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Burger King Holdings, Inc. Reports Fourth Quarter and Full Fiscal 2010 Results

Burger King Holdings, Inc. (NYSE:BKC) today reported results for the fourth quarter and full fiscal year 2010. Key highlights of the company’s fourth quarter and full fiscal year 2010 results include:

Fourth quarter fiscal 2010:
- Worldwide comparable sales were negative 0.7 percent compared to negative 2.4 percent in the same period last year;
- U.S. and Canada comparable sales were negative 1.5 percent compared to negative 4.5 percent in the same period last year;
- Solid development growth continued with net restaurant count increasing by 59; and
- Diluted earnings per share were $0.36, including $0.01 per share of negative impact from currency translation, compared to diluted earnings per share of $0.43 in the same quarter last year. Last year's diluted earnings per share included a $0.07 tax benefit from the dissolution of dormant foreign entities and this year's diluted earnings per share included a $0.02 tax benefit from the resolution of state tax audits and changes in state tax uncertainties.

Fiscal year 2010:
- Worldwide comparable sales were negative 2.3 percent compared to positive 1.2 percent in the same period last year;
- U.S. and Canada comparable sales were negative 3.9 percent compared to positive 0.4 percent in the same period last year;
- Net restaurant count increased 249 over the prior 12-month period, representing a net restaurant growth rate of 2.1 percent:
  - The company posted positive net restaurant growth across all reporting business segments with over 90 percent of the increase realized outside of the U.S. and Canada;
  - Paid down $67.7 million of debt and capital leases;
  - Reduced net debt to earnings before interest, tax, depreciation and amortization (EBITDA) ratio to 1.5 times from 1.9 times in the prior year; and
- Diluted earnings per share were $1.36, compared to diluted earnings per share and adjusted earnings per share of $1.46 and $1.48, respectively, in the prior year. Last year's diluted earnings per share and diluted adjusted earnings per share included a $0.12 tax benefit from the dissolution of dormant foreign entities and from the positive resolution of federal and state tax audits.

1 EBITDA is a non-GAAP financial measure; see the ‘performance indicators and use of non-GAAP financial measures’ section of the form 8K for the reconciliation to GAAP measures and why management believes this is a meaningful measure.

In fiscal year 2010, we faced sustained levels of high unemployment and a fragile global economy that combined made this one of the toughest operating environments in recent history,” said Chairman and Chief Executive Officer John Chidsey. “Even so, we remained focused on our True North Plan and effectively managed the business for the long-term. We posted positive worldwide traffic during the last nine months versus the prior year period, opened 249
net new restaurants during the fiscal year and kept pace with our re-imaging initiative while maintaining a strong balance sheet. "We also made significant progress with the deployment of new restaurant equipment to enhance operations and our on-going portfolio management initiative that included the refranchising of 79 restaurants in the U.S. and Germany in the fourth quarter alone."

Worldwide revenues for the fourth quarter of fiscal 2010 were $623.0 million, down 1 percent compared to the same period last year. Revenues were primarily impacted by negative worldwide comparable sales and currency translation. The decrease was partially offset by the addition of 249 net new restaurants over the prior 12-month period. For the full fiscal year, the company reported revenues of $2,502.2 million, also down 1 percent compared to the same period last year. The annual decrease was primarily driven by negative worldwide comparable sales, partially offset by favorable currency translation and net restaurant growth.

Fourth quarter worldwide comparable sales were negative 0.7 percent compared to negative 2.4 percent in the same period last year. The company posted positive comparable sales in its EMEA/APAC and Latin America business segments led by strong performance across its Asia Pacific and South American markets. Additionally, worldwide traffic was positive and increased compared to the same period last year.

Fourth quarter comparable sales in the U.S. and Canada were negative 1.5 percent compared to negative 4.5 percent in the prior year period. The segment realized higher traffic during the quarter and full fiscal year compared to the same periods last year. Additionally, in the U.S., the company experienced a sequential quarterly improvement in traffic and average check from the fiscal 2010 third quarter. Average check in the U.S. was aided by the launch of premium products including BKTM Fire-Grilled Ribs.

Product offerings during the quarter included a mix of affordable value and premium items aimed at driving traffic and check. In the U.S. and Canada segment, the company sought to satisfy consumers seeking value across the entire menu including $1 offerings such as the BK(R) Breakfast Muffin Sandwich, Buck Double and ICEE promotions. Additionally, the company offered more premium fare such as the BKTM Breakfast Bowl, Whiplash Whopper(R) sandwich in connection with the Iron Man(TM) 2 promotion and BKTM Fire-Grilled Ribs.

The EMEA/APAC segment also featured a mix of affordable value and premium items including the Stunner Deals(TM) program, King Deals(TM), various Whopper(R) sandwich promotions and LTOs. The Latin America segment focused on affordability across the menu with the continuation of the Come Como Rey(TM) (Eat Like a King) and BKTM Ofertas(King Deals) campaigns, increased advertising around the breakfast daypart and Whopper(R) sandwich LTOs.

Marketing efforts leveraged across many markets included promotional movie tie-ins with Iron Man(TM) 2 and The Twilight Saga: Eclipse. The company also featured Superfamily promotions such as SpongeBob SquarePants(TM) Last Stand and Marmaduke(TM).

During the fourth quarter, the company continued to strategically diversify its global portfolio with the opening of 59 net new restaurants. For the full fiscal year, net restaurant count increased 249 over the prior 12-month period, representing a net restaurant growth rate of 2.1 percent. The company posted positive net restaurant growth across all business segments with over 90 percent of the restaurants opened outside of the U.S. and Canada.

The company posted worldwide company restaurant margins (CRM) of 10.7 percent in the fourth quarter and 12.2 percent for the full fiscal year, a decrease of 180 and 40 basis points, respectively, over the same periods in the prior year. During the fourth quarter, CRM was negatively impacted by higher food, paper and product costs primarily driven by increased beef prices in the U.S. partially offset by lower commodity costs in EMEA, and by the deleveraging effect of negative comparable sales on fixed costs. Additionally the quarter-over-quarter increase in depreciation expense largely related to the company’s U.S. and Canada reimaging program and worldwide deployment of new POS systems negatively impacted margins by over 80 basis points. Lower labor costs driven by variable labor control enhancements in the U.S. partially offset the decrease. During the year, margins were primarily impacted by the deleveraging effect of negative comparable sales on fixed costs. In addition, the expected increase in depreciation expense largely related to the company-owned restaurant initiatives mentioned above negatively impacted margins by over 40 basis points.

During the fourth quarter, the company realized $1.3 million of other income as compared to the prior year’s other income of $6.0 million. The main driver of the differential relates to gains as a result of refranchisings of restaurants in EMEA and Canada in the prior year.

Fourth quarter general and administrative (G&A) expenses decreased $6.5 million compared to the same period last year primarily due to on-going cost containment initiatives. For the full fiscal year, G&A expenses increased $3.5 million compared to the prior year period. Currency translation negatively impacted G&A by $4.3 million during the year. Net of currency translation, fiscal 2010 G&A improved 20 basis points compared to the prior year.

The fourth quarter tax rate was 30.8 percent compared to 21.6 percent in the prior year period. This quarter’s tax rate benefited from the resolution of state tax audits and changes in state tax uncertainties, positively impacting diluted earnings per share by $0.02. Last year’s fourth quarter tax rate benefited from the dissolution of dormant foreign entities, positively impacting diluted earnings per share by $0.07. For the full 2010 fiscal year, the tax rate was 34.3 percent compared to 29.7 percent in the prior fiscal year. Last year’s tax rate benefited from the dissolution of dormant foreign entities and from the resolution of federal and state tax audits, positively impacting diluted earnings per share by $0.12. During the full 2010 fiscal year, the net impact of discrete items on the tax rate was not significant.

The company reported fourth quarter diluted earnings per share of $0.36, including $0.01 per share of negative impact
from currency translation, compared to $0.43 in the same period last year. As mentioned, this quarter's diluted earnings per share included a $0.02 tax benefit, while last year's diluted earnings per share included a $0.07 tax benefit. For the full fiscal year, diluted earnings per share were $1.36 compared to diluted earnings per share and adjusted diluted earnings per share of $1.46 and $1.48, respectively, in the prior year period. Fiscal 2009 adjusted diluted earnings per share excluded $3.5 million related to acquisitions.

Uses of Cash

"Although we experienced negative worldwide comparable sales this fiscal year, our financial fundamentals are solid and our cash flow continues to be strongly benefited by our highly-franchised business model," said Chief Financial Officer Ben Wells. "In fiscal 2010, we paid down $68 million in debt and capital leases, invested $150 million primarily to enhance our company restaurant portfolio and returned $34 million to shareholders through our quarterly dividend payments while increasing our cash balance by $66 million."

In fiscal 2010, the company invested in its U.S. and Canada reimaging program, completing another 54 projects including company restaurants and properties leased to franchisees. Since the inception of the program nearly two and a half years ago, the company has re-imaged 170 restaurants. In addition, the BURGER KING(R) system has 327 restaurants globally that have adopted the company’s new 20/20 design.

"Also during the year, we executed on our portfolio management initiative including the refranchising of restaurants in the U.S. and Germany and the acquisition of restaurants in Singapore," Wells said. "We expect to continue our disciplined approach to portfolio management in an effort to optimize our Company restaurant base, enhance development agreements with new and existing franchisees, reduce concentration in certain markets and opportunistically enter new markets. As it relates to refranchisings, within the next three to five years we expect to refranchise up to half of our current company-owned restaurant portfolio."

Fiscal year review and looking ahead

"While fiscal 2010 was an extremely difficult operating environment, the brand re-ignited traffic, opened 249 net new restaurants globally, expanded our reach into strategic markets like Russia and continued our disciplined approach to our re-imaging initiative," Chidsey said.

"Going forward, we believe we are well-positioned to further expand our global footprint and continue to invest in our re-imaging program. There is great enthusiasm in the system around our 20/20 design and we have rolled out an attractive development and re-imaging incentive program for our franchisees in select key markets."

"Our robust product pipeline is filled with affordable as well as premium offerings. We are also laser focused on the U.S. and Canada fall launch of our enhanced breakfast platform that will include several new breakfast products and will feature Seattle's Best Coffee(R). Our new premium coffee will also complement our expanding beverage platform. In addition, our upcoming U.S. marketing campaigns include our newest partnership with Microsoft to support the launch of the highly-anticipated Kinect(TM) for Xbox 360(R) just in time for the holiday season."

Chidsey concluded: "As we enter fiscal 2011, we anticipate that the challenging consumer environment will continue due to high unemployment and underemployment levels and weak consumer confidence. However, our team will continue to invest in all aspects of our business to drive profitable sales. We will do that by focusing on our long-term strategies and delivering against the four pillars of our True North plan -- Growing the Brand, Investing Wisely, Running Great Restaurants and Focusing on People."

Please see guidance at the end of the document.

Related Communication

Burger King Holdings Inc. (NYSE:BKC) will hold its fourth quarter and fiscal year end earnings call on Tuesday, August 24, at 10 a.m. EDT following the release of its fourth quarter and full fiscal year results before the stock market opens on the same day. During the call, Chairman and Chief Executive Officer John Chidsey; Chief Financial Officer Ben Wells; Chief Marketing Officer, North America Mike Kappitt; and Senior Vice President of Investor Relations and Global Communications Amy Wagner will discuss the company’s fourth quarter and fiscal year end results.

The earnings call will be webcast live via the company’s investor relations Web site at http://investor.bk.com and will be available for replay for 30 days.

About Burger King Holdings, Inc.

The BURGER KING(R) system operates more than 12,000 restaurants in all 50 states and in 76 countries and U.S. territories worldwide. Approximately 90 percent of BURGER KING(R) restaurants are owned and operated by independent franchisees, many of them family-owned operations that have been in business for decades. In 2008, Fortune magazine ranked Burger King Corp. (BKC) among America’s 1,000 largest corporations and in 2010, Standard & Poor's included shares of Burger King Holdings, Inc. in the S&P MidCap 400 index. BKC was recognized by Interbrand on its top 100 "Best Global Brands" list and Ad Week has named it one of the top three industry-changing advertisers within the last three decades. To learn more about Burger King Corp., please visit the Company’s Web site at www.bk.com.

FORWARD-LOOKING STATEMENTS

Certain statements made in this report that reflect management’s expectations regarding future events and economic performance are forward-looking in nature and, accordingly, are subject to risks and uncertainties. These forward-looking statements include statements regarding our expectations about our financial fundamentals and the benefits of our highly-franchised business model; our expectations regarding our ability to continue our disciplined approach to portfolio management in an effort to optimize our Company restaurant base, enhance development agreements with
new and existing franchisees, reduce concentration in certain markets and opportunistically enter new markets; our expectations regarding our ability to refranchise up to half of the current Company restaurant portfolio within the next three to five years; our expectations regarding our ability to further expand our global footprint and continue to invest in our reimaging program; our expectations regarding the success of our 20/20 design and development and reimaging incentive program; our expectations regarding our fiscal 2011 marketing calendar and the success of future products and promotions; our expectations regarding the fall launch of our enhanced breakfast platform in the U.S. and Canada; our expectations regarding our ability to continue to invest in all aspects of our business to drive profitable sales by focusing on our long-term strategies and delivering against our True-North plan; our expectations regarding worldwide comparable sales and the impact of worldwide comparable sales on earnings per share during fiscal 2011; our expectations regarding net restaurant growth, the impact of delayed commercial construction on net restaurant growth and the percentage of such growth outside of the U.S. and Canada during fiscal 2011; our expectations regarding our worldwide blended royalty rate in fiscal 2011; our expectations regarding our U.S. commodity basket in fiscal 2011; our assumptions regarding labor costs as a percentage of Company restaurant revenues, G&A expense, net of currency impact, depreciation and amortization expense and capital expenditures in fiscal 2011; our expectations regarding our ability to pay down our senior debt during fiscal 2011 and to refinance our senior secured credit facility; our expectations regarding our ability to manage our portfolio, including our refranchising efforts, to decrease our current global Company-to-franchise restaurant ownership ratio; our expectations regarding the impact of our portfolio management initiative on our financial results; our expectations regarding our ability to conclude our U.S. and Canada reimaging program within the next two to three years on our reduced number of Company restaurants without incurring incremental debt by using the expected refranchising proceeds and cash flows from operations; our expectations regarding our normalized effective tax rate in fiscal 2011; our expectations regarding the allocation of capital expenditures in fiscal 2011; our belief and expectation that currency translation will negatively impact earnings per share in the first half of fiscal 2011 and minimally impact earnings per share in the second half of the fiscal year; and other expectations regarding our future financial and operational results. These forward-looking statements are only predictions based on our current expectations and projections about future events. Important factors could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. These factors include those risk factors set forth in filings with the Securities and Exchange Commission, including our annual and quarterly reports, and the following:

- Global economic or other business conditions that may affect the desire or ability of our customers to purchase our products such as inflationary pressures, high unemployment levels, increases in gas prices, declines in median income growth, consumer confidence and consumer discretionary spending and changes in consumer perceptions of dietary health and food safety, and the impact of negative sales and traffic on our business, including the risk that we will be required to incur non-cash impairment or other charges that reduce our earnings;
- Risks related to adverse weather conditions and other uncontrollable events, and the impact of such events on our operating results;
- Our ability to compete domestically and internationally in an intensely competitive industry;
- Our ability to successfully implement our domestic and international growth strategy and risks related to our international operations;
- Risk related to the concentration of our restaurants in limited geographic areas, such as Germany, where we have experienced and may continue to experience declining sales and operating profits;
- Risks arising from the significant and rapid fluctuations in the currency exchange markets and the decisions and positions that we take to hedge such volatility;
- Our ability to manage changing labor conditions and costs in the U.S. and internationally, including future mandated health care costs, if we or our franchisees choose not to pass, or cannot pass, these increased costs on to our guests;
- Our ability and the ability of our franchisees to manage cost increases;
- Our relationship with, and the success of, our franchisees and risks related to our restaurant ownership mix;
- The effectiveness of our marketing and advertising programs and franchisee support of these programs;
- Risks related to the financial strength of our franchisees, which could result in, among other things, restaurant closures, delayed or reduced payments to us of royalties and rents, and an inability to obtain financing to fund development, restaurant remodels or equipment initiatives on acceptable terms or at all;
Risks related to food safety, including foodborne illness and food tampering, and the safety of toys and other promotional items available in our restaurants;

Risks arising from the interruption or delay in the availability of our food or other supplies, including those that would arise from the loss of any of our major distributors, particularly in those international markets where we have a single distributor;

Our ability to successfully execute our reimaging program in the U.S. and Canada and our portfolio management strategy to increase sales and profitability;

Risks related to the June 2011 maturity of our revolving credit facility, including the risk that beneficiaries under letters of credit will require that we provide cash deposits;

Our ability to implement our growth strategy and strategic initiatives given restrictions imposed by our senior credit facility;

Risks related to the ability of counterparties to our secured credit facility, interest rate swaps and foreign currency forward contracts to fulfill their commitments and/or obligations;

Risks related to interruptions or security breaches of our computer systems and risks related to the lack of integration of our worldwide technology systems;

Our ability to continue to extend our hours of operation to capture a larger share of both the breakfast and late night dayparts;

Risks related to changes in the mix of earnings in countries with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities and continued losses in certain international Company restaurant markets that could trigger a valuation allowance or negatively impact our ability to utilize foreign tax credits to offset our U.S. income taxes;

Risks related to the reasonableness of our tax estimates, including sales, excise, GST, VAT and other taxes;

Adverse legal judgments, settlements or pressure tactics; and

Adverse legislation or regulation.

These risks are not exhaustive and may not include factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We do not undertake any responsibility to update any of these forward-looking statements to conform our prior statements to actual results or revised expectations.

Guidance

The Company is providing the following information to help assist in forecasting fiscal 2011 results. Additionally, the Company is providing specific updates on its global refinancing efforts and U.S. and Canada reimaging initiative:

Worldwide comparable sales are expected to remain pressured due to ongoing weakness in the labor market and by the implementation of government austerity programs across many European markets.

Assuming no change in cost structure, a one percentage point increase in worldwide comparable sales would increase annual diluted earnings per share by about 6 cents.

Net restaurant growth is estimated at 225 to 275 for fiscal 2011, primarily due to delayed commercial construction as the result of on-going global economic pressures and uncertainties.

Over 90 percent of the net restaurant growth is expected outside of the U.S. and Canada.

The worldwide blended royalty rate is forecasted to remain unchanged from the level attained in fiscal 2010 of 4.05 percent due to the mix of franchise revenues and timing of franchise agreements coming up for renewal.
For the full fiscal year, the U.S. commodity basket is forecasted to be relatively flat as compared to fiscal 2010. However, external factors may impact our current forecast including uncertainties in commodities, specifically beef and wheat.

Labor costs, as a percentage of Company restaurant revenues, are expected to remain unchanged from the level attained in fiscal 2010 of 30.9 percent.

G&A, net of currency impact, is forecasted to be up 3 to 4 percent over the prior year period.

The Company is expected to pay $21.9 million in scheduled quarterly debt repayments in accordance with the current indebtedness agreement until it refinances its debt.

In light of the maturity schedule of the Company’s senior debt, the Company is currently evaluating its refinancing options. Many factors will influence the ultimate decision, including the mix of debt instruments, interest rates, covenant set and interest rate swaps.

Depreciation and amortization is expected to increase 3 to 7 percent as capital expenditures have increased in support of the Company’s development plans and reimaging initiative.

The Company expects to continue its portfolio management initiative in an effort to optimize its Company restaurant base, enhance development agreements with new and existing franchisees, reduce concentration in certain markets and opportunistically enter new markets. Transactions such as these are an integral part of the business and are aligned with the Company’s overall net restaurant growth and development strategies.

The Company will continue to manage its portfolio, including its re-franchising efforts, to decrease its current global Company-to-franchise restaurant ownership ratio. The Company expects to re-franchise up to half of the current Company restaurant portfolio within the next three to five years. Net gains and losses incurred as a result of this activity will be reflected in Other Income and Expense. After the completion of this initiative, revenues could decrease from current levels and earnings as a percent of revenues are expected to increase. Additionally given the predictability of performance derived from a highly franchised business model, the Company expects to experience less volatility in EBITDA and income before income taxes as compared to current results.

The Company expects to conclude its U.S. and Canada reimaging program within the next two to three years on its reduced number of Company restaurants without incurring incremental debt. The expected proceeds related to the acceleration in refraanchisings along with solid cash flows from on-going operations are forecasted to fully fund the remaining reimaging projects.

Our normalized effective tax rate in fiscal 2011 is estimated to be approximately 35.5 percent primarily dependent upon movements in currency.

Capital expenditures for fiscal 2011 are expected to be in the range of $175 to $200 million depending on Company performance and related cash flows from operations. About 20 percent will be used to build new Company restaurants; 65 percent to fund the Company’s reimaging program, including routine repairs and maintenance; and 15 percent will be allocated for other corporate purposes, including information technology.

If currency rates approximate current levels, currency translation is expected to negatively impact diluted earnings per share by $0.03 to $0.04 in the first half of the fiscal year. During the second half of the fiscal year, currency translation is expected to have a minimal impact. As a result, for the full fiscal year currency translation is expected to negatively impact diluted earnings per share by $0.03 to $0.04.

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