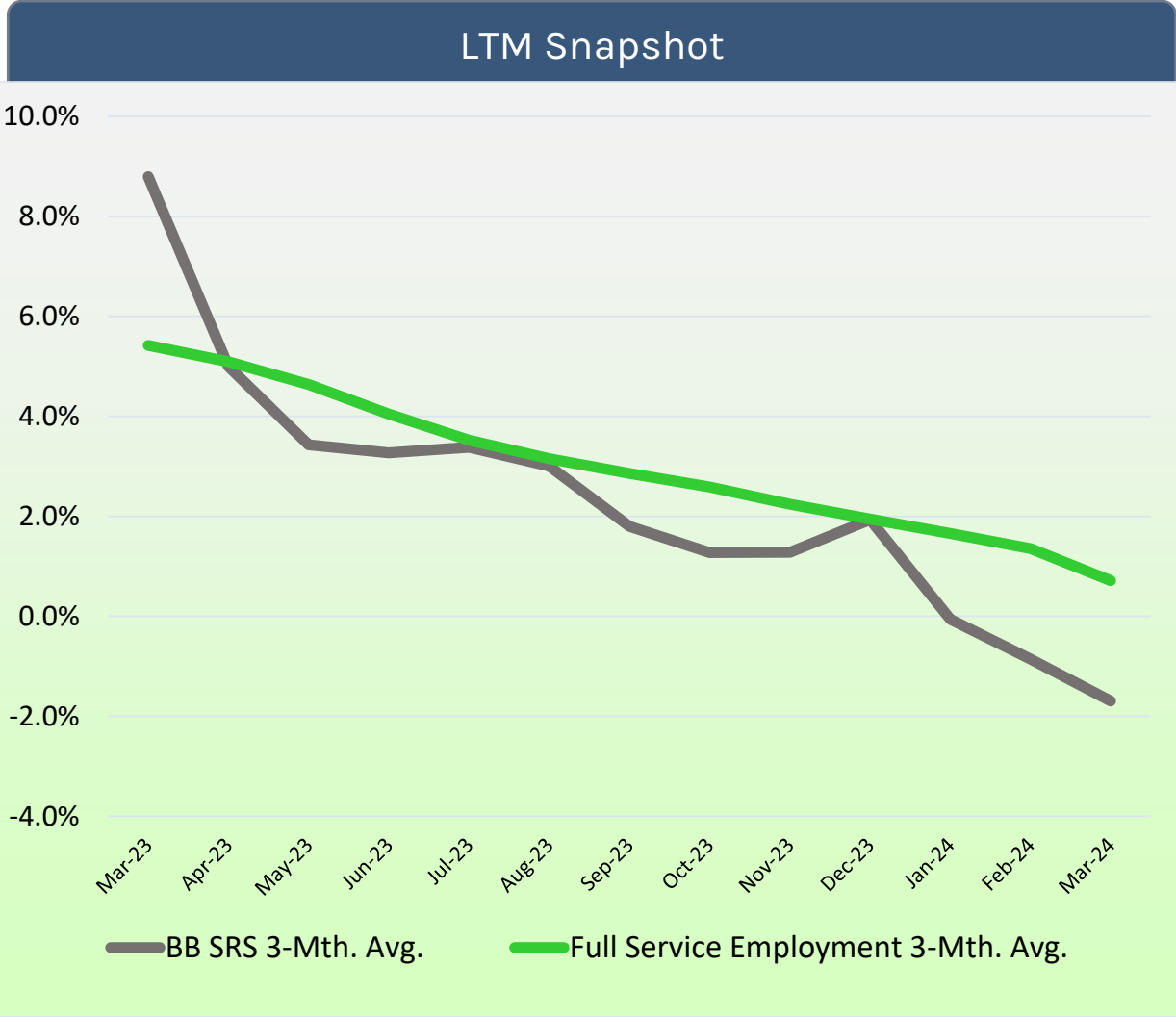
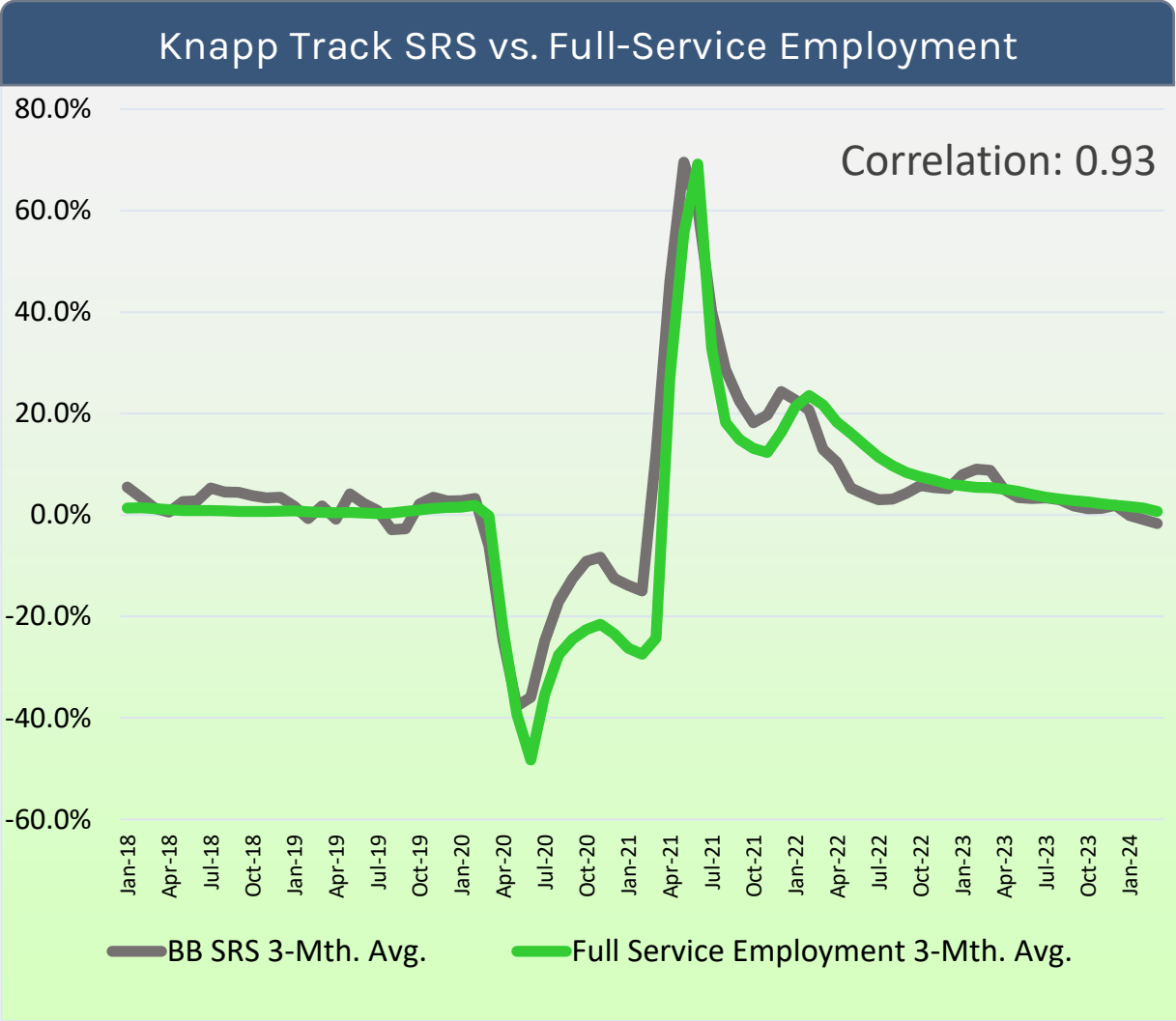
Black Box SRS vs. Gasoline Prices



LTM Snapshot

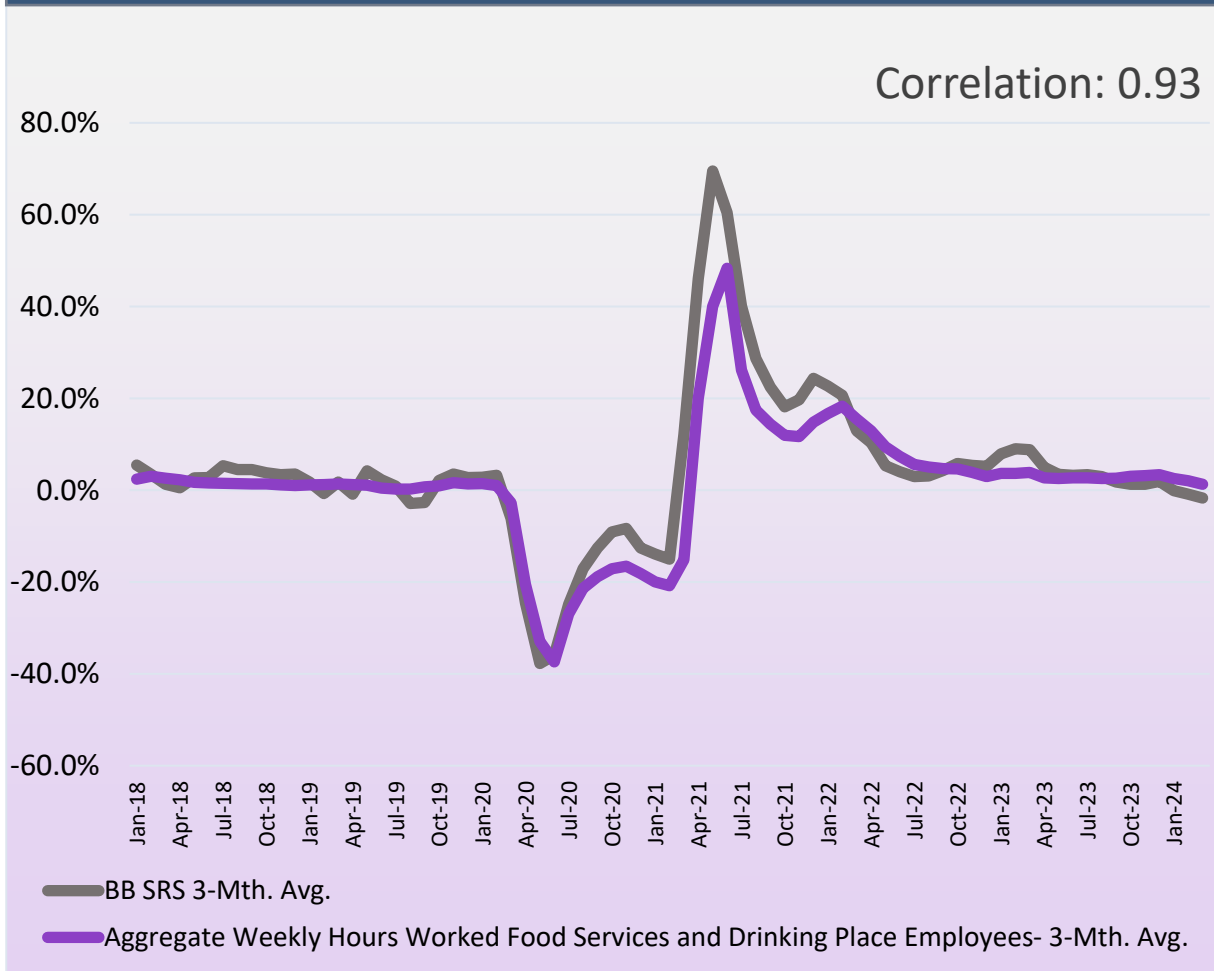


# Factors that Drive Restaurant Sales: Full-Service Employment

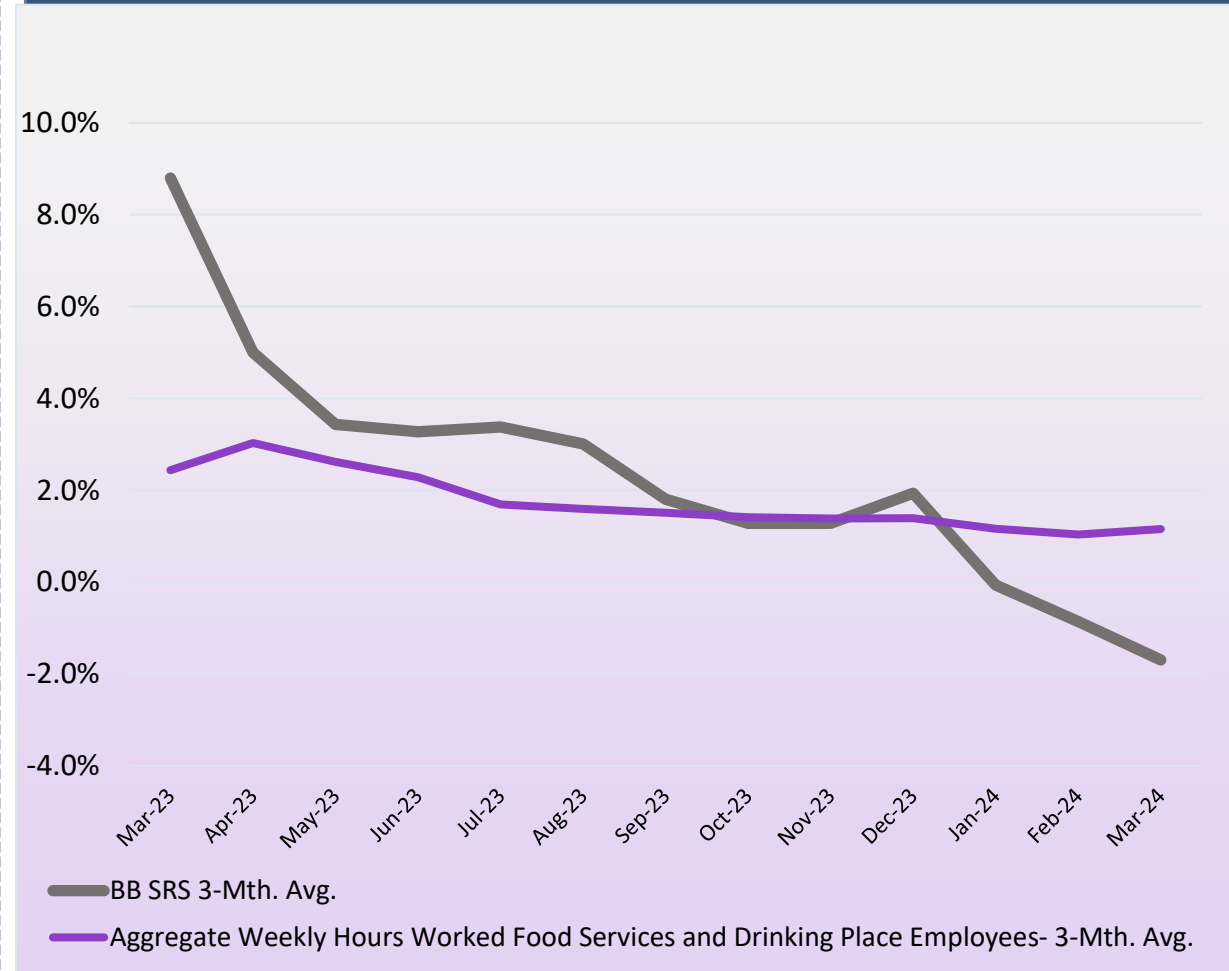


# Factors that Drive Restaurant Sales: Food Service and Drink Place Employees

Black Box SRS vs. Aggregate Weekly Hours Worked



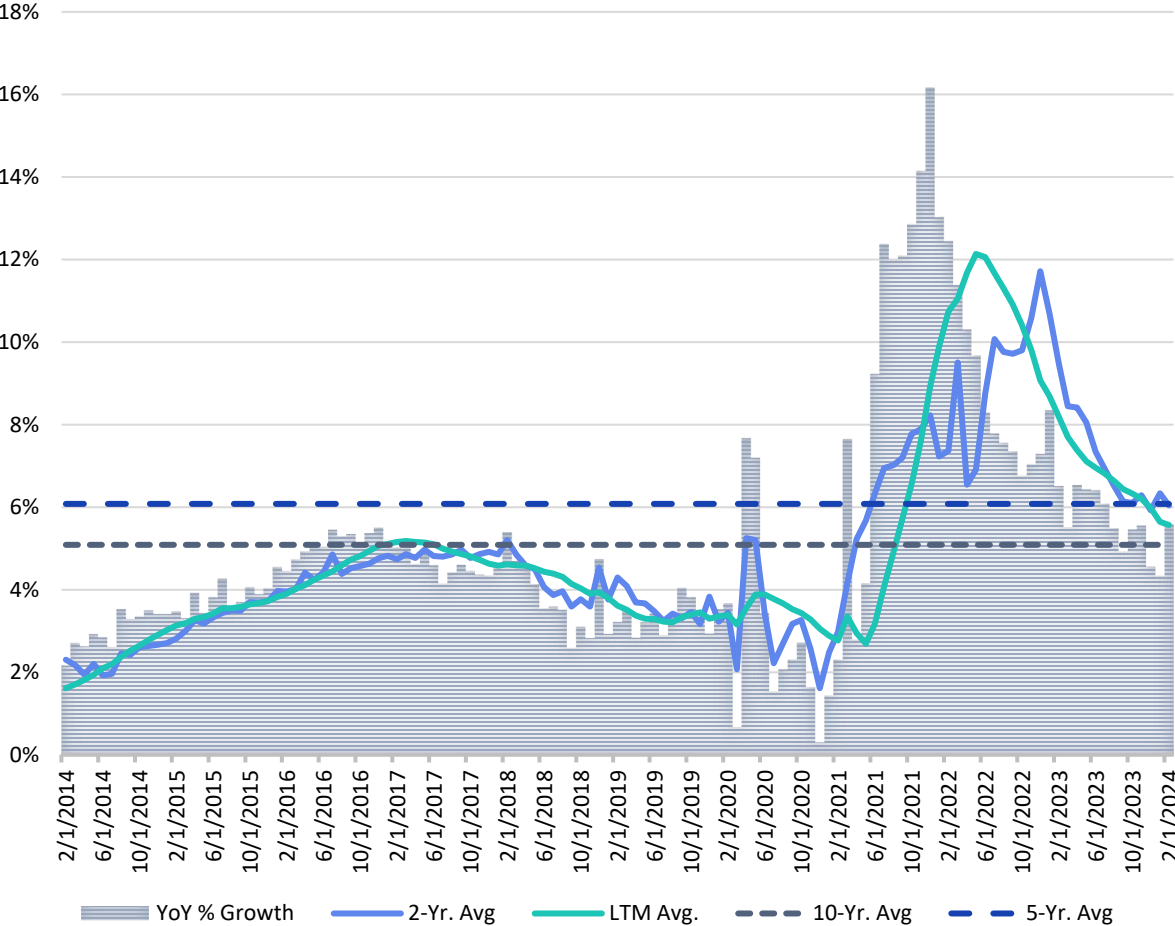
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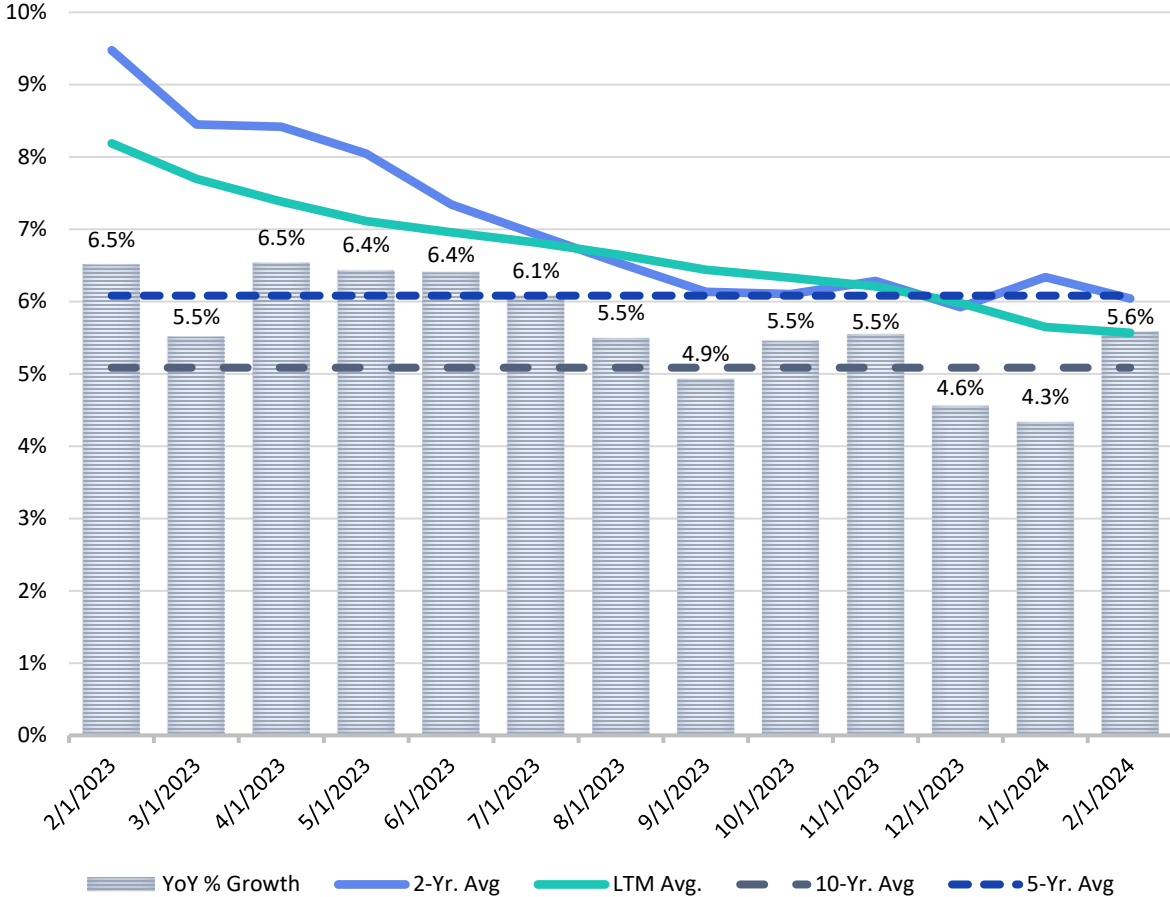


# Restaurant Industry | Labor Inflation - Full Service

Full-Service Restaurants

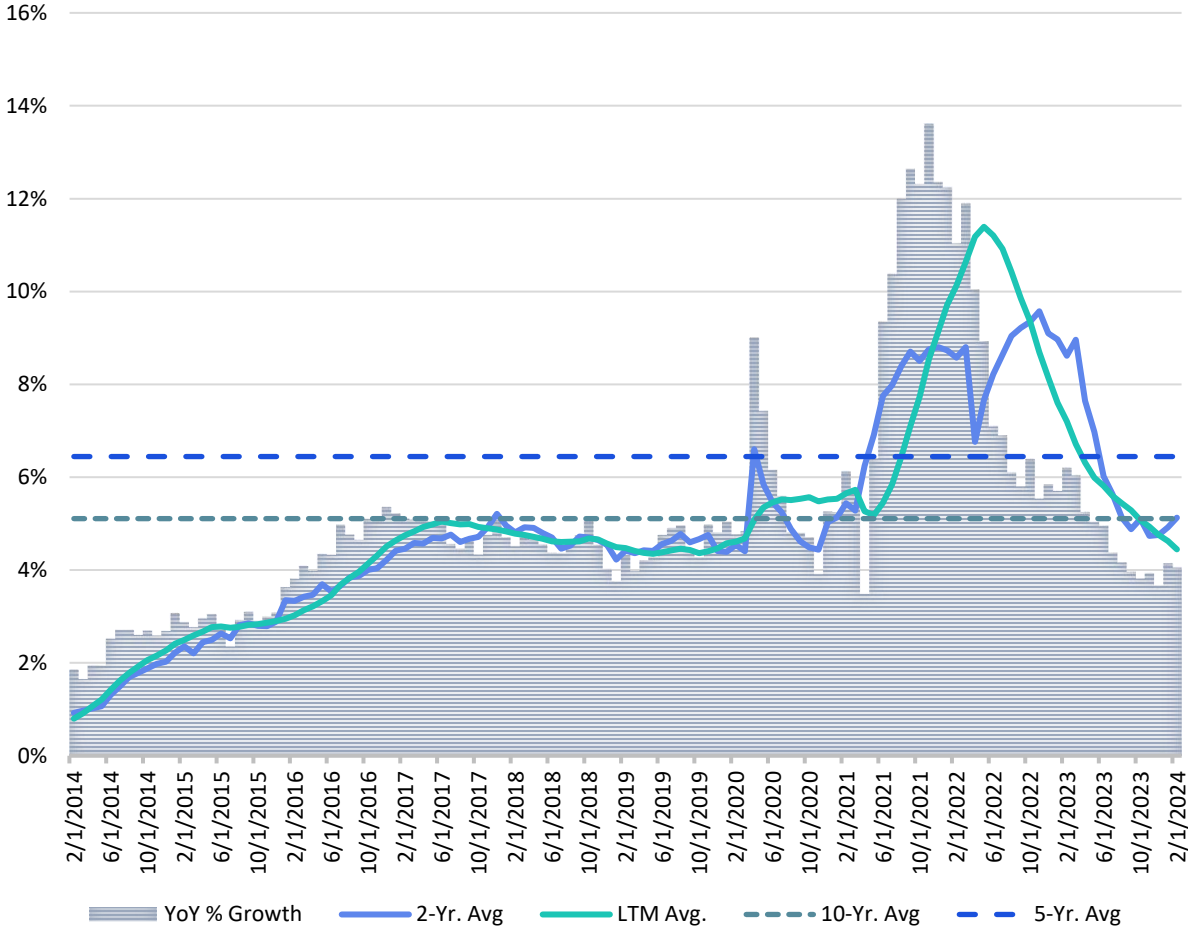


LTM Snapshot

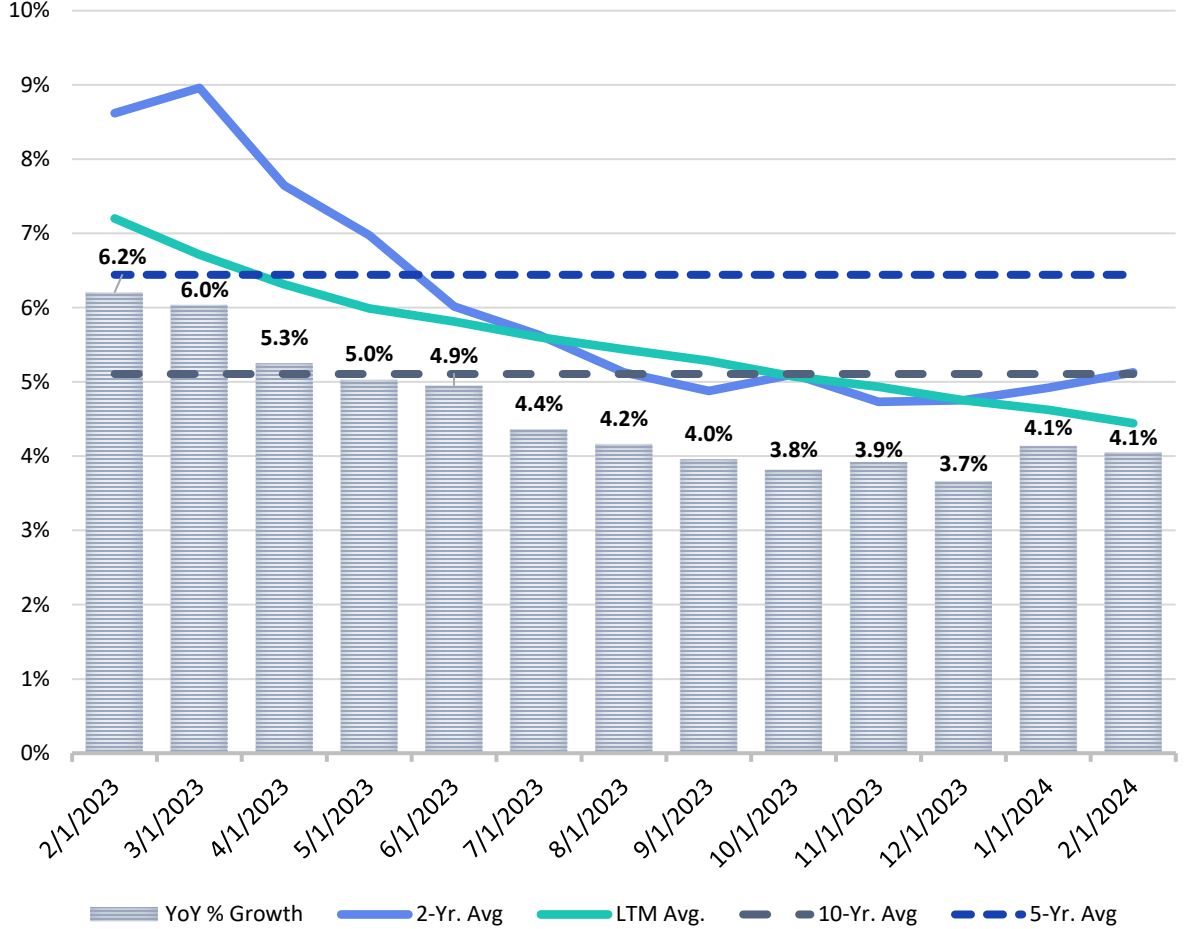


# Restaurant Industry | Labor Inflation - Limited Service

Limited-Service Restaurants

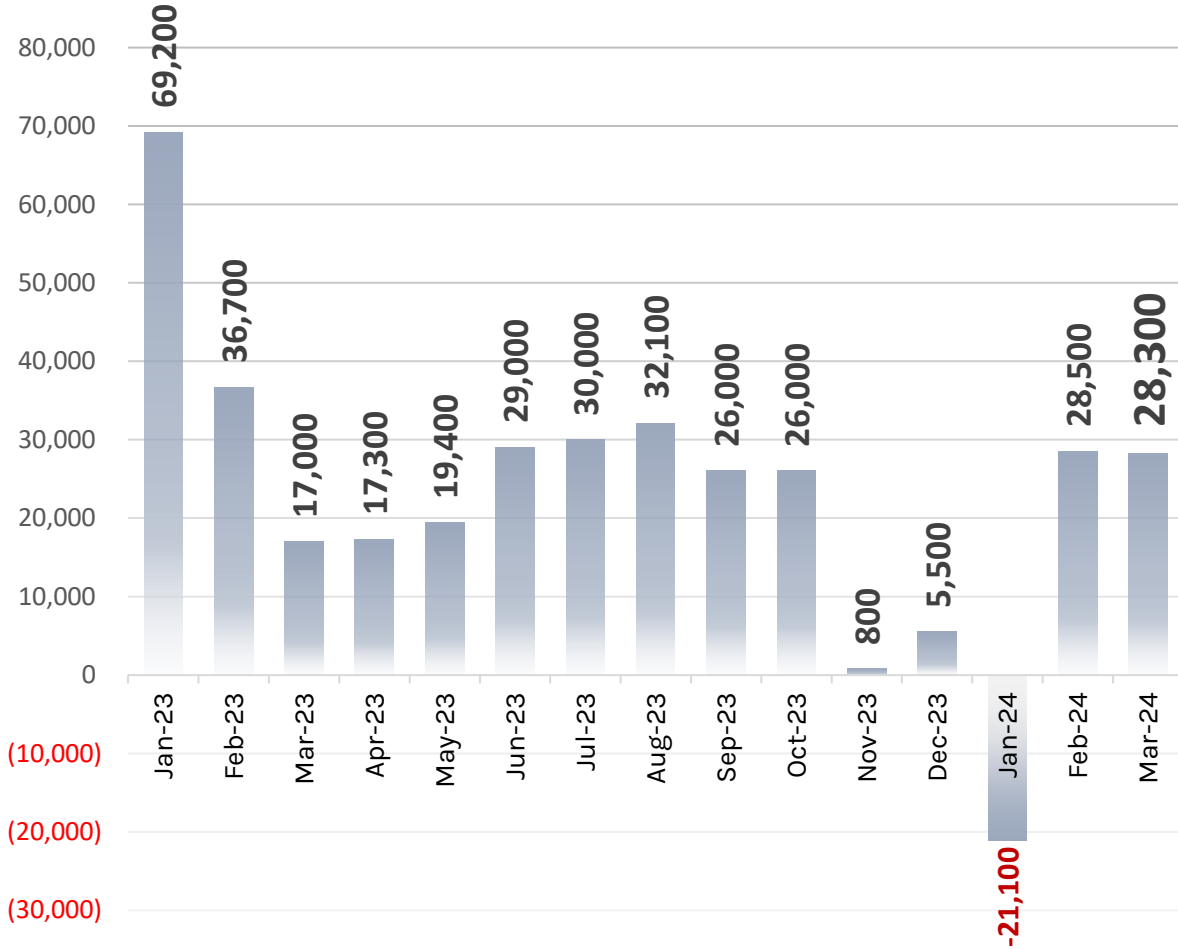


LTM Snapshot

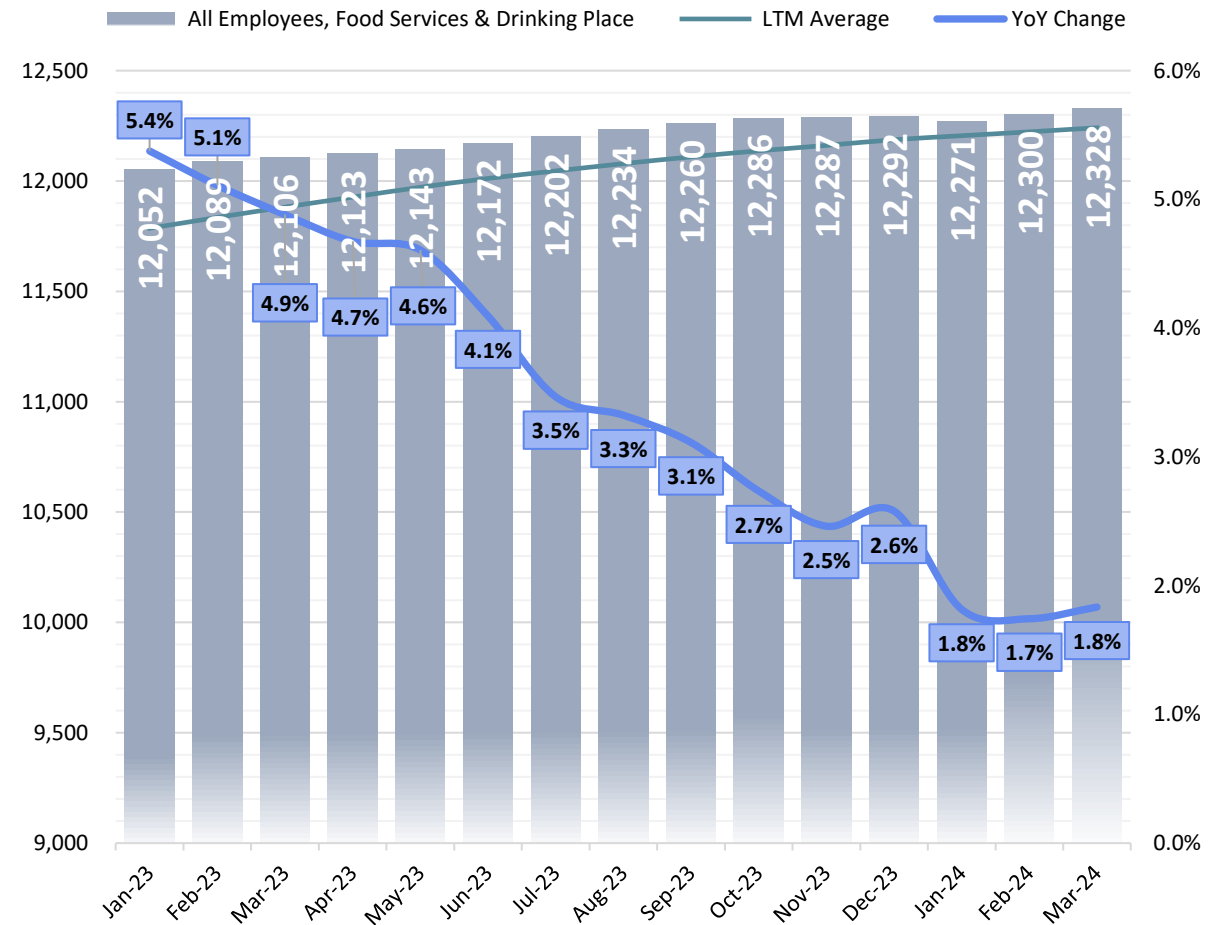


# Eating and Drinking Places 28,300 jobs in March

## Monthly Employment Change

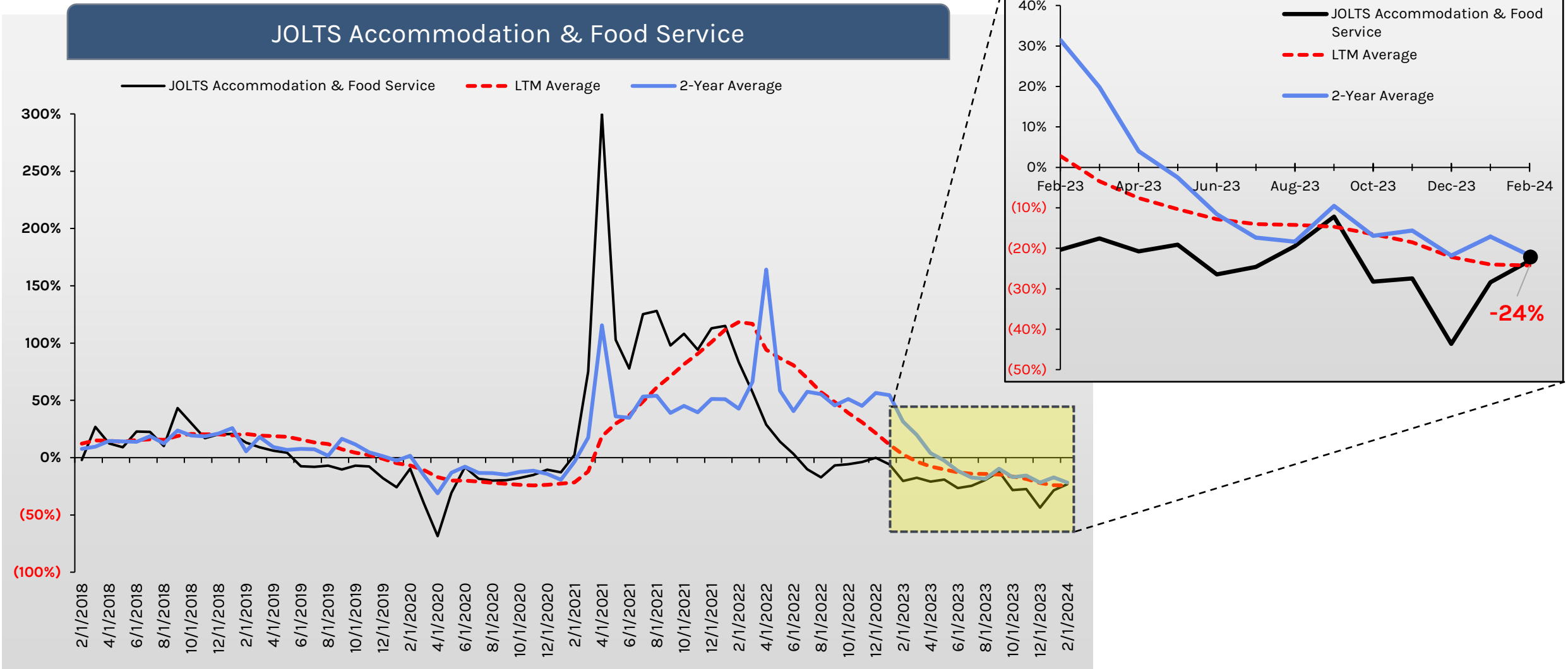


## Total Employment Trends (Thousands)



# Job Openings and Labor Turnover in 2024

JOLTS LTM Averages still negative, amidst a -24% slide in February



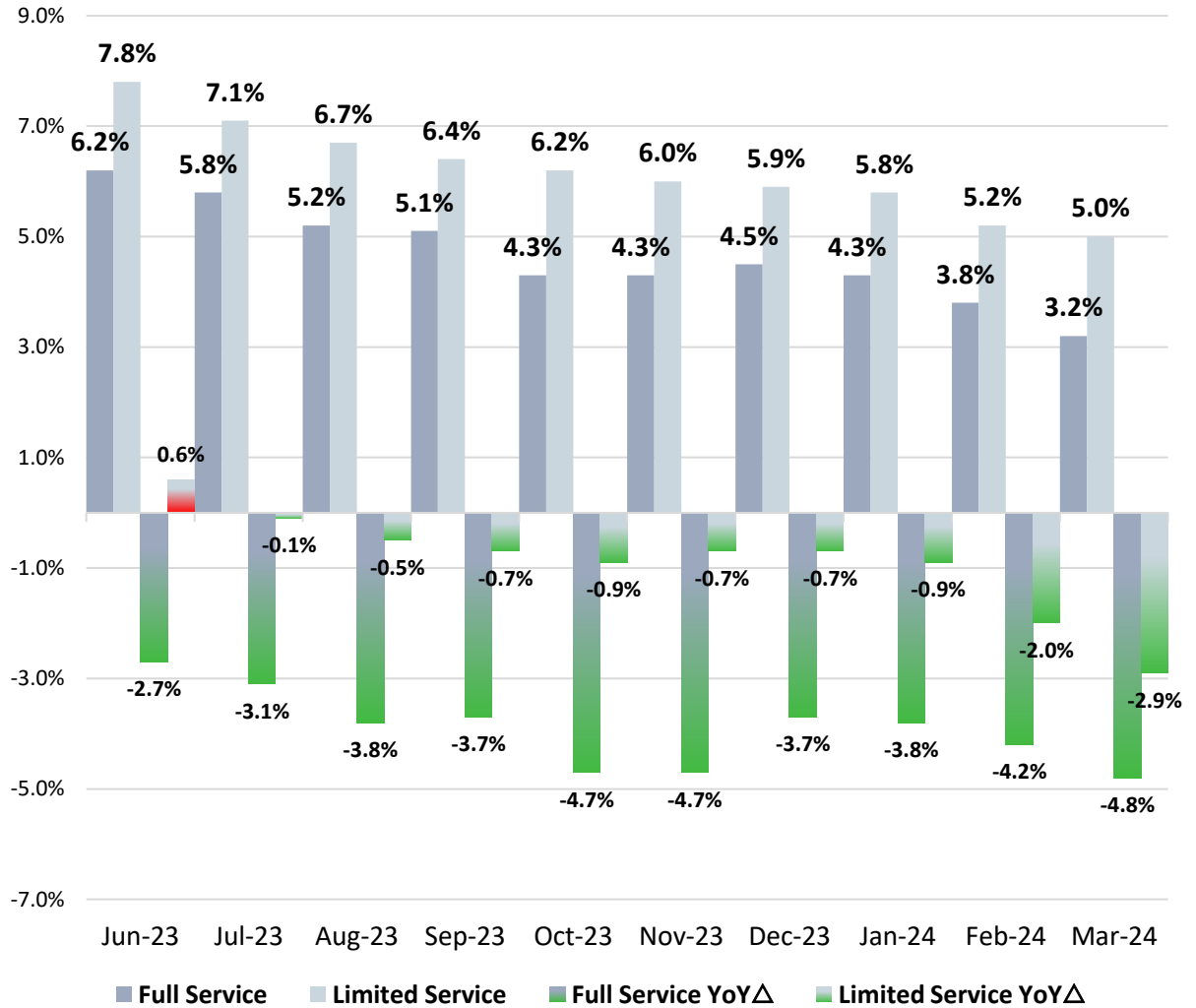
# Slowing Growth in Menu Prices

## Menu Prices see continued Deceleration in Growth for the 12<sup>th</sup>-Consecutive Month

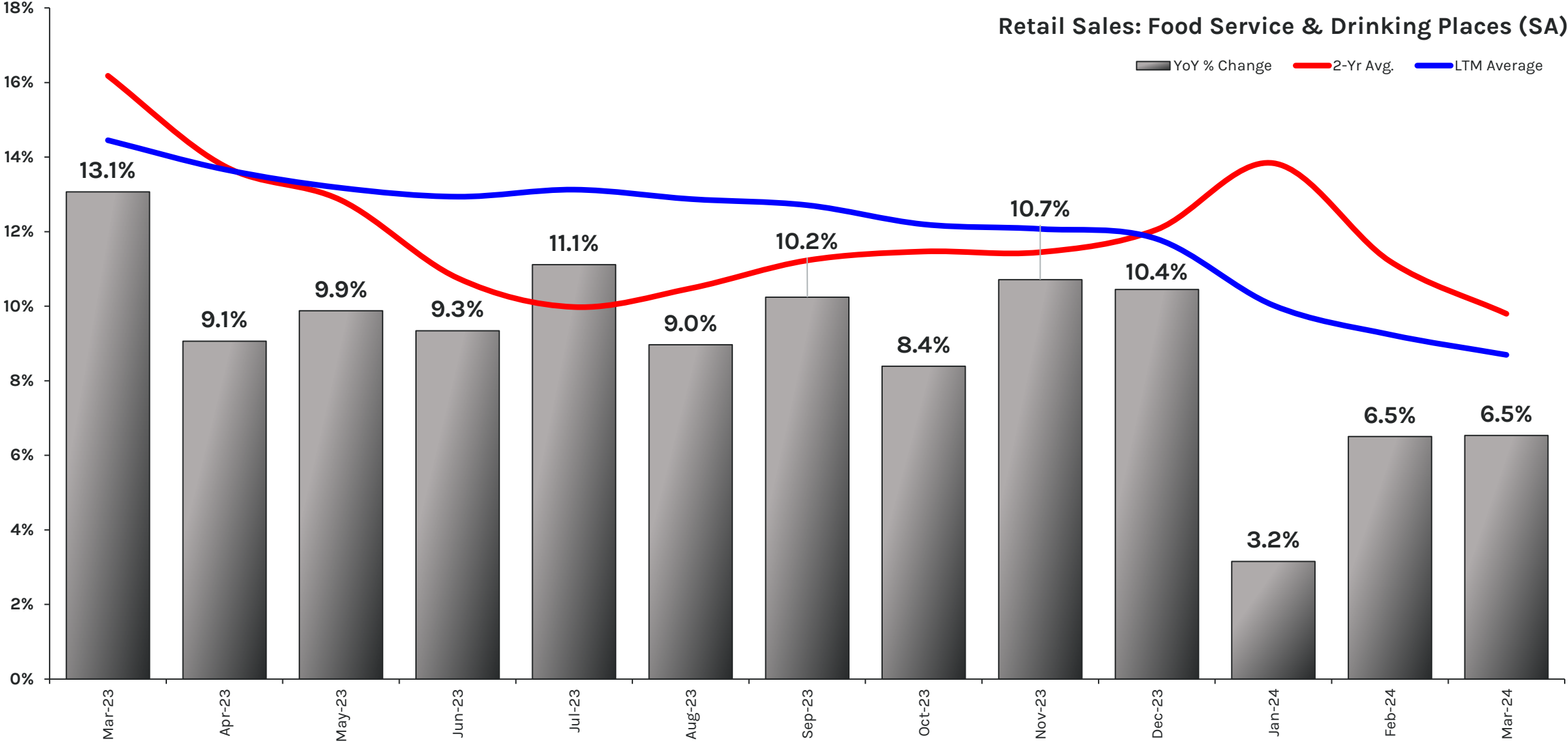
The slowdown paired with the moderation in core inflation are positive signs. Still, **Hedgeye Macro** believes the Federal Reserve may remain cautious in its approach to normalizing interest rates until more apparent evidence of sustained progress on the inflation front.

- Overall inflation remains stubborn, with the Consumer Price Index rising 3.5% over the past 12 months, despite core inflation moderating to 3.8% YoY. The Federal Reserve is expected to keep interest rates unchanged at its upcoming meeting but may wait until June or July to cut rates, depending on incoming data and progress on the inflation front.
- Menu prices, as measured by the Consumer Price Index for Food Away from Home, rose 4.2% between YoY, marking the 12th consecutive month of decelerating growth and the smallest 12-month increase since June 2021.
- Grocery prices, represented by the Consumer Price Index for Food at Home, increased by 1.2% YoY, a slight uptick from February but still well below the high growth rates in 2022.
- Limited-service menu prices +5.0% outpaced full-service menu prices +3.2% YoY, with both segments experiencing slower growth than their recent peaks.
- Price indices for food from vending machines and mobile vendors +6.2% and food at employee sites and schools +3.7% also saw slower growth in the 12 months ending March 2024.

Full Service and Limited Service Menu Prices LTM

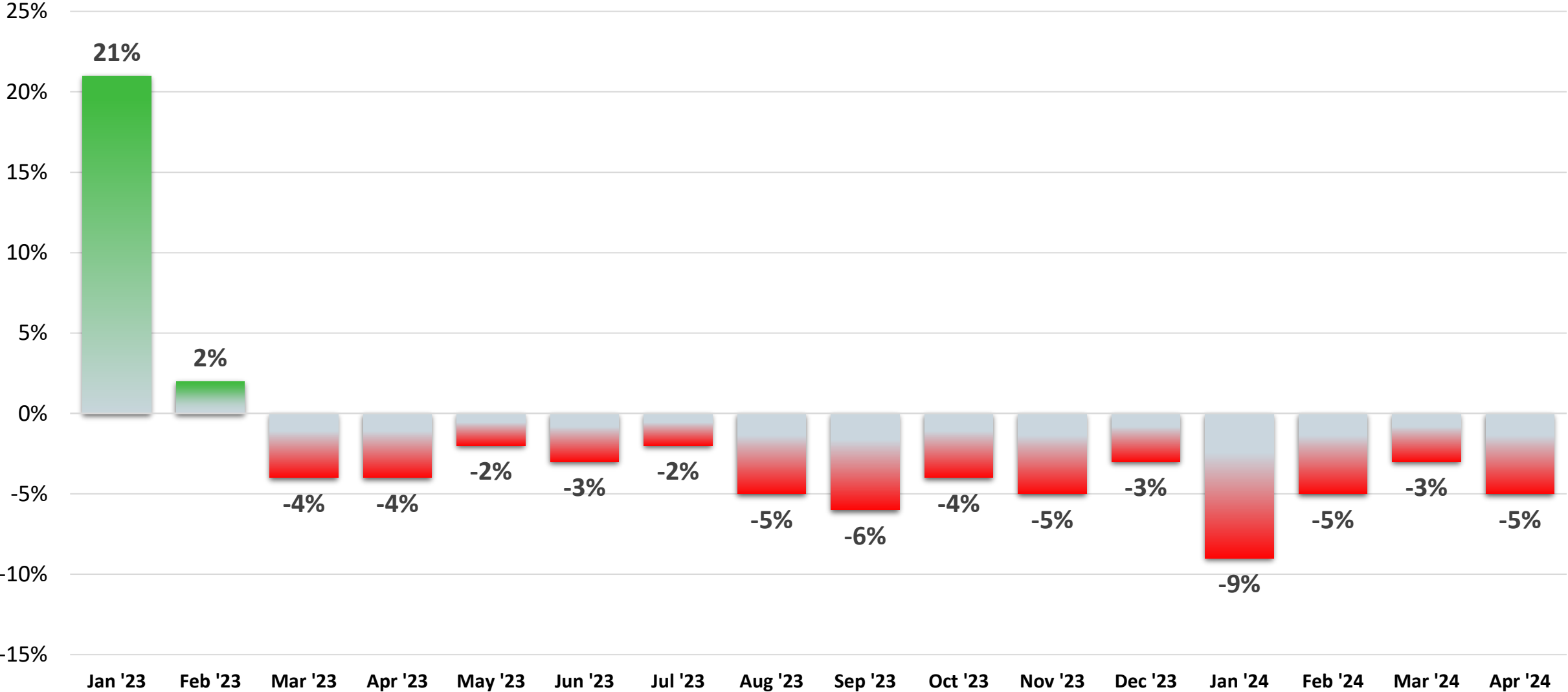


# Retail Sales | Food Service & Drinking Places



# OpenTable Seated Diner Trends

OpenTable change in Seated Dinners by Month



# Commodity Dashboard

Key Commodity Prices YoY Change	22-May	22-Jun	22-Jul	22-Aug	22-Sep	22-Oct	22-Nov	22-Dec	23-Jan	23-Feb	23-Mar	23-Apr	23-May	23-Jun	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Fresh Vegetables (excluding potatoes)	39.6%	35.0%	57.8%	18.3%	33.9%	57.6%	99.0%	119.7%	28.0%	16.8%	-39.2%	53.0%	8.5%	10.4%	5.5%	17.2%	-23.7%	-47.9%	-57.6%	-54.8%	-5.0%	36.2%	86.1%
Fresh Fruits & Melons	18.5%	13.7%	21.2%	22.2%	21.1%	34.8%	15.9%	13.4%	15.1%	2.8%	8.3%	2.3%	0.9%	4.7%	-7.8%	-4.0%	-2.6%	-18.1%	-6.1%	1.3%	-0.8%	-7.2%	-11.7%
Potatoes	54.1%	56.1%	86.7%	115.4%	78.7%	29.7%	49.5%	52.6%	47.1%	43.7%	40.8%	52.8%	51.0%	38.4%	14.8%	-33.5%	-46.2%	-32.9%	-48.3%	-52.7%	-54.2%	-53.5%	-48.7%
Dairy Products	20.2%	21.3%	21.3%	20.1%	18.7%	17.7%	15.9%	12.5%	6.5%	1.2%	-3.6%	-6.6%	11.5%	-11.3%	-12.7%	-9.6%	-7.3%	-6.2%	-6.4%	-7.2%	-6.7%	-3.4%	-0.9%
Chicken (Slaughter)	70.9%	63.8%	56.5%	30.1%	20.0%	20.1%	24.7%	0.4%	-10.1%	-2.9%	-14.0%	-17.9%	-18.1%	-19.3%	-24.4%	-18.0%	-7.6%	-8.2%	-10.0%	1.6%	6.8%	3.8%	-1.6%
Chicken Whole Wing Prices (NE)	-41.2%	-40.8%	-47.0%	-58.7%	-62.4%	-62.9%	-64.7%	-67.7%	-66.0%	-57.5%	-51.6%	-51.2%	-53.4%	-50.8%	-40.0%	-5.6%	31.6%	53.9%	61.0%	77.2%	86.3%	70.5%	97.8%
Coffee	43.0%	43.3%	25.7%	25.0%	17.6%	-1.1%	-19.5%	-22.7%	-23.0%	-17.1%	-12.8%	-10.1%	-8.8%	-15.3%	-16.7%	-22.9%	-23.4%	-14.9%	3.1%	11.5%	12.4%	4.2%	9.5%
Cheese	38.7%	46.0%	22.6%	5.2%	10.8%	14.0%	21.8%	10.6%	4.7%	-2.6%	-10.6%	-24.8%	-32.6%	-36.1%	-19.5%	9.1%	-4.9%	-15.0%	-23.2%	-27.6%	-24.2%	-16.5%	-25.0%
Milk Class III	31.6%	41.2%	43.8%	25.0%	17.6%	22.2%	16.7%	16.7%	-5.0%	-14.3%	-18.2%	-20.8%	-36.0%	-37.5%	-38.9%	-14.5%	-7.2%	-22.8%	-18.4%	-21.8%	-21.9%	-9.6%	-9.7%
Corn Cash (CBOT - ZCY00)	12.2%	8.2%	11.3%	24.2%	33.5%	19.0%	11.9%	12.2%	6.6%	-9.8%	-11.0%	-23.3%	-17.6%	-25.6%	-18.6%	-34.0%	-32.7%	-31.8%	-30.3%	-31.5%	-36.0%	-35.8%	-35.6%
Wheat	59.5%	26.1%	21.0%	21.7%	33.0%	20.4%	7.3%	-2.3%	-1.0%	-25.6%	-30.2%	-41.6%	-45.4%	-25.7%	-26.8%	-36.5%	-45.4%	-28.0%	-21.7%	-18.5%	-20.8%	-13.4%	-18.8%
Ground Beef (73% Lean)	-18.6%	-25.9%	3.9%	-9.5%	-17.9%	-19.4%	-26.2%	-24.1%	-17.2%	-21.7%	26.0%	26.0%	40.6%	34.4%	36.3%	48.9%	44.9%	45.6%	29.0%	25.8%	-3.3%	16.6%	16.8%
Choice Cutout Boxed Beef	-18.2%	-18.8%	-3.6%	-15.1%	-21.8%	-11.9%	-7.1%	-1.5%	-1.1%	3.0%	9.6%	12.3%	16.9%	22.0%	15.7%	16.3%	21.2%	20.4%	15.2%	12.5%	6.6%	8.2%	8.0%
National Negotiated Swine	-2.7%	2.6%	11.8%	25.3%	14.1%	32.9%	50.9%	35.0%	1.4%	-15.6%	-25.7%	-31.4%	-27.5%	-22.0%	-15.9%	-24.8%	-18.9%	-22.9%	-25.4%	-37.1%	-30.7%	-10.8%	0.2%

BLS Foodstuffs	22.4%	16.9%	13.1%	16.2%	16.3%	15.9%	18.7%	8.7%	3.7%	-4.5%	-6.9%	-10.6%	-10.5%	-4.9%	3.7%	-2.5%	-1.5%	-2.3%	-7.2%	-12.7%	-6.7%	-6.7%	-0.9%
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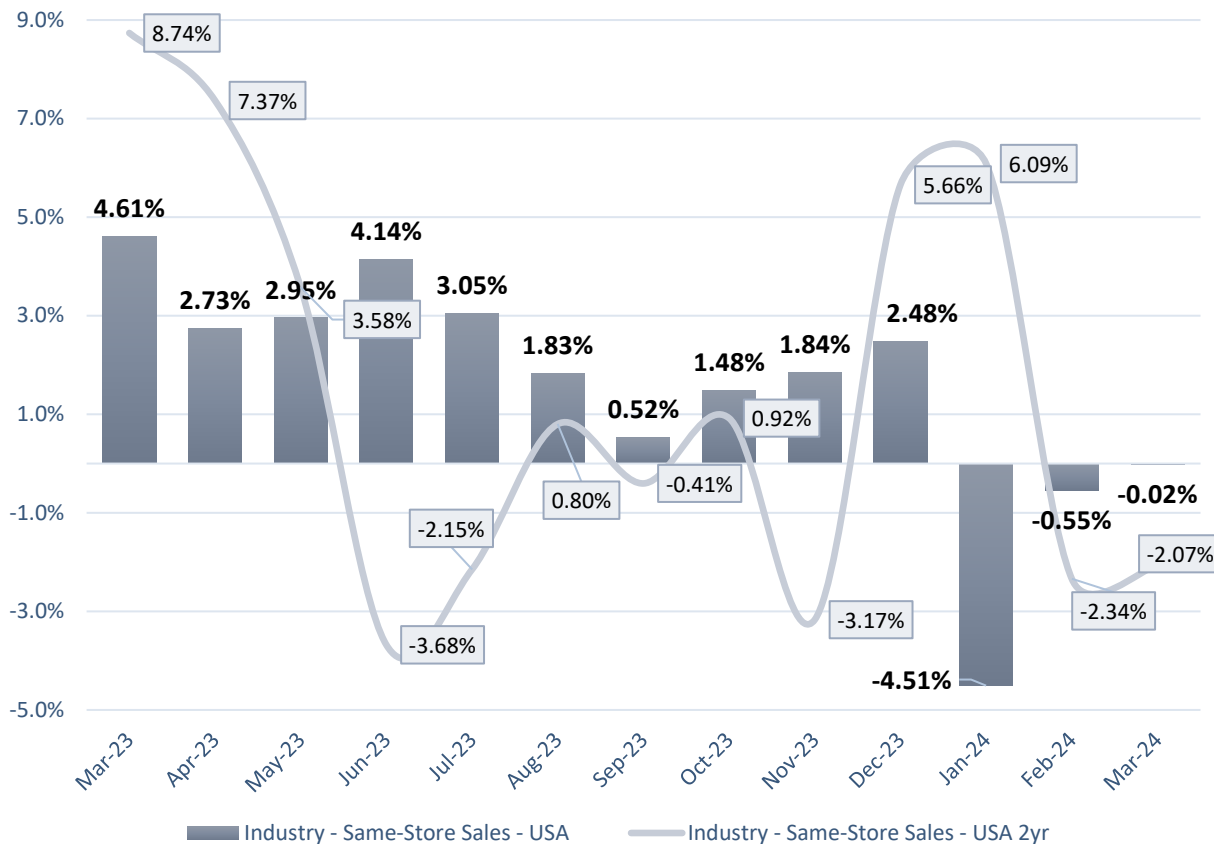
Building Materials (YoY Change)	22-May	22-Jun	22-Jul	22-Aug	22-Sep	22-Oct	22-Nov	22-Dec	23-Jan	23-Feb	23-Mar	23-Apr	23-May	23-Jun	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Lumber	-14.6%	-28.3%	-4.7%	8.5%	6.1%	-1.9%	-7.5%	-23.8%	-34.8%	-36.8%	-40.7%	-32.1%	-33.8%	-19.1%	-14.7%	-16.8%	-12.2%	-12.9%	-13.1%	-7.4%	-6.5%	-6.5%	-3.5%
Concrete	8.2%	9.9%	10.9%	11.3%	11.5%	12.0%	11.9%	12.3%	13.4%	13.5%	12.9%	11.9%	11.9%	10.2%	8.9%	9.0%	8.9%	8.6%	8.6%	8.5%	7.3%	7.1%	7.4%
Fabricated Iron & Steel	37.9%	29.4%	21.4%	12.8%	8.1%	6.1%	4.7%	3.1%	2.7%	5.4%	3.8%	-1.9%	-2.3%	-2.8%	0.0%	1.4%	1.3%	3.0%	3.4%	7.5%	6.3%	2.6%	-2.0%
Asphalt	79.5%	76.8%	72.3%	61.0%	44.3%	35.5%	16.2%	-22.9%	-16.9%	-20.2%	-23.4%	-25.3%	-32.6%	-34.6%	-36.8%	-33.9%	-25.9%	-23.3%	-17.0%	23.8%	15.8%	3.7%	13.0%



# Black Box Industry Same-Store Sales Trends

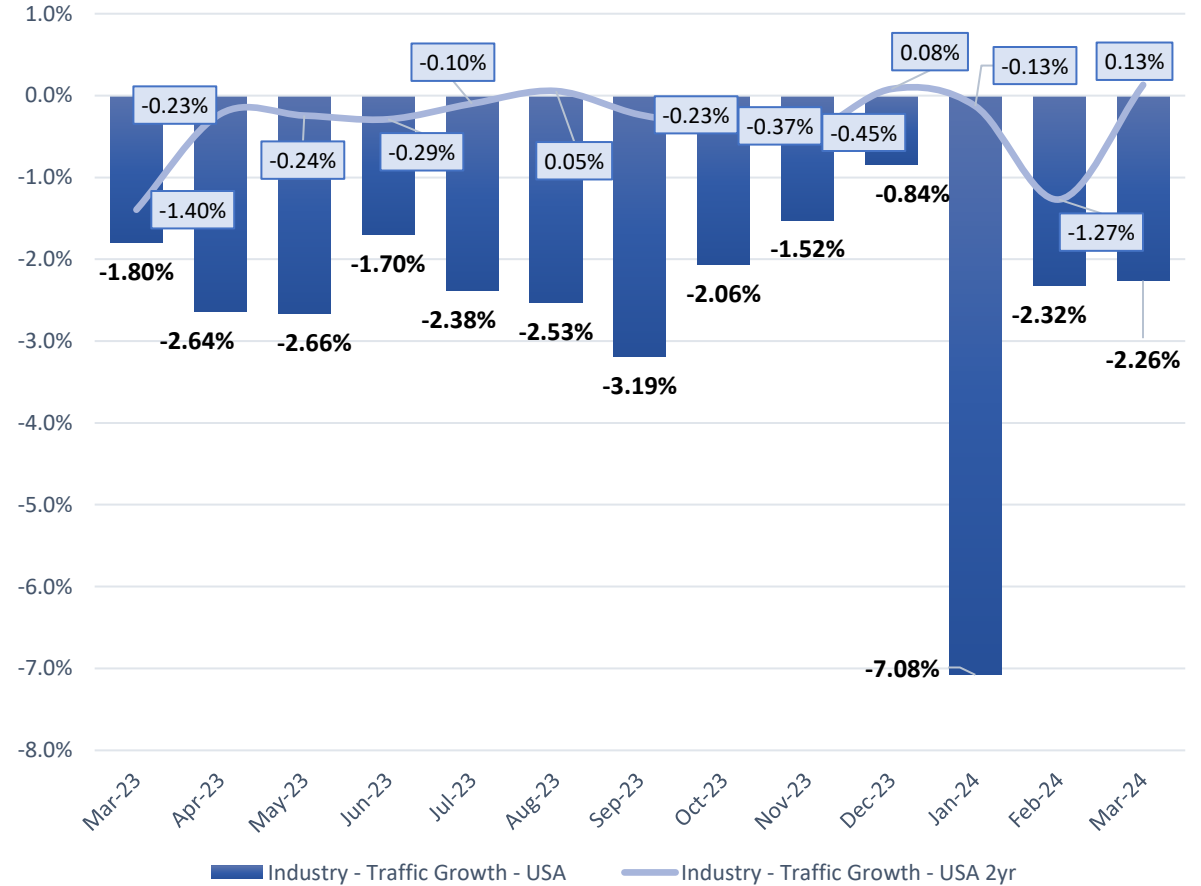
## Same-Store Sales

Black Box Restaurant Industry Same-Store Sales Trends



## Same-Store Traffic

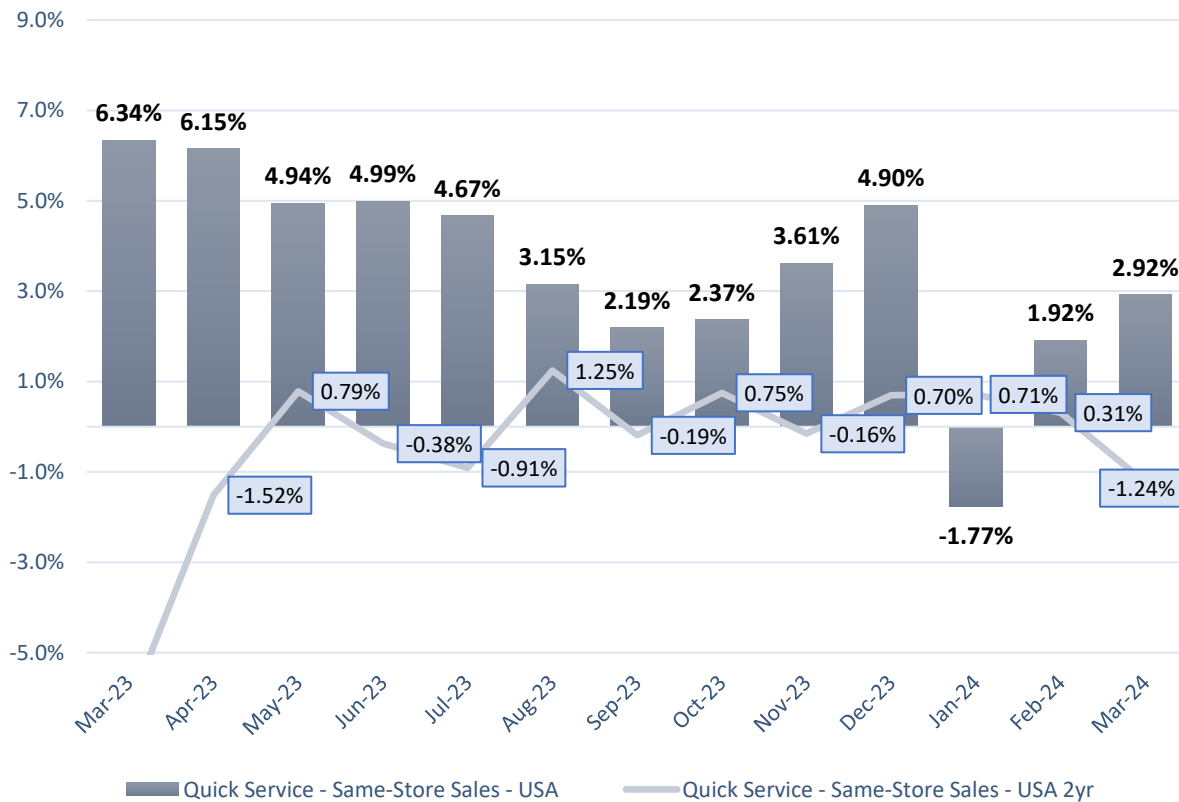
Black Box Restaurant Industry Same-Store Traffic Trends



# Black Box Quick Service Sales Trends

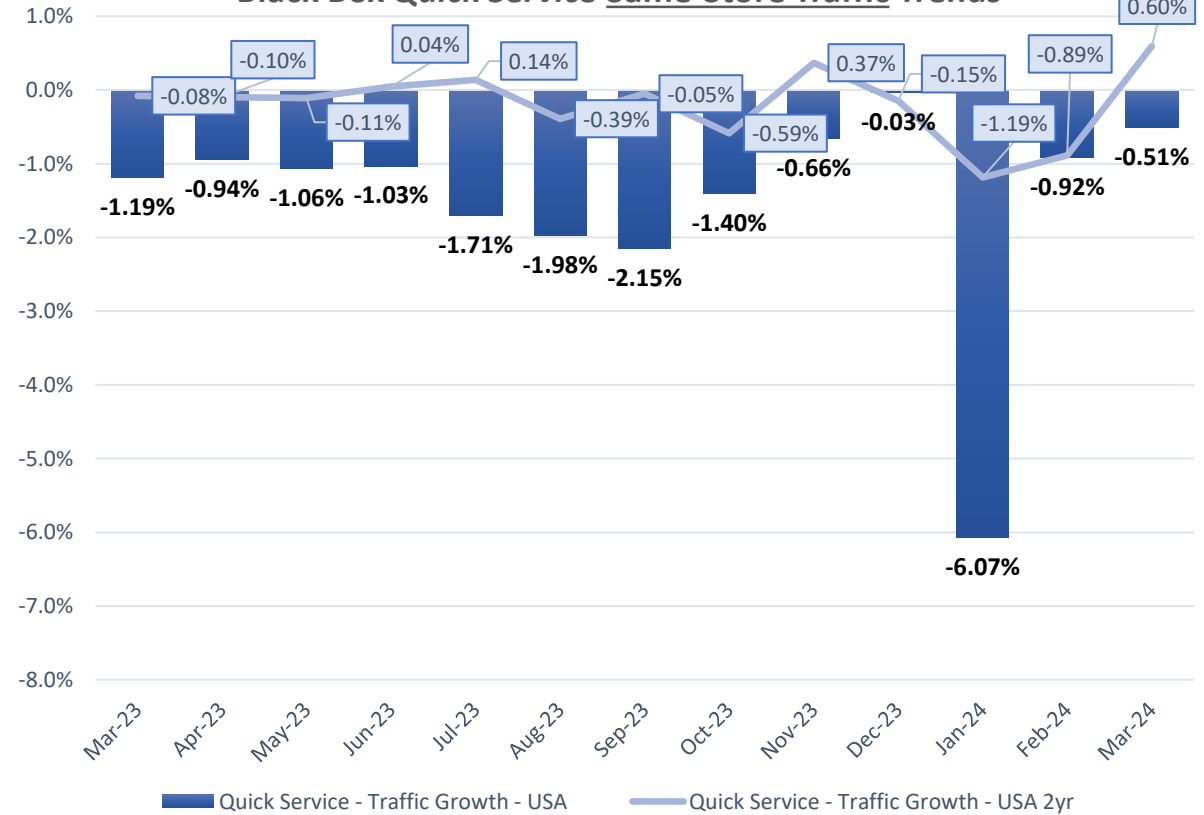
## Same-Store Sales

Black Box Quick Service Same-Store Sales Trends



## Same-Store Traffic

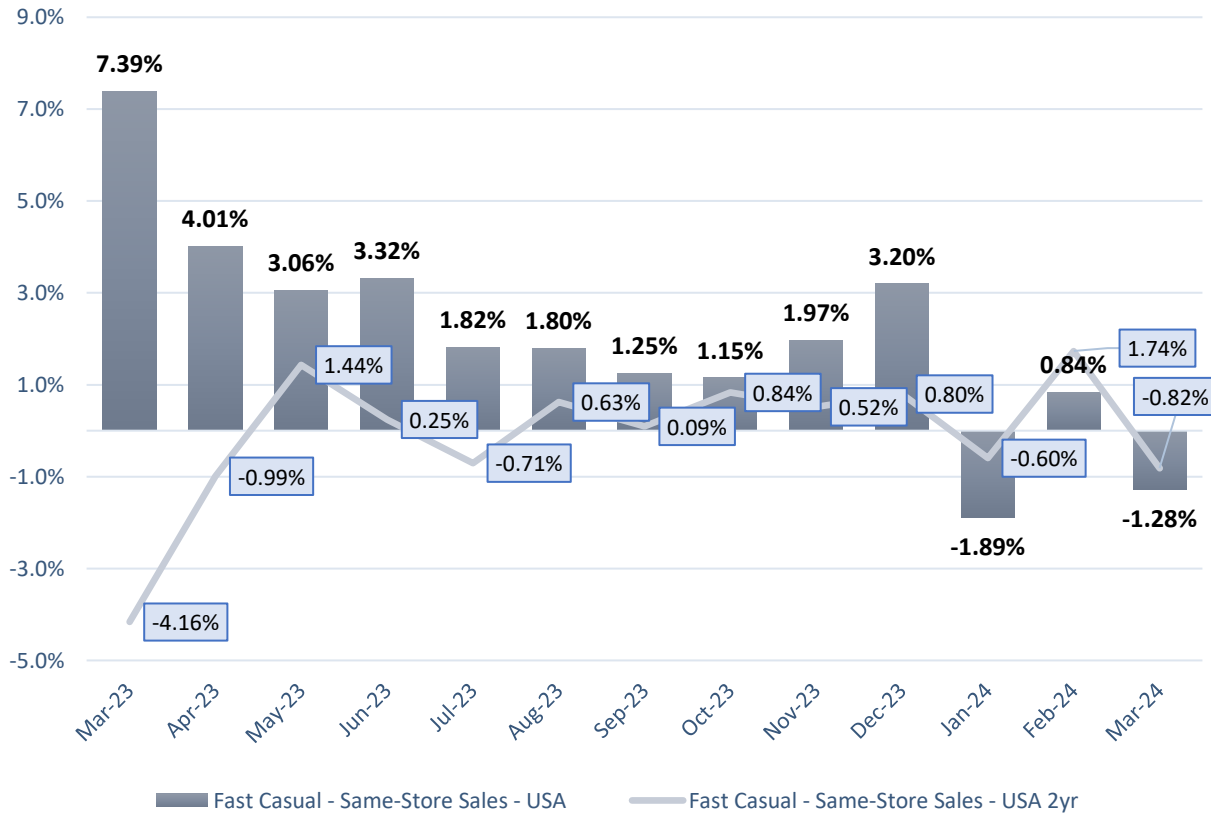
Black Box Quick Service Same-Store Traffic Trends



# Black Box Fast Casual Sales Trends

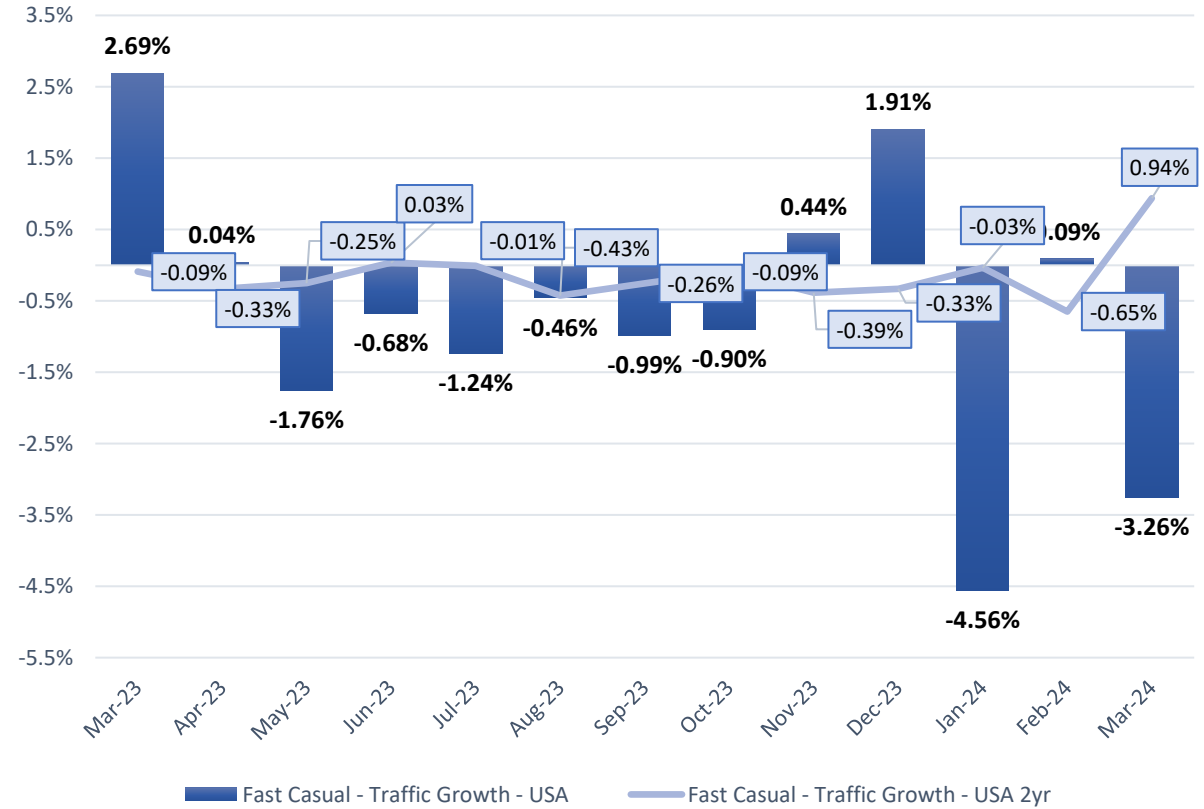
## Same-Store Sales

Black Box *Fast Casual* Same-Store Sales Trends



## Same-Store Traffic

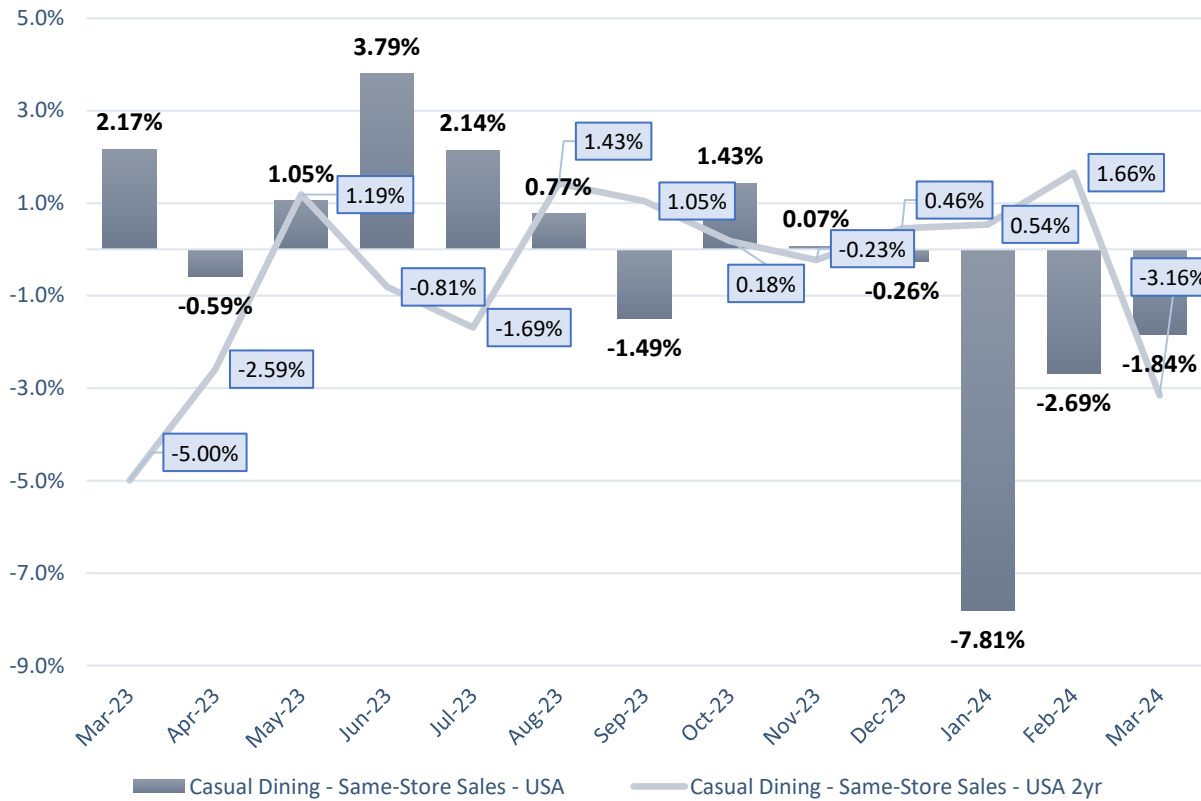
Black Box *Fast Casual* Same-Store Traffic Trends



# Black Box Casual Dining Sales Trends

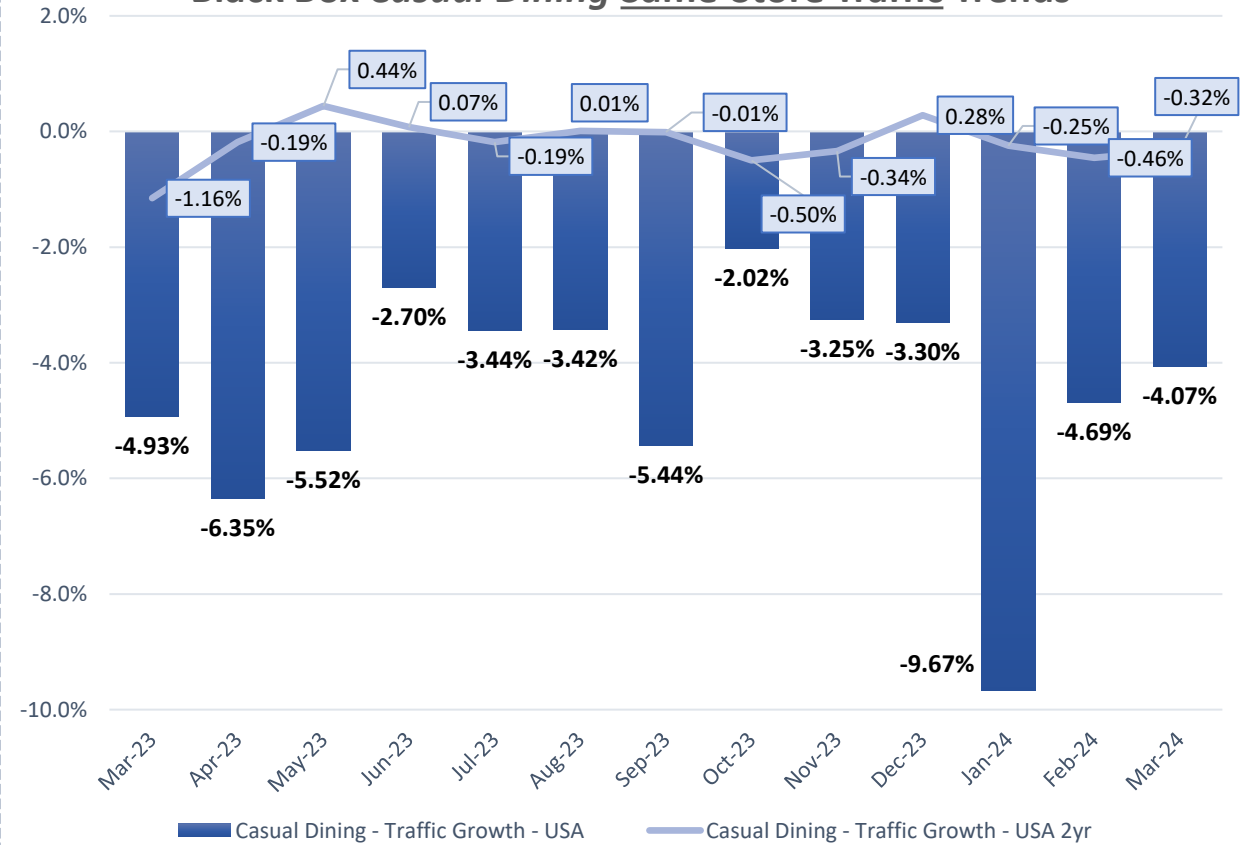
## Same-Store Sales

Black Box *Casual Dining* Same-Store Sales Trends



## Same-Store Traffic

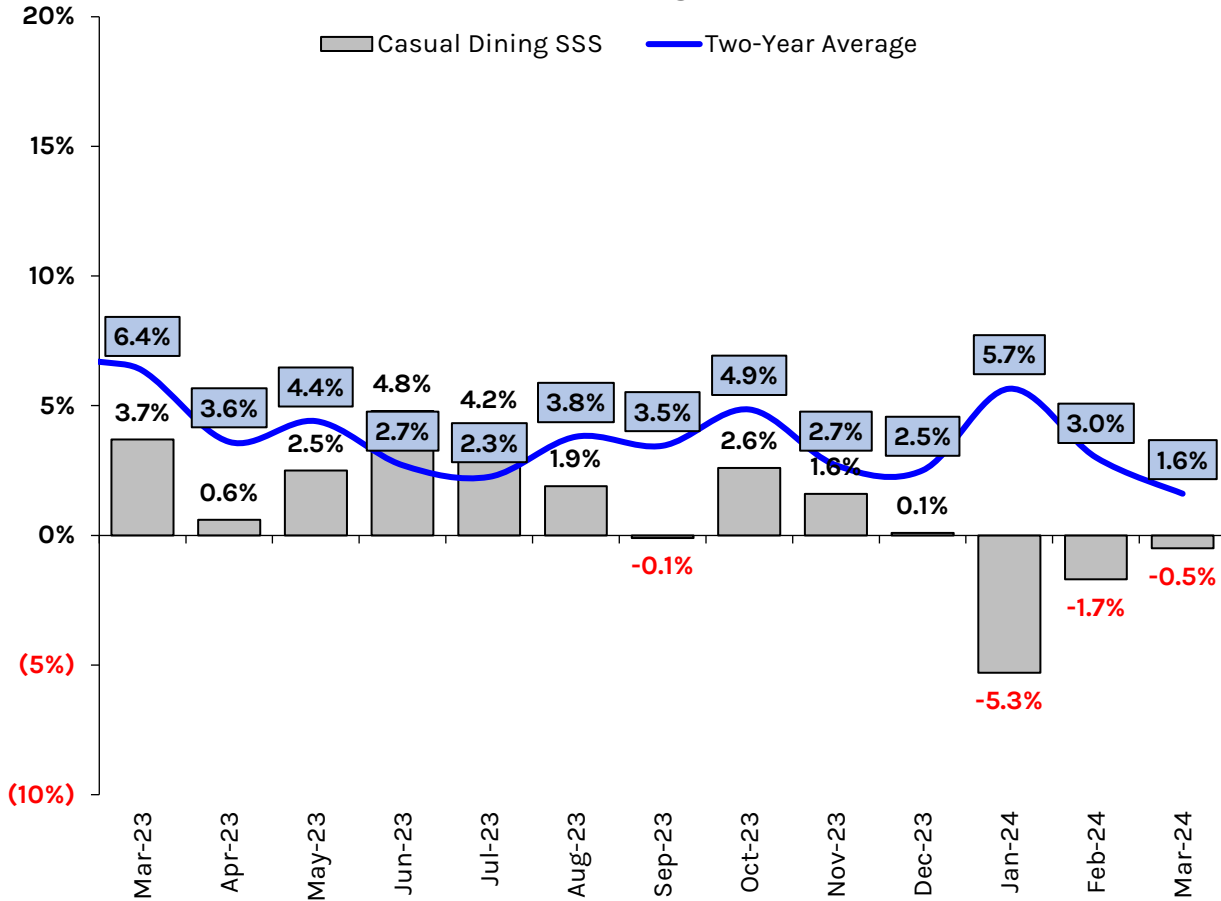
Black Box *Casual Dining* Same-Store Traffic Trends



# Knapp Track Casual Dining | Monthly LTM

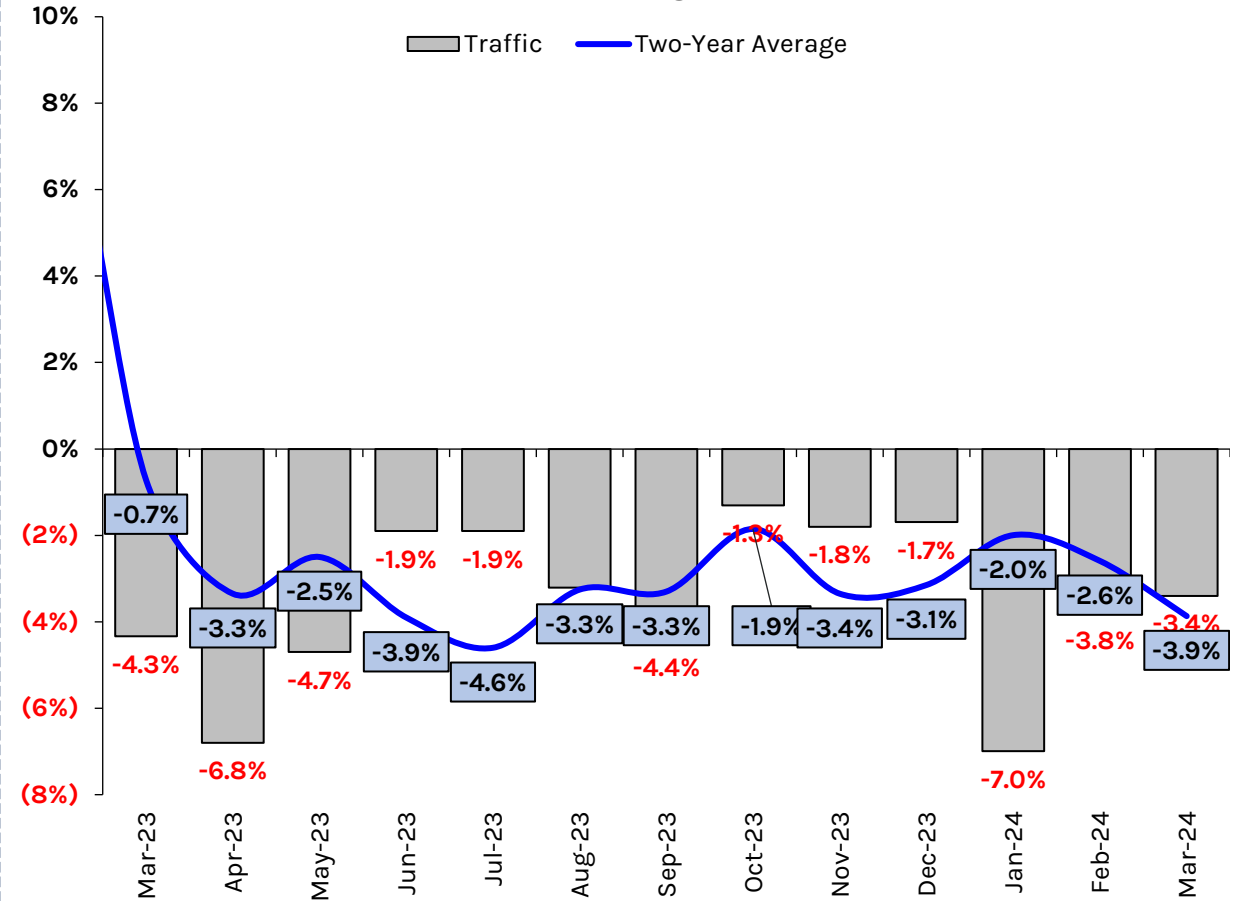
## Same-Store Sales

### Knapp-Track Casual Dining Comparable Sales



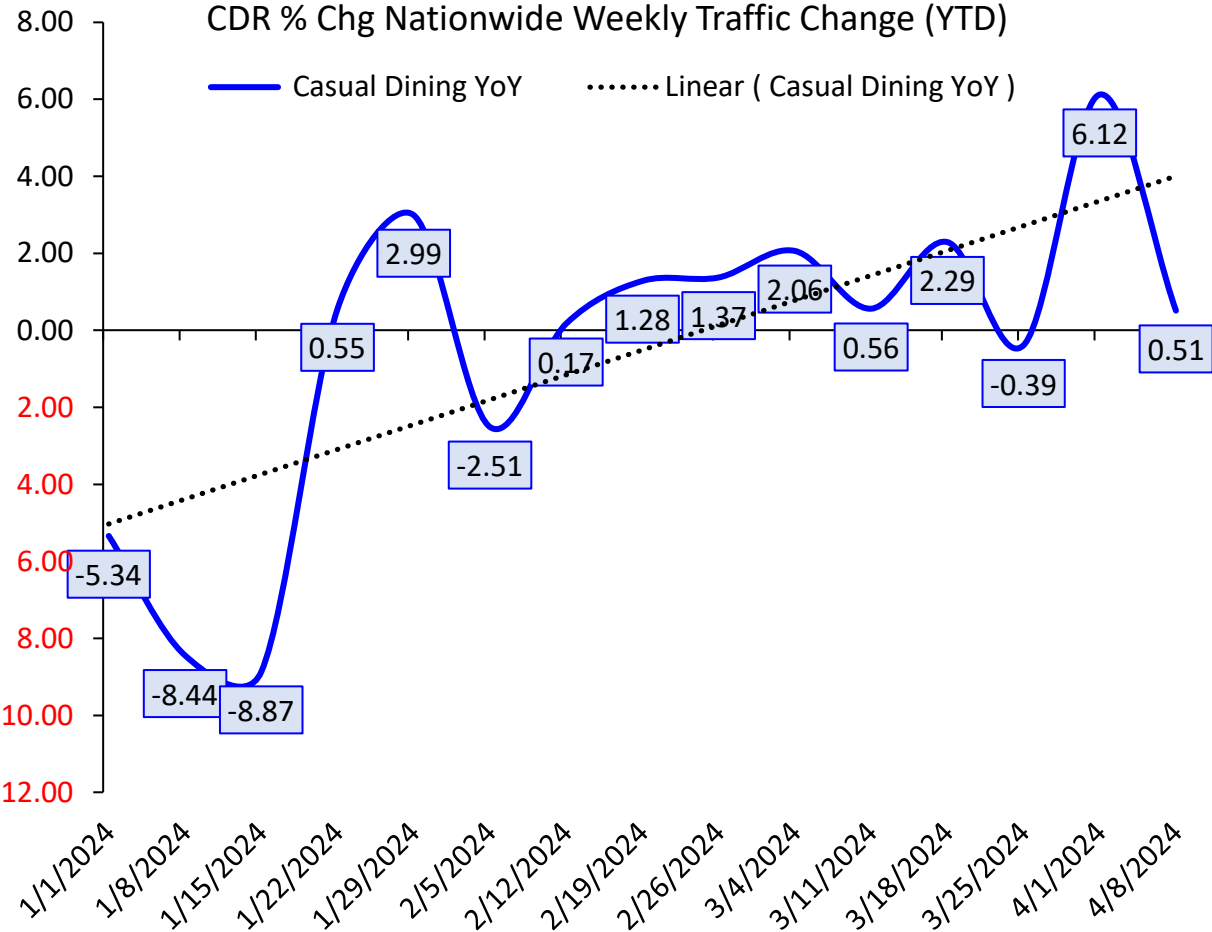
## Traffic Trends

### Knapp-Track Casual Dining Comparable Traffic

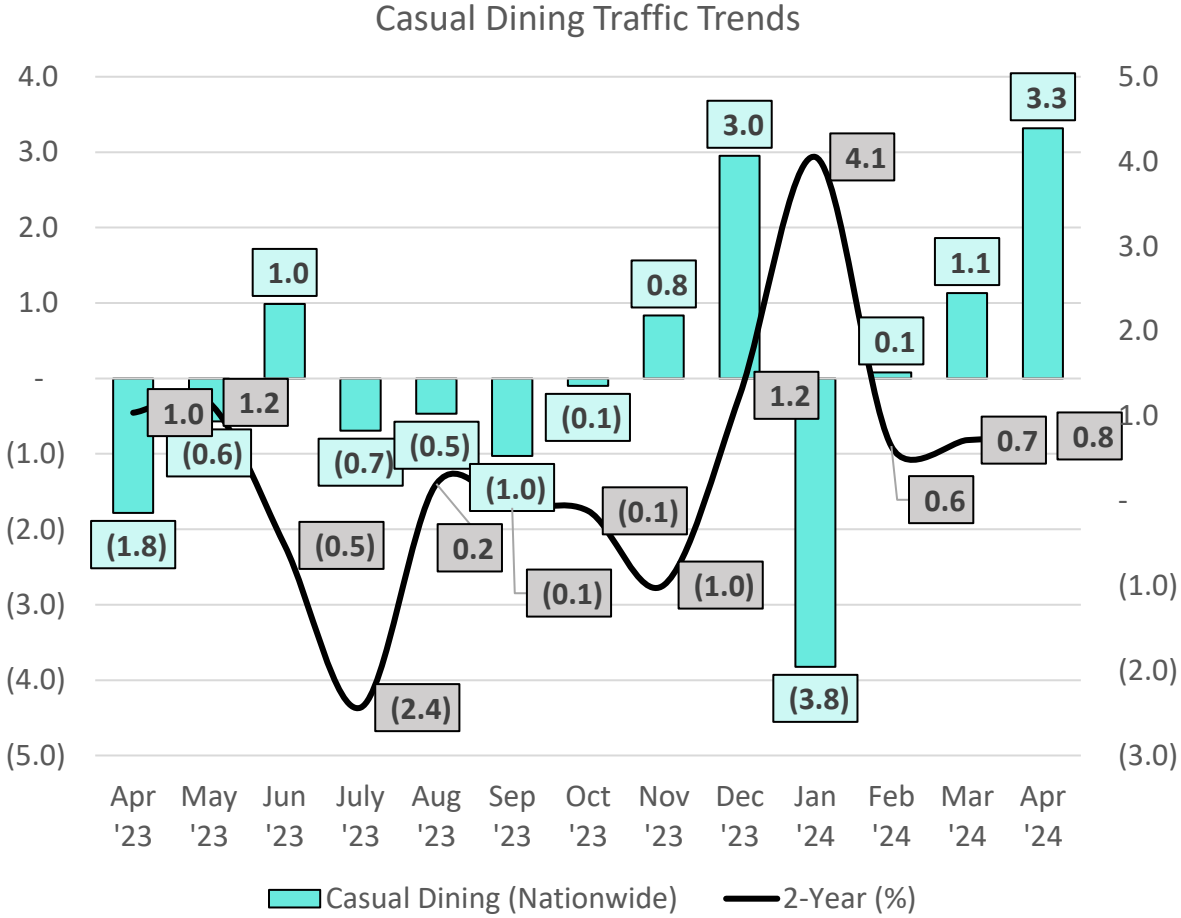


# Casual Dining | Monthly/Weekly Traffic Trends

YTD Weekly Traffic



LTM Monthly Traffic



# Company Comments

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# The Starbucks Activist Thesis

## 1 Two Years Later Starbucks is Still Broken

In April 2022, Howard Schultz returned as Starbucks' interim CEO, stating that the company was broken once more, similar to the situation before 2008. He compared the challenges of 2022 to those faced in 2008, highlighting Starbucks' capacity to innovate and adapt during tough times. However, despite promises to simplify store operations and address employee concerns, the company has yet to deliver on these plans years later.

## 2 In the USA Starbucks Biggest Problems are Labor Related

In December 2021, a Starbucks store in Buffalo, New York, became the first in the coffee chain to vote in favor of unionization. This event triggered a surge of unionization efforts at Starbucks locations throughout the United States. Starbucks employees advocating for unionization sought to address concerns such as improving working conditions and benefits, implementing just cause and seniority protections, expanding health insurance coverage and paid time off, increasing base wages with guaranteed annual raises, and resolving issues related to burdensome store layouts or drive-thru configurations.

## 3 China Is Struggling

Starbucks is currently facing a situation reminiscent of YUM's challenges in 2015. Despite a 65% increase in its store base in China since 2019, Starbucks has only seen a 6% growth in revenue, while average unit volume has declined by a staggering 18%. This discrepancy highlights the difficulties Starbucks China has encountered over the past four years, bringing the company to a critical juncture as it celebrates its 25th anniversary in the Chinese market.

## 4 An Activist can push for Increased licensing of stores

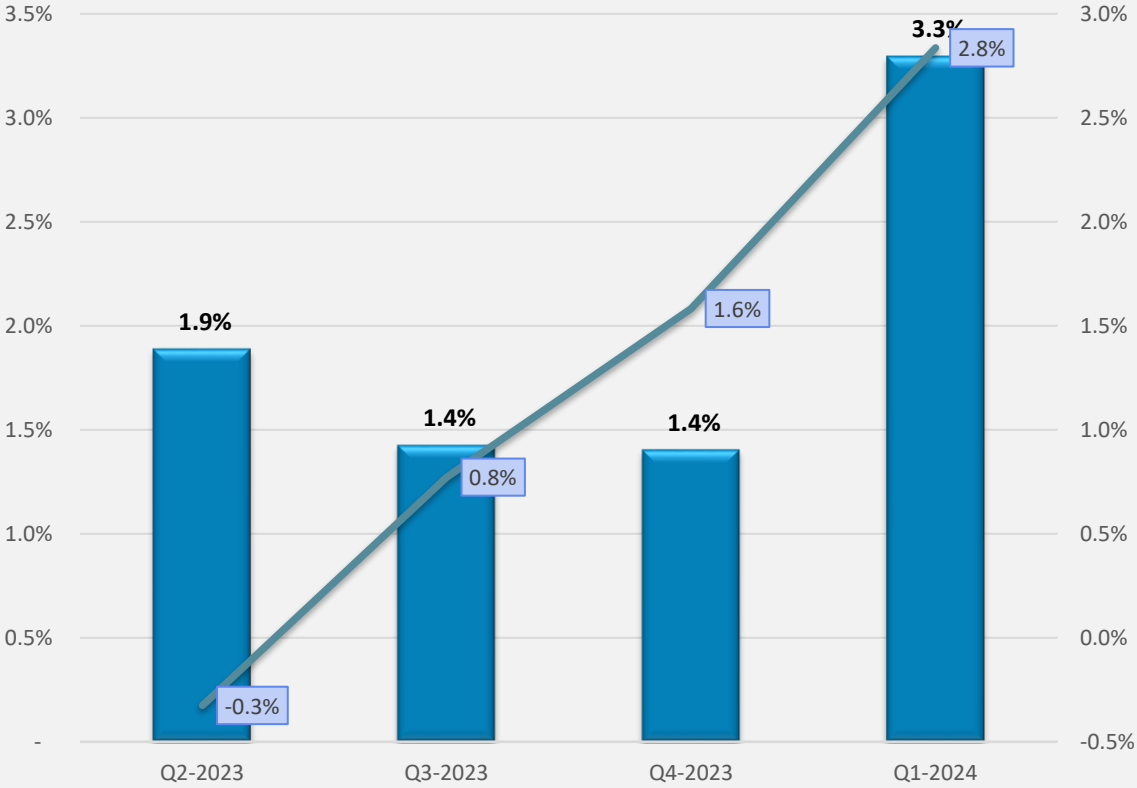
Converting to a licensed model could offer Starbucks several potential benefits, such as faster expansion by leveraging franchisees' capital and real estate, reduced operating costs as licensees are responsible for store expenses. The company benefits from increased high margin revenue from franchise fees and royalties. Increased licensing will allow the company to maintain brand consistency, quality control, and eliminates the complex legal and organizational restructuring with traditional franchising.



# LTM System Same-store Sales - DPZ vs MCD

## DPZ Same-Store Sales

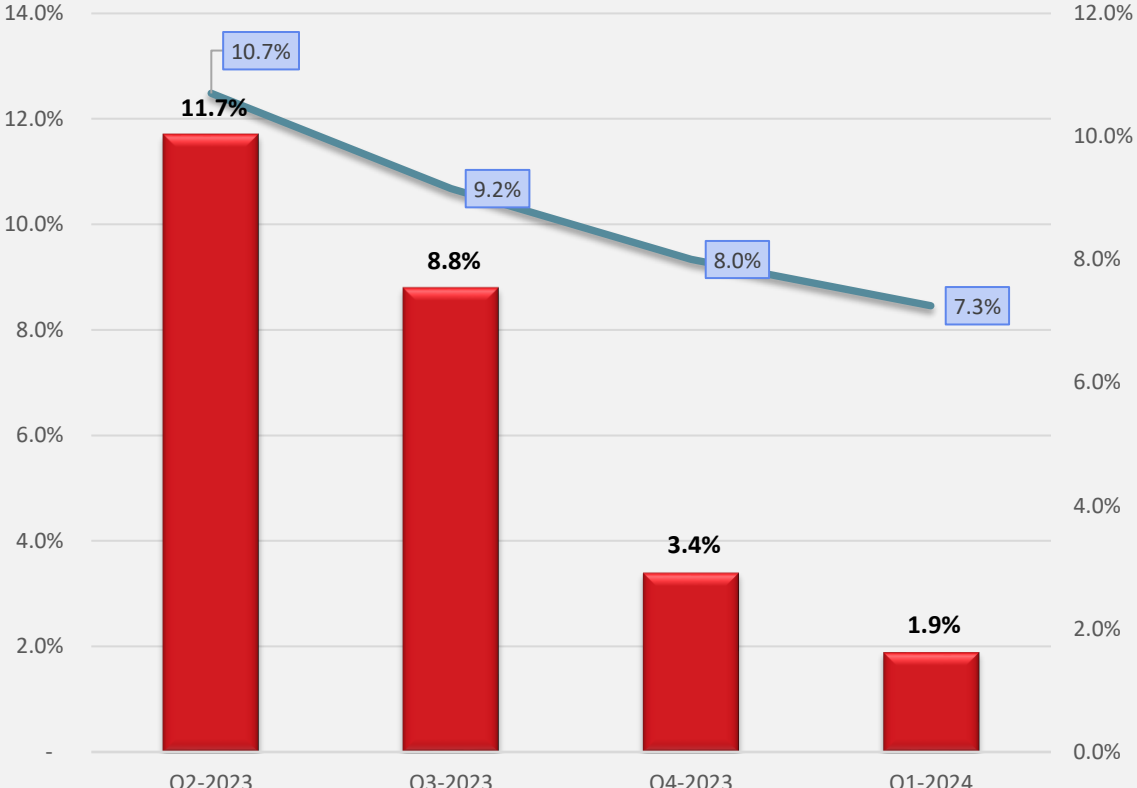
System Comparable Restaurant Sales Growth



System Comparable Restaurant Sales Growth, %      2yr - Same Store Sales

## MCD Same-Store Sales

System Comparable Restaurant Sales Growth

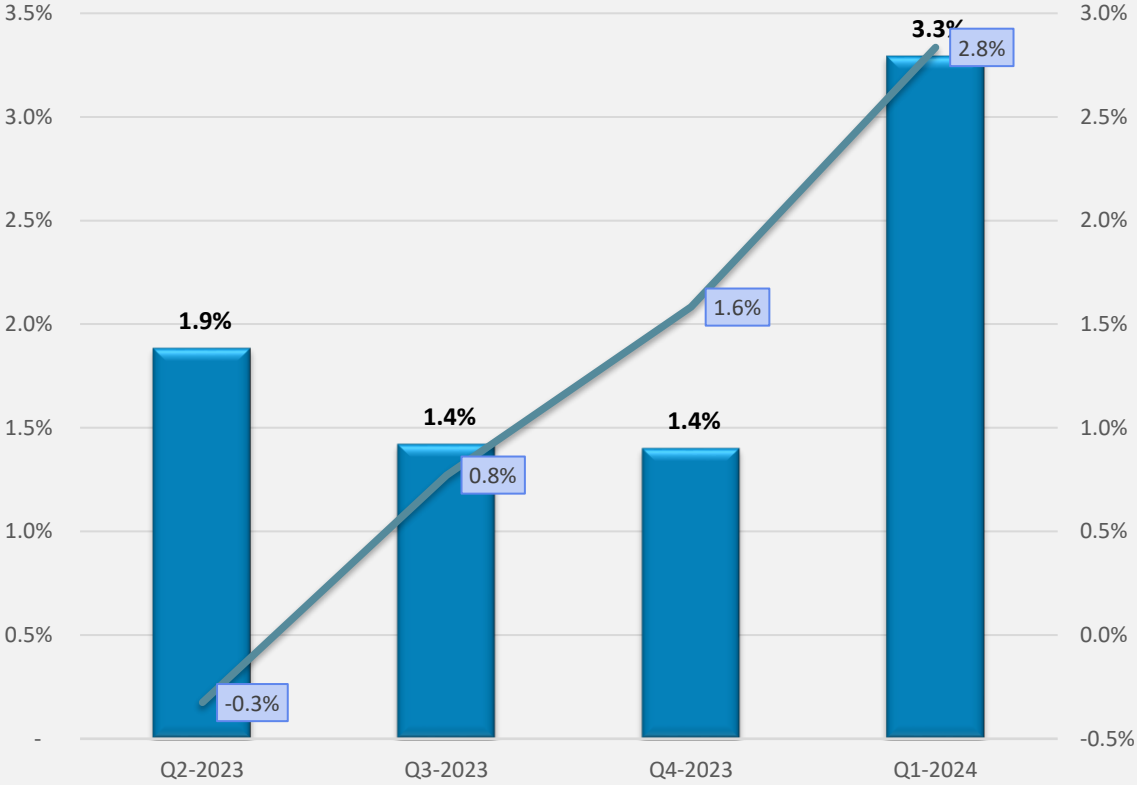


System Comparable Restaurant Sales Growth, %      2yr - Same Store Sales

# LTM System Same-store Sales - DPZ vs WING

## DPZ Same-Store Sales

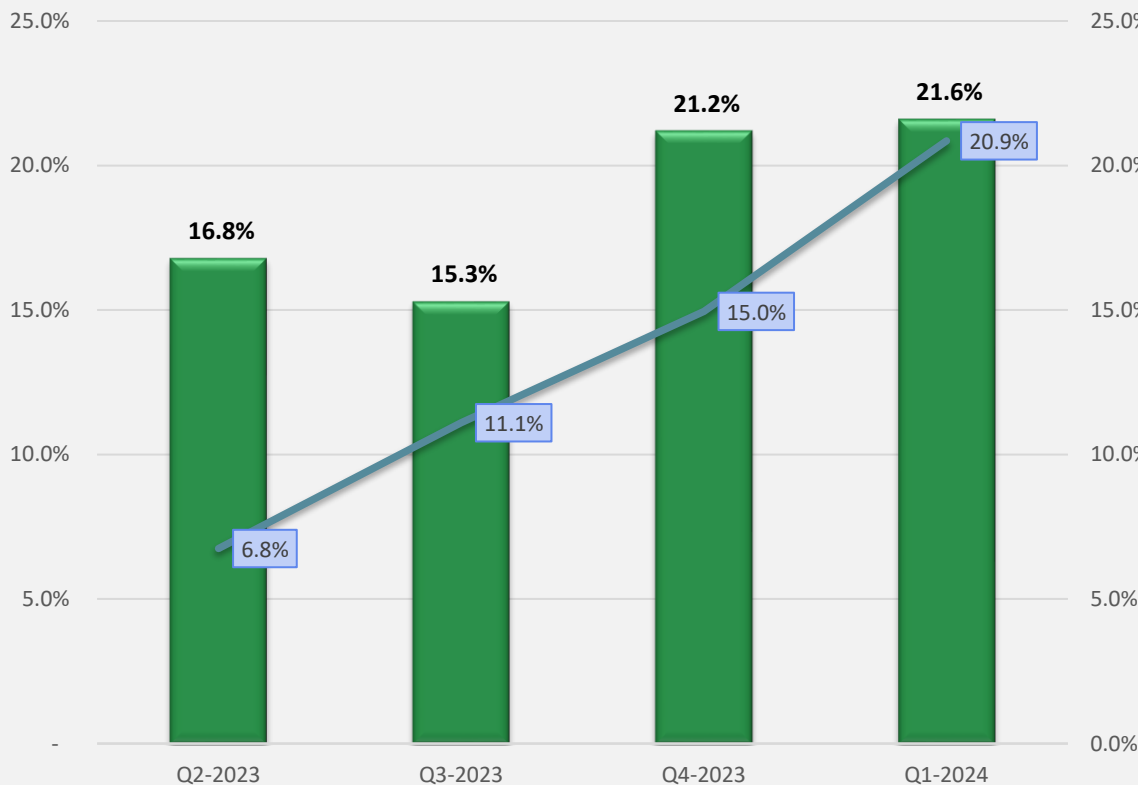
System Comparable Restaurant Sales Growth



System Comparable Restaurant Sales Growth, %      2yr - Same Store Sales

## WING Same-Store Sales

System Comparable Restaurant Sales Growth

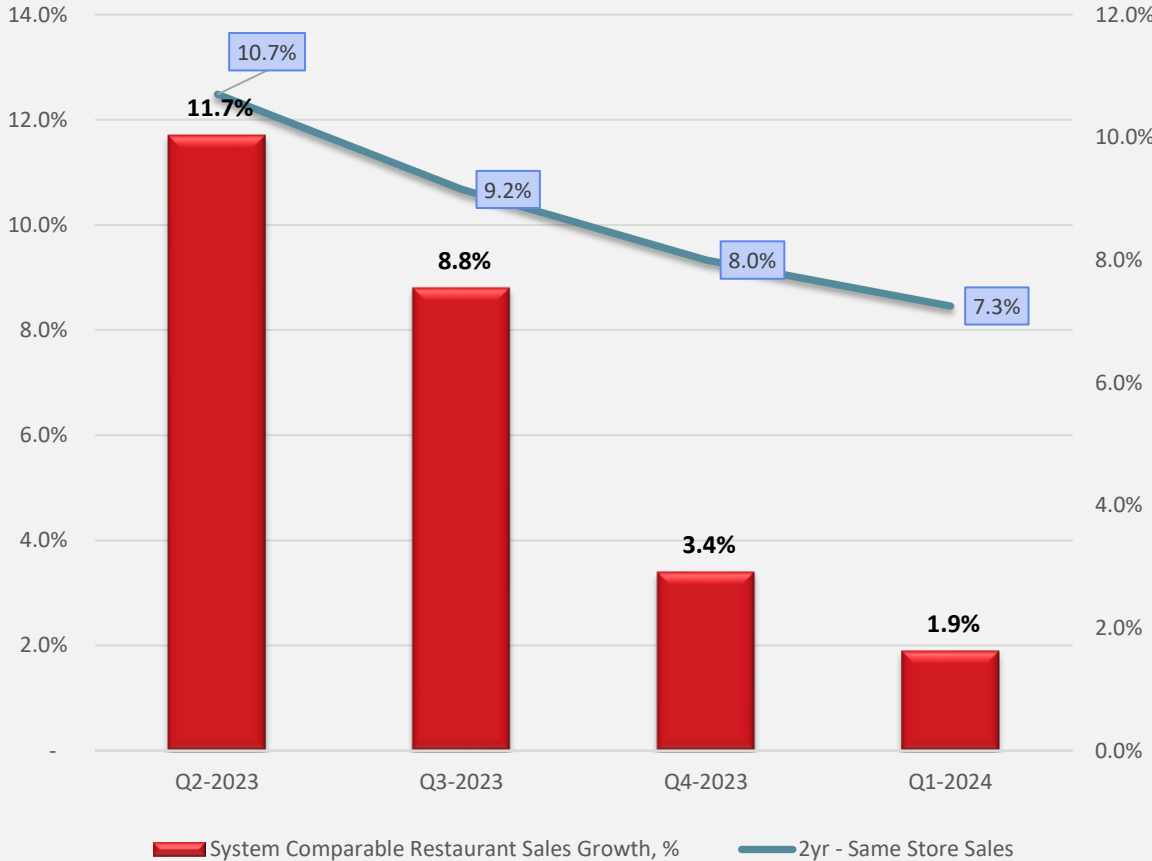


System Comparable Restaurant Sales Growth, %      2yr - Same Store Sales

# LTM System Same-store Sales – MCD vs. QSR

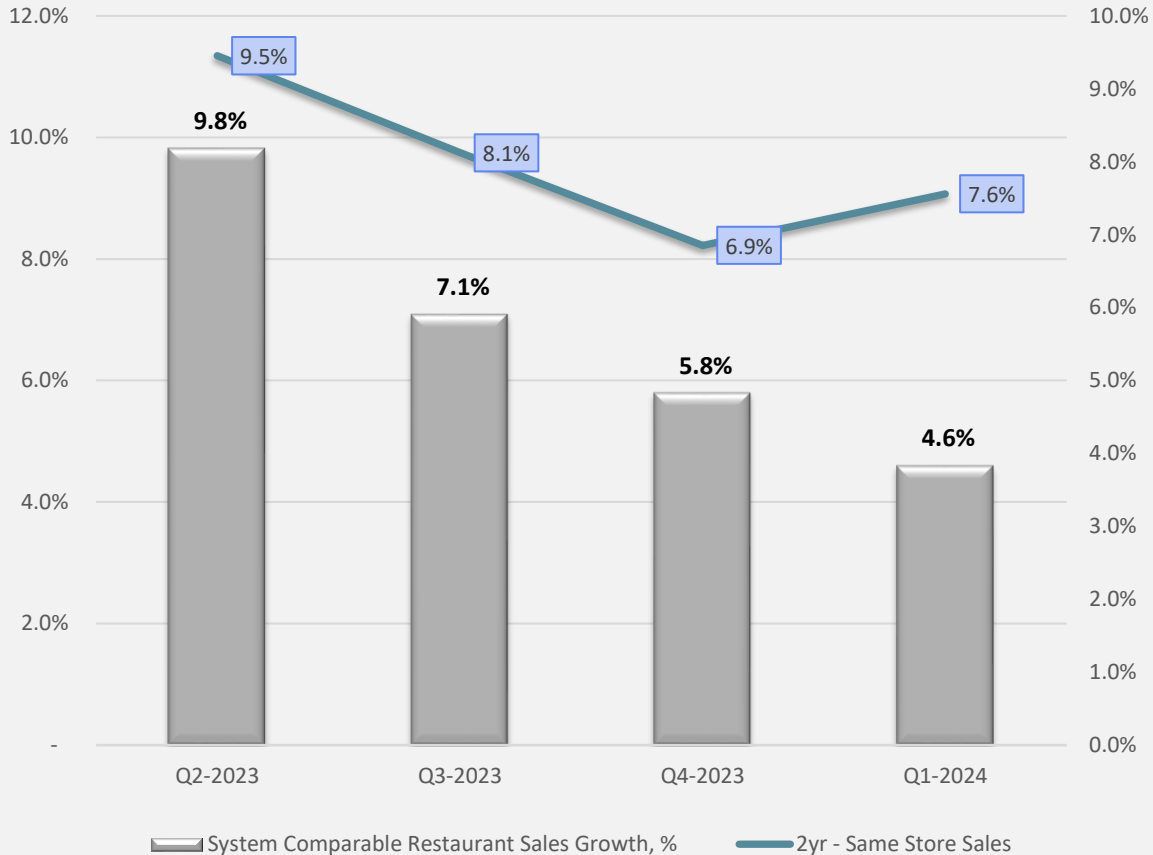
## MCD Same-Store Sales

System Comparable Restaurant Sales Growth



## QSR Same-Store Sales

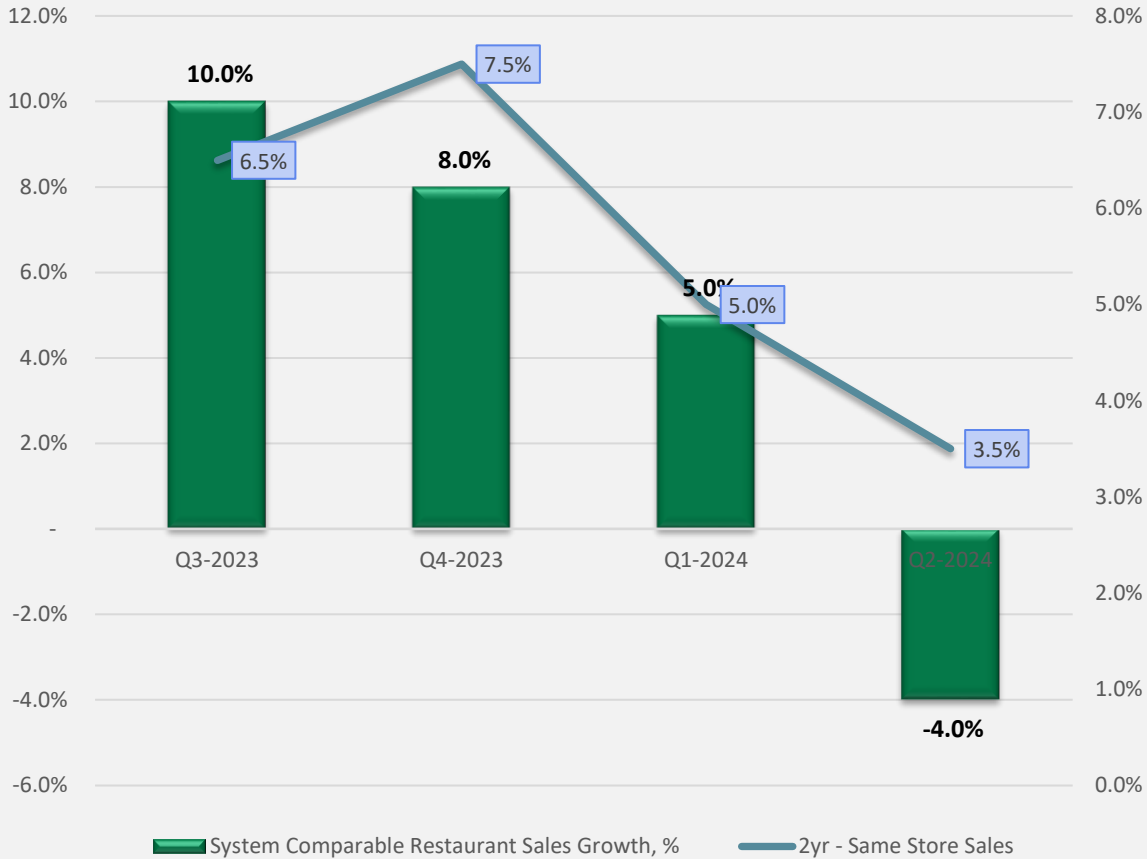
System Comparable Restaurant Sales Growth



# LTM System Same-store Sales – SBUX vs. YUM

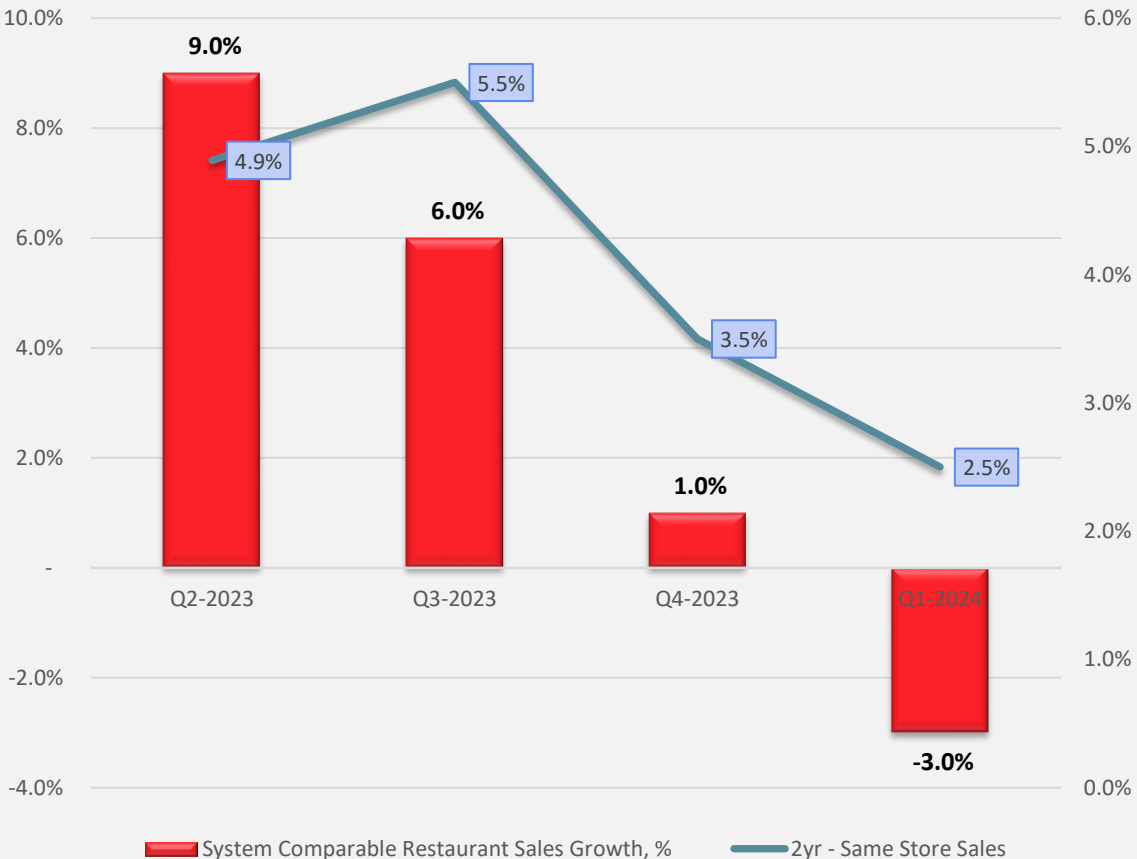
## SBUX Same-Store Sales

System Comparable Restaurant Sales Growth



## YUM Same-Store Sales

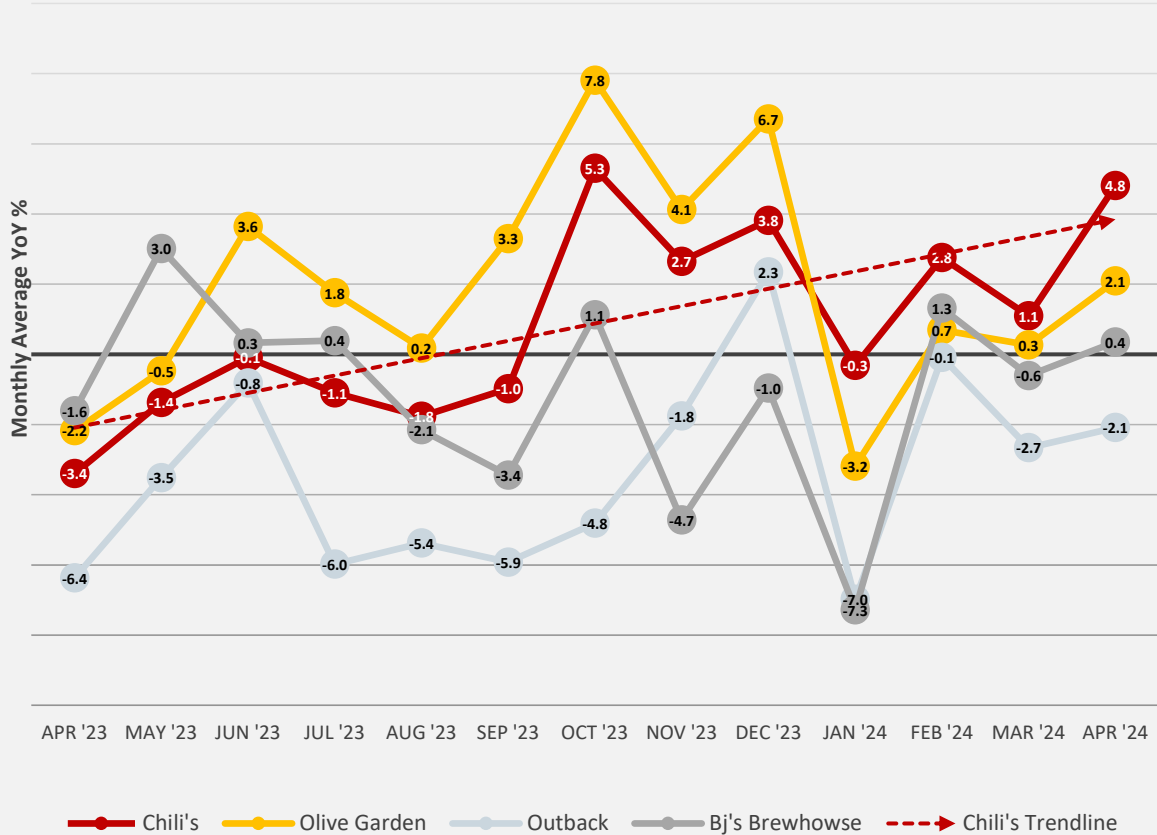
System Comparable Restaurant Sales Growth



# Casual Dining Traffic Trends

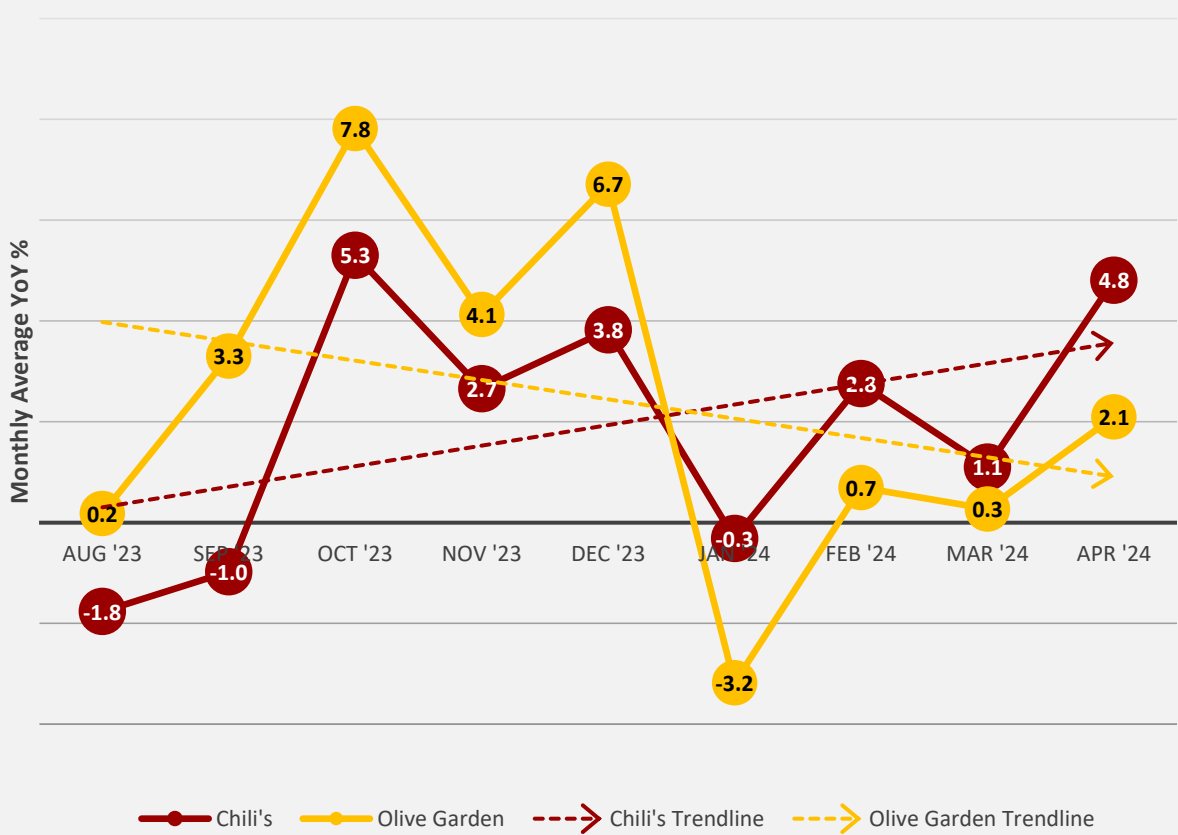
## Same-Store Sales

### Casual Dining Traffic Trends



## Same-Store Traffic

### Chili's vs. Olive Garden Visits Trends



HEDGEYE

# Cannabis

## HEDGEYE LIVE

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May 2, 2024



[Hedgeye Cannabis](#)

Howard Penney | [hpenney@hedgeye.com](mailto:hpenney@hedgeye.com)

# The DEA is moving towards rescheduling Cannabis

In a historical shift of US Drug Policy, Cannabis will be reclassified as Schedule III



The proposition to reclassify cannabis from its current Schedule I classification, where it currently sits alongside heroin and LSD, gained significant traction with the DEA's proposal Tuesday afternoon. The suggested reclassification would relocate cannabis to Schedule III, aligning it with substances such as ketamine and specific anabolic steroids.



This potential shift brings optimistic changes without signaling complete recreational legalization. Transitioning to Schedule III contributes to reduced research barriers and significantly lighter tax burdens (without getting hit by 280E) for cannabis businesses, promoting growth and driving innovation.



The proposal comes after numerous positive federal trends in cannabis research. In January, the FDA published their findings that cannabis met criteria for reclassification finding that Cannabis had a “lower potential for abuse than other drugs that are subjected to the same restrictions, with scientific support for its use as a medical treatment.”

# Transitioning to Schedule III

Once the Office of Management and Budget (OMB) approves the DEA's proposal to reclassify marijuana there are a few more steps

### OMB Review and Approval

The White House Office of Management and Budget (OMB) will review the DEA's proposal to reclassify marijuana and assess the implications across various dimensions, including economic, legal, and social impacts.

1-3 Months

### Review of Public Comments

The White House Office of Management and Budget (OMB) will review the DEA's proposal to reclassify marijuana and assess the implications across various dimensions, including economic, legal, and social impacts.

3-6 Months

### Publication of Final Rule

Once the final rule is drafted and all necessary approvals are secured, it will be published in the Federal Register.

Varies Widely

### Public Comment Period

During this time, individuals, organizations, industry stakeholders, and other interested parties can submit their opinions, concerns, and evidence for or against the reclassification of marijuana. The DEA is required to consider all public comments when finalizing the rule.

1-3 Months

### Final Rule Drafting

The DEA will review all feedback received during the public comment period to determine if adjustments to the proposed rule are necessary.

### Total Estimated Timeline

- Fastest Scenario: Around 6 months
- Average Scenario: Approximately 9-12 months
- Extended Scenario: Could extend beyond a year



# Hedgeye Cannabis Position Monitor

## HEDGEYE CANNABIS POSITION MONITOR

### LONG

### SHORT

TICKER	COMPANY	Price	FD EV (M)	2025E REV	2025 EV/REV
<b>GLASF</b>	Glass House Brands Inc	\$ 10.35	\$ 1,004.44	\$ 292.00	3.4x
<b>GRUSF</b>	Grown Rogue International Inc.	\$ 0.83	\$ 219.95	\$ 61.00	3.5x
<b>GTBIF</b>	Green Thumb Industries Inc.	\$ 15.35	\$ 4,015.09	\$ 1,207.72	3.3x
<b>TCNNF</b>	Trulieve Cannabis Corp.	\$ 14.37	\$ 3,487.95	\$ 1,217.80	2.9x

TICKER	COMPANY	Price	FD EV (M)	2024E REV	2024 EV/REV
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### LONG BIAS

### SHORT BIAS

<b>GDNSF</b>	Goodness Growth Holdings, Inc.	\$ 0.57	\$ 148.77		
<b>GRAM</b>	GOLD FLORA CORPORATION	\$ 0.26	\$ 60.80		
<b>CURLF</b>	Curaleaf Holdings, Inc.	\$ 6.28	\$ 5,739.42		
<b>CXXIF</b>	C21 Investments Inc	\$ 0.41	\$ 49.60		

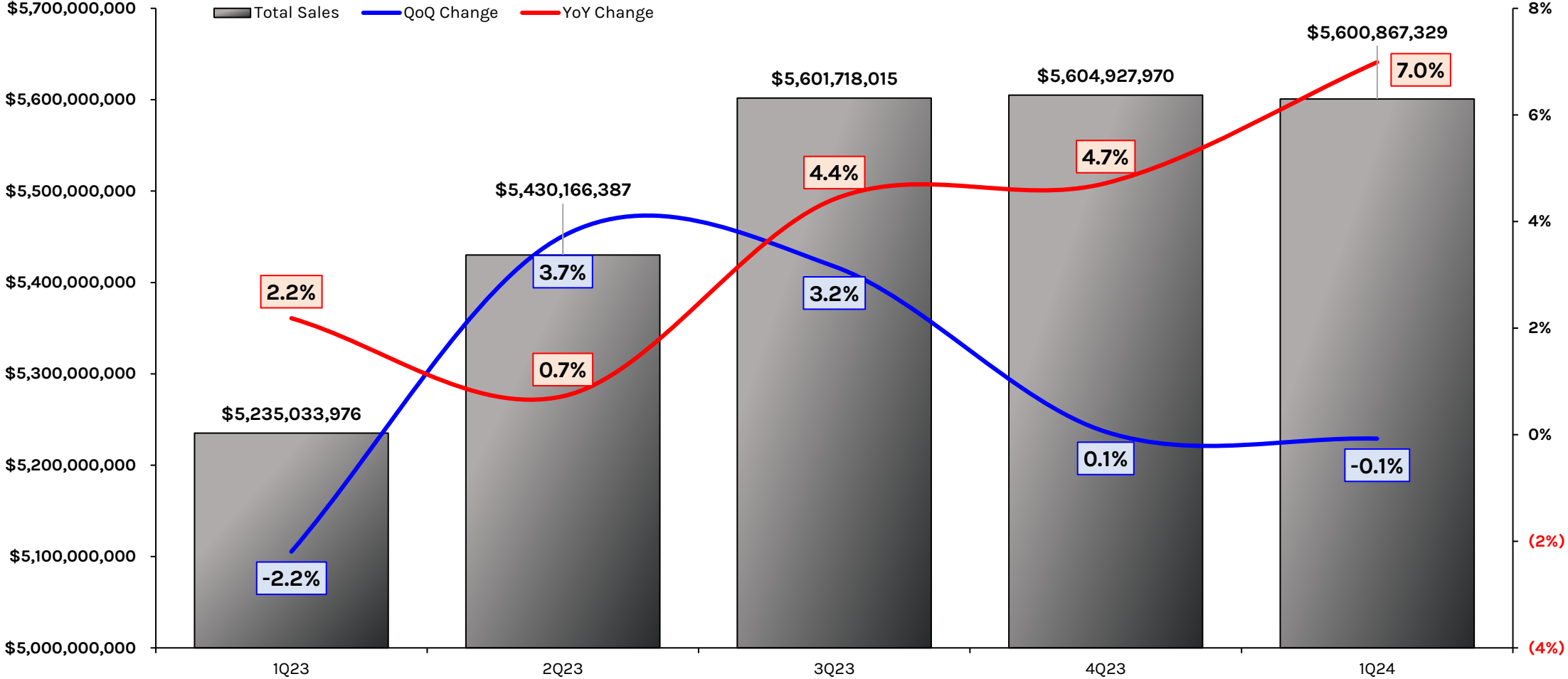


Hedgeye's "Bias" lists represent Hedgeye's outlook on companies currently under Hedgeye's review, or for which the timing is not right for greater coverage. Hedgeye may or may not provide further commentary on any or all companies represented on this list and representation of a company on the bench does not forecast whether Hedgeye will or will not issue any additional material on that company.

# Cannabis Industry Sales

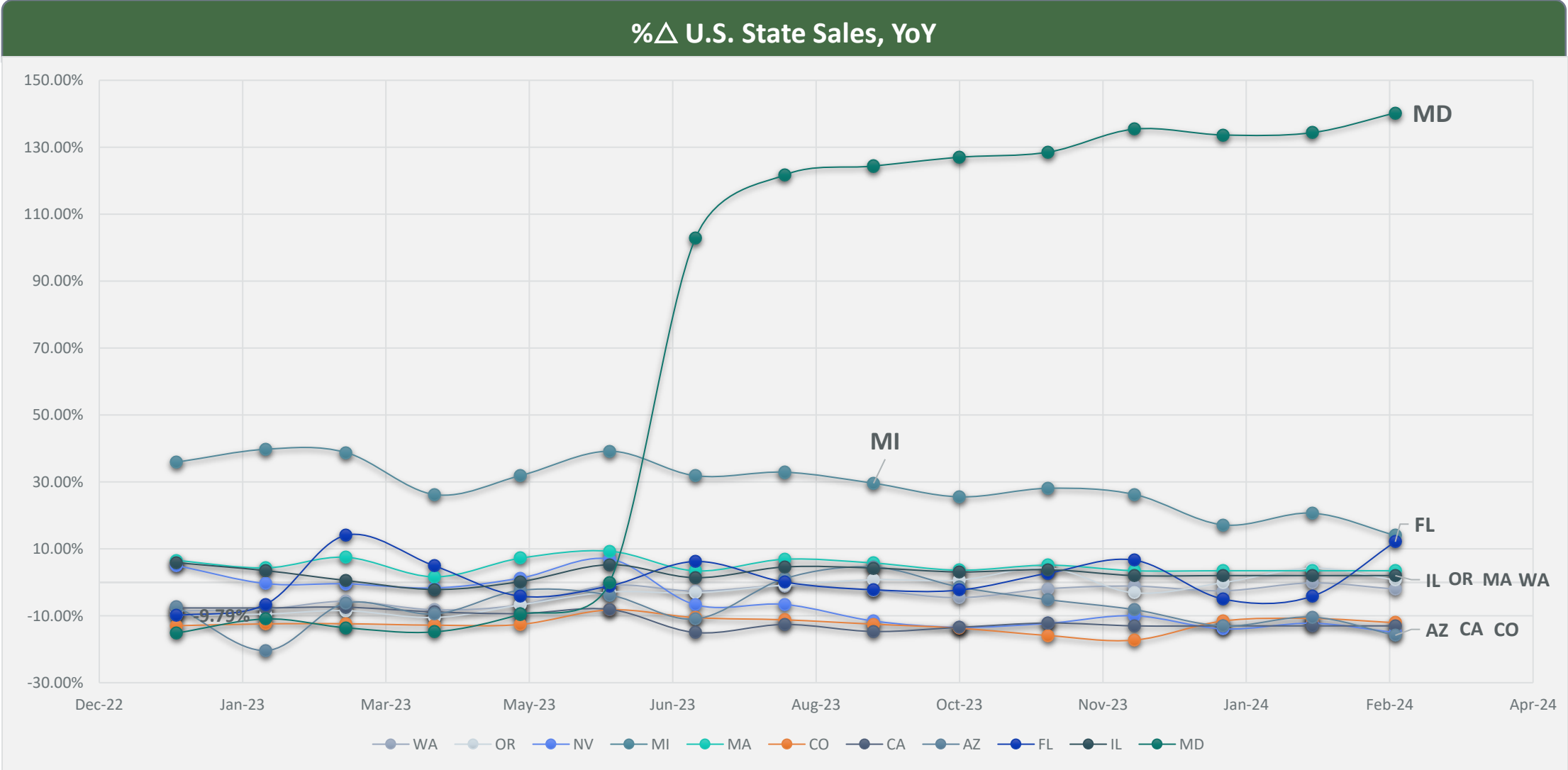
Overall industry experiencing positive YoY growth

### Total U.S. Cannabis Industry Sales, Quarterly



# Cannabis Sales | YoY

Michigan and Maryland Markets continue to soar above the rest



# Cannabis reform is not a priority in DC

We list the delays and lack of action below, indicating that politicians may not prioritize the cannabis industry and its regulatory challenges.

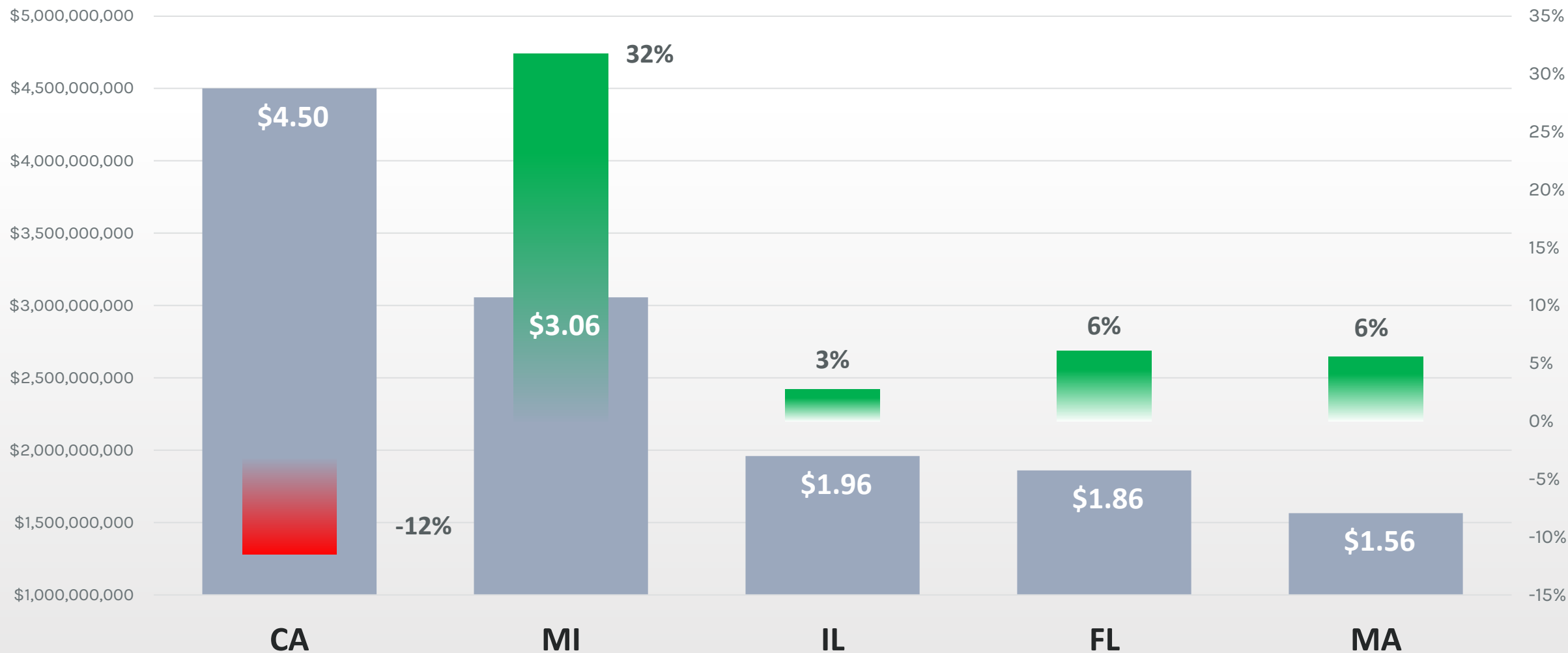
- **SAFE Banking Act:** Introduced over seven years ago, the Secure and Fair Enforcement (SAFE) Banking Act aims to protect financial institutions that provide services to cannabis-related businesses. Despite bipartisan support, it has yet to pass both chambers of Congress and become law.
- **Biden Administration:** President Biden took office over three years ago, and while he has expressed support for decriminalizing marijuana, his administration has not made significant progress on federal cannabis reform.
- **Market Performance:** The AdvisorShares Pure U.S. Cannabis ETF (MSOS), which tracks U.S. cannabis companies, peaked in February 2021 and has since experienced a prolonged decline of 80%+, likely due to the lack of federal regulatory changes and other market factors like slowing sales trends
- **Attorney General's Statement:** In December 2021, General Merrick Garland stated that the Justice Department would address marijuana issues "in the days ahead." However, over a year and a half later, no significant changes have been announced.
- **HHS Recommendation:** In September 2023, the Department of Health and Human Services (HHS) recommended rescheduling marijuana from Schedule I to Schedule III, which would ease some restrictions on research and medical use. However, no action has been taken since then.

# The Five Largest States for Cannabis Sales

### Estimated 2023 Cannabis Revenue by State

■ 2023E

■ YoY % Chg



## 1 Scaling Cannabis Without Compromise

In the world of cannabis cultivation, achieving scale while maintaining quality has been a persistent challenge. Cannabis connoisseurs, often referred to as "power users," constantly seek out the latest and most "fashionable" strains, putting pressure on growers to continually innovate and introduce new genetics. However, rapidly scaling the production of new strains without sacrificing quality is a tricky balancing act. This is where GRUSF sets itself apart with a unique model that allows it to produce high-quality Cannabis at an unmatched cost in the industry. GRUSF's approach is to produce around 12,000 pounds of Cannabis in each market efficiently while maintaining a solid focus on regularly introducing new and innovative genetics.

## 2 Focus on Craft Cannabis

We can point to many examples of companies focusing on doing one thing and doing it better than anyone else. For Grown Rogue, the focus is on growing craft cultivation in select markets and doing it at a cost that is second to none. In Cannabis, most of the industry has tried to grow by cultivating, developing brands, running retail, doing wholesale in multiple different markets, and failing to do anything well. The Grown Rogue model is set up to produce high-quality flower for 30-40% below competitors.

## 3 Strong Four Wall Economics

GRUSF has some of the highest margins in the industry in what is supposed to be the worst part of the business, cultivation, and in the most competitive states, with pricing at \$800-\$1000/Lb of whole flower (excluding trim). The company is entering two new markets (NJ & IL) with minimal cap ex (\$6-\$8 million), in a 50,000 sq ft building bringing Oregon quality cannabis and producing it for an all-in cost of \$700 a pound or less as they enter markets with higher wholesale prices that should produce annual EBITDA streams significantly about mature markets. The 2-year ROI on a new box in a mature market is 60% and 150-200% for a new market. Repeat that ten times, and you have a phenomenal business generating significant FCF.

## 4 Robust Financials

GRUSF exhibits robust financial health, as evidenced by its FCF and strong balance sheet. During the fiscal year 2023, the company generated an impressive \$2.8 million in operating cash flow, representing a substantial 326% year-over-year increase. Looking ahead to fiscal year 2024, projections indicate that revenues will experience a 30% growth, reaching \$30.4 million, while its EBITDA is expected to surge by 67%, reaching \$12.4 million. This upward trajectory is poised to accelerate further in fiscal year 2025, with revenues anticipated to soar by 104% year-over-year, culminating in \$61 million, and EBITDA projected to skyrocket by an impressive 217%, reaching \$40 million.

# The GRUSF Strategic Expansion Model

If Grown Rogue invests \$5-7 million in 10 states (4 states currently) and achieves an annual production of 12,000 pounds of cannabis per state at \$1,000 per pound, with a 65% gross margin and 40% EBITDA margin, the company will generate a total annual EBITDA of \$48,000,000. Assuming the company trades at 9x EBITDA and has 262 million outstanding shares, the per share price of the stock would be \$1.65 or 180% higher from current levels.

With 10 states at an average \$1,500 per pound the stock is worth \$2.84 or 381% higher than current levels

Hypothetical ROI of The Grown Rogue Model														
Initial Investment of \$8.0 Million														
50,000 Sq Ft and 15,000 Sq Ft of table space														
Wholesale Price Per Lbs	\$	1,000	\$	1,250	\$	1,500	\$	1,750	\$	2,000	\$	2,250	\$	3,000
Annual Pounds Sold Of cannabis		12,000		12,000		12,000		12,000		12,000		12,000		12,000
Revenues	\$	12,000,000	\$	15,000,000	\$	18,000,000	\$	21,000,000	\$	24,000,000	\$	27,000,000	\$	36,000,000
Gross Profit	\$	7,800,000	\$	10,200,000	\$	12,780,000	\$	15,540,000	\$	18,480,000	\$	21,600,000	\$	29,880,000
% Margin		65%		68%		71%		74%		77%		80%		83%
(A) EBITDA	\$	4,800,000	\$	6,450,000	\$	8,280,000	\$	10,290,000	\$	12,480,000	\$	14,850,000	\$	20,880,000
% Margin		40%		43%		46%		49%		52%		55%		58%
Months to recoup investment		20				11.6				7.7				4.6
Year 2 ROI		60%				104%				156%				261%

## 1 Emerging From Multi-year Restructuring

GDNSF is nearing the completion of a significant restructuring process following the failed acquisition attempt by Verano in 2022. After facing significant challenges, the company has divested non-core assets and is working to strengthen its financial position. Moving forward, GDNSF will concentrate its efforts on key markets, including the upcoming adult-use cannabis market launch in Minnesota targeted for the first quarter of 2025. Additionally, the company views Maryland as a strategic market for future growth opportunities within its streamlined business model.

## 2 Potential Change In Perception

Goodness Growth, like many highly leveraged cannabis companies, is particularly sensitive to shifts in market sentiment regarding its prospects. Two events could happen soon to alter investors' perceptions of the company's potential. Restructuring its debt and any potential award from the Verano lawsuit. Lastly, if Goodness Growth maintains its current operational momentum and continues to execute well, the company's equity value could see substantial upside well into 2025/2026

## 3 The Grown Rogue Connection

Joshua (Josh) Rosen is the Interim CEO and Director of Goodness Growth Holdings, Inc. (formerly Vireo Health). He assumed the CEO role in December 2022 and has been a member of the company's Board of Directors since 2019. He and his firm, Bengal Capital, own GROUF (18%) and also shares GDNSF. In May 2023, GDNSF and GROUF signed a consulting agreement that included both companies swapping warrants. GDNSF reported strong KPI associated with the relationship.

## 4 This Could be Costly For Verano

At the peak of the market for Cannabis in January 2022 Goodness Growth Holdings and Verano Holdings entered a binding Arrangement under which Verano was to acquire all of Goodness Growth's issued and outstanding shares. By October 13, 2022, after the MSOS had declined 71%, Goodness Growth received Verano's notice of purported termination of the Arrangement Agreement. The litigation is nearing its second anniversary, and from court filings, it looks like Verano overpaid and wanted out. Based on president litigation (Musk and Twitter) and PharmaCann and Medmen, and others, Goodness Growth will likely prevail in some fashion.