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GEN Restaurant Group, Inc. (GENK) Q2 2025 Earnings Call Transcript

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Q2: 2025-08-06 Earnings Summary

Insights

EPS of \$0.04 **beats by \$0.03** | Revenue of \$55.04M (2.19% Y/Y) **misses by \$5.22M**

GEN Restaurant Group, Inc. (NASDAQ:[GENK](#)) Q2 2025 Earnings Conference Call
August 6, 2025 5:00 PM ET

Company Participants

Thomas V. Croal - CFO & Secretary

Wook Jin Kim - Chairman & CEO

Conference Call Participants

John-Paul Wollam - ROTH Capital Partners, LLC, Research Division

Operator

Good afternoon, ladies and gentlemen, and welcome to the GEN Restaurant Group, Inc. 2Q 2025 Earnings Conference Call. [Operator Instructions] Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Wednesday, August 6, 2025. And now I would like to turn the conference over to Tom Croal, the company's Chief Financial Officer. Please go ahead.

Thomas V. Croal

Thank you, operator, and good afternoon. By now, everyone should have access to our Second Quarter 2025 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 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 June 30, 2025, 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 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 annual report on Form 10-K and our quarterly reports on Form 10-Q for a more detailed discussion of the risks that could impact our future operating results 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 Chairman and CEO, David Kim.

Wook Jin Kim

Thank you, Tom, and good afternoon, everyone. In the second quarter, our restaurant operations team continued to do a good job executing our strategic priorities in what continues to be a very challenging environment. This includes opening new stores, continuing to deliver an exceptional service and customer experience, all while managing cost controls. Although macro pressures continue to persist, we strongly believe our value-focused experimental dining model resonates with guests and positions us for durable long-term growth and profitability. We opened 7 restaurants in the first half of 2025.

These 2025 openings represent a balanced geographic mix, including new, existing and international markets. I'm pleased to announce one of the new stores opened this year was in a suburb of Seoul, South Korea, which is our first international expansion. We plan to open more restaurants in South Korea in the third quarter of 2025. These restaurants are being built at approximately 1/3 the cost of our U.S. stores and use as an operating model consistent to our restaurants in the U.S.

In addition, by opening in Korea, we hope to see early culinary cultural and experimental trends that might translate well for us in our U.S. locations. In the beginning of the third quarter, we have opened an additional 2 restaurants for a total of 9 new restaurants year- to-date. We are on pace to exceed our target of 12 to 13 total new stores by the end of 2025 because we have 7 additional restaurants under development which we expect to complete construction in 2025.

During the month of April, after the global tariffs were announced, we saw a sharp downturn in our restaurant customer traffic, which resulted in same-store sales drop. On top of that, the current administration in force immigration policies deploying [ICE] agents in several of our geographic regions. These areas include California, Texas and Nevada, which have a large Hispanic customer base and Hispanic workforce.

These states account for 35 of our 52 restaurants. The decline was felt across all restaurants and these regions. Despite these adverse conditions, we're able to maneuver our staffing and operations quickly and have seen improvements in our sales and cost starting in the last half of July. We estimate the Hispanic customer base to be more than 60% at most of our restaurants in these regions.

As we have mentioned in the previous calls, Same-store sales are not the metrics that defines our success. I can't stress that enough our AUV revenue is \$5.3 million per restaurant in the casual dining space. This is a very elite level. Our AUV revenue levels, drive our margins and strong cash flow. Our business model revolves around growing our footprint to capitalize on the short duration to recoup our initial investment into new restaurants. In fact, we're on track for an impressive 2.3 years payback period for our 2024 new stores.

This 2.3-year payback period is much shorter than most competitors and allows us to expand with limited debt as we can rely on our cash flow to fund the majority of our growth. Said another way, at the time we went public in 2023 of June, we had 33 stores. Since then, we have added 19 new stores costing approximately \$2.5 million each, roughly increasing our store count by 58%, but haven't needed to take on any material debt or equity to do this. We believe this proves the value of our high free cash flow model.

Having said this, we still deeply focus on ways to drive growth at existing locations and have a number of initiatives this year as we continue the expansion of the GEN brand of products and services. From our incubator projects, we have several initiatives to discuss. First, sales of gift cards -- last year, we have announced the launch of GEN gift cards at 78 Costco locations. The gift cards continuously sell well. During the second quarter -- we began selling gift cards at Sam's Club location. Our success in expanding this initiative is a specimen for GEN's brand strength and position as a leader in the Korean barbarian space.

Second, with these successes, we have developed additional product lines to sell through these channels. These products are finished packaged GEN Korean Barbeque meats. GEN Korean Beef Turkey, GEN Korean [indiscernible], GEN Korean Sauce and GEN Korean frozen products wholesale through the Cisco distribution network. GEN Korean Barbeque will create an umbrella of GEN Korean products to be sold to other channels other than our restaurant level.

We will continue to grow our brands in a strategic way. In addition, we'll be growing the Corn Sushi brand only to be built next to GEN Korean Barbeque restaurants. The idea is to enhance our brand and mitigate risk by using the same infrastructure of the kitchen, bathroom, storage and some labor. Also, we've continued to enhance our training programs. We're spending more time and efforts on training in order to build the bench strength necessary to span new restaurant development openings around the country and in Korea.

We have deployed this new systems like AI and new technologies. With a solid operating model, meaningful expansion across both core and new concepts and continued investment in our development pipeline, we're executing with focus and discipline, backed by a healthy balance sheet, strong unit level returns and rising brand momentum, we believe GEN is well positioned to deliver on our 2025 goals and continue expanding our presence across both domestic and international markets. Thank you for your continued support. We remain excited about the opportunities ahead and confident in the road we're on.

Now I'd like to hand the call over to Tom for a detailed look at our second quarter financial performance.

Thomas V. Croal

Thank you, David. We generated a 2.2% year-over-year increase in total revenue to \$55 million for the second quarter of 2025 due to our new restaurant openings over the last year. Cost of goods sold as a percentage of company restaurant sales increased by 97 basis points to 33.8% in the second quarter of 2025 compared to the second quarter last year. This increase reflects more new restaurants in operation, inflationary cost increases and a minor impact from our premium menu.

Payroll and benefits as a percentage of company restaurant sales decreased by 29 basis points in the second quarter of 2025 to 30.1% compared to the second quarter of last year. Payroll and benefits as a percentage of sales decreased by 163 basis points from the first quarter of 2025 due to recently rolled out labor efficiencies. Occupancy expenses as a percentage of company restaurant sales increased by 116 points to 9.3% compared to the second quarter of last year due to 10 additional restaurant openings.

Other operating expenses as a percent of company restaurant sales increased 78 basis points to 10.7% compared to the second quarter of last year. G&A, excluding stock-based compensation during the second quarter was \$5.7 million or 10.3% of revenue compared to \$4.3 million or 8% of revenue in the year ago period. G&A expenses in the second quarter remained flat compared to G&A expenses in the first quarter of 2025.

In the second quarter, we had a net loss before income taxes of \$1.8 million, which equated to \$0.05 per diluted share of Class A common stock compared to net income before income taxes of \$2.1 million, which equated to \$0.06 per diluted share of Class

A common stock in the second quarter of 2024. The second quarter of 2025 reflects higher costs associated with new restaurant development, including \$2.1 million in preopening costs.

If you look at adjusted net income, a non-GAAP measure, we had net income of \$1.2 million or \$0.04 per diluted share of Class A common stock in the second quarter of 2025 compared to adjusted net income of \$4.4 million or \$0.13 per share in the second quarter of last year. Remember that we have 33 million shares outstanding, including our A and B shares. The Founders Group owns approximately 85% of the company and the public investors own 15%. Our Founders' interests are aligned with those of the public shareholders, and they are fully invested in successfully growing GEN.

Restaurant level adjusted EBITDA was 16.3% for the second quarter of 2025 compared to 15.6% for the first quarter of 2025, an increase of 0.7% or 70 basis points as we continue to improve our labor costs. Restaurant level adjusted EBITDA for the second quarter was \$9 million compared to \$10.2 million in the second quarter of 2024. Total adjusted EBITDA for the second quarter of 2025 was \$1.9 million or 3.4% as compared to \$4.9 million in the second quarter of 2024.

After removing preopening costs from both periods, adjusted EBITDA for the second quarter of 2025 was \$3.3 million compared to \$5.9 million in the second quarter of 2024.

Turning to our liquidity position. As of June 30, 2025, we had \$9.6 million in cash and cash equivalents and the only long-term debt we carry is \$7 million in bank debt. We also have fully available all of our \$20 million revolving credit facility. Before concluding, I want to reiterate what we said on our last call. Our balance sheet reflects \$166 million in lease liabilities as required under GAAP through the new ASC 842 lease accounting standard.

These are not financial obligations in the form of long-term debt, but rather the accounting recognition of our future lease commitments. Importantly, they are offset by \$142 million in operating lease assets. We've also received several questions about our return on tangible asset metrics. It's important to note that using total assets as a proxy for invested capital is inflated because it includes operating lease asset of \$142 million. This incorrect assumption can artificially lower our return metrics. All these points highlight the fact that GEN carries no material debt and has strong returns from restaurant development. 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 that you may have. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question comes from Jeremy Hamblin with Craig-Hallum Capital.

Unidentified Analyst

This is Will on for Jeremy. I just wanted to start off with asking if you could help quantify the same-store sales progression throughout the quarter and then maybe the magnitude of improvement you've seen in July? And then second, I don't know if you took any price during the quarter, but anything you can call out in terms of traffic check composition would be super helpful.

Thomas V. Croal

Okay. Thanks, Will. I think we were down -- really down in April, May and June. We did see some bounce back in the month of July. But we did have a price increase in the -- right at the beginning of the year of about 2.8%, I think we announced on the last call that we had. That helps.

Unidentified Analyst

Yes. That's helpful. And then just switching over to thinking about new units. I guess now that those 6 openings from Q1 have had a few months under the belt. Just curious on how those have been performing? And then just a follow-up, any more color on performance in that South Korea location? Or any update to expansion plans there would be great.

Thomas V. Croal

Yes. Our openings in the first quarter are just -- I guess, I would say they're average. They're doing fine, but they're on the average level. And the opening in South Korea is a brand-new market for us. So we're working through that. Our sales are slow, but picking up. And we will be opening a couple more new restaurants in Korea before the end of this month.

Unidentified Analyst

Got it. And then just last one for me. I just wanted to ask about the premium menu adoption, sort of how that's tracking in terms of mix, maybe -- where you think that mix can get to? And then how we should be thinking about the COGS implications with further premium adoption?

Wook Jin Kim

We see that there's a COGS of probably 0.5 basis point to 1% differential. It's probably going to average around 5% to 6%, maybe up to 7% increase in sales. We are starting to add other products other than the upselling of the just mix of our menu. So we will be rolling out other product lines to enhance that.

Operator

[Operator Instructions] Your next question comes from J.P. Wollam with ROTH Capital Partners.

John-Paul Wollam

If we could just start, maybe just wanted to offer the chance, any updates to kind of the guidance you shared last quarter in terms of kind of the revenue and 4-wall margin? And maybe just along with that, anything you can share about what's baked into that number or your expectations there, whether comp or new unit kind of productivity?

Wook Jin Kim

We're still holding our projections that we gave at the beginning of the year. I think we were looking at 17% to 18% on 4-wall margins. We're not revising any of that, because of a challenging quarter. We're going to stay on course. So that has not changed at all.

John-Paul Wollam

Got it. And then in the press release, I think there was kind of some comments about being able to offset the ongoing macro challenges through some operational efficiencies. And I'm just kind of wondering, as we think about that 17% to 18% in sort of 4-wall margin, like any more detail you can provide on kind of behind the scenes what the team is doing to really maximize some efficiencies there?

Wook Jin Kim

Yes. We made quick directional changes to deploy more automation, and we are using some AI tools to get our labor in a more efficient cost. So we'll probably see a lot more benefits to the margins overall, definitely on the third quarter.

John-Paul Wollam

Got it. And then just last one from me. I think that's 2 quarters now kind of talking a bit about making sure that you guys have the right training processes to really bring up kind of your next generation of GMs and restaurant leaders. So as you think about unit development and getting -- potentially accelerating as we look out into future years, as we sit here today, is kind of quality general managers sort of the biggest gating factor to new unit development or -- sorry, to accelerating unit development? Or is it real estate capital, any of those other items?

Wook Jin Kim

It's all of the above. Getting managers is still a challenge, but we're dealing with that. But we will definitely talk more about the efficiencies that we have run and tested now, which we're getting good results, but we'll definitely have that results in the third quarter too. We just started to implement it in the time of July, but the numbers are coming in very good. So we will definitely give you a better understanding of how those implementation, i.e., managers, i.e., new technologies and better training that we have implemented.

Operator

At this time, this concludes our question-and-answer session. I would now like to turn the call back over to Mr. Kim for any closing remarks.

Wook Jin Kim

Well, thank you all again for joining the call. We look forward to speaking with you all when we report our third quarter of 2025 results in November. Thank you.

Operator

This concludes today's conference call. You may now disconnect your lines at this time. Thank you so much for your participation.

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