TRINITY CAPITAL
INVESTMENT BANKING

Restaurant Industry Commentary
&
Q4 2016 SSS Update

What's Inside This Commentary	

Published: April 2017

Same-Store Sales Discussion

During the fourth quarter of 2016 ("Q4 2016"), the restaurant industry saw same-store sales ("SSS") vary across segments. On average, the restaurant industry's same-store sales decreased 0.6% year-over-year ("YOY") in Q4 2016. In fact, of the 70 companies that constitute our quarterly same-store sales restaurant index, only 36 concepts enjoyed positive same-store sales growth in Q4 2016. Data over the last several quarters have showed a consistent slowdown for the industry, with the last three quarters of 2016 producing negative sales comps on average for the 70 concepts we track.

QSR: In the QSR segment, 15 of the 23 concepts we track showed positive same-store sales growth during Q4 2016, with the segment up an average of 1.2% YOY. The sandwich concepts within QSR enjoyed average growth of 0.9%, and while Burger King righted the ship after two consecutive quarterly declines, McDonald's comps were negative for the first time since Q2 2015. After growing SSS by 10.7% in Q4 2015, Domino's delivered another stellar quarter of 12.2% growth in Q4 2016, bringing its average growth to 11.2% over the past two years.

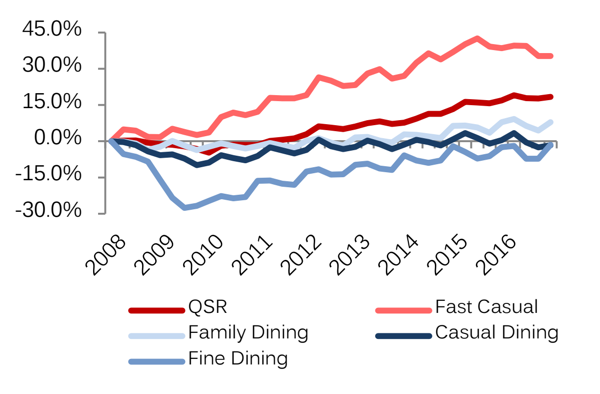
Fast Casual: Ongoing challenges for Chipotle and Pie Five have been a major drag on the segment's sales performance, but Chipotle sales began to stabilize in Q4 2016 with a 4.8% decrease after three quarters of declines over 20%. After 25 quarters of SSS growth, the fast casual segment has had negative performance the last four quarters. In Q4 2016, SSS declined 2.4% YOY; however, excluding Chipotle and Pie Five's declines, the segment was down 0.2% YOY. Fast casual has been the bright spot in the industry, but for the first time in the past eight years, a majority of concepts we track in the segment (6 of 10) had negative sales comps.

Family Dining: The family dining segment posted flat same-store sales growth in Q4 2016 after 11 consecutive quarters of growth. IHOP and Luby's saw decreases of 2.1% and 2.2%, respectively, after 11 quarters of growth.

Casual Dining: Same-store sales in the casual dining segment declined 2.1% YOY in Q4 2016. In fact, 16 of the 24 concepts we track experienced sales declines for the quarter. According to Knapp-Track, casual dining guest counts were down 3.8%, 4.7% and 7.0% in October, November and December, respectively. In fact, the last month with positive guest count growth was March 2015 according to Knapp-Track. Furthermore, guest counts have decreased in 85 of the last 96 months, which indicates just how challenging the last eight years have been for casual dining.

Fine Dining: The fine dining segment saw same-store sales growth of 1.0% YOY and positive comps from four of five concepts we track in Q4 2016 (only Ruth's Chris was flat). As the chart below illustrates, fine dining sales are close to pre-recession levels and are now only 1.5% below 2008 sales. Del Frisco's led the segment in Q4 2016 with 2.7% same-store sales growth.

Indexed Same-Store Sales by Segment



Source: Restaurant Research LLC, Technomic and company filings

Overall, the restaurant industry's same-store sales performance in Q4 2016 was lackluster, and the negative trend appears to be gaining momentum. It is difficult to identify the specific factors causing this downward trend in guest traffic and sales across all restaurant segments, as many key economic indicators such as unemployment, household income and consumer confidence signal continued, albeit slow, economic improvement. Perhaps the trend in the restaurant industry is foreshadowing a tougher economic environment.

Contributing Editor Aaron Edwards is an Associate at Trinity Capital.

Same-Store Sales Data

	FY 2014				FY 2015				FY 2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
QSR												
Chicken												
Bojangles	N/A	4.2%	5.3%	7.0%	7.9%	4.4%	4.1%	0.6%	2.0%	0.2%	0.8%	2.4%
Church's	(0.7%)	0.3%	1.7%	3.6%	2.8%	(2.6%)	(4.8%)	(4.6%)	(4.2%)	(2.5%)	(1.8%)	(1.3%)
KFC	(3.0%)	(2.0%)	2.0%	6.0%	7.0%	3.0%	0.0%	3.0%	1.0%	2.0%	6.0%	4.0%
Pollo Tropical	6.3%	6.7%	5.9%	7.7%	6.4%	4.3%	4.2%	0.4%	0.0%	(1.4%)	(1.0%)	(4.0%)
Popeye's	4.3%	3.8%	7.2%	10.7%	7.0%	7.9%	5.6%	2.0%	1.1%	0.0%	1.5%	3.0%
Mean	**1.7%**	**2.6%**	**4.4%**	**7.0%**	**6.2%**	**3.4%**	**1.8%**	**0.3%**	**(0.0%)**	**(0.3%)**	**1.1%**	**0.8%**
Coffee/Snack												
Baskin Robbins	0.5%	4.2%	5.8%	9.3%	8.0%	3.4%	7.5%	4.4%	5.0%	0.6%	(0.9%)	0.9%
Dunkin Donuts	1.2%	1.8%	2.0%	1.4%	2.7%	2.9%	1.1%	1.8%	2.0%	0.5%	2.0%	1.9%
Jamba Juice	0.6%	2.5%	3.7%	4.9%	5.0%	(5.9%)	6.6%	5.4%	(2.1%)	4.2%	(1.1%)	(2.2%)
Starbucks	6.0%	6.0%	5.0%	5.0%	7.0%	8.0%	9.0%	9.0%	7.0%	4.0%	4.0%	3.0%
Tim Horton's	1.9%	5.9%	6.8%	4.1%	8.9%	7.0%	4.3%	5.8%	5.8%	5.9%	4.5%	3.6%
Mean	**2.0%**	**4.1%**	**4.7%**	**4.9%**	**6.3%**	**3.1%**	**5.7%**	**5.3%**	**3.5%**	**3.0%**	**1.7%**	**1.4%**
Mexican												
Del Taco	N/A	N/A	N/A	N/A	7.7%	6.0%	5.6%	5.8%	3.2%	3.3%	6.7%	5.5%
Taco Bell	(1.0%)	2.0%	3.0%	7.0%	6.0%	6.0%	4.0%	4.0%	1.0%	(1.0%)	3.0%	3.0%
Mean	**(1.0%)**	**2.0%**	**3.0%**	**7.0%**	**6.9%**	**6.0%**	**4.8%**	**4.9%**	**2.1%**	**1.2%**	**4.9%**	**4.3%**
Pizza												
Domino's	4.9%	5.4%	7.7%	11.1%	14.5%	12.8%	10.5%	10.7%	6.4%	9.7%	13.0%	12.2%
Papa John's	9.6%	6.0%	7.4%	4.1%	6.5%	5.5%	3.0%	1.9%	0.1%	4.8%	5.5%	3.8%
Papa Murphy's	3.3%	1.5%	1.5%	N/A	5.6%	4.5%	1.4%	(3.1%)	(3.0%)	(4.0%)	(5.8%)	(7.8%)
Pizza Hut	(5.0%)	(4.0%)	(2.0%)	0.0%	(1.0%)	1.0%	0.0%	2.0%	5.0%	1.0%	(2.0%)	(4.0%)
Pizza Inn	4.4%	N/A	4.6%	6.4%	6.0%	0.2%	(1.1%)	(1.7%)	(2.2%)	0.3%	0.2%	(1.2%)
Mean	**3.4%**	**2.2%**	**3.8%**	**5.4%**	**6.3%**	**4.8%**	**2.8%**	**2.0%**	**1.3%**	**2.4%**	**2.2%**	**0.6%**
Sandwich												
Arby's	N/A	6.3%	10.4%	4.9%	9.7%	7.6%	9.6%	5.5%	5.8%	3.7%	2.4%	3.1%
Burger King	0.1%	0.4%	3.6%	4.2%	6.9%	7.9%	5.2%	2.8%	4.4%	(0.8%)	(0.5%)	1.8%
Jack in the Box	0.7%	2.4%	3.1%	4.4%	8.9%	7.3%	6.2%	1.4%	0.0%	1.1%	2.0%	3.1%
McDonald's	(1.7%)	(1.5%)	(3.3%)	(1.7%)	(2.6%)	(2.0%)	0.9%	5.7%	5.4%	1.8%	1.3%	(1.3%)
Sonic Drive-In	1.4%	5.3%	3.5%	8.5%	11.5%	6.1%	4.9%	5.3%	6.5%	2.0%	(2.0%)	(2.0%)
Wendy's	0.7%	3.2%	0.8%	1.7%	3.2%	2.2%	3.1%	4.8%	3.6%	0.4%	1.4%	0.8%
Mean	**0.2%**	**2.7%**	**3.0%**	**3.7%**	**6.3%**	**4.9%**	**5.0%**	**4.3%**	**4.3%**	**1.4%**	**0.8%**	**0.9%**
Mean Total QSR	**1.7%**	**2.9%**	**3.9%**	**5.3%**	**6.3%**	**4.2%**	**4.0%**	**3.2%**	**2.3%**	**1.6%**	**1.7%**	**1.2%**
Fast Casual												
Chipotle	13.4%	17.3%	19.8%	16.1%	10.4%	4.3%	2.6%	(14.6%)	(29.7%)	(23.6%)	(21.9%)	(4.8%)
El Pollo Loco	7.2%	5.5%	7.9%	7.6%	3.5%	1.3%	0.0%	1.8%	0.7%	2.4%	1.6%	(1.3%)
Fuddrucker's	(2.7%)	(3.9%)	(4.6%)	0.2%	2.1%	0.2%	1.7%	1.3%	0.0%	(1.0%)	(0.8%)	(1.6%)
Noodles & Company	(1.6%)	0.2%	1.7%	1.3%	0.9%	0.1%	(0.9%)	(1.1%)	(0.1%)	(1.0%)	(0.7%)	(0.8%)
Panera Bread	0.1%	0.1%	1.4%	3.0%	0.7%	1.8%	2.8%	2.3%	4.7%	2.3%	1.7%	0.7%
Pie Five	4.4%	12.9%	17.0%	16.9%	9.5%	6.7%	1.5%	(1.6%)	(4.0%)	(12.0%)	(14.7%)	(17.4%)
Potbelly	(2.2%)	(1.6%)	0.5%	3.7%	5.4%	4.9%	3.7%	3.7%	3.7%	1.7%	0.6%	0.1%
Qdoba Mexican Grill	7.0%	7.5%	7.7%	14.0%	8.3%	7.7%	6.6%	1.5%	2.1%	0.6%	0.8%	(1.0%)
Shake Shack	N/A	N/A	N/A	7.2%	11.7%	12.9%	17.1%	11.0%	9.9%	4.5%	2.9%	1.6%
Zoe's Kitchen	5.7%	7.5%	5.9%	7.8%	N/A	5.6%	4.5%	7.7%	8.1%	4.0%	2.4%	0.7%
Mean	**3.5%**	**5.1%**	**6.4%**	**7.8%**	**5.8%**	**4.6%**	**4.0%**	**1.2%**	**(0.5%)**	**(2.2%)**	**(2.8%)**	**(2.4%)**

Source: Restaurant Research LLC, Capital IQ, Technomic and company filings

Same-Store Sales Data (Cont.)

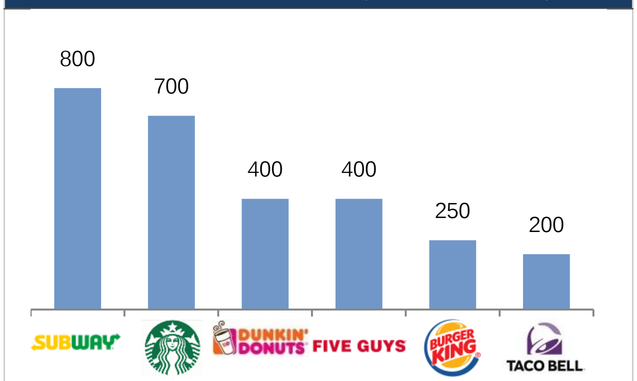
	FY 2014				FY 2015				FY 2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Family Dining												
Bob Evans	(4.1%)	(2.0%)	0.0%	3.8%	2.1%	(0.3%)	(3.2%)	(3.6%)	(3.0%)	(2.0%)	(2.2%)	(2.6%)
Chuck E Cheese	N/A	N/A	N/A	(1.4%)	(5.0%)	3.0%	0.7%	1.3%	6.0%	2.6%	3.5%	3.1%
Cracker Barrel	(0.7%)	1.3%	3.3%	7.9%	5.2%	3.8%	2.5%	0.6%	2.3%	3.2%	1.3%	0.6%
Denny's	1.8%	1.9%	2.4%	4.7%	7.2%	7.3%	6.1%	2.9%	2.5%	(0.5%)	1.0%	0.5%
IHOP	3.9%	3.2%	2.4%	6.1%	4.8%	6.2%	5.8%	1.4%	1.5%	0.2%	(0.1%)	(2.1%)
Luby's	1.2%	2.0%	0.4%	0.2%	3.1%	(1.0%)	0.2%	1.2%	3.1%	(0.2%)	0.0%	(2.2%)
Peter Piper Pizza	N/A	N/A	N/A	3.4%	6.8%	5.3%	N/A	3.6%	6.0%	2.6%	3.5%	3.1%
Steak n Shake	3.0%	3.7%	2.6%	2.9%	6.0%	4.8%	3.0%	3.6%	1.8%	(0.7%)	0.2%	(0.4%)
Mean	**0.9%**	**1.7%**	**1.9%**	**3.5%**	**3.8%**	**3.6%**	**2.2%**	**1.4%**	**2.5%**	**0.7%**	**0.9%**	**0.0%**
Casual Dining												
Applebee's	(0.5%)	0.6%	1.7%	2.8%	2.9%	1.0%	(0.5%)	(2.5%)	(3.7%)	(4.2%)	(5.2%)	(7.2%)
Bahama Breeze	0.8%	4.1%	N/A	(0.6%)	3.2%	1.8%	1.8%	2.4%	9.9%	4.7%	3.9%	2.6%
BJ's Restaurants	(2.9%)	(1.7%)	0.3%	1.2%	3.2%	0.5%	2.3%	0.7%	0.6%	(0.2%)	(3.4%)	(2.2%)
Bonefish	(1.5%)	0.3%	2.6%	0.7%	0.9%	(4.6%)	(6.1%)	(5.4%)	(2.7%)	0.9%	1.7%	(1.9%)
Bravo! Cucina Italiana	(5.5%)	(6.0%)	(6.7%)	(3.9%)	(1.7%)	(2.1%)	(3.1%)	(5.2%)	(4.1%)	(8.4%)	(8.0%)	(7.5%)
Brick House Tavern	10.0%	8.5%	7.5%	5.7%	5.4%	2.8%	(0.7%)	(2.8%)	(4.5%)	(6.3%)	(8.9%)	0.0%
Brio Tuscan Grille	(4.4%)	(4.5%)	(5.2%)	(4.2%)	(1.0%)	(1.6%)	(3.8%)	(4.3%)	(2.1%)	(6.4%)	(3.7%)	(4.3%)
Buffalo Wild Wings	5.7%	7.0%	5.8%	5.5%	6.5%	3.3%	2.6%	1.0%	(2.0%)	(2.3%)	(1.7%)	(4.0%)
Carrabba's Italian Grill	(1.8%)	(1.2%)	(1.2%)	0.3%	1.9%	0.9%	(2.0%)	(4.0%)	(2.0%)	(4.8%)	(2.1%)	(2.3%)
Cheesecake Factory	1.2%	1.5%	2.1%	1.4%	4.2%	2.8%	2.2%	1.1%	1.7%	0.3%	1.7%	1.1%
Chili's Grill & Bar	0.5%	2.5%	2.3%	4.2%	2.2%	0.1%	(1.1%)	(2.1%)	(3.6%)	(1.8%)	(1.3%)	(3.2%)
Chuy's	4.2%	2.4%	3.0%	3.8%	1.9%	N/A	4.2%	3.2%	3.2%	1.0%	0.3%	(1.1%)
Dave & Buster's	0.7%	4.7%	8.7%	10.5%	9.9%	11.0%	8.8%	6.0%	3.6%	1.0%	5.9%	3.2%
Famous Dave's	(3.3%)	(2.8%)	(2.3%)	(2.4%)	0.1%	(3.3%)	(3.6%)	(5.2%)	(6.1%)	(4.3%)	(3.8%)	(5.5%)
Joe's Crab Shack	(6.0%)	(4.7%)	(4.4%)	(4.5%)	(3.8%)	(4.0%)	(6.6%)	(2.9%)	(1.3%)	(6.8%)	(6.5%)	0.0%
Kona Grill	6.2%	3.2%	2.7%	3.1%	2.2%	1.0%	1.6%	3.2%	3.6%	2.5%	0.7%	(4.1%)
LongHorn Steakhouse	0.3%	2.4%	2.8%	2.6%	5.4%	5.2%	4.4%	2.6%	5.2%	2.2%	0.6%	0.1%
Maggiano's	0.2%	0.9%	0.6%	2.3%	0.1%	(0.1%)	(1.7%)	(1.8%)	0.2%	(1.7%)	(0.6%)	(0.8%)
Olive Garden	(5.4%)	(4.2%)	(1.3%)	2.2%	2.2%	3.4%	2.7%	2.8%	4.9%	2.4%	2.0%	2.7%
Outback	0.8%	0.9%	4.8%	6.4%	5.0%	4.0%	0.1%	(2.2%)	(1.3%)	(2.5%)	(0.7%)	(4.8%)
Red Robin	5.8%	1.6%	1.4%	4.3%	3.8%	3.6%	3.7%	(1.6%)	(2.2%)	(3.2%)	(3.3%)	(4.4%)
Ruby Tuesday	(1.9%)	0.4%	1.1%	(1.0%)	(0.3%)	(1.7%)	0.6%	0.8%	(3.1%)	(3.7%)	(2.7%)	(4.1%)
Taco Cabana	0.8%	2.8%	3.5%	6.1%	3.8%	5.6%	4.8%	3.3%	1.7%	(3.8%)	(4.1%)	(3.5%)
Texas Roadhouse	3.0%	3.0%	5.8%	6.8%	8.7%	8.0%	7.0%	4.4%	4.3%	4.2%	3.4%	1.4%
Mean	**0.3%**	**0.9%**	**1.5%**	**2.2%**	**2.8%**	**1.6%**	**0.7%**	**(0.4%)**	**0.0%**	**(1.7%)**	**(1.5%)**	**(2.1%)**
Fine Dining												
Fleming's	1.7%	3.6%	4.8%	3.4%	3.0%	3.2%	(0.6%)	(0.3%)	1.3%	(0.8%)	(1.9%)	0.2%
Ruth's Chris	2.6%	2.8%	4.8%	5.0%	2.8%	4.2%	3.3%	3.2%	3.1%	1.5%	2.1%	0.0%
Capital Grille	0.1%	0.8%	3.9%	5.0%	6.1%	4.4%	7.2%	1.5%	5.3%	3.7%	(1.2%)	1.2%
Del Frisco's	5.1%	5.2%	8.4%	4.9%	2.3%	1.0%	(1.4%)	(4.5%)	5.3%	(2.0%)	(1.4%)	2.7%
Sullivan's	(2.1%)	0.9%	0.6%	1.7%	4.8%	(3.0%)	1.2%	(1.8%)	(1.8%)	(2.9%)	(3.2%)	0.9%
Mean	**1.5%**	**2.7%**	**4.5%**	**4.0%**	**3.8%**	**2.0%**	**1.9%**	**(0.4%)**	**2.6%**	**(0.1%)**	**(1.1%)**	**1.0%**

Source: Restaurant Research LLC, Capital IQ, Technomic and company filings

How Many Restaurants Are Enough?

I was recently reading the Cushman & Wakefield retail and restaurant expansion guide put out late last summer. The report details expansion plans for 22 industries including the restaurant industry. I was shocked to find 45 pages detailing expansion plans for 675 restaurant concepts, nearly all of which had plans for significant development of new restaurants. The aggregate expansion plans included approximately 6,000 new restaurant locations throughout the U.S. for the concepts reviewed by Cushman & Wakefield alone. Another well respected source, Technomic, says that the top 500 restaurant concepts are growing at a 2% plus pace, which is approximately 4,000 restaurants per year. The leading growth concepts by unit count over the next year include Subway (800), Starbucks (700), Dunkin' Brands and Five Guys (400 each), Burger King (250) and Taco Bell (200). You would think with all these aggressive expansion plans that growth in restaurant traffic would be on a record-setting pace. Not so! Traffic was relatively flat in 2016, though sales were up because of menu price increases.

Forecasted Unit Growth (Next 12 Months)



Source: Cushman & Wakefield North American Retail & Restaurant Guide Summer 2016

Many of the issues with guest traffic in the restaurant industry are rooted in significant changes in demographics and consumer preferences. As Gen X and Millennials have begun to take over the lion's share of restaurant traffic, we are beginning to see some migration from legacy restaurant chains to new or more innovative concepts. The casual dining sector is exhibiting the greatest degree of migration because it has traditionally owned the Greatest Generation and Baby Boomers. As the Greatest Generation has thinned out, the casual dining industry has struggled to replace them with Gen X or Millennial patrons. As a result, traffic has been slowly eroding in this sector for the past several years. There are, however, casual dining concepts which have begun to innovate and either reach into their own customer base or expand outside. It is possible to significantly increase market share in a declining sector if you provide the customers you want with what they want!

When you look at the franchise disclosure documents for many of the top 100 concepts, it is apparent that restaurant closures have increased significantly. Likewise, there are 25 noteworthy restaurant concepts in bankruptcy or liquidation right now. This is producing a steady stream of restaurant closures, which should begin to slow down the rapid growth of restaurant occupancy cost. There are hundreds of full-service dining locations throughout the nation that pay 10%+ rent, 4%-6% royalties and LIBOR plus 2.5% interest cost, which leaves very little free cash flow for franchisees. This would lead one to wonder whether the location was a real estate business or a restaurant. The rent probably didn't start at 10%, and it is very likely the landlord doesn't even know it's currently at that level. It was likely initiated at 8.0%-8.5% of sales, but with the decline in sales and contractual CPI bumps, it is now in the vicinity of 10%. This doesn't work, and many restaurant owners are wondering how to go about changing it – not because they don't want to stick to their deal, but because the new traffic paradigm won't support it, and if they can't change it, the restaurant will simply close (with some drama) or fail to renew.

It's not in the landlord's best interest to receive a rental stream that denudes the business of vital capital necessary to reinvest in the business to maintain and defend its competitive edge. Just as importantly, if the restaurant is paying rent that high, it is likely to be much less profitable. This undermines the likelihood of the lease being renewed at expiration in which case everybody can lose. This is especially true now that online retail sales have continued to wreak havoc in the retail sector, shrinking the pool of retail tenants for landlords. Another noteworthy recent change is that landlords don't have as many Olive Garden, McDonald's or Chipotle corporate real estate executives beating down their doors as they did in the past. Many landlords will have to rethink their restaurant rents or explore tenants in other industries unless there is material change in current trends.

Contributing Editor Kevin Burke is a Managing Director at Trinity Capital.

Increased Volatility Ahead for Restaurant Industry

The last decade in the restaurant industry has been characterized by innovation, ranging from more modern service formats like fast casual, to newer trending cuisines like Mediterranean and Poke, to re-imagined old favorites like better burgers and fast casual pizza. The industry has seen traditional concepts either evolve or struggle, and a significant number of new restaurant concepts emerge. The most successful have gone from start-ups to public companies in a historically short period of time. Ask long time restaurant executives and they will likely tell you that the restaurant industry is more competitive than it's ever been. Two big commonly-quoted reasons for this rapid increase in competition are changing consumer tastes and technological innovation. Both have been significant forces in the emergence of new restaurant concepts.

A less commonly-quoted reason has been an equally significant factor in this change: times have been easy. Historically low interest rates, cheap commodities, stable consumer spending and an adventurous millennial generation that enjoys dining out and trying new concepts have all contributed to an environment that has been bountiful for restaurants. Concepts have expanded rapidly and profits have been easy to come by. Franchisors have taken advantage, selling off corporate-owned stores and driving development at a historic pace. The question now is, how long will this last?

Well, there are several signs that this easy period for restaurants is quietly changing. Interest rates are rising rapidly. Minimum wage is surging nationwide. Commodity costs are creeping higher and will continue to follow interest rates. Real estate cap rates are rising, making development more expensive. Consumers are less loyal as they spread their purchases across more concepts. Cracks are already appearing in many parts of the industry. Casual dining chains have experienced negative comps for months, largely due to demographic changes and customer attrition to fast casual concepts. There were 10 notable restaurant bankruptcies in in 2016. "Bulletproof" brands like McDonalds are looking very vulnerable. Chipotle is not seeing the snapback recovery that so many expected. Fast casual pizza, the "next big trend" of 2015, appears now to be a market whose size and appeal was over-estimated. The term "restaurant recession" first started appearing in the summer of 2016. Just like all periods of rapid expansion, there follows a shake-out period when many of the recent darlings suddenly becoming untouchables and fall away. That time is approaching in the restaurant industry, and may already be upon us.

The next several years will determine who the winners and losers will be among the recent wave of new concept introductions. The burger space will be one to watch. With so many new entrants into the "better burger" space, the market looks fairly crowded. It's difficult to drive brand differentiation in this space, but that will likely be a key in determining the winners. The better burger entrants, combined with cheap commodities, have encouraged discounting wars among the QSR burger players, as they fight for market share in the lower-priced end of the market. While recent statements from McDonald's seem to suggest the brand is abandoning its "everything to everybody" strategy, it's likely that the McDonald's store count will continue to decline in the US as a greater number of players continue to eat away at market share. Fast casual pizza will also be a focus over the next several years. This rapid-growth area is already seeing store closures among some brands, and others that have simply disappeared. Developing a delivery strategy will be a key to this sector's success. Meanwhile in the mass market pizza space, eyes will be on Pizza Hut to see if the brand can make a comeback as Domino's and Papa John's continue to increase market share. The chicken space will remain competitive as more and more concepts add chicken to their menus as Americans continue to eat less red meat. KFC continues to mount a comeback vs. Popeyes, while Church's and El Pollo Loco have seen lackluster results lately. Smaller concepts Bojangles and Zaxby's continue to grow rapidly in the competitive chicken category.

Despite these challenges, there still remain significant growth forces in the industry. Ethnic cuisines continue to gain traction and market share, and concepts in this space will continue to grow. Asian, Mexican, Mediterranean and Poke concepts in particular are seeing meaningful growth. Bibibop Asian Grill recently made headlines as it acquired Chipotle's former ShopHouse concept to expand its footprint. Mediterranean concepts like Luna Grill are also pursuing rapid expansion. There are more new Poke bowl concepts across the country than anyone can currently count. These ethnic cuisine concepts are likely to command more market share in the future as they continue to gain traffic, particularly among millennials. This traffic, of course, will come at the expense of other competitors.

Over the next several years, the restaurant industry will likely see the shake-out and consolidation of trailing concepts from the recent period of expansion. Millennials and Gen Z will continue to be strong consumers, resisting cooking at home due to convenience, but dollars will be spread more broadly. Traditional concepts will continue to attempt to evolve in response to recent new entrants. Casual dining concepts will work to innovate to combat declining sales. Ethnic concepts will continue to grow. All concepts will work to address the rapidly-expanding delivery market, while re-thinking the expensive square footage of their existing stores. Technology will play an increasingly visible role to the consumer and winning concepts will embrace this like never before. There will likely be an above-average number of restaurant bankruptcies. New start-ups will be born and familiar concepts will fall away. The rapidly-changing pace of the restaurant industry will continue.

Contributing Editor Chris Ward is a Director at Trinity Capital.

For more information, please contact:
Kevin Burke, Managing Director
310-231-3100
kburke@tcib.com
or
Visit us at:
www.tcib.com