Pizza Industry Essay, Research Paper

THE RESTAURANT & FAST FOOD INDUSTRY

ANALYSIS OF THE PIZZA CHAIN SECTOR

THE RESTAURANT INDUSTRY AND HISTORY

Where and when did the fast food concept come into play? Consider the hamburger. While German immigrants brought the first “Hamburg Style Steak” to the United States in the early 19th century, the humble hamburger, “White Castle,” became the basis for a new kind of restaurant in 1916 called “the fast food chain”. J. Walter Anderson, who sold five-cent hamburgers with french-fries and colas, opened the oldest burger chain. Other restaurants followed and in 1948 brothers Richard and Maurice “Mac” McDonalds figured out a fresh approach that would produce fast food even faster. They eliminated waitresses and indoor tables from their hamburger stand, cut down on menus, streamlined food operations and lowered prices. Richard built the stand’s giant golden arches, which emerged through the roof. In 1954 Ray Kroc, a milk shake machine salesman, paid the brothers a visit and was overwhelmed by the volume of business the McDonald’s were serving up with bags of burgers and fries with factorylike efficiency. Kroc envisioned a string of establishments across the country. He made a deal with the McDonalds under which Kroc got the right to use their name and methods in franchising the concept. The brothers would get a bit more than a quarter of the 1.9% of the franchisees’ gross to be collected by Kroc. The McDonald’s concept spread like a brush fire and the rest is McHistory. Ray Kroc, who built the McDonald’s Corporation, and his belief that there was equal beauty in the expanding restaurant business, definitely envisioned the future of the fast food industry most accurately.

INDUSTRY CHARACTERISTICS

The restaurant industry is a classical mature industry with characteristics such as consolidations, acquisitions and divesture activity. Restaurant operators have found it easier to grow by acquisition rather than internal development. This is significant since acquiring companies do not have to perform a great deal of market analysis of a particular customer base or geographical market area.

This industry is intensely competitive with respect to price, service, location and food quality. There are many well-established competitors with substantial financial and other available resources. Some competitors have been in existence for a substantially long time and some franchisees are established in good markets.

It is extremely competitive for the consumers’ dollars. These restaurants not only compete with other restaurants, but other generic forms of competition; such as eat-at-home foods and supermarket deli take-out arrangements.

The business is very capital intensive. It can cost approximately $1 million dollars to open a new fast food store and even more for traditional dining establishments. Most fast food chain restaurants are franchisee operated.

The industry is segmented into two major categories: fast food and full-service restaurants.

ENVIRONMENT & OVERVIEW OF THE MARKET

Traditionally, restaurants (and hotels) have been among the most entrepreneurial of businesses in the sense that the barriers to entry are relatively weak or minor.

Factors creating environmental changes were a result of the early 1970’s when dual-income families became the norm and generated more disposable income for eating out and leaving less time for cooking at home. The demographic shift, and the restaurant industry’s ability to deliver a consistent product, at a reasonable price, has created a generation of U. S. consumers who eat out. Restaurant sales have grown steadily throughout the 1990’s (about 5% in 1999). United States citizens spend nearly half of their food dollars eating out (approximately $350 billion each year).

As an introduction to the overall restaurant industry, Graph 1 illustrates Percentage of Market Share Sales by Segment for the Top 100 Restaurants for 1998 and the Second 100 Market Sale Shares by Segment for 1998. 1998 aggregate Restaurant Sales totalled $123.6 and $16.6 billion for a combined total of $140.2 billion. Combined Pizza sales for the 200 chains, as a percentage to aggregate sales, represent 15.96% of market share, or $22.380 billion for pizza segment sales.

GRAPH 1 GRAPH 2

Table 1 on Page 4 illustrates Pizza Chains Ranked by the number of U. S. Units for fiscal years ending 1998, 1997 and 1996. The four power players, in the pizza chain industry, dominant the market with a combined percentage rate of 89.51%. Pizza Hut, with its 39.52% of total units and their #1 ranking, is definitely the leader in the number of units in the United States.

Table 1

PIZZA CHAINS RANKED BY NUMBER OF U. S. UNITS

1997

RANKING

1998

RANKING

CHAIN

FISCAL

YEAR

END

1998\*

1997

1996 % OF

1998

TOTAL

UNITS

1 1 Pizza Hut Dec. 1998 8,471 8,698 8,910 39.52%

2 2 Domino’s Pizza Dec. 1998 4.489 4,431 4,300 20.94

3 3 Little Caesar’s Dec. 1998 4,350 3,900 4,008 20.29

4 4 Papa John’s Dec. 1998 1,879 1,517 1,160 8.76

5 5 Sbarro, the Italian

Eatery Dec. 1998 806 780 732 3.76

6 6 Godfather’s Pizza May 1999 592 554 540 2.76

7 7 Round Table Pizza Dec. 1998 530 540 539 2.47

8 8 Chuck E. Cheese’s Dec. 1998 320 306 308 1.50

TOTAL 21,437 20,726 20,497 100.0%

Source: Nation’s Restaurant News Research

\*Actual Results, Estimates or Projections

Table 2 PIZZA CHAINS RANKED BY SALES PER UNIT

1997

RANKING

1998

RANKING

CHAIN FISCAL

YEAR

END

1998\*

1997

1996

1 1 Chuck E. Cheese’s Dec. 1998 $913.8 $922.7 $796.7

2 2 Round Table Pizza Dec. 1998 729.0 730.3 728.0

3 3 Papa John’s Pizza Dec. 1998 681.0 648.3 607.6

4 4 Sbarro, The Italian Eatery Dec. 1998 585.2 557.8 549.3

5 5 Pizza Hut Dec. 1998 559.1 533.8 553.8

6 6 Domino’s Pizza Dec. 1998 515.7 504.0 491.7

7 7 Godfather’s Pizza May 1999 488.7 495.1 498.6

8 8 Little Caesar’s Pizza Dec. 1998 303.0 347.7 341.7

AVERAGE $596.9 $592.5 $570.9

\*Estimated Average based on mathematical equation of annual system wide sales growth

and change in number of operating units.

Source: Nation’s Restaurant News Research

Table 2 on Page 5 illustrates the ranking of pizza chains by sales per unit for fiscal years ending 1998, 1997 and 1996. This ranking alters the position of the four power players, due to sales being spread over more system-wide units for the major players, versus the smaller chains who did not have as many units.

THE BIRTH AND GROWTH OF THE FAST FOOD INDUSTRY

What caused the change that resulted in a shift from “at-home food” to “fast food” consumption? One factor is attributed to the birth rate in the late 1960’s and early 1970’s when more women sought professional careers during their childbearing years. Another factor was the presence of Ray Kroc, the man who deserves the most credit or blame for transforming the eating habits of Americans.

This trend in eating patterns is illustrated below in Table 3.

Progressive Grocer’s, in 1990, made a plausible prediction on “Food Eaten at Home Versus Food Eaten Away from Home” based on a survey and responses, it was concluded ” Food eaten away from home would increase 108% from 1970 to Year 2000″.

TABLE 3 TREND OF FOOD CONSUMPTION

Numbers in Percent of Food Dollar

1970 1980 1988 2000

Food-at-Home 76.0 71.0 67.0 50.0

Food-away-from Home 24.0 29.0 33.0 50.0

As indicated by Table 3, the trend did decrease from the category of “Food At Home” and increased for “Food Away from Home” category. Between 1997 and 2002, the number of U. S. households headed by people aged 25 to 44 will decline by 1.7 million to 43 million. By 2008, they will overtake the younger set from 43 million to 40 million, altering the landscape of consumer spending in the 21st Century. As 77 million Americans, aged 35 to 53, move into a new stage of life, it will signal fundamental changes that go far beyond the demand for products and services that appeal to the middle age. At the same time, mature households aged 65 and order will gain spending power through increasing affluence, rather than increasing numbers.

General trends in the industry are continuing to move toward prepared foods, and pizza with takeout and home delivery, should continue to do well.

Overview of the Food Service Industry

The fast food sector consists of sandwich stores, pizza stores and chicken units. The sandwich stores encompass hamburger chains and Mexican food varieties such as tacos. The pizza segment features various types and forms of pizza such as thin-crust, deep dish, Chicago and New York style pizzas. Some chains offer exclusive home delivery, such as Domino’s, while others offer a combination of in-store and home delivery.

Quick-service (fast food), full-service restaurants and other establishments make up the sector of retail trade. Within this sector, quick and full-service restaurants account for approximately 90% of all food service sales. Quick-service restaurants have been expanding the fastest. They have gone from a 28% share of food service sales in 1970 to approximately a 48% share in 1996.

History of the Pizza Segment of the Fast Food & Restaurant Industry

The history of pizza had its beginning when it was considered a peasant’s meal in Italy for centuries; however, modern pizza is attributed to baker Raffaele Esposito of Napoli (Naples) in the Italian region of Campania. In 1889, Exposito of Pizzeria di Pietro baked pizza especially for the visit of Italian King Umberto I and Queen Margherita. The pizza was very patriotic and resembled the Italian flag with its colors of green (basil), white (mozzarella) and red (tomatoes) and was favored by the Queen. The pizza was named “Pizza Margherita” after the Queen and set the standard by which today’s pizza evolved. It firmly established Naples as the pizza capitol of the world. In 1830 the world’s first true pizzeria, Antica Pizzeria Port’ Alba, opened and is still in business today at Via Port’ Alba 18 in Naples.

The world’s best, and unarguably the most authentic pizza, is Pizza Napoletana (Neapolitan Pizza) which maintains its pre-eminence through the quality of the local products such as herbs, tomatoes grown in the volcanic ash of Vesuvius, fresh mozzarella and the artistry of the pizzaioli or the pizza makers.

Pizza migrated to America with the Italians in the latter half of the 19th century. By the turn of the century, Italians had begun to open their own bakeries and were selling groceries as well as pizza. Gennaro Lombardi opened the first true U. S. pizzeria in 1905 in New York City at 53 1/3 Spring Street and, then reopened at 32 Spring Street. It wasn’t until after World War II, when returning GI’s created a nationwide demand for the pizza they had eaten and loved in Italy, that pizza went public. A first recollection of pizza could possibly be Chef Boyardee’s “homemade” pizza whose ingredients came packaged in a box with canned pizza sauce, a packet of parmesan cheese and crust flour. In the late 1950’s, Pizza Hut, Shakey’s and various other mass production pizza parlors appeared and further popularised pizza.

ABSTRACT OF THE RESTAURANT AND FOOD SERVICE INDUSTRY

AND THE TOP FOUR PIZZA CHAIN RESTAURANTS

SUMMARY AND INTRODUCTION

Food service organizations revealed that aggregate domestic systemwide sales grew to $123.59 billion for 1998 or 6.41% growth rate compared with a 5.33% rate of growth in 1997. Continued consolidations, faster growth in restaurant openings and widespread improvements in sales per unit were factors behind the acceleration in growth.

Domestic pizza delivery sales have not grown as quickly, but have shown stable growth. From 1988 to 1997 pizza delivery sales in the U. S. grew at a compound annual rate of 6.2%. In 1990 and 1991, even when the U. S. was in a recessionary period, pizza delivery sales continued to grow at an annual compound rate of 2.5%.

The Top 100 companies had aggregate revenue of $72.98 billion in their latest fiscal year, and includes Pizza Hut, Domino’s, Little Caeser’s and Papa Johns. Their collective growth slipped to 6.66% from 8.18% in the preceding year. Factors contributing to a decline in revenue growth were refranchising, or company-store divestitures and a slackening in the pace of franchised restaurant openings.

Over a three-year span, the eight chains making up the pizza segment, have seen their collective market share erode from 9.39% to 8.84% with a slice being worth $10.93 billion collectively.

As Pizza Hut enjoyed its first full fiscal year under the ownership of Tricon; a major shake-up took place at Domino’s Pizza when founder Thomas S. Monaghan unexpectedly sold the pizza chain to Bain Capital Inc. of Boston, a private investment company. Bain paid an estimated $1 billion to acquire a 90-percent stake in Domino’s. In addition to selling the Ann Arbor, Michigan based chain, Monaghan, who was chairman and chief executive, also stepped down from day-to-day operations.

Despite fierce competition in the pizza segment and a year of unusually high cheese prices, three of the category’s four largest players, Pizza Hut, Domino’s, and Papa John’s thrived in 1998 with strong sales’ performance. Each player’s source of revenues appears to be generally healthy and continue to grow moderately over last year.

Table 4 indicates Pizza Chain Rankings for U. S. System-wide Sales for fiscal years ending 1998, 1997 and 1996 and supports the narrative and prior explanation on Page 9.

PIZZA CHAINS RANKED BY U. S. SYSTEMWIDE SALES

FOR FISCAL YEAR ENDING

MM-$

CHAIN DECEMBER 1998\* DECEMBER 1997 DECEMBER 1996

Pizza Hut $4,800.0 $4,700.0 $4,927.0

Domino’s Pizza 2,300.0 2,200.0 2,100.0

Little Caesar’s 1,250.0 1,375.0 1,400.0

Papa John’s 1,156.3 867.7 619.2

Other 1,420.1 1,369.8 1,301.8

TOTAL SALES $10,926.4 $10,512.5 $10,348.0

Source: Nation’s Restaurant News \*Actual Results, Estimates or Projections

PIZZA HUT HISTORY & PROFILE

Pizza Hut began in 1958, when two college students from Wichita, Kansas, Frank and Dan Carney, were approached by a family friend with the idea of opening a pizza parlor. Although the concept was relatively new to many Americans, at that time, the brothers quickly saw the potential of this new enterprise.

After borrowing $600 from their mother, they purchased some second-hand equipment and rented a small building on a busy intersection in their hometown. The result of their entrepreneurial efforts was the first Pizza Hut restaurant, and the foundation for what would become the largest and most successful pizza restaurant in the world.

Pizza Hut, now a subsidiary of Tricon Global Restaurants, Inc. (NYSE: YUM) is the world’s largest pizza restaurant chain. Pizza Hut operates 8,471 units in the United States and 3,814 units in 88 countries and territories throughout the world under the Pizza Hut name for a total of 12,285 units. In 1998, U. S. sales totalled $4.8 billion and average U. S. system sales were $645,000. It employs more than 240,000 people worldwide. The company is the recognized leader of the $30 billion pizza category.

1998 was a great year for Pizza Hut. By introducing great new products, great promotions, great operations and, in partnership with their franchisees, great new assets, Pizza Hut’s management and employees can’t wait since their future looks strong. The pie chart below indicates the competitive position Pizza Hut has in the pizza chain sector, and in particular, with their major competitors.

Chart 3 1998 PIZZA HUT % OF MARKET SHARE

Source: Tricon Global Restaurants, Inc. Independent sales are fragmented.

1998 Annual Report

Over the past four decades Pizza Hut has built a reputation for excellence that has earned them the respect of consumers and industry experts alike. Their products have been voted number one in countless consumer surveys nationwide. Their accomplishments, as innovative business leaders, have been cited by publications such as, Restaurant Business, Fortune and The Wall Street Journal.

Strategies

In May of 1997, Pizza Hut announced a $50 million investment to put more quality in everything. The company introduced higher quality ingredients, added up to 40-percent more toppings than major competitors, installed 2,500 additional phone lines to speed delivery orders and re-calibrated ovens to ensure consistent cooking.

Intensive training was introduced and covered the basics of quality, service, and running great restaurants more effectively. The company created an innovative program to encourage franchisees to invest in the upgrading of restaurants.

To strengthen the Pizza Hut asset base, in December of 1997, the company announced a strategic plan to dramatically refocus its business. The company strengthened its business by closing or consolidating marginal stores.

“The Best Pizzas Under One Roof” advertising campaign was introduced in the summer of 1998 to tell consumers that Pizza Hut has a great variety of pizzas to select from, including Pan Pizza, Personal Pan Pizza, Thin n’ Crispy, Stuffed Crust Pizza and Hand Tossed Style Pizza. Pizza Hut has recently had a steady line of successful new product introductions including The Edge, Sicilian and recently The Big New Yorker Pizza. The Big New Yorker is a traditional-style larger, 16-inch pizza with New York style foldable slices.

Pizza Hut introduced an innovative reward and recognition program throughout their company. President Mike Rawlings presents “Big Cheese Awards” to company and franchise team members for outstanding efforts and the program has become very popular.

The final strategy is culminating everything the company has done to transform the business over the past two and a half years, and to update and contemporize Pizza Hut restaurants. The company is investing over $500 million to contemporize company-owned stores. In addition, Pizza Hut franchisees will make a significant investment to refurbish their restaurants during the same period.

Pizza Hut’s refranchising program is expected to continue this year, tapping the momentum of the 115 former corporate-owned units that were spun off to franchisees during the first quarter of 1999. The sales are part of Tricon’s multi-year-long strategy to reduce the company’s ownership to approximately 25 percent of the Pizza Hut system.

DOMINO’S pizza history and profile

Thomas Monaghan began his pizza career in 1960 when he purchased a failed pizza business in Michigan by the name of DomiNick’s. He borrowed $500 for the purchase and he and his brother James began making pizzas. By 1961 his brother James gave up on the business, and traded his share in DomiNick’s for a Volkswagen Beetle.

Thomas kept experimenting with pizzas through trial and error. He developed the strategy of selling only pizza and locating stores near colleges and military bases.

In 1965, he changed the company name from DomiNick’s to Domino’s Pizza. During the next 10 years, there were many setbacks that nearly lead the company into bankruptcy.

In the early 1980’s, Domino’s grew dramatically. The company had more than doubled its’ U.S. stores to 1,000 and had become an international company by opening its first store in Canada in 1983. The company was becoming very successful, and this success brought much wealth to the owner; however, Thomas did not possess the ability or skill of managing funds properly, or appropriately creating intense problems.

In 1989, Thomas decided to sell Domino’s. He put the company up for sale, but no one was interested in purchasing the company. Thomas replaced himself with a new management group in hopes of restoring the finances of the company. In 1991, the company performance began to slide and Thomas returned to management. He began selling his personal assets and used the money to renew the company.

Domino’s is based in Ann Arbor, Michigan and is the leading pizza delivery company in the United States. They operate through a worldwide network of over 6,219 franchise and corporate owned stores. Approximately 90% of the stores are franchises.

Amid all the changes, Domino’s Pizza reported double-digit increases in earnings for 1998. The company says same-store sales growth was driven last year by the success of the “heat wave” marketing campaign, which touted Domino’s new delivery bag technology aimed at keeping pizza hotter.

Over the thirty-eight (38) years since their founding, they have developed a simple, cost-efficient model. Domino’s reputation was built on speedy delivery of pizza, but is now emphasizing a focused menu of high quality and value-priced pizza with three types of crust.

In late 1998, Domino’s Pizza initiated a cost-reduction program to improve corporate profitability. The effort, which was completed by year-end, resulted in the sale or closure of 142 company stores and the elimination of certain regional offices.

Domino’s business strategy has been to grow revenues and profitability by focusing on prompt delivery of high quality product, operational excellence and brand recognition through strong promotional advertising. Their strategy has resulted in a leading market position and a track record of profitable growth. They intend to achieve further growth and strengthen their competitive position through their continued implementation of their strategy and focused initiatives.

As for the future of Domino’s, the newly appointed Chairman, President and CEO, David Brandon says one of his priorities is to propel store growth through franchising expansion.

.

Their strategy for further growth and, efforts to strengthen their competitive position, has resulted in revenues increasing by 21.3%, operating expenses increasing 21.1% and net income resulting in a significant increase of 290.3%. Graph 4 indicates the financial results of their business strategy for the fiscal years ending December 29 as evidence of their concerted efforts.

LITTLE CAESARS PIZZA HISTORY AND PROFILE

In 1959 Michael and Marian Ilitch sank $10,000 of their savings into their first pizza operation in Garden City, Michigan. Marion suggested that the name reflect Michael’s behaviour (like a little Caesar). They opened a second location in 1961, and the next year they sold their first franchise. Little Caesar grew to more than 50 outlets during the 1960s. In 1974 the company initiated its two-for-one marketing concept. Little Caesar installed drive through windows at its quick-serve locations and a pizza conveyor oven that increased pizza production in 1997. In 1985 the company formed Little Caesars Love Kitchen. This not-for-profit restaurant on wheels delivers pizzas donated by local franchise owners to soup kitchens and shelters in the US and Canada.

Little Caesars began providing delivery from many of its stores in 1995, but when the service increased their costs, many franchisees dropped deliveries, however, some continue to deliver. In 1996 the company opened the first of 50 planned Little Caesar units in Wal-Mart stores and added such items as turkey, stuffing, and mashed potatoes to the menu. Little Caesars pizza can be ordered at Kmart.

Net income plunged from $14.5 million in 1996 to $2.5 million in 1997. Sales have lagged for Little Caesars the last few years as their chief competitors, Papa Johns and Domino’s, increased their market share. Little Caesars, ranked behind Pizza Hut and Domino’s, generated $1.37 billion in system-wide sales for fiscal year ending in December 1997, a decrease of 1.79 percent from the previous year. Industry analysts say that most of the growth is now coming from international markets

Historically Little Caesars has been the “value player” in the pizza category. The company has been known for its two-for-one deals. Little Caesars niche is a low-cost pizza that appeals to families on a budget.

In 1998, amid declining sales and franchisee complaints, Little Caesar brought in a new advertising agency and implemented a plan to emphasize quality and products’ ingredients. It has also announced a makeover plan for its stores. In July 1999 Little Caesar Enterprises, Inc. closed between 300 and 400 company-owned stores in several markets in an effort to revitalize the whole system. In July 1999, Little Caesar also detailed a program to increase the marketing activities of local co-ops in the system by reducing franchisees’ payments of advertising fees from 4 percent to 2 percent and curtailing national promotions.

Little Caesar made its mark on the pizza world through its bold and wacky advertising, most notably for the “Pizza! Pizza!” deal, which offers two pies for the price of one. Headquartered in Detroit, Little Caesar Enterprises’ boasts roughly 4,500 restaurants (25 percent are company-owned) in a dozen countries, ranking in at #3 in size behind #1 Pizza Hut, and #2 ranked Domino’s. The company is also facing new competition for up-and-comer Papa John’s, the #4 US pizza chain.

Rather than emphasizing speedy delivery, Little Caesar’s focuses on carryout and touts the quality of its pizza, Grade A cheese, specially grown California tomatoes and high-gluten flour. They have lower overhead and maintenance costs than sit-down or delivery-only outlets, since they do not require waiters, busboys, dishwashers or delivery personnel.

Restaurant analysts and industry observers concluded that Little Caesar’s was the only national pizza chain, among the segment’s four most powerful players, that did not prosper. Although privately held Little Caesar’s has not been forthcoming with sales results, this chain has been plagued in recent years with declining volumes and franchised-store closures reportedly. Little Caesars’ inconsistent marketing strategies and high equipment costs have caused their years of declining sales.

Graph 5 indicates a nine-year growth pattern for Sales and is stated in millions of dollars. The growth rate for this period was 28.4%. Little Caesars increased the number of their stores of 500 in 1984 to a total of 4,609 in 1993 indicating a nine-year growth rate of 28.0%. Employees of 12,900 in 1984 have increased to 92,000 in 1993 for a growth rate of 24.4%.

Little Caesars fiscal year ends in December of each year and their revenues are expressed in millions of dollars and indicate the slight decrease in revenues with further explanation following.

However, while their revenues and number of stores had increased at a growth rate of approximately 28% through 1993; the company was faced with stiffer competition within the pizza chain sector. Little Caesar’s has been struggling with the efficiency of their operation for the years of 1996 through 1998. While there has been an 8.53% increase in the number of U. S. units, a slight decline in revenues of .003% and, a decline in sales per unit of 11.3% for the last three years, indicate this company must re-focus their strategy and concentrate on their survival in the industry.

PAPA JOHN’S international, inc. HISTORY AND PROFILE

John H. Schnatter had a vision and in 1983, said “Talking about my dreams for a pizza business at age 22, people thought I was crazy. Vendors, bankers and even some friends just laughed when I told them I’d be opening five or six store’s a month”. John wanted to create the perfect pizza, made from the best ingredients, delivered hot and fresh to the customer’s door.

With less than $1,600 in capital, but equipped with 100% determination, Schnatter installed an oven in a converted broom closet in the back of an Indiana tavern and began delivering pizza.

In the company’s first year, he sold 300-400 pizzas a week. One year later he opened the first Papa John’s restaurant. At September 26, 1999 there were 2,159 Papa John’s restaurants (548 company-owned. 1,589 domestic franchised and 22 international franchised) operating in 47 states, the District of Columbia and five international countries.

John Schnatter’s recipe for success is simple, concentrate on what you do well, and do it better than anybody else. To maintain the integrity of that fundamental principle, Papa John’s menu is limited to just a few core products, namely pizza, breadsticks, cheesesticks and soft drinks, available for delivery or carryout.

Papa John’s unwavering focus on a limited menu of high-quality products, streamlined operations, their distribution system and training and development programs have resulted in an increasing respect from customers, franchisees, investors and employees alike.

Papa John’s, the fourth-largest and fastest-growing pizza chain in the segment, exceeded $1 billion in system wide sales for the first time in 1998, while the chain’s same-store sales increased nearly 10 percent. Last year this chain added 372 new restaurants to the system, including its first international units in Mexico. This year, Papa John’s is continuing international expansion, while increasing its presence in such Western states as California and Arizona.

Papa John’s is expecting their sales to exceed $ 1.4 billion in 1999, and is looking to surpass Little Caesars this year in terms of system-wide volumes, which is an achievable goal.

Selected financial data for the nine-month period ending September 26, 1999, as compared to same period ending September 27, 1998, has been highlighted in Table 5 for Balance Sheet accounts and Chart 6 highlights Revenues, Selected Expenses and Net Income on the following page.

Expressed in Thousands of $$ – TABLE 5

9 MONTHS

ENDED

9/26/99

9 MONTHS

ENDED

9/27/98 % OF

INCREASE/

(DECREASE)

BALANCE SHEET

Current Assets $ 79,474 $ 68,023 16.8%

323