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Red Robin Gourmet Burgers, Inc. (RRGB) Q2 2024 Earnings Call Transcript

Aug. 22, 2024 7:18 PM ET | Red Robin Gourmet Burgers, Inc. (RRGB) Stock

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EPS of -\$0.48 **misses by \$0.02** | Revenue of \$300.15M (0.50% Y/Y) **beats by \$7.85M**

Red Robin Gourmet Burgers, Inc. (NASDAQ:[RRGB](#)) Q2 2024 Earnings Conference Call August 22, 2024 4:30 PM ET

Company Participants

G.J. Hart - President and Chief Executive Officer

Todd Wilson - Chief Financial Officer

Conference Call Participants

Jeremy Hamblin - Craig-Hallum

Todd Brooks - The Benchmark Company

Alexander Slagle - Jefferies

Andrew Wolf - CL King

Mark Smith - Lake Street Capital

Operator

Good afternoon, everyone, and welcome to the Red Robin Gourmet Burgers Incorporated Second Quarter 2024 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 reflects management's beliefs and predictions as of today and therefore are subject to risks and uncertainties as described in the company's SEC filing.

Management will also discuss non-GAAP financial measures as a 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 maybe useful.

Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures can be found in the earnings release. The company has posted its second quarter 2024 earnings release on its website at ir.redrobin.com.

Now, I would like to turn the call over to Red Robin's President and Chief Executive Officer, G.J. Hart. G.J., please go ahead.

G.J. Hart

Good afternoon, everyone, and thank you for your interest in Red Robin. Our results for the second quarter and our reduced outlook for the remainder of the year are not what we expected when we last communicated in May, with the slowdown experienced in the broader restaurant industry, masking the substantial progress we continue to make against our North Star plan.

While we cannot control the macroeconomic environment, we hold ourselves accountable to deliver great experience to every guest through our high-quality gourmet burgers and our family-friendly atmosphere.

We measure multiple proof points that the initiatives we implemented over the past 20 months have elevated the guest experience. This is showcased best by guest satisfaction scores increasing to levels Red Robin has not achieved since 2016.

During the past three months, comparable restaurant revenue exceeded the industry average as measured by Black Box Intelligence and traffic returned to in line with the industry. In each of the trailing three weeks, despite the challenging environment, comparable restaurant revenue returned to marginally positive. With this progress, we continue to expect to meet or exceed the industry average on traffic through the remainder of the year.

Before I dive into more specifics, I'd like to extend my heartfelt thank you to all of the more than 20,000 team members across the country. Your hard work and dedication to our guests is what drives us every day to be better. We will succeed in revitalizing this beloved brand with all of us working towards the same goals, all in this together.

Starting with operations. Delivering a great guest experience is the backbone of our turnaround efforts. When we announced the North Star plan, our guest satisfaction score lagged the casual dining industry by 10 points, representing the widest margin in nearly a decade. It is our firm belief that a beloved brand like Red Robin should be leading in this area. At the heart of everything we do is a commitment to great hospitality, serving delicious food at a great price and creating a fun, friendly atmosphere with every visit.

I'm proud that we have delivered significant gains across this area of our business. As part of these initiatives, in 2023, we added servers allowing each to focus their effort on fewer tables and reduce false waits.

We brought back hosts and busters to improve table turns and cleanliness. And we returned to a dedicated kitchen expo and management structure to provide timely and accurate delivery of orders.

Importantly, we continue to see positive momentum from our efforts. Compared to the scores in the second quarter of 2023, we have seen manager visits, 13% more tables than last year. This dedication from the management team is critically important for many reasons, including that we know when a manager visits a table and engages our guests, guests rate their experience 12% better.

Our guests report a 7% improvement on pace of experience and 3% gains in orders served on time. Wait times greater than 15 minutes are an indicator of false waits. In the second quarter of 2022, 10% of our guests reported waiting more than 15 minutes. And in the second quarter of 2023, it was reduced to 3%, and now down to 1% in the second quarter of this year.

All guest measures in the off-premise portion of our business have increased, led by a 7% increase in order accuracy and taste of food and a 6% increase in friendliness of our team. We've also made investments in our food, including flat top grills, which deliver a thicker, juicier and more flavorful burger unveiled more than 20 improved gourmet burgers prepared with high-quality ingredients expanded our bottomless menu with more than 30 items that provide unmatched value to our guests and upgraded our bar menu to include higher quality brands that our guests know and love.

Again, the proofs in the numbers. Looking year-over-year, we have seen, we've executed our bottomless promise offer to 90% of our guests, a 9% increase versus last year. Food quality scores improved by 4% according to surveys from our royalty guests and food quality scores outperformed the casual dining average by 3% according to Technomic. The result of these initiatives is overall guest satisfaction that has reached parity to the casual dining industry over the last two quarters for the first time in almost nine years.

Importantly, the improvement in guest satisfaction is showing up through many different sources, including dine-in overall guest satisfaction scores have increased 6%, Black Box social net sentiment is up 17% and negative guest complaints are at an all-time low, declining 29% versus the second quarter last year.

Providing a great guest experience to our guests remains the single most important element to improving the performance of our business and is the largest contributing factor to deliver growth in guest traffic counts.

It requires a relentless pursuit of executing the fundamentals at every level, which our teams are dedicated to pushing toward every day on every shift for every guest, and we are truly proud of the significant progress that we are making on this front.

Following the improvements we made last year, 2024 is about putting Red Robin back on the map in the minds of consumers, communicating value and harnessing the power of our relaunched loyalty program to drive guest engagement. Starting in March, we rolled out our new marketing plan.

As part of the plan, we tested multiple applications to understand the response curve for increased spending levels of targeted digital media, including the use of selective traditional TV. We began by promoting the competitive breadth and value of our 30 bottomless menu items, far more than only the bottomless steak fries many guests know us for.

We highlighted our upgraded high-quality ingredients and reintroduced fun to our iconic brand. We improved guest engagement and grew our loyalty members with a focus on new member sign-ups and communicating the great benefits of being a Red Robin fan.

In May, we launched our Leave Room for Fun campaign that was developed to take back our ownable position as the most engaging and fun experience in casual dining, while continuing to emphasize the quality transformation of our menu and competitive value offerings.

This included contemporary new imagery, putting more humanity into our marketing, injected a more positive and confident tone, while igniting our guests' inner child with connective new ads like Fun Guy, which garnered over 1.5 million views in the first week in market.

We incorporated initial learnings and work to optimize our media mix by doubling down on social and digital streaming, TV and video, including platforms such as Amazon, Hulu and other strong partners. This targeted approach was intended to drive greater efficiency and reach among our core target guests.

The test groups showcased that increased ad spend drives incremental traffic at Red Robin and in some markets delivered results better than the casual dining segment based in Black Box data.

In each of the two test groups, our team was able to deliver a benchmark 2% traffic lift. While it was appropriate and necessary to test higher spending levels, we also executed a test with more efficient tactics and spending levels. Our team did a great job to deliver the same 2% lift with strategies that invested approximately \$400 per restaurant per week rather than the \$3,000 per restaurant per week in the higher investment group.

This efficiency was achieved with a mix of digital, social and owned and earned channels to reach the right guests at the right time. As we look towards the remainder of 2024 and into 2025, these learnings give us great confidence in our ability to drive traffic, while at the same time rationalizing our spending levels with these efficient tactics.

Turning to loyalty. In May, we relaunched our revamped Red Robin Royalty Program. Under our new program, guests earn one point for every dollar spent. After earning 100 points, guests receive a \$10 reward, good for both dine-in as well as online orders. This allows guests to earn a reward much faster than the previous program and encourages more frequent visitation to capitalize on their earned rewards.

The 90-day redemption window for earned rewards provides an incentive for return visits. Guest response during the first 10 weeks of this program has exceeded our expectations. Our operators have done a great job engaging with guests and driving enrollment in the program.

Since the launch of the new program, guest sign-ups have increased from 60,000 to 90,000 per four week financial period prior to the loyalty launch to an average of 160,000 sets. These sign-ups are an increase of 156% versus the same time frame in 2023.

130,000 new members signed up and completed a transaction in the last four weeks of the second quarter, up 240% from the same period last year. New loyalty members are visiting more frequently. The average time until a second visit has been reduced from 51 days to 39 days.

Additionally, the number of members transacting two times or more has increased 12%, with the largest increase in members typically visiting two to five times per year. Loyalty guests typically spend more than non-loyalty members. The total check for our loyalty guests has increased to approximately \$4.40 greater than the non-loyalty guests from approximately \$2.90 previously.

And we have demonstrated good early success reactivating lapsed members to come and experience the upgrades we have made in food and hospitality. In addition, we can now utilize our new customer data capability to drive future visitation with more personalized communication to compel the next visit.

As we continue to cultivate our relationship with new and existing guests alike, we're adding layers of gamification, surprise and delight and even exclusive access to meet new menu items through Royalty 2.0. With the success of the launch of the new program, our total membership is over 14.2 million guests as of the end of second quarter, and we expect that figure will continue to grow.

We are pleased with the launch and initial traction of this new loyalty program and fully expect it to be a key driver of traffic for our future business. Overall, I'm very proud of the progress we have made against our North Star plan as our guest experience is substantially improved.

We've become more efficient and effective with how we deploy our marketing dollars, and we are in the early stages of utilizing our new loyalty program to be a driver of traffic and sales growth going forward.

With that, I'll turn the call over to Todd to walk you through the financial performance before I provide some closing remarks.

Todd Wilson

Thank you, G.J., and good afternoon, everyone. In the second quarter, total revenues were \$300.2 million versus \$298.6 million in the second quarter of fiscal 2023. Comparable restaurant revenue increased 1.4%, benefiting 220 basis points from revenue recognized related to the relaunch of our loyalty program.

Excluding the benefit of the loyalty related revenue recognition, our comparable restaurant revenue decreased 0.8%. The decline was driven by results in the second half of the quarter related to the broad based consumer slowdown experienced across the industry.

Comparable restaurant revenue in the first six weeks of the quarter increased 0.4%, then declined 1.9% in the final six weeks. Now in the third quarter, we've seen comparable restaurant revenue results in each of the past three weeks return to marginally positive.

Restaurant level operating profit as a percentage of restaurant revenue was 11.8%, a decrease of 80 basis points compared to the second quarter of 2023. The decline was primarily driven by lower guest counts and our strategic investments in labor and food quality to support hospitality and the guest experience.

This investment is the foundation for improved financial performance and we expect it to drive guests back into our restaurants and increase profitability. We experienced greater inflation than we expected in our commodity basket, particularly ground beef, chicken and produce. Additionally, labor costs are elevated relative to our expectation, led by two primary factors.

First, our newer leaders and team members are working to build mastery and efficiency in their roles, resulting in a near-term increase in labor costs that we expect to normalize in time. Second, we experienced a spike in high dollar health insurance claims well above the actuarial norm that totaled approximately \$1.5 million in the second quarter.

Our claims experienced to-date in the third quarter indicates a return to the actuarial expectation. Our team continues to do great work pursuing and capturing thoughtful cost savings that maintain our commitment of parity or better for the guest experience.

In the second quarter, we launched key new initiatives, including a reboot of our actual versus theoretical food cost measurements and reporting to assist our operators in identifying and reducing food waste. We also continue to pursue opportunities to consolidate vendors and use our scale to our advantage across multiple categories, including proteins.

General and administrative costs were \$16.6 million as compared to \$20.1 million in the second quarter of 2023. The reduction results primarily from reduced accrual of incentive compensation expenses.

Selling expenses were \$12 million an increase versus the prior year of \$5.3 million. The increase results primarily from an increase in guest facing marketing activity and related production costs and the marketing spend optimization testing we completed during the quarter.

Adjusted EBITDA was \$11.8 million in the second quarter of 2024. The \$3.6 million decline versus the second quarter of 2023 was driven by lower guest counts, occupancy costs related to our sale leaseback transactions and the increased health insurance costs I referenced earlier.

We ended the second quarter with \$23.1 million of cash and cash equivalents, \$8 million of restricted cash and \$25 million available borrowing capacity under our revolving line of credit. At quarter-end, our outstanding principal balance under our credit agreement was \$167.9 million.

Turning now to our 2024 guidance. We have updated our guidance to the following. Total revenue of approximately \$1.25 billion, restaurant level operating profit of 11.0% to 11.5%, inclusive of investments in the guest experience and rent expenses related to the sale leaseback transactions.

Adjusted EBITDA of \$40 million to \$45 million. As a reminder, as is historical practice for Red Robin, our reported adjusted EBITDA and our adjusted EBITDA guidance do not add back non-cash stock based compensation expenses, which we estimate will total approximately \$7 million in 2024.

Capital expenditures of \$25 million to \$30 million. The largest contributing factor to our guidance reduction is a change in our underlying assumption for the casual dining and street traffic for the remainder of the year.

While in each of the most recent three weeks traffic trends have improved and comparable restaurant sales have been marginally positive, we are approaching our revised guidance cautiously given the choppiness in the consumer environment.

We also updated our expectations for commodity inflation, labor costs and various other inputs. Our expectations for the third and fourth quarter individually are as follows. In the third quarter, we anticipate comparable restaurant traffic will decline approximately 5%, in line with recent trends and PPA will increase approximately 5%.

Our PPA expectation includes the benefit of what we expect as our final menu increase of 2024 in mid-September. From a profitability perspective, the third quarter typically represents the low point of our seasonal guest traffic and sales volumes, resulting in our expectation for minimal adjusted EBITDA contribution.

In the fourth quarter, we anticipate comparable restaurant traffic will decline 4% to 5% and PPA will increase 7% to 8%. The increase in PPA results from the September menu increase being effective for the full fourth quarter. This pricing action is preemptive to legislated labor increases that are effective in many states on January 1st and we anticipate PPA increases will then moderate through 2025.

From a profitability perspective, seasonal guest traffic and sales volumes typically increase in the holiday season, resulting in greater adjusted EBITDA contribution in the fourth quarter relative to third.

We expect total selling expenses of approximately \$38 million in 2024, driven by our reoptimized allocation of funds based on our efficiency and effectiveness learnings from the first half of the year. We currently expect these learnings will result in selling expenses of approximately \$30 million in 2025.

We expect G&A expenses will be approximately \$81 million in 2024, reduced from our initial expectations due to anticipated lower incentive compensation expenses and other cost savings measures. Finally, as we have shared previously, our fiscal calendar reverts to a 52 week fiscal year in 2024 as compared to 53 weeks in 2023.

We expect this will result in an approximate \$25 million reduction in restaurant sales and \$3 million reduction in adjusted EBITDA as compared to 2023. Now moving to our credit agreement. On August 21st, we executed an amendment to the credit agreement.

Most notably and among other items, the amendment increases our compliance leverage ratios and expands the revolver from \$25 million to \$40 million from the third quarter of fiscal 2024 through the third quarter of fiscal 2025.

The additional financial flexibility supports our efforts executing the North Star plan. We appreciate the great partnership from our lender group led by Fortress and thank you to everyone who contributed to completing this work.

With that, I will turn the call back over to G.J.

G.J. Hart

Thank you, Todd. While we expect it may be a dynamic consumer environment in the near-term, our teams are focused on executing our strategic plan each and every day to position Red Robin for long-term success. We see measurable proof points from our guests that the initiatives we put in place over the past 20 months have strengthened our operations, improved our food offerings and created an experience guests enjoy.

We are committed to taking prudent action to rationalize our cost structure through the changes in selling and G&A expenses, and we've created helpful financial flexibility with our amended credit agreement. As we look to the coming years, we believe 2024 will be a trough for our financial performance that then rebounds on the back of these efforts in 2025 and beyond.

Collectively, the actions we are taking and the great feedback we continue to receive from guests and team members give us great confidence we are on the path to long-term success for this beloved brand.

We are now happy to take questions. So, operator, please open up the lines.

Question-and-Answer Session

Operator

Certainly. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question is coming from Jeremy Hamblin from Craig Hallum. Your line is now live.

Jeremy Hamblin

Good evening. Thanks for taking the questions. So I wanted to just start with the change in the EBITDA guide, lowered \$20 million to \$25 million. And just understand the components of that change versus what you expected at the end of May as your revenue guide is only really at the lower end of your prior range. So, just if your restaurant level margins are going to be 150 to 200 basis points lower, could you help us kind of break down the component parts to get to that 150 to 200 basis point change?

Todd Wilson

Hey, Jeremy, Todd here. Happy to walk through that. I think a couple of headlines that bridge that for you. First, as you alluded to, if you go back to our guidance at the end of the prior quarter, we thought we saw a path and frankly we were on the path to returning to positive traffic in the third and the fourth quarters. And with the shift that we saw in the consumer environment in the middle of the second quarter, it felt right given the trends that we were seeing to pair that back. And so I talked about the traffic in our Q3 and Q4 guide in a down 4% to 5% range. So it's a roughly 6% reduction in our traffic expectation in the balance of the year. That's about \$15 million of the EBITDA change. The other two components I call out, we saw some of the impact in Q2. One is on commodities. Ground beef, chicken and produce have run higher in terms of cost and inflation than we previously expected. That's about \$3 million and we've baked in about \$3 million for some of the labor pressures that we saw and that I talked to in Q2 as well. And so there's obviously other puts and takes within the model, but those are the big three in terms of the EBITDA change.

Jeremy Hamblin

So just to clarify, the traffic reduction is which is the majority of the difference that you're seeing that's kind of spread evenly across your line items or it's more deleveraging in occupancy and other operating expenses?

Todd Wilson

It's certainly deleveraging in those fixed costs as you alluded to. Just to make sure I was clear on that, in our prior guidance, we had traffic of roughly plus 1% in the balance of the year and we're now seeing a more current trend of down 4% to 5%. We certainly we commented on it in the prepared remarks. We certainly take an approach that we recognize it's obviously a big change. Our thought process is if we're going to take the number down we only want to do it once and then work our way back up. So we certainly hope that, that proves to be conservative. But you certainly are seeing the deleveraging in the restaurant level profits from the fixed costs as you alluded to.

Jeremy Hamblin

Got it. That's helpful. And then just want to understand in terms of the G&A expense on a go-forward basis, as you think about that moving into 2025, how would you assess where you expect that level to be on a continuing basis, assuming that your restaurant base is roughly the same as where it's going to end '24?

Todd Wilson

Yes, Jeremy, as we think about it right now and obviously we'll come back with more holistic '25 guidance later this year. But as we think about it right now, if you rewind, we came into this year anticipating roughly \$90 million of expense. Now some of the favorability in this year's number is due to incentive compensation that we would expect to reload next year so to speak. But we see more like an \$85 million run rate going forward into 2025.

Jeremy Hamblin

Got it. That's helpful. And then just last one is really on the kind of the consumer response here in the loyalty program. Definitely been a shift, I think, across the restaurant category to more value based options. And just wanted to get an understanding of how you're thinking about pivoting potentially the lineup of offerings that you have or potentially LTOs as we progress through the rest of this year?

G.J. Hart

Yes. Hey, Jeremy, it's G.J. Well, as we've been going through this year, the real focus around bottomless and 30 bottomless items and that's really picked up steam given people really only knew us for bottomless fries. So that's number one. Number two, the Tavern Burger, which is a lower priced option on our menu today. We've been featuring it and it's been getting quite the traction as well. And then we are sporadically we came off of a lot of deep discounting that the company was doing prior to my arrival here and trying to get off of that. And we've done a good job doing that. And then to your point about value now, really focusing on those two items. In addition to that, trying to find some other times like in the lower or the earlier part of the week where we do lower volumes, can we run some promotional activity? We run a \$10 Tuesday that we just rolled out that is doing very well for us. We're doing some add-on promotional activity called Monster Mondays for shakes, margaritas and that's doing well. So we're sporadically putting that in there. But what we don't want to do is go back to the deep discounting. We think that we are offering quite the value. In fact our value scores are good at this point. And we are seeing traction as Todd and I pointed out in the comments earlier that we are seeing a nice lift. So we feel like we're in the right direction and feel like we really are screaming value.

Jeremy Hamblin

Got it. Thanks for taking the questions. Best wishes.

Todd Wilson

Thanks, Jeremy.

Operator

Thank you. Next question is coming from Todd Brooks from The Benchmark Company. Your line is now live.

Todd Brooks

Hey, thanks for taking my questions. First on loyalty, if we can. It sounds like the relaunch outstripped your expectations. And G.J., you've talked about loyalty being the key driver of the last piece of the traffic recovery that the brand should experience based on all the work that you've done over the past 18 months. I know we've got a macro level overwhelm of some of the benefits in the near-term. But as you think about the early performance of loyalty, just what type of contribution do you see that program being to driving traffic as you start to get out to fiscal '25 and beyond?

G.J. Hart

Yes. Hey, Todd. Is your question relative to how much of a traffic driver compared to the overall business or is it what you are talking about?

Todd Brooks

Yes. I'm trying to think about, okay, if there's going to be a return to traffic and you've seen improvement in really every metric operationally and satisfaction wise. If I start to think about Red Robin specific traffic drivers in '25 versus industry, what do you see that delta being given that the program seems to be outperforming even your initial expectations?

G.J. Hart

Yes. So, yes, you are right. It is definitely outpacing what we would have expected. We are very, very pleased with that. We are seeing, as we pointed out, with the kind of membership, the new members with the 130,000 new members signed up that transacted in the last four weeks, that's telling us this is going to be a big portion of our guest recovery perspective. But short of putting a number on that, Todd, I will tell you something else is that we've been going out to lapsed users as well and we're seeing phenomenal take back on that as well coming back into the restaurants. And, of course, with our overall guest satisfaction scores going up like they have, we fully anticipate that that's going to continue to drive guest counts as well. And then of course the spend, the overall check is higher as we pointed out, significantly higher. We're very pleased with that. So for all those reasons, I would tell you that even as bullish as I was before that I'm more bullish now in terms of how it drives our business. So I'm not giving you the exact because I don't really have the number, but we fully anticipate it to lead the way.

Todd Brooks

Great. Thanks, G.J. And then, Todd, a follow-up for you and I'll jump back in queue. Can you walk us through the thinking and the process behind seeking out the amendment? My sense was that it may be out of like a focus on real kind of security around liquidity versus need? And can you give us any color, I know you went from a variable pricing grid to a more SOFR plus type of model here. Just the cost of the amendment and maybe where this pushes us out now for a longer term rework to the credit facility? Thanks.

Todd Wilson

Yes. Todd, I appreciate the questions. The thinking was a couple of things drove it. Obviously, we saw the change in the consumer in the middle of the second quarter. And I'm sure you have, but for everyone, the credit agreement as it was structured when we entered into it back in 2022 had progressive step downs in the compliance leverage ratios. And I would point out, we were fully in compliance at the end of the second quarter. Obviously, we just executed the amendment yesterday, but it was really those step downs that as we looked forward, we felt like to make sure that we have the time and the flexibility to let the North Star plan really play out. We wanted to create some room to maneuver there. And so this creates additional room out through the third quarter of 2025, both on covenants and on the revolver. And so that's really what spurred it, to really just being proactive to look forward and making sure that we can operate the business and execute the overall plan.

Todd Brooks

And the cost of the --

Todd Wilson

Forgive me as part -- I'm sorry, Todd?

Todd Brooks

Just the cost of the amendment as far as rates go and how it's changing maybe our timing of reworking the full agreement?

Todd Wilson

Yes. A few comments there, Todd. The interest rate does take a tick up. It's always been a variable rate. It was previously plus 650 basis points. This does move us to plus 750, but we felt like that was a market price for the flexibility that we were looking for. In terms of the refinance that we've talked about in the past. We thought of a few things there. One, while there is a tick up in the rate. We are optimistic that we get some relief in terms of overall interest rates in the base rate and that, that helps to defray some of that cost. And secondary, realistically, the current credit agreement matures in 2027. And so natural timing both for the improvement in the business that we expect over the coming year as well as getting ahead of that maturity, we would expect to be doing something next year anyway. And so we felt like it was a short-term price to pay for the additional flexibility.

Todd Brooks

Okay, great. Thank you both.

Operator

Thank you. Next question today is coming from Alex Slagle from Jefferies. Your line is now live.

Alexander Slagle

All right. Thanks. Hey guys.

Todd Wilson

Hey, Alex.

Alexander Slagle

Wanted to just kind of ask, I guess, just all the upgrades you've made to the guest experience. And I mean I realize it's a bit of a stew with so many components. But what do you think to-date like what have been the biggest needle movers for you? And then just sort of how to think about the lag before we see these improved metrics translate into traffic in a bigger way? And I know every turnaround sort of different, so it's hard to point to past experience. But it sounds like you're expecting 2025 to be a bit better where things come together, but maybe you can kind of talk through that a little bit.

G.J. Hart

Sure. So first of all, I would say, that the lag I want to just comment on. We saw as we pointed out in the first part of the second quarter comps being marginally positive. And then it seemed like around July the 5th because we had a good strong July 4th. July the 5th things sort of fell apart there for a while in the industry. And remember all this time as we pointed out in our comments, we continue to make great improvements. In fact, we're now continuing to make better improvements against the industry. And so things went a little bit south there from July 5th until really the end of July. And since that time now we're seeing an uptick from even beginning so of that quarter. So and I think that's as a reaction of us really continuing to stay the course. And to this first part of your question was around what are the key drivers. I would tell you, there's a whole bunch of them that we pointed out in terms of metrics. But I would tell you that number one is manager table visits, manager presence, manager being out in the dining room and really helping us control the flow of people, which then secondly goes to the host stand in terms of false waits that are basically nonexistent. And we continue to see people in a very orderly fashion and they're happy with that. So those two are sort of tied together. The second one is our execution on food on multiple fronts, the quality of delivery of the food and secondly, the timing of the food. So we're getting food out on time and the quality is there. As we noticed on Technomic, we continue to do very well against the industry. We're above the industry in terms of overall food quality, so our guests tell us. So we feel like those are the key drivers here that will really move the needle. And I'd just go back to the point that, look, we're cautiously optimistic as we go into the third and fourth quarter here with what we're seeing. But as you can imagine, I'm sure we're not the only ones that from July 5th to July 31st, it was sort of like, oh shit, excuse my language, what's happening to this business? So it's changed again. So we're feeling like what we're doing is right and we feel like that the overall reaction is starting to gain traction here. And these things do take time. It's not like we've been at this forever and we do feel like that things are taking hold. Hopefully that's helpful.

Alexander Slagle

Yes, that is helpful and it has been a bit of whiplash for many out there. So, good managing through it. And Todd, I guess efforts on just removing costs and complexity and you've highlighted the targeted savings for 2024 and I know you're always looking for opportunities, but where do you think you'll find the next opportunity out there? Are there certain processes or it still look too complex or other big areas of inefficiency that you want to dig into?

Todd Wilson

Yes, Alex. I highlighted the actual versus theoretical A versus T. I'm sure you know that term. We've always had that system. If I'm honest, I don't know that it was as fine-tuned and that it was as helpful to our operators as it needs to be. And that's the work that the operations team, our supply chain team has done over the last six months to really refine that. So we think that's a pretty big opportunity. I also comment on the supply chain and just using our scale, but whether it's consolidating vendors, we've talked in the past about our distribution contract that comes up for renewal next year. We've done a really good job in my opinion capturing the savings. But I think more importantly to your question, as we look forward, there's still plenty in front of us. That well has plenty to continue to produce and the team's done a great job capturing those things.

G.J. Hart

I would add to Alex just one more thing is that and Todd commented on this. From a labor perspective, as you know, we've added a lot of investment back into labor. Well, getting those folks from managers all the way down to hourly team members, both front and back, getting them trained, getting them used to executing at the level that we require and get more proficient at it, that's going to help drive our overall labor costs to be more efficient and it will drive labor costs down. And so we feel like we're better staffed than we've been in a long, long time. We feel like we've got much better quality staff and that, that will also pay dividends into 2025.

Alexander Slagle

Good point. Thank you.

Operator

Thank you. Next question today is coming from Andrew Wolf from CL King. Your line is now live.

Andrew Wolf

Thanks. Good afternoon. I follow-up I want to follow-up to the labor question. And let me just ask, I mean, you staffed up and trained up and yet as the industry environment guests aren't coming to the degree you expected. So how do you kind of philosophically think about taking care of the financials for company as levered as you guys are and making sure you don't kind of backslide on labor? Because I think it's clearly obviously things change in the environment, so I assume you're tightening up labor a little. But to your point, you're now got some trained people who can actually deliver what you want to the guests. So just wondering how you your puts and takes on that and how much risk you're willing to take on losing good staff versus the financial side of things?

G.J. Hart

Yes, sure. I'll give a shot at that as best as I can here. When I said that we fully expect 25% to get better because our folks are trained, remember one thing, this industry still has 100% plus turnover. Even though our turnover continues to come down and we're doing I think really well against the industry from a turnover perspective, you're constantly training. So it's really incumbent upon our training teams, our trade team center restaurants as well as our managers. And the managers, all that we put in place, remember, there's over 300 kitchen managers in 2023 and now into 2024 that we've added on. It takes a while before they get up to speed and that's really where we're going to start to see that leverage. I've been at this a long time and I'll just tell you that at the end of the day you have to deliver on the promise to our guests on food quality and execution on hospitality. It takes a certain amount of investment to do that and the company had really, as you know, and we've talked about had declined on both of those and that investment we've put back in. Every metric that we delivered messages on today are positive signs of a growing business that traffic is going to follow. And again as I pointed out that during that short window mid-July to the end of July, we really started to see the uplift and now we're seeing that again. Hopefully that will continue. And so we feel like staying the course. Every metric is positive that as we get better and better at this, that it's the right business decision. Now, look, at the end of the day, if the world fell apart, of course, we're going to think about the world differently. But right now, I've been doing this a long time, I think we're doing the right things. And if I wasn't seeing the signals like I am with just things like overall satisfaction scores, our team member engagement year-over-year is just phenomenal improvements. So we've got a good culture out there. We've got people feeling generally good about what we're doing. They're the ones executing it. Our guests are responding with all the positive metrics that we're seeing. So we think we're doing the right thing for the shareholders and for the brand long-term.

Andrew Wolf

Okay. Thank you. Appreciate that explanation. And just this might be for you Todd kind of a housekeeping. The 2.2%, the comp benefit from the loyalty change. Is that in the actual sales of the restaurant line? Is that in the \$6 million plus number in sales?

Todd Wilson

Yes, Andy, you're interpreting that right. The rationale that writer often has always had, I think this makes sense. When the revenue is deferred, it comes out of that line so to speak. And so when there is breakage, it goes back into that restaurant revenue line.

Andrew Wolf

Okay. So it's a pure flow through down to the profits?

Todd Wilson

Correct. That's the right way to think about it.

Andrew Wolf

Okay. Thank you.

Operator

Thank you. Next question is coming from Mark Smith from Lake Street Capital. Your line is now live.

Mark Smith

Hi, guys. First question for me, just housekeeping. Todd, can you just walk us through again the kind of outlook on selling expense this year? And I think you gave some 2025 outlook as well.

Todd Wilson

Yes, Mark. We're still expecting to get right around \$38 million on selling. Obviously that's if you look at the first half of the year and the second half of the year, it's a step down in terms of run rate in the second half of the year, but that's supported by what G.J. walked through in the prepared remarks on the efficiency that the marketing team was able to achieve. So think of \$38 million in terms of total year. And as we think about it now, we think that's probably split pretty evenly between Q3 and Q4. Building though on that, we did share a perspective on 2025 that again we'll fine tune this as we get closer to next year. But we see a path to \$30 million next year again based on those efficiency learnings that give us confidence that we can still drive traffic based on what we proved in the first half of the year but at a much more efficient cost.

Mark Smith

Okay. And my second question maybe fits in with that as well. Just as we look at the competitive environment, maybe other casual diners hitting similar price points, especially in kind of Burger. Are there still levers that you can pull within kind of that marketing to drive that traffic? And kind of how are you telling the story and can continue to tell that story to really differentiate yourselves from peers that are maybe hitting similar price points?

G.J. Hart

Hey, Mark, well, one of the things that we have been working on and talking about is being much more targeted in our communication to our guests. And so as we revamp the loyalty platform, we now have a better way to communicate on a regular basis to our loyalty members what's going on, what are the latest LTOs, what's the surprise and the like on and on and on. In fact we longer term want to be very personalized knowing what they how they dine with us and what their expectations are and we could be much more targeted. And that's a very efficient way to be able to do it. We continue to be involved in the communities. Red Robin was built on being a local store marketer and we are gaining really, really good traction by being able to communicate. Granted, it's a longer term view, but this company has done that well for many, many years, went away from it, we brought it back and we are seeing great traction there. And of course as we pointed out in our different media tests, this targeted approach of social, digital and search along with LSM and PR, let's not forget PR because we are getting a lot of PR these days are all good ways to be able to move the business forward. And so with the tests we feel really good about being able to do that. And again that's the way we are thinking about it today. We will continue to inform that as we move forward depending on what we are seeing right now and again point out the fact that we are feeling good about the direction today of what we are seeing here in the near-term.

Mark Smith

Excellent. Thank you.

Operator

Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

G.J. Hart

Well, thank you guys very much for being with us tonight, and we look forward to next quarter and reporting out to you and appreciate your time today. Thank you.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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