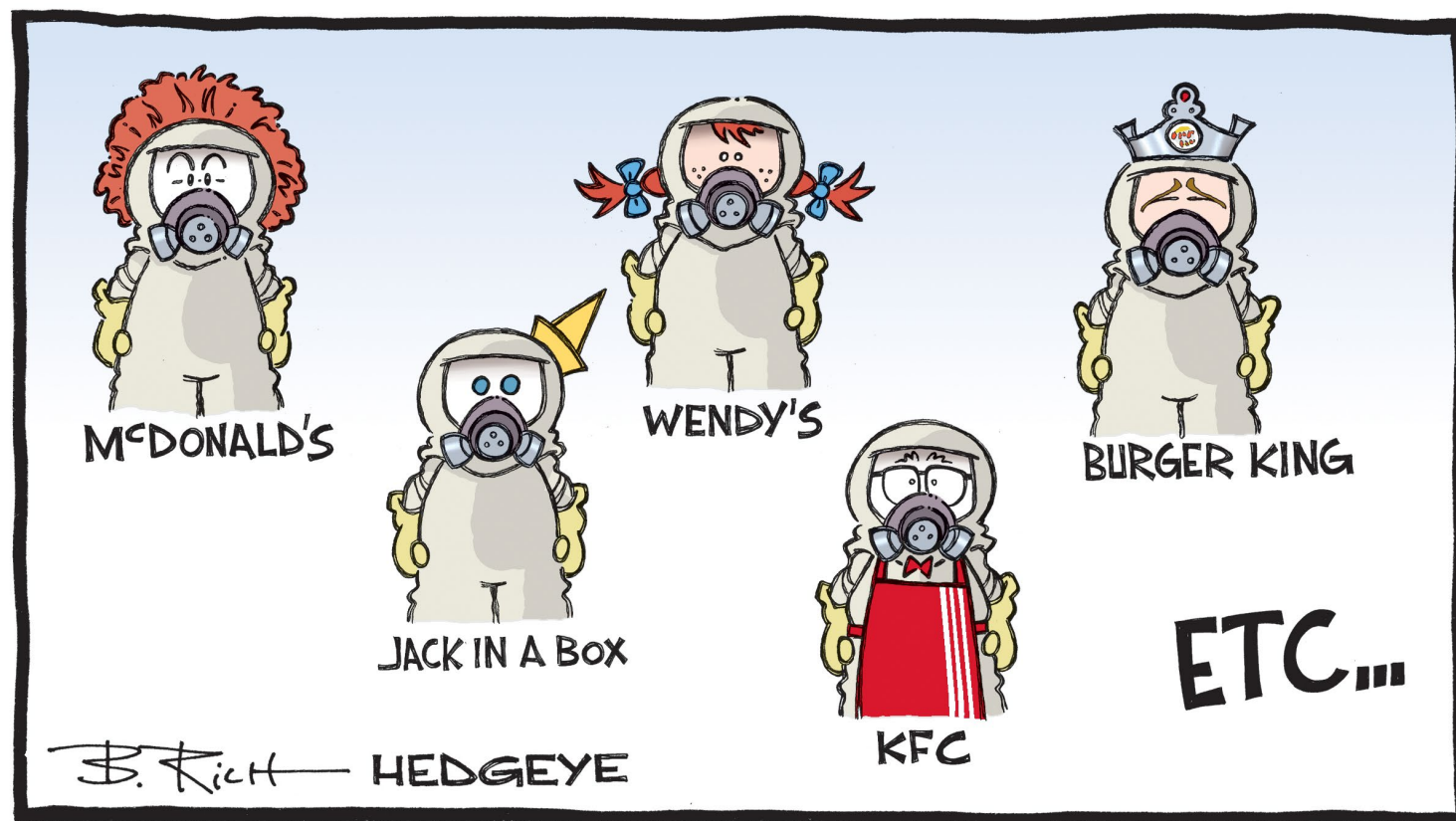




The Restaurant Survival Checklist

Thought Leader Call with John
Hamburger

March 27, 2020



Hedgeye Restaurants

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Please submit questions* to
qa@hedgeye.com

*Answered at the end of the call

Hedgeye Restaurants Position Monitor

HEDGEYE RESTAURANTS POSITION MONITOR									
BEST IDEAS - LONG ⁺					BEST IDEAS - SHORT				
Active Longs		Mkt. Cap (M)	Trend	Tail	Active Shorts		Mkt. Cap (M)	Trend	Tail
WING	Wingstop	\$2,200		✓	SBUX	Starbucks	\$77,200	X	X
					MCD	McDonald's	\$124,800	X	X
					BYND	Beyond Meat	\$4,400	X	X
					SHAK	Shake Shack	\$1,700	X	X
					CAKE	Cheesecake Factory	\$900	X	X
Long Bias					Short Bias				
LK	Luckin Coffee				DIN	Dine Brands Global	DNKN	Dunkin' Brands	
PZZA	Papa John's				TXRH	Texas Roadhouse	BLMN	Bloomin Brands	
DPZ	Domino's				BJRI	BJ's Restaurants	CMG	Chipotle	
					EAT	Brinker Intl	YUM	Yum! Brands	
					QSR	Restaurant Brands	TAST	Carrols	
					WEN	Wendy's			

*Hedgeye’s “bias” represents Hedgeye’s outlook on companies currently under Hedgeye’s review. Hedgeye may or may not provide further commentary on any or all companies represented on the bench and representation of a company on the bench does not forecast whether Hedgeye will or will not issue any additional material on that company.

Thought Leader Call with John Hamburger

Founder and President of Franchise Times Corp.



John Hamburger is the founder and president of Franchise Times Corp., a national publisher of business trade journals in franchising and finance.

He publishes Franchise Times Magazine, a national franchise industry trade journal, the Restaurant Finance Monitor, a monthly financial newsletter that covers the capital markets in the restaurant industry, and Foodservice News, a monthly newspaper for independent foodservice and restaurant operators in the Upper Midwest.

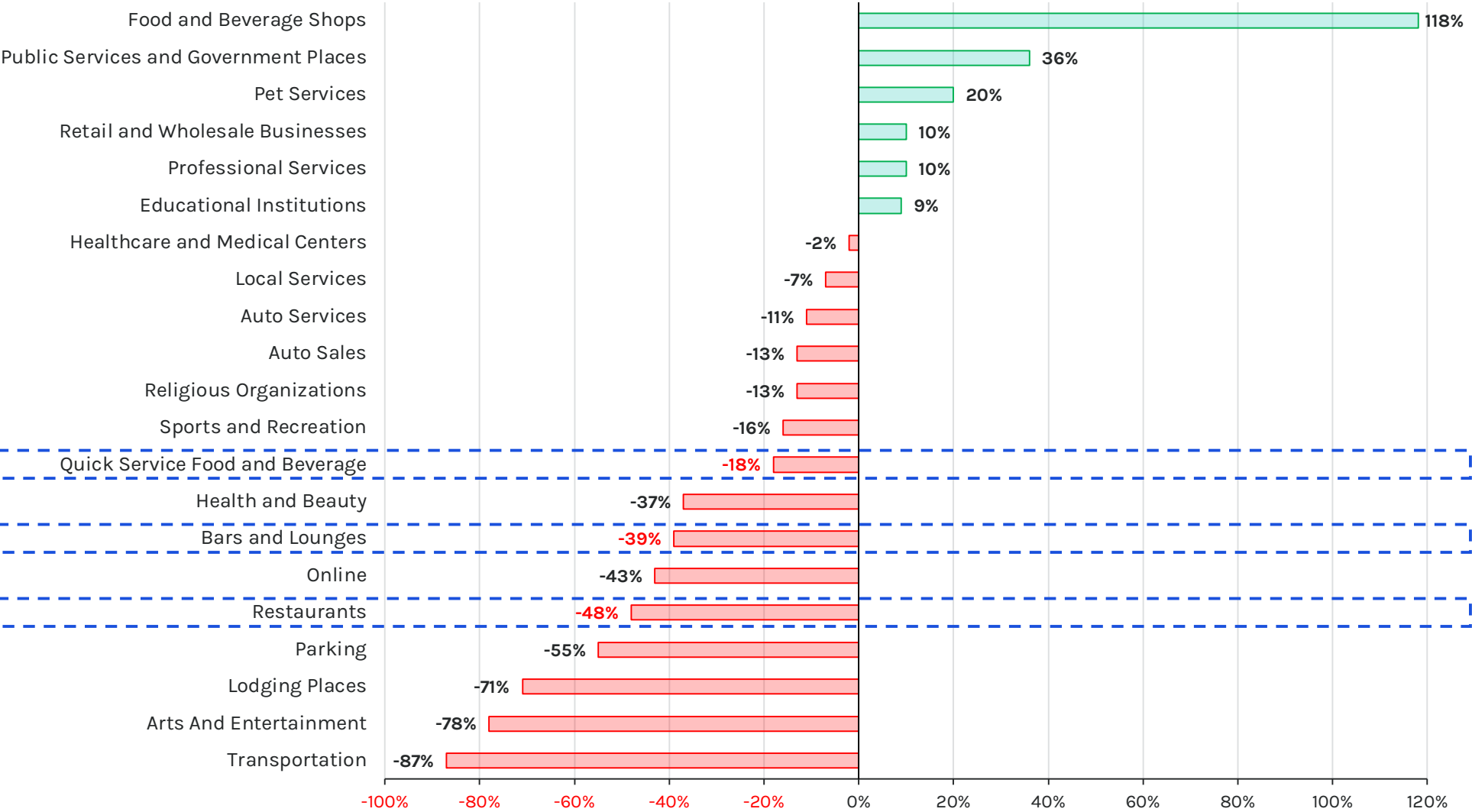
Mr. Hamburger also produces several industry executive conferences, including the Restaurant Finance & Development Conference and the Franchise Finance Conference.

RESTAURANT FINANCE
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The Impact of COVID-19 by Industry

Last Week's Average Revenue, YoY Variance



The graph represents the difference in average revenue last week (11/52) in each category compared to the same week in 2019.

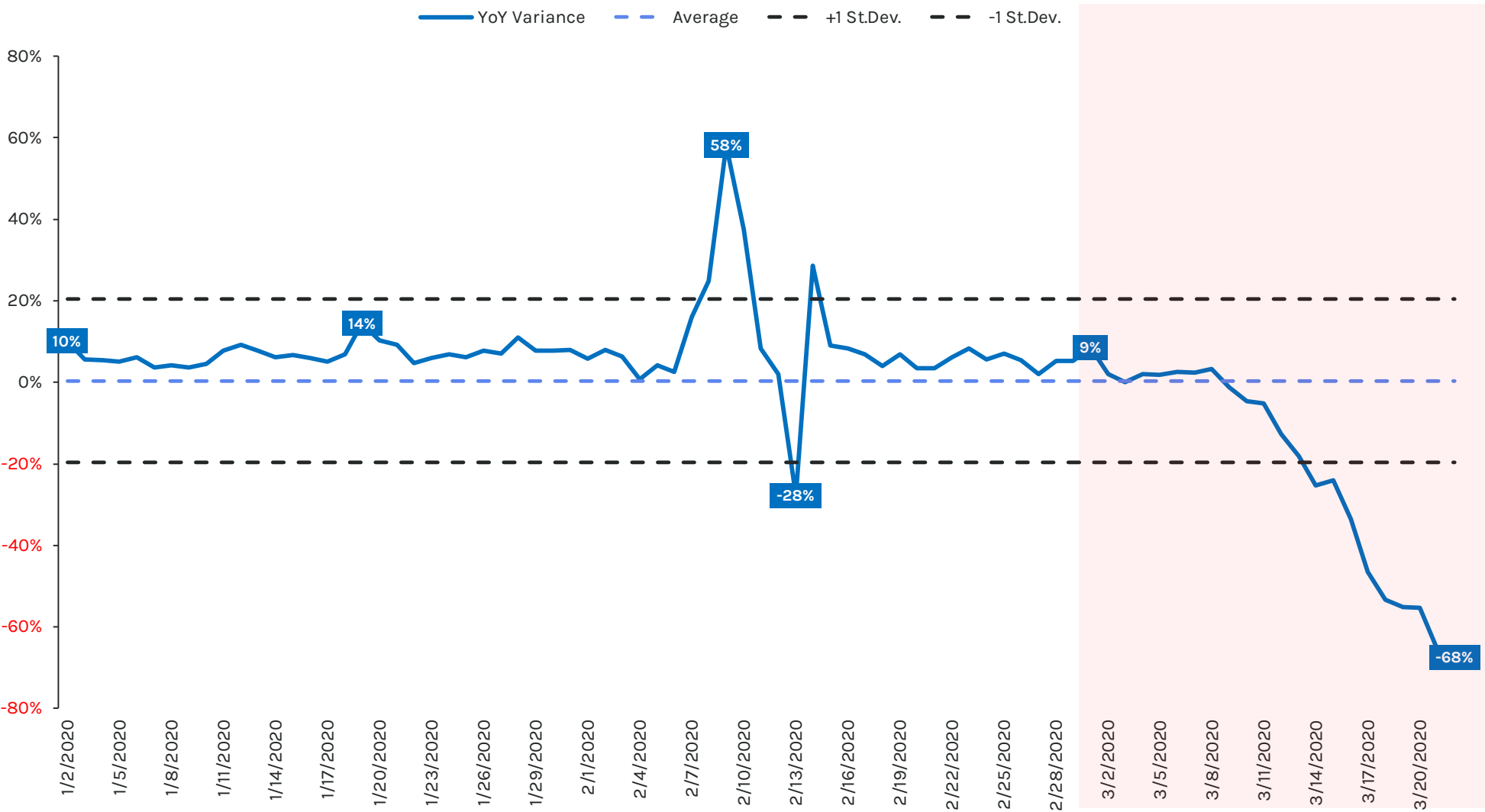
Unsurprisingly, **QSR Food**, **Bars and Lounges**, and **Restaurants** heavily declined with YoY variances of **-18%**, **-39%**, and **-48%** respectively.

Transportation suffered the greatest damage, while Food & Beverage Shops leapt due to consumers reacting to coronavirus fears with grocery stockpiling.

Note: figures are based on credit card transaction data from local businesses nationwide. Data represents current data minus four days. Collected 3/26/20.

The Impact of COVID-19 on the Restaurant Industry

Restaurants Daily Average Revenue, YoY Variance



The YoY variance going into March shows a steep plummet as the coronavirus pandemic prompted states to mandate the closure of dine-in services and enact stay at home orders.

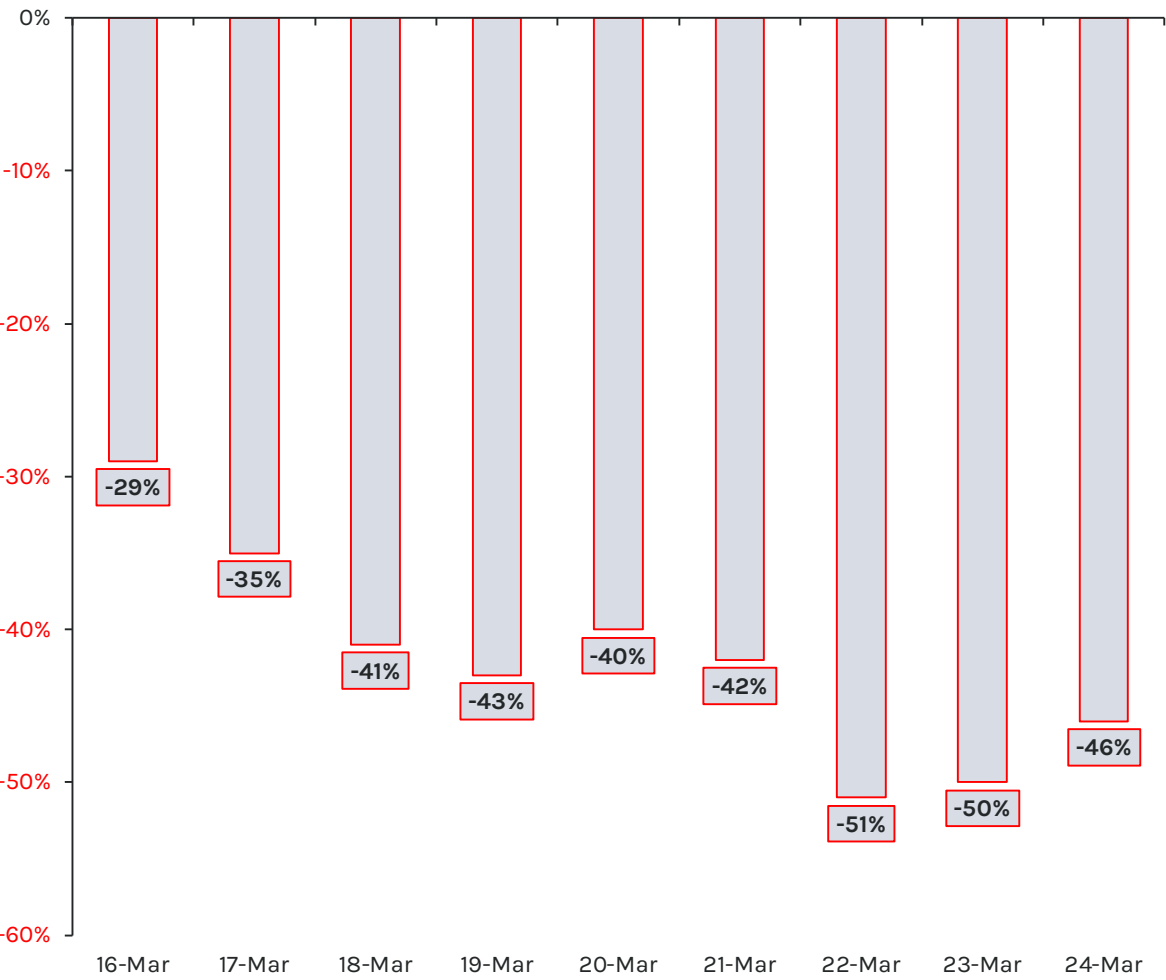
The graph shows the average daily revenue at local restaurants compared to 2019.

Note: figures are based on credit card transaction data from local businesses nationwide. Data represents current data minus four days. Collected 3/26/20.

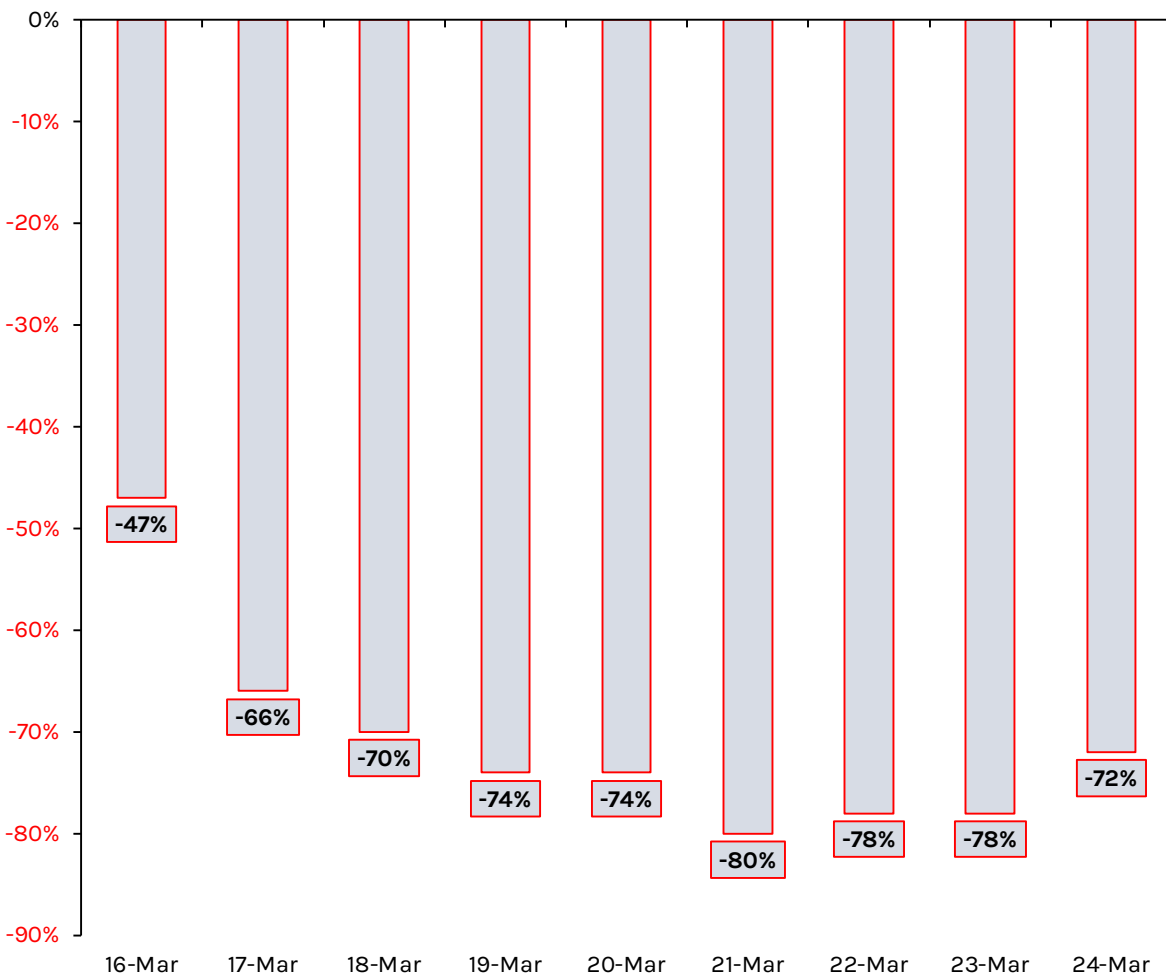
U.S. Same-Store Sales 3/16 – 3/24

A Death Blow to the Industry

LIMITED SERVICE (FC + QSR)



FULL SERVICE



Hamburger's Restaurant Survival Checklist

1

COMMUNICATE, COMMUNICATE, COMMUNICATE: Now is not the time to crawl into a hole. Keep your employees informed and working as much as possible. You will need your employees to return to work eventually. Employers who do not take care of their employees, as best they can, face a painful recovery. Also, make sure to keep the safety of your employees and customers in front of the mind. They must even know that you're concerned about their safety. You will need a designated point person for communicating with customers, vendors and landlords. As for the bank, get a phone meeting ASAP to share your plan.

2

NEW STORE DEVELOPMENT AND REMODELING: Stop all new development and image enhancement projects immediately. It makes no sense to build new restaurants or remodel others right now. Forget about your franchise development agreement. It doesn't mean anything right now. You need to preserve cash for your operation, and that means stopping the money going out the door towards construction.

HEDGEYE: *To varying degrees, the subject of unit growth and remodels are important to earnings and valuation.*

3

ROYALTIES: If you are a franchisee, defer the payment of royalties and ad fees immediately. Let's get one thing clear: You will eventually be required to pay these fees back; however, the asset-light franchisors understand they need you to stay in business to support their stock value and not spook Wall Street any more than they are already frightened.

HEDGEYE: *With 1/3 of the world in lockdown, this issue extends well beyond the U.S. The question becomes, how does this impact the P&L, cash flows (receivables), the balance sheet, and ultimately, liquidity.*

4

RENT: You've paid March rent, but if your store is temporarily closed, call or send your landlord an email and let them know you can't pay the April rent right now due to something entirely out of your control. Tell them you need to get through this crisis first and that you will eventually pay them or restructure the lease. Keep in mind that workouts happen all the time in real estate. As a precaution, remember to disable any auto-pay features on your bank account.

HEDGEYE: *Rent is one issue that can impact MCD the most; it likewise is a big negative for JACK given the health of their franchise system.*

5

OFF-PREMISE: This is where the game will be played in the next few months. Focus all of your efforts on delivery and takeout. Staff only those employees needed to run that aspect of the business.

HEDGEYE: *If you don't have off-premise right now, you are in big trouble.*

Hamburger's Restaurant Survival Checklist

6

UTILITIES: Municipal utility companies are not going to turn off your power and light during a crisis. Use them as the bank as long as they will let you.

HEDGEYE: Good advice!

7

BANK CREDIT AGREEMENTS: Start the discussion immediately with your lender. Ask the bank to suspend any principal payments for the next 90 days, with a right to extend for another 90 if circumstances dictate. Banks are in better shape than they were in the 2008 financial crisis, and right now, you need their help.

HEDGEYE: How many franchisees are doing this?

8

TAXES: There may be penalties for non-payment of sales and use and real estate taxes. Don't violate any laws, but check with your attorney about stretching them.

9

MARKETING AND ADVERTISING: Focus your spend on your customers. Curtail all unnecessary media unless it is used to drive delivery, takeout, and drive-thru orders. Radio advertising is worthless right now as no one will be in their cars driving to and from work. Television might work, especially with so many people stuck at home.

HEDGEYE: It is all about saving cash and spending smart!

10

STORE RATIONALIZATION: If you can keep the restaurants open, that will be your best bet. However, you may be forced to close restaurants located near sports venues, malls, and airports. Make sure you have security around them. As individual people get bored with staying home, vandalism and looting could occur.

HEDGEYE: I think of this subject differently. During the Great Recession, the restaurant industry still grew restaurant openings when we expected store closings. This time will likely be different! Every franchisor wants to keep every store open, but that might not be possible. What concepts are at risk of seeing a high rate of store closings?

MCD | Monthly Franchisee Model

Analyzing the Impact of COVID-19 on Franchisee Economics

PRE-RESTRICTED PERIOD		
	USD (\$)	% of Total Sales
Dine-In AUV	\$ 61,583	25.0%
Drive-Thru	\$ 160,116	65.0%
Delivery	\$ 2,463	1.0%
Take-out	\$ 22,170	9.0%
Total AUV	\$ 246,333	100.0%
COGS	\$ 71,683	29.1%
Labor	\$ 69,712	28.3%
Royalty	\$ 9,853	4.0%
Advertising	\$ 7,883	3.2%
Other Op. Exp.	\$ 30,792	12.5%
Rent	\$ 23,402	9.5%
G&A	\$ 6,158	2.5%
EBITDAR	\$ 50,498	20.5%
Rent	\$ 23,402	9.5%
EBITDA	\$ 27,097	11.0%
FCF	\$ 16,997	6.9%

RESTRICTED PERIOD		
	USD (\$)	% of Total Sales
Dine-In AUV	\$ -	0.0%
Drive-Thru	\$ 134,235	83.2%
Delivery	\$ 3,037	1.9%
Take-out	\$ 24,053	14.9%
Total AUV	\$ 161,325	100.0%
COGS	\$ 46,945	29.1%
Labor	\$ 50,414	31.2%
Royalty	\$ 6,453	4.0%
Advertising	\$ 5,082	3.2%
Other Op. Exp.	\$ 25,005	15.5%
Rent	\$ 23,081	14.3%
G&A	\$ 6,164	3.8%
EBITDAR	\$ 21,261	13.2%
Rent	\$ 23,081	14.3%
EBITDA	\$ (1,820)	-1.1%
FCF	\$ (11,828)	-7.3%

RECOVERY PERIOD		
	USD (\$)	% of Total Sales
Dine-In AUV	\$ 48,592	21.8%
Drive-Thru	\$ 150,027	67.2%
Delivery	\$ 2,673	1.2%
Take-out	\$ 21,866	10%
Total AUV	\$ 223,158	100%
COGS	\$ 64,939	29.1%
Labor	\$ 67,505	30.2%
Royalty	\$ 8,926	4.0%
Advertising	\$ 7,029	3.1%
Other Op. Exp.	\$ 30,126	13.5%
Rent	\$ 23,081	10.3%
G&A	\$ 6,164	2.8%
EBITDAR	\$ 38,467	17.2%
Rent	\$ 23,081	10.3%
EBITDA	\$ 15,386	6.9%
FCF	\$ 4,958	2.2%

Our analysis used the MCD franchisee average AUV and margins to depict the hit to cash flow each month of the COVID-19 restrictions and what the franchisee would earn during the recovery period this year. It will take more than two months of recovery period sales to make up the lost cash flow from one month during the restricted period.

Notes:
Periods based on 30 days

Assumptions of Changes in Sales Mix and Margin versus Baseline:

Restricted Period Assumptions:
Dine-In: -100%, Drive-Thru: -15%,
Delivery: 25%, Take-out: 10%, COGS: 0%,
Labor: 3%, Royalty Fee: 0%, Ad Fee: 0%,
Other Op. Exp.: 3%

Recovery Period Assumptions:
Dine-In: -20%, Drive-Thru: -5%, Delivery:
10%, Take-out: 0%, COGS: 0%, Labor: 2%,
Royalty: 0%, Ad Fee: 0%, Other Op. Exp.:
1%

JACK | Monthly Franchisee Model

Analyzing the Impact of COVID-19 on Franchisee Economics

PRE-RESTRICTED PERIOD		
	USD (\$)	% of Total Sales
Dine-In AUV	\$ 19,038	15.0%
Drive-Thru	\$ 88,842	70.0%
Delivery	\$ -	0.0%
Take-out	\$ 19,038	15.0%
Total AUV	\$ 126,917	100.0%
COGS	\$ 36,933	29.1%
Labor	\$ 35,918	28.3%
Royalty	\$ 5,077	4.0%
Advertising	\$ 4,061	3.2%
Other Op. Exp.	\$ 15,865	12.5%
Rent	\$ 12,057	9.5%
G&A	\$ 3,173	2.5%
EBITDAR	\$ 26,018	20.5%
Rent	\$ 12,057	9.5%
EBITDA	\$ 13,961	11.0%
FCF	\$ 8,757	6.9%

RESTRICTED PERIOD		
	USD (\$)	% of Total Sales
Dine-In AUV	\$ -	0.0%
Drive-Thru	\$ 70,100	77.2%
Delivery	\$ -	0.0%
Take-out	\$ 20,654	22.8%
Total AUV	\$ 90,754	100.0%
COGS	\$ 24,957	27.5%
Labor	\$ 30,584	33.7%
Royalty	\$ 4,538	5.0%
Advertising	\$ 4,538	5.0%
Other Op. Exp.	\$ 11,843	13.0%
Rent	\$ 11,892	13.1%
G&A	\$ 3,288	3.6%
EBITDAR	\$ 11,006	12.1%
Rent	\$ 11,892	13.1%
EBITDA	\$ (886)	-1.0%
FCF	\$ (4,900)	-5.4%

RECOVERY PERIOD		
	USD (\$)	% of Total Sales
Dine-In AUV	\$ 15,021	13.3%
Drive-Thru	\$ 78,862	70.0%
Delivery	\$ -	0.0%
Take-out	\$ 18,777	17%
Total AUV	\$ 112,660	100%
COGS	\$ 30,982	27.5%
Labor	\$ 36,840	32.7%
Royalty	\$ 5,633	5.0%
Advertising	\$ 5,633	5.0%
Other Op. Exp.	\$ 12,449	11.1%
Rent	\$ 11,892	10.6%
G&A	\$ 3,288	2.9%
EBITDAR	\$ 17,836	15.8%
Rent	\$ 11,892	10.6%
EBITDA	\$ 5,944	5.3%
FCF	\$ 1,755	1.6%

Our analysis used the JACK franchisee average AUV and margins to depict the hit to cash flow each month of the COVID-19 restrictions and what the franchisee would earn during the recovery period this year. It will take nearly three months of recovery period sales to make up the lost cash flow from one month during the restricted period.

Notes:
Periods based on 30 days

Assumptions of Changes in Sales Mix and Margin versus Baseline:
Restricted Period Assumptions:
Dine-In: -100%, Drive-Thru: -20%,
Delivery: 25%, Take-out: 10%, COGS: 0%,
Labor: 3%, Royalty Fee: 0%, Ad Fee: 0%,
Other Op. Exp.: 3%

Recovery Period Assumptions:
Dine-In: -20%, Drive-Thru: -10%,
Delivery: 10%, Take-out: 0%, COGS: 0%,
Labor: 2%, Royalty: 0%, Ad Fee: 0%,
Other Op. Exp.: 1%

For more information, contact us at:

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