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Dave & Buster's Entertainment, Inc. (PLAY) Q4 2024 Earnings Call Transcript

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Play Call



EPS of \$0.69 **beats by \$0.01** | Revenue of \$534.50M (-10.78% Y/Y) **misses by \$11.33M**

Call Start: 17:00 January 1, 0000 5:45 PM ET

Dave & Buster's Entertainment, Inc. (NASDAQ:[PLAY](#))

Q4 2024 Earnings Conference Call

April 07, 2025, 05:00 PM ET

Company Participants

Cory Hatton - Head, Entertainment Finance, Investor Relations & Treasurer

Kevin Sheehan - Chair of the Board & Interim Chief Executive Officer

Darin Harper - Chief Financial Officer

Conference Call Participants

Andy Barish - Jefferies

Andrew Strelzik - BMO

Dennis Geiger - UBS

Jake Bartlett - Truist Securities

Sharon Zackfia - William Blair

Brian Vaccaro - Raymond James

Brian Mullan - Piper Sandler

Todd Brooks - The Benchmark Company

Operator

Good afternoon, everyone, and welcome to the Dave & Buster's Q4 and Fiscal Year-End 2024 Earnings Call. All participants will be in a listen-only mode. [Operator Instructions] Please note, today's event is being recorded.

At this time, I'd like to turn the floor over to Cory Hatton, Head of Entertainment Finance, Investor Relations and Treasurer. Please go ahead.

Cory Hatton

Thank you, operator, and welcome to everyone on the line.

Joining me on today's call are Kevin Sheehan; our Chair of the Board and Interim CEO, and Darin Harper, our CFO. After our prepared remarks, we will be happy to take your questions.

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Before we begin the discussion on our company's fourth quarter and fiscal year-end 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 facts. 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 released this afternoon.

And with that, let me turn the call over to Kevin.

Kevin Sheehan

Thank you, Cory. Good afternoon, everyone, and thank you for joining our call today.

While we are disappointed by our results for the fourth quarter, we are very encouraged by the clear opportunities we have identified over the past few months and the most recent trends in the business and taking actions to unwind mistakes and make appropriate changes.

Previous leadership, while well intentioned, made significant and ill-advised changes to marketing, food and beverage, operations, remodels and games investments that negatively impacted the business. The current leadership team has been systematically unwinding these mistakes and pursuing a "back to basic" strategy, while making high confidence improvements to the key areas of the business entirely in line with our previously communicated strategic plan.

For the avoidance of doubt, our strategic plan is the right plan, execution against it was flawed. We are highly confident that our current actions will lead to significantly improved revenue, adjusted EBITDA, free cash flow and shareholder value in the months ahead.

Results in March and April have notably improved from the trends of the fourth quarter and on through February, and we expect results to continue to improve in the coming months. Our financial position remains strong with relatively low leverage, no near-term debt maturities and no operative financial covenants.

As you all know, we have an excellent business model with high returns on new unit investment, best-in-class store-level economics, disciplined expense management and significant operating free cash flow generation. Importantly, the current leadership team and the full Board are laser-focused on managing this business to drive both revenue growth and free cash flow generation. Our team could not be more excited by the opportunities we see ahead to meaningfully improve the operating performance of the business and shareholder value.

Let me take a few minutes to highlight some of the issues we have identified with key elements of the business and the changes we have made or are planning to make to unwind mistakes and deliver better execution and improved results.

As previously discussed, we are much more in the process of returning to the basics of what made this company so successful in the past. This is a simple business with an exceptional business model that was doing quite well. In attempting to improve the business that was already doing well, prior leadership made very dramatic and chaotic changes that among other things, distracted, confused and overwhelmed our customers and our operators.

On marketing, prior leadership made drastic changes to our media mix, essentially eliminating TV entirely. We went from 90%-plus TV to essentially zero. Prior leadership also overwhelmed our customers and operators with way too many and often overlapping and conflicting promotions. We have already reintroduced TV back and we have returned more closely to our historical cadence of promotional activity. In particular, we have reintroduced our historically most popular and successful promotion, our classic Eat & Play Combo. We will continue to promote this incredible value proposition in all of our marketing channels, and are already seeing it as an increasing mix of all checks.

On operations, we were overwhelming our operators with promotions and making too many other changes to menu, service style, pricing, labor configuration, remodel activity and other changes while reducing or eliminating our training activities and we were not properly engaging with and listening to our operators. We have dialed back most of this and returned to the historical practice I have personally spent an enormous amount of time directly with our operators, hearing from them, hearing their issues and the many opportunities that we see each and every day. We're also reintroducing our historical training practices and reestablishing our quality standards.

On menu, we eliminated popular ticket entrées and over-promoted lower-ticket shareables, which led to a trade down. We also unfavorably changed our pricing architecture and changed our menu design and configuration. We have already made changes to the menu design and configuration and many of the pricing issues as well. We are in the process of returning our most popular entry items back to the menu and plan to roll out our "back to basics" menu in the coming months after some extensive testing.

On remodels, we didn't properly test our prototypes, we didn't listen to our operators, we didn't prioritize target stores to be remodeled well, and we spent well beyond budget on many stores. We very strongly believe in our remodel strategy. We are currently reevaluating our prototype in close collaboration with our operators, reprioritizing target stores and revising our budget spend and oversight. We completed an additional 15 remodels of D&B stores for a total of 44 completed under the program, which began in 2023. And this is an addition to almost 100 stores that opened in the last seven years.

Given the mixed results and the need to address certain flaws with the rollout strategy, we were proceeding with a more measured pace in the first half of 2025 to garner additional insights to better guide the remaining stores in scope to the remodel program and to ensure we are effectively allocating capital towards the highest return. There is no doubt that an effective remodel program should deliver high returns on investment and drive meaningful same-store sales growth.

On games investment, prior leadership de-emphasized new games and development and investment. Up until earlier this year, we had not introduced an observable number of new games into our stores in over two years, which is a significant departure from our historical practice of what we know to be the right way to run our business. We've been able to move quickly and have an all-star lineup of new games rolling out in the stores now.

Leading the new lineup attractions is our all new Human Crane, a life-sized version of the classic arcade claw machine experience that builds on the innovative qualities of the Dave & Buster's brand. The Human Crane allows guests to become the claw, gently lowering into the sea of oversized prizes with over 40 D&B stores operating the Human Crane today and plans to roll out 100 more locations in short order. The initial performance has been electric and we expect to see a less than six-month payback on this usually successful addition to the midway.

In addition to the Human Crane, we are launching six new premium arcade games: UFC Challenge, a high-energy UFC-themed fighting game exclusive to Dave & Buster's and further establishing our brand as a premier destination to watch every UFC fight and fueling our watch program; Godzilla VR, where players immerse themselves in the virtual reality battle against the colossal Kaiju creatures in a thrilling multi-sensory experience; NBA Superstars, where players compete as their favorite NBA icons in dynamic three versus three matches; Top Gun: Maverick, where players step up into the cockpit and take on intense missions inspired by the blockbuster film; NBA [Smash 'N Fun] (ph), where players test their timing to win exclusive prizes from their favorite team in an engaging basketball-themed game; and finally, Funko Funcade, where players can enjoy a retro-inspired game offering a chance to win exclusive Funko collectibles. These new games are just the beginning of the excitement we are rolling out in the summer with our revival of the summer of games to further enhance our midway experience.

New store development delivering exceptionally high returns on investment has continued to be a successfully executed part of our business strategy. During the fourth quarter, we opened five new stores, four new D&Bs in Clarksville, Tennessee, Mobile, Alabama, Niles, Ohio and Bloomington, Indiana, and one Main Event store in Montclair, California for a total of 14 new stores added to the portfolio in fiscal 2024. We are pleased to also report that in December, we opened our first international franchise location in India. To date, we have entered into 35 franchise partnership agreements with over 35 stores committed to development and we anticipate at least six additional franchise units opening in the next 12 months. As I see it, this will be one of the ingredients of our outsized growth as we look out into the future.

As a brief update on the CEO search, the Board of Directors continues to work with the global executive search firm to identify the future permanent CEO. We are vetting numerous highly qualified and capable candidates and are dedicated to engaging in a thorough and careful process to ensure we select the right individual who the Board strongly believes can lead this company. In the interim, I am thoroughly enjoying working with this management team and remain 100% committed to continue to work closely with the Board to unwind the many clear issues we have identified and make the necessary and right changes to drive the performance of this business going forward. We will update you further when we have definitive news to report, which is all we want to say about the topic on today's call, given the sensitivity of ongoing discussions with candidates.

Now, I will turn the call over to Darin to walk you through the financial results of the fourth quarter. Darin?

Darin Harper

Thank you, Kevin, and good afternoon, everyone.

Turning to a more detailed review of our financials. In our fourth quarter of fiscal 2024, comparable store sales decreased 9.4% on a like-for-like calendar basis versus the prior-year period.

During the quarter, we generated revenue of \$535 million, net income of \$9 million or \$0.25 per diluted share, adjusted net income of \$27 million or \$0.69 per diluted share, and adjusted EBITDA of \$127 million, resulting in an adjusted EBITDA margin of 23.8%. As a reminder, reconciliations of all non-GAAP financial measures can be found in today's press release.

We generated \$108.9 million in operating cash flow during the fourth quarter, ending the quarter with \$6.9 million in cash and \$503.5 million of availability under our \$650 million revolving credit facility, net of \$11.5 million in outstanding letters of credit. We ended the quarter with a total net total leverage ratio of 2.8 times.

During the quarter, due to our belief in the significant value we see in our shares, we repurchased nearly 3 million shares for approximately \$85 million, bringing total repurchases for fiscal 2024 to approximately 5 million shares, representing 12.4% of our company's shares outstanding at the end of the prior fiscal year. Thus far, in fiscal 2025, we have repurchased an additional 1 million shares for approximately \$24 million. And as of today, we have approximately \$104 million remaining on our Board approved share repurchase authorization to opportunistically repurchase our shares.

With our expected healthy cash flow profile for fiscal 2025, we will continue to work closely with our Board to evaluate our new store growth, remodel program, other accretive growth investments and share repurchase opportunities to drive maximum shareholder value.

In the fourth quarter, we closed on an additional sale leaseback transaction for the real estate of five properties, three Dave & Buster's and two Main Events, with an institutional real estate partner, generating \$111 million in proceeds. Coupled with the sale leaseback transactions we closed in the second and third quarter, this took our fiscal 2024 sale leaseback proceeds to approximately \$185 million. We have eight owned real estate assets today with more under contract in our new store development pipeline that we will be opportunistic to monetize.

In fiscal 2024, we invested a total of \$558 million in capital additions on a gross basis or \$357 million on a net basis when factoring in payments from landlords. Our capital spending plan is currently under review and evolving for 2025. However, we have a renewed focus on converting our significant operating cash flow to free cash flow through elimination of imprudent and ineffective capital spend, more closely monitoring and managing every line of our capital expenditures.

As previously discussed, we have meaningful cash flow generation that provides both significant protection and upside to our shareholders. And during 2025, we will demonstrate our ability to generate free cash flow, while continuing to invest in double-digit new store growth, new games, other high ROI initiatives and a more diligent remodel program. To this end, we thought it prudent and helpful to provide our current expectations for certain key cash flow items that are readily in our control in fiscal 2025, which ends on the 3rd of February 2026.

We currently expect total capital expenditures to not exceed \$220 million. This includes spend on net new store capital, remodels and other initiatives, games capital and maintenance capital. We further expect pre-opening expense of approximately \$20 million, interest expense within the range of \$130 million to \$140 million, and finally, no material changes to working capital as an expected source of cash in fiscal 2025, given the beneficial timing disconnect of the upfront cash paid for Power Cards and the often delayed revenue recognition under our accounting standards. We continue to be firmly committed to our high ROI and historically successful new store strategy. We plan to open 10 to 12 new stores in fiscal 2025 and one additional store relocation in Honolulu, Hawaii.

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

Question-and-Answer Session

Operator

Ladies and gentlemen, at this time, we'll begin the question-and-answer session. [Operator Instructions] Our first question today comes from Andy Barish from Jefferies. Please go ahead with your question.

Andy Barish

Hey, guys. Just wondering, kind of where you've seen the improvements in March and into April here. And just given obviously some of the changes and uncertainties that have been created in the economy, anything sort of up to date in the last week or so that you're willing to share?

Kevin Sheehan

I mean, I would just say generally, if you look at the fourth quarter, which we're reporting on and the month of February, which we were doing all to get ready to hopefully change the course of the business. March and April are looking, I would say, markedly better. And it's in traffic, it's in ticket, on the F&B side, a little bit of beverage pricing, but food as well. And we see that trend continuing as we get a little further and further into this.

I'd say, at the end of the day, when I look at the yardstick, we're about 55% of the way to where we should be. And over the next couple of months -- next two, three months, you should see us getting really back and starting to take advantage on top of that of all the strategic opportunities that we talked to you guys about a while ago and a list of Kevin's initiatives as well. So, we've got a lot in store and we're excited about what's going on here at Dave & Buster's.

Andy Barish

Let me follow-up. Is there a -- I mean, a lot of calendar shifting and a late Easter, and just want to make sure we're all on the same page, is that benefiting at this point or, yeah, I just want to get a sense of where we are with all that going on?

Kevin Sheehan

Yeah, this year, the holidays played out quite differently. And even with a little incentive program I have with the GMs in the field, we're looking at March and April together, but the way the business is building is consistent with what I said in my comments.

Darin Harper

And Andy, a bit more context, we are still in a net unfavorable position with those spring break mismatches. So, this week and the following will be very, very favorable for us.

Kevin Sheehan

Yeah. And coming into it, we're feeling really good about where we are with the unfavorability blended in.

Andy Barish

Got you. And then, just on the CapEx, I mean, that is a -- you just spent \$170 million gross in the 4Q. I don't know if the net number in front of me, but the \$220 million net, I understand that is net of anticipated landlord tenant improvements. Is there any sale leaseback cash against that CapEx as well? I'm just trying to understand, obviously CapEx has been off because you've been buying some properties and things like that. So, just trying to understand how that rolls in?

Darin Harper

Yeah, Andy, this is Darin. Yeah, that's right. That net number assumes really typical TI as well as sale leasebacks in FY '25. I'd say we're taking a fairly conservative point of view with that, but it does assume that where we own feasible property, we anticipate being able to transact on that.

Andy Barish

Okay. Thanks, guys.

Operator

Our next question comes from Andrew Strelzik from BMO. Please go ahead with your question.

Andrew Strelzik

Hey, thanks for taking the questions. My first one, I wanted to ask about the "back to basics" strategy and what that means for the cost structure. Are you adding back costs? I know there's been a lot of efforts made to manage the P&L. And what is that -- what is the implication, I guess, for the remodel cadence? You said it would be tempered. So, what is your updated expectation there?

Kevin Sheehan

Yeah, when you talk about back to basics, I'm talking about the operating business, but I can cover the cadence of what you just also mentioned. But getting back and taking our dollars from marketing and moving them more back towards TV and making sure we do an ROI on those dollars and getting better ROI on our digital dollars. So, spending smarter and better.

The game stuff is really back to just getting into the games space. As you think about it, we haven't been on TV and we're not telling anybody anything new, we've got all these great new games that remind the gamers that there's a reason to come back to Dave & Buster's, and there's a reason families to say, "Oh my goodness, I had a great time last time I was at Dave & Buster's." So, getting that return activity back into our system.

On the menu, so we're going to redo that menu with a pushback towards where we were four or five years ago when we were highlighting our bigger entrée items, and I think that's going to bring back -- our audience wants those menu items.

So, doing that -- but as far as bringing it all together and doing more in the training, at the end of the day, net-net, the expenses, we continue to think there's lean management opportunities. So, all of this will be accomplished without a really any significant change or meaningful change at all in the margins.

Andrew Strelzik

Okay. And remodel cadence, sorry? And then, I have one other question.

Kevin Sheehan

Yeah, on the remodels, we were spending an awful lot of money and we were doing stores that weren't needing a remodel. And so, we've now done a lot of work behind the scenes where we're readdressing what we -- and by the way, I announced this program when I was in the interim seat back three years ago. And the opportunity really was to brighten the store, bring new energy to the midway and the opportunities around the store and line of sight and connote something new with the front of the store. And that could be accomplished with a lot less money than what we were spending money on that had so many opportunities that had no ROI.

So, just a more thoughtful exercise in getting the bang for the buck and we're going to learn as we go. We'll do some and see how they play out and then build upon that, but rather do it without overwhelming the cost structure that we learned from the ones we do.

Darin Harper

And we'll have 16 remodels in FY '25 that will be fully accretive to this year with those remodels being completed within FY '25.

Andrew Strelzik

Okay. And then, my other question is about the value proposition. So, as you've looked at the execution against the strategy, and I know that there you referenced some of the pricing that was taken in F&B previously, and I'd be curious for you to address also the amusement side, do you feel like there is a value proposition issue for the brand? Have you done work around the consumer perception there? I'm just curious as you kind of come back to digging through all the different pieces over the last couple of years, how that, in your view, stacks up? Thanks.

Kevin Sheehan

Let me start it with the gaming side and then I'll hand it off to Darin. But on the gaming side, we are re-looking at the value proposition on the game opportunity for the guests. And we're about to put in testing -- two different test with the bunch of stores needs test to extend the time of play, but still create the same value opportunity for us, but to improve the guest experience. So, we -- I think we all expect that to be a favorable result. So, that's Part A. And then, Darin will take the rest of that.

Darin Harper

Yeah. So, from an F&B perspective, so we have not taken discrete price on our menu since Q4 of last year, but we're actively evaluating our pricing strategy to understand how we stay competitive with respect to out-of-home and other casual diners.

What I'd also say, too, is we're very focused on food attach. So, we believe we can drive check beyond just taking discrete menu price. Our Eat & Play Combo is a great example. Seeing some really good opt in there, seeing our attach grow as our operators are incented to sell the Eat & Play Combo. We've offered the Eat & Play Combo now on our kiosk. So, we prompt our guests that were maybe just going to come in and play games, at the end of their kiosk journey, we prompt them to get an entrée. That's part of our Eat & Play Combo. And we're really trying to incent our guests to upgrade their combo. And we're seeing 90% of our guests do that. We just added some higher price entrée items, like ribs, and have seen a nice high mix in there as well. So, there's other ways that we can drive check growth beyond just price.

Andrew Strelzik

Got it. Thank you very much.

Operator

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

Dennis Geiger

Great. Thanks, guys. I have two high-level questions. Kevin, the first one, maybe sort of in light of the comments you've made kind of around unwinding some ill-advised changes to initiatives, can you break down sort of how you think about some of the recent traffic and sales pressures over the past several quarters? How much of that maybe is macro versus brand positioning sort of versus self-inflicted, if that makes sense?

Kevin Sheehan

Yeah, it actually does. And I think there's a little share on each, but I think some of the unintended consequences of -- we went forward with some game-changer kind of ideas that took a lot of space off the arcade or off the F&B floor. So, we took space away and we didn't test the opportunity before rolling it out to multiple stores. And so, we also rolled it out with a very complicated way of utilizing the event. And so, that I would call our own mistake. And so, we're correcting that now where we're taking all the noise out of the opportunity so that the guests can play it easy and try to make it presentable for them. So that portion I would say was our own mistakes.

And then, I would say, some of it was the macro, but the good news is, at the end of the day, as we strengthen the business and get back on our feet and do the things we need to do, the things that have always made us successful that the inertia from the economic landscape should be muted by these really strong strength of getting back to the business that we know we should be at. I don't know if I said that well for you.

Operator

Our next question comes from Jake Bartlett from Truist Securities. Please go ahead you're your question.

Jake Bartlett

Great. Thank you so much for taking the question. Kevin, my question is kind of back to the idea that you were doing well before some of these changes were made. My understanding was that prior management team was trying to put in place some basically some kind of -- some moat and some differentiation, some competitive differentiation to really better compete in an environment that was getting more and more competitive. Historically, your same-store sales were -- before COVID were struggling.

So, the question is, getting back to what you were doing, is that good enough in your view in terms of the approach, or do you think that while you need to write some of these mistakes that were made, you often -- you still need to figure out how to improve the differentiation and how to become a better competitor for the long-term?

Kevin Sheehan

Yeah, that's a good point. That's exactly what we need to do by the way. But what we did was we tried to build opportunities or attractions that were not our demographic and it was too much of a leap to see that benefit playing out. So, all good intentions on trying to do that, but it was just not our demographic for the most part. And so, on a minor way maybe we get some incremental lift on that, but we need to find the opportunities that are going to drive our consumers, our guests to do spend more money in the stores and to bring them back into the stores. So, I think it was the right direction, but with the wrong attractions kind of thing.

Operator

Our next question comes from Sharon Zackfia from William Blair. Please go ahead with your question.

Sharon Zackfia

Hi, thanks for taking the question. I guess on the improvement you've seen in March and April, I know you had talked about historically over the past year seeing a kind of disproportionate weakness with a lower-income consumer. Have you seen that consumer improve along with the broader business?

Darin Harper

Hey, Sharon, this is Darin. Yeah, look, the credit card data that we analyzed has a bit of a delay to it. Overall, I'd say at least leading up through January and February, we saw consistent trends with that low-end consumer. But as we've gone back on TV and really plussed up that top-of-the-funnel awareness, we -- with promoting Eat & Play Combo and now our new games, we do believe that we can target that lower-end guest and drive more visitation. Don't have enough data at the moment to be able to ascertain exactly what sort of improvement we're seeing there.

Operator

Our next question comes from Brian Vaccaro from Raymond James. Please go ahead with your question.

Brian Vaccaro

Hi, thanks, and good evening. Darin, just back to the CapEx outlook, I understand that \$220 million, net, but what would be the gross CapEx guidance before sale leasebacks, or maybe you could walk us through the buckets of new units, remodels and then sort of maintenance and other? And I have a follow-up.

Darin Harper

Yeah, sure. So, look, we've got a lot of flexibility with our capital spending up and down and across categories. And as we get more visibility in the coming weeks, we'll continue to tighten up sort of those buckets. And so, we've elected not to provide a breakdown today. That said, what I would say is if you go back to some of the underlying assumptions that we had for net new store CapEx from our June 2023 Investor Day, and then assume 10 to 12 new locations along with a relo, I think that's going to get you in a pretty good spot from a new store capital perspective.

And then, when we think about our annual maintenance CapEx and annual game refresh, again, that June 2023 investor deck provides some assumptions there. That I would moderate up some for inflation and some incremental game rollout. But I think that will give you kind of a good sense for maintenance CapEx. And then, sort of the plug, I would think as remodel and other gross -- sorry, other growth initiatives. So hopefully, that can kind of help you sort of think about how to model out those buckets.

Operator

Our next question comes from Brian Mullan from Piper Sandler. Please go ahead with your question.

Brian Mullan

Thank you. I just want to ask about the competitive environment in the category. If I were to rewind to pre-COVID, the growth of the entertainment category competitors, it was often cited as a headwind to same-store sales back then by a prior management team. Kevin, you later came as Interim CEO later on. Obviously, you wound up buying one of those competitors' main event. So, my question is just, Kevin, as you come back into the seat again and you look at the current competitive environment, how do you view the landscape? And do you think that the growth of competitors has been a factor to some of the recent top-line struggles or do you really believe it's all just internal execution related? Just would love to get your perspective.

Kevin Sheehan

I'd like to use the excuses, it's the competitive thing, but it's not. I think it was mostly our own execution. And as I said earlier on, we're turning all this stuff around. And I think if we get it right, we don't see a need to be too worried about - of course always mindful of the competitive intrusion, but our team is so thoughtful when we build new stores and keeping an eye on what's happening. It's not any greater today than it was several years ago.

So, I think that's the good news is because if we get this right and we've got a lot of other initiatives that we're working on that should drive revenue and looking at the days of the week and we're not getting revenue on certain days that we should emphasize more on those and the times of the day, we lost our late night happy hour time revenue and we need to get back to that. We need to be thinking about this as a seven day a week business and we're going to start doing some tests on lunch. You guys know that you go out to lunch and restaurants are packed and there's plenty of room in our restaurants.

And so, we're going to do a bunch of tests with maybe 10 stores in each test and have a -- I'm going to make this up, but -- we haven't firmed up the pricing yet to say \$11.99 lunch that includes a play card for an hour that you could use. And think about that, it's only the electricity because at that time of the day the store is not busy. And so that could be a great experience for you and assuming you have friends, but you and your friends going out to lunch. And after lunch, you go out and you shoot hoops and say, I'm going to beat you and blah, blah, blah. And so, you have this great experience vis-a-vis anything else you would have in going to any other type of restaurant.

So, it's a card that would expire after 60 minutes or whatever the period is, or would have a \$10 free player or \$50. So, we'll test a few iterations, but we think that -- because at the end of the day, the success of this business is 100% traffic. And we need to bring more people and more guests into our stores and every day counts. And so, I want everybody thinking that way, because when they think that way, that's what's going to create the green shoots that are going to come out of not only the support center, but also out of the stores. And I'm really excited about the opportunities that lie ahead for this business.

Operator

And ladies and gentlemen, our final question today comes from Todd Brooks from The Benchmark Company. Please go ahead with your question.

Todd Brooks

Hey, thanks for squeezing me in. I'll lump two clarification points together here. Kevin, you talked about a more reasonable approach on the spend of remodels. Can you talk to how much you're able to lower the hurdle rate? I think the old remodels were requiring a low-double-digit type of hurdle rate to get them to pencil. So, how much will that be lowered?

And then, on the TV advertising, if we look to fiscal '25, maybe what's the mix kind of entering Q1 here for how much we're back to TV spend versus digital, and what's your hope for an exit rate coming out of '25? Thank you.

Kevin Sheehan

On the TV piece, just we're moving back towards half, and if we get good returns and we can see the ROIs, we'll move up from there. So, we're going to do this step by step. That's why I said at the top of the call that we're priced 55% or 60% of the way there. We're doing a lot of this stuff because we know instinctively it makes sense, but before we go too far, we want to make sure we've tried it up.

Darin Harper

Yeah. And then, with respect to your first question on the hurdle rate, we think when we optimize and value engineer this remodel to the right way, it'll be mid- to high-single-digit hurdle rate rather than sort of mid-teen hurdle rate. So, puts us in a lot better position to get the right ROI. Obviously, we think with the right elements to the remodel and the right execution, we would anticipate more than that, but it certainly establishes much more [indiscernible].

Operator

And ladies and gentlemen, with that, we'll conclude today's question-and-answer session. I'd like to turn the floor back over to Kevin Sheehan for any closing remarks.

Kevin Sheehan

Thank you, operator, and thank you all for joining us today.

In closing, fiscal '24 was certainly challenging for our company, but with the intense focus and dedication I've seen from our leadership and our team members in the field, I firmly believe that we are turning this ship around and I'm excited for what 2025 holds. We have powerful renewed energy at the company, tangible results we are seeing, numerous remaining opportunities to drive shareholder value.

We understand there is a significant amount of uncertainty in the market right now and, over the last several weeks, from tariffs and other concerns influencing the consumer. However, we are confident with our compelling product offering and value proposition and that will continue to be in high demand as the consumer seeks out experiences to make their day a little brighter.

We want you to know that we are all heads down executing on our plan and meticulous about converting our significant operating cash flow generation into free cash flow, further bolstering our already strong balance sheet position.

We look forward to speaking with you again soon, and have a great evening.

Operator

And ladies and gentlemen, with that, we'll conclude today's conference call. We do thank you for attending today's presentation. You may now disconnect your lines.

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