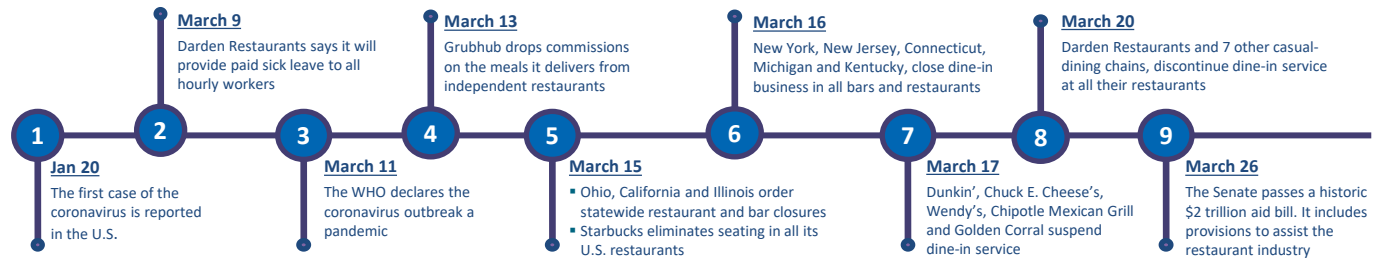


COVID 19 and the Restaurant Industry

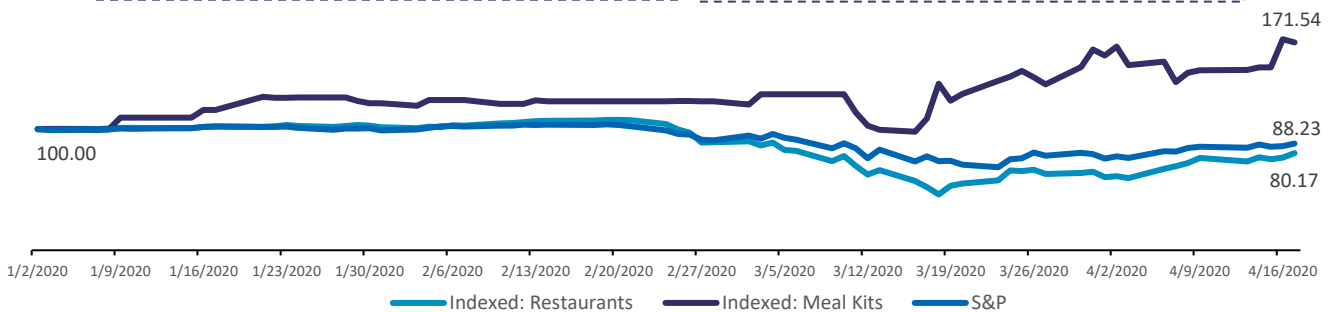
Impact assessment due to COVID 19 and the counter measures by Industry players and Government



Performance of the S&P 500 vs Restaurant and Meal Kit Industry*

Meal-kit delivery firms, HelloFresh and Blue Apron have seen share prices soar recently after reporting more robust demand as people try cooking at home during the coronavirus crisis

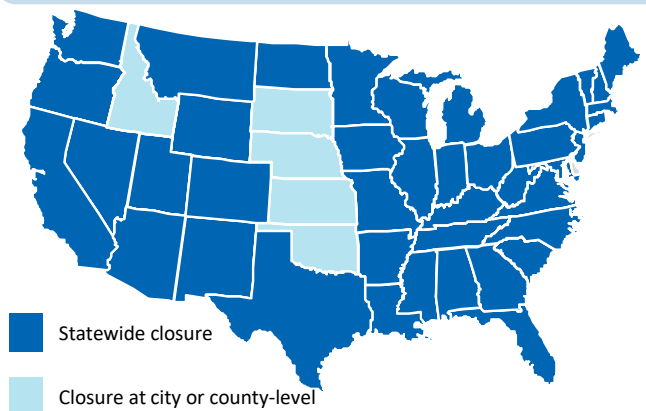
According to the U.S. Census Bureau, sales fell 26.5% in restaurants and bars in March, even though the outbreak didn't begin to force closures until the middle of the month



Impact on the Restaurant Industry

- Early economic forecasts reveal the industry will sustain at least a \$225 billion loss and be forced to eliminate between 5 to 7 million jobs till June; however, the White House and others are projecting a potentially extended period for reduced operations⁽¹⁾
- A report published by The National Restaurant Association on April 9 suggested that in the first three weeks of the shutdown which started around mid-March 3 million jobs have been lost and 15% restaurants have permanently closed, or will within the next two weeks⁽¹⁾
- Most restaurants across the US are adjusting their services to offer takeout and delivery only—relying on services like Caviar, DoorDash, and Seamless to help get meals to consumers at home
- OpenTable, an online restaurant-reservation service company, has seen sharp declines over the past weeks, not only in online and phone reservations but also walk-ins

Restaurant Closures in the United States



Weak sales amid steep declines in areas hit by COVID-19 are mounting risks of an economic slowdown

(1) National Restaurant Association ([Link](#)) ([Link](#))

* S&P vs Restaurant Industry Index Chart has data till 17th April 2020

Companies in Restaurant Industry Index (FSR chains): Cracker Barrel, Darden Restaurants, Dine Brands, Bloomin' Brands, Brinker, Cheesecake Factory, Denny's, Luby's, Chuy's and Chipotle Mexican Grill
Companies in the Meal Kit Industry Index: Blue Apron and HelloFresh (Europe)

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Implications of the \$2.2 Trillion Stimulus Bill

Paycheck Protection Loans

- Restaurants with fewer than 500 employees may borrow money through the Small Business Association ("SBA") for a variety of costs related to employee compensation and benefits
- This includes payroll, compensation for employees making less than \$100,000 annually, rent and continuation of health care benefits

Emergency Economic Injury Disaster Loans (EIDL)

- Restaurants may apply for Emergency Economic Injury Disaster Loans through the SBA and may request a \$10,000 loan advance within three days of the application being received
- EIDL loan funds can be used to pay payroll expenses, paid sick leave related to COVID-19, meet increased supply chain costs, pay rent, and repay debts that cannot be otherwise paid due to revenue losses

Employee Retention Tax Credit

- Restaurants that have been fully or partially suspended due to COVID-19, or whose business declined 50% or more compared to the same quarter last year are eligible for a refundable payroll tax credit for 50% of wages paid to employees during the crisis

How are Restaurants Navigating Through COVID 19?



- Many consumers are seeking fully contactless transaction as they are concerned about having delivery people come to their home and would much prefer access to curbside and restaurant pickup with contactless precautions in place
- The idea is to enhance the social distancing bit by not allowing interaction between the delivery executive and the person who is receiving the order



- With the ongoing situation, there is a "time-shift" happening with consumer demand
 - With fewer people on the go, demand for breakfast is down. Also, the demand for curbside pickup and dinner delivery is up
- Restaurant chains have already altered their staff and hours to the ones that make sense in the current marketplace



- Consumers today are looking for convenience features; for ways to feed a family of four with as little friction as possible
- A few steps being undertaken by restaurants include making menus simpler, offering deal packages, dropping delivery fees and placing employees outside to conduct curbside orders

Meal Kits: The Next Big Thing in Covid-19 Pandemic

- Consumer data shows the categories that saw strong YoY growth in spending at the end of February were online grocery and meal kits
- This could signal an upcoming trend as consumers shift more of their share-of-stomach spending towards options that allow them to avoid contact with other people while giving them more control over food preparation and hygiene
- Meal kit services such as Blue Apron, HelloFresh, and Sun Basket are reporting a sharp increase in demand as consumers stay home and cook, although it's unclear how much of a boost they will get in the longer-term if household budgets become more constrained due to economic hardship



The current pandemic is changing consumer behavior and will continue to have an influence even when the crisis subsides

COVID 19 and the Restaurant Industry

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Latest Announcements By Major Restaurant Chains



- Dine Brands Global announced on March 19th that it has drawn down a total of approximately \$223 million of the \$225 million available under its revolving financing facility pursuant to its 2019-1 Variable Funding Senior Notes issued as part of its securitization refinancing in 2019
- As per the announcement, the Company does not have an immediate need for additional liquidity, precautionary steps were taken to increase its financial flexibility considering unprecedented conditions due to the COVID-19 outbreak
- The Company believes that its consolidated financial results for 2020 could be materially impacted by the growing global impact from COVID-19
- As a result, it has withdrawn its 2020 financial performance guidance issued on February 24, 2020
- Both Applebee's and IHOP have introduced quarantine-friendly and family bundle meals to cater to the existing marketplace scenario



- Darden Restaurants reported on March 18th that same-store restaurant sales were down roughly 60% compared to the same period in 2019
- As of March 18, 60% of the company's more than 1,800 locations are mandated as to-go only, 16% have other mandated capacity constraints and the remaining 24% have no mandates, but the Company is choosing to operate them at reduced capacity to encourage social distancing
- The management fully drew down the \$750 million credit facility resulting in approximately \$1 billion in cash on its balance sheet
- The Company is managing costs and reducing capital expenditures, it has also withdrawn its fiscal 2020 guidance and suspended its quarterly dividend payment
- In response to ongoing crisis, it has launched a buy-one, get-one-free promotion at its subsidiary Olive Garden that's only available for take-out or delivery orders



- Bloomin' Brands announced on March 20th that it was suspending its dividend, considering the "unprecedented global market and economic conditions" resulting from the COVID-19 pandemic
- The Company issued a statement stating that it has drawn down substantially all its credit facility, giving it a cash position of over \$400 million
- It also added that "The increased borrowings were taken as a precautionary measure to provide additional financial flexibility"
- The Company is also withdrawing its full-year financial guidance
- The Company that employs more than 90,000 people, hasn't laid off or furloughed any employees as a result of the crisis



- Brinker International reported on April 2nd that third-quarter same-store sales at company-owned restaurants fell by 5.9%
- The Company issued a statement stating that they are undertaking several steps for financial flexibility, including reducing capital expenditures and marketing spend, amending its credit facility to allow for \$800 million in borrowing and reducing salaries
- The Company has withdrawn its fiscal 2020 guidance, and has stated that it had total liquidity of \$237 million as of March 31 which includes \$137 million in cash
- Currently Chili's is offering curbside pickup and takeout at all locations apart from offering delivery at certain locations

Restaurant chains now have the daunting task of adjusting to the behavioral changes that COVID-19 has brought upon the consumer