Hotel News Resource

Tim Hortons Inc. Announces Second Quarter Results

2007-08-06

Revenues up 14.4%

Second Quarter Highlights

* Same-store sales grew 6.5% and 3.8% in Canada and the U.S., respectively

* 18 new restaurants opened in the second quarter of 2007

* Revenues up 14.4%, operating income up 8.0%

* Net income impacted by higher effective tax rate in the second quarter of 2007

* Company declares fifth consecutive $0.07 quarterly dividend

* $45.0 million spent to repurchase 1.3 million shares in the second quarter of 2007

Tim Hortons Inc. (NYSE:THI) (TSX:THI) announced its results for the second quarter ended July 1, 2007.

Second quarter same-store sales increased 6.5% in Canada (6.1% in Q2 2006) and increased 3.8% in the U.S. (8.4% in Q2 2006). Tim Hortons(R) opened a total of 18 restaurants in the quarter compared to 30 restaurants in the second quarter last year. Systemwide sales growth(1) was 10.9% in the second quarter. Systemwide sales growth includes all franchised and Company-operated restaurants sales.

Featured promotions during the second quarter were the Triple Chocolate Donut, Iced Capp Supreme, Chicken Salad and Egg Salad Wrap sandwiches and, in the U.S., the introduction of Iced Coffee in late June. Pricing contributed approximately 1% of the same-store sales growth in both Canada and the U.S.

"Same-store sales performance in Canada through the second quarter of this year has continued to exceed our expectations, driven by our strong promotional calendar, product innovation, store level operations, and some price increases," said Chairman and Chief Executive Officer Paul House. "Although U.S. same-store sales fell below our long-term targeted growth, we are executing on our plan of developing selected markets and growing our brand in the U.S. We feel positive about our second quarter U.S. segment operating results, which improved significantly over the first quarter of 2007, to a slightly positive contribution."

Total revenues were $465.3 million in the second quarter, up 14.4% compared to $406.8 million in the second quarter of 2006. Revenues from our distribution business grew 19.6%, primarily as a result of systemwide sales growth and our continued roll out of three-channel delivery from our Guelph facility in Ontario. Rent and royalty revenues increased 10.5%, consistent with systemwide sales growth.

Cost of sales grew 17.7% in the second quarter of 2007 compared to the second quarter of 2006, which was reflective of the growth in systemwide sales and higher costs associated with frozen and refrigerated distribution. In the second quarter of 2007, operating expenses increased 14.5%, at a rate higher than our systemwide sales growth, in part due to a higher number of properties being leased and subleased and costs associated with research and development in the area of new store design incurred.

Operating income in the second quarter was $106.3 million compared to $98.5 million for the same period in 2006. The $7.8 million year-over-year improvement in operating income was primarily due to the higher revenues. Operating gains in the second quarter of 2007 were offset, in part, by the factors discussed above and higher general and administrative expenses. General and administrative costs increased due primarily to costs associated with restricted stock units (RSUs) and higher public company costs. The Company made its RSU grant to officers and certain employees in May 2007 versus the third quarter of 2006.

Operating income growth of 8.0% was lower than revenue growth, in part, as a result of the change in business mix, with distribution contributing a higher proportion of the revenue and cost growth. Distribution operating margins are generally lower than margins from other areas of our business, but remain a critical element of our overall strategy and are contributing positively to our operating income.

Net interest expense in the second quarter of 2007 was $4.8 million compared to $3.3 million in the same period last year primarily due to lower cash balances on-hand throughout this quarter.

The effective tax rate in the second quarter of 2007 was 33.8% compared to 19.8% in 2006. The low 2006 rate reflected certain benefits that did not recur in 2007.

Second quarter net income was $67.2 million compared to $76.3 million last year. Reported diluted earnings per share (EPS) were $0.36 compared to $0.39 in the second quarter of 2006. The primary factor contributing to reductions in net income and EPS for the quarter was the higher effective tax rate in 2007.

Diluted weighted average shares outstanding in the second quarter of 2007 were 189.3 million compared to 193.3 million in the same period last year. The 2.1% lower share count was due to the Company's share repurchase program.

"In addition to the continued same-store sales momentum, we are pleased with the top-line revenue growth and operating results achieved through the end of the second quarter," said Cynthia Devine, Executive Vice President and Chief Financial Officer. "Our operating income is ahead of our expectations for the first six months of 2007, and if that trend continues, we would expect to meet or exceed our 2007 operating income growth target of 10%."

MasterCard(R) Implementation

As previously announced, Tim Hortons continues to aggressively install MasterCard payment terminals in Tim Hortons locations across Canada. Adding the option of MasterCard payment gives our customers more choice and flexibility and is a great way to enhance our customer experience. As of July 20th, approximately 1,000 restaurant locations have been installed and are accepting MasterCard. We anticipate that all participating stores will be up and running with MasterCard by late 2007.

Camp Day

On June 6, all of our systemwide restaurants participated in "Camp Day." Over 3,000 Tim Hortons stores in North America donated their entire coffee sales and funds raised through Camp Day events and activities to the Tim Horton Children's Foundation, raising $8.3 million. This amount is a new record, exceeding last year's total of $7.2 million. These contributions will give over 12,000 deserving kids the opportunity to experience a camping adventure of a lifetime this year at one of the six Tim Horton Children's Foundation camps.

Share repurchase program in the second quarter

In the second quarter, the Company purchased 1.3 million shares at an average cost of $34.45 for a total cost of $45.0 million. The Company has now completed $155 million of the previously-announced $200 million share repurchase program.

Board declares quarterly dividend

The Board of Directors has approved a $0.07 quarterly dividend. The dividend is payable on August 27, 2007, to shareholders of record as of August 15, 2007. The payment of future dividends remains subject to the discretion of the Company's Board of Directors.

Tim Hortons dividend is paid in Canadian dollars to all shareholders with Canadian resident addresses whose shares are registered with Computershare (the Company's transfer agent). For all other shareholders, including all shareholders who hold their shares indirectly (i.e. through their broker) and regardless of country of residence, the dividend will be converted to U.S. dollars on August 20, 2007 at the daily noon rate established by the Bank of Canada and paid in U.S. dollars on August 27, 2007.