The U.S. Foodservice Landscape 2010:

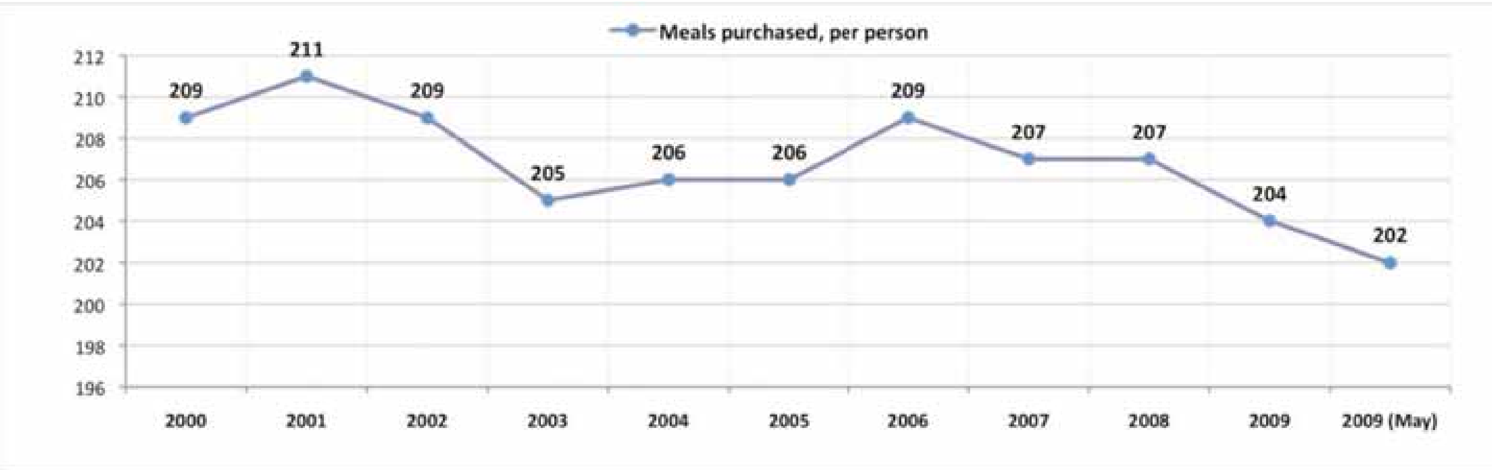
Restaurant Industry and Consumer Trends, Momentum and Migration

May 2010

Packaged Facts
11200 Rockville Pike
Rockville, Maryland 20852

800.298.5294 t
240.747.3095 f
www.packagedfacts.com

Graph 4-2: Annual Meals Purchased at Restaurants, Per Person: 2000-09



Source: Nation's Restaurant News, October 12, 2009, citing the NPD CREST

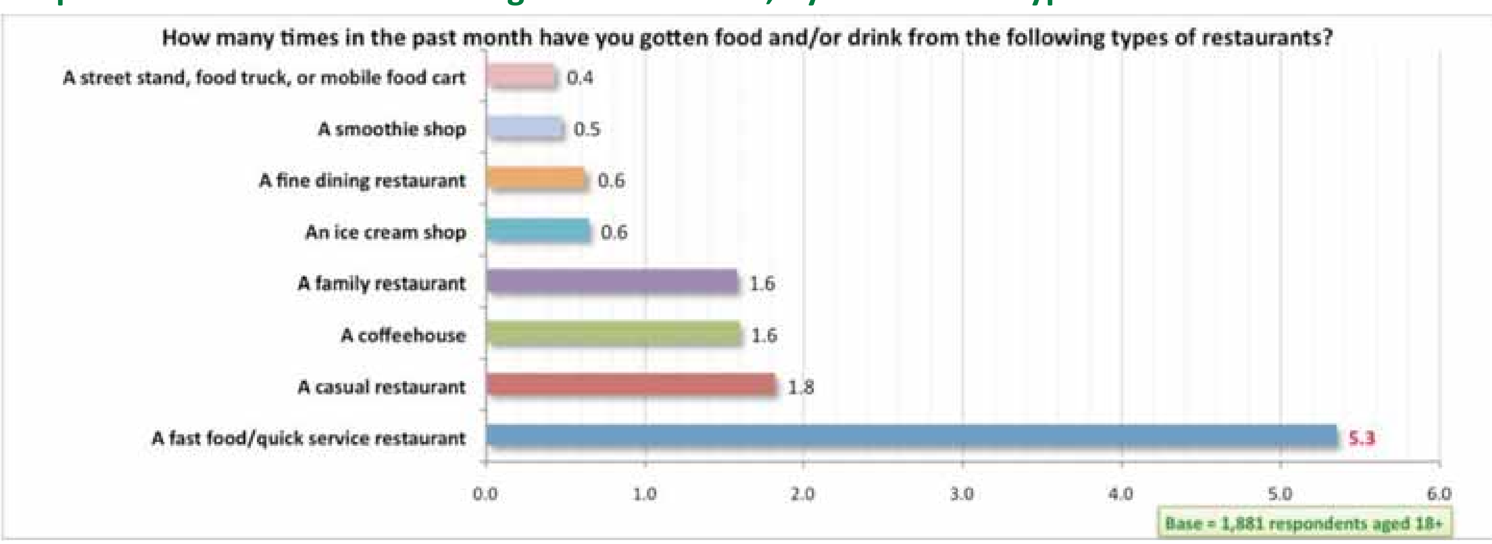
Fast food remains traffic king: 4 in 10 restaurant visits in past month were to fast food/QSR

As part of our proprietary February 2010 consumer survey, Packaged Facts measured restaurant usage and mean usage frequency by restaurant type.

As expected, mean use of "fast food/quick service restaurants" was substantially higher than any other restaurant type—about three times higher than for runner-up causal restaurants—a testament fast food's strong value, low-cost, and convenience propositions.

With an aggregate mean use of all restaurant types of 10.8 in the past month, fast food/quick-service visits represent almost half (49%) of all visits, followed by casual restaurants (17%), family restaurants (15%) and coffeehouses (15%).

Graph 4-3: Mean Restaurant Usage in Last Month, by Restaurant Type



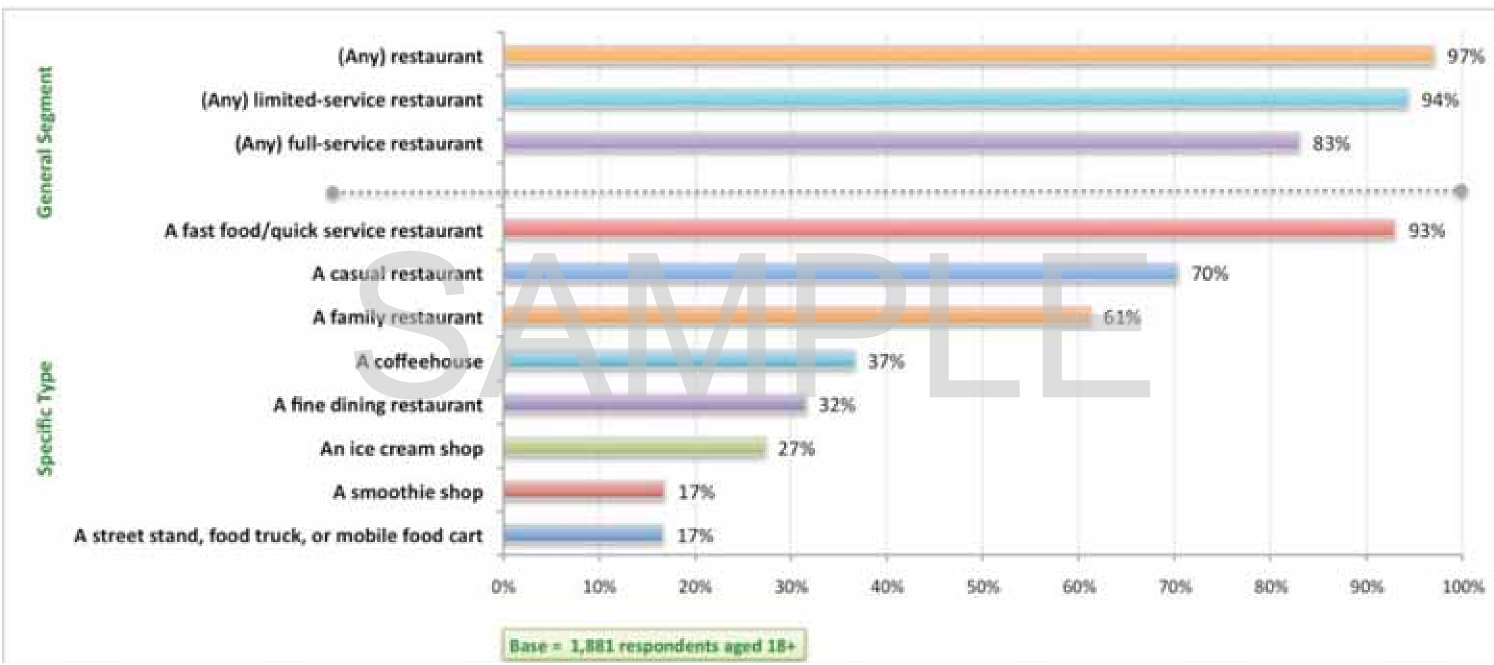
Source: Packaged Facts, February 2010 *Consumer Restaurant Tracker*
Note: As part of the question, respondents were also informed, "Please note that any restaurant you used can be a chain restaurant or an independent restaurant."

Restaurant use near complete saturation; street stands now used by 17% of restaurant goers

Flipping the coin, we aggregated responses to track usage by restaurant type and rolled up results into limited-service and full-service industry categorizations. Usage by restaurant type generally follows that set by mean usage, with fast food used in the past month by 93% of respondents aged 18+, followed by casual restaurants (70%), and family restaurants (63%).

However, street stand use now stands at 17%. Interest in leveraging mobile carts and food trucks extends to established restaurant players. In Los Angeles, a street stand/food truck epicenter, Canter's Deli (established in 1931) and Border Grill (established in 1985) launched food trucks in 2010. In Los Angeles, the trend includes more upscale fare, such as Baby's Badass Burgers, a premium burger concept launched in 2009, and Grill 'Em All, a burger truck with a heavy-metal music theme (*Nation's Restaurant News*, March 2010).

Graph 4-4: Restaurant Usage in Last Month, by Restaurant Type, 2010



Source: Packaged Facts, February 2010 *Consumer Restaurant Tracker*
Note: (any) limited-service restaurant = any combination of fast food/quick service restaurant, ice ceam shop, smoothie restaurant, coffeehouse, or street stand/food truck/mobile food cart; (any) full-service restaurant = any combination of family, casual, or fine dining restaurant; (any) restaurant = any combination of restaurant type

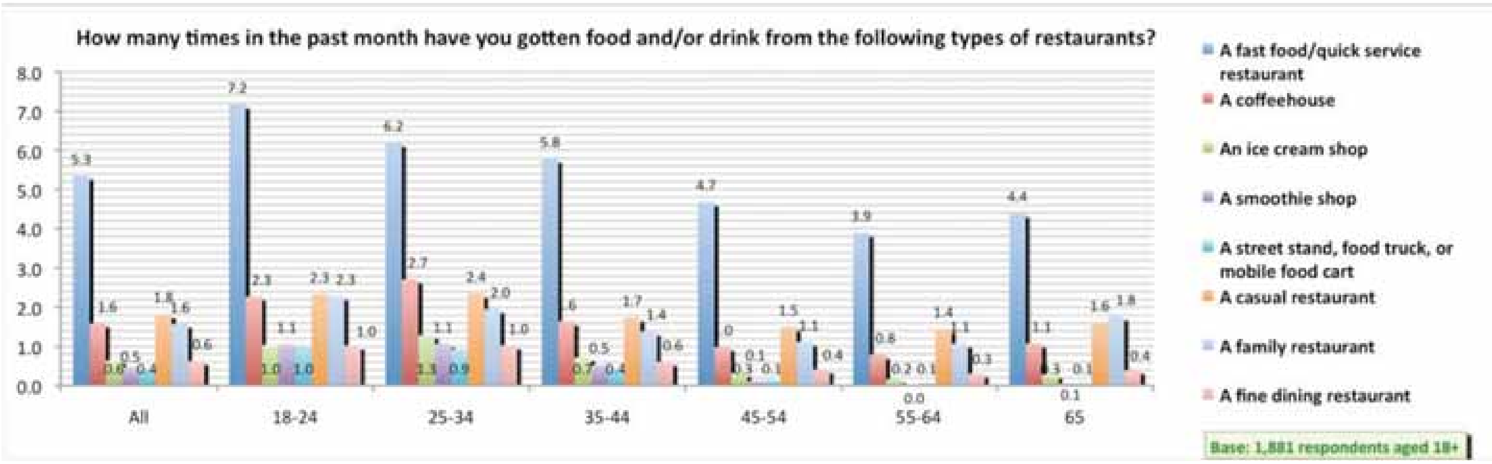
The Restaurant Generation: 18-34 year-olds still moving through restaurant doors

The relevance of youth to the restaurant industry is demonstrated by higher average mean usage among 18-34s for every restaurant type shown.

This demographic group grew into adulthood at a time when dining out became commonplace. Having gone through their first recession (leaving aside the mini-recession that took place in 2001), these consumers' lifestyles nevertheless remain strongly attached to the emotional and practical benefits that restaurants provide them, and they are at an age when socializing among friends and dating is paramount.

We believe that continuing to engage this group, more than any other age group, will be the key to strengthening restaurant sales in the long run, as the macroeconomic trends shaping the world today will shape the spending behavior of this group tomorrow.

Graph 4-5: Mean Restaurant Usage in Last Month, by Restaurant Type, 2010, by Age

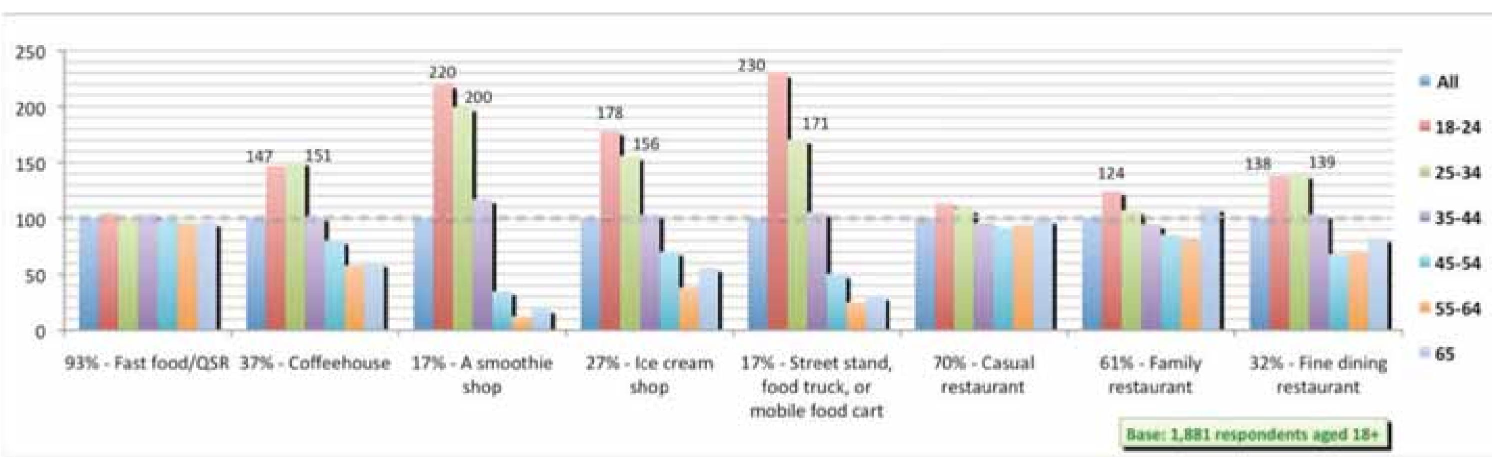


Source: Packaged Facts, February 2010 *Consumer Restaurant Tracker*
Note: Note: As part of the question, respondents were also informed, "Please note that any restaurant you used can be a chain restaurant or an independent restaurant."

Not surprisingly, 18-34s also exhibit the highest general usage patterns for each restaurant type, except for fast food/quick-service restaurants, which enjoy a breadth of usage across age groups.

When viewed against the average, usage among 18-34s is most pronounced at smoothie shops, ice cream shops, and street stands/food trucks/mobile food carts. For example, 18-34s are at least twice as likely as the average to use smoothie shops.

Graph 4-6: Restaurant Usage in Last Month, by Restaurant Type, 2010, by Age

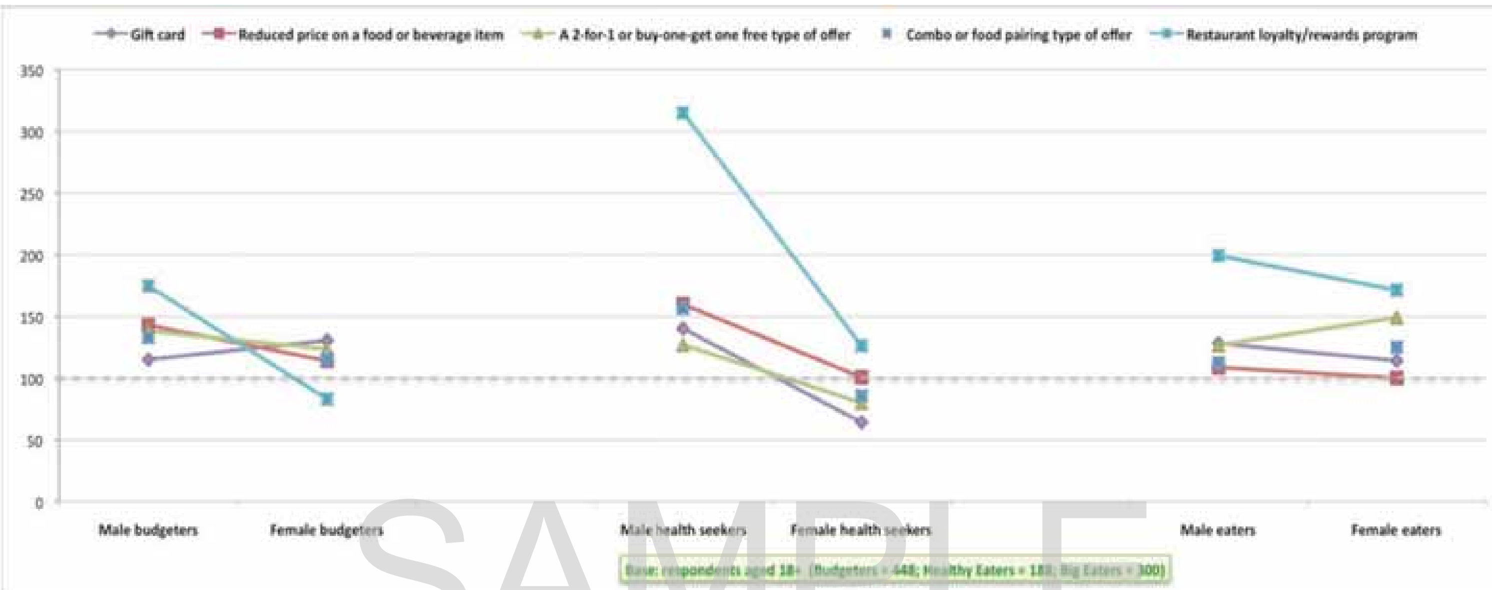


Source: Packaged Facts, February 2010 *Consumer Restaurant Tracker*

Health Seekers are also more likely than average to have been influenced by a restaurant loyalty/rewards program, with male Health Seekers more than 300% more likely to do so.

Big Eaters are also partial to restaurant discounts and incentives, with female Big Eaters more likely than males to cite a 2-for-1 or BOGO offer.

Graph 12-3: Psychographic Profile Analysis, by Restaurant Discounts and Incentives



Source: Packaged Facts
Note: base sizes are provided in the appendix at the end of this chapter

Generally, males from each of the three groups are more likely than females to cite a range of menu selection factors as having influenced their ordering decisions. The lone exception, Male Big Eaters are less likely than females to cite a menu item with a smaller portion size.

By psychographic group:

- Prices lower than last year, limited-time offers, and combo plates are most likely to influence Budgeters decisions.
- However, new food/beverage offerings, mix-and-match offerings, and smaller portioned items are most likely to influence Health Seekers.
- Big Eaters are most likely to cite staff recommendations.

Denny's Corporation

Denny's 1,551 restaurants are operated in 49 states, the District of Columbia, two U.S. territories and five foreign countries with concentrations in California (26% of total restaurants), Florida (10%) and Texas (10%).

Its restaurants generally are open 24 hours a day, 7 days a week. Denny's menu offers traditional American-style food such as breakfast items, appetizers, sandwiches, dinner entrees and desserts. Denny's restaurants are best known for breakfast items, such as its Grand Slam. Sales are broadly distributed across each of the dayparts (i.e., breakfast, lunch, dinner and late-night).

Recession challenges

According to Denny's, the recession has brought the following challenges:

- With 41% of its restaurants located in California, Florida and Arizona (states that have been particularly hard hit by the economy), it has been vulnerable to regional macroeconomic weakness.

- Its late night business, which represents almost 25% of its sales, skews towards third-shift workers and younger diners, groups that have been particularly affected by the economy.

- Moreover, its target demographic household income is among the lowest in the family dining segment, with 44% with household incomes of less than $45,000 a year.

2009-10 menu strategy

Starting in mid-2008, Denny's marketing programs pursued guest count growth through its positioning of "real breakfast," with strong lunch and dinner offerings and clearly a differentiated late night experience through its Allnighter program.

Its 2009 pricing strategy involved offering strong entry price points, and in balancing premium menu items with value options.

- For example, in April 2009, when the company launched a 4-item burrito line, one started at $3.99, one at $4.99, one at $5.99 and one at $6.99.

- Its flagship menu item, the Build Your Own Grand Slam ($5.99), enjoys a usage rate of almost 20%, five times higher than the next most popular entree. As part of the promotion, Denny's use an add-on strategy, and more than 25% of all Build Your Own Grand Slams are ordered with a Slam It Up, which provides for an incremental $0.49 to $0.99 per additional item.

- The company also continued to offer the $3.99 Everyday Value Slam in Q3 2009.

During Q2 2009, Denny's introduced its Better For You menu and a sports-themed kids menu that by the end of the year collectively accounted for 10% of sales.