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Krispy Kreme, Inc. (DNUT) Q1 2026 Earnings Call Transcript

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Q1: 2026-05-07 Earnings Summary

Insights

EPS of -\$0.05 **misses by \$0.03** | Revenue of \$367.03M (-2.17% Y/Y) **beats by \$7.60M**

Krispy Kreme, Inc. (DNUT) Q1 2026 Earnings Call May 7, 2026 8:30 AM EDT

Company Participants

Christine McDevitt

Joshua Charlesworth - President, CEO & Director

Raphael Duvivier - Chief Financial Officer

Conference Call Participants

Daniel Guglielmo - Capital One Securities, Inc., Research Division

Presentation

Operator

Hello, everyone, and thank you for standing by. My name is Melissa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Krispy Kreme First Quarter 2026 Earnings Call. [Operator Instructions] I would now like to turn the call over to Christine McDevitt, Krispy Kreme Associate General Counsel. Please go ahead.

Christine McDevitt

Hello, everyone, and welcome to Krispy Kreme's First Quarter 2026 Earnings Call. Thank you for joining us today. This morning, Krispy Kreme issued its earnings press release. The press release and an accompanying presentation are available on our Investor Relations website at investors.krispykreme.com. Joining me on the call are President and Chief Executive Officer, Joshua Charlesworth; and Chief Financial Officer, Raphael Duvivier. After their prepared remarks, we will host a question-and-answer session. But before we begin, please note that during this call, we will be making forward-looking statements, including statements of expectations, future events or future financial performance. Forward-looking statements are based on current expectations and are subject to risks and uncertainties.

Actual results could differ materially from those contained in any forward-looking statements because of factors described in the cautionary statements in today's earnings press release, our annual report on Form 10-K filed with the SEC and in other SEC filings we make from time to time.

We assume no obligation to update any forward-looking statements, except as may be required by law. Additionally, during this call, we will reference certain non-GAAP financial measures. Please refer to our earnings press release on our website for additional information regarding these non-GAAP measures, including a reconciliation to the closest comparable GAAP measure. Raphael will take us through our financial performance in a moment, but first, here's Joshua.

Joshua Charlesworth

President, CEO & Director

Thank you, Christine, and good morning, everyone. We are pleased with our significant progress in the first quarter as we continue to advance our turnaround to deleverage our balance sheet and drive sustainable, profitable growth.

Krispy Kreme remains a compelling growth story, supported by strong consumer demand for our iconic fresh doughnuts. Unlocking that demand remains our priority, and we are doing so through our 2 largest opportunities, profitable U.S. expansion and capital-light international franchise growth.

This year, we expect system-wide sales to grow 2% to 4% compared to last year to over \$2 billion, driven primarily by international expansion. In the back half of the year, we anticipate growth in the U.S. as we lap the now ended partnership with McDonald's, which we exited last July.

While we recognize that the broader macroeconomic environment remains dynamic, this outlook is driven by anticipated higher volumes, points of access expansion and franchise development.

Last year, approximately 25% of system-wide sales were generated by franchisees. After the refranchising transactions in the first quarter, the expected percent of franchise sales going forward has increased to 42%, reflecting strong progress toward our goal of reaching 50% of system-wide sales generated by franchisees entering 2027.

Now let's move to the 4 pillars of our turnaround plan and the progress we are making on each. Number one, refranchising; number two, improving returns on capital; number three, expanding margins; and number four, driving sustainable, profitable U.S. growth.

Our first pillar, refranchising, enables us to drive more profitable system-wide sales growth while accelerating new shop development through a capital-light model. In March, we completed 2 transactions advancing this strategy, contributing to a reduction in net debt. In Japan, we entered a refranchising agreement with Unison Capital, an experienced operator in the retail restaurant sector.

Krispy Kreme has a 20-year presence in Japan with approximately 90 shops and 300 fresh delivery points of access, and we are pleased to partner with Unison to support continued growth in this important market. Japan marks the first of the 2 to 3 international refranchising deals we are targeting in 2026. As we pursue refranchising across our other international markets, we remain focused on identifying the right partners to maximize value and position our brand for long-term growth. We also reduced our ownership in our Western U.S. joint venture to a 20% minority stake with our long-standing partner, WKS Restaurant Group.

The WKS franchisee now operates more than 70 shops across the Western U.S. and has agreed to develop new shops and further expand Krispy Kreme's fresh delivery footprint over the coming years. The second pillar of our turnaround is improving returns on capital.

Across the business, we are reducing capital intensity and improving utilization of existing assets, while our franchisees continue investing to support brand growth. The combination of these factors has resulted in a significant decrease in CapEx in the first quarter compared to last year, which we expect to contribute to positive free cash flow in 2026.

Our international development pipeline is an important driver for our capital-light growth. We are projecting more than 100 shop openings this year, nearly all through franchisees as we continue expanding fresh delivery doors across grocery, convenience, club wholesalers and quick service restaurants outside of the U.S. In the first quarter, we opened 26 shops around the world. In April, we celebrated our first anniversary in Brazil.

And just yesterday, we opened our second Hot Light Theater shop in Sao Paulo, supporting our growing hub-and-spoke network in this important market. Today, the Krispy Kreme system consists of more than 2,100 locations, both company-owned and franchised across 42 countries, including the U.S.

This year, we expect to add 3 to 4 new markets, including the Netherlands, which we recently announced. The first Hot Light Theater shop in the Netherlands is expected to open in late 2026 and will service both a retail shop and a production hub, anchoring a broader phased expansion to approximately 30 shops across the country over the next 5 years.

The Netherlands represents our sixth Western European market, along with the U.K., Ireland, France, Spain and Switzerland. In the U.S., we are prioritizing leveraging existing capacity to drive growth more efficiently. Our current network utilization is only about 25%, demonstrating that we can reach significantly more locations without incremental capacity investment. Walmart and Target, along with other strategic partners, remain meaningfully underpenetrated, and we have the capacity to support their growth through the same facilities that currently deliver to more than 7,400 fresh doors nationwide.

The third pillar of our turnaround is expanding margins. We are simplifying the business and reducing costs across the P&L, resulting in a significant margin improvement in the first quarter, led by a strong increase in the U.S. segment.

In the U.S., we are making doughnuts more efficiently through improved production planning, labor optimization and streamlined hub operations. Doughnuts are also being delivered more efficiently by improving route management and demand planning and by optimizing production and delivery schedules to support cost-effective expansion.

In April, we completed the transition of our U.S. fresh delivery network to third-party logistics partners ahead of schedule. Now that we have successfully outsourced our U.S. logistics, we have greater cost predictability and reduced operational risk, enabling our teams to focus on what they do best, making fresh doughnuts. We expect the benefits of our logistics optimization to offset the impact of recent increases in fuel prices. As a result of the cost reduction initiatives implemented last year, we improved profitability in the first quarter with shop and delivery labor and SG&A expenses declining more than 10% versus the year ago period.

The fourth pillar of our turnaround is sustainable, profitable growth in the U.S. We know that when our doughnuts are available in the right places and in the right quantities with strategic partners, we can generate higher average weekly sales and improve profitability as we have done for 3 consecutive quarters.

After completing our door optimization in the third quarter last year, we have returned to growth in the last 2 quarters, adding over 250 higher-volume, higher-margin doors in quarter 1 with strategic partners such as Publix, Sam's Club and Target.

We also launched in Jewel-Osco, which is part of the Albertsons family of brands. With our U.S. logistics now fully outsourced and our optimized fresh delivery footprint in place, we believe we now have the right formula for profitable growth, stronger average weekly sales per door supported by more predictable logistics. In my recent meetings with our strategic fresh delivery partners, it was encouraging to hear their enthusiasm for growing Krispy Kreme, not only through new locations, but by strengthening the brand in existing doors. In support of this, we are working closely with them to enhance merchandising and in-store doughnut displays while also improving our presence on their digital platforms.

Other drivers of sustainable profitable growth in the U.S. are the original glazed, especially in dozens, our LTOs and the digital channel. We're seeing strong results across each. Both original glazed and dozen sales are up, driven in part by second dozen promotional offers. Our innovative limited time offerings, which are often tied to seasonal and cultural events continue to drive incremental traffic.

For example, we had record sales for both Valentine's Day and St. Patrick's Day, reinforcing Krispy Kreme as a top choice for gifting, sharing and celebrating while highlighting strong consumer demand for our fresh doughnuts.

We also saw an enthusiastic response to our Artemis 2 doughnut, celebrating NASA's historic deep space Crew mission. While we had originally planned to feature the doughnut for 3 days, we extended the promotion for the duration of the mission due to high demand. Our LTOs performed particularly well in our rapidly growing digital channel, which represented 23% of U.S. retail sales in the first quarter. Our digital presence, including our loyalty program, which has over 17 million members, continues to drive engagement across all age groups, while also encouraging repeat transactions through customized rewards.

Beyond tapping into cultural moments to create relevant buzzworthy offerings, we also stay closely attuned to evolving consumer trends, including the increased use of GLP-1 and other weight loss medications. As part of our ongoing commitment to better understand our consumers, we conducted research, which found that Krispy Kreme consumers who identify as users of these medications are just as likely as nonusers to purchase sweet treats for holidays and special occasions with a focus on quality and taste.

With our differentiated fresh doughnuts typically purchased 2 to 3 times per year, primarily for sharing occasions, Krispy Kreme is well positioned in this context. While we continue to monitor this trend among other macro factors, we remain focused on expanding the ways consumers experience and share Krispy Kreme, including through our high-performing minis category, which currently features Doughnut Minis and Doughnut Dots and our new mini crullers, which is a mini cake doughnut sold through select fresh delivery partners. This new product further strengthens our assortment of smaller shareable treats and provides consumers with more variety. Overall, we are pleased to have carried last year's momentum into the first quarter, delivering the results our turnaround plan was designed to achieve, including improving financial flexibility through refranchising our operations in Japan and the Western U.S., reducing capital intensity by opening new shops with franchisees and reducing our CapEx expanding margins through greater operational efficiency, including the full outsourcing of U.S. logistics and by driving sustainable, profitable U.S. growth through OG dozens, digital sales and by adding new high-volume doors with our strategic fresh delivery partners. With that, Raphael will now review our first quarter financials and provide an update on our 2026 full year outlook.

Raphael Duvivier
Chief Financial Officer

Thank you, Joshua. I'm pleased with our quarterly performance, which is driven by the disciplined execution of the turnaround plan. We are focused on sustainable, profitable growth through quality sales and effective cost management across the P&L. We deleverage our balance sheet through refranchising activity and by delivering higher adjusted EBITDA. We also generated free cash flow, our first positive free cash flow in a Q1 period since our 2021 IPO by continuing to reduce capital expenditures and better working capital management.

Net revenue was \$367 million in the first quarter of 2026, down 2.2% year-over-year, reflecting our strategic closure of underperforming doors completed in the third quarter of 2025. System-wide sales were \$485.3 million in the first quarter of 2026, increasing 0.7% in constant currency, excluding sales attributed to the now ended McDonald's USA partnership. Adjusted EBITDA of \$33.1 million was an increase of 38% year-over-year, driven by productivity initiatives across our network and cost control at the corporate level.

This represents the third consecutive quarter of adjusted EBITDA growth year-over-year. At quarter end, our net leverage ratio, which reflects our net debt divided by trailing 4 quarters adjusted EBITDA, improved 1.2x quarter-over-quarter to 5.5x and reflected an improvement of 2x since we announced the turnaround plan in August last year. This is also below the forecasted 6x we previously shared due to the timing of WKS refranchising as the proceeds help us further reduce our net debt. In addition, we benefit from our turnaround initiatives, which led to the substantial improvement in adjusted EBITDA. We continue to have healthy liquidity, which has now increased to more than \$300 million.

Our bank leverage is now below 4x, which lowers the interest rate on our primary credit facility by 25 basis points. In our U.S. segment, organic revenue declined 4% year-over-year due to the strategic closure of underperforming fresh delivery doors in the third quarter last year, including McDonald's, as we focus on quality growth.

We have since replaced low-volume doors with higher volume, higher-margin doors with strategic partners. Positioning Krispy Kreme products in the right place with the right partner at the right time resulted in substantially higher average weekly sales of \$685, a 16.7% increase over year and a 3.8% increase quarter-over-quarter.

Adjusted EBITDA for the U.S. segment increased 61% to \$25.5 million, up from \$15.9 million in the first quarter last year, reflecting traction from our turnaround plan. We benefited from cost controls and other initiatives related to efficiencies in our operating network, including completing the outsource of our U.S. logistics networks, savings on SG&A and the eliminations of costs related to the now ended McDonald's USA partnership.

Adjusted EBITDA margin increased 480 basis points year-over-year. In our International segment, organic revenue increased by 0.4%, primarily due to growth in Canada and Mexico. Adjusted EBITDA for International segment was down 2.9% to \$14.5 million, driven by the refranchising of our operations in Japan in early March.

In our Market Development segment, organic revenue declined 4.3% as growth in royalty revenues from international markets, including India, Brazil and Spain was more than offset by lower equipment sales in the quarter. Adjusted EBITDA for the Market Development segment rose 5.3% to \$11.6 million.

Adjusted EBITDA for the Market Development segment rose 5.3% to \$11.6 million. Adjusted EBITDA margin decreased year-over-year 60 basis points to 57.5%, driven by changes in the regional mix of product sales. Our highly attractive franchise margin levels support our intention to advance our capital-light growth strategy. As Joshua mentioned, we plan to open 3 to 4 new international franchise markets this year, including the Netherlands, which will open later this year. Let me now discuss our financial guidance, which we have expanded with a full year range for net revenue and for adjusted EBITDA.

Both ranges include the impact of refranchising transactions we have already completed, but not any future transactions. We expect net revenue of \$1.25 billion to \$1.35 billion. System-wide sales are expected to increase 2% to 4% in constant currency from \$1.96 billion in 2025. We project at least 100 shop openings this year, nearly all franchised, including 26 shops that opened in the first quarter. We expect adjusted EBITDA of \$140 million to \$150 million. This range, as I said, includes the impact of refranchising transactions. We estimate that annualized impact of EBITDA of refranchising Japan and WKS is approximately \$15 million.

Capital expenditures of \$50 million to \$60 million, which reflects a decrease of approximately 50% from last year, positive free cash flow of more than \$15 million; and finally, net leverage ratio below 5.5x. Our first quarter demonstrated clear progress on our turnaround. We are driving sustainable, profitable growth in the U.S. and globally, deleveraging our balance sheet by expanding our capital-light model, increasing adjusted EBITDA and generating free cash flow through disciplined CapEx and tighter working capital management. In the quarters ahead, we intend to build on this approach and continue to deliver on the objectives outlined in our turnaround plan. I will now turn the call back over to Joshua.

Joshua Charlesworth

President, CEO & Director

We continue to build momentum with our focus on sustainable, profitable growth and a stronger balance sheet. We are confident in the foundation we are laying for Krispy Kreme's next year of growth and the progress we have made shows we are well on our way. Operator, let's now open it up for Q&A, please.

Question-and-Answer Session**Operator**

[Operator Instructions] Your first question comes from the line of Daniel Guglielmo with Capital One Securities.

Daniel Guglielmo

Capital One Securities, Inc., Research Division

We appreciated the 2026 guidance for both revenues and adjusted EBITDA goes to show how far we've come from last year. As you continue to execute on additional international refranchising deals, so over what's already been announced, how do you expect that to impact the guidance? Just trying to think through the puts and takes for those kinds of deals.

Raphael Duvivier

Chief Financial Officer

Thanks for the question. So yes, look, as we get more deals done, we'll update the guidance. The guidance we gave include the 2 deals that we have already done, so exclude WKS and Japan. And I provided some clarity on the annualized impact of both of around \$50 million. As we get more deals done, we will update both numbers for revenue and EBITDA.

Daniel Guglielmo

Capital One Securities, Inc., Research Division

Appreciate that. And then U.S. consumer trends have been mixed based on business type in this kind of complex macro environment. Can you just dig in a little more into your U.S. customer trends? Are you seeing strength in certain regions? And how did demand trend by month in 1Q? And do you have any insights on April trends?

Joshua Charlesworth

President, CEO & Director

Dan, this is certainly a dynamic broader consumer environment. But at Krispy Kreme, we continue to see strong demand for our differentiated fresh doughnuts. For example, the original glazed in dozens, where we are driving value with our second dozen promotions has performed well through the quarter.

And we also saw in those gifting and sharing moments like Valentine's and the Artemis 2 doughnut, which is a real buzzworthy event, we saw strong demand so strong that we actually even had to expand availability. So we certainly saw weather disruption in January here in the Southeast, the home of Krispy Kreme. But overall, we saw a strong performance through the quarter and continue to see that in April, especially around these buzzworthy moments.

Operator

[Operator Instructions]

Joshua Charlesworth

President, CEO & Director

Well, assuming there are no more questions, thank you, everyone, for joining the call. And we're making significant progress on our turnaround plan to deleverage the balance sheet and position Krispy Kreme for sustainable long-term growth, and we look forward to continuing this momentum throughout 2026. Thank you again.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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