Restaurants Industry

Year Ahead 2024: Business as usual?

Price Objective Change

16 January 2024

Equity
United States
Restaurants

Sara Senatore
Research Analyst
BofAS
+1 646 743 2110
sara.senatore@bofa.com

Katherine Griffin
Research Analyst
BofAS
katherine.griffin@bofa.com

Jessica Owusu Afari
Research Analyst
BofAS
jessica.owusu-afari@bofa.com

Looking back at 2023

In our 2023 YA we mostly anticipated industry themes: slower real demand growth; moderating inflation/pricing; stabilizing digital mix; and a shrinking valuation premium on franchisors. But the sector's low correlations and wide performance dispersion again defied thematic investing – leaders included a QSR (WING), fast casuals (SHAK, CMG), an FSR (FWRG), and sweet treats (DNUT) – a reminder that stock picking matters.

Looking forward to 2024

Job growth drives demand growth

Restaurant demand growth is most closely correlated with measures of labor market strength; if jobs increase, demand should as well. Real wage growth is also starting to recover for lower income consumers whose spending was most pressured last year.

Disinflation continues; pricing reverts to historical rates

Industry SSSG are correlated with inflation; in an industry with modest traffic growth, price determines topline. Inflation relief from 2023 should continue; futures anticipate disinflation or deflation for most major commodities while greater labor availability is curbing wage inflation. Mid-single-digit (MSD) inflation suggests LSD-MSD pricing.

Promotional intensity tracks inflation; risk FSR ad spend ticks up

Historically, promotions have increased as input prices have fallen so more promotions don't necessarily translate into margin pressure. That said, many FSRs reduced marketing spend during the pandemic, largely flowing the lower spend to margins. We see some risk that spend increases beyond what has been telegraphed.

Restaurants invest in tech, but leaders are hard to unseat

The digital adoption curve steepened materially during COVID. We expect the industry to continue to invest heavily in technology in 2024 (capping G&A leverage), though technology leaders like SBUX, CMG, and MCD are likely to retain their leads.

Restaurants are rate cut beneficiaries

Consumer discretionary stocks materially outperform during Fed easing cycles -- historically peaking five to eight months after the Fed's first rate cut – but performance is neutral to positive as six months before the first cut and strongly positive for consumer services (like restaurants) ahead of cuts.

Dutch Bros is a key idea

We believe that arrival of new management at companies with strong – but arguably undermanaged -- brands can create significant value. We expect the marketing, real estate and operational strategies brought to bear by CEO Christine Barone and her new team (CMO, COO, CFO) will serve as catalysts for accelerating same store sales.

Exhibit 1: Current Coverage and Ratings

Our coverage includes 22 companies

Stock	Recommendation	PO
BLMN	Neutral	$28
BROS	Buy	$48
CAKE	Neutral	$33
CBRL	Underperform	$75
CMG	Buy	$2,570
DNUT	Buy	$19
DPZ	Buy	$483
DRI	Buy	$187
EAT	Underperform	$37
FWRG	Buy	$25
JACK	Buy	$85
MCD	Neutral	$343
PTLO	Buy	$28
PZZA	Buy	$106
QSR	Underperform	$79
SBUX	Buy	$150
SG	Buy	$17
SHAK	Neutral	$66
TXRH	Buy	$155
WEN	Underperform	$23
WING	Buy	$238
YUM	Neutral	$158

Source: BofA Global Research

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Tickers referenced: BLMN - Bloomin Brands; BROS - Dutch Bros; CAKE - Cheesecake Factory; CBRL - Cracker Barrel; CMG - Chipotle Mex Grill; DNUT - Krispy Kreme; DPZ - Domino's Pizza; DRI - Darden Restaurants; EAT - Brinker Intl; FWRG - First Watch; JACK - Jack in the Box; MCD - McDonald's; PTLO - Portillo's Inc.; PZZA - Papa Johns Int; QSR - Restaurant Brands In; SBUX - Starbucks; SG - Sweetgreen; SHAK - Shake Shack; TXRH - Texas Roadhouse; WEN - Wendy's Co; WING - Wingstop Inc; YUM - Yum Brands Inc

Refer to important disclosures on page 32 to 35. Analyst Certification on page 31. Price Objective Basis/Risk on page 26. 12646104

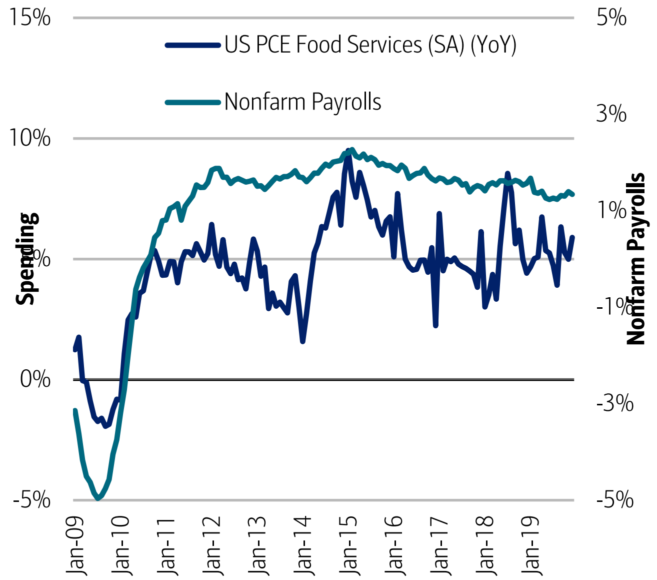
Timestamp: 16 January 2024 07:40AM EST

Updating Estimates and POs (see page 20)

We update estimates for SBUX, JACK, FWRG, BROS and PZZA to incorporate current demand trends, guidance on unit growth and store portfolio shifts. We also update POs for JACK, PZZA, and SBUX to reflect estimate changes and market multiple changes.

Charting 2024 for the restaurant industry

Exhibit 2: Spending on restaurants (food services) is highly correlated with growth in non-farm payrolls (p=83%)
Year over year change in personal consumption expenditures on food services versus year over year changes in non-farm payrolls



Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis

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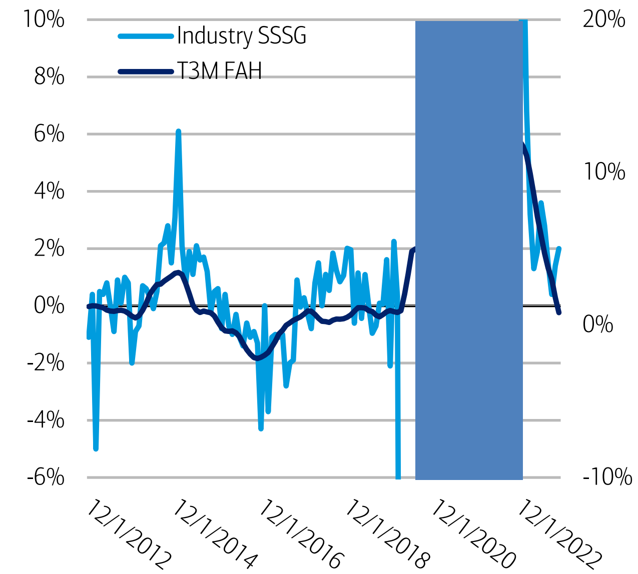
Exhibit 3: Prior to the pandemic, restaurant same store sales tracked food inflation; this pattern has held in the post-COVID period
Y/y changes in food CPI vs industry same store sales growth (2013-2019)



Note: 3 Month (T3M) changes are calculated as the average growth trailing three months' CPI versus the average of growth rates in the year ago periods
Source: TDN2K, Bureau of Labor Statistics, BofA Research

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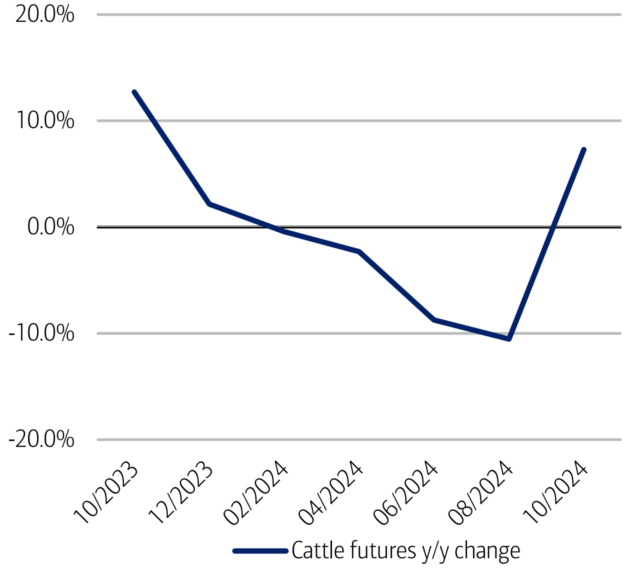
Exhibit 4: For 1Q24, average cattle price inflation is expected to be -0.2%

Cattle futures y/y change



Source: Bloomberg

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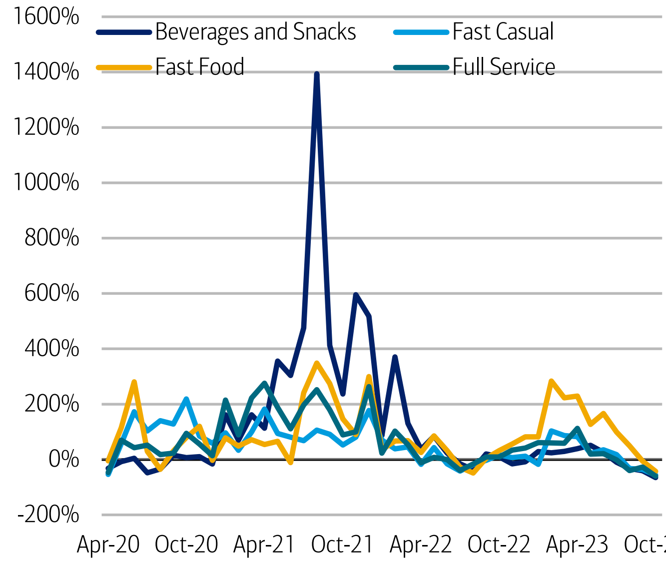
Exhibit 5: Job postings growth – a measure of labor market tightness and employee turnover – has turned negative for all restaurant segments

Average restaurant job postings by category, y/y % change



Source: Revelio Labs, BofA Global Research

Revelio Labs is a workforce intelligence company that indexes hundreds of millions of employment documents from online public profiles, resumes, immigration data, and job postings. The ultimate output is a universal workforce dataset that provides detailed information about the employment dynamics of all companies from 2008 to the present. We note the dataset may not fully reflect the entire workforce of all companies analyzed, but provides a good representative sample

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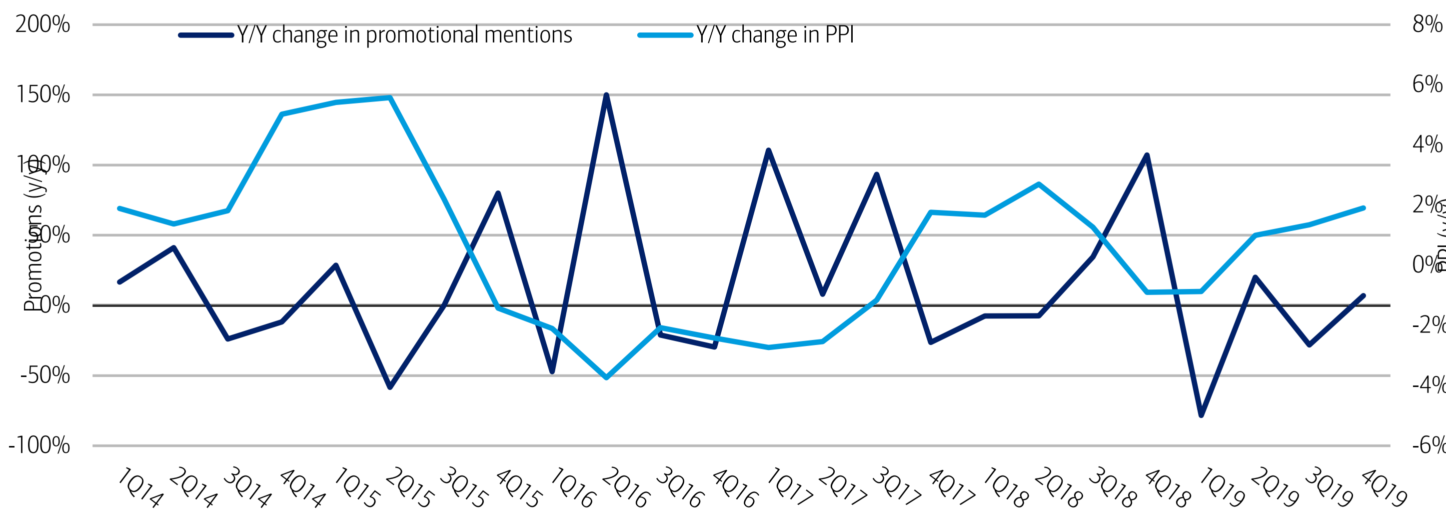
Exhibit 6: The restaurant industry has tended to increase promotional intensity when inflation has waned (as in 2016-17) and pulled back on promotions when inflation has accelerated (2014,2018)

Y/Y change in promotional mentions vs Y/Y change in PPI



Source: Bloomberg, Haver

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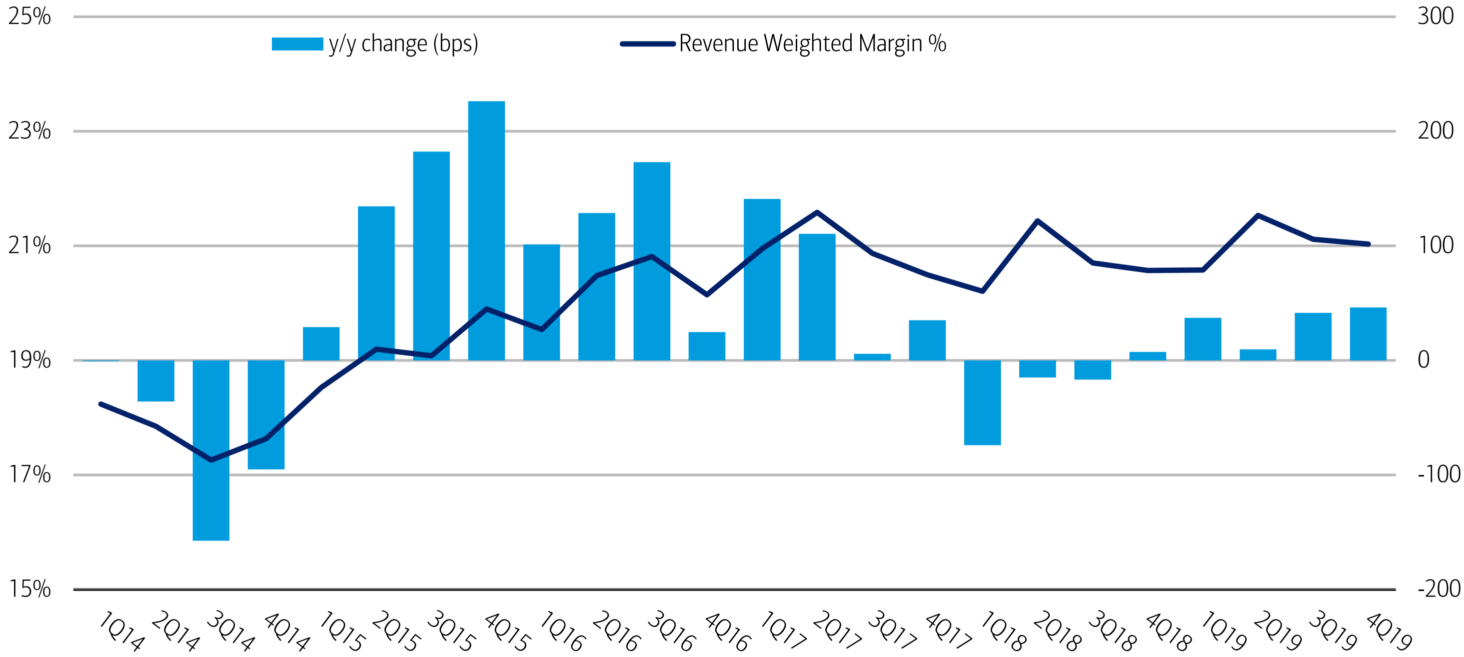
Exhibit 7: Despite an apparent increase in promotional activity in 2016-2017, average restaurant level margins increased
Revenue weighted average restaurant level margin rate and year-over-year changes



Source: Company reports, BofA Global Research estimates

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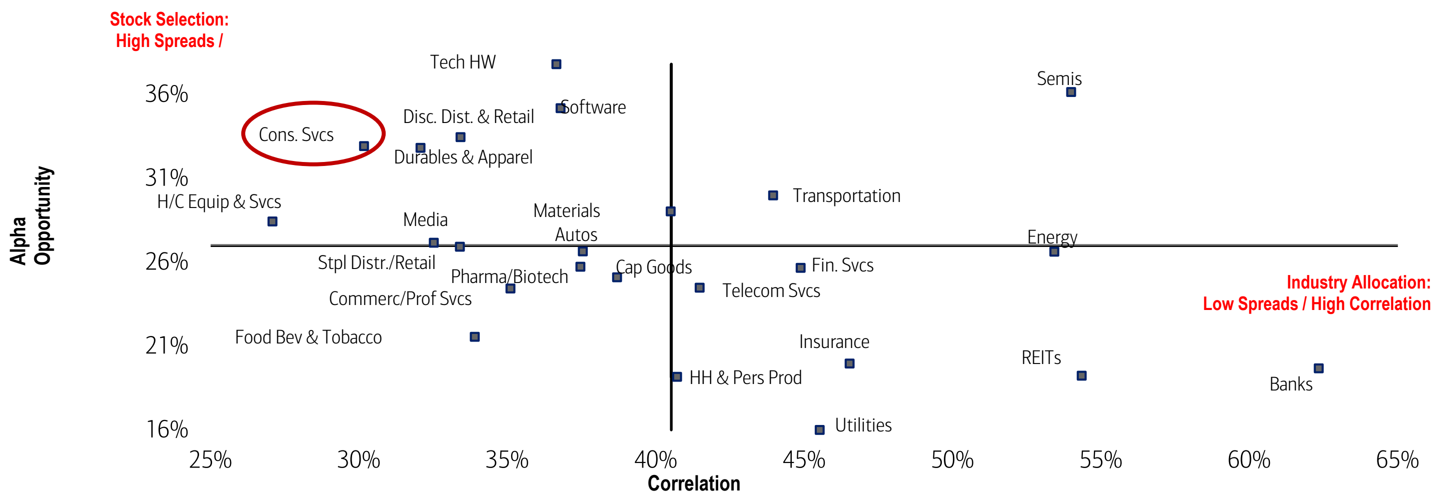
Exhibit 8: High performance spreads across quintiles and low correlation create opportunities for stock picking
Historical Intra-stock correlation vs. performance spread between top and bottom quintile performers (3Q86 to 3Q23)



Source: FactSet, BofA US Equity & US Quant Strategy

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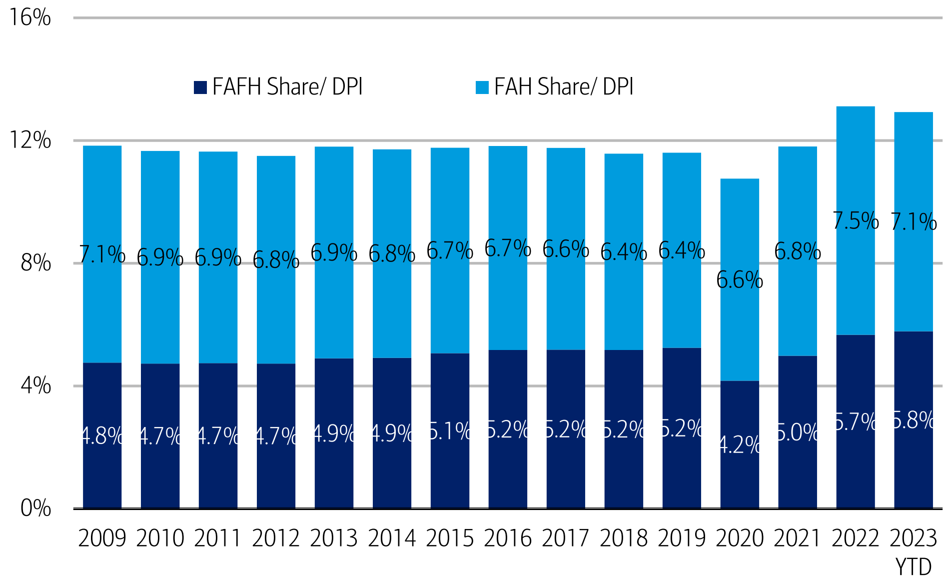
Themes for 2024

Job growth drives demand growth

Restaurant demand growth is most closely correlated with measures of labor market strength (payroll, income); to the extent that stays healthy, demand should as well. Real wage growth is also starting to recover for lower income consumers, the group that pulled back most on restaurant spending last year in response to real earnings declines.

Exhibit 9: As a share of Disposable Personal Income (DPI), Food Away from Home (FAFH) spending has increased by ~1ppt since 2009 while Food at Home (FAH) share of income is unchanged; we expect this shift to away from home food to continue

Share of US disposable personal income (DPI) spent on food at home (FAH) vs food away from home (FAFH)



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BofA Research

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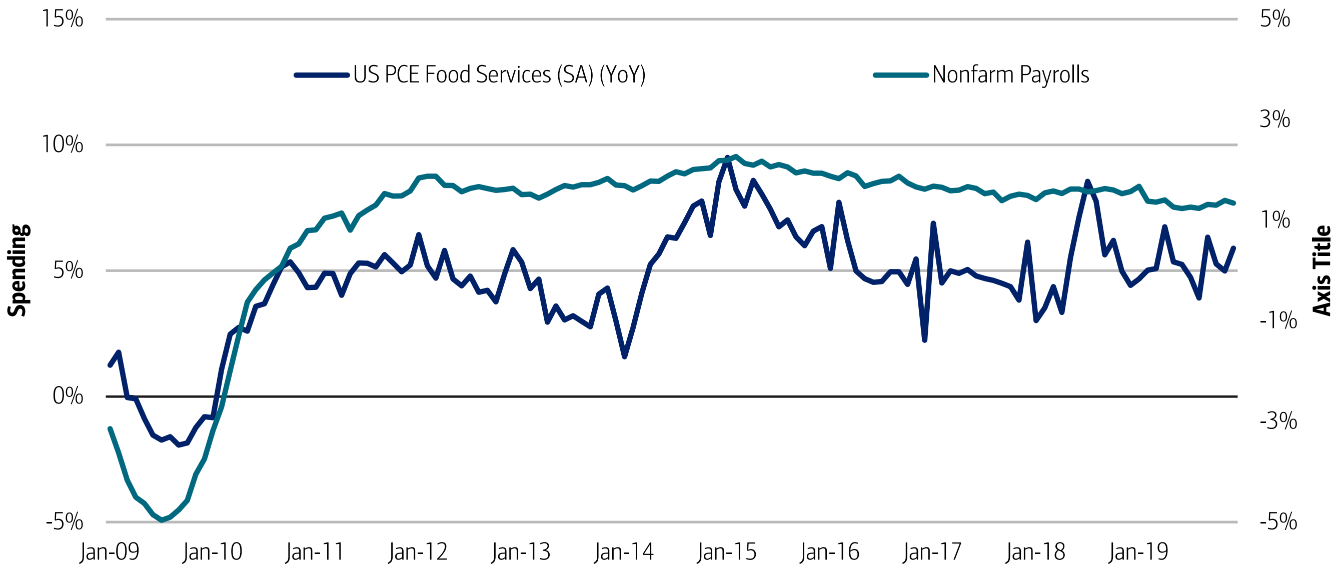
Exhibit 10: Spending on restaurants (food services) is highly correlated with growth in non-farm payrolls (p=83%)
Year over year change in personal consumption expenditures on food services versus year over year changes in non-farm payrolls



Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis

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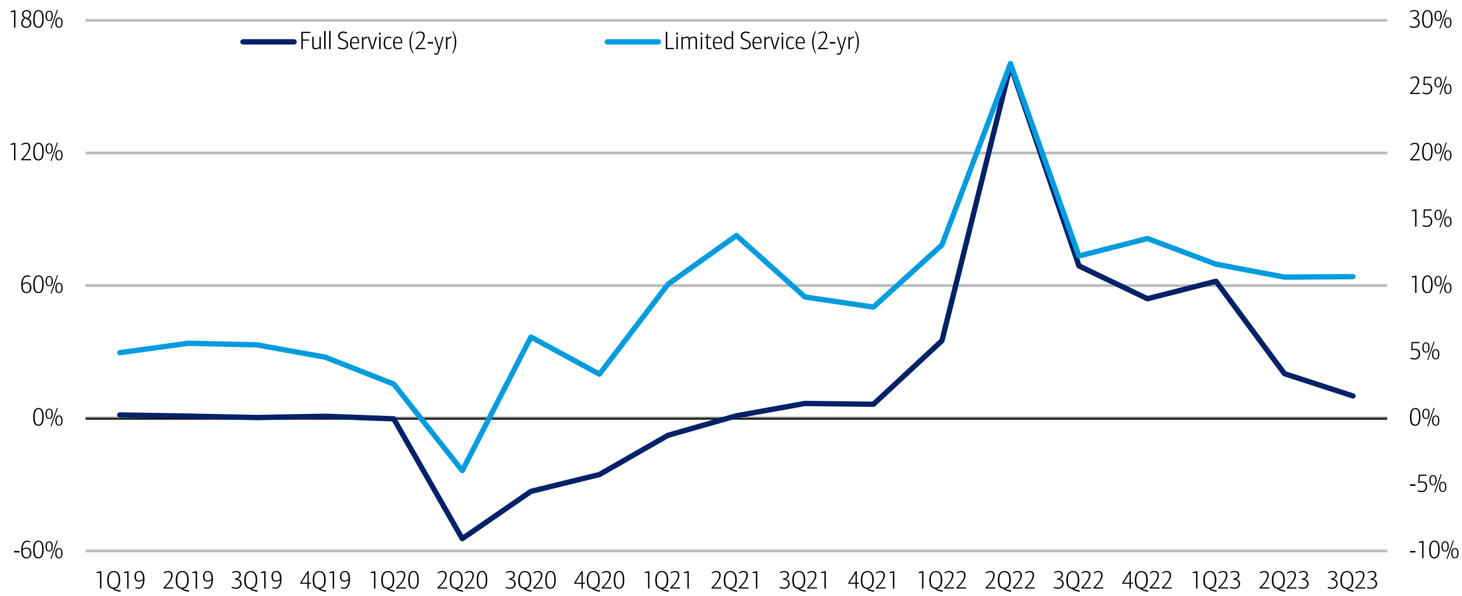
Exhibit 11: Benchmarked against 2019, Same Store Sales Growth (SSSG) suggest that the slower pace of casual dining growth is a persistent trend as behavior shifts (tighter schedules, fewer formal eating occasions) favor limited service
SSSG Growth for Limited service vs Full service industry



Source: Company reports, BofA Global Research

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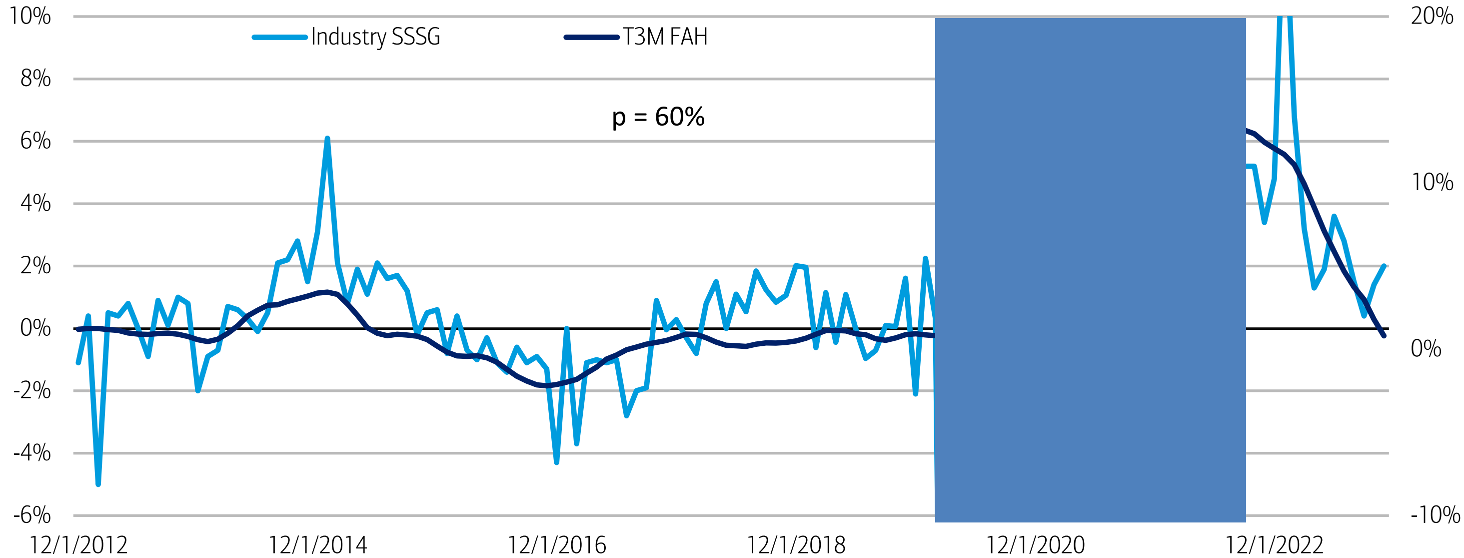
Disinflation continues; pricing reverts to historical rates

Industry SSSG are correlated with inflation, speaking to the importance of price in dictating topline growth in an industry with modest traffic. The inflation relief that materialized in 2023 should continue; futures markets anticipate disinflation or deflation for most major commodities and higher labor availability is slowing wage inflation. With an industry outlook for MSD inflation, we expect y/y pricing in the LSD-MSD range (FAFH CPI averaged 2.8% 2000-2019).

Exhibit 12: Prior to the pandemic, restaurant same store sales were highly correlated with food inflation; this pattern has held in the post-COVID period

Y/y changes in food CPI vs industry same store sales growth (2013-2019)



Note: 3 Month (T3M) changes are calculated as the average growth trailing three months' CPI versus the average of growth rates in the year ago periods

Source: TDN2K, Bureau of Labor Statistics, BofA Research

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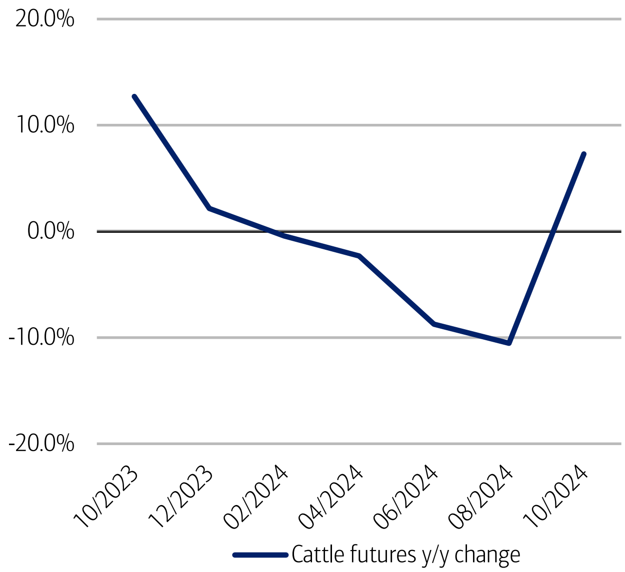
Exhibit 13: For 1Q24, average cattle price inflation is expected to be -0.2%

Cattle futures y/y change



Source: Bloomberg

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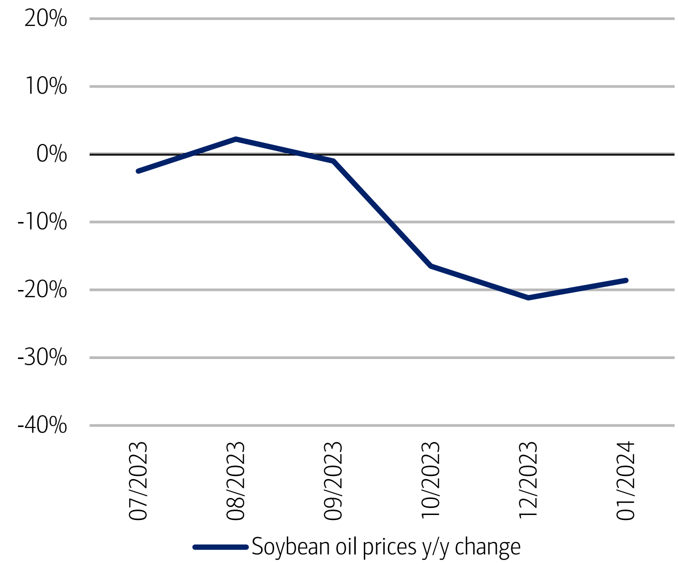
Exhibit 14: For 1Q24, average soybean oil price inflation is expected to be -13.7%

Soybean oil futures y/y change



Source: Bloomberg

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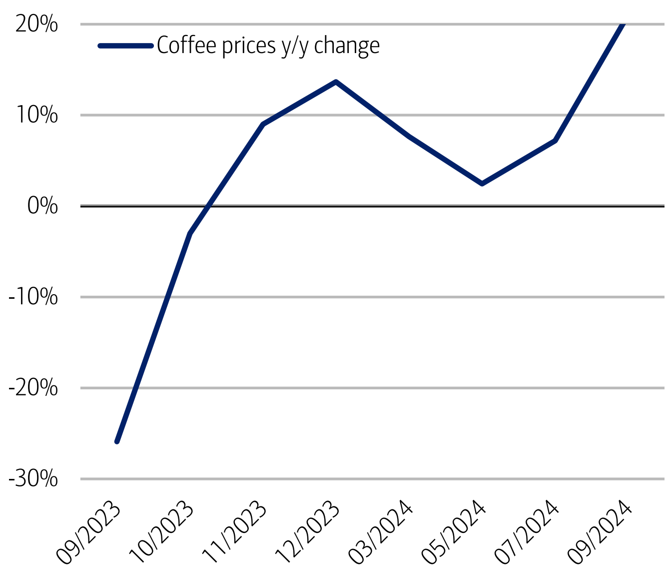
Exhibit 15: For 1Q24, average coffee price inflation is expected to be 2.9%

Coffee futures y/y change



Source: Bloomberg

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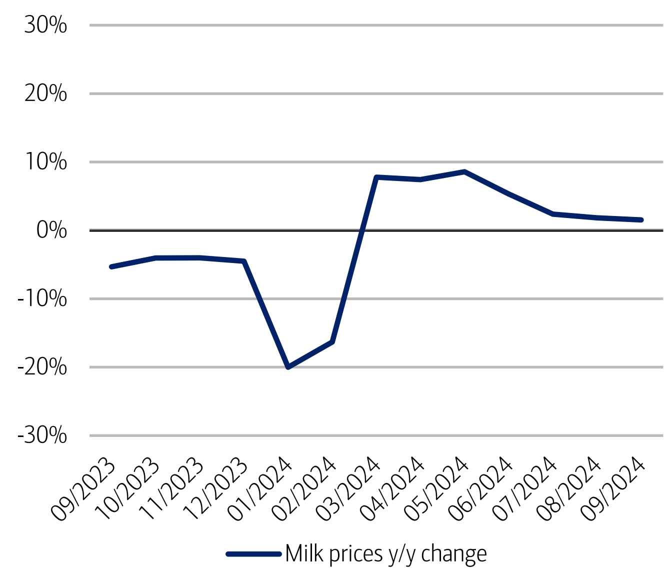
Exhibit 16: For 1Q24, average CME milk price inflation is expected to be -13.1%

Class III Milk futures y/y change



Source: Bloomberg Class III Milk is typically used for cheese manufacturing

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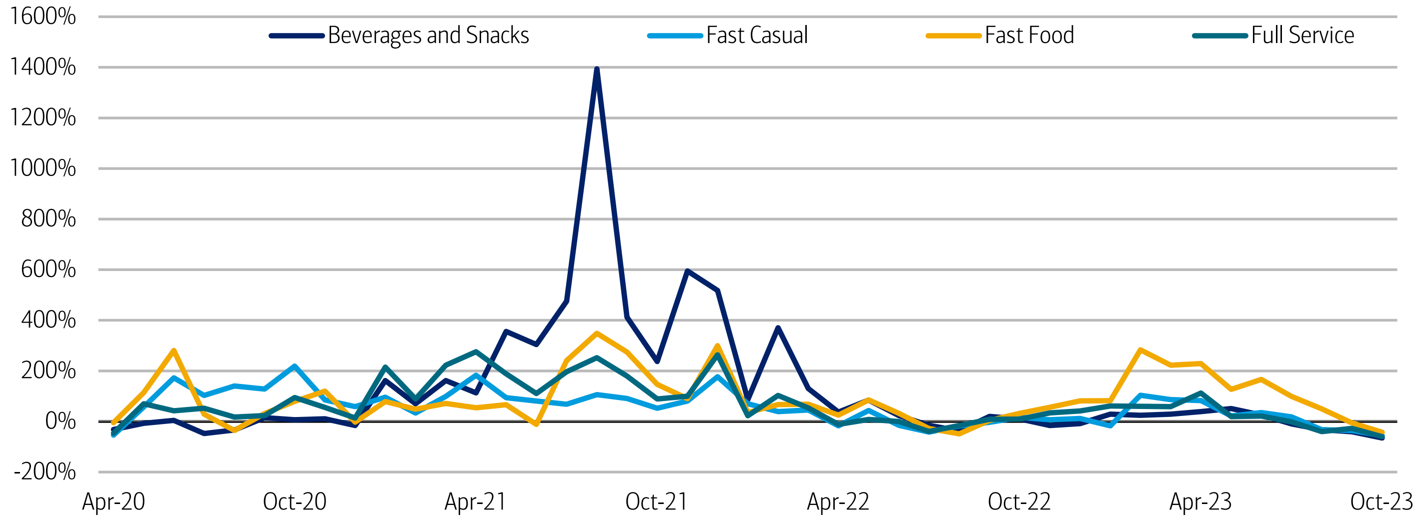
Exhibit 17: Job postings growth – a measure of labor market tightness and employee turnover – has turned negative for all restaurant segments
Average restaurant job postings by category, y/y % change



Source: Revelio Labs, BofA Global Research
Revelio Labs is a workforce intelligence company that indexes hundreds of millions of employment documents from online public profiles, resumes, immigration data, and job postings. The ultimate output is a universal workforce dataset that provides detailed information about the employment dynamics of all companies from 2008 to the present. We note the dataset may not fully reflect the entire workforce of all companies analyzed, but provides a good representative sample

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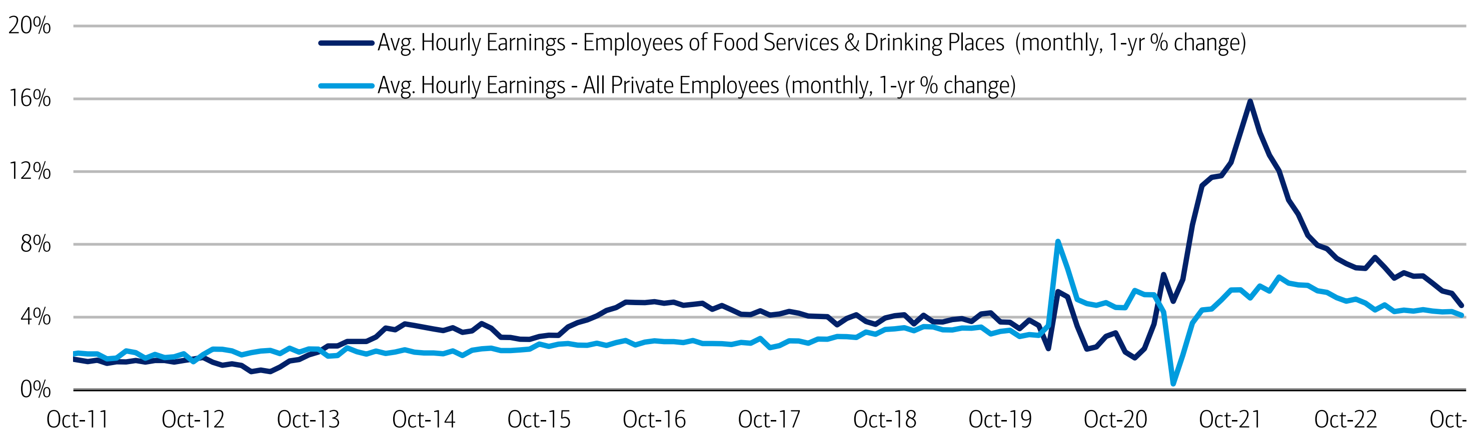
Exhibit 18: More slack in the labor market should allow restaurant employee wage inflation to return toward historical averages in the ~4-5% range; any increase in unemployment could dampen wage growth further
Growth in employee average hourly earnings



Source: US Bureau of Labor Statistics

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Exhibit 19: Pricing has begun to roll off as commodity inflation has slowed
Most recent quarterly measures of average check, pricing, and commodities inflation guidance (by company)

Company	Q3C23 Pricing	F22 Pricing	Q3C23 Commodities Inflation	F22 Commodities Inflation
CBRL	7%	6%	-2%	13%
CMG	3%	12%	2%	11%
DRI	7%	2%	9%	8%
EAT	9%	5%	-1%	10%
FWRG	6%	6%	-2%	14%
Jack in the Box (JACK)	8%	8%	3%	14%
Del Taco (JACK)	7%	-	-2%	-
PTLO	9%	8%	4%	15%
TXRH	5%	7%	4%	11%
WEN	6%	10%	2%	9%

Source: Company reports, BofA Global Research estimates

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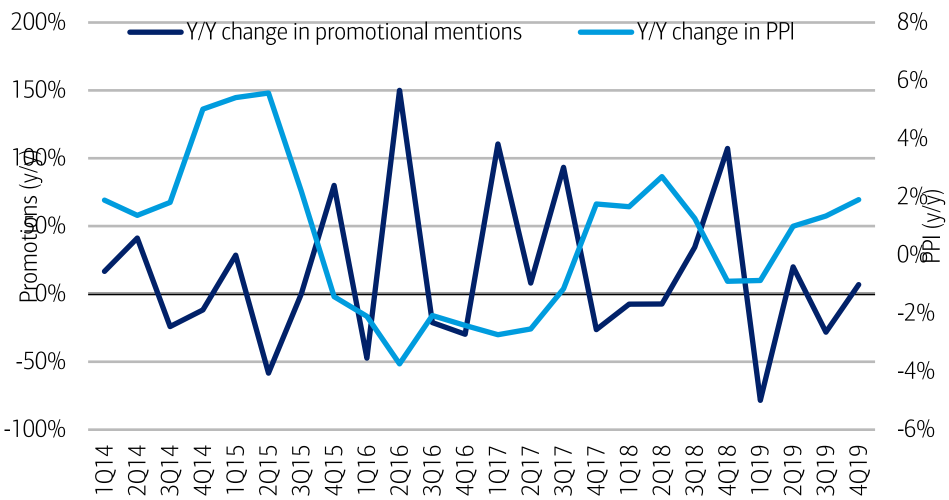
Promo intensity tracks inflation; risk FSRs raise ad spend

History suggests that promotions increase as input prices fall: more promotions don't necessarily mean more margin pressure. That said, many FSRs reduced marketing spend during the pandemic, largely flowing the lower spend to margins. We see some risk that spend increases beyond what has been telegraphed.

Exhibit 20: The restaurant industry has tended to increase promotional intensity when inflation has waned (as in 2016-17) and pulled back on promotions when inflation has accelerated (2014,2018)
Y/Y change in promotional mentions vs Y/Y change in PPI



Source: Company reports, Bureau of Labor Statistics

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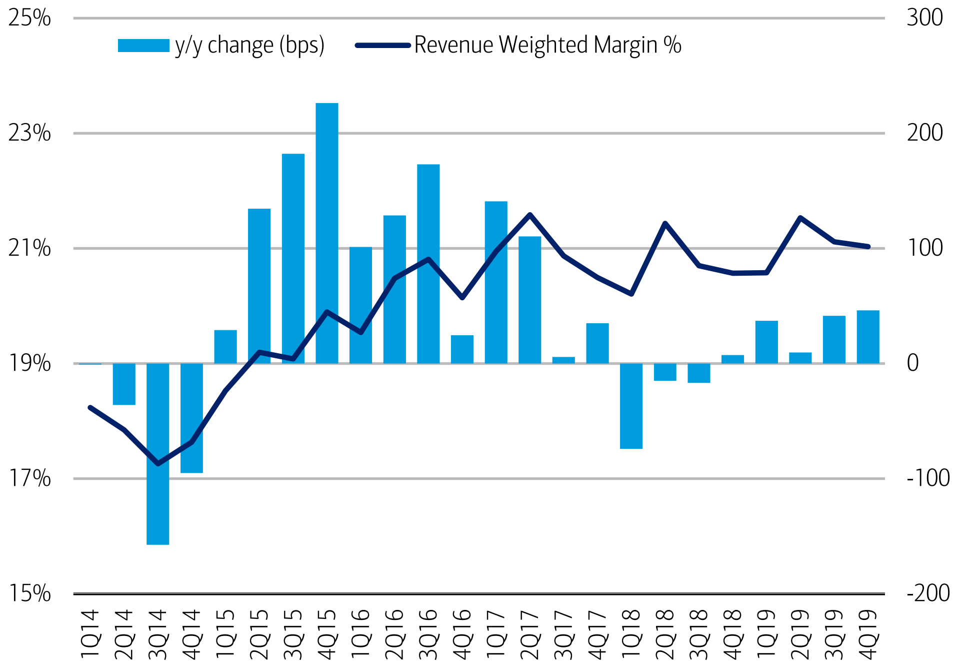
Exhibit 21: Despite an apparent increase in promotional activity in 2016-2017, average restaurant level margins increased

Revenue weighted average restaurant level margin rate and year-over-year changes



Source: Company reports, BofA Research

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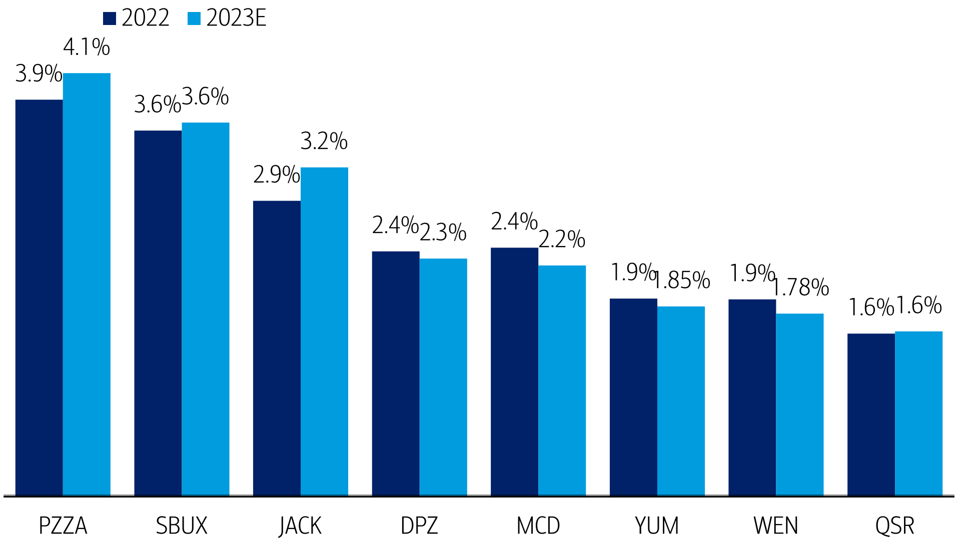
Restaurants invest in tech, but leaders are hard to unseat

The digital adoption curve steepened materially during COVID. We expect the industry to continue to invest heavily in technology in 2024 (capping G&A leverage), though technology leaders like SBUX, CMG, and MCD are likely to retain their leads.

Exhibit 22: Despite systemwide sales growth across limited-service systems in 2023, the average rate of G&A as a percent of systemwide sales across the industry was flat at 2.6%, pointing to continued increases in investments, particularly behind technology

G&A as a % of systemwide sales (sales of company operated and franchised/licensed units)



Source: Company reports, BofA Global Research estimates

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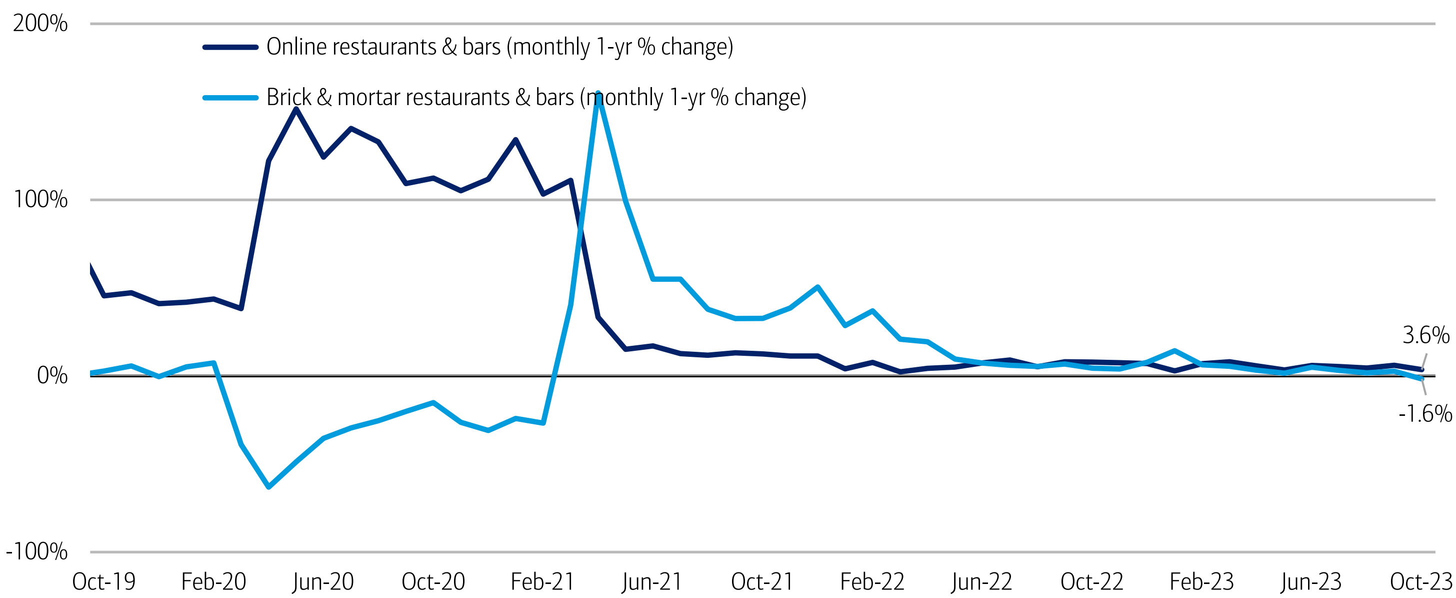
Exhibit 23: While growth in digital ordering has slowed since the rapid adoption of 2020, it has not reversed, continuing to lead brick and mortar spending growth and underscoring the persistent need for technology investments

Monthly Brick & Mortar vs Online spend y/y growth according to BAC aggregated credit and debit card data



Source: BAC internal data

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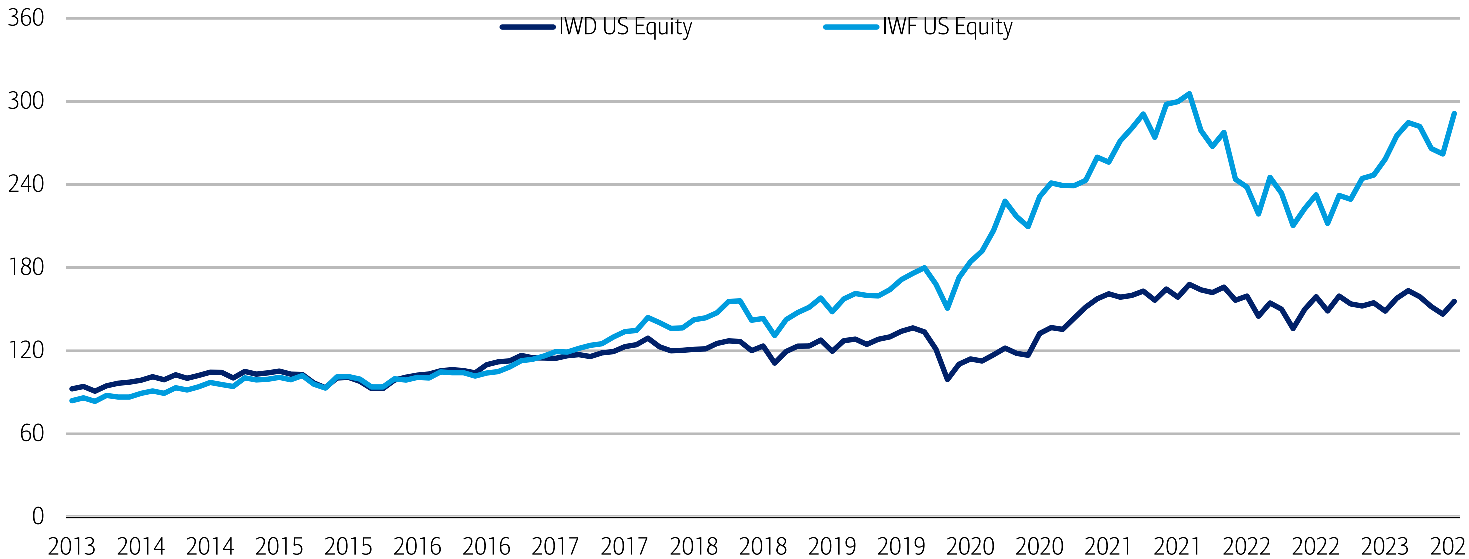
Restaurants are rate cut beneficiaries

Consumer discretionary stocks materially outperform during Fed easing cycles -- historically peaking five to eight months after the Fed's first rate cut – but performance is neutral to positive as early as six months before the first cut and strongly positive for consumer services in those periods. We would expect investors to step farther out on the risk curve if cuts materialize.

Exhibit 24: In 2023 defensive franchisors lost their valuation premium; continued expansion of growth multiples will be influenced by interest rate trajectories

IShares Russell 1000 growth (IWF) vs IShares Russell 1000 E (IWD)



Source: Bloomberg

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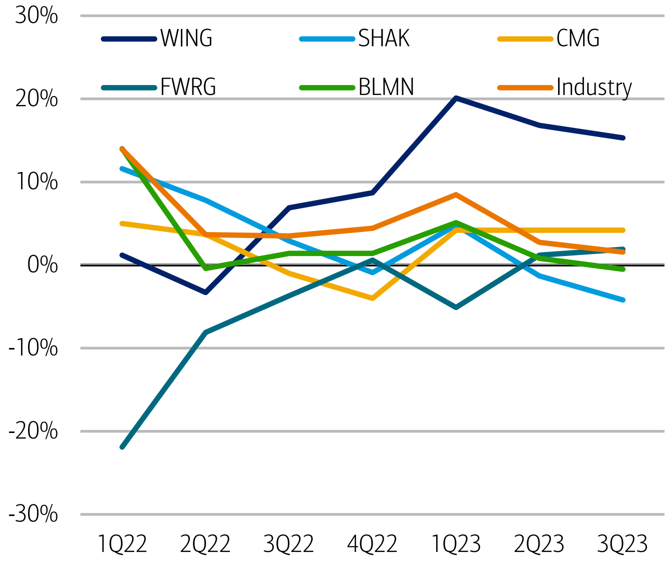
Exhibit 25: Last year's best performers were either the targets of activist investors (BLMN, SHAK) or SSSG leaders within their respective categories (CMG, WING, FWRG) …
SSSG for 2023 best performing stocks



Source: Company reports, BofA Global Research estimates

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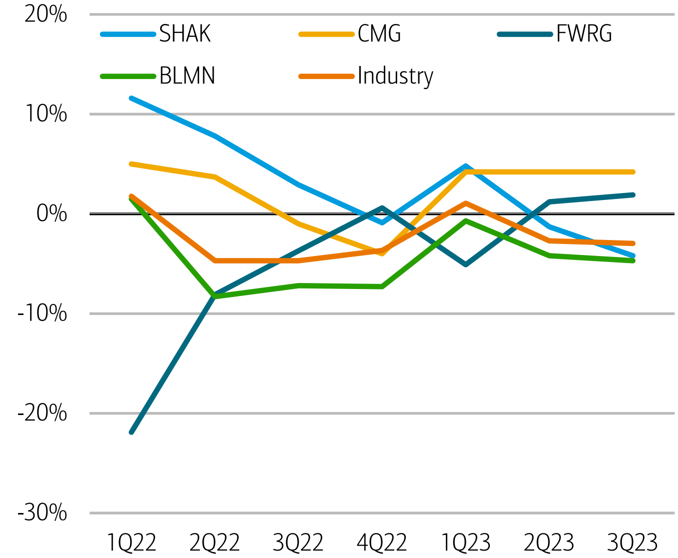
Exhibit 26: … particularly when SSSG was traffic-driven
Estimated same store traffic growth for 2023 best performing stocks



Source: Company reports, BofA Global Research estimates

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Exhibit 27: Consumer Discretionary outperforms during Fed Easing Cycles
Consumer Discretionary 12-mo. returns after a Fed cut

12-mo. returns	0 mo. after	1 mo. after	2 mo. after	3 mo. after	4 mo. after	5 mo. after	6 mo. after	7 mo. after	8 mo. after	9 mo. after	10 mo. after	11 mo. after	12 mo. after
7/31/1974	-1.70%	-0.10%	2.90%	20.50%	26.30%	24.40%	11.90%	15.70%	12.30%	8.50%	5.70%	1.10%	-1.30%
4/30/1980	8.50%	12.10%	10.20%	1.80%	-1.00%	4.50%	2.40%	13.50%	12.40%	11.20%	7.80%	8.10%	4.00%
6/30/1981	11.30%	15.50%	19.90%	16.00%	30.30%	39.90%	33.00%	24.00%	22.60%	14.90%	20.10%	13.90%	10.60%
10/31/1984	-7.20%	-4.00%	-3.20%	-2.30%	2.50%	10.60%	10.10%	8.70%	9.20%	7.90%	4.90%	2.60%	6.30%
6/30/1989	-2.20%	-5.90%	-11.60%	-13.40%	-13.40%	-8.60%	-7.40%	-4.90%	-4.70%	-4.00%	-2.20%	1.80%	1.00%
1/31/2001	23.50%	23.00%	16.60%	24.40%	22.70%	24.40%	11.20%	16.80%	22.10%	15.40%	7.90%	2.30%	-4.20%
9/30/2007	-0.30%	-3.20%	-4.30%	5.30%	-1.80%	6.70%	9.80%	18.90%	13.40%	19.30%	20.20%	12.40%	10.30%
7/31/2019	8.60%	10.60%	12.00%	13.70%	13.80%	12.60%	13.40%	8.60%	8.90%	3.70%	-1.20%	-2.60%	-7.40%
Avg.	5.10%	6.00%	5.30%	8.30%	9.90%	14.30%	10.50%	12.70%	12.00%	9.60%	7.90%	5.00%	2.40%
Med.	4.10%	5.30%	6.60%	9.50%	8.10%	11.60%	10.70%	14.60%	12.30%	9.80%	6.70%	2.40%	2.50%
Hit rate	50%	50%	63%	75%	63%	88%	88%	88%	88%	88%	75%	88%	63%

Source: Bloomberg, BofA Global Research

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Exhibit 28: Consumer Services outperform on average ahead of Fed cuts
Consumer Services 12-mo. Price returns ahead of a Fed cut

Start of Fed Easing Cycle	Absolute Perf. of Consumer Svcs. 12m before	6m before	3m before	1m before	Rel. Perf. of Consumer Svcs. vs. SPX 12m before	6m before	3m before	1m before
31/01/2001	-4.80%	16.80%	8.10%	-1.70%	-2.80%	22.40%	13.10%	-4.90%
30/09/2007	17.10%	7.50%	3.80%	4.40%	2.50%	0.00%	2.20%	0.80%
31/07/2019	30.30%	19.60%	7.60%	3.40%	23.10%	8.50%	6.40%	2.10%
Avg.	14.20%	14.60%	6.50%	2.10%	7.60%	10.30%	7.20%	-0.70%
Med.	17.10%	16.80%	7.60%	3.40%	2.50%	8.50%	6.40%	0.80%
Hit rate	66.70%	100.00%	100.00%	66.70%	66.70%	100.00%	100.00%	66.70%

Note: Consumer Services include Restaurants, Hotels, and Leisure
Source: Bloomberg, BofA Global Research

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Exhibit 29: Consumer Discretionary outperforms on average ahead of Fed cuts
Consumer Discretionary relative performance ahead of a Fed cut

Start of Fed Easing Cycle	Rel. Perf. of Disc. vs. SPX 12m before	6m before	3m before	1m before	Rel. Perf. of Disc. vs. Staples 12m before	6m before	3m before	1m before
31/07/1974	-13.90%	-3.70%	-3.90%	-7.40%	-14.50%	-8.10%	-5.20%	-4.90%
30/04/1980	-22.90%	-13.50%	-3.60%	-2.60%	-16.80%	-10.10%	-6.90%	-5.70%
30/06/1981	10.20%	23.10%	4.20%	-1.80%	10.50%	7.20%	-0.70%	-3.80%
31/10/1984	-4.60%	6.80%	-2.10%	0.40%	-11.70%	-2.50%	-3.50%	-1.60%
30/06/1989	-6.20%	-5.20%	-2.80%	-1.10%	-21.90%	-11.20%	-7.30%	-2.70%
31/01/2001	1.40%	12.60%	20.90%	6.80%	-14.50%	-7.90%	13.70%	17.80%
30/09/2007	-7.40%	-8.90%	-6.80%	-3.80%	-5.30%	-8.20%	-9.20%	-4.50%
31/07/2019	1.80%	0.20%	-1.10%	-0.50%	-4.10%	-1.50%	-3.00%	-1.50%
Avg.	-5.20%	1.40%	0.60%	-1.20%	-9.80%	-5.30%	-2.80%	-0.80%
Med.	-5.40%	-1.80%	-2.50%	-1.40%	-13.10%	-8.00%	-4.30%	-3.20%
Hit rate	37.50%	50.00%	25.00%	25.00%	12.50%	12.50%	12.50%	12.50%

Source: Bloomberg, BofA Global Research

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Exhibit 30: Given our view that 2024 will mark a return to normalcy in terms of demand drivers and input costs, we prefer companies with specific traffic driving opportunities
Long-term growth algorithms for companies under coverage

	Unit growth rate	Comps	System sales growth	Revenue growth	Adj. EBITDA growth	EPS growth	Operating profit margin
BLMN	-	1.5-2%	-	-	-	-	7% LT target, 50bps annual growth
BROS	Mid-teens %	LSD %	-	20%+	20%+	-	-
CBRL	-	-	-	-	-	-	-
CMG	-	-	-	-	-	-	mid 20%s
DNUT	-	9-11%	-	-	12-14%	-	10-30bps expansion
DPZ	-		7%	-	-	-	8%+
FWRG	-	3.5%	10%	-	Mid-teens %	-	-
JACK	1-3%	2-3%	3-5%	-	-	-	-
MCD	4-5%		-	-	-	-	cont'd expansion
PTLO	12-15%	LSD%	-	Mid-teens %	Low teens%	-	-
PZZA	6-8%		-		-	-	-
QSR	~5%	2-3%	~7%	-	mid-to-high single digit %	-	-
SBUX	-	5%+	-	10%+	-	15%+	-
WEN	-	-	4-5%	-	HSD%	-	-
WING	-	LSD%	-	-	-	-	-
YUM	5%		7%+	-	-	-	8%+

Source: Company reports

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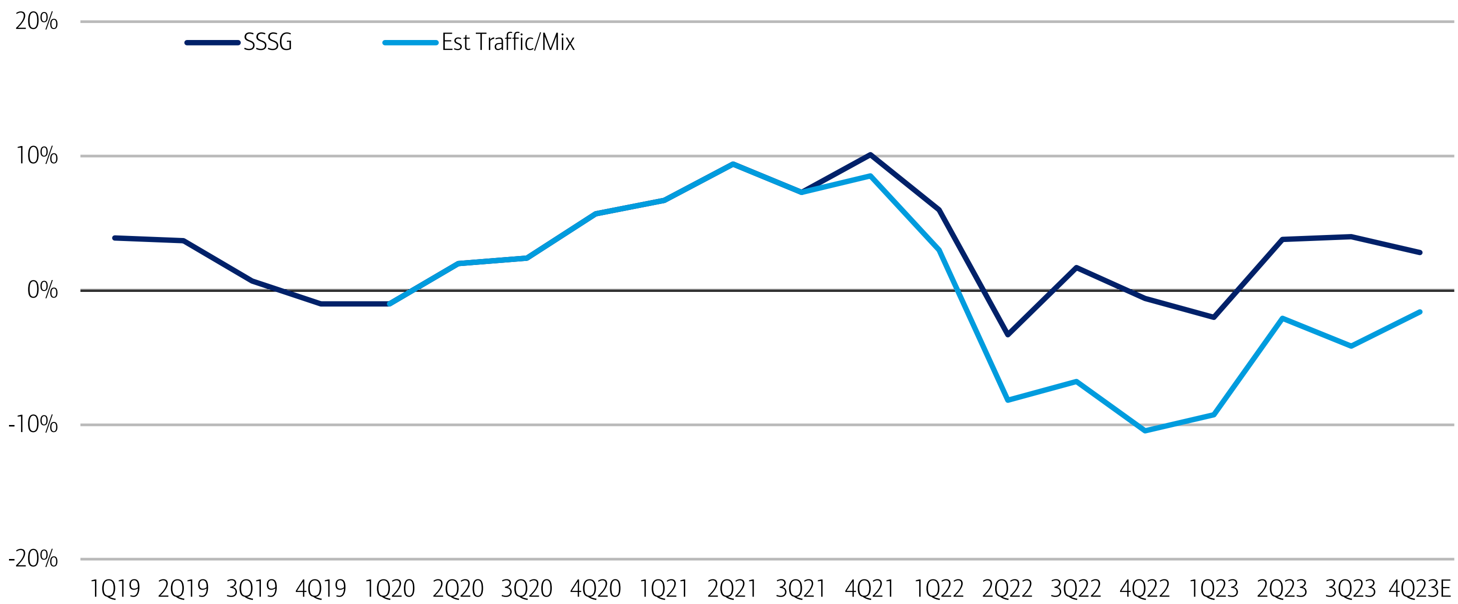
Key idea: BROS

We believe that arrival of new management at companies with strong – but arguably undermanaged -- brands can create significant value. We expect the new marketing, real estate and operational strategies brought to bear by CEO Christine Barone and her new team (CMO, COO, CFO) will serve as catalysts for accelerating same store sales.

The positive impact of Initiatives around menu innovation, changes to Dutch Rewards, and increased paid media spend were quick to materialize in improved same store traffic and sales, but we expect the results to be amplified over time as the team refines its strategies in response to customer data.

Exhibit 31: After hitting a trough in 1Q23, BROS same store traffic growth has improved meaningfully, bolstered by initiatives put into place by Christine Barone, who joined as president in the middle of the quarter (February 2023);
BROS Y/Y Systemwide SSSG and Traffic/Mix



Source: Company reports, BofA Global Research estimates

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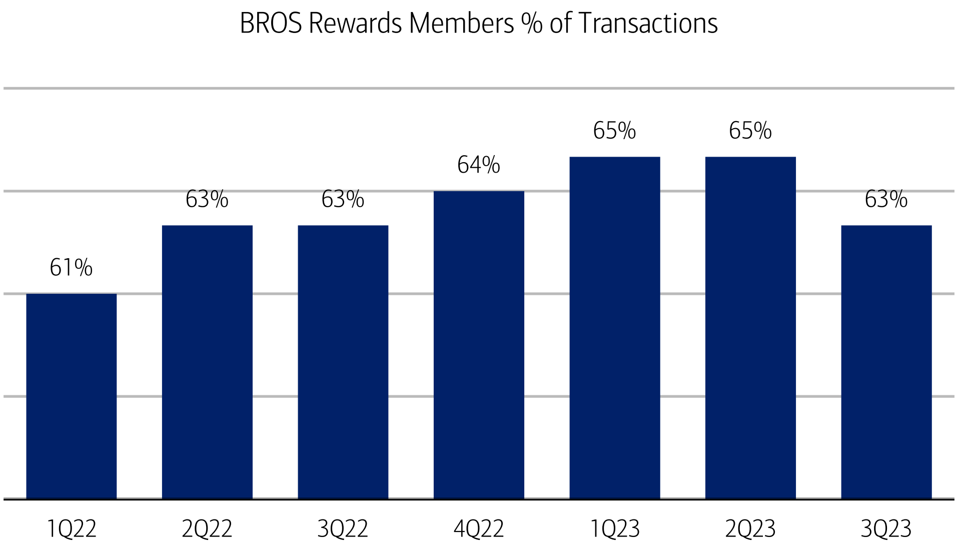
We view the loyalty program in particular as a rich ore to mine given how effective it has been for coffee competitor Starbucks for well over a decade. BROS is evolving its rewards program from one focused on discounts to broad-based traffic driving initiatives and ultimately to targeted personalized messaging. The same data will help inform the decisions around menu news (limited time offers and permanent additions) based on consumer responses and the use of paid media (shifting from re-targeting to building brand awareness).

Exhibit 32: BROS loyalty members' share of transactions has climbed despite its accelerating growth in new markets; we believe the slight retrenchment in 3Q speaks to an opportunity to refine its in-app marketing strategy

Share of transactions attributable to loyalty members by quarter



Source: Company reports

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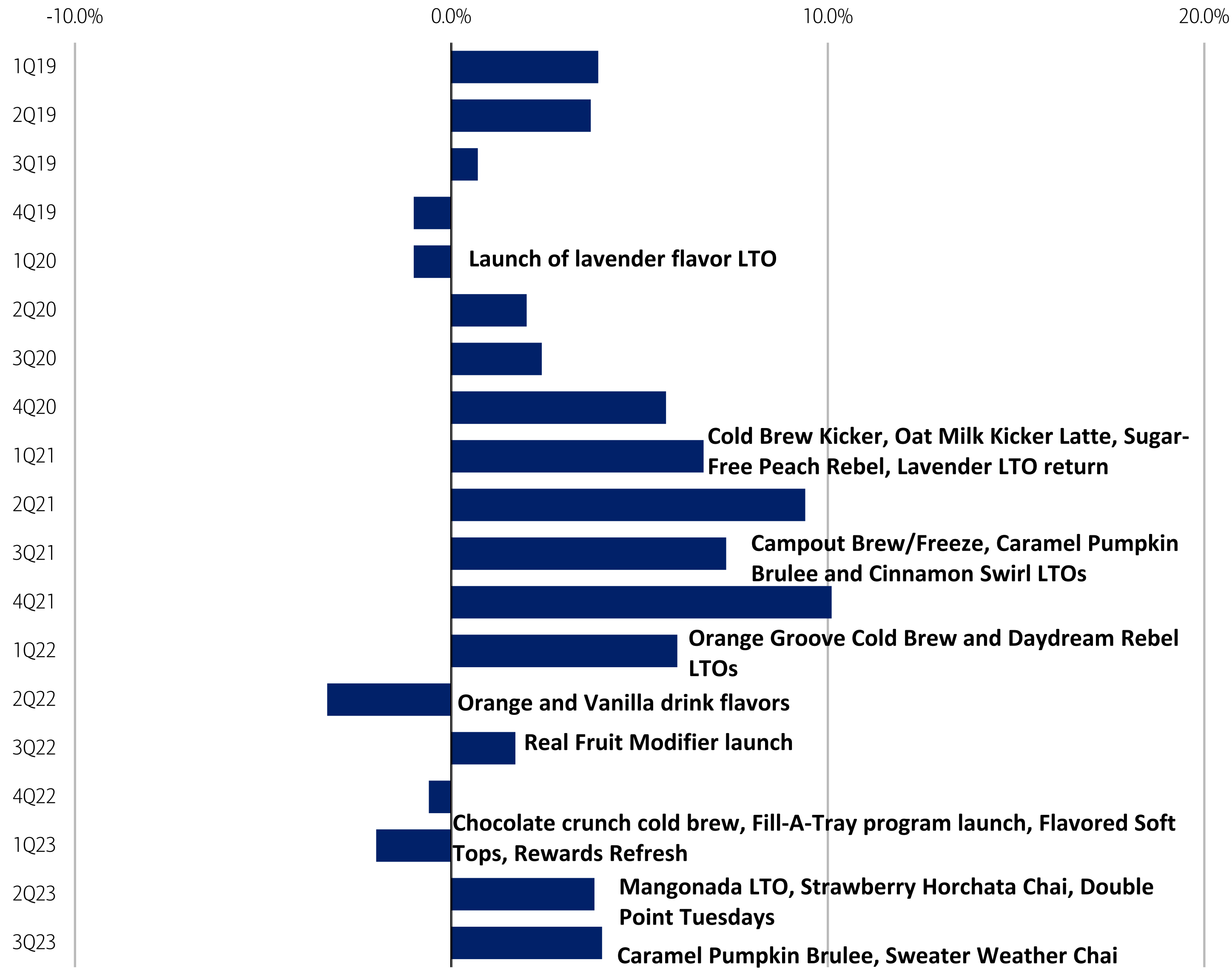
Exhibit 33: Better data analytics and processes are helping BROS refine its marketing, promotional, and menu innovation strategies
Menu and marketing promotions vs SSSG



Source: Company reports

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Better measurement tools should also benefit development and operational metrics. Data from existing stores should help BROS to successfully evolve its real estate strategy to one that goes wider across new trade areas before it goes deeper into existing trade areas, using new locations (and their lines) to generate customer interest.

Exhibit 34: Over the next 12-18 months, BROS's pivot to build-to-suit construction – with its lower upfront capital costs -- should enhance free cash flow
Unit level economics, build-to-suit vs ground lease

	Build-to-suit	Ground Lease
Year 2 AUV (mm)	$1.70	
Total investment incl. pre-opening (mm)	$0.70	$1.90
Year 2 Cash-on-cash return	~60%	~25%
% of 2022-2023 shops	~40%	~60%

Source: Company reports

Exhibit 34: Over the next 12-18 months, BROS's pivot to build-to-suit construction – with its lower upfront capital costs -- should enhance free cash flow

Unit level economics, build-to-suit vs ground lease

	Build-to-suit	Ground Lease

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Exhibit 35: Using Tucson AZ as a benchmark – a conservative approach given that the company continues to densify the market– we see room for 4000 + stores long term, in line with company guidance

BROS Saturation Analysis

MSA	Store Count	Est 2022 Pop (mm)	stores/mm	Store count at Tucson, AZ density
Portland-Vancouver-Beaverton, OR-WA MSA	55	2.5	21.9	55
Phoenix-Mesa-Scottsdale, AZ MSA	52	5.0	10.4	71
Dallas-Fort Worth-Arlington, TX MSA	48	7.9	6.0	113
San Antonio, TX MSA	25	2.7	9.4	38
Houston-Sugar Land-Baytown, TX MSA	24	7.3	3.3	104
Las Vegas-Paradise, NV MSA	23	2.3	9.9	33
Boise City-Nampa, ID MSA	23	0.8	28.3	23
Denver-Aurora, CO MSA	23	3.0	7.7	42
Medford, OR MSA	19	0.2	85.7	19
Eugene-Springfield, OR MSA	16	0.4	41.8	16
Salem, OR MSA	16	0.4	36.7	16
Tucson, AZ MSA	15	1.1	14.2	15
Riverside-San Bernardino-Ontario, CA MSA	13	4.7	2.8	66
Colorado Springs, CO MSA	13	0.8	17.0	13
Fresno, CA MSA	12	1.0	11.8	14
Austin-Round Rock, TX MSA	12	2.4	5.0	34
Kansas City, MO-KS MSA	12	2.2	5.4	31
Spokane, WA MSA	11	0.6	18.4	11
Bend, OR MSA	10	0.2	48.4	10
Oklahoma City, OK MSA	10	1.5	6.9	21
Top 20 MSAs by store count	432	47.0	9.2	746
Smaller MSAs by store count ex Northeast	295	202.4	1.5	2870
Other	80	27.8	2.9	394
Total ex Northeast	807	277.2	2.9	4010

Northeast states include CT, ME, MA, NH, RI, VT, NY, NJ, PA

Source: AggData, US Census Bureau, BofA Global Research estimates

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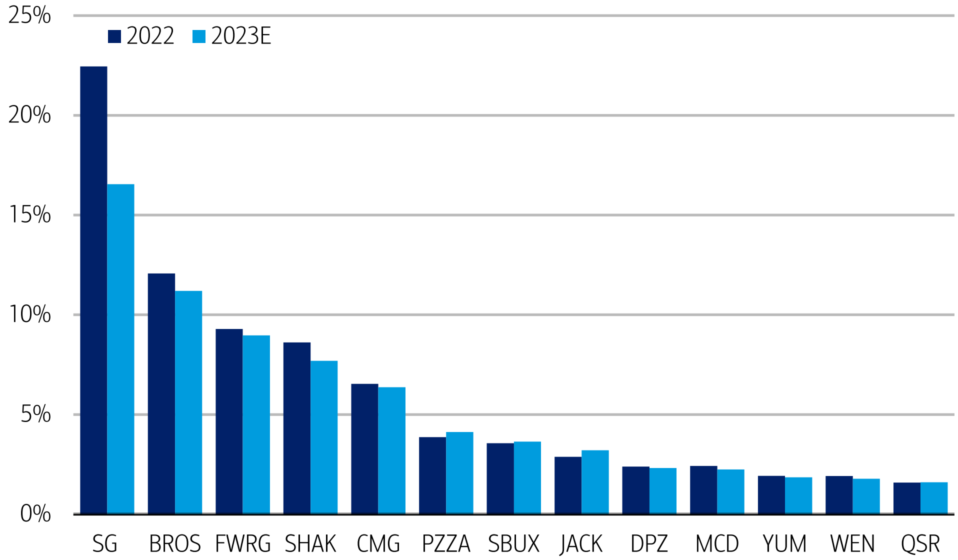
And operationally, while BROS will continue to invest at the company level (G&A) and the store level, we believe the deployment of measurement tools and scorecards as well as regular coaching should allow the company to offset these costs through greater efficiencies elsewhere.

Exhibit 36: BROS' G&A ratio is elevated; we see room for continued G&A leverage as efficiencies/scale offsets investments in technology and people

G&A over system sales (sales of company operated and licensed/franchised units)



Source: Company reports, BofA Global research

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Updating Estimates and POs

We are updating estimates for SBUX, JACK, FWRG, BROS, PTLO and PZZA to incorporate current demand trends, as well as guidance on unit growth and store portfolio shifts. We are also updating POs for JACK, PZZA, and SBUX to reflect estimate changes and market multiple changes.

We are recalibrating our BROS estimates following the ICR conference in early January (see a link to our takeaways here: ICR Quick Takes: PZZA, BROS, FWRG. For 4Q, we lower our EBITDA to reflect lower unit productivity, higher company-operated costs, and higher pre-opening expenses. Our F23 EBITDA estimate increases due to a summation error in our prior model. For F24, we are raising our revenue forecasts as our assumptions for higher new unit productivity offset lowered new unit growth expectations (to the midpoint of BROS' initial F24 unit growth guidance). Similarly, we adjust our FWRG estimates to reflect the company's 4Q pre-announcement at ICR; our updated forecasts incorporate the company's preliminary 4Q SSSG and new unit openings.

Our PO for BROS is unchanged as we derive our PO from steady-state earnings power based valuation. Our $48 PO denotes estimated fair value based on normalized earnings power for BROS. We estimate that at $9.2 bb in sales, assuming stable RLMs and 8% G&A, BROS would generate $1.5 bb in EBITDA. Applying a 14x multiple and discounting back equates to a $48 fair value in one year. We believe a 14x multiple is justified by Dutch Bros' long growth runway and high returns, and we note it is comparable to other restaurants and retailers with similar growth profiles that have sustained elevated earnings multiples over time. Our PO for FWRG is also unchanged (at $28); we believe FWRG should trade at a premium consistent with its faster growth and higher returns. We apply a 14x multiple to our forward EBITD estimates (4Q24-3Q25, $125mm) to arrive at our $28 PO. This target multiple is in line with high growth peers' average of 14x.

Our $25 PO for PTLO is also unchanged as we derive our PO from steady-state earnings power based valuation. We assume PTLO grows its store base at 13% to reach 725 stores in the long term, and that average volumes grow with inflation. At $7.7 bb in sales, assuming stable RLMs and 8% G&A, PTLO would generate $1.4 bb in EBITDA. Applying an 11x multiple and discounting back equates to a $25 fair value in one year.

We lower our SBUX estimates to reflect NT demand headwinds in North America and China; our lowered estimates mainly reflect downwardly revised SSSG estimates. For JACK and PTLO, we are lowering our estimates to reflect each company's updated guidance provided at the ICR conference in early January (see a link to our takeaways including updated PTLO & JACK guidance here: ICR 2024 Key Takeaways). Our JACK estimates reflect higher G&A expenses and dilutive impact from the company's planned refranchising of 130 Del Taco units. Our updated PTLO estimates reflect higher pricing (additional price increase in January) as well as higher commodities and labor inflation expectations (initial F24 guidance of 4-6%). We lower our PZZA estimates to reflect the company's 4Q pre-announcement (higher NA SSSG, lower International SSSG).

To arrive at our $128 PO (higher vs $121 prior) for SBUX, we apply a 1.5x relative multiple (implies 27x vs 24.7x prior) to our forward EPS 12 months from now (F25: $4.81). Our higher PO reflects higher market multiples.

To arrive at our $90 PO (vs $89 prior) for PZZA we apply a 1.5x relative multiple (unchanged; implies absolute P/E multiple of 27x vs 23.9x prior) to our forward EPS 12 months from now (4Q24-3Q25: $3.36). Our higher PO reflects higher market multiples.

To arrive at our $97 PO (higher vs $95 prior) for JACK we apply a 0.7x relative multiple (implies 13.1x absolute multiple, unchanged vs 13.1x prior) to our forward EPS 12 months from now (F25: $7.44). Our higher PO reflects our higher EPS estimates.

Exhibit 37: We lower our 4Q EBITDA estimate to reflect lower NT new unit productivity; we expect higher productivity in F24

Dutch Bros BofA Estimates – Prior vs New

	Prior 4Q23E	New 4Q23E	% Change	Prior 1Q24E	New 1Q24E	% Change	Prior 2023E	New 2023E	% Change	Prior 2024E	New 2024E	% Change
Total Revenue	$253.5	$251.6	(1%)	$255.4	$260.1	2%	$965.2	$963.3	(0%)	$1,214.9	$1,240.2	2%
Adjusted EBITDA	$43.0	$29.7	(31%)	$32.0	$31.9	(0%)	$151.4	$155.2	3%	$206.0	$200.4	(3%)
Adj. EBITDA Margin	17.0%	11.8%	-515bps	12.5%	12.3%	-24bps	15.7%	16.1%	43bps	17.0%	16.2%	-80bps
Adjusted Diluted EPS	$0.10	$0.03	(74%)	$0.04	$0.03	(29%)	$0.37	$0.30	(20%)	$0.46	$0.38	(17%)

Source: BofA Global Research estimates

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Exhibit 38: Our updated FWRG estimates reflect lower traffic in 4Q and higher new unit productivity in F24

First Watch BofA Estimates - Prior vs New

	Prior 4Q23E	New 4Q23E	% Change	Prior 1Q24E	New 1Q24E	% Change	Prior 2023E	New 2023E	% Change	Prior 2024E	New 2024E	% Change
Total Revenue	$243.5	$234.9	(4%)	$249.7	$249.7	0%	$890.4	$881.8	(1%)	$1,033.2	$1,057.8	2%
Adjusted EBITDA	$18.2	$17.4	-4%	$30.2	$30.3	0%	$93.0	$92.3	-1%	$105.1	$104.2	-1%
Adjusted EBITDA margin	7%	7%	-5bps	12%	12%	1bps	10%	10%	1bps	10%	10%	-33bps
Adjusted EPS	$0.06	$0.06	-6%	$0.19	$0.19	0%	$0.48	$0.48	-1%	$0.54	$0.51	-4%

Source: BofA Global Research estimates

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Exhibit 39: We lower our JACK estimates to reflect higher G&A expense and dilutive impact of refranchising

JACK's BofA Estimates - Prior vs New

	Prior 1Q24E	New 1Q24E	% Change	Prior 2Q24E	New 2Q24E	% Change	Prior 2024E	New 2024E	% Change

Exhibit 39: We lower our JACK estimates to reflect higher G&A expense and dilutive impact of refranchising
JACK's BofA Estimates - Prior vs New

	Prior	New	% Change	Prior	New	% Change	Prior	New	% Change
Total Revenue	$480.6	$480.4	(0%)	$365.5	$364.9	(0%)	$1,570.6	$1,567.3	(0%)
Adjusted Diluted EPS	$2.02	$1.99	(2%)	$1.64	$1.53	(7%)	$6.50	$6.46	(1%)
Adjusted EBITDA	$99.4	$97.7	(2%)	$77.4	$74.6	(4%)	$317.1	$314.9	(1%)
Adjusted EBITDA margin	21%	20%	-35bps	21%	20%	-74bps	20%	20%	-10bps

Source: BofA Global Research estimates

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Exhibit 40: We raise our PTLO estimates to reflect higher pricing; our F24 EBITDA comes down on higher commodities & labor costs
Portillo's BofA Estimates - Prior vs New

	Prior 4Q23E	New 4Q23E	% Change	Prior 1Q24E	New 1Q24E	% Change	Prior 2023E	New 2023E	% Change	Prior 2024E	New 2024E	% Change
Revenue	$183.6	$183.6	0%	$179.4	$180.0	0%	$675.6	$675.6	0%	$759.4	$756.3	0%
Adjusted EBITDA	$23.4	$23.5	1%	$22.7	$22.5	-1%	$99.5	$99.7	0%	$110.4	$105.3	-5%
Adjusted EBITDA Margin	12.7%	12.8%	9bps	12.7%	12.5%	-17bps	14.7%	14.8%	2bps	14.5%	13.9%	-61bps
Adjusted Diluted EPS	$0.14	$0.15	2%	$0.14	$0.13	-1%	$0.68	$0.68	0%	$0.79	$0.73	-7%

Source: BofA Global Research estimates

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Exhibit 41: We lower our PZZA estimates to reflect lower International SSSG and higher company operated costs
Papa John's BofA Estimates - Prior vs New

	Prior 4Q23E	New 4Q23E	% Change	Prior 1Q24E	New 1Q24E	% Change	Prior 2023E	New 2023E	% Change	Prior 2024E	New 2024E	% Change
Total Revenue	$597.6	$589.7	(1%)	$545.8	$554.5	2%	$2,162.0	$2,154.1	(0%)	$2,250.9	$2,245.0	(0%)
Adjusted EBITDA	$64.0	$60.3	(6%)	$57.9	$58.3	1%	$220.4	$216.8	(2%)	$244.7	$234.3	(4%)
Adjusted EBITDA margin	11%	10%	-47bps	11%	11%	-8bps	10%	10%	-13bps	11%	10%	-44bps
Adjusted diluted EPS	$0.85	$0.76	(10%)	$0.74	$0.70	(5%)	$2.64	$2.56	(3%)	$3.24	$2.89	(11%)

Source: BofA Global Research estimates

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Exhibit 42: We are lowering our SBUX estimates to reflect lower US SSSG and lower China SSSG
Starbucks BofA Estimates - Prior vs New

	Prior 1Q24E	New 1Q24E	% Change	Prior 2Q24E	New 2Q24E	% Change	Prior 2024E	New 2024E	% Change	Prior 2025E	New 2025E	% Change
Net Revenues	$9,566	$9,446	-1%	$9,527	$9,422	-1%	$39,728	$39,342	-1%	$43,880	$43,211	-2%
Adjusted EBITDA	$1,921	$1,886	-2%	$1,824	$1,822	0%	$8,404	$8,268	-2%	$9,618	$9,444	-2%
Adjusted EBITDA margin	20%	20%	-12bps	19%	19%	19bps	21%	21%	-14bps	22%	22%	-6bps
Adj. diluted EPS	$0.95	$0.93	-2%	$0.86	$0.87	1%	$4.18	$4.12	-1%	$4.92	$4.81	-2%

Source: BofA Global Research estimates

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Exhibit 43: 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$ 27.86	C-1-9
BLMN	BLMN US	Bloomin Brands	US$ 24.79	C-2-7
CAKE	CAKE US	Cheesecake Factory	US$ 32.39	C-2-7
CBRL	CBRL US	Cracker Barrel	US$ 72.07	B-3-7
CMG	CMG US	Chipotle Mex Grill	US$ 2271.9	B-1-9
DRI	DRI US	Darden Restaurants	US$ 157.13	B-1-7
DPZ	DPZ US	Domino's Pizza	US$ 411.3	B-1-7
DNUT	DNUT US	Krispy Kreme	US$ 13.71	C-1-7
EAT	EAT US	Brinker Intl	US$ 38.2	C-3-9
FWRG	FWRG US	First Watch	US$ 19.51	C-1-9
MCD	MCD US	McDonald's	US$ 293.47	A-2-7
PZZA	PZZA US	Papa Johns Int	US$ 71.89	B-1-7
PTLO	PTLO US	Portillo's Inc.	US$ 14.32	C-1-9
QSR	QSR US	Restaurant Brands In	US$ 78.45	B-3-7
SBUX	SBUX US	Starbucks	US$ 91.98	B-1-7
SG	SG US	Sweetgreen	US$ 10.97	C-1-9
SHAK	SHAK.US	Shake Shack	US$ 65.9	C-2-9
TXRH	TXRH US	Texas Roadhouse	US$ 116.78	B-1-7
YUM	YUM US	Yum Brands Inc	US$ 129.13	B-2-7
WEN	WEN US	Wendy's Co	US$ 19.47	B-3-7
WING	WING US	Wingstop Inc	US$ 261.27	C-1-7

Source: BofA Global Research

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Definitions

FAH: Food at Home. Food purchased from groceries or prepared at home.

FAFH: Food Away From Home. Food purchased at restaurants, bars or other eating establishments. Includes delivery from eating places.

FSR: Full Service Restaurants provide individually prepared meals and front of house services such as a sit down area and wait staff.

LSR: Limited Service Restaurants provide individually portioned pre-prepared meals with limited front of house service.

Price objective basis & risk

Bloomin Brands (BLMN)

Relative to the S&P 500, BLMN's present P/E multiple is 0.4x, below its 5-year average (excluding the COVID-19 spike). We believe the multiple is unlikely to expand in the near term given the lack of visibility on the demand environment. We apply this multiple of 0.6x (10.1x absolute) to our 12 month forward estimates - 4Q24-3Q25 EPS of $2.97- to arrive at our $30 PO.

Downside Risks: 1) Bloomin' Brands same-store sales growth could be slower than expected if macro headwinds translate into lower restaurant consumption or sales driving initiatives lack traction, 2) Restaurant-level margins could come under further pressure if topline growth falters, 3) Normalizing G&A expense could pressure margins.

Upside Risks: 1) Same-store sales growth could exceed expectations if menu or marketing initiatives prove better than expected, 2) Cost saving initiatives could drive restaurant level margins above historical averages, 3) Ability to improve already low G&A expense ratio could support margins.

Brinker International (EAT)

Brinker's relative valuation to the S&P is 0.6x, in line with its 5-year historical average (0.6x), which we view as the relevant time frame given higher leverage and slower growth vs the more distant past. We valuation to remain in line with the historical range as Chili's growth trajectory normalizes, and the market is less willing to ascribe a premium multiple for a potential turnaround. Applying a 0.6x relative multiple (absolute P/E 9.2x) to our 12-month-forward EPS (F25: $4.01) we arrive at our $37 PO.

Upside risks are i) higher-than-expected demand from consumer trade-down into lower price point casual dining brands, which could drive Chili's sales volumes above our forecasts, ii) higher than forecasted debt pay down, which could expand Chili's relative multiple above our target valuation, iii) higher margins and returns at Chili's as a result of moderating commodities and wage inflation.

Downside risks are i) a significant slowdown in consumer spending could pressure EAT's topline growth, exacerbating the risk of company's high operating and financial leverage, ii) increased competitive intensity from casual dining peers, which would put downward pressure on Chili's average volumes and unit level returns.

Chipotle Mexican Grill (CMG)

Our $2,570 price objective is based on earnings power. At the current unit growth rate, we think Chipotle should be able to reach its targeted 8000 store count in roughly 8 years. By then we'd expect AUVs to be $4.2 mm - under the assumption that comps increase in-line with cost inflation - and margins to be in line with prior peaks of 27%. Assuming a G&A of 5%, which is more similar to mature company operated systems, this system would generate $6.8bb in EBITDA. At a 20x multiple, consistent with current valuation multiples on high growth companies, the implied EV would be $159bb, or $63bb discounted back to today at WACC of 10%. We then add the current net cash and project out 12 months at cost of equity of 10% to derive our price objective of $2,570.

Downside risks are: 1) lower than expected consumer uptake of new product innovations or digital ordering capabilities, 2) higher than expected food or labor costs that Chipotle is unable to offset with increased pricing, and 3) macroeconomic pressures that slow consumer income growth or otherwise dampen consumption.

Cracker Barrel (CBRL)

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. We apply a 0.7x relative P/E multiple to our forward estimates 12 months from now (2Q25-1Q26, $5.52) to arrive at a $68 PO, that translates into an absolute PE of 12.3x.

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.

Darden Restaurants (DRI)

Our 12-month $193 price objective is based on a target relative P/E multiple (1.0x) on our forward estimates ($10.25). Our target relative multiple (vs the S&P) is in-line with Darden's 10-year historical average multiple, and implies an 18.9x absolute P/E multiple. While investors remain cautious on restaurant spending, we believe fundamental outperformance by best-in-class operators like DRI will prove attractive.

Downside risks are 1) lower-than-expected customer acceptance of menu price increases, 2) inability to offset higher than expected food or labor costs with increased pricing, 3) macroeconomic pressures that slow consumer income growth, 4) slower-than-expected unit growth as a result of inflationary pressures (i.e., utilities costs) and supply-chain constraints.

Domino's Pizza (DPZ)

Given that Domino's returns and growth have consistently outpaced those of the broader market, we believe its historical range remains relevant and we expect the multiple to be stable. We apply the historical average relative P/E multiple of 1.3x to our EPS estimates 12 months from now (4Q24-3Q25: $18.14) to arrive at our $483 PO, or PE of 26.7x.

Downside risks: Market share gains for other larger competitors in the pizza category that impedes Domino's growth, global economic or social issues could disrupt same store sales growth or affect expansion in international markets, and competitive activity in the pizza category remaining high.

Dutch Bros (BROS)

Our $48 price objective denotes estimated fair value based on normalized earnings power for BROS. We estimate that at $9.2 bb in sales, assuming stable RLMs and 8% G&A, BROS would generate $1.5 bb in EBITDA. Applying a 14x multiple and discounting back equates to a $48 fair value in one year. We believe a 14x multiple is justified by Dutch Bros' long growth runway and high returns, and we note it is comparable to other restaurants and retailers with similar growth profiles that have sustained elevated earnings multiples over time.

Risks to our price objective: Dutch Bros could face execution risks to sustain a mid-teens store growth rate which would impede the implied sales growth of our saturation analysis. Margins and returns could also be lower-than-expected if Dutch Bros faces greater margin pressures than anticipated.

First Watch (FWRG)

We believe FWRG should trade a premium consistent with its faster growth and higher returns. FWRG currently trades in line with its peer group of restaurants and retailers with similar above-market growth rates. We believe a valuation in line with other high growth peers is justified owing to FWRG's faster than average topline growth, extended growth runway, as the brand goes national, and higher incremental returns, with restaurant level ROIs of about 40% or 2x other full service restaurants. We apply a 14x multiple to our forward EBITDA estimates (4Q24-3Q25, $125mm) to arrive at our $28 PO. This target multiple is in line with high growth peers' average of 14x.

Downside risks: higher-than-expected cannibalization of existing restaurants due to new store openings, staffing challenges and/or higher-than-expected wage inflation, higher-than-expected occupancy costs as First Watch ramps-up new stores at a faster rate. Upside risks: higher-than-expected AUVs of new units, faster-than-expected SSS growth, lower labor and G&A costs.

Jack in the Box (JACK)

Our $97 price objective is based on a 0.7x relative PE multiple (13.1x absolute) applied to our 12 month forward earnings estimates (F25: $7.44). This is a material discount to highly franchised peers MCD, YUM and QSR given historically slower growth and more capital-intensive ownership model.

Downside risks to our price objective are: 1) sales could soften due to economic or competitive pressures, 2) food and labor costs rise and margins come under renewed pressure, 3) execution risk around speed of service, menu and marketing initiatives which are critical to driving sales at Jack in the Box.

Krispy Kreme (DNUT)

We believe a premium valuation is justified owing to DNUT's robust double digit topline growth, extended growth runway, and higher incremental returns. We apply a 13x multiple (similar to high growth peers) to our forward estimate 12 months from now (4Q24-3Q25: $299mm) to arrive at our $19 PO.

Downside risks: potential industry headwinds from higher-than-expected wages, logistics, and commodity cost inflation, competition from other indulgence and foodservice businesses, and failure to achieve targeted unit growth due to higher than expected costs or other factors.

Upside risks: faster than expected growth in global access points, organic growth above the company's stated long-term growth targets, higher than expected share gains in the global indulgence and foodservice markets.

McDonald's (MCD)

Our 12-month $291 price objective is based on a 22x P/E multiple on our forward estimates, in line with a relative P/E multiple of 1.3x reflecting limited opportunities for margin expansion due to the franchised model, despite continued topline strength. We apply the relative P/E multiple to our 4Q24-3Q25 estimates (of $13.22) to arrive at our $291 PO.

Risks to our price objective:
To the upside, McDonald's could sustain elevated comps for longer than expected based on company-specific initiatives or industry dynamics. Margins and returns could exceed expectations if McDonald's reduces the pace of investments or identifies unexpected savings opportunities. If investor risk tolerance shifts sharply lower, the relative attractiveness of McDonald's defensive positioning would increase.

To the downside, McDonald's comps could decelerate faster than we anticipate, from either a lack of traction in company initiatives or a deteriorating demand environment. Margins could compress more than expected if McDonald's fails to pass through inflation in food and labor costs.

Papa Johns International (PZZA)

Our $90 PO is based on 4Q24-3Q25 EPS ($3.36) and a 1.5x multiple relative to the S&P (26.8x absolute multiple), in line with its 10-year historical average.

Downside risks: slower-than-expected consumer growth, increased competition in response to slower consumer spending driving promotional intensity, higher-than-expected inflationary pressures, labor shortages.

Portillo's Inc. (PTLO)

We set our $25 PO based on steady state earnings power. We assume PTLO grows its store base at 13% to reach 725 stores in the long term, and that average volumes grow with inflation. At $7.7 bb in sales, assuming stable RLMs and 8% G&A, PTLO would generate $1.4 bb in EBITDA. Applying an 11x multiple and discounting back equates to a $25 fair value in one year.

Risks to our PO: potential industry headwinds from wage inflation (MSD-HSD run rate for the industry) and food cost volatility, inability to fully offset downward pressure on volumes and margins from new store openings, and execution risks as the company looks to sustain a 10% unit growth rate.

Restaurant Brands International Inc. (QSR / YQSR)

Relative to the S&P 500, currently QSR's earnings multiple stands at 1.1x, in line with its 5-yr average. We view this multiple as appropriate as lagging sales trends and greater investment needs drive lower estimate revisions. We apply a 1.1x multiple to our 12 months forward EPS estimate (4Q24-3Q25) EPS to arrive at a price objective of $65 (C$89.80). Our 1.1x relative multiple (vs the S&P 500) translates to an absolute P/E multiple of 18.2x.

Upside risks: better-than-expected results on sales trends and market share gains as a result of investments in stores, technology, and marketing spend. Faster than expected turnaround in the Burger King brand. Faster-than-expected growth of the Tim Horton's brand.

Downside risks: Higher than expected G&A spending, continued lag in topline growth trends relative to competitors, slower than expected recovery in supply chain and/or labor constraints associated with COVID-19.

Shake Shack (SHAK)

We set our $75 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 with inflation. At $7.3 bb in sales, assuming stable RLM expansion from 18% to 21% and 9% G&A, SHAK would generate $652mm in EBITDA. Applying an 11x terminal multiple and discounting back equates to a $75 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.

Starbucks (SBUX)

Starbucks should trade at 1.5x relative to the S&P 500. This translates to an absolute multiple of 26.6x. We apply this multiple to our F25 EPS of $4.81 to arrive at our PO of $128. We believe that the multiple is justified given tailwinds as China reopens, increased investments associated with labor, operations, and unit development, as well as a return to a higher long term growth algorithm.

Downside risks: Starbucks' comps could decelerate faster than anticipated either from a lack of traction in company initiatives or a deteriorating demand environment. Margins could compress more than expected if Starbucks fails to pass through inflation in labor costs.

Sweetgreen (SG)
Our $16 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 16.5x terminal multiple - consistent with mature growth restaurant peers - after adjusting for SG's domestic, company-operated status - to arrive at EV of $4.5 bb, or $1.5 bb discounted back to today at 12%.

Downside risks include 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.

Texas Roadhouse (TXRH)
Relative to the S&P 500, TXRH's P/E multiple is below its 5-year average of 1.2x (we exclude COVID valuation spikes from 5-year history). We view its 5-year average as the appropriate target multiple given TXRH's best-in-class traffic trends and topline growth and our expectations for further operating leverage. Our PO of $123 is based on a relative multiple of 1.2x (vs the S&P 500 index, or a 19.4x absolute multiple) on our 12-month forward EPS (4Q24-3Q25, $6.36).

Downside risks are: i) lower-than-expected retail beef prices and as a result, decreased value proposition for steakhouses, ii) traffic growth deceleration in response to menu price increases, iii) greater than expected slowdown in consumer spending / macroeconomic risk pressuring discretionary income, iv) slower than expected unit growth at Texas Roadhouse.

The Cheesecake Factory (CAKE)
Relative to the S&P 500, CAKE is trading at 0.6x P/E, 1 standard deviation below its 5-year average (excluding the COVID-spike). With inflation moderating from F22 levels and consumer spending slowing, we believe it will be difficult for CAKE to raise prices and grow SSS meaningfully above its long-term historical average (of 1%). Our $33 PO is derived by applying a 0.5x relative multiple (9.8x absolute) to our EPS 12 months from now. We validate our PO against a DCF.

Downside risks i) higher than expected wage inflation in California (18% of Cheesecake Factory units), ii) traffic share losses due to consumer trade down, iii) slower than expected demand from higher income cohorts (Cheesecake Factory and North Italia skew higher income). Upside risks i) higher than expected SSS growth form menu price increases, ii) more resilient than expected spending among higher income cohorts, iii) higher than expected brand resonance in new markets, translating to higher volumes for new units.

Wendy's Co (WEN)
Relative to the S&P 500, Wendy's valuation is currently trading below its 5-year average (1.3x). Despite efforts to bolster the new unit pipeline, we see risks to the unit growth target, We apply a 1.1x relative multiple (17.8x absolute multiple) to our EPS 12 months from now (4Q24-3Q25: $1.17) to arrive at our $21 PO.

Upside risks: higher than expected incremental tailwinds / higher sales mix from breakfast or other menu innovation, faster than expected international unit growth, greater than expected market share gains as a result of strategic initiatives or competitive advantages.

Downside risks: comps could disappoint if consumers resume pre-COVID behavior faster than expected, Wendy's could miss international unit growth targets if licensees fail to open new units at the expected pace.

Wingstop Inc (WING)

We set our $285 PO based on steady state earnings power. We assume WING grows its store base at 14% to reach 9,123 restaurants. Assuming RLMs of 30% and G&A at 1.8% of system sales we arrive at EBITDA of $1.2bb. Applying a 18x terminal multiple in-line with mature growth franchised restaurants and discounting back we arrive at our $285 PO.

Risks to our PO: potential industry headwinds from wage inflation, and food cost volatility, inability to fully offset downward pressure on volumes and margins from new store openings, and execution risks as the company looks to sustain a 10%+ unit growth rate.

Yum Brands Inc (YUM)

Our $130 PO is based on YUM trading at a 1.3x relative P/E multiple and works out to a PE of 20.9x on 4Q24-3Q25 EPS. On valuation, Yum Brands currently sits above its historical 5-year averages. Although EPS growth exceeded that of the market against last year's COVID depressed results, we expect growth to moderate from here. Yum's returns on assets have been stable relative to the market. We believe the historical range remains relevant and supports our estimates.

Upside risks: faster than expected recovery from COVID restrictions in China, better than expected unit growth in China, and ability for top-line growth to offset a difficult YoY comparison given 2020's strong comps.

Downside risks: weak China comp and unit growth due to slower recovery, ongoing competitive challenges in China, continued soft sales trends in the KFC and Pizza Hut brands.

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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 Johns 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

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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