

Seeking Alpha^α

Transcripts

GEN Restaurant Group, Inc (GENK) Q3 2024 Earnings Call Transcript

Nov. 12, 2024 9:04 PM ET | GEN Restaurant Group, Inc. (GENK) Stock

**SA Transcripts**

150.46K Followers

Q3: 2024-11-12 Earnings Summary

Play Call



Press Release



10-Q

EPS of \$0.01 **beats by \$0.02** | Revenue of \$49.11M (7.77% Y/Y) **misses by \$732.67K**GEN Restaurant Group, Inc (NASDAQ:[GENK](#)) Q3 2024 Results Conference Call November 12, 2024 5:00 PM ET

Company Participants

Thomas Croal - Chief Financial Officer

David Kim - Chief Executive Officer

Conference Call Participants

JP Wollam - ROTH Capital Partners
Jeremy Hamblin - Craig Hallam Capital Group

Operator

Good day, and welcome to the GEN Restaurant Group, Inc. Third Quarter 2024 Earnings Call. [Operator Instructions] Please note that this event is being recorded.

I would now like to turn the conference over to Tom Croal. Please go ahead, sir.

Thomas Croal

Thank you, operator, and good afternoon. By now, everyone should have access to our third quarter 2024 earnings release. If not, it can be found at www.genkoreanbbq.com in the Investor Relations section.

Before we begin our formal remarks, I need to remind everyone that our discussions today will include forward-looking statements within the meaning of federal securities laws including, but not limited to, statements regarding how growth plans and potential new store openings as well as those types of statements identified in our quarterly report on Form 10-Q for the period ended September 30, 2024, and our subsequent reports filed with the SEC.

These forward-looking statements are not guarantees of future performance, and therefore you should not put undue reliance on them. These statements represent our views only as of the date of this call, and are also subject to numerous risks and uncertainties that could cause actual results to differ materially from what we currently expect.

We refer you to our recent SEC filings, including our quarterly report on Form 10-Q for a more detailed discussion of the risks that could impact our future operating result and financial condition. Except as required by law, we undertake no obligation to update or revise these forward-looking statements in light of new information or future events.

During today's call, we will discuss some non-GAAP financial measures, which we believe can be useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures are available in our earnings press release and our SEC filings, which are available in the Investor Relations section of our website.

Now I'd like to turn it over to our Board Chair and Co-CEO, David Kim.

David Kim

Thank you, Tom, and good afternoon, everyone. The third quarter marked another period of successful execution as we continue to provide exceptional value and taste to our customers while expanding our footprint to 43 locations nationwide and preparing to open a large slate of new locations before year-end.

Overall, we delivered total revenue of \$49.1 million for the third quarter, nearly an 8% increase year-over-year, driven by success of our newer restaurants. We also delivered \$0.2 million in net income or \$0.01 of diluted earnings per share, and \$0.9 million in adjusted net income or \$0.03 of adjusted diluted earnings per share, while estimates had us losing money for the quarter.

We opened 1 restaurant in the third quarter and opened 2 restaurants in October. We have been very surprised at how well these 3 openings are doing. In fact, depending on how the holiday season goes, one of these new restaurants will be our #1 restaurant in terms of revenue, another one will be in the top 5 and the third will be on the top 10. We do not expect these restaurants to hit these levels.

Furthermore, we achieved restaurant-level adjusted EBITDA margin slightly over 18%, meeting our expectations for the third quarter. With the steady profitability of our current stores, impressive revenue growth from our new locations and our ongoing efforts to optimize cost, we're in a strong position to successfully execute our strategic initiatives for the remainder of the year and beyond.

Historically, quarter 3 is a slower quarter across our restaurant industry as quarter 4 benefits from the holiday season. With that, our same-store sales growth declined 9.6% year-over-year. Consumer environment remained mixed, with ongoing inflationary pressures affecting discretionary spending.

Additionally, our quarter was impacted by 4 hurricanes that caused temporary disruptions across several of our regions, extremely hot summer weather that we believe kept consumers at home more, and we had some cannibalization in Texas and Hawaii with new restaurant openings this year. However, we have seen improvements in our October and November revenue.

We are proactively working to increase our same-store sales. We have been introducing training programs across our restaurants to drive premium menu sales, which we are measuring performance and starting to see improvements. We have also been working hard to drive additional drink sales like the cocktail soju mixes. We're also testing a new concept called GEN Grills, which we go cook for our guests at their businesses or homes.

Another test we're doing is participating in outdoor fairs in an effort to gain more sales reasonably. Lastly, as I will continue further, we began a gift card program with Costco. As we mentioned previously, it's important to note that the focus of GEN's business model is on expanding our store count to capitalize on the growing demand for Korean barbecue.

On a restaurant level, our model is expected to generate an average cash-on-cash return of 40%, with a payback period of approximately 2 to 2.5 years, is it driven by an average of \$4 million to \$5 million in annual unit volume and restaurant level adjusted EBITDA margin of 18% to 20%? The 3 new restaurants I mentioned earlier are all substantially exceeding these average unit level economics by a lot.

Transitioning through restaurant-level expenses. Cost of goods sold decreased by 50 basis points to 31.4% of total revenue compared to 31.9% in the year-ago period. Payroll and benefits decreased by 120 basis points to 30.5% compared with 31.7% in the third quarter of last year. Our general and administrative expenses, excluding stock-based compensation, for the quarter were 9.1% of total revenue compared to 8% in the second quarter of 2024.

The increase is in line with our expectations, reflecting investments in our team and infrastructure to support future growth, along with an increase in insurance cost as our footprint has grown. At this point, we're now investing in brand building through our incubator, which includes the gift card program with Costco, which we are also working on additional agreement with large big-box retailers, international expansion, Asian food distribution channels and GEN Grills.

Given this pipeline of activity, we have started a marketing department to push these initiatives forward. Next quarter, we'll give some updates to the initiatives from our brand building incubator projects. We remain focused on completing our goal of opening 10 to 11 new restaurants in 2024 while maintaining a restaurant-level EBITDA margin of approximately 18%. We're well on our way to achieving this goal.

Not only are we on track to hit our growth target for 2024, where we're also strongly positioned, or even more growth in 2025, in fact, we have 17 additional locations lined up with leases signed or in the process of being signed. We also have 15 to 20 leases in negotiations, which should lead to having 75 to 80 total locations opened by the end of 2026. We're seeing strong momentum in our expansion pipeline and remain highly confident in our ability to reach our long-term growth objectives.

Now I want to shift the focus of the call to one of our key incubator initiatives. This quarter, we launched GEN gift cards at Costco. Currently, the gift cards are available at 76 Costco locations, all within a 5-mile radius of most of our restaurants across the U.S. The gift cards have been selling exceptionally well. In fact, our regional Costco representative have reported that we are far and away the best-selling gift card they have seen at these locations.

The information we have obtained from the rollout of our Costco gift card program shows that our brand is much stronger than we thought. We're very proud of the initial success we've seen with this initiative, and we look forward to expanding our gift card offerings to additional retailers. We're currently in discussion with Sam's Club for implementations in possibly spring of next year.

To conclude, consumers' demand for the GEN Korean BBQ experience remains strong, and our new stores are performing well above our expected per unit range. Our operational initiatives are gaining traction, reinforcing our confidence in our ability to deliver consistent, strong and profitable results for our shareholders.

Looking ahead, our promising pipeline of new restaurant openings and lease agreements underscore our commitment to expanding our footprint and reaching our growth targets. With a solid foundation, a profitable operating model and a healthy balance sheet, we're poised for our sustained success and dedicated to creating significant value for our shareholders in the years to come.

Thank you for your continued support as we continue on this exciting journey. Now we'd like to hand the call over to Tom for a deeper look at our third quarter financial performance.

Thomas Croal

Thank you, David. For the third quarter, revenue increased 7.8% to \$49.1 million compared to \$45.6 million in the third quarter of 2023, driven by the continued ramp-up of newer restaurants.

Turning to expenses. Cost of goods sold as a percentage of company restaurant sales decreased by 50 basis points compared to the third quarter last year and 150 basis points compared to the second quarter of this year to 31.4%, largely due to our ability to control food costs. Payroll and benefits as a percentage of company restaurant sales decreased by 120 basis points compared to the third quarter of last year to 30.5%.

Occupancy expenses as a percentage of company restaurant sales increased by 10 basis points compared to the third quarter of last year to 8.4% due to the new restaurant openings over the last 12 months. Other operating expenses as a percentage of company restaurant sales increased 160 basis points to 11.7% compared to 10.1% in the third quarter of last year. This increase resulted from higher utility rates and usage during the hotter summer months as well as increased operating supplies related to our new restaurants.

G&A during the third quarter was \$4.5 million or 9.1% of revenue, excluding stock-based compensation, compared to \$3.1 million or 6.7% of revenue in the year ago period. The increase compared to the third quarter of last year primarily reflects the hiring of additional personnel to support our new restaurant development and our brand growth initiatives as well as increased expenses related to additional insurance costs as we grow the company.

Early in the year, we held back on G&A increases as we were trying to match the growth of new restaurant development. We are now in line with our G&A to be \$18 million to \$19 million for the year, excluding stock-based compensation, meeting our expectations.

In the third quarter, we had net income of \$0.2 million or \$0.01 per diluted share of Class A common stock compared to net income of \$2.6 million or \$0.08 per diluted share of Class A common stock in the third quarter of 2023. Adjusted net income, which represents net income plus noncash stock-based compensation, was \$0.9 million or \$0.03 per diluted share of Class A common stock. As David mentioned at the onset of the call, these figures are better than the estimates that had us losing money for the quarter.

We maintained adjusted restaurant-level EBITDA above 18% for the third quarter of 2024. Total adjusted EBITDA was \$3.4 million, net of preopening costs compared to \$5 million for the third quarter of 2023. The year-over-year decline was primarily due to increased G&A and preopening costs. Without preopening costs, adjusted EBITDA would be approximately \$4.5 million. Overall, our adjusted restaurant-level EBITDA and total adjusted EBITDA for the third quarter were in line with our expectations, and we remain on pace for our 2024 goals.

Turning to liquidity. As of September 30, 2024, we had \$22.1 million in cash and cash equivalents, and we carried no long-term debt, except for approximately \$4.4 million in government-funded EIDL loans, which we had when we went public in June of 2023. We also have \$20 million available in our revolving line of credit.

GEN continues to produce robust free cash flow, enabling us to fund \$17 million in new restaurant development costs and an additional \$4 million towards the buyout of our GKBH Restaurant. We don't expect this trajectory to change in the near future as we continue to focus on new restaurant expansion.

Lastly, turning to our fiscal 2024 outlook. We are reiterating our expectation to open 10 to 11 new restaurants in 2024, helping us to achieve total revenues between \$200 million and \$205 million, and restaurant level adjusted EBITDA margin approaching 18% for the year.

This concludes our prepared remarks. We'd like to thank you again for joining us on the call today, and we are now happy to answer any questions you may have. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question today will come from JP Wollam with ROTH Capital Partners.

JP Wollam

If I could maybe start with maybe just dialing in on the comps a little bit. So I know that in 2Q, you had kind of telegraphed a little bit of the weakness, and then I know you said today that October and November looked better. So I just want to make sure that -- if you could share a little bit about how comps trended throughout the quarter? And then October and November, is that improvement there really just some of the weather issues going away, and therefore, you saw a pickup in traffic? Any color would be appreciated.

David Kim

There's different factors that contributed to the larger-than-expected negative sales in the third quarter. There are some high-volume restaurants that were shut down. So because of a small grouping of restaurants we have, when you have a high-volume restaurant shutdown, it impacts the percentage a lot. We have asked -- we have turned in our claims to our insurance companies, and we haven't realize those insurance money that's due. We can only book it on our books once we receive them.

It was very unusual. When we broke it down to some areas, we had some hurricanes that had hit Texas and Florida. Texas is a big market for us. We had some cannibalization amongst our own restaurants, one in Hawaii and one in Texas, 2 very high-volume restaurants. Those were all our cannibalization. But if you combine the 2 restaurants, we do much better than just 1. So we're fine with that cannibalization. We had 2 restaurants where a much larger competitor of a footprint came in. So that impacted, but that was more on the lower sales volume.

And this weather pattern of these extreme heats, these aren't just regular heats. These are just very, very, very hot weathers that will come across like Texas and California. So that kind of impacted it. What's more important here is going forward. Are we seeing better improvement in sales in October and November for the 6 weeks? Yes, we do, okay? It's much better than the third quarter numbers. So at least going forward, we're not seeing these larger negative comp sales for the first 6 weeks of the fourth quarter.

JP Wollam

Okay. And maybe if we could just talk about -- it sounds like there are a few pretty impressive new units. If you could just maybe talk about kind of what factors you think are responsible for the success, and maybe also if there's any kind of understanding of what to do as more new markets come online.

David Kim

We are very shocked too. I mean, we project what we think we'll do is when we open restaurants, but these 3 totally just blew it out of the water. So we are very happily concerned, right? Because these are not numbers we've seen before or we've experienced lately. So we are very focused on making sure that we don't make mistakes because high-volume restaurants like this, if you don't focus with details, they can go sideways fast.

But we're maintaining, which is very shocking to us, and we have all our best management in there now because these 3 restaurants, if you put some EBITDAs together, you can make up for 10 plus EBITDA stores without any problem. So why are they doing so well? I wish I had a crystal ball. I mean we have stores that don't do well, so we're working hard on those. There's only 1. But in terms of doing so well, we count our blessings and we just -- we keep focusing on the details. This is just day in, day out in our hard grinding business.

JP Wollam

Okay. And if I could just squeeze one last one in. If I'm thinking about kind of some of these additional initiatives, it sounded kind of GEN Grills maybe a sort of catering and the participation in outdoor fairs and I think there was something about an agent distribution channel.

But what is the way -- could you maybe elaborate on sort of the way you're thinking about the trade-off between what kind of investment in labor and staff is required for these versus sort of what the revenue -- or maybe it's more of a marketing opportunity. Could you just discuss those trade-offs, please?

David Kim

They're not marketing opportunities. They're very straightforward revenue and EBITDA generation. So we're -- the biggest, right now, response we got was the gift card. Again, we can go into more details if you have more questions on that. But these other launches of we'll call it, incubator projects, are pure increases in sales to us, and we're looking for that.

We're not just waiting for customers to come in. We're actually going out there and starting to be on the offense of this. So GEN Korean BBQ brand is very well known now and more than what we expected, so we are actually going and trying these other venues to bring more revenue, so is purely a revenue project.

In terms of the corporate overhead, it's -- we're pretty much 90% there. We're doing all this within the same corporate infrastructure that we have now. So it's not like something we're going to be adding a bunch of more people. This is about where we're comfortable in having to tackle these projects, the way we have our corporate overhead right now.

Operator

Our next question today will come from Jeremy Hamblin with Craig-Hallum Capital Group.

Jeremy Hamblin

I wanted to come back to the commentary around improved results in October and November, and wanted to get a sense if you could share maybe magnitude of how much things have improved. And then if -- is it traffic driven? Is it being driven by more mix into the premium menu? Or just -- a little more color would be great.

David Kim

Jeremy, I think it's a lot of both. But in terms of the improvement of negative, we were negative 9. I think, comfortably, we can say we've shrunk it by at least 50% so far. So yes, in terms of percentage, it's substantial, but we just don't know how the next -- because it's a high season for us now. Starting in 2 weeks, we go to the peak. I mean it is where we make all our money. So if the season does well, we should be fine. So it's still hard to gauge that, but as of now, the third quarter negative is behind us in terms of the large negative comp that we've experienced.

Jeremy Hamblin

And then just as a follow-up, in terms of the premium menu, where is that mixing as a percent of total now? And is that improving as this initiative has rolled out, or staying the same, or fewer people? Any color you can share on that?

David Kim

Sure. It is improving. We saw some efficiencies in our training of our staff to suggest and sell those products. But we have new teams that are actually -- is working very well. And it's not improving as fast as we want, but for sure, I can state that it is improving much better than we thought. So it is continuously increasing. So that is helping a lot. What was the second question?

Jeremy Hamblin

Proportion of total mix. Is it 5%, 6%?

David Kim

It's around 5% right now. Our goal is to hit 10%. And once we get to that 10% stage, we'll start now focusing more on the drinks. Because the drink's a little low, and we think there's a lot more to capture on the drink side.

Jeremy Hamblin

Got it. I wanted to switch gears and then just talk a little bit about the margin performance because the food costs and the labor rates, really very impressive given where the comps were. And I wanted to see if we could get underneath that. I mean the payroll costs fell 120 basis points, despite where your comps were. So can you talk a little bit if there were specific initiatives driving that?

And exactly -- like how sustainable is that here as we look ahead into Q4 and beyond? And then on the food cost side as well, given you haven't taken menu pricing, saw that improve 40, 50 basis points year-over-year, also pretty solid. So I don't know if that's just driven by some deflation on the food costs or if there's other factors going on there.

David Kim

Okay. November on labor cost was -- we missed a little bit -- I'm sorry, October. We had a company conference. And when we do conferences like this, we have to move people around. So -- but we'll make it up. The room of better margins is just purely us continuously focusing on details. We're still operators. We still focus on the day-to-day operations. We think we can maintain this in terms of food cost.

I think on the last call, I mentioned that the commodity prices have stabilized, that we don't have big fluctuations these days. So that's improving a lot. One of the areas that we've seen improve is the gift cards, the gift cards that are coming in from the sale of the Costco. When a customer brings the gift card and they use it, they're actually buying more. They're buying more drinks, they're buying more the premium menu, so that's increasing a lot of our guest track average for those who are using the gift card.

We thought by having the gift card -- and our redemptions are very low. In fact, we've talked to our auditors. They've said that maybe another quarter, they will actually have us book the unused gift card portion to breakage to revenue. So -- but we're being very conservative about that. But the numbers that -- we prefer not to disclose it, but it is some outrageous numbers of how much gift cards we're selling right now.

So maybe that's helping with the margins, too. But again, we have so many restaurants. It's not like the gift cards are taking 10% of our sales. It's not like that at all. But everywhere, it helps. So having said all this, it's just -- I wish it was just one area of where we thought we found. It's just many small areas that we're just attacking every day.

Jeremy Hamblin

Got it. A follow-up here on Costco. What's the kind of average redemption time line from purchase to usage? And then second question is, you mentioned that you're getting a higher spend when using the gift card. Can you quantify that in terms of is it \$10 more per check? Or any color you can share on the magnitude would be great.

David Kim

The magnitude of how much more they're spending, we're actually gathering that data now. So we have a team of junior analysts that are getting that. So perhaps on the next call, we can give you a little better -- but we do a random checks now, and random checks are telling us that people using the cards are spending more money on a random check. It's like maybe 7 out of 10 are just buying more drinks and they're ordering all the premium menu. So -- but we'll get you a better color. And the...

Jeremy Hamblin

Timing of usage.

David Kim

The timing of usage, we are -- the redemption is only like less than 50% so far, which is great. The industry says that redemption should be around 80%.

Thomas Croal

Between 75% and 80%.

David Kim

Yes, 75%, 80%. So we still have long ways to go. But what we've heard from the buyers of Costco -- because how they evaluate the selling of the cards -- in fact, Costco, in their quarterly call, said one of their most improved areas of their sales have to do with gift card sales.

Now, they're all regional, because they don't put these gift cards throughout the country. They only put up like 5 miles away from where your restaurants are. And we don't have a lot of restaurants, let's say, compared to a Subway sandwich, right? They have hundreds of them. So they calculate by how many they sell by how many stores around and there's a math they do, and they're telling us that we're like #1 right now.

So in terms of sales, we're very impressed. In terms of redemption rate, we're very impressed with it, too. But eventually, the guests are going to use up the cards, but the good thing about this is once they use it up, they want to go acquire more of these cards, right? So we have all this cash that starts sitting on the balance sheet that is free cash for us.

And it doesn't impact our food cost at all right now. So now if it impacts our food cost, then that's an issue. But we're not seeing that at all. So it's improving. So there are some metrics that we're still looking at just to figure out whether that is really making a big difference.

Operator

This will conclude our question-and-answer session. I would like to turn the conference back over to David Kim for any closing remarks.

David Kim

Okay. We'd like to thank everybody for being on this call. And as always, we'd love to meet you at any of these conferences that are coming up. We're going to be at the Craig-Hallum Conference in New York on November 19, the Wolfe Small and Mid-Cap Conference in New York on December 4, the ROTH Conference in Deer Valley in Utah on December 12.

So hopefully, we'll see some of you there. If not, we look forward to speaking with everybody when we report our fourth quarter and full year 2024 results in March of 2025. And thanks again for joining us, and I hope everyone has a great upcoming holiday season. Operator, back to you.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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

View all [earnings call transcripts](#)

Comments

Newest  