



Houlihan
Lokey



U.S. Restaurant
Industry Update

Summer 2025

Restaurant Market From 30,000 Feet



Operator Pressures in a Challenging Macro Environment

Restaurant operators are navigating a complex environment shaped by tight labor markets, elevated wage inflation, and rising input costs. Supply chain volatility and broader economic uncertainty are pressuring margins, while interest rates and capital availability influence expansion strategies and investment decisions. These factors are forcing operators to carefully balance cost management, efficiency, and organic and inorganic growth initiatives to remain competitive.

01

Traffic Pressures Impact Even Strong Operators

Public markets have reacted sharply against restaurant stocks in recent months, penalizing same-store sales misses and traffic declines. While some comp misses are due to lapping strong historical performance, brands are feeling a pullback from consumers who are becoming more selective with dining occasions, increasing consumer demand for value, quality, and experience, creating pressure even on well-managed operators.

02

Selective Spending Shapes Consumer Behavior

For most of Q1 2025, food-at-home and food-away-from-home inflation moved in tandem. Most recently, the two trends diverged, with restaurant prices rising faster than groceries. As a result, consumers are becoming more selective with dining occasions, eating out less often, and seeking quality and experience when they do.

03

Casual Dining Emerges as the Preferred Trade-Up Option

Historically, high-growth fast casual brands such as Chipotle, CAVA, and Sweetgreen are showing softness as they lap strong quarters and traffic slows. Casual dining attracts spend by delivering stronger value for the dollar, serving as a trade-up option when consumers choose to dine out, and offering a fuller sit-down experience that fast casual formats cannot replicate.

04

Consumers Remain Willing to Pay a Premium for Coffee

Despite inflationary pressures, consumers continue to pay up for quality coffee, with 45% of adults reporting having had a "specialty" coffee in the past 24 hours. High-quality coffee and beverage concepts such as Philz, Gregorys, and the Blackstone-backed Black Rock Coffee Bar are gaining momentum, attracting both investor interest and customers as larger incumbents face increasing operational and competitive pressure.

05

M&A Momentum and Market Consolidation

With a handful of months left in 2025, several franchised and owned concepts have transacted in the private markets, and rumors swirl of potential selected IPOs. Consolidation is accelerating as stronger operators acquire struggling brands, while private equity continues to deploy capital behind high-growth concepts. Buyers remain selective, balancing acquisitions with disciplined greenfield strategies and a focus on unit economics.

06



Restaurant Operators With Clear and Differentiated Value Propositions Continue to Perform...

Crowning the Winners of Q2 Earnings Season

				
SSS	23.7%	6.1%	2.5% ⁽⁴⁾	4.0%
AUV⁽¹⁾	~\$4.5M	~\$2.1M	~\$2.5M	~\$2.2M
Traffic⁽²⁾	16.3%	3.7%	0.8%	2.6%
2024–2025 Price Increase⁽²⁾	2.7%	2.6%	N.A.	N.A.
Earnings Beat (Miss) Share Price Reaction⁽³⁾	N.A. N.A.	44.4% 21.6%	1.3% 3.0%	N.A. N.A.
Value Thesis	Affordable, Family-Friendly, Bold Flavors	Quick Service, High-Energy, Strong Brand	Fast, Economical, Value-Focused	Fast, Innovative Menu, Dedicated Customers
Commentary	<ul style="list-style-type: none"> Recent success can largely be attributed to current CEO Kevin Hochman's appointment in 2022. High marketing spend and successful promotions have driven traffic, while high investment into a simplified menu has enhanced dining quality. Chili's has managed to capture Gen Z, as fried cheese pull videos are the latest to go viral. Regularly promotes limited-time offers, daily deals, and value-oriented promotions, which combine affordability with quality. 	<ul style="list-style-type: none"> Dutch Bros has seen an accelerated deployment of locations, with 31 new locations opened in the second quarter and 160+ expected in 2025. The launch of the mobile order and payment feature in late 2024 is driving growth, rising to 11.5% of total transactions. The drive-thru and walk-up model causes high customer throughput and efficiency. Dutch Bros food testing has expanded to 64 shops featuring eight items, benefiting ticket and transaction growth. 	<ul style="list-style-type: none"> McDonald's has managed to capture market share and deliver domestic SSS of 2.5% despite a challenging macro environment and QSR backdrop. Success was supported by new product launches, including "Snack Wraps" and new beverage tests, and relevant marketing campaigns (Minecraft movie, McDonaldland, Monopoly, etc.). The recent McValue initiative heavily appeals to a growing value-seeking customer base globally. 	<ul style="list-style-type: none"> Taco Bell reigns supreme on value, beating out competitors and other QSR brands, through new, innovative menu items, consistent LTO iteration, and technology investments that improve customer experience and efficiency. Supports best-in-class margins due to a labor-light operating platform, providing a range of value products that are unique to the business. Menu is constantly innovating at all value levels, driving transaction-level growth across income cohorts.

Sources: QSR, Restaurant Business, SEC filings, Wall Street Research.

Notes: (1) Reflects YoY Q2 AUV. (2) Reflects YoY change attributable to fast casual SSS and casual dining systemwide sales. (3) One-day share price reaction following earnings announcement. (4) Only reflects SSS growth for U.S.-based locations.

But Even Market Darlings Are Seeing the Impact of the Challenging Operating Environment...

Operators Hoping to Rebound in Q3

	Fast Casual	Quick-Service Restaurants		Casual Dining		
	CAVA	sweetgreen	CHIPOTLE MEXICAN GRILL	STARBUCKS COFFEE	Jack in the box	IHOP
SSS	2.1%	(7.6%)	(4.0%)	(2.0%)	(7.1%)	(2.3%)
AUV ⁽¹⁾	~\$2.9M	~\$3.1M	~\$3.2M	~\$2.8M	~\$1.9M	~\$3.6M
Traffic ⁽²⁾	~0.0% ⁽⁴⁾	(10.1%) ⁽⁵⁾	(4.9%)	(4.0%)	N.A.	N.A.
2024–2025 Price Increase ⁽²⁾	1.7%	2.5%	1.9%	2.1%	N.A.	N.A.
Earnings Beat (Miss) Share Price Reaction ⁽³⁾	23.1% (16.6%)	N.M. (23.1%)	0.0% (13.3%)	(23.1%) (0.2%)	N.A. N.A.	N.A. N.A.
Value Thesis	Premium Food, Healthy Options, Affordable Price	Health-Forward, Sustainable Ingredients	High-Quality, Fresh Ingredients, Affordable Price	Premium Coffee, Brand Loyalty	Late-Night Value, Craveable Variety	Affordable, Family-Friendly, Comfort Food
Commentary	<ul style="list-style-type: none"> Weak SSS momentum resulting from a negative impact of the 2024 new-store cohort, which had strong year-one performances tied to the popular release of steak in June 2024. CAVA has maintained strong margins despite growth challenges, due to high labor quality offsetting other increasing operating expenses. 	<ul style="list-style-type: none"> Significant decline in SSS was driven by a variety of factors, including lapping strong 2024 results, the launch of a loyalty program in April 2025 that failed to meaningfully improve traffic, and macro headwinds. Growth initiatives, like larger portions and higher labor investment, are expected to hurt margins. 	<ul style="list-style-type: none"> (4.0%) SSS was slightly below expectations, primarily driven by a (4.9%) decline in total transaction volume as consumers opt for more affordable dining. Encouragingly, sales initiatives like the "Summer of Extra" and new "Adobo Ranch" offerings increased month-over-month SSS following launch. 	<ul style="list-style-type: none"> New CEO Brian Niccol took the helm in September 2024 and has launched a "Back to Starbucks" campaign following declining performance. Initiatives include higher labor quantity and quality and elevating the in-store customer experience as consumer preference shifts toward more artisan locations. 	<ul style="list-style-type: none"> Jack in the Box reported its weakest SSS since 2010, driven by broader industry headwinds, as well as specific customer pullback related to Jack's high proportion of Hispanic consumers. Jack has seen some recent signs of improvement stemming from the "Bonus Jack Combo" and other new marketing campaigns. 	<ul style="list-style-type: none"> IHOP was negatively affected by high egg prices caused by avian influenza, and a higher proportion of value sales (19% versus 12% in Q2 '24). The brand is a value leader historically and therefore should be well-equipped to capitalize on an increasingly value-seeking customer base.

Sources: QSR, Restaurant Business, SEC filings, Wall Street Research.

Notes: (1) Reflects YoY Q2 AUV. (2) Reflects YoY change attributable to fast casual SSS and casual dining systemwide sales. (3) One-day share price reaction following earnings announcement. (4) Traffic was flat in Q2 2025, with SSS increase being largely attributed to product mix and price increases. (5) Includes change in sales mix.

All the While, Investors Flock to the Increasingly Fragmented Coffee and Beverage Market

Investors are assigning premium valuations to coffee concepts that deliver a more complete and differentiated consumer experience, reflecting the shift away from legacy chains.

Case Study: Black Rock Coffee Bar IPO



- Black Rock was founded in 2008 in Oregon as a drive-thru coffee and flavored energy drink shop, guided by three principles: coffee, community, and connection.
- Younger consumers embraced the innovative, customizable beverage selection, efficient drive-thru format, and energetic company culture, providing a unique customer experience.
- The company began to accelerate rapidly in 2016 as the small-box, drive-thru format scaled beyond the Northwest, with the footprint doubling to more than 80 units in 2021 on strong unit economics and high customer throughput.
- Black Rock now operates 158 locations across seven U.S. states, with \$179 million in LTM revenue⁽¹⁾ and 1.8 million loyalty members,⁽¹⁾ and has recently filed an S-1 in advance of a potential IPO.

Transaction	Date ⁽²⁾	EV	Strategic Rationale
Keurig Dr Pepper	JDE Peet's	Aug-25	~\$18B
Freeman Spogli	Philz Coffee	Aug-25	\$145M
Craveworthy Brands	Gregorys Coffee	Aug-25	N.A.

Thematic Observations

- Coffee is a daily ritual with robust category growth, supported by rising specialty coffee consumption and steady spend, with check size increasing as consumers continue to value high-quality, healthy products.
- Starbucks faces softening comps and customer fatigue, as consumers shift spend toward regional and local brands that win on craft, community, and drive-thru convenience.
- Low concentration and nearly 100,000 establishments across the U.S. create ample whitespace opportunities for regional challengers and scalable franchise systems.
- Mobile ordering apps and contactless payment options are streamlining operations and driving margin growth, causing high customer loyalty and throughput.
- "Third-wave" quality, health-forward options, and product customization, such as vegan or low-calorie substitutions, support pricing power and mix at more artisan coffee houses.

State of Consumer: A Multifaceted View

There is no monolithic consumer—one must parse the data, end markets, and demographics to find pockets of strength.

Consumer Sentiment Index

Index Value (1966 = 100)



Consumer sentiment has declined due to recent tariff announcements, **down five points** since June 2024.

Percent Change in U.S. Food CPI

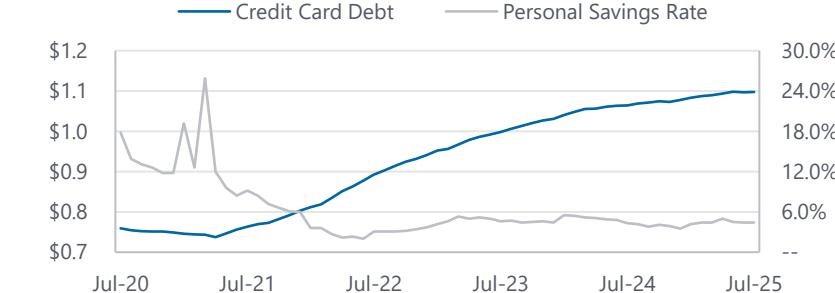
Seasonally Adjusted



It is becoming increasingly cheaper to dine at home versus away, with a **40-bps spread** in July inflation.

U.S. Credit Card Debt and Personal Savings

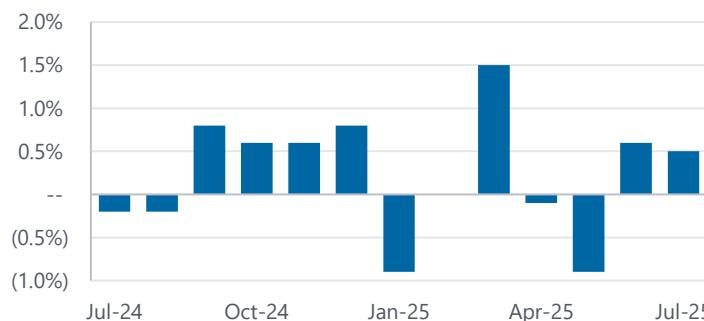
Credit Card Debt, \$ in Trillions, Personal Savings Rate



While consumers still have savings, the **rate of new savings has declined**, and **credit card debt has surpassed \$1.1 trillion**.

Monthly Change in U.S. Retail Sales

Seasonally Adjusted



April and May's slight pullback **highlights volatility in consumer demand**, primarily driven by inflationary pressures.

Year-Over-Year Change in U.S. CPI

Seasonally Adjusted



YoY CPI is down **nearly 30 bps LTM**, with YoY CPI sitting at 2.7% as of July 2025.

Job Openings, All Nonfarm Industries

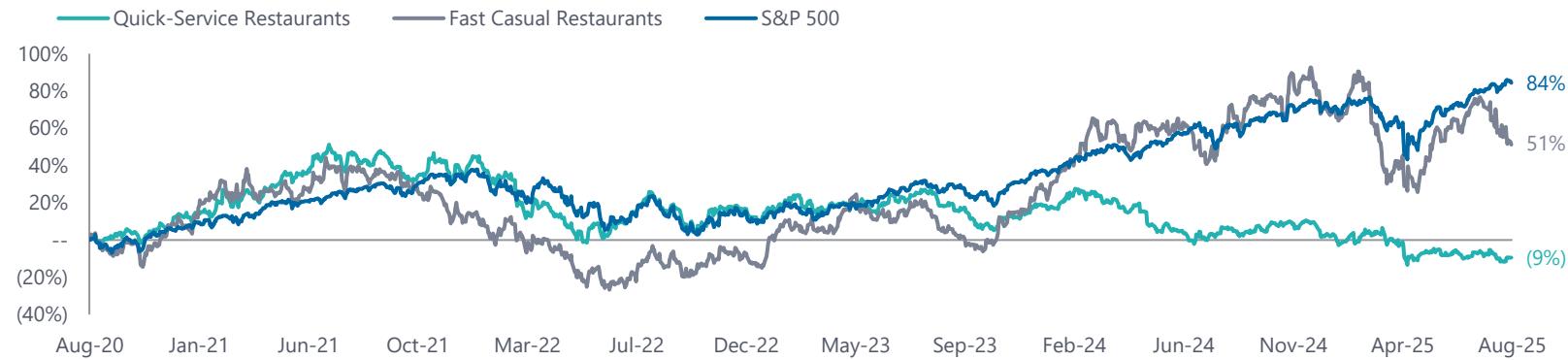
Seasonally Adjusted, in Millions



The labor market **continues to rebalance** as companies reduce job vacancies.

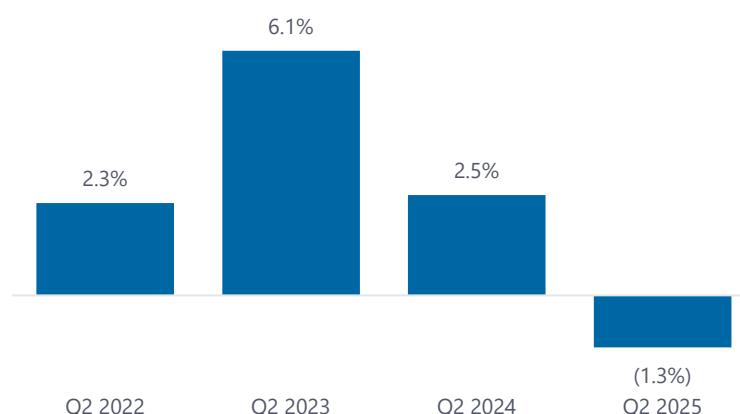
Limited-Service Operator (LSO) Update

Public Market Performance

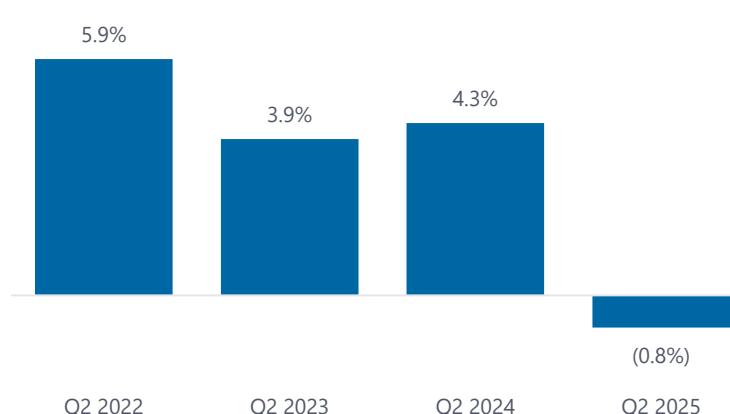


Recent Same-Store Sales Trends: LSOs⁽¹⁾

Quick-Service Restaurants (QSR)



Fast Casual



Industry Trends

QSR and Fast Casual Under Pressure

- The restaurant sector has seen a sharp pullback in recent weeks, with QSR and fast casual operators leading declines.
- The sell-off primarily reflects investor concerns around softening SSS, a consumer trade-down to at-home dining, and traffic recovery efforts through promotions that pressure margins.
- Both QSR and fast casual concepts are seeing a decline in overall traffic and transaction levels, with a higher mix of value tickets as consumers look to budget expenses, driving a drop in SSS.
- Casual dining concepts with stronger experiential value propositions, such as social atmosphere and bundled offerings, are capturing a growth of total spend.

Labor Market Pressures Persist

- Operators continue to face elevated labor costs and staffing shortages, though turnover rates have stabilized since 2023.
- Wage inflation remains a headwind, pushing operators to lean on technology and operational efficiencies to protect margins without undermining the guest experience.

Consumers Strained by Inflationary Pressures

- Elevated menu prices, slowing wage growth, and higher tariffs are weighing on price-sensitive consumers.
- Grocery inflation has moderated, narrowing the gap between food-at-home and food-away-from-home, prompting households to tighten dining habits, particularly at QSR and fast casual levels.

Operators Driving Sales With Value and Innovation

- With traffic under pressure, operators are taking bolder steps to revive demand.
- Restaurant operators are leaning into value platforms, strategic marketing campaigns, and loyalty ecosystems to revive declining traffic levels.
- McDonald's has led the way with the relaunch of its McValue platform and Minecraft movie campaign, while peers are emphasizing menu innovation, bundled offerings, and app-driven rewards to improve value perception among consumers.

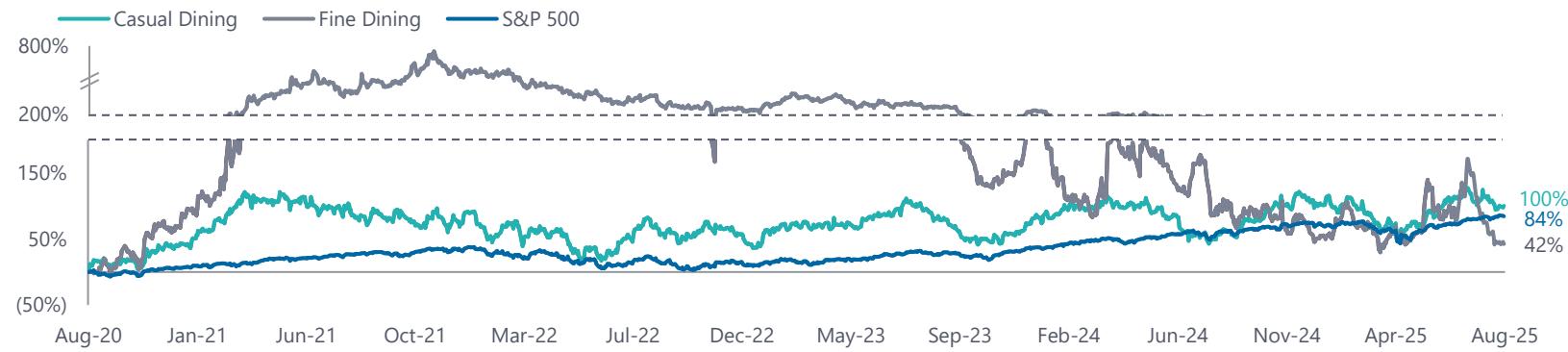
Sources: Restaurant Business, Wall Street Research.

Notes: Companies included in each category have been trading from August 19, 2020, through August 19, 2025. Pricing as of August 19, 2025.

(1) Summarizes SSS performance as an equal-weighted average of the foremost public brands in each respective category.

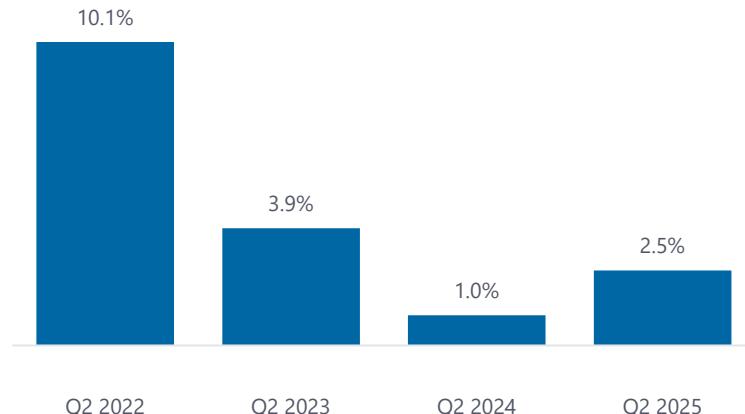
Full-Service Operator (FSO) Update

Public Market Performance

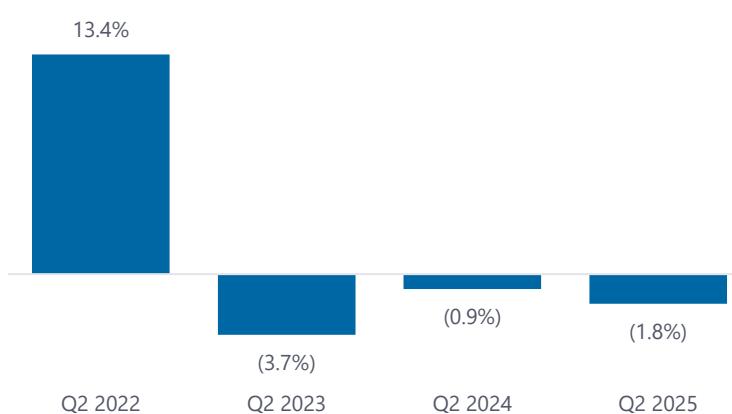


Recent Same-Store Sales Trends: FSOs⁽¹⁾

Casual Dining



Fine Dining



Industry Trends

Casual Dining Momentum

- Casual dining concepts have emerged as winners over the past quarter as consumers favor a sit-down experience at a lower price point over other dining options.
- Chains such as Chili's and Olive Garden are capturing wallet share through combo deals, improving menus, and engaging, family-friendly environments.
- Chili's stands out as a category leader after Brinker invested \$400 million to simplify menus, upgrade kitchens, and enhance service, allowing the restaurant to expand its value offerings and drive traffic.
- Consumers perceive casual dining as "the best value for the dollar" relative to other dining formats, with reasonable prices delivering perceived high quality and atmosphere.

Resilience of Fine Dining

- Fine dining has performed better than expected in the recent sell-off, supported by a higher-income customer base that is more protected from inflationary pressures.
- Momentum has also been supported by corporate and special-occasion dining, which has remained resilient as businesses and consumers are willing to splurge on high-quality experiences.
- Operators are leaning into wellness and premium ingredients for an increasingly health-conscious customer base.
- Brands face pressure to continuously refresh the customer experience, as consumer expectations continue to climb.

Shift Toward At-Home Dining

- FSOs have turned to price increases exceeding inflation rates to balance escalating costs, with menu prices up 4.4% year-over-year in July, compared to 3.3% for LSOs.
- Menu increases are easiest to implement in the spring and summer, when the added cost is obscured by a few Aperol Spritzes, giving operators cover to revisit pricing.

Sources: Restaurant Business, Wall Street Research.

Notes: Companies included in each category have been trading from August 19, 2020, through August 19, 2025. Pricing as of August 19, 2025.

(1) Summarizes SSS performance as an equal-weighted average of the foremost public brands in each respective category.

Featured Recent M&A Transactions

Transaction		Date ⁽¹⁾	Strategic Rationale	
	 McWin Capital Partners  TRISPAN®	Sep-25	McWin Capital Partners and TriSpan acquired a significant stake in Flat Iron, a rapidly growing steakhouse chain in England, strengthening McWin's position in casual dining and reinforcing TriSpan's focus on hospitality.	LEARN MORE
	 GREGORY'S COFFEE	Aug-25	Craveworthy Brands has become an investor and managing partner of Gregory's Coffee to provide expertise across core business functions, like operations and training.	LEARN MORE
	 Freeman Spogli	Aug-25	Freeman Spogli acquired Philz Coffee, which operates 77 cafes across California and Chicago, and plans to accelerate growth by expanding its presence nationwide.	LEARN MORE
	 LEVINE LEICHTMAN CAPITAL PARTNERS	Jul-25	Levine Leichtman partnered with management to acquire Shipley Do-Nuts, the largest donut and kolache brand with 375 locations across 14 states, and plans to expand its reach to a wider audience.	LEARN MORE
	 Legacy Brands International	Jul-25	Legacy Brands International, led by former Friendly's franchisee Amol Kohli, acquired BRIX Holdings, which owns brands such as Friendly's, Clean Juice, Red Mango Smoothie Factory + Kitchen, Souper Salad, and Humble Donut Co., and plans to expand into target markets.	LEARN MORE
	 THOMPSON STREET CAPITAL PARTNERS	Jun-25	Thompson Street Partners acquired Bubbakoo's Burritos, a New Jersey-based franchisor of fast-casual Mexican-fusion restaurants with more than 130 locations across 15 states on the East Coast and in the Midwest, with plans to invest in technology, brand development, and support systems.	LEARN MORE
	 SAVORY	Jun-25	Savory Fund has invested in Hawkers, an Asian street food concept with 15 locations across the Southeast and Texas, aiming to increase its presence in high-performing markets like Orlando, Dallas, and Nashville.	LEARN MORE

Featured Recent M&A Transactions (cont.)

Transaction	Date ⁽¹⁾	Strategic Rationale	
 /  Mistral Equity Partners	Jun-25	Verlinvest and Mistral Equity Partners increased their investment in Insomnia Cookies by acquiring Krispy Kreme's stake, with plans to grow the brand to 1,800 bakeries globally over the next decade.	LEARN MORE
 / 	Jun-25	GPC Investments acquired GSM Wings, owner of the casual dining brand BreWingz, expanding its portfolio and furthering its strategy of revitalizing third and fourth-generation middle-market businesses.	LEARN MORE
 / 	May-25	FS Investors acquired nine company-owned Nothing Bundt Cakes bakeries in San Diego and entered into a development agreement to build 16 additional locations, positioning the firm as a key growth partner in one of the brand's most promising markets.	LEARN MORE
 / 	May-25	TSG Consumer's investment supports Crumbl's rapid domestic expansion, leveraging its 1,000+ unit base, rotating weekly menu, and viral marketing engine to deepen consumer loyalty and brand awareness.	LEARN MORE
 / 	Apr-25	Bain Capital acquired Sizzling Platter, a franchisee with more than 750 Wingstops, Dunkin's, and Jersey Mike's, among other brands, to drive growth across its diverse brand portfolio.	LEARN MORE
 / 	Mar-25	Flynn Group acquired 45 Pizza Hut restaurants in the Southeast, bringing Flynn's U.S. ownership to nearly 20% and expanding its presence in existing markets with other quick-service and fast casual brands.	LEARN MORE
 / 	Mar-25	The investment is intended to accelerate Lenwich's expansion beyond its home market in New York City across the East Coast and the broader United States.	LEARN MORE

Sources: MSN, PE Insights, Restaurant Dive, Restaurant Business, QSR Magazine, Wall Street Research.

Note: (1) Reflects announcement date, unless otherwise denoted.

2025 Restaurant Trends to Watch

01

Casual Dining Gains From "Affordable Experience"

Consumers are gravitating toward casual dining formats that offer a better sit-down environment at a similar spend to fast casual. Full-service operators with approachable price points, strong beverage programs, and inviting atmospheres are winning wallet share from both fast casual and QSR. The appeal lies in delivering more perceived value for roughly the same check size.

02

QSR and Fast Casual Under Pressure

Quick-service and fast casual chains are both seeing sustained weakness as price-sensitive consumers cut back. Rising tariffs and inflation have eroded value perception, making traditional "affordable" formats feel expensive. Fast casual is losing share to casual dining, where diners perceive they can get a better sit-down experience for a similar spend.

03

Menu Innovation and Category Battles

The race for consumer attention is being waged through bold menu innovation and competitive category wars. Beverage experimentation—energy drinks, indulgent coffee formats, and alcohol innovation—is drawing younger consumers and challenging incumbents like Starbucks. Meanwhile, the chicken wars continue, with brands like Wingstop, Raising Cane's, and Chick-fil-A driving exceptional sales as other names, like Taco Bell, are introducing expanded chicken-based offerings.

04

Labor Inflation Spurs Tech-Led Efficiency

Persistently rising wages, benefits, and turnover are pushing operators to do more with less. Brands are accelerating tech adoption, like self-order kiosks, kitchen display systems, and AI-driven scheduling platforms, to boost throughput and accuracy while trimming idle labor. Selected chains are piloting automation to stabilize consistency and reduce training time, without diminishing the customer experience.



Restaurant Industry Market Map

Limited-Service Restaurants



Full-Service Restaurants



Houlihan Lokey Restaurant Coverage

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