From the Street (Consumers and Operators Newest Responses)

As the COVID-19 quarantine has expanded throughout the Country and shut down most non-essential activities, we wanted to provide an update on what we are hearing from the street.

Operators:

- Their top concern, both Independent and Chain, remain the wellbeing of their employees (staying healthy and their income). In fact, it has risen to 71%.

- Second priority remains the same – their own financial survival. For Independents – 85%; for Chain operators – 72%.

  The survival concerns increased due to weak and insufficient sales as well as the monumental red tape associated with the CARES Act financial aid process and the subsequent delays.
  - Application process is confusing – multiple applications are being denied or not processed for non-bank customers and at the very least delayed.

  - 70% of <u>all</u> small business owners have tried to apply for the CARES Act loan with varying degrees of success. 72% of those who submitted an application were successful. However, some banks are requiring the full application be filled out which lengthens the process by adding additional approval steps to the process. 28% of operators have not been successful in applying for the CARES Act Funds (source: NFIB).

  - Changes in the definition of "usage of funds" – discouraging many restaurant owners to opt out of applying.

  - Confusing messages from the SBA regarding actual available funds. The latest message (4-12-20) is stating the original EIDL $10,000 advance is based on $1,000 per employee, not a cap of $10,000 per small business. This is discouraging many small businesses from participating and declaring the option of closing is more viable as this new definition isn't worth the difficulty involved in the loan process; let alone offering no real relief.

  - Delays in issuance of funds – as of noon on Friday, April 10, 2020, less than 5% of Independent operators we surveyed had received funds and less than 15% of franchisees.

  - Another unexpected financial setback is the denial of business interruption insurance claims. Most operators (over 80%) were expecting these funds to help them weather the immediate needs; but all have been denied. The National Restaurant Association has sent a letter to the President and Congress requesting federal support for business interruption insurance (April 8, 2020). Additionally, letters have been sent to Congress requesting more lenient definitions of usage of funds and longer payback timeframe on the CARES Act.

The burdens created from the excessive red tape is causing many operators to reconsider the option of closing their business. Time is not on their side and the longer the delays, the greater the likelihood of closure as debts mount. Reserve cash was already very low for operators with many Independents having only a few days of cash reserve and most Chain operators having a few weeks.

The official number of restaurant closures, according to the National Restaurant Association, is at 3% or 33,000 with 11% or 121,000 expected to join those ranks in the next few weeks.

- Another recent survey by Datassentials found most operators (61%) believe the crisis will last 3-6 months while 28% believe the crisis will be over in 30-45 days.

  Datassentials survey also confirmed our earlier assessment that Take-Out and Off Premise alone will not be enough to offset Dine-In loses or pay basic expenses as noted by 86% of respondents.

- It's not all bad news. Restaurant operators are embodying their creative entrepreneurial spirit devising a multitude of new ways to offer their service model and menu to consumers. 68% of Independents that have remained open continue to take very creative steps to generate sales. Some of the more favorable ways many Independents have adopted are setting up "Food Trucks" in their parking lots allowing customers to pick up outside – a new definition of Curbside. Others are utilizing the Ghost Kitchen idea to have several restaurants' kitchens located in a central area where customers order and pick up at a common window that serves several concepts.

  A few Chains are adopting innovative steps as well.
  - Continuing to focus on Off Premise model as mentioned in our last report (Off Premise model involves: Drive-Thru, Take-Out, Ghost Kitchens, Food Trucks) but with new ideas:
    - Family Meal Packs – cooked at restaurants
    - Family Meal Kits – (cooked at home) DIY
    - Beer & Wine To-Go
    - Family Meal Subscriptions
  - Converting to "grocerant" (i.e. selling basic grocery store staples in addition to To-Go orders – ranging from Daily Bundles, Breakfast Essentials, Necessity Bundles).
  - Consumers are rallying for their favorite restaurant (a new measure of guest loyalty).
  - Subway, Panera, Joe's Crab Shack, Frich's Big Boy to name a few chains.

From the 50,000-foot view, the restaurant industry has been going through a metamorphosis the last few years. The COVID-19 crisis has just quickened that process (some of this we have mentioned in prior reports) and will actually help ease the transformation of many of the components into the new restaurant model.

- Casual Dining sector has been dying a slow death.
- There is an over saturation of restaurants in the Country.
- Menus are too broad at most concepts.
- Operating costs have been rising at a greater rate than consumer's willingness to accept increased menu prices.
- Overall traffic has been negative in the restaurant industry.

- Dining Rooms at QSR's have been shrinking.
- The original labor model for the restaurant industry isn't working anymore – costs are rising, availability of quality workers has not kept pace with demand.
- Technology's advancements are providing efficiencies to all facets of restaurant operations including robots that can cook, equipment that can communicate among themselves.

Supply Chain:

Issues of product shortage remain at grocery stores but not as bad as was the case in late March. We have learned that the major reasons behind the shortages of various products at grocery stores has been driven by panic/hoarding purchases and consumers shifting their food purchases to "at home" foods and away from restaurants causing retail suppliers, servicing mainly retail (i.e. grocery stores), to deplete their on-hand inventories. However, as of Thursday, April 9, 2020, we have learned of multiple issues that will have consequences on the food supply chain. Roughly half of the food produced/grown in the U.S. is sold to restaurants, schools, stadiums, theme parks, and cruise ships.

With these "commercial" customers shut down during the crisis, dairy farmers are having to dump fresh milk, others are plowing vegetables back into the ground as the shutdown of food service industry has created havoc on the supply chain. USDA officials insist that there are ample supplies. The problem is converting the wholesale system to meet the demands on the retail side where it's needed most.

And now we learn that several major meat processors are shutting down plants as employees are testing positive with the COVID-19 virus.

- Tyson announced Thursday, April 9, 2020, it was suspending operations at its Columbus Junction, IA pork plant after more than a dozen workers contracted the virus there.
- JBS has stopped operations at its beef plant in Souderton, PA (plans to re-open April 16, 2020).
- Smithfield Foods will idle its Sioux Falls, SD pork processing facility which accounts for 4% of U.S. production.
- JBS reduced production at a beef plant in Greeley, CO due to high absences among workers.
- National Beef Packing suspended cattle slaughtering at a beef plant in Tama, Iowa.
- Aurora Packing Company closed a beef plant in Aurora, IL.
- Cargill closed a plant in Hazleton, PA.

On the whole, "consumers should not see any shortages at the grocery stores because the U.S. has enough meat inventory to prevent retail shortages. But with the potential for closures to accelerate, this would put a strain on the system" explains Christine McCracken, Senior Analyst of Animal Protein for Rabobank.

Time will tell what the extent of the COVID-19 impact will be on the supply chain.

Consumers:

From our most recent survey and research regarding the consequences of COVID-19 (April 1 through April 13, 2020) the focus was on consumers' concerns, spending, behavior, personal impact, employment status, and outlook.

- 88% - stated belief that the virus will have some level of disruption to their lives.

Spending Behavior (from Piper Sandler survey 4/13/20)

- 53% - spending less
- 50% - increased online shopping
- 67% - more likely to cook at home; more than prior
- 85% - reported some type of change in prior shopping habits

The level of concern declined to 61% from previous 63% (March 25, 2020 report). We believe this was attributable to several factors. (1) The news from the White House regarding an early lifting of the Stay at Home orders. (2) The consumer has passed from the shock stage to acceptance of the crisis. (3) An increasing belief by consumers that the lifting of Stay at Home order will happen within the next few weeks. However, consumer confidence has declined dramatically as a result of millions of job losses and other negative impact on consumer income as a result of the COVID-19 crisis.

Consumer Confidence		
April 12, 2020	March 2020	February 2020
71.0	89.1	97.2

Personal Income Impact has changed with more impact on employment. According to a recent study by McKinsey Global Institute, 86% of the initial job losses were among those that were making $40,000 or less. This is the very group least equipped to weather the crisis much less handle the loss of income. And over one-third of jobs lost were small firms with fewer than 100 workers.

Lost Job	Pay Cut	No Change	Busier
30%	27%	31%	12%

Several key takeaways from Piper Sandler's recent Consumer Survey (April 13, 2020):

- Consumers are spending less than mid-March – 53%
- Online shopping has increased
    - 50% reported online shopping more
- Grocery spending strong
    - With 67% expected to cook more meals at home
- Spending in terms of groceries
    - 50% - basic needs
    - 50% - stocking up