RESTAURANT RESEARCH®

All You Need to Know About 4Q18 Investor Conference Calls

Domestic Performance Organized for Easy Reference

4Q18 $1B+ Restaurant Chain Summary

			Company Store			Cost Outlook	
Concept	**Quarter**	**US Comps**	**Traffic**	**Pricing**	**Mix**	**Commodity**	**Labor**
Applebee's	12/31/18	3.5%					
Burger King	12/31/18	0.8%					
Carrols (BK)	12/30/18	2.7%	3.3%	1.7%	-2.3%	1% to 2%	4.7%
Cheesecake	1/1/19	1.9%	-1.6%	2.9%	0.6%	1% to 2%	6.0%
Chili's	12/26/18	3.0%	2.9%	0.9%	-0.9%		3.0%
Chipotle	12/31/18	6.1%	2.0%	3.3%	0.8%		4% to 5%
Del Taco	1/1/19	1.9%	-3.9%	4.9%	1.0%	2% to 3%	6.0%
Denny's	12/26/18	1.4%					
Domino's	12/30/18	5.6%				2% to 4%	
Dunkin'	12/29/18	Flat	↓				
IHOP	12/31/18	3.0%					
Jack in the Box	1/20/19	-0.1%	-3.3%	2.6%	1.2%	2.0%	
McDonald's	12/31/18	2.3%		2.0%		1% to 2%	
Olive Garden	11/25/18	3.5%	-0.8%	1.9%	2.4%	<1%	4.5% to 5.5%
Outback	12/30/18	2.9%	-0.8%	3.7%		2.0%	4.0%
Papa John's	12/30/18	-8.1%					
Popeyes	12/31/18	-0.1%					
Red Robin	12/30/18	-4.5%	-4.4%	0.1%	-0.2%		MSD
Starbucks	12/30/18	4.0%	0.0%				
Wendy's	12/30/18	0.2%				1% to 2%	3% to 4%
Wingstop	12/29/18	6.0%				MSD to HSD	
Yum! Brands							
KFC	12/31/18	1.0%					
Pizza Hut	12/31/18	1.0%					
Taco Bell	12/31/18	6.0%					

Efficient Research Solutions
Value-Added Data & Insight

Providing unit level benchmarks to help maximize investment decisions

Applebee's

Qtr. ended: 12/31/18	US Comps: +3.5%	Food costs: N/A	Labor costs: N/A

Sales

- 4Q18 comps increased +3.5% (+4.8% on a 2-year stacked basis), outperforming every category of the restaurant industry. Off-premise comp sales increased +32%.
- Full-year 2018 comp growth of +5% represented the brand's best annual performance in 25 years.
- Results were attributed to: nurturing a winning leadership team & trusted franchises; increased investments in research & consumer insight; enhanced guest & team member engagement through consumer-facing technology and CRM; guest satisfaction improvements; a focus on traffic-generating menu innovation & abundant value; and accelerated growth in its off-premise businesses.
- 2019 comp guidance: +2% to +4%.

Marketing, Promotions & Menu

- $30MM corporate contribution to Applebee's national ad fund was completed in 1H18 and is non-recurring. Franchisees have agreed to temporarily increase their ad contribution rate by +75 bps to 4.25%.
- Messaging & execution will be tailored to each distinct dining occasion and corresponding guest profile.
- Guests under 34 years old represent a 40% mix and growing.
- Culinary strategy remains focused on abundant and indulgent value, leveraging mainstream recipes/flavors that operators can execute at a consistently high level. Innovation will be smart/selective and fully validated (as was the case with its successful pasta 4Q intro) while beverage and off-premise will continue to be used as meaningful innovation platforms.

Tech & Operations

- Off-premise business consists of: to-go (11% mix on its way to 20% over the next 3 years); delivery which is currently available in 1,110 units (on its way to 1,500); and catering.
- Overall guest satisfaction scores have attained all-time highs and reflect less operational variability between top & bottom performing stores (guests reporting problems has declined to just 4%). Value for the money scores are also high and closely correlated with guest satisfaction.
- Past franchisee issues have been successfully resolved.
- 32 franchisee partners include large operators with deep experience.

Facilities

- Net closures in 2019 of 20 - 30 units (majority domestic) should normalize to a 1% closure rate in 2020 and beyond.
- Acquisition of 69 franchised restaurants in North & South Carolina in mid-December should add $10MM in corporate EBITDA during 2019.
- Franchisee AUV is running $2.5MM. Unit-level margin improvements reflect efficiencies in the front of the house & kitchens (which should generate 300 bps in cost savings over the next several years) that more than offsets labor cost pressure.

Burger King

Qtr. ended: 12/31/18	US Comps: +0.8%	Food costs: N/A	Labor costs: N/A

Sales

- 4Q18 comps increased +0.8% and +1.4% during the full-year 2018. Comps improved sequentially during the quarter, helped by its $1 10-piece nuggets promotion and its Whopper Detour offer (app customers could get a $0.01 Whopper if they ordered near a MCD location) which drove 1.5MM app downloads.
- Impactful, edgy marketing campaigns included: the Nightmare King; the Whopper Detour; and its Eat Like Andy Super Bowl ad.
- Burger King of Tomorrow image will aggressively roll-out across the U.S. and this new, modern image integrates outdoor digital menu boards, double drive-thrus and self-order kiosks which are driving enhanced guest satisfaction and more visits.
- Delivery is available in nearly 3,000 restaurants in the U.S. and BK's mobile order & pay app was launched during 3Q18.
- Fastest drive-thru speed in QSR according to a 3rd party survey.
- Accelerated development growth rate included 100 net new restaurants in 2018.
- Average unit level profitability increased in 2018.
- Goal is to enhance the guest experience through restaurant image, technology & service.

Carrols Restaurants (Burger King franchisee)

Qtr. ended: 12/30/18	US Comps: +2.7%	Food costs: +1% to +2%	Labor costs: +4.7%

Sales

- 4Q18 comps increased +2.7% (+3.3% traffic/+1.7% pricing/-2.3% mix). Traffic benefitted but mix was pressured by a variety of promotional deals including: $1 Chicken Nuggets; $3.49 King Deal; a 2 for $6 Mix & Match (including the new Crispy Chicken Tenders); $6 King Box; and the 2 for $10 Meal Deal. Premium offers during the quarter included Cheesy Bacon Crispy Chicken and Philly Cheese King.
- Full-year 2018 comps increased +3.8% (+9% 2-year stacked).
- BK has recently made a number of changes to modify or reduce the impact of its more aggressive promotional offerings which should provide some margin relief.
- Corporate reports a moderating in the level of industry promotional activity beginning in the middle of February into March.
- 2019 comp guidance: +2% to +3.5% (including +2% to +2.5% in pricing).
- In late April, Carrols will merge with Cambridge Franchise Holdings and acquire 166 Burger King & 55 Popeyes restaurants across 10 Southeastern & Southern states. The company currently controls Burger King's Right of First Refusal (ROFR) in 20 states and is preapproved to grow to 1,000 BK restaurants. After the merger, Carrols will be approved for the acquisition of up to 500 additional BK restaurants (excluding the Cambridge restaurants). The new agreement expands Carrol's BK ROFR territory to include 4 new states (Arkansas, Louisiana, Mississippi & Tennessee) while the company relinquishes its ROFR rights in 7 states where it is not currently expanding. Carrols has also agreed to develop 200 Burger King restaurants over the next 6 years and to remodel or upgrade a number of existing and acquired restaurants to the Burger King of Tomorrow image. Carrols will also assume Cambridge's existing development agreement with Popeyes, including an acquisition ROFR in Tennessee & Kentucky and the development of approximately 70 new Popeyes restaurants over the next 6 years. This deal is expected to include $25MM to $30MM in real estate and Carrols plans to execute a $25MM sale lease back transaction shortly after the acquisition.

Costs

- Hourly wage rate increase moderated to +4.7% y/y during 4Q18 (lowest rate in 3 years).
- 2019 commodity costs are expected to increase +1% to +2%, including an increase in beef costs of +2% to +3%. Beef cost averaged $1.87 per pound during 4Q18, down -7% y/y.
- While discounting pressured COGs by 200 bps during 4Q18, a lighter promotional cadence in 2019 should help margins going forward.

Facilities

- Carrols owned and operated 849 BK restaurants as of 12/30/18. During 2018, the company acquired 44, opened 8 and closed 10 BK stores. The company expects to close 10 to 15 stores during 2019.
- Plans to roll-out exterior digital menu boards in 2019 with a goal to achieve 25% penetration by the end of the year.
- New build AUVs have increased over the last 2 years. Assuming a new build AUV of $1.5MM and $1.5MM to construct (excluding land), Carrols can generate a cash-on-cash return in the high teens on a ground lease. Assuming the purchase of land for another $600k to $700k, the levered return jumps to 50%+ after a sales leaseback.

Cheesecake Factory

Qtr. ended: 1/1/19	US Comps: +1.9%	Food costs: +1% to +2%	Labor costs: +6%

Sales

- 4Q18 comps increased +1.9% (+2.9% pricing/+0.6% mix/-1.6% traffic). Traffic adjusted for delivery was down -1%.
- Full-year 2019 comps are expected to increase +1% to +2% with pricing of ~+3%.

Costs

- 2019 food inflation is expected to run +1% to +2% and wage inflation +6% (dollars per operating week has historically run 1% to 2% better than labor inflation).
- Corporate reported productivity increases in labor and better food efficiency, driving a strong overall flow-through.

Digital, Operations & Facilities

- Off-premise mix grew to 14% during 2018 (vs. 12% in 2017) and mix ramped-up to 15% in 4Q18. Growth is attributed to: differentiated positioning; high quality; made-from-scratch menu; and value proposition supported by creative on-brand marketing. Online ordering represents 12% to 13% mix (with delivery representing the balance) up from 9% to 10% at its online launch.
- DoorDash delivery is 60% incremental and break-even is less than 50%. Delivery menu prices are consistent with in-store prices with the company paying commission fees that are booked into other operating costs and expenses. On a net basis, the margin impact from delivery is negligible.
- Corporate reported industry-leading retention at both the hourly staff & manager level and commented that industry research confirms the influence of strong retention on service, guest sentiment & restaurant sales (this is particularly true at the general manager level). Further confirmation of the benefits from low turnover was provided by internal improvements in 2H18 guest satisfaction scores (service, base of experience & food quality) which increased across both dining-in and off-premise occasions.
- 5 restaurants were opened in 2018 with plans for 6 more in 2019.

Chili's

Qtr. ended: 12/26/18	US Comps: +3%	Food costs: N/A	Labor costs: +3%

Sales

- Fiscal 2Q19 system comps increased +3% and +2.9% company store comps reflected +0.9% net price/-0.9% mix/+2.9% traffic (traffic growth was best in 10 years). Results represented a positive gap to the casual dining industry of over +1% for comp sales and close to 4% for traffic. Particular strength was noted in the Southwest, New England & California and comps were positive for both lunch & dinner.
- Traffic was primarily driven by its 3 for $10 meal (introduced in early October) along with its lunch combos and new $25 3-course meal for two. The 3 for $10 deal works well at lunch, dinner as well as for take-out and is driving strong guest satisfaction and intent to return scores.
- Off-premise sales grew +20% y/y during the quarter (to 12% mix), reflecting a significant rise in e-commerce, more effective marketing support, improvements in packaging and better operational execution.
- Chili's going forward sales will benefit from: an ongoing commitment to keep operations simple, improving frequency; a compelling value platform; takeout business growth; and its most effective & efficient marketing strategy ever.
- Brinker's integrated comp sales growth guidance was increased to +1.75% to +2.5% for FY19 and its target menu price remains close to +1.5%.

Menu & Marketing

- Chili's 3 for $10 offer (low-teens mix) stacks-up well against the casual segment value proposition that has creeped-up from two for $20 a couple of years ago to two for $25 currently & lunch combos that used to start at $6 and are now at $8.
- Corporate reports that Chili's value rating is one of the strongest in the industry with its heavy users giving the brand credit for its product quality investments (with this improved perception expected to spread to lighter users).
- Growth in its lunch mix (helped by its 3 for $10 offer) means less high margin alcohol sales.
- The brand has been successful in driving traffic & sales with lower ad rate levels and will seek to better leverage its 6MM+ loyalty database. A new head of marketing (Ellie Doty) frees-up Steve Provost to focus on strategy.

Operations, Costs & Facilities

- Guest metrics (best ever) indicate that Chili's execution and quality levels are significantly better even with higher volumes. Traffic growth is attributed to this accomplishment.
- Hourly wage rate inflation increased by just under +3% and operational simplification efforts will help offset this impact going forward.
- Labor costs should also benefit from new strategy of bringing hourly team members into management positions.
- Chili's has developed more cost effective packaging to help alleviate what represents the largest pressure on its to-go margins.
- Chili's food margins, which are the best in the industry, help facilitate its value platform.

RESTAURANT RESEARCH®

Chipotle

Qtr. ended: 12/31/18	US Comps: +6.1%	Food costs: N/A	Labor costs: +4% to +5%

Sales

- 4Q18 comps increased +6.1% (+3.3% price/+2% traffic/+0.8% mix) driven by its "For Real" marketing campaign and its Free Delivery Bowls promotion (which ran from 12/17 to 1/7).
- Full-year 2018 comps increased +4.0% (net of a -0.8% decline in traffic) driving $2MM AUVs.
- Key growth pillars include: digital system investments (pickup shelves, digitized make lines, loyalty & delivery); marketing programs celebrating its use of real ingredients & classic cooking techniques; elevating core menu by developing innovation that leads food culture and meets guest requests & lifestyle; a dedication to improving ops with GM stability & development; and improved throughput in a great restaurant environment.
- Full-year 2019 comps should come-in at the +4% to +6% range, including pricing of around +1.7%.

Marketing & Menu

- Marketing mandate is to drive: culture; a difference; and ultimately a Chipotle purchase. In late September, the brand launched its "For Real" ad campaign showcasing Chipotle's point of difference in real ingredients and real cooking techniques. This drove significant brand awareness by leveraging culturally relevant programming.
- The brand published its entire ingredient list across numerous social and digital channels.
- The next iteration of its For Real campaign (Behind the Foil) launched February 11 and feels like a documentary which showcases its fresh ingredients, food prep and provision of a great dining experience.
- On January 2, Chipotle launched its first menu innovation (Lifestyle Bowls for mobile & web orders) that generated 1.3B earned media impressions in the first few days of January.
- Overall digital impressions increased +20% y/y during 2018 while social impressions increased +40%. This was achieved without an increase in its marketing budget.
- Loyalty test sign-ups include a mix of new, lapsed and medium frequency guests. National launch is planned for this year.

Tech, Operations & Costs

- Digital mix reached 10.9% of sales (+66% y/y growth). Growth in this channel and new development helps address the #1 reason consumers eat elsewhere (lack of access to Chipotle). Digitized make lines are now in 1,000+ stores and the roll-out will be complete by the end of 2019, improving throughput & accuracy. Digital pickup shelves are in ~1,000 stores with full penetration expected by mid-2019. App downloads increased +72% y/y in 2018.
- Delivery sales increased 13x y/y during 4Q18 helped by the free delivery bowl promotion. Corporate reports very little guest overlap between its own in-app delivery and its 3rd party delivery partner apps. Fast delivery times should improve with the addition of pick-up shelves and delivery prepay capabilities that enable delivery drivers to walk in, pickup their order and walkout without any delays.
- Testing 10 stores with a mobile order pick-up lane (Chipotlane) with plans to open a few dozen more in a mix of freestanding and end-cap buildings.
- Operational improvement initiatives include: training that reiterates its 4 pillars of hospitality (be & look your best, be guest obsessed, surprise & delight and make it right); a quarterly food safety training requirement; a new prep process (focus prep) which reduces the number of people involved in food prep; and throughput training leveraging its dashboard. GMs are now able to lead the restaurant vs managing every single process of the production and corporate is focused on reducing turnover at this position with its Cultivate You 2.0 initiative.
- Store level margins were 18.7%, up +1.8% during 2018. Labor inflation is running +4% to +5%.

Facilities

- 2019 development: 140 to 155 stores (up from 137 in 2018).
- New build AUVs are running 80%+ of existing stores and new build costs run ~$860k.

Del Taco

Qtr. ended: 1/1/19	US Comps: +1.9%	Food costs: +2% to +3%	Labor costs: +6%

Sales

- 4Q18 system comps increased +1.9% and a +1% company store comp increase reflected +4.9% pricing, +1% mix and a -3.9% traffic decline (impacted by weather & Lent calendar shift). Fan-favorite premium LTO protein (shredded beef) was promoted during the quarter for the first time since 2012. This was paired with the launch of the new Triple Meat Epic Burrito (featuring freshly grilled steak, chicken & bacon) which pressured margins slightly. These promotions helped drive 1%+ of mix growth and a 4Q premium mix that exceeded 10%.
- 2018 system comps increased +2.5% and company store comp of +1.5% reflected +3.6% pricing, -2.1% traffic and a slightly positive mix.
- Franchise AUVs increased +30% in the last 5 years across its 13-state footprint (50%+ of these stores are located outside of California). Corporate stores just recently achieved a $1.5MM AUV.
- 2019 system comp guidance: positive low-single digits.

Menu, Promotions & Marketing

- New ad campaign (celebrating the hardest working hands in fast food) features real employees freshly preparing ingredients as part of the brand's QSR plus positioning.
- In addition to leveraging the price flexibility of its Buck & Change feature of its Buck & Under platform, Del Taco is enhancing its value platform with the recent launch of Fresh Faves boxes (full meal deals with 2-3 entrée choices, french fries & a drink offered in $4, $5 and $6 options).
- Lent promotion features popular jumbo shrimp LTO and 2 beer battered fish tacos for $4.
- Innovation around vegan and vegetarian options included the launch of Beyond Taco & Beyond Avocado Taco (proprietary blend of seasoned 100% plant-based protein that taste like ground beef).
- Corporate reports strong scores around value and affordability perception.

Costs

- Ongoing 4% menu pricing is expected to mitigate +2% to +3% food inflation (including higher distribution & transportation costs).
- Ongoing 6% labor inflation will be driven by $1 increase in California minimum wage.
- Effective cost management and pricing strategies has helped maintain a 20% restaurant contribution margin over the last 4 years.

Operations

- Operational improvements include deeper focus on fresh food prep and hospitality.
- New app was launched last November, with 400,000 registered users representing 700 per store.
- Delivery initiative expanded to include Grubhub in substantially all company store locations. Multiple DSP approach will also include launch of DoorDash and Postmates later this year. With a delivery check average 2x its in-store check average, corporate believes there is ample room to maintain margins even after delivery charges.

Facilities

- 25 stores opened in 2018 (13 company/12 franchised) vs. 20 in 2017 and 13 in 2016.
- Refranchising should lower company store ownership from 55% to 45% by the summer of 2020. This will leave corporate with strong AUV stores in core Western and emerging markets. During 1Q19, corporate acquired 3 high-volume franchise stores and sold 13 lower volume units in the LA area to existing operators.
- Remodel test program will begin this year.

Denny's

Qtr. ended: 12/26/18	US Comps: +1.4%	Food costs: N/A	Labor margin: N/A

Sales

- 4Q18 comps grew +1.4% and full-year 2018 comps grew +0.8%.
- 2019 guidance: system comp growth of between 0% and +2%.

Menu & Marketing

- Latest LTO menu features an array of new omelets starting at $6.99 and Denny's new Blueberry Pancake Puppies. Goal is to build culinary credibility around its omelet platform (similar to its Grand Slam & build-your-own platforms) in order to provide another option for customers who are retrying their brand.
- Most recent core menu improvements include a USDA choice cut sirloin steak with garlic peppercorn butter and an improved slow-cooked pot roast.
- While Denny's continues to build momentum for its breakfast and lunch dayparts, the long-term goal is drive sales across all 4 dayparts (including dinner & late-night).
- +2% menu price increases expected for company stores in 2019.

Tech, Operations & Costs

- Off-premise sales mix was 11% during 4Q, up from 7% at the launch of Denny's on Demand in mid-2017.
- Delivery continues to drive off-premise growth and 71% of the system is now actively engaged with at least one delivery partner (77% of the system is eligible). Delivery transactions are highly incremental and generate total margin rates from the low teens to upper 20s % inclusive of the delivery fee.
- 2019 guidance for restaurant operating margin at company stores: 15.0% to 16.5%.

Facilities

- 203 remodels (including 193 franchised stores) completed during 2018.
- Heritage remodels are generating mid-single-digit sales lifts and 81% of the system was remodeled at the end of 2018 (90%+ will be complete by the end of 2019). The new image lays the foundation for future initiatives to drive sales across all 4 dayparts.
- Over the next 12 to 15 months, franchisor expects to migrate from a 90% franchised business model to between 95% - 97% franchised. The anticipated sale of 90 - 125 company stores are attached to development commitments that are attracting new, well-capitalized franchisees. Refranchised stores are achieving EBITDA multiples in the 4 to 5x range and will generate pretax proceeds of $100MM+ over the full refranchising process. Refranchised stores have AUVs of $1.9MM to $2.1MM with 10% to 12% margins, leaving corporate with stores with $2.8MM - $2.9MM AUVs and margins in the high teens to low 20% range.
- 2019 development guidance: 35 to 45 new store openings (representing flat net restaurant growth). Development challenges in 2018 were driven in part by some landlords choosing not to renew leases in an environment of increasing real estate values.
- Corporate expects to generate $30MM in proceeds from the sale of 25% - 30% of its 95 properties currently owned. Proceeds will be redeployed to acquire higher-quality real estate.

Domino's

Qtr. ended: 12/30/18	US Comps: +5.6%	Food costs: +2% to +4%	Labor costs: N/A

Sales

- 4Q18 comps increased +5.6% (lapping +4.2% during 4Q17) primarily driven by traffic (which continues to benefit from its Piece of the Pie loyalty program with 20MM members) and ticket to a lesser extent. A calendar shift during the quarter negatively impacted comps by -0.5%.
- Full-year 2018 comp growth of +6.6% included a -1% to -1.5% headwind from the system's "fortressing" strategy (splitting existing territories with new stores in order to capture more carryout & increase service speeds).
- "Smart ticket" menu price increases during the quarter are based upon selective analytics.
- 3-5 year comp outlook: +3% to +6% (inclusive of -1.5% impact from fortressing strategy).
- Sales continue to benefit from: longstanding $5.99 delivery & $7.99 carryout offers; tech leadership; and loyalty program.

Margins

- Efforts to combat wage inflation include: considering how to leverage tech behind the counter for labor scheduling at corporate stores; and fortressing strategy which reduces delivery radiuses & associated labor delivery costs. Delivery zones in fortressed markets have been reduced from 9 minutes to 5-6 minutes, helping increase drivers' tips and reducing turnover.
- 2019 food basket inflation expected to be up +2% to +4%.
- Average franchise store EBITDA will range from $137k to $140k in 2018.
- An average franchisee currently has 7 stores and generates aggregate EBITDA of $900k. Aggregate average franchisee cash flow has been growing rapidly over the last several years.

Technology

- Unique loyalty platform allows customers to send photos of <u>any</u> pizza using an AI interface (Pie identifier) to earn points. This has been generating brand engagement as well as increased awareness and participation in Domino's loyalty program.

Facilities

- Cash-on-cash return for "fortressed" stores is 4 – 4.5 years vs. 2.5 years for a new build with its own territory.

Dunkin' Brands

Qtr. ended: 12/29/18	US Comps: flat	Food costs: N/A	Labor costs: N/A

Sales

- 4Q18 comps were flat (ticket increase offset by traffic decrease) and full-year 2018 results were up +0.6%. A higher ticket during the quarter was driven by pricing and a beneficial mix shift to premium priced cold beverages, espresso & breakfast sandwiches.
- 2018 accomplishments (Blueprint for Growth designed to evolve Dunkin' into a beverage-led, on-the-go brand – great coffee, fast) included: menu simplification; its first foray into national value (Go2s platform); NextGen new store design intro; new Dunkin' brand identity; re-launch of its espresso beverages served at the speed of Dunkin'; and the hiring of new creative agencies.
- 4Q18 re-launch of its espresso platform included a system-wide roll-out of new equipment and the training of 100,000+ crew members. The brand intentionally kept its marketing calendar light during installations to ensure the system ready for its Thanksgiving week marketing launch.
- Targets for 2019 and next 3 years: positive LSD comp growth.

Menu & Promotions

- Launch of new Handcrafted Espresso Beverages in late November has driven incremental sales & traffic, increasing this category's mix by +200 bps and sales by +35%. This platform skews to younger consumers compared to Drip Coffee users and is well supported by its $2 PM Break promotion. Dunkin's espresso customers are coming from other espresso players, c-store competitors and existing Dunkin' coffee customers who have responded well to its new the orange-themed packaging and the $2 afternoon latte and cappuccino offer. Notably, growth in this category has not impacted overall service speeds.
- Menu simplification has made room for product innovation around espresso, frozen beverages, afternoon snacking and the better for you power breakfast sandwich (1Q19 launch).
- First-ever national value platform (Go2s breakfast sandwiches) was launched in 2Q18, rested in 3Q as the brand tested different national value iterations and then brought back in January 2019. Recognition that compelling value programs drive trial and traffic has prompted Dunkin' to focus more on national value in 2019 (including compelling happy hour & p.m. break offers).
- Launch of its new brand name (Dunkin' without the Donuts) drove nearly 3B media impressions.

Operations & Tech

- 2 app refreshes were completed last year, and mobile orders are mixing at 3% of transactions (can be as high as 30% at non-drive-thru in-line stores).
- Perks members continue to represent 12% of visits.
- Testing a multi-tender option which addresses the largest impediment to program participation – a reluctance to pre-load a credit card which is necessary for on-the-go mobile & loyalty.
- Grubhub delivery pilot integrates directly with its POS system.

Facilities

- Franchisees are expected to open 200 - 250 net new units annually over the next 3 years with 2019 results expected to be at the low end of this range. This represents a slower pace than 278 units opened in 2018 (90% outside of core Northeast markets in states such as California, Florida, Georgia and Tennessee) and reflects an effort to optimize its next-gen format before ramping-up development & remodels to 2x the current pace.
- The system included 130 new and remodeled next-gens at the end of 2018. Customers are responding well to the front-forward bakery cases, tap systems and the efficient mobile order pickup.
- 2017 cohort of new store openings in its top 10 developing markets continues to generate 20% - 25% cash-on-cash returns.
- Ramp-up in 2018 closures should continue as the system remains focused on shuttering self-serve and other non-traditional locations that don't provide the full Dunkin' experience.

RESTAURANT RESEARCH®

IHOP

Qtr. ended: 12/31/18	US Comps: +3%	Food costs: N/A	Labor costs: N/A

Sales

- 4Q18 comps increased +3%, representing the brand's highest quarterly comp increase since 3Q15 and the 4th consecutive quarter that IHOP outperformed the family dining category. Its Ultimate Steakburger launch created the most buzzworthy media campaign in IHOP's history.
- The brand has successfully changed the narrative regarding IHOP's lunch & dinner occasions which represented the strongest dayparts for both 4Q and the full year. Abundant value & variety attract guests throughout the day and burger sales remain at 2x the level before the burger launch.
- Full-year 2018 comps increased +1.5%.
- Sales benefit from: nurturing a winning leadership team & trusted franchisees; increased investments in research & consumer insight; enhanced guest & team member engagement through consumer-facing technology and CRM; guest satisfaction improvements; a focus on traffic-generating menu innovation & abundant value; and accelerated growth in its off-premise businesses.
- 2019 comp guidance: +2% to +4%.

Tech & Operations

- Total off-premise comps increased by +30% during the quarter (8% sales mix up from 6% during 4Q17). To-go comps increased +23% (traffic up +13%) and online orders are generating checks which are +31% higher than all other to-go orders. To this end, IHOP's online ordering system (enhanced website & new app) represent an important channel of profitable and efficient growth.
- DoorDash delivery program was launched in July 2018, and since then, 1,000 stores have been added with 1,300 expected by the end of 2019. This year IHOP will seek to expand its relationships with other leading delivery service providers while increasing its marketing efforts to build awareness around its IHOP and Go program.
- IHOP achieved the highest scores among its peer group for overall guest satisfaction (with an all-time high score in October) and revisit intent, reflecting the brand's renewed focus on its I-hospitality service program.

Facilities

- 275 remodels were completed in 2018, bringing the total number of restaurants with the Rise N' Shine image to 1,000+ when combined with new restaurants openings.
- The system is currently testing a 2nd Rise N' Shine remodel image which includes new guest-facing tech: a tool to provide more accurate wait times; tablets to increase order efficiency & accuracy; and wireless credit card devices which allow guests to keep direct control over their credit cards.
- 34 net new domestic restaurants were opened in 2018 and another 35 - 55 are expected to open in 2019 (the majority of which will be domestic).

RESTAURANT RESEARCH®

Jack in the Box

Qtr. ended: 1/20/19	US Comps: -0.1%	Food costs: +2%	Labor costs: N/A

Sales

- Fiscal 1Q19 system comps declined by -0.1%, underperforming the segment average by -3.2%. Company store comp of +0.5% reflected +2.6% pricing and +1.2% mix partially offset by a -3.3% traffic decline.
- Traffic and sales improved during the quarter after the system pivoted towards a more value-oriented bundle deal approach (this contrasts with brand's traditional use of premium LTOs during its fiscal 1Q).
- The company continues to explore a range of strategic and financing alternatives which include the possibility of an outright sale or increased leverage to fund shareholder initiatives.
- 2019 comp guidance: flat to +2%. Geographical pricing varies significantly.

Menu & Marketing

- Industry currently offers value in the form of abundant value and/or cheap à la carte items. While corporate seeks to "walk the fine line" of avoiding brand equity erosion around value (even though this means losing some traffic), 50% of Jack's customers are value oriented.
- During 2018, 50% of marketing calendar featured value promotions and this will increase to 80% in 2019.
- Value includes: 2 Tacos; Breakfast Jack; Junior Bacon Cheeseburger; margin-friendly combos & bundled deals priced below $5 including the $6 Munchie Meal (which comes with fries, drink & tacos); and low-priced indulgent snacks/sides (~$3) which serve as add-ons for crave-hunting customers but trade-down for value customers.
- Jack's bundled deals will feature exciting premium LTOs as opposed to existing core items. The brand learned during the quarter that while premium products like its 100% Ribeye Burger maybe a great product, it needs to be part of a bundle deal to be competitive. Low priced deals will be used to drive digital.
- In lieu of a Super Bowl ad this year, the brand invested in a social media campaign which promoted its Super Jack'd Monday box and its partnership with DoorDash.
- While corporate is content with its 2 current marketing leaders, it may consider hiring a CMO if it can find someone with sufficient skills in digital and social media.
- More work is needed in its chicken category where a few sandwiches drive the majority of sales. Chicken product LTO promotions are planned for later this year.

Costs

- Commodity costs increased +0.8% y/y during the quarter and 2019 commodity cost inflation is expected at +2%.
- Restaurant-level EBITDA of 26% to 27% is expected at company stores during 2019.

Operations, Tech & Facilities

- 85% of the system is served by at least one delivery provider (Uber Eats was added in December). 2/3 of delivery orders are placed during dinner and late-night.
- New app (launched during fiscal 1Q) includes order-ahead functionality. So far, 100,000+ unique users have placed at least one order via the app and Apple Pay partnership provides more customer options.
- The system benefits from a reduction in redundant SKUs (program will roll-out this summer) and streamlined operational procedures. Improved service speed, accuracy, spoilage reduction and an easier work environment is reducing crew turnover.
- 50+ stores have been remodeled since beginning of 2018 (including 12 during fiscal 1Q). 600 of the oldest stores are targeted for remodels, with 150+ sure to be upgraded to some extent with the remainder of the sites subject to franchisee discretion (in terms of investment levels).
- Currently testing its drive-thru of the future initiative, an upgrade program that will roll-out later this year with plans to touch 80%+ of the system by the end of FY21.
- 70% of sales are drive-thru, 15% take-out and 15% dine-in.
- FY19 development guidance: 25 - 35 new units.

McDonald's

Qtr. ended: 12/31/18	US Comps: +2.3%	Food costs: +1% to +2%	Labor costs: N/A

Sales

- 4Q18 comps increased +2.3% driven by mix and pricing (+2%) which more than offset negative traffic. Despite aggressive promotional activity throughout the industry, McDonald's generated positive comp sales gap of 100 bps for full-year 2018 although the gap was relatively flat during 4Q18.
- 4Q check benefit from: four for $6 Classic Meal Deal; glazed tenders; triple breakfast stack sandwiches; and fresh beef quarter pound burgers.
- Plans to reignite breakfast traffic include: reviewing staffing levels; a shift back into local breakfast value to better position against local competition; reinforcing its McCafe brand (coffee & premium coffee); and offering a more personalized digital engagement with tailored offers on the app.
- Overall traffic should also benefit from: plans to fine-tune value deal promotions across four for $6, two for $5 and $1 $2 $3 platforms; and a renewed focus on drive-thru ops. Any traffic gains will come at the expense of other competitors and delivery growth should help offset the trend towards consumers eating-out less often.

Menu & Marketing

- Marketing co-ops were reduced from nearly 200 to fewer than 60 and field offices were halved to fewer than 10. This has facilitated faster marketing changes like last year's national launch of cooked right when you order fresh beef quarter-pound burgers.
- Recently partnered with suppliers and beef producers to reduce the use of antibiotics in its beef supply chains.

Costs

- Commodity costs were up +2.5% for 4Q and full-year 2018.
- 2019 commodity inflation is expected to run around +1% to +2%.

Tech & Operations

- 4,500 stores were converted to Experience of the Future (EOTF) during 2018, bringing the total to 7,500+. While franchisees now have an option to extend these projects beyond 2020 at a reduced partnering investment level, most franchisees are choosing to complete their projects over the next couple of years (EOTF should be essentially complete by the end of 2020 with 2,000 annual updates in 2019 and 2020 leaving 1,000 that will be relocated or rebuilt over the following 2 years). Non mods (stores in need of the full modernization in addition to EOTF elements) represented ~1/3 of 2018 projects. Corporate contributed $1.4B towards EOTF projects in 2018 and that amount will decrease to $1B in 2019.
- Use of kiosks is increasing and 80%-90% of in-store guests use the kiosks in some stores (paying with their credit card & receiving the order at their table). Corporate reports that EOTF is driving higher customer satisfaction scores.
- Hospitality training teaches guest experience leaders to: greet guests with an enthusiastic smile; assist with kiosk orders; and deliver food to the table.
- High double-digit delivery sales growth was reported in stores offering the service for 12+ months. Incrementality approximates 70% and the average check remains 2x the in-store average. Goal is to drive delivery awareness to the 70% critical mass range up from 17%.
- While drive-thru service times have increased for about the last 5 years, corporate expects to improve service times in 2019.
- Tech improvements include: Zoom boards (little digital screens at the drive-thru window); and a more sophisticated tool for assessing menu complexity (measuring a menu item's sales volume, average normal production time & gross margin contribution).

Olive Garden

Qtr. ended: 11/25/18	US Comps: +3.5%	Food costs: <1%	Labor costs: +4.5% to +5.5%

Sales Overview

- Fiscal 2Q19 comps increased +3.5% (+2.4% mix/+1.9% pricing/-0.8% traffic). Lower traffic reflected a reduction in email incentives during the quarter based upon corporate's perception of improving consumer strength. Menu mix growth was driven primarily by shifts in consumer preference and, to a lesser extent, a price increase for Never Ending Pasta Bowl and incentive reductions.
- During its fiscal 2Q, industry comps grew +1.2% with a -0.2% traffic decline. Net/net, OG was able to outperform in terms of comps despite its decision to decrease incentives.
- Corporate reported that nationally advertised brands are leveraging larger ad budgets to take industry share. It was also noted that the industry is growing more promotional as check averages growth is less than 2% for the first time in a while.
- Darden increased its consolidated fiscal 2019 comp growth outlook to ~+2.5% from previous range of +2% to +2.5%. $60B in expected tax refunds during calendar 1Q19 should help entire industry.

Menu & Promotions

- Strong value promotions during the quarter included: Buy One, Take One; and Never Ending Pasta Bowl which was supported for the 5th year in a row by the sale of the Olive Garden Pasta Passes (1,000 annual passes for Never Ending Pasta Bowls were claimed in under a minute).
- Notably, value ratings for the Never Ending Pasta Bowl remained strong even though the price was increased for the first time in 5 years by +$1.
- Investments to strengthen everyday value include: menus redesigned to more prominently showcase 2 everyday value platforms (Unlimited soup, salad & breadsticks & the Cucina Mia create-your-own pasta); the addition of +50% more chicken to one of its highest-preference entrees (Chicken Alfredo); and the launch of its 5 for $5 beverage platform.
- Corporate reports that the younger Millennial consumer really enjoys OG, particularly as it relates to value and the communal aspect of gathering together over a meal.
- Plans to continue doubling-down on simplification and value.

Off-Premise, Costs & Facilities

- Off-premise mix increased +10.3% y/y to 14.6%. This business is believed to be mostly incremental, reflecting that these guests are more likely to dine-in at higher-end restaurants more so than OG.
- Delivery is not under consideration given an insufficient 3rd party option in terms of costs and execution. Corporate reports that guest satisfaction for 3rd party delivery is "not great".
- Commodity inflation was under 1% during the quarter.
- Total labor inflation is expected to run +4.5% to +5.5% for the full fiscal year.
- 230 remodels were completed over the last 4 years, including 28 during the quarter. Another 70 RevItalia restaurant remodels remain before the system will start to freshen its Farm Houses (a far less capital-intensive endeavor).

Outback

Qtr. ended: 12/30/18	US Comps: +2.9%	Food costs: +2%	Labor costs: +4%

Sales

- 4Q18 comps increased +2.9% (-0.8% traffic/+3.7% check), including a -40 bps calendar shift.
- Full-year 2018 comps increased +4% with traffic up +0.9%. Results reflect investments made to elevate the customer experience, including: food quality; portion enhancement; service upgrades; improved ambience; and staff compensation which is driving increased partner engagement, higher satisfaction and the lowest turnover levels in the past 10 years.
- Sales growth also reflects: a 25% reduction in discounting over the last 2 years (this process was completed in 2018); a shift in media spend from mass marketing to digital personalization; a lift from its Dine Rewards loyalty program; and rapid off-premise growth.
- 2019 comp guidance for blended brands: +2% to +2.5%. Going forward growth will be driven by: continued off-premise expansion, remodels, relocations, loyalty and digital marketing. While corporate reports a comfortable environment from the consumer (positive macro), it expects negative industry traffic (although positive traffic for its brands). 2019 plans call for moderate pricing increases below inflation.

Marketing, Promotions & Menu

- Dine Rewards loyalty program includes 8MM members across its brand portfolio. This program will evolve to further leverage customer data with more customer-centric communication, providing a higher marketing ROI. Loyalty program investments have enabled the brand to reduce ad spend by $25MM over the past 2 years.

Operations, Tech & Costs

- An additional 200 delivery locations were added across Outback & Carrabba's during 2018 and delivery is now available in 488 locations (14% penetration) with the roll-out expected to be completed by the end of 2019 (600 units in total). Delivery sales are 80% to 85% incremental.
- Off-premise has the potential to reach 25% - 35% of total sales over time up from 11.2% currently (+18% y/y growth during 4Q).
- 2019 commodity inflation guidance +2%. Food cost inflation ran +3% in 2018.
- 2019 labor inflation is expected to run +4%.
- Ongoing productivity efforts will more than offset inflation and include: a reduction in food waste; an optimized labor model (operational simplification & in-store tech including a new POS); improvements in its supply chain; and low turnover.

Facilities

- Multi-year rollout of the exterior remodel program is complete, and the system is now focused on implementing interior remodels. Multiple design prototypes under test incorporate new design elements to modernize its look while expanding the off-premise "pump-out" room to handle higher expected order volume.
- The system continues to relocate restaurants as quickly as quality sites become available. 14 relocations were completed in 2018 with another 11 expected for 2019. Relocations are driving +30% sales lifts.
- Corporate reports that there are at least 50 more incremental sites for new stores in the US.

Papa John's

Qtr. ended: 12/30/18	US Comps: -8.1%	Food costs: N/A	Labor costs: N/A

Sales

- 4Q18 comps decreased -8.1%, reflecting: ongoing consumer sentiment challenges; a late 4Q conversion to the new loyalty program which pressured check; and ineffective promotions. New loyalty program gives out a point for every dollar spent with 75 points = $10 in Papa Dough that can be used to order anything on the menu. Current members were transitioned to the new program and their points under the old program were multiplied by 5. New and current members also received free Cheesesticks with any $12 purchase through Jan. 27.
- January sales were also pressured by an extensive value offer in the form of 2 medium pies for $6 each which ran with its $12 Philly Cheesesteak specialty pizza promotion. February sales began to rebound, helped by a complete refresh of its overall specialty pizza lineup and the use of 1-to-1 marketing to drive premium sales.
- Starboard purchased $200MM in convertible preferred stock in early February, bringing its expertise in turnarounds and value creation to Papa John's.
- Full-year 2018 comps declined -7.3% and 2019 comp guidance is -1% to -5%.

Marketing & Menu

- Strategy is to better showcase its product quality differentiator while making it easier for customers to purchase PJ's pizza whenever, wherever and however they want. To date, creative has underplayed the brand's ingredient quality attribute (focusing on LTOs, loyalty & promotions) making it difficult to break through the clutter.
- New TV and digital campaigns which will launch in March are designed to ensure that the new generation of pizza consumers understand PJ's quality foundation. Also, plans to highlight PJ's upgraded specialty pizza platform is intended to better support its BETTER INGREDIENTS. BETTER PIZZA brand equity.
- In March, six $12 handcrafted specialty pizzas with premium ingredients will be added to the permanent menu, including: Ultimate Pepperoni; Meatball Pepperoni; Philly Cheese Steak; Fiery Buffalo Chicken; Zesty Italian Trio; and the Super Hawaiian. Later this year, PJ will introduce a new Hot and Honey Chicken & Waffles Pizza.
- Also testing sandwiches to understand how they impact PJ's value equation.
- A new ability to leverage customer data for 1-to-1 marketing enables PJ to drive traffic without relying on blanket discounts across all channels.
- Currently testing additional everyday value offerings tailored for select markets. For example, carry-out offers are being tested in markets which have high carry-out mixes.
- $6 value price points will be used to draw traffic while the brand seeks to leverage its "BETTER PIZZAS" positioning to sell its $12 offers.
- National Marketing Fund contribution rate was increased in January to 4.75%, up from 4.5% in 2018, in order to help offset declines in system sales and media inflation. Corporate invested $10MM into the National Marketing Fund during 4Q18 and may consider allocating Starboard's funds for further marketing investments.

Operations & Tech

- New benefit for team members covers tuition costs for online degree programs.
- 3rd party efficiency experts and food aggregators have identified procedures to improve food cost controls while labor management system enhancements better align labor goals with individual restaurant characteristics.
- Royalty relief will continue during 1Q19 and franchisor will continue to provide high level support to franchisees in high-cost markets on both coasts. These efforts combined with new tech solutions should improve 2019 unit economics.
- Block cheese prices are projected to be in the low to mid $1.60's during 2019.
- Mobile channels drive ¾ of digital sales. Simplified app integrates Apple Pay, enables more targeted messaging and advances its loyalty program. Ordering is now available on Apple TV, Amazon Alexa and through DoorDash, which currently serves 1,300+ stores and growing.

Facilities

- 62 refranchised stores generated $42MM in sales.
- As 2018 closures included many non-traditional venues (which represented a non-recurring event), PJ's 2019 closure rate is expected to step-down.

Popeye's

Qtr. ended: 12/31/18	US Comps: -0.1%	Food costs: N/A	Labor costs: N/A

Sales

- Comps declined -0.1% during 4Q18 (reflecting less impact from its LTOs) but increased +0.9% for the full-year 2018.
- 12/18 launch of its $20 Holiday Feast was designed to address gaps in the brand's family layer.
- 2019 plans call for a promotional balance across its menu with product & platform innovation highlighting the brand's culinary traditions to go with more impactful LTOs comprised of strong single guest and family bundle offerings.
- Delivery was rolled-out to 50% of the system within just one year. Delivery sales have been particularly incremental to Popeyes and have the potential to represent an even more meaningful portion of U.S. sales.
- 100% of franchisees have agreed to implement one of 2 standardized POS solutions in the coming months. These POS terminals will provide deeper insight into sales trends/product mix, allow integration with other tech initiatives such as mobile apps and help the system to evolve its marketing strategies.
- Average unit-level profitability was flat to slightly negative during 2018.

Red Robin

Qtr. ended: 12/30/18	US Comps: -4.5%	Food costs: N/A	Labor costs: MSD

Sales

- 4Q18 comps declined -4.5% (-4.4% traffic/+0.1% net pricing/-0.2% mix). Mall performance was down -5.5% vs. -3.6% for non-mall location and the widening sales gap between enclosed mall units and free-standing stores has prompted the chain to reassess its real estate portfolio.
- Comps decreased -2.6% for the full-year 2018, reflecting a -4.2% decline in dine-in traffic.
- 2019 priorities: stabilize dine-in sales with a more compelling value proposition; continue to improve the guest experience; improve service speed; continue to build its to-go & catering business; implement digital platforms & in-store tech; and selectively refranchise & reassess its real estate portfolio.
- 2019 comp guidance: flat to +1.5%.

Menu & Marketing

- Value and convenience are key given its core target of middle-income families. For the last 5 years, the chain has relied on a growing variety of $6.99 Tavern Double burgers to drive traffic, pressuring its check. Currently, the brand has reduced the number of $6.99 options to just 2, increasing the price on the other Tavern Double burgers, thus reducing the mix for this platform from a high of 17% in 3Q to just over 14% in 4Q. This mix is expected to continue trending down as the chain emphasizes innovation around its gourmet burger line (including the recent intro of its new El Ranchero burger).
- Value will migrate from price to differentiation and total value.
- To this end, Red Robin will introduce a $10 bundle (dine-in only) featuring a choice of 3 gourmet burgers, bottomless side and bottomless beverage. While prospects of trade-down are limited (this deal will not be marketed in-store), it represents a significant discount given an $11.49 El Ranchero and a $3 beverage is now available for $10.
- A new ad campaign will launch no later than the end of 2Q, returning Red Robin to “its unique place among restaurant options” for the brand’s core targets.
- Red Robin Royalty Loyalty program will migrate to a new digital platform by mid-year, making it possible to more precisely target offers based on recent purchase behavior. The brand views its 8.6MM loyalty program as its most powerful marketing tool.

Costs

- Labor inflation is running mid-single-digits and corporate reported that its overall 2018 hourly labor productivity improved 9% y/y.

Operations & Customer Access

- New, more intuitive online ordering system will launch during 3Q. Also, to-go business should benefit from investments to improve its curbside service and new meal bundle offers that better serve a busy family. The chain’s off-premise mix has grown from 5.4% in 2016 to 10.6% in 4Q18 and corporate believes that this mix can double again in the next 3 years.
- Handheld ordering devices will be rolled-out in 2Q to its highest cost labor market.
- Also testing further menu simplification to improve back-of-the-house productivity and accuracy.

RESTAURANT RESEARCH®

Starbucks

Qtr. ended: 12/30/18	US Comps: +4%	Food costs: N/A	Labor costs: N/A

Sales

- Fiscal 1Q19 domestic comps increased +4% with flat traffic, driven by beverage (+3%) and food (+2%) offset by a -1% decline in lobby merchandise. Beverage growth was led by espresso and brewed platforms with iced beverages leading growth across all dayparts reflecting strong performance from Refreshers, Iced Espresso & Iced Coffee (particularly Cold Brew & Nitro).

Menu

- Focus of latest beverage innovation revolves around iced espresso, draft nitro beverages and refreshers (nitro is available in 40% of company stores with 100% penetration expected by the end of fiscal '19). Draft nitro platform is differentiated, provides theater and drives incrementality.

Tech & Marketing

- Starbucks Rewards members grew +14% to 16.3MM and the brand expects to drive further penetration by converting 13MM new digital customer registrations. This growth is driving a more seamless customer onboarding experience, greater mobile order & pay adoption and enhanced personalization features. The loyalty program will be enhanced this spring, allowing customers to earn and redeem more quickly across a broader range of menu items. A robust marketing activation plan will drive awareness of the loyalty improvements while also increasing overall awareness of the program and key customer benefits.

Operations, Costs & Facilities

- 3 operating initiatives include: enhancing the in-store experience; delivering beverage innovation; and driving digital relationships. Better customer connections will be facilitated via work simplification and a reduction in non-customer facing tasks that historically have taken up to 40% of staff time (certain cleaning tasks have been shifted to after-hours and certain product planning & replenishment functions have been automated). This has resulted in improved customer connection scores across both the morning and afternoon day parts.
- Delivery partnership with UberEats should expand to nearly 25% of domestic company stores by April. The system will apply lessons about which beverages deliver well and the delivery menu will be refined before a national roll-out.
- Adverse margin impact during the quarter reflected a beverage mix shift from blended to refreshers and from higher food sales (partially offset by the positive impact of lower merchandise sales).
- 2019 Americas development guidance: 600+ units.

Wendy's

Qtr. ended: 12/30/18	US Comps: +0.2%	Food costs: +1% to +2%	Labor costs: +3% to +4%

Sales

- Comps increased +0.2% during 4Q18 and +0.9% for 2018 (helped by +50 bps Image Activation tailwind).
- Successful 2018 strategic focus on retaining and growing customer base drove growth in QSR Burger category traffic share (a continuation of trends over the last 2 years). Wendy's traffic was flat in 2018 and down slightly during 4Q at a time when the overall hamburger category lost share to Mexican concepts and KFC's resurgence.

Promotions, Marketing & Menu

- Goal is to adjust marketing calendar to drive one more visit and one more dollar. Resultantly, the brand seeks to trade customers up from its popular 4 for $4 offer to more premium options leveraging its fresh never frozen North American beef quality which has been further enhanced by operational procedures to make hotter & juicier burgers with more melted cheese. Further, the brand will seek to impress with more innovation.
- "Made to Crave" Hamburger line (3 new sandwiches) was introduced in February and represents the most significant change to its premium menu in more than a decade.
- The $5 Giant JBC ran in January and twice previously in 2018.
- Menu simplification efforts extend beyond reducing SKUs to reducing operational complexity. For instance, its new Made to Crave line-up is easy to build.

Costs

- 2019 guidance: labor inflation of +3% to +4% and commodity inflation of +1% to +2%.

Tech, Operations & Facilities

- Launch of Unified Wendy's app initiated the rollout of mobile ordering and mobile offers (which will be fully activated by the end of 2019).
- Delivery with DoorDash & SkipTheDishes has been rolled-out to 60% of the system and will expand to 80% by the end of 2019. Both Wendy's and delivery partners will advertise this channel which currently represents a very small mix but is driving 1.5x to 2x check sizes. Wendy's has decided to pass all delivery costs and service fees directly to the consumers in its arrangement with DoorDash.
- Corporate will invest $25MM in 2019, including $15MM to Accenture to modernize its digital platforms and a one-time $10MM investment in digital scanning equipment. As part of the first investment, Wendy's will bring-in Laura Titus from Accenture to lead their digital efforts. The new scanners will help store personnel to accept paper & digital coupons and eventually facilitate digital payments – providing Wendy's with more consumer insight for digital initiatives. Scanners will also facilitate custom orders by better connecting with the kitchens.
- Speed of service slowed in 2018 which prompted menu simplification efforts and new training programs for GMs & operators to ensure the use of proper tools to measure timing.
- Kiosk roll-out is slower than planned (60% penetration) and corporate acknowledged that kiosks may not be right for all trade areas.
- 2018 North American Development grew by +1%, helped by new incentive program. Wendy's smart family of store designs has lowered construction costs with investment options ranging from $1.4MM to $2MM to fit all trade areas.
- 80% of company stores are now image activated (50% of the entire system) with 70% of the system expected to be upgraded by 2020.
- 100-200 franchise flips expected during 2019. 96 franchise flips occurred during 2018 with 320 stores changing hands over the course of the year.

Wingstop

Qtr. ended: 12/29/18	US Comps: +6%	Food costs: MSD to HSD	Labor costs: N/A

Sales

- 4Q18 comps increased +6% and full-year 2018 comps increased +6.5% (15th consecutive year of comp growth).
- Significant price was taken in 2018 to offset wage pressure.
- Long-term comp guidance: LSD positive. Price related benefit to comps = ~+2%/year.

Marketing & Menu

- National ad fund contribution rate was increased from 3% to 4% of sales as of 1/1/19. System-wide sales growth and additional 1% to the contribution rate = +50% increase in marketing resources vs. 2018. This increase will be used to close the brand's 20% gap to its QSR peers in brand awareness.
- 2019 TV ad spend will be phased with two 12 week waves in order to achieve breakthrough levels of TRPs.
- Upgrade to creative & production value of TV ads driven by new agency (Leo Burnett) include new campaign "Where Flavor Gets Its Wings", leveraging Wingstop's craveable flavor into a call-to-action. Ongoing digital ads will support the campaign throughout the year along with coordinated local efforts.
- Labor-intensive sides were eliminated from the menu and replaced with 2 versions of loaded fries & fried corn. The new sides are selling about 4x the rate of the old sides.

Costs

- 4Q19 wing prices declined by -17% y/y and -20.6% for the full year.
- 2019 outlook for wing prices suggest inflation in the mid to high-single-digits. Wing prices peaked at the Super Bowl ($1.87/pound) and have since receded to $1.67 currently.
- New strategic supply agreement with Performance Food Group should help procure the best possible wing prices going forward.

Digital & Delivery

- Digital channel mix is nearly 30%. Proprietary custom online ordering site and mobile app was launched in January 2019. A "wing calculator" calculates a guest's need for wings from snacky to starving. Early results reveal a 6% conversion rate and digital is important because it drives a check $5 higher than in-store without the need to discount.
- Delivery has been rolled-out to 30% of the system and this should increase to 80% by the end of 2019. Delivery test markets have been generating mid-to-high-single-digit sales lift (highly incremental & margin-accretive). Corporate believes it will be able to leverage its national ad scale to further drive delivery sales in 2020 once it achieves an 80% system delivery penetration.

Facilities

- The system is currently evaluating self-ordering kiosks, pick-up lockers and a kitchen display system.
- 25 markets have been identified for its fortressing strategy which was deployed in its Dallas-Fort Worth market where there are 109 restaurants today (resulting in higher brand awareness and $1.4MM AUVs with some 12-year-old company stores at $1.8MM). Aided awareness in Dallas approximates 90% vs. 40% to 50% in emerging markets.
- 80% of development comes from existing franchisees.
- The system includes 250 franchisees of which 120 are single unit operators.

RESTAURANT RESEARCH®

YUM! (TB/PH/KFC)

Qtr. ended: 12/31/18	US Comps: +6%/+1%/+1%	Food costs: N/A	Labor costs: N/A

Corporate

- Corporate announced its acquisition of QuickOrder (a 3rd party online service provider) which will allow YUM! to run its own e-commerce platform.
- Corporate refranchised 660 restaurants during 2018, including: 364 KFC, 97 Pizza Hut and 199 Taco Bell units for pre-tax proceeds of $825MM.

Domestic Taco Bell

- 4Q18 comps increased +6% as the brand "doubled-down" on value with customer favorites including the Triple Double Crunchwrap and Double Chalupa. The quarter finished strong with good results from its fan favorite Rolled Chicken Tacos.
- Distinctive brand moments generating top-tier media buzz included a celebration of its 6th annual Friendsgiving (an exclusive dinner at its innovation center) and the launch of the Taco Bell Taco Shop (online retail channel featuring holiday themed swag that sold out in days).
- On its 1st anniversary with Grubhub (Feb 2019), Taco Bell announced its national launch of delivery in 4,000+ stores. Orders can be placed on TacoBell.com, at grubhub.com or on the Grubhub app.
- Speed of service has improved 3 seconds at lunch and 2 seconds at dinner during 4Q on a y/y basis, driving an additional 4MM transactions during the quarter.

Domestic Pizza Hut

- 4Q18 comps increased +1% as corporate continues to emphasize a slow build rebound as the brand updates and repositions its asset base while making its messaging more distinctive.
- A continued emphasis on value (which helped improve traffic during the quarter) included its $5 lineup, featuring favorites like medium one top pizza, garlic knots, wings and new cinnamon mini rolls. Pizza Hut's NFL partnership has highlighted these value concepts and improved the brand's messaging distinctiveness.
- Special media spending in 2018 (part of the Pizza Hut transformation agreement) has rolled-off.
- Improvements in 3 key areas of the customer experience include: reducing the average delivery time by 3 minutes & higher customer satisfaction scores; the 2H17 kick-off of Hut Rewards (12MM active users & growing); and mobile app updates in late 2017.
- Hut Rewards members can now earn points for in-store purchases and last year the program doubled the awards to 2 points for every dollar expenditure.

Domestic KFC

- 4Q18 comps increase +1%, capping the 5th consecutive year of positive comp growth.
- 2018 started-off with the intro of Smoky Mountain BBQ flavor profile (continuing its Taste of the South series) followed by the debut of its Crispy Colonel Sandwich in April. Product innovation continued during 4Q with: Southern-inspired Hot Honey Chicken (in a tenders basked or sandwich style); and the popular Chicken & Waffles featuring Mrs. Butterworth's syrup.
- Sales benefit from KFC's bold & cheeky marketing and a +3% increase in overall customer satisfaction scores during 2018.
- As food taste is a key differentiator for KFC, the brand is increasing its focus on the role of the cook while enhancing standards around the core.
- Global plans to roll-out 5,000 restaurants with click & collect kiosks and delivery will be available in 70%+ of restaurants by 2020.

Sources: All data represents RR estimates which are derived from various private and public sources.

Disclosure: Restaurant Research LLC often sells report subscriptions to concepts under our coverage.