

# IHP: 1Q06 Preview & Reported SSS

## 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	\$0.60	\$0.62	\$0.53	\$2.24	21.4x
2006	\$0.59 E	\$0.61 E	\$0.65 E	\$0.56 E	\$2.41 E	21.4x
W/ SFAS 123	\$0.57 E	\$0.59 E	\$0.63 E	\$0.54 E	\$2.33 E	22.2x

Source: Onboard Consulting Estimates

## Highlights

- After the close, IHOP reported first quarter same-store sales of up 5.1%. This result is slightly below our estimated 5.6% increase for the quarter, and implies a slowing of the company's strong two-year trend (up 9.8% for 2 years in 3Q05 and up 9.7% for 2 years in 4Q05).
- The company also reported total units in operation for the quarter (1,092), which is in-line with our expectations.
- Looking ahead, segment-level economics should be up slightly over last year due to sales leverage. However, we expect a higher than normal tax rate (44% versus 38%) due to the tax run-off on the notes receivable.
- Given these results, we are maintaining our EPS estimate for the quarter of \$0.59 per share (ex-options) when earnings are announced on Wednesday April 26. Heading into the call, we believe in the company's business model and are maintaining our Neutral rating and \$50 price target.

## Disclosures

### Reg AC, Analyst Certification

I, Kelly C. Peebles, hereby certify that all the views expressed in this review, accurately reflect my personal views about the subject Company or companies and its, or their, securities. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views contained in this review.

Please read additional disclosures located on page 5

April 13, 2006

Rating	
New:	Neutral
Old:	Neutral
Price Target	
New:	\$50
Old:	\$50

Price	\$46.38
Market Cap.	869.0m
52wk Range	\$37.97-\$53.80
Div. Yld.	2.2%

2006E	
ROA	5.7%
ROE	13.7%
ROIC	8.7%
BV Per Share	\$17.89
Debt to Cap	28.5%

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*Information for Decision Makers*

### Discussion

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IHOP expects to release earnings on Wednesday April 26 and have a conference call at 11am. We expect earnings to be \$0.59 per share (ex-options) on \$90.3m in revenues (Figure 1). Other expectations include:

- **Sales.** After the close today, the company reported first quarter sales of up 5.1% during the quarter, which is slightly lower than our 5.6% estimate. Though the result was above management's positive 2.0-4.0% guidance, it marks a slowing of the company's 2 year SSS rate (up 9.8% for 3Q04/05 and up 9.7% 4Q04/05). It also compares to the weakest comparison the company has faced since 2002 (up 0.6%) and includes a 1.8% system-wide price increase taken in November 2005. Thus, we are slightly concerned about SSS heading into the back half of the year, where comparisons are tougher.

During the conference call, we will be listening for any color about April traffic, as well as any planned price increases and promotions for the rest of the year. We note that breakfast promotions favorably impact sales, and that the company took a 2.5% price increase in May that it will be lapping over.

- **Units.** Our estimates have effective franchise units being up 5.1% to 1,087 for the quarter, which approximates reported EOQ units from the press release. This number is up 24 units from last quarter and reflects the trend of more back-end loaded openings. One area of interest is if the company continues to break-out its international operations from its FL area licensee (as it did in the 10-K) and if the company has made any progress in licensing its operations internationally. We also are watching the EOP count of restaurants taken back. Historically, once a year the company gets a benefit to EPS from refranchising these restaurants, and our estimates for the year do not include any gain from refranchising.
- **Margins.** Given the expected level of sales, the company should favorably benefit from leveraging its fixed costs. However, the company could be facing a higher than normal tax rate for the rest of the year. This situation stems from the tax rate on its notes receivable run-off, and our effective tax rate for the quarter is 44.3% versus 38.3% last year.
- **Other Areas of Interest.** Other areas we will be watching include:
  - *Franchise commitments.*
  - *Cash on hand.* Until the company's ongoing tax litigation is resolved, we believe that it will be constrained from making share repurchases. Further, the company could be continuing to overpay on its taxes to provide a cushion should they lose the case. The flip side is that should it win, it would get a boost in CF that it could use to buy-back shares.



**Figure 1. Estimated earnings and margins**

Revenues	1Q05	1Q06E	Variiances	Var %
Franchise Revenues	40.90	45.83	4.93	12.1%
Rental Income	33.04	33.19	0.15	0.5%
Company Restaurant Sales	3.99	3.99	0.00	0.1%
Financing Revenues	7.90	7.27	(0.63)	(8.0%)
<b>Total Revenues</b>	<b>85.82</b>	<b>90.28</b>	4.46	5.2%
Franchise Expenses	19.46	21.14	1.68	8.6%
Rental Expense	24.68	24.40	(0.28)	(1.2%)
Company Restaurant Expenses	4.81	3.99	(0.82)	(17.0%)
Financing Expenses	3.36	3.48	0.12	3.5%
<b>Restaurant Operating Profit</b>	<b>33.52</b>	<b>37.28</b>	3.76	11.2%
General and Administrative	15.56	16.50	0.93	6.0%
Other Expense, net	1.57	0.80	(0.77)	(49.1%)
Facility Action Charges	0.05	-	(0.05)	
<b>Operating Income</b>	<b>16.33</b>	<b>19.98</b>	3.65	22.4%
Interest Expense	-	-	0.00	
Other Income (Expense), Net	-	-	0.00	
<b>Pre-tax Income</b>	<b>16.3</b>	<b>20.0</b>	3.65	22.4%
Income Taxes (Benefit)	6.26	8.86	2.61	41.7%
<b>Net Operating Income</b>	<b>\$10.1</b>	<b>\$11.1</b>	1.05	10.4%
Non-recurring			0.00	
<b>Net Income, Reported</b>	<b>\$10.1</b>	<b>\$11.1</b>	1.05	10.4%
<b>Earnings Per Share</b>				
<b>Continuing Operations</b>	<b>\$0.50</b>	<b>\$0.59</b>	0.10	19.1%
Nonrecurring (Gain) Loss	\$0.00	\$0.00	0.00	
<b>Reported (Diluted)</b>	<b>\$0.50</b>	<b>\$0.59</b>	0.10	19.1%
Basic Shares Outstanding	19.99	18.54	(1.45)	(7.2%)
Diluted Shares (Mil.)	20.21	18.74	(1.48)	(7.3%)
<b>Margin Analysis (as a percent of sales, except tax rate)</b>				
Total Non-company Margin	41.96%	43.20%	0.01	3.0%
Company Store Margin	(20.57)	0.00	20.57	(100.0%)
Franchise Rent Margin	25.29	26.49	1.20	4.8%
Franchise Margin	52.43	53.88	1.45	2.8%
Financing Margin	57.47	52.16	(5.31)	(9.2%)
Gross Margin	60.95	58.71	(2.24)	(3.7%)
General & Administrative Expens	18.13	18.27	0.14	0.8%
Facility Action Charges, Net	0.06	0.00	(0.06)	
Other Expenses	1.83	0.89	(0.94)	(51.6%)
Operating Margin	19.03	22.13	3.11	16.3%
Interest Expense	0.00	0.00	0.00	
Pretax Margin	19.03	22.13	3.11	16.3%
Net Margin	11.74	12.32	0.58	4.9%
Tax Rate	38.30	44.34	6.04	15.8%

Source: The company and Onboard Consulting estimates.



IHOP Corp. - Annual Earnings Model

(Dollars in millions except per-share data. Fiscal year ends Dec)

	52 weeks		52 weeks		52 weeks		53 weeks		52 weeks		2006E		2007E		2008E		2009E		2010E		2011E	
	2001	% Chg.	2002	% Chg.	2003	% Chg.	2004	% Chg.	2005	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.	% Chg.
<b>Revenue Detail</b>																						
Franchise Revenues	142.9	8.0%	123.1	(13.9%)	140.1	13.9%	157.6	12.5%	167.4	6.2%	186.2	11.3%	204.8	10.0%	220.4	7.6%	236.5	7.3%	253.2	7.0%	270.4	6.8%
Rental Income	65.8	28.6%	99.6	51.4%	117.3	17.7%	131.8	12.4%	131.6	(0.1%)	133.4	1.3%	135.1	1.3%	136.9	1.3%	138.7	1.3%	140.5	1.3%	142.4	1.3%
Company Restaurant Sales	68.8	(5.5%)	74.4	8.2%	74.9	0.6%	31.6	(57.8%)	14.0	(55.8%)	16.5	18.1%	23.1	39.8%	28.2	22.4%	33.5	18.6%	37.2	11.0%	40.9	10.1%
Financing Revenues	47.0	(0.1%)	68.8	46.4%	72.5	5.4%	38.1	(47.5%)	35.0	(8.0%)	28.4	(18.9%)	24.5	(13.9%)	21.1	(13.9%)	18.2	(13.9%)	15.7	(13.9%)	13.5	(13.9%)
<b>Total Revenues</b>	<b>324.4</b>	<b>7.0%</b>	<b>365.9</b>	<b>12.8%</b>	<b>404.8</b>	<b>10.6%</b>	<b>359.0</b>	<b>(11.3%)</b>	<b>348.0</b>	<b>(3.1%)</b>	<b>364.5</b>	<b>4.7%</b>	<b>387.5</b>	<b>6.3%</b>	<b>406.6</b>	<b>4.9%</b>	<b>426.9</b>	<b>5.0%</b>	<b>446.6</b>	<b>4.6%</b>	<b>467.2</b>	<b>4.6%</b>
74.5%																						
Franchise Expenses	48.3	8.0%	55.1	14.2%	64.3	16.6%	75.6	17.6%	78.8	4.2%	86.9	10.4%	95.3	9.6%	102.2	7.3%	109.4	7.0%	116.8	6.8%	124.5	6.6%
Rental Expense	37.9	36.7%	73.8	94.9%	85.8	16.2%	95.4	11.2%	98.4	3.1%	98.9	0.5%	100.3	1.5%	101.5	1.1%	102.6	1.1%	103.8	1.1%	105.0	1.1%
Company Restaurant Expenses	66.3	(5.4%)	78.4	18.2%	81.7	4.2%	34.7	(57.5%)	15.1	(56.5%)	16.5	9.3%	20.6	25.0%	23.9	15.7%	27.0	13.1%	29.1	7.7%	31.1	7.1%
Financing Expenses	31.1	0.5%	38.2	22.8%	43.6	14.2%	22.4	(48.6%)	20.3	(9.4%)	14.4	(29.4%)	13.2	(7.9%)	11.4	(13.9%)	9.8	(13.9%)	8.5	(13.9%)	7.3	(13.9%)
<b>Restaurant Operating Profit</b>	<b>140.9</b>	<b>8.5%</b>	<b>120.3</b>	<b>(14.6%)</b>	<b>129.4</b>	<b>7.5%</b>	<b>130.9</b>	<b>1.1%</b>	<b>135.4</b>	<b>3.5%</b>	<b>147.9</b>	<b>9.2%</b>	<b>158.0</b>	<b>6.9%</b>	<b>167.7</b>	<b>6.1%</b>	<b>178.1</b>	<b>6.2%</b>	<b>188.4</b>	<b>5.8%</b>	<b>199.3</b>	<b>5.8%</b>
General and Administrative	40.6	11.3%	49.5	21.9%	54.6	10.2%	59.9	9.7%	58.8	(1.8%)	62.3	6.0%	64.8	4.0%	67.4	4.0%	70.1	4.0%	72.9	4.0%	75.8	4.0%
Other Expense, net	0.0		5.4		4.9	(0.7%)	3.9	(20.1%)	4.9	25.6%	3.2	(34.3%)	2.5	(21.9%)	2.5	0.0%	2.5	0.0%	2.5	0.0%	2.5	0.0%
Facility Action Charges	0.0		0.0		2.0		12.9	NM	0.9	(93.1%)	0.0		0.0		0.0		0.0		0.0		0.0	
<b>Operating Income</b>	<b>85.4</b>	<b>7.1%</b>	<b>65.4</b>	<b>(23.5%)</b>	<b>67.9</b>	<b>3.9%</b>	<b>54.2</b>	<b>(20.3%)</b>	<b>70.9</b>	<b>30.8%</b>	<b>82.3</b>	<b>16.2%</b>	<b>90.7</b>	<b>10.2%</b>	<b>97.8</b>	<b>7.8%</b>	<b>105.5</b>	<b>7.9%</b>	<b>113.0</b>	<b>7.1%</b>	<b>121.0</b>	<b>7.1%</b>
Interest Expense	(21.1)	(3.0%)	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0	
Other Income (Expense), Net	0.1	(121.7%)	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0	
<b>Pre-tax Income</b>	<b>64.5</b>	<b>12.2%</b>	<b>65.4</b>	<b>1.4%</b>	<b>67.9</b>	<b>3.9%</b>	<b>54.2</b>	<b>(20.3%)</b>	<b>70.9</b>	<b>30.8%</b>	<b>82.3</b>	<b>16.2%</b>	<b>90.7</b>	<b>10.2%</b>	<b>97.8</b>	<b>7.8%</b>	<b>105.5</b>	<b>7.9%</b>	<b>113.0</b>	<b>7.1%</b>	<b>121.0</b>	<b>7.1%</b>
Income Taxes (Benefit)	24.2	9.3%	24.5	1.4%	25.5	3.9%	20.7	(18.6%)	26.9	29.8%	37.5	39.2%	40.2	7.4%	42.7	6.1%	45.4	6.2%	47.9	5.5%	50.6	5.6%
<b>Net Operating Income</b>	<b>\$40.3</b>	<b>14.0%</b>	<b>\$40.8</b>	<b>1.4%</b>	<b>\$42.5</b>	<b>3.9%</b>	<b>\$33.4</b>	<b>(21.3%)</b>	<b>\$43.9</b>	<b>31.5%</b>	<b>\$44.8</b>	<b>2.1%</b>	<b>\$50.5</b>	<b>12.5%</b>	<b>\$55.1</b>	<b>9.1%</b>	<b>\$60.1</b>	<b>9.1%</b>	<b>\$65.1</b>	<b>8.4%</b>	<b>\$70.4</b>	<b>8.2%</b>
Non-recurring					\$5.7																	
<b>Net Income, Reported</b>	<b>\$40.3</b>	<b>14.0%</b>	<b>\$40.8</b>	<b>1.4%</b>	<b>\$36.8</b>	<b>(10.0%)</b>	<b>\$33.4</b>	<b>(9.1%)</b>	<b>\$43.9</b>	<b>31.5%</b>	<b>\$44.8</b>	<b>2.1%</b>	<b>\$50.5</b>	<b>12.5%</b>	<b>\$55.1</b>	<b>9.1%</b>	<b>\$60.1</b>	<b>9.1%</b>	<b>\$65.1</b>	<b>8.4%</b>	<b>\$70.4</b>	<b>8.2%</b>
<b>Earnings Per Share</b>																						
Continuing Operations	\$1.94	11.3%	\$1.91	(1.3%)	\$1.96	2.6%	\$1.61	(18.2%)	\$2.24	39.4%	\$2.41	7.5%	\$2.78	15.3%	\$3.11	11.9%	\$3.48	12.0%	\$3.87	11.3%	\$4.21	8.6%
Nonrecurring (Gain) Loss	\$0.00		\$0.00		\$0.26		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00	
<b>Reported (Diluted)</b>	<b>\$1.94</b>	<b>11.3%</b>	<b>\$1.91</b>	<b>(1.3%)</b>	<b>\$1.70</b>	<b>(11.1%)</b>	<b>\$1.61</b>	<b>(5.5%)</b>	<b>\$2.24</b>	<b>39.4%</b>	<b>\$2.41</b>	<b>7.5%</b>	<b>\$2.78</b>	<b>15.3%</b>	<b>\$3.11</b>	<b>11.9%</b>	<b>\$3.48</b>	<b>12.0%</b>	<b>\$3.87</b>	<b>11.3%</b>	<b>\$4.21</b>	<b>8.6%</b>
Diluted shrs. (Mil.)	20.8	2.5%	21.3	2.8%	21.6	1.3%	20.8	(3.8%)	19.6	(5.7%)	18.6	(5.1%)	18.2	(2.4%)	17.7	(2.5%)	17.3	(2.5%)	16.8	(2.6%)	16.7	(0.4%)
<b>Margin Analysis (as a percent of sales, except tax rate)</b>																						
Total Non-company Margin	54.14%	(101) bp	42.65%	NM	41.30%	(135) bp	40.93%	(37) bp	40.88%	(5) bp	42.49%	161 bp	42.69%	21 bp	43.16%	46 bp	43.61%	45 bp	44.04%	43 bp	44.46%	42 bp
Company Store Margin	3.60	(15) bp	(5.36)	NM	(9.16)	(380) bp	(9.94)	(78) bp	(8.10)	184 bp	0.00	NM	10.52	NM	15.44	NM	19.43	399 bp	21.82	240 bp	23.97	215 bp
Franchise Rent Margin	42.43	(341) bp	25.89	NM	26.84	95 bp	27.60	76 bp	25.25	(235) bp	25.87	62 bp	25.75	(12) bp	25.88	13 bp	26.01	13 bp	26.14	13 bp	26.27	13 bp
Franchise Margin	66.21	2 bp	55.19	NM	54.14	(105) bp	52.03	(211) bp	52.94	92 bp	53.32	38 bp	53.48	16 bp	53.62	14 bp	53.74	13 bp	53.86	11 bp	53.96	10 bp
Financing Margin	33.85	(40) bp	44.50	NM	39.87	NM	41.10	124 bp	41.98	87 bp	49.49	NM	46.00	(349) bp	46.00	0 bp	46.00	0 bp	46.00	0 bp	46.00	0 bp
Gross Margin	56.58	(61) bp	67.12	NM	68.03	92 bp	63.54	NM	61.09	(246) bp	59.44	(165) bp	59.22	(22) bp	58.77	(45) bp	58.29	(48) bp	57.81	(48) bp	57.34	(47) bp
General & Administrative Expense	12.52	49 bp	13.54	102 bp	13.48	(5) bp	16.68	320 bp	16.90	21 bp	17.10	20 bp	16.73	(37) bp	16.58	(15) bp	16.42	(15) bp	16.33	(9) bp	16.23	(10) bp
Facility Action Charges, Net	0.00	0 bp	0.00	0 bp	0.50	50 bp	3.60	310 bp	0.26	(335) bp	0.00	(26) bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp
Other Expenses	0.00	0 bp	1.48	148 bp	1.20	(29) bp	1.08	(12) bp	1.40	32 bp	0.88	(52) bp	0.65	(23) bp	0.61	(3) bp	0.59	(3) bp	0.56	(3) bp	0.54	(2) bp
Operating Margin	26.34	3 bp	17.86	NM	16.78	(108) bp	15.09	(169) bp	20.36	NM	22.59	222 bp	23.41	82 bp	24.04	64 bp	24.70	66 bp	25.30	60 bp	25.90	59 bp
Interest Expense	(6.51)	(67) bp	0.00	(651) bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp
Pretax Margin	19.87	92 bp	17.86	(201) bp	16.78	(108) bp	15.09	(169) bp	20.36	NM	22.59	222 bp	23.41	82 bp	24.04	64 bp	24.70	66 bp	25.30	60 bp	25.90	59 bp
Net Margin	12.42	76 bp	11.16	(125) bp	10.49	(68) bp	9.31	(118) bp	12.62	332 bp	12.30	(32) bp	13.02	72 bp	13.54	52 bp	14.07	54 bp	14.58	51 bp	15.07	49 bp
Tax Rate	37.50	(100) bp	37.50	(0) bp	37.50	(0) bp	38.30	80 bp	38.00	(30) bp	38.00	0 bp	38.00	0 bp	38.00	0 bp	38.00	0 bp	38.00	0 bp	38.00	0 bp

## Disclosures

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### Reg AC, Analyst Certification

I, Kelly C. Peebles, hereby certify that all the views expressed in this review, accurately reflect my personal views about the subject Company or companies and its, or their, securities. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views contained in this review.

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<b>Company</b>	<b>4.13.2006</b>	<b>Initiation Price</b>	<b>12-month Target Price</b>
IHOP Corporation (IHOP)	\$46.38	\$47.35	\$50
Chipotle (CMG)	\$53.02	\$45.48	\$53

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**Distribution of Rankings**

<b>Ranking</b>	<b>Definition</b>
BUY	Stocks ranked "Buy" are those stocks Onboard recommend actively buying. These are stocks that are demonstrating their vision while meeting expectation and should appreciate at least 15% over the next 12 to 18 months.
Neutral	Stocks ranked "Neutral" are those stocks Onboard would continue to hold in a portfolio. These are stocks that are making progress strategically and operationally but are not expected to demonstrate significant appreciation in the next 12 to 18 months.
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Distribution of Rankings Breakdown

	Buy	Neutral	Sell
<b>Companies Ranked</b>	50 %	50%	0%

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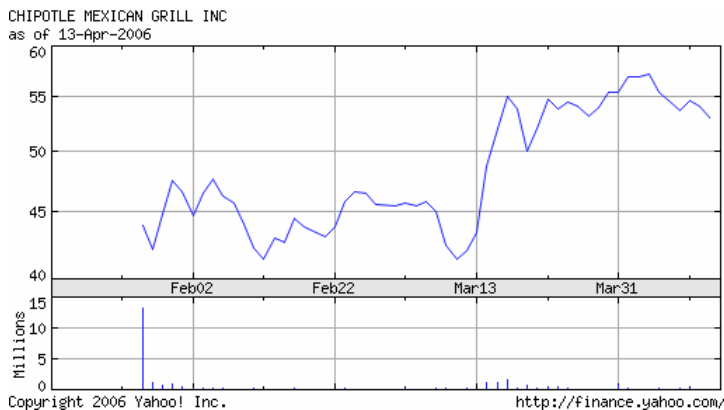
### Company Ranking Time Definition

#### IHP



Initiation 12-26-2005	"Hold" 12-26-2005			
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#### CMG



Initiation 3-3-2006	"Buy" 3-3-2006			
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