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# Rocky Mountain Chocolate Factory, Inc. (RMCF) Q1 2025 Earnings Call Transcript

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Rocky Mountain Chocolate Factory, Inc. (NASDAQ:[RMCF](#)) Q1 2025 Earnings Conference Call July 15, 2024 5:00 PM ET

## Company Participants

Jeff Geygan - Interim Chief Executive Officer

Sean Mansouri - Investor Relations

## Operator

Good evening, ladies and gentlemen. Thank you for standing by. Welcome to today's conference call to discuss Rocky Mountain Chocolate Factory's Financial Results for the Fiscal First Quarter 2025. At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded.

Joining us on the call today is the company's Interim CEO, Jeff Geygan. Please be advised that this conference call will contain statements that are considered forward-looking statements under the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. These forward looking statements are also subject to other risks and uncertainties that are described from time to time in the Company's filings with the SEC.

Do not place undue reliance on any forward-looking statements which are being made only as of the date of this call. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements. The Company's presentation also includes certain non-GAAP financial measures, including adjusted EBITDA, as supplemental measures of performance of the business.

All non-GAAP measures have been reconciled to the most directly comparable GAAP measures in accordance with SEC rules. You will find reconciliation tables and other important information in the earnings press release and Form 8-K furnished to the SEC earlier today, which are currently available on the company's EDGAR page on the SEC's website and will be available on the Company's investor relations section of its website within approximately 24 hours after this call has ended.

And now I will turn the call over to the Company's interim CEO, Jeff Geygan. Jeff, please go ahead.

**Jeff Geygan**

Thank you, and good evening, everyone. We've been working through a transitional period at Rocky Mountain Chocolate Factory as we revamped the framework of our transformational plan and leadership team assigned to execute it. My intention is to utilize today's call to address recent developments and to elaborate on the components of our updated three-year strategic plan.

Before I continue, I'd like to take a moment to formally introduce myself, as this marks the first occasion where I've had the privilege of addressing our shareholders, employees and franchisees in this forum. My background includes over three decades of experience in the capital markets and investment management, with an emphasis on strategic financial analysis, active engagement, and supporting the execution of operational turnarounds.

In August of 2021, I was appointed to the Board of Directors of RMCF, serving as Board Chair from May of '22 to June of '24, where I advised prior leadership on the development of RMCF's transformational plan.

While the Company achieved several key objectives during the initial launch of our strategic plan, including the divestiture of the non-core U-Swirl frozen yogurt business, earlier this year, it became clear to the board that adjustments to our strategic framework and executive team would be necessary to refocus the operational turnaround we were seeking.

Recognizing the need for direct on-site leadership at our production facility, on May 16, I made the decision to move to Durango and step into the role of Interim CEO, relinquishing my duties as RMCF's Board Chair in accordance with our governance policies, while also taking a leave of absence from Global Value Investment Corp in order to dedicate my full time and attention to returning RMCF to profitability and long-term growth.

We're in the final stages of appointing a new CFO to lead our finance team, one who will live and work in Durango. We expect to release more details shortly. The mandate from the Board of Directors is clear. First, identify and rectify deficiencies in our prior multiyear strategy to more effectively build towards a profitable future for the business.

Second, improve our near-term liquidity position of the company. Third, return our retail store count to growth as we exit fiscal '25 and establish a foundation upon which we can achieve our three-year growth target. And finally, oversee the reconstruction of a strong executive team based on-site in our Durango production facility who possess the skills to execute our strategic plan.

I'll now expand upon the updates to our strategic plan and the recent groundwork we've laid to improve our liquidity position. For those newer to our story, Rocky Mountain Chocolate Factory is a decades-old Colorado business that has developed notable brand equity, a loyal franchise base and generations of chocolate-loving consumers.

Our business strategy is designed to better align sales, marketing and production, which will in turn enable us to strategically expand our store network and increase our production throughput with targeted capital investments. This alignment will also ensure more timely delivery of products and services to customers across each of our three sales channels, which are franchisee, e-commerce and specialty markets.

We intend to execute our strategic plan by empowering our employees, franchisees and co-branding partners with data-driven insights and analytics to improve their merchandising, product assortment and customer experience. We've committed to enabling our franchisees to make timely and well-informed decisions to improve store level profitability and sales growth.

We believe our best and most immediate revenue opportunity lies with our current franchise store network, supporting our franchisees remains our #1 priority. To further our commitment to improving the franchisee experience, we are deploying dedicated business consultants who will visit our franchisees nationwide to implement business optimization strategies and provide insights intended to allow stores to operate more profitably.

For example, we need to better communicate our industry-leading volume-based royalty payment program, which creates mutually beneficial relationship that offers discounted royalty rates for franchisees that emphasize the most popular products made in our Durango facility.

Our initial analysis of the opportunity within our retail store network is promising and we believe we can return to same-store sales volume growth as we exit this fiscal year on top of the 15% price increase to franchisees that went into effect on June 1st.

In addition to improving store-level economics, our total network of stores must return to growth. Over the past few months, we've initiated agreements for several new stores as well as a newly designed kiosk concept that will be launched soon.

A recent and important change to our expansion strategy has been to emphasize store transfers in place of store closures. Rather than having a franchisee close a store that we believe is in a favorable location but under operated, we're now actively taking steps to keep the location and replace the operator.

We've successfully transferred ownership of two legacy stores recently. For fiscal year '25, we're targeting net store growth, marking the end of our multi-year pattern of store contraction.

This will be accomplished by opening new stores across eight strategic markets that we have identified, including Boston, New York City, Atlanta, Chicago, Portland, Seattle and a few others. These markets have been selected based upon convenient distribution routes and favorable consumer demographics.

Beyond our store network, another key growth opportunity is within our e-commerce channel and this is a necessary and supportive sales channel with the opportunity to drive incremental revenue and build greater brand awareness. Improving inventory management is imperative to the success of our e-commerce strategy by internally have sufficient stock of products for our franchisees as well as online customers.

Today, e-commerce accounts for just 3% of total revenue. We expect to significantly increase that mix over the next three years. Additionally, our updated strategic plan recognizes the important role played by our specialty market retailers and co-branded partners.

The presence of RMCF products in stores like Costco not only creates favorable economics for the Company, but more importantly services means through which we can increase awareness and reach of our products with the ultimate goal of driving more traffic to our franchise stores.

I'd be remiss if I didn't mention the synergies and brand exposure created to work with our primary co-brand partner, Cold Stone Creamery, which includes more than 100 locations today. Over the next three years, we intend to develop these strategic relationships to further drive brand awareness and throughput while expanding our toolset for inventory management.

Our mission to deliver high-quality confectionery products, along with seasonal nature of our business, creates a challenging paradigm for aligning inventory levels with consumer demand. As we look to increase our production output in the years to come, these channels outside of our franchise network represent the means through which we can manage incremental inventory produced outside of our traditional peak seasonal demand.

Expanding on this point, as well as our production and supply chain considerations, to be sure, our performance during the holiday season of fiscal '24 did not meet our expectation and was a key factor that led to the implementation of many of the strategic and organizational change I've outlined.

Unfortunately, the shortfall is attributable primarily to business execution missteps, bottlenecks in our production output and general inefficiencies across our supply chain. We deployed in excess of 3 million in CapEx towards new equipment and production efficiency investments over the past year, in part to address these supply chain challenges, and we intend to continue investing in the business at a more measured pace to further support and augment our prior investments, all designed to improve product quality, predictability and cost-effective production from our Durango facility.

We believe these investments will enable us to drive material improvements in our output, increasing current capacity in tandem with providing refinements across sourcing and procurement and will deliver cost savings as we scale our efforts. To finance these investments and initiatives, we'll need to improve our liquidity profile.

We're currently negotiating agreements to add several million dollars of additional liquidity through a combination of non-core asset sales, a new term loan agreement and replacing our current credit facility. We're also improving our supply chain and logistics systems with the implementation of a new ERP system that will deepen our insights into operations and serve as a foundation for many of our data-driven initiatives.

It was apparent to our business required a current-generation ERP solution that can provide better real time insights into our production and business operations. Our updated ERP system will improve our responsiveness at the manufacturing level and will allow us to orient our production around our fastest-moving products.

We expect to deploy our new ERP system this fall ahead of the holiday season. We're also in the process of launching a new POS system across our network of franchise stores. To date, we've installed 24 units with an additional 51 stores scheduled to be installed within months. We expect to have over 100 stores using our new POS by fiscal year-end. This will provide additional insights for our business consultants as they continue to engage with operators to improve store level sales and profitability.

All of this is being managed under the steady hand of our Senior Vice President of IT, Ryan McGrath, who has done an excellent job remaining on schedule and within budget. In closing, I'd like to share a few financial and operational targets we've established for both the year ahead and the three years out.

Exiting fiscal '25, we believe we can return to a 20% gross margin. We expect our total store footprint to return to growth in fiscal '25 while returning to adjusted EBITDA profitability as we exit the year. Looking ahead three years to the conclusion of fiscal year '27, we believe we can generate gross margins in the range of 25% to 30% driven by a combination of consistent revenue and volume growth, disciplined operating expense control and franchise store expansion.

When combined with return to revenue growth, increased store count and prudent OpEx management, we believe the business can generate a 10% to 12% adjusted EBITDA margin in fiscal '27.

Before I open the call to Q&A, I'd like to reiterate a few key themes. Despite the recent significant challenges that necessitated a broad range of senior management departures and a strategic realignment, we have a well-conceived strategic plan that we expect to lead to a renewal of growth.

The steps I've outlined refining our strategic framework, strengthening our liquidity position, upgrading our leadership team, expanding our retail and e-commerce presence and investing in production and supply chain improvements are all aimed at driving sustainable growth and profitability to enhance shareholder value.

The company continues to have a well-recognized brand, a loyal consumer following and a resilient customer base. We're confident the initiatives we've begun to implement since I arrived in Durango will position us to achieve our future targets and return Rocky Mountain Chocolate Factory to a state of sustainable and profitable growth.

I want to thank our Board of Directors for their support during this challenging time. I'd also like to recognize our senior leadership team in Durango and beyond who've been outstanding in their support, insights and extremely hard work in helping to stabilize our business and engage wholeheartedly in a newly developed strategic path forward.

Operator, I'll now take questions.

**Operator**



Thank you. Ladies and gentlemen, before we open the call for live Q&A, the company would like to address questions that have been received via email over the past week. I would now like to turn the call over to Sean Mansouri, Rocky Mountain Chocolate Factory's External Investor Relations Advisor.

**Sean Mansouri**

Thank you, Latif, and thank you to everyone who submitted questions over the past week and even as recently over the past hour after issuing our results. So our first question to address here, Jeff, what's the current status of the search for both a permanent CEO and CFO?

**Jeff Geygan**

Thanks, Sean. We're moving forward with both searches and expect to have announcements shortly.

**Sean Mansouri**

Okay. And can you expand on your highest priorities for capital allocation in the next 12 to 36 months?

**Jeff Geygan**

Yeah, of course. Investing in production facility in Durango to improve cost efficiency and uptime operations, continuing to build out our distribution system and committing to expand store count with multiunit operators while investing in our brand and store design.

**Sean Mansouri**

Great. And can you expand upon the product mix that you believe will help to reinvigorate sales and expand gross margins? What are your fastest moving and highest-margin products?

**Jeff Geygan**

Yeah, sure. Our most popular items are milk pecan bears, peanut butter pails, and English toffee, all of which are high-volume items. It's most efficient to produce long runs of our popular items, all of which have leading profit margins will drive greater sales penetration across our system by ensuring we have our most popular products in all locations and available in inventory to meet demand.

**Sean Mansouri**

Great. And how are you thinking about the geographic expansion strategy for Rocky Mountain Chocolate factory?

**Jeff Geygan**

We're focused on developing markets in which there are favorable demographics and easily expandable distribution lanes such as say Boston, New York City, Atlanta or Seattle, Portland and on into California.

**Sean Mansouri**

Okay. And last question here. What is the Board's long-term vision for the RMCF brand, the franchisees, and the manufacturing operations?

**Jeff Geygan**

Yeah, great question. To develop a best-in-class franchise offering based upon a broad network of stores continuing to provide premium confectionery products supported by expanded e-commerce sales.

**Sean Mansouri**

Great. Latif, that wraps up the Q&A that came in via email. If you'd like to open it up for live Q&A please.

## Operator

Yes, sir. [Operator Instructions] This does conclude today's conference call. You may now disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.

## Question-and-Answer Session

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