Industry Research Report – Restaurants / Food & Drink

Highway Dining: More Exposed to Domestic Travel Then the Market Assumes

Theo Darringer
US +1 (917) 847-9865
theo@darringercapital.com

Thesis Overview

Highway dining companies appear more exposed to domestic travel than to the broader restaurant industry, as highway dining spend growth shows stronger relationships with domestic travel and road-trip indicators than with non-highway dining. Road-trip related spending categories show road-trip activity may be a shared driver influencing both domestic travel and highway dining performance. However, earnings reactions suggest highway dining companies are treated as restaurant stocks rather than travel-exposed businesses, which may lead to mispricing when restaurant sector news moves these stocks despite travel trends being a primary driver of demand. Domestic travel spending trends appear to help explain highway dining earnings performance and therefore should continue to be associated with highway dining earnings outcomes going forward; if future earnings results do not vary with domestic travel trends, this thesis would be weakened. Comparisons to international travel, non-highway dining, and other metrics are used as falsifiers throughout the analysis.

Highway Dining: restaurant chains whose locations are primarily located near interstate highways, travel centers, and roadside exits.

Contents

I. Highway Dining Shows Stronger Relationships with Domestic Leisure Travel

Quarterly card spend data shows a stronger correlation between highway dining and domestic leisure travel (e.g. Holiday Inn, Choice Hotels, Marriott, Hilton) than highway dining and the broad restaurant industry (e.g. Chipotle, Darden, Cheesecake Factory). From Q1 2019 to Q1 2026, highway dining regression against domestic/leisure travel produced an R-Squared of 0.91, compared with 0.78 for non-highway dining.

Exhibit 1. Highway Dining vs Leisure/Domestic Travel
Card Spend QoY%, Q1 2019 to Q1 2026

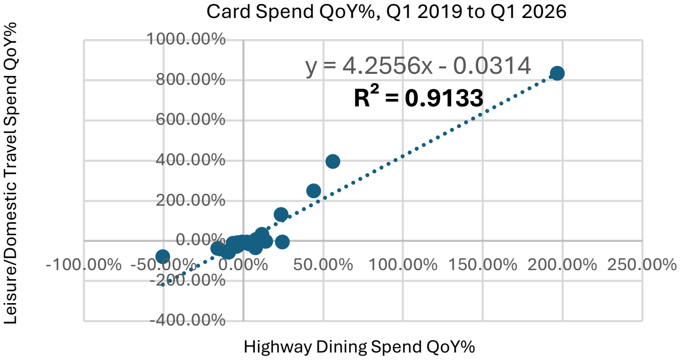


Exhibit 2. Highway Dining vs Non-Highway Dining
Card Spend QoY%, Q1 2019 to Q1 2026

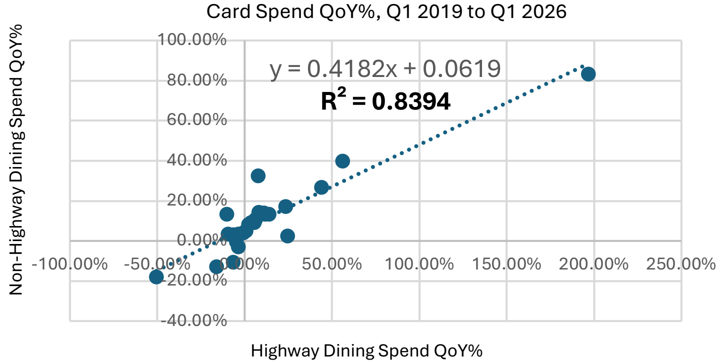
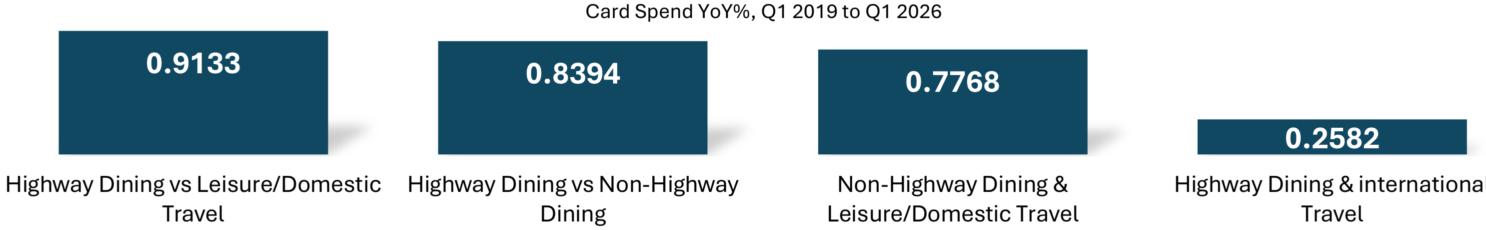


Exhibit 3. Correlations (R-Squared)
Card Spend YoY%, Q1 2019 to Q1 2026



Source: Carbon Arc Card Spend

While these results show that highway dining is more closely tied to domestic leisure travel than the broader restaurant industry, correlation alone does not explain why these relationships exist. If highway dining and domestic travel move together, they may be responding to a shared underlying driver rather than one directly causing the other. The next section examines road-trip related indicators such as gas stations, car rentals, and theme parks to determine whether road-trip activity may be that shared driver influencing both domestic travel and highway dining spend.

II. Road-Trip Travel Likely Acts as the Shared Driver

Road-trip related spending categories such as national parks, car rentals, gas stations, and theme parks show strong correlations with both highway dining and domestic travel spending. These categories are closely tied to road-trip activity and therefore may represent a shared driver influencing both domestic travel and highway dining performance. The regression results below compare highway dining and non-highway dining exposure to road-trip indicators.

Exhibit 4. Correlations (R-Squared)
Card Spend QoY%, Q1 2019 to Q1 2026

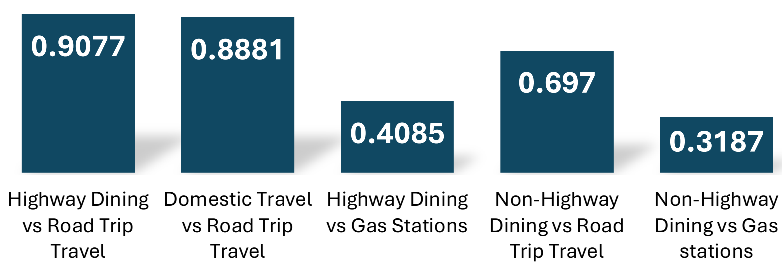


Exhibit 5. Highway Dining vs Road Trip Travel
Card Spend QoY%, Q1 2019 to Q1 2026

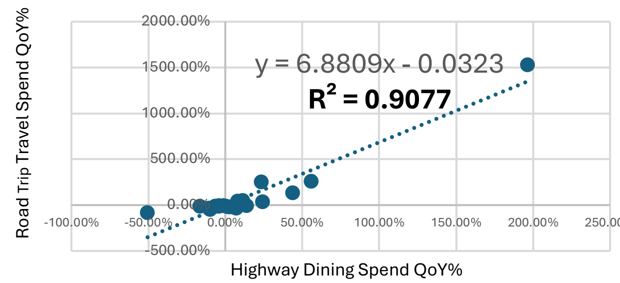
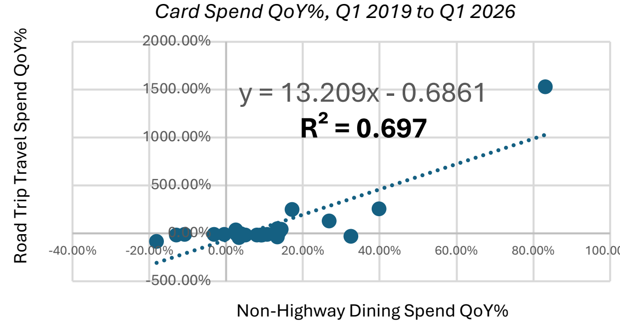


Exhibit 6. Correlation Difference Table

Comparison	R^2 Difference (Highway - Non-Highway)
Domestic Travel Exposure	0.13
Road Trip Travel Exposure	0.21
Gas Stations Exposure	0.10
International Travel Exposure	-0.52

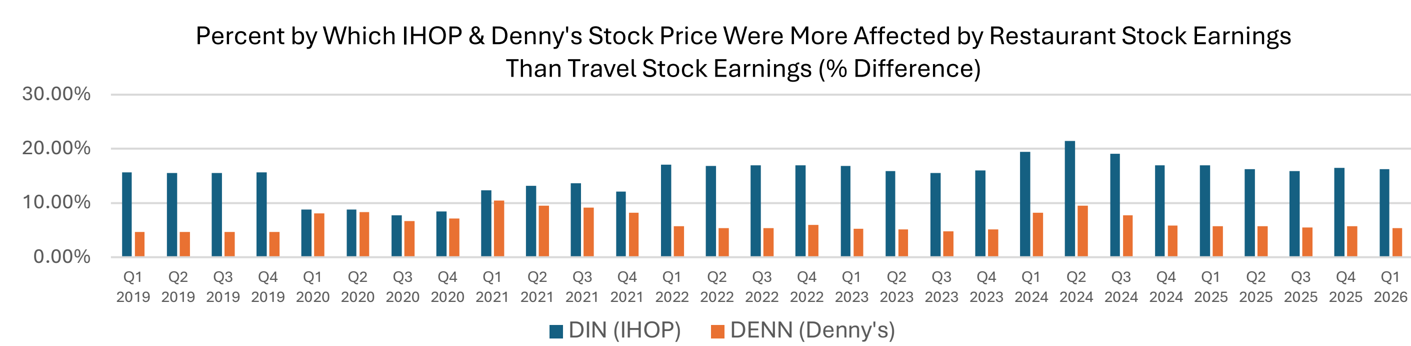
Exhibit 7. Non-Highway Dining vs Road Trip Travel
Card Spend QoY%, Q1 2019 to Q1 2026



This helps explain the strong relationship between highway dining and domestic travel observed in Section I and further suggests highway dining demand is more tied to travel then general restaurant dining behavior.

III. Earnings Reactions Suggest Highway Dining is Treated as Restaurant Stocks

Given highway dining demand is driven primarily by travel activity, stock prices should react more to travel-sector information than restaurant-sector information. To test this, stock price reactions to restaurant and travel earnings announcements were compared. Across the observed quarters, DIN and DENN reacted more to restaurant earnings, meaning investors may classify these companies as restaurant-driven despite their exposure to travel demand.

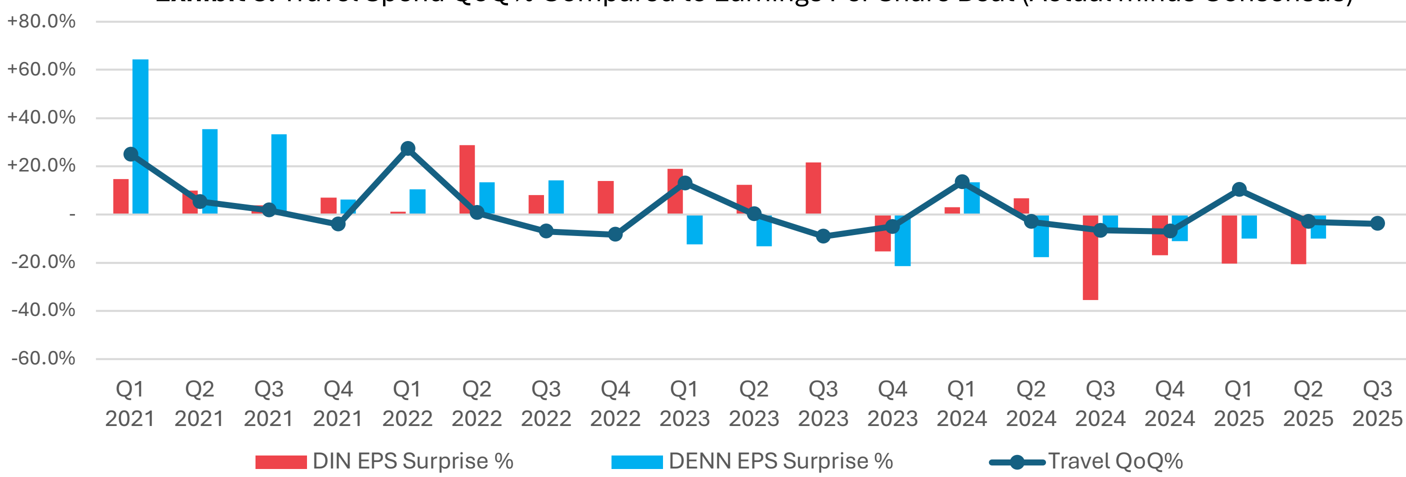


This data, along with ETF classifications such as Dine Brands Global being included in restaurant ETFs, supports that highway dining companies are generally classified alongside restaurant stocks rather than travel-related businesses. While earnings-event stock movements are influenced by multiple factors and this analysis is therefore not definitive, the evidence is consistent with a restaurant-sector classification. The next section examines whether domestic travel trends help explain earnings outcomes for highway dining companies.

IV. QoQ Travel Growth May Help in Predicting Highway Dining EPS

If the market is misclassifying an entire industry, a big claim, changes in domestic travel spending should help explain variation in highway dining earnings performance. To evaluate this relationship, quarter-over-quarter domestic travel spending growth is compared to earnings per share surprises for Dine Brands (IHOP) and Denny's. If travel growth is strong before earnings announcements, highway dining companies may be more likely to report positive earnings surprises, and vice versa.

Exhibit 8. Travel Spend QoQ% Compared to Earnings Per Share Beat (Actual minus Consensus)



The earnings analysis signals domestic travel direction may have predictive value for highway dining earnings outcomes. Because earnings expectations are set on a quarterly basis, quarter-over-quarter travel growth was used to measure changes in travel demand leading into earnings announcements. When quarter-over-quarter travel growth was positive, IHOP beat earnings expectations 89% of the time (8 of 9 quarters) and Denny's beat 75% of the time (6 of 8 quarters), compared to beat rates of 55% for both companies when travel growth was negative, representing beat-rate differentials of +34 percentage points for IHOP and +20 percentage points for Denny's. The positive point-biserial correlations between travel direction and earnings beats (0.25 for IHOP and 0.22 for Denny's, lower but still positive ex-COVID) further support a modest relationship between travel trends and earnings outcomes. These results imply positive domestic travel growth heading into earnings may increase the probability of highway dining earnings beats, while negative travel growth may increase the risk of earnings misses. Given the current underperformance of the domestic travel sector (card spend showing weakness, % of Americans planning trips growing at a muted pace), investors should consider the negative impact this will have on reported EPS for highway dining companies in upcoming earnings.

V. Conclusion

Overall, the evidence points to travel activity as a key influence on highway dining performance, even though these companies are generally grouped with restaurant stocks in sector classifications and market reactions. Because of this, domestic travel trends may be more informative than restaurant industry trends when evaluating highway dining earnings and stock performance, especially during periods when the two diverge. The relationship between travel growth and earnings outcomes further highlights the importance of travel demand as a driver of performance. Future periods of divergence, between travel and restaurant trends may provide a useful test of which factor ultimately has greater influence on earnings and stock performance.

Please refer to the accompanying Excel workbook 'Highway Dining – Theo D.xlsx' for more information on methodology, sources, limitations, and term definitions.