



## RESTAURANT INDUSTRY COMMENTARY AND SAME-STORE SALES DATA

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### Same-Store Sales Discussion (Q4 2020)

In Q4 2020, restaurants continued to grapple with the impacts of COVID-19. Although the pandemic caused many restaurants to close their doors permanently, there appears to be a light at the end of the tunnel for those that survived. Still, few restaurant companies produced positive same-store sales (“SSS”) growth as pandemic era restrictions continued throughout much of the country. As a result, restaurant industry SSS declined 15% in Q4 2020, in line with the 16% decrease in Q3 2020, and a significant improvement from the 36% decline in Q2 2020, during the early days of the pandemic. Of the 59 companies that constitute our restaurant SSS index, only 12, or 20%, generated positive SSS growth for the quarter.

As shown in the chart below, all segments of the restaurant industry except for QSR, which reported SSS growth of 2.6%, reported declines for the quarter. After QSR, fast casual (-6.0%) was reasonably steady with a modest mid-single-digit decline for the second consecutive quarter after suffering its worst decline in history in Q2 2020. Family dining (-28.3%), casual dining (-23.5%), and fine dining (-30.0%) continued to suffer substantial losses as they struggled to navigate indoor dining restrictions or prohibitions related to the pandemic, along with customers reluctant to dine out due to health concerns.

**QSR:** For the first time since the start of the pandemic, the QSR segment (+2.6%) generated positive SSS growth, primarily due to the accessibility and convenience of drive-thrus.

- Chicken segment SSS declined 2.2% as decreases for Popeyes (-6.4%) and Pollo Tropical (-8.2%) were partially offset by a third consecutive strong quarter for KFC (+8.0%). Popeyes SSS declined for the first time since 2018; however, the chicken chain comped over its tremendous 37.9% growth from Q4 2019 that followed the release of its popular chicken sandwich. On a 2-year basis, Popeyes SSS were up an impressive 29.1%.
- Burger segment SSS increased 8.5% as burger chains took advantage of the high percentage of drive-thru business that was part of their operating model long before the pandemic. Burger King (-2.9%) was the only chain that failed to report growth in Q4.
- Pizza concepts (+3.7%) continued to deliver strong results as gains from Domino’s (+11.2%), Papa John’s (+13.5%) and Pizza Hut (+8.0%) were partially offset by another weak quarter from Pizza Inn (-18.0%).

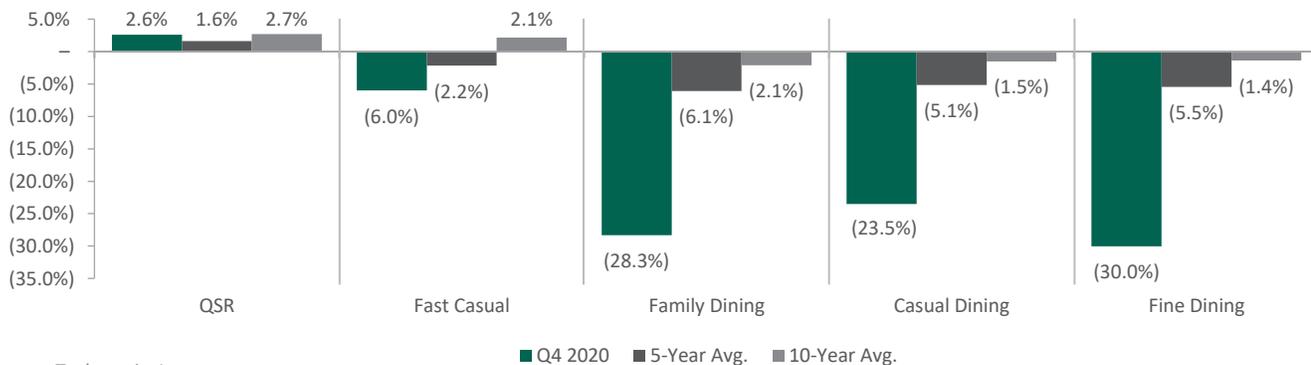
**Fast Casual:** Fast casual restaurants (-6.0%) produced mixed results in Q4 2020. While some, such as Freshii (-28.4%) and Potbelly (-19.7%), struggled to reach customers during the pandemic, others in the segment, such as Wingstop (+18.2%) and Chipotle (+5.7%), posted strong results.

**Family Dining:** Family dining (-28.3%) had the second-worst performance of any segment, only surpassed by fine dining.

**Casual Dining:** All casual dining (-23.5%) brands had negative SSS in Q4 2020 for a third consecutive quarter.

**Fine Dining:** Fine dining (-30.0%) also continued to post steep declines, as all chains suffered double-digit declines for a third consecutive quarter.

### RESTAURANT SAME-STORE SALES BY SEGMENT



Source: Technomic, Inc.

## Restaurant Same-Store Sales Data

	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Chicken</b>												
KFC	0.0%	1.0%	1.0%	1.0%	2.0%	2.0%	(1.0%)	1.0%	(3.0%)	7.0%	9.0%	8.0%
Pollo Tropical	2.8%	3.4%	6.5%	(1.9%)	(2.6%)	(1.3%)	(3.8%)	0.6%	(7.3%)	(31.6%)	(11.1%)	(8.2%)
Popeyes	2.3%	1.8%	(0.2%)	(0.1%)	0.4%	2.9%	10.2%	37.9%	29.2%	28.5%	19.7%	(6.4%)
<b>MEAN</b>	1.7%	2.1%	2.4%	(0.3%)	(0.1%)	1.2%	1.8%	13.2%	6.3%	1.3%	5.9%	(2.2%)
<b>Coffee/Snack</b>												
Starbucks	2.0%	1.0%	4.0%	4.0%	4.0%	7.0%	6.0%	6.0%	(3.0%)	(40.0%)	(9.0%)	(5.0%)
Tim Horton's	4.9%	5.7%	5.5%	5.6%	5.2%	4.7%	4.4%	4.4%	(8.4%)	(32.8%)	(6.3%)	(8.9%)
<b>MEAN</b>	3.5%	3.4%	4.8%	4.8%	4.6%	5.9%	5.2%	5.2%	(5.7%)	(36.4%)	(7.7%)	(7.0%)
<b>Mexican</b>												
Del Taco	3.7%	3.3%	1.4%	1.9%	(0.1%)	2.2%	1.0%	0.4%	(3.1%)	(10.1%)	4.1%	3.8%
Taco Bell	1.0%	1.9%	5.0%	6.0%	4.0%	7.0%	4.0%	4.0%	1.0%	(8.0%)	3.0%	1.0%
<b>MEAN</b>	2.4%	2.6%	3.2%	4.0%	2.0%	4.6%	2.5%	2.2%	(1.1%)	(9.1%)	3.6%	2.4%
<b>Pizza</b>												
Domino's	8.3%	6.9%	6.3%	5.6%	3.9%	3.0%	2.4%	3.4%	1.6%	16.1%	17.5%	11.2%
Papa John's	(5.3%)	(6.1%)	(9.8%)	(8.1%)	(6.9%)	(5.7%)	1.0%	3.5%	5.3%	28.0%	23.8%	13.5%
Pizza Hut	4.0%	0.0%	1.0%	1.0%	0.0%	2.0%	(3.0%)	(4.0%)	(7.0%)	5.0%	6.0%	8.0%
Pizza Inn	2.3%	2.5%	2.3%	2.7%	3.3%	N/A	3.1%	2.4%	(7.8%)	(39.0%)	(22.0%)	(18.0%)
<b>MEAN</b>	2.3%	0.8%	(0.1%)	0.3%	0.1%	(0.2%)	0.9%	1.3%	(2.0%)	2.5%	6.3%	3.7%
<b>Burger</b>												
Burger King	4.2%	1.8%	(0.7%)	0.8%	0.4%	0.5%	5.0%	0.6%	(6.5%)	(9.9%)	(3.2%)	(2.9%)
Good Times Burgers & Frozen Custard	7.1%	3.8%	0.5%	(5.2%)	(7.5%)	2.8%	(0.4%)	5.8%	3.0%	11.9%	(10.0%)	22.1%
Jack in the Box	(0.1%)	0.5%	0.5%	(0.1%)	0.2%	2.7%	3.0%	1.7%	(4.2%)	6.6%	12.2%	12.5%
McDonald's	2.9%	2.6%	2.4%	2.3%	4.5%	5.7%	4.8%	5.1%	0.1%	(8.7%)	4.6%	5.5%
Wendy's	1.6%	1.9%	(0.2%)	0.2%	1.3%	1.4%	4.4%	4.3%	0.0%	(4.4%)	7.0%	5.5%
<b>MEAN</b>	3.1%	2.1%	0.5%	(0.4%)	(0.2%)	2.6%	3.4%	3.5%	(1.5%)	(0.9%)	2.1%	8.5%
<b>MEAN TOTAL QSR</b>	2.6%	2.0%	1.6%	1.0%	0.8%	2.5%	2.6%	4.8%	(0.6%)	(5.1%)	2.8%	2.6%
<b>Fast Casual</b>												
BurgerFi	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(11.8%)	(33.7%)	(9.2%)	(2.9%)
Chipotle	2.2%	3.3%	4.4%	6.1%	9.9%	10.0%	11.0%	13.4%	3.3%	(9.8%)	8.3%	5.7%
El Pollo Loco	(1.1%)	(0.9%)	2.6%	4.4%	2.4%	0.7%	1.1%	3.9%	(1.5%)	(9.7%)	1.8%	(0.2%)
Freshii	1.6%	0.9%	(0.8%)	(6.1%)	(0.9%)	(4.0%)	(3.7%)	(2.0%)	(14.3%)	(51.4%)	(26.8%)	(28.4%)
Noodles & Company	(0.2%)	5.4%	5.5%	4.0%	3.0%	4.6%	2.1%	2.8%	(7.2%)	(30.9%)	(3.8%)	(4.7%)
Pie Five	(12.6%)	(6.4%)	(1.8%)	(3.6%)	(4.4%)	N/A	(12.2%)	(11.0%)	(21.4%)	(37.9%)	(23.0%)	(16.0%)
Potbelly	(3.6%)	(0.2%)	(0.2%)	(1.7%)	(4.7%)	(4.0%)	(3.0%)	0.1%	(10.1%)	(41.5%)	(21.0%)	(19.7%)
Wingstop	9.5%	4.3%	6.3%	6.0%	7.1%	12.8%	12.3%	12.2%	9.9%	31.9%	25.4%	18.2%
<b>MEAN</b>	(0.6%)	0.9%	2.3%	1.3%	1.8%	3.4%	1.1%	2.8%	(6.6%)	(22.9%)	(6.0%)	(6.0%)

## Restaurant Same-Store Sales Data (Cont.)

	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Family Dining</b>												
Cracker Barrel <sup>1</sup>	1.5%	(2.6%)	1.4%	3.8%	1.3%	1.3%	2.1%	3.8%	(41.7%)	(39.2%)	(39.2%)	(21.9%)
Denny's	1.5%	(0.7%)	1.0%	1.4%	1.3%	3.8%	1.1%	1.7%	(6.3%)	(56.9%)	(33.6%)	(32.9%)
IHOP	1.0%	0.7%	1.2%	3.0%	1.2%	2.0%	0.0%	1.1%	(14.7%)	(59.1%)	(30.2%)	(30.1%)
<b>MEAN</b>	1.3%	(0.9%)	1.2%	2.7%	1.3%	2.4%	1.1%	2.2%	(20.9%)	(51.7%)	(34.3%)	(28.3%)
<b>Casual Dining</b>												
Applebee's	3.3%	5.7%	7.7%	3.5%	1.8%	(0.5%)	(1.6%)	(2.5%)	(10.6%)	(49.4%)	(13.3%)	(17.6%)
Bad Daddy's Burger Bar	0.2%	0.5%	(0.7%)	0.2%	1.3%	(0.7%)	(0.2%)	(3.4%)	(15.7%)	(36.7%)	(12.2%)	(11.8%)
Bahama Breeze	0.2%	0.6%	1.1%	(1.1%)	(3.7%)	1.9%	(4.2%)	(3.4%)	(0.5%)	(66.1%)	(39.0%)	(28.6%)
BJ's Restaurants	4.2%	5.6%	6.9%	4.5%	2.0%	2.0%	(0.3%)	0.4%	(15.5%)	(57.2%)	(30.2%)	(32.3%)
Bonefish	0.9%	1.5%	1.8%	(1.1%)	1.9%	0.1%	(2.2%)	0.5%	(13.9%)	(56.8%)	(22.5%)	(27.1%)
Carrabba's Italian Grill	0.9%	(0.6%)	(0.6%)	0.8%	0.3%	(1.6%)	0.1%	1.4%	(8.7%)	(36.7%)	(9.0%)	(11.4%)
Cheddar's Scratch Kitchen	(2.2%)	(4.7%)	(4.0%)	(4.0%)	(2.7%)	(3.2%)	(5.4%)	(1.2%)	(1.6%)	(58.5%)	(39.0%)	(28.6%)
Cheesecake Factory	2.1%	1.4%	1.5%	1.9%	1.3%	1.0%	0.4%	0.6%	(12.9%)	(56.9%)	(23.3%)	(19.5%)
Chili's Grill & Bar	(1.1%)	0.4%	1.9%	3.0%	2.7%	1.3%	2.3%	1.7%	(5.4%)	(33.0%)	(7.0%)	(6.1%)
Chuy's	(1.5%)	1.0%	0.5%	0.9%	3.2%	1.9%	2.6%	2.9%	(9.7%)	(39.0%)	(19.8%)	(18.3%)
Dave & Buster's	(4.9%)	(2.4%)	(1.3%)	2.9%	(0.3%)	(3.3%)	(3.2%)	(4.4%)	(4.7%)	(58.6%)	(87.0%)	(66.0%)
Famous Dave's	(0.9%)	(1.6%)	(1.4%)	(1.5%)	(0.7%)	0.4%	1.9%	0.9%	(12.3%)	(30.0%)	(10.0%)	(5.5%)
Granite City	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(65.5%)	(25.9%)	(40.7%)
J. Alexander's	0.3%	1.9%	2.6%	0.3%	0.3%	0.3%	(2.0%)	(0.4%)	(12.8%)	(55.2%)	(18.1%)	(21.4%)
Kona Grill	(8.3%)	(12.1%)	(14.1%)	N/A	N/A	N/A	0.0%	3.9%	(15.5%)	(52.8%)	(7.3%)	(8.0%)
Kura Sushi	N/A	N/A	N/A	4.4%	6.8%	7.6%	9.4%	7.9%	10.8%	(85.4%)	(72.7%)	(50.8%)
LongHorn Steakhouse	2.0%	2.4%	3.1%	2.9%	3.8%	3.3%	2.6%	6.7%	3.9%	(45.3%)	(18.1%)	(11.1%)
Maggiano's	0.5%	0.3%	0.0%	1.8%	0.4%	(0.2%)	(1.8%)	(1.4%)	(9.9%)	(66.7%)	(38.6%)	(47.0%)
North Italia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.0%	(12.0%)	(59.0%)	(22.0%)	(18.0%)
Olive Garden	2.2%	2.4%	5.3%	3.5%	4.3%	2.4%	2.2%	1.5%	2.1%	(39.2%)	(28.2%)	(19.9%)
Outback	4.3%	4.0%	4.6%	2.9%	3.5%	1.3%	0.2%	2.7%	(9.5%)	(32.9%)	(10.4%)	(15.2%)
Red Robin	(0.9%)	(2.6%)	(3.4%)	(4.5%)	(3.3%)	(1.5%)	1.6%	1.3%	(20.8%)	(41.4%)	(25.1%)	(29.0%)
Seasons 52	0.2%	0.4%	(1.9%)	(0.8%)	(1.3%)	(2.1%)	(4.2%)	(3.5%)	3.0%	(69.9%)	(39.0%)	(28.6%)
Stoney River Legendary Steaks	6.2%	6.2%	5.6%	2.4%	2.2%	0.3%	(0.7%)	(2.0%)	(14.6%)	(55.9%)	(18.2%)	(24.9%)
Taco Cabana	0.9%	3.1%	12.2%	5.1%	(0.5%)	(3.0%)	(4.8%)	(8.1%)	(13.5%)	(19.2%)	(14.2%)	(10.0%)
Texas Roadhouse	4.9%	5.7%	5.5%	5.6%	5.2%	4.7%	4.4%	4.4%	(8.4%)	(32.8%)	(6.3%)	(8.9%)
Yard House	N/A	N/A	N/A	N/A	(2.1%)	(1.4%)	(1.9%)	0.7%	1.8%	(70.7%)	(39.0%)	(28.6%)
<b>MEAN</b>	0.6%	0.8%	1.4%	1.5%	1.1%	0.5%	(0.2%)	0.4%	(8.0%)	(50.8%)	(25.8%)	(23.5%)
<b>Fine Dining</b>												
Capital Grille	2.8%	2.6%	3.9%	3.7%	4.3%	2.9%	1.5%	1.8%	4.2%	(62.5%)	(39.1%)	(31.0%)
Eddie V's Prime Seafood	2.7%	3.6%	3.0%	0.9%	3.7%	2.0%	1.2%	0.5%	3.9%	(65.2%)	(39.1%)	(31.0%)
Fleming's	2.9%	0.3%	0.5%	(0.4%)	0.6%	1.6%	0.4%	0.9%	(13.2%)	(56.3%)	(20.3%)	(29.7%)
Ruth's Chris	1.1%	1.3%	3.7%	(0.1%)	1.8%	(0.5%)	0.6%	1.4%	(13.5%)	(74.1%)	(36.7%)	(39.7%)
STK	7.3%	7.5%	6.9%	15.0%	8.6%	6.4%	9.3%	8.9%	(12.8%)	(81.4%)	(24.2%)	(20.7%)
<b>MEAN</b>	3.8%	3.0%	3.7%	4.8%	3.7%	2.5%	3.4%	3.7%	(13.2%)	(70.6%)	(27.1%)	(30.0%)

1. Fiscal year ends July 31.

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

## After COVID-19: Where Do We Go From Here

There is a mean regression taking place where we are slowly going to get back to where we were before COVID, right? Wrong! During 2020, restaurant sales were down approximately \$240 billion and 3.1 million of restaurant employees were unemployed during some point in the year. More importantly, 110,000 restaurants were closed at some point during the year with industry estimates suggesting 10% of that could be permanent closures. There has been a remarkable improvement in restaurant performance in the last few weeks of March 2021 especially since we are coming over the worst restaurant financial performance since the Great Depression. But even today there are still geographies where dining rooms are restricted to 50% or 75% of capacity and this continues to weigh on dine-in performance. So, suffice to say that we are in an environment right now that can be described like Charles Dickens' *A Tale of Two Cities*: it was the best of times and the worst of times (depending upon where you are).

In March 2020, thousands of restaurants were completely closed both in the dining room and all modalities of delivery, carry out and drive-through. Shortly thereafter, people got sick of eating at home and restaurants that could provide delivery, carry out or drive-through options saw dramatic sales improvement in April 2020. But this resilience was not evenly distributed among all concepts. For example, Buffalo Wild Wings had a vibrant take-out business *before* COVID struck and therefore provided them stability compared to other dining concepts with little to no delivery and carry out prior to COVID. Having meaningful delivery and carry out experience prior to COVID proved to be one of the key attributes of survival or success in restaurants last year.

Another factor to consider in understanding the dramatic recovery of restaurant sales versus last year's cataclysmic drop is *the law of negative math*. If restaurant same-store sales performance is down 40% in a given period, it will take much more than a 40% same-store sales improvement to recapture the same economics in the subsequent period. So, a restaurant that has lost 40% of its sales and then recaptures 40% subsequently is only at 84% of the original sales level. It would take approximately a 60% increase in sales from the denigrated performance level to restore prior sales. When evaluating the relative performance of 2021 versus 2020, it is important to ascertain whether or not sales, margin and traffic are completely restored.

The introduction and distribution of three effective COVID vaccines will be the most important determinant of restaurant traffic recovery in 2021. Over 120 million U.S. citizens have had at least one shot (and in Johnson & Johnson's case the only dose) and it appears that most of the "willing" adults in the country will be inoculated by June 1st. This will accelerate the achievement of herd immunity when coupled with the 30 million ostensibly immune people that were previously infected with and recovered from COVID. It will be important to make sure that people from countries which have not tackled COVID as well as the U.S. are not able to travel here to infect the hundred million or so that have not been immunized or infected.

The second most important factor in the restaurant traffic recovery this year is the compendium of recent economic stimulus which began in December 2020 with the \$900 billion relief package. Subsequently, Congress passed a \$1.9 trillion stimulus package which will provide funding well into the next three years. As if that was not enough, the Federal Reserve has expanded its balance sheet by \$3 trillion with its easy money policy to offset the economic attrition from COVID. We believe that in the second half of 2021 restaurant activity will be very close to normal for leading restaurant concepts that are still reasonably capitalized and have healthy traffic and margin performance.

During COVID, the QSR sector meaningfully outperformed dine-in concepts for several reasons, but primarily because of their incremental abilities in delivery, carry out, and drive-through. In addition, QSR concepts generally have better portability of product (think pizza and chicken), lower price points and to some extent a simpler fare. So, one of the big questions for the second half of 2021 will be how much traffic will be recaptured by dine-in concepts from QSR establishments. We believe that some of the QSR providers have made significant breakthroughs in product, pricing and promotion that will extend their exemplary performance throughout this year. These leading concepts will yield less of their traffic recovery to the dine-in restaurants. However, some secondary and tertiary QSR concepts may actually struggle in the second half of 2021 with diminished consumer interest in the same level of delivery and carry out activity that existed in the height of the lockdowns during COVID.

Throughout all the competition for customers during COVID we witnessed the resumption of burger wars 2.0 except this time the product was a *chicken sandwich*. After Popeyes' near flawless launch of a very compelling chicken sandwich, the entire industry seemed to begin developing a me-too product to try and take share. As of our last count, 36 QSR concepts have introduced a chicken sandwich to try to replicate the success enjoyed by Popeyes as the first mover. We believe that there will be some distinct winners and losers in this endeavor. The losers will be easy to identify because the product will not be quite as good, their media will not be very effective and/or they will not have much media spend, or they will purchase a ton of product from suppliers and wind up having to meaningfully discount the product to cut their losses. This may inevitably create a race to the bottom for those not having success and lead to \$0.99 sandwiches for those that are simply attempting to burn off inventory. We have seen significant improvements in the quality of some of the top contenders' product as they adjust and improve the bun, chicken breast, sauce, and other accoutrements. The price of the sandwich is all over the place but generally ranges from \$3 to \$8 per sandwich. We think the winners will be the top concepts in the chicken space for several reasons. These concepts have a dedicated chicken following, understand the product, have strong culinary R&D departments, heavy advertising expenditures and good experience converting an LTO into a permanent product. However, there will be exceptions and we would expect one of the leading burger players to be competitive in the long run in this endeavor.

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