2019
Canadian Chain Restaurant Industry Review

CWB Franchise Finance

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Research Partners

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1 Preface

Welcome to CWB Franchise Finance and The NPD Group's annual collaboration, the Canadian Restaurant Leadership Summit.

In conjunction with the Summit, I am also pleased to bring you this extensive research report on the state of chain foodservice in this country. This report strives to provide insights on the key factors affecting our Canadian industry.

The review is a comprehensive analysis and factual overview of market shares, revenue trends, costs, hot (and not-so-hot) products, consumer behaviour and the overall state of chain foodservice in Canada. These findings have implications for job growth, construction activity and other factors that will impact the economic health of the industry for several years to come. CWB Franchise Finance wishes to thank fsStrategy and The NPD Group Canada for their great work at compiling and analyzing these results.

You'll find many key takeaways throughout the report. As expected, there are areas that remain challenges, and areas that show a great deal of opportunity and potential. Of concern, ongoing challenges and worries around operating costs continue to be top of mind. We've also seen slower growth, yet high amounts of consolidation and acquisition activity are having quite an impact on the industry and growth options.

On the flip side, we've also seen the continued evolution of technology and how it's being used by both operators and consumers. And the focus on sustainability continues to gain traction, with the rise of plant-based proteins really creating a lot of opportunity for the industry.

Personally, I am excited to see where this industry goes next – between the creative people behind the ideas, the execution of the new businesses. I look forward to seeing the next iterations of the ever-changing dining experience, including menu innovation and evolving concepts and service styles. I hope that our market insights will assist you in building forward-looking plans to help grow your businesses.

Thanks to your passion and dedication, the Canadian chain foodservice industry will keep getting stronger and stronger. I wish you all continued success in your endeavours.

Ed Khediguian
CWB Franchise Finance

2 Introduction

*fs*STRATEGY Inc. ("*fs*STRATEGY"), CWB Franchise Finance ("CWB") and The NPD Group Inc. ("NPD") are pleased to release this 2019 Canadian Chain Restaurant Review as part of the 2019, our seventh version of this publication.

This report is the culmination of extensive primary and secondary research conducted by *fs*STRATEGY, CWB and NPD. Sources include:

- Research and data provided by Restaurants Canada.
- C-Suite Survey conducted by *fs*STRATEGY in June 2019 (over 80 CEOs, CFOs and COOs in the Canadian chain foodservice market were contacted). Thirty of those contacted participated in the survey.
- Detailed data from CREST®, NPD's flagship information service, monitoring all aspects of how consumers use restaurants and foodservice.
- Unit growth data from ReCount®, NPD's census of commercial restaurant locations in Canada and the U.S.
- Interviews with selected food grower associations, foodservice distributors and landlords.
- Information prepared by CWB on the economy, markets and key financial trends.
- Secondary research data from other sources such as Statistics Canada, PKF Consulting, TD Economics, the Conference Board of Canada, Human Resources and Skills Development Canada, Canada Ministry of Labour, Ontario Energy Board, International Monetary Fund, C-Suite Survey conducted by *fs*STRATEGY in June 2019 (over 80 CEOs, CFOs and COOs in the Canadian chain foodservice market were contacted). Thirty of those contacted participated in the survey.

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3 Foodservice **Industry** Profile

3.1 Canadian Foodservice Industry Sales

Canadian foodservice industry sales represented approximately 4.0% of national gross domestic product in 2018 and are expected to increase by 4.5% to $93.8 billion in 2019. The Canadian foodservice industry consists of both commercial and non-commercial sectors. In addition to caterers, commercial foodservice includes full-service restaurants (FSR), quick-service restaurants (QSR) and drinking places. Each of these three commercial restaurant categories includes chain foodservice sales.

Canadian foodservice industry sales reached $65.2 billion for 12 months ending May 2019, which includes sales for both commercial and non-commercial sectors. Commercial foodservice includes full-service restaurants ("FSR"), quick-service restaurants ("QSR") and retail (prepared foods at grocery such as HMR and convenience/gas). Each of these three commercial restaurant categories includes independent and chain foodservice sales. Within non-commercial, workplace and educational foodservice make up the largest share of non-commercial followed by accommodates and institutional segments.

Historic Nominal Foodservice Sales by Sector ($ millions)

	2015		2016		2017		2018		2019 (Forecast)	
	(Millions)	Change	(Millions)	Change	(Millions)	Change	(Millions)	Change	(Millions)	Change
Quick Service Restaurants	$26,955.2	6.9%	$28,854.3	7.0%	$30,490.7	5.7%	$31,989.7	4.9%	$33,423.0	4.5%
Full Service Restaurants	26,325.8	4.3%	28,229.7	7.2%	30,186.1	6.9%	31,828.7	5.4%	33,350.2	4.8%
Contract and Social Caterers	4,990.3	3.5%	5,132.1	2.8%	5,350.4	4.3%	5,645.1	5.5%	5,903.2	4.6%
Drinking Places	2,331.0	-1.5%	2,394.2	2.7%	2,413.7	0.8%	2,475.9	2.6%	2,547.7	2.9%
Total Commercial	**$60,602.4**	**5.1%**	**$64,610.2**	**6.6%**	**$68,440.9**	**5.9%**	**$71,939.4**	**5.1%**	**$75,223.8**	**4.6%**
Accommodation Foodservice	$6,230.0	5.4%	$6,489.0	4.2%	$6,934.0	6.9%	$7,206.0	3.9%	$7,508.0	4.2%
Institutional Foodservice[1]	4,485.0	2.5%	4,617.0	2.9%	4,735.0	2.6%	4,946.0	4.5%	5,125.0	3.6%
Retail Foodservice[2]	1,965.8	15.3%	2,284.9	16.2%	2,569.9	12.5%	2,764.8	7.6%	2,936.3	6.2%
Other Foodservice[3]	2,558.5	3.0%	2,640.4	3.2%	2,748.6	4.1%	2,858.6	4.0%	2,972.9	4.0%
Total Non-Commercial	**$15,239.3**	**5.3%**	**$16,031.2**	**5.2%**	**$16,987.5**	**6.0%**	**$17,775.4**	**4.6%**	**$18,542.2**	**4.3%**
Total Foodservice	**$75,841.6**	**10.7%**	**$80,641.4**	**6.3%**	**$85,428.3**	**5.9%**	**$89,714.8**	**5.0%**	**$93,766.0**	**4.5%**
Menu Inflation		2.8%		2.6%		2.6%		4.2%		2.8%
Real Growth		7.9%		3.7%		3.3%		0.8%		1.7%

Source: Restaurants Canada, Statistics Canada, fsSTRATEGY Inc. and PKF Consulting

1 *Includes self-operated education, transportation, health care, correctional, remote, private and public sector dining, and military foodservice.*

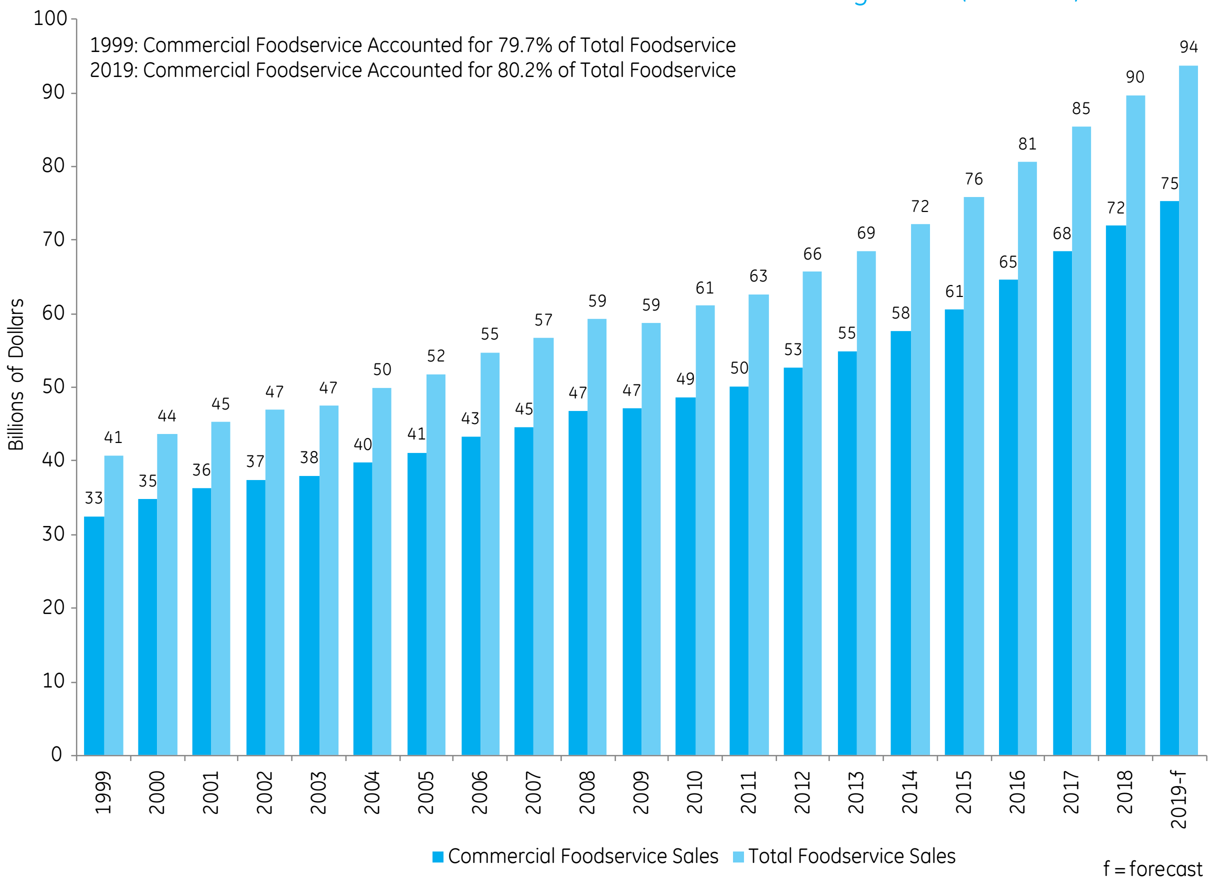
2 *Includes foodservice operated by department stores, convenience stores and other retail establishments.*

3 *Includes foodservice in vending, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations.*

As shown, commercial foodservice sales increased by 5.1% in 2018 while non-commercial sales increased by 4.6%. Commercial foodservice sales are projected by Restaurants Canada to increase by 4.6% to $75.2 billion in 2019. Total foodservice industry sales are expected to increase by 4.5% in 2019, 2.8% of which is a result of menu inflation with real growth of 1.7%. Similarly, most of the 5.0% growth observed in 2018 was a result of menu inflation while real sales growth was just 0.8%.

Commercial foodservice sales increased +4.1% for 12 months ending May 2019 versus the previous 12 months. This indicates a real dollar growth above and beyond menu inflation which is estimated at approximately +2% annually. Since 2015, commercial foodservice sales have added $11.5 billion dollars with a CAGR (Compound annual growth rate) of +5%. Although the growth continues to be positive, there is a slight slowing in annual per centage change dollar growth over the past five years that would suggest a leveling out at +4% for 2020 and 2021. Based on historical growth and if the positive sales growth trend continues in the +4% range, commercial restaurant sales could reach $73 billion in annual sales by 2023!

Historical Foodservice Sales Total versus Commercial – 1999 through 2019 (Forecast)

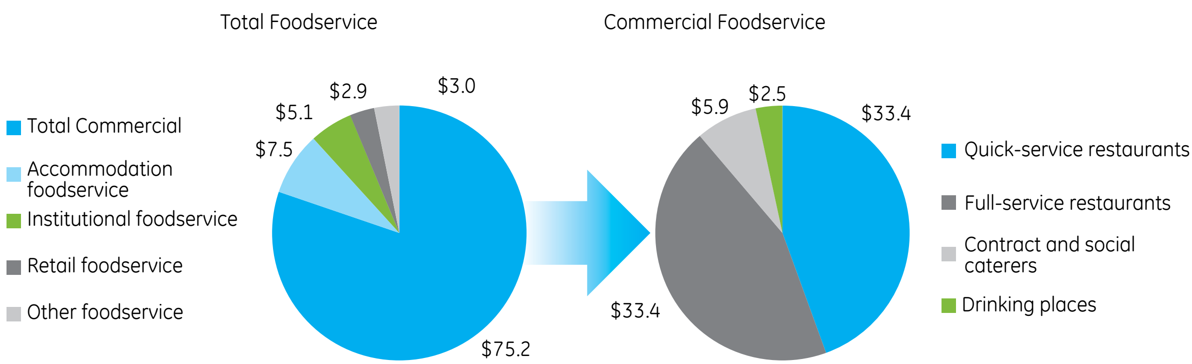


Source: Restaurants Canada, Statistics Canada, fsSTRATEGY Inc. and PKF Consulting

Total nominal foodservice sales are expected to increase from $39.0 billion in 1998 to an estimated $93.8 billion in 2019 representing a compound average growth rate of 4.25%. Commercial foodservice sales, which include chain restaurant sales, are expected to represent 80.2% of total foodservice sales in 2019, compared to 79.7% in 1999.

Within total foodservice sales, commercial foodservice represents $61 billion annually and non commercial capturing $.2 billion annually. The quick service restaurant segment captures the largest share of dollar sales at 49.7%, which is an increase of 1.3 share points since 2014. The full service dining segment captures 44.7% dollar share, which is down 0.5 share point from 2014. The retail segment rounds out the total commercial foodservice dollar share, capturing 5.6% dollar share, which is down 0.8 share point from 2014.

2019 Forecasted Share of Foodservice Sales by Sector ($billions)

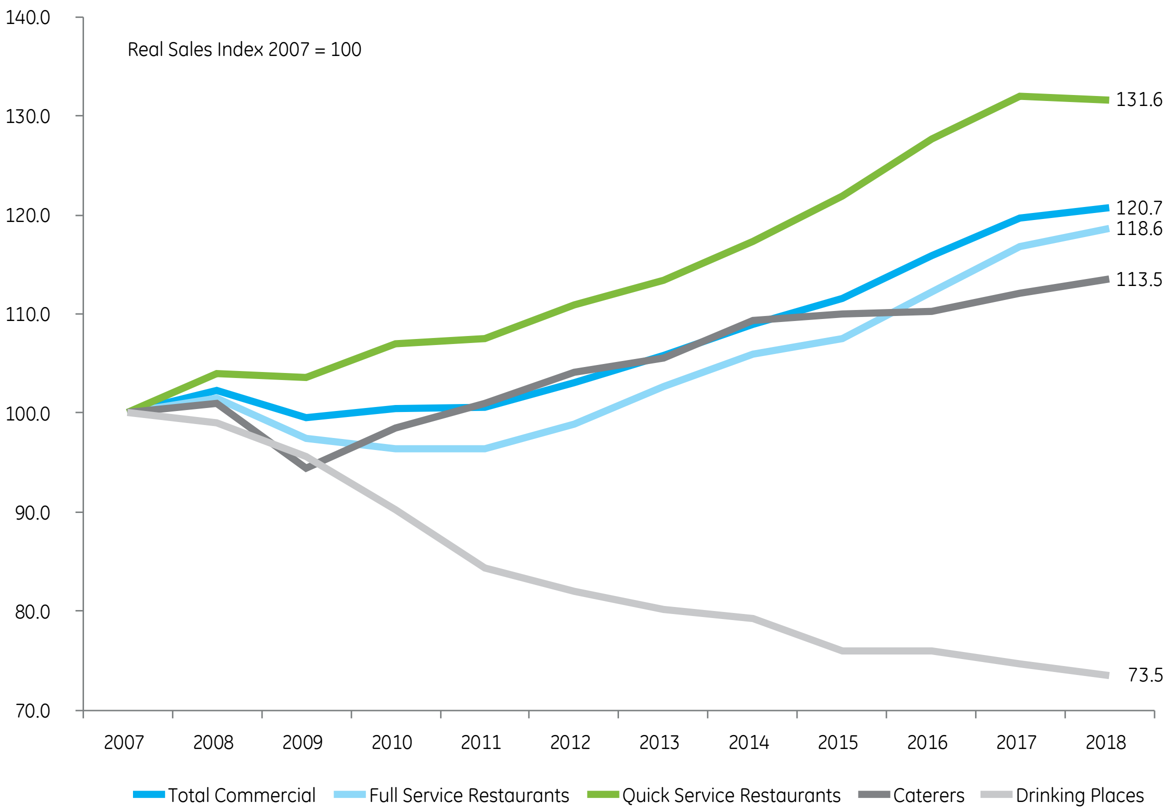


Source: Restaurants Canada, Statistics Canada, fsSTRATEGY Inc. and PKF Consulting

Both QSR and FSR generated sales of $33.4 billion in 2019. Together QSR and FSR represent 88.8% of commercial foodservice sales and 71.2% of total foodservice sales.

Foodservice growth trends vary by sector. The following graph compares the real sales indices (adjusted for inflation) (2007 real sales = 100) of various commercial foodservice sectors.

Real Sales Index by Industry Segment



Source: Restaurants Canada, Statistics Canada, fsSTRATEGY Inc.

As shown, total real commercial foodservice sales growth slowed in 2018, increasing by only 0.8% over 2017. Real sales for FSR increased by 1.7% compared to QSR that declined by 0.3% compared to 2017.

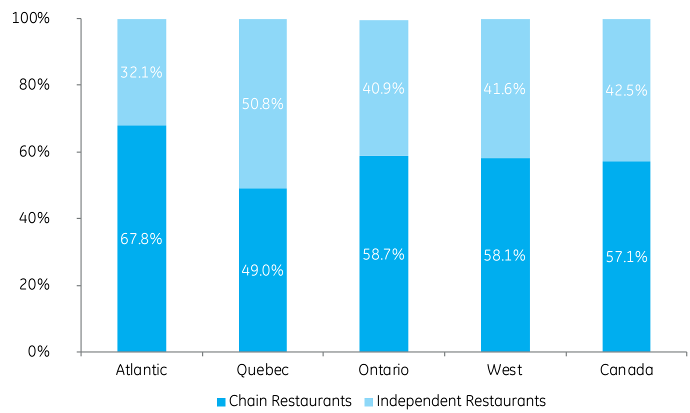
Sales for drinking places have declined annually, due largely to a reduction of the number of establishments classifying themselves as drinking places. Many such operations have been reclassified as FSR. Real sales per drinking place unit decreased by 1.3%.

In 2018, Canada's commercial foodservice industry increased by 942 units (1.0%). The number of FSR increased by 2.6% in 2018 while real sales per unit decreased by 1.0%, suggesting that supply outpaced demand. Similarly, the number of QSR increased by 1.8% and sales per unit declined by 2.1%. The number of caterers decreased by 6.5% (687 units) but sales per unit increased by 8.2%, resulting in a real sales growth of 1.2% for that segment.

3.2 Chain versus Independent Operator Sales

The chart below compares the share of commercial foodservice sales held by chain and independent restaurants across four Canadian regions.

Share of Commercial Foodservice Sales



Source: Restaurants Canada, CREST/NPD Group

As shown, 57% of Canadian restaurant sales are generated by branded local, regional, national and international chains. Restaurant chains have made significant strides in penetrating the Quebec market, but over half (51%) of commercial foodservice sales are generated by independent restaurants (up from 45.3% in 2017).

The Canadian restaurant market is dominated by branded local, regional, national and international chains concepts which captured 67.3% of all restaurant traffic for the 12 months ending May 2019. Regionally, the Atlantic provinces have the highest usage of chain concepts with 74% of all restaurant traffic in that region visiting a chain. In Quebec, chain restaurants are less popular with only 60% of all restaurant traffic visiting a chain concept, the lowest share of chain usage in Canada.

3.3 Provincial Sales Trends

Canadian Commercial Foodservice Sales by Province – 2008 through 2018

	Canada	Newfoundland and Labrador	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Revenues (thousands)											
2008	$46,795,255	$565,006	$176,233	$1,210,275	$891,334	$9,304,854	$17,593,324	$1,290,495	$1,287,297	$6,618,399	$7,709,844
2009	$47,119,784	$588,786	$175,904	$1,209,406	$938,959	$9,389,227	$17,646,302	$1,341,989	$1,356,800	$6,528,030	$7,796,132
2010	$48,682,831	$634,560	$186,622	$1,251,575	$969,704	$9,729,918	$18,428,055	$1,380,594	$1,427,773	$6,670,219	$7,846,168
2011	$50,153,714	$669,865	$191,731	$1,273,930	$963,865	$9,935,454	$19,240,203	$1,459,167	$1,504,151	$7,094,899	$7,661,888
2012	$52,664,839	$734,158	$198,921	$1,321,192	$976,550	$10,381,498	$20,224,060	$1,552,466	$1,616,242	$7,688,314	$7,815,257
2013	$54,909,479	$801,043	$205,495	$1,320,845	$978,462	$10,603,878	$21,043,639	$1,625,262	$1,704,798	$8,212,853	$8,249,386
2014	$57,636,764	$818,972	$210,893	$1,381,501	$1,012,722	$10,721,390	$22,263,259	$1,694,835	$1,763,851	$8,737,175	$8,875,798
2015	$60,602,377	$856,395	$227,289	$1,442,269	$1,082,714	$11,057,813	$23,772,109	$1,792,676	$1,819,904	$8,890,508	$9,496,493
2016	$64,610,215	$853,104	$243,324	$1,553,327	$1,159,371	$11,964,014	$25,576,312	$1,937,156	$1,846,157	$8,901,118	$10,419,951
2017	$68,440,865	$855,941	$256,789	$1,624,226	$1,189,320	$12,833,014	$27,088,954	$2,035,497	$1,860,992	$9,190,130	$11,339,834
2018	$71,939,423	$852,725	$272,583	$1,665,847	$1,223,281	$13,581,810	$28,740,605	$2,081,245	$1,897,712	$9,330,677	$12,131,589
Per cent Change vs Previous Year											
2008	4.8%	6.1%	3.2%	8.6%	5.3%	6.1%	5.7%	5.4%	10.2%	3.3%	1.3%
2009	0.7%	4.2%	-0.2%	-0.1%	5.3%	0.9%	0.3%	4.0%	5.4%	-1.4%	1.1%
2010	3.3%	7.8%	6.1%	3.5%	3.3%	3.6%	4.4%	2.9%	5.2%	2.2%	0.6%
2011	3.0%	5.6%	2.7%	1.8%	-0.6%	2.1%	4.4%	5.7%	5.3%	6.4%	-2.3%
2012	5.0%	9.6%	3.8%	3.7%	1.3%	4.5%	5.1%	6.4%	7.5%	8.4%	2.0%
2013	4.3%	9.1%	3.3%	0.0%	0.2%	2.1%	4.1%	4.7%	5.5%	6.8%	5.6%
2014	5.0%	2.2%	2.6%	4.6%	3.5%	1.1%	5.8%	4.3%	3.5%	6.4%	7.6%
2015	5.1%	4.6%	7.8%	4.4%	6.9%	3.1%	6.8%	5.8%	3.2%	1.8%	7.0%
2016	6.6%	-0.4%	7.1%	7.7%	7.1%	8.2%	7.6%	8.1%	1.4%	0.1%	9.7%
2017	5.9%	0.3%	5.5%	4.6%	2.6%	7.3%	5.9%	5.1%	0.8%	3.2%	8.8%
2018	5.1%	-0.4%	6.2%	2.6%	2.9%	5.8%	6.1%	2.2%	2.0%	1.5%	7.0%

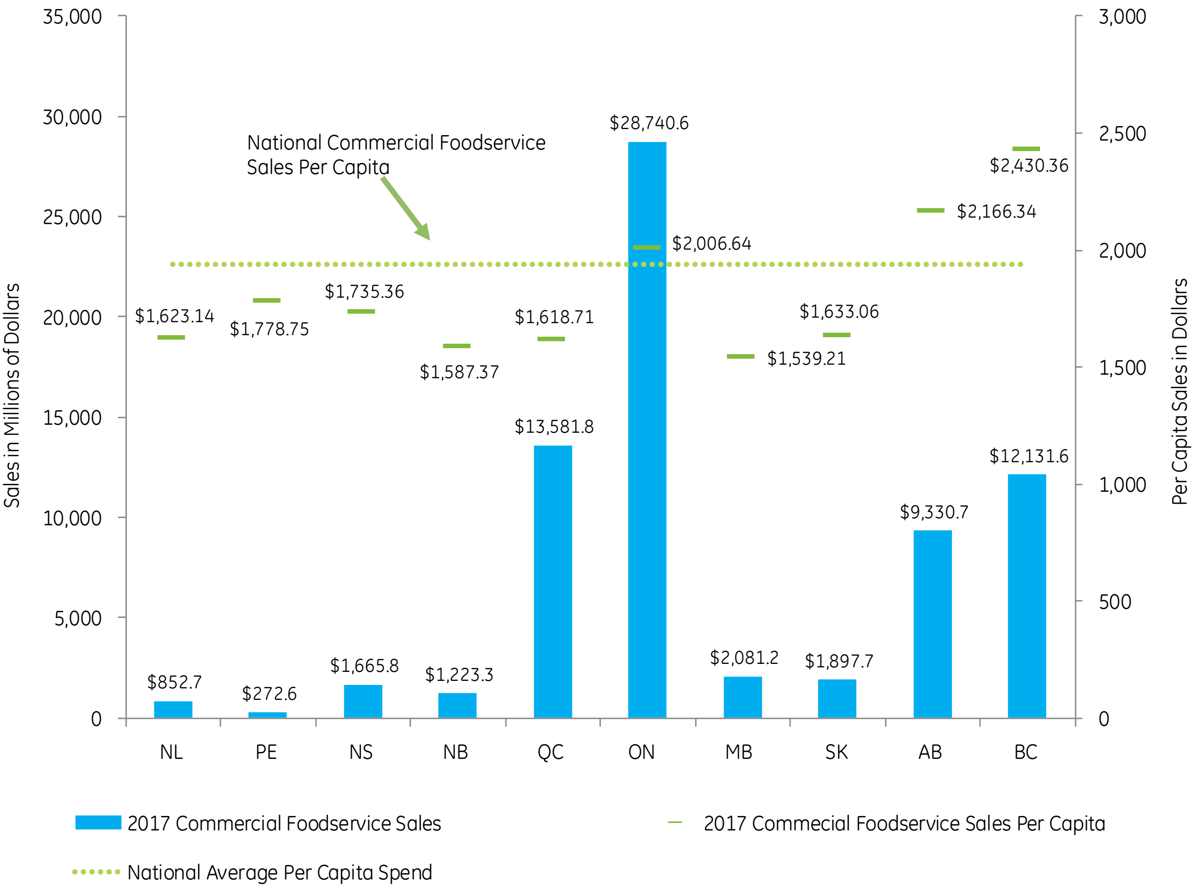
Source: Restaurants Canada, Statistics Canada

As shown, nominal commercial sales growth was slower in 2018 (5.1%) than 2017 (5.9%). British Columbia realized the greatest growth (7.0%) followed by Prince Edward Island (6.2%) and Ontario (6.1%). Nominal sales in Newfoundland and Labrador declined by 0.4%.

Comparing Provincial Growth: the Atlantic provinces lead all other provinces for 12 months ending May 2019, increasing dollars greater than +10% for the year while Saskatchewan was the only province to contract down -5%. Alberta continues to slowly return to normal growth, gaining +2.7% while Ontario and British Columbia both experienced gains, up +5.1 and +4.7% respectively

The following table compares total commercial foodservice sales and commercial foodservice sales per capita by province.

Commercial Foodservice Sales and Commercial Foodservice per capita by Province



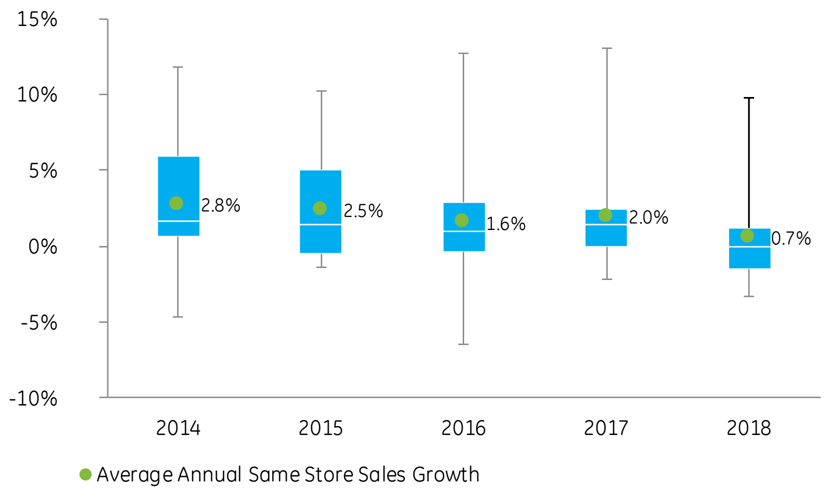
Source: Restaurants Canada, fsSTRATEGY Inc. and Statistics Canada

As shown, Ontario and Quebec have the greatest commercial foodservice sales, driven primarily by larger populations. Commercial foodservice sales per capita in Ontario are similar to the national average. Ontario's sales per capita increased by 5.1%, largely due to menu inflation in response to rapid increase to the province's minimum wage. British Columbia has the greatest commercial foodservice sales per capita ($2,430 up 3.5% from 2017) overtaking Alberta ($2,156) in 2017. Manitoba has the lowest per capita commercial foodservice sales ($1,539) followed by New Brunswick ($1,587). Quebec's per capita sales increased by 5.8% in 2018 compared to 2017, again likely related to a rapid increase in minimum wage.

3.4 Same Store Sales Growth

Same Store Sales Growth (SSSG) is a measure of the performance of restaurants year-over-year, comparing for the same base of stores from one year to the next on a rolling basis. The chart below illustrates the average and quartile ranges of SSSG for publicly-traded Canadian restaurant chains. The exhibit represents data from the same companies between 2014 and 2018 to allow for accurate year-over-year comparisons. As of 2018, the sample set includes eight companies, representing 94 brands.

Annual Same Store Sales Growth



Source: fsSTRATEGY Inc. using data from publicly-traded company annual and quarterly reports.

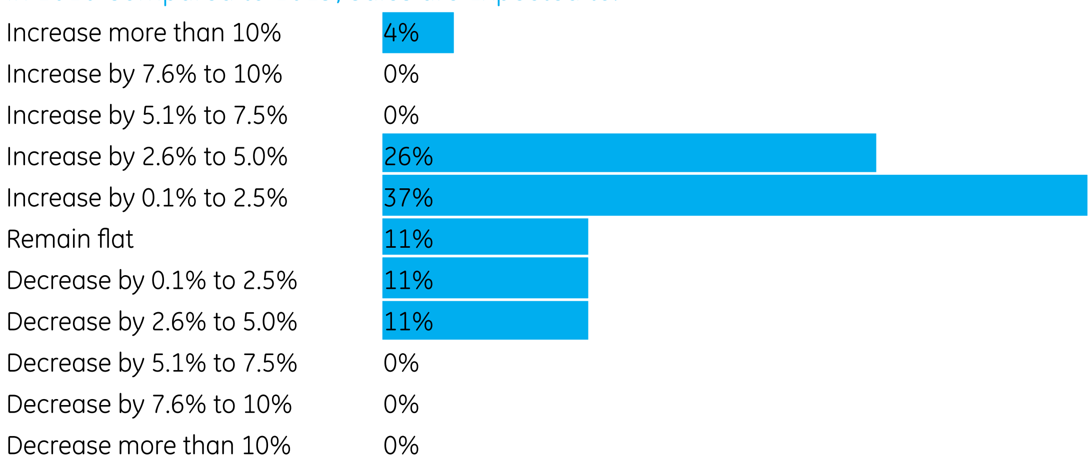
As shown, 2018 saw the lowest average SSSG (0.7%) in the last five years. SSSG in 2018 ranged from a 3.3% decline to 9.8% increase with approximately 50% of observations occurring between a 1.5% decline and 1.2% increase. With the exception of 2017 in which a modest increase was observed over 2016, SSSG has declined annually since 2014. When adjusted for menu inflation, the average SSSG ratios shown above result in a decline in real sales for each year with the exception of 2014.

3.5 C-Suite Expectations for Sales and Traffic

Once again, fsSTRATEGY has completed a survey of Canadian foodservice executives to gain their insights on the state of the industry for the Canadian Restaurant Investment Summit and to capture opinions and industry forecasts from Canada's industry leaders. Of the brands invited to participate, thirty-seven per cent responded. Responses from the C-Suite survey have been included at appropriate points throughout this book.

Respondents to the C-Suite Survey were asked how they expected industry sales and traffic to change in 2020. In general, respondents are similarly optimistic in 2019 to 2018 when the last C-Suite survey was conducted.

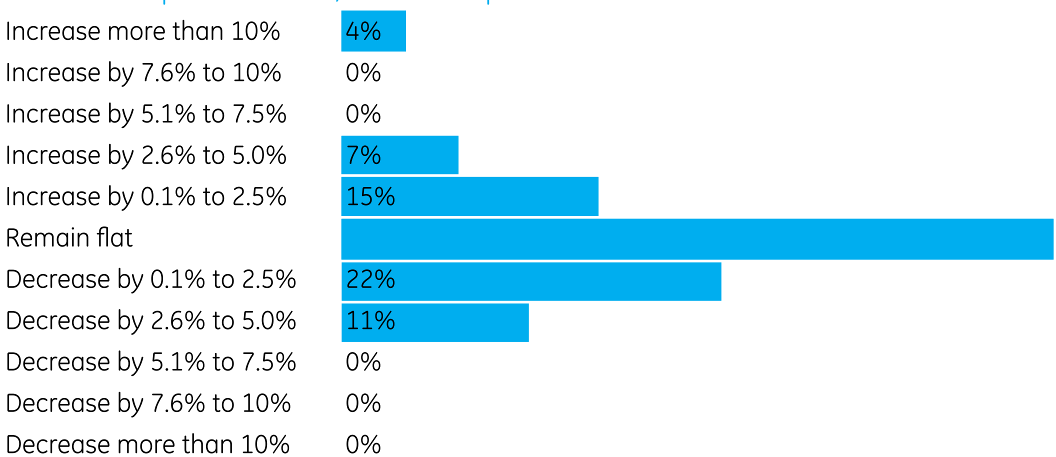
In 2020 Compared to 2019, Sales are Expected to:



Source: fsSTRATEGY Inc. 2019 C-Suite Survey

Most respondents (67%) believe sales will increase in 2020 compared to 2019, comparable to results from the 2018 C-Suite survey when 68% of respondents thought sales would increase. The percentage of respondents who expect sales to decline in 2020 is also comparable to the 2018 study (22% and 24% respectively).

In 2020 Compared to 2019, Traffic is Expected to:

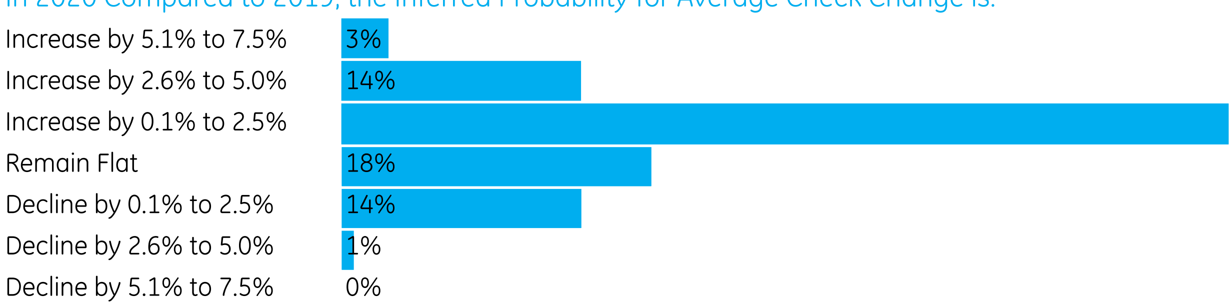


Source: fsSTRATEGY Inc. 2019 C-Suite Survey

Despite a greater proportion of respondents expecting sales to increase in 2020, a greater proportion of respondents expect traffic to decrease (33%) or remain flat (44%) indicating greater expected sales (67%) are to be generated through greater average check.

As sales are a function of traffic and average check, the implied changes to average check may be examined by comparing paired responses for sales and traffic changes.

In 2020 Compared to 2019, the Inferred Probability for Average Check Change is:



Source: fsSTRATEGY Inc. based on data from the 2019 C-Suite Survey

Based on respondents' anticipated changes to sales and traffic, the inferred change suggests a 51% probability that average checks will increase by between 0.1% and 2.5% in 2020 compared to 2019.

4 Top-of-Mind: **What CEOs** Think

4.1 Opportunities

C-Suite Survey participants were asked to list three opportunities in the foodservice industry for 2020. Responses were grouped into common categories.

Greatest Opportunities for the Foodservice Industry, 2020

Opportunity	2014	2015	2016	2018	2020	Change 2020/ 2018
Menu - Innovation, More Choice, Healthy Options, Improved Ingredient Quality, Flavour	27%	27%	23%	16%	21%	↑
Technology - Online Sales, Mobile Apps	2%	2%	8%	18%	17%	↓
Concept - Fast Casual, Premium, Non-Traditional, Differentiation, Take-Out, Delivery	17%	17%	4%	20%	13%	↓
Competition - Consolidation, Leveraging Competitor Failures	7%	12%	9%	4%	10%	↑
Market Growth - Sales, Growth, Increased Traffic	0%	8%	8%	2%	8%	↑
The Economy - Oil/Gas Prices, Changing Canadian Dollar, Cost of Goods Sold	0%	7%	4%	0%	6%	↑
Location - Real Estate Opportunities, Suburban, Strong Regional Economies, International	10%	3%	11%	2%	6%	↑
Markets - Millennials, Day Part Growth, Small Markets, Universities/Colleges, Hospitals	7%	5%	11%	0%	5%	↑
Labour - Efficiencies, Retaining Skilled Labour	0%	0%	0%	10%	3%	↓
Service Consistency and Quality	5%	2%	6%	4%	3%	↓
Consumer Acceptance to Trying New Flavours (menu diversity)	0%	0%	0%	4%	2%	↓
Supply - Improved Supplier Efficiency, More Canadian Products	0%	0%	0%	2%	2%	→
Marketing - Building Loyalty/Repeat Business, Social Media	7%	7%	8%	0%	2%	↑
Sustainability	0%	3%	2%	0%	2%	↑
Facilities - Smaller Footprints, Construction	0%	0%	0%	0%	2%	↑
Procurement - Bulk Purchasing Initiatives	2%	0%	0%	8%	0%	↓
Cost Efficiencies - Improved Systems	0%	2%	4%	4%	0%	↓
Beverage (Alcohol) - Bar and Beverage Programs, Craft Distilled Spirits, Happy Hour	10%	3%	0%	4%	0%	↓
Catering and Special Events	5%	0%	4%	2%	0%	↓
Price Increases	0%	0%	0%	2%	0%	↓
Financing - Availability, Low Interest Rates	0%	3%	0%	0%	0%	→

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

Menu profile and innovation increased to its previous position as the greatest opportunity for the foodservice industry (21% of respondents), bolstered by identified opportunities with plant-based proteins, new food trends, increasing menu variety and greater quality items on menus. Technology opportunities represent 17% of responses and while some mention was made of online ordering, most technology opportunities cited mobile ordering and other electronic ordering systems. Concept opportunities primarily related to increase or addition of delivery. This year, labour efficiencies decreased as an opportunity since the previous study's focus on the increases to minimum wage in Ontario and Alberta.

4.2 Challenges

Survey participants were asked to list three challenges in the foodservice industry for 2020. Responses were grouped into common categories.

Greatest Challenges for the Foodservice Industry, 2020

Challenge	2014	2015	2016	2018	2020	Change 2020/ 2018
Operating Costs	50%	29%	39%	51%	47%	↓
Cost of Goods Sold	17%	17%	15%	10%	13%	↑
Labour Costs	26%	7%	16%	26%	16%	↓
Rent	5%	2%	3%	4%	8%	↑
Utility/Energy	0%	0%	0%	1%	2%	↑
General	2%	2%	5%	9%	6%	↓
Delivery	-	-	-	-	1%	↑
Human Resources - Retention and Availability	3%	5%	4%	0%	15%	↑
Labour Issues - Availability of Quality Employees, Motivation	0%	7%	5%	16%	14%	↓
Competition - Density, Consolidation, Third-Party Delivery	7%	7%	15%	6%	10%	↑
Government Regulations	0%	0%	0%	6%	7%	↑
Consumers - Price Sensitivity, Reduced Transactions, Perception	0%	0%	0%	4%	3%	↓
Technology	0%	0%	0%	1%	1%	→
Changing Customer Demand - Demographics	0%	0%	1%	0%	1%	↑
Changing Concepts - Fast Casual, Casual Elegance	-	-	-	-	1%	↑
Trade Relationships/Tariffs	0%	0%	0%	4%	0%	↓
Sales	7%	4%	4%	1%	0%	↓
Sites - Finding Sites	17%	2%	4%	1%	0%	↓
Service - Improving Quality	2%	0%	0%	1%	0%	↓
Product Quality	0%	0%	0%	1%	0%	↓
Managing Customer Expectations	0%	0%	0%	1%	0%	↓
The Economy - U.S. Dollar, Availability of Financing, Recession	9%	15%	16%	0%	0%	→
Government Policy	0%	2%	5%	0%	0%	→
Nutritional Information Requirements	2%	0%	3%	0%	0%	→
Competition from the United States	0%	0%	3%	0%	0%	→
Availability of Franchisees	3%	0%	0%	0%	0%	→
Food Safety	0%	0%	0%	0%	0%	→

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

As with previous years, operating costs are the greatest challenge for the survey participants. In 2020, operating costs represent nearly half (47%) of all reported challenges. Labour costs continue to be the greatest operating cost challenge faced by operators, but were cited less frequently than in 2018 when the Ontario and Alberta faced significant increases to minimum wage. Beyond operating costs, human resource and other labour issues such as availability of skilled staff, retaining skilled staff and motivating staff are the greatest challenges for participants followed by competition.

Where participants discussed competition in 2018, they did so in broader terms relating to general density, consolidation and ability to match prices with larger brands. For 2020, increased competition challenges noted were predominantly due to third-party delivery.

4.3 Biggest Changes

4.3.1 Short-Term Changes

C-Suite Survey participants were asked what they thought would be the greatest short-term changes in the foodservice industry.

In 2018, participants discussed themes of shrinking labour supply, reduction in part-time positions, decreased service levels, increased labour efficiencies, technology driving change and take-out/delivery to play a greater part in operations and plant-based/vegan entrees may increase in popularity.

In 2020, participants focused on technology such as mobile app ordering, digital ordering/payment methods, automation and robotics acting as a disrupter with a financial barrier to entry but also a possible opportunity to increase efficiency and combat labour challenges. Labour challenges such as acquiring and retaining skilled staff, labour costs and minimum wages remained common challenges among respondents. Third-party delivery is expected to continue to grow. As delivery increases, unit sizes may decrease in response to decreased dine-in traffic.

Some respondents indicated the challenge of creating value for guests and staying current were also short-term challenges they experienced.

4.3.2 Long-Term Changes

C-Suite Survey participants were asked what they thought would be the greatest long-term changes in the foodservice industry.

Key themes running through participants' responses included delivery increases resulting in smaller dining rooms/units, continued margin and cost pressures including labour and lease rates, and technology presenting a constant need to invest and upgrade as systems develop. Other challenges included greenwashing in the foodservice industry, single-use plastics being eliminated, constantly changing consumer needs, plant-based proteins and cannabis affecting restaurant traffic.

4.4 Business Strategies

fsSTRATEGY requested C-Suite Survey participants to select their top strategy for managing in today's environment..

Strategy	2018 %	2018 Rank	2020 %	2020 Rank
Add new units in Canada	19%	2	21%	1
Modify operations and/or facilities to reduce labour costs	14%	3	16%	2
Capture market share from competitors	14%	3	15%	3
Grow average check	22%	1	13%	4
Close unprofitable units	9%	6	10%	5
Add new units internationally	1%	9	10%	5
Use of a third-party digital order and delivery service	10%	5	7%	7
Modify menus to reduce cost of goods sold	9%	6	7%	7
Other (expand menu and added support)	3%	8	1%	9

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

Other Include: Create more reasons for guests to visit more often through product innovation

Adding new units in Canada is the primary strategy, noted by 21% participants followed by modifying operations/facilities to reduce labour costs. Capturing market share was named in the top three strategies in both the 2018 and 2019 surveys. Growing the average check decreased from the top ranked strategy in 2018 (22% of respondents) to fourth for 2019 (13% of respondents). Interestingly, the use of third-party digital ordering and delivery services slightly decreased as a strategy in 2019 (7%) compared to 2018 (10%); possibly due to mainstream acceptance of the sales channel.

4.5 Third-Party Delivery

Eighty-nine per cent of respondents indicated they have used third-party delivery.

Users were asked which third-party delivery platforms they used.

Third-Party Delivery Platforms Used

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	Total
SkipTheDishes	100%	100%	88%	**96%**
Uber Eats	33%	33%	75%	**50%**
DoorDash	33%	25%	50%	**38%**
Foodora GmbH	33%	8%	50%	**29%**
Just Eat	33%	0%	13%	**8%**
Other	0%	0%	0%	**0%**

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

SkipTheDishes is the most commonly used third-party delivery platform among respondents (used by nearly all respondents who use third-party delivery) followed by Uber Eats (50%). Quick-service restaurants appear to be more likely to use multiple third-party delivery platforms compared to full-service or fast casual restaurants, based on respondents interviewed.

Respondents were asked what impact third-party delivery had on gross revenue.

Impact of Third-Party Delivery on Gross Revenue

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	Total
Increase more than 10%	33%	0%	25%	**12%**
Increase by 7.6% to 10%	33%	8%	0%	**8%**
Increase by 5.1% to 7.5%	0%	17%	25%	**15%**
Increase by 2.6% to 5.0%	0%	25%	25%	**19%**
Increase by 0.1% to 2.5%	0%	25%	13%	**19%**
Remain Flat	0%	0%	0%	**8%**
Unsure	33%	8%	0%	**8%**
Decrease by 0.1% to 2.5%	0%	8%	0%	**4%**
Decrease by 2.6% to 5.0%	0%	8%	0%	**4%**
Decrease by 5.1% to 7.5%	0%	0%	0%	**0%**
Decrease by 7.6% to 10%	0%	0%	13%	**4%**
Decrease more than 10%	0%	0%	0%	**0%**

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

The majority of respondents (73%) indicated third-party delivery increased overall revenue, with 12% reporting a gross revenue increase of 10% or greater. Some respondents (12%) indicated third-party delivery decreased revenue, likely due to the increased competition some respondents have experienced. Fast casual and full service restaurant respondents reported greater decreases in sales than quick service respondents. Respondents were asked what impact third-party delivery had on their net income (EBITDA).

Impact of Third-Party Delivery on Net Income

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	Total
Increase more than 10%	33%	0%	0%	**5%**
Increase by 7.6% to 10%	0%	0%	0%	**0%**
Increase by 5.1% to 7.5%	0%	0%	13%	**5%**
Increase by 2.6% to 5.0%	0%	8%	38%	**21%**
Increase by 0.1% to 2.5%	33%	25%	25%	**32%**
Remain Flat	0%	25%	13%	**0%**
Unsure	0%	25%	13%	**21%**
Decrease by 0.1% to 2.5%	33%	8%	0%	**11%**
Decrease by 2.6% to 5.0%	0%	8%	0%	**5%**
Decrease by 5.1% to 7.5%	0%	0%	0%	**0%**
Decrease by 7.6% to 10%	0%	0%	0%	**0%**
Decrease more than 10%	0%	0%	0%	**0%**

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

The majority of respondents (53%) reported a net income increase between 0.1% and 5%. Over 20% of respondents were unsure what direct impact third-party delivery has had on net income (likely due to fees involved) and 16% of respondents indicated third-party delivery has had a negative impact on net income. While 13% of quick service respondents were unsure how third-party delivery affected their net income, none reported a decrease in net income as opposed to full service respondents (16%) and fast casual respondents (33%). When asked if respondents planned on using third-party delivery in the future, 74% indicated they would, 7% did not plan on using third-party delivery and 19% were undecided. A greater proportion of quick service restaurants plan to use third-party delivery in the future compared to full service and fast casual restaurants.

4.6 Mobile and Kiosk Ordering

Respondents were asked which ordering platforms they currently used.

Mobile Ordering and Kiosk Usage

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	Total
Mobile Ordering (excluding third-party delivery apps)	67%	54%	67%	**64%**
Kiosk Ordering	0%	8%	11%	**8%**
Neither - Plan to in the Future	0%	15%	33%	**20%**
Neither - Do Not Plan to in the Future	33%	31%	56%	**20%**

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

While a limited proportion (8%) of respondents currently use kiosk ordering, 64% currently make use of mobile ordering (excluding third-party delivery apps). Of respondents who use neither mobile nor kiosk ordering, half plan to in the future and half do not plan to use either in the future.

Respondents were asked what impact mobile ordering had on gross revenue.

Impact of Mobile Ordering on Gross Revenue

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	Total
Increase more than 10%	0%	0%	17%	**6%**
Increase by 7.6% to 10%	0%	0%	0%	**0%**
Increase by 5.1% to 7.5%	0%	14%	0%	**6%**
Increase by 2.6% to 5.0%	50%	0%	17%	**13%**
Increase by 0.1% to 2.5%	0%	14%	50%	**31%**
Remain Flat	0%	43%	17%	**25%**
Unsure	50%	29%	0%	**19%**
Decrease by 0.1% to 2.5%	0%	0%	0%	**0%**
Decrease by 2.6% to 5.0%	0%	0%	0%	**0%**
Decrease by 5.1% to 7.5%	0%	0%	0%	**0%**
Decrease by 7.6% to 10%	0%	0%	0%	**0%**
Decrease more than 10%	0%	0%	0%	**0%**

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

As shown, 56% of respondents indicated mobile ordering positively impacted gross revenue with just under half of respondents (44%) reporting revenue increases between 0.1% and 5%. No respondents indicated mobile ordering negatively affected revenue while 19% were unsure of the affect and 25% indicated revenue remained flat.

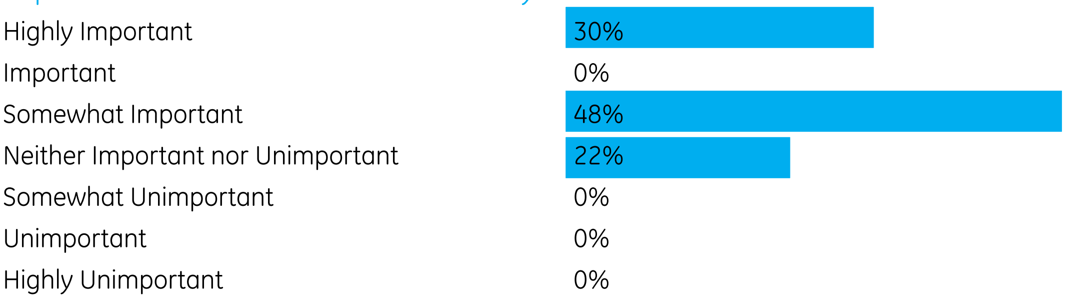
Insufficient responses were collected from respondents currently using kiosk ordering to draw conclusions on kiosk ordering's impact on gross revenue.

4.7 Sustainability

fsSTRATEGY asked C-Suite Survey participants to provide their views on sustainable foodservice.

Participants were asked rate to the current level of importance of this issue for their chain.

Importance of Environmental Sustainability

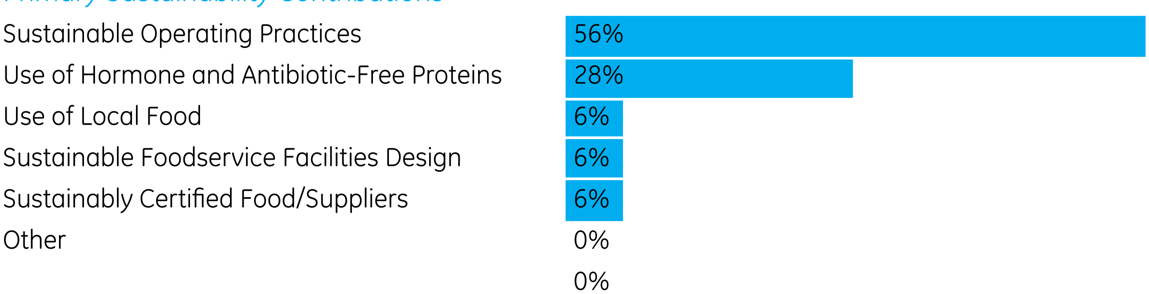


Source: fsSTRATEGY Inc. 2019 C-Suite Survey

In 2019, the importance of environmental sustainability decreased with 78% of participants reporting that sustainability was either somewhat (48%) or highly important (30%) compared to 2018, where with 96% of participants reporting that sustainability was either somewhat (57%) or highly important (39%). None of the 2019 participants felt that sustainability was unimportant, which was consistent with 2018.

Respondents were asked to indicate which contribution was their primary focus in their sustainability strategies.

Primary Sustainability Contributions



Source: fsSTRATEGY Inc. 2019 C-Suite Survey

Sustainable operating practices ranked first with 56% of participants (compared to 27% in 2018), and hormone and antibiotic free proteins (28%) ranked second (an increase from 14% of respondents in 2018). Use of local food was ranked second in 2018 with 23% of participants and in 2019 was tied with sustainable foodservice facilities design and sustainably certified food/suppliers, reported by 6% of respondents each.

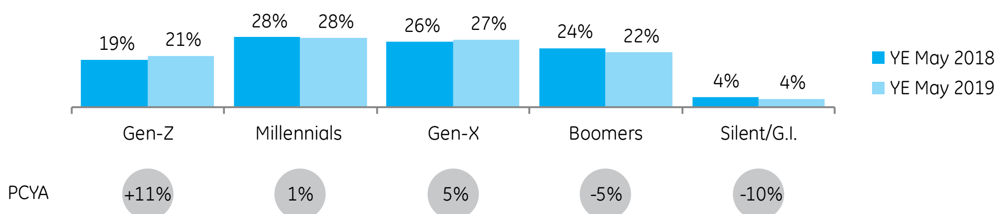
5 Trends **Impacting** Restaurants

5.1 Key Consumer Profiles

5.1.1 Commercial Restaurant Traffic by Age Group

During the 12 months ending May 2019, traffic to the over 64,997 restaurants across Canada increased by 137 million more visits compared to the previous year. Despite over 801 restaurant units closing in 2018, more consumers appear to be using restaurants. Much of the gain is a result of younger consumers becoming more active using restaurants. The Millennial consumer represents the largest age group to use restaurants, capturing 27.5% of all traffic. Even younger than Millennials, the future of the restaurant consumer, Generation Z (consumers born after 1997) increased their restaurant traffic over the previous year by +11%, the fastest growing traffic gains in the Canadian restaurant market. Combined, Gen Z and Millennials now represent annual restaurant visits of 3.5 billion. Just prior to the Gen Z and Millennials is the Generation X cohort. Born between 1965 and 1980, this cohort is becoming more import to the restaurant market representing 1.9 billion annual visits, which is up +4.8% compared to last year. Although Gen X is the smallest share of the overall Canadian population, their use of restaurants has become increasingly part of their daily lives. Conversely, the older Boomer generation is becoming less important as this cohort is using restaurants less often. A decline in traffic at restaurants of -5.1%, total Boomer restaurant traffic has dropped to only 1.6 billion visits a year.

% Traffic Share for Commercial Foodservice by Age Cohort

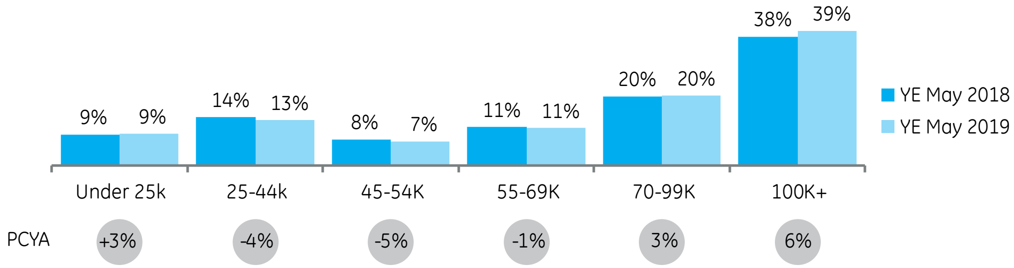


Source: The NPD Group/CREST®

5.1.2 Commercial Restaurant Traffic by Household Income

Households with incomes greater than $100k represent 39% of overall restaurant consumers and are the only group increasing their use of restaurants. Traffic is up +1.6% compared to last year for this higher household income consumer. Households earning incomes between $55k and $99k make up 31.2% of all restaurant traffic and remain relatively unchanged in restaurant usage compared to last year. Lower income households earning between $35k and $54k annually appear to be cutting back on restaurant usage as this group declined by -1.3% compared to last year. Households earning less than $25k annually are only 9.2% of all restaurant traffic and their usage remains unchanged from last year.

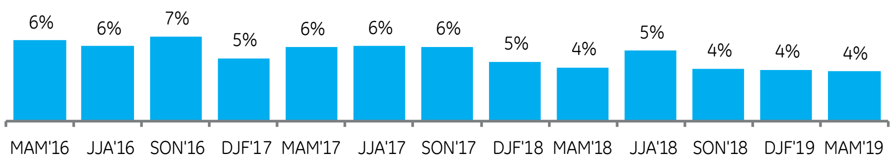
% Traffic Share for Commercial Foodservice by Household Income (Consumers 13 Years of Age and Older)



Source: The NPD Group/CREST®

5.1.3 Percentage Restaurant Sales Growth Quarter over Quarter

Commercial Foodservice by Quarterly Percentage Sales Growth Year Over Year



Source: The NPD Group /CREST®

5.2 Key Foodservice Industry Trends

The restaurant market has experienced fundamental shifts over the past five years to reflect the ever-changing interests and needs of today's consumers. The past few years have marked significant change as the restaurant and foodservice industry evolves with the increasingly demanding and focused needs of today's food culture. 2019 marked a significant year of change with innovation across all areas of the foodservice industry from consumer technology to food production to equipment and technology, right up to front of house staff and service. Today's business climate is demanding the best from all companies involved in the rapidly changing and highly competitive Canadian restaurant and foodservice market.

Upscaling and Food Innovation

Premiumization is the name of the game if you want to be successful in today's restaurant landscape. Consumer expectations on the quality and transparency of the foods they consume continues to increase. It is difficult to find a restaurant today that is not promoting or offering menu items without claims of some sort. The most popular claims continue to be RWA (Raised without Antibiotics), locally grown, organic and sourced from Canada. This demand from consumers on claims is also changing the business model for many large scale food manufacturers as the opportunity for smaller, innovative start-ups to quickly enter the market and steal market share is a competitive threat.

This is also helping drive food innovation in the industry. Many of the smaller, innovative start-up food manufacturers are finding success both in the foodservice market as well as the retail grocery market. Much of the success related to food innovation is a result of consumers actively seeking out new and exciting food options, particularly the younger consumers. With Gen Z and Millennials now representing annual restaurant visits of 3.5 billion, it is this core group of consumers who are helping establish a demand for food innovation.

Health and Wellness

Tied closely into the premiumization as well as innovation taking place in the restaurant industry is the continued focus on health and wellness. Today's food consumer has a strong understanding of the dynamics of the foods they are consuming; from nutritional content to the amounts of good and bad elements in their food such as sugar, fats, vitamins and so on. Today's educated food consumer is demanding more focus on health and wellness, which is in turn helping drive the growth of restaurant concepts that offer menus focused on foods such as salads, smoothies, super foods, vegan and generally "better for you" menu items. This fundamental change in consumers' eating habits is also changing the positioning of many large restaurant chains as they also look to offer menu items that cater to the health and wellness demand.

Technology

With many trends changing the restaurant landscape over the past year, none were more influential than technology. There is no doubt that all areas of the restaurant and foodservice industry have fully embraced technology innovation and now understand the impact of technology as a competitive advantage. During the past year, many large restaurant chains even went as far as purchasing technology companies to integrate into their operating model. And there are still many more opportunities for technology to influence the restaurant foodservice market in the years to come. As more foodservice companies start to integrate technology into their operating model and are becoming more familiar with using multiple data sources to operate "smarter", expect to see aggressive advancements in technology areas such as artificial intelligence and machine learning as well as across all tools for payment, operations, labour, training, production and consumer touch points.

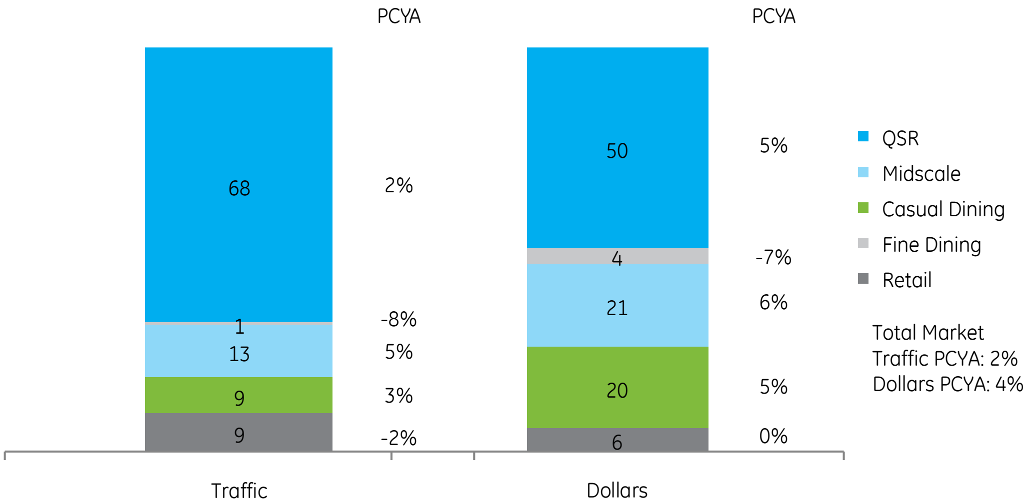
Summary on Market Performance During the Past Year

The Canadian foodservice industry sales reached $65.2 billion for the 12 months ending May 2019, which is up +4.1% versus the previous 12 months. The quick service segment, which represents the largest share of dollar sales at 49.7% and the largest share of traffic at 68%, is growing faster than traffic, suggesting increases in average eater checks as consumers continue to move towards higher-priced menu items. The continued development of the fast casual segment (which is captured as part of quick service) is also helping increase the dollars spent in this segment. It is within the fast casual segment that many of the newer, innovative restaurant concepts are opening stores and expanding units.

The performance of the full service dining segment over the past year has demonstrated a change in direction for full service dining operators compared to the previous years. Since the economic downtown in 2008, the full service dining segment has struggled, declining in both traffic and dollars. But the turnaround during the past year suggests that this segment has started to experience the benefits of many changes full service dining operators have implemented to evolve their brands. Today, full service dining operators are focusing on more convenient meal solutions through off-premise delivery and take-out utilizing consumer technology, increasing menu innovation to reflect consumer demands as well as enhancing customer service to ensure guest satisfaction with each visit. These changes and focus on enhancing the full service dining business model translated into +3.6% gain in traffic during the past year, making the full service dining segment the fastest growing restaurant segment last year. Similar to traffic, dollars also experienced strong growth, up +4.3% on the year, outpacing traffic growth.

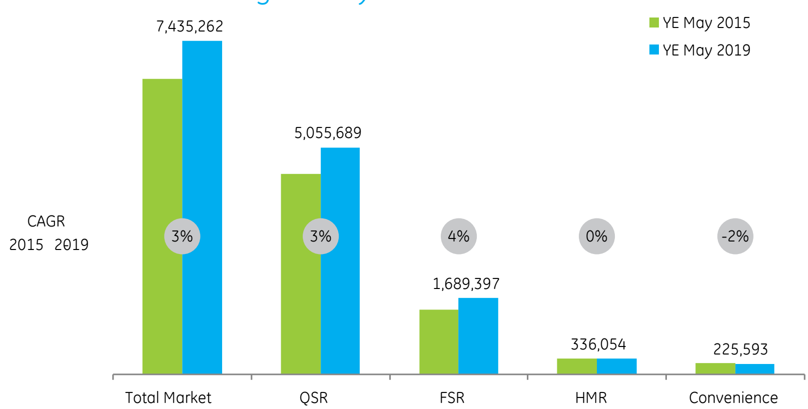
Overall the restaurant market continues to evolve and change and it appears the focus on innovation is attracting younger consumers. With the strongest growth in traffic over the past year coming from the Gen Z and Millennial cohorts, it is clear that the industry is positioning for the future as the trends that resonate with this important demographic are shaping the industry and providing a firm platform for future growth.

Commercial Foodservice Segments by Share of Traffic & Dollars



Source: The NPD Group /CREST®

Commercial Foodservice Segment by Traffic Growth



Source: The NPD Group /CREST®

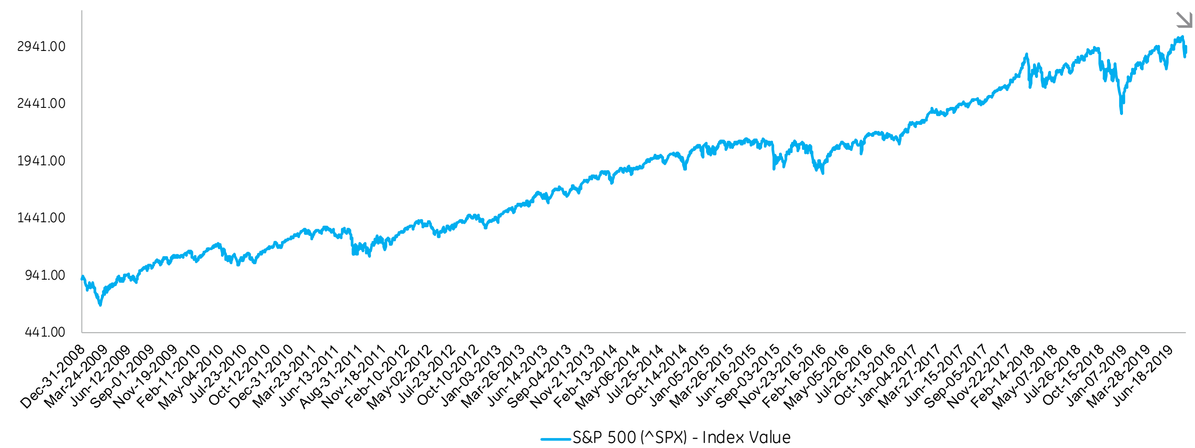
6 Finance

6.2 The Economy

It's been ten years since the last major recession in North America and for many economies across the world. This is the longest economic expansion in U.S. history and the stock market has followed suit by posting strong gains as can be seen by the chart of the S&P 500 below (the S&P/TSX is also shown below).

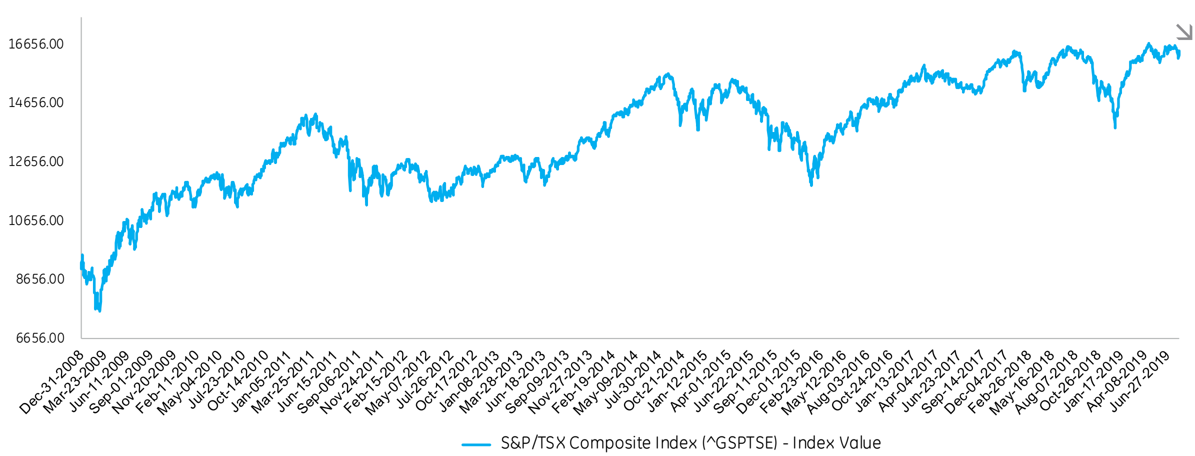
As the bull market in U.S. stocks hit "longest-ever" status in the summer of 2018, cracks started to appear in the U.S. economy and subsequently in the stock market. Investors became concerned with the combination of interest rate increases and trade wars tipping the economy into a recession and hurting stock prices. This caused a violent global sell off in stocks in Q4 2018.

S&P 500 (^SPX) Index Value



Source: Various Stock Market official websites Index (January 2011 = 100)

S&P/TSX Composite Index (^GSPTSE)

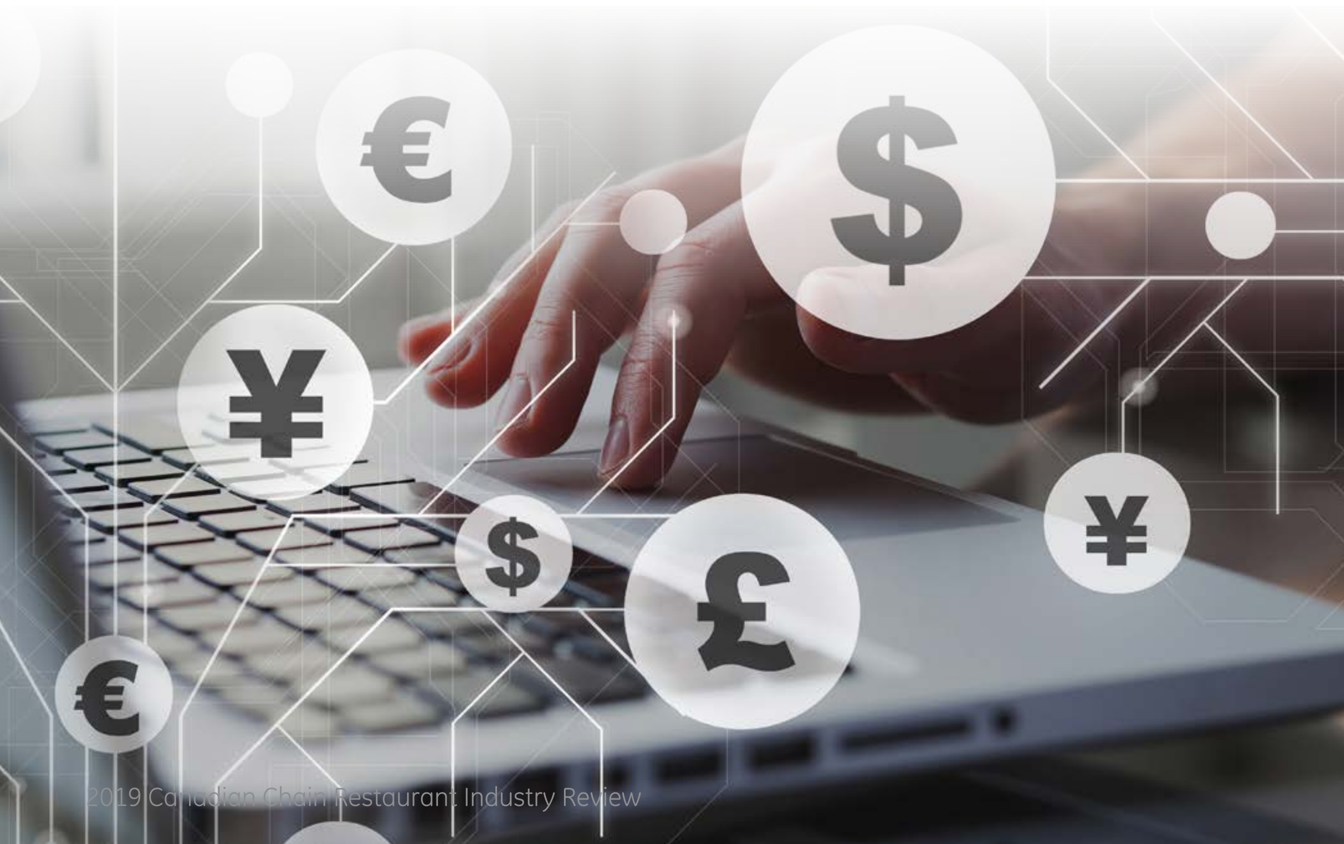


Source: Various Stock Market official websites Index (January 2011 = 100)

As the calendar turned to 2019, we have seen global markets rebound significantly, with the U.S. and Canada erasing last year's losses and hitting all time highs. However, some of the same issues that caused last year's sell-off still exist. The U.S. trade war with China has in fact accelerated. Brexit is taking a significant toll on the U.K. economy. Germany is at risk of negative growth. China is seeing slowing growth which in turn will cause slower growth in other emerging Asian economies. U.S. growth is also slowing which will hurt Canada's growth.

Interest rates are no longer rising and in fact are falling across the globe in an effort to boost growth and prevent recession. This is helpful for stocks as bonds become less attractive on a relative basis. For instance, the dividend yield on the S&P/TSX composite is now 2% higher than a 10-year Government of Canada bond.

Market participants are struggling with whether we are now in a mid-cycle slowdown where the economy slows temporarily before reaccelerating or whether a full blown recession is on the way. This has caused increased volatility in the market that will likely continue. Interest rate cuts can only do so much to offset the negative impact of the China/U.S. trade war. Continued escalation will have a material negative impact on global growth and could even lead to a global recession, while a resolution would increase the chance that the current volatility is just a mid-cycle slowdown. The future path of global stock markets hinges on the outcome of the dispute between the worlds two largest economies.



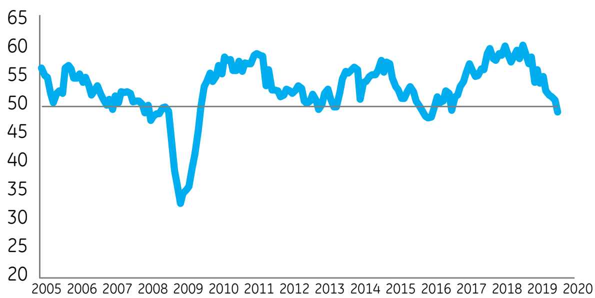
6.2 Economic Outlook

Global Slowdown

Once again, the big story when it comes to Canada's economic outlook is the trade war. While tensions have not been as vocal recently, it appears the damage of the dispute has already been done and the effects are continuing to ripple throughout the global economy. There are two main indicators for tracking global economic growth, Manufacturing PMI Composite Index and Cass Freight Index.

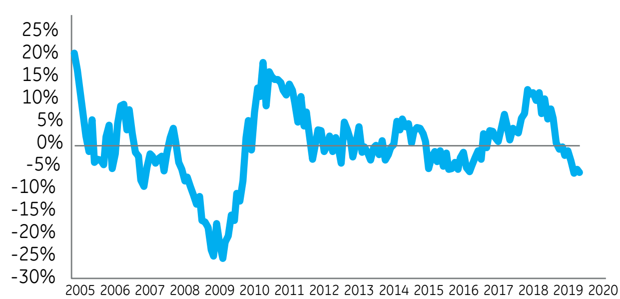
The effects of tariffs from the U.S. and China have continued to weigh on the global export markets and business investments. Trade has slowed considerably for China and supply-chain countries have also been affected. The slowdown in trade has been felt the most by the manufacturing industry as seen below in the Manufacturing PMI Composite Index. This index is a composite of manufacturing and services tracked across the globe. When the index is above 50, global manufacturing is increasing. Conversely, manufacturing is in decline when the index is below 50. Since trade tensions between the U.S. and China began to heat up in the second half of 2018, the index has been experiencing a serious deceleration, meaning global manufacturing has been increasing, but at a slower and slower pace. It seems that due to the continued trade disputes between the U.S. and different countries, the PMI index is heading below 50, which would mean a contraction in the global manufacturing industry.

Manufacturing PMI Composite Index



Source: Institute for Supply Management

Cass Freight Index: Shipments, Year-Over-Year Growth



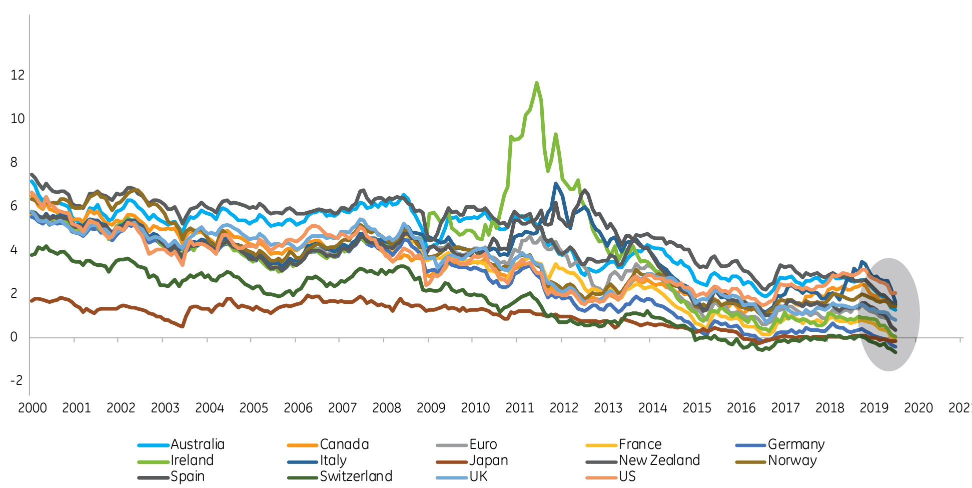
Source: Federal Reserve of St. Louis

Closer to home, Canada has become entangled in the U.S.-China conflict, beginning when the U.S. requested Canada to detain a high-level Chinese executive. Canada obliged, angering the Chinese governments and thrusting Canada into its own disputes with China. Since the detention in December of 2018, China has escalated by targeting the Canadian agricultural industry, shutting down imports of Canadian canola seeds, pork and beef alleging concerns over the quality of the food products. These actions are widely seen as an economic response by China for the detainment. Overall, tensions with China, as well as an increasing number of protectionist policies (and threats) have all contributed to slower international trade, and ultimately slower production worldwide. The effect of these policies can be seen in the Cass Freight Index. This index is an indicator of North American shipping and represents a barometer of the activity in the supply-chain for consumer goods, food, automotive, chemical, retail and heavy equipment. Since the start of 2019, the year-over-year growth of this index has turned negative, indicating a slowdown in North American shipping for these industries.

Interest Rates

In response to the global concerns discussed above, investors have begun moving their money out of riskier assets and into “safe havens.” This has been seen in various government bond markets around the world as high volumes of demand for these risk-free assets have pushed prices up and have sent yields downwards. Below, the plot shows the 10-year government bond yields for different countries, with the highlighted area displaying the recent flood of capital into bonds.

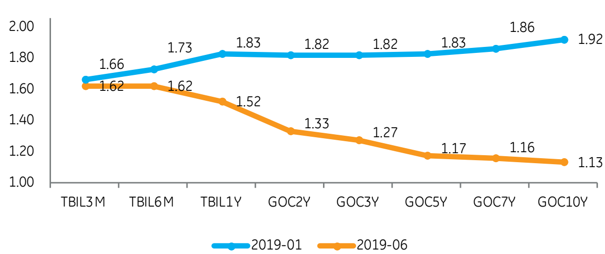
10 Year Government Bond Yields



Source: Federal Reserve of St. Louis

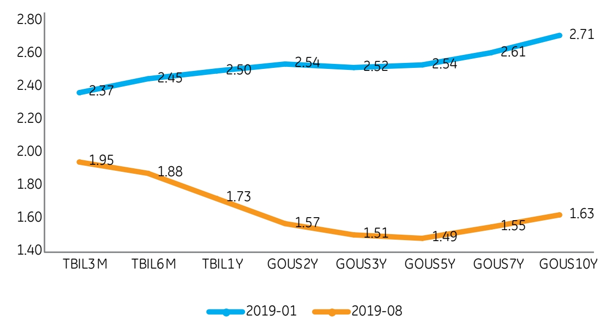
The bond buying has extended deep into the longer-term maturities as well, inverting yield curves in many countries and pushing some government bond yields negative. Currently, there is more than $13 trillion USD of negative yielding bonds in the world, more than doubled since September 2018. As shown in the following figures, the yield curve has inverted for both Canada and US since the start of 2019. This large scale 'risk-off' shift in the investment capital, reflected in the yield curve inversion, usually precedes a recession as it indicates a significant shift to more negative expectations about future growth prospects and increased risk aversion; however it is not clear how soon a recession may follow after a yield curve inversion as past precedents have varied.

Government Bond Yield, Canada



Source: Statistics Canada

Government Bond Yield, U.S.



Source: Federal Reserve of St.Louis

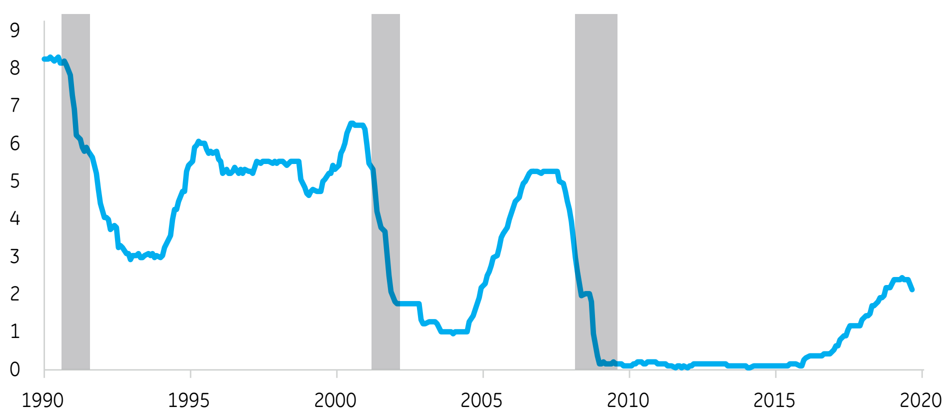
As the trade winds have slowed and uncertainty remains, the central banks have shifted towards expansionary leaning policy, adopting accommodative language and in some cases have even begun cutting their policy rates in 2019.

Country	Interest Rate Before	Interest Rate After	Date of the Change
New Zealand	1.75%	1.5%	May 2019
Australia	1.5%	1.25%	June 2019
Australia	1.25%	1%	July 2019
U.S.	2.5%	2.25%	July 2019
South Korea	1.75%	1.5%	July 2019

Europe has also exhibited signs of moving towards expansionary policy, with another round of quantitative easing being seriously considered for the fall of 2019 by the European Central Bank (ECB). The ECB hopes that by providing more liquidity to the markets, economic uncertainty and fears of a global slowdown can be avoided. A new president for the ECB has also been nominated, Christine Lagarde, the current Managing Director of the International Monetary Fund (IMF). Lagarde has been outspoken for negative interest rates and it is understood she will take a similarly "dovish" stance to Mario Draghi, the current ECB president, when it comes to deflationary expectations.

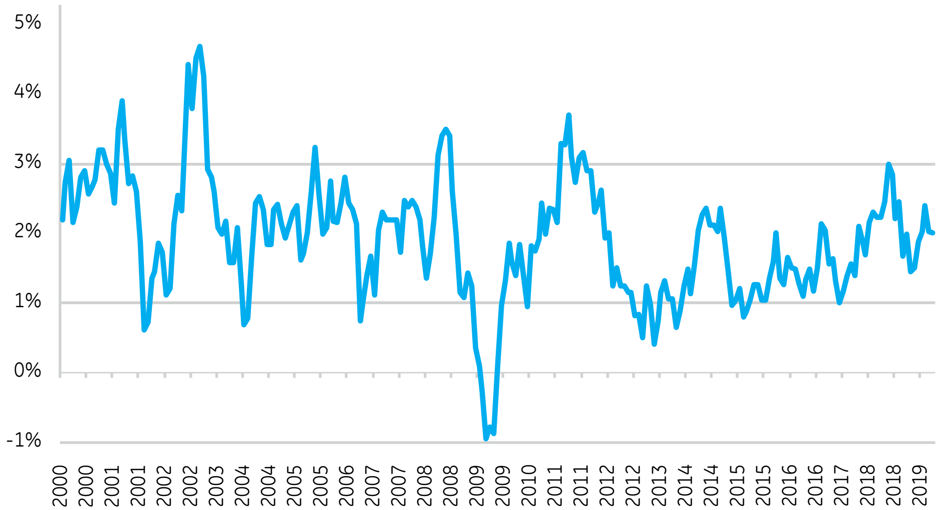
The Federal Reserve (Fed) meeting on July 2019 was highly anticipated, with many market participants expecting an interest rate cut. This has been an interesting turn of events considering that in December of 2018, most markets had been pricing in 2-3 rate hikes by the Fed for this year. The recent rate cut by the Fed signifies a complete turnaround in their actions. It is important to note that prior to the previous two recessions, the Fed pivoted towards a rate cutting cycle in the months preceding the slowdown.

Effective Federal Funds Rate



Source: Federal Reserve of St.Louis

CPI All-Items, Year-Items, Year-Over-Year Growth, Canada



Source: Statistics Canada

The CAD/USD foreign exchange market has also been moving in expectation of a Fed rate cut, strengthening the loonie. The Bank of Canada (BoC) has expressed concerns over the resiliency of the Canadian export industries, considering that American demand for Canadian manufacturing may soften if the Canadian dollar continues to strengthen against the USD. If this is the case, the BoC may be forced to cut the overnight lending rate in order to help out the export industries.

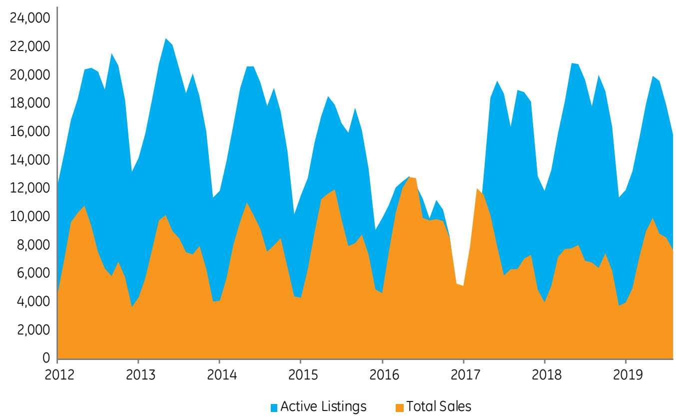
BoC also considers inflation for the rate cut. The sole mandate of the BoC is to control inflation and maintain steady price levels. The BoC holds a policy mandate for inflation of 2%, with an acceptable target band of 1% to 3%. The figure above shows the levels of inflation in the Canadian economy since 2005. If inflation moves to around 3% and higher, creating inflationary environment, it would be difficult for BoC to justify a rate cut. However, if the inflation goes below 2% and closer to 1%, then the rate cut could be justified. Overall, it is expected that BoC will cut the interest at least 25 basis points by the end of 2019. The rate cut could place some relief on borrowers in Canada.

6.3 Housing Market

With the first half of 2019 in the books, the Canadian real estate market has been turning out to be a mixed bag.

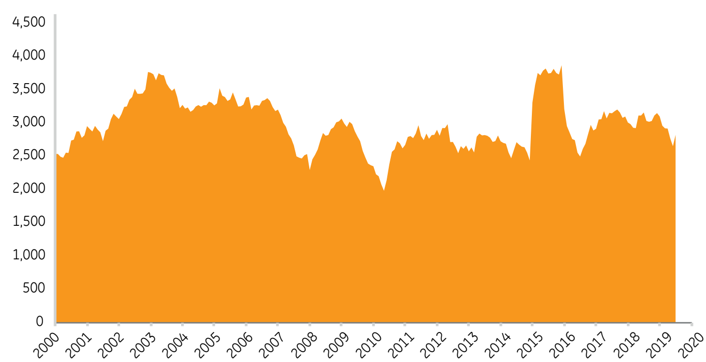
Toronto

Active Listings - Total Sales, All Property Types, Greater Toronto Area



Source: Toronto Real Estate Board

Toronto Housing Completions, 12 Month Average



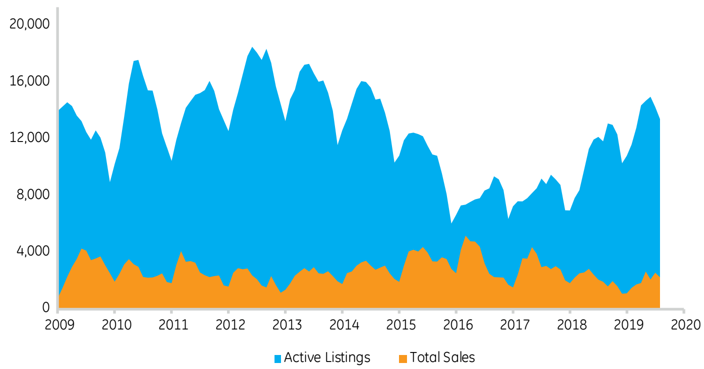
Source: Statistics Canada

The Toronto residential real estate market has continued to show resiliency after falling from the highs of 2016. While the market has cooled, sending inventories back to historically normal levels in 2018, sales numbers have improved so far in 2019. This renewed demand has lent support to average prices across Greater Toronto, shown in the positive year-to-date growth across most property types and regions. Supply is currently coming online at an average of about 2,750 units per month in Greater Toronto. This pace is typical for the area over the past 20 years and does not appear to be a driving factor in elevating inventories.

Vancouver

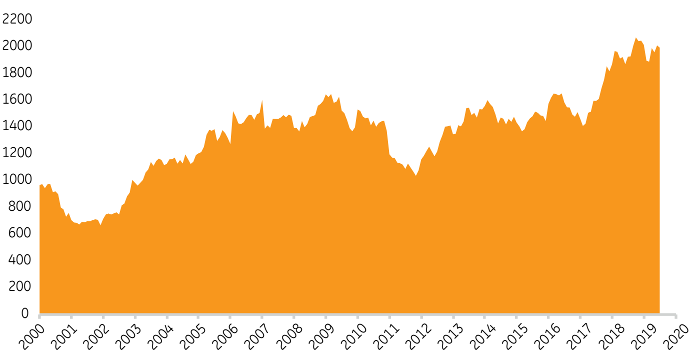
The Greater Vancouver housing market has continued to soften this year, with year-to-date sales growth negative across all markets as buyers are continuing to sit on the sidelines. The condo market has been hit particularly hard, with a downward correction in average prices of 16.7% since January 2018, the peak of the market. The lack of demand combined with an increasing supply of units becoming available has led to elevated inventories, with expectations for this trend to continue. The growing number of available units gives power to the potential buyers and these types of environments often place downward pressure on prices. Going forward, sales and prices in Vancouver will be dictated by the willingness of sellers to bring their prices down in order to meet demand.

Active Listings - Total Sales, All Property Types, Vancouver



Source: Real Estate Board of Greater Vancouver

Vancouver Housing Completions, 12 Month Average

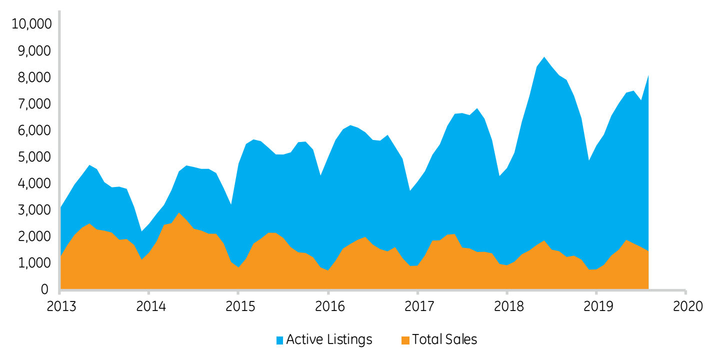


Source: Statistics Canada

Edmonton & Calgary

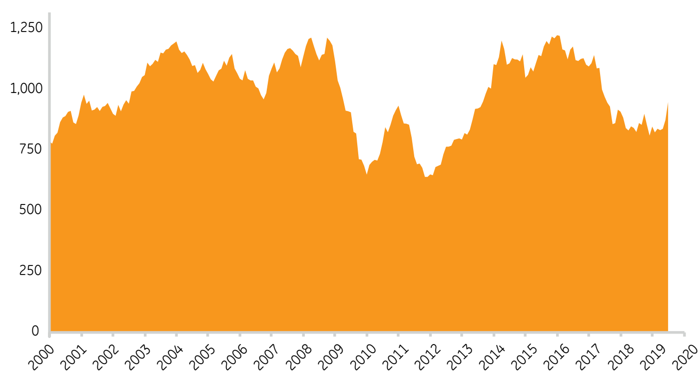
Alberta's housing market has continued to slide since oil prices crashed in 2015. Since then, inventories have continued to build up in both Calgary and Edmonton, placing downward pressure on prices. As these inventories are continuing to build, prices would be expected to continue lower. Construction in Alberta has remained slow over the past few years and is not currently creating a material impact on inventories.

Active Listings - Total Sales, All Property Types, City of Calgary



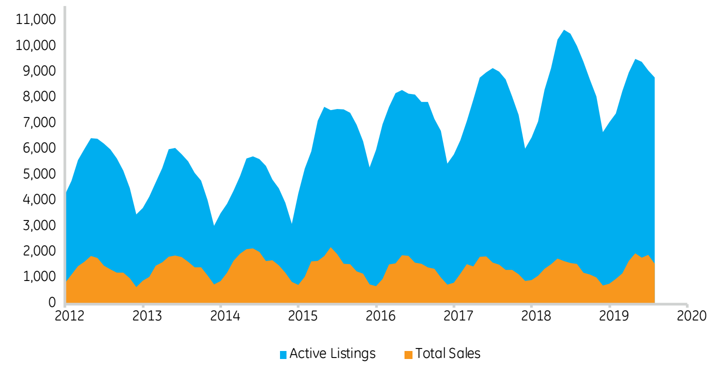
Source: Calgary Real Estate Board

Calgary Housing Completions, 12 Month Average



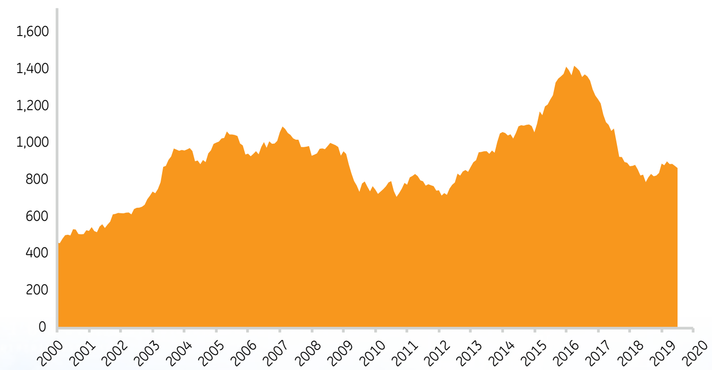
Source: Statistics Canada

Active Listings - Total Sales, All Property Types, City of Edmonton



Source: Edmonton Real Estate Board

Edmonton Housing Completions, 12 Month Average

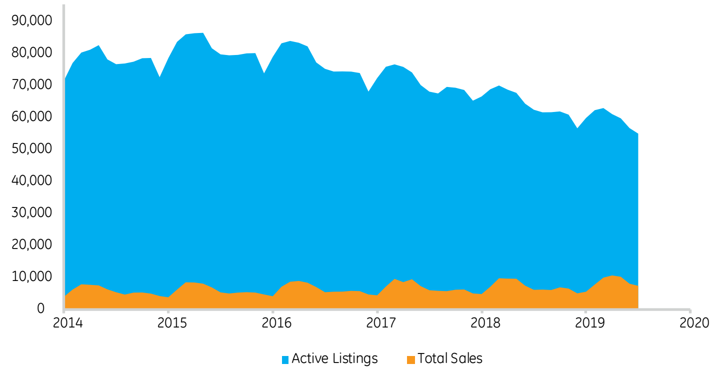


Source: Statistics Canada

Quebec

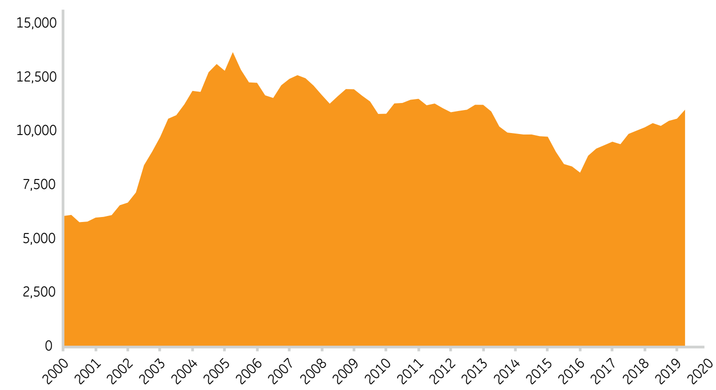
The housing market in Quebec has continued to show strength, with positive year-to-date sales growth in virtually all regions and property types. The strong sales numbers have squeezed inventories lower over the past couple of years, placing upward pressure on prices. Given the current demand, completion numbers would need to continue increasing for the new units to have an impact on inventory.

Active Listings - Total Sales, Total Residential, Province of Quebec



Source: Quebec Federation of Real Estate Boards

Quebec Housing Completions, 12 Month Average



Source: Statistics Canada

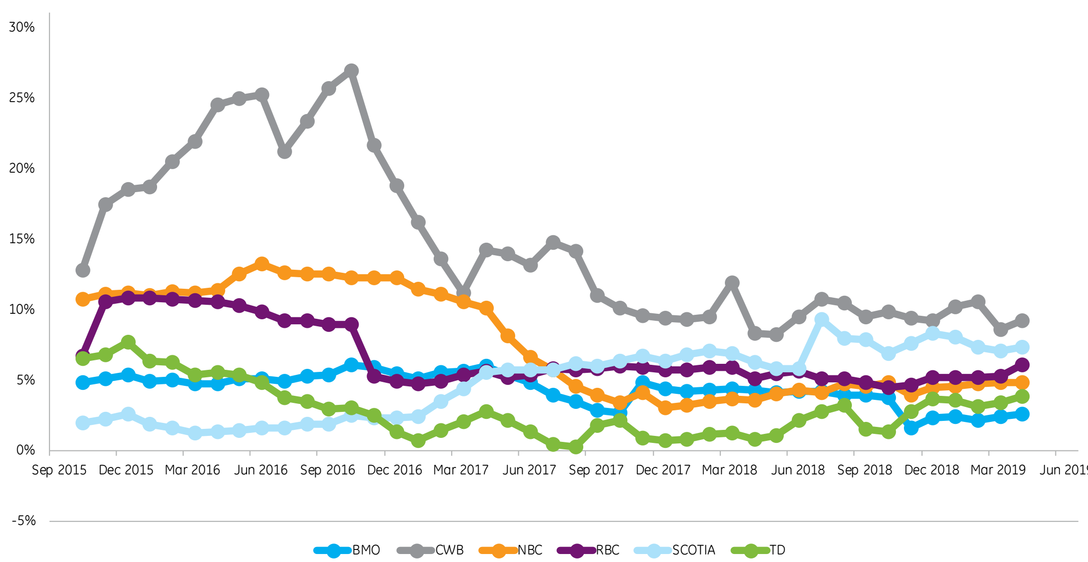
6.4 What to Expect Next?

Trump has been using trade tariffs as a political tool to put pressure on different countries. If this continues, we should expect more deterioration of the global trade and economy. BoC has considered the trade uncertainty as the most important factor affecting Canadian economy. Due to such uncertainty, the BoC cut their forecast of 2019 GDP growth for Canada from 2.1% to 1.7% in December 2018, and a second revision of 1.7% to 1.2% was made in April 2019. If trade disputes are not resolved, GDP growth for Canada could remain around 1% in 2020. Regarding the interest rate, all signs have shown the hiking cycle has come to an end and the environment discussed above could justify the start of the rate cut cycle by the BoC starting from late 2019 or early 2020.

The unemployment rate is at record low levels. However, it could start to rise if the global trade problems continue to lead towards a slowdown in the economy. The unemployment rate is the most important factor in the housing market as the mortgage payments in the over-valued Canadian housing market is highly dependent on future incomes. In adverse conditions, it would be expected that housing markets in heated areas such as Vancouver would correct even further.

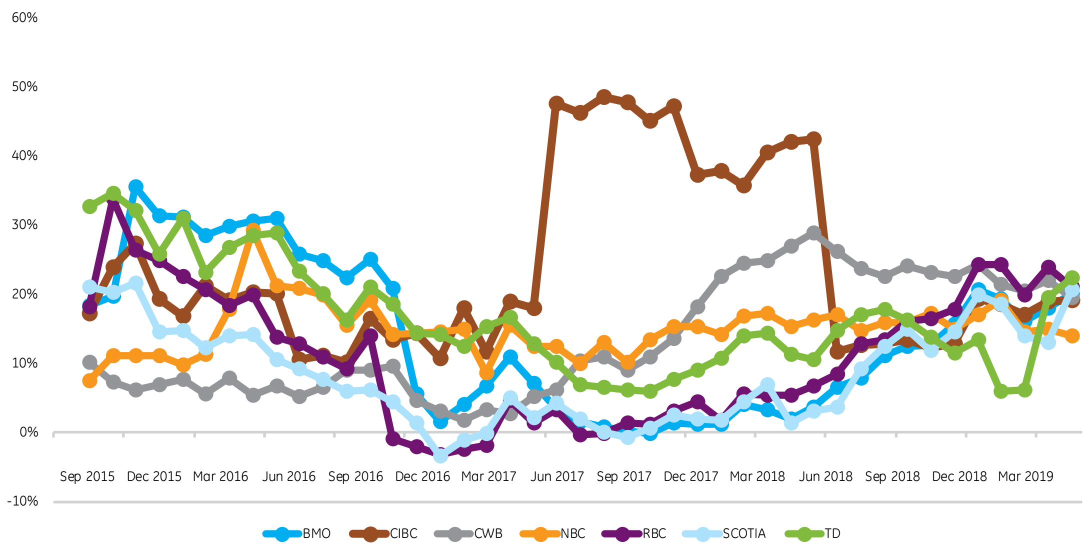
Since the peak of the housing market in Canada and in the face of higher risk towards the banking system, banks have shifted more towards businesses. As shown below, since 2017, the growth rate for residential loans has slowed down while at the same time the business loan growth has accelerated. We expect that the commercial banks will continue to favour the business sector in Canada until the risk in the housing market has cooled off.

Residential Mortgages, Year-over-Year Growth, Big 5 Canadian Banks + CWB



Source: Office of the Superintendent of Financial Institutions

Business Loans, Year-over-Year Growth, Big 6 Canadian Banks + CWB



Source: Office of the Superintendent of Financial Institutions

7 Cost of **Doing** Business

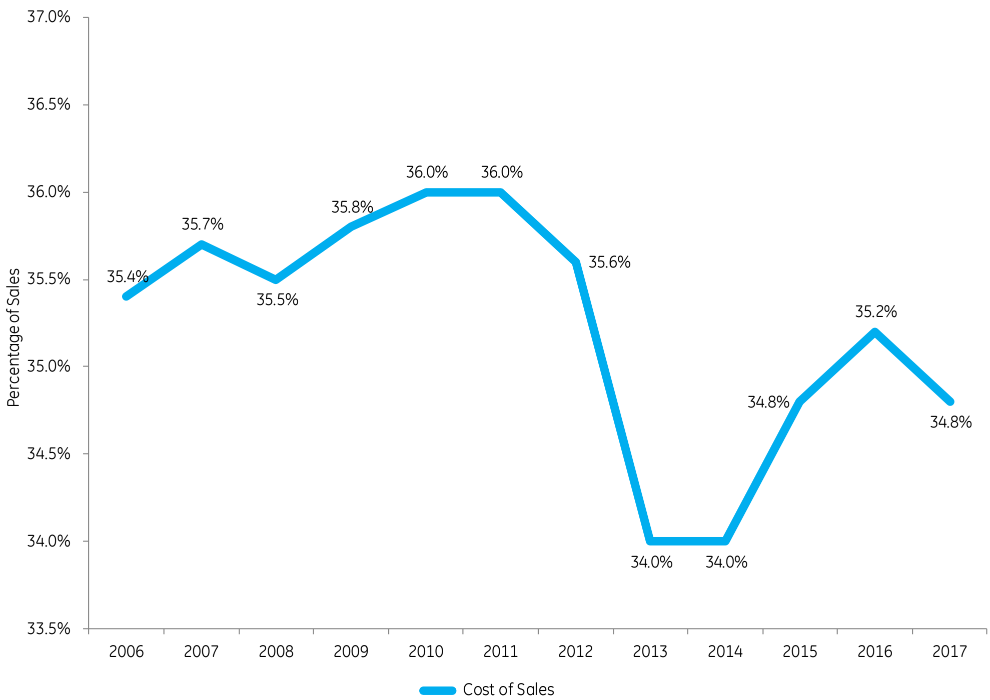
7 Cost of Doing Business

In this section, we present industry data that speaks to the cost of doing business in the Canadian foodservice industry. Historical operating expense ratios are provided by Statistics Canada. In 2013, Statistics Canada made a number of changes to its data collection and analysis methodologies (i.e., a new approach to sampling, increased use of administrative data (e.g. corporate tax files), a new coherent approach to developing provincial/territorial estimates, electronic questionnaires as the primary mode of data collection, increased coverage of the business population and the use of updated questionnaires). As a result, while **Statistics Canada indicates that foodservice industry operating cost ratios are now more reliable, caution should be used when comparing data to years prior to 2013.**

7.1 Cost of Sales

Restaurant Canada's 2018 Operations Report reports that cost of goods sold represented 34.8% of foodservice revenues in 2017 (the most recent year for which data is available) compared to 35.2% in 2016.

Historical Average Cost of Goods Sold as a Percentage of Revenues

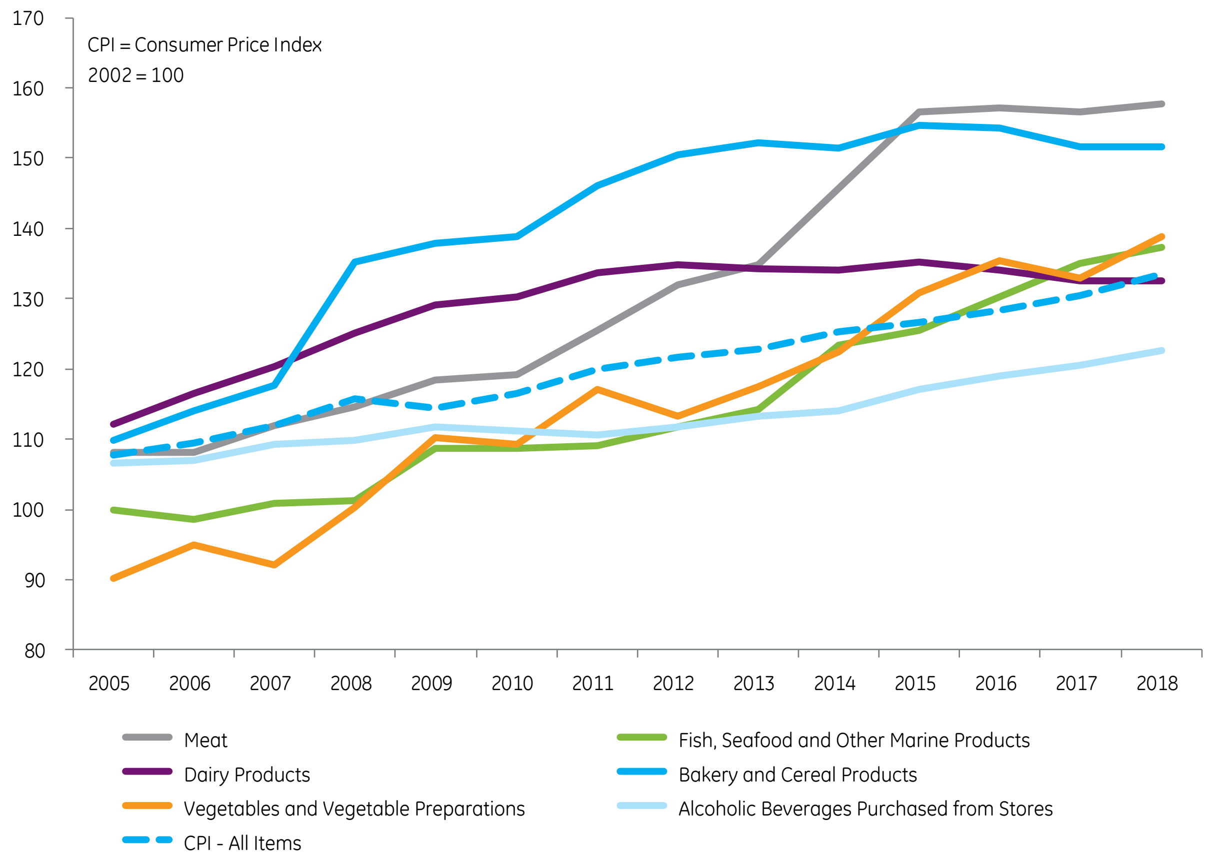


Source: Restaurants Canada, Operations Report (2008 to 2019)

The cost of goods sold as a percentage of revenues decreased by 0.4% between 2017 and 2016.

The following chart tracks consumer price indices (representing price paid by consumers) for various core ingredients classifications.

Consumer Price Indices

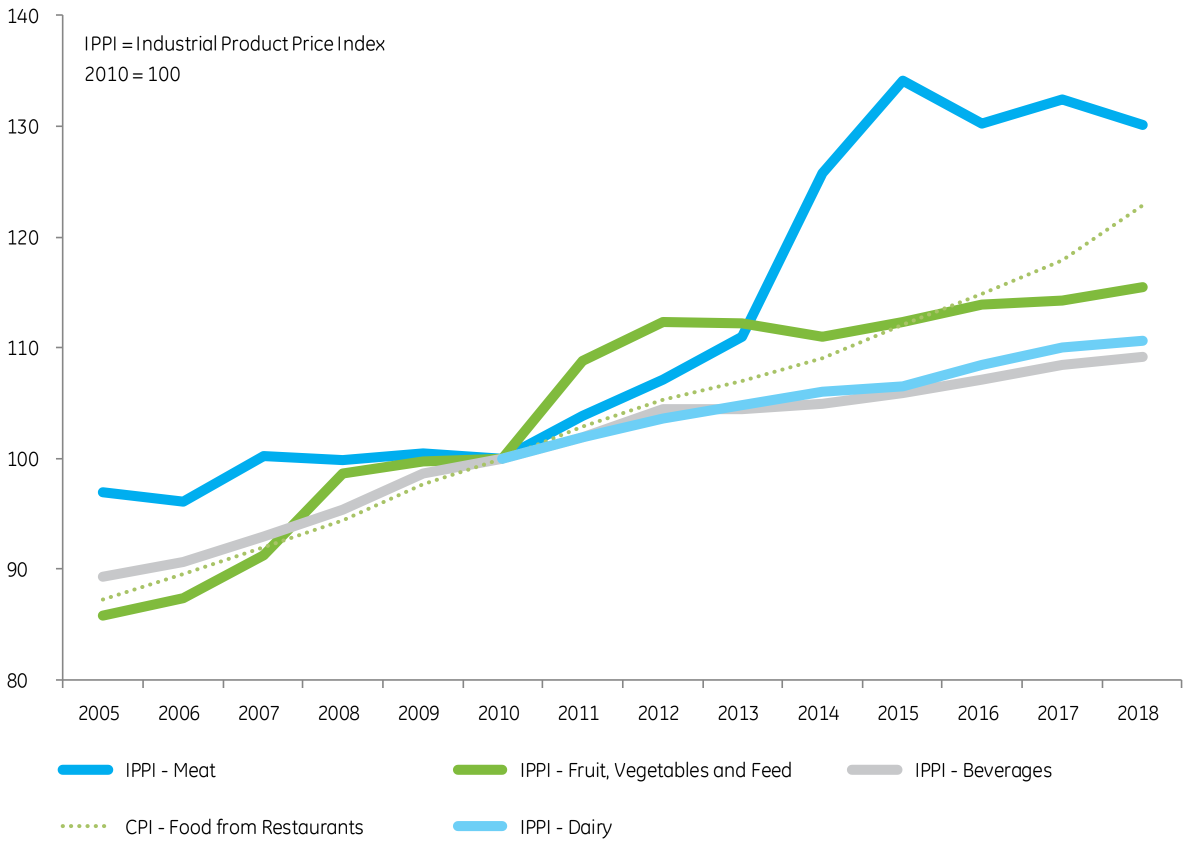


Source: Statistics Canada

Meat prices, which increased significantly historically, were relatively flat between 2015 and 2017 and experienced a 0.8% increase in 2018. Bakery and cereal goods and dairy prices did not change in 2018. Fish, seafood and marine products continue to increase steadily in price with a 1.6% change over 2017. After a modest decline in 2017, vegetable and vegetable preparations price increase of 4.5% is the greatest category increase observed in 2018.

The following chart compares menu price inflation (represented by the consumer price index for food purchased in restaurants) to industry producer price indices (representing commodity prices) for meat, fish and dairy; beverages; and fruit, vegetables and feed.

Menu Inflation versus Producer Price Indices

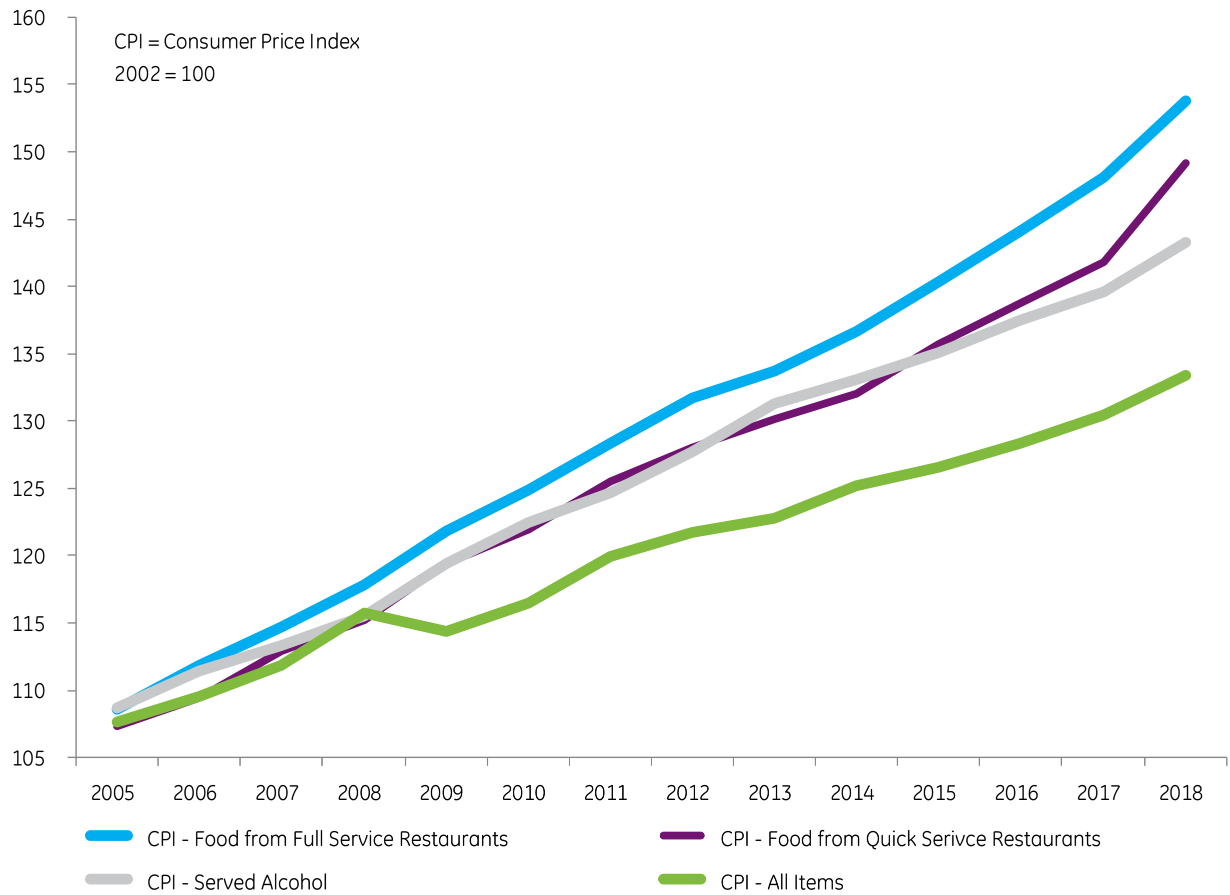


Source: Statistics Canada

As shown, menu inflation growth (4.2% greater than 2017) exceeded the growth observed for the select food commodity categories. Producer prices for dairy, beverages, fruit and vegetables increased modestly (0.5%, 0.7% and 1.1% respectively) while commodity prices for meat declined by 1.7%.

The following chart compares menu inflation (represented by the consumer price indices for Food from FSR, Food from QSR and Served Alcohol) to general inflation (represented by the consumer price index for all items).

Menu Inflation versus General Inflation

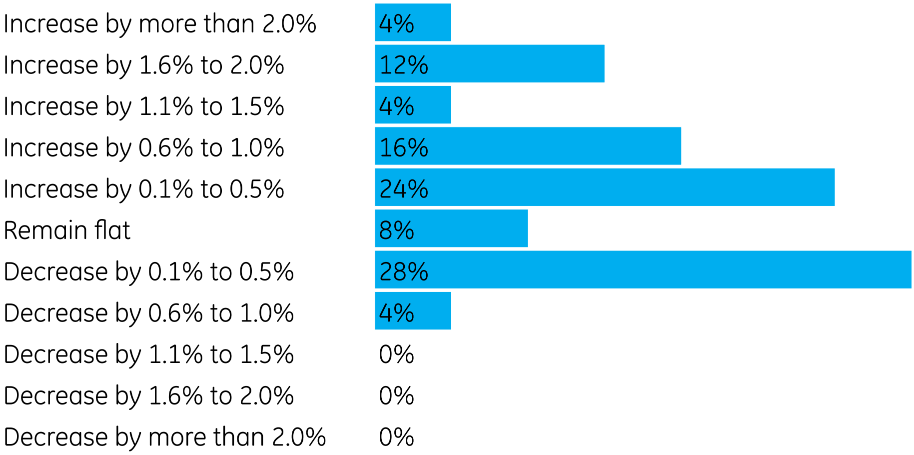


Source: Statistics Canada

Unlike general inflation, menu prices did not decline during the 2009 recession. The prices for food and alcohol purchased in restaurants have increased at greater rate and with less variability than general inflation until 2017. Between 2017 and 2018, prices paid for food and alcohol purchased at restaurants (especially QSR) increased at a greater rate than previous years likely as a result of operators responding to increased minimum wages. Since 2002, FSR food prices have increased at a greater rate than QSR food prices until 2018 when menu inflation for food in QSR exceed that of FSR, closing the gap between the two indices.

Respondents of the C-Suite Survey were asked how they expected cost of sales as a percentage of revenues to change in 2019.

In 2020 Compared to 2019, Cost of Sales are Expected to:



Source: fsSTRATEGY Inc. 2019 C-Suite Survey

The majority of respondents (60%) expect cost of sales as a percentage of revenues to increase in 2018 down from 67% in 2018. Eight per cent of participants believe cost of goods sold will remain flat while 32% believe the cost of goods will decrease. Interpretation of this and other cost ratio exhibits between 2018 ratios is complicated by the fact that several operators increased prices to accommodate greater labour costs caused by minimum wage increases. Costs that increase at a lesser rate than the price increase may appear as flat or declining when compared to sales.

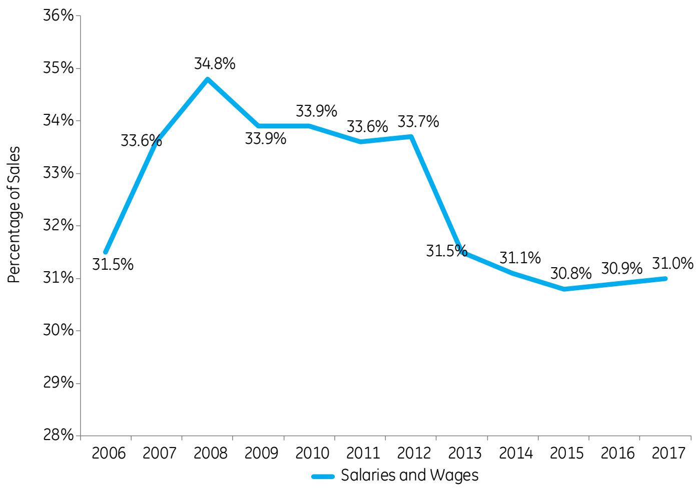
fsSTRATEGY interviewed grower associations, government agencies and broadline distributors to understand the factors influencing foodservice cost of sales. For the most part, food product costs are expected to experience an increase consistent with inflation in 2020. One distributor indicated that some suppliers have near monopolies (e.g., Olymel for bacon, Harlan Bakeries, ReadyBake and Westons with a duopoly in bread), which could have an impact on product prices. The impact of carbon taxes on product price could result in greater food costs (i.e., increased transportation costs bringing the products to market). Free trade agreements (e.g., beef, pork and veal were collateral damage for Canadian industries in the CETA agreement) and tariffs on U.S. and China could also increase the cost of food products—the Chinese market in particular has been challenging. Another distributor indicated that they are able to keep prices low by using house brands.

Distributors continue to have difficulty recruiting and retaining drivers, which impacts pricing. The government will not classify drivers as skilled workers, which would allow recruitment of foreign workers. In the U.S., distributors are seeking a bill allowing drivers younger than 20 years of age, which is the current minimum. Other than driver costs, other distribution costs have been increasing at a rate greater than inflation: delivery fleet expenses, fuel, warehouse labour rates and technology to support warehouse workers. Some growers indicated that costs such as electricity, water and land are greater in Ontario than other provinces, which affects product costs.

7.2 Labour Costs

Restaurants Canada's 2018 Operations Report indicates that salaries and wages represented 31.0% of foodservice revenues in 2017 (the most recent year for which data is available).

Historical Average Labour Cost as a Percentage of Revenues



Source: Restaurants Canada, Operations Report (2008 to 2019)

While salaries and wages as a percentage of revenues decreased since 2013 to below 2006 levels, **readers are cautioned to interpret this change carefully due to the previously mentioned change in Statistics Canada data collection and analysis methodologies.** This caution is substantiated by the following chart showing provincial and territorial minimum wages. By the end of 2018, provincial and territorial minimum wages for adult workers will have increased by 39% since 2009.

Provincial and Territorial Minimum Wage Rates (Year End 2019)

	Alberta	Ontario	British Columbia	Northwest Territories	Nunavut	Yukon[1]	Quebec	Prince Edward Island	Manitoba	Nova Scotia	New Brunswick	Saskatchewan[2]	Newfoundland
Adult Workers	$15.00	$14.00	$13.85	$13.46	$13.00	$12.71	$12.50	$12.25	$11.65	$11.55	$11.50	$11.32	$11.15
Liquor Servers/Workers Receiving Gratuities		12.20	12.70				10.05						
First Job/Entry Level										11.05			
Students (Under 18)		13.15											

Source: Human Resources and Skills Development Canada

1 *Yukon Territory's minimum wage is adjusted April 1 of each year relative to the Consumer Price Index for the city of Whitehorse.*

2 *Saskatchewan's minimum wage is adjusted October 1 of each year relative to the Consumer Price Index and Average Hourly Wage.*


Canada
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By the end of 2019, the Alberta will have the greatest adult minimum wage at $15.00 per hour and Newfoundland will have the lowest adult minimum wage at $11.15 per hour. Ontario's planned increase to $15.00 an hour in January 2019 was repealed and holds at $14.00.

Some provinces have experienced considerable increases in minimum wage in recent years, as shown in the table below.

Current and Dates of Changes in Minimum Wage by Province

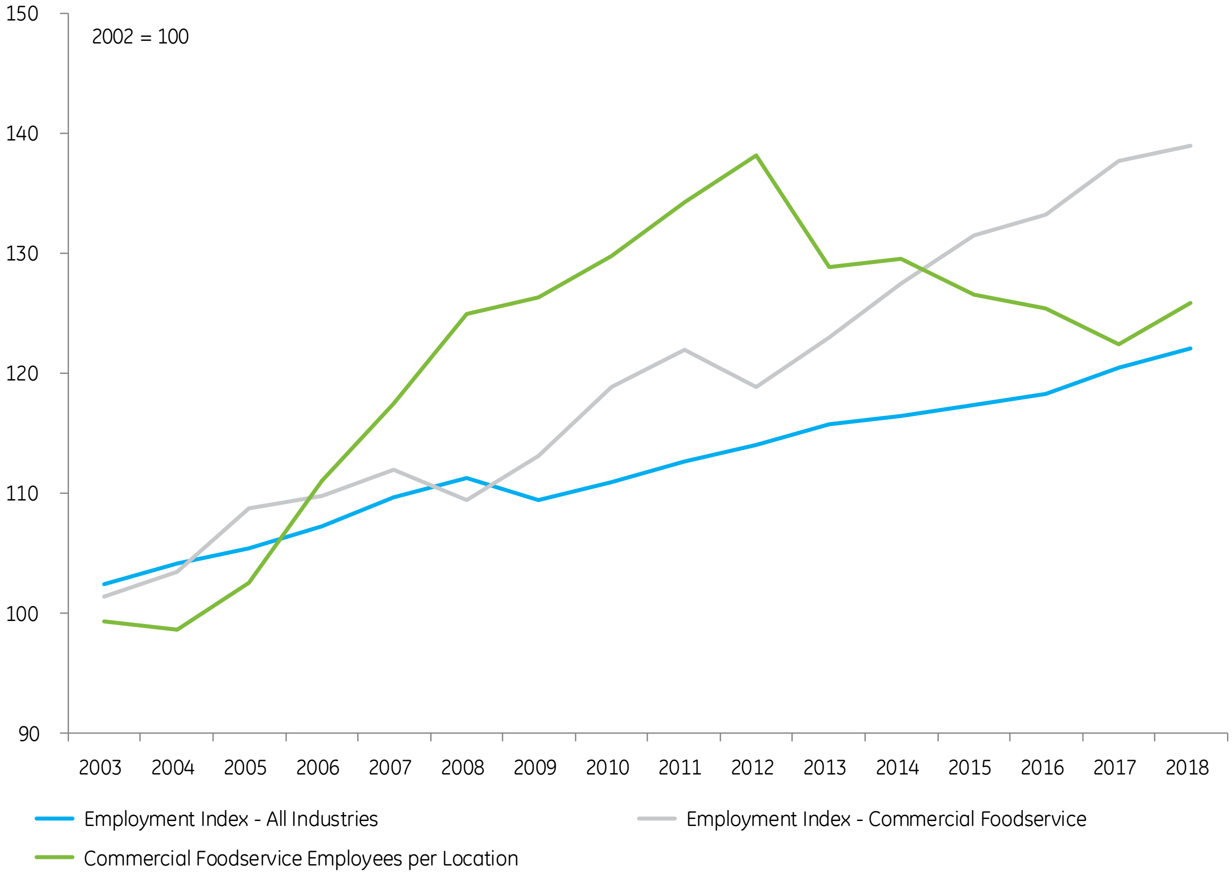
Jurisdiction	Current	2013	2014	2015	2016	2017	2018	2019	2020	2021
AB	**$15.00**	01-Sep-13 $9.95	01-Sep-14 $10.20		01-Oct-16 $12.20	01-Oct-17 $13.60	01-Oct-18 $15.00			
BC	**$13.85**			01-Sep-15 $10.45	15-Sep-16 $10.85	15-Sep-17 $11.35	15-Jun-18 $12.65	01-Jun-19 $13.85	01-Jun-20 $14.60	01-Jun-21 $15.20
MB	**$11.65**	01-Oct-13 $10.45	01-Oct-14 $10.70			01-Oct-17 $11.15	01-Oct-18 $11.35	01-Oct-19 $11.65		
NB	**$11.50**		31-Dec-14 $10.30		01-Apr-16 $10.65	01-Apr-17 $11.00	01-Apr-18 $11.25	01-Apr-19 $11.50		
NFL	**$11.15**		01-Oct-14 $10.25	01-Oct-15 $10.50		01-Apr-17 $10.75 01-Oct-17 $11.00	01-Apr-18 $11.15			
NWT	**$13.46**			01-Jun-15 $12.50			01-Apr-18 $13.46			
NS	**$11.55**	01-Apr-13 $10.30	01-Apr-14 $10.40	01-Apr-15 $10.60	01-Apr-16 $10.70	01-Apr-17 $10.85	01-Apr-18 $11.00	01-Apr-19 $11.55		
NV	**$13.00**				01-Apr-16 $13.00					
ON	**$14.00**		01-Jun-14 $11.00	01-Oct-15 $11.25	01-Oct-16 $11.40	01-Oct-17 $11.60	01-Jan-18 $14.00			
PE	**$12.25**		01-Jun-14 $10.20 01-Oct-14 $10.35	01-Jul-15 $10.50	01-Jun-16 $10.75 01-Oct-16 $11.00	01-Apr-17 $11.25	01-Apr-18 $11.55	01-Apr-19 $12.25		
QC	**$12.50**	01-May-13 $10.15	01-May-14 $10.35	01-May-15 $10.55	01-May-16 $10.75	01-May-17 $11.25	01-May-18 $12.00	01-May-19 $12.50		
SK	**$11.32**		01-Oct-14 $10.20		01-Oct-16 $10.72	01-Oct-17 $10.96	01-Oct-18 $11.06	01-Oct-19 $11.32		
YK	**$12.71**	01-Apr-13 $10.54	01-Apr-14 $10.72	01-Apr-15 $10.86	01-Apr-16 $11.07	01-Apr-17 $11.32	01-Apr-18 $11.51	01-Apr-19 $12.71		

Source: Canada Ministry of Labour

The greatest increase in 2019 occurred in the Yukon, where minimum wage increased 10% from $11.51 to $12.71 followed by British Columbia, where minimum wage increased 9% from $12.65 to $13.85. British Columbia's minimum wage will increase to $15.20 per hour by 2021.

The following chart shows employment indexed to 2002 for all industries and foodservice as well as number of employees per foodservice location from 2003 to 2018 (latest available information).

Employment Indices—All Industries, Foodservice and Employees per Foodservice Location



Source: Labour Force Survey, Statistics Canada, Restaurants Canada

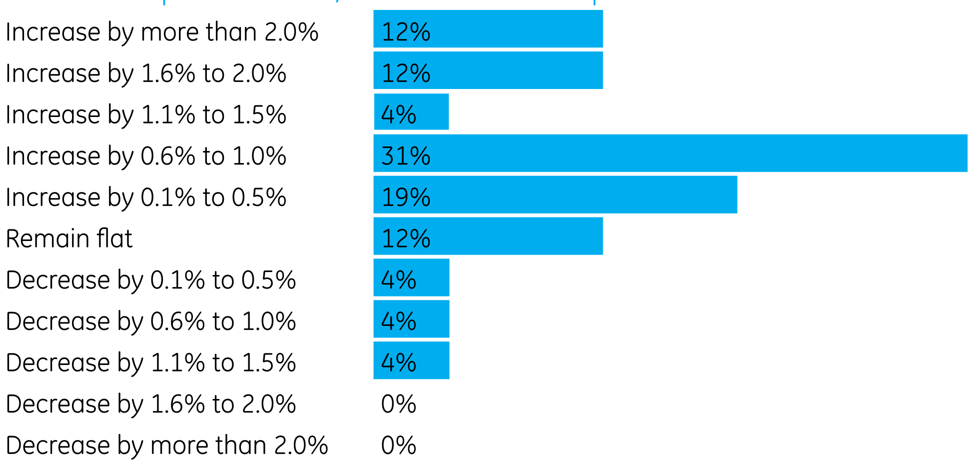
As shown, employment in the commercial foodservice industry has grown at a faster rate than national employment.

The average number of employees per location increased significantly from 8.4 in 2003 to 11.7 in 2012 before declining to 10.3 in 2017. Despite increases to minimum wage in major markets that might normally motivate reduction in employment, the average number of employees per restaurant increased by 3% to 10.7 in 2018.

In an interesting contrast, the number of commercial foodservice locations has increased 1.2% since 2016.

Respondents to the C-Suite Survey were asked how they expected labour cost as a percentage of revenues to change in 2020.

In 2020 Compared to 2019, Labour Costs are Expected to:



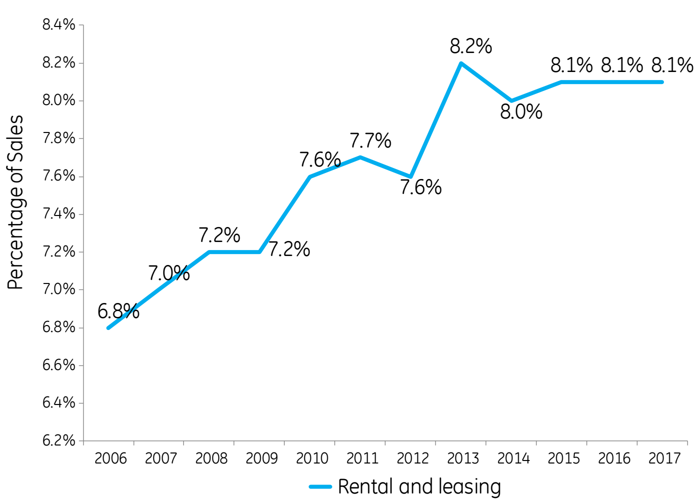
Source: fsSTRATEGY Inc. 2019 C-Suite Survey

Most respondents (77%) expect labour cost as a percentage of revenues to increase in 2020, down from 96% in 2018. Many respondents (50%) believe labour will increase by up to one percentage point and 12% believe labour will remain flat in 2020. Twelve per cent of respondents believe labour costs may decrease in 2020, in 2018, no respondents thought that labour costs would decrease.

7.3 Rental and Occupancy Costs

Restaurants Canada's 2019 Operations Report indicates that rental and leasing costs accounted for 8.1% of foodservice revenues in 2017 (the most recent year for which data is available), unchanged for the past three years.

Historical Average Rental and Leasing Cost as a Percentage of Revenues

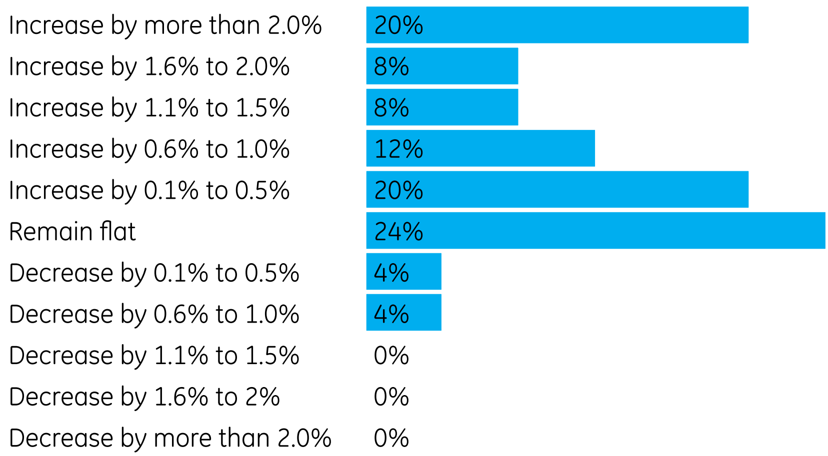


Source: Restaurants Canada, 2019 Operations Report

Rental and leasing costs as a percentage of revenues were relatively stable between 2010 and 2012 until increasing in 2013 at the greatest rate in the past seven years. **Readers are cautioned to interpret this change carefully due to the previously mentioned change in Statistics Canada data collection and analysis methodologies.**

Respondents to the C-Suite Survey were asked how they expected rent and occupancy cost as a percentage of revenues to change in 2020.

In 2020 Compared to 2019, Rent & Occupancy Costs are Expected to:



Source: fsSTRATEGY Inc. 2019 C-Suite Survey

Most respondents (68%) expect rent and occupancy cost as a percentage of revenues to increase in 2020. Twenty-four per cent of respondents expect rent and occupancy costs to remain flat in 2020. Overall, respondents believe rent and occupancy costs will increase in 2020 comparably to the 2018 results.

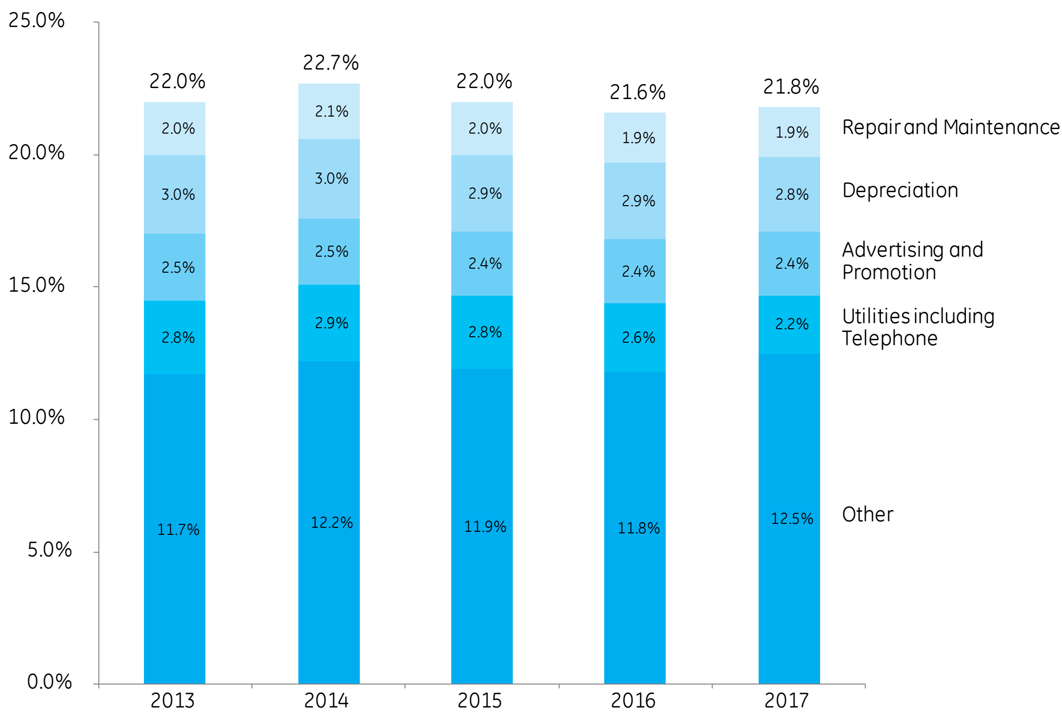
fsSTRATEGY interviewed landlords to understand the factors affecting rental trends and expenses for restaurants in Canada. Findings from these interviews included:

- The biggest challenge for landlords is Alberta where labour cost has increased significantly, other product costs are increasing while consumer confidence is low, adversely affecting restaurant demand. Franchises are hard to sell and operators are walking away from leases. Operators are also challenged, to a lesser extent, in Ontario, Quebec, Saskatchewan and British Columbia.
- The increase in online shopping has resulted in a change in the retail market. Brick and mortar stores, in some cases, are becoming showrooms for products, which require less space. Mall and power centres are finding it challenging to fill space and many are converting retail space to food and beverage. In some cases, an additional 10% of total space is being converted to foodservice, which can be double the space. This doubling of supply while demand generated in the malls and power centres decreases is challenging for operators.

7.4 Other Operating Costs

Other operating costs include utilities (including telephone), repair and maintenance, advertising and promotion, depreciation and other operating costs. Restaurants Canada's 2019 Operations Report indicates that total other operating costs represented 21.8% of foodservice sales in 2017, the most recent year for which data is available. The following table shows the average other operating costs as a percentage of revenues for the most recent five years for which data is available. The earliest year in the exhibit is 2013; therefore, the exhibit is not subject to the previously mentioned cautions regarding in Statistics Canada data collection and analysis methodologies.

Historical Average Other Operating Costs as a Percentage of Revenues



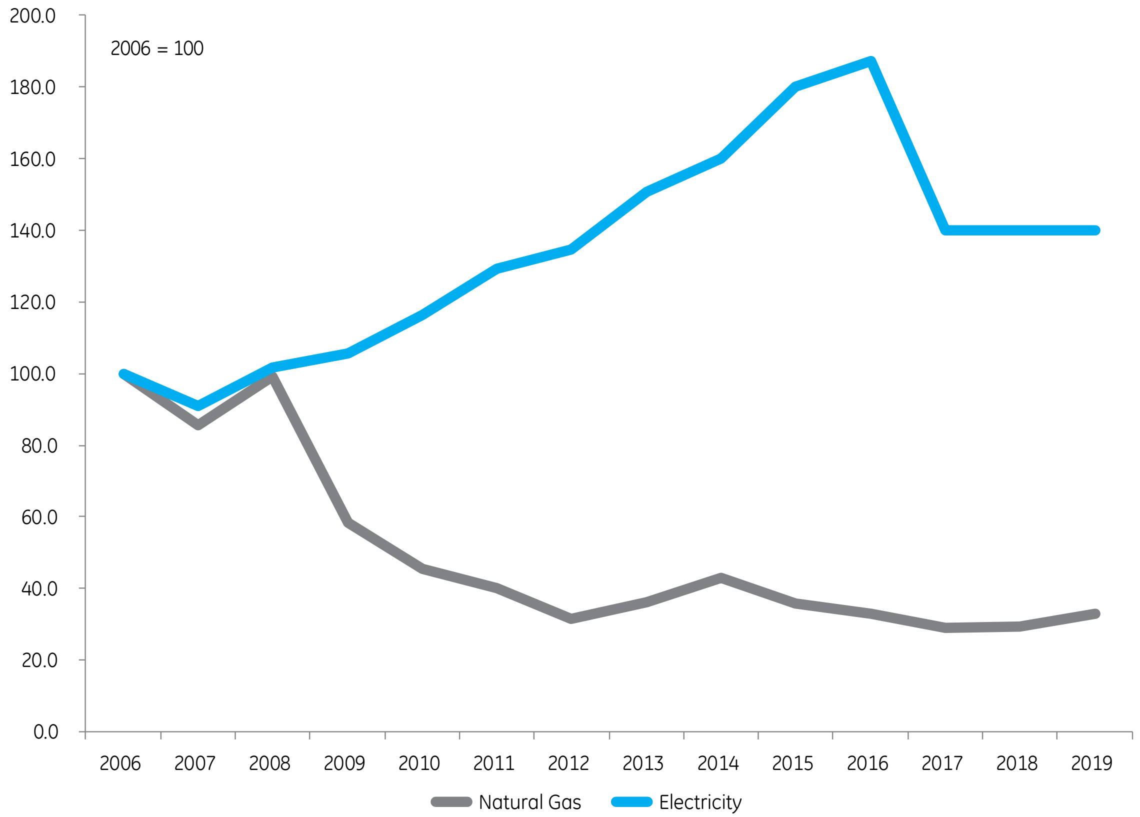
Source: Restaurants Canada, Statistics Canada


Come in, we're
OPEN

As shown, other expenses have maintained an approximate 22% share of revenues for the past five years. The metric is slightly greater in 2017 compared to 2016. Cost ratios for repair and maintenance and marketing (advertising and promotion) did not change in 2017. Depreciation and utilities declined slightly relative to sales. The remaining (other) expenses increased by 0.7 percentage points in 2017.

The following graph compares commodity prices for natural gas and electricity

Energy Commodity Price Indices



Source: fsSTRATEGY Inc. based on data from the Ontario Energy Board

As shown, electricity prices remain flat since 2017 after a significant decrease between 2016 and 2017. Natural gas prices increased by 12% in 2019.

Respondents to the C-Suite Survey were asked how they expected other operating costs as a percentage of revenues to change in 2020.

In 2020 Compared to 2019, Other Operating Costs are Expected to:

Increase by more than 2.0%	8%
Increase by 1.6% to 2.0%	8%
Increase by 1.1% to 1.5%	8%
Increase by 0.6% to 1.0%	31%
Increase by 0.1% to 0.5%	31%
Remain flat	15%
Decrease by 0.1% to 0.5%	0%
Decrease by 0.6% to 1.0%	0%
Decrease by 1.1% to 1.5%	0%
Decrease by 1.6% to 2.0%	0%
Decrease by more than 2.0%	0%

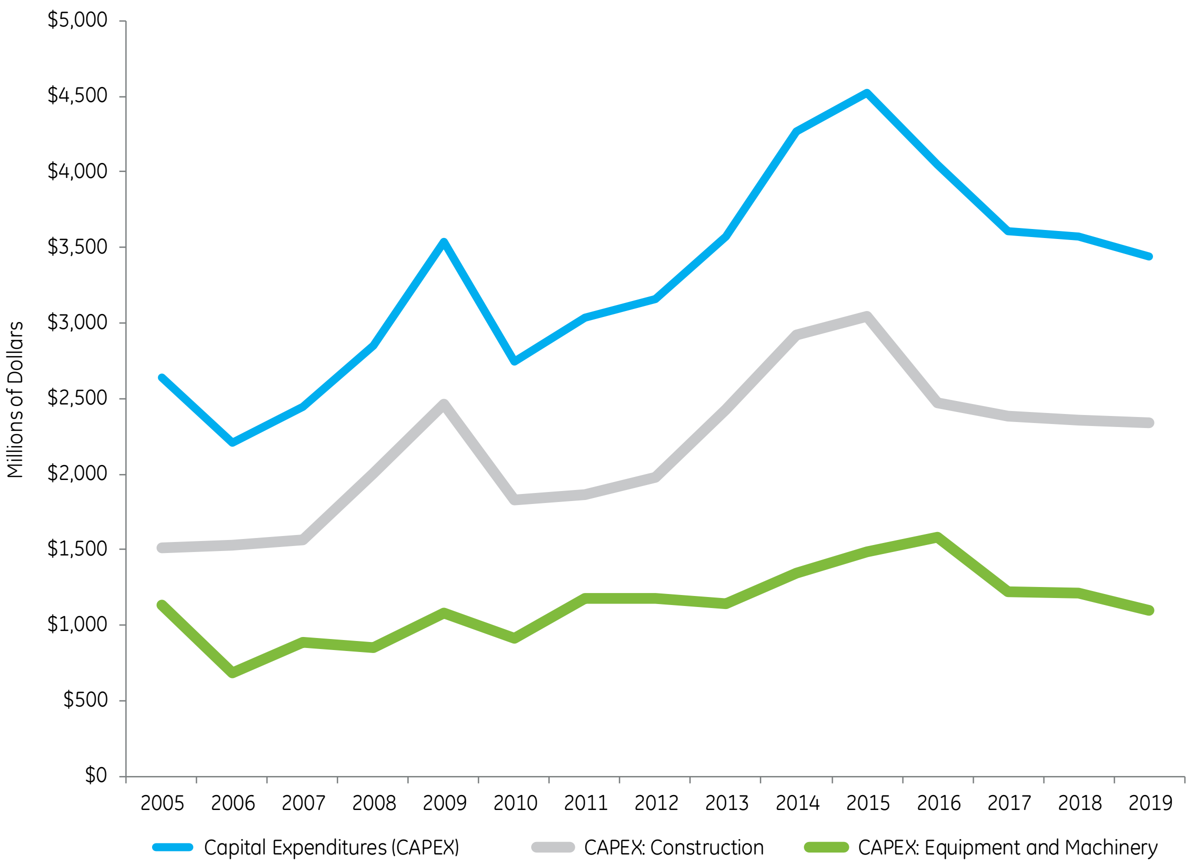
Source: fsSTRATEGY Inc. 2019 C-Suite Survey

As shown, most (85%) of respondents expect other operating costs as a percentage of revenues will increase in 2020, with 62% of respondents expecting an increase of between 0.5% and 1.0%. Fifteen per cent of respondents expect other operating costs to remain flat.

7.5 Capital Expenditure

Capital expenditure (CAPEX) in the accommodation and foodservice sector declined by 3.8% to $3.4 billion in 2019. Approximately $2.3 billion (68%) of CAPEX was spent on construction projects with the remaining $1.1 billion attributed to purchase of equipment and machinery. The following chart compares capital expenditure and construction expenditure in the accommodation and foodservice sector for the last 15 years.

Capital Expenditure in the Accommodation and Foodservice Sector

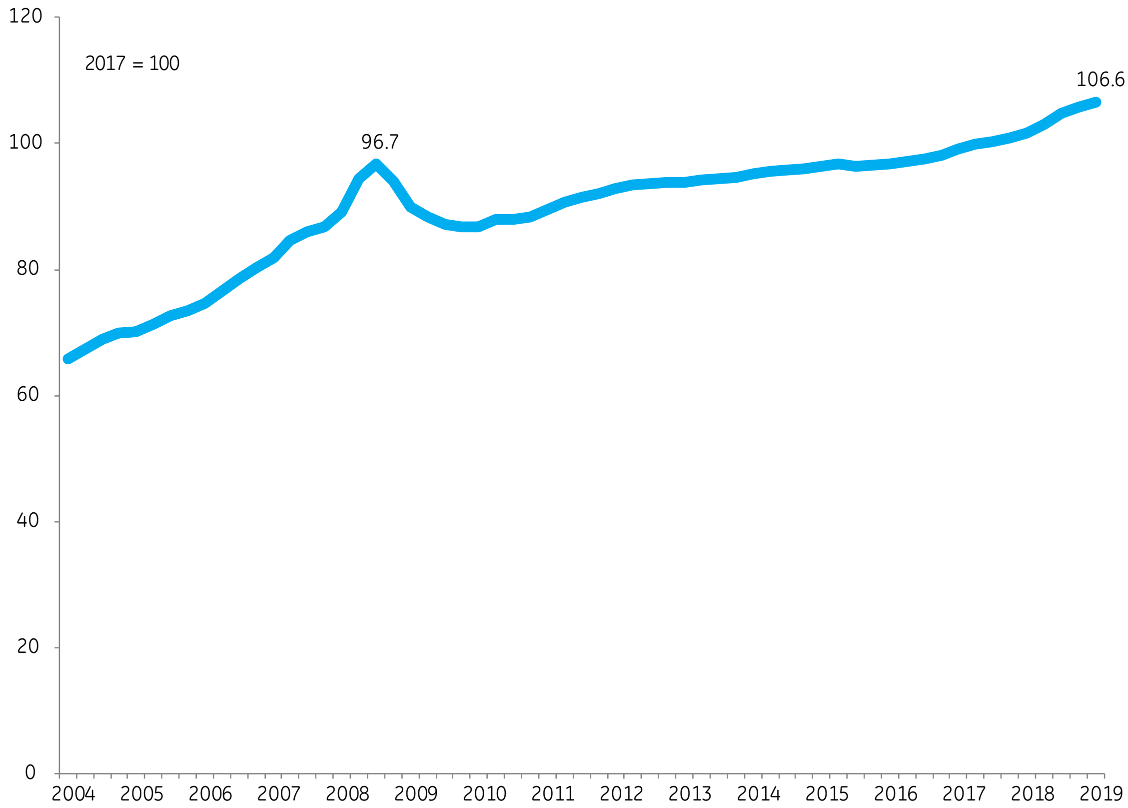


Source: Statistics Canada

As shown, the 2009 recession had a significant impact on capital expenditures. Expenditures on equipment and machinery were affected less by the 2009 recession than construction and recovered to pre-recession levels within two years. Total capital expenditure peaked at approximately $4.5 billion in 2015 and has declined steadily to date.

The following chart illustrates the changes to non-residential construction price indices over the most recent five years.

Non-Residential Construction Price Index

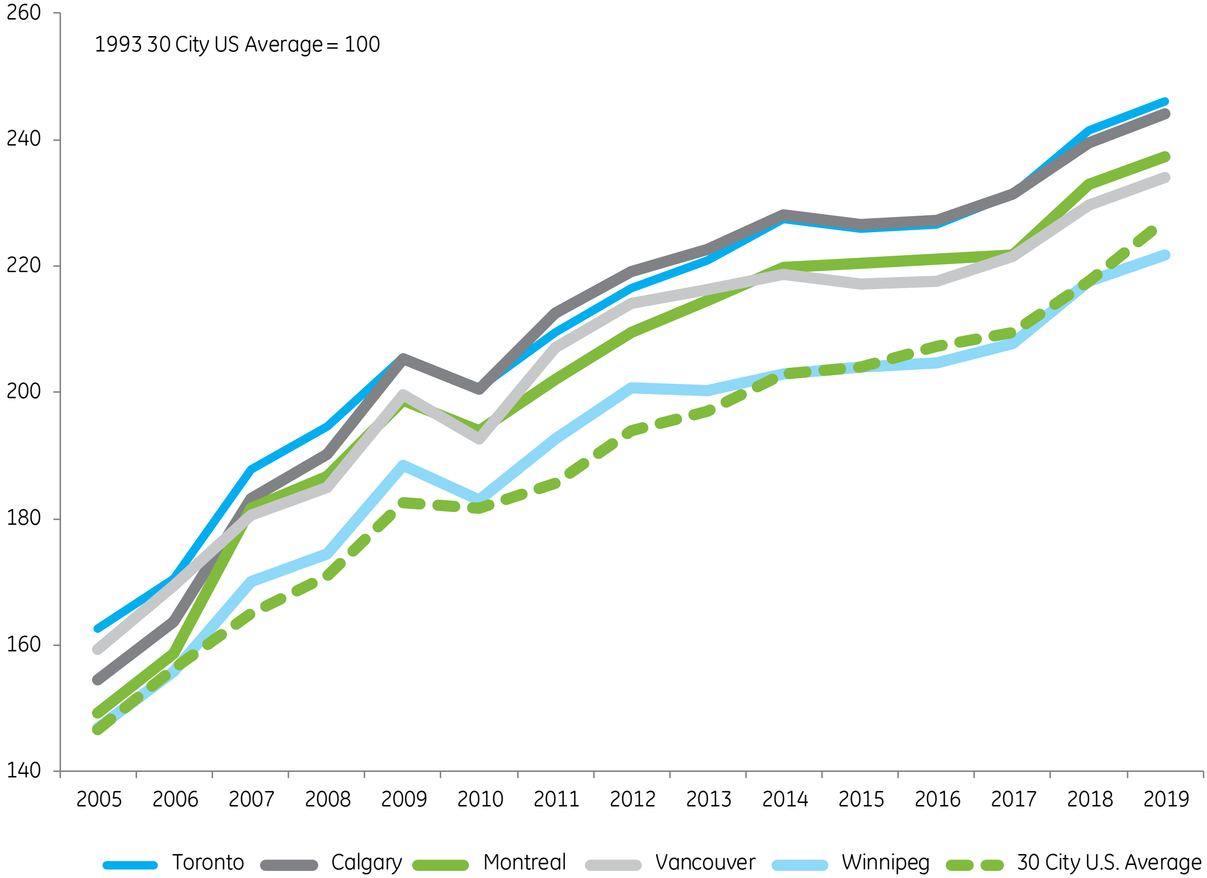


Source: Statistics Canada

As shown, construction costs increased rapidly between 2004 and mid-2008. Construction costs declined significantly in 2009, most likely due to competitive pricing efforts to capture declining demand during the recession. Since 2009, prices have increased, albeit at a slower rate than pre-recession. The Q1-2019 non-residential price index is 106.6 representing a 4.8% increase over the same period in 2018.

The following chart compares average construction cost indices for major Canadian cities against a 30-city United States average.

RSMeans Construction Cost Indices by Major Canadian City



Source: RSMeans Square Foot Costs 2019. Copyright RSMeans, Norwell, MA 781-422-5000; All rights reserved

Construction cost growth is expected to slow for major Canadian cities in 2018 relative to the 30-city U.S. average. RSMeans estimates that construction costs in each of the five Canadian cities shown will increase by approximately 1.9% compared to the 30 City U.S. Average increase of 4.4%. Respondents to the C-Suite Survey were asked to provide the average cost per square foot to construct a new unit excluding base building cost and land purchases.

C-Suite – Building Cost per Square Foot

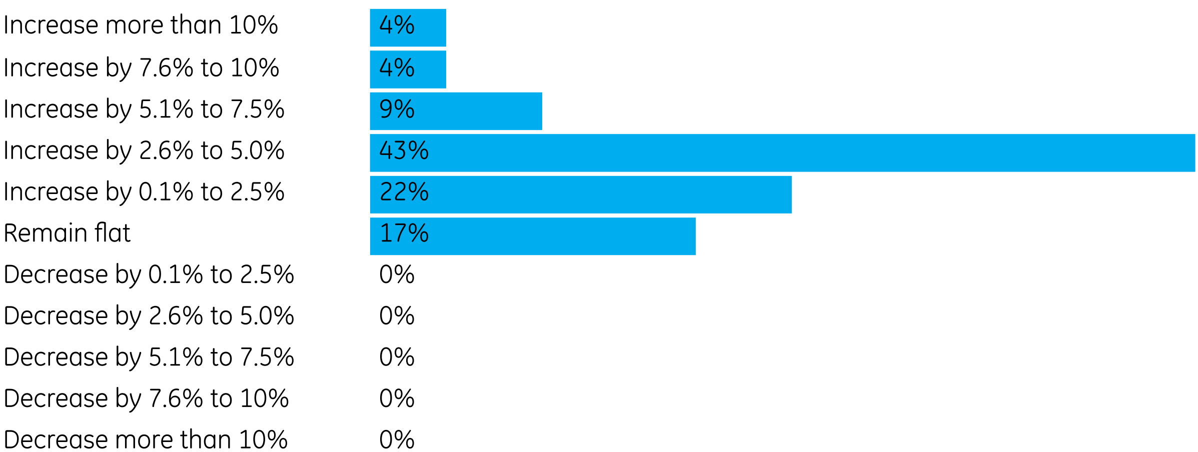
Service Style	Minimum	Maximum	Average
Full Service Restaurants	$200	$800	$411
Quick Service Restaurants	$120	$600	$297
Fast Casual Restaurants	$300	$320	$308

Source: fsSTRATEGY Inc. 2019 C-Suite Survey

As shown, building costs range from $200 to $950 per square foot (concept dependent), average costs by market segment include $635 per square foot for full service, $290 per square foot for quick service and $497 per square foot for fast casual. Average costs per square foot, as reported by respondents for 2020, are greater than in 2018. The average building cost per square foot decreased for the five brands that participated in this question in both 2018 and 2019, with an average cost decrease of 4% (ranging from an 8% increase to a 27% decrease) including both QSR and FSR chains.

Respondents to the C-Suite Survey were also asked how they expected building costs for new units to change in 2020.

In 2020 Compared to 2019, the Cost to Build New Units is Expected to:



Source: fsSTRATEGY Inc. 2019 C-Suite Survey

As shown, 83% of respondents in 2019 expect an increase in building costs in 2020, compared to 73% in 2018. No respondents expect building costs to decrease in 2020, compared to 9% in 2018.

After a construction or renovation, respondents indicated they expect an average of 8.3 years before an update or another renovation is required. After renovating, restaurant respondents indicate they expect an average 10.4% increase in revenue the following year (responses ranged from 1.25% to 30%).

Of respondents who transacted acquisitions or divestitures of restaurant businesses in 2019, the average multiple (on the net income—EBITDA) on the transactions were between three and eight.

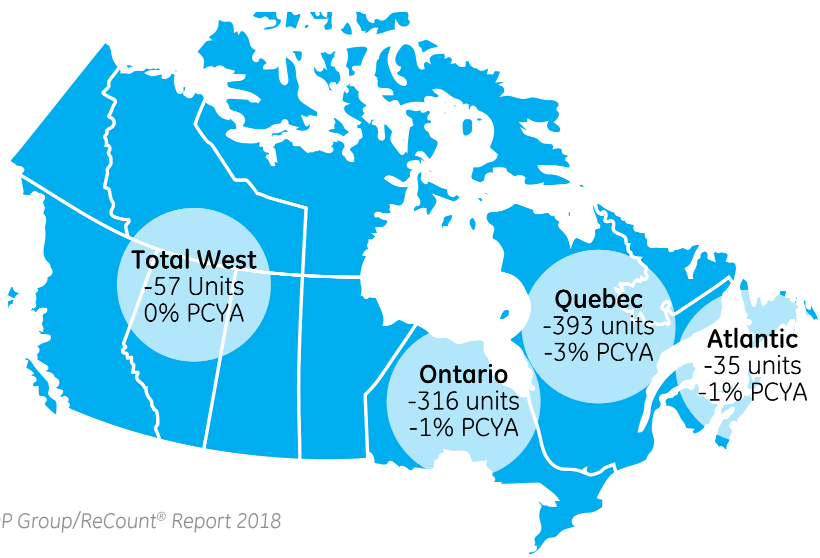
Respondent reasons for why they expect the construction cost of a new unit to increase included:

- Canada/United States economy (exchange rates, trade, tariffs, global economy, etc.)
- regional economic strength (Ontario, British Columbia, Alberta, etc.)
- cost of building materials and commodities
- more sophisticated materials, design enhancements and equipment
- government requirements;
- contractor costs (including labour costs)
- the overall demand for construction.

8 Top Chains

Today, there are 64,997 restaurant units across Canada, comprising both chains and independents. During the past year, 801 units closed their doors. The majority of the units shutting down occurred in the casual dining segment, specifically casual dining full menu, casual dining Asian and casual dining Italian. Combined, these three casual dining segments experienced closures of 529 units. Casual dining independents closed more units than chain concepts, which highlights the competitive challenges faced by independents to remain relevant in this highly competitive industry. Other notable unit closures occurred within the quick service sub and deli category as 171 of these concepts shut down over the past year.

As for concepts that increased units during the past year, midscale salad/health concepts led the growth with an increase of 121 new units. Within the quick service segment, concepts in Asian, hamburger, chicken and gourmet coffee segments increased units by 318.



Source: The NDP Group/ReCount® Report 2018

Top Growing and Declining Categories

Ethnic influences have an important and growing role today in foodservice.

Top Growing Categories

QSR Cookie
QSR Yogurt
QSR Salad
Casual Dining Mexican
Casual Dining Other Ethnic
Breakfast Diner

Top Declining Categories

Family Diner
Casual Dining Spanish
Casual Dining Pizza
QSR Italian
QSR Sandwich
QSR Bagel
QSR Ice Cream

9 Technology

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9.1 Programmatics - Powerful Digital Media is Managed, not Purchased

By: Dan Nielsen, President, Attitude Marketing and AT2 Digital Media

Last summer, Google launched its Digital Marketing platform, which recognizes three important trends. Trends that are now converging and bringing about a fundamental change to the way we go about advertising, digitally and otherwise.

Trend 1: Optimized advertising. The way we purchase digital media is much more efficient, affordable and measurable than ever before. Ad servers and real-time bidding take much of the waste out of buying media today.
Trend 2: Everything is digital. More and more content is being delivered and consumed via a digital format. Don't believe me? Put down your e-reader and have a look in your family room. That screen on your wall no longer receives broadcast signals, so we should stop calling it a television. It is a monitor connected to a set-top box, which is basically a computer.
Trend 3: Targeting through data. Lead by Google's massive database, machine learning and artificial intelligence are exponentially growing our capacity to target the right people with the right message. Programmatics essentially allows us to target the appropriate consumer profile, regardless of the publisher or content they are consuming.

As more media becomes digital our approach to marketing must change.

The rest is inevitable. The data and tools that have been so effectively refined on-line will now naturally extend outwards towards other media as they become more digital. Why should Mary see the same ad as Ralph when they each watch the Grammies on different televisions? When Sam reads the newspaper on his tablet at work, should he see the same ads as when he is reading it on the beach? Why can't the instructional video at the hardware store deliver its message in French when François and his mobile phone preferences are standing in the aisle? What we call digital media today: targeted banners, pre-roll and native ads – are preparing the way for all media going forward. The more programmatics become the norm, the more numerous the benefits to advertisers, including:

- less waste
- better targeting
- more engagement
- more control

Awareness building, new client acquisition, consumer engagement: early adopters are enjoying huge success with programmatics as their more traditional competitors continue to treat digital media as a commodity to be purchased.

Certified content-delivery strategists are replacing the old media buyer, as advertisers look to actively manage their first-party databases, target messaging and refine campaigns using analytics.

Not all digital media is managed correctly

The great thing about digital media is its role in democratizing marketing. The introduction of machine learning and AI to media has given marketers of all sizes access to powerful tools that allow them to optimize their media spend and stretch their media dollars. Awesome.

The worst part of those same technologies is that anybody with a credit card can still purchase digital media and it shows. Improvisation and experimentation is rampant, which can create confusion in the marketplace. Clients, who are already struggling to keep up to speed with technology, are at a loss to evaluate whether their campaigns are well run.

Companies who continue to treat digital media as another channel to be purchased are intersecting with digital marketers who are exploiting powerful tools like programmatics. At first glance one can be excused for not knowing the difference between the two. In reality the performance gap between them is huge.

If you are unsure of the performance of your digital marketing today, here are some ideas to help you evaluate.

Programmatics - 6 signs you're doing it right

Here are a few clues to let you know if your agency actually knows what they are doing.

1. Your agency has a DMP (Data Management Platform): programmatics are managed via a system similar to a stock market. To actively manage your campaign, accurately target your audience AND be in control of your first party data, your agency needs to have their own trading desk and it needs to be staffed by qualified analysts who do more than place orders. No DMP? – they are passively buying media. They sell you on a single web property at a time? (Place your ad specifically on the Globe and Mail for example) - then they are still spending your digital dollars like it is traditional media.

2. Your programmatics campaign is not purchased, it is managed: a properly run digital campaign needs to be monitored constantly. In a world of real time bidding and AI-assisted targeting you need to manage the media market. AI is impressively powerful, but it can take you down the wrong path if unsupervised. A certified analyst will check your campaign daily and make tweaks to keep your campaign optimized and ensure you maximize engagement and get a proper return on investment.

3. You have access to responsive creative development: the feedback of a digital campaign is immediate. The closer your creative people are to your programmatic team, the better able you are to modify messaging to respond to the engagement data you are receiving in real time. If your media buying agency has to brief your creative shop, you are losing time and money.

4. Your SEO is integrated in creative development: a proper SEO analysis should start with an in-depth query of the searches your customers are actually making in the marketplace. This is valuable data to help you refine the content and UX of your site. In essence, SEO provides a window into the needs of your target market. It also becomes extremely useful as you create your ads. A lot of agencies claim to understand SEO, yet they tend to focus only on the technical evaluation of on-site criteria, often ignoring the content itself - in which the true performance value of SEO lies.

5. You've outlined a strategy for your first party data: top-of-mind in the development of any worthwhile programmatics campaign is the building of your first party data. This is intimately tied into the UX of your web site. First party data accumulates over time, but only if it is collected according to objectives. If the algorithms are left to their own devices, you can end up with bad data replicating itself and you'll need to start over.

6. Your agency is accredited by Google: Google's database today represents 87% of all web traffic on the net. Who better to understand the ever-changing search and targeting algorithms than Google themselves. An agency accredited on the Google Marketing Platform is more likely to be aware of the most up-to-date optimization requirements.

I would absolutely encourage anyone looking to develop their business to add programmatics to their arsenal of marketing tactics. When it is well run, a digital campaign can be a powerful way to generate awareness, create engagement and activate sales. Be on the lookout for the best partner to help you build your campaigns and structure your digital environment and programmatics will deliver dividends for years to come.

Best of luck!

Dan Nielsen, President

Attitude Marketing and AT2 Digital Media

www.attitudemarketing.ca

9.2 How Digital Technology is Driving the Canadian Chain Foodservice Industry

By: Mary Peterson, Vice President, IT & Enterprise Solutions,
Samsung Electronics Canada

Ordering a burger and shake at your local quick service restaurant has come a long way. Digital signage technology has become a key tool in driving sales and boosting customer experiences in the foodservice industry, with screens attracting diners, highlighting promotions and helping inform hunger-charged decisions. Digital displays are not only common at order counters, but throughout the restaurant as well as drive-thru lanes – a critical area for major chains in the industry.

Today, digital signage technology is evolving rapidly alongside an ever-changing foodservice industry. Self-serve ordering, mobile pick-up and home delivery have changed sales patterns, in-store customer counts and the way stores operate. In order to remain relevant, operators must rely on technology like digital and interactive signage – both in front of diners and behind the counter.

Digital displays offer flexibility and create efficiencies

In recent years, operators in the Canadian foodservice industry have adopted digital signage management systems and display technology to communicate menu items, new products and promotions on digital menu boards above and behind the counter. They have also implemented digital displays to pre-sell and promote specials, as well as raise awareness of the company's community contributions and recruit new full-time and part-time employees.

The most prevalent use of digital signage is the array of menus behind ordering counters. Digital menu boards, such as the Samsung SMART Signage QBR/QMR Series, provide the ability to change menus without having them printed and delivered multiple times every year. Using digital signage technology, changes to menus are scheduled and automated, and can even be tied to restaurant management systems, so that out of stock menu items can automatically disappear from menu screens. As customers now expect to see what they are ordering, with Samsung SMART Signage, operators can rotate lifelike images through ultra high-definition resolution.

Quick service restaurants want to provide their customers a vivid and unique experience through lively, immersive video wall content, while also providing necessary information about their menu offerings and ingredients. With the VMR-U Video Wall Series from Samsung, operators can display dynamic content with visual impact to grab customers' attention and provide them with key information. This efficient system on chip (SoC) embedded video wall can easily transform screens from displaying standalone content to operating as one cohesive unit, without the need for additional hardware.

Digital signage works in any environment

The recent wave of digital display adoption has involved outdoor drive-thru areas, with daylight-readable screens replacing printed pre-sell and menu posters. With outdoor digital signage, such as the Samsung Outdoor Display OHF Series, changes take a matter of minutes, as messages are fine-tuned and promotions catered to consumers rolling into drive-thru lanes. Outdoor displays from Samsung feature a slim depth (85 mm.) design and the added convenience of an embedded power box. They also boast durability, flexibility and 24/7 performance, even in extreme temperatures.

Moreover, in a study conducted by Forrester Consulting on behalf of Samsung[1] , digital signage in drive-thru lanes decreases drive-thru times, reduces food waste due to improved order accuracy, and reduces the labour costs of printing, shipping and putting new posters in place.

Ultimately, between boosted sales and better experiences for customers, outdoor digital menus will gradually be as common in drive-thrus as the menu displays inside quick service restaurants. Operators are no longer talking about trying out digital; they are talking about rollouts. Because of the enhanced, personalized customer experience digital menu boards bring, restaurants are in a position to upgrade their old displays and start reaping significant financial benefits from these new digital displays.

Interactive digital marketing solutions for store fronts work inside and out

Just about any business with a street-level presence has the opportunity to use window marketing to drive sales and boost their communications strategy. Putting a bright digital display in a storefront can be an effective way to market to passersby and drive foot traffic through the front doors. However, using that technology has tended to come with a compromise: screens look great from the outside, but staff and visitors on the inside see the back end of a display or its enclosure.

That is where Samsung dual-sided LCD screens are filling a need. The OMN-D Series from Samsung is a dual display with screens on both sides, allowing restaurants to maximize messaging. The window-facing screen features bright visuals and prominent positioning, giving passerby's motivation to enter the restaurant. Once inside, indoor-facing displays enhance the dining experience with relevant content, such as menus or promotions. This single display reduces equipment and installation costs, increasing operational efficiency, compared to installing two separate displays.

Moreover, when it comes to watching the big game, major restaurant chains in the foodservice industry are continuing to deliver incredible entertainment options. Sports and entertainment-themed restaurants are evolving from using single TVs suspended from ceilings to installing giant video walls that can show the big game — or be segmented to show multiple games at once.

With the Extreme Narrow Bezel Video Wall UHF-E/UMH-E Series from Samsung, diners can enjoy an immersive, near-seamless viewing experience for catching every play in the game. These video walls feature an extreme narrow-bezel (1.7mm) that produces a near-seamless picture across multiple screens without interruption, generating countless opportunities to captivate customers. Another option are direct-view LED screens that counteract direct sun and glare, making them better suited for locations flooded by natural sunlight.

Display Technology and the Evolution of Dining

As the Canadian foodservice industry continues to undergo dramatic changes, operators are tailoring their technology investments to meet consumers' heightened demand for a more personalized dining experience. Getting the experience right is critical because consumers have so many options, and because technology presents a key opportunity for restaurant operators to differentiate and compete in the mobile ordering and delivery industry. Indeed, the future of quick service restaurants is rooted in a technology-driven experience reflected in digital displays, both inside and out.

[1]*Source: The Total Economic Impact Of Samsung Outdoor Digital Menu Boards (Forrester Consulting, February 2017)*

For more information on Samsung Digital Display solutions, visit **Samsung.com/ca/business**

Double-sided brilliance

The OMN-D Series features a double-sided screen, with each side adjusted to perform in the lighting environments in which they are utilized. The window-facing side's 3000nit brightness maintains picture integrity regardless of sunlight, while the in-store side features 1000nit to deliver crystal-clear information.

Learn more at **Samsung.com/ca/business**

SAMSUNG

9.3 The Profitability Mindshift

By: Damien Graham, Customer Success, Squirrel Systems

Choosing the right technology platform can allow hospitality operators to increase profitability without impacting customer satisfaction.

Restaurateurs facing an increasingly competitive and fast-paced market often overlook important capabilities in their Point of Sale system that can allow them to better understand their business and increase profitability through larger average orders and faster table turn-over while preparing for future opportunities in online ordering, alternative payment, and customer loyalty.

The business environment for hospitality providers in Canada is an ever-shifting landscape. Rising labour costs, global economic conditions, increased consumer choices and disruptive entrants to the market all contribute to shrink profit margins and expose inefficiencies in an establishments workflow. Traditionally the common options are to raise prices, reduce portions, and try and stretch labour productivity which all have the potential to alienate customers, creating a spiral of reduced revenues while doing little to manage costs.

When faced with challenges, most businesses correctly begin by diagnosing the problem areas. In restaurants, this generally means looking at processes where employees are not engaged in an activity that creates revenue, inefficient workflows, and wastage. All good things, but these are reactive measures. With a subtle shift in thinking operators can look to exploit technology and take advantage of opportunities to increase check size and bring in more customers without significant additional costs or impact to service levels. There are some guiding principles to realize these benefits.

Lead the experience.

Regardless of the market segment or style of restaurant, service is key to the guest experience. As such, having servers forced to travel more than necessary, whether to pass along an order, check with the kitchen, process a transaction or service a drink order, creates pockets of dead time when they aren't actively selling. These pockets do more than slow responsiveness, they limit check size and potentially reduce table turn-over. When customers waver – wondering if they should order that enticing appetizer they see on the table next to theirs, or perhaps deciding whether to have a cocktail before they order wine and an entrée – if the server is absent, that impulse window is missed. Check size suffers as does the speed of service. One way to resolve this is to leverage a mobility solution that ensures the server can capture the order immediately table side and process payments there as well. A Cornell University study found that customers who were able to order and pay at the table turn over 31% faster than otherwise, and required 65% less server time. This means that the server can focus on additional profitable activities, servicing a larger number of guests with no greater effort. It also increases the likelihood of the right server being at the right place at the right time. In many cases, the financial benefit of re-working workflows to include more at the table activity is significant while the cost is relatively low and it prepares the organization for handling payment and ordering models that are on the horizon such as mobile device ordering or Apple Pay.

Turn disruption into an opportunity.

The last several years have introduced a significant number of changes in the way customers interact with restaurants, cafés and bars. Online reservation and booking systems, online ordering and delivery, a renewed focus on dietary and nutritional information, and expanded loyalty and payment options are bringing new challenges and opportunities to almost every segment of the industry. These new expectations are driving the need to take a step back and consider the flow of serving customers. While every restaurant has its vision and its own experience, setting up a strategy to ensure that customers can engage via these channels is no longer a novelty or a nice-to-have, it's a must-have and it requires the capability to be present in your PoS and kitchen automation systems. When done correctly, it frees up resources on-site to be more focussed and attentive, again with minimal additional effort. Proprietors should be looking at solutions that have proven partnership networks and the technical capabilities required to integrate with systems that provide functionality in the online, loyalty, and mobile markets.

Run it by the numbers.

In addition to enabling servers to better contribute to the bottom line, there's a vast source of data in your Point of Sale system that should factor into any business decision. By utilizing PoS data as an input to making decisions – labour, planning, menu management – organizations are better able to assess the performance of the various revenue centers. Ideally with access to both aggregate and drill down data, most hospitality concerns are going to want an above store cloud-based analytics solution, allowing access from any location. Also, check that the solution has both browser and app-based access to ensure that decision makers can reach the data they need when they need it. The solution should allow for customizable dashboards to distribute to functional managers, the ability to import historical data, and support for reporting on critical metrics such as:

- PoS Sales reports and daypart breakdown
- Sales department breakdowns and item group sales trends
- Consolidated, server and custom pmix reporting
- General labour metrics and weekpart labour comparison
- Sales per labour hour
- Labour metrics by job and work centre
- Sales and labour forecasting

For organizations that already have comprehensive Business Intelligence capabilities, the question then becomes does the existing PoS allow integration with that solution? Many vendor solutions are walled gardens and are intentionally difficult to access or integrate. Choosing a solution built on a standard and open architecture provides the flexibility that is critical both to existing enterprises and organizations looking to support growth.

Stay true to the vision.

There's a vision behind every food and beverage venture. Every restaurant, bar or café has a unique appeal and those that succeed are those that execute on that vision in a way that delights guests and keeps them coming back. Building on that success means expanding and enhancing the unique experience the venue offers. If instead that vision is compromised to reduce costs it impacts the guest experience, which over time can erode trust and ultimately result in the venue losing its competitive differentiation altogether. So it's imperative that hospitality owners retain complete control over that guest experience whether the decisions being made involve décor, pricing, workflow, loyalty incentives or other aspects of the business. To that end, proprietors should be looking at a vendors flexibility and expertise as key criteria when trying to build revenue through technology solutions. Things to watch for include the availability of an open and documented API which allows much greater ability for custom integrations with other solutions; support for multiple platforms and devices; experience and expertise in different segments and workflows; and focus on being best-of-breed in their space rather than spread across multiple industries or services. Ask what happens when something fails in the middle of a busy service? What does the support model look like? How quickly does the vendor answer the phone? How does escalation work if problems aren't getting resolved promptly? Beyond the technology, the provider must have the expertise and understanding that ensures a confident and lasting partnership.

A shift in mindset when dealing with the realities of modern hospitality can allow organizations to be pro-active and free up labour, increase checks, and reduce floor friction while also looking at the more traditional methods for controlling costs and raising revenues. Done properly significant gains can be made without any impact to customer satisfaction. Which is why this fantastic industry exists, to deliver amazing guest experiences. Profitably.

10 Notes

Notes About This Report

This report is not a complete analysis of every material fact with respect to any company, segment or industry. Data has been obtained from sources considered reliable, but are not guaranteed and Canadian Western Bank, fsSTRATEGY, Restaurants Canada and The NPD Group make no representations or warranties as to the accuracy or completeness of this data. Discussion of tax, financial and economic developments and the potential consequences of those developments are provided for informational purposes only. Nothing in this report should be construed as investment, tax or financial advice. Readers of the report are encouraged to consult their own tax, financial or legal advisor before acting upon the information provided herein.

fsSTRATEGY is a niche consulting firm providing business strategy support to the hospitality industry, with special emphasis on the foodservice sector. Our services focus on **enhancing guest satisfaction, revenue generation, expense control** and **return on investment**. Our team has extensive consulting experience across Canada. We also offer international experience, having worked in the United States, Australia, Central and South America, Africa, Asia, the Caribbean and Europe. Our team is unique in that we provide service to all foodservice sectors (restaurants, attractions, hotels and resorts, gaming establishments and institutions) and all levels of the foodservice supply chain (growers, processors, distributors and operators).

NPD offers data, industry expertise, and prescriptive analytics to help our clients grow their businesses in a changing world. Over 2,000 companies worldwide rely on us to help them measure, predict, and improve performance across all channels, including brick-and-mortar and e-commerce. We have offices in 27 cities worldwide, with operations spanning the Americas, Europe, and APAC. Practice areas include apparel, appliances, automotive, beauty, books, B2B technology, consumer technology, e-commerce, fashion accessories, food consumption, foodservice, footwear, home, juvenile products, media entertainment, mobile, office supplies, retail, sports, toys, travel retail, video games, and watches / jewelry. For more information, visit npdgroup.ca and npdgroupblog.com. Follow us on Twitter: @NPDCanada

CWB Franchise Finance, a division of CWB Financial Group, specializes in financing for regional and national restaurants and hotels and is a leading lender to the Canadian restaurant and hospitality industries. Previously GE Capital Canada's franchise financing arm, CWB Franchise Finance was acquired by CWB Financial Group in 2016 following a successful track record of more than 800 clients with upwards of 1,525 property locations over 14 years. To date, more than $3 billion has been invested in the Canadian hotel and restaurant space. Learn more at www.cwbfranchise.com.