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Jun. 27, 2024 6:47 PM ET | **Pinstripes Holdings Inc. (PNST) Stock**, **PNST.WS Stock**

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Pinstripes Holdings Inc. (NYSE:PNST) Q4 2024 Earnings Call Transcript June 27, 2024 5:00 PM ET

Company Participants

Dale Schwartz - Founder, President and CEO
Tony Querciagrossa - CFO

Conference Call Participants

Brian Bittner - Oppenheimer & Company
Peter Saleh - BTIG
Zach Riddle - William Blair

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Pinstripes Holdings Inc. Fourth Quarter Fiscal ‘24 Earnings Conference Call. At this time, all participants have been placed in a listen-only mode, and the lines will be open for your questions following the presentation. Please note that this conference is being recorded today, June 27th, 2024.

During management's presentation and in response to your questions, they will be making forward-looking statements about the company's business outlook and expectations, including in respect of guidance for fiscal 2025. These forward-looking statements and all of the statements that are not historical facts and reflect management's beliefs and predictions as of today and therefore are subject to risk and uncertainties as described in the company's annual report on Form 10-K for fiscal 2024 and subsequent SEC filings.

Management will also discuss non-GAAP financial measures as part of today's conference call. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles, but are intended to illustrate alternative measures of the company's operating performance that may be useful. Reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures can be found in earnings release.

The company has posted its fourth quarter fiscal 2024 earnings release and earnings presentation on its website at www.pinstripes.com under the Invest Relations section.

And now, I would like to turn the conference over to Pinstripes’ Founder, President and CEO, Dale Schwartz.

Dale Schwartz

Good afternoon, everyone, and thank you for joining our call today. We're pleased with the progress we've made across our business, including the opening of two new venues in New Jersey and Florida to start the calendar year, along with the 310 basis point improvement in our mature store contribution margin.

Despite a challenging consumer environment, we were able to drive both positive comp growth and positive traffic growth in the fiscal fourth quarter. Of course, none of this would have been possible without the passion and dedication of our more than 1,800 team members as they provide our guests with those magical moments they've come to expect from visiting Pinstripes.

Before we dive into the specifics of the quarter and full year, let me remind you of what sets Pinstripes apart from other concepts in the market. While we include bowling and bocce, what truly differentiates our brand is our made from scratch dining. Food and beverage comprise approximately 75% of our total revenue, with bowling, bocce comprising the balance. Equally important is our private event space, where each of our locations host approximately 1,000 private events per location per year, representing nearly 50% of our revenue. Our events, both social and corporate, are an extraordinarily important and profitable facet of our business, creating a flywheel effect of increased brand awareness.

While we're proud of our current event business, we're never satisfied. Accordingly, during the quarter, we transitioned to a new digital marketing agency partner. This transition will allow us to further accelerate the growth in our events business through more effective campaign development and better utilization of our multi-million dollar digital marketing spend. We have also launched a number of exciting initiatives that will move the needle both in sales and brand awareness. And we continue to believe that our events business will be an area of strength for us going forward.

With respect to profitability, while Pinstripes is an established player in the restaurant entertainment space nationally with a 17-year history, we remain a relatively modest-sized company overall. Now with 17 total venues and generating almost $9 million in sales on average annually, we're beginning to better leverage our increased scale to drive cost efficiencies in the business.

As we think about our business, we look to our mature store base, those open longer than 24 months as a showcase of the power and potential of our brand. In the fourth quarter, our mature stores generated restaurant contribution margins of 11.4%, which represents a 310 basis point improvement from a year ago. For the full fiscal year, our mature stores generated restaurant contribution margins of 14.4%, which represents a nearly 120 basis point improvement. While these improvements may seem substantial, we believe we have even more significant opportunity to improve margins through fiscal 2025.

In recent months, our team has done a tremendous job identifying a number of cost savings opportunities, ranging from strategic hourly and salary labor savings, a more favorable credit card processing fee agreement, to more intense negotiations with our various vendor partners. In the aggregate, we believe these savings will represent approximately $10 million annually that will flow through to EBITDA and represent an improvement of approximately 500 basis points to our mature store contribution margins.

These cost saving opportunities were initiated at the end of the fiscal year, with the vast majority of the benefits expected to be realized in fiscal 2025. While we're pleased with the savings thus far, we will continue to explore avenues to further improve our store margin performance as we continue to benefit from the improved scale of our business.

Now let's turn to unit development. In the second half of last year, we reignited our growth pipeline with the opening of new locations in Los Angeles at Westfield Topanga Mall and in Miami at the Esplanade at Aventura. We continued our growth momentum with the opening in Paramus, New Jersey at Garden State Plaza in February, followed by the opening of our Orlando location in April. Both locations have opened strong and we're excited by the long-term potential of each.

That said, not every location is the same. As we think about new store openings, we think about two distinct classifications of developments we are entering. The first is an established development where we are typically taking over the location of a previous tenant, such as UNIQLO or Crate & Barrel and the traffic patterns of the area are already well defined.

The second is a new development where at the time we are among the first to open and the customer traffic volume continues to grow as additional retail and dining options open around us. While the long-term AUV potential of both types of developments are exciting, the maturation curve on new developments is typically longer. The best example of this within our mature store base is our Bethesda location, which opened as part of the new Pike & Rose development in Bethesda, Maryland in 2017.

The venue opened its sales volumes lower than system average in the $6 million range. And as the development became more established and additional retail continued to open, we've seen a steady growth in our venue performance, which now generates an excess of $10 million annually in sales, outperforming the system average.

Within the four venues we've recently opened, we see our Topanga and Aventura venues through a similar lens. We currently expect these to be approximately $7 million average unit volume venues in fiscal 2025, with growth outpacing the rest of the system in future years as they grow into their longer term $9 million plus AUV potential.

On the established development side of the equation, we're very pleased with our openings at Orlando and Garden State Plaza as the initial guest reception has been fantastic. We currently expect these to be over $11 million in sales venues in fiscal 2025, with Orlando having the potential to unseat the highest volume venue in our system San Mateo over time.

With all of our openings, we make a substantial investment particularly in labor in the first few months of opening to ensure a great guest experience and the long-term success of the venue. While this results in lower store contribution during that time, by the end of the second year of operation, our venues operate largely in line with the system overall as they join our mature store base.

As we look ahead, we were excited to announce last month our new master broker partnership with Newmark that will further accelerate our development efforts. Through this partnership, we will have even greater access to prime real estate both domestically and internationally as we continue to execute against the great promise of our brand. Within the development pipeline, we're excited to open two venues in Walnut Creek, California, and Coral Gables, Florida, in the second quarter of fiscal ‘25, and we look forward to the clustering benefits as these new venues join their sister locations in the markets of San Mateo and Aventura.

As we look further into the development funnel, we have two prominent Seattle locations in Bellevue and Lake Union, a new Jacksonville location with Simon Property Group at the St. Johns Town Center lifestyle project, and another potential 30 sites in various stages of development. Combined with our current portfolio of 17 open locations, we now have 22 total locations open or under lease. Through high quality, connection-oriented dining, entertainment, and event spaces, we continue to be well positioned to capitalize on the dislocation of the retail industry, and we have the key experiential elements that developers desire to drive traffic and establish or transition their properties into lifestyle centers.

In summary, we believe our brand is uniquely positioned for the current consumer environment and we have a solid foundation of over 1,800 passionate team members that are excited to capitalize on the white space opportunity ahead of us.

With that, let me now turn the call over to our CFO, Tony, to discuss our fiscal fourth quarter results and fiscal ‘25 guidance in greater detail.

Tony Querciagrossa

Thank you, Dale, and good afternoon, everyone. For the fiscal fourth quarter, total revenue increased 5.9% to $36.2 million compared to $34.2 million in the same quarter last year, including a 4.9% increase in food and beverage revenues and 9.5% increase in recreation revenues. This increase was driven by four new unit openings and a 0.4% increase in same store sales. As a reminder, our fourth quarter last year also included a 53rd week, which contributed approximately $2.5 million in sales to the prior year quarter and negatively impacted year-over-year growth rates by approximately 10 percentage points.

Turning to expenses, cost of food and beverage as a percentage of total revenue increased 100 basis points to 18.1%, driven by opening of new locations with less event mix relative to our overall portfolio and inefficiencies related to those openings. Labor and benefits as a percentage of total revenue increased 271 basis points to 40.3%. Occupancy costs as a percentage of total revenue increased 206 basis points to 19.1%. Other operating expenses as a percentage of total revenue increased 114 basis points to 18.8%. The increase is primarily due to new store openings. Venue level EBITDA as a percentage of total revenue decreased 460 basis points to 3.7%, driven by the negative store contribution of our four new locations that opened in fiscal 2024, as these stores continue to progress through the maturation curve, with the profitability of this group already improving substantially. Please refer to our earnings release for reconciliation of non-GAAP measures.

As Dale mentioned, our mature stores, those more than 24 months, generated average venue level EBITDA margins of 11.4%, representing a 310 basis point improvement year-over-year. We highlight our mature store base to showcase the power of our brand as our locations start to achieve their top line potential. General and administrative expenses increased to $7.4 million, including $1.6 million of expenses related to public company readiness, M&A, and termination of unfavorable vendor contracts in the quarter, compared to $3.4 million in the same period last year. Turning to liquidity, as of April 28, 2024, we had $13.2 million in cash and cash equivalents and approximately $113 million of debt outstanding.

With that, let me now provide you with our fiscal year 2025 guidance. As a reminder, our fiscal year ends on April 27th, 2025 with a 16-week fourth quarter. Same store sales growth of low single-digits, four new venues open during the year, mature store venue level EBITDA margin of between 20% and 22%, general and administrative expenses of approximately $17 million, including $2.5 million of non-cash stock-based compensation and tax, pre-opening expenses of approximately $3 million, and adjusted EBITDA between $19 million and $21 million.

We'd like to thank you again for your interest in Pinstripes. Dale and I are now happy to answer any questions that you may have. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Brian Bittner with Oppenheimer & Co. Please proceed with your question.

Brian Bittner

Thanks, Good afternoon. I wanted to dive a little deeper into your EBITDA guidance of $19 million to $21 million in 2025. I'm trying to get there in the model. And, Tony, it seems like you need venue-level EBITDA across your portfolio to approach $40 million in 2025 to get there versus $13 million in 2024? I mean, is that correct? Because that would suggest a venue level margin for the system that's incredibly high, at least in line with the mature margin guidance that you've given. So can you help us maybe understand, I don't know, what revenue base you're using to get to this EBITDA guidance or anything I may be missing in getting there?

Tony Querciagrossa

Yeah, Brian. Let me break it down a little bit kind of as we walk year-over-year. So we've got $10 million to cost savings, right? $1 million of comp growth in the mature stores, again, this is all flow through to the EBITDA. $6 million lower in pre-opening year-over-year. And then about $10 million in non-comp. So this is the four stores that were opened as of the end of fiscal ‘24. So that's going from a loss of about $3.2 million up to about $7 million of venue-level EBITDA. And then rounding that out would be about $5 million of new stores that will open venue-level EBITDA. Your overall percentage seemed a bit high relative to what we're saying, but I think that walk should be helpful for you.

Brian Bittner

Okay. And in the press release, you said that traffic was positive in the fourth quarter. And so, what was average check maybe in the fourth quarter? Can you help us understand what's driving the positive traffic versus maybe the average check headwinds you're seeing? Are consumers just managing their check more tightly, but you're obviously doing a great job of driving traffic, trying to understand the bifurcation between those dynamics.

Tony Querciagrossa

Yeah, typically how we've bifurcated before, right, is we call out price, which was zero in the quarter. And so what's left is traffic. Average check was pretty consistent, about $40. So, I think traffic was positive. It wasn't majorly positive, but we had no price in the quarter. So we lapped all the price from the prior year in the quarter.

Brian Bittner

Okay. That's helpful. My last question, and I'll get back in the queue, is just the ‘25 guidance for venue openings of four, that compares to kind of the six to eight annual openings that you guys are targeting moving forward. Is the delta between the four and the six to eight just a timing of openings in fiscal ‘25 situation or is there anything else to unpack as it relates to 2025 unit opening?

Tony Querciagrossa

Yeah, it's just timing. Permitting has been a problem in many markets, and we're just being honest with ourselves about that.

Brian Bittner

Okay, thank you.

Operator

Thank you. Our next question comes from the line of Peter Saleh with BTIG. Please proceed with your question.

Peter Saleh

Hey, great. Thanks for taking the question. Tony, maybe can you help us out a little bit on just the cadence of development for fiscal ‘25? I think you mentioned two units in the second quarter. Can you help us out with the remaining two? When should we expect those to open and where?

Dale Schwartz

Peter, it’s Dale. Let me give you a little flavor. So, Walnut Creek, we are planning to open late August, rather soon. Coral Gables, month two after that. And then we're doing both Bellevue and Lake Union, calling the greater Seattle market, will open the beginning of fiscal ‘25. Jacksonville, the Simon project that we're doing, St. John Center, that will open Q4 of our fiscal ‘25. So those are the signed committed locations. And then there are a number of other sites under LOI or under serious considerations that would come after that in possibly under fiscal ‘25 or in calendar ‘25.

Peter Saleh

Understood. Okay. So, as you see it right now with the four venues that are going to open in fiscal ‘25, relative to your six to eight, I guess, prior expectations on an annual year, should we expect fiscal ‘26 to be above that range or at the high end of the, call it, six to eight, just trying to understand if this is timing, if more units are shifting into fiscal ’26?

Dale Schwartz

Yeah, fair question. I'd say more of the latter, that expectation for fiscal ‘26 will be more back to that six to eight locations, yes.

Peter Saleh

Okay. And just lastly on my end. In terms of pricing for fiscal ‘25, what are your expectations? Are you guys planning on taking more pricing or are you holding the line there? Thank you.

Tony Querciagrossa

Price increase going in in the beginning of Q2, so we're putting it in place about 30 days from now.

Peter Saleh

Got it. Okay, thank you very much. I'll pass it along.

Operator

Thank you. And our next question comes from the line of Zach Riddle with William Blair. Please proceed with your question.

Zach Riddle

Hi, thanks. Just a couple of questions here on my end. I guess first, could you help us triangulate the improvement in mature unit level margins in fiscal ‘25? Where would, I guess, where are most of the cost savings coming from? Could you give us a little bit more detail on that?

Tony Querciagrossa

Sure, so about, I'll break down kind of the $10 million that we've been referencing. So about $5 million comes from labor, and that's pretty evenly split between salaried and hourly labor. And then we've got other store OpEx, which is across a few key vendors of about $4 million. And then we've got a couple kind of smaller amounts of about $1 million in liquor and food.

Zach Riddle

Great. And then I guess just kind of moving on to trends during the quarter, would you be able to help us kind of of how do you think about the health of the consumer across walk-in and the entertainment sides of the business?

Tony Querciagrossa

I mean, we saw softening the consumer. As we sit here now in Q1, we're seeing what everybody else is seeing. But as we paced kind of in Q4, January was sort of flat; February was a bit negative, almost down 5%; March was flat; and then April was actually strong, up 8%, really led by our events business. So I mean, overall macro backdrop, we're seeing some consumer softening that everyone's seeing, but nothing drastic.

Zach Riddle

Great. And then I think the last one for me, so I know you said you were planning on taking price in about 30 days. How much price do you plan to take?

Tony Querciagrossa

It's going to be about 2% is the effective -- the effect on sales.

Zach Riddle

Great, thanks. I'll jump back in the queue.

Tony Querciagrossa

Thanks, Zach.

Operator

Thank you. And ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn the call back over to Dale Schwartz for closing remarks.

Dale Schwartz

We just want to -- Tony and I thank you for joining us today. We're excited with all the progress we've made and we certainly welcome you joining us soon at Walnut Creek and Coral Gables and enjoying the magic at any of our locations. Thanks for joining us.

Operator

And this concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.

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