

## Restaurants Industry

## Restaurants Weekly: Get that cheese

## Industry Overview

**Week ended 10/20: Restaurants strongly outperform**

For the week ended 10/20, the S&P Restaurant Index (+3.4%) outperformed the market (S&P 500: -2.3%) by a wide margin (570 bps). We note that all restaurants in our coverage outperformed the market. By segment, casual dining restaurants – excluding CBRL and BLMN – were the top performers, as risk appetite increased; EAT (+8.6%) and FWRG (+6.7%) led. Limited-service restaurants lagged though all except DPZ outperformed the broader market. Year-to-date, SHAK, CMG, and WING lead the sector, with gains of 32.2%, 32.0%, and 30.3% respectively.

**Chart of the week: Deflation expectations favor Pizza**

This week we highlight charts from our 3Q commodities update (see: [Deflationary trends continue excluding sugar, cattle](#)). First, futures forecast continued deflation in 4Q23 for most commodities; the greatest declines are forecasted for wheat (-29.7%), corn (-20.6%) and milk (Class I -16.8%, III -17.1%). Expectations for near-term commodities prices have been largely stable or lower compared to three months ago. Expectations have fallen significantly for wheat (-14.0%), coffee (-8.6%), soybean oil (-6.2%), and soybean (-4.1%). Near term cheese price expectations are lower than 1, 2, 3, and 6 months ago. At the other end of the spectrum, expectations have risen most for sugar (+9.7%). Forecasts have remained relatively stable for corn (1.3%), milk (1.3%) and cattle (1.4%). With the inflation outlook for wheat, dairy (we note Class III milk is used for cheese that can be shredded/crumbled), and soybean oil appearing most favorable, we believe the cost baskets for pizza chains (PZZA, DPZ, YUM's Pizza Hut) are best positioned. We estimate that pizza companies' food costs are 25% cheese, 15% wheat, and 15% proteins (with the remainder being ingredients like soybean oil, sugar, and salt).

**Industry relative valuation & restaurants comps sheet**

Relative to the broader market, the S&P 500 restaurants index is trading at a 13% premium (vs the 10-year average relative P/E multiple of 1.5x), higher versus 7% for the prior week. Our restaurants valuation and KPI sheets can be found on page 5.

**Upcoming events: CDR Bull/Bear, CMG, TXRH EPS**

On Monday 10/23, we will host a Casual Dining Bull/Bear debate at 2PM ET. On Thursday 10/26, CMG and TXRH will report 3Q earnings after market close. Please reach out to Sara Senatore or your BofA Salesperson if you are interested in catching up.

23 October 2023

Equity  
United States  
Restaurants

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**Stock symbol key:**

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

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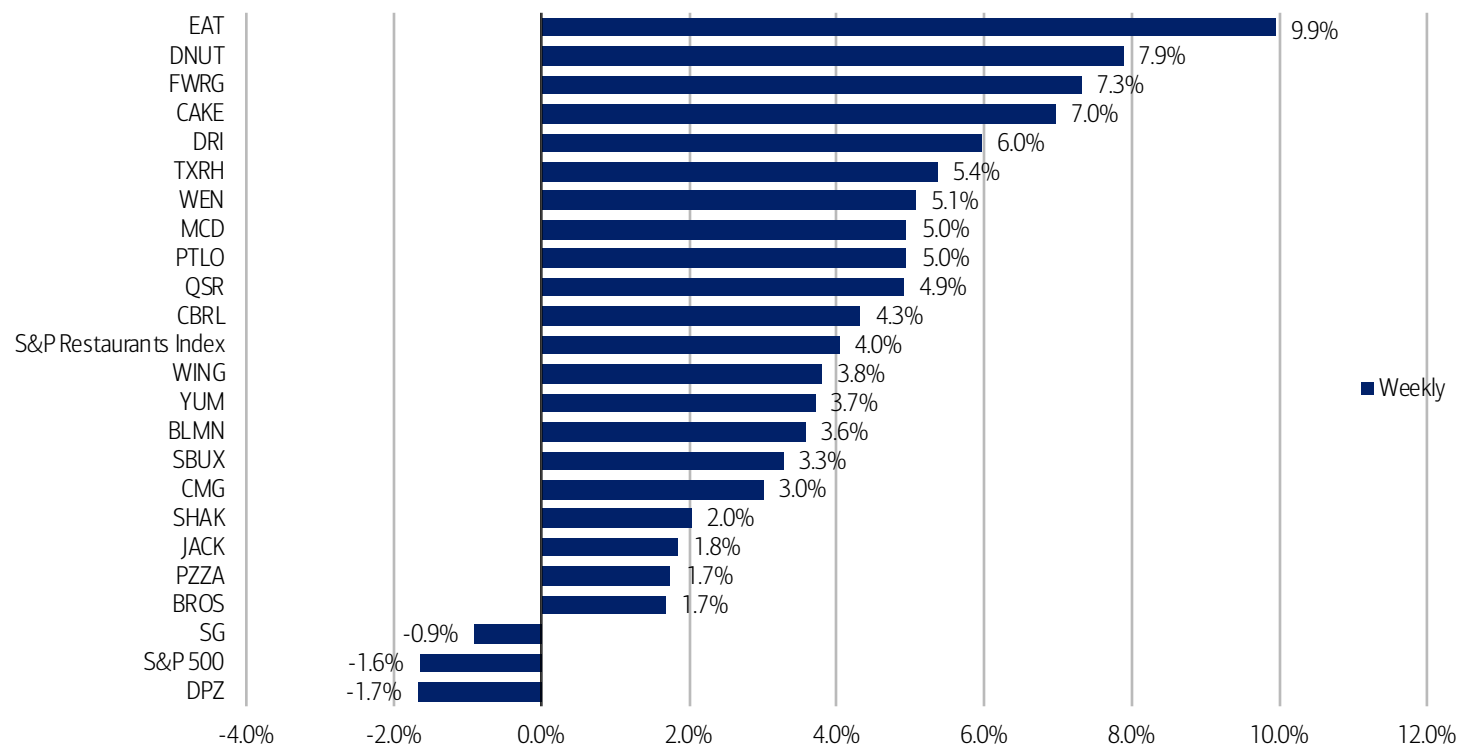
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Timestamp: 23 October 2023 04:30AM EDT

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

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

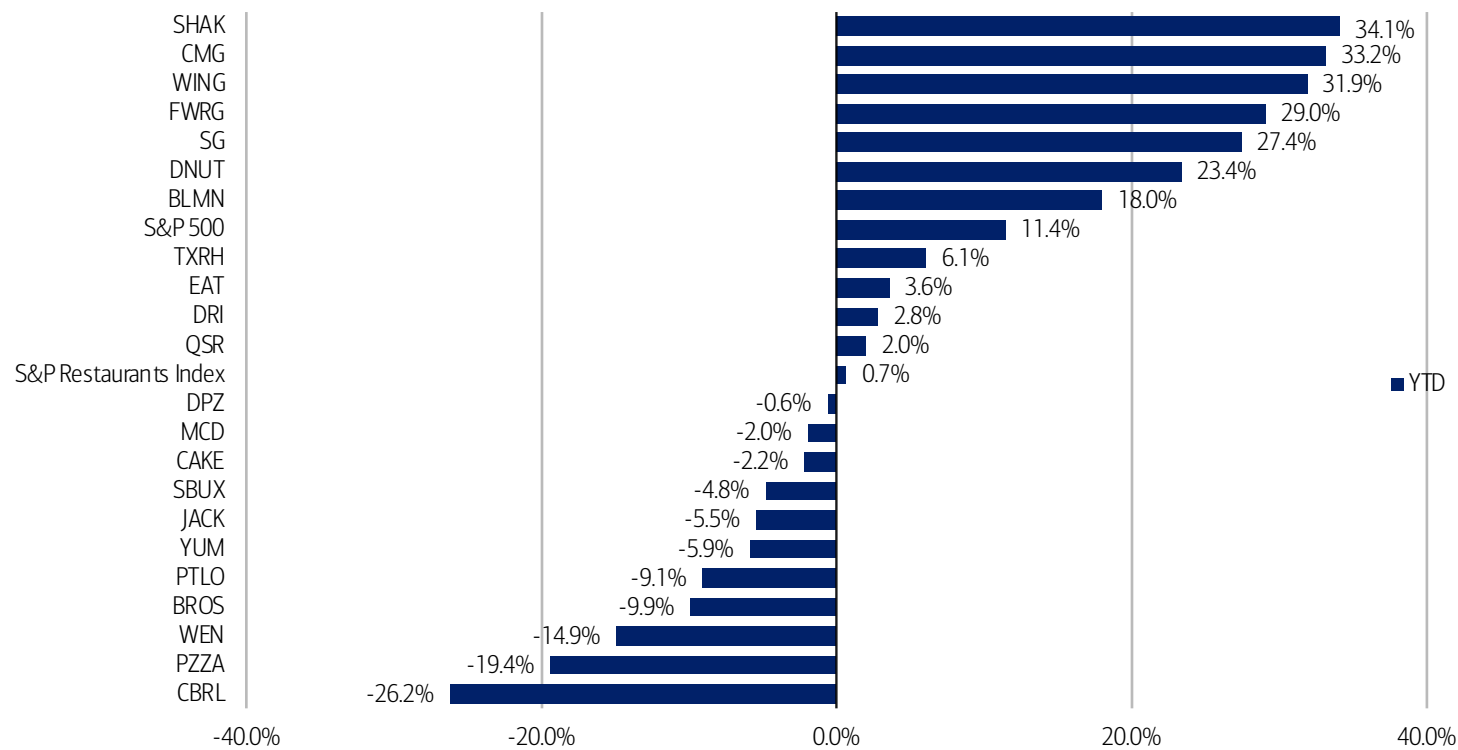


Source: Bloomberg

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**Exhibit 2: YTD, SHAK and CMG lead**

BofA Restaurants Coverage YTD Share Price Performance



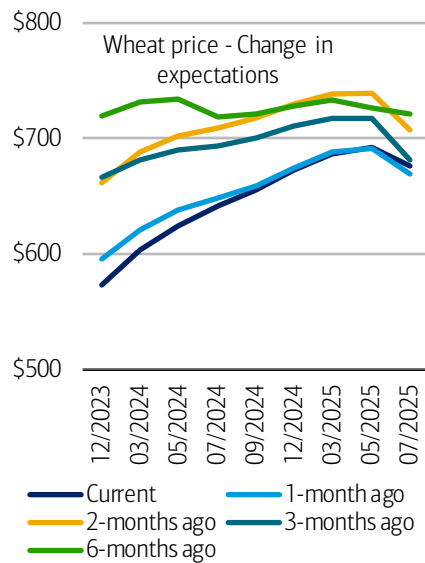
Source: Bloomberg

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## Chart of the week: Deflation expectations favor Pizza

### Exhibit 3: Wheat price expectations are higher than 1,2,3, and 6 months ago

Wheat futures – Change in expectations

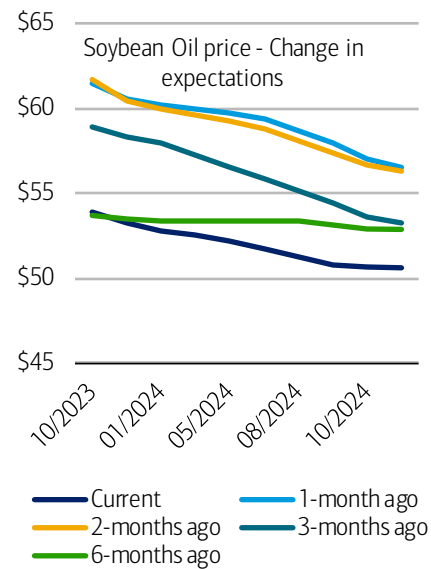


Source: Bloomberg

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### Exhibit 4: Soybean oil price expectations are higher than 6 months ago, but lower than 1, 2, and 3 months ago

Soybean Oil futures – Change in expectations

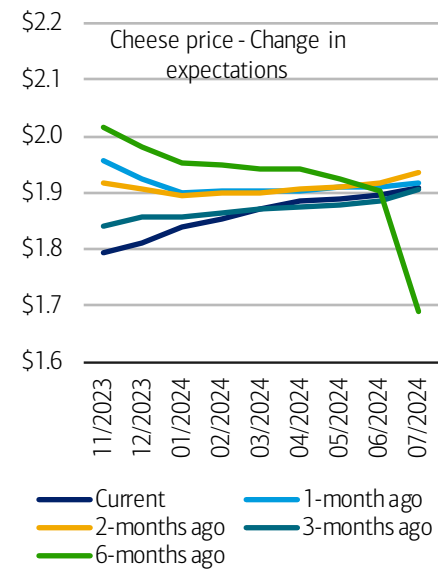


Source: Bloomberg

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### Exhibit 5: Near-term cheese price expectations are lower than 1, 2, 3, and 6 months ago

Cheese futures – Change in expectations



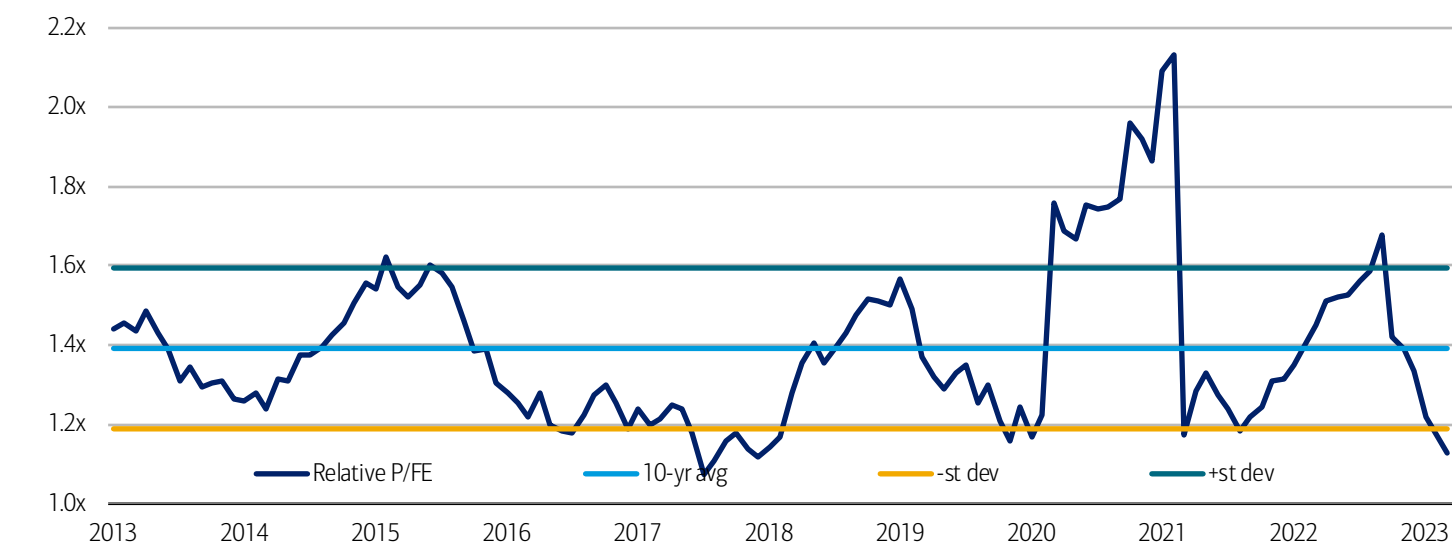
Source: Bloomberg

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# Valuation & comps sheets

## Exhibit 6: The S&P 500 Restaurant Index Relative P/E is below its 10-year average

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

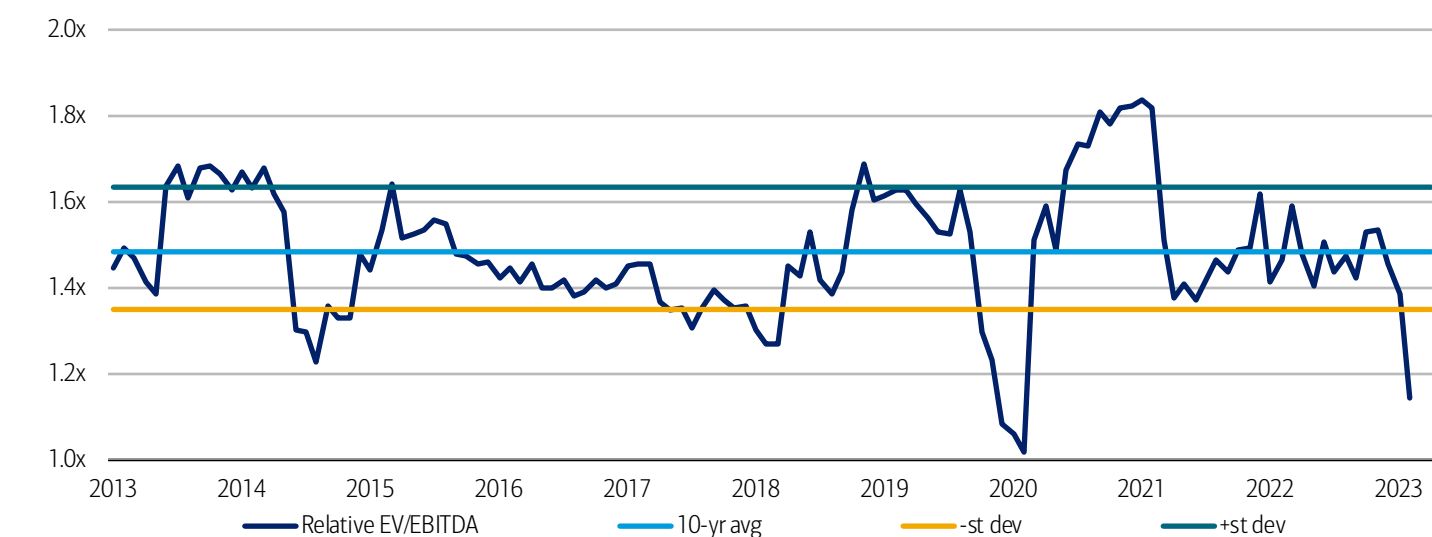


Source: Bloomberg

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## Exhibit 7: The S&P 500 Restaurants Index Relative EV/EBITDA is below its 10-year average

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



Source: Bloomberg

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# Exhibit 8: 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	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	
Limited Service																						
Dutch Bros	BROS	Buy	\$25.33	\$48	89%	2%	-12%	-10%	\$4,442	\$4,717	52.9x	34.5x	25.8x	152.9x	105.8x	84.9x	\$89	\$137	\$183	\$0.17	\$0.24	\$0.30
Krispy Kreme	DNUT	Buy	\$12.48	\$19	52%	7%	-20%	21%	\$2,099	\$2,976	15.6x	13.6x	11.7x	41.8x	37.6x	28.8x	\$191	\$219	\$254	\$0.30	\$0.33	\$0.43
Starbucks	SBUX	Buy	\$94.19	\$150	59%	3%	-8%	-5%	\$107,885	\$120,945	19.2x	17.0x	14.5x	31.9x	26.8x	22.5x	\$6,304	\$7,127	\$8,324	\$2.96	\$3.51	\$4.19
Domino's Pizza	DPZ	Buy	\$347.69	\$483	39%	0%	-10%	0%	\$12,128	\$17,003	20.0x	18.5x	16.6x	27.7x	24.9x	20.9x	\$848	\$917	\$1,024	\$12.53	\$13.94	\$16.62
Jack in the Box	JACK	Buy	\$63.94	\$85	33%	0%	-33%	-6%	\$1,286	\$3,054	5.9x	9.2x	9.3x	NM	10.3x	9.0x	\$514	\$333	\$329	\$5.82	\$6.18	\$7.14
McDonald's	MCD	Neutral	\$258.11	\$343	33%	4%	-13%	-2%	\$188,101	\$222,873	19.8x	16.2x	14.6x	25.5x	22.3x	19.8x	\$11,242	\$13,728	\$15,240	\$10.11	\$11.60	\$13.02
Papa John's	PZZA	Buy	\$65.08	\$106	63%	-1%	-19%	-21%	\$2,131	\$2,906	13.9x	12.9x	12.3x	22.2x	23.2x	20.6x	\$209	\$225	\$235	\$2.93	\$2.81	\$3.16
Carrols Restaurant Group	TAST	NC	\$5.41			1%	-1%	298%	\$295	\$763	4.5x	5.6x	5.5x	-7.7x	NM	14.9x	\$168	\$136	\$139	-\$0.70	\$0.37	\$0.36
Restaurant Brands International	QSR	Underperform	\$65.48	\$79	21%	4%	-16%	1%	\$29,841	\$41,702	18.9x	17.3x	16.2x	21.2x	20.8x	19.5x	\$2,201	\$2,412	\$2,569	\$3.09	\$3.15	\$3.36
Wendy's	WEN	Underperform	\$19.15	\$23	20%	3%	-11%	-15%	\$4,008	\$6,251	12.6x	11.4x	10.7x	21.5x	19.1x	17.7x	\$498	\$550	\$582	\$0.89	\$1.00	\$1.08
Wingstop	WING	Buy	\$179.33	\$225	25%	2%	-3%	30%	\$5,376	\$5,899	54.6x	45.7x	40.9x	97.7x	81.8x	68.3x	\$108	\$129	\$144	\$1.84	\$2.19	\$2.62
Yum! Brands	YUM	Neutral	\$119.95	\$158	32%	3%	-13%	-6%	\$33,611	\$44,690	19.4x	17.6x	15.5x	26.6x	22.8x	20.2x	\$2,307	\$2,540	\$2,882	\$4.51	\$5.27	\$5.95
Chipotle Mexican Grill	CMG	Buy	\$1,831.25	\$2,570	40%	3%	-13%	32%	\$50,520	\$49,408	33.6x	24.9x	20.9x	55.9x	39.8x	32.1x	\$1,468	\$1,983	\$2,368	\$32.78	\$45.95	\$56.98
Portillo's	PTLO	Buy	\$14.73	\$28	90%	4%	-37%	-10%	\$1,069	\$1,365	16.8x	14.4x	12.6x	18.7x	20.1x	20.3x	\$81	\$95	\$109	\$0.79	\$0.73	\$0.73
Sweetgreen	SG	Buy	\$10.92	\$17	56%	0%	-29%	27%	\$1,223	\$972	-20.0x	-234.1x	78.0x	-10.8x	-18.8x	-27.9x	-\$49	-\$4	\$12	-\$1.01	-\$0.58	-\$0.39
Shake Shack	SHAK	Neutral	\$54.91	\$66	20%	3%	-30%	32%	\$2,323	\$2,329	20.5x	18.4x	15.7x	NM	NM	NM	\$114	\$127	\$149	-\$0.31	\$0.28	\$0.38
Cava	CAVA	NC	\$33.00			0%			\$3,748	\$3,739	67.7x	58.8x	53.5x	NM	NM	NM	\$55	\$64	\$70	NM	\$0.01	\$0.01
Limited Service Average											19.4x	5.6x	19.3x	36.0x	29.9x	24.9x						
Full Service																						
Casual Dining																						
BJ's Restaurants	BJRI	NC	\$24.04			8%	-29%	-9%	\$567	\$646	5.0x	6.2x	5.2x	NM	NM	17.2x	\$128	\$105	\$124	\$0.07	\$0.96	\$1.40
Bloomin' Brands	BLMN	Neutral	\$23.49	\$28	19%	3%	-16%	17%	\$2,046	\$3,084	6.1x	5.6x	5.5x	9.4x	8.0x	7.9x	\$506	\$554	\$559	\$2.51	\$2.94	\$2.97
Cheesecake Factory	CAKE	Neutral	\$30.81	\$33	7%	6%	-16%	-3%	\$1,580	\$2,100	6.6x	8.3x	7.4x	20.2x	11.2x	9.5x	\$316	\$254	\$284	\$1.53	\$2.74	\$3.23
Dine Brands	DIN	NC	\$51.00			10%	-14%	-21%	\$793	\$1,944	9.9x	8.0x	7.8x	8.2x	8.0x	7.6x	\$197	\$244	\$250	\$6.20	\$6.40	\$6.67
Darden Restaurants	DRI	Buy	\$140.67	\$187	33%	5%	-17%	2%	\$16,925	\$18,305	12.0x	11.5x	10.2x	19.0x	17.6x	15.8x	\$1,531	\$1,590	\$1,800	\$7.40	\$8.00	\$8.88
Brinker International	EAT	Underperform	\$32.98	\$37	12%	9%	-15%	3%	\$1,457	\$2,419	6.8x	7.1x	6.1x	10.7x	11.6x	10.0x	\$358	\$340	\$396	\$3.09	\$2.85	\$3.30
Dave & Buster's	PLAY	NC	\$35.75			7%	-23%	1%	\$1,535	\$2,809	4.5x	5.4x	5.1x	NM	11.1x	9.0x	\$629	\$524	\$549	NM	\$3.21	\$3.97
Red Robin Gourmet Burgers	RRGB	NC	\$7.76			10%	-48%	39%	\$124	\$320	2.5x	4.3x	4.1x	-2.4x	-6.2x	-10.1x	\$129	\$75	\$79	-\$3.26	-\$1.24	-\$0.77
Texas Roadhouse	TXRH	Buy	\$96.19	\$155	61%	4%	-17%	6%	\$6,421	\$6,340	13.9x	12.3x	9.9x	NM	20.4x	16.3x	\$457	\$516	\$640	\$3.97	\$4.71	\$5.90
Casual Dining Average											7.4x	7.8x	7.0x	12.8x	11.1x	10.0x						
Cracker Barrel	CBRL	Underperform	\$67.97	\$75	10%	0%	-29%	-28%	\$1,506	\$1,942	7.3x	8.5x	7.6x	11.1x	12.4x	11.8x	\$266	\$229	\$255	\$6.10	\$5.47	\$5.78
Denny's	DENN	NC	\$8.65			5%	-23%	-6%	\$480	\$739	10.5x	8.5x	7.8x	16.6x	14.6x	12.4x	\$71	\$87	\$94	\$0.52	\$0.59	\$0.70
First Watch	FWRG	Buy	\$17.46	\$25	43%	7%	-7%	29%	\$1,039	\$1,112	15.9x	12.1x	11.0x	NM	41.2x	38.2x	\$70	\$92	\$101	\$0.22	\$0.42	\$0.46
ONE Group Hospitality	STKS	NC	\$4.41			0%	-39%	-30%	\$139	\$180	3.6x	3.9x	3.0x	NM	11.4x	6.7x	\$50	\$46	\$59	NM	\$0.39	\$0.66
Full Service Average											7.9x	7.9x	7.1x	13.0x	13.6x	12.0x						
SPX			\$4,224.16				10%		\$4,721		13.5x	13.1x	11.8x	20.7x	19.5x	17.4x	\$349	\$361	\$400	\$219.90	\$216.13	\$243.09

Source: BofA Global Research estimates, Bloomberg for companies not covered; NC – Not Covered. \*Potential Upside/Downside

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**Exhibit 9: Restaurant companies across the Limited Service and Full Service industries**

Restaurants key performance indicators sheet

\$ in mm except per share values					Sales			growth y/y (%)			EBITDA			growth y/y (%)			Restaurant Margin			EBITDA Margin			EPS		
Company	Rating	Last Price	Price Objective	*Upside/Downside to PO (%)	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
Limited Service																									
BROS	Buy	\$25.33	\$48	89%	\$739	\$960	\$1,206	48%	30%	26%	\$89	\$137	\$183	9%	53%	34%	6%	7%	7%	12%	14%	15%	\$0.17	\$0.24	\$0.30
DNUT	Buy	\$12.48	\$19	52%	\$1,530	\$1,720	\$1,908	11%	12%	11%	\$191	\$219	\$254	1%	15%	16%	27%	28%	30%	12%	13%	13%	\$0.30	\$0.33	\$0.43
SBUX	Buy	\$94.19	\$150	59%	\$32,250	\$36,059	\$40,262	11%	12%	12%	\$6,304	\$7,127	\$8,324	-3%	13%	17%	25%	26%	26%	20%	20%	21%	\$2.96	\$3.51	\$4.19
DPZ	Buy	\$347.69	\$483	39%	\$4,537	\$4,505	\$4,848	4%	-1%	8%	\$848	\$917	\$1,024	-1%	8%	12%	15%	17%	19%	19%	20%	21%	\$12.53	\$13.94	\$16.62
JACK	Buy	\$63.94	\$85	33%	\$1,468	\$1,691	\$1,616	28%	15%	-4%	\$514	\$333	\$329	68%	-35%	-1%	16%	NA	NA	35%	20%	20%	\$5.82	\$6.18	\$7.14
MCD	Neutral	\$258.11	\$343	33%	\$23,183	\$25,435	\$27,755	0%	10%	9%	\$11,242	\$13,728	\$15,240	-8%	22%	11%	16%	15%	15%	48%	54%	55%	\$10.11	\$11.60	\$13.02
PZZA	Buy	\$65.08	\$106	63%	\$2,102	\$2,190	\$2,233	2%	4%	2%	\$209	\$225	\$235	-9%	8%	4%	18%	NA	NA	10%	10%	11%	\$2.93	\$2.81	\$3.16
TAST	NC	\$5.41			\$1,730	\$1,862	\$1,912	5%	8%	3%	\$168	\$136	\$139	169%	-19%	2%	9%	12%	NA	10%	7%	7%	-\$0.87	\$0.37	\$0.36
QSR	Underperform	\$65.48	\$79	21%	\$6,505	\$6,999	\$7,405	13%	8%	6%	\$2,201	\$2,412	\$2,569	4%	10%	7%	18%	18%	17%	34%	34%	35%	\$3.09	\$3.15	\$3.36
WEN	Underperform	\$19.15	\$23	20%	\$2,096	\$2,229	\$2,297	10%	6%	3%	\$498	\$550	\$582	7%	11%	6%	14%	15%	16%	24%	25%	25%	\$0.89	\$1.00	\$1.08
WING	Buy	\$179.33	\$225	25%	\$358	\$438	\$498	27%	22%	14%	\$108	\$129	\$144	-1%	20%	12%	40%	38%	NA	30%	30%	29%	\$1.84	\$2.19	\$2.62
YUM	Neutral	\$119.95	\$158	32%	\$6,842	\$7,312	\$8,043	4%	7%	10%	\$132	\$133	\$135	-477%	1%	1%	16%	17%	19%	2%	2%	2%	\$4.51	\$5.27	\$5.95
CMG	Buy	\$1,831.25	\$2,570	40%	\$8,635	\$9,842	\$11,201	14%	14%	14%	\$1,468	\$1,983	\$2,368	36%	35%	19%	24%	27%	27%	17%	20%	21%	\$32.78	\$45.95	\$56.98
PTLO	Buy	\$14.73	\$28	90%	\$587	\$684	\$769	10%	17%	12%	\$81	\$95	\$109	-18%	17%	14%	22%	23%	22%	14%	14%	14%	\$0.79	\$0.73	\$0.73
SG	Buy	\$10.92	\$17	56%	\$470	\$579	\$714	38%	23%	23%	-\$49	-\$4	\$12	-48%	-91%	-400%	15%	17%	17%	-10%	-1%	2%	-\$1.01	-\$0.58	-\$0.39
SHAK	Neutral	\$54.91	\$66	20%	\$900	\$1,074	\$1,238	22%	19%	15%	\$114	\$127	\$149	62%	11%	18%	16%	20%	NA	13%	12%	12%	-\$0.31	\$0.28	\$0.38
Limited Service Average																									
Full Service																									
BJRI	NC	\$24.04			\$1,284	\$1,355	\$1,414	18%	6%	4%	\$128	\$105	\$124	64%	-18%	19%	10%	12%	NA	10%	8%	9%	\$0.03	\$0.96	\$1.40
BLMN	Neutral	\$23.49	\$28	19%	\$4,417	\$4,706	\$4,768	7%	7%	1%	\$506	\$554	\$559	-6%	10%	1%	28%	29%	29%	11%	12%	12%	\$2.51	\$2.94	\$2.97
CAKE	Neutral	\$30.81	\$33	7%	\$3,303	\$3,472	\$3,730	13%	5%	7%	\$316	\$254	\$284	24%	-20%	12%	10%	12%	NA	10%	7%	8%	\$1.53	\$2.74	\$3.23
DIN	NC	\$51.00			\$909	\$834	\$857	1%	-8%	3%	\$197	\$244	\$250	-22%	24%	3%	5%	NA	NA	22%	29%	29%	\$6.09	\$6.40	\$6.67
DRI	Buy	\$140.67	\$187	33%	\$9,630	\$10,488	\$11,582	34%	9%	10%	\$1,531	\$1,590	\$1,800	53%	4%	13%	21%	20%	21%	16%	15%	16%	\$7.40	\$8.00	\$8.88
EAT	Underperform	\$32.98	\$37	12%	\$3,804	\$4,133	\$4,324	14%	9%	5%	\$358	\$340	\$396	-4%	-5%	17%	11%	11%	12%	9%	8%	9%	\$3.09	\$2.85	\$3.30
PLAY	NC	\$35.75			\$1,964	\$2,229	\$2,381	350%	13%	7%	\$629	\$524	\$549	31%	-17%	5%	24%	22%	NA	32%	24%	23%	\$2.76	\$3.21	\$3.97
RRGB	NC	\$7.76			\$1,267	\$1,299	\$1,289	9%	3%	-1%	\$129	\$75	\$79	145%	-42%	6%	13%	12%	NA	10%	6%	6%	-\$2.53	-\$1.24	-\$0.77
TXRH	Buy	\$96.19	\$155	61%	\$3,989	\$4,587	\$5,042	16%	15%	10%	\$457	\$516	\$640	8%	13%	24%	16%	16%	17%	11%	11%	13%	\$3.97	\$4.71	\$5.90
Casual Dining Average																									
CBRL	Underperform	\$67.97	\$75	10%	\$3,268	\$3,443	\$3,536	16%	5%	3%	\$266	\$229	\$255	-1%	-14%	11%	9%	9%	9%	8%	7%	7%	\$6.10	\$5.47	\$5.78
DENN	NC	\$8.65			\$456	\$470	\$486	15%	3%	3%	\$71	\$87	\$94	-9%	23%	8%	7%	14%	NA	15%	19%	19%	\$0.50	\$0.59	\$0.70
FWRG	Buy	\$17.46	\$25	43%	\$888	\$888	\$1,027	22%	0%	16%	\$70	\$92	\$101	8%	32%	10%	18%	20%	20%	8%	10%	10%	\$0.22	\$0.42	\$0.46
STKS	NC	\$4.41			\$317	\$354	\$431	14%	12%	22%	\$50	\$46	\$59	20%	-7%	29%	NA	NA	NA	16%	13%	14%	NM	\$0.39	\$0.66
Full Service Average																									
SPX		\$4,224.16			\$1,712	\$1,784	\$1,876	15%	4%	5%	\$349	\$361	\$400	-3%	3%	11%	NA	NA	NA	20%	20%	21%	\$219.90	\$216.13	\$243.09

Source: BofA Global Research estimates, Bloomberg for companies not covered; NC – Not Covered. \* Potential Upside/Downside

BofA GLOBAL RESEARCH



**Exhibit 10: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BoFA Ticker	Bloomberg ticker	Company name	Price	Rating
BLMN	BLMN US	Bloomin Brands	US\$ 23.49	C-2-7
EAT	EAT US	Brinker Intl	US\$ 32.98	C-3-9
CAKE	CAKE US	Cheesecake Factory	US\$ 30.81	C-2-7
CMG	CMG US	Chipotle Mex Grill	US\$ 1831.25	B-1-9
CBRL	CBRL US	Cracker Barrel	US\$ 67.97	B-3-7
DRI	DRI US	Darden Restaurants	US\$ 140.67	B-1-7
DPZ	DPZ US	Domino's Pizza	US\$ 347.69	B-1-7
BROS	BROS US	Dutch Bros	US\$ 25.33	C-1-9
FWRG	FWRG US	First Watch	US\$ 17.46	C-1-9
JACK	JACK US	Jack in the Box	US\$ 63.94	C-1-7
DNUT	DNUT US	Krispy Kreme	US\$ 12.48	C-1-7
MCD	MCD US	McDonald's	US\$ 258.11	A-2-7
PZZA	PZZA US	Papa John's Int	US\$ 65.08	B-1-7
PTLO	PTLO US	Portillo's Inc.	US\$ 14.73	C-1-9
QSR	QSR US	Restaurant Brands In	US\$ 65.48	B-3-7
YQSR	QSR CN	Restaurant Brands In	C\$ 89.8	B-3-7
SHAK	SHAK US	Shake Shack	US\$ 54.91	C-2-9
SBUX	SBUX US	Starbucks	US\$ 94.19	B-1-7
SG	SG US	Sweetgreen	US\$ 10.92	C-1-9
TXRH	TXRH US	Texas Roadhouse	US\$ 96.19	B-1-7
WEN	WEN US	Wendy's Co	US\$ 19.15	B-3-7
WING	WING US	Wingstop Inc	US\$ 179.33	C-1-7
YUM	YUM US	Yum Brands Inc	US\$ 119.95	B-2-7

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 0.4x, 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 0.4x (8.8x absolute) to our 12 month forward estimates - 3Q24-2Q25 EPS of \$3.17- to arrive at our \$28 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 0.5x, in line with its 5-year historical average (0.5x), 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 0.5x relative multiple (absolute P/E 10.2x) to our 12-month-forward EPS (F25: \$3.67) 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 and near recessionary lows (0.5x). 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 0.6x relative P/E multiple to our forward estimates 12 months from now (F25, \$6.14) to arrive at a \$75 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 \$187 price objective is based on a target relative P/E multiple (0.9x) on our forward estimates (F25, \$9.79). Our target relative multiple (vs the S&P) is in line with Darden's 10-year historical average multiple of 0.9x, and implies a 19.2x absolute P/E multiple. We believe the historical average multiple is relevant as Darden's returns and growth have consistently outpaced those of the market. 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 (3Q24-2Q25, \$115mm) to arrive at our \$25 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 \$85 price objective is based on a 0.5x relative PE multiple (10.9x absolute) applied to our 12 month forward earnings estimates (F4Q24-F3Q25: \$7.82). 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 14x multiple (similar to high growth peers) to our forward estimate 12 months from now (3Q24-2Q25: \$275mm) 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 \$343 price objective is based on a 25x P/E multiple on our forward estimates, in line with a relative P/E multiple of 1.2x reflecting limited opportunities for margin expansion due to the franchised model, despite continued topline strength. We apply the relative P/E multiple to our 3Q24-2Q25 estimates (of \$13.55) to arrive at our \$343 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 \$106 PO is based on 3Q24-2Q25 EPS (\$3.34) and a 1.5x multiple relative to the S&P (31.8x 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 \$28 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 a 12x multiple and discounting back equates to a \$28 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, slightly above its 5-yr average of 1.0x. We expect QSR's valuation to contract to historical levels, as lagging sales trends and greater investment needs drive lower estimate revisions. We apply a 1.0x multiple to our 12 months forward EPS estimate (3Q24-2Q25) EPS to arrive at a price objective of \$79 (C\$106.40). Our 1.0x relative multiple (vs the S&P 500) translates to an absolute P/E multiple of 21.6x.

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 \$66 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 \$638mm in EBITDA. Applying a 12x terminal multiple and discounting back equates to a \$66 fair value in one year.

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 31.3x. We apply this multiple to our 4Q24-3QF25 EPS of \$4.79 to arrive at our PO of \$150. We believe that the multiple is justified given tailwinds as China reopens, increased investments associated with labor, operations, and unit development in 2023, 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 \$17 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 17x terminal multiple - consistent with mature growth restaurant peers - after adjusting for SG's domestic, company-operated status - to arrive at EV of \$4.7bb, or \$1.5bb 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)**

Our PO of \$155 is based on a relative multiple of 1.1x (vs the S&P 500, or a 24.0x absolute multiple) on our 12-month forward EPS (3Q24-2Q25, \$6.46). We expect continued topline growth and further operating leverage. TXRH's relative valuation is currently in-line with its 5-year historical average and slightly above its 10- and 15-year averages.

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 \$33 PO is derived by applying a 0.5x relative multiple (10.0x 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 modestly 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 1.0x relative multiple (20.7x absolute multiple) to our EPS 12 months from now to arrive at our \$23 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 \$225 PO based on steady state earnings power. We assume WING grows its store base at 13% to reach 9288 restaurants. Assuming RLMs of 30% and G&A at 1.8% of system sales we arrive at EBITDA of \$1.1bb. Applying a 17x terminal multiple in-line with mature growth franchised restaurants and discounting back we arrive at our \$225 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 \$158 PO is based on YUM trading at a 1.1x relative P/E multiple and works out to a PE of 25x on 3Q24-2Q25 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.

## **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 John's International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
<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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	18	56.25%	Buy	8	44.44%
Hold	8	25.00%	Hold	4	50.00%
Sell	6	18.75%	Sell	5	83.33%

## Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<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.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Bloomin Brands, Brinker Intl, Cheesecake Factory, Chipotle Mex Grill, Cracker Barrel, Darden Restaurants, Domino's Pizza, Dutch Bros, First Watch, Jack in the Box, Krispy Kreme, McDonald's, Papa John's Intl, Portillo's Inc., Restaurant Brands In, Shake Shack, Starbucks, Sweetgreen, Texas Roadhouse, Wendy's Co, Wingstop Inc, Yum Brands Inc.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Brinker Intl., Darden Restaurants, Dutch Bros, McDonald's, Portillo's Inc., Restaurant Brands In, Starbucks.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Bloomin' Brands, Brinker Intl., Cracker Barrel, Darden Restaurants, Dutch Bros, First Watch, Jack in the Box, Krispy Kreme, McDonald's, Papa John's Intl, Portillo's Inc., Restaurant Brands In, Starbucks, Wendy's Co, Yum Brands Inc.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Bloomin' Brands, Brinker Intl., Cheesecake Factory, Chipotle Mex Grill, Cracker Barrel, Darden Restaurants, Domino's Pizza, First Watch, Jack in the Box, Krispy Kreme, McDonald's, Papa John's Intl, Portillo's Inc., Restaurant Brands In, Starbucks, Wendy's Co, Yum Brands Inc.

The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Bloomin' Brands, Brinker Intl., Cheesecake Factory, Chipotle Mex Grill, Cracker Barrel, Darden Restaurants, Domino's Pizza, First Watch, Jack in the Box, Krispy Kreme, McDonald's, Papa John's Intl, Portillo's Inc., Restaurant Brands In, Starbucks, Wendy's Co, Wingstop Inc, Yum Brands Inc.

BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Bloomin' Brands, Brinker Intl., Darden Restaurants, Dutch Bros, First Watch, Krispy Kreme, McDonald's, Papa John's Intl, Portillo's Inc., Restaurant Brands In, Starbucks, Yum Brands Inc.

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