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Red Robin Gourmet Burgers, Inc. (RRGB) Q1 2025 Earnings Call Transcript

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Q1: 2025-05-29 Earnings Summary

Insights



EPS of \$0.19 **beats by \$0.68** | Revenue of \$392.35M (0.98% Y/Y) **beats by \$3.58M**

Red Robin Gourmet Burgers, Inc. (NASDAQ:[RRGB](#)) Q1 2025 Earnings Conference Call May 29, 2025 4:30 PM ET

Company Participants

Dave Pace - President and CEO

G.J. Hart - Former CEO

Todd Wilson - CFO

Conference Call Participants

Todd Brooks - The Benchmark Company

Alex Slagle - Jefferies

Mark Smith - Lake Street Capital

Operator

Good afternoon, everyone. And welcome to the Red Robin Gourmet Burgers Incorporated First Quarter 2025 Earnings Call. This conference is being recorded.

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. These forward looking statements and all other statements that are not historical facts reflect management's beliefs and predictions as of today and therefore, are subject to risks and uncertainties as described in the company's 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. Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures can be found in the company's earnings release. The company has posted its first quarter 2025 earnings release on its Web site at ir.redrobin.com.

Now, I would like to turn the call over to Red Robin's President and Chief Executive Officer, Dave Pace.

Dave Pace

Good afternoon, everyone. And thank you for your interest in Red Robin. Let me begin by sharing how energized I am to be here as the CEO of Red Robin. Although new to the executive team, I've served as Chairman of the Board since 2019 and have been well versed in our turnaround plan to make this beloved brand relevant again. Under G.J.'s leadership in its North Star plan, we made critical investments while also taking steps to reduce overall operating costs. The focus on elevating the guest experience while building a winning culture has been integral to establishing a foundation upon which we can grow. I intend to continue to build upon this progress and I'll walk through my initial priorities, an area of focus later in the call. To that end, I want to personally thank G.J. for all that he has done for Red Robin during his tenure both as CEO and as a member of the Board. He and I have built a trusted, longstanding relationship and I appreciate his willingness to collaborate during this transitional period to best position the company for its next chapter. With that, G.J. will now provide a brief recap of our progress. Todd will then review our first quarter results before I dive into our initial go forward thoughts and priorities for Red Robin.

G.J. Hart

Thank you, Dave. And good afternoon, everyone. I would also like to echo Dave's optimism for the future of Red Robin. I'm very proud of what our team has accomplished over the past two and half years. Through their hard work and dedication, we successfully laid the foundation for our comeback journey. Let me quickly recap some of what we accomplished over the past two and a half years to put the company in a position to drive long term shareholder value and enhance Red Robin's competitive positioning. First, we took steps to make Red Robin an operations focused company through our managing partner program, which incentivizes our restaurant leaders to deliver strong and balanced financial results. Second, we elevated the guest experience through investments and upgrades in both food and hospitality. From rolling out flat top grills to deliver a thicker juicier and more flavorful burger to upgrading our bar menu and bringing back industry best practice staffing models, we are seeing tangible proof that our guests have begun to recognize and appreciate our efforts. Third, we optimize guest engagement through our relaunch loyalty program in 2024, allowing our guests to earn a reward much faster and encouraging more frequent visitation to capitalize on their earned rewards. The revamped Red Robin royalty program has continued to spur membership growth with approximately 15.3 million members at the end of the first quarter.

And lastly, we drove growth in comparable restaurant revenue and unit level profitability in both the fourth quarter of 2024 and the first quarter of 2025. On our last call in February, I shared that in 2025, we expect to become meaningfully more efficient and productive with our labor costs. Todd will expand on this in a moment, but I'm proud of the work the team accomplished to deliver on this goal in the first quarter and I'm confident it will continue from here. In closing, it has truly been a privilege to lead such an iconic brand over the past two and a half years. With key elements of our plan now in place and we have delivered strong financial results in the first quarter, we have reached a natural transition point in Red Robin's transformation. And I'm confident the company is in great hands with Dave to lead the next phase of this journey. And with that, I'll turn the call over to Todd to walk you through the financial performance.

Todd Wilson

Thank you, G.J. And good afternoon, everyone. In the first quarter, total revenues were \$392.4 million versus \$388.5 million in the first quarter of fiscal 2024. The increase is due primarily to a comparable restaurant revenue increase of 3.1%, led by a 6.8% increase in net menu price, outweighing a 3.5% decline in guest traffic. Restaurant level operating profit as a percentage of restaurant revenue was 14.3%, an increase of 330 basis points compared to the first quarter of 2024. If you recall, one of our focus areas for 2025 is to become meaningfully more efficient with our labor costs. We're pleased with our results in the first quarter as our operators delivered traction faster than we expected. Congratulations to our operations team on this progress and thank you for all of the hard work that goes into delivering these gains. General administrative costs were \$27 million as compared to \$25.8 million in the first quarter of 2024. Selling expenses were \$9.4 million, a decrease as compared to \$13.5 million in the first quarter of 2024. The decrease results primarily from a reduction in media in the quarter overlapping a marketing test last year. Adjusted EBITDA was \$27.9 million in the first quarter of 2025, an increase of \$14.5 million versus the first quarter of 2024. Adjusted EBITDA increased due to cost efficiency gains throughout the P&L and particularly in labor and the benefit of menu price increases. We ended the first quarter with \$24.2 million of cash and cash equivalents, \$9.1 million of restricted cash and \$35 million available borrowing capacity under our revolving line of credit. As I shared on our last call, one of our financial priorities in 2025 is to position the company to refinance the term loan that matures in the first quarter of 2027. During the first quarter, we used free cash flow we generated, coupled with approximately \$5.8 million of gross proceeds from monetizing three owned properties, to repay approximately \$17.8 million of debt. This resulted in an outstanding principal balance under the credit agreement at quarter end of \$171.7 million.

Turning to our outlook. We will now provide the following guidance for 2025. First, total revenue of between \$1.21 billion to \$1.23 billion as compared to our prior guidance of \$1.225 billion to \$1.25 billion. This incorporates expectations that annual comparable restaurant sales will be generally unchanged at approximately 0% and we will end 2025 with 393 company owned restaurants in operation. Second, restaurant level operating profit of 12% to 13% in line with our prior guidance. Third, adjusted EBITDA of \$60 million to \$65 million, also in line with our prior guidance. And finally, capital expenditures of approximately \$30 million as compared to \$25 million to \$30 million previously. While our first quarter results exceeded our expectations, we have pared back our outlook for the remainder of the year due to the broader macro and consumer environment. Our guidance includes an expectation that guest traffic trends from the past few months continue for the remainder of the year. We've also included a cost headwind based on current tariff policies. I would note, we are not planning any menu price increases in the remainder of 2025. We anticipate absorbing the current expected impact of tariffs as we prioritize maintaining value for our guests. The great work of our operators to capture cost savings greater than we initially planned supports this approach.

For the second quarter, I'd like to remind everyone that with the launch of our new loyalty program last year, we received a 220 basis points benefit to our reported comparable restaurant sales in the second quarter of 2024 from changes in loyalty revenue. We expect this not to recur in 2025, representing an approximate 240 basis point headwind for our second quarter of 2025 comparable restaurant sales. For modeling purposes, we expect comparable restaurant sales in the second quarter inclusive of this headwind and with less benefit from menu price increase in the second quarter than the first will decline approximately 3%. We do not expect loyalty revenue will have a meaningful impact on comparable restaurant sales in the third or fourth quarter. Before I turn the call back to Dave, on behalf of over 20,000 Red Robin team members across the country, I would like to extend a very heartfelt thank you to G.J. In senior leadership positions, we are stewards of the business for as long as we have the privilege to lead. I am certain the Red Robin business and our people are better for you having led this company. For me personally, it's been an honor to be your partner. Thank you. Dave, I'll turn the call back to you.

Dave Pace

Thanks, Todd. While we're pleased with the headlines of our first quarter financial results, we're far from claiming victory and there's still more work to be done as we continue the comeback journey of Red Robin. I've spent my initial four weeks meeting with the team, speaking with franchisees, visiting our restaurants and digging into every aspect of our business. I'm confident our team is energized by the changes we've implemented in the last two years and they look forward to continuing the progress in the next chapter of transformation at Red Robin. Overall, our operational foundation is much stronger led by the improvements the company's made in food quality and hospitality. Importantly, our overall guest satisfaction scores showcase that our guests are recognizing these improvements. That said, as I've come up to speed over the past month, I still see room for improvement in certain areas of the guest experience and we'll work to address those quickly. Our opportunity as we move ahead is to maintain the improvements we've made in the guest experience while putting strategies in place to drive sustainable growth in restaurant traffic and corresponding gains and profitability.

To that end, I'd like to provide you with my initial high level priorities for Red Robin in 2025 and beyond. First, it's imperative that we retain and extend the progress that's been made in our operational execution, delivering a high quality guest experience while also improving our operating efficiency. Second, it's critically important that we return Red Robin to sustainable traffic growth, and this begins with how we engage with the guest. We must creatively cut through the noise in today's marketplace and be bold when we see opportunities. In the near term, I'm working to ensure that we have the right marketing leader and strategy in place to restore Red Robin as the first choice option for consumers. Recently, Russ Klein has joined our team for a one year term to help us build our marketing foundation and strategy. Russ brings us a widely recognized track record of success in effectively reconnecting well known brands with their customer bases and we're happy to have him. Third, we must work to strengthen our financial position by reducing debt and increasing free cash flow generation. This will allow us greater flexibility to take advantage of the investment opportunities to drive sustainable top line growth. Fourth, we must reinvest back in our restaurants so the restaurant facilities and atmosphere match the upgrades we've made to food quality and hospitality.

To generate the resources required for these efforts, we have many levers available. I'm encouraged by the team's demonstrated success removing costs throughout the P&L. We continue to see opportunity there and I'm confident we'll capture additional benefits through their focused actions. In addition, part of my initial onboarding effort has been to work with the team to evaluate even further opportunities. Underlying all of this is an understanding that Red Robin's core equity is providing everyday value and great food in a family friendly atmosphere. I've shared initial thoughts here but still too early for me to share full details after only four weeks on the job. The team and I have already made great progress and I look forward to sharing additional details in the coming months. I truly believe that at its core, the Red Robin brand is full of opportunity. Through focused efforts and our key priorities, I'm confident that we'll deliver significant value to both our guests and our shareholders. With that, we're now happy to take questions. Operator, please open the lines. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Todd Brooks with The Benchmark Company.

Todd Brooks

Just wanted to lead off, and it's a question about the profitability that you guys were able to generate in Q1. I know, Todd, you talked about some anticipated pressure from eating tariffs versus pricing for them on the menu. That's in the 12% to 13% guidance range for restaurant level margin. But obviously, that's a very fluid situation as well. So just wanted to understand the efficiency that you generated in the first quarter but kind of maintaining that full year guidance in the 12% to 13% range. Is that purely the tariff pressure or is there something else there as well?

Todd Wilson

Yes, a few things I think I'd call out there. One, we were really encouraged in Q1 and that's part of the way that we beat it. It's frankly the primary way that we beat our profit expectation in Q1. Our team really got after labor quickly and we saw a lot of fast progress there, faster than we expected. So that's been really encouraging. I would call it as well, we've watched guest satisfaction scores to make sure we're not giving up anything there and our overall satisfaction scores continue very strong. So that's very encouraging. To your question though, as we thought about the balance of the year, traffic, you may have seen in the press release, traffic in the first quarter was down 3.5 points. We talked about it last time. The front half of Q1 was stronger. We anticipated that and we saw that kind of normalize in the back half of Q1. And so we've kind of carried forward a down 4 traffic rate through the balance of the year. That's a haircut to what we had in our original expectations. And so that's what's -- that plus the tariffs, which you alluded to. But it's really just I think a prudent haircut on the top line that's what's driving us to hold the guidance for the year. The other piece as well is, we're still early in the year, right? We've got a long way to go here. It's important to us that when we put out a number, we're confident we're going to deliver it. And so you'll be see us be prudent there, but those are really the moving parts of traffic and the tariffs.

Todd Brooks

Another one for Todd, if I can. Can you walk through -- you talked about menu price contribution water falling as the year goes on. Can you walk through how that proceeds for Q2, Q3 and Q4?

Todd Wilson

Todd, we have talked about this before. And as you really kind of look at that progression through the year, we were almost 7 points of contribution in Q1 and we do expect that that will wind down through the year. As we said on the call, we don't anticipate taking any further pricing action this year. When you look at the quarterly sequencing -- I'll talk in terms of just total check growth. When you put price, mix, discounts altogether, we're looking for about 4% check growth in Q2, 4% in Q3 and then as pricing falls off, it will be about 2% in Q4 is our expectation.

Todd Brooks

And then one more strategic question, and I'll hop back in queue. If -- we're getting close to being a year into the changes in the loyalty program, if you guys look at the results so far, it seemed like really kind of encouraging results out of the gate, and we've still seen growth in the program. But have the unlocks around frequency played out the way you expected or either G.J. on the way out or Dave on the way in? How much more opportunity is there to lever Red Robin royalty more effectively in '25?

Todd Wilson

I would tell you that we are seeing the same kind of increase that we talked about last quarter. And I'll also tell you that some of these numbers, like 22% of our visits are from lapsed users, that's a really good number in terms of our visits overall. And we're holding fairly close to new guests being 20% of our visits. So this program is really working. And I think as we dial this thing up further, there's further opportunity here, but I'll let Dave.

Dave Pace

Yes, let me just piggyback on, I agree with him. I think there's still significant opportunity in the program, the strength of it to grow it and also to how we use it. I think there's an opportunity for us to be smarter about how we implement and use pieces of the program. Not that we've been bad at it, I think we're just learning and we're getting better as we go. So I think there's still significant upside there.

Operator

Our next question comes from the line of Jeremy Hamblin with Craig-Hallum Capital Group.

Unidentified Analyst

This is Will on for Jeremy. I guess, I wanted to go back to the comp trends. So Q1, stronger first half, little weaker second half. I guess, how should we think about quarter-to-date traffic? And check and then to follow up, I'm just curious on the Hot Honey LTO and how that's kind of stacked up to your guys' expectations and testing?

Todd Wilson

I'll start and then these guys will add in I'm sure. As you think about the second quarter, I just kind of talked through the check side to Todd Brooks' question. The traffic side, we really -- we're thinking about the balance of the year on the traffic side and kind of a down 4 range, and that's consistent with what we saw to end Q1 as well as what we've seen to start the quarter here. So if you think about Q2, you've got that from traffic, generally check will offset that. And then I did call out on the prepared remarks the headwind from lapping some of the credits that we saw last year from the loyalty launch. So that's a key call out in Q2. It's more about what happened last year but you'll see it in our reported Q2 number. So I'd say quarter-to-date trends are very consistent with that and that's really what we based our guidance on is just kind of the real fact pattern that we're seeing right now.

G.J. Hart

I'll jump in. In terms of the Hot Honey promotion, we're very happy with that promotion, it exceeded our expectations and feel great about it.

Dave Pace

Yes, I'll just add to that. I think we feel good about the Hot Honey promotion, as G.J. said. That being said, I think we need to figure out ways to bend the curve on traffic, we know that, which is why we're focused on it, why it's one of the priorities that I mentioned in my remarks. So good work on it. But at the end of the day, we've got to bend that curve and we know that we're focused on how we do that.

Unidentified Analyst

And then as far as closures, so sounds like still expecting 10 to 15 for the year, maybe closer to higher side of the range. But I guess how can we think about timing for the balance of the year?

Todd Wilson

I think you heard that right. I called out the 393 restaurants in the prepared remarks that we expect to end the year with. That would have us down 14 on the year in total. The way we're thinking about it right now, we do see those relatively evenly spread through the remainder of the year. If we were to see a change there, I think it would certainly be for the better that we're able to accelerate some of these. We've had some good luck in discussions with landlords and a few cases at least that may give us an opportunity to move a little bit quicker there where it makes sense. But at this point, I'd say, we think that that's spread throughout the remainder of the year pretty evenly.

G.J. Hart

Let me add to Todd's point, separate from this on the 70 restaurant closures, the success that our operations team that we saw in the broad footprint of the business extended to those restaurants. And so we've made significant progress in improving the performance of many of the restaurants on that list. It's too soon to kind of say which ones are on or off but we are encouraged by the progress that's been made and the improvement in performance of quite a number of restaurants on that list that we've got. So I just want to make sure we point that out.

Operator

Our next question comes from the line of Alex Slagle with Jefferies.

Alex Slagle

What do you guys think like high level we think about the handoff and leadership kind of leveraging each of your unique skill sets, and we've seen a great foundation put in place over the last couple of years, the North Star plan and as we transition Dave to your leadership. What really changed, is there anything we should think about from this perspective going forward?

Dave Pace

I mean, I'll start off and I'll let G.J. jump in. We're both smiling, because it's -- we have a pretty close philosophy on how we think about restaurants. And so this has been a pretty smooth transition all the way around. I want to say again thanks to G.J. for the collaboration and the work we've done together on this. I think it's tonality. I think it's focus. I mean, G.J. came in and did the right things that this business required when he came in, and he did a reset on labor and operations focus and he did that. He needed a reset on food and he did that and he needed a reset on culture and he did that. He put all those things in place that anyone coming in would love to have as a foundation to build on. And I think that's how I look at it. In terms of my areas of focus is the things we talked about. And I don't think they're dramatically different from where G.J. was going, right? We're going to figure out how to bend the curve on traffic. We're going to hold serve on operations. We're going to look to be the first choice for consumers when they want to go out and have a burger. We are going to give ourselves some financial flexibility on the balance sheet and then we are going to use some funds to fix the restaurants. And I think those are not a lot different than what you would have seen from G. J. and I think we can continue that ball forward and keep moving this business back. But I think those are the important points and the way we got after them I think are the right sequence.

G.J. Hart

And I would just say Alex that Dave has been Chair. He and I came on this Board the very same day and he's been along this ride and putting this North Star plan and certainly been in dialog with him every week throughout my tenure here. So as Dave said, I think we're not dramatically changing anything here. There's some additional focuses that he's going to have, but I think it's a great place. And I think this transition is pretty special one and it's worked out really, really well.

Alex Slagle

So what are your operator partners asking for lately? Just sort of what's the next big thing or big change they'd like to see sort of top of their list?

G.J. Hart

I'll take a shot at that first since I just finished a tour not long ago. I think it's just continued investment in our facilities, which we continue to work on. And as we generate free cash flow, that's certainly a priority. And the second one is just continued investment in technology. As you know, we've been continually replacing and updating technology and the -- probably the one thing that they've asked for the most that we need to focus on, which is next on our priority list, which is server handhelds. And that's the one area that I think is -- would be most helpful to them to our servers as well as to the company in total.

Dave Pace

Yes, I would echo that. I also spent some time in restaurants in the first few weeks and those are some of the things that I heard operators want -- they want -- give them the tools to be successful. The tools to be successful included the things that they've been given, which are getting the labor and the hospitality right and getting the food right. Giving me the technology that I need to run my restaurants, give me a good looking restaurant that I'm proud to bring people into and figure out how to connect with our consumers with compelling messaging and offers that drive traffic. That's what operators want. They want to be successful. And I think the other thing on that is to build on that is I think the output of the partner program that was put in place is that they'll be rewarded for that, they'll get the benefit of success if we give them the tools to be successful.

Operator

Our next question comes from the line of Mark Smith with Lake Street Capital.

Mark Smith

First off, any outlook on selling expenses and kind of your expected media spend through the rest of the year?

Todd Wilson

I'd say, our original guidance for the year was \$30 million in selling or it included \$30 million in selling. And I would tell you that's generally unchanged, with the Dave commented on it and his prepared remarks with Russ coming in to lead the team. As we think about the balance of the year, there's I'd say a little bit of a breath to take, so to speak, to let him get in, understand the opportunities in our business and really kind of reassess the marketing plan. But as we've modeled it, we think it's pretty consistent quarter-to-quarter from here. There may be some ebb and flow as kind of naturally happens in that line item but we see getting to roughly that \$30 million on the year pretty consistently through -- from Q2 through Q4 from here.

Mark Smith

And then can you just remind us just what we have left as far as potential restaurant sales, how many that you guys own out there? And then in that same vein, just kind your confidence in refinancing that debt and kind of maybe an outlook or timeline around when do you think that could happen?

Todd Wilson

Yes Mark, we still own four properties. And so we monetized a large chunk of that with the sale leasebacks over the last couple years and then we called it out, we did sell three properties in Q1. So yes, I'd say we're always looking at opportunities there, right. Paying down debt as Dave alluded to is one of our key priorities. And so there's still some monetization opportunity there, but I would tell you nothing imminent. If opportunities arise, we'll capitalize them. But I would tell you nothing imminent. In terms of the ability to refinance the loan. Quite plainly, I would tell you, I believe that on the back of a really strong quarter like we just printed for Q1, G.J. and I have had varying conversations with lenders over the past several months. And I'm optimistic that as I go revisit those conversations on the heels of these results, we'll see some traction there. I don't know that I want to put a timeline to the refinance. But at this point, I think I've made it clear in the last couple of quarters, it's certainly top of mind for us and me specifically. And so we'll continue to give updates there. And we'll balance speed with getting the attractive terms that we think are warranted for this business. But I expect we'll be talking about it on each call until we get across the finish line.

Operator

Thank you. And we have reached the end of the question and answer session. I would like to turn the floor back over to CEO, Dave Pace, for closing remarks.

Dave Pace

Okay, folks, look thanks for jumping on the call. We appreciate the opportunity to share our results. And we look forward to talking to you more in the next couple of months. So thank you and we'll talk to you soon.

Operator

Thank you. And ladies and gentlemen, this does conclude today's conference. You may disconnect your lines at this time. Thank you for your participation. Have a great day.

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