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### Same-Store Sales Discussion and Analysis

During the fourth quarter of 2015 ("Q4 2015"), the restaurant industry maintained positive momentum and now has 23 consecutive quarters of same-store sales growth. 69.9% of the concepts we cover enjoyed positive same-store sales growth in Q4 2015, with an average year-over-year ("YOY") growth of 1.1% for the restaurant industry, which is roughly in line with U.S. GDP growth of 1.0%. Concepts are now fighting for market share since the overall pie is not growing, and the same-store sales data on the following pages shows the winners and/or losers that are beginning to emerge in each segment.

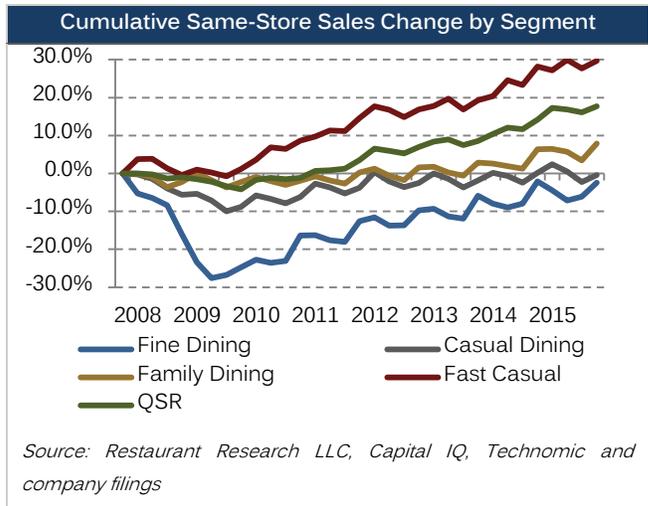
**Fine Dining:** The fine dining segment saw an average same-store sales decrease of 0.4% YOY for Q4 2015, which is the first negative quarter to end a streak of 23 consecutive quarters of positive growth. As the chart to the right illustrates, fine dining sales have yet to fully return to pre-recession levels and remains 2.4% below 2008 sales. Ruth's Chris led the segment with a positive 3.2% same-store sales increase in Q4 2015.

**Casual Dining:** Average same-store sales in the casual dining segment declined 0.5% YOY for Q4 2015. In fact, nearly half of the concepts experienced negative growth for the quarter. According to Knapp-Track, casual dining guest counts were down 2.9%, 1.9% and 1.6% in October, November and December, respectively. That amounts to negative guest counts in 73 of the last 84 months, which indicates just how challenging the last seven years have been for this segment. Increasing prices to offset traffic declines is not a sustainable long-term solution relative to the more positive developments in the fast-casual and QSR segments. With that said, of the 26 concepts we track in the casual dining segment, there are a few concepts that are continuing to outperform, including Dave & Buster's, LongHorn Steakhouse, Taco Cabana and Texas Roadhouse.

**Family Dining:** The family dining segment posted an average YOY same-store sales growth of 1.4% for Q4 2015. According to Knapp-Track, family dining guest counts were down 2.6%, 3.0% and 3.5% in October, November and December, respectively, which raises some concerns about the financial well-being of the family dining customer base.

**Fast-Casual:** While the trend remains positive, same-store sales growth in the fast-casual segment appears to be cooling down modestly. In Q4 2015, the average increase was 1.2% YOY, which is the 25th consecutive quarter of positive comps. Most notably, Chipotle experienced a decline of 14.6% for the quarter as a result of the company's food safety crisis and temporary store closures.

**QSR:** In the QSR segment, 21 of the 24 concepts we track showed positive same-store sales growth during Q4 2015, with the segment up an average of 3.1% YOY. Domino's and Starbucks continue to achieve best-in-class results with YOY same-store sales growth in Q4 2015 of 10.7% and 9.0%, respectively.



Until the last couple of quarters, the restaurant industry was trending positively and outperforming the market during the economic recovery. Now the industry appears to be mirroring the U.S. economy, with anemic growth and signs of unsustainable vulnerabilities. The battle for market share will only intensify in this environment, so operators need to focus on product differentiation and value to stay ahead of the competition.

Contributing Editor Michael Collins is an Associate for Trinity Capital.

**Same-Store Sales ("SSS") Data**

	FY 2013				FY 2014				FY 2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Fine Dining</b>												
Fleming's	5.4%	2.0%	4.2%	4.9%	1.7%	3.6%	4.8%	3.4%	3.0%	3.2%	(0.6%)	(0.3%)
Ruth's Chris	6.6%	4.6%	4.2%	5.5%	2.6%	2.8%	4.8%	5.0%	2.8%	4.2%	3.3%	3.2%
Capital Grille	3.0%	4.5%	3.2%	6.7%	0.1%	0.8%	3.9%	5.0%	6.1%	4.4%	7.2%	1.5%
Del Frisco's	1.9%	5.9%	4.4%	5.2%	5.1%	5.2%	8.4%	4.9%	2.3%	1.0%	(1.4%)	(4.5%)
Sullivan's	(4.0%)	(2.7%)	(5.9%)	(0.7%)	(2.1%)	0.9%	0.6%	1.7%	4.8%	(3.0%)	1.2%	(1.8%)
<b>Mean</b>	<b>2.6%</b>	<b>2.9%</b>	<b>2.0%</b>	<b>4.3%</b>	<b>1.5%</b>	<b>2.7%</b>	<b>4.5%</b>	<b>4.0%</b>	<b>3.8%</b>	<b>2.0%</b>	<b>1.9%</b>	<b>(0.4%)</b>

**Casual Dining**

Applebee's	(1.3%)	1.3%	(0.4%)	(0.3%)	(0.5%)	0.6%	1.7%	2.8%	2.9%	1.0%	(0.5%)	(2.5%)
Bahama Breeze	(0.3%)	(1.7%)	2.7%	6.2%	0.8%	4.1%	N/A	(0.6%)	3.2%	1.8%	1.8%	2.4%
BJ's Restaurants	(0.4%)	0.0%	(2.2%)	(2.7%)	(2.9%)	(1.7%)	0.3%	1.2%	3.2%	0.5%	2.3%	0.7%
Bonefish	0.5%	0.2%	(2.7%)	0.9%	(1.5%)	0.3%	2.6%	0.7%	0.9%	(4.6%)	(6.1%)	(5.4%)
Bravo! Cucina Italiana	(1.6%)	(1.6%)	(3.7%)	(1.3%)	(5.5%)	(6.0%)	(6.7%)	(3.9%)	(1.7%)	(2.1%)	(3.1%)	(5.2%)
Brick House Tavern + Tap	N/A	N/A	4.0%	6.6%	10.0%	8.5%	7.5%	5.7%	5.4%	2.8%	(0.7%)	(2.8%)
Brio Tuscan Grille	(3.2%)	(4.0%)	(5.1%)	(1.5%)	(4.4%)	(4.5%)	(5.2%)	(4.2%)	(1.0%)	(1.6%)	(3.8%)	(4.3%)
Buffalo Wild Wings	1.9%	4.0%	4.3%	4.0%	5.7%	7.0%	5.8%	5.5%	6.5%	3.3%	2.6%	1.0%
Carrabba's Italian Grill	(1.7%)	0.3%	0.0%	0.9%	(1.8%)	(1.2%)	(1.2%)	0.3%	1.9%	0.9%	(2.0%)	(4.0%)
Cheesecake Factory	1.6%	0.9%	1.0%	1.1%	1.2%	1.5%	2.1%	1.4%	4.2%	2.8%	2.2%	1.1%
Chili's Grill & Bar	(1.1%)	(0.6%)	(1.9%)	0.2%	0.5%	2.5%	2.3%	4.2%	2.2%	0.1%	(1.1%)	(2.1%)
Chuy's	N/A	N/A	3.1%	3.0%	4.2%	2.4%	3.0%	3.8%	1.9%	N/A	4.2%	3.2%
Dave & Buster's	1.8%	(0.9%)	(0.9%)	2.4%	0.7%	4.7%	8.7%	10.5%	9.9%	11.0%	8.8%	6.0%
Famous Dave's	(1.8%)	3.8%	(2.3%)	(1.1%)	(3.3%)	(2.8%)	(2.3%)	(4.0%)	(4.9%)	(9.2%)	(9.8%)	(10.6%)
Granite City	2.7%	2.5%	0.4%	0.6%	N/A	N/A	0.7%	0.6%	2.7%	2.1%	(3.8%)	0.6%
Joe's Crab Shack	(2.0%)	0.7%	3.3%	1.9%	(6.0%)	(4.7%)	(4.4%)	(4.5%)	(3.8%)	(4.0%)	(6.6%)	(2.9%)
Kona Grill	(2.6%)	2.5%	2.6%	3.5%	6.2%	3.2%	2.7%	3.1%	2.2%	1.0%	1.6%	3.2%
Logan's Roadhouse	(1.4%)	(3.9%)	(3.9%)	(5.3%)	(3.2%)	(4.5%)	(2.6%)	0.1%	(4.3%)	(3.8%)	(4.3%)	N/A
LongHorn Steakhouse	(1.6%)	3.5%	3.2%	2.9%	0.3%	2.4%	2.8%	2.6%	5.4%	5.2%	4.4%	2.6%
Maggiano's	0.4%	0.2%	0.6%	0.9%	0.2%	0.9%	0.6%	2.3%	0.1%	(0.1%)	(1.7%)	(1.8%)
Olive Garden	(4.1%)	1.1%	(4.0%)	(0.6%)	(5.4%)	(4.2%)	(1.3%)	2.2%	2.2%	3.4%	2.7%	2.8%
Outback	2.5%	2.8%	(0.3%)	1.1%	0.8%	0.9%	4.8%	6.4%	5.0%	4.0%	0.1%	(2.2%)
Red Robin	1.4%	3.6%	5.4%	3.7%	5.8%	1.6%	1.4%	4.3%	3.8%	3.6%	3.7%	(1.6%)
Ruby Tuesday	(2.8%)	(3.1%)	(11.4%)	(7.8%)	(1.9%)	0.4%	1.1%	(1.0%)	(0.3%)	(1.7%)	0.6%	0.8%
Taco Cabana	2.0%	1.1%	1.8%	(2.9%)	0.8%	2.8%	3.5%	6.1%	3.8%	5.6%	4.8%	3.3%
Texas Roadhouse	3.7%	4.7%	2.9%	2.5%	3.0%	3.0%	5.8%	6.8%	8.7%	8.0%	7.0%	4.4%
<b>Mean</b>	<b>(0.3%)</b>	<b>0.7%</b>	<b>(0.1%)</b>	<b>0.7%</b>	<b>0.2%</b>	<b>0.7%</b>	<b>1.3%</b>	<b>2.0%</b>	<b>2.3%</b>	<b>1.2%</b>	<b>0.1%</b>	<b>(0.5%)</b>

**Family Dining**

Bob Evans	0.0%	(0.6%)	(1.9%)	(1.8%)	(4.1%)	(2.0%)	0.0%	3.8%	2.1%	(0.3%)	(3.2%)	(3.6%)
Chuck E Cheese	N/A	N/A	(2.1%)	N/A	N/A	N/A	N/A	(1.4%)	(5.0%)	3.0%	0.7%	1.3%
Cracker Barrel	3.1%	3.1%	2.8%	(0.6%)	(0.7%)	1.3%	3.3%	7.9%	5.2%	3.8%	2.5%	0.6%
Denny's	(0.7%)	0.6%	1.2%	0.9%	1.8%	1.9%	2.4%	4.7%	7.2%	7.3%	6.1%	2.9%
IHOP	(0.5%)	1.9%	3.6%	4.5%	3.9%	3.2%	2.4%	6.1%	4.8%	6.2%	5.8%	1.4%
Luby's	(0.1%)	(0.1%)	1.0%	2.4%	1.2%	2.0%	0.4%	0.2%	3.1%	(1.0%)	0.2%	1.2%
Peter Piper Pizza	N/A	3.4%	6.8%	5.3%	N/A	3.6%						
Steak n Shake	1.3%	0.3%	4.2%	2.2%	3.0%	3.7%	2.6%	2.9%	6.0%	4.8%	3.0%	3.6%
<b>Mean</b>	<b>0.5%</b>	<b>0.9%</b>	<b>1.3%</b>	<b>1.3%</b>	<b>0.9%</b>	<b>1.7%</b>	<b>1.9%</b>	<b>3.5%</b>	<b>3.8%</b>	<b>3.6%</b>	<b>2.2%</b>	<b>1.4%</b>

**SSS Data (Cont'd)**

	FY 2013				FY 2014				FY 2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Fast Casual</b>												
Chipotle	1.0%	5.5%	6.2%	9.3%	13.4%	17.3%	19.8%	16.1%	10.4%	4.3%	2.6%	(14.6%)
Cosi	(4.5%)	(2.7%)	(3.6%)	(4.6%)	(9.5%)	(4.7%)	(1.9%)	4.2%	4.4%	2.1%	(0.3%)	0.7%
El Pollo Loco	N/A	N/A	3.7%	6.5%	7.2%	5.5%	7.9%	7.6%	3.5%	1.3%	0.0%	1.8%
Fuddrucker's	N/A	N/A	(0.4%)	(2.3%)	(2.7%)	(3.9%)	(4.6%)	0.2%	2.1%	0.2%	1.7%	1.3%
Noodles & Company	2.2%	4.7%	2.1%	3.9%	(1.6%)	0.2%	1.7%	1.3%	0.9%	0.1%	(0.9%)	(1.1%)
Panera Bread	3.3%	3.7%	1.3%	1.1%	0.1%	0.1%	1.4%	3.0%	0.7%	1.8%	2.8%	2.3%
Pie Five	N/A	N/A	N/A	N/A	4.4%	12.9%	17.0%	16.9%	9.5%	6.7%	1.5%	(1.6%)
Potbelly	N/A	N/A	2.5%	0.7%	(2.2%)	(1.6%)	0.5%	3.7%	5.4%	4.9%	3.7%	3.7%
Qdoba Mexican Grill	(1.5%)	1.3%	2.0%	2.3%	7.0%	7.5%	7.7%	14.0%	8.3%	7.7%	6.6%	1.5%
Shake Shack	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.2%	11.7%	12.9%	17.1%	11.0%
Zoe's Kitchen	N/A	N/A	N/A	N/A	5.7%	7.5%	5.9%	7.8%	N/A	5.6%	4.5%	7.7%
<b>Mean</b>	<b>0.1%</b>	<b>2.5%</b>	<b>1.7%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>4.1%</b>	<b>5.5%</b>	<b>7.5%</b>	<b>5.7%</b>	<b>4.3%</b>	<b>3.6%</b>	<b>1.2%</b>
<b>QSR</b>												
<b>Chicken</b>												
Bojangles	N/A	N/A	N/A	N/A	N/A	4.2%	5.3%	7.0%	7.9%	4.4%	4.1%	0.6%
Church's	(2.0%)	1.8%	1.2%	0.9%	(0.7%)	0.3%	1.7%	3.6%	2.8%	(2.6%)	(4.8%)	(4.6%)
KFC	4.5%	3.0%	(4.0%)	(5.0%)	(3.0%)	(2.0%)	2.0%	6.0%	7.0%	3.0%	0.0%	3.0%
Pollo Tropical	3.8%	6.4%	6.5%	7.0%	6.3%	6.7%	5.9%	7.7%	6.4%	4.3%	4.2%	0.4%
Popeye's	0.5%	4.3%	5.1%	0.3%	4.3%	3.8%	7.2%	10.7%	7.0%	7.9%	5.6%	2.0%
<b>Mean</b>	<b>1.7%</b>	<b>3.9%</b>	<b>2.2%</b>	<b>0.8%</b>	<b>1.7%</b>	<b>2.6%</b>	<b>4.4%</b>	<b>7.0%</b>	<b>6.2%</b>	<b>3.4%</b>	<b>1.8%</b>	<b>0.3%</b>
<b>Coffee/Snack</b>												
Baskin Robbins	(4.4%)	1.6%	4.2%	2.2%	0.5%	4.2%	5.8%	9.3%	8.0%	3.4%	7.5%	4.4%
Dunkin Donuts	1.7%	4.0%	4.2%	3.5%	1.2%	1.8%	2.0%	1.4%	2.7%	2.9%	1.1%	1.8%
Jamba Juice	1.3%	1.7%	(3.4%)	0.3%	0.6%	2.5%	3.7%	4.9%	5.0%	(5.9%)	6.6%	3.9%
Krispy Kreme	11.4%	10.0%	3.7%	1.6%	3.3%	2.3%	3.7%	3.6%	5.2%	5.5%	3.4%	1.6%
Starbucks	7.0%	9.0%	8.0%	5.0%	6.0%	6.0%	5.0%	5.0%	7.0%	8.0%	9.0%	9.0%
Tim Horton's	(0.5%)	1.4%	3.0%	3.1%	1.9%	5.9%	6.8%	4.1%	8.9%	7.0%	4.3%	6.3%
<b>Mean</b>	<b>2.8%</b>	<b>4.6%</b>	<b>3.3%</b>	<b>2.6%</b>	<b>2.3%</b>	<b>3.8%</b>	<b>4.5%</b>	<b>4.7%</b>	<b>6.1%</b>	<b>3.5%</b>	<b>5.3%</b>	<b>4.5%</b>
<b>Mexican</b>												
Del Taco	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.7%	6.0%	5.6%	5.8%
Taco Bell	6.0%	2.0%	2.0%	1.0%	(1.0%)	2.0%	3.0%	7.0%	6.0%	6.0%	4.0%	4.0%
<b>Mean</b>	<b>6.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>1.0%</b>	<b>(1.0%)</b>	<b>2.0%</b>	<b>3.0%</b>	<b>7.0%</b>	<b>6.9%</b>	<b>6.0%</b>	<b>4.8%</b>	<b>4.9%</b>
<b>Pizza</b>												
Domino's	6.2%	6.7%	5.4%	3.7%	4.9%	5.4%	7.7%	11.1%	14.5%	12.8%	10.5%	10.7%
Papa John's	1.6%	3.4%	1.8%	6.6%	9.6%	6.0%	7.4%	4.1%	6.5%	5.5%	3.0%	1.9%
Papa Murphy's	N/A	N/A	3.0%	4.0%	3.3%	1.5%	1.5%	N/A	5.6%	4.5%	1.4%	(3.1%)
Pizza Hut	(1.0%)	(2.0%)	(1.0%)	(4.0%)	(5.0%)	(4.0%)	(2.0%)	0.0%	(1.0%)	1.0%	0.0%	2.0%
Pizza Inn	N/A	N/A	(3.5%)	(4.1%)	4.4%	N/A	4.6%	6.4%	6.0%	0.2%	(1.1%)	(1.7%)
<b>Mean</b>	<b>2.3%</b>	<b>2.7%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>3.4%</b>	<b>2.2%</b>	<b>3.8%</b>	<b>5.4%</b>	<b>6.3%</b>	<b>4.8%</b>	<b>2.8%</b>	<b>2.0%</b>
<b>Sandwich</b>												
Arby's	N/A	N/A	N/A	N/A	N/A	6.3%	10.4%	4.9%	9.7%	7.6%	9.6%	5.5%
Burger King	(3.0%)	(0.5%)	(0.3%)	0.2%	0.1%	0.4%	3.6%	4.2%	6.9%	7.9%	5.2%	2.8%
Jack in the Box	0.1%	0.1%	(1.4%)	1.9%	0.7%	2.4%	3.1%	4.4%	8.9%	7.3%	6.2%	1.4%
McDonald's	(1.2%)	1.0%	0.7%	(1.4%)	(1.7%)	(1.5%)	(3.3%)	(1.7%)	(2.6%)	(2.0%)	0.9%	5.7%
Sonic Drive-In	1.3%	0.1%	5.9%	2.2%	1.4%	5.3%	3.5%	8.5%	11.5%	6.1%	4.9%	5.3%
Wendy's	0.7%	0.3%	3.1%	2.9%	0.7%	3.2%	0.8%	1.7%	3.2%	2.2%	3.1%	4.8%
<b>Mean</b>	<b>(0.4%)</b>	<b>0.2%</b>	<b>1.6%</b>	<b>1.2%</b>	<b>0.2%</b>	<b>2.7%</b>	<b>3.0%</b>	<b>3.7%</b>	<b>6.3%</b>	<b>4.9%</b>	<b>5.0%</b>	<b>4.3%</b>
<b>Mean Total QSR</b>	<b>1.8%</b>	<b>2.9%</b>	<b>2.1%</b>	<b>1.5%</b>	<b>1.8%</b>	<b>2.9%</b>	<b>3.9%</b>	<b>5.2%</b>	<b>6.3%</b>	<b>4.3%</b>	<b>3.9%</b>	<b>3.1%</b>

### Fast-Casual Pizza Industry Update & Outlook

The fast-casual pizzeria craze shows no signs of slowing down. Over the past decade, several upstart competitors to the major pizza chains have surfaced hoping to meet the demands customers wanting something different. That "different" is fresh artisanal ingredients, hand-crafted pizza-making techniques, craft beer and a customized pizza cooked in minutes.

Fast-casual pizza restaurants all boast a wide range of crusts, toppings, sauces and cheeses. They all bake their pizzas in specialized ovens in just a few short minutes. Most are focusing on a personal-sized, Neapolitan-style of pizza—characterized by a light, thin, flaky crust—and offering a laid-back, modern dining room and craft beers and wine. Throw in great service at an affordable price, and customers have a choice between a fast-casual pizza experience and one of the big legacy pizza chains.

With strong financial support and operational systems in place, fast-casual pizza brands are rushing to secure top-shelf, multiunit franchisees and "A" grade real estate locations. Despite the fact that no brand has cracked the 200-unit mark, the fast-casual pizza category already accounts for thousands of units in development across the country and will continue to put more pressure on the traditional players in the pizza space.

We took a look at five of the larger fast-casual pizza concepts by unit count below.



**Founded:** 2012

**Headquarters:** Irvine, CA

**Number of Units:** 116

**About the Brand:** Blaze Pizza's name was derived from how quickly a create-your-own pizza can be "Fast Fire'd" in an 800-degree open-flame oven. Blaze's dough is made from custom flour that responds well to longer fermentation and rapid cook times.



Customers begin by choosing which of the fresh ingredients they'd like on their pizza. As they work their way down the assembly line, staff assist the customers at each step, resulting in a unique custom pizza each time. When they arrive at the end of the

line, their custom-built pizza is ready to be cooked in 180 seconds (3 minutes).



**Founded:** 2008

**Headquarters:** Seattle, WA

**Number of Units:** 106

**About the Brand:** MOD Pizza was established in 2008 in Seattle by a former Starbucks executive. "MOD" in the company's name stands for "Made on Demand". Its menu features pizzas made with organic dough and gourmet ingredients that are cooked in 180 seconds (3 minutes) using 800-degree stone ovens.



Customers can build their own pizza or salad, which cost the same no matter how many toppings they choose. MOD also offers 10 classic pizzas, a pizza salad and a seasonal pizza. MOD pizzas are made with fresh pressed dough by King Arthur Flour, the oldest flour company in the United States.



**Founded:** 2011

**Headquarters:** Rancho Santa Margarita, CA

**Number of Units:** 98

**About the Brand:** Pieology seeks the appeal of customers by allowing them to customize their pizzas, from wheat crust to gluten-free crust to vegetarian pizzas to dairy-free cheese.



There are more than 40 toppings and customers can choose as many as they want for a fixed price. Pieology isn't the only concept to offer unlimited toppings for a set price, but its topping arsenal boasts 78 billion possible pizza outcomes based on combinations of crusts (white, wheat, gluten-free), sauces (house red, alfredo, herb butter, pesto), the usual meat/cheese/veggie toppings, and "after bakes" sauces like fiery buffalo and BBQ.



**Founded:** 2011

**Headquarters:** Dallas, TX

**Number of Units:** 85

**About the Brand:** Pie Five Pizza Co. is owned by Rave Restaurant Group, which also owns Pizza Inn. The “Five” in the brand’s name refers to the number of minutes it takes to prepare a made-to-order pizza. Customers can choose from combinations of personal pizza toppings for a fixed price. In addition to traditional toppings, there is an emphasis on creative add-ons like Sriracha marinara, “magic dust” powdered cheese and oregano mix. The brand also offers four different crusts (including gluten-free and whole grain) and has handmade salads.



with larger advertising budgets and more sophisticated management teams.

One of the big concerns as all the brands above race to expand is the tendency to choose suboptimal (“C” or “D” grade) locations or sign unfavorable leases to meet aggressive development requirements. Another risk is that as the fast-casual pizza segment continues to get more crowded and competitive, brands will be tempted or forced to compete on price since product differentiation is difficult. Poor real estate decisions and/or discounting initiatives to drive traffic that negatively impact store-level profitability are key factors to brands struggling or even failing.

We believe that there will be significant consolidation in the fast-casual pizza space in the next five to ten years as the “winners” acquire the “losers” and rebrand the locations to facilitate additional growth. The entire restaurant industry will be forced to pay close attention to the fast-casual pizza segment as these fast growing brands continue to increase their market share and change consumer perception of the pizza segment.



**Founded:** 2012

**Headquarters:** Los Angeles, CA

**Number of Units:** 33

**About the Brand:** PizzaRev customers can choose from one of 10 combinations of personal-sized 11” pizzas from The Classic, The Skinny Margarita or The Mediterranean. Customers can also create their own for the same price (regardless of number of toppings) using ingredients like red or white sauce, BBQ sauce, cheeses that include bleu cheese, ricotta and low-fat mozzarella and toppings such as spicy chorizo, capers or jalapenos. PizzaRev also utilizes the assembly line, build-your-own model, where the pizza is then placed in an open-flame, stone-bed oven that cooks in minutes.



Contributing Editor Josh Brannan is a Managing Director for Trinity Capital.

**Don't Overlook the Latest Technology Developments**

While restaurant technology continues to improve operational efficiency and cost savings, other important applications that have far-reaching implications in the industry have emerged. Restaurant technology is evolving due to the confluence of social media, mobile capability and consumer preference changes taking place in this industry. From 1980 to 2000 or so, advances in restaurant technology largely consisted of the transition from mechanical to electronic POS systems, the adoption of accounting software programs and the implementation of first generation back-of-the-house management software. These technology products were generally used to reduce costs and increase efficiency, but they had little to do with how a restaurant communicates with and markets to customers. Today, restaurant technology is empowering operators to drive revenue, increase customer frequency, facilitate menu customization, expedite payment

All of the brands mentioned above are off to a running start, but not all will achieve the aggressive growth objectives they hope to achieve and have laid out to investors. The brands that can get to a critical mass (500 - 1,000 units) without sacrificing unit-level economics will ultimately be successful

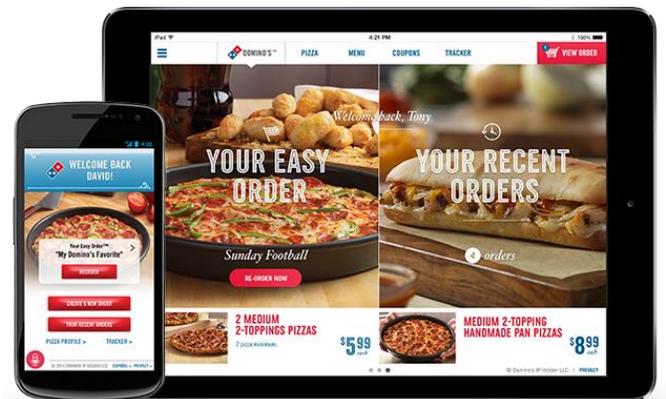
and serve the vital functions of customer outreach and interaction.

During the eight years that have transpired since the Great Recession, many established restaurant concepts have failed miserably to meaningfully adopt and embrace new restaurant technology, particularly mobile ordering apps, social media and digital menus. Certain concepts may claim in their investor presentation to have a social media presence and/or a mobile ordering app, but a further examination of their efforts in these areas yields no meaningful traffic gains, further penetration of the Millennial generation or increased social media followers. We are fast coming on a time when a restaurant concept not having a bona fide social media presence, online ordering, mobile app and digital menu (where applicable) will be a death knell in the increasingly competitive landscape of the restaurant industry. We strongly believe that restaurant companies that do not fully embrace this technology will not be relevant with the younger half of Gen X and merely all of Gen Y (Millennials) and Gen Z.

Ordering through websites and mobile apps gives an enormous amount of control to customers, which subsequently leads to increased customer satisfaction, and provides operators with a meaningful competitive advantage. In the case of calling a restaurant to place an order, a customer potentially risks being placed on hold before speaking to someone who could potentially misunderstand or incorrectly input the order. Instead, online ordering and mobile apps offer customers the convenience of not waiting on hold and a higher rate of order accuracy. Order accuracy, particularly for delivered items, is critical to maintain customer satisfaction, and given the staggering amount of errors in restaurant orders, online ordering is a tremendous cost saving benefit to operators as well. Additionally, a well-designed website and mobile app can vastly improve the speed of service by offering returning customers the one-click option to repeat a previous order and use the same payment method.

Digital menus are one of the more underappreciated facets of the new technology wave in the restaurant industry today, but they are a key aspect to a successful website and mobile app. High-resolution photographs on a digital menu can highlight and describe food much better than printed menu prose. Frequently, those mouthwatering images on a digital menu create cravings and up-selling opportunities more effectively

than printed menus. This is especially true with appetizers and desserts. Customers are frequently annoyed at verbal up-selling, but don't seem to mind answering queries of up-selling on a mobile device. In addition to up-selling, digital menus enable customers to customize their orders. A traditional printed menu may provide reasonable optionality; however, utilizing a digital menu provides limitless permutations of menu ingredients without overwhelming the customer, server or the kitchen. Much can be learned about consumer psychology in the selection process by experimenting with queries and suggestions in a non-obtrusive manner. Digital menus on tablets are spreading like wildfire throughout the casual dining industry for these and many other benefits.



Online and mobile ordering is best illustrated by the tremendous progress made by these phenomena in the pizza segment. Early adopters of this technology significantly increased their market share at the expense of the perennial segment leader in spite of often having lower quality ingredients. Ordering pizza in a college dormitory does not involve counting calories, fat content or gluten. But it is sensitive to price, speed of delivery and ease of ordering and payment. It is clear that the concepts that have firmly established themselves with Millennial customers are generally performing better in traffic growth than concepts that are irrelevant to Millennials. Taco Bell for example has over 12 million social media followers. This cannot be exaggerated or finessed as it takes years of strategy and implementation to generate that kind of following and enthusiasm with the finicky Millennial crowd.



When executed correctly, this new technology is a powerful driver of customer satisfaction and retention, which leads to increased sales and traffic. Millennials are much more apt to use a digital menu if provided than a printed menu. When coupled with significant menu optionality and an expedited payment option, restaurant operators are then squarely in the center of what Millennials are demanding in their restaurant experience. With an aging population slowly exposing itself in traffic losses in the casual dining industry, it is clear that relevance to Millennials is critical. There's no better way to do this than with technology.

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

**For more information, please contact:**

Kevin Burke, Managing Director  
310-231-3100

[kburke@tcib.com](mailto:kburke@tcib.com)

or

Visit us at:

[www.tcib.com](http://www.tcib.com)