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Rocky Mountain Chocolate Factory, Inc. (NASDAQ:[RMCF](#)) Q3 2025 Earnings Conference Call January 14, 2025 5:00 PM ET

Company Participants

Jeff Geygan - Interim Chief Executive Officer

Carrie Cass - Chief Financial 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 Third 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, and CFO, Carrie Cass.

Please be advised this conference call will contain statements that are, excuse me, 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 and 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 the 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 afternoon.

This quarter, we continue to advance our initiatives to strengthen Rocky Mountain Chocolate Factory's foundation and drive future revenue growth and profitability. Building on the initiatives discussed during our last call, we have concentrated on improving our liquidity, revitalizing our franchise network and executing key operational priorities as we advance through this transformational process. The results from the current quarter mask the underlying qualitative improvements resulting from the transformation of the company and the evolution that involves us doing things differently. Today, we'll share updates on these initiatives and highlight our ongoing commitment to delivering value for all stakeholders.

Beginning with new store openings, we recently announced plans for two new stores and one new kiosk in three U.S. markets, including Chicago, Illinois; Charleston, South Carolina; and Brandon, Florida. Each of these openings are being launched with existing Rocky Mountain Chocolate Factory store owners, validating our improved store design and franchisee-focused business attitude. We anticipate Brandon and Charleston to open in the coming months with Chicago opening this summer.

We also recently completed several store transfers, a process in which an existing store is sold to a new owner. This is an important part of our long-term strategy to evaluate our -- pardon me, to elevate our franchise system and improve our AUV, or average unit volume, an important metric in the franchise world. We have become proactive in replacing owners in locations that we deem desirable and potentially more profitable under new management. We're able to assist a store transfer by facilitating that transfer from a current owner to a new owner, thus preserving the most desirable locations while allowing those less desirable locations to shut down under similar circumstances.

For example, we just completed transfers of both our Vail, Colorado and Steamboat Springs, Colorado locations whereas we opted to allow the Tilton, New Hampshire location to close after the first of this year. This new process has been developed and managed successfully by our VP of Franchise Development, Kara Conklin, who's been with the company just over one year.

We have been very intentional in managing our network of existing stores and continuously looking for prospective owners who are financially sophisticated, entrepreneurial and well capitalized to become part of our growing family of successful franchisees. We plan to attract new owners who have the capacity and the operating skills to become multi-unit operators, one of the key metrics in our long-term vision.

These developments reflect the growing interest in our improved franchise model and our focus on building a world-class franchise business. In addition to these announced openings and transfers, we have a growing pipeline of desirable locations and qualified owners, and we foresee a return to growth in a number of franchise stores for the first time in over a decade.

Turning to holiday season, I'm pleased to report that we fulfilled nearly 100% of franchisee and specialty market demand, an important accomplishment and significant improvement from last year. The strong holiday performance underscores our ability to deliver under pressure and highlights the potential for improved results as we refine our process and drive operating efficiencies across the business. It also reinforces the trust franchisees place in us to support their business during critically important selling periods.

With respect to our operating infrastructure, on January 6, we launched our new ERP system, which integrates important business functions such as inventory management, procurement, production scheduling and financial reporting. With this system in place, we anticipate improved cost management, a reduction in time and potential errors resulting from manual processes, and enhanced strategic decision making driven by near real-time insights and analytics. We expect our ERP system, along with our current deployment of an upgraded store-based POS system, to provide improved visibility into consumer purchasing behavior, enabling us to identify opportunities to optimize pricing and factory output and ultimately drive higher operating profits.

As highlighted on our last conference call, our rebranding initiatives, new store design and updated packaging are nearly complete. Although we initially aimed to complete this effort much sooner, the extended timeline allowed us to enhance and finetune the final design work, which we believe will dramatically improve the customer experience. Our new branding offers a modern, aesthetic without losing sight of our heritage of premium quality craftsmanship. Our new in-store design will offer customers an engaging in-store experience accompanied by an elegant assortment of packaged items. This marks an important step in our path to invigorate franchise store growth as we believe this work will position RMCF as a unique and appealing brand for both store owners and consumers.

Our e-commerce business, including RMCF and Amazon.com, has become a rapidly growing unit of our overall business, with sales nearly tripling during October, November and December versus last year. This growth was supported by improvements from our marketing efforts tailored to online customers, which included personalized e-mail campaigns, social media ads and promotions designed to drive traffic to our website and further to our network of stores. We also better leveraged data analytics this year to understand consumer preferences, allowing us to offer more relevant products. To further enhance the online shopping experience, we've made targeted investments in people who are more proficient with website optimization, digital marketing, social media and related marketing campaigns. We expect to see substantial improvements in our digital assets in the near term. We welcome your frequent visits and purchases on rmcf.com.

We're also in the process of expanding our loyalty program, which is designed to increase customer retention and reward repeat purchases both in-store and online. We're using DoorDash and other similar customer engagement applications to drive higher store level sales. By extending a variety of programs to more stores, we expect to build stronger connections with consumers and encourage brand loyalty across multiple channels.

On the personnel front, we made strategic hires to strengthen our executive management team and support our franchise network. This includes a new VP of Franchise Business Support, [Lizzy Mae Kerr] (ph), and a VP of Marketing, [Jeremy Garcia] (ph), both of whom bring improved levels of experience and track record of success in their respective fields. Our executive management team buildout is complete. We're well positioned to execute our long-term vision for the company, driven by the right people sitting in the right seats. Additionally, we announced the appointment of two new Board members, Mel Keating and Al Harper, who both bring executive experience to our Board room. Their insights will be invaluable as we continue to refine and execute our long-term vision for the company.

As announced previously, we secured a \$6 million credit facility on September 30, providing the necessary flexibility to invest in our operations and growth initiatives in a thoughtful and methodical way, allowing us to build a company of lasting value. We're in the midst of an historic transformation in the company that continues to evolve. We have finished assembling our executive management team and are focused on our franchise network, offering premium confectionery products and gourmet apples in a retail store format, serving consumers of all ages.

Looking further at our performance this quarter, while we are making progress, there's still substantial work ahead that is required to accelerate revenue growth and optimize cost to increase overall profitability. We face both gross and operating margin pressures stemming from a host of issues that we believe are transitory. We're in a continuous process of addressing and rectifying both revenue and cost issues and anticipate improved results in the quarters ahead. We're well positioned to address these issues particularly with the deployment of our new ERP system, which will dramatically improve our access to relevant and timely data and analytics. Concurrently, we're pursuing a variety of margin-enhancing initiatives. Our efforts are already yielding results.

In closing, we understand there's tremendous power in driving continuous improvement and the subsequent delivery of results. We're laying the foundation for substantial revenue growth and improved profitability through strategic investments in our people, operations, franchise network and brand. We still have work to do in this transformational process as we evolve and recognize we have to do things differently. We are developing a culture of discipline, one in which we believe we have the business discipline to make a series of good decisions consistent with our long-term vision. We have disciplined people who engage in disciplined thought and take disciplined action in approach and process. Our ongoing commitment and long-term operating horizon enables us to execute a strategic plan that we believe will create substantial equity value for our stockholders to the benefit of our franchisees, customers and consumers.

Thank you. I'll now hand it over to our CFO, Carrie Cass, who will discuss our Q3 financial results.

Carrie Cass

Thank you, Jeff.

Please note that unless stated otherwise, all comparisons are on a year-over-year basis.

Now, moving on to our fiscal third quarter 2025 results. Total revenue for the third quarter of 2025 increased to \$7.9 million compared to \$7.7 million on the same period last year. Product sales were \$6.4 million compared to \$6.1 million last year. And franchise and royalty fees were \$1.1 million compared to \$1.2 million in the same period last year.

Total product and retail gross profit was essentially flat at \$0.7 million, with gross margins at 10% compared to 10.2%. The decrease in gross margin was primarily driven by higher supply, third-party vendor and labor costs.

Total costs and expenses increased to \$8.6 million compared to \$8.5 million in the year-ago period, driven in part by non-recurring professional expenses.

Net loss for the quarter was \$0.8 million or negative \$0.10 -- \$0.11 per share compared to a net loss of \$8 million last quarter -- or last fiscal -- sorry, the quarter ended November of '23 was a negative \$0.12 per share.

Our EBITDA improved to \$41,000 positive number compared to a negative \$0.3 million a year ago.

Turning to the balance sheet. We ended the fiscal third quarter with a cash balance of \$1.1 million compared to \$2.1 million at February 28, '24.

Accounts receivable at the fiscal quarter ended were \$4.1 million compared to \$2.2 million in February 28, 2024. Accounts receivable was elevated as a result of increased demand across all channels.

We ended the fiscal quarter with total inventories of \$5.7 million compared to \$4.3 million at February 28, 2024, which reflects our strategic buildup of inventory at the factory to ensure we were well positioned to meet the needs of our franchisees during the critical holiday season.

Our accounts payable at the fiscal quarter ended were \$2.1 million compared to \$3.4 million at February 28, 2024.

We ended the quarter with a current ratio of 2.6x compared to 1.6x -- 1.2x at February 28, 2024.

Long-term debt at our fiscal quarter ended was \$6 million. There was no long-term debt at February 28, 2024. The long-term debt is a credit facility put in place on September 30 to replace our \$3.5 million long-term credit line -- or short-term credit line, excuse me.

This concludes our prepared remarks. We will be glad to answer any questions now. Operator, back to you.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And at this time, while we're waiting for participants to join, I'd like to turn the call over to the company's Investor Relations advisor, Sean Mansouri. Please go ahead.

Sean Mansouri

Thank you. Before we open the call for live Q&A, the company would like to address questions that have been received via e-mail over the past week and even over the past hour since issuing results.

So, to kick things off, Jeff, Carrie, what kind of benefits do you expect to drive from the new ERP system?

Jeff Geygan

Sean, thanks. There are a host of benefits, but the real value of new ERP is we're going to have timely, accurate data and analytics to assist us in making managerial decisions to drive profitability as we go forward.

Sean Mansouri

Understood. And can either of you provide an update on the rebranding initiative and its potential impact on franchisee interest?

Jeff Geygan

Coincidentally, we had our franchisee advisory council call earlier today. And the level of enthusiasm amongst this group of 12 who represent the greater group has been very high, as evidenced by the fact that we have three of our existing franchisees willing to open the first three stores, two new stores, one being a kiosk. And I think everyone who's seen our -- the new logo, the new store design, are quite excited about it as we're excited to roll that out.

Sean Mansouri

Thank you. And what progress has been made on new store openings? And are there any specific geographies that you are targeting?

Jeff Geygan

Kara Conklin, I mentioned earlier, is working vigorously to create a pipeline here. We have the three stores that we've mentioned, that's all that we've announced to date, but we have a robust pipeline.

Sean Mansouri

Excellent. Those are all the questions that we received via e-mail. Operator, back to you.

Operator

At this time, there are no calls in the queue. And I would like to go ahead and thank everyone for joining the call today. You may all disconnect your lines at this time, and have a wonderful day. Thank you for your participation.

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