

Tim Hortons Inc. Announces Third Quarter Net Income of \$67.4 Million
2007-10-26

Revenues up 18.6% with Continued Sales Momentum, New 12-Month, \$200 Million Share Repurchase Program Announced

Financial & Sales Highlights

Third Quarter Ended	September 30, 2007	October 1, 2006	% Change
Revenues	\$ 490.5	\$ 413.6	18.6%
Operating Income	\$ 108.3	\$ 91.3	18.7%
Effective Tax Rate	35.2%	41.0%	n/a
Net Income	\$ 67.4	\$ 51.8	30.0%
Earnings Per Share	\$ 0.36	\$ 0.27	33.3%
Fully Diluted Shares	187.9	193.5	(2.9)%

(\$ in millions except EPS. Fully diluted shares in millions)

Same Store Sales	Q3 2007	Q3 2006	2007 YTD	2006 YTD
Canada	7.5%	5.9%	6.8%	6.8%
U.S.	4.5%	9.2%	4.1%	9.1%

As of September 30, 2007, 99% of the Company's stores in Canada and 87% of the stores in the U.S. were franchised.

Third Quarter Highlights

- Systemwide sales(1) increased 11.7%
- Same-store sales grew 7.5% in Canada and 4.5% in the U.S.
- 40 new restaurants opened
- Revenues rose 18.6%, operating income increased 18.7%
- Sixth consecutive \$0.07 quarterly dividend declared
- New \$200 million share repurchase plan announced

Tim Hortons Inc. (NYSE:THI) (TSX: THI) today announced its results for the third quarter ended September 30, 2007.

Systemwide sales growth, which includes sales from company-operated and franchise restaurants, rose 11.7% in the quarter. Third quarter same-store sales increased 7.5% in Canada and 4.5% in the U.S. Total revenues were \$490.5 million in the third quarter, an 18.6% increase compared to \$413.6 million in the same period last year. Net income was \$67.4 million in the third quarter, a 30.0% increase compared to \$51.8 million last year.

"Canadian same-store sales growth sustained momentum this past quarter, while U.S. same-store sales growth held nicely in a challenging sales environment. Our U.S. segment sales performance was particularly healthy considering the exceptionally strong comparable period in 2006 due to the previous introduction of the breakfast sandwich in that market," said Paul House, Chairman and Chief Executive Officer. "We continue to execute well against our strategies and our performance this past quarter reflects those efforts," House added.

Consolidated Performance

During the quarter, a total of 40 restaurants were opened compared to 29 in the third quarter last year. The total number of restaurants opened in 2007 is 79, compared to 86 this time last year. Restaurant openings are typically weighted more heavily in the fourth quarter each year.

Sales growth during the quarter was fueled primarily by the Company's promotional program, store level execution and some pricing in Canada. During the quarter, featured promotions in Canada were the breakfast sandwich, a lemon-baked theme including Lemon Crinkle Donuts, 12-Grain Bagel with Omega 3, Fruit Bites and Apple Toffee Danish. In the U.S., featured promotions included the roll-out of ICED Coffee, in addition to the Lemon Crinkle Donut, large gourmet cookies, chocolate baked goods, Apple Toffee Danish and the introduction of a new Bagel B.E.L.T. breakfast sandwich.

Pricing contributed 2.7% to same-store sales growth in Canada during the quarter and 0.3% in the U.S.

Revenues were \$490.5 million in the quarter, up 18.6% compared to \$413.6 million in the same period last year. Sales growth of 20.4%, consisting primarily of distribution sales, grew by a substantially higher percentage than systemwide sales growth due to the completion of the implementation of three-channel delivery of dry, frozen and refrigerated goods from our Guelph, Ontario facility. Rent and royalty revenues increased by 12.1%, consistent with systemwide sales growth. Franchisee fees, which are based primarily on restaurant openings, increased 42.2%, primarily reflecting a higher number of restaurant openings compared to the same period in 2006. Corresponding franchisee fee costs increased more than franchisee fees due

to the timing of expenses.

Costs of sales grew 20.0% in the third quarter compared to the third quarter of 2006. The increased costs primarily reflect growth in systemwide sales and higher distribution costs associated with three-channel delivery. Operating expenses increased 13.4% year-over-year, due to a higher number of restaurants in the system with corresponding depreciation and lease costs.

Third quarter operating income was \$108.3 million, an increase of 18.7% compared to \$91.3 million for the same period in 2006. Operating income was consistent with revenue growth during the quarter. Operating income performance this quarter primarily reflects higher systemwide sales, higher sales from distribution and lower general and administrative costs. General and administrative costs declined 2.8% year-over-year, primarily due to the timing of Restricted Share Unit (RSU) grants made in the second quarter this year instead of the third quarter last year and accelerated vesting of RSUs associated with the separation from Wendy's International, Inc. Lower RSU costs were partially offset by higher standalone public company costs and expenses related to the Company's franchisee convention.

Net interest expense in the third quarter of 2007 was \$4.3 million compared to \$3.4 million in the same period last year. This net increase reflects lower interest income from cash on hand due to share repurchase and dividend activities, and higher interest expense compared to the same period in 2006.

Third quarter net income was \$67.4 million, an increase of 30.0% compared to \$51.8 million last year. The effective tax rate for the third quarter of 2007 was 35.2%, higher than targeted for the quarter due to future expected settlement of certain outstanding tax matters with tax authorities. The effective tax rate compares to 41.0% in the comparable period in 2006. The higher rate in 2006 was due primarily to discrete items that did not recur. Reported diluted earnings per share (EPS) were \$0.36 compared to \$0.27 in the third quarter of 2006. Third quarter reported EPS also reflects the diluted weighted average shares outstanding in the third quarter of 187.9 million compared to 193.5 million in the same period last year, a 2.9% decrease due to share repurchases.

Segmented Performance Commentary

The Canadian business continued to outperform our long-term same-store sales aspirations, up 7.5% compared to the same quarter in 2006. Approximately 2.7% of same-store sales growth this quarter was due to pricing. Segment margins were modestly impacted by increased revenues from the distribution business which has lower margins but a positive overall income contribution. The Canadian segment had operating income of \$119.1 million for the quarter. A total of 31 restaurants were opened in Canada during the quarter.

The U.S. segment, which accounts for less than 10% of the Company's revenues, experienced same-store sales growth of 4.5% during the quarter, of which only 0.3% was from pricing. While lower than long-term same-store sales growth aspirations, the Company is pleased with this result given the challenging sales environment in which this performance was delivered. The U.S. segment had a loss of \$0.3 million for the quarter, mainly reflecting continued investment in developing our targeted U.S. markets. A total of 9 restaurants were opened during the quarter.

Total operating income at the end of the third quarter is ahead of the Company's growth target of 10%. If third quarter year-to-date trends continue for the remainder of the year, the Company expects to exceed its established 2007 target of 10% operating income growth.

Corporate Highlights

The Company substantially completed its rollout of the MasterCard(TM) payment system in participating restaurants, now in place at approximately 2,100 locations. The Company is pleased with initial customer acceptance and use of the MasterCard payment system in the early stages of the implementation. The reloadable, cashless TimCard(TM) was introduced recently in Canada using the same technology platform as the MasterCard payment system. Both initiatives are designed to provide customer convenience and increase speed of service.

As previously disclosed, the Company continued its implementation of a general ledger and U.S. fixed asset subledger conversion in the third quarter. Management is satisfied with progress of its implementation and currently plans to rely on its new system for the fourth quarter and year-end. There are certain risks in implementing financial reporting systems in the fourth quarter with respect to Sarbanes-Oxley Section 404. The Company has taken steps it believes appropriate to mitigate these risks but there can be no assurance that these steps will entirely eliminate this risk.

\$200 million share repurchase program announced

The Company's 2006-2007 \$200 million share repurchase program was successfully completed in September, 2007. A total of 5.8 million shares were purchased at an average net cost of \$34.43 per share as part of this program. The Board of Directors has approved a new 12-month, \$200 million share repurchase program as part of the Company's ongoing focus of creating value for shareholders. Implementation of the program is subject to final regulatory approval. For details on the new program, please refer to the news release issued today in conjunction with this earnings release.

Board declares sixth consecutive quarterly dividend

The Board of Directors has approved a \$0.07 quarterly dividend. The dividend is payable on November 20, 2007 to shareholders of record as of November 6, 2007.

Dividends are 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 November 13, 2007 at the daily noon rate established by the Bank of Canada and paid in U.S. dollars on November 20, 2007.

Board appoints Michael J. Endres as Chair of Audit Committee

The Board of Directors has appointed Michael J. Endres as Chair of the Audit Committee, replacing David P. Lauer, who has stepped down from the Board as previously announced on September 28, 2007. Mr. Lauer is continuing his service on the Board of Directors of Wendy's International, Inc., and in conjunction therewith, Mr. Lauer resigned from the Company's Board of Directors. Mr. Endres has served as a director at Tim Hortons since 2006. He is Managing Principal of Stonehenge Financial Holdings, Inc., a private equity firm that he co-founded in 1999. Prior to founding Stonehenge, Mr. Endres was Vice-Chairman of Banc One Capital Holdings Corporation and Chairman of Banc One Capital Partners.

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