



Restaurants Sector Brief

Harris Williams | Q2 2024

Focus Categories within the Restaurant Sector

Fast Casual



- ✓ Efficient Dining
- ✓ Limited Service
- ✓ Elevated Quality
- ✓ Healthy Options

Representative Concepts



Key Trends

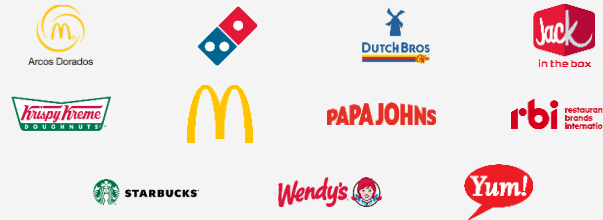
- Fast casual and quick service overlapping significantly as off-premise and digital offerings grow
- “Better for You” health wave appealing as quick, efficient, healthier alternative to typical quick service
- Smaller fast casual brands seeking IPOs on the heels of CAVA and Sweetgreen

Quick Service



- ✓ Speed
- ✓ Self-Service
- ✓ Convenience
- ✓ Omni-Channel Experience

Representative Concepts



Key Trends

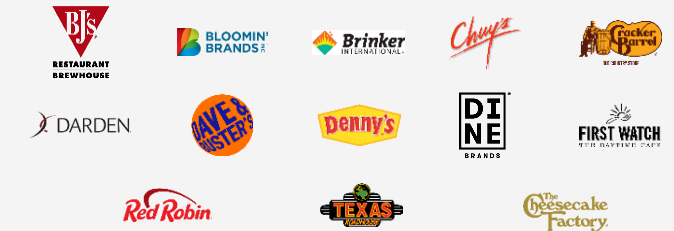
- AI and automation of user experience continue to shape quick service
- Tech-enabled hospitality at quick-service locations minimizing labor costs and meeting evolving customer demands
- Menu simplification / reduced SKUs, streamlined supplier relationships and efficient kitchen designs are a major priority as concepts seek to return to better profitability

Full Service



- ✓ Sit-Down
- ✓ Higher Price
- ✓ Extensive Menu
- ✓ Full Table Service
- ✓ Traditional Dining Environment
- ✓ Off-Premises Ordering

Representative Concepts



Key Trends

- Relative to fast casual and quick service, added service viewed as value-add as customers weigh price increases across the restaurant industry
- Off-premise, to-go sales have grown post-COVID-19 pandemic
- As consumers trade down from upscale dining options, casual dining has become a more viable option

What We're Reading

Restaurants Brace for the Most 'Normal' Year Since 2019

QSR Magazine

2024 has the makings of the most normal year for restaurants since 2019 – coming off the heels of the most tumultuous period in industry history. Sales, unit development, and commodity / labor inflation is expected to more closely resemble 2019 than any years in between, yet growth and market share gain will be driven by promotions and value offerings as operators focus on restoring customer traffic.

Access the full article [here](#).

The State of Restaurants in 2024: Higher Costs, Higher Stakes

FSR Magazine

Full-service restaurants experienced a 2023 operating environment with rising inventory costs, decreased rent and cooling labor costs – altogether a higher operating cost environment. Owners are navigating this by finding less expensive suppliers, streamlining menus, and reducing operating hours and portion sizes, while adding off-premise ordering options and raising prices where necessary.

Read the full article [here](#).

Why QSR and fast casual visits outpaced full-service in 2023

Nation's Restaurant News

Consumer demand for restaurants is not inelastic; consumer preferences have shifted down the price-value continuum after two plus years of increasing menu prices and corresponding inflation. Consequently, QSR and fast casual concepts have seen year-over-year increases in traffic every quarter since Q1 2023, compared to flat or down performance from full-service dining. QSR and Fast Casual have invested significantly to also expedite service and provide additional value in time-savings through to-go only restaurants, digital forward prototypes, and drive thru AI-chat bots.

Read the full article [here](#).

Ghost Pepper Wings, Wraps With Tenders—Restaurants Binge on Chicken

The Wall Street Journal

Beyond the chicken sandwich wars and customers' demand for poultry, operators are focusing on chicken as prevailing chicken prices offer a bargain as compared to beef. Chicken offerings on menus are up 6.4% in the past five years, compared with 4.7% for burgers and other beef-based items. Importantly, burger prices are up 10% at quick service chains as compared to 5% for chicken sandwiches – offering material value to consumers in a price-sensitive market.

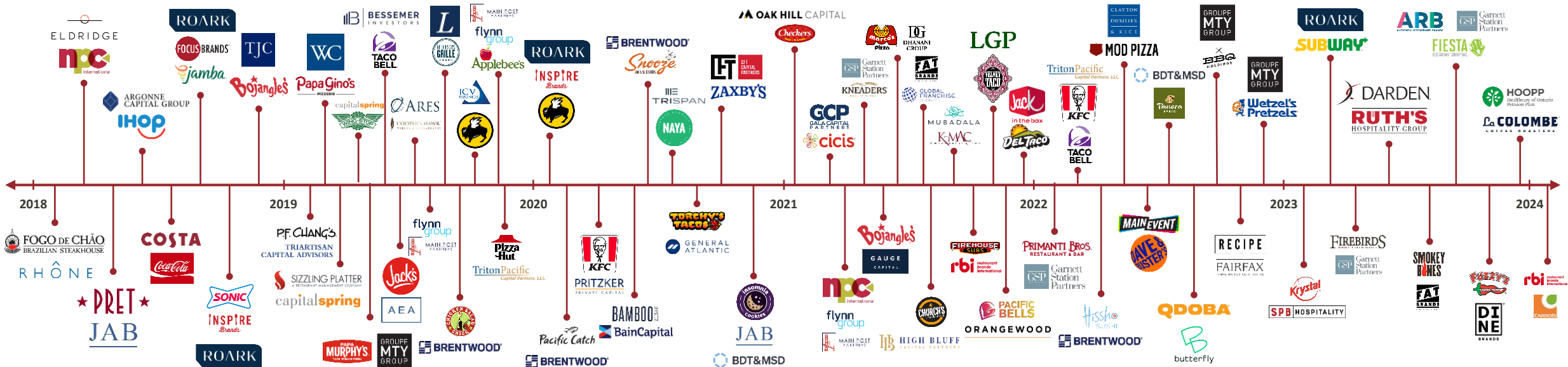
Read the full article [here](#).

Restaurant M&A Sector Overview

2023 was a slower year for transaction activity, but good deals still got done – we expect a continued acceleration of activity in 2024 and beyond

Harris Williams Observations

- Restaurant M&A activity has been surprisingly resilient – moderating only slightly since the peak in 2021
- Private equity remains the dominant buyer in the sector with ~55% of transaction dollar volume attributed to private equity groups



Other Key Trends to Watch in the Restaurant Sector

The restaurant landscape continues to normalize post-COVID-19, prompting operators to continue focusing heavily on returning to higher profitability and adapting to rapidly evolving consumer dining preferences

Trends To Expect in 2024



Anticipate Increased Deal Flow in 2024 and Beyond

Improving market conditions combined with more normal operating environment and “older” deals within portfolios will spark an acceleration in deal flow

The Trade-Down Effect



“2024 may be the first year this decade where you quote/unquote ‘get a normal operating environment,’ and that should reveal what companies are well prepared for the future based on unit economics. It might also reveal what concepts have a tougher go. The consumer is going to get more guarded and will likely trade down.”

– Mike Kalinowski, CEO, Kalinowski Equity Research

Equity Markets Beginning to Open Up

“If you look at the history of time since the 1950s, the IPO market is 100% correlated with the equity market, and with equity bouncing back, IPOs should be strong by the latter half of 2024. We’ve had two years of very little IPO activity. If I’m a betting man, when the flood gates open, it will be unusually high.”

– Mike Esposito, Co-Founder & Managing Director, Franchise Equity Partners



Consolidation Will Continue

“We’re probably in the fourth or fifth inning of consolidation in this industry. A lot of buyers who own a lot of restaurants intend all along to sell them within a 3-5-7-year horizon. It hasn’t been a good time to sell in the last two or three years, but those time horizons aren’t going away. So, just out of necessity of investment means, they’re probably going to come to market soon. The biggest uncertainty of all of this has hopefully subsided, and that is the lumpiness of the post-Covid stuff. Look at 2020 and 2021, the crazy Covid years, and then in ‘22 and ‘23, you had the aftereffects related to Covid. I think there’s a sense now that as we go into next year, we’ve gotten kind of past that and feel like we’re coming into a more normal operating environment.”

– Rick Ornsby, Managing Director, Unbridled Capital



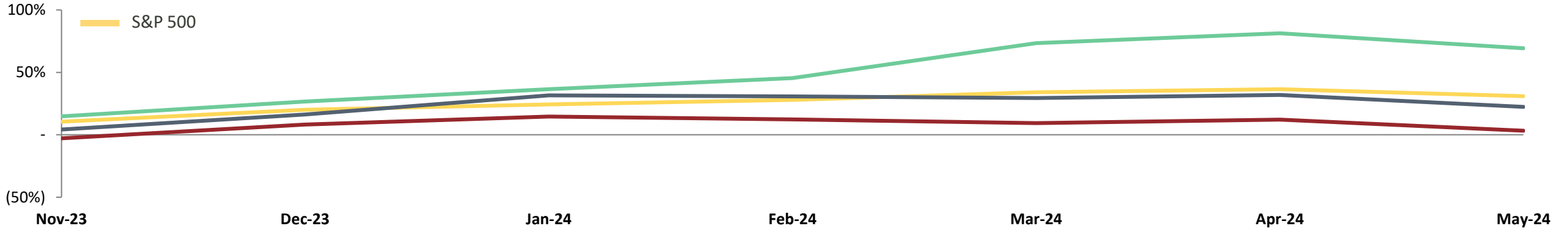
Focus on Quality Concepts and Operators

“We’re taking a more selective approach to restaurants in 2024. Comps are slowing, price increases moderating, and we’re placing an added premium on quality, comp/margin levers and growing traffic.”

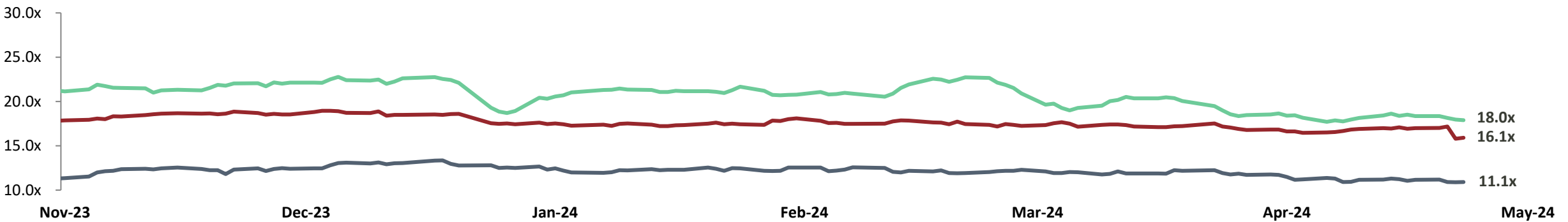
– Zachary Fadem, Equity Analyst, Wells Fargo Securities

Recent Market Performance¹

Market Performance



Med. Enterprise Value / LTM EBITDA²



Fast Casual



Quick Service



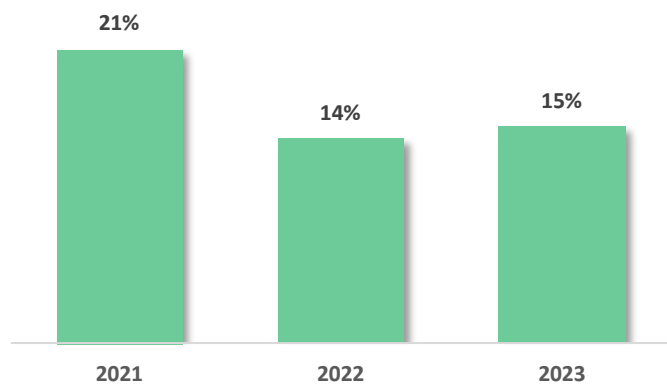
Full Service



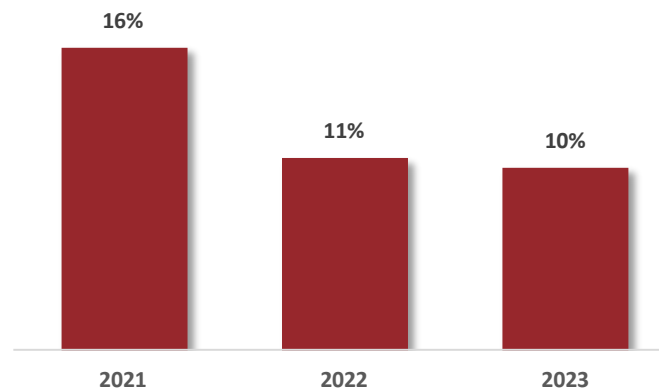
Source: S&P Capital IQ
 (1) As of May 6, 2024
 (2) Excludes CAVA Group

Restaurant Public Company Operating Metrics – Revenue Growth

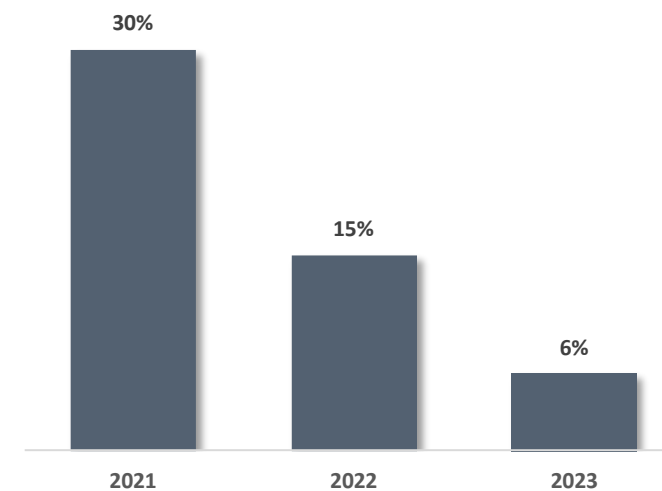
Fast Casual¹



Quick Service¹



Full Service¹



Fast Casual



Quick Service

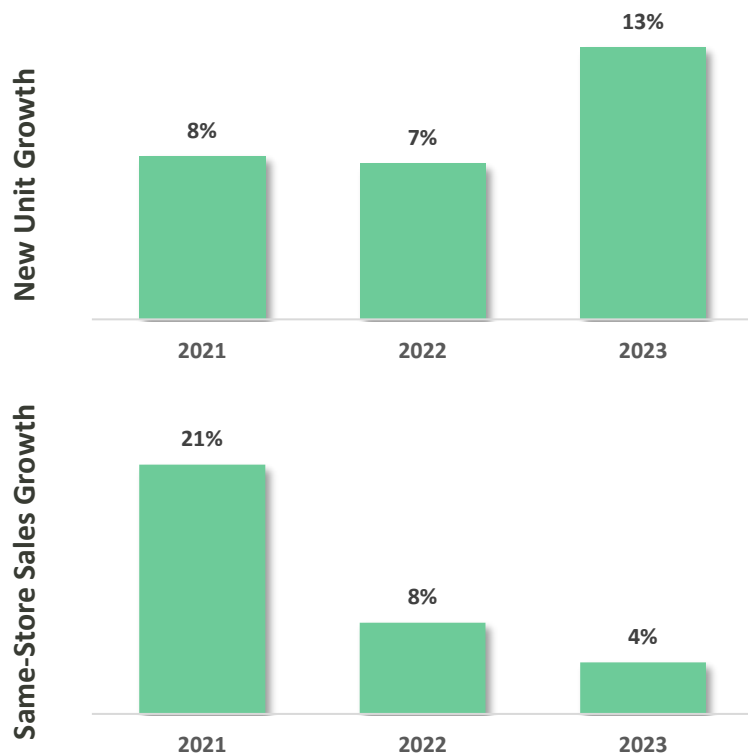


Full Service

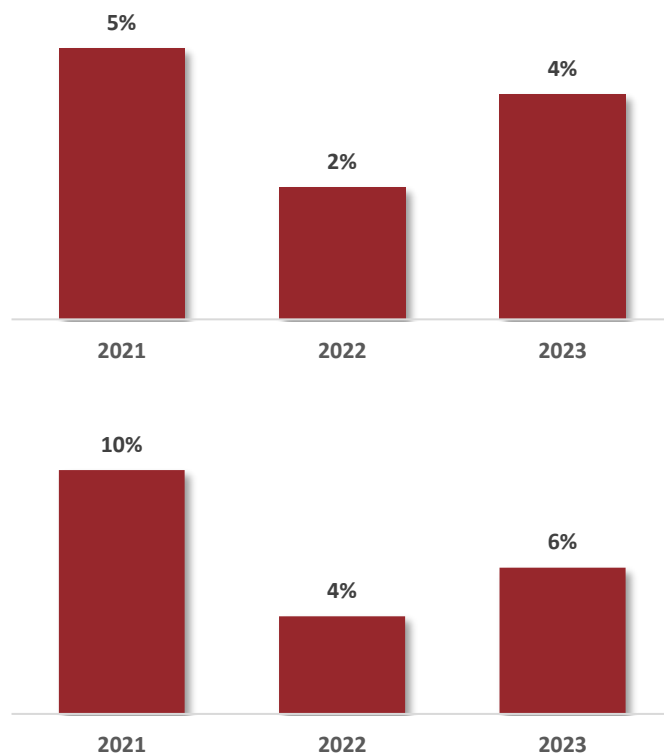


Restaurant Public Company Operating Metrics – New Unit and Same-Store Sales Growth

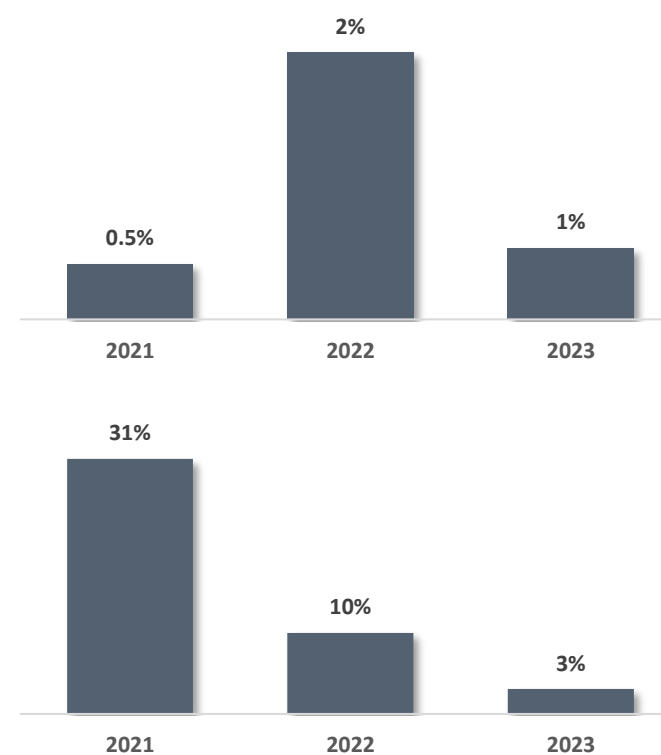
Fast Casual¹



Quick Service¹



Full Service¹



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Full Service

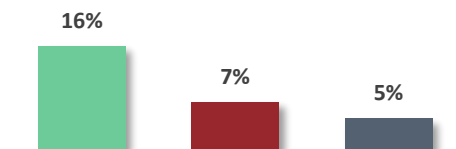


Restaurant Public Company Valuation Metrics

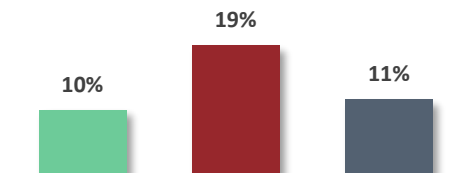
Fast casual growing quickly as consumers flock to “better for you” options and convenience – higher margins expected to continue for quick service on relatively lower operating and input costs

Public Company – Operating Metrics⁽¹⁾

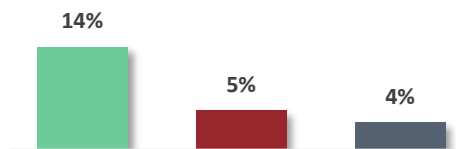
LTM Revenue Growth



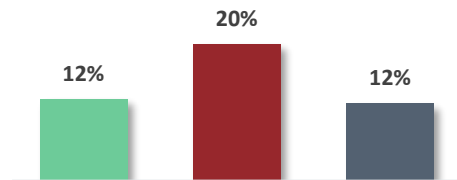
LTM EBITDA Margin



NTM Revenue Growth

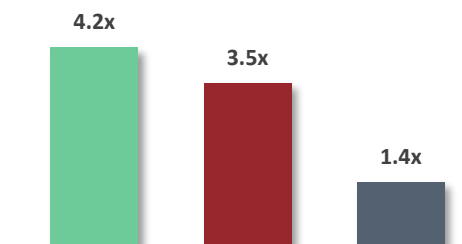


NTM EBITDA Margin

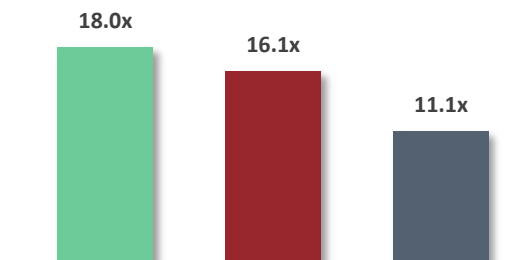


Public Company – Valuation Metrics⁽¹⁾

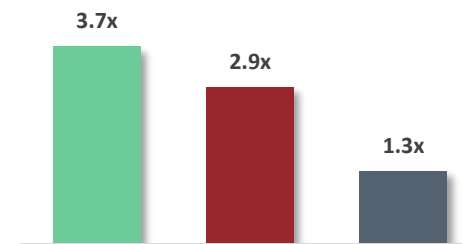
Median EV / LTM Revenue



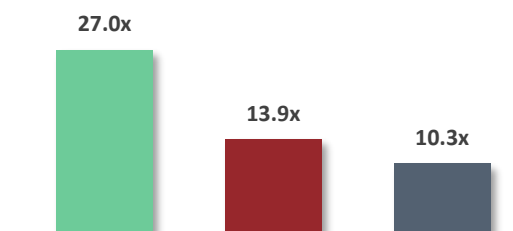
Median EV / LTM EBITDA



Median EV / NTM Revenue



Median EV / NTM EBITDA



Fast Casual



Quick Service



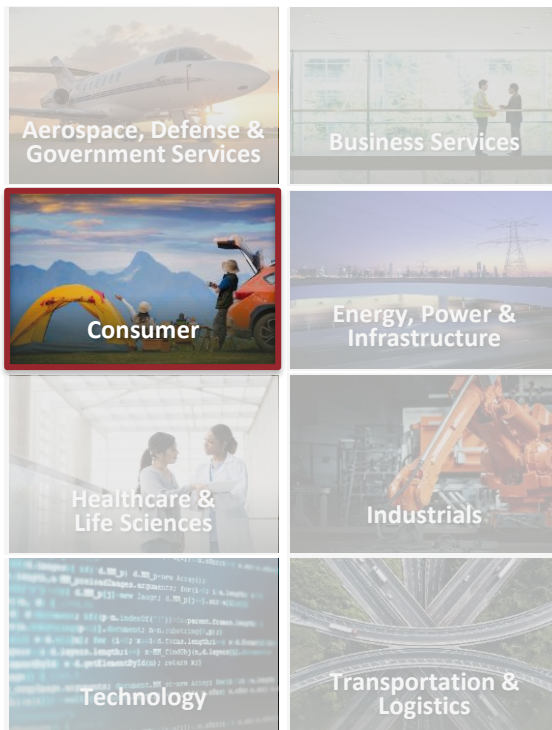
Full Service



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Deep Industry Experience



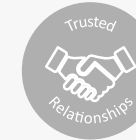
Proven Expertise

MERGERS & ACQUISITIONS

PRIVATE CAPITAL SOLUTIONS

PRIMARY FUND PLACEMENT

Core Values That Drive Success



75% Revenue from repeat clients

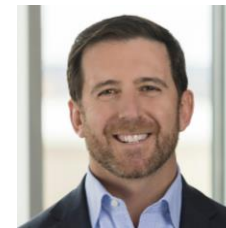
87% Managing Directors promoted from within

30+ Year history

Select transactions in the restaurant sector:

 <p>a portfolio company of</p>  <p>has been acquired by</p> 	<p>PIZZAREV CRAFT YOUR OWN</p> <p>a partnership of</p> <p>PIZZAREV and </p> <p>FOUNDERS</p> <p>has been acquired by</p> 	 <p>Taco Bueno</p> <p>a portfolio company of</p>  <p>has been acquired by</p> 
 <p>a portfolio company of</p>  <p>BOYNE CAPITAL</p> <p>has been acquired by</p> <p>A Private Investor Group</p>	 <p>a portfolio company of</p>  <p>FALCURRIAS CAPITAL</p> <p>has been acquired by</p>  <p>Advent International GLOBAL PRIVATE EQUITY</p>	 <p>a portfolio company of</p>  <p>WELLSPRING CAPITAL MANAGEMENT LLC</p> <p>has been acquired by</p> 

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Sources and Disclosures

Sources

1. S&P Capital IQ
2. Pitchbook
3. Wall Street Research

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