

Industrial Research

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Diversified Industrial & Machinery

Baird 1H15 Foodservice Industry Survey

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**Please refer to Appendix – Important Disclosures and
Analyst Certification on pages 12-14**



Overview

- Robert W. Baird & Co. is pleased to present our semiannual Foodservice Industry Survey.
- The survey is intended to provide multiple perspectives on Foodservice Industry equipment and capital investment trends, with two main components: the operators' viewpoint (primarily restaurant operators), and suppliers' viewpoint (equipment manufacturers, distributors and service providers).
- Thank you to the 39 manufacturers, distributors, equipment servicers and consultants, as well as to the 35 restaurant operators who participated in this survey.
- The survey encompasses the viewpoints of restaurant operators generating aggregate annualized revenues of nearly \$6 billion and suppliers with combined annual revenues of ~\$900 million.
- If you have any questions or comments, please email Senior Analyst Mircea (Mig) Dobre (mdobre@rwbaird.com), Senior Analyst Timothy Wojs (twojs@rwbaird.com), Research Analysts Joe Grabowski (jgrabowski@rwbaird.com), Joshua Chan (jchan@rwbaird.com) or Brian Brophy (bbrophy@rwbaird.com).
- *This survey is meant to give investors and participants a general indication of current market trends. Individual responses have been edited to protect participants' anonymity.*

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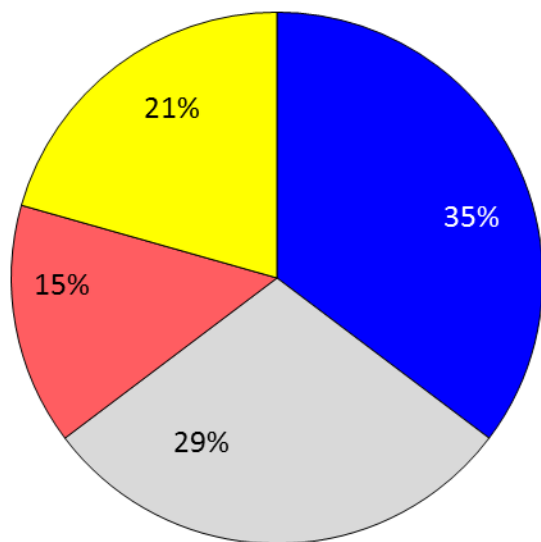
Executive Summary

- Restaurant operators expect to increase their capital expenditures (capex) by approximately 6% in 2015 (compared with 2014), representing a modest acceleration from the 2014 growth rate. Restaurant capex expectations are in line with growth expectations of suppliers (equipment manufacturers, distributors, servicers, and kitchen designers).
- Nearly 60% of restaurant operators view capital expenditures as an important priority if 2015 sales are greater than expected, lending credibility to the view that food equipment demand could benefit from stronger restaurant traffic.
- Suppliers expect 5.7% revenue growth in the 1H15 (highest reading in three-year history of the survey) supported by mid-single-digit growth expectations in all categories of restaurants and institutional foodservice (government is the sole exception).
- Suppliers cited strong quoting activity during the 2H14, with 56% of respondents reporting accelerated biddings throughout the final six months of the year (only 18% reported decelerating quoting activity).

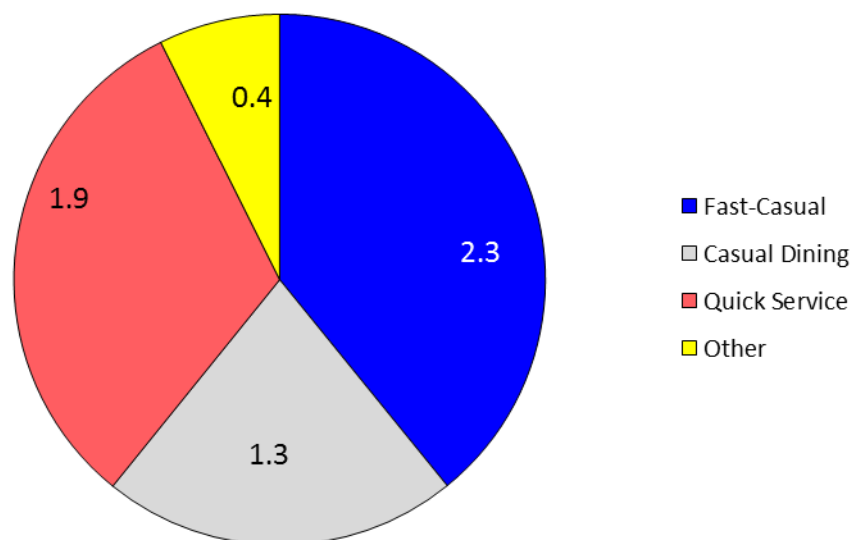
Survey Participants – Restaurant Operators

- Our survey included responses from executives (CEOs, CFOs, etc.) of **35 restaurant chains** that generate aggregate **annualized revenues of nearly \$6 billion**.
- Respondents include U.S. private chains and franchisees of publicly traded restaurants.
- This data is only a sample of the U.S. industry and may not be representative of overall trends. None of the responses apply to international markets.

Respondent Mix by Category

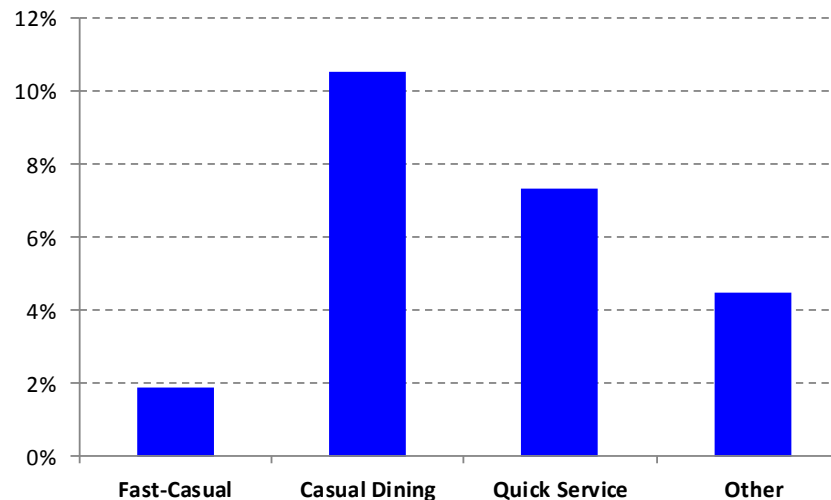


Respondent Revenue Mix (\$ bil.)



Restaurant Capital Expenditures (Food Equipment)

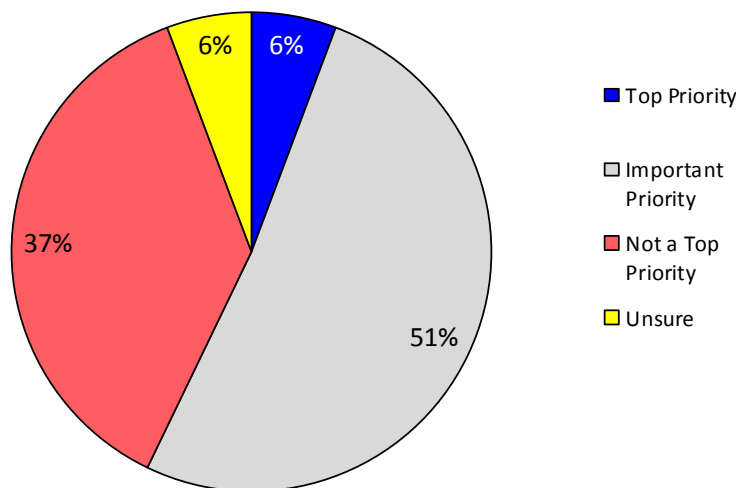
Food Equipment Capex, 2015 vs. 2014



- During 2015, restaurant operators expect capital expenditures to increase by approximately 6% yr/yr. We believe this represents a slight acceleration in growth versus 2014.
- All major categories expect growth, but contrary to recent years where fast casual operators led growth, casual dining operators expect the strongest growth in 2015. This should be an encouraging sign as growth in capital investments becomes more broad-based across operator categories.
- Slightly over 30% of operators surveyed expect capital expenditures to increase double digits in 2015, with a balanced representation across all segments.
- Less than 10% of surveyed restaurant operators expect to cut capital expenditures in 2015.

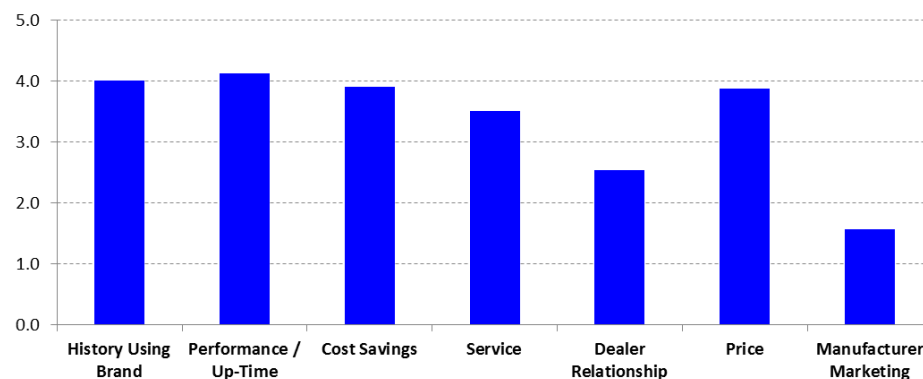
Restaurant Capital Expenditures (Food Equipment)

Capital Expenditures as Priority if 2015 Sales Better Than Expected



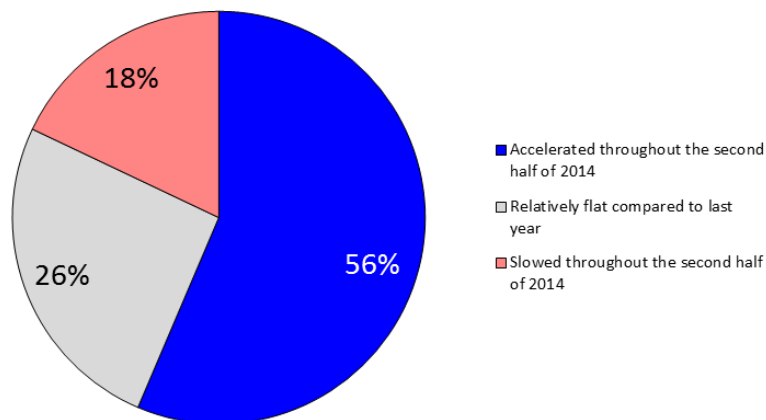
- While few (6%) operators view capital expenditures as a top priority, nearly 60% of operators view it as an important priority if 2015 sales are better than expected.
- We believe this lends credibility to the view that better restaurant traffic could result in stronger growth in food equipment demand.

Factors Driving Brand Selection (5=Most Important)



- Key factors in choosing brand of food equipment include: 1) performance, 2) history with brand, 3) cost savings, and 4) price.
- At the margin, relative to overall averages, fast casual operators value performance more while casual dining operators value dealer relationship and manufacturer marketing to a greater extent.

Supplier Quoting Activity



- We note the following comments from a service/installation company: ***"We experienced a major uptick in activity just after the November election, with December the best month we've had in 25 years. Most of the demand was from equipment installations (as opposed to repairs), a sign of increased confidence in the economic outlook."***
- Similar comments were noted from a distributor of commercial foodservice equipment: ***"We have been extremely busy thus far in 2015 following a flattish 2014. Activity picked up starting in November, with pent-up demand for new kitchen construction as well as major kitchen remodels from both public and private customers."***
- Overall quoting activity appears solid with 56% of respondents reporting activity accelerating throughout the final six months of the year. We speculate that foodservice equipment customer confidence and visibility increased following the 2014 midterm elections along with improved consumer demand for restaurant spending driven by a material decrease in the price of gasoline.

Supplier Price and Revenue Growth Expectations

Revenue Growth (yr/yr)

	2H14	1H15 (expected)
QSR	5%	6%
Fast Casual	3%	5%
Casual	2%	5%
Upscale	6%	7%
Institutional - Education	3%	6%
Institutional - Healthcare	3%	7%
Institutional - Government Agency	7%	3%
Institutional - Corporate Foodservice	4%	6%
Food Retail	4%	5%
Aggregate	3.9%	5.7%



Average Selling Price (yr/yr)

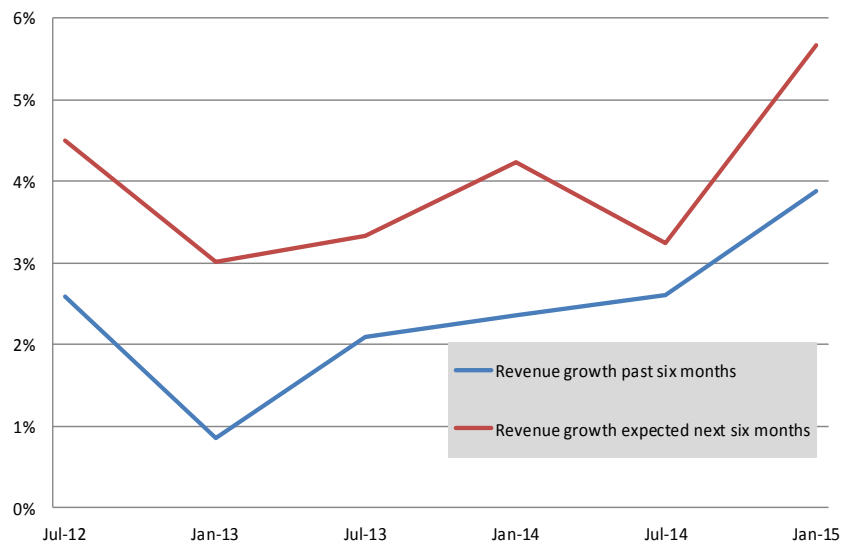
	2H14	1H15 (expected)
QSR	0%	2%
Fast Casual	0%	2%
Casual	1%	2%
Upscale	2%	3%
Institutional - Education	1%	2%
Institutional - Healthcare	2%	4%
Institutional - Government Agency	1%	1%
Institutional - Corporate Foodservice	1%	3%
Food Retail	0%	0%
Aggregate	1.0%	2.2%



- Overall the supplier group responded that revenue increased 3.9% during the 2H14, with broad-based growth across restaurant and institutional categories.
- Revenue growth is expected to reach 5.7% during the 1H15 (strongest reading in the three-year history of the survey), supported by solid restaurant capex and an increase in institutional demand as well as food retail growth.
- Pricing is expected to increase 2.2% year/year in the 1H15, an improvement compared to what was realized in the prior six months.
- We note the following comments from an independent foodservice facility design firm adding color on the recent pace of improvement: ***"2014 was a steady and solid year for proposals and projects, with activity picking up even more toward the end of the year and into 2015. We have seen an uptick in requests for proposals from hotels, corporations, K-12 schools, higher education institutions and upscale restaurants. Clients recognize the need to update their foodservice and dining facilities and have confidence that the current environment is conducive for these types of capital projects."***

Revenue Growth Trend

Revenue Growth (yr/yr)



- Respondents reported a 3.9% year/year revenue increase in the 2H14, up from 2.6% in the prior semiannual survey and the fourth consecutive sequential improvement.
- This was the first time in the three-year history of the survey that the actual growth rate exceeded the expected growth rate (3.2% from the July 2014 survey).
- Importantly, the expected growth rate for the 1H15 is 5.7%, the strongest in the survey's history.

Select Respondent Quotes

Manufacturers:

"Continued growth in design, quote and order activity."

"Moderately increasing activity in remodel and new construction activity."

"Restaurant operators are seeking more food equipment for front-of-house meal preparation."

"Long sales cycles but definite consideration activity."

"Transportation costs have declined significantly giving a much-needed boost to the bottom line."

Service and Installation Providers:

"Upscale retail foodservice market is booming."

"More estimates requested before service is done. Replacement of older equipment is increasing."

Kitchen Design:

"Public sector money is loosening up. Opportunities to work with peers in cooperative efforts have substantially increased."

"Very upbeat and brisk."

Equipment Distributors:

"Continued increase in business activity fueled by business expansion and government spending."

"Business is very good across all segments."

"Consolidation of some c-store chains this year restricted their buying/build/remodel activity from projected levels "

Other:

Online ordering website: "Emerging sales channels are pre-order/ pre-pay for faster service, modified take-out menus, and gourmet delivery ready-to-eat or ready-to-reheat."

Provider of POS systems: "There seems to be confusion with many customers on what direction integrated and mobile payments will take. While many operators want to get in front and offer the services their merchants demand, there doesn't seem to be enough answers on how to best implement."

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