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Kura Sushi USA, Inc. (KRUS) Q3 2024 Earnings Call Transcript

Jul. 09, 2024 8:29 PM ET | **Kura Sushi USA, Inc. (KRUS) Stock****SA Transcripts**

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Q3: 2024-07-09 Earnings Summary

Play Call



Press Release



10-Q

EPS of \$0.00 **misses by \$0.01** | Revenue of \$63.08M (28.12% Y/Y) **misses by \$21.36K**Kura Sushi USA, Inc. (NASDAQ:[KRUS](#)) Q3 2024 Earnings Conference Call July 9, 2024 5:00 PM ET

Company Participants

Benjamin Porten - SVP, Investor Relations & System Development

Hajime Jimmy Uba - President & Chief Executive Officer

Jeff Uttz - Chief Financial Officer

Conference Call Participants

Jeffrey Bernstein - Barclays

Jon Tower - Citi

Jeremy Hamblin - Craig-Hallum

Todd Brooks - The Benchmark Company

Matt Curtis - William Blair

George Kelly - Roth Capital Partners

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Kura Sushi USA Fiscal Third Quarter 2024 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, SVP, Investor Relations and System Development.

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

Benjamin Porten

Thank you, operator. Good afternoon, everyone, and thank you all for joining.

By now, everyone should have access to our fiscal third quarter 2024 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 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 would like to turn the call over to Jimmy.

Hajime Jimmy Uba

Thanks, Ben, and thank you to everyone for joining us today.

As we mentioned in our pre-release announcement, sales in the fiscal third quarter did not meet our expectations. This sales decline, which began mid-April, was sudden and unexpected, and I'm proud of the efforts that our team members have made, allowing us to maintain a restaurant-level profit margin of just 20% despite sales deleverage.

We believe the current headwinds are macro driven and transitory, but with the difficulty in predicting the duration of macroeconomic shifts, we believe the most prudent course of action is to position ourselves to be able to continue to deliver strong financial results and uninterrupted progress on our core strategic goals of at least 20% annual unit growth, G&A leverage and operational excellence regardless of the broader economic environment. While the third quarter results were unexpected, nothing has changed about Kura Sushi's tremendous potential.

Total sales for the fiscal third quarter was \$63.1 million, representing comparable sales growth of 0.6% and traffic growth of 0.3%. We believe the comp deterioration over the prior quarter was driven by the overall macro environment and the consumer sentiment, particularly in California as well as a degree of cannibalization as we execute our planned strategy of infilling existing markets. The impact of cannibalization we have seen was not unexpected and is a necessary result of infilling, and we expect financial benefit from infilling synergies.

At the same time, we continue to take a thoughtful approach within infills for the purpose of managing their impact on comparable sales. As we exit the current macro environment, we expect to return to delivering positive comparable sales through the ongoing incorporation of new learnings into our site selection process in combination with the balancing of infill ratios for our pipeline.

As context for the softness in California, in past earnings call, we had mentioned our expectations that the FAST Act will be a tailwind for us as wage pressures would prompt more aggressive pricing among competitors and highlight the value that Kura Sushi offers. What we have seen instead is a general perception that restaurants as a category have become expensive introducing industry-wide pressures regardless of a given restaurant's relative value. Despite this shift in consumer behavior, I'm pleased that we were able to maintain both positive comparable sales and traffic for the quarter.

Turning to restaurant-level expenses, our cost of goods sold improved by 80 basis points to 29.2% as a result of ongoing supply chain efforts. Labor as a percentage of sales increased from the prior-year quarter's 29.2% to 32.3%, largely due to sales deleverage, increased pre-opening labor cost and wage increases. Other cost rose by 190 basis points to 14.4% due to sales deleverage, general inflation and an increase in pre-opening expenses. To offset increased cost, we took 1% pricing in May and 1.7% in July for current effective pricing of approximately 4%.

Additionally, we believe we have opportunities for better cost management in the near future through incremental operational efficiencies in hourly labor. We also expect to achieve meaningful reductions in pre-opening expenses, primarily labor and the travel cost associated with management trainees by taking advantage of the opportunities created by infilling existing markets.

I'm very proud that we were able to continue to leverage our G&A year-over-year in spite of lower-than-expected sales. Third quarter G&A as a percentage of sales was 14%, which is a 20 basis point improvement year-over-year. As I mentioned earlier, continued G&A leverage regardless of macro pressures is a major priority. We believe G&A leverage opportunities in infill markets will play a very meaningful role in our cost management and G&A reduction strategies.

In fiscal '25, we plan to continue our unit growth rate of at least 20%, but also expect that we will be able to manage these new restaurants with our existing area management team. Additionally, as we plan to open several new restaurants in existing markets in fiscal '25, this will allow us to grow on the talent pool developed by local restaurants and meaningfully reduce our third-party recruiting agency fees.

Moving on to development, we opened four units in the fiscal third quarter: Waterford Lakes, Florida; Atlanta, Georgia; Scarsdale, New York; and Roseville, California. Subsequent to the quarter-end, we opened a restaurant in Lake Grove, New York, marking the 14th unit of our fiscal year and the high-end of our new unit guidance range for FY '24. We currently have six units under construction, positioning us for a strong start to fiscal '25.

Turning to tech initiatives, I'm pleased to announce that we have completed the rollout of our smartphone mobile ordering system and the in-store testing for the additional feature that allows guests to earn [the coupon] (ph) prices with side-menu items is on product to begin shortly. The Sushi Slider is undergoing US certification, and we are making improvements to robotic dishwasher in preparation for the final mass production model.

I'm exceptionally pleased to be able to announce some new technologies today. We're currently working with Japan to implement a reservation feature for the first time. This is a massive upgrade from our current remote check-in system, giving guests far more control over their dining experience. Our long term -- long wait times are harder for our guests when they decide to dine with us, and we believe this removes that hurdle. With this system, guests can identify the busiest times and avoid them by making reservations outside of peak demand, which we believe is a traffic opportunity particularly on weekends. This technology is accompanied by an automated seating system, reducing the workload of our front of house employees. These new features are top priority, and we are pushing to roll them out as quickly as possible.

It is unfortunate that macro environment has weakened, but consumer confidence always bounced back. We continue to regularly set new guest survey records, and so we know that our guests like Kura as much as they always have. As restaurant visitation habits normalize, we know that guests will put us at the top of their list because of the exceptional value we have always offered. In the meantime, we are focused on driving incremental operational efficiencies at our restaurants and reducing other costs so that we can continue to post strong unit-level economics and leverage G&A regardless of the overall macro environment. These improvements will carry over as consumer strength returns, and we are tremendously excited to see the new heights we'll be able to achieve as a result.

I would like to close by expressing my gratitude to each of our team members for their tireless efforts at our restaurants and our support center. Thank you.

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

Jeff Uttz

Thanks, Jimmy.

For the third quarter, total sales were \$63.1 million as compared to \$49.2 million in the prior-year period. Comparable restaurant sales performance compared to the prior-year period was positive 0.6% with regional comps of positive 7.3% in our West Coast market as compared to 8.7% in the prior quarter and negative 3.9% in our Southwest market as compared to flat in the prior quarter. Comp pressures in the Southwest were expected due to the openings of Webster and Euless, while California's deceleration was completely unexpected.

Turning to costs. Food and beverage costs as a percentage of sales were 29.2% compared to 30% in the prior-year quarter, largely due to pricing and supply chain initiatives. Labor and related costs as a percentage of sales were 32.3% as compared to 29.2% in the prior-year quarter. This increase was largely due to sales deleverage, increased training costs associated with new store openings and wage increases. Occupancy and related expenses as a percentage of sales were 6.8% as compared to the prior-year quarter's 7.2%. Depreciation and amortization expenses as a percentage of sales increased to 5% compared to the prior-year quarter's 4%, largely due to additional newly opened units as well as the accelerated depreciation of assets being replaced due to planned remodels. Other costs as a percentage of sales increased to 14.4%, compared to 12.5% in the prior-year quarter, due mainly to pre-opening costs associated with a greater number of store openings as well as general cost inflation.

General and administrative expenses as a percentage of sales decreased to 14% compared to 14.2% in the prior-year quarter due to sales leverage, which is partially offset by incremental public company costs associated with our first year of SOX 404(b) compliance and recruiting and travel costs associated with new unit openings. Note also that the current quarter G&A expense includes a litigation accrual of \$0.6 million.

Operating loss was \$1.2 million compared to operating income of \$1.3 million in the prior-year quarter. Income tax expense was \$60,000 compared to \$41,000 in the prior-year quarter.

Net loss was \$0.6 million or \$0.05 per share compared to net income of \$1.7 million or \$0.16 per share in the prior-year quarter. Adjusted net income was \$4,000 or \$0.00 per share compared to adjusted net income \$1.7 million or \$0.16 per share in the prior-year quarter.

Restaurant-level operating profit as a percentage of sales was 20% compared to 23.5% from the prior-year quarter.

Adjusted EBITDA was \$4.5 million compared to \$5.1 million in the prior-year quarter.

Turning now to our cash and liquidity, at the end of the fiscal third quarter, we had \$59.4 million in cash and cash equivalents and no debt.

And lastly, I'd like to update and reaffirm the following guidance for fiscal year 2024: We now expect total sales to be between \$235 million and \$237 million; our new unit opening guidance is 14 units, with average net capital expenditures per unit of approximately \$2.4 million; and we continue to expect general and administrative expenses as a percentage of sales to be between 14% and 14.5%, excluding litigation accruals.

With that, I will 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. Thank you for your attention.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Jeffrey Bernstein with Barclays. Please proceed with your question.

Jeffrey Bernstein

Thank you very much. A couple of questions. The first one is just on the comp trends. I believe last quarter you guys had talked about strong momentum and you were happy with March. And I think you mentioned you were very happy with the early days of April, yet clearly, Jimmy, you mentioned that the full fiscal 3Q was disappointing. And I think you guys have talked about at least in the pre-announcement that it was really California, which I think you said earlier was totally unexpected. So, I'm just wondering if you can maybe walk through the cadence of trends through the quarter when you saw a, I guess, severe change in trend and your outlook on how you can perhaps turn that around if there's anything you can proactively pursue to maybe reverse the California trend versus kind of just riding out as you talked about the consumer sentiment challenges. And then I had a follow-up.

Hajime Jimmy Uba

Thank you for the question. Please allow me to speak in Japanese. Ben can translate.

[Foreign Language]

[Interpreted] In terms of the -- Jeff, this is Ben. Great to speak with you. In terms of the April earnings call, we had been very bullish in our projections as our sales results up until that point have been extremely strong. So, I'm sure you've noticed that there's a pretty meaningful difference in the guidance that we've provided in the pre-release and today's opening -- prepared remarks versus the prior quarter. So, we'd like to go -- provide some context for that.

[Foreign Language]

[Interpreted] While we don't -- while we generally don't make a habit of providing monthly comps, just in order to illustrate the point that we're trying to make, we're providing some special context this time. But just to give you an idea of where we were coming from at the April earnings call, which was in the first half of that month, our March comp system-wide had been 7.3% and our California comps had been 14.1%. And so, looking at that versus where we landed for the full quarter, you can see how different our outlook would have been in the first -- early weeks of April versus the time that we gave our pre-release.

[Foreign Language]

[Interpreted] In terms of the overall where we or how we arrived to the guidance for the prior quarter, we were looking at our March trends. We were looking at historical seasonality. We had opened new units. We were extremely excited for Dragon Ball at that point, and we were excited for the August promotion of One Piece as well. So, all of those things put together, made us very bullish about our annual revenue expectations. And as we entered the latter half of April, once we saw the sales deceleration, that was sort of like a sucker punch for us.

[Foreign Language]

[Interpreted] Before we get into our strategies for driving sales, just wanted to sort of put a bow on this topic. But on the note of comps, as you might have guessed based off of our revenue guidance for the year, our Q4 comp expectations -- and again, this isn't something that we'll be giving on a forward basis, it's really just giving you unusual circumstances for this particular earnings call, but our expectations are negative mid-single digits or negative high-single digit comps. That being said, as Jimmy mentioned in the opening remarks, our -- we are laser-focused on delivering our core goals, which would be continuing to leverage G&A, continuing to deliver restaurant-level operating profit margins above 20% and continuing to maintain our unit growth rate of 20% -- of at least 20%. And so, once we started to see the sales deceleration in April, we took on a litany of cost management measures, and that's one of the reasons that we were able to continue to maintain the restaurant-level operating profit margin of 20% in Q3 in spite of the sales deceleration. And now that those efforts are really in full swing, we expect opportunities in Q4 and Q1 as well.

[Foreign Language]

[Interpreted] On the note of driving sales, we actually -- we hired our first VP of Marketing in April. The timing just happened to coincide. He's been very hard at work. Our approach right now is -- we don't think it makes sense to aggressively discount or make massive investments in media buys and try to get home grand slams. The approach is really to be hitting out consistent cost-effective base hits.

[Foreign Language]

[Interpreted] In terms of -- one of our -- in terms of messaging, one of the main things that we're really pushing is showcasing the value that we offer. And so, we've always served real crab. Our California rolls have 100% real crab. But as of April, we'll be serving 100% Canadian snow crab -- I'm sorry, as of August. And so, we're really excited about the meaningful step-up in crab quality. We're also going to be targeting larger portions of our toro starting in fiscal '25. And so, just showing the core value that we offer every day, the really high-quality ingredients that we serve is a renewed focus of our messaging.

[Foreign Language]

[Interpreted] And then, in terms of other sales drivers, as we mentioned, we are very focused on the tech pipeline as well. We've completed the rollout of smartphone ordering for all of our restaurants. We are currently -- we're just about to start testing for the ability for guests to earn prizes through the side menu, which previously you could only earn prizes through sushi plates. And we're introducing the reservation system for the first time. Up until now, we've only had a check -- a remote check-in program. Didn't have any control over the actual time of dining. And so, this is a massive step-up in terms of just the guest experience. I mean, even for myself, when I think about going to Kura, I think about, do I want to wait in line? And I don't think that's a problem that most of the restaurants have to deal with, which being able to address this, I think, is a very meaningful lever for us to pull. But the reason we're going into such detail is really we're just going to be as clear as we can that we are aggressively managing costs and we're being very prudent in our approach to driving sales. We're not taking aggressive discounting or anything that's going to result in just short-term gains. The focus is to improve products or to add incremental technologies, things that will continue to serve us well regardless of the macro environment, things that will stay with us as things improve.

[Foreign Language]

[Interpreted] And to close the message, as mentioned in the opening remarks, we can't predict how long macro pressures will last, and so we think the most prudent is to prepare for the long term, and that's what we're doing. We know that by taking these -- the steps that we've been doing, that's what's going to enable us to continue to leverage G&A, continue to deliver restaurant-level operating profit margins that are as strong as ever. And we know that while we can't control the macro environment, we can control our offering. We know that guests like sushi, and people just don't make sushi at home. And so, eventually, people will want to go out and eat sushi. And we just need to be the restaurant that they immediately think of when they think about where do we want to go to eat sushi.

Jeffrey Bernstein

Understood. And just to clarify, and I appreciate all the color, and it sounds like in March, you were running a 7.3% comp. For the full quarter, it was modestly positive. But seemingly, I guess, April and May were negative. And the fact that we're now in July, it seems like you're guiding for the full fiscal fourth quarter down mid- to high-single digit despite what looks like easier comparison. So, I just want to -- can you share maybe what the April and May and June comp, or any incremental color just so we could see the directional trend that the comps took after that positive 7.3% in March?

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] Yeah, we don't want to get into the habit of breaking out monthly comps, but just as Jimmy mentioned earlier, we've given you the first month [indiscernible] we've given you the full quarter, so you can get an idea of just how meaningfully different the remaining quarters were and we've provided our expectations for Q4 comps.

Jeffrey Bernstein

Understood. Okay. And then my follow-up is just on the unit growth side of things. Could you -- are there any learnings perhaps in terms of markets where you think you might have reached penetration, whether it's possible that in some of the California markets there is a component of the softness that's due to maybe reaching some level of penetration? And maybe you could just clarify what you said about fiscal '25? I think you said something about your mix of new versus existing markets. I didn't catch that fully, so I was hoping to just clarify the unit outlook and any thoughts around penetration. Thank you.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] So, to give you some color, the reason we're talking about the mix of new and existing markets, obviously, we have a single unit market and we open up the second unit in that market, that's going to be a comp pressure, because it will cannibalize to some degree the sales of that first restaurant much more than the impact of, say, the ninth restaurant in a given market will to the first eight. And so, by being mindful of the split between new and existing markets as well as the nature of the existing markets, whether they're single unit markets or relatively more mature markets, those are just things that we need to keep in mind from a comp perspective to balance things overall. For fiscal '25, we've got a blend of about 40-60 new to existing, which is higher in terms of new markets than we had this year. That being said, it's -- these things have long lead times. So fiscal '26 will have even more ability to reflect the things that we've learned.

In terms of penetration for any of these markets, I don't think we've reached penetration for any of these markets. It's just, we've learned some things. So, for instance, one would be, our expectation before was that 30 minutes was sufficient in terms of minimizing cannibalization, but what we've learned is that for some of our restaurants, [indiscernible] 45 minutes very consistently. And so those are the kinds of things that we're learning, that we're applying to our pipeline. It's really, everything is specific to each unit and specific to each market, but every time we learn.

Jeffrey Bernstein

Appreciate all the color. Thank you very much.

Hajime Jimmy Uba

Thank you.

Jeff Uttz

Thank you.

Operator

Thank you. Our next question comes from the line of Jon Tower with Citi. Please proceed with your question.

Jon Tower

Great. Thanks for taking the questions. Maybe I'll get back to the comp commentary. I appreciate the color you provided in the West and California. But can you speak to the rest of the country as well? Obviously, you've got good amount of stores outside of California in the Southwest. I'm just curious how those stores performed during the period.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] So, looking at our comp base and again looking at considering how rapidly we've grown, the sheer number of markets we've been opening up in, a lot of our -- a lot of the units that are in non-California, non-Texas regions that are within the comp base, which is after they've been open for 18 months, they're now seeing the second unit in their market or the third unit in their market. So obviously, they're going to be seeing headwinds from an infilling perspective. That's just not the case for California or Texas in terms of magnitude. So there's that. The other is, the macro environment, it's not limited to California. It's something that we're seeing across the system. But ex those factors, they're performing exactly as we'd expected. We're really pleased with the comp base as well as [indiscernible].

Jon Tower

Okay. Maybe then go into the cannibalization point that you talked about. I can't recall it being brought up in previous calls. So, I'm just curious if you can give us some color on what's the magnitude of cannibalization that you're seeing and how long does that traditionally last for your stores? Are we talking about something where it's a drag for six months, 12 months, beyond that? I'm just curious, provide some color around that.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] So, the reason that we're bringing this up for the first time or really getting into it for the first time is, while cannibalization has always been a factor, it's been roughly approximately the same in terms of magnitude as a comp headwind. We've always been able to offset that with our strong California performance. And with California just not being there to support the overall comps in April and May, you see the impact of the single unit market becoming second and third unit markets, which is completely within our expectations. It's just hasn't been a necessary topic of discussion because of strong overall system-wide comps.

[Foreign Language]

[Interpreted] And then, the other factor would be, of the 14 units that we've opened this year, 10 of them are in existing markets. And so that's many more units in existing markets than we've had in prior years. Even with that, we've posted positive comps in the first half of the year. So, it's just -- it didn't bear mentioning. It's just part of any growing company. But again, with California not performing to our expectations in Q3, we felt it was necessary to give a more holistic look into the reasons for the comp underperformance relative to our expectations.

Jon Tower

Okay. So, no color on the magnitude of the drag?

Jeff Uttz

So, the magnitude of the drag, it's really hard to just -- because it's specific to every unit, right? The impact of what a single unit market going to two unit markets is going to be different than another restaurant in California where it's going to be the 28th unit. So just saying that there's like X impact per restaurant, then that -- it just doesn't work like that.

Jon Tower

Okay. Then maybe just jump on to just what happened during the quarter itself. What are you using to determine that this is more of a macro issue rather than a category- or company-specific issue? I mean, we can look at the same data you're probably looking at when it comes to put down across more of the lower-income cohorts, but that seem like other brands that cater a little bit more to the wealthier consumer have been doing relatively well, at least in the high frequency data we can look at. So, I'm just curious, how are you able to disaggregate the difference between macro versus micro or category.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] So, in terms of whether this is more of a restaurant industry-wide versus a subsector issue, I think a little greater clarity on that, just as earnings calls continue to trickle out over the course of the remainder of the summer, we tend to be among the first, and so, there's limited context there. But the reasons that we think that this is a macro factor versus something that is Kura or Sushi specific, we look at all of our data. We have reams and reams of customer data. All the guest survey scores are as strong as ever, if not stronger in some locations. Social media mentions remain very, very robust, and guest value perception is very strong as well. The pricing that we've taken is modest, low-single digits. Our food quality remains very high. Portion is exactly the same or the guest experience is the same. So, nothing has changed. And so, we have no reason to think that over a matter of weeks, suddenly people's appetite for Kura would change. That just doesn't make any sense.

Jon Tower

Okay. Thank you. And then, just maybe the last one. In terms of the balance of the year, I know you're very much focused on -- in the '25, working on the cost side of the equation, trying to make sure that that's balanced with the sales. Can you talk about the planned promotions that you have? Like, does that stunt any opportunity to kind of push some of the promos that you had lined up? I know there was one that was due to come out in this fiscal fourth quarter. Is that going to stay on -- as planned or do you plan on shifting that?

Jeff Uttz

You mean the One Piece collaboration?

Jon Tower

Yes.

Jeff Uttz

Yes. No, that's still on track. That'll be rolling out August 1st.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] Yeah. In terms of our comments earlier, the main point that we were trying to get across is that we weren't going to be trying something new and massive as a Hail Mary. We weren't going to be gambling millions of dollars on advertising. It's just not our approach. Our approach is really to focus on things that are as cost effective as possible, whether they're the bread and butter things we've done in the past or new opportunities that the VP of Marketing has brought to us, we think that we can deliver superior results with a comparable spend.

Jon Tower

Got it. Thank you very much for taking the questions.

Operator

Thank you. Our next question comes from the line of Jeremy Hamblin with Craig-Hallum. Please proceed with your question.

Jeremy Hamblin

Thanks for taking the questions. I wanted to ask just another one on the same store sales, just to get an appreciation for some of the regional performance. So, I think you said in March, California was up 14.1%. I don't think you gave us a Southwest market performance for that month, but I think that would be helpful.

And then, just wanted to understand in terms of the guidance here for your fourth quarter of down mid-single to down high-single, what's the magnitude of change in those regional markets? Because your call out really has been in California, and I don't know if that means that the primary change is California and the Southwest markets kind of bumping along at a similar level, or if you've seen degradation kind of across regions.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] So, to answer your first question, the Southwest region comps for March were 1.8%.

[Foreign Language]

[Interpreted] And then, in terms of our expectations for Q4 comps, it's not that we expect sales decelerations relative to what we've seen in Q3, it's that we have a relatively harder comparison that we're lapping with [indiscernible], which is, if you recall, if you listen to our previous earnings calls, it was a very big surprise hit for us and one of the more successful collaborations that we've had.

[Foreign Language]

[Interpreted] And then, the other would be that the three most recent restaurants that we've opened are in existing markets. And so they would also have an impact on cannibalization. But again, in terms of us giving the guidance of negative mid- to high-single digits, it doesn't imply anything any worsening. It's just basically a run rate expectation of what we've seen to date keeping in mind the comparisons and factors -- the other comp factors.

Jeremy Hamblin

Got it. And then, just some of the -- some of your restaurant peers have been a bit more aggressive in pricing, particularly in the California market with the change in wage laws on April 1. Just an understanding of how you're thinking about, do you feel like there's a lot more price sensitivity in terms of some companies that like you target higher education customer base, that have been able to price a bit more aggressively to help offset some of the wage pressure? But you guys have also spoken to your value proposition and the fact you guys are, let's say, somewhere in the 30% to 50% lower price point versus your sushi peers. Is that a consideration of being maybe a bit more aggressive, particularly in that market?

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] So, Jeremy, thanks for asking this question. This is obviously a massive topic of discussion. It's really an ongoing discussion within the company. But at the end of the day, we do think that maintaining the value proposition of Kura Sushi is extremely important, not just now when people are going for discount orders, but really for the long-term health of the company. And the competitiveness that you mentioned, the 30% to 50%, us being 30% to 50% cheaper than sushi peers, that didn't happen overnight. That was through 10, 15 years of just constant effort to keep pricing down while introducing additional efforts on our end to be able to drive the same level of margin. So, the pricing that we've taken right now that we're running to be approximately 4%, we think that that is appropriate in terms of the pricing that we need to be able to maintain the same levels of profitability that we delivered in past year. So, it would be that 4% pricing in combination with the operational streamline that is going out across our system as well as the tech pipeline that we have. That's a unique opportunity to Kura. And so, we're trying to -- we're taking advantage of that as much as possible in terms of not needing to take as much price continuing to be a very strong value and making sure that our brand identity remains intact.

[Foreign Language]

[Interpreted] And then, for your other question, I think everybody is more price sensitive. I mean, this is kind of a silly analogy, but Jimmy -- Jeff and I, we were all talking and we changed our habits as well. So, at this point, I think it's everybody.

Jeremy Hamblin

Understood. Last one quick for me. Your unit development pipeline has been exceptional and execution has been exceptional. I think six under construction puts you on a pretty strong pace as you get started here towards FY '25. Has any of the same store sales performance impacted at all your unit development plans? I think as we look at not only which -- the six that you noted you have under construction, but I think you have lease agreements and/or site selection on a significantly larger batch, one that may suggest that your unit growth, in absolute terms, would be a bit higher in FY '25, but any color you might be able to share on that would be greatly appreciated.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] So, high level, in terms of current sales or same store sales, that hasn't impacted our growth appetite at all. We believe that whitespace potential remains just as strong as ever and that our growth prospects are extremely strong. So, nothing has changed in terms of our appetite. What has changed is, we're very grateful to have a very, very strong development team and they have an extremely robust pipeline. And so, we've been able to apply our learnings over the last year, especially the things that we've learned over the last quarters in terms of determining which units we'd like to include in our pipeline and which ones don't make the cut. And so this year, the cannibalization impact is a greater focus than in past years.

[Foreign Language]

[Interpreted] As we mentioned before, given the difficulty to predict how long the macro environment continues, obviously, we're going to be doing everything in our power to continue to produce strong results. But if things were worsened dramatically that might put a hiccup in the growth plans, but right now, there's nothing that would indicate that. We remain very, very excited about the fiscal '25 pipeline, which we will give you an update in our Q4 call when we give our formal guidance as we've done every year.

Jeff Uttz

And Jeremy, it's Jeff. I just wanted to add to that what's really important to us is keeping with the promises that we've made to our shareholder base. And one of those, as you know, is to maintain a 20% unit level growth per year. And that's what we continue to plan to do, not only just 20% unit level growth, but the other promises that we've made to maintain the 20% restaurant-level operating profit and have significant G&A leverage. And that's very important to us as a management team to make certain that we keep those promises that we've made certainly since I've been with the company. So that's what we're going to continue to do.

Jeremy Hamblin

Great. Thanks for all the color. Appreciate it, and best wishes.

Jeff Uttz

Thanks.

Hajime Jimmy Uba

Thank you.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of Todd Brooks with The Benchmark Company. Please proceed with your question.

Todd Brooks

Hey, thanks for taking my questions here. Just wondering, you talked about the price increase that you took in July, 1.7%, was that across all regions or because the consumer largely didn't kind of differentiate between concepts that took price and didn't take price, but they started voting with their feet in California and stopped going out altogether? Is the pricing more loaded in the California market since you did not take any earlier in the year?

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] Generally speaking, it was system-wide. If there the adjustments we were making for California would have to do with the minimum wage increases that happened on July 1st, which is something that we've done every year. So, there -- maybe there's a little bit more in California, but it wouldn't be related to what you just mentioned. It would just be the same as always in terms of offsetting minimum wage.

[Foreign Language]

[Interpreted] And so, just to recap our historical pricing approach, it's always been very, very consistently. We'll take pricing on -- in January and July, because there are statutory wage increases in January and July, and we'll take just enough to offset that. This year, for the May pricing event, there's just -- there's labor inflation beyond our expectation and there was inflation relating to other costs and so we took that 1% to offset those incremental inflationary costs.

Jeff Uttz

And, Todd, both of the price increases we took, the one in May and the one in July, were -- it's a blended number across the whole system based on our existing menu mix. So, it doesn't necessarily mean it's 1.7% across the board.

Todd Brooks

Okay. Fair enough. Thanks, Jeff. Secondly, wonder if we can talk about average check trends or what mix trends were in the quarter. I know mix has been a challenge. We thought maybe with some strength in Dragon Ball, it might help mix pull up. Can we talk about what price/mix ran in the quarter?

Jeff Uttz

Yeah. So, price/mix actually -- it's improved quarter-over-quarter. Price/mix in total, it was negative 0.3%, with pricing of about 3.4% and mix of negative 3.7%, but that is a meaningful improvement over the prior quarter when price/mix was negative 3%, where we had price of 3% and mix of negative 6%. And so that -- we are not seeing mix pressures. We're actually seeing mix tailwinds.

Benjamin Porten

And even if you look at a year ago, our mix was down almost 10%.

Jeff Uttz

Right. So, it's a very meaningful improvement.

Todd Brooks

Okay. And is that -- if we look across and I know everybody's trying to parse the quarter and trends there, did mix stay relatively steady? Did consumers -- the ones that were coming out, were they still spending largely in the same way as far as number of plates, but also the side menu and attachment there?

Jeff Uttz

Yeah. There were many major changes worth calling out in April and May.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] The thing that we've seen is not so much spending management, just more frequency management, unfortunately.

Todd Brooks

Okay. And then, the final one for me. I know we're a little ways out, but we're starting to get over half a year of experience with the new loyalty program under our belts here. In past discussions, it's iterative. You've got to build the data set before you can really start to lever it. As you're looking towards what you can do with the tool to stimulate frequency, what you can better do maybe in specific markets with segmentation if you need to attack weakness in a market like California, and then maybe using the tool to better tie in or incent people against some of the IP partnerships, where are we in that journey that we start to look at loyalty as being a frequency driver going forward? Thanks.

Benjamin Porten

Yeah. So, it's just exactly as you mentioned. We see it as a massive opportunity. So, in the last call, I've mentioned that Rewards members visit about 1.3 times a month, very, very frequent. And so, as an example, a very simple opportunity to just get a segment, our Rewards members, see which ones haven't been visiting and try to -- in 90 days and try to convert them back into active Rewards members and get that 1.3 times monthly visit, that's a pretty simple idea. The execution is a little bit trickier. And those are the kinds of things that we're working out right now. I don't envy our VP of Marketing, who has a lot on his plate. He's very busy, but we work closely together and leveraging the opportunity of Rewards program is very much a point of focus. I don't want to be premature in our announcements, but we do have big news coming about the Rewards program.

Todd Brooks

Okay. Fair enough. Thanks, Ben.

Operator

Thank you. Our next question comes from the line of Matt Curtis with William Blair. Please proceed with your question.

Matt Curtis

Hi, good evening. So, with regard to the mid-single digit to high-single digit negative comp run rate so far in the fourth quarter, just to be clear, have you seen trends actually already stabilized in this range or not? And then, when you look back at the comp slowdown in April, is there anything in terms of dayparts, demographics or days of the week that stick out to you as having been important drivers?

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] Yeah. We haven't seen too much change in daypart. And in terms of what we've seen to-date, in terms of sales trends, we haven't seen any major changes.

[Foreign Language]

[Interpreted] And just in terms of the comp headwinds for Q4, we opened four units since April and all four are in existing markets and so those are obviously compact wins.

Jeff Uttz

And also, Matt, thinking about on the first part of your question about days, we have -- Friday Lunch seems to be a little bit challenging, if you had to pick out any day of the week, but that's consistent with many articles that I've been reading that the industry is seeing a lot of people not going out to lunch on Friday and Thursday has become more of a bigger day to go out. But that's really the only thing that I can think of that we've seen in terms of a particular day.

Matt Curtis

Okay. Got it. Thanks for that. And then despite the comp slowdown, it seems like new units are still performing well. Maybe you can just give us an update on how the class of 2022 and 2023 has been doing recently in terms of new unit productivity?

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] Looking at, I guess, the momentum out of the gate for each vintage, overall the performance for fiscal '24, the past fiscal '24, we're very pleased with and we think it's largely in line with what we've seen with fiscal '22 and '23. The major factor being that the first unit in a given market is always going to be meaningfully more successful than the subsequent restaurants. I mean, it's just you get that massive hype, get very long or very crazy lines, big honeymoon, which you just don't get with as you infill that market. And so, this year, we had 10 inbuilt versus four store -- four new markets versus past years where the majority of the units were in new markets. And so, just in terms of the first year out of the gate strength, we don't have the honeymoon tailwinds as much this year, but overall, they're performing exactly to our expectations. Fiscal '22 and '23 remained very strong. The variance in performance again would just -- it would depend on an infill, if there's -- it really just depends on if there's an infill.

[Foreign Language]

[Interpreted] So, I think if we look back in the future this year, the two stores that are probably the most important in terms of our overall story, that would be Kansas City and Columbus, Ohio. There are eight -- of course, they're new markets, but they're not they're also not immediately obvious sushi markets, but they're fantastic. We love them. The rent is lower. The cost of doing business is lower. And so they not only are they very popular, they're very profitable. And again, because they're not obvious, sushi market, the success there is really it's not just demonstrated our portability, which every single one of our openings has done, but it's really given us that much more flexibility in terms of what we think of as being an extremely productive restaurant. And that learning has already been incorporated. It's part of our pipeline for fiscal '25 and it gives us -- that is the reason we have confidence in terms of being able to manage the mix in pipeline between new and existing to make sure that we can continue consistently having positive comps.

Matt Curtis

Okay, great. Thanks very much.

Hajime Jimmy Uba

Thank you.

Operator

Thank you. Our next question comes from the line of George Kelly with Roth Capital Partners. Please proceed with your question.

George Kelly

Hey, everyone. Thanks for taking the questions. So first, I wanted to start on the cost side. I was hoping you could be a little more specific just about where you found savings. I think you gave a few examples on that in your prepared remarks, but if you could just expand on that both on -- with respect to G&A and on a four-wall basis?

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] Before we go into the specifics of the cost management efforts, we've been making -- we just wanted to sort of provide level -- make sure that we're all on the same page in terms of the understanding of labor. But one thing is we've always seen labor and COGS as a combined line item. We don't see necessarily labor going up or down as indicative of our performance just because that can shift materially based off of the geographies that we've been opening in. So, over the last few years, we've gone from just two, three units in the East Coast to having many more units on the East Coast, which are obviously a more expensive market than, say, Texas. And so labor costs going up, not a surprise. The other factor would just be, for fiscal '24, we aren't surprised that the year-to-date has elevated labor relative to fiscal '23 just given the sheer number of pre-openings -- the sheer number of store openings and the associated pre-opening labor costs.

Jeff Uttz

And then, George, on the G&A side, we're continuing to execute really well there as we have in the last couple of years, continuing to have people think strategically about hires, thinking about contracts that we have. It's really the basics of what we've been doing. And we haven't changed anything on the G&A side. And I think that you can see that significant leverage that we had. I did mention there was a \$600,000 litigation accrual in there as well and the number is still leveraged. So, we're hitting on a lot of cylinders when it comes to the G&A side. We're just going to continue to do that.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] So yeah. Sorry. In terms of the restaurant-level opportunities, just to give a couple of them we're the most excited about. Since we saw the deceleration in April, there has really been a core effort among the executive team. One thing that we've been able to do is streamline the back of house operation. So right now, historically, four main stations, we are able to streamline that into three, which gets you a headcount reduction. And what's really so great about this operational streamlining is unlike our tech pipelines, it isn't reliant on hardware, it isn't reliant on software, and it's not reliant on certification. And so, there's nothing that we have to wait for. We have to figure out the process which we have. And so, we're rolling in touch system-wide and expect it to be a standard part of our operational approach by -- at some point in Q4. And so, we're really excited about that.

Looking to fiscal 2025, as Jimmy mentioned in the opening remarks, we have -- well, we've had a cannibalization from infill. We also benefit -- we also have compensatory benefits. So, one example would be for infill markets, you don't need -- you can bring in -- you don't need to bring people in. You can use the internal promotions from the existing restaurant to staff the leadership of the new restaurant. And so, the pre-opening costs associated with an infill are meaningfully lower pre-opening costs associated with the new market. And so that will be a very meaningful tailwind in terms of preopening labor cost, which obviously [bifold] (ph) into the overall labor line.

[Foreign Language]

[Interpreted] On top of that, we have all of the tech initiatives, both of which we've just opened up of what we've recently implemented as well as, the ones that are coming up. And so, both in terms of the G&A that Jeff just discussed and the restaurant-level profit margin, we're very, very confident in our ability to continue leveraging and continuing to maintain 20% restaurant-level operating margins.

George Kelly

Okay, understood. And then just one last quick one. Ben, I think you mentioned putting in place a reservation system. Can you test that? Like what does it look like if you've tested it? And how much inventory do you plan to make available to reservations?

Benjamin Porten

So, yeah, this is going to be really tricky and going to occupy most of my thinking hours for the next couple of months. But this is a system that's already, in place in Japan, and so it's rigorously tested from a tech perspective. That being said, working out the inventory of available seats, just the overall operations, that's going to be the harder part. We have members of the Kura Japan IT team actually coming next week specifically to work on this. It's a really, really high priority. And it is my personal responsibility to be able to give you a meaningful update on the next call. So please, look forward with that.

Hajime Jimmy Uba

[Foreign Language]

[Interpreted] The other -- one of the other reasons that we're so excited about the reservation system besides it being a feature that I personally would love as a guest, like the operational streamlining, this isn't something that requires big hardware changes where certain restaurants can't do it. It doesn't require a certification process where we don't -- we can't put a firm timeline on something because it's out of our control. This is really something that is within our power, something that we're working on actively and we see as a meaningful lever. And so that is -- that for me, that's a huge part of my focus, and I will be providing updates on that.

George Kelly

Understood. Thank you.

Operator

Thank you. There are no further questions at this time. I would like to conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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