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Rocky Mountain Chocolate Factory, Inc. (RMCF) Q2 2027 Earnings Call Prepared Remarks Transcript

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Rocky Mountain Chocolate Factory, Inc. (RMCF) Q2 2027 Earnings Call October 19, 2026 5:00 PM EDT

Company Participants

Allen Harper - Interim CEO & Principal Executive Officer
David Denker - Chief Operating Officer
Carrie Cass - Corporate Secretary & CFO

Presentation

Operator

Good afternoon, 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 2027. [Operator Instructions] As a reminder, this conference call is being recorded.

Joining us on the call today are the company's Interim CEO, Allen Harper; COO, David Denker; 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 unknown -- 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.

I will now turn the call over to the company's Interim CEO, Allen Harper. Al, please go ahead.

Allen Harper
Interim CEO & Principal Executive Officer

Thank you, and hello, everyone. Since stepping into the Interim CEO role in June, I have been encouraged by the way our leadership team has come together around and shared a set of priorities. I also want to recognize David Denker's recent promotion to Chief Operating Officer. David has played an important role in advancing our operational priorities and strengthening alignment across the business.

Our management team has focused responsibilities, stronger coordination and greater accountability. This is essential to delivering the quality and consistency our customers expect. Rocky Mountain Chocolate Factory is an iconic brand with a long history of making products that guests value. The second quarter showed early progress in production and gross margin. However, we recognize that the business must deliver better results, and our near-term focus remains on disciplined execution. Alongside this work to improve, we operate -- we are actively addressing our debt and working capital needs.

During the quarter, the Board formed a strategic committee to oversee the review of strategic and financial alternatives intended to strengthen our financial position and maximize long-term shareholder value. There are a number of options under consideration, including financing, a possible sale, merger or other business combination or a going private transaction.

Following quarter end, we completed the sale-leaseback of our Durango property and used the proceeds to repay debt. Separately, we entered into a new $2 million loan agreement. Carrie will provide further detail on these transactions shortly. While the strategic review continues, we remain focused on improving the business we operate today. We must support our franchisees and stores, execute through the holiday season and build a stronger operating foundation for sustainable growth and long-term shareholder value.

With that, I'll hand it over to David to discuss our operational progress.

David Denker
Chief Operating Officer

Thank you, Al, and hello, everyone. On the operating side, our priority is to build a more disciplined and scalable operating model that improves product availability, strengthens franchise economics and delivers a better guest experience. We have organized that work around 3 strategic pillars: products, production and innovation; supply chain and logistics; and retail experience and omnichannel growth. Across each pillar, our approach is to simplify the business, improve visibility and accountability and scale what works.

Our focus now is improving the performance of our factory, stores and franchise network while building a stronger foundation for sustainable growth. While the strategic review Al discussed continues, our responsibility is to keep strengthening the underlying business. During the second quarter, demand for our product remained strong, and August provided an early proof point being our highest production and shipping month of the calendar year.

We are managing the operations around measures, including equipment uptime, throughput, yield and scrap, product availability and order fulfillment. Underneath those measures, we are tightening the operating cadence for demand planning through finished goods, including production scheduling, material readiness and equipment reliability. The goal is to identify constraints early and solve them before they become missed production or missed customer orders. Our focus now is establishing the discipline and visibility required to sustain higher throughput through the holiday season and beyond.

Our first pillar is product, production and innovation. Enhancements to our reporting platform alongside our ERP are giving us better visibility into demand, inventory and production requirements and helping us align what Durango produces with what stores and franchisees need. We're improving production planning and using qualified third-party products selectively where they complement our capabilities and improve availability.

Simplification does not mean less innovation. It means a more focused assortment and a more deliberate innovation calendar that balances core products with seasonal items, limited time offering and gifting occasions. This should help us use the factory more efficiently, keep more product in stock and improve our product mix and margin over time. Our second pillar is supply chain and logistics. The opportunity here extends beyond freight.

We are evaluating the full cost and reliability of moving product from ingredients through manufacturing and ultimately into the store. That includes supplier diversification, purchasing discipline, inventory levels, freight optimization, delivery security and reducing product damage. Better execution should improve product availability for our franchisees while reducing avoidable friction cost and working capital over time.

Our third pillar is retail experience and omnichannel growth. We increasingly view our company-owned stores as operating laboratories for the broader system. During the quarter, we acquired the Chino Hills store, increasing our company-owned stores to five locations compared with three 1 year ago. These stores allow us to test merchandising, labor models, product presentation, training, technology and new guest experience in a controlled environment. Scaling what works across the franchise network should allow us to move faster while being disciplined about where we invest franchise time and capital.

During the second quarter, we completed a store traffic pilot at our corporate locations. Combined with our POS data, this gives us a more complete view of store performance, including traffic, conversion, average transaction value, items per transaction, product mix, sales and profitability. At a basic level, store productivity is driven by traffic, conversion and basket.

Better data allows us to understand which part of the equation represents the opportunity at a particular store rather than treating every location the same. That helps us identify best practices, align staffing, sharpen merchandising and measure whether initiatives are improving store productivity. We are applying the same discipline to remodels, looking at sales, profitability, basket performance and guest feedback before determining what to scale.

We are also working to create a more connected guest relationship across physical and digital channels without losing what makes the in-store experience distinctive. The handcrafted product, caramel apples, fudge, live product theater and sensory experience of our stores are important points of our differentiation. And our learning management system and merchandising standards are intended to help our chocolatiers bring the experience to life consistently.

At the same time, Rocky Rewards, our mobile app, digital ordering, third-party delivery, website enhancements and corporate gifting give us more ways to serve the same guests across occasions. Over time, we aim to increase frequency, retention and customer value while driving incremental demand back into our stores. A healthier franchise system is fundamental to the long-term health of the Rocky Mountain Chocolate Factory.

During the quarter, we opened new franchise stores in Folsom, California and Tinton Falls, New Jersey, completed 2 remodels and continued onboarding franchisees to our integrated ordering platform and third-party delivery channels. The franchisee value proposition is central to our strategy. If we can improve product availability, simplify operations, strengthen merchandising, provide better training and data and create more demand generation tools, we should make the system easier and more productive to operate.

Our immediate priority is executing well through the holiday season, but the work underway is intended to strengthen the business over the long term. We see meaningful opportunity to improve performance across the business. Our goal is to preserve what has made Rocky Mountain Chocolate Factory special for 45 years while building the operating capabilities required for the next chapter of the brand.

Thank you. I'll now pass to Carrie Cass.

Carrie Cass
Corporate Secretary & CFO

Thank you, David. Please note that unless stated otherwise, all comparisons are on a year-over-year basis. Total revenue for the first -- fiscal second quarter was $6.7 million compared to $6.8 million in the same period last year. Revenue increased 9% sequentially from the first quarter, reflecting our typical seasonal increase in activity. Product sales were $5.3 million compared to $5.2 million last year, an increase of 2%.

Higher retail sales driven by the larger company-owned store base and price increases were more than offset by lower Durango product sales and royalty and marketing fees. The decline in royalty and marketing fees reflects fewer franchise stores and amendments to franchise agreements. Total product and retail gross profit increased to $2.4 million compared to roughly breakeven in the same period last year. This drove a gross margin improvement, increasing to 8% from a negative 0.6% in the same period last year.

Total costs and expenses were $7.7 million compared to $7.3 million in the same period last year. The increase primarily reflected our larger company-owned store base, higher franchise and general administrative costs. These increases were partially offset by lower cost of sales, and sales and marketing expenses. Net loss was $1.3 million or a negative $0.14 per share compared to a net loss of $0.7 million or negative $0.09 per share in the same period last year.

Turning to the balance sheet. We ended the second quarter with cash of $0.4 million compared to $1.2 million at the end of fiscal year '26. Total inventory was $2.6 million compared to $4.1 million at the end of fiscal year '26. As of August 31, 2026, total debt outstanding was $6.9 million compared to $6.6 million at the end of fiscal year '26.

As Al mentioned earlier, following the quarter end, we signed an agreement for the sale and leaseback of our Durango facility for approximately $6.6 million. The proceeds from the sale were used to repay our existing $6.6 million promissory notes, which carried a 12% interest rate. On October 1, '26, we entered into a lease for continued use of the facility. First year's rent is $624,000 being 9.45% of the purchase price. Further details are available in the press release and the related Form 8-K.

In addition, on October 16, '26, we entered into a $2 million loan agreement with Alpine Bank. The loan matures in October of 2028 and bears interest at prime plus 1%. I'd like to take a moment to reflect on how far we've come. Over the past 2 years, we've transformed many elements of our business.

We invested in new technologies, including an ERP, a point-of-sale platform, location-specific websites for each store integrated with third-party delivery providers and most recently, a new loyalty program. These investments enable us to operate more efficiently, make better informed decisions and engage more effectively with our guests.

At the same time, we've modernized our brand through an updated logo, new store design, and we're launching a new set of box assortments in refreshed packaging for the holidays. These changes position us to better meet guest expectations while preserving the heritage and the quality that have defined Rocky Mountain Chocolate Factory for more than 4 decades. Culturally, this is a very different company than the one I joined in August of '24.

Together, we have built a leadership team and an organization that are aligned, accountable and focused on delivering results. Across every function from Durango to the field, there's a stronger sense of purpose, collaboration and operational discipline. We've made decisions to stabilize the business while remaining deliberate in how we position the company for long-term success.

Our factory is operating more efficiently, our franchisees have better tools and support, and our brand continues to evolve in ways that resonate with today's guests. As we enter the holiday season, the entire organization is aligned that we will execute with excellence. That means keeping standard products flowing, supporting our franchisees and delivering a consistent premium guest experience. While there's still work ahead, I'm confident in our direction. I'll now hand it back to Al for closing remarks.

Allen Harper
Interim CEO & Principal Executive Officer

Thank you, Carrie. The second quarter shows that better coordination and execution can improve production and gross margin. That said, we certainly recognize there is more work to do to get this business back to stronger growth and margin profile. Our priorities are to execute through the holiday season, support our franchisees and stores, manage our financial position carefully and evaluate credible strategic alternatives.

The three operating pillars that David outlined give us a clear framework for execution, and we expect to continue providing updates on meaningful progress as the business advances. I want to thank our employees, franchisees, Board members and shareholders for their continued commitment and support. Thank you for your time and continued interest in Rocky Mountain Chocolate Factory. This concludes our prepared remarks. Operator, you may now close the call.

Operator

Thank you. This concludes today's conference call. You may now disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

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