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Cracker Barrel Old Country Store, Inc. (CBRL) Q3 2024 Earnings Call Transcript

May 30, 2024 4:23 PM ET | Cracker Barrel Old Country Store, Inc. (CBRL) Stock

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Q3: 2024-05-30 Earnings Summary

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EPS of \$0.88 **beats by \$0.22** | Revenue of \$817.14M (-1.87% Y/Y) **misses by \$3.48M**

Cracker Barrel Old Country Store, Inc. (NASDAQ:[CBRL](#)) Q3 2024 Results Conference Call May 30, 2024 11:00 AM ET

Company Participants

Adam Hanan - Senior Manager, IR
Julie Masino - President, CEO
Craig Pommells - SVP, CFO

Conference Call Participants

Andrew Wolf - CL King
Brian Mullan - Piper Sandler
Dennis Geiger - UBS
Jake Bartlett - Truist Securities
Jeff Farmer - Gordon Haskett
Jon Tower - Citi
Katherine Griffin - Bank of America
Todd Brooks - Benchmark Company

Operator

Good day and welcome to the Cracker Barrel Fiscal 2024 Third Quarter Conference Call. [Operator Instructions]
Please note this event is being recorded.

I would now like to turn the conference over to Mr. Adam Hanan, Senior Manager of Investor Relations. Please go ahead, sir.

Adam Hanan

Thank you. Good morning, and welcome to Cracker Barrel's Third Quarter Fiscal 2024 Conference Call and Webcast. This morning, we issued a press release announcing our third quarter results. In this press release and on this call, we will refer to non-GAAP financial measures such as adjusted EBITDA for the third quarter ended April 26, 2024. Please refer to the footnotes in our press release for further details about these metrics.

The company believes that 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 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. Given the substantive update we provided 2 weeks ago, today's prepared remarks will be shorter than usual. I encourage everyone to review our comments from the May 16 call for additional details on our transformation plan, if you haven't already.

This morning, we reported total revenue of \$817.1 million and adjusted EBITDA of \$47.9 million or 5.9% of revenue. As we previously noted in our May 16 press release, our results fell below our expectations due to weaker-than-anticipated traffic. Our third quarter traffic challenges underscore the need for our strategic transformation as we discussed on May 16. Of course, as we undertake our longer-term strategic initiatives, we continue to aggressively manage our day-to-day business, and I was encouraged by our performance despite the financial impact of lower traffic.

Although our financial performance in the quarter was challenged, our teams managed the business well. We saw solid improvements across the metrics that are most highly correlated with same-store sales growth, guest satisfaction, speed, hourly turnover and average skill level for key job roles. We believe these are key leading indicators, and we're pleased with the progress we are making. For example, compared to the prior year quarter, our hourly turnover has improved by 10 percentage points. Our seat-to-eat times at the key speed metric has improved by approximately 8%. Our off-premise missing item scores improved by 18%. The average skill level for the key positions of cook and server increased by 3%, and our Google star rating has increased from 4.1 to 4.2. We are confident that our sustained focus on these operational metrics will deliver further improvements, which will translate to increased visits in time.

Additionally, our operators did a good job of managing food waste. I believe this, along with a positive trend in the above metrics, is the result of our organization-wide emphasis on operational discipline and is also indicative of our dual focus on running the day-to-day business, while also executing our transformation, and our operators' ability to effectively manage expenses helped mitigate the margin compression from the lower traffic.

Next, while retail sales were also challenged as a result of our traffic results and broader retail headwinds, we were encouraged that we saw sequential monthly improvements in retail same-store sales and the performance of our seasonal theme assortments.

In closing, our financial performance remains pressured by the challenges we previously described, but we are confident that our focus on our 5 strategic pillars: one, we're signing the brand; two, enhancing the menu; three, evolving the store and guest experience; four, winning in digital and off-premise; and five, elevating the employee experience will deliver our imperatives of driving relevancy, delivering food and an experienced guests love and growing profitability and position the company for significant value creation over time.

I'll 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. Craig?

Craig Pommells

Thank you, Julie, and good morning, everyone. Before getting into our results and guidance, I want to remind everyone of a few changes we've made as it relates to our financials. First, we are now focused on adjusted EBITDA as a key metric to track our financial performance and are now providing guidance on adjusted EBITDA as we believe it is more meaningful to investors to evaluate our performance before the impact of depreciation, which we expect to be higher due to the increased investments related to our strategic transformation plan.

Second, we modified our definition of adjusted EBITDA and are no longer adjusted for the noncash amortization of the asset recognized from the gains on sale and leaseback transactions, which is an approximately \$3.2 million expense each quarter and is expected to remain at a similar level over the remaining life of these leases. Additionally, we are now including an add back for share-based compensation expense. We understand there are a few moving pieces here, so we refer you to the reconciliation tables in the press release for additional information.

For the third quarter, we reported total revenue of \$817.1 million. Restaurant revenue decreased 1.5% to \$671.3 million and retail revenue decreased 3.7% to \$145.8 million versus the prior year quarter. Comparable store restaurant sales decreased by 1.5% over the prior year. Pricing was approximately 4%. Our quarterly pricing consisted of approximately 1.5% carry forward pricing from fiscal 2023 and 2.5% new pricing from fiscal 2024.

Off-premise sales were approximately 18.9% of restaurant sales. Comparable store retail sales decreased 3.8% compared to the third quarter of the prior year. 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 third quarter expenses. Total cost of goods sold in the quarter was 30% of total revenue versus 31.5% in the prior year quarter. Restaurant cost of goods sold in the third quarter was 25.9% of restaurant sales versus 27.3% in the prior year quarter. This 140 basis point decrease was primarily driven by menu pricing. Commodities deflated for the quarter by approximately 0.6%, driven principally by lower oils, poultry and egg prices. Third quarter retail cost of goods sold was 49% of retail sales versus 50.2% in the prior year quarter. This 120 basis point decrease was primarily driven by higher initial margin. Our inventories at quarter end were \$175.3 million compared to \$184.8 million in the prior year.

With regard to labor costs, our third quarter labor and related expenses were 37.8% of revenue versus 35.8% in the prior year quarter. This 200 basis point increase was primarily driven by our investments in additional labor hours to support the guest experience and hourly wage inflation of approximately 5.2%, partially offset by pricing.

Other operating expenses were 24.5% of revenue versus 23.6% in the prior year quarter. This 90 basis point increase was primarily driven by our investments in advertising and higher depreciation. Adjusted general and administrative expenses for the third quarter were 5.4% of revenue, which was flat to the prior year quarter. The current quarter results excludes approximately \$3.5 million in expenses related to the CEO transition and approximately \$6.6 million in professional fees related to our strategic transformation initiative.

Our GAAP financial results include store impairment charges and closure expenses of \$22.9 million. Our top capital allocation priority is investing in the core Cracker Barrel business and in the initiatives we discussed on May 16. Therefore, we have decided to slow down Maple Street's unit growth in the short term while they work on improving that business model and as part of our focus on investing in the Cracker Barrel business. As a result of our decision to slow down Maple Street's growth, we recorded a goodwill impairment of \$4.7 million.

Net interest expense for the quarter was \$5.2 million compared to net interest expense of \$4.5 million in the prior year quarter. This increase was primarily the result of higher average interest rates and higher debt levels. Our GAAP income taxes were a \$15.3 million credit. Adjusted income taxes were a \$6.4 million credit. Both results include the year-to-date impact of lower income tax expectations due primarily to lower expected annual earnings before taxes. Third quarter GAAP earnings loss per diluted share were negative \$0.41 and adjusted earnings per diluted share were a positive \$0.88. In the third quarter, adjusted EBITDA was \$47.9 million or 5.9% of total revenue compared to \$59.6 million or 7.2% of total revenue in the prior year quarter.

Now turning to capital allocation and our balance sheet. The company's Board of Directors is committed to a balanced capital allocation approach, investing in the business to drive profitable growth continues to be the top priority, followed by returning cash to shareholders through a regular quarterly dividend and share repurchases. In the third quarter, we invested \$29 million in capital expenditures. We returned \$28.9 million to shareholders in dividends. We ended the quarter with \$472.2 million in total debt.

With respect to our fiscal 2024 outlook, we now expect total fiscal 2024 revenue of \$3.47 billion to \$3.51 billion. We continue to anticipate pricing of approximately 5% for the full year. We have completed our 2 planned Cracker Barrel baboons, and we now anticipate 8 to 10 new Maple Street openings during the year, including the 6 we've already opened. We now expect commodity inflation to be approximately flat, and we continue to expect overly wage inflation of approximately 5%.

Taking all of the above into account, we anticipate full year adjusted EBITDA of approximately \$200 million to \$220 million, which includes the benefit of a 53rd week. This reflects our lower-than-expected results in Q3 as well as our downwardly revised expectations for Q4, which are primarily driven by our lower expectations for traffic. Although we did not previously provide adjusted EBITDA guidance, our current guidance reflects an approximately \$20 million reduction relative to our previous expectations. Our adjusted EBITDA guidance contemplates certain excluded expenses. First, approximately \$9 million of onetime CEO transition expenses; second, approximately \$16 million in consulting fees related to our strategic transformation, which includes additional pricing and menu strategy work; third, approximately \$2 million in corporate restructuring charges; and fourth, approximately \$5 million of favorability from the change to our benefits policy that occurred during the second quarter. We now expect a full year GAAP effective tax rate of negative 55% to negative 60% and an adjusted effective tax rate of negative 3% and to negative 8%.

For the fourth quarter, we expect a GAAP effective tax rate of approximately negative 2% to negative 7% and an adjusted effective tax rate of approximately negative 1% to positive 4%. Lastly, we anticipate capital expenditures of \$120 million to \$125 million.

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

Question-and-Answer Session

Operator

[Operator Instructions] And the first question will come from Jeff Farmer with Gordon Haskett.

Jeff Farmer

I'm just hoping you can provide a little bit more color on some of your near-term top line strategies especially in the background that we've heard from your peers, which is pointing to sort of both increased advertising weights a lot more value promotion. So I appreciate your long-term strategy that you outlined a couple of weeks ago, but at least over the next couple of quarters, how are you guys looking to compete in an environment that's been increasingly promotional and a lot more advertising?

Julie Masino

Jeff, thanks for the question. We actually feel very well positioned in this environment because Cracker Barrel is a brand that values, value and really understands the value is important to our guests. And remember, value is a multifaceted equation for the guest. It's not only the price that somebody pays, but it's the quality of the food, it's the amount of the food, it's the experience that they receive in our restaurants.

We got out of the gate early on thinking about value and how we were going to convey value in new ways to our guests based on the research that we've done that has really underpinned the transformation agenda. Value for us at Cracker Barrel is just one key piece of all of it. We got out of the gate last Q2, you'll remember that I shared on the earnings call that we were launching an early dine program. It was something we believe very, very strongly in. It's got great dinner items at \$8.99 from 4 to 6 p.m. Monday through Friday. We love welcoming our guests in at that very, very sharp price point. We rushed to get that to market. So much so that we actually didn't have any planned advertising around it in Q2. What you're seeing right now or even Q3. What you're seeing right now is that at the beginning of May, we actually started to put some advertising behind that so that making guests aware that Cracker Barrel has their back in these times. So we are there for them with this great sharp value price point at dinner.

That is a big piece of our overall pricing strategy that I talked about on the call a few weeks ago. We are really executing a barbell pricing strategy so that we can be very sharp with key price points, not only with this early dine program, but we also have key price points of breakfast. We've introduced a new Sunrise Specials for breakfast at \$7.99 price point that's an incredible value. I challenge you to eat it all, I personally can't eat it all. It's such a great breakfast. It features our signature pancakes and eggs or your choice of meat. And that's a great price point as well. So that's kind of one end of it while we're really evaluating our ability to kind of take price strategically, as I've talked about on the last couple of calls. So we believe that we're very well positioned. We're starting to actually communicate this through our media channels. But Cracker Barrel has and always will be a great value proposition for our guests, and we're just determined to ensure that they know about it.

Jeff Farmer

Okay. And then just 2 more quick follow-ups on the modeling side. So I think your guidance implies for the fourth quarter, something like 200 basis points of adjusted EBITDA margin compression. So first question is, am I in the ballpark with that? And then the second one would be -- I might have missed it, but can you share the traffic and mix? I think you shared that the pricing was in the press release, but traffic and mix in the quarter?

Craig Pommells

Jeff, it's Craig. Yes, you're in the ballpark as it relates to the margin reduction in Q4 in very, very rough terms, approximately 200 basis -- approximately 200 basis points. And in terms of traffic for the quarter, traffic for Q3 was a negative 4.9% for the quarter.

Operator

Your next question will come from Todd Brooks with the Benchmark Company.

Todd Brooks

Just following up on Jeff's question, consumer behavior and what you're seeing currently, are you seeing really frequency being the loss from a same-store sales pressure standpoint? Or how about check management? I mean, what are you seeing as far as trade down value resonating, maybe people coming out of other day parts into that early evening daypart. I just like to get a sense on kind of your consumer and how that developed across the course of the quarter.

Craig Pommells

The -- in terms of the consumer, what we're seeing is the lower income consumer is more pressure, and we're seeing that particularly with the 160,000 consumer in terms of their visits. I'm not sure if it's frequently necessarily, but that would make sense. Traditionally, Cracker Barrel has been a great value. We've actually held up well over the longer term with the under 60,000 consumer. But more recently, you've seen some pressure there. Our -- in terms of the menu mix, there are a couple of moving pieces, so there is a little bit of negative menu mix there, Todd. It's not a large amount. And I would say there are some reductions in add-ons and things like that relative to prior trends. We've really seen it more so on the retail side, where that's a highly discretionary part of the dine-in occasion, and we've seen a little bit of softness on conversion. So maybe more on retail than necessarily in restaurant.

Todd Brooks

That's really helpful. Second follow-up, if I may. If we look back to the call from a couple of weeks ago, you talked about 2025 being an investment year and talking to it being in the range of flat to slightly down EBITDA. Do we be thinking about the guidance range for full year '24 and maybe that lower half of the \$200 million to \$220 million range being attainable in '25, and that would be that flattish outcome? But if you're in the upper half in '24, that leads to kind of the down year-over-year EBITDA. Any sense of how we flow this incremental guidance point you've given us versus the qualitative guidance point around fiscal '25 EBITDA?

Craig Pommells

Yes, we'll add some more texture to that in September. I think we -- we really believe in the 3-year plan, we believe in the roughly 400 basis point improvement in EBITDA. And we're looking at all of the work we've got ahead of us. We're kind of looking at the industry headwinds and that kind of leads us to a point of view that '25 will be a bit challenged, and we still continue to believe in the EBITDA level flat to slightly down relative to -- to '24. Now where you end -- where we ended '24 is still a bit of an open -- an open chapter. So we'll let this kind of play out, and then we'll update you on the next call.

Todd Brooks

Okay. And just a final one on the modelling side. Can you remind us the expectation for what the 53rd week is worth from a revenue and EBITDA standpoint?

Craig Pommells

Yes. We haven't provided an exact number on the 53rd week. And generally, what I would encourage you to do is go back to 2018 and use that as a reference point and generally update that for lower margins. I would say that the 53rd week impact is embedded in our total year EBITDA guidance for this year. And as we talk about fiscal 2025, we are comparing the expectation for '25 to that total fiscal 2024 guidance that we provided.

Operator

Next question will come from Jake Bartlett with Truist Securities.

Jake Bartlett

Great. I wanted to build on the update call and some of the kind of big changes that you announced. And one question that I had following it was just really what gives you the confidence that reinvesting in the stores is the right way to go here, such a big change to the model. Anything you can share in terms of just more detail of what you heard from -- from consumers and why you think that, that -- the remodels as well as the kind of the increased maintenance is so important for the turnaround here?

Julie Masino

Yes. We heard -- we did extensive research and really putting together the transformation plan. We talk to guests all over the country, all different kind of segments, all kinds of backgrounds and also listen to our team members and really took great stock and kind of where we find ourselves. And with traffic down almost 20% to 2019, they're telling us they're not choosing us. And so digging into the lives there was really, really important. We heard from them that the experience in Cracker Barrel just isn't as relevant specifically at dinner. So we -- and our dinner sales are down. When you look at that year-over-year, it's 35% of our mix, and it's an important daypart for us. We've held up quite well at breakfast. But what guests have told us is that the Cracker Barrel experience, there are more relevant choices for them in the dinner daypart based on the experiential factors. So a lot of that is looking at the comfort of the tables, the lighting, the paint, all of those things. And that really came out in our research that we needed to look at the store experience as well as the other parts of the transformation agenda, right? The menu also needed some work on relevance. So lots of data is behind that.

And then what I would tell you, Jake, as well as only 2 stores. They are very much lab stores at the moment. We're seeing great guest feedback on the quick remodels that we did there and just the feeling of lighter, brighter, fresher, cleaner a place where I do want to have dinner. Remember, we put some bank tests and boots into these stores and people are really loving those. And it's feeling like a place that feels like they're a Cracker Barrel and just a better version of Cracker Barrel. So we believe we're on the right track, and that's what '25 is all about really taking a very disciplined approach to the capital deployment around this piece of the strategy, right? We know that we want to be careful and good stewards of the capital. So we're looking at testing 25 to 30 stores in this next year. at a variety of investment levels and, frankly, at a variety of baselines.

So we're looking at stores that are performing well, stores that aren't performing well, looking at whether we put a higher amount of money into it or a lower amount of money in to really see and find that sweet spot for the right level of investment versus return versus growth rate, so that we can be very disciplined about the deployment of capital to really drive that part of the plan for growth for the future.

Craig Pommells

And I'll follow up with the second part of your question related to maintenance. Some of that in it comes through general feedback, but guests don't give you that specific -- specific feedback. However, we have brand standards. So what we do as a normal course of business and maybe fell a little bit behind during COVID is, we go through and we audit every store, and we audited the entire portfolio. And as we completed that process, it was clear to us that we fell a bit behind on -- on some -- guest base in and employee base in maintenance items, things such as parking lots, paints and floors and bats. And so that really came through our own standards anecdotally from guests, but primarily through our own standards, and we have to get caught up on that. That is one of those investments that it pays dividends over time as you think about how you view a business? Does it look fresh? Does it look clean? Does it up to date?

Jake Bartlett

Got it. Great. That's helpful. My next is a similar question on the cost savings targets that you provided, the \$50 million to \$60 million. I know you're early stages and -- but I guess my question, if you could help us understand maybe some big buckets. You've -- you've talked about the opportunity to maybe have a little bit less scratch cooking, maybe just a little more food coming in the door a little more process for lack of a better word. But what are the big -- is that the majority, I mean, just give us some big kind of buckets of where you think these cost savings are going to be coming from?

Craig Pommells

Yes. You've kind of started the answer there for us. Thank you. A lot of the work centers around industrial engineering effort that focuses on the back of the house. We're in the early stages, early stages of that, but we think there's a win-win opportunity given the breadth and the complexity of our menu to simplify our operations, make it more efficient, make it more consistent. And that will show up in kind of back of the house in labor in some ways. It will show up in other areas in the back of the house. We think that will be a meaningful part of this \$50 million to \$60 million.

And then in addition to that, we have an ongoing program that's been quite successful over the years that will generate savings across the full P&L. So I think some of that's going to skew towards the back of the house, which will have a labor component to it over time. And then the other program is an overlay to that. The challenge has been, we've had these programs for a while, Jake, as you know. Candidly, the challenge has been this issue that Julie brought up is this relevant issue, which we think manifests itself in decline in traffic. So saving \$50 million as an example. And then the traffic is down significantly, then that erodes that \$50 million. So we have both of these things coming together. We're stabilizing the traffic and ultimately starting to grow then that allows these cost savings efforts to flow through to a greater degree.

Jake Bartlett

Okay. And just -- just I guess to that point, there was some -- you had cost cuts in the past year the \$30 million to \$40 million, but that was being reinvested. So it wasn't kind of -- really wasn't flowing through to the margins. I just want to make sure we're clear that the \$50 million to \$60 million that you expect to save, that's going to flow through to margins. You expect that to be kind of a real kind of essentially a net margin saver in it -- so reinvesting that is something else that would not kind of allow this to flow through?

Craig Pommells

Yes. The \$50 million to \$60 million is embedded in the 400 basis point improvement. So it's a part of that improvement over the 3-year window.

Operator

Next question will come from Brian Mullan with Piper Sandler.

Brian Mullan

Julie, you mentioned something called seat-to-eat times in the prepared remarks. That seems like an important KPI. Maybe could you just give a little history was that being tracked before you joined? And then assuming it was, it's nice to hear that there's been some recent progress. Can you just give us a sense of where that stands versus a couple of years ago when the business was in a bit of a better place? Just trying to get a sense of how far you might have to go.

Julie Masino

Sure, Brian. Thanks for the question. One of the early things we did in really dissecting the business and looking at what we could do to improve where we find ourselves was focus on what I call metrics that matter. And so we did a lot of correlation in what are the ops metrics specifically in the stores that we can control today that have the highest impact on same-store sales growth. And when we came -- when we dug into that, we looked at -- I don't even know, we looked at like 40 or 50 different metrics and really landed on these 5 that I talked about in the prepared remarks. The first one is really guest satisfaction. Guest satisfaction is a little bit of a loaded one because it's like value. There's a lot of things in that calculation for our guests. It's everything from the service level to all of those things roll up into guest satisfaction. But we're measuring that with Google Star rating. And so that's number one. Number two, I talked about seat to eat, and we also have another metric called seat to precheck. So that's basically how quickly are you greeted and then how long does it take for your food to come out. The seat to eat, which is really the big one because people are not great. That's why they came to Cracker Barrel, they want to eat, so we want to make sure that we get their food to them in a reasonable amount of time, but that is made properly hot food is hot, cold food is cold made to our wonderful recipe, we've improved that time by 8%, which is actually really, really meaningful. When you think about the average time somebody spends with us is a little less than an hour. So that's a key metric in getting your food faster and getting you on your way. We want to be part of your life, but we also know you have other things going on to. So that was a key one.

The other ones I talked about, our turnover, tenure in a role and then we're also looking at off-premise missing item scores, all of which we're showing improvement on the team. It's huge -- I'll just use this opportunity to really shout out the ops team and all of our field partners every single day and the leaders there because they are so focused on taking care of our guests delivering an experience that guests are going to love and food to guests love. Remember, those are part of my 3 imperatives. The relevancy, food and experience that guests love and growing profitability and that really starts day in, day out, every execution when every guest making it wonderful. We believe that these dividends that were in the dividend. But these efforts that we're really focused on in our restaurants today will pay will pay dividends to the business in the long term because these are really what matter to our guests and what drives same-store sales. So thanks for the question.

Brian Mullan

Okay. And then just a follow-up question on the off-premise business. You talked about this a bit in the strategic call a few weeks ago. But can you just remind us how you're viewing this business now? Which channels are you happy with? Where do you expect to make some changes? And just related to that, I think the heat and serve business might be a lower margin percentage business, which I think is understood, but I'm curious if that is right. And if -- does that have any impact on operations as well, if you were to make changes to that part of it.

Julie Masino

Yes, Brian, it's a really interesting channel because it's got a lot of stuff going on in it for us. So in off-premise today, we put individuals to go in that and put third-party delivery in that and we put catering in our occasion business. And there are 3 really different businesses, actually, when you break them down and kind of think about it the way the way the guest interacts with our staff across all of those is really different. The third-party experience. They're not even coming in, it's somebody else grabbing it and taking it to that individual to go. They're placing that order through our channel, but they're coming in to get it. And then catering that can happen a myriad of ways, all of which to the last part of your question, is really important, does have impact on our in-store operations. So we've got to make this food just alongside of everything that's happening in our restaurants. So we're running a couple of different businesses all at the same time. What we realized mainly in kind of Q2 of last year was that some of these businesses we're putting disproportionate amount of pressure on the dine-in business. We have been focusing on growing catering a little bit of like at all costs, like grow, grow, grow. And what we realized is that it's not as profitable as other channels and it was really hurting guest satisfaction in our dine-in business because the amount of energy to put against -- think about it, we have orders for warehouses that we're celebrating a party or something like that, and it could literally be feeding 100 people. So the kitchen, the same kitchen that's feeding the guests in the restaurant are putting this order together, and it can be a little bit of a distraction, and it was impacting our seat-to-eat times and these things that I've just said are really important to guest satisfaction. So because of this, that's why that part of our pillar 4 has been about really focusing on how to make these 3 businesses within off-premise more profitable. to rightsize them against our dine-in business, which is our priority business and to really make sure that we execute them with excellence I talked about missing item in my prepared remarks because that is one of the key things that we were doing well. Our missing item rate was high for the industry in those third-party delivery orders. And so getting that right executing with excellence across all 3 of these businesses within that off-premise channel are really, really important as we grow for the future.

Operator

Next question will come from Jon Tower with Citigroup.

Jon Tower

Just curious, pricing is running 4% this year in the context of some deflation on the commodity side. Obviously, labor inflation is still out there. And I think on that strategic update call a couple of weeks ago, you talked about the opportunity to perhaps get a little bit sharper on pricing across the system given the way that you're looking at it on a store-by-store basis rather than kind of bigger regional markets. I was hoping maybe how you're thinking about that informs your view for 2025 pricing given the backdrop for the consumer, but at the same time, the opportunities that you're seeing across the different stores in the system.

Julie Masino

Thanks, Jon. Look, one of the things we identified early on is that there's an opportunity for us to be more strategic in the way that we actually apply price. Price is a powerful lever, but it's also something that's really recognizable for consumers and comparable to other experiences that they're having out there. So as we talked -- we've been really maniacal about thinking about how we protect value while making sure that we take price in a way that better sets us up for success and better flows through. I used the example on the call 2 weeks ago of today, we have a tier that has 60% of our stores in it. And in that tier, there are -- there's literally a store where the average household income is \$55,000 a year and a store where the average household income is \$90,000 a year. We use that as an example because I think it's pretty powerful that there's different willingness to pay and different competitive sets around each of those stores, and that provides an opportunity for us to refine our pricing tier. So we're doing that work.

Now we've got a test right now. We've got several tests running where we've been taking price across these tiers more strategically across different items on the menu. We're testing and learning quite a few different things. In that, as we talked in the prepared remarks 2 weeks ago -- around the call 2 weeks ago, we've taken about 3% of price, and most of that is flowing through. One of the goals in putting together this strategic approach to pricing was that we could lay out a multiyear road map to pricing and really understand where moves might be where we have opportunity and then choicefully apply that to our plan. And that's what we're doing. So while we know that we've got opportunity out there, we're not actually applying all of it when we get into Q1 of '25, and we're laying out a road map for what actually is the right thing given the consumer pressures of today, given how we feel about value, given all the other moves we know we're making in the menu. So we believe now we have really a nice road map that we can move around as we need to kind of quarter-by-quarter over the next 3 years of the plan. with some ability to take price. I'll let Craig add some thoughts maybe.

Craig Pommells

I think the only thing I would add to that, Jon, is just reemphasize what Julie said earlier around is kind of really early in the process. Julie identified this the value issue, it's the big issue in the industry. And we put in place these anchor points around the early dine and breakfast at Sunrise starting at \$7.99. So we have those anchors. Those are advertisable price points across multiple dayparts. And so this pricing work will layer on top of that, but it keeps that foundation out there with a very sharp communicatable price points.

Jon Tower

Got it. Okay. And kind of related similar vein. You've seen nice commodity deflation this most recent quarter. I think for the balance of the year -- or for the full year, you're implying roughly flat. But we're looking at some of the indices across the restaurant space, suggesting that a lot of the key inputs are starting to rise for the category. I think some of the ones that you have exposure to or taken higher. So how are you thinking about food costs over the next 12 months or so? Are there any contracts we should be aware of that might be coming up for renewal that might have to reset at different rates?

Craig Pommells

Jon, it's Craig again. The -- we'll talk more about it in September. I mean, I don't think you have a meaningful insight there is that the underlying dynamic is shifting a bit. So we'll provide more color on the September call.

Jon Tower

Okay. And then maybe just last one. You do have a convertible that's due in I think it's June of 2026. Can you provide any insights on what you're thinking with respect to how you might handle that when it comes due?

Craig Pommells

Yes. We're -- that one is a big one, and we're actually starting to work on that well ahead and to ensure that we understand all of our options, we understand what the best decision is the good news there is -- we have a lot of room on our revolver, a large capacity in our revolver. We've continued to keep our leverage at a reasonable level. So that gives us a lot of options as we look to as we look to refinance that. So we'll share more about that in the future. We're starting to look at it as well ahead of the due date, and we'll make a decision based on kind of the facts on the ground at the time.

Operator

Next question will come from Katherine Griffin with Bank of America.

Katherine Griffin

I had 2 modeling questions and then a follow-up. So first, just if I could ask again kind of about the commodities cost expectations. Can you remind me what -- like some of the largest components of your cost basket are maybe like specifically as it relates to protein. And then the second is just how we should think about G&A in 4Q is 3Q kind of the right run rate from here?

Craig Pommells

Katherine, it's Craig. I'll take that one. The good news is one of the many groups with Cracker Barrel is we've got a pretty diversified basket. So we are pretty well split across the major categories roots and vegetables is one of the larger ones. Poultry is actually the largest and then we've got beef and pork, so pretty well diversified group as it relates -- as it relates to commodities.

Then in terms of G&A, we do expect that G&A will be a bit higher in Q4 versus where it was in Q3. And then as we move into fiscal '25, G&A may pick up a little bit as well because we are continuing to invest in all of this and all of this work to reenergize the business and get growth going again.

Katherine Griffin

Got it. Makes sense. And then, Julie, a question for you on some of the additional technology investments that you spoke about a couple of weeks ago. I wanted to kind of understand like how -- where the tech stack is today. Since -- I think for the last couple of years, there have been investments into better food and labor systems and some of that may have maybe bearing fruit. But I think I'm curious about, I guess, how you are prioritizing those technology investments. Are you looking to replace some elements of the tech stack that are that would align with some of the remodel plans or industrial engineering plans. Just trying to get a sense, I guess, of how incremental some of the changes could be with these additional technology investments is there improvement to be made in terms of whether it's like reservation software or things that could even increase some of the metrics that you talked about, whether it's seat to eat or turnover?

Julie Masino

Yes, Katherine, thanks for the question. Look, we have a 3-year tech road map that the team has worked to build and that we're continuing to refine as we go into the AOP process for '25 and beyond. We built that as part of the strategic plan and the transformation agenda, knowing that we would need to make some investments. What I would tell you is the near-term ones that we're really evaluating and looking at are still around the loyalty tech stack and making sure that we are ramping our ability to monetize that program and make it the industry-leading program that we know it can be. So things around personalization, around CDP, CRM, those things we didn't have today, and those are -- those are the near-term closer in things that we're looking at. We are always looking at kind of POS and technology. And remember, we've got a retail business and a restaurant business and our retail business is also a little bit behind in some of the tech investments there. So some of those are on our tech road map over the next 3 years. So we'll give you more guidance on that in the September call as we look at '25, and we can be more specific about what this might look like in '25 or '26 and '27, but know that we have a 3-year road map teams working against that, making sure that we can pace and sequence in a way that we can actually get the work done, the field can absorb that work with everything else that we have going on. So we're being really, really mindful about how we pace and sequence some of these investments, not only from the investment perspective but also from the absorption perspective.

Operator

Next question will come from Dennis Geiger with UBS.

Dennis Geiger

Wondering if there's anything more that you can share on, I think, the comments around the sequential monthly improvement that you spoke to it, which I think related just to the retail business. So if anything more on kind of what was driving that if it's an underlying improvement? And then I don't know if you were commenting on the restaurant trends specifically, but if there is anything to share there on that sequential trajectory through the quarter.

Julie Masino

Yes. Our retail performance, as you know, Craig talks about it this way quite a bit. It's discretionary, right? I mean -- we have lots of things we'd love for you to pick up in a Cracker Barrel Country store and lots of things that I think will catch your out, but you probably don't need most advice so it tends to be a little bit discretionary. The performance has been challenged for the last year or so. But what we have been encouraged by is the sequential monthly improvement in comp store sales there. A lot of that's been driven by some of the theme assortments that have been performing really well. We are so unique, and the team does such a great job on that product. And some of those theme assortments have really been resonating with people.

The other thing is if you need a gift swing by because we have some great value items in that store and that is also really resonating with guests. So both things that we have put on markdown, the things that are out there that come in that the team does really at sharp price points. Again, given everything that's going on in the macros with value being important and lots of press around low-income consumers. There's a lot of good value in our mix there, and that's really that's working well.

Finally, I want to give a shout out to that team because they've done a wonderful job managing inventory levels and growing margins. So while we've had some headwinds to traffic and the retail conversion, our inventory levels are down, so that same-store sales is up on a lower inventory level and margins are up. So it continues to be a nice business for us.

Dennis Geiger

Appreciate that, Julie. Just on loyalty, maybe then, anything more to talk about in the quarter, observations from that program, what it's done for you and maybe how that helps you to think about the -- your expectations for the program going forward, perhaps?

Craig Pommells

Sure. I'll start with that one and maybe Julie can give some more. We are really excited about the loyalty program. We're in the 5 million member and neighborhood at this point, which is -- which is huge. So we're excited about that. It's still early, and there's more work to do. But actually, I'll turn it over to Julie that to give a little bit more about what's coming next in terms of what information we're going to share us so on about the program.

Julie Masino

Yes. Thanks for the question. We are excited about this program. You've heard me talk about it from a very first call to where we are today and where we were 2 weeks ago. It's an anchor for what we're doing. It's a key program in our pillars because we believe this is how guests want to interact with us. It's also a very great way for us to deliver value. So don't forget that, right? This is a great program that helps us deliver value to guests who are really seeking value from us. But a reminder, it's still the early days of this program. We just launched it in September of last year. So we're not even at our 1-year anniversary. What we're planning to do is actually spend some more time on our September call, digging in a little bit deeper, helping you understand how we're thinking about the program in '25 and beyond, and how we're using it to drive key levers in the plan. So more to come in the September call know that we continue to be super optimistic about it. And I think it's also important to remember, it's a key way for us to deliver value to our guests.

Dennis Geiger

Makes sense. Last one for me, if I could. Craig, on the longer-term D&A front, still too early there to -- other than, I think, the up significantly or whatever the comment is exactly. Anything more concrete there as far as how to think about that? Or is it still too early at this juncture?

Craig Pommells

Then it's just to confirm, you said depreciation and amortization or G&A.

Dennis Geiger

D&A.

Craig Pommells

General and administrative?

Dennis Geiger

No, sorry, depreciation, sorry.

Craig Pommells

Okay. Yes. Got it. Yes. Well, depreciation is clearly going to be increasing. We're spending a fair bit of capital to reinvigorate the business, and we're seeing our capital spend go up. So that will be an increased expense as you think about net income or EPS going forward. So that will start to ramp up. Even this year, you can see a bit of ramp up. You'll see a bit of a ramp up next year as well. Now as we shared earlier on the strategy call, we're going through this 3-year window, specifically on the deferred maintenance side of the spend that will kind of get us caught up. So I don't think it's a forever topic. It's an issue that we have to go back and address. And that's a 3-year investment that will drive some capital spend and the capital spend that will drive depreciation, which will be around for a bit longer than that. But it is not a long-term part, a long-term part of the business model is something that we have to get caught up on.

Now as we make other capital investments, and to the degree that those things have compelling returns, we may increase our capital spending and that will drive depreciation in the future. For example, as we develop a new prototype, and we're able to start growing again over the longer term, that will be value creating, but it will have higher depreciation and amortization. So the short answer is depreciation and amortization will most certainly be up in the near term. But longer term, we think the overall business model, the way we would think about it is we're going to improve the EBITDA level by about 400 basis points.

Operator

The next question will come from Andrew Wolf with CL King.

Andrew Wolf

Julie, the 5 key metrics you're sharing with us and focusing on is lead indicators for same-store sales and really guest traffic. Could you give us a sense based on either your experience or your internal plan? What is the lead time here? I'm sure it's cumulative and so forth, but when does it start to move the needle, meaningfully? And obviously, related to that, is kind of what inning -- maybe you can blend them all together as a group. What inning is it in so that we can start to think about how guest traffic is -- you at least think guest traffic might just start to improve?

Julie Masino

Yes, Andrew, thanks for the question. Performance in traffic like value is a multi-varied equation. So there's a lot of things that go into it. We know that our ops metrics and our performance and our ability to execute is a key driver of that. Another key driver of that is our ability to drive guests in, right? When you think about upper funnel and awareness and making sure that we have food that is really relevant. It's really why the 3 imperatives are the 3 imperatives of the plan, right? We've got to drive and reignite relevancy and then we have to have food and an experience that guests crave and guests love. So it kind of worked together to fuel the momentum of flywheel of traffic, if you will, I would say we are further along in the ops metrics than where we are in terms of the marketing pieces. We continue to test and learn our way through all of that. I've talked about some of that in the past, some of the tests we've done in local.

We're learning through that. We're testing different things like NASCAR, like college football, to find these key things that resonate with driving traffic. All of these things cumulatively, we'll get there. That's why you see our performance continue to kind of get better in the back half because we're going to continue investing in these in '25 so that we can actually get there in '26. So more to come on that, but know that the team is focused on the improvements there. We're seeing it in our -- in the metrics and guests are commenting on it, which is also a key thing for us to note.

Andrew Wolf

Okay. And you brought up, obviously, the foundational aspect of brand identity and food quality and things to really drive traffic that are more foundational than even the operation stats. Where do you -- could you give us sort of a qualitative sense of where you believe the business is? And is that going to be able to improve in concert time-wise with the operation metrics -- operational?

Julie Masino

Yes, absolutely, is the short answer. We did a lot of research, again, to really underpin the strategic plan and the transformation agenda. And a lot of that, we talk to guests about why they weren't coming, why they were coming and a lot of the feedback was around just the relevancy of the menu of the brand, where we are on all of those things. So we are actively peering that all down, getting into it, working on the menu, working on innovation. As I mentioned on the call 2 weeks ago, we've got a lot of items in test in our Texas test, and we've expanded that test you'll see those things starting to hit the menu as early as this fall. I talked about that. We had some innovation that we even hit this summer that we're talking about right now that's resonating with yet. So we believe we can do all of these things at the same time and that they're the right things to do, which is the most important thing. The guests in the research said that being more relevant with the food, being more relevant with the experience are the things that will drive them back in, and that's what we're working to -- to right.

Operator

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

Julie Masino

Thank you all for joining us today. We remain intently focused on driving relevancy, delivering food and experience to guests love and growing profitability through the execution of our 5 pillars. As we execute our transformation, we are simultaneously focused on managing our day-to-day business and on operational excellence every shift every day. I want to thank our team members and leaders for their hard work taking care of our guests and executing with excellence day in and day out. Their dedication and commitment to bringing our brand to life gives me further confidence that we will be successful as we transform our business and position it for long-term growth.

Thank you for your interest, and we look forward to updating you on our progress at our next earnings call.

Operator

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

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