Seeking Alpha

Transcripts Consumer

Kura Sushi USA, Inc. (KRUS) Q4 2026 Earnings Call Transcript

Nov 06, 2026, 10:24 AM ET | **Kura Sushi USA, Inc. (KRUS) Stock**

SA Transcripts
162.9K Followers

Q4: 2026-11-05 Earnings Summary

Insights

EPS of $0.08 misses by $0.11 | Revenue of $88.88M (11.87% Y/Y) misses by $1.99M

Kura Sushi USA, Inc. (KRUS) Q4 2026 Earnings Call November 5, 2026 5:00 PM EST

Company Participants

Benjamin Porten - Senior Vice President of Investor Relations & System Development
Hajime Uba - President, CEO, Interim CFO & Chairman

Conference Call Participants

Matthew Curtis - D.A. Davidson & Co., Research Division
Todd Brooks - StoneX Financial, Inc., Research Division
Sharon Zackfia - William Blair & Company L.L.C., Research Division
John-Paul Wollam - ROTH Capital Partners, LLC, Research Division
Will Feyereisn - Craig-Hallum Capital Group LLC, Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Kura Sushi USA, Inc. Fiscal Fourth 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; and Benjamin Porten, Senior Vice President, Investor Relations & 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 fourth quarter and fiscal year 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 would like to turn the call over to Jimmy.

Hajime Uba
President, CEO, Interim CFO & Chairman

Thanks, Wayne, and thank you to everyone who's joining us on our call today.

As we look back at our fiscal 2026, I'm proud of our efforts to protect the margin in spite of the tariffs and consumer headwinds. While tariffs collectively increased our cost of goods sold and other costs by 180 basis points over fiscal 2025, we were able to offset these increases with labor leverage of 190 basis points over prior year, driven by the technological innovation that is core to our concept.

Our continued commitment to G&A leverage is reflected in the 90 basis point improvement over the prior year, and we were also able to grow adjusted EBITDA margin and dollars over the prior year. As we enter the new fiscal year, I would like to share how our priorities have evolved as Kura has matured over the last decade.

What began as a local cult favorite brand is now the undisputed leader of the American sushi space. Prior to Kura Sushi, there have been no nationally successful chains despite the increasingly broad popularity of sushi in the United States. Over the last few decades, we have addressed and solved each of these scaling challenges, and we are now in 25 states with our 100 restaurants right around the corner.

Having completed our national business strategy, I would like to share our major new mid-term goals. We expect to generate positive free cash flow and become self-funding by 2031. This goal hinges on 2 factors: returning on our historical 20% restaurant-level operating profit margins over this time period and normalizing our annual unit growth strategy from percentage based to a unit-based one where the annual unit opening count continues to increase each year. This normalization of our unit growth approach delivers 2 major expected benefits: the extension of our cash runway through self-funding status and the elimination of the need for future capital raise.

Now, I would like to move on to discuss our recent results. Total sales for the fiscal fourth quarter were $88.9 million, representing comparable sales of negative 5.7%, with negative 11.5% of traffic offset by positive 5.8% in price and mix, with effective pricing for the quarter of 4.2%. Over the last year, we have seen mix reach all-time highs and this trend has only become more pronounced.

Cost of goods sold as a percent of sales were 29.7% as compared to 28.4% in the prior year quarter due to the impact of tariff. Our full-year COGS came in exactly in line with our expectations of 30%. Labor as a percentage of sales improved by 70 basis points to 30.4% due to operational initiatives.

One of our goals for fiscal '26 was to improve labor by 100 basis points over the prior year, and I'm incredibly pleased to share that our full-year labor leverage over fiscal 2025 nearly doubled our goal at 190 basis points of improvement.

Turning to unit development. We opened 4 new restaurants in the fourth quarter; Tulsa, Oklahoma, Austin, Texas; Charlotte, North Carolina; and Parsippany, New Jersey. Oklahoma and North Carolina are both new markets for us, and the initial guest response has met all of our expectations.

Subsequent to quarter end, we opened 3 new restaurants, Glen Allen in Virginia, Des Moines in Iowa and Denver, Colorado, which opened just yesterday. Iowa is another new market, and while it has only been opened for a few weeks, it's off to a great start. In keeping with our mid-term strategy, our unit opening expectations for fiscal 2027 are 17 new units. We currently have 7 restaurants under construction, but fiscal '27 openings overall will be heavily backloaded, with current expectations of 4 openings in Q1, 2 openings in Q2, 5 openings in Q3 and 6 openings in Q4.

I'm excited to share more of our fiscal 2027 IP pipeline. We are currently in our Yoshi campaign, which runs through November and December. Our Q1 comparable sales to date of negative 3.1% are a meaningful improvement on Q4, and we are excited for the Yoshi campaign we have slated for November and December.

Following Yoshi, we have Hatsune Miku in January and Godzilla in February and March. We have 4 more IP collaborations for fiscal '27 following Godzilla, and I look forward to sharing more of our IP pipeline in our next earnings call.

On the note of our IP collaborations and Bikkura Pon Prizes, I'm pleased to share that we have fully rolled out our Bikkura Pon digital voucher option at all of our restaurants. Now, guests have an appealing price, we look forward to regardless of the familiarity with a given IP campaign. We believe this will be a potential opportunity for reductions in other costs as we adjust Bikkura Pon prices order volumes to reflect the vivid preferences of our guests.

In other system development news, we closed the fiscal year slightly ahead of robot dishwasher retrofit schedule and with 33 retrofits completed today. We have just under 20 remaining. Starting midway in fiscal 2027, all new openings will have robot dishwashers as a default feature for the future.

While we are pleased with the improvement in price and mix, traffic in the fourth quarter did not meet our expectations. We've implemented several initiatives, primarily focused on value to improve traffic, with the goal of achieving positive comparable sales on a full-year basis. In order to further bolster our value proposition and in an effort to recapture traffic, we have made the decision to take no pricing to offset the 3.5% that rolled off at the beginning of November.

While our pricing strategy will remain flexible, we believe that we will be able to continue to grow margin over the prior year without taking price and that the tariff shock to sushi industry pricing is a major opportunity for us to capture a larger audience.

Before moving on to our financials, I would like to thank all of our team members, both at our restaurants, at our support center for the great work they have done to provide excellent guest experiences while protecting margin in a challenging environment.

Now, I'll hand it over to Ben to discuss our financials and liquidity.

Benjamin Porten
Senior Vice President of Investor Relations & System Development

Thank you, Jimmy.

For the fourth quarter, total sales were $88.9 million as compared to $79.4 million in the prior year period. Comparable restaurant sales growth compared to the prior year period was negative 5.7%, with negative 11.5% from traffic, offset by 5.8% of price/mix. Comparable sales growth in our West Coast market was negative 4.9% and negative 8.6% in our Southwest market. Effective pricing for the quarter was 4.2%. As a reminder, beginning with 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 to costs. Food and beverage costs as a percentage of sales were 29.7% compared to 28.4% in the prior year quarter due to tariffs on imported ingredients, partially offset by pricing. Labor and related costs as a percentage of sales were 30.4% as compared to 31.1% in the prior year quarter due to operational efficiencies and pricing, partially offset by low single-digit wage inflation.

Occupancy and related expenses as a percentage of sales were 7.8% compared to the prior year quarter's 7.1% due to sales deleverage. Depreciation and amortization expenses as a percentage of sales were 5.6% as compared to prior year quarter's 4.9%, also due to sales deleverage. Other costs as a percentage of sales were 14.6% as compared to the prior year quarter's 15% due to a one-time tariff refund benefit of approximately $0.5 million for some of our promotional materials.

General and administrative expenses as a percentage of sales were 11.2% as compared to 11.7% in the prior year quarter. Operating loss was $0.6 million, inclusive of $1.2 million in impairment and asset disposal costs compared to operating income of $1.5 million in the prior year quarter. Income tax expense was $86,000 as compared to $43,000 in the prior year quarter.

Net loss was $0.3 million, or negative $0.02 per share compared to net income of $2.3 million, or $0.18 per share in the prior year quarter. Adjusted net income was $0.9 million, or $0.08 per diluted share as compared to adjusted net income of $2.5 million, or $0.20 per diluted share in the prior year quarter. Restaurant-level operating profit as a percentage of sales was 19.1% compared to 19.8% in the prior year quarter.

Adjusted EBITDA was $7.7 million as compared to $7.4 million in the prior year quarter. And at the end of the fiscal fourth quarter, we had $28.4 million in cash and cash equivalents and $37.2 million in investments, totaling $65.6 million and no debt.

I would like to provide the following guidance for fiscal year 2027. We expect total sales to be between $376 million and $381 million. We expect to open 17 new units, with average net capital expenditures per unit of approximately $2.6 million. We expect general and administrative expenses as a percentage of sales to be approximately 11.5%, and we expect full-year restaurant level operating profit margins to be approximately 19%.

This concludes our prepared remarks. We are now happy to answer any questions you have.

As a reminder, during the Q&A session, Jimmy may answer in Japanese before his response is translated into English. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question will come from Matt Curtis with D.A. Davidson.

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

I guess the first question is really on the traffic decline, which was pretty sharp in the fourth quarter. Could you provide some more detail on what exactly drove that and maybe what the progression was month by month?

Hajime Uba
President, CEO, Interim CFO & Chairman

Sure. Thank you, Matt, for your first question. This question is probably the most critical question during this call. So, please allow me to speak in Japanese and take time to give you enough explanation.

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] Matt, this is Ben. So we were also -- certainly, we were also surprised by the traffic decline. This was meaningfully beyond our expectations. But the good news is that we've been able to drill down into the time of the dayparts where we're seeing that traffic pressure as well as the opportunities that we have to reverse it. And so we'd like to go through those with you now.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] In terms of geography, the traffic pressures that we saw in Q4 were very broad-based, really no meaningful differences between our markets. In terms of daypart, it's pretty clear that the -- where we're losing traffic are the weekday lunches.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] In August, we performed a consumer study. And one pretty clear-through line that we saw was value is top of mind for our consumers, I imagine all consumers. And while we don't think of value as simply being price, our average check is $29. When you think about that as a lunch ticket, it's not as affordable as some of the other options. And so we've been specifically working on how to address this.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And so as it relates to weekday launches, we've certainly made sure that there are no issues with the quality of service or the quality of the ingredients that we're making sure that we're doing the appropriate storytelling so the guests appreciate exactly how high quality our ingredients are. But what we really landed on is the major lever for driving traffic during the weekday lunches, especially would be to provide undeniable value through value combos. And so we've been -- in October, we did a 3-day pilot where we piloted a $9.99 option and a $10.99 option, which gave you a bowl of noodles and 2 handles.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] I'm sorry. $9.99 and $11.99. And for this 3-day period, they were 5% of mix. And so they were a pretty big hit. But also critically, we saw no degradation in average check size. And so based off of those early results, we're very encouraged and we're in the process of implementing a larger test with more of our restaurants.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And so the test expansion actually begins next week. Based off of how the test goes, we'll make some adjustments to make sure that from a COGS perspective, the value combos are margin neutral, and we expect to launch the system-wide sometime in Q2.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] We're also leaning into value for off-premises as well. We're in the process of developing some value bundles for our guests. One very interesting thing that I neglected to mention about the 3-day testing in October is that the advertising there was extremely minimal. It was limited purely to rewards members, which makes that 5% mix all that much more remarkable. But as we develop the value bundle for off-premises and as we begin the system-wide push for the value combos in Q2, we expect to support that with paid advertisement.

Really, the goal here is to capture first-time guests. So, you know that we've done a great job with activating our rewards members, but we think that this sort of $11.99 value is really -- it's pretty eye-catching and we're very excited about what it means in terms of first-time guest capture.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And so as it relates to fiscal '27 traffic, while Q4's performance came in below expectations, we feel that we've got a really strong lineup in terms of initiatives that will drive traffic for us in fiscal '27. Our IP pipeline is very strong. Beyond the quality of the individual properties, we also have a record number of IPs. The LTOs that we do, the Kura Reserves, we're increasing from 9 to 12. Those are proven traffic movers, and so we're excited about that.

We think that we're pretty unique in deciding to take 0% pricing, and that should make the value delta between ourselves and everybody else that's fighting for stomach share that much clearer. We also have value combos, which were really -- this is pretty new for us to put this much effort behind a value combo and to support it with marketing. And so we're really excited to see just how far we can bring this. And yes, all of this is going to be supported by incremental spending on social -- on paid social, which we're really excited about.

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

Okay. Understood. If I could just ask one more. On the IP collaborations, I mean, one of the big initiatives this year was to, as you said, improve the quality as well as increase the frequency of those collaborations with the idea of essentially reducing quarterly same-store sales and traffic volatility. It seems like that hasn't really worked out to the extent that you probably hoped this year.

So with regard to IP collabs going forward, when you say -- when you talk about them for 2027, are you talking about increasing the number -- the frequency of collaborations again or going back to retool your IP platform somehow?

Benjamin Porten
Senior Vice President of Investor Relations & System Development

So, we have a total year IP platform, but we're also increasing the number of IPs that we're doing. So last year, we had 7. This year, we have 8. The bulk of the excitement is typically within the first month. And so having more first month gives us more comp opportunity even with a full calendar in both years.

Operator

And next, we'll move to Todd Brooks with StoneX.

Todd Brooks
StoneX Financial, Inc., Research Division

Ben or Jimmy, within the '27 guidance, what same-restaurant sales assumption is in that $376 million to $381 million revenue guidance?

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] Todd, for the high end of the guide, that assumes flat to slightly positive comps, whereas the low end of the guide would assume negative comps.

Todd Brooks
StoneX Financial, Inc., Research Division

How deep of a negative can that buffer and still hit the $376 million?

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] You could think of there being about a 1.5% comp spread between the high end and low end assumptions.

Todd Brooks
StoneX Financial, Inc., Research Division

Okay. Great. That's helpful.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And just a couple of other notes, given that we're on the topic of the revenue guidance. We are meaningfully backloaded this year in terms of the unit opening pace. And so we just thought it'd be probably most useful for us to share our expectation about operating months. Currently, we expect 84 operating months from new openings in fiscal '27. As some other puts and takes for revenue, this will be the first year that we've decided to close for Christmas and Thanksgiving. We're happy that our team members will be able to spend time with their families, but it will -- it is 2 days of lost revenue.

Todd Brooks
StoneX Financial, Inc., Research Division

Okay. Fair enough. When we look at Q4 and we look at that traffic number, I know you talked about IP as a program across the whole year. But in the Q4 window, did the IP partnerships perform to plan? Was that any of the reason for just down double-digit traffic?

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] Yes. Without calling out any specific IPs for not meeting our expectations, not all of them did meet our expectations. The other factor there for Q4 was the World Cup. One thing that really surprised us is that when the World Cup began, you could see traffic really turn on a dime. And so we expected that dynamic to reverse at the end of the World Cup, which is part of the reason for the guidance that we provided in July. What we saw in July and subsequently is that the dynamic did not reverse, which was very surprising and really the difference between our expectations and the results we reported today.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And as it relates to Q1, we did see -- there was a lot of consumer uncertainty, especially with the midterms. But now that we're past the midterms, now that we're into the Yoshi campaign, we're feeling very encouraged. Just looking at the comps to date, it's a meaningful improvement. We're about down negative 3% versus the negative 5.7% that we were doing in Q4. And so we're already on an upward trajectory. In terms of the full-year comps, we're expecting a meaningful step-up in the back half. And so we're really excited to hit those quarters, so to speak.

Todd Brooks
StoneX Financial, Inc., Research Division

Okay. And the final one, and then I'll jump back in, if I can. You've long talked about the challenge of the Kura brand prowess of communicating the value that you offer without kind of diminishing the quality, positioning that people perceive for the brand. And now we're moved to a place where we're looking to more broadly promote $9.99 and $11.99 bundles. How are you -- are you either looking at the consumer differently that they just have such a different focus around price point-driven value now that you don't think it will diminish the perception of the brand? Or just walk me through what got you over the hump to be willing to communicate value so overly?

Benjamin Porten
Senior Vice President of Investor Relations & System Development

Yes. Just in terms of that -- our decision to put energy behind the value combos, we wanted to meet consumers where they are. And us crowing about how high quality our ingredients are when everybody else is thinking about value, we didn't think it was the right strategy. And so we are doing deep discounting on our sushi staples. It's really just on the noodle.

But what we've seen is that the average check size hasn't diminished on the days that we've done the value combos. And so our assumption presently is that the value combo is very eye-catching and it gets people in the door. But once they see all the delicious looking sushi spinning past them, they can't help themselves. And so if somebody only has $12, we want Kura to be a great option. But if they can spend more, we want them to come as well.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And in the intervening months since the last call, we spent a lot of time studying our competitors' best practices as it relates to value presentation. And the 5% mix that we're seeing is pretty in line with the best of class as it relates to value. And so we're very encouraged there. And we don't think that it's negatively impacting the value perception or the quality perception of Kura as a whole.

Operator

And next, we'll move to Sharon Zackfia with William Blair.

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

I just wanted to clarify on the comp because you alluded to negative 3% quarter-to-date, but you're just dropping the price off now, correct? So with that and with Thanksgiving and Christmas closed, I presume we should expect something worse for the quarter.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] So, I mean, we're only 4 days, 5 days now into November, but we haven't really seen any changes in average check. And so we're really, really pleased to see mix basically making up the price we are not offsetting. As it relates to Thanksgiving, if we close a restaurant for a full day, we back those out of the comp base and so that wouldn't impact our comps.

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

Okay. And then the decision to slow growth a little bit, I guess I had been thinking we were kind of in that 20% plus range, and it's going to be a bit less than that this year. Can you kind of walk through the thought process? Are you seeing the unit economics hold up as expected? Or are you trying to kind of be more selective in this macro environment? I'd just be curious on the thought process.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] So, this is the other major point that we were excited to discuss, and so we'd like to spend some time going over those.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] So Sharon, just before we go into the reasons that we decided to do this, I wanted to head off any concerns about unit economics. This is nothing to do -- we have 0 complaints with the unit economics of our recent openings. Fiscal '25-'26 have been great. The openings that we've had to date in fiscal '27 are great as well. And so really, it has more to do with the maturation of Kura as a company and the competitive landscape.

And so coming out of the IPO, we wanted to move very quickly, given the fragmentation of the sushi space, the lack of a dominant leader. We wanted to make sure that we were able to be the first ones to plant our flag across our key DMAs. And today, we're in 25 states. We're in every major metro, every major DMA and we're about to close in on 100 restaurants. And so the impetus behind rapid growth solely for the sake of establishing that first-mover advantage is much less of a consideration at this point.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And then in terms of really the driving positive reason for us pursuing the strategy is our desire to generate free cash flow and become self-funding. This strategy of -- this strategic moderation of our growth rate, this allows us to achieve that free cash flow, assuming no benefit from a tariff relief. When we think about our last capital raise, we assumed that it was going to be the last one. It was at $85.

Certainly, we have no appetite to do a cash raise at these share prices. We think it would be a disservice to our investors. And we think that the stability of self-funding and the lack of need for a further capital raise are really the 2 things that I think our investor base would best appreciate. And so that's the driving force there.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And then in terms of the growth rate adjustment, we're going from the historical 20%. This year, we're still doing 18%. And so I really wouldn't call it much of a deceleration at all, especially given that we're increasing the number of absolute units. We expect to continue to do that in our forward years. It will probably be -- the likeliest cadence would be something along the lines of '17, '18, '19, et cetera, although there might be some puts and takes in a given year.

Operator

And next, we'll move to JP Wollam with ROTH Capital.

John-Paul Wollam
ROTH Capital Partners, LLC, Research Division

And I jumped late, so sorry if it's been covered a little bit. But just exploring the value conversation a little bit more. I just want to clarify, is it due to you guys kind of not seeing the trade down from more expensive mom-and-pop customers that you maybe would have expected in this environment? And at the same time, maybe your more value sensitive or low-income cohort has kind of reduced their frequency. And so you haven't replenished that bucket per se, and that's why you want to be a little bit more aggressive with some of this messaging. Is that part of it? Or can you just kind of comment on that?

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] JP, this is Ben. So in terms of trade down, we think that we're actually -- we are capturing a lot of trade down. And the best demonstration would be the mix improvement, which is just consistently accelerated quarter after quarter. It doesn't really make sense unless we're capturing a new guest cohort that's accustomed to much higher sushi prices. And so we think we're doing a really good job of capturing the trade down. That being said, our traffic opportunity is weekday lunches and $29 as an average check for weekday lunch is certainly on the higher end. And so we just want to be more competitive for that daypart. That's what's really driving the $9.99, $11.99 offerings.

John-Paul Wollam
ROTH Capital Partners, LLC, Research Division

Okay. That's helpful. And then just as we think about that restaurant-level margin guide for next year, understanding that there's flat comps kind of baked in somewhere around the midpoint of the sales guide, can you just bridge what gets you to that restaurant-level margin for next year? And then we've talked about kind of hitting that 20% target in the past, but just kind of any puts and takes that that would get you from that 19% back up to 20% beyond next year?

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] So let's -- we're going to walk you through the line items. But starting with COGS, we expect that to be slightly up as a result of not taking price, but we believe that it's going to be offset by reductions in our other costs. So, they should net out to be neutral.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And so the bridge from '18 to '19 is really coming from labor improvement. We were able to do 190 basis points of leverage in fiscal '26, and we expect an additional 100 basis points of labor improvement in fiscal '27.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] So looking at labor inflation, it's become extremely stable. Really, the only labor increases that we're expecting would be the statutory minimum wage increases on January 1, which should translate to an impact of about 15 basis points on a full-year basis. But our HR team has done a phenomenal job. And by renegotiating some of our workers' comp rates, we should be able to -- we expect that to be offset.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And to give you some additional context on the quarter-to-date, we're currently -- quarter-to-date, we're doing about 70 basis points, 80 basis points better on labor than we did last year. And this is with a negative 3% comp. And so when you contemplate the back half of the year, when we reach the easier comparisons and we expect comp acceleration, 100 basis points of leverage, we think, is extremely reasonable.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And so this would be the bridge to the 19% for fiscal '27.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And as it relates to the dishwashers, given that we're still in the implementation process, we expect to complete full rollout in fiscal '27, meaning that fiscal '28 will be the first year that we have the full-year benefit. And we would expect a 30 basis point improvement from the full-year benefit versus fiscal '27.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And then with the savings from the Bikkura Pon coupon options, we would expect once we're able to implement this in full and have -- be able to adjust our Bikkura Pon price order volumes based off of the demand that we're seeing from guests, we would expect that to be about a 20 basis point savings. We're also implementing all these different PM projects, improvements in our repair and maintenance approach, savings on small tools, utilities, which will be another 20 basis points of savings in the other cost line.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And so the remaining 50 basis points, this will be coming from better sales leverage on positive comps. And so that's one of the reasons that we're really going full force behind all of our traffic initiatives this year. Our overwhelming goal is to be able to wisely extend our cash runway and to get to free cash flow by fiscal 2030 -- fiscal '31.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And the one thing that we really want to emphasize here is that none of this contemplates relief from tariffs. And that we would say is conservative at this point. And so should that come, that would accelerate the time line meaningfully. And so we're really -- we think that we've got a pretty bright future.

Operator

And next, we'll hear from Jeremy Hamblin with Craig-Hallum Capital Group.

Will Feyereisn
Craig-Hallum Capital Group LLC, Research Division

This is Will on for Jeremy. I also joined a little late, so apologies if this has been hit on. But it sounds like comp trends have modestly improved here quarter-to-date. I guess, can you help break that out by traffic and check? And then maybe remind us what sort of lap you're facing here in November? And then what sort of lift you're anticipating from the Yoshi IP?

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] In terms of the quarter-to-date improvement, that's really coming from mix. Traffic has been pretty much steady state since Q4.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] And so if we're able to improve traffic, even if we were able to just get it to flat, that would put us in an incredible comp position. And so that's really what we're putting all of our efforts behind.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] I'm sorry, what was the -- our expectations for the Yoshi campaign? We expect it to be as strong as Kirby.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] That being said, while our expectations for Yoshi are very high, we think everybody was pretty much holding their wallets until the mid-term election results came out. And we're excited to see the full potential of Yoshi play out in the coming months.

Will Feyereisn
Craig-Hallum Capital Group LLC, Research Division

That's helpful. And then I just wanted to touch on some of the cannibalization impact you'd expect for the year. And if there's anything new to note in terms of new versus infill mix for the 17 openings now expected in '27?

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten
Senior Vice President of Investor Relations & System Development

[Interpreted] In terms of the pipeline we have for fiscal '27, it would be 45% existing markets, 55% new markets. But the comp tailwind benefit that we expect from this pipeline mix really comes in the back half of fiscal '27 and into fiscal '28, just given that for cannibalization happening in fiscal '26 or fiscal '27, that will really be determined by our fiscal '26 openings.

A couple of ones come to mind in particular, the infills of San Diego and Austin, which are 2 of our top-performing units, previously single-unit markets. We're infilled in the back half of fiscal '26. And so those pressures we expect to -- we don't expect any change there until we lap it, which would be in the back half of fiscal '27. But fiscal '28 would see continued improvement on the cannibalization headwind front.

Hajime Uba
President, CEO, Interim CFO & Chairman

[Foreign Language]

Benjamin Porten

Senior Vice President of Investor Relations & System Development

[Interpreted] And I'm not sure if I mentioned it, but the cannibalization we experienced in fiscal '26 was 2%, and we expect a steady deceleration in comp headwinds as we progress through fiscal '27 and '28.

Operator

There are no further questions at this time, and this will conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.

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

Read more current KRUS analysis and news

View all earnings call transcripts

Add to Preferred Sources

COMMENTS

Sort by Newest

If you type a company or ETF ticker symbol in capital letters we will automatically link to the symbol page. You can remove the link by deleting the $ in the comment.