

Seeking Alpha^α

Transcripts

Consumer

Red Robin Gourmet Burgers, Inc. (RRGB) Q2 2025 Earnings Call Transcript

Aug. 13, 2025 7:28 PM ET | **Red Robin Gourmet Burgers, Inc. (RRGB) Stock** | RRGB

**SA Transcripts**

154.94K Followers

Q2: 2025-08-13 Earnings Summary

Insights



EPS of \$0.26 **beats by \$0.32** | Revenue of \$283.70M (-5.48% Y/Y) **beats by \$4.54M**

Red Robin Gourmet Burgers, Inc. (NASDAQ:[RRGB](#)) Q2 2025 Earnings Conference Call
August 13, 2025 4:30 PM ET

Company Participants

David A. Pace - President, CEO & Director

Todd Wilson - Executive VP & CFO

Conference Call Participants

Alexander Russell Slagle - Jefferies LLC, Research Division

Jeremy Scott Hamblin - Craig-Hallum Capital Group LLC, Research Division

Mark Eric Smith - Lake Street Capital Markets, LLC, Research Division

Todd Morrison Brooks - The Benchmark Company, LLC, Research Division

Operator

Good afternoon, everyone, and welcome to the Red Robin Gourmet Burgers, Inc. Second 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 earnings release. The company has posted its second quarter 2025 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, Dave Pace.

David A. Pace

Good afternoon, everyone, and thank you for your interest in Red Robin. Since stepping in as CEO in early Q2, challenges facing our business have come further into focus. At the core, it's imperative that we returned the business to sustained growth and traffic in same-store sales. As we assess the opportunities, we unveiled our "First Choice" Plan last month. and our team has been busy executing against this bold plan to position Red Robin for long-term success. While our top line performance during the second quarter is not yet reflective of what we believe Red Robin is capable of, we strongly believe the strategy we've put in place will turn the ship around and we're moving quickly to put all aspects of our plan in motion.

Today, I'll walk you through where our focus has been in the first 30 days of the implementation of our "First Choice" Plan, along with addressing some of the highlights from our second quarter. To quickly recap, our "First Choice" Plan consists of the following: first, Hold Serve, protect and build on the foundations established under the North Star plan; second, Drive Traffic, creatively engaged with guests and inspire visitation; third, Find Money, manage profits, expenses and assets to reduce debt and allow for critical reinvestments; fourth, Fix Restaurants, invest in the physical estate to improve the overall dining experience; and fifth, Win Together, create a high-performance environment that attracts and retains the best talent in the industry.

Through this plan, our goal is threefold: to make Red Robin the first choice for guests searching for a differentiated restaurant experience; team members looking for a great place to work; and investors seeking reliable returns on their investments. With a clear plan in place, we've been hard at work executing the "First Choice" Plan and are seeing positive early results, creating even greater conviction in our long-term plan to capture these opportunities. First, let's talk about Hold Serve. As we spoke to on our last call, we were very pleased with both level of labor efficiency our operators achieved in the first quarter and how fast they achieved it, given that we expected it to accelerate more gradually through 2025. As we formulated the "First Choice" Plan, we made Hold Serve first pillar in the plan to focus our operators on maintaining this level of execution going forward. The great news is that in Q2, our operators continue to do what they do best, run great restaurants and deliver great food and service. The increased efficiency they achieved in the second quarter drove a 270 basis point improvement year-over-year in restaurant level operating profit margin entirely driven by 300 basis points of labor improvements. At the same time, our operations team has been able to maintain our guest satisfaction scores at or above previous levels.

Turning to our Drive Traffic initiative. As we think about our path back to positive traffic growth, we know that we need to build sustainable traffic so that we are not overly reliant on LPOs or aggressive discounting for long-term success while still being responsive to the marketplace and the need states of our guests. We know that it will not be any single initiative that drives our success. Instead, we're building traffic-driving layers. We believe getting these layers to work in unison will be the key to our success in the long term. The first step in building these layers was to address our weak competitive positioning and price point value offers. As we survey the competitive landscape, it was abundantly clear that price pointed value offerings under \$10 are essential to help break through the noise to drive trial and consideration in today's environment. To address this, on July 21, we launched the Red Robin Big Yummm Burger Deal, which includes a Red's Double Tavern burger, a Bottomless Side and a Bottomless Beverage starting at \$9.99. In addition, the Big Yummm Deal has been thoughtfully structured to offer trade-up opportunities like extra burger patties, bacon, avocado or upgraded sides and beverages designed to help mitigate check pressure while still delivering strong value to

guests. Now it's still early days, but we're encouraged that the Big Yummm has been successful in improving traffic relative to our Q2 exit rate, which started the third quarter at an approximate 4% decline to date. At the same time, we're capturing significant insights that will feed into the next phase of our marketing approach.

Our second Traffic Driving layer will be a state-of-the-art data-driven approach that we expect will begin to roll out late in Q3. As we've mentioned before, this approach incorporates micro targeting capabilities that we expect will allow us to engage guests more personally, precisely and efficiently than traditional broad-based messaging and other performance marketing capabilities. This unique and innovative approach leverages a proprietary mix of tools, analysis and competitive strategy to understand guest decision-making behaviors, enabling us to deliver deeply personalized tactics to place Red Robin as the first choice in our guest consideration set.

Effectively competing with larger, more resourced brands in our space will not be successful by just mirroring their strategies. Our approach will leverage these proprietary analytics that will help level the playing field at the restaurant level in a highly efficient manner. While we intend to take a modest step up in our marketing spend in the second half of the year, we're maintaining our adjusted EBITDA guidance of \$60 million to \$65 million as we balance traffic growth, investments with disciplined profitability management. I want to be clear, we don't expect traffic trends to turn overnight. But we're building the foundation for sustainable, profitable growth through this combination of immediate value offerings and long-term analytical capabilities that we expect will position Red Robin to compete more effectively for guest consideration and frequency.

Next, let me update you on our Find Money initiative. As Todd will speak to in a moment, our operating results in terms of EBITDA generation exceeded our expectations in the first half of the year, giving us incremental capital to address our most pressing challenges. In addition, the corporate efficiency initiatives that we spoke to on our last call have been completed, and we continue to expect to see a \$3 million to \$4 million benefit in G&A in 2025, with the full \$10 million run rate expected to be achieved in 2026. While we're maintaining our current EBITDA guidance for the year, some of the upside from the first half of the year will be invested in key projects that we anticipate will be the drivers of our future top line growth success, including investments in marketing and critical deferred maintenance that I'll discuss in a moment.

Turning to refranchising. Since we launched our outreach efforts with Brookwood Associates last month, we've been pleased with the initial reception and conversations we're having with both existing and potential new franchisees. The level of interest we have seen only underscores my confidence in the relevance of our iconic brand and showcases the expectation that Red Robin will succeed in the long term. This will be a thoughtful and planful process, and we intend to provide further details on our November earnings call as discussions progress.

Next, I want to touch on our Fix Restaurants effort. Investments and upgrades we've made over the past 2 years in food and hospitality have elevated the guest experience. The next leg of this journey is to fix our restaurants to better align the atmosphere with modern-day standards and achieve parity or better with the broader casual dining industry. To achieve this, we plan to invest in critical deferred maintenance, including flooring [updates], internal finishings, furniture repairs and external improvements like paint, lighting and landscaping that directly impact guest perceptions and their experience. The pathway to address the entire system will take time but we're taking a strategic approach to piloting refreshes across approximately 20 restaurants in 4 markets ahead of our "First Choice" marketing launch later this year. This will allow us to understand the impact of these packages and fine-tune where to invest additional capital ahead of a more fulsome company-wide rollout. While we're in the very early stages of this initiative, I'm pleased with the image that our refreshed restaurants will present and believe it will set a more inviting foundation to complement our traffic growth objectives and actions.

As I alluded to earlier, we're able to fund and accelerate these initial investments due to the EBITDA upside we saw in the first half of the year. Going forward, we will judiciously meter out further investments as funds become available through the remainder of the year.

Lastly, I want to talk about the Win Together plank of our strategy. As I've visited restaurants over the last 3 months, I heard team members tell me that they knew what we needed to do, but they needed help to do it. They wanted a value offering to be able to compete in the marketplace. They wanted to be able to fix their restaurants to address long-standing maintenance and repair issues, and they wanted technology and tools within the restaurant to help them execute more efficiently to deliver the improved operating performance that they are being asked to deliver. As we drive our guest-centric culture, we looked at each of these problems through the lens of our guest perceptions and we've committed to giving our operators the tools and environment that they need to be successful. During the last 2 quarters, we completed multiple new technology implementations with more to come. By taking this approach and listening closely to the input from our restaurant teams, our operators see that we're in this together, and we're working by their sides to support them and give them the tools that they need to win and deliver the results that we are asking for. With that in mind, I want to extend a heartfelt thank you to the more than 20,000 team members we have across the country. Your dedication to outstanding hospitality every day is what drives our success and will be key to driving our future results. We're very pleased with the

profitability performance of the business in the second quarter, and I look forward to winning together as we continue to work to drive the comeback of this iconic brand.

In closing, while we're in the early stages of this transformation, we expect the combination of our improved operational efficiency, strategic marketing initiatives, updated physical estate and upcoming refranchising transactions will position us well to deliver on our commitment to make Red Robin the first choice for guests, team members and investors.

With that, Todd will now review our second quarter results.

Todd Wilson

Thank you, Dave, and good afternoon, everyone. In the second quarter, total revenues were \$283.7 million versus \$300.2 million in the second quarter of fiscal 2024. Comparable restaurant revenue decreased 3.2%, including a 4.4% increase in net menu price, offset by a 5.5% decline in guest traffic. Guest traffic trends decelerated through the quarter, which we attribute to further increases in competitive promotional activity and our intentionally reduced selling expenses as we developed our new marketing strategy. Restaurant-level operating profit as a percentage of restaurant revenue was 14.5%, an increase of 270 basis points compared to the second quarter of 2024. This was primarily driven by the continued success of our operations team delivering significant gains in labor efficiency.

General and administrative costs were \$17.4 million as compared to \$16.6 million in the second quarter of 2024.

Selling expenses were \$6.4 million, a decrease as compared to \$12 million in the second quarter of 2024. As I've mentioned earlier, we intentionally slowed some of our marketing activity during the quarter as we developed our new marketing strategy. While we believe this reduction contributed to our traffic decline as we move through the quarter, it was a necessary transition phase that now positions us to fully fund the "First Choice" Plan through the remainder of the year.

Adjusted EBITDA was \$22.4 million in the second quarter of 2025 and an increase of \$8.8 million versus the second quarter of 2024. Adjusted EBITDA increased due to cost efficiency gains, particularly in labor, the benefit of menu price increases and reduced selling expenses. We ended the quarter with \$24.4 million of cash and cash equivalents, \$9.2 million of restricted cash and \$37.5 million available borrowing capacity under our revolving line of credit.

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. Through the first 2 quarters, we repaid approximately \$20 million of debt resulting in an outstanding principal balance under the credit agreements at quarter end of \$169 million. The debt reduction, coupled with our significant gains in adjusted-EBITDA results in a net- debt to adjusted EBITDA ratio of approximately 2x leverage on a trailing 12-month basis. We believe this positions us well as we now begin to engage in substantive refinancing discussions with potential lending partners.

Turning to our outlook. We will now provide the following guidance for 2025. First, total revenue of approximately \$1.2 billion as compared to our prior guidance of \$1.21 billion to \$1.23 billion, this incorporates expectations that comparable restaurant sales will decline 3% to 4% in the remainder of the year, and we will end 2025 and with 386 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.

Finally, we now expect capital expenditures on the higher end of our prior guidance of approximately \$30 million, as we implement the "First Choice" Plan and launch investments to fix restaurants.

As we shared in July, and as Dave alluded to earlier, we expect to use EBITDA over delivery to invest back into our business, to drive traffic gains and address deferred maintenance in our restaurants. The strong profitability results from both the first and second quarter support our ability to accelerate our investments under the "First Choice" Plan. The added investments now include our guidance are as follows: first, we launched our Big Yummm promotion on July 21, delivering on our commitment to deliver value for the money to every guest. Initial guest reception has been strong, with approximately 9% of guests choosing the Big Yummm deal. Importantly, we have seen traffic trends improve across the system with the launch of Big Yummm as compared to trends exiting the second quarter. Our guidance incorporates current traffic trends and a negligible change in PPA versus last year as guests capitalize on the great value of this offer. With these baseline guidance assumptions, we expect this to be a near-term investment in the remainder of 2025 that will deliver benefits in traffic, sales and profitability in 2026 and beyond. I would note that any further traction in traffic in 2025 will reduce this near-term investment. Second, to accelerate the traffic curve, we are investing further in our marketing efforts and now expect selling expenses to total approximately \$32 million in 2025. We expect this additional investment to support messaging related to Big Yummm and our "First Choice" marketing initiative later this year. Third, we expect to address deferred maintenance

in approximately 20 pilot restaurants ahead of the "First Choice" marketing launch. This investment is designed to ensure our guests enjoy a great atmosphere that matches the upgrades we made previously to our food and hospitality. This is primarily a capital investment but likely will result in a limited increase to repair and maintenance expenses on the P&L. Fourth, we now expect G&A expense to total approximately \$80 million in 2025, reduced from our prior expectation of approximately \$87 million. The \$7 million reduction includes approximately \$3 million of cost favorability experienced in the first half of the year, and an additional \$4 million expected in the second half of 2025. I would note these totals include noncash stock-based compensation expense of approximately \$10 million in our original expectation and \$8 million in the current outlook.

Finally, we expect much of the G&A favorability in the second half of 2025 and will be absorbed by higher commodity costs, particularly in ground beef and poultry. Overall, we are very pleased with our progress, capturing cost efficiencies while delivering a great guest experience. We have made significant gains increasing restaurant level profitability, reducing debt and growing EBITDA. We are encouraged with the initial launch of Big Yummm, and we look forward to the great value at Red Robin, delivering growing guest counts.

In closing, I'd like to offer a tremendous thank you to our operators, our restaurant teams, and the team at the restaurant support center. This great progress in the business is a result of your hard work and and I'm excited for what's next.

Dave, I will now turn the call back to you.

David A. Pace

Thank you, Todd. As we look ahead, I want to reiterate our confidence in the path we've charted with the "First Choice" Plan. While we're still in the first inning of this transformation, the progress we've made in just the first 30 days gives me tremendous optimism about what lies ahead. More specifically, our operators have proven their ability to manage the middle of the P&L, which we expect will drive significant leverage when our traffic trends inflect. We are laying down the foundation of our traffic-driving initiatives, from a strategic value offering to a data-driven marketing strategy targeted to deliver sustainable and profitable growth going forward. Our refranchising initiative will provide additional capital to accelerate these investments while strengthening our balance sheet for the long term. And addressing our deferred maintenance will provide a more inviting environment to drive long-term sustainable traffic growth. I want to be clear about our commitment. We'll continue to execute with discipline, investing strategically in high ROI initiatives to drive sustainable traffic growth while maintaining our profitability targets. The turnaround of iconic brands takes time, but with the right strategy, the right team and the right focus on execution, I'm confident we will deliver on our promise to restore Red Robin to its rightful place in the industry. We're now happy to take your questions. So operator, please open up the lines. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] And the first question comes from Todd Brooks with the Benchmark Company.

Todd Morrison Brooks

Congrats on the strong results in the quarter.

David A. Pace

Thanks, Todd.

Todd Wilson

Thanks, Todd.

Todd Morrison Brooks

Wanted to explore this kind of journey to labor efficiency that your teams have been delivering against so strongly in the first half year. Where are we in that process, if you're setting kind of an optimal level that they're striving towards and maintaining the customer experience, which you obviously are to date, how much more meat is left on that bone? And as we look to the guidance for full year restaurant level operating margin being maintained at 12% to 13%. Can you decompose how much of that is the incremental value mix expectations with Big Yummm? And how much of that pressure comes from the higher commodity outlook, it sounds like you have for the second half?

David A. Pace

Yes. Thanks, Todd. It's Dave. I'll address the first half, and I'll let Todd talk about the construct of the balance of the year. I think, look, our operators have become much more disciplined in managing through a labor matrix. That involves being confident and more accurate in their forecasting and then scheduling against their forecasting, which they've done effectively. I would tell you that, that number has continued to come down consistently. It hasn't been choppy. It's kind of been steadily, although less accelerated than it was in the early part of the year, in declining. And so I think they're continuing to improve their ability to manage to that matrix. We haven't kind of articulated a specific target that we're trying to get to because we don't want to compromise the guest experience. If we see compromises in the guest experience, then we'll consider backing off a little bit. But Jesse and the team have done a terrific job, and we look for that to continue as long as they can.

Todd Wilson

Todd, I'll add in on as it relates to Big Yummm and the restaurant level margin guidance being maintained for the year, you heard it in the prepared remarks, both from Dave in terms of reinvesting over delivery as well as in some of my comments. But I'd say at a headline, what's embedded in our guidance for Big Yummm, we think it's about a 1% drag on restaurant level profitability in the balance of the year. That's obviously a trade-off that we're making to incent guests to come in and obviously then in turn, come back in future quarters and future years. But in the near term, that near-term investment that I talked about, we think it's about a 1% drag in the balance of the year. Call it roughly half of that is in labor. The other half is spread throughout the P&L, but that's the way we see it developing.

Todd Morrison Brooks

That's great. And just a follow-up on that, Todd, and then I'll hop back in queue. If we think about that drag, what sort of mix does it assume that Big Yummm reaches? And can we just -- for [indiscernible] purposes, I know you gave us pieces of it, but kind of disaggregate the price versus mix versus traffic components of Q2 and maybe the second half outlook.

Todd Wilson

Yes. So -- as far as the first part of your question, so what we see right now is that about 9% of guests are choosing the Big Yummm deal, which is from our lens is a great thing. It means people -- they see the promotion, they see the value in it and they're choosing that option. What that translates to is a 2% to 3% drag on PPA. And so that's part of what informed my comments. I think importantly, what I'd point out, Todd, is that 9% mix, that 2% to 3% drag on PPA, and the other component I'd call out as kind of a baseline assumption for our guidance. We said in the prepared remarks that traffic was down 4% so far to start the quarter. We certainly believe there's a path forward there. That's a baseline that we work up from as we get more messaging out on Big Yummm. We're certainly optimistic that we can build up from there. But it's really that experience that we've seen through the first, call it, 3 weeks of the Big Yummm, really the basis for our guidance. Todd, if there was a second part there, forgive me. Yes, go ahead.

Todd Morrison Brooks

No, no, we can catch it up on follow-up. No worries.

Operator

And your next question comes from Alex Slagle with Jefferies.

Alexander Russell Slagle

Congrats. I just wanted to think about some more actions you have sort of underway to further step up the guest experience, overall satisfaction levels like maybe some of the incremental actions you could take near term to really sort of start moving the needle. I know some of the things like remodels are further down the line, there are some technology improvements you mentioned, but just wanted to get a sense for what you're looking at in the back half to just further really make it a rewarding experience?

David A. Pace

Yes. I mean -- Alex, it's Dave. I think the best way I can answer that is it's going to be a holistic approach, which hopefully came through in the messaging is it's a little bit of everything. So we've got to move the ball ahead on the facilities. So we're going to be investing in the facilities and you're going to see that at varying levels. We're looking at varying levels across the system. Some need more than others. Some we want to address more than others. We want to kind of see what we can do from a potential standpoint. So we're getting after that. The technology piece, we've just finished a couple of implementations. We've got further implementations coming in terms of progress and decisions we have to make on handhelds and on kind of next-generation table tops and so forth. Those kinds of things are coming down the road. Next traffic-driving initiatives, we're going to put money against that. So it's -- I don't think we can point to any 1 thing, but it's tactics across the board. I don't know whether that helps you answer your question, but...

Alexander Russell Slagle

Yes. No. No, it's a hard one to answer anyway. On the marketing, I know it's early, just for us getting on board, but just kind of thinking about next steps for the "First Choice" marketing plan. I know you're gathering some data, getting ready to be able to leverage that. Maybe you could frame up the -- what the cadence of the incremental spend would look like? Does some of that show up in the 3Q? Or is it really kind of 4Q and into '26?

David A. Pace

I'll let Todd answer that one. I think -- go ahead, Todd.

Todd Wilson

Yes. Alex, I'd point to you here, if you think about the first half of the year, which really, as you know, we have that elongated in Q1, right? So we're really 7 periods into a 13-period year. In the first half of the year, we spent almost \$16 million in selling expense. In the back half of the year, we frankly expect about the same and pretty equally split between Q3 and Q4. The piece that I think

is interesting to call out there, though, is I called it out in the prepared remarks, on a year-over-year basis, Q2 was down almost \$6 million. And so that's part of what we felt like we saw in the traffic headwind in Q2. When we get to Q3 and Q4, that roughly \$8 million of selling spend in each of those quarters is a \$2 million to \$2.5 million increase year-over-year. So again, we drew, what I hope proves to be a conservative line of traffic embedded in our guidance, but it's the launch of Big Yummm, it's the incremental dollars working for us. It's all of those different pieces that we see as the opportunity to further accelerate the trends that we're seeing in traffic.

Alexander Russell Slagle

Got it. And I think you mentioned the company-owned unit target for ending the year a little bit lower than it was. You find some closures you're bringing forward a little bit?

David A. Pace

Yes. I'll talk at a headline, I'll let Todd jump in as well. I mean, look, we've looked at this a couple of ways. First of all, I think from what numbers we've shown in the past, we've been able to -- because of the operating performance, we've been able to remove about 20 restaurants from that list. So we've actually improved performance to the point where even what was originally considered and communicated is a lower number. Beyond that, we've got a watch list of restaurants that we're still working on that we hope we can move even more off of that list, and we're seeing improved performance. We just haven't seen enough yet to kick them off of our focus list. And then there's a number of restaurants that we'll have and will close. Some of them may be a little sooner than otherwise thought because our real estate team has been able to work really effectively with our landlord population to exit some underperforming restaurants sooner at pennies on the dollar for what we would have spent before. So that's why that number has moved around a little bit, but I'll let Todd comment on it, too.

Todd Wilson

Yes. I'd just reiterate those points, Alex, of -- you're picking that up right. That number did change. It's exactly to Dave's point because our team did some really good work to find a quicker solution on some of those more challenged restaurants. I'd also reiterate Dave's point, we talked about restaurants that were not profitable in 2024 previously. And we've seen about 20 of those turn profitable on a TTM basis with the results or the strength of the results that we've had in the first part of the year. So it's nice to see that progress across the system. Improve those -- some of those restaurants profitable, we'll resolve some of these restaurants more quickly. And then obviously, we're working with our operators to help give them the tools, as Dave said in the prepared remarks, to drive sales, drive traffic, drive profitability going forward.

Operator

And your next question comes from Jeremy Hamblin with Craig-Hallum Capital.

Jeremy Scott Hamblin

And I'll add my congrats on the impressive operational execution. I wanted to start with a follow-up on the last point and really dig into the franchisee health. I mean what's interesting is your franchisees, they haven't closed any locations. So as you've seen significant improvement in the company-operated portion of the business, are your franchisees also getting commensurate improvement in their restaurant level margins? I mean, first half of the year, your restaurant level margins are up like 300 basis points. Are they getting kind of commensurate profitability? And I think that they operate with better overall restaurant level margins than you do. Is that still true?

David A. Pace

Yes. Jeremy, it's Dave. So look, I think you hit it right there at the end. As generally speaking, our franchisees are good operators. We've had -- our franchisee population is so long term in the brand. They've been dialing this in for a long time. And they've -- generally speaking, been good. And I'll be honest, they've been better operators than we have. I think our team is closing the gap to their performance levels. So I think the short answer is we're getting better. They're still better than us, and we're getting closer.

Jeremy Scott Hamblin

Got it. And then just to the guidance on same-store sales of down 3% to 4% the remainder of the year. You're lapping tougher compares in Q4 than Q3. Should we be thinking about this as kind of like a minus 3% type comp in Q3 and then a minus 5% in Q4? Or any color you can share on that?

Todd Wilson

Jeremy, Todd here. Yes, I think directionally, we said that down 3% to 4% because you start to slice the onion a little bit thin at some point there. But I would say, directionally, we're looking at the same thing. And I think based on what we know today, we have Q3 a little bit better in our internal modeling than Q4. But again, I think we're slicing that thin and especially given what we're working towards to drive the change in traffic or to further inflect traffic with Big Yummm, with "First Choice" with some of this incremental spend, we're certainly optimistic that we can bend that to be different. But at a headline, we're looking at the same thing with the tougher compare in Q4, we think there could be a little bit of shape there. But it's more on the edges than anything pronounced as we think about it.

Jeremy Scott Hamblin

Got it. And then just you mentioned maybe a little bit of commodity pressure here in the second half. Just -- and you might have quantified that, but you've seen pretty strong results on that. I mean, are we thinking back half of the year cost of sales is more like flattish? Or any more color you might be able to share there, Todd?

Todd Wilson

Yes. As -- build on one of the earlier questions, yes, as we think about restaurant level profitability, commodities, we did call out as one of the headwinds that we see. I imagine you and others have seen this through your other research, but ground beef has certainly spiked. We've seen chicken costs, poultry costs increase as well. We think that's a, call it, a \$2 million to \$3 million headwind in the back half of the year versus what we expected previously. The piece that as we think about restaurant level profitability, though, is, yes, there's a commodity headwind. But there is also a P&L impact that we expect from the value offering of Big Yummm. And so where we've been kind of low 23% on cost of goods, we do see that likely creeping up into the [24s] just based on the value play that we have out there. Now again, obviously, hopefully, we see traffic increase as a result but just as you're thinking about the modeling, that's kind of how we're thinking about the cost side of things.

Jeremy Scott Hamblin

Great. That's helpful. Last 1 for me. Todd, so you mentioned the, the debt, and you guys are doing a great job of reducing that. Wanted to ask a 2-parter on that. First is, do you have a target level that you are striving to get to in terms of absolute kind of net-debt levels or total debt levels. And then part 2 is, do you have a time frame when you're looking at getting the refinancing done with that kind of 2027 Q1 maturity?

David A. Pace

Yes. Let me take the first part of that, Jeremy. I'll let Todd build on it. I think, look, we've been asked that question. We've asked ourselves that question a lot is, what's the right level of debt to get to? And I think this is all, the way I answer it is it all toggles together and it depends a little bit on the refinancing discussions if a potential lender says to us, look, if you can get debt down to x level I can give you favorable interest terms of this level. However, if your debt is higher at this level, I can only get you interest improvement to this level, so we're going to be factoring all of those things in to say, what's the optimal place to be where we can get? The reason that we do this is to obviously get our debt level down, but also to improve our financing terms. And we'll look at that with very specificity or great specificity as we kind of figure out what's the optimal level from an interest rate standpoint to reduce our payment schedules. So I think that's -- as we look at the number, I don't have a specific number in mind. It's going to depend on those discussions as well. In terms of timing, I think our objective is to get this to a place where we can do something in Q1 of '26 ideally.

Operator

And your next question comes from Mark Smith with Lake Street Capital.

Mark Eric Smith

I wanted to go back to the franchisee results. I'm just curious kind of your thoughts around sales levels at your franchise locations. And they're kind of -- your franchisees buy in into current promotions and some of the changes that you guys are making?

David A. Pace

I mean the short answer -- Mark, [indiscernible] before I get started. The short answer is they bought in, in their participating. So I think that's the best indicator of kind of support for this. I think as with franchisees in any organization, you have varying levels of interest, I want to make sure, obviously, that we don't just trade people down that we're getting the incremental traffic and we're getting the incremental sales on top of that. So they're watching it like we are, sensitive to what the performance is. I understand the challenge that we have. I've spoken to all of our franchisees about this and they've said to me, look, we get it. We understand what you're doing. We understand why you're trying to do it. A little concern on trade down, but we're with you. So I mean that's the best way I can answer it.

Mark Eric Smith

Okay. And then just looking at pricing, kind of menu price. Can you just remind us kind of when we have some prior years or quarters roll off in price? And then your ability kind of outside of promotions to selectively take price, especially as we look at some commodities that are coming up.

Todd Wilson

Mark, Todd here. I'll start and then Dave will add in as well. I think just on the pure numbers side, we've commented in the past that we didn't expect to take any further price in 2025, and that remains to be -- remains the case. The pricing that we expect -- now keep in mind, I want to be clear on this, this is pure pricing. I talked about PPA impacts from the Big Yummm deal earlier. But pure price, we expect Q3 to be 4.5% to 5% on price. And in Q4, we think that will dip down to 2% to 2.5%. And obviously, that's just based on what we've taken in the past. So we are starting to roll that price off, that will take a further step down as we get into 2026. Again, keep in mind that is just the menu price piece. Again, the trade that we expect from Big Yummm is probably a 2% to 3% drag against that. But that's kind of the pure place of where we are in terms of pricing overall currently.

David A. Pace

Yes, let me build on that a little bit. I think Russ and our marketing team are in the early stages of doing the menu optimization study and pricing study, looking at the construct of our menu and looking at what are some of the opportunities we think we have in terms of restructuring the menu to free up either pricing opportunities or better margin performance within individual items. So I think we're looking at all of that as opposed to a blunt instrument pricing approach, but a much more surgical approach to the menu to figure out how to deliver against guest experiences at the same time, increasing margin.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Dave Pace for any closing remarks.

David A. Pace

Okay. Just really quickly. Thanks, everybody. Appreciate you jumping on. Hopefully, we answered your questions. You got a better picture of where we're heading as a business right now. And we'll update you again in November on our next call. Appreciate it. We'll talk to you then. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Read more current RRGB [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Sort by

Newest

