

Einstein Noah Restaurant Group Reports Growth in Revenue, Comparable Store Sales and Net Income

2008-08-07

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Selected Highlights for the Quarter:

- Revenue growth of 4.3 percent.
- 15th consecutive quarter of comparable store sales growth.
- 26.6 percent growth in Income from Operations.
- Net income of \$6.9 million and diluted EPS of \$0.42.
- Generated \$11.4 million of cash flow from operations.
- Unrestricted cash balance increased \$4.5 million to \$18.4 million.
- Opened three new company-owned locations and eight new licensed locations.
- Signed three new development agreements for a total of nine potential franchise restaurants.

Einstein Noah Restaurant Group (NASDAQ:BAGL) today posted strong results for the second quarter ended July 1, 2008. The Company posted a 26.6 percent increase in Income from Operations compared with the second quarter of 2007.

The net income of \$6.9 million, which was significantly stronger than the net loss of \$250,000 in the same period a year ago, accelerated due to operational efficiencies, a significant reduction in interest expense and the second quarter 2007 write off of debt issuance costs.

Also factoring into the profitable quarter was the Company's 15th consecutive quarter of positive comparable store sales growth, at 1 percent. Comparable store sales in the quarter were adversely affected by a reduction in the hours of operation at certain restaurants of approximately 0.6 percent. Additionally, many of our restaurants are located in California, Nevada, Arizona and Florida, states which are experiencing the lion's share of the housing downturn. These markets reduced the Company's comparable store sales by an additional 1 percent in the quarter.

"In light of the challenging economic environment, we aggressively pursued operational improvement in our restaurants, helping us increase profits during the quarter," said Rick Dutkiewicz, chief financial officer of Einstein Noah. "While our decision to reduce hours affected comparable store sales, the store-level margin improvement outweighed the impact of lower sales. Essentially, we carefully analyzed our restaurants to optimize their store hours based on profitability after 3 p.m. On a prospective basis, we have optimized store hours further and believe this will additionally reduce comparable store sales by approximately 0.6 percent. Our focus has been and will continue to be aimed at controlling the economics inside the four walls of the restaurant. In addition, we have reduced our general and administrative expenses where possible to ensure strong income from operations."

Comparable store sales growth continued to be stronger for our upgraded restaurants, which posted a 3 percent increase. Some of those restaurants are in states affected by the housing downturn.

Manufacturing and commissary operations also improved their margin performance by increasing gross profit 37.7 percent to \$416,000 in the second quarter from \$302,000 in the same period a year ago. Revenues for the channel also increased 34.5 percent to \$7.6 million from \$5.7 million.

The Company also benefited from a reduction in general and administrative expenses of 12.1 percent from \$10.9 million in the same quarter in 2007 to \$9.5 million this quarter, in part due to additional costs relating to the refinancing and charges for stock-based compensation in 2007.

In addition to the margin growth, the Company increased its number of locations. During the second quarter of 2007, eight license locations opened for business, and three company-owned restaurants opened. Included in the license expansion effort was the signing of a strategic license development agreement with Aramark to open restaurants in locations where it provides dining solutions.

The openings were coupled with the signing of two Einstein Bros. Bagels development agreements, as the Company opened its franchise opportunities to more regions of the country. Both agreements call for restaurants to open in Texas. In addition, the Company entered into a development agreement to franchise a new Manhattan Bagel location in Charlotte, N.C.

"Einstein Noah continues to drive toward growth as it aggressively pursues margin improvement in its company-owned locations," said Paul Murphy, chief executive officer and president of Einstein Noah. "Despite the current economic challenges, we are committed to strengthening the brand on all three fronts -- franchising, licensing and company-owned locations. The margin improvement we experienced in the second quarter demonstrates the effectiveness of our strategy. As we begin to set the stage for 2009, we have taken a modest position on locking in some of our commodities costs for next

year. We have an agreement in process to secure our turkey supply into the fourth quarter of 2009 at about the same 2008 cost. And we have locked in 50 percent of our cheese costs for 2009 below the cost of cheese in 2008."

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