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BJ's Restaurants, Inc. (BJRI) Q3 2024 Earnings Call Transcript

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Q3: 2024-10-31 Earnings Summary

[Play Call](#)[Press Release](#)EPS of - **misses by \$0.02** | Revenue of \$325.70M (2.22% Y/Y) **beats by \$736.57K**

BJ's Restaurants, Inc. (NASDAQ:[BJRI](#)) Q3 2024 Earnings Conference Call October 30, 2024 5:00 PM ET

Company Participants

Rana Schirmer - Director, SEC External Reporting

Brad Richmond - Interim Chief Executive Officer

Lyle Tick - President and Chief Concept Officer

Tom Houdek - Chief Financial Officer

Conference Call Participants

Brian Bittner - Oppenheimer
Alex Slagle - Jefferies
Jeffrey Bernstein - Barclays
Brian Mullan - Piper Sandler
Nick Setyan - Wedbush Securities
Sharon Zackfia - William Blair
Jon Tower - Citi
Todd Brooks - The Benchmark Company

Operator

Hello, and welcome to the BJ's Restaurant Third Quarter 2024 Earnings Release and Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to hand the call to Rana Schirmer, Director of SEC Reporting. Rana, please go ahead.

Rana Schirmer

Thank you, operator. Good afternoon, everyone, and welcome to our fiscal 2024 third quarter investor conference call and webcast. After the market closed today, we released our financial results for our fiscal 2024 third quarter. You can view the full-text of earnings -- 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 that 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 those 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 from Brad Richmond, our Interim Chief Executive Officer, followed by Lyle Tick, our President and Chief Concept Officer; and Tom, our Chief Financial Officer. After our prepared remarks, we will take your questions.

And with that, I will turn the call over to Brad Richmond. Brad?

Brad Richmond

Thank you, Rana. And hello to those listening in. We appreciate you dialing in to hear us talk about our third quarter results. I see several familiar names and some new ones I look forward to meeting soon. I'm excited to be here at BJ's and what lies ahead for our brand and for our shareholders. Lyle and I see a number of strengths to leverage and modest challenges that are readily addressable. Our highest priority is a thorough discovery of the brand, its challenges and opportunities and a serious evaluation of our activities, spending and investments. This is well underway and we are moving with urgency to shape our plans for 2025.

We start from a position of relative strength as the brand serves over a million guests a week, has 220,000 dedicated team members who generate annual sales of more than \$1.3 billion and free-cash flow from operations in excess of \$100 million. While there is a good bit of work to be done, our experience and current observation suggest we have permission to be optimistic of what the brand can deliver to our guests, team members and investors. We will speak in greater details on our learnings and plans when we report fourth quarter earnings and full-year 2024 results, but we'll share some of our initial thinking today. Lyle will comment more on our near-term learnings and thoughts in a moment. And Tom will take us through the third quarter performance, details and our outlook for fourth quarter. And then we look forward to taking your questions and sharing our thoughts. We ask that you limit yourself to one question and one follow-up question, then return to the queue. The three of us will remain here on the line to take all your questions.

Let me begin with some brief third quarter highlights and early thoughts regarding our emerging financial discipline. The third quarter was significant in that we generated positive traffic and meaningfully outpaced black box competitive set by employing a limited time, everyday price point approachable promotion featuring a limited number of offerings that are appealing to guests, support our gross margin criteria and feature our iconic Pizookies offered during the weekdays.

We are in a highly competitive environment where there are a significant number of major players, national brands competing on value with substantially more marketing spend than what we have, but we are demonstrating we can win in this space. However, we did not flow-through as much of the third quarter incremental sales gains to earnings as we would expect. We have identified and addressed those challenges and as the offer continues through the fourth quarter, we expect to generate higher flow-through and stronger margin levels. Tom will walk us through that detail later.

We are instilling a more structured and disciplined approach around our financial policies. All capital deployment must be a value creating investment. Our remodel program has demonstrated good results in this regard. We need to increase our individual site success rate to raise overall value creation delivered, but we believe we have identified the opportunities and have the elements to make the necessary adjustments. Our current remodel program pace remains on-track with the potential to increase the pace in the new fiscal year.

New restaurant investments has not consistently achieved a hurdle rate return at all locations. We are evaluating our market penetration strategy and site selection criteria to improve results, while maintaining a reduced opening pace as we fine-tune these elements. But ultimately, new units are integral to our growth and value creating proposition. And as we look-forward, we are assessing the optimal capital structure for our business, which has a durable cash-flow generating capabilities. We look forward to sharing our learnings of our fiscal year results on this matter.

In the interim, our cash flows exceed our probability -- a high probability value creating investment opportunities. During this period, these excess funds will be returned to shareholders in the form of a well-structured and disciplined share repurchase program, similar to what was adopted post the leadership changes. So more to come on these topics, but we need to complete a thorough discovery and develop our going forward plans to inform our financial projections for 2025 before we get into greater detail. However, these comments highlight our rigor around financial decisions and the directions we take going forward.

With that, let me turn it over to Lyle for some of his initial observations and thoughts.

Lyle Tick

Thank you, Brad, and greetings to everyone who has joined us today to talk about BJ's. Six weeks into my journey with BJ's, I find myself more energized and optimistic than the day I started. I've had the privilege in the first several weeks to visit BJ's restaurants across the country. Spend time with our operators and support center teams, including attending our GM conference, which was a great learning accelerator for me. I've worked shifts in multiple restaurants and talked to many of our guests.

As Brad referenced in his comments, BJ's is starting from a position of relative strength with over \$1.3 billion in annual sales, the third-highest AUV among scaled competitors and some powerful strengths and equities to build from. Through our initial discovery phase, some of the things that stand-out to me are, first and foremost, our people are a real strength and advantage. There's no business quite like restaurants where your brand promise is brought to life every day through your frontline team members. As I'm out and spend time with our team members, I ask three questions, what's the best part about working at BJ's? What do we do better than anyone else? And what's the one thing that you would change to make things easier or better if you could snap your fingers and make that change.

And when I ask about the best part about working at BJ's, universally, it's about the team, the culture and both the desire and freedom to please the guest. There is a buy-in and commitment by our team members that I believe is a real strength, a competitive advantage for us to build upon, and we can help them be more effective going-forward. This is reflected in both our qualitative and quantitative guest feedback as a main driver of repeat visits.

Number two is [Technical Difficulty] to win across more occasions than our competition. BJ's is unique in its ability to fill a broad cross-section of needs and occasions across multiple cohorts and have them seamlessly coexist under one roof. I have found it very powerful sitting in a packed BJ's and looking around and seeing everything from a group of high-school baseball players, a friend group catching dinner, happy hour after work, a family, a girls' night out, friends catching the game, large group celebrations, the bar occasion, our facilities, menu and brew house atmosphere give us the right to win across more occasions than our competition. And this is reflected in our current AUVs, but also an opportunity for us going-forward.

Our broad appeal and breadth is both a real strength and a challenge, and I'm going to talk more about this shortly. We have unique and ownable platforms like the Pizookie and our craft beverages that recruit guests and create relevancy across age cohorts, which is relatively unique. The recent performance of our Pizookie Meal Deal, share gains and outperformance in media markets suggests strong consumer affinity for BJ's and underlines the headroom that still remains for the brand with respect to awareness and saliency.

Taking a step-back on discounting and promotions overall. While we're very encouraged by the results and potential headroom for the Pizookies Meal Deal, my initial observation when looking at our overall discounting and promotional footprint is that we have an opportunity to rationalize our programs and this is a priority area of evaluation in the short-term. The way I think about these programs is that in order to work, they need to significantly expand our total available market and/or drive incremental occasions. They should be targeted at days and day-parts where we have capacity and ultimately drive materially more dollars to the bottom-line. So the goal will be to apply clear strategic guardrails to all programming, likely streamlining some programs and then leaning into the ones that hurdle.

A good example of this for me in Q3 is the Pizookie Pass. It was more popular than we expected, which is a good sign with respect to the cachet of the Pizookie. And while it drove incremental traffic, it also drove check compression and downstream P&L pressure beyond expectations. I would characterize this program as effective, but not efficient. Going-forward, this program will need structural re-evaluation if it will continue and all of our programs will go through a similar filter.

As I mentioned, our broad appeal and breadth is both a strength and a challenge and highlight some areas of opportunity. While we're still learning and discovering, as we go-forward, four key areas of focus will be: driving more clarity around our brand. BJ's has distinctive characteristics borne out of our brewhouse DNA. We are uniquely the only national brewhouse and have an opportunity to reinforce our uniqueness and what truly makes us special and not allow ourselves to be depositioned as a generalist casual dining brand.

Number two is being clear on where we will drive authority and competitive advantage. We tend to be known for our breadth and no veto vote, which is important. Our brand positioning work will guide us to drive authority and competitive advantage through platforms that reinforce our brand equity and drive desirability without sacrificing menu turf. We want to ensure that we are the desired choice for our guests versus just the easy one. Importantly, the brand work we do will also help us filter activity and complexity that does not reinforce brand equity.

The third area is delivering great hospitality and execution. As I mentioned, we have an amazing base of team members who are bought in who want to wow our guests. We have an opportunity to help them do that more consistently through both simplification and better leveraging our data. With respect to simplification, I've heard consistently from our teams that we have an opportunity to make it easier for them by removing unnecessary complexity and we're working hand-in-hand with them to simplify where appropriate.

With respect to leveraging data, this is about having the right people in the right place at the right time from a labor perspective. While this will help with speed, which impacts consumer satisfaction and table turns, in my observation, the bigger unlock for us will be greater utilization and the elimination of unnecessary waits and walk-offs. The last area is continuing to take care of our assets and keep the brand fresh. Another area of relative strength for BJ's based on our guest research is our atmosphere. And as Brad mentioned, our remodel program has demonstrated positive results and we will continue to refine and evolve this program to keep our brand fresh, while reinforcing and highlighting core equities.

Today, more than ever, guests have a high bar for what's worth it. I'm a strong believer that being worth it means delivering a holistic experience that brings together craveable food, consistently executed in a great environment and delivered by people who care about the guest and their transaction. It is not just about the price point. BJ's is well-suited to deliver a holistic value proposition and as I mentioned earlier, I believe we have the right to win across more occasions than our competition. Our time and energy will be focused on programs and initiatives that continue to sharpen our focus, simplify operations and enable our managers and team members. I look-forward to the opportunity to talk to you more specifically in the future about our plans. Thank you.

And now I want to turn it over to Tom for a deeper dive into Q3 results.

Tom Houdek

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

For the third quarter, we generated sales of \$325.7 million, which was 2.2% higher than last year. On a comparable restaurant basis, Q3 sales increased by 1.7%. Our sales driving initiatives worked to grow sales, traffic and market-share in the third quarter. Our comp sales growth was driven by 1.3% traffic growth, which was our best traffic quarter since 2018 when excluding the COVID recovery quarters.

In Q3, compared to the casual dining industry as measured by Black Box, our comp sales beat the industry by 3.1 percentage points and our traffic beat by 5.7 percentage points. Our traffic outperformance was driven in-part by value programs such as the Pizookie Pass that launched in late June and the Pizookie Meal Deal that launched in September, as well as an initiative to expand loyalty program membership and usage. These programs, particularly the Pizookie Pass and loyalty expansion, impacted our sales leverage in the third quarter. We also built guest excitement around limited time offerings such as our [Seymour Suziki] (ph) and the Lucky Ducky cocktail.

Comp sales built through the quarter with our September comp of 3.8%, demonstrating the momentum building behind our Pizookie Meal Deal weekday promotion that launched in the second week of September. Our restaurant level cash-flow margin was 11.7% in Q3, which was 20 basis points less than a year-ago. We did not fully leverage our strong traffic growth as higher than anticipated restaurant costs, which we are addressing resulted in lower restaurant level operating margin percentage. Our restaurant level operating profit was \$38 million in Q3, which was \$200,000 higher than a year ago as our higher sales drove slightly more restaurant dollar profits.

Adjusted EBITDA was \$18.5 million and 5.7% of sales in the third quarter. Q3 EBITDA was \$1.1 million lower than last year, driven by higher G&A. The main year-over-year G&A variance was higher deferred compensation expense, which is a non-cash item and fully offset in other income. To note, approximately \$1.7 million of net expenses incurred related to our leadership transition are added back to our Q3 adjusted EBITDA.

We reported a net loss of \$2.9 million and diluted net loss per share of \$0.13 on a GAAP basis for the quarter, which were both better than a year-ago. Note, that the Q3 net loss includes a \$400,000 pre-tax or \$0.02 per share net leadership transition benefit, which is a combination of the \$1.7 million net expenses added back to EBITDA and a \$2.1 million stock-compensation credit.

For more detail on restaurant expenses, our cost of sales was 26.6% in the quarter, which was 70 basis points unfavorable compared to a year ago. Traffic driving initiatives, mainly the Pizookie Pass and the loyalty program expansion weighed on percent margins. As Lyle mentioned, the popularity of our Pizookie Pass promotion exceeded our expectations and created margin compression. Food cost inflation was approximately 3% year-over-year, which was offset by menu pricing. Cost increased for certain key items in Q3, including avocados, ground beef and bone-in wings, which are items we purchased at-market. In October, costs for all three items trended down and are now either back to or below Q2 levels.

Labor and benefits expenses were 37.1% of sales in the quarter, consistent with the third quarter of last year. Along with guest traffic, our new promotions added complexity, which reduced our labor efficiency in the quarter and we did not leverage labor to our full potential. We staffed our restaurants to deliver strong sales and traffic growth in the third quarter. Now with improved top-line trends, we are actively refining our labor model to better leverage the high sales.

Occupancy and operating expenses were 24.7% of sales in the quarter, which was 40 basis-points favorable compared to the third quarter of last year. We continue to achieve strong efficiency gains over the prior year from our cost-savings initiatives and leverage from higher sales. G&A was \$21 million in the third quarter. Included in G&A was a \$700,000 expense linked to market-based performance of our deferred compensation plan compared with a \$100,000 benefit last year. The \$800,000 increase in our deferred comp expense equates to approximately 25 basis-points of sales. As a reminder, this is a non-cash item and is offset in other income and expenses in our P&L.

During the quarter, we repurchased and retired approximately 268,000 shares of our common stock at a cost of \$8.2 million. We currently have approximately \$44 million available under our share repurchase program.

Turning to the balance sheet. We ended the third quarter with net-debt of \$48.1 million comprised of a debt balance of \$66.5 million plus cash and equivalents of \$18.4 million. This equates to net-debt of \$800,000 higher than our balance at the end of Q2. Value is as important as ever to guest in the current environment. Given the consumer backdrop, we adapted our menu strategy by quickly moving to design, test and launch a comprehensive new value program in the Pizookie Meal Deal, a compelling traffic-driving deal with attractive economics given the food cost profile and weekday timing. We supported the launch with call to action messaging, including media in certain markets to build the initial awareness and drive trial.

Additionally, more guests than ever are enjoying Pizookies, which is a brand differentiator for BJ's. Since launching the Pizookie Meal Deal in the second week of September, our weekly comp sales results have beaten Black box by approximately 500 basis-points on average. For the first four weeks of the fourth quarter, our comparable restaurant sales are up more than 4%. Our value message is now focused on our \$13 Pizookie Meal Deal available Monday through Friday, which continues to drive sales and profits across the dayparts. We are now past the impact of our Pizookie Pass promotion and our loyalty expansion and continue to deliver sales and traffic well-ahead of the industry.

As we've said before, dollar profit growth is our top success criteria for any promotion. We are encouraged by the incremental profit flow-through of our Pizookie Meal Deal, especially given the incremental weekday traffic it is driving into our restaurants. Given our current promotional mix, along with more favorable commodity market environment and a 90 basis-point menu pricing round in late September, our cost-of-sales has recently trended in the 26% area or approximately 60 basis-points better than Q3. October is the final full month of our Pizookie Pass promotion. Our focus has shifted to the Pizookie Meal Deal, which is driving strong sales and traffic during weekdays and has a food cost profile more similar to our regular menu.

In terms of margin improvement initiatives, we continue to work with our restaurant teams to identify and realize labor efficiency opportunities overall and in the context of executing our traffic driving initiatives. Also, we completed the rollout of a specialized disposables distributor in Q3 and will begin to realize the full savings in the fourth quarter. Taking into account recent sales and cost trends as well as our promotional mix and continued margin improvement initiatives, we expect restaurant-level margins to be in the mid to high 14% range in the fourth quarter. This percent margin is lower than our expectations from earlier this year, but our recent sales trends are higher than our prior expectations, given the positive guest response to our Pizookie Meal deal resulting in a similar level of dollar restaurant profit. We expect G&A in the \$21 million area for Q4, which has been our recent run rate before onetime and non-operating items.

In conclusion, with significant cash-flow from operations and a healthy balance sheet, BJ's has the financial flexibility to execute multiple initiatives to enhance shareholder value. Our goal remains to grow absolute dollar profit in any consumer environment. 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, as well as our share repurchase activity. We have a clear path to sales and profit growth ahead and our long-term strategy and the strong consumer appeal for the BJ's brand position us well to continue building on our successes in enhancing shareholder value.

Thank you for your time today. We will now open the call to your questions. Operator?

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Today's first question comes from Brian Bittner with Oppenheimer. Please go ahead.

Brian Bittner

Thanks. Good afternoon. A major component of the BJ's investment story earlier in the year was about margin expansion and the opportunity there. And obviously, on the second quarter earnings call, that was taken off the table. And with these 3Q results, we obviously saw margin underperformance. And your third quarter restaurant margins of 11.7%, that was well below that mid 12% third quarter margin that you guided to three months ago, but sales were directly in-line. And I know you said some costs were higher at the Pizookie Meal Deal, avocados, wings. But is that -- does that explain the entire delta between the margin underperformance and what you guided to?

And as we look into the fourth quarter, what exactly does reverse and has reversed that makes you so optimistic about the 4Q margin guidance?

Lyle Tick

Sure, Brian. I'll take that and thanks for the question. So looking at the third quarter, we had a higher mix of promotional activity than expected. So the combination of that as well as some cost ticking up on the supply-chain side, as well as just not leveraging labor as well as expected, were the main drivers of the margin difference. And when we reported, we built as the quarter went on, more-and-more promotional activity. So that weighed on the margins more than expected.

Looking forward, as we think about Q4 and how we guided, there is a benefit in food costs, both in market costs that we're paying, as well as our promotional mix and the impact there that has that has an impact. So that -- and top of just as we're looking at labor and how we'll leverage it into the fourth quarter, that is -- those are the main parts when we think about what is going to reverse as we're moving into the fourth quarter and it leads into the guidance that we provided.

Brad Richmond

Hey, Brian, Brad here. Let me just -- let me just add a little bit to that. And I know there's some confusion because we talk a lot about Pizookies, but the Pizookie Meal Deal, we're actually very pleased with from its traffic generation abilities, but also the margins that it can deliver. It is right in-line with our menu in general. But we did have some other -- and remember, that came into play at the end-of-the quarter. But we did have and we -- Lyle, I think mentioned earlier the Pizookie Pass, and it really just didn't deliver and it took a substantial hit to our sales.

And so with time and with the different programs, we're getting a much better handle on which of the offerings that we have that are delivering traffic and building our profitability. We have some that aren't. Some of those are running off, some of them that we're addressing and will be done in the fourth quarter, some will take a little bit longer. But that's kind of why we have the optimism that we do. But I just want to clarify that it's really the Pizookie Meal Deal. When you look at this competitive environment and the amount of marketing or media dollars that we're able to put out there and the fact that we were a share taker, it informs a lot of our thinking and what we can do with that type of platform as we go forward. So we're -- that's probably hints up more of the optimism than anything else.

Brian Bittner

Thanks for that. And Brad, you bring a lot of experience to the table as you come into the role. And you did mention bringing some financial discipline going-forward. And just based on your experience for a brand like this with the AUVs that it has, where do you ultimately believe margins could be or should be? And just what are your early assessments on what could be some potential margin enhancers in the near-term and the long-term?

Brad Richmond

Well, I think there's a lot of potential for this brand. When you look at the AUVs that it has and the ability to leverage those, there's meaningful upside there. As I look backwards of what we've done here, I think we've actually focused maybe a little too much on taking cost-out of the business instead of growing the business. AUVs or same-restaurant sales increases is the highest value creating opportunity that there is. And so, I think there's a lot of potential there when you look at where our traffic was pre-COVID, where it is today and the fact that we can do the Pizookie Meal Deal here today and see a really significant traffic lift that's occurring Monday through Friday during our lower-volume periods and actually utilizing our boxes more.

I mean, our box is what it is. It's a pretty good-sized box. So it has the ability to deliver a lot more volume and we're seeing when done right, the guest appeal is there. We do have to work though on the internal working to the box to get more of the sales increase to earnings. And that's painfully obvious and something that we're readily addressing.

Brian Bittner

Okay. Thank you.

Operator

The next question comes from Alex Slagle with Jefferies. Please go ahead.

Alex Slagle

All right. Thanks, and welcome, Lyle and Brad.

Brad Richmond

Thank you.

Alex Slagle

I wanted to -- I know it's early and you guys are working through things, but I mean, we're kind of heading into November and just wanted to -- you touched on a few other things, but thinking about the capital allocation and the balance between new units and remodels as we look-ahead. It sounds like you want to be a bit more conservative on the new unit side and really work on the returns and the performance of the new box, I guess, hasn't been as consistent as hoped, but if you could kind of talk about what you think next year might look like just initially. I mean, is it similar number of new units and it sounds like a step-up in the remodels. Is that a good way to start thinking about it?

Brad Richmond

Yes. I appreciate the question. And what I will start-up by saying is, no, I want to grow new units. But as I look at the opportunities today, same restaurant increases is our greatest opportunity to generate value for our shareholders. Ultimately, though, we need the new unit growth and each one of those is a pretty significant bet, if you will. And so, we really need to be sure that we're comfortable that we have all the elements right, everything from the market penetration, i.e., where do we want to go next and working on our site selection criteria to ensure that we're consistently getting a high success rate. So that's how I look at it.

The pause, if you will, there's still quality sites out there. There's actually less competition for these sites than there were in the past. And so we do want to be advantageous of going after those. But it's hard today to say we're going to really ramp this pace up. I would suspect that during the new fiscal year, we'll reach that point where we will be more aggressive there, appropriately aggressive and we have what the elements worked out ourselves. But as you're aware, there's pretty long-lead times for these type of investments.

And so I don't think our pace for 2025, like I said, we're still refining this, so I'm leaning into this. It's not going to dramatically change. I think realistically, the change that you would see would be what occurs in 2026, 2027. Yes, there might be some capital dollars spent towards the mid -- latter part of next year. But we're kind of leaning into this. There's still work to do, but kind of give you an idea of how we're thinking it might lay out.

Tom Houdek

Okay. And Alex, we didn't mention it on the call, but it's worth highlighting, we had two openings in the third quarter and both are going very well for us. We opened in Central California and Tracy in August and we actually had our highest first week ever for an NRO about \$240,000 that week. And then we followed in September by an opening outside of Houston in an area called Cyprus and that opened, it's I believe still our third-highest sales restaurant in Texas right now. So we've gotten some really encouraging openings here, which we're thrilled with. But to Brad's point, this - we were fine-tuning the box, we're fine-tuning the economics and the goal is to get the best return possible out of these types of investments.

And you did mention remodels. That's another area that's fine-tuning and we'll talk more about it in Q4 when the plan is set for next year, but also expect because of the free-cash flow we're generating to be also allocating a good amount of capital to repurchasing shares. So we want to make sure that we're returning cash to shareholders as well as making good investments with our cash to grow the business.

Brad Richmond

Hey, Alex, I want to jump back to this as Tom brings up some pretty big points there. We opened a new unit in California where we have high awareness and the uniqueness of the brand here was, I mean, we're really pleased with the volumes that are coming out of there. And we do look at it from a value-creation perspective. So it's not going to have the same restaurant-level percentage margins, but the absolute dollars clearly justifies the investments there. And as he mentioned, the Texas location where we don't have the brand awareness, it opened up pretty strong and it continues to build from where it is. So we just need to know and understand that better, as I said, shape our penetration strategy. And then you always have to work on that site selection criteria because these are our big dollar bets and you need to get those right.

Alex Slagle

Sure. That was great. Yes, thank you for that.

Brad Richmond

Thank you, Alex.

Operator

The next question comes from Jeffrey Bernstein with Barclays. Please go ahead.

Jeffrey Bernstein

Great. Thank you very much. Brad, welcome back to the forefront of the industry in these calls. Nice to hear from you.

Brad Richmond

Thank you.

Jeffrey Bernstein

Welcome to BJ's Lyle and hey, Tom. Just had two questions. The first one just on following-up from a cash usage perspective, as you mentioned, the new unit returns haven't been consistent. And clearly, as you've said, the margins aren't at the desired levels. I'm just curious, you mentioned that new units are integral. It would seem like the alternative would be to potentially hold the new unit growth and return the cash to shareholders via repurchase based on where the shares are trading today. I know that was a topic that was hotly debated at the last Investor Day pretty much 12 months ago. Just wondering whether that's an option that's been considered or why is it that the -- that you're very keen to build new units from here? And then I had one follow-up.

Brad Richmond

Sure. Well, you're exactly right on this business generates significant cash-flow. And so we have a lot of opportunities to invest that. I think right now with the line-of-sight that we have and wanting to make quality decisions on these is, we feel very comfortable continuing to move forward with remodels maybe faster than what we anticipated prior to this. New units, there are quality sites that we know this brand can work, but we're going to go at a deliberate pace to refine that, so we can really optimize the future opportunity there. And so it brings up the question on two points. We have this excess cash. We will -- as we started with the leadership transition, have a very defined structured repurchase program. So it has a lot of criteria in it and it's not just a spot market buy by any means.

And so we execute that. We thought we had really great success in the last quarter. We will do the same again. And not that will necessarily be a perfect match by quarter, but we're going to take our excess cash and repurchase shares with it. We think that's appropriate with where we are and just to lean-in a little bit more to it, and we do need to get our 2025 financial projections done, but it makes a lot of sense, very appropriate for this business to take on a little bit of debt. I mean, we are largely equity financed. And so that makes a very-high bar in terms of our capital -- cost-of-capital requirements. So we have work to do there. We will continue to be very cautious and conservative. So don't walk away thinking we're going to load the business up with debt. But when you look at what we have, we have very, very low levels of debt. And I think from an investment perspective, both us as management in terms of running the business, but also expectations from shareholders to enhance their returns, there should be a little bit more leverage and using that leverage to buy-back shares or invest in quality opportunities?

Jeffrey Bernstein

Got it. And my follow-up question was just more on the comp side of things, which you said is obviously such a key component. I think you mentioned of the total comp of 1.7%, Tom, I think you mentioned it was 1.3% traffic. So I was hoping to just get the other components. I'm assuming there's healthy price and presumably -- well, curious to get the components, but specific to the pricing side of things, I'm just wondering what your outlook is going into 2025? Whether you have confidence in the pricing power. Again, it seems like you have very strong brand appeal and some would say perhaps you're underpriced and that would obviously help from a margin perspective. So again, just trying to figure out what the pricing was in the third quarter, kind of the outlook and how you view the pricing power going into next year from a brand perspective.

Tom Houdek

Sure. So yes, as the components go, you had the big parts right. So sales up 1.7%, traffic up 1.3%, so check at about 50 bps. Pricing, we carried in the low 3% in Q3. And we just took 90 basis points at the end of September, which rolled over 180 basis points last year. So we're carrying now in the mid 2% pricing. So in terms of us versus the competition, this gets into wanting to drive value in the business. So if your -- part of your question was around pricing power. We want to grow traffic, but we also know that creates some dry powder that we can be selective of where we want to take some extra price, because we've taken less price than a lot of our competition this year.

Some of the mix -- the delta between pricing and check, we -- there's obviously promotions that we're running, but also off-premise continues to be a drag on checks. So we're seeing some lower checks coming from the off-premise business, less so on-premise. We still do also have our late-night business, which is outperforming in terms of traffic. So when we see some extra late-night checks, they come at some lower dollar amounts. So that weighs on the total blend on check as well.

Jeffrey Bernstein

Okay. Understood. And then just to clarify the CEO departure and Brad holding the interim role. I'm just wondering what the thought process is, whether there's interviewing going on internally and externally or whether there's other changes likely or how you view the management team today and what we should think of in terms of potentially permanent CEO position? Thank you.

Brad Richmond

Yes, that's a good question, very pertinent. I would just step-back a little bit further and say the Board has kind of been reconstituted this year. They've been willing to take the board and necessary steps to move this business forward and feel comfortable with the path that we're on. I'm here really because of kind of public company experience and bringing that to this business and help with a transition here. We really are grateful to have Lyle join the organization, he brings a tremendous amount of depth and talent into the whole brand side of the business, but also the operating side of the business and look forward to his continued future success here.

Jeffrey Bernstein

Thank you.

Brad Richmond

Thanks, Jeff.

Operator

The next question comes from Brian Mullan with Piper Sandler. Please go ahead.

Brian Mullan

Hey, thank you. Question on menu simplification. You referenced this as an opportunity a little bit in the prepared remarks. I think the company has gone through a somewhat recent round of simplification already. So maybe could you just give an assessment, is it fair maybe the company didn't go far enough in its previous efforts? And if that's right, do you have a sense of what the hesitancy was or maybe, said another way, why it's clear to you today that there's still more to do? So any color on that would be great.

Brad Richmond

Yeah, sure. I think -- when I talk about removing complexity under simplification, I kind of see it in two tranches of work. One work is the kind of short-term opportunities driven by the feedback from the team members and from working shifts and all of that. And that's less about kind of menu structure and architecture and that's more about what are the kind of opportunities that can make things easier day-to-day.

So examples of things like that are -- you may or may not know it, but we have three different ways to scoop ice-cream onto Pizookie. And we might be better-off with one-way doing that. We may have an opportunity to simplify the way we garnish and build our drinks. There's a lot of little things in terms of when you're shoulder-to-shoulder with a team member, how they bring in items. There's a lot of little bits like that. I think when you take a step-back, the larger side of simplification and complexity goes to the menu.

What I don't have for you today is, I think we can cut the menu by X amount. The approach that generally I like to take to menu is around menu architecture. So what we'll be looking to do is essentially map each of our sections, make sure we understand the roles of each of the items in each of our sections, understand what's the traffic driver, what's a check builder, where we might be under-indexed or over-indexed and that will identify for us where we have opportunities for simplification. And also frankly, some opportunities where we need to have new products and innovation drive interest with guests.

But on-balance, I believe going-forward, in total, the menu will become a bit simpler. But why I don't have it for you yet today is, we're going to take a disciplined and strategic approach to menu architecture, which is going to guide those decisions.

Brian Mullan

Okay. Thank you for all that. And then can you just comment on where BJ sits with brand awareness given your previous experience and backgrounds, maybe any insights or thoughts on how you go about accreting brand awareness of BJ's?

Lyle Tick

Yes. I mean on-balance, when you look at unaided awareness, we trail the big competition in our category. And then if you kind of peel that apart in terms of unaided brand awareness by geography for us, we have about half of the awareness that we have in California outside of California. It's why I mentioned earlier, and I do think it's an opportunity. And it's why I kind of referenced it a little bit earlier with the Pizookie Meal Deal. And Brad did too with significantly lower media spend and share of voice than the competition, right? We grew traffic and gained share.

For me, this gives me great confidence in both the consumer's affinity for our brand when we are kind of top-of-mind and salient and it underscores the kind of opportunity and headroom that remains with respect to awareness. And I would kind of double-click on that for you, when you look at our media markets, all markets outperformed. Our media markets outperformed non-media markets. And then when you double-click into our non-California media markets, those media markets in terms of a jump outperformed California. And so just showing how that gap of awareness and saliency still adds headroom.

The other thing I'd add, which is less about media, but I think interesting is, when you look at our traffic gains that we've seen [P9] (ph) and now going into the beginning of Q4, those are not just weekday, they go into the weekend. So when I talk about being salient that even though the marketing is against the Pizookie Meal Deal, when we're top-of-mind for consumers, they're picking us for the meal deal, but they're picking us on the weekend when the Meal Deal is not available. So that again kind of points to awareness and saliency because we're seeing those gains go across the weekend and the weekday.

Brad Richmond

So to me, I just jump-in and say, those are important learnings for us as we move forward of things we've learned that we can leverage. It's a little bit of competitive insight. So please don't share that in your report for the others to read.

Brian Mullan

Okay. Thank you. Appreciate it.

Brad Richmond

Thanks, Brian.

Operator

Thank you. Our next question comes from Nick Setyan with Wedbush Securities. Please go ahead.

Nick Setyan

Thank you. It sounds like the promotional calendar is still in flux, but at the same time, near-term, you kind of have settled on a few promotions while you're happy to let a few others go. So how should we think about the promotional sort of cadence going-forward? Are we going to have limited time offers? Are we going to have sort of rotating offers? Is the Pizookie Meal Deal here to stay? I guess to what extent is the promotional cadence going-forward in flux and to what extent are you now happy with the current slate of promotions? And the heart of the question is, to what extent can we expect continued comp volatility going forward?

Lyle Tick

Yeah. Look, being that we're still in-kind of this discovery and learning phase. I'll have more specifics for you probably next time that we talk. We are encouraged by Pizookie Meal Deal. We are going to continue to leverage that through Q4 and we think there's more headroom on that program. Is it here to stay forever or not? I don't have that answer for you at this very moment. I can tell you broadly, I like the idea of building a value platform for a brand like ours with the frequency and cycle we have versus cyclical LTOs. But for me, right now, as I learn, everything is on the table with respect to what's going to drive our business most effectively on the top-line and the bottom-line, but gives you a little bit of how I think about it.

And I think as I mentioned in my prepared comments, I do believe there is some -- whatever you want to call it, simplification or cleaning out of some of the tertiary programs that will allow us to lean into the ones that we know that work.

Brad Richmond

Yeah, I wouldn't want you to walk away thinking that what we've learned from the Pizookie Meal Deal is that, we're going to tilt heavily to promotion, put promotional activity in different offers. That's not what we're thinking. But we do think it's very appropriate that the learnings, but also how do you pulse those learnings during the shorter periods during the year or when you have some really new news you want to share, things like that. I think our sweet spot really is remaining everyday approachable from a price point perspective, but also from the occasion perspective that Lyle kind of outlined earlier. That's where I see us really winning with this brand and how it's positioned with the consumer?

Nick Setyan

Understood. And obviously, the near-term focus has been on Pizookie and there's a lot of brand equity there. What other aspects of the menu going-forward do you expect to focus a little bit more on?

Lyle Tick

Yes. I mean that is -- I would go back to my menu architecture question. We're in the process of doing the strategy work and doing the menu architecture work. But to your point, I will tell you that when I talked earlier about where we're going to drive authority and competitive advantage, Pizookie is a very strong one, but we need more than Pizookie as our areas of authority that we are driving. And so more to come on that probably when we talk next time, because I don't want to get ahead of what the data is telling us.

Nick Setyan

Thank you.

Brad Richmond

Thanks, Nick.

Operator

Thank you. The next question comes from Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia

Hi, thanks for taking the question. I guess I wanted to follow-up on the menu architecture question on kind of the heritage of the company, which was beer and pizza and it just feels like it's kind of strayed away from that over the years. Is that any kind of heritage that it makes sense for BJ's to try to reclaim.

Lyle Tick

I hate to give unsatisfactory answers given that we're in the discovery mode and doing the strategy and the architecture work. Look, what I will tell you is that, I think that brands deriving their authority from their authenticity and what is core to their essence is absolutely important. And usually when you go through the work that we're going through, you kind of go back to the beginning to understand where the real power alleys were and what was driving the brand. And those often are very telling about where you go in the future because often when brands have trouble, they've strayed away from those things or stopped delivering them in as relevant way as possible. And so our journey will go back there to discover how we go-forward.

So could that be part of it? Absolutely. But again, without doing the work and the data, I'm not in a position to commit on those platforms today, but again, hope to talk more specifically about that next time we talk.

Brad Richmond

Yes. And I would just add-on, both Lyle and I have been through a number of these type situations around the menu and it is so important to get it right. But it's also so important that you get the consumer input. So that's not personal preferences. I mean, I'm not the targeted consumer that we're after with BJ. So while I may have strong opinions, I do think we have to do the work with the consumers to really understand what the brand stands for, what can we deliver on that and how much modification does it take. So it does take more research time than any of us would like. It takes time to test it or develop it and get it into test, but we do see the menu as a real opportunity for the longer-term success of this business.

Sharon Zackfia

Can I ask a follow-up? I assume you're going through the portfolio as well on the restaurants. Are there any kind of meaningful recalibrations of your closures or anything that we should think of within the BJ's network that may be come in.

Brad Richmond

Yeah. I think if you're talking restaurant closures, I mean we've done some deep dives on that. I'm happy to say that we have virtually no restaurants that aren't cash-flow positive for us. That doesn't mean we still need to evaluate our portfolio and those laggards. We need to study them and see what can we do to improve their performance. And once that assessment is done, if we need to close a couple, we're not afraid to do that, but there's no compelling urgency from the data we have so-far that says we need to be doing that.

Sharon Zackfia

Okay, great. Thank you.

Operator

Thank you. The next question comes from Jon Tower with Citi. Please go ahead.

Unidentified Analyst

Hey, thanks for taking the question. It's actually Karen [indiscernible] on for Jon. Sorry to maybe kind of beat a dead horse here, but asking about menu simplification again. As part -- one of the things you're considering if you get to a smaller menu, are you thinking about how that could relate to kitchen size and is maybe a smaller unit footprint part of the plan going-forward or smaller footprint part of the plan going-forward. Sorry.

Lyle Tick

As you go-forward, absolutely, it could have an impact on how we build the boxes and how we go-to-market from an NRO point-of-view. It has obviously those kind of cascading effects. So sure. I mean, in my previous life, I was a big believer in right cost, right-size, right place and we did make a fair bit of not only menu architecture work, but then format work. And so, would I see some format work in our future to allow us to do that, yes. And is one of the enablers of that potentially menu, yes. I don't know if that's satisfactory, but hopefully, it gives you a little bit.

Unidentified Analyst

Yes.

Brad Richmond

I'll talk a little bit into. And I'm kind of an agitator to the group, but we have 200-plus restaurants. And so we have a box today that we have to make it work and what we're doing today. But I think it really does raise the question of do we need to have the exact same menu across the company, across the country? And so might there down the road be some regionalization of some pieces or parts of that? I don't know, but we're asking those questions and studying it if it makes sense, we'll definitely test it. We don't know that, but I mentioned this just to show the expansiveness of how we're looking at the business and the opportunity as we move forward.

Unidentified Analyst

Great. And then just two super quick modeling ones. If you have marketing spend in the quarter at hand, that would be great. And then just making sure I'm getting to the right like adjusted EPS number, if you start with a \$0.13 loss and take-out on the \$0.02 benefit you're excluding, is that \$0.15 loss or does it round to a \$0.14 loss?

Tom Houdek

First, the marketing spend in Q3 was about 1.9% of sales. For the rounding, let me get back to you on that one. I don't have the pieces by adjustment there.

Unidentified Analyst

Okay. And that's it from me.

Brad Richmond

Yes, thank you.

Operator

Thank you. The next question comes from Todd Brooks with the Benchmark Company. Please go ahead.

Todd Brooks

Hey, thanks for squeezing me in. First of all, welcome aboard to Brad and Lyle.

Brad Richmond

Thank you.

Todd Brooks

I understand this concept of a kind of a discovery mode and that process of more clarity around the brand. I'm just trying to get an idea of kind of the continuum here that get to driving awareness. So we need to do the work around the brand, what we stand for, how we're going to message. Then as you're looking for driving awareness, are there thoughts on, are we targeting at a national level trying to drive awareness anywhere? Is it in specific geographic markets where you get more bang for the buck? And I know you probably don't want to hamstring yourself with kind of a timeframe to get here, but are we talking about a quarter type of process or just trying to get my mind around how long it takes to complete this journey.

Lyle Tick

So I guess on your first question, the awareness opportunity for us exists everywhere. The -- ultimately, the channels and the tactics that we use are -- so it's not going to be just like a pure national push, like that's not what our footprint is and it wouldn't be as efficient as we need to be, right? So from like a media mix modeling point-of-view, we have opportunities in-markets where we have more density of restaurants to invest in broader channels of media. But across the footprint, we have awareness opportunities. And so it's really about using the right channels in the right markets to start to close that gap. And then to also, I'm a big believer in-kind of test, learn, scale. So we will probably be looking to do some pressure tests in some opportunity markets. And if we're seeing the right return on that test, we may invest there to accelerate some of that growth and awareness gap movement. So -- and some of those types of tests and pressure tests, can easily start to take place in the next couple of quarters. And then I think as you look at the strategy work and how that starts to kind of impact and roll things out, the strategy work will be happening over the course of the fourth quarter and the first quarter and then we'll start to really impact what we're doing on the structural things that take longer time, probably more in second half. But there's -- you kind of have rolling opportunities when you think about awareness and media opportunities that you can maybe start to work on an impact earlier where more structural menu opportunities are going to follow-on and take a little time. So you start to layer on these activities, which hopefully build upon each other over-time.

Todd Brooks

Okay, great. And a follow-up and then a separate question. I follow quickly. If you look at the 1.9% of sales spent on marketing and looking at your -- both of your experiences with other brands, does that feel like the right level of spend for a chain BJ's size and to do the work that you need to, do you expect to have to put more investment behind marketing spend eventually?

Tom Houdek

Yeah. Each brand varies how they go to market. So I don't think you're going to see it grow really high like some of the big national brands that are heavy media marketing all the time. I do think particularly what we've learned now, some pulsing of national media clearly makes sense. So I would say at this point, we're still sorting through that. So it wouldn't be hard to guide you on that. But we're learning enough about more capabilities than we thought we may have had just a short while ago.

Todd Brooks

Okay, fair enough. And then the final one, Tom, if we're looking out to Q4 and thinking about the components of average check, if Pizookie Pass sunsets in October and you talked about the better kind of economics and profit structure around Pizookie Meal Deal, that mix drag that we saw in Q3, is that expected to moderate as you get-out to Q4 and we're thinking about same-store sales? Thanks.

Tom Houdek

Yeah, we've even seen that drag moderate as we work-through Q3. So to answer your question, yes. Even with -- we also mentioned our loyalty expansion push, that was most impactful earlier in Q2. So the impact of check -- the impact lessened as we worked through Q3. And right when we launched Pizookie Pass, that was the biggest impact to check and that moderated as we worked through Q3. So we've seen that mix shift impact lessen as we work through Q3 and as we started Q4 here. So you're right, that is part of the guidance and informed by the more recent trends.

Todd Brooks

If you step-down on pricing into the mid-2s, where would you expect average check to come out with the moderation and the mix headwind for the quarter?

Tom Houdek

Somewhere in the 1% area, maybe a little less, but yes, somewhere in that 1% area is a good estimate.

Todd Brooks

So that's where average check is going to come out, 1%. That's what mix is going to only be down 1%. I'm sorry, I'm confused there.

Tom Houdek

Oh, so the -- for the question of where do we expect check to be in the fourth quarter. We're expecting check to be in the 1% area, if not potentially a little bit lower, but I think that's as clear as the crystal ball is right now, I think check around 1% is a good estimate.

Todd Brooks

Okay, great. Thank you all.

Brad Richmond

Thanks, Todd.

Operator

Thank you. This ends our question-and-answer session and the conference has now concluded. Thank you for your participation. You may now disconnect your lines line.

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