

October 29, 2009

## DineEquity Up On 3Q Beat, Improving Sales

By Paul Ziobro

NEW YORK -(Dow Jones)- DineEquity Inc. (DIN) shares rose 12% after the company said same-store sales declines moderated in October with a refined version of its "Two for \$20" promotion and marketing targeting football fans.

"We are encouraged by an improvement in Applebee's same-store sales trend so far in the month of October," DineEquity Chairman and Chief Executive Julia Stewart said Tuesday in a third-quarter earnings call.

She later added: "We believe all of the things are in play to make that sustainable for the rest of the year."

Investors have been awaiting signs that same-store sales are improving at casual-dining restaurants, especially as they face easy comparisons from a year ago when consumer spending retrenched sharply after the financial market's meltdown. Most restaurants also have less room to rely on cost cuts to grow profits after a year of managing their business tighter, putting sales in the spotlight.

DineEquity shares were recently up \$2.60, or 12%, at \$24.21. Earlier, the company reported third-quarter earnings ahead of analyst expectations, with lower costs and better margins at Applebee's stores overcoming continuing declines in same-store sales.

Same-store sales were down 1.1% at DineEquity's IHOP brand and 6.5% at Applebee's for the quarter. The company also said Applebee's sales would be at the low end of its guidance for the year. But later comments on the recent sales trajectory helped to reassure investors.

**"The highlight from the call is that October sales trends have improved at Applebee's," Telsey Advisory Group analyst Tom Forte said.**

DineEquity also continues to negotiate with prospective buyers of some 400 company-owned Applebee's, proceeds of which will help pay down debt from a \$2.1 billion deal in 2007 that brought the two brands together.

The company's willing to wait for the right price as the credit crunch impedes sales. It has also improved operating margins at the Applebee's stores, which has given the company enough of a cushion that it expects to be able to meet its debt covenant obligations over the next year even without the sale of any stores.

Price competition remains a concern in casual-dining, especially as competitors retaliate with their own promotions. Applebee's main threat comes from Brinker International Inc's (EAT) Chili's Grill & Bar chain, which is offering an appetizer, two entrees and a dessert for \$20, one-upping Applebee's deal.

Applebee's doesn't feel the need to raise the bar on discounting. "I think we'll stay where we are, and let other people try to steal shamelessly," Stewart said.

For the quarter, DineEquity's swung to a profit of \$7.9 million, or 46 cents a share, compared with a prior-year loss of \$16.4 million, or 98 cents a share. Excluding items such prior-year write-downs and closure charges, earnings were 55 cents compared with a prior-year loss of 8 cents.

Revenue decreased 15% to \$333.6 million amid the sale of 110 company-operated Applebee's restaurants in the past year.

Analysts polled by Thomson Reuters most recently forecast earnings of 30 cents on revenue of \$337 million.