

Dunkin' Brands Reports Second Quarter 2020 Results

Dunkin' Brands Group, Inc.

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CANTON, Mass., July 30, 2020 /PRNewswire/ --

Second quarter highlights include:

- *Dunkin' U.S. comparable store sales decline of 18.7%, which improved sequentially in each month of the quarter*
- *Baskin-Robbins U.S. comparable store sales decline of 6.0%, which improved sequentially in each month of the quarter*
- *Net closure of 229 Dunkin' and Baskin-Robbins locations globally, inclusive of 180 Baskin-Robbins International locations; net closure of 40 Dunkin' U.S. locations, inclusive of the closure of 10 Speedway locations*
- *Revenues decreased by 20.0%*
- *Diluted EPS decreased by 38.0% to \$0.44*
- *Diluted adjusted EPS decreased by 43.0% to \$0.49*
- *The Company's Board of Directors announced the reinstatement of its dividend program*
- *The Company ended the second quarter with \$291 million of unrestricted cash held in the U.S., excluding cash reserved for gift cards and advertising funds*

Dunkin' Brands Group, Inc. (Nasdaq: [DNKN](#)), the parent company of Dunkin' and Baskin-Robbins (BR), today reported results for the second quarter ended June 27, 2020.

"For Dunkin' U.S., same store sales improved sequentially throughout the quarter, largely as a result of our ability to pivot quickly and introduce new menu items designed to appeal to customers who are now visiting us later in the day. Our digital platform -- a cornerstone of our Dunkin' Blueprint for Growth -- drove significant customer engagement and rapid recovery during the quarter, and last week we announced the hiring of a Chief Digital & Strategy Officer to accelerate

our digital future," said Dave Hoffmann, Chief Executive Officer, Dunkin' Brands Group, Inc. "We are extremely proud of our great franchisees who kept the vast majority of our restaurants open during the quarter and really stepped up with a sense of urgency and grit to keep their team members employed, our guests served, and their communities running."

"This morning we announced that our Board of Directors has reinstated our dividend program, and authorized and declared a quarterly dividend for the third quarter. The reinstatement of our dividend reflects the overall financial health of Dunkin' Brands and our commitment to shareholders," said Kate Jaspon, Chief Financial Officer, Dunkin' Brands Group, Inc. "In addition, the Company repaid all of its borrowings under its variable funding notes during the second quarter and ended the quarter with a strong cash balance to provide ongoing financial flexibility. Given the strength and stability of our franchised model, coupled with our franchisees' ongoing business recovery, we remain confident in our ability to maintain appropriate liquidity through the current crisis."

SECOND QUARTER 2020 KEY FINANCIAL HIGHLIGHTS

(Unaudited, \$ in millions, except per share data)	Three months ended		Increase (Decrease)	
<i>Amounts and percentages may not recalculate due to rounding</i>	June 27, 2020	June 29, 2019	\$ / #	%
Financial data:				
Revenues	\$ 287.4	359.3	(72.0)	(20.0) %
Operating income	81.6	122.7	(41.0)	(33.5) %
Operating income margin	28.4	% 34.1	%	
Adjusted operating income(1)	\$ 86.7	127.3	(40.6)	(31.9) %
Adjusted operating income margin(1)	30.2	% 35.4	%	
Net income	\$ 36.5	59.6	(23.2)	(38.9) %
Adjusted net income(1)	40.1	72.4	(32.3)	(44.6) %

Earnings per share:

Common–basic	0.44	0.72	(0.28)	(38.9)	%
Common–diluted	0.44	0.71	(0.27)	(38.0)	%
Diluted adjusted earnings per share(1)	0.49	0.86	(0.37)	(43.0)	%
Weighted-average number of common shares – diluted (in millions)	82.6	83.7	(1.1)	(1.3)	%
Systemwide sales(2)	\$ 2,491.7	3,144.6	(652.9)	(20.8)	%

Comparable store sales growth (decline):

Dunkin' U.S.	(18.7)	% 1.7	%
BR U.S.	(6.0)	% (1.4)	%
Dunkin' International	(34.9)	% 5.6	%
BR International	(5.3)	% 3.2	%

Development data:

Consolidated global net POD development(3)	(229)	109	(338)	(310.1)	%
Dunkin' global PODs at period end(4)	13,125	12,957	168	1.3	%

BR global PODs at period end(4)	7,981	8,072	(91)	(1.1)	%
Consolidated global PODs at period end(4)	21,106	21,029	77	0.4	%

(1) Adjusted operating income, adjusted operating income margin, and adjusted net income are non-GAAP measures reflecting operating income and net income adjusted for amortization of intangible assets, and long-lived asset impairments, net of the tax impact of such adjustments in the case of adjusted net income. Diluted adjusted earnings per share is a non-GAAP measure calculated using adjusted net income. See "Non-GAAP Measures and Statistical Data" and "Dunkin' Brands Group, Inc. Non-GAAP Reconciliations" for further detail.

(2) Systemwide sales include sales at franchisee-operated restaurants, including joint ventures. While we do not record sales by franchisees, licensees, or joint ventures as revenue, and such sales are not included in our consolidated financial statements, we believe that this operating measure is important in obtaining an understanding of our financial performance. We believe systemwide sales information aids in understanding how we derive royalty revenue and in evaluating our performance relative to competitors.

(3) Consolidated global net POD development for the three months ended June 27, 2020 reflects the previously-announced closing of 10 limited-menu Dunkin' Speedway locations under a termination agreement entered into with Speedway in February 2020.

(4) Temporary restaurant closures due to the COVID-19 pandemic are not treated as restaurant closures and affected restaurants are included in points of distribution.

Global systemwide sales decline of 20.8% in the second quarter was primarily attributable to global comparable store sales declines and permanent and temporary restaurant closures as a result of the global COVID-19 pandemic. The pandemic had an unfavorable impact on systemwide sales for each of our segments in the second quarter.

Dunkin' U.S. comparable store sales declined 18.7% in the second quarter as a decline in traffic driven by the COVID-19 pandemic was partially offset by an increase in average ticket. The increase in average ticket was driven by favorable mix shift to family-size bulk orders and snacking attachment, as well as premium priced cold beverages, espresso, and other specialty beverages, and partially offset by increased discounting driven by both national and local value platforms. Comparable store sales improved sequentially in each month of the second quarter. Comparable store sales would have been approximately 480 basis points lower if temporarily closed restaurants were included.

Baskin-Robbins U.S. comparable store sales declined 6.0% in the second quarter as a decline in traffic driven by the COVID-19 pandemic was partially offset by an increase in average ticket. The

increase in average ticket was driven by strength of take home products, specifically ice cream quarts and cakes. Comparable store sales improved sequentially in each month of the second quarter.

In the second quarter, Dunkin' Brands franchisees and licensees had net closures of 229 restaurants globally. This included net closures of 40 Dunkin' U.S. locations (inclusive of the closure of 10 Speedway locations), 7 Baskin-Robbins U.S. locations, 2 Dunkin' International locations, and 180 Baskin-Robbins International locations primarily driven by Japan, Russia, and India. Dunkin' U.S. franchisees remodeled 34 restaurants and Baskin-Robbins U.S. franchisees remodeled 12 restaurants during the quarter.

Revenues for the second quarter decreased \$72.0 million, or 20.0%, compared to the prior year period due primarily to decreases in royalty income and advertising fees driven by a decline in systemwide sales, primarily for the Dunkin' U.S. segment. Royalty income for the second quarter also reflects a reduction of revenue of approximately \$8 million related to corporate financial relief provided to franchisees most significantly impacted by the pandemic. Also contributing to the decrease in revenues was a decrease in rental income as the second quarter reflects the impact of rent waivers being provided to our franchisees of approximately \$3 million and a decline in variable rental income due to the decline in systemwide sales, as well as a decrease in sales of ice cream and other products.

Operating income and adjusted operating income for the second quarter of fiscal year 2020 decreased \$41.0 million, or 33.5%, and \$40.6 million, or 31.9%, respectively, compared to the prior year period primarily as a result of the decrease in royalty income and a decrease in rental margin, which includes approximately \$2 million of unfavorable impact from rent waivers being provided to our franchisees, net of waivers received from landlords. These decreases in operating income and adjusted operating income were offset by a decrease in general and administrative expenses, including a decrease in incentive compensation and reduced non-essential spending in the current year period to preserve financial flexibility as a result of the COVID-19 pandemic.

Net income and adjusted net income for the second quarter of fiscal year 2020 decreased by \$23.2 million, or 38.9%, and \$32.3 million, or 44.6%, respectively, compared to the prior year period primarily as a result of the decreases in operating income and adjusted operating income, respectively, as well as a decrease in interest income earned on our cash balances, offset by a decrease in income tax expense. The decrease in income tax expense was driven primarily by the decrease in income in the current year period, offset by excess tax benefits of \$1.5 million in the prior year period compared to an immaterial amount recognized in the current year period. Also offsetting the decrease in operating income was a \$13.1 million loss on debt extinguishment recorded in the prior year period due to the write-off of debt issuance costs in conjunction with a refinancing transaction completed during the prior year period.

Diluted earnings per share and diluted adjusted earnings per share for the second quarter decreased by 38.0% to \$0.44 and 43.0% to \$0.49, respectively, compared to the prior year period as a result of the decreases in net income and adjusted net income, respectively. Excluding the impact of recognized excess tax benefits, both diluted earnings per share and diluted adjusted earnings per share would have been lower by approximately \$0.02 for the second quarter of fiscal year 2019. Recognized excess tax benefits had no per share impact on diluted earnings per share and diluted adjusted earnings per share for the second quarter of fiscal year 2020.

SECOND QUARTER 2020 SEGMENT RESULTS

Amounts and percentages may not recalculate due to rounding **Three months ended** **Increase (Decrease)**

Dunkin' U.S.

	June 27, 2020	June 29, 2019	\$ / #	%
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(Unaudited, \$ in thousands except as otherwise noted)

Revenues:

Royalty income	\$ 103,019	131,682	(28,663)	(21.8)	%
Franchise fees	5,131	3,418	1,713	50.1	%
Rental income	25,217	30,491	(5,274)	(17.3)	%
Other revenues	781	986	(205)	(20.8)	%
Total revenues	\$ 134,148	166,577	(32,429)	(19.5)	%
Segment profit	\$ 96,158	127,099	(30,941)	(24.3)	%
Comparable store sales growth (decline)	(18.7)	% 1.7	%		
Systemwide sales (in millions)(1)	\$ 1,888.7	2,382.6	(493.9)	(20.7)	%
Points of distribution(2)	9,597	9,499	98	1.0	%
Gross openings	42	93	(51)	(54.8)	%

Net openings (closings) ⁽³⁾	(40)	46	(86)	(187.0) %
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(1) Systemwide sales include sales at franchisee-operated restaurants, including joint ventures. We do not record sales by franchisees, licensees, or joint ventures as revenue and such sales are not included in our consolidated financial statements. See "Non-GAAP Measures and Statistical Data" for further detail.

(2) Temporary restaurant closures due to the COVID-19 pandemic are not treated as restaurant closures and affected restaurants are included in points of distribution.

(3) Net openings for the three months ended June 27, 2020 reflects the previously-announced closing of 10 limited-menu Dunkin' Speedway locations under a termination agreement entered into with Speedway in February 2020.

Dunkin' U.S. second quarter revenues of \$134.1 million represented a decrease of 19.5% compared to the prior year period due primarily to a decrease in royalty income driven by a decline in systemwide sales, as well as a decrease in rental income due to rent waivers being provided to our franchisees and a decline in variable rental income as a result of the decline in systemwide sales. Offsetting these decreases in revenues was an increase in franchise fees as a result of additional deferred revenue recognized in connection with the closure of Speedway locations.

Dunkin' U.S. segment profit in the second quarter decreased to \$96.2 million, a decrease of \$30.9 million compared to the prior year period, driven primarily by decreases in royalty income and rental margin, offset by the increase in franchise fees.

Amounts and percentages may not recalculate due to rounding **Three months ended Increase (Decrease)**

<i>Baskin-Robbins U.S.</i>	June 27, 2020	June 29, 2019	\$ / #	%
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(Unaudited, \$ in thousands except as otherwise noted)

Revenues:

Royalty income	\$ 8,170	8,828	(658)	(7.5)	%
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Franchise fees	245	344	(99)	(28.8)	%
Rental income	623	973	(350)	(36.0)	%
Sales of ice cream and other products	870	1,080	(210)	(19.4)	%
Other revenues	2,499	3,063	(564)	(18.4)	%
Total revenues	\$ 12,407	14,288	(1,881)	(13.2)	%
Segment profit	\$ 9,299	10,076	(777)	(7.7)	%
Comparable store sales decline	(6.0)	%	(1.4)	%	
Systemwide sales (in millions)(1)	\$ 171.2	184.8	(13.6)	(7.4)	%
Points of distribution(2)	2,511	2,556	(45)	(1.8)	%
Gross openings	19	24	(5)	(20.8)	%
Net openings (closings)	(7)	9	(16)	(177.8)	%

(1) Systemwide sales include sales at franchisee-operated restaurants, including joint ventures. We do not record sales by franchisees, licensees, or joint ventures as revenue and such sales are not included in our consolidated financial statements. See "Non-GAAP Measures and Statistical Data" for further detail.

(2) Temporary restaurant closures due to the COVID-19 pandemic are not treated as restaurant closures and affected restaurants are included in points of distribution.

Baskin-Robbins U.S. second quarter revenues decreased 13.2% from the prior year period to \$12.4 million due primarily to decreases in royalty income driven by a decline in systemwide sales, other revenues driven by a decrease in licensing income, rental income due to rent waivers being provided to our franchisees and a decrease in the number of leases, and sales of ice cream and other products.

Segment profit for Baskin-Robbins U.S. decreased to \$9.3 million in the second quarter, a decrease of 7.7%, primarily as a result of the decreases in royalty income and other revenues, offset by a decrease in general and administrative expenses.

Amounts and percentages may not recalculate due to rounding **Three months ended** **Increase (Decrease)**

Dunkin' International

June 27, June 29, \$ / # %
2020 2019

(Unaudited, \$ in thousands except as otherwise noted)

Revenues:

Royalty income	\$ 2,296	5,396	(3,100)	(57.4)	%
Franchise fees	423	2,030	(1,607)	(79.2)	%
Other revenues	74	44	30	68.2	%
Total revenues	\$ 2,793	7,470	(4,677)	(62.6)	%
Segment profit	\$ 1,845	5,484	(3,639)	(66.4)	%

Comparable store sales growth (decline)	(34.9)	%	5.6	%	
Systemwide sales (in millions)(1)	\$ 112.8		199.5	(86.7)	(43.4) %
Points of distribution(2)	3,528		3,458	70	2.0 %
Gross openings	49		97	(48)	(49.5) %
Net openings (closings)	(2)		11	(13)	(118.2) %

(1) Systemwide sales include sales at franchisee-operated restaurants, including joint ventures. We do not record sales by franchisees, licensees, or joint ventures as revenue and such sales are not included in our consolidated financial statements. See "Non-GAAP Measures and Statistical Data" for further detail.

(2) Temporary restaurant closures due to the COVID-19 pandemic are not treated as restaurant closures and affected restaurants are included in points of distribution.

Dunkin' International second quarter systemwide sales decreased 43.4% from the prior year period driven by sales declines in Asia, Latin America, Europe, and South Korea. Sales in Latin America, South Korea, and Europe were negatively impacted by unfavorable foreign exchange rates. On a constant currency basis, systemwide sales decreased by approximately 42%.

Dunkin' International second quarter revenues of \$2.8 million represented a decrease of 62.6% from the prior year period. The decrease in revenues was primarily a result of a decrease in royalty income driven by a decline in systemwide sales, as well as a decrease in franchise fees due primarily to additional deferred revenue recognized in the prior year period upon closure of an international market.

Segment profit for Dunkin' International decreased \$3.6 million to \$1.8 million in the second quarter primarily as a result of the decrease in revenues, offset by a decrease in general and administrative expenses.

Amounts and percentages may not recalculate due to rounding **Three months ended Increase (Decrease)**

Baskin-Robbins International

	June 27, 2020	June 29, 2019	\$ / #	%
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(Unaudited, \$ in thousands except as otherwise noted)

Revenues:

Royalty income	\$ 1,686	1,953	(267)	(13.7)	%
Franchise fees	173	520	(347)	(66.7)	%
Rental income	177	215	(38)	(17.7)	%
Sales of ice cream and other products	24,529	29,997	(5,468)	(18.2)	%
Other revenues	(8)	(8)	—	—	%
Total revenues	\$ 26,557	32,677	(6,120)	(18.7)	%
Segment profit	\$ 9,930	12,089	(2,159)	(17.9)	%
Comparable store sales growth (decline)	(5.3)	% 3.2		%	
Systemwide sales (in millions)(1)	\$ 319.0	377.7	(58.7)	(15.5)	%
Points of distribution(2)	5,470	5,516	(46)	(0.8)	%
Gross openings	62	111	(49)	(44.1)	%

Net openings (closings)	(180)	43	(223)	(518.6)	%
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(1) Systemwide sales include sales at franchisee-operated restaurants, including joint ventures. We do not record sales by franchisees, licensees, or joint ventures as revenue and such sales are not included in our consolidated financial statements. See "Non-GAAP Measures and Statistical Data" for further detail.

(2) Temporary restaurant closures due to the COVID-19 pandemic are not treated as restaurant closures and affected restaurants are included in points of distribution.

Baskin-Robbins International systemwide sales decreased 15.5% in the second quarter compared to the prior year period driven by sales declines in Japan, the Middle East, Asia, and Europe, offset by sales growth in South Korea. Sales in Japan were positively impacted by favorable foreign exchange rates while sales across all other regions were negatively impacted by unfavorable foreign exchange rates. On a constant currency basis, systemwide sales decreased by approximately 14%.

Baskin-Robbins International second quarter revenues of \$26.6 million represented a decrease of 18.7% from the prior year period due primarily to decreases in sales of ice cream and other products and franchise fees, as well as a decrease in royalty income driven by a decline in systemwide sales.

Second quarter segment profit decreased 17.9% from the prior year period to \$9.9 million primarily as a result of a decrease in net margin on ice cream due primarily to a decrease in sales volume, as well as the decreases in franchise fees and royalty income and unfavorable results from our Japan joint venture compared to the prior year period. Offsetting these decreases in segment profit was an increase in net income from our South Korea joint venture.

Three months ended Increase (Decrease)

<i>U.S. Advertising Funds</i>	June 27, 2020	June 29, 2019	\$ / #	%
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(Unaudited, \$ in thousands)

Revenues:

Advertising fees and related income	\$ 99,483	123,588	(24,105)	(19.5)	%
Total revenues	\$ 99,483	123,588	(24,105)	(19.5)	%
Segment profit	\$ —	—	—	—	%

U.S. Advertising Funds second quarter revenues of \$99.5 million represented a decrease of 19.5% compared to the prior year period driven primarily by a decline in Dunkin' U.S. systemwide sales. Expenses for the U.S. Advertising Funds were equivalent to revenues in each period, resulting in no segment profit.

SEGMENT UPDATES

Dunkin' U.S.

- Dunkin' U.S. comparable store sales have been improving week-over-week during the beginning of the third quarter. As of the week ended July 25, 2020, quarter-to-date comparable store sales declines were low-single digits for open stores.
- Approximately 96% of Dunkin' U.S. locations were open as of July 25. The majority of the locations that remain closed are in transportation hubs, on college campuses, in sports venues, and other alternative points of distribution.
- The Company expects that approximately 800 Dunkin' U.S. locations, including the previously announced 450 limited-menu Speedway locations, may permanently close in 2020 on a gross basis as part of a real estate portfolio rationalization, being performed in conjunction with its franchisees, with the goal of setting the U.S. system up for continued strong, profitable future growth. The 800 locations would represent approximately 8 percent of the Dunkin' U.S. total restaurant footprint and approximately 2 percent of 2019 Dunkin' U.S. systemwide sales, inclusive of the Speedway closings.

Baskin-Robbins U.S.

- As of the week ended July 25, 2020, Baskin-Robbins U.S. quarter-to-date comparable store sales declines were low-single digits for open stores.
- Approximately 98% of Baskin-Robbins U.S. locations were open as of July 25. The majority of the locations that remain closed are non-traditional locations.

International

- Approximately 90% of each of Dunkin' and Baskin-Robbins International locations were open as of July 25.
- The Company expects that approximately 350 restaurants may permanently close on a gross basis internationally in the second half of 2020. Similar to the closures in the U.S., the majority of these closures are expected to be from low-volume sales locations.

COMPANY UPDATES

Liquidity and Use of Cash

As of the end of Q2 2020, the Company had approximately:

- \$291 million of unrestricted cash held in the U.S., which excludes cash reserved for gift cards and advertising funds; and
- \$117 million of available borrowings under its \$150 million variable funding notes, providing ongoing financial flexibility. As previously disclosed, given the market uncertainty arising from the COVID-19 pandemic, the Company took a precautionary measure and borrowed approximately \$116 million under its variable funding notes during the first quarter of 2020. The Company repaid all of these borrowings during the second quarter of 2020.

Dividend Program

- The Company today announced that the Board of Directors reinstated its dividend program and declared a cash dividend of \$0.4025 per share, payable on September 9, 2020, to shareholders of record as of the close of business on September 1, 2020.

Shares Outstanding

- The Company's shares outstanding as of June 27, 2020 were 82,257,776. In order to preserve cash in light of the ongoing COVID-19 pandemic, the Company did not repurchase any shares during the second quarter of 2020.