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Dave & Buster's Entertainment, Inc. (PLAY) Q2 2024 Earnings Call Transcript

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Press Release

10-Q

EPS of \$0.99 **beats by \$0.13** | Revenue of \$557.10M (2.77% Y/Y) **misses by \$3.55M**

Dave & Buster's Entertainment, Inc. (NASDAQ:[PLAY](#)) Q2 2024 Earnings Conference Call
September 10, 2024 5:00 PM ET

Company Participants

Cory Hatton - Vice President, Investor Relations and Treasurer

Chris Morris - Chief Executive Officer

Darin Harper - Chief Financial Officer

Conference Call Participants

Jake Bartlett - Truist Securities

Jeff Farmer - Gordon Haskett

Andy Barish - Jefferies

Jared Hludzinski - BMO Capital Markets

Brian Vaccaro - Raymond James

Operator

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

I would now like to turn the conference over to Cory Hatton, VP of Investor Relations. Please go ahead.

Cory Hatton

Thank you, operator, and welcome to everyone on the line. Joining me on today's call are Chris Morris, our Chief Executive Officer; and Darin Harper, our Chief Financial Officer. After our prepared remarks, we will be happy to take your questions. This call is being recorded on behalf of Dave & Buster's Entertainment Incorporated and is copyrighted.

Before we begin the discussion on our company's second quarter 2024 results, I'd like to call your attention to the fact that in our prepared remarks and responses to questions, certain items may be discussed which are not entirely based on historical fact.

Any of these items should be considered forward-looking statements relating to future events within the meaning of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated.

Information on these risks and uncertainties have been published in our filings with the SEC, which are available on our website. In addition, our remarks today will include references to financial measures that are not defined under generally accepted accounting principles. Investors should review the reconciliation of these non-GAAP measures to the comparable GAAP measure contained in our earnings release this afternoon.

And with that, it is my pleasure to turn the call over to Chris.

Chris Morris

All right. Thank you, Cory. Good afternoon, everyone. Thank you for joining our call today. In our second quarter of fiscal '24, we generated revenue of \$557 million and adjusted EBITDA of \$152 million.

We are pleased with the progress we're making on our strategic initiatives and on the strong financial results achieved during the quarter. During the quarter, we grew revenue and adjusted EBITDA, expanded our adjusted EBITDA margins, and generated strong operating cash flow, which allowed us to invest in the business and return cash to shareholders.

We've also continued to make significant progress toward our strategic goals. Our initial fully programmed remodels continue to perform well and we are excited about the remodels that have recently opened and will open throughout the remainder of fiscal '24 and beyond.

Our new menu continues to be well received by our guests, as indicated by improving F&B performance and guest satisfaction scores. We continue to refine our menu and are excited about the next phase of our menu rollout that just occurred in August.

We've also continued to test our games in F&B pricing levels, which we have benefited our top line and margins, and which we expect to bear more fruit going forward as we optimize our pricing strategies.

Additionally, we have seen material improvement in our special events business with substantial growth in same-store sales in the quarter and year-to-date and with the forward bookings for fiscal '24 currently significantly above the prior year period.

Further, we have continued to open new domestic stores which have consistently performed in line with or above our expectations. We've also managed our cost structure well, which has enabled us to expand our adjusted EBITDA margins while still delivering a high quality experience to our guests.

While we are disappointed with our same-store sales performance during the quarter in this complex and challenging environment, we are laser-focused on our medium-term goals and encouraged by the progress we are making on each of the initiatives. We fully expect the impact of our initiatives to lead to growth in same-store sales, revenue, EBITDA and cash flow in the coming quarters.

I will now give you a brief update on the progress of each of our strategic initiatives, starting with our six key organic revenue growth initiatives. First, marketing and optimization. As a reminder, we believe there is huge opportunity to improve both conversion and guest frequency with the right marketing approach.

We've made a material shift to digital marketing and away from linear TV over the past few years, which allows us to move quickly on campaigns and rapidly address specific business needs while localizing and personalizing our messaging. The data we glean from this digital approach are immense and constantly fueling our marketing engine to progress forward with more actionable insights.

These digital channels also allow us to be particularly nimble with our spend and enables us to quickly pivot when we are not achieving the desired results. Leveraging our learnings over the past few quarters, we are beginning to more strategically target our growing loyalty database with creative and compelling tailored messaging to drive, visit frequency and spend.

We now have nearly 7 million loyalty members in our database and active members have grown over 25% on a year-over-year basis. As a reminder, these loyalty guests visit us 2.5 times more frequently on average and spend 15% more per visit than non-loyalty members.

As we have discussed, we've been focused on a test-and-learn approach to our marketing. Due to a number of tests we have run across our portfolio over the last several weeks, we are excited for what we have to offer our guests for the fall season.

In addition to our new food menu, our new beverage menu, our selection of new games and new experiences, in particular in our remodeled stores, which are rapidly increasing as a percentage of our portfolio.

We also have a number of local store activations and compelling value-driven promotions tied to the fall football season that we expect to drive continued improvement in top line trends at Dave & Buster's.

On the Main Event side, we are applying many of the learnings we have gleaned from Dave & Buster's and are excited about some recent strategies we have executed to drive awareness, excitement and attachment to our full product assortment. We are also laying the foundation of our plan to launch a loyalty program at Main Event in early 2025 that we think can emulate the success of the Dave & Buster's database.

We will continue to optimize our media mix messaging and better leverage our scale and presence to drive traffic. We also are evaluating numerous partnerships that we expect will help improve traffic and sales trends later this year. We're particularly excited about a number of these big name partnerships with the buzz we generated during the summer movie season, with the box office success of Deadpool versus Wolverine and our exclusive crane experience.

Second, strategic game pricing. We continue to believe there is a significant amount of upside on game pricing and we've been particularly methodical in the current consumer environment, while we continue to gain insights from our various iterations of regional and game specific tests constantly running within our gaming ecosystem.

We have driven clear uplifts with our multi-tiered approach to regional pricing with the highest tier significantly outperforming the other tiers and we are constantly evaluating performance to make changes on an individual store basis, a technical ability that was unlocked with the recent enhancements to our gaming system.

We are also increasingly applying these learnings from the Dave & Buster's brand to the Main Event brand. Third, improved food and beverage, as a reminder, we see a tremendous opportunity to improve the overall quality and service model of our F&B offering, in order to bring attachment back towards the historical levels and to drive increased revenue and EBITDA.

As a reminder, earlier this year we successfully implemented a new service model, which has been focused on enhancing efficiency, while improving the guest experience and the quality of our food offering through a new menu.

We are pleased with the initial success in this area as we've seen improvement in trends on the food side of our business both during Q2 and subsequent to the quarter. As we mentioned on our last call in August, we launched our Phase 4 menu, which is primarily focused on beverage innovation and special events.

On the beverage side as part of this new menu, we've introduced 13 new and 12 revised beverages, including premium drink offerings that is significantly elevating our bar experience.

We've also created a set of near-term beverage sales initiatives like a reinvigorated happy hour and improved salesmanship strategies for our bartenders to drive beverage attached based on our ongoing research findings from guest feedback.

We believe that this focus on improvement in beverage, in addition to continued momentum in food will set up the F&B side of our business for success in the coming quarters.

With respect to the special event side of Phase 4, our new banquet menu features eight new menu items and significant plating and menu revisions, creating additional opportunities for salesmanship on our special events team. We're excited for the opportunity that these new items give us to further add to the momentum we are seeing in special events in which we will detail later.

Fourth, remodels, our fully programmed remodels continue to perform well with positive sales trends on both a year-over-year basis and on a pre-post net of control basis. This sustained positive performance has solidified our confidence that product news and innovation are a proven lever to ignite our momentum.

We're pleased to report that our first fully programmed remodel in Friendswood, Texas just outside of Houston has lapped the anniversary of the remodel completion and thus far in its second year, it is still comping up relative to prior year, which is a true testament to not only the success and healthy return profile of the remodel program, but most importantly, it's staying power as a complete strategic reset and new platform for sustainable growth.

During the quarter, we remodeled nine existing stores as our development team has gone into overdrive to accelerate the exciting investments we are making into Dave & Buster's stores of the future across the system. Interestingly, while we have not yet fully reintroduced our newest remodels in their respective markets with the same preopening and marketing push, we've done for our first batch of fully programmed remodels.

We're still seeing strong performance with aggregate year-over-year growth on both a pre-post and year-over-year basis over the last few weeks across these nine remodels. All told, we have opened 18 remodels and are on pace to have 29 remodels completed by the end of the third quarter and 44 remodels completed by the end of this fiscal year.

Fifth, special events. We continue to make considerable strides reinvigorating our special event business by repositioning the team with a more local hands-on approach and equipping them with enhanced training and tools to win in this area.

Beginning in the back half of last year, we reinserted sales managers into several of our Dave & Buster's stores as a test. The idea was that more dedicated on-premise sales managers would be able to tailor the guest experience at the individual store level and that aiming this team with more product news like the innovation of our Phase 4 banquet menu and increasingly our remodels would further allow them to drive success for this business.

We've also mentioned that due to the strong performance that we saw in those stores, that we would be reinserting sales managers into a significant number of additional stores. As of today, we now have over 70 on-premise sales managers inserted into the Dave & Buster's portfolio.

We're pleased to report that this strategy has been working well, driving high-single-digit year-over-year growth and special event sales across the entire Dave & Buster's system during the second quarter with continued strong momentum in the third quarter.

Additionally, as mentioned earlier, forward bookings for the third and fourth quarter are meaningfully above where they were a year ago, which gives us confidence and excitement about our strategy and momentum ahead of the peak special event holiday season in the fourth quarter.

Sixth, tech enablement. As a reminder, we are powering the growth of all strategic initiatives through an optimized service model, enterprise gaming ecosystem, new store IT infrastructure and improved data and analytics. Thus far in 2024, we have completed major IT enhancements to the whole Dave & Buster's system, which updated connectivity and all server infrastructure.

This was paramount to support our new service model because it heavily relies on wireless connectivity and stable computing power for all points-of-sale in PCs along with our handheld server tablets.

We've also completed the back office modernization of our service center and this is the first quarter we seamlessly closed the books in our new ERP system. New store monitoring technology has been installed in most of Dave & Buster's locations and we are working diligently to embed these new property level insights into our strategic analysis.

Our mission of driving further innovation in our mobile app will continue throughout the balance of 2024 with the integration of additional features and games to better engage with our guests before, during and after each visit.

We are still just scratching the surface of what we can do with our growing loyalty database from a data analytics and product offering perspective, which we are excited to unveil to you in the coming quarters and are confident it will drive meaningful relevance and repeat visitation for our brands.

We are proud of the achievements and long overdue investments we are making in this area, which will enable us to lead the industry in a far more seamless and desirable guest experience.

To summarize our organic growth initiative update, we remain convinced that we are putting our focus, resources and investments in the right opportunities to grow the top line and in doing so that will drive meaningful shareholder return along the way.

I had the pleasure of spending significant time with our store general managers this quarter, and with each interaction, I come away feeling more energized and passionate about our culture and the team members who are part of this great company. Their commitment to the cause of enhancing the guest experience and competitive spirits to win are remarkable.

There is a positive ripple effect in the way that we treat our team members, to how they treat each other, to how they serve the guests, to how that environment manifests in our stores, making them an enjoyable place for friends and families to create memorable experiences.

We see this hospitality loud and clear in the guest satisfaction metrics that we meticulously track with our combined OSAT, speed of service, overall cleanliness and the fully independent OSAT social media scores all up materially on a year-over-year basis and this improvement is even more pronounced when we compare our cohort of remodeled stores to the balance of the system.

We are very confident that these results are not coincidental and that the enhancements we are making to our service model, coupled with the investments we are making in our remodels are driving these strong leading indicators of success.

In addition to our organic revenue growth initiatives, as we have discussed, we have also maintained a focus on managing our cost structure. Due to our always rigorous focus on managing expenses, we grew adjusted EBITDA \$11 million or 8% and expanded our adjusted EBITDA margins 130 basis points in the second quarter.

It's important to note that while we are very focused on managing costs and enhancing margins, we've also strived to do that while ensuring we continue to deliver a high quality experience to our guests. We are proud that we've been able to cut costs and improve margins, while simultaneously improving our guest satisfaction metrics, which is not always an easy balance to strike.

With respect to new domestic units during the second quarter, we opened two new Dave & Buster's stores in Port St. Lucie, Florida and Johnson City, New York. Both are performing in line with our historically high ROIs.

In the third quarter, we've already opened a new Dave & Buster's in Barboursville, West Virginia and a new Main Event in Grand Rapids, Michigan. We continue to expect to open a total of 15 stores during fiscal 2024.

On the international development front, we expect to open four to five stores in the next 12 months with our respective franchise partners across the globe as the commitment to develop a current total of 38 sites and counting comes to fruition.

We expect the first of these international sites to open before the end of the year. Our business is in an enviable position with strong operating cash flow that it consistently generates to continue to grow, invest and return capital to shareholders in tandem, while we execute on the sizable upside potential of these two brands, and we look forward to continuing to update you on our progress as we find better and more efficient paths to unlock the value for all of us.

Finally, before I turn the call over to Darin, I would like to take a minute to introduce our new CFO, Darin Harper. Darin and I have worked together during transformative moments at multiple companies throughout our respective careers and I cannot be more excited to publicly welcome him onboard.

With his vast experience and intimate knowledge of the location-based entertainment space, he has hit the ground running overseeing the financial elements of the numerous initiatives we have going for us and I have a tremendous amount of confidence he will be a significant asset to our company.

So, with that, Darin, please walk us through a more detailed review of our Q2 results.

Darin Harper

Thanks, Chris, and good afternoon, everyone. Let me first start by saying how excited I am to be here and working alongside Chris again. It's truly an honor to represent this great company and to work with the fantastic team that we've got here.

So, turning to the results for the second quarter, comp store sales decreased 6.3% on a calendar basis in the second quarter versus 2023. We generated second quarter revenue of \$557 million, which reflects year-over-year growth of \$15 million or 3% and adjusted EBITDA of \$152 million, which reflects year-over-year growth of \$11 million or 8% and an adjusted EBITDA margin of 27.2% which is 130 basis point margin expansion versus the prior year and a 360 basis point margin expansion versus the same period in 2019. Net income in the second quarter totaled \$40 million or \$0.99 per diluted share.

We reported \$46 million of adjusted net income or a \$1.12 of adjusted earnings per diluted share and reconciliations of all non-GAAP financial measures can be found in the press release from earlier today.

We generated \$102 million in operating cash flow during the second quarter, ended the quarter with a net cash balance of \$13 million for the total liquidity of \$494 million when combined with the \$481 million available on our \$500 million revolving credit facility nets of outstanding letters of credit.

We ended the quarter with a net total leverage ratio of 2.3 times as defined under our credit agreement. Our decisive plans for the Dave & Buster's store remodel program are progressing at an impressive cadence under the leadership of our best-in-class development team.

We now have 18 completed remodels under our belt with 26 additional scheduled for the completion in the balance of fiscal 2024 as we approach critical mass of the system in fiscal 2025. The results that we have seen remain very encouraging, with the earliest fully programmed remodeled units continuing to significantly outperform the balance of the system.

Our first remodel of this program in Friendswood, Texas completed its construction in August of 2023 and as Chris mentioned, it's a testament to the effectiveness, staying power, and potential upside of this remodel program, that the Friendswood store is comping up in the early innings of its second year post remodel.

As a small update and reminder on sale-leaseback opportunities. We closed on the previously announced sale of two Dave & Buster's properties in July, generating \$45 million in proceeds.

We have five owned and operating real estate assets today, with one more wholly owned of properties scheduled to open later this year. We are being methodical in how and when we decide to monetize these assets and we expect these assets, when monetize, to command a premium price in the market versus other comparable real estate, given our superior unit economics, strong credit, attractive brand attributes and commitment to being a long-term tenants of the space.

Turning to capital spending, we invested a total of \$112 million in capital additions during the second quarter, opening two Dave & Buster's in Port St. Lucie, Florida and Johnson City, New York. We have already opened one new Dave & Buster's and one new main event during the third quarter thus far in Barboursville, West Virginia, and Grand Rapids, Michigan, respectively.

We continue to expect to open a total of 15 new stores across both brands during fiscal '24, with eight already open to date. We have \$140 million remaining on our Board approved share repurchase authorization to opportunistically repurchase our shares. As you know, we and our Board are maniacally focused on driving shareholder value.

We will use our significant excess cash flow to invest in our accelerated remodel program, new units, which continue to generate sizable cash-on-cash returns, make accretive investments to support our organic growth initiatives and opportunistically return capital to shareholders.

Our team has a lot to be proud of in the second quarter results, we grew adjusted EBITDA, continue to expand our industry-leading adjusted EBITDA margins, progressed organic growth journey through strategic investments in our remodels and other initiatives and bought back additional shares outstanding, all of which will benefit our shareholders over the long run.

We also have a growing pipeline of attractive international frontiers with our many franchise partners with four to five anticipated to open in the next 12 months. I'm excited to be back at the financial helm of this great company, particularly since it's well-positioned for growth and I have a significant amount of confidence that the work we are putting into these two great brands will provide material upside for all of our stakeholders.

Now, with that operator, please open the line for questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Jake Bartlett with Truist Securities. Please go ahead.

Jake Bartlett

Great. Thank you so much for taking the question. My first was on the top line and so far you have your initiatives in place. It seems like you're feeling very confident in them. Same-store sales have decelerated, though, so it looks like macro headwinds are offsetting it. The question is, you expressed confidence in accelerating same-store sales in coming quarters and that your initiatives are going to do that. I guess how can you feel so confident given the macro headwinds? Maybe in that answer, you could talk about whether you see the macro headwinds building or decreasing or just staying consistent as well as whether you're seeing kind of improved or increased contribution from your initiatives in the last few months?

Chris Morris

Yes. Hey, Jake, great question. The first thing I'll say is we continue to be very bullish about the long-term prospects of our initiatives. And I think that's what you're hearing from us. The initiatives that we're focused on, we've shared with all of you the math and the upside. And there is still very -- there is still a tremendous opportunity to add incredible value to this organization through executing on those initiatives. And as we've always said, the one thing we can't control is the macro environment. But make no mistake, there's real value creation opportunity on these initiatives and our stance really hasn't changed. It is a tough kind of consumer environment, it's complicated, and there are headwinds in this business and we felt those headwinds in the second quarter. And they're still there. I think what has us excited as we move forward, more of our initiatives are starting to come online. And when we look forward, we really like what we're seeing on our remodel program. And the remodel program is, you've heard us talk about it as a strategic reset. It's the culmination of everything we're doing all wrapped up into one. And we continue to see very nice improvement on the remodels. And so we've got the nine that we just opened this quarter. They opened towards the end of the quarter, but now we have 11 in Q3 and then 15 in Q4. And so those remodels at this point in time, we continue to believe that they're going to continue to see the same results that we've seen in previous remodels. And so that gives us a lot of optimism. In addition to that, the other initiatives we're focused on, that I outlined with special events and the banquet season coming up and so on and so forth. So I think that's what you're hearing from us is just confidence in the things that we're working on.

Jake Bartlett

Got it. And just building on the commentary around the remodels. Last quarter and I think in prior quarters, you've been a little more specific. You said double-digits sales lift for the fully-loaded remodels. Is that true? I'm wondering whether the omission is conspicuous or not or whether it just kind of the message remains the same, but anything changed there in terms of what kind of lift you're getting from the remodels?

Chris Morris

No, no, it's still, no, nothing has changed. We're still seeing a double-digit increase in those first four fully programmed remodels. And the nine that just came on, as I said, it's still very early they were towards the end of the quarter, but at this point in time, we're seeing a nice lift there. And there's no reason to believe that they're performing in line with what we would expect. And I think on those in particular, we're seeing nice separation in sales and we haven't even fully put our marketing muscle behind those yet. And so that's and as we start getting more critical mass, there'll just be more we can do from a marketing standpoint to get out and tell the story of store of the future. So and then the last thing, the one thing that has changed is we now have Friendswood in year two and that's always been -- we've been very open about that, that we don't you know time will tell you know what this looks like in year two. And so far Friendswood is green on green. So that's very encouraging as well and it just speaks to the staying power of what we're doing.

Jake Bartlett

Okay, great. And last question for me, a pretty interesting or impressive feat to grow margins as you did, 170 basis points at the store level with such negative same-store sales. So the question, I just want to make sure there's nothing in there that's abnormal, that's not maybe enough non-recurring to be backed out, but just that will not happen or benefit you in the future or coming quarters. Anything in there that we should be wary about? I guess the idea, the real question is, can you drive, if we expect negative same-store sales for the next quarter or two, is it feasible to continue to drive restaurant level or store level margin expansion?

Chris Morris

Yeah, I'm going to answer the first part of that and I'll turn it over to Darin to kind of comment on the second part. I mean, we're very proud of the work that's going into managing our bottom-line, given the uncertain top-line environment. And that's really you know it's so important that we do that as we're starting to continue to execute these initiatives in a period of time where the consumer environment is challenging and the team really stepped up and delivered. And we've implemented a number of cost-cutting initiatives that are coming through the P&L that we expect will continue to benefit the rest of this year. We're managing our you know all the things within our control. The team is just doing an outstanding job managing those things, but we've seen very significant improvement in cost of sales. We're tightly managing labor in all areas. It's not it's wage rates are flat to down on a year-over-year basis. Our productivity has improved and we're doing all that at the same time our guest experience metrics are improving. And as I said in my prepared remarks, that's not easy to do. And the team is doing it just through managing the details every single week and just being absolutely maniacal about protecting the bottom line. And then we've been able to capture some considerable G&A savings. And so there's real margin improvement in the numbers that will that's not going away. And that's going to put us in the best possible position to navigate a challenging top-line environment. And with respect to other items, I'll let Darin kind of jump in on that.

Darin Harper

Yeah. Just to echo what Chris said. Yeah, we feel like we have a number of levers here and I think the brand has demonstrated that in being able to manage margins despite some sales headwinds. And every quarter there's noise in the prior year and there's always certain adjustments in the current year and the prior year that frequently just have an offsetting impact as we go along. So I wouldn't raise anything of note that is reflected in this quarter that we don't think is reflective of our ongoing trends of the business.

Jake Bartlett

Great. I really appreciate it. Thank you.

Chris Morris

Yeah. Thank you.

Operator

The next question comes with Jeff Farmer with Gordon Haskett. Please go ahead.

Jeff Farmer

Thank you. A little specific here, but I think on the last call you presented that presentation that showed that I think you had 33 of the 165 stores running at that highest price increase tier as of Q1. I'm just curious where that stands as of Q2 or currently in terms of the number of stores running at that highest pricing increase tier?

Chris Morris

We've made no material changes to the tiers. We feel like we're in a really good spot right now. As you know, we've gone through an extensive testing and learning process and we feel like that we've got the right formula. It's an area that we're going to continue to evaluate and we now feel like that's a lever that we're going to be able to adjust or pool as we move forward. And so as we start planning for next year, there could be potentially some changes. But as of right now, we feel like that we're in a good spot and don't anticipate -- there haven't been any material changes and we don't anticipate any material changes for the rest of this year.

Jeff Farmer

Okay. Unrelated, just in terms of trying to understand whether or not the demand headwinds are sort of further mounting or you're seeing some stability. At the beginning, actually, when you reported the Q1, you pointed to low single-digit same-store sales declines through the first. I think it was four or five weeks of Q2. You finished the quarter down 6%. The math implies sort of mid-to-high single-digit same-store sales declines over the balance of the quarter. So can you help us sort of reconcile what went on there? It sounds like you have more initiatives that were kicking in, but the comps got softer. So, what was it, the demand headwinds that mounted? Just any color there would be helpful?

Chris Morris

Sure. Yeah, I mean, June and July were tougher months. And so the summer months were just a little more challenging than where we started the quarter. And that's we're not alone. Many others felt that same pressure. We saw equally Main Event and Dave & Buster's the two brands have really been moving in lockstep. And so which is just another data point that we're dealing with something that's a little more macro. And so it was a challenging summer, which is, again all the more reason why our team really hunkered down and manage the bottom line and did all the great things that we did to control costs, just to give ourselves breathing room to continue to execute these initiatives.

Jeff Farmer

Okay. Thank you.

Chris Morris

Yeah.

Operator

The next question comes with Andy Barish from Jefferies. Please go ahead.

Andy Barish

Hey, guys, just wanted to dig into the highest price tier that's kind of performing well. I mean, does that show that that's a demographic that's also maybe a little higher than a broad cross section and that demos kind of hanging in there better than what we've heard from pressures being seen at the lower end? Just trying to sort of tease that one point out as an opener.

Chris Morris

Well, it's the higher price tier certainly is reflective of higher cost of living. What we've talked about, before we started enacting all these changes, we had, one, the same price. There's a price in Times Square and there's a price in Overland Park, Kansas and they were exactly the same. And so the higher price tier is reflective of more of cost of living adjustments. We did play around with kind of like demographic profiles on household income and things of that nature, but for the most part, generally speaking, our tiers are more in line with traditional pricing tiers that have to do with the cost of living.

Andy Barish

Okay. And then just checking in on the rest of the remodels this year, are a majority or all of those going to be fully programmed at this point?

Chris Morris

The vast majority of them. We'll have three or four that won't have the arena attraction. They'll have everything else but the arena. And that's just simply because we don't have the space in those stores. But based on everything that we've seen to-date suggests that there's real value in a fully programmed entertainment offering. And so the plan is to continue to move forward with that type of offering. But we will continue to evaluate it as we always do and to make sure that hold ourselves to a strict return on investment threshold. And we always leave room for adjustments if necessary. But at this point in time that's the plan.

Andy Barish

Got it. And then just finally, on food costs, you said you were managing. I assumed there is still some of the 50% off kind of promotion discounting on food that you've used. How are you kind of measuring the returns on that? Is it driving some of the incremental traffic you expected? And then does that kind of continue as we move forward? Do you use it for certain times of the quarter or things like that kind of like a boost when needed?

Chris Morris

Yes. So we talked a lot about just this approach of testing and learning and putting different things in the market and having, not be moving away from just one big campaign, and instead of that, having an arsenal of tools that we can use to stimulate traffic. And so I would put half off food in that category. It's a tool that will be in our arsenal that we might use in the future from time to time depending on what we see. When we -- a couple -- when we look back on it, it was, it broke even. And so we spent a lot of time making sure that we designed the economics in a way to where it would break even. It's half off food, but that represents about 20% of our sales. And so it was something that we could achieve economically and we did. And so that we felt great about that. It was loyalty-fenced, so you had to sign up for the loyalty program. So that helped mitigate the risk of cannibalization and it also drove loyalty sign-ups that we were then able to use to engage. And so that's half off food is just an example of, it's more of an example of the approach that you should start to see from us is testing and learning. And when you find a product that when you find an offer that works, we go deep with it and but constantly pulsing in what we think is necessary. Does that make sense?

Andy Barish

It does. Yeah, and then just finally, I know, quarter-to-date, basically August. I mean, industry numbers got better. Are you willing to kind of comment on how you started the 3Q?

Chris Morris

Yeah. Andy, as you know, we don't quantify intra-quarter results. I'll say that and it's just one period, we just wrapped up our first period of the quarter, that one period, the sales performance was better than the previous two periods, but it's just one quarter. We still have two periods left of this quarter. And so our focus is on the initiatives and continue to execute at a high level, managing the bottom line and putting ourselves in a position to really get the most out of our remodels as they start to come online.

Andy Barish

Thanks, guys.

Chris Morris

Thank you.

Operator

The next question comes with Andrew Strelzik with BMO Capital Markets. Please go ahead.

Jared Hludzinski

Hey, this is Jared Hludzinski on for Andrew Strelzik. Thank you for taking the question. So you discussed the opportunity to accelerate the pace of remodels, but I'm wondering if there's an opportunity to improve returns based on what you've learned from existing remodels? And if you could provide any color on how the company is prioritizing remodels through 2026, and whether that's based on store tenure, geography or some other factor? Thank you.

Chris Morris

So we are still, we're in the process of building out our plans for '25 or fiscal '25 year. And that's something that obviously, we work in close partnership with our Board, and the Board ultimately approves the capital outlay for 2025. And so, what we're doing internally is we're making sure that we can, to the extent that there's data there, that suggests that from a capital allocation standpoint, it makes sense to move even faster, that we have the ability to do that. And so our development team is hard at work at building out all the plans to ramp-up as quickly as possible. But we're -- this is a team that is just very disciplined around ensuring that we're using our capital judiciously and we're looking for every opportunity to maximize return on investment. So stay tuned on what our plans are for the future. Obviously, what you're hearing from us is that we like what we see and we want to do more of it, but we need to go through the planning process for next year. We are -- the team is spending a lot of time on continuing to look for value engineering opportunities. We've already had quite a bit of success at doing that, but we're always challenging ourselves to try to get more. And we're also spending a lot of time just going through working closely with our operators to understand what's working and what's not. And what could we do to further drive the revenue opportunity with these remodels. And I'm convinced that we're very happy with what we're seeing. I'm convinced that we can even get more out of it. And so we're going to you know we're spending a lot of time on it to optimize it.

Jared Hludzinski

Great. Thank you. And then I just wanted to get an update on how you're tracking against the marketing optimization initiative relative to your expectation and any learnings that you can share with us. And then on loyalty, what would you attribute to the continued strength in membership growth? I believe you said it was up 25% this quarter. What gives you confidence that this growth is sustainable going forward? Thank you.

Chris Morris

Yes. So, first, starting with, I mean, we're in the very early stages of marketing authorization. And last quarter we provided an update on our Investor Day presentation and we provided our rating. And we indicated then that we're still very much in the early stages. So this is -- there's a lot that goes into it. You've got to build the technology then you got to build the capabilities and then there's the whole testing and learning process. And so, I would say, we're just now getting really started and to where we want to be. So that's -- we're pushing ourselves to move faster there. On loyalty, I think, we're doing, the team is just really making that a priority and looking for two opportunities. One, to encourage the signups, but then once you have the sign up to stay engaged with the guests. And I think we're doing a much better job on both. The way we get more out of it is doing things like the loyalty fencing on half off food. So we had a very compelling offer. It helped drive more awareness to the great F&B offering as we rolled out the new menu. And we really drove sign-ups and then we were able to stay engaged with those guests and keep them engaged better than we ever have in the past. Another testament to all of this coming together is, in our remodeled stores, we're seeing a very significant increase in frequency for loyalty members in a remodel versus a non-remodel. And that just goes to show that when you combine the right product offering and the right execution with the right level of engagement, these tools really can pay off. And so that's just another point of validation that we think that we're onto something here. In terms of, I think, the more -- the 20 -- we're very pleased with the 25% growth. I'm not going to put a number out there on expectations going forward, but I can tell you that we have pretty high expectations. And I just think that it's all about the way we engage and it's all about being very personalized in the way we do it and earning the right to have a conversation with the guests and then delivering the right content to that guest. And we're -- that's an area that we're just going to continue to strengthen that muscle. And so as I said at the very beginning we're just now getting started.

Jared Hludzinski

Great. Thank you very much.

Chris Morris

Thank you.

Operator

The next question comes with Brian Vaccaro with Raymond James. Please go ahead.

Brian Vaccaro

Hi. Thanks and good evening. I wanted to ask a question just on the other operating cost line and obviously leverage that line despite the negative comps. I noted in the 10-Q that it disclosed some gain on some transactions. Could you quantify that? And then maybe more broadly, talk about other sources of year-on-year favorability you saw within that line.

Chris Morris

I'll let Darin answer that. Go ahead, Darin.

Darin Harper

Yeah. One of the items in that line was a \$4 million gain related to a termination of one of our leases in New York. That line is excluded from our adjusted EBITDA measure. But that was a big item that was in there. Really the most notable just in terms of flagging one-off benefit for the period is the additional two operating days that we had in quarter two, which added about a couple million dollars of EBITDA. And then you just have routine adjustments that come throughout the year as well. But that gain is the most notable.

Brian Vaccaro

Yeah, I was going to ask you about that too, Darin. The extra sales on those two days is ballpark say maybe \$12 million, \$13 million. I guess sales days can change depending on seasonality and whatnot but. And just how to think about the flow through on those sales, because a lot of costs are accrued for either weekly or monthly, are you able to tighten any of that math up on the two extra days?

Chris Morris

Yes. No, they were low sales volume days. It was a Monday and a Tuesday. So it's about \$4 million in incremental sales with about a 50% flow through. So it's about a \$2 million EBITDA impact.

Brian Vaccaro

Comps, I know it's tough to measure traffic, but could you just maybe give us a sense of how much price you'd estimate is reflected in your Q2 year-on-year comps and just kind of level-set what your latest thinking is on potentially taking additional pricing in the second half, either F&B or amusements?

Chris Morris

At this point in time, we don't have plans to adjust price in a meaningful way for the second half of the year. As I said a minute ago, we're just now in the process of building out our plans for 2025. And so we will certainly go through and have a pricing optimization plan for 2025. But we feel like we're in a good spot for the rest of this year. We don't get in. We don't disclose the granularity of all of our different initiatives. And so what we're getting on price is not something that we're going to disclose that we have disclosed.

Operator

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

Chris Morris

Okay. Well, thank you so much for the participation today. We look forward to speaking to you and continue to give you an update on all of our initiatives. Thank you. Have a great day.

Operator

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

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