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Q2: 2024-07-25 Earnings Summary

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Texas Roadhouse, Inc. (NASDAQ:[TXRH](#)) Q2 2024 Earnings Conference Call July 25, 2024 5:00 PM ET

Company Participants

Michael Bailen - Head of Investor Relations

Jerry Morgan - Chief Executive Officer

Chris Monroe - Chief Financial Officer

Conference Call Participants

Jake Bartlett - Truist Securities
Brian Bittner - Oppenheimer
David Tarantino - Baird
Brian Harbour - Morgan Stanley
Jim Salera - Stephens
Elliott Simon - Evercore ISI
Lauren Silberman - Deutsche Bank
Peter Saleh - BTIG
Dennis Geiger - UBS
Jeff Farmer - Gordon Haskett
Andrew Strelzik - BMO Capital Markets
Jon Tower - Citigroup
Chris O'Cull - Stifel
Gregory Francfort - Guggenheim Securities
Logan Reich - RBC Capital Markets
Jim Sanderson - Northcoast Research
Brian Vaccaro - Raymond James
Sara Senatore - Bank of America

Operator

Good evening, and welcome to the Texas Roadhouse Second Quarter Earnings Conference Call. Today's call is being recorded. All participants are now in a listen-only mode. After the speakers remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to introduce Michael Bailen, Head of Investor Relations for Texas Roadhouse. You may begin your conference.

Michael Bailen

Thank you, Brianna, and good evening. By now, you should have access to our earnings release for the second quarter ended June 25, 2024. It may also be found on our website at texasroadhouse.com in the Investors section.

I would like to remind everyone that part of our discussion today will include forward-looking statements. These statements are not guarantees of future performance, and therefore, undue reliance should not be placed upon them. We refer all of you to our earnings release and our recent filings with the SEC. These documents provide a more detailed discussion of the relevant factors that could cause actual results to differ materially from those forward-looking statements.

In addition, we may refer to non-GAAP measures. If applicable, reconciliations of the non-GAAP measures to the GAAP information can be found in our earnings release.

On the call with me today is Jerry Morgan, Chief Executive Officer of Texas Roadhouse; and Chris Monroe, our Chief Financial Officer. Following the prepared remarks, we will be available to answer your questions. In order to accommodate everyone that would like to ask a question, please limit yourself to one question.

Now, I would like to turn the call over to Jerry.

Jerry Morgan

Thanks, Michael. And good evening, everyone. We are pleased with our second quarter results as our operators continue to do an amazing job serving our guests and communities. Same-store sales growth of 9.3% and the benefit of a steady pace of new-store openings in 2024 helped us drive revenue to over \$1.3 billion in the quarter.

We remain excited about the future of all three of our brands. During the second quarter, Texas Roadhouse restaurants averaged approximately \$163 in weekly sales. Our managing partners continue to drive sales and traffic growth, which keeps the brands positioned as a leader in the casual dining industry.

Bubba's 33 maintained its positive trend with approximately \$123,000 in weekly sales. I recently had the opportunity to visit the three newest Bubba's 33 locations in Texas and Virginia. Nothing is more energizing than spending time in the restaurants working alongside our people and getting feedback from our guests.

There's no doubt that our Bubba's 33 operators are building name recognition and creating guest loyalty. Bubba's is also receiving a number of local awards, including being named Best Burger and Best Family and Casual Dining Restaurant in Chesapeake, Virginia, and 2024 Best Pizza in Buford, Georgia.

Jaggers, our quick-service brand, is also gaining increased consumer awareness, which helped generate approximately \$73,000 in weekly sales during the second quarter. Jaggers is also being recognized as its burger was named a community choice finalist in Louisville, Kentucky. Additionally, we are looking forward to our first international Jaggers franchise location later this year on the Camp Humphreys military base in South Korea. Speaking of openings, during the second quarter, we opened three company-owned Texas Roadhouses and three Bubba's 33 restaurants. For the full year, we remain on track to open approximately 30 company-owned restaurants across all brands.

Also, our franchise partners opened three Texas Roadhouse locations, including our first restaurant in Puerto Rico. We expect as many as 13 franchise openings this year, including three Jaggers. We also made great progress on our technology initiatives during the second quarter. First, we completed the rollout of our Roadie First technology system throughout the company. We believe improved mobile access to our resources will provide Roadies with the help -- help us remain as an employer of choice for years to come.

Second, the pace of the digital kitchen conversion remains on track. We have completed 50% of the approximate 230 scheduled for this year. The feedback remains positive and our current expectation is that nearly all restaurants will convert to a digital kitchen by the end of 2025.

Finally, there has been significant discussion within the restaurant industry concerning the health of the consumer as well as the increased focus on promotions and discounting from others in the industry. Through the first-half of the year, we have not seen a measurable impact on our overall business from these issues. Our guests continue to recognize the quality and value we offer and do not appear to be changing their dining habits.

At Texas Roadhouse, we will continue to focus on what we do best, which is taking care of our Roadies and providing a legendary experience to each and every one of our guests.

Now Chris will provide some thoughts.

Chris Monroe

Thanks, Jerry. We are pleased from top to bottom with our second quarter financial results. Leverage from same-store sales growth, coupled with the lower than forecasted inflationary pressures drove a meaningful increase in diluted earnings per share.

During the second quarter, we continued seeing a resilient guest visiting our restaurants. In addition to strong traffic growth, we also experienced encouraging mix trends within our check.

For the quarter, our overall mix was basically flat with positive mix in entrees, add-ons and soft beverages. This was offset by continued but improving negative mix in alcohol. Additionally, our sales momentum has carried forward into the third quarter with strong same-store sales growth through the first four weeks.

In the coming weeks, we will have our normal discussions with our operators regarding the amount of menu pricing we may take at the beginning of the fourth quarter. We will continue to follow our disciplined process of focusing on maintaining our value proposition while balancing the impact of structural inflationary pressures.

On the topic of inflation, we benefited in the second quarter from lower commodity costs than we had forecasted. The benefit came from our floating beef contracts that enable us to take advantage of market prices that were lower than our expectation for the back half of the quarter.

At this time, we are updating our full-year commodity inflation guidance to approximately 2%. This adjustment reflects both the impact of the lower than initially forecasted inflation incurred so far this year and our current expectation of between 2% and 3% commodity inflation in the second-half of the year.

With regard to labor in the second quarter, wage and other inflation came in as expected. We also saw a continuation of the positive productivity trends of the last several quarters. We believe the benefit of fully staffed restaurants with longer tenured Roadies should result in continued labor efficiency improvement through at least the end of this year. Our guidance remains at 4% to 5% wage and other labor inflation for the full-year.

With regard to cash flow, we ended the second quarter with \$197 million of cash. Cash flow from operations was \$134 million, which was offset by \$145 million of capital expenditures, dividend payments, and share repurchases. Given our current cash position and an expectation for strong operating cash flow generation to continue, we have approved and/or accelerated additional store-level capital projects that were not in our initial plan.

As such, we are raising our full-year 2024 capital expenditure guidance to between \$360 million and \$370 million. We are excited to make this capital commitment as we believe investing in new and existing restaurants remains a productive use of our cash for creating shareholder value.

And now, Michael will walk us through the second quarter results.

Michael Bailen

Thanks, Chris. For the second quarter of 2024, we reported revenue growth of 14.5%, driven by an 8.5% increase in average unit volume and 5.6% store week growth. We also reported a restaurant margin dollar increase of 32.7% to \$243 million and a diluted earnings per share increase of 46.4% to \$1.79. Average weekly sales in the second quarter were approximately \$159,000 with to-go representing approximately \$20,000 or 12.6% of these total weekly sales.

Comparable sales increased 9.3% in the second quarter, driven by 4.5% traffic growth and a 4.8% increase in average check. By month, comparable sales grew 9.8%, 9%, and 9.1% for our April, May, and June periods respectively. And comparable sales for the first four weeks of the third quarter were up 8% with our restaurants averaging sales of approximately \$151,000 per week during that period.

In the second quarter, restaurant margin dollars per store week increased 25.7% to nearly \$29,000. Restaurant margin as a percentage of total sales increased 250 basis points year-over-year to 18.2%. Food and beverage costs as a percentage of total sales were 32.7% for the second quarter.

The 176 basis-point year-over-year improvement was primarily driven by the benefit of a 4.8% check increase, offsetting the 0.4% commodity inflation for the quarter. Labor as a percentage of total sales decreased 76 basis points to 32.8% as compared to the second quarter of 2023.

Labor dollars per store week increased 6% due to wage and other labor inflation of 4.4% and growth in hours of 1.6%. A \$2.2 million adjustment to our quarterly insurance reserve had a 16 basis-point negative impact on this quarter's labor expense as a percentage of sales. This charge had minimal impact on the year-over-year change as we lap a \$1.8 million reserve adjustment from last year.

Other operating costs were 14.8% of sales, which was 7 basis points higher than the second quarter of 2023. Higher operating bonuses as a percentage of sales resulting from increased year-over-year restaurant-level profitability had a 30-basis-point negative impact.

Additionally, a \$2.1 million adjustment to our quarterly serve for general liability insurance had a 16 basis-point negative impact on this quarter's other operating expense as a percentage of sales. This charge had minimal impact on the year-over-year change as we lapped a \$1.6 million reserve adjustment from last year.

Moving below restaurant margin, G&A dollars grew 14% year-over-year and came in at 4.3% of revenue for the second quarter. The majority of the year-over-year increase was due to higher compensation and benefit expense. Our effective tax rate for the quarter was 15%. The higher tax rate is driven by our increased profitability. Based on our outlook for the remainder of the year, we are updating our full-year 2024 income tax rate to approximately 14.5%.

Finally, as a reminder, 2024 is a 53-week year for us. As such, the fourth quarter will have 14 weeks versus our normal 13 weeks. We estimate that the additional week could benefit full year 2024 earnings per share growth by approximately 4%.

Now, I will turn the call back over to Jerry for final comments.

Jerry Morgan

Thanks, Michael. I'm looking forward to our upcoming annual fall tour, where our senior leadership travels the country for six weeks visiting with our managing partners. This gives us the opportunity to personally thank them for their efforts and, just as importantly, we will listen to what is on their mind and learn how we can help continue growing their business.

Finally, thank you to all of Roadie Nation for your contributions to our success. It takes all of us to deliver on our mission of legendary food and legendary service.

That concludes our prepared remarks. Brianna, please open the line for questions.

Question-and-Answer Session

Operator

Thank you. We will now open the line for your questions. [Operator Instructions]. Your first question comes from the line of Jake Bartlett with Truist Securities. Please go ahead.

Jake Bartlett

Great. Thank you so much for taking the question. My mind was on the implications of the quarter-to-date trend. You mentioned 8% in the first four weeks of the quarter. One question is whether there's any moving pieces there like calendar shifts, 4th of July impact. Just want to make sure on that.

And then the other part of the question is, your compares eased materially last year, so in August and September. So how do you think about those compares easing? Does that give you comfort that we could accelerate from the current levels or was last year more in relation to what was happening in the prior year. Just how should we think of the quarter-to-date and the implications for the quarter as a whole?

Michael Bailen

Hey, Jake, it's Michael. I appreciate the question. I mean, I'd first say, I think we're very happy with the 8% for the month. There's really no timing issues in there that we would call out. And I think we've somewhat moved away from looking at the multiyear stacks. But to the extent you do look at them on a two-year or on even a five-year basis, there is no weakness being shown in that 8% number and given what we are lapping from prior years.

You are right, the overall comp in the next several months, on its surface is easier, but you -- but on a multiyear basis, we will see what happens. So we'll continue to do what we're doing and our operators are focused on driving more guests through the doors. And we feel very happy about the trends we're seeing.

Jake Bartlett

Thank you.

Operator

Our next question comes from the line of Brian Bittner with Oppenheimer. Please go ahead.

Brian Bittner

Thanks. Congratulations on great results. I wanted to ask about margins and kind of a two-part question on margins. First, on the labor side, it's just the flow-through on labor margins is meaningfully better this year. It just seems like you've cracked the code on growing hours at a much lesser rate than traffic. So first, can you just help us understand what's going on with labor and why it's so successful now from a leverage perspective?

And then, secondly, on the food cost side, 2% to 3% in the second-half of the year. Can you just remind us how that's going to pace in 3Q versus 4Q, whether it's going to be bifurcated in the trend between those two quarters so we can think about the amount of COGS leverage you're going to get in 3Q and 4Q potentially?

Jerry Morgan

Yes, Brian, this is Jerry. I'll take the labor side, and then I think Michael will address the food cost side. But I really do believe that our investment in the last couple of years in our rebuilding of our management teams and our hourly ranks has really found a way to flow through the productivity now.

And obviously, with our elevated sales and people getting comfortable and doing their jobs and getting the reps in basically from that side of it, I think it's all flowing through. We're fully staffed. We're comfortable with the tenure that we're having. And all of that is producing some outstanding results on the labor side, which we've been really pushing the last couple of years.

Chris Monroe

And Jerry, I'll just jump-in there. This is Chris before we get it over to Michael. On the labor, just for percentages, we've talked about having about a 50% of our labor hours growth compared to our traffic growth. And we got there in the fourth quarter. We were down to 25% in Q1. We're still below the 50% in the mid-30s this quarter. And it's all reflective of the things that Jerry was talking about.

And, Michael, do you want to speak to the food cost?

Michael Bailen

Sure. Yes. When it comes to the back half of the year, commodity inflation where we said 2% to 3%. Maybe you're a little bit higher in the third quarter than you are the fourth, but at this time, they aren't -- they really aren't that different from each other.

Brian Bittner

Thank you, guys.

Jerry Morgan

Thank you.

Operator

Our next question comes from the line of David Tarantino with Baird. Please go ahead.

David Tarantino

Hi, I had a question, maybe a follow-up on the beef costs. I guess two quarters ago, there was a lot of concern about beef costs being elevated for a multiyear period. And this year, it seems like they've come in quite a bit below what you were anticipating. So I guess, can you just maybe talk about your current outlook for beef costs? I know maybe some pressure's coming in the second-half, but I'm thinking more about the next year or two and what the beef cycle might look like for you?

Michael Bailen

Hey, David, it's Michael. Appreciate the question. Yes, I mean, we have -- I think the belief that the supply is going to be down in the back half of the year and we have benefited from maybe a little bit less demand out there in the retail space than we had expected. And that has kept prices from going as high as we had originally expected them to do.

We're obviously expecting to feel more pressure from that in the back half of the year. It's a little early for us to give into any kind of guidance for 2025. I think the industry data calls out the expectation for supply to continue to tighten. But we'll see what happens with demand and what that does to the beef pressures. We'll give you our probably early thoughts on commodity inflation for 2025 on our next earnings call.

David Tarantino

Great. Thank you for that. And then as it relates to the pricing decision you're going to make, I guess you mentioned that you'll take some pricing against whatever you consider structural inflation to be. But I guess I'm wondering on this topic of beef costs if it looks like commodity costs are going to be elevated for the next year or two beyond this year, would that be considered structural in your mind? Would you take pricing against that or would you consider that more cyclical?

Jerry Morgan

Yes. I think we would consider that side of it a little more cyclical. But we will start that process in a few weeks talking with all of our operators across the country and going through that, really looking at what that will be at this time of year, knowing that things have changed a little from the beginning of the year. But I do believe we'll continue to approach it with a very conservative mindset and we'll see what our operators have to say and then make a great decision.

David Tarantino

Great. Thank you very much and congrats on a great quarter.

Jerry Morgan

Thank you very much. Appreciate that.

Operator

Our next question comes from the line of Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour

Yes, thank you. Good afternoon. I was just curious on the CapEx comments you made increasing for this year. What's that going towards? Are you doing some more store expansion or is that perhaps going to some of the other brands or is some of this kind of getting a head start on next year's new units?

Chris Monroe

Hey, Brian, it's Chris. Yes, thanks for that question. It's really sort of all of the above. Even in last quarter's call, we talked about how we were getting good returns on these store investments. And so we're going to continue to do that. So we're expanding dining areas. We're expanding back of house. And this also gives us an opportunity to get after the 2025 pipeline to just put some more into that to make sure that we get that good opening cadence throughout the year.

Operator

Our next question comes from the line of Jim Salera with Stephens. Please go ahead.

Jim Salera

Hi, guys. Thanks for taking our question. You continue to deliver, it seems like, on strong value and some good quality food as a combo to keep customers somewhere in the door. Can you give us any commentary around possible trade down dynamics and maybe interactions that you're seeing from customers by income cohort?

Michael Bailen

Yes, Jim, it's Michael. I can talk on that. Yes, not a lot of commentary that we're hearing right now as far -- of anything being different than what we've been seeing for a while, which I think we have people trading up to us, trading down to us, trading across to us. So we're very pleased with the guests' decision to visit with us. We're not seeing any degradation in what they are ordering as seen by kind of our flat mix trends right now. So really, right now, there's been really no change in what we're seeing. And we're very pleased by that.

Jim Salera

Okay, great. And then in some of our pricing data that we look at, it seems like pricing in California was minimal during the quarter. Can you just talk about the labor market in California specifically and kind of your thoughts around pricing for the Fast Act?

Michael Bailen

Yes, sure. I can speak on that. Jim, we don't have a large presence in California. So not a lot really to comment on out there. Our California stores from a sales standpoint are doing fine. And obviously, if there's more structural pressure, you may have a little bit more pricing that you take in in a state like that. But we certainly haven't done anything in California from a pricing standpoint out of our -- outside of our normal process.

Jim Salera

Okay, great. Thanks, guys. I'll hop back in the queue.

Michael Bailen

Thank you.

Operator

Our next question comes from the line of Elliott Simon with Evercore ISI. Please go ahead.

Elliott Simon

Hey, guys. Congrats on a great quarter. I was particularly impressed by Bubba's 5.5% same-store sales growth in the quarter, which may be sort of Roadhouse, but it's seemingly much better than most other concepts this quarter. I know you've done a lot of work on the brand. So can you talk about the timeline to reaching that 8% to 10% net opening figure annually you've referenced in the past?

And are you able to walk us through the building blocks of the ROI on new Bubba's units incorporating the strong performance you've recently achieved, maybe x capitalized leases and pre-opening costs, which is how many others in the industry give it?

Jerry Morgan

Yes, I'll start us off and let Michael finish. We're really, really excited about what Bubba's brand is doing. And we've made some adjustments a few years ago in our leadership, and just really our identity to some degree. Made a few adjustments, added a couple of menu items, a combo appetizer. We restructured the wings and been testing with a couple of other products that have been very, very successful.

But I think the biggest thing for us is the consistency of the experience that we are providing for our guests with our burgers and pizzas and just all of our offerings, the consistency of our operations. So just from an operator standpoint and from a brand standpoint, we feel like we are really excited about where we're at and the things that we've done. And we'll continue to look at how we ramp it up going forward.

Michael Bailen

Yes. And, Elliott, this is Michael. I can go on a little bit on your question. I'm probably not going to walk through the whole ROI equation on the call. But from an investment costs, if you're excluding the rent and so therefore, just getting to the CapEx and the cash cost of pre-opening, you're probably more in the \$6.5 million range for that. And again, above is with its focus on burgers, pizza and wings, and a little bit higher alcohol mix in our Texas Roadhouse is probably -- has the ability to generate higher restaurant margins. So we're very pleased with the ability of Bubba's to meet our internal hurdles and believe that it's very possible going forward.

Elliott Simon

Great. And then just as a quick follow-up, I know it's in the 10-K, thank you, but I get a little antsy. What was the restaurant margin for Bubba's in the quarter?

Michael Bailen

Yes, Elliott. I think we're just going to let you stay antsy and see that in the queue when it comes out shortly.

Elliott Simon

Got it. Great. Thanks, guys, and best of luck.

Jerry Morgan

Thank you.

Operator

Our next question comes from the line of Jeffrey Bernstein with Barclays. Please go ahead.

Unidentified Analyst

Hi, this is Pratik on for Jeff. Appreciate the question. Just a quick question about technology. It's exciting to see that digital kitchens are going to be deployed, I guess, fully throughout the system by the end of '25. Just looking ahead, what's next on the list? Any exciting initiatives that you guys are potentially looking at perhaps at the front of the house to help drive greater throughput because it just seems like your stores are as busy as ever? Thank you.

Chris Monroe

Well, thank you very much for the question. We are very excited about the digital kitchen. Again, we're halfway through. So we've got a little over 100-plus stores rolling out. It's still very new to us. We're definitely learning some things and excited about it. We rolled out the Roadhouse Pay or the pay at the table a couple of years ago, and that's been very successful.

Our AGM, our guest management, we are looking on a new version that might help us be a little faster at the host stand. So there's a few things that are in progress. But we need to make sure that the digital kitchen is up and rolling and we're really comfortable there. Again, we'll look at the guest management and the Roadhouse Pay. They're all teaching us that these are -- they help enhance the guest experience and our employee work experience with us. So both of them are big wins.

Unidentified Analyst

Thank you, appreciate the color.

Jerry Morgan

Thank you.

Operator

Our next question comes from the line of Lauren Silberman with Deutsche Bank. Please go ahead.

Lauren Silberman

Hey, thanks for the question. Congrats on the quarter. I wanted to ask about restaurant margin. On the near term, close to 18% in the first-half of the year. Given the commodity guide, do you expect to hit at least 17% this year? Any other dynamics we should consider?

And then just on a longer-term question on margin, as you guys inch back to the 17% to 18% target, is there a scenario where we could be talking about margins north of 18% in a couple of years? Or how do you guys think about like choosing to reinvest?

Chris Monroe

Hey, Lauren, it's Chris. Well, look, what a great first-half, right? I mean, we expanded margins by 250 basis points over year-over-year, a true team effort. And it really is led by the operators.

For the second-half, we're definitely expecting to see margin expansion relative to last year. But there's a lot of factors that you have to consider. And I think these are the things that you guys model. It's all the things that you know, but mainly commodities and that has concern for us. But the bottom line in the short run for the rest of this year is fantastic first-half on margin and definite expectations for margin expansion year-over-year for the second-half.

In terms of long-term, that 17% to 18% has been our goal for a long time. And you get much north of that and you're usually -- you can impact your customer, you may lose your value. So there's -- that's been a North Star here for a while. And I think that's likely to continue.

Lauren Silberman

Thank you for that. A quick one on, I guess, quarter-to-date. Did you guys see any impact from the hurricane and some of the severe weather that's worth calling out?

Michael Bailen

Hey, Lauren, it's Michael. I mean, we looked at that, as we typically do for a short-term event like that in a specific area, you do feel a short-term impact and then you also get a bounce back. So we think it's a very minimal impact, if any, on the overall numbers. So not something worth quantifying at this time.

Lauren Silberman

Okay. Thank you very much.

Operator

Our next question comes from the line of Peter Saleh with BTIG. Please go ahead.

Peter Saleh

Great. Thanks and congrats on a great quarter. I did want to ask a couple of questions, one on menu mix. Menu mix was flat the first time in, call it six or seven quarters now, and it was a pretty meaningful improvement from the first quarter to the second quarter. So what can you tell us about that? Are you seeing customers trading up to you, trading down to you? I assume this is not the end of this kind of improving trend? And any color on what you saw in terms of menu mix in the month of July?

And then just on the second question on labor hours. You grew the labor hours substantially less than the historical rate of 50% of traffic. Should we anticipate that to continue in the back end of the year or you think labor hours will grow kind of more in that 50% of traffic in the second-half. Thank you.

Michael Bailen

Sure. Hey, Peter, it's Michael. Yes. I mean, I think we're very pleased with the mix trends that we are seeing. And as we had in our prepared remarks, we're seeing some positive mix in entrees and add-ons and the soft beverages, still seeing some negative mix in alcohol but not as much as we had been, which led to a basically flat mix for the quarter. And that trend has basically continued into July, somewhere remaining in that flattish range.

And we'll see how that trend holds up into the back half of the year. It would not surprise me to see some alcohol negative mix remain with us. That seems to be not a Roadhouse specific issue, but more in the industry and societal at this point. And yes, but overall, very pleased with our guests' reception to our menu prices and recognizing the value that we're offering them.

On your second part, with the labor hours and the productivity that we're seeing, yes, I would say we are cautiously optimistic that we can continue to see that trend continue through the back half of the year. We'll see what the future holds. But I think the hard work that our operators have done to get their stores -- their restaurants well-staffed will continue to pay dividends into the back half of the year.

Peter Saleh

Thank you very much.

Operator

Our next question comes from the line of Dennis Geiger with UBS. Please go ahead.

Dennis Geiger

Great. Thanks, guys, and congratulations. Just a quick follow-up to kind of the back half margin question-and-answer. Anything specific -- since you've given us most of the pieces, I think there anything else specific to the operating expenses as we think about inflation? I know it's a big bucket there, but as we think about inflation across that bucket or any other items to be thinking about compares, one-time things over the back half of this year that's worth flagging, I guess specific to that other operating expense bucket over the balance of the year? Thank you.

Michael Bailen

Yes, sure, Dennis, it's Michael. Obviously, that other operating -- some of the pressure that we felt the last several quarters has been from the benefit on the COGS line, the benefit on the labor line that's leading to this margin expansion, which means there is higher bonuses that we're pleased to pay to our operators.

So if we continue to see some of that benefit into the back half of the year on those other lines, then our bonuses will continue to be a pressure point for us. We'll see if we have any reserve adjustments that continue into the back half of the year. And but come the fourth quarter with the extra week, there probably is a little bit more of an opportunity to get some leverage on that line. But we'll see what happens in Q3 and Q4 as far as the other lines. But yes, other op remains a growing on a dollars per store week amount. But a lot of that's because we're growing the topline.

Dennis Geiger

That's great stuff. Thanks, Michael. Congrats, guys.

Michael Bailen

Thank you.

Operator

Our next question comes from the line of Jeff Farmer with Gordon Haskett. Please go ahead.

Jeff Farmer

Thanks. You guys touched on the upcoming sort of pricing conversations with your operators, but I am curious what your current read is on your own consumers in terms of acceptance of incremental pricing. I know that you've mentioned that there's been a little bit of pushback over the last year or so but nothing too material. I'm listening to Chipotle last night, different sort of segment of the sector. They strongly implied that it was getting a little bit more challenging to pass through menu pricing. So at least from your perspective, your lens, I'm curious how you are thinking about your customer's tolerance to incremental menu pricing moving forward.

Michael Bailen

Yes. Jeff, I think we're sensitive to it also. We have done our AU study. And if you've been a consumer with us for a very, very long time, you might feel a certain way. And so we're definitely listening to both. There's a lot of folks that trade into us and feel like we are value, value, value, which is fantastic as the way it's designed and supposed to be.

But I think we got to hear from our operators. We've heard -- there's no significant -- I'm hearing from the guest and the consumer at this time, but we're focused on our food, our service, and our community partnership and the value that we've built into that menu. And if we charge a little bit more, then the guests should expect more. We've got heaping size, we've got -- everything that we've ever done is still intact. So I think as long as we stay focused on what we do and make sure the portion that we put in front of the guest is of value, then they feel good about -- get that piece of it. And we'll continue to talk with our operators and then make a great decision after we discuss what's going on in their local communities.

Jeff Farmer

All right. Appreciate it. Thank you.

Chris Monroe

Thank you.

Operator

Our next question comes from the line of Andrew Strelzik with BMO Capital Markets. Please go ahead.

Andrew Strelzik

Hey, good afternoon. Thanks for taking the questions. I just had two quick follow-ups. The first one is on the commodity basket. How much visibility do you have on the back part of the year? How much do you have locked for the commodity basket?

And then the second question, you kind of alluded to learning some things about the digital kitchen. And I'm just curious if you could elaborate a little bit what you're learning? Are you planning to make any changes? Just what exactly did you mean by that? Thanks.

Michael Bailen

Hey, Andrew, I'll start with the commodity basket. This is Michael. Similar to the first-half of the year, we are going to probably see a lot of our beef being purchased on a formula basis. We still believe that is the best approach in the environment that we are in right now. So where we are in the third quarter, we already have some of our beef purchased. So we have better visibility into the third quarter. And then there's less visibility into Q4, but probably going to, for competitive reasons, not get into much more detail on levels of beef locked for the back half of the year.

Jerry Morgan

And Andrew, this is Jerry. On the digital kitchen, the thing that we're really learning is the organization in the back of the house. And the cooks, really doing the math for the cooks to some degree, so it's just a calmer environment, not having to look at all of the checks. And sometimes, it just tells you how much to fire and when to fire it.

So that's been a big win. We can monitor our broiled cook times, which is really our steak side of it. So we definitely have the ability to see what the average check is coming out of the kitchen app.

So I think those are all very helpful and will help us go forward. Again, we're still pretty new into it, at 100 plus stores in it. We've got a very aggressive back half of the year to get to that 230 number, but we're very excited. All of the feedback from our managers and our employees is very positive. And ultimately would sound and we couldn't measure it at this time because we're not up against ourselves, but what will it do in the future, we're expecting it to be positive.

Andrew Strelzik

Great. Thank you very much.

Operator

Our next question comes from the line of Jon Tower with Citigroup. Please go ahead.

Jon Tower

Great. Thanks for taking the question. Maybe just going -- you hit on the idea of taking up CapEx a little bit higher this year. And I'm curious you're obviously rich with capital. Your brands seem to have quite a bit of strong momentum right now with respect to traffic and sales.

So I'm just curious, when you think about your ability to kind of flex above that 30 stores or so into 2025 and beyond, like what would prevent that from not happening next year? I know human capital is probably a part of it. But it seems like you're on a great trajectory to open more stores than what you've been doing in the past couple of years.

Michael Bailen

Thank you for that question. Yes, I like our pipeline. We're targeting that 30-ish number. And if we get a few extra deals that come in, we know that we can handle that. So I think when we look at all three of the brands, we continue to focus, the pipeline is done for '24, most of '25, we're working on '26.

So I think we're going to land somewhere in that 30-ish number. I don't ever really expect us to get too much further north of that unless something really special happens. But it's a good practice for us. We're very disciplined and focused on that number. We got three brands we're building out. So we feel really good at that pace and that cadence that we have in new store openings. So we'll probably stay in that area.

Jon Tower

Got it. And then just -- I know you have a few Bubba's that kind of overlap pretty nicely with Roadhouses. I'm curious, in terms of your own thinking going-forward, how you see the brands growing across markets? Do you feel like there's a lot of opportunity to infill Bubba's near Roadhouses across markets going-forward and ditto for Jaggers?

Michael Bailen

Yes. It hasn't hurt us by doing that. We have several that are right side by side. And as I look back in the industry of the old that there's a lot of concepts that put their side by side. And I think because of the different menu offerings, we feed the community in different segments.

So steaks and potatoes and burgers and pizza complement each other from that. And I do believe Jaggers will be able to get in the mix in a community. They may not all be on a pad or something. But I do think that the communities that Roadhouse is in and having success and when we present Bubba's and we present Jaggers, we believe that will benefit us. And they've got to live up to their end of the bargain with quality food and quality service and represent our brand at a high level.

Jon Tower

Got it. Thanks for taking the questions.

Michael Bailen

Thank you.

Operator

Our next question comes from the line of Chris O'Cull with Stifel. Please go ahead.

Chris O'Cull

Thanks. Good afternoon, guys. Chris, are you currently seeing commodity inflation in the third quarter in line with that 2% to 3% guidance you provided for the back half of the year?

Chris Monroe

Yes. Hey, Chris, good to talk to you. Yes. I mean, we are. It's following that pattern for now.

Chris O'Cull

Okay. And then as a follow-up question related to the pricing, can you confirm the company will be rolling off about 2.7% pricing in October? And I know you are going to be speaking with operators here in the next several weeks. But it does sound like for modeling purposes, we should assume some level of pricing that would replace what's going to be -- some level of pricing will replace what's rolling off in October. Is that fair?

Chris Monroe

I'm going to answer the first part. You are correct, the 2.7% is rolling off. And I don't know if, Jerry, if you want to speak to that specific question or not. We still have work to do. We have to talk to our operators.

Jerry Morgan

Yes, I think we're still -- we'll go into it, like we say, with a conservative mindset. We'll see what the operators are feeling and thinking. And it's just a little too early to make that call.

Chris O'Cull

Okay. Fair enough. Thanks, guys.

Jerry Morgan

Thank you.

Operator

Our next question comes from the line of Gregory Francfort with Guggenheim Securities. Please go ahead.

Gregory Francfort

Hey, thanks. I have two quick ones. The first is just maybe going back, I don't know if it was Jon's development question. I think this is like kind of the second quarter in a row where new-store productivity is kind of more like low 90% instead of 100%. Anything going on specifically with the new units just in terms of opening up in different areas? Just trying to sort through that number.

Michael Bailen

Hey, Greg, it's Michael. When I look at the new stores, I can tell you, we are very pleased with their performance. And they're hitting our expectations and their hurdles. You can't expect -- part of the reason for that maybe separation, just the incredible growth of the comparable stores have had over the last, whether it's couple of quarters or a couple of years and to expect a brand new restaurant to run at that level is maybe a little aggressive, but we are very pleased with the performance of our new restaurants.

Gregory Francfort

Got it. Thanks. And then just on the kitchen technology that's going in over the next 18 months, can you help frame what that's going to allow you to do in the kitchen and if there's going to be benefits more on the cost of sales side, on the labor side, just what that unlocks? Thanks.

Jerry Morgan

Yes, it's still a little early on all of that. Again, the biggest thing it does is it just calms the -- because it organizes for us. So I think the employee experience, we're expecting that there could be some benefit, whether it be speed of service or how we do our production sheet. So still a little bit early on us to really determine the impact of that.

But the big win really and truly is the organization and the calmness of not having to hear a pull paper and have paper everywhere. And it just organizes everything from -- it's a bump screen. So that bump screen really allows them to focus on the checks in front of them on the screen.

And so they don't stress out as much. I guess when you have a rail of 50 checks hanging in front of you can be very intimidating at times. So that's the real benefit is the employees just keep a very steady pace because of this, the bump system that we're using on the digital kitchen. So it's still very early, but we're excited.

Gregory Francfort

Thank you, guys. Appreciate it.

Jerry Morgan

Hey, thank you.

Operator

Our next question comes from the line of Logan Reich with RBC Capital Markets. Please go ahead.

Logan Reich

Hey, thanks for taking my question, and congrats on the really solid results this quarter. I kind of wanted to give a little bit of a follow-up question to the prior one just on the digital kitchen and also asked about the Roadie First. I feel like you guys have been talking about labor improvements for a while now.

Can you help us sort of dimensionalize or delineate where exactly those improvements are coming from? And is the Roadie First system a big driver of that or can you just help us sort of like delineate the key drivers of that labor productivity improvement?

Michael Bailen

Yes. Hey, Logan, it's Michael. Yes, I would -- I wouldn't say that those are the big drivers of that improvement. Really, it's the hard work of the last several years of getting our restaurants -- that our operators that have undertaken to get their restaurants well-staffed. And that staff is staying with the restaurants.

So they are more tenured. They've had more reps that doing their job, so they're better at it. They can do it more quickly. We're not having to train as much. So we're able to do more with what we have. That's really what we're seeing is a lot of the hard work the last several years coming to fruition and now seeing that benefit come through.

Logan Reich

Got you. Okay, great. That's helpful. And then just wanted to ask one quick one on the takeout versus in-store, looks like in-store accelerated while takeout decelerated relative to Q1. I guess just how should we think about the in-store business? Is that still an area of growth for you guys? Or is it sort of a little bit of like a post-COVID nice-to-have business that you that you have, but it's not necessarily a large growth driver of the business. Just sort of how would you characterize the takeout business?

Michael Bailen

Yes. Look, I think you may have said the dining business, but you're asking about our feelings on the to-go business, correct?

Logan Reich

Oh, yes, apologies. Yes, the takeout business as a driver.

Michael Bailen

No. Yes. Sure. Yes, that is still certainly a big area of focus and very important to us. We continue to see, in the second quarter, what we feel is very strong trends there and an increase in not only the sales dollars but the number of guests served to-go. So that is definitely something our operators view as core to their business now. They want to make sure those dining rooms are full and continue to get fuller but absolutely being able to drive more to-go business is a huge opportunity and something that they're focused upon.

Logan Reich

Great. Thank you so much, and congrats again.

Operator

Our next question...

Jerry Morgan

I'm sorry. I was just going to add that, I mean that's \$20,000 a week average at each store. So that's significant. That business is significant. It's important to us.

Operator

Our next question comes from the line of Jim Sanderson with Northcoast Research. Please go ahead.

Jim Sanderson

Hey, thanks for the question. I wanted to go back to the pricing discussion, just to make sure I understand the dynamics here. As we get to the fourth quarter, you're going to roll off about 2.7. So that leaves you about 3 points of price that probably could cover most of inflation. I'm wondering how traffic plays a role in your decision making, if there's a threshold of traffic declines, let's say traffic is flattish to slightly up if that would adjust your outlook on pricing going into the fourth quarter.

Michael Bailen

Well, Jim, this is Michael. Let me just start off with -- we're currently running with about 4.9% pricing, which we'll have for Q3. So when the -- when the 2.7% rolls off, that will leave us with 2.2% before we do any additional pricing actions. And obviously, we'll be making our pricing decisions over the coming month because there is a lag time where we need to make those decisions to get those menus printed, so we certainly always take our traffic trends into consideration. Our operators absolutely will comment on that as part of their decision making process.

Jim Sanderson

Let me add just a follow-up to that. I think recently Olive Garden took down their promotional price point by about \$0.50, hoping to get a better everyday value price point. Is part of the discussion on pricing in Texas Roadhouse to consider maybe offering a lower price point or reducing the opening price point of some of the entry level menu entrees?

Michael Bailen

Yes, Jim, it's Michael again. I would say at this point, our everyday value speaks for itself. We don't do any promotions. We do have our early dime. You can come in early when the store first opens and there is a discount on a handful of the items. But I don't think there's any discussion right now of us bringing down the prices on anything. I think we feel very good about where our prices are and the value that we offer.

Jim Sanderson

All right. Thank you very much.

Operator

Our next question comes from the line of Brian Vaccaro with Raymond James. Please go ahead.

Brian Vaccaro

Hi, thanks and good evening. Just following up on the labor. Are there any metrics you can share on tenure or turnover just to give us a sense of how much more efficient your teams might be on the hourly side? And you mentioned Roadie First. Could you just elaborate on what functionality that brings or how that benefits the employee experience?

Michael Bailen

Sure. Hey, Brian, it's Michael. Yes. I don't think we have a ton of information that we're going to be able to share with you. I mean, first, on the turnover, I can tell you, it continues to trend in the right direction. It's at or below pre-pandemic levels. So very great to see that. With that comes higher tenure. I don't have any numbers with me right here that would talk to how long our Roadies have been with us. But typically, if someone's with us for 90 days, they tend to stay with us for quite a while. So we are we're seeing some benefit there. And then there was a third part to your question.

Brian Vaccaro

RFT.

Michael Bailen

The Roadie First Technology. Look, a lot of that is just -- again, it gives our employees access to their information. I don't think it's necessarily driving productivity, but it's just another item that we're able to provide that makes it easier for our employees to see their information. And so it's just one less reason that they would have to pick someone else over us. So it's really a combination of a providing mobile access and then there's also just a back office benefit to the support center from the RFT program.

Chris Monroe

It's Chris. it's essentially a Workday implementation, but it is allowing us to reduce a number of back office systems. And then it does provide our employees with mobile technology and other things that helps us to become that employer of choice.

Brian Vaccaro

All right. That's helpful. And then just one more if I could. On the last call, you noted some incremental costs in the second-half. I think it was \$3 million in labor, \$3.5 million maybe in G&A. Do you still expect that? Has there been any change on that front? And would you be willing to provide some guardrails on G&A for the year? Thank you.

Michael Bailen

Hey, Brian, it's Michael. Yes, we absolutely still are expecting those costs. They relate to our equity compensation program and some changes that we're making. They are going from a quarterly grant to an annual grant. So we'll start feeling that impact here in the third quarter.

As far as G&A goes, I think the story remains the same as what we've said before of this may be a year where G&A as a percent of revenue is basically flat to maybe it's slightly -- maybe a slight deleverage. I think it all depends on your topline assumptions and how the year continues to play out with it being a 53-week year for us, we do -- how the first-half of the year has performed, our bonus program probably then requires us to accrue for some additional compensation expense. We have to lap that into next year. So you probably expect G&A to be flat on a percentage of revenue year-over-year is probably the best guidance I can give you.

Brian Vaccaro

All right. Thanks very much.

Operator

Our next question comes from the line of Sara Senatore with Bank of America. Please go ahead.

Sara Senatore

Thank you. Just a quick clarification on the CapEx. Is this sort of -- is any of this like a timing shift as in deferred maintenance or maybe pull forward? Or as you think about the back of the house, is it perhaps like capacity constraints have emerged faster just because your business has been so strong? Just trying to understand, certainly you've earned the right to spend the capital, but trying to understand as I think about kind of the marginal returns and on the increased CapEx. Thanks.

Chris Monroe

Yes, Sarah, it's Chris. I think that you have it exactly right. The back of house expansions, the kitchen expansions, the dining room expansions, those have great returns. And then there are some elements that we wanted to do in terms of refreshes and making sure that we have great facilities for our employees and for our guests. And so those are some of those things that were on the list but we didn't quite make it into the budget. Now they're making it in. And so that's the -- that's really -- we're going to get great benefit out of all of it.

Sara Senatore

Thanks.

Operator

We have no further questions at this time. I will now turn the call back to Jerry Morgan for any closing remarks.

Jerry Morgan

Thank you all. We appreciate your time. And to all Roadies out there, keep rocking legendary. Good night to you all.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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