

# DOES OPEN-AIR RETAIL HAVE AN OPEN PATHWAY GOING FORWARD?



MARKET COMMENTARY

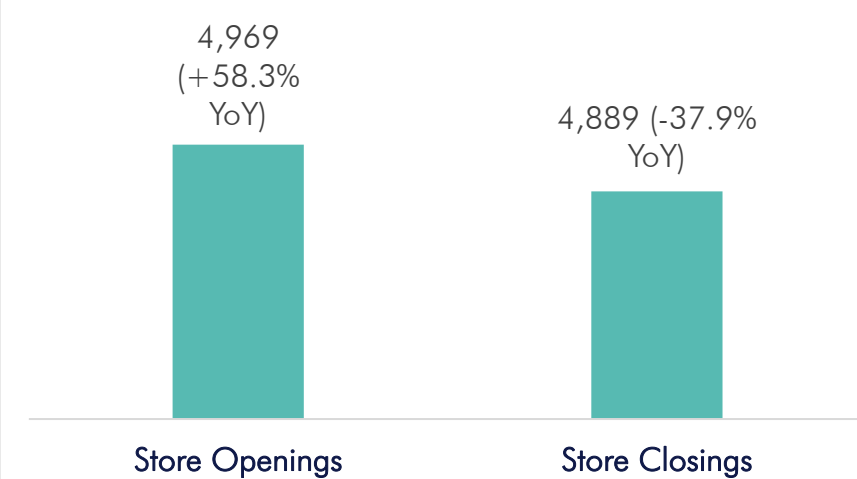
OCTOBER 6, 2021

## COVID-19 Cleared Dead Wood From Malls But Open-Air Retail Is Thriving Store Openings Now Outnumber Store Closings In 2021

### OVERVIEW

During 2020, the retail sector came under an unprecedented siege. It had already been facing much-publicized headwinds (Amazon and e-commerce, bankruptcies caused by excessive leverage and quickly changing consumer demands), and then the COVID-19 pandemic turned the sector upside down. In the first half of the year, rent collections suffered and several million retail employees were laid off. By the time 2021 arrived, retail chains had permanently closed more than 12,000 locations and almost 160 million square feet of space had gone dark (Source: National League of Cities). Most of these tenants and much of the dark space was located in secondary and tertiary locations and in lower quality enclosed malls. Flash forward to September 2021: Coresight Research – a leading retail-focused advisory firm – just announced that store openings are set to outpace store closings in 2021, and that openings are up 54% year-over-year. Leading retailers have invested in “COVID-resilience,” improving their cash positions and e-commerce capabilities, offering shoppers COVID-friendly purchasing options such as curbside pickup, and adjusting their product lines to appeal to new consumer demands. A quick look at financial metrics for many of the strongest retailers shows impressive same store sales growth over pre-pandemic figures, with healthy operating margins and expansion plans. The neighborhood, community and strip center segment of the retail sector has attracted most of the occupancy and rental growth in the retail sector. It has experienced dynamic net absorption this year (more than 11 million square feet, per CBRE). This reflects increased demand for open-air centers, which stems from a combination of retailers’ multi-channel strategies and consumers’ demand for high quality retail options, pick-up and delivery convenience and health considerations.

Store Openings vs. Closings in 2021 (YTD)



Source: Coresight

Retailers – like most businesses – still must navigate plenty of challenges as we move through the pandemic, but the “Retail Apocalypse” narrative continues to be overplayed, in our view. 2020 was devastating for distressed retailers, low quality retail assets and malls but we believe that several trends will continue to positively impact the retail environment and the open-air segment. These include off-price and discount retailers continuing their relentless growth as income disparity becomes more pronounced and the increased integration of online and brick-and-mortar presence by most successful retailers. This includes formerly “online-only” retailers such as Amazon and Warby Parker, who have validated the importance of a brick-and-mortar presence by opening stores around the country. Sectors that are expanding most aggressively include dollar stores, off-price retailers, and discounters, beauty chains, and grocery. Their expansion plans are generally underpinned by strong financial performance, though in the case of grocery comps are generally up from 2019 but down from 2020, when COVID-19 led to historically strong performance in the sector. See the following pages for a summary of anticipated store openings and recent financial highlights from several leading retailers that are either currently or potentially part of the LBX open-air portfolio. While retailers are generally benefitting from an infusion of stimulus money into the economy, the general growth profile for these companies is very positive.

### RETAILERS THAT CLOSED THE MOST STORES IN 2020 (AND THEIR TYPICAL LOCATIONS)

RETAILER	2020 CLOSINGS	MALL	OPEN AIR (IN-LINE)	FREESTANDING	COMMENTS
GNC	Up to 1,200	X	X		Closings focused on mall locations
Pier 1	936		X	X	Declared bankruptcy, closed all locations
Stage Stores	738		X		Declared bankruptcy, closed all locations
Men’s Wearhouse/Jos. A. Bank	500	X	X	X	
New York & Co.	405	X			
GameStop	320	X	X		Closings focused more on mall locations
Signet Jewelers	300	X			
Stein Mart	281		X		Declared bankruptcy, closed all locations
Bed Bath & Beyond	260		X		Company’s fundamentals have been improving
AT&T	250		X	X	
Victoria’s Secret	250	X			Company is trialing open-air concept stores
Chico’s	250	X	X		
Tuesday Morning	232		X		
Gap	230	X			Old Navy is opening locations in open-air centers
JCPenney	204	X			
The Children’s Place	200	X			
Walgreens	200			X	
Destination Maternity	183	X			

Source: Moneywise

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### APPAREL




(Source: Creditmell for All – Please note that Creditmell credit ratings run from A1 (Highest) to F2 (Lowest))

American Eagle Outfitters	Creditmell Rating: B1	Current LBX Exposure: None
 <p><b>Summary:</b> American Eagle has been closing mall-based locations and opening stores in outdoor open-air locations.</p> <p><b>Store Openings:</b> In FY21, the company is planning to open 20-25 new stores in open air shopping centers</p>	<p><b>Quarterly Results:</b></p> <ul style="list-style-type: none"> <li>- Brands are American Eagle and Aerie</li> <li>- American Eagle Outfitters announced a 31% dividend increase in June 2021. Second quarter results have not been released as of late September but 1Q21 compared favorably to 1Q19:</li> <li>- 1Q21 revenue of \$1.03 billion and operating income of \$133 million represented record-highs for the company.</li> <li>- The company's gross margins expanded by 550 basis points in 1Q21, to 42.2%.</li> <li>- Digital momentum has continued, up 57% (Aerie up 158% and American Eagle up 20%)</li> </ul>	
Old Navy	Creditmell Rating: C2	Current LBX Exposure: None
 <p><b>Summary:</b> Old Navy ranks as the #2 apparel brand in the country and has been opening locations in outdoor, open-air center while closing mall locations.</p> <p><b>Store Openings:</b> In FY21, the company is planning to open 30-40 new Old Navy stores.</p>	<p><b>Quarterly Results:</b></p> <ul style="list-style-type: none"> <li>- Gap is its parent company.</li> <li>- Old Navy represents 57% of Gap's sales.</li> <li>- Net sales in 1Q21 were up 21% vs. 2019 and Old Navy ranks as the #2 apparel brand in the country.</li> <li>- Comparable sales were up 18% vs. 2019.</li> </ul>	

### AUTO PARTS

Advance Auto Parts	Creditmell Rating: B1	Current LBX Exposure: None
 <p><b>Summary:</b> Advance Auto Parts is one of the leading automotive aftermarket parts providers.</p> <p><b>Store Openings:</b> Advance Auto Parts expects to open between 50-100 stores in FY21. its footprint over the next several years, however.</p>	<p><b>Quarterly Results:</b></p> <ul style="list-style-type: none"> <li>- Net sales increased 5.9% to \$2.6 billion.</li> <li>- Comparable store sales increased 5.8%; On a two-year stack, they increased 13.3%.</li> <li>- Adjusted operating income increased 7.0% to \$302.0 million and adjusted operating income margin expanded 11 basis points to 11.4%.</li> <li>- Adjusted Diluted EPS increased 15.3% to \$3.40.</li> <li>- YTD operating cash flow increased to \$776.2 million; Free cash flow increased to \$646.6 million.</li> </ul>	

### DEEP DISCOUNT / DOLLAR STORES




Dollar General (Popshelf)	Creditmell Rating: A1	Current LBX Exposure: None
  <p><b>Summary:</b> Dollar General Corporation is a chain of more than 17,000 variety stores. Annual revenues exceed \$27 billion.</p> <p><b>Store Openings:</b> During FY21, the Company plans on opening 50 to 60 stores, and closing 35. PopShelf stores, which are focused on home décor, home cleaning and seasonal goods, is one of the fastest growing retail concepts nationally and will expand to 50 locations from eight by the end of the fiscal year.</p>	<p><b>Quarterly Results:</b></p> <ul style="list-style-type: none"> <li>- For 2Q FY21, Net Sales Decreased 0.4% YoY to \$8.7 Billion</li> <li>- Same-Store Sales Decreased 4.7%; Increased 14.1% on a two-year stack basis.</li> <li>- Operating Profit was \$849.6 Million</li> <li>- Diluted EPS of \$2.69 represents a two-year compound annual growth rate of 27.7%, or 24.3% compared to Q2 2019 Adjusted Diluted EPS.</li> <li>- Year to Date Cash Flows From Operations are \$1.3 Billion</li> </ul>	
Ollie's Bargain Outlet	Creditmell Rating: B1	Current LBX Exposure: None
 <p><b>Summary:</b> Ollie's is a chain of discount retail stores with 409 domestic locations.</p> <p><b>Store Openings:</b> The company plans on 50 new store openings in FY21.</p>	<p><b>Quarterly Results:</b></p> <ul style="list-style-type: none"> <li>- Total net sales decreased 21.4% to \$415.9 million.</li> <li>- Comparable store sales decreased 28.0% from the prior year increase of 43.3%, resulting in a two-year stack of +15.3%.</li> <li>- The Company opened 12 new stores, ending the quarter with 409 stores in 28 states, a year-over-year increase in store count of 11.7%.</li> <li>- Adjusted net income was \$34.0 million, or \$0.52 per diluted share, as compared with prior year adjusted net income of \$68.9 million, or \$1.04 per diluted share.</li> <li>- Adjusted EBITDA decreased 45.6% to \$54.1 million and adjusted EBITDA margin decreased 580 basis points to 13.0%.</li> </ul>	

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### DEPARTMENT STORES

Burlington	Creditntell Rating: C1	Current LBX Exposure: Evergreen Plaza (Chicago)
	<p><b>Summary:</b> Burlington is one of the leading off-price discounters.</p> <p><b>Store Openings:</b> Burlington plans to open 100 new stores in FY21 as it resumes expansion efforts.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Total sales increased 34% (on a GAAP basis).</li> <li>- Diluted EPS increased 19% to \$1.50.</li> <li>- Comparable store sales increased 19% over 2Q19 and gross margin increased by 80 bps.</li> <li>- Net income increased 21% to \$103 million during this period.</li> </ul>
Marshalls / TJMaxx	Creditntell Rating: B1	Current LBX Exposure: Evergreen Plaza (Chicago)
	<p><b>Summary:</b> Both Marshalls and TJMaxx are leading off-price discounters.</p> <p><b>Store Openings:</b> In FY22, the company is planning to add ~30 net new stores.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Parent is TJX Companies.</li> <li>- Q2 FY22 overall open-only comp store sales increased 20% over Q2 FY20.</li> <li>- Q2 FY22 net sales were \$12.1 billion, an increase of 23% compared to Q2 FY20.</li> <li>- Q2 FY22 total segment profit grew by \$336 million to \$1.5 billion, a 29% increase compared to Q2 FY20.</li> <li>- Sales are very strong to start Q3 FY22, with overall open-only comp store sales up mid-teens over Q3 FY20.</li> </ul>
Ross Stores	Creditntell Rating: B1	Current LBX Exposure: North Rivers (North Charleston), Oakwood Commons (Nashville), Promenade Fultondale (Birmingham)
	<p><b>Summary:</b> Ross is one of the leading off-price discounters.</p> <p><b>Store Openings:</b> In 2021, Ross plans to open 60 new stores (40 Ross and 20 dd's discounts). The company has ~100 new openings planned in 2022.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Earnings per share for the 13 weeks ended July 31, 2021 grew 22% to \$1.39 on net income of \$494 million. This compares to \$1.14 per share on net earnings of \$413 million for the 13 weeks ended August 3, 2019.</li> <li>- Sales rose 21% to \$4.8 billion, with comparable store sales up a robust 15%.</li> </ul>

### HEALTH & BEAUTY

Ulta Beauty	Creditntell Rating: A2	Current LBX Exposure: Evergreen Plaza (Chicago)
	<p><b>Summary:</b> Ulta has been one of the best growth stories in retail for the past several years.</p> <p><b>Store Openings:</b> In FY21, Ulta Beauty plans to open 40 net new stores. Ulta is also expanding its store presence in partnership with Target. The company plans to open 100 locations inside Targets around the country and 800 over the next few years.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Net sales increased 60.2% to \$2.0 billion compared to \$1.2 billion in the second quarter of fiscal 2020.</li> <li>- Comparable sales increased 56.3% compared to a decrease of 26.7% in the second quarter of fiscal 2020. Compared to the second quarter of fiscal 2019, comparable sales increased 13.1%.</li> <li>- Gross profit increased to \$798.0 million compared to \$329.0 million in the second quarter of fiscal 2020. As a percentage of net sales, gross profit increased to 40.6% compared to 26.8% in the second quarter of fiscal 2020.</li> <li>- Operating income increased to \$332.3 million, or 16.9% of net sales, compared to \$12.8 million, or 1.1% of net sales, in the second quarter of fiscal 2020. Adjusted operating income for the second quarter of fiscal 2020 was \$54.9 million, or 4.5% of net sales.</li> </ul>
Bath & Body Works	Creditntell Rating: C1	Current LBX Exposure: Evergreen Plaza (Chicago), Promenade Fultondale (Birmingham)
	<p><b>Summary:</b> As a result of its recent spinoff from Victoria's Secret, Bath &amp; Body Works is expected to be one of the growthier brands in the Health &amp; Beauty category.</p> <p><b>Store Openings:</b> In FY21, Bath &amp; Body Works plans to open 50 off-mall stores while closing 20-40 stores (primarily in malls).</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- The company spun off from Victoria's Secret in August 2021.</li> <li>- Operating performance has been strong: in 2Q21 the Company saw North America store sales increase 81% vs. 2Q20.</li> </ul>

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### GROCERY

<p><b>Aldi</b></p> 	<p><b>Creditnell Rating:</b> N/A</p> <p><b>Summary:</b> Aldi is a German-owned discount supermarket that is rapidly expanding in the United States.</p> <p><b>Store Openings:</b> Aldi plans to open approximately 100 locations in FY21.</p>	<p><b>Current LBX Exposure:</b> (Shadow-Anchored) Chapel Hill (Atlanta)</p> <p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- N/A</li> </ul>
<p><b>Publix</b></p> 	<p><b>Creditnell Rating:</b> N/A</p> <p><b>Summary:</b> Publix is generally viewed as one of the best supermarkets from a credit standpoint.</p> <p><b>Store Openings:</b> Publix is expected to continue opening between 35-40 stores annually.</p>	<p><b>Current LBX Exposure:</b> Oakwood Commons (Nashville)</p> <p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- For the quarter ended June 26, sales totaled \$11.8 billion, up 3.9% from \$11.4 billion in the 2020 quarter.</li> <li>- Same-store sales rose 2.3% year over year.</li> <li>- Those upticks came atop increases of 21.8% in sales and 19.9% in comparable-store sales a year ago, when consumer stockpiling behavior stoked demand in groceries and staple household items.</li> <li>- Earnings were down from the pandemic-driven increases from a year ago. The company posted 2021 second-quarter net income of \$1 billion, or \$1.46 per share, compared with \$1.4 billion, or \$1.94 per share, in the prior-year period.</li> </ul>
<p><b>Sprouts</b></p> 	<p><b>Creditnell Rating:</b> N/A</p> <p><b>Summary:</b> Sprouts offers natural foods at a lower price point than Whole Foods.</p> <p><b>Store Openings:</b> Sprouts plans to add ~30 new stores (mostly smaller stores in existing markets).</p>	<p><b>Current LBX Exposure:</b> None</p> <p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Net sales of \$1.6 billion; a 4% decrease from the same period in 2020</li> <li>- Comparable store sales growth of -9.4% and two-year comparable store sales growth of 2.2%</li> <li>- Net income and adjusted net income of \$83 million; compared to net income of \$92 million and adjusted net income of \$93 million from the same period in 2020.</li> </ul>
<p><b>Trader Joe's</b></p> 	<p><b>Creditnell Rating:</b> N/A</p> <p><b>Summary:</b> Trader Joe's has more than 530 grocery stores nationwide.</p> <p><b>Store Openings:</b> Trader Joe's is expected to continue opening approximately one dozen stores per year.</p>	<p><b>Current LBX Exposure:</b> None</p> <p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- N/A</li> </ul>
<p><b>Amazon Fresh &amp; Whole Foods</b></p> 	<p><b>Creditnell Rating:</b> A1</p> <p><b>Summary:</b> Amazon Fresh offers a wide selection of national brands, private label, and store-made products at a low price, whereas Whole Foods offers organic products at a higher price point.</p> <p><b>Store Openings:</b> Amazon is planning to open at least 30 more Fresh and Whole Foods grocery stores over the next year.</p>	<p><b>Current LBX Exposure:</b> (Whole Foods) Evergreen Plaza (Chicago)</p> <p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- 1Q Retail sales (excluding AWS and Other segments) increased 44% to \$88.11 billion despite physical store sales decreasing 16% (note physical store results exclude the online component of sales fulfilled in stores such as Whole Foods).</li> <li>- Retail operating income increased more than 400% to \$4.70 billion despite cost of sales and fulfillment increasing 41% and 43%, respectively and worldwide shipping costs increasing 57%.</li> <li>- Q2 FY22 overall open-only comp store sales increased 20% over Q2 FY20.</li> <li>- Q2 FY22 net sales were \$12.1 billion, an increase of 23% compared to Q2 FY20.</li> <li>- Q2 FY22 total segment profit grew by \$336 million to \$1.5 billion, a 29% increase compared to Q2 FY20.</li> <li>- Sales are very strong to start Q3 FY22, with overall open-only comp store sales up mid-teens over Q3 FY20.</li> </ul>

### GYMS/FITNESS


<p><b>Planet Fitness</b></p> 	<p><b>Creditnell Rating:</b> D1</p> <p><b>Summary:</b> Planet Fitness is one of the leading budget fitness chains. There are currently around 2,150 SF stores in the country and the company plans to expand to more than 4,000.</p> <p><b>Store Openings:</b> In FY21, Planet Fitness plans to open 75-100 new clubs. Store opening plans are down from FY20 (130) and FY19 (260). Management plans to almost double its footprint over the next several years, however.</p>	<p><b>Current LBX Exposure:</b> Colony Plaza (Augusta), Evergreen Plaza (Chicago)</p> <p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Planet Fitness' 3rd Quarter Earnings Release is scheduled for late November 2021.</li> <li>- 2020 was difficult for the company - 4Q net revenues were down about 30%, with same club revenue down 10.6%. Franchise segment revenue (50% of net sales) declined 8.8%, revenue from corporate-owned locations (29% of net sales) declined 5.6%, and equipment segment revenue (21% of net sales) fell 63.7%.</li> <li>- Membership count fell to 13.5 million as of FYE20, down from 14.4 million members as of FYE19. Management noted the boomer demographic has been hesitant to return at the same rate as before, while millennials are essentially on par, and Gen Z are joining at an "extremely higher" rate.</li> </ul>
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### HOUSEWARES / HOME FURNISHINGS


HomeGoods	Creditnell Rating: B1	Current LBX Exposure: None
	<p><b>Summary:</b> HomeGoods is a home furnishings chain under the TJX umbrella with TJMaxx and Marshalls.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Parent is TJX Companies</li> <li>- Q2 FY22 overall open-only comp store sales increased 20% over Q2 FY20</li> <li>- Q2 FY22 net sales were \$12.1 billion, an increase of 23% compared to Q2 FY20</li> <li>- Q2 FY22 total segment profit grew by \$336 million to \$1.5 billion, a 29% increase compared to Q2 FY20</li> <li>- Sales are very strong to start Q3 FY22, with overall open-only comp store sales up mid-teens over Q3 FY20</li> </ul>
	<p><b>Store Openings:</b> In FY22, HomeGoods is planning to open ~35 net new stores.</p>	






### MASS MERCHANDISERS

Big Lots	Creditnell Rating: B1	Current LBX Exposure: None
	<p><b>Summary:</b> Big Lots is a discount chain known for its closeout buys.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- For 2Q FY21, Big Lots reported net income of \$37.7 million, or \$1.09 per diluted share, vs. guidance of \$1.00 to \$1.15 per diluted share. This was below adjusted net income for 2Q FY20 of \$110.1 million, or \$2.75 per diluted share.</li> <li>- Net sales for the period totaled \$1,457 million, a 11.4% decrease compared to \$1,644 million for the same period last year, and an increase of 16.4% compared to the second quarter of fiscal 2019.</li> <li>- Net new stores and relocations contributed approximately 180 basis points of sales growth. On a two-year basis, comparable sales increased 14.0%.</li> </ul>
	<p><b>Store Openings:</b> During FY21, the Company plans on opening 50 to 60 stores, and closing 35.</p>	

Target	Creditnell Rating: A2	Current LBX Exposure: (Shadow-Anchored at North Rivers (North Charleston), Ridgeway Trace (Memphis), and Promenade Fultondale (Birmingham))
	<p><b>Summary:</b> Target is the eighth-largest domestic retailer.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Second quarter comparable sales grew 8.9%, on top of record growth of 24.3% last year.</li> <li>- Comparable sales growth was driven entirely by traffic.</li> <li>- Store comparable sales increased 8.7%, on top of 10.9% growth last year.</li> <li>- Digital comparable sales grew 10%, following growth of 195% last year.</li> <li>- Digital sales continue to be led by same-day services (Order Pickup, Drive Up and Shipt), which grew nearly 55% this year, on top of more than 270% last year.</li> <li>- All five core merchandise categories delivered positive comparable sales.</li> <li>- Second quarter GAAP EPS of \$3.65 was 8.9% higher than last year, and Adjusted EPS of \$3.64 was 7.9% higher than last year. Second quarter GAAP and Adjusted EPS have doubled since 2Q19.</li> </ul>
	<p><b>Store Openings:</b> Target is planning to open an additional 30 locations across the country this year, as the company continues to find opportunities in urban and dense suburban markets, and locations that are on or near college campuses.</p>	

### RESTAURANTS

BJ's Restaurants	Creditnell Rating: D1	Current LBX Exposure: None
	<p><b>Summary:</b> BJ's Restaurants is an American restaurant chain. Some locations feature microbreweries that supply beer to other locations in the chain.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Total revenues increased 126.7% to \$290.3 million YoY.</li> <li>- Comparable restaurant sales improved 121.9%</li> <li>- Net income of \$6.4 million compared to net loss of \$29.0 million</li> <li>- Diluted net income per share of \$0.26 compared to diluted net loss per share of \$1.38</li> <li>- Adjusted positive EBITDA of \$27.7 million, compared to negative \$13.7 million</li> </ul>
	<p><b>Store Openings:</b> BJ's Restaurants only expected to open two new restaurants in FY21. Based on the current operating environment, management expects to open eight to 10 new restaurants in FY22.</p>	

Bloomin' Brands (Outback)	Creditnell Rating: D1	Current LBX Exposure: None
    	<p><b>Summary:</b> Bloomin' Brands owns several American casual dining chains, most notably Outback Steakhouse.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Q2 Diluted EPS of \$0.75 and Adjusted Diluted EPS of \$0.81</li> <li>- Q2 Comparable Restaurant Sales Growth of 65.8% at Outback Steakhouse and 84.6% Combined U.S.</li> <li>- Strengthening Third Quarter-to-Date U.S. Comp Sales Trends on a 2-Year Basis</li> </ul>
	<p><b>Store Openings:</b> Bloomin' Brands planned to open 20 to 25 new stores in FY21, but now expects to be on the low end of that range as raw materials constraints have pushed a handful of units into FY22. Thus far through 2Q21 the Company has opened four and closed three restaurants across its various banners, while franchisees have closed eight locations.</p>	

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Chipotle	Creditnell Rating: B1	Current LBX Exposure: Ridgeway Trace (Memphis)
	<p><b>Summary:</b> Chipotle is an American chain of fast casual restaurants that specializes in tacos and burritos that are made to order in front of the customer.</p> <p><b>Store Openings:</b> Chipotle has maintained a strong pace of new store expansion, with 86 net new restaurants opened in 1H21. Management plans to open 200 or more restaurants in FY21, which is a threshold it has not exceeded since FY16. About 70% of these new restaurants will include drive-thru "Chipotlanes," which have performed better during the pandemic.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Revenue increased YoY by 38.7% to \$1.9 billion.</li> <li>- Comparable restaurant sales increased 31.2%.</li> <li>- Digital sales grew 10.5% and accounted for 48.5% of sales.</li> <li>- Operating margin was 13.0%, an increase from -0.4%.</li> <li>- Restaurant level operating margin was 24.5%, the highest since Q3, 2015, and an increase of 1,230 basis points.</li> <li>- Adjusted diluted earnings per share was \$7.46, a 1,765.0% increase from \$0.40.</li> </ul>
Darden Restaurants	Creditnell Rating: B2	Current LBX Exposure: None
	<p><b>Summary:</b> Darden is a multi-brand restaurant operator with eight chains under its umbrella: Eddie V's Prime Seafood, The Capital Grille, Olive Garden, LongHorn Steakhouse, Bahama Breeze, Seasons 52, Yard House and Cheddar's Scratch Kitchen.</p> <p><b>Store Openings:</b> Darden expects to open 35 to 40 new restaurants and spend \$375 million to \$425 million on capex in FY22, which ends in May 2022. This represents a slight step up from the 30 new Company-operated stores opened in FY21, but still only about 2% unit growth.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- In 1Q21, total sales increased 51% YoY to \$2.31 billion, driven by a blended same-restaurant sales increase of 47.5% and the addition of 34 net new restaurants</li> <li>- Reported diluted net earnings per share from continuing operations was \$1.76 as compared to reported diluted net earnings per share from continuing operations of \$0.28 last year and adjusted diluted net earnings per share from continuing operations of \$0.56 last year</li> <li>- Reported net earnings from continuing operations were \$232 million and EBITDA was \$370 million.</li> </ul>
IHOP (Dine Brands)	Creditnell Rating: D1	Current LBX Exposure: None
	<p><b>Summary:</b> IHOP is a multinational pancake house restaurant chain with more than 1,800 locations specializing in breakfast foods.</p> <p><b>Store Openings:</b> Dine Brands expects franchisees will open 40 to 50 new IHOP restaurants in FY21 and a similar amount annually over the next few years, including some amount of units under its fast casual Flip'd banner. Through 2Q21, franchisees have opened 17 but also closed 42 IHOP restaurants, for a net decline of 25 restaurants.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- 2Q21 two-year stacked comps up 10.5% at Applebee's, down 3.4% at IHOP versus 2Q19</li> <li>- Off-premise sales represented 30.3% of Applebee's and 26.1% of IHOP sales</li> <li>- 99% of restaurants are at 100% dining room capacity</li> </ul>
Noodles'	Creditnell Rating: D1	Current LBX Exposure: None
	<p><b>Summary:</b> Noodles &amp; Company is an American fast-casual restaurant that offers international and American noodle dishes and pasta in addition to soups and salads. It has 410 locations.</p> <p><b>Store Openings:</b> The pandemic essentially shifted Noodles' store expansion plans back one year, as management expects to open 10 to 15 new stores in FY21 (eight to 11 Company-owned, rest franchised) before returning to 7% unit growth in FY22 and 10% thereafter. Through 1H21, the Company and franchisees have actually closed net three stores, so they have some catching up to do in 2H.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Noodles &amp; Company reported 57% sales growth to \$125.6 million in 2Q21.</li> <li>- System-wide 2Q comparable restaurant sales were up 56.8%</li> <li>- As of July 30, 2021, all restaurants have reopened dining rooms in some capacity</li> <li>- Annualized Average Unit Volume at an all-time high of \$1.4 million</li> </ul>

# DOES OPEN-AIR RETAIL HAVE AN OPEN PATHWAY GOING FORWARD?

## MARKET COMMENTARY

OCTOBER 6, 2021

### RESTAURANTS

Shake Shack	Creditntell Rating: C2	Current LBX Exposure: None
	<p><b>Summary:</b> Shake Shack is a fast casual burger chain with more than 250 locations globally.</p> <p><b>Store Openings:</b> New store expansion was only temporarily slowed in FY20 due to the pandemic, as Shake Shack ultimately added 36 new locations (20 domestic). Thus far in 1H21, Shake Shack has opened 16 to 18 new restaurants and is on track to reach its target of 35 to 40 new units for the full year, with a higher target of 45 to 50 new units in FY22.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Total revenue in 2Q21 increased 104.2% to \$187.5 million versus the same period last year.</li> <li>- Same-store sales were +52.7% in 2Q21 versus the same period last year.</li> <li>- Operating income in 2Q21 was \$3.3 million compared to an operating loss of \$24.1 million in the same period last year.</li> <li>- Operating profit increased 1,699.7% in 2Q21 versus the same period last year, to \$34.8 million, or 19.2% of Shack sales.</li> <li>- Net income was \$2.1 million and adjusted EBITDA was \$20.6 million in the second quarter of 2021, compared to a net loss of \$18.0 million and adjusted EBITDA of \$(8.8) million in the same period last year.</li> </ul>
	<p><b>Summary:</b> Starbucks is the world's largest coffeehouse chain, with 33,295 stores globally.</p> <p><b>Store Openings:</b> Starbucks expects it and licensees will open 800 new Americas stores (0 net) and 1,350 new International stores (1,100 net) in FY21 (ended September 2021).</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Global comparable store sales increased 73%</li> <li>- U.S. comparable store sales increased 83%</li> <li>- Consolidated net revenues of \$7.5 billion grew 78% compared to the prior year</li> <li>- GAAP operating margin of 19.9% increased from -16.7% in the prior year</li> <li>- GAAP earnings per share of \$0.97, up from a loss of \$0.58 in the prior year</li> </ul>
	<p><b>Summary:</b> Texas Roadhouse is an American steakhouse that has approximately 665 locations.</p> <p><b>Store Openings:</b> Texas Roadhouse's self-funded store growth is expected to include 26 to 29 new restaurants in FY21 (about 5% unit growth). This is a slight uptick from the 3.6% unit growth in FY20 (23 net new restaurants) but on par with the 5% achieved in FY19. 11 new restaurants opened during 1H21, and 18 more are under construction.</p>	<p>Quarterly Results:</p> <ul style="list-style-type: none"> <li>- Comparable restaurant sales at company restaurants increased 80.2% and 21.3% compared to 2020 and 2019, respectively. Comparable restaurant sales at domestic franchise restaurants increased 76.5% and 19.4% compared to 2020 and 2019, respectively.</li> <li>- Restaurant margin, as a percentage of restaurant and other sales, was 17.7%.</li> <li>- Diluted earnings per share increased to \$1.08 from a diluted loss per share of (\$0.48) in the prior year.</li> <li>- The Company ended the quarter with debt of \$190.0 million and \$483.4 million of cash on hand.</li> </ul>