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GEN Restaurant Group, Inc. (GENK) Q4 2024 Earnings Call Transcript

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Q4: 2025-03-06 Earnings Summary

Play Call

EPS of -\$0.04 **misses by \$0.01** | Revenue of \$54.65M (21.16% Y/Y) **beats by \$4.88M**

GEN Restaurant Group, Inc. (NASDAQ:[GENK](#)) Q4 2024 Earnings Call March 6, 2025 5:00 PM ET

Company Participants

Tom Croal - Chief Financial Officer

David Kim - Chairman and Chief Executive Officer

Operator

Good day, and welcome to the GEN Restaurant Group, Inc. Fourth Quarter and Full Year 2024 Earnings Call. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Tom Croal, the company's Chief Financial Officer. Please go ahead.

Tom Croal

Thank you, operator, and good afternoon. By now, everyone should have access to the fourth quarter and full year 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 law, including, but not limited to, statements regarding growth plans and potential new store openings as well as those types of statements identified in our annual report on Form 10-K for the period ended December 31, 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 annual report on Form 10-K for a more detailed discussion of the risks that can impact our future operating results and financial position. 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.

David Kim

Thank you, Tom, and good afternoon, everyone. To begin the call, I wanted to summarize what we promised and delivered on our guidance for 2024. For revenue, we gave a range of \$200 million to \$205 million for the year. We finished the year with \$208 million in revenue. For restaurant level EBITDA, we estimated that we would reach 17% to 18% for the year. We ended the year at 17.7%.

For G&A expenses, we estimated total G&A expenses between \$18 million and \$19 million for the year before non-cash stock-based compensation. We ended the year at \$18.3 million. For new restaurant development, our goal was to open 10 to 11 restaurants in 2024. We opened 6 restaurants during the year, have opened 3 additional restaurants in January of 2025 and are about to open a fourth restaurant in this next week. Even though our timing was off by a month for opening new restaurants, we still achieved our overall revenue goals for the year. These 1-month delays were caused by continuous local and state government permits. The restaurants were built and ready to open in December of 2024, but could not due to these permit issues.

Continuing from this summary, we closed out 2024 with a strong fourth quarter as we delivered 21% year-over-year total revenue growth and 25% year-over-year growth in total adjusted EBITDA. For the full year, I'm proud to report we delivered our highest total annual revenue figure as a public company while maintaining healthy unit-level economics, primarily driven by the continued success of our new restaurant openings.

Total revenue for the year increased to \$208.4 million exceeding the upper end of our 2024 guidance range and analyst expectations even with the 3 restaurants opening 1 month late. We also achieved our goal of our restaurant level adjusted EBITDA margin approaching 18%, with total restaurant level adjusted EBITDA of \$36.9 million.

Additionally, we achieved adjusted EBITDA of \$16.7 million. If you exclude pre-opening costs, adjusted EBITDA totaled \$22 million. Net income before income tax for the year was \$4.9 million, which equated to \$0.13 of diluted earnings per share, and we delivered \$7.4 million in adjusted net income, which equated to \$0.21 of adjusted diluted earnings per share for the year.

Looking at our new restaurant development since our year-end call last year. We've opened 9 new restaurants, 6 of which were opened in 2024 and 3 since the beginning of 2025, bringing our total restaurant count to 46 locations nationwide. The 3 stores we opened in January of 2025 were originally planned to launch in December 2024. Additionally, we had a fourth restaurant opening in the next week.

Our restaurant development process is strong and is positioned to reach our 2025 target of opening 10 to 13 new restaurants, which does not include the 3 recent openings that shifted into the new year from 2024. Our current restaurants have maintained steady profitability with new restaurant driving consistent revenue growth in the fourth quarter benefiting as expected from the holiday season. With that, we delivered full year restaurant level adjusted EBITDA margin of 17.7%.

While our total revenue exceeded our guidance and analyst expectations, our comparable sales – same-store sales for 2024 were down 5.6% year-over-year. As we have discussed at length, GEN's business model does not rely on comparable restaurant sales growth and primarily revolves around the expanding store count to generate our robust average unit level economics. Our new units deliver returns on investment in the 40% range.

That being said, we have been proactively working to return to comparable restaurant sales growth through pricing adjustment, enhancing training programs, additional premium drink options on the menu and our latest incubator projects. During quarter 4, we began to see impact on our efforts with premium menu sales increasing at our incubator projects receiving positive feedback as we continue rolling out these initiatives on a limited basis.

We also implemented a 3% increase to our menu price, which went into effect across majority of our locations at the end of 2024. We're happy to report that this price increase has not influenced customer traffic and GEN remains a high-quality value dining experience for our customers. We're even more pleased to announce, these initiatives have resulted in comparable restaurant sales return to growth, generating positive 1% comp figures in the first 2 months of 2025. As a sign of confidence in the company's future, the Board of Directors have approved a stock buyback program for up to \$5 million while still maintaining our goal of opening a total of around 75 restaurants by the end of 2026.

Transitioning now to our key incubator initiatives. Last quarter, we announced the launch of GEN gift cards at 78 Costco locations all within the 5-mile radius of most of our restaurants across the U.S. The gift cards have been selling exceptionally well with Costco's buying department saying that we are one of the best-selling restaurant gift cards ever. This is a testament to GEN's brand strength and position as a leader in the Korean barbecue. We look forward to expanding this avenue with additional big box retail partners in 2025.

Entering this next year, we're well positioned to achieve our growth target with 13 leases for new restaurant locations signed or in the process of being finalized with an additional 16 leases and negotiations. Additionally, we expect to maintain our restaurant level adjusted EBITDA margin of approximately 18% and to generate \$245 million to \$250 million in total revenue for the year. All of this positions us nicely for our medium-term goal around 75 total restaurants by the end of 2026.

Growing GEN's footprint is at the heart of our business model and we're excited to finally announce our international expansion. In the near future, we will be bringing the GEN experience to South Korea with at least two locations planned for 2025. Overall, 2024 marks a year of consistent progress towards our key growth objectives as reflected by exceeding our revenue projections and meeting our restaurant level adjusted EBITDA margin goal for the year.

With strong demand for GEN Korean Barbeque and our growing brand strength backed by our robust balance sheet. We believe we are well positioned to capitalize on our promising pipeline of new restaurants and achieve our growth targets, both in the United States as well as internationally. Thank you for all your continued support. We are excited for the future ahead and look forward to delivering sustainable value to our shareholders.

Now, I would like to hand the call over to Tom for a deeper look at our fourth quarter and full year financial performance.

Tom Croal

Thank you, David. We ended the year with a strong fourth quarter as revenue was up 21% year-over-year. Restaurant level adjusted EBITDA was up 29% and total adjusted EBITDA was up 25% for the year-over-year quarter, all leading to a fantastic year-end. With that, let's dive into the specific financial metrics for the fourth quarter and full year. For the fourth quarter, revenue increased 21.2% to \$54.7 million compared to \$45.1 million in the fourth quarter of 2023. For the year ended December 31, 2024, revenues increased 15.1% to \$208.4 million compared to \$181 million in 2023, driven by new restaurant openings.

Turning to expenses, cost of goods sold as a percentage of company restaurant sales increased by 160 basis points in the fourth quarter of 2024 compared to the fourth quarter last year. For the full year, cost of goods sold as a percentage of company restaurant sales increased 80 basis points to 33.1% compared to the prior year period. The increase is largely due to higher store count and our premium menu. Payroll and benefits as a percentage of company restaurant sales decreased by 130 basis points in the fourth quarter of 2024 to 30.8% compared to the fourth quarter of last year. For the full year, payroll and benefits as a percentage of company restaurant sales decreased 60 basis points year-over-year to 30.9%.

Occupancy expenses as a percent of company restaurant sales increased by 30 basis points compared to the fourth quarter of last year to 8.6%. For the full year, occupancy expenses increased by 30 basis points to 8.4% compared to 8.1% in 2023, due to the new restaurant openings over the last 18 months. Other operating expenses as a percentage of company restaurant sales decreased 140 basis points to 9.8% compared to 11.2% in the fourth quarter of last year.

G&A during the fourth quarter was \$5.6 million or 10.3% of revenue, excluding stock-based compensation, compared to \$4.4 million or 9.7% of revenue in the year ago period. For the full year, G&A, excluding stock-based compensation, was \$18.3 million or 8.8% of revenue compared to \$12.6 million or 7.8% of revenue in 2023, including management fees in 2023. The year-over-year increase in G&A is largely a result of additional personnel hired to support new restaurant development, including construction teams, regional managers and staff training persons as well as higher costs associated with our first full year of being a public company. As a reminder, we expected to incur \$18 million to \$19 million in G&A this year, and we are pleased to be within the low end of our cost expectations.

In the fourth quarter, we had a net loss before income taxes of \$1.2 million, which equated to \$0.04 per diluted share of Class A common stock compared to a net loss before income taxes of \$0.3 million, which equated to \$0.01 per diluted share of Class A common stock in the fourth quarter of 2023. In the fourth quarter, the loss was created by preopening costs of \$2.3 million as we opened two restaurants and had four more restaurants ready to open. We continuously reinvest our operating cash flows to open additional restaurants without incurring significant debt.

For the full year, net income before taxes was \$4.9 million, which equated to \$0.13 per diluted share of Class A common stock compared to net income of \$11.5 million, which equated to \$0.08 per diluted share from stock in 2023. Adjusted net income, which represents net income plus non-cash stock-based compensation was \$7.4 million, which equated to \$0.21 per diluted share of Class A common stock for 2024.

Restaurant level adjusted EBITDA for the fourth quarter increased 28% to \$9.3 million or 17% of total revenue. For the full year, restaurant level adjusted EBITDA increased 10% to \$36.9 million or 17.7% of total revenue. Both figures were in line with our expectations of approaching 18% in 2024. Total adjusted EBITDA for the fourth quarter of 2024 increased 25% to \$2.1 million compared to \$1.6 million for the fourth quarter of 2023. For 2024, total adjusted EBITDA was \$16.7 million compared to \$18.8 million for fiscal 2023. This decrease is primarily the result of increased preopening costs. Without preopening costs, adjusted EBITDA would be approximately \$3.7 million for the fourth quarter and \$22 million for the year.

Shifting to liquidity, as of December 31, 2024, we had \$23.7 million in cash and cash equivalents, and we carried no material long-term debt aside from the approximately \$4.3 million of government-funded EIDL loans, which we had when we went public in 2023. We also had the majority of our \$20 million revolving line of credit available. We did borrow \$3 million from our line of credit as we prepared for future expansion, but we have since paid that down and our net cash position remains in line with our expectations. One thing I would like to note is that we have \$148 million in lease obligations on our balance sheet as required by GAAP with the new ASC 842. This may show up as debt on certain financial platforms due to reporting requirements. Please note this is not debt and is offset by \$131 million of operating lease assets. We continue to have a healthy liquidity position.

Moreover, GEN continues to generate strong free cash flow, which allowed us to self-fund approximately \$18 million in new restaurant development costs and an additional \$4 million towards the buyout of our GKBH restaurant. We anticipate this trend of substantial self-funding to carry throughout our long-term expansion plans. Lastly, turning to our fiscal 2025 outlook, we expect to open a total of 10 to 13 new units in 2025 which does not include the three recent openings that were originally slated for 2024. We also expect to generate total revenue between \$245 million and \$250 million and restaurant level adjusted EBITDA margin of 18%-plus for 2025.

This concludes our prepared remarks. We would 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

David Kim

Thank you all, again for joining the call. As always, we welcome the opportunity to speak with any of you at one of our upcoming investor conferences. We will be attending the 37th Annual ROTH Conference in Southern California, March 17th through 18th. We would love to meet you – would like to meet you there, but if you are not able to connect, we will speak with you all when we report the first quarter of 2025 in May. Thank you.

Tom Croal

Thank you everybody.

Operator

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

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