

## Restaurants Industry

## Restaurants Weekly: Sweet on automation

## Industry Overview

## W/e 3/15: Restaurants lag the market; growth leads

For the week ended 3/15, the S&P Restaurant Index (-2.0%) underperformed the market (S&P 500: -0.1%) for the second consecutive week. While performance was mixed by segment and cap size, we believe the market favored restaurants with “visible” growth (e.g., consistently positive traffic, high unit growth), with SG (+18.2%), BROS (12.2%), TXRH (2.6%), and CMG (2.6%) among the week’s leaders. SG’s strong outperformance was partly due to positive QTD commentary (at our Consumer and Retail Conference on 3/12, SG called out seeing low-double digit SSSG over the past few weeks; see our [Consumer Conference Takeaways note](#)). YTD laggards DNUT, PTLO, and CBRL were among the week’s underperformers. Year-to-date, SG, SHAK, and WING lead the sector, with gains of 96.3%, 39.9%, and 35.5%, respectively.

## Chart of the week: Quantifying automation benefits

This week’s chart of the week draws from our recently published technology primer ([Restaurants Technology Primer: Automating restaurants](#)). Back-of-house robotics remain on the vanguard of automation. Companies like CMG and SG have invested in collaborative robotics to automate food prep and assembly. SG is currently rolling out collaborative robot technology known as “Infinite Kitchen (IK).” The IK is a robotic makeline that funnels orders (placed online or in-store via kiosks) and can assemble 500 bowls per hour. While the IK technology is nascent (2 stores with IK are open today, vs SG’s ~220 store base), we see SG as a beneficiary of robotic production because of its “assembly line” operating model. We estimate that IK restaurants could generate store-level returns 5-10 ppts above the current fleet (Exhibit 3). First, IK has ~7 points of labor savings that fall through to restaurant-level margins (i.e., eliminating labor associated with food assembly). We see potential for IK to contribute additional benefits like labor savings associated with lower turnover, topline benefits from higher ticket (kiosks drive ~10% higher average ticket) and higher volumes (particularly in capacity constrained stores in urban locations), and lower build costs over time as IK scales.

## Industry relative valuation &amp; 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 6.

## Upcoming events: BROS mtg, Darden F3Q EPS

This week, we are hosting meetings with BROS CEO and CFO on Tuesday 3/19 in NYC. Darden (DRI) reports F3Q24 EPS on Thursday 3/21 before market open. Please see our DRI EPS preview entitled [Darden Restaurants: 3QF24 EPS Preview](#). Please reach out to your BofA salesperson or Sara Senatore (sara.senatore@bofa.com) if you are interested in catching up after the meetings and/or earnings.

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18 March 2024

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## Stock symbol key:

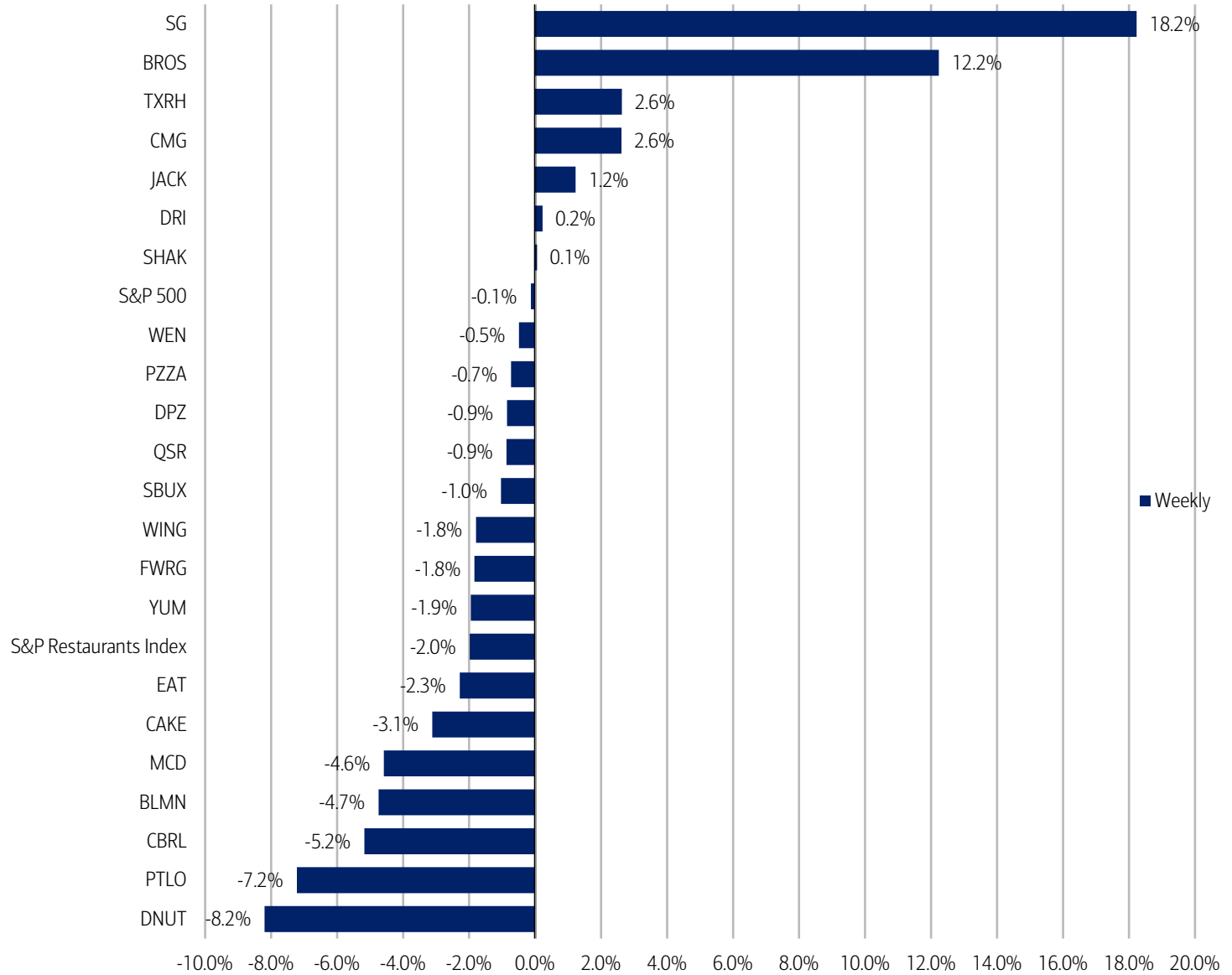
BLMN: Bloomin’ Brands  
BROS: Dutch Bros  
DRI: Darden Restaurants  
CAKE: Cheesecake Factory  
CBRL: Cracker Barrel  
CMG: Chipotle  
DNUT: Krispy Kreme  
DPZ: Domino’s  
EAT: Brinker International  
FWRG: First Watch  
JACK: Jack in the Box  
MCD: McDonald’s  
PTLO: Portillo’s  
PZZA: Papa Johns  
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”)  
QTD: quarter-to-date

**Exhibit 1: Restaurant stocks underperformed the market last week**

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

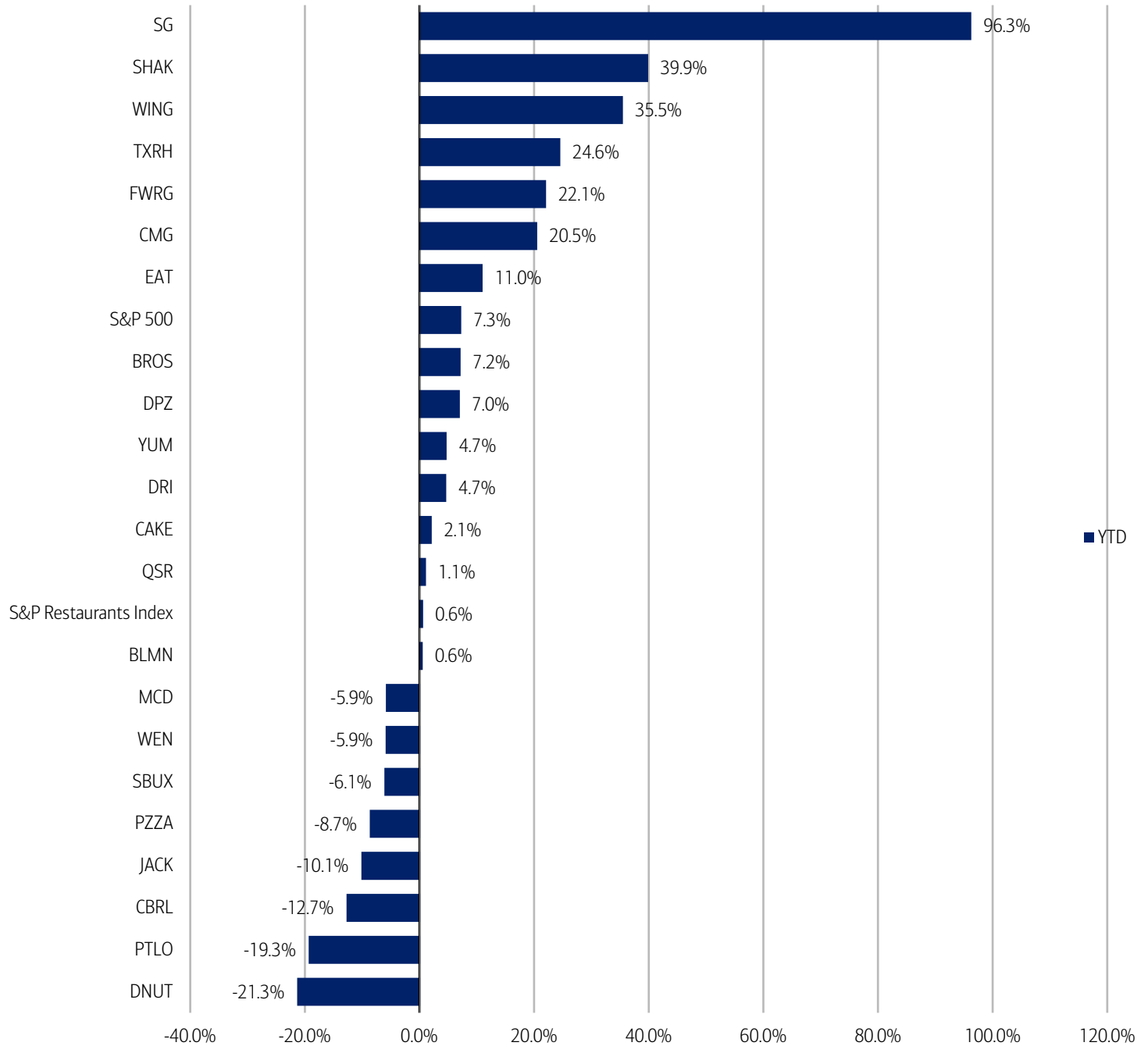


Source: Bloomberg

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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: Quantifying automation benefits

This week's chart of the week draws from our recently published technology primer ([Restaurants Technology Primer: Automating restaurants](#)). Back-of-house robotics remain on the vanguard of automation. Companies like CMG and SG have invested in collaborative robotics to automate food prep and assembly. SG is currently rolling out collaborative robot technology known as "Infinite Kitchen (IK)." The IK is a robotic makeline that funnels orders (placed online or in-store via kiosks) and can assemble 500 bowls per hour. While the IK technology is nascent (2 stores with IK are open today, vs SG's ~220 store base), we see SG as a beneficiary of robotic production because of its "assembly line" operating model. We estimate that IK restaurants could generate store-level returns 5-10 ppts above the current fleet (Exhibit 3). First, IK has ~7 points of labor savings that fall through to restaurant-level margins (i.e., eliminating labor associated with food assembly). We see potential for IK to contribute additional benefits like labor savings associated with lower turnover, topline benefits from higher ticket (kiosks drive ~10% higher average ticket) and higher volumes (particularly in capacity constrained stores in urban locations), and lower build costs over time as IK scales.

### Exhibit 3: Assuming SG can achieve target AUVs and RLMs, higher ticket, and scale build costs over time we estimate store-level returns of 46%

Sweetgreen unit economics (est) by store format: traditional vs Infinite Kitchen (with various assumptions)

	Current Store Fleet (F23)	Infinite Kitchen Format - Scenario 1 (Normal AUVs)	Infinite Kitchen Format - Scenario 2 (10% Higher Ticket)	Infinite Kitchen Format - Scenario 3 (Retrofit, Higher AUVs)	Infinite Kitchen Format - Scenario 4 (LT AUV, RLM Guidance, Higher Ticket, Lower Build Costs)
	SG	SG	SG	SG	SG
Average Store Count	221				
Average Unit Volume	\$2.87	\$2.87	\$3.16	\$3.16	\$3.30
Cost of Sales	\$0.79 28%				
Labor and other related expenses	\$0.84 29%				
Occupancy	\$0.27 9%				
Other Operating Costs	\$0.47 16%				
Occupancy and other	\$0.73 26%				
Company Operated Costs	\$2.37 83%	\$2.17 76%	\$2.39 76%	\$2.39 76%	\$2.41 73%
Restaurant level margin (EBITDA)	\$0.50 17%	\$0.70 24%	\$0.77 24%	\$0.77 24%	\$0.89 27%
Initial Investment	\$1.50	\$2.0	\$2.0	\$2.2	\$1.9
Avg Sq Ft	2,500	2,500	2,500	2,500	2,500
Sale/Sq Ft	\$1,148	\$1,148	\$1,263	\$1,263	\$1,320
ROI	33%	35%	39%	35%	46%

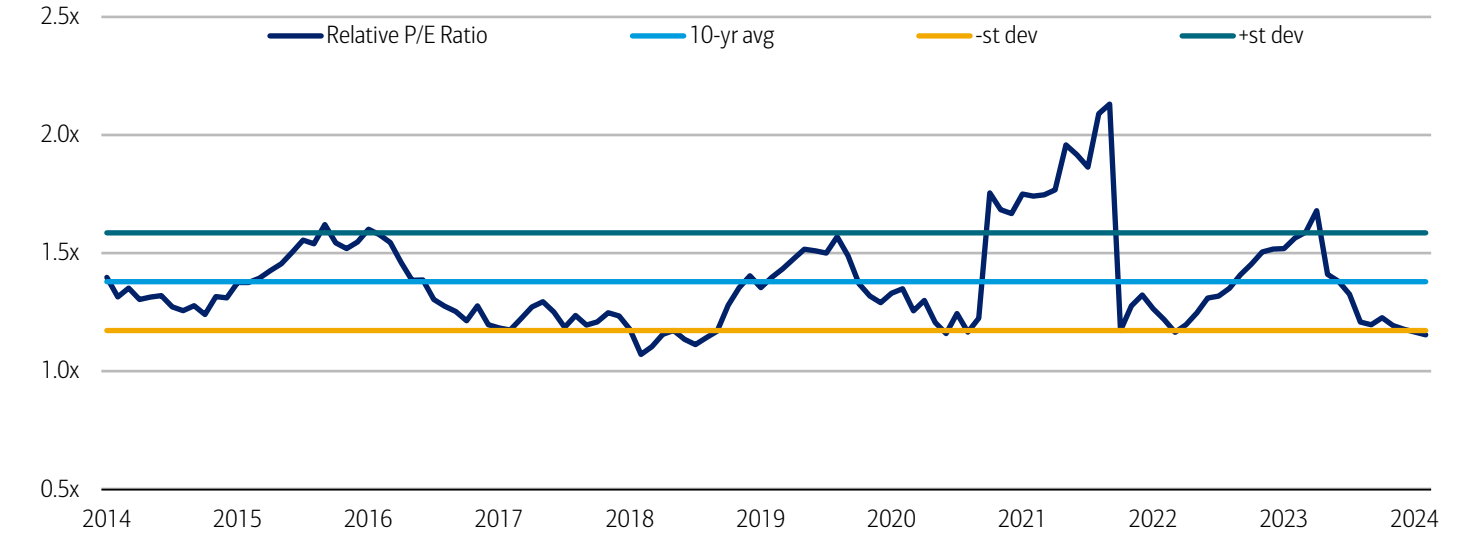
Source: Company filings, BofA Global Research estimates

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# Valuation & comps sheet

## Exhibit 4: 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)

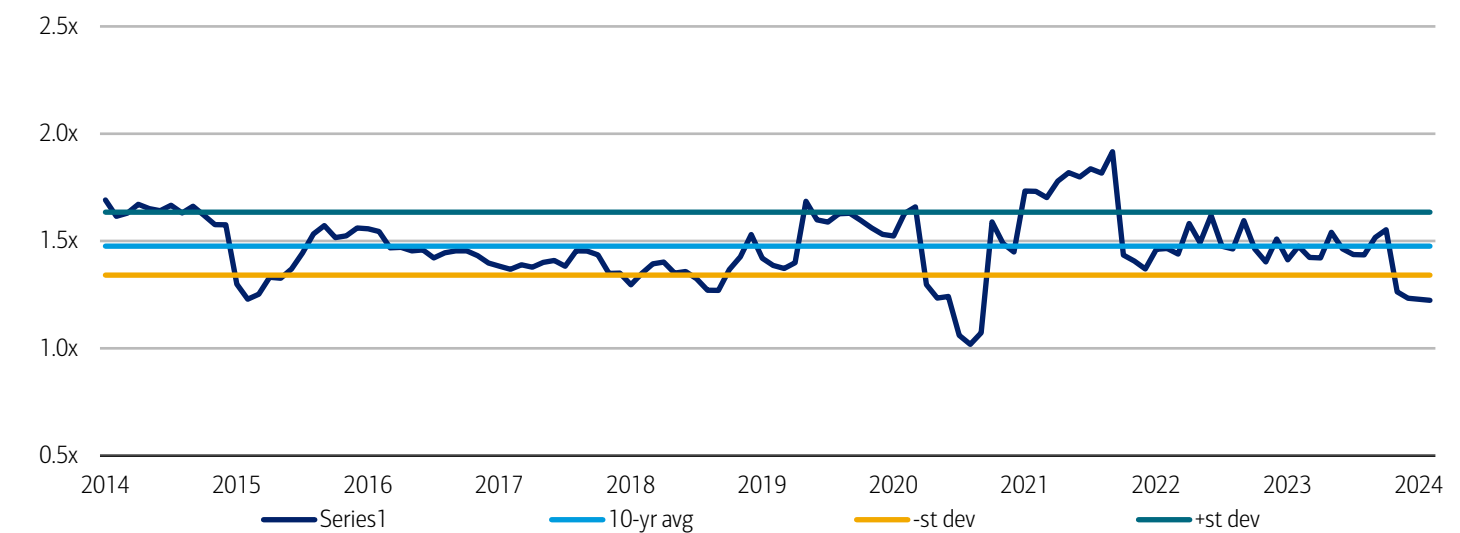


Source: Bloomberg

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## Exhibit 5: 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 6: Restaurant companies across the Limited Service and Full Service industries**

Restaurants valuation sheet

\$ in mm except per share values						Price Performance			EV/EBITDA			P/E			EBITDA			EPS				
Company	Rating	Last Price	Price Objective	*Upside/Downside to PO (%)	1 wk	3M	YTD	Market Cap	Enterprise Value	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E	
Limited Service																						
Dutch Bros	BROS	Buy	\$33.94	\$48	41%	12%	14%	7%	\$6,012	\$5,996	37.5x	31.4x	24.0x	106.5x	90.9x	60.4x	\$160	\$191	\$250	\$0.32	\$0.37	\$0.56
Krispy Kreme	DNUT	Buy	\$11.87	\$16	35%	-8%	-16%	-21%	\$2,002	\$2,915	13.8x	12.5x	11.4x	43.8x	38.9x	30.6x	\$212	\$234	\$255	\$0.27	\$0.30	\$0.39
Starbucks	SBUX	Buy	\$90.12	\$127	41%	-1%	-7%	-6%	\$102,034	\$114,975	16.1x	14.1x	12.3x	25.5x	22.2x	18.8x	\$7,163	\$8,175	\$9,370	\$3.54	\$4.06	\$4.79
Fast Food																						
Domino's Pizza	DPZ	Buy	\$441.22	\$550	25%	-1%	10%	7%	\$15,360	\$20,190	22.4x	20.7x	18.8x	30.1x	27.6x	23.5x	\$900	\$977	\$1,076	\$14.67	\$16.00	\$18.79
Jack in the Box	JACK	Buy	\$73.35	\$104	42%	1%	-11%	-10%	\$1,433	\$3,287	10.1x	9.8x	9.4x	12.2x	11.3x	9.9x	\$324	\$337	\$350	\$6.02	\$6.51	\$7.44
El Pollo Loco	LOCO	NC	\$8.53			-2%	-4%	-3%	\$267	\$363	7.1x	6.8x	NM	13.1x	12.0x	NM	\$51	\$53	NM	\$0.65	\$0.71	NM
McDonald's	MCD	Neutral	\$279.14	\$341	22%	-5%	-3%	-6%	\$201,553	\$237,008	17.3x	16.1x	15.2x	23.4x	22.1x	20.6x	\$13,710	\$14,758	\$15,576	\$11.94	\$12.60	\$13.56
Papa John's	PZZA	Buy	\$69.61	\$90	29%	-1%	-6%	-9%	\$2,281	\$3,031	13.7x	13.1x	11.7x	25.7x	25.1x	19.9x	\$221	\$231	\$259	\$2.71	\$2.77	\$3.50
Carrols Restaurant Group	TAST	NC	\$9.48			0%	30%	20%	\$544	\$971	6.3x	NM	NM	NM	NM	NM	\$155	NM	NM	\$0.57	NM	NM
Restaurant Brands International	QSR	Underperform	\$79.01	\$78	-1%	-1%	7%	1%	\$36,110	\$48,073	18.8x	17.3x	16.0x	24.7x	23.7x	21.5x	\$2,555	\$2,786	\$2,996	\$3.19	\$3.33	\$3.68
Wendy's	WEN	Underperform	\$18.33	\$20	9%	0%	-8%	-6%	\$3,766	\$6,082	11.3x	11.2x	10.4x	18.7x	18.2x	15.9x	\$537	\$544	\$586	\$0.98	\$1.01	\$1.15
Wingstop	WING	Buy	\$347.65	\$376	8%	-2%	42%	35%	\$10,199	\$10,824	73.9x	62.8x	52.7x	140.3x	123.5x	101.2x	\$146	\$172	\$205	\$2.48	\$2.82	\$3.43
Yum! Brands	YUM	Neutral	\$136.84	\$151	10%	-2%	6%	5%	\$38,498	\$49,218	20.1x	18.6x	17.3x	26.5x	25.0x	22.7x	\$2,443	\$2,645	\$2,846	\$5.17	\$5.46	\$6.03
Chipotle Mexican Grill	CMG	Buy	\$2,756.39	\$3,000	9%	3%	21%	21%	\$75,583	\$74,536	38.9x	32.8x	27.5x	61.4x	50.7x	41.5x	\$1,916	\$2,272	\$2,712	\$44.87	\$54.35	\$66.34
Sweetgreen	SG	Buy	\$22.18	\$24	8%	18%	106%	96%	\$2,506	\$2,280	-815.8x	189.7x	57.2x	-37.2x	-53.5x	-87.6x	-\$3	\$12	\$40	-\$0.60	-\$0.41	-\$0.25
Shake Shack	SHAK	Neutral	\$103.69	\$113	9%	0%	43%	40%	\$4,387	\$4,397	27.2x	22.5x	19.8x	NM	NM	NM	\$162	\$195	\$223	\$0.37	\$1.14	\$1.20
Cava	CAVA	NC	\$64.16			1%			\$7,314	\$7,015	77.1x	62.1x	48.5x	NM	NM	NM	\$91	\$113	\$145	\$0.22	\$0.31	\$0.41
Limited Service Average											-17.9x	32.8x	23.8x	36.8x	31.8x	23.0x						
BJ's Restaurants	BJRI	NC	\$35.07			-5%	7%	-3%	\$819	\$896	7.6x	7.0x	6.4x	NM	23.2x	19.7x	\$117	\$128	\$140	\$1.21	\$1.51	\$1.78
Bloomin' Brands	BLMN	Neutral	\$28.31	\$30	6%	-5%	8%	1%	\$2,465	\$3,477	6.4x	6.5x	6.2x	9.9x	10.7x	9.7x	\$546	\$532	\$557	\$2.87	\$2.65	\$2.93
Cheesecake Factory	CAKE	Neutral	\$35.76	\$38	6%	-3%	5%	2%	\$1,828	\$2,377	8.7x	8.0x	7.4x	13.3x	11.3x	10.2x	\$273	\$297	\$323	\$2.68	\$3.16	\$3.50
Chuy's	CHUY	NC	\$33.76			-1%	-8%	-12%	\$585	\$530	9.2x	8.3x	7.6x	18.3x	16.2x	14.1x	\$58	\$64	\$70	\$1.85	\$2.08	\$2.40
Dine Brands	DIN	NC	\$47.50			-6%	-4%	-4%	\$725	\$1,834	7.2x	7.0x	6.9x	7.4x	7.0x	5.9x	\$256	\$262	\$265	\$6.44	\$6.78	\$8.00
Darden Restaurants	DRI	Buy	\$171.96	\$198	15%	0%	6%	5%	\$20,534	\$22,267	14.0x	12.5x	11.2x	21.5x	19.2x	17.1x	\$1,590	\$1,777	\$1,982	\$8.00	\$8.94	\$10.08
Brinker International	EAT	Underperform	\$47.93	\$44	-8%	-2%	17%	11%	\$2,120	\$3,029	8.9x	7.4x	6.9x	16.8x	13.3x	12.2x	\$340	\$411	\$438	\$2.85	\$3.60	\$3.94
Dave & Buster's	PLAY	NC	\$62.67			-1%	26%	16%	\$2,519	\$3,815	7.4x	6.8x	6.2x	19.3x	14.5x	11.8x	\$518	\$562	\$613	\$3.24	\$4.31	\$5.32
Red Robin Gourmet Burgers	RRGB	NC	\$6.44			-10%	-44%	-48%	\$100	\$295	4.7x	4.0x	NM	-4.9x	-24.5x	NM	\$63	\$73	NM	-\$1.31	-\$0.26	NM
Texas Roadhouse	TXRH	Buy	\$152.26	\$160	5%	3%	31%	25%	\$10,175	\$10,098	19.9x	16.5x	14.1x	33.5x	27.8x	23.3x	\$507	\$613	\$716	\$4.54	\$5.48	\$6.54
Cracker Barrel	CBRL	Underperform	\$67.27	\$72	7%	-5%	-16%	-13%	\$1,493	\$1,981	8.6x	9.4x	8.2x	12.3x	14.2x	12.7x	\$229	\$211	\$243	\$5.47	\$4.74	\$5.28
Denny's	DENN	NC	\$8.92			-4%	-16%	-18%	\$466	\$732	8.4x	8.0x	7.6x	13.9x	12.0x	11.2x	\$87	\$92	\$97	\$0.64	\$0.74	\$0.80
First Watch	FWRG	Buy	\$24.54	\$31	26%	-2%	27%	22%	\$1,470	\$1,586	16.3x	14.4x	11.8x	59.0x	44.5x	32.3x	\$97	\$110	\$134	\$0.42	\$0.55	\$0.76
ONE Group Hospitality	STKS	NC	\$3.97			15%	-34%	-35%	\$124	\$181	3.8x	3.9x	NM	19.4x	17.3x	NM	\$48	\$47	NM	\$0.21	\$0.23	NM
Full Service Average											9.4x	8.5x	8.4x	18.2x	14.6x	14.9x						
SPX			\$5,117.09			7%			\$5,616		14.0x	12.7x	11.7x	21.3x	18.9x	17.4x	\$402	\$443	\$481	\$240.59	\$271.10	\$293.62

Source: BofA Global Research estimates, Bloomberg for companies not covered; NC – Not Covered; \*Potential Upside/Downside to PO (%)



**Exhibit 7: Restaurant companies across the Limited Service and Full Service industries**

Restaurants key performance indicator sheet

\$ in mm except per share values					EPS			growth y/y (%)			FCF			Net Leverage		
Company	Rating	Last Price	Price Objective	*Upside/Downside to PO (%)	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E
BROS	Buy	\$33.94	\$48	41%	\$0.32	\$0.37	\$0.56	92%	17%	50%	-\$78	-\$109	-\$62	0.0x	0.8x	0.0x
DNUT	Buy	\$11.87	\$16	35%	\$0.27	\$0.30	\$0.39	-9%	13%	27%	-\$67	\$113	\$92	4.0x	3.6x	3.0x
SBUX	Buy	\$90.12	\$127	41%	\$3.54	\$4.06	\$4.79	20%	15%	18%	\$3,675	\$1,380	\$4,699	1.7x	1.8x	1.5x
DPZ	Buy	\$441.22	\$550	25%	\$14.67	\$16.00	\$18.79	17%	9%	17%	\$485	\$646	\$716	5.4x	4.8x	4.5x
JACK	Buy	\$73.35	\$104	42%	\$6.02	\$6.51	\$7.44	-4%	8%	14%	\$57	\$81	\$102	9.7x	9.7x	9.7x
LOCO	NC	\$8.53			\$0.65	\$0.71	NM	-8%	9%	NM	NM	NM	NM	1.1x	1.1x	1.1x
MCD	Neutral	\$279.14	\$341	22%	\$11.94	\$12.60	\$13.56	18%	6%	8%	\$8,310	\$8,818	\$9,119	2.4x	2.1x	1.9x
PZZA	Buy	\$69.61	\$90	29%	\$2.71	\$2.77	\$3.50	-8%	2%	26%	\$116	\$95	\$131	3.4x	3.4x	3.4x
TAST	NC	\$9.48			\$0.57	NM	NM	18%	NM	NM	NM	NM	NM	4.3x	4.3x	4.3x
QSR	Underperform	\$79.01	\$78	-1%	\$3.19	\$3.33	\$3.68	3%	4%	10%	\$1,203	\$2,150	\$2,040	5.2x	4.6x	4.1x
WEN	Underperform	\$18.33	\$20	9%	\$0.98	\$1.01	\$1.15	14%	3%	15%	\$259	\$280	\$302	4.2x	4.1x	3.8x
WING	Buy	\$347.65	\$376	8%	\$2.48	\$2.82	\$3.43	35%	14%	22%	\$91	\$110	\$126	5.1x	5.1x	5.1x
YUM	Neutral	\$136.84	\$151	10%	\$5.17	\$5.46	\$6.03	15%	6%	10%	\$1,318	\$1,562	\$1,751	4.4x	3.8x	3.2x
CMG	Buy	\$2,756.39	\$3,000	9%	\$44.87	\$54.35	\$66.34	37%	21%	22%	\$837	\$1,464	\$1,997	-0.3x	-0.5x	-0.8x
SG	Buy	\$22.18	\$24	8%	-\$0.60	-\$0.41	-\$0.25	-41%	-30%	-39%	-\$63	-\$67	-\$55	-0.1x	-0.1x	-0.1x
SHAK	Neutral	\$103.69	\$113	9%	\$0.37	\$1.14	\$1.20	-256%	210%	5%	\$10	\$28	\$45	2.9x	2.9x	2.9x
CAVA	NC	\$64.16	\$0	-100%	\$0.22	\$0.31	\$0.41	NA	38%	33%	\$13	\$25	\$38	NA	NA	NA
Limited Service Average																
Full Service																
BJRI	NC	\$35.07			\$1.21	\$1.51	\$1.78	55%	25%	18%	\$34	\$37	\$23	3.4x	3.4x	3.4x
BLMN	Neutral	\$28.31	\$30	6%	\$2.87	\$2.65	\$2.93	14%	-7%	10%	\$311	\$290	\$323	1.2x	1.0x	0.8x
CAKE	Neutral	\$35.76	\$38	6%	\$2.68	\$3.16	\$3.50	76%	18%	11%	\$171	\$118	\$115	3.3x	3.3x	3.3x
CHUY	NC	\$33.76			\$1.85	\$2.08	\$2.40	-3%	13%	15%	\$20	\$20	\$15	1.5x	1.5x	1.5x
DIN	NC	\$47.50			\$6.44	\$6.78	\$8.00	1%	5%	18%	\$118	\$121	NA	7.8x	7.8x	7.8x
DRI	Buy	\$171.96	\$198	15%	\$8.00	\$8.94	\$10.08	8%	12%	13%	\$988	\$943	\$881	0.4x	0.9x	0.7x
EAT	Underperform	\$47.93	\$44	-8%	\$2.85	\$3.60	\$3.94	-8%	27%	9%	\$86	\$141	\$191	2.6x	1.7x	1.1x
PLAY	NC	\$62.67			\$3.24	\$4.31	\$5.32	NM	33%	23%	\$107	\$133	\$134	4.2x	4.2x	4.2x
RRGB	NC	\$6.44			-\$1.31	-\$0.26	NM	6%	-80%	NM	NM	NM	NM	3.2x	3.2x	3.2x
TXRH	Buy	\$152.26	\$160	5%	\$4.54	\$5.48	\$6.54	14%	21%	19%	\$156	\$258	NM	1.3x	1.3x	1.3x
Casual Dining Average																
CBRL	Underperform	\$67.27	\$72	7%	\$5.47	\$4.74	\$5.28	-10%	-13%	11%	\$123	\$144	\$110	1.7x	1.8x	1.8x
DENN	NC	\$8.92			\$0.64	\$0.74	\$0.80	5%	15%	8%	NM	NM	NM	5.8x	5.8x	5.8x
FWRG	Buy	\$24.54	\$31	26%	\$0.42	\$0.55	\$0.76	261%	33%	38%	-\$28	\$54	\$44	0.8x	0.0x	-0.4x
STKS	NC	\$3.97			\$0.21	\$0.23	NM	NM	12%	NM	-\$1	-\$3	NM	4.3x	4.3x	4.3x
Full Service Average																
SPX		\$5,117.09			\$240.59	\$271.10	\$293.62	8%	13%	8%	\$210	\$242	\$270	1.4x	1.4x	1.4x

Source: BofA Global Research estimates, Bloomberg for companies not covered; NC – Not Covered; \*Potential Upside/Downside to PO (%)



**Exhibit 8: 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\$ 33.94	C-1-9
BLMN	BLMN US	Bloomin Brands	US\$ 28.31	C-2-7
CAKE	CAKE US	Cheesecake Factory	US\$ 35.76	C-2-7
CBRL	CBRL US	Cracker Barrel	US\$ 67.27	B-3-7
CMG	CMG US	Chipotle Mex Grill	US\$ 2756.39	B-1-9
DRI	DRI US	Darden Restaurants	US\$ 171.96	B-1-7
DPZ	DPZ US	Domino's Pizza	US\$ 441.22	B-1-7
DNUT	DNUT US	Krispy Kreme	US\$ 11.87	C-1-7
EAT	EAT US	Brinker Intl	US\$ 47.93	C-3-9
FWRG	FWRG US	First Watch	US\$ 24.54	C-1-9
MCD	MCD US	McDonald's	US\$ 279.14	A-2-7
PZZA	PZZA US	Papa Johns Int	US\$ 69.61	B-1-7
PTLO	PTLO US	Portillo's Inc.	US\$ 12.85	C-1-9
QSR	QSR US	Restaurant Brands In	US\$ 79.01	B-3-7
SBUX	SBUX US	Starbucks	US\$ 90.12	B-1-7
SG	SG US	Sweetgreen	US\$ 22.18	C-1-9
SHAK	SHAK.US	Shake Shack	US\$ 103.69	C-2-9
TXRH	TXRH US	Texas Roadhouse	US\$ 152.26	B-1-7
YUM	YUM US	Yum Brands Inc	US\$ 136.84	B-2-7
WEN	WEN US	Wendy's Co	US\$ 18.33	B-3-7
WING	WING US	Wingstop Inc	US\$ 347.65	C-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Price objective basis & risk****Bloomin Brands (BLMN)**

Relative to the S&P 500, BLMN's present P/E multiple is 0.6x, in line with 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 (10.8x absolute) to our 12 month forward estimates - F25 EPS of \$2.77- 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 upside to restaurant margins and EPS are limited by traffic/mix headwinds and investments to sustain traffic gains. Applying a 0.6x relative multiple (unchanged) to our 12-month forward EPS (3QF25-2QF26: \$4.23), we arrive at our PO of \$44.



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 \$3,000 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 7 years. By then we'd expect AUVs to exceed \$4mm - 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 \$7.9bb in EBITDA. At a 20x multiple, consistent with current valuation multiples on high growth companies, the implied EV would be \$173bb, or \$77bb discounted back to today. We then add the current net cash and project out 12 months to derive our price objective of \$3,000.

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)**

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.

### **Darden Restaurants (DRI)**

Our 12-month \$198 price objective is based on a target relative P/E multiple (1.0x) on our forward estimates (\$10.45). 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)**



We apply the current relative P/E multiple of 1.7x to our EPS estimates 12 months from now (F25E: \$18.79) to arrive at our \$550 PO, or PE of 29.2x. We view this multiple as appropriate given our expectation for unit growth acceleration and impacts from US traffic drivers.

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 15x multiple to our forward EBITDA estimates (F25, \$134mm) to arrive at our \$31 PO. This target multiple is conservative relative to high growth peers' average of 17x.

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 \$104 price objective is based on a 0.7x relative PE multiple (13.8x absolute) applied to our 12 month forward earnings estimates (2Q25-1Q26: \$7.56). This is a material discount to highly franchised peers, 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 (F25: \$255mm) to arrive at our \$16 price objective.

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 \$341 price objective is based on a 25.1x 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 F25 estimates (of \$13.56) to arrive at our \$341 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 John's International (PZZA)**

Our \$90 PO is based on FQ25 EPS (\$3.50) and a 1.5x multiple relative to the S&P (25.7x 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)**

We view QSR's 5-yr historical average multiple of 1.1x as appropriate as lagging sales trends and greater investment needs drive lower estimate revisions. We apply this multiple to our 12 months forward EPS estimate (F25) EPS to arrive at a price objective of \$78 (C\$105.83). Our 1.1x relative multiple (vs the S&P 500) translates to an absolute P/E multiple of 20.9x.

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 \$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.

### **Starbucks (SBUX)**

Starbucks should trade at 1.4x relative to the S&P 500. This translates to an absolute multiple of 25.3x. We apply this multiple to our 2Q25-1Q26 EPS of \$5.02 to arrive at our PO of \$127. This multiple is 1 st. deviation below its 5-year average. We believe it is justified as SBUX should trade within its historical range as it proves its ability to achieve consistent earnings growth.

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 \$24 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 26x terminal multiple - consistent with mature growth restaurant peers after adjusting for SG's domestic, company-operated status - to arrive at EV of \$7.1 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.

### **Texas Roadhouse (TXRH)**

We view TXRH's 5-year average of 1.3x (excluding COVID spike) 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 \$160 is based on a relative multiple of 1.3x (vs the S&P 500 index, or a 24.4x absolute multiple) on our 12-month forward EPS (F25, \$6.54).

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 0.5x 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 \$38 PO is derived by applying a 0.6x relative multiple (11.0x 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 from 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 0.9x relative multiple (17.9x absolute multiple) to our EPS 12 months from now (F25: \$1.15) to arrive at our \$20 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 \$376 PO based on steady state earnings power. We assume WING grows its store base at 16% to reach 10,238 restaurants. Assuming RLMs of 38% and G&A at 1.8% of system sales we arrive at EBITDA of \$1.4bb. Applying a 21x terminal multiple in-line with mature growth franchised restaurants and discounting back we arrive at our \$376 PO. We also believe a 21x multiple is justified by WING's success in international markets and extended growth runway. We expect WING to accelerate international unit growth over time as the brand continues to resonate and incentivize new unit openings.

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 \$151 PO is based on YUM trading at a 1.3x relative P/E multiple and works out to a PE of 25.0x on F25 EPS. 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.

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.

## **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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>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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