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Bloomin' Brands, Inc. (NASDAQ:[BLMN](#)) Q4 2024 Earnings Conference Call February 26, 2025 8:30 AM ET

Company Participants

Tara Kurian - Vice President, Corporate Finance & Investor Relations

Mike Spanos - Chief Executive Officer

Michael Healy - Executive Vice President & Chief Financial Officer

Conference Call Participants

Alex Slagle - Jefferies

Jeffrey Bernstein - Barclays

Brian Harbour - Morgan Stanley

John Ivankoe - JPMorgan

Lauren Silberman - Deutsche Bank

Jeff Farmer - Gordon Haskett

Sara Senatore - Bank of America

Brian Vaccaro - Raymond James

Brian Mullan - Piper Sandler

Dennis Geiger - UBS

Christine Cho - Goldman Sachs

Jon Tower - Citigroup

Andrew Strelzik - BMO

Operator

Greetings, and welcome to the Bloomin' Brands Fiscal Fourth Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow management's prepared remarks. Today's event is being recorded.

It's now my pleasure to introduce your host, Tara Kurian, Vice President, Corporate Finance and Investor Relations. Thank you. Ms. Kurian, you may begin.

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 fourth quarter 2024 earnings release and our investor presentation slides, both of which can be found on our website at www.bloominbrands.com in the Investors 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'll provide a brief recap of our financial performance for the fiscal fourth quarter 2024, an overview of company highlights and current thoughts on fiscal 2025 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. Thank you for joining our fourth quarter earnings call. On today's call, I will discuss my observations of the business and steps we are taking to improve business results in 2025.

In my first six months, I have become even more excited about the future potential of our business. We have started the holistic strategy work and we will be transparent on our findings as part of our earnings calls in the coming quarters. What we know at this stage is consumers love our brands, and they want us to succeed. We are actively implementing key actions to improve operations and deliver a better guest experience. Michael will discuss our financial performance, including how to understand our company and our financials now that the Brazil transaction closed on December 30, 2024.

As I've spent time with our teams in the restaurants, it is clear to me that we have empowered and energized team members that want to win. Our principles and beliefs state that the success of a restaurant is measured by its growth in sales and profits and is the result of taking care of our people, our guests, supplier partners and communities. Our teams want to deliver an outstanding guest experience and want to win. It is our job to work with our team to make it easier for them to deliver outstanding experiences.

We have iconic brands that have a strong right to succeed in on-trend large-scale categories. I have even more confidence in the long-term success of the company as we have ample cash flow and a good balance sheet in order to make any strategic investments.

However, the reality is that we are currently not succeeding. As noted in the release this morning, although our fourth quarter results were within our expected guidance range, we underperformed the industry and lost share as defined by Black Box by 260 basis points on sales and 410 basis points on traffic. We are not pleased with our performance and acknowledge that we need to change the trajectory of the business. Our results are also not in any way indicative of the hard work of our team members or the foundational strength of our brands.

In working with my leadership team and listening to our partners in the field, it's clear that there are immediate actions we can take to address our near-term business results. We are focused on building sustainable traffic and profitable comparable restaurant sales growth the right way by improving quality, value and the guest experience.

As we move forward, we are focusing on three operating priorities. First is, SIMPLIFY THE AGENDA. Second is, DELIVER A GREAT GUEST EXPERIENCE. Third, is a TURNAROUND of OUTBACK, I will discuss each of these areas and actions we are taking now to improve our results.

First, SIMPLIFY THE AGENDA. We have become too complex as an organization. We need to simplify the agenda for both our people in the Restaurant Support Center and in our restaurants. When we simplify the agenda and focus the team on fewer things that are the most important, we serve our people so that they can take care of our guests.

We started this effort by re-franchising our Brazil operations. We have a tremendous partner in Vinci and look forward to growing that business together. We have retained a 33% ownership of the business and can sell the remaining portion in 2028.

Importantly, having a partner for Brazil, that is based in Brazil and entirely focused on Brazil gives our management team in the U.S. the capacity to focus on growing our domestic, company-owned business and support our international franchisees.

This partnership also de-risks our business model. Going forward, over 30% of our total restaurants will operate as franchisees with a steady royalty stream and less earnings volatility. We continue to believe that our international franchise business is strong and can continue to grow new units and comparable restaurant sales.

We've also taken actions to become a more operation-centric and simple organization at our restaurant support center. We have implemented an organizational structure that is more cost efficient and more effective in speed of decision-making by flattening layers and empowering our brand presidents with the resources and dedicated teams to drive their business.

Previously centralized functions of marketing, training, culinary, off-premises and domestic franchisee leadership are now housed inside the brand teams for an integrated approach. We have maintained resources within the Restaurant Support Center that deliver more capability and efficiency to support the brands.

Our long-term G&A goal will continue to be 5%, as a percentage of revenue. I want to acknowledge and thank our team members that exited the organization this past week due to our organizational restructuring.

While it was difficult, it is essential we streamlined the organization, and I know that, our team is excited about the future and our growth potential. We will also simplify the agenda inside the restaurants.

I've heard it loud and clear coming from our restaurants. We need to make it simpler for our operators to execute all aspects of the guest and team member experience. We need to make fewer items, but make those much better.

We are reducing our menu items in all brands, by 10% to 20%, in 2025. We are removing low satisfaction and low mix menu items based on guest feedback and prep labor complexity.

We are moving away from our LTO strategy that included non-core menu items with discounts presented every 10 to 12 weeks. We will transition to abundant value that is featured as part of our everyday menu offering.

We've started with the Aussie 3-Course at Outback and are currently testing simplified menus and everyday value in both Carrabba's and Bonefish. We will measure success based on the guest intent to return, building frequency of visitation and gross profit dollars.

Our second operating priority is to consistently deliver a great guest experience. We know we win with a quality meal at a great value, attentive and engaging service and an excellent guest experience. We started by reassessing the menu satisfaction of all items, both on and off-premises. We are improving, eliminating or replacing menu items that our guests consider subpar. We are retraining our standards to recipes and reevaluating cooking procedures to consistently provide the quality and flavor our guests expect from us.

We are also working with our supplier partners to enhance our product specifications. We will roll out these improved specifications throughout the balance of the year and continue to improve our center-of-the-plate quality and abundance.

In our off-premises channel, we are removing menu items that have low satisfaction, do not travel well or create complexity for our operators. It is critical that hot food is hot and cold food is cold in all channels. Eliminating these items will improve operational execution and guest satisfaction.

Additionally, we are evaluating our technology capabilities to better support our operators and managing demand both in-restaurant and off-premises during peak dinner hours to ensure a great in-restaurant experience. We will now have immediate guest feedback at Outback through our partnership with Ziosk.

We can measure guest satisfaction by restaurant and by shift. With features like pay at the table, tap to pay with mobile wallet and entertainment, Outback is offering guests a faster and simpler experience. We will have the rollout completed by the end of April, and are already seeing efficiencies with our staff as well as an improved guest experience in those restaurants.

In our test restaurants, approximately 80% of our guests are using Ziosk pay at the table. Another area of opportunity is our promotional, digital and consumer messaging. At Outback, we had focused on traffic generation through large-scale campaigns like Steakmas or staycation, both from a marketing standpoint and promotional offer standpoint.

We were featuring items in short promotional periods that created complexity for our operators, and we failed to drive value in our core high-equity menu items with compelling food quality and brand impressions. We are shifting our approach to provide clear messaging that highlights craveable food, abundant everyday value and a reverent fun.

Outback's Aussie 3-Course was our strongest performing promotion in 2024. It resonated with our guests and our operators could easily execute it. Many guests traded up to the premium entrees and dessert options.

Our third priority is to focus on the turnaround at Outback Steakhouse. Outback is our largest and most important brand and I will spend the majority of my time focused on that business.

Last year, we had many elements in test at an incubation restaurant with a focus on quality, value and the guest experience. We are excited by the results seen in that lab restaurant and have now moved to test phase.

As of the end of February, we will have 14 restaurants in test. We are measuring success by traffic lift, guest intent to return, Outbacker employee engagement and profitability. We have been leveraging Ziosk's to provide real-time feedback. I have been personally involved in the test restaurants with our teams, and I am highly encouraged by the improvements.

Seeing the impact in these restaurants has been infectious for our people and their belief in the future growth of the brand. The passion that we see from our Outbackers and the enjoyment that we see from our guests is reminiscent of Outback at its best. Our plan is to continue to monitor the test restaurants as we learn in order to be ready for brand-wide expansion. We will be able to share more on the net investments, test results and specific actions in the upcoming quarters.

While we have an urgency to move fast, the most important thing for us is to get it right and ensure that all investments we make have a compelling return. We need to invest in the quality and condition of our existing asset base at Outback. Beginning in 2026, we are slowing down our new unit pipeline. We will continue to open new restaurants but at a much slower pace. We'll shift our focus to taking care of our existing restaurants and earn the right to open new restaurants again.

We have a repair and maintenance survey underway that is evaluating the current state of each restaurant and will be completed by the end of Q2, which will help inform our analysis on remodel scopes. Additionally, our goal will be to remodel more restaurants using prudently lower spend, higher impact scopes, yielding better returns driven by improved traffic. Remodel activity will begin in earnest in the latter half of this year and will take more of the capital dollars moving forward. Michael will give additional details on the financials with our capital expenditure.

We need to reinforce an operational mindset at Outback, and that starts with leadership. I'm very excited that Pat Hafner has been promoted to the President of Outback starting mid-January. He's a 29-year veteran of the Outback brand and a true guest-centric operator. He started as a cook at Outback and has progressed through each role, including Managing Partner and VP of Operations. He most recently served as the President of Carrabba's. Pat's high energy and bias for action, coupled with strong leadership to develop high-performance teams will serve him well as he returns to lead our Outbackers.

I'm very pleased to announce Kelia Bazile has been promoted to President of Carrabba's, backfilling Pat. Kelia is another exceptional operator, starting as an hourly employee at Taco Bell. After a successful 28-year career at Yum!, including regional operational roles, she joined Carrabba's as a joint venture partner in 2012, served as Carrabba's Vice President of Operations and most recently as the Vice President of Operations for Bonefish Grill. Her deep operating experience from the cash register to her current role, our passion for people in serious food, our high standards for execution and her proven track record of maintaining high operation standards makes her an ideal leader for this role.

Lastly, before I turn it over to Michael, I would like to provide an update on our capital allocation. Our priorities are reinvesting back into our restaurants, reducing our debt leverage post the Brazil transaction and returning capital to our shareholders. We are committed to getting our leverage back to below a 3.0 lease adjusted net leverage. We received the first installment of the Brazil proceeds on December 30, 2024, and applied the proceeds to our revolver balance. We intend to use the second installment to be received at the end of December this year towards our revolver as well.

As it relates to our dividend, this is our first quarter post the Brazil transaction. We are, therefore, adjusting our dividend such that our dividend payout ratio will be more in line with our historical payout ratio based on the earnings of the business post the Brazil transaction. Our new annual dividend will be \$0.60 per share compared to \$0.96 per share previously.

I want to be clear that we know we need to take actions to improve our results. We are focused on driving everyday value within our casual dining brands while also delivering a great guest experience. Our work will take time, and we will be transparent along the way. We know that we have hard work to do, but the team and I believe in the future.

As I committed to you on my first earnings call, my team and I will be strategic and grounded in our operations and decisions we need to make. I will communicate our path and progress in a transparent way, and I hold my team and myself accountable for delivering strong results.

With that, I would like to now turn the call over to Michael to review our financial performance.

Michael Healy

Thank you, Mike, and hello, everyone. I would like to start by providing a recap of our consolidated financial performance for the fiscal fourth quarter of 2024, and then I will provide additional detail on the Brazil transaction, and how to think about our financials and guidance under continuing operations moving forward.

On a consolidated basis, total revenues in Q4 were \$1.1 billion, which is down 8% from 2023. This was almost entirely driven by lapping the 53rd week from last year, which was \$83.5 million in sales, as well as the net effect of restaurant openings and closures. US comparable restaurant sales were negative 110 basis points and traffic was negative 510 basis points, which was below the casual dining industry. Average check was up 4% in Q4 versus 2023 for our US business, in line with our expectations.

Q4 off-premises was 24% of total US sales. Our third-party delivery business is 11% of total US sales, in line with last year. Our Q4 GAAP diluted earnings per share for the quarter was negative \$0.93 versus \$0.45 in 2023. Our Q4 adjusted diluted earnings per share was \$0.38 versus \$0.56 in 2023. The primary difference between GAAP and adjusted diluted earnings per share is due to adjustments from the sale of Brazil, including \$68 million for the impairment of Brazil assets held for sale related to the FX erosion since acquiring the majority interest in 2013, as well as \$34 million in deferred tax expense from the transaction.

Additionally, there was a \$31 million impairment charge primarily related to 41 older underperforming domestic restaurants in Q4. These impairments were partially offset by a \$16 million gain in connection with the foreign currency forward contracts that we entered into the partially offset the risk associated with the installments on the Brazil transaction.

Q4 adjusted operating margins were 4.4% versus 7.5% last year. The 53rd week is a highly profitable week and reflected 120 basis points on the quarter in 2023. The remaining 190 basis point difference between this year and last year was driven by overall restaurant level margin declined by 130 basis points. COGS inflation was 2%, in line with our expectations. Labor inflation was 3.2% as we continue to experience inflationary pressure on wages.

Restaurant operating expense inflation was low single digits with additional costs from higher insurance and legal expenses, impairment expenses related to previously closed restaurants and other inventory related expenses. The margin headwinds were partially offset by the Brazil tax benefit, which was worth approximately 40 basis points on the quarter.

Turning to our capital structure. Total debt net of cash was \$957 billion at the end of Q4. Subsequent to the transaction closing, we received \$104 million from the first installment of the Brazil refranchising transaction and applied these proceeds to our revolver balance in the first quarter. Our leverage metrics are currently above our targeted range.

As Mike mentioned, reducing our debt leverage is a primary component of our capital allocation, and we are committed to a lease-adjusted leverage of less than 3 times. We anticipate the next installment of Brazil proceeds to be received at the end of December this year to be approximately \$96 million and intend to apply it to the revolver balance.

Year-to-date, we have repurchased a total of 10.1 million shares 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. As Mike mentioned, we are updating our dividend to reflect the reduced earnings from the sale of Brazil and setting the payout ratio in line with our historical average. Board declared a quarterly dividend of \$0.15 a share that is payable on March 26, 2025.

Now, turning to continuing and discontinued operations, and then our guidance for the upcoming year and first quarter. As it relates to Brazil, we have transitioned to a franchise model where 100% of the royalty revenues will be recorded in the franchise line, consistent with our other third-party franchisees. This reflects a more stable revenue stream, which is good for our company in the long term.

Going forward, we will present the company's 2024 performance in terms of continuing operations, which has Brazil removed as an equity market and the royalty revenue recognized in the franchise line. On a continuing operations basis for the full year 2024, total revenue was \$3.950 billion, adjusted restaurant margin was 13.3%, adjusted operating income margin was 5.0% and adjusted diluted earnings per share was \$1.45.

Brazil, within discontinued operations contributed 0.9% in adjusted restaurant margin, 0.2% of adjusted operating margin and \$0.34 in adjusted diluted earnings per share. We had historically received a 5% intercompany royalty or approximately \$26 million in 2024, which was eliminated in consolidation in our historical financial results. This royalty revenue remains in continuing operations for historical periods per GAAP standards within the franchise revenues line.

The Brazil tax legislation benefit is included within discontinued operations and was worth \$21 million in total revenue, approximately \$10 million in operating income and approximately \$0.14 of adjusted diluted earnings per share. Our retained 33% ownership will be recognized using equity method investment accounting. Work is still underway to determine income flow-through of our remaining equity ownership, including fair value accounting considerations in Brazil. However, we do not anticipate that the post-tax contribution will produce a meaningful contribution to our net income in 2025.

As we think about our go-forward guidance, please compare to continuing operations. We expect the full year US comparable restaurant sales to be down 2% to flat. Adjusted diluted earnings per share are expected to be between \$1.20 and \$1.40. We expect commodities inflation to be between 2.5% and 3.5%, driven in large part by beef inflation.

We expect labor inflation to be between 4% and 5%. We expect our full year tax rate assumption to be close to 0%, driven by our FICA tip credits. Brazil royalty revenue will be lower than our historical intercompany royalty rate and is on the lower end of our published range of 2.75% to 5%. This will create an approximate \$10 million headwind comparing future royalties to historical continuing operations, due to GAAP accounting requirements that were previously mentioned.

Additionally, our earnings per share guidance includes approximately \$10 million in investment in Ziosk, product enhancements and IT infrastructure. Mike mentioned, the G&A savings initiative and organizational design work. This action will bring approximately \$22 million of annualized G&A savings, of which approximately \$17 million will be realized in 2025. We expect total G&A to be approximately \$225 million for 2025, which includes approximately \$12 million from reloading compensation and approximately \$10 million of IT and infrastructure investments.

We will earn interest income on the second payment from the Brazil transaction, which will lower our net interest expense for the year. Capital expenditures are expected to be between \$190 million and \$210 million. We are shifting our focus from new restaurant development to investing in our base business through maintenance and remodels that we can create more value from our existing operations. We believe there is unit growth opportunity for our brands, but particularly for Outback, we need to focus on getting the guest experience right before we earn the right to grow units.

As many of our new units planned this year were committed, we plan to open approximately 18 to 20 new restaurants in the US this year in markets and locations we are excited about. That number will decline dramatically in 2026. We expect our franchise partner in Brazil to open approximately 17 new units with 15 new units from other franchise partners.

As it relates to the first quarter of 2025, similar to the rest of the industry, we experienced negative impacts from weather in the start of this year, offset by holiday shifts from New Year's and Valentine's Day. Combined, these represent approximately negative 100 basis point comparable sales impact on the quarter and has been included in our comparable sales guidance.

We expect US comparable restaurant sales to be between negative 50 basis points and negative 150 basis points. We expect Q1 adjusted diluted earnings per share to be between \$0.55 and \$0.60, which includes approximately \$0.04 negative net impact from weather and holiday shifts.

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

Question-and-Answer Session

Operator

Yes, thank you. We will now begin the question-and-answer session [Operator Instructions] And the first question comes from Alex Slagle with Jefferies.

Alex Slagle

Thanks. Good morning. A question for you, Mike Spanos. You've expressed the importance of taking care of the people and helping ensure they can do their jobs well and enjoy everything and help the guest. And I guess, you highlighted a number of planned changes on this front. I just want to kind of get a sense of the time line for these actions and if there's any other big changes you want to look at to get kind of where you want to be?

Mike Spanos

Yes. Hey, Alex, just to be clear, you're talking about org structure around simplifying the agenda, just so I'm clear on your question.

Alex Slagle

Yes. Sorry about that. Simplifying the agenda.

Mike Spanos

Yes. Got it. So the -- I'd say, obviously, with an operational mindset, we -- I think we started with that quickly with the changes with Pat and Kelia from a leadership standpoint. Second, Brazil, we moved very quickly on that to derisk and simplify the business. That's done. The org structure, it was a tough week for us, but we moved and have moved on that. And a lot of that was to delayer the organization, empower and put the resources at the brand level for speed of decision-making.

On the menu front, three of the brands will have approximately a 10% to 15% reduction by May. Outback will be a higher number -- that will push towards that 20% number. But as we're doing the work on the base menu and looking at our test stores, we'll be thoughtful and deliberate in getting that right as we move along.

The only other the things I'd mention is Ziosk, as I stated, that will be done in place by the end of April. I feel really good about our pace week-to-week. In terms of the LTOs abundant everyday value, we're rolling right now with OSI [ph] 3 Course. The big benefit of that will probably be more in the second half, just given some of the calendar lapse, but that kicked off right after Valentine's Day.

The other two casual dining brands are Bonefish, Carrabba's, they're currently in test and are rolling out abundant value as well. And Fleming's is all about elevation of the execution. So we won't be doing anything beyond what we typically do today with the Tomahawk Tuesday and other day-to-day offers.

Q – Alex Slagle

Got it. That's helpful. And a follow-up in thinking about the blended same-store sales range for the first quarter. Should we consider similar trends by brand as we saw in the fourth quarter? Is there a reason to think a different trajectory for certain brands?

Mike Spanos

Yes, Alex, I think your takeaway is right, meaning what you saw in the fourth quarter in terms of trend by brand and also Outback, you should assume that's consistent in the first quarter, similar trends.

Q – Alex Slagle

Thank you.

Operator

Thank you. And the next question comes from Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Great. Thank you very much. Two questions. The first one, just talking more about the comp trends. I think you talked about in the first quarter that the impacts of weather and holiday shifts is 100 basis points to the full quarter. But do you get a sense there are any underlying changes in consumer spending beyond just weather and holiday shifts? I know most are questioning whether the consumer is perhaps a little bit more conservative or cautious in their spending. And within that, if you could just share the components you're assuming in that comp for both the first quarter and the year? And then I had one follow-up.

Mike Spanos

Yes, got it, Jeffrey. So I would say we're seeing a choppy environment, and we're seeing a choosy consumer, but we see that more in the short term. And what I mean by that is in terms of choppiness, we are definitely seeing some impact on weather, geopolitical issues, calendar shifts. We saw that in the fourth quarter with the shift on Thanksgiving. Q1, we saw that with the Valentine's shift moving from a Wednesday to a Friday and obviously, some other areas related to short-term inflation. So I start there.

As far as the choosiness of the consumer, what we're seeing, we are seeing some check management with especially those households under about \$100,000. We saw that in terms of appetizer mix, beverage attachments and desserts that were a little bit lower than the fourth quarter.

As far as the long-term trends, I still feel really good about it. We saw really robust sales that Thursday, Friday, Saturday, Valentine's Day. And what we are finding is when we meet the consumer where they're at with the right abundant value, they will make the visit and they'll visit more frequently.

I continue to be very bullish on away-from-home, that long-term trends are there. So what we're doing is we're controlling. We're -- as I said, we're meeting the consumer where they're at to engage them and I think that's where we're at.

The last part of your question, I think that was implied. This is included in our guide. When you think about Q1, you think about the full year, we've assumed this choppiness in those numbers.

Jeffrey Bernstein

Just to clarify, the components that you're assuming within the first quarter and full year comp in terms of traffic versus pricing?

Mike Spanos

Yes. So, for the first quarter, in Q1, we're assuming -- if you look at comp sales, we're assuming a down 1.5% to a down 50 basis points. That would assume that the traffic is probably running between a negative 4% to a negative 5%.

Pricing approximately in the 4% range, that would yield an average check between 3% and 4% as you deal with some of the mix. As Michael said, we're seeing commodities for the first quarter being pretty good, probably a little bit above the 1% range, labor about 4% for the quarter.

Jeffrey Bernstein

Got it. And then my follow-up is just on the bigger picture leadership and discussion with the activist. Just wondering your early relationship with the Board and activists, whether you think everyone's got kind of similar vision and priorities, maybe whether there are other strategic initiatives to focus on besides, like you said, you already spun out Brazil, but besides the Outback experience, just how we think about oversight of the brand, current management team, anything you want to share on there? Thank you.

Mike Spanos

Yes, you bet. The Board in terms of -- you mentioned the activists and in terms of Starboard, fully aligned across the Board, very constructive, very collaborative. And the Board is pushing me and the management team the right way. They're making us better. We're all focused on doing the right things that drives sales, the right thing that drives profit, and the right thing that drives sustainable traffic growth.

Jeffrey Bernstein

Thank you very much.

Operator

Thank you. And the next question comes from Brian Harbour with Morgan Stanley.

Brian Harbour

Thanks. Good morning guys. When you talk about kind of a great guest experience, I guess, what has feedback suggested is the main opportunity there? Or what do you -- where do you think is sort of the biggest gap today on guest experience?

Mike Spanos

It's in consistency of execution.

Brian Harbour

Okay. Got it.

Mike Spanos

And specifically, if you want me to double-click on that, quality, value, guest experience as a component. And what that means is -- what I care about is when that guest leaves the restaurant, I want them to be excited to return and have a strong intent to return and drive frequency of visitation. That's what matters.

I also -- with that, that means our team members feel really good about that experience as well. And what that means is we should be getting traffic growth out of that. We should be getting good satisfaction out of that. We should be getting great gross profit dollars out of that.

Brian Harbour

Okay. If you're going to be focusing on sort of reimaging, putting capital into existing stores, is there a certain cohort of stores we're talking about? Do you think that the majority need some investment? Is there sort of just a broader reimage cycle? What would you expect that to look like, and anything on timing?

Mike Spanos

Yes. We're assuming approximately 50% will be touched across the stores, and we would want to complete those -- that work in terms of remodels in the next two to three years with the predominant focus being on Outback.

Brian Harbour

Okay. Thank you, guys.

Operator

Thank you. And the next question comes from John Ivankoe with JPMorgan.

John Ivankoe

Hi. Thank you. The question is really on your average ticket. And certainly, I understand what the percent menu price increases have been over the past couple of years. But I really want to look in terms of where we've landed on an absolute level in terms of the variety of items that your customers are ordering.

So the first question is, do you think the average ticket is right for the brand? Might there be an opportunity to lower the average ticket to drive sales, which I understand is very difficult to drive sales and profitability if you do lower the average ticket, and really try to frame this kind of in the context of what consumers see as various alternatives to specifically the Outback brand, whether in casual dining or eat at home or fast casual or what have you?

Mike Spanos

Yes, John, thanks. I think it's a very good question, and it's the heart of revenue management, and it's the heart of how we set up the menu. The first thing I would say is, we do need to meet the guests where they're at, and I believe we need to have abundant everyday value in all three of the casual dining brands. And what we found, especially found at, obviously, three course, we're able to accomplish that with a healthy mix, a healthy mix in terms of what the guest engages with and a healthy mix in terms of how we think about our PPA and how that flows through into the P&L. And we like that.

It also assumes that we're also going to have to be thoughtful in terms of the craveable innovation, and we're also going to be thoughtful about affordable opening price points for the guest. And what that orients us to is, thinking about the business in terms of gross profit dollars because there's going to be trade-offs to your point. And we know what that negative mix will be on year as we invest in value, and that's embedded in our guidance and assumptions.

John Ivankoe

Okay. Thank you. And are there any initial tests, various packages of remodels that you think kind of makes sense for the brand? I don't know if we're talking \$0.5 million a box, \$1 million a box, something more than that? And what type of investment to sales lift ratio should, at least, we be kind of conceptually penciling in the model over 2026, 2027?

Mike Spanos

Yes. Hey John, what we're finding is, as Michael said, first of all, I think we need to earn the right before we start putting out new stores. And I'd say that especially as relevant to Outback. And what we're finding is we can do lower spend higher touch and a better bang for the buck with really thoughtful spending. And we're seeing that in terms of the guest's satisfaction experience. We're seeing that with traffic returns, and that's going to be the orientation.

John Ivankoe

So the question was on remodels. Maybe I didn't ask it kind of correctly. Just in terms of as we do think about kind of CapEx going into 2026, 2027, just even kind of a broad stroke in terms of broad brush in terms of what level of remodel CapEx that we should expect per unit for the 50% that you want to touch?

Michael Healy

Yes, John. So I think what we'll see is we'll see the pull down in new units and those dollars, roughly, call it, \$40 million will shift into remodels as we get into 2026 going forward.

John Ivankoe

Okay. Thank you.

Operator

Thank you. And the next question comes from Lauren Silberman with Deutsche Bank.

Lauren Silberman

Thanks so much. I wanted to go back to the check management. Can you unpack that a little bit more in terms of what's driving the trade down, lower-priced items, attachment, alcohol mix? And how much different that is versus what you've been seeing in recent quarters?

Mike Spanos

Yes. It's up, Lauren. So it's been slight. We saw about 100 to 150 basis point movement from Q4 to Q1. We think that's definitely short-term. And we're also making moves in terms of our beer and alcohol, wine, liquor, et cetera, as well as our appetizers and desserts to meet the guests where they're at.

What we are finding is we're going to need to innovate in those areas. We've already done that with mocktails across our beverage portfolio, and we're doing it across the other attachments as well.

Lauren Silberman

Great. Thanks. And then I just wanted to also ask about the beef out, how you're thinking about that? How much is locked in? I know you mentioned commodities a little bit above 1% in 1Q. Can you just help us think through what you're embedding for the rest of the year? Thank you.

Mike Spanos

Yes. Commodities or for the full year?

Lauren Silberman

Yes, and specifically on the beef as well.

Mike Spanos

Yes I got it. Just I didn't hear you for a minute. Yes. So commodities, we're assuming, Michael said, between 2.5% to 3.5%, where we're locked in approximately about 76% range in that area. We expect beef specifically to be in the -- definitely in the mid-single digits. That's all included in our guide and in our forecast.

Lauren Silberman

Thank you very much.

Operator

Thank you. And the next question comes from Jeff Farmer with Gordon Haskett.

Jeff Farmer

Thanks. You guys certainly touched on a lot of things today, but bigger picture, specifically with Outback, what do you see as sort of the greatest untapped opportunity to drive traffic in the near term at that core Outback concept?

Mike Spanos

It's consistency of execution. It really is. And I'll speak to this. I think Outback -- so it's consistency of execution, but maybe the broader point where you're going is if you -- we've got to address the quality, we've got to address the value. We've got to address the guest experience. Outback is a great business. It is a great brand. We've got a great team. It's very on trend in terms of the category. It is a very fixable business.

I'm highly confident we can and we will fix this business. It is going to take some time, as we change the cultural focus of the organization. We know where we want to go. We're fine-tuning and articulating the elements of the plan and the business model. We're moving fast, but it's important we get it right. And I want to stress that we need to get it right.

We're going to continue to have clarity on our plan as we move forward. There's definitely more work to be done. But I feel it's a really good business with sound fundamentals. And it's a business I know we can turn around, and I know the team feels that way.

Jeff Farmer

Okay. And then unrelated, as it just sort of going back to the 2025 same-store sales guidance, a couple of questions here. So what does that assume about casual dining segment traffic as a whole, just how that does? And then you touched on this. So in addition to that, your ability to actually win market share sort of going up against a casual dining peer group that's aggressively promoting value and doing some of the same things you guys are doing. So a lot of questions there, but ultimately, what does your 2025 same-store sales guidance assume about what the casual dining segment traffic looks like in 2025 and your ability to win share?

Mike Spanos

I'd say we're expecting casual dining traffic to be down about 3%. And obviously, we'll see as we come out of this choppiness period if that improves and where it goes. As far as winning share, it's about consistent execution. It's being really sharp on our value every day to drive good traffic, and that is frequency of visitation. It's, again, quality, value, experience. It's great marketing. It's just doing the basics really well every day. And -- we -- the other thing I like is, as we go to The Aussie 3-Course or other abundant everyday value, I just think that's going to help us in brand trust, and that's going to continue to foot into share as we move forward.

Jeff Farmer

Okay. Thank you.

Operator

Thank you. And next question comes from Sara Senatore with Bank of America.

Sara Senatore

Great. Thank you. Just a clarification and maybe let's start with the question. The first is you talked about focusing on remodels. I think previously, the thought was that there needed to be relocations. And I guess, my interpretation of what you're saying is that maybe the trade areas are fine, the locations are fine. It's more about the physical, the estate? And maybe you could just sort of confirm the issue is less about not being in optimal locations because of maybe an artifact of the historical approach. It sounds like -- so I guess that's the first question, if you're okay with the locations and this sort of relocation strategy maybe gets set aside. And then I do have a quick question about margins.

Mike Spanos

Sure. You want me to answer the first one?

Sara Senatore

Yes.

Mike Spanos

Okay, sure. Relocations are still very much part of the program. We like relos. It's just the reality of getting them done and how many we can get done. So it is relocations plus remodels.

Sara Senatore

Okay. And then on the margins, I guess the question I had was you talked about value and the strength of The Aussie 3-Course. But if I look at the margin complexion, it looks like cost of goods were actually quite a bit lower than we expected. So going forward, should we think about the complexion of the restaurant level margins perhaps is changing with maybe higher cost of sales, but ideally leverage on labor and other?

Mike Spanos

Yes. I think as far as your -- our COGS will be relatively stable. Ultimately, as we think about the productivity we have built into the plan, a lot of that is -- or the majority of that comes through our supply chain. And so we're able to maintain COGS. I think labor continues to have pressure with our declining traffic.

Ultimately, we do think the benefits of The Aussie 3-Course driving traffic in the restaurants, there are leverage opportunities when that traffic turns around. But right now, I would expect COGS and COGS to be relatively stable. Labor probably continues to tick down a little bit just with the inflation that comes throughout the year.

Sara Senatore

Okay. But you wouldn't expect over time that maybe your cost of goods need to be structurally lower as you reinvest in value or structurally, I should say, structurally higher as a percentage of revenues, the cost of goods line.

Michael Healy

No, I don't think so. I mean, I think ultimately, we'll be able to drive traffic with that value. There's certainly some cost components there, but we also pick up other ancillary costs, plus our productivity, like I said, sort of supports our COGS.

Sara Senatore

Thank you.

Operator

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

Brian Vaccaro

Hi. Thanks. Good morning. My question was on the 2025 guidance and obviously, a lot of moving pieces here, but I was hoping you could provide some guardrails on your store margin expectations for the year. And could you just clarify to what level of investment did you embed in your guidance as part of the turnaround?

Mike Spanos

Yes. Hey, Brian, I'll start with the first part, which is the investment piece. The -- what I would say is that's the purpose of the test. That's why we're doing it. What I can also tell you is anything we do there is going to have compelling returns. And as you've seen, what we've already started this year is we can self-fund through productivity. And we're going to be very sharp in our measures between traffic, guest satisfaction, intent to return, the engagement of the Outbacker and our gross profit dollars. And as we work through the tests, we'll absolutely go ahead and keep everyone posted.

Michael Healy

Yeah. And the only thing I'd add there is our restaurant level margins will have pressure from labor and other restaurant operating inflation as we think about going forward.

Brian Vaccaro

Okay. And I guess, could you also just shifting gears to the Outback lab restaurant, if we could. Could you just elaborate on some of the nitty-gritty sort of changes you've made that have either improved back-of-house efficiency or some of the guest-facing changes that one would notice? Just some more on that. What's proving to be most promising? I know, it's still early days, but just curious on that.

Mike Spanos

Yes. I'm not going to get into details for competitive reasons. And as I said, we're in test. But what I will tell you is this, we are dialing into the quality. We're dialing into the value, and we're dialing into the guest experience. What gets me really excited is what I've seen in the initial results are very encouraging, especially on traffic, and especially on frequency of visitation from our loyals. They are coming more often. And what I know is our Outbackers are really pumped about this. Our guests are very excited as they leave the restaurant. And that's why we're moving into the test phase. And as we learn more, we'll be transparent in our results at the right time.

Brian Vaccaro

Okay. And then one last one, if I could. You talked about menu satisfaction and investing in higher quality specs, I think, in your prepared remarks. Can you speak specifically to where -- or do you have line of sight, where our guest perceptions on the core steak category? And are there changes you're making on steak specifically that you'd highlight?

Mike Spanos

So we're good. We feel good about our steak accuracy, our steak consistency, but we're always working with our supplier partners. There's a lot of technology out there. We're staying really close in terms of the size of cows specifically, what that means in the size of loins. And therefore, what does that mean in terms of the specs and the tolerances. And therefore, how do we then translate that into how we cook the platform, everything, the seasoning, the cooking standards, and we got to meet guest expectations.

I just think that's a very constant, perfecting the known and getting better every time. That's what we're doing. And we look at it with our menu SAT scores. We look at our ECRA [ph] scores. We look at our consistency scores, and we do that by protein type.

Brian Vaccaro

Okay. And sorry, Mike, just one more quick one, just on the G&A guidance, I think you said \$225 million for the year. Correct me if I'm wrong on that, but just walking through that.

So you have savings from Brazil and then, you have savings from the workforce reductions. But that's partially being offset by reloading bonuses and then \$10 million of IT investments. Did I get all that, right?

Mike Spanos

That's correct. So there's \$12 million of the bonus reload. There's \$10 million of IT infrastructure investments. Some of that is Ziosk and then there's offset by the \$17 million savings from the org design.

Brian Vaccaro

Perfect. Thank you.

Operator

Thank you. And the next question comes from Brian Mullan with Piper Sandler.

Brian Mullan

Hi. Thanks. Just to follow-up on that G&A question. I believe that would probably put you north of 5% of sales this year. So one, do we have that right? And then two, if that's right, how would you plan to get down to that 5% of sales goal you referenced? Is that going to be entirely through revenue growth? Or is there perhaps more dollars you can take out from here after you've had some more time doing all of your strategic work?

Mike Spanos

Yeah. You got it right. I mean the goal is 5%. We're not there now. We're probably in about a 5.5% to 5.8% range this year. And to get it right, you got to tack it both ways. The best way is to drive profitable sales and just become more efficient and leverage the assets. But we're always going to be more productive. And we're going to be really prudent in our spending and thoughtful in our investments.

Brian Mullan

Okay. Thanks. And then a question on capital allocation, in regards to the dividend change if I'm understanding right, you framed that as mostly related to the Brazil sale and maintaining a payout ratio, I think, more than anything else.

My question is, as you look forward and also try to execute on remodels and reducing balance sheet leverage, is further reducing the dividend on the table? Or should we think about this dividend, this is permanent now?

Mike Spanos

Yeah. So it's part of our holistic strategy in terms of capital allocation. And as Michael said, and we talked about, it's, one, we're going to focus on the base business. That's number one. Two, we're going to go at the debt to get to that 3.0 lease leverage ratio.

And then the third is we're going to return cash to shareholders. And we thought the dividend, and we think the dividend is the most reliable, predictive, consistent way to bring cash back to shareholders. And we're going to stay at that. And if that changes, we'll let you know.

Brian Mullan

Thank you.

Operator

Thank you. And the next question comes from Dennis Geiger with UBS.

Dennis Geiger

Great. Thanks guys. I just wanted to ask another one on, how you're envisioning the Outback value strategy. As you move away from the LTO strategy and transition to that abundant value with the Aussie 3-Course seemingly as the answer there.

Is there anything else to add sort of on what you've been seeing from that promotion of late, maybe how incidence levels are trending there, any other kind of customer feedback or behavior around the offer?

And I guess related to that, just if anything more on how that the 3-Course sort of addresses, how you and your customer envisions Outback's value position and maybe the value shortfall in recent years? Thanks guys.

Mike Spanos

Yeah, I got it. So I think it's all about brand trust, and it's all about frequency of visitation, getting one more visit out of our guests. What we're finding with OSI 3 course, and I found this with abundant everyday value over many years, you just create better guest trust and they're visiting more often.

And especially in the short-term, we're meeting the guests where they're at right now, especially in this period of choppiness. As far as the experience, what's been really encouraging to me is you think about the OSI 3 course, you got the \$14.99, \$17.99, the \$20.99, although we're leading with that \$14.99, we are seeing a significant amount of guests trading up to that six-ounce sirloin at \$17.99 or the eight-ounce sirloin at the \$20.99, and that works really well on the P&L.

The other thing we're seeing is in terms of the dessert, I mean, we offer the New York Style Cheesecake, but we are seeing a significant amount of guests trading up to spending another \$3 to get a chunk of thunder or the dessert they want. And to me, what it shows is the price benefit equation of value works with guests. And when you execute, it works. And this is the other thing that's important. It's part of our everyday menu offering.

Our teams get it. They can get the groove in the back of the house and execute it and know they're going to execute it really well and deliver a great guest experience. Instead of creating the complexity of bringing in a new item every 10 to 12 weeks, it creates more prep labor. It becomes frustrating for our teams in the back of the house, and it's confusing for our guests as well.

So I feel really good about it. We'll, obviously, need to continue to monitor it like any offer. I think there's always going to be the right periods of innovation we bring in, whether it's opening price points or craveable items. But I do think you need these hero items, traffic driving items that work, and we're finding right now, it works for the team. It works for the guests, and it works on our P&L.

Dennis Geiger

Helpful. Thanks Mike.

Operator

Thank you. And the next question comes from Christine Cho with Goldman Sachs.

Christine Cho

Yes, thank you for the opportunity. So firstly, I was wondering how you're baking in the impact of the 10% to 15% menu reduction into the full year guidance? And I think more importantly, how are you thinking about balancing that simplification of operations, including the menu reduction with that renewing traffic momentum and maintaining a compelling value proposition. What would be some of the areas of investment or optimization you would need at the store level across labor, marketing and tech to achieve that goal? Thank you.

Mike Spanos

Well, Christine, what I found and what we found across the board is simplifying the menu, you start; one, you start with the guest. If it's a low mix item and it's perceived by the guest to be a sub-par item, we don't want it on the menu. If it's then creating complexity increasing our prep labor costs, that's not a good thing. So I find them to be very complementary. As we simplify the menu, we're much sharper. We're much better in terms of the quality and the consistency of the experience with the guest, and it enhances morale and it brings down our labor costs in the back of the house. So that's how we've been attacking this, and we'll continue to attack it across all the brands.

Operator

Thank you. And the next question comes from Jon Tower with Citigroup.

Jon Tower

Yeah. Great. Maybe dovetailing on to that question. In terms of how you're thinking about investment into the business, do you feel like the stores, particularly Outback, have the equipment in place that is necessary to pull off some of this menu transformation? And do you see yourselves needing to spend more money on training in the near term to get employees up to snuff to provide that guest experience you're looking for?

Mike Spanos

We have the -- absolutely, we have the equipment and restaurant we need to deliver a great guest experience and support the Outbackers. We're obviously always looking at technology that helps them to do their jobs simpler, faster, easier that also delivers a great guest experience. And that -- as an example, that was Ziosk as well. We also have found -- remember, this is an important point about LTOs. We -- there's a lot of training costs that go into driving LTOs because you got to ramp everybody up for 10 to 12 weeks.

So when you're at this everyday value abundant, you get in a groove. You're just nailing execution, you're consistent in execution and you can repurpose those training dollars. We're also the leaders. We got operational leaders, and that means our leaders are going to be in the restaurants. They're going to be doing midsifts. They're going to be doing them on Fridays and Saturdays because coaching and leading, that's a free dividend to training, and we're going to be all about that as well.

Jon Tower

Okay. Maybe just kind of following up on that point of the LTOs here throughout the year. Do you feel like with that, you'll be able to perhaps even cut back on your marketing spend? Or I guess, maybe flipping that around a little bit, how are you going to communicate that everyday abundance value to consumers on a consistent basis without the message necessarily growing stale?

Mike Spanos

Yeah, good question. Well, first, I found usually consumers get far less tired with offers before usually company folks get tired with the offer. So I'll start there. Second, you're right, we are finding probably about a \$10 million save in marketing from non-working because with LTOs, you've got all that non-working, you're doing creative, you're putting out a new message. It just drives costs there. So the beauty there is we can decide, are we going to reinvest that back into more marketing with great returns that drives profitable traffic. And if we don't feel good about that, we don't spend the money there. And that's going to be across all the brands.

Jon Tower

Got it. Thanks for taking the question.

Operator

Thank you. And the next question comes from Andrew Strelzik with BMO.

Andrew Strelzik

Hey, thanks for taking the questions. I had 2. You touched on remodels and relocations, but I'm just curious, as you kind of dug into the existing store base, how we should think about closures, whether that's in '25 or beyond? And then, the second question, based on the time line of some of the initiatives taking place in the first half of the year, it seems like you'd be set up for a better back half, at least from a top line perspective, from a comp perspective. But if I just use the midpoints of the 1Q guide and the annual guide, it doesn't really reflect that. So, am I just getting caught up in ranges there? Are you implicitly assuming a better back half? Or are there some offsets to that, that you're assuming? Thanks.

Michael Healy

Yes. Got it, Andrew. Let me -- I'll start with the remodels and the store base. You might be hitting on the impairment piece. What I would say there is, we did have some underperforming assets, we've got action plans to improve the execution, get the traffic moving, profitable traffic and profit growth, and it's a leadership focus. We'll continue to assess them as part of a holistic strategy. And if there's a point we're not feeling good about that, then we got to decide if we're going to renew leases or not. So that's the first piece on the remodels and some of the underperforming stores.

Secondly, I think your point is around guide and your point around the second half. We feel we're guiding appropriately given the recent trends. But we -- as I said, we don't -- we do believe OSI 3 Course is going to give us more momentum in the second half. And as I said earlier, we are assuming the short-term choppiness we've seen the latter part of Q4 and Q1 is there throughout the year. If that choppiness subsides, we get better momentum, which I'm hopeful we will on OSI 3 course. And by the way, the other abundant everyday value that is going into Bonefish and Carrabba's as well, I'm hopeful that really gains traction. And then hopefully, there's more to be had, and we'll keep you posted on that.

Andrew Strelzik

Great. Thank you.

Operator

Thank you. And this concludes our question-and-answer session. I would like to turn the conference back over to Mike Spanos, CEO, for any closing remarks.

Mike Spanos

Thanks again for your time, and we really appreciate the engagement. We look forward to further updates on our next earnings call. Have a great day.

Operator

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

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