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Kura Sushi USA, Inc. (KRUS) Q2 2026 Earnings Call Transcript

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Q2: 2026-04-07 Earnings Summary



EPS of -\$0.04 **beats by \$0.16** | Revenue of \$80.02M (23.31% Y/Y) **beats by \$2.40M**

Kura Sushi USA, Inc. ([KRUS](#)) Q2 2026 Earnings Call April 7, 2026 5:00 PM EDT

Company Participants

Benjamin Porten - Senior Vice President of Investor Relations & System Development

Hajime Uba - Chairman, President & CEO

Jeff Uttz - CFO & Treasurer

Conference Call Participants

Andrew Charles - TD Cowen, Research Division

Todd Brooks - The Benchmark Company, LLC, Research Division

Jeremy Hamblin - Craig-Hallum Capital Group LLC, Research Division

Anisha Datt - Barclays Bank PLC, Research Division

Sharon Zackfia - William Blair & Company L.L.C., Research Division

Mark Smith - Lake Street Capital Markets, LLC, Research Division

James Sanderson - Northcoast Research Partners, LLC

George Kelly - ROTH Capital Partners, LLC, Research Division

Matthew Curtis - D.A. Davidson & Co., Research Division

Jon Tower - Citigroup Inc., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Kura Sushi USA, Inc. Fiscal Second Quarter 2026 Earnings Conference Call. [Operator Instructions]. 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, Investor Relations and System Development. And now I would like to turn the call over to Mr. Porten. Please go ahead.

Benjamin Porten

Senior Vice President of Investor Relations & System Development

Thank you, operator. Good afternoon, everyone, and thank you all for joining. By now, everyone should have access to our fiscal second quarter 2026 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 condition. Also during today's call, we will discuss certain non-GAAP financial measures, which we believe can be useful 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'd like to turn the call over to Jimmy.

Hajime Uba

Chairman, President & CEO

Thanks, Ben, and thank you to everyone for joining us on our call today. Entering this fiscal year, we knew that the second fiscal quarter will be critical regarding our ability to accomplish our stated goals, expectations and full year guidance. As some of you may have seen in this afternoon's release, our fiscal second quarter was quite strong.

We have a lot of good news to share today, including better-than-expected comparable sales and record-breaking labor leverage. So let's jump right in. Total sales for the fiscal second quarter were \$80 million, representing comparable sales growth of 8.6% with 4.3% positive traffic and 4.3% of price on the mix. To provide an update on our goal of flat to slightly positive full year comparable sales. Our year-to-date comparable sales growth as of the end of the first half of fiscal 2026 is now 3%.

While Q2 is the most favorable quarter in the fiscal year from a comparative perspective, considering our performance to date, we now expect modestly positive full year comps. Cost of goods as a percentage of sales were 30.4% as compared to the prior year quarter 28.7%. The tariff situation remains largely unchanged for us and the [minorities] due to the changes in tariff types have been offset by commodity inflation.

We continue to expect full-year COGS to be approximately 30%, ever as a percent of sales improved by a remarkable 410 basis points from last year's 34.8% to 30.7%, driven by operational initiatives and better sales leverage.

Opportunity from labor initiatives scale alongside seasonal leverage, and it's unusual to see this level of impact in the first half of the fiscal year. Given our progress to date, our initial goal of improving labor as a percentage of sales by 100 basis points has proven to be conservative.

Moving on to unit development. In the second quarter, we opened one new restaurant in [indiscernible]. Subsequent to quarter end, we opened four more restaurants, Orange and Union City, California, Goodyear, Arizona and Wellington, Florida. The openings from fiscal '26 are shaping up to be just as strong as fiscal 2025, which was the strongest vintage in recent memory.

We currently have 8 units under construction. As some of these have very recently broken ground, our expectation for new openings in fiscal '26 remains at 16 units. On marketing, it's clear that our strategy of reemphasizing our IP collaborations is working. Our [Kirbi] collaboration was just as successful as we had hoped and Nintendo is an excellent partner. [indiscernible] evergreen popularity was one of the reasons for our strong performance in February.

Our current [IV] collaboration [indiscernible] coinciding with the release of the third season. Our next collaboration is with Tamagotchi as part of its 30th anniversary celebration followed by [indiscernible]. They are making meaning introduction of [indiscernible] in our reward program. This is the most meaningful evolution in the reward program since its introduction, and we have to work to create something that will delight both new guests and long time [indiscernible].

Turning to the reservation system. I'm pleased to report that -- it was members using the reservation system, a much higher visitation rate than [indiscernible]. Our two running [indiscernible] under the accuracy of our wait times estimates. And we feel the reservation system has succeeded in addressing the biggest pain point for our guests.

We believe that there is further opportunity by raising awareness of the ability to place reservations and [indiscernible] completely. To this end, after opening up reservation to non-reward members, we were able to grow the number of reservations paced by over 30%. On these robots, we continue to expect to retrofit the majority of the 50 restaurants that have the space to accommodate them by the end of the fiscal year.

If they have mentioned that our expectation to improve labor by 100 basis points for fiscal '26 does not contemplate the impact of the [indiscernible] robots. We expect the robot to deliver an incremental 50 basis points benefit in fiscal '27 over wherever we land at the end of this fiscal year. It's my pleasure to be able to report such a strong quarter, and I would like to thank our team members at our restaurants and support center for making this possible.

Before I turn the call over to Jeff, I want to take a moment to address our announcement today and recognize and thank him personally. It has been an invaluable partner to me and to Kura Sushi over the past 4 years. His strategic insight and financial leadership have been instrumental in our growth journey as a public company.

While we will miss his expertise on the partnership, we are grateful for everything he has contributed to our success. This, on behalf of everyone at Kura, we would like to wish you the best of luck and success in your future endeavors.

Jeff Uttz

CFO & Treasurer

Thank you, Jimmy, for those kind words. It's been an honor and a privilege to serve as CFO of Kura Sushi over the past 4 years. I'm incredibly proud of what we've accomplished together as a team, and I'd like to thank Jimmy, the Board and every member of the Kura family for their partnership and their trust.

Now let me walk you through our fiscal second quarter financial results. For the second quarter, total sales were \$80 million as compared to \$64.9 million in the prior year period. Comparable restaurant sales growth compared to the prior year period was 8.6%, with 4.3% from traffic and 4.3% from price and mix. Comparable sales growth in our West Coast market was 7.2% and 9.7% in our Southwest market.

Effective pricing for the quarter was 4.5%. As a reminder, beginning in the first quarter of fiscal 2027, we will no longer provide regional breakdowns for comparable sales as regional comps are largely determined by the timing of infills, and we do not believe they are indicative of overall company trends. Turning now to costs. Food and beverage costs as a percentage of sales were 30.4% compared to 28.7% in the prior year quarter due to tariffs on imported ingredients.

Labor and related costs as a percentage of sales were 30.7% as compared to 34.8% in the prior year quarter due to operational efficiencies, pricing and better sales leverage, partially offset by low single-digit wage inflation. Occupancy and related expenses as a percentage of sales were 8.1% compared to the prior year quarter's 7.9%. Depreciation and amortization expense as a percentage of sales were 5.2% as compared to the prior year quarter's 5.1%.

Other costs as a percentage of sales were 14.5% as compared to the prior year quarter's 13.5% due to higher promotional and utility costs. General and administrative expenses as a percentage of sales were 13.7% as compared to 16.9% in the prior year quarter. Fiscal second quarter 2026 includes \$1.2 million of litigation expenses as compared to \$2.1 million of litigation expenses in the prior year. Operating loss was \$2.2 million compared to an operating loss of \$4.6 million in the prior year quarter.

Income tax expense was \$51,000 as compared to \$38,000 in the prior year quarter and net loss was \$1.7 million or negative \$0.14 per share compared to a net loss of \$3.8 million or negative \$0.31 per share in the prior year quarter. Adjusted net loss, which excludes the litigation expense, was \$502,000 or negative \$0.04 a share as compared to adjusted net loss of \$1.7 million or negative \$0.14 per share in the prior year quarter. Restaurant level operating profit as a percentage of sales was 18.2% compared to 17.3% in the prior year quarter. Adjusted EBITDA was \$5.5 million as compared to \$2.7 million in the prior year quarter. And at the end of the fiscal second quarter, we had \$69.7 million in cash, cash equivalents and investments and no debt. And lastly, I'd like to update and reiterate the following guidance for fiscal year 2026.

We now expect total sales to be between \$333 million and \$335 million. We expect to open 16 new units, maintaining an annual unit growth rate above 20% with average net capital expenditures per unit continuing to approximately \$2.5 million. And we now expect G&A expenses as a percentage of sales to be approximately 12%, excluding litigation expense. And we now expect full year restaurant-level operating profit margins to be between 18% and 18.5%. And with that, I'd like to turn it back over to Jim.

Hajime Uba

Chairman, President & CEO

Thank you, 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**

[Operator Instructions]. And the first question comes from the line of Andrew Charles with TD Cowen.

Andrew Charles

TD Cowen, Research Division

I was a bit surprised following the big 2Q same-store sales beat that revenue guidance was inched up. You're looking at consensus forecast, it looks like you're blessing the back half at the midpoint. So does that reflect conservatism in the back half of the year? Or perhaps you can comment on what you're seeing with the new store productivity as well?

Hajime Uba

Chairman, President & CEO

Thank you, Andy, for your first question. But please allow me speaking Japanese.
[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] Charles or Andrew Charles, my grandfather's name is Charles. Andrew, this is Ben. In terms of the guidance that we provided, it really -- it incorporates the better-than-expected performance of Q2. But just given there's a war going on and we don't know how it's going to play out. We felt it was prudent in terms of our guidance just to add the upside from Q2, but not to extrapolate further from that. It doesn't reflect conservatism or pessimism. It's just prudence.

Andrew Charles

TD Cowen, Research Division

Okay. Fair enough. And then curious, what drove the improvement in mix to roughly flat? What are you seeing there in terms of attachments or beverages, et cetera, that helped improve that performance?

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted]. The biggest factor would be our guests are eating more plates per person. Our interpretation is that this is a reflection of the success of the IPs. When we have compelling IPs, people are that much more incentivized to go for that 15th plate or to hit the spending threshold for our giveaways.

Andrew Charles*TD Cowen, Research Division*

And Jeff, all the best in your new role.

Operator

The next question comes from the line of Todd Brooks with Benchmark StoneX.

Todd Brooks*The Benchmark Company, LLC, Research Division*

Congrats on a really great quarter. And Jeff, best of luck in your next stop here. So 2 questions, if I may. One, you talked about the margin leverage in this business and kind of the ability to claw your way back towards a 20% restaurant level operating margin without any sort of tariff relief. I think at a recent conference, Jimmy, you talked about some successful negotiations with some suppliers. We saw outsized labor leverage here. I guess, where are we in that journey? And when would you kind of think Kura has the ability to get back to that 20% level?

Hajime Uba*Chairman, President & CEO*

[Foreign Language].

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

[Interpreted]. Todd, this is Ben. So we're very pleased with how the negotiations between [Jinny] and our suppliers went. Unfortunately, we've seen higher-than-expected inflation in some of our seafood inputs separately from tariffs. And so the upside to Jimmy's negotiations have largely have been offset. We're thinking of it in terms of thanks to the negotiations, we're able to continue to maintain our expectation of, give or take, 30% COGS for the full year.

And so we don't expect that to be accretive to a margin opportunity. The biggest would be, as we look to next year, as Jimmy mentioned in his prepared remarks, the [DISH] robots, we expect an incremental 50 basis points in terms of leverage -- or I'm sorry, in terms of labor improvement. And next year, we have a -- previously, we've been saying a 50-50 split between new and existing markets that's actually shifted even more in our favor to 55-45. These -- the new markets have no impact to cannibalization. And so that will be a tailwind for fiscal '27. And all things equal, new markets outperform. And so between those things, we feel very confident in our ability to get back to that 20% without tariff relief.

Todd Brooks

The Benchmark Company, LLC, Research Division

In the near future.

Benjamin Porten

Senior Vice President of Investor Relations & System Development

In the near future, correct.

Todd Brooks

The Benchmark Company, LLC, Research Division

Perfect. And then my follow-up question, I'll jump back in queue. If -- and I think, Jimmy, when you were kind of rolling through it, you talked about some future IP partnerships. Can we just review those again so that we pick up the detail behind the upcoming partnerships? And as we're starting to think about, I think at the end of April, this window of IP versus no IP in the prior year and so as we're looking forward into Q3 here, can you remind us what we're comparing against? I just want to -- and just give us a qualitative sense of the strength of the partnerships that you see coming up in the future versus what Kura ran last year.

Benjamin Porten

Senior Vice President of Investor Relations & System Development

Got it. Todd, this is Ben. So the ones that we have lined up after Jujutsu Kaisen or [Tamagachi], which is coinciding with its 30th anniversary. And then we have a partnership with a video game called Honkai Star Rail. In terms of your question, yes, at the end of April, we'll be ending the lapping of the lack of IPs.

Starting from the last week of April through May, we had peanuts. And then actually through June, we had peanuts as well. Those months were pretty strong. And then we had hololive, which was a strong performer as well. So that sort of goes back to Jimmy's earlier comment about Q2 being the easiest point of comparison. Please do not model 8% comps on a go-forward basis.

Operator

The next question comes from the line of Jeremy Hamblin with Craig-Hallum.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

Congrats on the strong results. I want to revisit just the tariff ruling and in terms of thinking about, obviously, some volatility on sourcing potential for freight costs to be passed through as well given the war. But just in terms of understanding the tariff aspect of your food cost that's embedded here, what's the timing where you would expect, given your kind of forward contracts to potentially have some benefit, all else being equal, are we looking at kind of the June time frame, just given the change in the global tariff rate?

Hajime Uba

Chairman, President & CEO

So I'm happy to answer this question. [Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] Jeremy, this is Ben. So to your point earlier, we do make forward contracts for some of our proteins. Because our basket is so wide, we have the contracts don't expire on the same date, so to speak. They're all sort of overlapping.

And so there wouldn't be a moment where we would expect a really meaningful shift. The other thing that [bears] mentioning is with the tariffs, while the [IFA] tariffs were taken down, they were replaced by other tariffs. And so the relief was really quite minor for us, and this has been offset by fuel costs and just protein inflationary basket.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

Got it. So with that, I wanted to talk about kind of technology investments that you guys have been making, which have had nice success, the reservation system, robotic dishwashing. In terms of other labor initiatives because it looks like you guys have made some really nice progress, tremendous progress on the labor front. Can you talk about with so many tools now available and you guys have really been an industry leader in making technology investments to help make your business operations more efficient.

Can you just talk about some of these tools that are available, whether they're kind of AI generative tools to help with labor scheduling or otherwise that provide some opportunity on a go-forward basis, whether it's in FY '26, but more likely in the future, just to potentially really refine the business model.

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] Jeremy, so to give you an update on the robotic dishwashers, we expect to finish the installation of our first 10 or tranche of the first 10 by the end of this month. And so we're very happy with the progress. Very happy to announce that we've actually gotten an approval for American use for technology that we've mentioned in past calls, the Sushi slider.

And so this will be limited to new store openings, and we don't expect a straight headcount reduction in the way that we'd expect with the robotic dishwashers, but this will be a margin opportunity, especially for higher volume restaurants on weekends. In terms of the tech things that we're looking at, we're focused a lot on using technology to improve food quality and food consistency.

And we're also starting to explore more guest-facing technologies as well that are as focused on efficiency as much as they are focused on fun, which we see as a meaningful opportunity in terms of driving traffic as well going forward. In terms of AI, we're using a couple -- we're using the social media listening tool right now.

But I've been assigned AI broadly. I'm the Chair of our new AI committee and this is large -- this is eating most of my time. And so I hope to have exciting updates for you guys in the future.

Hajime Uba*Chairman, President & CEO*

[Foreign Language].

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

[Interpreted]. Yes. Really, it's kind of shocking how meaningful the strides have been and in terms of like the ease of making specialized tools for your business. And so we see a lot of really, really exciting things we can do. One obvious application would be to try to hone in on the batting average of our IP collaborations. That would be something that we'd be really excited about.

Jeremy Hamblin*Craig-Hallum Capital Group LLC, Research Division*

Great. And best wishes to the team and Jeff on his next endeavor.

Operator

The next question comes from the line of Jeff Bernstein with Barclays.

Anisha Datt*Barclays Bank PLC, Research Division*

This is Anisha on for Jeff Bernstein. Before my question, I wanted to thank Jeff for 4 years of collaboration and wish him all the best going forward. As you think about bringing a new CFO, what key capabilities or prior experience are most important given Kura's next phase of growth, particularly around unit development, capital allocation or systems as the business continues to scale.

Hajime Uba*Chairman, President & CEO*

[Foreign Language]

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

Yes. Anisha, this is Ben. Guest has been such a great partner to us. We really -- we set high expectations for the role, and we're looking for somebody who can satisfy that. And so that's something that our Nominating Committee is working on right now.

All those qualifications that you've mentioned. Personally, I would love somebody as charming and charismatic as Mr. Uttz. It's been a lot of fun working with him. And so we're not in a rush to fill the spot for the sake of filling the spot. We know it's a very, very important role, and we're going to give it the appropriate attention.

Unknown Analyst

Great. And as a follow-up, you've guided to around 20% unit growth for fiscal '26. So looking beyond that, what gives you confidence that a similar growth rate is sustainable into fiscal '27? And what key guardrails are most important to preserve as the system scales?

Hajime Uba

Chairman, President & CEO

[Foreign Language]

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] So as it relates to fiscal '27, we already have our pipeline built. And so we feel very confident about our ability to hit that 20% unit growth for fiscal '27. In terms of the gating factors, the way that we've always thought about it would be if our new units are not meeting our expectations, if they're coming in below the average -- the system average for unit economics, that would seriously -- that would cause us to seriously reconsider how quickly we're growing.

But as Jimmy mentioned earlier, fiscal '25 is one of the strongest years we've opened in recent memory and fiscal '26 is shaping up very strong as well. And so we're really pleased with that. And we'd like to sustain that 20% unit growth for as long as possible. At the same time, we don't want that 20% to become the tail that wags the dog. And so if it ever -- we would -- we're always looking at it critically. It's not a blind chase of a number. And should circumstances change, we'd like to maintain our flexibility. But for where we have visibility as it stands today, we feel good about that 20%.

Operator

The next question comes from the line of Sharon Zackfia with William Blair.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

I guess I have 2. The first is kind of going back to one of the initial questions on -- I guess, Jimmy, you said slightly positive comps for the year, and you can kind of get there with no comps for the rest of the year. And I get that there's geopolitical uncertainty and all of that. But are you seeing anything in the business that would suggest that you can't maintain positive comps for the rest of the year?

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] So Sharon, I'm sure you recall the traumatic and unfortunate experience a couple of years ago where we raised guidance. And then in a number of weeks, we had to lower guidance below the initial guidance. And that sort of informed a level of conservatism in the way that we provide guidance ever since.

But having had that lesson and knowing today that the President has like a deadline and we don't know what's going to happen, it just seems irresponsible to get ahead of our skis. And so the guidance reflects what we're seeing to date and what we're confident that we can hit.

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] And we're pleased with how the quarter is going so far.

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] Just looking at how the environment is, we're pleased with how things are proceeding.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

Okay. Second question is it may have been causal or may have been coincidental, but it certainly felt like the company got a lot more disciplined around G&A when Jeff joined the company. And I guess I'm curious, like do you think now that's part of the muscle memory of the company and ingrained that you will seek G&A leverage on an ongoing basis even as Jeff departs. And again, sorry, I see you go, Jeff.

Jeff Uttz

CFO & Treasurer

Thanks, Sharon. I mean I'll let Jimmy and Ben address going forward. But we made a lot of strides. I'm proud of the team. I was fortunate to be in the driver's seat for the G&A reduction and kind of lead the charge, but the team really stepped up and over 400 basis points in just over 3 years is quite a bit when you kind of multiply that by the trading multiples and all that is quite a bit to our valuation that I'm quite proud of.

Going forward, as Jimmy said earlier, as they search for a new CFO, they're not going to rush it. And it humbles me and makes me feel proud that the company thinks of me the way that they do. And I wish them the best, and I'll be on the sideline continuing to watch what they do. And I hope that the new CFO continues to lead this to a single-digit G&A at some point, as I have promised in the past.

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted]. Jeff has carved such a clear and sustainable path forward for us that we absolutely expect to continue to leverage G&A, and that's going to be one of the primary mandates for whoever becomes the next CFO as much as I would love to double my salary, we know that there are more prudent ways to spend our money. It's just -- it's one of the things that our investors have come to expect. It's part of our guidance. And so it's just -- it's part of our report card at this point. And so Jeff meeting doesn't change that.

Operator

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

Mark Smith

Lake Street Capital Markets, LLC, Research Division

I wanted to dig into the comp just a little bit. I'm sorry if I missed any update on this. But can you guys speak at all to March? And maybe as we saw gas prices rise, any changes in consumer behavior and potentially in the past, if gas prices have had a significant impact on your consumer, whether it be the plates that they eat or traffic trends?

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] So as Jimmy mentioned earlier, we're happy with how the quarter-to-date is going. As it relates to gas prices, [indiscernible] And I were in California, gas prices were \$6. Whether we're talking about Kura or any other company, it would be bullish to think that this would not have an impact on the consumer. That being said, we are pleased with performance. And yes, that's where we are.

Mark Smith

Lake Street Capital Markets, LLC, Research Division

Okay. Last question for me is just around cadence of openings as we look at the back half of the year, the remaining restaurants to open, will these be more heavily? I know you've got 4 open, but should we look for the rest of those kind of in Q4? Or can you squeeze more in here in Q3 or even early in Q4?

Hajime Uba*Chairman, President & CEO*

[Foreign Language].

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

[Interpreted] There are a number of stores that we're hoping to open up in Q3, but it's -- for modeling purposes, it's -- we think it's safe to assume back half weighting relative -- Q3 relative to Q4.

Operator

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

James Sanderson*Northcoast Research Partners, LLC*

Jeff, best of luck in your new opportunity. I wanted to go back to seafood inflation and more broadly food costs. Is there any concern that we're going to start seeing or hearing about fuel surcharges or incremental invoice impacts from aviation fuel increases or diesel fuel in the next couple of quarters?

Jeff Uttz*CFO & Treasurer*

Jim, it's Jeff. I've been really deep into this as I finish up here really watching this. That is a possibility. Fuel surcharges are something that the delivery companies like to impose. I did ask our supply chain team. We haven't seen a lot of it lately, just a handful, but that is a possibility. It does happen, obviously, when fuel goes up.

We push back on those. And I see I've had these before at other companies, and I don't just accept them. I push back and say, look, that's the cost of doing business. If you want to adjust your prices, go ahead, but they typically don't.

And they will usually allow you to cross out those line items on the invoice. And I've been pretty successful with that in the past. That being said, as Jimmy mentioned earlier, there's just a lot of puts and takes in food cost right now with what's going on in the world. And that's why we've kept our guidance at the 30%-ish number for the year.

And we think with all the negotiations, minus anything that's going on with fuel and delivery costs and all that, we remain pretty confident in that 30% number as to where we sit right now for the year.

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] So just to add on to Jeff's comment, we're very, very proud that we've been able to keep our cost of goods sold at 30%, all things considering. When you look at our Q2 comps, half of that being driven by traffic. We see this as vindication of our strategies.

The 4.5% effective pricing that we're running as of November translates to roughly \$1 per person. And we know that our direct competitors, the individually owned sushi restaurants, there's just no way that they're able to keep the doors open by charging just one extra dollar per person. And that value delta has become clearer and clearer to our guests. And so this dynamic isn't fun, but it works in our favor. And as incremental pressures arise, again, it won't be fun, but it will work in our favor.

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] And we're really happy that we -- as we see the year now, we feel that we have no need to take further prices.

James Sanderson

Northcoast Research Partners, LLC

Okay. And that assumes about 4%, 4.5% for the fiscal year for price?

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] It will be a little bit below 4% on a full year basis.

James Sanderson

Northcoast Research Partners, LLC

Last question for me. I think last year, you reported about a 500 basis point negative impact because of wildfires and other issues. If we peel that off the 8.5% the comp you reported, is that a good run rate for where you think you are trending March, April to date?

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] Ben, unfortunately, we had weather as well this year. And so the comps are so good that it doesn't seem obvious, but we did have pretty significant winter weather that impacted our sales. And so the 400 to 500 basis points, while that was -- that's not a 400 to 500 basis point tailwind this year, it's more like a 200 basis point tailwind.

James Sanderson

Northcoast Research Partners, LLC

Okay. Okay. So again, maybe I can ask it one last. How should we think about the performance in the back half relative to the guidance, low single digits, just kind of bridging that gap?

Hajime Uba

Chairman, President & CEO

[Foreign Language].

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] We don't like to make it a practice of giving quarterly guidance. And just given all the moving parts, we feel it's especially not a good time to try to give quarterly guidance. But we did provide a guidance update at the beginning of this call and all that incorporates everything that we've seen to date.

Hajime Uba

Chairman, President & CEO

[Foreign Language]

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] And to reiterate, we're happy with how Q3 has performed so far.

Operator

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

George Kelly

ROTH Capital Partners, LLC, Research Division

First, Ben, in response to one of the earlier questions, you mentioned there being opportunity for tech enhancements around food quality and consistency. I don't know how much you're going to want to say on today's call, but can you provide a little more detail just on where you think there could be opportunity there?

Hajime Uba

Chairman, President & CEO

[Foreign Language]

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] So the 2 that are on the docket right now, one is managing our broth. And so we make all of our broth, all of our stock from scratch every morning. During my trading period, I was responsible for doing this. So this is near and dear to my heart. But you make the broth in the morning. And if you're keeping it warm, it evaporates. And so it gets progressively more concentrated and bitter.

And so we have this technology that we use in Japan that allows it to stay fresh all day long. And so we're really excited to bring that over and make sure that we have very consistent quality on what we see as one of the most important things about our restaurants being our broth.

The other that we're working on is -- so we have a sear station for like the seared mayo salmon, for instance. We do that by hand right now, but we're working on automating that. And so that will give us much greater consistency, probably a little bit in labor savings, but that's mostly a food quality effort.

George Kelly

ROTH Capital Partners, LLC, Research Division

Okay. Okay. Helpful. And then 2 other quick ones. litigation expense, what are your expectations for that in the coming quarters? Should it stay kind of consistent with what you just did? I think it was \$1.2 million in the quarter? And then second question on labor. I may have missed it, but did you provide more specific like an updated guide for the year on labor? And that's all I had.

Hajime Uba

Chairman, President & CEO

[Foreign Language]

Jeff Uttz

CFO & Treasurer

Sorry. I'll address the litigation one, George, and then Jimmy can jump into the labor side. On the litigation, I mean, unfortunately, this is just a negative byproduct of doing business in California. And any of the restaurant companies that you follow or anybody else follows, you get sued in California for just wage and hour stuff regardless of how buttoned up your system is. So what are my expectations?

My expectations are to never be sued because I think we're very buttoned up. But it just happens in California, and it's an unfortunate thing. So I would like to tell you that they're done, but we just don't know. But I will assure you that our employment -- the practices that we employ in terms of employment and wage and hour law are some of the best that I've ever seen, but you just can't get away from it in California. So that's where I'd leave it. I'm hopeful that we won't see any more, but you just never know.

Hajime Uba*Chairman, President & CEO*

[Foreign Language]

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

[Interpreted] George, as it relates to labor, we're not expecting 400 basis points in leverage in the coming quarters. There were a lot of idiosyncrasies to Q2 that led to that 400 basis points. But we do think that for Q3 and Q4, we can improve labor year-over-year by about 150 basis points. And so we're looking forward to giving you guys updates on that.

Operator

The next question comes from the line of Matt Curtis with D.A. Davidson.

Matthew Curtis*D.A. Davidson & Co., Research Division*

I just had another one on the reservation system. Jimmy, in your comments, I think you mentioned that it was driving a much higher visitation rate. So just wondering if you've seen any sales lift from increased usage of the reservation system. I mean I think you guys previously said you've not been explicitly baking in any sales upside from this. I just wanted to see if this is still the case or not.

Jeff Uttz*CFO & Treasurer*

Yes. Our internal estimate is that the reservation system has contributed about 1%. And so we're very pleased, especially given the headcount reduction's already delivered.

Matthew Curtis*D.A. Davidson & Co., Research Division*

Okay. Great. And one last one for me. I think you had a gap in your IP collaborations in - for the first 2 weeks of March due to some inspection issues, I believe it was. Could you maybe just provide a little more detail around this and whether you think it's more of a one-off or something that could potentially reoccur?

Jeff Uttz*CFO & Treasurer*

This has actually never happened before in our history of being in the United States. And so we really had no reason to expect it. We don't expect it to happen again. We're not sure why it happened this time, but we think it's one-off.

Hajime Uba*Chairman, President & CEO*

[Foreign Language]

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

[Interpreted] So while we weren't happy that this happened, we don't really see it as a meaningful headwind just given that the overwhelming upside and response opportunity for the IP collaborations tends to be the first 2 weeks. And so it's not like we lost those first 2 weeks. We just pushed them back by 2 weeks. And so if we lost anything, it would be the last 2 weeks of the campaign, which tailwind comparison to the first 2 weeks. And so it's unfortunate, but it's not as much of a headwind as it might sound like. And to reiterate, we're happy with Q3.

Operator

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

Jon Tower*Citigroup Inc., Research Division*

Just curious, I noticed that you guys during the quarter did a sushi lunch combo. I think it was \$13.99. And it wasn't something that's seen before, but I think it's something you've done in the past, just not in recent memory. So I'm curious, one, how consumers responded to it? Two, did it end up impacting your mix at all or traffic during that lunch period? And is this also a sign of something that you feel comfortable with using again in the future?

Hajime Uba*Chairman, President & CEO*

[Foreign Language]

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

[Interpreted] So this is something that we've done every winter. We usually do some sort of combo with our soups and our noodle dishes. We think they're really good, and we just -- we want to give people opportunities to -- for reasons to try them. And so that's something that we've done every year. It has an impact, but it's not really a big needle mover. We'll probably do something similar in the summer as well, not for soups, but we don't expect it to be a big needle mover.

Hajime Uba*Chairman, President & CEO*

[Foreign Language]

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

[Interpreted] [indiscernible] And Jon, it's really -- it's great to see how successful the IPs have been working. But we don't want to be entirely reliant on IPs. And so to that end, we've been working on a lot of LTOs even going above and beyond the core reserve. For instance, in March, we had a campaign called Wagyu of the Seas. It's very high-quality Toro. And yes, we just -- we've got a pretty good calendar in terms of reasons to come in.

Jon Tower*Citigroup Inc., Research Division*

Got it. I appreciate that. And I got to the stores more frequently to make sure I can understand what's new and what's not. But I guess you had mentioned earlier, obviously, that this year, you've been pretty disciplined on pricing and that the competitive set is likely going to have to pass along a lot more pricing than what you guys are planning to do for the year.

One, have you seen that happen anecdotally based on your own work that you've done? And then two, have you seen any signals that because of the price increases or potential price increases from the competitive set that consumers are pushing back and/or like there's risk that these other chain -- these other stores might have to close their doors because traffic is just not showing up the way that it should?

Jeff Uttz*CFO & Treasurer*

It's possible. I mean this is a dynamic that's played out twice before, at least with my time at the company, once during the pandemic and once during the post-pandemic supply chain issues. It's always been a traffic boon to us. The reason that we are interpreting -- the reason for this interpretation would really be -- we took 3.5% price on November, but our traffic accelerated.

And so we don't think there'd be a reason for that if it weren't clear that the value is amazing. And anecdotally, yes, we are seeing it. You'll be able to confirm the same thing just by looking at Yelp menus and going back historically and seeing their current menus. And I think you might be surprised.

Jon Tower*Citigroup Inc., Research Division*

Got it. And are you guys highlighting that in any of the social or digital marketing that like how can you communicate that to guests without...

Jeff Uttz*CFO & Treasurer*

That's a tricky message. Everybody is raising price but us. It's not a good slogan.

Hajime Uba*Chairman, President & CEO*

[Foreign Language]

Benjamin Porten*Senior Vice President of Investor Relations & System Development*

[Interpreted] One thing that we do is target marketing, especially if we're able to see that the competitive set in that local market has taken price pretty aggressively. We can spend incremental advertising dollars there just to get eyeballs, and that's always -- that's worked pretty well.

Another tool, we just talked about the Wagyu of the Seas, but that makes it easier for guests to make a direct comparison with higher-end sushi as well. And if they're not impressed by the salmon, getting the Bluefin Toro for \$4 is impressive. And so it serves the dual purposes, these LTOs.

Operator

Thank you. This concludes today's question-and-answer session, and this will also conclude the conference as well. You may all now disconnect your lines at this time, and we thank you for your participation. Have a great day, everyone.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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