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Krispy Kreme, Inc. (DNUT) Q3 2026 Earnings Call Transcript

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Q3: 2026-11-05 Earnings Summary

Insights

EPS of $0.06 beats by $0.05 | Revenue of $328.76M (-12.40% Y/Y) beats by $17.35M

Krispy Kreme, Inc. (DNUT) Q3 2026 Earnings Call November 5, 2026 8:00 AM EST

Company Participants

Steve West - Vice President of Investor Relations
Joshua Charlesworth - President, CEO & Director
Raphael Duvivier - Chief Financial Officer

Conference Call Participants

Aisling Grueninger - BofA Securities, Research Division
Brian Harbour - Morgan Stanley, Research Division
Daniel Guglielmo - Capital One Securities, Inc., Research Division

Presentation

Operator

Greetings. Welcome to the Krispy Kreme Q3 2026 Earnings Call. [Operator Instructions] Please note this conference is being recorded. Now I'll turn the conference over to Steve West, Vice President, Investor Relations. Thank you, Steve. You may begin.

Steve West
Vice President of Investor Relations

Good morning, everyone, and welcome to Krispy Kreme's third quarter 2026 earnings call. Joining me are President and Chief Executive Officer Josh Charlesworth and Chief Financial Officer Raphael Duvivier. The third quarter earnings release and accompanying presentation are available on our Investor Relations website at investors.krispykreme.com. A replay of this call will also be available on our website.

Today's remarks contain forward-looking statements, including those of expectations, future events, or financial performance. Forward-looking statements are based on current expectations and are subject to risks and uncertainties. Actual events or results could differ materially from those forward-looking statements due to factors described in the cautionary statements in our earnings release, annual report on 10-K filed with the SEC, and other SEC filings we make from time to time. We assume no obligation to update any forward-looking statement except as may be required by law.

Additionally, we will reference certain non-GAAP financial measures. Information about these non-GAAP measures and reconciliations to the closest comparable GAAP measures are available in our earnings release and the accompanying presentation. Any reference to percentage growth when discussing third quarter results is a comparison to the third quarter of 2025, unless otherwise indicated. Finally, we are tentatively scheduled to report our fourth quarter and full year financial results and host our quarterly earnings call on March 4, 2027.

I will now turn the call over to Josh.

Joshua Charlesworth
President, CEO & Director

Thank you, Steve, and good morning, everyone. The third quarter marked another period of significant progress on our turnaround to strengthen the balance sheet and drive sustainable, profitable growth, which gives us the confidence to increase our full year guidance. Krispy Kreme is a compelling growth story, supported by sustained consumer demand for our iconic fresh doughnuts even in a dynamic macro environment. Unlocking that demand continues to be our priority as we pursue profitable U.S. expansion and capital-light international franchise growth. In the third quarter, global systemwide sales increased by 1%, and our goal remains to grow by 2% to 4% to more than $2 billion in 2026. Our results demonstrate the success of the actions we are taking to drive sustainable growth and improve profitability. In the third quarter, adjusted EBITDA margin expanded 240 basis points compared to last year when excluding the cyber insurance recovery.

Now let's move to the 4 pillars of our turnaround plan and the progress we are making against 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 systemwide sales while accelerating new shop development through a capital-light model. Earlier this year, we completed the refranchising of Japan and the Western U.S. with both transactions contributing to a reduction in net debt. Today, franchisees generate approximately 42% of our systemwide sales, and we expect that percentage to grow as we continue to pursue additional refranchising opportunities.

We are disciplined in selecting the right partners, both internationally and in the U.S. to maximize value and position the brand for long-term growth. We recently announced a development agreement with an existing franchisee to open 33 new doughnut shops across the New York City metropolitan area over the next 5 years. This is an exciting opportunity to expand our presence in one of the country's largest consumer markets through our capital-light franchise model. As we look ahead, we will continue to evaluate capital-efficient ways to expand the brand. The second pillar of our turnaround is improving returns on capital. Across the business, we are reducing capital intensity and making better use of our existing assets while our franchisees invest to expand our footprint. Year-to-date, we have reduced CapEx by approximately 65%, a meaningful improvement that supports our goal of generating positive free cash flow in 2026.

This year, we have already announced 3 new international franchise agreements, Estonia, Mauritius and the Netherlands. Today, we announced a fourth agreement to enter Pakistan with Gray Mackenzie Restaurants to open 120 doughnut shops over the next 5 years. We are also seeing sustained demand in existing international franchise markets, including Brazil, Spain and recently refranchised Japan. By the end of the third quarter, there were 98 new shop openings, nearly all of which are franchised, led by India, South Korea and the Middle East. The strong interest in development from franchisees around the world speaks to the strength of the Krispy Kreme brand and the significant opportunity to expand our global footprint through our capital-light franchise model. We are actively pursuing new ways to expand. Next week, one of our long-time franchisees will open a reimagined shop prototype in Las Vegas, designed to bring the Krispy Kreme Hot Light experience and fresh, hot Original Glazed doughnuts to consumers in a smaller shop format. While we are in the initial phase of testing the new Hot Light Express concept, we are encouraged by the interest we've already seen from franchisees as we focus on ways of improving capital returns within our hub-and-spoke model.

The third pillar of our turnaround is expanding margins. We are simplifying the business and taking meaningful costs out of the P&L. These actions are producing significant year-over-year margin improvement, especially in our U.S. segment. In the U.S., we are making doughnuts more efficiently through enhanced production planning, labor optimization and streamlined hub operations, resulting in a meaningful reduction in labor spend. We're also increasing delivery efficiency through improved route management and demand planning as well as optimized production and delivery schedules. The fourth pillar of our turnaround is sustainable, profitable growth in the U.S. across our doughnut shops, digital channels and fresh delivery. Our doughnut shops are an important driver of profitable U.S. growth.

We continue to see success with our expanded core menu, led by the iconic Original Glazed doughnut, along with a steady rotation of seasonal collections and innovative limited time offerings, including our recent popular Pokémon collection. Each plays an important role. Our core menu delivers consistency and value. Seasonal collections provide variety and new flavors and limited time offerings create excitement and cultural relevance. Together, they keep the brand fresh, give consumers new reasons to visit and drive sustained demand as we saw last weekend with a successful Halloween. Our digital channel continues to be a key driver of U.S. growth as a result of our ongoing improvements to our proprietary digital platforms, including more convenient payment options as well as the continued growth of our loyalty program, which now has more than 18 million U.S. members. Since announcing our turnaround plan just over a year ago, we have taken action to improve profitability and position our U.S. fresh delivery business for sustainable growth. As a reminder, after a thorough assessment of our fresh delivery network last year, we exited approximately 1,500 underperforming doors across the channels we serve today.

Since then, we have been adding more profitable high-volume doors and fresh delivery returned to growth in the third quarter. We have added 715 net new doors year-over-year, which have higher average weekly sales than those we exited. In total, together with our franchisees, we now serve approximately 7,700 fresh delivery doors across the U.S. Sustainable profitable growth in fresh delivery depends on having the right conditions in place, namely high-traffic locations and prominent in-store visibility. We are gathering insights specific to each channel, including mass, grocery, club and convenience to better understand what drives success. In mass, including Walmart and Target, securing planogram placement with customers drives growth and unlocks digital opportunities. In grocery, more prominent front-of-store placement increases visibility and drive sales. We're working with several customers to improve our placement and make our doughnuts more accessible to shoppers. Publix is an example of this and has been a key driver of our recent door growth.

In club, which includes Costco and Sam's Club, large store sites and seasonal product rotations require a different approach. At Sam's Club, we've seen success by improving the prominence of our displays, making it easier for customers to find our products. In August, we concluded our latest rotation at Costco in the U.S., and we are now exploring different opportunities with them, including seasonal offerings and road shows. And finally, in convenience stores, where we sell mostly loose doughnuts, traffic trends are very important. We believe increased fuel prices have been a factor in reduced traffic this year. As a result, we are reviewing our footprint to optimize our door counts based on where we believe the conditions are right to support sustainable, profitable sales. Overall, we are pleased with the progress in fresh delivery and remain focused on adapting our approach to drive sustainable, profitable growth.

On the topic of GLP-1 medications, our research shows that Krispy Kreme consumers who use GLP-1s are just as likely as nonusers to purchase sweet treats for holidays and special occasions. While we recognize that GLP-1 users generally have lower appetite, our research shows that they have higher purchase consideration for Krispy Kreme. We believe this reflects 3 factors: quality matters when consumers choose to indulge; Krispy Kreme is typically purchased just 2 to 3 times per year, often tied to special occasions; And our fresh doughnuts are often purchased for others with approximately 80% shared and 40% gifted. We believe our focus on quality, occasional indulgence and sharing positions us well as consumer habits evolve.

For example, our growing Minis category featuring Doughnut Minis, Dots and Mini Crullers offers consumers compelling value and greater variety in smaller sharing sizes. As we approach the end of the year, we are pleased with our operational and financial momentum. The actions we have taken are positioning Krispy Kreme for sustainable, profitable long-term growth and delivering the outcomes our turnaround plan was designed to achieve: improved financial flexibility, reduced capital intensity, expanded margins through greater operational efficiency and improved sustainable, profitable U.S. growth.

With that, I will turn the call over to Raphael to review our financial results.

Raphael Duvivier
Chief Financial Officer

Thank you, Josh. I'm pleased with our continued operational improvements and the strong financial momentum we have experienced this year, driven by our turnaround plan. As expected, due to refranchising, year-to-date net revenue is down to $1 billion, but our adjusted EBITDA of $97 million is up $13 million versus last year, reflecting the benefit of our turnaround actions. Adjusted EBITDA margin improved by 200 basis points to 9.5% and free cash flow increased by $82 million. Our leverage is now 1.2 turns lower than it was at the end of 2025.

Now turning to the third quarter. Net revenue was $329 million, down 12%, primarily due to refranchising of our Western U.S. and Japanese businesses. Organic revenue, which excludes refranchising and FX was essentially flat. Adjusted EBITDA of $35.3 million decreased 13.1% due primarily to lapping the $9.3 million cyber recovery in the third quarter of last year. Excluding the onetime cyber recovery, our adjusted EBITDA increased 13%, and our adjusted EBITDA margin improved by 240 basis points, driven by productivity initiatives across our network and cost controls at the corporate level.

In our U.S. segment, organic revenue increased 0.9%, driven by fresh delivery and digital. We continue to take disciplined actions to optimizing productivity in our production hubs, which is reflected in more than 10% growth in our sales per hub year-over-year. As reported, adjusted EBITDA for the U.S. segment declined to $13.9 million. Excluding the $9.3 million cyber-related insurance recovery in the third quarter of last year, our U.S. adjusted EBITDA grew 18% and adjusted EBITDA margin increased 320 basis points, reflecting greater operating efficiencies.

In our International segment, organic revenue was down 5.4% due primarily to declines in the U.K., partially offset by growth in Canada. Adjusted EBITDA of $20.1 million was 13.2% lower, driven by the refranchising of Japan. Additionally, our adjusted EBITDA margin for the International business was 16.3%, a slight decrease of 20 basis points. In the U.K., we're starting to see improved profitability following operational improvements we implemented during the summer. In October, we also implemented a restructuring of our U.K. production network to increase efficiencies and profitability.

In our Market Development segment, organic revenue increased 14%, driven by growth in royalty revenues from the U.S., Middle East, Japan and Brazil. Adjusted EBITDA increased 54% to $18.5 million due to the refranchising of the Western U.S. and Japan. Adjusted EBITDA margin decreased to 41.6%, driven by a higher domestic versus international revenue mix associated with refranchising. We reported adjusted earnings per share of $0.06, an improvement of $0.05 versus last year. This was driven by a favorable tax rate, our refranchising deals and cost efficiencies from our turnaround plan, partially offset by the cyber insurance recovery in 2025.

Moving to our balance sheet. As I said previously, our net leverage ratio of 5.5x was 1.2 turns better than at the end of 2025. We are pleased with the progress but continue to view lowering our leverage ratio as a top priority. We expect to do this through net debt reduction and adjusted EBITDA growth and still anticipate our full year net leverage ratio to be below 5.5x. Free cash flow, which includes approximately $4 million in transaction-related fees, improved by $82 million in the first 3 quarters of 2026, driven by our focus on reducing capital intensity.

We continue to expect to report positive free cash flow of more than $15 million in 2026. Our year-to-date CapEx of $28.6 million decreased approximately 65% compared to the same period last year. We continue to focus our invested capital on repairs and maintenance of existing infrastructure, which is in line with our asset-light business model and should contribute positively to free cash flow generation.

Moving to our financial targets. I'm pleased to say we are improving and narrowing guidance for some metrics that's laid out in our earnings release. This includes increasing and narrowing our net revenue range to $1.35 billion to $1.4 billion, maintaining our adjusted EBITDA range of $140 million to $150 million despite inflation in global commodities this year, maintaining our systemwide sales growth range of 2% to 4% in constant currency and lowering and narrowing our CapEx to $40 million to $45 million. Finally, before I close, I wanted to provide context for our 2026 adjusted EBITDA guidance. Our guidance range represents an increase of $25 million to $35 million compared to 2025 when excluding the $14.1 million cyber insurance recovery last year and an estimated $11 million of adjusted EBITDA from our WKS and Japan operations that were refranchised in March 2026. We believe this allows investors to better understand our 2026 guidance and the positive impact of our turnaround is having in our financials.

Operator, you may now open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question is from Sara Senatore with Bank of America.

Aisling Grueninger
BofA Securities, Research Division

This is Aisling on for Sara. So you raised the fiscal '26 revenue guide by $100 million at the midpoint, but you held the adjusted EBITDA flat. Can you just walk through, kind of, what drove the higher revenue outlook and why it doesn't carry through to EBITDA? Is that mostly just lower margin product sales to refranchise partners?

Raphael Duvivier
Chief Financial Officer

Thanks for the question. This is Raphael. Look, we are pleased we could raise our revenue guidance range, actually tighten it in such what I call a dynamic macro environment. And with that actually maintaining the EBITDA range guidance. Look, we have worked hard this year to control costs. We believe the financial results combined with our increased revenue guidance speak to the results of the turnaround plan.

Aisling Grueninger
BofA Securities, Research Division

Just as a follow-up on the New York City development agreement for the 33 shops. It's kind of the first sizable U.S. franchise development commitment we've seen. Should we read that as a template for other company-operated U.S. markets? Or is it specific to that franchisee and territory?

Joshua Charlesworth
President, CEO & Director

Well, no, we're really pleased to be able to announce the expansion in New York. This is an existing franchisee we've been working with for a few years, but adding more than 30 shops over the next 5 years, be exciting to bring Krispy Kreme to more places, make it more convenient for people to access our doughnuts. And in fact, when you look across the U.S., we have great partners across the U.S. already more than 20 franchisees. Our biggest being the WKS Restaurant Group, which is also looking to expand in the Western states. So pleased to work to bring our doughnuts to more places and make it convenient for people to access them.

Operator

Our next question is from Brian Harbour with Morgan Stanley.

Brian Harbour
Morgan Stanley, Research Division

I guess just because there's so much movement in the P&L right now, it's a little bit hard to discern this, but just, like, demand generally in the U.S., how would you characterize that maybe 3Q versus the start of the year? How do you think it looks into 4Q here?

Joshua Charlesworth
President, CEO & Director

Yes. Brian, we're seeing sustained consumer demand in, as Raphael described, this dynamic macro environment. The areas where we're seeing most growth in the U.S. are in our digital and fresh delivery channels. Internationally, it's with our franchise partners. When you go deeper and look where the growth is being driven, we're seeing value important to our consumer. We're seeing strength with our dozens business. And in fact, the promotions with our double dozens where we provide a discount on the second dozen, and performing particularly well. But interestingly, in this environment, Krispy Kreme as a sharing special occasion business also does well. We saw our Pokémon collection was very popular earlier in the quarter. And just last weekend, we had a successful Halloween. So overall, sustained demand is what we're seeing.

Brian Harbour
Morgan Stanley, Research Division

Okay. And just, I guess, currently and then as we start to think about next year, where are you on sort of COGS inflation across, kind of, your 3 major inputs plus also just trucking. I don't remember how you -- I assume it's, kind of, fuel cost that gets passed through. I don't remember exactly how much and what the timing is, but could you just talk about that a little bit?

Raphael Duvivier
Chief Financial Officer

Brian, this is Raphael. Look, inflation, I'd say, is higher, certainly in both commodities and fuel. If you think about edible oils, we've seen a significant increase since last quarter. But we have been able to manage it. Therefore, that's why we're keeping guidance. Look, we are not discussing 2027 outlook yet at this time, but our plan is to continue to cover full commodity inflation through cost initiatives and some modest and selective pricing.

Operator

Our next question is from Jon Tower with Citi.

Unknown Analyst

This is [Gautam] on for Jon Tower. I was wondering if you could maybe provide some color on how volumes have been at big box retail partners relative to your initial expectations? And how much additional distribution opportunity do you have in the U.S.

Steve West
Vice President of Investor Relations

Could you just repeat the question? Gautam, I just didn't quite catch it.

Unknown Analyst

Yes, sure. Sorry. Can you hear me?

Joshua Charlesworth
President, CEO & Director

Yes, go for it.

Unknown Analyst

Yes. If you could just provide some context on volumes at big box retail partners? How has that tracked relative to your initial expectations? And how much additional distribution opportunity do you have across the U.S.?

Joshua Charlesworth
President, CEO & Director

Thank you. So by big box retailers, I assume you're referencing the likes of Walmart and Target, where we have been adding distribution over the last year. We're pleased today to share that our fresh delivery business as a whole is back to growth after the interventions we made last year to make sure it's sustainable, profitable growth. And those big box retailers are an important part of that turnaround. We've been adding distribution with them because they have higher traffic and because the partners really understand the importance of merchandising and prominence in store. So we're pleased with the momentum we're seeing with them. And we still see plenty of opportunity. We are not in all the Walmarts or Targets. In fact, we are in less than half of both. So we look forward to continue to work with them to expand access to doughnuts.

Operator

Our next question is from Daniel Guglielmo with Capital One Securities.

Daniel Guglielmo
Capital One Securities, Inc., Research Division

You all have made great inroads with the franchise development growth. And in the opening remarks, you mentioned a few new countries that you're adding as well. So can you just remind us what the operational lift is for you all to stand up a new franchise market in a different country? I'm sure you have a pretty good playbook at this point. So any insights would be helpful.

Joshua Charlesworth
President, CEO & Director

Yes, we do. We've been adding countries to the system for a number of years now. We have a team in Dubai dedicated to supporting those international franchise partners as well as here in North Carolina. We're well used to helping people source ingredients. We have a very well thought through network across the world and supply chain that helps people open up new markets. As a reminder, we actually still make the equipment here in North Carolina and service it. And so we're able to support the various partners directly.

And it was exciting today to announce a fourth country for this year as an agreement we've announced this time with Pakistan. And the business there that we partnered with, Gray Mackenzie Restaurants, they've outlined a commitment to 120 new shops in the next 5 years. So it was a great addition to our pipeline of growth with international franchisees. Thank you.

Daniel Guglielmo
Capital One Securities, Inc., Research Division

Okay. Awesome. And then on the 2026 goals from last year, one goal was to target 2 to 3 international refranchising deals. You got Japan done earlier this year, but there are still more to go. So can you just talk about how those conversations have changed throughout the year with, kind of, interest rates rising quickly, kind of, across the globe? Any color there would be helpful.

Raphael Duvivier
Chief Financial Officer

Daniel, good to hear from you. This is Raphael. Look, as I said, we are pleased with the deals that we did this year, I would say, not only Japan, but WKS. And as you can see, they are flowing to the P&L as expected. On your comment, look, we still have kept our goal of 2 to 3. We're still pursuing one additional one. I think it's important to remember that as we think about partners, we want to make sure that we're bringing partners that have capital and are ready to commit for growth and we do deals that are accretive to the P&L from a DCF, but also from an EPS perspective, which is what we have accomplished so far. So we'll keep you guys updated as we progress on that front.

Joshua Charlesworth
President, CEO & Director

And one thing I'll add is in Japan, obviously, we refranchised earlier this year, and we're pleased to see shop openings and growth momentum with the new partner there. And that's top of mind for us is opening new shops, opened 98 this year with our franchise partners around the world. So refranchising is an important enabler to grow the brand and expand.

Operator

Our next question is from Rahul Krotthapalli.

Unknown Analyst

This is [Crystal] on for Rahul. I wanted to first ask on competition. Given some other sweet treat concepts have been struggling, is there any opportunity for you to market your way into this to take some share?

Joshua Charlesworth
President, CEO & Director

Well, I focus on what we do best, and we're pretty differentiated, which is offer awesome fresh doughnuts, particularly for sharing and gifting occasions. This quarter, we saw our limited time collections doing really well, such as the Pokémon, and as I said, the seasonal celebrations. Some other innovation that we've brought is smaller sharing sizes to bring variety and smaller portions, smaller sharing portions for our customers. We have a Mini Crullers range that's still relatively new and growing well in our fresh delivery channel, for example. So our job is to bring to the consumer what they're looking for and make it easier for them to find. And we've certainly been benefiting from making those doughnuts available in more convenient locations. And so that will be our focus and let them make the choice.

Unknown Analyst

Perfect. And then also, given the category tailwinds that specialty beverage/coffee is seeing, would refreshing the platform make sense or be a priority to improve profitability? And do you see any maybe attach opportunity?

Joshua Charlesworth
President, CEO & Director

Well, we're very proud of our coffees and beverages. Our focus is naturally on the fresh doughnuts. That's what we absolutely excel in, welcoming consumers to our doughnut shops, bringing the doughnuts, the fresh doughnuts to more convenient locations like our fresh delivery partners and also online in the digital channel, making it more convenient to pick up. And I'll tell you, the fourth quarter, it's our peak season. We're very focused on meeting that demand for the different celebrations and seasonal moments that people are looking for our doughnuts for.

Operator

We have reached the end of the question-and-answer session. I would like to turn the floor back over to Josh Charlesworth for closing comments.

Joshua Charlesworth
President, CEO & Director

We are pleased to have delivered another consecutive quarter of significant progress on our turnaround and strengthen the balance sheet, drive sustainable, profitable growth. We're confident in the foundation we're building for Krispy Kreme's next era of growth and believe our results continue to demonstrate that we are well on our way. Thank you very much for joining us.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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