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APPLEBEES INTERNATIONAL INC

Form 8-K

October 27, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

Current Report

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) October 27, 2004

Applebee's International, Inc.

(Exact name of registrant as specified in its charter)

| | | |
|---|-----------------------------|---|
| Delaware | 000-17962 | 43-1461763 |
| ----- | ----- | ----- |
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (I.R.S. Employer Identification No.) |

4551 W. 107th Street, Overland Park, Kansas 66207

(Address of principal executive offices and zip code)

(913) 967-4000

(Registrant's telephone number, including area code)

None

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the

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Exchange Act (17 CFR 240.14d-2(b))

[] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On October 27 2004, Applebee's International, Inc. (the "Company") issued a press release entitled "Applebee's International Reports Third Quarter Diluted Earnings Per Share of \$0.34 and Updates 2004 Outlook." The release contained the following information.

FOR IMMEDIATE RELEASE

Contact: Carol DiRaimo,
Vice President of Investor Relations
(913) 967-4109

Applebee's International Reports Third Quarter Diluted Earnings Per Share of \$0.34 and Updates 2004 Outlook

Overland Park, Kan., October 27, 2004 -- Applebee's International, Inc. (Nasdaq:APPB) today reported net earnings of \$28.3 million, or \$0.34 per diluted share, for the third quarter ended September 26, 2004. This compares to net earnings of \$25.6 million, or \$0.30 per diluted share, for the third quarter of 2003.

System-wide comparable sales for the third quarter of 2004 increased 2.7 percent, the 25th consecutive quarter of comparable sales growth. Company and franchise restaurant comparable sales increased 1.1 percent and 3.1 percent, respectively, for the quarter. System-wide comparable sales for the year-to-date period through September increased 5.6 percent, with company and franchise restaurant comparable sales up 5.0 percent and 5.9 percent, respectively.

The company also reported comparable sales for the September fiscal period, comprised of the five weeks ended September 26, 2004. System-wide comparable sales increased 1.1 percent for the September period, and comparable sales for franchise restaurants increased 1.5 percent. Comparable sales for company restaurants decreased 0.1 percent, reflecting a decrease in guest traffic of approximately 1.0 to 1.5 percent, offset by a higher average check. As previously noted, the Olympics had a negative impact on sales for the first week of the September period. Several hurricanes also negatively impacted franchise comparable sales by approximately 0.5 percent during the month.

In addition, the company reported comparable sales for the October fiscal period, comprised of the four weeks ended October 24, 2004. System-wide comparable sales increased 1.7 percent for the October period, and comparable sales for franchise restaurants increased 2.4 percent. Comparable sales for company restaurants decreased 0.4 percent, reflecting a decrease in guest traffic of a similar amount, combined with a flat average check. The company noted that its Skillet Sensations(TM) promotion, which ran for three weeks during the October period, had lower price points than the prior year promotion, resulting in a negative impact on the average

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check. This promotion will run through the first two weeks of the November period. The October period also had one less week of advertising in comparison to the prior year. In addition, company restaurant sales were negatively impacted by the baseball playoffs and World Series as 26 percent of the company-owned restaurants are in St. Louis and New England. System-wide comparable sales for the year-to-date period through October have increased 5.3 percent, with company and franchise restaurant comparable sales up 4.5 percent and 5.5 percent, respectively.

Lloyd L. Hill, chairman and chief executive officer, said, "Consistent with what we've seen throughout the casual dining segment, our comparable sales and traffic growth slowed toward the end of the summer. Whether due to rising gasoline prices, economic uncertainty, or the upcoming election, consumer spending appears to have been more restrained recently. While we are not immune to these forces, we believe that our long-term strategies for continued growth are the right ones. We remain focused on improving operations throughout the system, as well as optimizing our key strategies for the remainder of the year."

Other results for the third quarter and year-to-date periods ended September 26, 2004 included:

- o Net earnings for the 39-week period ended September 26, 2004 were \$86.0 million, or \$1.02 per diluted share. This compares to net earnings in the same period of 2003 of \$70.4 million, or \$0.82 per diluted share, including an impairment charge of \$5.6 million or approximately \$0.06 per share in 2003.
- o Total system-wide sales for the quarter increased 9 percent over the prior year. System-wide sales are a non-GAAP financial measure that includes sales at all company and franchise Applebee's restaurants, as reported by franchisees. The company believes that system-wide sales information is useful in analyzing Applebee's market share and growth, and because franchisees pay royalties and contribute to the national advertising pool based on a percentage of their sales.
- o Applebee's ended the quarter with 1,637 restaurants open system-wide (413 company and 1,224 franchise restaurants). During the third quarter of 2004, there were 30 new Applebee's restaurants opened system-wide, including 9 company and 21 franchised restaurants.
- o The company repurchased 1,407,520 shares of common stock in the third quarter at an average price of \$24.87 for an aggregate cost of \$35.0 million. Year-to-date, the company has repurchased 3,504,970 shares of common stock at an average price of \$25.17 for an aggregate cost of \$88.2 million. As of September 26, 2004, \$11.5 million remains available under the company's current stock repurchase authorization.

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- o As of September 26, 2004, the company had total debt outstanding of \$46.7 million, with \$97 million available under its revolving credit facility.

BUSINESS OUTLOOK

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The company updated its guidance with respect to its business outlook for the remainder of fiscal year 2004:

- o More than 100 new restaurants are expected to open in 2004, including at least 32 company restaurants and 70 to 80 franchise restaurants. At least 11 company restaurants and 30 to 40 franchise restaurants are expected to open in the fourth quarter.
- o Comparable sales for the fourth quarter are now expected to increase by zero to two percent for company restaurants and by two to three percent for franchise restaurants, including the estimated negative impact of the timing of both Christmas Eve and Christmas Day on December sales. Company restaurants have implemented an approximate one percent price increase in conjunction with a new fall menu which rolled out on October 25, 2004.
- o As a result of lower company sales than previously expected, restaurant margins before pre-opening expense for the fourth quarter are expected to be approximately 150 to 200 basis points lower than the fourth quarter of 2003.
- o General and administrative expenses, as a percentage of operating revenues, are expected to be in the low to mid-9 percent range for the fourth quarter.
- o The effective income tax rate is currently expected to continue at 35.0 percent for the remainder of the year.
- o Excluding the cost of franchise acquisitions, capital expenditures are expected to be between \$95 and \$105 million in 2004.
- o Based on the foregoing assumptions, diluted earnings per share for the fourth quarter of 2004 are expected to be \$0.28 to \$0.30. Accordingly, fiscal year 2004 diluted earnings per share are now expected to be \$1.30 to \$1.32, an increase of 12 to 14 percent over fiscal year 2003 earnings per share (excluding an impairment charge of approximately \$0.06 per share in 2003).

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The company also announced that its Board of Directors has authorized additional stock repurchases of up to \$150,000,000 beginning in 2005 and has approved a written plan for repurchases of common stock in the open market in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934.

A conference call to review the third quarter 2004 results and the current business outlook will be held on Thursday morning, October 28, 2004, at 10:00 a.m. Central Time (11:00 a.m. Eastern Time). The conference call will be broadcast live over the Internet and a replay will be available shortly after the call on the Investor Relations section of the company's website (www.applebees.com).

Applebee's International, Inc., headquartered in Overland Park, Kan., develops, franchises and operates restaurants under the Applebee's Neighborhood Grill & Bar brand, the largest casual dining concept in the world. As of October 24, 2004, there were 1,633 Applebee's restaurants operating system-wide in 49 states and ten international countries. Additional information on Applebee's

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International can be found at the company's website (www.applebees.com).

Certain statements contained in this release, including fiscal year 2004 guidance as set forth in the Business Outlook section, are forward-looking and based on current expectations. There are several risks and uncertainties that could cause actual results to differ materially from those described, including but not limited to the ability of the company and its franchisees to open and operate additional restaurants profitably, the ability of its franchisees to obtain financing, the continued growth of its franchisees, and its ability to attract and retain qualified franchisees, the impact of intense competition in the casual dining segment of the restaurant industry, and its ability to control restaurant operating costs which are impacted by market changes, minimum wage and other employment laws, food costs and inflation. For additional discussion of the principal factors that could cause actual results to be materially different, the reader is referred to the company's current report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2004. The company disclaims any obligation to update these forward-looking statements.

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APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(in thousands, except per share amounts)

| | 13 Weeks Ended | |
|---|-----------------------|-----------------------|
| | September 26, 2004 | September 28, 2003 |
| Revenues: | | |
| Company restaurant sales | \$ 247,173 | \$ 222,429 |
| Franchise royalties and fees..... | 30,105 | 27,594 |
| Other franchise income..... | 3,913 | 2,972 |
| Total operating revenues..... | 281,191 | 252,995 |
| Cost of company restaurant sales: | | |
| Food and beverage..... | 65,115 | 57,200 |
| Labor..... | 79,599 | 73,018 |
| Direct and occupancy..... | 61,642 | 55,869 |
| Pre-opening expense..... | 998 | 576 |
| Total cost of company restaurant sales..... | 207,354 | 186,663 |
| Cost of other franchise income..... | 3,521 | 2,837 |
| General and administrative expenses..... | 26,669 | 23,589 |
| Amortization of intangible assets..... | 199 | 87 |
| Loss on disposition of restaurants and equipment..... | 441 | 116 |
| Operating earnings..... | 43,007 | 39,703 |
| Other income (expense): | | |

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| | | |
|--|-----------|-----------|
| Investment income..... | 325 | 227 |
| Interest expense..... | (379) | (330) |
| Impairment of Chevys note receivable..... | -- | -- |
| Other income..... | 568 | 395 |
| | ----- | ----- |
| Total other income (expense)..... | 514 | 292 |
| | ----- | ----- |
| Earnings before income taxes..... | 43,521 | 39,995 |
| Income taxes..... | 15,232 | 14,398 |
| | ----- | ----- |
| Net earnings..... | \$ 28,289 | \$ 25,597 |
| | ===== | ===== |
| | | |
| Basic net earnings per common share (a)..... | \$ 0.35 | \$ 0.31 |
| | ===== | ===== |
| Diluted net earnings per common share (a)..... | \$ 0.34 | \$ 0.30 |
| | ===== | ===== |
| | | |
| Basic weighted average shares outstanding (a)..... | 81,511 | 83,334 |
| | ===== | ===== |
| Diluted weighted average shares outstanding (a)..... | 83,503 | 85,777 |
| | ===== | ===== |

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The following table contains information derived from the Company's consolidated statements of earnings expressed as a percentage of total operating revenues, except where otherwise noted. Percentages may not add due to rounding.

| | 13 Weeks Ended | | |
|---|-----------------------|-----------------------|-------|
| | September 26, 2004 | September 28, 2003 | Sep |
| | ----- | ----- | ----- |
| Revenues: | | | |
| Company restaurant sales..... | 87.9% | 87.9% | |
| Franchise royalties and fees..... | 10.7 | 10.9 | |
| Other franchise income..... | 1.4 | 1.2 | |
| | ----- | ----- | ----- |
| Total operating revenues..... | 100.0% | 100.0% | |
| | ===== | ===== | ===== |
| Cost of sales (as a percentage of company restaurant sales): | | | |
| Food and beverage..... | 26.3% | 25.7% | |
| Labor..... | 32.2 | 32.8 | |
| Direct and occupancy..... | 24.9 | 25.1 | |
| Pre-opening expense..... | 0.4 | 0.3 | |
| | ----- | ----- | ----- |
| Total cost of sales..... | 83.9% | 83.9% | |
| | ===== | ===== | ===== |

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| | | |
|---|-------|-------|
| Cost of other franchise income (as a percentage of other franchise income)..... | 90.0% | 95.5% |
| General and administrative expenses..... | 9.5 | 9.3 |
| Amortization of intangible assets..... | 0.1 | -- |
| Loss on disposition of restaurants and equipment.... | 0.2 | -- |
| Operating earnings..... | 15.3 | 15.7 |
| Other income (expense): | | |
| Investment income..... | 0.1 | 0.1 |
| Interest expense..... | (0.1) | (0.1) |
| Impairment of Chevys note receivable..... | -- | -- |
| Other income..... | 0.2 | 0.2 |
| Total other income (expense)..... | 0.2 | 0.1 |
| Earnings before income taxes..... | 15.5 | 15.8 |
| Income taxes..... | 5.4 | 5.7 |
| Net earnings..... | 10.1% | 10.1% |

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The following table sets forth certain unaudited financial information and other restaurant data relating to company and franchise restaurants, as reported to us by franchisees:

| | 13 Weeks Ended | | |
|--|-----------------------|-----------------------|---------------|
| | September 26, 2004 | September 28, 2003 | Septemb 20 |
| Number of restaurants: | | | |
| Company: | | | |
| Beginning of period..... | 405 | 373 | |
| Restaurant openings..... | 9 | 8 | |
| Restaurants closed..... | (1) | -- | |
| Restaurants acquired from franchisees..... | -- | -- | |
| Restaurants acquired by franchisees..... | -- | (9) | |
| End of period..... | 413 | 372 | |
| Franchise: | | | |
| Beginning of period..... | 1,207 | 1,155 | 1 |
| Restaurant openings..... | 21 | 12 | |
| Restaurants closed..... | (4) | (5) | |
| Restaurants acquired from franchisees..... | -- | -- | |
| Restaurants acquired by franchisees..... | -- | 9 | |
| End of period..... | 1,224 | 1,171 | 1 |
| Total: | | | |
| Beginning of period..... | 1,612 | 1,528 | 1 |
| Restaurant openings..... | 30 | 20 | |

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| | | | |
|---|------------|------------|--------|
| Restaurants closed..... | (5) | (5) | |
| | ----- | ----- | ----- |
| End of period..... | 1,637 | 1,543 | 1 |
| | ===== | ===== | ===== |
| Weighted average weekly sales per restaurant: | | | |
| Company..... | \$ 46,365 | \$ 45,976 | \$ 47 |
| Franchise..... | \$ 47,253 | \$ 45,760 | \$ 48 |
| Total..... | \$ 47,027 | \$ 45,812 | \$ 48 |
| Change in comparable restaurant sales:(1) | | | |
| Company..... | 1.1% | 5.9% | |
| Franchise..... | 3.1% | 4.4% | |
| Total..... | 2.7% | 4.8% | |
| Total operating revenues (in thousands): | | | |
| Company restaurant sales..... | \$ 247,173 | \$ 222,429 | \$ 738 |
| Franchise royalties and fees(2)..... | 30,105 | 27,594 | 91 |
| Other franchise income(3)..... | 3,913 | 2,972 | 10 |
| | ----- | ----- | ----- |
| Total..... | \$ 281,191 | \$ 252,995 | \$ 840 |
| | ===== | ===== | ===== |

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APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except share amounts)

| | |
|---|-------------------|
| | September 2004 |
| | ----- |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents..... | \$ 4 |
| Short-term investments, at market value..... | 2 |
| Receivables, net of allowance..... | 37,0 |
| Receivables related to captive insurance subsidiary..... | 3,1 |
| Inventories..... | 33,9 |
| Prepaid income taxes..... | 7,7 |
| Other current assets related to captive insurance subsidiary..... | 8 |
| Prepaid and other current assets..... | 9,9 |
| | ----- |
| Total current assets..... | 93,3 |
| Property and equipment, net..... | 457,0 |
| Goodwill..... | 116,3 |
| Restricted assets related to captive insurance subsidiary..... | 18,3 |
| Other intangible assets, net | 5,5 |
| Other assets | 23,4 |

| | |
|---|----------|
| | \$ 714,0 |
| ===== | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current liabilities: | |
| Current portion of long-term debt..... | \$ 2 |
| Notes payable | 3,0 |
| Accounts payable..... | 36,8 |
| Accrued expenses and other current liabilities..... | 81,6 |
| Loss reserve and unearned premiums related to captive insurance subsidiary..... | 20,8 |
| Accrued dividends | - |
| | ----- |
| Total current liabilities..... | 142,6 |
| ----- | |
| Non-current liabilities: | |
| Long-term debt - less current portion..... | 43,5 |
| Deferred income taxes | 32,1 |
| Other non-current liabilities..... | 11,2 |
| | ----- |
| Total non-current liabilities..... | 86,9 |
| | ----- |
| Total liabilities..... | 229,5 |
| ----- | |
| Stockholders' equity: | |
| Preferred stock - par value \$0.01 per share: authorized - 1,000,000 shares; no shares issued..... | - |
| Common stock - par value \$0.01 per share: authorized - 125,000,000 shares; issued - 108,503,243 shares..... | 1,0 |
| Additional paid-in capital..... | 213,9 |
| Retained earnings..... | 609,9 |
| | ----- |
| | 824,9 |
| Treasury stock - 27,514,031 shares in 2004 and 25,715,767 shares in 2003, at cost..... | (340,4) |
| | ----- |
| Total stockholders' equity..... | 484,4 |
| | ----- |
| | \$ 714,0 |
| | ===== |

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

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| | |
|---|----------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net earnings..... | \$ 86,01 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | |
| Depreciation and amortization..... | 33,70 |
| Amortization of intangible assets..... | 44 |
| Amortization of unearned compensation | 1,07 |
| Other amortization | 24 |
| Inventory impairment | 2,10 |
| Deferred income tax provision (benefit)..... | 26,63 |
| Gain on sale of investments..... | -- |
| Loss on disposition of restaurants and equipment..... | 1,52 |
| Impairment of Chevys note receivable..... | -- |
| Income tax benefit from exercise of options..... | 7,61 |
| Changes in assets and liabilities (exclusive of effects of acquisitions or dispositions): | |
| Receivables..... | (4,91) |
| Receivables related to captive insurance subsidiary..... | (2,65) |
| Inventories..... | (15,03) |
| Prepaid income taxes..... | (1,90) |
| Other current assets related to captive insurance subsidiary | (19) |
| Prepaid and other current assets..... | (1,18) |
| Accounts payable..... | (76) |
| Accrued expenses and other current liabilities..... | (15,27) |
| Loss reserve and unearned premiums related to captive insurance subsidiary.. | 9,85 |
| Accrued income taxes..... | -- |
| Other..... | (1,01) |
| | ----- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES..... | 126,26 |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of property and equipment..... | (68,22) |
| Restricted assets related to captive insurance subsidiary | (7,54) |
| Acquisition of restaurants..... | (13,81) |
| Lease acquisition costs | (4,85) |
| Purchases of short-term investments | (25) |
| Proceeds from sale of restaurants and equipment..... | -- |
| Maturities and sales of short-term investments..... | -- |
| Other investing activities | (1,04) |
| | ----- |
| NET CASH USED BY INVESTING ACTIVITIES..... | (95,74) |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Purchases of treasury stock..... | (88,22) |
| Dividends paid..... | (3,91) |
| Issuance of common stock upon exercise of stock options..... | 13,37 |
| Shares issued under employee benefit plans | 4,93 |
| Proceeds from issuance of notes payable..... | 3,00 |
| Net long-term debt proceeds (payments)..... | 22,88 |
| | ----- |
| NET CASH USED BY FINANCING ACTIVITIES..... | (47,95) |
| | ----- |
| NET DECREASE IN CASH AND CASH EQUIVALENTS..... | (17,42) |
| CASH AND CASH EQUIVALENTS, beginning of period..... | 17,86 |
| | ----- |
| CASH AND CASH EQUIVALENTS, end of period..... | \$ 44 |
| | ===== |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLEBEE'S INTERNATIONAL, INC.
(Registrant)

Date: October 27, 2004

By: /s/ Steven K. Lumpkin

Steven K. Lumpkin
Executive Vice President and
Chief Financial Officer