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TRINITY CAPITAL
INVESTMENT BANKING
A DIVISION OF CITIZENS CAPITAL MARKETS

RESTAURANT INDUSTRY COMMENTARY AND SAME-STORE SALES DATA

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Same-Store Sales Discussion (Q1 2020)

The global coronavirus pandemic caused massive disruption in the U.S., particularly in the restaurant industry, as government-mandated shutdowns beginning in the middle of March forced many restaurants to shift service to takeout and delivery only or, in many cases, close their doors entirely. As a result, restaurant industry same-store sales ("SSS") declined 6.6% in Q1 2020, the first quarterly decrease in more than two years. Of the 50 companies that constitute our restaurant SSS index, only 13, or 26%, generated positive SSS growth for the quarter.

As shown in the chart below, all segments of the restaurant industry reported SSS declines in Q1. QSR fared best due to its high percentage of sales at drive-thrus, which largely remained open throughout the initial shutdowns. QSR's resilience through the pandemic underscored its position as the most stable performer in the restaurant industry, further evidenced by its consistent growth over the past five and ten years. Other than QSR, only fine dining averaged positive growth over the longer term, and those gains, particularly over the past 10 years, are distorted by the recovery from the steep decline in fine dining sales during the Great Recession in 2008 and 2009.

QSR: For the first time in 10 years, the QSR segment did not generate SSS growth (-0.9%) as COVID-19 began to wreak havoc on the country late in the quarter.

- Chicken concepts produced the only positive result (+6.3%) of any sector in the restaurant industry due to another massive quarter for Popeyes (+29.2%) on the heels of its 37.9% growth in Q4 2019, as customers continued to line up for its new chicken sandwich.
- Burger segment SSS decreased 2.7% on weak performances from Burger King (-6.5%) and Jack in the Box (-4.2%) and flat sales from McDonald's (+0.1%) and Wendy's (0.0%).
- Pizza concepts were down 2.0% despite positive results for Domino's (+1.6%) and Papa John's (+5.3%), which were offset by another decrease from Pizza Hut (-7.0%).

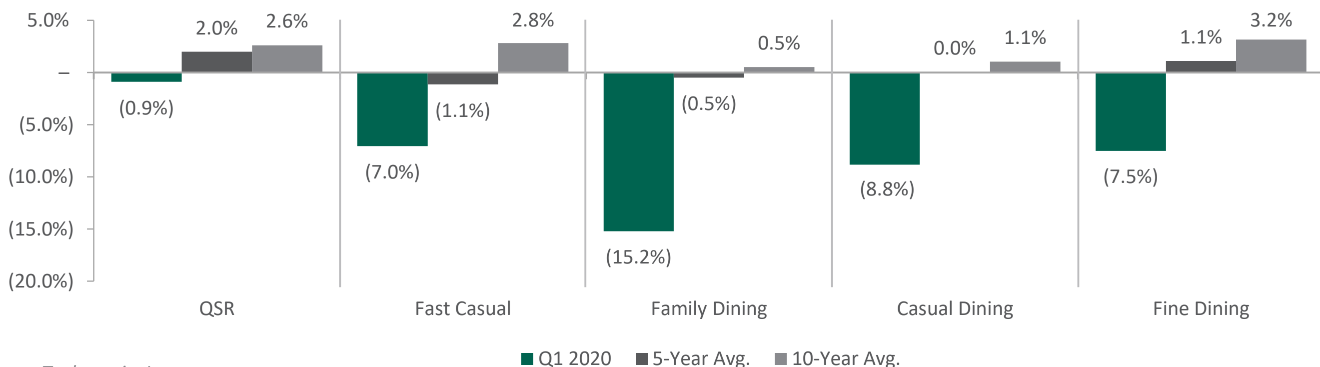
Fast Casual: All fast casual concepts except for Chipotle (+3.3%), which saw a big jump in digital and online sales, and Fuddrucker's (0.4%) were negative for the quarter.

Family Dining: Family dining took the biggest hit in Q1 and was down 15.2% for the quarter. Cracker Barrel (-41.7%) suffered the sharpest decline. Its fiscal quarter ended May 1st, so the results reflect approximately six weeks of COVID-19 impact rather than two weeks for other companies. Cracker Barrel's dramatic decline is a harbinger of things to come for most brands heavily reliant on dine-in when Q2 results are released.

Casual Dining: Similar to the fast casual segment, all but two casual dining brands, LongHorn (+3.9%) and Olive Garden (+2.1%), had negative SSS in Q1 2020.

Fine Dining: Fine dining suffered its worst quarter since the last recession (-7.5%). Capital Grille (+4.2%) was a bright spot for the segment, though its performance was not enough to offset declines for Fleming's (-13.2%) and Ruth's Chris (-13.5%).

RESTAURANT SAME-STORE SALES BY SEGMENT



Source: Technomic, Inc.

Restaurant Same-Store Sales Data

	2017			2018				2019				2020
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Chicken												
KFC	2.0%	1.0%	1.0%	0.0%	1.0%	1.0%	1.0%	2.0%	2.0%	(1.0%)	1.0%	(3.0%)
Pollo Tropical	(7.7%)	(10.9%)	(0.1%)	2.8%	3.4%	6.5%	(1.9%)	(2.6%)	(1.3%)	(3.8%)	0.6%	(7.3%)
Popeye's	(3.3%)	(2.6%)	(2.5%)	2.3%	1.8%	(0.2%)	(0.1%)	0.4%	2.9%	10.2%	37.9%	29.2%
MEAN	(3.0%)	(4.2%)	(0.5%)	1.7%	2.1%	2.4%	(0.3%)	(0.1%)	1.2%	1.8%	13.2%	6.3%
Coffee/Snack												
Baskin Robbins	(0.9%)	0.4%	5.1%	(1.0%)	(4.0%)	1.8%	(3.7%)	(2.8%)	(1.4%)	3.6%	4.1%	1.8%
Dunkin Donuts	0.8%	0.6%	0.8%	(0.5%)	1.4%	1.3%	0.0%	2.4%	1.7%	1.5%	2.8%	(2.0%)
Starbucks	5.0%	2.0%	2.0%	2.0%	1.0%	4.0%	4.0%	4.0%	7.0%	6.0%	6.0%	(3.0%)
Tim Horton's	(0.8%)	0.3%	0.1%	0.1%	0.0%	0.6%	1.9%	(0.6%)	0.5%	(1.4%)	(4.3%)	(10.3%)
MEAN	1.0%	0.8%	2.0%	0.2%	(0.4%)	1.9%	0.6%	0.8%	2.0%	2.4%	2.2%	(3.4%)
Mexican												
Del Taco	7.1%	4.1%	2.4%	3.7%	3.3%	1.4%	1.9%	(0.1%)	2.2%	1.0%	0.4%	(3.1%)
Taco Bell	4.0%	3.0%	2.0%	1.0%	1.9%	5.0%	6.0%	4.0%	7.0%	4.0%	4.0%	1.0%
MEAN	5.6%	3.6%	2.2%	2.4%	2.6%	3.2%	4.0%	2.0%	4.6%	2.5%	2.2%	(1.1%)
Pizza												
Domino's	9.5%	8.4%	4.2%	8.3%	6.9%	6.3%	5.6%	3.9%	3.0%	2.4%	3.4%	1.6%
Papa John's	1.4%	1.0%	(3.9%)	(5.3%)	(6.1%)	(9.8%)	(8.1%)	(6.9%)	(5.7%)	1.0%	3.5%	5.3%
Pizza Hut	(3.0%)	0.0%	2.0%	4.0%	0.0%	1.0%	1.0%	0.0%	2.0%	(3.0%)	(4.0%)	(7.0%)
Pizza Inn	(9.5%)	1.4%	2.7%	2.3%	2.5%	2.3%	2.7%	3.3%	0.0%	3.1%	2.4%	(7.8%)
MEAN	(0.4%)	2.7%	1.3%	2.3%	0.8%	(0.1%)	0.3%	0.1%	(0.2%)	0.9%	1.3%	(2.0%)
Burger												
Burger King	3.0%	4.0%	5.1%	4.2%	1.8%	(0.7%)	0.8%	0.4%	0.5%	5.0%	0.6%	(6.5%)
Jack in the Box	(0.2%)	(1.0%)	(0.2%)	(0.1%)	0.5%	0.5%	(0.1%)	0.2%	2.7%	3.0%	1.7%	(4.2%)
McDonald's	3.9%	4.1%	4.5%	2.9%	2.6%	2.4%	2.3%	4.5%	5.7%	4.8%	5.1%	0.1%
Wendy's	3.2%	2.0%	1.3%	1.6%	1.9%	(0.2%)	0.2%	1.3%	1.4%	4.4%	4.3%	0.0%
MEAN	2.5%	2.3%	2.7%	2.2%	1.7%	0.5%	0.8%	1.6%	2.6%	4.3%	2.9%	(2.7%)
MEAN TOTAL QSR	0.9%	1.0%	1.6%	1.7%	1.2%	1.4%	0.8%	0.8%	1.8%	2.4%	4.1%	(0.9%)
Fast Casual												
Chipotle	8.1%	1.0%	0.9%	2.2%	3.3%	4.4%	6.1%	9.9%	10.0%	11.0%	13.4%	3.3%
El Pollo Loco	2.9%	1.7%	1.4%	(1.1%)	(0.9%)	2.6%	4.4%	2.4%	0.7%	1.1%	3.9%	(1.5%)
Fuddrucker's	(0.9%)	(3.6%)	0.6%	0.6%	(5.8%)	(3.9%)	(11.2%)	(5.3%)	(6.1%)	(5.5%)	0.1%	0.4%
Noodles & Company	(3.4%)	(3.5%)	(0.9%)	(0.2%)	5.4%	5.5%	4.0%	3.0%	4.6%	2.1%	2.8%	(7.2%)
Pie Five	(16.2%)	(17.3%)	(13.7%)	(12.6%)	(6.4%)	(1.8%)	(3.6%)	(4.4%)	0.0%	(12.2%)	(11.0%)	(21.4%)
Potbelly	(4.9%)	(4.8%)	(2.4%)	(3.6%)	(0.2%)	(0.2%)	(1.7%)	(4.7%)	(4.0%)	(3.0%)	0.1%	(10.1%)
Shake Shack	(1.8%)	(1.6%)	0.8%	1.7%	1.1%	(0.7%)	2.3%	3.6%	3.6%	2.0%	(3.6%)	(12.8%)
MEAN	(2.3%)	(4.0%)	(1.9%)	(1.9%)	(0.5%)	0.8%	0.0%	0.6%	1.3%	(0.6%)	0.8%	(7.0%)

Source: Restaurant Research LLC, Capital IQ, Technomic and company filings

Restaurant Same-Store Sales Data (Cont.)

	2017			2018				2019				2020
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Family Dining												
Chuck E Cheese	(3.8%)	(6.9%)	(6.0%)	(5.1%)	1.0%	2.2%	3.3%	7.7%	0.5%	(0.9%)	2.6%	(21.9%)
Cracker Barrel	(0.8%)	0.2%	1.1%	1.5%	(2.6%)	1.4%	3.8%	1.3%	1.3%	2.1%	3.8%	(41.7%) [1]
Denny's	2.6%	0.6%	2.2%	1.5%	(0.7%)	1.0%	1.4%	1.3%	3.8%	1.1%	1.7%	(6.3%)
IHOP	(2.6%)	(3.2%)	(0.4%)	1.0%	0.7%	1.2%	3.0%	1.2%	2.0%	0.0%	1.1%	(14.7%)
Luby's	(2.5%)	(4.5%)	1.5%	1.5%	2.4%	3.9%	(3.0%)	(2.2%)	(3.1%)	(3.2%)	1.7%	1.3%
Steak n Shake	(3.1%)	(2.2%)	(1.8%)	(1.7%)	(3.4%)	(6.9%)	(5.1%)	(7.9%)	(5.9%)	(6.5%)	(6.9%)	(7.9%)
MEAN	(1.7%)	(2.7%)	(0.6%)	(0.2%)	(0.4%)	0.5%	0.6%	0.2%	(0.2%)	(1.2%)	0.7%	(15.2%)
Casual Dining												
Applebee's	(6.2%)	(7.7%)	1.3%	3.3%	5.7%	7.7%	3.5%	1.8%	(0.5%)	(1.6%)	(2.5%)	(10.6%)
Bahama Breeze	1.4%	1.2%	2.5%	0.2%	0.6%	1.1%	(1.1%)	(3.7%)	1.9%	(4.2%)	(3.4%)	(0.5%)
BJ's Restaurants	(1.4%)	(1.7%)	1.6%	4.2%	5.6%	6.9%	4.5%	2.0%	2.0%	(0.3%)	0.4%	(15.5%)
Bonefish	(2.6%)	(4.3%)	0.6%	0.9%	1.5%	1.8%	(1.1%)	1.9%	0.1%	(2.2%)	0.5%	(13.9%)
Carrabba's Italian Grill	0.4%	(2.8%)	1.3%	0.9%	(0.6%)	(0.6%)	0.8%	0.3%	(1.6%)	0.1%	1.4%	(8.7%)
Cheesecake Factory	(0.5%)	(2.3%)	(0.9%)	2.1%	1.4%	1.5%	1.9%	1.3%	1.0%	0.4%	0.6%	(12.9%)
Chili's Grill & Bar	(1.7%)	(3.0%)	(1.6%)	(1.1%)	0.4%	1.9%	3.0%	2.7%	1.3%	2.3%	1.7%	(5.4%)
Chuy's	(1.0%)	(2.1%)	1.3%	(1.5%)	1.0%	0.5%	0.9%	3.2%	1.9%	2.6%	2.9%	(9.7%)
Dave & Buster's	1.1%	(1.3%)	(5.9%)	(4.9%)	(2.4%)	(1.3%)	2.9%	(0.3%)	(3.3%)	(3.2%)	(4.4%)	(4.7%)
Famous Dave's	(3.2%)	(1.5%)	1.8%	(0.9%)	(1.6%)	(1.4%)	(1.5%)	(0.7%)	0.4%	1.9%	0.9%	(12.3%)
LongHorn Steakhouse	3.5%	2.6%	3.8%	2.0%	2.4%	3.1%	2.9%	3.8%	3.3%	2.6%	6.7%	3.9%
Maggiano's	0.5%	(2.6%)	1.8%	0.5%	0.3%	0.0%	1.8%	0.4%	(0.2%)	(1.8%)	(1.4%)	(9.9%)
Olive Garden	4.4%	1.9%	3.0%	2.2%	2.4%	5.3%	3.5%	4.3%	2.4%	2.2%	1.5%	2.1%
Outback	0.3%	0.6%	4.7%	4.3%	4.0%	4.6%	2.9%	3.5%	1.3%	0.2%	2.7%	(9.5%)
Red Robin	0.5%	(0.1%)	2.7%	(0.9%)	(2.6%)	(3.4%)	(4.5%)	(3.3%)	(1.5%)	1.6%	1.3%	(20.8%)
Taco Cabana	(4.7%)	(12.6%)	(7.4%)	0.9%	3.1%	12.2%	5.1%	(0.5%)	(3.0%)	(4.8%)	(8.1%)	(13.5%)
Texas Roadhouse	4.0%	4.5%	5.8%	4.9%	5.7%	5.5%	5.6%	5.2%	4.7%	4.4%	4.4%	(8.4%)
MEAN	(0.3%)	(1.8%)	1.0%	1.0%	1.6%	2.7%	1.8%	1.3%	0.6%	0.0%	0.3%	(8.8%)
Fine Dining												
Fleming's	(1.3%)	(1.0%)	3.1%	2.9%	0.3%	0.5%	(0.4%)	0.6%	1.6%	0.4%	0.9%	(13.2%)
Ruth's Chris	2.9%	(1.6%)	1.5%	1.1%	1.3%	3.7%	(0.1%)	1.8%	(0.5%)	0.6%	1.4%	(13.5%)
Capital Grille	0.5%	2.0%	3.8%	2.8%	2.6%	3.9%	3.7%	4.3%	2.9%	1.5%	1.8%	4.2%
MEAN	0.7%	(0.2%)	2.8%	2.3%	1.4%	2.7%	1.1%	2.2%	1.3%	0.8%	1.4%	(7.5%)

1. Quarter ended May 1, 2020.
Source: Restaurant Research LLC, Capital IQ, Technomic and company filings

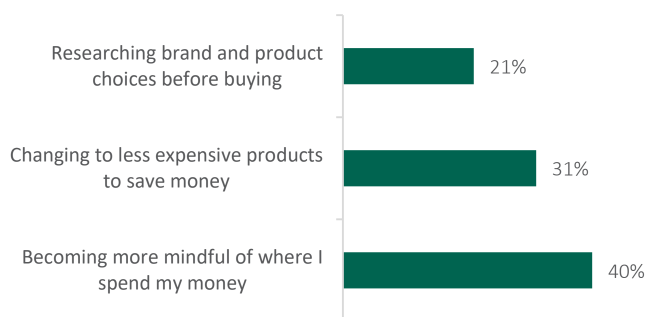
Restaurant Labor in the Face of Uncertainty

Restaurants are more labor intensive than any other retail business, measured as a percentage of sales.[1] Therefore, effectively managing labor costs is of utmost importance for restaurant operators. The need to control labor costs has taken on an added level of importance over the past several years as many restaurant operators have dealt with the effects of rapidly increasing minimum wage rates. While the topic of minimum wage remains a hot button issue among restaurant operators, employees and government officials, the response to COVID-19 added even more complexity to the discussion on labor. Recent legislation concerning unemployment benefits enabled former workers to earn up to double their weekly income by staying unemployed, rather than returning to work.[2]

Many industry experts are wondering how restaurant businesses will remain profitable while navigating the operational complexities caused by COVID-19. In these times of unprecedented uncertainty, it would be helpful for government officials to take a sensible approach to upcoming scheduled minimum wage increases and unemployment benefits and seek to serve as a stabilizing force for the restaurant industry, rather than a disruptive one.

To start, it is important to understand how the restaurant industry has fared through the minimum wage increases experienced over the past several years. Generally speaking, to the surprise of many observers, the industry has taken the wage increases in relative stride. It has not been easy, but it has not destroyed the industry as some predicted. There is now cause for concern because the industry's ability to absorb further wage increases is almost entirely dependent on the ability to pass on the added costs to consumers through price increases. This leads to a critical question that operators are trying to understand in advance of future wage hikes – what will declining consumer confidence caused by COVID-19 mean for acceptance of future price increases? A recent report by McKinsey & Company sheds some light on this topic.

CHANGE IN SHOPPING MINDSET SINCE COVID-19
% of Respondents Doing More



Source: McKinsey & Company

According to McKinsey's survey, more than 30% of consumers are changing to less expensive products to save money, and 40% of consumers are becoming more mindful of where they spend money, which could spell trouble for restaurants going forward.

Adding to the precarious situation for restaurants facing rising costs and declining pricing power, is that many restaurants have been heavily dependent on delivery over the past several months to survive the pandemic crisis. Not only can delivery severely cut into restaurant profits, but it makes the food markedly more expensive for the consumer.[3] At some point, customers will not be willing or able to absorb the additional cost, and restaurants will feel the pain of rising minimum wage costs far more than they have in the past. So, with all this uncertainty, what can be done to help the restaurant industry move forward?

One sensible solution is to defer future minimum wage increases around the country until the economy stabilizes from the impact of the pandemic. For example, California is one of 24 states to increase its minimum wage in 2020. A few large cities within the state with minimum wages already above the state level increased minimum wage further above state-mandated levels this year. California's minimum wage law, passed in 2016, explicitly gives the governor power to pause the wage hikes, should the economy hit a rough patch.[4] California's next minimum wage increase is scheduled for January 1, 2021. Given that there is no clear end in sight for the current economic downturn, it might be wise for the governor to consider postponing that increase. More broadly, state and local governments throughout the country should consider following suit to ensure well-intentioned minimum wage increases don't come at a time when businesses are least able to manage them, which could ultimately lead to the unintended consequence of employees losing jobs. It should be noted that although postponing scheduled minimum wage increases may be in the best interest of the economy and small businesses, including restaurants, it would likely be politically untenable to do so.

Another potential solution to mitigate current labor issues is for Congress not to extend the bonus federal unemployment benefits that are scheduled to expire at the end of July. At this point, Congress has not indicated that there will be an extension, so the impact of the well-intentioned, but moral hazard-creating stimulus should wind down soon.[5] Allowing the benefits to expire is critical to getting people back to work. This is not to say government assistance is not needed or welcome for employees, but rather to suggest there are more efficient ways of doing it. For example, direct payroll subsidies or reemployment bonuses would encourage employers to provide jobs and eliminate the additional incentive, beyond avoiding COVID-19, for employees to stay home.

The public health crisis created by the COVID-19 pandemic is like nothing the world has seen in the last hundred years. While there is no shortage of opinions on what the future will hold, everyone can agree that we are facing a far more uncertain future than anyone could have imagined at the start of the year. By deferring scheduled minimum wage increases and not extending federal unemployment benefits, the government can act as a stabilizing force in the economy and restaurant industry by making sure businesses are prepared to handle the wage hikes when they come and that both businesses and employees are taken care of until the effects of this pandemic are behind us.

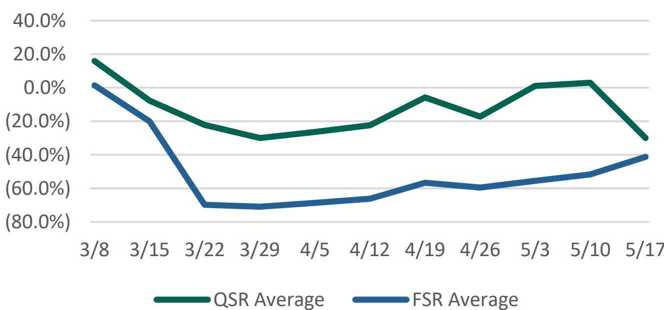
1. U.S. Bureau of Labor Statistics
2. U.S. Department of Labor
3. WAMU
4. OC Register
5. Forbes

Continuing Saga of COVID-19 and Its Impact on the Restaurant Industry

The resiliency of the restaurant industry during the COVID-19 virus has been an amazing testimony to the perseverance and ingenuity of restaurant industry participants. In mid-March, most restaurant dining rooms were closed or soon to be closed and industry sales were off between 20% and 40% for QSR and more than double that for the sit-down industry segments. Grocery store sales surged at the expense of the restaurant industry and most industry participants were stunned at the tremendous reversal in fortunes after a strong start of the year. Aided by the Paycheck Protection Program ("PPP"), the industry made significant adjustments in strategy, and managed to greatly blunt the effects of shelter in place and the lingering safety measures surrounding COVID-19.

While the long-term effects of this pandemic will be lost sales, cash flow, restaurant closures and many concept failures there have been some silver linings. In terms of segments, the winners are clearly the pizza and chicken categories while coffee, hamburgers and snack/dessert concepts have struggled. Several concepts including KFC, Popeyes, Wing Stop, Sonic, and Pizza Hut had astonishing success in pivoting to delivery, carry out and drive-thru business. While casual dining was the hardest hit segment during the shelter in place, many concepts were able to produce heroic increases in delivery and carry out business. Buffalo Wild Wings and Applebee's were able to generate nearly 60% of sales while having no dining room or bar revenue whatsoever. This is between a six and ten times (depending on the restaurant) improvement in delivery and carry out business which nobody expected. One of the big remaining questions is *how much home meal replacement business will remain when the nation's dining rooms reopen and the impact of COVID-19 has waned or been eliminated by vaccine or other conditions.*

WEEKLY SAME-STORE SALES (YTD MAY 2020)

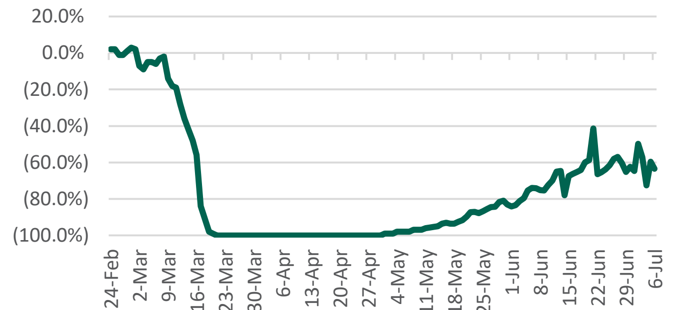


Source: Restaurant Research, LLC

A critical aspect for the survival of many restaurants was the Administration's quick response in creating, passing, and funding the PPP. The National Restaurant Association played a vital role in sponsoring and adding provisions to this bill that made it friendly to the restaurant trade. They should be heartily supported and congratulated by all restaurant operators that received this critical subsidy enabling operators to blunt some or even all the effects of lost revenue and cash flow in March, April and May. This legislation has been modified several times since the initial bill was passed and each time it has become more valuable to our industry. While the PPP was generally aimed at funding payrolls to avoid unnecessary unemployment, the bill generously provided up to 40% funding for rent, utilities and interest payments. This made it one of the most responsive programs we have ever seen of this nature during a financial crisis.

As dining rooms began to open in May some of the restaurant sales enjoyed by the QSR segment began a slow but steady migration to sit down restaurants. Concepts like Buffalo Wild Wings and Applebee's enjoyed significant increases in sales during this time, albeit with restricted capacity at some locations. Some concepts did a great job of reintroducing themselves to not only their core customer base but other demographics as well. KFC and Sonic enjoyed outstanding performance during the shelter in place and have established an important beachhead of sales with many customers from demographic groups that were not traditionally strong suits for the brands. Many concepts that previously had tepid delivery and carry out sales learned during the shelter in place how to perfect those sales channels. These dynamics will produce dividends for restaurant concepts that have reached new demographic groups and perfected the art of delivery and carry out.

YEAR-OVER-YEAR CHANGE IN SEATED RESTAURANT RESERVATIONS (YTD 2020)



Source: OpenTable

Some QSR restaurant concepts discovered that closing the dining room and eliminating unprofitable store hours at the beginning or end of the day produced more cash flow. Not having to staff interior registers (other than drive-thru overflow), consistently clean up the dining room and having the soda fountain off-limits to customers produced meaningfully higher cash flow for many concepts. Customers frequently bring canteens or other containers to the soda fountain and consume significantly more soda than was purchased. Other customers experiment by mixing flavors together and perhaps dumping out the entire concoction if it does not meet their satisfaction. Finally, many concepts do not allow unlimited refills, but have difficultly enforcing rules during the busy dayparts. Trimming unproductive store hours and having the dining room closed provided cash flow benefits as much as 1% to 2.5% higher than normal.

During the shelter in place timeframe some franchisors generously provided preemptive royalty relief for their franchisees. Fortunately, the PPP funding relieved some of the pressure on franchisors to continue this abatement beyond two or three months. QSR establishments quickly adapted to the significant uptick in home meal replacement which generated lots of delivery, carry out and drive-thru sales. This sector also benefited from being able to keep most of their payroll intact enabling PPP loan forgiveness eligibility and some franchisor royalty deferral and relief. However, the casual dining sector was not able to open

dining rooms or bars and therefore struggled to bring back meaningful portions of its payroll rendering PPP less effective but still valuable. Fortunately, the administration amended the regulations a couple times most notably reducing the payroll component from 75% to 60%. Nonetheless, many casual dining operators have accrued tremendous amounts of cost deferrals which may prove to be insurmountable for some operators. Lenders, landlords and franchisors are cautiously reviewing the situation to determine the financial health of many franchisees.

Many landlords abated or in rare cases eliminated rent for one to two months during the shelter in place timeframe. For the most part this abatement was added back to the lease at a future date. This presents a challenge to restaurants as the COVID-19 sales deterioration does not provide cash flow to restore most of the deferrals. In general, a restaurant operator should not be required to underwrite the COVID virus, in spite of the fact that many of these obligations are contractual, because it threatens the viability of their enterprise. Many operators will have as much as $150,000 per store of additional liabilities and deferrals. The industry will have to decide whether all of this burden will fall solely on the shoulders of the operators. For an operator that has $600,000 in debt per store adding $150,000 of additional debt represents a 25% increase in leverage. This meaningfully impacts restaurant operators, lenders, suppliers, franchisors and landlords. The way in which this issue is resolved meaningfully impacts the financial health of the industry.

Some of the states that aggressively opened restaurants in early May have had a significant resurgence in new COVID cases as a second wave sweeps across much of the nation. For some concepts closing a second time will be treacherous particularly with maintaining critical employees. The temporary unemployment subsidy that the federal government provided is $600 a week, twice what many states provide. In California, unemployment benefits amount to $397 a week meaning that furloughed employees are receiving the equivalent of a combined $52,000 salary. Although the temporary unemployment compensation subsidy is set to expire on July 24, this obviously incentivizes many employees against returning to work. A second disruption in employment from the second wave of COVID-19 cases could drive some employees into other industries. An extension of the federal subsidy could delay significant portions of the workforce from returning to restaurant work. This is a difficult balance that needs to be well thought-out so that it does not disturb the restaurant labor market at a time when operators can least afford that additional challenge.

COVID-19 will almost certainly persist into 2021. All expectations for a vaccine are coupled with the admonishment that it will take several months to produce enough doses to meaningfully inoculate our population up to the herd immunity standard necessary to defeat the virus. Therefore, restaurant operators should be aware that the health and hygiene provisions associated with containing the illness will also persist into 2021. Restaurant operators will have to be conscientious about the delicate balance between health safety and revenue generation. Hundreds of restaurant closures will take some pressure off the stronger remaining concepts. Hopefully, this will generate some incremental margin and help operators to accommodate the lingering expensive health and hygiene provisions which undermine profitability. Our highest hope is that the vaccine can be swiftly implemented allowing restaurants to freely operate for the first time since early March 2020.

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