TRINITY CAPITAL
INVESTMENT BANKING

Restaurant Industry Commentary
&
Q4 2017 SSS Update

What's Inside This Commentary

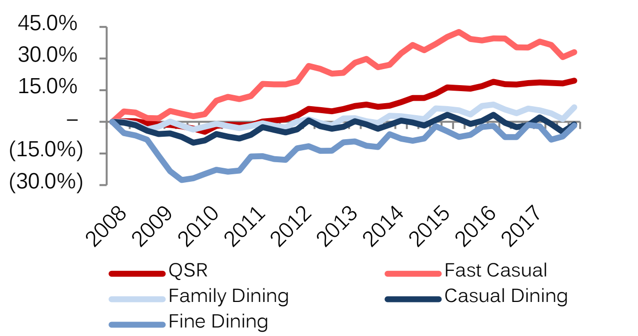
Published: May 2018

Same-Store Sales Discussion

During the fourth quarter of 2017 ("Q4 2017"), restaurant industry same-store sales ("SSS") increased for the first time in the past seven quarters. It was not a big increase, 0.2% to be exact, but gave the industry some momentum going into 2018. Of the 60 companies we follow, 41, or 68%, generated SSS growth – more than double the 33% that posted positive comps in Q3 2017. Data over the last several quarters have displayed a consistent slowdown for the industry; however, the positive performance in Q4 2017 ended a six quarter streak of industry SSS decreases.

QSR: The QSR segment continued to lead the industry with 14 of the 23 concepts we track turning in SSS growth. The segment was up 1.0% year-over-year ("YOY"), continuing its steady climb. Mexican concepts again led the segment, along with coffee/breakfast concepts, each with 2.2% growth. Baskin Robbins had the highest SSS growth within the segment with a 5.1% increase YOY. Chicken concepts lagged, down 1.2% on average. Domino's performance slowed in Q4 2017, with 4.2% growth, after averaging 10.8% over the prior 12 quarters.

Indexed SSS by Segment (2007 to Q4 2017)



Source: Restaurant Research LLC, Technomic and company filings

Fast Casual: Q4 2017 saw the fast casual segment post its eighth consecutive sales decrease, with a drop of 1.6%. This downward trend follows 26 quarters of SSS growth from Q3 2009 to Q4 2015. Pie Five delivered another double-digit loss in Q4 2017, down 13.7% for the pizza concept's seventh straight double-digit decrease. Potbelly and Noodles & Company continued to slip, dropping 2.4% and 0.9%, respectively. Of the eight companies reporting, El Pollo Loco led the group with SSS growth of 1.4% YOY. Chipotle could not get back to the level of growth it showed in the first half of 2017, delivering a modest 0.9% SSS increase in Q4 2017.

Family Dining: Although family dining posted a SSS decline for a fifth consecutive quarter, Q4 2017 was the smallest year-over-year decline at 0.6%. Denny's led the segment with growth of 2.2%, which can be attributed to improvements to the menu and online and mobile ordering platforms. Chuck E. Cheese suffered a 6.0% decline to finish out a weak second half of 2017 on the heels of its owner, Apollo Global Management, considering a sale or IPO in Q2 2017.

Casual Dining: The casual dining segment ended 2017 on a positive note with 0.5% SSS growth after delivering six consecutive quarters of declines. Of the 20 concepts we follow, only five had negative comps for the quarter compared to 17 in Q3 2017. Taco Cabana SSS decreased 7.4%, representing the biggest drop in the segment for a second consecutive quarter. On the other hand, Applebee's broke its streak of nine quarterly decreases with 1.3% growth. Steakhouse chains Texas Roadhouse, Outback and LongHorn continued to outperform the segment, with Texas Roadhouse's 5.8% growth leading the segment.

Fine Dining: The fine dining segment saw a slight decrease in SSS growth of 0.3%, despite positive comps from four of five concepts we track. Sullivan's had a weak quarter with a 10.8% decrease after leading the segment in Q3. Capital Grille led the group with 3.8% growth.

Much like the SSS growth of 0.2% posted in Q4 2017, overall industry performance was mixed in 2017. The restaurant industry continues to be impacted by technological and cultural changes. It is critical for restaurants to invest in digital platforms and advertise effectively, while staying focused on quality, service and cleanliness that customers expect in this increasingly competitive environment.

Contributing Editor Aaron Edwards is an Associate at Trinity Capital.

Same-Store Sales Data

	FY 2015				FY 2016				FY 2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
QSR												
Chicken												
Bojangles	7.9%	4.4%	4.1%	0.6%	2.0%	0.2%	0.8%	2.4%	(1.7%)	(1.4%)	(2.2%)	(3.1%)
Church's	2.8%	(2.6%)	(4.8%)	(4.6%)	(4.2%)	(2.5%)	(1.8%)	(1.3%)	(1.0%)	0.2%	N/A	N/A
KFC	7.0%	3.0%	0.0%	3.0%	1.0%	2.0%	6.0%	4.0%	2.0%	2.0%	1.0%	1.0%
Pollo Tropical	6.4%	4.3%	4.2%	0.4%	0.0%	(1.4%)	(1.0%)	(4.0%)	(6.7%)	(7.7%)	(10.9%)	(0.1%)
Popeye's	7.0%	7.9%	5.6%	2.0%	1.1%	0.0%	1.5%	3.0%	(0.4%)	(3.3%)	(2.6%)	(2.5%)
Mean	**6.2%**	**3.4%**	**1.8%**	**0.3%**	**(0.0%)**	**(0.3%)**	**1.1%**	**0.8%**	**(1.6%)**	**(2.0%)**	**(3.7%)**	**(1.2%)**
Coffee/Snack												
Baskin Robbins	8.0%	3.4%	7.5%	4.4%	5.0%	0.6%	(0.9%)	0.9%	(2.4%)	(0.9%)	0.4%	5.1%
Dunkin Donuts	2.7%	2.9%	1.1%	1.8%	2.0%	0.5%	2.0%	1.9%	0.0%	0.8%	0.6%	0.8%
Jamba Juice	5.0%	(5.9%)	6.6%	5.4%	(2.1%)	4.2%	(1.1%)	(2.2%)	(5.8%)	0.0%	N/A	2.9%
Starbucks	7.0%	8.0%	9.0%	9.0%	7.0%	4.0%	4.0%	3.0%	3.0%	5.0%	2.0%	2.0%
Tim Horton's	8.9%	7.0%	4.3%	5.8%	5.8%	5.9%	4.5%	3.6%	(0.1%)	(0.8%)	0.3%	0.1%
Mean	**6.3%**	**3.1%**	**5.7%**	**5.3%**	**3.5%**	**3.0%**	**1.7%**	**1.4%**	**(1.1%)**	**0.8%**	**0.8%**	**2.2%**
Mexican												
Del Taco	7.7%	6.0%	5.6%	5.8%	3.2%	3.3%	6.7%	5.5%	4.2%	7.1%	4.1%	2.4%
Taco Bell	6.0%	6.0%	4.0%	4.0%	1.0%	(1.0%)	3.0%	3.0%	8.0%	4.0%	3.0%	2.0%
Mean	**6.9%**	**6.0%**	**4.8%**	**4.9%**	**2.1%**	**1.2%**	**4.9%**	**4.3%**	**6.1%**	**5.6%**	**3.6%**	**2.2%**
Pizza												
Domino's	14.5%	12.8%	10.5%	10.7%	6.4%	9.7%	13.0%	12.2%	10.2%	9.5%	8.4%	4.2%
Papa John's	6.5%	5.5%	3.0%	1.9%	0.1%	4.8%	5.5%	3.8%	2.0%	1.4%	1.0%	(3.9%)
Papa Murphy's	5.6%	4.5%	1.4%	(3.1%)	(3.0%)	(4.0%)	(5.8%)	(7.8%)	(5.0%)	(4.3%)	(4.1%)	(2.6%)
Pizza Hut	(1.0%)	1.0%	0.0%	2.0%	5.0%	1.0%	(2.0%)	(4.0%)	(7.0%)	(3.0%)	0.0%	2.0%
Pizza Inn	6.0%	0.2%	(1.1%)	(1.7%)	(2.2%)	0.3%	0.2%	(1.2%)	0.1%	(9.5%)	1.4%	2.7%
Mean	**6.3%**	**4.8%**	**2.8%**	**2.0%**	**1.3%**	**2.4%**	**2.2%**	**0.6%**	**0.1%**	**(1.2%)**	**1.3%**	**0.5%**
Sandwich												
Arby's	9.7%	7.6%	9.6%	5.5%	5.8%	3.7%	2.4%	3.1%	1.6%	3.7%	N/A	N/A
Burger King	6.9%	7.9%	5.2%	2.8%	4.4%	(0.8%)	(0.5%)	1.8%	(2.2%)	3.0%	4.0%	5.1%
Jack in the Box	8.9%	7.3%	6.2%	1.4%	0.0%	1.1%	2.0%	3.1%	(0.8%)	(0.2%)	(1.0%)	(0.2%)
McDonald's	(2.6%)	(2.0%)	0.9%	5.7%	5.4%	1.8%	1.3%	(1.3%)	1.7%	3.9%	4.1%	4.5%
Sonic Drive-In	11.5%	6.1%	4.9%	5.3%	6.5%	2.0%	(2.0%)	(2.0%)	(7.4%)	(1.2%)	(3.3%)	(1.7%)
Wendy's	3.2%	2.2%	3.1%	4.8%	3.6%	0.4%	1.4%	0.8%	1.6%	3.2%	2.0%	1.3%
Mean	**6.3%**	**4.9%**	**5.0%**	**4.3%**	**4.3%**	**1.4%**	**0.8%**	**0.9%**	**(0.9%)**	**2.1%**	**1.2%**	**1.8%**
Mean Total QSR	**6.3%**	**4.2%**	**4.0%**	**3.2%**	**2.3%**	**1.6%**	**1.7%**	**1.2%**	**(0.3%)**	**0.5%**	**0.4%**	**1.0%**
Fast Casual												
Chipotle	10.4%	4.3%	2.6%	(14.6%)	(29.7%)	(23.6%)	(21.9%)	(4.8%)	17.8%	8.1%	1.0%	0.9%
El Pollo Loco	3.5%	1.3%	0.0%	1.8%	0.7%	2.4%	1.6%	(1.3%)	(0.3%)	2.9%	1.7%	1.4%
Fuddrucker's	2.1%	0.2%	1.7%	1.3%	0.0%	(1.0%)	(0.8%)	(1.6%)	(1.1%)	(0.9%)	(3.6%)	0.6%
Noodles & Company	0.9%	0.1%	(0.9%)	(1.1%)	(0.1%)	(1.0%)	(0.7%)	(1.3%)	(2.0%)	(3.4%)	(3.5%)	(0.9%)
Panera Bread	0.7%	1.8%	2.8%	2.3%	4.7%	2.3%	1.7%	0.7%	2.6%	N/A	N/A	N/A
Pie Five	9.5%	6.7%	1.5%	(1.6%)	(4.0%)	(12.0%)	(14.7%)	(17.4%)	(15.8%)	(16.2%)	(17.3%)	(13.7%)
Potbelly	5.4%	4.9%	3.7%	3.7%	3.7%	1.7%	0.6%	0.1%	(3.1%)	(4.9%)	(4.8%)	(2.4%)
Qdoba Mexican Grill	8.3%	7.7%	6.6%	1.5%	2.1%	0.6%	0.8%	(1.0%)	(3.2%)	0.5%	(2.1%)	N/A
Shake Shack	11.7%	12.9%	17.1%	11.0%	9.9%	4.5%	2.9%	1.6%	(2.5%)	(1.8%)	(1.6%)	0.8%
Zoe's Kitchen	N/A	5.6%	4.5%	7.7%	8.1%	4.0%	2.4%	0.7%	(3.3%)	(3.8%)	(0.5%)	0.3%
Mean	**5.8%**	**4.6%**	**4.0%**	**1.2%**	**(0.5%)**	**(2.2%)**	**(2.8%)**	**(2.4%)**	**(1.1%)**	**(2.2%)**	**(3.4%)**	**(1.6%)**

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

Same-Store Sales Data (Cont.)

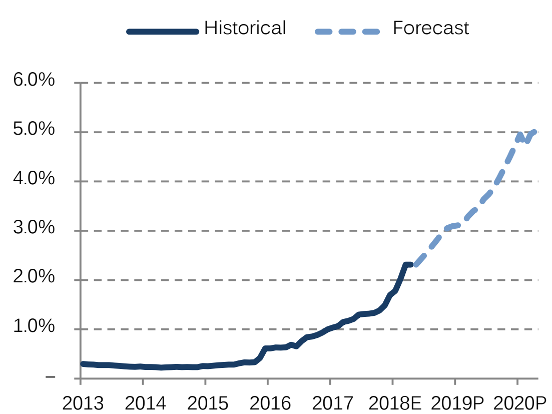
	FY 2015				FY 2016				FY 2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Family Dining												
Bob Evans	2.1%	(0.3%)	(3.2%)	(3.6%)	(3.0%)	(2.0%)	(2.2%)	(2.6%)	(3.9%)	N/A	N/A	N/A
Chuck E Cheese	(5.0%)	3.0%	0.7%	1.3%	6.0%	2.6%	3.7%	(1.6%)	(2.8%)	(3.8%)	(6.9%)	(6.0%)
Cracker Barrel	5.2%	3.8%	2.5%	0.6%	2.3%	3.2%	1.3%	0.6%	(0.4%)	(0.8%)	0.2%	1.1%
Denny's	7.2%	7.3%	6.1%	2.9%	2.5%	(0.5%)	1.0%	0.5%	(1.1%)	2.6%	0.6%	2.2%
IHOP	4.8%	6.2%	5.8%	1.4%	1.5%	0.2%	(0.1%)	(2.1%)	(1.7%)	(2.6%)	(3.2%)	(0.4%)
Luby's	3.1%	(1.0%)	0.2%	1.2%	3.1%	(0.2%)	0.0%	(2.2%)	(4.4%)	(2.5%)	(4.5%)	1.5%
Steak n Shake	6.0%	4.8%	3.0%	3.6%	1.8%	(0.7%)	0.2%	(0.4%)	(3.3%)	(3.1%)	(2.2%)	(1.8%)
Mean	**3.3%**	**3.4%**	**2.2%**	**1.1%**	**2.0%**	**0.4%**	**0.6%**	**(1.1%)**	**(2.5%)**	**(1.7%)**	**(2.7%)**	**(0.6%)**
Casual Dining												
Applebee's	2.9%	1.0%	(0.5%)	(2.5%)	(3.7%)	(4.2%)	(5.2%)	(7.2%)	(7.9%)	(6.2%)	(7.7%)	1.3%
Bahama Breeze	3.2%	1.8%	1.8%	2.4%	9.9%	4.7%	3.9%	2.6%	0.5%	1.4%	1.2%	2.5%
BJ's Restaurants	3.2%	0.5%	2.3%	0.7%	0.6%	(0.2%)	(3.4%)	(2.2%)	(1.3%)	(1.4%)	(1.7%)	1.6%
Bonefish	0.9%	(4.6%)	(6.1%)	(5.4%)	(2.7%)	0.9%	1.7%	(1.9%)	(0.8%)	(2.6%)	(4.3%)	0.6%
Bravo! Cucina Italiana	(1.7%)	(2.1%)	(3.1%)	(5.2%)	(4.1%)	(8.4%)	(8.0%)	(7.5%)	(2.9%)	(1.1%)	(2.7%)	N/A
Brick House Tavern	5.4%	2.8%	(0.7%)	(2.8%)	(4.5%)	(6.3%)	(8.9%)	0.0%	0.0%	0.0%	0.0%	0.0%
Brio Tuscan Grille	(1.0%)	(1.6%)	(3.8%)	(4.3%)	(2.1%)	(6.4%)	(3.7%)	(4.3%)	(1.9%)	(0.9%)	(7.4%)	N/A
Buffalo Wild Wings	6.5%	3.3%	2.6%	1.0%	(2.0%)	(2.3%)	(1.7%)	(4.0%)	0.6%	(1.2%)	(2.3%)	N/A
Carrabba's Italian Grill	1.9%	0.9%	(2.0%)	(4.0%)	(2.0%)	(4.8%)	(2.1%)	(2.3%)	(3.8%)	0.4%	(2.8%)	1.3%
Cheesecake Factory	4.2%	2.8%	2.2%	1.1%	1.7%	0.3%	1.7%	1.1%	0.3%	(0.5%)	(2.3%)	(0.9%)
Chili's Grill & Bar	2.2%	0.1%	(1.1%)	(2.1%)	(3.6%)	(1.8%)	(1.3%)	(3.2%)	(1.7%)	(1.7%)	(3.0%)	(1.6%)
Chuy's	1.9%	N/A	4.2%	3.2%	3.2%	1.0%	0.3%	(1.1%)	(0.7%)	(1.0%)	(2.1%)	1.3%
Dave & Buster's	9.9%	11.0%	8.8%	6.0%	3.6%	1.0%	5.9%	3.2%	2.2%	1.1%	(1.3%)	(5.9%)
Famous Dave's	0.1%	(3.3%)	(3.6%)	(5.2%)	(6.1%)	(4.3%)	(3.8%)	(4.7%)	(4.8%)	(3.2%)	(1.5%)	1.8%
Joe's Crab Shack	(3.8%)	(4.0%)	(6.6%)	(2.9%)	(1.3%)	(6.8%)	(6.5%)	0.0%	0.0%	0.0%	0.0%	0.0%
Kona Grill	2.2%	1.0%	1.6%	3.2%	3.6%	2.5%	0.7%	(4.1%)	(4.3%)	(5.3%)	(7.2%)	(6.5%)
LongHorn Steakhouse	5.4%	5.2%	4.4%	2.6%	5.2%	2.2%	0.6%	0.1%	0.2%	3.5%	2.6%	3.8%
Maggiano's	0.1%	(0.1%)	(1.7%)	(1.8%)	0.2%	(1.7%)	(0.6%)	(0.8%)	1.6%	0.5%	(2.6%)	1.8%
Olive Garden	2.2%	3.4%	2.7%	2.8%	4.9%	2.4%	2.0%	2.6%	1.4%	4.4%	1.9%	3.0%
Outback	5.0%	4.0%	0.1%	(2.2%)	(1.3%)	(2.5%)	(0.7%)	(4.8%)	1.4%	0.3%	0.6%	4.7%
Red Robin	3.8%	3.6%	3.7%	(1.6%)	(2.2%)	(3.2%)	(3.3%)	(4.4%)	(1.5%)	0.5%	(0.1%)	2.7%
Ruby Tuesday	(0.3%)	(1.7%)	0.6%	0.8%	(3.1%)	(3.7%)	(2.7%)	(4.1%)	(4.0%)	(1.6%)	(5.8%)	N/A
Taco Cabana	3.8%	5.6%	4.8%	3.3%	1.7%	(3.8%)	(4.1%)	(3.5%)	(4.5%)	(4.7%)	(12.6%)	(7.4%)
Texas Roadhouse	8.7%	8.0%	7.0%	4.4%	4.3%	4.2%	3.4%	1.4%	3.2%	4.0%	4.5%	5.8%
Mean	**2.8%**	**1.6%**	**0.7%**	**(0.4%)**	**0.0%**	**(1.7%)**	**(1.5%)**	**(2.0%)**	**(1.2%)**	**(0.6%)**	**(2.4%)**	**0.5%**
Fine Dining												
Fleming's	3.0%	3.2%	(0.6%)	(0.3%)	1.3%	(0.8%)	(1.9%)	0.2%	(2.9%)	(1.3%)	(1.0%)	3.1%
Ruth's Chris	2.8%	4.2%	3.3%	3.2%	3.1%	1.5%	2.1%	0.0%	0.7%	2.9%	(1.6%)	1.5%
Capital Grille	6.1%	4.4%	7.2%	1.5%	5.3%	3.7%	(1.2%)	1.2%	0.9%	0.5%	2.0%	3.8%
Del Frisco's Grille	2.3%	1.0%	(1.4%)	(4.5%)	5.3%	(2.0%)	(1.4%)	2.7%	(0.9%)	(3.2%)	(5.4%)	0.9%
Sullivan's	4.8%	(3.0%)	1.2%	(1.8%)	(1.8%)	(2.9%)	(3.2%)	0.9%	1.1%	(5.2%)	7.7%	(10.8%)
Mean	**3.8%**	**2.0%**	**1.9%**	**(0.4%)**	**2.6%**	**(0.1%)**	**(1.1%)**	**1.0%**	**(0.2%)**	**(1.3%)**	**0.3%**	**(0.3%)**

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

Interest Rates Are Going Up: What Should Restaurant Owners Do?

The former Federal Reserve Chairwoman Janet Yellen raised interest rates three times in 2017, with her final rate hike in December raising the federal funds rate to 1.5%. The new Federal Reserve Chair Jerome Powell appointed in February 2018 immediately raised rates at the March 21st FOMC meeting and signaled the potential for two to three additional federal funds rate hikes in 2018 (Goldman Sachs prognosticates three rate hikes, and the December Fed Funds Futures contract now shows a 6% probability of a fourth hike). The Fed also added an additional 25 basis points of tightening to their forecast for 2019 and 2020. In the past year, 90 Day LIBOR has increased from 0.77% to 2.31%, representing a 200% increase. Annual producer price index increases of approximately 3% and record low unemployment will likely put upward pressure on wages and prices, which the Fed will combat with continuous rate increases, leading to a general increase in prime, LIBOR and other commonly quoted lending indices.

Historical and Forecasted 90 Day LIBOR



Source: Federal Reserve Bank of St. Louis; The Economy Forecast Agency

It's clear that interest rates are on their way up – but what does this mean for a restaurant borrower? As more money is diverted to interest expense, there will be less available for restaurant remodeling, development and distributions to owners. While the increases we have seen thus far did not bring alarming changes in loan economics, the question is how high will rates eventually progress and what will that do to interest cost, credit compliance and even purchase price multiples which determine restaurant valuations.

How will rising interest rates affect the average restaurant operator's financial options? First, the financial covenants will become modestly more restrictive with the prevailing higher interest costs. In addition, borrowers who are up against their loan covenants may have difficulty renewing their loan with a commercial bank. If that happens, they will have to explore finance companies and look towards unitranche, mezzanine debt or subordinate debt. In addition, the marginal borrower may see loan terms become more restrictive or even onerous, with lenders potentially requiring cash flow sweeps or other covenants or mechanisms.

Another issue that restaurant operators with loan facilities should pay close attention to is the mechanism by which they hedge their interest rate exposure. You can buy out-of-the-money interest rate caps for short-term interest rate exposure and use interest rate swaps for longer-term exposure to optimize the dollar cost of a purchased interest rate protection. Depending upon the strength of your credit, your bank will generally want you to hedge anywhere from 30% to 50% of the loan. Although the current cost to hedge is relatively low (due in part to a historically flat yield curve, which is at its flattest since pre-financial crisis 2007), borrowers should not blindly accept the hedge that is offered along with the loan. It is important to understand the marketplace before committing large sums of money towards rate protection. Most restaurant loans are partially hedged, so the 1.54% LIBOR rate increase is likely only 50% realized for most restaurant borrowers. Interest rate increases may not be significantly meaningful unless a borrower is near the limit of a financial covenant.

Illustrative Debt Service Comparison

($ in thousands)

Scenario 1: LIBOR = 2.34%; Spread = 2.75%	
Year 1 Principal	$3,936
Year 1 Interest	2,454
Year 1 Debt Service	**$6,390**
Scenario 2: LIBOR = 3.34%; Spread = 3.75%	
Year 1 Principal	$3,564
Year 1 Interest	3,431
Year 1 Debt Service	**$6,994**

Note: Assumes $50 million loan, 10-year mortgage-style amortization

We strongly believe that in periods of uncertain economic outcomes, the certainty of your capital structure is of paramount importance. Accordingly, we believe that it makes sense to refinance a credit facility even as early as one or two years in advance of its expiration in order to renew a five- or seven-year loan term. An operator who chooses to refinance early may pay slightly more in interest cost for one or two years, but the incremental expense is offset by the certainty that the facility will not expire for five to seven years. If a credit facility expires in 18 months and several federal funds rate increases occur over that period, it may be more difficult to qualify for the attractive lease-adjusted leverage interest cost brackets provided by the major lenders when it comes time to refinance. This scenario illustrates the benefits of exploring a refinancing now rather than waiting until the credit facility expires. It pays to consider this option, and you can always walk away if you think the cost is not worth the trouble, but we believe exploring an early refinancing is an important step to mitigate risk, particularly for highly leveraged restaurant operators.

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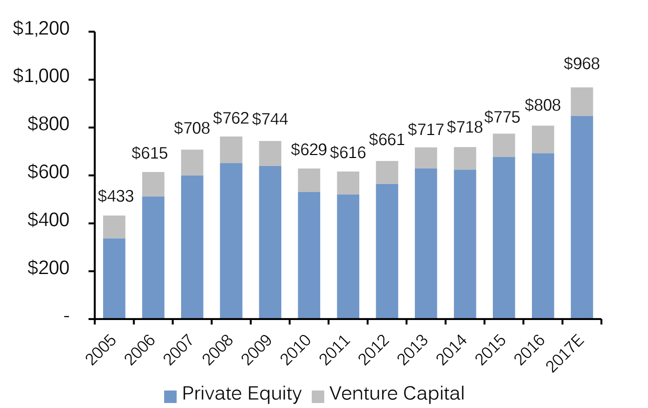
Chasing the Next New Regionally-Inspired Trends in Fast Casual

In recent years, private equity and venture capital firms have been increasingly hungry for deals as dry powder and competition continues to rise. The collective dry powder for North American and European private equity and venture capital firms is near $1 trillion, a level which is over $200 billion higher than the pre-crisis levels of 2008/2009. With ample access to investible capital, these funds have created a high degree of competition for acquisitions, driving significant valuation premiums for high-quality, growth-oriented assets.

Private Equity and Venture Capital Dry Powder

($ in billions)



Source: PitchBook

The restaurant industry and particularly the fast casual segment are continuing to see the familiar investor faces of Roark, L Catterton and KarpReilly which have historically been focused on the restaurant space. Given the increasing competition, new groups are emerging and focusing on restaurant investments, both from existing funds who previously have their investment thesis on non-restaurant deals and new restaurant-only funds such as The Kitchen Fund and AP Franchised Concepts.

PE- and VC-Backed Fast Casual Concepts

Velvet Taco *(L Catterton)*	Naf Naf Grill *(Roark Capital)*	California Fish Grill *(KarpReilly)*
Torchy's Tacos *(General Atlantic)*	Modern Market *(Butterfly Equity)*	Mendocino Farms sandwich market *(TPG Growth)*
the kebab shop *(AP Franchised Concepts)*	Luna Grill fresh mediterranean *(PWP Growth)*	

Given the growing competition for investments in the restaurant space, one factor which is stirring up investor interest is the breadth of new concepts focusing on ethnic and regional cuisines. The growing diversity among today's consumers, more sophisticated palates and millennials seeking out the "next big trend" on social media are among the factors leading to the broad expansion of the fast casual space.

In previous decades, fast casual concepts tended to be bucketed into categories such as Asian, Mexican, Burgers or Pizza. These categories have quickly been pushed into the past. The current landscape of concepts now discerns the once broad categories into more focused and distinguished regional cuisines such as Greek and Lebanese in the Mediterranean category, Oaxacan and Yucatan state-inspired cuisines in the Hispanic category, and Korean, Indian and Japanese in the Asian category. Even within American categories, regionally inspired concepts are becoming the focus of the consumer, and investors are taking note. For example, Buddy's Pizza, a 12-unit Detroit-style pizza chain founded in 1946, completed a recapitalization with CapitalSpring, a leading restaurant investment firm, in January 2018.

Emerging Regionally-Inspired Concepts

Tacodeli *(Yucatan-inspired Hispanic Concept)*	Cafe Rio Mexican Grill *(Rio Grande-inspired Hispanic Concept)*	Triple Beam Pizza *(Roman-inspired Italian/Pizza Concept)*
INDAY *(Indian-inspired Asian Concept)*	bibigo Fresh Korean Kitchen *(Korean-inspired Asian Concept)*	The Halal Guys Gyro and Chicken *(Middle Eastern-inspired Mediterranean Concept)*
Buddy's Restaurant Pizzeria Since 1946 *(Detroit-inspired American/Pizza Concept)*	Crackin' Kitchen *(Hawaiian/Cajun-inspired American Concept)*	

These new concepts have emerged and thrived particularly well among millennials, who tend to be less cost conscience about food and drink and more focused on high quality options in a quick, fast casual setting at convenient locations. As mentioned previously, millennials are also more willing to seek out new experiences and cuisines given social media influences (i.e. "Instagram worthy" foods) and ease of access to new concepts.

All things considered, we are at the nexus of the perfect combination of underinvested private equity and venture capital funds along with the ever expansive fast casual restaurant landscape creating an environment for entrepreneurs to drive innovation and investment in the industry. That being said, while there are currently plenty of investors on the sidelines actively vying to invest in the next new concept or trend, funds may become more cautious as their cost of capital shifts under a rising interest rate environment, and unproven concepts pose riskier investment profiles.

We believe the trend for new regional-inspired and ethnic concepts will continue to drive growth in the fast casual segment. The space is seeing minimal competitive pressures from QSR chains and other segments although we are starting to see regional/ethnic menu items pop up from time to time (i.e., Jack In the Box's new food truck inspired sandwiches and Arby's traditional Greek gyro sandwich). Given that access to outside capital will continue to be readily available for the foreseeable future, we would expect the innovation trend to continue.

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