2020 CANADIAN CHAIN RESTAURANT INDUSTRY REVIEW

CWB Franchise Finance

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1 PREFACE

Welcome to CWB Franchise Finance's annual review of the Canadian chain restaurant industry. The Canadian Chain Restaurant Industry Review was launched eight years ago in conjunction with the Canadian Restaurant Investment & Leadership Summit. We are once again pleased to bring you this comprehensive analysis and overview on the state of chain foodservice in this country, with the goal of providing insight into key factors affecting our Canadian industry during a period of its most trying and convulsive periods. Our focus continues to be on external influencers that have an impact on your business, whether financial, consumer, or economic. This document is a collaborative effort between CWB Franchise Finance, *fs*STRATEGY and The NPD Group Canada. We want to thank *fs*STRATEGY and The NPD Group for their great work compiling and analyzing these results.

This report is once again released in conjunction with the Summit's milestone 10-year anniversary. This benchmark moment for the Summit corresponds with historical change occurring throughout the world's economies and most specifically the restaurant sector. Normally the Summit is a live networking and knowledge exchange event held in Toronto. Instead of postponing or cancelling this event, the decision was taken to take the event virtual. It is with great empathy of the volume of virtual events and the impact on personal psyche, however, it was still felt necessary to gather industry leaders as best we can under the circumstances. The further decision was also made to open this conference up at no cost to participation. That is with great thanks and appreciation to our sponsor partners as well as the CWB Financial Group that committed to the industry.

Therefore, in conjunction to the Summit, we are pleased to bring you this extensive research report on the state of the chain foodservice in this country. This report strives to provide insights on the key factors affecting our Canadian industry in this current environment.

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2 INTRODUCTION

CWB Franchise Finance ("CWB"), *fs*STRATEGY Inc. ("*fs*STRATEGY") and The NPD Group Canada ("NPD") are pleased to release this 2020 Canadian Chain Restaurant Industry Review as part of the 2020 Canadian Restaurant Investment & Leadership Summit, our eighth version of this publication.

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

- Research and data provided by Restaurants Canada.
- C-Suite Survey conducted by *fs*STRATEGY in June 2020 (over 80 CEOs, CFOs and COOs in the Canadian chain foodservice market were contacted). Twenty-nine 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, Government of Canada, OpenTable, Apple Mobility Trends, World Health Organization, Office of the Superintendent of Bankruptcy, Human Resources and Skills Development Canada, Canada Ministry of Labour, Ontario Energy Board, RSMeans and other sources as referenced.

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3 FOODSERVICE INDUSTRY PROFILE

3.1 CANADIAN FOODSERVICE INDUSTRY SALES

Canadian foodservice industry sales represented approximately 4.1% of national gross domestic product 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.

Historical Nominal Foodservice Sales by Sector ($ millions) 2016 to 2020 (forecast)

	2016		2017		2018		2019		2020	
	(Millions)	Change	(Millions)	Change	(Millions)	Change	(Millions)	Change	(Millions)	Change
Quick Service Restaurants	$28,854.3	7.0%	$30,490.7	5.7%	$31,989.7	4.9%	$33,074.8	3.4%	$28,674.3	-13.3%
Full Service Restaurants	28,229.7	7.2%	30,186.1	6.9%	31,828.7	5.4%	33,003.5	3.7%	18,991.0	-42.5%
Contract and Social Caterers	5,132.1	2.8%	5,350.4	4.3%	5,645.1	5.5%	5,893.4	4.4%	2,792.6	-52.6%
Drinking Places	2,394.2	2.7%	2,413.7	0.8%	2,475.9	2.6%	2,467.1	-0.4%	1,068.1	-56.7%
Total Commercial	**$64,610.2**	**6.6%**	**$68,440.9**	**5.9%**	**$71,939.4**	**5.1%**	**$74,438.8**	**3.5%**	**$51,526.1**	**-30.8%**
Accommodation Foodservice	$6,489.0	4.2%	$6,934.0	6.9%	$7,206.0	3.9%	$7,361.0	2.2%	-	-
Institutional Foodservice[1]	4,617.0	2.9%	4,735.0	2.6%	4,946.0	4.5%	5,132.9	3.8%	-	-
Retail Foodservice[2]	2,284.9	16.2%	2,569.9	12.5%	2,764.8	7.6%	2,936.3	6.2%	-	-
Other Foodservice[3]	2,640.4	3.2%	2,748.6	4.1%	2,858.6	4.0%	2,972.9	4.0%	-	-
Total Non-Commercial	**$16,031.2**	**5.2%**	**$16,987.5**	**6.0%**	**$17,775.4**	**4.6%**	**$18,403.1**	**3.5%**		
Total Foodservice	**$80,641.4**	**6.3%**	**$85,428.3**	**5.9%**	**$89,714.8**	**5.0%**	**$92,841.9**	**3.5%**		
Menu Inflation		2.6%		2.6%		4.2%		2.8%		2.2%
Real Growth		3.7%		3.3%		0.8%		0.7%		

Source: Restaurants Canada, Statistics Canada, fsSTRATEGY Inc. and Pannell Kerr Forster

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.*

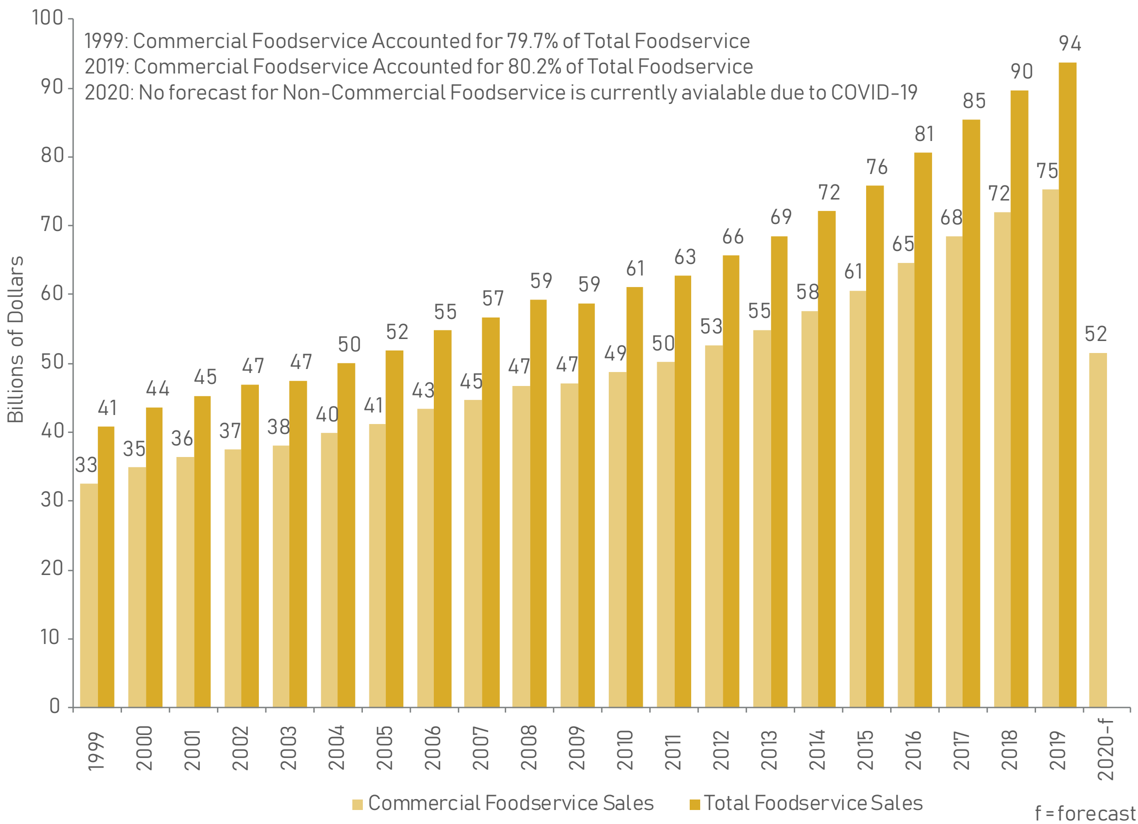
3 *Includes vending, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations.*

As shown, commercial and non-commercial foodservice sales increased by 3.5% in 2019. Restaurants Canada forecasts a 30.8% decline for commercial foodservice sales in 2020, due to the COVID-19 pandemic. Considering forecasted menu inflation of 2.2%, the forecasted sales suggest a 32.3% reduction in traffic in commercial foodservice.

Historically, QSR and FSR represented approximately 89% of commercial foodservice sales. In 2020, these sectors are expected to reflect 93% of commercial sales. COVID-19 is expected to have a greater impact on social caterers (53% decline) and drinking places (57% decline), than restaurants. Quick-service restaurants with service models tied to take out and delivery, especially those with drive-thrus, are expected to be more resilient (13% decline) than full-service concepts (43% decline) that traditionally focus on dine-in traffic.

Forecasts for 2020 non-commercial sales were not available at the time of publication.

Historical Foodservice Sales Total versus Commercial – 1998 through 2020 (Forecast)

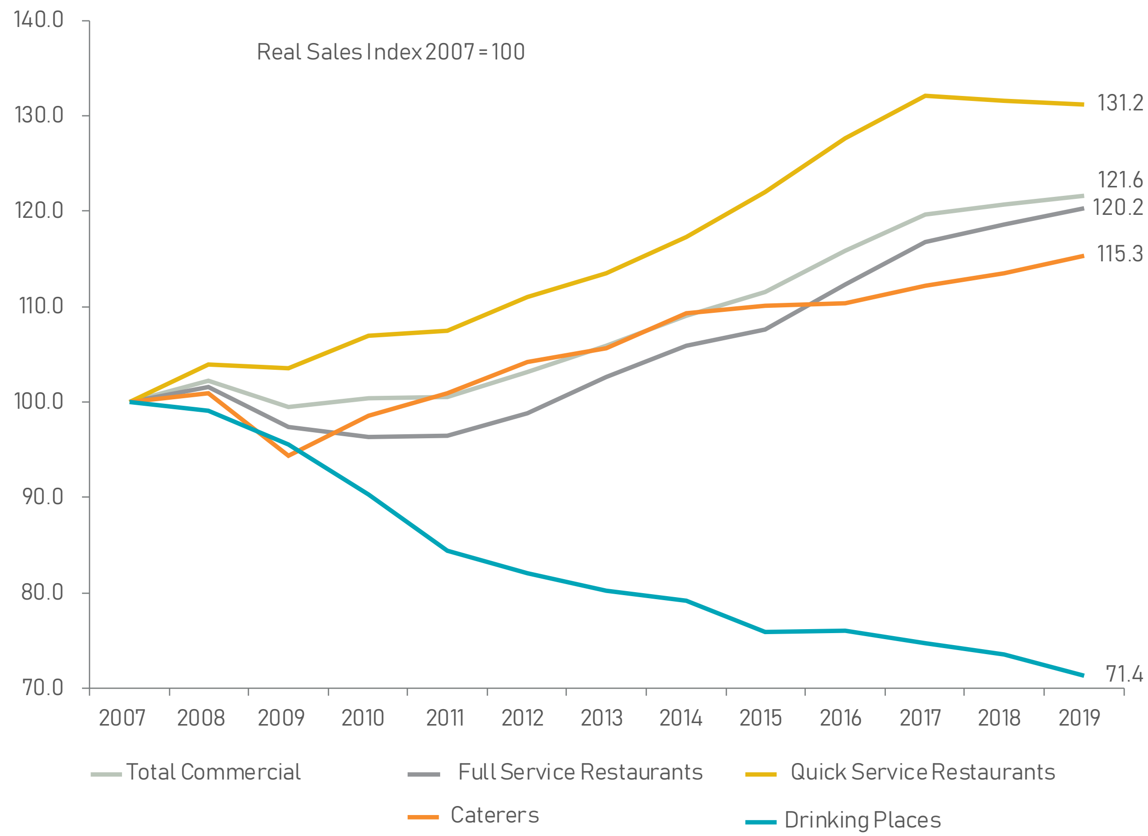


Source: Restaurants Canada, Statistics Canada, fsSTRATEGY Inc. and PKF Consulting
Note: Total foodservice sales estimate was not available for 2020 at time of publication

Total nominal foodservice sales have increased from $41.0 billion in 1999 to an estimated $93.8 billion in 2019 representing a 20-year compound average growth rate of 4.25%. Commercial foodservice sales share of total foodservice have remained relatively constant in the past 20 years, representing 80.2% of total foodservice sales in 2019 and 79.7% in 1999. In 2020, commercial restaurant sales are expected to decline to $52 million, similar to that achieved in 2012.

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 – 2007 through 2019



Source: Restaurants Canada, Statistics Canada, fsSTRATEGY Inc.

As shown, total real commercial foodservice sales growth slowed in 2018 and 2019, compared to 2017 increasing by only 0.8% in 2019 over 2018. Real sales for FSR increased by 1.4% compared to QSR that declined by 0.3% compared to 2018.

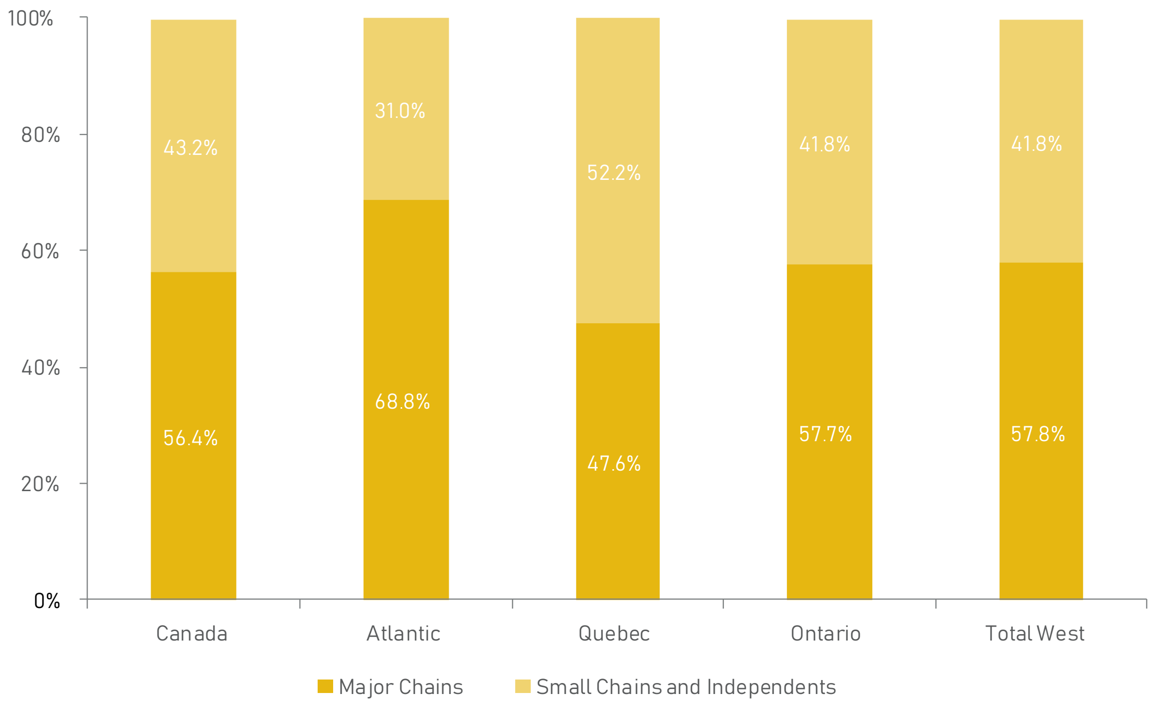
Sales for drinking places have declined each year, due largely to a reduction of the number of establishments classifying themselves as drinking places. Many such operations have been reclassified as FSRs. In 2019, 244 (4.8%) fewer drinking places existed in Canada than did in 2018 and real sales per drinking place unit decreased by 1.3%.

In 2019, Canada's commercial foodservice industry decreased by 429 units (0.4%). The number of FSRs decreased by 0.2% in 2019 while real sales per unit increased by 1.5%; this is the opposite of observations for the previous year, suggesting that supply growth may have outpaced demand in 2018 and corrected itself in 2019. The number of QSR units increased by 0.3% and sales per unit declined by 0.7%. The number of caterers decreased by 2.5% (252 units) but sales per unit increased by 4.3%, resulting in a real sales growth of 1.7% for that segment. Many restaurants have temporarily or permanently closed since March when the COVID-19 pandemic lockdowns were imposed in Canada. It may be several years before restaurant supply returns to 2019 levels.

3.2 CHAIN VERSUS INDEPENDENT OPERATOR SALES

The chart below compares the share of commercial restaurant sales held by chain and independent restaurants for Canadian regions.

Share of Commercial Restaurant Sales - 2019



Source: Restaurants Canada, CREST/NPD Group

As shown, 56.4% of Canadian restaurant sales are generated by major regional, national and international chains. Quebec is the only market in which major chains control less than half of commercial restaurant sales (47.6%). Conversely, greater than two thirds of restaurant sales are generated by major chains in the Atlantic region.

3.3 PROVINCIAL SALES TRENDS

Canadian Commercial Foodservice Sales by Province – 2009 through 2019

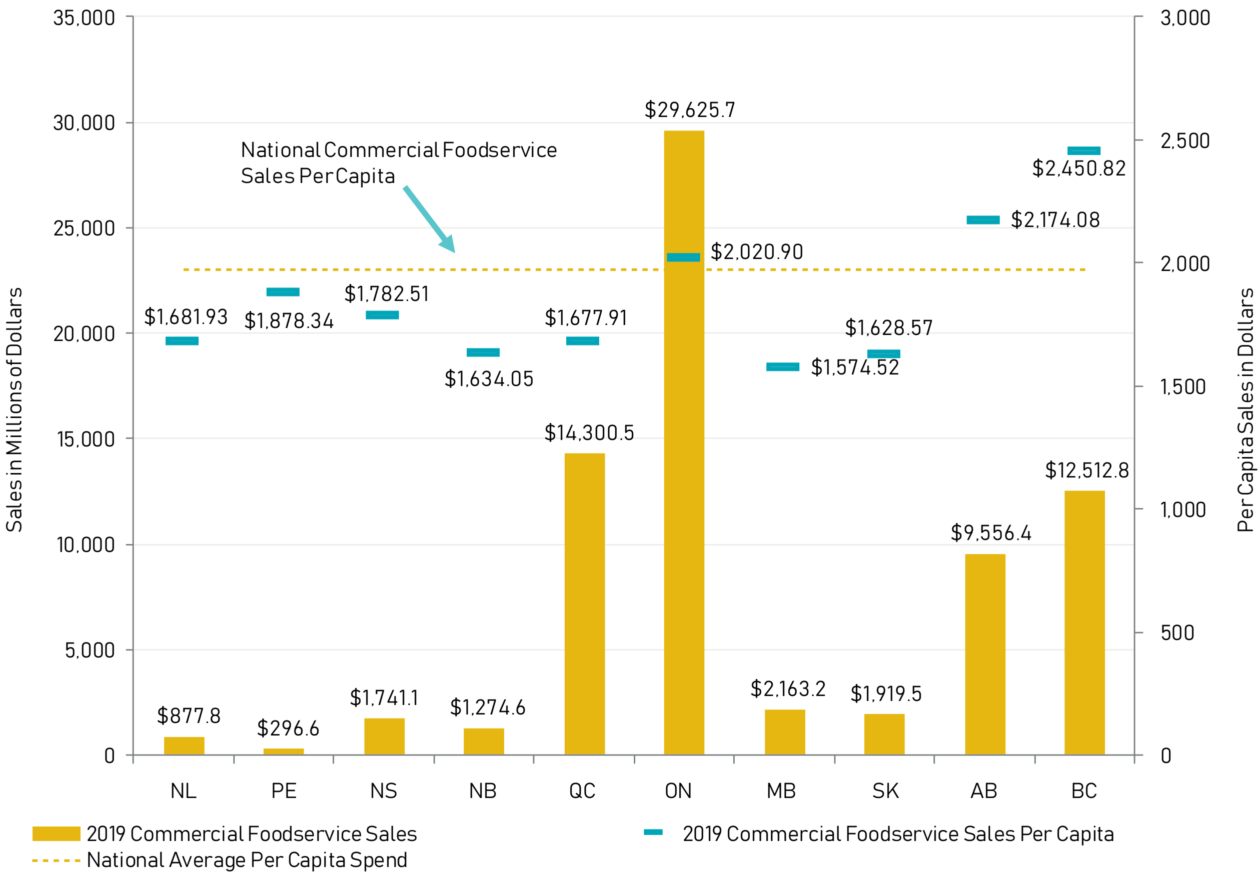
	Canada	Newfoundland and Labrador	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Revenues (thousands)											
2009	$47,119,784	$588,786	$175,904	$1,209,406	$938,959	$9,389,227	$17,646,302	$1,341,989	$1,356,800	$6,528,030	$7,796,132
2010	$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
2019	$74,438,830	$877,837	$296,591	$1,741,099	$1,274,591	$14,300,455	$29,625,660	$2,163,168	$1,919,522	$9,556,372	$12,512,847
Per cent Change vs Previous Year											
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%
2019	3.5%	2.9%	8.8%	4.5%	4.2%	5.3%	3.1%	3.9%	1.1%	2.4%	3.1%

Source: Restaurants Canada, Statistics Canada

As shown, nominal commercial sales growth was slower in 2019 (3.5%) than 2018 (5.1%) and 2017 (5.9%). Prince Edward Island realized the greatest growth (8.8%) followed by Quebec (5.3%) and Nova Scotia (4.5%). Saskatchewan experienced the least growth (1.1%) and was the only province whose growth was less than the national average menu inflation of 2.8%.

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

Commercial Foodservice Sales and Commercial Foodservice Per Capita by Province – 2019



Source: Restaurants Canada, fsSTRATEGY Inc. and Statistics Canada

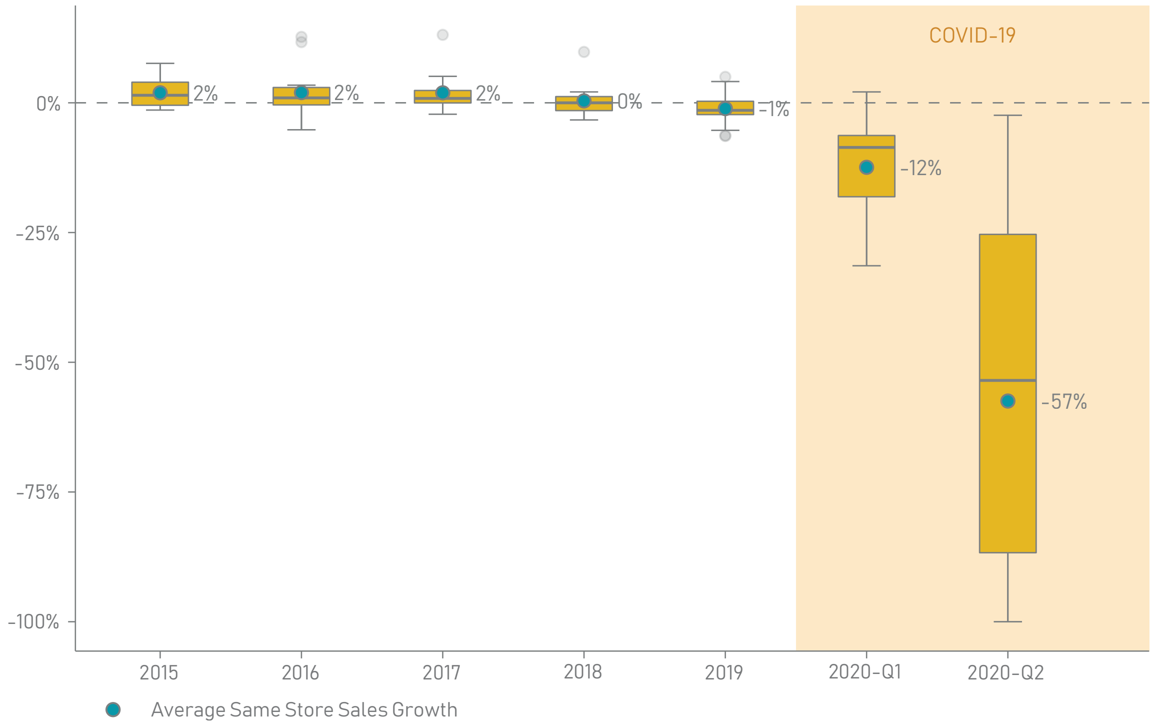
As shown, Ontario and Quebec have the greatest commercial foodservice sales, driven primarily by larger populations. Commercial foodservice sales per capita in Ontario are similar to the national average.

British Columbia's commercial foodservice sales per capita ($2,450) is the greatest of any province: 25% greater than the national average. Manitoba has the lowest per capita commercial foodservice sales ($1,547) followed by Saskatchewan ($1,628).

3.4 SAME STORE SALES GROWTH

The following chart illustrates Same Store Sales Growth (SSSG) for seven publicly-traded Canadian restaurant companies, representing 95 brands.

Annual Same Store Sales Growth



Source: fsSTRATEGY Inc. based on financial reports for publically-traded restaurant companies

The average annual SSSG was relatively consistent for 2015 through 2017, having approximately 2% year over year growth with outliers as high as 13%. SSSG declined to 0.4% in 2018 and further to -1.1% in 2019. Not all companies reported SSSG for 2020-Q1 and 2020-Q2, so the competitive set is not directly comparable to the annual data: 2020-Q1 represents 76 brands, and 2020-Q2 represents only nine brands. Still, the impact of COVID-19 on Q1 and Q2 SSSG is evident. In 2020-Q2, the average SSSG was -57.5% and ranged from -2.4% (a QSR Pizza Chain) to -100% (a Casual Elegance FSR). On average, 2020-Q2 SSSG declined by 26% for QSR concepts, 70% for casual FSR and 94% for casual-elegance FSR; this illustrates that, while no one fared well in the first two quarters of 2020, the ability to adapt varied greatly by concept. Brands whose concepts are defined by greater levels of service and dining as an experience (i.e., FSR) continue to face greater challenges adapting to limitations caused by the pandemic.

3.5 C-SUITE EXPECTATIONS FOR SALES AND TRAFFIC

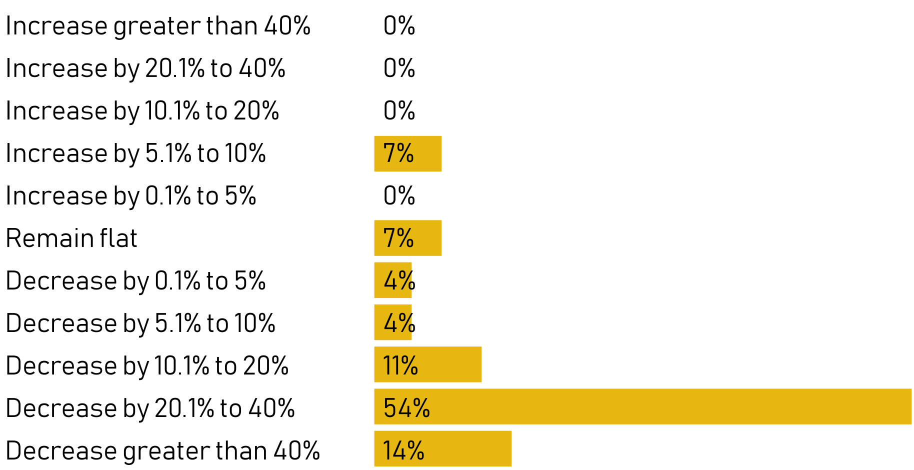
*fs*STRATEGY has completed a survey of Canadian foodservice executives to gain their insights on the state of the industry for the 2020 Canadian Restaurant Investment & Leadership Summit and to capture opinions and industry forecasts from Canada's industry leaders. Twenty-nine (36%) of the brands that were invited to participate responded. Responses from the C-Suite Survey have been included at appropriate points throughout this book.

Respondents are profiled by service style and summarized below.

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Given the unprecedented effect COVID-19 is having on the foodservice industry in 2020, respondents to the C-Suite Survey were asked to compare how 2020 expected industry sales compare to 2019 sales.

In 2020 Compared to 2019, Sales are Expected to:



Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Most respondents (54%) at the time of completing the survey (September 2020) believe the foodservice industry will decline between 20% and 40% compared to 2019.

In 2020 Compared to 2019, Sales are Expected to:

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	**Total**
Increase greater than 40%	0%	0%	0%	**0%**
Increase by 20.1% to 40%	0%	0%	0%	**0%**
Increase by 10.1% to 20%	0%	0%	0%	**0%**
Increase by 5.1% to 10%	0%	5%	17%	**7%**
Increase by 0.1% to 5%	0%	0%	0%	**0%**
Remain flat	0%	0%	33%	**7%**
Decrease by 0.1% to 5%	33%	0%	0%	**4%**
Decrease by 5.1% to 10%	33%	0%	0%	**4%**
Decrease by 10.1% to 20%	0%	11%	17%	**11%**
Decrease by 20.1% to 40%	33%	63%	33%	**54%**
Decrease greater than 40%	0%	21%	0%	**14%**

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Full-service restaurant respondents are understandably expecting greater sales decreases in 2020 compared to 2019.

Respondents were asked what effect COVID-19 had on their chain restaurants' operations.

COVID-19 Effect on Restaurant Operations

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	**Total**
Remained Open, Continuing to Offer Takeout and/or Delivery	29%	26%	40%	**29%**
Newly Offering Takeout and/or Delivery to Remain Open or Reopened	14%	23%	10%	**20%**
Temporarily Closed	29%	26%	30%	**27%**
Permanently Closed	29%	26%	20%	**25%**

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Most outlets in respondents' chains (52% overall) have either temporarily or permanently closed in 2020 as a result of the pandemic. Fewer quick-service locations closed permanently than fast casual and full-service chain locations. Growth in take-out and delivery was unsurprisingly significant at full-service and fast casual concepts as restaurants adjusted their service delivery models to remain open.

Respondents were asked how they expected industry sales to change in 2021.

In 2021 Compared to 2020, Sales are Expected to:

Increase greater than 40%	4%
Increase by 20.1% to 40%	7%
Increase by 10.1% to 20%	21%
Increase by 5.1% to 10%	18%
Increase by 0.1% to 5%	21%
Remain flat	11%
Decrease by 0.1% to 5%	0%
Decrease by 5.1% to 10%	4%
Decrease by 10.1% to 20%	7%
Decrease by 20.1% to 40%	4%
Decrease greater than 40%	4%

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Respondents appear to be optimistic for 2021, with 71% of respondents expecting sales growth (recovery) in 2021 compared to 2020, though the anticipated recovery is not as strong as the decline respondents expect in 2020.

Similarly, respondents were asked how they expected industry traffic to change in 2021.

In 2021 Compared to 2020, Traffic is Expected to:

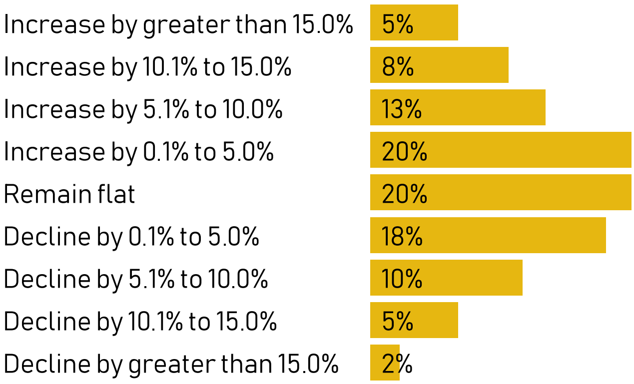
Increase greater than 40%	4%
Increase by 20.1% to 40%	7%
Increase by 10.1% to 20%	14%
Increase by 5.1% to 10%	18%
Increase by 0.1% to 5%	21%
Remain flat	7%
Decrease by 0.1% to 5%	4%
Decrease by 5.1% to 10%	7%
Decrease by 10.1% to 20%	7%
Decrease by 20.1% to 40%	7%
Decrease greater than 40%	4%

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Respondents appear similarly optimistic with 64% expecting some recovery in foodservice traffic in 2021 compared to 2020.

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. A greater proportion of respondents expect sales to increase in 2021 compared to the increase in traffic suggesting greater expected sales are to be generated through greater average check or through off-premise sales.

In 2021 Compared to 2020, the Inferred Probability for Average Check Change is:



Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Based on respondents' anticipated changes to sales and traffic, 45% of responses indicate an increase in average check; however, inferred change of average check in 2021 varies greatly.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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 2021. Responses were collected during the month of September 2020. Responses were grouped into common categories.

Greatest Opportunities for the Foodservice Industry, 2020

Opportunity	2015	2016	2018	2020	2021	Change 2021/ 2020
Concept - Fast Casual, Extended Patios, Takeout, Delivery, Ghost Kitchens, Convenience	17.0%	3.8%	19.6%	12.7%	23.5%	↑
Technology - Online Sales, Mobile Apps, Third-Party Delivery	1.7%	7.5%	17.6%	17.5%	19.6%	↑
Competition - Consolidation, Leveraging Competitor Failures	11.7%	9.4%	3.9%	9.5%	15.7%	↑
Menu - Innovation, Focused Menus, Natural Ingredients, Peripheral Product Offerings	27.0%	22.6%	15.7%	20.6%	13.7%	↓
Location - Real Estate/Rental Opportunities, Suburban, Strong Regional Economies, International	3.3%	11.3%	2.0%	6.3%	9.8%	↑
Labour - Efficiencies, Engagement, Retaining Skilled Labour	0.0%	0.0%	9.8%	3.2%	3.9%	↑
Service - Innovation, Training, Quality, Safety	1.7%	5.7%	3.9%	3.2%	3.9%	↑
Market Growth - Sales, Growth, Increased Traffic	7.5%	7.5%	2.0%	7.9%	2.0%	↓
Consumer Acceptance to Trying New Flavours (Menu Diversity)	0.0%	0.0%	3.9%	1.6%	2.0%	↑
Facilities - Smaller Footprints, Construction	0.0%	0.0%	0.0%	1.6%	2.0%	↑
Cost Efficiencies - Improved Systems	1.7%	3.8%	3.9%	0.0%	2.0%	↑
Beverage (Alcohol) - Bar and Beverage Programs, Off-Premise Sales	3.3%	0.0%	3.9%	0.0%	2.0%	↑

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Concept opportunities increased to its previous position (for 2018) as the greatest opportunity for the foodservice industry (23.5% of respondents), reinforced by identified opportunities as a result of COVID-19 restrictions; including extended (and in some cases year-round) patios, delivery, ghost kitchens and convenience-focused concepts. Technology opportunities represent 19.6% of responses and continue to increase as an opportunity for restaurant chains. Mention was specifically made to highlight the importance of online ordering and delivery (including apps) and third-party delivery. Interestingly, third-party delivery was considered a challenge in the 2019 C-Suite Survey, due to the increased competition chains were experiencing. Now third-party delivery appears to be considered an opportunity, during current COVID-19 restrictions, to survive the pandemic.

Competition, specifically leveraging competitors leaving the market and to assist in regaining lost sales and grow market share, emerged as a common opportunity identified by 15.7% of respondents. Similarly, location opportunities and favorable rental rates were identified. Labour availability and retention (along with finding staff with a willingness to work) was identified as a common issue as a result of COVID-19.

4.2 CHALLENGES

Survey participants were asked to list three challenges in the foodservice industry for 2021. Responses were grouped into common categories.

Greatest Challenges for the Foodservice Industry, 2021

Challenge	2015	2016	2018	2020	2021	Change 2021/ 2020
Operating Costs	28.6%	39.2%	51.5%	46.5%	20.6%	↓
Cost of Goods Sold	17.0%	14.9%	10.3%	12.8%	2.9%	↓
Labour Costs	7.1%	16.2%	26.5%	16.3%	4.4%	↓
Rent	2.4%	2.7%	4.4%	8.1%	7.4%	↓
Utility/Energy	0.0%	0.0%	1.5%	2.3%	0.0%	↓
General	2.0%	5.4%	8.8%	5.8%	0.0%	↓
Delivery	0.0%	0.0%	0.0%	1.2%	1.5%	↑
Consumers – Rebuilding Traffic, Reduced Transactions, Perception/Trust	0.0%	0.0%	4.4%	3.5%	11.8%	↑
Sales – Reduced Traffic/Sales	4.1%	4.1%	1.5%	0.0%	11.8%	↑
Labour Issues – Availability of Quality Employees, Motivation, Retention	7.1%	5.4%	16.2%	14.0%	10.3%	↓
The Economy – Impact of COVID-19 (Second Wave), Recession	15.5%	16.2%	0.0%	0.0%	8.8%	↑
Government Regulations – Reduced Operations	0.0%	0.0%	5.9%	7.0%	7.4%	↑
Access to Financing – Access to Operate, Repaying Loans [NEW]	0.0%	0.0%	0.0%	0.0%	4.4%	↑
Safety – Food Safety, COVID-19 Operating Requirements	0.0%	0.0%	0.0%	0.0%	4.4%	↑
Competition – Density, Consolidation, Third-Party Delivery	7.0%	14.9%	5.9%	10.5%	1.5%	↓
Changing Concepts – Fast Casual, Casual Elegance, Take-Out	0.0%	0.0%	0.0%	1.2%	1.5%	↑
Trade Relationships / Tariffs	0.0%	0.0%	4.4%	0.0%	1.5%	↑

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

As with previous years, operating costs are the greatest challenge for the survey participants. In 2021, operating costs represent (20.6%) of reported challenges. The challenges of fixed costs, specifically rent, was identified as the most mentioned operating cost to challenge the foodservice industry in 2021; logical given the uncertainty in the operating environment moving forward.

After operating costs, regaining consumer confidence and perceived trust was the identified by 11.8% of respondents as a challenge for 2021. Reduced sales, labour issues and the economy were all identified as significantly increasing challenges as a direct result of COVID-19 by respondents. As mentioned, competition, driven by the disruption of third-party delivery, was considered a challenge in the 2020 C-Suite Survey, rather than an opportunity in 2021 to be used as a tool to resume operations and attempt to meet short term financial obligations, during the operating restrictions imposed in response to COVID-19.

4.3 BIGGEST CHANGES

4.3.1 Short-Term Changes

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

In 2020, participants discussed themes of the need to focus on and invest in technology, labour challenges and increasing minimum wages, and the increasing competition from third-party delivery.

For 2021, participants focused on the number of restaurant closures due to COVID-19. Respondents mentioned poorer performing and/or less adaptable units and concepts will likely close and most may remain closed. With many restaurants expected to close, oversaturated markets may self-correct, at least in the short-term, and some existing concepts may be changed forever. A shift from casual dining to quick-service and the shift to a focus on delivery and takeout were mentioned by respondents. Third-party and other delivery platforms were also mentioned by respondents as short-term challenges to overcome.

4.3.2 Long-Term Changes

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

Responses included changing of new restaurant concepts to more counter service and pickup models (reduction in full-service locations), and shifting traffic patterns of customers from dense urban areas to more spread out areas of demand, as employers may have more flexible working policies moving forward. Responses also included price adjustments for delivery and takeout dining, due to third-party delivery fees and costs related to packaging and delivery. Other than delivery and takeout menu price increases, some respondents believe the foodservice industry will require an overall increase in pricing to produce better margins. Some respondents believe, as a result of the pandemic, consolidation may increase.

4.4 BUSINESS STRATEGIES

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

Strategy	2020	2021
Add New Units in Canada	21%	21%
Capture Market Share from Competitors	15%	21%
Close Unprofitable Units	10%	16%
Modify Operations and/or Facilities to Reduce Labour Costs	16%	14%
Use of a Third-Party Digital Order and Delivery Service	7%	11%
Modify Menus to Reduce Cost of Goods Sold	7%	11%
Add New Units Internationally	10%	4%
Grow Average Check	13%	2%
Other	1%	0%

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

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

Adding new units in Canada and capturing market share from competitors are the primary strategies reported by respondents, each noted by 21% of participants, followed by the closing of unprofitable units and modifying operations to reduce labour costs. All strategies appear to be based on coming out of the pandemic as operationally efficient as possible and positioned to capture market share from surviving (and failed) competitors. Surprisingly, the use of third-party digital ordering and delivery services only slightly increased as a strategy in 2021 (11%) compared to 2020 (7%); possibly as some respondents may already be taking advantage of these services or developing their own delivery systems.

Ordering and Delivery Methods

C-Suite Survey participants were asked their approximate sales by ordering method.

Sales by Ordering Method

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	**Total**
In-Person Ordering	74%	50%	81%	**60%**
Telephone Ordering (Calling)	0%	6%	1%	**5%**
Mobile Ordering/Online Ordering	9%	19%	7%	**15%**
Third-Party Delivery/ Application Ordering	18%	27%	12%	**22%**

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

In-person ordering is still the most common form of ordering (60% overall) among respondents, especially in QSR (81% of respondents). Third-party delivery and/or application ordering is most common (27%) with FSR respondents.

Respondents were asked their approximate sales by service method.

Sales by Service Method

	Fast Casual Restaurants	Full Service Restaurants	Quick Service Restaurants	**Total**
Dine-In/Patio Service	40%	73%	33%	**60%**
Pickup (In-Store)	43%	9%	40%	**21%**
Curbside Pickup	1%	5%	16%	**7%**
Delivery (In-House)	0%	4%	3%	**3%**
Delivery (Third-Party)	17%	14%	13%	**14%**

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Dine-in and patio service is the most common method of service for FSR respondents (73%), while pickup was the most common for fast casual and QSR respondents (43% and 40% respectively). Curbside pickup has been adopted by many chains and is estimated at 7% of sales overall by all respondents, most significantly in QSR (an average of 16% of sales among QSR respondents).

Respondents 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	75%	37%	33%	**38%**
Uber Eats	25%	30%	28%	**29%**
DoorDash	25%	30%	28%	**29%**
Just Eat	0%	0%	6%	**1%**
Other	0%	2%	6%	**3%**

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

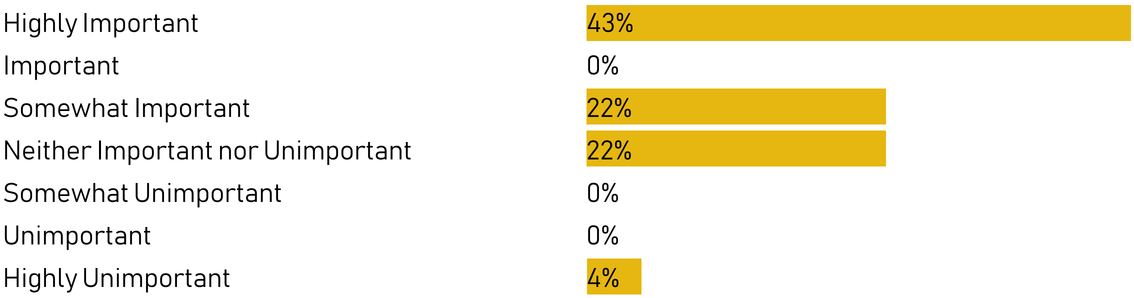
SkipTheDishes is the most commonly used third-party delivery platform among respondents (used by 38% of respondents who use third-party delivery), followed by Uber Eats and DoorDash (both used by 29% of respondents who use third-party delivery). While SkipTheDishes is still the most commonly used platform among respondents in 2020, it appears far less prevalent compared to response collected in 2019 when 96% of respondents using third-party delivery used SkipTheDishes.

When asked if respondents planned on using third-party delivery in the future, 86% indicated they would (an increase from 74% in 2020), 4% did not plan on using third-party delivery and 11% were undecided.

4.5 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.

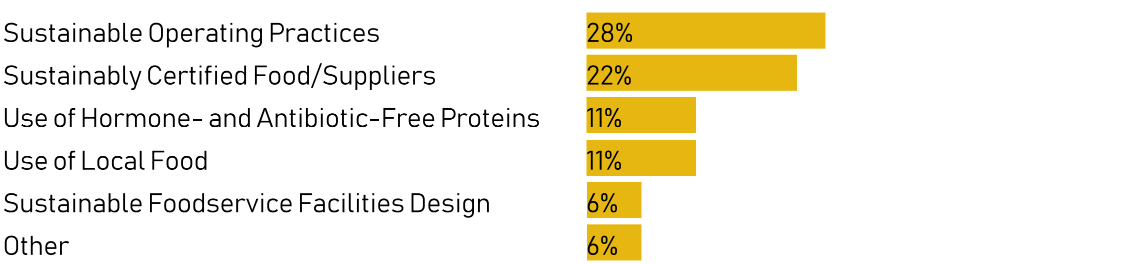
Importance of Environmental Sustainability



Source: fsSTRATEGY Inc. 2020 C-Suite Survey

In 2020, the importance of environmental sustainability decreased with 65% of participants reporting that sustainability was either somewhat (22%) or highly important (43%). Presumably aided by the impact of COVID-19, sustainability is decreasing in importance amongst respondents. In 2019, 78% of participants reported that sustainability was either somewhat or highly important while in 2016 96% of respondents indicated sustainability was either somewhat or highly important.

Respondents were asked to indicate which of the following was their primary focus in their sustainability plans.



Source: fsSTRATEGY Inc. 2020 C-Suite Survey

As with previous C-Suite surveys, sustainable operating practices ranked first as the primary focus of sustainability plans; however, less so in 2020 (28% of respondents) than 2019 (56% of respondents). Sustainable certified foods (22% of respondents) is ranked second among respondents (a significant increase 6% of participants in 2019).

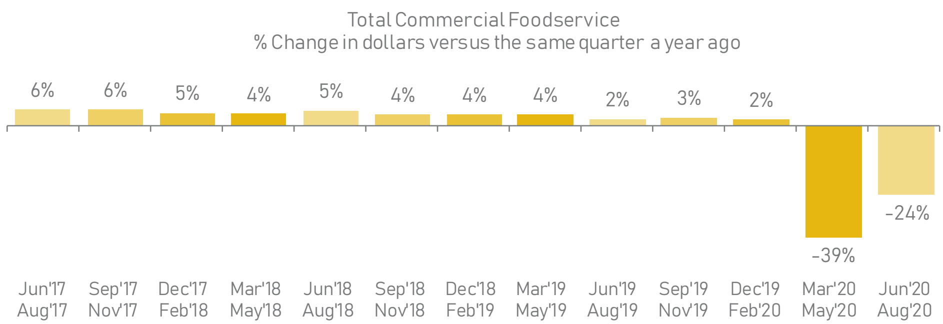
5 TRENDS **IMPACTING** RESTAURANTS

5.1 WHERE WE WERE

The Dollar and Traffic Trends

The beginning of 2020 was looking like a continuation of the trends established late in 2019. The economy had begun to slow in the back half of 2019, consumer confidence took a tumble in December and the household debt service ratio continued to rise. GDP was expected to remain positive through the new year, but growth was slowing. This trend of continuous but slowing growth is evident in the Canadian foodservice long-term dollar trend chart below. NPD's CREST® data shows foodservice dollar growth in the winter quarter (December 2019 to February 2020) was barely hitting +2%, which was the same level of average eater cheque growth. This translated into just slightly negative traffic growth for the quarter. It was the first negative quarter in recent memory.

Total Commercial Foodservice
% Change in dollars versus the same quarter a year ago



Source: The NPD Group/CREST®

Tracking the Historical Trends

This slowdown can be largely attributed to a decline of -1% in traffic visits within the dominant quick service restaurant (QSR) market segment. Meanwhile, the full service restaurant (FSR) segment grew through the year and finished off the full year almost +3% ahead of the prior year in traffic. But keeping up the trend of slowing growth, this, too, was below recent years' performance.

One of the key factors influencing this softness in QSR was a slowdown in morning meal growth. This had long been a traffic driver for coffee-loving consumers in Canada and the top operators in this space competed intensely for incremental share of this once-growing daypart. However, 2019 also saw the continuation of the negative trend in 'consumed at work' occasions, down by -2% on the year. The work-from-home migration began long before 2020, and it caused a growth slowdown in the two largest dayparts, morning meal and lunch.

The other shifting trend that took hold in 2019 was the traffic increase among older cohorts (aged 45+) and the traffic decline among the younger cohort (aged 25 – 34). While younger consumers still outnumbered older consumers in restaurant visits, their preference for QSRs is reflected in that segment's declining trend. Conversely, older consumers are more inclined to visit FSRs, which helped to sustain the growth curve within this operator set. This also fueled growth in the supper daypart.

Many of the influencing factors above would come to define the foodservice industry performance as the events of 2020 unfolded.

5.2 WHAT JUST HAPPENED

The Foodservice Industry Goes into Lockdown

When the COVID-19 situation threw the Canadian economy into shutdown in mid-March, the restaurant industry was impacted immediately and hard. Many restaurants were forced to close their doors entirely due to a complete reliance on dining room traffic. Others that relied on workers, commuters, students or travelers for their livelihoods similarly faced a lack of traffic. Still others simply closed out of an abundance of caution.

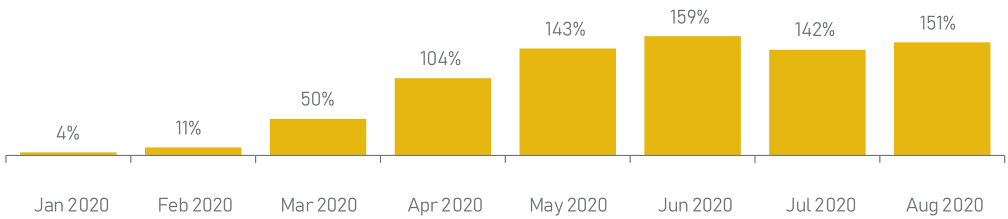
The shutdown devastated restaurant traffic. In April, NPD recorded a -43% decline in restaurant visits. By the end of August the decline had been cut in half, marking some hope for an eventual recovery, but much work remained.

The early days of the COVID-19 period saw a rush on groceries as people stocked their pantries, freezers and refrigerators with essential supplies. The NPD Group's Retail Tracking Service shows they also equipped their kitchens with all of the latest gadgets and appliances, such as multi-cookers, grills, bread machines and coffee makers. And yet they continued to turn to the foodservice industry for some of their meals and snacks, sustaining some of their old habits while also forming many new ones that are reshaping the industry.

New Habits Begin to Form

The two immediate trends that emerged during the lockdown were the shift to off-premise traffic occasions and a surging reliance on digital ordering platforms.

Commercial Foodservice – Total Digital Orders
% Change in traffic versus last year



Source: The NPD Group/CREST®

DIGITAL* represents 73% of DELIVERY

During the first six months of the COVID-19 period, off-premise access modes accounted for 85% of all restaurant occasions. The largest shift in off-premise traffic was at drive-thru windows. This resulted in long lineups as operators struggled to adjust to the increase in customers, plus an increase in order sizes as more and more family-sized orders went through the window. Operators with the best-developed drive-thru infrastructure outperformed the rest of the market during this time.

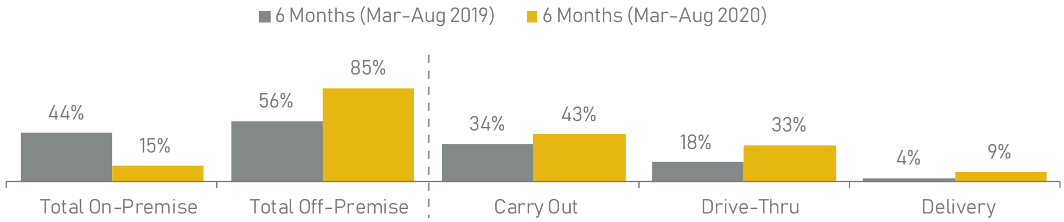
While drive-thru grew most when looking at visits, delivery was the fastest-growing access mode. Delivery doubled four months in a row versus the prior year, reaching as high as 14% of foodservice traffic in April. This shift to delivery has been a boon for third-party delivery service providers. Further, it has helped many operators, some of whom never served an off-premise meal before, survive during the early days. It also became the basis for a series of community-driven events encouraging Canadians to support the restaurant industry by ordering delivery and/or takeout meals from their favourite local restaurateurs. This support encouraged many restaurants to reopen just to service these off-premise customers, helping to bring in a bit of income while they waited for the all-clear to welcome customers back on the premises.

No discussion on delivery is complete without a discussion of digital ordering. These orders, placed on mobile devices or otherwise, accounted for almost three-quarters of all delivery orders during the six months ending August 2020.

Delivery and total digital ordering were two of the most influential trends of the past several years. The events of 2020 accelerated this trend into the stratosphere

*Digital Includes: App for Pickup, App for Delivery, Internet for Pickup, and Internet for Delivery

Commercial Foodservice – Access Modes, % Share of Traffic



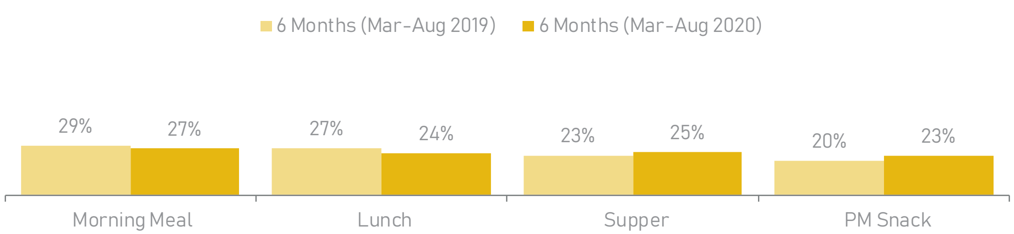
Source: The NPD Group/CREST®

Digital share of foodservice orders more than tripled from a rate of about 5% in January 2020 to 17% in April 2020. By the end of August, it had settled in at about 13% share. This represents several years of growth in just a matter of months. Along with digital ordering came cashless payments. Cash dropped from the most popular payment method to the third most popular method. Credit and debit cards combined now account for two-thirds of all payments.

Some Old Habits Carry On

With the disruption in consumers' daily routines, it should come as no surprise that the morning meal daypart has been heavily impacted by COVID-19. As mentioned previously, growth at this largest daypart already had begun to slow through 2019. And yet, morning meal continues to be the largest daypart. It seems Canada's consumers love their coffee and their morning rituals even more than expected.

Commercial Foodservice – Dayparts
% Share of Traffic



Source: The NPD Group/CREST®

Lunch has declined more than morning meal, and it has been passed by supper as the second-largest daypart. Supper share gains have been driven by the fact that many families are sheltering at home together for a change rather than running from one activity to another during this time of day. The relative strength of family dining has been one of the bright spots during this pandemic.

Continuing with the theme of dining-at-home, these meal occasions grew by +40% during the six months ending August 2020, and they accounted for almost half of all restaurant occasions. Curiously, meals consumed in the car also rose during this time period. It would seem many of those people going through the drive-thru wanted their meals right away and couldn't wait until they got back home.

Meanwhile, the growth in PM snack share can be attributed to two factors. First is that the youngest cohort of consumers (younger than age 18) have reduced their restaurant visits the least. Second is the fact that people are finding some comfort in the indulgent foods typically consumed during snacking dayparts. This is a trend supported by research conducted by The NPD Group in the U.S. market, reinforcing the fact that during this time of crisis, demand for snack foods is up and exercising is down.

One additional trend that has carried into 2020 is the market's demand for deals of all sorts. For the six months ending August 2020, the dealing rate was up over 25%, an increase of almost three points versus the prior year, which itself was up two points from the prior year.

Independents Are Holding On

In the early days of the restaurant restrictions, it became clear that independents would be hardest hit. These entrepreneurs are disproportionately represented within the FSR segment, which relies upon on-premise dining for its livelihood. Additionally, this operator group did not have the support of a corporate franchisor to provide a financial safety net. They were largely on their own.

But as restrictions started to lift through the summer, and more and more of these operators discovered the possibilities of off-premise ordering, the trends began to look up a bit. The independent operator set was outperforming the smaller chains by the end of August and recaptured four points of traffic share. Make no mistake, this group of operators will continue to struggle, but the signs of recovery are encouraging.

5.3 WHERE WE GO FROM HERE

The duration and depth of COVID-19's impact on the Canadian economy at large, and the foodservice industry in particular, will remain uncertain for the foreseeable future. But one thing is clear: the trends that existed prior to this period and accelerated through 2020 can be expected to continue into the future.

Digital: NPD's Foodservice Consumer Sentiment Study (May 2020) showed Canadians intend to continue their newfound off-premise and digital ordering habits well into the future. Perhaps the most interesting aspect of these trends is that so many new customers are being attracted to the fold. Customers who had never placed a digital order for a restaurant meal suddenly entered the digital age. Now that they have taken up this new behaviour, there really is no reason to expect that they will return to their old habits — particularly since it is the oldest consumer cohorts that will be the most reluctant to return to restaurants in person until the crisis has passed.

Of course, digital ordering also opens up many new opportunities for the industry. Digital orders can be tracked and therefore used to understand and influence consumers' ordering behaviours. That opens the door to customized digital marketing activity and loyalty programs that can influence customer ordering though all access modes.

Dealing: Given the economic uncertainty many people face, they are likely to continue to seek the best deal they can find whenever they place a foodservice order. Plus, the challenges many operators face in driving traffic will encourage them to use dealing as a means of attracting a scarce consumer, especially during the quieter traffic periods.

Delivery: The impact of restaurant meal delivery on the industry has been well reported here and elsewhere. The broader impact, however, is the opportunity that this growing access channel opens up for entrepreneurs to expand beyond a simple restaurant meal.

The entrepreneurial spirit that drove so many into the foodservice business in the first place is shining through in the form of new business models and an ever-increasing array of new food-related products and services. Meal kits and cocktail kits are first among these, offering operators a new product to sell and a fun way to engage with their customers who are sheltering at home but looking for a new food experience (and perhaps, a way to use one of their new kitchen gadgets). Grocery delivery is another way for restaurateurs to expand their reach beyond their traditional customer base. And restaurant meal subscriptions can offer a recurring revenue stream for operators (or maybe even distributors) looking to encourage future orders and replace other lost revenue streams.

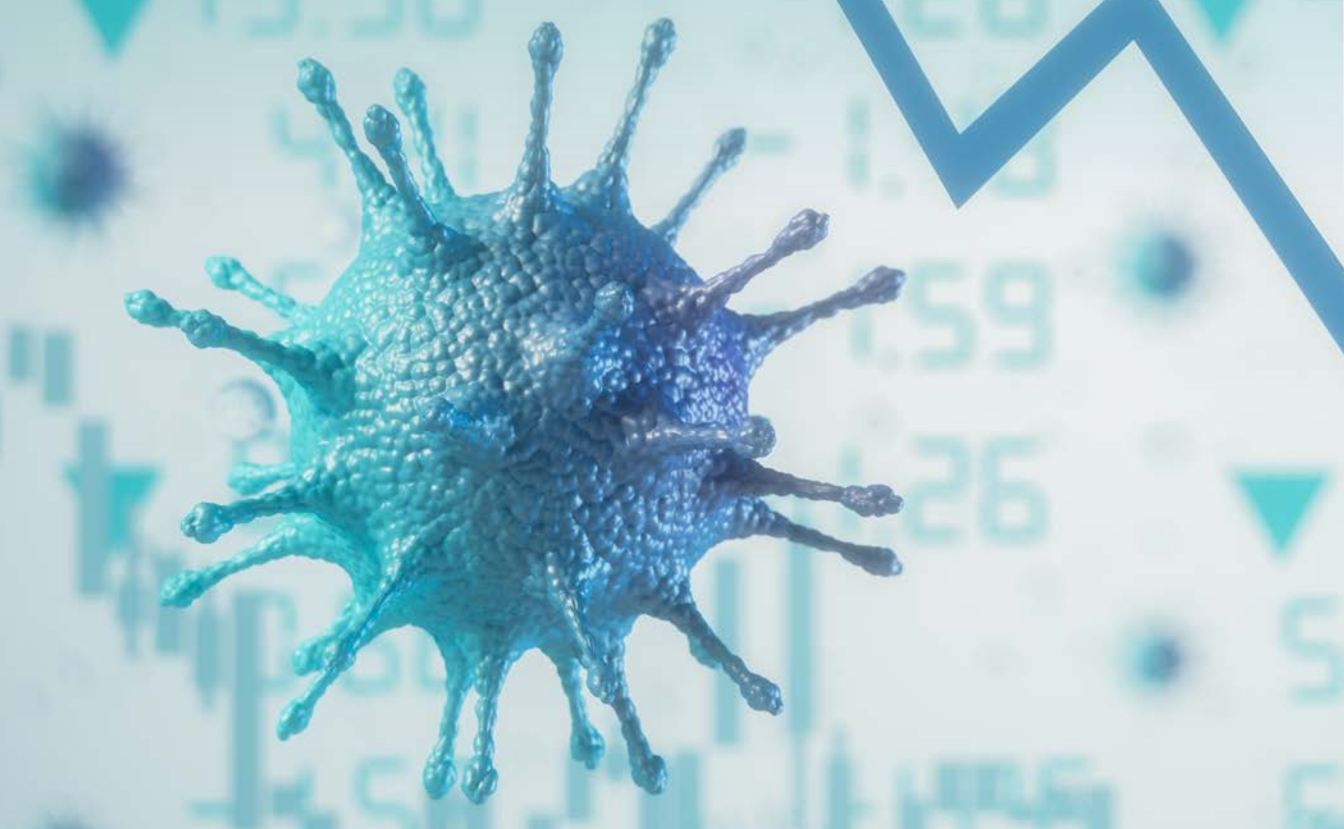
Delivery is also the driving force behind the ghost/virtual/dark kitchen concepts that are emerging in the market. These business models can provide operators the chance to expand their reach without expanding their footprint and without an expensive consumer-facing facility.

Store Development: The need for social distancing and the shift in demand away from the dining room will shape the design of future restaurants. New concepts are already appearing which offer touchless customer interaction and a focus on off-premise. And while many retail businesses, in foodservice and otherwise, are expected to close as a result of the COVID-19 impact, history has taught us that other investors soon will emerge to fill the gap in the market, and to fill the empty storefronts.

5.4 IN CONCLUSION

COVID-19 has changed the Canadian foodservice landscape forever. In just a matter of months, this crisis has eliminated years of growth and facilitated a decade of evolution. But consumers in Canada love their restaurants and are eager to return. They love hanging out with friends and family to enjoy the experience, the atmosphere and the food. These are all things no home-cooked meal can replace. As soon as they feel safe and have the means, people will return to restaurants in one way or another. Let's all hope that day comes soon.

6
FINANCE AND THE **ECONOMY**

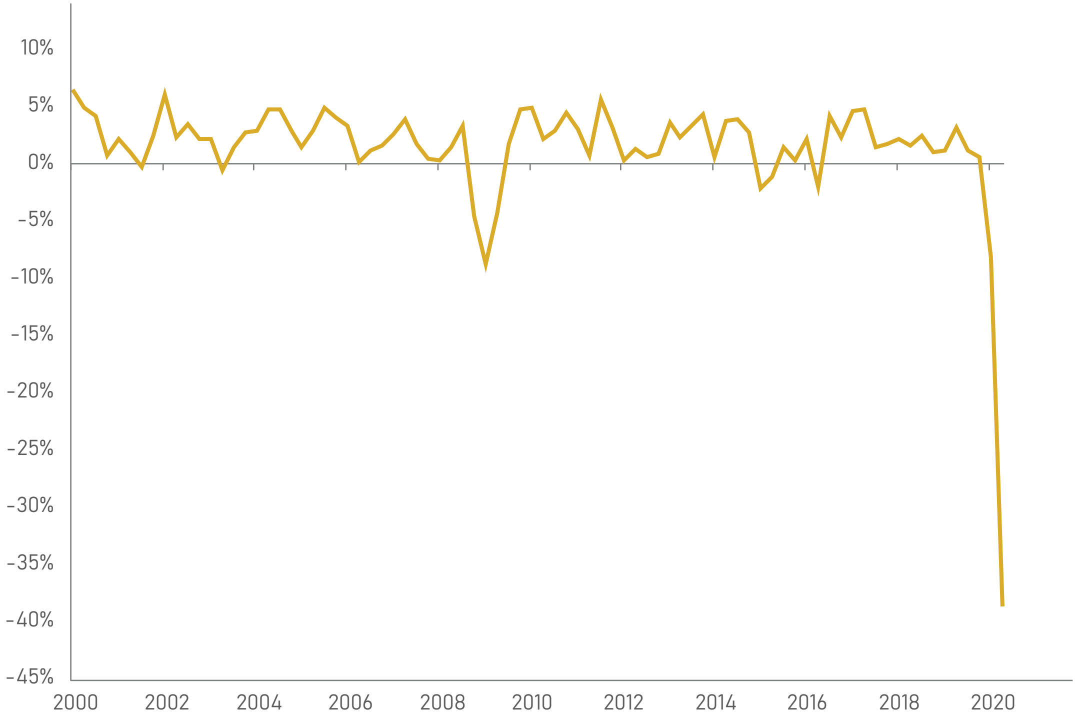


6.1 COVID-19 AND THE ECONOMY

Canadian GDP fell by an annualized rate of 38.6% in the second quarter of 2020. Figure 1 shows that this level of contraction in economic activity is significantly more severe than the 2008 financial crisis. Statistics from the labour and goods market are starting to show that the second quarter of 2020 will likely be the trough of economic activity. The recent increase in employment as well as different measures of sales (retail, restaurant purchases, etc.) implies that the third quarter will record a higher level of GDP.

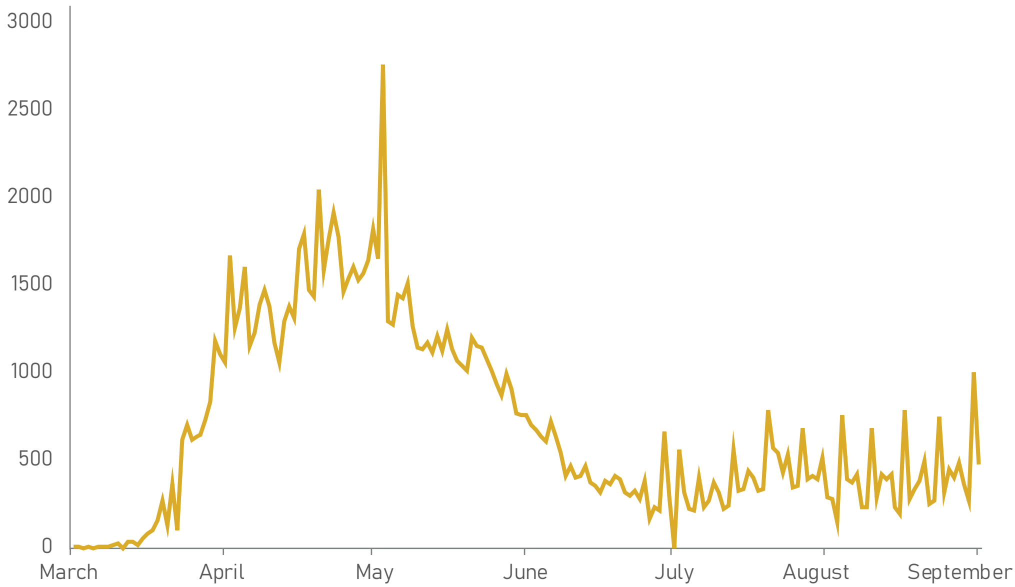
On the other hand, with major shutdowns of businesses across the country and limited social interactions, new cases of COVID-19 peaked in early May and started decreasing throughout May and June, as shown in Figure 2. As the economy started to partially reopen and social interactions increased, new cases stopped falling during July and August. While the number of new cases did not continue to decrease in July and August, Figure 2 also shows that Canada's partial reopening has not led to a widespread second wave of infections so far.

Figure 1: GDP Growth, Canada



Source: Statistics Canada

Figure 2: New COVID-19 Cases, Canada

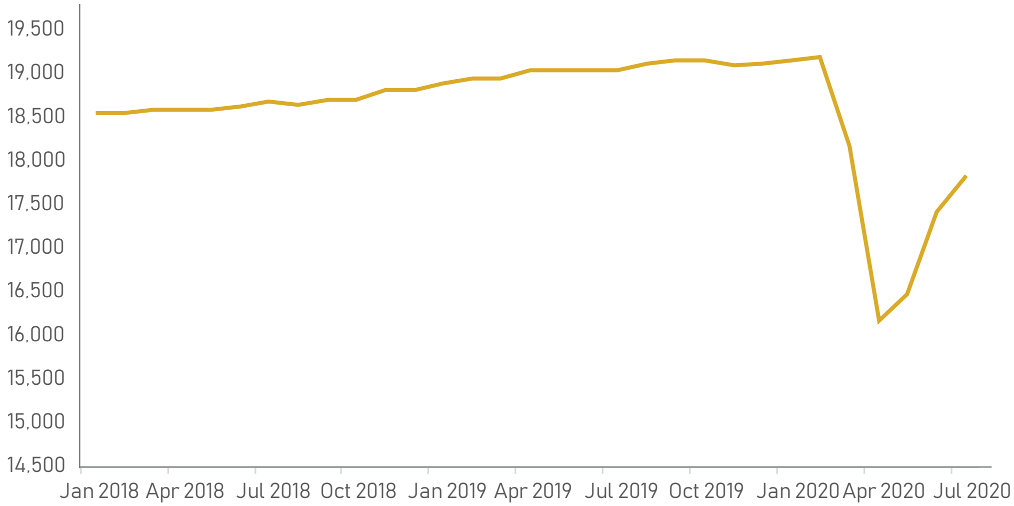


Source: Government of Canada

As the spread of COVID-19 became slower and more controlled in May, the labour market has continuously recorded expansions. As Figure 3 shows, after more than three million workers lost their jobs in March and April, the recent reopening has added back more than 1.6 million jobs, recovering half of the lost employment due to the COVID-19 shutdown. Though small in comparison to the size of the fall in March and April, this partial recovery in employment levels implies a rise in income for a group of workers who recently became unemployed, potentially leading to an increase in demand for goods and services.

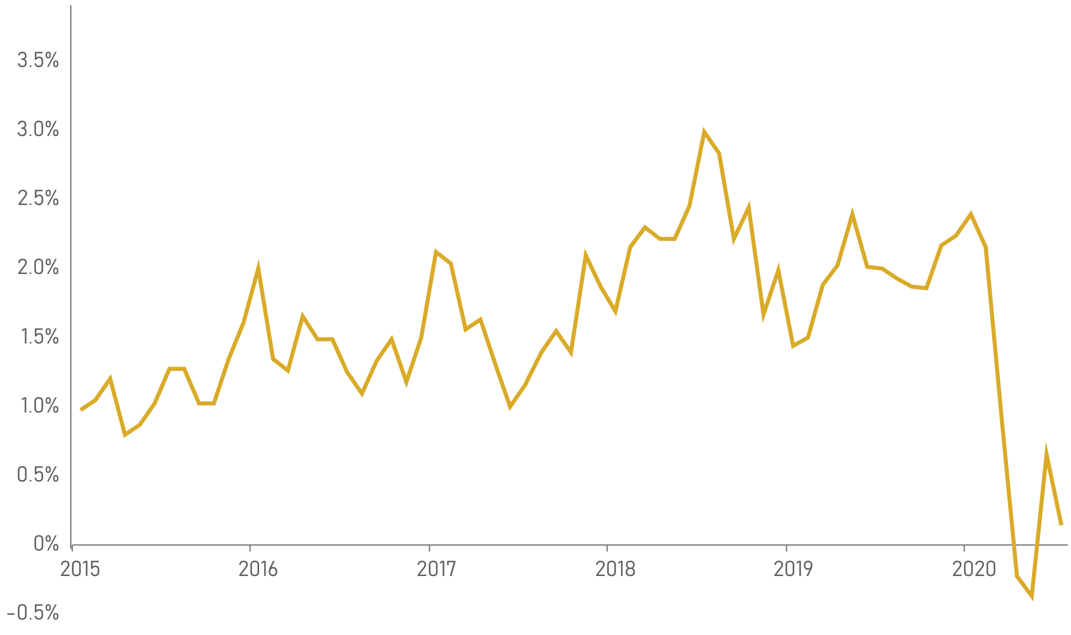
The negative demand shock has also put a downward pressure on prices. As demonstrated in Figure 4, the year-over-year inflation rate, previously near the 2% target, has fallen dramatically, turning negative (i.e. deflation) in April and May. The last two observations in June and July however, recorded positive, though still relatively small, inflation rates (0.66% and 0.15% respectively).

Figure 3: Employment (1000s), Canada



Source: Statistics Canada

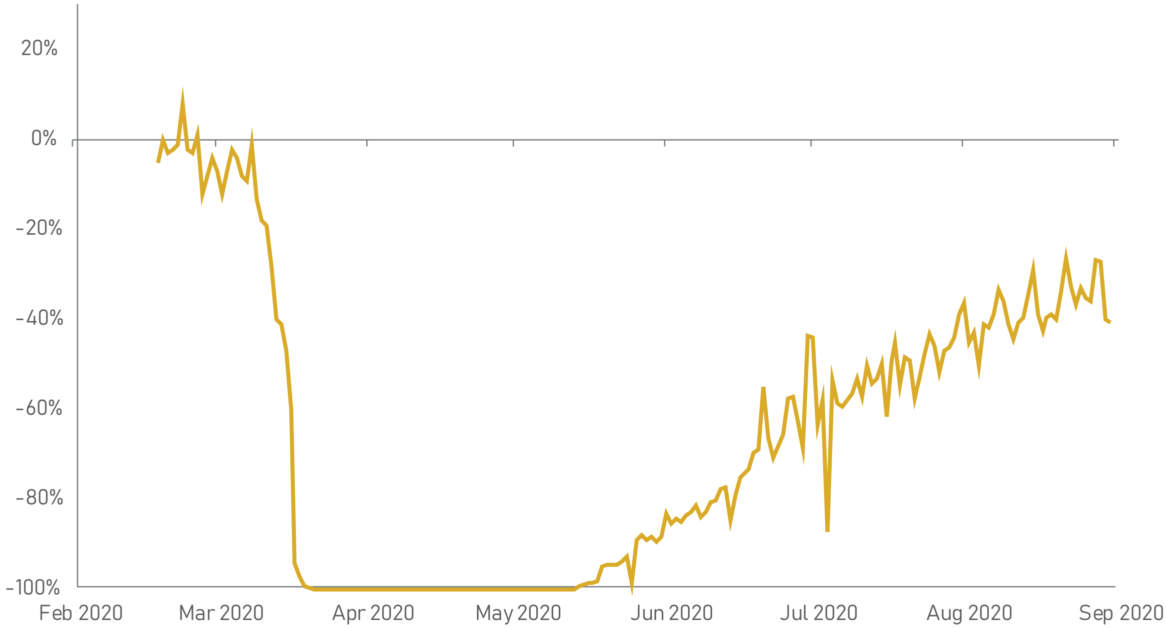
Figure 4: Inflation Rate, Canada



Source: Statistics Canada

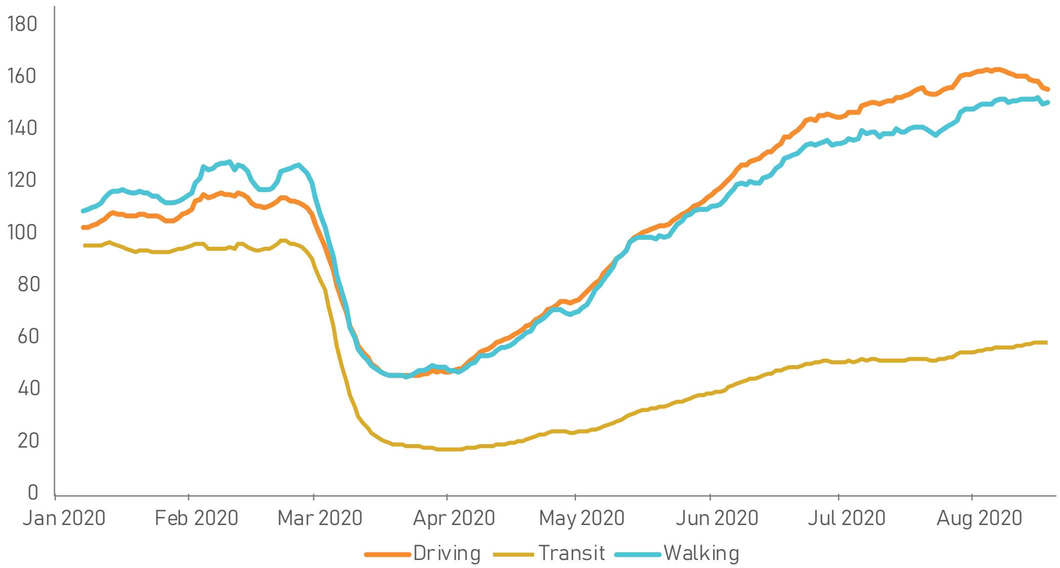
A similar pattern (rapid fall and subsequent expansion) can also be seen in the behaviour of individuals with respect to outdoor activities. Figure 5 shows diners have begun to return to visiting restaurants in-person. Similarly, Figure 6 displays a rebound in Canadians' transit choices. Though representing small fractions of total output in the economy, observing the reversal of patterns in outdoor activities (most severely affected by the pandemic) signals a wider rise in demand and sales for other sectors as well.

Figure 5: Seated Diners Growth, Canada



Source: OpenTable

Figure 6: Mobility Trends, Map Requests (Indexed 100=2020-01-13), 7 Day Average, Canada



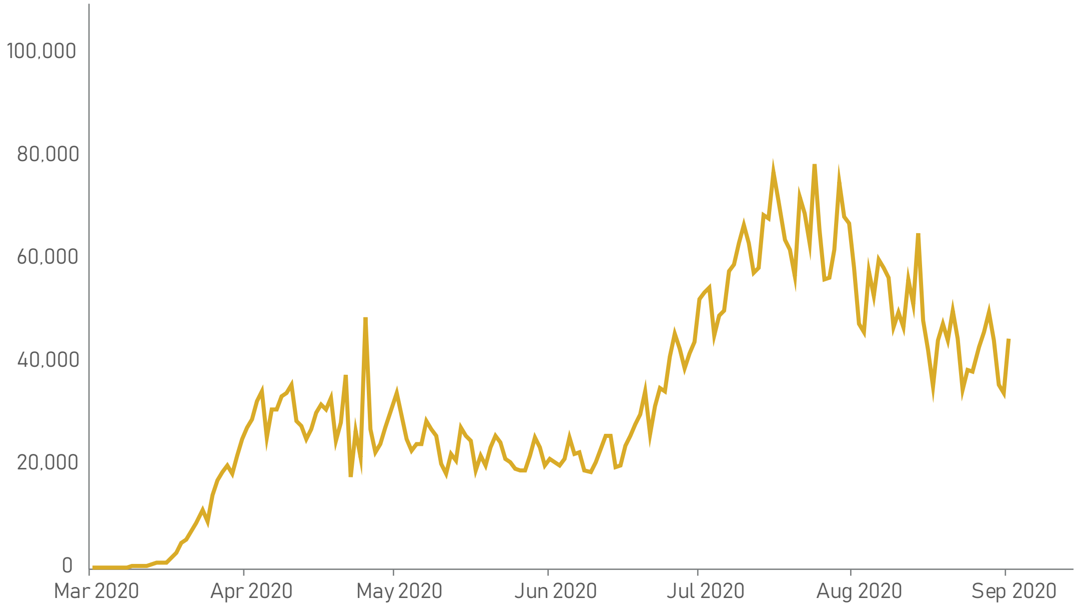
Source: Apple Mobility Trends

International Economy

While re-opening of the economy in Canada points to the starting phases of an economic recovery, major concerns remain regarding the sustainability and speed of this recovery. First, the increase in social interactions as a result of higher employment and outdoor activities could lead to a second wave and suppress or reverse the path of recovery. Recent data shows that the continuous drop in new cases of COVID-19 has stopped as the economy started to open up again. With an added number of interactions, coming months may observe a second wave of the pandemic, forcing a second round of national lockdown.

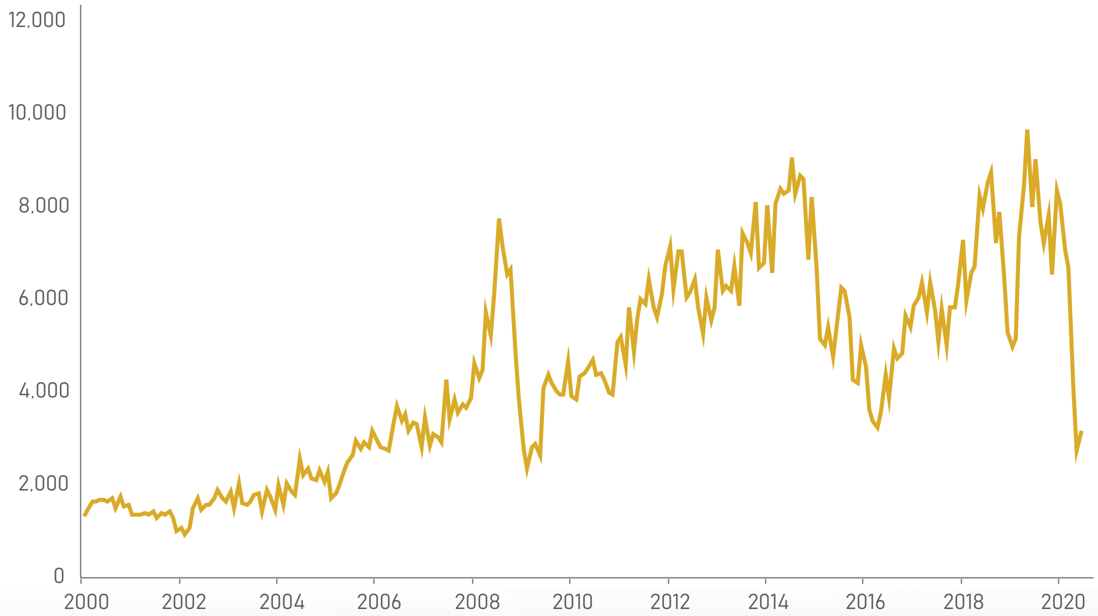
Second, with the global nature of the current pandemic, a fast and full recovery is not feasible without the international output and demand for Canadian products returning to their pre-crisis levels. As documented in Figure 7, the U.S. economy –Canada's largest trading partner– has not been as successful in controlling the spread of COVID-19, which is forcing several states to revisit their reopening strategy and return to lockdown. An example of a major Canadian export that has been negatively affected by low international demand is oil exports. Figure 8 shows that, as opposed to domestic demand rebounding from a trough, international demand for Canadian oil remains low.

Figure 7: New COVID-19 Cases, United States



Source: World Health Organization

Figure 8: Oil Exports ($MM), Canada



Source: Statistics Canada

6.2 THE STOCK MARKET

Market Outlook

The longest bull market in U.S. history turned into the quickest bear market (fall of 20% from peak) as market participants came to grips with the full effects of COVID-19. Global economic activity fell off a cliff towards the end of March and in Q2/20 as economies went into lockdown. Google mobility data that tracks changes in activity at places like retail outlets, recreation facilities, transit and workplaces showed activity falling by over 50% in Canada in April and 40% in the U.S. vs the prior year. GDP growth for the Q2/20 was severely negative and reached all-time lows.

The same mobility data mentioned above has now recovered significantly with both the U.S. and Canada 20% below year ago levels as at mid-September. Accordingly, Q3/20 should see a significant recovery in GDP growth as compared to Q2. However, returning to pre-COVID-19 levels of economic activity will likely not occur until late 2021 or 2022.

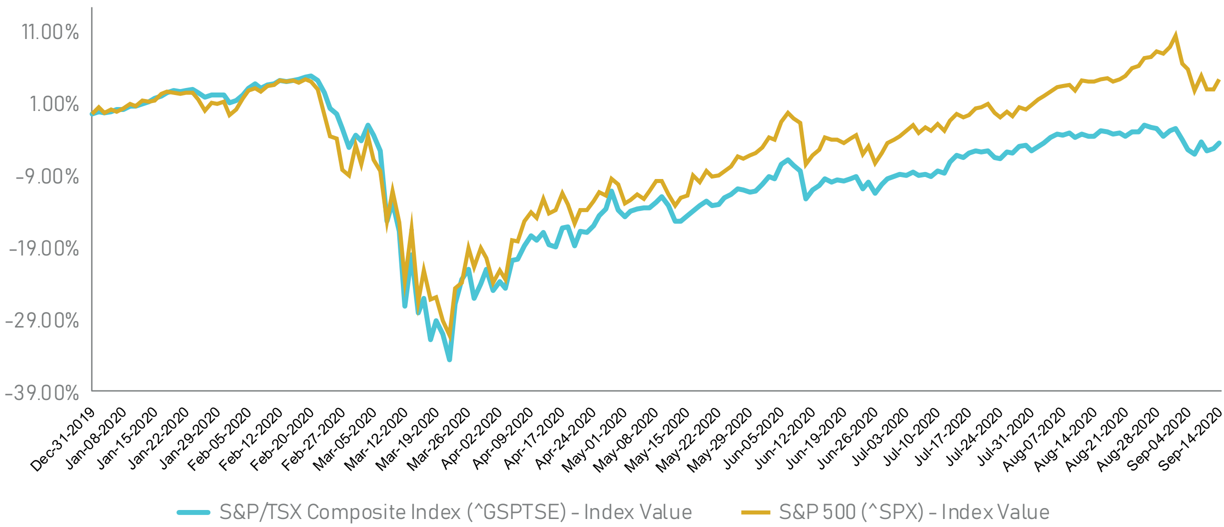
As usual, the stock market looked to the future after the severe downturn in March. Taking their signal from the unprecedented monetary (low rates) and fiscal (trillions in government assistance to furloughed workers and businesses) stimulus injected into the economy, investors bid stocks back up towards pre COVID-19 levels and in some cases (primarily technology) well above.

The path forward from here for the market is dependent on a couple of key milestones needed for the recovery to continue. First, expectations are for a vaccine late in 2020 or early 2021, any disappointment would be seen as a negative. Second, previously noted government assistance has been a huge bridge keeping the economy afloat. Eventually we will need to see a handoff from this assistance to the real economy. Taking the assistance away too soon or leaving it in place too long would have negative economic impacts. This balancing act will be tough to navigate.

Overall, we appear to be in for a long, slow recovery with GDP rising likely through the end of this year and the next two. With interest rates at all time lows, stock market valuations do not feel unreasonable. Currently the S&P/TSX Composite dividend yield is over 3% higher than the yield on a 10-year government of Canada bond. This provides further support for the market.

The road ahead will be bumpier and more volatile than usual. Maintaining government support as long as necessary and controlling the virus as quick as possible will be the two main drivers of global stock markets as we end 2020 and look forward to 2021.

S&P Market Returns



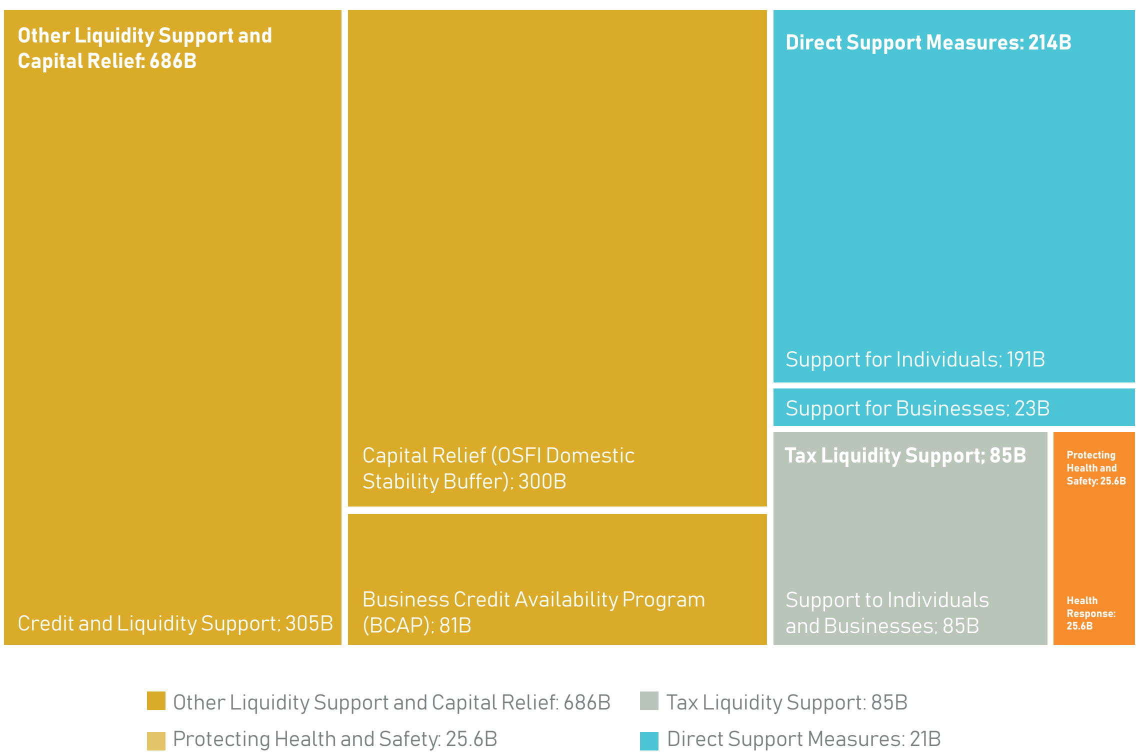
Source: Government of Canada

Disclaimer: The CWB economic outlook provides an overview of the Canadian economy. By analyzing the most salient issues the economy has been facing, and is expected to continue to face over the next quarter, we hope this document can be both informational and educational to the reader. That being said, this economic outlook is in no way an offer to sell or buy any financial instruments nor should it be considered a solicitation to do so. CWB Financial Group and any of its partners, employees or affiliates will not be liable for any losses in connection to the use of this economic outlook. The statistics and information contained herein are collected from reliable sources and are believed to be correct at the time of publication, but we make no guarantee, express or implied, as to its accuracy or completeness.

6.3 FISCAL AND MONETARY POLICY

Fiscal and monetary authorities across the world have executed expansionary policies to offset the sudden decline in production and national income. Canadian government has allocated more than one trillion dollars to its COVID-19 economic response plan, which is supporting Canadian households and businesses with direct payments as well as providing liquidity support and capital relief. This plan amounts to nearly 50% of annual Canadian GDP and aims at alleviating the fall in aggregate demand, prices, employment and national income. Figure 9 shows the size of different programs in the Economic Response Plan in Canada.

Figure 9: Canada's COVID-19 Economic Response Plan Overview Measures ($BB) as of August 11, 2020. Costs on 2020-2021 Budget

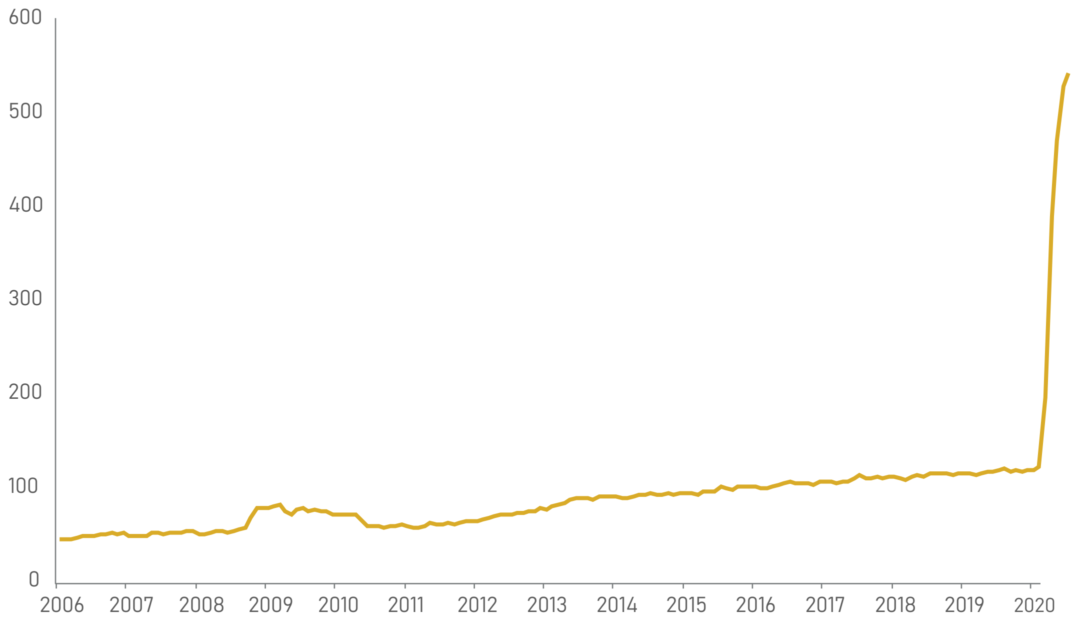


Source: Government of Canada

The monetary authorities have also accommodated the fiscal expansion of the federal government. Figure 10 shows that Bank of Canada has increased its asset holdings by more than four-fold. The asset increases have occurred via two main channels. First, Bank of Canada has purchased government bonds from the public, crediting the accounts of bond holders in commercial banks. Second, Bank of Canada has purchased securities from the banking sector through repurchase agreements (REPO). When entering into REPO agreements with the banks, the central bank holds less liquid assets of commercial banks such as government bonds or loans and provides liquidity to the banks for a pre-determined period. The agreement ends with the commercial bank repurchasing its assets, returning the liquidity to the central bank at the maturity date. Consequently, Bank of Canada holds various risky and less liquid assets such as government and corporate bonds, business loans and mortgages, while banks have access to enough liquidity in the times of elevated uncertainty.

Both these purchase types lead to higher reserves in the banking system, enabling the financial system to extend credit to the public. Alongside increasing the quantity of money in the economy, Bank of Canada has also reduced the price of money via lowering its policy rate to 0.25%. This lowers borrowing costs for Canadian businesses, allowing them to increase investment and capital spending.

Figure 10: Bank of Canada Balance Sheet (CAD, Billions)



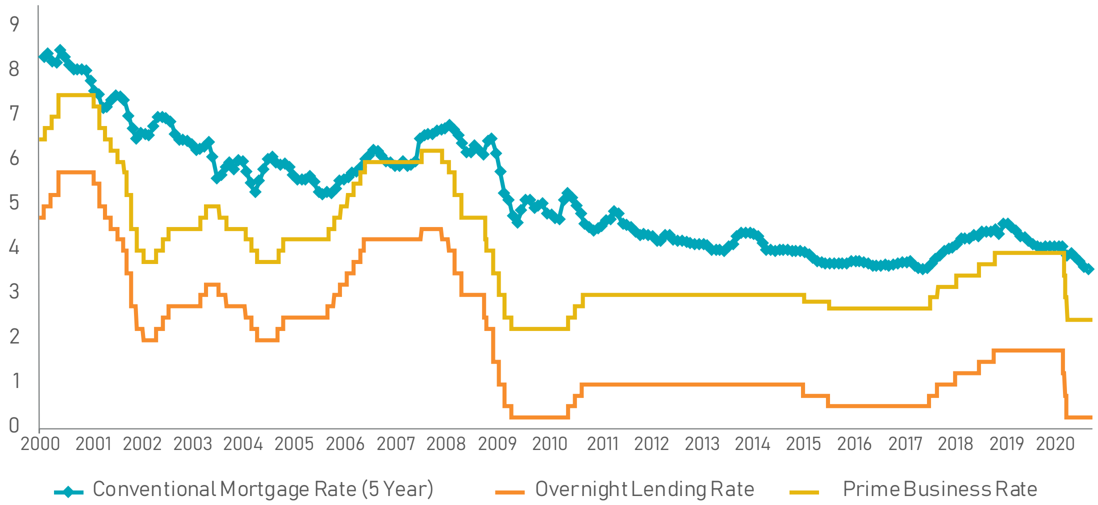
Source: Statistics Canada

6.4 FINANCIAL SYSTEM

The expansionary monetary policy together with lowering regulatory restrictions (such as decreased capital requirements) prevents a shortage of liquidity in the financial system. However, the severe and sudden reduction in economic activity lowers the cash flow of businesses and households and hinders their ability to make loan payments to financial institutions. The following charts show the movements of interest rate and credit in the economy after the COVID-19 crisis. As shown in Figure 11, the overnight interest rate has been lowered by Bank of Canada to zero. The reduction in the interbank interest rate has also led to decreases in the borrowing costs of households and businesses. Figure 12, on the other hand, shows that the amount of credit extended to businesses and households has slowed down since the start of the COVID-19 economic crisis. In fact, the plot shows that, for the first time over the past two decades, the consumer credit growth has fallen below zero. The high levels of uncertainty about the future state of the economy alongside widespread direct payments to economic actors have lowered the willingness of businesses and households to demand new loans in spite of the lower borrowing costs.

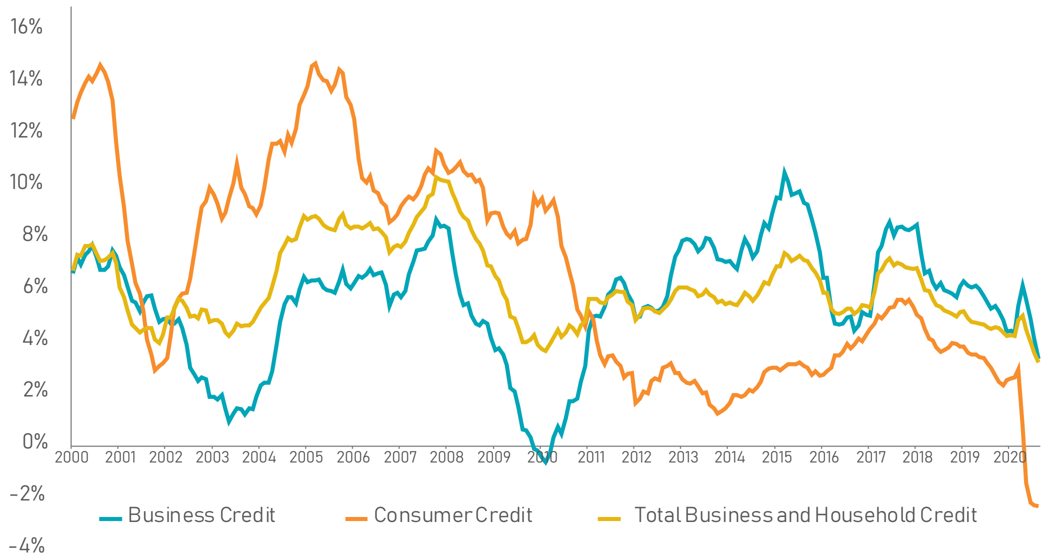
Large-scale economic downturns, and the national income reduction associated with them, usually lead to a rise in loan delinquencies and defaults, putting pressure on financial institutions. Due to the widespread loan and mortgage deferment programs, put in place to support borrowers during the COVID-19 crisis, it is currently not possible to see the full extent of the effect on defaults and delinquencies. As shown by Figure 13 and Figure 14, business and consumer insolvencies have actually dropped after the introduction of loan deferrals. However, as the six-month loan relief periods expire in September, loan defaults are expected to rise. History of similar (and milder) economic slowdowns shows that an increase in default rates is inevitable. With the uncertainties regarding the second wave of infections, vaccine development and the speed of returning to pre-crisis levels of national income, it is difficult to quantify the size of the rise in loan defaults to come.

Figure 11: Canadian Interest Rates



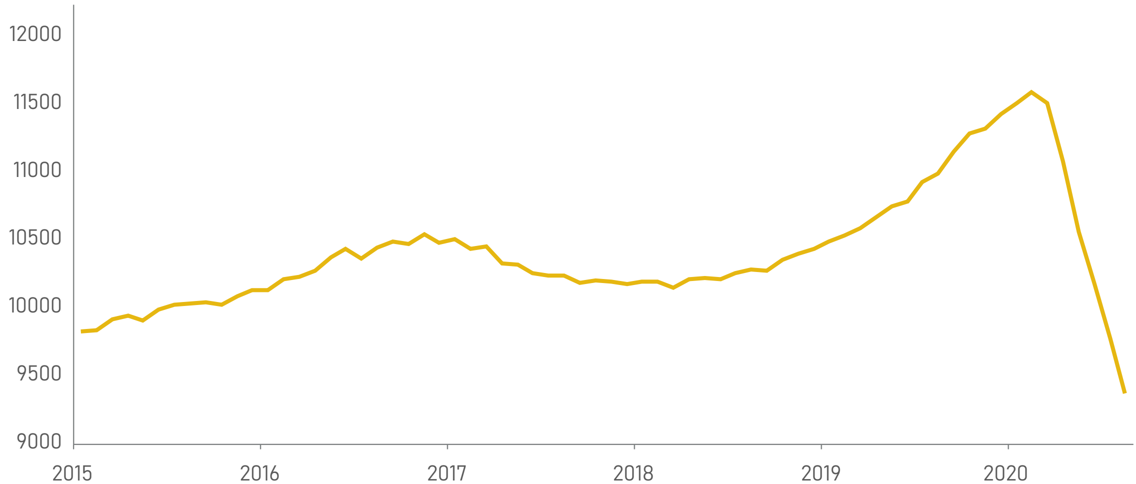
Source: Statistics Canada

Figure 12: Credit, Year-Over-Year Growth, Canada



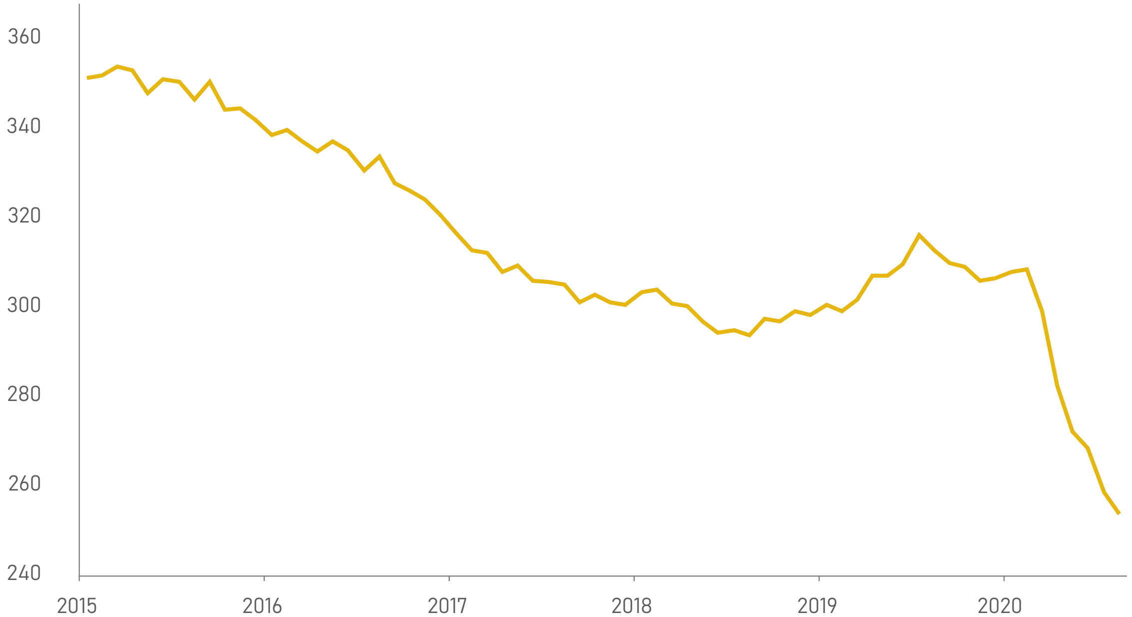
Source: Statistics Canada

Figure 13: Consumer Insolvencies (12 month average Canada)



Source: Office of the Superintendent of Bankruptcy

Figure 14: Business Insolvencies (12 month average Canada)



Source: Office of the Superintendent of Bankruptcy

6.5 THE OUTLOOK

Second quarter of 2020 recorded one of the most severe reductions in GDP. The most recent employment and sales figures show that the economy has entered its recovery phase. More than half of the jobs lost to the COVID-19 shutdown have recovered and major sales indicators show that consumer demand has partially recovered as well. It is therefore expected that the third quarter GDP will will record a partial rebound towards pre-crisis levels of economic activity.

However, there remains considerable uncertainty over how quickly the economy will be able to return to pre-pandemic levels and the ultimate impact that it will have on consumers, companies and financial institutions. Critical factors to the recovery of the Canadian economy are whether the continued re-opening could lead to a second wave of infections (with the most recent data not able to rule out this possibility) and whether its largest trading partners will be able to contain their COVID-19 outbreaks. Although the Bank of Canada and the the government have implemented extraordinary fiscal and monetary stimulus programs that have ensured liquidity in financial markets, there is little information available to evaluate the impact of the pandemic on Canadian banks, as delinquency data is uninformative due to the nation-wide loan deferral programs.

The wide range of plausible outcomes following the next six to eight months still includes the possibility of significant losses to businesses and retail creditors, due to mass loan defaults. On the other hand, developments of a vaccine or cure for COVID-19 could accelerate the reopening process for the economy, and hence the the return to pre-crisis levels of employment and output.

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.**
The cost ratios also lag by two years, the most current operating data being 2018.

7.1 COST OF SALES

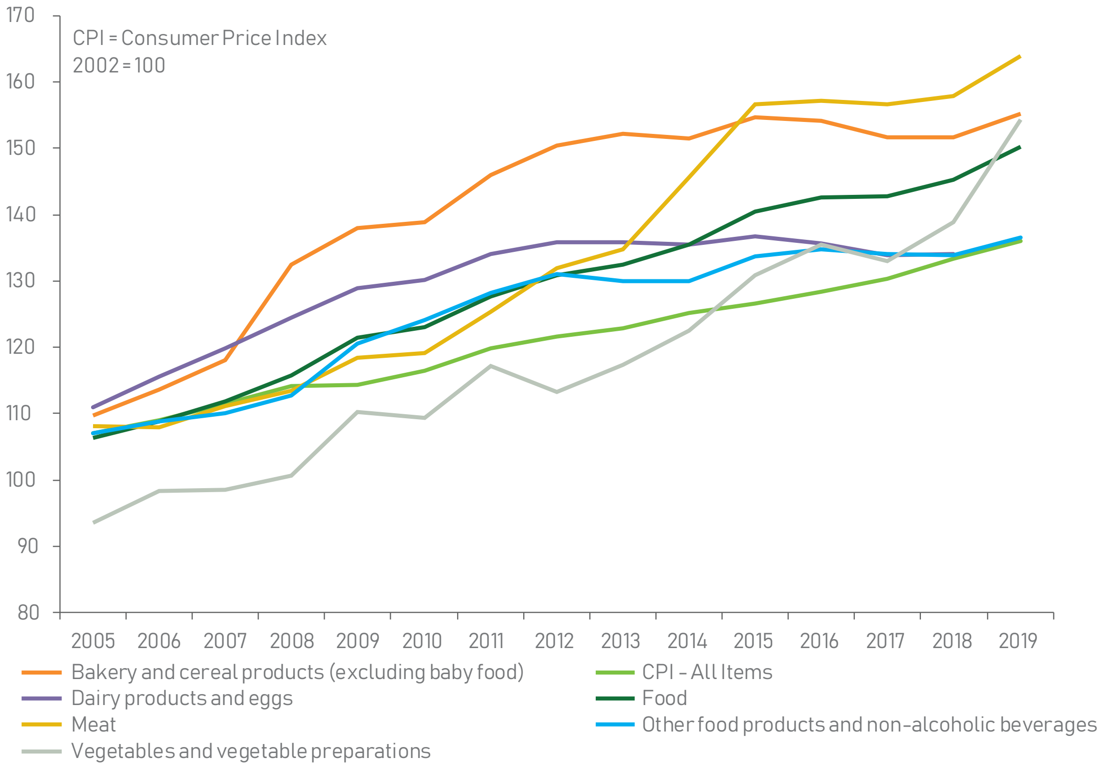
Restaurant Canada's 2020 Operations Report reports that cost of goods sold represented 34.5% of foodservice revenues in 2018 (the most recent year for which data is available) compared to 34.8% of sales in 2016.

Historical Average Cost of Goods Sold as a Percentage of Revenues – 2005 to 2018

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

The cost of goods sold as a percentage of revenues decreased by 0.9% between 2018 and 2017. The following chart tracks consumer price indices (representing price paid by consumers) for various core ingredients classifications.

Consumer Price Indices – 2005 to 2019

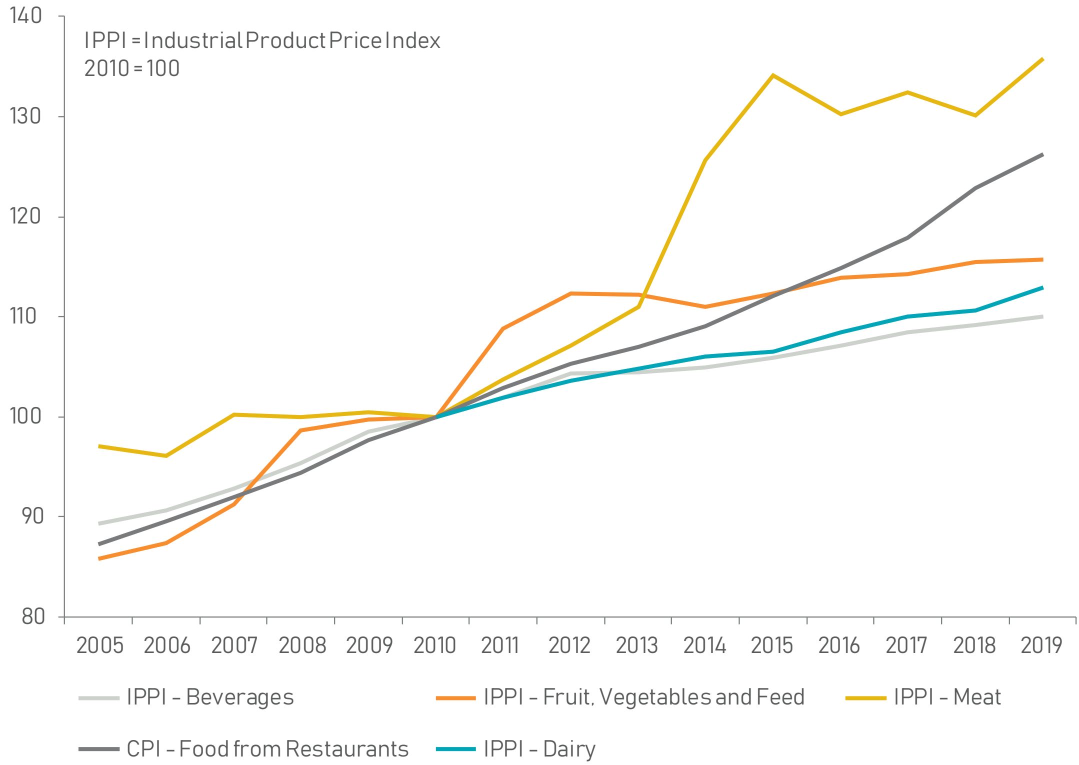


Source: Statistics Canada

Price indices for all ingredient categories increased in 2019. Food on average increased by 1.9 %. Vegetables and vegetable preparations saw the greatest price index increase (11.1%) surpassing the index for food to match bakery and cereal products as the second greatest index value after meat.

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 – 2005 to 2019

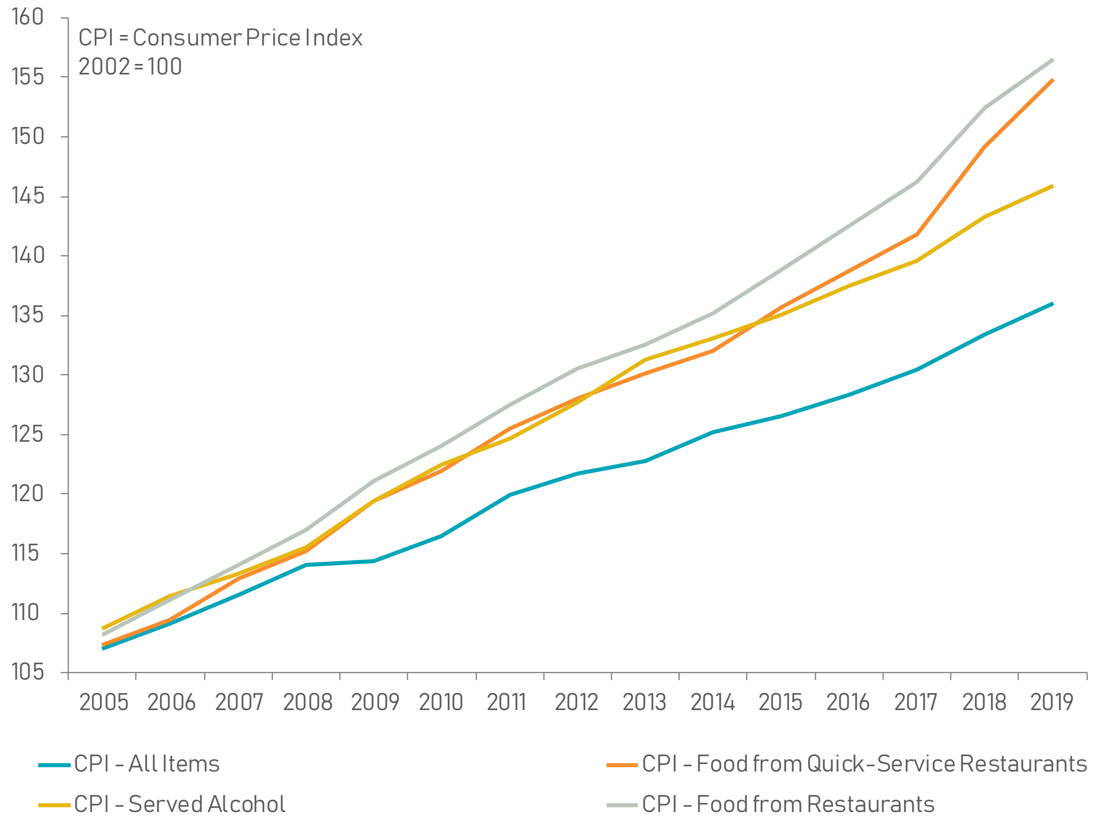


Source: Statistics Canada

As shown, prices for food from restaurants (2.7% greater than 2018) exceeded the growth observed for select food commodity categories except for meat which increased by 4.5%. Producer prices for dairy increased by 2.1%. Interestingly, while consumer prices for vegetables and vegetable preparations increased by 11.1%, the producer price indices for vegetable were relatively flat (0.2%). Beverages increased modestly (0.8%).

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 – 2005 to 2019



Source: Statistics Canada

Unlike general inflation, menu prices did not decline during the 2009 recession. The prices for food and alcohol purchased in restaurants increased at greater rate and with less variability than general inflation until 2017. 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 2021.

In 2021 Compared to 2020, Cost of Sales are Expected to:

Increase by greater than 2.0%	16%
Increase by 1.6% to 2.0%	12%
Increase by 1.1% to 1.5%	16%
Increase by 0.6% to 1.0%	4%
Increase by 0.1% to 0.5%	20%
Remain flat	16%
Decrease by 0.1% to 0.5%	4%
Decrease by 0.6% to 1.0%	4%
Decrease by 1.1% to 1.5%	8%
Decrease by 1.6% to 2.0%	0%
Decrease by greater than 2.0%	0%

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

The majority of respondents (68%) expect cost of sales as a percentage of revenues to increase in 2021 up from 60% in 2019. Sixteen per cent of participants believe cost of goods sold will increase by greater than 2% in 2021.

Interpretation of this and other cost ratio exhibits between 2018/2019 ratios is further 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 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. Not surprisingly, a great deal of uncertainty exists for growers, producers, processors and distributors. Producers, in particular, are experiencing challenges forecasting given the current variability in restaurant demand.

Product shortages have existed as a result of the unpredictability of demand, often on short notice. Shortages on products where demand has increased as a result of operating response to COVID-19 and the related regulations on restaurant operation have been particularly challenging (e.g., takeout containers, portioned condiments, PPE, etc.). Distributors' vendor fill rates have been at historic lows and directly relate to vendor supply rates. During the first wave of the pandemic, distributors were stuck with perishable products and not able to offload everything to retail channels (the increase in retail food sales have not captured all of the lost restaurant demand). Inventory management strategies to avoid similar losses in a second wave of the pandemic are leading to supply challenges. Some restaurant buyers are looking for supply two weeks at a time, which adds to the challenges for processors in forecasting demand. Retailers, on the other hand, have asked for supply to be stored; however, the storage space, especially refrigerated and frozen storage space, required to meet the demand may not be available. The potential of the second wave is impacting supply. In the second week of October, Ontario placed renewed restrictions on in-restaurant dining. The impact on distributors and food purchases is currently unknown; however, the impact of the renewed restrictions will likely affect food processors' ability to forecast demand.

Foodservice distributors' sales have declined 10-15% year-over-year. Chain restaurants food purchases have fared better than "street business" (Independent restaurants), where sales have declined 25-30%. When the COVID-19 pandemic hit in mid-March, restaurant food demand dropped by as much as 70%. By the end of August, demand had returned to about 80% of August 2019. In September, demand began dropping again. With colder weather on the horizon, those willing to dine outdoors on patios are expected to decline. At the time of publication, some provincial governments were beginning to further restrict restaurant dining, especially indoor dining. December is traditionally a good month for the foodservice industry with holiday parties, which will likely be muted or not occur at all in 2020. It may be quite a while until demand for food by restaurants returns to normal.

Demand shifted in mid-March to more food being prepared at home. Food retailers have been encouraging this shift in demand by providing meal kits, recipes, etc. While dining away from home has subsequently increased, the increased in-home cooking and baking has continued.

Prices have been escalating for food, with some predictions on food inflation ranging from 2.5% to 3.0% in 2020. Price trends, despite the pandemic, have been similar to previous years. Distributors are trying to avoid increasing prices to restaurants and are hoping for continued menu inflation to release the pressure on food pricing. The Canadian Chamber of Commerce and Restaurants Canada have been advocating for relief on restaurant operating debts to allow them to purchase again on credit, which will be essential for many restaurants to stay in business.

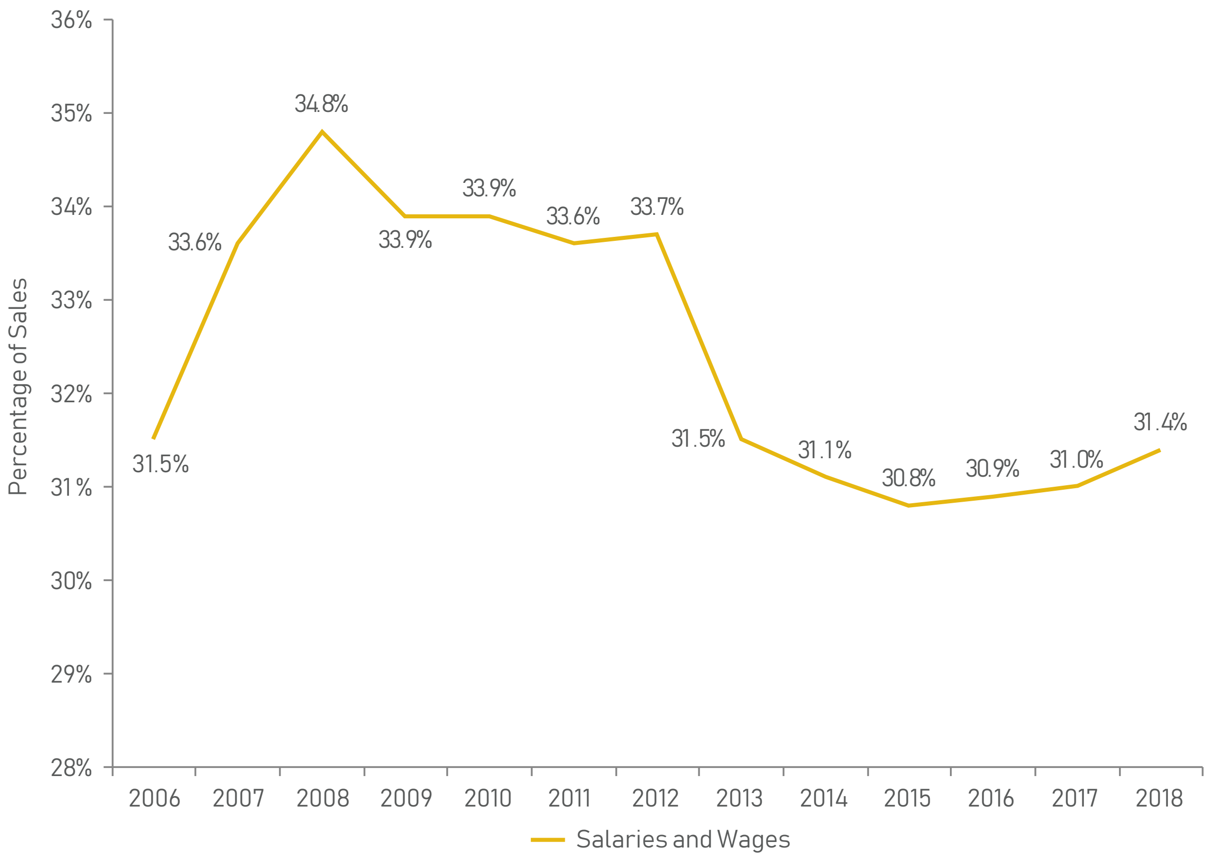
2020 was a good year for many Canadian crops. One exception has been potatoes where a dry summer adversely impacted crop yields. Most products destined for foodservice have been diverted to retail channels and export markets. Some Canadian seafood products, such as lobster and oysters, are primarily consumed in restaurants and the decline in FSR restaurant dining has greatly affected demand for such products.

Labour challenges are affecting food prices. Traditionally, foreign workers are used to harvest crops and the supply of such labour was challenging this season. Initiatives encouraged unemployed domestic workers to take such jobs were relatively unsuccessful as those participating in the program were not as productive as the experienced foreign workers and many chose not to participate, opting instead to take advantage of the Canada Emergency Response Benefit (CERB).

7.2 LABOUR COSTS

Restaurants Canada's 2020 Operations Report indicates that salaries and wages represented 31.4% of foodservice revenues in 2018 (the most recent year for which data is available).

Historical Average Labour Cost as a Percentage of Revenues – 2006 to 2018



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 2020, provincial and territorial minimum wages for adult workers will have increased by 51% 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	$14.25	$14.60	$13.46	$16.00	$12.71	$12.50	$12.65	$11.90	$12.55	$11.70	$11.45	$12.15
Liquor Servers/ Workers Receiving Gratuities		$12.45	$13.95				$10.45						
First Job/Entry Level										$11.05			
Students (Under 18)	$13.00	$13.40											

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.*

By the end of 2020, Nunavut will have the greatest adult minimum wage at $16.00 per hour and Saskatchewan will have the lowest adult minimum wage at $11.45 per hour.

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 – 2013 to 2021

Jurisdiction	Current	2013	2014	2015	2016	2017	2018	2019	2020	2021
AB	**$15.00**	1-Sep-13 $9.95	1-Sep-14 $10.20		1-Oct-16 $12.20	1-Oct-17 $13.60	1-Oct-18 $15.00			
BC	**$14.60**			1-Sep-15 $10.45	15-Sep-16 $10.85	15-Sep-17 $11.35	15-Jun-18 $12.65	1-Jun-19 $13.85	1-Jun-20 $14.60	1-Jun-21 $15.20
MB	**$11.90**	1-Oct-13 $10.45	1-Oct-14 $10.70			1-Oct-17 $11.15	1-Oct-18 $11.35	1-Oct-19 $11.65		
NB	**$11.70**		31-Dec-14 $10.30		1-Apr-16 $10.65	1-Apr-17 $11.00	1-Apr-18 $11.25	1-Apr-19 $11.50		
NFL	**$12.15**		1-Oct-14 $10.25	1-Oct-15 $10.50		1-Apr-17 $10.75 1-Oct-17 $11.00	1-Apr-18 $11.15			1-Apr-20 CPI + $0.25 1-Oct-21 Apr + $0.25
NWT	**$13.46**			1-Jun-15 $12.50			1-Apr-18 $13.46			
NS	**$12.55**	1-Apr-13 $10.30	1-Apr-14 $10.40	1-Apr-15 $10.60	1-Apr-16 $10.70	1-Apr-17 $10.85	1-Apr-18 $11.00	1-Apr-19 $11.55		
NV	**$16.00**				1-Apr-16 $13.00					
ON	**$14.25**		1-Jun-14 $11.00	1-Oct-15 $11.25	1-Oct-16 $11.40	1-Oct-17 $11.60	1-Jan-18 $14.00			
PE	**$12.65**		1-Jun-14 $10.20 1-Oct-14 $10.35	1-Jul-15 $10.50	1-Jun-16 $10.75 1-Oct-16 $11.00	1-Apr-17 $11.25	1-Apr-18 $11.55	1-Apr-19 $12.25		
QC	**$13.10**	1-May-13 $10.15	1-May-14 $10.35	1-May-15 $10.55	1-May-16 $10.75	1-May-17 $11.25	1-May-18 $12.00	1-May-19 $12.50		
SK	**$11.45**		1-Oct-14 $10.20		1-Oct-16 $10.72	1-Oct-17 $10.96	1-Oct-18 $11.06	1-Oct-19 $11.32		
YK	**$13.71**	1-Apr-13 $10.54	1-Apr-14 $10.72	1-Apr-15 $10.86	1-Apr-16 $11.07	1-Apr-17 $11.32	1-Apr-18 $11.51	1-Apr-19 $12.71		

Source: Canada Ministry of Labour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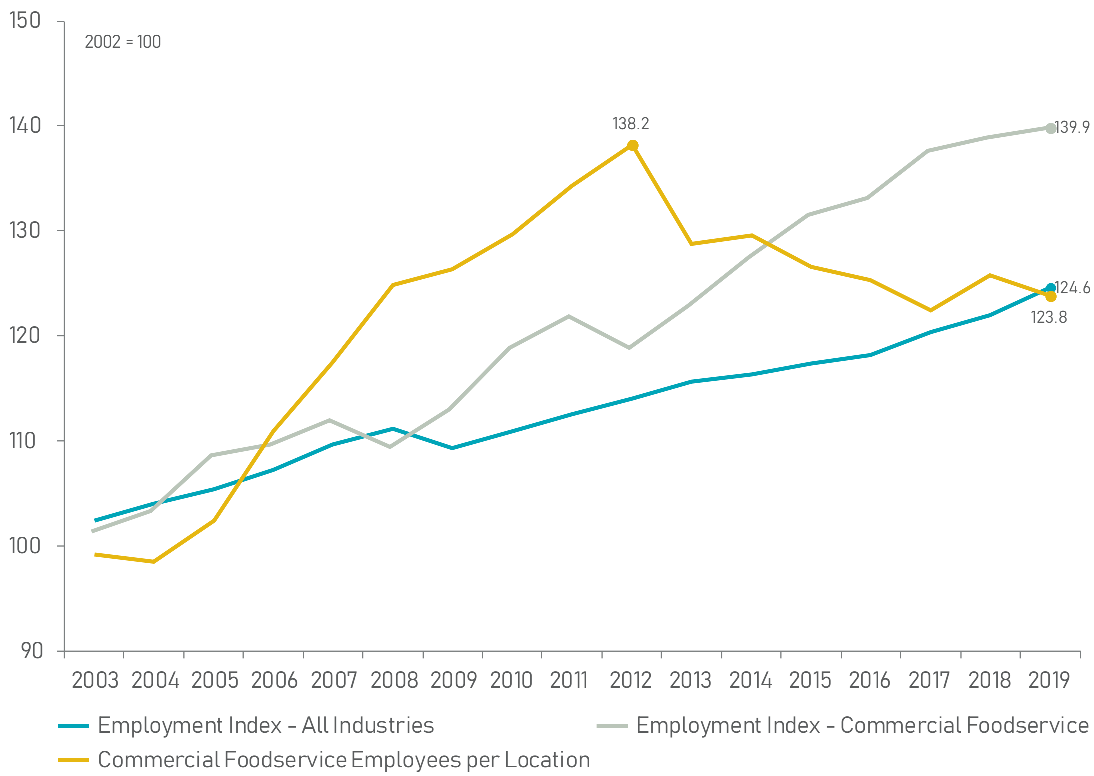
The greatest increase in 2020 occurred in Nunavut, where minimum wage increased 23% from $13.00 to $16.00 followed by Nova Scotia, where minimum wage increased 9% from $11.55 to $12.55. British Columbia's minimum wage will increase to $15.20 per hour by 2021.
The following chart shows employment indexed to 2002 for all industries and foodservice as well as number of employees per foodservice location from 2003 to 2019.

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 grew at a faster rate than national employment until 2019.

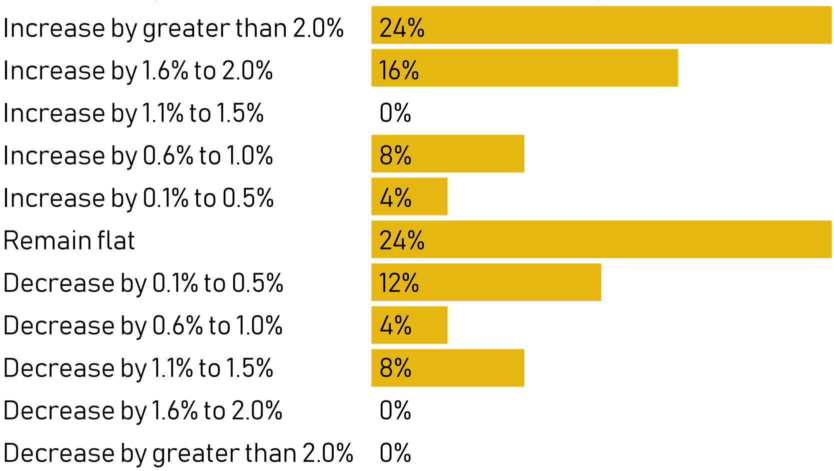
The average number of employees per location increased significantly from 8.4 in 2003 to 11.7 in 2012 before declining to 10.3 in 2017. Despite increases to minimum wage in major markets that might normally motivate reduction in employment, the average number of employees per restaurant increased by 3% to 10.5 in 2019.

The fact that employees per location declined since 2012 while total number of employees increased, suggests increased number of locations operating with fewer employees.

By April 2020, Restaurants Canada reported approximately 817,000 food service employees had either been laid off or were not receiving hours, representing approximately 64% of 2019 total foodservice industry employment.

Respondents to the C-Suite Survey were asked how they expected labour cost as a percentage of revenues to change in 2021.

In 2021 Compared to 2020, Labour Costs are Expected to:



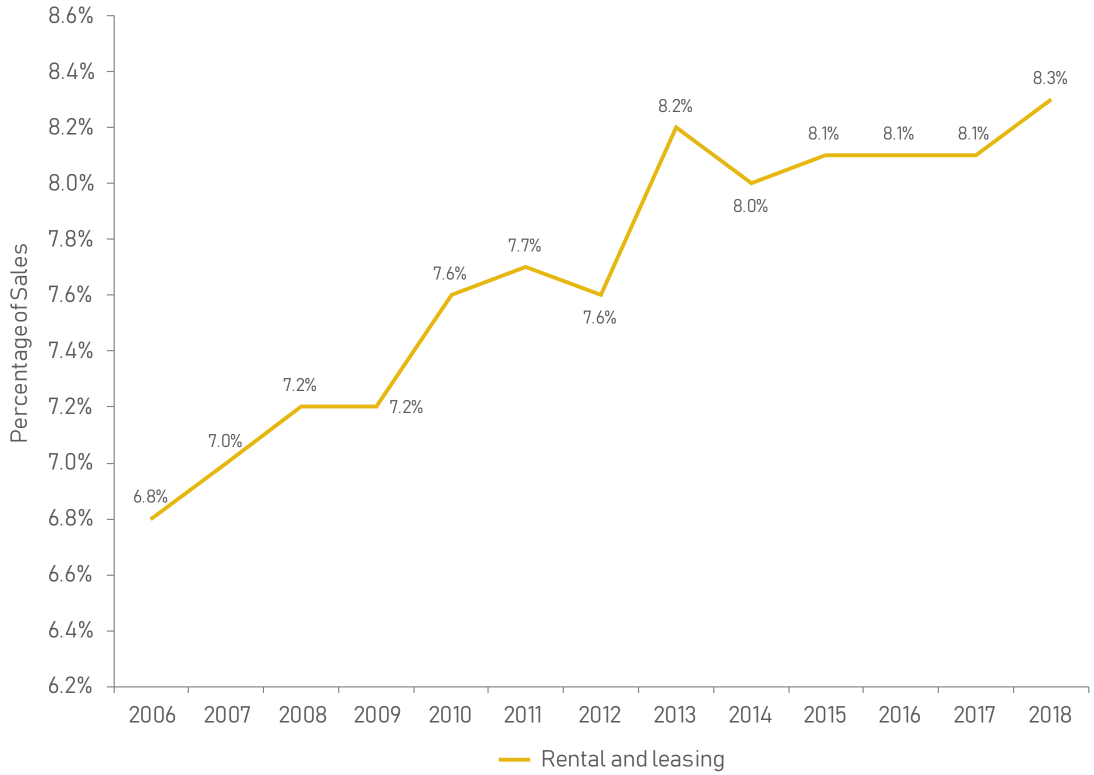
Source: fsSTRATEGY Inc. 2020 C-Suite Survey

Most respondents (52%) expect labour cost as a percentage of revenues to increase in 2020, down from 77% in 2019. Many respondents (40%) believe labour costs will increase by 1.6% or greater, while 24% of respondents believe labour costs will remain flat in 2021. Twenty-four per cent of respondents believe labour cost may decrease in 2021, compared to 12% in 2019.

7.3 RENTAL AND OCCUPANCY COSTS

The table below shows rental and occupancy costs as a percentage of foodservice revenues from 2006 to 2018 (the most recent year for which data is available).

Historical Average Rental and Leasing Cost as a Percentage of Revenues – 2006 to 2018

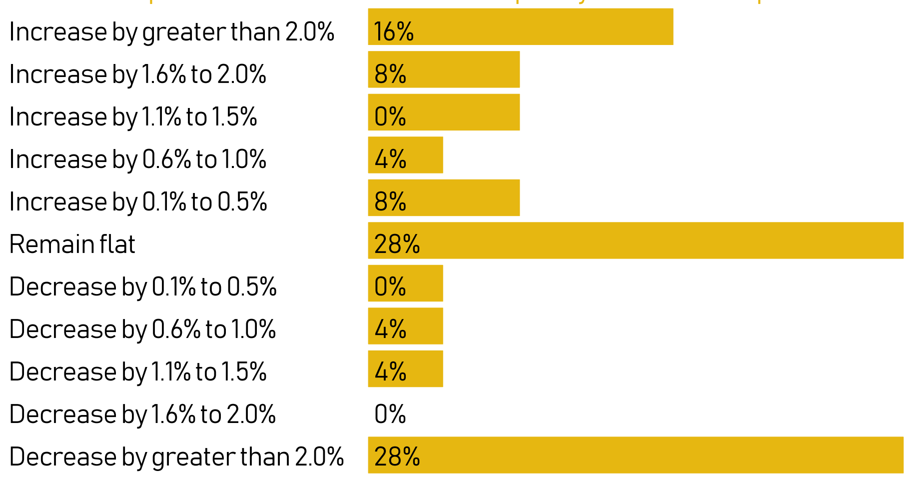


Source: Restaurants Canada, 2018 Operations Report

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 2021.

In 2021 Compared to 2020, Rent and Occupancy Costs are Expected to:



Source: fsSTRATEGY Inc. 2020 C-Suite Survey

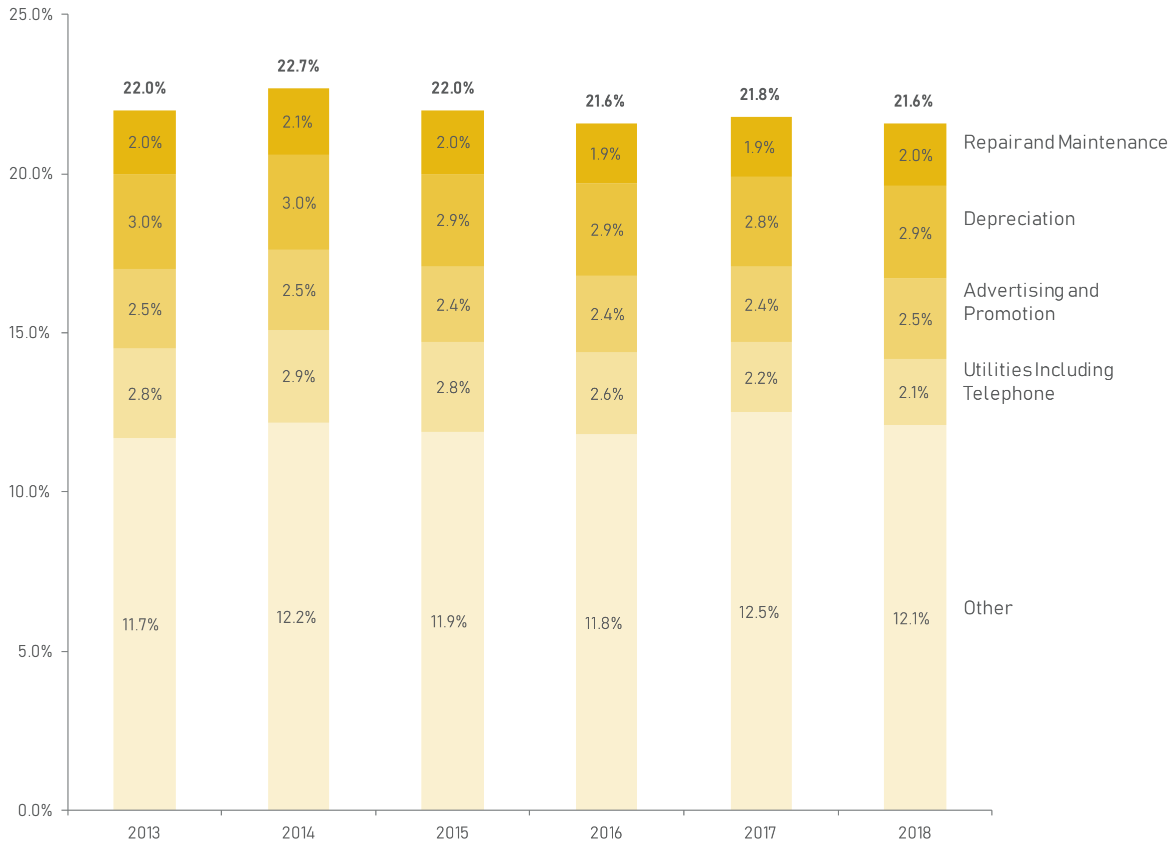
Expectations on rent and occupancy costs vary among respondents with 36% expecting an increase, 28% expecting costs to remain flat and 36% expecting costs to decrease as a percentage in 2021. fsSTRATEGY interviewed landlords to understand the factors affecting rental trends and expenses for restaurants in Canada. Given COVID-19, the supply-demand curve for restaurant sites has changed drastically. Landlords are expected to get progressively more aggressive as the number of vacancies increase and attracting tenants becomes more difficult. This is true in most Canadian markets; however, there are some exceptions, such as Vancouver, where the restaurant market has remained relatively strong. Where restaurant supply has favoured landlords for several years, the advantage has shifted to tenants; however, landlords still seek strong operators with a track record of success and are willing to take less rent for a better tenant. Rents, on average, are improving for restaurateurs in most Canadian markets. Softness in demand for B and C class space is resulting in lower rents. Class A sites, especially those with drive-thrus, continue to generate a rent premium.

The collapse in brick and mortar retail has increased the number of restaurant sites in malls, with landlords shifting their mix of restaurants in shopping centres. Restaurant inventory in some malls has increased by 50%; however, traffic in some of these malls is declining.

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 2020 Operations Report indicates that total other operating costs represented 21.6% of foodservice sales in 2018, 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

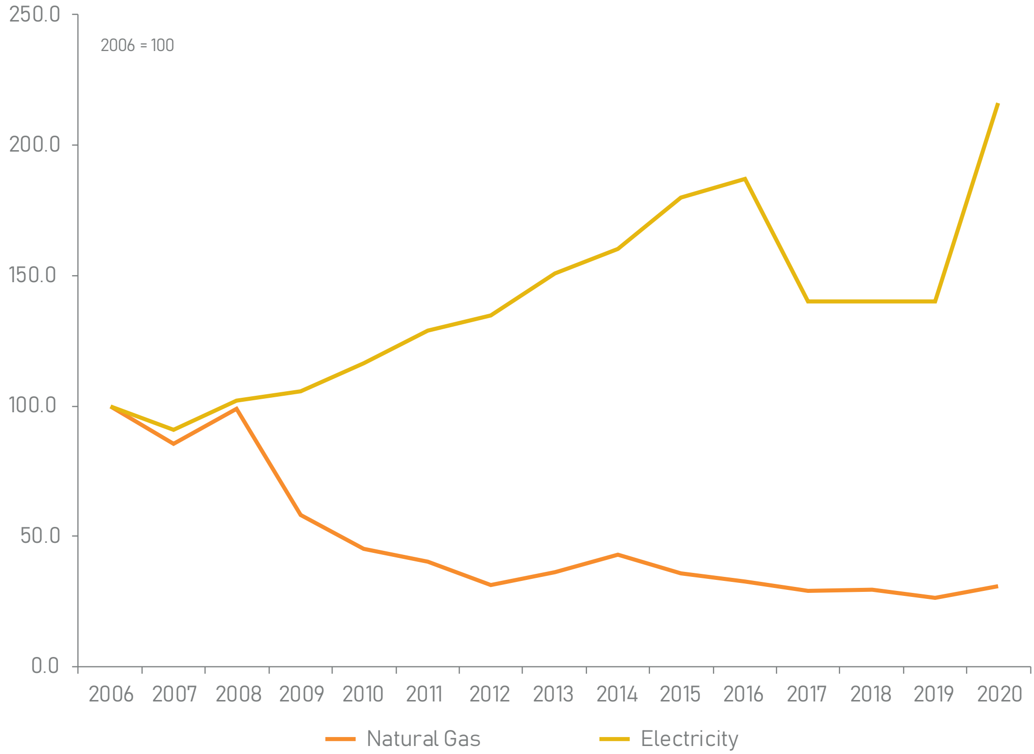


Source: Restaurants Canada, Statistics Canada

As shown, other expenses have maintained an approximate 22% share of revenues for the past five years. Repair and maintenance costs increased by 0.1 percentage points in 2018 compared to 2017; utilities and depreciation each increased by 0.1 percentage points. Depreciation and utilities declined slightly relative to sales. The remaining (other) expenses decreased by 0.4 percentage points in 2018.

The following graph compares commodity prices for natural gas and electricity.

Energy Commodity Price Indices

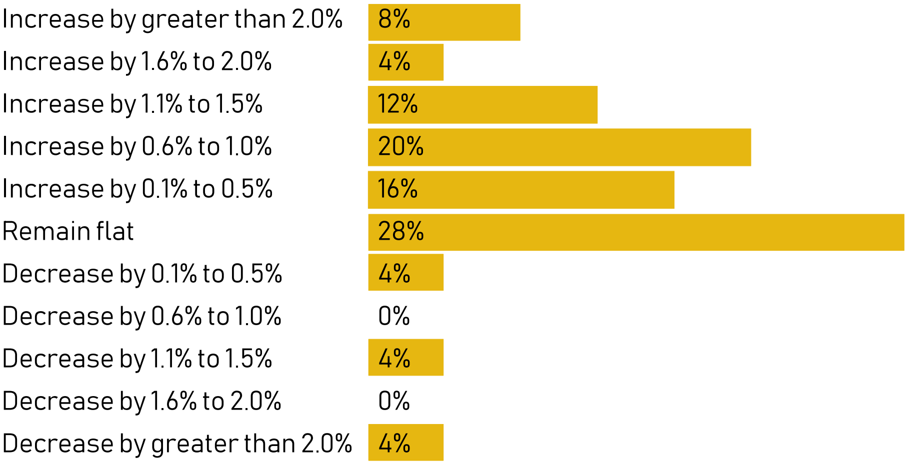


Source: fsSTRATEGY Inc. based on data from the Ontario Energy Board

After holding flat for three years, from 2017 to 2019, electricity price index increased by 55% in 2020. Natural gas prices index by 17% in 2020.

Respondents to the C-Suite Survey were asked how they expected other operating costs as a percentage of revenues to change in 2021.

In 2021 Compared to 2020, Other Operating Costs are Expected to:



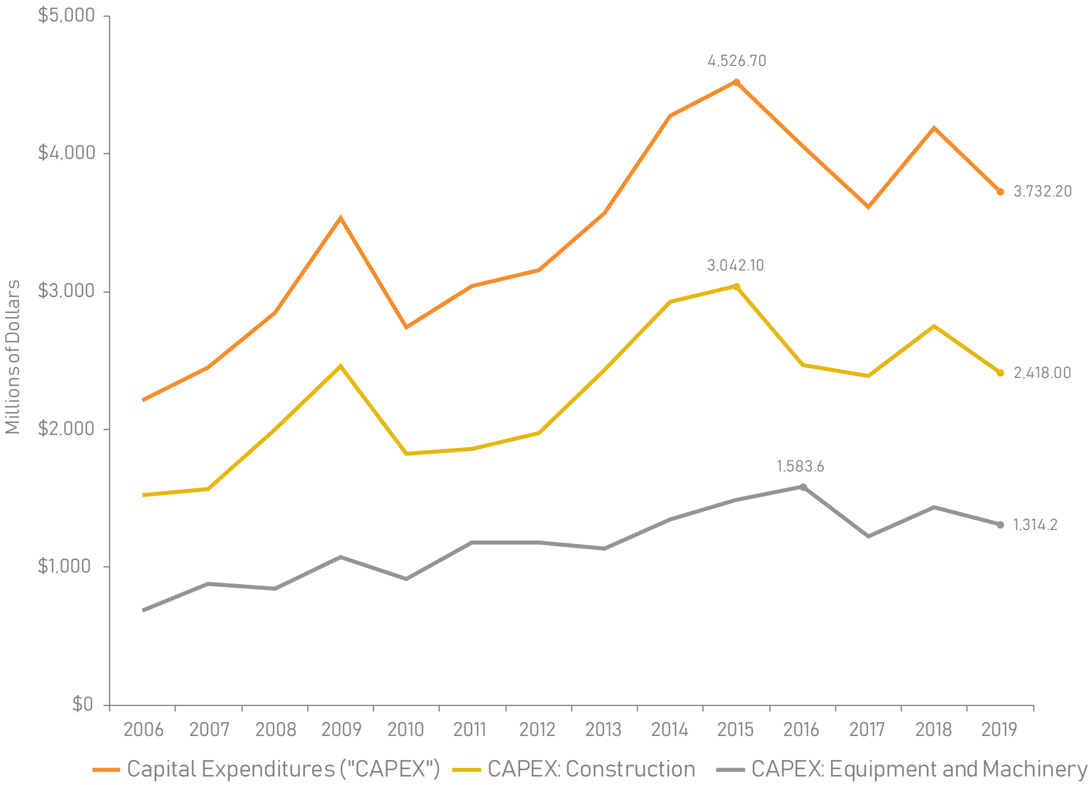
Source: fsSTRATEGY Inc. 2020 C-Suite Survey

As shown, most (60%) of respondents expect other operating costs as a percentage of revenues will increase in 2021, with 48% of respondents expecting an increase of between 0.1% and 1.5%. Twenty-eight per cent of respondents expect other operating costs to remain flat.

7.5 CAPEX

Capital expenditure (CAPEX) in the accommodation and foodservice sector declined by 3.8% to $3.7 billion in 2019. Approximately $2.4 billion (65%) of CAPEX was spent on construction projects with the remaining $1.3 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 14 years.

Capital Expenditure in the Accommodation and Foodservice Sector – 2006 to 2019

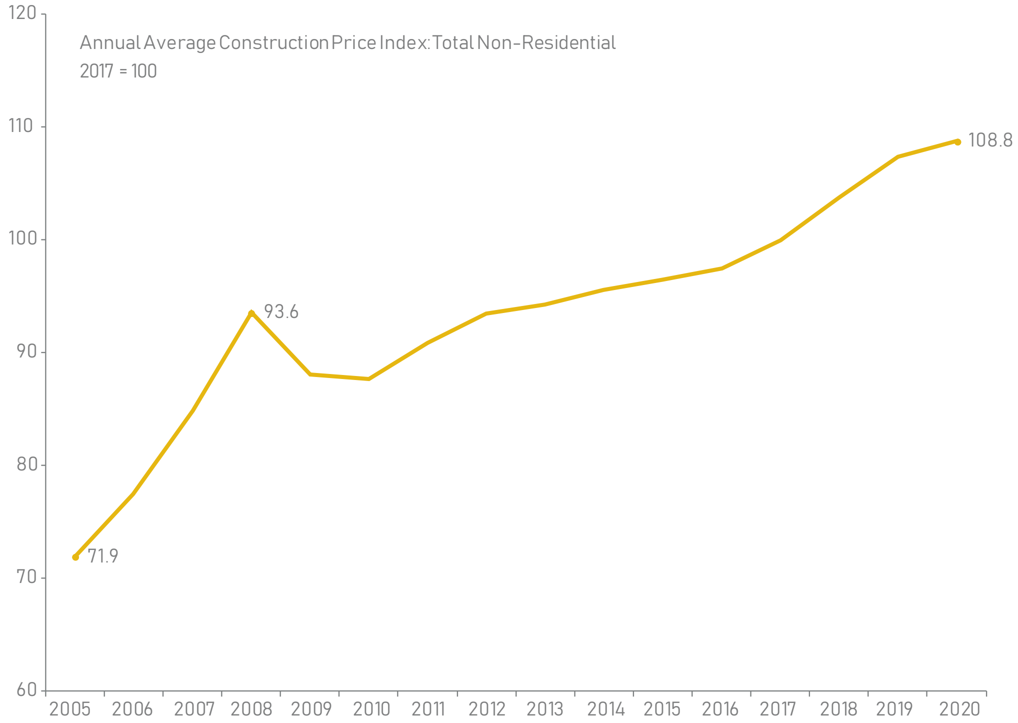


Source: Statistics Canada

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 to $3.7 billion in 2019.

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

Non-Residential Construction Price Index - 2005 to 2020

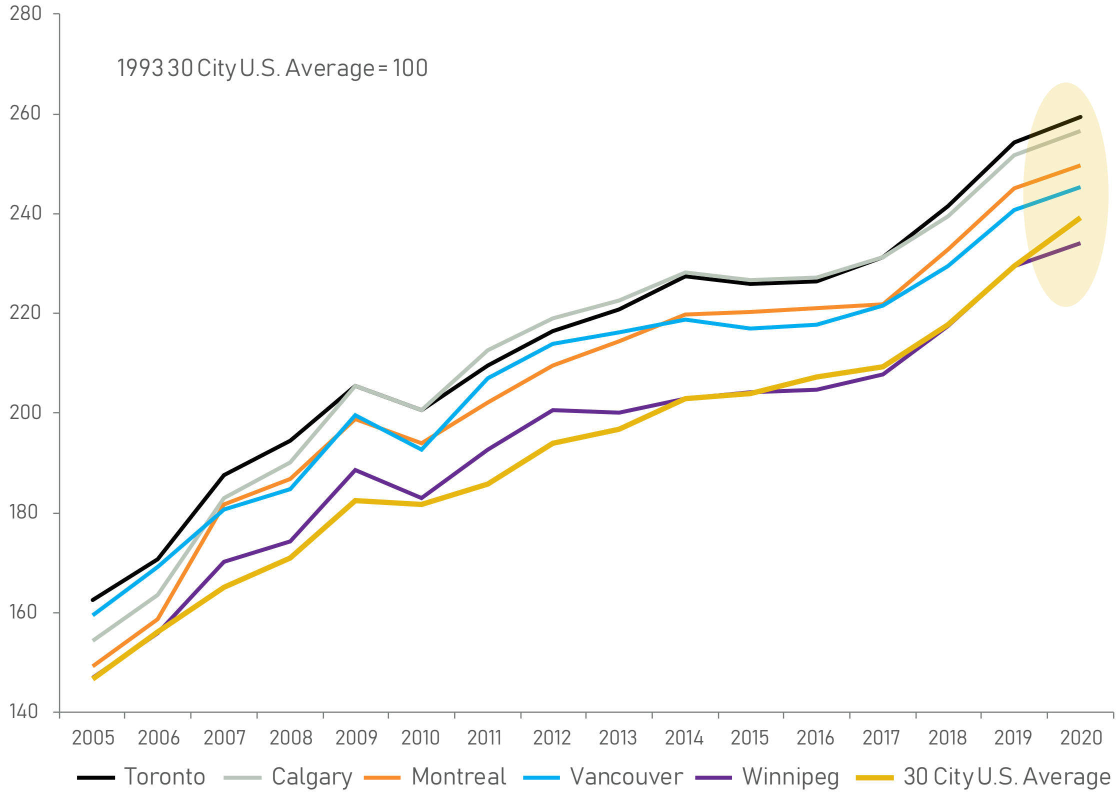


Source: Statistics Canada

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 2010, prices have increased, albeit at a slower rate than pre-recession.

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 – 2005 to 2020



Construction cost growth slowed for major Canadian cities in 2019 relative to the 30-city U.S. average. The 2020 index was published before the COVID-19 impact was understood. Base construction prices may decline to reflect competition for fewer jobs or increase at a lesser rate than shown. However, systems related to health and safety during the pandemic are expected to affect costs. Unofficial preliminary estimates from RSMeans suggest that accommodating all best practices on job sites (PPE, temperature equipment, reduced crew size to accommodate distancing, etc.) could increase construction costs by as much as 9%.

C-Suite – Building Cost per Square Foot

Service Style	Minimum	Maximum	Average
Full Service Restaurants	$156	$850	$481
Quick Service Restaurants	$200	$400	$308
Fast Casual Restaurants	$250	$340	$302

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

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.

As shown, building costs range from $156 to $850 per square foot (concept dependent), average costs by market segment include $481 per square foot for full service, $308 per square foot for quick service and $302 per square foot for fast casual.Average costs per square foot, as reported by respondents in 2020, are greater than in 2019.

Respondents to the C-Suite Survey were also asked how they expected building costs for new units to change in 2021.

In 2021 Compared to 2020, the Cost to Build New Units is Expected to:

Increase greater than 10%	4%
Increase by 7.6% to 10%	4%
Increase by 5.1% to 7.5%	13%
Increase by 2.6% to 5.0%	17%
Increase by 0.1% to 2.5%	17%
Remain flat	22%
Decrease by 0.1% to 2.5%	4%
Decrease by 2.6% to 5.0%	4%
Decrease by 5.1% to 7.5%	9%
Decrease by 7.6% to 10%	0%
Decrease greater than 10%	4%

Source: fsSTRATEGY Inc. 2020 C-Suite Survey

As shown, 57% of respondents expect an increase in building costs, compared to 83% of respondents in 2019.

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 5% to 30%).

Of respondents who transacted acquisitions or divestitures of restaurant businesses in 2020, the average multiple (on the net income - EBITDA) on the transactions were between three and seven (with an average of 4.2).

Respondents' 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.);
- COVID-19 regulations and protocols;
- cost of building materials and commodities
- increasing labour rates
- reduced demand on builders (partially as a result of taking over existing closed restaurant locations)

8
TOP CHAINS

The NPD Group's ReCount® restaurant census of 2019 showed the Canadian foodservice market consisted of just over 64,000 commercial restaurants at the start of 2020. This was a decline of about -1% from the prior year. In fact, this rate of decline has been relatively steady in recent years and can be attributed largely to the independent restaurant operator set.

The number of independent restaurants in Canada peaked in 2008, just as the economic crisis of 2007 was taking hold. They have been in decline ever since, shrinking by -3% per year on average since 2015, or a net decline of about 7000 units. Meanwhile, chains are on the rise, adding an average of +1% new units every year since 2015. Consequently, independents' share of total restaurant units went from 57% to 50% during this time.

A review of the growing and declining concepts reveals the increasing influence of Mexican and Indian cuisine, along with evidence of the never-ending love for coffee houses. On the declining side of the ledger is a sign that sandwich concepts of all sorts are falling out of favour, along with some traditional FSR concepts like steak/rib and midscale diners.

Top Growing Concepts	Top Declining Concepts
Midscale Diner	QSR Submarine Sandwich
QSR Bakery/Sandwich	Casual Asian
Casual Mexican	QSR Other Sandwich
Midscale Mexican	Casual Steak/Rib
Midscale Salad/Health	QSR Deli/Bagel
QSR Donut	Midscale Family Diner
Casual Indian	Midscale Luncheonette
QSR Gourmet Coffee	QSR Cookie
QSR Pizza	Casual Greek
QSR Ice Cream	Midscale Truck Stop

The potential loss of restaurants, and particularly independents, as a result of the COVID-19 impact could amount to several years of attrition in just a matter of months. The foodservice landscape will never look the same as it did just a few short months ago. However, the ability of the smaller operators and independents to maintain and even grow their share during these difficult times reinforces the likelihood that the industry will rise from this crisis stronger than ever.

9 MANAGING YOUR OPERATIONS

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Welcome

9.1 WEBSITES MADE BETTER

By Dan Nielsen, President, Attitude Marketing

"Websites made better" is our signature at Attitude Web. As a division of Attitude Marketing, we have been in the digital space for over a decade and we have seen how quickly technology has evolved. So why better? Well, we start with the assumption that everyone knows what a website is - or at least they think they do. I liken the average person's knowledge of the web to that of my neighbour, John, purchasing a car. He figures that after 20 years of driving that he knows how a car works, until he finds himself on the shoulder of the road with his hazards on and steam pouring from the hood. That's when John realizes that what he really knows about cars is how to consume them. The degree of knowledge John, or anyone else, has about actual auto mechanics will vary, but little is gained by quizzing them about it at the time of purchase. So back to everyone's knowledge of the web. Our premise is that no matter the depth of your digital knowledge and regardless of how awesome your current site may be, it can be made better.

For our team, it begins with a question: have you fully defined what it is you would like your website to accomplish? And others, such as:

- Do you know how many target audiences you actually have?
- Do you know what it is each segment of your audience is looking for?
- What is your target's typical path to purchase (conversion)?
- What outcomes do you want to have happen because of your audience's experience on your site?

The answers to each of these questions will ultimately lead to determining how to make your website into the efficient, proactive hub of an entire marketing ecosystem and client acquisition strategy.

Passive Sites Need No Longer Apply

As data, programmatic and machine learning revolutionize the way in which we target customers, it is also changing the way we look at user experience (UX) and website development. Mobile services, social media, and Geolocation, to name a few, are services that have changed the way we interact on-line. Google has changed the way we navigate. For example, when is the last time you typed a URL into the navigation pane of your browser and then clicked a bunch of menu items on your way to the information you were seeking? Exactly, me neither.

Websites have remained impressively passive for many years, but no longer. Even the word, "site," seems somehow static. It implies a place in which one waits for one's customer to enter. Programmatic and search algorithms are forcing us to break free of the confines of the website and to go seek out our customers where they are. Consumers don't want to have to work to find you. In fact, they have already become quite used to having their needs anticipated and intercepted. The solution is to now create information hubs with as many targeted answers to as many questions asked by as many profiles of consumers as the market demands. This is significant. As a brand, we no longer broadcast one all-encompassing brand message to the masses. We now have a myriad of micro-conversations with a plethora of potential customers as they make their way through their decision-making process. And the web hub is the centrepiece of that strategy.

Before diving into the creation of your site, we like to do our homework and get to know the people we are going to want to intercept. If we want your site to be active, and not passive, it helps to know who they are; how they navigate and where they are on their path to purchase. We use this information to plan the user experience and ensure that the content on your site matches their information needs. More importantly, we collect data as they navigate your site and the type of content each profile interacts with allows us to refine future ad campaigns.

Know Your Audience - Ahem, Audiences!

Amongst the many benefits of our new digital reality is our newfound capacity to effectively reach any given target market at a relatively low cost. This new-found affordability, paired with our capacity to accurately target very precise profiles, allows us to break out of the one-size-fits all mold of traditional media. Stop trying to summarize your target market under one very limited persona. Eight, ten, twelve profiles, each with unique motivations for visiting your dining room? No problem. Led by Google's massive database, machine learning and artificial intelligence are exponentially growing our capacity to target the right people with the right message.

Programmatic essentially allows us to match a specific message to the appropriate profile and reach each one regardless of how they navigate the web.

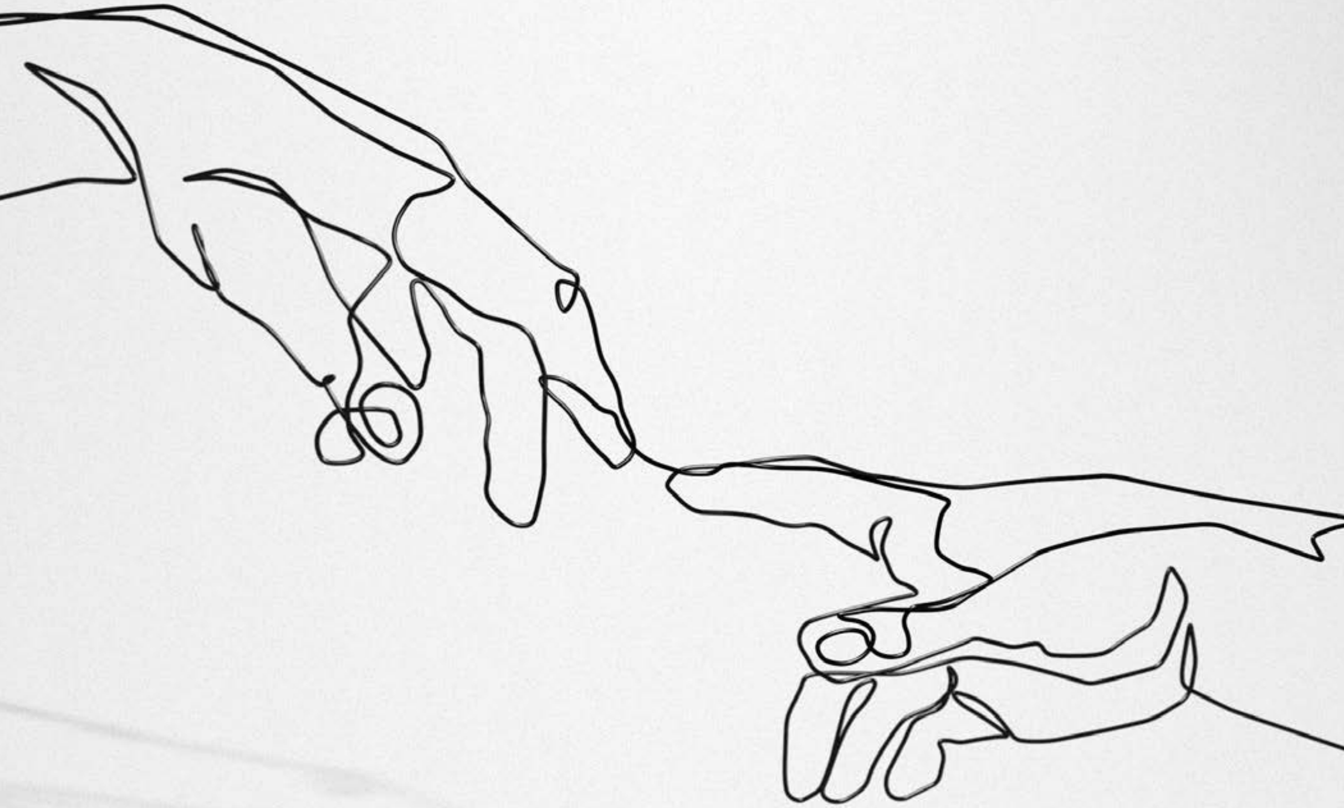
Know What Your Audience Is Searching

No longer confined to simple meta-tagging of your site, SEO is proving to be an amazing way to catch a glimpse into the minds of consumers. Tools exist today that allow us to carry out 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. 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.

Know Their Path To Purchase

The idea that some profiles have needs that differ from others is relatively easy to accept. As far as segmentation goes, this is a pretty straightforward example. Now what if I suggested that each profile could be sub-segmented by the stage at which he or she is along the path to purchase? Makes sense too, right? I mean, why bring someone who is at the last stage and is ready to order to a page featuring an introductory video? In the same light, shouldn't someone who has just viewed your introductory video receive a follow-up ad with a coupon or an offer to purchase? The way that information is set up on your website not only allows each profile to find the appropriate information for their current needs, but it allows us to determine which information to share with them next as we guide them along their path to purchase.

So, what would you like your website to accomplish? Brand recognition? Book a reservation? Promote your menu? Odds are, your current website is doing a pretty good job. Proactive hub and the centrepiece of your client acquisition strategy? Maybe you are there today. Or maybe, just maybe – you could do better.



9.2 COVID-19 RELATED LEGAL ISSUES AFFECTING THE RESTAURANT INDUSTRY

By Allan D.J. Dick, Partner, Sotos LLP, Toronto

As the COVID-19 pandemic continues in Canada without any sign of disappearing, the restaurant industry must continue to react and adapt. Reflecting on the legal advice our firm has been called upon to give affecting hundreds of restaurants during the first six months of the pandemic, the following is a sampling of what we see for the industry over the future course of the pandemic.

1. Leases and Subleases

Landlords, and particularly very large and very small landlords, were slow to adopt the CECRA program. In many cases, restaurant tenants were not even in a position to pay 25% of the rents which being on the program required. However, government orders, such as issued in Ontario, prevented landlords from terminating leases. Restaurant tenants and landlords were therefore forced to negotiate the future of their relationships. Landlords know that the more restaurants are forced to close, the more commercial space will be available in the market; the more space available, the less those spaces will command in rent. Generally speaking, rental rates under leases pre-pandemic were landlord-friendly.

For franchise systems where the franchisors have land control, it was problematic for franchisors to allow franchisees to withhold rent as they were obliged to pay that rent to landlords. But they too have been precluded from terminating subleases.

Ultimately, tenants and landlords have come to a more common ground which will undoubtedly continue. Most landlords accepted the CECRA program. Most landlords have also wanted to preserve the long term rents under their leases which has incentivized them to renegotiate their leases in many cases through 2021. Those negotiations have seen combinations of percentage rent, forgiven rent, deferred rent, increased personal guarantees and extended terms being agreed upon to give restaurants a fighting chance through 2021 while preserving the back ends of the lease deals. It has been recognized, however, that many agreements which have been negotiated to date may need to be revisited if the pandemic persists.

By the same token, the fact that a significant number of restaurants will be closed permanently as of the winter of 2020 presents significant opportunities for well capitalized restaurateurs and franchisors to take advantage of the prospect of excellent leasing deals moving forward. Concepts that can promote an atmosphere of safety are projected to be the go-to establishments. Commercial space which allows for that kind of restaurant development will be in particular demand.

Restaurant operators have had to consider the force majeure or "unavoidable delay" and quiet enjoyment provisions in their leases. In our view, the pandemic is an event which may allow a restaurant to get out of its lease, unless the lease was specifically drafted to identify the pandemic, government order or appropriately worded term as a contemplated event requiring performance at least in respect of the obligation to pay rent. We have had to give many opinions on the applicability of these provisions.

It can be expected that landlords will be more careful when drafting these "boilerplate" provisions in the future and tenants will need to be prepared to negotiate them.

2. Ghost Kitchens and Virtual Restaurants

The trend to increased delivery and pick up should continue. For existing restaurants, the ability to use existing kitchens to support virtual-only menus and to create ghost kitchens will continue to be the present and the future. For virtual restaurants, restaurateurs must ensure that their virtual uses conform to the use clauses in their leases or they may need to seek to negotiate modifications to the provisions. Restrictions may exist as a result of the exclusive use rights of others. Franchisors who utilize franchisee kitchens as virtual restaurants need to specifically control the rights associated with what might be a limited time offering. Franchisors operating their own ghost kitchens also need to consider issues relating to possible encroachment.

3. Third-Party Delivery and Proprietary Apps

Despite the increase in the use of third-party delivery services created by the pandemic, restaurants have been slow to re-negotiate the terms of their agreements or to look at the benefit of creating their own apps and related loyalty programs. The ability to create a proprietary app allows restaurants to capture customer data and create programs which will provide a greater connection between customer and brand. The value of each customer who is continuing to frequent or utilize restaurants has gone up which should translate to restaurateurs and brands investing more to attract and retain customers. Independent restaurants have also been teaming up to share delivery costs. The agreement enabling this arrangement must address potential liability and allocate risks appropriately.

4. COVID-19 Protocols

Restaurants must ensure that they are taking all reasonable and legally required steps to protect their patrons and employees. Franchisors must appreciate that brand protection is of greater concern that the possibility of a finding of vicarious liability to patrons or joint employer status in respect of franchisees' employees. Those risks can be offset through contract drafting, indemnity clauses and proper insurance. Well-drafted protocols have three purposes – comply with applicable laws, provide confidence to patrons and ensure the safety of employees. We have been asked routinely as to whether securing patron information is necessary for purposes of contact tracing. Various restauranteurs have resisted asking for such information on the basis of not wanting to intrude on their guests' experiences or interests in privacy. In our view, the more information which a restaurant can obtain consensually from its patrons the better, including for tracing purposes whether legally required or not. There is a spectrum of options for how such information can be obtained. A well-designed and communicated program can provide restaurant operators with tremendous opportunities for patron engagement and loyalty while providing patrons with the sense of comfort and safety most are looking for.

5. Insurance Claims

Many restaurants have made business interruption or business loss claims against their policies of insurance. This is despite the position being taken by most insurers that their policies do not cover losses attributed to the pandemic. In some cases, the policies (particularly those written in response to SARS) have a specific exemption to coverage which would support a denial of coverage. Others, however, are relying on the lack of "physical damage" necessary to trigger coverage under the policies. The early returns on these claims have been principally on the insurers' side. Nevertheless, each restaurant owner should have its policy assessed for possible coverage. Each owner should also consider whether a claim might exist against its broker for not procuring the necessary coverage.

6. Employees

The handling of employee "layoffs" and obligations to accommodate employees under human rights legislation has been varied and generally poorly understood by the industry. The space in this article is insufficient to cover the issue. A more fulsome discussion can be found **here**. By way of summary, employers in Ontario have been given a benefit by the government to avoid findings of constructive dismissal due to improper "layoffs". The layoff concept is generally not available to restaurant owners. The availability of the CERB program has been of substantial benefit to the industry although many have complained that workers prefer receiving CERB to working. Similarly, employers have a duty to accommodate under human rights legislation but that duty is subject to certain conditions and standards. In any event, employers have the duty to keep their premises safe for employees under occupational health and safety regimes and these obligations cannot be compromised.

The closure of many restaurants is also expected to generate a tremendous pool of available employees at a time when demand had previously outstripped supply, a trend which had previously been expected to accelerate rather than decline. Now is the time for restaurant owners to be aggressive in attracting top talent and to revisit their forms of employment contracts. Important changes to the law have occurred affecting notice provisions which require most employers to revisit their agreements. Never before have the terms of an employment contract been as important.

Summary

The COVID-19 pandemic has generated an unprecedented demand for legal advice to be given across a wide spectrum of issues in real time in many cases where clear precedent is not available. That advice needs to be given in a context of a deep understanding of the industry to ensure restaurant owners can be confident that they can rely on the advice they are receiving and can make the most prudent decisions they also need to be making in real-time. Lawyers, including franchise lawyers, with significant industry knowledge are an excellent source of counsel. They can review what is happening with your restaurant or restaurant system, help you formulate a plan to help you outlast the pandemic or best plan for any decision which must be made to close the business down.

Allan Dick is the co-managing partner of Sotos LLP and sector leader of the firm's Restaurants practice area. Allan is a trusted primary advisor to many top franchisors, with more than three decades practicing law in the franchising, licensing and distribution industry. Allan has been recognized by Chambers Canada, Canadian Legal LEXPERT Directory, Who's Who Legal, and Best Lawyers in Canada as a leading Canadian franchise law practitioner. He can be reached at adjdick@sotosllp.com or by cell at (416) 805-8989.

9.3 DIGITAL DISPLAY TECHNOLOGY BRINGS NEW OPPORTUNITIES IN THE CANADIAN CHAIN FOODSERVICE INDUSTRY

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

Canada's foodservice industry is undergoing some of the most dramatic changes it has experienced to date, and digital display technology is increasingly central to its new reality. To remain relevant and meet consumer expectations, operators in the Canadian chain foodservice industry will need to increasingly rely on technologies like digital and interactive signage – both in front of customers and behind the counter.

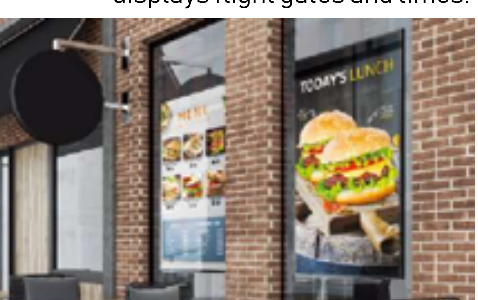
Between lockdowns, shifts in consumer habits and disrupted supply chains, operators have had to make dramatic adjustments to how they do business — and digital signage technology has been a huge part of enabling positive change.

Digital signage technology has become a key tool to keep customers informed and satisfied in the quick service restaurant industry. Screens in targeted positions attract diners, display promotions and support hungry consumers to make quick and informed decisions about their next meal. Operators have adopted digital signage management systems and display technology to pre-sell and promote specials and overstocks on digital posters, raise awareness of the company's community contributions and ties, recruit new full and part-time workers and brand the chain on dining area displays. Digital signage displays, such as the Samsung SMART Signage QBR/QMR Series, are now common at order counters and rapidly finding their way throughout restaurants — and outside with the Samsung Outdoor Display OHF Series, as curbside and drive-thru services see increased demand in 2020.

However, there has been a recent shift toward digital displays to address the business challenges introduced by COVID-19. When operators evolve from static, printed poster material to digital menus and promotions, they gain incredible flexibility. Updates take minutes — not days or weeks. And digital menus pay their way by influencing ordering decisions and removing the printing, shipping and labour costs of printed signs and posters. Restaurant operators who suddenly couldn't open their dine-in areas had to rely entirely on drive-thru lanes and pickup windows to service their hungry customers. Drive-thrus are a big part of quick service restaurant chains, but amid health and safety restrictions, drive-thrus have come to represent a significant percentage of sales.

Outdoor digital menu boards in drive-thrus have recently seen a dramatic rise in popularity. The Samsung Outdoor Display OHF Series is bright enough to handle the glare and heat of the sun[1] and can both inform and pre-sell to customers as they approach the ordering position. Beyond drive-thru digital menu boards, outdoor signage also offers an effective, hard-to-miss way to communicate business changes, such as operating hours, dine-in reopening or other topical messaging. 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[2].

Delivery has been a saviour for operators without drive-thrus. Ordering ahead has dramatically increased in popularity, with operators keeping their staff and customers safe by offering curbside pickup. Super-bright window displays visible from the parking lot, as well as outdoor-ready screens, act as beacons that guide diners. Tied to the brand's online ordering platform, software drives messaging to the screens, letting motorists know their order status. With food delivery becoming hugely popular and multiple app-driven services fulfilling remote orders, we're seeing more screens in meal preparation areas to dynamically track orders and drivers — like an airport displays flight gates and times.



Bright window displays also drive awareness of order-ahead options as operators are opting for Samsung's unique double-sided displays. The OMN-D Series from Samsung is a dual display with screens on both sides, allowing restaurants to maximize messaging. The outward-facing screen handles ordering, while the inward-facing screen promotes special offers and helps recruit new staff members. At 3,000 nits, the screen facing the street is bright enough to win any battle with ambient or direct sunlight, ensuring messages are visible to viewers even on the brightest of days. The reverse side, facing into the store, doesn't need that level of brightness, but at 1,000 nits will overpower any potential glare from restaurant lighting.

Content management software, such as Samsung's MagicINFO, make it possible for owners and operators to fully view and control what's happening on all of their displays, inside and outside. That toolset can be operated from a PC on-premise, or managers can control messaging for one or many locations from a distant office, or even from their home.

Understanding customer behaviours and patterns enables operators to directly influence what people see on menu and promotions screens inside stores and in drive-thru lanes. Data harvested from sales, loyalty and analytics systems can produce insights and directions that will then shape and trigger the content and even the layout of what's on the digital signage screens in front of people. So, layouts and menu options are not only changeable by time of day and location, but can also be amended to reflect segmentation on diner types.

Making the right choice before screens and related technologies are ordered can go a long way toward ensuring success in sales, order sizes and transaction speeds. The key to QSR success will always be delicious food and swift, friendly service, but digital signage is playing an ever more important role in making diners aware of what's cooking, simplifying order and pickup routines and ensuring the process is progressing smoothly and efficiently.

Digital displays have become central to how many QSRs do business, and in the COVID-19 era, benefits of premium displays are even more evident. For more information on Samsung Digital Display solutions, visit Samsung.com/ca/business or click here if you would like to connect with a Samsung Signage Specialist to assist you with your specific requirements.

[1] The OHF Series displays feature innovative Magic Glass, TUV-certified image quality and an Auto Brightness sensor to improve picture quality and optimize message delivery for any viewer. The OHF series displays have been verified and validated by TUV Rheinland, a leading international certification organization.

[2] Each OHF Series display undergoes rigorous IP56 ingress defense testing* to ensure resistance to dust, heat, moisture and other environmental variables that can impede operations. IP ingress defense testing helps to determine a product's susceptibility to solid particle (including dust) ingress and liquid (water) ingress. IP56: Protected from high-pressure water jets from any direction, limited ingress protection.

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

9.4 THE CANADIAN CHICKEN SECTOR – A CUT ABOVE

By Chicken Farmers of Canada

Addressing the Claims of Animal Rights Groups

Throughout the world, the commitment of people raising and processing chickens for meat is frequently the target of campaigns, often aimed at restaurant and retail companies, and designed to pressure them into mandating changes to the sector's animal care practices.

Sometimes these campaigns employ a "one size fits all" approach, with supporting organizations lobbying for change, assuming the reality is the same for chickens the world over. The reality couldn't be more different.

The Canadian chicken sector is the only of its kind and, unlike other countries, mandates that farmers must be licensed to grow chicken. This allows the sector to implement strict on-farm food safety and animal care programs that are mandatory, enforceable, and auditable. There is only one standard for animal care in Canada that is delivered on each Canadian chicken farm. There is only one Animal Care Program that reaches all 2,800 chicken farms in Canada; no other program can achieve this reach.

The Animal Care Program for Canadian chicken has a solid, credible, and science-based foundation, and again, is like nothing else in the world. It is based on the Code of Practice developed through the National Farm Animal Care Council (NFACC). NFACC is a world leader in bringing together stakeholders with different perspectives – farmers, scientists, veterinarians, processors, retail associations, restaurant associations, transporters, animal welfare associations, and provincial/federal governments – to develop robust and sound Codes of Practice. Everyone gets a say, and the experts, the ones who truly know best, are the architects.

The Chicken Sector's Perspective

Choice is important – and understanding that Canadian consumers will choose a vegetarian or vegan diet for a wide variety of reasons is even more important.

Much of the pressure on retail and foodservice companies comes from organizations with an animal rights focus, who have, in a variety of different ways, voiced opposition to the use of animals in agriculture. Most of the groups that apply this pressure are vegan-forward groups, whose objectives are ultimately based on eliminating animal agriculture.

The Canadian chicken sector has absolutely no issue with people choosing not to eat meat. However, when those choices are being made based on a misunderstanding of the Canadian reality, or with a broad-brushed, "one size fits all" approach, that's when our responsibility to educate and truly inform becomes more important than ever. Our country's unique NFACC process is one that allows the experts, the ones who know best, to lead change in the chicken sector and address the question of animal welfare from a truly educated and scientific perspective.

We all buy food for our own reasons – cost, value, nutrition, convenience, etc. and we are grateful to Canadian consumers for making chicken Canada's number one meat. We have a great deal of choice in the chicken we buy. Whether consumers choose organic, free-range, vegetarian-grain-fed, specialty breed or conventional chicken, they have a choice in what they buy and Canadian chicken farmers and processors work hard to meet consumer preferences.

By offering these choices, we can maintain our excellent environmental record and continue to deliver an excellent, nutritious, and versatile product to consumers.

Responses to The Most Common Activist Demands of the Canadian Chicken Sector

Demand: Move to slower growing birds.

Response: There is currently no peer reviewed, scientific evidence that slower growth results in better welfare for the birds. Birds raised to current standards feed the world and broiler birds reach market weight in less time and using less feed, resulting in more affordable food.

A recent study by the University of Guelph (on behalf of the Global Animal Partnership) will no doubt be a valuable addition to the current knowledge on animal welfare. This research is expected to be made public soon, and we will then be able to address its findings more directly.

There is well-founded concern, however, that the widespread implementation in Canada of slow-growing broilers would have significant negative environmental and affordability impacts and should be evaluated with caution.

At this time, the Canadian chicken sector has a lower carbon footprint than that of other livestock in North America, and has lowered that carbon footprint by almost 40% in the last 40 years. Water consumption has been reduced by 45% in the same time frame and 62% of the sector's total energy use comes from renewable sources.

Transitioning to a slower growing bird would take away those gains and create significant environmental challenges.

For example, if 1/3 of Canadian chicken farms increased their production time by two weeks (which is the standard for a "slower growing" chicken), this would have the following impacts:

- 668,509,777 extra litres of water consumed per year – enough to fill 267 Olympic swimming pools or 4,000,000 bathtubs.
- 212,527,411 extra kilos of feed consumed per year – 20 times as heavy as the Eiffel tower and equal in mass to almost two CN Towers.
- 393,243,406 kg of additional manure produced per year – enough to fill 157 Olympic swimming pools and works out to 1,077,379 kg produced per day
- $390,794,112 increase in production cost – these are cost increases that will be shared among the farmer, the processor, the retailer, and ultimately, the consumer.
- 103,776 acres of additional land required for feed – that's 4,520,482,560 square feet, or 300,000 average sized hockey rinks

Demand: Density should be at a maximum of 30 kg/m^2 and prohibit broiler cages.

Response: Standard density is currently at 31 kg/m^2 and broiler cages are not used in Canada. Stocking density in other countries:

- U.S.: up to 43.9 kg/m^2
- E.U.: up to 42 kg/m^2
- Australia: up to 40 kg/m^2
- New Zealand: up to 38 kg/m^2

Demand: Have clean litter, good lighting and enrichment.

Response: Litter is monitored daily, and cleaned out and replaced after every flock. Other countries allow litter to build up from one flock to the next, increasing food safety and ammonia risks. Light intensity and duration is carefully managed according to the Code of Practice to ensure proper periods of rest and to promote flock health.

Demand: Convert to controlled atmosphere stunning.

Response: Humane stunning is regulated by the Health of Animals Act, and overseen by the Canadian Food Inspection Agency. Both water bath stunning and controlled atmosphere stunning are approved as humane stunning methods.

Demand: Demonstrate compliance with third party auditing.

The current animal care program is both second and third party audited on an annual basis.

Remember

Retailers and foodservice companies should feel free to bring any concerns about the Canadian chicken sector to Chicken Farmers of Canada. We will be happy to provide you with the tools you need to respond, or respond on your behalf. For more information, visit letstalkchicken.ca.

9.5 COVID-19 AND THE RAPID EVOLUTION OF THE RESTAURANT INDUSTRY

By Karim Chandani, Vice President Hospitality, HUB International Canada

The Canadian restaurant industry faces ever-evolving rounds of closures and restrictions due to the global pandemic. Industry operators need to find a trusted advisor and advocate in their local insurance broker now more than ever.

With roots in Western Canada and the largest broker in Canada, HUB International brokers over $315 million in P&C Hospitality industry premium and $277M in Employee Benefits premium. In 2018, HUB launched its Specialty Program, including a dedicated Hospitality practice. Unique in the Industry, HUB's Specialty practices cut across all our regions all over North America, bringing our clients closer to their goals.

Additionally, HUB has invested deeply in risk services. With over 70 credentialled risk consultants throughout the U.S. and Canada and partnerships worldwide, HUB provides our clients with the resources and advice they need, when they need it, to minimize risk.

Recently, HUB risk services experts have provided critical thought leadership on several pressing issues facing restaurant operators in 2020 including conflict with the general public over COVID–19 related restrictions, and increased risk of Legionella from dormant water systems.

Confrontations Between Customers and Workers Are Occurring Daily in Canada. Prepare Your Organization to Prevent and Respond to Potential Conflicts and Escalations Toward Aggressive Behaviour.

After months of quarantine, stay-at-home orders, openings and closures, many are experiencing COVID-19-related stressors. As we re-enter the public sphere, we are bringing these stressors along with us.

Whether it's anxiety over the pandemic, financial hardships, changing rules, or just feeling cooped up, these feelings can present in interactions between staff members, customers and staff, or between customers in stores, restaurants, and other public spaces. Overall, the potential for additional conflict in the workplace has climbed sharply.

In Blind Bay, B.C., a customer was caught on video yelling and swearing at staff, prompting B.C. premier John Horgan to call on people to "be kinder to each other" during the pandemic. At a family-owned ice cream shop near Cape Cod, the owner promptly closed the shop the same day they re-opened, due to the verbal harassment of his teenage workers.

These incidents and others have highlighted the need for business owners and operators to get ahead of potential conflict scenarios that could escalate to aggression or violence with a risk-appropriate combination of physical and administrative controls.

Physical controls that can help prevent conflict in the re-open include clear signage and communications, physical barriers to ensure adherence to social distancing needs, post and rope or retractable belt lines to manage customer flow through spaces and touchless services where possible.

Administrative controls include clear policies, procedures, staff awareness training, de-escalation, violence prevention, threat reporting and conflict management.

Deploy physical and administrative controls when appropriate, based on the following best practices:

1. Assess your space and the risk. Determine the best layout for your physical space that will reduce bottlenecks and slow the flow of customers. Start at entry and exit points. Determine how many people can get in and out without having too many paths cross. Consider a one-directional entrance and exit flow. Do a dress rehearsal to test your solution and enlist a few non-employees to help you decide if it is as clear as you think it is. Assessing new processes before opening your door to the masses will prevent a lot of potential problems.

2. Communicate across all platforms and with good signage. Make your communications and onsite signage foolproof. Your process should be clear and obvious to anyone that walks in. Consider point of sale. How are people paying? If online or payment is an option, consider that. Ensure your website and social media channels clearly state consistent information about your facility's rules and procedures. If you have a pre-recorded message on your phone service, communicate any updated policies and procedures there as well to avoid confusion. Consider floor markings to create interior and exterior line forms.

3. Train your staff. Equipping your staff to work safely can also increase your customers' likelihood of a smooth and conflict-free experience. Train your staff to be familiar with your new processes and empower them to take the actions you've decided are appropriate should they need to enforce a policy. Double down on the customer service mindset; customer-focused de-escalation training can prevent conflict and ensure your staff is empathetic and using communication strategies that don't escalate a conflict. When staff remains calm and collected, the situation is less likely to escalate.

4. Have an emergency action plan in place. Even if you've trained your staff around respectful communication and de-escalation strategies, that doesn't mean they have to stay in harm's way. All staff should be prepared to contact a manager, security, or police, as appropriate if a conflict escalates toward aggression or violence or becomes disruptive for other patrons.

Managing The Risk of Legionnaires' Disease During COVID-19

As the COVID-19 pandemic has caused building closures or reduced activity for several months, the dormant water systems within are at increased risk for the growth of harmful bacteria, such as Legionella, which can present a significant risk for illness to building occupants. Legionella and Legionnaires Disease can present life-threatening conditions.

Considerations for Restaurants

Hotels & resorts have been frequent sources of legionnaires disease outbreaks in the past, presenting a very real concern for restaurant operators in shared spaces. Guest and employee safety should be the first priority, and comprehensive water management programs can help to prevent problems that could increase the risk of outbreaks. When outbreaks do occur, they can interrupt normal operations, potentially shut buildings down, and negatively impact the reputation of the organization.

Common High-Risk Areas:

- **Cooling Towers –** Vacant or temporarily closed properties can lead to decreased water flow. This allows for disinfectant levels to become low and cooling tower fans can spray water containing Legionella.
- **Unoccupied Areas –** Lowered occupancy levels decreases water flow, which creates more stagnant water and can decrease disinfectant levels and increase the risk of Legionella growth.

Legionella Control Plan – Example

Minimally, the plan should have the seven (7) topical elements, as suggested by the CDC, to address the control of Legionella in the facility and building water systems. These elements are:

- Establish a Program Team and Structure
- Describe Building Water Systems
- Identify Areas Where Legionella Could Grow and Spread
- Decide on Where Control Measures Should be Applied and How to Monitor
- Establish Interventions When Control Limits are Not Met
- Ensure the Program is Effective and Runnig as Designed
- Document all Activities and Communicate with Stakeholders

The two topics referenced in this article are just one example of why some of the most recognizable restaurant & hotel brands in Canada trust HUB's industry experts to knowledgeably and effectively guide them through an ever-changing risk landscape. Integrated into a deep bench of expertise, HUB Hospitality experts like Karim Chandani can draw upon a network of qualified experts and specialists from coast to coast and across borders - ensuring HUB's clients can make educated decisions about their insurance program and risk mitigation necessary for their business to prosper.

Please reach out if you would like checklists that can assist your restaurants. Karim.chandani@hubinternational.com (604) 209-1906

Source - September 2020 Mark Lee, VP Risk Services HUB International

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NOTES

NOTES ABOUT THIS REPORT

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