

Dine Brands Global, Inc.
Form 10-Q
May 02, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-15283

Dine Brands Global, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-3038279

(I.R.S. Employer Identification No.)

450 North Brand Boulevard, Glendale, California (Address of principal executive offices)

91203-1903 (Zip Code)

(818) 240-6055

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

Edgar Filing: Dine Brands Global, Inc. - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 27, 2018
Common Stock, \$0.01 par value	17,831,460

Table of Contents

Dine Brands Global, Inc. and Subsidiaries

Index

	Page
<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1—Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets— March 31, 2018 (unaudited) and December 31, 2017</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income (unaudited)—Three Months Ended March 31, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows (unaudited)—Three Months Ended March 31, 2018 and 2017</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>6</u>
<u>Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3—Quantitative and Qualitative Disclosures about Market Risk</u>	<u>31</u>
<u>Item 4—Controls and Procedures</u>	<u>31</u>
<u>PART II. OTHER INFORMATION</u>	<u>31</u>
<u>Item 1—Legal Proceedings</u>	<u>31</u>
<u>Item 1A—Risk Factors</u>	<u>32</u>
<u>Item 2—Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>32</u>
<u>Item 3—Defaults Upon Senior Securities</u>	<u>32</u>
<u>Item 4—Mine Safety Disclosures</u>	<u>32</u>
<u>Item 5—Other Information</u>	<u>32</u>
<u>Item 6—Exhibits</u>	<u>33</u>
<u>Signatures</u>	<u>35</u>

Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan,” “goal” and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading “Risk Factors,” as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the United States Securities and Exchange Commission. The forward-looking statements contained in this report are made as of the date hereof and the Company does not intend to, nor does it assume any obligation to, update or supplement any forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

Factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed in this Quarterly Report on Form 10-Q include, among other things: general economic conditions; our level of indebtedness; compliance with the terms of our securitized debt; our ability to refinance our current indebtedness or obtain additional financing; our dependence on information technology; potential cyber incidents; the implementation of restaurant development plans; our dependence on our franchisees; the concentration of our Applebee’s franchised restaurants in a limited number of franchisees; the financial health of our franchisees; our franchisees’ and other licensees’ compliance with our quality standards and trademark usage; general risks associated with the restaurant industry; potential harm to our brands’ reputation; possible future impairment charges; the effects of tax reform; trading volatility and fluctuations in the price of our stock; our ability to achieve the financial guidance we provide to investors; successful implementation of our business strategy; the availability of suitable locations for new restaurants; shortages or interruptions in the supply or delivery of products from third parties or availability of utilities; the management and forecasting of appropriate inventory levels; development and implementation of innovative

marketing and use of social media; changing health or dietary preference of consumers; risks associated with doing business in international markets; the results of litigation and other legal proceedings; third-party claims with respect to intellectual property assets; our ability to attract and retain management and other key employees; compliance with federal, state and local governmental regulations; risks associated with our self-insurance; natural disasters or other series incidents; our success with development initiatives outside of our core business; the adequacy of our internal controls over financial reporting and future changes in accounting standards.

Table of Contents

Fiscal Quarter End

The Company's fiscal quarters end on the Sunday closest to the last day of each calendar quarter. For convenience, the fiscal quarters of each year are referred to as ending on March 31, June 30, September 30 and December 31. The first fiscal quarter of 2018 began on January 1, 2018 and ended on April 1, 2018. The first fiscal quarter of 2017 began on January 2, 2017 and ended on April 2, 2017.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Dine Brands Global, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

Assets	March 31, 2018 (Unaudited)	December 31, 2017 (as adjusted)
Current assets:		
Cash and cash equivalents	\$96,399	\$ 117,010
Receivables, net	105,834	140,188
Restricted cash	32,391	31,436
Prepaid gift card costs	31,174	40,725
Prepaid income taxes	36,078	45,981
Other current assets	6,906	12,615
Total current assets	308,782	387,955
Long-term receivables, net	122,362	126,570
Other intangible assets, net	581,639	582,787
Goodwill	339,236	339,236
Property and equipment, net	198,624	199,585
Deferred rent receivable	81,720	82,971
Non-current restricted cash	14,700	14,700
Other non-current assets, net	3,983	4,135
Total assets	\$1,651,046	\$ 1,737,939
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current maturities of long-term debt	\$12,965	\$ 12,965
Accounts payable	45,236	55,028
Gift card liability	117,266	164,441
Dividends payable	11,520	17,748
Current maturities of capital lease and financing obligations	12,986	14,193
Accrued employee compensation and benefits	10,098	13,547
Deferred franchise revenue, short-term	10,851	11,001
Other accrued expenses	15,047	16,001
Total current liabilities	235,969	304,924
Long-term debt, less current maturities	1,267,468	1,269,849
Capital lease obligations, less current maturities	60,268	61,895
Financing obligations, less current maturities	38,981	39,200
Deferred income taxes, net	114,522	119,996
Deferred franchise revenue, long-term	68,581	70,432
Deferred rent payable	62,371	69,112
Other non-current liabilities	19,772	18,071
Total liabilities	1,867,932	1,953,479
Commitments and contingencies		
Stockholders' deficit:		
Common stock, \$0.01 par value, shares: 40,000,000 authorized; March 31, 2018 - 25,013,067 issued, 17,922,137 outstanding; December 31, 2017 - 25,022,312 issued, 17,993,124 outstanding	250	250

Edgar Filing: Dine Brands Global, Inc. - Form 10-Q

Additional paid-in-capital	264,994	276,408
Accumulated deficit	(52,867)	(69,940)
Accumulated other comprehensive loss	(58)	(105)
Treasury stock, at cost; shares: March 31, 2018 - 7,090,930; December 31, 2017 - 7,029,188	(429,205)	(422,153)
Total stockholders' deficit	(216,886)	(215,540)
Total liabilities and stockholders' deficit	\$1,651,046	\$ 1,737,939

See the accompanying Notes to Consolidated Financial Statements.

Table of Contents

Dine Brands Global, Inc. and Subsidiaries
 Consolidated Statements of Comprehensive Income
 (In thousands, except per share amounts)
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues:		(as adjusted)
Franchise revenues	\$ 155,313	\$ 154,725
Rental revenues	30,841	30,465
Financing revenues	2,009	2,131
Company restaurant sales	—	4,140
Total revenues	188,163	191,461
Cost of revenues:		
Franchise expenses	81,872	70,167
Rental expenses	22,641	22,666
Financing expenses	150	—
Company restaurant expenses	—	4,343
Total cost of revenues	104,663	97,176
Gross profit	83,500	94,285
General and administrative expenses	41,911	50,305
Interest expense	15,199	15,363
Closure and impairment charges	2,604	217
Amortization of intangible assets	2,502	2,500
Gain on disposition of assets	(1,427)	(109)
Income before income tax provision	22,711	26,009
Income tax provision	(5,638)	(10,414)
Net income	17,073	15,595
Other comprehensive (loss) income, net of tax:		
Adjustment to unrealized loss on available-for-sale investments	50	—
Foreign currency translation adjustment	(3)	—
Net income and total comprehensive income	\$ 17,120	\$ 15,595
Net income available to common stockholders:		
Net income	\$ 17,073	\$ 15,595
Less: Net income allocated to unvested participating restricted stock	(568)	(283)
Net income available to common stockholders	\$ 16,505	\$ 15,312
Net income available to common stockholders per share:		
Basic	\$ 0.93	\$ 0.87
Diluted	\$ 0.92	\$ 0.86
Weighted average shares outstanding:		
Basic	17,703	17,694
Diluted	17,845	17,737
Dividends declared per common share	\$ 0.63	\$ 0.97
Dividends paid per common share	\$ 0.97	\$ 0.97

See the accompanying Notes to Consolidated Financial Statements.

4

Table of Contents

Dine Brands Global, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows
 (In thousands)
 (Unaudited)

	Three Months Ended March 31, 2018		2017	
Cash flows from operating activities:				(as adjusted)
Net income	\$ 17,073		\$ 15,595	
Adjustments to reconcile net income to cash flows provided by operating activities:				
Depreciation and amortization	7,940		7,706	
Closure and impairment charges	2,594		209	
Non-cash interest expense	864		827	
Deferred income taxes	(1,182	)	(2,714)
Non-cash stock-based compensation expense	3,368		6,165	
Gain on disposition of assets	(1,421	)	(109)
Other	(6,199	)	(2,932)
Changes in operating assets and liabilities:				
Accounts receivable, net	(8,804	)	(818)
Current income tax receivables and payables	5,529		7,176	
Gift card receivables and payables	(2,269	)	(7,855)
Other current assets	5,709		(736)
Accounts payable	65		1,745	
Accrued employee compensation and benefits	(3,448	)	(2,162)
Other current liabilities	(3,351	)	(2,554)
Cash flows provided by operating activities	16,468		19,543	
Cash flows from investing activities:				
Additions to property and equipment	(3,488	)	(2,997)

Edgar Filing: Dine Brands Global, Inc. - Form 10-Q

Proceeds from sale of property and equipment	655		—	
Principal receipts from notes, equipment contracts and other long-term receivables	4,930		5,002	
Additions to long-term receivables	(2,325)	—	
Other	(27	)	(188)
Cash flows (used in) provided by investing activities	(255	)	1,817	
Cash flows from financing activities:				
Repayment of long-term debt	(3,250)	—	
Dividends paid on common stock	(17,453	)	(17,432)
Repurchase of common stock	(10,003	)	(10,003)
Principal payments on capital lease and financing obligations	(4,536	)	(3,608)
Tax payments for restricted stock upon vesting	(1,083	)	(2,022)
Proceeds from stock options exercised	456		1,474	
Cash flows used in financing activities	(35,869	)	(31,591)
Net change in cash, cash equivalents and restricted cash	(19,656	)	(10,231)
Cash, cash equivalents and restricted cash at beginning of period	163,146		185,491	
Cash, cash equivalents and restricted cash at end of period	\$	143,490	\$	175,260
Supplemental disclosures:				
Interest paid in cash	\$	16,621	\$	16,231
Income taxes paid in cash	\$	934	\$	6,018

See the accompanying Notes to Consolidated Financial Statements.

Table of Contents

Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. General