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Good Times Restaurants Inc. (GTIM) Q3 2024 Earnings Call Transcript

Aug. 02, 2024 3:24 AM ET | **Good Times Restaurants Inc. (GTIM) Stock****SA Transcripts**

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Good Times Restaurants Inc. (NASDAQ:[GTIM](#)) Q3 2024 Earnings Conference Call August 1, 2024 7:30 AM ET

Company Participants

Keri August - Senior Vice President, Finance and Accounting

Ryan Zink - Chief Executive Officer

Conference Call Participants

David Swartz - Morningstar

Keri August

Good afternoon, ladies and gentlemen and welcome to the Good Times Restaurants Inc. Fiscal 2024 Third 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 Investor section of the company's website. As a reminder, a 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 and duration 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 shortages in raw food products, other general economic and operating conditions, risks associated with our share repurchase program, risks associated with the acquisition of additional restaurants, the 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 the operation of our restaurants, including minimum wage and tip credit regulations and other matters discussed under the Risk Factors section of Good Times Annual Report on Form 10-K for the fiscal year ended September 26, 2023, and other reports filed with the SEC.

During today's call, the company 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 reconciliations 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. I'm encouraged by the sales results from both brands, with Good Times delivering same-store sales growth of 5.8% for the quarter. Meanwhile, Bad Daddy's reported a same-store sales increase this quarter, posting a 1.2% increase. Our approach at both brands is centered around an intense focus on the guests and in particular at Bad Daddy's, investing in greater front of house labor to provide better hospitality in our dining rooms and greater engagement and speed at the bar.

As of the date of this call, same-store sales during the fourth quarter at Bad Daddy's continued to be growing in the low single-digit range and our performance against the Black Box casual dining index has continued to trend favorably. Smashed patty burgers have been a trend this quarter and Bad Daddy's nailed this trend, releasing its own smashed burgers as a limited time offer for the summer season.

Our classic smash is a familiar build with shredded lettuce, our house made kickback sauce, sliced onions and American cheese with a single quarter pound aggressively smashed patty. Our steakhouse smashed burger features the same patty with house made grilled onion aioli, shredded lettuce, A1 onion rings, and sharp cheddar cheese. Both burgers demonstrate our culinary prowess, but at a significant value to our guests, with a price point starting at \$8.50 for a single patty classic smash. We expect the classic smash to continue into the fall. As our guests have demonstrated their excitement over this method of cooking a burger, we further expect both the classic smash and the steakhouse smash to ultimately become permanent items on the full menu.

The sales stabilization in the Atlanta market that I mentioned last quarter has continued, and although individual store performance has varied, I would now consider this a sales recovery in the markets. Our restaurant operations have improved from where they were 12 months ago, and while our passion for excellence means that we have more work to do, I believe that we have significantly improved our guest experience in this market.

Labor continues to be an ongoing challenge. In most markets the number of applicants has increased and the experience and skills of applicants for both team member and management roles has improved somewhat. However, wage and salary pressures are not abating, attracting the employees who demonstrate the right skills, the right focus on the guest, and the strong work ethic that's required at a Bad Daddy's has required higher starting wages or salaries than ever before. Average pay for restaurant staff and management continues to increase despite the greater slack that's been reported to exist in the overall labor market.

Given the continuing challenges in the labor market and despite the rising tide of broad based sales recovery, we have a few restaurants in our portfolio that continually and perpetually underperform on the top line. As we continue to evaluate the underlying real estate and each restaurant's historical sales performance, including pre-pandemic sales peaks, we may choose to make the difficult decision to close certain restaurants that have not participated in the sales recovery that our overall system has experienced.

Our Madison, Alabama restaurant continues to perform well and I'm excited about the continuity of the highly capable management team that we have in that restaurant. It continues to be a top quartile store in terms of overall sales performance. And as we approach the one year anniversary of that restaurant's opening, the honeymoon impact we have seen has been nearly the tamest of any Bad Daddy's opening since the original three in Charlotte over a decade ago. I remain optimistic that when the restaurant enters the comp base following its 18 months of operations next spring that it will do so growing sales on an already strong sales base.

At Good Times, our sales growth has been significantly weighted to dinner and late night sales. Additionally, our sales growth has been supported by strong sales trends at the two restaurants we purchased late in fiscal 2023, as well as by restaurants that have been remodeled. Early into the fourth quarter, our competitors have increased their promotional activity with the prevalence of \$5 value meals. This has cut into our same-store sales performance a bit, and while we've traditionally shied away from deep discounts, we're highly attuned to the operating environment and expect some additional value oriented promotional activity, but without engaging in the deep discounting that many of our competitors are.

We closed on the purchase of the Good Times in Parker, Colorado during the quarter. This restaurant has a dining room and has a larger footprint than most of our Good Times, which are typically double drive-through formats. This restaurant was reasonably well maintained with new equipment and an interior that was already clean and in good condition, but after 20 years of operations, some TLC was due. We immediately replaced the awnings, painted the building, completely refurbished the parking lot and performed a landscape overhaul. We've added digital menu boards and have our new sign package in flight. We're excited about the sales potential at this restaurant in a suburb of Denver that is experiencing strong population growth.

We also completed the remodel of a Good Times in Lakewood, Colorado and have experienced a significant turnaround in sales at this restaurant. Pre-remodel sales were positive or were trending double-digit negative and are now generally trending double-digit positive on a year-over-year basis. This more extensive remodel required a six-week closure and more substantial CapEx than we've typically been spending on our remodels. This is the fourth remodel of our traditional double drive-through units.

Digital engagement remains a focus for us, and as we discussed last quarter, the challenges involved in guest adoption of a new loyalty program in a primarily drive-through concept are manifesting slower than desired growth in member activity. That said, growth in member activity has again accelerated after a lull near the end of Q2, and we've created some team member and management incentives to ensure the right focus at the restaurant level on growing GT Rewards. We are near the end of our rollout of our next generation point-of-sale system, Toast, which is the leading, most feature rich, cloud centric point-of-sale system.

We've seen significant improvement in order taking and payment processing with this new system, which has provided greater time for order takers and cashiers to focus on value-added interactions with our guests, including highlighting GT Rewards. We're conducting a similar evaluation of Bad Daddy's and it is likely that a test and possible rollout of the Toast system will be forthcoming during our next fiscal year.

We repurchased 92,240 shares during the quarter under our share repurchase program. Additionally, we executed a privately negotiated purchase of approximately 171,000 shares at an average price of \$2.60 per share. We continue to believe that the market is not adequately valuing our business and that the share repurchase program generates a strong return for shareholders who choose to hold their shares.

At the end of the quarter, we had approximately one half million dollars remaining on the repurchase authorization. At the present rate of repurchases and current market price, we still have a few months left on the existing authorization and assuming market factors remain similar, we expect the authorization to be expanded sometime prior to the exhaustion of the current authorization.

With that, I will now turn the call back over to Keri to review our performance for the quarter.

Keri August

Thank you, Ryan. Let's review this quarter's results. Total revenues increased approximately 6.5% for the quarter to \$37.9 million. Total restaurant sales for Bad Daddy's restaurants increased \$1.2 million to \$27.3 million for the quarter. The sales increase was a result of the fourth quarter 2023 Madison, Alabama Restaurant opening, the prior year remodel temporary closure of the Greenville, South Carolina restaurant, as well as an approximate 4.4% menu price increase, partially offset by reduced customer traffic. Same-store sales increased 1.2% for the quarter, with 39 Bad Daddy's in the comp base at quarter end.

Cost of sales at Bad Daddy's were 31.2% for the quarter, a 10 basis point increase from last year's quarter. The increase is primarily attributable to higher purchase prices in our commodity basket compared to the prior year quarter, partially offset by the impact of a 4.4% average increase in menu pricing. During the current quarter we began to experience elevated costs across the various proteins in our basket.

In particular wholesale ground beef prices have increased and following the end of the quarter increased to an all-time record, and we expect them to continue to remain elevated during the fourth fiscal quarter of 2024 as will likely be the case for other proteins and food based commodities. Bad Daddy's labor costs decreased by 90 basis points compared to the prior year quarter to 33.8% for the quarter. This decrease as a percentage of sales is attributable to greater labor productivity.

Occupancy costs at Bad Daddy's decreased 20 basis points to 6.3%. Bad Daddy's other operating costs were flat compared to the prior year quarter at 14.4% for the quarter. Overall restaurant level operating profit, a non-GAAP measure for Bad Daddy's, was approximately \$3.9 million for the quarter or 14.3% of sales compared to \$3.5 million or 13.3% last year. Total restaurant sales for company owned Good Times Restaurants increased approximately \$1.1 million to \$10.4 million for the quarter compared to the prior year third quarter.

The average menu price increase for the quarter was approximately 3.9% over the same prior year quarter. Same-store sales increased 5.8% for the quarter, with 26 Good Times Restaurants in the comp base at quarter end. Food and packaging costs for Good Times were 30.5% for the quarter, an increase of 20 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 3.9% average increase in menu pricing. As in the case with Bad Daddy's, we expect continued pressure on beef and other food prices in the last quarter of the fiscal year.

Total labor cost for good times increased to 32.7%, a 160 basis point increase from the 31.1% we ran during last year's quarter. Due to labor associated with three additional company owned restaurants, an increase in operating hours caused by later closing times in nearly every restaurant, and higher average wage rates resulting from market forces and the CPI indexed minimum wage in Denver and the State of Colorado.

Occupancy costs at Good Times were 8.2%, an increase of 30 basis points from the prior year quarter. The increase is primarily due to costs incurred for three additional company owned restaurants as well as real property tax increases resulting from higher property values. Good Times other operating costs were 12% for the quarter, an increase of 60 basis points, primarily due to costs associated with three additional company owned restaurants, as well as increased repair and maintenance, credit card fees, and customer delivery fees. Good Times Restaurants level operating profit decreased by \$0.1 million for the quarter to \$1.7 million. As a percent of sales restaurant level operating profit decreased by 280 basis points versus last year to 16.5%.

Combined general and administrative expenses were \$2.7 million during the quarter or 7.1% of total revenues, an increase of 40 basis points from the prior year quarter. Our net income to common shareholders for the quarter was \$1.3 million or income of \$0.12 per share versus net income of \$0.8 million, \$0.07 per share in the third quarter last year. There was approximately \$0.2 million of income tax benefit recorded during the current quarter versus \$0.6 million in the prior year quarter. Adjusted EBITDA for the quarter was \$2.1 million compared to \$2.1 million for the third quarter of 2023. We finished the quarter with \$4.8 million in cash and \$1.1 million of long-term debt.

And now I will turn the call back to Ryan.

Ryan Zink

Thank you, Keri. Our operator's name is also Kerry and so at this time we will turn our call back over to our operator, Kerry for questions at this time.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question will come from Roger Lipton [ph].

Unidentified Analyst

Yes. Good afternoon, guys. A question with the rising beef prices, maybe you made a quick comment on it, but so I missed it. Do you expect to have to raise menu prices to offset the higher beef prices at both concepts?

Ryan Zink

Yes Roger thanks for dialing in. Thanks for the question. We evaluate prices in various lenses and one of those is certainly what the competitor environment is doing and there's certainly a customer demand for value right now and so we certainly have to manage to certain costs and to address our costs. But I think just because we have beef prices at the moment that are high, I would not necessarily say, oh that's going to be a Q4 price increase.

Now what I would say is that especially as the year rolls over, the calendar year rolls over, the labor costs will likely increase again. And so right now, at the moment I'd say for both concepts we're really targeting the end of fiscal quarter one for our next price increase, although the environment is dynamic and so we'll remain dynamic and make and adjust as we see. I will also say Roger, that based on the commodity reports that we get, the long-term prognosis for beef of all sorts, not just ground beef is somewhat negative from a cost standpoint. In other words, continued elevation of cost in the long-term. And so this is probably an issue that the entire segment is going to have to deal with for a little bit of time.

Unidentified Analyst

Right. Did you mention your advertising expense in the quarter? Probably you did and I missed it.

Ryan Zink

Keri, do you have at your disposal the advertising expense for the quarter?

Keri August

I do. We had 700, what's that, Ryan?

Ryan Zink

Go ahead, Keri.

Keri August

Okay. Advertising expense was 2% of revenues for the quarter, \$749,000.

Unidentified Analyst

Okay. And do you expect that to remain roughly the same order of magnitude for Q4?

Ryan Zink

So, Roger, I would say for Q4 that's probably the case. Q1 is always a little bit of an elevated number because we do a lot of gift cards through large box retailers and so Q1 tends to have outsized advertising expense with the other quarters generally being similar in nature to each other. And so, yes for Q4 I'd say probably 2% give or take is a good estimate.

Unidentified Analyst

Okay. And lastly, your best guess in terms of store level margins in this current quarter, how do you think they'll look or what's your best guesses? How it might look compared to the quarter just ended 13th, the 14th [indiscernible]?

Ryan Zink

Yes, certainly. Seasonally, this Q3 tends to be, from a sales standpoint, the highest volume quarter of the fiscal year. And so I think just in terms of some sales deleverage that's a result of seasonality, we'll see a little bit of compression. I expect, generally speaking, that the margin trend year-over-year will be similar to what we saw this quarter.

Unidentified Analyst

The margin trend being, how do you, could you?

Ryan Zink

Well, so let me, I think from a cost of sales standpoint, we'll see a little bit of elevation in cost of sales. I think labor will be a little bit elevated, but the other costs will be rather similar. Got it.

Unidentified Analyst

Got it. Okay, good. All right, good luck. You're doing, making some good progress, so good to see, so that's all I've got for now. Thank you.

Ryan Zink

Thanks again, Roger.

Operator

[Operator Instructions] There are no further questions at this time. You do have a question from Mark Schuller [ph].

Unidentified Analyst

Hi, Ryan. Great quarter. Just a quick, can you just give us an update on where things stand with things that are in the development pipeline right now?

Ryan Zink

Sure. So we are at the final stages of negotiating a lease in the Greater Charlotte DMA. And while things can always fall apart, and I'll caveat it with that, we do have one lease that's very, very close. We would expect that, that if we're able to get that across the finish line, we would be able to open that probably late fiscal Q2 of 2025, possibly early fiscal Q3. So I'd say in the late March-April timeline of next year.

And then we have some other, LOIs in markets that we're looking at. I would say our current cadence is generally one every 12 months approximately, maybe a second one. That said, we have enough CapEx allocated towards our remodels at Good Times that we think is really important to reinvest in our existing restaurants. And our general approach around conservatism with respect to debt that we think one over the next 12 months will be sufficient.

Unidentified Analyst

Okay. Thank you. And then just kind of a followup on your mentioning the possibility of some closures. I mean, are we talking a couple or are we talking more than that kind of thing that you're potentially looking at?

Ryan Zink

I think we're talking very low single digits and I think there's not really anything there in terms of like, oh this is that we're going to close massive amounts of stores, but rather just to kind of alert our investors, hey we may be closing one or two, and that's not an indication of anything bad. It's just an indication of smart and timely real estate management.

Unidentified Analyst

Okay. I appreciate it. Great quarter.

Ryan Zink

Yes, thanks again.

Operator

Your final question will come from David Schwartz [Morningstar].

David Schwartz

Yes, thanks for taking my question. So following up on the last question and on your comments earlier, are some of the lowest performing stores currently unprofitable on a four wall basis, meaning have they been actually detracting from profitability?

Ryan Zink

Yes, the store two that we are considering closing are negative restaurant, what we would call internally restaurant level cash flow what I think we would say in the investment community is restaurant level operating profit. So for those individual stores, they're negative contributors. And ultimately, while a couple of them may have a little bit of life left on the lease, the goal would be that ultimately closing those become income accretive.

David Schwartz

Okay, thanks again and thanks for all the information on today's call.

Ryan Zink

Thanks David.

Operator

There are no further questions at this time. I'll go ahead and turn the call back over to Ryan.

Ryan Zink

I am very optimistic about the future for both brands. We have exciting initiatives that will translate into both guest and employee engagement at both concepts. Their strong operating momentum is promising. These improvements are driven by our team members, managers and leaders throughout our company, whose focus on hospitality, customer service and pride in their work and in our concepts is evident every shift of every day. I want to again thank you all for joining us today.

Operator

Thank you for your participation. This does conclude today's conference. You may now disconnect.

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