

Tim Hortons Inc. First Quarter Operating income increases 2.4%

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Tim Hortons Inc. Announces 2008 First Quarter Results

Tim Hortons Inc. (NYSE:THI) (NYSE:TSX:) (NYSE:THI) announced its results for the first quarter ended March 30, 2008.

Systemwide sales⁽¹⁾, which includes sales from Company-operated and Franchise restaurants, grew 7.2% in the quarter. Same-store sales increased 3.5% in Canada and 1.0% in the U.S. in the first quarter. Total revenues were \$460.3 million, up 8.4% compared to \$424.6 million in the same period last year. Net income was \$61.8 million in the first quarter, an increase of 4.3% compared to \$59.3 million last year. Earnings per diluted share were \$0.33, an increase of 7.0% compared to \$0.31 in the first quarter of 2007.

"Our strong promotional and menu programs during the quarter helped overcome the significant impact of unprecedented snowfalls in key markets, the introduction of a new statutory holiday in the provinces of Ontario and Manitoba, and the timing of Easter in 2008 compared to 2007," said Don Schroeder, President and CEO. "Our first quarter performance was below our full-year targets but we expected a challenging quarter and have continued confidence in our ability to meet our sales growth targets for the full year," added Schroeder.

Consolidated Performance

During the quarter, a total of 25 restaurants were opened compared to 21 in the first quarter of last year.

In the first quarter the company introduced the Bagel B.E.L.T. breakfast sandwich in Canada, and promoted Toasted Almond Flavor Shots, Tuscan Vegetable Soup and larger size Gourmet Cookies. The Company also began its highly popular Roll Up the Rim to Win(C) contest on February 25, 2008, offering customers the chance to win millions in prizes including 35 Toyota Matrix XR AWD cars, 100 Bayliner Boats and 5,000 Garmin Navigation Devices, as well as \$50 TimCards and food prizes. In addition to these activities, the Canadian segment benefited from pricing which contributed approximately 2.5% to same-store sales growth of 3.5% for the quarter. There was no pricing impact on U.S. same-store sales growth of 1.0% for the quarter.

Total revenues were \$460.3 million in the first quarter, an increase of 8.4% compared to \$424.6 million in the comparable period of 2007. Sales, the largest component of revenues, consisting primarily of distribution sales, grew by 10.1% to \$306.5 million compared to \$278.4 million in the same quarter last year. There were 26 fewer corporate stores in the first quarter compared to a year ago, offset in part by a higher number of stores consolidated under FIN 46R. Rent and royalties grew 6.8% to \$135.9 million compared to \$127.2 million last year, consistent with systemwide sales growth, and were offset in part by increased relief in the U.S. segment. Franchise fees, based primarily on restaurant openings and resales, decreased 5.7% to \$17.9 million compared to \$19.0 million in the first quarter last year due to lower revenues mainly from resales and replacements year-over-year.

Cost of sales grew 10.1% in the first quarter compared to the same period last year. Increased cost of sales reflects systemwide sales growth, higher distribution costs and more stores consolidated under FIN 46R than in the comparable period, offset in part by a lower number of corporate stores. Operating expenses increased 6.0% in the quarter compared to the first quarter of 2007.

Franchise fee costs increased 11.4% in the first quarter compared to the same period last year. Higher costs were due to a larger number of unit sales compared to last year, more renovations with higher equipment costs and increased franchise support costs.

General and administrative costs rose 7.4% in the first quarter over the comparable period of 2007, which was lower than revenue growth. Equity income was \$7.4 million, down 24.7% from \$9.8 million in the first quarter of 2007, due to a tax benefit in 2007 that did not recur, a product supply issue, as well as commissioning costs for a new pastry line installed at the Company's joint venture Maidstone Bakeries. This new pastry line will supply restaurants with high quality European pastries including danish, croissants and puff pastry.

First quarter operating income was \$96.5 million, an increase of 2.4% compared to \$94.2 million for the same period in 2007. Increased revenues from higher same-store sales and number of restaurants, and a reduced loss in the U.S. segment positively impacted operating income but were in large part offset by lower franchise fees due to a fewer number of resales and lower equity income.

Net interest expense was higher in the first quarter, increasing to \$4.4 million compared to \$3.6 million in the first quarter of 2007. The higher expense is due primarily to higher interest on capital leases and external debt.

In the first quarter net income was \$61.8 million, up 4.3% from \$59.3 million in 2007. A lower effective tax rate during the quarter of 32.9% compared to 34.6% in the first quarter of 2007 positively contributed to net income growth, offset in part by higher interest expense.

Diluted earnings per share (EPS) were \$0.33 compared to \$0.31 in the first quarter last year. EPS growth of 7.0% reflects higher net income and lower weighted average shares outstanding in the quarter, which decreased 2.5% to 185.8 million shares due to the Company's share repurchase program.

Segmented Performance

In the Canadian segment, same-store sales for the first quarter were up 3.5%. Growth in the first two months of the quarter was considerably stronger than March, which was impacted by the timing of Easter compared to 2007 and by significant snowfall in key markets. New statutory holidays in the quarter in the provinces of Ontario and Manitoba also impacted sales growth. The timing of Easter and the new statutory holidays had an estimated same-store sales impact of up to 1%. Previous price increases contributed approximately 2.5% to same-store sales growth.

Segment margins in Canada were down somewhat in the quarter due to lower franchise fee income and lower equity income. The Canadian segment had operating income of \$106.5 million for the quarter. A total of 22 restaurants were opened in Canada during the quarter.

In the U.S. segment, same-store sales increased 1.0% during the quarter. Heavy snowfalls in the Midwest and Northeast U.S. also negatively impacted our U.S. segment as did the timing of the Easter holiday. Pricing did not contribute to same-store sales growth in the quarter.

The U.S. business had a loss of \$2.9 million in the quarter, a significant reduction from the comparable period of 2007. The lower U.S. operating loss was a result of two factors, which were improved performance at our coffee roasting facility and the positive impact of foreign exchange translation in the quarter. Three restaurants were opened in the U.S. during the quarter. The 15 new self-serve kiosks opened in December in U.S. Shell(c) stations received positive customer response in the first quarter. These kiosks leverage the successful platform in our expanding Irish and U.K. licensed business, which at the end of the first quarter had 168 locations.

Executive Structure Strengthened and Streamlined

Coinciding with this earnings release, the Company has separately announced changes to its executive structure to both strengthen and streamline executive oversight of key business operations. In addition, certain employees are leaving the organization under various retirement arrangements. A restructuring charge of approximately \$3.8 million will be taken in the second quarter, to implement the changes to the executive structure, which is expected to result in future annualized savings of approximately \$1.5 million. Our 2008 operating income target of 10% growth excludes this one-time charge. Please refer to the news release issued in parallel with this earnings release for additional information.

\$200 million share repurchase program activities

The Company spent \$51.4 million to purchase a total of approximately 1.5 million shares as part of its 2007-2008 share repurchase program to return value to shareholders.

Board declares dividend payment of \$0.09 per share

The Board of Directors has declared a quarterly dividend of \$0.09 per share payable on June 13th, 2008 to shareholders of record as of May 30th, 2008. The Company's current dividend policy is to pay a total of 20-25% of prior year, normalized annual net earnings in dividends each year.

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 June 6th, 2008 at the daily noon rate established by the Bank of Canada and paid in U.S. dollars on June 13th, 2008.

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