Krispy Kreme, Inc. (DNUT) Q4 2025 Earnings Call Transcript

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Q4: 2026-02-26 Earnings Summary

EPS of $0.09 beats by $0.05 | Revenue of $392.37M (-2.88% Y/Y) beats by $5.65M

Krispy Kreme, Inc. (DNUT) Q4 2025 Earnings Call February 26, 2026 8:30 AM EST

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 Ellie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Krispy Kreme Fourth Quarter and Full Year 2025 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 Fourth Quarter and Full Year 2025 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, Josh 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 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 cautionary statements in our 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. Forward-looking statements represent our expectations only as of today, and we assume no obligation to publicly update or revise 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 measures. Raphael will take us through our financial performance in a moment. But first, here's Josh.

Joshua Charlesworth
President, CEO & Director

Thank you, Christine, and good morning, everyone. Our fourth quarter results show that we are making meaningful progress on our turnaround plan to deleverage the balance sheet and deliver sustainable, profitable growth. Krispy Kreme continues to be a compelling growth story, anchored by our globally recognized brand and strong consumer demand for our iconic fresh doughnuts.

Our turnaround plan is centered on unlocking that demand through our 2 biggest opportunities, profitable U.S. expansion and capital-light international franchise growth. In 2025, we generated $2 billion in system-wide sales, and we expect to grow this by 2% to 4% in 2026 through higher sales volumes, points of access expansion and franchise development. Last year, approximately 75% of our system-wide sales came from company-operated locations.

As a result of our refranchising efforts, we expect nearly 50% of system-wide sales to come from franchisees as we begin 2027. We believe this shift will improve capital efficiency while supporting sustainable long-term growth. Although our decision to exit underperforming U.S. stores earlier in 2025 resulted in a modest decline in net revenue in the fourth quarter, we significantly increased adjusted EBITDA, expanded adjusted EBITDA margin, reduced our financial leverage and delivered positive free cash flow.

These results demonstrate the meaningful progress we are making on our turnaround plan focused on: one, refranchising; two, improving returns on capital; three, expanding margins; and four, driving sustainable, profitable U.S. growth. Our first pillar, refranchising, enables us to more profitably drive system-wide sales growth and accelerate unit development through our capital-light franchise model. In December, we announced a strategic refranchising agreement with Unison Capital for our operations in Japan, which we expect to close in March. Unison is a proven operator with extensive expertise in the retail restaurant sector, and we believe they are an ideal partner to continue to grow our iconic brand in Japan. Cash proceeds from the transaction are expected to be approximately $65 million.

Beyond Japan, our intent is to refranchise certain other international markets, prioritizing the right partners to maximize value and position the company for long-term growth. We are targeting 2 to 3 international refranchising deals in 2026. Additionally, we plan to reduce our ownership to a minority stake in our existing joint venture in the Western U.S. with the WKS Restaurant Group, which today represents about 15% of our U.S. revenues. As a franchisee, WKS Krispy Kreme will continue operating its existing shops, and our plan is to add company-operated shops on the West Coast to the joint venture. We also expect WKS to develop new shops and meaningfully expand our fresh delivery footprint over the next several years.

The second pillar is improving returns on capital. Across the business, we are reducing capital intensity and improving utilization of existing assets, while our franchisees continue to invest to support brand growth. This is reflected in our full year 2025 CapEx, which decreased 19% from 2024 and our expectation that 2026 CapEx will be nearly half of last year. This substantial reduction in CapEx should position us to generate stronger free cash flow in 2026. Our international development pipeline remains a key driver of capital-light growth.

We now operate more than 1,700 international shops, both company-owned and franchised across more than 40 countries. In 2026, we expect more than 100 shops opening globally while continuing to expand fresh delivery doors across grocery, convenience, club wholesalers and quick service restaurants. I recently visited our first Hot Light Theater shop in Madrid, Spain, an important and emerging European market for us, where I saw firsthand the enthusiasm for further expansion with our strong local franchise partner.

In November, we opened a Hot Light Theater shop and production hub in the underpenetrated Minneapolis market. This strategic opening generated immediate results, and we expect sales in the first 12 months to be approximately $10 million. This includes fresh delivery, which has already grown to [70 doors]. Minneapolis exemplifies our disciplined, thoughtful approach to capital deployment. We strategically transformed the former drug store into a doughnut shop and production hub designed to efficiently support off-premises distribution. While Minneapolis demonstrates the strong returns we can generate from strategic new locations, our broader U.S. strategy is to moderate company hub development and prioritize leveraging existing capacity to drive growth more efficiently.

More broadly, we deliver to over 7,000 fresh delivery doors in the U.S. With our network utilization at only approximately 25%, we have the ability to reach thousands more locations without incremental capacity investment. Many of our strategic partners, such as Walmart and Target, remain underpenetrated. The third pillar is expanding margins. We are simplifying the business and reducing costs across the P&L. In the U.S., we are making doughnuts more efficiently through improved production planning, labor optimization and streamlined hub operations.

Donuts are being delivered more efficiently by improving route management and demand planning and by optimizing production and delivery schedules to support cost-effective expansion. By the end of 2025, 57% of our U.S. fresh delivery network was outsourced to third-party logistics partners, and we expect to complete the transition in 2026. Outsourcing logistics gives us more predictable costs, reduces risk and allows our teams to focus on what they do best. As a result of the cost reduction initiatives implemented last year, total shop and delivery labor and SG&A expenses declined more than 10% in the second half of the year versus the first half.

The fourth pillar is sustainable, profitable growth in the U.S., which we can achieve by offering our consumers the right products in the right quantities in the right place and at the right time. By the end of the third quarter of 2025, we fully exited McDonald's and completed the rationalization of another approximately 1,400 underperforming fresh delivery doors. By the end of the fourth quarter of 2025, we also added more than 1,100 new higher volume, higher-margin doors with strategic partners. We also saw growth return with a 200 door increase in the fourth quarter. The results of upgrading the quality of our fresh delivery doors are encouraging.

Average weekly sales per door have increased meaningfully, and these newer doors are performing well above the system average. We've also started 2026 by adding new distribution with Grocery customers, Publix and [Jewel-Osco]. Another key driver of sustainable profitable growth in the U.S. is our marketing strategy, focused on: one, driving everyday sales through our refreshed retail doughnut menu; two, creating excitement with buzz-worthy limited time offerings; and three, accelerating growth in digital. In the fourth quarter, our Trick or Treat! Halloween collection delivered our most successful Halloween campaign to date, while our Krispy Kreme [indiscernible] Peanuts offering generated strong consumer demand over the holiday season.

That momentum carried into 2026 with our Valentine's Day collection delivering record results, reinforcing Krispy Kreme as a top choice for gifting, sharing and celebrating special occasions with others. To give our consumers even more ways to enjoy and share Krispy Kreme, we continue to innovate and evolve our successful Minis category, which today includes our Doughnut Minis and Doughnut Dots. Later this year, we'll expand our lineup of smaller shareable treats with Mini Crullers, a mini cake doughnut available through strategic fresh delivery partners. Limited time offerings performed particularly well in our digital channel during 2025, with U.S. digital sales growing 15% year-over-year.

Digital represented 22.5% of U.S. retail sales in the fourth quarter, reflecting strength across the Krispy Kreme app and website as well as through third-party delivery partnerships. Our loyalty platform now surpassing 17 million members in the U.S. alone helps us to stay connected with consumers by reminding them of the joy of Krispy Kreme and rewarding them with offers that increase purchase frequency. Our digital presence continues to prove effective at building engagement across all age groups and driving incremental transactions. Heading into 2026, we believe we are well positioned amid a dynamic consumer environment.

Our affordable offerings are designed to be gifted and shared, bringing people together for celebrations and meaningful occasions. With a full calendar of innovative collections for seasonal and cultural moments ahead, such as our upcoming St. Patrick's Day offering, we expect to sustain engagement and drive demand throughout the year. We are building a stronger, more resilient Krispy Kreme and positioning ourselves for long-term profitable growth.

With that, Raphael will now review our fourth quarter financials and discuss our outlook for 2026.

Raphael Duvivier
Chief Financial Officer

Thank you, Josh. Our financial results reflect meaningful progress on our turnaround, positioning us to deliver sustainable, profitable growth while continuing to deleverage the balance sheet. In the second half of 2025, adjusted EBITDA reached $96.2 million, more than double the $44.1 million generated in the first half, even as net revenue grew less than 2%. Moving to our fourth quarter results. Adjusted EBITDA of $55.6 million rose 21% year-over-year and 37% quarter-over-quarter. Profitability was positively impacted by productivity initiatives across our network and at the corporate level.

Net revenue of $392.4 million represented a decrease of 2.9%, while organic revenue decreased 3.9%. These declines were driven by the strategic closure of underperforming fresh delivery doors, primarily in the U.S. as we focus on quality growth. Excluding these closures, we benefit from growth with strategic partners, higher digital sales and international expansion. As of the end of the fourth quarter, our net leverage ratio, which reflects our net debt divided by trailing 4 quarters adjusted EBITDA improved 0.6x quarter-over-quarter to 6.7x, falling below 7x is an encouraging milestone, driven by strong adjusted EBITDA and lower debt, and we expect to be at or below 6x by the end of the first quarter.

Our cash flow was strengthened by higher adjusted EBITDA, significantly reduced CapEx and working capital management that include better handling of receivables and lower inventories. For the fourth quarter, we generated $45 million in operating cash flow and $27.9 million in free cash flow. Free cash flow improved substantially compared to the third quarter and rose $34.8 million from the same quarter a year ago. At year-end, we had excess liquidity of $207 million, which we believe enable us to meet our short-term obligations and fund long-term investments while continuing to advance our turnaround. We are also in full compliance with our bank covenants.

In the U.S., organic revenue growth declined 5.8% year-over-year, in part due to exiting approximately 1,400 underperforming doors in 2025, which were replaced with more than 1,100 new high-volume, higher-margin doors with strategic partners, delivering substantially higher average weekly sales. Door optimization contributed to a year-over-year increase in average weekly sales to $660, a 7% increase quarter-over-quarter. This demonstrates our traction when Krispy Kreme displayed in the right place with the right partner at the right time. U.S. adjusted EBITDA increased 39.1% to $32.8 million, up from $23.6 million in the fourth quarter of 2024.

We benefit from cost controls and other initiatives related to efficiencies through our operating network, SG&A savings and the elimination of costs related to the now ended McDonald's USA partnership in addition to cybersecurity insurance recoveries of $4.8 million. Excluding cyber-related insurance recoveries, U.S. adjusted EBITDA increased 33% quarter-over-quarter to $28 million, demonstrating solid improvement resulting from our turnaround plan initiatives.

In our company-owned International segment, we saw negative organic growth of 0.3% as lower sales in Australia were partially offset by growth in Canada and Japan. International segment adjusted EBITDA rose 4.1% to $26.8 million, up from $25.7 million in the year ago quarter and up 15.7% from $23.2 million in the third quarter of 2025, driven in both cases by Mexico and Japan. For the second consecutive quarter, we generated adjusted EBITDA growth in the segment year-over-year.

Adjusted EBITDA margin increased 20 basis points year-over-year and 230 basis points quarter-over-quarter to 18.8%. In our Market Development segment, organic revenue declined 4.9% as growth in royalty revenues from international markets was more than offset by lower equipment sales. We're encouraged by the strong sales performance in Brazil, the Middle East, India and South Korea, and we look forward to further expanding point of access across Europe, highlighted by our recent entry into Spain. Market Development segment adjusted EBITDA rose 2.1% to $12.1 billion. Adjusted EBITDA margin increased 370 basis points to 61.5% year-over-year due to a higher mix of priority revenue.

Our highly attractive franchise margin levels support our intention to advance our capital-light strategy to refranchising. In addition, this year, we intend to open 3 to 4 new international franchise markets as we continue to spread the joy of Krispy Kreme around the world. Ending 2025 with meaningful progress provides solid momentum as we move into 2026, even amid a dynamic consumer environment. While we cannot control macroeconomic factors, we are focused on delivering quality sales growth and managing cost effectively across the entire P&L.

We are providing the following annual financial guidance and intend to provide further details as our refranchising efforts progress. We're including system-wide sales growth as a measure of brand health, which will become more important as we advance our refranchising strategy. We currently expect the following for the full year: system-wide sales up 2% to 4% in constant currency from $1.96 billion in 2025, open at least 100 shops globally, having ended 2025 with 2,125 shops, CapEx of $50 million to $60 million, positive free cash flow and net leverage ratio at or below 5.5x. Our success will be driven by our ability to continue deleveraging the balance sheet while further expanding our capital-light business model to drive sustainable, profitable growth. I'm confident in our ability to execute against these priorities and deliver clear proof points along the way. Thank you for the interest in Krispy Kreme.

We will now turn the call back over to Josh.

Joshua Charlesworth
President, CEO & Director

Thank you, Raphael. We are pleased with the meaningful progress achieved during the fourth quarter. We look forward to building on this momentum and growing our brand around the world in 2026. As we continue to expand, deleveraging the balance sheet and delivering sustainable profitable growth remain our 2 primary objectives. We plan to accomplish both through refranchising, improving returns on capital, expanding margins and continuing to drive sustainable, profitable U.S. growth. I am grateful to work alongside a highly capable team that shares my passion and belief in our opportunity as we continue to spread the joy that is Krispy Kreme to more people in more places around the world.

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 of Capital One Securities.

Daniel Guglielmo
Capital One Securities, Inc., Research Division

[indiscernible] are making great progress on the turnaround [indiscernible] drive the best bottom line. You mentioned the moderated growth [indiscernible] are you starting to think about potential U.S. hub growth that you know can provide a good return? Or is it still too early?

Joshua Charlesworth
President, CEO & Director

Yes. I think that the line was a bit interrupted there, but I think you were asking around the potential expansion and supporting it with whether or not we need new hub growth. What's great about our opportunity in the U.S. is we have plenty of underpenetrated customers, places like Walmart and Target, where we're only about 30% of those. Costco, Sam's only about 20%. And so we have plenty of opportunity to grow. As we saw in the fourth quarter, we expanded access with new distribution by more than 200 doors in the U.S. So we intend to continue to drive that expansion opportunity as we grow the brand in the U.S. in 2026.

We also have a great opportunity in our capacity utilization is only around about 25%. So we're able to manufacture the doughnuts without significant investment in new production. And that is why our CapEx in the fourth quarter is actually nearly half what it had been year-over-year, and we expect CapEx overall to be about half the level in 2026 as it was in 2025 as we're able to pursue that growth opportunity, which is very compelling. We know our consumer continues to look for convenient access for our doughnuts, but without significant investment in infrastructure, enabling us to drive not just profitable growth but to strengthen the balance sheet as we go.

Daniel Guglielmo

Capital One Securities, Inc., Research Division

Great. I appreciate that color and hope the line is clear now. As a follow-up [indiscernible] this quarter [indiscernible] on those closures? Is it going to be a significant [indiscernible] or will it come down from here?

Joshua Charlesworth

President, CEO & Director

Yes. I'm sorry, the line broke up a little too much. You were asking around perhaps the door closures that we completed in the third quarter last year, a program that is over. We're now focused on expanding access to the brand and distribution. Was that what you were asking about?

Daniel Guglielmo

Capital One Securities, Inc., Research Division

Sorry about that. I took my head set off, and hopefully, is it clear now?

Joshua Charlesworth

President, CEO & Director

Yes, that's much better. If you could repeat that, that would be great.

Daniel Guglielmo

Capital One Securities, Inc., Research Division

Okay. Perfect. Yes. So there was a pretty significant shop closure expense for this quarter. For 2026, how much more do you guys have left to go on those closures? Is it going to be significant in the first half of 2026? Or will it come down from here?

Joshua Charlesworth
President, CEO & Director

Yes. What we saw regarding shops is that what we've been doing is with our production hubs and our retail shops, we've been really optimizing where we produce, how we then deliver the doughnuts, how many locations individual sites are supporting. And that has enabled us to improve productivity, drive efficiency throughout the system, both from a production and delivery point of view. So -- so we're not making closures right now. Instead, what we're doing is focusing production to be as efficient as possible.

This is all in support, of course, of the journey that we saw in the fourth quarter, where we saw meaningful EBITDA growth. And then we expect that to translate into 2026. We expect, for example, in the first quarter, EBITDA to be growing again versus the same quarter a year ago. So this is all part of our efforts around the turnaround to drive margins in the U.S. and become more profitable.

Operator

There are no further questions. I'd now like to hand the call back to Josh for final remarks.

Joshua Charlesworth
President, CEO & Director

Okay. Thank you very much. Appreciate everybody's interest in Krispy Kreme. We're making very good progress, as you heard, on our turnaround, strengthening the balance sheet and positioning Krispy Kreme for sustainable long-term growth. And we look forward to continuing this momentum into 2026. Thank you, everybody.

Operator

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