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Noodles & Company, Inc. (NASDAQ:[NDLS](#)) Q1 2025 Earnings Conference Call May 7, 2025 4:30 PM ET

Company Participants

Michael Hynes - CFO

Andrew Madsen - CEO & Director

Conference Call Participants

Todd Brooks - Benchmark Company

Jake Bartlett - Truist Securities

Operator

Good afternoon and welcome to today's Noodles & Company's First Quarter 2025 Earnings Conference Call. All participants are now in a listen only mode. After the presenters remarks, there will be a question and answer session. As a reminder, this call is being recorded.

I would now like to introduce Noodles & Company's Chief Financial Officer, Mike Hynes.

Michael Hynes

Thank you and good afternoon, everyone. Welcome to our first quarter 2025 earnings call. Here with me this afternoon is Drew Madsen, our Chief Executive Officer.

I'd like to start by going over a few regulatory matters. During the call, we may make forward looking statements regarding future events or the future financial performance of the company. Any such items should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Such statements are only projections and actual events or results could differ from those projections due to a number of risks and uncertainties, including those referred to in this afternoon's news release and the cautionary statement and the company's Annual Report on form 10-K and subsequent filings with the SEC.

During the call, we will discuss non-GAAP measures, which we believe can be useful in evaluating the company's operating performance. These measures should not be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP. A reconciliation of these measures to the most directly comparable GAAP measures is available in our first quarter 2025 earnings release. To the extent that the company provides guidance, it does so only on a non-GAAP basis and does not provide reconciliations of forward looking non-GAAP measures. Quantitative reconciling information for these measures is unavailable without unreasonable efforts.

With that, I would like to turn the call over to Drew Madsen, our Chief Executive Officer.

Andrew Madsen

Thank you, Mike, and good afternoon, everyone. We are very pleased with the positive Q1 same-store sales performance we achieved despite the challenging macroeconomic environment. During the first quarter, traffic increased 1.8% and check increased 2.9%, resulting in a same-store sales increase of 4.7% in our company-owned restaurants and 4.4% system-wide, including franchisees.

While the Q1 increase was helped by the introduction of three new menu items in October of last year, as well as favorable Easter timing, it was also due to the comprehensive menu rollout in mid-March of this year, including the impact of increased marketing and increased brand awareness. We are also pleased this Q1 momentum continued in April, which is our most difficult monthly comparison versus last year. Same-store sales since the mid-March rollout through April have increased approximately 5%.

Both Q1 and April results represent a significant acceleration from Q4 last year when traffic was down minus 0.1% and same-store sales grew 0.5%. This sustained and significant improvement in our sales trends demonstrates to us that the execution of our previously announced strategic priorities have gained traction, especially while coming during a period when the industry has been impacted by lower consumer sentiment.

Let me highlight several of the key dynamics driving our improving Q1 sales results. Creating a foundation of operations excellence remains our top priority. Our primary operations focus during Q1 was ensuring that we were prepared to introduce our new menu with excellence on March 12th. To do this, we instituted a comprehensive four-week training program, starting at the regional director level that cascaded down to all hourly team member roles.

New training modules were created for every position, focused on increased menu knowledge and suggestive selling for our guest-facing team members, along with step-by-step preparation instructions for each new dish for culinary team members. We also significantly increased the time for hands-on practice preparation of all new dishes for culinary team members to ensure they were well-prepared to consistently follow the recipe and execute to our standards. We achieved a 95% training module completion rate and then certified restaurant readiness for the new menu launch through area manager certification visits.

The new menu training culminated with a hype video and restaurant team meetings to create energy and excitement around the menu rollout. This was a significant one-time training investment to set our teams up for success and help ensure we were ready to delight guests once the new menu launched on March 12th.

Our second priority is to stimulate new guest desire for Noodles through a combination of compelling limited-time offers and a comprehensive menu transformation. Regarding limited-time offers, we brought Steak Stroganoff back in mid-January, and it performed consistently well for two months leading up to our new menu introduction. We believe this dish will continue to be a strong, seasonally appropriate Q1 LTO in future years.

But the really big news is our fully reimagined new menu. As you may recall, our menu transformation began last October with the introduction of three new dishes, Lemon Garlic Shrimp Scampi, Crispy Chicken Bacon Alfredo, and Chipotle Chicken Cavatappi. On March 12th, we added five new dishes and four reimagined recipes for popular favorites currently on the menu. The five new dishes include Pulled Pork Barbecue Mac & Cheese, Garlic Bacon Crunch Mac & Cheese, Buffalo Chicken Ranch Mac & Cheese, Cajun Shrimp Fettuccine, and Green Goddess Chicken Cob Salad.

The four reimagined fan favorites include Basil Pesto Cavatappi, Rigatoni Rosa, Creamy Cheddar Mac & Cheese, and Chicken Caesar Salad. In total, nearly two-thirds of our menu is new or improved. We believe this is the most comprehensive menu transformation in our nearly 30-year history.

In addition to these new and improved dishes, we have also replaced the black plastic takeout packaging we have used for in-restaurant dining since COVID with new white ceramic tableware. And we have updated our digital menu boards with a cleaner, more contemporary design that highlights rotating video vignettes of our new and improved dishes. We are certainly excited about the guest response to our new menu after seven weeks, including sales of our new Mac and Cheese dishes, which have significantly exceeded expectations.

Our third priority is to increase brand relevance and create new menu excitement through a redefined brand positioning and new activation strategies. We have a long brand history and have built competitive levels of brand awareness, but this has not previously translated into competitive levels of sales. We saw the need to increase brand relevance.

We need to give current and potential new customers a reason to relate to us. We need to tell them why Noodles & Company is the best choice to satisfy their comfort food cravings. We've been perfecting the art of noodles for 30 years, and to our knowledge, we are the only chain of scale to offer a menu devoted entirely to Noodles, expertly crafted to satisfy a broad variety of comfort food cravings.

We needed to do a better job of telling that story. The name of our new campaign is We Know Noodles, and to more effectively tell our story, we created two new commercials. One that focuses on the enduring love consumers of all ages have for Noodles and lets them know we have a big new menu they will be excited to try.

And a second commercial that focuses specifically on our new mac and cheese dishes and how we do mac and cheese better than anyone else. We confirmed through a commercial testing with the Kantar Agency that our new commercials scored in the top quartile of all competitive commercials tested and showed a high likelihood to drive both brand perception and traffic. Then we significantly increased our paid media and invested in new awareness driving channels, including digital out of home, digital audio, and additional social channels like Pinterest.

We also leveraged PR and influencer campaigns to get the news out and leaned into our loyalty program through offers, personalized communications, and our recent taste tour promotion to drive trial among our existing users. The results across a variety of key success measures since our March 12th brand relaunch have been very exciting. Let me walk you through some of the highlights.

Our early stage brand launch PR garnered 450 million impressions with over 95% being single brand stories devoted entirely to Noodles & Company. Since the menu launch and through April, we have seen double digit increases in brand awareness, brand search traffic, and app sessions in our own platforms for both new users and existing customers. We have definitely created more interest in our brand.

We've outperformed our digital media channel KPIs, such as video completion rates, telling us consumers are positively engaging with our new message. Compared to the pre-launch period, we've seen a significant increase in loyalty signups and loyalty transactions as well. And finally, between April 12th and April 25th, loyalty members had the opportunity to taste their way through our new menu with 14 days of exclusive offers. Transactions from this taste tour promotion more than doubled our expectations.

Also notable is the improvement in traffic through our in-store and owned first party digital channels since our March 12th brand relaunch. We attribute this at least in part to additional investment in broader reach media assets that have helped increase awareness and attract lapsed and new users.

Third party traffic has remained strong. Most importantly, the combined impact of our new menu, new brand positioning, new activation strategies, and increased marketing investment is readily apparent in our strong sales trends that I shared earlier. There is no question we will continue to learn, to innovate, and improve going forward. But there's also no question that our business foundation has improved dramatically in the last few months.

Combined with a strategic reduction in capital spending and continued emphasis on smart cost savings, we are well positioned to strengthen our balance sheet this year as well. Overall, we are confident in the foundation we have put in place and excited by our sales momentum to start 2025.

With that, I'll turn it over to Mike to review our first quarter financial highlights and full year guidance.

Michael Hynes

Thank you, Drew. In the first quarter, our total revenue increased 2% compared to last year to \$123.8 million. System-wide comp restaurant sales during the first quarter increased 4.4%, including an increase of 4.7% at company-owned restaurants and an increase of 2.9% at franchise restaurants. Company comp traffic during the first quarter increased 1.8%. An average check increased 2.9%, inclusive of 1.3% effective pricing during the quarter. Company average unit volumes in the first quarter were \$1.31 million. We experienced a shift in the Easter holiday from the first quarter in 2024 to the second quarter in 2025.

We estimate that the Easter holiday shift benefited our first quarter comp sales by approximately 50 basis points, with a corresponding headwind in our second quarter. As Drew mentioned, we are encouraged by the continued strength in our recent sales trends. Our comp restaurant sales post-March menu launch were up approximately 5% through April, despite April being our most difficult 2024 comparison.

Turning to our profitability, our costs in the first quarter were 26.6% of sales, a 160 basis point increase from last year, which was primarily driven by higher food costs associated with our new menu offerings, which have been added since the first quarter of 2024. Our food inflation in the first quarter was approximately 2%.

Labor costs for the first quarter were 32.5% of sales, which was up 20 basis points to prior year, primarily due to wage inflation and one-time training expenses for the new menu rollout, partially offset by sales leverage. Our early wage inflation in the first quarter was 2.7%.

Occupancy costs in the first quarter were \$11.5 million compared to \$11.8 million in 2024, due to a reduction in our company-owned restaurant count over the last 12 months. Other restaurant operating costs increased 140 basis points in the first quarter to 21.1%. The increase in other restaurant operating costs was primarily driven by a combination of higher third-party delivery fees from higher third-party delivery channel sales and higher marketing expenses related to our new menu rollout.

Our restaurant-level contribution margin was 10.3%, down from 13.1% in the first quarter of 2024, and a seasonally low first quarter. G&A for the first quarter was \$12.8 million compared to \$13 million in 2024, primarily due to decreases in salary and incentive compensation, partially offset by increased spend related to our new menu rollout.

Net loss for the first quarter was \$9.1 million, or a loss of \$0.20 per diluted share, compared to a net loss of \$6.1 million, or a loss of \$0.14 per diluted share last year. Adjusted EBITDA for the first quarter was \$2.4 million, compared to \$5.5 million in the first quarter of 2024.

In the first quarter, we opened one company-owned restaurant and closed three company-owned restaurants. One franchise restaurant was closed in the first quarter. Our first quarter capital expenditures totaled \$2.9 million, compared to \$8.6 million in 2024. Our debt balance at the end of the first quarter was \$102.7 million, with over \$19 million available for future borrowings under our revolving credit facility.

Before turning to guidance, I want to highlight the significant progress in our financial foundation over the past 12 months. Through the actions we have taken, including a strategic reduction in capital spending and continued emphasis on smart cost savings, with over \$5 million of savings in 2024 and a similar amount targeted for 2025, combined with the strong results Drew spoke to earlier, we are well-positioned to strengthen our balance sheet this year.

We are excited by the future we have ahead of us as our strategic plans are working, and we believe setting us up well to drive long-term shareholder value.

Turning to our full-year guidance for 2025, we're extremely pleased with our year-to-date results, and we're reiterating our P&L guidance provided in March, with one exception. We're widening the lower end of our restaurant contribution margin range by 50 basis points to capture an estimated impact from tariffs.

Due to most of our product being sourced from the U.S., and over 50% of our food purchases for the remainder of 2025 being secured through fixed-rate agreements, we believe our 2025 tariff exposure is limited and primarily relates to some of our produce items sourced from Central America and shrimp that's sourced from Asia.

Our complete guidance for the full year 2025 is as follows. Total revenue of \$503 million to \$512 million, including mid-single-digit comp-restaurant sales growth. Restaurant contribution margin between 12% and 14%. G&A expenses of \$49 million to \$52 million, inclusive of stock-based compensation expense of approximately \$3.7 million. Depreciation and amortization expense of \$27 million to \$29 million. Interest expense of \$8 million to \$10 million.

We expect to open two new company-owned restaurants in 2025. One new restaurant opened in January, with the remaining restaurant scheduled to open in June. We expect to close 13 to 17 company-owned and four franchise restaurants in 2025. We estimate total 2025 capital expenditures of \$11 million to \$13 million. As I mentioned earlier, with significantly lower capital expenditures in 2025, we continue to expect to reduce our debt balance in the back half of the year. For further information regarding our 2025 expectations, please see the Business Outlook section of our press release.

With that, I'd like to turn the call back over to Drew for final remarks.

Andrew Madsen

Thanks, Mike. It is an exciting time for Noodles, as the improvements we have seen to date set the stage for a transformational 2025. Our comp momentum to start the year sets a strong foundation for our brand relaunch, as we work to become more relevant to what today's consumer is looking for. Sustained top-line sales growth is the key to establishing a stronger business model that could justify new unit growth in the future, and which creates value for all stakeholders.

Thank you for your time today. Operator, please open the lines for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] The first question is from Todd Brooks from Benchmark Company. Please go ahead.

Todd Brooks

Hey, thank you, and congrats on the strong start with the new menu. Great to see. If I could lead off, and it is a question about the new menu on two facets. One, the marketing commitment that you put behind it around the launch, how does that -- is that taper over the course of the year? Do you expect a continual kind of investment at the same level? So if we could walk through that.

And then secondly, if you look at how loyalty customers have responded to the menu, knowing the brand well versus new-to-brand customers or non-loyalty customers, how they're responding, given what you focused on in the advertising, I'd be curious if there's much of a spread there? Thanks.

Andrew Madsen

Yes, first on the marketing investment, we're really pleased with the response, both to the marketing and the new creative messaging that the marketing is supporting. So as I said on our last call, we have roughly doubled our media investment over the first several months of the new menu. And historically, we've put that media into paid search and into paid social, and we're going to continue that.

But for this menu, we've invested additionally in some broader reach, awareness-generating vehicles like connected TV, digital out of home, digital audio, online video, things like that, that really can broaden our potential audience. And the creative that we've put behind that media is really resonating with our customers as well. Historically, or recently anyway, most of our creative has been telling a story about a limited time offer.

Right now, we're really taking advantage of the fact that we know there's an enduring love for Noodles among a broad range of customers. And we believe we are the only brand out there, the only national chain that has a menu devoted entirely to Noodles with a broad variety of flavor profiles and craveable dishes for everybody to choose from. And we're seeing a great response from that.

So ultimately, the proof is in the traffic being up 1.8%. Our check is up almost 3%. Same-store sales are up almost 5%, a little over 5% through April. Our new menu is selling better than it did in test market, particularly mac and cheese. All the mac and cheese dishes are selling much better than they did in test market. Cajun shrimp fettuccine is selling better. Rigatoni Rosa is selling better.

And it's telling us that we are really saying something that guests are resonating with and paying attention to and acting on. And so we are now updating our media mix model and looking at whether additional investment like that throughout the course of the year would make sense. But we've certainly gotten a great response so far.

And the second question, yes, our loyalty members know us better than others. And I think that's part of the reason we're seeing double-digit transaction growth in loyalty. And also why we've seen such a good response to the most recent loyalty promotion we did where we essentially invited current loyalty customers to sample through the menu for a 14-day event where they had different offers every day to try something new and different.

It's a little early for us to read frequency yet. It's only been seven weeks. But the increase in sign-ups for loyalty and the increase in purchase in transactions from loyalty as well as just the broader increase in awareness, the increase in branded search are really encouraging.

Todd Brooks

That's all great to hear. Congrats to you guys.

Operator

The next question is from Jake Bartlett from Truist Securities. Please go ahead.

Jake Bartlett

Great. Thanks for taking the question. And congrats on getting this menu out and the transformation of the menu. Nice to see. I know all the work that's gone into it. My question is about how the reaction built over time.

I guess there could be some question about whether people try it out and it drives them traffic and then they don't come back or maybe it builds. So how has the traffic trended since you launched it? And then I guess building on that, what do you plan to do for the rest of the year? I know you just accomplished a lot, so to ask what you're doing next is probably a lot. But what do you do to maintain this momentum, maybe even build on it?

Andrew Madsen

Yes. So the sales growth and transactions have remained strong. And that's why we added the additional comment about how our sales have maintained since the menu started through the month of April. So we're up over 5%, a little over 5% since the menu launch in March through April. And it started quickly, honestly. I mean, we got a pretty good response right away, in part because a lot of the early stage work we did with influencers and earned media public relations up front.

But it started quickly. And, you know, there have been some change, some impacts because of Easter. But if you take that out of the equation, transaction growth has maintained through April. And we're really excited about that. We will have some additional news over the course of the year, but it's not going to be at the same level as this menu transformation. And we want to make sure that we continue to execute this at a high level and keep our operations team set up for success.

Jake Bartlett

Great. In terms of the margins, and obviously in the first quarter, margins were pressured by the menu launch and all the investments you made to make that successful. Can you help us understand what is kind of one time and what is ongoing? Trying to assess kind of, you know, how maybe abnormally low the first quarter is because of the dynamics of offering the menu. In that, they called it a one-time charge or a one-time expense of training. On a basis point basis, how much was that?

Maybe what is, to Todd's question, maybe what is the right run rate for the level of spend for marketing? It seems like it would be higher in the first quarter than the remainder of the year. And then lastly on that, you mentioned that there were some G&A investments that were related to the menu launch. And so maybe to size that so we can understand how that might have pressured first quarter margins?

Andrew Madsen

Yes. I'll give you a headline thought on it first. As I said, we're very, very pleased with the transaction growth and the sales growth in the seven weeks since the menu launched. And our expectations overall for the -- or our results overall for the quarter are right on our expectations. We knew there was going to be some one-time investments, some obsolescence that we had to write off, some incremental training. We knew there was going to be some additional marketing up front.

And in total, we are right on where we expected to be at the end of the first quarter. And we expect with continued sales growth and transaction growth, some additional smart cost savings over the course of the year to improve quarter by quarter. And that's why we reaffirmed our guidance going forward. Mike can give you a little more color, but we were right on our expectations for the quarter.

Michael Hynes

Yes, Drew covered it well. A couple of one-time costs to point out. We've talked about marketing. That was about \$500,000 year-over-year. Some of that shows up in operating costs and some in G&A, and that was the G&A piece we mentioned in the prepared remarks. And then \$1 million of just other one-time menu rollout costs that are spread throughout the P&L. One to call out would be about 60 basis points in COGS. So for the rest of the year, we would anticipate COGS to be closer to 26%.

Jake Bartlett

Great. You said 50-5-0 for the COGS impact?

Michael Hynes

60 basis points in COGS. 60.

Jake Bartlett

Okay, 6-0.

Andrew Madsen

Yes, it would be 26%.

Jake Bartlett

Great. 26% for the remainder. Okay. And then the last question is on free cash flow. You didn't -- I think, you use that term, but you mentioned kind of the balance sheet getting better and paying down debt in the back half of the year. I'm hoping we can be a little more explicit about when you expect free cash flow to turn positive.

Your net debt actually went down a touch in the first quarter, so maybe you were free cash flow even in the first quarter. Maybe just to help us out to that trajectory of when we can really start feeling good about the balance sheet.

Michael Hynes

Sure. And, yes, we were slightly free cash flow positive in the first quarter. There are some working capital items that will work against us in the second quarter. So we are anticipating in Q3 and in Q4 to be free cash flow positive.

Jake Bartlett

Great. I appreciate it, and I'll pass it on. Thank you.

Operator

This concludes the question and answer session as well as today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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