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Ark Restaurants Corp. (ARKR) Q4 2024 Earnings Call Transcript

Dec. 17, 2024 12:50 PM ET | **Ark Restaurants Corp. (ARKR) Stock**

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Ark Restaurants Corp. (NASDAQ:[ARKR](#))

Q4 2024 Earnings Conference Call

December 17, 2024 11:00 AM ET

Company Participants

Christopher Love - Secretary

Anthony Sirica - Chief Financial Officer

Michael Weinstein - Chairman and Chief Executive Officer

Conference Call Participants

Martin Gilvarg - Mh Gilvarg Consulting
Jeffrey Kaminski - JJK Consultants

Operator

Greetings, and welcome to the Ark Restaurants Fourth Quarter and Year-End 2024 Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Christopher Love, Secretary. Thank you, sir. You may begin.

Christopher Love

Thank you, operator. Good morning, and thank you for joining us on our conference call for the fourth quarter and year ended September 28, 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.

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 website. 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 Anthony, our CFO.

Anthony Sirica

Good morning, everyone. You all saw the release. I want to go over a few things on the balance sheet and touch a couple of highlights on the P&L and then I'll turn it over to Michael.

We ended the year with \$10.3 million of cash and \$5.2 million of debt. Our debt, we have one more set of principal payments on February 1. We just made payments on December 1 and the balance of the debt matures on June 1, which is about \$4.4 million. We will -- we're in current discussions with the bank to extend our credit agreement and term out the rest of that debt over a number of years, whether it be three to five, and renew the capacity of our existing credit line.

With respect to the rest of the balance sheet, there really are not a lot of changes other than the normal amortization of our operating lease right-of-use assets, as well as an additional impairment of our goodwill, which I'll talk about in a minute. Other than that, our balance sheet remains stable. Currently, we have approximately the same amount of cash \$10.5 million to \$11 million of cash as of the current date.

On our P&L, we have a few items in there that are unusual one-time items. We had the loss on the closure of El Rio Grande, which is discussed in the press release. We made a decision based on the operating results for the last couple of years to close the property where we tried to negotiate with the landlord for a better lease, but those negotiations have stalled. So that loss includes the write-off of a security deposit, six months of rent that we would owe, some severance and things of the like, that was \$876,000.

We had the impairment loss on the Sequoia right-of-use and long-lived assets that was from the third quarter. That was based on projections. We looked at the numbers again at year-end. The numbers improved. So we did not take any additional write-downs on Sequoia in the fourth quarter. We are monitoring it on a quarter-by-quarter basis.

We also had an additional goodwill impairment of \$4 million. If you recall, we had a \$10 million impairment last year. As the Bryant Park situation continues to unfold, as you've read in the press release, we engaged outside third parties to prepare a discounted cash flow based on a series of projections we had given them doing a probability weighted analysis. And at the end of the day, we felt another impairment of \$4 million was necessary.

One other item that's going on that's not reflected in the financials is that our food court in Tampa, the landlord had come to us a couple of months ago wanting to take it back. They want to put a high-stakes slot room where the food court is. We've been in negotiations with them and we feel we made actually a very good deal.

We have approximately 4.5 years left on the lease and they're going to pay us \$5.5 million to vacate the space. There's a really couple small costs involved some legal fees some severance, but they're going to demolish it and broom clean it, so we would be out of there probably by the end of the year. I think it closed recently over the weekend possibly. So we're now in the process of taking any equipment that we want to the locations.

So other than that, I think that's all I have. I'll turn it over to Michael.

Michael Weinstein

Hi, everybody. So the theme here is reduced sales, just challenging revenue environment and expenses that have not abated in certain cases like insurance premiums, which we spoke to before, increasing labor costs are not increasing unless at this point, unless it's legislation which Las Vegas put through some increases, minimum wage increases that they enacted. But pretty much labored for the first time in a couple of years. It seems to have stabilized. We're finding good people at price points that are significantly compatible with what we would expect in each of the markets.

We got to the year and the quarter, we still see challenging revenue environments in Florida and in Washington DC. Alabama is good, that's probably our most consistently good performing venue. Las Vegas, the revenues are okay, but again, the expenses from inactive payroll increases have eaten into our margins.

New York, our business is decent. Not very much to say in the way of new business that we're trying to put on our books. We've been looking at a few things. We've had some negotiations. Nothing fruitful has happened. We continue to look.

Meadowlands remains the same story. Until New York pulls the trigger on their downtown casino licenses, I don't think we'll see any activity from New Jersey. So that remains a question as to timing. I think our ability to get a casino license or probability in our venue at the Racetrack in Northern New Jersey is probably improving all the time from the point of view of the legislature, seeing that as the easiest solution and best possible location. But again, the legislature is not going to move until something happens in New Jersey.

So that's my story. Take questions at this point.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. It appears we have no further questions at this time. No, I'm sorry, we did get a question from Martin Gilvarg with Mh Gilvarg Consulting. Please proceed with your question.

Martin Gilvarg

Hi, Michael, how are you? Went over to the other side of Florida and enjoyed two of your restaurants when I was over in Aventura. And a nice little ride to each of them, but it was worth it. They're doing well.

I just wanted to check in with you on what the developments were with this, or kind of understand what it means, Wall Street Journal article recently about SL Green success in New York City in terms of turning around the office situation and that they are almost like it was going to happen for sure, they are going to open a casino in one of their buildings? Is that accurate and is that the driver that you speak of that will make things happen for the Meadowlands?

Michael Weinstein

So there are three downtown licenses available. There are several bidders to get those licenses.

Anthony Sirica

Two of them, Downtown State, I'm sorry.

Michael Weinstein

Downtown state licenses, meaning Queens, Manhattan, Bronx, Staten Island. So there are three available. Two of them are pretty much spoken for. One will go to Aqueduct, which has gaming right now in the form of slot machines; and Yonkers Raceway, which also has gaming in the form of slot machines. So you have SL Green trying for one, you have Hudson Yards trying for one, you have Steve Cohn out at Shea Stadium trying for one. Bally's is out in the Bronx at the old Trump property trying for one.

The question that everybody shakes their head about is, well, each of these licenses is going to cost a \$0.5 billion to acquire and the amount of revenue, tax revenue on a consistent basis going to the state would be considerable. So what are they waiting for? Why don't they pull the trigger? I think one of the reasons is the bidders have tried to make their proposals more attractive as they went along. But they're at the point now where they should decide, and it will be the catalyst for Jersey to move.

The minute that you see Bergen County and the Northern Counties leaving New Jersey to come to New York and bring their gaming money there, New Jersey is going to find out how much tax revenue they've lost, gaming revenue. Atlantic City has been in declination for decades. What's stopping the State right now from approving a casino in the North, hopefully our location, is a strong lobby in Atlantic City. But that lobby disappears once a casino is approved in Manhattan or the Bronx or Queens, that'll disappear.

The interesting thing about our Meadowlands location, if you're in Manhattan, it's easier to get to the Meadowlands than it is to get to Aqueduct or Yonkers. So we think, yes, we think a location in the Meadowlands is not only keeps New Jersey patrons in place, but it also brings traffic from Manhattan, which New Jersey does not anticipate, but I think will be a reality. So...

Martin Gilvarg

And who advocates for us on that point? Would the partner there is who? Sorry, I just don't remember.

Michael Weinstein

So we have - we're of the four partners. We're - we own the least equity on a fully diluted basis, we own 7% of the equity of the Meadowlands Racetrack LLC. But we do have an exclusive on all the food and beverage in the casino, if it happens with a carve out for a Hard Rock Cafe. Our original partner in this, and who owns 20% of an entity that owns on a fully diluted basis, would be about 10%, I believe. Is Hard Rock Cafe, Hard Rock, which is a Seminole Indian Tribe.

So what happened is that that was a very favorable agreement for us in that Hard Rock also operates in Atlantic City and the initial legislation when there was an attempt to get a casino in the North five years ago was that whoever had the rights to a casino license in the North would have to have an Atlantic City partner. I mean somebody licensed in Atlantic City.

So Hard Rock was a good fit for us because they were licensed and that's how they became partner. Hard Rock is now aligned with Steve Cohen at Shea Stadium. So the -- we don't know that Cohen is going to get it. If they do get it, we don't know what our relationship with Hard Rock would wind up to be.

At various points, there's been conversations that if Hard Rock goes to Cohen, that there would be some sort of compensation to the Meadowlands because of Hard Rock's interest in the other casino in New York. It's really up in the air, but we don't even know if the legislation, when new legislation comes forth in New Jersey, whether it's going to require an Atlantic City partner. So there's a lot of stuff that's unanswered in...

Martin Gilvarg

No, fair enough. Yes, no I just wanted to understand who would be advocating for the site to get that when in fact New York moves 40 guys in the legislature who are all from Northern New Jersey, who are all ready to go with whoever it is that's the leader of the group in the Meadowlands is kind of where I was going?

Michael Weinstein

Yes, well, believe me, we have lobbyists and we're in touch with the governor. We're in touch with the President of the Senate in Jersey. I mean, their conversations taking place to try to educate everybody why our site is the best site.

Martin Gilvarg

Got it. Okay. Just another piece on the financial end. What is the -- it's actually a two-part, what is the sum of the non-cash write-downs that we've taken in the last two years? Am I right to say \$15 million? And these are non-cash write-downs, right? This is associated with the capital company market cap being less than the book value or something like that?

Michael Weinstein

Correct. It all has to do with our stock price. A lot of it has to do with our stock price. They've been all non-cash write-downs.

Anthony Sirica

Yes, the goodwill was \$14 million.

Martin Gilvarg

And am I right in the ballpark of \$15 million?

Anthony Sirica

The goodwill was \$14 million and the Sequoia assets were \$2.5 million, so \$16.5 million.

Martin Gilvarg

And Sequoia continues to operate, but you've just written down whatever the asset value is because it's got poor results?

Anthony Sirica

Yes, we had to take an impairment on the fixed assets in the third quarter, because of the results. The fourth quarter, the results were what we expected, maybe a little better, so we did not revisit that analysis. We did not have to take additional write-downs. We will continue to monitor it every quarter, and as well as the auditors are looking at it every quarter.

Michael Weinstein

And Sequoia is cash flow positive. I don't want you to think that we're bleeding money there.

Martin Gilvarg

Okay. Okay. So, and then that was the last question was, so what do we lose? So we're getting \$4.5 million for Tampa. They're \$4.5 million, \$5 million. I don't remember the number you say. Minus the \$900,000. What do we lose? Well on EBITDA basis on an annual basis that we were getting from that location, roughly.

Michael Weinstein

We're getting \$5.5 million, but some of that belongs to investors, so our net will be probably \$3.5 million to \$4 million you know for us. The property was cash flowing \$700,000 plus a few dollars. You know, we had...

Anthony Sirica

Little over four years left.

Michael Weinstein

Maybe four years, two months left on the lease at this point. So we did well, but on the other hand, we had to buy out some partners to -- who were more aggressive about what they thought they should be getting, but we'll net out between \$3.5 million \$4 million bucks out of it. So that'll be added to the cash on our balance sheet.

Martin Gilvarg

Right, right. Yes, it's an impressive. And again, I don't know what the solution is to drive more volume in Florida, but all the customers seemed happy, reasonably busy and superb service and good quality. I mean, you certainly I had never been to one of our restaurants before. I happened to be over there for other reasons business-wise, and I thought it was an outstanding experience. And maybe it's just a question of making sure that more people know how good it is.

Michael Weinstein

So just to follow-up on that comment, we are really aggressive about being in our restaurants and management at the corporate level, about being in our restaurants and making sure quality and service are, you know, at our level of expectation. And I would tell you that without exception, I think we are delivering on product and service and value. One of the problems we have with margins is our reluctance to raise prices. And we don't want to raise prices when demand is soft and demand remains soft. So we're sort of stuck right now, although in some cases, we're finding places to re-individual restaurants, to re-engineer payroll. And we've started that program, you know, maybe a 1.5 months, two months ago.

So we think there'll be some payroll savings, but in general, we're pretty efficient with payroll. So not a lot, but you know, we're doing everything we can until we have, you know, the comfort that we can raise prices or food costs go down. And Rustic Inn, and I had this conversation this morning, we're known for our king crabs. Pre-pandemic we were charging \$75 for a 2 pound order. Now for a 2 pound order we're charging \$135, but the prices of king crabs keep going up every single month. So you know, it's like a race.

How much can you charge? And at what point do customers get leery about spending money? And, you know, I think we can't go higher, even though our costs are going higher. So...

Anthony Sirica

Well, I'd never tell you one way or the other, you know, just nothing more than a customer and an investor, so I don't know the details, but I will say there didn't seem to be anybody unhappy and I'm always amazed at, you know, I guess that's the challenge of being in the crab business. It's kind of like being planters peanuts. You're tied to a commodity that one product commodity there is really a dominant factor. But at the other restaurants, I'm amazed at the consumer, especially living in Naples, the consumer's ability to accept price increases. I mean, our stuff here is up 50%, probably from where it was pre-COVID.

I'm talking about the general line. I mean, everything from a fillet to a piece of grouper, you're talking 50% at least up from COVID.

Michael Weinstein

Yes, I agree.

Martin Gilvarg

Well, thank you for the further insights and appreciate again what you're doing. I just, the New York situation, I don't even want to get into asking questions about that. Good luck with the resource. I think that's the route you got to go. I mean, these people are mistreating a good organization, which is unfortunate.

Michael Weinstein

Thank you, very much.

Anthony Sirica

Thank you.

Martin Gilvarg

Thank you.

Operator

[Operator Instructions] Our next question comes from the line of Jeffrey Kaminski with JJK Consultants. Please proceed with your question.

Jeffrey Kaminski

Good morning, gentlemen. With respect to the lease termination in Hollywood, Tampa, you kind of walked us through it, Anthony, a bit in terms of what the payout will be to Ark? And in the press release, there was also a reference to Hollywood Tampa Investment LLC, which will distribute approximately 35% of the proceeds? Can you tell us who is that 35%? I didn't realize that Ark had outside investors in individual profits?

Michael Weinstein

So Jeffrey, good morning. What happened is when we did this deal 20-years ago, some 20-years ago, our stock price, not that it's improved, our investment was going to be \$5 million. And we had a projection that if we were right, we would make \$1 million. And the -- in Tampa, all right? And we're looking at our EBITDA and the multiple of stock trades to EBITDA, and we wanted to do the deal, because it was an in with Hard Rock, and that helped us -- doing both Hollywood and Hard Rock turned out to be a great deal for us.

But again, we're saying we're putting \$5 million in. We're going to get a 20% return. And therefore, the stock won't move. We're trading cash, and the stock will won't do anything. It's trading 5 times EBITDA. So the way to do the deal was to bring in investors, take a -- give the investors a prep, take a management fee and then split cash flow at the time with them. So -- and they put in the whole \$5 million. So we had overcome the bad equation we have in terms of our multiple on EBITDA. So the investors did very well. They've been enjoying a 30% return essentially. And we did well because we had no capital expense.

Anthony Sirica

And just to further that, when Ark first did this deal, these entities were not consolidated. It was a management deal. And the rule -- if you recall in -- I don't know, probably 10-years ago, the variable interest entity rules changed. And with those new rules, it was determined that Ark had the controlling financial interest and started consolidating the food courts in Florida. And then at some point, a couple of years after that, we bought out a few of the shareholders, and that's how Ark's ownership got up to 65%. It was initially 50-50, and now it's 65%.

So that entity that you see in the press release, that is the holding company. So underneath that, there's Ark Tampa LLC, which runs the Tampa Food Court and Ark Hollywood, that runs the Hollywood Food Court. So the \$5 million will come into Tampa, get upstream to the investment company. And then after expenses, 35% will get distributed to the limited partners of investment LLC.

Jeffrey Kaminski

Okay. I understand. And just -- is there -- are there any other similar relationships within the organization where Ark has taken an outside investors on individual properties? Or this is was a one-off?

Michael Weinstein

Hollywood -- yes, Hollywood and El Rio Grande.

Anthony Sirica

El Rio Grande was 40-years ago.

Michael Weinstein

Yes, we did El Rio Grande in '84.

Jeffrey Kaminski

Right. Okay. All right. Fair enough. And then second question, with respect to -- Mike, you had mentioned twice in this call, the stock price going back to when you negotiated the Tampa deal. And with respect to these write-offs, these impairment charges, again, tied into the stock price. Labor costs are what they are, they may have stabilized, but I don't see them. You may really disagree on and going down considerably. Insurance costs may stabilize maybe they won't, but again I don't see them coming down. So some of these headwinds exist in the future regardless. Food prices will be volatile, cost of crab, again, volatile.

A question I have asked recurring here on these calls, as a shareholder, the share price -- it's hard to benchmark Ark Restaurants against other stocks, but there is a risk on ETF, there are restaurant and leisure indexes, if you will. By any benchmark, Ark stock has dramatically underperformed in years. So you talked about trying to acquire other properties. Right now, that doesn't seem to be happening. There was -- introduced to us probably six months ago, a new concept, the Asian concept that you're working on three months ago. You gave us a progress report. I asked then, if it's successful, what do you expect in terms of revenues and how you've been scaling up?

Just looking for some tidbits here as to -- as a shareholder, what's going to drive the stock higher? What are we waiting for? I mean, are you waiting for another acquisition? Or we waiting for the Asian concept to keep up? Or do we think we're going to wake up one day and all of a sudden, labor costs are going to be down and insurance is going to be down? Just give us a little color and guidance as to what we can expect as shareholders?

Michael Weinstein

So two things. First of all, the -- and you're right. We are looking at various concepts that are not one-offs. And Lucky Pig is one of them. And we think we're doing a decent business, not great, but good business given the location in New York -- New York, the management of MGM is very happy, we are adding some new product on top of what we have, which was always the idea. So I think we have a good concept there that is expandable. We're just playing with it a little bit now, but it will be fully -- excuse me, I'm missing a word. But the concept will be fully done in the next couple of weeks. We're adding a dumpling category. And then we're going to see what the returns are on our capital, and I think it's an expandable concept. We're looking at a couple of other things.

Jeffrey Kaminski

Is it operational now, Mike?

Michael Weinstein

Yes, it's been operational for about three, four weeks now. I was out there for the opening. People are curious about it. Our signage was not complete when we opened. It's now complete. It's a good product. It's something that you now look for other locations to try to see how it does in other venues. It's very hard to translate what we're doing to -- you can't take the results in New York, New York, which is a casino and say, okay, this thing will do well on a street in Chicago.

That's the next move here. We got to put it in some place in New York. We got to put it someplace in Philadelphia, perhaps. We've got to find locations and see how it does and what the response would be. So that's the next step with that. We're looking at other things that hopefully, we can figure that would be expandable concepts. We're not giving up on buying one-offs if the EBITDA and cash flows are strong enough and could be meaningful to the company.

And then the other thing coloring us all is what the situation is with Bryant Park. It's sort of -- it doesn't paralyze us and it won't stop us from doing other things, but that's a decent amount of EBITDA that we don't want to lose that we're fighting for. So that's what we're doing now.

Anthony Sirica

Well, and a couple other things that we are doing as well is you know we're looking at our existing businesses, improving them, being more efficient, looking at the payrolls, working on our social media and our marketing to get more people through the doors to improve the existing business that we have as we look at a couple of other concepts that have come across our desks in the last month or two, things that are more in the line of a Lucky Pig, fast casual that are replicable as opposed to full service restaurants that cost \$2 million, \$3 million, \$4 million, \$5 million to build.

Jeffrey Kaminski

Okay. Thank you, gentlemen.

Michael Weinstein

Alright.

Anthony Sirica

Thank you, Jeff.

Operator

Thank you. Mr. Weinstein, we have no further questions at this time. I'd like to turn the floor back over to you for closing comments.

Michael Weinstein

Have a happy holiday, everybody. Thank you.

Anthony Sirica

Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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