



TO: CKE DOMESTIC FRANCHISEES AND COMPANY OPERATIONS
FROM: PHIL CRAWFORD, CHIEF TECHNOLOGY OFFICER
SUBJECT: REQUIREMENT FOR DELIVERY
DATE: JANUARY 7, 2022

As you know, CKE has been in the delivery space since 2019. As communicated in August 2019, delivery was an optional System add-on for our franchisees while CKE continued to learn from its early entry into delivery and work to create a platforms, to negotiate the best deals with third-party providers on behalf of the system, and to bring to the forefront technological solutions that allow the brand to efficiently transact with our customers. Since that time, a lot has changed in the QSR industry as consumer expectations for delivery services are now table stakes. Further, CKE has delivered on its goal of creating a delivery platform with favorable commission rates and has established a technology platform to support this model (*i.e.*, System-wide POS unification, introduction of OLO, and loyalty). As such and as further outlined in this memo, effective March 1, 2022, delivery from DoorDash and UberEats-Postmates is a System Standard for all domestic restaurants, via the third-party marketplace (“Rails”) and via our branded web/app platforms (“Dispatch”).¹ If coverage is not yet available for your restaurant by the respective delivery provider, the requirement to activate that service will be delayed for that restaurant until coverage is offered.

Delivery Transaction Economics

The QSR food delivery industry continues to grow (4-7 times since 2018) and it is clear that delivery is both an expectation and a vehicle for growth.

We have partnered with two national third-party delivery (“3PD”) providers, UberEats-Postmates and DoorDash, to deliver our products directly to consumers through Rails and Dispatch. We have negotiated favorable commission rates for both, as illustrated below:

UberEats-Postmates

- ▶ 3PD Marketplace/Rails Rate = 17% or 21% for EatsPass guests (subscription users)
- ▶ Dispatch Delivery (CKE app/web platforms) = \$5.99 or \$7.49 in California (0-3 miles) \$6.99 or \$8.49 in California (3-5 miles)

DoorDash

- ▶ 3PD Marketplace/Rails Rate = 18% or 25% for DashPass guests (subscription users)
- ▶ Dispatch Delivery (CKE app/web platforms) = \$6.50 or \$8.50 in California (Prop 22 surcharge)
 - A \$0.25 rate discount is applied with average driver wait time <4 min.
 - A \$0.50 rate discount is applied with average driver wait time <3 min.

At CKE we continue to experience the benefits of delivery industry growth and have set mechanisms in place to offset the commissions and fees inherent in the business via the following methods:

- **3PD Marketplace/Rails order commission fees** are offset through menu mark-up, increasing gross sales on the guest check.
 - Easily applied via OLO Rails (system setting)
 - CKE recommends a 15% to 20% mark-up
- **Dispatch delivery fulfillment fees** are offset by passing these costs onto guests at checkout.

¹ CKE is currently in discussions with GrubHub on approving an OLO integrated solution and renegotiating enterprise terms. Once finalized, GrubHub will also be a delivery System Standard.

- Guests placing dispatch orders will pay an estimated \$7 total (\$9 in California) in pass thru fees split across Delivery, Service, and Digital Order Fee (*i.e.*, OLO fee) buckets, increasing gross sales on the guest check.
- This model is in line with industry norms and is aimed at offsetting 100% of the delivery + OLO fees associated with dispatch delivery, regardless of the order total. For illustration:
 - \$2.99 Delivery Fee
 - \$3.51 Service Fee
 - \$.50 Digital Order Fee
- CKE recommends no additional mark-up

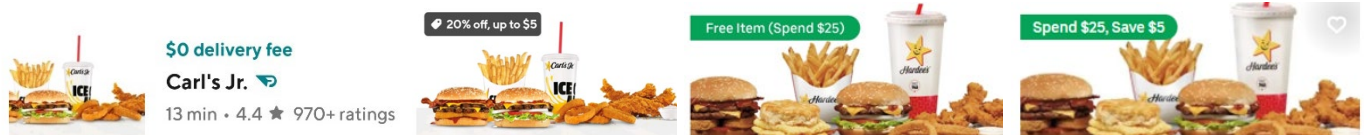
Through implementation of these offsetting measures as well as the higher average checks that we continue to see for these delivery platforms we keep net cash profit on delivery orders in line with or better than traditional channels.

Sales from delivery are not subject to a deduction for the additional costs of delivery (commissions and/or fees paid to third party providers, as an example), and are therefore subject to the application of standard royalty and ad fund rates. They are to be treated like all other Gross Sales.

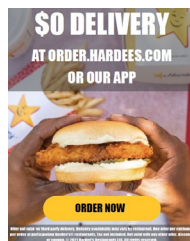
Leveraging Delivery to Attract New Guests

CKE is committed to being both relevant across 3PD marketplaces as well as cultivating an “owned” delivery offering via dispatch delivery.

CKE’s approach to 3PD delivery promotions focuses on influencing delivery guests to take specific actions including placing their first CKE order, trial of a specific product, ordering during a targeted daypart, and incentivizing repeat orders. CKE’s pipeline of delivery promotions has ramped up with the DSP partnerships shared at the beginning of this document and the benefits only improve as more restaurants participate in delivery. These promotions are paid for out of the existing marketing funds already being collected.



Our dispatch delivery service available through our own app and web ordering platforms complements our holistic digital offering by providing our own guests a convenient method of getting their favorites delivered. As these are our guests, their data feeds into our digital ecosystem where we can target them in countless ways building out their CKE devotion. Offers around dispatch are focused on encouraging trial and routine as well as increasing the average check and are generally incurred at the restaurant level. With DoorDash being our preferred dispatch delivery partner, we are receiving DoorDash funding to promote dispatch delivery including DoorDash sponsored \$0 delivery campaigns (and supporting media) via CKE app and web platforms.



Delivery Coverage

Current serviceability for your restaurants can be found [HERE](#) (exportable to Excel). To request new service:

- [UberEats + Postmates Sign-Up Form](#) (new service requests only; “UE” and “PM” in above report)
- DoorDash Sign-Up Form – [Carl’s Jr.](#) + [Hardee’s](#) (new service requests only, “DD” in above report)

- [OLO Activation Form](#) (when launching delivery service via OLO Rails; in addition to DSP specific forms above)

Please contact our delivery team at delivery@ckr.com with any questions or delivery support needs.

Thank you for your partnership as we bring delivery at CKE up to competitive standards and guest expectations. We are exciting to continue growing both of our great brands through initiatives such as this and your support makes it happen.

If any questions, concerns, or opportunities for additional support please reach out to your CKE Delivery Team (delivery@ckr.com).

The contents of this memo are hereby incorporated into the Operation Procedures Manual (OPM) which sets forth the minimum standards, procedures, rules, regulations, policies, and techniques (the "System Standards") for your CKE branded restaurant. This memo supersedes all previous communications or standards regarding its subject matter. All CKE branded restaurants must comply with this System Standard change effective upon the date this memo is published by CKE.

FAQs

Q: Does having multiple delivery service providers impact my business?

A: Delivery marketplace consumers have been found to be increasingly disloyal to any particular delivery service provider. DoorDash saw 60 percent of customers use them exclusively in the third quarter of 2021, and for Uber Eats, it was 46 percent. The number of exclusive customers across all major platforms has decreased over the course of the last 2 years (Source: [Second Measure Study](#)). Activating all available 3PD service options enables our restaurants to both capture each platform's exclusive guests as well as those that prefer to skip around across platforms. Additionally, regarding activation of dispatch delivery (delivery via CKE app/web ordering platforms), there is a majority of consumers that prefer to order directly from restaurants rather than through a third party (Source: [Restaurant Business Study](#)). Activating 3PD service at your restaurant also enables the fulfillment of CKE originating dispatch delivery orders via our app and web platforms.

Q: Do delivery sales cannibalize my restaurant's traditional sales?

A: 3 of 4 customers visiting 3PD marketplaces looking to order Carl's Jr. or Hardee's will choose another option if we're not there (Source: [SMG Report - Take control of third-party delivery to protect your brand](#)). Even in instances where a delivery transaction takes the place of a traditional sale, penny profit and cash are protected by a pricing premium and larger check size (Source: [CKE Delivery Pricing & Economics](#)).

Q: Is the quality of food impacted by delivery?

A: Food is prepared and held according to standards to ensure the highest levels of quality are met. Accurate production planning will ensure hot food is served hot and cold food is served cold. Quality standards and proper temperature are required prior to handing off food orders to 3PD Drivers.

Q: Can we sell alternative product through delivery (for example, chips instead of French fries)?

A: No. At this point our online menu is set up with the same approved products that are sold to guests in restaurant. Only approved CKE products sold at the restaurant can be featured in delivery menus.

Q: What steps have we taken to make sure the products are delivered to our standards (i.e., packaging)?

A: The following steps should be taken by restaurants to make sure products are delivered to our standard

- Prepare delivery orders as close to driver arrival time as possible
- Make all delivery orders "cook-to-order"
- Check the delivery order for accuracy prior to bagging
- All prepared food should be held under proper temperature control until driver arrives
- Wait to remove the prepared items from proper temperature holding until the driver arrives
- Use tamper-evident labels to ensure the integrity of the product during transport



Also, each 3PD service has an established delivery radius from each restaurant to ensure products are delivered to our standards.