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2016 – A YEAR IN REVIEW FOR RESTAURANT FIRMS

Atul Sheel

Isenberg School of Management, University of Massachusetts, Amherst, MA

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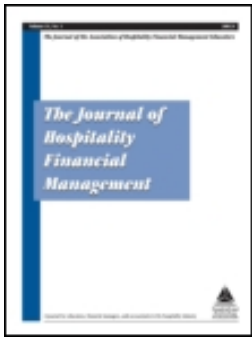
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2016 – A YEAR IN REVIEW FOR RESTAURANT FIRMS

The restaurant industry's sales have continued to grow at a moderate pace. According to reports from the National Restaurant Association, restaurant industry sales are projected at approximately \$783 billion in 2016. Contrary to strong optimism shown by experts last year, the growth in sales this year is only expected to remain moderate, given the mixed signals from the U.S. economy in recent months. [Table 1](#) summarizes the current trend of stock returns for key restaurant firms until March 2016.

As of March 28, 2016, the 1-year average return for the S&P 500 index (13.96%) clearly surpassed the 1-year average return of restaurant stocks represented by the *JHFM* Restaurant Industry Index (– 4.64%) by almost 18.6%. Thus far, the quick service restaurants have been the only group of restaurants demonstrating positive annual returns, with a 1-year average return of 6.14% (*JHFM* Quick Service Restaurant Index). Within this group, the main winners were Carrols Restaurant Group, McDonald's Corp., and Domino's Pizza (with annual returns of 63.20%, 27.59%, and 24.94%, respectively). On the negative side, the annual returns of quick service restaurants' stocks until March 2016 were significantly (25.05%) lower than the corresponding period's return last year, suggesting a slowdown in this segment. A similar downturn was seen in the performance of other restaurant groups, too. The average 1-year return for quick service specialty restaurant stocks (represented by the *JHFM* Index) was –2.98%. Starbucks and Panera Bread were the only star performers in this group with an average annual return on 20.68% and 28.3%, respectively. Keeping up with the bearish trends, the average 1-year return for the family, casual,

and full-service restaurants (represented by the *JHFM* Index for family, casual, and full-service restaurants) was – 11.29%, or 17.43% less than quick service restaurants, and 25.25% less than the S&P 500 index. Within this group, Darden, Texas Roadhouse, and Cheesecake Factory were among the few with positive annual returns. Such a trend suggests a significantly weakened consumer preference for fine dining during the 2015–2016 period.

Current trends in the National Restaurant Association's Restaurant Performance Index continue to support the cautious tone in the expectations of the association's experts. The index 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 6-month outlook for restaurant industry indicators) and is based on the National Restaurant Association's monthly survey of U.S. restaurateurs. Restaurant Performance Index values greater than 100 indicate expansion, whereas values less than 100 suggest a period of contraction for key restaurant industry indicators. [Table 2](#) summarizes recent trends in National Restaurant Association's statistical barometer, the Restaurant Performance Index for the period January 2009 through January 2016. [Figure 1](#) presents the graph for Restaurant Performance Index trends until January 2016.

The RPI values in [Figure 1](#) suggest a continued regressive trend for restaurant industry indicators during the period July 2015 to December 2015. In December 2015, the Current Situation Index dropped 1.6 percentage points, to 99.4% suggesting contraction, while the Expectations Index decreased 1.6 percentage points to 100.1, indicating a less optimistic opinion of restaurant

TABLE 1. Restaurant Stock Return Trends, March 2016

Stock Name	Market Cap (Millions)	Year to Date (%)	1 Month	3 Month	1 Year	3 Year	5 Year
Quick Service Restaurants							
Biglari Holdings Inc.	758.31	12.61	-0.93	8.44	-14.87	1.00	-1.04
Carrols Restaurant Group Inc.	482.96	14.82	5.73	13.28	63.20	37.11	39.99
Domino's Pizza Inc.	6,418.21	16.06	9.79	17.87	24.94	37.12	49.80
Jack in the Box Inc.	2,189.12	-17.32	-6.68	-17.41	-35.12	23.86	23.58
McDonald's Corp.	111,159.24	5.11	6.08	4.73	27.59	10.31	13.12
Sonic Corp.	1,553.15	-1.80	12.29	-1.49	-12.66	39.54	28.75
The Wendy's Co.	2,813.51	-2.69	10.43	-3.76	-5.08	25.35	17.37
Yum Brands Inc.	32,431.26	9.25	11.01	7.85	1.15	6.45	10.72
<i>JHFM</i> Index: Average of Quick Service Restaurants	19,725.72	4.51	5.97	3.69	6.14	22.59	22.79
Quick Service Specialty Restaurants							
Chipotle Mexican Grill Inc.	14,161.96	-1.77	-8.45	-4.79	-30.76	13.99	13.43
Krispy Kreme Doughnuts Inc.	920.93	-3.05	2.96	-4.01	-30.13	-0.43	18.25
Panera Bread Co.	4,987.55	5.04	-0.51	5.01	28.30	7.40	11.11
Starbucks Corp.	86,261.92	-2.45	0.43	-2.92	20.68	27.97	26.48
<i>JHFM</i> Index: Average of Quick Service Specialty Restaurants	26,583.09	-0.56	-1.39	-1.68	-2.98	12.23	17.32
<i>JHFM</i> Index: Average of Quick Service and Quick Service Specialty Restaurants	22,011.51	2.82	3.51	1.90	3.10	19.14	20.96
Family Dining Restaurants							
Bob Evans Farms Inc.	905.10	18.53	9.23	17.00	0.53	6.07	10.27
Cracker Barrel Old Country Store Inc.	3,597.94	19.36	2.40	20.50	1.25	26.75	27.65
Denny's Corp.	768.55	1.53	-3.29	2.04	-15.64	20.04	19.47
DineEquity Inc.	1,704.61	9.74	-0.96	8.06	-10.60	13.59	14.11
<i>JHFM</i> Index: Average of Family Dining Restaurants	1,744.05	12.29	1.85	11.90	-6.12	16.61	17.88
Casual Dining Restaurants							
Brinker International Inc.	2,575.51	-5.28	-9.95	-3.48	-24.39	9.63	15.13
Buffalo Wild Wings Inc.	2,727.16	-9.28	-8.56	-10.75	-22.54	19.20	22.15
Darden Restaurants Inc.	8,434.11	4.13	3.87	2.65	8.78	17.60	12.01
Red Robin Gourmet Burgers Inc.	807.06	-4.10	-5.96	-4.25	-33.66	9.18	17.71
Ruby Tuesday Inc.	314.58	-7.99	-5.23	-10.58	-17.56	-11.80	-16.09
Texas Roadhouse Inc.	2,914.32	16.77	-1.46	16.90	12.69	29.72	21.95
<i>JHFM</i> Index: Average Casual Dining Restaurants	2,962.12	-0.96	-4.55	-1.59	-12.78	12.26	12.14
Full-Service Restaurants							
BJ's Restaurants Inc.	1,000.19	-4.53	-3.73	-7.28	-20.44	8.28	2.38
Cheesecake Factory Inc.	2,532.89	13.73	3.66	12.87	7.47	13.43	13.63
Kona Grill Inc.	136.22	-23.77	-15.22	-23.34	-54.39	12.46	20.49
Ruth's Hospitality Group Inc.	589.67	10.55	3.67	9.66	10.50	23.55	29.22
<i>JHFM</i> Index: Average of Full-Service Restaurants	1,064.74	-1.01	-2.91	-2.02	-14.22	14.43	16.43
<i>JHFM</i> Index: Average of Family, Casual, and Full-Service Restaurants	2,071.99	2.81	-2.25	2.14	-11.29	14.12	15.01
<i>JHFM</i> Index: Average of Restaurant Industry	11,274.85	2.82	0.41	2.03	-4.64	16.44	17.76
S&P 500	13980.82 B	10.61	3.75	10.61	13.96	12.67	5.81

Source: Morningstar Investment Research Center.

Note: Data until March 28, 2016.

operators about business conditions in the coming months.

The poor performance of restaurants in the second half of 2015, and the dampened outlook for the restaurant industry in the coming months seems logical given the slowing pace in the U.S. economy. According

to data from the U.S. Department of Commerce, the quarterly growth rates in real U.S. GDP for the last three quarters of 2015 (3.9%, 2%, and 1.4%, respectively, in Quarters 2, 3, and 4) were significantly lower (-16.3%, -53.4%, and -33.3%, respectively, in Quarters 2, 3, and 4) in relation to the GDP

TABLE 2. Restaurant Performance Index Trend, January 2009–January 2016

Month	2009	2010	2011	2012	2013	2014	2015	2016
January	97.4	98.3	100.2	101.3	100.6	100.7	102.7	100.6
February	97.5	99	100.7	101.9	99.9	100.5	102.6	
March	97.7	100.5	101	102.2	100.6	101.4	102.2	
April	98.6	100.4	100.9	101.6	101	101.7	102.7	
May	98.3	99.7	99.9	101.4	101.8	102.1	102.3	
June	97.8	99.5	100.6	101.4	101.3	101.3	102	
July	98.1	99.4	99.7	100.2	100.7	101	102.7	
August	97.9	99.5	99.4	100.6	100.5	101.9	101.5	
September	97.5	100.3	100.1	100.4	100.2	101	101.4	
October	98	100.7	100	99.5	100.9	102.8	102.1	
November	97.8	99.9	100.6	99.9	101.2	102.1	101.3	
December	98.7	101	102.2	99.7	100.5	102.9	99.7	

Source: National Restaurant Association.

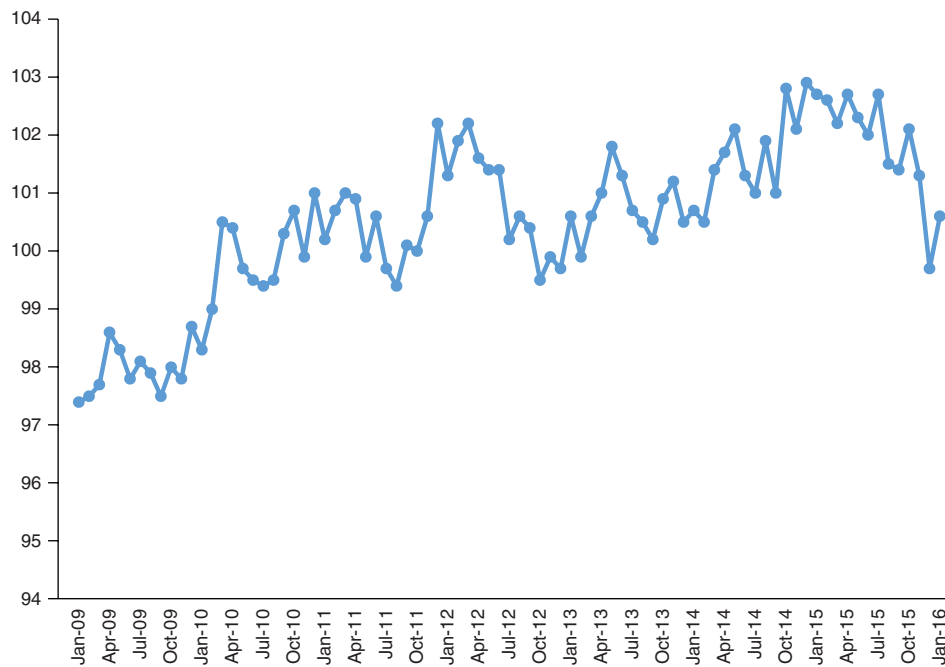


FIGURE 1. National Restaurant Association’s Restaurant Performance Index. Source: National Restaurant Association. Note. Values greater than 100 reflect expansion; values less than 100 reflect contraction.

growth for corresponding quarters in 2014 (4.6%, 4.3%, and 2.1%). Growth in U.S. disposable personal income (current dollars) also slowed significantly during the first, second, and fourth quarters of 2015 (1.9%, 4.9%, and 2.7%, respectively, or 66.07%, 5.8%, and 55.6% lower than their corresponding growth rates in 2014). To make matters worse, real household income levels in the beginning of 2016 are also below what they were before the recession, consumer confi-

dence has regressed to a 7-month low, and consumer spending remains sluggish. According to recent National Restaurant Association reports, the pace of the U.S. economy remains a concern for restaurant operators today who expect their industry to grow only moderately in the coming months. Given such scenario, it will be interesting to see whether quick service restaurants will repeat history once again and outpace the full service restaurants in 2016.

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Atul Sheel
PhD, University of Massachusetts, Amherst