



BANK OF AMERICA RESTAURANT GROUP

State of the Restaurant Industry

With price pressures easing and Americans dining out at pre-pandemic levels, restaurant owners may be looking forward to a more prosperous 2024.

While challenges remain, especially with recruiting and retaining employees, this is an exciting time to be a restaurant owner/operator. Advanced technologies promise greater efficiencies and a better understanding of customer preferences, while moderating inflation has allowed for healthier margins as customers spend more than ever on dining out. Companies that respond to consumers' evolving taste — and invest in the technology and tools to enhance cost-effectiveness and inform strategy — will be the ones to prosper.

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Restaurant industry trends and outlook for 2024

Restaurant operators are benefiting from reduced inflationary pressures, some easing of labor issues and fewer supply chain disruptions. Could 2024 be the year things get back to *normal*?



Key takeaways:

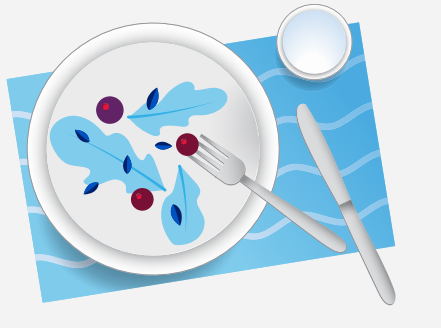
- As food prices and wage increases begin to ease, restaurants are finally getting relief from the challenges of an inflationary environment.
- Despite some signals of price fatigue among consumers, overall enthusiasm for restaurant experiences remains strong.
- Pent-up demand will fuel interest in M&A and IPO activity in 2024 as margins stabilize.

After three years of stiff headwinds caused in part by consumers preferring to eat at home during the pandemic, restaurant operators saw business rebound in 2023, aided by slower inflation in food prices, an improving labor market and fewer bottlenecks in their supply chains.

“The first two years of COVID were all about revenue destruction and recovery while people were homebound,” says Roger Matthews, managing director in Bank of America’s Consumer and Retail Investment Banking Group. “Then, just when the revenue had recovered to some degree, we were hit with 2022, the year of inflation, when restaurants couldn’t make price increases fast enough to keep up with rising costs. Now, we’re finally seeing margins return to some degree of normalcy.”

Wage increases have begun to flatten as well, and predictions

59%
 Restaurants reporting a
year-over-year increase
 in same store sales



Source: National Restaurant Association, "Same-store sales and customer traffic," August 2023

for a damaging recession are being replaced by talk of a possible soft landing. Supply chain pressures also have eased, with delivery times improving dramatically and freight rates falling significantly.

"After so much uncertainty, the absence of a crisis *du jour* alone warrants celebration," says Cristin O'Hara, managing director of Bank of America Global Commercial Banking's Restaurant Group. "What a relief it is not to have to worry about every single line in the balance sheet. And we've been seeing more of a balance between the number of unemployed and those seeking jobs. That's a ray of sunshine for a lot of restaurants."

The power of prices

The prospect of ebbing inflation, and even price decreases in some commodity inputs, is further brightening the outlook for restaurants that struggled to adjust to dramatic jumps in prices for main ingredients, such as chicken and dairy, earlier in 2023. Those higher inputs had forced many restaurants to raise prices, but those pressures seem to be retreating.

The labor shortage is also showing signs of easing, with restaurant and accommodation job openings declining from 8.2% in August 2022 to 6.7% in August 2023 and the quit rate falling from 5.3% in July 2022 to 3.9% a year later.¹

Restaurant operators may be encouraged by the trend in same-store sales: Some 59% of restaurant operators reported that same-store sales rose between July 2022 and July 2023, a substantial increase from the roughly 50% that reported higher sales in May and June.²

Still, while inflation has eased for the cost of ingredients of many meals, harried consumers may exhibit price fatigue over some menu items. "Restaurant prices — in fact, prices on a lot of things — are 25% to 30% higher than they were four years ago," says Matthews, who adds that consumer response can lag behind price hikes. "It takes time for consumers to fully notice that a sandwich is much more expensive. So how the consumer will digest these price increases is still unknown, especially as gas prices start to rise again."

Tapping into diners' passions

Yet consumers' hunger for restaurants shows no signs of ebbing. Americans spent \$1.34 trillion on food away from home in 2022, a 16% increase from 2021, according to the Department of Agriculture.³ In fact, food away from home constituted 56% of overall food spending in 2022, a shift from the pandemic when home cooking and baking bread were more prominent.

Throughout 2023, consumers have continued to demonstrate a preference for spending on doing things rather than buying stuff. "People prioritizing experiences over goods will be a continued tailwind for restaurants," says Matthews, who expects to see changes in spending patterns rather than a retreat from restaurant meals. He anticipates some consumers looking to trim their restaurant spending by moving down the value chain from fine dining to casual restaurants, or from casual restaurants to quick-service restaurants (QSRs). Others may choose to manage their bill by skipping a course, foregoing a beverage with their order or switching from dine-in to takeout meals. And of course, weaker brands will suffer more than brands that are beloved by the consumer.

Restaurant and accommodation job openings

8.2%
 August 2022



6.7%
 August 2023

Source: Bureau of Labor Statistics

Restaurant operators who embrace strategies to appeal to increasingly cost-conscious consumers are likely to benefit, notes O'Hara. "Going forward, price increases will have to be very thoughtful, and barbell strategies will be more important, particularly for the QSR and casual segments," she says. "Franchises will need to make sure their menus continue to bring traffic through the door. That does not mean discounting but rather bringing back limited-time offers and making sure to have items that attract deal-seeking consumers while also encouraging trade-ups with 'craveable' offerings — items for both ends of the barbell."

Avoiding price increases

Strategies to mitigate the impact of commodity price swings and fluctuations in the cost and availability of key

ingredients will become more critical as price elasticity shifts. Restaurants able to adjust menu offerings, better manage inventory or access alternative sources in order to avoid passing price increases on to customers will be positioned to thrive. Larger operators and those with deep pockets will also have an edge. "In tough times like these, things like scale and liquidity matter," says O'Hara. "Chains can combat these multiple forces much more easily than independents, and having stronger cash reserves provides more buying clout with suppliers."

That bigger-is-better stable operating environment sets the stage for an increase in M&A activity in the restaurant sector. A few large deals, including household-name chains being bought by both private equity and larger restaurant sector operators, have already been announced.

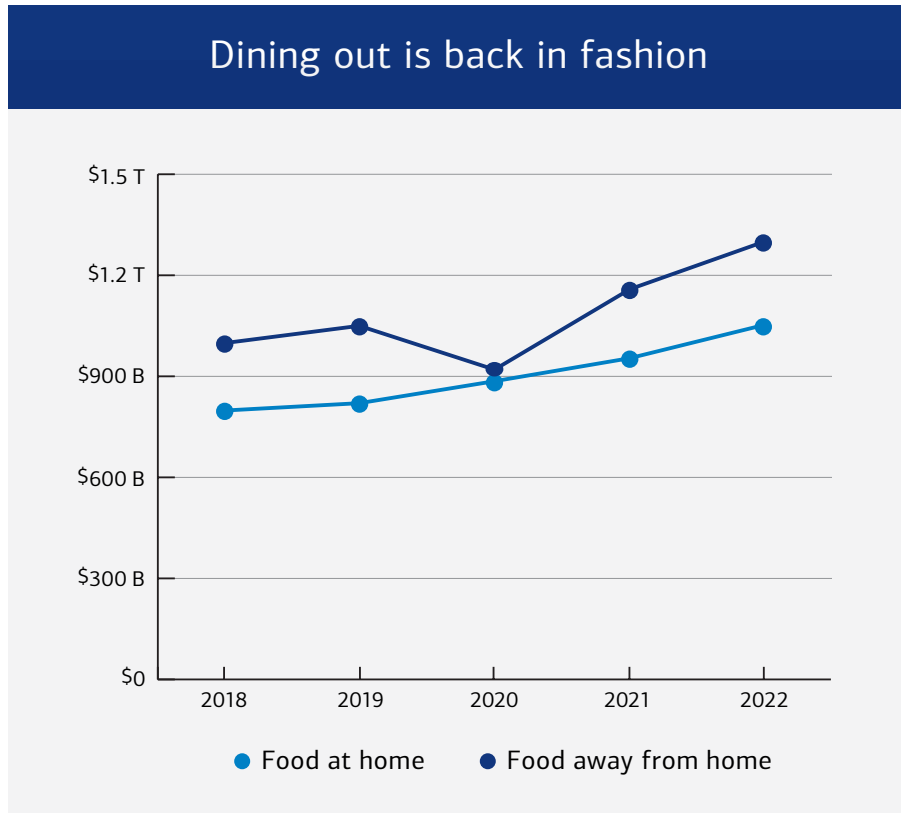
After a year-long drought, the restaurant-equity market is showing signs of a healthy rebound. Mediterranean restaurant chain Cava debuted on the New York Stock Exchange in June 2023, valued at \$4.8 billion, becoming one of the top-performing IPOs for companies valued above \$500 million.⁴ Meanwhile, in mid-September, Dutch Bros. raised \$300 million in a primary offering that was substantially oversubscribed.⁵ Both deals capture the appetite for restaurant issuances: Consumer demand for great brands and products remains healthy, but investors hunger the most for strong balance sheets, particularly in the equity market.

"We think a lot of assets will come to market in the beginning of the new year," says Matthews. "There's pent-up demand on the buy side from institutional investors and on the sell side from operators interested in an exit, both of whom have been holding out for a better deal-making environment."

Labor remains a challenge but is improving

On a positive note, many operators have made strides in adapting to new restaurant business realities, such as the need to navigate a tighter labor market by raising wages and strengthening recruitment and retention efforts. "Labor is going to be a permanent challenge for this industry going forward," says Matthews, who believes some restaurant workers moved from the industry for gig economy opportunities and won't be returning.

Moreover, as some states increase minimum wage requirements for fast food workers — like California, which raised the minimum hourly rate for QSR employees to \$20 starting April 1, 2024



Source: Economic Research Service, Department of Agriculture, "2022 U.S. food-away-from-home spending 16 percent higher than 2021 levels," July 2023.

— wage pressures could be persistent and widespread.⁶ “It’s likely that other states and industries will follow suit, and that creates a lot of uncertainty for everyone, including lenders, as this is all new news,” O’Hara says. “It’s hard to predict how the consumer will react, but price elasticity is probably already nearing its breaking point.”

Strategies for success

Mining customer data is another area restaurants can’t afford not to explore, notes O’Hara, who reports that smart companies are investing in understanding who is coming through their doors, what they’re buying and how often, and are using that data to inform decisions around everything from managing inventory to creating new menu items. “Every restaurant can benefit from being able to not only collect data on every transaction, every item, but to analyze it so you can maximize your sales,” she says. “A lot of folks aren’t spending the time and money on that to stay ahead of the curve, and that’s going to be so important going forward.”

A final component in the future success of any restaurant business today is the importance of making sure your business has a clear and relevant purpose. Both in choosing where to work and where to spend money, Americans are increasingly seeking out businesses that resonate with their values, O’Hara says. “Maybe it’s that your packaging is recycled material, or the food you serve is sustainably sourced, mindfully farmed and locally raised. Maybe it’s that you have the best service. Whatever it is, having a clear sense of your purpose, your mission and your culture will help your business. The restaurant business is about passion all the way round. If you don’t have that, you don’t have anything.”



Looking ahead to 2024

The broad outlook for 2024 is cautiously optimistic. As the industry leaves inflationary fears and input price hikes behind, restaurants that have tightened supply chains and implemented cost controls will reap the benefits of running leaner operations. Labor shortages are likely to continue to improve, although difficulty finding and keeping employees will remain a challenge for the industry. One noteworthy recent trend is that many businesses have been able to offer new hires lower starting wages than earlier in the year. That said, wage pressure will be constant.

On the revenue front, the growth of online ordering, which boomed during the pandemic, is expected to plateau. The change reflects the resilience of consumers’ enthusiasm for in-restaurant experiences. At the same time, inflation-wary consumers are expected to continue to manage their expenses by leaning toward price-conscious menu choices and perhaps even foregoing drinks and side dishes. This ripple effect will mean operators will need to continue

to regularly reimagine menus to deliver value and entice higher spends.

Technological innovation is the real game-changer that could have an impact on bottom lines in 2024. From answering phones and taking orders to upselling customers and managing inventory, the potential for advanced technologies to introduce efficiencies is growing at a rapid pace. Restaurant operators that can leverage those capabilities while continuing to adapt to the ever-shifting consumer landscape will be well positioned for growth in the year ahead.

¹ Bureau of Labor Statistics, “Job Openings and Labor Turnover Survey News Release,” Aug. 23, 2023.

² National Restaurant Association, “Same-store sales and customer traffic,” August 2023.

³ Economic Research Service, Department of Agriculture, “2022 U.S. food-away-from-home spending 16 percent higher than 2021 levels,” July 2023.

⁴ CNBC, “Mediterranean restaurant chain Cava stock soars as much as 117% in market debut,” June 15, 2023.

⁵ Cooley.com, “Dutch Bros Announces \$300 Million Underwritten Public Offering,” Sept. 6, 2023.

⁶ Fisher & Phillips LLP, “California Legislature Prepared to Enact \$20 Fast Food Minimum Wage to Avoid Showdown,” Aug. 8, 2023.

How restaurants are turning tech into profits

When properly deployed, advanced technologies and improved processes can connect with customers and cut costs



Key takeaways:

- Technology investments made during the pandemic are here to stay but need to scale and demonstrate more value.
- Data generated by advanced technologies has the potential to inform and improve employee decision-making and streamline operations.
- Finding the right mix of data analysis, automation and improved processes can give operators a strategic advantage.

Cooling inflation and an easing labor shortage are helping the restaurant industry rebound to greater profitability, and technology is becoming a decisive factor in determining success. Across the industry, tech solutions that speed ordering, reduce errors and enable upselling are being widely adopted. Operators at the forefront are beginning to embrace advanced technologies that mine data to schedule staff more efficiently, create appealing new menu offerings, take orders and more.

“The industry did a good job investing in digital technology and data during the pandemic,” says Cristin O’Hara, Restaurant Group head for Bank of America Commercial Banking. “Now restaurants need to figure out ways to use the data generated by all the equipment they’re using and the cards they’re swiping. It’s not just about collecting data but about using it.”

Advanced technologies impact on staffing

With developments in advanced technologies such as generative artificial intelligence, mobile point-of-sale systems and smart robotics, these innovations have been shown to deliver measurable value. The key is determining which of many possible use cases will deliver the most value. BofA Global Research estimates that IT budgets have doubled since the pandemic, now accounting for 7% to 10% of revenue, and says that “this level of spending will likely persist as restaurants seek technology solutions for operational challenges.”¹

“Restaurants have invested in sophisticated platforms and are upskilling their organizations,” says the Boston Consulting Group’s Dylan Bolden, who has deep experience driving technology transformations in the restaurant sector. “They’re experimenting, getting proof of concept, but many have yet to see the value flow through to their bottom line. The challenge now is to scale value in the investments they’ve made.”

Advanced technologies’ impact on staffing

Advanced technologies in restaurant settings can take different forms: language-based models that understand requests from drive-through customers



Source: Touch Bistro, “AI Restaurant Applications: Everything You Need to Know About Artificial Intelligence,” 2023.

(and never forget to upsell), algorithms that streamline scheduling and identify peak order demand — along with ingredient requirements — and chatbots that answer customer questions and facilitate orders online or in kiosks.

With employment at quick-service restaurants (QSRs) still below the February 2020 peak,² technology’s potential to address immediate challenges is helping ease lingering labor shortages. “You can use AI to replace a call center or streamline a drive-through,” says John Schmidt, senior relationship manager, Commercial Banking at Bank of America. “The industry’s biggest players made acquisitions, proved out the technology in company-owned stores and allowed franchisees to benefit from the same technology.”

But to maximize return on investment, restaurants will need to continue the

arduous process of altering how and when things are done, based on an analysis of all the data generated. “Some 70% of AI’s value comes from changing processes and the ways of working,” says BCG’s Bolden.

Merging payments, banking and sales

Payments, which are now possible through apps, delivery platforms, mobile wallets and gift cards (in addition to traditional card and cash transactions), are another area where the potential is just coming into view. “AI’s impact helps merge payments with the banking platform and integration with ERP systems,” says Melanie Whitlock, treasury sales officer for the Restaurant Group at Bank of America. “We’re seeing increasing investment in payment instant messages and instant final payments with QSRs and smaller clients as well.”

Shannon O’Donnell, senior merchant specialist at Bank of America, notes that point-of-sale systems present an invaluable source of data as well as an opportunity to use advanced technologies to streamline payment processes. Point-of-sale systems have the ability to provide detailed financial reporting and customer service while also enabling payment card industry compliance. Data regarding spend and spend patterns, order customization, frequency and visit

How do you compare?



Restaurants now spend an average of **7% to 10%** of gross revenue on IT

Source: Bank of America Research

habits is also readily available. This gives the merchant the opportunity to directly target diners with appropriate deals, specials and loyalty rewards.

Frictionless experiences

In a competitive marketplace populated by increasingly tech-savvy consumers, customer convenience is key. “With the best brands, the app is seamless with little to no friction, and that results in a highly satisfied customer,” says Schmidt.

Restaurants need to create a highly tailored, personalized experience for their customers, which generative AI and data analytics can enable. Restaurants are trying to figure out who their customers are when they are coming into the restaurant and what products they are buying, O’Hara notes, and AI can help predict all of those things. The benefits of using advanced technologies to crunch data go beyond the customer experience. “Franchises use the results to their advantage in supply chain management, new products — just about every way you can think of,” she said.

One benefit of using advanced technologies, for example, would be to maximize the returns of a loyalty program. BofA Global Research found that loyalty programs that motivate customers to engage with the brand can increase

Source: Incentivio, “Restaurant Loyalty Programs: Why They’re Beneficial,” Sept. 6, 2022

consumer spending in the short term (active loyalty members spend 10% more than nonactive consumers). These programs have the added benefit of allowing restaurants to acquire a rich trove of customer data that can be used to target marketing to those customers.³

Getting the most out of data may require restaurants to expand their internal capabilities. As their knowledge of customer preferences becomes more granular, they may find additional value in analysis that helps improve the connection between their brand and their customer base. “There are lots of data use cases for marketing and personalization,” says Bolden. “You can run a quick pilot, for example, on the effectiveness of one-to-one offers to customers. But to do it at scale, you’ll need new capabilities, and maybe you’ll bring elements in-house that you used to outsource.”

O’Hara agrees that restaurants should prepare for the next phase of using

technology to improve performance by investing in specialists who can analyze the data that advanced technologies produce and make recommendations on ways to profit from those insights. “Those that don’t spend the time and money on that now, I think, are going to be behind the curve,” O’Hara says.

Emerging privacy issues

The explosion of data also creates issues related to security and privacy, which Whitlock describes as an inevitable by-product of any technology that delivers highly detailed portraits of customers and their preferences. “Handling sensitive customer data will require continuous monitoring and human intervention to protect privacy and defend against threats,” says Whitlock.

For now, staying ahead of the curve requires more than capital investment. Restaurants need to find the best opportunities among the many good suggestions that are produced by the analysis of data from digital tools and advanced technologies. The companies that can create a synthesis between data, automation and humans will be the most likely to achieve value.

Source: Deloitte, “The future of restaurants: The new normal and beyond,” March 2023

¹ BofA Global Research, “What’s cooking in restaurant tech/POS?,” June 30, 2023.
² National Restaurant Association, “Total restaurant industry jobs,” 2023.
³ BofA Global Research, “Restaurant Weekly: Mixing it up (digitally),” August 28, 2023.

Employment strategies and benefits for a more stable workforce

For restaurant operators to attract and retain quality employees, offering enticing benefits and “extras” might aid recruitment and reduce turnover.



Key takeaways:

- Restaurant owners report continuing problems finding and retaining workers.
- Offering benefits such as lifestyle spending accounts, tuition reimbursement, 401(k) plans and health insurance can reduce quit rates and motivate staff to stay longer.
- Paying attention to factors like culture and a feeling of inclusiveness in the workplace can also play a role in employee retention.

Hiring and retaining employees continues to be a major challenge for restaurant owners and franchisees. According to a recent survey by the National Restaurant Association, 62% of restaurant operators report not having enough employees to meet customer demand, and 79% say they have job openings that are difficult to fill.¹ The food service and accommodation sector's quit rate of 5.1% is also higher than any other industry, according to the Bureau of Labor Statistics.²

Entry-level restaurant workers can be especially difficult to hire and retain. With 59% of food prep workers under the age of 25,³ many potential entry-level workers may not believe there are opportunities for advancement in a restaurant job and therefore enter the job with expectations of it being only a stepping stone on their career path.



6.7% Job openings in the food services and accommodation sector

5.8% Job openings in the overall U.S. economy

Source: Bureau of Labor Statistics

Restaurant owners, therefore, need to think creatively about how to differentiate their workplace to attract the best new hires and motivate them to stay. In this Q&A, John Quinn, head of Institutional Retirement Product and Distribution for Bank of America, and Aliya Willis, senior relationship manager for Global Commercial Banking at Bank of America, offer insights on the wide range of benefit options restaurant owners may want to consider to help build a motivated, engaged workforce.

What factors are contributing to the current workforce shortage at restaurants?

Aliya Willis: Even before the pandemic, restaurants were struggling to hire enough workers. But rolling shutdowns accentuated the labor shortage because many laid-off restaurant workers found permanent jobs in other industries. Then, as the pandemic receded, workplace shortages and rising inflation resulted in restaurants operating fewer hours per week, further reducing jobs. Meanwhile, high rates of employee turnover have made restaurant operating margins even thinner because, by one estimate, replacing one employee costs a restaurant an average of \$5,864 in training expenses and productivity loss.

What can employers do to meet employee needs while also managing

to their bottom line?

John Quinn: The labor shortage has caused restaurant owners to increase wages for their workers, but they have to be able to offer more than better base pay to stay competitive. Adding benefits to the employment package promotes greater employee satisfaction so people want to come to work and are more likely to stay. Restaurants operate on thin margins, so the considerable expense of having to hire and train new staff due to high employee turnover is a major drain on profits. A restaurateur needs to evaluate whether their benefit package is attractive enough to retain employees. Even if those benefits introduce some incremental day-to-day operating expenses, the reduction in employee churn rates can give owners a very compelling and financially beneficial reason to invest in benefits for their employees.

What types of benefits would help attract and retain entry-level restaurant employees, who are among the youngest workers?

Willis: If you want your employees to care about what's important to you, you have to show that you care about what's important to them. One way to demonstrate that you understand your employees' needs is to offer a lifestyle spending account (LSA). An employer puts dollars into an account for each employee to spend on a customized

selection of items or activities (the money is taxable just like salary and appears on the employee's W-2). Restaurateurs can limit employees' use of those dollars for a specific purpose, or they can leave the program open and allow employees to use those dollars for anything they feel is important to them.

LSAs can be a way to incentivize a workforce that often logs long hours under stressful conditions by letting workers pursue things like wellness activities. An LSA might be targeted to pay for gym memberships, yoga classes or weight-loss programs. Or, if getting employees to stay with the company is challenging, the promise of an LSA contribution after six months may be a way to encourage a longer tenure. Or employees can earn funds if they complete training modules.

Often younger employees aren't fully aware of how to use their benefits to their advantage. How do you solve that problem?

Willis: It's critically important to pair a retirement plan with a comprehensive financial education program. If you can help your employees learn how to budget their money, they can feel more confident in putting some of their discretionary income into retirement savings. As a financial partner, Bank of America has programs like Better Money Habits, for example, that provide a basic financial education to improve the financial lives of employees, with guidance on budgeting, cash management, the importance of saving money and how to invest. The restaurant industry has a workforce that comes from a diverse array of backgrounds and levels of affluence, and some employees may not have a checking account, which means they are charged fees when they cash their

paychecks. Better Money Habits shows them how to open a checking account to avoid those fees and how to sign up for savings accounts so they can start saving.

Are there benefits that might be particularly attractive to employees who are still in school?

Willis: One sought-after benefit that can help retain student employees is tuition reimbursement. Many employers stipulate that workers must stay employed with the company for a certain length of time to qualify, generally between 18 months and two years after receiving the reimbursement. And employees typically have to work at the company for a year before they're eligible for the benefit.

Many employees want help with their healthcare and daycare expenses. What can owners offer?

Quinn: Restaurant firms may want to consider offering employees a health savings account, which works with eligible health insurance plans that have higher deductibles than many traditional health plans and typically lower premiums. Another valued benefit is a dependent care flexible spending account to allow workers to pay, using pre-tax dollars, for daycare, preschool summer camp, before- or after-school programs or adult care.

A retirement plan is one of the most sought-after benefits by managers and senior employees. Yet only a minority of small businesses, including restaurants, offer a 401(k) plan. Why?

Quinn: In the past, 401(k)s were not particularly attractive to restaurant owners because the plans were costly, burdensome to administer and had



Source: National Restaurant Association

significant compliance requirements. But today there are many advances, such as turnkey plan designs and digital platforms, that make retirement plans simpler to administer and much less expensive. For example, a multiple employer plan, or MEP, allows many small business owners to participate in one plan. In a traditional 401(k), the employer is the fiduciary for the plan and responsible for choosing the investments, designing the features and conducting ongoing compliance testing. In an MEP, all those duties are handled by a separate plan sponsor. And depending on how many small businesses are participating in an MEP, the costs can be substantially lower than a traditional 401(k). For restaurant operators with fewer than 100 employees, a great option is a Simple IRA, to which both employees and employers can contribute.

Are there financial benefits for restaurant owners when they offer a retirement plan?

Quinn: Small business owners who offer a match to employees' contributions get a tax deduction on the firm's contributions. And recent legislation gives small business owners a tax credit of up to 100% of the expense for setting up and administering a plan for the first three years. Those are very strong incentives for employers to offer a retirement plan.

The restaurant workplace is one of the most diverse in the U.S. economy. According to a 2022 Department of Labor estimate, nearly half of restaurant workers are minorities. What can restaurants do to support this diverse population?⁴

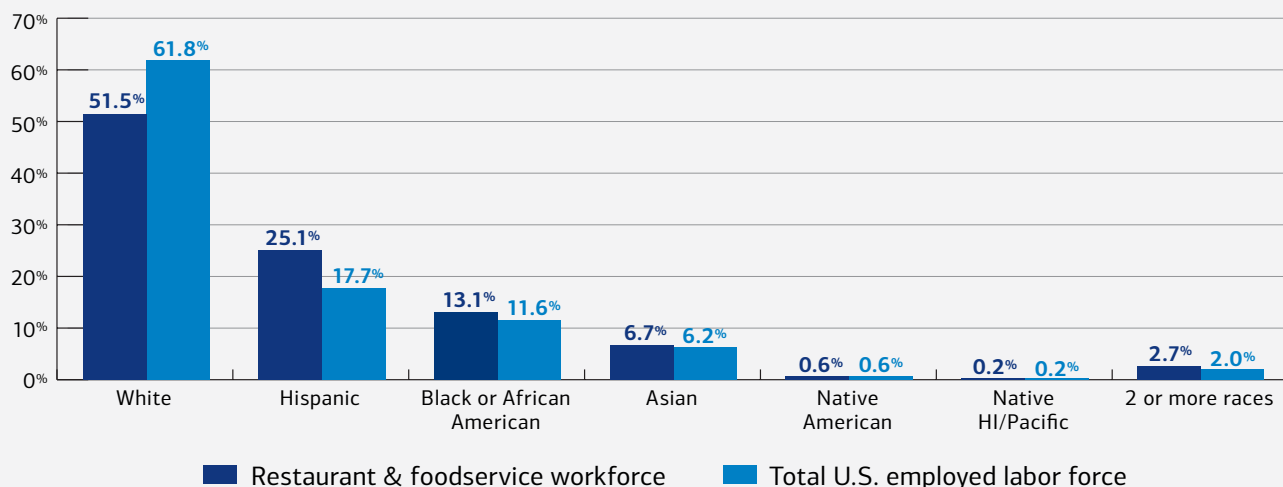
Quinn: When a restaurant creates an inclusive workplace culture, employees feel they belong, which makes them feel more engaged in their jobs and more productive. To promote a culture that values diversity, restaurants should provide diversity, equity and inclusion training to all employees and develop mentorship programs that might include language classes or computer classes to help employees advance in their jobs.

Along the same lines, what kinds of things can restaurant owners do to foster a positive workplace culture?

Willis: One thing to aspire to is to know your individual employees. What do they care about? Then encourage open communication: Have you taken steps to ensure that your workers feel comfortable talking to their managers about workplace frustrations or issues? You can also make your employees feel valued and respected, and recognize outstanding performance with gift cards, tickets or other rewards. Restaurants often have young employees, so you might offer schedule flexibility that

Distribution of restaurant and foodservice employees by race and ethnicity

Restaurant and foodservice workforce vs. total U.S. employed labor force



Source: U.S. Census Bureau and National Restaurant Association, 2019 data

allows for time off for special events, such as graduations and extracurricular activities. Building team camaraderie, especially if you have employees from diverse backgrounds, is also important. One restaurant hires a DJ and hosts Taco Tuesdays to make it fun for employees to come to work, and others offer various team building events to create a sense of community.

Offering benefits to employees can go a long way toward making them feel valued and can increase loyalty. Restaurant jobs are notoriously demanding, but benefits elevate morale and enhance job satisfaction — and productivity. And potential new employees are sure to be enticed by an entry-level job with benefits. Talk to your Bank of America Relationship Manager to learn more about employee benefit options.

Potential Tax Advantages: HSA Account holders can receive tax-free distributions from their HSA to pay or be reimbursed for qualified medical expenses they incur after they establish an HSA. If they receive distributions for other reasons, the amount withdrawn will be subject to income tax and may be subject to an additional 20% tax, unless an exception applies. Any interest or earnings on the assets in the account are tax-free. Account holders may be able to claim a tax deduction for contributions they, or someone other than their employer, makes to their HSA directly (not through payroll deductions). In addition, HSA contributions may reduce state income taxes in certain states. Certain limits may apply to employees who are considered highly compensated key employees. Bank of America recommends you contact qualified tax or legal counsel before establishing an HSA

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¹ National Restaurant Association, "Restaurant Business Conditions Survey," December 2022.

² Bureau of Labor Statistics, "Quits levels and rates by industry and region, seasonally adjusted," Aug. 1, 2023.

³ National Restaurant Association, "Restaurant Employee Demographics," March 2022.

⁴ Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," 2022.

How restaurants can avoid accounts payable fraud and scams

Hackers are using advanced technologies to target overworked back-office employees. Here's what operators can do to combat these cyber criminals.



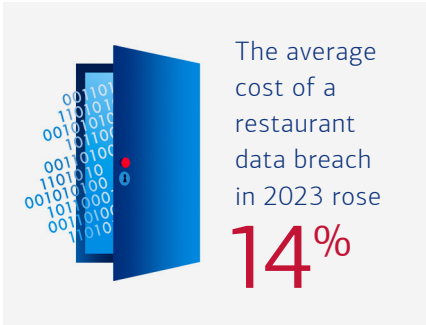
Key takeaways:

- Fraud aimed at back-office operations is becoming a greater risk as transactions become more automated.
- Safeguards for accounts payable transactions can help protect the restaurant and increase employee awareness of the new threat landscape.
- As more advanced technology is helping control credit card fraud, hackers are turning to phishing emails to dupe employees.
- Train employees to beware anomalous requests; sometimes friction is necessary for transaction security.

The rapid adoption of digital technology for payments, operations and customer engagement has helped restaurants substantially grow their business in just a few years, but it also has provided criminals with troubling new opportunities to steal money and critical data.

The average cost associated with a data breach in the hospitality industry — which includes hotels and restaurants — reached \$3.36 million in 2023, up from \$2.94 million in 2022.¹ The fact that 62% of restaurants reported being understaffed in the same period² is a major contributing factor behind that increase, especially when new technology has expanded the digital landscape for operations.

Technology allows criminals to have more access points to operations, and restaurants that haven't upgraded their processes are at increased risk. Plus, there's the turnover issue, which creates



Source: IBM, "Cost of a Data Breach Report 2023," March 2023

additional vulnerabilities. Restaurants are constantly hiring new employees, who have less familiarity with internal controls and vendor and supplier relationships.

Becoming more aware of fraud

Consumer demand for active measures to protect their credit card information has led to better security along payment rails and the rollout of more advanced point-of-sale (POS) solutions that encrypt data. "Consumers are more fraud savvy," says Shannon O'Donnell, senior merchant specialist with Bank of America. "They're more aware of the safeguards in place, so they're more open to making POS payments at the table."

Nonetheless, the rapid increase in digital sales at quick service restaurants (QSR) through apps, third-party platforms and websites has also opened the door for more credit card fraud, fraudulent chargebacks and even compromised POS systems. Each digital payment channel represents another area where adaptable cyber defenses are necessary.

Restaurants should be aware that back-office operations and accounts payable (AP), in particular, are also more frequent targets for fraud. Complex supply chains and an increasing number of vendor and third-party suppliers have introduced many new potential access points for fraud

and data breaches. Meanwhile, criminals continue to make use of well-known but still highly effective methods, such as phishing emails and malicious attachments, to trick overstretched employees.

Financial protections for back-office transactions

Fraudsters have become more sophisticated over time and now deploy some of the same tools used by legitimate businesses — such as chatbots and large language models — to produce scam emails and requests that look legitimate. There has been a recent boom in fraud where back-office workers get emails from what appears to be a known vendor asking to change the payment details for invoices. The money then gets sent to a criminal instead of the actual vendor.

Unfortunately, the level of control AP departments have over payments has thinned as they increasingly turn to third-party middlemen to help execute transactions. Simply put, there are more points along a payment pathway, and each represents an opportunity for fraud.

That's why restaurants of all formats need to remain especially vigilant to identify anomalous activity or requests from a vendor. Onboarding a new

vendor always carries risk, especially for companies that do not have robust policies in place for verifying the vendor's identity (e.g., background checks, verification of licenses or submission of W-9 forms or tax ID numbers).

Shoring up digital relationships

Increasingly, businesses are setting up relationships with vendors that are exclusively digital, in which human-to-human interaction, which can provide a basic security safeguard, is largely absent. The risk of fraud also goes up when companies are paying for non-material charges, such as consulting services.

To manage this risk, Charles Murphy, senior treasury sales specialist at Bank of America, argues that restaurants need to lean on transaction experts. "They really should engage their bank. Restaurants are in the business of serving food. Financial institutions are in the business of securely moving money," he says. "They have a lot of intelligence to share, as well as solutions that can help manage back-office workstreams, protect sensitive account information, verify the legitimacy of vendor requests and implement fraud controls."

Tip to reduce risk: pause for anomalies

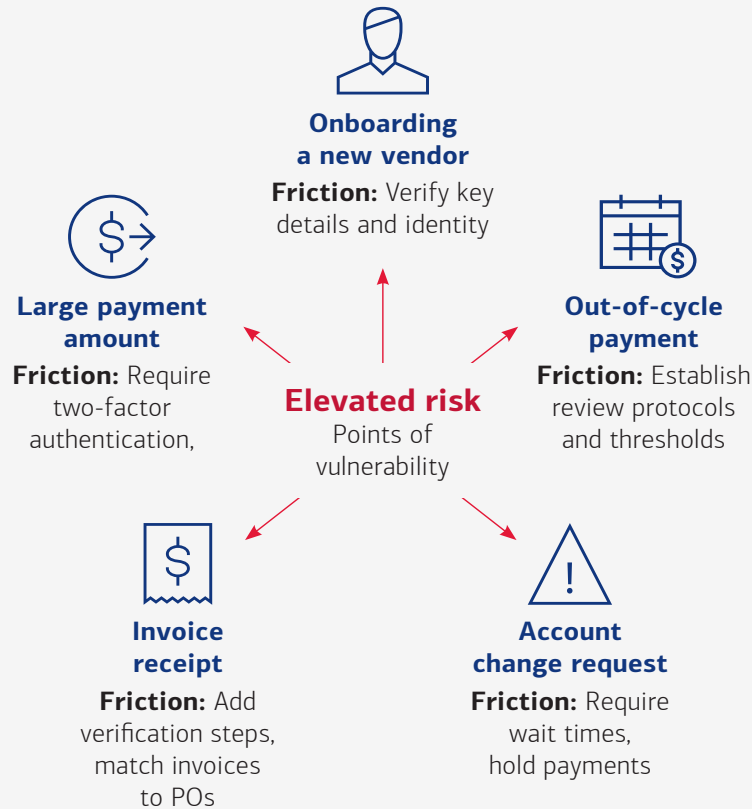


Protect against accounts receivable fraud by paying close attention to:

- ⊗ Refund requests
- ⊗ Unusual communications
- ⊗ Payment void requests
- ⊗ Irregularly sized digital transactions
- ⊗ Overpayment notices
- ⊗ Change in cadence or origin

Tip to reduce risk: add friction

Slow down at key points of vulnerability to mitigate risk across payment transactions



employees should take the necessary time to record and verify key details, such as company or personal information and the routing numbers and contact information of the financial institution to which the vendor directs payments.

AP departments can also create friction, or slow the process, by establishing review protocols and thresholds for any requests to change accounts or process out-of-cycle payments. Rather than framing the process as a delay, AP staff can present it as a necessary step for ensuring the security of the vendor's accounts as well as their own.

Combating cyber crime and fraud will require ongoing technological refinements. A good defense depends on educated, alert employees who adopt a rigorous approach to security and do not assume communications are legitimate simply because they appear to come from established vendors and partners. A well-trained employee is the best line of defense against a serious breach that could affect your organization's bottom line and reputation. The key to that training? Make sure employees know how to leverage technology — without putting their unqualified trust in it.

Friction is necessary to transaction security

Effective defense against AP fraud begins with recognizing that cyber fraudsters have observed the shift to ACH payments and ramped up activity in response.

Employees receiving an invoice or request for payment from an established vendor — even one that matches their known contact information — can no longer assume the communication is legitimate.

When onboarding new vendors,

¹ IBM, "Cost of a Data Breach Report," 2023.

² National Restaurant Association, "State of the Restaurant Industry," 2023.

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