Hotel News Resource

Jack in the Box Inc. Reports Record Second Quarter Profit

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Raises Fiscal 2007 Earnings Forecast and Provides Third-Quarter Guidance

Fueled by another strong quarter of comparable sales growth at its namesake Jack in the Box(R) restaurants, Jack in the Box Inc. (NYSE:JBX) today reported that earnings increased to $27.2 million, or 80 cents per diluted share, for the second quarter ended April 15, 2007, compared with $21.8 million, or 61 cents per diluted share, for the same quarter a year ago. Year-to-date net earnings increased to $64.6 million, or $1.83 per diluted share, versus $47.0 million, or $1.31 per diluted share, last year - a 39 percent improvement in EPS.

Second quarter earnings exceeded the high end of the range previously forecast by the company and analysts’ First Call consensus estimate of 70 cents.

’Our commitment to reinvent the Jack in the Box brand has generated new products and new initiatives that drove the increase in restaurant sales for the first half of the year,’ said Linda A. Lang, chairman and chief executive officer. ’We continue to develop a strong lineup of innovative and high-quality menu items, like our new 100% Sirloin Burger, which we introduced earlier this month and is the only 100% sirloin burger offered by a major quick-serve chain.’

Second quarter financial highlights

Same-store sales at Jack in the Box company restaurants increased 6.4 percent in the second quarter, with an increase in both average check and transactions, on top of a year-ago increase of 4.0 percent. Year to date, same-store sales are up 5.9 percent on top of a 4.9 percent increase for the same period last year. System same-store sales at Qdoba Mexican Grill(R) increased 3.5 percent in the second quarter on top of a 5.6 percent increase in the second quarter of 2006. Year to date, same-store sales are up 3.8 percent at Qdoba, on top of a 6.8 percent increase for the first half of fiscal 2006.

Restaurant operating margin improved to 18.3 percent of sales in the second quarter compared with 17.6 percent of sales a year ago, due primarily to fixed cost leverage from higher sales in 2007 and lower utility costs. For the first half of fiscal 2007, restaurant operating margin improved to 18.3 percent of sales versus 16.9 percent of sales for the same period a year ago, with the 140 basis point improvement due primarily to the same reasons cited for the quarterly increase as well as lower food and packaging costs.

SG&A expense rate in the second quarter improved to 10.5 percent of revenues compared with 11.2 percent last year, due primarily to leverage from higher sales and franchise revenues, lower pension expense, and the impact of the company’s refranchising strategy.

Ten company and franchised Jack in the Box restaurants opened in the second quarter, compared with 5 new restaurants that opened in the same quarter a year ago. Qdoba opened 13 company and franchised restaurants in the second quarter, the same as last year. At April 15, the company’s system total comprised 2,098 company and franchised Jack in the Box restaurants, including 57 with Quick Stuff convenience stores, and 353 company and franchised Qdoba restaurants.

Gains on sale of company-operated restaurants were $7.2 million in the second quarter, resulting from the sale of 15 Jack in the Box company restaurants to franchisees. In the second quarter of fiscal 2006, gains on sale of company-operated restaurants totaled $7.5 million, resulting from the sale of 13 Jack in the Box company restaurants to franchisees. The difference in average gains is related to the specific sales and cash flows of restaurants sold.

The effective tax rate in the second quarter was 36.5 percent versus 37.0 percent a year ago.

Capital expenditures, including capital lease obligations, were $29.1 million in the quarter compared with $21.5 million in fiscal 2006, with the increase due primarily to investment in the Jack in the Box re-image program.

Second quarter initiatives

In the second quarter, Jack in the Box added several new products as part of the company’s strategy to holistically reinvent the Jack in the Box brand through major upgrades to its menu, restaurant environment and guest service. Menu additions included the following products:

œ Steak ’n’ Mushroom Ciabatta Sandwich, which features tender, marinated, 100-percent sirloin steak on toasted ciabatta bread with savory sliced mushrooms, provolone cheese, grilled onions and creamy peppercorn mayo.

œ Jack’s Sampler Trio, which includes three stuffed jalapenos, three mozzarella cheese sticks and seven Spicy Chicken Bites - a new snack item consisting of chicken breast pieces with a spicy, crunchy coating. The Sampler Trio is served with buttermilk ranch and zesty marinara dipping sauces.

œ Grilled cheese sandwich, which features two slices of American cheese on sourdough bread. This product joined Jack’s Kids’ Meal(R) menu along with new 8-ounce milk chugs, available in reduced-fat regular or low-fat chocolate flavors.

œ Andes(R) Mint Shake, which blends real vanilla ice cream, mint flavor and pieces of Andes chocolate mint candy and features whipped topping and a maraschino cherry.

Through the first half of fiscal 2007, Jack in the Box re-imaged 56 restaurants and remains on pace to re-image 150-200 restaurants in fiscal 2007 with a comprehensive program that includes a complete redesign of the dining room and common areas. Interior finishes include ceramic tile floors, a mix of seating styles ranging from booths and bars to high-top round tables, decorative pendant lighting, and graphics and wall collages. The program, which is expected to be rolled out to the entire Jack in the Box system in 4-5 years, also includes music, uniforms and packaging, along with new paint schemes, landscaping and other exterior enhancements. According to a proprietary brand image and loyalty study, the newly re-imaged restaurants are expanding their customer base, generating more guest visits, and gaining more loyal users.

’Our re-imaged restaurants are receiving higher ratings on all attributes, from being trendy and a good dining destination to providing friendly, consistent customer service,’ Lang said. ’This has led to positive sales trends in the re-imaged markets.’

In the second quarter, Jack in the Box also completed the installation of new interior and exterior menu boards at all locations.

Treasury highlights

In the second quarter the company repurchased under a 10b5-1 plan approximately 3.2 million shares of its common stock at an aggregate cost of approximately $220 million. Including 2.3 million shares acquired through a modified Dutch auction tender offer in December, the company has repurchased approximately 5.5 million shares of its stock in fiscal 2007 at an aggregate cost of approximately $363 million. The company still has a $100 million authorization from its board to repurchase Jack in the Box stock.

Using its available cash resources, the company prepaid without penalty $60 million of its $475 million term loan in the second quarter. The paydown will reduce borrowing rates by 25 basis points and result in an annualized interest savings of approximately $2.0 million.

To reduce future exposure to rising interest rates, the company in March entered into interest-rate swap agreements to effectively convert $200 million of its $415 million term loan at floating interest rates to a fixed rate for three years.

Fiscal year 2007 guidance update (in approximate amounts)

Jack in the Box Inc. today updated its earnings guidance and certain underlying assumptions for fiscal year 2007:

œ $3.45-3.50 per diluted share in earnings.

œ 5.0-6.0 percent same-store sales increase at Jack in the Box company-operated restaurants.

œ 3.0-5.0 percent same-store sales increase at Qdoba system restaurants.

œ $29-31 million in gains from the sale of 70-80 restaurants to franchisees.

œ 36-37 percent tax rate.

œ 40-45 new company and franchise-operated Jack in the Box restaurants.

œ 80-90 new company and franchise-operated Qdoba restaurants.

œ $160-170 million in capital expenditures, including investment costs related to the Jack in the Box restaurant re-image program and kitchen enhancements.

Third quarter guidance (in approximate amounts)

Jack in the Box Inc. also today announced the following guidance for the third quarter of 2007:

œ 85-89 cents per diluted share in earnings, which reflects an expected 5-6 percent increase in beef costs versus the prior year’s quarter.

œ 5.0-6.0 percent same-store sales increase at Jack in the Box company-operated restaurants.

Third quarter initiatives

œ Near the beginning of May, Jack in the Box introduced a 100% Sirloin Burger, the first all-sirloin beef patty among major quick-serve chains. Weighing in at nearly one-third of a pound after cooking, the 100% Sirloin Burger features a sirloin patty on a toasted bakery-style bun with peppercorn mayo, pickle strips, lettuce, tomato, and a choice of American, cheddar or Swiss cheese, grilled or red onions, and bacon.

œ Earlier this month Jack in the Box added a blackberry flavor to its lineup of shakes. The new shake features real vanilla ice cream blended with pieces of real blackberries and served with creamy whipped topping and a maraschino cherry.

œ To continue to grow breakfast transactions and build consumer awareness for its Buttermilk Biscuit Sandwiches, Jack in the Box last month launched a 2 for $2 campaign. The two builds of Buttermilk Biscuit Sandwiches feature a freshly fried egg, slice of American cheese, and choice of sausage patty or bacon.

œ In June, Jack in the Box will launch an upgrade to its line of entrée salads, which will feature a new blend of mostly Romaine lettuce and spring mix, and offer guests the opportunity to customize their salad with grilled or crispy chicken breast strips. The company will also introduce the new BBQ Ranch Chicken Salad, which will be topped with real cheddar cheese, fresh cucumber slices and red onion rings, and served with crunchy barbecue tortilla strips, barbecue sauce and ranch dressing on the side.