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Cracker Barrel Old Country Store, Inc. (CBRL) Q2 2024 Earnings Call Transcript

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Press Release

10-Q

EPS of \$1.37 **beats by \$0.01** | Revenue of \$935.40M (0.16% Y/Y) **beats by \$17.57M**

Cracker Barrel Old Country Store, Inc. (NASDAQ:[CBRL](#)) Q2 2024 Earnings Conference Call
February 27, 2024 11:00 AM ET

Company Participants

Kaleb Johannes – Vice President-Investor Relations and Business Transformation

Julie Masino – President and Chief Executive Officer

Craig Pommells – Senior Vice President and Chief Financial Officer

Conference Call Participants

Katherine Griffin – Bank of America

Jeff Farmer – Gordon Haskett

Jake Bartlett – Truist Securities

Dennis Geiger – UBS

Brian Mullan – Piper Sandler

Todd Brooks – The Benchmark Company

Jon Tower – Citi

Andrew Wolf – CL King

Operator

Good day, and welcome to the Cracker Barrel Fiscal 2024 Second Quarter Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Kaleb Johannes, Vice President, Investor Relations and Business Transformation. Please go ahead.

Kaleb Johannes

Thank you. Good morning, and welcome to Cracker Barrel's second quarter fiscal 2024 conference call and webcast. This morning, we issued a press release announcing our second quarter results. In the press release and on the call, we'll refer to non-GAAP financial measures for the second quarter ended January 26, 2024. The non-GAAP financial measures are adjusted to exclude the non-cash amortization of the asset recognized from the gains on the sale and leaseback transactions, expenses related to the company's CEO transition, expenses associated with the strategic transformation initiative, a corporate restructuring charge and an employee benefits policy change and related tax impact.

The company believes that including these items from the financial results provides investors with an enhanced understanding of the company's financial performance. This information is not intended to be considered in isolation or as a substitute for net income or earnings per share information prepared in accordance with GAAP. The last page of the press release include reconciliations from the non-GAAP information to the GAAP financials. On the call with me this morning are Cracker Barrel's President and CEO, Julie Masino; and Senior Vice President and CFO, Craig Pommells. Julie and Craig will provide a review of the business, financials and outlook. We will then open up the call for questions.

On this call, statements may be made by management of their beliefs and expectations regarding the company's future operating results or expected future events. These are known as forward-looking statements, which involve risks and uncertainties that, in many cases, are beyond management's control and may cause actual results to differ materially from expectations. We caution our listeners and readers in considering forward-looking statements and information. Many of the factors that could affect the results summarized in the cautionary description of risks and uncertainties found at the end of the press release and are described in detail in our reports that we file with or furnished to the SEC. Finally, the information shared on this call is valid as of today's date, and the company undertakes no obligation to update it, except as may be required under applicable law.

I'll now turn the call over to Cracker Barrel's President and CEO, Julie Masino. Julie?

Julie Masino

Good morning and thank you. In the second quarter, we delivered solid sales, which included a meaningful improvement in our traffic trend of 300 basis points in Q2 compared to Q1. Our traffic driving tactics, particularly our efforts to improve the guest experience and the effectiveness of our marketing are working and supported this improvement. While we were pleased with our sales results, our margins remained pressured. As I will touch on later, improving profitability is a top priority. We are confident we will see improvements as our initiatives gain traction, but we anticipate continued margin pressure in the near-term, particularly in Q3 and improved margins in Q4.

I'm going to start by covering some highlights from Q2, and then Craig will review our financials and give an update on our outlook. Then I'll come back and wrap up by providing an update on our strategic transformation and some of our plans to drive continued performance improvements. Our second quarter is an especially important quarter for us due to, first, our seasonally higher volume; and second, because of the emotional connection our brand has with guests over the holidays. We have the privilege of still many of them inviting us into their homes or coming into our stores to celebrate the holidays. This is truly special. As I noted on our last call, we had an excellent Thanksgiving from a sales perspective, and the teams carried this momentum through the remainder of the quarter. I want to thank our 70,000-plus employees for their tireless efforts and extraordinary hard work during the quarter to help our guests celebrate this special holiday season.

From a culinary and marketing perspective, we leaned into our seasonal guest favorites such as Country Fried Turkey and Cinnamon Roll Pie as well as our off-premise offerings. We continue to see positive results from our marketing investments in refined tactics. In addition to promoting our seasonal offerings, a key focus of our marketing efforts during the quarter was highlighting Cracker Barrel Rewards. For this campaign, we partnered with Dolly Parton to promote Cracker Barrel Rewards and her collaborative album, Rockstar. This campaign was a resounding success and delivered a large number of impressions and high engagement rates and drove additional gains to our already strong levels of enrollment.

We remain pleased with the early results of Cracker Barrel Rewards, which, as a reminder, launched in September. In addition to the strong enrollment levels, we are encouraged by the engagement, feedback and response rates we are seeing. One of the many benefits of the program is how it enhances our ability to directly engage with guests. We continue to test various campaigns and activations and measure their efficacy, and we're excited about learning more about what drives engagement with our members. For example, loyalty members accounted for nearly 50% of our Thanksgiving heat and serve sales which we believe was partially driven by our direct engagement with them around this offering. We continue to believe the program with its easy-to-use and engaging design and rewarding value will be a meaningful brand differentiator and traffic driver over the long-term.

Our retail business remains challenged. We believe this is due in large part to the pressures the broader retail industry is facing, particularly in more discretionary categories, which is resulting in a highly promotional environment. While guests responded well to our value-focused holiday assortments, overall sales performance was softer than anticipated. However, the team has done a good job managing inventories and markdowns. Despite the sales softness, we grew margin rate over the prior year, and our inventories, which are below prior year, are well positioned.

I will now turn the call over to Craig for a more detailed look at the quarter from a financial perspective and to discuss our financial outlook for the rest of the year. After he finishes, I will then provide an update on our strategic transformation. Craig?

Craig Pommells

Thank you, Julie. And good morning, everyone.

For the second quarter, we reported total revenue of \$935.4 million. Restaurant revenues increased 1.8% to \$730.7 million, and retail revenues decreased 5.2% to \$204.7 million versus the prior year quarter.

Comparable store restaurant sales increased by 1.2% over the prior year.

Pricing was approximately 4.8%. Our quarterly pricing consisted of approximately 3.4%, carryforward pricing from fiscal 2023 and 1.4% new pricing from fiscal 2024.

Off-premise sales were approximately 23.7% of restaurant sales. As a reminder, off-premise mix elevated during the second quarter due to the seasonally higher sales for our Heat n' Serve offerings and catering business. Although we were pleased with the sales for these offerings, they have the lowest margins of all of our channels, which pressured our overall margins this quarter. Moving forward, we are focused on improving the profitability of this channel.

Comparable store retail sales decreased 5.3% compared to the second quarter of the prior year. We saw declines across most categories with toys, food and decor, seeing the largest decreases. Although retail sales remain soft, we were pleased with how the team has effectively managed inventory levels, which remain below prior year.

Moving on to our second quarter expenses, total cost of goods sold in the quarter was 33.7% of total revenue versus 35% in the prior year quarter. Restaurant cost of goods sold in the second quarter was 28.2% of restaurant sales versus 29.3% in the prior quarter. This 110 basis point decrease was primarily driven by menu pricing partially offset by higher mix of off-premise as our Heat n' Serve and catering offerings have a higher cost of sales than other channels. Commodity inflation was approximately 1.4%, driven principally by higher beef and turkey prices.

Second quarter retail cost of goods sold was 53.2% of retail sales versus 54% in the prior year quarter. This 80 basis point decrease was primarily driven by higher initial margin.

Our inventories at quarter end were \$172.7 million compared to \$187.3 million in the prior year.

With regard to labor costs, our adjusted second quarter labor and related expenses were 35.1% of revenue, which excludes approximately \$5.3 million of favorability related to a change in an employee benefits policy. This compares to labor and related expenses of 33.6% in the prior quarter. This 150 basis point increase was primarily driven by our investments in additional labor hours to support the guest experience and hourly wage inflation of approximately 5.4%, partially offset by pricing.

Adjusted other operating expenses were 22.5% of revenue versus 22% in the prior quarter. This 50 basis point increase was primarily driven by our investments in advertising.

Adjusted general and administrative expenses in the second quarter were 4.8% of revenue, which was flat to the prior year quarter and excludes the following items: approximately \$3.5 million in expenses related to the CEO transition; and approximately \$3.8 million in professional fees related to our strategic transformation initiative.

All of this culminated in GAAP operating income of \$30.8 million.

Adjusted operating income for the quarter was \$35.9 million or 3.8% of revenue.

Net interest expense for the quarter was \$5.1 million compared to net interest expense of \$4.4 million in the prior year quarter. This increase was primarily the result of higher weighted average interest rates.

Our GAAP effective tax rate for the second quarter was negative 3.3%, which reflects favorable state income tax settlements. On an adjusted basis, our effective tax rate for the quarter was 1.2%. Second quarter GAAP earnings per diluted share were \$1.19, and adjusted earnings per diluted share were \$1.37. In the second quarter, adjusted EBITDA was \$63.7 million, or 6.8% of total revenue.

Now turning to capital allocation and our balance sheet, the Board remains committed to a balanced approach to capital allocation. Our first priority remains invested in the profitable growth of Cracker Barrel and Maple Street. Beyond that, we plan to return capital to our shareholders while maintaining appropriate flexibility and a conservative balance sheet.

In the second quarter, we invested \$26.4 million in capital expenditures and we returned \$29 million to shareholders in dividends. We ended the quarter with \$452.3 million in total debt. Lastly, as we announced in our press release, the Board declared a quarterly dividend of \$1.30 payable on May 7, 2024, to shareholders of record on April 12, 2024.

With respect to our fiscal 2024 outlook, I would like to provide some additional color on the guidance in this morning's release. Looking ahead, we continue to operate in an uncertain environment. We've been encouraged by the resiliency of the consumer and by the improvement in guest sentiment in recent months. However, the industry continues to face headwinds and we expect industry traffic to remain pressured for the remainder of the fiscal year.

Turning to the guidance, we now expect total fiscal 2024 revenue of \$3.5 billion to \$3.6 billion. The increase in our sales guidance reflects higher sales from increased advertising and our investments in other areas of the business. We now anticipate pricing of approximately 5% for the full year. We continue to anticipate the opening of our two new Cracker Barrel stores, both of which have already opened, and nine to 11 new Maple Street units during the year.

We now expect commodity inflation of approximately 0% to 2% and hourly restaurant wage inflation of approximately 5%. As a reminder, and as noted in the reconciliation tables in our press release, our full year outlook contemplates certain excluded expenses in addition to the non-cash amortization of gains from our sale leaseback. These include approximately \$10 million in consulting fees related to our strategic transformation, approximately \$10 million of one-time CEO transition costs and approximately \$2 million in corporate restructuring charges, partially offset by approximately \$5 million of favorability from the change to our benefits policy.

Our full year outlook also includes the benefit of a 53rd week this fiscal year. Taking all of this into account, we now anticipate full year adjusted operating income of \$125 million to \$135 million. In addition to our second quarter operating income results, which were below our expectations, our updated range reflects a higher level of advertising investment and the movement of some cost reduction benefits from fiscal 2024 to fiscal 2025 to ensure we are fully focused on retaining and further strengthening our guest experience gains.

From a quarterly cadence perspective, we expect our Q3 adjusted operating income to be meaningfully below prior year, driven by the stated investments in labor and advertising as well as timing of other expenses. However, we expect Q4 adjusted operating income to be above prior year, primarily due to improved traffic, pricing, menu mix and the benefit of the 53rd week. We now expect a full year GAAP effective tax rate of 1% to 4% and an adjusted effective tax rate of 5% to 8% and capital expenditures of \$120 million to \$135 million.

I'll now turn the call back over to Julie, so she may share additional details on our business plans and areas of focus.

Julie Masino

Thanks Craig. I now want to provide an update on our strategic transformation. As a reminder, this program kicked off in late September and the early months included a diagnostic phase in which we conducted significant guest research both with Cracker Barrel users and non-users. Our research confirms my own observations that I shared with you last quarter.

The Cracker Barrel brand is beloved by guests and employees and we are working with a strong foundation. But it is also clear to me that we have a lot of work to do in some key areas to take the brand to the next level and improve our performance. This work revolves around three critical imperatives that have come out of our research which are informing our strategy and key work streams. One, driving relevancy; two, delivering food and an experience that guests love; and three, growing profitability.

While I'm going to talk about each today, I want to announce we will be holding a standalone investor presentation in May, prior to our Q3 earnings call at which time we will provide a more detailed strategy update. I look forward to sharing more with you then, details will be forthcoming.

Turning to the three imperatives, the first is driving relevancy, which means evolving the brand to meet changing consumer tastes and needs. In my view, while we've taken some steps in this direction over the past few years, we need to do more. Cracker Barrel is a timeless brand, but even timeless brands must evolve as consumer preferences change, which means evolving our brand positioning, our stores, our menu and our messaging.

We've already started this work. In the coming weeks, we will be commencing a brand repositioning initiative, which entails a full review of our brand strategy and identity. Our refined positioning will inform all aspects of the brand from menu and marketing to digital and store experience.

We have also begun testing changes to decor, lighting, paint, and fixtures, and our initial work suggests that we can update and brighten our interiors in a way that appeals to both core guests and people newer to the brand. Future changes will be informed by the learnings from this test and others, as well as our brand strategy work, and we are committed to being disciplined and thoughtful before deploying capital and expanding design changes to our stores.

With respect to our food and guest experience, it goes without saying that we must provide delicious, craveable food and unique retail product, and we must deliver an improved experience that keeps guests coming back time and time again. Delicious incredible food is an important part of what we do at Cracker Barrel and I'm excited to announce today that we are launching Golden Carolina BBQ Chicken Tenders and a Fresh Berry French Toast Bake.

Innovation will continue to fuel relevancy in our menu for our guests. We recently launched a core menu revamp test and while it is only in a few stores, it is a significant test because of the scale of the changes. This test includes approximately 20 new items, several modified items and over 20 deletions, as we seek to balance our innovation with simplification.

We recognize that not all of the menu changes from this test will work and make it to the next phase. But I believe it's important that we become more agile and innovative and I'm pleased with how the teams responded to my challenge to move quickly, to develop and implement these initiatives, and to test and learn in a more agile way.

In addition to innovating with menu items, we are also innovating through day parted offers. Today, we are also debuting an early dinner deals menu. This dine-in only menu includes seven smaller portioned entrees starting at \$8.99 that will only be available Monday through Friday from 4:00 to 06:00 p.m. We believe this menu will resonate with our more price conscious guests and that it will drive incremental traffic during a non-peak period to our most challenged day part. Importantly, we believe it will do this without adding additional operational complexity.

Operational excellence and consistent execution are a top priority. After considering over two dozen different key metrics as part of our research, we have honed in on the metrics that are most highly correlated with comp store sales growth and are focusing against these to drive meaningful improvements to the overall guest experience and create sustainable traffic growth.

As part of our focus on what matters most, we are in the process of rolling out enhanced reporting of these metrics to our field leadership and we believe the improved level of focus will empower our teams to quickly diagnose where they can most impactfully react in real time. The guest experience is not limited to the in-store experience. It is equally important to engage and delight our guests outside of our four walls and to win in digital.

As I mentioned, we are proud of the initial success of our Cracker Barrel Rewards, but it is still early. The power of loyalty in digital is realized through the scaled collection of guest data, capitalizing on the behavioral insights through robust test and learn campaigns, and delivering individualized experiences that drive engagement, incremental sales and increased visitation. With our recent success, I believe we can do more to faster realize these goals.

Finally, we must improve profitability. Our margins have compressed in recent years. This is due to a number of reasons, including historically high inflation, particularly on the labor side. But we believe there's significant margin recapture opportunity if we drive top line growth and reengineer some aspects of our business model to reduce the amount of fixed labor currently required and simplify our menu and processes.

Ultimately, our goal is to deliver compelling shareholder returns, and improving profitability is the biggest lever for achieving this. One of the areas where we are doubling down is building our strategic pricing capabilities, as our research shows that this is one of our biggest near-term opportunities. We have shared with you on previous calls that Cracker Barrel has taken pricing in a thoughtful and careful manner so as to preserve our value.

This is true and the teams have done a good job as far as they've been able. What we need to improve and what we are working hard on now is dramatically improving our pricing sophistication. And by that I mean our capabilities to really measure and understand price elasticity at various levels to allow us to move to a more barbell pricing structure, utilizing the menu and messaging to more efficiently drive desired behaviors and getting more granular with our pricing at the market, store and item level. To be clear, this does not mean simply taking more pricing.

Rather, it means improving our internal capabilities to be even more surgical and thoughtful with our pricing across the entire menu and across all stores. In the coming weeks, we will be launching the first of many tests using our significantly refined approach and these learnings will inform our future pricing actions, tests and strategy.

In closing, we're encouraged by our progress, but we have much work to do. Although, we anticipate continued margin pressures in the near-term, we firmly believe that our focus on the three imperatives, one, driving relevancy, two, delivering food and an experience that guests love, and three, growing profitability, will build on our momentum and deliver long-term value creation. Obviously, there is a lot of work to do and it will not be quick or easy, but I am excited and optimistic about the path we are on. I look forward to providing additional details on our strategy and initiatives in May and to keeping you informed as we move ahead.

I'll now turn it over to the operator for questions.

Question-and-Answer Session

Operator

We will begin the question-and-answer session. [Operator Instructions] Our first question comes from Katherine Griffin with Bank of America. Please go ahead.

Katherine Griffin

Hi. Thank you very much for the question. I was interested in the figure you provided about the loyalty customer sales mix at Thanksgiving and was wondering if you could talk a little bit more about how you are integrating promotions or value messaging into the loyalty program, just especially as you're starting to get it off the ground and driving enrollment.

Julie Masino

Great. Our ahead of plan, we continue to test and learn our way through this. As I mentioned in the prepared remarks, over 50% of our heat and serve business came from people in the loyalty program, and we believe this is due to our direct engagement with them. We're continuing to test other different engagements with them and offers, and we'll be able to share more of that as we continue down the journey. But we continue to be optimistic about what we're seeing with this program.

Katherine Griffin

Okay, thank you. And then just in the second quarter, the year-on-year rate of growth in labor costs per store was the lowest it's been in a couple of years. And I'm wondering how sustainable that level of growth is. And then maybe how that reflects the investments you're making in labor, assuming that the slower rate of growth isn't just a function of moderating wage inflation more generally.

Craig Pommells

Hi, Katherine, it's Craig. I'll take that one. There is a bit of both of those in there. We clearly invested significantly in labor in the second quarter, and that has worked out well in a lot of ways, we're seeing the benefits in the guest experience and we saw the benefits in sales. At the same time, wage inflation is moderating nationally and it's moderating for us.

So we have two – you have a couple of moving pieces there. The wage rate moderation is a bit of a good guy, so to speak, but we also invested – we invested a lot. So as we kind of go forward and we kind of think about fiscal 2025 and beyond, as Julie talked about, improving profitability is one of the three key imperatives and the labor component of the business model and continuing to get that right will be a big part of that.

Katherine Griffin

Great. Thank you.

Operator

Next question comes from Jeff Farmer with Gordon Haskett. Please go ahead.

Jeff Farmer

Thanks. I believe you guys noted that the upward revision in that 2024 revenue guidance number was at least partially driven by increased advertising. Assuming I heard that right, what is the advertising increase relative to what you guys were thinking last quarter? And when the dust settles, where would you expect advertising spend as a percent of sales in FY2024 to land?

Craig Pommells

Hi, Jeff, it's Craig. Traditionally, Cracker Barrel's advertising as a percent of sales or marketing as a percent of sales was somewhere mid to high 2% range. And now we are expecting to be in the kind of mid to low 3% range through this fiscal year. The approach that we've taken is really a test and learn kind of data driven approach. If we go back to, let's say, Q4 and Q4, we were disappointed – Q4 fiscal 2023, we were disappointed in our top line performance.

And what we saw at that time is while we had pulled back a bit on advertising, others had increased and our share of voice was quite low. And as a result of that, we've done a lot of testing. And what we're seeing is, on the margin, it is profitable for us to invest more in advertising. Now, clearly it compresses our overall margins as a company, but the total dollars delivered is favorable. So we're going to continue to use a test and learn approach as we look at our marketing mix. But for the near-term, we do expect it to be higher than what we saw in prior years.

Jeff Farmer

Okay. And then just one more unrelated. I think you said you had done some work on analyzing the fundamental metrics that are most correlated with same-store sales growth. Can you share some of the findings from that? What were some of those metrics?

Craig Pommells

So it's interesting there, we've looked at a lot of metrics and I think coming out of that, I don't think there is a big, aha, no one knew this X was correlated with Y. A lot of what we're trying to do with this change is focus because we were really reporting on a wide array of metrics, each of which individually are correlated with good traffic performance. But we believe that was too much. And what we want the team to do is to focus on the critical few things that make the biggest difference. So that was the approach that we took.

It's really about intense focus on the critical few important things. So we're not going to go into the exact metrics because I think everyone would agree with them. It's more important that we have kind of backed away from some other metrics that we think were maybe distracting and instead focus on the ones that matter the most.

Jeff Farmer

And I apologize, just to sneak one more in. What was traffic in the quarter? I might have missed that.

Craig Pommells

Traffic was negative 4% for the quarter.

Jeff Farmer

All right. Thank you.

Operator

The next question comes from Jake Bartlett with Truist Securities. Please go ahead.

Jake Bartlett

Great. Thanks for taking the question. My first, Craig, just to make sure I understand that the benefits adjustment, I think \$5.3 million in the second quarter in labor. Is that correct? Did I hear that right? And is that something that's going to continue? So is this a benefits change that's going to have a full quarter benefit, then we just kind of go from there or is this kind of a one-time thing?

Craig Pommells

It's a non-recurring benefit. So it was a good guy, so to speak, to the P&L that related to a benefit change that we made at the beginning of the calendar year. So in the spirit of there are a number of costs that are non-recurring that we are backing out this year. This is a non-recurring item. It's a permanent change in our benefits program that created a non-recurring benefit, and as a result of that, we removed it. We removed that benefit from the second quarter adjusted results.

Jake Bartlett

Okay. So it is backed out of the adjusted results that you published.

Craig Pommells

Correct, already backed out of the adjusted published results, yes and also out of the annual guidance.

Jake Bartlett

Okay. And then just building on Jeff's question about advertising and maybe others, like the investments in hours, I'm wondering at the midpoint of guidance there's about 70 basis points of margin compression in 2024. What of those – the factors that are compressing margins? What are not recurring going forward? I guess, do you expect for advertising to remain in the kind of the 3% plus range long-term? Is there any kind of outsized investment hours that might not recur next year? How should we think about the margins in 2024 and how reflective they are of the margins going forward?

Craig Pommells

Yes. As Julie shared, improvement in profitability is one of our three key imperatives. And refining the business model inclusive of the labor model will be a big part of that. Now, having said that we've just spent all of this time and all this money investing in labor to improve the guest experience, so we're not going to unwind that in a risky way, what we're doing is structurally trying to change, working on removing the amount of fixed labor that we have in the business. So that we can flex up and down more appropriately with labor, so that work is underway. That's probably a mid-term solve.

From an advertising perspective, we're going to continue to look at that using a test and learn approach, using a medium mix analysis type of approach. And if it's meaningfully more profitable for us to have somewhat higher than we have traditionally advertising level, then we'll make that decision then. And if at some point it's not, then we're going to make whatever decision is most profitable for the company over time.

One bit of a big positive there as we think about the loyalty program and how that benefits us over time. Today, we're spending a lot in kind of mass market. We are doing some targeting in digital and so on, but it's still a version of mass marketing. And as the loyalty program continues to scale, we'll be able to talk to guests in a much more targeted, much more one to one way. And there are some efficiencies that come with that as that program scales over the long-term.

Jake Bartlett

Okay. And last question. Julie, on the last call, you mentioned a focus on value that value had been – competitors were getting a little more intense with value, you're focusing on your 20 under \$12, your breakfast \$8.99 price point. My question is how that went. Was that a contributor to the results in the second quarter? And then going forward, you haven't mentioned value in this call very much. Is that still something that you think you need to lean in on? Are you still seeing some competitive pressures from competitors getting very focused on value? Any kind of commentary around that aspect would be helpful.

Julie Masino

Sure. Thanks. Look, value is important, and it has been important at a Cracker Barrel brand for probably forever. And value is something that guests are constantly calculating, right? Its how much food did I get? What do I pay for it? How is my experience? What was the whole thing like? So value is this really complicated guest equation that people are really applying a lot of judgment to.

So we are constantly looking at both value scores, which we perform very well on, by the way. And value is something that we have protected historically here at Cracker Barrel. When I talked about pricing in my prepared remarks, value will continue to be an important part of how we evaluate our pricing architecture and strategy going forward recognizing that every time a guest interacts with us, they're making a value judgment about the entire equation. But also importantly, some of those guests are very value price point focused.

So we'll be taking both of those into account. We're protecting some great price points. I mean I don't know if you've been into a Cracker Barrel lately, but if you come in and you get Momma's Pancake Breakfast from us, it's \$8.99. It's three pancakes. It's two eggs, it's your choice of meat, like that's an incredible value, one that we celebrate, one that our guests love.

And then if you literally just got like our Southern Fried Chicken dinner, it has a chicken, which is an incredible amount of value. While we may not consider that a value price point, that feels like a tremendous value to another cohort of our guests. So we're taking all of those things into account as we think about value into the future and how we pair that with pricing architecture and strategy.

The last thing I would mention that I'm super excited about, which is another key way to think about value, especially for our value-oriented guests is today, we launched as part of our new spring menu early dinner deals. Early dinner deals are only Monday through Friday, from 4 p.m. to 6 p.m. We have seven entree choices that start at \$8.99, and all of them are under \$10. So it's an incredible value. Again, really speaking to some of our guests who are value price point focused. But to really put a sharp point on it, Jake, value is an important part of our strategy here at Cracker Barrel. It has been. It will be, but it's a really multifaceted thing we look at across several different metrics.

Jake Bartlett

Great. I appreciated. Thank you.

Operator

The next question comes from Dennis Geiger with UBS. Please go ahead.

Dennis Geiger

Great. Thank you. And Julie thanks for the commentary and the detail on the transformation, and some of the key learnings and those three imperatives. Looking forward to the event in May, and I'm sure you'll touch on more of the details then. But just curious at a high level, you guys could sort of talk at all about maybe the investment potential around some of those imperatives the transformation opportunity, what that might mean from a capital allocation priority perspective. Anything at a high level to share there, if anything shifts? I know you touched on some of this earlier, Craig, but any commentary there that you're able to touch on today by chance?

Julie Masino

Thanks, Dennis. The Board's approach to capital allocation has been very consistent and thoughtful. They look at it every quarter as something that they examine. And first and foremost, they're prioritizing the profitable growth of both Cracker Barrel and Maple Street. And then beyond that, it's returning capital to shareholders. Primarily, that has been through this quarterly dividend of late. When I think about the strategy, it's funny, I almost didn't talk about the store refresh test that we have going on, because I was worried that people would immediately go to spending capital and capital allocation.

I wanted to elude as an illustrative point, more to just share my management philosophy around agile testing and learning, and just to show you all that we are moving forward in the strategy and the key imperatives of driving relevancy, delivering a food and experience that guests love and improving profitability. So the Board is going to continue to look at capital allocation, but know that we are really focused on those three strategic imperatives as we lay out the strategy and move the brand and business forward.

Dennis Geiger

Very helpful. Appreciate that. And then maybe just one more. You kind of touched on it some, but anything else notable on sort of your customer behavior changes that you saw in the quarter, either across the restaurant or the retail business? I don't know if kind of breaking anything down by income cohort, if there's anything notable. Any changes there? Or has it generally been largely consistent? Thank you.

Julie Masino

I think we'll both comment on this. I'll start by saying the one thing I'm most optimistic about is, we've seen some nice growth in the 25 to 44 cohort as well as the 65-plus cohort. So again, traffic was in a better place for us in Q2. And so we felt like we really improved our guest experience scores, but we're optimistic about some of those cohort growth. I'll let Craig talk a little bit more about the rest.

Craig Pommells

Yes, I'll build on that point, especially with the 65-plus as we go back to our 2023 Q4 and even into Q1 of 2024. The softest cohort, H cohort was 65 plus. And with our second quarter results, we saw a really significant improvement. Now, we're still down a bit, but a meaningful improvement, a very meaningful improvement versus where we were at the end of fiscal 2023 and into the early part of fiscal 2024. So that was a big positive. Thinking about the income cohort, if we just break that out into two groups, the under 60k and the over 60k, really steady, not a big story. They are pretty consistent between the two groups. The bigger story is really in the age cohorts and the improvement that we've seen with the 65 plus.

Dennis Geiger

Very helpful, guys. Thank you.

Operator

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

Brian Mullan

Thank you. Just a question on Maple Street. Julie, love to get your perspective on this business as you think about all the things you need to tackle with the core Cracker Barrel brand. Where does Maple Street fit into that? Is that a real growth opportunity, or is it potentially something you'd look to part ways with over time? Just any thoughts on your assessment?

Julie Masino

Thanks, Brian. Myself and the management team right now are insanely focused on Cracker Barrel. We are working very, very hard on the strategic transformation and getting this business back to growth. And the three imperatives that I talked about earlier, driving relevancy, delivering food, and an experience that our guests love and improving profitability. Maple Street, we're not talking about that today, but we'll share more in the future. There's a lot to love about Maple Street. It's great food, it's got a nice weekend business. But right now we are really focused on growing Cracker Barrel and returning it to strength.

Brian Mullan

Okay. Thank you for that. Just as a follow-up, just a good segue. The core Cracker Barrel store portfolio, as you're doing all your work, do you think store closures could be a part of something with the strategic process? Do you see any stores that you might – the overall might benefit from closing, just love to get your take?

Craig Pommells

Hi, Brian. It's Craig. We're always looking at the store portfolio. So it's a part of our regular process. And I can tell you that we don't have a lot of stores that are not cash flow positive, but it is something that we take a regular look at, and we're going to continue to do that. It's especially important as you think about a broader kind of strategy update. We'll take a deeper look as well. But as a company at a cash flow – at a unit level cash flow level, there are not a lot of stores there that you kind of go, hey, these are just very cash flow negative.

Brian Mullan

Okay. Thank you.

Operator

The next questioner is Todd Brooks from The Benchmark Company. Please go ahead.

Todd Brooks

Hey, thanks for taking a couple of questions here. The first is a bigger picture question for Julie or Craig. I know we'll hear more about this at the May event, but I think part of the challenge with Cracker Barrel is understanding what sort of margin you're looking to return to over time. So this was north 9% operating margin business in 2019. You have incremental pressures on all three of the key restaurant level lines, some inflation based, but a few hundred basis points and occupancy and other that may just be the structural growth of off premise. Is there anything that you can share with us today about where and not the when, but the where and what we think the margin potential is for the Cracker Barrel business if you're successful with the three pillars?

Craig Pommells

As Julie shared, it's – hey Todd, it's Craig. As Julie shared, improving profitability is one of the key imperatives that you kind of think about where. She talked a bit about strategic pricing. So that obviously is going to kind of get leveraged as a percent of sales across the full P&L. So that's a big one. We've also talked about labor, and clearly we're invested in labor. We're doing it to drive and improve guest experience. We're happy with the guest experience results. And at the same time, we want to make the model more variable. We want to take out some of those fixed costs. So we've covered those and we have ongoing cost save or margin optimization initiatives really across the entire P&L. So we're really working on all of it. I think the two big ones that we've highlighted so far are in this kind of strategic pricing area and then over the midterm, not necessarily the very short term, the midterm labor as well. But we are looking at really every part of the P&L.

Todd Brooks

So do you think a recovery is possible, or is there just something structural about the business being different now, Craig, where we're trying to recover back to 7% and getting people focused on that magnitude of recovery versus back to kind of prior levels?

Craig Pommells

Yes. We're not sure in a level in terms of the exact percent of sales right now. But we think there is meaningful upside in the overall profitability of the company, certainly from a dollar perspective, very, very significant. Now, as Julie said, it'll take some time and we're being really careful about it and we're prioritizing, ensuring that the business is relevant and we have a healthy top line. But over time, we think it's meaningful without putting an exact point on what the OI percent target is.

Todd Brooks

Okay, great. Thanks. And then my second question, obviously better than we were looking for from a restaurant same-store sales performance in the quarter. Congrats on that. I know typically you don't like to give color, but other industry participants saw real pressures in January that is included in this quarterly results. So anything you could share about cadence of same-store sales, how they were running until maybe January and if any sense if things have normalized at all as we're moving further away from those January headwinds? Thanks.

Craig Pommells

I think what we can – as we break that apart a little bit, obviously, I know, top of mind is probably what happened with weather or what was the weather impact. And as you all know, our quarter is November, December, January. So we have a little bit of a bad guy there for weather. But we also have a little bit of a good guy for the catering and heat and serve business that was a strong benefit in November and into December. So all in all, we're pleased with the quarter, a lot of moving pieces there. We think we've been helped. We think our performance has been helped by the advertising in a profitable way on the margin. We think it's been helped by the labor investments. But we're also monitoring and we were careful to call out the industry headwinds. The industry does continue to face headwinds, and you continue to see that.

Todd Brooks

Okay. Great. Thanks to you guys.

Operator

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

Jon Tower

Great. Thanks for taking the question, a few if I may.

First, going back to the daypart offers the early dinner dimes. I was curious what you could tell us if you tested across the system or some of the store base, what you've seen in test in terms of consumer response?

Julie Masino

Yes. Thanks, Jon. We actually did not test this. We – and a desire to move agilely forward, we evaluated the pros and cons of it, and we think it is something that our guests are really going to love. It is very operationally easy for us and really focuses on a daypart for us that is challenged. So we felt there was low risk in moving forward with it, which is why we've launched it to the entire system today. They are some of our best loved items at a great price point available Monday through Friday from 4 to 6 p.m. So we're optimistic that our guests will respond and come on in for some of their favorites at this early dinner day part.

Jon Tower

Yes, maybe just drilling into that a little bit. Can you just provide an update on – or the color on what happened in the quarter with respect to daypart performance? It sounds like dinner is still challenged, but maybe that versus the rest of day?

Julie Masino

Sure. Breakfast remains a core strength for us. A lot of people know and love us for our breakfast offerings. And during the quarter and really throughout the last kind of trailing 12, breakfast has remained a spot of strength for us. Lunch has also been good to us, mainly, as Craig said earlier, because of that brunch kind of overlap that you see happening in lunch. Dinner is the day part for us that is the most challenged right now and where you'll see a lot of our innovation focus and a lot of the growth driving efforts that we're focused on right now are around that dinner daypart where we know we more relevant and more competitive.

Jon Tower

Okay. And then in terms of talking about the labor improvements that you're hoping to drive, it sounds like you're potentially structuring labor differently in the back of the house. Does that – are you contemplating, potentially pulling some of the prep out of store going forward on food?

Craig Pommells

Yes. I would say its early days on that one, but we're looking at all of it. Number 1 as we need great food, it needs to be relevant, it needs to be a good employee experience but we're looking at what exactly needs to be made from scratch in the store versus brought on in some version of value added, but it's early.

So I can't say that we've committed to these individual items, but it's something that we're clearly looking at. One of the challenges with the model, it is very heavily scratch-made across a lot of items. And that is fine when traffic volumes are very high, and it is much more challenging to win traffic volumes moderate. So because of that, we are – we're looking at all those pieces and we're going to make those decisions based on the analysis once we complete the testing.

Jon Tower

Great. Thanks. Just two more if I may.

First, I was wondering if you could drill a little bit more into the loyalty platform in terms of adding any sort of specifics regarding sign-ups. And I know its early days, but perhaps any frequency. And I'm curious in aggregate to date, is the platform including, I guess, some of the elevated marketing spend profitable yet?

Julie Masino

I'll start a little bit, and then Craig can talk to the profitability. But one way is we are pleased with the enrollment levels. We're not going to share absolute numbers right now. We are ahead of our plan, which is exciting to us. We were ahead of plan going into this quarter. And then, obviously, the partnership with Dolly Parton was extraordinary and helped drive even more incremental enrollments than we were already seeing.

So that's exciting. We are seeing some incremental traffic. We continue to expect to see that in the second half. That's in our projections and the way that we're looking at the back half of the year. And we're seeing strong engagement, which is really one of the most exciting things for us. People, our guests have really responded well to this program. The program is so unique. When you look at other loyalty programs out there. The fact that you can earn on the restaurant side and on the retail side, and then we're letting you redeem on both the restaurant and retail side seems to really be resonating with our guests as well as our employees. So the early days are very positive.

Craig Pommells

Yes. In terms of profitability, this is more of an investment year. The ramp-up costs for a program of this scale has a restaurant component, has a retail component. You can participate as you – when you pay at the cash register, you can participate through the app. It's a big program.

And then there are also costs that are associated with just the scale up. There is the sign-up cost. There is the cost associated with building the point liability. So all of that means this is an investment year for the program. And as we think about FY 2025 as we start to comp over that and some of those ramp-up costs become a smaller proportion, we would anticipate the program being a more meaningful contributor to profits.

Jon Tower

Got it. Thank you. And then just last one for me. In terms of thinking about the cadence of the ad spend for the balance of the year, based upon guidance, it would sound like it's going to be more fourth quarter weighted, but maybe I'm incorrect in that assumption?

Craig Pommells

Yes. I think we tried to talk more – a little bit more holistically to say prior year, we're in a mid- to high 2% range. And this year, we're more in the kind of low to mid-3% range.

Jon Tower

Right. Sorry. But cadence for the balance of the year, third and fourth quarter is it should we expect kind of equal spend across the 2%...

Craig Pommells

Yes, yes, I would think as a percentage, I would kind of stick with that low to mid-3% range.

Jon Tower

Okay, great. Thank you.

Craig Pommells

Both quarters [ph], yes.

Operator

The next question comes from Andrew Wolf with CL King. Please go ahead.

Andrew Wolf

Hi. I want to follow up on the ad spend increase, the rate – and again, I might have missed this, but is that more of a response just to the market? Obviously, certain competitors gone from not doing it to being pretty aggressive and so on? Or is that – do you think the business was under advertising, and that's sort of the new run rate?

Julie Masino

Thanks, Andrew. As Craig mentioned, when we really looked at Q4 of 2023. One of the key learnings we took away from it was that we were – we did pull back on advertising, and we believe that, that hurt our top line. So as we were looking at this year and really focused on driving relevancy, driving the business, we started evaluating at advertising spending, tactics, messaging, channels, all of those things.

So that test and learn approach is really fueling where we find ourselves this year, and we'll continue into the back half of the year. So we're pleased with the investments that we've made because it is helping us with the top line. We saw that in Q2, we saw it in Q1. Things like college football, things like NASCAR, the local heavy up test that we did in Q1. We've expanded that into Q2 to really look at how we're able to surround some of those national buys with some of these local heavy upsto really drive traffic and be relevant to our guests and let them know what's going on at Cracker Barrel.

Andrew Wolf

Thank you. The other question I have is on the strategic pricing that you want to improve a lot. Is that strictly sort of processes and training issue? Or is there also some data either through loyalty or other sources to get the right output. And can you give us a sense of the timing, how quickly that can be rolled through the business?

Julie Masino

Sure. Yes, I would say it's a combination of both, but mostly a more data-driven approach. So the team has done a great job in the past holding back stores, really trying to understand the impact of pricing and consumer response to it.

But we can be even more strategic and data-driven across the way we structure the menu, the way we think about value, as I talked about earlier. And then the way that we achieve that through tiers, zones, stores, menu items, menu deletions, how we think about items on a plate and how they're priced.

So there's a lot of opportunities to just look at it differently from a data-driven approach and test and learn our way into some of these opportunities. We want to make sure that we have a pricing road map into the future, and that's really the goal for the team, to build that road map through a test-and-learn mentality so that we can understand how pricing can help us and really be a lever in our P&L going forward.

Andrew Wolf

Thank you.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Julie Masino for any closing remarks.

Julie Masino

Thank you all for joining us. Today, we've given you a glimpse of our imperatives and initiatives, and we look forward to sharing more with you in May on our robust strategic framework and the various initiatives that ladder up to it.

Lastly, I want to thank our teams both in the home office and in all of our stores for their continued dedication to the guest experience and the commitment to the brand. I greatly appreciate all of their hard work day in and day out as well as on the transformation, and I'm looking forward to continuing our journey on the strategic transformation together.

Operator

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

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