

## Town Hall Recap March 18, 2020

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### **Legislative Update**

- CapitalSpring has been working with local, state and national lawmakers and lobbyists to help direct the narrative and push through legislation in support of restaurant companies
- Our 10 legislative points were widely distributed on Monday the 16<sup>th</sup> and recently posted by Restaurant Finance Monitor; we have been heard and supported across the board – with important progress on 2 gateway points:
  - Positioning restaurants as a critical national infrastructure needed to remain open through this period and including off-premise restaurant in the essential services exclusions to lockdowns
  - Ensuring pundits and lawmakers are instilling public confidence in the safety of restaurant products
- **Summary of National Restaurant Association Proposal**
  - **Direct/Targeted Financial Relief**
    - Authorize the Department of Treasury to create a \$145 billion Restaurant and Foodservice Industry Recovery Fund
    - \$35 billion for Community Development Block Grants for Disaster Relief (CDBG- DR) assistance
    - Assistance in allowing businesses to defer mortgage, lease and loan obligations
  - **Loans/Insurance Options for Impacted Small Businesses**
    - \$100 billion in Federally Backed Business Interruption Insurance
    - Federal Loan Program Equal to Lost Revenue
    - \$45 billion in expanded access to effective/efficient and affordable loan programs
    - \$130 million in Disaster Unemployment Assistance (DUA)
  - **Tax Measures**
    - Fix the Qualified Improvement Property (QIP) technical correction
    - Assistance in allowing businesses to delay, defer, or forgo tax obligations
    - Tax credits for businesses that are retaining employees
    - A temporary payroll tax cut that increases economic activity; specifically, reduce the employee shares of Social Security payroll taxes by two percentage points from 6.2% to 4.2%
- Additional legislative requests
  - Grocery and restaurants together treated as critical infrastructure – same protections and allowances
  - Prohibit the eviction of commercial tenants and limit late charges/penalty interest; if possible, provide landlords tax credits to offset lost income
  - Utilities – provide various forms of relief to restaurant customers
  - Franchisors – provide incentives and wherewithal to allow royalty suspensions
  - Lenders – provide funding and tax credits to allow payment suspensions, accruals or deferrals
  - Relax limitations on including alcohol sales in delivery and curbside pickup
  - Make restaurants eligible to receive EBT/food stamp cards

## Liquidity Management

- Be proactive/constructive with lenders – seek any relief you can work out (deferrals, accruals, suspensions, interest only, potential to add abated payments to end of the loan, etc.)
- Consider draw down on any available lines of credit to fortify balance sheet with cash
- If you have floating rate debt, extend LIBOR contracts/payment frequency from 1 month to 3 months or more
- Be proactive/constructive with franchisors on royalty and ad fund contributions – seek any relief you can work out (deferrals, accruals, suspensions, etc.)
- Augment working capital
  - Reach out to service providers, vendors and landlords to extend payment terms and seek other support
  - Broadliners: Reduce number of deliveries (for lower volumes), get out of minimum purchase contracts
- Rent (some jurisdictions have passed legislation abating rent/late charges and other penalties - check online)
  - Analyze leases as it will impact the approach you take with landlords
    - Is your rent below market? If so, landlords may be less willing to offer concessions
    - Highest and best use real estate (is your property more valuable as condominiums?)
    - Do you have a force majeure clause for rent abatement or extended closing?
    - Is your landlord relationship already strained?
  - Decide if you want to take a partnership approach or if you are forced to play hardball
    - Partnership – offer percentage rent for a time, or add abated rent to back end of lease
    - Hardball – don't pay, negotiate . . . but be aware of the above analysis
  - If you have to close your restaurant, it may be a default under your lease
- Repairs and maintenance (“R&M”) and capex
  - Set strict approval processes for R&M and maintenance capex – only critical items allowed
  - Pause or cancel all development/remodel capex
  - Seek potential refund of new development fees from franchisor with intent to repay later when new development restarts
- Create a weekly (or daily) cash flow forecast that is as detailed as possible
  - Run sales sensitivities at various sales loss levels to understand break-even point and staffing levels
  - CapitalSpring can assist in developing and providing a template

## Prime Cost Management

- COGS
  - Some broadliners are offering concessions like extended payables
  - If possible, reduce menu items
    - Think about higher mix, easy to execute, higher margin, minimizing skews, cross utilization
    - Determine prep labor reductions, food waste, and other cost reductions from these decisions
    - Correspondingly work with your GMs to reset par levels and prep schedules for lower volumes
    - Work with suppliers/distributors to anticipate any product shortages; adjust menu in advance
  - Deplete inventory, keep the minimum needed to manage your business
    - Work with distributors and suppliers to waive fees on minimum drop sizes and orders; Fewer deliveries means lower distribution costs as well
    - Remember to have enough packaging and condiments for increased off-premise business
    - Offer to donate ingredients that could be expiring to foodbanks or offer to employees on leave
  - Negotiate with vendors for improved payment terms
  - If you have several units in the same region, move inventory (particularly anything that can spoil) from fully closed units to units that remain open
  - Check with broadliner if you can return excess inventory for full refund
- Labor
  - Reduce labor schedules to reflect lower volumes; consider shortening overall hours of operations to reflect only higher revenue dayparts
  - Think about day-on / day-off laboring to keep critical staff on payroll
  - Look to deploy team members in other ways (be careful of dual employment – check with legal counsel)

- In-house delivery, window cleaning/landscaping/etc. (and cut back outsourced services for these expense line items), local marketing (shaker boards)
  - Philanthropic activities such as delivering food to those in need
- Before terminating, laying off or furloughing seek legal/HR advice and assess WARN Act impact (discussed next section)
  - Consider payments to furloughed staff (e.g., 25%-75%)
  - Consider offering free meals to furloughed/terminated staff for a period of time
- Communicate with CapitalSpring around Coronavirus relief bill and paid leave assistance – we are working hard to study and understand various proposals and potential fit for our partners
  - Note from a cash flow perspective, reimbursement will take time (tax credits)
- Careful of treatment of “exempt” employees – if GMs are working hourly shifts ensure they still pass the “rules test”; you may need to move them to hourly in order to comply with DOL rules – consult labor counsel
- Consider any benefits that can be postponed (competitive dining cards, etc.)
- Consider creating an employee hotline or blog to maintain open communication

### **Layoffs and Furloughs**

- WARN Act Information: Worker Adjustment and Retraining Notification – consult with legal counsel
- Federal WARN Act
  - Employers with more than 100 employees must provide 60 days’ notice to all employees of an employment loss; during that 60-day period, employees are entitled to continuation of salary/benefits
  - You may be exempt under “unforeseen business circumstances” exclusion
- State-specific “Mini-WARN” Acts override Federal WARN Act
  - Alabama, California, Connecticut, Georgia, Hawaii, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, Oregon, Tennessee, Washington, and Wisconsin
  - California, for instance, has suspended provisions of their Mini-WARN for the foreseeable future
- Unemployment Insurance (“UI”): The waiting period to receive UI benefits has currently been waived
  - Before reducing staff consider what it will take to get your business back up and running again
  - You may want to retain certain key employees at lower pay for when business recovers
  - Always consider any potential governmental incentives and subsidies for maintaining employment

### **Other Operating Expenses**

- Dust off your GL and go through every single expenditure – what can be paused or canceled?
  - For example, you don’t need audio or tv programming subscriptions if no one is dining in
  - Challenge your departments to identify cost saving opportunities
- Try to get fees waived: Banks, subscriptions, etc.
- Reduce services: Trash, window cleaning, linens, preventative maintenance, and others
- Utilities
  - Try paying on a credit card to extend payments (especially a cash back card)
  - Make sure all utilities are shut off for any closed units
  - Ensure unnecessary heat/ac in dining rooms is shut off
- Turn off all automatic payments (if any)
- Use of cash will likely decrease and credit card volumes will likely increase
  - Do you need less register cash? If so, deposit excess into bank to increase liquidity
  - Reduce or eliminate any expenses related to the management/storage of cash
  - Proactively negotiate better rates for credit card processors in anticipation of bigger volumes

## **Revenue Management and Guest Perception Through Off-Premise Sales**

- Constant communication via E-Club, loyalty, exterior banners notifying of delivery and curbside pick-up
- Promote family type meals and meal replacement item
- Consider pre-fixed meals for pick up between certain hours (pre-ordered)
- Community support menu – kids eat free and other affordable offering to make the menu more assessible
- Third Party Delivery
  - Consider all delivery services/marketplaces; some operators ignoring delivery service exclusives
  - Place bounce-backs and other coupons in the delivery bags to drive additional orders
  - Take advantage of incentives: Free delivery, no commission fees on pickup orders, \$200 in marketing, sign up concessions, etc. (all different/evolving, check with each)
- Look to execute your own delivery: Opportunity to re-purpose servers to drivers
  - Check insurance liability – depending on company owned vehicle vs employee
  - Likely need for standard operating procedures
- NY, TX, CA and a few other states are temporally allowing for businesses with liquor Licenses to delivery alcohol – check your local laws
- Curbside
  - Use gloves (masks where appropriate) to give guests comfort
  - Think of ways for customers to communicate from car and vice-versa: Flashlights, honk horn, text, call
  - Position team members outside during peak periods
  - Communicate this option through marketing channels
- Drive thru
  - Cashiers should also be wearing gloves (masks where appropriate)
  - Speed is king: Develop strategies to improve speed
  - Adjust and enforce upselling scripts
  - Offer sanitizing wipes with every order and to wipe off credit cards/machines
- Offer “scarce” goods with certain delivery orders above a certain size (e.g., toilet paper, canned food, etc.)

## **Marketing**

- Be proactive about health safety steps being taken at your restaurants – notes on doors, email, social media
- Communicate restaurant safety relative to grocery visit and cooking at home
  - Very strict safety standards that individuals may not follow in supermarkets or households
  - Delivery orders go from high temperature oven/fryer directly to packaging without hand touching
- Paid social ads that are targeted to a 3-mile radius of your units
- Target elderly where possible for delivery (try to get media engaged in your community events for free PR)
- Potential opportunities to secure short term contracts (or for charity/community service with PR) to provide meals for children who relied on schools for daily meals (often both breakfast and lunch)
- Target marketing to families with delivery/curb pick-up for bundled family meals for 4-6 people
- Gift certificates or dinner bonds to drive near term revenue
- Offer discounts to medical personnel and first responders
- Pivot from outdoor media to digital campaigns to promote off-premise: Ask team members to “like” social media post and pass them on to friends and family
- Market to your internal customer (team members): Employee meals for both active and temporally laid off employees (set certain times for meal pick-up)

## **Safety Mitigants**

- Enforce stricter standards around safety and sanitation
- Constant communication on updated safety and sanitation – email, webinars, daily calls, team meetings, etc.
- Strict rules around social media posts: No joking about COVID, absolutely no naming of restaurants/employees that may have come into contact with the virus
- Have team members sign documents before each shift that they don’t feel sick nor have been exposed to anyone who feels sick (that they are aware of) – must be consistent with every team member signing

- Deploy timers that go off every 15 minutes for sanitizing stations, hand washing, temperature checks, etc.
- Hand washing and drying using a single use cloth
- Sanitizing tape for stations that have been sanitized with time and date stamps
- Soda – no refills without new cup
- Anti-tamper packaging/stickers on delivery packaging
- Long term heightened awareness is good to get team members to abide by strict standards

### **Supply Chain**

- Increase communication with your suppliers, ensure you know if any of the products you order from them have potential shortages and adjust menu/ordering in advance to get in front of any issues
- Where possible buy ahead on items believed to fluctuate, or in short supply
- Confirm with suppliers that they are taking the same safety precautions

### **Insurance**

- Business Interruption (“BI”) Insurance – while most policies trigger is physical damage and virus excluded, several states considering mandating BI policies to cover pandemic
  - CapitalSpring is working with national/state/local groups on legislation around this topic
- Check with your insurance provider on potential coverages related to contingent business interruption, supply chain insurance, business interruption on PLL policy
- Workman’s comp – contact your insurance agent or representative as these coverages vary
- Despite lack of clarity on coverage for BI, go ahead and file claims as insurance companies will process on a first come first serve basis and it is important to get in the queue
- Some states are suspending insurance premium payments for a period of time

### **SBA**

- Current SBA program – check qualifications to see if you qualify
- Closely monitor news for changes to SBA relief programs
  - CapitalSpring continues to study current and proposed SBA relief programs and can be helpful in determining qualification and process