

Panera Sees Guest Traffic Rising Despite Sluggish Economy

By Annie Gasparro

July 25, 2012

--Panera expects transaction growth of 0.75% to 1.25% in third quarter

--Panera says it competes with more than just fast-casual chains

--Panera shares rise 8.8% to \$154.41; Chipotle up 1.6% to \$299.11

Panera Bread Co. (PNRA) says its bakery-cafes are able to sustain guest traffic and sales growth in part because they compete for so many different eating occasions.

Panera, which reported second-quarter profit growth of 24% Tuesday, on Wednesday said its customer traffic increased 0.9% at company-owned stores in the period, beating the company's expectations. It anticipates an increase of roughly 0.75% to 1.25% in the current quarter, and 0.5% to 1% in the fourth quarter. Panera's stock rose 8.8% to \$154.41 in recent trading Wednesday.

Co-Chief Executive Bill Moreton said Panera is not only taking market share from other fast-casual restaurants, but that it's competing in the overall breakfast, specialty coffee, soup-salad-sandwich, baked goods, catering and other businesses.

"We're not like some concepts that have been driven simply by one day part," Mr. Moreton said on a conference call. "We think that there's basically a continued battle for 'share of stomach', and that battle occurs not at the level of a format. It occurs at the level of individual consumer solutions."

For years, Panera has been a leader in the emerging fast-casual restaurant segment--along with Chipotle Mexican Grill Inc. (CMG)--attracting customers who want to trade up from fast food as well as those looking to scale down from a formal meal. Now, the segment faces increased competition as the restaurant industry has seen how well Panera and Chipotle have performed.

"People are actually getting what we've been talking about for 15 to 20 years: that there's a very large niche of customers that care about something more than simply how

low are the prices and how much food you get," Mr. Moreton said. "They care about the positive energy and the totality of the experience. Some might say that's part of the fast-casual paradigm that we share with others."

Both Panera and Chipotle have proved resilient despite the struggling economy as their customers have been willing to pay a higher price for the better-quality fast food. As a result, the two companies' price-to-earnings ratios are more than double that of most in the restaurant sector.

However, Chipotle said last week that it has seen a slowdown in its customer traffic recently. Its shares tumbled 22% Friday as investors worried about the effects the broader economy, increased competition and the fundamental maturing of the brand will have the stock.

Miller Tabak analyst Stephen Anderson said he disagrees with those who think customers will trade down from Chipotle to lower-priced fast food chains in the near term, given strong results and increased annual guidance reported by Panera Tuesday. Chipotle's shares climbed 1.6% to \$299.11 in recent trading Wednesday.

Panera, which hasn't reported a bottom-line decline since the beginning of 2008, has been fueling its recent growth by developing new menu items, improving its customer loyalty program and increasing its marketing spend.

Mr. Moreton said he is "exceedingly pleased" with Panera's customer-transaction growth, especially "in the face of a very competitive marketplace and some uncertain economic times."

Panera has also been opening more locations in urban areas, adding more drive-throughs, and looking in to international expansion in countries such as China.

Founder and Co-Chief Executive Ron Shaich said building guest traffic over decades, as Panera has done, is increasingly challenging.

"We want to be very up front in saying to people how difficult it is over the long term to do what we have done, and what we continue and intend to do, which is drive traffic growth," he said.

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