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## 2011 – A Mid-Year Review for Restaurant Firms

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## Editor's Note.....

### 2011 – A Mid-Year Review for Restaurant Firms

The restaurant industry has shown a steady growth since its recent recessionary trough in 2008-2009. The industry's sales were estimated at \$583.2 billion in 2010 according to the National Restaurant Association (NRA), a 2.5% increase (in current dollars) relative to the 2009 figure. Per the latest NRA report, the outlook for the restaurant industry appears even brighter for 2011. Experts predict the industry to grow steadily with improving economic climate, generating more jobs and income. Total annual restaurant industry sales are expected to reach a record high of \$604.2 billion for the first time in the history of the US restaurant sector, a 3.6 percent increase (or 1.1 percent in inflation adjusted terms) over 2010 annual sales. Such growth should be a welcome reprieve after the industry's recent recessionary trends.

Table 1 summarizes the current trend of stock returns for key restaurant firms in 2011. The record breaking one-year average return (47.96%) of restaurant stocks since June 2010 surpassed the S&P 500 index returns by over 17%. Such trend is suggestive of the industry's strong recovery since its slump in 2008-2009. Quick service and quick service specialty restaurants (QSRs) performed much better than family, casual and full service restaurants. On an average, this group's stocks returned 19.20 percent year-to-date in the first half of 2011 (57.48 percent since June 2010) - significantly more than the average returns yielded by the family, casual and full service group. The trend suggests continued preference of our cautious and economically challenged consumers for cheaper QSRs, relative to more expensive fine dining restaurants. Further, as shown in Table 1, quick service specialty restaurants yielded 25.29 percent year-to-date (72.97 percent one-year) returns, performing significantly better than all other restaurant groups.

<b>Table 1</b>							
<b>2011 Restaurant Stock Return Trends – Mid-Year (June)</b>							
<b>Stock Name</b>	<b>MarketCap (Millions)</b>	<b>YTD%</b>	<b>1-Month</b>	<b>3-Month</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>
<b>QUICK SERVICE RESTAURANTS</b>							
AFC Enterprises, Inc.	400.87	16.47	9.47	9.91	79.29	27.02	5.58
Biglari Holdings, Inc.	562.32	-4.33	0.11	-5.79	26.60	44.45	5.52
Carrols Restaurant Group, Inc.	215.98	31.94	6.41	3.05	88.27	19.62	NA
Domino's Pizza, Inc.	1530.44	55.42	1.60	38.34	112.06	27.04	10.60

Jack In The Box, Inc.	1111.24	5.82	5.17	-1.02	11.69	-1.73	2.36
McDonald's Corporation	84915.28	8.21	-0.23	10.04	24.35	15.67	22.92
Sonic Corporation	643.97	2.96	-7.30	14.51	27.85	-14.22	-13.60
Wendy's Arby's Group, Inc.	2095.11	9.09	2.03	-0.59	20.55	-8.20	-16.72
Yum Brands, Inc.	25066.08	10.78	-3.29	4.22	33.76	16.08	18.10
<b>Average Quick Service Restaurants</b>	<b>12949.03</b>	<b>15.15</b>	<b>1.55</b>	<b>8.07</b>	<b>47.16</b>	<b>13.97</b>	<b>4.35</b>
<b>QUICK SERVICE SPECIALTY RESTAURANTS</b>							
Caribou Coffee Company, Inc.	266.71	28.67	18.34	33.44	31.81	92.79	11.17
Chipotle Mexican Grill, Inc.	9125.70	37.90	4.52	16.84	102.58	48.82	36.49
Krispy Kreme Doughnut Corporation	616.55	30.80	9.34	44.46	160.86	21.82	2.25
Panera Bread Company, Inc.	3821.72	24.16	2.37	3.99	58.74	39.23	13.49
Starbucks Corporation	27997.56	17.06	2.92	-0.27	41.99	31.84	0.79
Tim Hortons, Inc.	7550.19	13.12	-1.54	0.86	41.84	17.50	12.17
<b>Average Quick Service Specialty Restaurants</b>	<b>8229.74</b>	<b>25.29</b>	<b>5.99</b>	<b>16.55</b>	<b>72.97</b>	<b>42.00</b>	<b>12.73</b>
<b>Average Quick Service</b>	<b>11061.31</b>	<b>19.20</b>	<b>3.33</b>	<b>11.47</b>	<b>57.48</b>	<b>25.18</b>	<b>7.41</b>
<b>FAMILY DINING RESTAURANTS</b>							
Bob Evans Farms, Inc.	1031.26	4.46	11.64	8.39	36.32	6.15	5.86
Cracker Barrel Old Country Store, Inc.	1116.61	-10.46	4.56	-0.71	4.24	25.31	7.66
Denny's Corporation	377.86	6.70	-1.04	-6.83	43.61	6.75	0.80
DineEquity, Inc.	927.17	1.36	-7.07	-5.60	69.43	8.80	3.44
<b>Average Family Dining</b>	<b>863.23</b>	<b>0.52</b>	<b>2.02</b>	<b>-1.19</b>	<b>38.40</b>	<b>11.75</b>	<b>4.44</b>
<b>CASUAL DINING RESTAURANTS</b>							
Brinker International, Inc.	2082.46	20.03	-1.40	0.16	72.98	11.65	2.31
Buffalo Wild Wings, Inc.	1163.77	44.86	4.84	19.24	69.61	32.82	26.95
Darden Restaurants, Inc.	6618.23	5.84	-5.60	1.71	26.18	17.75	7.27
O'Charley's Inc.	162.66	4.03	5.94	21.20	19.27	-8.23	-13.68
Red Robin Gourmet Burgers, Inc.	529.28	61.67	-1.05	32.48	94.02	4.17	-3.48
Ruby Tuesday, Inc.	686.78	-19.22	-0.19	-13.45	17.61	21.58	-13.84

Texas Roadhouse, Inc.	1235.90	2.04	7.46	6.73	32.33	23.64	5.20
<b>Average Casual Dining</b>	<b>1782.73</b>	<b>17.04</b>	<b>1.43</b>	<b>9.72</b>	<b>47.43</b>	<b>14.77</b>	<b>1.53</b>
<b>FULL SERVICE RESTAURANTS</b>							
Benihana, Inc.	156.77	16.14	-3.16	12.43	77.57	12.57	-12.44
BJ's Restaurants, Inc.	1352.55	38.55	1.32	33.04	103.52	67.27	17.80
CEC Entertainment, Inc.	787.10	3.17	0.28	6.86	12.53	8.78	4.73
Cheesecake Factory, Inc.	1785.06	0.82	1.48	7.36	32.32	21.00	2.29
Kona Grill, Inc.	45.31	20.00	0.41	3.36	43.86	-12.04	-16.05
McCormick & Schmicks Seafood, Inc.	127.14	-5.94	-0.47	14.30	12.35	-2.13	-17.22
Morton's Restaurant Group, Inc.	118.90	8.49	-7.01	0.57	30.67	0.67	-14.06
P.F. Chang's China Bistro, Inc.	907.80	-16.55	2.65	-12.41	-3.70	21.02	1.02
Ruth's Hospitality Group, Inc.	191.04	17.28	8.38	7.74	21.75	0.81	-22.65
<b>Average Full Service</b>	<b>607.96</b>	<b>9.11</b>	<b>0.43</b>	<b>8.14</b>	<b>36.76</b>	<b>13.11</b>	<b>-6.29</b>
<b>Average Family, Casual and Full Service</b>							
<b>Average Family, Casual and Full Service</b>	<b>1070.18</b>	<b>10.16</b>	<b>1.10</b>	<b>6.83</b>	<b>40.82</b>	<b>13.42</b>	<b>-1.40</b>
<b>Restaurant Industry Average</b>	<b>5352.10</b>	<b>14.04</b>	<b>2.05</b>	<b>8.82</b>	<b>47.96</b>	<b>18.46</b>	<b>2.37</b>
<p><i>Note:</i> Market Cap in Millions. Returns expressed as percentages.  <i>Source:</i></p> <ol style="list-style-type: none"> <li>1. Stock returns: Morningstar Investment Research Center</li> <li>2. Restaurant Classification: Demeter Advisory Group, LLC</li> </ol>							

Regardless of buoyant recovery signals from the restaurant sector, economists and wall-street experts are cautious about the economic outlook, and feel that some uncertainties still plague the economic recovery in 2011. In some ways, their contentions seem to have some merit. Many recent federal economy stimulus packages are already set to expire in 2011. Gasoline prices and food prices are on the rise. Further, the average unemployment for the first half of 2011 still remains over 9% according to the US Bureau of Labor Statistics (BLS). This rate was well below 5 percent prior to 2008. It is often said that poor labor market and high unemployment eat into a nation's disposable income, an important predictor for restaurant growth. The postulate appears to be working in the case of US restaurants. Decrease in disposable income has channeled our economically constrained consumers towards cheaper quick service or quick service specialty restaurants (QSRs), rather than towards upscale full service eateries. McDonald's, Starbucks, Chipotle Mexican Grill and such other quick

service chains continue to prosper. On the other extreme, several restaurants are filing for Chapter 11 bankruptcy protection. Among large chains, Sbarro filed for bankruptcy in April 2011. Perkins and Marie Callender's Restaurants filed for bankruptcy in early June 2011. Celebrity owned restaurants such as the Steakhouse NYC (owned by Michael Jordan) and the Las Vegas restaurant Beso (owned by Eva Longoria) also witnessed bankruptcies in recent past. Could such trends signal rough waters for the recovering restaurant sector in the near future?

Recent changes in NRA's Restaurant Performance Index (RPI) could help provide some insight into the above conundrum. RPI is a combination of the current situation index (derived from recent period restaurant industry indicators) and the expectations index (derived from forward-looking restaurant industry indicators), and is based on NRA's monthly survey of US restaurateurs. Table 2 and Figure 1 summarize recent trends in NRA's statistical barometer, the RPI.

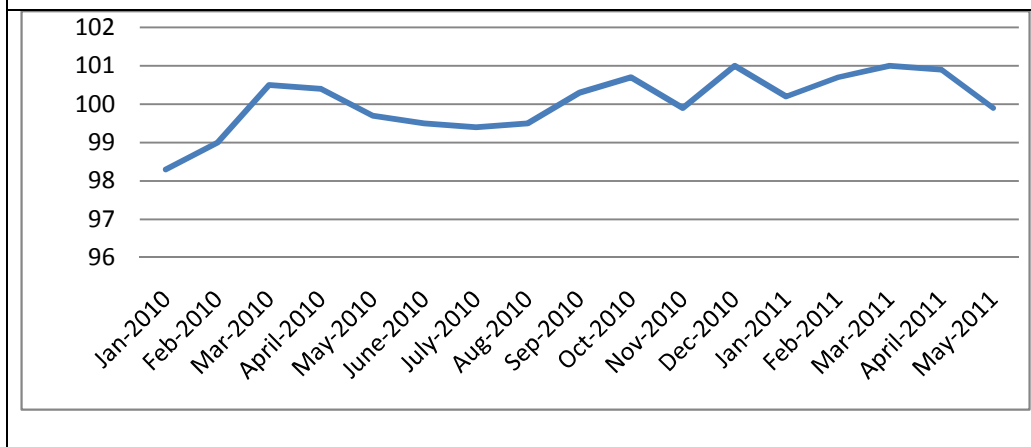
<b>Table1</b>	
<b>Restaurant Performance Index (RPI) Trend January 2010-May 2011</b>	
<b>Month-Year</b>	<b>RPI</b>
Jan-2010	98.3
Feb-2010	99
Mar-2010	100.5
Apr-2010	100.4
May-2010	99.7
Jun-2010	99.5
Jul-2010	99.4
Aug-2011	99.5
Sep-2010	100.3
Oct-2010	100.7
Nov-2010	99.9

Dec-2010	101
Jan-2011	100.2
Feb-2011	100.7
Mar-2011	101
Apr-2011	100.9
May-2011	99.9

Source: National Restaurant Association

**Figure 1-National Restaurant Association's Restaurant Performance Index**

*Values Greater than 100 = Expansion; Values Less than 100 = Contraction*



RPI values above 100 indicate expansion, while values below 100 suggest a period of contraction for key restaurant industry indicators. As shown in figure 1, the RPI dipped below its 100 benchmark in May 2011. Further, during May 2011 the Restaurant Expectations Index experienced its fourth decline in last five months, suggesting an erosion of optimism among restaurant operators. Amid such backdrop of decreasing RPI, falling restaurant expectations index, poor economic recovery, rising gasoline prices, rising food prices, and general inflationary trends, it seems more realistic for restaurant operators to tread cautiously in the coming months.

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