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Jack in the Box, Inc. (JACK) Q2 2025 Earnings Call Transcript

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Q2: 2025-05-14 Earnings Summary

Insights



EPS of \$1.20 **beats by \$0.05** | Revenue of \$336.70M (-7.84% Y/Y) **misses by \$5.62M**

Jack in the Box, Inc. (NASDAQ:[JACK](#)) Q2 2025 Earnings Conference Call May 14, 2025 5:00 PM ET

Company Participants

Chris Brandon - Vice President, Investor Relations

Lance Tucker - Chief Executive Officer

Dawn Hooper - Interim Principal Financial Officer

Ryan Ostrom - Executive Vice President, Chief Customer and Digital Officer

Conference Call Participants

Lauren Silberman - Deutsche Bank

Brian Mullan - Piper Sandler

Andrew Charles - TD Cowen

Dennis Geiger - UBS

Logan Wrench - RBC Capital Markets

Brian Harbor - Morgan Stanley

Jeffrey Bernstein - Barclays

Jake Bartlett - Truist Securities

Christine Cho - Goldman Sachs

Operator

Thank you for standing by, and good day, everyone. My name is Rubeca, and I will be your conference operator today. At this time, I would like to welcome everyone to the Jack in the Box Second Quarter 2025 Earnings Webcast Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' 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 second quarter 2025. With me today is our Chief Executive Officer, Lance Tucker; Our Interim Chief Financial Officer, Dawn Hooper and our Chief Customer and Digital Officer, Ryan Ostrom.

Select second quarter results were preannounced on April 23rd as part of our Jack on Track plan announcement. Feel free to refer to the press release and conference call which took place that day for additional commentary related to the preannounced metrics. For this reason, today's prepared remarks will be fairly brief. Following the prepared remarks, we will be happy to take questions from our covering sell-side analysts. 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'd like to turn the call over to our Chief Executive Officer, Lance Tucker.

Lance Tucker

Thanks, Chris, and I appreciate everyone joining us today. I will be brief as we provided several key metrics as preannouncement items within our Jack on Track plan three weeks ago. First, I'd like to reiterate my excitement around the changes we're making at Jack in the Box, namely, becoming a simpler, asset-light company that drives sustainable and healthy long-term growth for our franchisees, as well as our investors. While our transformation won't happen overnight, we strongly believe the actions we're taking will meaningfully change the company's directions for the better in the near future.

Turning to our second quarter results, there are a couple of main themes I'd like to highlight that impacted the quarter. First, the top line environment. It's well known that there is significant pressure on multiple-income cohorts, and we've seen the results in our negative traffic. There are definitely more headwinds than tailwinds at the moment for most within our industry. To combat these challenges, we remain focused on our barbell strategy, digital growth, and innovative LTOs to differentiate ourselves. These elements are all fundamental to the Jack brand, and each can meaningfully drive top line momentum. While the team has a number of high-priority Jack on Track actions we're working through, allow me to emphasize that driving same-store sales is, and always will be, our top priority.

Second, our tech modernization and digital evolution continues to take shape. Helped by continued increases in first-party activity and flip kiosks, we are now at 18% digital sales systemwide. As we stated when announcing Jack on Track, digital is an area where continued investment will be tremendously important, and we remain committed to becoming a digital leader within our category. The rollout of our new point-of-sale system is another key aspect of our technological advancement. We have successfully implemented the new system in its accompanying flip kiosks in nearly 1,500 restaurants. In our Jack on Track announcement, we mentioned that the rollout impacted second quarter sales, and I would like to briefly provide some additional color into what we are experiencing. As we integrate modern technology with our existing legacy systems, some of which are decades old, we've encountered a few challenges. These issues are unrelated to our new POS systems or the partners involved in the integration.

Rather, they highlight the necessity for Jack on the Box to continue overhauling its technology by investing in the rapid modernization of these legacy systems, which is already in progress. Before I move on, please note that while the sales impacts we've seen are temporary in nature and are being resolved as they arise, they do continue to impact results as we move into the third quarter. And lastly, before I turn it over to Dawn, I'd like to spend a moment reiterating our Jack on Track plan elements.

First, a reminder that there will be much more detail to come in August. As discussed during our April 23rd call, our objective is to position Jack in the Box for long-term sustainable growth, which we will accomplish by implementing several significant actions as follows. We will strengthen our balance sheet to accelerate cash flow and pay down debt while preserving growth-oriented capital investments related to technology and restaurant re-images. We will also close underperforming restaurants to position ourselves for consistent net unit growth in competitive unit economics. And we will return overall simplicity to the Jack in the Box business model and our investor story. The team is hard at work on all of these initiatives, and I look forward to updating you on our progress with more specifics on our third quarter call. Now I'll turn the call over to our Interim Chief Financial Officer, Dawn Hooper, for her remarks, after which we will take your questions. Dawn?

Dawn Hooper

Thanks, Lance, and good afternoon, everyone. I will start by reviewing our two brands individually, followed by details on our consolidated performance and capital allocation. Starting with our Jack brand, second quarter same-store sales decreased 4.4%, comprised of a franchise restaurant comp decrease of 4.5%, and a company-owned sales decrease of 4%. This result included a decrease in transactions and negative mix, partially offset by many price increases which continue to moderate. As Lance mentioned, we continue to drive sales in our mobile and digital channels, which is essential in our efforts to increase active loyalty program membership and create personalized, targeted promotions to this high-value channel. We are also excited by our kiosk implementation at both brands, both the freestanding kiosks at Del and the flip kiosks now active in nearly 1,500 Jack locations as part of our new POS rollout. We feel great about our ability to achieve the target of 20% digital sales ahead of schedule.

Turning to restaurant count, there were five restaurant openings and 12 restaurant closures in the quarter. Jack is still expecting to open between 35 to 40 restaurants for fiscal 2025, including openings in Chicago. Jack's restaurant level margin percentage in the quarter decreased to 19.6%, down from 23.6% a year ago, driven primarily by lower sales, continued inflation for commodities, wages, and utilities, as well as higher operating costs, partially offset by price increases and favorable beverage funding. More specifically, food and packaging costs as a percentage of sales declined 100 basis points from the prior year to 27.8%, driven by an increase in beverage funding related to a new contract entered into last quarter and many price increases, partially offset by commodity inflation of 3.4% in the quarter. Labor costs as a percentage of sales were 33.8%, increasing 320 basis points from the prior year. Wage inflation was 10.6% for the quarter, and mainly due to wage increases to comply with California's minimum wage law, which lapped its one-year mark on April 1st.

Occupancy and other operating expenses increased 170 basis points, driven primarily by higher rent, utilities, and other operating expenses, including third-party delivery fees. Franchise level margin was \$68.3 million, or 40% of franchise revenues, compared to \$71.7 million, or 40.4% a year ago. The decrease in dollars was mainly driven by lower franchise same-store sales and the resulting decrease in royalty and rent revenue.

Now turning to Del Taco. System same-store sales declined 3.6%, with a franchise sales decline of 4.2%, and a company-owned comp decrease of 1.7%. The lower sales were the result of a decline in transactions, partially offset by an increase in price. As mentioned last quarter, 100% of our company-owned restaurants have kiosks installed, and we are continuing to see franchisees increasing their adoption rate as well. Including kiosks, along with third-party delivery and mobile, digital mix now makes up over 18% of systemwide sales. We are also seeing positive momentum from the menu optimization initiative, which launched systemwide in the first half of Q1, driving improvements in both product mix and average check.

Del Taco restaurant level margin was 12.8%, down 400 basis points from the prior year. The decline was driven mainly by lower sales and commodity and wage inflation, partially offset by menu price increases. Food and packaging costs as a percentage of sales decreased 100 basis points to 24.6% due to favorable beverage funding, partially offset by commodity inflation of 5.7%. Labor costs as a percentage of sales increased 330 basis points to 38.2% primarily due to wage inflation, which was 11.7% for the quarter, mainly due to increases to comply with California's minimum wage law. Occupancy and other operating costs increased 160 basis points, driven primarily by higher utility and maintenance and repair costs.

Franchise level margin was 24.4% of franchise revenues compared to 28.9% last year. The decrease in franchise level margin percentage was driven by re-franchising and the associated impact of pass-through rent, marketing, and purchasing fees. Del Taco restaurant count at quarter end was 591 with six openings and four closures during the quarter.

Moving on now to our consolidated results. SG&A for the quarter was \$35.5 million or 10.5% of revenues as compared to \$37.5 million or 10.3% a year ago. The decrease of \$2 million was primarily due to lower share-based and incentive-based compensation, partially offset by fluctuations in the cash surrender value of our company-owned life insurance policies. Excluding net COLI gains and losses, as well as advertising costs, G&A was \$26.2 million or 2.2% of total systemwide sales down \$4.4 million versus the prior year. Consolidated adjusted EBITDA was \$66.5 million down from \$75.7 million in the prior year due primarily to the impacts from Del Taco re-franchising and sales deleverage and inflation experienced by both brands, partially offset by lower G&A.

During the quarter, the company recorded noncash goodwill and intangible asset impairment of \$203.2 million for the Del Taco reporting unit. This charge resulted from the lower current performance and other assumption updates impacting our long-term forecast and related cash flows. Due to the noncash goodwill and intangible asset impairment charge in the quarter, we reported a consolidated GAAP diluted loss per share for the second quarter of negative \$7.47 compared to diluted earnings per share of \$1.26 in the second quarter of the prior year. Operating earnings per share, which includes adjustments for certain items, was \$1.20 for the quarter versus \$1.46 in the second quarter of the prior year. The effective tax rate for the quarter was 19.5% compared to 26.5% for the same quarter a year ago.

The lower tax rate was primarily due to non-deductible goodwill impairment and non-deductible COLI losses. The adjusted tax rate used to calculate the non-GAAP operating earnings per share this quarter was 24.8%. On the investing front, our capital expenditures were \$21.5 million for the quarter and included investments in our restaurant technology and digital initiatives as well as development of new company restaurants. We did not repurchase any shares of stock during the quarter, and as previously announced, we discontinued our dividend.

As of quarter end, we had available borrowing capacity of \$96.5 million under our variable funding notes net of letters of credit issued. Our total debt outstanding at quarter end was \$1.7 billion, and our net debt to adjusted EBITDA leverage ratio was 5.5x. Lastly, we'd like to reiterate that all guidance measures remain the same as provided on April 23rd as part of the Jack on Track plan announcement. Thanks again for your time this afternoon. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Your first question comes from the line of Chris O'Cull with Stifel.

Unidentified Analyst

Thanks, guys. This is Patrick on for Chris. Lance, I wanted to ask you about the current trends of Jack relative to the down four point. You just ran in 2Q, and I'm curious if you can provide any color around maybe where you exited the quarter. I know it was widely known in the industry February was soft and maybe how that's held up as you've moved into the third quarter.

And then as you look at the comp performance in the quarter, I was curious if there are any geographic differences that were notable, particularly maybe in markets that over-index with certain customer demographics.

Lance Tucker

This is Lance. I'll start on that and I'll get some input from Ryan as well. So starting with the third quarter, we're basically running in line with what we saw in the second quarter, which pretty well matches up with the guidance we've given. It remains a challenging industry environment, and as we've spoken to, we do continue to see some challenges. They're a little bit self-inflicted. Certainly, the consumer remains cautious. From other comments, I'll throw it over to Ryan here for a minute and let him jump in on anything I may have missed there.

Ryan Ostrom

I think you hit it right on the head. I think as we look moving forward, we're really going to be focused on our core strengths and equities as a brand. So you'll see us really focus on driving ticket through some munchy meal executions as well as driving innovation on our iconic curly fries next window. And you'll see us pulse in a lot of core value to drive the value guest in to move forward.

Operator

Your next question comes to the line of Lauren Silberman with Deutsche Bank.

Lauren Silberman

Thank you very much. My question's a little bit of a follow-up to the prior one. How much do you think of the comp pressure you're seeing right now is driven by company-specific headwinds? You talked about the POS situation, but beyond that, is there a shortfall in the marketing strategy, your approach to value, given the industry is going to remain challenging? I guess, what are you doing differently in the back half that you didn't do in the first half of the year to re-accelerate comps? Thank you.

Lance Tucker

Thanks, Lauren. I'll start again and again turn it over to Ryan. Relative to company-specific issues, I mean, we've mentioned some of the IT issues that we think are probably 1% to 2% in same-store sales. We also over-index on the low-income consumers, so I'm not sure if I've got to put a percentage on that, but certainly we feel like that's probably hitting us a little harder than it is others. I don't know that I see anything that was a particular shortfall on the marketing side, but I'll let Ryan talk to what we're doing to get things accelerated in the second half of the year.

Ryan Ostrom

Yes. I think if you looked in a year ago, we had some strong comps as we were rolling over the launch of Smashed Jack, and so rolling over the execution of that is something we really have to focus on in the next few windows because we're really comping over the high mix of a premium burger, so that's where you'll see us really focus on that Munchie Meal and the trade-up strategy with our key paying execution in the next window. Really does, it really well for us owning the late night, owning Munchie Meal and driving ticket. We've seen box meals do really well in some of our competitors, and so we're going to lean into that equity. As mentioned before, really driving the transaction side is focusing on our curly fries, and we have two new flavors coming out.

First was kind in the industry of chili crisp as well as barbecue chip flavored seasoned curly fries. These are our iconic seasoned fries. Now we have new flavors, which should drive excitement for people to come in and just add on ticket, but also make that extra visit to try something new and innovative, and then on top of that, we are really focusing on that value guest in. How do we look at our core offering and put out some strong core value to drive that guest in on an ongoing basis.

Operator

Your next question comes from the line of Brian Mullan with Piper Sandler.

Brian Mullan

Hey, thank you. Just a question on Del Taco. Understanding you're exploring strategic alternatives, can you just speak to the key priorities for that brand while that process is ongoing? And Lance, with some fresh eyes on this brand, is there one or two things in particular where you see some opportunity that maybe can get addressed as this process unfolds?

Lance Tucker

Yes, thanks, Brian. That's a good question. I would tell you a couple of things related to Del Taco. First, we've got to continue to execute operationally, and Tom Rose, the Brand President over there, and his team are working on that. We also have been revamping our marketing some, and so you're going to see a little bit different tone coming out of our marketing as we move throughout the rest of the year, and then Tom and team have some kind of exciting menu additions. I don't think I'm going to share those exactly right now, but some things are working on the menu, kind of looking backwards to some things we may have done in the past that I think are going to be exciting for the brand. So continue to drive marketing, bring out innovation, and drive operations.

Operator

Your next question comes to the line of Andrew Charles with TD Cowen.

Andrew Charles

Great, thank you. It looks like there's a step-up in the allowance for doubtful accounts, and I'm curious, as you go through the upcoming store closure program, if there's risk for elevated bad debt expense that might hit the adjusted EBITDA.

Dawn Hooper

Yes, this is Dawn. The step-up is similar to the step-up or the charge that you saw in Q1. It's related to one specific franchise matter on the Del Taco side. I don't anticipate the closure program would accelerate or increase it in any way.

Operator

Your next question comes from the line of Dennis Geiger with UBS.

Dennis Geiger

Great, thanks, guys. I wanted to circle back just on value, and you guys gave some good color on it. Anything more that you can say, just kind of on where you think value is positioned right now, whether it's on scores or value incidents? And then as we look ahead, I'm not sure, how much more you can kind of add on some of the value plans that are coming, but anything more to share at a high level on how you're thinking about where you should be positioned on value now, relative to maybe where you have been given the environment and given the competitive set? Thank you.

Ryan Ostrom

Yes, I think, you look at our values, so value in our business is very important, and I think it's trying to find that balance of what is the right value for the dollar. I think that value has changed, though. I don't think it's all about low price. It's about guests feeling satisfied is what they purchase. So even though I mentioned Munchie Meal, we're seeing in the industry where \$9 and \$10 is considered a value because it's food by the pound and it's valuable for the guest. And so as you see us really focus on an ownable equity of Munchie Meal, we think there is value in that as we move forward.

You also, like as I mentioned, we will be looking at our core offering and say, what are those right items that we can drive the lower value guest in at the right price point? We do think we have value on the menu. We still have our amazing two tacos on the menu. We still have a lot of items under our Munchies under four, which we're leaning into. So we have that wide variety. It's just making sure that that message resonates and gets people to come to the store.

Operator

Your next question comes to the line of Logan Wrench with RBC Capital Markets.

Logan Wrench

Hey, good afternoon, guys. Thanks for taking my question. I guess just in a few weeks following the rollout of the Jack on Track, I'm just curious what the conversations with franchisees have been like and sort of how they're feeling about everything that's been going on. And then just separately, I was wondering if you can share how much price you guys have rolling off for the rest of the year. Thanks.

Lance Tucker

Yes, Logan, I'll start with the first part and I'll let Ryan cover the price question there. But actually, the conversations with the franchisees have gone quite well. In my few months on board here, they have been tremendously supportive. When you think about specific to some of the Jack on Track stuff, they've generally been behind it. And I think the reason for that is those guys are all in this for the long term. These are long term business owners that have been in the Jack system for a long time, want to be in the system a lot longer and turn them into generational businesses.

And the changes we're making with Jack on Track really are more made to drive the business going forward for the next 10, 15, 20 years than necessarily what it's going to be next quarter. So overall, I've been extremely pleased with the feedback I've gotten from the franchisees, from the reception I've gotten from the franchisees, and frankly, from their support as we line up to do a lot of things that are going to change the business for the better. So I'll turn it over to Dawn, actually, and let her talk about the price we see rolling off.

Dawn Hooper

Yes, so in November, we had talked about our price being between 3% and 4%. The carryover is a little over 2%.

Operator

Your next question comes from the line of Brian Harbor with Morgan Stanley.

Brian Harbor

Yes, thanks. Good afternoon. Lance, speaking to that point, where exactly are the closures going to be concentrated, like geographically, I guess, and then is it a smaller number of franchisees or is it pretty broad? Do you have a different view of kind of new markets? You've obviously signed a bunch of deals in new markets. Are those still going to proceed as planned? Are you still open to adding them during this time? How will that play out?

Lance Tucker

All right, Brian. First of all, as it relates to the closure program, we're going to give a lot more detail in August as to exactly what that's going to look like. But at a high level, it's going to be spread throughout the system. So there's not going to be what I would think to be a huge concentration in any one given area. I think as far as is it concentrated to a set number of franchisees; we're going to do our best to spread it actually among a fairly broad number of franchisees. It is largely going to be driven on economics and sometimes you're going to have a given franchisee who may have more closures than others.

Certainly that's going to be the case. But with that said, we are going to try to keep it pretty broad among the franchise base. And then finally, with regard to new markets, I do expect we'll continue to grow in new markets. We think we've got a lot of white space. We think we've got a lot of ability to grow. I think the bigger change from my perspective would be we want it to be more franchisee-led than corporate-led. So we will continue to meet the obligations we've made as far as building a long term franchisees in some of these markets. We'll just take a little bit less active role and how many of those are actually restaurants that we own versus restaurants we'll be asking the franchisees to build. But absolutely, we want to keep going on those new markets.

Operator

Your next question comes from the line of Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Great, thank you very much .Lance, just hoping I talk a little bit more about Del Taco. I know you mentioned a variety of strategic alternatives, including possible divestiture. I'm just wondering what the other options would be. It would seem like if you're looking to simplify the portfolio, divestiture would be, I guess, your preferred route. But just curious to hear your thoughts there and whether you're pleased with any kind of early interest or how you think about the potential divestiture and time frame for such. Thank you.

Lance Tucker

I think overall, I can't get too deep into Del Taco, as you would guess, at least the potential sales process. What I would tell you, though, is we've had a lot of retail. We haven't even gone to official marketing yet on the thing. We're still directionally a few weeks out on that without going into a lot of depth. And we have had significant reach out and interest in the brand. So that's probably about as far as I can go on that. When you think about other alternatives, I think given the early returns on the interest we seem to be getting, I feel pretty solidly that that would be the option we would go down.

Operator

Your next question comes from the line of Jake Bartlett with Truist Securities.

Jake Bartlett

Great. Thanks for taking the question. I'm going to just build on one of the earlier ones about new unit development. And I guess, Lance, your excitement and level of commitment to that strategy. Maybe if you could also just give us an update on how many restaurant commitments you have outstanding, how many development agreements. It's something that had been disclosed pretty regularly, and I just want to see where the progress is there.

Lance Tucker

Sure. So first of all, on new units, I mean, we are excited to continue growing, first of all. I think the key with what we're doing on the Jack on Track stuff is really make sure we're set up with a good, healthy, franchise base that can grow from a position of strength. So while we are going to have some closures here coming down the road, as you've seen from our announcements, I think where that's really going to net us is franchisees that are not dragging along some units, frankly, that probably need to close. It's going to free up dollars.

We expect some of those dollars to flow into new unit builds. And then to piggyback on the new market question from a few minutes ago, as well, we've got Chicago where we expect to convert around eight, I believe it is, by the end of the fiscal year. We've got builds happening in other markets, whether it's Louisville, Salt Lake City. We're getting ready to be opening some units in Florida. So there's a lot going on there, too. So I think from a new unit standpoint, the picture still looks good. We've just got to get through a few closures here before you'll start to see it in the net numbers. As it relates to the development numbers, I don't have those in front of me at the moment. So that'll be something we'll need to circle back on.

Operator

Your final question comes from the line of Christine Cho with Goldman Sachs.

Christine Cho

Thank you for taking the question. So would you be able to share some observations on the various food cart performances in the quarter? Are you seeing any particular pressure on breakfast or late night? And how are you seeing the market share progressing? Thank you.

Ryan Ostrom

When we look across day part, I think we've kind of seen a little bit, especially at the lunch and dinner time, but it's kind of been spread out evenly across. We've had some success over the last this past window that we really are trying to build off where we actually quickly sold out of our Nashville hot mozzarella sticks. We had a great partnership with Red Bull that moved really well. So we've had success at certain executions and add-ons that we're really going to start building off moving forward. And our goal, as we mentioned before, is really focused on that barbell strategy with a balance of driving ticket with some of our core equities while also introducing some more value to drive trends.

Lance Tucker

And I'll just quickly chip in with, I think you were looking for the development agreement or restaurant commitment number, and it's since mid-2021, which is kind of where we've kept a running total going, it's at 440.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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