

BDO'S RESTAURANT PRACTICE BENCHMARKING UPDATE

THE COUNTER:

Restaurant Industry Scorecard



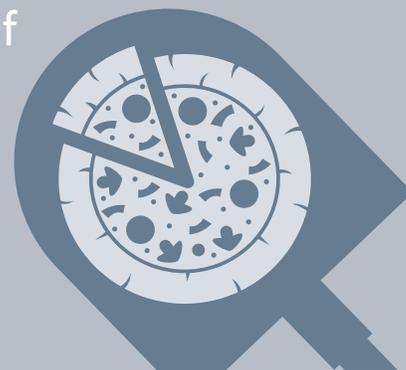
Same-store sales

As increased competition, rising labor costs and declining foot traffic put pressure on industry profit margins, restaurant same-store sales through Q3 decreased—on average, public companies reported same-store sales decreases of 0.1 percent. This deceleration can be primarily attributed to the widening pricing gap between grocery stores and restaurants, and subsequent shifts in consumers' attitudes toward dining out, particularly in the run-up to the Presidential election, when overall consumer sentiment proved ambivalent. Pending labor regulation is also fueling uncertainty around workforce compensation among restaurant operators.

Softer same-store sales do not, however, mean that the trend is guaranteed to continue in Q4. The combination of low unemployment levels and rising consumer spending and per capita income has investors feeling cautiously hopeful. For the second consecutive quarter, the pizza segment experienced the most significant growth through Q3, with a same-store sales increase of 4.7 percent. And for the eighth quarter in a row, Domino's led the charge, reporting an 8.9 percent increase. The chain's new "Piece of the Pie" loyalty program may be the most significant contributor to their growth as customers vie for the free pizza they're gifted once they reach a designated number of points.

At 1.0 percent growth, the quick-serve segment was the only other sector to report positive same-store sales through Q3. At the head of the pack in the quick-serve segment are Wendy's and McDonald's, each reporting same-store sales increases of 2.7 percent. Wendy's executives credit a balanced marketing approach—such as highlighting its recently upgraded grilled chicken sandwich and burger—and summertime 50 cent Frosty promotion to its continued success. The company has also been aggressively franchising in an effort to achieve what it calls "system optimization." Meanwhile, McDonald's customers have been drawn

The pizza segment experienced the most significant growth through Q3, with a same-store sales increase of 4.7%.



to the value provided with the new McPick 2 platform, which offers two items from a select menu for \$5. The company is also taking steps to improve its reputation by experimenting with fresh beef patties and table service.

On the other hand, the fast casual segment posted a 1.3 percent decrease in same-store sales through Q3, a divergence from the 4.9 percent growth reported for fiscal year 2015. Chipotle's 24.9 percent decrease is working against the average as the brand strives to restore its reputation and loyal customer base by dedicating dollars to marketing and offering more promotions. Also working against the segment average is Pie Five's 11.7 percent decrease in same-store sales through Q3. Despite falling numbers, Pie Five opened six new locations during Q3 with the hopes of growing its brand recognition. For the second consecutive quarter, Wingstop and Shake Shack were fast casual segment winners, reporting increases of 6.9 percent and 5.3 percent, respectively, through Q3. While Wingstop is expanding its international presence in markets that have high per capita chicken consumption and experimenting with the use of chatbots to engage with customers, Shake Shack continues to open new locations and dip its feet in the booming breakfast game.

Cost of sales decreased 0.7% across all segments.

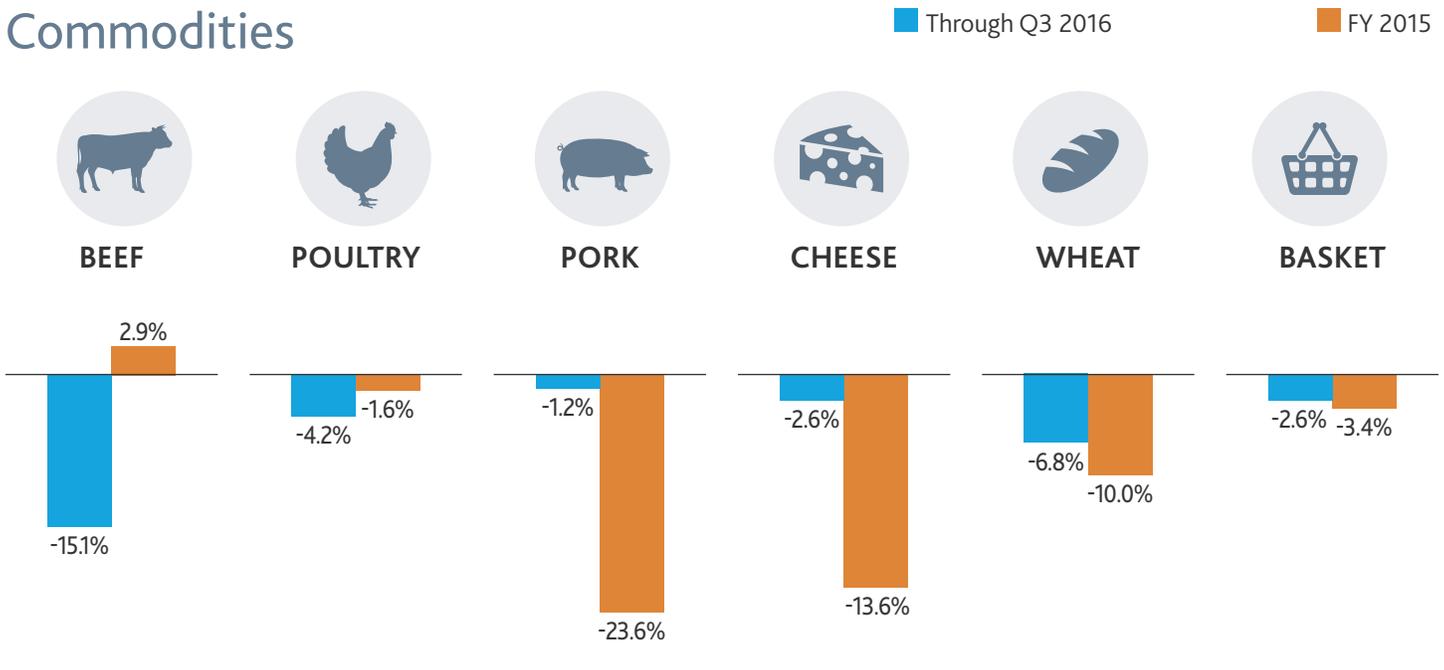


Commodities and cost of sales

Cost of sales decreased across all segments through Q3 by an average of 0.7 percent. The declining commodity cost environment is the primary catalyst of cost of sales decreases, while lower oil and transportation costs combined with a strengthening dollar limit exports and make domestic food more available. Most notably, higher beef supplies pushed costs down by 15.1 percent through Q3.

Poultry prices also saw a steeper drop through Q3 compared to all of fiscal year 2015, which is good news for restaurants as fried chicken continues to trend across the industry. In fact, according to

Commodities



estimates by the Department of Agriculture, Americans are on track to consume a record 92 pounds of chicken per person this year. Grasping onto this trend are traditional fast food burger chains—including Shake Shack, Wendy’s and The Habit Burger Grill—that have added fried and grilled chicken options to their menus.

However, lower commodity prices can be a double-edged sword for restaurants. The savings generated for restaurants are also available to consumers through less expensive groceries, creating additional competition for the industry.

Labor costs

Labor costs increased across all segments for the third consecutive quarter—most significantly in the fast casual segment. Pending overtime rules from the Department of Labor, minimum wage hikes, rising health insurance costs and stricter labor laws have restaurants returning to the drawing board to identify strategies for reducing labor costs.

Looking ahead

In Q4, restaurants will look forward to sharing in the holiday cheer as general economic conditions remain healthy and consumer confidence trends upward post-election—suggesting the restaurant sector may benefit from more open pocketbooks.

As we head into the New Year with an increasingly saturated restaurant market and uncertainty around anticipated labor regulations, it’s important that businesses use lessons learned from 2016 to adapt their strategies for 2017. By keeping their finger on the pulse of consumer preferences and behaviors, as well as the competitive landscape, restaurants can ensure they’re cooking up and delivering offerings that meet consumers’—and investors’—evolving needs.

Labor costs increased 0.8% across all segments.

ABOUT THIS UPDATE:

Each quarter, we compile the operating results of publicly traded restaurant companies to provide you with timely benchmarking information.

Cost of sales includes food and beverage for all segments. Quick serve and fast casual segments also include packaging costs. Labor costs include restaurant level wages, payroll, taxes and benefits.

**Prior results have been restated to conform to current-year data availability.*

	Through Q3 2016	Through Q3 2015	Inc. (Dec)	FY 2015	FY 2014	Inc. (Dec.)
 Quick Serve						
Same Store Sales	1.0%			3.8%		
Cost of Sales	29.9%	31.4%	-1.5%	31.2%	32.1%	-0.9%
Labor	27.7%	27.2%	0.5%	27.2%	27.4%	-0.2%
Prime Costs	57.8%	58.7%	-0.9%	58.5%	59.7%	-1.2%
 Fast Casual						
Same Store Sales	-1.3%			4.9%		
Cost of Sales	30.5%	31.3%	-0.8%	31.2%	31.6%	-0.4%
Labor	28.4%	26.9%	1.5%	27.1%	26.9%	0.2%
Prime Costs	58.8%	58.1%	0.7%	58.3%	58.5%	-0.2%
 Casual						
Same Store Sales	-0.9%			1.6%		
Cost of sales	28.3%	28.7%	-0.4%	28.6%	28.8%	-0.2%
Labor	32.5%	31.9%	0.6%	32.1%	32.3%	-0.2%
Prime costs	60.8%	60.6%	0.2%	60.8%	61.1%	-0.3%
 Upscale Casual						
Same Store Sales	-0.2%			1.6%		
Cost of sales	27.7%	28.1%	-0.4%	28.0%	28.8%	-0.8%
Labor	30.3%	29.6%	0.7%	29.3%	28.9%	0.4%
Prime costs	58.1%	57.7%	0.4%	57.4%	57.8%	-0.4%
 Pizza						
Same Store Sales	4.7%			6.4%		
Cost of Sales	25.7%	25.9%	-0.2%	25.8%	27.7%	-1.9%
Labor	30.8%	30.1%	0.7%	30.2%	29.5%	0.7%
Prime Costs	57.9%	57.1%	0.8%	57.1%	58.5%	-1.4%
 Grand Average						
Same Store Sales	-0.1%			2.9%		
Cost of Sales	28.8%	29.5%	-0.7%	29.4%	30.0%	-0.6%
Labor	30.1%	29.3%	0.8%	29.4%	29.4%	0.0%
Prime Costs	59.2%	59.0%	0.2%	59.0%	59.5%	-0.5%

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