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Ark Restaurants Corp. (NASDAQ:[ARKR](#)) Q2 2024 Results Conference Call May 14, 2024 11:00 AM ET

Company Participants

Christopher Love - Secretary

Michael Weinstein - Chairman and CEO

Anthony Sirica - CFO

Sam Weinstein - Co-COO

Conference Call Participants

Roger Lipton - Lipton Financial

Operator

Greetings, and welcome to Ark Restaurants Second Quarter 2024 Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation [Operator Instructions]. As a reminder, this conference is being recorded. I'll now turn the conference over to your host, Christopher Love, Secretary for Ark Restaurants. Thank you. You may begin.

Christopher Love

Thank you, operator. Good morning. And thank you for joining us on our conference call for the second quarter ended March 30, 2024. My name is Christopher Love, and I am the Secretary of Ark Restaurants. With me on the call today is Michael Weinstein, our Chairman and CEO; and Anthony Sirica, our CFO. With us -- as well as Sam Weinstein, our Co-COO. For those of you who have not yet obtained a copy of our press release, it was issued over the Newswires yesterday and is available on our Web site. To review the full text of that press release along with the associated financial tables, please go to our homepage at www.arkrestaurants.com. Before we begin, however, I'd like to read the Safe Harbor statement. I need to remind everyone that part of our discussion this morning will include forward-looking statements and that these statements are not guarantees of future performance and therefore, undue reliance should not be placed on them. We refer everyone to our filings with the Securities and Exchange Commission for a more detailed discussion of the risks that may have a direct bearing on our operating results, performance and financial condition. I'll now turn the call over to Michael.

Michael Weinstein

Hi everybody. This is a pretty bland quarter in terms of comparisons. It's really easy to outline the differences between this year and last year. Primarily, we did not do well in Florida for the quarter. Some of it affected by weather changes, so that's always a bad excuse. Just headcounts were not where we would like them to be. Vegas did all right but again we're fighting higher rents with the new lease. New York was pretty good. Alabama was really good. And Washington, D. C. had bad winter, in general. What we're fighting is obviously higher payrolls which has been the case for a while now, extremely high premiums on liability insurance and property insurance. And that's really it. The results are marred by the fact that we refused to raise prices to levels, which we think are attainable. In the long run, we're interested in keeping customer counts. So our prices have to be friendly. And those price increases, which were modest that we did put through in restaurants, given the number of headcounts coming through, that revenue is not sufficient to make up for the higher cost of labor and to some extent food cost and to a great extent rents and insurance premiums that have gone up. That's really it.

What we're seeing now is a little bit more favorable the last month or so. The results in Florida are starting to comp better compared to last year. Vegas is steadily over \$1 million a week. The goal for us to make up the difference in rent is probably \$1.1 million, \$1.150 million. We've seen some of those weeks, not consistently, but the product there is really good. The efficiency has improved dramatically on the payroll costs. We have a new food purchasing department that seems to be doing a better job of food costs. So we expect that we'll achieve close to the same cash flow that we had prior to the rent increases during the course of this year. We'll get there. New York is benefiting from events. The a la carte business is okay but the event business is really strong. Alabama remains strong. The food costs in Florida are very strong. We just think we're seeing a tick up in demand and we'll see if that continues. From my point of view, everything seems to be in line in terms of service and quality of the product. So if you have any questions, I'd be happy to answer them.

Question-and-Answer Session

Operator

Thank you. At this time, we'll be conducting a question-and-answer section [Operator Instructions]. Our first question comes from the line of Peter [Katz] with Herold & Lantern Investments.

Unidentified Analyst

Any updates on Bryant Park?

Michael Weinstein

So the process has been drawn out and somewhat disappointing in terms of the response to the needs of those people who have made bids. We were all promised -- and we're finalists in the process, we don't know how many finalists there are. We suspect two or three others beside us. We were promised in October that leases would be forthcoming for everybody to view the kind of lease that need to be signed. That finally came two weeks ago. And when it came, it said that the respondents must reply by this Friday. So everybody had waited five months to see what they were going to have to deal with in terms of lease terms and given seven days to respond or eight days to respond. So we've responded to that. I don't know what their timetable is on making decisions. We have no hint. They have not said to anybody that they're going to make a decision by the end of May, end of June. So we just don't know where the process stands other than we've replied to the lease and we made some comments. I wish I could tell you definitively what their process was, but I can't. I've been mystified by the process from April.

Unidentified Analyst

Does that affect your ability to plan events prospectively?

Michael Weinstein

We've already stopped taking events for 2025 after May 1 of 2025, that's when our lease ends. So if people call, we'll encourage conversations to keep going, but we're not signing any contracts. We have to inform them that we don't know that we're going to be in possession of their property. I don't think there's too much of that now. But certainly wedding's have planned well in advance of 12 months. So that's probably what will first be affected.

Unidentified Analyst

Different question. Based on your debt and amortization schedules, do you have an expectation what your year end debt balance might be?

Michael Weinstein

Anthony can answer that question. Right now, it's about \$6 million...

Anthony Sirica

The year end balance will be \$5.3 million. [Multiple Speakers] Just as a reminder, all of the loans have a June 1, '25 balloon payment. So next quarter, everything moves to current.

Unidentified Analyst

And current -- so long term debt moves from \$6 million long term to \$6 million current, correct?

Anthony Sirica

Correct. Yes, as of June 1, everything is due by June 1, '25.

Unidentified Analyst

And you would most likely look to -- would you refinance that, is that what your plan is?

Anthony Sirica

Yes. I mean, we'll start the process of entering into a new credit agreement probably sometime after the calendar year, and roll it into a new deal.

Michael Weinstein

But -- if I can interrupt Anthony for a second, we have about \$14 million in the banks right now. Some of that represents deposits on future parties, some of it is just float. But we're going into our season, the June quarter and [second] quarter are our best seasons. We should cash flow substantially during those periods...

Anthony Sirica

We usually build cash...

Michael Weinstein

We build cash. We have some expenditures to make in Vegas on refurbishing the food court. There are no current projects or purchases that require any capital. So our decisions will be made based upon where the cash stands, as well as what future commitments we have. But we're in very strong shape from a cash point of view going into our best seasons.

Unidentified Analyst

And again, as you said your cash cycle is such that you expect to harvest cash in the second and third quarter as opposed to the first and fourth quarter where you are paying out bonuses and whatever other adjustments have to be done?

Michael Weinstein

Correct.

Unidentified Analyst

Is there anything else to report in terms of new business development or...

Michael Weinstein

We look at things -- Sam, you want to talk about [Indiscernible] pay?

Sam Weinstein

We're in the process of building out a new concept in Las Vegas. It's Asian fast food concept, a lot of rice bowls and bao buns. We've been putting the brand together for about eight months now. We think that it has potential to roll out a few concepts. So we're sort of piloting in New York-New York Hotel and Las Vegas. So that's the only real new concept we have on deck, but we're excited about it. And it's set up to be rolled out more as a brand rather than one off. So we should be opening that in the next month or so, and we'll see how it goes. And if that's successful, we're definitely looking for new locations to place that in.

Michael Weinstein

We have a letter of intent out on the purchase of the restaurant, but I think there's some -- with all of these things, with the one offs where we're trying to buy the land or we're trying to buy cash flow, we got very lucky the first five or six of these that we did. Management stayed, sales remained strong. In most cases, profitability increased. And lately, the last three or four of these deals that we've tried to do, and they were all pretty much in Florida. One was in Wisconsin that we looked at. They're trying to sell us something, let's say, 4 times cash flow and they have -- in Florida, they have the same problem we've had. Their cash flow is disappearing a little bit compared to last year's numbers. So when we go back to renegotiate that becomes a problem for the seller, because they're hoping the cash flow will build again and they'll come back to us at a later date or whatever. So we're looking at stuff. We just don't -- there always seems to be a fly in the ointment either with the seller's cash flow performance or in some cases landlords are obstinate about changing clauses in the lease that we need as a public company. So it's not a lack of effort to try to find things to expand, but we're not in control of the landlords or the cash flows of the restaurants that we're looking at. I would tell you that we're more interested -- I shouldn't say more interested. We are as interested now in trying to build the brand that we can control to have a vehicle to expand the company's cash flow, that is as interesting to us as buying cash flow.

Unidentified Analyst

I think I was just curious, you mentioned having spent a lot of money in the Gallagher's renovation. Has that brought a more upscale traffic, has there been any sort of conversations with the landlord about that process?

Michael Weinstein

I would tell you that we're now comping against last year's results when Gallagher's was completely open. It's too early to tell whether that business has increased enough to warrant having spent that kind of money. But the answer is we didn't have a choice. In order to get the lease, we had to commit to spending a little under \$2 million. The real cost was not the amount of money we spent in the restaurant, but having the restaurant closed for 12, 13 weeks [Multiple Speakers] cash flow. The lease is a much steeper lease. What we always thought -- and to a certain extent, the relationship with MGM requires us to rely on their marketing people who were convinced that we were too far under the price points of other steakhouses and they wanted us to be -- to increase prices to be more like other steakhouses in Vegas. I can tell you that the product is excellent and we're seeing that in the Yelp reviews now. I mean, most of those reviews are 5-star reviews. We had some problems early on, because the kitchen was refigured and we probably had the wrong chef when we reopened. But we have -- that's been corrected, and the product is excellent. The real problem is that -- and MGM or New York-New York put in a new Cirque du Soleil show, but they also put in competition in the park.

It's very hard for us to figure out of why sales aren't 20% up or some bigger number than we're seeing now. Whether it's competition, which is more expensive than us, by the way, but there's another steakhouse attached to New York-New York property, which was a surprise to us. Or the fact of the matter is -- and by the way, the T-Mobile arena, which is in that same park, is more active than it's ever been and we would suspect that that would be a customer who will come to Gallagher's. But the real problem is New York-New York in terms of a property is a middle income customer. And what you're seeing now, in general throughout the company, I believe, is if you look at the fast food courts that we run in Hollywood and Tampa and New York-New York, they're all doing well. They're up. Tampa a little less than Hollywood and New York-New York. But when I look at New York-New York's figures last week, which the food court was up 12%, 13%, 14% from last year, sales at the next restaurant that is modestly priced, which is our Burger Bar, are down from last year. I think there's a big shift in these properties from high priced restaurants to lower cost tickets to the customers that aggregate New York-New York. And I must tell you that if you go to Hollywood, and I think this is true everywhere, but especially Hollywood.

When we built Hollywood out and Tampa, both locations, the location in Hollywood was moved about two or three years ago when they did the Qatar Hotel, they moved us to a new section. And we said, look, we're going to do fast food but we want the quality to be restaurant quality, not fast food quality. And all of a sudden, you have really great food in terms of what customer expectations are. And the price points in full service restaurants and the Hollywood Casino are kind of steep. And so I think there's a migration from full service restaurants to our fast food courts where we are you know and the properties we're in. It speaks well of the quality of product and the fast food, but it doesn't speak well to the price points in the full service restaurants. And my question in my mind always is, how much is that limiting Gallagher's ability to really comp much better from the prior -- from prior to the renovations and now. So we have competition on one hand but we do have T-Mobile Arena doing more business or having more dates when something's going on. We also have a show which we didn't have right next to Gallagher's. So I think those are positives. But the negatives is the price point than the customer. We don't see a well healed customer. So it may be confusing in terms of an answer but it's confusing to us to see how we're doing. What we know we're doing well is the customers that are walking into the place are really enjoying it because the reviews are quite good.

Operator

Our next question comes from the line of Roger Lipton with Lipton Financial.

Roger Lipton

Could you describe -- I didn't quite get that description of the new prototype you're building in New York-New York. Could Sam describe it a little further for us?

Sam Weinstein

It's sort of a quick service Chipotle style setup. It's an Asian concept, it's rice bowls, it's bao buns. And we're starting small. It's just three different ingredients. We have beef, a pork and a chicken option and a vegetarian option. And it's essentially rice bowls, bao buns and boba tea. Boba tea has been become very popular. We've been seeing a lot of success in other spots in Las Vegas and other areas that we've been looking at. So we're trying to build this little concept that puts both of them together and then we're also making our own freshly baked mochi donuts. So that's pretty much the gist of it.

Roger Lipton

Is it going to be in a food court?

Sam Weinstein

Yes. It's going to be in the New York-New York Hotel food court.

Roger Lipton

And when do you think you'll be getting that started?

Sam Weinstein

End of June, it's looking like. We're about to start construction now.

Roger Lipton

And Michael, is there anything at all new in terms of the casino, downstate casino discussions? I mean, I see periodic reports in the press, but you're probably watching it a little more closely than we are. Any movement at all in terms of that?

Michael Weinstein

Again, it's the opinion of my partners in the deal who are substantially -- have substantially more equity in the deal than we do that you can't move forward with a referendum in New Jersey until you have downstate casinos. And that requires licenses and the process in New York has been slow. There is a lot of activity that you read about the proposals of related and others. And now I guess [indiscernible] is in there since they bought the [indiscernible] property in the Bronx. Certainly, Yonkers is in there and Aqueduct's in there. The recent -- Sam's has a proposal in. So there are a lot of proposals, I guess, to be analyzed. The state has basically said we need more time. So until those licenses are issued, and I'm pretty sure everybody pretty much agrees that Yonkers and Aqueduct will be two of the three recipients. The good thing about Aqueduct and Yonkers is if they get a license, they could be in business in 60 days. And I think that pushes Jersey to start to draft a resolution or referendum. That needs to be -- needs a public vote. But yes, if you look at the other side and the question's been asked all the time by investors and -- what is Jersey waiting for? I mean, we basically, the Meadowlands LLC, New Meadowlands LLC, which is the holding company that runs the Meadowlands Racetrack now. We've committed a guarantee of \$500 million a year to the state. What are they waiting for? But the reality is they're waiting.

Roger Lipton

So it's subject -- so waiting, really waiting on -- as it's been waiting in New York, that you don't have any new feedback that maybe New York is going to really come to grips with this thing in the short term?

Michael Weinstein

We read the same articles in newspapers that you read.

Roger Lipton

So you might be paying a little closer attention than I can, but whatever, do the best you can. You can't control it. Obviously, it's just a question of what you're observing. Well, all right. Thanks very much. Look forward to seeing you guys soon.

Operator

Our next question comes from the line of Alan Goldberg, Private Investor.

Unidentified Analyst

And I was calling to see if there was any update on the Meadowlands. But since that's already been asked, I wanted to tell you that I think you are maneuvering very well through this tough time. I know this is not what you want to hear, but in Chicago, I went to Maggiano's last night for dinner. And, they had, 19 patrons while I was having my dinner. And that sort of shocked me. And I asked them how things are going. They say, actually, what you see tonight is an anomaly. We have been so busy here and not even barring Mother's Day. They said their price point seems to be very, very good. And I think most of our price points are very, very competitive. And everybody wants results yesterday. And you and I met, it's certainly more than five years ago. We were a little younger. And I'm very pleased with what you're doing. I think you're moving in the right direction. Now you may say under your breath or in silence, my god, he's crazy. But I'm not crazy. People are eating out more and more and more. The problem that's hurting look, if McDonald's is telling you they're slowing down because of people are concerned about money, I agree. I think it hurts all restaurants.

But I also noticed nobody seems to care. They give the credit card, and they just don't care. Again, I'm not teaching you your business. I know absolutely nothing about it except I enjoy your restaurants. But I think we should continue doing what you've been doing. Look, as you said, look for places that are reasonable to us. This whole industry is going to change. The world is changing. We've got a major election coming as we all -- I'm not teaching you economics, that's my field. But I think you're doing the right thing. And as you know or you may not remember, I ran a hedge fund for a number of years. And you look for things that are going to take place in the next three to five years, that's how a good investor should invest. And I'm very pleased with the way you're running it and the people on your -- with you that I don't know. But -- and I just want to tell you, it's a pleasure hearing your voice. Thank you for taking my call. Thank you. If you ever have any questions of me, I'm always there for you, and thank you so much. Thank you for the meetings. Good luck to all of -- everybody, all of us, and thank you.

Michael Weinstein

Thank you, Alan.

Operator

Thank you [Operator Instructions]. I'm showing no other questions at this time. Mr. Weinstein, I'll turn the floor back to you for any final comments.

Michael Weinstein

All right. Well, thank you all for joining us. And we'll speak to you at the end of next quarter.

Operator

Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.

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