

Seeking Alpha^α

Transcripts

Denny's Corporation (DENN) Q2 2024 Earnings Call Transcript

Jul. 30, 2024 10:27 PM ET | Denny's Corporation (DENN) Stock

**SA Transcripts**

148.18K Followers

Q2: 2024-07-30 Earnings Summary

Play Call

Press Release

10-Q

EPS of \$0.13 **misses by \$0.06** | Revenue of \$115.93M (-0.85% Y/Y) **misses by \$3.09M**

Denny's Corporation (NASDAQ:[DENN](#)) Q2 2024 Earnings Conference Call July 30, 2024 5:00 PM ET

Company Participants

Kayla Money – Director-FP&A and Investor Relations

Kelli Valade – President and Chief Executive Officer

Robert Verostek – Executive Vice President and Chief Financial Officer

Conference Call Participants

Todd Brooks – The Benchmark Company

Jake Bartlett – Truist Securities

Michael Tamas – Oppenheimer

Nick Setyan – Wedbush Securities

Ally Arfstrom – Piper Sandler

Operator

Greetings, and welcome to Denny's Corporation's Second Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Kayla Money. Thank you. You may begin.

Kayla Money

Good afternoon. Thank you for joining us for Denny's second quarter 2024 earnings conference call. With me today from management are Kelli Valade, Denny's President and 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 second quarter earnings press release, along with the reconciliation of any non-GAAP financial measures mentioned on today's call. This call will be 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 second quarter financial results and the 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 27, 2023, 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 President and Chief Executive Officer.

Kelli Valade

Thank you, Kayla. Good afternoon, everyone, and thank you for joining us. Today's discussion will focus on the exciting progress we have made to bring profitable traffic-driving initiatives to our flagship Denny's restaurants. We'll also talk about our continued optimism for our growth brand, Keke's Breakfast Cafe. After that, we'll provide updates on our quarterly financial results and our full year 2024 guidance expectations. With that, let's get started.

The first half of this year has been intensely competitive on value across the industry, and we are very pleased that Denny's outperformed the BBI Family Dining Sales Index for the second consecutive quarter, proving that even in the toughest of environments, we continue to steal share. Specifically, Denny's systems same-restaurant sales decline of 0.6% included choppiness from Easter and spring break in April, strong momentum in May and then an overall industry softening in June that was further impacted by a tougher prior year comparison.

Importantly, though, on a regional basis, we continue to outperform or gain market share relative to BBI Family Dining Sales in our key states of California, Texas, Florida and Arizona. And lastly, we are very pleased so far with third quarter sales trends as we continue to outpace benchmarks, proving we are winning the summer with our guests.

I want to commend and thank our teams and our franchisees for their dedication, focus and execution that continues to propel us ahead of the competition. Denny's is America's diner and we want to dominate the breakfast occasion. This is evidenced by our year-to-date outperformance relative to BBI Family Dining breakfast traffic of over 200 basis points. But we also continue to innovate as we are determined to drive traffic during all dayparts. Most recently, this has entailed the expansion of our third virtual brand, Banda Burrito, which helps maximize labor productivity by over-indexing at weekday dinner and late night while providing convenience and meeting guests where they are.

Throughout Q2, we expanded Banda Burrito to over 300 restaurants, prioritizing California's expansion first to provide additional revenue channels given the potential impact of AB 1228. We saw the traffic out compared to QSR in California cut in half during that quarter as a result of lowering price relative to QSR and the expansion of this additional revenue channel. We remain encouraged by the early results and expect this new virtual brand to deliver similar incremental sales volumes and margins as our other successful virtual brands, The Burger Den and The Meltdown. This confidence has driven us to accelerate and expand Banda Burrito to a nationwide rollout that is already well underway and expected to be completed by the fall.

Turning to value. Denny's has always been known as a value leader in the industry serving quality, affordable meals to our guests. Q2 was no different as we highlighted our repriced all-day diner deals menu that featured Super Slam, a fan favorite as well as other famous breakfast plates and value options for lunch and dinner.

During the all-day diner deals promotional time frame, Denny's share of wallet expanded and was among the top full-service performers. We attribute this directly to our highly successful barbell strategy, which advertises traffic-driving value messages and ensures our in-restaurant merchandising entices guests with irresistible and craveable premium products such as our new Berry Waffle Slam and the Sweet & Smoky BLT&E. We've also highlighted our delicious new dessert options and milk shakes that are still proven to be highly incremental add-ons. And we aren't done innovating yet. We're about to go even deeper into value, bringing back a key brand differentiator in a big way.

In just a few short weeks, we will officially relaunch and go national with our 2468 menu with an added \$10 category. This was a value platform unique to Denny's that launched years ago to amazing results, and it's a unique equity only we have. We're thrilled to bring back this consumer-friendly traffic-driving platform based on extensive testing and reengineering. This evolved platform with a top-rated value concept across multiple options we tested, consumer research validated and increased likelihood of guest ordering and making a special visit to Denny's due to positive perceptions around variety, relative value and the inclusion of fresh, high-quality ingredients.

Our test results suggest that not only can this revamp platform drive incremental traffic and then cite new customer trial, but is also engineered to protect profitability. We are truly optimistic about what this can do for the back half of our year.

Additionally, during the quarter, we began reigniting our local co-ops by reestablishing those that had disbanded during the pandemic. This local advertising investment by the system represents \$12 million annually, approximately half of which is incremental. An immense amount of work has been done with our agency partners as we learn more about our specific Denny's guests. Our data suggests we can speak more effectively to our target guests through a larger focus on local media.

Q2 was a transitional quarter with many co-ops restarting in mid-April and more rolling in throughout the quarter and into early July. With the time it takes to receive the funds and then deploy them against media, we believe the full weight of co-op advertising will be realized in Q3 and beyond. We believe it's also why we are continuing to see momentum in July.

And finally, we are very pleased to have completed the rollout of our new cloud-based POS system in all company restaurants, and we're continuing to expand this in franchise restaurants. We now have approximately 130 restaurants on the new platform, and it is opening the door to provide future labor savings, smart upsell opportunities, server handhelds and payment at the table.

Additionally, our new cloud-based POS is an even bigger benefit for our franchise restaurants as the new equipment package comes with an upgraded kitchen visualization system or KVS, which provides meaningful waste-saving opportunities.

In summary, Q2 was another competitive quarter where we continue to outpace the industry and execute our playbook. We've made significant progress thus far in the year, driving incremental traffic, introducing new craveable menu items, launching our third virtual brand, reigniting incremental co-op investments, finalizing testing of our revamped remodel program and completing the rollout of our new cloud-based POS system in all company restaurants.

We remain confident in our strategies and initiatives as we enter the second half of the year with a fan favorite value platform, realizing the full benefit of incremental advertising, introducing new incentives to ignite our remodel program and POS installation and a national rollout of our third virtual brand, Banda Burrito. The future is definitely bright for our flagship Denny's brand.

And now moving on to the Keke's brand. During the quarter, Keke's continued to make progress narrowing the gap to BBI Family Dining sales in Florida. And over the last year, we have cut the gap by over 400 basis points with momentum that has continued in the third quarter. The Keke's brand has accomplished so much in such a brief time building out the operation support team and the data is clear that we are making headway. During the quarter, Keke's continued to innovate and update their menu with new options like grits and gluten-free toast and also revamped the kids meals to serve families more value. These small simple changes have been accretive to guest-check average and resulted in improved guest satisfaction scores.

Turning to Keke's development. We opened our second corporate cafe in Tennessee just outside of Nashville in Gallatin. As excited as we were about our Henderson, Tennessee cafe being on pace to deliver approximately \$2 million in annualized sales volume, Gallatin is proving to be even better and bolstered by expanded outdoor patio seating capacity. On top of that, we also completed our first remodel test at our largest volume corporate cafe in Orlando during June. And while it's still very early, we are extremely encouraged by the trend shift at that location and look forward to sharing more in the future. This new image will be just what we need to refresh and update Keke's Cafes in Florida, and there's big upside when we do this.

We have so much to look forward to with the Keke's brand because we know Keke's is poised to continue selling share from the competition while also growing into new markets like California and Texas later this year. This brand continues to amaze me with the steadfast commitment and enthusiasm from our teams and our franchisees all working towards the goal of becoming one of the largest competitors in the fastest-growing daytime eatery segment.

In closing, we are in the final stages of launching many initiatives that will move the needle for years to come for both brands. From our proven remodel programs, new technology platforms, incremental investments in advertising and new revenue channels through virtual brand offerings, there is so much to look forward to in both of our brands. I could not be more proud of our teams, our franchise partners and all those leading these amazing brands, taking great care of our guests every single day.

I'll now turn the call over to our CFO, Robert Verostek.

Robert Verostek

Thank you, Kelli, and good afternoon, everyone. Denny's reported Q2 domestic system-wide same-restaurant sales of negative 0.6%. Denny's domestic system-wide same-restaurant sales were comprised of approximately 5% in pricing, net of changes in product mix related to increased value offerings. Approximately half of the pricing for the quarter was carryover from fiscal 2023. Denny's domestic average weekly sales per restaurant for the second quarter were \$38,000, including off-premises sales of approximately \$8,000 or approximately 20% of total sales.

Keke's delivered system-wide same cafe sales of negative 4.6% for the quarter, but as Kelli mentioned, the brand continues to make great progress, closing the gap to the Florida index. Keke's expanded the rollout of alcoholic beverages to over 40% of the system, providing check building opportunities in those locations, and we look forward to continuing the expansion.

Turning to our second quarter financial details. Total operating revenue was \$115.9 million, compared to \$116.9 million for the prior year quarter. Franchise and license revenue was \$61.6 million, compared to \$62 million for the prior year quarter. This change was driven by decreases in franchise occupancy revenue and franchise sales, partially offset by an increase in franchise advertising revenue, primarily related to higher local advertising co-op contributions for the current quarter.

Adjusted franchise operating margin was \$30.8 million, or 50% of franchise and license revenue, compared to \$31.6 million, or 50.9% for the prior year quarter. The margin change was primarily due to lower sales and lease terminations.

Additionally, the margin rate was impacted by approximately 80 basis points related to higher advertising, which increases revenue but is margin neutral. Company restaurant sales were \$54.3 million, compared to \$54.9 million for the prior year quarter. This was primarily driven by a decrease in same restaurant sales partially offset by three additional Keke's equivalent units for the current quarter.

Adjusted company restaurant operating margin was \$7.2 million, or 13.2% of company restaurant sales compared to \$8.5 million, or 15.4% for the prior year quarter. This margin change was primarily due to a decrease in same restaurant sales and increases in marketing and general liability insurance cost for the current quarter.

Approximately 80 basis points of the unfavorable change in margin rate was the result of increase in marketing expenses, while general liability and medical insurance adjustments negatively impacted the rate by approximately 50 basis points for the current quarter. Commodity inflation was approximately 1% for the quarter, an improvement over the approximately 2% we have experienced over the last two quarters.

Additionally, team labor inflation was 3% in Q2, unchanged from Q1. We have not experienced a material increase in team wages at our 22 California company restaurants as a result of AB 1228. We believe this is in part due to our servers earning well above the AB 1228 minimum wage when factoring in tip income.

General and administrative expenses for Q2 totaled \$20.5 million, compared to \$20.2 million for the prior year quarter, primarily driven by an increase in corporate administrative expenses. These results collectively contributed to adjusted EBITDA of \$20.3 million. The effective income tax rate was 25.1%, compared to 23.8% for the prior year quarter. This change in rate was primarily due to discrete items related to share-based compensation for the prior year quarter.

Adjusted net income per share was \$0.13 in the current year quarter, compared to \$0.15 for the prior year quarter. Our quarter end total debt leverage ratio was 3.7 times. We had approximately \$267 million of total debt outstanding, including \$258 million borrowed under our credit facility. We continued our commitment to returning capital to our shareholders through share repurchases while also balancing our longer-term goal of growing the Keke's brand, which will contribute additional incremental adjusted EBITDA and cash flow in the near future.

During the quarter, we allocated \$4.7 million to share repurchases while also investing \$5 million in cash capital expenditures primarily related to Keke's development. At the end of the quarter, we had approximately \$91 million remaining under our existing repurchase authorization.

Next, to recap our second quarter development highlights, our brands opened four combined restaurants during the quarter consisting of three new Denny's franchise restaurants and one company owned Keke's cafe. There were also 15 closures with an average unit volume of slightly under \$1.1 million and were open on average for 24 years.

Over that timeframe, trade areas have shifted, which negatively impacted their viability. Despite these closures, we remain encouraged by the overall strengthening of the broader franchise portfolio. As I mentioned last quarter, and the trend remains the same while same restaurant sales have softened, we have seen expansion in our franchise average unit volumes as we closed lower performing restaurants.

Moving to Keke's, we opened one company cafe during the quarter in Gallatin, Tennessee, marking the second cafe opened outside of Florida and the second cafe in the Nashville, Tennessee market. In addition, there are currently four cafes under construction, with several others in permitting and site approval phases.

Let me now discuss the Business Outlook section of our earnings release. Despite outperforming the BBI Family Dining index, Denny's has experienced many of the macroeconomic factors that are impacting the broader restaurant industry. As a result of these impacts, we are adjusting our 2024 domestic system-wide same restaurant sales guidance to between negative 1% and positive 1% compared to 2023.

Our year-to-date closures are currently above our mid-point of guidance. However, typically, restaurants remained open during the summer months, absent lease expirations to capture the summer travel sales. We will continue to monitor closures into the fall and provide an update if appropriate.

Given current construction progress, we now anticipate opening 30 to 40 restaurants on a consolidated basis, inclusive of 12 to 16 Keke's openings and a consolidated net decline of 20 to 30 restaurants. We are projecting 2024 commodity inflation to be between zero and 2% and for labor inflation between 3% and 4%.

Our expectations for consolidated total general and administrative expenses are between \$82 million and \$85 million, including \$11 million related to share-based compensation expense, which does not impact adjusted EBITDA. As a result of the change in our sales outlook, we are now shifting our range for consolidated adjusted EBITDA to between \$83 million and \$87 million.

Lastly, I would like to thank our dedicated franchise partners, restaurant operators and results driven brand teams who have remained focused on delivering a best-in-class guest experience while continuing to drive our strategic priorities, especially given the current consumer environment.

That wraps up our prepared remarks. I will now turn the call over to the operator to begin the Q&A portion of our call.

Question-and-Answer Session

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Todd Brooks with the Benchmark Company. Please proceed with your question.

Todd Brooks

Hey, can you hear me okay?

Robert Verostek

Yes, we have you, Todd. Thank you.

Todd Brooks

Okay. Thank you all. Couple questions, Robert, you talked about kind of a net price mix impact of 5% in the quarter. The prior quarters Barbell had been working, and you were kind of netting out to relatively flat mix if memory serves me correctly. Did mix hold flat or with the additional pressure on the consumer has mixed now dip negative?

Robert Verostek

Yes, Todd. So the mix for the quarter was a slight negative impact to overall GCA. So net pricing was 5%. I believe the mix impact largely driven from some additional value, actually was about a negative 1% impact, driving that down to the 5% that we quoted in my script. So again, actually somewhat intentional as we continue to push additional value.

Todd Brooks

Great. Thank you. And then just talking about value mix in general, I don't think you shared what percent of sales were considered on value platforms. And based on kind of early testing on 246810, thoughts on how high that value mix could creep in the second half of 2024? Thanks. I'll jump back in queue.

Kelli Valade

Sure. Hi, Todd, this is Kelli. And yes, absolutely. We didn't touch on it and kind of overemphasize it because it really has remained flat, slightly down. So it was 18% down from just about 19% last quarter. And so we saw a lot of movement. We were advertising all day diner deals. We felt better about that actually it was margin positive for us, given what we had been doing before and given how we engineered that.

So we saw tiny bit down and then to the second part of your question, our 2468 platform, 246810 actually now engineered to have that \$10 price point in it. That's actually mixing mid-teens. And it had higher in some markets as we did the test. But we feel really confident in both the consumer feedback, the operator feedback, the alignment with the franchisees, and then just the true equity that we have in 2468.

Todd Brooks

And within that mix, Kelli, sorry for the follow-up, but you talked about all day diner deals being margin positive. Just let's call it 2 through 10 instead of listing it each time. How does that impact margins as the mix is higher?

Kelli Valade

That's a good question. No, I think, we think we did not see any margin erosion. In the 246810 that's a good handle you just described for us. We'll see if we can try that one on for size. But we didn't see any margin erosion. And, again, we think we've really engineered this one. I will call out just for reference, we actually not only did we add the \$10 price point, thinking relative to the times, it's been a while since this offer's been out, but we also made the \$2 and the \$4, those are add-on categories, and yet the consumer responded incredibly well to that. So those add-on categories are helping, and they also were feedback given to us from our franchisees. Helps with the alignment, and when we put that into test, it just created variety in everyone's mind, and it still just – it created just that much more excitement for us in how we've engineered it.

Todd Brooks

Perfect. Thanks, Kelli.

Kelli Valade

Thank you.

Operator

Our next question comes from Jake Bartlett with Truist Securities. Please proceed with your question.

Jake Bartlett

Great. Thank you so much for taking the questions. My first is on the trajectory of same-store sales. You mentioned softening in June. I think the commentary in July was more framed about market share or just outperformance versus the index. We don't have the benefit of that index. So I'm hoping you can just frame it in actual, in trends, in same-store sales trends, just because we don't have the data, I think, that you're referring to. So how did same-store sales trends from June into July, if you can share that, and maybe just a little more context of how they trended in the quarter itself.

Robert Verostek

Yes. Hey, Jake, this is Robert. Happy to answer that. Good to hear your voice. So when you're looking at trends, we are trending favorably into July when you look at the total for Q2, so that negative 6% that we delivered in Q2. We actually are outperforming that as we move into July in actually a pretty material way. June was actually the lowest of our – of the three months in the quarter at down 1.5%. So actually a pretty material change in trend, and that's even before we launch into June. The 246810, 210 as Todd described it, about week three into August. So, again, we're really kind of pleased on the way that the quarter has trended to start.

Jake Bartlett

Great. And maybe, Robert, if you maybe share whether July was positive. It sounds like July would have been positive, but maybe if you can confirm that. And I'll let you give you a chance to do that in one sec, but the rest of the question is, I look at this implied second half guidance for a same-store sales and it's negative 1% to roughly 3% positive. So really wide range. I think in the past, sometimes you've given us some where you feel most confident in that range. That might be helpful. It sounds like you do have so many things coming to bear with the co-op – will co-ops kind of fully rolled in the Banda Burrito coming on, the 2 through 10? What would – I mean, it seems that would it just be the macro environment really turning to the worst from here that would put results into the negative territory in the back half here?

Robert Verostek

Yes. So let me answer your first part of that question. July is pretty much flat at this point, Jake, so a point and a half or so improvement now as we've gone out of late Q2 into the Q3. With regard to why that range, right, that negative 1 to plus 1, if you look at that, with all of the initiatives that we have in play, and we're very, very excited about the ones you've listed.

So you went with the 210, full benefit of co-ops, remodels are starting. We have Xenial now into roughly 10% of the system, including all of the company restaurants. We are in now 300-plus restaurants with our next virtual brand, our third virtual brand, Banda. We have a lot of reason to be excited, and I would like to say that we would be at the top end of that range. The reality is, is there – we are in a very volatile macroeconomic environment, which we don't control. So we will execute against the things that are within our control, all of those positive benefits that I listed out to you just a second ago and look to drive towards the top end of that range, but hedging given the environment that we're in.

Jake Bartlett

Great. Thanks a lot. I'll pass it on and jump back. Thanks.

Robert Verostek

Thanks. Thanks, Jake.

Operator

Our next question comes from Michael Tamas with Oppenheimer. Please proceed with your question.

Michael Tamas

Hi. Sorry about that. Can you guys hear me?

Kelli Valade

Yes, we can.

Michael Tamas

Okay, perfect.

Kelli Valade

Welcome back.

Michael Tamas

Thanks. And sorry if I missed this or that if, but can you share a little bit more about the test of the \$2 to \$10 menu? I mean, did it drive incremental traffic in the test? And I think you mentioned the \$10 price point and something about mid-teens mix. So was that specific to the \$10 price point within that menu, or were you saying overall that that new menu is mixing in mid-teens? That's the first part. Thanks.

Kelli Valade

Yes. Great, Michael, thank you. I'll start with the last thing you said, which is the total mix of the menu, 246810 is mixing roughly mid-teens with some markets way higher, not way higher, some higher than that, but the average has been about that. And then so the \$10 price point has been actually okay. That's been a benefit to us. That was certainly important in certain markets like California, as you can imagine. But we are absolutely in the test, and the reason we moved forward was because we immediately did see a traffic gain in those markets and across all the restaurants that we tested in.

So we feel really good about that, and we actually saw, because this was, it stayed margin positive, because not only the way the menu was engineered, but those add-on categories have really helped us. And the consumer still sees that as a benefit and sees so many options from us in that category that it really has performed very well for us. Operators like it, franchisees are aligned and excited about this offer.

Michael Tamas

Perfect. Thanks. And then we've heard from some other restaurants, even some fast food companies, talking about consumers trading down and now eating at home a little bit more. So I'm wondering, are you seeing that at all? Do you think you see that in your data? And if you're not, maybe, why do you think that is relative to some others? Thanks.

Kelli Valade

I think it's a fair – it's certainly fair. When grocery prices, when we are still ahead of where grocery inflation is, we definitely feel like people are probably still saying, I should just cook at home a little bit more often. For us, we're actually – we can see some change in check that's indicative of us, but maybe a little bit of – I'll order one less beverage or beverage incidences are slightly down quarter-to-date and year-to-date. But our add-ons, we're doing a lot of in-restaurant merchandising. We've done that differently this last year. It's really helped to aid us in that, we talked about how more effective, how much more effective our barbell strategy has been.

So we're really proud of the things we've done in restaurants, the things our servers are doing to sell and upsell sides and different things, even if maybe that extra add-on beverage isn't happening or they're having water instead. So it's not like we can't see it, but we feel like we've had good strategies to offset that potential trade-down.

Michael Tamas

Thank you. I'll hop back in.

Kelli Valade

Thanks, Michael.

Operator

Our next question comes from Nick Setyan with Wedbush Securities. Please proceed with your question.

Nick Setyan

Thank you. I want to focus a little bit more on Keke's. I mean, I think you guys had some menu changes at the end of last year, along with some of the Florida weakness that had resulted in the negative comps, if I'm not mistaken. I think we anniversary some of that starting in Q3. So how should we think about the central sales growth trajectory at Keke's in the second half?

Kelli Valade

Yes. I think that's a great – that's fair, great question, Nick. And I think what – you're absolutely right. So you started with gaps in Florida. It is a really different environment in Florida. It's challenging. The industry has been negative three quarters. Family dining has been negative four quarters. And so it's just been a tough environment. And we've seen Keke's gaining cutting that gap in half as of late.

So it's definitely – there's definitely some challenges that makes it in Orlando where we have big presence even harder. The things that we are excited about, we've opened, as we've mentioned in the scripts, two restaurants outside that are company-owned restaurants. The new restaurants that are opening have significantly higher volumes than the system average, so that's encouraging. And these are places that nobody really knows of us, and the team's just done an outstanding job there.

The remodel of the Dr. Phillips location in Orlando, I was just there, is absolutely gorgeous, and we're incredibly encouraged by those results. The other things we've talked about, that remodel potential is big for us. We're entering California and Texas this year and have some really exciting growth plans beyond that even. But we're excited about the potential they have still to add patios, remodel programs. They've had new food offerings, kids' meal upgrades, and improvements that they've made.

And just lots of really good work that's gone on. Alcohol is in about 70% of the locations as of right now. And that's just getting started, really, with some great new sangrias, mimosas. So there's lots to be excited about. There's just tough comps in that market.

Nick Setyan

And the entry into Texas and California as company-owned locations or are franchisees starting to build themselves?

Kelli Valade

Yes. Those are franchise. We'll go – we have franchise partners that are actually Denny's franchisees excited about California and Texas. And Texas will actually be company and franchise. So we have some excitement building for sure.

Nick Setyan

Got it. And then just kind of an overall question on the competitive environment. Obviously, QSR is getting even more competitive casual dining, even more competitive as we head into the second half. Is the sort of \$2 to \$10 menu enough, do you think? Or is there sort of maybe another I guess, are we going to see it necessary to be even more aggressive than that going forward?

Kelli Valade

Yes. I think that's a fair question. There's no doubt it's kind of a value war out there with everybody just racing to get to just the next offering that might really ignite some new customer trial and get them from grocery, if you will. I think for us, \$2, \$4, \$6, \$8 by far was, again, it's a true equity for us. People know the Denny's brand for that offering.

And so when we look at consumer research, what we learned from the consumer, even before going to an in-market to those in-market restaurants, it matched to really say, yes, this is unique and different. We do think this could be the value platform that signifies the strength we have always had in value, but that we now have an everyday value platform. I think the other thing we've had original Grand Slam was also something that was really strong for us. So we've got some pantry. We have ideas on the pantry that still could play a big role for us if, in fact, \$2, \$4, \$6, \$8 does not deliver the way we think it will. But every indication says this is a strong traffic driver for us.

Nick Setyan

Thank you very much.

Operator

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

Ally Arfstrom

This is Ally Arfstrom on for Brian Mullan. Thank you for taking the question. Just wanted to ask about the potential remodels for the Keke's fleet in Florida. I'm curious if there's any update on the time line or cost per unit perspective?

Kelli Valade

Great question. So we don't yet. So we've got into that. We're started with looking at the next round that we could look at. It's really early for that first location. It's about six weeks in right now. We also have to optimize the cost, right? So we really have to look at and scale this a little bit more before we're able to say this is a definitive cost of that remodel and therefore, the return that we expect to get, the sales lift and traffic lift we need. So we need just more test units to be able to scale that and then be able to specifically talk to that – speak to that.

Robert Verostek

The other piece of the puzzle there is this is a brand that just turned 18 years old, made it to adulthood finally. And it has not had a remodel program up until this point. So whatever we do should be a significant improvement. You can see the pictures in our investor deck of pre and post of what we have been doing and has the likely ability to be a very material improvement. We do need more testing and so there's no doubt about it. But we are really, really pleased with how we got out of the ground with this.

Operator

Our next question comes from Todd Brooks with The Benchmark Company. Please proceed with your question.

Todd Brooks

Hey, thanks for squeezing me in again. Just two quick ones. One, you didn't call California performance out specifically. And just any color you could give us on the same-store sales performance of that market and the complexion of how you get there, if it's further down traffic than the rest of the chain, but you've made it back with more aggressive menu pricing to offset the FAST Act or any thoughts there? And then I have one follow-up.

Robert Verostek

Yes, Todd, this is Robert. So a really good question. So I would say that California, if we were down 0.6 [ph] for the quarter, they're slightly below that, a little slightly worse. When you look at Texas – in California, though, we did steal share from QSR, and we do attribute that a little bit to the AB 1228 and how we're performing in that. In fact, the gap that we were experiencing to overall QSR, we've cut in half in California specifically.

When you look at Texas, I'll give you the smile states that's where half of our restaurants are. Texas is about in line with performance. Arizona is actually outpacing that negative 0.6. They were actually positive in the quarter. And then Kelli spoke at length with regard to Florida. It is by – it is our worst-performing state right now. So that gives you a sense of the smile states for us.

Kelli Valade

And Todd, I'll add one more thing to the California, the kind of core of that question on how California is performing. I will tell you that we had a significant amount of the test restaurants for \$2, \$4, \$6, \$8 in California, and those outperformed these other markets that we're adjusting that offer in. So we're really excited about that.

The last thing I'll say about that market is San Diego and LA. So we talked about those co-ops coming back online. Those two markets, LA and San Diego, which are a pretty big percentage of our restaurants in California are just now getting started. So we expect there to be even more benefit later on this quarter for those co-ops in California, especially.

Todd Brooks

That's great. Thanks. And then my other one is just a Keke's follow-up. So you mentioned 10 generally franchisees opening in California. It sounds like a company/franchise split with the first Texas units. It wouldn't be a call if I didn't ask you about an update to the development pipeline for Keke's, I know that some franchisees were waiting to see the Tennessee store performance. It sounds like from everything you said, Kelli, it's – those stores are outstripping the brand average in Florida. So just any update we can get on that pipeline would be great.

Kelli Valade

Of course, sure. There's really no material change, but a lot of really great conversations, a lot of tours to that restaurant, those two restaurants now in Tennessee, and they are over performing. They're 2 million plus versus the 1.9 million [ph] system average. So we're continuing to be really excited and then working on that pipeline. We're absolutely working on the pipeline.

Todd Brooks

Okay, great. Thank you both.

Robert Verostek

Thanks, Todd.

Kelli Valade

Thank you, Todd.

Operator

Our next question comes from Jake Bartlett with Truist Securities. Please proceed with your question.

Jake Bartlett

Great. Thanks for taking the follow-up. Mine was – back to my other question, and it was the improvement in July from June. Is that in tandem with what you saw from the market? Or is it any specific your outperformance expanding versus the market? And if that's the case, just remind us what drove that you think from June to July?

Robert Verostek

So the first part of that question, Jake, is when we look at the market, not only did we improve upon our trend, but we are actually outpacing the BBI Family Index in a very material way. So that is also expanded. So it's not only our change in trend, but broadly an even further outperformance to the industry with regard to that.

Kelli Valade

I do think, too, Jake, to the question, I think there's a little bit, again, we've mentioned those co-op dollars take a minute to deploy the media, see the reaction to that. But I think there's a little bit there in terms of that media started, some of that extra and incremental media started in April for many markets. I think we got a little bit there. We've got a few Banda Burritos that were added. California went first. So I think that's a little bit of what's aiding us in the comps in July. And certainly, against the industry, we're pretty excited about that.

Jake Bartlett

Great. And with Banda, can you – you have good experience with it now. How is that? What kind of a sales lift do you see when you add a Banda option in a store?

Kelli Valade

Yes. The good news, we see it to be and expect it to be similar in terms of the dollars that it contributes as to the other virtual brands that we have in because it's still ramping up, and it's early in many locations, those 300 plus that are already in, and we have many more to go. In fact, we have a lot that will be going in August. And we're excited about that. The ease of operations and execution of it has been phenomenal. We've checked with operators and franchisees. So we're pretty bullish on delivering the same as our other two virtual brands. And it's got really relevant offerings, especially on the West Coast.

Jake Bartlett

Got it. And then the last question is on the G&A. It was lowered a bit, but that was really, I think, just the stock-based comp side of it. So in terms of kind of tightening the belt on G&A, do you think there's opportunity there? Or are you perhaps kind of holding off just because you view the industry slowdown as temporary. Is this a sign that you see light at the end of the tunnel for the industry trends or maybe there's just not any fat to cut at this point?

Robert Verostek

Yes. Jake, that's a fair question with regard to that. To be very transparent, we did invest to grow the Keke's brand, and that is some of what we have experienced over the last couple of quarters and the last couple of years, frankly. And you can start to see that come to fruition now. That guidance of 12 to 16, that's been maintained all year long. The pipeline is continuing to grow. So we're really pleased with regard to what we're experiencing out of Keke's. We are very diligent with regard to our G&A spending. We know that, that is part of the story and work to be very conservative with the balance of the portfolio, balance of the Denny's brands, but investing – clearly investing in our growth vehicle.

Jake Bartlett

Great. Thank you very much. Appreciate it.

Robert Verostek

Thanks, Jake.

Kelli Valade

And thank you, everyone. I'd like to thank you for joining today's call. We look forward to our next conference call in October when we will discuss our third quarter 2024 results. Thank you, and have a great evening.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.

Read more current DENN [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Newest  