Financing Growth at Panera Bread

Analysis and Recommendation by Team Harvard

Meet Team Harvard

Jack Cook

Financial Analyst

Aaron Coreil

Strategic Analyst

Ethan Garvey

Financial Analyst

Connor Clements

Strategic Analyst

Austin Milling

Accountant

Presentation Roadmap

01
Growth Challenges

02
Stock Repurchase Decision

03
Financial Forecasting & Analysis

04
Scenario Comparison

05
Debt Range & Manageability

06
Official Recommendation

01 Growth Challenges

Panera Background & Considerations

Financial Backdrop

Historical Strength: Funded entirely by retained earnings; $0 in permanent debt until 2007.

Market Pressure: Stock price down 40% YOY, 10% drop after Q3 results.

Growth Dilemma

Market Compression: Rising wheat/commodity prices + softening transaction growth.

The Catch: Raising prices hurts growth; absorbing costs kills margins.

Ethical/Strategic Pivot

Buyback Signal: A $75M repurchase to signal long-term confidence.

Debt Shift: Moving from internal funding to external capital markets.

Case Questions: Debt Requirement & Manageability

What is the range of debt that will be required?

$75M - $290M (Peak Debt)

Base Case **$220M peak** Growth + Repurchase
Balanced Case **$220M peak** Growth + Repurchase
Conservative Case **$75M** Buyback Only
Aggressive Growth Case **$290M peak** Accelerated Expansion

Is the Debt Manageable?

Yes - *conditionally*

- Manageable if growth assumptions hold
- Scale supports operating cash flow
- Higher growth enables faster deleveraging

Key Risk

- Sustained commodity cost inflation (wheat)
- Margin compression could stress coverage

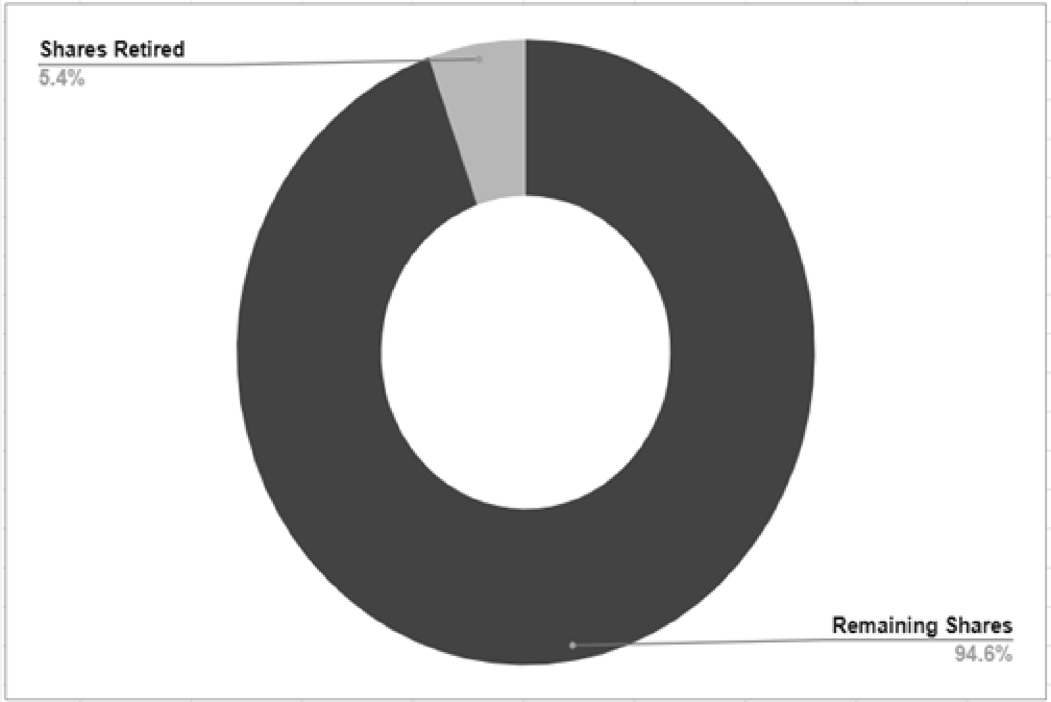
02 Stock Repurchase Decision

Capitalizing on Market Undervaluation

Panera's stock price continues to drop despite financial performance

- Price & Performance:
    - Annual Revenue surged **26.7%** in the 2006-2007 forecast, but the stock price retracted to November 2007 lows of **$40**
    - Buy the 'dip'
    - Implied peer value of **$56.54**

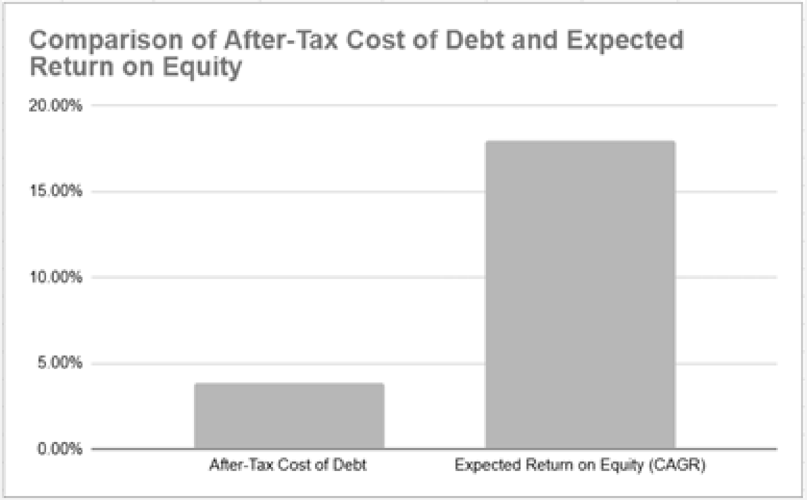
The "Slingshot Effect": EPS Accretion through 2012



- The Power of a Reduced Share Float:
    - Retiring 1.7M shares
    - Every dollar of future profit is **"worth more"** to investors
    - “Buyback Pop”
    - EPS rockets from $1.91 to **$4.16** by 2012

Debt Capacity & Financial Resiliency

- Low Cost of Capital & Tax Benefits:
  - **6%** interest vs. shareholder returns **(10-15%+)**
  - Interest expense is a tax shield
- Financial Resiliency & Risk Mitigation
  - 2008 EBIT-to-Interest Expense ratio is over **19.5x**
  - Making our capital work as hard as your restaurants do



03 Financial Forecasting & Analysis

Modeling Methodology

Base case: The basic assumptions that were provided in the case

- **Capital Commitment**
  - **$75 million fixed debt (Stock Repurchase)**
- **Debt Dynamics**
  - **Fixed Debt vs. Variable Debt**
  - **Peak Debt**
- **Operating Assumptions**
  - **Key drivers (COGS and Growth Rate)**

Modeling Methodology - Capital Commitment

A fixed $75 million stock repurchase in Q1 of 2008

- A Pro Forma financial forecast (2008 - 2012) was used to adhere to the capital commitment that Panera intends to issue

- The total **debt** serves as the financing **"plug"** to balance the accounting equation
  Debt = Total Assets - (Total Liabilities + Equity)

Base Case	2008	2009	2010	2011	2012
Current Assets	218,406	273,007	286,657	300,990	316,040
Property, Plant, and Equipment	543,415	679,269	713,232	748,894	786,339
Goodwill and Other Assets	125,179	156,473	164,297	172,512	181,137
Total Assets	886,999	1,108,749	1,164,187	1,222,396	1,283,516
Current Liabilities	166,283	207,853	218,246	229,158	240,616
Deferred Rent and Other Liabilities	61,256	76,570	80,398	84,418	88,639
Total Liabilities	227,539	284,423	298,645	313,577	329,256
Debt	151,863	219,698	156,191	86,553	10,361
Equity	507,598	604,628	709,351	822,266	943,899
Total Liabilities and Equity	886,999	1,108,749	1,164,187	1,222,396	1,283,516

Modeling Methodology - Debt Dynamics

Total Debt = Fixed Debt + Variable Debt

- **Fixed debt** (shareholder distribution) - Remains at $75 Million
- **Variable debt** (working capital and CAPEX required to sustain growth)
  $152 M - $75 M = **$77 M** in variable debt
- **Peak Debt** in 2009 of $220 M ($145 M in variable debt)

Base Case	2008	2009	2010	2011	2012
Current Assets	218,406	273,007	286,657	300,990	316,040
Property, Plant, and Equipment	543,415	679,269	713,232	748,894	786,339
Goodwill and Other Assets	125,179	156,473	164,297	172,512	181,137
Total Assets	886,999	1,108,749	1,164,187	1,222,396	1,283,516
Current Liabilities	166,283	207,853	218,246	229,158	240,616
Deferred Rent and Other Liabilities	61,256	76,570	80,398	84,418	88,639
Total Liabilities	227,539	284,423	298,645	313,577	329,256
Debt	151,863	219,698	156,191	86,553	10,361
Equity	507,598	604,628	709,351	822,266	943,899
Total Liabilities and Equity	886,999	1,108,749	1,164,187	1,222,396	1,283,516

Modeling Methodology - Operating Assumptions

Key Drivers:

- A COGS floor of 70.03% to account for localized inflationary pressures in wheat and commodities

Historic Percentage of Sales	2003	2004	2005	2006	2007	Average		Growth Rate
Bakery Café	57.97%	60.26%	62.44%	65.49%	70.03%	63.24%		2.41%
Dough Sold to Franchisees	15.11%	13.70%	11.72%	10.33%	8.19%	11.81%		-1.38%
Depreciation	5.03%	5.28%	5.16%	5.33%	5.71%	5.30%		0.14%
General and Administrative (b)	8.66%	8.08%	7.85%	7.66%	7.43%	7.94%		-0.25%

- The base scenario reflects a decelerating growth rate of 25% from 2008-2009 and normalizing to 5% thereafter

Historic				Forecast					
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	31.7%	33.6%	29.5%	26.7%	25%		5%		
363,702	479,139	640,275	828,971	1,050,000	1,312,500	1,640,625	1,722,656	1,808,789	1,899,229

Sensitivity Analysis of Key Drivers

Avoid over leveraging

- Testing the impact of COGS and Growth fluctuations

	Margin Compression	Growth
Base Case	70.03% vs 2.41% growth	25% (2 yrs) → 5% thereafter
Balanced Case	70.03%	25% (2 yrs) → 10% thereafter
Conservative Case	70.3%	$75 Million Capped Debt
Aggressive Case	70.3%	25% (3 yrs) → 5% thereafter

Decision Criteria

Metric Type	Primary Indicators
Growth	Projected Annual Growth Rate
Debt	Debt/Equity Ratio, Debt Payback Period; Debt Ceiling
Profitability	DuPont ROE (Margin * Turnover * Multiplier)

04 Scenario Comparison

Base Case (2-year 25% & 5% thereafter)

Growth: Front-loaded 25% growth captures scale, followed by sustainable 5% expansion.

Debt: Peaks early at ~$220M, then steadily declines to full repayment by 2013.

Profitability: ROE stays in the mid-teens as growth and leverage normalize.

Trade-Offs: Balances upside potential with manageable leverage risk.

						2008	2009	2010	2011	2012
Current Liabilities	45,643	55,705	86,865	109,610	130,000	166,283	207,853	218,246	229,158	240,616
Deferred Rent and Other Liabilities	13,616	27,604	33,824	35,333	45,000	61,256	76,570	80,398	84,418	88,639
Total Liabilities	59,259	83,309	120,689	144,943	175,000	227,539	284,423	298,645	313,577	329,256
Debt						151,863	219,698	156,191	86,553	10,361
Equity	197,576	241,363	316,978	397,666	515,000	507,598	604,628	709,351	822,266	943,899
Total Liabilities and Equity	256,835	324,672	437,667	542,609	690,000	886,999	1,108,749	1,164,187	1,222,396	1,283,516
% De-leveraged by 2012 (from peak)		95.3%				2008	2009	2010	2011	2012
Debt-Equity						29.92%	36.34%	22.02%	10.53%	1.10%

Conservative Case: Borrow Only $75M

Growth: Assumes 9.3% annual growth rate through 2012. Limited Expansion, Asset turnover - 1.5

Debt: $75M solely for share repurchase. Debt remains on balance sheet for 4 years.

Profitability: Operating profit grows steadily. ROE spikes to 12.9% in 2008, then remains flat

Trade Offs: Sacrifices growth momentum and shareholder upside. Prioritizes solvency and predictability.

						2008	2009	2010	2011	2012
Current Liabilities	45,643	55,705	86,865	109,610	130,000	145,307	158,721	173,374	189,379	206,862
Deferred Rent and Other Liabilities	13,616	27,604	33,824	35,333	45,000	53,529	58,470	63,868	69,764	76,205
Total Liabilities	59,259	83,309	120,689	144,943	175,000	198,836	217,191	237,242	259,143	283,067
Debt						75,000	57,823	35,345	6,791	-28,704
Equity	197,576	241,363	316,978	397,666	515,000	501,272	571,649	652,238	744,267	849,098
Total Liabilities and Equity	256,835	324,672	437,667	542,609	690,000	775,108	846,663	924,825	1,010,202	1,103,460
Debt-Equity						14.96%	10.12%	5.42%	0.91%	-3.38%

Balanced Case (2-year 25% & 10%)

Growth: Front-loaded 25% growth captures scale, followed by sustainable 10% expansion

Debt: peaks early, then steadily declines with a full payback possible in 2014

Profitability: ROE remains in the mid-teens, indicating sustainable profitability as growth and leverage normalize

Trade Offs: Moderates upside relative to aggressive growth in exchange for lower leverage risk

						2008	2009	2010	2011	2012		
Current Liabilities	45,643	55,705	86,865	109,610	130,000	166,283	207,853	228,639	251,503	276,653	304,318	334,750
Deferred Rent and Other Liabilities	13,616	27,604	33,824	35,333	45,000	61,256	76,570	84,227	92,650	101,915	112,106	123,317
Total Liabilities	59,259	83,309	120,689	144,943	175,000	227,539	284,423	312,866	344,152	378,568	416,424	458,067
Debt						151,863	219,698	189,831	151,003	101,885	40,988	0
Equity	197,576	241,363	316,978	397,666	515,000	507,598	604,628	716,927	846,431	995,293	1,165,908	1,359,667
Total Liabilities and Equity	256,835	324,672	437,667	542,609	690,000	886,999	1,108,749	1,219,624	1,341,587	1,475,745	1,623,320	1,817,734
Debt-Equity						29.92%	36.34%	26.48%	17.84%	10.24%	3.52%	0.00%

Aggressive Case (25% Growth For 3 Years)

Growth: Front-loaded 25% growth captures aggressive scale for 3 years

Debt: Maximum in Year 3 of forecast (2010) and is projected to be paid off by 2013

Profitability: ROE peaks over 20% in Year 3

Trade Offs: Debt-Equity reaches 39.31%

						2008	2009	2010	2011	2012		
Current Liabilities	45,643	55,705	86,865	109,610	130,000	166,283	207,853	259,817	272,808	286,448	300,770	315,809
Deferred Rent and Other Liabilities	13,616	27,604	33,824	35,333	45,000	61,256	76,570	95,712	100,498	105,523	110,799	116,339
Total Liabilities	59,259	83,309	120,689	144,943	175,000	227,539	284,423	355,529	373,306	391,971	411,570	432,148
Debt						151,863	219,698	290,752	196,335	92,876	0	0
Equity	197,576	241,363	316,978	397,666	515,000	507,598	604,628	739,656	885,592	1,043,148	1,212,302	1,389,914
Total Liabilities and Equity	256,835	324,672	437,667	542,609	690,000	886,999	1,108,749	1,385,937	1,455,233	1,527,995	1,623,872	1,822,062
Debt-Equity						29.92%	36.34%	39.31%	22.17%	8.90%	0.00%	0.00%

05

Debt Range & Manageability

Debt Structure

Fixed Debt:

- $75M stock repurchase in 2008
- One-time, strategic capital structure decision

Variable Debt:

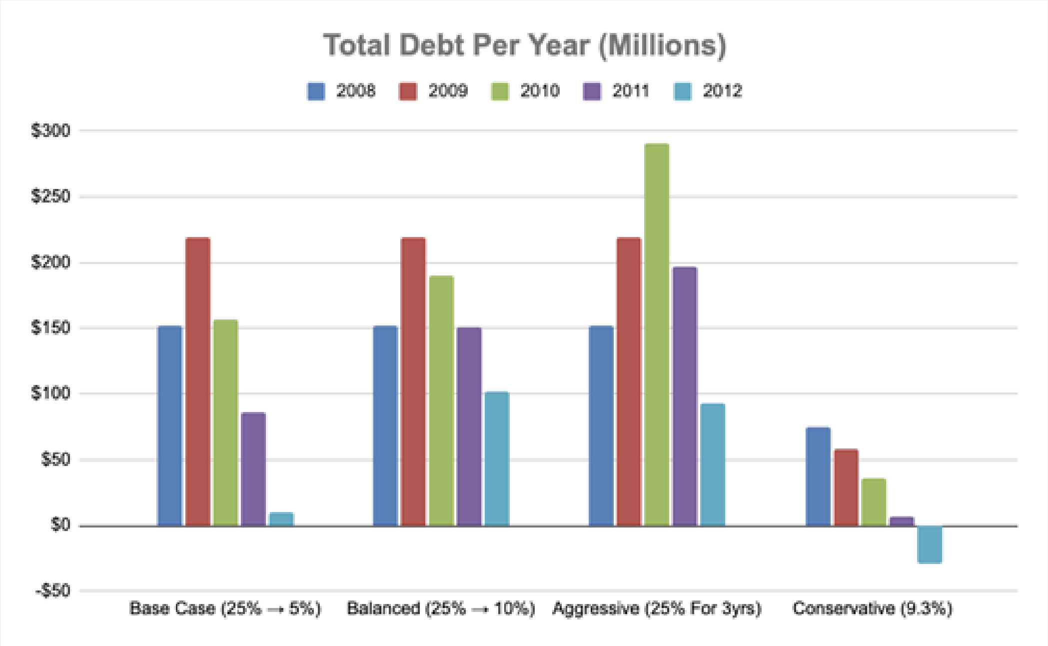
- $0M-$215M
- Funds PP&E and working capital for target growth
- Peaks during high growth years and reverses as growth moderates

Debt Ranges

	Base (25%→5%)	Balanced (25%→10%)	Aggressive (25% for 3 yrs)	Conservative (9.3%)
Peak Debt Required	$219M	$219M	$290M	$75M
Payback	Repayable by 2013	Repayable by 2014	Repayable by 2013	Repayable by 2011
Variable Debt	$144M	$144M	$215M	0
Manageability	Medium	Medium	Low	High
Key Risk	Sensitivity to COGS	Sensitivity to COGS	Sensitivity to COGS	Stagnant ROE

Debt Ranges

Base (25%→5%)
Balanced: (25%→10%)
Aggressive (25% for 3 yrs)
Conservative (9.3%)



Debt Ranges

Base (25%→5%)
Balanced: (25%→10%)
Aggressive (25% for 3 yrs)
Conservative (9.3%)

Metric (2012)	Base Case (2yr/25%→5%)	Balanced (2yr/25%→10%)	Aggressive (3yr/25%→5%)	Conservative ($75M Cap)
Revenue	$1.9B	$2.18B	$2.26B	$1.63B
Net Income	$122M	$149M	$158M	$105M
Peak Debt	$220M (2009)	$220M (2009)	$291M (2010)	$75M (2008)
Terminal ROE	13.2%	14.9%	15.5%	12.9%

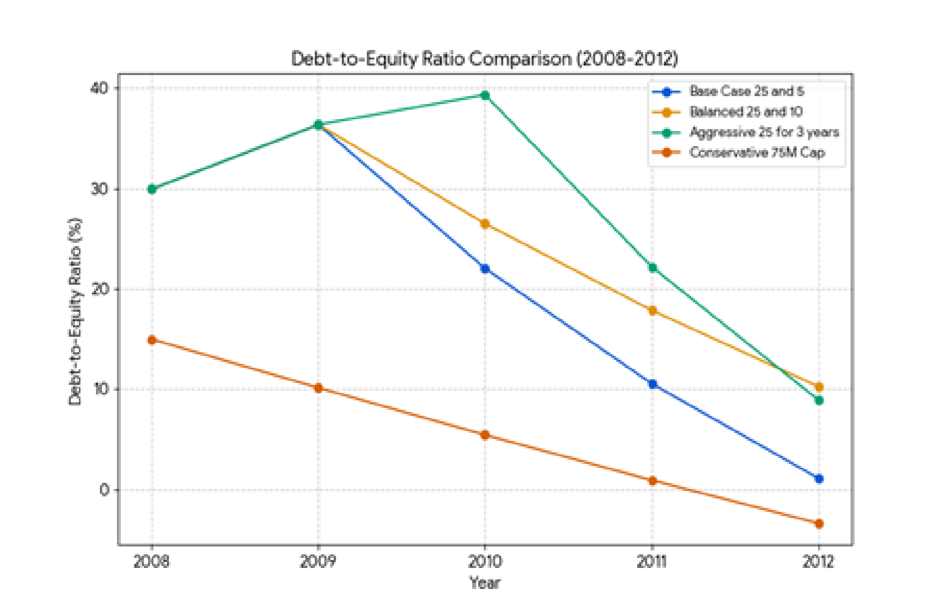
Manageability

Base: Safe leverage profile, but pays down debt too quickly

Balanced: Leverage rises with growth and falls with cash flow

Aggressive: Highest growth achieved, but pushes credit limits

$75M Cap: Minimal risk, but inefficient use of leverage



Funding Access

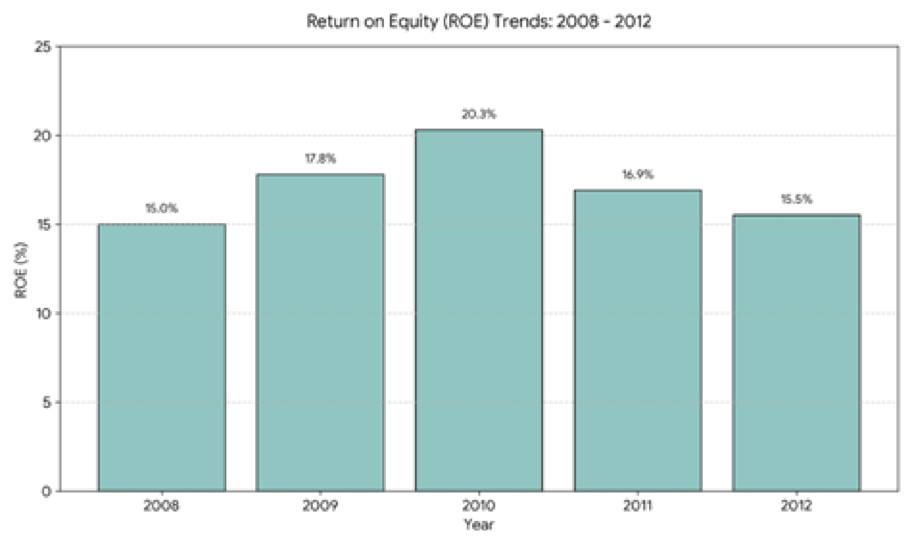
- PP&E-heavy business provides strong collateral for lenders
- Consistent historical cash flow supports creditworthiness
- Short peak leverage window limits lender risk

Return-on-Equity (ROE)

- **Positive Growth Cycle**: ROE expanded from 15.0% in 2008 to a peak of 20.3% in 2010.

- **Performance Correction**: Normalized following the 2010 peak, ending at 15.5% in 2012.

- **Resilient Efficiency:** Maintained a double-digit ROE throughout the 5-year period, consistently exceeding the 15% baseline.

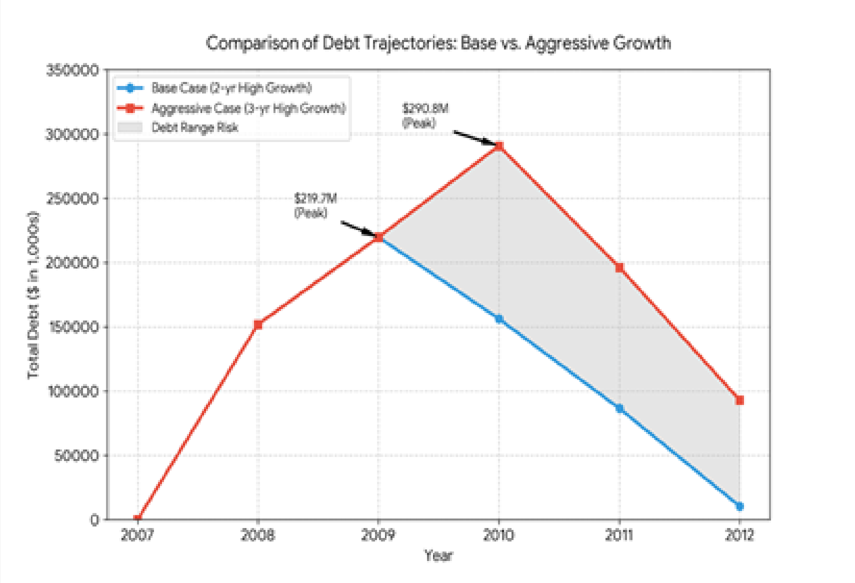


Range of Debt Overview

- **Debt range:** Peak debt spans **$75M–$290M**, driven primarily by growth intensity and timing of reinvestment

- **Early concentration:** Highest leverage occurs in the first **two forecast years**, reflecting upfront PP&E needs and the CEO's share repurchase

- **Downside risk:** Higher-growth cases materially increase near-term balance sheet risk before cash flows normalize



06 Official Recommendation

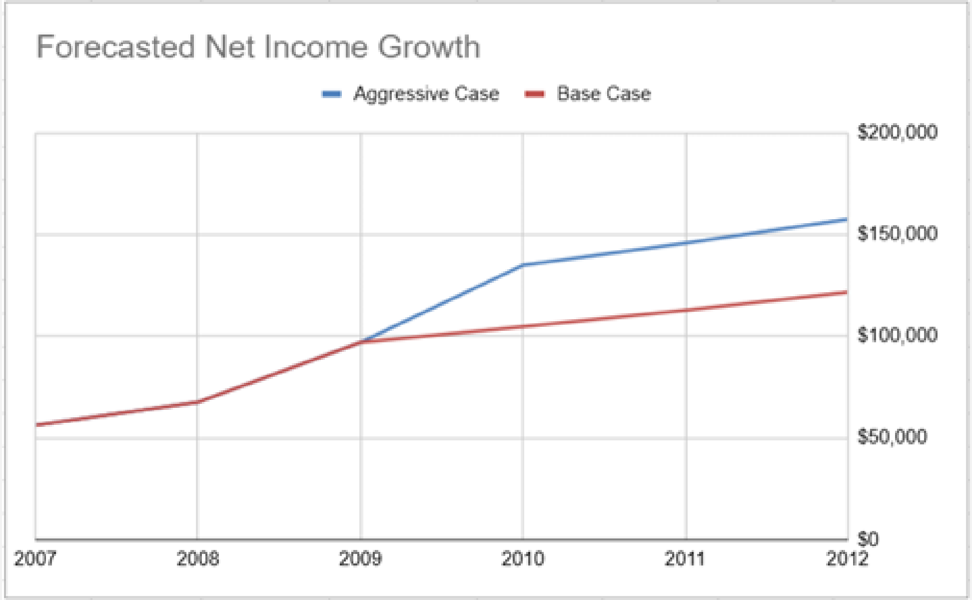
Aggressive Case (25% Growth For 3 Years)

Growth: Front-loaded 25% growth captures aggressive scale for 3 years

Debt: Maximum in Year 3 of forecast (2010) and is projected to be paid off by 2013

Profitability: ROE peaks over 20% in Year 3

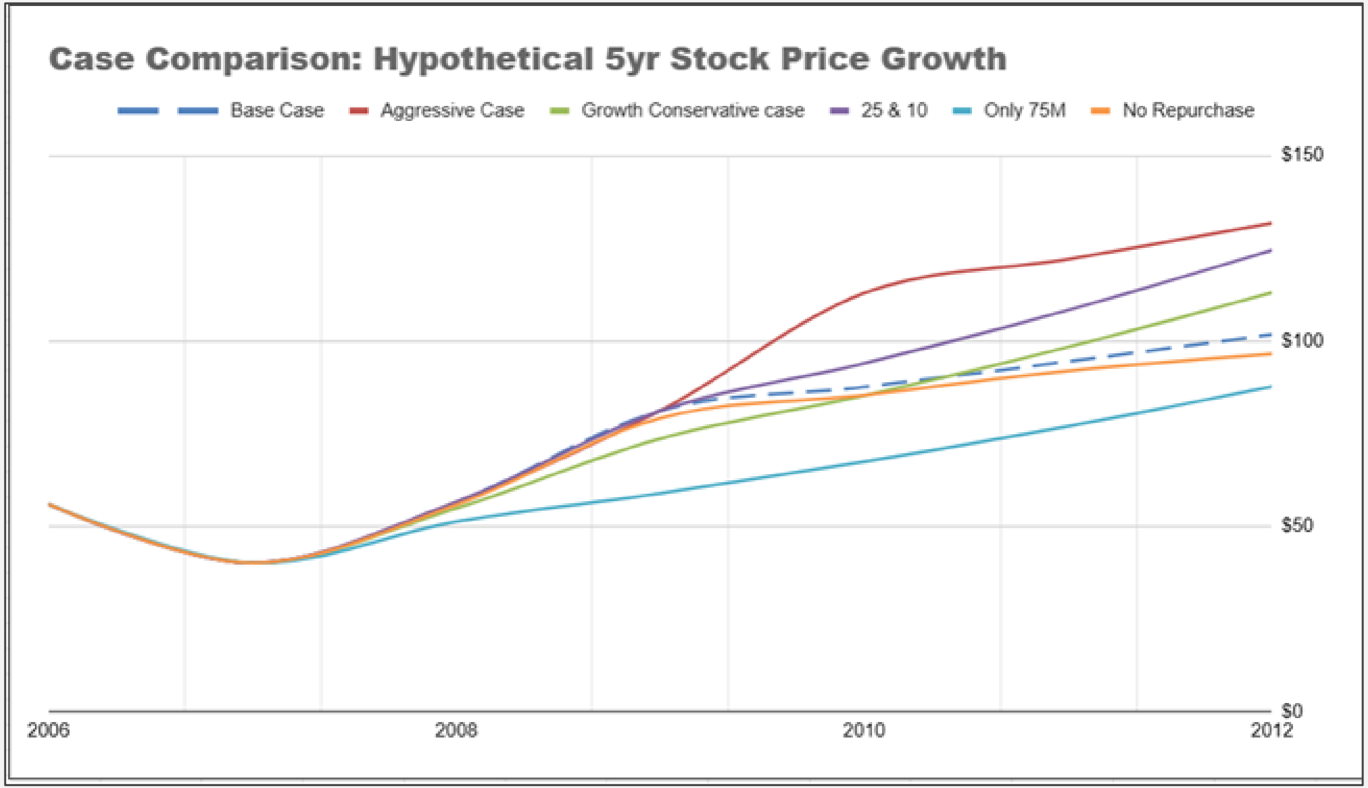
Trade Offs: Debt-Equity reaches 39.31%



Scenario Comparison

Metric (2012)	Base Case (2yr/25%→5%)	Balanced (2yr/25%→10%)	Aggressive (3yr/25%→5%)	Conservative ($75M Cap)
Revenue	$1.9B	$2.18B	$2.26B	$1.63B
Net Income	$122M	$149M	$158M	$105M
Peak Debt	$220M (2009)	$220M (2009)	$291M (2010)	$75M (2008)
Terminal ROE	13.2%	14.9%	20.3%	12.9%

Full Case Comparison: Projected Stock Growth 5yr



Thank you

Questions?