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Krispy Kreme, Inc. (DNUT) Q4 2024 Earnings Call Transcript

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Q4: 2025-02-25 Earnings Summary

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EPS of \$0.01 **misses by \$0.09** | Revenue of \$404.02M (-10.40% Y/Y) **misses by \$9.15M**Krispy Kreme, Inc. (NASDAQ:[DNUT](#)) Q4 2024 Earnings Conference Call February 25, 2025 8:30 AM ET

Company Participants

Dre Eldredge - IR

Joshua Charlesworth - President and CEO

Jeremiah Ashukian - EVP and CFO

Conference Call Participants

Daniel Guglielmo - Capital One Securities

Brian Harbour - Morgan Stanley

Andrew Wolf - C.L. King

Rahul Krotthapalli - JPMorgan

Bill Chappell - Truist Securities

Brian Mullan - Piper Sandler

Jaafar Mestari - BNP Paribas

Jon Tower - Citigroup

David Palmer - Evercore ISI

Operator

Thanks for standing by. My name is Regina, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Krispy Kreme Fourth Quarter 2024 Earnings Call.

I would now like to turn the call over to Dre Eldredge, Krispy Kreme Investor Relations. Please go ahead.

Dre Eldredge

Thank you. Good morning, everyone. Welcome to Krispy Kreme's fourth quarter 2024 earnings call. Thank you for joining us today. We will be referencing our earnings press release and presentation during the call. These are available on our Investor Relations website at investors.krispykreme.com.

Joining me on the call this morning are President and Chief Executive Officer, Josh Charlesworth; and Chief Financial Officer, Jeremiah Ashukian. After prepared remarks, there will be a question-and-answer session.

Before we begin, I would like to remind you that during this call we will be making forward-looking statements pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements of expectations, future events or future financial performance. Forward-looking statements involve a number of risks, assumptions and uncertainties, and we caution investors that many factors could cause actual results to differ materially from those contained in any forward-looking statements. These factors and other risks and uncertainties are described in detail in the company's Form 10-K filed with the SEC and in the other filings we make from time to time with the SEC. Forward-looking statements made today are only as of today. The company assumes no obligation to publicly update or revise any forward-looking statements, except as may be required by law.

Additionally, we will be referring to non-GAAP financial measures. Please refer to our earnings press release and presentation on our website for additional information regarding those non-GAAP measures including a reconciliation to the closest comparable GAAP financial measures.

Jeremiah will take us through our financial performance in a moment. But first, here's Josh.

Joshua Charlesworth

Thanks, Dre. Good morning everyone and thank you for joining us. We delivered our 18th consecutive quarter of organic sales growth, despite the Cyber Security Incident we disclosed in December. I want to take a moment to thank our hardworking Krispy Kremers for their resilience through the disruption and acknowledge their unwavering dedication to our customers.

As I reflect on 2024, I'm pleased that we delivered 21% revenue growth and our expanding US delivered fresh daily network and surpassed \$250 million in sales for the first time through this channel. We're now operating in 40 countries around the world with an established pipeline of franchise market growth.

We also reached several strategic milestones in our transformation to becoming a bigger and better Krispy Kreme. We simplified the business by divesting a majority stake in Insomnia Cookies. We added national distribution partners in the U.S. and we restructured our management teams to fully focus on our largest growth opportunities.

Profitable US delivered fresh daily expansion and the wider adoption of our capital-light international franchise model. Our transformation continues in 2025 with clear business priorities that are rooted in our strategy. We are spotlighting our core offerings. Our focus is on growing with national distribution partners. We expect to soon award contracts through Outsource U.S. Logistics.

We've begun a process to evaluate refranchising certain international markets and we are strengthening our performance-based culture.

Now, I will walk you through these priorities. Our iconic brand is a distinctive and undeniable asset, delivering more than 100 billion media impressions last year, far more than businesses of a comparable size.

In the fourth quarter, our team boosted consumer engagement with creative marketing, particularly through our viral Grinch video series promoting our Grinch Christmas Specialty Doughnuts collection. And earlier this month, our Valentine's Day collection led to the biggest U.S. retail sales day ever. This does not only creates awareness among Krispy Kreme fans, but it converts to sales.

To maximize this conversion in 2025, our most beloved and affordable Original Glazed Doughnuts will get the spotlight as we evolve our marketing efforts, simplify pricing, and focus on value-conscious consumers who we know are under pressure.

For example, we plan to bring every day plan deal by additional savings for purchases of two or more dozens. Although we will offer fewer days roll on discount, we will use meaningful discounts to drive demand on days, like National Doughnut Day that we can turn into buzz worthy events.

We continue to expand availability. 2024 as we grew global points of access by 24%. In the U.S., we added more than 2,800 new doors with national partners such as McDonald's, Kroger, Publix and Target, who are eager to expand with us nationally. Internationally, company-owned points of access also increased 14%, driven by Australia and Canada.

This very morning, we launched daily deliveries to approximately 500 McDonald's restaurants in the Greater New York City area and remain on track to reach about 6,000 restaurants by year end.

In 2025, we expect to continue our U.S. expansion with national partners, both existing and new. For example, Costco. An added benefit of this expansion with national partners is the opportunity to identify and close existing underperforming doors, which we expect to do in 2025.

While much of this growth is enabled by existing capacity, growing into new and underserved geographies will be supported by adding hubs with folks, of which we now have 158. We expect to build 5 to 7 of these in 2025 in areas like Minneapolis keeping our expansion on track.

Through this growth, we will increase doughnut volumes at exist production hubs, which is expected to improve productivity and profitability. As we become bigger, we must also become better. We're addressing the increased complexities that the company growth by simplifying the businesses, focusing, what we do best, making doughnuts.

And our recent progress confirmed that third-party logistics achieved excellent service levels and provided predictable logistics costs. We expect to soon award contracts to several national and regional carriers to outsource U.S. Logistics. And we are aiming to outsource more than half of our DFD deliveries by year end.

Our profitable capital-light international franchise business grew points of access by 8% in 2024; those have expanded in markets such as France and South Korea. For example, our franchise partner in France has rapidly grown to 19 doughnut shops across Paris and plans to add another 50 points of access as they enter the DFD channel in 2025.

This franchise model is the most capital efficient way for us to grow internationally. And so we've begun the process to evaluate re-franchising certain international markets. We also expect to open in two to four new countries with franchise partners, including Brazil and Spain in 2025.

Between all international and U.S. markets, we anticipate reaching more than 23,000 points of access by year end. An important initiative this year is strengthening our performance-based culture we have launched new incentive-based compensation in the field focused on results-oriented metrics such as consumer satisfaction and materials efficiency.

We're also investing in operations leadership, and simplifying shop employee and manager roles to support our Krispy Kremers. I believe that delivering on these priorities in 2025 will result in a bigger and better Krispy Kreme.

With that, I'll pass it over to Jeremiah.

Jeremiah Ashukian

Thanks, Josh. I'll cover our fourth quarter results, which as Josh has mentioned were impacted by the Cyber Security Incident. Excluding the estimated impacts from the cyber incident, results were largely in line with our expectation. The incident affected business operations, including online ordering, materials replenishment, and labor planning.

We estimate the incident impacted revenue for the quarter by \$11 million, with an estimated adjusted EBITDA impact of \$10 million driven by the margin from our sales and our operational inefficiencies resulting in higher ingredient waste, and elevated labor hours.

Insurance is expected to offset a portion of these costs and losses and we continue to believe this will not have a material impact on the long-term trajectory of the business. Today, systems are operational following great work from our teams, both internal and external, support tirelessly to ensure that our shops are running and that assistance came back online safely and efficiently.

Net revenue was \$404 million for the fourth quarter, driven by delivered fresh daily growth. We marked our first quarter with over a \$100 million in global delivered fresh daily revenue underscoring the value of our Omni channel strategy. Organic revenue grew 1.8%, despite an estimated 280 basis point headwind from the Cyber Security incident.

Organic revenue was driven by global points of access growth of 24%. Adjusted EBITDA declined to \$45.9 million, primarily linked to an estimated \$10 million impact from the Cyber Incident, as well as sale of a majority stake in Insomnia Cookies. Adjusted EBITDA margin was 11.4% with an estimated 210 basis point impact from the incident.

Turning to our U.S. segment results. Organic revenue declined 1.2%, primarily linked to an estimated 460 basis point impact from the Cyber Security Incident. Adjusted EBITDA was \$23.6 million, lowered by an estimated \$10 million from the headwinds from the Cyber Incident and from the sale of the majority stake in Insomnia Cookies.

Our DFD expansion strategy continues, as points of access growth accelerated to 34% year-over-year, progressing with several major national accounts. Average revenue per door per week or APD was \$631, down slightly from the prior year as expected given the changing customer mix.

For example, large scale Walmart doors, which have an APD that is higher than the segment average represent approximately 15% of our US DFD doors and from 19% in year ago period despite net growth with Walmart in that time frame.

Looking into 2025, we anticipate revenue growth as we expand our DFD network, partly dampened by consumer pressures. From a profitability perspective, we expect margin compression in the front half due to lingering impacts of the Cyber Security Incident on labor and material management in Q1 specifically and long-term business investments with revenue growth and Hub and Spoke efficiencies expected to deliver operating leverage in the second half.

Within our equity-owned international markets, organic revenue grew 7.8% year-over-year, led by Canada and Japan. Points of access grew 14% fueled by DFD revenue growth of 21%, as we continue to execute against our Hub and Spoke strategy.

Adjusted EBITDA was \$25.7 million with adjusted EBITDA margin down to 18.6%, largely due to continued pressure in the UK.

As mentioned on the third quarter call, we have a new management team in the UK who have just completed their first quarter with the business. The team remains laser focused implementing plans to return this key market to profitable growth.

The teams are continuing to right-size the production network, work on core range, including strengthening Original Glazed, which is underrepresented in that market in addition to piloting different price points and different channels to ensure value for the consumer.

Elsewhere, markets such as Canada and Japan continue to deliver strong results driven by the OG doughnut with both markets improving margins year-over-year, driven by strong consumer-centric execution.

In our most profitable segment market development, organic revenue declined 0.7% due to timing of equipment sales. Adjusted EBITDA margin improved again to 57.8% linked to favorable sales mix and SG&A improvements.

Adjusted earnings per share for the year was \$0.11, driven lower by depreciation and amortization, as well as interest expense. We also estimate the 2024 Cyber Incident had a \$0.04 impact to adjusted EPS.

In 2024, we delivered positive operating cash flow. We also maintained a similar level of gross debt, while reducing supply chain financing by \$44 million. Leverage at year end was also impacted by the Cyber Security Incident.

As we transform the business ahead of accelerating profitable growth in both the U.S. and a wider adoption of our capital-light expansion internationally, we expect to deliver the following results in 2025: net revenue of \$1.55 billion to \$1.65 billion; organic Revenue growth of 5% to 7%; adjusted EBITDA of \$180 million to \$200 million and adjusted earnings per share of between \$0.04 and \$0.08.

Providing some further insights into our financials in 2025, we anticipate that margins compressed in the first half due to lingering impacts of the Cyber Security Incident on labors and material management of Q1 specifically and long-term business investments with revenue growth and Hub and Spoke efficiencies, expected to deliver operating leverage in the second half.

SG&A expresses remains flat as a percent of revenue as the restructuring announced last year is offset by inflation and bonus accruals. Capital expenditures to track between 6% and 7% of net revenue and interest expense is expected to be between \$65 million to \$75 million due to higher interest rates, with \$500 million of our long-term debt hedged. This all reflect the \$3 million to \$5 million headwind to adjusted EBITDA from foreign exchange rate.

With regards to the first quarter of 2025, we've seen consumer softness. We're also seeing impact from weather in the Southeast and fires in California. Taking these into account alongside the divestiture of Insomnia Cookies, start-up cost from our U.S. expansion and the lingering Cyber Security impacts in Q1, we expect the first quarter net revenue will be between \$379 million and \$390 million with \$25 million to \$30 million in adjusted EBITDA.

I remain we are taking the right actions in 2025 to set the business up for long-term profitable growth and improve returns on capital.

Joshua Charlesworth

Thanks, Jeremiah. In summary, our largest growth opportunities of profitable US delivered fresh daily expansion and The Wider adoption of our capital-light international franchise model. In 2025, our transformation to a bigger and better Krispy Kreme continues with the clear business priorities we shared today, mainly spotlighting our core offerings, focusing on growing with national distribution partners, our expectation that we will soon award contracts to outsource US Logistics, the evaluation of re-franchising certain international markets and strengthening our performance-based culture. I look forward to our profitable growth in the years ahead.

Operator, let's now open it up to Q&A, please.

Question-and-Answer Session

Operator

[Operator Instructions]

We'll take our first question from the line of Daniel Guglielmo with Capital One Securities. Please go ahead.

Daniel Guglielmo

Hi everyone. Thanks for taking my questions. On the OpEx line specifically, those expenses are in line with prior year without Insomnia Cookies and understand that there's \$3 million from the Cyber Security Incident.

But thinking for 2025, where are you expecting kind of OpEx expenses to go? Should we be modeling kind of flat to what we've kind of seen this quarter taking into account seasonality or just curious how you're thinking about that?

Jeremiah Ashukian

Yeah, thanks Dan. I can I can take that question. Obviously, we're investing - let me just come back to - from a guide perspective with respect to OpEx and in general, we are expecting to invest in things like operations leadership as we're building kind of performance culture and getting ready for a national roll out of footprint in the US.

While it's also setting up the business for long-term growth by streamlining our operations and focusing on making doughnuts by Outsourcing Logistics. Both of these things, we do expect to pressure OpEx in the front half of the year and then start to leverage that in the back half of the year.

Daniel Guglielmo

Great, thank you. That's helpful. And then, just as a follow up to that, which kind of the DFD expansion into McDonald's, Target, Walmart that the larger name, what's kind of the process for thinking about existing maybe, DFD locations that are less economical?

And how do you guys think about maybe kind of shutting down some of those if it's not kind of hitting the margin levels that you're expecting? Just want some color there and even if you guys are doing that.

Joshua Charlesworth

Yeah, hi, Dan. Thanks for the question. Yeah, it's important to start by saying that the strategy to make our fresh doughnuts available in more places with the national partners you referenced, such as Walmart, Target and Kroger is working. And so, our expansion today is focused around those national partners we're also bringing on indeed new ones such as Costco, which I mentioned earlier in the call.

With that in mind, we're making sure we're continuously optimizing the network and that means, any low-performing doors we can optimize as we go and make sure that the system is strong for the long-term.

And we talked a lot about a bigger and better Krispy Kreme, that means sustainable efficient growth in the long-term profitable growth and hence we will take the opportunity for any smaller locations to optimize those as we go.

Operator

We'll take our next question from the line of Brian Harbour at Morgan Stanley. Please go ahead.

Brian Harbour

Thanks. Good morning, guys. For the top-line guide, you're talking about 5% to 7% organic growth that you're probably aware that you're kind of guiding I think below where the street is now for top-line.

So could you kind of just explain that? I don't know what the difference international versus U.S. is? Are you expecting there to be more door rationalization as you are sort of adding some of the McDonald's doors, what exactly kind of drives that top-line guide?

Joshua Charlesworth

Hi Brian. I think I'll start by talking about the start of the year. It has been a choppy start of the year in our traditional retail locations in the U.S. those freezing temperatures and wildfires, but we also see the value-conscious consumer under the pressure.

I mean, that being said, the consumer remains highly engaged with the Krispy Kreme brand, where an indulgent purchase for special occasions, I mentioned earlier that Valentine's was our biggest sales day ever. But we are finding that we need to put the spotlight on often loved and affordable Original Glazed. But so that is one of the key drivers particularly as we start the year out.

Brian Harbour

Okay, understood. And just on, I guess on the CapEx and free cash side, I think that the CapEx number you're saying was actually a little bit lower than you might have previously indicated incorrectly, if I'm wrong.

But I guess the broader question is sort of the – over the last couple years you've burned about \$75 million of cash. Last year sort of Insomnia precedes helped kind of with that capital budget. Is - do you think this year will look similar? Do you think that some of the refranchising proceeds that you're considering would sort of go to that capital budget for this year?

Jeremiah Ashukian

Yeah, thanks for the question, Brian. I think, I'd start with 2024 and we're actually pretty pleased with the fact that we delivered positive operating cash flow despite lowering the use of supply chain financing which was a strategic decision that we've made to reduce our reliance on that.

In addition to kind cyber pressuring EBITDA to kind of exit the year. As you mentioned, we're committed to driving free cash flow when we look to transform the business to ensure we have the right capabilities, long term. In 2025, we're focused on driving improved conversion of EBITDA to free cash flow being even more discerning with our CapEx as you mentioned and reducing kind of the spend in that area. And all whilst working toward making improvements in working capital.

I would expect to your kind of question, the organic ways to drive operating cash flow through refranchising to be incremental to this. But our objective is to drive positive free cash flow in 2025.

Joshua Charlesworth

It is worth I think as well and from an operational point of view that that as we prepare for this nationwide footprint in the U.S. and we expand with the national partners, we're finding more and more ways to leverage our existing capacity, whether it's because we've increased productivity at our existing hubs or we're learning how to get the doughnuts out to the points of access better and better.

So, there is an opportunity we think going forward to invest a little less than we originally expected in the hubs, which means that we'll probably only build about 5 to 7 new hubs this this year in the U.S., which is a little less than we had previously expected, reflecting the ability to leverage our existing capacity better.

Operator

Our next question comes from the line of Andrew Wolf with C.L. King. Please go ahead.

Andrew Wolf

Good morning. I wanted to ask you about your business with McDonald's just how '24 came out versus internal expectations top and bottom-line? And what is kind of reflected however specifically you can speak to it in 2025 with any updates based on results.

Joshua Charlesworth

Andrew, yeah, we just started the phased rollout of McDonald's in October. We're already in actually two and a half thousands restaurants today. We are launching in New York yesterday. We expect to be in about 6,000 by the end of the year and 12,000 by the end of 2026. So that roll out is on track. It's important to understand as well that the phased nationwide rollout of McDonald's is part of a broader strategy to make our fresh doughnuts more accessible.

As mentioned earlier, with Walmart, Target, Kroger, Costco and others. So, all that being said, the feedback from McDonald's is very positive. They tell us it's working well and we're working hard with them to maximize the opportunity to make sure that the launch goes well and we've seen during those the launch phase that with local marketing. The team at McDonald's is able to raise awareness, make sure that people know it's on the menu driving very strong demand and no visible cannibalization of all the sales channels.

Now, what we're doing now, it's early on in the roll out. We're making sure that we're working with them to maximize the opportunity during out the whole roll out phase, even when that local marketing comes off when that awareness drops, when it's not as visible on the menu, when naturally demands softens, we're making sure and we work with them to get all the way to the national rollout phase at the end of 2026 when we'd expect they would start putting on national marketing.

Andrew Wolf

Okay. So that's sort of like the J curve where initial demand is above sort of the steady state which I think is typical, right? And is that been in line with expectations?

Joshua Charlesworth

Well the initial demand when there's some prominence on the menu board is actually come in and those first few weeks above then when it comes that prominence comes off the menu board, there's no graphics, there's no other marketing.

The doughnuts aren't actually visible to the customer. It's not like they're on the counter or anything. They're find at the back there. So the demand has dipped actually a little lower than we expected. So, right now, we're focusing with them on how to make sure awareness is maintained during this local rollout phase whilst we wait to be nationally distributed.

As I said that the feedback from them is very positive and so, the partnership continues to progress very well and it continues to unlock for us expansion opportunities across the country. I mentioned Costco, it's a really big opportunity for us would have been possible without starting the McDonald's roll out, Target, which we just started in 2024, following the announcement of McDonald's continues to be a big expansion driver in 2025. So it's part of an overall program to get our awesome fresh doughnuts to more people.

Operator

Our next question comes from the line of Rahul Krotthapalli with JP Morgan. Please go ahead.

Rahul Krotthapalli

Good morning guys. On the DFD door weekly sales being down 5% lower year-on-year. You did cite customer mix change as expected. I'm just curious to get more color on what drove this if the McDonald's doors realization little lower than you expected or anything else you can share there? And I have a follow-up.

Joshua Charlesworth

Yeah, thanks, Rahul and as we kind of mentioned APD in the U.S. were primarily driven by customer mix. As we continue to add customers in the U.S., some of our bigger footprint customers like Walmart, which make up a lower percentage of our total DFD footprint now compared to the same quarter last year will pull down APD naturally just given their higher kind of APDs. That's the primary driver.

Rahul Krotthapalli

And did you guys quantified the impact of Cyber Security Incident had on the '25 EBITDA guidance?

Jeremiah Ashukian

We did not quantify the impact of Cyber on the 2025 guidance. What I can tell you is operationally, things like labors management and materials management were still an issue as we started the year. And so we do expect that and have called that out in our Q1 guide that we provided this morning.

Joshua Charlesworth

It is important to understand that as of today thanks to tremendous hard work of the team. Our business operations are fully operational.

Operator

Our next question comes from the line of Bill Chappell with Truist Securities. Please go ahead.

Bill Chappell

Thanks, good morning.

Joshua Charlesworth

Hi, Bill.

Bill Chappell

Just maybe a clarification from an earlier question. If I look at your revenue for 2024, it was \$1.7 billion or sorry - if I take your revenue from last year and I do plus 5% to 7%, it gets me to \$1.7 billion and you are guiding \$1.5 billion to \$1.6 billion. So can you just break out how much of that offset is from Insomnia? And how much of it is from, I assume currency?

Jeremiah Ashukian

Yeah, thanks Bill. So, it's a great question and it's absolutely the right kind of pick up. The US segment net revenue in particular was impacted obviously by the sale of Insomnia Cookies, which is roughly about \$70 million in revenue a quarter on that front. Foreign exchange it's having roughly a \$40 million impact on total net revenue for the year, as well, from an international business perspective.

Bill Chappell

Got it. So that's those two just getting back to the your 5% to 7% organic growth.

Jeremiah Ashukian

You got it. Yeah.

Bill Chappell

Okay, thanks. And then, any way to do that on the on the bottom-line in terms of just again you're doing you did 193 in EBITDA, you're going to 180 to 200 this year. How much of that is - how much of it's Insomnia and how much of it would be FX?

Jeremiah Ashukian

Yeah, in Insomnia we generate roughly \$8 million and we used to generate roughly \$8 million a quarter in EBITDA on Insomnia. That will obviously come out in the front half and we have called out a \$3 million to \$5 million impact as a result of foreign exchange on the EBITDA line, as well.

Operator

Our next question comes from the line of Brian Mullan with Piper Sandler. Please go ahead.

Brian Mullan

Hey, thanks. Just a question on the third-party logistics. In the prepared marks, I believe you said, you could have half the US system by year end. Just related to that, can you just give an example of the puts and takes from a P&L perspective, what expenses would go away? What new expenses would you have and can you talk about whether or not there would be a net benefit to EBITDA as you see it once it's all in place?

Jeremiah Ashukian

Yeah. Thanks, Brian. And we've begun to scale obviously to support DFD expansion in the US, including McDonald's with our existing in-house models to start. In February we moved to the contract phase and remain engaged with multiple carriers to finalize contract.

While we go through this phase and into the roll out, we do expect some transition costs and move into an outsourced model. So there is kind of EBITDA pressure. But we are targeting EBIT neutral. However, we're still in the negotiation phase. But expected costs are contemplated in our guide.

Joshua Charlesworth

And the goal of getting to more than the past the system to big initiatives, so exciting for the teams in terms of giving us predictability in costs, we think that we'll get excellent service levels just generally be a more streamlined set of operations. But all that's taken into account in the guide today. So the puts and takes have been pulled through.

Brian Mullan

Okay. Thanks. And then follow-up to the question on international, the process to re franchise certain markets, there's not that many company-owned markets right now. So could you just give a sense if you're - are you amenable to looking at refranchising all of them or are there some of them you'd like to continue owning for whatever your reasons are? Just any color on that and how long you think the process might take would be great?

Joshua Charlesworth

Sure, yeah, we've learned that the best way to grow overseas is with local scales master franchisee partners and we have strong and growing businesses in several international markets that we both own and our franchise. But what we think is the best way going forward, the fastest way of taking advantage of the opportunity and most capital-efficient way is to evaluate refranchising the international markets that we own.

The UK, Ireland, Australia, New Zealand, Japan, Mexico, Canada, that's the group that we own. We're evaluating all of those as an opportunity to do that. Most important thing is to find a really good partner and with quality proven operators, uphold our brand standards, deploy the operating model that we talked through the Hub and Spoke model.

And then, have of course, have a strong financial position. So, we're still in the evaluation phase right now, Brian. But we'll provide updates as we have them regarding any particular market. But we intend on doing this to make sure that we can focus most of our time on expanding the national U.S. partners in the U.S., strengthening that U.S. footprint and preparation for the nationwide rollout of those partners and overall transforming Krispy Kreme into a bigger and better Krispy Kreme.

Operator

Our next question comes from the line of Jaafar Mestari with BNP Paribas. Please go ahead.

Jaafar Mestari

Hi, good morning. The first question is on what you said about Q1. I just wanted to triple check I've heard correctly. I think you've give indicated EBITDA of between \$25 million and \$30 million in Q1. You've also given some indication on Insomnia quarterly EBITDA.

So last year, Q1 EBITDA with Insomnia was \$58 million and so, am I correct if I assume you're effectively bearing the blunt of the impact in that Q1, and your fully your guidance then implies there will be adjusted EBITDA growth year-on-year in Q2, Q3, Q4?

Jeremiah Ashukian

Hey, Jaafar, I can take that question. Yeah, and I think, to think about Q1 in particular and then quarter itself there really is kind of four things driving year-over-year change. The first being the sale of majority, stake in Insomnia Cookies. Second being the lingering impacts of the Cyber Security Incident on labors and material management, which I had referenced.

Third, we are incurring startup cost as we, invest in the U.S. expansion. And the fourth being some of the consumer pressures due to the adverse weather across country. So when you think about, as we want to going to be the most pressured on it. What I would say is we do expect sequential improvement as to go through that year by the excess capacity we are tapping into with our points of access growth driving Hub and Spoke efficiency. But it will be most pressured in Q1

Jaafar Mestari

Super. Thank you. And then, on international refranchising, early days as you said, but what's your very early view on the type of potential partners, you could find? Do you expect to be discussing sales on a local country level? Or do you think there could be regional players interested on taking on multiple countries?

Specifically a lot of, U.S. restaurant brands have listed franchisees. And do you think you could be considering conducting local IPOs for the OPCOs for example and retaining the brand and the franchise or do you think these businesses are too small for public markets?

Joshua Charlesworth

The way we have built, have more than 30 franchise partners around the world that work very, very well is whether they have the master franchise for that market for that country and can build out full omni-channel model within the borders of that country. We've seen that in existing markets across South America, Middle East, and Asia and indeed new markets like, France, which we opened up recently partnering with Columbus Cafe.

They are a national operator of great standing and similarly in Korea, we partnered with Lotte, obviously, a fantastic operator, well-known within the country and very strong and well-financed. And so, we will be looking at profiles like that. People who either have been involved or have an understanding of bringing in expertise whilst of course having good financial backing to support what is a fast-growing brand?

We wouldn't roll anything out that's the point of an evaluation. But we're not expecting to be going out - IPOing the businesses there's no immediate plans for that. It's more around finding the right partner to build sustainably because this is a growth model and we have people approaching us across the world all the time to partner with us since we were able to communicate the clarity of our growth trajectory and demonstrate profitable capital-efficient growth to them.

Operator

Our next question comes from the line of Jon Tower with Citi. Please go ahead.

Jon Tower

Hey, good morning. Thanks for taking the questions. Just real quick on a clarification. I'm assuming this is the case, but just wanted to make sure there no refranchising contemplated in your guidance today. Correct?

Jeremiah Ashukian

Yeah, that's correct, Jon. Yeah.

Jon Tower

Okay. Great. Maybe if you could speak to, it sounds like in 2025, both in the U.S. and internationally, there's a pivot in terms of marketing the actual product more towards the OG away from, maybe not even away from but it sounds like you're putting more of a spotlight in the OG doughnut. And I'm just curious to know why like, what exactly are you seeing that suggests that sort of proper tack to take?

Joshua Charlesworth

The Original Glazed doughnut, Jon was most differentiated product. There's nothing quite like the experience of having a fresh Original Glazed doughnut and even more so. If you have one hot off the line, indeed, we see, no matter what channel people are purchasing our doughnuts in. If they've had a hot Original Glazed doughnut and the way we structure is such that they think of the time they had that.

And so it really differentiates us against the competition. It's also our not only is it beloved, but it's almost affordable product. And we are conscious – the value conscious consumer. We see particularly for large families and gatherings looking to buy more than a dozen that we want to bring value and the Original Glazed can do that.

And then finally, I mean, very practically it's our easiest doughnut that we make. It's the core of what we do. More than half of our sales, so it's the highest margin, as well. So not only is it iconic for the consumer differentiating versus the competition, but the best way for us to sustainably profitably grow the business in all our channels.

Jon Tower

Got it. And maybe just one last follow-up on - you had mentioned that, you're seeing some softness from a consumer demand standpoint. Can you maybe break that down across the channels? Are you seeing any one channel stand out in terms of where that weakness is coming from?

Joshua Charlesworth

Well, we've consistently seen over the last couple of years as we've deployed this strategy of bringing the doughnuts to more people. The way we're bringing the doughnuts to them, making it much more convenient for them in their lives. We're seeing strong sustained growth. And of course, we've been adding more and more points of access around the world.

And so, I mentioned on the call today that we grow more than 20% in the delivered fresh daily channel as the all premise sales that I'm referencing in 2024 and achieved a milestone of \$250 million of revenue in the year. So, that's - thanks to that expansion deliver fresh daily. We're also seeing the digital channel has been growing consistently. Obviously, there was some disruption in December from the Cyber Incident.

But apart from that, that has been growing actually the similar level over the last few quarters more than 20%.

What I was referencing today was where we're asking people to come to our traditional doughnut shops, come into the lobby and have the experience of the doughnut case. It's an amazing experience. And it's often triggered by that hot light Original Glazed, to your earlier question, hence the importance of focusing on that in our strategy.

Operator

[Operator Instructions] And we'll take our next question from the line of David Palmer with Evercore ISI. Please go ahead.

David Palmer

Thanks. Good morning, guys. Wanted to ask you about that cyber impact. You estimated \$10 million as a headwind to the fourth quarter? I would imagine estimating that would be even pretty difficult. I mean, what is - can you make us understand like how you calculated that?

Like, what does that represent? How do you - where does this shortfall come from? And then, what was that drag, now that it's sort of behind you as you stand today, do you think the drag has been for 1Q?

Jeremiah Ashukian

Hey David, I'll take that question. And the way we think about it we talk a little bit about the impact to online sales and ordering, which would roughly make up half of the impact that we saw in the fourth quarter with respect to how you kind of quantify that. We actually didn't sell anything online for a number of weeks. And therefore, that's a fairly easy one to kind of quantify.

On the kind of labor and materials efficiency piece, we look historically at where kind of our adherence to schedule and labor hours are to estimate where and how inefficient we were during that time frame as well, which, which gives us pretty, pretty high kind of confidence and comfort that, that those were the impacts that we saw for the fourth quarter.

We're not disclosing the impact on the first quarter, specifically. But what I can tell you is we are back up and running from an e.com perspective. So less of an impact from lost sales, but continue to see the impact on efficiency until we have the back of shop systems up and running for the first few weeks in January.

David Palmer

And just to follow-up on outsourcing with the logistics. What is going to be the - when is that fully going to be rolled out? And what's the impact to EBITDA and cash flow? I would assume that there'll be some CapEx implications, as well. And maybe on an annualized basis, as you roll that out. Thanks.

Jeremiah Ashukian

Yeah, so I think as Josh has mentioned, we expect to transition roughly half the fleet by the end of the year. With respect to the costs associated with that, as I mentioned that we will encourage some startup cost as we go through the transition. But do expect in our working toward a goal of EBIT neutral for the year.

As you can imagine, there may be some actually cash benefit as a result of outsourcing as we kind of negotiate payment terms with them, but that then there's a lot of different things versus senior folks on a regular basis. So, we're still working through all that as we go through the contract phase where we are targeting effectively EBIT neutral for what we're saying.

Operator

And that will conclude our question and answer session. I'll turn the call back over to Josh Charlesworth for any closing comments.

Joshua Charlesworth

Yeah, I'll just say thank you for your interest in Krispy Kreme today. Thank you to our Krispy Kremers for all the hard work you do every day. Now our path forward is clear as we transform into a bigger and better Krispy Kreme, one that delivers profitable, capital-efficient growth in the long term. Thank you.

Operator

This concludes our call today. Thank you all for joining. You may now disconnect.

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