

# THE RESURGENCE OF THE FOODSERVICE SECTOR

April 2021



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## ■ Macroeconomic and Public Health Tailwinds

- Declining unemployment and increasing job openings across industries, with the largest recent rebound in the foodservice industry
- The at-home environment has resulted in a higher consumer savings rate (doubling in the U.S.), which has put many households in a strong position to spend
- Rapidly rising COVID-19 vaccination rates pushing the U.S. towards herd immunity. As of April 11, ~36% of Americans have been vaccinated. At the current pace, 90% of Americans could be vaccinated by mid-July

## ■ Consumer Engagement

- As COVID-19 subsides, people are getting more comfortable leaving home. Consumers are resuming visiting friends, traveling, shopping, dining out and many more social activities
- Dining out and traveling are the two activities which consumers plan to splurge on or treat themselves the most in 2021. Many consumers are comfortable pursuing these activities even before herd immunity

## ■ Foodservice Sector Dynamics

- While willingness and excitement to dine out at restaurants and bars or stay at hotels are expected to rapidly return during 2021, food safety and sanitation will be critical to consumers
- The restaurant sector recovery is well underway and growth during 2021 is expected across the restaurant industry with quick-service and fast-casual leading the way, and casual dining is not far behind

*Given emerging tailwinds and positive industry trends, we expect increased levels of M&A activity in the Foodservice Sector in 2022 and 2023*

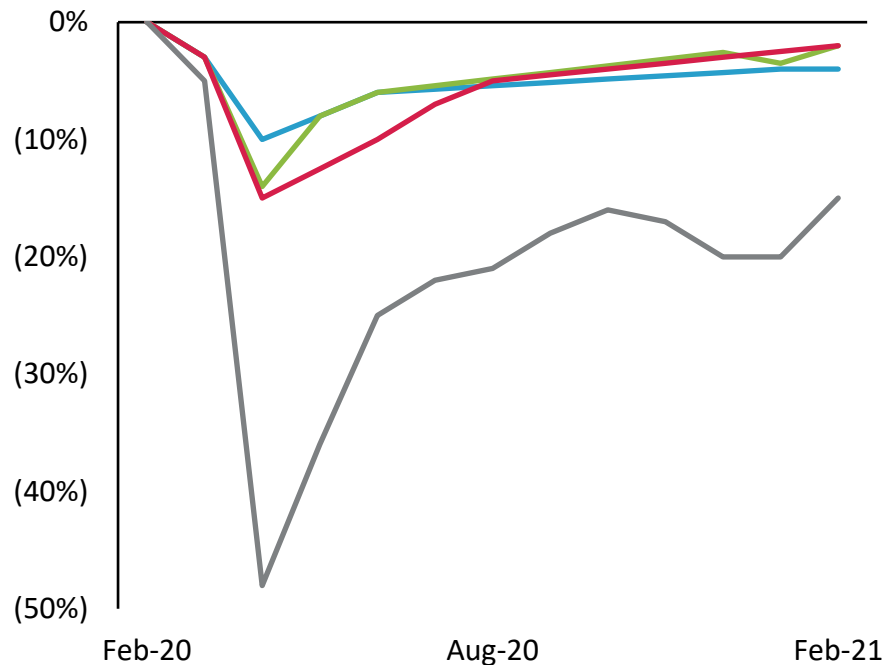
# MACROECONOMIC AND PUBLIC HEALTH TAILWINDS

# POSITIVE MACROECONOMIC INDICATORS

## *Declining unemployment and increasing job openings*

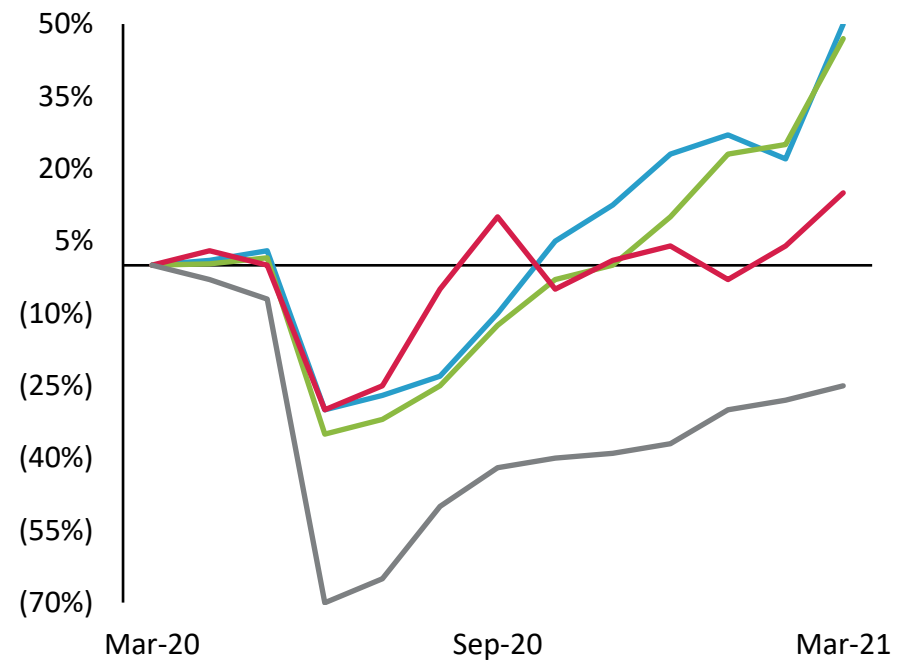
### CHANGE IN PAYROLL BY INDUSTRY FROM FEBRUARY 2020 TO FEBRUARY 2021

- Construction
- Retail
- Manufacturing
- Accommodations and Food Service



### CHANGE IN JOB OPENINGS BY INDUSTRY FROM MARCH 2020 TO MARCH 2021

- Manufacturing and Production
- Construction
- Retail
- Hospitality and Tourism

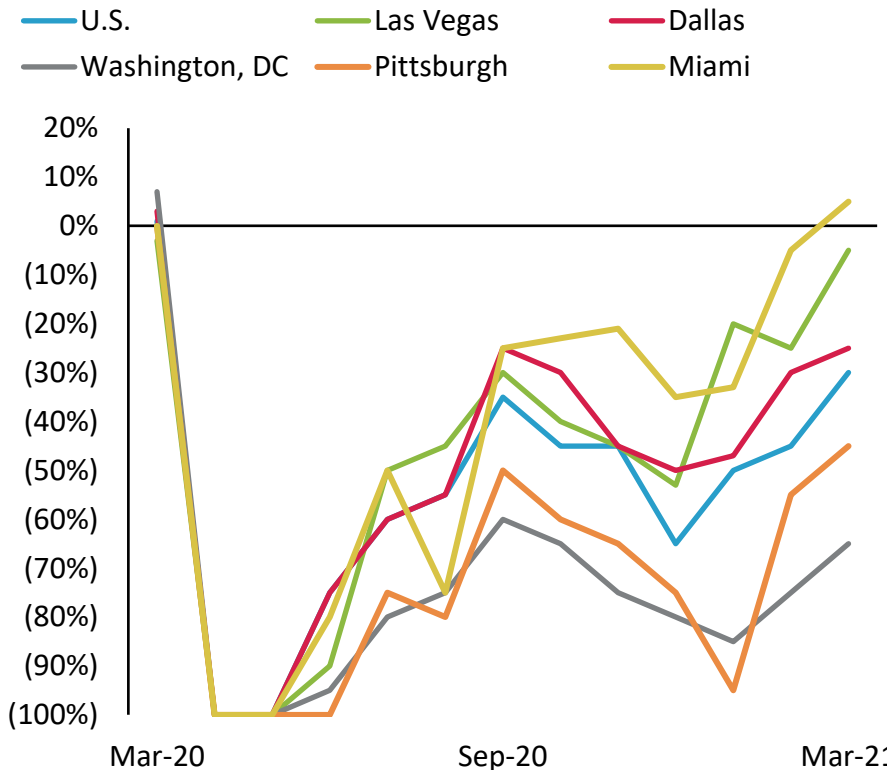


Note: Payrolls are seasonally adjusted.  
Source: Labor Department (payrolls); Indeed (openings)

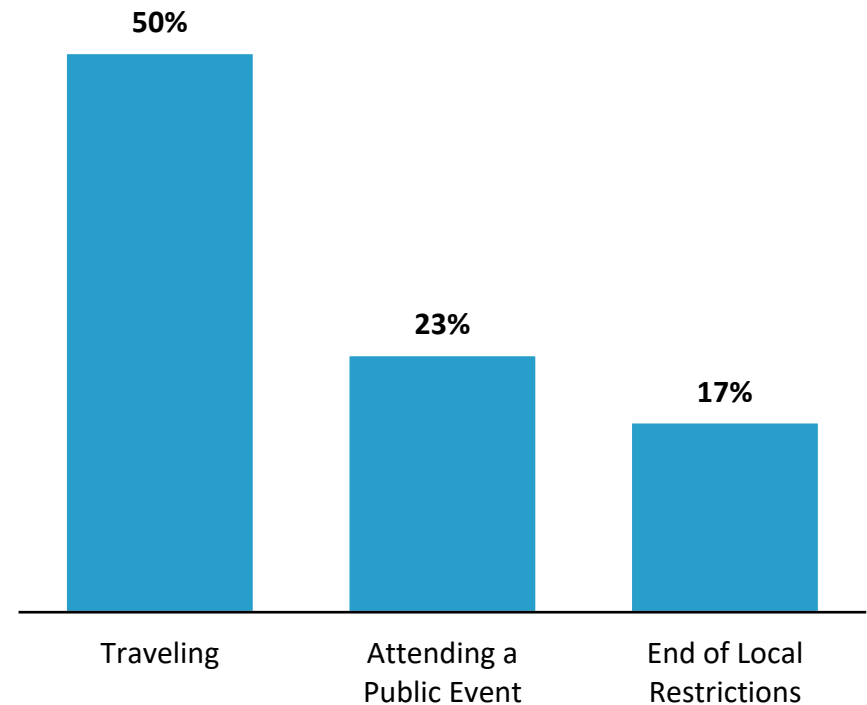
# POSITIVE MACROECONOMIC INDICATORS (CONT.)

## *Increasing consumer demand for going out again*

### SEATED DINERS FROM ONLINE, PHONE AND WALK-IN RESERVATIONS ON OPENTABLE, CHANGE VS. SAME DAY IN 2019



### STRATEGAS' SURVEY RESULTS: WHAT DO YOU LOOK FORWARD TO MOST IN A POST-COVID-19 WORLD?





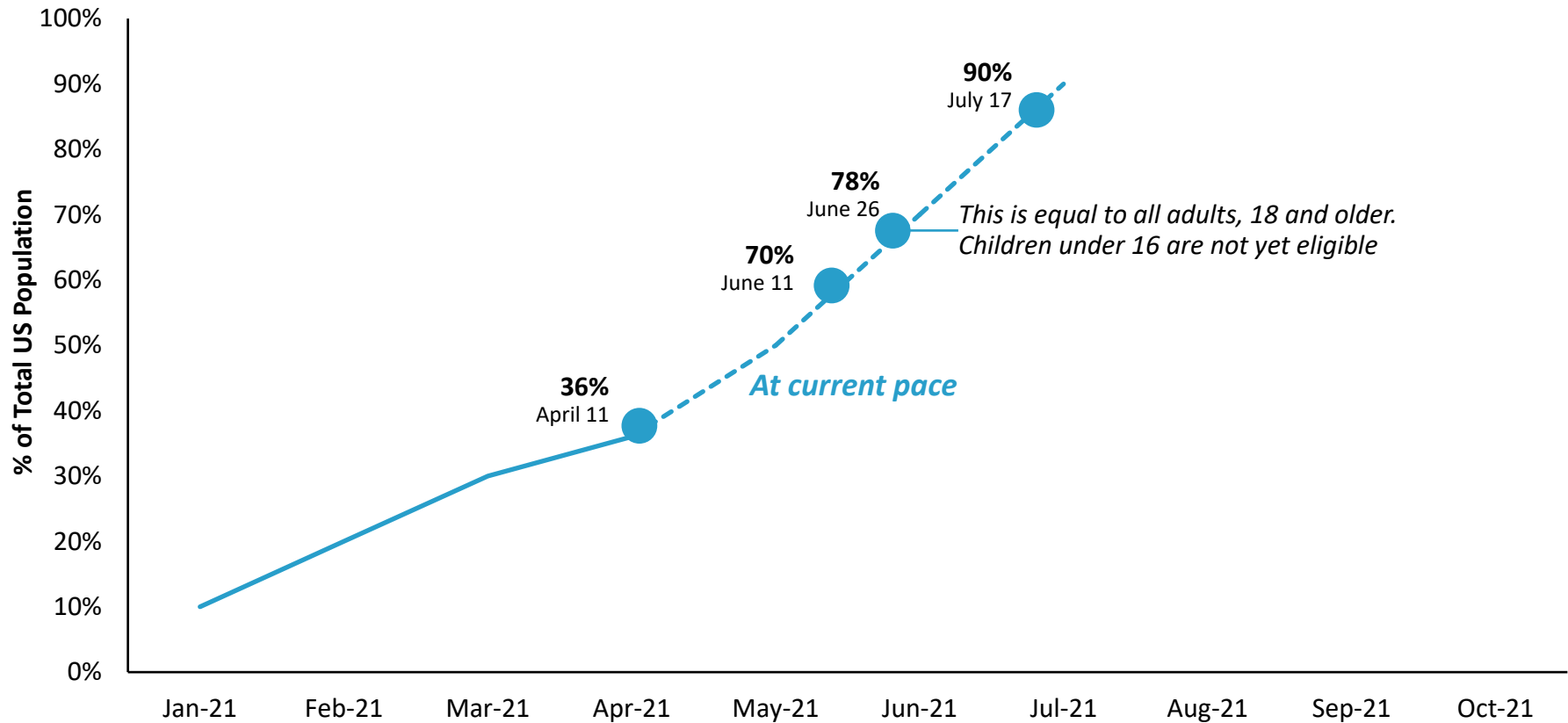
# RISING COVID-19 VACCINATION RATES AND EASING RESTRICTIONS

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Re-opening is accelerating because the U.S. is close to reaching herd immunity

## COVID-19 VACCINATION PROGRESS IN THE U.S.

Based on the seven-day average of people receiving a first or single dose each day



At the current pace of vaccination, everyone could get a shot this year, but no vaccine has been authorized for children under 16

Source: New York Times, April 12, 2021.

# CONSUMER ENGAGEMENT



# U.S. WEEKLY TRAFFIC / ACTIVITY INDICATORS

***Consumers are growing more comfortable leaving their homes for work and pleasure***

Weekly Metric (YoY)	Q2-20	Q3-20	Q4-20	Jan-21	Feb-21	Mar-21	Apr-21 Week 1	Apr-21 Week 2
TomTom U.S. Traffic Indicator <sup>(1) (2)</sup>	(43%)	(36%)	(33%)	(37%)	(28%)	(25%)	(26%)	(25%)
Los Angeles	(56%)	(49%)	(46%)	(52%)	(39%)	(33%)	(34%)	(34%)
New York	(51%)	(36%)	(34%)	(41%)	(30%)	(27%)	(32%)	(24%)
Dallas / Fort Worth	(32%)	(30%)	(25%)	(26%)	(15%)	(17%)	(16%)	(16%)
Phoenix	(29%)	(28%)	(24%)	(25%)	(18%)	(16%)	(15%)	(17%)
Orlando	(30%)	(28%)	(25%)	(26%)	(18%)	(15%)	(14%)	(13%)
Prodco U.S. Retail Traffic Index	(85%)	(52%)	(47%)	(43%)	(50%)	(38%)	(21%)	N/A
OpenTable Data	(88%)	(52%)	(52%)	(56%)	(48%)	(33%)	(19%)	(22%)
TSA Total Traveler Throughput <sup>(2)</sup>	(89%)	(71%)	(64%)	(60%)	(57%)	(48%)	(38%)	(41%)
STR Total U.S. Hotel Occupancy	(54%)	(32%)	(33%)	(28%)	(28%)	(21%)	(18%)	N/A
Weekly Jobless Claims (NSA; 000s)	2,550	826	565	638	575	519	545	N/A

- The table above highlights changes in rush hour traffic congestion data (TomTom), retail traffic (Prodco), restaurant reservations (OpenTable), traveler throughput (TSA), and hotel occupancy (STR weekly hotel review) as well as weekly jobless claims (Department of Labor) relative to 2019 levels
- As shown, underlying trends to date have improved relative to 2020 for all indicators, including retail traffic, restaurant reservations, hotel occupancy and traveler throughput

(1) TomTom data based on a population-weighted index of 25 major U.S. cities, measured versus averaged levels in 2019.

(2) April Week 2 data through 4/7.

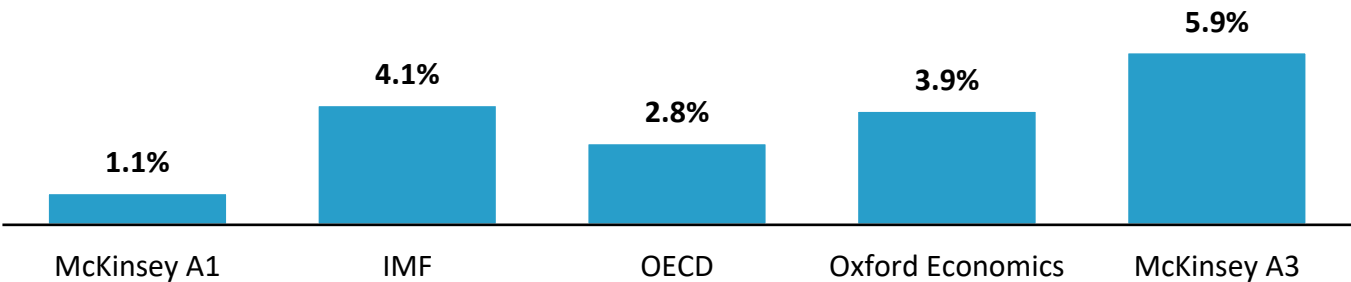
Source: TomTom Traffic Index; World Population Review; Prodco Retail Traffic Index; OpenTable; U.S. Dept of Homeland Security; STR Global Hotel Review; U.S. Department of Labor.

# EXPECT A FAST REBOUND IN GDP GROWTH AND U.S. CONSUMER SPENDING ONCE THE PANDEMIC IS OVER

- Unlike previous recessions, this one involves no consumer debt overhang, bursting asset price bubbles or long-term business cycle fluctuations
- The spike in the savings rate (doubling in the U.S.) has left many households in a strong position to spend

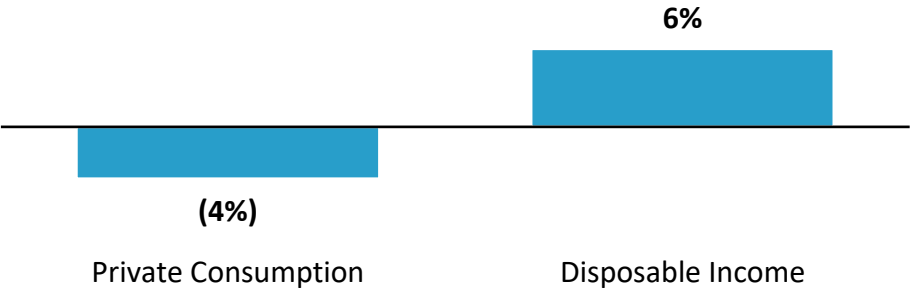
## U.S GDP, REAL CUMULATIVE CHANGE (2022 VS. 2019)

(2022 vs 2019, %)



## PRIVATE CONSUMPTION AND DISPOSABLE INCOME (2022 VS. 2019)

(2020 vs 2019, YoY real change, %)



*Consensus optimism for a strong recovery as many households maintained income but were not able to spend, greatly increasing consumer savings*

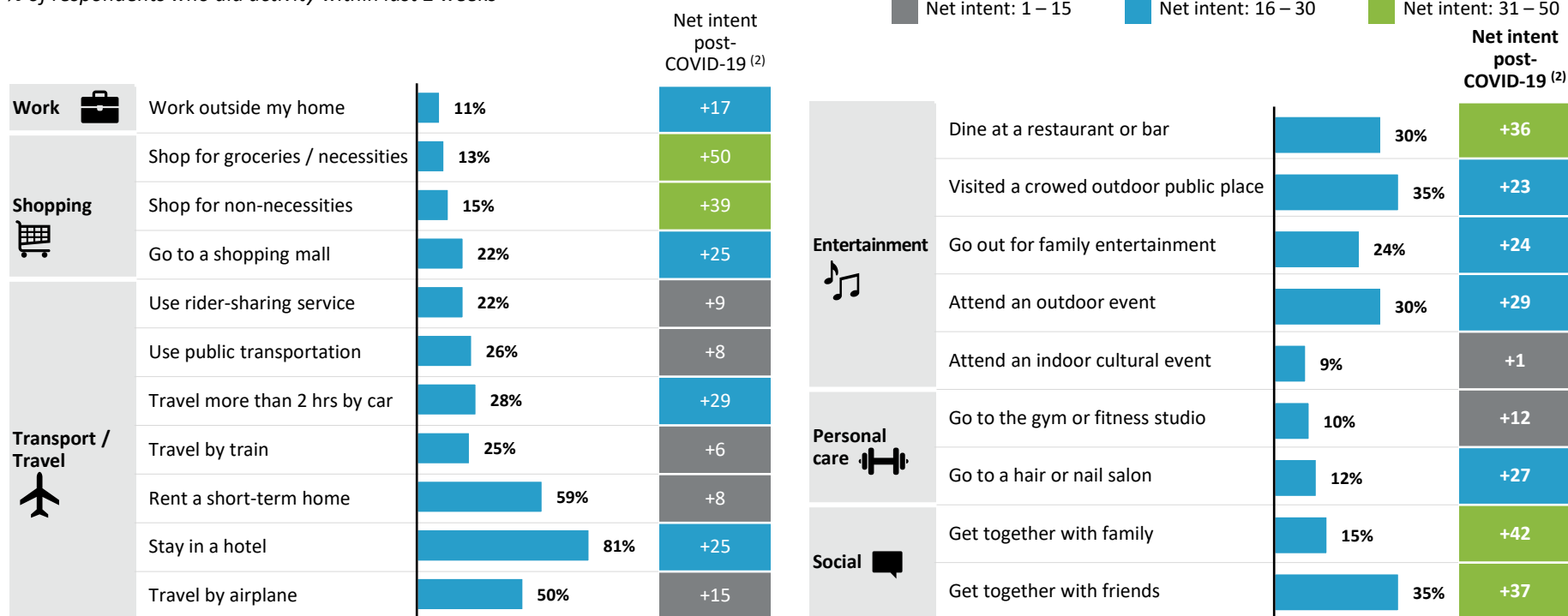
# CONSUMERS EAGER FOR OUT-OF-HOME ACTIVITIES

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*With pandemic-weary consumers ready to spend, expect celebratory times ahead*

## OUT-OF-HOME ACTIVITIES DONE IN THE PAST TWO WEEKS <sup>(1)</sup>

% of respondents who did activity within last 2 weeks



*As COVID-19 subsides, consumers are resuming visiting friends, traveling, shopping, dining out and many more social activities*

Source: McKinsey & Company COVID-19 Consumer Pulse Survey (March 24, 2021).

(1) Q: Did you leave your house for the following activities over the past two weeks? Responder % is based on those who previously selected "Yes" to having done the activity once per year prior to the COVID-19 crisis.

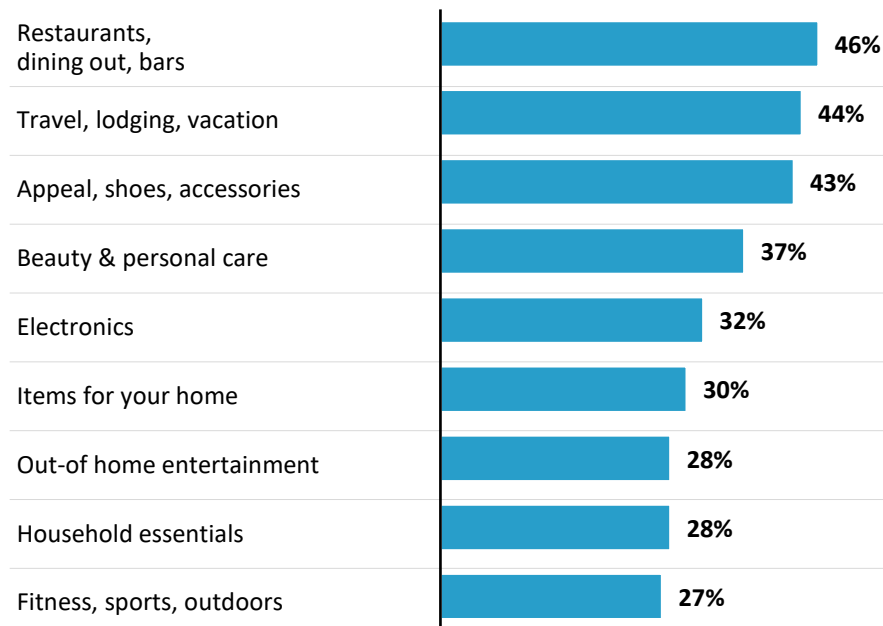
(2) Q: Once the coronavirus (COVID-19) crisis subsides (i.e. once there is herd immunity), how do you think the amount of time you spend doing the following activities will change relative to how often you did then before COVID-19 began? Possible answers: "I will not do this at all"; "I will do this less often than I did before COVID-19 started"; "I will do this about the same as I did before COVID-19"; "I will do this more than I did before COVID-19." Net intent is calculated from adding % of respondents stating they will do more or about the same and subtracting % of respondents stating they will do less or not at all.

# DINING OUT IS THE MOST ANTICIPATED CATEGORY

***Increased spending expected across multiple categories, with a majority of consumers planning to treat themselves once vaccinated***

## EXPECTED LEISURE CATEGORIES ON WHICH PEOPLE PLAN TO SPLURGE OR TREAT THEMSELVES IN 2021 <sup>(1)</sup>

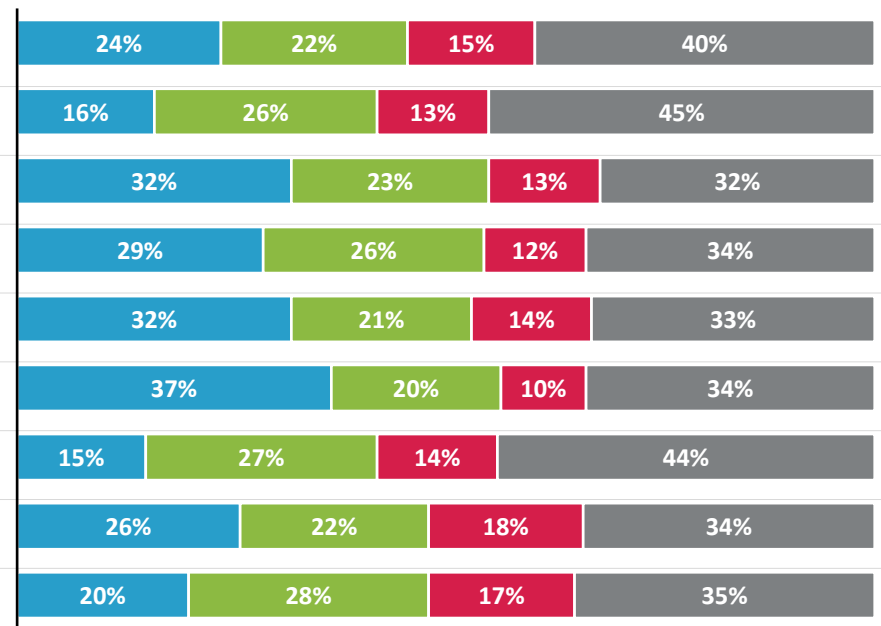
(% of respondents who plan to splurge or treat themselves)



## TRIGGER FOR WHEN PEOPLE PLAN TO SPLURGE OR TREAT THEMSELVES <sup>(2)</sup>

(% of respondents who plan to splurge or treat themselves on that category)

■ Anytime      ■ I am vaccinated  
■ Family is vaccinated      ■ Gvmt restrictions lifted



Source: McKinsey & Company COVID-19 Consumer Pulse Survey (March 24, 2021).

(1) You mentioned that you plan to splurge / treat yourself in 2021. Which categories do you intend to treat yourself to? Please select all that apply.

(2) Which best describes when you will most likely splurge / treat yourself? Figures may not sum to 100% because of rounding.

# FOODSERVICE SECTOR DYNAMICS

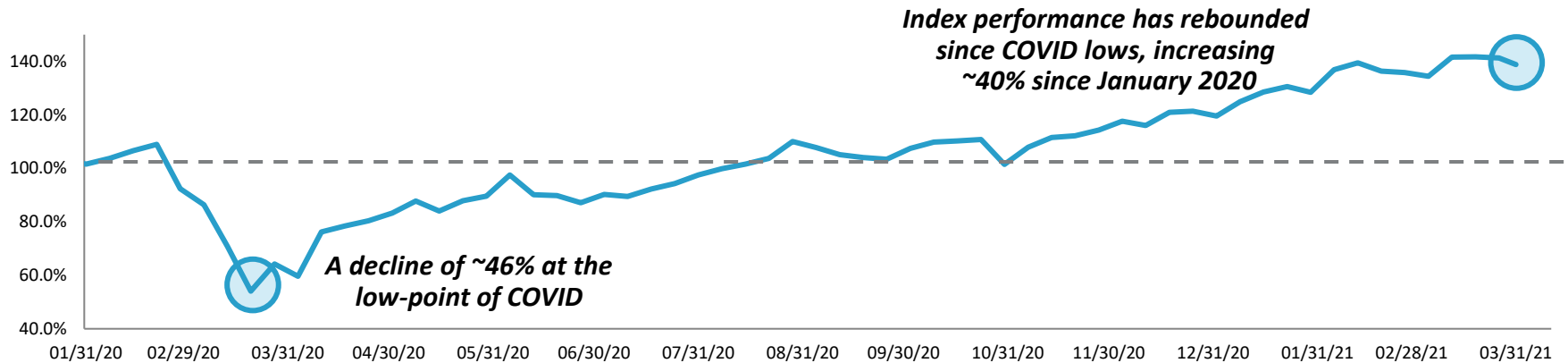


# RESTAURANT SECTOR PUBLIC COMPANY PRICE PERFORMANCE

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*Recent share price performance signals a positive outlook for the sector for 2021*

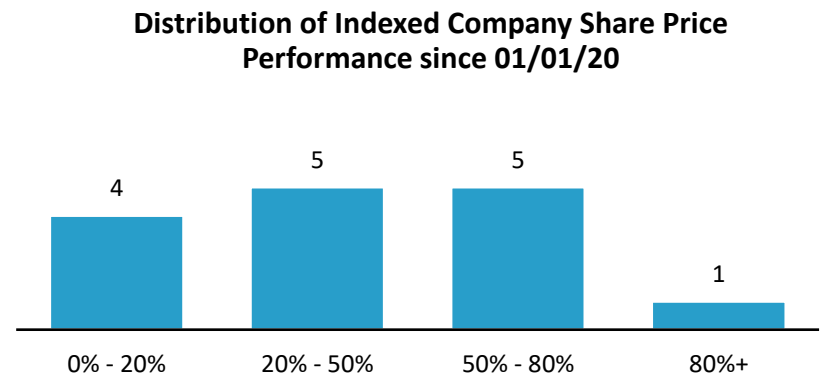
## RESTAURANT INDEX PRICE PERFORMANCE <sup>(1)</sup>



## TOP PERFORMERS

Rank	Company	01/01/20 to Current Price Performance	Current % of Period High
1	SHAKE SHACK	86.4%	81.5%
2	Chuy's	74.6%	96.1%
3	TEXAS ROADHOUSE	71.1%	96.3%
4	CRISP'S	64.2%	90.8%
5	B.J.'s	52.8%	91.6%

## BROADER INDEXED COMPANY PERFORMANCE



Source: Capital IQ as of March 31, 2021, Baird Equity Research Estimates.

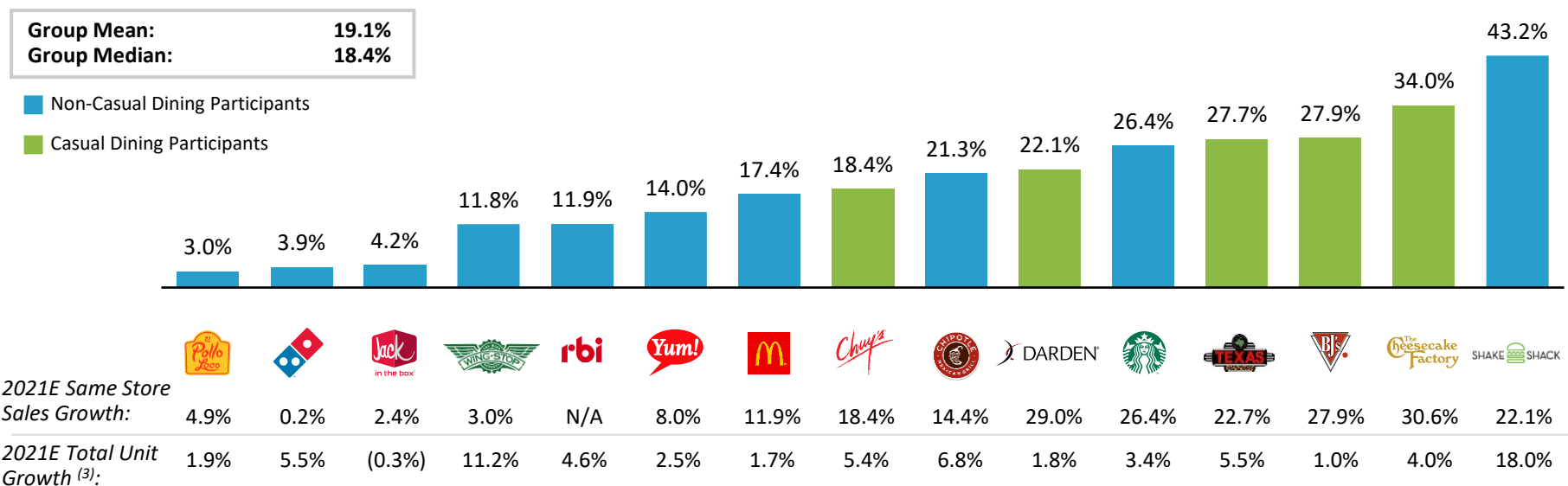
(1) Non-weighted index, including: SBUX, MCD, YUM, QSR, DPZ, JACK, LOCO, CMG, WING, DRI, SHAK, TXRH, CAKE, BJRI and CHUY.



# POSITIVE 2021 OUTLOOK FOR RESTAURANTS HELPED BY STIMULUS EXPECTATIONS

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## 2021E OVER 2020A PROJECTED SALES GROWTH <sup>(1) (2)</sup>



## U.S. STIMULUS IMPLICATIONS

***\$1.9 trillion stimulus package to support consumer spending on restaurant occasions, with chains offering convenient access points likely best positions to capitalize on extra demand***



**Direct  
Payments**



**Expanded  
Unemployment Benefits**



**Additional  
PPP Loans**

(1) Baird Equity Research Estimates. Calendar Year.

(2) For restaurant concepts with franchised units, sales is defined as company-owned sales plus royalty revenue.

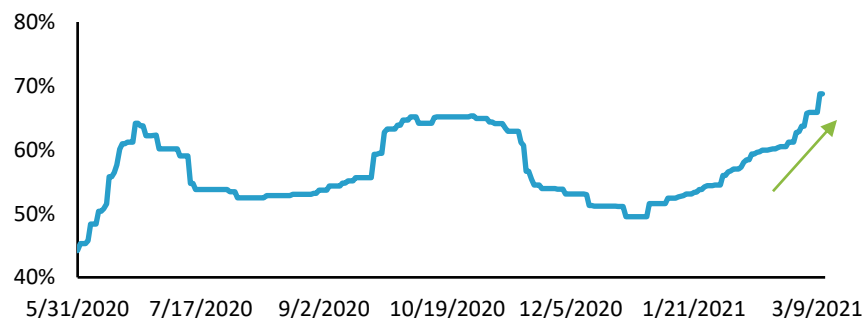
(3) Represents Fiscal Year. SBUX, JACK and DRI have September, September and May FYE, respectively, while all others have December FYE.

# RESTAURANT REOPENINGS GAINING STEAM AMID EASING CAPACITY RESTRICTIONS

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## RESTAURANT SEATING CAPACITY IMPROVING

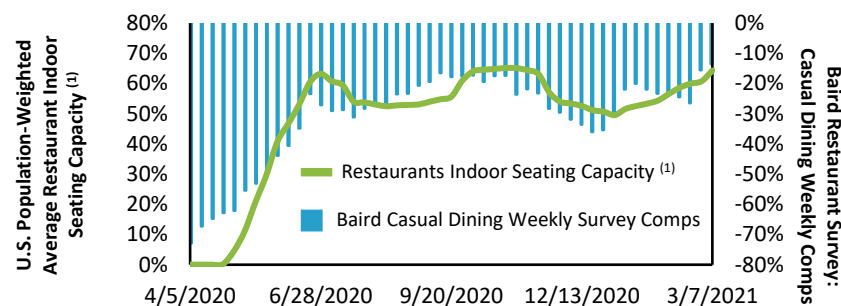
Estimated Weighted-Average U.S. Restaurant Sector Indoor Seating Capacity <sup>(1)</sup>



- U.S. Restaurant seating capacity is at the highest level seen since the onset of the pandemic (68%+ open)
  - 0% capacity reflects take-out / delivery / outdoor dining only; 100% reflects no restrictions other than to maintain six feet of "social distancing"
  - Calculated on a population-weighted basis

## CASUAL DINING SEEING POSITIVE COMP TRENDS

Restaurant Indoor Seating Capacity <sup>(1)</sup> vs. Baird Casual Dining Survey Comps



- As capacity levels continue to gradually increase behind vaccine roll-outs, casual dining sales likely to continue to improve
  - High correlation between casual dining comps and restaurant seating capacity

***Further relaxation of restrictions should provide a nice tailwind on near-term performance for chains that have a high mix of in-restaurant transactions pre-pandemic***

Source: Baird Equity Research Estimates. Baird Equity Research Restaurant Survey.

(1) Based on population-weighted average of U.S. state restrictions for on-premise dining capacity. Assumes 0% for restaurants restricted to take-out/delivery only and 100% for restaurants with no capacity restriction other than to adhere to "social distancing".

# UNIT GROWTH OUTLOOK EXPECTED TO NORMALIZE AND ACCELERATE IN 2022

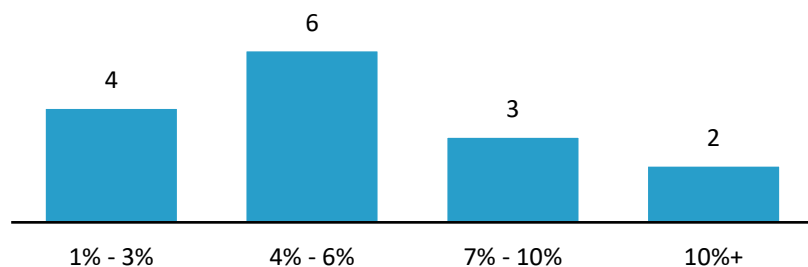
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## KEY COMMENTARY

- We anticipate a positive environment for new unit development for well positioned concepts
  - Supply has contracted with recent closures
  - Increased real estate availability
  - Potential favorable construction/lease costs
- Convenience is a key element of the design for concepts looking to accelerate growth

## UNIT GROWTH DISTRIBUTION

**Distribution of 2022P Unit Growth  
Percent Increase for Total Comp Group**



## ANNUAL SYSTEM UNIT GROWTH

	Net Global System Unit Growth Rate			
	2019	2020E	2021P	2022P
SHAK	32%	13%	19%	19%
WING	11%	10%	11%	11%
CHUY	0%	1%	2%	8%
SBUX	7%	4%	3%	6%
CMG	5%	5%	7%	7%
CAKE <sup>(1)</sup>	4%	1%	5%	7%
DPZ	7%	3%	5%	6%
TXRH	5%	3%	6%	6%
RBI	5%	0%	4%	5%
YUM	4%	0%	2%	4%
BJRI	3%	1%	2%	4%
LOCO	0%	(1%)	3%	3%
DRI	2%	1%	2%	3%
MCD	2%	1%	2%	2%
JACK	0%	0%	0%	1%
<b>Mean Net Unit Growth</b>	<b>5.8%</b>	<b>2.8%</b>	<b>4.9%</b>	<b>6.1%</b>
<b>Median Net Unit Growth</b>	<b>4.0%</b>	<b>1.0%</b>	<b>3.0%</b>	<b>6.0%</b>

Source: Company documents, Baird Equity Research Estimates.

(1) CAKE 2019 excludes the acquisition of Fox Restaurant Concepts / North Italia in Q4-19 (71 units combined).

# HISTORICAL AND PROJECTED RESTAURANT COMP TRENDS

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## SAME STORE SALES TREND SURVEY RESULTS

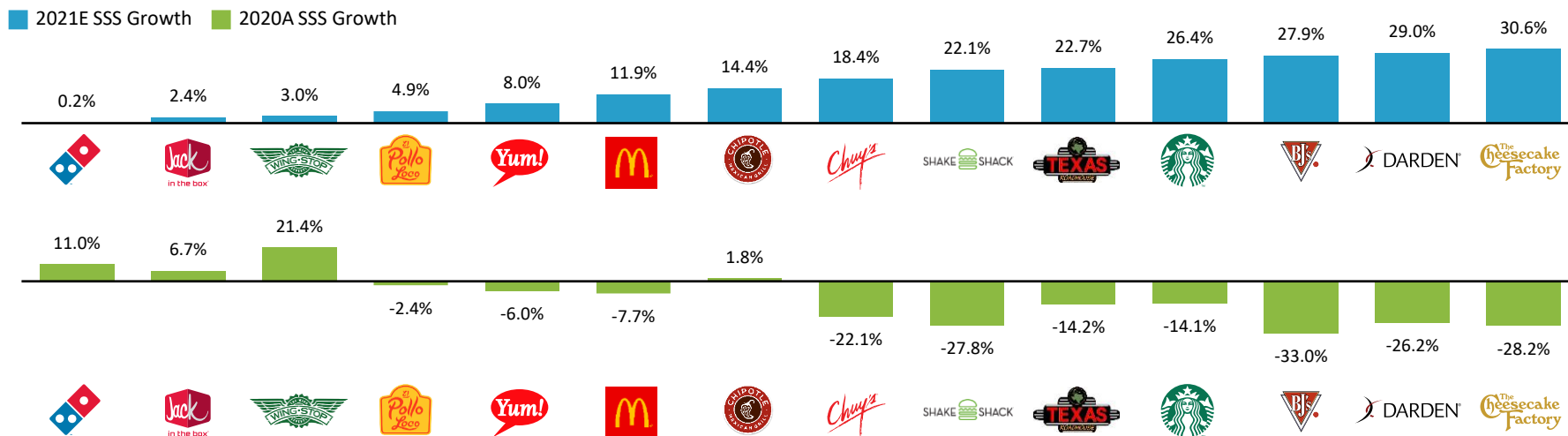
Category	Q2 2020A	Q3 2020A	Q4 2020A	YTD March 28, 2021 <sup>(1)</sup>
Casual Dining	-51%	-24%	-26%	28%
Fast Casual	-15%	-1%	-1%	17%
Quick Service	0%	7%	5%	15%
Other <sup>(2)</sup>	-28%	-11%	-14%	6%
<b>Overall</b>	<b>-15%</b>	<b>-2%</b>	<b>-3%</b>	<b>14%</b>

Source: Baird Equity Research weekly restaurants survey, which reflects feedback from a range of executives at private restaurant chains totaling ~\$15B in annualized sales.

(1) YTD includes the weeks of March 21 and March 28 that include the YoY comparison to the COVID lockdown period in 2020. Total YoY increase for those weeks are 77% and 84%.

(2) Reflects segments that do not fit into Quick-Service, Fast-Casual or Casual Dining, including specialty coffee, snacks, baked goods and beverages.

## HISTORICAL AND ESTIMATED SAME STORE SALES TRENDS

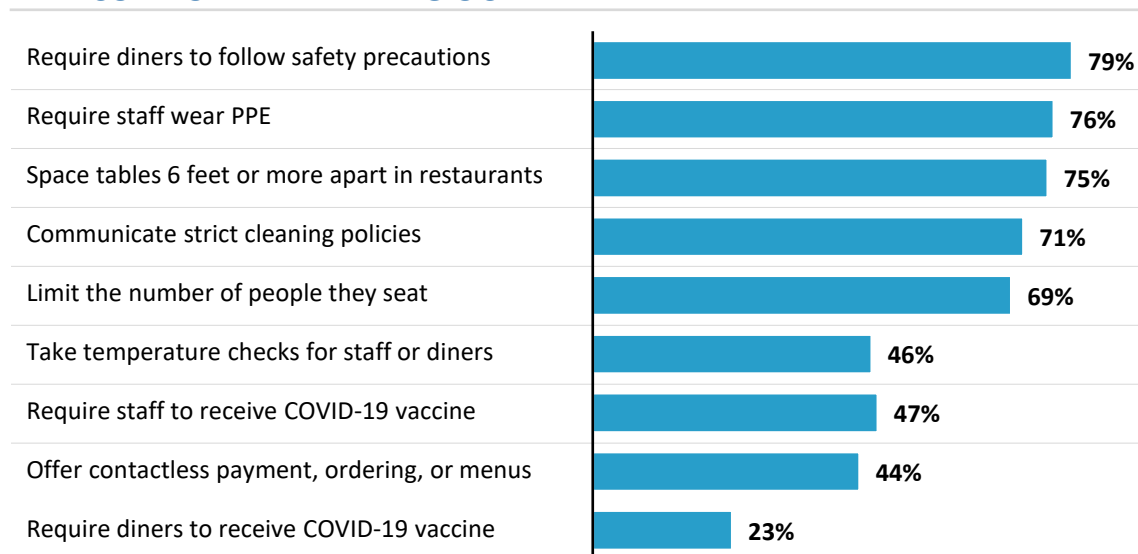


Source: Baird Equity Research Estimates.

# FOODSERVICE SAFETY AND HYGIENE WILL BE CRITICAL

*Consumers will continue to be hyperaware of food safety and sanitation*

## WHAT RESTAURANTS CAN DO THE HELP DINERS FEEL COMFORTABLE EATING OUT



- ☒ How food is handled has been exponentially amplified for the consumer
- ☒ Expect innovation/technology that enhances back-of-house kitchen operations
- ☒ More consumers will carry sanitizers and wipes and expect restaurants to supply them

## PLENTY OF PEOPLE HAVE ALREADY RESUMED THEIR REGULAR DINING BEHAVIOR

**31%**

*Say they've resumed their pre-pandemic regular dining out behavior, a 29% increase compared to October 2020*

## AND THOSE WHO HAVEN'T SAY THEY EXPECT TO DO SO IN SPRING OR SUMMER 2021

**33%**

*Expect they'll resume their regular dining out behavior between April and September 2021, a 32% increase compared to October 2020*

## PEOPLE LOOK FORWARD TO GOING TO A RESTAURANT ONCE A WEEK OR MORE, ESPECIALLY WITH THE ONES THEY LOVE

**54%**

*Plan to dine out at a restaurant with table service in 2021 once a week or more*

**1 out of 3**

*Diners say the number one thing they're most looking forward to when eating out again is connecting with family and friends*

## BAIRD'S SECTOR EXPERIENCE



# BAIRD'S FOODSERVICE EQUIPMENT, FOOD TECHNOLOGY AND COMMERCIAL HOSPITALITY EXPERIENCE

BAIRD

**Avery Weigh-Tronix**

A Portfolio Company of



Sale to



Sale of



to



A Portfolio Company of



Sale to



A Portfolio Company of



Sale to



A Portfolio Company of



Sale to



**DIGI★STAR**

PRECISELY

A Portfolio Company of



Sale to



A Portfolio Company of



Sale to



A Portfolio Company of



Sale to



NEW MOUNTAIN CAPITAL LLC



A Portfolio Company of



Sale to



PRODUCTS GROUP LLC

Sale to



**FORMAX**

A Portfolio Company of

Butler Capital Corporation

Sale to



A Portfolio Company of

THE JORDAN COMPANY

Sale to



hoffmaster GROUP, Inc.®

A Portfolio Company of



Sale to



hoffmaster GROUP, Inc.®

A Portfolio Company of



Sale to



**HUSKY**

A Portfolio Company of

Berkshire Partners and OMERS

Sale to



**IMI Holding Corp.**

A Portfolio Company of



Sale to



\$195,500,000  
Common Stock

Follow-on Offering



Sale to



Sale to



Spin-off of



# BAIRD'S FOODSERVICE EQUIPMENT, FOOD TECHNOLOGY AND COMMERCIAL HOSPITALITY EXPERIENCE (CONT'D)

BAIRD

 **THE MIDDLEBY CORPORATION**

\$78,141,336  
Common Stock

Follow-on Offering

 NACCO Industries, Inc.

Spin-off of

 **Hamilton Beach**  
BRANDS

 **RESTAURANT TECHNOLOGIES**  
A Portfolio Company of  
 **AURORA CAPITAL PARTNERS**  
Sale to  
 **Goldman Sachs**

 **Reynolds**  
Packaging Group  
Sale of  
**Louisville Laminating Business**  
to  
**CENTRE LANE PARTNERS**

 **SAN JAMAR**  
Smart → Safe → Sanitary  
A Portfolio Company of  
 **DISPENSING DYNAMICS INTERNATIONAL**  
Sale to  
 **Kinderhook INDUSTRIES**

 **san jamar**  
smart. safe. sanitary.  
A Portfolio Company of  
 **Kinderhook INDUSTRIES**  
Sale to  
 **CARLISLE**

 **scentair**  
A Portfolio Company of  
 **PARTHENON CAPITAL**  
Sale to  
 **CITIC CAPITAL**  
中信資本

 **Standex**  
Sale of  
**Cooking Solutions Group**  
to  
 **THE MIDDLEBY CORPORATION**

 **SWISHER**  
Sale to  
 **ECOLAB**

 **DORNER**  
A Portfolio Company of  
 **IEQT**  
Sale to  
 **CACO**  
COLUMBUS MCKINNON

 **TECH24**  
Significant Investment From  
 **HCI EQUITY PARTNERS**

 **TC**  
technical concepts  
A Portfolio Company of  
 **Newell Rubbermaid**

 **TURNING technologies**  
A Portfolio Company of  
 **Brockway Moore & Partners**  
Sale to  
**CENTRE LANE PARTNERS**

 **URNEX**  
Sale to  
 **CORTEC Group**

 **WEIMAN**  
A Portfolio Company of  
 **CORTEC Group**  
Sale to  
**THE CARLYLE GROUP**  
And  
 **TA ASSOCIATES**

# BAIRD TEAM BIOGRAPHIES

BAIRD

## SCOTT COLLINS – *Consumer Investment Banking*



Scott Collins joined Baird in 2007 and is a senior member of Baird's Global Investment Banking team. From 2007 – 2009, Scott spent two years in London as part of Baird's International M&A team. Scott has a wide range of cross-border experience providing execution leadership on M&A, equity offerings and other financial advisory services for publicly-traded, financial sponsor-owned and family-owned companies, including Newell Brands, Hamilton Beach, Diversey, adidas, Cricut, Wilton Brands, YETI and Weiman Products. Scott graduated, magna cum laude, from Vanderbilt University with a B.S. in Engineering and received his M.B.A. from The University of Chicago Booth School of Business.

## NICHOLAS PAVLIDIS – *Consumer Investment Banking*



Nick Pavlidis joined Baird in 2000 after working for Skadden, Arps, Slate, Meagher & Flom. While at Skadden, Mr. Pavlidis represented private equity funds and companies in connection with leveraged acquisitions and private financings. Nick has completed transactions involving Newell Brands, SC Johnson, Middleby, Ecolab, Hamilton Beach, Hoffmaster, San Jamar, Focus Products and numerous private equity funds targeting the Foodservice and Hospitality sectors. Mr. Pavlidis received his MBA and JD degrees from the University of Chicago and his BA degree from Haverford College.

## MIKE BARINA – *Industrial Investment Banking*



Mike Barina is a Managing Director in Baird's Global Industrial Investment Banking Group in Milwaukee. During his time in investment banking, Mr. Barina has completed over 50 mergers and acquisitions and corporate financing transactions across the industrial landscape. Prior to joining Baird, Mike was a Vice President in the M&A Group at J.P. Morgan in New York, where he focused on executing M&A transactions for clients in the Industrial sector. Prior to his time in investment banking, Mike was a management consultant in Chicago. Mike received an M.B.A. from Northwestern University's Kellogg School of Management and a B.S. in Chemical Engineering from the University of Wisconsin-Madison.

