

**INDUSTRY: HEADLINES / BUSINESS CONDITIONS/TRENDS**

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**COMPANIES MENTIONED IN THIS REPORT:**

**CORE COVERAGE**

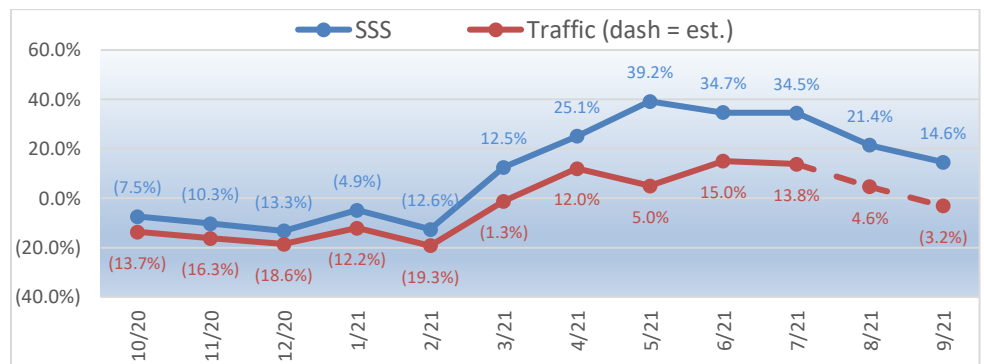
COMPANY	TICKER	PAGE
<b>QSR</b>		
McDonald's	MCD	5
Burger King	BKC	6
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Applebee's	DIN	19
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**HEADLINE NEWS:**

- Here we go again! Costco to limit purchase of paper towels, toilet paper, water, certain cleaning supplies.
- More companies report product shortages.
- Driver shortages are impacting supply chains/restaurant deliveries.

**SALES & TRAFFIC: (Compass RCR coverage average):**

Industry avg. SSS +14.6%  
Industry avg. Traffic <3.2%> (estimated)



**ECONOMIC HEADLINES:**

- CPI remains high - Annualized 5.3%
- Commodities wholesale prices rose 20.0%
- Unemployment 5.2%

**CONSUMER HEADLINES:**

- Consumer sentiment rose in September by 2.5 points; however, concerns over key issues increased dramatically.

**OPERATOR HEADLINES:**

- Staffing issues ease.
- Operator optimism contradicts results.

**SUPPLY CHAIN HEADLINES:**

- Multiple large companies reporting product shortages.
- Bottleneck in port cities delaying products and raw materials.

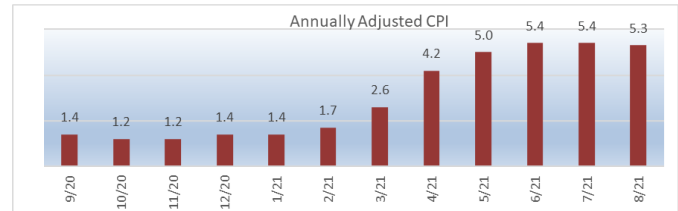
**CURRENT TRENDS:**

- Price point marketing focus.

Please see Page 26 for Important Disclosure

**ECONOMIC NEWS (BREAKDOWN):**

- CPI/Inflation Rate - Annualized 5.3%
- Commodities wholesale prices rose 20.0%
- Unemployment 5.2%



SOURCE: TRADINGECONOMICS.COM US Bureau of Labor Statistics

**INFLATION** – Annual inflation rate slowed from July’s 5.4%. However, faster price increases were seen for food (3.7% vs. 3.4%).

WHOLESALE COMMODITIES UPDATE	September 2021	August 2021
Beef	\$2.85	\$3.20
Dairy	\$2.07	\$2.04
Pork	\$3.45	\$4.31
Poultry	\$2.95	\$2.85
Produce	\$23.50	\$18.25
Seafood	N/A	N/A
Chicken Wings	\$3.15	\$3.16
Thighs (error in last month’s report) Aug. correction	\$0.65	\$0.58
Basket (limited)	\$5.91	\$4.92
Gasoline – National Average	\$3.18/Gal	\$3.19/Gal

SOURCE: Commodities: USDA / Gasoline: AAA

Total Wholesale Basket prices rose 20% in September and according to the most recent USDA report, they forecast wholesale beef prices are expected to increase a total of 17-20% in 2021, wholesale pork and chicken are expected to increase 16-20% The major factors impacting these price increases are higher food costs, increase in demand and disruption in the supply chain.

National average of gasoline per gallon moved sideways in September due in part to normal seasonal decline in demand. A contributing factor was an increase in refinery production.

RETAIL COMMODITIES UPDATE	September 2021	September 2020	August 2021
Ground Beef	\$6.18	\$5.76	\$6.08
Milk	\$3.56	\$3.40	\$3.62
Bacon	\$7.10	\$5.56	\$6.86
Bread	\$2.08	\$2.08	\$2.10
Coffee	\$4.73	\$4.50	\$4.56
Whole Chicken	\$1.47	\$1.60	\$1.44
Eggs	\$1.71	\$1.33	\$1.64
Potatoes	\$0.80	\$0.86	\$0.78
Basket	\$3.45	\$3.13	\$3.38

(See notes above on inflation).

**UNEMPLOYMENT:**

Total unemployment reported for August 2021 (latest report) stands at 15.2%, the lowest level since March 2020. The labor market continues to steadily recover despite lingering concerns of the Covid 19 resurgence (although there are still reports of labor shortages in many sectors). The U.S. economy added 235,000 jobs in August. The economy is still more than 5.3M jobs or 3.5% down from February 2020 peak. A return to pre-pandemic employment levels will not likely be seen until late 2022. What is most alarming, Eating and Drinking places lost 41,500 jobs in August. The Delta variant has been blamed as many workers said they were unable to work for reasons linked to the pandemic – vulnerability and other factors were given as reasons many people quit restaurant work. A deeper dive discovered the more severe understaffing situations are occurring in the QSR sector (average staffing levels were 60-65% of ideal levels; Casual Dining average staffing levels were 75-85% of ideal; Fast Casual were 80-85% of ideal and Fine Dining was 90-95% of ideal). What we learned in interviews with workers was QSR jobs have several issues that make them less desirable. They bare a negative social stigma among peers, lower pay than other restaurant sectors, limited or no opportunity to earn tips, demeaning working conditions when compared to the industry as a whole.

**OPERATORS:**

- Current Month Sales (nationally):
  - 73.0% ↓ Increase over last year
  - 11.0% ↑ Decrease over last year
  - 16.0% Same as last year
- Current Traffic:
  - 69.0% ↓ Increase over last year
  - 22.0% ↑ Decrease over last year
  - 9.0% Same as last year
- Future Outlook for Business Conditions over the next 6 mos.
  - 36% expect business conditions to improve
- Future Outlook for Sales:
  - 53.0% ↓ Increase over last year
  - 42.0% Same as last year
  - 5.0% Worse than LY
- Margins Impact:
  - 88.0% ↓ Reported food cost increase (rose 5.9% YOY)
- Menu Prices:
  - 86.0% ↑ Higher than LY
  - Menu prices increased 5.6% over last 12 months
- Staffing Issues:
  - 38.0% ↑ Fully Staffed
  - 62.0% ↓ Understaffed
  - 50.0% ↑ Job openings not filled
  - 42.0% ↑ Reported raising compensation
- Top Concerns:
  - 86% Recruiting/retaining employees
  - 74% Inflation
  - 73% Food costs/availability
  - 61% Covid Virus/Delta Variant

Based on consensus from our sources (CRCR interviews, NFIB Survey, National Restaurant Association Monthly Survey) SSS and Traffic softened during the month; yet the trajectory was over last year. These indicators, as well as a softening in consumer spending, could be signs of a business slow down. Another factor to consider is that historically this period is the second slowest in the calendar year for the restaurant industry. So events over the next few months bare close scrutiny before any conclusion should be drawn.




When comparing SSS to 2019, operators reported the following. By segment:

	CURRENT MONTH		LAST MONTH	
	Higher	Lower	Higher	Lower
QSR	75%	17%	61%	29%
Fast Casual	50%	17%	50%	50%
Casual	47%	42%	75%	25%
Fine Dining	38%	50%	50%	50%

**SMALL BUSINESS OPTIMISM INDEX (Source: NFIB and Compass RCR)**



RESTAURANT PERFORMANCE INDEX: (Source: National Restaurant Association)

		1/21	2/21	3/21	4/21	5/21	6/21	7/21	8/21
	<b>RESTAURANT PERFORMANCE INDEX</b>	99.1	100.1	105.1	106.3	105.5	105.6	105.2	104.2
<b>CURRENT SITUATIONS</b>									
\$	SSS Increase/Decrease	29%/71%	73%/27%	77%/23%	97%/3%	95%/5%	84%/16%	85%/15%	73%/11%/16%
	Capital Spending	51%	53%	58%	74%	68%	72%	73%	63%
<b>EXPECTATIONS:</b>									
\$	Sales Outlook Improvement	59%	63%	78%	77%	75%	75%	71%	53%
	Economy Outlook Improvement	56%	66%	69%	64%	74%	68%	32%	36%

CONSUMER SENTIMENT

	10/20	11/20	12/20	1/21	2/21	3/21	4/21	5/21	6/21	7/21	8/21	9/21
<b>Consumer Sentiment</b>	72.5	74.1	80.4	81.8	76.9	80.7	84.9	82.9	85.5	81.2	70.3	72.8
<b>Current Economy</b>	82.8	82.9	87.8	85.9	87.0	90.0	87.7	89.4	88.6	84.5	78.5	80.1
<b>Consumer Expectations</b>	65.9	68.5	75.6	79.2	70.5	74.6	73.8	78.8	83.5	79.0	65.1	68.1

SOURCE: University of Michigan Sentiment Poll

Consumer Concerns:

	September 2021	August 2021
Health concerns as related to Covid variant	50%	26%
Financial concerns – (Inflation) increased cost of goods	58%	16%
Immigration	52%	11%

SOURCE: September 24, 2021 Gallup Poll

Consumer Sentiment Index actually rose in September by 2.5 points based on less news of the Covid crisis. While consumer optimism did increase, their concerns over key issues increased dramatically. There will be a time of reconciliation between these indexes which will be more reflective of actual situations. One key indicator was consumers plans to postpone major purchases (as stated by over 48% of those polled) which would imply a cautionary approach to spending.

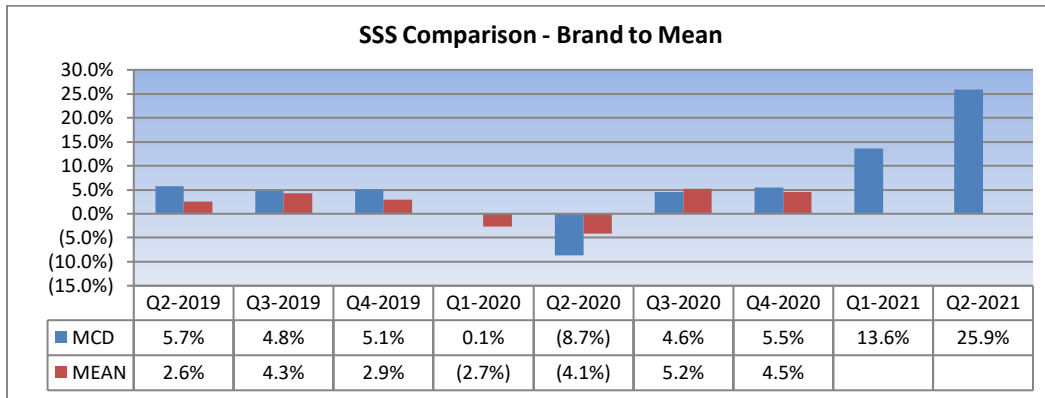
SUPPLY CHAIN NEWS:

PRODUCT SHORTAGE:

- Nike
- Costco
- Certain medical supplies (Covid related)
- Shortage of raw material hampering production of glass, plastics, metals, and electronics.

All are part of the larger supply chain disruption that has snarled the movement of goods around the world. Many producers are waiting for parts produced overseas which are delayed or are waiting in jammed seaports. Last week the Port of Los Angeles announced a record 60 container vessels were waiting off-shore to unload their goods. The port of Los Angeles is not currently working 24/7. They are working 2 shifts per day, 6 days a week and have applied for permission to run 24/7 operations to help ease the bottleneck. As of 9/30/21 the federal government has not issued approval for the request for extended operational hours. The auto industry factories are filled with vehicles awaiting scarce computer chips.

The causes for the bottlenecks are complex. It is the result of a shortage of trucks and drivers to pick up goods coupled with an overwhelming demand for imports for consumer products, as well as Covid safety protocol for ships entering U.S. ports overwhelming the workforce. It's a global supply chain problem. All ports are interconnected so a disruption at one port will impact others.



COMPASS FORECASTS - SSS
<b>FRANCHISE CONTACTS:</b>
SSS: +9%
TRAFFIC:
<b>ESTIMATES ON USA CORP.</b>
SSS: +8-10%
TRAFFIC:
CK AVG: \$6.80

**SUMMARY/KEY TAKEAWAYS:**

- **Trends:** **Sales** – Positive      **Momentum** – Increasing      **Outlook** – Positive
- **Effective Sales Drivers:** Disney Happy Meal Tie-In
- **Effective Sales Initiative:** MyMcDonald's Rewards Program – free food/Order & Pay

**CONCLUSION:**

- September sales were positive; momentum increased. These results were primarily due to the Disney 50<sup>th</sup> Anniversary Happy Meal Toy tie-in; the popularity exceeded expectations, despite not being advertised anywhere – except on Disney social media sites.

**FORECASTS:**

- **For October** – Our SSS expectations are in the positive 6-8% range based on expected slowing in momentum due to Disney Happy Meal tie-in ending; but maintaining a healthy sales pace.

Market segmentation of our September channel checks: **NE 11%; S 20%; MW 32%; W 37%.**

**SALES HIGHLIGHTS / KEY PERFORMANCE INDICATORS:**

- Sales were positive in September. **Major Influences:** (1) Strong media that supported Brand awareness and the new Chicken Sandwich. (2) The Disney 50<sup>th</sup> Anniversary Happy Meal tie-in featuring over 50 Disney Toys. According to 80% of our contacts, “sales were through the roof with adults coming in buying 9-10 Happy Meals or Toys at a time.”

**SIGNIFICANT SALES DRIVERS THAT ARE WORKING:**

1. Happy Meals – Disney 50<sup>th</sup> Anniversary Toys
2. 2 for \$6
3. New Chicken Sandwich

**COMMENTS ON SSS & DRIVERS**

- 77% of our contacts listed the above as their top sales drivers for the month.

**ADVERTISING / MEDIA / PROMOTIONAL HIGHLIGHTS:**

- **TV:** Primary focus on:
  - Crispy Chicken Sandwich
  - Happy Meals – Disney 50<sup>th</sup> Anniversary
  - Pumpkin Spice Latte
- **SOCIAL MEDIA:**
  - My McDonald's Rewards
  - App
  - Free food w/App
  - McDelivery

**SALES BUILDING INITIATIVES:**

- **Menu - Innovation/Price Point/LTO/Price Value:** Happy Meal – Disney 50<sup>th</sup> Anniversary tie-in.

**NEXT PROMOTION:**

- McRib to return November 1

**IMPACTFUL CHAIN NEWS:**

- Plans to eliminate plastic toys by 2025.

**WHAT WE HEARD – OPERATORS:**

- **Staffing Issues:** 60% of our contacts reported continued staffing issues but that it was much better than July/August. The average daily crew shortage was 1-3 employees. The remaining 40% of our contacts reported being fully staffed.

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