Influencers along the path to consumption

1. The State of Today’s Foodservice Consumer
2. Emerging Trends Influencing Consumption
3. Proven Ways to Win in Today’s Market
Americans are eating more meals in the home and fewer away from home. WHY?

Source: The NPD Group/National Eating Trends®, years ending August
and CREST®, years ending September
The State of Today’s Foodservice Consumer
Consumer Spending Remains Lackluster

$1.9 Trillion tracked at NPD

+.5% gain
Yr End December 2016 vs. Yr Ago

Unemployment at 4.7%

Food at home is getting cheaper!

Work Participation Rate Declining
Wage Increases #1 Issue Among Operators

-2.2% In home

+2.3% Away from home
Food Inflation & Restaurant Traffic

There is a clear relationship between restaurant traffic and the gap between away from home and at home food inflation.

Source: Bureau of Labor Statistics; Data through Q2 2016; Graph shows quarterly % change versus year ago.
Median household income grew 5.2% in 2015

First significant year over year growth, but still has not reached 1998 peak

Real median HH income – constant 2015$

$52,684

$57,909

$57,423

$56,516


2015 Median HH Inc.

Source: US Census Bureau
Healthcare continues to erode disposable income

Source: Kaiser Foundations/HRET survey; BLS
The shrinking middle class is part of the new economic norm

Declining or stagnant wages coupled with a growing income gap over the past 15 years has resulted in many families slipping out of the middle class.

Source: U.S. Census Bureau
The #1 Issue Facing Every Employer Today?
The #1 Issue Facing Every Employer Today: Increases in Minimum Wage
Minimum wage increases 2015 and 2016
Good for the consumer – additional challenge for many Retailers

55% of the US population lives in these states

Source: U.S. Department of Labor
*This includes both Actual and Proposed
The labor force participation rate is more than three percentage points lower than pre-recession. Although the rate has stabilized versus last year, 16 million fewer people are seeking employment.

Source: Bureau of Labor Statistic, Seasonally Adjusted Annual Rate in Februarys
The increase in households with persons of retirement age likely affects labor force participation

Almost 6.5 million more households in 2015 included someone 65 or older compared to 2006

Source: Bureau of Labor Statistic, Seasonally Adjusted Annual Rate in February. US Census Bureau
The aging of America is also likely to prevent household income from rising.

More than half of households over age 65 are in the bottom 40% of income.
Single person households are on the rise
Have operators adjusted their seating to account for this trend?

Parties of one now account for 39% of all restaurant visits, up 5 points vs. 10 years ago.
The share of U.S. households with a child younger than 18 continues to decline. Who is your target customer?

Share of Households by Presence of Children <18

Source: U.S. Census Bureau Population Data
Hispanics will continue to have a large impact on culture and food

- **55.8 million** Hispanics in the U.S. as of 2014
- **+58%** Population growth 2000-2014
- **8X growth of non-Hispanic**
- **17.5%** Of total U.S. population

*Source: U.S. Census 2012 National Projections*
The ‘typical’ American home is no longer composed of two white adults and their two kids.

Change continues, have you been paying attention?

Are you changing the way you do business?
Is anyone leaving the house anymore?
In 2010, 13.4 million people worked at least one day at home per week— an increase of over 4 million people (35 percent) in the last decade.

1997: 9.2 million out of 132 million workers
2010: 13.4 million out of 142 million workers

Increase in home-based workers between 1997 and 2010: 4.2 Million

2010- 30% Workers Telecommute
2016- 37% Workers Telecommute

Is Anybody Eating Lunch Out Any More?

Advances in communication and transportation have led to a growing number of people working from home. This is reflected in a growing number of people working from home. Census Bureau surveys tell us who’s working at home.
Macro drivers threaten main meals away from home.

1. More Lunches eaten at home over past 10 years.

2. Labor force participation is down vs. 10 years ago and more people work from home.

3. Restaurant orders for Lunch originating from work declining.

4. Consumers likely shopping from home more, which reduces number of opportunities to grab meals out of the house.
Technology Has Become A Differentiator
Digital impact on restaurants continues to grow

% of Restaurant Traffic Influenced by Internet/App and Ordered from Internet/App

- Traffic Influenced by Internet/App (Consumer reported)
- Traffic Ordered from Internet/App

<table>
<thead>
<tr>
<th>Year</th>
<th>Traffic Influenced</th>
<th>Traffic Ordered</th>
<th>PCYA</th>
<th>Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>YE Feb'11</td>
<td>0.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YE Feb'12</td>
<td>0.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YE Feb'13</td>
<td>1.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YE Feb'14</td>
<td>1.8%</td>
<td></td>
<td>6.2%</td>
<td>+22%</td>
</tr>
<tr>
<td>YE Feb'15</td>
<td>2.1%</td>
<td></td>
<td>7.2%</td>
<td>+21%</td>
</tr>
<tr>
<td>YE Feb'16</td>
<td>2.5%</td>
<td></td>
<td>8.7%</td>
<td>+22%</td>
</tr>
</tbody>
</table>

Source: The NPD Group / CREST®
Where are QSR meals eaten?

Home is the #1 place we eat our Quick Service meals.

Distribution of QSR Visits by Where Eaten

<table>
<thead>
<tr>
<th>Location</th>
<th>2006</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total On Premises</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>At Work</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>In Car</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At Home</td>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>

Source: The NPD Group/CREST®, years ending Feb
Delivery outside Pizza growing strongly
Delivery increases driven by the youngest generations. They want it now!

<table>
<thead>
<tr>
<th>Delivery Traffic (000), Excluding Pizza</th>
<th>Who is Using Delivery?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gen Z</td>
</tr>
<tr>
<td></td>
<td>Millennials</td>
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<tr>
<td></td>
<td>Gen X</td>
</tr>
<tr>
<td></td>
<td>Boomers</td>
</tr>
<tr>
<td></td>
<td>Silent Gen</td>
</tr>
</tbody>
</table>

Source: The NPD Group/CREST®, year ending December
Delivery visits outpacing traffic overall

Delivery provides the ultimate convenience for diners and is winning visits at the expense of other service modes.

Restaurant Traffic Percent Change 2016 vs. 2012

- Total: +0.2%
- Delivery: +7%

Delivery Market = 1.7 Billion Visits

Source: The NPD Group/CREST®, year ending December 2015
What you need to know about delivery:

Brings in a **63% higher ticket vs. average restaurant order**.... before tip. Driven by larger parties & higher price per person.

**Digital Wins**
41% of delivery visits are ordered through the internet or an app, up 75% vs `12. Consumers that order digitally are more satisfied with their visits. Top box overall satisfaction scores come in **7 points higher** compared to phone orders.

**Kids Rule!**
Parties with kids account for 46% of all delivery visits and drove 100% of the delivery growth (vs. ‘12).

People like technology **more** than people. Digital orders also earn higher scores on Pleasant Service, Fast Service & Made Me Feel Valued.

*Source: The NPD Group/CREST®, year ending December 2015*
Visits that were paid for by a MOBILE APP now make up 2% of all QSR visits – a small but fast growing behavior

Distribution of Traffic by How Paid

- Paid with Mobile Phone App: 2%
- All Other Methods of Payment: 98%

515 MM Visits

+48% VS. YAG
Emerging Trends Influencing Consumption
Americans today feel differently about visiting restaurants

Percent of Adults Saying They Plan to Use Restaurants “Less” in Next 30 Days

Source: The NPD Group’s Biweekly Food Safety Monitor & CREST
CREST Data is YE March
Younger adults have cut back the most on restaurants since the recession

Annual Meals Purchased at a Restaurant per Person

Source: The NPD Group/CREST®, years ending Feb., except latest period
Total Restaurant industry traffic has essentially been flat for the past 6 years

**Industry Traffic (Billions) – YE Dec**

<table>
<thead>
<tr>
<th>Year</th>
<th>Traffic (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>61.3</td>
</tr>
<tr>
<td>2012</td>
<td>61.7</td>
</tr>
<tr>
<td>2013</td>
<td>61.6</td>
</tr>
<tr>
<td>2014</td>
<td>61.8</td>
</tr>
<tr>
<td>2015</td>
<td>62.2</td>
</tr>
<tr>
<td>2016</td>
<td>61.9</td>
</tr>
</tbody>
</table>

*Source: CREST®*
Only QSR has seen any growth in the past 5 years

<table>
<thead>
<tr>
<th>Category</th>
<th>YE Dec'12</th>
<th>YE Dec'13</th>
<th>YE Dec'14</th>
<th>YE Dec'15</th>
<th>YE Dec'16</th>
</tr>
</thead>
<tbody>
<tr>
<td>QSR (80%)</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
<td>0%</td>
</tr>
<tr>
<td>Midscale (9%)</td>
<td>-2%</td>
<td>-2%</td>
<td>-1%</td>
<td>-2%</td>
<td>-3%</td>
</tr>
<tr>
<td>Casual Dining (10%)</td>
<td>-1%</td>
<td>-2%</td>
<td>-1%</td>
<td>-2%</td>
<td>-3%</td>
</tr>
<tr>
<td>Fine Dining/ Upscale Hotel (1%)</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>-3%</td>
<td>0%</td>
</tr>
</tbody>
</table>

% Change vs. Year Ago

Source: CREST
Top reasons mentioned for visiting less

Customers continue to manage their overall spend as the top reasons for visiting restaurants less are still centered around costs.

Restaurant Decliners: % buyers agreed with statement

63% Cheaper to eat at home
59% Cut down on spending overall
48% Cooking at home to eat healthier
39% Restaurants prices too high
27% Brown bagging more
26% Restaurants are a bad value

Source: The NPD Group/Checkout TrackingSM Re-contact Survey, September 2016
BLURRING THE LINES
Emerging segments are changing how and where we source meals
Enter “Fast Casual” restaurants that consumers find extremely appealing – even with unit expansion, these concepts are experiencing real demand growth.

“Fast Casual” concepts’ traffic growth comes at the expense of “stealing” visits from other concepts.

**Fast Casual Share of All Restaurant Meals**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>2.7%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>3.4%</td>
<td>3.7%</td>
<td>3.9%</td>
<td>4.2%</td>
<td>4.5%</td>
<td>4.8%</td>
<td>5.2%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

*Source: The NPD Group/CREST®, years ending June*
Fast Casual remains the middle player in cost

Fast Casual is faster and cheaper than Casual Dining. Who do you think they hurt, Fast Food or CDRs?

![Average Eater Check](chart)

*Year Ending February 2015*

**Average Eater Check**

<table>
<thead>
<tr>
<th></th>
<th>Lunch</th>
<th>Dinner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional QSR</td>
<td>$5.89</td>
<td>$6.58</td>
</tr>
<tr>
<td>Fast Casual</td>
<td>$7.79</td>
<td>$8.06</td>
</tr>
<tr>
<td>Midscale</td>
<td>$9.52</td>
<td>$11.60</td>
</tr>
<tr>
<td>Casual Dining</td>
<td>$12.51</td>
<td>$15.55</td>
</tr>
</tbody>
</table>

Quick service excludes fast casual

*Source: The NPD Group/CREST*
A growing source for prepared meals has been RETAIL outlets – those offering convenient meal solutions

These are meals bought for immediate consumption at supermarkets, C-stores, mass merchants.

Source: The NPD Group/CREST®
Introducing The “Grocerant”

Restaurant-quality fresh prepared foods

Chef-driven menus

In-store enjoyment options, from café seating to table service

Service levels inspired by the hospitality industry

Keeping pace with tastes & trends

2.4B visits

$10B

Source: The NPD Group/CREST, year ending December 2015
Several supermarket chains setting a high bar for prepared foods. The list is growing.

Grocery shoppers opt for supermarket prepared foods for the **convenience** (44%), **price** (34%), **ease** vs. restaurants (34%) and **taste** (31%) – FMI
Top motivations by visit share (%)

Grocery competes most closely with Fast Casual.

**Grocery Stores**
- Price Driven
- Healthy/Light Meal
- Food Variety/Quality

**Fast Casual**
- Food Variety/Quality
- Healthy/Light Meal
- Price Driven

**Traditional QSR**
- Price Driven
- Treating Myself
- Someone Else Chose

Source: The NPD Group/CREST
Food forward C-stores are also growing

- Two types of C-Stores
  - Traditional C-Stores
    - Gasoline dependent
    - Minimal foodservice capability
  - Food Forward C-Stores
    - Diverse and sophisticated merchandise mix
    - Engaged in multiple foodservice occasions

45% of traffic P.M. Snack

35% of traffic Morning Meal

% of total traffic at Food Forward and Traditional C-Stores
Source: The NPD Group/CREST®, YE Sep’16
C-Store traffic growth has far outpaced the restaurant industry as a whole

Traffic Percent Change vs. Year Ago

Source: The NPD Group/CREST, YE Sep
Home food delivery another trend competing with foodservice – led by Amazon

“Amazon will be a top-10 player in the approximately $795 billion U.S. food and beverage grocery market by 2019.”

-analysts at Cowen & Company LLC, led by John Blackledge

Source: BloombergBusinessWeek, March 17, 2016
Meal kit delivery services may be poised to redefine how consumers solve for meals, but trial of these services is still low.

Percent of adults 18+ past 12 months trial of a meal kit delivery service

- Have tried
- Interested in trying
- Not interested in trying

= 8.3 MM adults
Alternative sources for the in-home meal are gaining momentum. These tend to be underrepresented in retail measurement.

Source: The NPD Group/NET®, years ending February
We continue to eat more meals in the home because it's easier to eat more meals at home.

In-Home vs. Away-from-Home Meals
Annual Meals Per Capita

Source: The NPD Group/National Eating Trends®, years ending August
and CREST®, years ending September
Back to Nature
Purity is the new mantra

Consumers increasingly seek purity in their foods and beverages and are employing different tactics to achieve this goal.

% Who Completely Agree With “A Person Should Be Very Cautious In Serving Foods With ...”

Fresh foods trends by age group

Fresh foods are gaining momentum. The shift to fresh, natural, and authentic eating is being led by adults under 35.

FRESH is forecasted to grow 8% among MILLENNIALS (vs. 6% for Total Pop.)*

Organic foods and beverages have shown resilience following the twenty-first century recession.
Forecasts show Millennials and Generation Z will continue the growth of organic food & beverages.

Interest drops off dramatically after Gen Z and Millennials. Economic pressures, plus the idea that “it’s too late for me” may contribute to reduced interest among older generations.

39% of Americans consume foods or beverages with an “all natural” or “natural ingredients” special label in an average week.

Special Food/Beverage Labels
Percent of individuals consuming at least once in a one-week period

- All Natural or Natural Ingredients: 39%
- Low Fat or Reduced Fat: 22%
- Organic or Made with Organic Ingredients: 19%
- Made with Whole Grains: 17%
- 100% Whole Grain: 16%
- High Fiber, Added Fiber: 16%
- Light, Lite, or Diet: 15%
- Reduced or Low Calorie: 14%

Source: The NPD Group/National Eating Trends®, 2 years ending Feb. 2015 [excl. SON ’14]

Dinner Opportunities for Restaurants
## Dinner from a consumer perspective

<table>
<thead>
<tr>
<th>Consumer Behaviors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meal least likely to skip</td>
</tr>
<tr>
<td>Most likely to be a “social” vs. “solo” occasion</td>
</tr>
<tr>
<td>Most complex meal of the day</td>
</tr>
<tr>
<td>Consumers spend the most time and money on this meal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumer Attitudes</th>
</tr>
</thead>
<tbody>
<tr>
<td>“It’s when I have the most time to eat”</td>
</tr>
<tr>
<td>“It’s usually my most substantial meal”</td>
</tr>
<tr>
<td>“It is the most filling and well rounded meal”</td>
</tr>
<tr>
<td>“Is when all the family is together”</td>
</tr>
<tr>
<td>“Finally get to sit down and relax and eat”</td>
</tr>
</tbody>
</table>

*Source: The NPD Group / International Food & Beverage Habits Study 2013*
Where to get Dinner

Nearly half of all decisions on where to get Dinner are made that day. The closer to Dinner time the decision is made, the more likely we are to choose a restaurant.

Source: The NPD Group /Eat In or Out? What Drives Dinner Choices Custom Study 2016
WHERE To get Dinner – Home and Away

There are two different kinds of consumers: those who plan where to get their Dinners well in advance and those who make their decision the day of.

Planners

- More than a week before: 16%
- During the week: 21%
- The day before: 14%

Up for Grabs

- In the morning that day: 17%
- In the afternoon that day: 14%
- Right before dinner time: 18%

Source: The NPD Group / Eat In or Out? What Drives Dinner Choices Custom Study 2016
Dinner decision process

The full range of considerations, influences and order of decision making becomes complex.

Source: The NPD Group /Dinner MealScape Study

- Decided 1st: What, Time available, Where to get it, Preferences of others
- Decided 2nd: Cost, Preferences of others

Preferences of others
Where to get it
Time available
Preferences of others
Dinners won by Restaurants

The closer to Dinner time the decision is made, the more likely a restaurant is chosen.

- 10% Before the day
- 11% In the morning that day
- 24% In the afternoon that day
- 31% Right before dinner time
- 38% on Weekends

Source: The NPD Group / Eat In or Out? What Drives Dinner Choices Custom Study 2016
Since 2007, Restaurants **lost 7.5 dinner meals per capita** to home prepared meals.

If restaurants can **steal 1 dinner meal per capita back** from home prepared meals...

It would equate to roughly **$3 Billion**
Proven Ways to Win in Today’s Market
What do today’s winners have in common?

- Among the 10 fastest growing chains – 8 have traffic growth that outpaces unit growth*
- Traffic growth ranges from 12% to 18%
- Multiple formats and menu categories are represented
- 3 common themes emerge

*Jimmy John’s, Firehouse Subs, Culvers, Noodle & Co., Zaxby’s, Domino’s, Chic-fil-a, Panda Express
#1 - Create a winning experience

Reasons for Visit - Growth Chain Index

- Quality of Food: 159
- Had a Special Taste/Craving: 130
- I Like It There: 119

Top Box Satisfaction - Growth Chain Index

- Fast, Efficient Service: 119
- Atmosphere / Ambiance: 117
- Cleanliness of Restaurant: 117
- Quality Of food and bev: 115
#2 - Embrace the family

Top Performing Chain Index

- Reason for Visit: Kids Like it - 156
- Top Box Satisfaction: Friendly Environment for Kids - 130
- Party Includes Kids - 127
#3 - Leverage technology to get in the home

Visit Profile- Growth Chain Index

- Delivery: 575
- Eaten at Home: 153

More likely to order via Internet and Mobile App: 6X
More likely to choose chain for availability of delivery or drive thru: 2X
Growth chains are winning at Lunch and Dinner (The largest occasions): 1X
Key Takeaways

Changes in today’s society drive trends in the restaurant market. The ‘same old, same old’ will not make it going forward.

Unlike other retail verticals, restaurants have the upper hand. Not everyone needs a wearable fitness device, but everyone needs to eat. How do we as an industry make restaurants the better choice?

Technology is no longer a nice-to-have component of consumer interaction, it’s a must-have.

Convenience and price are now complemented by what consumers EXPECT: Great Food, Variety and Customization, and a better experience.

At the end of the day, consumers attitudes and behaviors are evolving for a variety of reasons. Those operators who get it right in the consumer’s mindset are winning.
Thank you