

NEWSLETTER

Volume 5 - August 2020

Save the Dates for the Upcoming SFA Events!

2020 SFA Conference is going VIRTUAL! **October 7, 2020**

Even if due to ongoing challenges related to COVID-19 we had to cancel our in-person event, we are excited to announce that we are able to hold the SFA Conference virtually this year!

It will be a new online experience for all of us, but you can expect to find some of the mainstays that have become commonplace at our annual conference, like CKE/Franchisees Closed Session, SFA Members Meeting and Q&A. Stay tuned for announcements regarding registration, agenda and other details.

SFA Board Call with Franchisees **September 2, 2020**

As a follow-up after the meeting with CKE Management Team, the SFA Board will hold an SFA Call on Wednesday, September 2nd at 9am PDT. The call will have the usual format, with a summary of the Board Meeting outcome presented by the board members, followed by an open Q&A session. An email with detailed call information will be sent to the entire franchise community.

SFA Board Election Letters **Due by August 31, 2020**

A Letter From CKE

Dear Carl's Jr. Franchisees,

On behalf of our entire team at CKE, we want to thank each one of you for your leadership, partnership and friendship as we continue to navigate uncharted territory during this time, and hope that you and your families are well and staying safe.

It has been a dynamic year to say the least and seeing your dedication and commitment to serving guests and supporting your teams has been inspiring. These are certainly key contributors to the continued success, positive momentum and are ultimately reflected in our sales with Q2 being the best same store sales results the brand has seen in 14 years! Myself, and our team, are thankful and proud to have the opportunity to be part of a Brand with such passion.

In addition to navigating the current environment, our teams have been diligently working on the strategy and execution elements that support our 2020 plan and meet the company's long-term strategic goals. The marketing team, in partnership with the SFA Marketing Committee, have been working closely on a number of exciting projects and wanted to share a few key focus areas as we continue to drive momentum and sales:

- **Brand Positioning:** Developing and refining our Brand positioning, to ensure that we are being authentic and true to the core of who we are, through a consistent message across all platforms.
- **Advertising Campaign:** Evolving of our advertising campaign with 72 & Sunny to bring back our craveable, ownable, irresistible breakthrough creative.
- **Media Strategy:** Executing an impactful hybrid media plan that leverages the strength of a combined national and local strategy brought to life with a new, fresh thinking from our agency partners at RPA and Associates.
- **Consumer Technology:** Exploring and implementing new consumer technology platforms via third party delivery, a mobile ordering program in test and development of a long-term loyalty program and solution.
- **Product Innovation:** Building a robust and strong product innovation pipeline to drive new news and attention for our existing Carl's Jr. loyalists as well as new and lapsed users.

We are very excited for the future and look forward to sharing more details on each of these during our upcoming SFA, DMA and Town Hall meetings.

Although travel has been restricted to say the least, we thank you for adapting to the new ways of communicating and can't wait to get back to spending more time together in markets and restaurants live!

Thank you again for your belief, trust and commitment. We are aligned on where we want to go and can't wait to see what we can accomplish together, not only for the rest of this year, but for many to come! Stay Safe. Stay Healthy. Stay Happy!



Sincerely,

Chad Crawford
Chief Brand Office, CKE

A Letter From The Board

SFA Members:

This has been a whirlwind for the past few months with everything associated with Covid-19. We have seen highs and lows, but now overall, we are fortunate to be experiencing positive sales and improved margins. The Carl's Jr. brand is well positioned to take advantage of this opportunity by offering the highest quality burgers in QSR.

The SFA's mission statement is perhaps more relevant than ever in these uncertain times:

Our mission is to unify franchisees and lead our brand to enhance financial viability by living our Carl's Jr. culture and utilizing the resources and talents of our franchise community while leveraging our strength to demand best-in-class vision and support from our franchisor.

This year has been challenging, indeed, but one thing we have learned is that we have to plan for the future of QSR. We have seen so many operational changes in response to Covid, and one might wonder how many of these will become commonplace going forward. How long will we need to wear masks, or gloves on the frontline, or keep up plexiglass, or take employees' temperatures?

Those answers remain to be seen, but something we know that will not go away is our need to focus on the Drive-Thru experience, online ordering, curbside pickup, and third-party delivery. This pandemic has accelerated the use of all of these vehicles. Carl's Jr. needs to be at the forefront and determine ways to improve DT speed and efficiency while utilizing IT and Marketing to develop and expand the other areas.

The SFA Board is committed to making these a priority and pressing CKE for answers.

As co-chair of the Operations Committee, we have also taken the approach that, given the continuous minimum wage increases, we will strive to reduce the labor-intensive aspects of our business without sacrificing quality. This has led to the system introduction of par-baked biscuits and the current test of pre-cut produce. As always, please reach out with any questions or suggestions.

I was hoping to see you all in person at the SFA conference in October, but for now we will have to settle for a virtual conference on Oct 7th. It will be a new thing for all of us, but we're looking forward to it.



Best Regards,

David Farnum
SFA Secretary

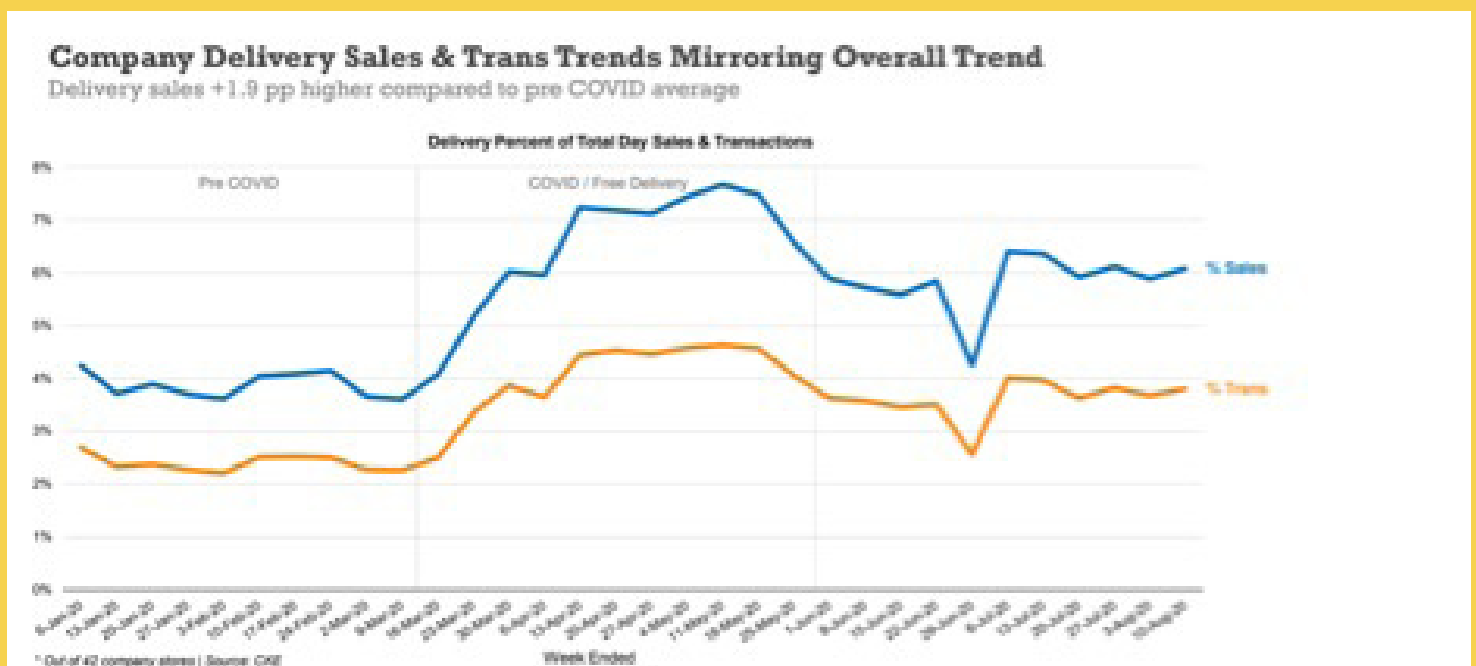
Delivery Update

By: Bryce Olson

The delivery committee held a meeting with CKE last week. Below is an outline of our focuses, questions and concerns we have for them.

- Overall sales declines across DSPs, or select DSP's
- Working on better reporting
- Door Dash
 - o Poor site visibility
 - o Increase in deactivations
 - o Store hours are being changed without direction
 - o Increase in charge backs, process to dispute is laborious
- UberEats
 - o Poor site visibility
 - o Increase in stores offline
 - o Increase in charge backs
- Grub Hub
 - o Roll out was botched. Trying to get new tablets working.
 - o Pictures will not upload from CKE library
 - o No Green/Red Burrito
- Overall
 - o What is CKE delivery calendar look like for the balance of the year?
 - o Our brand management
- How do DSP's hold the power to deactivate the stores from a Delivery driver level?
- Is there a second level of verification performed or available?
- How does this transfer to integrated stores?
- What's the method for both integrated and non-integrated to reactivate the stores?
- When will DD, UE and GH adopt a mass change function from the portal to make changes to menu items, additions, deletions, hours etc.?
- How can we better receive images?
- How do we increase our site visibility. You can type in our store address as our delivery address and we still are not visible.

CKE will get back to us on the answers to these questions. The DSP drivers having the power to shut us down is a large concern for us. CKE acknowledges this and is reaching out.



Purchasing Update

By: Dan Gjurgevich

I have enjoyed Co-Chairing Purchasing Committee with John Dunion, CSCO. We are fortunate to have Perry Krieg, VP Purchasing, along with Franchisees John Nelson, Mike Borchard, and Daljit Hundal participating as well. It has been a great learning process and experience. Our Committee covers two critical areas Smart Spend and PEG Fund. Smart Spend has produced savings to the system of over 20 Million dollars to date and continues strong. The 2021 Goal was additional savings of 15 Million Dollars and has already eclipsed 6.3 Million this year.

Here are a few items that are currently under review: Strawberry Fanta, Light Minute Maid Lemonade, Clear Glaze on Char Chicken replacing BBQ marinade, and reducing the size of Beyond Burger to 3.7 oz. from 4.0 to match Hardees standard. Savings of over \$300,000 on this product alone.

An important aspect of our supply chain is the management of inventory levels and logistical costs. Certain costs for inter Distribution Facility freight transfer costs, expedited Restaurant and Franchised Restaurant deliveries and Product obsolescence costs need to be managed and paid. In order to have sufficient funds available to manage these system costs, a fixed fee or markup may be applied to a Product or limited number of Products for a certain period to be used to pay for these costs. These funds are held in a "Peg Funds" which is directed by CKE to pay these additional inventory and logistical cost.

When actual sales of an LTO do not equal the projected sales there are often costs for Product obsolescence and inter Distribution Facility freight costs. A few examples would be the Chorizo Biscuit and Burrito, the Cold Brew Coffee, the Truffle Burger and Fruit Loop Donuts. With each of these LTO products, sales did not match projections and Peg Funds were spent to pay for product obsolescence and freight cost to consolidate product in one Distribution Center. For these products alone the cost to the Peg Fund was over \$180,000. BFC Cheese disk and Beyond Sausage add an additional \$120,000 and \$15,000 respectively.



In many instances, the number would be higher but for our Distribution team which does a great job reducing these costs. While there will always be product obsolescence and freight costs as part of supply chain management, inaccurate ADQ projections made by marketing combined with a short sales window can increase these costs to higher than normal levels. We will continue to work closely with Marketing to have Premium and LTO product ingredients that sell. As Marketing continues to improve in executing product messaging and ADQ's actually spike when being promoted we will reduce losses and close the gap in this critical area.

As always, if you have any questions please feel free to call or email me. Thank you.

LTO Update

We are committed to improving and simplifying ops procedures. However, we realize there are concerns with two upcoming LTOs. The A-1 requires seasoning after cooking. This was certainly a concern initially. However, after thorough testing by CKE and two franchisees this procedure was approved; with the taste difference being highly improved and minimal impact on the crew. However, the next LTO, the Prime Rib, is even more complicated and it was not in test. The ops committee and SFA Board fought against this product, but unfortunately, we were overruled.

Here are the other areas we're working on:

Drive-Thru efficiency focus - some ideas in test:

- Pulling cars into designated spaces
- Reduced DT menu
- Reduced scripting
- Line busting during peak periods (optional based on estimated ROI for franchisees)
- Headsets on cooks (optional based on estimated ROI for franchisees)

Ops Simplification

Pre-Cut Produce

The table below shows the food cost impact. Lettuce is a cost savings (due to the yield difference) and the onions are a cost increase. The combined food cost is approximately cost neutral. The potential labor savings is not included below, and is estimated to save 1.5 hours/day. Pre-sliced tomatoes will not roll out due to shelf life issues, especially at 1X delivery units. Still working on Denver and Dallas DCs.

Ops Simp Test Updates

Pre Cut Produce

Current Status:

Green Leaf and Shredded – 93 stores (Eastvale)

Sliced and Diced Onion – 93 stores (Eastvale)

- Alternative sliced and diced onion to be tested August 24
- Extends RG shelf life by 3 days and open shelf life by 8 days

Next Steps:

- **Eastvale DC Expansion (469 total stores)**
 - Green Leaf and Shredded - August 10
 - Sliced and Diced Onion – September 16
- **Tentative Sacramento DC Expansion (Addl. 318 stores):**
 - Green Leaf and Shredded – October 7
 - Sliced and Diced Onion – October 7

Open Considerations:

- Denver and Dallas – Pre-Cut Lettuce not currently an option
 - Distance from CA consolidator facility
 - Pre-Cut Onions still an option
- Diced onion – Shelf life and case pack
- Tomatoes

Eastvale DC

Product	RG Shelf Life (Open)	Case Pack	Portions/Case	Estimated Impact/store/day
Green Leaf Lettuce	7 days (48 hours)	4/2lb bags	393	\$7.08
Shredded Lettuce	7 days (48 hours)	4/2.5lb bags	235	\$3.66
Sliced Onion (Gills)	7 days (10 days)	2/5lb containers	TBD	(\$9.29)
Diced Onion (Gills)	7 days (10 days)	4/5lb bags	TBD	(\$0.80)

Sacramento DC

Product	RG Shelf Life (Open)	Case Pack	Portions/Case	Estimated Impact/store/day
Green Leaf Lettuce	7 days (48 hours)	4/2lb bags	393	\$5.55
Shredded Lettuce	7 days (48 hours)	4/2.5lb bags	235	\$2.93
Sliced Onion (Gills)	7 days (10 days)	2/5lb containers	TBD	(\$9.43)
Diced Onion (Gills)	7 days (10 days)	4/5lb bags	TBD	(\$0.72)

Nicholas-LV DC

Product	RG Shelf Life (Open)	Case Pack	Portions/Case	Estimated Impact/store/day
Green Leaf Lettuce	7 days (48 hours)	4/2lb bags	393	\$6.15
Shredded Lettuce	7 days (48 hours)	4/2.5lb bags	235	\$1.33
Sliced Onion (Gills)	7 days (10 days)	2/5lb containers	TBD	(\$7.54)
Diced Onion (Gills)	7 days (10 days)	4/5lb bags	TBD	(\$0.34)



Chicken Tenders

We are looking into ways to simplify this process; however, partially cooked (par-fried) chicken is not permissible under CA food code and CKE will not authorize a test that violates the food code. We have asked CKE to consider testing a premium quality frozen to finish tender. So far, this request has been rejected by CKE's Leadership Team.

Other Items / Tests

- Rolling out a dual-sided clamshell system wide in Oct.
- Thaw & Serve Cookie in test starting Oct. 28th.
- Gravy deletion test for Eastvale and Nicholas DCs starting 8/19. Other DCs will keep gravy.
- Looking to bring back the old Carl's sausage. If so, it will need to be diced up for stores that keep gravy.
- Savory Chicken Breast (no marinade) in test 8/19 replacing our current BBQ marinade chicken.
- Testing heating bacon in fryer #3. It's better for ops, but there are concerns about pork in a fryer. It's not a legal issue, but could be a PR concern.
- The hands-free blender for shakes did not perform well and the test is canceled. Still looking at options to improve ops simp for shakes without a significant capital investment.

Ops Update

By: David Farnum

Marketing Committee is in a continuous dialogue with CKE Marketing Team to ensure we are providing our input and keep the momentum going. I am a strong believer that our premium products are imperative to maintaining our momentum vs. QSR and the results we are seeing with our business, ADQ's of Monster, etc while McDonalds, Wendy's, BK and other have neg SSS demonstrate how we can capitalize on the Switcher strategy.

Below is a recap of what we have accomplished, goals that we are continuing to pursue and current challenges:

Accomplishments:

- Pushed creative away from focus on Happy to Food Focus with great Food photography
- Moved to Premium Angus product for Window 6 with new creative
- Successfully testing DMA "starting at" pricing for A-1 Double Deal

Goals:

- Continue to challenge media strategy national vs. local
- Push for digital marketing to be spend on Delivery, To-Go, POS
- Continue to push creative to be food focused
- Continue to push for DMA based pricing on value layer

Current Challenges:

- Sales success causing CKE to feel that value and national media strategy works
- Pushing for media penetration info
- Lack of marketing plan to roll out To-Go platform
- Lack of loyalty program

Marketing Update

By: Warren Forsythe