IFB377: Restaurant Industry Investing - An Insider's Guide to Success

All right, folks. Welcome to investing for beginners. Today we have episode 377 and today we're going to do a little twisty turn here. Andrew is actually going to interview me a little bit and we're going to talk about restaurants. And some of the things that you could look for if you're interested in investing in restaurants. They could be a very potentially lucrative space and they are a little bit misunderstood and so maybe I can help with some of my years of experience doing everything from washing dishes to managing a store. I can maybe spread some insight and be helpful. To people on that kind of thing. Hopefully buckle. It should be. Hopefully you'll learn a thing or two as.

Andrew

Awesome. Well, appreciate the willingness to share and the research you've done on this. I'm excited to dive. So if you look at the restaurant industry, just kind of big picture on a whole, is it a good place to look for investments? Do you see trends? In one way or the other, when it comes to the restaurant industry today.

Dave

That's a great question. And I think there's probably kind of two different ways you can look at it. Number one is there are a lot of very large, very big brand name companies that. Their main business model is probably not growing real fast, but is very steady, very strong, and are reliable. And so if you're looking for, if you're looking for companies that would be great dividend payers or companies that buy back a lot of shares. And are stable and reliable in your portfolio. Then there are some great names out there in the restaurant space that would really fit the bill nicely for people that are looking for that. And if you're looking for on. Flip. Of that, if you're looking for more. Companies, maybe companies that are growing faster and that are experiencing a lot of growth. Then there are opportunities out there as well in that space. There, there can be a little bit of everything for everyone. Depends on how you wanna how you wanna play, how you wanna play the different spaces.

Andrew

Real quick. Were there any like disaster? Obviously don't have to throw anybody under the bus, but like. If things that you saw where you're. Oh man, you know, somebody should never invest where their outward outward signals that make that clear.

Dave

Yeah, there's probably other several things, but I think the first thing that you want to look at is. Just because they sell something that maybe tastes delicious doesn't mean that it's a great investment. And. We've talked about this. There, there are companies that sometimes they're great companies, but it doesn't mean that you know, like they make a great product, but it doesn't mean that that's a profitable product. And long run. That's really what you want to see. And I'll throw sweet greens under the bus at the moment. This is a company that I hadn't done much work on at all, frankly, but I came across the somebody who did on Twitter. While back. And they discovered, and this is this is like restaurant 101. Know how they've gotten where they are, but by kind of ignoring this. But there I guess item economics are terrible and by that I mean when you the main thing that you sell you should make money from it. I know. Doesn't matter whether it's an iPhone or whether it's a hamburger. If you can't make money from that, you're gonna have a lot of problems. And a company like, you know, a company like Chipotle, which was unprofitable for a while and now is very profitable. A company like C. Who's sort of in the same. But kind of not. They are unprofitable, but they are in a path to being profitable. At some point you can argue about the whole valuation thing till the cows come home, but you can't dispute that they're on the path to being a profitable business basically. What they do and how they do it. Sweet Green, on the other hand, for every salad that they make, which is the main, that's the thing they sell for every salad. They're losing money. And that you may go, whatever. But if you can't make money on on the thing that you sell and that's your only thing that you sell, you're in trouble. That does not bode well in the future. And how they got public.

Speaker

Yeah.

Dave

Doing that is shocking to me, as somebody who's worked in the business for a long time, I just, I don't get that. Old fi. Daddy, if you want.

Speaker 1

Yeah.

Dave

I'm I'm OK. That, but as an old restaurant. Person if I can't make money on the main thing I have selling, then it leads me to ask questions. You aren't controlling. You have no idea how to price what you are selling and you don't. Haven't figured out a market to sell it to. And personally never eaten. I've heard that the salads are fantastic, but at 20 some bucks a salad or whatever they're selling. That's a lot of money for a salad. No offense, but. It's lettuce and you know, I guess I have AI have a stigma or a bias against lettuce after working in a restaurant. It's, you know, was never, never a sexy, exciting thing, I'm sure sweet green is far more advanced than what I'm thinking of, but I guess my point is, is that when you see something like that, when you're kind of investigating a company. Whether again, it could be anybody, but in particular in restaurants, if you find out that they're not making money on their main item, yeah, that's that's that's not a good place to be.

Andrew

Yeah, that's crazy. Sounds like a gross margin is negative kind of situation.

Dave

No, the gross margin is still profitable, but everything else is like wildly negative, OK.

Andrew

Part.

Dave

And they keep raising the prices and it doesn't get better. And so that to me is like, you know, they haven't figured out how to make their their main product profitable and then everything else is just cascading from there. Because, you know they haven't. They haven't figured out the leverage of like what can I sell it for and how can I control my other costs to to make that profitable? Yeah, that's a really, really hard place to be.

Andrew

I don't know why people eat salad, period. The things they are doing. Overhead just get. I don't like salad that much, OK? So what are some good signals like APIs or? Like what? Be the first sign or you look at just. A restaurant business and be like, oh, this this thing probably has good growth potential.

Dave

Well, there's two things that as an operator and as an investor, you want to see is number one is growth in units and year over year growth in units, in other words, are they building new stores. And are they continuing to build new? Because that's that's that's the path to growth in the restaurant. The number 2 is revenue growth and that's generally same store revenue growth. The overall revenue growth is, you know, I'll find the dandy, but what you really want to see is. Did a. Did a restaurant that is operating in Raleigh. Is it growing its sales year over year in Raleigh? And if it's not, then you need to figure out why and that's really what you want to see is is not only number of stores growing, but then also the organic growth in the market that they've already estab. Because. If the company is putting the stores in bad markets or bad locations, and they're not growing year over year, that's a sign that there could be trouble in the future.

Andrew

So maybe they've overextended or they're just bad at like, they're just taking growth without considering ROI, yes.

Dave

Yeah, those are. Not. I mean, short term, sure, that could be great. But if you want to own this company for 10/15/20 years or longer. Then you want to see those things.

Andrew

Do you look at same store? I mean, obviously that's a retail term, but they use it in restaurants too. Do you look at that as like a pricing power thing? Obviously part of its location like you just mentioned, but do you also look at its pricing power or do you think it's more something else?

Dave

I think it's a combination of two things. Number one, it is pricing power and #2, it's the. Desirability of what it is they sell. So they've created, they've been able to to find a a product market fit with what they're selling. You know, you can argue. About the healthiness or not healthiness of. But you can't argue that they have figured out what people want, and they've been able to put it in places where people want to get it for a very long time. And Chipotle has done the exact same thing, and it looks like Kava is doing the exact same. They're putting their stores right across the street from from Chipotle's, which is, you know, brilli. That's what you.

Andrew

Want.

Speaker

To see.

Andrew

Yeah, only makes sense. Do you have a long term mindset searching for safe compounders? So am I. And I'm investing my entire life savings with the pigs from valuespotlight.com. Are there other Kpi's that? Out to you.

Dave

Yeah, there's there's three other. So if you're kind of looking at the income statement, that's really important for. So we talked about like year over year growth in units in same store sales and overall revenue growth, but you also want to look at gross margins. Operating margins and something that we in the industry called FNL. Labor. And so you want to look at those three in conjunction and the reason why you want to look for these is gross margins tells you how profitable the company is selling their main product or main products, whether it's a Chick-fil-A or whether it's McDonald's A. Texas Roadhouse. You want to see those? Nice, fat and happy. Those are that tells you two things number. One that they they have control over their their main costs, which are going to be in this case is going to be food and it's also going to be in the operations of the business and that would lead you to labor. And so those two things are the two biggest costs that any restaurant has. Is buying the food and controlling those costs so the the gross margin tells you how well they price what they're buying. So if you look at Texas Roadhouse, for example, you know they sell steaks. So how well they control buying those stakes in the margin that they can generate by selling those stakes at a. At a price point that their customers want and feel like they're getting value and allows the company to to be profitable so that they can continue to invest. IE open new stores and so if those things aren't being controlled then. Either something's gotten out of whack or management just doesn't have a handle on their costs. That will be eventually be the death of the business. And then I guess the the operating margin really kind of feeds into more about the labor because again that's the biggest. That's the second biggest cost in a company. And so the larger the operating margins are, the more profitable a business is going to be. And that that means sound like a. But when you think about going to Texas Roadhouse. You see the host. You see the bartenders, you see the. Those are all the front of the House staff and then you have all the people in the kitchen, you know, people washing dishes. Important. Arguably the most important position in the kitchen is the dishwashers, and they are. The lowest paid. You also have all the people on the line, people you know doing grill cooks. Saute prep you know the. All kitchen managers, all those people, are all part of the payroll and you have to control those costs as well. And with the market now demanding. That employees get paid more when McDonald's. All filters back when MC. Pays their hourly people 16 to 20 bucks an hour. That filters back into a fast casual or or a not or more of a sit down restaurant like Texas Roadhouse. Because now for them to get qualified good people to work in the kitchen, for example. They need to pay that or more to compete because there's no. There's zero reason why somebody would suffer in a kitchen and work at Texas Roadhouse for $12.00 an hour when they can go work at McDonald's for 20. And so when those costs go up and they should, the people need to be paid what the worst and there's you can't argue about that. But that had that has a direct bearing on the profitability of of the of the company. And so if a company doesn't have. Power and they have to raise. Wages prices for wages? That's what you're seeing in McDonald's right now, because McDonald's is paying across the board. Paying their people more. The prices of what we pay as. Customers has gone up and that's all to maintain the same kind of margins that that the company operates in. And so something like food and labor, most companies unfortunately don't break it out for you as a as a metric. It's something that you can. Calculate. If you go to their financial statements, you will see the food cost. You also see the labor cost and generally it's just broken out as those two line items. You just add those up and then compare that to the revenue of the company and that can give you the margin for that. So it's pretty easy.

Andrew

Awesome. Although tried and true ways are like playbooks for managing that, what you call FNL or these food and labor costs are the ways to get more out of the labor. Other than just being like a fusillade, a slave driver.

Dave

Yeah, there's, there's some. There are some tricks that you can use. There's two of the main ones that I saw when I was in when I was working in industry was. Excuse me, #1. Was learning how to schedule correctly. And that means that you have the people you need when the business requires it. So for example, you, if you let's say that you just, I'll just use easy numbers. Say you have 20 servers on staff. On a Monday or Tuesday night, when it's really slow, you don't need all 20 people there to service the lower volume of of business that you probably will have. On a Friday and Saturday night, when you're going to be, you know. Marketably busier. You need more of those people on there and but you don't need all 20 of. Them on at the same time, and so you would stagger people coming in and coming out of. So you can kind of try to control those costs the other ways you can do it is you can try to. Configure your kitchens or your restaurants in a way that the people have to move.

Speaker

Left.

Dave

And makes it easier for them to do their jobs, which makes them more efficient, which means that you you can have less people doing those jobs because the people you have doing them are more efficient and you don't need as many bodies. And so when it when you start doing those little tweaks of things that that kind of stuff can really help make a restaurant more profitable. And if you look at, if you look at a company like McDonald's and Chipotle, these are very good examples. McDonald's has figured out to to an art of how exactly to make all their food and have the right people at the right place to execute on what they need to do to make the food at the quality that is expected for McDonald's. And so they've developed systems and processes that allow them to do all those things as efficiently as they possibly can. And Chipotle has done the exact same thing. They figured out a way to develop pars and develop. And when I say pars, that means level of food or prep that you make. Based on how much volume you expect to do at you. 12:00. 2:00 on Wednesday, you know we're going to, we're going to make these many chicken breasts because we expect to do this much volume in this period. And so then you need. I need one. You know one person to do this and one person to do all the prep work. And so you just figure out how to schedule all those things and all that stuff allows you to control your costs as best as best you can.

Andrew

Yeah, makes sense. So that's awesome. McDonald's, one of them being the franchise model, the other one corporate owned. Can you break that down and and talk about some of the some of the puts and? Some of the. Some of the differences and how some of that feeds into. The operations.

Dave

Yeah. So. When you're looking at. When you're looking at restaurants, there's kind of two main types, if you will. The corporate model, and there's a franchise. So the corporate model, basically what that means is that every store in the business is owned by the corporation. They don't sell them to outside people or other people. And the restaurants, by and large are run by the overall company. It's no different than Walmart or or an Amazon store or, you know, think of, you know, Lululemon. They're all they're all corporate stores. And. Those stores make the majority vast majority of their income from the operations of the business. And so they have a direct control over the operations of the business, the cost that and the building of the stores and all the good and bad. Chipotles corporate is responsible for all of it. Roadhouse is responsible for all of it. And so that's that's kind of those kinds of. Models and then you have the franchise models, which can be a combo often is a.

Of that. So McDonald's has franchise stores and then they also. Corporate stores. And so the franchise stores the way that those work is the franchise, the person that they give the the franchise to. They are depending on on the the contract or or how they work out the deal. The. The person who buys the McDonald's is responsible for the store building the store. The operations of the store, buying all the food, pricing, marketing, all those things. McDonald's just gives them basically the menu and the brand. And the operations manual for them to to operate at McDonald's, but the profitability or generation of the profits is all on the franchise. Z and for that light, then the franchise gives McDonald's a percentage either of their revenue or their income, their profits as a as a franchise fee. And so when you look at McDonald's financials, for example, you'll see basically 2. Line items for their for the revenue, one is for franchisees or franchise fees and the other one is for the corporate stores and the operations that those McDonald's. Generate and so when you're analyzing these companies, you have to you have to look at them differently because you look at McDonald's. Wow, they got great margins compared to a Chipotle. Don't know. It's not because that you know, if you if you're just looking at gross margins, it includes franchise fees and operations of the business and that's. Apples to apples. And so that's, that's the the main. So companies like Domino's, QSR, McDonald's, there's lots of them out there, what's Yum Brands? Those are all companies that own collections. Of different businesses and they sell the franchise models to individuals or groups of people that will go out and you know, want to want to. Know. Funneling a restaurant and so they they go out and buy a restaurant. Not fun.

Speaker 5

Speaker 1

I.

Andrew

I find it interesting that like you know, when you think of a mom and pop restaurant, you think of like a franchise owner. Like they are kind of mom and pop in a way. They're just regular people.

Dave

Right. Yeah, like, you know, Chick-fil-A is is a great example of a. And I don't know all the insurance and outs of it, but I've I. Tidbits and it's like you have to work. You have to work at a store for a certain amount of time before you're eligible to buy a franchise, and then you have to. Have to plunk down a good chunk of change and then you have to work in the restaurant for I think. For the entire time you own it, you have to operate the the store as a general manager. So and you're only allowed to. I believe it's two of them, so it's not one of the like Yum Brands, for example, is kind of famous for do they own McDonald's or I'm sorry, Burger King or is it Pizza Hut? Can't remember. I blank on that.

Speaker

Pizza Hut.

Dave

Pizza, OK. So there are franchise owners that own hundreds of of Pizza Hut. But QSR is still the owner of the whole corporation. Or Yum Brands. I'm sorry is still the the owner of the the whole. So those aren't like mom and pop. Chick-fil-A would definitely be a more of a mom and pop because it's they own one or two stores and that's it. And they're doing all the heavy lifting for chick.

Andrew

Yeah, that's a good point. She was. Has there been like a noticeable difference? You worked in both environments, right? Is it just like? It depends. Like every single restaurant's different? Or are there like noticeable differences between you can tell like from the inside?

Speaker

Hold down.

Andrew

Who this feels franchise or who this feels company owned or corporate?

Dave

In my experience it depended on. It depended on the. Frankly, some leaders, general manager, you know, maybe if you have. Uh area directors or things like that were way more. By the. And they wanted their store to operate exactly like the other stores operated in in the company, and then other ones on either side, whether it was a franchise model or corporate model were a little more relaxed. Is probably the best way of putting. The food is always the same. The way the food was always prepared, but. The decor of the stores, the attitude of the employees can be different, and so it really kind of came down to really what the leader wanted for their particular store.

Andrew

So it's a mixed bag.

Dave

Yeah, very much so. OK.

Andrew

Is there? Preference as an investor to the franchise model or the corporate model in your book.

Speaker

Yeah.

Dave

That's a great question I. I think their strengths and weaknesses to both. I probably learn more towards the franchise model simply because it I think it's probably easier to scale a franchise model once you figure out the the model. And #2 it's more profitable and just across the board they just generate more profits. You know, if you look at the? Well, maybe this is the best. I was gonna say Costco and Kroger, but that's maybe not the best example, but by and large, if you if you look at the franchise model, they're more profitable than the corporate stores are. But there are lots of great corporate stores out there that are really figured out. Niche. And are really good at what they. And Chipotle and Texas Roadhouse to me are are two that stand out in that respect.

Andrew

Yeah. Well, ROIC for Domino's is if you calculate the way we do it.

Dave

Yeah, redonkulous.

Andrew

80% something like.

Dave

Yeah, it's it's nuts.

Andrew

Talk. Talk about. Scalability for for a minute if you would. How important is that? If you're investing in a restaurant stock? You assess the different levels of potential scalability.

Dave

Yeah, it it to me, it's probably. If you want continued growth in your company, if the restaurant can't scale, it's going to have it's going to have a limited shelf life. There's 2 examples, Chipotle and noodles and company. So Chipotle is what you would consider a fast casual noodles and company is also considered fast casual and what that means. That you get the food fairly quickly, but it's in a more relaxed atmosphere than a sit down restaurant would be like a Texas Roadhouse or.

Speaker

Or.

Dave

You know a Fridays or. Or, you know, Cheesecake Factory kind of thing. Those are a little more. You sit down and server comes and waits on you and so on. So a company like Chipotle has been able to figure out how to. Create their food in a way that is quick, delicious and efficient. Efficient and they can replicate it in a lot of different locations. So because they were able to figure out what their menu was and make it simple enough that they can execute it on fast and quick and make it taste good, that allows them to just scale up and put them literally anywhere because you don't need. A lot of special people to be able to make it and do all the different things. And so you know, they're very conscious of how fast people go through the line. That's one of the internal KP is that they measure on a store level is how quickly they turn people through through their their system. And they train their staff and and work really hard to make that fast because they understand that that's Uber important. Noodles and company is kind of the flip side of that. So it's a fast casual restaurant, but if you ever go to one. You notice This is why they're having a a hard time scaling up. It takes too long. You compare it to Chipotle noodles and company doesn't have the noodles ready for you when you walk into the store. So when you go and order, let's say fettuccine Alfredo and you go and order it nougo's company, they make it for you fresh. Then so this there's not somebody in the kitchen putting noodles down in the water until you order it, and that that automatically is going to take 8 to 10 minutes to cook.

Speaker

Right. Right.

Dave

And that's. That's four or five minutes too long, and people don't want to wait for that. They just don't. And that's what makes it hard for a company like Noodles and company to scale up at the same level that something like a Chipotle. And that's what that Kaaba has has replicated. Chipotle is doing and that's what's allowing them to scale up so fast. Is because they they have a market, they have a niche and they are pushing the envelope on that where noodles and company hasn't figured out operationally how to make it so that they can get noodles into somebody's hands. You know, without a server in three to four minutes, and because they don't have that, it just takes too long. Public. Not sure if they are or not to be honest.

Speaker

OK.

Andrew

Yeah, I don't know either. I'm not a. No.

Dave

Me either.

Speaker

Bye.

Andrew

That's the point. Sorry, didn't throw you guys under the bus. If you like that.

Speaker 2

What about?

Andrew

Like, how does real estate play a role? How important is locations in real estate?

Dave

Well, I mean in restaurant business is all about location, location, location it's. I can't speak for the rest of the world, but the United States. Uber critical? How many of us in our local area have a restaurant that you will go to because it's in a location you need, you want and it fits where you're trying to go. A lot of. Value that's tied up in McDonald's right now. Is real estate there as much a real estate company as they are a restaurant company because they own all the real estate that the stores are on. And so that makes it incredibly valuable because almost all of the McDonald's. Are in prime valuable real estate locations which gives the company a lot of value. I know you're a big fan of California hamburger.

Andrew

Oh, in and out.

Speaker

You know.

Dave

Burger in and out burger, yeah. Part of the value for in and out burgers is where they're located, and that also goes to the profitability of the business too, because if you overpay for the land, you know if you put it in, you know, Prime A1 locations and you're paying.

Andrew

Alright.

Dave

You know, Prime A1 rents for the real estate that just that's another hurdle the the store has to get over or the company has to get over for profitability. And so it needs to be. It needs to be. And so it needs to. It needs to be an easily accessible place and it needs to be invaluable real estate which can be part of the value of of the business. How many times have you been to a restaurant or or considered going to one? But it's pain in the *** to get to. It's like you. You don't go there very much because it's hard.

Andrew

Yeah, so makes. Not even just being in a high traffic area and having that visual reminder of those wonders to me. Mean I'm a pretty easy sell though, right? I love junk food. Food. Why cool? That's awesome. Do you think there's a maturation point or? Think about Domino's. They talk about the whole fortress scene idea. Do you buy that, or do you feel like that? The maturation is. Is something that all restaurant companies have to face.

Dave

I think there's a couple things you want to consider. 1. The flavor profile or the taste of the customers they evolved, they change. And that's why that's why you see restaurants constantly trying to. Tinker with their menus or adding things and taking them off, or putting them on there for special seasons. You know, McDonald's with their Mcrib, for example, and whether you love it or hate it, it's, you know, it's obviously got some popularity and that's why they keep bringing it back. But it's not a permanent part of the menu. They, if you think about a restaurant like McDonald's, part of why they can't grow as fast as Chipotle is because the the taste of the United States has kind of changed and shifted a little bit. So at some point, every restaurant faces. That you know, if you look at some of the older ones from like they were really popular when I was a kid and now are are not as popular. Friday's Applebee's Ruby Tuesdays. You know those companies? When I was a kid in the 80s were were the IT stores and now they're, you know, usually in in anchor malls that are mostly empty. And so they just aren't as popular as they used to be. And that's that's just kind of the nature of the biz.

Andrew

So does that lead you to say that it's very rare, if not impossible, for a restaurant stock to be a buy and hold for life?

Dave

On the company, I think you're going to see a faster. Evolution through the cycle of business life. Then you may see for a company that is in a a longer, a longer term cycle, like if you compare the turn cycle of a Chipotle to a Google, Google will probably be. I think Chipotle will mature faster than a Google will.

Speaker

Hmm.

Andrew

Because of the the customer taste thing or.

Dave

Because because of the customer taste thing and just people will. It will. At some point it will stop being the cool new place to go and it will start to become, you know, the place that mom and dad like to go to, but not the kids, right?

Speaker

Yeah.

Dave

And then once that once that turns. Then the kids are going to find Kava instead of Chipotle. And then, you know, 20 years from then, when those kids have kids, they won't want to go to cava and, you know, cuz Mama, that's where mom and Dad want to go. Will want to go someplace else. And so it just, that's just kind of the nature of the restaurant business, is that it? You know the average. So throw out some numbers at you. Average restaurant only lasts. I think it's 22 to three years and most restaurants close 96% of all restaurants close within the first year of opening.

Andrew

Magic.

Dave

So the success rate of restaurants is staggeringly horrible. Statistically quite bad, and for a restaurant to or just a just a location like a Chipotle to last for 20 years in the same location and still be, you know, best of breed kind of thing is rare. And so that.

Andrew

That's.

Dave

There's just a natural evolution. You know, the what's a brand new location in 20. Maybe you know the the population around it has gotten older too. The young people have moved out. Older people have moved in. People with families. Maybe that's not a family style restaurant. And so all those things change over time and then that just means that that. And becomes less and less. Doesn't grow as much, and that's that's just kind of the nature of the business.

Andrew

You're making me think of my old hometown Arby's. Right place in my. Yeah, I hope it's still open.

Speaker

I'm sorry.

Andrew

All right, last thing. There's technology and you know, technology in every. Are there any technological advancements that are interesting that are going on now and do they have any effect on these businesses?

Dave

Yeah, there's kind of two main things. One is robotics. There has been there has been an increase in. Interest in building robots that can replace employees in places like a McDonald's or an Arby's, or, you know, Wendy's or those kinds of things. You know, they instead of having somebody cook the fries, they can have a robot do it. Can have a robot make all the hamburgers. I don't think that's probably that far away from being a bigger thing, and so that will unquestionably have an impact on. In particular, fast food restaurants. I think we'll have a bigger impact. Not. I guess to me, the jury's still out on whether a Texas Roadhouse is going to have four robots in the kitchen cooking all the food. Not saying it won't happen, but I think that. A little bit farther down the road. Kind of associated with that is like the automated ordering. Like if you go to McDonald's now, you don't order at the counter, you go to the little kiosk, you order all the food, they do all that stuff. I think that's going to become more and more prevalent. AI is starting to take orders when you go through Dr. Throughs. I haven't. I haven't personally witnessed it, but I've read about it where they have, where they utilizing AI to take your order when you go through a drive through at Wendy's, for example. And. I could see. I could see that becoming a thing quite easily. And then there's also, of course, the apps. Know the Chipotle. The McDonald's app and so on, where you can order online and then when you pull into the store, you tell them your code and then they have the food ready for you. And I think that stuff is going to become a bigger and bigger part of how espe. The younger generation. Not. You know, the 58 year old dude may not. Embrace that as much, but our kids. You and ice kids. How? Probably order the majority of their food. And all those things are coming and it's all kind of a it will certainly impact the financials of companies because they won't have that. Won't have that big labor cost. That they have because they're replacing some of these with the labor. But the flip side of that is that they will have more. They'll have more Rd. or they'll have more CapEx costs than they may have had the past because they have to either maintain the robots or the the Ai's and the systems that they have. So they may have other costs associated. That and. That could just wash. It could just even out, I think. At some point it will probably start to become some some operating leverage and give them a little more profitability. I I don't anticipate it being a huge difference, but I could be wrong.

Andrew

That's a. It sounds like a lot of potential. Oh yeah, but to your point, I think the technology would have to get a lot cheaper. Like we'd have to see prices drop like we saw for computing or something. Yeah, exactly. Barriers, right?

Dave

The other. The first mover that, like you know, starts putting robots in their stores to do basic cooking tasks will be a novelty. It'll be super exciting and people will be like, wow, that's awesome, but it's also. Those restaurants, an arm and a leg to do that, and other than the novelty of it, Ness of it, like to your point, until they can reduce the cost, it won't really impact the financials much for our Domino's to have, you know, 4 robots making all the Piz.

Andrew

I have seen a couple of those. I'll bring you their food, and then we went over to you. An interesting concept.

Dave

Yeah, yeah, yeah, it really is. Yeah, but to your point, I think we're, I think we're still way early innings on all that.

Speaker

Yeah.

Andrew

Any last thoughts if some of these interested in buying a restaurant stock? Any final words of advice? Tread lightly.

Dave

The restaurants are. They can't, like I said at the beginning, they could be potentially great investments, but I think if you kind of follow what we talked about today, I think that can help you go a long ways towards really understanding what's driving. The the profitability of the businesses and then the other thing is I think you really need to think very hard and very long about what the Moat or. Continued excellent in the performance of the food as well as the operations of business. How likely is that going to happen? And try to try to determine what you think, like how. Are. In a business cycle, and how long do you think they still have? Because that definitely has a bearing on what you should expect from the investment that you make.

Andrew

That's. Yeah, a lot of good information, a lot of. I feel like you won't hear when when people are pitching those restaurant stocks. Don't talk about what you said, but that is a harsh. It is a very hard business and like you said, it does change. So we appreciate all of those thoughts and insights. That's going to wrap us up for today. If you have any questions for future shows, please reach out. Can find us on. Dave's at at Ifb under score podcast. I'm at Valley spotlight. Take action today. Connect, learn and grow with value spotlight. Peace.

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