



Carl's Jr. Benchmark Report

Executive Summary

Carl's Jr. is a West Coast regional chain which should benefit from its ongoing brand separation from Hardee's (allowing Carl's to be Carl's) with a resultant return to its positioning around West Coast cool, bold, passionate, disruptive and edgy. Burgers account for 75% of lunch/dinner mix, mostly represented by the chain's almost ¼ lbs. non-Angus beef patty platform which provides a compelling mid-tier pricing option. Other brand attributes include: over-sized burgers & unique Angus platform; charbroiled chicken line with no artificial ingredients, preservatives or antibiotics ever; hand-breaded chicken tenders; made-from-scratch biscuits; and milkshakes made with hand-scooped ice cream. Its higher-end Thickburgers are competitive with "better burger" brands, but offered at more affordable prices, and value is supported by its All Star Meal box platform & Charbroiled Sliders LTO. Annual comps through 2017 were modestly positive since bottoming in 2009 - 2010 (although slightly negative YTD 2018), helped by steady menu price increases and the 2012 intro of Hardee's high margin breakfast options. An outperforming EBITDAR margin reflects a material COGs benefit (lack of discounting to go with menu price increases) which more than offsets a relatively low AUV, high ad expenditure (necessary to compensate for CKE's relatively small scale) and labor cost pressures. In any case, high rent & labor costs on the West Coast discourage discounting and make it difficult for the brand to compete around price in a very price sensitive market and Carl's premium burger positioning continues to be pressured by marketplace realities. Sales are also challenged by the lack of all-day breakfast (reflecting operational complexities) and digital access (late to the game in terms of customer facing tech & delivery). **In conclusion, while the brand is finally rediscovering its true roots, the competitive reality of the marketplace likely requires a new approach to price/value, preferably one that will not dilute Carl's Jr.'s West Coast cool.**

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