

Papa John's Reports First Quarter Earnings

2008-05-07

Domestic system-wide comparable sales increase of 1.7% for the quarter

Highlights

First quarter earnings per diluted share of \$0.30 in 2008 vs. \$0.43 in 2007

Comparable first quarter results, excluding the consolidation of BIBP, were \$0.48 in 2008 vs. \$0.44 in 2007, an increase of 9.1%

Domestic system-wide comparable sales increase of 1.7% for the quarter

30 net Papa John's worldwide unit openings during the quarter

Earnings guidance for 2008 reaffirmed at a range of \$1.68 to \$1.76 per diluted share, excluding the impact of consolidating BIBP

Papa John's International, Inc. (NASDAQ: PZZA) today announced revenues of \$289.0 million for the first quarter of 2008, representing an increase of 10.9% from revenues of \$260.6 million for the same period in 2007. Net income for the first quarter of 2008 was \$8.6 million, or \$0.30 per diluted share (including an after-tax loss of \$5.2 million, or \$0.18 per diluted share, from the consolidation of the results of the franchisee-owned cheese purchasing company, BIBP Commodities, Inc. ('BIBP'), a variable interest entity), compared to 2007 first quarter net income of \$13.2 million, or \$0.43 per diluted share (including an after-tax loss of approximately \$300,000, or \$0.01 per diluted share, from the consolidation of BIBP).

'We had an outstanding first quarter in arguably the toughest operating environment in our company's history,' said Papa John's president and chief executive officer, Nigel Travis. 'To run positive comp sales and grow EPS on a comparable basis 9.1% over the same quarter last year is a real testament to the strength of our brand and outstanding execution by our restaurant operators. We are also pleased with our international operating results which improved over the prior year's results as we remain on target with our international growth plans.'

Revenues Comparison

Consolidated revenues were \$289.0 million for the first quarter of 2008, an increase of \$28.4 million or 10.9%, over the corresponding 2007 period. The increase in revenues for the first quarter of 2008 was principally due to the following:

Domestic company-owned restaurant revenues increased \$16.8 million or 13.8%, reflecting an increase in comparable sales results of 2.6% and an 11.2% increase in equivalent units due to the acquisition of 55 domestic restaurants during the last nine months of 2007.

Franchise royalties increased \$1.0 million, primarily due to the increase in royalty rate from 4.0% to 4.25% for the majority of domestic franchise restaurants effective at the beginning of 2008.

Domestic commissaries revenues increased \$5.8 million due to increases in the price of certain commodities, primarily cheese. The commissary charges a fixed dollar mark-up on its cost of cheese, and cheese cost is based upon the 40 lb. cheddar block price, which increased from \$1.34 per pound in the first quarter of 2007 to \$1.61 per pound in the first quarter of 2008, or a 20.1% increase.

Other sales increased \$2.4 million, primarily from expanded commercial volumes at our print and promotions subsidiary, Preferred Marketing Solutions, Inc.

International revenues increased \$1.9 million reflecting the increase in both the number and average unit volumes of our company-owned and franchised restaurants over the past year.

Operating Results and Cash Flow

Operating Results

Our pre-tax income for the first quarter of 2008 was \$13.6 million, compared to \$20.7 million for the corresponding period in 2007. Excluding the impact of the consolidation of BIBP, pre-tax income for 2008 was \$21.6 million, or a \$400,000 increase over the 2007 comparable results. An analysis of the changes in pre-tax income for the first quarter (excluding the consolidation of BIBP), is summarized as follows (analyzed on a segment basis -- see the Summary Financial Data table that follows for the reconciliation of segment income to consolidated income below):

Domestic Company-owned Restaurant Segment. Domestic company-owned restaurants' operating income was \$7.8 million for the three-month period ended March 30, 2008, as compared to \$8.2 million for the same period in 2007. The 2008 operating results include a \$1.2 million charge for the loss on the anticipated sale of 27 restaurants in two markets and the costs associated with the closing of five restaurants during the quarter, compared to a charge of approximately \$100,000 in the prior year. Excluding the incremental \$1.1 million charge, domestic company-owned restaurants' operating income

improved approximately \$700,000 in 2008 as compared to 2007. The improvement in operating results occurred primarily due to the operating income earned from the 55 restaurants acquired during the last nine months of 2007. Restaurant operating margin as a percent of sales slightly decreased primarily due to increased commodity costs.

Domestic Commissary Segment. Domestic commissaries' operating income decreased approximately \$1.6 million for the three months ended March 30, 2008, as compared to the corresponding period in 2007, primarily due to a 1.9% reduction in gross margin resulting from increases in the cost of certain commodities that were not passed along via price increases to domestic restaurants, and an increase in other operating expenses of \$500,000, as compared to the corresponding 2007 period, reflecting an increase in distribution costs due to higher fuel prices.

Domestic Franchising Segment. Domestic system-wide franchise sales for the first quarter of 2008 increased 1.5% to \$381.9 million from \$376.3 million for the same period in 2007, primarily resulting from a 1.4% increase in comparable sales. Domestic franchising operating income increased \$1.5 million, to \$14.5 million, for the three months ended March 30, 2008, from \$13.0 million in the prior comparable period. The increase was primarily the result of the 0.25% increase in our royalty rate implemented at the beginning of 2008 (the royalty rate for the majority of domestic franchisees is 4.25% in 2008 as compared to 4.0% in 2007). The increase in the royalty rate was a part of the franchise agreement renewal program announced in the fourth quarter of 2007, which was completed during the first quarter of 2008 with over 95% of our domestic franchisees renewing under the new form of agreement. Our equivalent franchise units were relatively consistent with the corresponding 2007 quarter as net unit openings offset the previously mentioned acquisition of 55 restaurants by the company during the last nine months of 2007.

International Segment. The international segment reported an operating loss of \$1.7 million for the three months ended March 30, 2008, which was a \$600,000 improvement as compared to the prior year loss of \$2.3 million. The improvement reflects leverage on the international organizational structure from increased revenues due to growth in number of units and unit volumes.

All Others Segment. The operating income for the 'All others' reporting segment increased approximately \$1.5 million for the three months ended March 30, 2008, as compared to the corresponding 2007 period. The increase is primarily due to an improvement in operating results of our print and promotions subsidiary, Preferred Marketing Solutions, Inc., resulting from increased commercial sales and related margin improvement.

Cash Flow

Cash flow from operations was \$20.3 million for the first quarter of 2008 as compared to \$19.9 million for the comparable period in 2007. The consolidation of BIBP decreased cash flow from operations by approximately \$8.0 million and \$400,000 in the first quarter of 2008 and 2007, respectively. Excluding the impact of the consolidation of BIBP, cash flow from operations was \$28.3 million in 2008, as compared to \$20.3 million in the corresponding 2007 period. The \$8.0 million increase was primarily due to an improvement in working capital, including inventories, income and other taxes, accrued expenses and accounts payable.

Form 10-Q Filing

See the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our quarterly Form 10-Q filed with the Securities and Exchange Commission for additional information concerning our operating results and cash flow for the three-month period ended March 30, 2008.

Comparable Sales and Unit Count

Domestic system-wide comparable sales for the first quarter of 2008 increased 1.7% (composed of a 2.6% increase at company-owned restaurants and a 1.4% increase at franchised restaurants). The comparable sales percentage represents the change in year-over-year sales for the same base of restaurants for the same calendar period.

During the first quarter of 2008, 26 domestic restaurants (four company-owned and 22 franchised) were opened. Additionally, 22 international restaurants (three company-owned and 19 franchised) were opened, while 16 domestic and two international franchised restaurants were closed, resulting in 30 net openings worldwide for the quarter. Our total domestic development pipeline as of March 30, 2008 included approximately 300 restaurants scheduled to open over the next eight years.

At March 30, 2008, there were 3,238 Papa John's restaurants (665 company-owned and 2,573 franchised) operating in all 50 states and 28 countries. The company-owned unit count includes 124 restaurants operated in majority-owned domestic joint venture arrangements, the operating results of which are fully consolidated into the company's results.

International Update

International highlights include:

International franchise sales growth of 33% to \$52.4 million in the first quarter of 2008, from \$39.3 million in the prior comparable quarter.

The opening of the first Papa John's restaurant in the Hashemite Kingdom of Jordan.

The announcement of development agreements for 57 restaurants with four new franchise groups in Canada.

In April 2008, we held celebrations in Beijing, Shanghai and Guangzhou for the planned opening of the 100th Papa John's restaurant in China, which will occur during the second quarter, four and one-half years from the first restaurant opening in Shanghai in October 2003.

As of March 30, 2008, the company had a total of 468 restaurants operating internationally (17 company-owned and 451 franchised), of which 148 were located in Korea and China and 106 were located in the United Kingdom and Ireland. Our total international development pipeline as of March 30, 2008 included approximately 900 restaurants scheduled to open over the next nine years.

Refranchising Initiative Update

At year-end, the company announced the implementation of a formal refranchising initiative, the goal of which is to increase the percentage of franchised units in the domestic restaurant portfolio over time. The company's goal is to reduce the percentage of domestic-owned company units to below 20% in the next few years (23.4% at March 30, 2008).

As discussed above, the company has identified a buyer for 27 company-owned restaurants located in two markets. Our expectation is to complete the sale of these restaurants during the second or third quarter of 2008, subject to satisfactory completion of due diligence by the buyer, an existing Papa John's franchisee. The company plans to continue to review divestiture opportunities over the next several months.

Share Repurchase Activity

The company's board of directors has authorized the repurchase of \$50.0 million of common stock during 2008. The company repurchased approximately 104,000 shares of its common stock at an average price of \$21.74 per share, or a total of \$2.3 million, during the first quarter of 2008. Subsequent to quarter-end, through April 30, 2008, the company repurchased an additional \$6.0 million of common stock (234,000 shares at an average price of \$25.65 per share).

At April 30, 2008, \$41.7 million remains available for repurchase under the repurchase authorization. The company executed a trading plan under SEC Rule 10b5-1 in March to facilitate the completion of the remaining share repurchase authorization through year-end. A total of 24,000 shares of common stock were issued upon the exercise of stock options for the first quarter ended March 30, 2008.

There were 28.9 million diluted weighted average shares outstanding for the first quarter of 2008, as compared to 30.6 million for the same period in 2007, a 5.6% decrease. Approximately 28.7 million actual shares of the company's common stock were outstanding as of March 30, 2008.

The company's share repurchase activity increased earnings per diluted share, excluding the impact of the consolidation of BIBP, by \$0.01 for the first quarter of 2008.

2008 Earnings Guidance Reaffirmed

The company reaffirms its previously announced 2008 earnings per diluted share guidance in the range of \$1.68 to \$1.76 for the year. The projected earnings guidance excludes any impact from the consolidation of the results of BIBP. We also reiterate our expectations for net worldwide unit growth of 160 to 190 units and for domestic system-wide sales to increase in the range of 1.25% to 2.75%. Our reaffirmation of the guidance reflects our expectations of continued commodity price pressures, most notably cheese and wheat, as well as increased fuel costs.

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