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Brinker's Restaurants Report Lower Sales

By Paul Ziobro (John Kell contributed to this article)

Brinker International Inc. reported weak sales at its three restaurant brands, and the casual-dining chain offered a disappointing outlook that highlights the earnings challenges restaurants face even after rigorous cost cuts.

The Dallas-based operator of Chili's Grill & Bar and other restaurants swung to a fiscal fourth-quarter profit as a year-earlier charge masked lower revenue, but laid out earnings projections below expectations.

While Brinker said same-store sales declines should moderate for its new year to between 2% and 4%, earnings are expected to fall 10% to 20% from the latest year's \$1.44 a share, implying a range of about \$1.15 to \$1.30. Brinker also predicted a first-quarter profit of 12 cents a share to 14 cents a share. Analysts polled by Thomson Reuters projected \$1.59 a share and 29 cents a share, respectively.

After tightening expenses over the past year, restaurants need to rely more on better sales to increase earnings, a daunting task in the face of rising unemployment and weak consumer confidence. Brinker has benefited as much as most this year, with cost cuts that even include offering smaller dollops of dipping sauces.

While that helped Brinker top estimates in its latest quarter, the company and other restaurant chains could be hard-pressed to find additional efficiencies over the next year. Brinker's outlook offers a sobering glimpse of the challenge of bolstering earnings in the face of weak sales, said Telsey Advisory Group analyst Tom Forte.

To help sales, Brinker is now rethinking value as the tastes of recession-weary consumers change. Chili's, the company's largest restaurant brand, recently shifted its lead marketing draw to focus on more food at a higher price after an offer for less food at lower prices went sour.

Chili's prior strategy took 10 of the brand's most popular dishes and offered a smaller version for \$7. The offer worked for a while as consumers tried the deal, but most customers were leaving hungry.

"We started seeing a trend of neutral to less-favorable guest feedback, most of which was attributable to the portion versus price tradeoff," Brinker Chief Marketing Officer Wyman Roberts said.

The latest Chili's promotion offers an appetizer, two full-size entrees and a dessert for \$20. It appears to be working. Chili's started July with sales at stores open at least a year down by a double-digit percentage, but that has improved to a single-digit decline since the new promotion began.

"The guest is looking for more for less," Brinker Chairman and Chief Executive Douglas Brooks said during an earnings conference call Thursday.

Brinker also operates the On the Border and Maggiano's restaurant chains. The company reported earnings of \$42.1 million, or 41 cents a share, for the quarter ended June 24, compared with a year-earlier loss of \$1.5 million, or two cents a share. Excluding write-downs and other impacts, earnings rose to 52 cents a share from 42 cents a share.

Revenue slid 23% to \$829.4 million amid restaurant closures and the sale of 198 others, most of which were Macaroni Grill locations. Brinker sold a majority stake in the Macaroni Grill chain.

Analysts projected per-share earnings of 48 cents a share on revenue of \$853 million.

Same-store sales fell 9%, including a 9.4% drop at Chili's. The declines were far less at fellow restaurant operators [Darden Restaurants](#) Inc. -- owner of the Olive Garden, Red Lobster and LongHorn Steakhouse chains -- and [DineEquity](#) Inc., which owns the IHOP and Applebee's chains.