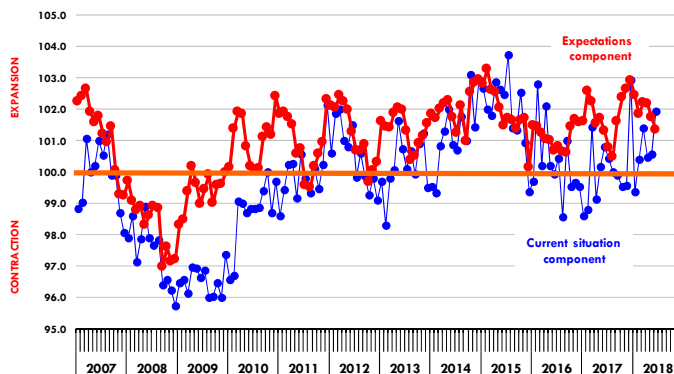


The US restaurant industry continues to expand thanks to robust economic growth, rising incomes and wealth, and one of the lowest unemployment rates on record. While we can argue as to whether the NRA Restaurant Performance Index accurately measures the state of the industry at any point in time, we think it still offers a reasonably good benchmark as to whether the industry is growing or contracting. In June the overall index was pegged at 101.6, 0.5% higher than the previous month. Keep in mind that values over 100 indicate expansion. Both the index that tracks current conditions and the index that tracks future expectations were higher than the previous month while the index tracking future expectations was 101.3, 0.4% lower than the previous month but still solidly in positive territory.

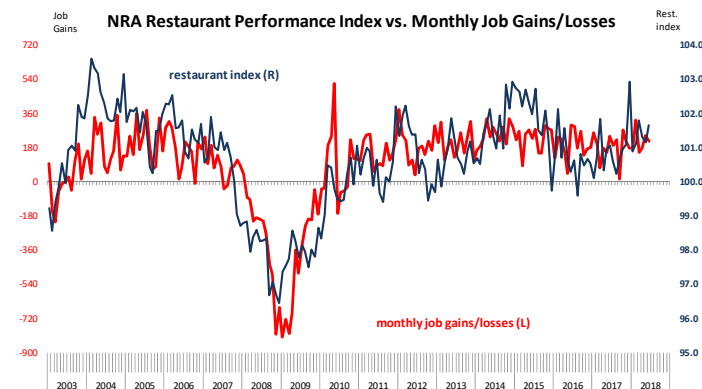
Details included in the report offer some interesting insights. **Labor has emerged as a major concern for the industry.** Finding qualified workers and holding on to your best performers has become increasingly difficult. Conditions are particularly difficult for fast food restaurants, which normally offer the lowest cost products and operate with razor thin margins. Many also have to contend with higher minimum wage laws that have come into effect or will come into effect soon. Staffing is one of the components of the expectations index and in June it was at 99.9, 0.7% lower than the previous month. **The foodservice industry has always been very competitive but it is particularly so today.** Cheap money, a booming economy and investors looking for returns have resulted in a significant increase of new stores. One way that incumbents are responding is by upgrading their stores. The index that measures capital expenditures was 104.9 in June, 2.1% higher than the previous month. Back in February the index tracking capital expenditures stood at 101.4

The NRA survey for June showed **robust improvement across all concepts.** Some are doing better than others, however. Fine dining was the best performing in June, with **79% of the survey respondents from this category indicating higher same store sales than a year ago.** The economy has been steadily adding jobs, growth in Q2 was over 4% and generally the consumer is doing well. This has bolstered the fortunes of higher check/higher quality restaurants. We think this is positive for beef. Loin and rib prices have been quite robust, especially during those times of the year when retailers also look to feature steak for special holidays, such as Father's Day. Performance at limited service restaurants and quick casual has not been as robust but positive responses outnumbered negative ones. Foot traffic remains an issue for all but we think this is largely a function of the increase in the number of locations available. With only so many meals available in a given week, the increase in locations means fewer visits. At this point **higher sales seem to be largely a function of higher prices, something that shows up in the inflation data.** Foodservice cost inflation far outpaces grocery store inflation. Overall the latest numbers are encouraging for meat protein, especially beef.

RESTAURANT PERFORMANCE INDEX
National Tracking Index. Values over 100 Indicate Expansion

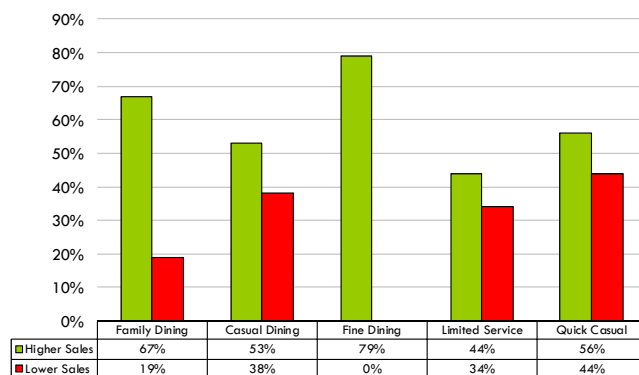


Data source: National Restaurant Association



Restaurant Performance Index: **Same Store Sales Growth**

% of respondents that indicated sales were higher or lower than the same time a year ago



Same Store Sales - June 2018 vs. June 2017, Tracking Survey Responses by Industry

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