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The Joint Corp. (JYNT) Q3 2024 Earnings Call Transcript

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Q3: 2024-11-07 Earnings Summary

Play Call



Press Release



10-Q

EPS of -\$0.21 **misses by \$0.22** | Revenue of \$30.20M (2.46% Y/Y) **beats by \$1.82M**The Joint Corp. (NASDAQ:[JYNT](#)) Q3 2024 Results Conference Call November 7, 2024 5:00 PM ET

Company Participants

David Barnard - LHA Investor Relations

Sanjiv Razdan - President and Chief Executive Officer

Jake Singleton - Chief Financial Officer

Conference Call Participants

George Kelly - ROTH Capital
Jeff Van Sinderen - B. Riley FBR

Operator

Good day, and welcome to The Joint Corp. Third Quarter 2024 Financial Results Conference Call. All participants will be in listen-only mode. [Operator Instructions]. Please note that this event is being recorded.

I would now like to turn the conference over to David Barnard, LHA Investor Relations. Please go ahead.

David Barnard

Thank you, Wyatt, and good afternoon, everyone. This is David Barnard of Alliance Advisors Investor Relations. Joining us on the call today are President and CEO, Sanjiv Razdan; and CFO, Jake Singleton.

Please note, we are using a slide presentation that can be found at <https://ir.thejoint.com> under Events. Today, after the close of the market, The Joint Corporation issued its results for the quarter ended September 30, 2024. If you do not already have a copy of this press release, it can be found in the Investor Relations section of the Company's website.

As provided on Slide 2, please be advised that today's discussion includes forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be considered forward-looking statements. Although the Company believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, it can make no assurances that such expectations or assumptions will prove to have been correct.

Actual results may differ materially from those expressed or implied in forward-looking statements due to various risks and uncertainties. As a result, we caution you against placing undue reliance on these forward-looking statements. For a discussion of the risks and uncertainties that could cause actual results to differ from those expressed or implied in the forward-looking statements, please review the risk factors detailed in the Company's reports on Forms 10-K and 10-Q as well as other reports the Company files from time to time with the SEC.

Finally, any forward-looking statements included in this earnings call are made only as of the date of this call, and we do not undertake any obligation to revise our results or publicly release any updates to these forward-looking statements in light of new information or future events.

Management uses EBITDA and adjusted EBITDA, which are non-GAAP financial measures. These are presented because they are important measures used by management to assess financial performance. Management believes they provide a more transparent view of the Company's underlying operating performance and operating trends than GAAP measures alone. Reconciliation of net income to EBITDA and adjusted EBITDA is presented in the press release.

The Company defines EBITDA as net income or loss before net interest, tax expense, depreciation and amortization expenses. The Company defines adjusted EBITDA as EBITDA before acquisition-related expenses, which includes contract termination costs associated with reacquired regional developer rights, stock-based compensation expense, bargain purchase gain, net gain or loss on disposition or impairment, costs related to restatement filings, restructuring costs, litigation expenses, consisting of legal and related fees for specific proceedings that arise out of the ordinary course of our business and other income related to the employee retention credits.

Management also includes commonly discussed performance metrics. System-wide sales include revenues at all clinics, whether operated by the Company or franchisees. While franchise sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records royalty fees and are indicative of the financial health of the franchisee base.

System-wide comp sales include the revenues from both company-owned or managed clinics and franchise clinics that in each case have been open at least 13 full months and exclude any clinics that have closed.

Turning to Slide 3. It's now my pleasure to turn the call over to Sanjiv Razdan.

Sanjiv Razdan

Thank you, David, and I welcome everyone to the call. I'm excited to meet you today for my first conference call with The Joint. I'd like to begin by reviewing why I joined the Company. I was approached about The Joint because of my background.

I have extensive experience leading successful multisite consumer service companies and franchise businesses. I leverage my strategic business acumen and branding expertise to drive growth and sustainable profitability. I use my passion for energizing teams and building strong cultures to support franchisees and employees. Most recently, I served as President of Americas and India for The Coffee Bean & Tea Leaf, which has 1,200 cafes operating in 30 countries.

I was responsible for my division's cafe, consumer packaged goods and e-commerce operations and led their business transformation. By developing strong franchise relationships, repairing unit level margins and transforming the culture, my division delivered its strongest EBITDA results in over a decade.

Similarly, as COO at sweetgreen, I helped lead rapid growth while also optimizing the operating platform to ensure efficiency and improve unit level profitability. And at Applebee's, as Senior Vice President and COO, I led the turnaround of the portfolio, which was 1,800-plus restaurants, predominantly franchise-owned across all 50 states.

When I was approached about The Joint, I was immediately interested in learning more because of my personal connection. I am a chiropractic care enthusiast. A few years ago, while at the gym, I threw my back out. For several months, I tried traditional medicine, but got little to no comfort. Finally, with some skepticism, I tried chiropractic care. I recovered fully with this noninvasive treatment, and now I am a believer who gets adjusted regularly for general good health.

So, I began to research The Joint franchise concept. I was impressed by the scale of the business, the first-mover advantage and most importantly, the white space for market growth, both in the U.S. and internationally. Also, I was inspired by the clinic economic model and the potential to leverage our core competencies and infrastructure as a platform over time and our ability to increase profitability and create shareholder value.

My findings indicated that although The Joint may be experiencing some near-term market headwinds, the opportunities for growth are compelling. This enticed me to accept the CEO role to lead The Joint into our next phase of growth. As you can imagine, for the past 3.5 weeks, I have been asked quite a bit about my plans. While I joined with some ideas, my perspective is expanding as I meet our team. I will conduct my first 100 days business immersion prior to making significant changes.

I will meet and listen to franchisees, regional developers, doctors of chiropractic, wellness coordinators and our corporate employees. I will learn details of the operations and our capabilities, then I will analyze data and rank a variety of initiatives based on their potential business impact and return on investment. While the Board has granted me the latitude to redesign our strategic plan, I can clearly state we are continuing to drive ahead with refranchising.

Turning to Slide 4. It is also important to know I am dedicated to elevating patient care, strengthening clinic economics, driving innovation in everything we do and building people capability and culture. As a result, I am confident we will increase profitability and create shareholder value.

Turning to Slide 5. As noted, I am committed to executing our refranchising efforts with the intent of reinvesting the capital raised into The Joint. It's a great opportunity to simplify and grow our business, focus on our franchisees, their clinic economics and drive shareholder value. We are far along in marketing most of the corporate clinics. We have seen broad interest. We will continue to pursue transactions with existing and new franchisees.

Regarding the two transactions announced last quarter, these were with existing franchisees for nine clinics in Savannah and Kansas City. They entered LOIs and now are in the process of conducting due diligence.

Turning to Slide 6. I'll start our marketing review. Our biggest consumer challenge is to increase new patient counts. We will do this through stronger lead generation and lead conversion. Our team has been focused on improving the patient experience to increase new patient lead conversion. After positive feedback and testing this summer, our team rolled out the initial visit bookings platform to the first 500 clinics and the results are strong.

The initial visit bookings platform has enabled the scheduling of new patients intake sessions. Qualitatively, we are exceeding our marks. New patients have indicated they feel seen, heard and well cared for. This has translated into quantitative success. While we don't intend to provide this data on an ongoing basis, today, I'd like to note new patient digital lead conversion increased from 46% in July to 49% in September.

With this data, we will continue the rollout of the initial visit bookings to all of our clinics. To create a frictionless new patient process, we are working to enable them to complete our enhanced digital intake forms using their own mobile devices. After extensive testing, we began the rollout in late August. Patients are reporting greater satisfaction with the process and wellness coordinators are pleased to focus time on positive patient interactions.

Also, regarding our user experience improvement, we are continuing to diligently work on our first consumer-facing mobile app. This will enable in-clinic check-in. Patients will be able to see which doctors of chiropractic are present in clinic, and it will serve as a channel for patient education as well. We intend to continue to update the mobile app with new features over time.

Turning to Slide 7. I'll review our new patient acquisition efforts. To improve brand awareness and lead generation, we are shifting marketing spend to the top of the funnel. We have been working on initiatives to improve efficacy of our paid media and co-op strategies. This includes a shift in spend within test market on Google's Performance Max platform. The platform follows our key audiences across Google properties, leveraging a mix of ad types based on the specific channel. It is showing fantastic interaction metrics, and we have started to accelerate rolling out this program within the system.

Additionally, we are optimizing the creative content to drive relevance with these new audiences. Now we are marketing to both switchers from other providers and the people new to chiropractic itself.

Finally, we are evaluating pricing options. In time for our Black Friday special on Black Friday in November, we plan to introduce new pricing for our walk-in rate. Additionally, we are reviewing membership levels, packages and legacy policies for potential updates. In 2025, we plan to further build our patient lifetime value in addition to growing our patient base.

With that, I'll turn the call to Jake.

Jake Singleton

Thanks, Sanjiv. And turning to Slide 9. Let's discuss our clinic metrics. In Q3 2024, we opened 14 franchise clinics and refranchised one clinic. We continue to experience a closure rate of less than 1% of our portfolio with 11 clinic closures in the quarter. This included three franchise clinics that are being relocated and reopened later as well as three nontraditional corporate clinics that were part of the Army & Air Force Exchange Service development test.

In Q3 2024, we had a net increase of three clinics compared to six in Q2 2024. On September 30, 2024, our total clinic count reached 963 with 838 franchise clinics and the portfolio mix shifting to 87% franchised, 1 percentage point higher than last quarter.

Turning to Slide 10. I'll review franchise license sales. As previously indicated, we expect franchise license sales to be impacted by our refranchising strategy. During Q3, we sold seven franchise licenses compared to seven in Q2 2024. This quarter, 43% of the franchise license buyers were new to The Joint.

As previously announced in July, we reacquired the Maryland D.C. regional developer territory rights for approximately \$500,000. It had 17 clinics open and the potential for another 31 clinics. At September 30, 2024, we had 16 regional developers and their coverage is approximately 57% of the network. At quarter end, we had 148 franchise licenses in active development.

Turning to Slide 11. I'll review our financial results for Q3 2024 compared to Q3 2023. System-wide sales for all clinics opened for any amount of time increased to \$129.3 million, up 8%. System-wide comp sales for all clinics opened 13 months increased 4%. System-wide comp sales for mature clinics opened 48 months or more decreased 2%, both improved 200 basis points over Q2 2024.

Revenue was \$30.2 million, up \$725,000 or 2%. Revenue from franchise operations increased 9%, contributing \$12.7 million, reflecting the increased number of clinics in operation. Company-owned or managed clinic revenue decreased 2%, contributing \$17.5 million, reflecting improved same-store sales growth in newer clinics, partially offset by fewer clinics in operation.

Cost of revenues was \$2.8 million, up 8% over the same period last year, reflecting the associated higher regional developer royalties and commissions. Selling and marketing expenses were \$4.8 million, up 11% year-over-year, reflecting the timing of the advertising spend. Depreciation and amortization expenses decreased \$1.1 million or 47% compared to the prior year period, reflecting the accounting for corporate clinics that are being held for sale as part of the refranchising efforts.

G&A expenses were \$20.8 million compared to \$20.2 million in the same period last year, reflecting the lower utilities and facilities costs due to the continued refranchising efforts. Loss on disposition or impairment was \$3.8 million related to the quarterly analysis of clinics held for sale as part of the refranchising efforts compared to \$905,000 in Q3 2023.

Income tax expense was \$63,000 compared to income tax benefit of \$188,000 in Q3 2023. Net loss was \$3.2 million, including \$3.8 million in loss on disposition or impairment or a loss of \$0.21 per share. This compares to net loss of \$716,000, including loss on disposition or impairment of \$905,000 or a loss of \$0.05 per share in Q3 2023.

Adjusted EBITDA was \$2.4 million compared to \$2.9 million. Franchise clinic adjusted EBITDA increased 9% to \$5.8 million. Company-owned or managed clinic adjusted EBITDA increased 3% to \$2.1 million. Corporate expense as a component of adjusted EBITDA was \$5.5 million compared to \$4.5 million in Q3 2023.

On to Slide 12, I'll review our balance sheet and cash flow. At September 30, 2024, our unrestricted cash was \$20.7 million compared to \$18.2 million at December 31, 2023. Cash flow from operations for the nine-month period was \$5.3 million. The net proceeds of the sale of three clinics were offset by ongoing IT CapEx and the \$2 million Q1 repayment on the line of credit with JPMorgan Chase. Through this facility, we've retained immediate access to \$20 million through February of 2027.

On to Slide 13 for a review of our financial results for the nine months ended September 30, 2024, compared to the same period 2023. Revenue was \$90.2 million, up 4%. Net loss was \$5.8 million, including \$5.6 million in loss on disposition or impairment and the Q2 \$1.5 million litigation expense or a loss of \$0.39 per share. This compares to net income for the same period in 2023 of \$1.3 million, including the \$3.9 million net employee retention credit and \$1.1 million of loss on disposition or impairment or \$0.09 per diluted share. Adjusted EBITDA was \$8.1 million compared to \$8.2 million in the prior year period.

On to Slide 14, as a result of the ongoing consumer headwinds that are impacting our clinic economics, we're adjusting all elements of our guidance. System-wide sales are expected to be between \$525 million and \$535 million compared to \$488 million in 2023. System-wide comp sales for all clinics opened 13 months or more are expected to increase between 3% to 4% compared to an increase of 4% in 2023. New franchise clinic openings, excluding the impact of refranchised clinics, are expected to be between 55 and 60 compared to 104 in 2023. The difference reflects the impacts of our refranchising efforts.

In 2025, we believe the consumer market will improve, yet franchise license sales and clinic openings are likely to be less than 2024 as we work through the impact of our refranchising efforts and the economic headwinds over the last two years.

And with that, I'll turn the call back over to you, Sanjiv.

Sanjiv Razdan

Thanks, Jake. Turning to Slide 15. In October, The Joint chiropractic network proudly celebrated our 25th anniversary of revolutionizing access to chiropractic care by providing affordable concierge-style membership-based services in convenient retail settings. In addition, we have been consistently recognized on the Annual Franchise Tank's Top 400 list for over five years. In 2024, we were recognized in the top 200 for our third year at Position 150, moving up a significant 18 spots over last year.

I believe that being a patient-centric company will make us a stronger franchise-focused company. Our patient satisfaction, our longevity and our franchise performance awards are a testament to the value and opportunity of quality chiropractic care and our franchise concept. Our long-term opportunities far exceed our near-term market headwinds.

I am very encouraged by the talented and committed team members that I am meeting with the power behind The Joint franchise concept, refranchising and our strategies to improve clinic economics and drive growth, I am confident we will emerge a stronger company. We are the chiropractic care category leader. With over 960 clinics, our scale dominates the market and is several hundred units larger than the copycats and other competitors combined.

We have created a premier nationwide brand with a presence in 41 states, the District of Columbia and Puerto Rico, and we intend to leverage this asset base to expand into the white space in the U.S. market and potentially internationally as well.

With \$8.5 billion being spent out of pocket annually on chiropractic care in the U.S., we have a very large opportunity, of which we have approximately a 1% market share. We expect to capture more market share, especially as we continue to improve our attractive asset-light franchise model.

I look forward to elaborating on our go-forward strategy when we report fourth quarter 2024 results. In the meantime, to drive increasing profitability and create shareholder value, our decisions will be consistent with our guiding principles of elevating patient care, strengthening clinic economics, driving innovation in everything we do and building people capability and culture.

Before we begin questions, I'd like to invite you to meet us at the ROTH Deer Valley Conference in December. And with that, operator, I'm ready to begin Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] And the first question comes from George Kelly with ROTH Capital. Please go ahead.

George Kelly

Sanjiv, congrats on the new role.

Sanjiv Razdan

Thank you.

George Kelly

First question, I was hoping -- this is for Sanjiv. You mentioned in your prepared remarks that you're taking pricing, I think, and contemplating taking additional pricing, it sounded like. I was curious if you could go through those, sort of various levers? And on a sort of all-in basis, how significant do you expect the pricing changes to be?

Sanjiv Razdan

Yes. So, the way that our pricing construct works, we have a new patient price that we leverage as part of our marketing efforts to make sure we demonstrate how incredible value our proposition is.

We have a walk-in price after that, but the predominant volume of our patients come through a recurring revenue model, where there is an opportunity for patients to access some kind of a package price or a subscription price.

The pricing that we are taking is on the component of walk-in prices. And what that does, in addition to giving us some incremental revenue, will make our recurring revenue packages even more attractive to our patients. So, we're very excited about the impact of that.

George Kelly

And correct me if I'm wrong, I thought you also hinted that you're contemplating taking maybe legacy pricing or there was something else maybe I misheard.

Sanjiv Razdan

As part of my 100-day immersion and learning the business, we will be evaluating all levers available to us, including all aspects of pricing. And I think we're evaluating what might be the most effective way of being true to our mission of providing affordable chiropractic care, but also maximizing the potential for revenue. So, we're looking at all of those levers.

George Kelly

Okay. Understood. And then second topic I was hoping to cover is just the ongoing consumer headwinds and the guide down in comp growth. Can you be a little more specific what you've seen just maybe since -- I think July, you mentioned on the last conference call that comps accelerated. So, I'm curious what you saw in August and September and maybe what you've seen so far this quarter as well.

Jake Singleton

Yes. We did see comps cool a little bit within the quarter. Again, some economic headwinds there, obviously, the election going on. I think it's still just an interesting time for us and still -- we've been experiencing that over the last couple of years. So, we did see a slight cooling of that. We did launch a promotion in the October time frame that we're very excited about the opportunities and how that might flow through over time. Just a slight revision downward from that low side really just to be prudent and provide a better construct moving forward.

George Kelly

Okay. And then last one for me is just on refranchising. Could you give us an update just on -- I don't know if there's kind of new issues or challenges that you're facing in the process. Maybe it's the pricing still just sort of isn't there or not to what your expectations were or the Capstone. Just any kind of added detail on timing with respect to the process?

Sanjiv Razdan

Yes. At this stage, I am just wrapping my arms around what we've done thus far, how we've approached it and making sure that I feel confident to give you a more specific response to the timing at a later date. So, I'm still playing sort of just in the phase of just learning what's happening. But over time, we'll be able to share more with you on our refranchising efforts.

Jake Singleton

Yes, George, I think the only thing I would add is the timing in which we received our indication of interest, right? Capstone did their full marketing. We did receive a number of indications of interest. We are in the process of starting those management presentations to the bidders. Obviously, with the CEO transition, we wanted to take a step back and allow those potential groups to meet Sanjiv and go through that process. So, a little bit of a delay there, and we'll continue allowing Capstone to work through their process and continue that with full force.

Operator

The next question comes from Jeff Van Sinderen with B. Riley FBR. Please go ahead.

Jeffrey Van Sinderen

Yes. And let me say welcome, Sanjiv. I guess sort of a couple of things, and I realize you've only been there a really short time, and these are tough questions. But maybe you could just give us a little more on what you've learned so far? And I guess what you're leaning into to be most focused on in your first 100 days? And then I have some follow-ups to that.

Sanjiv Razdan

Yes. First of all, thank you, Jeff. I appreciate it. I'm really finding my time here very enjoyable and enriching. I think, as you know, I've been in 3.5 weeks, but the distillation of that is what I had shared in the four principles, which is, right, we're in the -- our mission is to provide affordable and accessible patient care, we have to elevate patient care. I think for me, that's number one.

I think strengthening clinic economics is at the core of every franchise. The stronger that will be, the better off we're going to be. Our franchisees are going to be happier. So, I think that is the second area of focus. I think the third thing is that we live in a world where we've got to constantly innovate around all aspects of what we do, and we're certainly going to be fueling more innovation going forward.

And last but certainly not the least, we have to continue to invest behind building culture and capability across our network. So those are the focus areas for me as I learn more as part of my first 100 days.

Jeffrey Van Sinderen

Okay. That's fair. And then just since you mentioned innovation, are there other services that you might be thinking about adding to clinics? And I know you talked about becoming a platform. I'm just curious what your thinking is around that, what you might layer out of the platform. And again, I realize it's only a few weeks.

Sanjiv Razdan

Jeff, thank you for recognizing that. I think even before I joined The Joint, right, one took an opportunity to study the category. And I think two things popped out at me before I came here. One was that chiropractic care itself has evolved over time, right? And there are clinical treatments available today that have evolved from previous years. So, I think there's a -- that's one.

Secondly, I think when I look at the landscape, clearly, there are certain opportunities for us to leverage around our core infrastructure and think of what might be adjacencies that are worth -- that would add shareholder value for us should we contemplate being a platform. That was before I came into the business, certainly evaluating all levers for growth.

Now that I'm in the business, I think I'm, again, taking time to see it from the inside, learn what's happening, and we'll be able to give you a more informed opinion when we speak next as part of the quarter four conversation.

Operator

[Operator Instructions] This concludes our question-and-answer session. I would like to turn the conference back over to CEO, Sanjiv Razdan, for any closing remarks.

Sanjiv Razdan

Thank you for joining us. I look forward to getting to know you at conferences and non-deal roadshows. Have a good day and know that at The Joint, we always have your back.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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