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Cracker Barrel Old Country Store, Inc. (CBRL) Q2 2025 Earnings Call Transcript

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Q2: 2025-03-06 Earnings Summary

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EPS of \$1.38 **beats by \$0.29** | Revenue of \$949.44M (1.50% Y/Y) **beats by \$5.27M**

Call Start: 11:00 January 1, 0000 12:02 PM ET

Cracker Barrel Old Country Store, Inc. (NASDAQ:[CBRL](#))

Q2 2025 Earnings Conference Call

March 6, 2025 11:00 AM ET

Company Participants

Adam Hanan - Director of Investor Relations

Julie Masino - President and CEO

Craig Pommells - SVP and CFO

Conference Call Participants

Jeff Farmer - Gordon Haskett Research Advisors

Todd Brooks - The Benchmark Company

Katherine Griffin - Bank of America

Alton Stump - Loop Capital Markets

Andrew Wolf - CL King

Jon Tower - Citigroup

Larson Rice - Truist Securities

Operator

Good morning, and welcome to the Cracker Barrel's Second Quarter Fiscal 2025 Result Conference Call. All participants will be in listen only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Adam Hanan, Director of Investor Relations. Please go ahead.

Adam Hanan

Thank you. Good morning, and welcome to Cracker Barrel's second quarter fiscal 2025 conference call and webcast. This morning, we issued a press release announcing our second quarter results.

In this press release and on this call, we will refer to non-GAAP financial measures such as adjusted EBITDA for the second quarter ended January 31, 2025. Please refer to the footnotes in our press release for further details about these metrics. The Company believes these measures provide 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 results are 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 furnish 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 will now turn the call over to Cracker Barrel's President and CEO, Julie Masino. Julie?

Julie Masino

Good morning, and thank you for joining us. This morning, we reported second quarter total revenue of \$949.4 million, which included comparable store restaurant sales growth of 4.7% and adjusted EBITDA of \$74.6 million. As many of you know, Q2 is an especially important quarter for Cracker Barrel because of seasonally higher volumes, and I want to thank our teams who did an exceptional job executing during this period.

Their operational focus coupled with our actions to support improved profitability, especially in our catering and heat and serve channels, helped us deliver EBITDA that exceeded our expectations. This strong Q2 performance, coupled with our confidence in our trajectory, resulted in us increasing our fiscal '25 EBITDA guidance.

Let's review some highlights from the quarter. We delivered positive comparable store restaurant sales for the third consecutive quarter and positive comparable store retail sales for the first time since the second quarter of fiscal '23. We maintained a favorable trend in the important dinner day part as our dinner traffic trend sequentially improved for the fifth consecutive quarter.

As I mentioned, we meaningfully grew the profitability of our seasonal heat and serve and catering channels and finally, we saw notable year-over-year improvements in key operational and guest metrics. Collectively, these highlights provide further evidence of the progress we are making executing our transformation strategy and we remain confident in each of the five pillars.

Let's dig in. The first pillar is refining the brand, which is about evolving the way we interact with guests across all touch points. As part of these efforts, we conducted a comprehensive analytical restaurant and retail guest journey mapping and audit. And these insights are informing the work across our strategic initiatives.

Additionally, we finalized our new brand strategy. While there is still work to be done to fully bring this to life in early fiscal '26, we're already incorporating elements from our updated positioning. For example, our TV and billboard campaigns that debut next week will reflect our evolved tone of voice and select visual components.

And our spring menu that launched on February 11th also features an evolved look and feel. Our goal, as we've stated, is to evolve the brand while remaining authentically Cracker Barrel and staying rooted in our country hospitality. We will do this in a way that resonates with our current guests while also inviting new guests into the brand.

Our second pillar is enhancing the menu, which revolves around making it more craveable for guests and easier to execute for our team members, while also strengthening our value proposition. Our menu strategy continues to focus on the important dinner day part while protecting our leadership and breakfast.

Our current menu promotion features two craveable and delicious shrimp dishes, a Louisiana-style shrimp skillet and a shrimp and shrimp n'grits skillet. Additionally, we've introduced several new pancake offerings as we continue to bolster this platform, both from an innovation and barbell pricing standpoint.

An important part of enhancing the menu is also maintaining a strong value proposition. And as we've discussed, we are doing this in a number of ways. We continue to highlight exceptional and compelling value offerings and continue to focus on strong execution and the guest experience, which is also crucial to the overall value equation.

We believe these tactics are working as evidenced by improvements in several key metrics. For example, compared to the prior year, value scores increased 7%, food and taste scores grew 7%, and menu choice scores improved 8%. Another way we're enhancing the menu is through our Back-of-House Optimization Initiative to improve quality and profitability, while also making jobs easier and more enjoyable.

As a reminder, this is a multiyear initiative that will be completed in several phases. This first phase is focused on process improvement. We tested Phase 1 in a full region in Q2 and recently rolled it out system-wide. Importantly, our consumer research shows that the new processes result in items that score at parity or better than the existing items. And the test confirmed this is a significant cost savings opportunity.

One of our key learnings is that it takes a little longer than we initially anticipated for team members, especially more tenured ones to master these new processes. However, a consistent theme has been that once they gain proficiency, they love them. And new team members also find the revised processes easier, which reduces the time they need to gain mastery.

Based on our learnings, we have updated our assumptions for the timing of the cost savings, and we now anticipate the labor savings benefit of the initiative to be minimal in Q3 before ramping in Q4.

Pillar 3 is evolving the store and guest experience, which includes operational execution, store design and atmosphere, and retail. From an operational execution perspective, we remain focused on the metrics that matter. We are encouraged by our trends across the key metrics most correlated with same-store sales growth.

In particular, we were pleased that turnover improved by another 19 percentage points. This is an especially important metric due to its strong relationship with execution and therefore the guest experience. And lower turnover also translates to reduced training expense.

Additionally, overall experience scores improved 7% and service scores improved 5%. As part of our efforts to drive further enhancements to the guest experience, in Q3 we introduced new guest-focused service standards that are better aligned with the customer journey.

In terms of our remodel program, we want to remind you that fiscal '25 is a test and learn year. We remain on track for completing 25 to 30 full remodels and 25 to 30 refreshes. We remain optimistic about the program and plan to provide a deep dive on our Q4 call in September after the full year test has concluded.

In retail, despite ongoing industry headwinds, we generated positive comparable store sales for the first time in 2 years. We saw particular strength in our apparel category and our Christmas themes performed well despite a shorter selling season. Our fourth pillar is winning in digital and off-premise. As I mentioned earlier, Q2 is an especially important quarter due to the seasonally high volumes for our catering and occasion channel.

As we shared on our Q2 earnings call last year, although we set a record for Thanksgiving week sales, we identified opportunities to improve the guest experience, the employee experience, and profitability. This was one of the first areas that we tackled as part of our transformation, and this year we took several actions based on our learning.

For example, we prioritized the more profitable dine-in and individual-to-go channels, and deprioritized and throttled our lower profitability channels such as seasonal Heat n' Serve and Catering. We streamlined the offerings to reduce complexity and improve in-store execution. We refined allocation and capacity rules to prioritize stores that are more profitable and that deliver a better guest experience.

And finally, we increased pricing. These changes were hugely impactful and were the primary driver of our Q2 EBITDA performance exceeding expectations. We also delivered improvements to both the guest and employee experience. We expect to continue to see the benefits from these tactics in Q2 in future years as well.

In closing, we were pleased with our Q2 results, and the first half of the fiscal year has demonstrated the progress we are making, as evidenced by our ability to raise guidance. Our transformation remains on track, and we are focused on sustaining this momentum in the second half of the year.

I'll now turn it over to Craig to review our financials and provide our updated outlook.

Craig Pommells

Thank you, Julie, and good morning, everyone. As Julie noted, we were pleased with our Q2 results. The actions we took to improve the profitability of our off-premise and catering channels were key drivers in outperforming our expectations for the quarter. Overall, we reported total revenue of \$949.4 million, which was up 1.5% from the prior year quarter.

Restaurant revenue increased 2.7% to \$750.5 million, and retail revenue decreased 2.8% to \$199 million. Comparable store restaurant sales grew 4.7%, and comparable store retail sales increased 0.2% compared to the second quarter of the prior year. The difference in the comparable store sales growth and the total sales growth is primarily due to a few factors. First, as we discussed previously, Q2 sales and EBITDA were negatively impacted by a timing shift related to gift card breakage of approximately \$5 million. The timing shift is accounted for at the corporate level instead of the store level, and therefore it unfavorably impacts total sales, but not comparable store sales.

Second, a calendar shift related to the 53rd week in fiscal 2024 impacts the comparable store sales calculation, but not the total sales calculation. And finally, we had five fewer Cracker Barrel stores this quarter than in the prior year.

Moving on to pricing. Pricing for the quarter was approximately 6%. Our quarterly pricing consisted of approximately 2.7% carry-forward pricing from fiscal 2024 and 3.3% new pricing from fiscal 2025. Off-premise sales were approximately 23.2% of restaurant sales.

Moving on to our second quarter expenses. Total cost of goods sold in the quarter was 32.6% of total revenue versus 33.7% in the prior quarter. Restaurant cost of goods sold in the second quarter was 27.1% of restaurant sales versus 28.2% in the prior quarter. This 110 basis point decrease was primarily driven by menu pricing.

Commodity inflation was approximately 1.3%, driven principally by higher dairy, beverages, pork and beef prices, partially offset by lower poultry, oil and produce prices. Retail cost of goods sold was 53.4% of retail sales versus 53.2% in the prior year quarter. This 20 basis point increase was primarily driven by higher markdowns.

Our inventories at quarter end were \$173 million, compared to \$172.7 million in the prior year. Labor and related expenses were 34.4% of revenue, compared to 34.5% in the prior quarter. As a reminder, the prior year quarter results include approximately \$5.3 million in favorability related to a change in employee benefits policy. Excluding this favorable impact in the prior year, our current year quarter labor and related expenses improved 70 basis points, primarily driven by menu pricing and improved productivity, partially offset by wage inflation of approximately 2%.

Other operating expenses were 23.2% of revenue. Compared to the prior quarter, other operating expenses increased 30 basis points, primarily driven by higher depreciation and higher store maintenance. Adjusted general and administrative expenses were 5.5% of revenue.

Compared to the prior quarter, adjusted G&A increased 70 basis points, primarily due to a legal accrual, investments to support our initiatives, and more normalized incentive compensation. As a reminder, our adjusted G&A expenses exclude professional fees related to our Strategic Transformation Initiative and expenses related to our proxy contest.

Net interest expense was \$5 million compared to net interest expense of \$5.1 million in the prior quarter. This decrease was primarily the result of lower average interest rates, partially offset by higher debt levels. Our GAAP income taxes were \$1.9 million. Adjusted income taxes were \$4.6 million.

GAAP earnings per diluted share were \$0.99, and adjusted earnings per diluted share increased 9.5% to \$1.38. Adjusted EBITDA was \$74.6 million or 7.9% of total revenue compared to \$62.4 million or 6.7% of total revenue in the prior year quarter.

Now, turning to capital allocation and our balance sheet. We continue to have a strong balance sheet that provides flexibility and allows us to invest in the business to drive profitable growth and long-term value creation. In the second quarter, we invested \$38.1 million in capital expenditures. We ended the quarter with \$471.5 million in total debt.

Lastly, as announced in today's press release, the Board declared a quarterly dividend of \$0.25 per share, payable on May 14, 2025, to shareholders of record on April 11, 2025.

Before turning to our fiscal 2025 outlook, I want to make a few important points. As a reminder, we continue to view FY 2025 as an investment year, as many of our initiatives are in the early stages, and we anticipate our financial results will significantly improve by the second half of fiscal 2026 and further accelerate into fiscal 2027.

Next, I want to emphasize that the year-over-year increase in Q2 EBITDA was largely driven by the actions we took to improve the profitability of our Heat n' Serve and holiday catering [ph] channels during the important holiday weeks. The impact of these actions will largely be isolated to Q2, given that Heat n' Serve and catering sales are significantly higher in this period relative to other quarters. That said, we fully expect these benefits will be repeatable in Q2 going forward.

Lastly, our updated outlook reflects several items that I'd like to call out. First, we expect approximately \$4 million in incremental egg costs. Although our egg prices are fully contracted for the remainder of fiscal 2025, one of our vendors has lost some capacity due to the avian influenza outbreak, and as a result, we've had to purchase some eggs on the open market.

Second, we are making incremental, non-working marketing investments related to our brand refinement work as we prepare to fully launch the evolved brand in early fiscal 2026. Third, we're also making one-time, non-recurring incremental investments in Q3 to support operations excellence and the successful launch of our back-of-house optimization initiative and the introduction of our new service standards.

Additionally, as Julie noted, we've updated our timing expectations for the labor savings related to the back-of-house optimization initiative. Although we expect minimal savings in Q3, we anticipate the full benefit in Q4.

Next, our outlook reflects the softer traffic trends that we and the broader industry have experienced quarter-to-date. We believe this softness is largely being driven by poor weather and increased macroeconomic uncertainty. That said, we are encouraged by the improvement we've seen over the past 2 weeks compared to the rest of Q3.

Lastly, we expect an improvement in our Q4 traffic trend as a result of our initiatives. We are excited about our summer menu promotion as well as the continued evolution of our brand work and enhanced marketing. Additionally, we remain bullish on the Cracker Barrel Rewards Loyalty Program.

Now, moving to our outlook. For fiscal 2025, we expect the following. Total revenue of \$3.45 billion to \$3.5 billion, pricing of approximately 5%, the opening of one to two new Cracker Barrel stores and four new Maple Street units, commodity inflation of 2% to 3%, and hourly wage inflation of approximately 3%.

As a reminder, we expect our adjusted G&A expenses will be elevated in fiscal 2025, both in dollars and as a percent of sales, primarily due to investments related to our strategic transformation initiatives, as well as more normalized incentive compensation. However, we expect that G&A as a percentage of sales will begin to normalize as our financial performance improves in the second half of fiscal 2026 and into fiscal 2027.

Taking all of this into account, we now anticipate a full-year adjusted EBITDA of approximately \$210 million to \$220 million. I want to remind everyone that this excludes consulting fees related to our strategic transformation and expenses related to our proxy contest.

Year-to-date, we've incurred approximately \$7.3 million related to the transformation and approximately \$8.2 million for the proxy contest. And we do not anticipate any additional amounts related to these items over the remainder of the year. Regarding interest expense, we continue to expect that we will refinance our \$300 million convertible debt this fiscal year.

As a reminder, given the current rate environment, we expect that the coupon rate on our new debt instrument will be meaningfully higher than our existing coupon rate of 0.625%. We expect a full-year GAAP effective tax rate of negative 13% to negative 19% and an adjusted effective tax rate of negative 2% to negative 8%. Lastly, we anticipate capital expenditures of \$160 million to \$180 million.

In closing, we are pleased with our strong Q2 results and our transformation plan remains on track. I'm proud of our teams and we remain focused on continuing our strategic and operational momentum.

With that, I'll now turn the call over to the operator for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Today's first question comes from Jeff Farmer with Gordon Haskett. Please go ahead.

Jeff Farmer

Thanks, and good morning. Just a couple for you guys. So you did touch on it, but you delivered that roughly 4% restaurant comp number through the first half of the year you did comment on some of the consumer anxiety that's out there, but how should we be thinking about same-store sales in the back half of the year, all things considered?

Craig Pommells

Hi, Jeff. I'll start with that one. I would think about it as within the context of the guidance, obviously. So, the first two quarters are known. We were able to move up the top end of the sales range, so we're excited about that. So relative to our original expectations, we are a bit ahead. Clearly, there is some uncertainty in the month of February, in particular. As we think about that, our -- the start of February was particularly challenged, especially as it relates to weather, but also some macroeconomic uncertainty.

Having said that, the more recent trends have been meaningfully better in the last 2 weeks, but we do anticipate that our third quarter, which is February, March, April, will be a bit pressured by the challenges that we're seeing with the consumer, but we've factored really all of that into the full year guidance.

As we look at Q4, we have some things in the works as it relates to our innovation pipeline that we think will resonate particularly well in our summer travel period. So in short, there is some consumer angst out there, but we have factored that into our thinking and into our expectations.

Jeff Farmer

Okay. And then just one more, a little bit of a follow-up. So as it relates to that consumer angst, how is that manifesting itself across income cohort levels or age cohort levels? Any color there would be helpful.

Craig Pommells

Sure, absolutely. Our most recent data is showing that we've actually made gains over the last 3 months or so with the over 55 age cohort, so we're pleased with that. And obviously, the total pie is what it is, so that means a little bit of softness with the under 55 age cohort, so a little bit of a shift there. We are pleased with the gains that we are making with the over 55 group. It's one of the areas that we tackled a little bit over a year ago and we are happy with the performance there.

In terms of income, we generally look at that between the under 60K and over 60K. and we are seeing a relatively similar performance between the under 60K and over 60K. Now that is a bit of a shift. Now if we were to think back to the last couple of quarters, we were seeing some softness with the under 60K versus the over, and our most recent data is showing relatively similar performance between the under 60K and over 60K at this point.

Jeff Farmer

Okay. Thank you.

Julie Masino

Jeff, the thing I might add is, while there -- consumer confidence has dropped, everybody saw the University of Michigan report last month, we continue to feel like we are really resonating with our guests. Cracker Barrel remains an incredible value and we deliver value to our guests across several different ways, right? Even if you look at the pricing that we're taking, our value scores continue to improve, our loyalty program continues to exceed our expectations. More people are signing up. They're actually dining with us more often. They are a big -- the level of transactions from that group has grown quarter-over-quarter.

And then I'd also point to our check versus both casual and family dining, right? The Cracker Barrel check at the end of this quarter is \$15. At the same timeframe, casual dining is \$28 and family dining is \$18. So we remain an extraordinary value for our incredible country hospitality, hand-cooked delicious food, and our guests are recognizing that. So we believe that we're very poised. We're poised well, given some of the macro uncertainty out there, but we know that we're playing our game our way, our guests are responding to it, and we remain confident in our guidance for the balance of the year.

Jeff Farmer

All right. Thank you.

Operator

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

Todd Brooks

Hey, good morning to you all, and congrats on a really strong holiday quarter.

Julie Masino

Thank you, Todd.

Todd Brooks

I wanted to ask -- you're welcome. I wanted to ask, you pointed out the fact that some of this margin improvement that we saw EBITDA wise in the January quarter was related to really extremely solid execution of Heat n' Serve and catering across the period on a year-over-year basis. If I look, we were kind of flattish year-over-year in the first quarter. We saw north of 100 basis points of improvement here in the second quarter. Without kind of detail on parsing out the contribution from Heat n' Serve and catering, we don't really know what to back the expectations for year-over-year, even got margin improvement down to in the second half. So can we talk to out of that 100 basis point plus improvement, how much was the better execution of Heat n' Serve and catering?

Craig Pommells

Absolutely, Todd. I'll talk about a few of those pieces. So in Q2, the operations team really did a great job and delivered on every level, and we're really excited about how they brought it all together. And the changes to Heat n' Serve enabled some other goals that we had. And one of the goals was just to improve the experience for our guests as well as our team members. So as a result of that, we actually saw improving trends in our dine-in business as a part of that.

In terms of the parts of this that really sustained throughout the year, obviously, the total pie is because we've shared the overall outlook, we've shared the guidance and the first half of the year is booked so you can kind of back into the second half of the year. There are a couple of things that we've continued to make gains in. In one area, let's talk about labor. Back about a year and a half ago, we talked about the need to invest in labor. And we made that investment, there was a cost to it, and we've been getting the gains there in terms of get satisfaction.

We've been seeing really big gains in employee retention. And this fiscal year, we've been transitioning that into gains in terms of productivity. So you're seeing our employee productivity really improve as we have this now stable workforce with turnover that we are very pleased with and continuing to get better.

Now as we think about Q3, Q4, a couple of things there. So Q3, we are making some investments. We are making investments in the, we've launched the back-of-the-house initiative. There is a training cost to that, so that's actually a cost in Q3. There is a learning curve. we expect that back-of-the-house initiative is going to get to its run rate and continue to enhance labor even more than we've been seeing in Q4, but Q3 we have those training costs. We also have the training costs as it relates to the service model changes in Q3 as well. So from a labor perspective, we think things will continue to get better much more so in Q4 as the back-of-the-house fully comes online, less so as it relates to Q3.

Commodity guidance, overall, we feel really great about where we are with our commodities. Our supply chain team did an outstanding job as they -- as we covered this fiscal year and to some degree beyond that, that we're in a really good place with eggs. We are really happy with that. However, there is a little bit of an availability problem there, as we shared. So there's a little bit of headwind. But all of that is contemplated in our commodity guidance, which is really, really good, we think. So, labor really good. There's some of this that is somewhat unique to Q2, but that Q2 benefit will continue into future years, and all of that really is embedded into our thinking as it relates to the full year guidance.

I think the big takeaway there is, we have a couple things. We have some investments in Q3. We also know that Q3 start and traffic was a bit softer, a little bit better the last couple of weeks. And then in Q4, we have the full benefit of back-of-the-house, and we have some good things coming, so things that we are all really excited about that we think, even in a challenging environment, we think will resonate.

Todd Brooks

Thanks, Craig. One quick follow-up and I'll hop back in queue. I believe you said in the commentary, Craig, that the strategic transformation costs and the proxy [indiscernible] costs are done for the full year. Did I hear that right? So, we're now adjusting for that and adjusting EBITDA for the next two quarters?

Craig Pommells

Correct. Absolutely. The proxy costs are done and the strategic transformation work is completed as it relates to add-backs. We're in the stage now of implementation. There are some costs associated with that. For example, some of those costs are in Q3, but we are not treating those as add-backs for purposes of our adjusted EBITDA.

Todd Brooks

Perfect. Thank you, both.

Operator

The next question comes from Katherine Griffin with Bank of America. Please go ahead.

Katherine Griffin

Hi. Thanks for the question. First, I had a question on the retail business. Are you exposed at all to imports from China? And how are you -- if so, how are you positioning the business and kind of what are your expectations on how tariffs could impact your business overall?

Craig Pommells

Hi, Katherine, it's Craig. I'll start. Well, first let me talk about the restaurant business. We, the vast majority of our purchases on the restaurant side are domestic U.S. based. So that is a big positive as it relates to tariffs. The retail business, the supply chain and the retail business is much more complicated. About a third of our purchases for retail are from China. The team has been well ahead of this topic and they have been working on that.

There are a couple levers there that we pull as it relates to how to navigate tariffs on our China purchases. Number one, and we've had some meaningful success here, is just negotiating with the vendors so that we're not absorbing 100% of that cost. And the team has done a good job there.

The second lever is working to -- working on alternate sources. If we're not able to have the appropriate success with the vendor, looking at alternate sources. And then obviously the third is pricing. So we're balancing those three things. Obviously it's a dynamic topic, so we are staying flexible. But we are tracking and adjusting on a real-time basis. I was really happy with really how far ahead the team was on this topic. And keep in mind that all of that is everything, all of the tariffs that have been executed at this point, all of those impacts are contemplated in our guidance.

Katherine Griffin

Great, thank you. And then I just had a few clarifying questions on the egg inflation. So, first, can you remind me what percentage of your COGS are eggs? I know in the past you've talked about I think it's like a low double-digit number for dairy and eggs, but if you could kind of parse out eggs within that, that would be helpful. And then maybe just to clarify, on the purchases you made on the spot market, how much of your egg purchase is that? And since you're contracted through most of the year, how are you thinking about the impact next year as those prices kind of reset? I ask that within the context of what you spoke to about the fiscal 2026 guidance. I think you said the second half to ramp up, but I don't know if that still means that you expect '26 to be above '25 on adjusted EBITDA. I know there's a lot in there, but thank you.

Craig Pommells

Yes, absolutely, Katherine. I'll start and then you may need to remind me a little bit as I go here. The first one is our egg mix relative to our commodity basket. We're in the low single-digits. So low single-digit mix. Then in terms of our -- the impact, I would say our pricing is really good. So we lost a little bit of capacity. We are talking about single-digit teams in terms of volume, but the spot market prices are so much higher than our contracted prices. The impact there was \$4 million that I quoted for the second half.

And then in terms of our egg contract, again, the supply chain team really did a really good job and we are well-positioned in terms of our contracts through fiscal 2026. That being said, we have to be mindful of the supply issues. So we are contracted, we have good relationships with our suppliers that they honor, but there are clearly cases where due to circumstances beyond any of our control, they're not able to meet the demand, they're not able to supply the demand. So, that is an exposure, but in terms of contracts, we're very well-positioned through '26 at this point with eggs.

Katherine Griffin

Thank you. And if I could just ask one more follow-up, how should I be thinking about pricing in the second half of 2025?

Craig Pommells

Yes, so we -- our pricing, we were at 6% in Q2 and we're still estimate -- we are still at 5% on the year. So that would imply meaningfully lower than six in order to get to five on the year. So that's how I think all of that will play out.

Katherine Griffin

Thanks, I'll hop back in the queue.

Operator

The next question is from Alton Stump with Loop Capital. Please go ahead.

Alton Stump

Great. Thanks for taking my questions. Obviously, it sounds like dinner has been a huge outperformer for you now for the last several quarters. I'm curious, on the lunch and breakfast trend, sort of, if there might be a similar opportunity for you to improve those day parts, given all of the success that you've had for the dinner day part.

Julie Masino

Hey, Alton. Thanks for the question. It's Julie. I'll start, and then I'll let Craig jump in if I miss anything. We continue to be really pleased with the progress we're making around dinner. Now we're not to positive traffic yet, but that remains where we're headed towards. The items that we have launched have resonated so well with our guests.

You've heard Craig and I talk about Hashbrown Casserole Shepherd's Pie, Pot Roast in the past. Pot Roast is now one of our top five dinner items. So we continue to really fuel that innovation pipeline because we know that that fuels preference, it fuels traffic, it fuels people coming to us for dinner. So lots more coming in the innovation pipeline there.

We remain really focused on our execution at dinner. We still have our early dine specials out there for those that are very value-conscious, especially given some of the things we talked about earlier with the consumer sentiment. We've got the \$8.99 early dine available Monday through Friday, 4 to 6 PM. That's out there for people. We've got our loyalty program, which also provides great value.

And then back to your question about breakfast and lunch, we have really held up well at breakfast. It remains a pillar for us, a place of strength. We continue to innovate there as well. If you look at the new menu that we just launched, well we have two amazing shrimp dishes. I talked about them in my prepared remarks which are really targeted at dinner.

We also have some innovation around the Pancake platform, so that we can continue to really bolster our strength there, really execute the barbell, and also in some innovation in there. So all of those new items are really resonating with guests, even though we're only 5 weeks into Q3. So we continue to really not take our eye off any of those balls. We've got a win at traffic. We've got to win --- we've got a win at dinner, and we got to win at breakfast. It's kind of important to note that we did see traffic trend improvement across all day parts, breakfast, lunch and dinner in Q2 versus Q1. So we're really pleased with the progress the team's making and then the great execution by our operations teams in the field.

Alton Stump

Great. Thanks for all the color. Very helpful, Julie. And then I guess just one more follow-up, and I'll hop back in the queue. But just on the pricing front, it's certainly a question facing the entire industry right now of how much pricing power is still left. But as I look at Cracker Barrel, you guys are, I think, a great value versus even some of your lower-priced peers. So would I be wrong in thinking that perhaps Cracker Barrel has a bit more pricing power than most people might realize as you look out over the next 12, 18 months?

Julie Masino

Yes, it's a great question, Alton. Thanks for that. Look, it's one of the things we really examined as part of the transformation agenda is, how do our guests think about value? How do they think about absolute pricing? How do we stack versus the competition? And then where do we need to be to execute this transformation? And we're about a year into all of that. When you think about the early pricing work that we've shared with you all, we started that kind of March a year ago.

So, we've got a real test and learn mentality around pricing, the strategic ability to go in at the item level, at the restaurant level, and really understand where we should be vis-à-vis the competition, where we should be vis-à-vis our strategy. That's been working really, really well for us. I'll answer it in a couple of ways. One, we believe we still have room from a pricing standpoint, but that's not the only lever out there for us, right?

We are about value. We know that our guests count on us to be a great value, and we execute that in so many ways. I talked about it a little bit earlier when I answered Jeff's question, but remember we've got early dine. We've got the Sunrise Pancake Special that's available all day, every day at \$7.99. It's an extraordinary value. We've got Craig's favorite take-home meals that start at \$5. So after you dine with us at this exceptional value, you can have another meal for only \$5. Now, you have to heat it up yourself, but we make it really easy. You just kind of pop it in the microwave. So that's a great way to deliver value.

Our loyalty program is such a strength of value for us. We know that you can earn pegs on both retail and on restaurant. We run special promotions where, hey, if you come in and you spend \$30 with us, you get \$10 off or you get 20% off your entire check. So our guests are recognizing the value that we deliver vis-à-vis loyalty as well. And then I would just again highlight our outstanding check versus the competition.

Remember, Cracker Barrel ended the quarter at a \$15 check, while casual dining was at \$28 and family dining's at \$18. So we believe this really positions us well in this uncertain economic environment that we can deliver our outstanding hospitality, our great scratch-made food, all for a great value. So, we continue to watch it. We think there's opportunity there, but we're also super careful.

Alton Stump

Got it, great. Thanks so much for all of the color, Julie. I'll hop back in the queue.

Julie Masino

Thanks, Alton.

Operator

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

Andrew Wolf

Thanks, good morning. I also wanted to ask, very similar to what Alton was just asking about. So first of all, just on the price gaps to casual is pretty big and to family dining is not as big. How do you consider Cracker Barrel? I mean, is it a hybrid or is it one or the other when you analyze how much pricing leverage or gap you have?

Julie Masino

Yes, Andrew, we look at everybody, right? Because unfortunately, we are a little bit of a hybrid? Maybe not unfortunately, I'd say fortunately. I think it's one of our strengths, the fact that we have three day parts. We're out there at breakfast, lunch, and dinner taking care of our guests and offering them a great value. So because of that, we have to look at family dining. And because of how important dinner is for us, we look at casual dining as well.

We want to be relevant, we want to make sure that we are really grabbing market share from all of those folks. Even QSR, we look at them as well from a basket standpoint and what guests are paying across those channels. We believe it's really important to be relevant from a price perspective as well as from a menu offering perspective and a service and overall experience perspective. You're going to get our great country hospitality at those great price points.

And frankly, remember, our guests love us for our abundance. And that still keeps coming through when you look at what they're buying from us and the menu items that are doing extraordinarily well. So we look at all of it. We're pretty special. Don't forget, we also have a retail store. So we're even more special and a little bit more differentiated than all of those competitors.

Andrew Wolf

Okay. The other sort of micro-wee question, then I want to ask a macro question, is so that \$15 average for Cracker Barrel could sort of disaggregate to, I would guess, lower on the family dining type of occasion and higher on the casual dining. So the gap might be even better against family dining and maybe a bit closer to casual. I don't know if you've heard that title.

Craig Pommells

Yes, yes. No, we haven't done it that way, but I think I get your point. If you were to compare our breakfast business against breakfast as an example, I think we're really well-positioned in that way because, for example, at dinner we now have a steak and shrimp. It's really an amazing dish.

Julie Masino

It's selling well.

Craig Pommells

Yes, it's selling really well, and that would compare more to a casual dining competitor versus a family dining competitor. So I think that's -- we don't exactly look at it that way. We do think about our gaps to competitors, though. Like, for like item to like item, where do we want to be? And we have a target there, where do we want to kind of be the best? Where do we want to be in line, that type of thing.

Julie Masino

Our new pricing capability enables us to do that by store, by like, region -- the country versus competitors. So we're looking at all of that to see how we stack up.

Andrew Wolf

All right. That sounds very robust, but I'd like to ask you at a higher level, if you will. So there is a big gap, and you've got tools to do it, and you want to be prudent. But my sense of it is sort of a pay as you go, if you will, kind of thing going on where as Cracker Barrel is able to improve the experience, whether it's better menu items, better service, better lighting, remodels, all that stuff, there is an opportunity -- there could be an opportunity to increase that gap to close the gap. It would stand to reason. I just want to understand if that's part of your philosophy. Or do you want to maintain that gap for other reasons?

Craig Pommells

Well, as we did the strategic pricing work, we laid it out over this whole transformation window over the 3 years, recognizing that it's the what you pay for what you get, or what you get for what you pay. And we are working on the what you get part. And we've made a lot of progress there, certainly, as you can see with our various guest satisfaction metrics. But other things, too, we've been improving and evolving the offerings. And as you know, we've been doing other tests to improve the atmosphere and so on. So I think all of that is to -- I think what you're saying there is, there is a trajectory on the what you get, and that gives us some flexibility on the pricing as you think about that over the entire window. So the intent was never, here is the entire size of what we think the strategic pricing opportunity is, let's take that now. That was never the intent. It's staged over a period of time, and it's also staged with the other things that we're invested in the business to deliver a better experience for our guests and our employees.

Andrew Wolf

Okay. That's what I was getting at. Thank you, and congratulations on the results so far.

Julie Masino

Thanks, Andrew.

Operator

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

Jon Tower

Great. Thanks. Maybe Craig. I was wondering if you could dig into the mix in traffic in the quarter, and specifically, you had mentioned about the benefits from an EBITDA standpoint on the catering and Heat n' Serve during the second quarter. Is there a way you can quantify that for us?

Craig Pommells

Well, here's what [indiscernible] Jon, Here is what I can say without getting into a whole lot of detail there. We, Julie talked about we started down this path, a year ago, actually over a year ago, when Julie really set this objective for us to improve this holiday window in terms of the experience and in terms of the profitability. And as a part of that, what we've done is prioritized our dining business and ensuring that we're delivering a really great experience and driving that a bit more so than even the catering and Heat n' Serve business in this window and that worked out really well.

So we actually gave up some traffic here as it relates to catering and Heat n' Serve. The traffic that we kept was more profitable, but it also enabled us to deliver better dine-in traffic as well. Now, if you kind of break apart the 4.7% comp, as an example, if that's what you're getting at there. 4.7% of total sales, check up 7.4%, price up 6%. Mix up 1.4% which reinforces this idea that the strategic pricing is working, because we are still getting that positive mix and traffic of a negative 2.7.

What I would say, though, is embedded in that traffic of a negative 2.7 are some, we did not pursue as aggressively some of that business as it relates to the Heat n' Serve and catering, so that's embedded in that traffic performance, and we saw an improvement in our dining.

Jon Tower

Got it. Thank you. And then you also mentioned, I think, in the prepared remarks, there was a calendar shift in the period. Can you quantify that as well?

Craig Pommells

Yes, so we talked about really three things that drove the differential between the total restaurant sales versus the comp sales. And they're similar, it's not exactly a third, a third, a third, but that differential is about a third, a third, a third as it relates to the gift card discount and the impact of that. And then the impact of the 53rd week calendar shift that, the comp calculation really keeps the weeks apples to apples. So that's that difference. And then the five stores. So all of those are in very rough terms, a third, a third, a third.

Jon Tower

Okay. And let me go back, you mentioned earlier the idea that the service model is changing and there's some elevated training costs coming in the third quarter. Can you just speak to exactly what's happening with the service model and maybe if over the longer term are you guys anticipating that labor hours at the store level will maybe start working lower?

Julie Masino

So, a couple things going on there, Jon. One, we have really been trying to put the guests at the center of everything that we do, really focusing on ensuring that we're delighting them, taking great care of them, thinking about them with the way we think about the menu innovation, the pricing, all of those things. And what we've done is really just evolved our service model to do exactly that. So we rolled out some new standards that literally have the guest at the center of everything and are really just reinforcing that through a lot of our service standards. That's sort of the one thing. And that works for all of the roles, from back of the house to front of the house. It's really just a new way for us to kind of talk about that and just reinforce and bring our country and hospitality to life through all of our initiatives and all of our labor and positions.

The second piece is that back-of-the-house initiative, and that really, we rolled those trainings together so that people could sort of understand them and that they work together to make jobs easier, to get people focused on the right things, and to really improve quality and service and all that we do. So we put those together, rolling them out this quarter, and super excited. The feedback's been really great from the team. They're loving it. They love the simplified steps in the back-of-the-house.

They love the focus on the guests in the front of house and in all of the roles. And I'd build on that, Jon, just to say that the, improving labor productivity is a key part of kind of that growing overall profitability for the company over the 3-year window here, we're two quarters into that. We are already seeing better in labor as a percent of sales than we had in the prior year. We're seeing those gains in productivity.

We expect that in Q4, we will start to see even more of that with the Back of House initiative as that goes alive. We had one initiative that went live in Q1 of fiscal '25, and that's been helping in terms of our overall labor costs and productivity. This other back-of-the-house initiative goes live in Q3, but we expect the benefit in Q4. And then we have two additional phases that are still very, very early as it relates to the overall labor productivity initiative. So that is a multi-year endeavor. We're still early, but it is a big part of the overall profit story as we go through the 3 years. And it's not just about cutting labor, though. It is about making the jobs easier for our employees, making it more enjoyable, and improving the consistency with which our products come out at great quality. And by doing that, it also reduces the amount of labor that's required.

Jon Tower

Got it. Thank you. And then just the last one for me. In terms of, I know, Julie, you've mentioned earlier in prepared remarks, not providing too much more insight on the remodels and the refreshes, but any color you can provide around the lists that you're seeing at the store, even consumer feedback in the markets. I think Indianapolis is one of the earlier ones in terms of guest satisfaction scores or anything like that.

Julie Masino

Yes, John, it's funny. We were joking in our prep. I'm like, somebody's going to ask about remodels even though I haven't in the prepared remarks. It wouldn't be an earnings call if somebody didn't ask. But we are, it's awesome. No, it's, gosh, it's such an important program. I mean, it's not the most important thing that we're working on, but there's so many pieces in it. And so that's really why we said, we'll come back as part of our September call and really do a deep dive on it. We've been spending so much time really trying to get the algorithm right and get the levers right and understand from our guests and from our team members what are the things that drive the most lift in traffic, the most lift in satisfaction, and how do they come together. And is it lighting? Is it floors? Is it paint? Is it service model? All of those things we're looking at. And so we really want to make sure that we're dissecting it correctly, applying it correctly, and understanding it correctly.

And we're testing -- we keep changing the things that we're testing, right? We keep learning something and then trying something new. For example, we've got a whole new store that we're building near here right now. Not building, but remodeling based on some of the learnings that we're building along the way. So this truly is an investment year. It's a test and learn year. We want to get this right for our investors. We take our capital allocation very, very seriously. We take the return on that capital very, very seriously. And we're just trying to be very targeted, get it right, and we need a little bit of space to do that.

I know you guys watch it all through Placer AI and all of that. You're seeing some of the gains in Indie lately and some of those other things. Right now, all we've said publicly is the four stores from '24, we continue to be very pleased with those. We've got a lift in traffic, lift in sales there, and we'll come back at the end of the year and talk more about it.

Jon Tower

Great. Thanks for taking the questions.

Operator

The next question comes from ...

Julie Masino

Somebody had to ask it, Jon.

Operator

The next question comes from Larson Rice with Truist. Please go ahead.

Larson Rice

Hey, guys. This is Larson, just on for Jake. Just wanted to, I know we touched on the egg commodity quite a bit already, but given the \$4 million incremental pricing and keeping the guidance reiterated there, I was just wondering if there's anything you want to call out on some of the offsets that you might be seeing to offset that. Thank you.

Craig Pommells

In terms of how we fund that, and I think this kind of came up earlier, but the thing about the entire equation, we raised our guidance a bit on the year, but our Q2 was pretty strong. So there are a number of puts and takes in terms of how we're solving some of this. There's some spending that we had in the projection that we're going to defer, although puts and takes in order to fund that. But a part of it is, we are raising the guidance less than what would be in theory implied just based on Q2 only. So all of that is baked in there.

Larson Rice

Great. Thanks so much.

Craig Pommells

You're welcome.

Operator

This concludes our question-and-answer session. I would now like to turn the call back over to Julie Messina for closing remarks.

Julie Masino

Thank you. I want to thank everyone for joining us today. Our transformation is on track as demonstrated by our strong first half results. Fiscal '25 remains an investment year, but we're pleased that we were able to raise our EBITDA guidance. We believe we have a strong plan to drive continued performance in the back half, particularly in Q4, and we are confident in our ability to deliver our commitments and set us up well for a very important '26.

Finally, I want to close by saying thank you and giving a huge shout out to our 70,000 plus team members for their amazing work bringing the brand to life every single day and especially during the important Q2. We're making terrific progress and I'm excited about our future. Thank you.

Operator

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

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