

Restaurants Industry

Restaurants Weekly: What's the word on dynamic pricing?

Price Objective Change

W/e 3/8: Restaurants lag the market; mixed performance

For the week ended 3/8, the S&P Restaurant Index (-0.3%) underperformed the market (S&P 500: 0.3%). Performance was mixed by segment and cap size, though the market's posture appeared risk-on, with YTD laggards showing up as this week's outperformers (CBRL, DNUT, BLMN). Limited-service restaurants – especially YTD winners -- generally underperformed the market and the Restaurants Index, with SHAK (-3.3%) and WING (-1.3%) lagging. Year-to-date, SG, WING, and SHAK lead the sector, with gains of 66.6%, 40.9%, and 39.9%, respectively.

Chart of the week: Wendy's NPS scores

This week's chart of the week shows daily and weekly net promoter score (NPS) -- a measure of respondents' likelihood to recommend a product or service -- as a potential indicator of the impact on customer perception of recent media scrutiny on WEN's pricing strategy. On 2/15, during Wendy's 4Q conference call, management alluded to the possibility of testing dynamic pricing (along with other AI-enabled menu changes) through its digital menu boards as early as 2025. Media coverage -- and the resulting customer response -- was unambiguously negative, as comparisons were drawn to the type of "surge pricing" that increases prices during peak demand periods. In daily and weekly NPS data, we see a notable drop in scores around mid-February and again towards the end of February. The rebound in early March suggests the decline is likely to be relatively short-lived.

Industry relative valuation & restaurants comps sheet

Relative to the broader market, the S&P 500 restaurants index is trading at a 15% discount (vs the 10-year average relative P/E multiple of 1.4x), in line with January. Our restaurants valuation and KPI sheets can be found on page 7.

Raising POs for SG and SHAK; lower PO for CBRL

We are updating POs for SG, SHAK, and CBRL to reflect market multiple changes and updated valuation assumptions. Please see company pages for details on revised estimates.

Upcoming events: BofA Consumer Conference, CPI/PPI

On Tuesday (3/12) and Wednesday (3/13), we are hosting 8 of our coverage companies at BofA's annual Consumer and Retail Conference in Miami, FL. We also note upcoming CPI and PPI data releases, with CPI expected to release on 3/12 and PPI expected to release on 3/14. Please reach out to your BofA salesperson or Sara Senatore (sara.senatore@bofa.com) if you are interested in follow-ups post the conference.

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Equity

United States

Restaurants

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Stock symbol key:

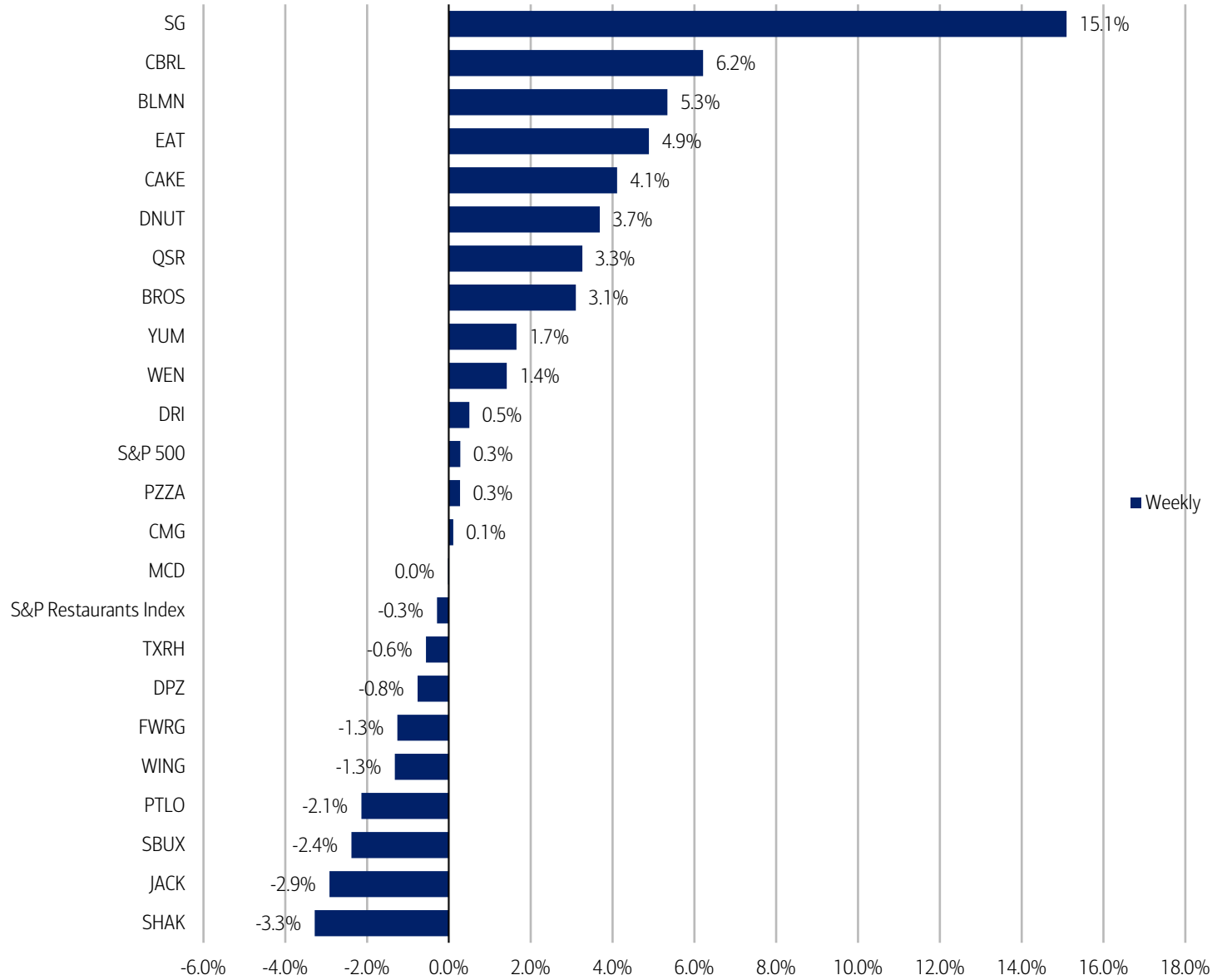
BLMN: Bloomin' Brands
BROS: Dutch Bros
DRI: Darden Restaurants
CAKE: Cheesecake Factory
CBRL: Cracker Barrel
CMG: Chipotle
DNUT: Krispy Kreme
DPZ: Domino's
EAT: Brinker International
FWRG: First Watch
JACK: Jack in the Box
MCD: McDonald's
PZZA: Papa Johns
QSR: Restaurant Brands Int'l
SBUX: Starbucks
SG: Sweetgreen
SHAK: Shake Shack
TXRH: Texas Roadhouse
WEN: Wendy's
WING: Wingstop
YUM: Yum Brands

Glossary of terms:

SSSG – same-store sales growth, or comparable sales ("comps")
RLM – restaurant level margin
G&A – general & administrative expense
AUV – average unit volume

Exhibit 1: Restaurant stocks underperformed the market last week

BofA Restaurants Coverage Weekly (5-day) Share Price Performance

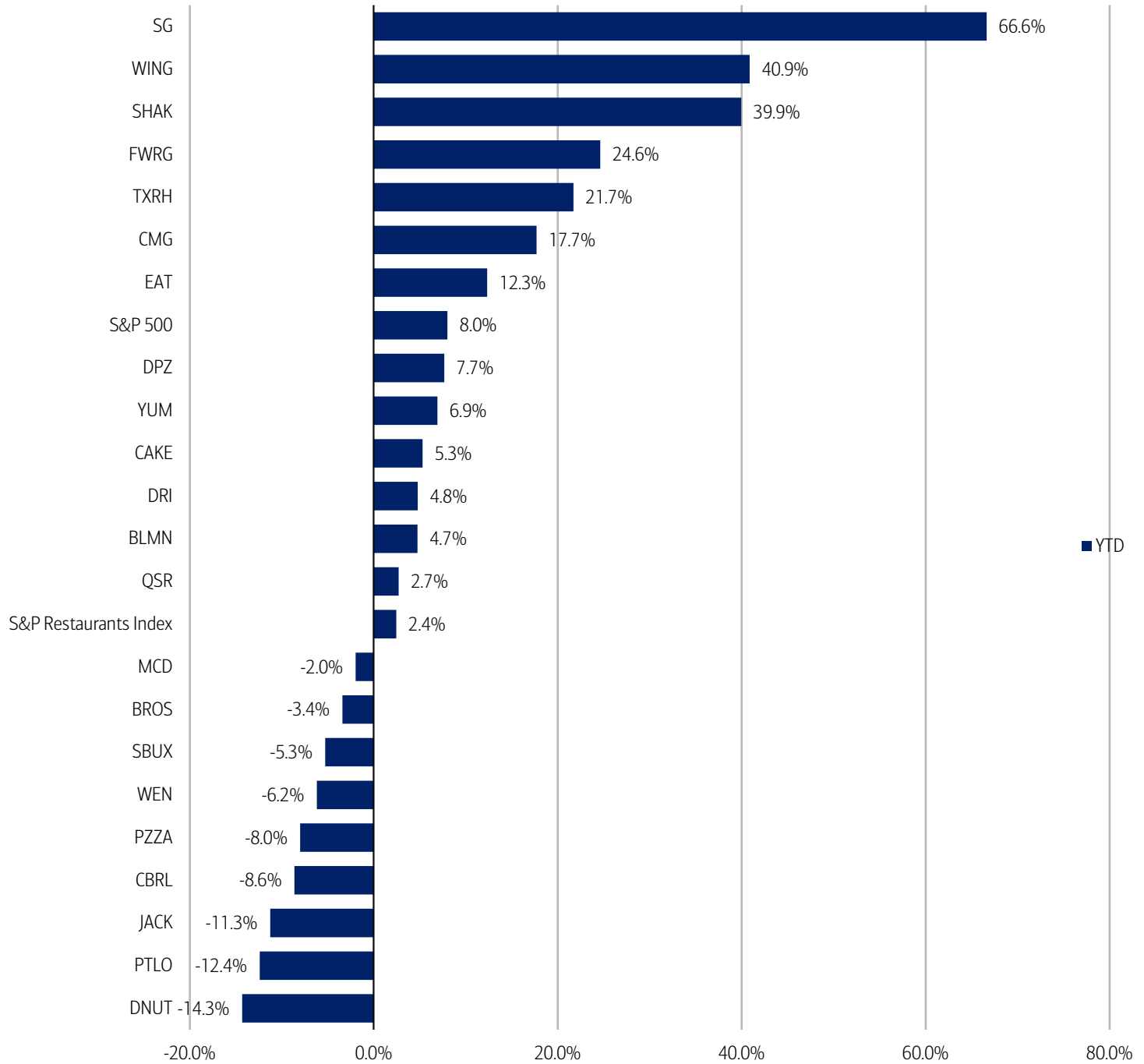


Source: Bloomberg

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Exhibit 2: YTD, SG, SHAK and WING lead

BofA Restaurants Coverage YTD Share Price Performance



Source: Bloomberg

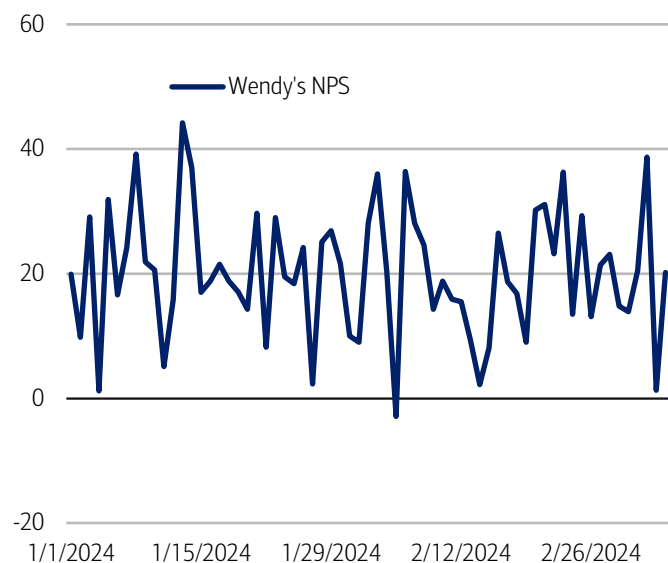
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Chart of the week: Wendy's NPS scores

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Exhibit 3: NPS scores show a decline at the end of February

Wendy's daily net promoter score (NPS)

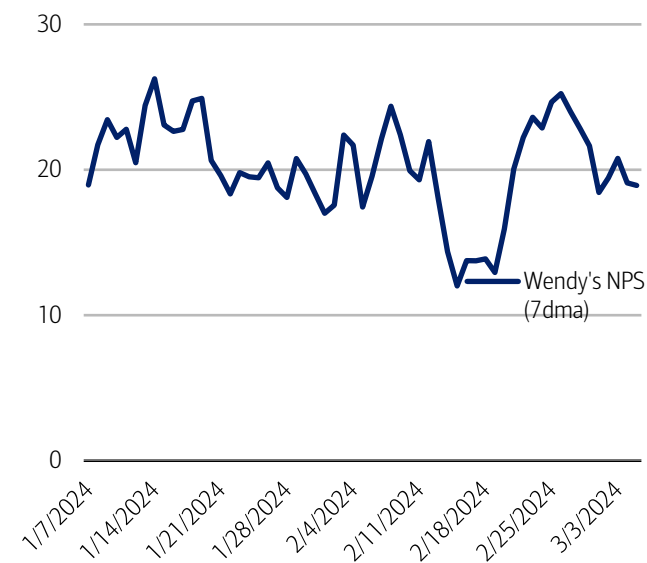


Source: Morning Consult

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Exhibit 4: Weekly NPS scores show a rebound in early March

Wendy's weekly net promoter score (NPS)



Source: Morning Consult

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Raising POs for SG, SHAK; lowering PO for CBRL

We are raising our PO for SG and SHAK and lowering our PO for CBRL. For SG and SHAK, our increased POs reflect higher EV/EBITDA multiples as market multiple expansion has occurred. For CBRL, we are lowering our target relative P/E multiple to reflect a more cautious view on longer term margin recovery.

We update our earnings power valuation analysis for SG to reflect a higher terminal EV/EBITDA multiple (to 22x vs 19x previously, as market multiples have expanded), which is in line with mature growth restaurant peers after adjusting for SG's domestic, company-operated status. Based on \$2.8mm AUVs, 18% RLMs, and 8% G&A ratio, we estimate EBITDA of \$274mm. Applying a 22x terminal multiple (vs 19x prior), we arrive at an enterprise value of \$6.3 bb. Discounted back, we arrive at a price objective of \$21 (vs \$18 prior). We reiterate our Buy rating as we continue to see a long growth runway for SG to open new stores and improve expense leverage over time.

We update our earnings power valuation for SHAK to reflect a higher terminal EV/EBITDA multiple (to 15.5x vs 13.8x previously, as market multiples have expanded). At \$7.7 bb in sales in 2032, assuming stable RLM expansion from 18% to 22% and 9% G&A, SHAK would generate \$740mm in EBITDA. Applying a 15.5x terminal multiple and discounting back, we derive our PO of \$113 (up from \$99 previously). We reiterate our Neutral rating as we expect long term constraints – lower AUVs in new store cohorts – to persist.

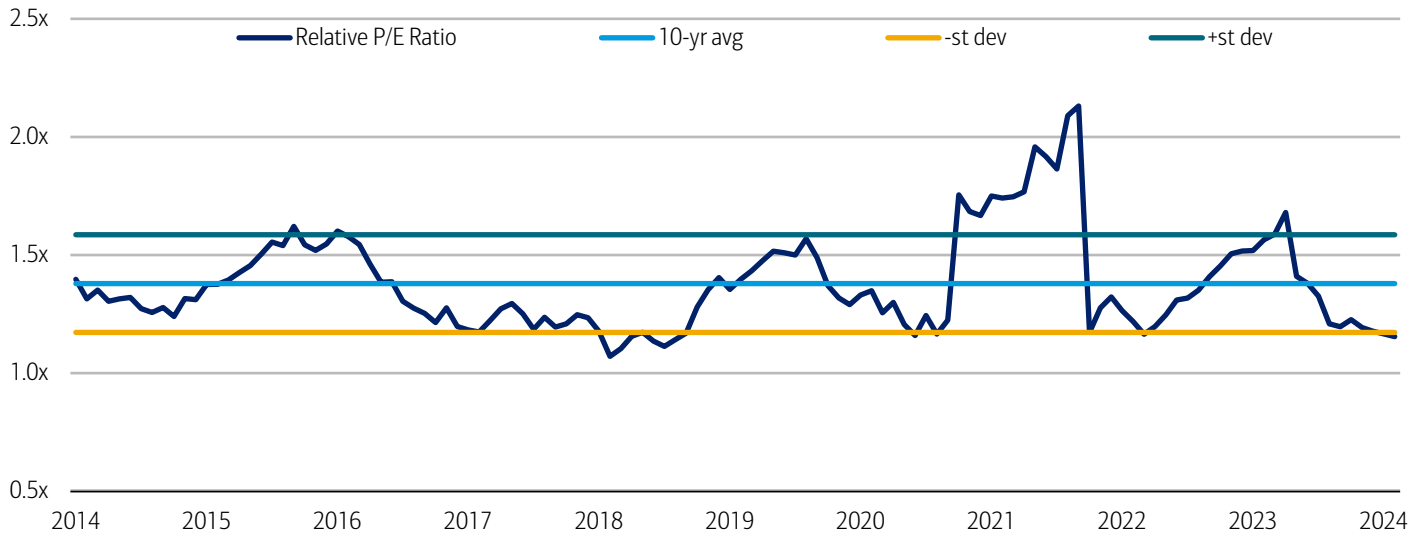
We are lowering our PO for CBRL to \$72 as we apply a lowered relative P/E multiple to reflect a more cautious view on CBRL's longer term margin recovery. Applying a 0.65x relative P/E multiple (vs 0.7x prior), which implies an absolute P/E multiple of 13x (vs 14x prior), to our 12 month forward EPS (2Q25-1Q26: \$5.42) we arrive at our \$72 PO (vs \$76 prior). We reiterate our Underperform rating as we expect reinvestment into marketing and other investment needs to offset topline benefits and impede margin recovery.



Valuation & comps sheet

Exhibit 5: The S&P 500 Restaurant Index Relative P/E is below its 10-year average

S&P 500 Restaurants Index P/E (10-year history)

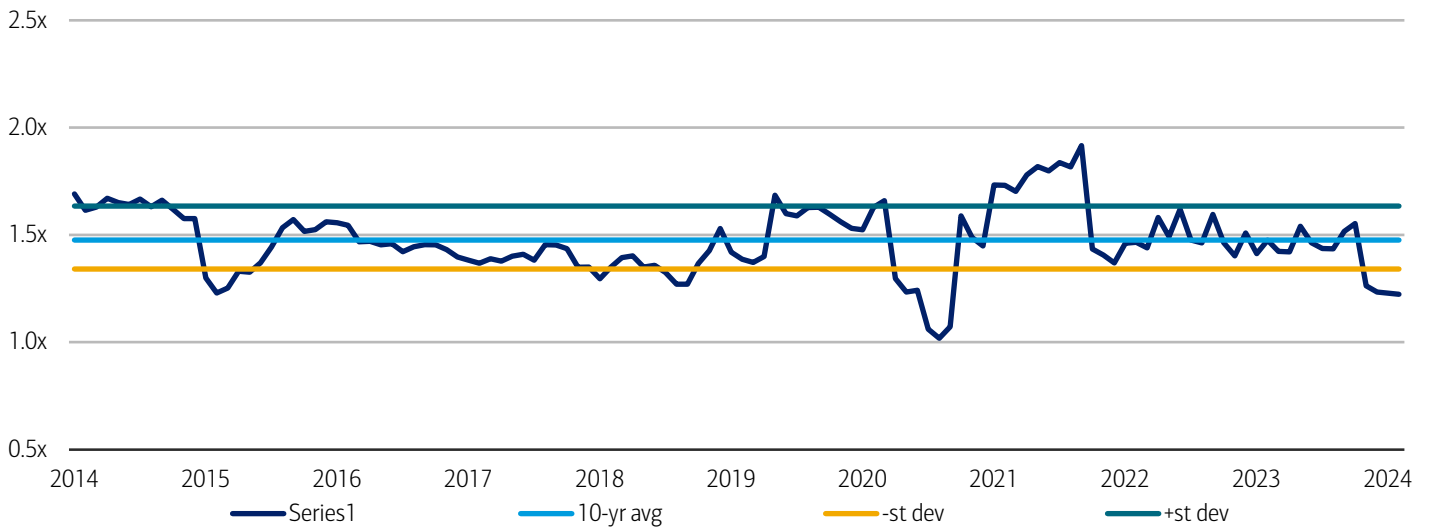


Source: Bloomberg

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Exhibit 6: The S&P 500 Restaurants Index Relative EV/EBITDA is below its 10-year average

S&P 500 Restaurants Index Relative EV/EBITDA (10-year history)



Source: Bloomberg

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Exhibit 7: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BROS	BROS US	Dutch Bros	US\$ 30.24	C-1-9
BLMN	BLMN US	Bloomin Brands	US\$ 29.72	C-2-7
CAKE	CAKE US	Cheesecake Factory	US\$ 36.91	C-2-7
CBRL	CBRL US	Cracker Barrel	US\$ 70.94	B-3-7
CMG	CMG US	Chipotle Mex Grill	US\$ 2686.12	B-1-9
DRI	DRI US	Darden Restaurants	US\$ 171.57	B-1-7
DPZ	DPZ US	Domino's Pizza	US\$ 445.01	B-1-7
DNUT	DNUT US	Krispy Kreme	US\$ 12.93	C-1-7
EAT	EAT US	Brinker Intl	US\$ 49.05	C-3-9
FWRG	FWRG US	First Watch	US\$ 25	C-1-9
MCD	MCD US	McDonald's	US\$ 292.55	A-2-7
PZZA	PZZA US	Papa Johns Int	US\$ 70.12	B-1-7
QSR	QSR US	Restaurant Brands In	US\$ 79.7	B-3-7
SBUX	SBUX US	Starbucks	US\$ 91.06	B-1-7
SG	SG US	Sweetgreen	US\$ 18.76	C-1-9
SHAK	SHAK US	Shake Shack	US\$ 103.63	C-2-9
TXRH	TXRH US	Texas Roadhouse	US\$ 148.36	B-1-7
YUM	YUM US	Yum Brands Inc	US\$ 139.56	B-2-7
WEN	WEN US	Wendy's Co	US\$ 18.42	B-3-7
WING	WING US	Wingstop Inc	US\$ 353.99	C-1-7

Source: BofA Global Research

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Price objective basis & risk**Cracker Barrel (CBRL)**

We apply a 0.65x relative P/E multiple to our forward estimates 12 months from now to arrive at a \$72 PO, that translates into an absolute PE of 13x. Relative to the market, CBRL's P/E multiple is below its 10-year historical average of 0.9x. We expect valuation to remain compressed as demand headwinds among CBRL's largest customer base (65+ and older, lower income) and broader discretionary spending pressures persist.

Upside risks: higher-than-expected same store sales growth from digital/off-premise sales initiatives, faster-than-expected recovery in post-pandemic travel and tourism demand, better-than-expected contributions from the Maple Street Biscuit Company acquisition.

Downside risks: higher-than-expected wage inflation, worse-than-expected margin contraction from elevated food costs, sluggish recovery in leisure travel demand.

Shake Shack (SHAK)

We set our \$113 PO based on steady state earnings power. We assume SHAK grows its store base at 14% to reach 860 domestic stores in 9 years, and that average volumes grow at 3.5%. At \$7.7bb in sales, assuming stable RLM expansion from 18% to 22% and 9% G&A, SHAK would generate \$740mm in EBITDA. Applying a 15.5x terminal multiple and discounting back equates to a \$113 PO.

Downside risks to our price objective are: 1) lower than expected consumer uptake of new product innovations or other sales drivers, 2) higher than expected food or labor costs that Shake Shack is unable to offset with increased pricing, 3) macroeconomic



pressures that slow consumer income growth or otherwise dampen consumption.

Upside risks to our price objective are: 1) higher than expected consumer uptake of new product innovations or other sales drivers (digital, Kiosks), 2) higher than expected menu pricing, 3) higher than expected consumer income growth that exceeds our consumption expectations.

Sweetgreen (SG)

Our \$21 PO is based on normalized earnings power. Assuming SG is able to reach its long-term target of 1000 stores in ten years, with 18% restaurant-level margin and 8% G&A, we arrive at \$274mm EBITDA. We apply a 22x terminal multiple - consistent with mature growth restaurant peers - after adjusting for SG's domestic, company-operated status - to arrive at EV of \$6.3 bb, discounted back to today at 13%.

Downside risks are i) slower SSSG as a result of lower discretionary spending, ii) inability to gain traction in new markets outside of the urban core, iii) failure to offset food and labor cost inflation through pricing and volume growth, iv) worse than expected development challenges (construction costs, permitting) which could limit unit growth.

Analyst Certification

We, Sara Senatore and Katherine Griffin, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

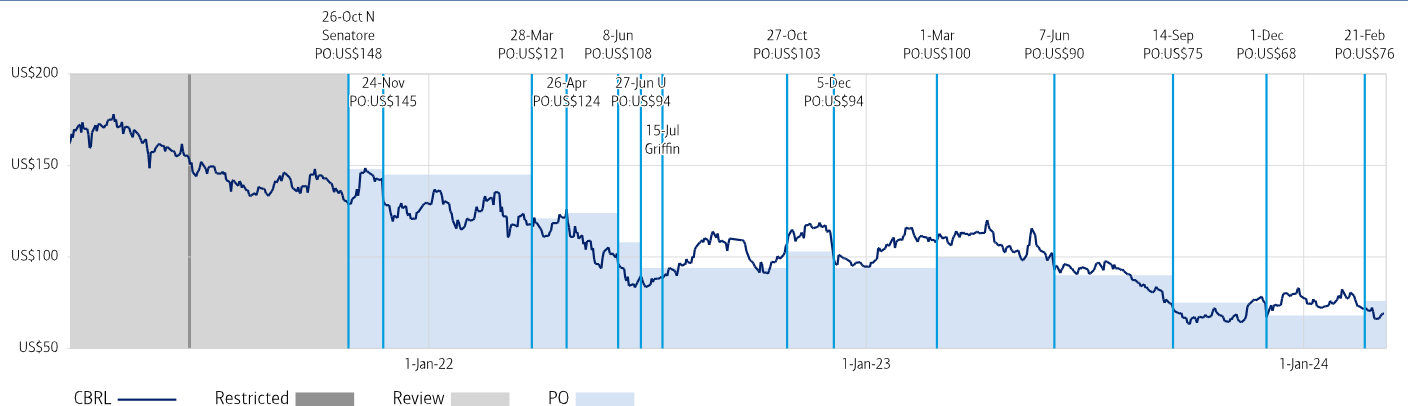
US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BROS	BROS US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa John's International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
NEUTRAL				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
UNDERPERFORM				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore

Disclosures

Important Disclosures

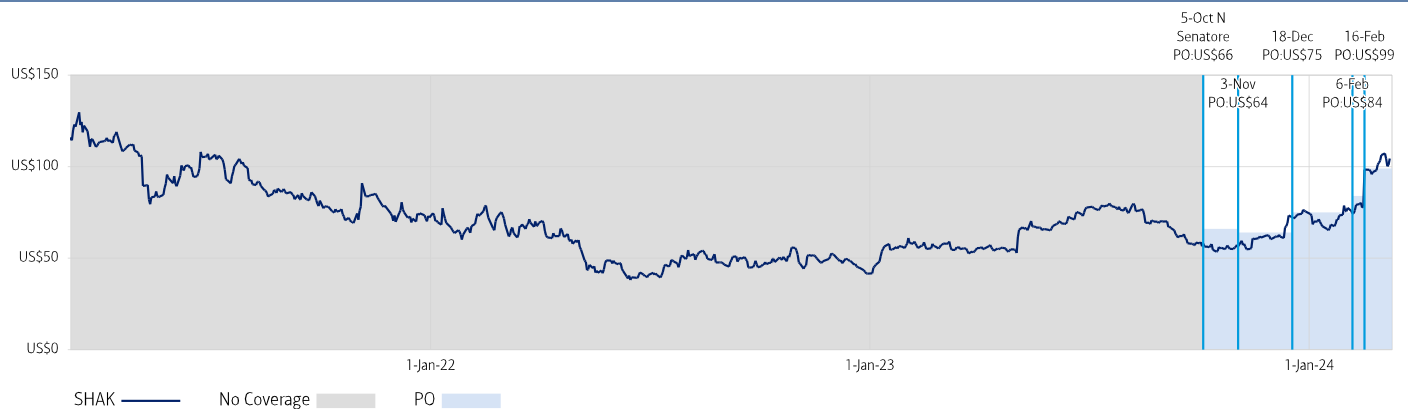
Cracker Barrel (CBRL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

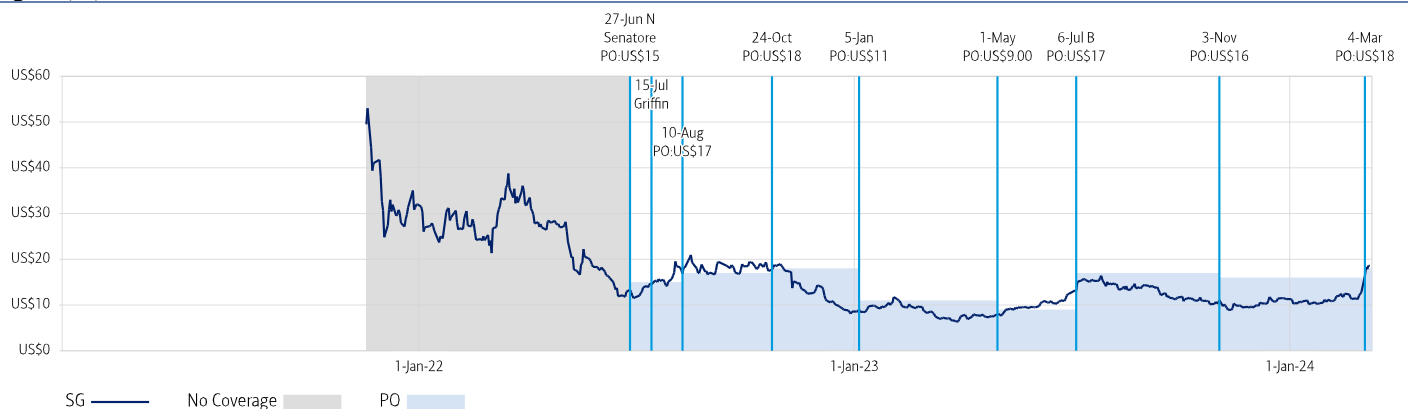
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Shake Shack (SHAK) Price Chart



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Sweetgreen (SG) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Restaurants Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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