

Concept Analysis & Benchmark Report

Chili's Grill & Bar

2023

Executive Summary

Chili's (5th largest casual segment player) enjoys core brand equity as a sit-down Southwest (Tex-Mex) chain that specializes in Big Mouth burgers, sizzling fajitas, chicken crispers and margaritas. Brand positioning elements also include: good value for the money; great place to hang-out with family & friends; a great bar atmosphere; and a casual segment leading tech platform. Leading value scores reflect: its new, margin friendly 3 for Me platform featuring 3 price tiers; \$10 lunch combos (salad or soups & entree) which are available M-F; \$6 Margarita of the month offers; and practice of offering discounts through direct & digital as opposed to operationally complex LTOs. The relaunch of TV ads (after a 3 year hiatus) was prompted by new CMO & VP of Marketing who previously worked with Brinker's new CEO to implement KFC's successful turnaround. Use of a cost-effective digital marketing strategy leverages its 12MM loyalty program while helping to: better target a younger demo; support off-premise & digital ordering; and promote It's just Wings virtual brand. Notably, Chili's off-premise business has grown by +51% from the beginning of FY20 to FY22. Its new "Raise the Bar" program is driving high-margin alcohol sales and its "Team Service Evolution" labor model is improving the quality & efficiency of its operational execution (further improving its overall value equation). All-the-same, Chili's declining domestic system sales market share through 2022 and a significant average check underperformance reflects a higher-than-average mix of value seeking guests during tough economic times. Notably, a resultant inability to pass along its cost inflation to its value oriented guests has led to a system worst store-level FY22 EBITDAR margin. In conclusion, while Chili's has been able to distinguish itself in a crowded FSR space with an attractive Tex-Mex menu, fun experience, leading value and digital strength, the chain's immediate challenge is to survive the onslaught of economic pressures on its value oriented customer base.

Parent Company Summary

Parent Company	Ticker	Corp. Debt Rating	Net Debt/ EBITDA	EV/ EBITDA	Stock Performance		
					2022	TTM	Mar-23
Brinker International, Inc.	EAT	B1	7.38	7.10	-12.8%	-0.4%	
\$1B+ Chains			5.95	14.99	-18.7%	3.1%	

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Chili's Grill & Bar

Strengths

- Core brand equity as a sit-down Southwest (Tex-Mex) chain that specializes in Big Mouth burgers, sizzling fajitas, chicken crispers and margaritas.
- Brand positioning elements also include: good value for the money; great place to hang-out with family & friends; a great bar atmosphere; and a casual segment leading tech platform.
- Highest value scores in casual reflects strong everyday value platforms for both lunch & dinner and competitive menu price increases.
- Store-level margins benefitted from the replacement of its 2 for \$25 everyday value platform with its new 3 for Me platform featuring 3 price tiers.
- \$10 lunch combos (salad or soups & entree) are available M-F from 11AM - 4PM.
- \$6 Margarita of the month provides compelling value and new news capable of generating significant social media buzz & traffic.
- Chili's discounts through direct & digital as opposed to operationally complex LTOs.
- Relaunch of TV ads (after a 3 year hiatus) prompted by new CMO & VP of Marketing who previously worked with Brinker's new CEO to implement KFC's successful turnaround.
- Cost-effective digital marketing strategy leverages its 12MM loyalty program (which drives 20% of traffic) while helping to: better target a younger demo; support off-premise & digital ordering; and promote It's just Wings virtual brand which mixed 6% during fiscal 4Q22.
- From the beginning of FY20 to the end of FY22, Chili's off-premise business has grown by +51% and the chain's off-premise mix was 33% during fiscal 2Q23.
- 2022 menu restructuring reduced operational complexity and management recently reported its best food grade scores "in a long, long time".
- "Raise the Bar" program launched during fiscal 1Q23 is driving high-margin alcohol sales.
- "Team Service Evolution" labor model includes: iPad minis with POS software for each server; kitchen display screens in the bar & beverage area; and a runner position to assist servers on the floor.
- Manager turnover is below pre-covid levels, and huge strides have been made in hourly turnover.
- Sales outlook benefits from: +8% to +9% menu price increase for FY23; strong relative value positioning; a return to national media; a reboot of its 12MM loyalty program; and its Raise the Bar initiative.
- Corporate believes that its ownership of 92% of system stores provides it with a competitive advantage because it facilitates quicker roll-outs of expensive tech capex investments.

Challenges

- System sales market share for this 5th largest casual segment player has declined -2.4% from 2013 - 2022.
- Check is -27% lower than the segment average.
- Higher than average mix of value seeking guests.
- New CEO has identified the need to manage down Chili's value mix (37% during summer 2022) which was primarily driven by loyalty rewards.
- Management expects to exit FY23 with menu pricing in the +8% to +9% range - this could represent a headwind for its value oriented guests.
- Traffic guidance for fiscal 2023: negative mid-single-digit range.
- High-margin alcohol mix declined substantially post-covid, revealing a key shortfall of off-premise sales.
- System worst store-level FY22 EBITDAR margin reflects higher COGs and labor costs.
- The last reimage program was completed way back in 2014 although new updates will begin to focus on the Midwest.
- Annual net unit counts have been running flat to slightly down over the last 10 years.
- Low sales-to-investment ratio.

Chili's Grill & Bar

Casual

RR Dashboard - Domestic System

	Chain	Segment Avg./Total	Chain	Segment Avg./Total
System Scale (2022)				
System Sales (\$'000)	\$3,417,800	\$32,516,290		
Market Share by Sales	10.5%			
System Units	1,232	8,561		
Market Share by Units	14.4%			
Growth (2022)				
System Sales 2 Yr. Avg.	5.1%	13.1%		
System Sales 10 Yr. Avg.	-0.7%	2.2%		
Gross New Units 2 Yr. Avg.	0.8%	0.9%		
Gross New Units 10 Yr. Avg.	0.9%	1.8%		
Same-Store-Sales (Systemwide Calendar Year)				
2 Yr. Avg.	8.6%	17.6%		
10 Yr. Avg.	0.5%	2.0%		
RR SSS Index (Base Yr. 2011)	108.7	116.5		
Unit Closures				
2 Yr. Avg.	0.8%	1.4%		
10 Yr. Avg.	1.3%	1.5%		
Marketing				
Gross Local Contribution	0.00%	0.3%		
Gross National Contribution	0.96%	1.9%		
Total Media Ad Spend (\$ MM)	\$6	\$522		
Segment Market Share	1.1%			
Menu, Marketing & Promotions				
Menu Size	73	82		
# New Products 2021	8	9		
# New Products YTD 2022	1	1		
Average check	\$16.37	\$21.06		
Daypart sales				
Breakfast	0%	N/a		
Lunch	33%	N/a		
Dinner	67%	N/a		
Afternoon & Late Night				
Store Level Labor Structure				
Total Hourly/Crew Employees			50 - 200	
Average Employees @ Peak Shift			25 - 40	
Unit Economics				
Average Unit Volume "AUV"			Jun-22	FYE 2022E
COGs			\$3,200,000	\$5,019,125
Labor			28.6%	28.2%
EBITDAR (Pre G&A)			34.7%	34.4%
			14.0%	13.7%
Unit Level M&A Multiple				
			4.33	4.52
Unit Transfers				
2 Yr. Avg. (2020-2021)			0.2%	5.0%
10 Yr. Avg. (2012-2021)			0.4%	2.9%
New Build Economics				
New Build AUV			\$3,200,000	\$4,383,333
New Build Costs (Ex. Land)			\$3,698,000	\$4,261,419
Building Size (Sq. Ft.)			4,249	5,936
Sales-to-Investment Ratio			0.87	1.03
Sales/Sq. Ft.			\$753.1	\$738.5
Investment/Sq. Ft.			\$870.3	\$717.9
New Build Cost/Acquisition Cost			4.55	
Unlevered New Build ROI			7.3%	9.8%
System Condition				
% of System New &/or Remodeled			7.0%	33.1%
% of System Built in Last 7 Years			7.0%	8.7%
Franchise Summary				
Total # Franchised Units			101	2,621
% of System Franchised			8.2%	30.6%
Total Franchisees			17	229
Avg. # Units/Franchisee			5.9	11.4
Initial & Development Fees (Net)			\$60,000	\$41,667
Royalty Fee			4.0%	4.1%
Minimum Net Worth Requirement			\$500k/Unit	\$2,500,000
Franchisor Condition				
S&P Debt Rating			B1	
Stock Performance LTM			-0.4%	3.1%
Leverage (Net Debt/EBITDA)			7.38	5.95

Above Average

Below Average



Restaurant Research Coverage

Concept Reports	Industry Data Reports
Applebee's Arby's Burger King Carl's Jr. Chili's Grill & Bar Church's Denny's Domino's Hardee's IHOP Jack in the Box KFC McDonald's Panera Bread Papa John's Pizza Hut Popeyes Sonic Drive-In Subway Taco Bell Wendy's	Restaurant Lending & 2nd Half Unit Valuations Ad Spending Menus & Promotions Unit Growth & Sales Analysis Unit Economics 1st Half Unit Valuations & Lending Update New Build Costs & Franchise Fees Remodeling
	Databases & Special Reports
	RR Databook (Annual Data Summary 50+ Chains) RR LTOverview (Monthly Promotions 50+ Chains) FDD Library (40+ Chains) Concept Updates (Quarterly 20+ Public Chains) Same Store Sales Database (Quarterly 25+ Chains) New Store ROI Model SBA Lending Database
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