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Low-Carb Craze Pummels Krispy Kreme In Second Quarter

UNH Rosenberg Center Franchise 50 Index™ Slips 2.2 Percent

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DURHAM, N.H. – The University of New Hampshire Rosenberg Center Franchise 50 Index™ dropped 2.2 percent in the second quarter of 2004 due to large losses by Krispy Kreme, McDonald's and other franchises.

In comparison, the S&P 500 grew 1.3 percent over the same period.

Following last quarter's 54.9 percent jump in its stock price, CKE Restaurants (CKR) is again the best performer of the index this quarter with a 34.6 percent increase. CKR is the owner, operator, and /or franchisor of Hardee's, Carl's Jr. and La Salsa Fresh Mexican Grill restaurant chains.

CKR soared almost 20 percent June 23 after reporting much better than expected financial results, driven by strong same-store sales increases at its two major brands, Carl's Jr. and Hardees. Carl's Jr. launched The 1 lb. Double Six Dollar Burger ™ and the Low Carb Charbroiled Chicken Club ™ . Hardee's strong sales are fueled by the popularity of its Angus beef Thickburger ™ menus.
Krispy Kreme (KKD) is the worst performer of the index in Q2 2004. "A victim of the current popularity of low carbohydrate diets, such as the Atkins and South Beach diets, Krispy Kreme plunged 44.4 percent this quarter," said Udo Schlentrich, director of The William Rosenberg International Center of Franchising at the UNH Whittemore School of Business and Economics.

Krispy Kreme is responding to weaker doughnut sales by expanding its packaged doughnut business to new retail customers, introducing new doughnut products (sugar-free doughnuts, doughnut holes, mini-doughnut rings), and launching a new line of frozen drinks and its own brand of coffee beans.

McDonald's (MCD), the largest component of the RCF 50 Index™ with more than 19 percent of the market capitalization of the index, dropped 9 percent this quarter mainly due to concerns over future sales growth and the health of its top executives.

" Though this quarter's financial results are strong, investors are now more focused on the future prospects of the company. The current anti-obesity backlash (as illustrated by the recently released documentary "Super Size Me"), tough year-over-year growth comparisons, and macroeconomic factors that may negatively impact discretionary spending on fast food (higher interest rates and fuel prices) are expected to lead to lower sales growth in the near future," Schlentrich said.

From January 2000 to June 2004, the RCF 50 Index™ is up 34.0 percent, while the S&P 500 Index is down 18.2 percent.

The Rosenberg Center Franchise 50 Index™ , developed by UNH's William Rosenberg International Center for Franchising, is an index that tracks the market performance of the top 50 public U.S. franchisors. These 50 franchisors represent more than 98 percent of the market capitalization of all public U.S. companies engaged in business format franchising.

The complete Franchise 50 Index™ Second Quarter 2004 Report is available at http://www.unh.edu/news/docs/F50Q204.pdf. For more information on the William Rosenberg International Center of Franchising or the Rosenberg Center Franchise 50 Index™ , visit http://franchising.unh.edu.

Editors: Udo Schlentrich, director of The William Rosenberg International Center of Franchising at the University of New Hampshire, is available to discuss the Franchise 50 Index™ Q2 report. Please contact Lori Wright at 603-862-0574 or lori.wright@unh.edu to make arrangements.