

Seeking Alpha^α

Transcripts

Driven Brands Holdings Inc. (DRVN) Q1 2024 Earnings Call Transcript

May 03, 2024 7:27 AM ET | Driven Brands Holdings Inc. (DRVN) Stock

**SA Transcripts**

147.85K Followers

Q1: 2024-05-02 Earnings Summary

Play Call

Press Release

10-Q

EPS of \$0.23 **beats** by **\$0.04** | Revenue of \$572.23M (1.74% Y/Y) **misses** by **\$12.13M**

Driven Brands Holdings Inc. (NASDAQ:[DRVN](#)) Q1 2024 Earnings Conference Call May 2, 2024
8:30 AM ET

Company Participants

Joel Arnao - Senior Vice President of FP&A, Treasury and Investor Relations

Jonathan Fitzpatrick - President and CEO

Gary Ferrera - EVP and CFO

Danny Rivera - EVP and COO

Conference Call Participants

Simeon Gutman - Morgan Stanley

Peter Benedict - Baird

Robby Ohmes - Bank of America

Seth Sigman - Barclays

Madison Callinan - Canaccord Genuity

Christian Carlino - JPMorgan

Kate McShane - Goldman Sachs

Chris O'Cull - Stifel

Peter Keith - Piper Sandler

Operator

Good morning. My name is Karina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Driven Brands Q1 2024 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I will now turn the call over to Joel Arnao, SVP of Finance. Joel, you may begin your conference.

Joel Arnao

Good morning and welcome to Driven Brands first quarter 2024 earnings conference call. The earnings release and the leverage ratio reconciliation are available for download on our website at investors.drivenbrands.com. On the call today with me are Jonathan Fitzpatrick, President and Chief Executive Officer; Danny Rivera, Executive Vice President and Chief Operating Officer; and Gary Ferrera, Executive Vice President and Chief Financial Officer. In a moment, Jonathan, Danny and Gary will walk you through our financial and operating performance for the quarter.

Before we begin our remarks, I'd like to remind you that management will refer to certain non-GAAP financial measures. You can find the reconciliations to the most directly comparable GAAP financial measures on the company's Investor Relations website and in its filings with the Securities and Exchange Commission. During the course of this call, we may also make forward-looking statements in regards to our current plans, beliefs and expectations.

These statements are not guarantees of future performance and are subject to a number of risks and uncertainties and other factors that can cause actual results and events to differ materially from the results and events contemplated by these forward-looking statements. Please see our earnings release and our filings with the Securities and Exchange Commission for more information. Today's prepared remarks will be followed by a question-and-answer session. We ask you to limit yourself to one question and one follow-up.

Now, I'll turn it over to my partner, Jonathan.

Jonathan Fitzpatrick

Good morning. We appreciate everyone joining us today to discuss Driven Brands' first quarter 2024 financial results. To begin, I want to acknowledge the hard work and strong execution by our more than 10,000 Driven Brands' team members and our amazing franchisees for how they continued to navigate an extremely dynamic macroeconomic environment.

I will start with a review of some of our first quarter 2024 highlights and then turn it over to Danny, who will discuss our operating segments and then Gary, who will detail our first quarter financial results and full year outlook.

For Q1 2024, we delivered 1.7% revenue growth versus the prior year, supported by our 144 net new stores and 0.7% same-store sales growth, achieving diluted adjusted EPS of \$0.23. We continue to be pleased by the performance of our Take 5 Oil Change and franchise businesses all being key contributors to a solid Q1 2024.

Now on our last earnings call, I mentioned the effects of extremely challenging weather conditions on our business in January and despite these challenges, we were still able to deliver a solid first quarter and feel confident about the balance of the year.

Now before we dive in, I want to spend a moment on Gary and as you likely saw in our earnings release, Gary has decided to pursue another opportunity in order to be closer to his family in Colorado. He will be working closely with a former colleague he has known for decades. Joel Arnao, our Senior Vice President of Finance, who many of you know, will assume the role of Interim CFO while we conduct a search for Gary's successor.

We are focused on finding the right person for the role and we appreciate that Gary will make himself available to support the transition, which we expect will be seamless. Gary has been a great partner this last year and on behalf of the Board and the management team, we wish him great success in his new role.

Now turning to the results for the quarter. Q1 revenue was impacted by the extreme weather conditions in January. We also believe that the ongoing inflationary environment will likely continue to pressure consumer spending throughout the balance of 2024, and that lower income households will be the most impacted. We expect that this pressure will be offset by continued strength in our B2B and commercial business and our needs-based businesses. We are focused on delivering our 2024 guidance despite this ongoing consumer uncertainty.

I want to take a few moments to speak about one of the key drivers of our performance, Take 5 Oil Change. Despite the challenging start to the quarter, this marks the 15th consecutive quarter of positive same-store sales and we're particularly pleased with the year-over-year margin expansion of approximately 300 basis points, delivered by an increasing franchise revenue mix, coupled with great margin management at our company locations.

Next, I want to provide an update on our purchasing platform, Driven Advantage, which we previewed at our Investor Day in 2023. You may recall that this is an online marketplace where our company stores, franchisees and affiliates can purchase from over 90,000 SKUs from more than 50 vendor partners, ranging from office supplies to paint, oil and equipment. And since its launch in Q1 2023, approximately 75% of eligible locations have already begun purchasing products and services on the platform.

The team is now focused on making additional enhancements aimed at increasing our wallet share and driving additional convenience and value for our partners. We continue to augment our vendor landscape with new SKUs and make technical enhancements to the platform, such as suggestive selling and customized advertising.

This is a uniquely powerful platform we have created that benefits our franchisees, company stores, vendor partners and Driven and we feel very good about delivering on the growth from this platform we outlined at Investor Day, including the incremental \$35 million in adjusted EBITDA we expect by 2026. Our franchise businesses, Meineke, Maaco, CARSTAR and 1-800, all delivered strong results in Q1 and continue to drive significant cash flow and very strong margins.

Now let me give you an update on our Car Wash segment. Margins in the U.S. business were negatively impacted in Q1 by lower revenue and revenue was impacted by a combination of consumer softness, weather and the continued impact of competitive intrusion. As mentioned on our previous earnings call, we have stopped all new growth capital investments in this business and will not open new U.S. Car Wash stores.

Additionally, the team is making good progress on divesting pipeline properties we owned when we made this decision. Through Q1, we have received approximately \$33 million of proceeds and are still planning on at least \$100 million in fiscal year 2024. On the other hand, our international Car Wash business had a solid first quarter, and we're seeing really nice trends in April.

Now switching to our U.S. Glass business, Auto Glass Now, we remain excited about the medium and longer-term prospects for this business, but also know that it will take time to build scale and momentum. The team is focused on growing both the top and bottom lines of this business and while we saw a slower Q1 from the retail consumer, similar to some of our other businesses, we're pleased with the continued progress in our commercial business.

The team is focused on building our insurance sales with an immediate focus on regional carriers and we're pleased with the growing pipeline and look forward to turning this into new revenue throughout the remainder of the year.

My focus in 2024 is delivering on our guidance, reducing debt and actively managing the portfolio, which means making sure that Driven has the right assets to execute on our short, medium and longer-term goals. We have a platform that generates high steady-state returns with a long runway for reinvestment at attractive returns and we're incredibly motivated to see our valuation mirror our results over time.

Now let me hand it over to my partner, Danny, our Chief Operating Officer, to discuss our key business segments.

Danny Rivera

Thank you, Jonathan. I wanted to start by formally welcoming two new leaders to Driven, Tim Austin and Missy McKinley. Tim joins us as our new President of Take 5 Car Wash. Tim built his career at Walmart, where he grew from a store manager to Regional Vice President. He also held several leadership roles at Sears before becoming COO at Lucid Hearing, helping to grow the company to over 500 locations in five countries.

Missy is our new Vice President of Field Operations for Take 5 Oil Change. Missy joins us from Scooter's Coffee, where she served as President of Operations. Before Scooter's, she held operational leadership positions at several great retailers, including CVS, Dollar Tree and Circle K. Welcome, Tim and Missy to the Driven team.

Switching gears to Q1 performance. Q1 was a difficult quarter with a few headwinds from weather and a softer retail environment. However, I'm happy with the results our team achieved. First, weather was not our friend in the first quarter, particularly in January. January was the 10th wettest on record in the United States and multiple major winter storms forced us to lose over 200 retail days due to store closures.

Second, as other major retailers have recently mentioned, we saw some moderate softness with consumer demand, particularly from lower income households. Despite these headwinds, the team was able to deliver a very solid quarter with year-over-year increases in system-wide sales, same-store sales, revenue, EBITDA and EBITDA margin and new units. That's the power of Driven's diversified platform. While some of our businesses, which I'll discuss shortly, may not be hitting on all cylinders, others are more than making up the slack.

Before I jump into the segments, it's worth spending a moment on Driven's highly franchised businesses. Maaco, CARSTAR, Meineke and 1-800 are asset-light franchise businesses, but an important part of Driven's portfolio. These iconic businesses, some of which have been around for more than 50 years, continue to produce steady results, adjusted EBITDA margins north of 50% and significant cash flow. They are a major part of Driven's DNA and performance, and I'd like to once again thank our franchisees for their hard work and dedication.

Moving on to our Maintenance segment, which was up year-over-year in system-wide sales, revenue, adjusted EBITDA and adjusted EBITDA margin. Take 5 Oil Change led the way and continued its streak of top to bottom growth. In Q1, Take 5 was up year-over-year, about 16% in revenue, 7% in same-store sales, 30% in adjusted EBITDA and 350 basis points in adjusted EBITDA margin. We also opened an additional 28 net locations in Q1, 162 more locations than in Q1 of 2023.

About two thirds of these locations are franchised. Take 5 Oil Change continues to win because of our differentiated fast, friendly and simple business model. We deliver stay in your car oil changes in less than 10 minutes with no high-pressure selling. The result is a premium oil conversion rate of approximately 90%, ancillary attachment rates north of 40% and top two box NPS scores in the mid-70s.

Our growth plan for Take 5 Oil Change remains unchanged, thanks to the success we've seen to date. As highlighted at our Investor Day, we will open about 150 new locations every year. Of these, about two thirds will operate as franchises, while the remaining one third will be corporate owned.

We're planning for continued organic same-store sales growth due to our steady pipeline of newer vintages that are ramping healthy repeat rates, thanks to our differentiated service offering and leaning into new channels that tap into new customer segments, such as online appointments. We launched online appointments towards the end of last year and have recently finished the rollout in our company-owned locations.

For 30-plus years of Take 5's history, no appointment was necessary and customers were free to come any time that was convenient to them. Today, our no appointment necessary culture hasn't changed, but we now offer appointments for customers that are time starved and want to carefully plan exactly when they get their next oil change. We're very encouraged with the results we've seen to date. In the stores where we've rolled out online appointments, this new channel has led to an incremental half car per day per store.

Importantly, over 80% of the customers were seeing through this new channel have either never been to Take 5 Oil Change or have lapsed, meaning they haven't been to Take 5 Oil Change in the past 12 months. Many thanks to Mo Khalid, President of Take 5 Oil Change, our employees and our amazing franchisees for the continued success we've seen.

Moving over to our Car Wash segment, the softening of this part of our business continued into Q1 with year-over-year declines in revenue of about 8%, adjusted EBITDA of about 29% and EBITDA margins of about 600 basis points. We did see some positive signs, however, as we sequentially improved revenue and EBITDA.

From an adjusted EBITDA margin perspective, we've maintained the variable cost improvements we made in Q4 into Q1. However, rents on a year-over-year basis was higher in the first quarter of 2024 by about \$2 million due to the execution of sale-leasebacks. While we saw approximately 65 basis points sequential drop in margins, this is entirely due to year-end rebates we received in Q4.

The softness within the segment continues to be entirely due to our domestic business as our international business, led by Tracy Gehlan, turned in another solid quarter with positive year-over-year financial growth. The themes for our U.S. Car Wash business remain the same. Revenue declined due to unfavorable weather conditions and competitive intrusion.

January was particularly difficult from a weather perspective for our U.S. Car Wash business. Massive winter storms forced store closures resulting in over 200 lost retail days. Unlike other parts of our business like Oil Change, these tend to be lost occasions that do not result in pent-up future demand. The operational plan that we established for our U.S. Car Wash business in Q4 remains the same; preserve the variable cost improvements we made and grow membership revenue.

When it comes to growing membership revenue, we began testing some pricing changes in two markets in early Q1. Based on the encouraging results we saw with these two markets, we grew the test to approximately half of the portfolio early in March. While we're in very early innings, this new program has materially improved both member conversion rates and churn rates. We continue to monitor this program closely and remain optimistic about what this could mean for the trajectory of the U.S. Car Wash business in 2024.

Our PC&G segment had year-over-year decreases in revenue and adjusted EBITDA, while generating positive same-store sales. It's worth noting that we refranchised nine company-owned collision centers and secured a significant multiyear development agreement in January of this year. This leaves us with one remaining company-operated collision center. Refranchising these locations naturally leads to a reduction in revenue for the segment with no changes to system wide sales.

When looking at individual performance of Auto Glass Now, Maaco and CARSTAR, we have a Tale of Two Cities. Maaco and CARSTAR continued to deliver solid performance and adjusted EBITDA margins in excess of 50%. Auto Glass Now continues to be a strategic growth area for us. The plan for Auto Glass Now that was established in Q4 hasn't changed, improve our cost structure and grow revenue with a heavy focus on driving regional insurance.

Michael Macaluso and the AGM team started 2024 on the right foot by delivering sequential growth in financial performance. The team also has a robust pipeline of regional insurance carriers that are in the latter stages of negotiation. We are optimistic that we will start to see growth in regional insurance revenue in the second half of 2024.

Lastly, our Platform Services segment had another solid quarter with year-over-year increases in revenue, adjusted EBITDA and adjusted EBITDA margin, driven by strong performance from 1-800 and Spire, which benefits directly from the continued amazing growth and Take 5 Oil Change that I spoke about a moment ago. I would also like to echo Jonathan's sentiments on Driven Advantage. We are excited with the results Kyle Marshall, EVP of our Platform segment and the team have been able to deliver just one short year into building this truly unique platform.

To summarize, I'm proud of the year-over-year growth that Driven team, both employees and franchisees achieved despite facing many headwinds in the quarter. While there's still much work ahead to get our U.S. Car Wash and Glass businesses to where we want them to be, Take 5 Oil Change continues to knock it out of the park and our franchise businesses remain strong.

With that, I'd like to hand it over to my partner, Gary.

Gary Ferrera

Thanks, Danny, and welcome, everyone. This morning, I will review our first quarter financial performance and discuss our outlook for the rest of the year. Before I start, I just want to take a moment to thank Jonathan and Danny for being such great partners. It's been an honor to work alongside both of you, the rest of the executive team, our Board of Directors and all of our incredible employees. I joined Driven Brands a year ago and while 2023 was a bit of a challenge, we adjusted course where needed and delivered on a revised outlook. The team is now focused on accelerating growth in 2024 while remaining hyper focused on generating cash flow and delevering.

While I will miss working with everyone, I look forward to being able to spend more time with my family in Colorado. I'll be joining a private company, and as Jonathan mentioned, partnering with a long-term friend. Importantly, I believe here knowing that Driven Brands is in very capable hands and has a bright future ahead.

Now turning to our results. As Jonathan and Danny discussed, we had extremely challenging weather during the quarter, especially in the U.S. during January. Additionally, we experienced some moderate softness with consumer demand particularly from lower income households. Even with these challenges, we still delivered our 13th straight quarter of positive same-store sales growth. Adjusted EBITDA and adjusted EBITDA margin for the quarter increased both sequentially and year-over-year and cash flows from operations increased approximately 64%. I am proud of how well our team executed in a dynamic environment, especially how they managed the bottom line.

For the first quarter, our system-wide sales were \$1.6 billion, up 6.7% versus the prior year. This growth was driven by 144 net new stores year-over-year and 0.7% same-store sales growth. As planned, the majority of our new store openings came from the maintenance segment, with approximately 60% of those being franchise openings.

Our same-store sales performance for the first quarter was lower than the outlook we provided for the full year 2024, but in line with our expectations for the quarter. The lower growth rate was primarily driven by the extreme weather in January impacting most of our businesses as well as generally poor weekend weather impact in the Car Wash segment. We continue to expect same-store sales for the full year to be between 3% and 5% and for the majority of that growth to occur in the second half of the year. As a reminder, we had our highest same-store sales in 2023 during the first quarter.

Total revenue for the quarter was \$572.2 million and adjusted EBITDA was \$131 million, an increase of 1.7% and 6.1%, respectively. Adjusted EBITDA margin was 22.9%, representing an increase of 95 basis points versus the prior year period. Cash provided by operating activities was \$60.3 million versus \$36.8 million in the prior year quarter, an increase of approximately 64%.

I will now focus on our performance by segment. In our Maintenance segment, system-wide sales were \$500 million, and same-store sales grew 4.8%. Our same-store sales growth and margin expansion were driven by strong attachment rates of our ancillary products, particularly coolant, which helped drive ticket expansion and Take 5 Oil Change.

During the quarter, we opened 28 net new stores with 19 franchise stores and nine company-owned stores. We achieved revenue of \$261.7 million and adjusted EBITDA of \$91.4 million, representing growth of 15% and 26.6%, respectively, while adjusted EBITDA margin at 34.9% increased 320 basis points versus the prior year period.

In our Car Wash segment, same-store sales declined 7.4%. This decline was driven by our U.S. Car Wash operations, which saw lower volume due to weather and competitive intrusion. We delivered revenue of \$144.7 million and adjusted EBITDA of \$29.1 million. While these represent significant declines from the prior year period, we experienced sequential growth in revenue and adjusted EBITDA of 8.7% and 5.2% respectively, versus the fourth quarter of 2023, despite having the benefit of some one-time rebates being recognized in Q4 and considerable weather disruptions in the first quarter of 2024.

In our PC&G segment, system-wide sales were \$882.1 million, up 8.1%, driven by our franchise businesses. Same-store sales increased 1.3%. Revenue was \$106.4 million, and adjusted EBITDA was \$30.8 million, resulting in decreases of 11.9% and 13.1%, respectively. These declines were primarily driven by the refranchising of nine company-owned collision stores earlier this year and the performance at Auto Glass Now.

In our Platform Services segment, we delivered revenue of \$53.8 million and adjusted EBITDA of \$19.9 million for growth of 3.4% and 16.8% respectively. Adjusted EBITDA margin increased 423 basis points versus the prior year to 36.9%, which was due to effective cost management. Corporate and other spending decreased 3.9%, primarily due to the timing of third-party expenses, which we expect will hit in future quarters.

Now I will focus on some key components below adjusted EBITDA. For the quarter, depreciation and amortization expenses totaled \$43.2 million, which was an increase of \$5 million from the prior year due to an increase in company-owned stores. Additionally, interest expense was \$43.8 million, a \$5.6 million increase from the prior year, primarily due to the higher interest rates and increased use of the revolver.

Net income for the first quarter was \$4.3 million versus net income of \$29.7 million in Q1 2023 or a decrease of \$25.5 million. This decrease was primarily due to asset impairment and lease termination charges as well as the increases in D&A and interest expense that I just mentioned.

Adjusted net income was \$38.1 million in the first quarter, slightly lower than the \$39.1 million last year, resulting in adjusted diluted EPS of \$0.23 flat versus the same period in 2023. Gross capital investments were \$89.5 million for the quarter versus \$169.2 million in the same period last year. This is a 47% reduction from the first quarter of 2023 and consistent with our expectations based on the full year outlook we shared last quarter.

Total sale leaseback activity for the quarter was \$4.5 million driven by our Maintenance segment. This resulted in net CapEx of \$84.9 million, which is consistent with the Dream Big 2026 plan that we shared at our Investor Day in September of 2023.

As I mentioned last quarter, we are in the process of rolling out a new enterprise resource planning or ERP system. As a reminder, this project will replace multiple legacy ERP systems with Oracle Fusion. U.S. GAAP does not consider investments in cloud computing to be a capital investment, therefore our ERP project investment flows through operating cash flows.

At quarter end, our net leverage ratio declined sequentially to 4.92 times versus 4.96 times for Q4 2023. We anticipate continued delevering throughout 2024, as future quarters will have increased operating cash flow and decreased CapEx spend, all while we continue to generate cash through our U.S. Car Wash assets held for sale. We generated \$33 million in cash through these sales during Q1 and remain on track to deliver at least \$100 million in 2024.

At quarter end, the balance on our revolving credit facility was \$248 million, consistent with year-end 2023 and as of earlier this week, we are now down to a balance of \$223 million and we expect this amount to continue to decline as we move through the rest of the year.

At the end of the first quarter, we had \$308 million in liquidity, comprising \$166 million in cash and cash equivalents, along with \$142 million of undrawn capacity on our variable funding, securitization, senior notes and our revolving credit facility. Our liquidity does not account for the additional \$135 million of variable funding notes, which could be utilized at the company's discretion if specific conditions continue to be met.

I will now turn to our outlook for the remainder of fiscal 2024. While we had significant weather-related issues in the first quarter and we noticed some softness in consumer spending, we are reaffirming our fiscal 2024 outlook that we provided on our fourth quarter earnings call.

As a reminder, that consisted of revenue of between \$2.35 billion and \$2.45 billion, adjusted EBITDA of \$535 million to \$565 million and adjusted diluted EPS of \$0.88 to \$1. We also continue to expect same-store sales growth of 3% to 5% in 2024.

While we don't provide specific quarterly outlook, we continue to expect that approximately 80% of the year-over-year adjusted EBITDA total growth will come in the second half of the year as we lap weaker comparables and see continued improvement in our U.S. Car Wash and U.S. Glass businesses.

We expect adjusted EBITDA to peak in Q2 and declined sequentially throughout the remainder of the year. Last year, we had a very strong second quarter. Therefore, we currently anticipate second quarter adjusted EBITDA growth to be in the low single digits.

While we are focused on accelerating growth in our business segments, we remain committed to generating cash in order to pay down debt and remain hyper focused on driving leverage down to our target of below 4.5 times by year-end. While we experienced a modest sequential decrease in leverage in Q1, we expect slightly greater delevering in Q2 and continue to expect the majority of the decrease to occur in the second half of the year.

I will now turn the call back over to the operator.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from Simeon Gutman from Morgan Stanley. Please go ahead.

Simeon Gutman

Good morning everyone. I wanted to ask about Car Wash in this environment. I heard you mentioned international positive, so U.S. is a little bit weaker. Can you talk about just the competitive set and I'm curious because it seems like maybe the membership models are maybe performing a little bit better or little stickier right now. Is that a disadvantage? I'm not sure how much that matters in this or if it's weather because, call it the retailer or the occasional customer just didn't have a reason to show up this quarter.

Jonathan Fitzpatrick

Hey Simeon, I'll start and Danny can certainly chime in. Look, I think the three contributing factors on the loss or lower revenue in Q1 really were that sort of extreme weather conditions definitely some softness with the retail consumer and obviously, competitive intrusion hasn't really changed. I think what Danny mentioned is this new pricing promotion effort that we kicked off and tested in Q1 targeting membership is showing some nice early results.

So Danny, I don't know if you want to add anything?

Danny Rivera

No. I think I'd just echo what Jonathan just said. I mean the pricing kind of changes that we're leaning into value a little bit more, and we're seeing a nice positive change to member conversion into retention, so it's early innings there.

Simeon Gutman

Okay. And then I guess my follow-up is, I guess, complexion on the path to higher EBITDA. I'm reluctant to say the 850 number given maybe it's a moving target. But thinking about the pieces where we talk about maturing businesses and then sort of the growth pieces and then the different contributions among the different businesses. This is only a quarter into this year, but clearly, maintenance is leading the charge. Is that sort of different or expected in the way that you thought the progression would look in 2024 and the pieces moving around is paint collision and glass going, it looks like a positive or sort of a negative to that contribution path, if that makes sense.

Jonathan Fitzpatrick

Yes. Thematically, Simeon, the growth that we've seen in the maintenance segment is what we've underwritten for the multiyear growth profile. So there's nothing different there in terms of maintenance leading the charge. Obviously, our Driven Advantage platform continues to do really, really well and then over time, we're excited about the opportunity to grow that Glass business, so thematically, nothing different to what you're seeing in Q1, still some volatility certainly within the U.S. Car Wash business. But again, our focus right now is the outlook that we gave on the last earnings call, and Gary reiterated this morning, is all about delivering a really great 2024. But thematically, you're not seeing anything different in the trajectory of the business.

Simeon Gutman

Okay, that's helpful. Thanks and good luck.

Operator

Your next question comes from the line of Peter Benedict from Baird. Please ask your question.

Peter Benedict

Hi guys good morning. Thanks for taking the question and Gary, good luck. I guess a quick follow-up on Simeon's question. Just the changes you're doing in Car Wash, I'm not sure if you can give us a little bit more detail on what exactly you're doing, what you tried? What's working there? And what's kind of baked into your outlook now from that? Have you assumed the improvement that you've seen initially and rolled that through the balance of the year? Or if those impacts were to play out, would that be incremental to your view with Car Wash for the balance of the year? That's my first question.

Jonathan Fitzpatrick

Yes, I'll start, good morning Pete. It's a test. We're rolling this out to a number of stores as we continue to see positive momentum from the test. We're not changing at this point any outlook for 2024 at a driven or a carwash level. Our focus is, again, is on hitting the outlook that we've given, and we reiterated that this morning. I think the test that Danny and Tim Austin, our new leader, have been running really is thinking about how do we develop higher levels of membership, which obviously is very important to create predictability and reduce volatility in sort of the revenue stream. So that's our focus. And I still think that we're still seeing softness in general retail, but our focus is on building that membership base to sort of create incremental predictability in this segment.

Peter Benedict

Okay. Fair enough. And one of the three focus areas that you mentioned, Jonathan, was managing the portfolio. I'm curious how the performance of the U.S. Car Wash business kind of impacts kind of your confidence in realizing at least, I guess it's \$100 million of proceeds from asset disposition this year. Does it make it more motivated? Does it make it harder to do? I'm just kind of curious where your mindset is today relative to 90 days ago? Thank you.

Jonathan Fitzpatrick

Yes. The assets held for sale are the sort of dispositions that we're working on really is completely isolated from the day-to-day running of the business, Pete. So I think we're pleased with the \$33 million of proceeds in Q1. Our target is still at least \$100 million for the balance of the year. So that really is managed completely separately and distinctly from the day-to-day running of the business. I think I'll let Danny talk about the efforts and how he feels about the U.S. Car Wash business, then obviously with Tim on board now.

Danny Rivera

Yes. As far as the U.S. Car Wash business, I mean, I'd just reiterate, there's really 2 things that the team is focused on that we laid out in Q4. So let's preserve the variable cost improvements that we made in Q4, which Tim and the team have done a really nice job doing and we preserve that going into Q1. And I mentioned, although you'll see a sequential degradation in margins, it's entirely due to some rebates in Q4. So if you double-click into that, Tim has done a really nice job and the team preserving what we did in Q4. And then growing the membership revenue, which we've talked about, the test is encouraging. We're seeing increased conversion rates. We're seeing reduced churn rates, so we're seeing all things we want to see.

Peter Benedict

Got it great, good luck guys. Thank you.

Operator

Your next question comes from Robby Ohmes from Bank of America. Please ask your question.

Robby Ohmes

Hey Jonathan. My first question was if we could get a little more color on sort of low income consumer weakness. And I think I'd be curious when you look at the segments, historically, when the low-income consumer is weakening, which segments do better and which segments do worse? And so for example, does the Auto Glass segment have more negative exposure to low-income consumer weakness or not? Any kind of thoughts on that would be really helpful?

Jonathan Fitzpatrick

Yes. Great. Thanks, Robby. Really, what we're saying is I'm not calling out any of our individual businesses as having direct impact at this moment with the lower income households. What I'm saying is that given sort of the inflationary environment, we do believe that, that customer cohort is likely to be the most challenged throughout the balance of the year. So that's sort of number one. I think when you think about Driven in our portfolio, there's a couple of things that are naturally in our favor. Number one, we mentioned on the last call, about 50% of our sales come from commercial or B2B customers. So that's a really nice hedge and obviously, there's no household income impacts there with that B2B customer set.

I think the other thing is if you look across our portfolio, the majority of our businesses, Robby are needs-based businesses. So it's very hard to put those off. You really have to get those done. If you look at the history of Driven Brands, and obviously, we've only been public a couple of years, if you look at the last two major sort of financial stress points, the '07, '08 time and obviously, March of 2020, because of our needs-based businesses, we see very minimal impact over time in those two time periods.

So I'm just calling out that I think there is likely incremental challenge to those lower household incomes with the inflationary environment, but I think Driven is uniquely positioned to sort of manage through that. So that's what I would say.

Robby Ohmes

Got you. That's really helpful. And then just a follow-up, just on Take 5 with the online appointments, I'm just curious, how do you manage that if that takes off like a rocket, and you just get a ton of online appointments. Does that interfere at all with the drive-up customer?

Danny Rivera

No. Hey Robby, this is Danny. I appreciate the question. No, it doesn't interfere. So the team has done a really nice job of accounting for. Our model predominantly is we want folks to come in at any time, no appointment necessary. The way that we've rolled out appointments that accounts for our business model and it won't interfere. So it's pretty intelligently laid out, and we like what we're seeing so far.

Robby Ohmes

Great. Thanks so much.

Operator

Your next question comes from Seth Sigman from Barclays. Please ask your question.

Seth Sigman

Great, thanks. Good morning everyone. I wanted to focus on the Maintenance segment and the demand trends. Any more color on just the cadence after that difficult January? I guess, what did you see the rest of the quarter and then even early here in the second quarter? Any more perspective on that end customer, based on the issues you talked about, is that just driving lower transactions, just less frequency or is there a trade down that you're seeing as well? Thanks.

Jonathan Fitzpatrick

Good morning, Seth, Jonathan again. And I just want to reiterate, we're saying that we think lower household income customers could be challenged with the sort of ongoing inflationary conditions. We're not pointing to any of our businesses that have seen impact yet. So I think we're just being prudent around the balance of the year. Within Q1 and maintenance, I think we did see very challenging weather conditions in Q1. I think most retailers in the United States saw that.

The good news about our Maintenance segment, both our Meineke business and our Take 5 Oil Change business, it is a truly needs-based category. So while we did see some challenge in Q1, we obviously think that we catch up those customers that we're looking for those services, so nothing at this point in that segment that concerns us. Obviously, we're keeping an eye very closely on how the consumer reacts throughout the balance of the year.

Seth Sigman

So just fair to think that as the weather has normalized in certain markets, you've seen evidence of that pent-up demand is coming through, I guess that. And then just I have a follow-up question there around the guidance, I think I heard you say most of the comp growth is expected to come in the second half of the year. That's overall across the business segments. So does that imply second quarter will look a lot like the first quarter?

Jonathan Fitzpatrick

Yes. I would say that on your first question on same-store sales for maintenance segment, we're very pleased with how the business finished the quarter and excited about the next three quarters for that business. And then I'll let Gary talk about the guidance.

Gary Ferrera

Yes. I mean we don't give specifically quarterly guidance. I mean, I think I was pretty directed where I thought at least adjusted EBITDA will come out in Q2 and that in the second half of the year is where we expect to see most of the growth because just the comps and the lapping of the comps. Q2 is usually our largest quarter on an adjusted EBITDA basis. We don't see that changing. I think that's it.

Seth Sigman

Okay, thanks guys.

Operator

Your next question comes from Brian McNamara from Canaccord Genuity. Please ask your question.

Madison Callinan

Hi guys. This is Madison Callinan on for Brian. Thanks for taking my questions. The CFO change is just really typically aren't well received by the market. It was two changes in the year regardless of the region or circumstance will naturally concerns investors. Will you guys reassure investors concerned by the recent turnover in the seat? Thanks.

Jonathan Fitzpatrick

Well maybe I'll start with Gary, and then I'll sort of follow up, but...

Gary Ferrera

Yes. I'd repeat what I said is go into an opportunity to work with someone I've known for three decades and move my family back to Colorado or be back with my family in Colorado. But loved working with Jonathan and Danny. And Joel has been by my side ever since I walked in the door. So the two of us have done everything done together, and Mike has been here for a few years and knows the company in and out. So I think transition should be pretty smooth.

Jonathan Fitzpatrick

Yes, Madison, I think it's a good question. We've got a strong bench of talent here. Joel is going to do an amazing job as Interim. Michael Beland is our fabulous Chief Accounting Officer. Gary has got a phenomenal opportunity and a lot of this is personal decisions. And I would remind you that there is no one person that's overly important in Driven Brands, and we feel really good about the year. And again, I would just thank Gary for all the partnership over the last 12 months.

Madison Callinan

Great, thanks guys.

Operator

Your next question comes from Christian Carlino from JPMorgan. Please ask your question.

Christian Carlino

Hi good morning. Thanks for taking our questions. I just wanted to follow up on some of the competitive dynamics in Car Wash. Are the recent pricing changes is that a result of maybe some pressure from peers in certain markets where you need to lean into value? And just given the development pipelines in the Car Wash business are quite long. Do you see the industry continuing to slow unit growth into next year or does it seem like we've found maybe a local bottom?

Jonathan Fitzpatrick

Yes, I'll start with sort of the development view, Christian, and then Danny can probably talk a little bit about the other question. I think I've said it on multiple occasions. I think we've seen a massive increase in the number of car washes over the last sort of 3 to 4 years while we've been in this category, somewhere between 2,000 and 3,000 new express tunnel car washes have come online in the United States, which is obviously a massive impact. I have said in the past that we think that will moderate in 2024. But again, with the sort of long lead times on the pipeline, I think we'll see further moderation in 2025. And then, Danny, on the first question.

Danny Rivera

Yes. Christian, on the first question, look, I think we've mentioned before, we're under indexed as it relates to membership in our U.S. car wash business, and memberships obviously a hugely important part of that business because it just creates predictability in that business. So leaning into value just seemed like a natural thing to do to build up our membership base. And the result is exactly what we're hoping for, increased member conversion and reduced churn. So we're happy with what we're seeing, and it's doing exactly what we hoped it would.

Christian Carlino

Got it. That's helpful. And I think last quarter, you said the lower end of the guide implies continued pressure from weather and some macro overhang. And you talked about inflation continuing to pressure at least low income consumer for the balance of the year. So while you reiterated the range, is it now biased more towards the low end? Or are you outperforming in other areas where you think you can still achieve the EBITDA you laid out at the Analyst Day?

Danny Rivera

Yes. No, I think everything we talked about earlier, when we set the range this year, the top end of the range was [there on] what we said on Investor Day, right? So we don't have any questions on 2026. I mean that's still our goal is everything will drive towards, of course, consumer confidence and things like that will obviously impact us as we move through the year. But everything we're looking at, whether it's adjusted EBITDA, debt pay down, et cetera, we're still all on track for our plan for 2026.

Christian Carlino

Got it, thank you very much. Best of luck.

Operator

Your next question comes from Kate McShane from Goldman Sachs. Please ask your question.

Kate McShane

Are you still expecting to open between 205 and 220 stores this year? And how should we think about the cadence of store openings, especially in the Maintenance segment?

Jonathan Fitzpatrick

Yes, good morning Kate. Yes, nothing has changed in terms of our guidance that we gave on the call about 90 days ago. So we're reiterating the major financial numbers along with the same-store sales and unit count assumptions that we gave on that call. So I would just say nothing has changed there. And we do expect that typically, you see a little bit more of weighting of stores in the back half of the year, but nothing has changed in terms of our overall unit count guidance.

Kate McShane

Thank you.

Operator

Your next question comes from Chris O'Cull from Stifel. Please ask your question.

Chris O'Cull

Thanks. My question is about the Car Wash segment. Jonathan, can you explain how the U.S. and the international car wash businesses strategically support each other? And then I had a follow-up.

Jonathan Fitzpatrick

Sure. I think, obviously, there are two different geographies. There are two different operating models because our European Car Wash is what we call an independently operated model or you could think almost franchise-like. But the teams do spend a lot of time together talking through pricing strategies, promotion strategies, the right equipment, the right chemical. So it's really more of sharing best practices, what's working, what's not working with both teams, understanding opportunities, whether it's value engineering of the buildings, the chemistry, again, the marketing and promotions. So that's really how we sort of leverage the leadership between both groups.

Chris O'Cull

Part of the driven thesis is that you have a national consumer platform for auto services. So how does an International Car Wash business support that strategy?

Jonathan Fitzpatrick

Our international business is run by Tracy Gehlan is a fabulous business that continues to deliver really solid results. And we bought that business as part of our initial entry into the U.S. Car Wash market in August of 2020. So I would just say that Tracy and the team continue to deliver great results, very stable predictable results and of course, naturally, it doesn't necessarily impact our U.S. business. But again, there's lots of learnings and best practices that we leverage between each other.

Chris O'Cull

Okay. Fair enough. And then lastly, I know the Car Wash EBITDA in the U.S. was impacted by the weather. But can you guys describe how the U.S. Car Wash profitability looked after January or once you got through that weather period?

Jonathan Fitzpatrick

Yes, Chris, we don't get into periods or subsegment reporting within periods. I will tell you that we've seen as we've gotten through the difficult weather periods in January. And like I said on the prepared remarks, we're seeing a nice trends in April, certainly with our International Car Wash business. And I think Danny and Tim Austin are pretty happy with how the business is performing right now in the U.S.

Chris O'Cull

Okay, great. Thanks guys.

Operator

[Operator Instructions] Your next question comes from Peter Keith from Piper Sandler. Please ask your question.

Peter Keith

Hi good morning everyone. I wanted to dig into two different segments, one negative, one positive. I'll do the negative one first. Could you talk about PC&G where the comp was 1.3%? I'm not sure if weather played a role in that, but we've seen pretty steady comp deceleration there. I know the Glass is in turnaround, but I tend to think about the collision business as being really steady and quite robust from a ticket standpoint. So, could you flesh out some of the fundamentals that's dragging on the sales there?

Danny Rivera

Sure, Peter. This is Danny. Look, I think what you said is pretty spot on. I mean, if we look at the PC&G segment, the Paint and Collision side of that segment continue to do quite well. Those are franchise businesses, mature business. They're very steady, delivering north of 50% margins and they continue to do so. The Glass part of that business, as Jonathan indicated in his comments, we're looking at that as a kind of mid- to long-term play for us. Just got through the integration. We're very focused on growth, both bottom and top line, like we mentioned. And we're just in early innings, and we're excited about the future there.

Peter Keith

Okay. I guess that won't answer my question, I guess, is this low -- you don't want to guide comp for the segments, but are we in a low single-digit comp environment now for this area of the business?

Jonathan Fitzpatrick

Pete, I think we're reiterating our full same-store sales guidance for the year, which Gary mentioned, which is a range of 3% to 5% and we're very comfortable with that at a full driven level and again, we don't guide on a segment level, but we're reiterating 3% to 5% for the full year.

Peter Keith

All right. Let's pivot to the positive segment. So maintenance I guess what intrigued me there is the EBITDA improvement. Year-on-year margins expanded nicely, even the EBITDA growth accelerated quite a bit, and you did so off of a very similar comp to Q4 to be operationally, help unpack that for us? What's driving the profitability improvement there?

Jonathan Fitzpatrick

Yes. So I think, Mo Khalid and the team are doing an amazing job kind of on 3 fronts. So I'd say, number one, just ongoing expense management. So that's one obvious positive. The second one is improving our P mix. So specifically, and we've talked about this in the past. The teams are really leaning into our coolant services, and that becomes a more important part, let's just say, of our product mix and that's a very profitable service for us. So that's going to grow margins over time. And then the last thing is just looking naturally as the business gets more heavily weighted to be a franchise business as we continue to open kind of two third of our openings will be franchise based, that will naturally lead to an increase in margins as well.

Peter Keith

Okay, sounds good, thank you.

Operator

There are no further questions at this time. That concludes today's conference call. Thank you for your participation. You may now disconnect.

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

View all [earnings call transcripts](#)

Comments

Newest  