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Jack in the Box, Inc. (JACK) Q1 2025 Earnings Call Transcript

Feb. 25, 2025 9:09 PM ET | Jack in the Box Inc. (JACK) Stock | JACK

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Q1: 2025-02-25 Earnings Summary

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EPS of \$1.92 **beats by \$0.23** | Revenue of \$469.44M (-3.70% Y/Y) **misses by \$1.03M**Jack in the Box, Inc. (NASDAQ:[JACK](#)) Q1 2025 Earnings Conference Call February 25, 2025 5:00 PM ET

Company Participants

Chris Brandon - Vice President, Investor Relations

Lance Tucker - Interim Principal Executive Officer

Dawn Hooper - Interim Principal Financial Officer

Conference Call Participants

Brian Bittner - Oppenheimer

Lauren Silberman - Deutsche Bank

Gregory Francfort - Guggenheim Securities

Operator

Thank you for standing by, and good day, everyone. My name is Arzi [ph], and I will be your conference operator today. At this time, I would like to welcome everyone to the Jack in the Box First Quarter 2025 Earnings Webcast. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions]. Thank you.

I would now like to turn the call over to Chris Brandon, Vice President of Investor Relations. Please go ahead.

Chris Brandon

Thanks, operator, and good morning, everyone. We appreciate you joining today's conference call highlighting results from our first quarter 2025. With me today is our new Interim Principal Executive Officer, Lance Tucker; as well as Dawn Hooper, who will again serve as our Interim Principal Financial Officer.

On the heels of recent company events related to yesterday's leadership announcement, we will be taking a limited number of questions from our covering sell side analysts than usual following our scripted remarks. Note that during both our discussion and Q&A, we may refer to certain non-GAAP items. Please refer to the non-GAAP reconciliations provided in the earnings release, which is available on our Investor Relations website at jackinthebox.com.

We will also be making forward-looking statements based on current information and judgments that reflect management's outlook for the future. However, actual results may differ materially from these expectations because of business risks. We therefore consider the Safe Harbor statement in the earnings release and the cautionary statements in our most recent 10-K to be part of our discussion. Material risk factors as well as information relating to company operations are detailed in our most recent 10-K, 10-Q and other public documents filed with the SEC and are available on our Investor Relations website.

And with that, I'll turn the call over to Lance Tucker. Lance?

Lance Tucker

Thanks, Chris, and I appreciate everyone joining us today. As Chris said, this will be a fairly abbreviated earnings call relative to what we're used to and what will be our typical call going forward. But here is what I'd like to accomplish.

First, a few thoughts on yesterday's announcement regarding Darin's departure. Second, a high level recap of the first quarter and what we are seeing thus far in Q2. And lastly, some remarks about our future as a brand and my commitment to continuing to build off of a strong foundation of growth, while assessing and evaluating how to best maximize our long-term potential.

To start, I'd like to say a very genuine thank you to Darin Harris and note a few of the major accomplishments from his tenure. Over the past four years, under Darin's leadership, the company has navigated the COVID-19 pandemic, made much needed investments in the company's tech stack, making both brands much more formidable digital competitors, developed the needed resources to grow the new unit pipeline, strengthened the company's relationship with its franchisees and built an extremely talented leadership team.

The foundation is now in place with a major reason I wanted to return to Jack in the Box, and we are very well positioned to deliver the long-term shareholder value our investors expect and we know the brands are capable of. On behalf of the Jack in the Box and Del Taco families, I wish Darin the best as he moves on to the next chapter of his career and have no doubt he will find continued success.

Before I provide some additional thoughts on our future, let's spend a couple of moments on the first quarter as well as an early look at what we are seeing quarter-to-date. I am pleased with Jack's Q1 results as we were able to battle through a difficult macro environment affecting the category as a whole. Accredit our outstanding franchisees and operators for their continued perseverance through a challenging backdrop to deliver positive same-store sales and sequential traffic and mix improvements for Jack in the Box.

Jack ran same-store sales of positive 40 basis points for the quarter, despite the California wildfires and unusual weather in the Texas and Midwest regions in the final two weeks of our first quarter. The combination of these had an approximate 20 basis point negative impact on our Q1 same-store sales.

As with others in the industry, traffic and macro pressures persist, so it likely won't come as a surprise to hear that there are more headwinds and tailwinds for us thus far in the second quarter. We are running negative quarter-to-date and expect a negative Q2 same-store sales result for both brands. With that said, we have a strong marketing calendar and will stay the course in executing on our barbell strategy, value leadership, and digital evolution to drive sales.

Back to Q1, there were five restaurant openings and six closures in the quarter. Jack is still expecting to open between 35 and 45 restaurants for fiscal year 2025, including openings in Chicago this summer and Florida later in the year. Jack's restaurant level margin percentage in the quarter was essentially flat year-over-year at 23.2%, helped by the completion of our new beverage partner contract. While we do expect this to be a tailwind for the remainder of the year, about \$3 million or 200 basis points of the positive impact you saw on restaurant level margin in Q1 should be viewed as a onetime benefit.

For Del Taco, it was another challenging quarter with pressured same-store sales results, and Del is also expected to post negative same-store sales in the second quarter. With that said, we have seen an encouraging start to the menu optimization initiative, which rolled out system wide in the middle of the first quarter and has driven higher attach rates and better average check.

Del Taco restaurant count at quarter end was 589 with one opening and six closures during the quarter. Del Taco expects to be within our original guidance of opening 15 to 20 restaurants this fiscal year. We refranchised 13 restaurants in the first quarter, bringing Del Taco to approximately 80% franchise owned.

On a companywide basis, we reported consolidated GAAP diluted earnings per share for the first quarter of \$1.75 compared to diluted earnings per share of \$1.93 in the prior year. Operating earnings per share, which includes adjustments for certain items, was \$1.92 for the quarter versus \$1.95 in the prior year.

During the quarter, we repurchased 124,000 shares of our common stock for \$5 million. As you saw in our annual guidance updates in the earnings release, we do not anticipate further repurchase activity for the year and will instead use excess funds to reduce leverage.

And on that note, I would like to make a couple of comments about our 2025 guidance. Despite the more difficult start for Q2 same-store sales, we are maintaining our annual same-store sales, operating EPS, and adjusted EBITDA guidance based on our solid Q1 results. There are, however, two items that are being updated. First, the aforementioned share repurchase allocation that was previously \$20 million will now be \$5 million in total for the fiscal year, all of which was executed in the first quarter. And second, an updated capital expenditure range of \$100 million to \$105 million for the year, representing a slight reduction as part of our ongoing assessment of capital investment.

As many of you will recall from ICR [ph], my first order of business upon returning to Jack in the Box was to evaluate our capital allocation. With just over a month under my belt, I am mid process in my evaluation and anticipate announcing further free cash flow acceleration opportunities in the near future likely on our next earnings call in May. So stay tuned on that front.

In closing and before we take your questions, I want to briefly make a few observations from my brief time back here at Jack in the Box so far. First and foremost, I believe we have the right leadership team and tremendous upside to drive the company forward. I feel so fortunate to be stepping into this situation surrounded by an extremely talented and driven team. Second, we are fundamentally well positioned to drive sales and expand our brands while efficiently allocating our capital in a way that drives shareholder value.

And lastly, while there is certainly work and assessment to do at both brands to maximize what they can ultimately become, the foundational investments made over the past several years were the right steps to set up the company for future success. It's been great getting back in touch with many of you within the investment community, including several sell side analysts that I've gotten to know quite well over the years. I'm looking forward to working with you again. I'd also like to thank the Board of Directors of Jack in the Box for the opportunity to return and play significant leadership role within Jack at a time when I believe our upside and ability to create shareholder value is tremendous.

And lastly, thanks to all of our restaurant and corporate team members along with our franchise partners across both brands for the passion that they bring every day to serving our guests. Thanks again for your time this afternoon.

Operator, please open up the line for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. Your first question comes from the line of Brian Bittner from Oppenheimer. Please go ahead.

Brian Bittner

Thanks for taking the question. Lance, I just wanted to kick off the Q&A with a high level strategic question for you. As you came into the role of CFO, you suggested you were going to bring a sharpened focus to capital allocation and cash flow. And I noticed a slight reduction in the CapEx guidance for this year. Is that just a sign of more to come in kind of your journey to improve free cash flow?

And secondly, can you help us understand your priorities for capital allocation and where debt reduction stands? It just seems like you talked a lot about creating shareholder value. And with equity value as a percentage of where it is today, it seems like paying down debt could be a big unlock moving forward.

Lance Tucker

Yes, thanks for the question, Brian. I'd say a few things on this front. And you said it exactly right. When I came into the role at CFO, job one was to look at capital allocation, where are we spending our dollars. So obviously, only having been on board a little bit over a month, there were kind of a couple of fairly quick decisions that could be made to slow CapEx down just a little bit, move away from additional share repurchases right now when in my mind we should have some higher priorities.

So we've done those things. But I guess to put a little finer point on it, yes, there will be more to come most likely in May as I said in my remarks already around other things we're going to do to try to unlock free cash flow and speaking directly to leverage. I agree with you. There's places we can put our capital.

We'll make sure we're investing in the right places and in the right amounts to drive growth and make the foundational investments we need to. But with that said, bringing the debt down a little bit, most certainly would be an unlock that we're going to be looking at very hard.

Operator

Your next question comes from the line of Lauren Silberman from Deutsche Bank. Please go ahead.

Lauren Silberman

Thank you so much. So I just wanted to follow-up on Brian's question and then I have a regular question. The capital allocation, Jack previously talked about ramping company store openings in certain markets. How are you assessing that strategy and whether that's the right use of capital? And then my actual question on the consumer environment, it's obviously been a challenging start to the year.

Can you just talk about how you're thinking about the sales strategy for the rest of the year across both value and menu innovation and your ability to reaccelerate comps in the back half of the year? Thank you.

Lance Tucker

Sure. So on company store builds, I do think there is a place for company store builds. And there are some places where we're going to be investing alongside franchisees, particularly in new markets. With that said, I think we're an asset light company. And the plan is not to be leading the growth with corporate builds.

The plan is to do them more as a complement to some of what's happening out there with the franchisees. So I don't want to get too far ahead of myself as far as giving numbers, so I'm not going to do that. But what I will tell you is I would expect company bills to be more of a strategy we use to really see it a little bit and complement what franchisees are doing, not as the way that's going to be the leader of the growth, the Jack in the Box. If we're doing that, asset light is not really what we're doing. Relative to sales and the consumer, obviously, we're seeing the same things that everybody else in the industry is seeing right now with the consumer.

But I do think we're well positioned. As we look at the rest of the year, we've got a good calendar. We've got good innovation. We've got value where we've always been a leader. Our digital capabilities are growing literally by the day with the investments that we're making and the work that Doug Cook and his team are doing on the IT side. So I certainly believe as we look towards the rest of the year, the goal really becomes let's reestablish the fairly positive momentum we had coming into the year and try to get this thing going positive again.

Operator

Your next question comes from the line of Gregory Francfort from Guggenheim. Please go ahead.

Gregory Francfort

Hey, Lance. Thanks for the question. I guess, I'm curious, you've got a lot of experience in the restaurant industry. I'm curious what your thoughts are on kind of the environment that we've seen so far to start 2025? And my impression is that Jack is actually maybe outperforming, even if you guys are down, maybe outperforming the industry. Is that true? And maybe what would you attribute that to if that's true?

Lance Tucker

It'd be hard for me to say whether we're outperforming the industry or not. What I can tell you is that I think we're seeing some of the same pressures. And I think without going into tremendous detail, the consumer is showing you that they are a little bit nervous. I mean, even the consumer confidence report that came out this morning very much emphasized that the consumer is just being a little bit cautious. So I think that's really what we're seeing more than anything else.

I mean, there's certainly smaller things probably. But from a Jack in the Box standpoint, our fundamentals are good. We have the right menu. We have the right levers that we can pull. And I think that's why you're seeing us again without comparing ourselves to myself, that's why you're seeing us continue to compete and do about as well as anybody else is.

Operator

[Operator Instructions]. Your next question comes from the line of Andrew Charles from TD Cowen. Please go ahead. Hello, Andrew. Are you still there? Maybe you are on mute.

That's all for our Q&A session and we appreciate your participation. Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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