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Regis Corporation (NASDAQ:[RGS](#)) Q2 2025 Earnings Conference Call February 12, 2025 8:30 AM ET

Company Participants

Kersten Zupfer - EVP and Chief Financial Officer
Matthew Doctor - President and Chief Executive Officer

Conference Call Participants

Operator

Good morning, and thank you for joining the Regis Second Quarter 2025 Earnings Conference Call. I am your host, Kersten Zupfer, Executive Vice President and Chief Financial Officer. I am joined today by our President and Chief Executive Officer, Matthew Doctor. [Operator Instructions] 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 at www.regiscorp.com/investor-relations, along with a reconciliation of any non-GAAP financial measures mentioned on today's call with their corresponding GAAP measures.

With that, I will now turn the call over to Matt Doctor.

Matthew Doctor

Thank you, and good morning, everyone.

On today's call, I will discuss our recent acquisition of the Alline Salon Group in more detail, review our quarterly financial results and provide updates on our key initiatives. During the second quarter, we acquired our largest franchisee, the Alline Salon Group, in a move that has significant strategic and financial benefits and furthers our efforts to position the company for future growth.

Taking a step back for a minute, this transaction is another milestone on the journey we've been on stabilizing and growing the company, and we are in a significantly stronger position today than just a short while ago. Around one year ago from the time of the Alline transaction, we're putting efforts towards trying to stay listed on a national securities exchange and strengthen our balance sheet.

Since then, pro forma for the Alline transaction on a trailing 12-month basis from December, we have grown adjusted EBITDA by 35%, cut our debt and leverage ratios in approximately half and have line of sight to consistent cash flow generation versus what has been consistent cash use.

Now turning back to Alline. I always had a belief that the optimal salon mix for Regis would include a strategic portfolio of company-owned salons to complement our franchise business. While this was not possible given the corporate salons we've had over the past several years we're in wind-down mode due to their performance. Once we have the ability to allocate capital post our June 2024 refinancing, the idea of buying back a portfolio of salons began to surface as a potential growth initiative.

I certainly do not think it would come to fruition as quickly as it did, but it just so happened that the right opportunity presented itself and we pursued it opportunistically. Alline is the right portfolio at the right time. And quite frankly, it is one of the few portfolios that made sense given the size, scale and turnkey operating infrastructure Alline had built over the years.

Due to our strong familiarity with this group of salons having supported Alline as franchisor and previously owned and operated the salons that we acquired, we were able to get comfortable quickly with the risk and have a clear path and a defined path towards strong EBITDA and cash flow growth. Digging a bit deeper into what made this the right portfolio.

At 314 acquired salons, this portfolio has significant scale but also preserves our fully franchised footprint strategy with 92% of salons in our system operated by our franchisees. The three brands acquired, Supercuts, Cost Cutters and Holiday Hair are strong representations of our system. The portfolio has exposure to multiple geographies and attractive concentration.

The salons are nicely contiguous around Pennsylvania, Ohio and Michigan, which enables operating leverage, and they are in states with favorable rent and wage dynamics. Additionally, while the portfolio has been cash flowing, we still see significant opportunity to drive results, leading to even more potential upside, and we are very excited about executing and driving what could be significant value creation.

As we look forward, I could not be more excited about the composition of Regis and strategic position we are in. I spoke previously about the ability to finally go on offense, and I cannot think of a better mix of corporate and franchised salons.

Adding the Alline portfolio provides us a diversified way to grow as we have added several revenue, profit and cash generation drivers that can have a material impact to Regis as part of our corporate segment, such as driving same-store sales, salon level operating expenses and margin, closure of unprofitable locations and strengthening those that will remain open, corporate salon G&A and new unit development.

These now complement our existing levers of the franchise business of profitable sales growth, G&A and new unit development, all of which continue to remain in place. Equally important from a strategic perspective, this acquisition gets us closer to the business and provides us a testing ground to further enhance the broader system and our brands.

While Regis has a rich history of operating, we've not operated in a dynamic and changing environment our franchisees have been facing for the last several years. And with ownership and operational responsibility for hundreds of salon locations across multiple brands and geographies, we are now directly immersed in the day-to-day business of operating salons.

This hands-on experience will provide us a greater appreciation of the opportunities and challenges facing our franchisees in addition to a controlled proven ground where we can develop and test guest and stylist initiatives, which we believe will improve our relationship and trust within the franchise system. Regarding the financials of the transaction, Regis acquired Alline for initial consideration of \$22 million. Consideration for the transaction included \$19 million in cash, which was paid at closing and roughly 140,000 shares of our common stock valued at \$3 million.

The cash was sourced from \$4 million of cash on hand and \$15 million in additional borrowings from an amendment to our existing term loan. I do want to take a moment to acknowledge and once again thank our lenders, TCW and Midcap Financial for being supportive partners on this transaction. For the 12 months ended October 31, 2024, Alline as an entity reported unaudited revenue of \$83 million, \$11.1 million of 4-wall EBITDA and \$5.8 million in corporate EBITDA.

Based on our purchase price of \$22 million, this represents an attractive purchase valuation of approximately 0.3x revenue, roughly 2x store level EBITDA and 3.8x corporate EBITDA. Ahead of closing the transaction, we identified several synergies, which we believe we can quickly improve operational efficiency that can deliver \$1.5 million in savings.

Most of those synergies and savings should be phased in by the time we enter calendar 2026. And to be clear, no G&A other than the corporate infrastructure acquired from Alline is required to be added to support the business. And when factoring in synergies and our current capital structure, not only are the effective multiples more attractive, but also the transaction represents a 4.8x multiple on cash flow.

Again, not only does this represent an attractive financial and strategic transaction on the results that have been delivered, but I want to reiterate the opportunity we have to execute and generate additional profitability and cash flow. To wrap up on Alline before turning to our results, Alline has a strong culture and team who will continue to operate the business with our oversight.

In partnership, we believe we can combine the best practices with our operational expertise to create a winning combination to drive further growth, profitability and incremental value. We do not plan on acquiring other salons in our system in the foreseeable future as we are pleased with the composition and opportunity with this portfolio. And we have plenty of work to do to integrate, further operationalize and grow this business. I will touch a bit more on the current state of this portfolio and our key initiatives later during the call. Turning now to our second quarter results.

Our second quarter results were largely in line with our expectations. Importantly, we have grown year-over-year across operating income, net income, earnings per share, adjusted EBITDA and cash flow and have returned to generating positive cash from operations despite the persistently challenging sales environment.

Same-store sales declined 1.6% in the second quarter. Same-store sales is a key operating metric that we are keenly focused on and invested in improving. For the second quarter, there were several factors that drove the decline.

Perhaps most notably was a challenge December due to a smaller window between Thanksgiving and Christmas versus a year ago. With the gap between Thanksgiving and Christmas, almost a full week less versus last year, given the timing of haircut cycles, we saw less of a build into the end of the year as pre-Thanksgiving holiday services likely carried through to the new year. There has also been a disparity amongst our brands as it relates to sales performance.

While Supercuts, which represents a little less than half of our system from a store count perspective and approximately 60% of our royalties was positive 0.5% for the quarter. Our SmartStyle brand, which represents our captive brand within Walmart has continued to see softer sales with a 6.4% decline versus the last year's quarter.

SmartStyle is a brand that we and our franchisees believe in. However, our recent focus there between ourselves and our franchise partners has been closing unprofitable locations and remodeling the remaining fleet. As we enter fiscal 2026, the large-scale closures and remodels have largely been worked through, and we look forward to advancing that brand with a smaller, more viable footprint.

Regarding the broader store closures across all of our brands, the salons that have closed and those that we have slated to close during the remainder of the fiscal year are impacting the same-store sales as well. Our previous guidance of closures during the fiscal year approximating the number of closures from last year still holds, and the salons that have closed during the second quarter and those that are projected to close had a roughly 130 basis points drag on overall comps for the second quarter.

I will provide additional detail regarding sales drivers later when discussing our initiatives, but I can say that even flat to slightly positive sales comps are not what we're aiming for, but rather the outsized growth that we believe is achievable over time. As I stated before, we are fully cognizant that we ultimately need to drive traffic to our salons, especially new guest traffic and find more ways to increase frequency.

But at the same time, I do need to be realistic about the work that is continued to be required in the road ahead to unlock this growth from where we are today. Our adjusted EBITDA for the second quarter was up 12.7% year-over-year to \$7.1 million versus \$6.3 million a year ago. Earnings per diluted share was \$2.71 versus \$0.43 in the prior year quarter.

I do need to call out that our earnings per share includes income from discontinued operations of \$7.4 million, which is driven largely by \$7.5 million of proceeds we received from our sale of OpenSalon Pro to Zenoti in the second quarter. Our adjusted earnings per share was \$0.61 versus a loss of \$0.18 in the prior year quarter. Turning to our strategy and business initiatives.

While we continue making progress across our brand initiatives, we are also in the midst of recalibrating our priorities and focus areas for a few reasons. First, the composition and trajectory of the company has changed quite dramatically in a very short period of time between our refinancing 8 months ago and the Alline acquisition about two months ago.

Given our company-owned segment now represents a meaningful driver of growth that warrants its own specific area of focus. And additionally, as I mentioned post our refinancing in June of 2024, with the ability to focus solely on our core salon business versus all the efforts we've put towards stabilizing Regis, we're now uncovering some additional findings that will require attention and effort, specifically as it relates to the positioning and identity of our brands.

I discussed on previous calls that we have brought in consultants to help us define the vision and direction of the Supercuts brand specifically, alongside us and our franchise partners. Over the past three months, we have been collaborating closely to chart a path for refreshing and modernizing the brand. Through these efforts, we believe we will not only attract more guests especially those in the younger demographic, but will also help us appeal to top stylist talent from a recruitment and retention perspective.

We aim to attract an increased number of guests within the highly valuable 18 to 44 age segment that we've historically under-indexed. This will require work streams beyond just tweaking around the edges, but rather dedication to examining the overall brand architecture, imagery, digital assets like websites and apps as well as the optimal customer journey of the future.

We are looking to define where it is we're going to go based on guest research and determining what steps in innovation is required to bridge from current to future state. We're still in the process of defining what the strategy and positioning is in collaboration with our outside resources and franchisees. And when the time is right, we will discuss this in more detail.

As we continue down the path of refining our overall brand strategy and positioning, we will continue our focus on strengthening in salon operations through our brand excellence standards and digital efforts. As there is no substitute for strong operations resulting in convenient, quality hair care and exceptional service.

In-salon execution is a critical enabler and the foundation for any broader brand work as new marketing and positioning cannot overcome anything less than stellar experiences. Conversely, relevant branding will help amplify and drive business. So these efforts truly go hand-in-hand to unlock the true power of the brand.

Turning to the implementation of our brand excellence standards. This initiative is designed to define and bring accountability to the ultimate end-to-end guest experience at the salon level to ensure it as consistent and maximizes the potential for return visits by our guests.

In January, we completed the first wave of visits to all Supercuts locations. And through this effort, we've gathered a wealth of valuable insights and actionable data that we have not had access to previously. We are now in the process of analyzing the readouts and driving actions based on the findings.

Well, I'm not going to get into any detail on how many salons are compliant in what areas versus not, one thing has become abundantly clear after our initial pass-through of the data, and that is that there is a strong correlation between brand compliance and salon performance. I am encouraged to see that we have several strong performers as well as those with clear opportunities to improve and drive additional results and strengthen the system.

As a data point, for those salons that are fully compliant in critical areas like salon workstations, walls and the reception and waiting area, they are demonstrating stronger same-store sales and traffic by 500 basis points and over 400 basis points, respectively, versus those that have opportunity in these targeted areas that make up critical components of the guest experience.

To us, this reinforces both the potential of the brand as well as the work we have in front of us to move more towards this uniformity of execution. We'll be measuring progress during the second wave of visits that start in April.

In addition, we're exploring ways to get a better handle and measurement on the service component of the excellent standards versus strictly salon preparation and maintenance. The data we are gathering here is critical as it relates directly to the salon environment, which is a key element to shaping guest impressions, the overall experience and the possibility of a return. Given the valuable insights we're seeing at Supercuts, we are actively working to roll out these standards across our other brands to ensure consistency and elevate the guest experience across the enterprise.

We will introduce and familiarize our franchisees with the standards for all brands outside of Supercuts over the remainder of our fiscal 2025 and likely to launch excellence visits across these brands as we move into fiscal 2026. Turning to our digital efforts, which form another key pillar of the guest experience and is key to attracting guests increasing those repeat visits and driving more convenience.

A major initiative here that forms yet another key ingredient for the future has been the nationwide launch of our Supercuts loyalty program, Supercuts Rewards, during our first fiscal quarter. Supercuts Rewards is a first-of-its-kind program that offers a new way for guests to earn points, access additional promotions and receive free haircuts and savings for choosing Supercuts as part of their hair care routine. Since our launch, our membership has continued to grow, and we're currently at 27% of all Supercuts sales via members of the program across our system.

Our initial findings indicate that the program is influencing and driving the incremental behaviors we're looking for from guests and franchisees who are engaged with the program. To highlight this, salon membership levels as a percentage of total salon sales range from the single digits to upwards of 90%.

For those that have reached the target of 50% of sales from members, of which currently approximately 250 salons are at, mostly in the pilot and Wave 1 phase salons, those salons have demonstrated outperformance of same-store sales and traffic by 200 basis points versus those below that threshold in our second fiscal quarter. Loyalty is also reducing the days between service visits to drive incremental frequency.

We're seeing this largely in the cohort of pilot and Wave 1 salons given the maturity of the program in these specific locations. This is a behavior we will continue to monitor across all loyalty salons as the program matures. We're super excited about the potential that this program has and the results it can deliver and drive with broader adoption, which remains the key focus.

And while we're proud of accomplishing this major launch that has been in the works for a while, the current state of the program is far from the end destination. There is a lot that we can optimize on between ways to provide even more convenience and even more incentive benefits to members. We are currently exploring additional levers to accelerate enrollments and increase adoptions of the programs that we do offer.

And in addition, we are also beginning pilot programs in our other brands to see how we can further leverage awards to drive frequency and retention. One other quick note as part of our digital transformation initiative, a near-term item we're also closely reviewing is the guest check-in process to improve the in-salon flow and ease of operations and transparency for our guests and our stylists.

Now the why behind all of these initiatives is to improve the experience, gather data and information that will ultimately drive more traffic to our salons and help us to turn the trend on same-store sales and grow franchisee profitability. As I mentioned earlier, the acquisition of Alline is a strategically important element of our results to drive system results as well as our own, and I want to touch on the current state of the business and our initiatives for this portfolio.

Regarding the state of Alline, there is a significant opportunity to improve top line trends as this portfolio has demonstrated opportunity versus the rest of the system over the last 12 months from a same-store sales and traffic perspective. We like the fact the portfolio has continued to grow profitability and cash flow. Therefore, there is significant opportunity to grow even further once traffic and sales trends are reversed.

While it's only been a few months since we completed the acquisition, the integration of these salons into our ecosystem is progressing nicely. And I cannot stress enough how important we are taking the systems, people and culture integration as that will be critical for long-term success.

We have a lot they want to do here but we cannot skip this important foundational step. Much of the next calendar year will be ensuring that we do this seamlessly, while building those foundational blocks. And much like the rest of our system, we're going to ensure we go back to basics and uphold the standards that we put in place.

In addition, we'll be looking at compensation plans, service pricing and making sure that we're focused on the right KPIs to drive proper behavior against what truly matters. We have a lot of ambitious plans for this portfolio, including it being a testing ground, as I mentioned earlier, as part of the strategic rationale.

However, we cannot skip steps and need to get operationally ready first in order to truly maximize our efforts here. In closing, there are a lot of exciting transformative things happening here at Regis. While there is much work to be done, I am energized by the approach we are taking and the progress that we are making.

I am encouraged by the opportunities to reignite growth and putting brand positioning, identity and the in-salon experience back at the forefront of our efforts. We are actively putting the pieces in place to increase perception and traffic to our salons to drive growth and ultimately increase value a meaningful way for all of our key stakeholders, including our franchisees, our shareholders and our lenders.

I want to thank you again for joining and for your interest in Regis, and I will now turn the call over to Kersten for a detailed review of the Q2 financials. Kersten?

Kersten Zupfer

Thanks, Matt.

As a reminder, our fiscal 2025 second quarter results include the results of the 314 salons that we acquired from Alline, which closed on December 19, 2024. The acquired salons contributed \$2.7 million in revenue and \$0.5 million in EBITDA in the less than two weeks post-acquisition. Pro forma financial information related to the Alline acquisition are included in Footnote 13 of the Form 10-Q we filed earlier today. Additional pro forma financial information will be filed on Form 8-K in early March.

Our second quarter results were largely in line with our expectations. Total second quarter revenues were \$46.7 million, a decline of \$4.3 million or 8.5% compared to the prior year. This decline was primarily due to a reduction in no margin franchise rental income and advertising fund revenue and royalty revenue. It was partially offset by \$2.7 million of revenue from the acquired Alline salons. The overall decline was expected due to the closure of unprofitable franchise locations and is a key element of our strategy to drive improvements in the overall health of our franchise portfolio.

Royalty and fee revenue, which represents sales from our core business was down \$555,000 to \$17.8 million versus \$18.3 million in the prior year second quarter due to a lower number of franchise salons and a decline of 1.6% in same-store sales, partly offset by the recognition of deferred revenue associated with the acquired Alline salons.

We have a net 726 fewer franchise locations than a year ago, December 31. The 118 net franchise closures in the quarter had an average trailing 12-month sales volume of \$151,000. This compares to a top quartile salon average sales volume over the same period of \$460,000 with the top quartile sales outperforming the closed salons by \$309,000. This demonstrates the high-performance potential within our system as well as how large the gap of underperformance in these closure salons.

As discussed in the call last quarter, we continue to expect calendar 2025 to be the last year of closures in the order of magnitude that we've been seeing. The pace should slow down in the years ahead. We posted GAAP operating income of \$5.5 million in the second quarter, an improvement of \$718,000 compared to \$4.8 million in the prior year quarter.

This year-over-year increase was driven by the Alline acquisition and lower operating expenses, primarily lower G&A expense, which was partially offset by franchise bad debt rent expense, Alline acquisition costs, and royalty revenue. We again produced an operating profit in the second quarter of fiscal year 2025, and we expect that to continue.

We reported income from continuing operations of \$206,000 compared to a loss from continuing operations of \$1 million a year ago -- in the year ago quarter. This improvement was driven by improved profitability resulting from lower operating expenses as well as lower interest expense.

During the second quarter, the company received \$7.5 million of proceeds related to its divestiture of OpenSalon Pro, which was completed in 2022. This gain, which is reflected in discontinued operations, resulted in net income for the quarter of \$7.4 million or \$2.63 per diluted share. This was the final payment related to the OpenSalon Pro divestiture.

Turning to our adjusted results. As a reminder, in the first quarter of fiscal year 2025, we made a change to our methodology to exclude stock-based compensation expense when presenting our adjusted results. All adjusted results in the current year and prior years have been adjusted to reflect this presentation. We believe our adjusted results are more representative view of the business. Reconciliations of our GAAP results to our adjusted non-GAAP results can be found in our press release.

On an adjusted basis, second quarter consolidated EBITDA was \$7.1 million compared to \$6.3 million in the prior year quarter. The \$845,000 improvement was primarily due to a lower G&A, sublease revenue and the Alline acquisition, offset by lower royalty revenue, franchise bad debt and foreign currency loss. Our adjusted G&A was \$9.6 million, a decrease of \$1.9 million compared to the prior year period.

We remain committed to diligent management of our corporate G&A expenses and continue to expect our fiscal year 2025 adjusted G&A, excluding Alline, to be in the range of \$39.5 million and our run rate G&A to be closer to \$38 million. As a reminder, the run rate range represents close to \$5.5 million of savings versus fiscal year 2024.

While the \$39.5 million represents additional investments in our business that offset savings to the extent we see opportunity to invest further in our initiatives, this could change. The acquisition of Alline adds \$4.5 million to \$5 million of incremental annual G&A expense. Our fiscal year 2025 G&A adjusted for Alline is expected to be in the range of \$42 million and the run rate G&A to be \$42.5 million to \$43 million.

Our core franchise business adjusted EBITDA was \$6.4 million in the quarter, a \$218,000 decrease compared to \$6.6 million in the prior year quarter. This decline is primarily explained by lower franchise revenue, franchise bad debt rent and foreign currency loss, offset by lower G&A and sublease revenue.

Our company-owned segment adjusted EBITDA was \$725,000 for the quarter, an improvement of \$1.1 million from the same quarter last year primarily related to the addition of salons from the Alline acquisition. As previously mentioned, the Alline salons contributed \$0.5 million of EBITDA in the second quarter.

During the three months ended December 31, 2024, we generated \$2.1 million in cash from operations, which is an improvement of \$6.2 million from the prior year 3-month period. During the six months ended December 31, we generated \$780,000 in cash from operations, which is an improvement of \$7.6 million from the prior year 6-month period. Improvements in cash generated from operations is primarily due to less cash used for working capital purposes and lower cash interest.

We continue to believe that we will generate cash for the remainder of fiscal year 2025. And now that we are generating cash after years of using cash, we are evaluating strategies including building a balance in the interim and look to deploy capital in areas that we believe will drive the highest value taking into account all key stakeholders.

Additionally, in the second quarter, we received approximately \$7.5 million of proceeds related to Zenoti migrations. As mentioned earlier, we reached the end of the earn-out period for this transaction and do not expect any proceeds in future periods. As a reminder, under our new financing arrangement, these proceeds will stay in the business and we're not required to pay down debt as we were under our previous financing arrangement.

Turning to liquidity. As of December 31, 2024, we had \$25.9 million of available liquidity, including \$15.7 million of available revolver capacity and \$10.2 million of cash. As of December 31, 2024, our debt outstanding, excluding deferred financing fees and the value of the warrants plus the accrued paid-in-kind interest was \$126.4 million.

As a reminder, due to accounting standards, our balance sheet shows approximately \$248.3 million of operating lease liabilities related to liabilities associated with subleasing our salons to our franchisees over the entire life of their respective leases. These liabilities are serviced by our franchisees and should not be factored into Regis' debt position, so long as the franchisees continue to pay their obligations as they have been.

We expect these liabilities will continue to decrease as the leases mature and as we continue to move away from franchise leases. Regis is solely responsible for lease liabilities for any corporate office space net of subleases and the company-owned salons totaling approximately \$29.5 million.

This concludes my prepared remarks. I would like to thank you for your continued support and interest in Regis. Please feel free to reach out to investorrelations@regiscorp.com to discuss any questions related to the business or quarterly results. With that, we will wrap up the Regis second quarter fiscal year 2025 earnings call.

Question-and-Answer Session

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