Granite City Food & Brewery Ltd. Reports 36% Increase in Second Quarter Revenues

2008-07-30

Total revenues increased 36.0% to $25.1 million Comparable restaurant sales increased 0.5%

Second Quarter 2008 Financial Results

Total revenue for the second quarter 2008 rose by 36.0% to $25.1 million compared to $18.5 million for the second quarter of 2007. Comparable restaurant sales increased 0.5% during the second quarter of 2008 compared to the second quarter of 2007.

For all the restaurants, the restaurant-level EBITDA margin was 12.1% for the second quarter of 2008. This represents an increase of 3.7% in restaurant-level EBITDA compared to 8.4% in the first quarter, 2008. All regions showed marked improvement in restaurant-level EBITDA in second quarter of 2008 compared to the first quarter of 2008.

Steve Wagenheim, CEO and President commented, 'You can see the difference in our store-level operations with the hiring of 16 store partners over the last several months. With strong operators in place we are seeing the results kick in, which is a great sign that we will continue this positive momentum throughout the year.'

The overall restaurant-level EBITDA margin was negatively impacted by Region 3 which includes our Kansas City and Wichita stores and by newer restaurants, primarily those that opened during the first quarter of 2008 and fourth quarter of 2007. New restaurants typically take six to twelve months to improve their operating efficiencies as staff members become more experienced in our disciplined production and staffing methods, thereby generating less waste and more productivity. Management believes that as newer restaurants mature and gain efficiencies, overall blended margins will increase. These six new restaurants represent 24% of the Company's total store base. Without the new stores and Region 3, the Company's restaurant-level EBITDA margin would have been 15.8%, which was the same as the prior year period.

Total cost of sales was $22.1 million in the second quarter or 87.9% of sales compared to prior year cost of sales of $15.7 million or 84.9% of sales. The second quarter cost of sales represented an improvement over the 91.6% first quarter cost of sales. The improvement in the second quarter compared to the prior quarter was due to several factors: First, the Company's hiring of 16 new managing and culinary store partners will continue impacting its business in a positive manner. As well, the talent level of the partners continues to improve due to overall industry transition, second, the Company is in the midst of transitioning its overall business to include better oversight in its stores via its previously announced steward program, third, the six new store openings in the later part of 2007 and the first quarter of 2008 are beginning to mature. Although the average age of these stores is only 3-4 months old, efficiencies in labor and food are having a positive effect, and finally, while the industry continues to see increases in commodity costs, the Company's increase in menu pricing of approximately 4% in March 2008 continues to offset these costs.

General and administrative expenses were $2.8 million or 11.1% of sales for the second quarter of 2008 compared to $1.9 million or 10.3% of sales for the second quarter of 2007. The overall percentage increase was primarily related to increased staff levels related to growth, costs associated with an increase in recruiting, relocating and training as well as consulting costs. These costs were associated with management changes during the quarter and the Company's overall oversight initiatives. These costs are expected to subside through the year and management believes overall general and administrative costs will fall below 10% in the final quarter of the year.

The net loss for the second quarter of 2008 was $3.3 million or $(0.20) per share.

Year-to-Date Financial Results

Revenue increased 34.1% to $49.1 million for the twenty-six weeks ended June 24, 2008 compared to $36.6 million for same period in 2007, aided by six new restaurants and a 1.1% increase in comparable restaurant sales.

For all the restaurants, the restaurant-level EBITDA margin was 10.3% for the first half of fiscal year 2008, while the restaurant-level EBITDA margin for comparable restaurants was 13.5%. Similar to second quarter margins, the overall restaurant-level EBITDA margin was negatively impacted by newer restaurants open for less than one year.

General and administrative expenses were $5.5 million or 11.2% of sales for the twenty-six weeks ended June 24, 2008 compared to $3.6 million or 9.9% of sales for the same period of 2007.

The net loss for the first half of fiscal year 2008 was $7.6 million or $(0.47) per share compared to a net loss of $2.8 million or $(0.19) per share for the first half of 2007.

'Since the beginning of the year we have articulated and outlined our HR and field initiatives to provide margin enhancement to the stores,' said Steve Wagenheim, CEO and Founder of Granite City Food & Brewery. 'While the job is not yet complete, we are very pleased to announce our year-to-date results that provide us with four consecutive months of restaurant level growth. Additionally, we feel the Granite City value proposition continues to hold up well with a 1.1% year-to-date comparable store sales increase-especially with the negative trends overall in the casual dining sector. We have always believed that our polished casual concept has tremendous appeal to the consumer in good and poor economic times.'