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Economic Outlook For the Food Service Sector

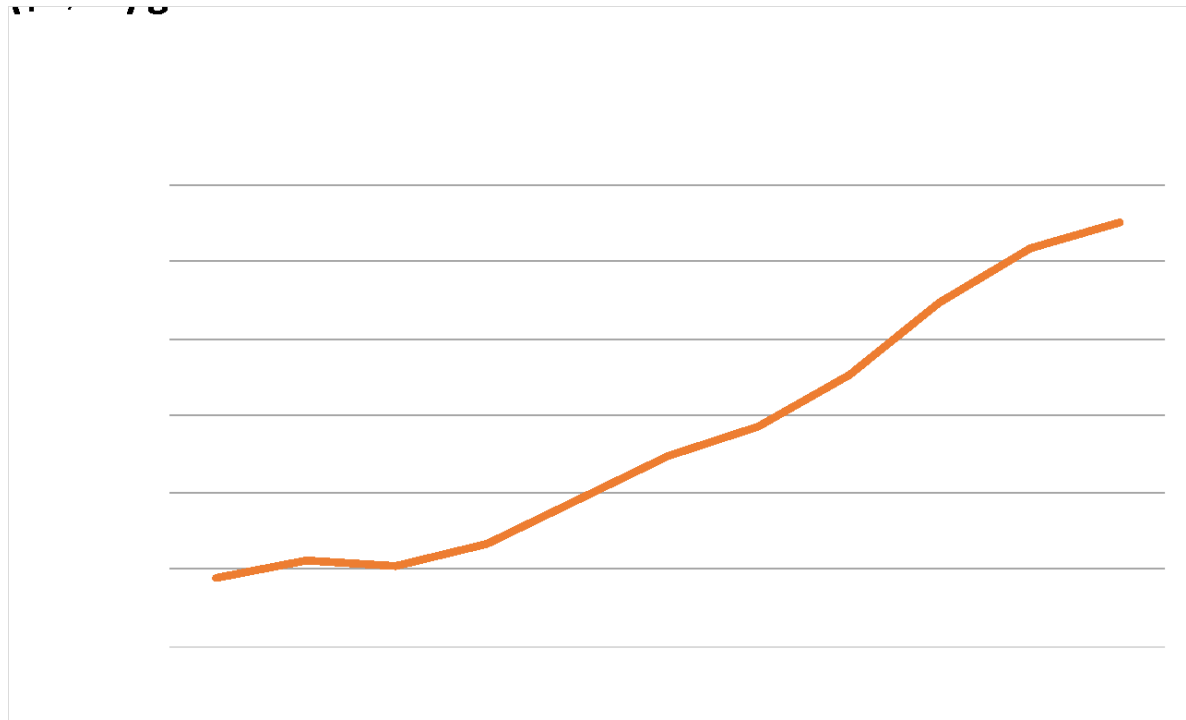
Bill Lapp

Advanced Economic Solutions

February 2018

Rapid Growth in Food Service Sales

Food Service – Drinking Places: Annual Sales, 2007-2017F

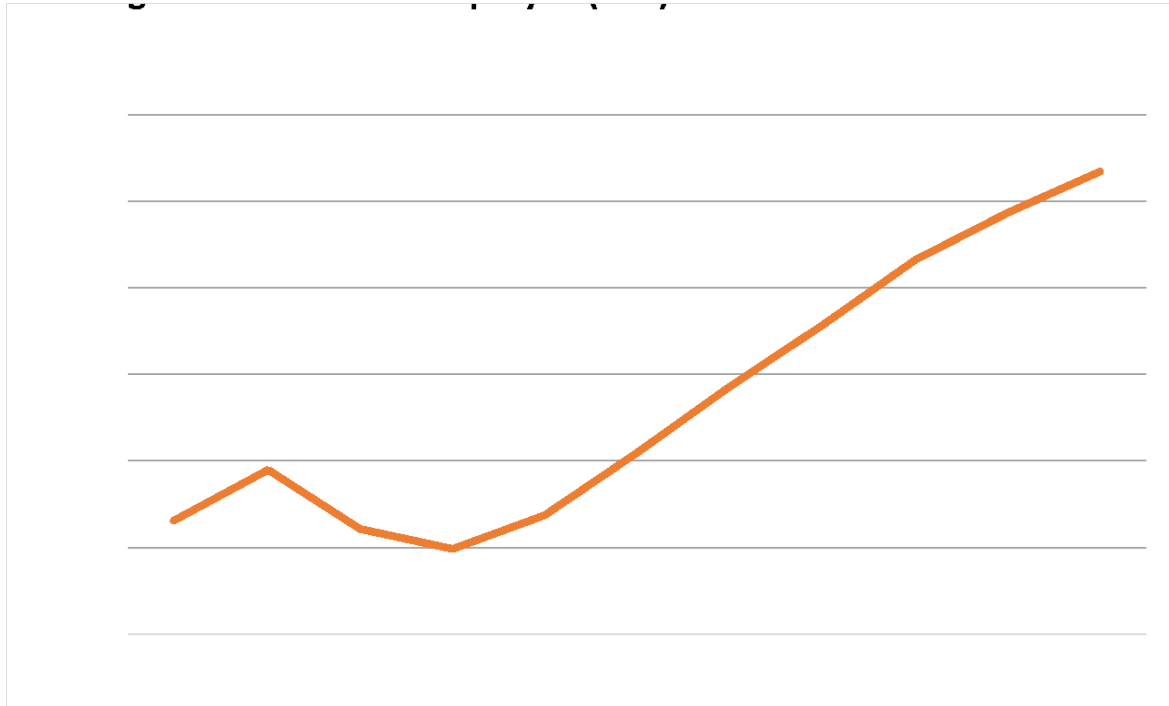


- Annual retail sales at food service and drinking place establishments are estimated at \$676 B in 2017, a gain of 2.7% from a year ago
- Over the past 10 years, sales have risen by 52%, an annual rate of 4.3%

Source; Census Bureau, Advanced Economic Solutions

Strong Job Growth in the Restaurant Sector

Food Service – Drinking Places: Number Employed (000)

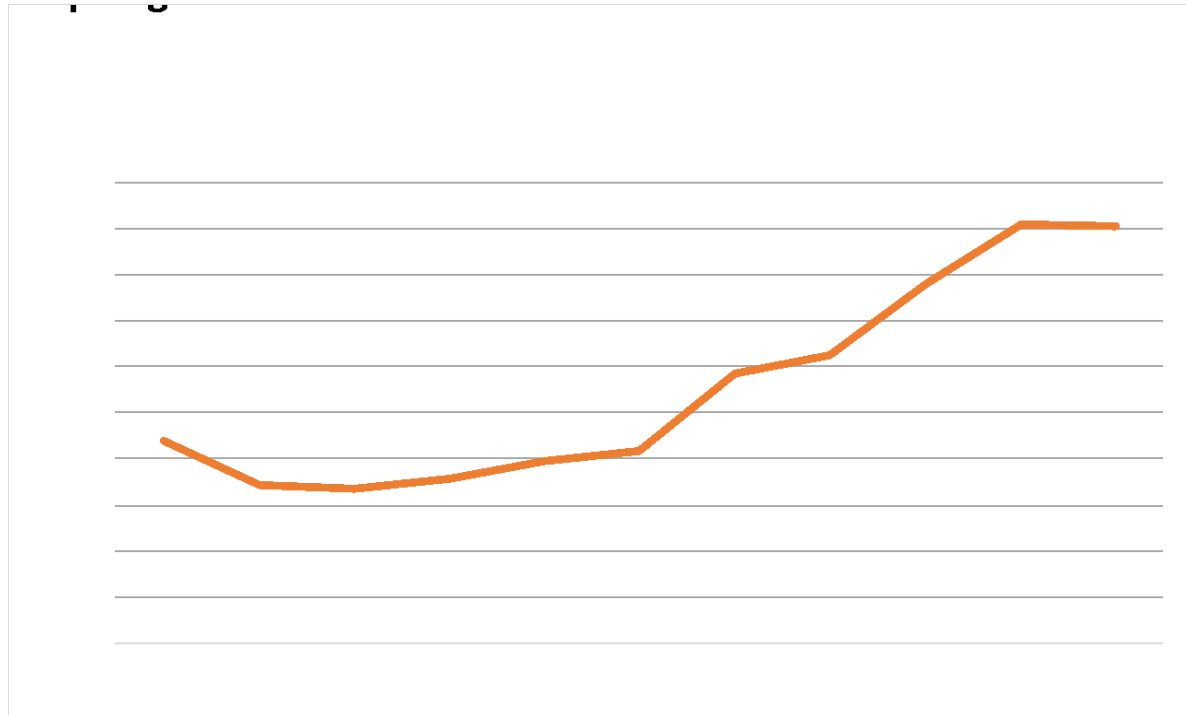


- Employment at food service and drinking establishments has risen by 23% since 2010, from 9.5 mm to just under 11.7 mm in 2017
- The gain in the number employed has risen at a rate of 3.0% annually since 2010

Source; Census Bureau, Advanced Economic Solutions

Rising Share of Income Devoted to Food Service

Food Service - Drinking Places Sales as a % of Disp. Income

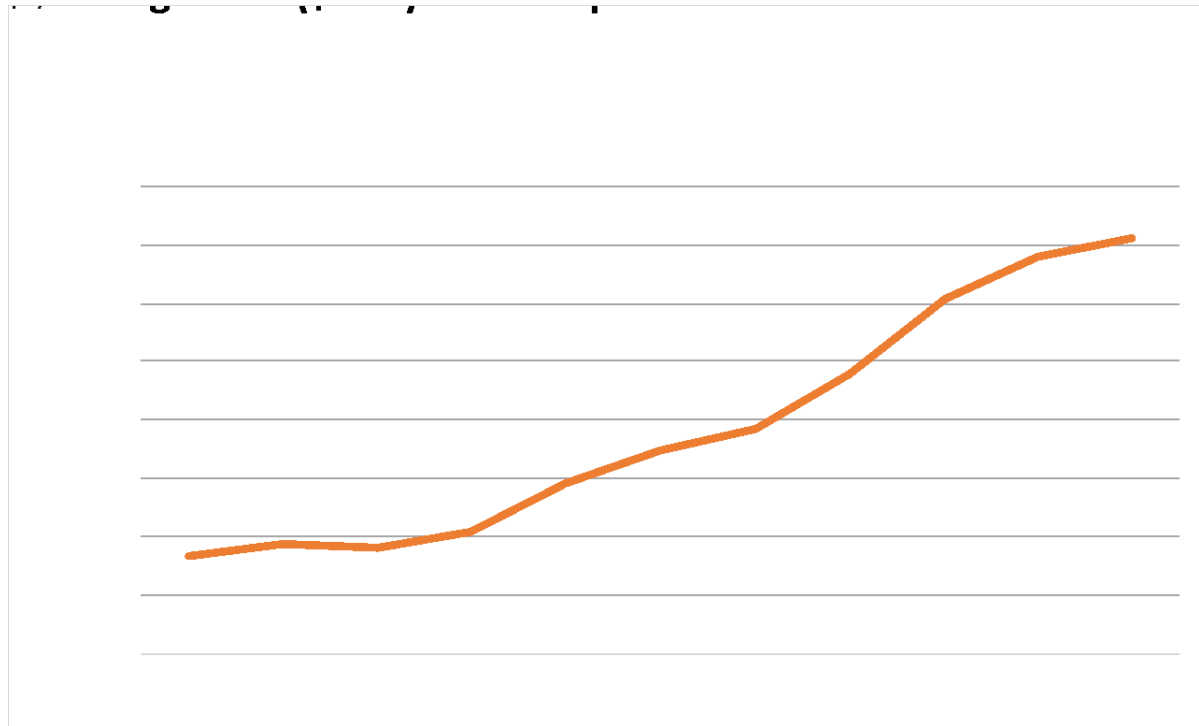


- During 2017, consumers spent 4.7% of their disposable income on food, up from 4.1-4.2% during 2007-12

Source; Census Bureau, Advanced Economic Solutions

More \$ Spent at Each Establishment

Food Service – Drinking Places: Annual Sales per Establishment

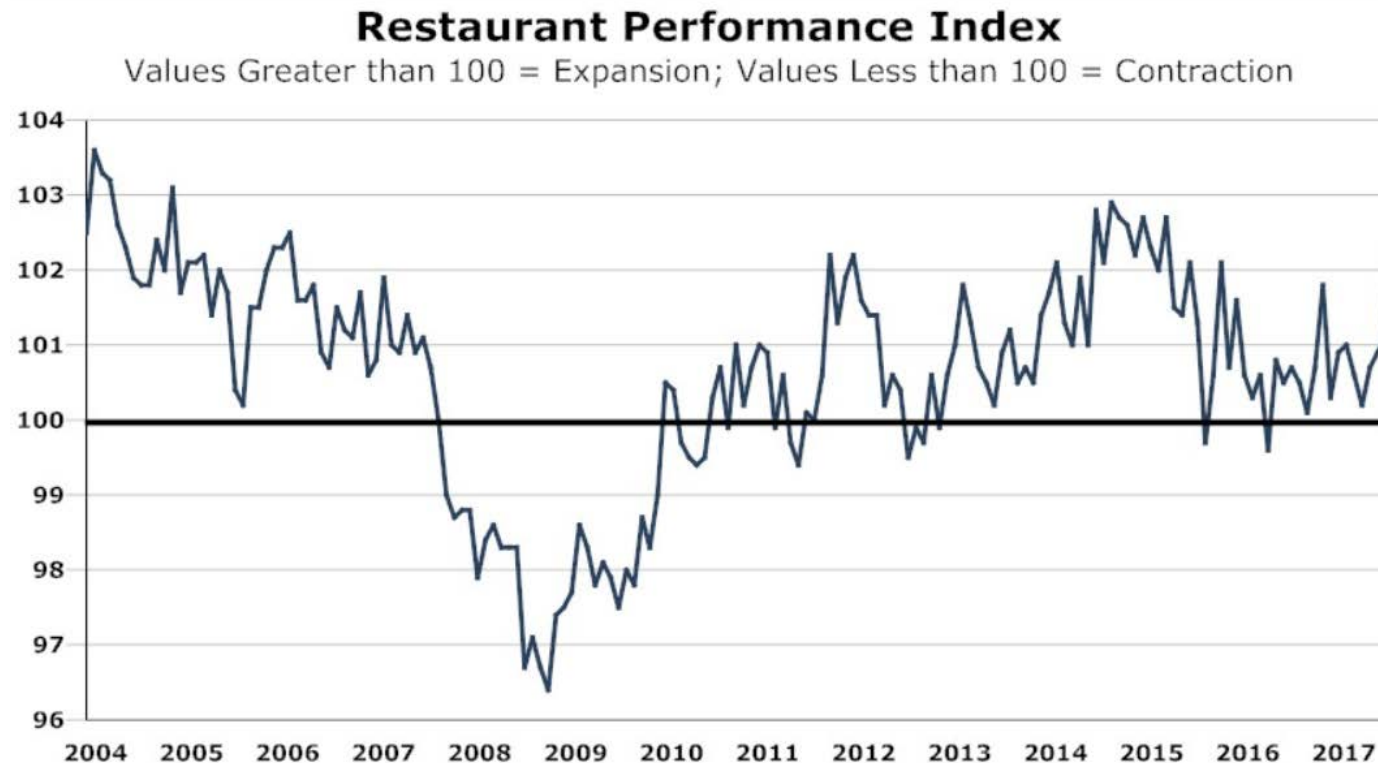


- Annual sales at food service and drinking place per establishment reached \$1 mm in 2015 for the first time, and totaled \$1.06 mm during 2017
- Over the past 10 years, sales per establishment have risen by 35%, an annual rate of 3.0%

Source; Census Bureau, Advanced Economic Solutions

NRA Index Shows Favorable Environment

Restaurant Performance Index: Continued Expansion



Source: National Restaurant Association



What Are The Restaurant Industry Headwinds?

Sales Gains Driven by Higher Menu Prices

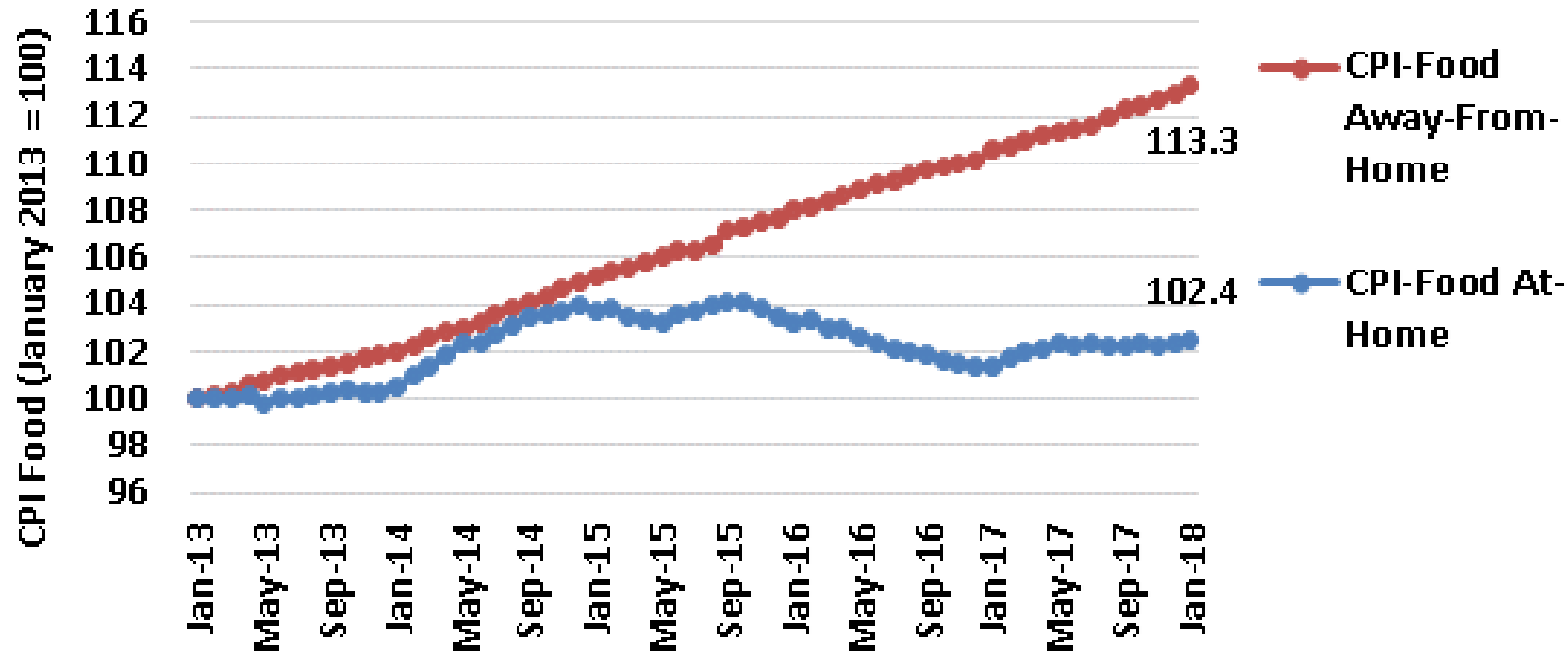
- Same-store sales (SSS) continue to grow
 - Nov-17 – Jan-18 SSS were up 0.2% (vs. YA)
- But traffic is flat to lower
 - Nov-17 – Jan-18 traffic was off 2.2% (vs. YA)
- SST being achieved by higher average check
 - Nov-17 – Jan-18 rose by more than 2% (vs. YA)

Source; TDN2k, Advanced Economic Solutions

What Are The Restaurant Industry Headwinds?

Incompetitive Pricing vs. At-Home Dining?

CPI Food Prices: Away vs. At Home

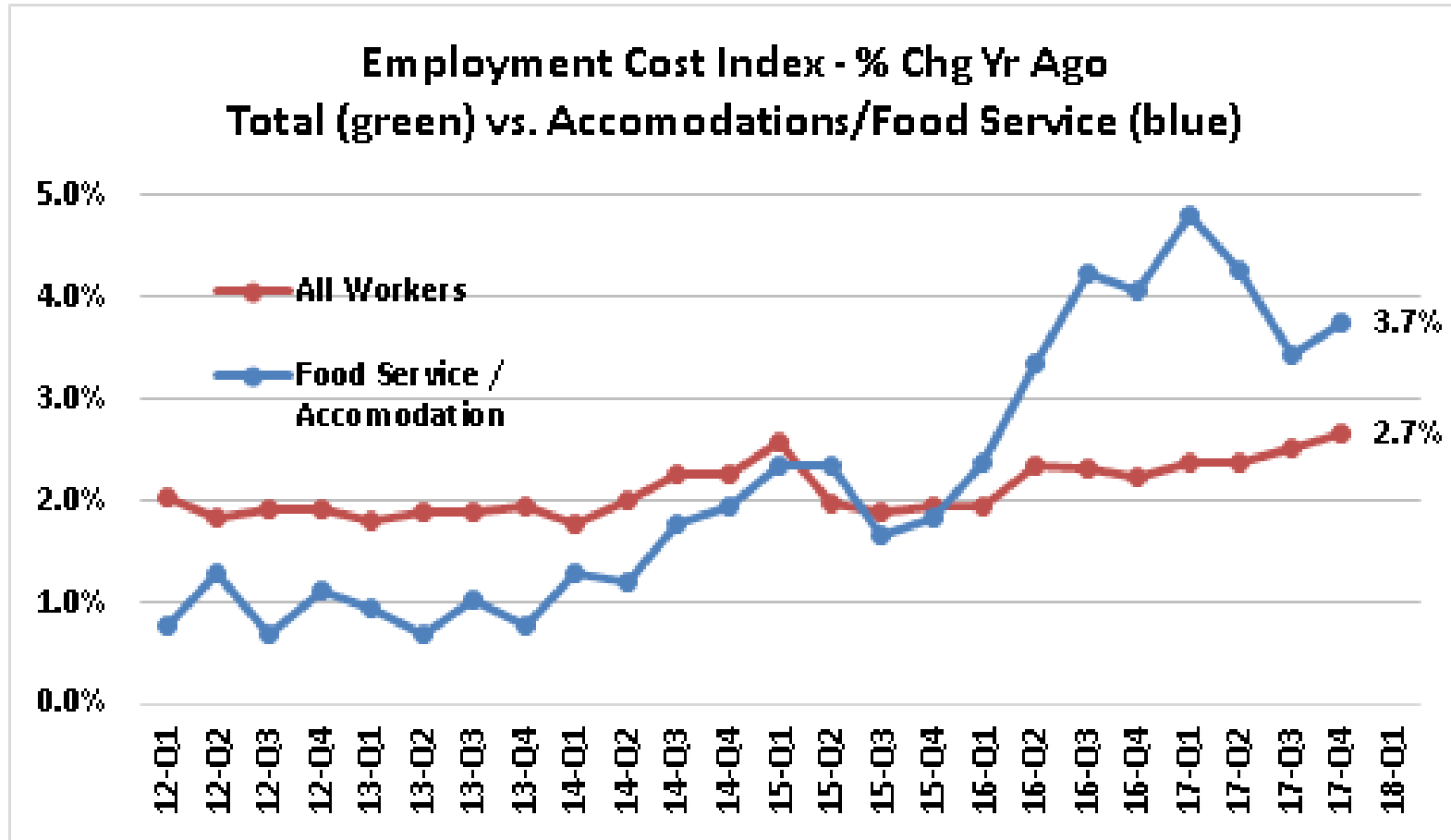


Jan 2018 vs. Jan 2013:

- Consumer price index for food away from home has gained 13.3%
- Consumer price index for food at home has gained just 2.4%
- “Gap” of nearly 9% in food price indices

What Are The Restaurant Industry Headwinds?

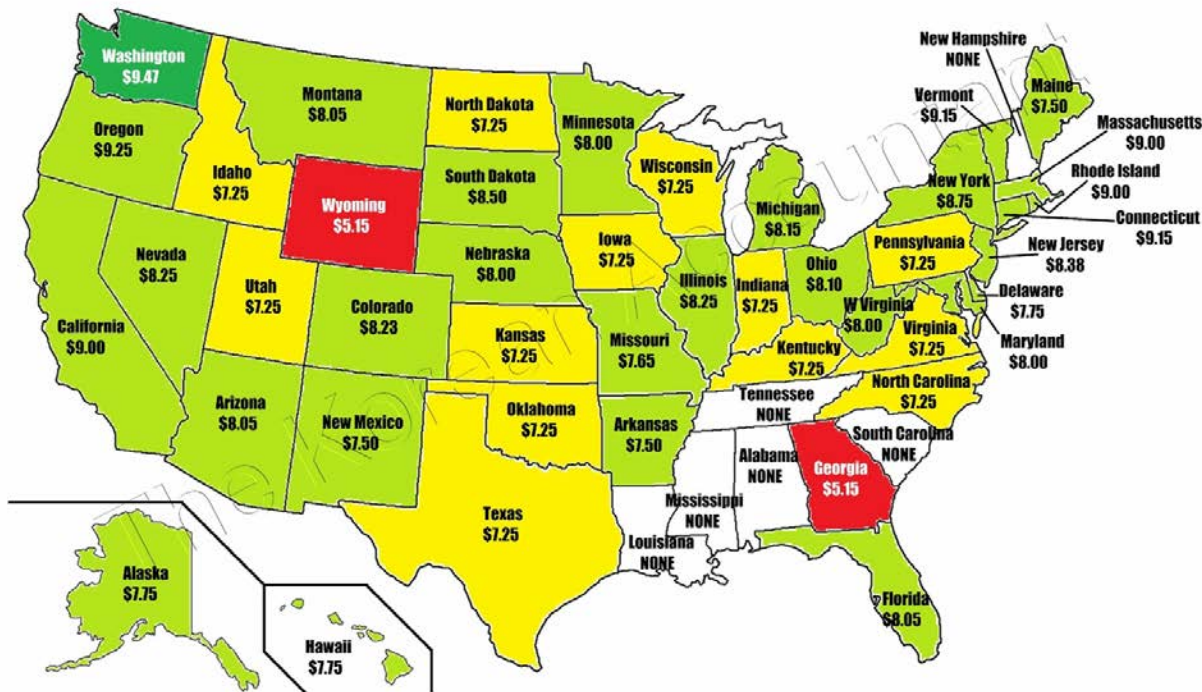
Increased Cost of Labor



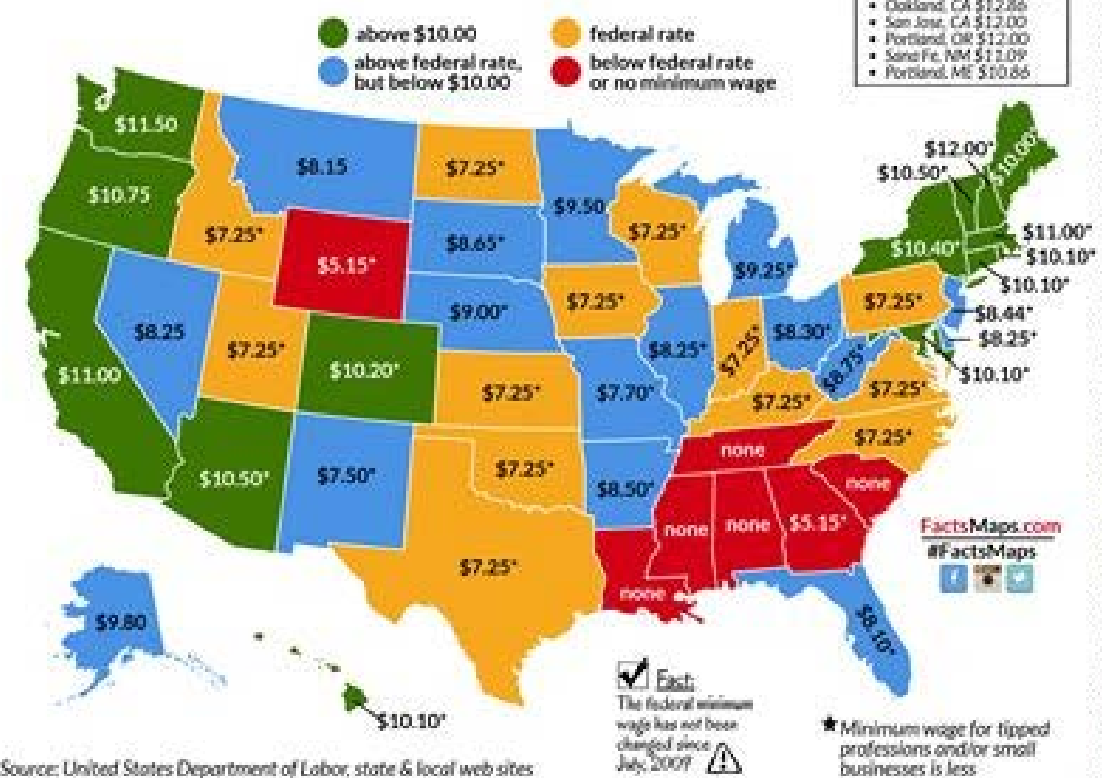
What Are The Restaurant Industry Headwinds?

Increases in the Minimum Wage

Minimum Wage by State - 2015

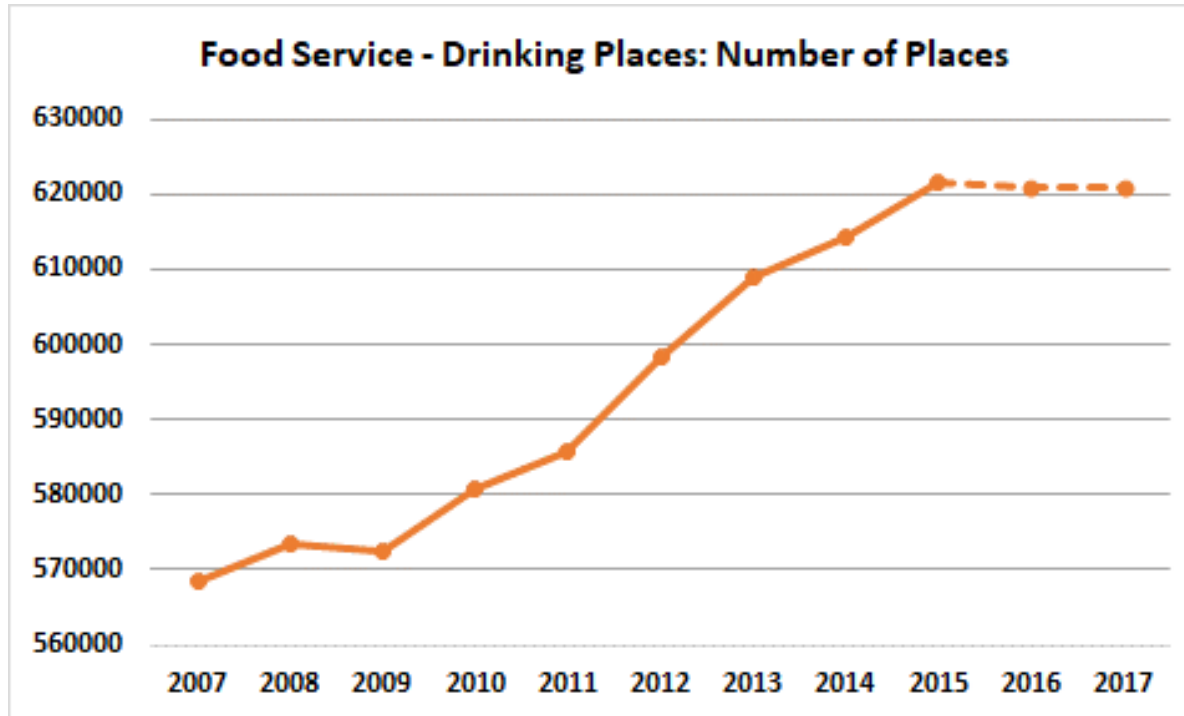


Minimum Wage by U.S. States as of July 1, 2018



Too Many Dining Options?

Food Service – Drinking Places: Number of Establishments

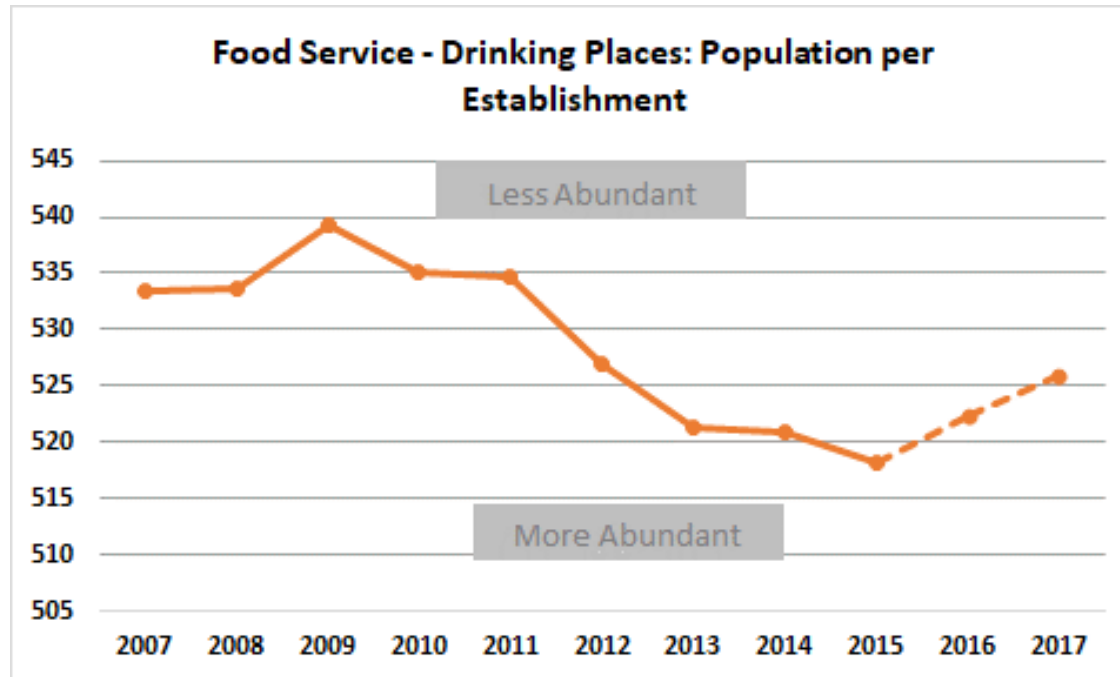


- There has been a sizable increase in the number of food service and drinking establishments over the past decade
- Census data through 2015 indicate steady growth
- AES analysis suggests that the number of establishments may be flat in 2016 and 2017
- Note: this does not include establishments such as grocery stores, convenience stores, etc.

Source; Census Bureau, Advanced Economic Solutions

Is the Restaurant Industry “Over-built”?

Food Service – Drinking Places: # People per Establishment



- Food service and drinking establishments have generally become more abundant since 2007
- During 2015, there was an establishment for every 510 people in the U.S. – compared to a 540:1 ratio in 2009
- This implies that on a per capita basis, consumers have around 5% more restaurants to choose from today than they did in 2007

Source; Census Bureau, Advanced Economic Solutions

What Are The Restaurant Industry Headwinds?

Figuring Out What The Consumer Wants

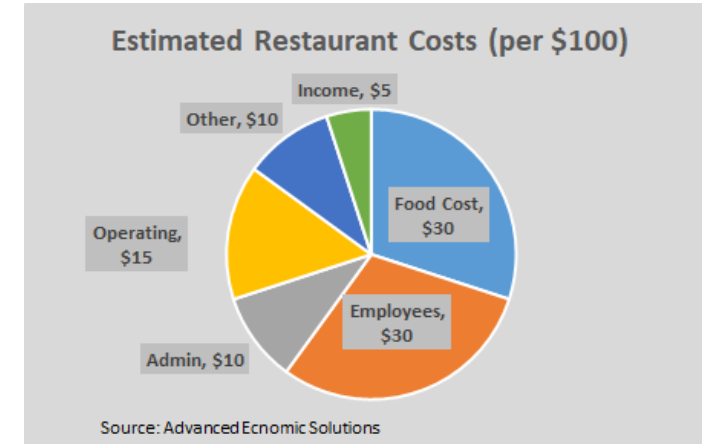
Food Attributes

- Locally grown?
- Sustainable grown/sourced?
- “Natural”?
- Organic”
- Non-GMO?

Experience Attributes

- Time saving?
- “Comfort” food
- Unique experience
- Prepared & delivered?
- Endorsed by “foodies”?

Commodity Prices Matter!



- Food costs equal 25-35% of the price of a restaurant meal
 - Depending upon the concept
- Restaurants have little ability to pass on increased food costs
 - Costs directly impact the bottom line of an operator
- Corn prices are critical
 - Corn is the largest crop produced in the US, impacting wheat, vegoil, etc.
 - Corn is the primary feed used to produce beef, pork, poultry, dairy
- ***Successful restaurant concepts utilize risk management tools, where possible, to manage costs and maximize profits***

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