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Denny's Corporation Reports Results for the Second Quarter 2008

Second Quarter Summary

Same-store sales decreased 0.7% at company units and decreased 3.7% at franchised units

Company restaurant operating margin increased by 0.9 percentage points to 12.5% of sales

Net income decreased \$7.4 million to \$3.2 million due primarily to lower asset sale gains

Adjusted income before taxes increased \$4.2 million to \$5.7 million

Sold 20 company restaurants to seven franchisees under Franchise Growth Initiative (FGI)

Announced new organizational structure expected to result in annualized general and administrative expense savings of \$6 to \$8 million in 2009

Raising guidance for 2008 adjusted income before taxes to \$13 to \$17 million, a 25-60% increase over 2007

Nelson Marchioli, President and Chief Executive Officer, stated, 'We are pleased to report greater operating margins and strong core earnings growth despite the difficult consumer and cost environment. The strategic actions we have taken to optimize our business model, increase profitability and reduce debt are evident in our improving results. The growing contribution of our higher margin franchise operations along with margin improvements in our company restaurants have allowed us to raise our income guidance for 2008. While we expect the challenge of reduced consumer spending to continue impacting our sales, we are encouraged by the reception to our new products and promotions. Our brand and marketing teams are delivering compelling new menu items along with aggressive new promotional campaigns to build profitable and sustainable sales growth. Through our strategic initiatives and day-to-day execution in our restaurants, we expect continued financial performance improvements as well as enhanced shareholder value over time.'

Second Quarter Results

For the second quarter of 2008, Denny's reported total operating revenue, including company restaurant sales and franchise revenue, of \$190.3 million compared with \$240.9 million in the prior year quarter. Company restaurant sales decreased \$55.1 million due primarily to 141 fewer equivalent company restaurants compared with the prior year quarter resulting from the sale of company restaurants to franchisees under the Franchise Growth Initiative. During the second quarter, Denny's opened two new company restaurants, closed one and sold 20 to franchisee operators.

Company restaurant operating margin (as a percentage of company restaurant sales) for the second quarter was 12.5%, an increase of 0.9 percentage points compared with the same period last year. Product costs for the second quarter decreased 1.9 percentage points to 23.9% of sales due primarily to favorable menu mix and menu price increases. Payroll and benefit costs increased 0.2 percentage points to 42.3% of sales as a result of higher group insurance and management staffing costs partially offset by improved crew labor efficiency and menu price increases. Utility expenses increased 0.3 percentage points to 4.9% of sales due primarily to higher natural gas costs.

Franchise revenue in the second quarter increased \$4.4 million, or 20%, to \$27.0 million due primarily to an increase of 146 equivalent franchise restaurants compared with the prior year period. The growth in franchise revenue included a \$3.0 million increase in occupancy revenue, a \$1.6 million increase in royalties partially offset by a \$0.2 million decrease in franchise fees. Franchise operating margin increased by \$2.8 million, or 18%, to \$18.5 million in the second quarter as higher franchise revenue offset a \$1.6 million increase in franchise costs, primarily franchise occupancy costs. Franchise operating margin was 68.5% as a percentage of franchise and license revenue. During the second quarter, Denny's franchisees opened two new restaurants, closed eight and purchased 20 company restaurants.

General and administrative expenses for the second quarter declined \$1.6 million from the same period last year resulting primarily from reduced staffing and other compensation expenses.

Depreciation and amortization expense for the second quarter declined by \$2.6 million compared with the prior year period primarily as a result of the sale of restaurant and real estate assets over the past year. Operating gains, losses and other charges, net, which reflect restructuring charges, exit costs, impairment charges and gains or losses on the sale of assets, decreased \$15.1 million in the quarter due primarily to a \$10.3 million decrease in gains on the sale of restaurants and a \$4.5 million increase in severance and other restructuring charges attributable to the redesign of Denny's organizational structure as it transitions to a franchise-focused business model.

Operating income for the second quarter decreased \$12.8 million to \$10.5 million due primarily to the decrease in gains on the sale of restaurants and the increase in restructuring charges compared with the prior year period. Excluding gains, losses, and other charges in both periods, operating income increased \$2.3 million despite a \$50.7 million decrease in total operating revenue due primarily to the sale of company restaurants.

Interest expense for the second quarter decreased \$2.1 million, or approximately 19%, to \$8.9 million as a result of a \$97.2 million reduction in debt from the prior year period.

Other nonoperating income increased \$1.4 million in the second quarter due primarily to changes in the fair value of Denny's \$100 million interest rate swap.

Net income for the second quarter was \$3.2 million, or \$0.03 per diluted common share, a decrease of \$7.4 million compared with prior year net income of \$10.6 million, or \$0.11 per diluted common share. Adjusted income before taxes for the second quarter was \$5.7 million, an increase of \$4.2 million compared with prior year income of \$1.5 million. This measure, which is used as an internal profitability metric, excludes restructuring charges, exit costs, impairment charges, asset sale gains, share-based compensation, other nonoperating expenses and income taxes.

Franchise Growth Initiative (FGI)

Denny's continues its strategic initiative to increase franchise restaurant development through the sale of certain company restaurants. During the second quarter, the company sold 20 restaurants to seven franchisee operators under FGI, bringing the number of company restaurants sold year-to-date to 41 and the number sold since the program began in early 2007 to 171. Additionally, over the last 18 months Denny's has signed development agreements for 136 new restaurants, 14 of which have opened, yielding a current development pipeline of 122 new restaurants.

Denny's ended the second quarter of 2008 with a system mix of 77% franchised and licensed restaurants and 23% company restaurants compared with 66% franchised and licensed restaurants and 34% company restaurants before the FGI program began in 2007.

The 41 company restaurants sold in 2008 generated net sale proceeds of \$22.0 million of which \$16.4 million was received in cash during the first half of the year. \$3.2 million of the sales proceeds were received in cash subsequent to the quarter end and were included in accounts receivable on the second quarter balance sheet. Additionally, \$2.4 million of the sale proceeds were received in the form of notes receivable. The majority of the cash proceeds were used to reduce debt by \$15.4 million during the first half of 2008.

Business Outlook

Mark Wolfinger, Executive Vice President, Chief Administrative Officer and Chief Financial Officer, stated, 'While our sales expectations for the year remain cautious due to the economic pressures on our customers, we will continue to focus on profitable sales drivers, lowering our operating costs and increasing our organizational efficiency. As a result of higher earnings the past two quarters and our expectation for continued income growth through the remainder of the year, we are increasing our guidance for adjusted income before taxes in 2008 to \$13 to \$17 million, an increase of 25% to 60% over the 2007 result.'

The following financial guidance for full-year 2008 is based on year-to-date results and management's expectations at this time.

Company same-store sales of (2.0%) to 0.0% for 2008

Franchise same-store sales of (4.0%) to (2.0%) for 2008

3 new company restaurant openings in 2008

30 to 34 franchise unit openings in 2008 compared with 18 in 2007

75 to 100 company restaurants sold to franchisees under FGI

Company restaurant sales of \$645 to \$655 million compared with \$845 million in 2007

Franchise and license revenue of \$112 to \$114 million compared with \$95 million in 2007

Adjusted EBITDA* of \$86 to \$89 million compared with \$93 million in 2007

Adjusted income before taxes* of \$13 to \$17 million compared with \$10.5 million in 2007

Cash interest expense of \$32 million compared with \$39 million in 2007

Cash capital expenditures of \$29 million compared with \$33 million in 2007

Certain key considerations for understanding the Company's outlook for fiscal 2008 compared with its 2007 results include:

2008 will include 53 operating weeks (14 in the fourth quarter) compared with 52 operating weeks in 2007

The expectation of approximately 150 fewer equivalent company restaurants in 2008 compared with 2007 due to the impact of FGI across both years

Improved product cost margins due to proactive menu mix and pricing actions which help to offset higher commodity costs

General and administrative expenses (excluding incentive and share-based compensation) will trend down over the second half of the year due to organizational realignment

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