

IHP: Quick Take- Beats on G&A Control

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	\$0.68 E	\$0.67 E	\$0.64 E	\$0.54 E	\$2.53 E	19.6x

Source: Onboard Consulting Estimates

Highlights

- Before the open, IHOP reported first quarter results of \$0.68 (including SFAS 123) versus our Street high \$0.59 and Street's \$0.54. The gain was mainly attributable to lower than expected G&A expense (Figure 1); ex-this gain, the company beat our estimate by \$0.01.
- Earnings quality appears high, and the company bought back about slightly more shares (212,000) than we expected as many shares as we expected (~100,000). The company also maintained guidance the rest of the year.
- Heading into the conference call, we are interested to see if the company can maintain this G&A control, or if it is simply a period shift of expenses, as G&A guidance is unchanged. If it indeed is an improvement, it would extend the company's lower than guidance G&A growth also seen in the fourth quarter of 2005.
- We are also looking for some clarity around the taxes for the quarter, which came in lower than expected (which we are attributing to the Notes Receivable run-off).
- Given these results, we are maintaining our 2006 EPS estimate and \$50 price target until after the conference call, which is it 11 AM EST today.

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April 26, 2006

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

Price	\$46.30
Market Cap.	863.5m
52wk Range	\$37.97-\$53.80
Div. Yld.	2.2%

2006E	
ROA	5.5%
ROE	13.1%
ROIC	8.5%
BV Per Share	\$17.73
Debt to Cap	28.8%

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Information for Decision Makers

Figure 1. Estimate to Actual & Y/Y earnings and margins

Revenues	1Q05	1Q06E	1Q06A	Y/Y Var	Var %
Franchise Revenues	40.90	45.83	45.26	4.36	10.7%
Rental Income	33.04	33.19	33.35	0.31	0.9%
Company Restaurant Sales	3.99	3.99	3.38	(0.61)	(15.3%)
Financing Revenues	7.90	7.27	6.54	(1.36)	(17.2%)
Total Revenues	85.82	90.28	88.52	2.70	3.1%
Franchise Expenses	19.46	21.14	20.50	1.04	5.4%
Rental Expense	24.68	24.40	24.65	(0.04)	(0.1%)
Company Restaurant Expenses	4.81	3.99	3.76	(1.05)	(21.8%)
Financing Expenses	3.36	3.48	3.04	(0.32)	(9.6%)
Restaurant Operating Profit	33.52	37.28	36.58	3.06	9.1%
General and Administrative	15.56	16.50	15.09	(0.47)	(3.0%)
Other Expense, net	1.57	0.80	1.17	(0.40)	(25.4%)
Facility Action Charges	0.05	-	-	(0.05)	(100.0%)
Operating Income	16.33	19.98	20.32	3.99	24.4%
Interest Expense	-	-	-	0.00	
Other Income (Expense), Net	-	-	-	0.00	
Pre-tax Income	16.3	20.0	20.3	3.99	24.4%
Income Taxes (Benefit)	6.26	8.86	7.72	1.46	23.4%
Net Operating Income	\$10.1	\$11.1	\$12.6	2.52	25.0%
Non-recurring					
Net Income, Reported	\$10.1	\$11.1	\$12.6	2.52	25.0%
Earnings Per Share					
Continuing Operations	\$0.50	\$0.59	\$0.68	0.18	35.5%
Nonrecurring (Gain) Loss	\$0.00	\$0.00	\$0.00		
Reported (Diluted)	\$0.50	\$0.59	\$0.68	0.18	35.5%
Basic Shares Outstanding	19.99	18.54	18.42	(1.57)	(7.9%)
Diluted Shares (Mil.)	20.21	18.74	18.65	(1.56)	(7.7%)
Margin Analysis (as a percent of sales, except tax rate)					
Total Non-company Margin	41.96%	43.20%	43.41%	145 bp	3.5%
Company Store Margin	(20.57)	0.00	(11.28)	930 bp	(45.2%)
Franchise Rent Margin	25.29	26.49	26.09	80 bp	3.2%
Franchise Margin	52.43	53.88	54.71	228 bp	4.3%
Financing Margin	57.47	52.16	53.52	(395) bp	(6.9%)
Gross Margin	60.95	58.71	58.68	(227) bp	(3.7%)
General & Administrative Expens	18.13	18.27	17.05	(109) bp	(6.0%)
Facility Action Charges, Net	0.06	0.00	0.00	(6) bp	(100.0%)
Other Expenses	1.83	0.89	1.32	(51) bp	(27.7%)
Operating Margin	19.03	22.13	22.95	392 bp	20.6%
Interest Expense	0.00	0.00	0.00		
Pretax Margin	19.03	22.13	22.95	392 bp	20.6%
Net Margin	11.74	12.32	14.23	249 bp	21.2%
Tax Rate	38.30	44.34	37.99	(31) bp	(0.8%)

Source: The company and Onboard Consulting estimates.



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Company	4.26.2006	Initiation Price	12-month Target Price
IHOP Corporation (IHOP)	\$46.30	\$47.35	\$50
Chipotle (CMG)	\$52.15	\$45.48	\$53

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Companies Ranked	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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