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Noodles & Company (NDLS) Q2 2025 Earnings Call Transcript

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Q2: 2025-08-13 Earnings Summary

Insights

EPS of -\$0.12 **misses by \$0.07** | Revenue of \$126.43M (-0.72% Y/Y) **misses by \$5.19M**

Call Start: 16:30 January 1, 0000 4:54 PM ET

Noodles & Company (NASDAQ:[NDLS](#))

Q2 2025 Earnings Conference Call

August 13, 2025, 4:30 PM ET

Company Participants

Andrew H. Madsen - CEO & Director

Joseph D. Christina - President & COO

Michael Hynes - Chief Financial Officer

Operator

Good afternoon, and welcome to Noodles & Company's Second Quarter 2025 Earnings Conference Call. [Operator Instructions] As reminder, this call is being recorded. I would now like to introduce Noodles & Company's Chief Financial Officer, Mike Hynes. Please go ahead.

Michael Hynes

Thank you, and good afternoon, everyone. Welcome to our second quarter 2025 earnings call. Here with me this afternoon is Drew Madsen, our Chief Executive Officer; and Joe Christina, our President and Chief Operating 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 second 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 H. Madsen

Thanks, Mike, and good afternoon, everyone. Before we dive into our results, I would like to briefly touch on the announcement we put out this past week. After careful consideration, I have made the difficult decision to step down at the end of August as CEO of Noodles & Company due to health reasons that require my full attention and focus. And I'm pleased to announce that Joe Christina, our current President and Chief Operating Officer, has agreed to become our new CEO, and I have complete confidence that his fresh perspective and leadership grounded in his past experience as a CEO at 2 different restaurant concepts will be instrumental in positioning our brand for future success.

I will work closely with Joe during this transitional period in August and remain a continuing Board member going forward so that I can continue to lend my insight and industry knowledge. With that, let's turn our attention to our second quarter results. While we delivered positive same-store sales in a choppy consumer environment for our segment, overall results were below our expectations going into the quarter. We have identified what we believe drove the traffic shortfall versus our expectations and have been working quickly to address it. Specifically, we experienced an unexpected decline in guest value perception following our menu launch in March, something we did not see during our test market phase last year.

This is due in part to a change in the consumer environment over the past 12 months and the growing consumer demand for increased value and affordability, which is evidenced by the heightened discounting and promotions across the QSR, fast casual and casual dining segments of our industry. In response, we have worked quickly to strengthen value with the introduction of our new delicious Duos value platform on July 30, which I'll detail in a few minutes. For the second quarter, same-store sales were up 1.5% with check of 4% and traffic of minus 2.5%.

Adjusting for the impact of Easter, same-store sales were up 5.4% in March, 3.1% in April and 2.3% in May before dropping to plus 0.8% in June. Same-store sales during the first half of July were negative 0.9%. As we move past the July 4 holiday, same-store sales have significantly improved, finishing at plus 1.6% for July and further improving to an average of plus 5% in the past 2 weeks. Traffic has improved to essentially flat over that same time period and has been positive 1% to 2% for several days. As you recall from prior updates, our menu transformation project started back in the fourth quarter of 2023.

At that time, our guest experience metrics were competitively weak and our investment in food quality was competitively low. We partnered with the Culinary Edge to reimagine our menu. This led to our new contemporary Comfort Kitchen culinary identity, an upgraded menu better aligned with what today's customers are looking for increased food investment and in some cases, higher price points. Our research has identified that increases in taste of food have the strongest correlation with increases in traffic of any guest experience attribute. We tested the new menu last year in 3 markets and achieved meaningful increases in taste of food compared to the pretest period in these markets, and we saw no negative impact to guest value perception.

This drove our belief that the upgraded menu, combined with a significant increase in marketing to build awareness of the new menu and stimulate trial would help drive traffic growth. The new menu launched earlier this year on March 12, we doubled our marketing investment compared to last year during the March through June period, added broader reach media channels and featured creative messaging based on our new brand strategy, we know Noodles. As we progress through the evolution of our new menu rollout, there have been some significant positives that we are leaning into and some surprises that we are addressing. We are encouraged to see sales of our new Signature Mac & Cheese menu have grown significantly.

And importantly, all 4 Mac & Cheese dishes remain above average from both a taste of food and value perspective. This is especially true for our new Garlic Bacon Crunch Mac and new Buffalo Chicken Ranch Mac dishes. Our key challenge has been related to a few of our existing dishes that have historically had above-average sales but only average guest satisfaction. Basil Pesto Cavatappi is a good example. We upgraded the recipes of these dishes, including the addition of more sauce, which was the #1 guest complaint we get and raised the price to offset the investments made in quality. In our test markets, guest satisfaction with these dishes dropped initially before increasing, which we refer to as a J-curve in guest adoption.

But as more guests experience the quality improvements, these dishes ultimately became some of our highest-rated taste of food dishes despite a higher price point. As we've rolled these dishes nationally, we've experienced a more extended J-curve than our test markets would have suggested. Initially, this could have been due to operational challenges executing such a big menu change to our standards. But we attribute the extended J curve more to the ongoing consumer demand for increased value and resulting increase in industry-wide price point promotions over the past 12 months. We are watching the evolution of guest satisfaction on these dishes closely.

We are also increasing our focus on value, as I will discuss shortly. Additionally, we are making menu adjustments based on our national learnings to date, which should help improve operational execution and reduce food costs. For example, we recently eliminated the Green Goddess salad introduced in March because the recipe complexity made it difficult to execute consistently and too often left our guests dissatisfied. We are also testing refined recipes in a few dishes that replace a higher-cost secondary ingredient with a lower-cost alternative that is still an upgrade compared to our old menu and so far has had no perceived impact on taste or overall guest satisfaction.

From a channel perspective, third-party delivery continues to be our strongest performer, although growth slowed as the quarter progressed, but has recently recovered. From a daypart perspective, our dinner daypart has remained fairly stable and continues to outperform the Black Box fast casual benchmark. Lunch traffic has softened more potentially because it is a more value-sensitive daypart and trails the Black Box fast casual benchmark.

The new delicious Duo offer I mentioned will help address this opportunity and make us a better choice for lunch. Looking forward, we have taken several steps to regain same-store sales momentum. First, we will continue to build on the progress we have made over the last year, creating a foundation of operations excellence. Our March 12 menu rollout was a very significant change for our restaurant teams to absorb even with the 4-week training program we added before the rollout.

We believe we are past the temporary J-curve that accompanies changes of this magnitude. In particular, the food variance challenge experienced in April and May related to overportioning on a couple of new dishes that put pressure on our food cost has been addressed. We also have rolled out a new operations excellence coaching program designed to ensure we do a more effective job of consistently measuring operations performance versus our standards and developing training plans at both the restaurant and system level to address any opportunities. This program is part of a broader operations team redesign to strengthen leadership focus and free up resources to create 6 operations excellence coaches who will work closely with restaurant general managers and their teams to continuously improve the guest experience.

Second, we will strengthen our value offers and value messaging in new menu additions and limited time offers without deep discounting. Last week, we rolled out delicious Duos starting at \$9.95. Guests can choose from any small noodle bowl, including our new Mac & Cheese menu, add a protein, if not already included and add a side, all starting at \$9.95. The side choices include Caesar Salad, a new Garden salad, Lemon Parmesan Broccoli and chicken noodle soup. We believe this is a great choice for guests, including

for our lunch occasion who want a more balanced meal that includes a smaller noodles portion plus a lighter, fresher side. It is the right portion size and the right price for lunch or a lighter dinner.

Our test market earlier this year showed broad guest appeal and very strong guest value. We anticipate this will be a permanent menu addition. Initial response to the July 30 introduction has been strong, which is contributing to our recent improved sales and traffic trends. Our next LTO will be Chili Garlic Ramen starting in early Q4. This addresses a gap on our menu and capitalizes on the surge in popularity of Ramen. Our interpretation of this classic Japanese dish includes Ramen noodles, shiitake and a butter chili garlic soy sauce, tossed with Napa and Red Cabbage, Spinach and topped with Scallions, Parmesan cheese and Asian spices.

The dish is priced at \$8.95, which we feel is a very accessible price point and allows guests to add protein if they wish. This dish in both concept testing and in-market testing also had broad guest appeal. Third, we will continue to lean into our successful digital platforms and rewards program throughout the rest of the year as we did earlier in Q2. Our owned digital web and app platforms saw traffic increase of 2% year-over-year in Q2.

And rewards member check-ins increased 4% year-over-year with rewards members accounting for about 27% of transactions in the quarter. The increases in engagement were aided by our taste tour promotion that drove trial of the new menu across the 15-day promotional period. Finally, we will continue to build a more differentiated and a more compelling brand with increased media investment and new creative messaging that tells customers why we are the best choice to satisfy a broad variety of comfort food cravings.

Before I turn the call over to Mike, I would like to formally introduce Joe Christina and let him share a few comments.

Joseph D. Christina

Thanks, Drew. I appreciate your partnership over the last 6 months. I also want to thank the Board for their belief and trust naming me to lead this great brand. I'm honored to lead Noodles & Company in this next chapter as we welcome 30 years of brand strength and connection. I am focused on enhancing the guest experience, strengthening operational execution, driving increased traffic and expanding unit level margins. Backed by our dedicated teams, franchisees and partners, we will strive to deliver meaningful value to our guests and stakeholders. I look forward to working with Drew during this transition period in August and speaking with you all next quarter.

Andrew H. Madsen

Thank you, Joe. With that, I will turn it over to Mike to review our second quarter financial highlights and full year guidance.

Michael Hynes

Thank you, Drew. In the second quarter, our total revenue decreased 0.7% compared to last year to \$126.4 million. System-wide comp restaurant sales during the second quarter increased 1.5%, including an increase of 1.5% at company-owned restaurants and an increase of 1.6% at franchise restaurants. Company comp traffic during the second quarter decreased 2.5% and average check increased 4%, inclusive of 2.6% effective pricing during the quarter, primarily related to our menu launch. Company average unit volumes in the second quarter increased 2.3% to \$1.35 million.

As a reminder, 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 negatively impacted our second quarter comp restaurant sales by approximately 50 basis points. Turning to profitability. Our second quarter was also impacted by onetime costs related to our menu rollout totaling \$1.7 million, primarily higher food costs, labor and marketing. These costs were isolated to the second quarter, and we do not expect them to impact the rest of the year.

Our COGS in the second quarter were 26.5% of sales, a 180 basis point increase from last year, which was primarily driven by higher food costs associated with our new menu offerings. Our food inflation in the second quarter was approximately 2%. Labor costs for the second quarter were 31.7% of sales, which was up 50 basis points to prior year, primarily due to wage inflation and an increase in hourly labor associated with the new menu rollout. Hourly wage inflation in the second quarter was 2.7%. Occupancy costs in the second quarter were \$11.4 million compared to \$11.6 million in 2024 due to a reduction in our company-owned restaurant count over the last 12 months. Other restaurant operating costs increased by 50 basis points in the second 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 costs related to our new menu rollout. Our restaurant level contribution margin was 12.8%, down from 15.5% in the second quarter of 2024. G&A for the second quarter was \$12.4 million compared to \$13.6 million in 2024 due to decreases in salary and incentive compensation as well as other cost reduction initiatives.

Net loss for the second quarter was \$17.6 million or a loss of \$0.38 per diluted share compared to a net loss of \$13.6 million or a loss of \$0.30 per diluted share last year. The loss in the second quarter of 2025 included an \$11.9 million noncash impairment charge compared to a \$10.9 million impairment charge in 2024.

The impairment charges for both years primarily related to a portfolio review of underperforming restaurants, which I will discuss shortly. Adjusted EBITDA for the second quarter was \$6 million compared to \$9.2 million in the second quarter of 2024. In the second quarter, we opened 1 company-owned restaurant, which completes our 2025 restaurant openings and closed 6 company-owned restaurants. Two franchise restaurants were closed in the second quarter. Our second quarter capital expenditures totaled \$3.4 million compared to \$9.2 million in 2024.

Our debt balance at the end of the second quarter was \$108.3 million with over \$13 million available for future borrowings under our revolving credit facility. Last year, during the second quarter, we performed an initial review of our portfolio and identified a group of approximately 20 underperforming restaurants to close on or before lease end dates. A year later, we're pleased with the results from closing underperforming restaurants.

The closures have removed restaurants with negative cash flow from our system. And post closure, we've seen nearby noodles restaurants experience an increase in sales and profits. Based on these results, we recently expanded our efforts to close underperforming restaurants and now expect to close a total of 28 to 32 company-owned restaurants in 2025.

Year-to-date through the second quarter, we closed 9 company-owned restaurants. 13 closures are expected in the third quarter with the balance of the expected closures occurring in the fourth quarter. In addition, we expect to close 12 to 17 company-owned restaurants in 2026. Turning to the rest of our full year guidance for 2025. We're revising our expectations based on recent trends.

For the full year 2025, we are providing the following guidance: total revenue of \$487 million to \$495 million, including comp restaurant sales growth of 2.5% to 4% restaurant contribution margin between 11.8% and 12.6%; general and administrative expenses of \$48 million to \$50 million, inclusive of stock-based compensation expense of approximately \$3 million; depreciation and amortization expense of \$27 million to \$29 million, interest expense of \$10.5 million to \$11.5 million, and we estimate total 2025 capital expenditures of \$12 million to \$13 million. Based on our revised guidance, we no longer expect to be free cash flow positive in 2025, but we'll continue working toward becoming free cash flow positive in 2026. 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 H. Madsen

Thanks, Mike. Though our positive same-store sales in the second quarter outperformed many in the fast casual segment, they were below our expectations. We have identified the challenges in the current consumer environment to improve our top line performance and are moving quickly to respond to them. And we are very encouraged same-store sales have increased to an average of a positive 5% over the last 2 weeks with our recent delicious Duos launch.

The portfolio optimization reviewed by Mike, combined with ongoing cost reduction will give us a stronger and more profitable foundation moving forward. And to deliver sustained top line sales growth, we will continue to build on the improvements made to date that will clearly establish Noodles & Company as the best choice for more customers to satisfy their comfort food cravings. Thank you for your time today. I'll now turn the call back over to the operator.

Operator

Thank you, sir. Ladies and gentlemen, that does conclude today's event. Thank you for attending, and you may now disconnect your lines.

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