Panera Bread Company: An Overnight Success in 30 Years

Ron Shaich
IGNITE 2010
What We Will Cover

I. Panera Bread Today
II. How Did This Happen?
III. What’s Next for Panera?
IV. Lessons Learned
V. Why Do I Do What I Do?
VI. What’s Next for You?
VII. Conclusion
VIII. Q & A
Panera Bread
Today
Panera Bread Today

$3 billion
Market Capitalization

7 million
Guests Each Week

60,000+
Team Members
Panera Bread has been the **best performing restaurant stock** over the last decade.

AND

Panera has been the **second best performing consumer discretionary stock** over that same decade.
So, what did it take to produce these results?
1. Strong and Stable Unit Level Performance
   - $2.1 million Average Unit Volume (AUV)
Panera Bread Today

$2.1M AUV is highest of any concept outside of casual dining.
1. **Strong and Stable Unit Level Performance**
   - $2.1 million Average Unit Volume (AUV)
   - Near double digit comps through the recession
Panera Bread Today

Comparable Store Sales Growth

Year

Q3 04
Q4 04
Q1 05
Q2 05
Q3 05
Q4 05
Q1 06
Q2 06
Q3 06
Q4 06
Q1 07
Q2 07
Q3 07
Q4 07
Q1 08
Q2 08
Q3 08
Q4 08
Q1 09
Q2 09
Q3 09
Q4 09

Growth Rate

0%
2%
4%
6%
8%
10%
12%
14%
16%
1. Strong and Stable Unit Level Performance
   - $2.1 million Average Unit Volume (AUV)
   - Near double digit comps through the recession

2. Significant Growth
   - 1,464 bakery cafes open by end of 2010
Panera Bread Today

Total Number of Bakery-Cafes

- **Franchise**
- **Company**

<table>
<thead>
<tr>
<th>Year</th>
<th>Franchise</th>
<th>Company</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>102</td>
<td>81</td>
<td>183</td>
</tr>
<tr>
<td>2000</td>
<td>172</td>
<td>90</td>
<td>262</td>
</tr>
<tr>
<td>2001</td>
<td>259</td>
<td>110</td>
<td>369</td>
</tr>
<tr>
<td>2002</td>
<td>346</td>
<td>132</td>
<td>478</td>
</tr>
<tr>
<td>2003</td>
<td>429</td>
<td>226</td>
<td>602</td>
</tr>
<tr>
<td>2004</td>
<td>515</td>
<td>311</td>
<td>826</td>
</tr>
<tr>
<td>2005</td>
<td>566</td>
<td>391</td>
<td>957</td>
</tr>
<tr>
<td>2006</td>
<td>636</td>
<td>532</td>
<td>1,168</td>
</tr>
<tr>
<td>2007</td>
<td>763</td>
<td>562</td>
<td>1,325</td>
</tr>
<tr>
<td>2008</td>
<td>795</td>
<td>585</td>
<td>1,380</td>
</tr>
<tr>
<td>2009</td>
<td>877</td>
<td>632</td>
<td>1,509</td>
</tr>
<tr>
<td>2010</td>
<td>1,464</td>
<td>832</td>
<td>2,296</td>
</tr>
</tbody>
</table>
1. **Strong and Stable Unit Level Performance**
   - $2.1 million Average Unit Volume (AUV)
   - Near double digit comps through the recession

2. **Significant Growth**
   - 1,464 bakery cafes open by end of 2010
   - 37% cash-on-cash store level ROI drives growth
### Cash Flow $000, except %

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Net Sales/Unit</td>
<td>$2,084</td>
</tr>
<tr>
<td>Unit EBITDA</td>
<td>$354</td>
</tr>
<tr>
<td>Unit Margin %</td>
<td>17%</td>
</tr>
</tbody>
</table>

### Invested Capital $000

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Before Overhead</td>
<td>$870</td>
</tr>
<tr>
<td>Capitalized Overhead</td>
<td>$95</td>
</tr>
<tr>
<td>Investment After Capitalized Overhead</td>
<td>$965</td>
</tr>
</tbody>
</table>

### Cash-On-Cash ROI

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Capitalized Overhead</td>
<td>41%</td>
</tr>
<tr>
<td>After Capitalized Overhead</td>
<td>37%</td>
</tr>
</tbody>
</table>
1. Strong and Stable Unit Level Performance
   - $2.1 million Average Unit Volume (AUV)
   - Near double digit comps through the recession

2. Significant Growth
   - 1,464 bakery cafes open by end of 2010
   - 37% cash-on-cash store level ROI drives growth

3. Strong Financial Performance
   - 2010 EPS targeted at up 28% to 29%
   - 9 of the last 10 quarters EPS up at least 20%
Our Stock Has Grown 30x
How Did This Happen?
Let’s talk about how this all came to be.
I graduated from HBS in 1978 and headed to the “third year of b-school.”
We then merged The Cookie Jar and Au Bon Pain to create ABP Co. Inc.
From 1981-1984, we operated ourselves out of debt.
In 1984, we developed the bakery-cafe format.
In 1991, Au Bon Pain Co Inc. went public.
How Did This Happen?

By 1993, ABP had grown to 250 units, but future growth was limited. So, in 1993, we created ABP International and ABP Manufacturing.
Later that year, ABP acquired Saint Louis Bread Co.
The concept we bought was very different from the Panera you see today.
So, what did we do about it?

We took two years to learn about the business.

And then made smart bets to drive competitive advantage.
How Did This Happen?

What are Smart Bets?
We Made a Smart Bet on Long Term Trends
We Made a Smart Bet on a New Trend: A Desire for Specialty Products
How Did This Happen?

We Made a Smart Bet on **Specialty Food**...
How Did This Happen?

Rooted in Hand Crafted Artisan Bread
How Did This Happen?

Fresh Bread is our passion, soul and expertise.

We Build Trust through our relationships with our customers and communities.

We are an Everyday Oasis for our customers.

Specialty Retailer...Our bread expertise goes home with our customers.

We Made a Smart Bet on a Clear Vision for How to Compete: Concept Essence
We Made a Smart Bet on a Clear Set of Shared Behaviors:
Cultural Values

No Jerks!

Rule #1

No Shortcuts

Profit Provides Possibilities

How Did This Happen?
We Made a Smart Bet on Competing in Multiple Day Parts
We Made a Smart Bet on **Bagels to Drive the Breakfast Business**
How Did This Happen?

We Made a Smart Bet on the Environment and WiFi to Drive the Gathering Place Business
How Did This Happen?

We Made a Smart Bet on the Best People and Incentives To Retain Them
We Even Made a Smart Bet on a **Name Change**
How Did This Happen?

Taken Together, These Smart Bets Created a **Total Experience That Delivered For the Guest in a Way That Had Never Been Done Before**
How Did This Happen?

The result?

By 1997, AUVs had grown to $1.7 million (from the $1 million they were 4 years prior).
How Did This Happen?

We “Double Down”

• 1998: Recognized the potential of Panera
  - Decision to sell all divisions but Panera

• 1999: Executed the Sale of ABP, ABP International and ABP Manufacturing
  - Left with 180 Panera cafes and no debt
  - The public company renamed Panera Bread
So, what did we do with Panera Bread after the sale of Au Bon Pain?

We made even more Smart Bets.
How Did This Happen?

Smart Bets (1999 – 2010)
- Category Management
- Catering
- Real Estate discipline in the “boom days”
- Used Scale to Drive Competitive Advantage
  - Salads (Lettuce)
  - Hot Sandwiches (Panini Grill)
  - Marketing
Let’s Look at the Recession as a Case Study of Our Commitment to Making Smart Bets
So, what was the outcome of all this effort?
How Did This Happen?

The Results

- **2000**
  - 260 bakery cafes
  - Earnings up 117%

- **2001**
  - 369 bakery cafes
  - Earnings up 77%

- **2002**
  - 478 bakery cafes
  - Earnings up 59%
  - Almost $750 million sales

- **2003**
  - 601 bakery cafes
  - Earnings up 38%
  - Almost $1 billion in sales

- **2004**
  - 750 bakery cafes
  - $1.25 billion sales
The Results

- **2005**
  - 901 bakery cafes
  - $1.6 billion in sales

- **2006**
  - 1,000 bakery cafes
  - $1.9 billion in sales

- **2007**
  - 1,230 bakery cafes
  - $2.3 billion in sales

- **2008**
  - 1,325 bakery cafes
  - $2.7 billion in sales

- **2009**
  - 1,400 bakery cafes
  - $2.8 billion in sales

- **2010**
  - 1,480 bakery cafes
  - $3 billion sales
How Did This Happen?

Indeed, Panera Has Become a **Nationally Dominant Brand**
But remember what matters. We won on the business pages because we were winning on the food pages.
What’s Next for Panera?
What’s Next for Panera?

Where will this company be in the next five to ten years?
What’s Next for Panera?

Can you tell the difference between these three lists?
What’s Next for Panera?

So, which list are we going to be on in five years?
But let’s be clear on the risks?

- Concept loses competitive advantage with size and scale, fueling weakness (Planet Hollywood, Au Bon Pain, Checkers)
- Less than spectacular execution of concept (Lone Star, Pepsi)
- Incorrect structural decisions relative to growth (CKE, Checkers, EatZi)
- Irrelevant infrastructure support/G&A (Boston Chicken)
And the biggest risk? Us.

• The marketplace continues to evolve.
• The competition improves, gets jealous and comes after us.
• We are fat, dumb, happy and do not do what is necessary to stay the best competitive alternative in each business in which we compete.
• We simply rely on size and scale to drive profit growth rather than concept differentiation.
So, What Do We Do?
What’s Next for Panera?

You know the answer...

more of the same...

more smart bets.
What’s Next for Panera?

Here’s what we’re really playing for.
Lessons Learned
Lessons Learned

What lessons can I share with you from my experiences at Panera?
Lessons Learned
Lessons Learned
Lessons Learned

1. Prepare today for the battles of tomorrow...success comes from creating value over the long term.

2. Success or failure is in the details.

3. Master the difficult.

4. Stay rigid in vision, flexible in execution.

5. Iteration is the means.

6. Trust your stomach.

7. Tell the truth about people.

8. The good of the many is more important than the good of the few.

9. Make deposits before withdrawals.

10. No room for whining.
Why Do I Do What I Do?
So far we have discussed business.

Now it’s time to get personal...
Why have I chosen the life of an entrepreneur for the last 30 years?
Why Do I Do What I Do?

The joy of figuring out what others don’t.
Why Do I Do What I Do?

Customers

The opportunity to make a difference in the lives of others.
Why Do I Do What I Do?

To do something I am proud of.
What’s Next For You?
Do you really want to choose an entrepreneurial life?
We all know the classic “benefits” of an entrepreneur’s life.

- Money...if you make it.
- Reputation...if you make it.
- A business all your own...if you make it.
But what about the burdens that are rarely mentioned?

- The “joy” of the journey
- The “joy” of parenting
- The “joy” of stewardship
What’s Next For You?

So Why Do It?

• Learn.

• Test Yourself.

• Grow.

• Make a real impact.

• Control your destiny.
Conclusion
Conclusion
Conclusion
Conclusion
Thank You.
Q & A