

Brinker International Announces Fourth Quarter Fiscal 2008 Results and Provides Fiscal 2009 Outlook

2008-08-05

Brinker International, Inc. (NYSE:EAT) announced fiscal 2008 fourth quarter earnings per diluted share decreased to \$0.41 from \$0.71 in the prior year.

Before special items, earnings per diluted share decreased to \$0.50 from \$0.57 in the prior year (reconciliation included in Table 3). For the full-year fiscal 2008, earnings per diluted share decreased to \$0.91 from \$1.85 in the prior year. Before special items, earnings per diluted share decreased to \$1.75 from \$1.76 in the prior year (reconciliation included in Table 4).

In the first quarter of fiscal 2008, the company announced its intention to sell Romano's Macaroni Grill and began presenting results from Macaroni Grill operations as discontinued operations in its financial statements. Brinker is in negotiations to sell a majority interest in the brand. As a result, accounting principles require that the results of Macaroni Grill be reclassified into continuing operations at this time, therefore, the company's results for the fourth quarter and full-year of fiscal 2008 and 2007 reflect the inclusion of the brand. The company expects to finalize the negotiations prior to the filing of its Form 10-K and to record an additional pre-tax impairment in its fiscal 2008 results ranging from \$45 to \$60 million. The information presented below includes Macaroni Grill unless otherwise noted. In certain instances, the company believes it is more useful to the reader to provide information excluding the impact of Macaroni Grill in order to gain insight into the company's ongoing operations. The company has also included a reconciliation of fourth quarter and year-to-date results excluding Macaroni Grill in the attached financial statements.

For the fourth quarter of fiscal 2008, earnings per diluted share before special items and excluding Macaroni Grill decreased to \$0.42 from \$0.49 in the prior year (reconciliation included in Table 3). For the full-year fiscal 2008, earnings per diluted share before special items and excluding Macaroni Grill decreased to \$1.41 from \$1.49 in prior year (reconciliation included in Table 4).

Highlights for the fiscal year 2008:

Brinker, excluding Macaroni Grill, experienced a 0.3 percent increase in comparable restaurant sales, driven by positive sales at Chili's in three of the four quarters,

Introduced successful menu items across our brands as a result of our focus on food and beverage excellence, including Honey Chipotle Chicken Crispers and updates on the classic Big Mouth Burger at Chili's, Border Smart selections at On the Border, and award-winning Little Italy favorites at Maggiano's,

Innovated ToGo at Chili's through developments in technology and processes with positive results and plans to expand into fiscal year 2009,

Re-imaged 73 Chili's restaurants, resulting in mid-single digit increases in sales, with plans to continue our reimage program in fiscal year 2009 at a lower level of investment per restaurant,

Experienced significant growth in favorable guest feedback across the brands as a result of the company's focus on both hospitality and food and beverage excellence,

Sold 76 Chili's restaurants to our franchisee, ERJ Dining IV, LLC, with a commitment to develop an additional 49 new Chili's restaurants,

Increased royalty revenues from franchisees by approximately 60% percent,

Internationally, opened 32 restaurants, including eight under the company's joint investment with CMR, SAB de CV to develop 50 Chili's and Maggiano's restaurants in Mexico, and entered into 10 additional development agreements with franchisees with commitments to build 56 restaurants,

Domestically, opened 70 company-owned restaurants (26 net of closures) and 43 franchised restaurants and entered into three development agreements with franchisees, with commitments to build 77 restaurants,

Increased quarterly dividend by 22 percent to \$0.11 per share and paid out \$42.9 million in dividends, and

Repurchased 9.1 million shares of our common stock for \$240.3 million.

"Our brands are responding to the difficult operating environment with a disciplined focus on delivering an outstanding dining experience for our guests' investment of money and time," said Doug Brooks, Chairman and CEO. "We are driving this strategy with flavorful new menu offerings, updated restaurant atmosphere and guest-focused training for all positions. Our guests' response to these efforts has been very favorable, as evidenced by the fact that Chili's has outperformed the casual dining industry benchmark in terms of sales and traffic for four consecutive quarters."

Quarterly Revenues

Brinker reported revenues for the 13-week period of \$1,073.6 million, a decrease of 6.1 percent compared with \$1,143.0 million reported for the same period of fiscal 2007. The company experienced a 1.0 percent increase in comparable restaurant sales (see Table 1) in the fourth quarter of fiscal 2008 driven by an increase at Chili's of 3.4 percent. Revenues were negatively impacted by a net decline in capacity of 9.3 percent due to sales of 171 restaurants to franchisees and 44 restaurant closures (27 of which are Macaroni Grill). Royalty revenues from franchisees increased 67.3 percent to \$16.9 million from \$10.1 million in the prior year.

Q4 08 and Q4 07, company and four reported brands, percentage

	Q4 08 Comparable Sales	Q4 07 Comparable Sales	Q4 08 Pricing Impact	Q4 08 Mix-Shift
Brinker Excluding				
Macaroni Grill	2.3	(1.9)	4.3	(0.2)
Brinker International	1.0	(2.0)	4.0	(0.1)
Chili's	3.4	(1.6)	4.6	(0.3)
On The Border	(2.3)	(4.7)	3.8	1.1
Maggiano's	(0.5)	(1.3)	3.1	(0.8)
Macaroni Grill	(5.7)	(2.1)	2.5	0.4

Table 2: FY comparable restaurant sales

FY 08 and FY 07, company and four reported brands, percentage

	FY 08 Comparable Sales	FY 07 Comparable Sales	FY 08 Pricing Impact	FY 08 Mix-Shift
Brinker Excluding				
Macaroni Grill	0.3	(2.5)	3.0	0.4
Brinker International	(0.5)	(2.7)	2.9	0.5
Chili's	0.8	(2.4)	3.1	0.8
On The Border	(3.3)	(4.1)	2.5	(0.2)
Maggiano's	0.4	(1.7)	2.8	(1.9)
Macaroni Grill	(4.4)	(3.2)	2.2	1.1

Quarterly Operating Performance

Cost of sales, as a percent of revenues, increased from 27.9 percent in the prior year to 28.6 percent in the fourth quarter of fiscal 2008. During the quarter, cost of sales was negatively impacted by unfavorable commodity prices, primarily beef, ribs, chicken and dairy products, and unfavorable product mix shifts related to new menu items, partially offset by favorable menu price changes.

Restaurant expenses, as a percent of revenues, increased to 55.8 percent from 54.9 percent in the prior year primarily driven by increased labor expenses due to increased wage rates and training at the restaurants, restaurant supply costs and repair and maintenance expenses, partially offset by lower pre-opening expenses.

Depreciation and amortization decreased \$4.8 million primarily driven by the classification of assets held for sale related to Macaroni Grill and restaurant closures, partially offset by additional depreciation on remodels and new restaurants.

Compared to the prior year, general and administrative expense decreased \$8.1 million for the quarter due to reduced salary and team member related expenses resulting from the company's efforts to evolve its corporate structure to align with the increased mix of franchise restaurants and the expected decline in future company-owned restaurant development. In addition, the company incurred lower stock and performance-based compensation expenses as compared to the prior year.

Other gains and charges resulted in a charge of \$8.1 million in the fourth quarter of fiscal 2008 primarily due to long-lived asset impairments and lease termination charges.

Interest expense decreased \$2.0 million primarily due to lower interest rates, partially offset by increased average borrowings as compared to the same quarter last year.

The effective income tax rate increased to 33.8 percent for the current quarter as compared to 21.7 percent for the same quarter last year. The increase in the tax rate was primarily due to a cumulative adjustment in the fourth quarter of fiscal year 2008 related to taxes for prior years as well as the favorable settlement of certain tax audits and benefits from state income tax planning in the fourth quarter of fiscal year 2007.

Cash Flow and Capital Allocation

Cash flow from operations for fiscal year 2008 decreased to approximately \$361.5 million compared to \$485.0 million in the prior year due to lower income (adjusted for non-cash items) driven by incremental margin pressures and the sale of 171 company-owned restaurants to franchisees as well as the timing of operational payments and receipts.

Capital expenditures for fiscal year 2008 totaled \$270.4 million, a reduction of \$160.1 million compared to the prior year, primarily due to a decrease in new restaurants developed by the company. The company repurchased 9.1 million common shares for fiscal year 2008. At the end of the year, approximately \$60 million remained available under the company's share authorizations. Diluted weighted average shares outstanding for the fiscal year declined over 15 percent to 104.9 million from 124.1 million at the end of fiscal year 2007.

Special Items

Reconciliation of net income, before special items

Q4 08 and Q4 07, \$ millions and \$ per diluted share after-tax

Item	EPS		EPS	
	Q4 08	Q4 08	Q4 07	Q4 07
Net Income	42.6	0.41	83.6	0.71

Other (Gains) and Charges	5.1	0.05	(11.0)	(0.09)
Tax Expense (Benefit)	3.7	0.04	(5.4)	(0.05)
Net Income before Special Items	51.4	0.50	67.2	0.57
Macaroni Grill before Special Items	(8.2)	(0.08)	(9.1)	(0.08)
Adjusted Net Income before Special Items	43.2	0.42	58.1	0.49

Table 4: Reconciliation of net income, before special items
FY 08 and FY 07, \$ millions and \$ per diluted share after-tax

Item	EPS		EPS	
	FY 08	FY 08	FY 07	FY 07
Net Income	95.9	0.91	230.0	1.85
Other (Gains) and Charges	83.9	0.80	(5.6)	(0.05)
Tax Expense (Benefit)	3.7	0.04	(5.4)	(0.04)
Net Income before Special Items	183.5	1.75	219.0	1.76
Macaroni Grill before Special Items	(35.2)	(0.34)	(34.1)	(0.27)
Adjusted Net Income before Special Items	148.3	1.41	184.9	1.49

Fiscal 2009 Outlook

In fiscal 2009, the company continues to focus on executing its strategic priorities which will allow for sustainable growth in a variety of economic environments. The company expects that fiscal 2009 will continue to be a transitional period as development shifts from company-owned to franchisee growth. In addition, the company faces continuing cost of sales pressures from higher commodity costs. Depreciation expense is expected to be higher as well due to recent capital spending on reimages and lower depreciation in fiscal 2008 resulting from the classification of assets held for sale related to the ERJ rebrand transaction.

Guidance for fiscal 2009 excludes the operating results of Macaroni Grill. The company anticipates earnings per diluted share growth of eight to 10 percent in fiscal 2009 based on the following assumptions:

Revenue growth of between 2.5 and 3.5 percent based primarily on:

- * Comparable restaurant sales growth of 1.5 to 2.5 percent,
- * Franchise revenue growth of about seven percent, bringing the total to approximately \$70 million, and
- * Total company-owned restaurant capacity increase (as measured by average-weighted sales weeks) of slightly less than one percent.

General and administrative expenses of about 4.5 percent of revenue,

Operating income of about flat to 20 basis points lower than fiscal 2008 based on escalating costs, particularly in cost of sales and depreciation, at a rate higher than the company expects to be able to offset with operating efficiencies and price increases, and

Capital expenditures of approximately \$175 to \$185 million with \$40 million allocated to the development of 15 new restaurants, \$20 to \$25 million attributable to Chili's reimages, \$25 to \$30 million invested primarily in kitchen technology and the remainder primarily relating to capital expenditure maintenance programs.

As far as timing considerations, there are two important calendar shifts for fiscal 2009. First, Christmas Day will trade from the second quarter into the third quarter in fiscal 2009 which will benefit the second quarter. Also, Easter will trade from the third quarter into the fourth quarter of fiscal 2009 which will negatively impact the fourth quarter.

While the company is unable to provide specific guidance for fiscal 2009 including Macaroni Grill due to the inability of the company to forecast the expected results of an entity which will not be under the management and control of the company for the entire fiscal year, the company would anticipate earnings per diluted share growth to be lower if Macaroni Grill was included.

This article comes from Hotel News Resource

<http://www.hotelnewsresource.com>

The URL for this story is:

<http://www.hotelnewsresource.com/article33893.html>

© 1998 - 2008 Nevistas and the author.

Brought to you by Hotel News Resource

Distribute your news on our Network

See what all the buzz is about at:

http://www.hotelnewsresource.com/Info-news_account_info.html