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### Same-Store Sales Discussion and Analysis

During the first quarter of 2016 ("Q1 2016"), the restaurant industry maintained positive momentum and now has 24 consecutive quarters of same-store sales growth. 68.5% of the concepts we cover enjoyed positive same-store sales growth in Q1 2016, with an average year-over-year ("YOY") growth of 1.0% for the restaurant industry, which is consistent with the previous quarter and favorable compared to U.S. GDP growth of 0.5%. Of the 22 concepts that reported negative SSS growth in Q4 2015, only two were able produce positive growth in Q1 2016.

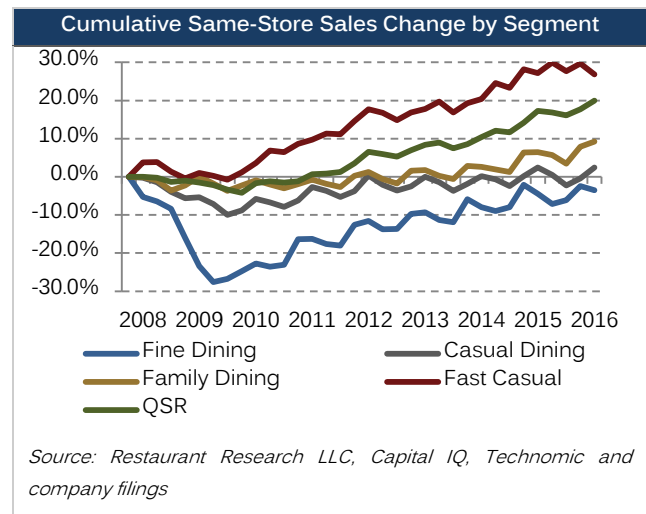
**Fine Dining:** The fine dining segment saw an average same-store sales growth of 1.0% YOY for Q1 2016. As the chart to the right illustrates, fine dining sales have yet to fully return to pre-recession levels and remains 3.5% below 2008 sales. Capital Grill led the segment with a positive 5.3% same-store sales increase in Q1 2016.

**Casual Dining:** Average same-store sales in the casual dining segment declined 0.1% YOY for Q1 2016, the second consecutive negative quarter. In fact, half of the concepts experienced negative growth for the quarter. According to Knapp-Track, casual dining guest counts were down 3.4%, 0.9% and 3.2% in January, February and March, respectively. That amounts to negative guest counts in 76 of the last 87 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.

**Family Dining:** The family dining segment posted an average YOY same-store sales growth of 2.5% for Q1 2016. According to Knapp-Track, family dining guest counts were down 3.3%, 0.6% and 1.5% in January, February and March, respectively. In a segment that is always facing competitive pricing pressure, this consistent decline in traffic is particularly concerning.

**Fast-Casual:** The ongoing challenges for Chipotle have been a major drag on the segment's average sales performance. For the first time in 26 quarters, same-store sales growth was negative in the fast-casual segment, albeit a slight decline of 0.1% for Q1 2016. However, excluding Chipotle's massive SSS decline of 29.7%, the segment actually grew SSS by 2.7% YOY.

**QSR:** In the QSR segment, 20 of the 24 concepts we track showed positive same-store sales growth during Q1 2016, with the segment up an average of 2.3% YOY. The sandwich concepts within QSR enjoyed an average growth of 4.3% for the second consecutive quarter. Interestingly, the turnaround at McDonald's in the last two quarters does not appear to have come at the expense of the other sandwich concepts.



The same-store sales performance in Q1 2016 illustrates in the intense competition not only between concepts, but also between segments. Given the U.S. economy's lackluster growth, the relative value proposition, speed of service and convenience offered by QSR and fast-casual concepts is a major competitive advantage in the ongoing fight for market share.

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

|                    | FY 2013     |             |             | FY 2014     |             |             |             | FY 2015     |             |             |               | FY 2016     |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|-------------|
|                    | Q2          | Q3          | Q4          | Q1          | Q2          | Q3          | Q4          | Q1          | Q2          | Q3          | Q4            | Q1          |
| <b>Fine Dining</b> |             |             |             |             |             |             |             |             |             |             |               |             |
| Fleming's          | 2.0%        | 4.2%        | 4.9%        | 1.7%        | 3.6%        | 4.8%        | 3.4%        | 3.0%        | 3.2%        | (0.6%)      | (0.3%)        | 1.3%        |
| Ruth's Chris       | 4.6%        | 4.2%        | 5.5%        | 2.6%        | 2.8%        | 4.8%        | 5.0%        | 2.8%        | 4.2%        | 3.3%        | 3.2%          | 3.1%        |
| Capital Grille     | 4.5%        | 3.2%        | 6.7%        | 0.1%        | 0.8%        | 3.9%        | 5.0%        | 6.1%        | 4.4%        | 7.2%        | 1.5%          | 5.3%        |
| Del Frisco's       | 5.9%        | 4.4%        | 5.2%        | 5.1%        | 5.2%        | 8.4%        | 4.9%        | 2.3%        | 1.0%        | (1.4%)      | (4.5%)        | (2.8%)      |
| Sullivan's         | (2.7%)      | (5.9%)      | (0.7%)      | (2.1%)      | 0.9%        | 0.6%        | 1.7%        | 4.8%        | (3.0%)      | 1.2%        | (1.8%)        | (1.8%)      |
| <b>Mean</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> | <b>1.0%</b> |

**Casual Dining**

|                          |             |               |             |             |             |             |             |             |             |             |               |               |
|--------------------------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|---------------|
| Applebee's               | 1.3%        | (0.4%)        | (0.3%)      | (0.5%)      | 0.6%        | 1.7%        | 2.8%        | 2.9%        | 1.0%        | (0.5%)      | (2.5%)        | (3.7%)        |
| Bahama Breeze            | (1.7%)      | 2.7%          | 6.2%        | 0.8%        | 4.1%        | N/A         | (0.6%)      | 3.2%        | 1.8%        | 1.8%        | 2.4%          | 9.9%          |
| BJ's Restaurants         | 0.0%        | (2.2%)        | (2.7%)      | (2.9%)      | (1.7%)      | 0.3%        | 1.2%        | 3.2%        | 0.5%        | 2.3%        | 0.7%          | 0.6%          |
| Bonefish                 | 0.2%        | (2.7%)        | 0.9%        | (1.5%)      | 0.3%        | 2.6%        | 0.7%        | 0.9%        | (4.6%)      | (6.1%)      | (5.4%)        | (2.7%)        |
| Bravo! Cucina Italiana   | (1.6%)      | (3.7%)        | (1.3%)      | (5.5%)      | (6.0%)      | (6.7%)      | (3.9%)      | (1.7%)      | (2.1%)      | (3.1%)      | (5.2%)        | (4.1%)        |
| Brick House Tavern + Tap | N/A         | 4.0%          | 6.6%        | 10.0%       | 8.5%        | 7.5%        | 5.7%        | 5.4%        | 2.8%        | (0.7%)      | (2.8%)        | (4.5%)        |
| Brio Tuscan Grille       | (4.0%)      | (5.1%)        | (1.5%)      | (4.4%)      | (4.5%)      | (5.2%)      | (4.2%)      | (1.0%)      | (1.6%)      | (3.8%)      | (4.3%)        | (2.1%)        |
| Buffalo Wild Wings       | 4.0%        | 4.3%          | 4.0%        | 5.7%        | 7.0%        | 5.8%        | 5.5%        | 6.5%        | 3.3%        | 2.6%        | 1.0%          | (2.0%)        |
| Carrabba's Italian Grill | 0.3%        | 0.0%          | 0.9%        | (1.8%)      | (1.2%)      | (1.2%)      | 0.3%        | 1.9%        | 0.9%        | (2.0%)      | (4.0%)        | (2.0%)        |
| Cheesecake Factory       | 0.9%        | 1.0%          | 1.1%        | 1.2%        | 1.5%        | 2.1%        | 1.4%        | 4.2%        | 2.8%        | 2.2%        | 1.1%          | 1.7%          |
| Chili's Grill & Bar      | (0.6%)      | (1.9%)        | 0.2%        | 0.5%        | 2.5%        | 2.3%        | 4.2%        | 2.2%        | 0.1%        | (1.1%)      | (2.1%)        | (3.6%)        |
| Chuy's                   | N/A         | 3.1%          | 3.0%        | 4.2%        | 2.4%        | 3.0%        | 3.8%        | 1.9%        | N/A         | 4.2%        | 3.2%          | 3.2%          |
| Dave & Buster's          | (0.9%)      | (0.9%)        | 2.4%        | 0.7%        | 4.7%        | 8.7%        | 10.5%       | 9.9%        | 11.0%       | 8.8%        | 6.0%          | 3.6%          |
| Famous Dave's            | 3.8%        | (2.3%)        | (1.1%)      | (3.3%)      | (2.8%)      | (2.3%)      | (4.0%)      | (4.9%)      | (9.2%)      | (9.8%)      | (10.6%)       | (7.7%)        |
| Granite City             | 2.5%        | 0.4%          | 0.6%        | N/A         | N/A         | 0.7%        | 0.6%        | 2.7%        | 2.1%        | (3.8%)      | 0.6%          | N/A           |
| Joe's Crab Shack         | 0.7%        | 3.3%          | 1.9%        | (6.0%)      | (4.7%)      | (4.4%)      | (4.5%)      | (3.8%)      | (4.0%)      | (6.6%)      | (2.9%)        | (1.3%)        |
| Kona Grill               | 2.5%        | 2.6%          | 3.5%        | 6.2%        | 3.2%        | 2.7%        | 3.1%        | 2.2%        | 1.0%        | 1.6%        | 3.2%          | 3.6%          |
| Logan's Roadhouse        | (3.9%)      | (3.9%)        | (5.3%)      | (3.2%)      | (4.5%)      | (2.6%)      | 0.1%        | (4.3%)      | (3.8%)      | (4.3%)      | N/A           | N/A           |
| LongHorn Steakhouse      | 3.5%        | 3.2%          | 2.9%        | 0.3%        | 2.4%        | 2.8%        | 2.6%        | 5.4%        | 5.2%        | 4.4%        | 2.6%          | 5.2%          |
| Maggiano's               | 0.2%        | 0.6%          | 0.9%        | 0.2%        | 0.9%        | 0.6%        | 2.3%        | 0.1%        | (0.1%)      | (1.7%)      | (1.8%)        | 0.2%          |
| Olive Garden             | 1.1%        | (4.0%)        | (0.6%)      | (5.4%)      | (4.2%)      | (1.3%)      | 2.2%        | 2.2%        | 3.4%        | 2.7%        | 2.8%          | 4.9%          |
| Outback                  | 2.8%        | (0.3%)        | 1.1%        | 0.8%        | 0.9%        | 4.8%        | 6.4%        | 5.0%        | 4.0%        | 0.1%        | (2.2%)        | (1.3%)        |
| Red Robin                | 3.6%        | 5.4%          | 3.7%        | 5.8%        | 1.6%        | 1.4%        | 4.3%        | 3.8%        | 3.6%        | 3.7%        | (1.6%)        | (2.2%)        |
| Ruby Tuesday             | (3.1%)      | (11.4%)       | (7.8%)      | (1.9%)      | 0.4%        | 1.1%        | (1.0%)      | (0.3%)      | (1.7%)      | 0.6%        | 0.8%          | (3.1%)        |
| Taco Cabana              | 1.1%        | 1.8%          | (2.9%)      | 0.8%        | 2.8%        | 3.5%        | 6.1%        | 3.8%        | 5.6%        | 4.8%        | 3.3%          | 1.7%          |
| Texas Roadhouse          | 4.7%        | 2.9%          | 2.5%        | 3.0%        | 3.0%        | 5.8%        | 6.8%        | 8.7%        | 8.0%        | 7.0%        | 4.4%          | 4.3%          |
| <b>Mean</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> | <b>(0.1%)</b> |

**Family Dining**

|                   |             |             |             |             |             |             |             |             |             |             |             |             |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Bob Evans         | (0.6%)      | (1.9%)      | (1.8%)      | (4.1%)      | (2.0%)      | 0.0%        | 3.8%        | 2.1%        | (0.3%)      | (3.2%)      | (3.6%)      | (3.0%)      |
| Chuck E Cheese    | N/A         | (2.1%)      | N/A         | N/A         | N/A         | N/A         | (1.4%)      | (5.0%)      | 3.0%        | 0.7%        | 1.3%        | 6.0%        |
| Cracker Barrel    | 3.1%        | 2.8%        | (0.6%)      | (0.7%)      | 1.3%        | 3.3%        | 7.9%        | 5.2%        | 3.8%        | 2.5%        | 0.6%        | 2.3%        |
| Denny's           | 0.6%        | 1.2%        | 0.9%        | 1.8%        | 1.9%        | 2.4%        | 4.7%        | 7.2%        | 7.3%        | 6.1%        | 2.9%        | 2.5%        |
| IHOP              | 1.9%        | 3.6%        | 4.5%        | 3.9%        | 3.2%        | 2.4%        | 6.1%        | 4.8%        | 6.2%        | 5.8%        | 1.4%        | 1.5%        |
| Luby's            | (0.1%)      | 1.0%        | 2.4%        | 1.2%        | 2.0%        | 0.4%        | 0.2%        | 3.1%        | (1.0%)      | 0.2%        | 1.2%        | 3.1%        |
| Peter Piper Pizza | N/A         | N/A         | N/A         | N/A         | N/A         | N/A         | 3.4%        | 6.8%        | 5.3%        | N/A         | 3.6%        | 6.0%        |
| Steak n Shake     | 0.3%        | 4.2%        | 2.2%        | 3.0%        | 3.7%        | 2.6%        | 2.9%        | 6.0%        | 4.8%        | 3.0%        | 3.6%        | 1.8%        |
| <b>Mean</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> | <b>2.5%</b> |

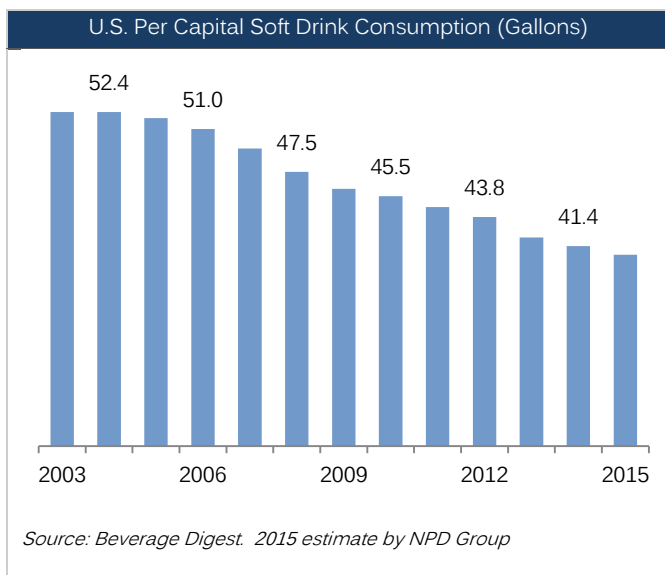
**SSS Data (Cont'd)**

|                       | FY 2013     |             |             | FY 2014       |             |             |             | FY 2015     |             |             |             | FY 2016       |
|-----------------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
|                       | Q2          | Q3          | Q4          | Q1            | Q2          | Q3          | Q4          | Q1          | Q2          | Q3          | Q4          | Q1            |
| <b>Fast-Casual</b>    |             |             |             |               |             |             |             |             |             |             |             |               |
| Chipotle              | 5.5%        | 6.2%        | 9.3%        | 13.4%         | 17.3%       | 19.8%       | 16.1%       | 10.4%       | 4.3%        | 2.6%        | (14.6%)     | (29.7%)       |
| Cosi                  | (2.7%)      | (3.6%)      | (4.6%)      | (9.5%)        | (4.7%)      | (1.9%)      | 4.2%        | 4.4%        | 2.1%        | (0.3%)      | 0.7%        | 1.5%          |
| El Pollo Loco         | N/A         | 3.7%        | 6.5%        | 7.2%          | 5.5%        | 7.9%        | 7.6%        | 3.5%        | 1.3%        | 0.0%        | 1.8%        | 0.7%          |
| Fuddrucker's          | N/A         | (0.4%)      | (2.3%)      | (2.7%)        | (3.9%)      | (4.6%)      | 0.2%        | 2.1%        | 0.2%        | 1.7%        | 1.3%        | 0.0%          |
| Noodles & Company     | 4.7%        | 2.1%        | 3.9%        | (1.6%)        | 0.2%        | 1.7%        | 1.3%        | 0.9%        | 0.1%        | (0.9%)      | (1.1%)      | (0.1%)        |
| Panera Bread          | 3.7%        | 1.3%        | 1.1%        | 0.1%          | 0.1%        | 1.4%        | 3.0%        | 0.7%        | 1.8%        | 2.8%        | 2.3%        | 4.7%          |
| Pie Five              | N/A         | N/A         | N/A         | 4.4%          | 12.9%       | 17.0%       | 16.9%       | 9.5%        | 6.7%        | 1.5%        | (1.6%)      | (4.0%)        |
| Potbelly              | N/A         | 2.5%        | 0.7%        | (2.2%)        | (1.6%)      | 0.5%        | 3.7%        | 5.4%        | 4.9%        | 3.7%        | 3.7%        | 3.7%          |
| Qdoba Mexican Grill   | 1.3%        | 2.0%        | 2.3%        | 7.0%          | 7.5%        | 7.7%        | 14.0%       | 8.3%        | 7.7%        | 6.6%        | 1.5%        | 2.1%          |
| Shake Shack           | N/A         | N/A         | N/A         | N/A           | N/A         | N/A         | 7.2%        | 11.7%       | 12.9%       | 17.1%       | 11.0%       | 9.9%          |
| Zoe's Kitchen         | N/A         | N/A         | N/A         | 5.7%          | 7.5%        | 5.9%        | 7.8%        | N/A         | 5.6%        | 4.5%        | 7.7%        | 8.1%          |
| <b>Mean</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>(0.3%)</b> |
| <b>QSR</b>            |             |             |             |               |             |             |             |             |             |             |             |               |
| <b>Chicken</b>        |             |             |             |               |             |             |             |             |             |             |             |               |
| Bojangles             | N/A         | N/A         | N/A         | N/A           | 4.2%        | 5.3%        | 7.0%        | 7.9%        | 4.4%        | 4.1%        | 0.6%        | 2.0%          |
| Church's              | 1.8%        | 1.2%        | 0.9%        | (0.7%)        | 0.3%        | 1.7%        | 3.6%        | 2.8%        | (2.6%)      | (4.8%)      | (4.6%)      | (4.2%)        |
| KFC                   | 3.0%        | (4.0%)      | (5.0%)      | (3.0%)        | (2.0%)      | 2.0%        | 6.0%        | 7.0%        | 3.0%        | 0.0%        | 3.0%        | 1.0%          |
| Pollo Tropical        | 6.4%        | 6.5%        | 7.0%        | 6.3%          | 6.7%        | 5.9%        | 7.7%        | 6.4%        | 4.3%        | 4.2%        | 0.4%        | 0.0%          |
| Popeye's              | 4.3%        | 5.1%        | 0.3%        | 4.3%          | 3.8%        | 7.2%        | 10.7%       | 7.0%        | 7.9%        | 5.6%        | 2.0%        | 1.1%          |
| <b>Mean</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>(0.0%)</b> |
| <b>Coffee/Snack</b>   |             |             |             |               |             |             |             |             |             |             |             |               |
| Baskin Robbins        | 1.6%        | 4.2%        | 2.2%        | 0.5%          | 4.2%        | 5.8%        | 9.3%        | 8.0%        | 3.4%        | 7.5%        | 4.4%        | 5.0%          |
| Dunkin Donuts         | 4.0%        | 4.2%        | 3.5%        | 1.2%          | 1.8%        | 2.0%        | 1.4%        | 2.7%        | 2.9%        | 1.1%        | 1.8%        | 2.0%          |
| Jamba Juice           | 1.7%        | (3.4%)      | 0.3%        | 0.6%          | 2.5%        | 3.7%        | 4.9%        | 5.0%        | (5.9%)      | 6.6%        | 5.4%        | (2.1%)        |
| Krispy Kreme          | 10.0%       | 3.7%        | 1.6%        | 3.3%          | 2.3%        | 3.7%        | 3.6%        | 5.2%        | 5.5%        | 3.4%        | 1.6%        | 0.7%          |
| Starbucks             | 9.0%        | 8.0%        | 5.0%        | 6.0%          | 6.0%        | 5.0%        | 5.0%        | 7.0%        | 8.0%        | 9.0%        | 9.0%        | 7.0%          |
| Tim Horton's          | 1.4%        | 3.0%        | 3.1%        | 1.9%          | 5.9%        | 6.8%        | 4.1%        | 8.9%        | 7.0%        | 4.3%        | 5.8%        | 5.8%          |
| <b>Mean</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>4.7%</b> | <b>3.1%</b>   |
| <b>Mexican</b>        |             |             |             |               |             |             |             |             |             |             |             |               |
| Del Taco              | N/A         | N/A         | N/A         | N/A           | N/A         | N/A         | N/A         | 7.7%        | 6.0%        | 5.6%        | 5.8%        | 3.2%          |
| Taco Bell             | 2.0%        | 2.0%        | 1.0%        | (1.0%)        | 2.0%        | 3.0%        | 7.0%        | 6.0%        | 6.0%        | 4.0%        | 4.0%        | 1.0%          |
| <b>Mean</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>2.1%</b>   |
| <b>Pizza</b>          |             |             |             |               |             |             |             |             |             |             |             |               |
| Domino's              | 6.7%        | 5.4%        | 3.7%        | 4.9%          | 5.4%        | 7.7%        | 11.1%       | 14.5%       | 12.8%       | 10.5%       | 10.7%       | 6.4%          |
| Papa John's           | 3.4%        | 1.8%        | 6.6%        | 9.6%          | 6.0%        | 7.4%        | 4.1%        | 6.5%        | 5.5%        | 3.0%        | 1.9%        | 0.1%          |
| Papa Murphy's         | N/A         | 3.0%        | 4.0%        | 3.3%          | 1.5%        | 1.5%        | N/A         | 5.6%        | 4.5%        | 1.4%        | (3.1%)      | (3.0%)        |
| Pizza Hut             | (2.0%)      | (1.0%)      | (4.0%)      | (5.0%)        | (4.0%)      | (2.0%)      | 0.0%        | (1.0%)      | 1.0%        | 0.0%        | 2.0%        | 5.0%          |
| Pizza Inn             | N/A         | (3.5%)      | (4.1%)      | 4.4%          | N/A         | 4.6%        | 6.4%        | 6.0%        | 0.2%        | (1.1%)      | (1.7%)      | (2.2%)        |
| <b>Mean</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>1.3%</b>   |
| <b>Sandwich</b>       |             |             |             |               |             |             |             |             |             |             |             |               |
| Arby's                | N/A         | N/A         | N/A         | N/A           | 6.3%        | 10.4%       | 4.9%        | 9.7%        | 7.6%        | 9.6%        | 5.5%        | 5.8%          |
| Burger King           | (0.5%)      | (0.3%)      | 0.2%        | 0.1%          | 0.4%        | 3.6%        | 4.2%        | 6.9%        | 7.9%        | 5.2%        | 2.8%        | 4.4%          |
| Jack in the Box       | 0.1%        | (1.4%)      | 1.9%        | 0.7%          | 2.4%        | 3.1%        | 4.4%        | 8.9%        | 7.3%        | 6.2%        | 1.4%        | 0.0%          |
| McDonald's            | 1.0%        | 0.7%        | (1.4%)      | (1.7%)        | (1.5%)      | (3.3%)      | (1.7%)      | (2.6%)      | (2.0%)      | 0.9%        | 5.7%        | 5.4%          |
| Sonic Drive-In        | 0.1%        | 5.9%        | 2.2%        | 1.4%          | 5.3%        | 3.5%        | 8.5%        | 11.5%       | 6.1%        | 4.9%        | 5.3%        | 6.5%          |
| Wendy's               | 0.3%        | 3.1%        | 2.9%        | 0.7%          | 3.2%        | 0.8%        | 1.7%        | 3.2%        | 2.2%        | 3.1%        | 4.8%        | 3.6%          |
| <b>Mean</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>4.3%</b>   |
| <b>Mean Total QSR</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> | <b>2.3%</b>   |

**Is Craft Soda the Next Big Trend for Fast-Casual Restaurants?**

Craft sodas are making a push to replace traditional soft drink offerings at fast-casual restaurants. The growing craft soda market is capitalizing on the increasing consumer demand for healthier and higher quality food and drink.

Consumption of soft drinks has been on a steady decline in the U.S., declining each year since 2004. In fact, according to Beverage Digest, per capita consumption of carbonated soft drinks dropped to a 30-year low in 2015, and Beverage Marketing Corporation expects bottled water to surpass soda consumption by early 2017. Interestingly, the biggest decline has been in diet sodas as consumers have become increasingly untrusting of artificial sweeteners, or have substituted healthier offerings like water, juices and teas. This has not gone unnoticed by the industry's biggest players, Coke and Pepsi, both of whom have diversified their portfolios away from sodas. They have also sought to curb the decline in their soda brands by investing in alternative sweeteners such as Stevia, making entrances into the craft soda space, and expanding offerings of their namesake products made with natural sugar.



As sales of traditional soft drinks have continued to decline, a new breed of craft soda makers has emerged, offering small batch beverages brewed with cane sugar and natural ingredients. Companies like Reed's Inc. (NYSE: REED), Jones Soda Co. (NASDAQ: JSDA), Maine Root Handcrafted

Beverages, Batch Craft Soda and Boylan Bottling are producing lines of craft sodas in a variety of non-traditional flavors. These craft sodas have begun to appear in fast-casual restaurant chains, supplementing or replacing the traditional Coke or Pepsi fountain. Chains including Fuddrucker's, Mendocino Farms, NKDPizza, Honeygrow, HopDoddy and District Taco are already offering these craft sodas as fountain products. Reed's has publicly stated it has been in discussions with several national fast-casual chains about their all natural fountain line.

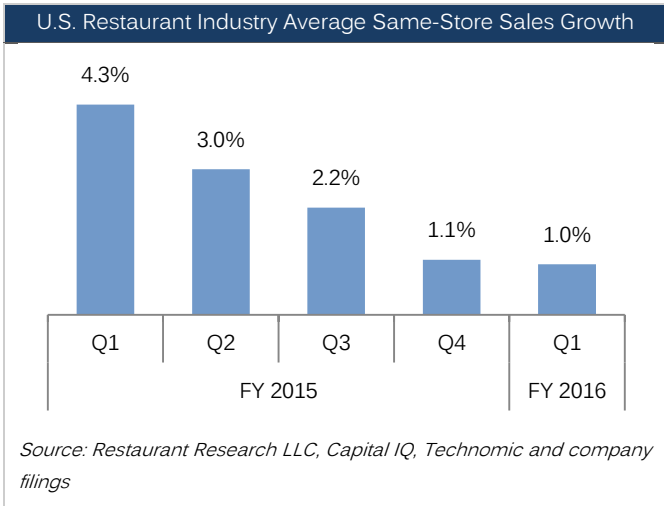
While Coca-Cola estimates that the craft and specialty soda segment currently accounts for less than 2% of total soft drink sales in the U.S., its growth has been recognized across the industry. Not to be outdone by smaller and younger competitors, Coke and Pepsi have made their own entrances into the craft soda market. Coke purchased the Hansen's Natural and Blue Sky brands from Monster in 2015. A Chipotle in Denver announced earlier this year it was testing these new offerings as well as Coke Life, Coke's stevia-sweetened cola, to better align with Chipotle's "food with integrity" positioning, according to a report by Nation's Restaurant News. Pepsi introduced a new craft soda fountain of its own in 2015, based on its in-house developed Stubborn Soda brand, which offers flavors like black cherry and orange hibiscus.

Whether this growth trend continues remains to be seen. Some industry participants speculate that as consumers drink less soda, they will gravitate towards higher quality, more natural offerings when they do choose to indulge. Others have been more bold, predicting a craft beer-like soda revolution. This development could be unsettling for restaurant operators who have enjoyed healthy margins on soda and rebates from Coke and Pepsi. Craft sodas are more expensive to produce and carry a higher price in restaurants, likely meaning less margin for restaurant operators. With Coke and Pepsi firmly entrenched in the restaurant industry, it will be a development worth watching. You can be sure Coke and Pepsi are.

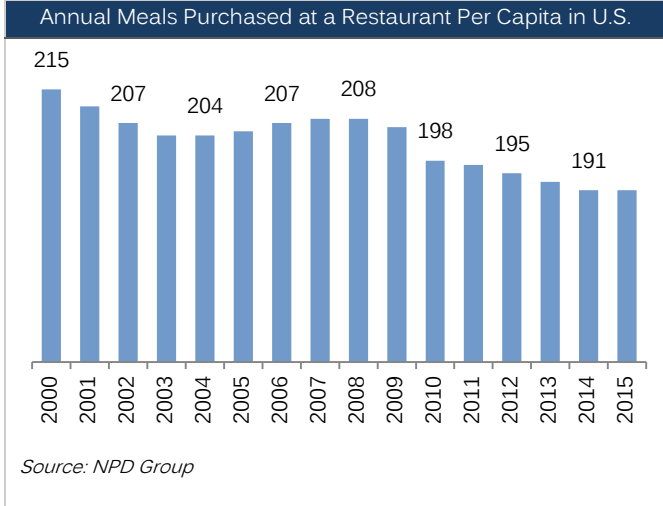
Contributing Editor Chris Ward is a Director for Trinity Capital.

**What Is Winning the Battle for Restaurant Market Share?**

While the restaurant industry muddles along, some concepts continue to persevere and demonstrate both impressive and consistent same-store sales growth. Generally speaking, when the economy is growing rapidly it inures to the benefit of many, if not most, restaurant concepts. In some instances, that kind of high-growth, rising-tide environment will cause consumers to be a little less persnickety with their restaurant selection, which can then cover up potential shortcomings in a concept, such as ineffective product innovation, a relatively lower value proposition, lack of innovative technology or a marketing message that doesn't resonate with consumers. On the other hand, as Warren Buffet famously said, "Only when the tide goes out do you discover who's been swimming naked."



As illustrated in the chart above, same-store sales growth for the overall restaurant industry is gradually dwindling, and it is difficult to see a positive catalyst that will ignite the U.S. economy and subsequently the restaurant industry going forward. As we all know, the key drivers for growth in the restaurant industry are job growth, wage growth, increasing consumer confidence and the relative value of dining at home vs dining out. Those drivers should then lead to increased guest traffic and discretionary spending. However, even as the economy has emerged from the Great Recession, per capita meals consumed at restaurants have continued to steadily decline at a compound annual rate of approximately (0.8%) since the peak in 2000, according to NPD Group.



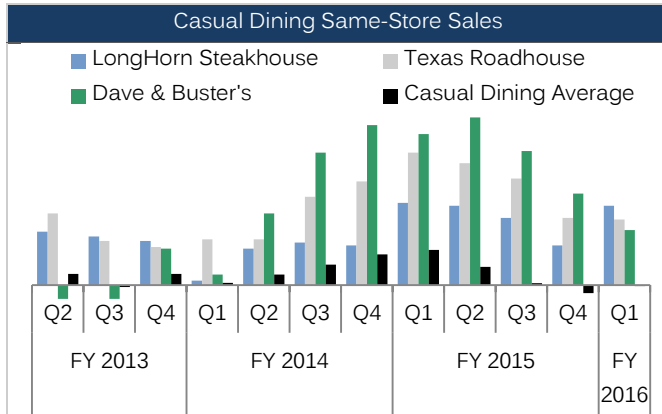
The same-store sales and guest traffic data suggests that the tide is slowly going out for the restaurant industry, so in order to for concepts to grow their piece of the pie while the overall pie is getting smaller, they will have to take market share from other concepts, and not necessarily just those concepts in the same segment. In order to win the battle for market share, concepts and restaurant operators need to execute on all fronts, or at least better than their peers on those issues most critical to their customer base. For this article, instead of focusing on the negatives and missteps committed by certain brands, we attempt to identify the positives and the prudent decisions made by those concepts within various segments that are actually flourishing in this challenging environment for the restaurant industry.

**Casual Dining**

**LongHorn Steakhouse:** LongHorn has focused on growing specific dayparts, particularly lunch as many competing steakhouses don't open for lunch. In 2014, LongHorn introduced a nationwide happy hour menu. Last year, LongHorn rolled out DineTime, a guest management platform and mobile app that allows customers to view current wait times and add their names to the wait list. This is intended to reduce crowded waiting areas and improve table turnover.

**Texas Roadhouse:** Texas Roadhouse is committed to being the low price leader, and the combination of value and quality resonates with the chain's core demographic. In order to incentivize restaurant managers, Texas Roadhouse offers a performance-based compensation program based on a percentage of the restaurant's pretax net income. With a little

skin in the game, restaurant operators are invested in the future success of their restaurants.



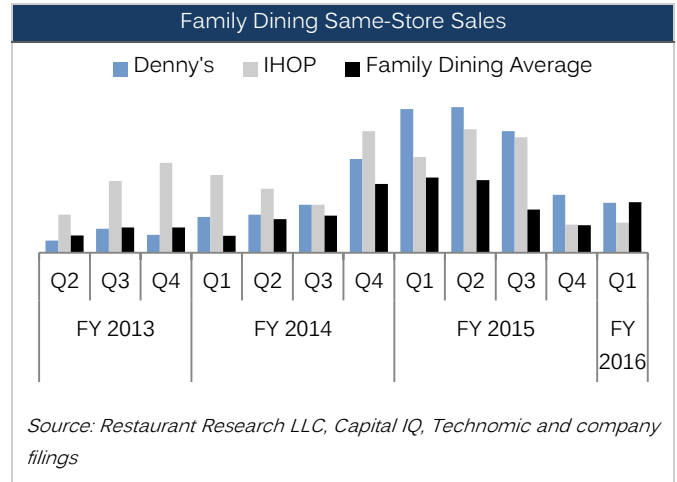
Source: Restaurant Research LLC, Capital IQ, Technomic and company filings

**Dave & Buster's:** Ahead of the 2014-15 football season, Dave & Buster's launched a "Football HQ" campaign to entice football fans to visit every week to watch their team. The campaign specifically targeted Millennials and ads included Matthew Berry, a fantasy football guru and ESPN contributor. Unlike other sports bars, the chain emphasized that people can not only watch the game, but play games, something it calls its "Million Dollar Midway".

**Family Dining**

**Denny's:** The family dining chain has simplified its menu and added healthier options, which has reduced complexity in the kitchen and contributed to margin improvement and a stronger dinner daypart. Perhaps the largest impact is a result of Denny's "Heritage" remodel program, which launched in 2013 and was designed to give customers a contemporary diner feel. For the last year and a half, Denny's "Grand Slams" online video series has resonated with Millennials and drawn roughly 37 million total views.

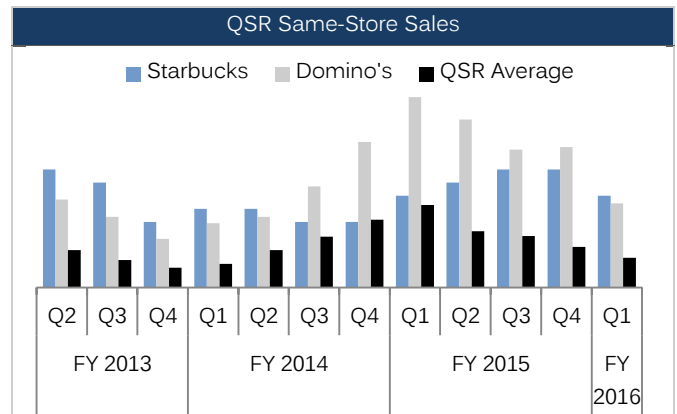
**IHOP:** IHOP continues to improve its lunch and dinner daypart sales. Julia Stewart, Chairman and CEO of DineEquity, attributes much of IHOP's success to the increased focus on menu enhancement, advertising and improved operating standards. In Q2 2015, management updated the IHOP logo and introduced a new "Summer Stacks" pancake offering in addition to bringing back its popular brioche French toast line.



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

**QSR**

**Starbucks:** In recent times, Starbucks has worked hard to diversify beyond just caffeinated beverages and is focused on doubling its annual food sales. The chain has benefited tremendously from its rapid adoption of the mobile ordering and mobile payment system. Mobile orders have doubled in the last year, which is particularly amazing given that Starbucks' mobile app users spend three times more than its average customers. Starbucks' new loyalty program rewards customers on the basis of how much they spend rather than how many visits they make.



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

**Domino's:** Much like Starbucks, Domino's has been very proactive in adopting new technology as well as a customer loyalty program called "Piece of the Pie Rewards". The company's mobile app has been widely praised for its menu customization features, delivery tracking ability and quick



option for returning customers. "Piece of the Pie" is about driving volume by rewarding repeat customers, not increasing the size of individual orders. In an ad campaign about six years ago, Domino's told customers that its pizza had been bad and it was committed to reinventing the entire menu with better tasting and higher quality ingredients. It was a bold move that continues to pay dividends for the brand to this day. In 2014, Domino's added specialty chicken and by the end of 2015, the company had remodeled 50% of its U.S. restaurants.

This is a challenging economic environment for the restaurant industry, but that does not mean certain concepts won't find ways to grow and be successful. As the concepts discussed above have shown, some of the best strategies include menu innovation, adoption of new technologies, advertising other dayparts, rewarding loyal customers, updating store images and capturing the Millennial demographic. It is in this low growth environment that the gap between winners and losers becomes more pronounced, so it is critical for restaurant operators to be proactive and to execute effectively. With little to no sign of meaningful economic growth on the horizon, we expect the battle for market share to get progressively more intense.

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## **Brexit - What Does it Mean for the Restaurant Industry?**

The United Kingdom's decision to exit the European Union will have lasting economic repercussions both in the E.U. and elsewhere. In the short run, there will not be a profound impact on the restaurant industry other than some temporary equity market disturbances in the publicly traded restaurant companies. However, the longer-term issues driven by Brexit will have a more profound impact on the restaurant industry, as we will discuss in this article.

Brexit ("Britain-Exit") is the nickname journalist coined to describe the United Kingdom's referendum and subsequent decision to exit the European Union. Ironically, a significant internet search topic in the U.K. leading up to and after the referendum was, "What is the E.U.?" While this describes the ignorance of a substantial portion of the electorate, it more

importantly underscores the frustration in many Western democracies with politicians who are not in touch with voters' concerns. The two big hot button issues in the West right now are interrelated, and they are immigration and terrorism. Western democracies are failing to assuage their citizens' concerns about the increasing trend of radical Islamic terrorism and how it is driven, at least in part, by flawed immigration policies. Simply put, in our country the "NASCAR nation" wants the government to investigate each individual before they are granted the right to come to the United States. Secondly, they want political leadership that will not talk tough about terrorism but get tough with it.

The greatest longer-term implication of Brexit is that other E.U. member states such as Sweden, France, Hungary, Denmark and others are discussing referendums for potential E.U. exit as well. While it is unlikely that the E.U. will completely unravel, it is likely to become less effective as a trade block, which has serious implications for global trade and ergo worldwide economic growth. Most of the global economic growth since the Great Recession has come from China and the United States. But while the E.U. has experienced much slower growth than either China or the U.S., it has at least been positive. The exit of any substantial nation from the E.U. will add to the costs of running the E.U., thus making it less effective. For example, after a rebate and public sector receipts from the E.U., the U.K. makes a net payment to the E.U. of £23 million per day (or £8.5 billion per year). Upon final exit from the E.U., this funding will stop, which leaves a massive hole in the E.U. budget. If a couple more nations were to also leave the E.U., a growing financial challenge will quickly occur.

Additionally, the change in currency policies and tariffs as a result of member states withdrawing from the E.U. is another implication for global economic growth, which will have an indirect impact on the restaurant industry. For example, when the U.K. leaves the E.U. it will have to negotiate a trade and tariff policy with the E.U. The decline in British sterling (the pound) has made British goods less expensive in E.U. markets and can displace the sale of E.U. member state products in the market place both in the U.K. and abroad. This may result in higher E.U. tariffs on British goods. Complicating this development are the global trade pressures which incentivize central bankers to keep their currency at the lowest end of the "healthy range" in order to make exports more attractive. This

undermines global economic growth and can have a negative impact on consumer spending, and thus restaurant traffic in the U.K., the E.U. and even the United States. The bottom line is that in the near term this is a yawn and in the long term it is going to cost everyone something.

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