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GEN Restaurant Group, Inc. ([GENK](#)) Q3 2025 Earnings Call November 7, 2025 5:00 PM EST

Company Participants

Thomas Croal - CFO & Secretary

Wook Kim - Chairman & CEO

Conference Call Participants

Jeremy Hamblin - Craig-Hallum Capital Group LLC, Research Division

Todd Brooks - The Benchmark Company, LLC, Research Division

George Kelly - ROTH Capital Partners, LLC, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to GEN Restaurant Group, Inc. 3Q 2025 Earnings Call. [Operator Instructions] And now I would like to turn the conference over to Mr. Tom Croal, the company's Chief Financial Officer.

Thomas Croal

CFO & Secretary

Thank you, operator, and good afternoon. By now, everyone should have access to our third 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 September 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 also subject to numerous risks and uncertainties that could cause actual results to materially differ 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 Kim

Chairman & CEO

Thank you, Tom, and good afternoon, everyone. The third quarter continued to be a very challenging environment for the restaurant business. In spite of this, we continue to implement our business plan, including opening new stores, continuing to deliver an exceptional service, and build our brand recognition. 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 15 restaurants in the first 9 months of 2025, 8 of which opened in the third quarter. This includes 6 new restaurants in South Korea for a total of 57 restaurants in operation. The Korean restaurants use an operational model consistent to our restaurants in the U.S. at a fraction of the construction and operational costs. These 2025 openings represent a balanced geographic mix, including new, existing and international markets and we are scheduled to open an additional 2 stores by the end of 2025. We have exceeded our initial estimate of 12 to 13 stores for a total of 17 stores in 2025.

Recently, we announced the launch of ready-to-cook Korean branded meats for sale at Albertsons, Vons, and Pavilions grocery stores in California and Hawaii. These products feature the exact same meats and recipes used in our restaurants, bringing the true restaurant experience without compromising quality. Most other restaurant companies that sell food in the frozen section of grocery stores cannot repeat the same pace and quality of food like GEN can. These are not TV dinners, but are the same crafted meals and quality ingredients we serve in our restaurants, bringing our genuine quality restaurant food to your dining room table.

With 4 product choices of ready-to-cook meats, we recently announced the partnerships to sell at over 600 grocery locations. We took this challenge because we anticipate annual revenues from grocery store could exceed \$100 million over the next 4 to 5 years. This allows for expansion of our brand awareness as GEN is building a powerful ecosystem that extends beyond restaurants into a community of authentic Korean products, experiences and digital innovation. During the third quarter, we generated a 2.7% year-over-year increase in total revenue to \$50.4 million for the third quarter of 2025 due to our new restaurant openings over the last year.

As we reported last quarter, during the month of April, after global tariffs were announced, we have continued to see a downturn in our restaurant customer traffic, which resulted in same-store sales dropping by 9.9% for the third quarter, and some of our peers have experienced the same downturn. In spite of the inflationary driven increase in cost, our restaurant level adjusted EBITDA margin was 15% in the third quarter of 2025 and 15.6% year-to-date.

Consistent with our previous messaging, same-store sales are not the metrics that defines our success. I can't stress that enough. Our AUV revenue is \$5.2 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 in new restaurants. Since our IPO 2 years ago, we have added 24 new stores with total costs of approximately \$2.5 million each, roughly increasing our store count by 73%. We believe this proves the value of our high free cash flow model. Although the restaurant industry is facing a softer environment, we remain confident in our strategy, our team, and our ability to drive long-term growth. Having said this, we still deeply focus on ways to drive growth at existing locations and have a number of initiatives to share as we continue expansion of the GEN brand of products and services.

Last year, we announced the launch of GEN gift cards at 95 Costco locations, all within a 5-mile radius of all of our current restaurants across the U.S. The gift cards continue to sell exceptionally well. Recently, we began selling gift cards at 92 Sam's Club locations. Access and expanding this initiative is a testament to GEN's brand strength and position as a leader in Korean barbecue.

We're also expanding our reach beyond our restaurants through several exciting initiatives. These include: bulk sales of Korean BBQ meats, e-commerce business growth, sales of Korean beef, turkey, sales of Korean sauces, developed in Korea and imported to the U.S., and sales of our proprietary Korean and other Korean related GEN products under development. All of these products will be sold at our restaurants and/or through our distribution channels. Ultimately, we anticipate that most of these items will also soon be available in grocery stores. Each of these initiatives are created to build off of GEN's powerful brand recognition and enhance our margins through new revenue streams.

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.

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

Thomas Croal
CFO & Secretary

Thank you, David. David discussed revenue in his remarks, so I will start with expenses. Cost of goods sold as a percentage of company restaurant sales increased by 334 basis points to 34.8% in the third quarter of 2025 compared to the third quarter last year. Cost of goods sold as a percentage of restaurant sales increased by 95 basis points compared to the second quarter of 2025. The increase reflects inflationary cost increases, more new restaurants in operation and a minor impact from our premium menu.

We have not taken any price increases since the end of 2024, and meat prices are at an all-time high. We have elected not to pass on these increases to our customers and will not raise our prices in the near term to show loyalty to our customers during these uncertain economic times.

Payroll and benefits as a percentage of company restaurant sales decreased by 196 basis points in the third quarter of 2025 to 28.5% compared to the third quarter of last year. Payroll and benefits as a percentage of sales decreased by 155 basis points from the second quarter of 2025. This decrease is due to recently rolled out labor efficiencies.

Occupancy expenses as a percentage of company restaurant sales increased by 238 basis points to 10.8% compared to the third quarter of last year due to 16 additional restaurant openings. This is primarily due to higher rent at our new locations, along with the start-up of several restaurants.

Other operating expenses as a percentage of company restaurant sales increased 58 basis points to 12.2% compared to the third quarter of last year.

G&A, excluding stock-based compensation during the third quarter was \$5.7 million or 11.4% of revenue compared to \$4.5 million or 9.1% of revenue in the year ago period. This increase is primarily due to increased personnel required for new restaurant development, and additional advertising, marketing and legal expenditures. G&A expenses in the third quarter remained flat compared to G&A expenses in the first and second quarters of 2025.

In the third quarter, we had a net loss before income taxes of \$3.9 million, which equated to \$0.11 per diluted share of Class A common stock. Compared to net income before income taxes of \$300,000, which equated to \$0.01 per diluted share of Class A common stock in the third quarter of 2024. The third quarter of 2025 reflects higher costs associated with new restaurant development, including \$2.3 million in preopening costs.

If you look at adjusted net income, a non-GAAP measure, we had a net loss of \$700,000 or \$0.02 per diluted share of Class A common stock in the third quarter of 2025 compared to adjusted net income of \$2.6 million or \$0.07 per share in the third quarter of last year.

As David said, since going public in June of 2023, we have grown GEN from 33 stores to 57, a 73% increase. If we stopped all new restaurant development, we estimate that our net income or loss could have been profitable for the third quarter. This figure strips out all preopening costs and includes a reduction in G&A.

Restaurant level adjusted EBITDA for the third quarter of 2025 was \$7.6 million or 15% of total revenue compared to \$9 million or 18.2% in the third quarter of 2024. Total adjusted EBITDA for the third quarter of 2025 was \$200,000 as compared to \$3.4 million in the third quarter of 2024. After removing preopening costs from both periods, adjusted EBITDA for the third quarter of 2025 was \$1.8 million compared to \$4.5 million in the third quarter of 2024.

Turning to our liquidity position. As of September 30, 2025, we had approximately \$5 million in cash and cash equivalents. Additionally, we have full availability of our \$20 million revolving credit facility. We anticipate using a portion of our revolving credit facility as we continue to open new restaurants in the future.

If the current economic climate does not turn around in the near term, we will consider slowing our growth plans for 2026, and focus our efforts on improving operations and margins at our existing restaurants, and growth through our grocery store initiatives.

Before concluding, I want to reiterate what we said on our last call. Our balance sheet reflects \$165 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 \$140 million in operating lease assets.

We've also received 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 the operating lease asset of \$140 million. This interact assumption can artificially lower our return metrics.

To wrap up, we anticipate opening 2 stores by the end of the year for a total of 17 new restaurants for all of 2025, which includes our 6 international units in South Korea. We're targeting full year revenue of \$220 million to \$225 million and achieving restaurant-level adjusted EBITDA margins in the 15% to 15.5% range. By the end of 2025, we anticipate being at an annual run rate of approximately \$250 million of revenue when all our new restaurants are open. This does not include our new initiatives.

This concludes our prepared remarks. We'd like to thank you again for joining us on our 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] Your first question comes from Jeremy Hamblin of Craig-Hallum.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

I thought I might start by getting an understanding of the Korean units. And first, I wanted to clarify in terms of -- I think some of those locations are Kan Sushi and some are GEN Korean. I don't know if some of them are kind of joint locations and just want to understand what the economics look like, what do you anticipate the AUVs to be with those stores in year 1? And what's the cost to build those locations?

Wook Kim

Chairman & CEO

Okay. So we have right now 4 GENs and 2 Kans. The Kans are way outpacing the sales of GENs at this point. We anticipate the Kans to do around, I would say, \$3 million to \$4 million, maybe more in the \$4 million. The GEN side still needs more time. So we're probably going to do about \$2 million to \$3 million to GENs.

What was the second question, Jeremy? I apologize.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

Just the cost, yes, the cost to build.

Wook Kim*Chairman & CEO*

Yes, the cost of build is coming out to be about less than \$1 million a store. That's about \$800,000. So substantially lower than the U.S.

Jeremy Hamblin*Craig-Hallum Capital Group LLC, Research Division*

Got it. And then in terms of the softer trends on existing locations, can we assume that, that's kind of continued here in Q4? I mean, are you kind of expecting down 10 or something like that in Q4?

Wook Kim*Chairman & CEO*

Correct. Yes. Right now, we're seeing softness. It started from the tariff days to the ICE crack down especially in areas where we have our customer are a lot Hispanic and they have been impacted for sure in the California region and we're starting to see some in the Texas or mostly California. And it's just an assumption that -- and of course, we're not just comparing to other sitdowns -- actually sit down restaurants that are doing well, but a lot of them are struggling with the comp sales we have not seen as of last week, a substantial improvement on the traffic.

Jeremy Hamblin*Craig-Hallum Capital Group LLC, Research Division*

Got it. And then I wanted to switch gears just to ask about the grocery store initiative, 600 locations. That's kind of an impressive ramp. What is the current run rate on kind of annualized revenue of that portion of the business? I mean getting to \$100 million in 4 to 5 years, it would be quite impressive. But wanted to get an understanding of the velocity there. And then also in terms of the cost to run that business, right, I don't know if you're having to pay slotting fees or kind of what is the start-up cost of that initiative?

Wook Kim*Chairman & CEO*

Okay. We did a test with 31 locations by the name of Pavilions. Our data show that they are much less traffic than the other brands they own. Why? We were able to get the first orders and get bin spaces and et cetera, is the response that they've gotten in the 31 test locations was anywhere from 60% or more of the consumers that were buying the products already new GEN or GEN customers. So it really helped solidify our strength of our brands. The buying department have mandates in grocery stores now that they want to take more directions of merchandising Asian foods and Hispanic foods, and we happen to fall in that category.

And because of the strong brand presence and the strong custom or acceptance of our brand, the 31 store data came in high in terms of new products going into their shelves without any discounting. And how we were able to go into the 570 stores is the other brands that they own, which is a higher traffic brand like Albertsons and Safeway is where we think that the sales of those stores will be much higher than the Pavilions brand.

The Velocity, we just got into the Pavilions for less than 1.5 month, and the 570 stores will go into the month of November. They normally don't slot products during these times because they're focused on the holiday season but for some reason they saw such a popularity of our brand, they made concessions and did a last minute -- last-minute adjustments, but most retailers don't do that. They're locked in until I think February, and that's when they do their schematics again. So we don't have the Velocity, but what they're telling us on the 31 locations is as a brand new brand, they're very happy with how we are selling down our products.

The cost to manage this, it's substantially less than the cost of running the restaurant division. There is going to -- the margin erosions will happen once they start approaching us, which they have had discussions with us on shelf space and discounts and, et cetera. They did say that in the history of their corporation, it was the first time they allowed a brand to come in without committing to a slotting fee on Southern California. Northern California and Hawaii, we have negotiated a very small slotting fees, but that's just being worked out, but the products are all made and already in their warehouses.

There is another 300 stores in the Midwest from Texas on with the same company. I think that is going to -- it's between 300 to 400, they'll probably put us in there but they're telling us certain areas in the Midwest margins are not that better than the West Coast. We are now -- we have appointments to discuss with the big boxes in about 2 weeks because we have had very high successes with our gift card program and they want to now see what kind of products that they can enhance with the gift card and cross work so that customers who buy our gift cards can be introduced to our other branded meat products, et cetera.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

Awesome. Last one for me. I was very interested to hear a bit more about the idea of slowing or halting unit growth going forward, that seems certainly from a cash perspective, like a great idea. And I wanted to see if you and Tom had really kind of gone through what the cash flow might look like? I mean, you have about \$9 million or \$10 million in preopening costs this year and CapEx, I think, tracking in the range of close to \$30 million. So I wanted to just get a sense of how much you've explored that, that might -- given kind of some ambitious growth here that you've had in the existing stores' performance, it seems that might be an interesting path here from a perspective of generating a lot more cash flow?

Wook Kim

Chairman & CEO

Yes. We definitely have ran that number. We have still 7 under construction, 2 or 3 will come on board this year, by the end of this year, and we cannot stop those. The other ones can pause. We have another 11 because these locations, you have to be at least a year ahead of signing leases. So we will see how the year-end sales progresses, and we'll watch it very carefully. If we can maintain the year's numbers, we will continue if we think that the slowdown of the consumers on the restaurant sector gets a little behind and continuously slow, yes, we will, for sure, consider pausing the opening of new restaurants. And we have looked at all the financial numbers and the projections in detail.

Operator

The next question comes from Todd Brooks of Benchmark.

Todd Brooks

The Benchmark Company, LLC, Research Division

A couple of follow-ups to Jeremy's questions, and I've got a few others. I just wanted to clarify -- you talked -- the industry has seen kind of a continuing deceleration here going into the fourth quarter. But I think, David, if I heard your comment right, quarter-to-date trends have stabilized with the down 10% that you saw in the third quarter? Or have your trends also slowed a little bit from that trend that you put up for the full third quarter?

Wook Kim

Chairman & CEO

Some weeks are better, some weeks are worse. So we're just into it now. I need a little more data. The true number actually for us starts in the second week of November because now we're going to the very high season for Thanksgiving and Christmas. Those are critical months for us. So I don't have that number for you right now.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay. Fair enough. Following up on the packaged food products, when you frame up a \$100 million opportunity per year as you get 4 or 5 years into the effort, what assumptions do you put behind \$100 million of revenues or SKUs expands to a multiple of that number of SKUs, 600 doors expands to what number of doors? What does it take from an operation and offering in a number of doors to generate \$100 million in annual revenue?

Wook Kim

Chairman & CEO

There is a competitor that moves a Korean barbecue frozen products through the Trader Joe's network, and we have certain numbers that they have. And those Trader Joe's do more volume per store, but they have much less stores. And we looked at the initial 1 month of Pavilions. And we are going to be putting in more products. We are already talking to the supermarkets to bring in GEN branded products other than just the meat. It's all being worked on now. As they come on, we will announce it. So there will be more SKUs other than just the 4 SKUs.

And as those grow, because we are getting information from our buyers of what they want because what they have now is costing them more money. It's less quality and they have their internal numbers of products that they currently sell, so when you start putting those numbers together with more SKUs we can kind of formulate that number. So as the years go -- at least the first cycle of year with new SKUs coming on board, and knowing some numbers with companies like -- what was the other, the big -- I'm sorry, I just blanked out -- Trader Joe's, we kind of are able to formulate a number that we can achieve.

Todd Brooks

The Benchmark Company, LLC, Research Division

That's exciting. Good to hear. A few more for me if we have the time. The labor efficiency was very impressive in the quarter, especially given how much the traffic trends fell off and where sales came in relative to probably what was an original expectation. How are you generating 200 basis points of efficiency year-over-year?

Wook Kim

Chairman & CEO

I think we can generate more. I don't want to use loose words by saying AI technology and things like that. But we are actually deploying those right now. But there's going to be a certain point where I cannot run a store with no humans, right? So we're constantly deploying more technologies so that we can be more efficient. But there will be a certain line because we are going to drop off in service if we go too thin. I think there's a little more basis points to play with, but this is probably the extent of it, sort of us bringing Optimus from Tesla, it could serve customers, okay?

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay. Fair enough. And then the 6 stores in South Korea across the 2 brands, is that your near-term footprint for South Korea? Thoughts on further growth there? What it takes to know if that warrants more capital, especially looking at kind of the multiple uses for the capital that you do have from an availability standpoint?

Wook Kim

Chairman & CEO

We are going to study the Korean market, but we are very optimistic on the Kan side of the business. So therefore, if we do have a restructure of the capital, then it would be more on the Kan expansion, which South Korea is very -- faster and less expensive to build in that country. But as of now, we're just going to keep tweaking the operations to come up with a better EBITDA.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. And the final one for me, and I'll jump back in queue. David, on prior calls, you've spoken to the composite environment and some of these maybe ankle biters that have followed very successful GEN locations with their own kind of either mom-and-pop or maybe branded Korean offering. What are you seeing from activity from these competitors? How are they dealing with a slowing environment? And is their pace of opening new stores? Is there any evidence of that slowing yet, so you'll see maybe less competitive intensity as you look out to '26?

Wook Kim

Chairman & CEO

Yes, we hear information from our bankers. These are local community banks, minority, local community banks and yes, they say because their borrowers of the SBA program who are our competitors. Yes, they say their sales are substantially down but it still has not stopped the entrepreneurs wanting to have the same American dream of GEN 3 and barbecue, so we are continuously having to deal with competitors, for sure.

Operator

For your last question, you will hear from George Kelly of ROTH Capital.

George Kelly

ROTH Capital Partners, LLC, Research Division

Just 2 more for you. First on your South Korean units. Can you give a margin of 4-wall margin by brand.

Wook Kim

Chairman & CEO

I don't have that. We've probably been open 2, 2.5 months. We had some changeover in senior management in a very short period of time. So we have to go in since some one executive in, our margins are not good right now because we need to stabilize it. I don't have that data today. But on the next quarter call, I will have that data.

George Kelly

ROTH Capital Partners, LLC, Research Division

Okay. And then I just wanted to follow up on one of the earlier questions about your expectations for openings next year. So I just want to make sure I had it right. There are 7 under construction, 2 to 3 of those are expected to open this year. That leaves 4 to 5. Are those the for sure openings next year? And then you mentioned an 11 number. I didn't know kind of what's the -- is it just those 11 that you might pause? Or does it also include the 4 to 5 that are beyond this year?

Wook Kim

Chairman & CEO

No, there's 4 to 5 beyond this year. So the 6 is -- they're under construction. So I cannot stop that. But the next 11 are not under construction, maybe 1 or 2 might come on board. But the rest, we can put a pause if we wanted to.

George Kelly

ROTH Capital Partners, LLC, Research Division

Okay. And then the premium menu, I forget if it was in the Q or in the press release, it sounds like there was a margin, negative margin impact from that menu. Can you quantify that? Did I read that right? Like what have you seen from the premium menu? And also, what is the current penetration of that offering?

Wook Kim

Chairman & CEO

The current penetration of the offering is about 4% to 5% because of the -- how expensive the products that we serve on that, I think you rolled about 1% in food cost. Yes.

George Kelly

ROTH Capital Partners, LLC, Research Division

So you're saying the impacts from that 4% to 5% was a 1% impact on 4-wall, consolidated 4-wall margin?

Thomas Croal

CFO & Secretary

On the food costs, less than 1%, but yes, approaching 1%, right?

George Kelly

ROTH Capital Partners, LLC, Research Division

And do you plan to retain -- I mean, do you plan to continue -- does the math work? Or I mean, are you comfortable?

Wook Kim

Chairman & CEO

No, we're not comfortable. We are working on another. We think that our menu presentation is -- needs an uplift and an update. We are working through it now. We have to be very careful when we roll it out because if we roll it out during this busy season, and we don't execute well, it might backfire. So once the new menu comes out and we reorganized the presentation of it with different products, we'll probably test it first before we roll it out throughout the country.

George Kelly

ROTH Capital Partners, LLC, Research Division

And the new menu might or might not exclude the premium menu, does that...

Wook Kim

Chairman & CEO

No, it will include the premium menu in a different way. We have competitors right now that are offering a much better quality Wagyu meats. And we are right now thinking if there are some thoughts and some discussions about it, if there's progress, we will test the higher meats. But we are definitely almost set to go forward with it.

George Kelly

ROTH Capital Partners, LLC, Research Division

Okay. And then last question for me is just on your 2025 cohort of U.S. openings. How do you characterize them? Are they opening -- just given the macro challenges like opening quite a bit smaller than prior cohorts or any kind of geographic items you've noticed certain places are outperforming or underperforming? Just any kind of background on maybe those openings.

Wook Kim*Chairman & CEO*

The new markets -- brand-new markets that we have won, stores are not performing as we are expected -- we wanted to, but the markets that we're already in, we're doing well.

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 closing remarks.

Wook Kim*Chairman & CEO*

Thank you very much for your time today.

Thomas Croal*CFO & Secretary*

Thank you all. Appreciate it.

Operator

Ladies and gentlemen, this concludes today's conference. You may now disconnect your lines at this time. Thank you for your participation.

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