



April 18, 2013

Dear Stockholder,

For years now, you have heard us say that the real test of a company is its ability to generate shareholder value over the long-term. With that said, we realize that a management team's credibility is built by delivering results year-over-year, quarter-by-quarter. Thus, we are pleased to report that 2012 was another extraordinary year for Panera.

We're proud to have exceeded our earnings targets in each quarter of 2012. In 2012, our earnings per share (EPS), excluding a one-time legal charge in 2011, grew 27%. These results were driven by company comparable bakery-cafe sales growth of 6.5%, the opening of 123 new bakery-cafes system-wide at record opening volumes and our strong operating disciplines. We are especially proud of the fact that, despite the volatility over the past half-decade in the U.S. economy, this was the fifth consecutive year that our EPS has grown 24% or greater and the fifth consecutive year in which we exceeded the upper end of our long-term EPS growth target of 15%-20%. This performance puts us at or near the top of our industry. It thus seems fitting to us that this year, for the first time in our history, Panera Bread made it onto the highly coveted list of FORTUNE's "World's Most Admired Companies", confirming the pride we all feel in Panera.

Shareholders who read our letters over the years know that it is our most fundamental belief that, in order to generate the kind of performance we have produced, we must excel at delivering a differentiated experience to millions of customers each week across our store base of almost 1,700 cafes. To that end, our focus in 2012 continued to be on improving the overall quality of the Panera experience by investing in these four key areas: the quality of our food, the evolution of our marketing, the growth of our catering business and the quality of our operations (all of which were facilitated by an ever stronger team). Taken together our success in these four allows us to build differentiation and ultimately create competitive advantage.

#### **Serving Food of Which We and Our Customers Can Be Proud**

For many years we have executed a strategy of building category ownership (meaning that we have high levels of credibility in that category in the minds of our target consumers) by utilizing the talents of our food development group and the size and scale of our supply chain to drive innovation. To that end, we continue to bring new, unique products to market while improving the quality of existing products. Indeed over time, our food development and supply chain teams, working in partnership, have driven the success of our signature salad, sandwich, soup, and smoothie categories.

Last year we once again experienced the positive impact of food development and supply chain working together to drive innovation in the Panera experience. Indeed, in 2012, that partnership drove the sourcing and use of antibiotic-free roasted turkey which, in turn, resulted in very strong sales growth. When antibiotic-free roasted turkey both tastes better and is something our customers feel better about eating and serving their families, customers vote with their wallets. And they did just that in 2012. Last year, signature sandwich sales grew 18% versus 2011 levels led by the introduction of our new Roasted Turkey & Avocado BLT sandwich. Similarly, we experienced continued growth in our signature salad sales which were up 13% versus 2011 levels, led by the successful Chopped Chicken Cobb Salad with Avocado and supported by the rollout of a new Roasted Turkey Orchard Harvest Salad.

In early 2013, we introduced a new menu category to Panera – pasta. Our food development and supply chain teams have been hard at work for more than two years developing several high quality pasta offerings that will complement our soups and salads. As with all of our new products, our customers expect us to deliver a high quality product with the best ingredients that is differentiated from our competitors. We believe that we have done just that with our new pastas. We encourage you to try them and let us know what you think.

#### **Strategically Refining and Expanding Our Marketing**

We continued to refine our media and advertising strategy in 2012 as we tried to both deepen our relationship with the customers who use Panera frequently, but also increase our reach to those who are not regular users of Panera. Although we increased the dollars we

put to work in direct media, we still spend at a relatively low level (1.4% of system-wide sales in direct media expenses in 2012) compared with many national restaurant companies that spend in the 3% to 5% range. As we carefully increase our spending, we continue to monitor its effectiveness and gain understanding into the optimal mix of media by market. We plan to increase our media spending in 2013 as we continue on our path of increasing awareness and reinforcing brand connection, including the continued testing of national media.

Early in 2013, we launched a new advertising campaign which gives voice to what makes Panera special in the eyes of so many customers. We think the campaign is differentiated and unique enough to stand out in the clutter of competitive advertising. This new campaign is titled *'Live Consciously, Eat Deliciously'* and it speaks to the quality of our ingredients and to the values that consumers identify with Panera. The advertising also speaks to the intent Panera brings to everything it does. To be clear, this campaign is intended to drive a deeper affiliation between Panera and our customers and we believe such an effort has the potential to deliver a greater, long term return on investment from advertising than more promotional messaging.

Another element of our marketing strategy is our MyPanera loyalty program. The MyPanera program currently has more than 13.8 million members, an increase of more than 45% from the roughly 9.5 million members at this time last year. As a reminder, the MyPanera Loyalty program is designed to surprise and delight our guests through a combination of rewards and unique experiences that only Panera can provide. For Panera the power of the loyalty program is the customer data that we have been able to collect relative to convey each customer's unique purchasing patterns. This data is already allowing us to understand our business in ways we never did before, enabling us to more smartly evolve our product offerings and tailor both the MyPanera rewards as well as the efficiency of our marketing. While our analysis of this data is in its early days, if we utilize our learnings wisely, we believe we may be able to drive frequency and ultimately transaction growth in a way many of our peers – who do not have this individualized insight into their customers – cannot.

### **Expanding the Reach of Our Cafes Through Catering**

In 2012, we continued to invest in building the foundation for our long-term success in the catering business. The result of that effort was a 21% increase over 2011 in catering sales, net of acquisitions. Specifically, our catering performance in 2012 is due in large part to the strengthening of our sales force, new training programs, increased awareness of our catering offering through marketing and an improved catering experience enabled by the rollout of an on-line ordering system.

We should note that 2012 growth in catering came on top of 29% year over year growth in 2011. The multi-year success of our catering operations highlights the strength of our brand, the power of our national footprint and the potential growth available to Panera outside of our cafes. Indeed, we believe that we have only just begun to tap into the demand for Panera outside of our four walls and we plan on continued innovation to capture that demand in the future. To that end, we are making investments in catering in 2013 by increasing the number and quality of our regional catering sales managers, rolling out a new sales force management system and enhancing our web-based catering ordering system. As a result, we expect that 2013 will again be another year of strong growth in catering.

### **Maintaining and Elevating the Quality of Our Operations**

2013 will see material investments in our operational capabilities. The intent of this investment is to significantly expand access to Panera, improve the operational capabilities of our cafes and strengthen our core enterprise systems. By doing so, we believe that we can improve the customer experience and better support new culinary innovation – all while reducing the administrative burdens of our managers. By doing so we hope to enable our managers to focus even more intently on delivering the Panera experience (and ultimately growing sales and profits) every day.

### **Strengthening Our Team**

Over many years Panera has invested in our organization and our people. In March 2013, Roger Matthews joined Panera as Executive Vice President and Chief Financial Officer. We have known Roger for more than 15 years and are very excited to have him join the senior leadership team. Roger was a senior investment banker at Goldman Sachs and, because he ran the restaurant practice at Goldman, brings a deep knowledge of our industry. As a result, he brings significant strategic and financial skills that will serve Panera well. In addition, Diane Hessian joined our Board in November 2012. Diane brings to Panera valuable leadership and a keen understanding of consumer research and marketing.

In December 2012, Panera had more than 75,000 associates system-wide. They are the face of Panera and they define the Panera experience for millions of customers each and every day. These associates are the reason why we can generate the sales we do and we thank them for their hard work. We also honor them by how we treat them.

To that end, allow us to address the implementation of the Affordable Health Care Act at Panera in 2014. It remains a core tenet of Panera that we treat all associates with the dignity and respect they deserve. Indeed, we presently offer health coverage to team members who work more than 25 hours a week. We therefore concluded the appropriate course of action for Panera is to refrain from scheduling employees simply to avoid the full time classification. Rather, our intention is to treat any increase in healthcare costs as an inflationary line item on our P&L.

### **Societal Impact Activities**

As an organization, we have always aspired to elevate the lives of our customers and associates while also making a difference in the communities we serve. As well, our commitment to use the Panera network to help make a difference in society offers the potential to deepen the companies bond with our customers – many of whom share our values. As you know Panera is committed to taking a leadership role in fighting food insecurity in our country and we are proud to report that, in 2012, we and our franchisees donated, system-wide, more than \$100 million worth of unsold bread and baked goods to local hunger relief efforts. In addition, last summer we launched a strategic alliance with Feeding America, the nation's leading domestic hunger-relief agency, to provide member food banks in more than 75 markets with Panera's Black Bean soup. Additionally, in early 2013 and 2012, the Panera Bread Foundation opened two more Panera Cares® Community Cafes in Boston, MA and Chicago, IL. These locations are non-profit donation based community cafes of shared responsibility. These cafes are committed to giving each and every person who walks through their doors a dignified dining experience regardless of their ability to pay. We estimate that more than 1 million people will be served by Panera Cares cafes in 2013. Look for us to continue in 2013 to find innovative ways to expand our activities to positively impact our society and deepen the relationship customers have with our company.

### **Capital Utilization**

A significant strength of our company is our balance sheet and the cash flow we generate from operations. We ended 2012 with just under \$300 million of cash on our balance sheet and no debt. We have been able to deploy more than \$440 million in excess capital since the first half of 2010 to increase shareholder value and drive EPS through a variety of investments.

We believe the best use of our capital is to build new, high return on investment (ROI) Panera Bread bakery-cafes. In 2012, we opened 123 new bakery-cafes (59 company and 64 franchise), which represented an 8% increase in our total number of bakery-cafes. More importantly, our company new unit opening volumes were \$47,029 and our franchise new unit openings were \$46,781, which were the highest in our Company's history. We believe these sales volumes are, first and foremost, a reflection of how well Panera is resonating with our customers as we continue to build on our national footprint.

We and our Board of Directors have a disciplined focus on our use of capital. In 2012, we were able to acquire 16 bakery-cafes from our franchisee in the Raleigh-Durham market at a multiple that made this transaction accretive to our earnings in 2012 and beyond. Also, under our Board-approved share repurchase program, we repurchased approximately \$25 million of our shares at an average price of approximately \$157 per share. We believe this use of capital will provide a good long-term return for our shareholders. Expect us to continue to look for opportunities to invest in ways that will allow us to build competitive advantage while generating an attractive return on investment.

### **How Do We Build Upon the Success We've Achieved and Ensure the Future Holds Equal Promise?**

We believe that our strategy of increasing store profit by investing in the quality of our customers' experience, developing new units, driving operating leverage and deploying our excess capital in high-ROI investments positions us well to continue to deliver our targeted long-term EPS growth rate of 15% to 20% annually. Indeed, as successful as Panera has been over the past several years, we continue to feel that our best days lie ahead.

In conclusion we would like to extend our appreciation to our Board of Directors for their guidance and perspective, to our franchisees for their continued investment in the concept we share, to our team members for their willingness to do whatever it takes to get the job done well and to you, our shareholders, for your continued confidence in us. We pledge to each of you our commitment to do all in our power to steward this company well.

Sincerely,



Ronald M. Shaich  
Chairman and Co-Chief Executive Officer



William W. Moreton  
President and Co-Chief Executive Officer