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Good Times Restaurants Inc. (NASDAQ:[GTIM](#)) Q3 2025 Earnings Conference Call
August 7, 2025 5:00 PM ET

Company Participants

Keri A. August - Senior VP of Finance & Accounting and Corporate Secretary

Ryan M. Zink - President, CEO & Director

Conference Call Participants

Keri A. August

Good afternoon, ladies and gentlemen, and welcome to the Good Times Restaurants, Inc. Fiscal 2025 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 Investors 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 the 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-K 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 M. Zink

Thank you, Keri, and thank you all for joining us today. Results during our third fiscal quarter were a mixed bag with notable sequential improvement in same-store sales at Bad Daddy's and a 10 basis point improvement in restaurant level operating profit. At Good Times, however, same-store sales performance and restaurant level profitability declined sequentially compared to the second quarter.

As we announced in our earnings release, we've hired a new marketing leader for the company, Jason Murphy, who brings with him a strong pedigree in restaurant marketing. Jason will be responsible for leading all advertising and promotion strategy and execution at both brands, including menu, point-of-purchase materials and our online ordering experience, in addition to all channels of media and advertising. Welcome aboard, Jason, no pressure.

Same-store sales at Good Times improved sequentially in July, though still down mid-single digits year-over-year. From a product and service execution standpoint, Craig Soto, our Director of Operations for Good Times, has made significant improvements to our operations in the past two months, including bringing us much closer to cook to order, rolling out the new burger builds we discussed on last month's call and making high-impact adjustments to schedule expectations so that our restaurant general managers are present during more of the high revenue shifts of the business. Craig successfully implemented our Fried Ice Cream limited time offer, which has been the most successful new product we've launched in several years as measured in units sold.

While our competitors are highly focused on discounting, we continue to focus on our quality positioning. Having not taken price since January of 2024, we are now roughly in parity with pricing to our competitors outside of discounted menu offerings, against the historical backdrop of being generally priced at up to a 10% premium to those competitors.

We increased pricing by approximately 1% in a subset of our stores on August 1 and are measuring traffic impact prior to increasing across the entire system. Intuitively, we believe that we have the ability to take price without significant traffic erosion beyond the trends we are already seeing. Historically, discounting has preserved sales but at the expense of restaurant level margins, and that history continues to guide our overall pricing and menu strategy. Additionally, as mentioned in our earnings release, we will be

launching a new campaign centered around Colorado Native Burgers with refreshed digital assets, including web and mobile app, new digital advertising and an outdoor advertising campaign that will launch later this month.

With respect to Bad Daddy's operations, I was again pleased with our controls during the quarter as we have continued to manage food and beverage costs well in spite of limited net incremental menu price year-over-year. Our \$8 Bad Ass Margarita promotion has performed well throughout the summer with an increase -- with increased beverage incidents per guest. We continue to build additional sales, but are yet to a point where we're margin accretive on those incremental beverage unit sales. Similar to Good Times, we've not taken significant overall blended menu price and are sitting on less than 2% year-over-year food price, which has then mostly been offset by the discounted pricing of the Bad Ass Margarita. Both concepts are facing record high ground beef prices in the fourth fiscal quarter. And as with Good Times, we are considering incremental menu price to offset the input cost inflation.

Sales at Bad Daddy's were choppy during July with the concept experiencing mid-single-digit negative comps during the first three weeks of the month before a recent modest improvement. Our upcoming fall product promotion features a return of a guest favorite, the Bratwurst Burger, and we're introducing a giant shareable Bavarian pretzel served with a house-made sauce trio of Jalapeño Cheddar, Sam Adams' Oktoberfest Beer Cheese and Whole Grain Dijonnaise.

Despite the headwinds, both brands continue to provide a differentiated product compared to those offered by our competitors in the market. Our restaurant operations at both concepts are delivering a better guest experience, both in product and service than at any time during the past several years, and I'm confident in the work that our operators are doing at both Bad Daddy's and Good Times. We anticipate that the additional professional marketing experience we have added to the team will result in strong communication of each brand's story to our guests and ultimately drive incremental sales and traffic for both concepts.

I will now turn the call over to Keri for a review of our performance during the quarter and some perspective on the company's financial initiatives.

Keri A. August

Thank you, Ryan. I'll now review this quarter's results. We'll start with Bad Daddy's results. Total restaurant sales decreased \$0.8 million to \$26.5 million for the quarter. The sales decrease is primarily due to the fourth fiscal quarter 2024 closure of one Bad Daddy's restaurant, reduced customer traffic and a negative mix shift attributable to the success of our Smash Patty burgers, partially offset by menu price increases. Our average menu price during the quarter was 3.8% higher than Q3 of 2024. Same-store sales decreased 1.4% for the quarter with 39 Bad Daddy's in the comp base at quarter end.

Food and beverage costs were 30.6% for the quarter, a decrease of 60 basis points from last year's quarter. The decrease is primarily attributable to lower purchase prices, mainly for chicken wings and potatoes compared to our prior year quarter and the impact of a 3.8% increase in menu pricing, partially offset by increased ground beef costs. After a slight drop in the first two months of the quarter, beef prices again increased during the last month of the quarter and costs remained elevated over the prior year. Due to the continued tightening of beef supply, we anticipate ground beef costs will continue to increase throughout the remainder of fiscal year 2025.

Labor costs increased by 50 basis points compared to the prior year quarter to 34.3%. This increase is primarily attributable to decreased labor productivity resulting from the deleveraging impact of lower sales. Occupancy costs were 6%, a decrease of 30 basis points from the prior year quarter, primarily due to decreases in noncash rent for the locations with impaired right-of-use lease assets. Other operating costs were 14.7% for the quarter, an increase of 30 basis points, primarily due to increased utilities, technology- related fees and menu printing, partially offset by decreased customer delivery fees.

Overall, restaurant-level operating profit, a non-GAAP measure for Bad Daddy's, was approximately \$3.8 million for the quarter or 14.4% of sales compared to \$3.9 million or 14.3% last year due to solid cost controls throughout the quarter.

Moving over to Good Times. Total restaurant sales for company-owned restaurants decreased approximately \$0.1 million to \$10.4 million for the quarter compared to the prior year third quarter. Same-store sales decreased 9% for the quarter with 27 Good Times restaurants in the comp base at quarter end. The average menu price for the quarter was approximately the same as the prior year quarter.

Discounting activity continues in the QSR and in particular, burger QSR segment, but recent pricing surveys have indicated that our most direct competitors in Colorado have begun to increase prices on non-discounted items, providing some flexibility for limited price increases during the last quarter of the fiscal year.

Food and packaging costs were 31.5% for the quarter, an increase of 100 basis points compared to last year's quarter. The increase is primarily attributable to higher purchase prices for ground beef and eggs compared to the prior year quarter without the benefit of any price increase, partially offset by savings in potato pricing. As is the case with Bad Daddy's, based upon current commodity forecast, we expect ground beef costs to continue to increase throughout the remainder of fiscal year 2025. The cost of eggs, which are a component of each of our breakfast entrees, eased during the quarter, but prices are still well above prior year. Macroeconomic and political forces continue to cloud visibility into the magnitude and direction of commodities further into the future.

Total labor costs increased to 34.2%, a 150 basis point increase from the 32.7% we ran during last year's quarter, mostly due to higher average wage rates resulting from market forces and the CPI index minimum wage in Denver and the State of Colorado as well as decreased productivity resulting from the deleveraging impact of lower sales. This was partially offset by reduced restaurant-level incentive compensation.

Occupancy costs were 8.6%, an increase of 40 basis points from the prior year quarter, driven by the deleveraging impact of the sales decline on fixed costs. Other operating costs were 14.6% for the quarter, an increase of 260 basis points, primarily due to increased technology-related fees, repair and maintenance and restaurant smallwares and supplies.

Good Times restaurant-level operating profit decreased by \$0.6 million for the quarter to \$1.2 million. As a percent of sales, restaurant-level operating profit decreased by 530 basis points versus last year to 11.2% due to elevated costs throughout the P&L.

Combined general and administrative expenses were \$2.2 million during the quarter or 5.9% of total revenues, which decreased 120 basis points from the prior year quarter. We expect to run between 6% and 7% general and administrative costs on a full year basis for fiscal 2025.

Our net income to common shareholders for the quarter was \$1.5 million or income of \$0.14 per share versus net income of \$1.3 million, \$0.12 per share in the third quarter last year. There was income tax benefit of approximately \$0.4 million recorded during the current quarter versus an income tax benefit of \$0.2 million in the prior year quarter.

Adjusted EBITDA for the quarter was \$2.2 million compared to \$2.4 million for the third quarter of 2024. We finished the quarter with \$3.1 million in cash and \$2.3 million of long-term debt. We repurchased 21,968 shares during the quarter under our share repurchase program. Our share repurchase program continues to be active, but we expect significantly reduced purchases as our focus will remain on cash accumulation for the remainder of the fiscal year. We incurred \$0.2 million of CapEx during the third fiscal quarter related to our restaurant remodel and signage projects.

And now I will turn the call back to Ryan.

Ryan M. Zink

Thank you, Keri. Jim, we can open the call for questions at this time.

Question-and-Answer Session

Operator

[Operator Instructions] We'll take our first question today from the line of [William James] at [indiscernible]

Unidentified Analyst

The CapEx for the quarter in the Q says it's \$469,000. My question was, are we entering a phase where the EBITDA could roughly be running \$2 million, \$2.2 million a quarter and maybe maintenance CapEx at \$0.5 million and then the investment CapEx is another discussion.

Ryan M. Zink

So I think the way to think about that is we are in our higher indexing quarters. I think the \$2.2 million for this quarter is among the highest quarters throughout the year. We're not providing forward guidance on EBITDA, and we typically have not done forward guidance on EBITDA. But I would say that in terms of the CapEx, the CapEx that Keri mentioned was specifically restaurant remodel CapEx of approximately \$200,000.

I think we generally budget, as a whole, roughly 1% of sales for maintenance CapEx and I think we've shared that point on prior calls. But I think as you look at, for instance, like last 12 months EBITDA, I would use that as a framework around how to build out kind of free cash flow, which I think is what you're trying to do here. And I think beyond that, I would say, yes, about 1% of sales for maintenance CapEx.

I think we are being a little more reserved on our special project CapEx as we do try and -- we are trying to accumulate a little more cash. And I think we do still have interest in share repurchases, particularly at the low price that the stock is trading currently. But I think our priority first really is building up additional cash reserves and having that ability to have optionality, whether that be for debt paydown, additional share repurchase or at either concept, new store development. Although I would say more specifically, there are some projects really at both concepts that we're looking to deploy some cash towards those in fiscal 2026.

Unidentified Analyst

Okay. And would that be more investment CapEx that would just be at the existing store level? Or would that be like new builds?

Ryan M. Zink

I think there is -- we want to preserve the optionality for new units for both -- for either concept, I should say, maybe rather than both. But I think we do also want to continue and finish up our round of remodels at Good Times. And then we do have some technology projects at Bad Daddy's that most specifically the replacement of our legacy point-of-sale system that we want to get done during fiscal 2026.

Unidentified Analyst

Okay. So the investment -- the internal investment CapEx hurdle rate or IRR on that for existing restaurants, would that be like north of 20%, do you think?

Ryan M. Zink

When you say north of -- you're just talking about investment CapEx, what's our hurdle rate on like new unit CapEx? Is that what you're talking about or...

Unidentified Analyst

I know like maintenance CapEx, you have to do it, but choosing to do an investment CapEx, what kind of rate of return would you be looking at for investment CapEx at the existing restaurant level, not a new build?

Ryan M. Zink

I think that some of the special project CapEx, I think we look at -- I mean, certainly, like new unit CapEx, we have a target rate of return. And I would say that is 20% or north of 20% on that. On some of the special project CapEx, I think some of that is required. For instance, like the point-of-sale system replacement, the legacy system is -- will need to be replaced at some point. And so there's not really an IRR threshold on that. That is -- basically, it's kind of lumpy maintenance CapEx that doesn't occur year-to-year, but occurs every 5, 7, 10 years. And then on the remodel CapEx, we do believe we're getting a strong ROI on those. And some of that, in turn, especially with the signage is just required anyway as the old signs are in a place where they just need to be replaced.

Operator

And our next question from the phone lines today will come from [Sanjay Raaga].

Unidentified Analyst

I think you mostly answered a couple of my questions from the previous question. But the Good Times concept, the kind of the underperformance in the third quarter. Can you elaborate a bit on that? Are there specific issues you've identified? Or I mean, what kind of caused that underperformance?

Ryan M. Zink

I think there's a handful of factors, and it's hard to -- it's hard to break apart how much each is driving it. One of our competitors released earnings yesterday. They don't operate a lot of stores in Colorado, but they do operate a lot of restaurants in California. They mentioned some certain macro factors that's affecting them that we believe also is affecting us that are demographic and geographic in nature. We believe there's some validity to that.

Additionally, I would say that among the large competitors such as McDonald's and Wendy's and Burger King, they're spending a lot of marketing dollars and they're discounting heavily. Those brands are heavily franchised. And so from a franchisor perspective, it's very advantageous to preserve sales. We operate all but 3 of our restaurants. And so unit level profitability is just as important for us. And so we have taken a different approach to not discount heavily, but to do what we can to preserve margins as much as possible by not discounting. I think we are looking at ways to provide value. Some of that is through price, but more of that is by better communicating our brand message and increased advertising without deep, deep discounts, which with our food cost is very difficult for us to achieve profitably.

I don't know if that answers your question. I mean that's probably the best I could frame that up for you.

Unidentified Analyst

Okay. Yes, that's good. Okay. And I believe you mentioned that you're focusing more on cash accumulation at this stage. Do you have a plan on sort of when you think you'd be able to accelerate the share repurchases given the current share price?

Ryan M. Zink

I think we -- again, we will continue to very selectively buy shares. However, I would say if we're going to accelerate the repurchase, I would say it's probably into fiscal 2026 and possibly into the second quarter of fiscal 2026 before we really would accelerate -- to use your words, to accelerate the purchases under that program. That -- I will say that is subject to change just based upon overall macro factors and in our internal forecasting as the current fiscal year and the first quarter of next fiscal year progress.

Unidentified Analyst

Okay. And in your response to the previous question, I'm not sure I fully understood this. You mentioned special projects for fiscal '26 for both the concepts. Could you just talk about that a bit? I didn't quite understand what -- that part.

Ryan M. Zink

Yes. I think in terms of special projects, I think the two that we've really identified are the final -- hopefully, finalization is now three years underway of our remodel and signage project at Good Times. Last fiscal year, we replaced our point-of-sale system at Good Times. We still have yet to do that at Bad Daddy's, and that's in our capital plan for 2026.

Aside from that, we do continue to have new unit opportunities at both concepts. I would say the financial performance of Good Times will heavily impact any development there if there were to be any. We do have -- and I would say the real estate market has

seemed to loosen up a bit and landlords have been a little more open to negotiations and reduced either additional TI or reduced rents, which has presented some new opportunities for the Bad Daddy's brand for new unit development. And we want to have capital available to be able to execute upon projects should they come our way.

Operator

And that is all the questions that we have in our queue today. Mr. Zink, I'm happy to turn it back to you, sir, for any additional or closing remarks.

Ryan M. Zink

Thanks again, Jim. Our continued vision for both brands is to provide elevated experiences through high-quality execution and value perception delivered not just by low price, but by quality and service and reflects our focus on a guest-first mindset. I sincerely want to thank all the members of our team, both leaders and their team members for their commitment to delivering memorable experiences for all of our guests. Thank you all for joining us today.

Operator

Ladies and gentlemen, this does conclude the Good Times Restaurants Fiscal Year 2025 Third Quarter Earnings Conference. We thank you all for your participation, and you may now disconnect your lines.

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