

IHP: Reports Fourth Quarter Same-store Sales up 5.4%. Raising 4Q05 estimate from \$0.49 to \$0.50.

Current Estimates

EPS Estimates (Before SFAS 123)*

FY Date	1Q	2Q	3Q	4Q	EPS	EOY P/E
2004	\$0.50	\$0.21	\$0.38	\$0.52	\$1.61	26.0x
2005	\$0.50	\$0.63	\$0.62	\$0.50 E	\$2.25 E	21.3x
2006	\$0.57 E	\$0.66 E	\$0.67 E	\$0.60 E	\$2.51 E	21.5x

*See page 12 for estimates including SFAS 123

Source: Onboard Consulting Estimates

Highlights

- After the close IHOP reported same-store sales for fourth-quarter 2005 of up 5.4%. This result compares to our estimate of up 4.3% and last year's gain of 4.3%. Due to these results, we are raising our fourth-quarter 2005 estimates from \$0.49 to \$0.50. We note that our estimate for the fourth quarter also includes an estimated share buyback of 50,000 shares.
- The positive same-store sales (SSS) results included benefits from both higher average check and positive traffic. The company rolled out a new menu in November system-wide, and in May took a 2.5% price increase. We believe that this additional price positively lapped over 4Q04, and benefited SSS this quarter.
- During the period, the company promoted French Toast Festival and Sweet Caramel Combos compared to Sweet Caramel Combos and Never Ending Popcorn Shrimp in the fourth-quarter of 2004.
- Since there is not a lot of color surrounding these results, we will be waiting for additional guidance at the end of January Guidance Call. However, we did increase 1Q06 SSS from 2.1% to 2.8%. This increase reflects the variance of fourth-quarter actual results to our estimate. This increase boosts 1Q06 earning from \$0.56 to \$0.57.
- However, we maintain our Neutral weight rating and price target of \$46 until we get more clarity in the company's Guidance Call.

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Rating	
New:	Neutral
Old:	None
Price Target	
New:	\$46
Old:	None

Price	\$49.98
Market Cap.	966.8m
52wk Range	\$37.97-\$50.50
Div. Yld.	2.0%

2006E	
ROA	5.8%
ROE	13.9%
ROIC	6.3%
BV Per Share	\$18.22
Debt to Cap	29.9%

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Information for Decision Makers

Discussion

After the close, IHOP reported same-store sales for fourth-quarter 2005 of up 5.4% compared to our estimate of up 4.3% and last years result of positive 4.3%. The positive same-store sales results included benefits from both higher average check and positive traffic, but these were not quantified by management. These results cause us to raise our 4Q05 earnings estimate from \$0.49 to \$0.50.

In November, the company rolled out a new menu system-wide. This is the second new menu of the year, as the first one came out in May and reflected a price increase of about 2.5%. However, we believe management took little to no price increase in the November menu. As a result, we believe that this May pricing positively lapped over 4Q04, and benefited SSS this quarter. Additionally, the company promoted French Toast Festival and Sweet Caramel Combos in 4Q05 compared to Sweet Caramel Combos and Never Ending Popcorn Shrimp in 4Q04.

Since there is not a lot of color surrounding these results, we will be waiting for the Guidance Call at the end of January before making many adjustments to our model. In the call, one item we are looking for color around is traffic trends- as the company reported negative traffic in 2005, but positive traffic in the fourth quarter. Our current estimates call for slight traffic growth in 2006, as we are unsure if the company can maintain the traffic momentum it has generated in the second half of 2005. However, we did increase 1Q06 SSS from 2.1% to 2.8%, which reflects the variance in our fourth-quarter estimate to actual results. This SSS increase causes us to also raise our 1Q06 estimate from \$0.56 to \$0.57.

One more piece of information we gleaned from the release is that the company had 1,242 units in operation at the end of 2005. This number is slightly ahead of our estimates, and also a contributor to us increasing our 4Q05 earnings estimate.

Looking ahead, we believe that the results are positive for the company to build-on. However, we still are concerned about the company maintaining positive traffic growth in 2006. As a result, we reiterate our Neutral weight rating and price target of \$46 until we hopefully get more clarity around this, and other issues, in the January Guidance Call.



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Company	1.10.06	Initiation Price	12-month Target Price
IHOP Corporation (IHOP)	\$49.98	\$47.35	\$46

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Distribution of Rankings Breakdown

	Buy	Neutral	Sell
Companies	0 %	100%	0%

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Company Ranking Time Definition



Initiation 12-26-2005	"Hold" 12-26-2005			
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