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Kura Sushi USA, Inc. (KRUS) Q1 2025 Earnings Call Transcript

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Q1: 2025-01-07 Earnings Summary

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EPS of -\$0.08 **beats by \$0.12** | Revenue of \$64.46M (25.22% Y/Y) **beats by \$2.74M**

Kura Sushi USA, Inc. (NASDAQ:[KRUS](#)) Q1 2025 Earnings Conference Call January 7, 2025 5:00 PM ET

Company Participants

Benjamin Porten - SVP, IR and System Development

Hajime Jimmy Uba - President and CEO

Jeff Uttz - CFO

Conference Call Participants

Jeremy Hamblin - Craig-Hallum Capital Group

Jeffrey Bernstein - Barclays

Jon Tower - Citi

Brian Mullan - Piper Sandler

Sharon Zackfia - William Blair

Mark Smith - Lake Street Capital

Jim Sanderson - Northcoast Research

George Kelly - ROTH Capital Partners

Todd Brooks - Benchmark Company

Operator

Good afternoon ladies and gentlemen, and thank you for standing by. Welcome to the Kura Sushi USA, Inc. Fiscal First Quarter 2025 Earnings Conference Call. At this time all participants have been placed in a listen-only mode, and the lines will be open for your questions following the presentation. Please note that this call is being recorded.

On the call today we have Hajime Jimmy Uba, President and Chief Executive Officer; Jeff Uttz, Chief Financial Officer; and Benjamin Porten, Senior Vice President of Investor Relations and System Development.

And now, I would like to turn the call over to Mr. Porten. Please go ahead.

Benjamin Porten

Thank you, operator. Good afternoon everyone and thank you all for joining. By now everyone should have access to our fiscal first quarter 2025 earnings release. It can be found at www.kurasushi.com in the Investor Relations section. A copy of the earnings release has also been included in the 8-K we submitted to the SEC.

Before we begin our formal remarks, I need to remind everyone that part of our discussion today will include forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance, and therefore you should not put undue reliance on them. These statements are also subject to numerous risks and uncertainties that could cause actual results to differ materially from what we expect. We refer all of you to our SEC filings for a more detailed discussion of the risks that could impact our future operating results and financial conditions.

Also during today's call, we will discuss certain non-GAAP financial measures which we believe can be used for in evaluating our performance. The presentation of this additional information should not be considered in isolation nor as a substitute for results prepared in accordance with GAAP and the reconciliations to comparable GAAP measures are available in our earnings release.

With that out of the way, I would like to turn the call over to Jimmy.

Hajime Jimmy Uba

Thanks, Ben, and thank you to everyone for joining us today. We are very pleased to link in the new year by reporting our strong Q1 results including positive comps of 1.8%, and the six exceptional new unit openings. I'm especially proud to be able to announce an adjusted EBITDA margin of 5.5% representing a 210 basis point improvement year-over-year. I can't think of a better demonstration of controlling what we can control than the significant year-over-year growth in corporate profitability. I'm extremely proud of our entire team and the work that they've put in to make this possible, which has effectively given us a head start on the leverage we expect as we continue to scale our base.

Total sales for the fiscal first quarter was \$64.5 million representing comparable sales growth of 1.8% with spreads on the mix of 4.1% offset by 2.3% of negative traffic. Our cost of goods sold as a percentage of sales improved by 80 basis points year-over-year to 29% due to pricing and the ongoing efforts of our supply chain department. Labor as a percentage of sales increased to 32.9% as compared to the prior year quarter of 31.9% driven by wage inflation, including the fact that the majority of fiscal 2024 restaurant openings were in high labor cost markets and partially offset by operational streamlining efforts. Restaurant-level operating profit margin was 18.2%, as compared to 19.5% in the prior year quarter due mainly due to inflation.

Turning to development, we opened six new units in the fiscal first quarter, Beaverton, Oregon; Tacoma, Washington; Rockville, Maryland; Cherry Hill, New Jersey; Bakersfield, California; and Fishers, Indiana. We currently have six units under construction but continue to expect the majority of this year's remaining openings to be back-half weighted.

In our last call, we have discussed how excited we were by our recent openings and we are pleased to share that their subsequent performance has been excellent and supports our [indiscernible] on new market opportunities. We have discussed two markets in particular; the Pacific Northwest and our Bakersfield, California opening which highlights the opportunity in DMAs that were smaller than our typical markets. Beaverton and Tacoma continued to outperform our expectations, with Beaverton on track to become a top-five store. I'm very pleased to say that Bakersfield performance is as strong as ever too.

As a reminder, Bakersfield is a critical test market for us as it presents an entry into a significantly smaller market than any of our previous openings. Historically, our site selection has focused on the top 40 or 50 largest DMAs in the US and Bakersfield is around the top -- around the 120 largest. While we have always been confident about doing well in Bakersfield, its demonstrated success after opening has given us so much more confidence in pursuing smaller high-potential markets.

Beyond the potential long-term impact on growing our overall quality pace potential, opening in smaller DMAs will allow us to better manage comp sales headwinds rather than in filling existing markets while maintaining historical cash on cash returns. Our goal is to return to a 50-50 pipeline split between new and existing markets over the coming years to manage the comps waterfall and the opening up of smaller DMAs will make it meaningfully easier to fill some new market portion of the 50-50 equation.

Moving to new initiatives, I'm pleased to share that the new reservation and self-seating system is progressing as scheduled with our first investment test expected in February. This will be a very significant improvement to the guest experience as we currently do not offer reservations. Today, guests can remotely check in into restaurant waitlist, but cannot choose a specific time today. The reservation system is coupled with a self-seating system and we believe the implementation of these systems will eliminate the need for dedicated host position as well as bolster shorter period sales.

Additionally, in conjunction with the new reservation and self-seating system, I'm very happy to share for the first time that we are nearing the rollout of updated table-side ordering panels along with a redesigned push button Mr. Fresh 2.0, which is much easier to use. [indiscernible] can spend up to three minutes explaining how to use the existing list of restaurants to first-time guests and so this is an opportunity for labor tailwind as well as an improvement to the guest experience. The Mr. Fresh 2.0 is complete and we expect to begin US rollout in February as well.

In terms of promotions and marketing, our positive comps in Q1, when supported by the successful One Piece and Pikmin IP collaboration campaigns. This is the timing of license as promotional schedule. We do not have any IP collaborations planned for the fiscal second quarter, but we are extremely excited for the collaborations we have in place for the back half of the fiscal year. In place of IP collaboration for the fiscal second quarter, we are doubling down and further focus our marketing efforts we have discussed in the last earnings call.

Our fiscal year is off to an excellent start and we are very encouraged to see that our comps have returned to positive territory. Our new openings are exceeding expectations and have us even more excited about Kura's ultimate opportunity in the US. Adjusted EBITDA margins have hit an all-time high for fiscal first quarter, thanks to company-wide efforts to control costs. Technological initiatives are progressing smoothly and we expect to share the results of our first [indiscernible] test during our next earnings call.

I would like to reiterate my thanks to the entire Kura team, both at restaurants and our support center for the amazing work they've done in positioning us to fire on all cylinders. The speed and comprehensiveness of everyone's efforts has been nothing short of remarkable. Thank you.

Jeff, now I'll turn it over to you to discuss our financial results and liquidity.

Jeff Uttz

Thanks, Jimmy. For the first quarter, total sales were \$64.5 million as compared to \$51.5 million in the prior year period. Comparable restaurant sales performance compared to the prior year period was positive 1.8% with regional comps of positive 7.8% in our West Coast market and negative 2.3% in our Southwest market.

Turning now to costs. Food and beverage costs as a percentage of sales were 29% compared to 29.8% in the prior year quarter largely due to pricing and supply chain initiatives. Labor and related costs as a percentage of sales were 32.9%, compared to 31.9% in the prior-year quarter. This increase was largely due to wage increases and restaurant openings in higher labor cost markets. Occupancy and related expenses as a percentage of sales were 7.4%, compared to the prior year quarters 7.6%.

Depreciation and amortization expenses as a percentage of sales remained flat year-over-year at 4.8%. Other costs as a percentage of sales were flat year-over-year at 14.5%. General and administrative expenses as a percentage of sales decreased to 13.5% as compared to 16.7% in the prior year quarter due to significant leveraging of corporate costs against a growing unit base.

Operating loss was \$1.5 million compared to an operating loss of \$2.8 million in the prior year quarter due to the previously mentioned G&A leverage. Income tax expense was \$39,000 compared to \$38,000 on the prior-year quarter. Net loss was \$1 million or a loss of \$0.08 per share compared to a net loss of \$2 million or a loss Of \$0.18 per share in the prior-year quarter.

Restaurant-level operating profit as a percentage of sales was 18.2%, compared to 19.5% in the prior year quarter largely due to higher labor-related costs. Adjusted EBITDA was \$3.6 million compared to \$1.8 million in the prior year quarter largely due to greater G&A leverage. Turning now to our cash and liquidity, at the end of the fiscal first quarter, we had \$107.7 million in cash and cash equivalents and no debt. This increase in our cash balance is due to the follow-on offering that we closed in November.

And lastly, I'd like to reiterate our guidance for fiscal year 2025. We expect total sales to be between \$275 million and \$279 million. We expect to open 14 units maintaining an annual unit growth rate above 20% with average net capital expenditure per unit of approximately \$2.5 million. And lastly, we expect general and administrative expenses as a percentage of sales to be approximately 13.5%.

And with that, I'll turn it back over to Jimmy.

Hajime Jimmy Uba

Thanks, Jeff. This concludes our prepared remarks. We are now happy to answer any questions you have. Operator, please open the line for questions. As a reminder, during the Q&A session, I may answer in Japanese before my response is translated into English.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from the line of Jeremy Hamblin with Craig Hallum. Please proceed.

Jeremy Hamblin

Thanks and congratulations on the strong results. I wanted to just dive into what you've seen in terms of trends here. It looks like you got, mid-single digit improvement on your comps in both of your key markets. And wanted to just get a sense for what was driving that. It appears as though your mix was a little bit better in the quarter. I think menu pricing was not significantly different from your last quarter. So wanted to just see if you could provide a little bit of color of that and then maybe a little bit of color on the cadence throughout Q1.

Hajime Jimmy Uba

Sure. Thank you for your first question, Jeremy, but please allow me to answer your question in Japanese. Ben is going to translate.

[Foreign Language] [interrupted] In terms of the improvement that we saw in Q1 over Q4, certainly one of the major tailwinds that we had were the successes of the IP collaborations we had with One Piece and Pikmin. Those were very successful campaigns. In terms of price mix, as you'd mentioned, price was largely -- effective pricing was largely flat quarter-over-quarter and so we did see meaningful improvement in mix.

We've been talking about having more food-focused marketing efforts and this would be an example of one of the fruits of those labors. We've been really talking up the quality of our udon, the way that we make it from scratch every morning. And we had a follow-up campaign called the Perfect Pair which was a combo of an udon roll and a sushi roll. And that led to significant improvements in mixed inside menu attachment without any reductions to per-person plate consumption.

And so this is some of the best mix we've seen in recent memory. Really pleased to see it. And then in terms of the monthly cadence that we saw, we saw largely the same as the rest of the industry. November was the strongest month for us.

Jeremy Hamblin

Got it. And then just you noted a little bit of change here in your collaboration kind of packages, you're thinking about fiscal 2025. You're lapping kind of Snoopy Peanuts from last year in December and January time frame. And you really don't have that same kind of collaboration going on right now. As you noted, you've focused on kind of food marketing and I think you've got some premium items coming here in the next couple of weeks. But just wanted to get a sense for how consumers were responding to that. And then just kind of a tangent-related question, whether or not kind of the shift in calendar this year is having kind of any impact on results.

Jeff Uttz

Sure. I'll speak to the first question. In terms of the IP collaborations, it's certainly true that Q2 is a more difficult comparison than Q1. To your point, we are lapping peanuts, which is one of the most successful campaigns we've had. And we are not running an IP collaboration in Q2. This is -- so it is going to be a more difficult comp from that perspective in Q1, knowing that our focus is going to be on cost control and delivering profitability regardless of that headwind. And so that's really what we're focused on in terms of Q2 specifically. But looking to the full year and to future years, this is -- I would characterize Q2 as really just a sort of hiccup, growing pain as we pivot to our new strategy.

A big part of why we don't have a collaboration in Q2 is simply the timing of different licensors. There wasn't one that we felt really checked all of our boxes. Sort of the same thinking as how we pruned our LOIs going into fiscal 2025. And so while we won't have a collaboration for Q2, seeing the results in future quarters and just how strong the IPs are, I think everybody will really be quite pleased with what we have in store.

Jeremy Hamblin

Got it. And then just the question on the impact, there's a shift in kind of the timing of the holidays this year in December into January, and wanted to get a sense for whether or not that's having any impact, good or bad on what you would expect in those months.

Hajime Jimmy Uba

[Multiple Speakers] Ben, can I answer the question?

Benjamin Porten

Yes.

Hajime Jimmy Uba

[Foreign Language] [interrupted] I assume this is the case for pretty much everybody else in the industry, but just looking at the calendar shift, the fact that Thanksgiving came so late into November, we're looking at December and January really as a combined month, sort of along the lines of how you treat March and April as a combined month, just given the calendar shifts that are so typical of those months.

Jeremy Hamblin

Got it. Thanks for taking the questions and best wishes in 2025.

Jeff Uttz

Thanks, Jeremy.

Hajime Jimmy Uba

Thank you, Jeremy.

Operator

And the next question comes from the line of Jeffrey Bernstein with Barclays. Please proceed.

Jeffrey Bernstein

Great. Thank you very much. A couple of questions. The first one, just following up from a comp perspective. I think one quarter ago you had guided to loosely positive comps for fiscal 2025, but you noted that you were still kind of in recovery mode, so it was difficult to forecast. It seems like you have some better visibility now. I'm just trying to clarify, it sounds like you're saying for fiscal 2Q it's possible that the comp reverts to perhaps a modest negative with the collaboration mismatch, but your focus is on protecting profitability. And then you'd expect with the stronger collabs in the back half, you'd return to positive comps in the second half of fiscal 2025. Is that a fair assessment of your outlook for the next few quarters in terms of how the comp plays out?

Hajime Jimmy Uba

[Foreign Language] [interrupted] Jeff, thanks for the question. In terms of IP collaborations, our Q1 performance was certainly buoyed by the success of One Piece and Pikmin, which we were very pleased with. To your point, Q2, we were lapping peanuts without an IP collaboration, and so thinking about the comp relative to Q1, it's certainly more difficult.

And the guidance that we gave at the beginning of the year contemplated this. This is not a surprise to us. And so it was always our plan to focus on operations and driving profitability in Q2. And it's the reason that when we talked about comps, we always talked about it in the full-year context. The back half is really where the major opportunity lies, both in terms of the easier comparisons, the implementation of our new technologies, and the IP collaborations that we have in store.

Jeffrey Bernstein

Got it. Very helpful.

Jeff Uttz

Jeff. It's, Jeff, [Technical Difficulty] in the past was that we have our Q1 comp that we get sequentially better throughout the year. I don't think we anticipated a 1.8% comp for Q1. So that may not necessarily be the case. But like Jimmy and Ben just talked about, for the year, we do anticipate that our comp will be a positive number for the full year.

Jeffrey Bernstein

Understood. And then just following up from the cost side of things, again, you're focused on profitability in the short term, but inflation, can you update us on the food and labor inflation that you saw in the first quarter and what your outlook is for the second quarter and the full year? Just wondering whether you're able to leverage those line items as we think about the full year.

Hajime Jimmy Uba

[Foreign Language] [interrupted] So, just sort of start with the conclusion. Our expectations for labor for Q2 are to be largely in line with the prior year's percentage of sales. And for Q3 and Q4 for fiscal 2025 to be superior to fiscal 2024's percentage of labor of sales -- I'm sorry, labor as a percentage of sales. And so for the full year, we expect labor leverage as well. If you look at our historical earnings calls, you can see that our general experience has been that we've seen labor inflation of mid-single digits, low single digits. In the most recent quarter, we actually experienced high single digits. And so, that was a little bit unexpected. But the operational implementations, the streamlining that we've put in place, we've already seen very meaningful improvements in sales per man hours and these sorts of labor initiatives, the upside is really it tracks along with our seasonality, it tracks along with general sales and labor leverage. And so, the opportunity presented by the operational streamlining as well as the additional initiatives that we have coming up later in the year, they really come live in the latter half, the busier half of the fiscal year. So for labor, we continue to be bullish.

Jeff Uttz

[Multiple Speakers] Inflation for this quarter on COGS, Jeff, was basically flat. In fact, it was just deflationary year-over-year. So we're very happy where that is. And I don't expect significant increases or any significant inflation for the remainder of the year for COGS, and would expect that line as percentage of sales to remain where it is or even trend down somewhat for the remainder of the year. If you look year-over-year, last year we were 29.8 and this year we're at 29. So that's a big improvement over last year. And I expect it to potentially -- it'll stay the same or potentially get a little better, if we have some stars aligned and things go our way.

Jeffrey Bernstein

Got it. And my last question was on the labor initiatives. I think you guys previously talked about how you'd already achieved maybe 100 basis points from back-of-half initiatives. And I think you were talking about how maybe the reservation system and the self-seating system had potential for another 50 basis points of opportunity. I'm just wondering, how that's tracking and maybe what key performance indicators you'll be able to share with us over the next few quarters to kind of see, it sounds like your first one is in February where you're going to be rolling that out. So just what kind of expectations you have over the next few quarters in terms of the initial impact? Thank you.

Jeff Uttz

Yes, so we're really pleased with the operational improvements. We mentioned that we started them in fiscal 2024, rollout was complete by September and so they're live in pretty much every restaurant. In terms of the productivity, beyond a doubt, we've seen very meaningful improvements. We're very, very happy with the results. That being said, we didn't see labor as a percentage of sales improve year-over-year just given that the high single digit wage inflation was more than we'd expected.

That being said, the nature of the improvements is it's station consolidation. And so you can go from five people to four people or four people to three people, but you can't really go smaller than that. And so the opportunities where you can go from four to five or I'm sorry, five to four, four to three, those become much more frequent as we approach the summer and we enter the summer. And so the upside from those, that 100 basis points is you're really going to see that in the back half of the year. In terms of the 50 basis points that we expect from the self-seating and reservation system, that remains unchanged.

Jeffrey Bernstein

Thank you very much.

Hajime Jimmy Uba

Thank you, Jeff.

Operator

The next question comes from the line of Jon Tower with Citi. Please proceed.

Jon Tower

Great. Thanks for taking the questions, guys, and Happy New Year to you. So maybe just I guess a couple of nuances on the quarter itself, the fiscal second quarter, on the modeling side, I believe in January you traditionally take some -- a round of pricing and it didn't sound like you spoke to that yet. So did you take any pricing? Number one and number two, last year there was leap day. I can't recall whether or not that was included in your same-store sales number or if it wasn't, but could you speak to both?

Jeff Uttz

In terms of the leap day, we adjusted for it and so it was not included in our same-store sales.

Jon Tower

Okay.

Jeff Uttz

And then on the jump on pricing, we took about 2% price the first week of November. And so the effects of pricing for Q1 that just ended is about 4.5%.

Jon Tower

Okay. And similar -- okay, so we'll have a little bit closer to 5%, say in the fiscal second quarter, because I don't think anything's rolling off unless there is.

Jeff Uttz

There is a little bit rolling off on January 1st just rolled off. But your number around 5% for effective pricing for Q2 is about right. A little bit over 5%. And then in terms of additional pricing menu price increases, we typically take them as you know beginning of the year and in the middle of the year, we took the beginning of the year one early, as I mentioned, the first week of November. And right now we don't have any additional plans to take anything in the summertime, but we typically do. But that is to be determined as we continue throughout the year. And I think we all hope that we have to continue to provide the great value for our guests.

Jon Tower

Got it. Cool. Thank you for that. Maybe just zooming out a little bit. I'm a little surprised at how conservative your guidance appears on revenue for the year. Again, I mean, just based on where you guys came in the fiscal first quarter on the, obviously same-store sales and aggregate revenue front up 25% year-over-year. The guidance itself would imply a fairly aggressive slowdown in the back half. So I'm just curious. I know you have some tough comparisons and some IP collabs that you're not doing this year, but is there anything else we should think about with respect to new store productivity, perhaps opening in markets that are maybe more challenging? Or you're expecting a higher level of cannibalization that might be weighing on the revenue growth on a year-over-year basis?

Benjamin Porten

Yes. So, Jon, the reason behind the guidance and we admitted in the last call that it was conservative. The 275 to 279 is conservative. I think we're all very bullish that can be beat at some point. But if you take the clock back to last April in our call, which when we raised our guidance and then in July we had to lower the guidance, we want to be very careful about being [Technical Difficulty] of that happening want to make sure that when we do a guidance raise that we do see a trend and we don't jump the gun too quickly on a raise. And it really has nothing to do with worried about productivity in restaurants or any additional cannibalization that we're not already experiencing. We've already talked about in the past. So there's no doubt there that are causing that number to be where it is. It's because we would all like to make sure that we're seeing a trend before we put it out there and raise our guidance and want to be [Technical Difficulty] we do raise our guidance, we can keep our promise to the Street and not have to reduce it three months later.

Jon Tower

Got it. Makes sense. And I appreciate that. Can you maybe then just pivoting a little bit to marketing? It sounds like obviously fewer IP collaborations in the future, perhaps more potent than ones you've done in the past. Maybe could you speak to the differential and spend expected on those versus, at least year-over-year in the back half; number one and number two; your approach to marketing in general, it does sound like you're focusing a little bit more on the food side. I know, Ben, you mentioned earlier the perfect pairing promotion that you did that helped drive mix during the period so as consumers and frankly as investors, is that how we should think about some of the marketing going forward? Is more of these perfect pair promo or something like that running through and being promoted through social media rather than these IPs going forward or these IP collabs...

Benjamin Porten

Well, you can assume that when we don't have an IP, we're always going to have some sort of alternative going on, whether it's something like the Perfect Pair or 15th Anniversary Campaign or holiday scratchers are pivoting from a constantly packed calendar of IP collaborations doesn't mean that we're not going to continue to have a packed marketing calendar.

Jon Tower

Got it.

Hajime Jimmy Uba

[Foreign Language] [interrupted] And then in terms of the cost difference between say something like the perfect pair or another food-focused campaign versus an IP collaboration, the difference would be about \$150,000 to \$200,000. It's \$200,000 more expensive when we collaborate with an IP.

Jon Tower

Okay. Makes sense. Cool. All right, that's it for me for now. So I appreciate you taking the questions.

Benjamin Porten

Thanks, Jon. Happy New Year to you, too.

Hajime Jimmy Uba

Thanks, Jon.

Jon Tower

Thank you.

Operator

The next question comes from the line of Brian Mullan with Piper Sandler. Please proceed.

Brian Mullan

Thank you. Just a question on development. In the prepared remarks, I think you spoke to continuing to move into smaller DMAs over time. I'm just wondering if you could speak to the targeted volumes of those stores. Does the DMA dictate what the volume of a store can be or is it really just a function of the size of the box and it really doesn't have to do with the location?

Benjamin Porten

Sure. Sorry. Go ahead, Jimmy.

Hajime Jimmy Uba

[Foreign Language] [interrupted] Brian, when we do site selection, our focus really is on cash-on-cash returns. We don't have a target AUV, and so that remains unchanged in terms of how we approach smaller DMAs. We're focused on cash-on-cash returns and our standards for the smaller DMAs are the same as all of our other DMAs.

Brian Mullan

Okay, thank you. And then just to follow up, just a clarification item. You gave the menu price for the quarter, can you just let us know what traffic was? And I apologize if I missed it.

Benjamin Porten

Traffic was down 2.3% and price and mix was 4.1%.

Brian Mullan

Okay, thank you very much.

Benjamin Porten

Thank you.

Hajime Jimmy Uba

Thanks, Brian.

Operator

And the next question comes from the line of Sharon Zackfia from William Blair. Please proceed.

Sharon Zackfia

Hey, thanks for taking the question and Happy New Year.

Hajime Jimmy Uba

Happy New Year.

Sharon Zackfia

Thanks. It was really nice to see the improvement in mix. And I know you touched on earlier some of the drivers there. I guess, I'm curious on your thoughts on the sustainability of mix becoming a more neutralized part of comps going forward.

Hajime Jimmy Uba

[Foreign Language] [interrupted] Given that this is relatively recent, without giving too much forward expectations, we think the days of negative high single-digit mix are behind us. We're really pleased with the efforts that the marketing team has made. Typically when we have a two-month campaign, you see deceleration in the effectiveness in the second half. But we're continuing to see success in December with the most recent Udon campaign and so, without commenting about the long-term sustainability of the flattish mix that we have, we think that we're in a much, much better position than before. And we've got all these levers that we never even considered to pull in the past. And so this is great, great progress.

Sharon Zackfia

Okay. Can you talk a little bit...

Jeff Uttz

And Sharon...

Sharon Zackfia

Go ahead.

Jeff Uttz

In addition to the great efforts by the marketing team, the other -- one of the other reasons why mix is improving is for the past year-to-year and a half, when we've taken menu price increases, we haven't touched the side menu items at all. So, we are lapping the increase, the menu price increases on side menus, which, when you take some menu price increase on things, it does impact mix to some extent. And because we're lapping the price increases on side menu, I think that's also why Mix is coming in line a little bit as well as the previously mentioned marketing efforts that we've done.

Sharon Zackfia

And then, I'm sorry if you talked about this, my sound cut out and I had to redial back in. But on delivery, I know that's a more nascent part of your business. I understand there's obviously some operational tension just given how busy the restaurants are. I mean, where are you on delivery at this point? Is it fully kind of turned on all of the time at all locations? How are you handling that? Is it proving to be incremental or bring in kind of new people to the brand?

Benjamin Porten

Yes, so I think it's definitely incremental. I think as soon as somebody opens up their DoorDash app, they're basically committed to eating inside. So that guest wouldn't have been coming into our restaurants anyway. And so any sale we do believe is incremental, I'd say in terms of where we are on that journey. DoorDash has been live at all of our restaurants for almost a year now. Yes, almost a year. And it's, it is -- throughput is the issue, we're constantly hitting ceilings just because our restaurants are busy, which is a great problem to have. But we're always going to be prioritizing the guests that have gotten into trouble coming to our restaurants.

And so as we infill markets and we're able to use the incremental restaurants as sort of pressure release valve for the kitchens, that's when we really see the off-premise opportunity becoming more meaningful. But at this point, we're happy where it is, especially given that it's incremental and we don't want to distract ourselves from the major opportunity, which is the tremendous white space of the United States.

Sharon Zackfia

Great. Thank you.

Benjamin Porten

Thanks, Sharon.

Hajime Jimmy Uba

Thank you, Sharon.

Operator

The next question comes from the line of Mark Smith with Lake Street Capital. Please proceed.

Mark Smith

Hi guys. First question for me is really on the cost side on corporate kind of G&A, really solid leverage during the quarter. Curious if the guidance is maybe conservative as well as it kind of doesn't bake in any more additional leverage throughout the remainder of the year, but any insight you can give us on the guidance and if there's any costs coming in here later this year that maybe we should be watching for.

Benjamin Porten

No, there's no more costs coming in. And where the guidance is implies a 60 basis point improvement year-over-year. And I'm still comfortable with that number. I do believe that after having 80 bps two years ago and 90 last year in leverage that it's hard to keep that trend of 80 to 90 points a year. So I'm comfortable with the 60. However, if sales trends do pick up and come in higher than where we expect them to be, then there will be additional leverage there. So when we get into April, I'm happy to give an update on that if we're at the point where we can. But I do want to get through a couple more months Mark, before I increase any guidance on G&A, because I still think that a 60 basis point improvement for the year is pretty good.

Mark Smith

Absolutely. Other question for me is just around kind of pre-opening expenses came in a little lower than we'd expected during the quarter. Was that a function of just kind of the timing of some of the openings earlier in the quarter or are you getting more efficiencies and lower cost kind of as we think about pre-opening expenses maybe even in some of these smaller markets?

Hajime Jimmy Uba

[Foreign Language] [interrupted] So there are two major things that worked in our favor in terms of pre-opening. The first is last year we had nine units under construction versus the six units we had under construction during the same period this year. This -- we have four managers for any new restaurant and so you can that that's 12 managers across the three restaurant difference that we had in training. So that's an incremental labor cost incurred in fiscal 2024 that we didn't have this year. The other major change is the shift in our opening team structure, now that we've established beachheads largely across the country, we don't need the -- right now we have 2.5 -- or historically we've had 2.5 opening teams.

Now that we've established a geographic presence in enough markets, we've been able to pare back to 1.5 teams by reassigning the other members to become store managers at local restaurants. And that has meaningfully reduced our training costs as well. And so that's helped with labor. It's also helped with our G&A.

Mark Smith

Excellent. Thank you.

Benjamin Porten

Thanks, Mark. Thank you.

Operator

The next question comes from the line of Jim Sanderson with Northcoast Research. Please proceed.

Jim Sanderson

Hey, thanks for the question. I wanted to follow on to some of the conversations about mix and the shift from mid-single-digit negative to flattish. Have you built similar promotions to drive items per check similar to, I think what happened in the first quarter. If I understood the benefit of the pair combo, is that the right way to think of it?

Hajime Jimmy Uba

[Foreign Language] [interrupted] Yes, no, we're really pleased with the Perfect Pair campaign. It's the first time we've done something like that and so I'd be very, very surprised if it was the last time we've done something -- we'll do something like that. I think it's going to be a useful tool in our food-focused marketing box. Jimmy, I'm sorry, what was the second part?

And the other part of mix is that we haven't taken pricing on side menu for the last year. And the reason that's important in terms of mix headwinds is that there's less attachment on side menu items. And so you get less flow through on pricing that you take on side menu versus pricing that you take on plates. And so that was a mix pressure. Now that we've lapped that, that's less of a mix pressure. Another thing that we're doing to support mix is leaning into our LTOs with some more premium items. We've seen that if we have the right LTOs, we can just increase attachment. It's not really a trade so much, it's just a check growth opportunity. And so that's another lever that we have for our mix.

Jim Sanderson

All right, thank you for that. Just a follow-up question. I think you had a promotion in the current quarter that is related to a contest for an average check higher than \$70. Is that the type of promotion that could help improve mix going forward? Is that the way to think of it?

Benjamin Porten

Absolutely. So this is the first time we've done like a holiday scratcher or any sort of scratch card. But this is not the first time that we've tied a marketing campaign to a spending threshold. In the past when we've had IP collaborations, we've had giveaways where you can get say like a T-shirt or something, if you spend more than \$70. And these sorts of efforts have -- yes, you can really see the impact in check size and mix attachment.

Jim Sanderson

All right, thank you for that. A quick question on traffic trend, I think on a two-year stack basis you saw a deceleration in traffic trend. Is that where we are today? Is that a good run rate, the low single-digit positive traffic on a two-year stack?

Benjamin Porten

Yes, I mean the thing, the number [Technical Difficulty] I want you guys to focus on is the improvement from Q4, the minus 6.1 to minus 2.3 in this quarter. I think that's what's important because, we had some bumps in the road last year when we in July and summertime and we talked about that in some of our previous calls, and where the number came out for this quarter at 1.8%, we're very happy with that. And quite honestly, even though we don't give quarterly guidance, I don't have a problem showing you, it's higher than I thought it would be for Q1, and I think it's higher any of us thought it would be.

So I'm happy with that number. And I think it's most important to look at it that way. Just the summertime, like I said, some of the bumps in the road during the summertime and then also some of the weird things happening in November with the election. I think there's a lot of noise to look at on a two-year stack. So, I'd rather focus on the quarter-over-quarter from Q4 to Q1 improvement.

Jim Sanderson

All right, last question for me. Could you just briefly review the shares outstanding to be used for second quarter in fiscal 2025 based on the follow-on.

Jeff Uttz

Yes, I have that number. Why don't we go to the -- I'll get you that, Jim. I don't have it in front of me, but I'll get that.

Jim Sanderson

Thank you.

Hajime Jimmy Uba

Jeff, I believe it's 12,000.

Jeff Uttz

12 million.

Hajime Jimmy Uba

I'm sorry, 12 million shares.

Jim Sanderson

Yes, understood.

Jeff Uttz

I think now that it's 12 million [Technical Difficulty] or something like that.

Jim Sanderson

Understood. Okay, very good. Thank you. I get it.

Operator

The next question comes from the line of George Kelly with ROTH Capital Partners. Please proceed.

George Kelly

Hey, everybody. Thanks for taking the questions. First one, I think you mentioned in your prepared remarks that there's a new Mr. Fresh dome launching in February. And I was just curious, kind of surprised to hear that. What's the opportunity there? Is it maybe more kind of labor-intensive than I would have thought? Or just what's the reasoning behind that launch?

Benjamin Porten

Do you remember the first time you went to a Kura Sushi and you tried to open one of those Mr. Freshs? They are not intuitive. You sort of need somebody to explain them, because it's -- you need to go under and lift it. And pretty much if you go to one of our restaurants, you -- pretty much every time I go, I see somebody trying to pry it open like they're like an otter with a clam.

And it's just -- it's confusing, because most things aren't open like that. And because it's not intuitive, our servers will spend two, three minutes explaining this. They'll even bring a Mr. Fresh to the table so the guests can actually practice it to get accustomed to that. And so it's not very guest-friendly. It eats up our server's time. And the new Ms. Refresh is just a push button. It works exactly as you would expect it to work. And we're really excited. It's just -- it's a lot friendlier. It can be intimidating to come into a restaurant and not know how to order or not know how to take things off the belt. And this -- I think this just makes it a friendlier experience for everybody.

George Kelly

Okay.

Hajime Jimmy Uba

[Foreign Language] [interrupted] There are a lot of things that are unique to our restaurant that need to be explained if you're coming for the first time, such as how our plate spots work, the fact that we have Bikkura Pons where you can win prizes. And so for first-time guests, you need to go through [indiscernible] explain all these different things. But in tandem with the Mr. Fresh 2.0, we're actually releasing a new order, an update to the order panel software that on its landing page will have a button asking if you're a first-time guest. And if you click that, it'll play a video that will basically teach you how to enjoy Kura. And so that meaningfully reduces server work as well. Having to do dozens of those during like a weekend peak hour is just, it's a meaningful drain on productivity. And so being able to streamline this is something that we're really excited about.

George Kelly

Okay, excellent. That's helpful. Thank you. And then second question for me is, or maybe a couple questions on the reservation system. Most of the conversation in this call with respect to the reservation system has been about the opportunity for cost savings. But I'm curious if you could also discuss the opportunity to drive comp growth. And what I'm unclear on, I guess, is sort of how much you talked about it, I think improving comp performance for a bunch of different reasons in the back half is the reservation system, is that a big factor in that sort of accelerating comp as well? And just how's it going to work? Are you going to open up a lot of inventory to the system or is it really just kind of shoulder periods or if you could just give more detail there too, that would be helpful. Thank you.

Benjamin Porten

Yes. So in terms of inventory, that's actually one of the most difficult parts of this project is figuring out the right number of tables to allocate for reservations. And that's actually -- we need to do that on a score by score basis. And so that's the operations team is hard at work on that. In terms of the traffic opportunity, so what Japan saw with its implementation is that the peak hours would fill up pretty much immediately and people would realize that. And rather than show up and wait for an hour and leave, they would make reservations for the shoulder periods, 5 o'clock, 9 o'clock, 10 o'clock.

And if they didn't want to do that, then they made reservations for the next day or the weekend. And so with our historical wait list, we've had about a 20% drop off where people will sign in and then not eat, because the lines are too long. And so that 20%, this is an opportunity to address that directly. By no means am I expecting a 20% traffic bump, but that is a massive opportunity for us. I'm really excited.

George Kelly

Okay, understood. Thank you.

Benjamin Porten

Thanks, George.

Hajime Jimmy Uba

Thank you, George.

Operator

And the next question comes from the line of Todd Brooks with the Benchmark Company. Please proceed.

Todd Brooks

Hey, thanks. And great start to the year. Just a few tag-in type of questions. Just following up on George's questioning there, how quickly does this turn on once you start the rollout of the reservation and self-seating platform. Ben, you said it. It's a store-by-store algorithm. But is this a start to turn on in Q2 and it takes a couple months to turn the system on or is it a longer duration to that?

Benjamin Porten

So the goal that I'm holding myself to, which is ambitious, is a full system-wide rollout by the end of the fiscal year. And so everything so far has moved on track. It's been remarkably smooth. We have our first in-restaurant test next month. I'm extremely pleased with all of our partners. Everybody's really coming together to make sure that this goes on schedule. After we have probably testing the first restaurant for about a month or so and then begin the rollout in earnest, my expectation would be April.

Todd Brooks

Okay, great. And you spoke to Japan's experience in rolling it out and picking up shoulder reservations and four-day reservations. And you talked about the abandonment of the wait-list here in the States. Can you talk to the experience in Japan from a traffic lift standpoint from having the system fully rolled out?

Hajime Jimmy Uba

[Foreign Language] [interrupted] Given that Kura Japan is a separate publicly traded company, we can't speak to them in too much detail. Our understanding and what we've heard from them is that it did have a meaningful impact on traffic, but we're not able to quantify that right now. In terms of the sales lift, one thing that we're really excited about with the reservation system is that there is a guaranteed benefit in headcount reduction as it is coupled with the self-seating system.

And it is a massive improvement to guest satisfaction because we're introducing reservations for the first time and our primary complaint is our wait times. And so this is a direct way to address that. And so we've got two things that we know for a fact are coming with this project. And so even if there isn't a sales lift, there's still plenty of upside. We do expect a sales lift, but in any case, we're still happy with this project.

Todd Brooks

That's great. And the follow up different angle. With the labor efficiency and you look at the initiatives around consolidating the stations down to three in the back of house and you look at upcoming self-seating. If you look at what it took to staff the restaurant two years ago versus what it should take to staff the restaurant post the rollout of self-seating. How much has that number dropped from a number of bodies standpoint?

Benjamin Porten

[Foreign Language] [interrupted] Just to confirm are you talking about historically or expectations going forward?

Todd Brooks

I'm just trying to get an idea the efficiency, if you pick -- I'm pulling the numbers out from memory. But if it was 22 people per shift and with what we saved with the consolidation, are we going to 18 people per shift once we get to the end of these improvements?

Benjamin Porten

So if we're comparing like, say like pre-pandemic staffing, I'd say that at peak, back of house and front of house have gone down by about two people each. And so it's been a pretty meaningful streamlining the operations.

Hajime Jimmy Uba

[Foreign Language] [interrupted] And then in terms of the operational streamlining that we discussed in the past call about the station consolidation, that opportunity really does come from the restaurants being busy. And so the upside is just going to grow and grow as the seasonality kicks in as we progress through the year.

Todd Brooks

Okay, and then last one for me. You obviously have visibility into the IP partnerships for the back half, and I think we had two in Q1, we won't have one in Q2. How does the back half from a number of partnerships match up versus I think three last year? Is it three to three or are we stepping down a number of partnerships, but maybe making it up in the magnitude of who we're partnering with? Thank you.

Hajime Jimmy Uba

[Foreign Language] [interrupted] We have two lined up for the back half. They're very strong. We're really excited about them.

Todd Brooks

Okay, perfect. Thank you.

Benjamin Porten

Thank you. There are no further questions at this time and this will conclude today's conference. You may disconnect your lines at this time and enjoy the rest of your day.

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