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Regis Corporation (RGS) Q1 2027 Earnings Call Transcript

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Q1: 2026-11-05 Earnings Summary

EPS of $0.48 misses by $0.20 | Revenue of $54.34M misses by $2.08M

Regis Corporation (RGS) Q1 2027 Earnings Call November 5, 2026 8:30 AM EST

Company Participants

Kersten Zupfer - Executive VP & CFO
Susan Lintonsmith - President, CEO & Director

Presentation

Kersten Zupfer
Executive VP & CFO

Good morning, and thank you for joining the Regis First Quarter 2027 Earnings Conference Call. I am your host, Kersten Zupfer, Executive Vice President and Chief Financial Officer. I am joined today by our Chief Executive Officer, Susan Lintonsmith, and this conference is being recorded. I would like to remind everyone that the language on forward-looking statements included in our earnings release and 8-K filing also applies to our comments made on the call today. These documents can be found on our website, www.regiscorp.com/investor-relations. At the end of the call, we will address questions that are submitted through the Q&A function.

With that, I will now turn the call over to our CEO, Susan Lintonsmith.

Susan Lintonsmith
President, CEO & Director

Good morning, and thank you for joining us. We enter fiscal 2027 with a solid financial foundation. In the first quarter, we generated $7.7 million in adjusted EBITDA, generated positive cash from operations and paid down $7.9 million of debt. Total sales for Q1 were up 0.2% versus prior year with Supercuts up 2%. Total system traffic was down 3.1% and traffic for Supercuts was down 1.7%.

Today, I will share our transformation agenda and the decisive actions we are taking to improve performance and position Regis for sustainable growth. Our priorities for fiscal 2027 are clear: first, drive traffic; second, strengthen the health of our salon network and mitigate closures. Third, improve the performance and profitability of our company-owned salons. Together, these priorities are focused on strengthening our business and creating long-term shareholder value. We are executing against each with urgency, strengthening accountability and directing our resources towards the areas where we believe we can have the greatest impact.

Let me start by focusing on our first priority, driving traffic. Traffic has been a persistent challenge for our business and reversing this trend remains our highest priority. We have a clear understanding of where we are losing guests, and we're taking targeted action to address those opportunities. Our analysis shows that the majority of traffic losses over the past years are from new guests, and there's meaningful opportunity to improve retention following the first visit. Retention strengthens considerably once guests have visited more than twice. We're addressing traffic erosions by attracting new guests and ensuring a seamless and exceptional experience to bring the guests back. We're approaching this across the guest journey from brand awareness and new guest acquisition to booking convenience and the in-salon experience.

We are changing how we deploy our marketing resources, shifting more dollars directly into guest-facing media and making those investments work harder to attract new guests and drive traffic. At Supercuts, we increased working media from 53% to 62% of total ad fund spending in the first quarter compared to fiscal 2026, increasing the proportion of dollars directly reaching consumers while maintaining the capabilities needed to support effective marketing execution. Our objective is straightforward: attract more new guests, give them compelling reasons to choose our brands and turn first-time visitors into loyal repeat guests.

To attract new guests, we are increasing our investment in brand awareness and consideration. Our recent brand positioning work strengthen our creative and our messaging across our core brands, giving consumers clear reasons to choose us. We are also testing low-risk offers in company-owned salons to drive first-time visits. To drive second visits, we're improving guest e-mail capture, and we're testing targeted offers in company-owned salons to bring first-time guests back. For loyalty, we are building stronger capabilities to improve guest retention and lifetime value.

In Q1, following a comprehensive RFP process, we selected Capillary as our new loyalty and CRM partner to replace our previous platform, which limited our ability to tailor programs and communications by brand. Once integrated with our POS system, Capillary will enable more personalized guest engagement, drive stronger loyalty and increase share of visits. Together, these initiatives position us to accelerate guest acquisition, deepen retention and drive sustainable traffic growth.

Driving traffic, however, requires more than marketing. It requires the right people, effective training and consistent operational execution to consistently deliver an exceptional experience in every salon every day. Having the right staffing and scheduling in place is critical to capturing demand and driving traffic. If we don't have availability for appointments when a guest is looking, we could lose them to a competitor. To address this, we are taking a more comprehensive approach to stylist recruitment, including a testimonial campaign and a toolkit to help franchisees recruit from beauty schools.

Beyond technical training, we are developing more structured training and development programs for stylists and managers, including ongoing education focused on strengthening skills and execution. These investments are designed to help attract and retain talent, deliver a more consistent guest experience and ultimately drive repeat visits. One initiative we are already seeing encouraging results from is Choice Booking, where guests can schedule appointments through convenient web app options while preserving the walk-in option.

Our Supercuts pilots launched in July are generating traffic 3% to 6% higher than control groups. Importantly, pilot salons have reduced online booking dead ends by 59%. These occur when guests are unable to complete an online booking. Reducing these barriers improves guest access and creates opportunities to capture incremental services and sales. Equally important, franchisees are reporting improved guest satisfaction, fewer guest complaints and fewer interruptions with stylists no longer having to leave the chair to answer the phone. We now have more than 1,400 or 86% of Supercuts franchise salons and all of the company's Supercuts participating in online scheduling, ranging from same-day to advanced booking. We're planning a full Supercuts rollout in the next 90 days, establishing 7-day advanced booking as the standard.

In Q1, we advanced the Supercuts refresh initiative from concept to execution, completing 2 refreshes in company salons. These locations demonstrate a cost-effective prototype with an estimated investment of less than $25,000 per location based on costs in our company markets. This creates scalable opportunity to modernize the salon experience while minimizing capital investment. These initiatives are a coordinated strategy to strengthen traffic, improve guest experience and drive sustainable traffic growth.

Moving to our second priority, strengthening salon health. Strengthening salon health requires improving franchise performance, accelerating ownership transitions and reducing closures. We are taking a more proactive approach to identifying at-risk salons earlier, intervening with targeted support to improve performance and protect our salon network. We have launched an AI-powered franchisee health dashboard that provides greater visibility into salon performance, identifies emerging risks and opportunities earlier and helps direct support where it can have the greatest impact. We continue to enhance the dashboards, recently adding compliance tools to strengthen franchisee support and protect brand standards. We are pairing these insights with stronger field leadership to turn data into targeted action.

We now have 2 operations directors for Supercuts, both added in June, who are already driving meaningful franchisee engagement and driving operational improvements across the network. In just 2 months, they have connected with 57 franchisees representing over 60% of the Supercuts salons. They have led 11 franchisee forums and more than 20 targeted business reviews that resulted in 200 salons adopting Choice Booking. The franchise health dashboard also tracks 9 early warning indicators to identify salons at elevated risk of closure, so we can step in sooner to help improve or potentially transfer the salon.

Strengthening our network requires actively facilitating ownership transitions and placing salons with operators best positioned for success. By connecting exiting owners with qualified franchisees looking to expand, we can preserve salons, protect royalty streams and transition locations to operators better positioned to drive performance. In Q1, 34 franchise locations closed, reinforcing the importance of proactively protecting our salon network. Every 10 franchise closures we prevent preserves nearly $80,000 in annual royalty revenue. We facilitated 92 salon resales in fiscal 2026 and completed another 12 in Q1.

Importantly, the 92 salons transferred in fiscal 2026 demonstrated a meaningful improvement under new owners, reinforcing that transfers to the right operators is an important lever for strengthening the network. We've already identified 32 owners, 261 salons that we will work with to find new owners in fiscal 2027. We are rebuilding our franchise sales and development capabilities. After more than 6 years without a dedicated development function, we are restoring this critical capability, beginning with a new development director who joins the team on Monday.

Our focus is on growing with our strongest franchisees and focusing transfers on our lowest quartile salons. There is a significant performance gap between our top and bottom quartile salons, including sales, traffic and stylist hours. For example, a Supercuts in the top quartile would have sales and traffic nearly 3x higher than the bottom quartile salons. The risk is clear. About 70% of franchise closures in fiscal 2026 came from salons in the lowest sales quartile. This reinforces our focus on stabilizing these locations and facilitating transitions to stronger operators to improve network health. Again, the goal is to accelerate resales, not only with a new dedicated resource, but also with the help of a new AI-enabled real estate dashboard that provides lease end dates for all salons by year and closure analysis information that helps pinpoint salons at risk of closing.

The development focus will not only be on resales, but also on building a pipeline of new franchisees. Beyond Supercuts, Roosters will be a priority given its higher AUV and growth potential. Reducing closures is critical to the long-term health of our system. Based on our current visibility, we expect fiscal 2027 franchise closures to be in a similar range to fiscal 2026, and we're not satisfied with that trajectory. Our investments in operational support, early identification of at-risk salons and franchise resales are focused on stemming closures, stabilizing underperforming locations, preserving royalty revenue and creating a path back to net unit growth.

Turning to our next priority, our company salon business. Improving the performance of our company-owned salons is a critical priority, and our first quarter results underscore the need for action. Sales declined 1.1%, while traffic declined 9.5%. These results are not acceptable, and we're taking decisive action to improve performance. Effective immediately, we are making a change in senior leadership of this business to bring a fresh perspective, strengthen operational accountability and accelerate our turnaround efforts.

In addition to the enterprise initiatives I just discussed, we're strengthening operational discipline and focusing on staffing, labor productivity, traffic and guest retention to improve salon level profitability. In September, we brought together salon leadership across 3 in-market meetings to reinforce a more disciplined operating model centered on result accountability, staffing optimization, labor productivity, guest experience and retention. These sessions align managers around clear performance expectations and the operational priorities required to improve salon results. We also launched a new customer service training program to provide a more consistent guest experience with the additional focus on accurate guest data capture and earning the return visit.

We deployed new tools to better identify and quantify labor optimization opportunities. These tools use key performance metrics to better align staffing and hours with demand while ensuring we maintain sufficient capacity to capture walk-in traffic. We are intensifying our local marketing efforts to drive acquisition and reverse traffic declines. With a dedicated marketing manager in place in September, we are executing targeted November and December promotions and testing compelling value offers to attract new guests.

Operations is driving focused recovery plans across 53 low and underperforming salons with 34 already demonstrating improving trailing 3-month trends. Company salons continue to serve as an important testing ground for initiatives that can benefit the broader system. Beyond the Supercuts refresh program, we're testing a new retail, distribution and marketing initiatives, including a pilot with Perfect Corp. to validate results and refine execution before considering broader system adoption. Current performance demands a different approach, and we are taking decisive action. We are making a senior leadership change and resetting expectations around accountability for results to drive a meaningful improvement in performance.

I want to provide a brief update for our second biggest brand, SmartStyle. On the last 2 calls, we discussed the need for greater focus and urgency on turning around SmartStyle's performance. We are putting that focus into action. In October, we launched a 40-salon pilot in Tampa that combines salon manager retraining, coaching on staffing and hours of operation, a new simplified express menu for time crunched and value-conscious Walmart shoppers a $22 Tuesday haircut offer to drive traffic on a slower day and stronger Walmart associate deals. We are reinforcing these efforts with incremental local media support. While it's too early to assess results, the pilot is designed to test an integrated approach to improving salon performance. If we demonstrate profitable traffic growth, we will move quickly to scale the successful initiatives across the broader SmartStyle system.

In summary, we are advancing targeted initiatives to drive traffic, strengthen salon network health, mitigate closures and position our business for sustainable growth. We are executing with urgency, reinforcing accountability and beginning to see encouraging early signs of progress. Last week, I had the opportunity to connect with many of our Supercuts franchisees at the SFA convention. It was encouraging to hear their success stories and importantly, their continued interest in growing with the brand. We recognize there is still significant work ahead, and we are taking the right actions to improve performance and deliver sustainable, profitable growth.

Before I turn it over to Kersten, I want to provide more information around our debt refinancing efforts and plans. As mentioned on our last call, we completed a comprehensive review of refinancing alternatives with active oversight from our Board and working closely with our newest director, who is a significant shareholder. We evaluated a range of options, including senior bank debt, private credit financing, preferred equity structures and whole business securitization. While we received positive feedback on the management team, recent performance and our growth strategy, the parties that we engaged with indicated that they would like to see additional quarters of progress before moving forward.

Based on the feedback we received, we determined that refinancing now would not deliver sufficient value to shareholders. We expect to return to the debt markets early in calendar 2027 as we approach the scheduled decline in our call premium from 104% to 101% in June of 2027. In the meantime, our business continues to generate healthy levels of cash while we take decisive action to strengthen the business. And with that, I'll turn it over to Kersten to review our first quarter financial results.

Kersten Zupfer
Executive VP & CFO

Thanks, Susan. For the first quarter, we generated $7.7 million in consolidated adjusted EBITDA, demonstrating profitability not only on a non-GAAP basis, but also on a GAAP basis with $5.3 million in operating income. We also generated $2.6 million in cash from operations, marking our eighth consecutive quarter of positive cash generation and repaid $7.9 million of debt, further strengthening our balance sheet despite lower revenue year-over-year. Total first quarter revenue was $54.3 million, a decrease of 7.8% compared with the prior year. The decline was primarily driven by lower non-margin franchise rental income and company-owned salon revenue. We reported GAAP operating income of $5.3 million compared with $5.9 million in the year ago quarter, a decrease of 10.4%. The decline primarily reflected lower royalties and fees and lower operating income from company-owned salons, partially offset by reduced G&A.

Our GAAP operating income includes 2 nonrecurring items recorded in G&A. First, we recognized a $2.1 million gain following the termination of a previously recorded lifetime benefit obligation. This was partially offset by a $2.5 million accrual in our company-owned salons segment related to a civil investigative demand from the U.S. Department of Justice issued pursuant to the False Claims Act. The government inquiry concerns applications for a $2 million Paycheck Protection Program loan and loan forgiveness obtained by Alline Salon Group several years prior to the acquisition of Alline. We are cooperating with the investigation and are responding to additional requests for information.

We are also evaluating our rights to indemnification and other potential sources of recovery for any claim relating to this matter. Both items are excluded from our adjusted results. Net income for the first quarter of fiscal year 2027 was $524,000 or $0.18 per diluted share compared to $1.4 million or $0.49 per diluted share for the same period last year. The lower income in the current year period was driven primarily by lower royalties, fees and company-owned salon revenue, partially offset by lower general and administrative expenses.

Turning to our adjusted results. As a reminder, our adjusted results exclude stock-based compensation expense, the 2 nonrecurring items I just discussed and certain other adjustments. We believe this provides a clearer view of underlying business performance. A reconciliation of our GAAP to non-GAAP results is included in our press release.

For the first quarter, consolidated adjusted EBITDA was $7.7 million compared with $8 million in the prior year quarter. The change was primarily driven by lower royalties, fees and company-owned salon earnings, partially offset by reductions in G&A expenses. Adjusted G&A was $9.8 million compared to $10.4 million in the year ago quarter, a decrease of 5.8% and reflecting continued cost management discipline, including lower compensation and consulting expenses. Adjusted EBITDA for our franchise segment was $6.1 million compared with $6.4 million in the prior year quarter. The decrease was primarily due to lower royalties and noncash fees, offset partially by decreased G&A expenses.

Franchise adjusted EBITDA as a percentage of franchise revenue was 17.2% compared with 16.5% in the year ago quarter. Adjusted EBITDA for our company-owned salon segment remained flat at $1.6 million compared to the prior year period. Turning to cash flows for the 3 months ended September 30, 2026. We generated $2.6 million in reported cash from operations, an improvement of $300,000 compared to the $2.3 million in the prior year period. The increase is due primarily to our lower cost structure and the timing of accounts payable.

When evaluating our reported cash flow, it's important to distinguish between unrestricted cash generated by our core operations, which is available for general corporate use and restricted cash associated with our advertising funds. These funds come from contributions by franchise and company-owned salons and are designated for marketing purposes, so they are not available for corporate use.

During the first quarter of fiscal year 2027, our core operations generated $3.3 million in unrestricted cash, while the restricted advertising funds used $638,000, resulting in $2.6 million of reported cash from operations. This demonstrates the underlying cash-generating capacity of the business and supports our continued focus on debt reduction and targeted investment.

Turning to our balance sheet. We continue to make progress by reducing debt and strengthening our financial position. As discussed last quarter, we expected to make an annual excess cash flow sweep payment in September in accordance with our credit agreement and in fact, did make a payment of $7.3 million as well as our scheduled quarterly payment of $600,000, reducing both cash and outstanding debt.

As of September 30, 2026, we had $30.4 million in available liquidity, including capacity under our revolving credit facility and $20.8 million in cash and cash equivalents. This provides flexibility to support operations and continue investing in initiatives designed to improve salon traffic and long-term performance.

At the end of the first fiscal quarter, outstanding debt was $121.1 million, excluding deferred financing costs and the value of warrants. Our balance sheet also includes $154.9 million in operating lease liabilities associated with franchise salon leases. These leases have a weighted average remaining term of less than 5 years and the associated obligations are serviced directly by our franchisees. We do not consider these liabilities part of our funded debt when evaluating financial leverage, provided franchisees continue to meet their lease obligations. We expect these liabilities to decline over time as leases mature and we reduce our use of franchise leases.

From a capital allocation perspective, our priorities remain clear. We are focused on generating cash, reducing debt and maintaining financial discipline while investing in the operational initiatives Susan outlined earlier. Our ability to consistently generate positive cash flow gives us the flexibility to make those investments while continuing to strengthen our balance sheet. Ultimately, improving traffic and reducing salon closures are not only important operational priorities, they are also critical to protecting our royalty stream, improving long-term profitability and increasing the cash-generating potential of our business.

With that, I'll turn the call to Susan for closing comments.

Susan Lintonsmith
President, CEO & Director

As we close today's call, I want to reinforce a few important points. Our priorities are clear: drive traffic, strengthen the health of our salon network, reduce closures and improve the performance and profitability of our company salons. As you heard today, we have solid financial foundation and are generating positive cash flow. We have improved our marketing with more working dollars and dollars working harder to attract new guests with better creative and messaging and a new loyalty partner to improve CRM efforts and retention. We have new AI-enabled dashboards that give us better visibility into salon level performance, allowing us to identify challenges earlier and direct operational support where it can have the greatest impact.

We are launching Choice Booking with 7-day advance booking and Supercuts in January. We are improving efforts around stylist recruitment, training and development to improve staffing, salon execution and guest experience. We are taking a more proactive approach to mitigating closures and accelerating franchise resales, supported by a dedicated development resource and a new real estate AI-enabled dashboard. We have developed a cost-effective Supercuts salon refresh program, creating an opportunity to modernize the guest experience without significant capital investment.

In company-owned salons, we rolled out operational programs and training. We hired a marketing manager to optimize local marketing to drive traffic, and we made an important leadership change. And at SmartStyle, we launched a comprehensive pilot in October designed to drive profitable traffic gains. These are not simply plans for the future. These are initiatives that we are actively executing and in several cases, programs where we are beginning to see encouraging results. Our focus is on building a stronger, healthier salon network and returning Regis to sustainable growth. Thank you for joining us today.

Kersten Zupfer
Executive VP & CFO

We will now take questions submitted through the Q&A function.

Question-and-Answer Session

Kersten Zupfer
Executive VP & CFO

The first question, we had a couple of questions that I'll incorporate into one here that related to the annual meeting results that were filed earlier this week. 5 of the 6 director nominees did not receive a majority of votes cast and the say-on-pay proposal also failed to receive majority support. What do these results mean for the Board? And what steps is the company taking in response? Susan?

Susan Lintonsmith
President, CEO & Director

Yes, I can take this. So please know that the Board is taking this extremely seriously and is focused on this matter. Under Minnesota law, all the directors continue to serve on the Board and the say-on-pay vote is nonbinding. So the Board led by our new Chairman, Andrew Alfano, is evaluating the results, particularly in light of the fact that the Board unanimously recommended to shareholders all proposals and leading proxy adviser firms -- advisory firms recommended in favor of the election of all director nominees and the company's say-on-pay vote. The Board will make its required determinations regarding the directors who did not receive a majority vote and disclose its decision and rationale within 90 days from last week's annual meeting date.

Kersten Zupfer
Executive VP & CFO

The next question is provide more detail on the DOJ investigation related to the Alline PPP loan, including the potential exposure, timing of resolution, whether Regis has any avenues for recovery. The inquiry relates to a PPP loan obtained and forgiven by Alline several years before our acquisition. We received the civil investigative demand, this is a CID in November of 2025 and have continued to evaluate the matter each quarter. Based on what we know today and consultation with our advisers, we believe the $2.5 million accrual is appropriate.

We're cooperating with the DOJ and exploring potential avenues for recovery. We cannot predict when this matter will be resolved. And given the ongoing inquiry, we are limited in what additional information that we can share. The next question, can you break down the Supercuts comp between traffic and ticket? And how did traffic progress through the quarter? We had previously discussed the potential for a couple of point improvement in fiscal year '27. Are you still expecting that?

Susan Lintonsmith
President, CEO & Director

Yes. So as I mentioned, Q1 sales for Supercuts was up 2%, and that was driven by traffic being down 1.7%, and then we had ticket up 3.8%. I believe you're asking specifically by month. And if you look at it, July and September were very similar, and we did have better sales and traffic in August by about 1 point. So looking forward, yes, we are doing all of the things I just mentioned to continue to focus on traffic to make sure that we are really focused on really making that positive this year.

Kersten Zupfer
Executive VP & CFO

The next question is company-owned same-store sales declined 1.1%, and you specifically called out traffic as requiring attention. What changed during the quarter? And what are you seeing early in Q2?

Susan Lintonsmith
President, CEO & Director

What changed in the quarter? Okay. So first, if you look at Q1 versus last quarter, sales and traffic were slightly better in Q4, so last quarter versus what we saw this quarter, Q1. So what we're seeing is you're asking specifically about the traffic. We did see improvement in August, but notably worse in September. So everything that I mentioned, we do have that new marketing manager. We have some promotions going on in November and December. So we are doing what we think is needed in our Q2 to try to improve the traffic results.

Kersten Zupfer
Executive VP & CFO

Thank you. The next question, you completed the refinancing review and concluded that waiting creates more shareholder value. Can you help us understand how meaningful the mid-2027 reduction in the call premium is and what would need to change for you to move sooner?

I'll take this. Susan addressed this in her scripted comments, but the call premium is currently at 104%. It dropped to 101% at the end of June of 2027. So our plan is to reengage with the markets in early 2027 to be in a position to refinance once that call premium drops to 101%.

The next question that we received is how many new franchisees joined the Regis system over the past 12 months. Of those, how many are new operators versus existing franchisees acquiring additional salons?

Susan Lintonsmith
President, CEO & Director

Okay. Yes, I can take this. So the last 12 months, so trailing 12 months, about 73 salons changed hands through resales to 16 buyers. So of those 16, about half of those buyers were new to the Regis system, and they took on about 24 salons. So that ranged anywhere from single locations to packages of 7 or 8. The other 8 were existing franchisees who are expanding their portfolios, and they acquired about 2/3 of the ones that transferred, so just under 50. And that's about right. That's about the mix we want.

We want to grow, as I mentioned, with strong operators. And at the same time, we want to start attracting new franchisees into the system. So with the 261 salons that I mentioned earlier that we identified for new ownership this year and our new development director starting on Monday and our focus on this, the AI dashboard, et cetera, building that buyer pipeline, both with new and existing operators is something we're focused on right now and is a huge priority for us.

Kersten Zupfer
Executive VP & CFO

That concludes the Q&A session. This morning, thank you again for joining us, and we appreciate your interest in Regis Corporation.

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