

AMERICA'S GROWING APPETITE FOR FAST FOOD

With more and more American's consuming fast food, individual investors may want to place quick service restaurants on their investment menu.

In the United States, there is a common saying – “As American as apple pie.” Perhaps, however, that phrase should be updated to “As American as fast food.”

Today, the United States eats more fast food than any other country.¹ According to a study by the National Center for Health Statistics, 36.6% of American adults consume fast food daily.² Whether its convenience, rising grocery prices or brand loyalty, America's fast food consumption seems to be at an all-time high. Along with diners' growing appetite for fast food consumption, certain investors may have a hunger for fast food – or quick service restaurant (QSR) – investments.

WHAT ARE QUICK SERVICE RESTAURANTS?

QSRs are typically defined as restaurants with fast service, limited menu options, takeout service and, typically, no table service. Most have drive-thru service, and food cost is normally under \$10. Historians generally agree that the first fast food chain to open was White Castle in 1921. Americans found it appealing then for many of the same reasons they find it appealing today – the food was made quickly and in a very systematic way that “fit the tech fascinations of the '20s.”³

Today, QSRs are as popular as ever. In 2022, 27% of consumers stated they are eating fast food more often, compared to 2021.⁴ Additionally, 45% of consumers said they were going to order at least part of their Thanksgiving meal, traditionally the biggest cooking day of the year, from a restaurant.⁵ All of this could be due, in part, to the fact that, while restaurant food prices have increased, grocery prices have consistently increased more. Between February 2022 and February 2023, the Consumer Price Index Away from Home increased 8.4%, while grocery store prices increased 10.2% during that same time period.⁶

The United States eats more fast food than any other country.¹ According to a study by the National Center for Health Statistics, 36.6% of American adults consume fast food daily.²

1. Ireland, Sophie. "The Most Fast Food-Obsessed Countries in the World, 2023." CEOWorld Magazine. December 21, 2022. <https://ceoworld.biz/2022/12/21/the-most-fast-food-obsessed-countries-in-the-world-2023/>

2. Fryar, Cheryl D., M.S.P.H, Et. al. "Fast Food Consumption Among Adults in the United States, 2013-2016." NCHS Data Brief No. 322. National Center for Health Statistics. October 2018. Reflects the most recent data available as of December 2022. <https://www.cdc.gov/nchs/products/databriefs/db322.htm>

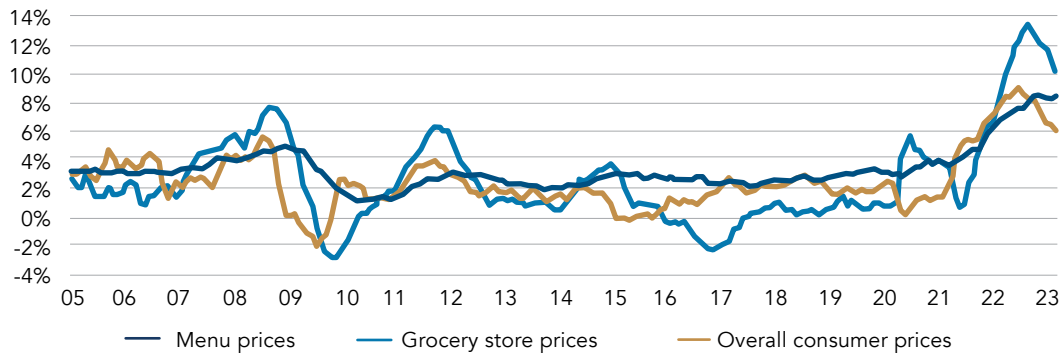
3. Diamond, Anna. "A Crispy, Salty, American History of Fast Food." Smithsonian Magazine. June 24, 2019. <https://www.smithsonianmag.com/history/crispy-salty-american-history-fast-food-180972459/>

4. PopMenu. "58% of U.S. Consumers Are Dining Out More Often in 2022, Regardless of Higher Menu Prices, According to Popmenu Study." October 20, 2022. <https://www.globenewswire.com/news-release/2022/10/20/2538069/0/en/58-of-U-S-Consumers-Are-Dining-Out-More-Often-in-2022-Regardless-of-Higher-Menu-Prices-According-to-Popmenu-Study.html>

5. PopMenu. "Study: Almost Half of Guests Will Order Thanksgiving Meals from Restaurants." QSR. November 18, 2022. <https://www.qsrmagazine.com/news/study-almost-half-guests-will-order-thanksgiving-meals-restaurants>

6. "Menu Prices." National Restaurant Association. March 2023. <https://restaurant.org/research-and-media/research/economists-notebook/economic-indicators/menu-prices/>

Menu Prices, Grocery Store Prices & Overall Consumer Prices⁷ Percent Change Versus Same Month in Previous Year

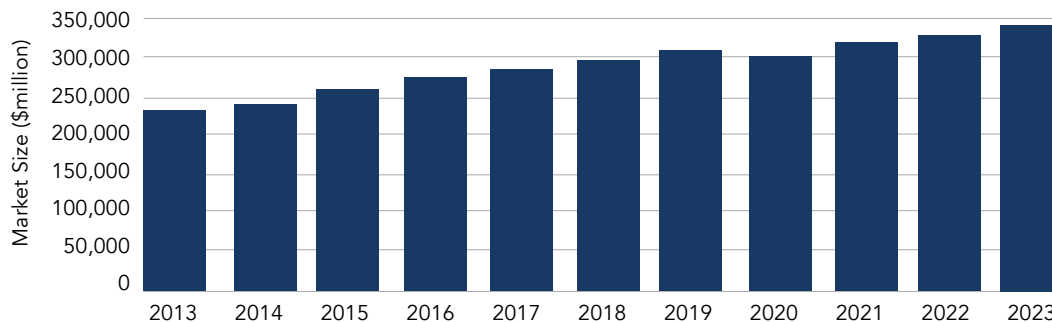


QSR market size has increased steadily over the last ten years to a current revenue of \$366.9 billion, with a 2.5% annualized growth rate since 2018.⁸

Similarly, QSRs are becoming more ubiquitous. As of January 2023, there were more than 200,000 fast food establishments and over 5 million people employed in the industry.⁸ Employment growth has increased at a rate of 2.2% since 2018.⁸ Like employment, market size has increased steadily over the last ten years to a current revenue of \$366.9 billion, with a 2.5% annualized growth rate since 2018.⁸

What does this mean for investors? The opportunity to take part in a growing, often overlooked asset class with several unique advantages.

QSRs in the U.S. Market Size 2013 – 2023⁸



QSR revenue has grown by 45% between 2013 and 2023.

DELICIOUS TRENDS SHAPING THE INVESTMENT OPPORTUNITY

The growth of the QSR industry has been shaped by several demographic and economic trends. First, many Americans are leading busier lives than ever before. The number of dual income families with children under 18 has risen from 49% in 1970 to 66% in 2019.⁹ Similarly, with people getting married later in life, the number of one-person households has increased to 29% of all American households, up from 13% in 1960.¹⁰ As for one parent family groups, 44% of those have two or more children living with them.⁹ More Americans are working, and with technology keeping many of those connected to their jobs even after hours, this means less time to cook.

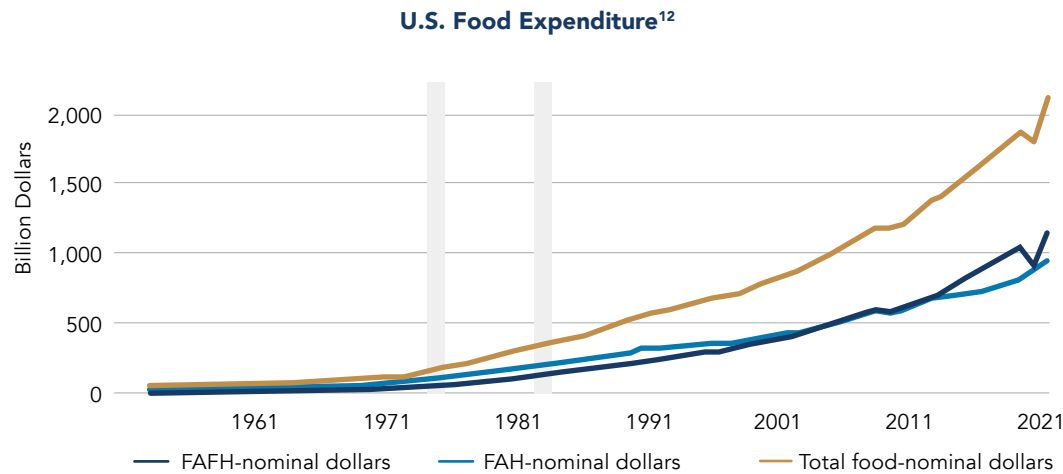
7. Bureau of Labor Statistics, National Restaurant Association. Figures are not seasonally adjusted

8. "Fast Food Restaurants in the U.S. -- Market Size 2005 - 2029." IbisWorld. January 12, 2023. <https://www.ibisworld.com/industry-statistics/market-size/fast-food-restaurants-united-states/>

9. "The Rise in Dual Income Families." Pew Research Center. June 12, 2019. Reflects the most current data available as of December 2022. https://www.pewresearch.org/fact-tank/2019/06/12/fathers-day-facts/ft_17-06-14_fathers_dual_income-2/

10. "Census Bureau Releases New Estimates on America's Families and Living Arrangements." United States Census Bureau. November 17, 2022. <https://www.census.gov/newsroom/press-releases/2022/americas-families-and-living-arrangements.html>

For dual-income families, single parents, and those working long hours, QSRs are often a faster – and less expensive – option than eating at home. As a result, more income has been directed to food away from home (FAFH). In 2021, FAFH expenditure accounted for approximately 55% of the U.S.’ total food expenditure, in nominal dollars, up from around 50% in 2011 and around 26% in the 1950s.¹¹



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Along with becoming busier, many Americans are also becoming more health-conscious, and QSRs have followed suit. Today, many QSRs offer menu options that are perceived to be healthier, helping them to appeal to a broader market and those potential customers who might not normally eat fast food. Chain restaurants offer options that are allergy friendly or appeal to certain diet trends, such as burgers without buns for the popular “keto” diet. Also, gone are the days of QSRs only serving burgers. Today, there are several fast food segments, including coffee and snacks, seafood, pasta and many more.



Coffee and Snacks



Seafood



Pasta

Finally, technology trends are helping QSRs to generate additional revenue opportunities and potentially improve profitability. Before the pandemic, most QSR patrons were already skipping the dining room, with 70% of sales going through the drive-thru lane.¹³ COVID-19 only exacerbated this trend. From February 2020 through February 2022, drive-thru orders grew by 20% and delivery increased by 116%.¹⁴ In addition to more drive-thru lanes and delivery apps, some QSRs are beginning to adopt AI technology, integrating social media and utilizing pick-up lockers and kiosks.

11. "Interactive Charts: Food Expenditures." U.S. Department of Agriculture, Economic Research Service. December 2022. <https://www.ers.usda.gov/data-products/food-expenditure-series/interactive-charts-food-expenditures/#state>

12. USDA, Economic Research Service, Food Expenditure Series and the National Bureau of Economic Research. Estimates are in nominal dollars. FAH = food at home. FAFH = food away from home. Recessions lasting more than one year are denoted as gray bands in the chart. Recessions are defined by the National Bureau of Economic Research. These estimates are for all purchasers. The Food Expenditure Series has been comprehensively revised, resulting in a break in the series in 1997. Data from 1950 to 1996 are extrapolated using the percentage change in the previously established estimates to pull 1997 levels back to 1950

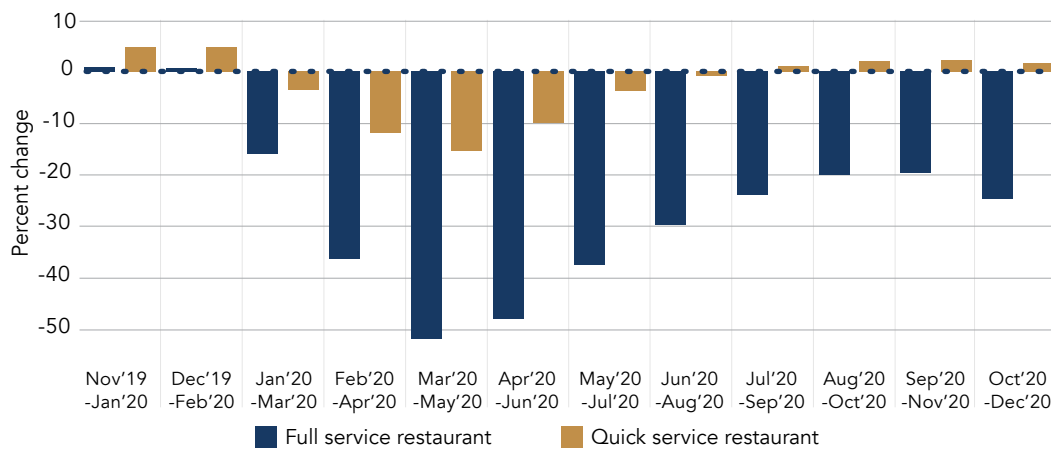
13. Oches, Sam. "The 2018 QSR Drive-Thru Study." QSR. October 2018. <https://www.qsrmagazine.com/reports/2018-qsr-drive-thru-study>

14. "Restaurant Carry-Out is Losing Out to Delivery and Drive-Thru as More Convenient Ordering Options." NPD. April 26, 2022. <https://www.npd.com/news/press-releases/2022/restaurant-carry-out-is-losing-out-to-delivery-and-drive-thru-as-more-convenient-ordering-options/>

POTENTIAL BENEFITS

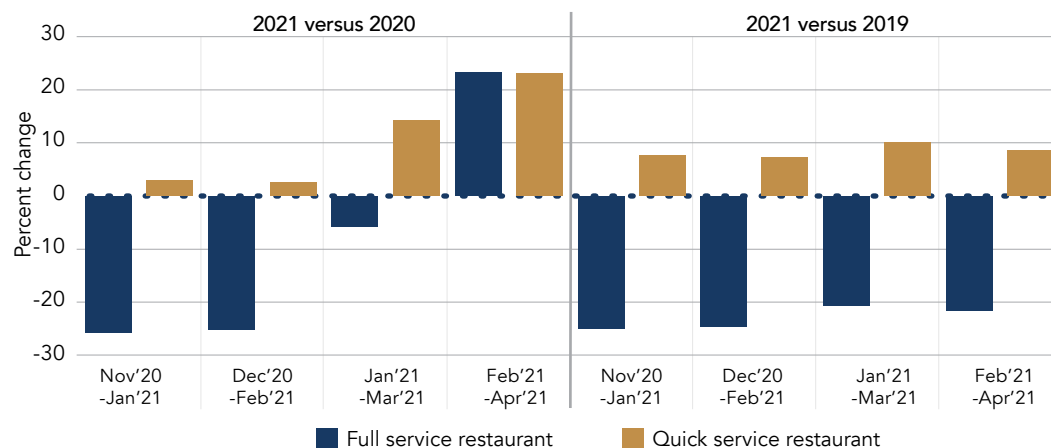
One reason why QSRs may appear especially appetizing to certain investors today is their potential to act as a hedge against inflation. While inflation has slowed since the 40-year plus high of 9.1% in June 2022, it currently sits at 6.0%, as of February 2023, which is still well above the Federal Reserve's 2% target rate.¹⁵ Historically, however, QSRs have performed well during volatile markets. In 2008, the first full year of the Great Recession, restaurant spend actually increased 3%.¹⁶ Similarly, during the COVID-19 pandemic, QSRs were considered an essential business, and many did not close down. So, while the restaurant industry as a whole lost \$240 billion dollars in 2020¹⁷, QSRs recovered quickly and even started to increase dollars spent in 2020 versus a year earlier. This recovery continued into 2021.

Percent change in monthly average total dollars spent compared with 1 year prior (2020 versus 2019), by restaurant type¹⁸



QSRs recovered quickly from the pandemic and even started to increase dollars spent in 2020 versus a year earlier. This recovery continued into 2021.

Percent change in monthly average total dollars spent compared with 1 and 2 years prior (2021 versus 2020 and 2019), by restaurant type¹⁹



11. "United States Inflation Rate." <https://tradingeconomics.com/united-states/inflation-cpi>
 12. Rutherford, James. "Consumer: Restaurants Industry Note." Stephens. March 9, 2022. <https://stephens2.bluematrix.com/sellside/EmailDocViewer?encrypt=12d24169-a524-444d-aafa-810855a76400&mime=pdf&co=Stephens&id=ratings@benzingapro.com&source=mail>
 15. Klein, Danny. "Fast Food Emerges from COVID a More Resilient Industry than Ever." QSR. December 3, 2021. <https://www.qsrmagazine.com/consumer-trends/fast-food-emerges-covid-more-resilient-industry-ever>
 18. USDA. Economic Research Service using data from The NPD Group's CREST. Results based on the percent change in the 3-month rolling average of total nominal dollars spent during the time period listed compared with the same period 1 year prior.
 19. USDA. Economic Research Service using data from The NPD Group's CREST. Results based on the percent change in the 3-month rolling average of total nominal dollars spent during the time period listed compared with the same period 1 and 2 years prior.
 20. Rutherford, James. "Consumer: Restaurants Industry Note." Stephens. March 9, 2022. <https://stephens2.bluematrix.com/sellside/EmailDocViewer?encrypt=12d24169-a524-444d-aafa-810855a76400&mime=pdf&co=Stephens&id=ratings@benzingapro.com&source=mail>
 21. "2022 State of the Restaurant Industry." National Restaurant Association. 2022. <https://restaurant.org/nra/media/research/reports/2022/soi2022-summary.pdf>

Historically, QSR spend has been a “fairly defensive category of consumer spending”, with fast food an affordable option for many Americans.²⁰ In fact, 54% of American adults as a whole – and 72% of Millennials – say that takeout or delivery food is essential to the way they live.²¹ This may make sense, especially for younger generations, in which on-demand goods and services are expected.



SAY THAT TAKEOUT OR DELIVERY FOOD IS ESSENTIAL TO THE WAY THEY LIVE.²¹

QSRs also have other unique potential advantages that help to contribute to their performance during uncertain markets. First, they have the ability to take advantage of cost-pass through. With their relatively low-cost items, QSRs may quickly streamline menus and adjust prices more than other retailers. QSRs have the ability to quickly remove menu items that aren't selling well, helping to cut down on expenses and deal with supply chain issues.

QSRs are also e-commerce resistant. Many shopping malls have closed in recent years, another trend accelerated by the pandemic, and many of those remaining, especially those in secondary and tertiary markets, are “operating at historically high vacancy rates.”²² This may be attributed to, at least in part, the rise of large e-commerce shopping sites. Unlike these other brick-and-mortar retailers, however, fast food cannot be replaced by internet shopping.

Finally, QSRs have the ability to function at a high-level with a smaller workforce by leveraging technology and drive-thru services. While there are still more than 10 million job openings in the U.S., as of January 2023, QSRs utilize meal delivery apps, which allow consumers to eat fast food without leaving the house, are beginning to test AI-powered voice bots to take orders and many have added a second or even third drive-thru lane.²³

QSRs may take advantage of cost-pass through, are e-commerce resistant and may leverage technology. This helps to contribute to their performance during uncertain markets.

AN APPETIZING ASSET CLASS

As an asset, QSRs offer additional potential advantages. For example, QSRs may be considered as private equity or real assets, offering unique potential advantages such as diversification benefits and positive correlation with inflation. Private equity has also generally outperformed public markets historically and may help to provide an increased risk/return portfolio profile.²⁴

An investor also might choose to invest in QSRs from a real estate perspective. By investing in the property itself, an investor may receive the possible benefits of net lease commercial real estate, such as long-term contracts with credit-worthy tenants and a consistent cash flow generation from multiple sources of repayment.

As with any investment, QSRs may carry risk as an asset class. When investing in real estate, there is the risk that the tenant may vacate the building. Investors also may have little or no access to necessary information regarding the leadership of QSR teams and could lose some or all of their capital invested. Good management, both of the restaurant and the investment, is essential. Also, the process of making improvement to QSRs takes time – sometimes a lot of time. Investors may find their capital locked-up for an extended amount of time with little immediate return. The expectation, however, is that returns become positive as investments are realized and cash is returned to investors.

24. Cambridge Associates, data as of June 2022. Private equity and private credit returns shown net of fees. Past performance does not guarantee future results, which may vary. For benchmarking purposes, public market equivalent (PME) returns reflect the performance of a public market index (“index”) expressed in terms of an internal rate of return and takes into account the timings of a private equity fund’s cash flows. PME returns do not represent the actual performance of the index. Indices are unmanaged and investors cannot invest in indices. The index returns used to calculate PME returns are gross total return, with dividends reinvested and do not reflect the deduction of any fees or expenses, which would reduce returns. MSCI World Index used as the public equity market index; S&P LSTA Leveraged Loan index used as the public loan market index. For educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities.

QSRs are ubiquitous across the American landscape, but may be an asset that is overlooked by investors. However, with trends that seem to favor continued positive growth and their historic resilience, combined with their ability to act as a hedge against inflation, QSRs may be a delicious addition for certain investors who can stomach a long-term strategy with attractive upside potential.

KEY TAKEAWAYS

1	QSRs – restaurants with fast service, limited menu options and affordable prices – are visited by 36.6% of Americans daily and have a market size over \$360 billion.
2	As of February 2023, grocery prices have increased 10.2%, year-over-year, compared to only 8.4% for restaurant prices, possibly contributing to more people eating food away from home.
3	Historically, QSRs have performed well during volatile markets, outperforming during the Great Recession and being named an essential business during the pandemic.
4	QSRs have the ability to pass-through costs during inflationary times, are e-commerce resistant and may utilize drive-thru lanes and technology to function with fewer employees.
5	There are multiple ways to invest in QSRs, including private equity and commercial real estate.
6	Making improvements to QSRs may take time, but, for certain investors, QSRs may offer attractive upside potential.

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