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10-Q

EPS of -\$2.74 **misses by \$1.37** | Revenue of \$143.37M (31.09% Y/Y) **misses by \$12.34M**

FAT Brands Inc. (NASDAQ:[FAT](#)) Q3 2024 Earnings Conference Call October 30, 2024 5:00 PM ET

Company Participants

Andy Wiederhorn - Chairman

Ken Kuick - Co-Chief Executive Officer and CFO

Conference Call Participants

Alton Stump - Loop Capital

Joe Gomes - Noble Capital Markets

Roger Lipton - Lipton Financial Services

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the FAT Brands Inc. Third Quarter 2024 Earnings Conference Call. At this time, all participants have been placed in the listen-only mode. Please note that this conference is being recorded today, October 30, 2024.

On the call from FAT Brands are Chairman of the Board, Andy Wiederhorn; and Co-Chief Executive Officer and Chief Financial Officer, Ken Kuick.

This afternoon, the company made its third quarter 2024 financial results publicly available. Please refer to the earnings release and earnings supplement, both of which are available in the Investors section of the company's website at www.fatbrands.com. Each contains additional details about the third quarter.

But before we begin, I must remind everyone that part of the discussion today will include forward-looking statements. These forward-looking statements are not guarantees of future performance and therefore, undue reliance should not be placed upon them. Actual results may differ materially from those indicated by these forward-looking statements due to a number of risks and uncertainties. The company does not undertake to update these forward-looking statements at a later date. For more details, discussion of the risks that impact future operating results and financial conditions, please see today's earnings release and recent SEC filing.

During today's call, the company will also discuss non-GAAP financial measures which it believes can be useful in evaluating its performance. The presentation of this additional information should not be considered in isolation nor as a substitute for results prepared in accordance with GAAP. Reconciliation to comparable GAAP measures are available in today's earnings release.

I would now like to turn the call over to Andy Wiederhorn, Chairman of the Board. Please go ahead.

Andy Wiederhorn

Thank you, Operator. Let me start by expressing my gratitude to our exceptional team members, franchisees and employees. Their commitment to FAT Brands continues to fuel our success and I'm very encouraged by what we are accomplishing together.

Over the last three years, we have expanded our brand portfolio to include 18 distinct concepts while our footprint has increased tenfold, now encompassing over 2,300 locations open or under construction across more than 40 countries and 49 U.S. states or territories.

The results we will discuss today showcase the strength of our multi-concept approach. We are enhancing operational efficiencies through our scale. We are providing a strong backbone for each brand through a shared services model and we are fueling our expansion through our deep franchising acumen. By combining these elements, scale advantages, shared resources and franchise expertise, we've built a robust platform that will continue delivering value as we further grow the company over the long-term.

Now, let me briefly highlight our financial performance for the third quarter. Total revenue grew 31.1% to \$143.4 million, up from \$109.4 million in the same quarter last year. This significant growth was primarily fueled by our strategic acquisition of Smokey Bones in September of 2023. We achieved system-wide sales of \$600.7 million in Q3, marking a 6.4% increase year-over-year. Adjusted EBITDA was \$14.1 million, compared to \$21.9 million in the corresponding quarter last year.

Over the last few years, we have been busy executing on our three main strategic pillars, organic growth, growth by acquisition and increasing cookie dough and dry mix production at our Georgia-based manufacturing facility.

Let me provide brief updates on each strategic pillar. From an organic growth perspective, we opened 22 new units during the quarter, bringing our year-to-date openings through Q3 to 62 units, and in fact, we've already opened nine units this quarter, bringing the total to 71 units year-to-date as of today. Looking to the full fourth quarter, we plan to open approximately 40 units, ending the year with over 100 new units.

Our development pipeline remains healthy, with signed agreements to open approximately 1,000 new units in the coming years. Once fully operational, these additional units are projected to incrementally contribute \$50 million to \$60 million to our annual adjusted EBITDA. This substantial increase in earnings will organically reduce our leverage over time, enhancing our balance sheet.

We continue to see significant traction by emphasizing our focus on digital marketing initiatives, which I'll go into in greater depth in a minute and also on establishing value perception in terms of delivering an outstanding guest experience for our customers. Further, we are prioritizing growth within the Polished Casual Dining segment, specifically Twin Peaks, our most rapidly expanding concept.

Twin Peaks locations continue to perform very well. Company-operated lodges continue to achieve average unit volumes of approximately \$6 million annually, with select high-performing markets seeing AUVs materially higher in the \$9 million to \$14 million range. During the quarter, we strengthened Twin Peaks' presence in South Carolina, opening in Fort Mill, our fourth lodge in the state. In August, we opened in Terrell, Texas, our 10th lodge in the Dallas-Fort Worth market. Most recently, in October, we ventured into a new market with our first Northern Nevada lodge in Reno.

As you know, our acquisition of Smokey Bones last year was strategically designed to fuel Twin Peaks' rapid expansion. We see great value in converting approximately 30 Smokey Bones locations into Twin Peaks over the next several years. This conversion process offers significant advantages, notably reducing construction time by about 18 months compared to building from the ground up.

In September, we completed our first Smokey Bones to Twin Peaks conversion in Lakeland, Florida, marking Twin Peaks' 15th lodge in our top-performing state, growing the sales in this location from \$3.6 million in 2023 as a Smokey Bones to a current annualized run rate of approximately \$8.3 million as a Twin Peaks. Seven additional conversions will take place throughout 2025, five corporate and two franchised, with many more converting in 2026.

Today, Twin Peaks has 115 lodges across the U.S. and Mexico, and we plan to open another 19 lodges in 2025, including the seven Smokey Bones conversions that I just mentioned. Five of those 19 units will be corporate stores and 14 will be franchised. The expansion represents a 42% growth in unit count since our 2021 acquisition and a 62% total unit growth, including the planned 2025 stores. This underscores the brand's strong market performance and our effective growth strategy.

Over the coming years, the Twin Peaks development pipeline calls for more than 100 additional restaurants, which could potentially drive system-wide sales to more than \$1 billion. To fuel Twin Peaks' sales, we continue to invest in menu items that move the needle, such as our new Game Day menu, which features bold, globally-inspired twists on classic dishes, such as chicken tikka flatbread and a new wing sauce, spicy chili crisp.

Twin Peaks also continues to work with the veteran-focused non-profit Tunnel to Towers, highlighting our commitment to our passionate fan base and a cause they care about, our nation's veterans. Twin Peaks recently raised \$65,000 for the cause, increasing its total charitable contribution to over \$435,000 to-date for Tunnel to Towers.

As you're aware, Twin Peaks and Smokey Bones, as a combined entity, took a significant step towards becoming a standalone public company this past May. We confidentially submitted a registration statement to the Securities and Exchange Commission, initiating the process to achieve public reporting status.

While the timing and the size of any transaction is subject to market conditions and other factors, we are working diligently to expedite a successful transaction and we hope to provide you with further updates in the coming weeks. As previously discussed, we view this potential IPO or alternative transaction as a strategic opportunity to unlock value for FAT shareholders. Our plans for the proceeds remain focused on two key areas, the leveraging our balance and funding the construction of new restaurants.

We are also in the process of refinancing Twin Peaks' securitization debt prior to any IPO or other transaction. This move is designed to optimize our infrastructure as we prepare for this potential transition. Again, we expect to provide an update soon on this subject.

Another area of growth we've been leveraging is co-branding. We've long recognized the power of co-branding to enhance both growth and customer experience. A prime example of this strategy's success is our Great American Cookies, Marble Slab Ice Cream Co-Brand initiative. Since launching the pairing in 2014, there are now over 160 Great American Cookies and Marble Slab Creamery locations worldwide. Most recently, the co-branded concept added to its presence in Texas with openings in Sugarland and Louisville. We also just surpassed 55 locations in Georgia with our most recent Atlanta area opening.

Building on this success, we took a significant step in September by introducing an innovative co-branded online ordering platform for Great American Cookies and Marble Slab Creamery. In collaboration with partners 3 Owl and Olo, we set out to create a best-in-class digital experience.

The highlight of this new platform is our groundbreaking customizable 3D cookie cake filter, a first of its kind in the industry. This digital tool improves the customer's experience by offering real-time design capabilities. Users can now visualize their creations as they experiment with various icing colors, flavors and personalized messages. The result is not just an improved guest experience, but also enhanced order accuracy for our stores.

While still in the early days since launching this platform, we are seeing higher average order values and improving online conversions. Looking ahead, we plan to extend this Great American Cookies Cookie Cake Builder to physical locations in the form of self-serve kiosks and select stores by early 2025.

As part of our ongoing digital transformation, we also launched a new loyalty program and app experience for Great American Cookies and Marble Slab Creamery. The app seamlessly integrates ordering and rewards across both brands for driving guests towards higher average check size.

We're also seeing great success with our co-branded Fatburger and Buffalo's Express locations. Most recently, we opened the first co-branded Fatburger and Buffalo's Express in Puerto Rico, located in Plaza Carolina, the island's second largest shopping center. This is the first of 10 locations set to open in Puerto Rico over the next several years. We have more than 100 co-branded Fatburger and Buffalo's Express locations open today. We are building momentum with our tri-branded model of Fatburger, Buffalo's Express and Hot Dog on a Stick, recently opening our second tri-branded location in the Los Angeles market.

We continue to see growth at Fazoli's. In August, we opened our eighth Fazoli's location in the State of Georgia. We recently signed a new development agreement to bring Fazoli's back to Utah, with five new locations set to open in the next five years. The first unit is scheduled to open in Saratoga Springs in 2025, and future openings are slated throughout Salt Lake City and Utah counties.

Also worth noting is QSR Magazine's recognition of Fazoli's on their Best Restaurant Franchising Deals list for 2024. In addition to this recognition, 13 of our restaurant brands were recognized on Franchise Times' Top 400 list, which ranks the largest U.S.-based franchise systems by global system-wide sales.

Non-traditional venues and international markets are important growth areas for the company as well. To help accelerate this expansion, we strengthened our development team with two new hires this quarter. Ammy Harrison joins us as Senior Vice President of Non-Traditional Development, bringing a fresh perspective from her experience with Papa John's International and Penn Station East Coast Subs. And based in Hong Kong, Maiyo Hood joins us as Vice President of International Development, leveraging his international knowledge from his previous role as Managing Director at Subway Greater China, where he was key in driving forward the development of over 4,000 locations across the area.

Menu innovation continues to play a part in our growth strategy as we are committed to enhancing menu items for guests across our brands. Recently, Marble Slab Creamery and Great American Cookies added a fall-inspired pumpkin spice latte ice cream and Caramel Churro Cookies LTO to their menus.

To address the growing demand for occasions and catering, Pretzelmaker debuted a new shareable item, Bucket of Bites, which includes approximately 120 pretzel bites served with six different sauces.

Hot Dog on a Stick unveiled an all-new lychee lemonade. Currently, Hot Dog on a Stick's classic hand-stomped lemonade makes up 40% of daily product mix. We are also committed to creating innovative lemonade offerings to further position the brand as a go-to spot for fresh lemonade.

In terms of acquisitions, we continue to assess brands with growth potential that complement our existing portfolio, prioritizing franchise brands with strong momentum and proven market traction rather than brands that require a turnaround. While the market is starting to transition in our favor, we continue to remain selective with acquisitions, ensuring that they align with our business model.

Moving on to our third strategic priority, leveraging our Georgia-based manufacturing facility, which provides Pretzelmaker and cookie dough for several brands. During the third quarter, our manufacturing facility generated \$3.5 million of adjusted EBITDA on \$9.5 million in sales. We maintain that our factory business is in its early stage of growth today, operating at only about 40% to 45% of its capacity compared to 33% of acquisition three years ago. We continue to enter RFP processes and aggressively pursue avenues to utilize our remaining excess capacity.

Now I'd like to provide you with an update on our FAT Brands Foundation. The Foundation continues to make incredible strides with its grant giving. Through September, the Foundation has awarded over 50 grants, which has surpassed the number of grants that were awarded in 2023. Additionally, the Board has formed a 17-person committee team to help with a variety of tasks, including events and amplifying fundraising efforts. This added support will ensure we continue to make a lasting impact in FAT Brands communities.

Further illustrating our commitment to giving back, this quarter, FAT Brands announced a new partnership with DonationScout, an enterprise software solution that streamlines restaurant fundraising efforts for operators and their guests. The new platform creates a more seamless experience to host additional community events for our franchisee base. The pilot program, which launched at Fatburger and Round Table Pizza, far exceeded DonationScout's average pilot donation programs, affirming the community service-focused nature of our brand, in addition to the overall benefit of the platform itself.

In conclusion, FAT Brands continues to position itself for growth. We have a strong pipeline of organic growth opportunities, and we also plan to monetize our Polished Casual brand through a potential IPO or alternative transaction. Together, this will enhance our balance sheet and create value for our shareholders. I look forward to further updating you about this in the near future. If you can't tell, I'm excited about creating value for our shareholders and for the future of FAT Brands.

With that, I'd like to hand this call over to Ken to discuss our financial highlights from the third quarter.

Ken Kuick

Thanks, Andy. I'd like to now review our total performance. Total revenues increased 31.1% to \$143.4 million, driven by the acquisition of Smokey Bones in the fourth quarter of 2023 and revenues from new restaurant openings.

Costs and expenses increased \$45.8 million, or 44.6% in the third quarter. Included in costs and expenses, general and administrative expense increased \$10 million or 41% to \$34.5 million from \$24.5 million in the prior year period, primarily due to the Smokey Bones acquisition and increased professional fees related to pending litigation.

Cost of restaurant and factory revenues increased to \$96.8 million, compared to \$59.2 million in the prior year quarter, again, primarily due to the Smokey Bones acquisition and also higher company-owned restaurant sales.

Depreciation and amortization expense increased \$3.7 million to \$10.7 million in the year ago quarter, again, primarily due to the Smokey Bones acquisition, along with depreciation of new company-owned restaurant property and equipment.

Advertising expense varies in relation to advertising revenues and decreased to \$10 million from \$11.7 million in the year ago period.

Total other expense met for the third quarter of 2024 and 2023 was \$35.8 million and \$32.6 million, respectively, which is inclusive of interest expense of \$35.5 million and \$29.7 million, respectively.

Net loss was \$44.8 million or \$2.74 per diluted share, compared to a net loss of \$24.7 million or \$1.59 per diluted share in the prior year quarter. And on an as adjusted basis, our net loss was \$40 million or \$2.34 per diluted share, compared to \$18.9 million or \$1.14 per diluted share in the prior year quarter.

And lastly, EBITDA was \$5.3 million, compared to \$10.8 million in the third quarter of 2023, while adjusted EBITDA for the quarter was \$14.1 million, compared to \$21.9 million in the year ago quarter.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] The first question comes from the line of Alton Stump with Loop Capital. Please go ahead.

Alton Stump

Great. Thank you. Good evening. Andy, Ken, thanks for taking my question. I guess I want to ask you about the conversion, obviously, that I think you mentioned took place in September in Lakeland, obviously, with Smokey Bones. Still, obviously, just over six weeks into it, but how has that gone so far and have you learned anything either way as far as what the potential could be for, obviously, what will undoubtedly be further conversions down the road?

Andy Wiederhorn

Yeah. Alton, thanks. Look, we're extremely optimistic about the conversions of these Smokey Bones into Twin Peaks. This first store has been a huge success. To go from \$3.6 million in sales to \$8.3 million in sales exceeds our expectations and hopes.

The conversion process was timely. Joe Hummel and his team at Twin Peaks executed beautifully to get it open on time. The buildings are a little bit more beat up than we had hoped they would be when you start to peel back some of the skin. So the cost is just a little bit higher, but the result is outstanding.

Alton Stump

Got it. Understood. Thank you. And then I thought I'd touch on the Twin Peaks brand. I think you mentioned \$9 million to \$14 million as far as some outperformers. I think that number has been \$9 million to \$12 million in the past. With that, is it safe to say that that brand is outperforming your overall system as far as a comp standpoint or just overall same-store sales versus what you saw in your other 17 brands during the quarter?

Andy Wiederhorn

Well, I mean, you can look at Twin Peaks multiple different ways. You can look it over a two-year or three-year period of time and it's just had outstanding same-store sales. We ended 2023 on a flat basis with Twin Peaks, but it started the year out quite positive and a lot of things pulled back in the second half of 2023.

We started out 2024 deeply in the hole like everybody else in January because the weather was so bad everywhere and Twin Peaks has come racing back to now positive in this quarter and not on a year-to-date basis, but in the quarter and so I think we're very happy with the performance.

The total sales, system-wide sales are up massively from a year ago and two years ago because we keep adding units. I mean, we've grown, as you know, 42% in total units and our system-wide sales have grown significantly. And the growth for 2025 is already laid out, 19 new stores and 2026 on top of that. So we're very, very happy with the performance at Twin Peaks and I just can't wait to get more stores open sooner.

Alton Stump

Great. Sounds great. Thanks so much for the help. I will hop back in the queue.

Andy Wiederhorn

Thank you.

Operator

Thank you. Next question comes from the line of Joe Gomes with Noble Capital Markets. Please go ahead.

Joe Gomes

Good morning. Good afternoon. Thanks for taking the questions, Andy. So I kind of want to see if you can maybe kind of square the circle for me here. If I'm looking at the operations, operating loss has grown every quarter this year. Royalty revenues were down not only year-over-year but sequentially. Restaurant sales were down sequentially, even though you're talking about how good Twin Peaks is doing. Just really trying to get a better handle on what is happening beneath the surface here. Nine-month adjusted EBITDA number is at, I think, \$48 million versus \$64 million last year and this is with the addition of Smokey Bones adjusted EBITDA numbers, which I think you said should add about \$10 million. So just trying to get a better handle on what's happening on the operating side, that there's a lot of good things seem to be occurring but not being reflected in the numbers from where I can see?

Andy Wiederhorn

No. I think that's a fair point. It's really attributed to a few things. The corporate -- remember, Smokey Bones is an entirely corporate-owned system and sales have been down at Smokey Bones significantly since the time of our acquisition and even before that. And so as we can't convert them fast enough, but the faster we convert them, we're going to see huge pops in sales and success. But Smokey Bones by itself has not performed on a standalone basis in the last 12 months and that's a lion's share of those numbers.

Also, company-owned stores at Fazoli's have had some pressure and that's really related to the QSR space where we have other categories that are positive, like Round Table Pizza or our burger brands that are right around flat. You've had Fazoli's, for example, off 6% or so. And that's demonstrative of the QSR space where people have traded down from casual dining to fast casual, from fast casual to QSR.

But in the QSR space, where Fazoli's is our most price-sensitive brand with like a \$9, \$10 average check number, there's nowhere for that QSR customer to go when prices are up and gas prices were up and things like that, and so they felt it in terms of traffic and that directly relates to sales and profitability for company-owned stores.

I think that there'll be some tremendous re-franchising opportunities with Fazoli's in the coming quarter or two for those company-owned stores. We know that on the corporate store side at Twin Peaks, we've exceeded our numbers. We're very happy with those numbers. So it's really not at that end of the spectrum, but on the Smokey Bones side, which is still in the same segment of Polished, it struggled there and those units need CapEx and it makes more sense to convert them faster than to spend CapEx on the old units that are identified for conversion when it won't work. So, we're dealing a little bit with just that tweener time period here as we shift to more of a franchise model and we get those stores converted.

Joe Gomes

Okay. Thank you for that. And on the factory, the manufacturing facility, revenues there have been kind of flat over the past year or so. And I know you've spent a lot of time and effort in looking for third-party customers. You mentioned tonight, you've got a lot of RFPs out there. Trying to get, again, a little more detail on, when you think some of these RFPs might start coming in to start increasing the utilization of the factory?

Andy Wiederhorn

Well, two things are going on there, and again, it's a fair question. It's been a tougher road to go down in terms of third-party manufacturing, because we've really wanted a high margin manufacturing business rather than just any manufacturing business, if we're going to use up capacity. We know that over time, other brands within FAT Brands will take up some of that capacity or utilization, because we've started selling cookies in many of the other brands.

We're also now just completing a large national test with a couple of other distribution centers where we think it'll significantly increase the volume of cookie production or cookie dough production that goes through the facility. So, hopefully, by sometime in Q1, we'll be able to announce a big rollout of a third-party program that will have real legs to it. We're at the end of the test period now.

Joe Gomes

Okay. Great. And then one last one for me and I'll get back in queue. So, you mentioned about refi the debt associated with Twin Peaks. What about the other debt that is on the balance sheet, the preferred stock? Anything new on trying to refi those or getting some better rates?

Andy Wiederhorn

Well, so, sequentially, let's address these. So, the Twin Peaks deal is in the middle of refinancing now, and hopefully, we'll announce a completed transaction in the coming weeks. It's just being documented. So, we hope to announce that soon. It's not done yet, but we expect it to be.

Remember that these rates are locked in, for the most part, at 2021 rates with a slight uptick as the bonds went past their anticipated call date and we didn't call them. But they're still far below where current rates are. So, when you look at the deals, we needed to refinance the Twin Peaks debt in preparation for this public listing and we hope to be able to talk more about that in the very near future.

Next is Fazoli's, which also has a Q1 pending amortization date, and we've already begun discussions with our bondholders about extending or refinancing the Twin Peaks, sorry, the Fazoli's debt facility very soon. So, I anticipate that that gets done also before sometime in Q1.

Then, when we look to our next couple of securitizations, they actually don't have rapid amortization dates until July of 2026 and they're locked in at 2021 rates. That being said, we want to address that sometime in 2025.

So, I think what that also leads to is it really helps our cash flow, because right now we're amortizing the entire \$1.2 billion debt portfolio by about 2% a year and not having to do that saves us a significant amount of cash, which is used to pay down principal, but it still chews up cash.

So, we're very focused right now on the Twin Peaks refinance, on the Twin Peaks listing and then we'll focus on Fazoli's next. And then, we've always indicated that the use of proceeds on the Twin Peaks side will be to delever that business, that means pay down bonds, and build more company-owned stores, the conversions and some new locations.

And then, FAT will look to monetize its investment in Twin Peaks over time and use that to pay down other debt and deleverage overall debt at FAT Brands. And so, I would expect that to happen beginning later in 2025 and that includes the redemption of some of the preferred stock that's expensive and that we need to redeem. It's just taking a long time because of market conditions. So, very, very much focused on all of those things that you just mentioned over the next 12 months.

Joe Gomes

Great. Let me add one more, if I may. Awesome job on the development deals year-to-date. Where are you getting or seeing the most interest from franchisees in terms of signing these development deals? What brand?

Andy Wiederhorn

It is spread out, which is good. It's always a healthy sign of a franchise system when existing franchisees and new franchisees are coming in and buying the rights to develop more stores. So, we've sold a couple hundred units to-date, which is very positive and we've exceeded already what we did in all of last year. We're about to exceed. So, all that's positive.

We've sold a lot of Round Table Pizzas, a lot of Fazoli's. Twin Peaks continues to sign up new brands. The Cookies and Ice Cream brands and Fatburger, Johnny Rockets are all developing new units. We're not seeing a lot of growth in the casual dining space with Hurricane, Buffalo's or Native Grill & Wings.

We're not seeing it in Ponderosa and Bonanza. You wouldn't expect us to. Hot Dog on a Stick is sort of popular in some of these non-traditional venues and Round Table Pizza is just super solid. And so, we've got a bunch of interesting new development going on with seven or eight of the brands and the other brands are sort of just cruising along.

Joe Gomes

Great. Thanks. I'll get back in too.

Andy Wiederhorn

Thank you.

Operator

Thank you. Next question comes from the line of Roger Lipton with Lipton Financial Services. Please go ahead.

Roger Lipton

Yes. Hi, Andy. Thanks for taking my question. A number of subjects I was going to touch on were touched on by Joe and the others. But one question -- one general question about comps, of course, over the scope of the portfolio and then I have a couple of other questions on Twin Peaks. So, what can you tell us about, with all your breadth of brands, it's an interesting commentary on the industry as a whole. What's been the sequential trend over the last, say, six months? I think down 2.3% for the quarter, I think you said. But has it improved or what in the course of the quarter?

Andy Wiederhorn

It has improved. In fact, last week, a week ago, we were down as a system across all 18 brands, down 0.1%. So, very much an improvement and that's been sequentially happening week-after-week where sales are much better.

It's just there's only 10 more weeks before the end of the year. And so, I don't know that that 2.5% across all 18 brands on average, if you average all \$2.5 billion in sales, will move down that much. I don't know if we'll get under \$2 million or not. But that's sort of sequentially, it's much better Q3 and Q4 than we were in Q1 and Q2.

It's great to have sports back. We've had better weather. We're entering the holiday period too. So, I think that we're fairly optimistic that we'll see some improvements. In the last week, I can look at my schedule and see like 75% of our 18 brands are positive same store sales.

And so, it's just can we bring that year-to-date negative and this is really because Q1 was just so difficult for so many of our brands given their geography and what happened with weather that you're trying to climb out of that. But it's not been the last couple quarters. It's just in total climbing back from where we were at the beginning of the year. So, we're seeing things move in the right direction.

On the QSR side of things, it's all about traffic given price and I don't think the consumer is willing to take any more price. They're fatigued by price. So, you've really got to make it up with guest experience to keep the traffic flowing and keep that guest coming back for repeat visits. And I think that's a big focus that everyone in the industry needs to be paying attention to and I think they are.

Roger Lipton

Okay. That's helpful. Relative to Twin Peaks, which everybody is tremendously interested in, most of all you and your team and you and Joe and his team. But generally, from what I'm reading in the industry, the sports bar segment is rather troubled. I mean, I'm reading about Hooters and Bombshells and Walk-On's and they're all closing stores. Some of the chains may go away. Does that give -- are you seeing acquisition possibilities...

Andy Wiederhorn

Well, and Fridays and some...

Roger Lipton

...some others?

Andy Wiederhorn

... of these others.

Roger Lipton

Yeah. Yeah.

Andy Wiederhorn

I think we've looked at all of them. You know that we see everything and we look at everything and it hasn't been that hard to keep my hand in my pocket as we looked at some of those because their performances have just been terrible. And we are not in that, we're at the other end of that spectrum. Twin Peaks is killing it. It has come way, way back. We're not seeing those kinds of trends. We have the guest experience, which is off the charts, top-in-class, best-in-class for intent to return to the restaurant. So, consumers are happy.

There is still -- everyone's still price sensitive. We fortunately have that barbell pricing where you can get a \$5 beer or a \$35 whiskey depending on how much you want to spend, but you can manage your budget there. It's just, it's traffic. Are we getting that frequency 3 times a week instead of 2 times a week? That's really what everyone focuses on and that's really guest experience and having that pricing available.

So, we're very fortunate. It doesn't come without hard work, but we have really great results there and we're just not in the same camp as some of the other guys and I feel their pain because I'm not sure there's a lot you can do to turn around some of those other brands.

Roger Lipton

Right. And you mentioned relative to the conversion process, the construction time savings and the fact that you've got all these locations in hand rather than having to negotiate with through brokers and so forth. But can you save any money from the cost of the construction when all is said and done?

Andy Wiederhorn

Well, we're saving like 18 months, so time is money for sure. Think about it that way. Don't forget that, because when we build -- buy the land...

Roger Lipton

Yeah.

Andy Wiederhorn

... build the building and do a sale lease back, you're in this thing for two and a half years and you're paying interest on that \$6 million, \$7 million, \$8 million facility. I mean, you can spend a \$1 million or more in interest expense while you're holding it and so we are saving money that way for sure. And it also costs less money to do a conversion than it does to do a ground-up build, even if you exclude the land. So, we save money in both places and then we save time.

So, we're very happy with the conversion results. It has been a little bit more expensive than we hoped it would be. It's not -- we weren't blind to it when we bought the brand, but we were hopeful that it wouldn't be quite as much CapEx when you peel back the skin of the building. But there's definitely some deferred maintenance and it's a full budget. It's not an under budget remodel.

Roger Lipton

Right. And I think you've made reference in the past and I just wanted to refresh my recollection, that quite a few of the Twin Peaks franchise locations are coming from existing franchisees. Is that still the case? And with a pretty high number, as I recall.

Andy Wiederhorn

Well, it's a mix. We have some new franchisees. It's an interesting, it's not a very big franchise system. There are a couple of dozen, somewhere between 20 and 30 Twin Peaks franchisee groups. A few of them, half a dozen or so are new and haven't opened stores yet. But many of them are existing franchisees who have development obligations, who are building more stores on their schedule. And some of those existing groups are buying out other groups who are smaller and want a liquidity event for one reason or another. So that's also always a good sign when you see an existing franchisee group step up and take on more territory and want to develop more stores.

We've expanded some of our corporate territory to include the West Coast of Florida as we've started to develop some of the Smokey Bones and the Mid-Atlantic area we're looking at as well for corporate areas other than just Texas and Colorado and some of those markets. But it's really -- it's a -- if you think about all of that, where we have 800 different franchisees making up those 2,300 restaurants and the 1,100 -- 1,000 to 1,100 new franchises that have been signed up for to be built, it's a pretty nice experience to have a 25 to 30 unit -- 25 to 30 group of franchise owners that you have to deal with. It's much easier to move the needle than when you're dealing with 800.

So I think the Twin Peaks is really well positioned to grow. We know that when you see value created in the restaurant space right now, brands that have committed unit development, that can really point their finger at absolute units that are going to be built next year and the year after, those are brands that are getting the most value. So we're hoping that we can unlock that value with this development pipeline and with this pending public listing.

Roger Lipton

Right. And lastly, between the refinancing of the Twin Peaks debt and the adjustment in some of the other debt over the next year or so. Is there -- can you give us any reasonable approximate indication of when the company can get to cash flow breakeven rather than you could...

Andy Wiederhorn

Very high on our radar. Yeah. No. I understand. Very high on our radar, as you can imagine. There are really three things that drive the negative cash flow position we're in today. One is the amortization of the debt. If we weren't amortizing the debt, that's about \$25 million a year that we save. And so as we refinance all of our asset-backed securities over the next 12 months, that amortization goes away. The rates aren't going to change much. They might come down a little bit if we wait. We'll probably get into the same rate. So that's a positive.

Second, we want to redeem some of the preferred stock that's outstanding by selling some Twin Peaks shares once the IPO is up in the air and that will eliminate that expensive preferred stock.

And then the third place is just legal expense. We expect to get some recovery in Q1 or Q2 from insurance carriers on legal expense. But ultimately, the legal expense should go away in 12 months or so as we continue to battle this out and hopefully resolve the legal issues that we're facing and that's the only thing.

So really by, I would say, 12 months from now, by the end of 2025, we should be pretty close to a run rate that is breakeven cash flow wise and certainly having created a tremendous amount of value with Twin Peaks and starting to unlock that.

Roger Lipton

And when you say breakeven, does that breakeven...

Andy Wiederhorn

Including dividends.

Roger Lipton

... to stay.

Andy Wiederhorn

Including dividends.

Roger Lipton

Including dividends.

Andy Wiederhorn

Yeah.

Roger Lipton

Okay.

Andy Wiederhorn

Common, I mean, if our -- if you look at our overall cash flow, I mean, the preferred dividends are 3 times or 4 times the amount that the...

Roger Lipton

Right.

Andy Wiederhorn

... common dividends, sorry, common dividend are just \$8 million or \$9 million a year compared to everything else. So yes, including dividends.

Roger Lipton

Okay. Thanks very much. That's all very helpful.

Andy Wiederhorn

Thank you.

Operator

Thank you. Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to turn the floor over to Andy Wiederhorn for closing comments.

Andy Wiederhorn

Thank you, Operator. And thank you everyone for joining us tonight. Have a good evening. Take care.

Operator

Thank you. This concludes our today's conference. You may disconnect your lines at this time. Thank you for your participation.

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