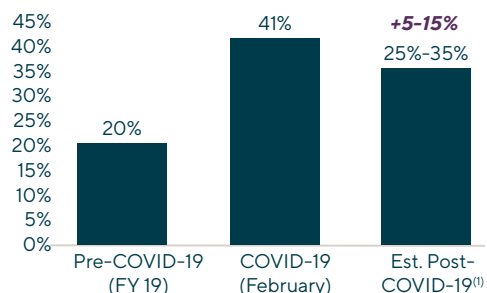
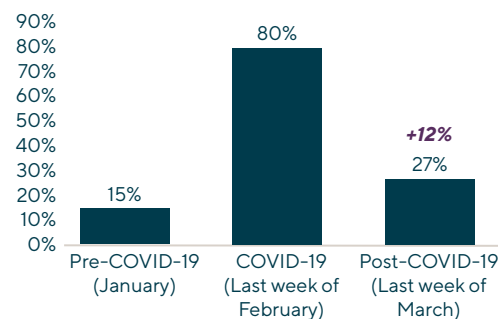


Restaurants – Preparing for the Future

CONTRIBUTOR [Charles Walder](#), Director

While restaurants remain hyper focused on managing near-term liquidity and current operations, owners and managers are starting to shift their thinking toward what business will look like in the new “normal” as certain states begin to relax lockdown requirements. The short- and long-term impact of the COVID-19 pandemic on the economy and consumers is still not known, in large part due to the uncertainty of the timing for a nationwide containment of the virus. However, restaurants can leverage learnings from their initial reactions to government-mandated shutdowns and social distancing and implement initiatives to optimize their operations as stores start to re-open and quarantining is relaxed. In addition, as certain states and countries relax measures at different times, learnings can be gained from those who re-open first.

Insights from China



(1) Estimates based on industry expert interviews, week of March 30, 2020

Source: McKinsey & Company

Below are a number of insights and considerations for restaurants to consider which can help 1) position them for a successful rebound and 2) ensure their response narrative is attractive to future investors. Overarching themes that span all of these considerations include remaining true to your brand’s positioning, providing a safe environment for customers and personnel, and the continued digitization of the restaurant ecosystem by leveraging proven technologies to optimize all parts of restaurant operations.

Re-Opening Stores: With states relaxing dine-in restrictions on different timetables, does it make sense to phase store re-openings to dine-in customers? Are there certain lower volume stores that do not make sense to open in the near term? For those stores that remain closed to dine-in customers in the near term, are there remodel / refresh initiatives that can be completed now without significantly squeezing liquidity to avoid future disruptions?

Off Premise – 3rd Party Delivery: Restaurants should be able to leverage relationships built with 3rd party delivery partners prior to, and during, COVID-19 to optimize sales via this channel going forward. Capitalizing on learnings from COVID-19 where these partners were likely responsible for a large portion of sales will be key to maximizing sales and profitability going forward. Negotiating access to customer data from 3rd party partners, even if only selected data, can help brands obtain insightful customer data that can drive marketing and other decisions to increase sales.

Off Premise – Internal Capabilities: Given the rise in online ordering, cost of 3rd party delivery and the difficulty in obtaining customer data from 3rd party partners, restaurants can consider investing in their website and digital infrastructure. Improving a brand’s online and social media presence can increase customer traffic and brand awareness, helping to own that customer and drive incremental profitability.

Other Off Premise: With off-premise growth experiencing a step change, other initiatives that can be implanted to help drive sales and efficiency include “drive-thru” capabilities and curbside pickup.

Menu & Pricing: With volatility expected across the supply chain, restaurants will need to account for any changes in food supply and 3rd party (primarily delivery) costs to ensure menus are updated regularly, and margins are maintained on an item-by-item basis. Theoretical and other food cost models will need to be managed more frequently. Restaurants should also consider the menu pricing strategies for sales through any channels that incur specific costs to maintain target margins (e.g., 3rd party delivery).

(continued next page)

Store Layout: Social distancing requirements are likely to continue in the near term and off-premise sales will be a critical channel going forward. What preparations can be made to the current store layout to ensure that dine-in customers are appropriately spaced out and to make collection of off-premise orders (whether to-go, delivery or other) as efficient as possible without negatively impacting the dine-in customer experience.

Labor: Go forward considerations include:

- Personnel safety – are more employees required to manage the dine-in environment to ensure customers and employees are adhering to social distancing requirements and internal operating procedures that maintain personnel safety?
- Sales channel mix – does the increase in off-premise sales require specific labor dedicated to support this? Are less front-of-house servers required driven by reduced dine-in customer counts? What impact has technology such as ordering tablets had on front-of-house server requirements?
- Store operations – has food prep been centralized and does this impact back-of-house staffing? Has a change in store layout impacted employee requirements?

With unemployment at record lows and multiple operators facing labor challenges prior to COVID-19, restaurants have an opportunity to implement initiatives to reduce and manage their labor cost more effectively going forward given the increase in supply of higher quality labor.

Landlords: The balance of power is shifting from the landlord to the tenant. Consider negotiating with landlords to obtain more favorable lease terms going forward and potentially exiting poor performing locations.

Government Assistance: Continue to work with your banks to ensure access to government assistance already announced and that may be released in the future.

LINCOLN INSIGHTS INTO ASSESSING ONGOING CAPITAL NEEDS

It has been well publicized that restaurants have been focused on analyzing their short-term cash positions and needs in what has been, and still is, a negative cash flow environment for the majority of the industry. The Cheesecake Factory received a \$200 million investment from Roark Capital in April 2020, and other public companies are also exploring potential capital raises. In the middle market, lenders have so far sought to be collaborative with their borrowers as they seek to understand the longer-term impact of COVID-19 and the borrowers' ability to service their debt.

Lincoln is available to assist you to address any and all capital implications from the disruption caused by COVID-19. We have relationships with investors across the capital spectrum, understand the options available to restaurant operators and know the investor universe for all situations. Understanding the available options allows operators and shareholders to make informed decisions in the best interest of the company and its stakeholders and can ensure business continuity in the near and long term as restaurants navigate the evolving operating landscape. Having an open and transparent dialogue with lender(s) is encouraged to avoid any knee-jerk and unfavorable actions. We are seeing an uptick in engagements to assist borrowers with these discussions in addition to overall liability management.

Lincoln's Selected Capital Expertise

Liability Management and Leading Discussions with Lenders	Rescue and Bridge Financing	Negotiating Forbearance, Amendments & Waivers
Negotiating Capital Injections with Existing Investors	Structuring Capital Injections by Current Owner Appropriately	Refinancing
Acquisition Financing	Structured Capital	Growth Capital

For other perspectives, visit us at www.lincolninternational.com/perspectives.

Interested in learning more? Get to know Lincoln's Consumer professionals at www.lincolninternational.com/consumer.