

AFC Reports Financial Results for First Quarter 2008

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AFC Enterprises, Inc. (NASDAQ:AFCE), the franchisor and operator of Popeyes(R) restaurants, today reported results for its fiscal first quarter which ended April 20, 2008.

First Quarter 2008 Highlights compared to First Quarter 2007:

Net income was \$6.4 million, or \$0.24 per diluted share, compared to \$6.4 million, or \$0.22 per diluted share, last year. Excluding the pre-tax impact of \$1.3 million from other non-operating income, net income would have been \$5.6 million, or \$0.21 per diluted share.

Total system-wide sales increased by 1.5 percent compared to 1.7 percent last year.

Total domestic same-store sales decreased 1.8 percent compared to a decrease of 3.4 percent last year. International same-store sales increased 3.5 percent compared to an increase of 0.2 percent last year. Total global same-store sales decreased 1.3 percent compared to a decrease of 3.1 percent last year.

The Popeyes system opened 37 and closed 32 restaurants, bringing total net unit count to 1,889 compared to 1,876 last year.

The Company repurchased 2.1 million shares of common stock for \$16.6 million. During the quarter, the Company entered into a \$15 million accelerated stock repurchase program to take advantage of market conditions, and retired 2.0 million shares of common stock pursuant to this program.

The Company took advantage of lower interest rates and fixed the interest rate on \$100 million of floating rate debt at a rate of 4.87 percent beginning June 30, 2008.

Commenting on the Company's performance, AFC Chief Executive Officer Cheryl Bachelder said, "We are pleased with our earnings performance for the first quarter. During a challenging economic environment, we remain focused on managing our cost structure to help offset softer sales. We are confident that as our new strategic initiatives start to gain traction, we will see improvement in our sales and operations performance."

Strategic Plan Update

Build the Popeyes Brand

During the first quarter, the Company launched its Popeyes Bonafide Chicken(TM) campaign which emphasizes the superiority of Popeyes core bone-in chicken. Same-store sales performance during the campaign showed Popeyes outpacing the chicken QSR category.

In May, Popeyes restaurants are featuring Buffalo Nuggets, a portable boneless chicken snack product with a \$2.99 value price point designed to target additional traffic for lunch and snack dayparts.

In the second half of 2008, Popeyes will introduce three new menu platforms which develop portable snacks, quick lunches, and everyday value offerings. Each new menu platform will source its food advantage from Popeyes' rich Louisiana culinary heritage.

Run Great Restaurants

During the first quarter, the Company implemented a guest experience monitor (GEM) survey measuring tool at two-thirds of the Popeyes domestic restaurants. Initial results from these surveys showed a direct correlation between higher sales and higher guest experience scores. This information will be used to set higher standards and share best practices in the restaurants.

The Company completed the restructuring of its field operations organization during the quarter and will implement in-restaurant quarterly assessments of all Popeyes restaurants by the end of 2008.

Strengthen Unit Economics

The Company is working to identify 2 percentage points of restaurant level margin improvement by implementing tools to better manage food and other costs, limit waste, and optimize labor scheduling in the restaurants.

Align People and Resources to Deliver Results

The Company is continuing to identify experienced and qualified franchisees to purchase the company-operated restaurants as part of its new strategic initiative.

First Quarter Performance Review compared to First Quarter Last Year

Total system-wide sales increased by 1.5 percent. This increase in sales was comprised of a 1.2 percent increase in franchisee restaurant sales to \$511.2 million, and a 7.8 percent increase in company-operated restaurant sales to \$26.4 million.

Total domestic same-store sales decreased 1.8 percent compared to a decrease of 3.4 percent last year, and total global same-store sales decreased 1.3 percent compared to a decrease of 3.1 percent last year. Same-store sales for company-operated restaurants decreased 5.9 percent compared to a 6.2 percent decrease last year. Lower same-store sales are primarily the result of lower transactions, as traffic continues to slow due to weakening economic conditions and to industry-wide pricing increases to offset rising commodity costs.

Total revenues were \$53.3 million, compared to \$51.0 million last year. This increase was comprised of approximately \$1.6 million from new openings of company-operated restaurants in the Atlanta and Tennessee markets, \$1.6 million from the timing of temporary restaurant closures primarily in New Orleans, and \$0.7 million primarily from royalties and fees from new franchised restaurants, partially offset by a \$1.6 million decrease in same-store sales.

General and administrative expenses were \$16.8 million, or 3.1 percent of system-wide sales, compared to \$14.9 million, or 2.8 percent of system-wide sales last year. This increase was due primarily to costs of new management talent and non-recurring marketing and menu professional fees.

Other income was \$1.3 million, or \$0.03 per diluted share, which primarily includes favorable settlement of insurance claims and a gain on the sale of a property previously leased to a franchisee.

Operating profit was \$13.3 million, compared to \$13.0 million last year.

EBITDA was \$15.4 million, at a margin of 28.9 percent of total revenues, compared to last year's EBITDA of \$15.1 million, at a margin of 29.6 percent. AFC's EBITDA computation and reconciliation to GAAP measures are described in detail under the heading "Use of Non-GAAP Financial Measures."

Income tax expense was \$4.1 million, at an effective tax rate of 39.0 percent, compared to an effective tax rate of 39.0 percent last year.

Net income was \$6.4 million, or \$0.24 per diluted share, compared to \$6.4 million, or \$0.22 per diluted share, last year. Net income in the first quarter benefited by approximately \$0.03 per diluted share from other income mentioned above.

The Company's free cash flow remains strong at \$8.8 million compared to \$7.8 million last year. AFC's free cash flow computation and reconciliation to GAAP measures are described in detail under the heading "Use of Non-GAAP Financial Measures."

During the first quarter, the Company repurchased 2.1 million shares of common stock for \$16.6 million. This amount included \$15 million related to the Company's accelerated stock repurchase program which commenced on March 12, 2008. Under the terms of its current credit facility, the Company has the ability to repurchase an additional \$21.6 million of shares during fiscal year 2008. As of May 16, 2008, there were approximately 25.2 million shares of the Company's common stock outstanding.

Recognizing the favorable interest rates in the current market, the Company entered into an interest rate swap agreement effective June 30, 2008 through June 30, 2010 on a notional amount of \$100.0 million. The effect of the agreement is to limit interest rate exposure on this portion of the 2005 Credit Facility to a fixed rate of 4.87 percent, compared to 6.40 percent on the current interest rate swap agreement.

The Popeyes system opened 37 new restaurants, compared to 29 new restaurants last year, and reported 32 permanent restaurant closures, including 17 units domestically and 15 units internationally.

On a system-wide basis, Popeyes had 1,889 units operating at the end of the first quarter, compared to 1,876 units last year. Total unit count was comprised of 1,565 domestic units and 324 international units in 24 foreign countries and two territories. Of this total, 1,825 were franchised and 64 were company-operated restaurants.

Fiscal 2008 Guidance

The Company expects the consumer environment to become increasingly challenging and now forecasts total domestic same-store sales for fiscal 2008 to be negative 1.0 to 2.0 percent, compared to previous guidance at flat to positive 1.0 percent. The Company expects global new restaurant openings for 2008 to remain in the range of 115-130 and expects its closure rate to be similar to the past few years. Net openings guidance is expected to remain in the range of 5-15 units.

The Company now expects its full year earnings to be \$0.66-\$0.71 per diluted share, compared to previous guidance of \$0.63-\$0.68 per diluted share. The revised earnings guidance includes an increase of \$0.03 per diluted share of other income realized in the first quarter, as discussed above. This guidance also reflects the Company's plans for continued management of its interest expense and general and administrative expenses to help offset weaker same-store sales expectations.

General and administrative expenses as a percentage of system-wide sales are expected to remain at previous guidance of 3.0 to 3.1 percent, among the lowest percentage in the industry. As previously communicated, general and administrative expenses include \$3.5 million of non-recurring investments the Company is making in 2008 for branding and marketing, operational upgrades and new licensed technology to retool and strengthen the brand. After 2008, the Company expects to see general and administrative expenses as a percentage of system-wide sales return to a trend below 3 percent on an on-going basis.

The Company continues to expect its 2008 EBITDA margin and generation of free cash flow to be lower than fiscal 2007 due primarily to the \$3.5 million of non-recurring investments discussed above. However, the Company's 2008 EBITDA margin and generation of free cash flow are still expected to rank among the most efficient in the industry.

The Company is continuing to identify experienced and qualified franchisees to purchase the company-operated restaurants as part of its new strategic initiative. If the Company were to complete transactions for the sale of all company-operated restaurants, management would expect to realize sales proceeds of \$38-\$42 million and earnings on the associated net gains at the lower-end of previous guidance of \$0.08-\$0.14 per diluted share.

Ms. Bachelder concluded, "Despite the challenging marketplace, we remain confident in our full year earnings expectations. We continue to stay focused on our strategic initiatives to deliver a better experience to our guest, execute a more relevant menu and marketing plan, and drive improved profitability of our restaurants, which will strengthen the brand and better position us for future growth."

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