Hotel News Resource

Ryan’s Announces Third Quarter 2005 Results

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Ryan’s Restaurant Group, Inc. (Nasdaq: RYAN) reported third quarter 2005 results today.

Third quarter restaurant sales were $202,967,000 in 2005 compared to $205,331,000 for the comparable quarter in 2004. Net earnings for the quarter amounted to $4,164,000 in 2005 and $9,226,000 in 2004. Earnings per share (diluted) amounted to 10 cents in 2005 compared to 22 cents in 2004.

For the nine months ended September 28, 2005, restaurant sales amounted to $628,116,000 compared to $633,534,000 for the comparable period in 2004. Net earnings were $22,237,000 in 2005 and $38,756,000 in 2004. Earnings per share (diluted) were 52 cents in 2005 compared to 89 cents in 2004.

Commenting on the quarter, Charles D. Way, CEO of the Company, said "Ryan’s was challenged during the third quarter with lower sales and higher costs. Same-store sales decreased by 3.7% during the quarter. We believe that high gasoline and utility costs continue to adversely affect our customers’ disposable income, resulting in lower dining-out expenditures. Furthermore, third quarter sales were impacted by Hurricanes Katrina and Rita, not only in the areas of immediate landfall but also in many of our other operating areas. During the quarter, we lost 243 restaurant-days, representing less than 1.0% of total available restaurant-days, at 41 locations due to the hurricanes. Except for three locations that are still closed, the affected restaurants re-opened quickly and have generally enjoyed very good business since that time due to high demand from repair and emergency crews and returning residents. We are very grateful for the heroic efforts of our construction and maintenance personnel and our dedicated restaurant managers and hourly team members, many of whom also suffered significant property loss from the hurricanes. Restaurant sales in southern and mid-Atlantic states generally were adversely affected by the heavy storms that resulted after the immediate landfalls and by gasoline pricing and shortages. We believe that these factors as well as the related extensive television coverage decreased dining visits by our customers."

"Our third quarter’s profits were also impacted by higher cost of sales, particularly higher payroll, utility and store closing costs. Food and beverage costs decreased compared to the prior year’s comparable quarter aided by lower beef costs, which decreased year-over-year by 9%. However, similar to the first and second quarters of 2005, hourly labor increased by 1% of sales as we increased staffing at our restaurants to improve customer service and retain sales. We also paid over $200,000 of disaster assistance to store personnel at restaurants closed by the hurricanes. Utility costs also continued their rise, and we saw electricity and natural gas costs increase by a combined 0.6% of sales due to higher unit prices and warmer temperatures. Finally, we had property write-downs amounting to $2.6 million ($1.9 million in accelerated depreciation and $700,000 in other restaurant expenses) during the quarter related to five underperforming stores, which have been closed. These write-downs were partially offset by a $700,000 net change in the gain on sale of closed properties, which is reflected in "Other income, net" in the accompanying financial statements."

"As we look at the remainder of 2005 and 2006, we are concerned about the forecasted significant increases in utility costs that have been publicized by the media and the related impact on consumer spending. Over time we believe that consumers will adjust their spending and eat out more often since dining- out is so ingrained in many daily routines and represents a relatively inexpensive form of entertainment, especially with the excellent price/value relationship at Ryan’s. Our plan for building and retaining sales is to provide great dining experiences to our customers so that we are top-of-mind when they choose a restaurant. As mentioned earlier, our increased restaurant staffing levels are designed to improve customer service. Also, we are implementing weekend seafood nights and are aggressively continuing to add weekend breakfast at our restaurants. We are particularly excited about breakfast as it represents an excellent means to increase sales at existing locations with minimal capital investment. At the end of September, there were 38 locations serving breakfast, and our plans call for breakfast at approximately 160 locations by year-end."

"Our plans for 2006 and 2007 focus on building sales at existing locations. We intend to reduce the number of new restaurants to around four new restaurants per year for these two years so that our operations management can concentrate their efforts on operational improvements and local marketing initiatives. Our remodeling efforts will be slightly scaled back to about 12 locations per year as we refine and test our conversion designs. We are also aggressively looking for opportunities to reduce costs, both at our restaurants and at our corporate office. These measures should significantly increase our free cash flow, enabling us to reduce our outstanding debt. Current projections indicate we can reduce debt from current levels by approximately $75 million, including scheduled debt payments, through the end of 2007. Our Board of Directors and senior management enthusiastically endorse this plan and look forward to being well-positioned to pursue growth opportunities in the future."

Management notes that it is continuing discussions with the Company’s lenders to amend current debt agreements in light of the Company not meeting covenant requirements regarding the fixed charge coverage ratio calculation. The Company was not in compliance with this ratio requirement at the end of the second quarter, and, as anticipated by all parties, this non-compliance continued at the end of the third quarter. Management is optimistic that an agreement with the Company’s lenders will be reached, and that such agreement will permit the capital expenditure plans for 2006 and 2007 as noted above. Until the credit agreements are amended, the Company’s outstanding debt must be classified as a current liability in accordance with generally accepted accounting principles and is presented as such in the accompanying financial statements. Management expects that the amendments will be executed prior to the filing of the Company’s quarterly report on Form

10-Q with the U.S. Securities and Exchange Commission on or around November 2, 2005.

At September 28, 2005, the Company owned and operated 339 restaurants, including the three locations that continue to be closed as a result of Hurricane Katrina.