



October 21, 2014

## **Sonic Announces 4.6% System Same-Store Sales Increase for Fourth Fiscal Quarter**

### **Adjusted EPS Increase of 17% for the Fiscal Year**

OKLAHOMA CITY--(BUSINESS WIRE)-- Sonic Corp. (NASDAQ:SONC), the nation's largest chain of drive-in restaurants, today announced results for the fourth fiscal quarter and fiscal year ended August 31, 2014.

Key highlights of the company's fiscal year 2014 included:

- Net income per diluted share was \$0.85 compared with net income per diluted share of \$0.64 in fiscal 2013; excluding certain adjustments outlined below, net income per diluted share increased 17% to \$.84 compared with \$0.72 in fiscal 2013;
- System same-store sales increased 3.5%, consisting of a 3.5% same-store sales increase at both franchise and company drive-ins;
- Company drive-in margins improved by 90 basis points;
- 40 new drive-ins were opened; and
- The company repurchased \$80 million in stock representing 7% of the company's outstanding shares as of the beginning of the fiscal year.

Key highlights of the company's fourth fiscal quarter included:

- Net income per diluted share was \$0.34 compared with net income per diluted share of \$0.21 in the fourth fiscal quarter of 2013; excluding certain adjustments outlined below, net income per diluted share increased 13%;
- System same-store sales increased 4.6% over a 5.9% increase in the fourth quarter of fiscal 2013, consisting of a 4.5% same-store sales increase at franchise drive-ins and an increase of 4.9% at company drive-ins;
- Company drive-in margins improved by 150 basis points versus the fourth quarter of fiscal 2013;
- 17 new drive-ins were opened; and
- The company repurchased approximately \$10.6 million of stock.

"Our fourth quarter capped off a great year for Sonic, and we believe that the business is well positioned for continued growth," said Cliff Hudson, Sonic Corp. CEO, "Our same-store sales growth over the past fiscal year reflects not only the success of our promotional strategy but also improvements in our core menu and base business.

"We continue to implement our technology initiatives, which include new digital menu boards and a new point-of-sale system. In fiscal 2014, we completed implementation of these initiatives in all company drive-ins, and we will begin the roll-out to franchise locations this winter. We expect these initiatives to complement our innovative product pipeline and media strategies to drive improved sales and profits over the next several years."

Hudson continued, "We are confident our multi-layered growth strategy, which incorporates same-store sales growth, leverage from higher sales, deployment of free cash flow<sup>1</sup>, increasing royalty revenues and new drive-in development, will continue to result in double-digit earnings per share growth for the next several years. We also believe that our initiation of a quarterly cash dividend and our \$105 million share repurchase program, announced in August, highlight the confidence we have in our brand and our commitment to increasing value for shareholders."

### **Same-Store Sales**

For the fourth fiscal quarter ended August 31, 2014, system same-store sales increased 4.6%, which was comprised of a 4.5% same-store sales increase at franchise drive-ins and an increase of 4.9% at company drive-ins. For the 12 months ended August 31, 2014, system same-store sales increased 3.5%, including a 3.5% same-store sales increase at franchise drive-ins

and a 3.5% increase at company drive-ins.

## Financial Overview

For the fourth fiscal quarter of 2014, the company's net income increased to \$18.8 million or \$0.34 per diluted share compared with net income of \$12.2 million or \$0.21 per diluted share in the same period in the prior year, resulting in earnings per share growth of 62%. Excluding the items outlined below, net income and net income per diluted share increased by 9% and 13%, respectively.

For fiscal 2014, net income totaled \$47.9 million or \$0.85 per diluted share compared with net income of \$36.7 million or \$0.64 per diluted share for fiscal 2013. Excluding the items outlined below, net income and net income per diluted share increased by 15% and 17%, respectively.

The following non-GAAP adjustments are intended to supplement the presentation of the company's financial results in accordance with GAAP. The company believes that the presentation of these items provides useful information to investors and management regarding the underlying business trends and the performance of the company's ongoing operations and is helpful for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the financial results of the company and predicting future performance.

|   | Three months ended<br>August 31, 2014 |                | Three months ended<br>August 31, 2013 |                | Net Income      |           | Diluted EPS    |            |
|---|---------------------------------------|----------------|---------------------------------------|----------------|-----------------|-----------|----------------|------------|
|   | Net                                   | Diluted        | Net                                   | Diluted        | \$ Change       | % Change  | \$ Change      | % Change   |
|   | Income                                | EPS            | Income                                | EPS            |                 |           |                |            |
| Reported - GAAP                                       | \$ 18,825                             | \$ 0.34        | \$ 12,198                             | \$ 0.21        | \$ 6,627        | 54%       | \$ 0.13        | 62%        |
| After-tax loss from early extinguishment of debt      | -                                     | -              | 2,483                                 | 0.04           |                 |           |                |            |
| After-tax loss on closure of Company Drive-Ins        | -                                     | -              | 1,510                                 | 0.03           |                 |           |                |            |
| After-tax impairment charges for point-of-sale assets | -                                     | -              | 1,013                                 | 0.02           |                 |           |                |            |
| Adjusted - Non-GAAP                                   | <u>\$ 18,825</u>                      | <u>\$ 0.34</u> | <u>\$ 17,204</u>                      | <u>\$ 0.30</u> | <u>\$ 1,621</u> | <u>9%</u> | <u>\$ 0.04</u> | <u>13%</u> |

|   | Fiscal year ended<br>August 31, 2014 |                | Fiscal year ended<br>August 31, 2013 |                | Net Income      |            | Diluted EPS    |            |
|---|--------------------------------------|----------------|--------------------------------------|----------------|-----------------|------------|----------------|------------|
|   | Net                                  | Diluted        | Net                                  | Diluted        | \$ Change       | % Change   | \$ Change      | % Change   |
|   | Income                               | EPS            | Income                               | EPS            |                 |            |                |            |
| Reported - GAAP   | \$ 47,916                            | \$ 0.85        | \$ 36,701                            | \$ 0.64        | \$ 11,215       | 31%        | \$ 0.20        | 31%        |
| Tax benefit from the IRS' acceptance of a federal tax method change | (484)                                | (0.01)         | -                                    | -              |                 |            |                |            |
| After-tax loss from early extinguishment of debt                    | -                                    | -              | 2,798                                | 0.05           |                 |            |                |            |
| Retroactive tax benefit of WOTC and resolution of tax matters       | -                                    | -              | (743)                                | (0.02)         |                 |            |                |            |
| After-tax loss on closure of Company Drive-Ins                      | -                                    | -              | 1,510                                | 0.03           |                 |            |                |            |
| After-tax impairment charge for point-of-sale assets                | -                                    | -              | 1,013                                | 0.02           |                 |            |                |            |
| Adjusted - Non-GAAP   | <u>\$ 47,432</u>                     | <u>\$ 0.84</u> | <u>\$ 41,279</u>                     | <u>\$ 0.72</u> | <u>\$ 6,153</u> | <u>15%</u> | <u>\$ 0.12</u> | <u>17%</u> |

## Fiscal Year 2015 Outlook

While the macroeconomic environment may impact results, the company expects its initiatives to drive 18% to 20% earnings per share growth in fiscal 2015, versus adjusted EPS in fiscal 2014. The outlook for fiscal 2015 anticipates the following elements:

- Positive same-store sales in the low single digit range for the system;

- Company drive-in same-store sales growth expected to outperform franchisees for the fiscal year as a result of the recent implementation of new digital menu boards and point-of-sale systems, with this outperformance weighted toward the latter portion of the fiscal year;
- In addition to royalty revenue growth from same-store sales improvements and new unit development, incremental royalty revenue of approximately \$8 million as a result of approximately 900 stores converting to a higher royalty rate structure at the beginning of fiscal 2015;
- 50 to 60 new franchise drive-in openings, resulting in net unit growth for the system;
- Drive-in-level margin improvement of between 50 to 100 basis points, depending upon the degree of same-store sales growth at company drive-ins and commodity cost inflation;
- Selling, general and administrative expenses of \$75 million to \$76 million, reflecting increased investment in human resources to support the brand initiatives described above;
- Depreciation and amortization expense of \$45.5 million to \$46.5 million as a result of increased capital investment in fiscal 2014;
- Net interest expense of \$25 million to \$25.5 million;
- An income tax rate of between 37% to 37.5%, which may vary depending upon the reinstatement of certain tax credit programs;
- Capital expenditures of \$30 million to \$40 million;
- Free cash flow of \$65 million to \$75 million;
- The planned repurchase of \$105 million of stock across the fiscal year; and
- A quarterly cash dividend of \$0.09 per share resulting in an estimated payout of \$19 million during the fiscal year.

## Earnings Conference Call

The company will host a conference call and online web simulcast this afternoon beginning at 5:00 p.m. ET. The conference call can be accessed live by dialing (888) 778-9067 or (816) 581-1736 for international callers. A replay will be available one hour after the call and can be accessed by dialing (877) 870-5176 or (858) 384-5517 for international callers; the conference ID is 3862361. The replay will be available until Tuesday, October 28, 2014. An online replay of the conference call will be available approximately two hours after the conclusion of the live broadcast. A link to this event may be found on the company's investor relations website at <http://ir.sonicdrivein.com/>.

## About Sonic

SONIC®, America's Drive-In®, is the nation's largest chain of drive-in restaurants with more than 3,500 drive-ins serving approximately 3 million customers every day. Over the past 61 years, SONIC has delighted guests with signature menu items, more than 1 million drink combinations, friendly service by iconic Carhops and ongoing support of education through its award-winning Limeades for Learning® program. SONIC received top honors as America's "#1 burger quick service restaurant," ranking in the top 5 of all brands in the 2014 Temkin Experience Ratings report. For more information about Sonic Corp. (NASDAQ/NM:SONC) and its subsidiaries, please visit [sonicdrivein.com](http://sonicdrivein.com). Customers can also connect with SONIC at [facebook.com/sonicdrivein](https://www.facebook.com/sonicdrivein) or on Twitter [@sonicdrive\\_in](https://twitter.com/sonicdrive_in).

This press release contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements reflect management's expectations regarding future events and operating performance and speak only as of the date hereof. These forward-looking statements involve a number of risks and uncertainties. Factors that could cause actual results to differ materially from those expressed in, or underlying, these forward-looking statements are detailed in the company's annual and quarterly report filings with the Securities and Exchange Commission. The company undertakes no obligation to publicly release revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unforeseen events, except as required to be reported under the rules and regulations of the Securities and Exchange Commission.

The tables that follow provide information regarding the number of company drive-ins, franchise drive-ins and system drive-ins in operation as of the end of the periods indicated. In addition, these tables provide information regarding franchise sales, system growth in sales, and both franchise and system average drive-in sales and change in same-store sales. System information includes both company and franchise drive-in information, which we believe is useful in analyzing the growth of our brand. While we do not record franchise drive-in sales as revenues, we believe this information is important in understanding our financial performance since we calculate and record franchise royalties based on a percentage of franchise sales. This information also is indicative of the financial health of our franchisees.

**SONIC CORP.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except per share amounts)

|   | <b>Three months ended</b> |             | <b>Fiscal year ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>August 31,</b>         |             | <b>August 31,</b>        |             |
|   | <b>2014</b>               | <b>2013</b> | <b>2014</b>              | <b>2013</b> |
| Revenues:   |                           |             |                          |             |
| Company Drive-In sales  | <b>\$ 119,002</b>         | \$ 116,689  | <b>\$ 405,363</b>        | \$ 402,296  |
| Franchise Drive-Ins:  |                           |             |                          |             |
| Franchise royalties and fees  | <b>41,818</b>             | 38,988      | <b>138,416</b>           | 130,737     |
| Lease revenue   | <b>1,609</b>              | 1,261       | <b>4,291</b>             | 4,785       |
| Other   | <b>1,340</b>              | 1,864       | <b>4,279</b>             | 4,767       |
| Total revenues  | <b>163,769</b>            | 158,802     | <b>552,349</b>           | 542,585     |
| Costs and expenses:   |                           |             |                          |             |
| Company Drive-Ins:  |                           |             |                          |             |
| Food and packaging  | <b>34,871</b>             | 33,591      | <b>116,325</b>           | 114,545     |
| Payroll and other employee benefits   | <b>38,831</b>             | 39,674      | <b>139,939</b>           | 142,511     |
| Other operating expenses, exclusive of depreciation and amortization included below | <b>23,796</b>             | 24,010      | <b>85,845</b>            | 86,153      |
| Total cost of Company Drive-In sales  | <b>97,498</b>             | 97,275      | <b>342,109</b>           | 343,209     |
| Selling, general and administrative   | <b>18,885</b>             | 17,482      | <b>69,415</b>            | 66,022      |
| Depreciation and amortization   | <b>11,123</b>             | 9,940       | <b>42,210</b>            | 40,387      |
| Provision for impairment of long-lived assets                                       | <b>85</b>                 | 1,776       | <b>114</b>               | 1,776       |
| Other operating (income) expense, net   | <b>(110)</b>              | 2,296       | <b>(176)</b>             | 1,943       |
| Total costs and expenses  | <b>127,481</b>            | 128,769     | <b>453,672</b>           | 453,337     |
| Income from operations  | <b>36,288</b>             | 30,033      | <b>98,677</b>            | 89,248      |
| Interest expense  | <b>6,287</b>              | 6,805       | <b>25,382</b>            | 29,098      |
| Interest income   | <b>(96)</b>               | (130)       | <b>(469)</b>             | (592)       |
| Loss from early extinguishment of debt  | <b>-</b>                  | 3,951       | <b>-</b>                 | 4,443       |
| Net interest expense  | <b>6,191</b>              | 10,626      | <b>24,913</b>            | 32,949      |
| Income before income taxes  | <b>30,097</b>             | 19,407      | <b>73,764</b>            | 56,299      |
| Provision for income taxes  | <b>11,272</b>             | 7,209       | <b>25,848</b>            | 19,598      |
| Net income  | <b>\$ 18,825</b>          | \$ 12,198   | <b>\$ 47,916</b>         | \$ 36,701   |
| Basic income per share  | <b>\$ 0.35</b>            | \$ 0.22     | <b>\$ 0.87</b>           | \$ 0.65     |
| Diluted income per share  | <b>\$ 0.34</b>            | \$ 0.21     | <b>\$ 0.85</b>           | \$ 0.64     |
| Cash dividends declared per common share  | <b>\$ 0.09</b>            | \$ -        | <b>\$ 0.09</b>           | \$ -        |
| Weighted average basic shares   | <b>54,022</b>             | 56,061      | <b>55,164</b>            | 56,384      |
| Weighted average diluted shares   | <b>55,419</b>             | 57,408      | <b>56,619</b>            | 57,191      |

**SONIC CORP.**  
**Unaudited Supplemental Information**

|  | <b>Three months ended</b> |             | <b>Fiscal year ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>August 31,</b>         |             | <b>August 31,</b>        |             |
|  | <b>2014</b>               | <b>2013</b> | <b>2014</b>              | <b>2013</b> |

## Drive-Ins in Operation

### Company:

|                                     |            |      |            |      |
|-------------------------------------|------------|------|------------|------|
| Total at beginning of period        | <b>389</b> | 407  | <b>396</b> | 409  |
| Opened                              | <b>2</b>   | 1    | <b>3</b>   | 2    |
| Acquired from (sold to) franchisees | -          | -    | <b>(7)</b> | 1    |
| Closed (net of re-openings)         | -          | (12) | <b>(1)</b> | (16) |
| Total at end of period              | <b>391</b> | 396  | <b>391</b> | 396  |

### Franchise:

|                                     |              |       |              |       |
|-------------------------------------|--------------|-------|--------------|-------|
| Total at beginning of period        | <b>3,121</b> | 3,119 | <b>3,126</b> | 3,147 |
| Opened                              | <b>15</b>    | 16    | <b>37</b>    | 25    |
| Acquired from (sold to) the company | -            | -     | <b>7</b>     | (1)   |
| Closed (net of re-openings)         | <b>(9)</b>   | (9)   | <b>(43)</b>  | (45)  |
| Total at end of period              | <b>3,127</b> | 3,126 | <b>3,127</b> | 3,126 |

### System-wide:

|                              |              |       |              |       |
|------------------------------|--------------|-------|--------------|-------|
| Total at beginning of period | <b>3,510</b> | 3,526 | <b>3,522</b> | 3,556 |
| Opened                       | <b>17</b>    | 17    | <b>40</b>    | 27    |
| Closed (net of re-openings)  | <b>(9)</b>   | (21)  | <b>(44)</b>  | (61)  |
| Total at end of period       | <b>3,518</b> | 3,522 | <b>3,518</b> | 3,522 |

| Three months ended |      | Fiscal year ended |      |
|--------------------|------|-------------------|------|
| August 31,         |      | August 31,        |      |
| 2014               | 2013 | 2014              | 2013 |
| (\$ in thousands)  |      | (\$ in thousands) |      |

## Sales Analysis

### Company Drive-Ins:

|                            |                   |            |                   |            |
|----------------------------|-------------------|------------|-------------------|------------|
| Total sales                | \$ <b>119,002</b> | \$ 116,689 | \$ <b>405,363</b> | \$ 402,296 |
| Average drive-in sales     | <b>305</b>        | 286        | <b>1,043</b>      | 990        |
| Change in same-store sales | <b>4.9%</b>       | 5.2%       | <b>3.5%</b>       | 2.5%       |

### Franchised Drive-Ins:

|                            |                     |             |                     |             |
|----------------------------|---------------------|-------------|---------------------|-------------|
| Total sales                | \$ <b>1,058,640</b> | \$1,003,216 | \$ <b>3,627,395</b> | \$3,479,880 |
| Average drive-in sales     | <b>343</b>          | 327         | <b>1,170</b>        | 1,125       |
| Change in same-store sales | <b>4.5%</b>         | 6.0%        | <b>3.5%</b>         | 2.3%        |

### System-wide:

|                            |               |        |                 |          |
|----------------------------|---------------|--------|-----------------|----------|
| Change in total sales      | <b>5.2%</b>   | 6.0%   | <b>3.9%</b>     | 2.4%     |
| Average drive-in sales     | \$ <b>338</b> | \$ 322 | \$ <b>1,153</b> | \$ 1,109 |
| Change in same-store sales | <b>4.6%</b>   | 5.9%   | <b>3.5%</b>     | 2.3%     |

Note: Change in same-store sales based on restaurants open for a minimum of 15 months.

## SONIC CORP. Unaudited Supplemental Information

| Three months ended |      | Fiscal year ended |      |
|--------------------|------|-------------------|------|
| August 31,         |      | August 31,        |      |
| 2014               | 2013 | 2014              | 2013 |

### Revenues (in thousands)

|                        |                   |            |                   |           |
|------------------------|-------------------|------------|-------------------|-----------|
| Company Drive-In sales | \$ <b>119,002</b> | \$ 116,689 | \$ <b>405,363</b> | \$402,296 |
| Franchise Drive-Ins:   |                   |            |                   |           |
| Franchise royalties    | <b>41,317</b>     | 38,518     | <b>137,125</b>    | 130,009   |
| Franchise fees         | <b>501</b>        | 470        | <b>1,291</b>      | 728       |
| Lease revenue          | <b>1,609</b>      | 1,261      | <b>4,291</b>      | 4,785     |
| Other                  | <b>1,340</b>      | 1,864      | <b>4,279</b>      | 4,767     |
| Total revenues         | <b>\$ 163,769</b> | \$ 158,802 | <b>\$552,349</b>  | \$542,585 |

|   | Three months ended |             | Fiscal year ended |             |
|---|--------------------|-------------|-------------------|-------------|
|   | August 31,         |             | August 31,        |             |
| <b>Margin Analysis (percentage of Company Drive-In sales)</b> | <b>2014</b>        | <b>2013</b> | <b>2014</b>       | <b>2013</b> |
| Company Drive-Ins:  |                    |             |                   |             |
| Food and packaging  | <b>29.3%</b>       | 28.8%       | <b>28.7%</b>      | 28.5%       |
| Payroll and employee benefits                                 | <b>32.6</b>        | 34.0        | <b>34.5</b>       | 35.4        |
| Other operating expenses                                      | <b>20.0</b>        | 20.6        | <b>21.2</b>       | 21.4        |
| Cost of Company Drive-In sales                                | <b>81.9%</b>       | 83.4%       | <b>84.4%</b>      | 85.3%       |

| <b>Selected Balance Sheet Data</b>  | <b>August 31, August 31,</b> |             |
|---|------------------------------|-------------|
|   | <b>2014</b>                  | <b>2013</b> |
|   | <i>(In thousands)</i>        |             |
| Cash and cash equivalents   | \$ <b>35,694</b>             | \$ 77,896   |
| Current assets  | <b>95,712</b>                | 140,722     |
| Property, equipment and capital leases, net   | <b>441,969</b>               | 399,661     |
| Total assets  | \$ <b>650,972</b>            | \$ 660,794  |
| Current liabilities, including capital lease obligations and long-term debt due within one year | \$ <b>79,511</b>             | \$ 72,930   |
| Obligations under capital leases due after one year   | <b>23,050</b>                | 22,458      |
| Long-term debt due after one year   | <b>427,527</b>               | 437,380     |
| Total liabilities   | <b>588,297</b>               | 583,330     |
| Stockholders' equity  | \$ <b>62,675</b>             | \$ 77,464   |

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