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BJ's Restaurants, Inc. (BJRI) Q2 2024 Earnings Call Transcript

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Press Release

EPS of \$0.74 **beats by \$0.21** | Revenue of \$349.93M (0.07% Y/Y) **beats by \$742.12K**

BJ's Restaurants, Inc. (NASDAQ:[BJRI](#)) Q2 2024 Earnings Conference Call July 25, 2024 5:00 PM ET

Company Participants

Rana Schirmer - Director, SEC External Reporting

Greg Levin - Chief Executive Officer & President

Tom Houdek - Chief Financial Officer

Conference Call Participants

Alex Slagle - Jefferies

Jeffrey Bernstein - Barclays

Todd Brooks - The Benchmark Company

Nick Setyan - Wedbush Securities

Sharon Zackfia - William Blair

Karen Holthouse - Citigroup

Andrew Wolf - C.L. King

Operator

Good day and welcome to the BJ's Restaurants Inc. Second Quarter 2024 Earnings Release Conference Call. All participants will be in a listen only mode. [Operator Instructions] After today's remarks there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Rana Schirmer, Director of SEC Reporting. Please go ahead.

Rana Schirmer

Thank you, operator. Good afternoon, everyone and welcome to our fiscal 2024 second quarter investor call and webcast. After the market closed today, we released our financial results for our fiscal 2024 second quarter. You can view the full text of our earnings release on our website at www.bjsrestaurants.com.

I will begin by reminding you that our comments on the conference call today will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that forward-looking statements are not guarantees of future performance and undue reliance should not be placed on such statements. These statements are based on management's current business and market expectations, and our actual results could differ materially from the projections in the forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements or to make any other forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by the securities laws. Investors are referred to the full discussion of risks and uncertainties associated with forward-looking statements contained in the company's filings with the Securities and Exchange Commission.

We will start today's call with prepared remarks by Greg Levin, our Chief Executive Officer and President; and Tom Houdek, our Chief Financial Officer, after which we will take your questions.

And with that, I will turn the call over to Greg Levin. Greg?

Greg Levin

Thank you Rana. BJ's has delivered another quarter of restaurant level margin growth in adjusted EBITDA growth of 13% over the same period last year. These solid results again highlight the benefits of the strategies we shared at our Investor Day in November. Our approach focuses on driving sales who are familiar-made brewhouse fabulous culinary initiative, increasing and enhancing our brand awareness, improving our operational excellence through our people initiatives centered on our gracious hospitality and enhancing our ambiance through our remodel initiative.

Additionally our holistic top line approach to driving sales has complemented with our margin expansion initiative through productivity and cost savings enhancements. These strategies are working and continue to establish a solid foundation for financial and restaurant growth and enhancement of shareholder value.

We finished the quarter with total sales of \$349.9 million, while comp sales were slightly negative at 0.6%. However, throughout the quarter we saw month-over-month improvement in comp sales driven by guest affinity for the BJ's concept and choosing BJ's to celebrate important moment like Mother's Day, Father's Day and graduations, reflecting the strong guest affinity to the BJ's concept, 107 restaurants broke either daily or weekly sales records in Q2.

Furthermore our restaurant margins continue to expand and rose to 15.5%, representing an increase of 100 basis points from the prior year. Our restaurant level cash flow per operating week was approximately 19,200 just slightly behind fiscal 2019s restaurant level cash flow per week of 19,300. So our percentage margins were still behind 2019 levels. We closed the gap on the dollar per restaurant week.

Adjusted EBITDA in the quarter rose to \$36.1 million, an increase of \$4.3 million or 13% higher than prior year.

Our teams did an amazing job focusing on driving throughput in our restaurants this past quarter as we rolled out the second phase of our gracious hospitality people initiative. If you recall, the first part of this initiative focused on new server scripting and was launched last year.

In April, we initiated our enhanced service model, which balances the number of tables per server food runners and quality fast expedite their positions in our restaurants. These changes allow servers to get to our guests sooner, so we can get orders into the kitchen and the bar faster.

It also frees up our managers. So they are more time to be in the dining room to ensure we are delivering the gold standard level of operational excellence for our guests. And it elevates table turnover, which in essence expands the capacity of our existing platform.

The goals of these changes are to improve our pace and throughput in our restaurants and further improve our already high standards of service and hospitality. Based on our consumer research, we know that pace and the throughput is another opportunity for us that will drive top-line sales.

In addition to enhancing our service model, we are also evaluating and testing other technological enhancements that will help us further improve throughput in our restaurants. These include changes to the way our kitchen display system informs our teams when to fire or begin kicking in item two changes to our server tablets. Second former team members where the guest is during their dining experience with BJ's.

I want to thank our team members for diligently implementing these service model changes. There was a large undertaking and our teams executed flawlessly knowing that these changes deliver a better guest experience, which ultimately continues to drive top-line sales.

Our next gracious hospitality phase will be new hourly training for all restaurants and that is expected to roll out later in Q3 and Q4. This will include additional side-by-side training for all new hourly team members. Overall, we continue to expect these initiatives to take the better part of Q3 and Q4 of this year and have a slight impact on training labor for these quarters.

These investments in our team are critical elements to driving top line sales since every additional sales dollar leverages the fixed elements of our restaurants cost structure. And as we said on past occasions, the best way for us to improve our restaurant level cash flow is by driving sales and we have a proven playbook and strategies that are helping us meet this goal.

We also continue to execute against our remodel initiative that is similarly driving improved sales and traffic. We've now completed 19 remodels year-to-date and we expect to do approximately five more this year. By the end of this year, we will have remodeled approximately 70 restaurants since we began this initiative.

We will finish fiscal 2024 with approximately half of our restaurants either recently remodeled or one of our newer prototypes. With the success of our remodel initiatives, we have been effectively and prudently deploying capital. To-date, we have opened one new restaurant in Brookfield, Wisconsin, and we expect to open our next two restaurants in August and September of this year.

Both new restaurants will feature our new prototype that will cost approximately \$1 million less to build, bringing the investment cost down to around \$6 million on average and that's net of landlord allowances.

This new prototype also provides greater operating efficiencies and higher and faster returns, while incorporating our learnings from our remodel initiative, which includes lighter colors and a more contemporary bar featuring the 130-inch television as the focal point.

Our long-term model for our business continues to be to drive top line sales in this 8% to 10% range through a combination of 5%-plus unit growth and comparable restaurant sales in the low to mid-single-digits. However, as we've communicated previously, we are going to do so with the right quality and at the right investment costs to continue to drive strong new restaurant investment returns that deliver shareholder value.

At the same time, we continue to expand margins through sales leverage and productivity and savings initiatives. Our continuous focus on optimizing the business and our solid financial cadence results and significant free cash flow, which we will translate into enhanced shareholder value over the medium and longer term.

Now let me turn it over to Tom to provide a more detailed update for the quarter and the current trends. Tom?

Tom Houdek

Thanks Greg and good afternoon everyone. I will provide details of the quarter and some forward-looking views. Please remember this commentary is subject to risks and uncertainties associated with forward-looking statements as discussed in our filings with the SEC.

For the second quarter we generated sales of \$350 million, which was slightly higher than last year. On a comparable restaurant basis, Q2 sales decreased by 0.6%. From a weekly sales perspective, we averaged more than \$124,000 per restaurant.

Our strong and efficient restaurant execution as Greg just outlined, in conjunction with cost savings for our margin improvement initiatives helped BJ's again improved margins in the quarter. Our restaurant-level cash flow margin was 15.5% in Q2, which was 100 basis points better than a year ago, demonstrating again the benefits of our ongoing initiatives to drive efficiencies and the solid foundation we have built for continued growth.

Adjusted EBITDA was \$36.1 million and 10.3% of sales in our second quarter. Q2. EBITDA grew by 13% year-over-year and beat the prior year by more than \$4 million with a margin that was 120 basis points higher. We reported net income of \$17.2 million and diluted net income per share of \$0.72 on a GAAP basis for the quarter, which were each up more than 40% from a year ago.

As Greg mentioned, our comparable restaurant sales improved sequentially through the quarter and finished with a modestly positive comp in June. During the quarter, we set a new weekly sales average record at more than \$141,000 across our system in the week that included Mother's Day.

Also, we mentioned last quarter, we have been scaling back the degree of menu pricing compared to last year. In May, we only took a small pricing round of approximately 40 basis points, which was more than 200 basis points lower than our Q2 2023 pricing round, leading to a comp headwind in the quarter as we lap last year's elevated pricing round.

The foundation we are building is allowing us to take a more balanced pricing approach to maintaining our traffic driving value with adding appropriate menu pricing to deliver profit dollar growth.

Our check growth moderated to the mid-2% area in Q2 compared with the mid-4% check growth in Q1. This was driven by our carried menu pricing in the mid-3% area in Q2, down from the mid-5% area in Q1.

Moving to expenses, our cost of sales was 25.7% in the quarter, which was 20 basis points favorable compared to a year ago and 50 basis points unfavorable compared to the prior quarter.

Food costs increased by more than 2% quarter-over-quarter driven by inflation on key items such as bone in chicken wings and avocados. Labor and benefits expenses were 36.1% of sales in the quarter, which was 10 basis points favorable compared to the second quarter of last year. We achieved these gains while introducing a new service model to provide guests with an even better restaurant experience, as Greg just outlined. This rollout added one-time costs related to the training and extra scheduled labor, which impacted margins by approximately 20 basis points in the quarter.

Occupancy and operating expenses were 22.7% of sales in the quarter, which was 70 basis points favorable compared to the second quarter of last year. We continue to achieve strong efficiency gains over the prior year from our cost savings initiative and expect further improvements in the second half. G&A was \$20.6 million in the second quarter, in line with our expectations.

Turning to the balance sheet, we ended the second quarter with net debt of \$47.3 million, comprised of a debt balance of \$63.5 million, less cash and equivalents of \$16.2 million. During the quarter, we repurchased and retired approximately 255,000 shares of common stock at a cost of \$8.8 million. We currently have approximately \$52 million available under our share repurchase program.

Moving to more recent trends, comparable restaurant sales started the quarter modestly positive. Our sales building initiatives, including recent promotions, have been successful at driving incremental traffic, as illustrated by our traffic performance far exceeding the black box casual dining index in early Q3. Dollar profit growth is our top success criteria for any promotion. We are very encouraged by the incremental profit flow-through we have been able to generate with recent promotions, including our Pizookie Pass.

Looking ahead and assuming recent trends continue, we expect Q3 comp sales in the 1% to 2% range, taking into account recent check and traffic trends and anticipating a regular seasonal pattern. As a reminder, our third quarter tends to be our lowest sales quarter of the year due to seasonality.

Factoring in recent trends and expectations for Q3 comp sales, we expect restaurant-level cash flow margin to be in the mid-12% area as we continue to expand our margins over the prior year. This guidance incorporates a higher level of marketing investment to build additional brand awareness and drive traffic to our restaurants, as we noted in last year's Investor Day presentation. As a percentage of sales, marketing costs will be approximately 50 to 70 basis points higher than Q3 of 2023. Also, food cost inflation has stepped up on certain items recently, which is reflected in our third quarter guidance.

We expect G&A to remain in the \$20 million area for Q3. G&A continues to track toward the higher end of our original full-year guidance range of \$82 million to \$84 million and to the lower end of the guidance range when we're moving approximately \$2 million of extraordinary G&A expenses from Q1, which were previously discussed. Much like Q1 and Q2, as well as our guidance for Q3, we expect margins to continue to expand in Q4 year over year as we grow sales through the strategic initiatives we've outlined and make additional progress on our margin improvement initiatives.

In terms of cost savings, our new disposables distributor will be fully rolled out by the fourth quarter. We're also testing a tool for our restaurant operators that uses our AI-based sales forecast at each restaurant and generates a tailored labor schedule down to the hour and day based on expected demand and other criteria that we set. The early results are encouraging and we expect to expand the usage of the tool by the fourth quarter and drive additional labor efficiencies. Our goal remains to close the gap to 2019 margins by year end.

In conclusion, with significant cash flow from operations expanding margins and healthy balance sheet, BJ's has the financial flexibility to execute multiple initiatives to enhance shareholder value. Specifically, we are focused on delivering value to shareholders through sales and productivity initiatives and through our disciplined approach to capital allocation, including new restaurant openings and restaurant remodels, which both continued to generate strong economic returns as well as our share repurchase activity. We have a clear path to sales and margin growth ahead in our long-term strategy. And the strong consumer appeal for the BJ's concept positions us well to continue building on our successes in enhancing shareholder value. Thank you for your time today and we'll now open the call to your questions. Operator?

Question-and-Answer Session

Operator

Thank you. And we will now begin the question and answer session. [Operator Instructions] And our first question today will come from Alex Slagle with Jefferies. Please go ahead.

Alex Slagle

All right, guys. Thanks. I want to see if you can talk more about when you experience through the May and June holidays down both in terms of consumer demand and starting this that special occasion dining piece. And then also just your experience driving throughput. I mean it I guess it's early stages as you're rolling out the elements of the new service model. Just any early learnings from what you saw there during those Mother's Day Father's Day graduation periods?

Greg Levin

Yes, good question there, Alex. And I think first off, as we've kind of mentioned in the call we saw improving trends throughout the quarter coming out of April into May and June. I would tend to say that around the holidays specifically there was definitely demand within our restaurants driving traffic and average check as consumers came out to celebrate it.

Jay Seo, Mother's Day, Father's Day, graduation weekends were strong for us. We mentioned setting those records. And as Tom mentioned, well we did over a 140,000 -- 141,000 weekly sales average. So when there is and we said this before, when there is a reason to dine out for a celebratory events, consumers come out, they wanted to go out and celebrate. There's emotional attachment to coming sit-down restaurants. And I think BJ's and I think I know BJ's provides that for many, many consumers and that's what we saw in our business.

In regards to your second part your question, we're at the very beginning. We have those inefficiencies that we had to go through. You think you understand our restaurants and the size of our restaurants to put more servers on the far require more hiring that we had to do. And in one sense, it ends up as sometimes more people in the kitchen running and grabbing food and working those transitions out.

What we do know is when we get to our guests sooner, and we get that first order in sooner, our net promoter scores go up, they have a better dining experience with us. And that's one of the main reasons for having more servers on their -- we know if we get their food and faster, obviously, the entire experience should be faster.

I would tend to say on this specific initiative, we are probably in the second or maybe the top of the third inning or sell a lot more for us to do. A lot of it comes down to the teams getting even more and more mature and this process and getting their sea legs under them. And then we continue to now monitor it in regards to as we call fire first reports and other things to see how we're doing on our productivity.

I think myself and our operations team are excited about this because it really unlocks the throughput in our restaurants and makes us more productive. It gets us thinking about how we can turn the tables at a speed that makes sense for our team members and for our gas. So we're going to continue down that path.

Alex Slagle

Great. And just a question on the 3Q same-store sales outlook and maybe the quarter to-date. And are there any dynamics with the calendar shift like 4th of July holiday moving around? And then potential dynamics at play with the Olympics and elections and things like that that you're looking out for?

Greg Levin

Yes. Look I'll give you like my perspective on this. Really, where we are right now as Tom mentioned -- 1% to 2% seems to be our regional guidance. The calendar itself is not a great calendar in the sense that you got a July 4th moves to Friday. So moving into the weekend. We had the hurricanes kind of in our numbers there. It will obviously go through the quarter becomes less impactful.

At the same time -- and we said this before convention political conventions are not great for dining out a certain amount of consumers always want to see certain people speak at conventions. So has become challenging times during the middle of the week and the Olympic hugely opening and closing ceremonies are more challenging days overall for us. As again, I think, people are really interested in seeing what the fashion is of the different countries walking into opening ceremonies and the fashion is on the closing.

But I think you take those out and look at our -- at the underlying consumer it's pretty consistent with what we saw in Q1 the lower end consumer year-over-year. I kind of at that 50000 range has kind of reduce their purchasing. We continue to see that aspect of it. But looking into Q2 versus Q1 has begun even the Q3 we're not seeing any real change in the consumer. We just have to be wary of the calendar.

Alex Slagle

Got it. Thank you. Good luck.

Greg Levin

Thank you.

Operator

And our next question will come from Jeffrey Bernstein with Barclays. Please go ahead.

Jeffrey Bernstein

Great. Thank you very much. Two questions. The first one just following up from a comp perspective because it does look like I guess you're saying in July you were modestly positive. You're assuming a one to two for the full quarter seemingly a little bit of an uptick. I was wondering if you could talk about maybe the industry backdrop behind that because it does seem like peers are being more aggressive with value offers and it does seem like broader industry trends are slowing.

So just wondering how you think about the outlook for the rest of the quarter and within that just California in particular we've now heard from a variety of restaurants with they've actually seen a pretty significant pullback in California and maybe consumer being more cautious at the single these price increases that maybe some of the fast food chains have been taking. So I'm wondering if you've seen any change in your California performance in recent months relative to the rest of the country? And then I had one follow-up.

Greg Levin

Yes. Jeff I'll take there's a lot there. So I'll take some. I think Tom can probably talk a little bit more detail maybe how we're thinking about comp sales in quarter as well. Some of what I will take a step back on California. I think, California to take a step back in April is slowly moving itself back.

There's two things I think played in April for the consumer. I think you mentioned one of them and that is the California minimum wage put sticker shock across all consumers, whether here in casual dining or QSR fast casual the fact of matter is different dining occasions. And if you went to one place and said wow that seemed expensive may be pull back from another. And I think that initially played into consumers they had to adjust to it.

I also believe and this is something that doesn't get talked about as much California and I find this weird being a Californian, by the way. California in 2023 had what they call historic rains, even though we felt like these same rains in 2024. And as a result, tax returns were delayed until September of 2023. So this year, everybody in California had to file their taxes in April, but they didn't last year. That on top of maybe the minimum increase could have impacted California consumers early on. And a little bit of that goes into our thinking about how comp sales will play out through this quarter. Because in California, most people have now already paid their taxes, and September might not be a drag as it would have been a year ago.

So that comes into our overall cadence in our business. And then we continue to monitor the landscape and the value. I think the issue with value that we face and becomes, I think, more challenging in regards to driving comp sales is not necessarily value per se, but it's the amount of media and marketing dollars that people are spending to tell that message. So you're fighting for your voice to be heard out there with the consumers. It's one of the reasons as we look at this quarter that we're going to be increasing that marketing spend versus quarter-over-quarter from a year ago.

We need to be heard from the consumer standpoint to make sure they continue to come to our restaurant so we can leverage that additional sales. It was part of actually our plan all along. It was to step up in Q3, but it's probably worth about 20 to 30 bps more than what we were thinking before as we enter this quarter. Tom, I don't know if you have anything to add.

Tom Houdek

Yeah, Jeff, you asked specifically around California, and we're not seeing any different trends. We've been stronger in California, so we're lapping that. But as we look across the dynamics in our markets, there's nothing noteworthy in California. If we look to black box, we're used to outpacing the industry in the home turf. So nothing really to report. And one other thing, Greg mentioned a lot of the moving parts in California, gas prices have come down a bit, too. So when you think of just money, disposable income in the consumer's pockets, I think we're seeing that tailwind coming in here, too.

Jeffrey Bernstein

Understood. And then my follow-up is just on the unit opening side. I think you mentioned you did one this year. So far you'll do another two, so that'll get you to three for this year. But I know, Greg, you mentioned the long-term algorithm. And the ideal scenario would be to get to mid-single-digit unit growth. And with remodels, presumably at, I guess you're saying, half the system will be at the new prototype by the end of the year. So I'm just wondering how you think about 2025. I know you haven't given formal guidance yet, but presumably you have some line of sight into openings for next year, whether next year is a year of a big uptick from the three to get you anywhere close to that kind of 5%, which presumably you'd need 10 or more. So any thoughts around the unit growth outlook looking into 2025 or when you think you'd get to that kind of 5% level? Thank you.

Greg Levin

Yeah, great question. So we continue to build our pipeline. We said one thing consistently at BJ's, getting back to 5%, where we wanted to go, was never going to be a one-step forward, just because we want to make sure we do it with quality. So getting to, if you think about it, being 10, 11, 12 restaurants, our goal would be to stair-step that. We'd have to move to 5 and then to 7 to 8 and kind of move ourselves into that direction to make sure that we're bringing in the right quality in regards to people. So that we can execute at that gold standard level that we talk about.

So as we continue to build our pipeline, we'll evaluate where we want to go for next year. We want to make sure that the two new prototype restaurants that we're doing right now as well hit their returns. So when we get into really the September, I guess the end of this quarter, in October, we'll have more of our plan put together. And we'll kind of give a broader range from their. That plan and goes to the Board for the Board approval.

So we're kind of working through that way, but we continue to build our pipeline. But I think for us to get to the 5% growth a wind event in 2025 year even to begin with as we want to continue to step it up assessment coming off of our current run rate of three.

Jeffrey Bernstein

Understood. But it seems like you're on the path to at least absolute number to be greater than three next year, if you're even having anywhere towards that you know like you said stair-step?

Greg Levin

That's right now within our plans. But we continue to evaluate that. We continue to evaluate that against remodels, because it comes down to the fact that we've got this ability to use our cash flow in numerous ways.

One remodels obviously building restaurants and to enhance shareholder value. So ultimately as remodels come down as we've mentioned overtime, how additional capital than can be funneled into? I'm trying to stair step-up for restaurant growth with the right quality or if we in the short-term how to do it more in share repurchases. That's what we would do it as well.

Jeffrey Bernstein

Thank you very much.

Greg Levin

You're welcome.

Operator

And our next question will come from Todd Brooks with The Benchmark Company. Please go ahead.

Todd Brooks

Hey, thanks for taking my questions. Just two quick questions, if I may. One, Tom you talked about closing the gap to 2019 restaurant-level margin levels by year-end. Can you just elaborate on what you're meaning during Q4 of 2019? I think was 16% margin quarter for you.

Can you kind of put a framework around this, so that we don't give before versus used for the magnitude in restaurant-level margin recovery and looking for in that quarter.

Greg Levin

Sure. And we would give more specific guidance for Q3. But as we look forward into Q4, I mean, there's going to be -- we need to see with the backdrop business at that point. But we want to -- if we look at last year and where we want to grow it to, we definitely want to see year over year improvement continue.

So it's is it all the way back up to 16%. So we have seen with the backdrop is. We want to keep continuing to close that gap and get as close to that number as we can. So we're not giving a more specific number to guide to it at this point.

But given the backdrop, given what we see in both our margin improvement initiatives and what we're able to have line of sight on for margin improvement as well as the initiatives we have to grow top line. We do still see that path to getting definitely above last year and something closer to where we were in 2019.

Tom Houdek

Yeah. I think the big wildcard that we continue to look at is really on the commodity side. Even as we go into this third quarter commodities are getting are inflating more than we would have expected originally.

And I was kind of in our guidance here as well as the additional marketing that we talked about depending on how those commodities plan I think is the big wild card there is in regards to the difference on the margins in the fourth quarter. But as Tom said we continue to make improvements on our margin. Keep moving forward.

Todd Brooks

Great. And my second question, Greg, you were talking about the throughput initiative and kind of second third inning and in the process. Can we talk to maybe where you stand now on table turns at peak periods relative to before you start the initiative and then when you look to the end of the road after all the work is done with this initiative? Just can you frame up of magnitude for us of how much you would look for table turns to be improving from it? Thanks.

Greg Levin

Yeah. That's a great question. I actually don't have our cable turn information in front of us in front of me, especially at the peak periods, but it's to expand the shoulders, so that you know that you go to BJ's and it's not an all-in five dinner experience. We get there at 8 o'clock thinking I'm coming home at 9:30, but that we can reduce that down into kind of somewhere in the 45 minutes give or take a little bit.

We know some of the areas that we have an opportunity and believe it or not and I think people understand this one is pay at the table. We know and a couple of restaurants are putting down device and we know people that used a lot of that used to QR code. They save anywhere from seven to 10 minutes on the experience.

We know when our servers get to our guests sooner summers in that format in time; we're also saving summers in the three to four minutes. And then we're also as I said looking at our kitchen display system and where things are lined up for firing within the kitchen sale. If it comes out there at the same time, there's a couple of areas that are some big unlock that are actually going to take one to two to three minutes off of that.

So we're tending to look at that overall cook time and trying to move that down versus purely on the on the table turns I'm looking at table turns directly at peak meal periods. We know some of the changes that we made. We made specifically for Mother's Day and Father's Day because you have the guests that come in from the prior there. And as I said, not only were able to grow average check on those days, which is great. We grew traffic, significantly traffic on those days by making a couple of adjustments. That's what we want to continue to follow through here over the next couple of months before we roll these out.

Todd Brooks

Okay. That's great. Thanks. I'll jump back in queue.

Operator

And our next question will come from Nick Setyan with Wedbush Securities. Please go ahead.

Nick Setyan

Thanks guys. So just kind of want to walk through Q3 and Q4 menu pricing expectation.

Greg Levin

Sure. So the -- we'll have another round of pricing in late September of about 90 bps, a bit and that's rolling over something in the 2% area from a year ago. So as we walk through, Q3 will be in the mid or call it low 3% area. And then in Q4 will be carried a kind of mid 2%. Is the timing works in terms of rolling on and rolling off pricing.

Tom Houdek

Hey Nick. The other thing just bigger picture is and we've seen this throughout this year is the way are shifting. Our business is happening as well. There's a little bit of a negative mix shift or drag on our total pricing. And the reason for that is we're seeing improved traffic and sales trends at late night maybe a little bit mid-afternoon and that ends up with a lower average check than what we're saying at the dinner time side of things we start to look at that? We've seen a little bit of a kind of 50 bps or something even a little bit more on times on average check. And we would expect that to continue this year.

Nick Setyan

Got it. That was 40/60 bps uptick in terms of the year-over-year marketing and does that continue into Q4 as well? Are we expecting elevated level of marketing in Q4 versus 2023 Q4?

Greg Levin

It balances out more in Q4. It's it'll still be a little bit up but nothing like Q3 year-over-year.

Nick Setyan

The COGS inflation commentary, I mean is that just mainly cheese? What else is going on?

Greg Levin

Right now the two big ones are bone-in chicken wings and avocados. So those are the two that term because it is you know a lot of our of a lot of our food is fixed for the year, or for the quarter there's certain produce and some there's some of our routes floats to market. So there's the two that we've seen step up to a degree on. We will also be as we step in the Q3, we've got a new meat contracts. So if we look year over year, we're still seeing some really nice savings in red meat, but is that we have contracts that we are able to fix that for some periods of time, but we'll see that resetting in a month or so. So we'll see a little tick-up there as well.

Nick Setyan

Okay. And then I guess like in terms of just labor, it sounds like maybe a little bit less leverage than we were expecting going into this quarter. Is that simply just the spending around the labor training investments?

Greg Levin

Yes. I mean Tom of labor some improvement that was lost and kind of the inefficiencies of the new system, I would I would say that the numbers of inefficiency in our looking significantly better here and T7 which is July for us from that standpoint. But we want to make sure again we're taking care of the gas driving top-line sales versus the systems that were put in place and that was put in place for labor savings. So you never has come on the call and say we're making X Y and Z is going to save X dollars. This is about driving throughput, driving top line sales getting are continuing to improve on gracious hospitality and our gold standard level of operational excellence. I think if they get their sea legs and then we'll continue to get that. As we go into Q3 and Q4, we do now start to lap the smaller menu because if you remember the smaller menu rolled out in July a year ago, so some of the benefits that we are getting there with less profit et cetera, we last year over year. But generally speaking, we continue to see what I would call improvements in our productivity measures around labor. And we want to make sure again we're doing at the right level that's driving improved guest service and hospitality.

Nick Setyan

Thank you, very much.

Greg Levin

You're welcome.

Operator

And our next question will come from Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia

Hi good afternoon. Can you talk about the labor environment? And I know in California, you are worried that you might see an uptick in your labor costs -- I know you're not directly impacted by far the FAST Act. And I'm also curious just kind of a broader country, are you seeing better quality labor. I know there's increased labor availability, but I'm wondering up the quality of the labor that you're getting.

Greg Levin

Sure. I'll take that one Sharon and yes, we mentioned this last quarter. We didn't mention it this quarter so I can bring it up now. We continue to measure our California of labor to see our retention rates to make sure with the California fast ex where no minimum wage stepped up in other types of restaurant companies to see if we've seen any change in either our turnover rates or wages anything like that then happy to report still. We're still we track it some looking year over year and back to even '19 levels. Both California and the rest of the system are still in a better place than we were in 2019 as well as last year. And in terms of wage growth, we did talk about the food cost inflation with we're actually on the hourly side, but we're still sitting and kind of that 3% to 4% range and that's consistent with Q1.

So we saw very little of wage inflation from Q1 into Q2. So all of them are all signs pointing to this is this has worked for us as we've given you know some increased wages to some certain elements of our restaurant, but it's balanced out and we have, really great retention rates. And to your point on quality, the longer team members are with us, the better execution we see. And that's the case. So we have less reasons to be hiring all the time. But yeah, I think the pool out there is stronger, but we're able to retain our team members more. So it is, I would say, as good of a labor hiring environment as we've seen in the recent past.

Sharon Zackfia

And then, Greg, just a question. I know you haven't committed to when you're going to re-accelerate growth, but how far in advance of acceleration do you have to start building the management pipeline?

Greg Levin

Yeah. Somewhere in the 12-month timeframe, you really have to look at it. The challenge on the pipeline is a little bit different. And, Sharon, your perfect example being out there in Illinois or in the Chicago market. That's going to be more challenging to build that manager pipeline, so we want to be more ahead of that in the 12-month time frame so the team really understands BJ's. Trying to find somebody to move to a new market or satellite market is always more difficult and we'd love to build that in.

Building restaurants in Texas, California, Arizona, some of those markets, the pipeline timeframe is a little bit shorter. So on average, and I know this is really on average, you're looking at somewhere in the minimum of six months, but more likely you want to be about 12 months out.

Sharon Zackfia

Okay. And then last question for me, there was kind of a big jump in other income in the quarter. Was there something unusual in there, or, you know, what was kind of this \$2 million sequential increase?

Greg Levin

Yeah, there was an out-of-period release that we had of some accrual related to tax credit. So, yeah, we'll outline it with more detail in the queue, but that's, yeah, just out-of-period benefit there.

Sharon Zackfia

Okay. Thank you.

Greg Levin

You're welcome.

Operator

And our next question will come from Jon Tower with Citigroup. Please go ahead.

Karen Holthouse

Hey, this is Karen Holthouse on for Jon this evening. Just two for me. One, it looks like NICS is still running a little bit negative. Is that still really being attributed to just shift in day parts with late night coming back? Or is there something new coming into that in terms of check management? And then just the Pizookie promo, how should we think about the accounting behind that? Is the kind of giveaway of free Pizookies is going to be reflected in that spike in advertising spending? Or would it be showing up more on like as part of like a sales cost dynamic? Thanks.

Greg Levin

Sure. So on the check side, so we actually, the dynamic we saw in Q1 on pricing to check. We saw that gap shrink into Q2. We are still seeing some better comp dynamics in our late-night daypart. And there's about a \$10 average check difference, lower in late nights. So great that we're growing the traffic, but there is some check headwind to that as it averages in.

The other pieces is alcohol, where we check it year-over-year as well as back to 2019. And we continue to see some headwind in terms of what we sold last year, but more kind of normalizing back to 2019 levels than anything else. So those are the two main pieces that are the delta between our check growth and the pricing.

And up to your second question of the Pizookie promo, so there is a modest amount of sales income we take when the membership is paid for the month. But then going forward it is just cost of sales. So the idea is and what we're seeing this that most of what when these are used, they'll come in and they'll spend on whatever they want to eat, plus they'll get their Pizookie for free. So we'll have the sales for the rest of it their meal, then they'll have the cost associated with the Pizookie that gets added to their check. So we'll see the incremental sales off of the whole of check that they spend, but then the Pizookie just will flow through as comp sales.

Greg Levin

So, Karen, to that point, it's great question. That is that type of promo drives traffic into our restaurants and as Tom mentioned, they end up with a FREE Pizookie on their meals. So it's a lower average check. So we start to think about that mix. A mix of probably be would continue to be negative in Q3 like it was in Q1 or Q2. But we get that increasing frequency and increasing guests to drive throughput in our restaurants.

Karen Holthouse

Okay. Cool. That's everything for me.

Greg Levin

Great. Thank you.

Tom Houdek

Thanks.

Operator

And our next question will come from Andrew Wolf with Loop Capital Markets. Please go ahead.

Andrew Wolf

Thanks. I'm actually with C.L. King. I wanted to ask about the increased marketing spend the sequential increase and just tie that into what you called out and discussed at the Investor Day. Just to see if it's consistent with the plans you talked about at Investor Day both in the amount about the same?

And secondly, the nature of it. If I recall back then it was going to be a lot of digital marketing and create trial. And I just wanted to check to see basically what I'm getting at is it higher orders in nature of the spending a little different giving the promotional environment in the amount of spending that maybe creditors are putting out there in marketing as well? So I'm just trying to get to the nature of the spending and the amount.

Greg Levin

Yes. So, Andrew, great question. And yes, as I say, it could be a tad of all the above. It's the same channels in the sense of where we were from TD, connected TV and digital. If you think about also the Investor Day, we talked about this word and making Pizookie a household name, our Desert there. So we've got additional funding going around our Pizookie pass that goes into Q3, because we're trying to build on that -- on the Pizookie brand and new bakery that we have in that, so that drives top of mind awareness for BJ's.

And then as we looked at it as well, we also have got a couple of other markets that we've decided to kind to add. And there's a little bit of an expansion of one additional market. And a couple of additional digital areas are different digital markets that we have from year-over-year. So that plays into it. But a lot of this is actually kind of in our plans to begin with.

And then as we think about it, because we're still kind of crafting some of the communication there, the question will be where that communication is going to be. Some will be on the Pizookie path and the Pizookie equity that we've talked about. Others will be more price points specific on some of the great value that we already have in our business. You had some of the everyday value our Daily Brewhouse Special.

I think in today's environment, you're seeing that price point be very, very important. So instead of that being more of a branding type commercial, which we would use a Pizookie per se, it would be a little bit more price points specific around Daily Brewhouse Specials or some of our everyday value menu items that we have.

Andrew Wolf

Got it. And is the latter maybe a bit of a changer adaptation to the what's going on product more price point than you might have planned earlier?

Greg Levin

Yes probably, I mean the reason I say that somebody hasn't lease. We don't necessarily plan what the exact message is going to be a year out, because we have different things that we kind of look at. But I think based on the kind of consumer environment, as I mentioned earlier seeing obviously, a lot of media in spend to drive awareness. Most of it is around a value play. We're not going to be doing a crazy deep BOGO value play or something like that out there, but it's probably around a little bit more price certainty on some of the menu items that we have in our restaurants.

Andrew Wolf

Got it. Thank you.

Greg Levin

You're welcome.

Operator

And this will conclude our question-and-answer session. Also concluding our today's call, we'd like to thank you for attending today's presentation and at this time, you may now disconnect.

Greg Levin

Thank you, everyone.

Tom Houdek

Thank you.

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