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Denny's Corporation (NASDAQ:[DENN](#)) Q1 2025 Earnings Conference Call May 5, 2025 4:30 PM ET

Company Participants

Kayla Money - Senior Director of Investor Relations

Kelli Valade - Chief Executive Officer

Robert Verostek - Executive Vice President & Chief Financial Officer

Conference Call Participants

Michael Tamas - Oppenheimer & Company

Jake Bartlett - Truist Securities

Todd Brooks - The Benchmark Company

Jon Tower - Citigroup

Eric Gonzalez - KeyBanc Capital Markets

Allison Arfstrom - Piper Sandler

Operator

Ladies and gentlemen, greetings and welcome to the Denny's Corporation First Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Kayla Money, Senior Director of Investor Relations. Please go ahead.

Kayla Money

Good afternoon. Thank you for joining Denny's first quarter 2025 earnings conference call. With me today from management are Kelli Valade, Denny's Chief Executive Officer; and Robert Verostek, Denny's Executive Vice President and Chief Financial Officer. Please refer to our website at investor.dennys.com to find our first quarter earnings press release, along with the reconciliation of any non-GAAP financial measures mentioned on the call today. This call is being webcast and an archive of the webcast will be available on our website later today. Kelli will begin today's call with a business update, then Robert will provide a recap of our first quarter financial results and development update before commenting on guidance. After that, we will open it up for questions.

Before we begin, let me remind you that in accordance with the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995, the company knows that certain matters to be discussed by members of management during this call may constitute forward-looking statements. Management urges caution in considering its current trends and any outlook on earnings provided during this call. Such statements are subject to risks, uncertainties and other factors that may cause the actual performance of Denny's to be materially different from the performance indicated or implied by such statements. Such risks and factors are set forth in the company's most recent annual report on Form 10-K for the year ended December 25, 2024 and in any subsequent Forms 8-K and quarterly reports on Form 10-Q.

With that, I will now turn the call over to Kelli Valade, Denny's Chief Executive Officer.

Kelli Valade

Thank you, Kayla. Good afternoon, everyone and thank you for joining us. Today's discussion will focus on the continued progress we've made to bring profitable traffic-driving initiatives to our flagship Denny's restaurants. We'll also talk about our continued confidence in our growth brand, Keke's Breakfast Cafe. And after that, we'll provide updates on our quarterly financial results. With that, let's get started.

It's been a challenging start to the year. And while we're starting to see some improvements, macro pressures persist. Consumer sentiment remains negative as fear around tariffs and higher price of goods, combined with concerns about the job market resulted in consumers pulling back on spending. We are now operating in one of the most aggressive value-driven environments we've seen in years. Guests are stretched, inflation pressures remain and every brand is fighting for share by pushing harder on price and promotion while trying to win with the guest experience.

In the first quarter, Denny's same-restaurant sales decreased 3% and we did lose traction compared to the BBI Family Dining sales index. However, we did sequentially improve in the latter part of the quarter. Despite this improvement, we knew we needed to lean even harder into value and break through the clutter to provide guests with more value options when they need them most. In collaboration with our franchisees, the best deal in America, the buy one Slam get one for \$1 featuring either our original Grand Slam or our All-American Slam was born.

This LTO promotional value versus our everyday value with \$2, \$4, \$6, \$8 has been instrumental in regaining transactions and has driven more lapsed and new customer trial than any other value offer in our recent history. Nearly 70% of BOGO transactions have come from lapsed or new customers. And as a result, April same-restaurant sales came in approximately flat. We've been very pleased with this promotion and know that it's critical to our guests that really need compelling value offers during this time of uncertainty.

We're also providing additional reasons to visit and introduce Denny's to new audiences through on-trend menu offerings and partnerships. We recently launched Slammin' Sodas, Denny's take on the pop culture sensation of dirty sodas. These sodas are a spin on all-time classics, Coke, Sprite and Dr. Pepper with a delicious new twist. And better yet, they drove incremental beverage incidents of over 100 basis points as guests were enticed to try this new offering.

We also teamed up with NVIDIA Founder and CEO, Jensen Huang, at their annual GTC conference in San Jose attended by more than 20,000 global developers, engineers, researchers, inventors and IT professionals. At that event, we launched the limited time offer NVIDIA Breakfast Bites which honor NVIDIA's CEO, Jensen Huang and his long-standing relationship with Denny's. Our collaborative effort with NVIDIA's social channels successfully amplified brand awareness and introduced Denny's to a new audience in a relevant and timely way. The Instagram post became Denny's top-performing content by impressions in the past 16 months, with approximately 90% of accounts reached being non-followers, a strong indicator of extended reach and new audience exposure.

We also remain confident in our off-premise strategies which we believe uniquely position Denny's as a leader in the family dining category. While most are pulling away from off-premise growth, we are leaning in because we know there's very little overlap between the dine-in and off-premise guests as well as the off-premise guest is less price sensitive and more resilient during times like these. In fact, our off-premise sales contributed a 1% improvement in same-restaurant sales during Q1 which now represents a 22% mix coming from off-premise channels. This was primarily due to the launch of our third virtual brand, Banda Burrito but also due to our smart investments in digital which increased traffic to our website, improved conversion rates by over 16% and delivered more effective promotions on our third-party platforms.

Overall, we remain focused on living our values and executing against our strategic initiatives. We are leaning into our strength as a brand, winning in key occasions like breakfast and value and engaging the next generation of brand fans to drive meaningful results for our business. I'd like to thank our dedicated Denny's franchisees for their continued partnership as we navigate these challenging times and for having the courage to be bold and go deep in value to meet the guests where they are.

Now turning to Keke's Breakfast Cafe, our small but mighty brand that has made tremendous progress. Keke's continues to delight our guests. And as we've taken the brand beyond Florida, we're seeing incredibly strong sentiment, including a 4.8 Google rating. This positive sentiment for the brand is driving sales and contributed to Keke's first quarter same-restaurant sales increasing by 3.9%. In addition, Keke's significantly outperformed the BBI Family Dining Index in Florida by nearly 400 basis points.

Highlights for the quarter contributing to the positive sales momentum include off-premise growth, new compelling offers and marketing initiatives. Additionally, a strong focus on operations remains core to the Keke's business model. Another area of focus for Keke's is development. We opened 3 new cafes during the quarter, including our first cafe in Georgia. And just in the last few weeks, we've opened another 3 cafes, one of which is company-owned. We're just starting to unlock the growth opportunities for Keke's. And I want to thank our teams and franchisees for their commitment and enthusiasm as we aim to become one of the largest competitors in the fastest-growing daytime eatery segment.

In closing, we continue to focus on executing our strategic initiatives across both brands and winning with our guests while being nimble, facing challenges head on and meeting our guests where they are. We are a value leader and we know how to leverage that strength to drive profitable traffic and support our guests' needs. We are hopeful that the environment will continue to stabilize and improve and we are confident in our sales levers. These include a continued focus on value and off-premise, our expanding remodel programs and new digital enhancements such as an improved digital guest experience and a new loyalty CRM platform set to launch in the back half of the year. We have a lot to look forward to and I'm incredibly proud of our teams, our franchise partners and all of those leading these amazing brands, executing our strategies and taking great care of our guests every single day.

I'll now turn the call over to Robert Verostek, Denny's Chief Financial Officer to discuss our Q1 financial results.

Robert Verostek

Thank you and good afternoon everyone. As Kelli mentioned, it has been a challenging start to the year. Denny's reported Q1 domestic system-wide same-restaurant sales of negative 3%. Of our top 4 states, California and Florida were the strongest. In fact, in California, we outperformed BBI Family Dining sales for the fifth consecutive quarter. This is a great accomplishment considering over 25% of our domestic restaurants are located there.

From an income perspective, all cohorts experienced a pullback during the quarter given the sharp decline in consumer sentiment but that was more pronounced in households of less than \$50,000. All income cohorts started to rebound in April with those above \$60,000 turning positive again. Domestic franchise restaurants delivered same-restaurant sales of negative 3.2%, while company same-restaurant sales were negative 0.9%. This variation was primarily due to our company restaurants concentration in markets such as California, Las Vegas, Miami and Orlando that outperformed the system average. In addition to this, our company restaurants have been early adopters to our remodel program and technology investments as well as having higher guest satisfaction scores. Denny's had similar pricing to the previous quarter of approximately 5% which was all carryover pricing.

Additionally, the average guest check increased by 2% due to items in the \$2 and \$4 value categories shifting from entrees to add-ons. This categorization change results in a higher check but does not represent an actual price increase. This will continue to be the case until we roll over the relaunch of \$2, \$4, \$6, \$8 beginning in late August of this year. Denny's off-premises sales remained strong during the first quarter, benefiting same-restaurant sales by 1% and represented approximately 22% of total sales. Value incidents increased sequentially to approximately 20% during the first quarter with continued strong performance in the \$6 and \$10 categories. Beginning in fiscal April, we launched the limited time only Buy One Slam Get One for \$1 deal. While it is still early, we are very encouraged by the performance of this new offer. And even though it is a deeper discount, it is garnering enough traffic to be at or marginally above profit neutral. This result, coupled with what Kelli mentioned earlier that nearly 70% of BOGO transactions are from lapsed or new guests is a winning combination and evidence that our message is resonating.

Denny's opened 6 franchise restaurants during the quarter and closed 14 franchise restaurants with average unit volumes of approximately \$1 million. This is consistent with our previously communicated strategy to close underperforming restaurants and return to pre-pandemic growth of flat to slightly positive in future years. Also during the quarter, Denny's completed 6 remodels, including 5 company restaurants. These remodels, coupled with our 2024 progress and earlier testing brings our company fleet to more than 50% remodeled under the new image.

Now moving to Keke's. Keke's delivered system-wide same-restaurant sales of positive 3.9% for the quarter and outperformed the BBI Family Dining Index in Florida for the third consecutive quarter. Similar to the previous quarter, same-restaurant sales performance was softer at company cafes compared to franchise, illustrating the law of small numbers. There were only 12 company cafes included in the company comp base for Keke's. Any one outsized impact, good or bad, can significantly swing numbers which is exactly what happened in Q1. Keke's average check increased approximately 6.5% during the first quarter, driven by pricing, favorable menu trades, higher beverage incidents and off-premises growth. Keke's opened 3 new cafes during the quarter, 2 of which were company-owned. Additionally, one of our original Keke's franchisees took their first step outside of Florida and expanded into our seventh state, Georgia. Thus far in the second quarter, we have opened an additional 3 new cafes, one of which was company-owned. This brings our total year-to-date Keke's openings to 6, including 3 company and 3 franchised openings.

In addition to these 6 year-to-date Keke's openings, we currently have 7 new cafes under construction and 3 in permitting, giving us clear visibility into our implied guidance range of 12 to 20 openings for Keke's. As previously shared, during the quarter we exited 2 underperforming Keke's franchisees who collectively owned 11 cafes. As a result, we strategically acquired 5 of these cafes with the intention of keeping 3 to maximize oversight efficiencies in the Orlando market and refranchising 2 in the near term. The remaining 6 out of the 11 locations closed. However, we expect 3 to reopen under new franchise ownership in the second quarter and we look forward to seeing those cafes thrive again.

Now moving on to our first quarter financial details. Total operating revenue was \$111.6 million compared to \$110 million for the prior-year quarter. This change was primarily driven by additional Keke's equivalent units and higher local advertising co-op contributions for the current quarter, partially offset by Denny's having fewer equivalent units and softer same-restaurant sales. Adjusted franchise operating margin was \$29.4 million or 50.9% of franchise and license revenue compared to \$30.3 million or 52.5% for the prior year quarter. This margin change was primarily due to Denny's having fewer equivalent units and softer same-restaurant sales. Adjusted company restaurant operating margin was \$4.9 million or 9.1% of company restaurant sales compared to \$6.8 million or 13.0% for the prior year quarter. This margin change was primarily due to higher product cost, incremental investments in marketing compared to the prior year quarter and inherent inefficiencies in the new cafe openings that will subside over time.

I want to take a minute to expand upon 2 of these items. One is product cost. Commodities at Denny's were approximately 5% during the first quarter and heavily impacted by eggs. Shortly after our last earnings call, the cost of eggs increased anywhere from 3 to 4x what we had been paying which is what prompted some of our restaurant locations to temporarily add a surcharge to meals that included eggs. The pricing decision was made market by market and restaurant by restaurant due to the regional impacts of the egg shortage. Thankfully, guests recognized the need for this surcharge as egg shelves at grocery stores were bare and we did not see an impact to our guest sentiment scores as a result.

In fact, our net sentiment scores increased over 8 points during Q1 to 60 which far surpassed the Family Dining net sentiment of 48. The adjusted company margin was impacted by approximately \$0.5 million or nearly 100 basis points related to eggs. But keep in mind, this represents only a partial quarter of the impact. While egg costs have moderated, we are still paying approximately double compared to the previous periods. Pending no additional outbreaks of the avian flu, we expect egg prices to further moderate through the summer and into the fall. As such, we expect the surcharges will be removed from all or substantially all restaurants by the end of May. We know this is the right decision for the guest, especially given the current uncertain environment.

Now the second topic I want to expand upon, Keke's new cafe performance. During the quarter, we had 5 new cafes or approximately 25% of the Keke's company fleet open less than 90 days on average. There are inherent inefficiencies when we open a new cafe until we mature into our ultimate margin expectations. We estimate these new cafe operational and oversight inefficiencies impacted the overall adjusted company margin in the first quarter by approximately 70 basis points.

Now moving on to the rest of our financial results. General and administrative expenses of \$20 million were \$1.2 million lower than the prior year quarter. This improvement was primarily due to lower deferred compensation valuation adjustments and incentive compensation. Additionally, corporate administrative expenses were approximately flat compared to the prior year quarter. In a normal year, this would naturally increase due to inflationary pressures, along with the continued necessary investments to grow Keke's. However, we have been very focused on controlling G&A spending which offset these pressures. These results collectively contributed to adjusted EBITDA of \$16.8 million. The effective income tax rate was 47.4% compared to 24.6% for the prior year quarter. This change in rate was primarily due to discrete items relating to share-based compensation in the current year quarter.

Adjusted net income per share was \$0.08 in the current year quarter and our quarter ended total debt leverage ratio was approximately 3.9x. We had approximately \$276 million of total debt outstanding, including approximately \$266 million borrowed under our current credit facility.

Let me now discuss our business outlook for 2025. The beginning of the year has been choppy. Consumer sentiment has been shaken and this is reflected in our first quarter results. We are seeing some positive indications thus far in the second quarter and still have confidence that we have back half sales drivers, including continued focus on value, more tailwinds from our digital enhancements, additional remodels and a new loyalty program that will provide positive benefit. However, we know consumers are still finding their footing, assessing their spending power and making necessary adjustments. With that backdrop, we believe we will be in the lower half of our same-restaurant sales guidance range for the year of negative 2% to positive 1%.

As mentioned earlier, we have line of sight into hitting our openings guidance for the year, so that range is still appropriate. With regard to closures, as we previously shared, we expect between 70 and 90 closures which includes some attrition related to normal lease expirations and we still believe this range is appropriate. However, given this price shift we experienced with eggs after our last earnings call, we are increasing our commodities expectations to between 3% and 5%. We still believe the labor inflation guidance of 2.5% to 3.5% is appropriate. Additionally, our G&A guidance of \$80 million to \$85 million is still intact and as a reminder, includes approximately \$1 million related to the 53rd week.

Based on pointing to the lower half of our sales guidance range and higher commodities, we will likely be at the lower end of both our adjusted EBITDA guidance range of \$80 million to \$85 million and our share repurchase guidance range of \$15 million to \$25 million. Given the uncertainty in today's environment, we are being very thoughtful in reviewing all capital investments to ensure we are delivering the highest returns. We have historically been a highly cash-generative business and returned a significant amount of cash to shareholders through our successful share repurchase program and we believe this strategy remains critical to maximizing shareholder value.

In closing, I would like to thank our teams and franchisees for their continued dedication and support for both Denny's and Keke's. We will remain focused on delivering a best-in-class guest experience and advancing our strategic initiatives to ensure sustainable growth on both top line and bottom line.

I will now turn the call over to the operator to begin the Q&A portion of our call.

Question-and-Answer Session

Operator

[Operator Instructions] The first question comes from the line of Michael Tamas from Oppenheimer & Company.

Michael Tamas

You talked about your April same-store sales improving to flattish and you introduced some new compelling value via some LTO -- via the LTO. Can you talk about how that strategy is shaping the way you're thinking about the rest of the year? And do you believe you'll need to lean into that form of discounting and value even more to sustain the momentum?

Kelli Valade

Hi Michael, this is Kelli. Thank you for that question. So the way we're looking at it is we feel good. \$2, \$4, \$6, \$8 is our everyday value strategy. We will continue to refine and look at that, making sure that in these kind of volatile times, I think that uncertain and volatility are the big words right now. But for us, we could sense we needed to break through with something a bit different, right? Just being able to speak to that lower-income consumer that we all know was most affected by what is happening. And in doing so, in doing our research and working with our franchisees, we're really pretty excited about what we came up with the buy one get one with the All American and the Original Grand Slam. So for the time being, we're -- actually we're pleased with those results and we'll continue to refine our everyday value strategy. So I think about this one as promotional value.

And then, we still have our everyday value strategy we know is important. And that consistency being able to count on us for that is the way we'll look at the balance of the year. We're not done, though. I will tell you, we're still looking at. Just again, are we really meeting guests where they are today? It's not always about discounting but it is about making sure that what we're talking about is breaking through and we're watching what other competitors are doing also.

Michael Tamas

And then you talked about -- I think, donating some market share during the first quarter relative to your peer group. And then you talked about getting a little bit back as we got into April here. So can you -- towards the end of the quarter, excuse me. Can you talk about maybe April, like as your trends improved, is that something that you were seeing across the peer group as well? Or do you think it's what you just talked about with some of those value offers that was allowing you to sort of get back to outperforming your peers?

Kelli Valade

Yes, Michael. Yes, thank you. Yes, teasing that out, that's exactly what we saw. So we turned that offer on late March and then started to almost pretty quickly see the change in the trend against our competitors. And that was what led us to that. We could see the trail, a bit of the trail along with all the other noise as soon as we're able to kind of dissect that all the other external factors, we then kind of pointed to -- we need something that's going to break through a little differently given what our competitors were doing in both family dining and casual dining. So yes, we saw that flip when we introduced this promotional value and saw all cohorts improve, all income cohorts improved when we went on air and went live with this offer. So for the time being, yes, you'll see us continue down that path and pretty excited with the transactions we've seen and just what overall has become true with this promotion.

Operator

The next question comes from the line of Jake Bartlett from Truist Securities.

Jake Bartlett

My first was about the macro environment and your expectations. In the outlook section of the press release, I think it's the same as what it said last quarter as well but you expect recent shifts in consumer sentiment to moderate over time. And I think that remains a big question whether this is a good run rate for where the consumer is or whether it will moderate. So I guess one is just to understand what your guidance is based on. It looks like it's based on the pullback in the consumer moderating throughout '25. But also whether you're seeing signs of that and whether that's within various consumer cohorts that you're exposed to, maybe even specifically around the Hispanic consumer and what you -- I think there was some pressure, some acute pressure. Maybe that's easing, maybe that's why you feel confident that this -- some of this pressure might be more temporary. And then I have some more.

Robert Verostek

Sure. Jake, good to hear your voice and thank you for that question. Yes, it is a pretty choppy environment right now. As Kelli just answered Michael's question, we were very pleased with how we responded with our promotional value there, the BOGO and how that really helped change the trend in the month of April. So I think what you're seeing from us is a very cautious tone. I think early on in the quarter, it was worse, to be candid, January, the end of January started off very, very poorly and that precipitated through February. I think people, I think we found a little bit of a footing here for the moment. But as you can see, any rhetoric in the macro environment can really crater that at any point in time. And that's really the reason why we've kind of couched it as it is, that it will moderate.

We also have within that moderation other of our sales drivers really kind of building through the back half of the year also. So the CRM loyalty program, that launch of that program is a back half program. Our remodels will be concentrated as we get back into that cycle. The number of them that we will complete this year will be back-end loaded. And with regard to the cohorts we spoke to, the -- it really was the more pronounced in our lower-end consumer. While all cohorts did rebound here into April, it was the ones that were 60,000 and above that really saw the biggest benefit there.

So again, all of that taking into consideration what we have on the table, the fact that we do believe we found a little bit of a footing, knowing that at any moment that, that rug could be pulled out from underneath us with some commentary, we're feeling pretty balanced with regard to how we position that guidance.

Jake Bartlett

Okay. And I had another question or a follow-up question, I think, about the BOGO offer, it was obviously effective driving sales. I think you mentioned that it was maybe barely breakeven. I guess the question is whether -- what the franchisee appetite is for promotions like that and whether they're going to have an appetite to continue to do that this year or this is kind of more of a onetime thing to kind of jump start some traction, some traffic or something that you think that we're going to be seeing more of throughout the year?

Kelli Valade

Jake, thank you for the question. This is Kelli. Yes. So look, I think I'd look at this one as promotional value that we pulled through, again, in partnership, this idea was born from great insights that we got from our guests about what could break through in this moment. And so that -- the confidence in the idea came from that and from the many conversations with our franchisees about transactions. So transactions have improved. And so for this thing to continue, we absolutely are keeping an eye on it and making sure there's always going to be with a great value offer to this extent, there's always -- we're watch and check but we are still pleased with the overall results that we're seeing from, yes, a more assertive aggressive offer for us but we absolutely are watching and seeing the transaction. So that's really all I can say at this point about our balanced approach to kind of April and beyond, given that we've got this now in our back pocket.

And again, we pulled it through because we could see that given the choppy environment and the competitor activity around value, we needed to come in with something a bit stronger. And like a lot -- like others, this one was what we pulled through and it does indeed appear to be working. So I think you'll see us -- this could be something that we pulse in from time to time. But also everyday value is still -- we still have our sights set on making sure we've got strong everyday value, this one pulling it through as a promotion.

Robert Verostek

Additionally, Jake, with regard to that, yes, Kelli and I speak very, very often with our franchisees. And the common sentiment is that they're pleased with this BOGO and the traffic driving ability of this BOGO. Restaurants with people in them are just -- they're livelier and it gives us the chance to make more money.

Operator

The next question comes from the line of Todd Brooks from Benchmark Company.

Todd Brooks

Robert, I was wondering, can you talk about forward outlook for menu pricing? I'm guessing we're lapping some price increases in the California market relative to the wage pressure we saw there last year. Just wondering if we can look towards kind of if there's any waterfall to menu pricing going forward from the 5% that you talked about in the first quarter? And then just thoughts on how we should be thinking about mix with the \$1 BOGO running this quarter as we're just trying to get those 2 components of same-store sales locked down?

Robert Verostek

Yes, Todd, good to hear your voice and really good question there. With regard to pricing, let me address that one first. So in 2025, we will have approximately 3 percentage points of rollover pricing coming in from 2024, just based on the timing of how the pricing was taken in 2024. We do have a pricing window coming up here in May. Roughly 2% in pricing will be kind of the system average with regard to that. So if you look at the effective pricing that, that will garner, it will be 1% to 1.5%, somewhere in that range. We do have another opportunity. There will be another menu print in the fall. But at this point, we'll -- again, kind of the answer that I gave Jake, we kind of in this, what will we need to do, we'll react to the environment and figure out what that needs depending on what that looks like. So I don't know if we will actually take pricing. And if so, how much that will look like. So right now, it looks like there will be 4% to 4.5% of pricing into 2025 made up of the rollover which is about twice as impactful as what we will take in the current year with regard to pricing.

The second question was with regard to mix and how the BOGO impacts that. So the mix of the BOGO is -- I think it's roughly in the 5% range. We'll check that. And generally, what's happening, Todd, to break even on this, again, my thumbs kind of waving my thumb in the air with regard to this. You need about twice as much traffic as you lose in check to have that be a pretty good profitable transaction. And we are clearly at or above that right now. Again, my commentary that the franchisees are pleased to date with what they've seen from that.

So with regard to mix, validated that it's about 4%, so 4% to 5% on that BOGO. And with regard to the check impact there, I would say it's -- I think we're seeing -- trying to do the math in my head there because I know the statistic. My guess is it's causing about a \$0.30 impact there. So overall, if that's mixing 4% to 5%, on \$0.30, it's a \$0.01 or \$0.02. So again, impactful in the -- to mix from that alone and I know I'm giving you a lot of numbers, I apologize to that. Kayla can clean this up. But likely less than 0.5 point of mix impact from this one value promotion. So I built you a clock there. But again, it was just working from numbers that I had seen previously.

Todd Brooks

No, that's helpful. And then the second question I have and I'll jump back in afterwards. Just want to get a sense and you painted a picture of some of the good stuff that you're seeing out of Keke's. But just wondering on some of the things that maybe investors are looking for, whether it's refranchising maybe in the Tennessee market, momentum with more Denny's franchisees coming to the brand. How much are those type of touchstones being maybe delayed or muddled by the current environment that we're in? And how do we gauge the seed and feed and kind of repurposing that cash for more corporate openings is going to be unlocked as you expected?

Robert Verostek

Yes, Todd, that's really an insightful question given the environment that we're in. So let me try to break that down a little bit. I would say that we are pleased with the progress of the pace of the new openings, already 6, we detailed 3 in Q1, 3 so far in April, 7 under construction, 3 in permitting. So we're really, really pleased with regard to that. I would tell you that given the current economic environment, what we detailed in the Investor Day was basically an 18- to 24-month unlock of that -- of the capital from the point of the build to when we would eventually get that back out. I think potentially on previous conversations and previous conferences or calls such as this, I would have liked to have hoped that we could have accelerated that more quickly. I begin to question that, frankly, in this current economic environment. I think it will still -- I think it's probably back to the Investor Day 18 to 24 months and my optimism of potentially getting out of, like, say, Nashville or Dallas may be tempered given this.

That being said, we do have packages out with regard to Keke's cafes that we will refranchise in the current year. For instance, several of the Neil Solomon cafes that we took on could be part of that transaction. So we are moving forward with refranchising even though some of the seed and feed markets may take that original 18 to 24 months.

With regard to all of our capital deployment, Todd, that question, one of the things and I mentioned this within the prepared remarks, is really relooking at all of our capital outlays, whether that be the seed and feed cafes or remodels and ensuring that anything that we spend in this current year is working as hard as possible for us. There are benefits to the seed and feed. There is a benefit to building out markets more quickly but it does utilize cash that could otherwise be used for the successful share repurchase program that I detailed. So we are looking at all of that and working diligently to get to as much free cash as we can to deploy against share repurchases.

Todd Brooks

Okay. And just the appetite for the Denny's franchisees with growing with Keke's, is that building? Is that on hold just given the environment? What are you seeing as far as pipeline build?

Kelli Valade

Yes, Tom, this is Kelli. I wouldn't say it's on hold. I'd say there's still a lot of conversations and there's still some looking at a market like Dallas and watching to see the sales trajectory and the sales are growing and there's many brand-new units in Dallas, for example. There's outside interest outside of -- we've always said it's, yes, Denny's, to your point, Denny's franchisees, Keke's and then new. And we've actually had interesting conversations and new conversations as of late. So there are still very interested parties on the Denny's side going from one state to even new states with the Keke's brand.

Operator

The next question comes from the line of Jon Tower from Citi.

Jon Tower

Maybe just on the egg surcharge, can you quantify how much that might have helped same-store sales in the period?

Robert Verostek

Yes, John, it was actually very, very little, believe it or not. With regard to the royalty impact, it was less than \$100,000. So it was very limited with regard to that. If you recall and we've made this point that it was only in selected restaurants, it was a small subset and it was really driven by franchisees who were in markets where they felt compelled to take that, where the egg prices were running away more quickly than potentially the averages across the U.S. So we worked with our franchisees and we're in routine communication with them to help facilitate that to make sure that we were feeding them real-time data with regard to what egg prices were, what that was from a variance from normal. But again, kind of benchmarking working backwards, it was less than \$100,000 worth of royalties.

Jon Tower

Got it. Maybe just going to the buy one get one again -- by one gate one for \$1. Obviously, it seems like it's turned the traffic in a positive direction which is great to hear. You are paying for it a little bit on the margin side. So I'm just curious, what are you working with franchisees at the store level to kind of mitigate that impact and/or drive some check growth. You're getting people in the door, maybe you can get them back again. But the next time they come in, like, hey, we have a plan for them to add on a drink because we're featuring it on the menu in a different manner. Like what's happening at the store level now?

Kelli Valade

Yes, Jon. absolutely. So at the store level, it increased, if not our continued focus on the barbell strategy and the merchandising strategy in restaurant. We launched our Slammin' Sodas, that's a take on dirty sodas this quarter and we'll continue to find new ways to innovate. So innovation and just having great items to merchandise in the restaurant and great incentives for our employees to do that. Again, the transactions are far outweighing any loss in check that anyone would expect with an offer like this. So we're watching that very carefully to your point. But also, we've got off-premise is up and we've been doing a significant amount of work to drive to that daypart, if you still call it the daypart. But we were almost at 20% -- I think, 22% this quarter and that's been growing and that's better SEO optimization, that's better just digital enhancements overall. We've been thoughtful about those digital enhancements. Even things like the NVIDIA Breakfast Bites drove off-premise incidents to that item. We're considering that actually for the core menu. So just innovation, of course but then also just doing everything we possibly can to make sure we're keeping check as whole as we can.

In addition, lots of work on menu simplification and enhancements working in partnership with our operations Brand Advisory Council, getting the best thinking together to just think about how to lower food costs, how to just get even better waste better -- and better scheduling. All those things are in play with new tools being tested right now that should launch later this year. And then working with supply chain to lower cost. Our franchisees are very active in those conversations with us. We welcome that. And we appreciate their approach to that with us. So all those things are in play, along with loyalty program in the back half of the year, things still on track to continue down the path of bringing new guests in, bringing a younger cohort in. We saw that we were able to do that with the NVIDIA work and the ideas that we brought forth there. So all those things together will help us with the in-restaurant experience.

And then, also when transactions being the way they are and the movement we've seen so far, you've got the labor there to leverage that and we're pushing to really just make the most of what happens in that in-restaurant experience as well.

Jon Tower

Great. And then, just -- you've ring-fenced, I think, roughly 70 to 90 store closures for the year. I'm just curious if the current environment doesn't improve, like can you just maybe help us think about how many more -- if there are more franchisees kind of on the cusp for potentially needing to close stores beyond this year or beyond that 70 to 90?

Kelli Valade

Yes. It's a great question. And look, we talk about it a lot here. We are very confident in the strategy that we have had for the last 1.5 years and we're confident in our ability to really be mindful of in watching those quintiles, working to rehabilitate the ones we can rehabilitate. It's a weekly conversation. We don't see any reason at this point to not think that we'll be behind that tranche and behind this amount that we have stated we're going to close. Right on track really, if you just think of it in a ratable sense, we're on track in the first quarter. And we don't expect that to -- because of the environment to expand and be any different. There's no indication for us that says that, that we won't be -- have this behind us. And again, the prediction and the conversations we've always had have been flat to potentially slightly positive net growth for Denny's. And we're still confident in that.

Jon Tower

Great. And then just last for me. Obviously there's been a lot of news about tariffs, et cetera. You guys are going through a remodel cycle and obviously building with Keke's. Can you just walk through any exposure you might have with either remodels or new builds?

Robert Verostek

Yes. John, this is Robert. With regard to that, I think it is still yet to be fully known to us. I think the bigger tariff impact is the one that we were frankly talking about with regard to the early Q1 results and how the lower-end consumer reacts to the tariffs. I think we will have the ability to optimize our spend throughout remodels and throughout any Keke's cafes, new builds. And in fact, we consistently are looking at how to right size the costing of those. Even if prices went up, we would make sure that the components that that we are investing into were the ones that were working hardest. So to me, I think the tariff impact is how it overall impacts the macroeconomic environment and what that does to our lower-end consumer that we rely quite a bit upon.

Operator

The next question comes from the line of Eric Gonzalez from KeyBanc Capital Markets.

Eric Gonzalez

In the prepared remarks, there was a comment about the inefficiencies of maybe opening new Keke's impacted the company margin by 70 bps. That seems like it's a recurring cost. So I'm just wondering, is there anything that can be done to mitigate the impact of these inefficiencies?

Robert Verostek

Yes, Eric, really what we've seen is these inefficiencies really are a function of time. It takes us the first 6 months to really get them moving towards efficiency and then the next 6 to 12 months to get them towards an optimized efficiency. And the reality is it's just a really small base right now. So we've opened, what, 6 in the first part of the year, 3 of those are company cafes. So that represents 15% to 20%. And until that base expands, it will be a recurring theme or until we begin to rebrand these through a seeding fees. But again, the goal is the first 6 months to get them to the point that they're making money in the next 6 months to get them where they are kind of working at a more mature level and ultimately profitable moving towards that upper teens margin. But it is similarly to the same-store sales that we referenced with regard to how one poor-performing restaurant could impact that same-store sales on the company base, very similar here with the company margins also.

Eric Gonzalez

Got it. And then maybe just sticking with the company margin theme. I think you said eggs were 100 basis points but it was a partial quarter. And I think you also said it was -- you're paying 3 to 4x the price but maybe now you're paying 2x the price. So can you quantify what the margin impact could be for the second quarter from eggs?

Robert Verostek

Yes. So I think the way to look at that, Eric, is going back to the 3% to 5% commodity inflation that we talked about. And it really ultimately depends on the price. We saw in recent weeks here that I think it declined more quickly than we might have expected. If that continues, then the impact will be less. If you look at the full market basket, though, that percent increase on the market basket translates into probably 25 basis points on the P&L. So \$0.5 million over the course of the year. So I think what you'll see is that, again, as long as the avian flu continues to kind of tamped down, that you'll see that the biggest impact was in Q1, probably followed by Q2 and then we'll probably marginalize that through the balance of the year. So I think you -- I think we've seen probably the worst of it dependent upon whether this thing tamps down, resurges and what that does to prices.

Operator

The next question comes from the line of Brian Mullan from Piper Sandler.

Allison Arfstrom

This is Allison Arfstrom on for Brian Mullan. Related to the last one, a question on the expansion of company margins and franchise margins. On the last call, you talked about having pretty high confidence in your ability to expand both despite some of the February softness you were seeing at the time. I wanted to circle back on this now that we're through April and ask if your level of confidence is the same or if it's changed at all?

Robert Verostek

Allison, yes, that's a fair question. So if you take a step back for a moment and revisit what we said about kind of a mid-teens ultimate margins for Denny's and an upper teens margins for mature Keke's cafes, I still have the same level of confidence that we will ultimately achieve those. I think what the start of this year has done with regard to the macroeconomic environment and the volatility and uncertainty that has been interjected, I think what we've done is interjected the timing of that and how quickly we can get there but it hasn't changed my perspective that we will ultimately get there. So more still -- at this point, we introduced another layer of timing due to the uncertainty and volatility.

Operator

Ladies and gentlemen, as there are no further questions, I will now hand the conference over to Kayla Money for the closing comments. Kayla?

Kayla Money

Thank you. And thank you everyone for joining today. We look forward to our next conference call in early August when we will discuss our second quarter results. Thank you and have a great evening.

Operator

Thank you. The conference of Denny's Corporation has now concluded. Thank you for your participation. You may now disconnect your lines.

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