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Rocky Mountain Chocolate Factory, Inc. (NASDAQ:[RMCF](#)) Q2 2025 Earnings Conference Call October 15, 2024 5:00 PM ET

Company Participants

Jeff Geygan - Interim Chief Executive Officer

Carrie Cass - Chief Financial Officer

Sean Mansouri - Investor Relations

Conference Call Participants

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 Second Quarter 2025. At this time, all participants are in 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; and CFO, Carrie Cass.

Please be advised, 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 can cause actual results to differ materially from those reflected in these forward-looking statements. These forward-looking statements are also subject to the other risks and uncertainties that are described from time to time in the company's filings with the SEC. Please do not place undue reliance on these 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 sections of its website within approximately 24 hours after this call has ended.

And now, I would like to turn the call over to the company's Interim CEO, Jeff Geygan. Jeff, please go ahead.

Jeff Geygan

Thank you and good evening. This quarter we made strides in executing our multi-year strategic plan. As I mentioned on our last call, we've been focused on several critical areas, strengthening the company's liquidity, rebuilding a strong executive team, and laying a solid foundation for sustainable growth and profitability. Today we'll be providing updates on these initiatives and sharing details about additional progress across the organization.

Let's begin with new store openings. As we mentioned last quarter, we're targeting new stores across various strategic markets beginning next month with our first new store opening in Edmond, Oklahoma. In addition, we're in the process of finalizing lease and franchise agreements for another three locations, which we expect to announce soon. We have a growing pipeline of additional sites and qualified operators. These expansion efforts underscore our commitment to scaling the business and bringing the Rocky Mountain Chocolate Factory experience to more communities across the United States.

In this vein, we're pleased to share that Rocky Mountain Chocolate Factory has been included in the Franchise 400 for 2024 by the Franchise Times. This recognition reinforces our position as a leader in the premium chocolate category and highlights the attractiveness of our model for franchisees.

Turning to our company rebrand, I'm able to report that we're nearing completion with 90% plus of the process now behind us. We also expect to finalize the new RMCF store design very soon. This is a major step for us as it further enables our sales team to drive new franchise interests with mock-ups of our new store design and branding. We're targeting the re-brand launch before the end of the year and look forward to unveiling our work to redefine our brand and elevate the in-store experience for our customers.

With the holiday season quickly approaching, we're carefully managing our inventory to meet the demands of each RMCF franchisee. Our focus is on prioritizing fulfillment to our network to ensure every franchisee has the product they need to maximize sales during this important peak season. Our franchisees are central to our growth strategy. They're the lifeblood of our company. We're continuing to improve our order fulfillment rates across the network and working closely with our franchisees to provide an improved experience, helping stores to increase sales and improve profitability.

One example of our improved collaboration with the network is the recently formed Franchisee Product Innovation Group, or FIG, a group composed of Rocky Mountain's product development team and a handful of our most creative and innovative franchisees who work together sharing new product ideas and trends across the industry, specifically focused on developing innovative product for all of our franchisees and customers. Although it's early in the process of introducing new product to the network, this group is creating a valuable source of inspiration for our product development team that incorporate a variety of new flavors, colors, and packaging ideas. We look forward to sharing updates as these product innovations go live in the future.

On the personnel front, we've implemented several key strategic changes. During the quarter, we increased hourly wages at the factory for our vitally important production workers, which immediately helped to both attract and retain the talent necessary to ensure our daily operations run consistently with minimal downtime. Historically we've contended with high employee turnover at the factory. The constant starts and stops with hiring and training was detrimental to factory utilization levels, we want to ensure we have the best talent in the Durango area working at our factory. And equally important, we need to incentivize employees to remain employed after we spend time and resources training them within our system. This change will help increase ROI on our human capital investment over time.

At the corporate level, we were excited to welcome Carrie Cass, our new CFO, in August. She brings deep experience in finance and business strategy, as well as a strong track record of leadership. She's positioned to play an important role in advancing our growth initiatives, managing our continued cost control efforts, and reinforcing the principles of our improved operational discipline.

As I mentioned earlier, improving the company's liquidity position has been essential to executing our multi-year strategic plan. Earlier this month, we announced a new \$6 million three-year credit facility with a group of investors led by one of our board members, Steve Craig. This facility enabled us to retire our previous \$4 million credit facility, while providing additional capital for investment in equipment, machinery, inventory, and our strategic growth initiatives.

With an eye toward early 2025, we're gearing up to deploy a new ERP system that will dramatically improve our approach to business integration and data reporting across all departments. A much needed condition to allow for accelerated growth and more intelligent decision making. The strategic initiative is focused on boosting operational efficiencies and streamlining processes throughout our organization. The new system will integrate key business functions such as finance, inventory management, procurement, logistics, production scheduling, franchise development and support. This integration will also provide for greater visibility into our operations, minimizing manual process errors and enhancing decision-making capabilities with real-time actionable data so that we can adapt more quickly to changing market dynamics.

Two other key initiatives for fiscal 2025 include the rollout of a customer loyalty program and e-commerce strategy. Today our loyalty program is active in just 21 stores, a small fraction of our total store network. We're working closely with RMCF's business consultants to ensure a smooth and consistent implementation across the network. We're making good progress during this transitional phase and look forward to sharing more updates in the future.

Our e-commerce sales channel is an important driver of our revenue growth plan. We've set up an e-commerce sales team as an independent unit of our business, similar to a company-owned store. We're laying the foundation to create a large e-commerce presence that will seamlessly integrate with and complement our physical store locations, all designed to drive traffic from our website to brick and mortar locations. We're managing our e-commerce business with the intent of increasing store level traffic. It's still early to share complete details about our plan for this initiative, but you should know we expect e-commerce to be an important contributor to revenue growth and profitability in the future.

In summary, we're starting to see increased momentum across the business from new store openings and brand enhancements to operational and personnel improvements. We're encouraged by visible improvement occurring both within the company and across our network of franchisees as we continue to develop our path forward and execute our long-term strategy. We're intensely focused on making sound decisions today that will lead to creating long-term value for all of our shareholders.

With that said, I'll now turn it over to our CFO, Carrie Cass, to walk you through fiscal Q2 financial results.

Carrie Cass

Thank you, Jeff. I'm thrilled to join Rocky Mountain Chocolate Factory and to work alongside this talented team as we focus on driving growth and delivering value to our shareholders.

Moving on to our fiscal Q2 2025 results. Unless otherwise stated, all comparisons are on a year-over-year basis. Total revenue for the quarter was \$6.4 million compared to \$6.6 million in the same period last year. Product sales were \$4.9 million compared to \$5 million last year and franchise and royalty fees were essentially flat at \$1.5 million. The total product and revenue and retail gross profit was \$0.6 million compared to \$0.4 million, with gross profit improving to 11.5% compared to \$7.7. The increase in gross margin was primarily attributed to price increases and improved operating efficiency.

Total costs and expenses improved to \$7.3 million compared to \$7.6 million in the -- from a year ago. Net loss for the quarter was \$0.7 million or \$0.11 per share compared with the loss of \$1 million or \$0.16 per share in fiscal quarter two of 2024.

Turning to the balance sheet, we ended the fiscal second quarter with a cash balance of \$1 million compared to \$2.1 million at February 29, 2024. We also ended the fiscal quarter with total inventories of \$6.1 million compared to \$4.4 million at February 29, 2024, which reflects our strategic buildup of inventory at the factory to ensure we are well positioned to meet the needs of our franchisees during the important holiday season.

As of October 31, 2024, we had \$3.5 million outstanding on our line of credit and remained free of long-term debt. This compares to \$1.3 million outstanding on our line of credit at February 29, 2024. As Jeff mentioned earlier, subsequent to the quarter end, we entered into a \$6 million credit facility, which has enabled us to retire our previous line of credit.

This concludes our prepared remarks. We'll be glad to answer any questions you have at this time. Lisa, back to you.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] At this time, there are no questions in the queue. I would like to turn the call over to the company's investor relations advisor, Sean Mansouri. Please go ahead.

Sean Mansouri

Thank you, Lisa. While we're waiting for a live Q&A to build up here, we would like to address some questions that have come in via email over the past week. So kicking things off, Jeff, Carrie, have you seen any measurable improvement in operational efficiency since increasing employee wages at the factory level?

Jeff Geygan

Yes. Hey, Sean, this is Jeff. Thank you. It's a little bit early to tell as we've just recently implemented this, but I can say that the level of retention is dramatically higher than what it had been historically. So we're very encouraged by that improvement. And adding to my comments from earlier, having well-trained employees that report to work on a timely basis that allow us to run all of our production lines is essential to achieving our production goals.

Sean Mansouri

Excellent. And this one actually came in during the call. With 90% to 95% of the rebranding process complete, how do you expect a new brand and store design to affect customer engagement and franchisee interest? Can you share any early feedback from the rebranding efforts?

Jeff Geygan

Well, I don't want to let the cat out of the bag. We've spent an awful lot of time and money in this initiative. It's taken a great amount of effort. We will be rolling that out shortly. I think everyone will be excited with what we've come up with. I know the team internally who's looked at it has reacted very favorably.

Sean Mansouri

Great. You mentioned targeting new store openings across eight strategic markets. How do you prioritize these markets and what specific factors are you considering when selecting new store locations? How do you foresee these openings impacting overall revenue growth in fiscal 2025?

Jeff Geygan

Yes. Very good question. Let me answer the latter part first. It takes time to identify the proper site, identify the right operator. Some of those operators are existing franchisees, so we know them well. But then it takes time to actually put a -- get a store up and running. So as far as the impact for fiscal 2025, which ends on February 28, I wouldn't see a significant amount of revenue growth from brand new stores. The revenue growth opportunity is really from existing stores increasing sales, as well as e-commerce, which can be turned on very quickly.

We have 147 stores across 36 states in the United States. One of the challenges we face is logistics, that is getting product to the stores on a timely basis. I've said to our new store development department, and they're actually an excellent group, that if you look at the map where we have all these pins which are -- where our stores are located. The best location is going to be between two pins, because that means I already have a truck going from site A to site B. If we can put something in between that would be great.

In the scheme of things, about 80% of our stores are west of the Mississippi. So there's really virgin territory for us east of the Mississippi where we already have a presence more so in the southeast, somewhat in the mid-west, but very little in the northeast. So in terms of where you could identify obvious opportunity, you think Boston, New York, Philly, D.C., and then you start to come down to Atlanta, which are obviously key areas for us. There's dense population. The feedback from the few stores that we have out there is very good. So we think there's great opportunity for us in those areas specifically.

But Kara Conklin, who heads our franchise development team has a keen eye on developing the right locations with the right operators. So we're very encouraged by the pipeline of prospective locations and operators that we have developing.

Sean Mansouri

Thanks, Jeff. That concludes the Q&A we received via email. Operator, back to you.

Operator

Thank you. Thank you all for participating in today's call. You may hang up your phone lines now. And everybody, have a wonderful day.

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