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Bloomin' Brands, Inc. (BLMN) Q3 2024 Earnings Call Transcript

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Q3: 2024-11-08 Earnings Summary

Play Call



Press Release



10-Q

EPS of \$0.21 **beats by \$0.01** | Revenue of \$1.04B (-3.80% Y/Y) **misses by \$7.93M**Bloomin' Brands, Inc. (NASDAQ:[BLMN](#)) Q3 2024 Earnings Conference Call November 8, 2024 8:30 AM ET

Company Participants

Tara Kurian - Vice President of Corporate Finance and Investor Relations

Mike Spanos - Chief Executive Officer

Michael Healy - Executive Vice President & Chief Financial Officer

Conference Call Participants

Jeffrey Bernstein - Barclays

Alex Slagle - Jefferies

John Ivankoe - JPMorgan

Brian Harbour - Morgan Stanley

Jeffrey Farmer - Gordon Haskett

Sara Senatore - Bank of America

Dennis Geiger - UBS

Brian Mullan - Piper Sandler

Jon Tower - Citigroup

Brian Vaccaro - Raymond James

Andrew Strelzik - BMO

Tara Kurian

Thank you and good morning, everyone. With me on today's call are Mike Spanos, our Chief Executive Officer; and Michael Healy, Chief Financial Officer and Executive Vice President. By now, you should have access to our Fiscal Third Quarter 2024 Earnings release. It can also be found on our website at www.bloominbrands.com in the Investor Section. Throughout this conference call, we will be presenting results on an adjusted basis. An explanation of our use of non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures appear in our earnings release on our website as previously described.

Before we begin formal remarks, I'd like to remind everyone that part of our discussion today will include forward-looking statements, including a discussion of recent trends. These statements are subject to numerous risks and uncertainties that could cause actual results to differ in a material way from our forward-looking statements. Some of these risks are mentioned in our earnings release, Others are discussed in our SEC filings which are available at www.sec.gov. During today's call, we will provide a brief recap of our financial performance for the fiscal third quarter 2024 and overview of company highlights and current thoughts on fiscal 2024 guidance. Once we've completed these remarks, we'll open the call up for questions.

With that, I would now like to turn the call over to Mike Spanos.

Mike Spanos

Thanks, Tara and good morning, everyone. It is a privilege to be leading the Bloomin' Brands team. We have iconic brands, passionate and resilient team members and a culture grounded in taking care of our people, our employees, customers, suppliers and communities.

I am excited and wanted to be part of this tremendous team for 2 reasons: First, my family and I are long-time loyalists of all of the Bloomin' Brands, including my late father who always felt so special going to Outback with my mom every Friday night to have a high-quality steak and a beer at a great value in a fun casual environment. Whether it has been a great steak with my wife and kids at Outback, a dinner with my in-laws for Italian at Carrabba's, a birthday dinner for my mom at Bonefish for fresh seafood or an elevated steak dinner at Fleming's, our brands have provided my family with fun and memorable experiences. The excitement to be part of the team has only increased after spending time working in our restaurants with our great team members from cutting fillets to shaking handcrafted cocktails nothing beats the hands-on approach to learning the operations of a business.

Second, I believe in the strategic growth potential of the business. Bloomin' Brands is a great business with great brands and a great team. When we consistently execute with excellence and the guest experience is right, our brands generate profitable traffic growth. Our brands have a high rate to succeed and steak in Italian casual dining are on trend in our big categories.

Within steak, we compete with strong players and good competition enhances category growth and pushes us to deliver a better guest experience. I have a lot of confidence in the long-term value of the company with the financial resources, including a good balance sheet with ample cash flows. With an operating mindset, we will deliberately and quickly make the necessary strategic steps to unlock that value.

Now that you hopefully understand my motivation to be part of the Bloomin' Brands team, I want to recognize and thank our dedicated Outbackers, [indiscernible], associates and anglers. In addition to being outstanding operators, I've been impressed with their resiliency and capability after dealing with both Hurricane Helene and Hurricane Milton in the span of 2 weeks. Our teams demonstrated leadership and dedication to each other, our guests and our communities. The examples of serving, leading and doing what is right in the face of such adversity has been inspiring. Despite flooded and damaged homes and cars, power outages and gas shortages, our teams took care of each other and safely reopened our restaurants to serve our communities. This kindness and support have been so impressive and I thank and appreciate each and every one of you.

We also donated \$500,000 to the American Red Cross to support hurricane recovery in addition to feeding thousands of our first responders and those in need to support community recovery. I also want to thank and acknowledge the legacy and contribution of Dave Deno. He is a superb leader in person and has been invaluable during my onboarding. We've executed a smooth transition and have spent detailed time together to ensure the strategic work that the team has been working on remains on track and accelerates, especially in Outback Steakhouse.

As you get to know me, directly leading frontline team members in both the Marine Corps and in the Pepsi system was foundational for me. I spent the majority of my PepsiCo career on the bottling side and asset and people-intensive workplaces, starting on delivery trucks and servicing both retailers and restaurants.

I also led broad and complex portfolio of businesses at PepsiCo, Six Flags and Delta. In addition to my operational experience, I've led marketing, consumer insights, revenue management and food service teams. We will manage the business with an operational focus and a guest-centric lens. My time in these roles reinforce 3 guiding principles.

First, leadership is a privilege, focused on the team member experience. We have a unique culture at Bloomin' Brands, one that originates from our founders. Our principles and beliefs states success is measured by growth in sales and profit and is the result of taking care of our people. Our success is based on our belief that people want to be part of something they can be proud of is fun and that includes and values them.

Throughout my career, I focused on building performance-based cultures, balancing employee well-being and driving accountability for best-in-class performance. Listening to and learning from our restaurant operators is important in order to support them working more effectively and efficiently.

We will stay close to our managing partners and joint venture partners as well as our franchise leaders as they have the greatest insight into what we can do to better improve the guest experience. I will spend the majority of my time on our operations and how we can improve our team member experience which in turn inspires a high-quality, welcoming, elevated and caring experience for our guests.

The second guiding principle is to focus on the guest experience. Our ability to consistently execute a memorable experience for our guests with a high-quality meal at a great value and a relaxing environment is what drives repeat visits and loyalty to our iconic brands. Consumers want memorable experiences in away-from-home occasions. Every moment matters when guests choose to spend their hard-earned money and their precious time with us.

The third principle is to have a growth mindset by focusing on the core. I found every market, whether domestic or international and every category has growth potential in terms of traffic, revenue and profitability. It is important to control what we can control, have a clear definition of success and execute on targeted initiatives that drive growth. This leads to disciplined capital investments, simplification of the agenda and being great on what is important to our guests.

Bloomin' Brands is a portfolio of iconic brands that have strong growth potential. By focusing on the core of our brands and operational excellence, there is a long runway ahead.

As I initially evaluate our portfolio, I see 2 primary scalable areas for growth. The first and our biggest brand is Outback Steakhouse. This is a global brand and an on-trend state category. However, we have not sustainably grown traffic. We are closely evaluating all elements of the guest experience. I am personally committed to material improvement at Outback Steakhouse that will sustainably grow traffic, comparable sales and profitability. This brand has a high rate to succeed within the steak category. I'm excited about the strategic work that we have underway and I will take an active role in operationalizing the work.

Our second scaled growth opportunity is Carrabba's. I've been impressed with this team's capability to grow both traffic and comparable sales and to meet our guest needs across various dayparts and occasions. The team is focused on the in-restaurant experience and is assessing the white space opportunity to strategically scale the brand with margins and returns that deliver shareholder value. We plan to share a meaningful update on the Outback and Bloomin' Brands strategy on our next earnings call.

Before I turn it over to Michael to discuss our financials, there are 2 last items that I want to address. First is our Q3 results and balance of year and full-year guidance. It is reflective of the broader challenging industry trends, recent impact from the hurricanes and our current execution. Our team is working hard but we are not pleased with our performance and we know we can do better. We have work to do and are committed to providing accurate and transparent forecast of our performance.

Second, I am pleased to announce our strategic partnership with Vinci Partners for our Brazil operations. We have a scale and leadership position in Brazil and are excited to have Vinci as our partner to grow the business in the future. Vinci is a significant asset management firm with a successful track record of partnerships in the restaurant space.

We are retaining 33% ownership of the business. It has been my experience living and working internationally with franchise partners that combining powerful classic brands with local capability and expertise is the optimal business model to maximize future growth. We have also created aligned economic interest for both parties with a material equity stake to grow the business and to grow it in a profitable way. This transaction will allow us to simplify and focus on our domestic operations. We anticipate closing the transaction this year and Michael will walk through more of the financial implications of the transaction.

Next year, Bloomin' Brands will be a more focused and simpler company. As I lead the company, you have my following commitments. First, I will be strategic and grounded in our operations and decisions we need to make. Second, I will communicate our path and progress in a transparent way. And third, I will hold my team and myself accountable for delivering strong results.

And with that, over to you, Michael, to discuss our Q3 financial performance and updated 2024 guidance.

Michael Healy

Thank you, Mike and hello, everyone. I would like to start by providing a recap of our financial performance for the fiscal third quarter of 2024. Total revenues in Q3 were \$1 billion which is down 4% from 2023. This was primarily driven by a decline in comparable restaurant sales, the FX translation of the Brazilian dollar relative to the U.S. dollar and the net impact of restaurant openings and closures. U.S. comparable restaurant sales were negative 150 basis points and traffic was negative 440 basis points which was in line with the casual dining industry.

At Outback, we introduced greater value in our LTO's beginning in Q3. While this allowed Outback to outperform Black Box on traffic in a very promotional environment, our focus is on building sustainable traffic growth, particularly at Outback. Average check was up 2.9% in Q3 versus 2023, in line with expectations. Value is critical right now and we are committed to take the least amount of pricing as necessary. Q3 off-premises was approximately 23% of total U.S. sales. Our third-party delivery business is 13% of total U.S. sales which is an increase from 12% in Q3 2023, driven by our growth in catering.

Our Q3 GAAP diluted earnings per share for the quarter was \$0.08 versus \$0.45 in 2023. Our Q3 adjusted diluted earnings per share was \$0.21 versus \$0.41 in 2023. The primary difference between GAAP and adjusted diluted earnings per share is due to the asset impairment and closure-related charges associated with the decision we made in Q2 to close 9 restaurants in Hong Kong, executive transition costs and professional fees related to our revenue growth management strategic efforts.

Q3 adjusted operating margins were 3% versus 5.3% last year. There are a number of factors contributing to the margin decline this quarter. Overall, restaurant-level margins declined by 150 basis points. 110 basis points were driven by labor primarily due to hourly and field management wage rate inflation. Labor wage inflation for the quarter was 3.8%. Other restaurant operating margin declined 90 basis points driven by higher operating and supply expenses primarily due to inflation as well as higher preopening expenses as we open more restaurants this year.

Cost of goods was 50 basis points favorable from pricing benefits and supply chain productivity initiatives. Commodities were better than expected in Q3 at approximately 2% driven by more modest inflationary expectations across seafood, oil and dairy.

We continue to see positive signs within our Beef program but this category remains inflationary. Depreciation expense was higher in Q3, consistent with our increased levels of capital spending in recent years and our investments in infrastructure to support growth. We are operating in a challenging market environment and we are focused on managing the costs that are in our control.

Turning to our capital structure; total debt net of cash was \$1 billion at the end of Q3. During the quarter, we upsized our revolver to \$1.2 billion which provides additional liquidity for our business and provides broader financial flexibility. Importantly, we remain committed to being at or below our long-term lease adjusted leverage ratio target of 3x. Year-to-date, we have repurchased a total of 10.1 million shares of stock for approximately \$266 million. This included shares issued in connection with the repurchase in March of a portion of our convertible notes. We have \$97 million remaining under our share authorization program. The Board also declared a quarterly dividend of \$0.24 a share that is payable on December 11.

Now, turning to our full year 2024 guidance. We are updating our full year guidance to reflect the continued industry softness and our trends. As a result, we are updating our comp guidance range to be down 100 basis points to down 50 basis points. We are being very mindful of pricing and have not contemplated pricing actions above prior guidance. Given the volatility the industry is seeing in traffic trends, we are updating our adjusted diluted earnings per share guidance to be between \$1.72 and \$1.82.

Prior guidance assumed industry trends would strengthen but our updated view assumes no improvement. Additionally, the hurricanes have had a negative impact on our business and were a distraction for our teams. U.S. domestic comparable sales were negatively affected by approximately 30 basis points in the fourth quarter and a total impact to profitability of approximately \$0.03 on an earnings per share basis. Both of these are included in our updated full year guidance.

We are updating our commodity inflation guidance to be approximately 1%. We are updating our adjusted tax rate to be between 6% and 7%. As we mentioned on the last call, the negative calendar shift experienced in Q1 of \$0.05 is recaptured in Q4.

The Brazil tax benefit is expected to be approximately \$0.15 for the year. As it relates to the fourth quarter of 2024, we expect U.S. comparable restaurant sales to be down 200 basis points to down 100 basis points on a comparable calendar basis. This reflects the current environment than what we are seeing in the restaurant industry as well as the approximate 30 basis points impact from the hurricane experienced at the start of the fourth quarter.

We expect Q4 adjusted diluted earnings per share to be between \$0.32 and \$0.42. Importantly, this guidance includes the revised Brazil value-added tax exemption benefit of approximately \$0.07 and an approximate \$0.05 benefit from the calendar shift, offset by an FX headwind of \$0.02 and a \$0.03 impact from the hurricane.

This morning, we announced a strategic partnership with Vinci Partners for our Brazil operations. Total enterprise value for the business is BRL2.06 billion or 6.5x trailing 12 months EBITDA, net of royalties through Q3 2024. Vinci will purchase a 67% ownership interest based on this valuation and as Mike mentioned, we will retain a 33% ownership in the business. We believe our economic interests are aligned and expect the business to continue to grow. We have an option to monetize our remaining equity stake in 2028.

We anticipate the transaction to close in 2024. We will receive 52% of the proceeds upon closing and the remaining 48% one year later. We will provide more details on the use of those proceeds on our February earnings call after we complete our strategic planning efforts later this year. Additionally, the ongoing royalty stream will allow us to continue to benefit from a high-growth, market-leading business.

In summary, we are not satisfied with our results in 2024 and we are committed to the actions necessary to deliver consistent long-term sales and profit growth. While Outback is our primary focus, all of our brands play a role in the success of Bloomin' Brands.

And with that, we will open up the call for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And today's first question comes from Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Great. My first question is just in terms of the operations and the opportunity you talked about. I know in the press release, you talked about consistent and elevated guest experience which was key. I'm just wondering in your early days where do you think Outback has been falling short on that which presumably has pressured repeat traffic. I know you mentioned deliberately and quickly taking action. I'm just wondering whether you think there's any low-hanging fruit that we could see being implemented over the next quarter or two to stem the tide? And then I had one follow-up question.

Mike Spanos

Thanks, Jeffrey. Yes, it might be better just to say Spanos for our CEO and Healy for CFO, to keep you all -- keep it simple for everybody. But good morning. I'll start with your point or your question on the operations and what I'm seeing with Outback, I'd start with -- first of all, we are seeing, if I start with the problem, we are seeing declining same-store sales and we're seeing declining traffic and we have been losing share in the steak category. That is our reality right now.

If I look at what I think are the positives on the balance sheet, so to speak, we've got a great iconic brand. We've got a great team. The team is very passionate about the guest experience. And they're very rooted in what I think is that Aussie spirit that a reverence that no rules just right. The core ethos of the brand that's out there. And we're very much on trend in the state category. So that I feel very good about. And as I said, we've got ample liquidity. We've got -- cash flows are also ample and we've got a really good balance sheet. So I feel very good about that.

If I look at where I'd like us to lean further in and accelerate, it starts with the guest experience. We've got to create just a great meal and a great value in a fun casual environment which is also the core of the brand. And to me, I look at operational excellence as consistency, the team has told me that. To me, that means we've got to be thoughtful about controlling what we can control, simplifying the agenda in the menu. In addition to that, we've been really looking at our brand positioning. We don't want to be a bar and grill in terms of how we go to market.

And the work is -- we're going to get better every day and we're going to create a differentiating experience back to our roots. But we'll give you more in February but I will tell you this. I am personally very hands-on with Outback. And I'm working very closely with the team and the strategic work the team did, we're accelerating that and we're going to get that moving. And again, it's an everyday process getting better and that starts with coaching leading accountability.

Jeffrey Bernstein

Got it. And Spanos, you mentioned Outback and you mentioned Carrabba's in terms of near-term priorities. I'm wondering if you could just talk about thoughts on the portfolio. More broadly, the pros and cons, whether it's of keeping Carrabba's or just the thought process around Bonefish, any thoughts there, especially we're aware that there's an activist in the names. So, I'm just wondering if there's any thoughts you could share in terms of your relationship or your priorities or whatnot relative to that of an activist investor.

Mike Spanos

You got it. A few questions there. Let me start in reverse order. I think you were asking about Starboard in terms of that relationship. What I'd say there is we have a very collaborative relationship with Starboard. They're incredibly insightful. And what I've really liked about the Board members, there are passionate about the guest experience and how the team member experience unlocks that guest experience. And they want us to do what's right for the business and they are especially focused on sustainability of the business through a fantastic guest experience. So I'll start there.

Second, on the portfolio, maybe what's inferred a bit in your question is Brazil and now I'll come to the domestic piece. I would not link or connect our decision on Brazil to the domestic portfolio. I've lived and worked internationally many years, both in company-owned businesses, franchise businesses. And what I found is you unlock the maximum future value when you have an iconic brand with a great set of capability combined with the local capability, community, local savviness, that combination is your best synergy for growth.

If I go to the domestic portfolio, we're committed to our domestic portfolio. And I do think there's 2 scaled growth opportunities. Outback which I already spoke about. And that is primarily our biggest opportunity and that is all about the guest experience enabled through the team member experience. And we just got to be really tight on our operational excellence to get there.

Carrabba's is, to me, is really an exciting business. What we've seen on a sustained basis good steady traffic and good, steady same-store sales with that business. I do want the team -- I know Pat Hafner, who leads that business, the team has done a great job since about 2019, elevating that brand in a better way. They're very focused on in-restaurant traffic. The brand does a nice job across dayparts and converting occasions which I think is very positive. And to me, what's exciting is exploring in a very deliberate manner, the white space growth opportunity of that brand. And we'll do that smartly because you got to have the right margin profile and the right return profile on that.

The last part of your question, I think, was specific to Bonefish. Bonefish to me is all about, again, at its core of the brand. It's a polished dine, fresh seafood around an energetic bar experience. And that's what the team is focused on, Jeffrey. They're focused on simplifying that menu in a good way, that pivots back to fresh seafood, really going off that energy of the bar that we saw in the very first Bonefish's are out there and that's where we're at.

Operator

The next question comes from Alex Slagle with Jefferies.

Alex Slagle

Thanks and welcome aboard, Mike. I thought it was interesting. You talked about your history with the brand as a consumer as you've dug in and worked with the operators, I mean what are you hearing that stands out, differs from what you initially expected kind of coming in?

Mike Spanos

Alex, very -- the operators -- our managing partners, our JVPs, our franchisees, they're incredibly consistent in their feedback. The first is they want simplification in the simplest terms. The second is they want to get back to that guest experience. They're giving me feedback around center of the plate improvements. They're giving me feedback around how we remove barriers by simplifying the agenda and what we can do to improve that guest experience, very consistent feedback there. The second is on what I would call the brand positioning. As one Outbacker said to me, they want to be great at a few things and not average at a lot of things. That's very clear. So they want to have a really strong value every day that the guest knows from a brand trust that they can get out there in a big way.

The other thing they've talked to me about in terms of the brand positioning is and I agree with them on this, is about frequency. Our average Outback guest comes about twice a year and their point is, let's get that number to 3. So increase the frequency of our loyal guests and retain them. And what they're also telling me is to recruit new guests, we should recruit the right new guests that want to lean into the steak category, steak and seafood. And the last thing is they believe in the brand. They believe passion in the brand, they believe passionately in the potential of the brand and they love serving our guests and serving each other.

Alex Slagle

Helpful. I mean I guess it's early but I mean, do you expect any investments back into the brand around food quality, marketing, labor, other areas that could have an impact on margins or just that sort of reinvestment as we look ahead to '25?

Mike Spanos

Yes, Alex. I won't get into '25. We'll be real clear with you on what we're doing is we finish our long-range planning into February. But maybe I'll give you a framework on how I think about this in terms of how you lead the P&L and lead the team. I start with one. I'm a believer you can reward yourself for the free dividend. What I mean by that is step one is coaching, leading, controlling what you can control, focusing on the guest, that accountability factor can unleash a lot of potential when the team is focused. I start there.

Second, you've got to look at redeploying resources that can be financial, it could be time but redeploying your resources on the point of main effort priorities is important as well. We also should be looking at reducing wherever we have costs or any type of cost we don't think is driving revenue or top line growth. We've got to take a hard look at that. And then after that, I think it's fair to say we can look at reinvestments but those reinvestments are going to be sharp. They got to be targeted. They got to have clear returns on them. So we have revenue outgrowing our cost growth sustainably.

Operator

Next question comes from John Ivankoe with JPMorgan.

John Ivankoe

I want to grab that last word reinvestment and apply it to your existing asset base. Obviously, the majority of your sales are presumably always will be on-premise, a modern experience, at least relative to expectations, really matters. And at least in previous conversations with the company, we've heard anywhere between 30% and 50% of the asset base is considered to be modern. In other words, the majority are considered not to be modern.

So I wanted you to just kind of address the asset base, how much of a front burner need/opportunity is there? And are you willing to make that investment even if it doesn't necessarily pencil out from a financial return perspective just because it's the right thing for the brand, your employees, your customers longer term?

Mike Spanos

Yes, you bet. So I think that's a really fair question. And that is very much part of the work we're doing is asset condition and asset quality across all the brands and how we think about that. But I would also start with the one thing I've learned over the years calling on food service customers and servicing them and what I've learned here so far is the best results inside the 4 walls of a restaurant start with the leadership of our managing partners.

What I've seen is results that tell me when we get the right leadership, with the right accountability and we simplify the agenda, we can unlock growth everywhere. What I think you're also getting to is capital allocation. And again, we'll be clear on that. But what you're getting at is what I would call is investment in the base business. To me, that's always where you start in terms of capital allocation. And part of that is repair and maintenance, part of that can be remodel, part of it could be a relocation, et cetera. But we're going to make those right moves because it does pencil out if you're doing the right things with sustainability and if you have the right process which we do and Michael's team is leading that process. And we'll do those things.

Beyond that, our capital allocation which I think is a bit of the inference of your question we're going to continue to be thoughtful on that. We're going to obviously stay focused on paying down debt to lease net leverage ratio long term of 3.0, as Michael pointed out, we'll be disciplined in new store openings. And then after that, we'll look at how we properly return cash to shareholders. But it pencils out. What I found I've been leading asset heavy and people-intensive companies for a lot of years, you have to reinvest in the base of the business for sustainable growth and we're committed to that.

Michael Healy

And John, just to piggyback on that, I think to focus on better operations and better execution works when we reinvest in the restaurants as well. And so it has to be an and as we think about the investments or what we would need to do to support Outback. And that's how we're prioritizing them as we go through this strategic planning certainly an asset component as part of that conversation.

John Ivankoe

And I think a follow-up on the reinvestment side. I mean, you've mentioned a couple of interesting -- a lot of interesting things. But really trying to constrain the amount of pricing you take going forward but not wanting to be a bar and grill. I get both of those comments. But how do we feel about the overall average ticket? Is the opportunity to go lower to bring that frequency from 2x to 3x when you kind of take a clean slate look at the business and look at prices on an absolute basis relative to consumers' expectations, how are we feeling about the current price levels and overall average ticket that the customer pays?

Mike Spanos

Yes, John, so I'll ladder up to what I've always found to be your levers on revenue management. There is a volume lever which is traffic. There's obviously an inflationary price lever and there's a mix lever. And what I found is you got to be balanced on all 3 levers in terms of what you got to do internally on the P&L as well as being thoughtful externally on what's going on competitively and what the guest or consumer gives you credit for between a price and benefits equation. So we're going to be balanced moving forward and we're going to have a very sharp lens on all those levers.

Operator

The next question comes from Brian Harbour with Morgan Stanley.

Brian Harbour

Maybe I just wanted to start with the 4Q, obviously, you did change your annual EPS guide quite a bit. And part of that is sales, it sounds like the hurricane impact wasn't too significant from an earnings perspective. But could you help us on some of the pieces that are kind of driving that change to your 4Q outlook?

Mike Spanos

Good morning, it's Spanos. I'll start with -- we're not happy with our results. And if you look at the forecast for -- the initial forecast for Q4 we were arguably optimistic. We assumed casual dining would improve and we assumed our performance would improve in terms of grabbing share or growing faster than some of the folks out there and that did not happen. So, our Q4 forecast is reflective and consistent with our year-to-date Q3 trends. If you're looking at same-store sales, traffic, pricing and what we internally look at in terms of EBIT, that's where we're at.

So again, we're not happy with it. What I would tell you moving forward, you're going to find with me, we'll -- and I know Michael feels exactly the same way. We're going to be very transparent and candid on the forecast. I tend to take a balanced center cut approach. We'll give you what we think are some of the moving parts and the pluses and minuses of that. And to me, what's going to really drive the business in terms of forecasting is just getting back to that outstanding guest experience enabled by a great team member experience and that's where we're going to go.

Michael Healy

Yes. The only thing I'd say, I mean, for the most part, it's a pretty clean bridge for us as far as the traffic is more, a lower perspective on where we think Q4 traffic would be. We do have a few unique things. We spoke about the hurricane, the Brazilian tax component that will -- one hurts, one helps as well as the calendar shift. There's a couple of unique things in there. But other than that, for the most part, it's just traffic. We anticipate to run pretty much what it's been running and that's how we think about the finishing of the year.

Mike Spanos

Yes, Brian, the last piece, just one last point on the hurricane. And I am saying this as well to acknowledge our teams again. This was consuming 3 weeks during the hurricanes. If you look at whether it was Helene or Milton, we still have team members that are in the land of remediation and recovery and all the fun that goes with putting your lives back together and they're still getting through it. So it was a big drain of capacity and bandwidth and energy of the team and everybody has been positive. But that has been one of the distractions and it's good to be past that.

Brian Harbour

Yes, understood. I appreciate that. Maybe this is something you want to comment on later. But just on kind of like menu, thinking about Outback specifically. Do you think there need to be -- there have been changes there. I know. Do you think there needs to be more of a change from a menu perspective? You kind of mentioned some simplification. But what's kind of your view on just the food offering at Outback today?

Mike Spanos

I like your question, Brian. Again, I think it starts with simplification and getting back to the core of that Aussie spirit, that steak seafood core and being all things to some people on the menu and not necessarily being all things to all people on the menu. Our operators want that simplification in the back of the house. And we are looking at that and I found over the years just fewer items execute more consistently, drives a way better guest experience.

Operator

The next question comes from Jeffrey Farmer with Gordon Haskett.

Jeffrey Farmer

Mike, in answering some of the earlier questions, you pointed out the importance of value. Can you just elaborate on where you see the core Outback concept currently positioned on the value front?

Mike Spanos

So if I think about where we're at, first, I start with value. To me, value has always been a function again of what's the price and what's the benefit and that value is accentuated with the fantastic outstanding guest experience. And I start there and it's that great meal, great value, great experience of fun casual environment. That enhances that value because part of that values, that benefit, that feel, that memory you get when you walk out of an Outback.

As I said, what I am drilling into and what the team has given me feedback on is how we execute LTOs relative to other innovation versus everyday value. And that's part of the work we're doing right now is can we simplify the value of promotional equation and also simplify the menu which was where Brian was going as well before in his question, to make it a simpler offering for not only the guests but our team members.

Jeffrey Farmer

Okay. So just to follow up on that and I'll leave it at this. In terms of thinking about -- I think in the 3Q, you basically, Outback moved to a \$14.99 promo price point from I think it was like \$16.99 in terms of something as simplistic as that is lowering the price, is that sort of within your strategy vision? Or is that not how you see this happening moving forward?

Mike Spanos

Yes, you're talking about Great Barrier Eats in terms of Q3 and affordability. So we are looking at that. We've also, in the past, run the 3 course offerings we're just broadly looking at our affordability in our entry price points and how we think about it. What I would say with this is these types of LTOs, we want to be core to -- we want to execute them core to our menu. What I don't want to be doing and the team has given me this feedback is more and more. We don't want to be bringing in a lot of new items to execute in these programs. We want to pivot off the core of the menu with the right value to attract sustainable traffic.

Michael Healy

Yes, the team is fully focused. We know we had to have more value, right? So we made the intentional shift to lower opening price points on LTOs beginning in Q3, down to \$14.99. The team is able to engineer those offers. We -- those offers drive a lot of mix but the entry price point, lower end mix, some of our -- are more featured, more iconic items tend to drive the mix. And so we're able to engineer them. So the overall economics are in a good place. But we know that we had to lower those opening price points. We know that affordability matters. We know that how we -- how our prices compare to other steak competitors matter. And so all of those are things that we're looking at and especially as we think about some of the longer-term strategic work of just what's the appropriate pricing for us as we think about our business.

Mike Spanos

Yes. Jeffrey, last piece on that is Michael is exactly right in terms of making it work financially engineering it. My bigger focus based on feedback from the team members is whatever we offer, we want to make sure it's generating traffic that retains our loyals or recruits the right kind of guests we want long term. That's the focus for me as we look at pricing and promotions.

Operator

The next question is from Sara Senatore with Bank of America.

Sara Senatore

Two questions, please. The first is you mentioned sort of having anticipated that the demand environment would improve as well as perhaps your relative performance. I guess I'm a little -- I want to dig into that because my understanding is that the demand environment has improved. If I look at some of the industry trends, for example, it looks like July was the softest and then we've seen pretty consistent improvement into and through October, by -- across segments. So I wanted to clarify that comment, if you had anticipated more improvement or if it really is a relative performance question. And then I did want to ask about your -- the comment, one of the Mike's, actually Spanos made on managing partners.

Michael Healy

Yes, I can kind of jump in on how we thought about the forecast. So certainly, July was the low point from an industry standpoint. So I think everybody assumed that we would have some rebound off of that. And we did have some rebound off of that. If we look at sequentially how we perform first Black Box, we performed better in Q3 versus Black Box than we did in Q2. So we saw some improvement, especially as we move to some of the lower price point LTOs.

In our prior guidance, we assumed that trajectory would continue through Q4 and our gap to the industry would continue. I think that optimism is now not contemplated in our guidance and we're sort of assuming the industry is, what the industry is. And so we continue to fight for share with that. We still think we have some very compelling offers that can take share but we sit pretty much flattened that expectation as we think about finishing the year. That's just mechanically how the forecast was rebuilt.

Sara Senatore

Okay. And then on the sort of getting the right managing partners and I think that makes perfect sense. The General Manager role is the most important in the system. But I guess I'm wondering how you do that in the sense that I think they participate in the economics of the box. So it seems like your approach to aligning incentives is about as good or sort of optimal. And I'm curious what you see as an opportunity to make sure that you do have the best partners there, if it's not an incentive, if it's not a change in how you incentivize them, is there something else because that model has worked very well for others.

Mike Spanos

Yes, Sara. So it has worked well and I like aligned economic interests. And I like the model. And that's the feedback I've been given by our managing partners. What many of them have also said to me is their aligned economic interest in ours and the model also need to incent sales growth and profit growth in addition to a percent or mix of the discounted cash flow. But the bottom line, what we're seeing with our managing partners when we get great results as we have retention of our good [indiscernible]. We have their engagement -- and with that, most importantly, we get a great guest experience. And that's it. So we will stay consistent with that. And I do, to your point, we feel good about that model where they have aligned economic interest and they get contribution from our profitability and our growth.

Operator

The next question comes from Dennis Geiger with UBS.

Dennis Geiger

I wanted to ask a bit more on marketing. I know it's early and we'll hear more from you on the next call but curious if anything high level to share today. We've seen really good traction from a couple of others in the industry who have leaned in and made some enhancements to marketing. They've tied it into social media, et cetera. So I'm curious how you guys think about the current marketing where the brand is positioned in that marketing, in the ad spots and relative maybe to how you should be positioned and Mike, relative to your thoughts earlier on what the brand stands for.

Mike Spanos

Dennis, I'll start maybe with the bigger picture and I think you've got questions in how we're positioned for Q3 and Q4 as well and I'll give you that insight as well. To me, with the brand, when you're building brand trust or brand loyalty, you're usually going down a curve of awareness to trial to repeat into loyalty. So for me, I start with the loyals and retaining the loyals and getting the loyal guest frequency up. So if the average is 2, as I said, I want to get them to 3. And you do that with a great guest experience. That's the foundation of a brand trust and that's the foundation of an intent to return.

I also then look at in that same sort of curve is recruiting. We want to recruit the right guests that also want that great experience if it's Outback again. It's going to be a focused steak and seafood experience with that Aussie Spirit at a reverence where they get that great meal at that great value, that great experience. And then we want to get them past the trial. We want to get them in to repeat. On both of those, regardless of what we're saying, whether it's social or traditional TV, we've got to be consistent in our operational excellence to deliver a great guest experience.

To me, that's really important. More tactically, if you look at Q3 or Q4, our spends year-over-year are basically flat, our weeks year-over-year are basically flat and our TRPs year-over-year are basically flat, specific for those quarters.

Michael Healy

Yes. And just to jump in, I think we have pretty good analytical capability to evaluate our marketing spend, what the ROIs are, what channel, what message is most relevant. And we look at those every quarter. There's no doubt there are some other players, share of voice is very competitive right now as others have leaned into broader marketing spend. And that's certainly a consideration for us as we think about our larger strategic plan, right, operationalize and accelerating the work that we're doing at Outback. When we get to the other side of that, we are going to have to be able to communicate who Outback is, what Outback is and really drive trial when we have a much better experience. And so that's certainly a consideration as we think about that longer strategic plan.

Mike Spanos

Yes. I mean, Dennis, to me, last thing, again, I'll say on this. I think the foundation of any brand and any push or pull marketing starts with service. And that's guest experience. And that to me is what we've got to focus on and first get right as we think about spends in terms of our voice to the consumer base.

Dennis Geiger

Just one more. Just on Brazil, maybe and the refranchising transaction and that partnership. Anything more to share right now on thinking about modeling that, whether it's royalty looking ahead, more near in when roughly in the fourth quarter, we should think about that closing and impact to the fourth quarter. Any more details on that today?

Michael Healy

Yes. I think we shared most of the details already as far as the enterprise value, again, selling 2/3 of the business. We would expect to close or hope to close by end of this year -- into this calendar year. We're not going to disclose the royalty rate but we will get a royalty as that business continues to grow. But just mechanically, we sold 2/3 of the business at BRL2.06 billion [ph]. We get 52% of the proceeds at close. We get 48% of the proceeds a year later. We have an option to sell the remaining 1/3 of the business in 2028.

We certainly expect that business to continue to grow. We've chosen the right partner, right, to really lead and grow that business and augment it with talent and capability. And so we're really excited about -- obviously, we love that business. We're really excited about it but it allows us to focus on our core domestic. And we have a great partner down there that can focus 100% of their time on growing that business. So economics were good for us. We're able to benefit in the growth. And so it was a great opportunity for us.

Operator

The next question comes from Brian Mullan with Piper Sandler.

Brian Mullan

I just want to come back to capital allocation. I wanted to ask specifically on the dividend, that's about an \$85 million annual cash outflow. You might make the case to the market maybe isn't giving you credit for it given where it looks like the yield is. Mike Spanos, I was just wondering how you feel about the dividend if that has been under any kind of review, if there might be a better use of cash, whether that be remodels or debt paydown or share repurchases? Any early thoughts on that?

Mike Spanos

Brian, well, you mentioned a point about are we getting credit for it. Arguably, I would say we're undervalued and that's part of the challenge with the yield, if that's where you're going. So I'm confident and optimistic over time, we're going to get back to the right levels there. We're not -- I'm not going to get into the details of the capital allocation on the LRP. But as I said, once we're confident we've done the right things on the base business. We've been doing the right things on debt. And we're through the strategic plan we'll be clear on what cash goes back to shareholders and how.

But as you know, we just approved a dividend in -- as part of this quarter. We're committed to it. And again, I think the key here is, as I said, we got to be really sharp on our investments, our use of cash with the right returns operationally and also be right to shareholders when we don't think we have those kind of returns to give that cash back to our shareholders.

Brian Mullan

And then, just a question on the domestic store base. In the first quarter, there were some strategic closures. Mike Spanos, that was before you got here. Just my question is given the tough industry trends since then and the fresh set of eyes, would you think there could be some more closures here in the next year or two as you do this asset review? Just any early thoughts?

Mike Spanos

Brian, as we've always done every year, as I've learned it here and other places, we're obviously always looking at our assets, as I said, the condition and the quality. But again, I'm going to start with what our managing partners telling us what's working or not working inside the 4 walls before we make any decisions about shutting down a restaurant. I start there. And if it -- is if that's the issue, we'll get that right. If we do have an asset that we don't feel is right from a guest experience standpoint, then we're going to get to the next question which is are we remodel or relocating which is part of our normal process. And we're working that very much in a process manner as part of the long-range planning we're doing right now.

And of course, obviously, Brian, that also goes for new store openings. If we consider that. We go through the same disciplined process and how we think about that cash.

Operator

The next question comes from Jon Tower with Citigroup.

Jon Tower

Sorry about that. I got to figure out how to use my mute button, apologies. So just quickly going back to the Brazil business. Can you just -- I know you're not wanting to provide too much more details by way of royalties but can you at least tell us what the CapEx over the past 12 months was allocated to that business?

Michael Healy

About \$40 million.

Jon Tower

All right. And then one part, Spanos, so I'll be referred to as Tower from this point forward. One thing you spoke about was the idea of speaking with managers and so far meeting with them at the Outback brand? And what they liked about the business, what they wanted to have improved? And what was absent in your comments was any commentary regarding the off-premise business or delivery? And Outback, it's a much larger chunk of the business than it is for some of your direct competitors. So I'm just curious what feedback you heard from them and frankly, your own thoughts on that channel going forward?

Mike Spanos

Absolutely. And thanks for the correct enunciation on the Greek American name. I appreciate that. So Jon, what I would say on your question on off-premise. First, I'd start with we've been absolute pioneers in this space. I go back to my days as a consumer many times calling in the order it Outback and then picking it up, we were first on that forefront. And that has worked well. And to your point, we have a good mix of that business. But again, I go back to the guest experience here. We will -- what the operators, the managers are telling me is they want the guests to have a great experience on or off-premise. What that implies is, we got to be really thoughtful around the menu we offer in terms of off-premise and which food travels the best off-premise and making sure we also feel good about the delivery and how that guest interaction happens as well.

And that's part of the work we're doing. So we're going to continue to be committed to off-presence -- off-premise but we're also going to be very balanced and thoughtful where whatever we do there, it's got to be a great guest experience. It's got to be a great meal, great-tasting food, still at a great value and you've got to have that guest experience.

Operator

And the next question comes from Brian Vaccaro with Raymond James.

Brian Vaccaro

Just a couple of quick follow-ups, if I could. Back to the Brazil transaction, can you share what the expected tax bill or after-tax proceeds will be? And also, can you remind us how much of the annual G&A budget is in Brazil?

Michael Healy

Yes. We're not going to get into the after tax because we still have to close and go through all of those components at this time. And I don't have their G&A on me but we can get back to you with that.

Brian Vaccaro

Okay. And then I guess, back to capital allocation, I think more than half of your CapEx budget is going towards new unit growth in recent years. And you mentioned -- you highlighted the \$40 million towards Brazil but also some domestic obviously. So can you speak to kind of the returns you're seeing on your domestic unit growth? Are they hitting your targets and just any thoughts on the potential to optimize your CapEx budget, maybe just maintenance and remodels to help bolster free cash flow?

Michael Healy

Yes. I mean the restaurants that we've opened over the past couple of years are certainly hitting our expectations. So we're excited to see the success of those new restaurants. Obviously, it's a combination of new restaurants and relocations as well. I think -- and we shared, I think, in the past couple of quarters, we've seen costs increase on build costs. And if those costs push to the point where we aren't going to get our returns, we're going to walk away from those deals. So, I mean our priority is to return or deliver the expected return to our shareholders and not just to open stores to open stores. And so, that's our focus.

But we do think that opening stores is appropriate for us. We think whether it's relocations or additional restaurants for Outback are out there. We've talked about Carrabba's being a larger growth engine. The team has done great work to date to grow sales and revenue. The team is doing some good work now around how do I really refine and improve the return on that investment because we certainly have a lot more geography for Carrabba's that we can open restaurants.

Fleming's is a great business, great returns. Obviously, higher volume, so we'll definitely open a couple of Fleming's each year but there's a capacity there given kind of the magnitude of the builds and whatnot. But we're satisfied with the returns but we're always scrutinizing them and we'll make sure that we continue to deliver those returns. As far as -- what was your question around capital allocation for remodels?

Brian Vaccaro

Yes, potential to just optimize CapEx to bolster free cash flow. Obviously, you want to stay focused on maintenance and remodels but just see any opportunities there as you think about the CapEx. I understand you don't turn these things off like a light switch but over the next year or two, perhaps just to optimize free cash flow.

Michael Healy

Yes. I mean -- and that will be a key component of the strategic work we're doing. Ultimately, how -- our entire capital allocation will be important. But certainly, as we think about CapEx, that will be a key consideration. So we want to open restaurants but we want to open restaurants with great returns. What we can't open as many restaurants because we can achieve those returns and that certainly could impact the allocation. But right now, we think we're confident we can continue to open restaurants. The magnitude of that is still to be determined as we go through this process. But to your point, obviously, you have to maintain the restaurant, so that's a non-negotiable. And then there is a remodel component to our restaurant base that's going to be necessary. And so -- that's how we're thinking about it, at least as far as prioritization.

Brian Vaccaro

Okay. And last one, just on pricing, if I could. Can you remind us what was pricing in the third quarter? And maybe you could level set how you see pricing trending if you don't take any additional pricing in the next couple of quarters?

Michael Healy

Yes. We are pretty much 4% in Q3. We would expect to be kind of in that range in Q4. I think, obviously, our pricing has kind of rolled off, especially compared to '23. And we're going to do everything we can. We're trying to price as little as possible. Certainly, we think we're in line with the industry on pricing and we still have a beef headwind, although beef -- better than we expected and still the most inflationary part of our basket. And so -- but we're going to be intentional on our pricing and make sure that we can continue to provide value to our guests. And so we don't -- we don't think we have extra pricing opportunities. We'll see where our commodities and other inflationary components come in next year. But our goal would be to take as little pricing as possible as we get into next year for sure.

Operator

[Operator Instructions] The next question comes from Andrew Strelzik with BMO.

Andrew Strelzik

Just 2 quick ones for me. You talked about growing revenue faster than costs. The company has always spoken to like a \$50-plus million productivity run rate. Is that still the right way to think about productivity in your opinion and kind of high level where those buckets remain outside of menu simplification which you've certainly spoken to.

Michael Healy

Yes. Certainly, productivity is always a key component for us. I think as we go through our strategic planning and our annual planning, we'll align. I would say \$50 million is probably too high for where we are going forward. But a lot of it is technology enabled as we think about the evolution of productivity over time. Some of it was just kind of base efficiencies, then it was deploying technology, whether it's front of house or back of house technology in the restaurants to not only improve operations but deliver efficiencies. And that's how we're continuing to look at it.

We still think there is plenty of opportunity in supply chain, plenty of opportunity in simplification. So there's definitely opportunities there. But magnitude probably less than sort of that historical \$50 million run rate but still material and we can -- we'll get back to you as we get into next year.

Andrew Strelzik

Okay. That's helpful. And then actually, a question on Fleming's. That was the only segment that saw a comp acceleration in the quarter. So I was curious kind of what you thought was driving that. And more broadly, what you're seeing from a consumer perspective and if you think you're seeing a shift maybe and how consumers interacting with fine dining?

Mike Spanos

Andrew, I would agree with you on Fleming's side. Shelina Henry and the team have done a really, really nice job. And to me, what they've told me and I agree is fundings is a reputational brand. And as you're -- as we're in the fine dining space there are on that reputational brand, that is all about elevating the experience and that is the team has been so, so dialed in on everything from the attentiveness to the pace, the experience and it's just really a phenomenal experience. And I really do want to complement them on our flagship opening here in Tampa is just a tremendous new Fleming's and it's very high energy and the guest experience is tremendous. And that's how we think about Fleming's.

And as Michael said, to get that fine dine experience right, we're going to be thoughtful. We got 63 Fleming's and the bandwidth of the team would suggest it's 2 or 3 a year. If we get them right on the new store because we don't want to sacrifice the fine dining elevated experience there.

Operator

Thank you. This concludes today's question-and-answer session. I would now like to turn the conference back over to Mr. Mike Spanos for any closing remarks.

Mike Spanos

We appreciate everyone for joining us today. We look forward to updating you on our progress in our next earnings call. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation and you may now disconnect.

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