

FIVE GUYS PATTY PRESS



July 23, 2012

KEY POINTS

- Weekly Field Compliment
- Five Guys Update: Research and Initiatives
- Training: New courses available
- Weekly Steritech Congrats
- CSP Training this Friday for franchisees and operators
- Purchasing Update

GENERAL

Compliments from the Field

This compliment came from our Facebook Page. Thanks to our Canton, MI store for just being good people! The franchise group is BAC Holdings.

"I left my purse at Five Guys on Ford Road in Canton, MI on Saturday afternoon. Sunday morning I realized my purse was missing and realized I left it at the restaurant. At 11am when Five Guys opened back up Sunday morning, I went to the register and it was the same lady that rang my order up the day prior. She said "Why yes, we have your purse. We clean up really quick after customers leave, and found your purse immediately after you left." I was so grateful for their great customer service, and received my purse back with 100% of the contents there. Thank you so much! It was great food too - my first and definitely not last visit - I love the Cajun fries!"

Five Guys Update on Research and Initiatives

The following message was sent out to all franchisees on Friday, July 20th. We did not include the third party research in the Patty Press, but we will resend the message and the attachments tomorrow to all franchisees.

The purpose of this communication is to serve as a follow up to the letter sent by Jerry on November 9th as well as the discussions that have been occurring throughout our system regarding Same Store Sales. It has been a prevailing topic in the regional Town Hall Meetings, franchisee committee meetings as well as numerous one on one calls over the past few months. Five Guys has been hard at work investigating our business and researching options for the best path to take in the face of declining Same Store Sales.

Bottom Line: We all agree that sales cannot continue to slide at their current pace.

Since last year, our system has endured a Same Store Sales decrease of around 8%. The level of impact has varied throughout the system with some of our higher growth markets seeing steep declines while our more mature markets are faring pretty well with some actually experiencing positive sales growth.

Update on Third Party Research

Five Guys spent the winter and spring engaging companies to evaluate our business and brand positioning. We have been working with:

Technomic

MarketForce

NewBrandAnalytics

The findings have been a mix of inconclusive, enlightening and in many cases simply reinforcing evidence of what we already know. You will find these studies attached.

Summary of the Findings

- **Our unit growth is the overwhelming source of pressure on Same Store Sales.** For the past three to four years we have been the fastest growing chain by as much as two to three times the closest competitor.
- **Execution of the brand inside the four walls is still inconsistent.** Our biggest area of inconsistency is our fries. This is a serious threat to our business. We are 100% confident this threat can be resolved, but we need the attention and the focus of our franchisee partners to get this dangerous threat resolved. Our field team is being armed with the knowledge and resources to help you accomplish this. At the end of the day, nothing will help us grow sales if we don't execute the brand inside the four walls. We need a happy, motivated crew serving the best burgers and the best fries every day. We cannot allow anything to distract us from this objective.
- **Our brand perception is changing as we grow and we need to adjust how we communicate and engage the consumer.** We are no longer the "David" in the storyline and in many cases we are referenced as the "Goliath."

Actions being Considered: (in no particular order)

- Testing of a Little Fry is underway
- New Menu Items under consideration:
 - Veggie Patty
 - Milk Shakes
 - All Day Egg
 - Additional Cheese Options
- Better Brand Positioning around Quality, Freshness and Value
 - New internal sign package outlining our brand's core offering
 - No Freezers, no can openers, no microwaves
 - Benefits of 100% Peanut Oil
 - Quality of our fries/potatoes and beef
 - Freshly prepared vegetables
 - New Veggie Station
 - Highlighting branded ingredients
 - New packaging for peanut oil and potatoes to communicate quality and value
- Renewed emphasis on the quality and consistency of our bread

- Reinvestment and focus on the quality of our Gray Shirts

Brand Building:

One area where we have put little emphasis (and where some of our competitors perform exceptionally well) is in engaging our customers and building meaningful relationships with them outside the four walls. Chipotle does this through their commitment to local sourcing, sustainability and a more humane supply chain. This has become a cornerstone of their brand.

Five Guys is considering ways we can connect with our customers outside the four walls in a way that is true to OUR brand. Two options being considered are listed below:

- **More visible Corporate Responsibility focused efforts.** Five Guys and the Murrells have always been very generous with their time and money. We absolutely want to continue standing by our business principle that we never support a cause or charity for our own self-interest. We believe that consumers can see right through this. However, our brand has built up a lot of equity and a fanatical following. We can use the pent up energy to do good. We are investigating multiple options and avenues to make this happen. You will see more detailed updates on these efforts in the coming weeks.
- **MUSIC.** Music is a big part of our brand and a major part of our in-store customer experience. During store visits over the past year, our leadership team and the Murrells have determined our music has become stale and static. We need a more dynamic music program in our stores and we are researching how we can effectively engage the music industry so that we better make the connection between our customers and the music we love. There are a few firms that specialize in this arena. Five Guys has been meeting with these firms for the past few months and we will update you with more specific details in the coming weeks.

FIVE GUYS' FIRM BELIEFS

Five Guys still firmly believes, and marketing studies prove, that Word of Mouth marketing is the most powerful and effective way to drive business to our stores. We cannot become distracted from expecting perfect execution of our brand inside the four walls of our restaurants, every day.

Our Secret Shopper program is the cornerstone of rewarding our Crew for executing the brand with perfection. Five Guys is 100% committed to continuing to apply the 1.5% Creative Fund towards this program. We believe that any effort to reduce the awards and compensation offered to our Crew for exceptional performance would result in catastrophic morale problems system wide.

We don't believe that there is a silver bullet to resolve our Same Store Sales issues, but we know that we have opportunities to engage with our customer and build brand recognition and loyalty that fit within our core values.

We hope this update has been valuable and informative. We will be updating you more regularly as developments unfold. The situation is very fluid and many of the initiatives outlined above, while under serious consideration, have not been committed to. We want to ensure that we thoroughly test and have a healthy debate over benefits and possible implications.

Please do not hesitate to let us know if you have any questions or concerns. Your feedback is always welcome and valuable. Please email Sam Chamberlain at schamberlain@fiveguys.com or Molly Catalano at mcatalano@fiveguys.com.

OPERATIONS

Training: New LMS Course – Doug McKinney, Director of Training

Training has purchased a third-party safety course that will be added to the LMS beginning this week. The course will give basic instructions on first aid for choking to all Five Guys employees. As with all LMS courses, the Choking First Aid course will be tracked.

We are also adding a BLT module to our Other Sandwiches course. Learners will not need to retake the Other Sandwiches course. However, any new learners will have the BLT module included in the Other Sandwiches course. This module will be available in the next two weeks. Also available in the next two weeks is our new Cleaning course.

Food Safety & Quality Assurance – Jim Gibson, Director of Food Safety & QA



The Department of Food Safety & QA would like to congratulate the following stores and Operators on scoring a perfect 100 on their Q3 2012 unannounced Steritech audit last week.

Please join us in celebrating their success on running a TOP NOTCH FIVE GUYS.

Store #0380 – Saratoga Springs, NY

Franchisee Group: RSVT Holding, LLC.

Manager on duty: Dan Viele

Store #0346 – Miami, FL (London Square)

Franchisee Group: Monument Restaurants

Manager on duty: Oscar Jarquin

EXTRA EXTRA.....This is the second 100 in a row for London Square

Store #0421 – Grove City, OH

Franchisee Group: TCH Restaurant Group, Inc.

Manager on duty: Merf Conley

Store #1220 – Gulfport, MS

Franchisee Group: SoDa Holding, LLC.

Manager on duty: Jon McElroy

EXTRA (x3).....This is the third 100 in a row for Gulfport

Store #1129 – St. Louis, MO (Galleria)

Franchisee Group: Monument Restaurants

Manager on duty: Doug Johannes

EXTRA EXTRA.....This is the second 100 in a row for Galleria

Store #0322 – Asheville, NC

FGO Manager: Adam Sylvia

Manager on duty: Lindsay Barnett

Store #0188 – Buford, GA (Mall of Georgia)

FGO Manager: Jeff Glinka

Manager on duty: Shaheen Mawani

EXTRA (X4).....This is the fourth 100 in a row for Mall of Georgia

Store #0488 – D'Iberville, MS

Franchisee Group: SoDa Holding, LLC.

Manager on duty: Cameron Ladnier

Store #1298 – Mt. Dora, FL

Franchisee Group: Occoquan Group Corporation

Manager on duty: Chris Miller

Store #1174 – Daytona Beach, FL

Franchisee Group: Charlie & Brandon Bengel

Manager on duty: Suzie Machado

Store #1165 – Tampa, FL (Elm Fair Blvd.)

Franchisee Group: TCH Restaurant Group, Inc.

Manager on duty: Ed Bardelli

Store #1082 – Salem, OR

Franchisee Group: CLRM, Inc.

Manager on duty: Christi Steiger

MARKETING & COMMUNICATIONS

Five Guys Customer Service Platform Training - Micah Clark, Customer Service Manager

The Five Guys Customer support team will be hosting additional training on the CSP system this **Friday, July 27th from noon to 1pm (EST)**. We will be reviewing the reporting capabilities within the program and a few refresher items.

An invite will be sent directly to all current franchisee and operator level users only. This does not include the store level recipients. The invite will have the webinar log-in information and the phone dial-in instructions.

The session will be recorded and an electronic copy will be available for those who cannot attend.

PURCHASING – Chris Eichfeld, Purchasing Manager

US Foods Tomato and Lettuce Pricing

- Tomato prices will increase this week. The cost of \$15.79 per case will be replaced with \$17.95 per case delivered to our stores.
- Lettuce prices will remain the same this week. The cost will be \$12.42 per case FOB. Remember FOB means that freight charge still needs to be added from the grower to our US Foods divisions.

Here is a current market report for tomatoes and iceberg lettuce:



TOMATOES:

Eastern:

Virginia/Maryland is in full swing with the eastern shore deal, as is the Tennessee mountain district near Unicoi, but the heat spells have made the early yields somewhat sporadic, keeping prices firm. Quality is very good. These tomatoes also have to compete with the Vineland New Jersey crop, which has come on early but should be short-lived.

Western:

California's San Joaquin Valley is pacing the market and pushing it higher. Distribution is very good and so is quality. The size profile at most packing sheds is split between x-large, large & medium sizes for the most part, which has also helped the sell factor. This could all be hampered by the fact that the heat in the Midwest and Mid- Atlantic regions of the U.S. have brought on the homegrown/backyard varieties somewhat early, and that could potentially curtail movement at destination before long.



ICEBERG LETTUCE:

The lettuce market maybe on its way to higher prices soon. Less availability coupled with decent demand has kept the market in check, up to this point. The lettuce market may be on its way to higher prices soon. Decay, pink ribbing and brown outer leaves are an issue that exists with nearly all suppliers. Along with Salinas, you will also find product available out of Santa Maria with weights similar to Salinas's lettuce at 45 – 50 lbs.

Contact Chris Eichfeld, ceichfeld@fiveguys.com with any questions.

Five Guys August Ground Beef Prices

Ground beef pricing for all US Five Guys locations will be \$2.3325 per pound or \$46.65 per case for the month of August. Our Canadian price for August 2012 will be \$2.64 per pound or \$52.80. This pricing goes into effect with purchase orders placed by the US Foods and SYSCO on the 1st of the month. The price will show up in our stores upon receipt of that purchase order into the division, and depletion of previous pricing's inventory.

Five Guys continues to track the USDA Trimming Markets daily, as these markets affect our United States and Canadian pricing equally. This is the third consecutive month that we have seen a decline in price. While this is very positive news, we are very concerned about the continued drought in the corn growing states. The USDA had decreased the speculated corn crop return which will lead farmers and ranchers to decrease herd size for the second consecutive year. We expect this to drive the pricing upwards again similar to 2011. Again, Five Guys purchasing is monitoring this market daily.

Either Carl Napiwocki, cnapiwocki@fiveguys.com or Chris Eichfeld, ceichfeld@fiveguys.com is available to discuss our Five Guys pricing program or answer any questions you may have in regards to Five Guys Ground Beef.

COCA COLA (FRESH BREWED-GOLD PEAK LIQUID SWEETENER)

Within the designated fresh brewed tea states, we transitioned our fresh brewed tea offering to Gold Peak with Liquid Sugar. We primarily initiated this new system of making sweet tea to improve operational efficiencies and to serve a consistent sweet tea recipe in all stores.

Due to varying levels of consumer sweet tea preferences by region, we have decided to discontinue the use of liquid sugar and transition back to granular sugar. Once liquid sweetener inventories thru US Foods are depleted, granular sugar will be used for making sweet tea. Based on current inventory levels of liquid sweetener, we are anticipating this product to be depleted within the next 45 days. Coca Cola, at this time, will also schedule a service call to come to the store to disconnect/sanitize the liquid sweetener portion of the machine.

Gold Peak Tea will continue to be our exclusive tea brand system wide.

Carl Napiwocki, cnapiwocki@fiveguys.com or Tom Brown, thomas.brown@coca-cola.com are available to answer any questions or concerns.

COCA COLA (BUNN EQUIPMENT)

Engineers from the Bunn Equipment Company and The Coca-Cola Company have discovered a manufacturer's defect in the software of the ITCB Bunn brewer. The software issue affects the brewing process and caused circuit board and water valve failures. Starting on July 17th, a Bunn Authorized Service Agent will visit all stores to reprogram the software and replace the affected parts. We have instructed the service agents to only schedule this service call between the hours of 8am-10am and 2pm-4pm.

Carl Napiwocki, cnapiwocki@fiveguys.com or Jim Pasciuto, jpasciuto@coca-cola.com are available to answer any questions or concerns.