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Noodles & Company, Inc. (NDLS) Q4 2024 Earnings Call Transcript

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Q4: 2025-03-06 Earnings Summary

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EPS of -\$0.15 **misses by \$0.03** | Revenue of \$121.77M (-2.05% Y/Y) **misses by \$1.65M**

Noodles & Company, Inc. (NASDAQ:[NDLS](#)) Q4 2024 Earnings Conference Call March 6, 2025 4:30 PM ET

Company Participants

Michael Hynes - CFO

Andrew Madsen - CEO & Director

Conference Call Participants

Andy Barish - Jefferies

Jake Bartlett - Truist Securities

Operator

Good afternoon, and welcome to today's Noodles & Company's Fourth Quarter 2024 Earnings Conference Call. [Operator Instructions] 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 fourth quarter 2024 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 in 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 fourth quarter 2024 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

Thanks, Mike, and good afternoon, everyone. We were encouraged by the significant improvement in our sales during the fourth quarter compared to the third quarter and year-to-date, especially since it was driven by greatly improved traffic. As previously announced, system-wide comparable sales increased 0.8% and traffic was nearly flat at minus 0.1%.

Our improved comp sales trajectory was driven by a number of factors, including the rollout of 3 new menu items supported with increased media and a new commercial called, Come Taste the Start of Something Great, renewed momentum in our third-party delivery channel, and promotional offers that we ran during the first 2 months of the quarter.

We were especially pleased to see the strongest comp sales performance during the last 4 weeks of the fourth quarter after our promotional activity had ended. We are also very excited to share that the improving sales trends we experienced during the fourth quarter of 2024 have accelerated in the first quarter of 2025.

Through the first 8 weeks of Q1, we've delivered comp sales growth over 3%, including positive traffic. We've also exceeded the fast casual benchmark on comp sales and traffic each over the last 4 months. The sustained improvement in our sales trends demonstrates to us that the execution of our previously announced 5 strategic priorities have started to gain traction.

Let me take just a minute and highlight a few of the key dynamics driving our Q1 sales results to date. Creating a foundation of operations excellence remains our top priority. Building this foundation demands that we be brilliant with the basics of staffing, training and consistently executing the standards that will make us a better competitive alternative. Our restaurant teams have done a great job continuing to make meaningful progress in all 3 areas.

And most importantly, our guests have noticed. In January, we achieved our largest single month increase in overall guest satisfaction and as a result, have now eliminated almost 80% of our gap to the fast casual industry average over the past 12 months.

Our second priority is to stimulate more guest desire for noodles through a combination of compelling limited time offerings and a comprehensive menu transformation. Our current limited time offering, Steak Stroganoff, is really resonating with our guests, with menu preference remaining consistently strong since we brought it back in mid-January.

The premium price point this dish commands has also helped to build, check and maintain margin while we simultaneously reduced discounting well below prior year levels. Additionally, momentum from our 3 new menu items introduced last October has carried over into the first quarter, as we prepare for the most substantial portion of our menu transformation in March.

The final Q1 dynamic to emphasize is our renewed strength in third-party delivery. We are back to double-digit traffic growth in this important channel, driven by a revised pricing and promotion strategy. Overall, we're very pleased with our comp strength to start the year. This is despite the weather challenges that the industry has faced in February and that we were no exception to.

Now let's talk about our continued menu transformation plans for the first quarter. As discussed previously, over the last 18 months, we approached this menu transformation with equal amounts of innovation and discipline. Phase 1 involved concept testing to identify the most compelling ideas for both new and improved dishes.

During Phase 2, we placed the new and improved dishes developed in partnership with the Culinary Edge in a central location test with both current Noodles' customers and nonusers to ensure their satisfaction with each dish exceeded the average on our current menu.

During Phase 3, we placed the best new and improved dishes in the test locations in 3 markets to assess real-world guest satisfaction, operational feasibility and any potential financial implications.

The first 3 new dishes from this process were introduced in October and helped drive the improving Q4 2024 and Q1 2025 to date sales trends previously discussed.

Next week, we will introduce 9 new dishes, including 5 completely new dishes and 4 reimaged recipes for traditional favorites currently on the menu. In total, nearly 2/3 of the menu will be new or improved by the end of the second quarter, representing the single biggest culinary transformation in Noodles' 30-year history.

Test market results show a significant increase in guest satisfaction across all key dimensions, including overall satisfaction, taste of food and value. In addition, we've been able to extend our reach by attracting new customers at the same time.

To ensure our restaurants are prepared to execute this level of change with excellence, we have also transformed our training process. We added 2 weeks of additional hands-on training before this rollout and 2 weeks of additional training after the rollout, specifically to build confidence and confidence in our frontline teams. New plateware will replace our existing black plastic packaging next week for dine-in guests to further elevate their experience.

To support the menu launch, we plan significant public relations and earn media outreach starting next week. While I won't reveal all the specifics of our menu transformation on our call today, in advance of our comprehensive media launch, I do want to give you 2 examples.

The first example is Mac & Cheese, which is our signature category. Starting next week, we will feature a new Mac & Cheese menu section on our digital menu boards. Buffalo Chicken Ranch Mac & Cheese is one of the new dishes on this menu. It features elbow noodles and a creamy cheddar and jack cheese sauce with parmesan-crusted chicken topped with Buffalo Sauce, green onions, crispy onions and a drizzle of ranch.

This dish has a taste of food score that is 11 points higher than the dish it replaced and 15 points higher than our menu average overall. And nearly 40% more guests ordered the new Buffalo Chicken Ranch Mac & Cheese than the dish it replaced. This is part of a whole new Mac & Cheese lineup that we will be rolling out in March.

The second example is basil Pesto Cavatappi, which is a fresh new take on one of the oldest and best-selling dishes on our menu. We knew we needed to be careful making changes to a dish that so many guests know and enjoy, but we also knew we couldn't settle for good. We need more dishes that are great. Our in-restaurant testing process gave us great feedback on the changes guests really like and the changes we should avoid. This led to multiple recipe revisions, leading to a significantly improved dish that both current guests and new guests will thoroughly enjoy.

Specifically, we replaced Roma tomatoes with fire roasted tomatoes. We also replaced shredded parmesan cheese with aged parmesan for a deeper, nuttier flavor. We increased the signature basil pesto sauce by 60% and topped it with fresh herbs. The final dish I just described has a taste of food score of 9 points above the current version. In addition, more than 20% of orders for this improved dish are from new guests despite limited marketing support to build awareness.

Our new menu does a much better job of delivering against what today's customer wants. And we've developed a new brand strategy and marketing plan to let them know about all the great changes they can enjoy. We believe we are the only restaurant chain of scale to offer a variety of expertly crafted noodle bowls across cuisine types.

This is what we do, and we will do it better than anyone else. This is how we uniquely satisfy our guests' need for craveable comfort food, which leads to our new brand strategy, We Know Noodles. During the tease phase of our new menu marketing campaign, which is happening right now, we are building anticipation and generating buzz about what's coming next. This includes PR, influencer partnerships, social media teaser messaging, in-restaurant messaging on our digital menu boards and a countdown clock on our website.

During the launch phase, which starts next week, our goal is to make a bold introduction that captures attention and drives immediate engagement. This cross-channel approach involves paid media channels such as connected TV, Pinterest, digital out-of-home and paid social. It will also incorporate a fresh new look to our in-restaurant messaging and 2 new launch commercials that tell the story of who we are as a brand and drive immediate visits to our restaurants.

During the sustained phase that starts later in May, we will look to deepen engagement by reinforcing brand affinity through targeted storytelling and also drive repeat visits. To accomplish this, we will double our marketing investment versus last year over the next few months to ensure we elevate awareness and drive both current customers and new customers to our restaurants to delight in our new menu.

Finally, we were excited to announce the addition of Joe Christina as our President and Chief Operating Officer, who joined our team in late February. Joe will succeed Brad West, who announced his retirement last year after 8 years with the brand. I especially want to thank Brad for his contributions to our upcoming brand relaunch and ensuring all our teams are ready to execute at a high level.

As part of his new role, Joe will oversee operations and human resources, and is our latest investment into the leadership of Noodles following the addition of Scott Davis as our Chief Concept Officer and Steve Kennedy as our Executive Vice President of Marketing last year. We are excited about the future of Noodles and believe we have the leadership team in place to drive the brand resurgence.

With that, I'll turn it over to Mike now to review our fourth quarter results and 2025 guidance.

Michael Hynes

Thank you, Drew. In the fourth quarter, our total revenue decreased 2% compared to last year to \$121.8 million. System-wide comp restaurant sales during the fourth quarter increased 0.8%, including an increase of 0.5% at company-owned restaurants and an increase of 1.9% at franchise restaurants.

Company comp traffic during the fourth quarter decreased 0.1% and average check increased 0.6% with effective pricing of 1.3% during the quarter. Company average unit volumes in the fourth quarter were \$1.31 million.

Turning to profitability. COGS in the fourth quarter was 27.2% of sales, a 180 basis point increase from last year. Our fourth quarter pricing benefit was offset by heavier discounting in the quarter, inflation and mix shift.

Labor costs for the fourth quarter were 32.3% of sales, which was up 30 basis points to prior year, primarily driven by traffic deleverage and discounting. Hourly wage inflation was 2.2% versus prior year, which was largely offset by pricing.

Occupancy costs were slightly lower versus prior year at \$11.4 million compared to \$11.6 million in 2023 due to 13 restaurant closures in 2024. Other restaurant operating costs increased by 130 basis points in the fourth quarter to 19.7%. 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.

Our restaurant level contribution margin was 11.2%, down from 14.7% in the fourth quarter of 2023. G&A for the fourth quarter was \$11.3 million compared to \$13.9 million in 2023, primarily due to lower severance and executive transition costs and lower stock compensation expense in 2024.

Net loss for the fourth quarter was \$9.7 million or a loss of \$0.21 per diluted share compared to net loss of \$6.1 million or a loss of \$0.14 per diluted share last year.

Adjusted EBITDA for the fourth quarter was \$4 million compared to \$7.5 million in the fourth quarter of 2023. In the fourth quarter, we closed 6 company-owned restaurants. One franchise restaurant was opened and 3 franchise restaurants were closed in the fourth quarter. Our accelerated rate of closures in the back half of 2024 was a result of our comprehensive portfolio review, where we're evaluating closing underperforming restaurants on or before their lease expiration dates. We will continue to negotiate with landlords and will determine future potential closures on a case-by-case basis.

Our full year capital expenditures totaled \$29 million in 2024 compared to \$52 million in 2023. The 2024 capital expenditures included capital investments for 10 new company-owned restaurants. Our debt balance at the end of 2024 was \$103 million with \$19 million available for future borrowings under our revolving credit facility.

Turning to our expectations for 2025. As Drew mentioned, through the first 8 weeks of 2025, we have seen positive traffic and over 3% comp sales growth. We are providing the following full year guidance, which excludes potential outsized impacts from changes in the macroeconomic landscape, including tariffs.

For the full year 2025, we expect total revenue of \$503 million to \$512 million, including mid-single-digit comp restaurant sales growth, restaurant contribution margin between 12.5% and 14.0%, which includes a 100 basis point investment in food costs as a part of our March menu rollout.

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 2 new company-owned restaurants in 2025. One new restaurant opened in January with the remaining restaurants scheduled to open in May.

We expect to close 12 to 15 company-owned and 4 franchise restaurants in 2025. We estimate total 2025 capital expenditures of \$11 million to \$13 million. With significantly lower capital expenditures in 2025, we anticipate being able 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 would 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 through 2024 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. We know the strengths of our brand, and we are leaning into them. With what we have planned over the coming months, we will leave no doubt that we know Noodles.

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 Andy Barish from Jefferies.

Andy Barish

Wondering what areas you're kind of seeing the most movement in on the guest satisfaction scores that you noted, kind of, starting out 2025, Drew, and how that's kind of informing some of the upcoming decisions?

Andrew Madsen

Yes. The main things that we've seen is significant improvement in the areas that are most directly related to driving traffic growth. So we know -- we -- we've studied this that overall satisfaction improvements lead to traffic growth and taste of food, in particular, drives overall satisfaction. So we've been focused a great deal on overall satisfaction, taste of food and accuracy in particular. And all of those have shown significant improvement in addition to value because we're delivering more of what today's customer wants.

Andy Barish

Got it. And then Mike, any help on -- it sounds like same-store sales are going to start out around 3-ish for the current quarter. And then obviously, the new menu stuff is kind of ramping here late in the quarter and then into 2Q. How should we think about kind of getting to the mid-single-digits for the full year?

Michael Hynes

Sure. And like you said, first quarter we're tracking at over 3%, which is a great start before our menu rollout. As we go into the second quarter, just not a huge impact, but we do have an Easter shift that will help the first quarter and hurt the second quarter by about 50 basis points.

The second quarter was our toughest comp, or is going to be our toughest comp. That's when we had Steak Stroganoff and some really strong sales last year. So we're anticipating that most of the benefit, or an outsized portion of the benefit for -- to get to mid-single-digit same-store sales growth will come in Q3, Q4.

Operator

The next question is from Jake Bartlett from Truist Securities.

Jake Bartlett

My first is kind of a nitpicky question, maybe a follow-up question as well. But it has to do with the quarter-to-date trends. I think over 3%, obviously, very strong. And you made the comment that February, and the weather was -- we had a negative impact. How much -- if you can maybe quantify kind of where comps were in the last 3 weeks? I just want to make sure I understand where they need to kind of improve back to?

And then also just your confidence that it was weather? I know that's been the case for competitors, but I think most are also acknowledging that there's a macroenvironment that's a little bit worse than we thought it might be 1 month ago. So how can you -- how are you parsing out weather? And then maybe what is the kind of the actual state of same-store sales currently?

Michael Hynes

Sure. We don't want to get into a month-by-month breakout. But just as a reminder, January of last year was tough weather for us, and we saw, like everybody is seeing, some tough weather in February of this year. I would say we feel strongly that the 3% -- plus 3% we're seeing in Q1 is a sustainable number. It's not a -- something that's being impacted or aided on a permanent basis by weather. So if we look at the non-weather weeks, the plus 3% is pretty representative of how the quarter is going.

Jake Bartlett

Okay. And then also just 2025 is going to be an interesting year with such a big change to the operations and to menu. One part of the question is what the impact on margins is going to be in the near term, the next quarter or 2 as well as for the year?

And you quantified, I think, 120 basis points of food costs related to the menu rollout. But it also sounded like you're going to be doubling advertising, doubling marketing as you -- there's this training that you're investing in kind of before and after. What is the all-in on the kind of the abnormal impacts of the rollout on the margins?

Andrew Madsen

Yes. I'll take the marketing side of it first. We are significantly increasing our marketing investment this year during the launch for a few months, for several months compared to the prior year, just to make sure everyone knows what a big change we've made, how excited we are about it, what a difference it's going to make in the guest experience. But for the full year, the increase in marketing investment is more modest.

We're really able to increase our spending a great deal early on by shifting spending that in 2024 was more related to testing -- more related to spending with the Culinary Edge with concept testing, with central location testing, that we aren't having to do this year, and we're putting all of that, a lot of that into the launch of the menu to drive awareness and drive people into our restaurants. But for the full year, it is up, but it's more modest.

Jake Bartlett

Okay. And [indiscernible]

Michael Hynes

[Indiscernible]

Jake Bartlett

Sorry. Yes, go for it.

Michael Hynes

Yes, I was just going to address the other items. We talked about the 100 basis point investment in food costs. We guided a margin in between 12.5% and 14%, which shows the mid-single-digit comp sales growth overcoming that investment and achieving flat to growing margin year-over-year. The other investments on an annual basis don't come close to the 100 basis point food investment and are not substantial when you look at it on a full year basis.

Jake Bartlett

Got it. And just to understand the 100 basis points in food investment, is that a permanent, meaning you're investing in quality in the menu and that's going to remain? Or is this something that has to do with the rollout and is kind of more temporary maybe with some, I don't know, related marketing and giveaways or something like that, that would change your -- impact COGS? Or is this a permanent kind of investment in the quality of the food?

Andrew Madsen

Yes. No, the vast majority of that is a permanent investment in the quality of the food. And we believe it's a tremendous investment because we've seen such a big improvement in guest satisfaction across the things that we think are most important to building loyalty and building the business. So it is an investment, a permanent investment, and we think it's going to be a tremendous one to build excitement, to build guest satisfaction, to build our business going forward in a very sustainable way.

Operator

This concludes the question-and-answer session and today's conference call. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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