Houlihan Lokey

U.S. Restaurant Industry Update

Winter 2024

Restaurant Market From 30,000 Feet

Restaurants with clearly defined value propositions remain well positioned for growth entering 2025.

Bifurcation of Performance Persists — 01

Wage growth continues to trail inflation, keeping consumers price-sensitive and limiting their discretionary spending.

Concepts striking the right balance between value and quality are seeing traffic gains and winning. Operators should realize profitability lift as inflation normalizes heading into 2025.

Consumers Still Value Food-Away-From-Home… With Some Conditions — 02

Food-away-from-home has been more impacted by inflationary conditions than food-at-home (by as much as 270 bps), which further applies pressure to restaurant traffic.

Consumers continue to seek value, gravitating toward concepts that balance price, quality, and convenience within their unique value propositions.

Rates Are Easing, Outlooks Are Improving — 03

The Federal Reserve's recent 75 bps rate cuts, coupled with slowing inflation and a cooling job market, are expected to further boost consumer confidence, creating a more favorable environment for restaurant spending and growth as we enter 2025.

Every Marginal Dollar Matters — 04

Driving Comps: Strategic price updates where customers will accept them to drive an increase in ticket size.

Loyalty Programs: Leverage discounts, personalization, and bundling to retain customers.

Labor Efficiency: Optimize staffing and accelerate kitchen automation to reduce operating expenses.

Real Estate Strategy: Those with flexibility of format winning in today's real estate market.

Categories Getting the Most Attention: Chicken, Coffee, Smoothie, Ethnic — 05

In terms of food categories, chicken, coffee, smoothies, and ethnic options (e.g., Greek, Hawaiian, Asian) are garnering significant attention from consumers and investors. Ethnic flavors are particularly popular as consumers diversify their palates, with Millennials and Gen Z especially favoring bold flavors.

The M&A Pipeline Is Growing — 06

Deal activity and restaurant sector momentum is picking up as high-growth concepts seek capital and private equity investors eye exits. Moderate interest rate cuts and improving consumer sentiment provide favorable tailwinds.

Sources: Restaurant Business, Bureau of Labor, Wall Street Research.

Restaurant Operators With Clear Value Propositions Continue to Outperform…

Crowning the Winners of Q3 Earnings Season

	Quick-Service Restaurants			Fast Casual			Casual Dining		
	Wing Stop	Taco Bell	McDonald's	CAVA	sweetgreen	Chipotle	Texas Roadhouse	Chili's	First Watch
SSS	20.9%	~5.0%	0.3%(3)	18.1%	~6.0%	~6.0%	8.5%	14.1%	8.0%
AUV(1)	~$2.1M	~$2.1M	~$2.5M	~$2.8M	~$2.9M	~$3.2M	~$2.1M	~$3.6M	~$2.3M
Traffic(2)	Majority of SSS	N.A.	N.A.	12.9%	N.A.	3.3%	3.8%	6.5%	(4.4%)
2023–2024 Price Increase(2)	N.A.	N.A.	N.A.	5.2%	N.A.	2.0%	4.7%	6.8%	N.A.
Value Thesis	Fast, Shareable Meals, Differentiated Concept	Fast, Innovative Menu, Dedicated Customers	Fast, Economical, Value-Focused	Premium Food, Healthy Options, Affordable Price	Health-Forward, Sustainable Ingredients	High-Quality, Fresh Ingredients, Affordable Price	Big Portions, Quality Service, Family Atmosphere	Affordable, Family-Friendly, Bold Flavors	Fresh and Health-Conscious Menu, Daytime-Only Model
Commentary	• Hyper-personalized digital sales experiences enable greater convenience. • Shareable menu, unique discounts, and signature items build a defensible moat.	• Taco Bell reigns supreme on value, beating out competitors and other QSR brands, through new, innovative menu items, consistent LTO iteration, and technology investments that improve customer experience and efficiency.	• McDonald's has managed to capture market share despite generally flat comparable-store sales, highlighting its resilience amid an E. coli outbreak and a challenging macro environment.	• Consistently maintained pricing power, motivating trade-up from QSR/trade-down from casual dining. • Healthy, high-quality food options (including the addition of steak), boost its appeal.	• Targets busy, health-conscious consumers by providing quick, customizable meal options without compromising quality. • Invests in technology to personalize the customer experience and optimize operations, including a digital ordering system via mobile apps and loyalty programs.	• Strong menu innovation and LTOs with the return of smoked brisket and successful testing of honey chicken. • Improved throughput and customer experience by implementing the expo position in 10% more restaurants and rolling out technology (e.g., dual-sided plancha, produce slicer).	• Focused on enhancing food quality, consistency, and service. • Implemented strategic menu pricing and incremental improvements in labor productivity.	• Hearty, American-inspired meals at accessible price points. • Creates a lively, vibrant, and casual dining atmosphere for family meals and social gatherings. • Regularly promotes limited-time offers, daily deals, and value-oriented promotions, which combine affordability with quality.	• Health-forward, breakfast-centric restaurant, catering to dietary preferences and emphasizing made-to-order dishes that are freshly prepared for each customer. • The daytime-only approach allows the brand to focus its efforts on providing the best breakfast and lunch offerings.

Sources: QSR, Restaurant Business, SEC filings, Wall Street Research.
(1) Reflects YoY Q3 AUV. (2) Reflects YoY change attributable to fast casual SSS and casual dining systemwide sales. (3) Only reflects SSS growth for U.S.-based McDonald's.

But Operating Headwinds Persist Evidenced by the Most Recent Wave of Bankruptcies and Restructurings

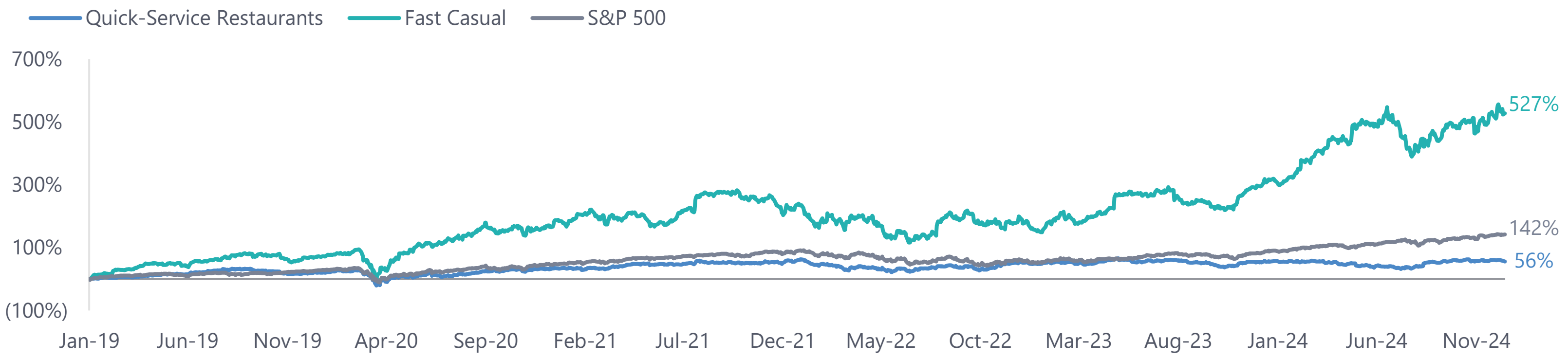
Recent bankruptcies reflect lingering pandemic effects and operators' struggles to adapt to the changing market landscape.

	Buca di Beppo Italian Restaurant	BurgerFi	EYM Pizza	Red Lobster	Rubio's Coastal Grill	TGI Fridays
Situation Overview	• Buca di Beppo is an Italian restaurant chain with 64 locations across the U.S. • Buca di Beppo and nine affiliated debtors filed for Chapter 11 bankruptcy on August 4, 2024.	• BurgerFi is a fast casual restaurant chain with 91 locations across the U.S. • BurgerFi filed for Chapter 11 bankruptcy on September 11, 2024.	• EYM Pizza is a major Pizza Hut franchisee with 127 locations across the Midwest and Southern U.S. • EYM Pizza filed for Chapter 11 bankruptcy on July 22, 2024.	• Red Lobster is a casual dining seafood chain with 544 locations across the U.S. and Canada. • Red Lobster filed for Chapter 11 bankruptcy on May 20, 2024.	• Rubio's Coastal Grill is a fast casual Mexican restaurant with 86 locations across the Western U.S. • Rubio's Coastal Grill filed for Chapter 11 bankruptcy twice: October 26, 2020, and June 5, 2024.	• TGI Fridays is a casual dining chain with 39 corporate-owned U.S. locations and ~450 independently owned franchised locations. • The company filed for Chapter 11 bankruptcy on November 2, 2024.
Financial Challenges	• Rising labor and food costs caused continual profit declines post-COVID-19. • Lower demand in the casual dining segment after the pandemic introduced a shift towards quick-service dining.	• Post-COVID-19 struggles led to same-store sales falling 8% in 2023 and 9% in 2022. • In Q1 2024, comps dropped 13% and systemwide sales decreased 17%, causing debt servicing issues.	• Rising labor and food costs, coupled with declining consumer spending, dampened profit. • EYM Pizza's internal dispute and lawsuit with Pizza Hut led to depressed top-line sales during the summer of 2024.	• Recent mismanagement, increased competition, and inflation led to sustained financial challenges. • Red Lobster closed 100 underperforming stores days before filing, primarily because of high lease prices.	• Pandemic-induced challenges led to 4.5% of units closing between 2022 and 2023. • Rubio's accumulated an unsustainable debt burden of $72 million, which TREW Capital acquired two months before the bankruptcy filing.	• Inability to recover from the COVID-19 pandemic drove financial challenges. • Coupled with the closure of about 50 locations in 2024 prior to filing, foot traffic dropped nearly 40% YoY in late October 2024.
Outcome	• Acquired via a credit bid by Main Street Capital, the stalking-horse bidder, for $27 million on November 7, 2024. • $36.3 million in DIP financing was provided by Main Street to keep operations running.	• Acquired via a credit bid by TREW Capital for $10 million on November 27, 2024. • $3.5 million in DIP financing was provided by TREW to support operations.	• All 127 locations to be sold as part of the financial reorganization. • The bankruptcy filing lists two creditors: Manufacturers Bank ($21 million) and Pizza Hut ($2.25 million).	• Acquired by Fortress Investment Group for $375 million on September 16, 2024. • Of the $375 million, $275 million was for debt and $100 million was for DIP financing.	• Acquired via a credit bid by TREW Capital, Rubio's lender, for $40 million on August 1, 2024. • $10 million in DIP financing was provided by TREW to help maintain operations.	• The company is seeking to sell its assets to an outside buyer by early January 2025. • TGI Fridays Franchisor, LLC, has provided interim funding to TGI Fridays to maintain support services for franchisees.
Article Link	LEARN MORE	LEARN MORE	LEARN MORE	LEARN MORE	LEARN MORE	LEARN MORE

Sources: Company filings, press releases.

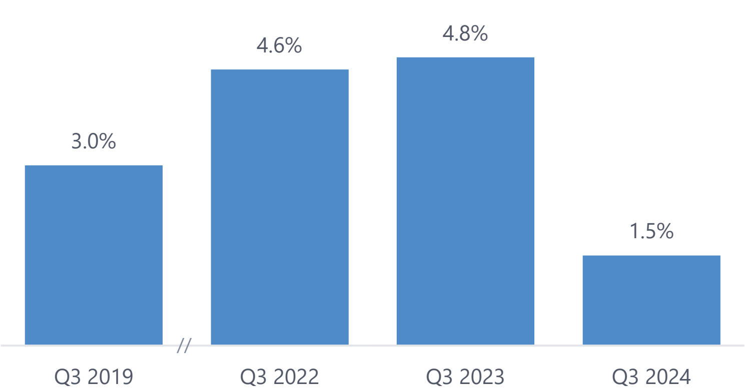
Limited-Service Operator (LSO) Update

Public Market Performance

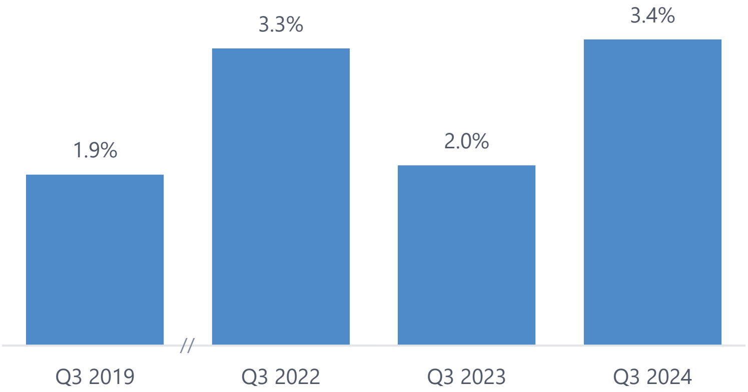


Recent Same-Store Sales Trends: LSOs(1)

Quick-Service Restaurants (QSR)



Fast Casual



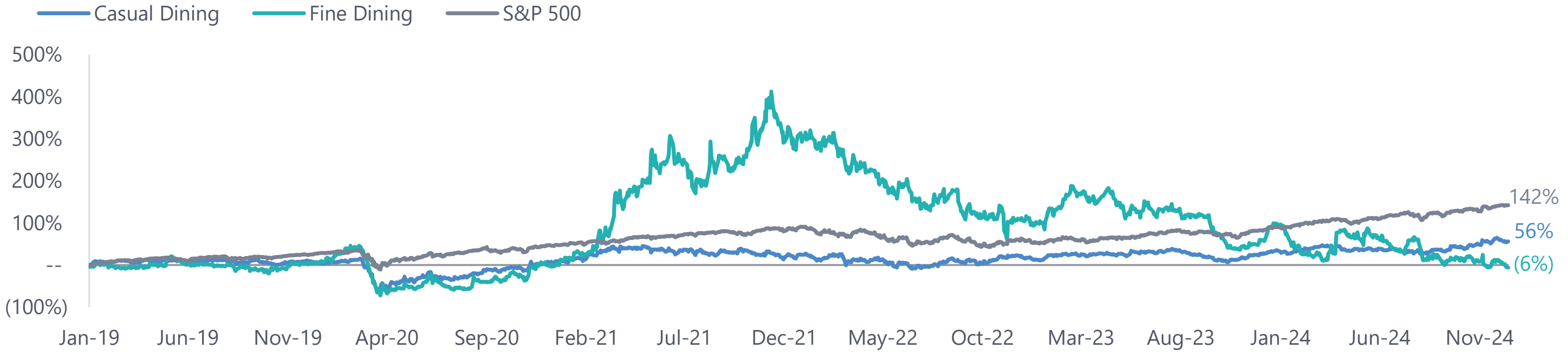
Sources: Restaurant Business, Wall Street Research.
Notes: Companies included in each category have been trading from January 1, 2019, through December 16, 2024. Pricing as of December 16, 2024.
(1) Summarizes SSS performance as an equal-weighted average of the foremost public brands in each respective category.

Industry Trends

- Q3 continued the trends of traffic and pricing challenges seen in Q2, as consumers faced mounting pressures from elevated inflation and interest rates. The gap between FAFH (+3.8% as of October) and FAH (+1.1% as of October) narrowed slightly.
- Despite broad challenges, QSR chains saw a mix of strong and weak performers across cuisine types and concepts.
  - Taco Bell and Wingstop drove category strength, while McDonald's and Wendy's reported relatively flat comps.
  - Brands like KFC and Pizza Hut reported negative comps and closures, driven partly by exposure to the Middle East and China markets, though U.S. comps also declined.
- The fast casual segment outperformed all other subsectors in the restaurant industry, buoyed by continued strong results from Cava.
  - Marking its fifth consecutive quarter of positive comps (four of which were double digits), Cava's success stems from its high-quality, competitively priced meals, menu innovation, and aggressive expansion. The chain plans to open 55+ new locations by year-end.
- Value remained a core theme as Q3 marked the first full quarter of promotions launched in late Q2 to attract customers. These offerings emphasized full-meal value, addressing consumers' desire for transparent pricing.
  - Brands with sharp, effective messaging and value-oriented DNA performed best. McDonald's $5 Meal Deal, introduced in June, successfully boosted traffic and check size.
  - Brands like Popeyes faced declining comps due to less effective messaging, prompting adjustments such as the Three for $5 and $6 Big Box promotions.
- Operators leaned on barbell pricing and loyalty programs to balance value and upsell opportunities.
  - Papa John's, facing a (6.0%) Q3 comp decline, announced a barbell pricing strategy and a new loyalty program. Others, including Domino's and McDonald's, also emphasized loyalty programs as key growth drivers.

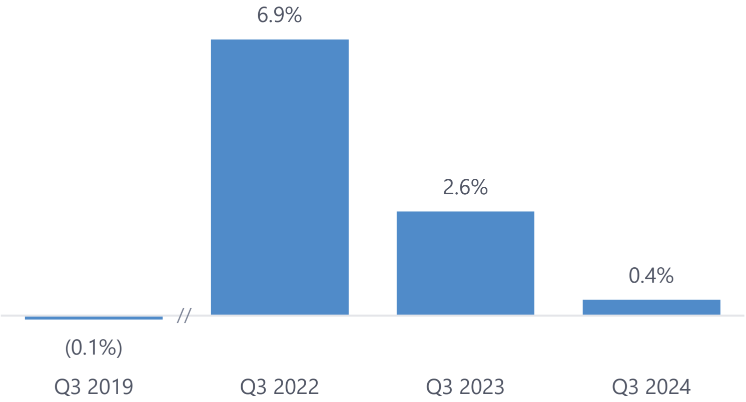
Full-Service Operator (FSO) Update

Public Market Performance

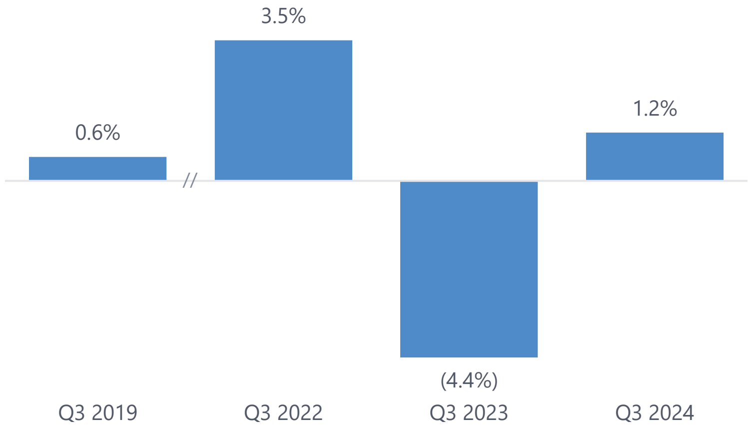


Recent Same-Store Sales Trends: FSOs[1]

Casual Dining



Fine Dining



Industry Trends

- Q3 remained challenging for full-service operators, who faced consumer pullback and a highly promotional operating environment.
  - While limited-service menu prices began to ease, full-service prices tracked closely with grocery inflation, making dining out harder to justify. Leading operators navigated these headwinds by focusing on quality and value to drive traffic.
- Casual dining brands adopted strategies like their QSR and fast casual peers, leveraging limited-time offerings, barbell pricing, and loyalty programs to attract customers.
  - Chili's, Texas Roadhouse, and First Watch continued to outperform, while Applebee's and IHOP faced significant challenges.
- The contrasting performance of Chili's and Applebee's highlights the importance of adapting value strategies:
  - Chili's posted a 14.1% comp, driven by its 3 for Me campaign starting at $13.99, which appealed across demographics and fostered loyalty. Its barbell margarita pricing strategy combined entry-level options like the Margarita of the Month with premium offerings, driving sales and margins. Though not explicitly mentioned, its long-standing My Chili's Rewards program likely also supported growth.
  - Applebee's struggled, reporting a (5.9%) comp. Missing the boat on a full meal offering in Q3, Applebee's introduced the Really Big Meal Deal for $9.99 and Pick 6 promotion in October. While new, its Q3 NFL partnership lacked cohesive messaging and was not enough to drive traffic. Additionally, a late-2023 loyalty program launch has yet to offset declining traffic.
- Bankruptcies of legacy brands, such as Red Lobster and TGI Fridays, underscore the fate of operators who lacked the operational flexibility to adapt to changing times.
  - Though more bankruptcies were announced this year than in the past ~25 years combined, industry veterans liken its effects to a forest fire, pruning the landscape and making way for stronger, better brands to emerge and thrive.

Sources: Restaurant Business, Wall Street Research.
Notes: Companies included in each category have been trading from January 1, 2019, through December 16, 2024. Pricing as of December 16, 2024.
(1) Summarizes SSS performance as an equal-weighted average of the foremost public brands in each respective category.

Featured Recent M&A Transactions

Despite persistent traffic and inflation trends, deal activity has picked up in Q3, signaling renewed optimism for the M&A environment and 2025 outlook.

Transaction		Date(1)	Strategic Rationale	
Anthony's Coal Fired Pizza /	Kuljeet Singh	Dec-24	Burger King franchisee Kuljeet Singh has acquired the 51-unit Anthony's Coal Fired Pizza chain from TREW Capital Management, which bought it out of bankruptcy for $44 million in October 2024.	LEARN MORE
Jersey Mike's Subs /	Blackstone	Nov-24	Intended to help enable Jersey Mike's to accelerate its expansion across and beyond the U.S. market, as well as its continued investment in technology and digital transformation.	LEARN MORE
Fresh Brothers /	Craveworthy Brands	Nov-24	Acquired Fresh Brothers with intentions to expand its Southern California base into a national presence, leveraging a franchise model that blends consistency with local appeal.	LEARN MORE
Grubhub /	Wonder	Nov-24	With a mission to make great food more accessible and expand global operations, Wonder acquired delivery platform Grubhub from Just Eat Takeaway.	LEARN MORE
Mo'Bettahs Hawaiian Style Food /	Blue Marlin, Trive Capital	Oct-24	Mo' Bettahs has established itself as a leader in the Hawaiian fast casual space, and Trive and Blue Marlin plan to support and lead the company's next phase of U.S. expansion.	LEARN MORE
Playa Bowls /	Sycamore Partners	Sep-24	Fuel rapid expansion both domestically and internationally with the help of Sycamore's multi-unit/retail brand experience.	LEARN MORE
Modern Market Farm Fresh Eateries /	Thrive Restaurant Group	Sep-24	Thrive Restaurant Group signed a 41-unit franchising deal with Modern Market in 2022 but felt acquiring the brand was the next natural step in its growth.	LEARN MORE

Sources: Nation's Restaurant News, Reuters, Restaurant Business, Wall Street Research.
(1) Reflects announcement date, unless otherwise denoted.

Featured Recent M&A Transactions (cont.)

Despite persistent traffic and inflation trends, deal activity has picked up in Q3, signaling renewed optimism for the M&A environment and 2025 outlook.

Transaction	Date[1]	Strategic Rationale	
Sonic 85 Units / KBP Brands	Sep-24	KBP Brands, an existing franchisee of Inspire Brands, acquired 85 Sonic units with plans to leverage its operational expertise and scale to drive growth within the Sonic brand.	LEARN MORE
Freebirds World Burrito / Sun Holdings	Aug-24	Sun Holdings aims to leverage its operational expertise and growth strategies to build on Freebirds' strong customer engagement and menu innovation, driving national expansion for the brand.	LEARN MORE
Rubio's Coastal Grill / TREW Capital Management	Aug-24	Declared bankruptcy in June 2024 and sold the business to the existing lender, TREW Capital Management, in an uncontested bid.	LEARN MORE
Red Lobster / Fortress	Jul-24	Acquired by the existing lender, Fortress Investment Group, after filing for Chapter 11 in May 2024. Secured $60 million of additional funding and implemented a new CEO.	LEARN MORE
Chuy's / Darden	Jul-24	Acquired all outstanding shares on the premise of asset alignment and interest in diversifying Darden's existing portfolio into a new dining category.	LEARN MORE
Carrols / rbi restaurant brands international	May-24[2]	Acquired all outstanding shares of Carrols Restaurant Group, the largest U.S. Burger King franchisee, with the goal of accelerating renovations across more than 600 restaurants.	LEARN MORE

Sources: Nation's Restaurant News, Reuters, Restaurant Business, Wall Street Research.
(1) Reflects announcement date, unless otherwise denoted. (2) Closed May 2024.

M&A Outlook for 2025

Improving market dynamics and investor appetite drive a strong outlook for restaurant industry M&A in 2025.

What Houlihan Lokey Is Seeing in the Market

1. A strengthening macroeconomic landscape, marked by moderating interest rates, a robust job market, and recovering consumer sentiment supports renewed momentum for restaurant sector transactions.

2. Improved operating conditions, underpinned by more favorable year-over-year comparisons following the challenges of early 2024, position restaurants for strong financial performance and investor backing.

3. As older private equity vintages approach their exit windows, increased transaction activity is expected, particularly for mature restaurant platforms with proven scalability.

4. High-growth restaurant concepts, particularly those innovating in delivery, experiential dining, and emerging cuisines, remain active in seeking capital to fund expansion strategies.

Restaurant Industry Market Map

Limited-Service Restaurants

Quick-Service Restaurants

McDonald's, Chick-fil-A, Taco Bell, Wendy's, Dunkin', Burger King, Subway, Domino's Pizza, Sonic, Panera Bread, Pizza Hut, KFC, Popeyes, DQ, Arby's, Jack in the box, Little Caesars, Papa John's, Panda Express, Whataburger, Raising Cane's, Jimmy John's, Jersey Mike's Subs

Culver's, Freddy's, Hardee's, Bojangles, Carl's Jr., Firehouse Subs, Krispy Kreme, Auntie Anne's, Tropical Smoothie Cafe, Marco's Pizza, Del Taco, El Pollo Loco, McAlister's Deli, Charleys, Steak 'n Shake, Tim Hortons, Baskin Robbins, Church's, Smoothie King, Jason's deli, Portillo's, White Castle, Jamba, Hungry Howie's, Dutch Bros, Checkers, Rally's

Jet's Pizza, Taco John's, Cold Stone, Corner Bakery, Peet's Coffee & Tea, Caribou Coffee, Krystal, Wienerschnitzel, Long John Silver's, Donatos, Shipley Do-Nuts, Wetzel's Pretzels, Cinnabon, Biggby Coffee, Cook Out, Rita's, Sbarro, Sarku Japan, au bon pain, Daylight Donuts, Great American Cookies, Yogurtland, Pret, Pei Wei Asian Kitchen

Fast Casual

Five Guys, Chipotle Mexican Grill, Zaxby's, Wingstop, Qdoba Mexican Eats, Papa Murphy's, Shake Shack, MOD, Noodles & Company, The Habit Burger Grill, Potbelly Sandwich Shop, Dickey's Barbecue Pit, Boston Market, Moe's Southwest Grill, Blaze Pizza, Godfather's Pizza, Schlotzsky's, Cafe Rio Mexican Grill, Mountain Mike's Pizza, Smashburger

Golden Chick, Fazoli's, Slim Chickens, Taco Cabana, sweetgreen, Newk's, Zoës Kitchen, BurgerFi, CAVA, Taco Bueno, Mission BBQ, Runza, Farmer Boys, Piecology, Torchy's Tacos, Wayback Burgers, Peter Piper Pizza, Tijuana Flats, California Fish Grill, Nathan's, Skyline Chili, Freebirds, Imo's Pizza, Lee's Famous Recipe Chicken, Mazzio's

Capriotti's, Ono Hawaiian BBQ, Teriyaki Madness, Bush's Chicken, Baja Fresh, Dog Haus, Dion's, Pizza Patrón, Taco Casa, Rosati's, Tazikis, Giovanni's Pizza Power, Nando's, Bubbakoo's Burritos, bb.q Chicken, Surcheros, Rudy's

Full-Service Restaurants

Casual Dining

Olive Garden, Chili's, The Cheesecake Factory, LongHorn Steakhouse, Waffle House, Golden Corral, Red Robin, BJ's, Outback Steakhouse, Red Lobster, Applebee's, Buffalo Wild Wings, IHOP, Texas Roadhouse, Denny's, Cracker Barrel, P.F. Chang's, TGI Fridays, Carrabba's Italian Grill, Hooters, Bob Evans, Cheddar's Scratch Kitchen, Bonefish Grill, Yard House

Captain D's, First Watch, California Pizza Kitchen, Perkins, Jefferson's, Ruby Tuesday, Cooper's Hawk, Fogo de Chão, Chuy's, Twin Peaks, Miller's Ale House, Mellow Mushroom, Saltgrass Steak House, O'Charley's, Famous Dave's, Black Bear Diner, Benihana, Ninety Nine, Braum's, Village Inn, On the Border, Logan's Roadhouse, Bahama Breeze, Frisch's Big Boy

Texas de Brazil, Huddle House, Jack's, Hard Rock Cafe, Old Chicago Pizza + Taproom, Sonny's BBQ, Bar Louie, Firebirds, 54th Street, Walk-On's, Rib Crib BBQ, Lazy Dog, Pappadeaux, Uno, Beef 'O' Brady's, LaRosa's, Smokey Bones, Roosters, Sizzler, North Italia, Eddie V's Prime Seafood, Friendly's

Fine Dining

Fleming's Prime Steakhouse & Wine Bar, Ruth's Chris Steak House, The Capital Grille, Mastro's Restaurants

Maggiano's Little Italy, Seasons 52 Fresh Grill | Wine Bar, Morton's The Steakhouse, McCormick & Schmick's, José Andrés Group, Chart House, Flanigan's, The Group Hospitality

Note: The sub-buckets denote approximate company size (small-, mid-, and large-cap).

Houlihan Lokey Restaurant Coverage

Houlihan Lokey has comprehensive global coverage and specialized resources dedicated to the restaurant sector.

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We have a track record of structuring and executing value-optimizing transactions for our clients.

We run efficient, momentum-driven processes that drive results in M&A and capital raising for our clients.

Our team has an extensive and expansive reach of the highest-likelihood debt and equity investors within the restaurant sector globally.

We are well-versed in crafting tailored solutions to achieve client objectives, with deep experience across sectors, company types, and market cycles.

We advise clients on strategic alternatives that enable them to accomplish next-level strategic goals—whether the aim is accelerated growth or partial or full sale.

We are uniquely positioned to help address special situations, ranging from liquidity management to recapitalizations.

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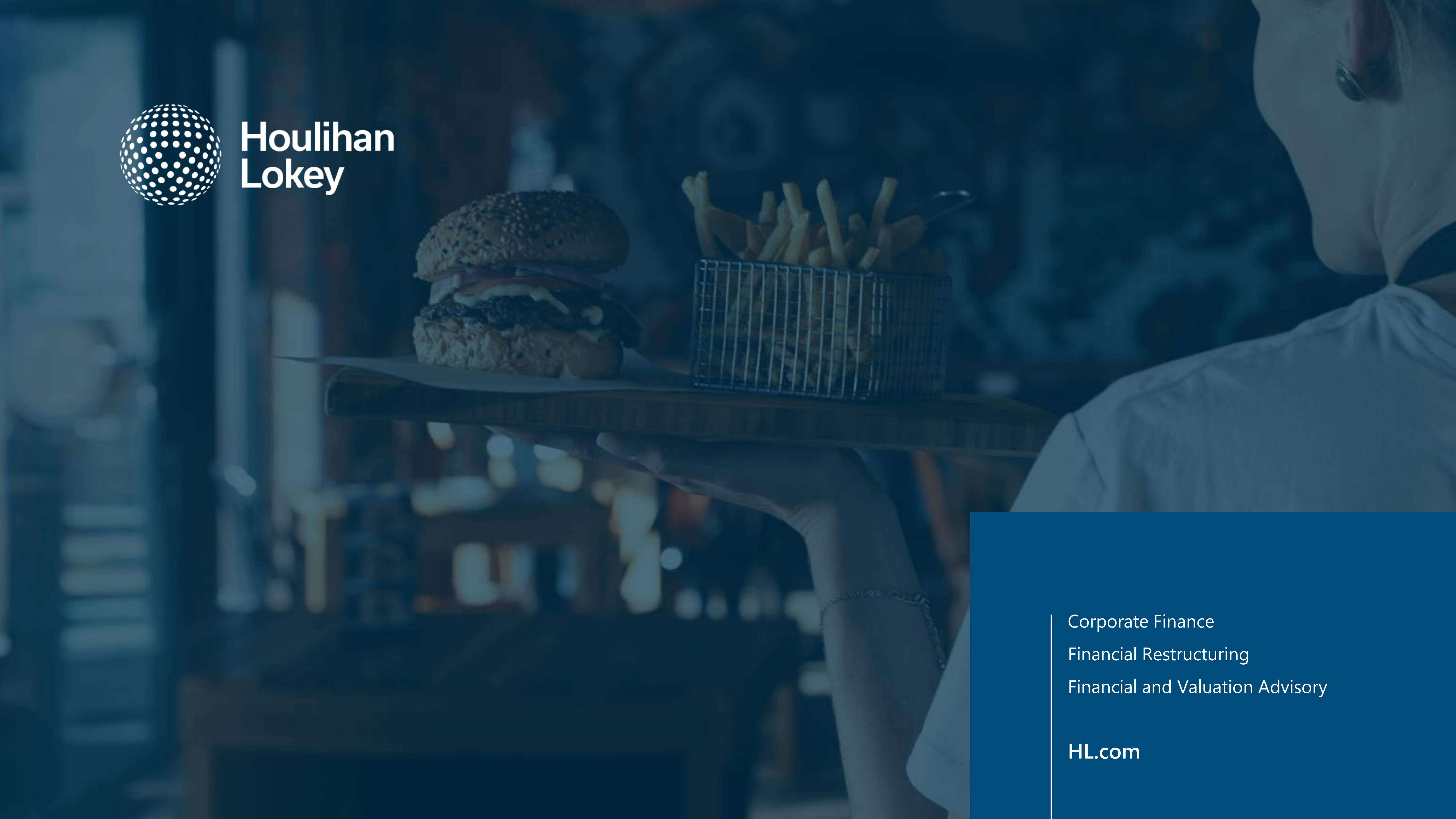

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