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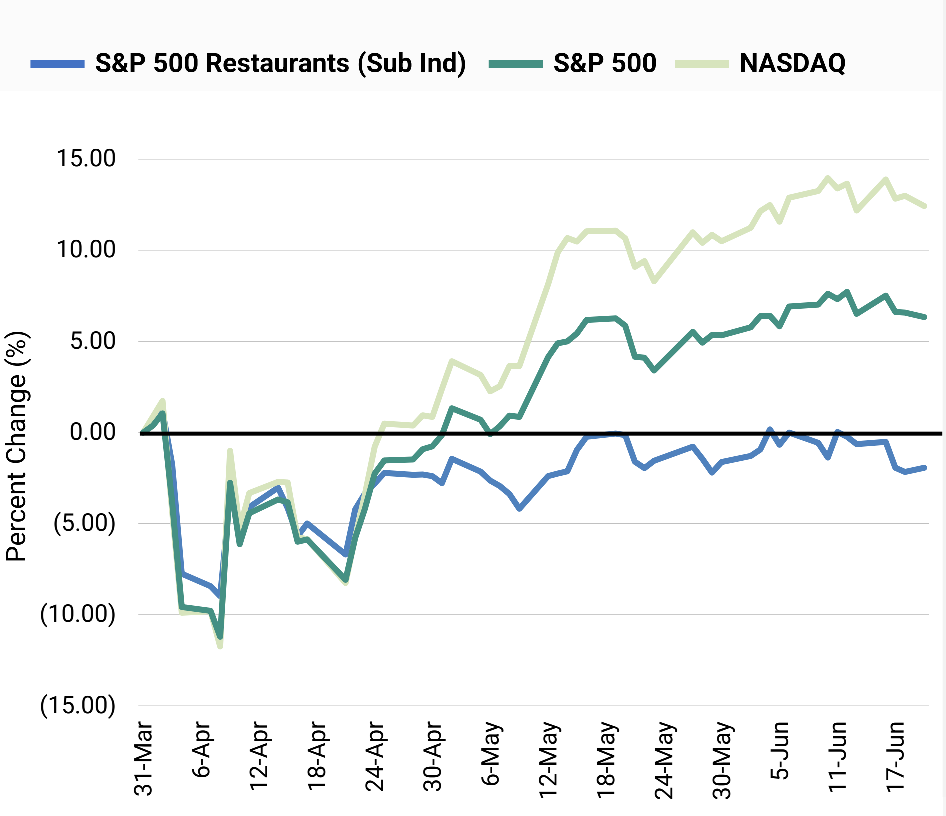
Restaurant Sector

June 2025

RESTAURANT INDEX PERFORMANCE



The Restaurant Index underperformed the S&P 500 by -8.28% and the Nasdaq by -14.36% over the last quarter, **recording a loss of -1.94% QTD amid tariff and consumer sentiment concerns.**

STOCK	PRICE CHANGE
CMG – Chipotle	5.12%
DRI – Darden	8.67%
DPZ – Domino's	(2.65%)
MCD – McDonald's	(7.97%)
SBUX – Starbucks	(5.07%)
YUM – Yum Brands	(11.63%)
RESTAURANT INDEX*	**(1.94%)**

**Weighted change of S&P 500 Restaurants (Sub Ind)*
Source: Capital IQ as of June 20th, 2025

GAINS AND LOSSES ACROSS THE INDUSTRY

Quarter-to-date price change as of June 20th, 2025

Wingstop	Kura Sushi	Cracker Barrel	Black Rifle Coffee Company	Jack in the Box	sweetgreen
▲ 55%	▲ 55%	▲ 54%	▼ 35%	▼ 37%	▼ 51%

* Criteria: market capitalization >$10m, USA or CAN location; Full service, Fast food or Tea/Coffee shop classification Source: Capital IQ

HAPPENINGS ACROSS THE INDUSTRY

QUICK SERVICE

McDonald's reported a 3.6% drop in US same-store sales, the largest quarterly decline since Q2 2020, driven by **reduced traffic from middle- and low-income consumers** amid economic uncertainty and a broader pullback in restaurant industry spending.

Despite missing revenue forecasts, the company maintained its full-year outlook, plans to open **2,200 new locations**, but remains cautious due to weak consumer sentiment and rising anti-American sentiment abroad, with its stock falling nearly 2%.

FAST CASUAL

Sweetgreen, despite mainly sourcing food domestically, expects a 75-basis point cost rise in Q2 2025 **due to tariffs on 15% of Infinite Kitchen's Chinese components**, a robotic salad system

To counter this, Sweetgreen pre-purchased components and plans to diversify suppliers and secure multi-year pricing. The company aims to open at least **40 new units** in 2025, with 20 featuring Infinite Kitchens for efficiency, despite a 3.1% same-store sales decline in Q1 2025.

CASUAL DINING

Red Robin reported a strong quarter with 3.1% same-store sales growth, $392.4M revenue, $1.2M net income, and $27.9M adjusted EBITDA, driven by its "North Star" plan focusing on **management, menu, loyalty, and profitability**.

Despite the positive quarter, Red Robin still faces soft traffic and macroeconomic challenges, but does not plan on increasing prices for 2025, focusing instead on labor efficiency, marketing leadership, and restaurant reinvestment.

FINE DINING

Darden's **Fine Dining** Segment, including The Capital Grille and Ruth's Chris Steak House, saw a 0.8% YoY decline in same-restaurant sales, with YTD profit slightly down to $176.4M from $177.7M.

Despite Q3 sales rising to $385.3M and segment profit reaching $86.1M, Darden's CFO noted consumer caution in discretionary spending. The company saw stronger holiday season demand, but consumers pulled back again in the new year.

The Big Story

Roark Capital has acquired the fast-casual chain Dave's Hot Chicken in a **$1 billion deal**. The Los Angeles-based and almost entirely franchised chain has experienced huge growth, with up to **175 new locations** expected to open this year, and nearly **$617 million in domestic systemwide sales** in 2024 - a 57% increase over the prior year. Its success comes from viral social media buzz, rising tolerance for spice among younger consumers, celebrity backers like Drake and Usher, and smart franchising led by seasoned leaders.

The deal will maintain Dave's existing management team, including their CEO and President, who expect systemwide sales to exceed **$1.2 billion** this year, and have expanded internationally into Canada, the UK, and the Middle East. Roark's acquisition opens doors to extensive franchise networks and **potential IPO plans within three to five years**, following the firm's successful Wingstop model.

ABOUT THE COMPANY

Dave's Hot Chicken is a fast-casual chain founded in 2017 that specializes in chicken tenders and sandwiches with varying spice levels, growing from a Los Angeles parking lot popup to 315 locations across multiple countries.

THINGS TO NOTE

Dave's Hot Chicken will be separate from GoTo Foods and Inspire Brands as a stand-alone brand within the Roark portfolio.

FINANCE FUNDAMENTALS CORNER

In April 2025, new U.S. tariffs, including a 10% baseline on all imports and higher country-specific rates, posed significant challenges for the restaurant industry. Although country-specific increases have been temporarily paused for many countries, these tariffs have still prompted restaurants to rethink supply chain strategies and address rising costs for imported goods critical to operations, such as ingredients, packaging, and equipment.

Areas to focus on include

- **Cash Flow & Cost Control:** What is the direct P&L impact on food costs and labor margins? Work to optimize working capital and inventory levels for perishables, reduce discretionary spending, and renegotiate supplier payment terms to preserve liquidity and protect profitability.
- **Supply Chain Resilience:** Think of what your supplier alternatives are, what menu items face the highest tariff exposure, how quickly can you switch distributors or local sourcing, and what contractual obligations limit flexibility?
- **Pricing & Customer Strategy:** Implement selective price increases for tariff-impacted items and target high-margin customers (e.g., catering or private dinners) to enhance value and competitiveness.
- **Operational Efficiency:** How quickly can the process be adapted to new trade realities, and what operational inefficiencies exist that could be addressed? Are there kitchen processes that can be streamlined, technologies to invest in to enhance adaptability, and how will this affect quality and customer experience?

HOW WE SUPPORT RESTAURANT CLIENTS

- ✓ **Immediate (0-90 days)**: Reduce discretionary spending, optimize inventory, adjust pricing to offset tariff costs on imported ingredients and equipment
- ✓ **Near-Term (3-9 months)**: Look at alternative suppliers to mitigate tariff disruptions to the supply chain and automate manual activities.
- ✓ **Medium-Term (9-18 months):** M&A opportunity assessments to explore new markets to brace against ongoing tariff impacts and drive long-term profitability

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ankuraocfo@ankura.com | ankura.com/ocfo

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