

September 23, 2006

SATURDAY INTERVIEW WITH RONALD M. SHAIKH

Inspiration: Seeing Meat Put on Bread

By **TRACIE ROZHON**

Ronald M. Shaikh, the chief executive of the Panera Bread Company, thinks the focus of discussion should not be on his company's stock price but on the food, the atmosphere and the customers. Next month, Panera will open its 1,000th store — and Mr. Shaikh will ring the opening bell at Nasdaq to celebrate.

Sitting in a Panera store in Everett, Mass., facing a spread of the new lobster salad (\$14.99), the new apple and sausage Crispani (\$8.99) and the new tart cherry scone (\$2.49), Mr. Shaikh (pronounced shake) discussed his company's no-longer-white-hot stock price and a recent Barron's article titled "Panera: Running Low on Yeast?," among other topics. Following are excerpts:

Q. You co-founded Au Bon Pain and later sold it. How did Panera come about?

A. I was running a small bakery in Boston, and a chef I knew had opened Au Bon Pain — they had opened 13 stores and closed 11 of them. With a partner, Louis Kane, we bought it. They had a lot of debt, and between 1981 and 1984, we worked out of it. In 1984, someone bought one of our French baguettes and asked that we split it lengthwise; he then pulled out a Stop & Shop bag and put meat in it. We said: why don't we do that? So we began selling salad and sandwiches like smoked turkey and brie. By 1991, we went public.

Q. But then you sold it?

A. Yes, by then we had bought the St. Louis Bread Company, which became Panera, and we changed the bread. It was a sour dough product; we hydrated it to give it more density; we gave it a longer fermentation. By now, we had 100 cafes. By 1998, Panera was buried under three divisions and I realized I'd just as soon sell everything and bet on Panera, which I thought had the strength to be a true national chain. It took one and half years.

Q. Panera has been a wonder stock. The stock price rose 60 percent last year. But this year, the stock peaked at \$75 in April and then fell. Although the price has recovered a bit — it's now up to \$59 — it is still off the peak.

A. Let's put it in perspective: we'll have \$2 billion in sales by the end of the year. Earnings are up 32 percent. We've been the No. 1 performing stock in the restaurant industry for the last five years.

Starbucks does \$750,000 per store per year; Chipotle does \$1.4 million; McDonald's does \$1.85 million; and Wendy's does \$1.3 million. We do \$2 million per store per year.

Q. Yes, but store-to-store comparisons are off versus a year ago, and Barron's questions the productivity of the new stores you are opening, whether they are making as much money as the ones opened before 2005.

A. They weren't comparing apples and apples. They didn't look at what those earlier stores made when they first opened. Our stores gather momentum as people discover them.

Q. So what you're saying is that if they had made the correct comparison, they would have found that the productivity had not dropped?

A: That's right.

Q. Let's get to the food, shall we?

A. Please.

Q. You've gotten a lot of publicity on the new Crispani, which is like a very, very thin pizza that serves two and sells for \$7 to \$9. But what are you developing now? What about your desserts? I had a chocolate fudge thing that looked great but was dry.

A. Maybe it was sitting there since morning. But since you mentioned it — and you want some news — we are in the process of developing an amazing apple pie, awash in cinnamon. Oh, it's delicious! Tom Gumpel, he was on the winning Coupe de Monde team — that's like the Olympics for bread — he was a dean at the Culinary Institute, he's head of our development bakery. He came out with the new scones.

Q. You're opening your 1,000th store. Will you get to 3,000?

A. Well, we're still in the early innings. We're only 60 percent saturation in the United States. We're on a wonderful escalator. We're opening in Canada next year.

Q. Why not in New York City?

A. We will. We're opening in the Bronx next year.

Q. One last question: Why is Starbucks coffee better than yours?

A. There's a reason that Starbucks can't do baked goods and we can. Actually, I think our beans are every bit as good. We just don't have as much coffee presentation, we don't have as much coffee show.