Restaurant Research®

Concept Analysis & Benchmark Report

Sonic Drive-In 2024

Executive Summary

Sonic Drive-In enjoys strong brand equity (particularly in core South & Central Plains markets) around its drive-in format with car stalls, friendly carhops and a plethora of specialty drinks & frozen treats. The brand provides an escape from the grind, offering stressed consumers fun breaks/special times by leveraging a car culture, the freedom to choose access (drive-in, drive-thru, order-ahead) and nearly unlimited menu combination options. Its craveable & fun (made-to-order) menu items span 5 dayparts with drinks, desserts and sides driving afternoon snack hour sales and the brand's snacking options fit well with the current eating trends of millennials & teens. The chain's drive-in format increases the chance that every customer will be first in line and car hops (brand ambassadors) help to generate high scores for friendliness. Loads of high margin, unique drink/treat options generate strong trial & appeal and product innovation represents a core brand equity and handily outperforms the segment average. While value is primarily expressed by a differentiated product and experience (drive-in/car hop), price value is also available with offers like: 2-4PM Happy Hour featuring ½ priced drinks/slushes; ½ price drink & slushes available all-day for app orders; and an abundance of value promotions. A unique & advanced digital order platform has extended brand reach into a younger demo and loyalty helps translate drink-only mobile traffic into incremental food sales. Sonic's smaller scale as 6th largest QSR sandwich player necessitates a higher ad contribution rate as a % of sales and an average check underperformance reflects a high mix of low-priced drinks/desserts which helps explain the chain's burger emphasis repositioning strategy. Further, the chain's indulgent positioning (specialty drinks & frozen treats) represents a vulnerability given current economic difficulties. Annual net unit counts have been flat over the last 10 years which is partially a function of a low sales-to-investment ratio (although this now benefits from new and generous new build incentives), and a material store-level EBITDAR margin underperformance reflects: AUV underperformance; elevated labor costs; and a high ad contribution rate. In conclusion, while Sonic is executing well around its strong & distinct brand equity while strategically increasing its value game, the opportunity remains for the chain to drive a higher check by increasing its food mix and to improve its new build economics.

Parent Company Summary

Parent Company	Ticker	Corp. Debt Rating	Net Debt (1)/ EBITDA	EV/ EBITDA	Stock Performance		
					2023	TTM	Feb-24
Inspire Brands, Inc.	Private	Not Rated	N/a	N/a	N/a	N/a	
$1B+ Chains			5.49	15.52	21.1%	10.2%	

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(1) Net Debt includes operating leases.

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