

Good Times Restaurants Inc. (GTIM) Q1 2025 Earnings Call Transcript

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Good Times Restaurants Inc. (NASDAQ:[GTIM](#)) Q1 2025 Earnings Conference Call February 6, 2025 5:00 PM ET

Company Participants

Keri August - SVP, Finance and Accounting

Ryan Zink - CEO

Conference Call Participants

David Swartz - Morningstar

Keri August

Good afternoon, ladies and gentlemen. And welcome to the Good Times Restaurants Inc. Fiscal 2025 First Quarter Earnings Call. I am Keri August, the company's Senior Vice President of Finance and Accounting. By now, everyone should have access to the company's earnings release, which is available in the Investors section of the company's website. As a reminder, part of today's discussion will include forward looking statements within the meaning of federal securities laws. These forward looking statements are not guarantees of future performance and therefore you should not put undue reliance on them. These statements involve known and unknown risks, which may cause the company's actual results to differ materially from results expressed or implied by the forward looking statements.

Such risks and uncertainties include, among other things, the market price of the company's stock prevailing from time to time, the nature of other investment opportunities presented to the company, the disruption to our business from pandemics and other public health emergencies, the impact of staffing constraints at our restaurants, the impact of supply chain constraints and inflation, the uncertain nature of current restaurant development plans and the ability to implement those plans and integrate new restaurants, delays in developing and opening new restaurants because of weather, local permitting or other reasons, increased competition, cost increases or ingredient shortages, general economic and operating conditions, risks associated with our share repurchase program, risks associated with the acquisition of additional restaurants, adequacy of cash flows and the cost and availability of capital or credit facility borrowings to provide liquidity, changes in federal, state or local laws and regulations affecting our restaurants, including wage and tip credit regulations and other matters discussed under the risk factors section of Good Times annual report on Form 10-Ks for the fiscal year ended September 24, 2024 and other reports filed with the SEC. During today's call, we will discuss non-GAAP 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, and reconciliation to comparable GAAP measures available in our earnings release. And now, I would like to turn the call over to our Chief Executive Officer, Ryan Zink.

Ryan Zink

Thank you, Keri. And thank you all for joining us today. The first quarter of our new fiscal year was encouraging for Bad Daddy's as we posted a 1.5% increase in same store sales and better restaurant level margins. We're pleased with the results of our holiday seasonal specials as well as our classic smash and smokehouse smash made with our aggressively smashed Angus beef patties. These two burgers are a key component of our sequential improvement in food and beverage cost during the quarter as they've been engineered to meet the sweet spot of providing margin slightly better than our BD's American Cheeseburger at a lower cost to our guests priced at \$9.50 in Colorado and \$1 less everywhere else. We're expecting to expand our lineup of smashed patty burgers with further opportunity to engineer the menu for greater sales and improved costs. I'm looking forward to sharing more about this exciting product during our next quarter. I should note, however, that despite our year-over-year menu price increase being near 4.5%, the mix shift into our smashed patty burgers is offsetting roughly half of that price increase. We're also featuring our winter seasonal specials with two new products, meatball sliders and potato top soup, along with the return of our winter salad made with cranberries, walnuts, brand blue cheeses on a bed of mixed greens and tossed in a strawberry balsamic dressing. The bundle of all three is priced at \$12.50 a price point, we believe is compelling for the indulgent and premium offerings. Looking towards spring, we're thrilled to bring back the boldly flavorful Birria Burger as well as a brand new food and drink offerings that I'll share more about during next quarter's call.

During our last call, I reviewed the back-to-basics approach we've taken at Bad Daddy's. I also discussed the redesigned standards reviews, spanning both front and back of house execution, which are completed by the individual restaurant leader. Beginning this fiscal year, we've incorporated the results of those standard reviews into the performance metrics used to determine each restaurant management team's monthly performance based compensation. This is a live compensation with restaurant performance at lower volume units, which, by their nature, have less opportunity for the profit based component of their incentive comp, managers have meaningful financial incentives to deliver great service, recipe right food and run their restaurant in a way that will drive long term traffic, sales and profit growth. I also believe this is a component of our improved labor controls this quarter compared to the same prior year quarter. Our Good Times brand experienced ongoing challenges resulting from higher costs both significantly in labor and a continued intense discounting buyer competition. That said, same store sales for the quarter ended flat for the same prior year quarter, a slight improvement over the range we provided during our last call. We continue to move the business forward during the quarter and accomplished a number of objectives as we execute our long term plan for Good Times.

During the quarter, we analyzed some of the opportunities we have by comparing our products against others in the market. We realized that our fascination with speed has resulted in some compromises to our product that were out of balance. During January, we rolled out new cooking procedures and holding standards for our burger patties and adjusted our process for bun toasting, which has resulted in juicier larger patties and softer fresher buns coming out of the drive-thru window into our guests' hands. We have also made upgrades to certain operations processes related to custard production to improve the quality of that product with more adjustments, both in process and in product yet to come the second quarter and back half of the fiscal year. The mindset shift is one of speed at all costs to a focus of delivering high quality product at QSR speed. In October, we purchased two Good Times Restaurants from a former franchisee, both in the northern suburbs of Denver. After a short closure to hire some new employees and to make some much needed repairs, we reopened both restaurants and they're performing well. One restaurant needs an extensive remodel, which will likely occur in fiscal 2026 and the other has already been updated with new paint and awnings. Both restaurants will have signs replaced during the next two years. Additionally, just a few miles away from both of these restaurants, we remodeled the Good Times in the northern suburb of Thornton. It was closed for nearly six weeks of the quarter and received significant structural repairs, wall replacements as well as all of the guest facing improvements that all of our remodels are receiving.

We recently ended our limited time offer of our Bambino Supremo and Dirty Sodas. Neither of these achieved the sales that we really hoped for but we continue to sell them post promotion as off-menu items and have developed a small but loyal following for both, and neither require ingredients that we don't already have in-house. As we shared last quarter, our latest limited time offer is the West Slope Double paying homage to the western side of the Rockies. This burger features the same bambino sauce as our current West Slope burger and our bambinos. It is a bold flavored burger with two full slices of sweet yellow onion on the double and a single full slice in a single patty version. Our goal with this product is to create another two patty burger with a distinct look and flavor from our traditional Good Times Deluxe. This will run throughout February. And then in March, we look forward to our seasonally featured fish sandwich made with Atlantic cods and our house made tartar sauce. We continue to experiment with audio based advertising with a combination of terrestrial radio, audio streaming and podcasts. In November -- October and November, we removed all audio based advertising with the exception of one sports radio station with features during the Denver Broncos games and one full year campaign with a single station in a demographic that we believe continues to be a radio user. Then on December 9th, we went live again with our traditional radio buy and are measuring the impact of its reinstatement.

Late December trends looked favorable but January's unfavorable weather prevented us from getting a solid read. And we are continuing our current radio buy through experimenting with shorter 15 second spots into the spring. While terrestrial radio is certainly declining medium, streaming and podcast are both a meaningful portion of the campaigns. We are also experimenting at both brands with YouTube pre-roll advertising and video streaming services in certain markets. As we noted in our press release, January was a particularly difficult month for both brands with negative temperatures and meaningful snow on three different weekends of the month, our Colorado restaurants experienced significantly reduced sales compared to the prior year. Beyond that, the weekend, beginning January 10th dropped snow across nearly all of the Bad Daddy's markets in the Southeast part of the country, during which several of our restaurants closed early, opened late and in some cases, were unable to open at all. Same store sales at Bad Daddy's were down approximately 5.5% during the first four weeks of the same fiscal quarter and down more than 7% at Good Times. Trends have improved since then but weather will continue to be an unpredictable element, particularly in Colorado for the rest of this quarter. I'll now turn the call back over to Keri for a review of our performance during the quarter and some perspective on the company's financial initiatives.

Keri August

Thank you, Ryan. Let's discuss this quarter's results. I'll review Bad Daddy's results first. Total restaurant sales increased \$2 million to \$26.1 million for the quarter. The sales increase is primarily due to an additional week in the current fiscal quarter versus the same prior year quarter as well as menu price increases, partially offset by the prior quarter closure of one Bad Daddy's restaurant and by negative mix shift attributable to the success of the company's smashed patty burgers, along with reduced -- slightly reduced traffic in part due to the impact of a reduced number of days between Thanksgiving and Christmas Day compared to the prior year and the shift of Christmas Day from Monday in the current quarter to Wednesday in prior year first fiscal quarter. Our average menu price during the quarter was 4.5% higher than quarter one of 2024. Same store sales increased 1.5% for the quarter with 38 Bad Daddy's in the comp base at quarter end. Food and beverage costs were 31.5% for the quarter, which was unchanged from last year's quarter. The steadiness as a percent of sales is attributable to the impact of the menu price increase and the favorable cost of sales of our highly successful classic smashed patty burgers, offset by higher purchase prices in our commodity basket compared to the prior year quarter. Although our beef prices declined sequentially during the quarter, costs were still elevated over prior year as were our potato and bread costs, both of which are product categories in which we rely on a single supplier.

Due to the tightening beef supply as evidenced by the sequential increase in wholesale boneless beef prices in January, we anticipate ground beef costs will continue to increase throughout fiscal year 2025. Labor costs decreased by 70 basis points compared to the prior year quarter to 35.1%. This decrease is primarily attributable to the leveraging impact of higher sales on fixed labor costs, predominantly manager salaries, the increase in menu pricing and the increased labor productivity, partially offset by higher average wage rates paid to attract qualified employees. Although we expect continued solid labor controls on a full year basis, our second quarter labor cost will not have the same year-over-year improvement as the first quarter of 2025. In January, Colorado's minimum wage increased to \$14.81, a 2.7% increase and the tip to minimum wage increased to \$11.79, a 3.3% increase. Based upon our pricing surveys, we did not increase menu prices enough to cover the impact of these minimum wage increases as a percent of sales. Further, the deleveraging impact of the weather induced decline in January sales, as discussed by Ryan, will likely result in higher year-over-year labor costs as a percent of sales in the second fiscal quarter. Overall, restaurant level operating profit, a non-GAAP measure, for Bad Daddy's was approximately \$3.3 million for the quarter or 12.6% of sales compared to \$2.6 million or 10.7% last year, primarily due to labor and other operating cost savings.

Moving over to Good Times. Total restaurant sales for company owned restaurants increased approximately \$1.1 million to \$9.9 million for the quarter compared to the prior year first quarter. Same store sales remained consistent with the prior year quarter with 27 Good Times restaurants in the comp base at quarter end. The average menu price increase for the quarter was approximately 3.9% over the same prior year quarter. We did not take any menu price increase in the first quarter and we will continue to assess our relative pricing position in the market and we'll make adjustments based on competitive pricing. Food and packaging costs were 31.8% for the quarter, an increase of 100 basis points compared to last year's quarter. The increase is primarily attributable to higher purchase prices on food and paper goods, partially offset by the impact of the 3.9% average increase in menu pricing. As is the case with Bad Daddy's, based upon current commodity forecasts, we expect ground beef costs to continue to increase throughout the remainder of fiscal year 2025. Additionally, Avian flu has at least temporarily caused some extreme price increases in the cost of eggs, which are a component of each of our breakfast entrees. Macroeconomic and political forces cloud visibility into the magnitude and direction of commodities further into the future. Total labor costs increased to 36.7%, a 290 basis point increase from the 33.8% we ran during last year's quarter, mostly due to higher average wage rates resulting from the market forces and the CPI index minimum wage in Denver in the State of Colorado and decreased labor productivity, partially offset by a 3.9% increase in menu pricing.

Occupancy costs were 9.6%, an increase of 70 basis points from the prior year quarter. The increase is primarily due to lease extensions and rent escalations as well as real property tax increases resulting from higher property values. Other operating costs were 13.2% for the quarter, an increase of 20 basis points primarily due to increased technology related fees and utilities. Good Times restaurant level operating profit decreased by \$0.3 million for the quarter to \$0.9 million. As a percent of sales, restaurant level operating profit decreased by 490 basis points versus last year to 8.6% due to elevated costs throughout the P&L. Combined general and administrative expenses were \$2.6 million during the quarter or 7.1% of total revenues, which remained steady from the prior year quarter. We expect to run approximately 7% general and administrative costs on a full year basis for fiscal 2025. Our net income to common shareholders for the quarter was \$0.2 million or income of \$0.02 per share versus a net loss of \$0.6 million, \$0.05 per share in the first quarter last year. There was approximately \$3,000 of income tax benefit recorded during the current quarter versus \$0.1 million of income tax expense in the prior year quarter. Adjusted EBITDA for the quarter was \$1.2 million compared to \$0.5 million for the first quarter of 2024. We finished the quarter with \$3 million in cash and \$2.6 million of long term debt. We repurchased 59,125 shares during the quarter under our share repurchase program. Share repurchases will continue to be balanced with other capital needs. We continue to budget approximately 1% of sales for ongoing maintenance CapEx. And we incurred \$0.9 million of CapEx during the first fiscal quarter related to our remodel of the Good Times restaurant in the North of Denver Metro and our acquisition of the two previously franchised restaurants. And now I will turn the call back to Ryan.

Ryan Zink

Thank you, Keri. We can now open the call for any questions.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question comes from the line of [Sanjay Raizada].

Unidentified Analyst

Can you talk a little bit about Bad Daddy's. Are there plans for new locations, and when can we sort of expect those to come about?

Ryan Zink

So we continue to look for locations at Bad Daddy's. I would say that we've had several opportunities that we've gotten down the road with and for one reason or another have chosen to not move forward with those. We continue to look for those but are really pretty particular on the types of locations that we're interested in. I will say that our location in Madison, Alabama continues to perform very well. It is a little unique in the way that it's designed and honestly, we're looking for more locations like that where it's a two tenant building. We're co-tenanted with Cava in that location, and we have a very prominent position. And the building itself makes it look as if we're in a freestanding building, which I think is part of the drive behind the success that, that location has had. We have struggled to find locations at rent that we're willing to pay and fit the economic model. I will say we continue to aggressively look for those but we are being very picky about locations that we'll select.

Unidentified Analyst

That being said -- so what's kind of the -- if you could give us a bit of detail on the capital allocation plan moving forward. I think there was a brief mention of the share buyback, which sort of slowed down in pace a bit. So is that projected to increase or what's kind of the plan going forward?

Ryan Zink

I think we continue to have interest to buy to repurchase shares at these prices. And so I think that will continue to be an objective that we have and that we devote capital to. And obviously, we've -- some of our investments have been -- many of our investments have been on the Good Times side in terms of franchise repurchases. Those are mostly done now. We only have one other franchisee in the Denver -- in the Greater Denver metro, and he's not interested in selling and we continue to be confident in his ability to operate. So there's no further, I'd say, franchise acquisitions, at least at this point that are out there. I would say we continue to devote capital to renovating this 30 year old brand and keeping Good Times competitive. There have been remodels as such over the past 30 years but we have locations, such as the one that we recently remodeled in Thornton that had never been remodeled before. And so I think that continues to be a component. But I think as we complete the remodels at Good Times, we continue to look opportunistically at both brands. And then again, at this valuation we continue to be -- we continue to have a strong appetite to repurchase the shares of our stock.

Unidentified Analyst

And just one last one. Is there any further update on the legal case, anything that we didn't talked about?

Ryan Zink

Since our last call, there's been no movement. And just kind of to refresh you the appeals court remanded the assessment of any potential recovery of damages to the District Court. The briefing that was done, which was a paper briefing to the court has been closed. And now it is in the District Court's schedule to rule on, that's about as much as I can offer in terms of time line. There's no required time line once the briefing is done, it's really in the court's hands. And so obviously, we're eagerly awaiting a decision on that but really just have to wait and see.

Operator

And your next question comes from the line of [Brian London].

Unidentified Analyst

I asked a question a while back about seasonality and obviously, you guys are getting hit with bad weather in January, as you mentioned. I'm just wondering if you've gotten a better beat on -- with Bad Daddy's being a bigger part of the business, if you've gotten a better beat on seasonality going forward?

Ryan Zink

Well, I think the thing that's been challenging off and on over the past three years has been, there have been some really interesting weather patterns in the Southeast and this one was more significant than really I think we've ever seen before. And you saw -- you may have seen rather the snow in the French Quarter of New Orleans, snow on the Beach in Florida. We actually had snow and ice in our Summerville store, which is our highest volume restaurant in conjunction with that same store. We closed that store early one day. We're closed an entire day and opened late the following day as the highways around us were closed. And so I say that to -- I'd just say that weather patterns have somewhat changed a bit, it seemed to be a little more temperamental throughout the country and particularly in January. I do -- I would say, although I'm not a meteorologist, I suspect that February will be better throughout most of the country. But in Colorado, we can have snow. It's really quite unpredictable in February, March and sometimes even as late as May. In our earnings or in our quarterly filings, we talk about seasonality, and it's really November, December, January, February that tend to be difficult months seasonally for Bad Daddy's, that's really the same. December tends to be better, whether or not withstanding, but November and January are typically the slowest months of the year for that brand. And March through June really is the peak quarter in terms of just seasonal performance.

Unidentified Analyst

One follow up question. I'm wondering if you guys have any kind of -- not specific information, anecdotal feel for the age groups of your customers for both brands?

Ryan Zink

So it's interesting because at Good Times, the research would indicate a slight female bent. And really, I would say, in the 30s to early 40s. The anecdotal evidence, I would have some visiting restaurants is that there's actually a little slight male bent to that concept and I think that's also indicated in our product mix. And our release of the West Slope as a double is really in part due to we have a disproportionate share of our mix that is into our Big Daddy's Double Cheeseburger, which is a double patty large cheeseburger and our Deluxe Double, which is also two patty burger. And so I would tend to say that in spite of the research that's been conducted, it's actually been slightly male. And I would say -- and this is again specifically Good Times and it's still in that 30 to 40 age group. We are looking at media, whether that's social, whether that's things such as YouTube, which I discussed a little bit in my prepared remarks, to try and reach out -- to get outreach and to attract a younger audience. And I think our remodels are part and parcel with that to try and modernize the brand, and keep the brand attractive for younger generation. At Bad Daddy's, I think our customer base there is very similar to any kind of casual diner whether that's Chili's, which has been in the news recently or Texas Roadhouse or those likes, I would say it's anywhere from 25 to 45 and really, I would say that it's fairly evenly split between male and female. I think Bad Daddy's is really much more of a psychographic profile and in terms of just people thought processes and the types of work that they're in. We tend to appeal to an upper income more blue collar type audience at Bad Daddy's. And I think we view the brand through that lens more than we do traditional demographics.

Operator

[Operator Instructions] Your next question comes from the line of David Swartz with Morningstar.

David Swartz

I was wondering if you're planning to do anything with the menu or anything else that the Good Times brand offset some of the increases in occupancy and other costs that you discussed earlier?

Ryan Zink

So we have -- as I discussed in my prepared remarks where we're really having a focus on product quality. We have some experiments in the works with either product rationalization, i.e., getting rid of some products to make our menu a little more clear and to engineer the menu to drive purchasing behavior into better margin products. We have traditionally resisted discounting and we continue to do so. I think we -- I think our products are engineered quite well. The issue at Good Times really comes to we don't have the purchasing scale that some of the major QSRs do. And so we tend to stay away from discounting to preserve margin at a cost of sales line. But I think really leveraging -- to make improvements on occupancy and other fixed costs, we really have to drive the sales up, which is why we're experimenting with different types of media and additionally, why we are trying to look at many rationalization to try and attract more customers through -- or attract greater frequency through clear menuing and through really trying to make the ordering process simple and improve the product while at the same time delivering on the speed expectations of the QSR user.

David Swartz

Secondly, I noticed that you didn't announce your comp sales before today's report. Are you not going to be announcing that going forward?

Ryan Zink

Someone else had reached out about that prior to the call, and I think what we've observed and this is a quarter that may be a bit atypical. But what we've observed is that most companies in the space had stopped pre-releasing sales. And incidentally, this quarter was the ICR conference and so a bunch of companies released kind of preliminary results for their December quarter, leading up to the ICR conference in association with that presentation. We'll continue to evaluate that. And if companies have kind of reverted to preannouncing sales, we might return to that. But our observation from last year was that most companies didn't do that and so that was the logic behind our not rereleasing this quarter.

David Swartz

Yes, you're right. Certainly, it has sort of gone away in recent years, but I do think that investors like to see it anyway. But thanks for taking my questions.

Ryan Zink

Absolutely. And that's fair feedback, and I'll take that under consideration.

Operator

All right. Thank you. And I'm showing no further questions at this time. I would like to turn it back to Ryan Zink for closing remarks.

Ryan Zink

Thank you. Despite a tough January, I know that our team is focused on the right initiatives to run great restaurants and to drive customer loyalty. The operations initiatives targeted at improved execution at both brands ultimately aim at creating memorable guest experiences that drives increased traffic to our restaurants. As always, I extend my appreciation to the team members and leaders throughout our company for their passion and commitment to our brands, to our guests and to excellent operations. Finally, thank you all for joining us today.

Operator

Thank you. And ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may now disconnect.

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