Hotel News Resource

Ruth’s Chris Steak House, Inc. Reports Third Quarter 2007 Financial Results

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Ruth’s Chris Steak House, Inc. (Nasdaq: RUTH) today reported unaudited results for its third quarter ended September 30, 2007. Highlights for the 13-week third quarter 2007 compared to the 13-week third quarter 2006 were as follows:

Total revenue increased 20.5% to $70.2 million from $58.3 million.

Net income of $1.8 million, or $0.08 per diluted share, compared to $2.3 million, or $0.10 per diluted share, in the prior year period. The year-ago quarter included $0.9 million in pre-tax net hurricane-related insurance proceeds, or $0.02 per diluted share, after-tax.

Company-owned comparable restaurant sales decreased 0.4%. Franchised-owned comparable restaurant sales decreased 0.5%.

Food and beverage costs, as a percentage of restaurant sales, decreased approximately 100 basis points to 32.0% versus the prior year quarter, primarily driven by sales mix initiatives, favorable beef costs, and modest price increases. These were partially offset by higher lobster, produce and dairy costs.

Restaurant operating expenses, as a percentage of restaurant sales, were approximately 170 basis points higher due to increased restaurant management staffing and occupancy related to new restaurant activity.

Marketing and advertising expenditures, as a percentage of total revenues, were approximately 70 basis points lower due to reduced utilization of television in select markets in the third quarter of fiscal 2007 versus the third quarter of fiscal 2006.

General and administrative expenses, as a percentage of total revenues, were approximately 120 basis points lower due to leverage from strong revenue gains and reduced incentive compensation.

Depreciation and amortization expenses, as a percentage of total revenues, were approximately 50 basis points higher due to investments in newer restaurants.

Preopening costs increased by $0.4 million from a year ago due to increased new restaurant development activity.

Operating income of $3.9 million versus $4.2 million. The year-ago quarter included $0.9 million in pre-tax net hurricane-related insurance proceeds.

Two new franchised restaurants were opened in Columbia, South Carolina, and Mishawaka, Indiana.

The Company completed its acquisition of three formerly franchised restaurants in Bellevue and Seattle, Washington, and Portland, Oregon.

Craig S. Miller, Chairman of the Board, President and Chief Executive Officer, stated, "In absolute terms, our top-line performance facilitated margin improvement in both food and beverage costs as well as general and administrative expenses. Operating income (adjusting for the benefit of insurance proceeds from 2006) grew by 18.9%, which is consistent with our long term growth objectives. Excluding prior year non-reoccurring items, we were pleased to have maintained our operating income margins year over year, and we expect to be able to deliver similar margin stability in the coming quarter, despite fire related sales challenges in selective Southern California markets, as well as some sales interruption in two restaurants that are undergoing expansion.’

Miller continued, "Our third quarter comparable sales reflect a continuation of the trends we’ve experienced for the past several quarters, as the challenging consumer environment resulted in slower dining traffic in our restaurants. We have several initiatives under way, including our Power Lunch test and the introduction of an updated menu layout, that enables us to quickly introduce specials, including a new ’Chef Selections’ list, as well as additional major remodels, that will result in expanded seating and enhanced lounges in older restaurants. While we anticipate certain of our guests will continue to face economic challenges that may impact their discretionary spending patterns, we expect continued growth in our private dining business to help mitigate this softness.’

Review of Operating Results

Total revenues from continuing operations, which includes company-owned restaurant sales, franchise income, and other operating income, increased 20.5% to $70.2 million in the third quarter of 2007 compared to $58.3 million in the third quarter of 2006.

Company-owned restaurant sales from continuing operations grew 20.9% to $67.0 million in the third quarter of 2007 from $55.5 million in the same period last year, primarily as a result of a 20.9% increase in company restaurant operating weeks to 711 from 588 (including eight additional restaurants in operation) as well as a slight increase in average weekly sales to $94,312 from $94,295.

For the third quarter of 2007, company-owned comparable restaurant sales decreased 0.4% from the third quarter of 2006. Comparable sales growth consisted of an average check increase of 3.2% driven by non-entrée increases in bar and lounge traffic, menu selection shifts, and year over year effective menu pricing of approximately 1.9%. This was partially offset by an entrée reduction of 3.6%. Company-owned comparable restaurant sales lapped last year's third quarter growth of 4.3%.

Franchise income increased 7.4% to $2.9 million from $2.7 million in the third quarter of 2006, due to two additional franchise-owned locations, net of acquisitions, year over year and was partially offset by a decrease in comparable franchise-owned restaurant sales of 0.5%.

Operating income excluding prior year net hurricane insurance proceeds increased 18.9% to $3.9 million versus $3.3 million in the same period last year. Inclusive of proceeds, operating income decreased to $3.9 million versus $4.2 million in the same period last year.

Net income was $1.8 million in the third quarter of 2007, or $0.08 per diluted share, compared to $2.3 million, or $0.10 per diluted share, in the third quarter of 2006. Net income for the third quarter of 2006 included $0.9 million in pre-tax hurricane-related insurance proceeds, or $0.02 per diluted share, after-tax.

Acquisition Announcement

Concurrent with the release of unaudited results for its third quarter ended September 30, 2007, the Company also announced that it has executed a definitive asset purchase agreement to acquire all of the operating assets and intellectual property of Columbus, OH-based Mitchell's Fish Market, operating under the names Mitchell's Fish Market and Columbus Fish Market, and Cameron's Steakhouse, operating under the names Cameron's Steakhouse and Mitchell's Steakhouse from Cameron Mitchell Restaurants, LLC (CMR) for approximately $94.0 million. The acquisition will be funded through the Company's credit facility and is expected to close in the first quarter of 2008, subject to customary closing conditions. It is expected to be accretive to the Company's shareholders in its first full year post-acquisition.

Financial Guidance

For the 52-week fiscal year 2007, the Company estimates that comparable restaurant sales will increase approximately 0.5% to 1.5%. System-wide restaurant operating weeks will grow by greater than 20% resulting in year over year increases in pre-opening expenses and higher operating costs. The Company anticipates the opening of seven Company-owned and eight franchised locations, of which six Company-owned and seven franchised locations, respectively, have opened through November 6, 2007.

As previously communicated, the Company has contracted 50% of all beef needs for fiscal 2007 as well as has agreements in place on other key commodities with suppliers. The Company expects annual food and beverage costs as a percentage of restaurant sales to be between 31.8% and 32.2%, representing a 10-50 basis point reduction versus fiscal 2006. Annual marketing and advertising expenses, as a percentage of total revenue, are expected not to exceed 3.0%. The Company's effective tax rate for 2007 is expected to be approximately 32.3%.

Inclusive of year-to-date financial results, the Company expects fiscal year 2007 diluted earnings per share to be between $0.92 and $0.95, including the impact of Statement of Financial Accounting Standards No. 123R Share Based Compensation (SFAS No. 123R).

For the 52-week fiscal year 2008, the Company anticipates increasing restaurant operating weeks by approximately 15%, which will result in the opening of approximately six to seven Company-owned and six to seven franchised Ruth's Chris Steak House locations, as well as two to three Mitchell's Fish Market locations. The Company expects 2008 earnings per share growth (before the benefit from the proposed acquisition) to be consistent with the Company's stated long term target of 17.5% over 2007 GAAP EPS, excluding net insurance proceeds of $0.07 per share received during the first quarter of 2007. Additional guidance metrics will be released with the announcement of the Company's fourth quarter and fiscal year 2007 results.