

Journal of Hospitality Financial Management

The Professional Refereed Journal of the International Association of Hospitality Financial Management Educators

Volume 21 | Issue 1

Article 1

Fall 10-7-2013

2013 – A Performance Review for Restaurant Firms

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Recommended Citation

Sheel, Atul (2013) "2013 – A Performance Review for Restaurant Firms," *Journal of Hospitality Financial Management*: Vol. 21 : Iss. 1 , Article 1.

DOI: <https://doi.org/10.1080/10913211.2013.820069>

Available at: <https://scholarworks.umass.edu/jhfm/vol21/iss1/1>

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EDITOR'S NOTE . . .

2013 – A PERFORMANCE REVIEW FOR RESTAURANT FIRMS

The restaurant industry continues to show a steady growth in 2013. Per the latest report from the National Restaurant Association (NRA), the outlook for the restaurant industry is quite robust this year. Experts predict the industry to grow steadily with improving economic climate, generating more jobs and income. The total annual restaurant industry sales are expected to reach a record high of \$660.5 billion in 2013, a 3.8% increase over 2012 annual sales.

Table 1 summarizes the current trend of stock returns for key restaurant firms in 2013. The one-year average return (41.26%) of restaurant stocks as of June 2013 surpassed the one-year average return of S&P 500 index (25.63%) by almost 15.63%. The trend is suggestive of this industry's continued growth and strong recovery since its recent slump. The Quick Service Restaurants (QSRs) maintained a healthy performance, with their stocks yielding 41.18 percent one-year average return. The average one-year return for the Family, Casual, and Full Service Restaurants was 39.2 percent, significantly more than last year (19.58% in October 2012). Such a trend suggests a significant growth in consumer preference for fine dining spurred by steady recovery in per capita income and the overall economy.

According to latest reports of the NRA, restaurant-industry sales are once again projected to surpass almost four percent of the U.S. gross domestic product in 2013 (National Restaurant Association, 2013). With this industry's job growth outpacing the overall economy in 12 consecutive years since 2000, restaurants are projected to employ 13.1

million people in 2013, or nearly 10 percent of the U.S. workforce.

Recent changes in the NRA's Restaurant Performance Index (RPI) support the optimism of NRA experts. RPI is a combination of the current situation index (derived from recent period restaurant industry indicators such as same-store sales traffic, labor, and capital expenditures) and the expectations index (derived from forward-looking or six-month outlook for restaurant industry indicators) and is based on the NRA's monthly survey of U.S. restaurateurs. Table 2 summarizes recent trends in the NRA's statistical barometer, the RPI for the period January 2009 to April 2013. Figure 1 presents the graph for RPI trends during the first half of 2013.

RPI values above 100 indicate expansion, whereas values below 100 suggest a period of contraction for key restaurant industry indicators. As shown in Figure 1, the RPI values clearly show an expansionary trend for restaurant industry indicators in January, March, and April. The RPI for April 2013 advanced to 101, a 0.4% increase over the March figures. On a positive note, the economy has also shown a gradual and steady recovery from its pre-2010 recessionary level. Major stock indexes have shown uninterrupted gains for the past seven months. During this period, our labor market conditions have also improved steadily, with unemployment reaching 7.6 percent in May. According to the Federal Reserve, household spending and business fixed investment have also advanced steadily, and the housing sector has strengthened (Board of Governors of the Federal Reserve System, 2013). With economic activity expanding at a moderate pace and economic recovery well on its way, the Federal Reserve has announced its

TABLE 1. 2013 Restaurant Stock Return Trends – (June)

| Stock Name | MarketCap (Millions) | YTD % | 1-Month | 3-Month | 1-Year | 3-Year | 5-Year |
|--|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| QUICK SERVICE RESTAURANTS | | | | | | | |
| AFC Enterprises, Inc. | 841 | 34.75 | 4.67 | -0.09 | 68.95 | 53.90 | 33.00 |
| Biglari Holdings, Inc. | 580 | 3.71 | -0.25 | 5.00 | 7.06 | 7.61 | 25.64 |
| Carrols Restaurant Group, Inc. | 152 | 7.36 | 6.82 | 21.59 | 13.03 | 64.55 | 31.61 |
| Domino's Pizza, Inc. | 3400 | 39.70 | 5.33 | 21.38 | 104.71 | 70.63 | 38.96 |
| Jack In The Box, Inc. | 1726 | 35.70 | 5.03 | 15.16 | 52.02 | 21.85 | 9.53 |
| McDonald's Corporation | 100004 | 14.83 | -1.00 | 1.98 | 13.87 | 15.56 | 13.96 |
| Sonic Corporation | 824 | 41.02 | 11.98 | 23.36 | 65.13 | 15.86 | -2.89 |
| Wendy's Co. | 2356 | 29.15 | -0.17 | 10.04 | 34.14 | 13.14 | -0.90 |
| Yum Brands Inc. | 32487 | 9.77 | 2.94 | 4.98 | 11.72 | 21.16 | 15.91 |
| Average Quick Service Restaurants | 15818.89 | 24.00 | 3.93 | 11.49 | 41.18 | 31.58 | 18.31 |
| QUICK SERVICE SPECIALTY RESTAURANTS | | | | | | | |
| Chipotle Mexican Grill, Inc. | 11519 | 25.28 | -0.67 | 16.40 | -10.09 | 34.62 | 32.69 |
| Krispy Kreme Doughnut Inc. | 1170 | 90.41 | 36.44 | 23.68 | 189.47 | 69.62 | 27.99 |
| Panera Bread Company, Inc. | 5534 | 18.15 | 0.57 | 17.11 | 26.42 | 30.72 | 31.29 |
| Starbucks Corporation | 50234 | 25.89 | 4.62 | 18.22 | 25.31 | 34.96 | 31.23 |
| Tim Hortons, Inc. | 8411 | 12.72 | -1.95 | 7.34 | 6.76 | 19.60 | 13.46 |
| Average Quick Service Specialty Restaurants | 15373.60 | 34.49 | 7.80 | 16.55 | 47.57 | 37.90 | 27.33 |
| Average Quick Service and Specialty Restaurants | 15659.86 | 27.75 | 5.31 | 13.30 | 43.46 | 33.84 | 21.53 |
| FAMILY DINING RESTAURANTS | | | | | | | |
| Bob Evans Farms, Inc. | 1332 | 20.25 | 5.29 | 19.27 | 23.02 | 22.23 | 9.97 |
| Cracker Barrel Old Country Store, Inc. | 2270 | 50.08 | 10.22 | 19.97 | 61.64 | 25.23 | 30.39 |
| Denny's Corporation | 542 | 21.11 | -0.17 | 2.96 | 35.71 | 28.28 | 10.06 |
| DineEquity Inc. | 1385 | 9.04 | 1.85 | 2.10 | 60.22 | 30.33 | 10.65 |
| Average Family Dining Restaurants | 1382.25 | 25.12 | 4.30 | 11.08 | 45.15 | 26.52 | 15.27 |
| CASUAL DINING RESTAURANTS | | | | | | | |
| Brinker International, Inc. | 2896 | 33.75 | -0.36 | 16.16 | 29.13 | 39.43 | 18.19 |
| Buffalo Wild Wings, Inc. | 1863 | 36.36 | 4.50 | 17.24 | 14.32 | 35.45 | 25.93 |
| Darden Restaurants Inc. | 6897 | 20.10 | -0.56 | 9.72 | 6.82 | 9.33 | 13.80 |
| Red Robin Gourmet Burgers, Inc. | 799 | 59.96 | 14.20 | 23.04 | 90.45 | 41.65 | 12.16 |
| Ruby Tuesday, Inc. | 590 | 23.16 | -0.21 | 29.76 | 41.73 | -2.21 | 7.01 |
| Texas Roadhouse, Inc. | 1763 | 51.61 | 4.75 | 30.80 | 43.77 | 21.29 | 23.17 |
| Average Casual Dining Restaurants | 2468.00 | 37.49 | 3.72 | 21.12 | 37.70 | 24.16 | 16.71 |
| FULL SERVICE RESTAURANTS | | | | | | | |
| BJ's Restaurants, Inc. | 1068 | 15.29 | 1.17 | 20.11 | -2.01 | 13.96 | 28.40 |
| CEC Entertainment, Inc. | 748 | 28.23 | 8.18 | 30.87 | 24.23 | 3.55 | 6.31 |
| Cheesecake Factory, Inc. | 2243 | 29.35 | 3.24 | 16.93 | 33.64 | 18.63 | 19.76 |
| Kona Grill, Inc. | 93 | 24.94 | 8.70 | 26.69 | 22.96 | 44.78 | 9.05 |
| Ruth's Hospitality Group, Inc. | 451 | 73.73 | 7.61 | 33.23 | 102.40 | 39.83 | 13.89 |
| Average Full Service Restaurants | 920.60 | 34.31 | 5.78 | 25.57 | 36.24 | 24.15 | 15.48 |
| Average Family, Casual and Full Service Restaurants | 1662.67 | 33.13 | 4.56 | 19.92 | 39.20 | 24.78 | 15.92 |
| Restaurant Industry | | | | | | | |
| Average | 8419.93 | 30.53 | 4.92 | 16.72 | 41.26 | 29.16 | 18.63 |
| S & P 500 | | 16.98 | -0.77 | 6.98 | 25.63 | 16.38 | 6.67 |

Source: Morningstar Investment Research Center.

Note. Data until June 19, 2013.

optimistic decision to taper down its economic stimulus package. Given the gradual but steady growth in disposable income accompanying our economic recovery, and with new menu innovations, restaurant re-imaging and new

marketing efforts gaining focus in 2013, experts on Wall Street as well as the NRA seem quite optimistic that the restaurant industry should continue to grow and improve in the coming months.

TABLE 2. Restaurant Performance Index (RPI) Trend January 2009–April 2013

| Month | 2009 | 2010 | 2011 | 2012 | 2013 |
|-------|------|-------|-------|-------|-------|
| Jan | 97.4 | 98.3 | 100.2 | 101.3 | 100.6 |
| Feb | 97.5 | 99.0 | 100.7 | 101.9 | 99.9 |
| Mar | 97.7 | 100.5 | 101.0 | 102.2 | 100.6 |
| Apr | 98.6 | 100.4 | 100.9 | 101.6 | 101.0 |
| May | 98.3 | 99.7 | 99.9 | 101.4 | |
| Jun | 97.8 | 99.5 | 100.6 | 101.4 | |
| July | 98.1 | 99.4 | 99.7 | 100.2 | |
| Aug | 97.9 | 99.5 | 99.4 | 100.6 | |
| Sep | 97.5 | 100.3 | 100.1 | 100.4 | |
| Oct | 98.0 | 100.7 | 100.0 | 99.5 | |
| Nov | 97.8 | 99.9 | 100.6 | 99.9 | |
| Dec | 98.7 | 101.0 | 102.2 | 99.7 | |

Source: National Restaurant Association.

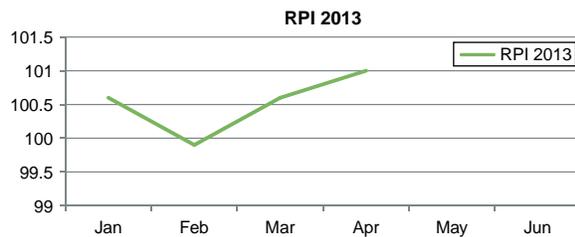


FIGURE 1. National Restaurant Association's Restaurant Performance Index. Values Greater than 100 = Expansion; Values Less than 100 = Contraction. **Source:** National Restaurant Association (color figure available online).

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