

Seeking Alpha^α

Transcripts

Consumer

The ONE Group Hospitality, Inc. (STKS) Q1 2026 Earnings Call Transcript

May 07, 2026, 7:12 AM ET | The ONE Group Hospitality, Inc. (STKS) Stock

**SA Transcripts**

159.9K Followers

Q1: 2026-05-06 Earnings Summary

Insights



EPS of -\$0.13 **misses by \$0.25** | Revenue of \$212.82M (0.80% Y/Y) **misses by \$4.87M**

The ONE Group Hospitality, Inc. ([STKS](#)) Q1 2026 Earnings Call May 6, 2026 4:30 PM EDT

Company Participants

Nicole Thaung - Chief Financial Officer

Emanuel Hilario - President, CEO & Director

Conference Call Participants

Joseph Gomes - NOBLE Capital Markets, Inc., Research Division

Anthony Lebieczinski - Sidoti & Company, LLC

James Sanderson - Northcoast Research Partners, LLC

Roger Lipton - Lipton Financial Services

Presentation

Operator

Greetings, and welcome to The ONE Group First Quarter 2026 Earnings Conference Call. [Operator instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Nicole Thaung. Please go ahead.

Nicole Thaung

Chief Financial Officer

Thank you, operator, and hello, everyone. Before we begin our formal remarks, let me remind you that part of our discussion today will include forward-looking statements. These forward-looking statements are not guarantees of future performance, and you should not place undue reliance on them. These statements are also subject to numerous risks and uncertainties that could cause actual results to differ materially from what we expect.

Please also note that these forward-looking statements reflect our opinion only as of the date of this call. We undertake no obligation to revise or publicly release any revisions of these forward-looking statements, considering new information or future events. We refer you to our recent SEC filings for a more detailed discussion of the risks that could impact our future operating results and financial condition.

During today's call, we will discuss certain non-GAAP financial measures, which we believe can be useful in evaluating our performance. However, the presentation of these matters or other information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP.

For reconciliations of these measures, such as adjusted EBITDA, restaurant operating profit, comparable sales, annual adjusted operating income and total food and beverage sales of company-owned, managed, licensed and franchise units to GAAP measures, along with a discussion of why we consider these measures useful, please see our earnings release issued today. With that, I would like to turn the call over to Emanuel P. Hilario.

Emanuel Hilario

President, CEO & Director

Thank you, Nicole, and good afternoon, everyone. I appreciate you joining us today. I want to start where I always do by thanking our teammates. Every day, our teams across every brand and market show up focused on creating memorable experiences for our guests. These days, consistency is more important than ever, and I appreciate all that they do in executing with excellence and upholding the Vibe Dining experience that defines our brands.

Today, I will begin with an overview of our first quarter performance, and then I will walk you through our progress with respect to our strategic priorities before turning it over to Nicole for the financial details.

We are excited about our continued momentum. Our operational performance is resulting in strong financial results. Total GAAP revenues grew year-over-year, and comparable sales are sequentially better than the previous quarter.

The restaurant's cost of sales improved to 19.4% from 20.8% in the prior year quarter. Operating income increased 30%. Adjusted EBITDA increased 12.1%. And capital expenditures, net of tenant improvement allowances, reduced 23% year-over-year as we prioritize capital-efficient growth and free cash flow generation.

Total GAAP revenues for the first quarter were \$213 million, an increase from \$211 million in the same quarter last year. First quarter consolidated comparable sales were relatively flat at a negative 0.3%, representing a continuation of the positive momentum we experienced exiting the fourth quarter.

For clarity, consolidated comparable sales are reported on the same number of days year-over-year. Looking at each brand, U.S. STK total comparable sales reported another positive quarter at 1.4%. Benihana's comparable sales were flat, reflecting stable demand for the brand. And our Grill Concepts comparable sales, while down 4.9%, represented the strongest quarterly performance since early 2023, and Grill transactions was positive for the quarter. Each segment continues to improve from the previous quarter.

What is most notable, particularly in a period of elevated inflation, is the strength of our margin performance, a direct result of the hard work we have been doing across our supply chain, including, most importantly, beef sourcing.

Restaurant operating profit increased 11% to \$40 million, while restaurant operating profit margins expanded 100 basis points to 19%. The margin improvement was driven by a 140 basis point reduction in food and beverage costs, reflecting menu optimization, integration synergies, and supply chain efficiencies. We also achieved a 40 basis point improvement in restaurant operating expenses as a percentage of restaurant revenues.

STK delivered particularly strong results with restaurant operating profit margins expanding 280 basis points to 21%, while Benihana margins improved 130 basis points to 21%. Adjusted EBITDA grew 12% to \$29 million. The improvement was driven by cost management discipline, our contracted beef pricing, continued Benihana integration synergies, and the benefit of portfolio optimization actions.

The key point I want to make is that these results are execution-driven. We are not dependent on macroeconomic recovery or shifts in consumer sentiment, but would certainly welcome them. Over the past 18 months, we have implemented a series of strategic initiatives, operational improvements at Benihana, the Barbell Strategy at STK, portfolio optimization across the growth concepts, and rigorous cost management. It is those initiatives that are driving our successful performance.

Now, let me update you on our four strategic priorities.

Priority One: accelerating comparable sales through execution. Our first strategic priority is accelerating comparable sales through disciplined execution. I want to highlight that Valentine's Day 2026 was a record-breaking day for our portfolio. Easter was also strong across our brands, while sales were up in the high single digits compared to last year. These results are a testament to both the operational capabilities we have built and the strength of our brands as a celebration destination.

As we look ahead, we are gearing up for what we expect to be a strong Mother's Day and graduation season. Both occasions are critically important to us, and our teams are focused on delivering exceptional guest experiences during these high-volume periods. Through the first 5 weeks of the second quarter, the company has positive comparable sales and transactions.

Momentum has continued through all of our brands with STK and Benihana so far, delivering positive comparable sales, and the growth is sequentially improving. We have made operational improvements to position the brands for a strong spring and summer and are seeing encouraging trends as Happy Hour has been a real driver and is working well, while lunch traffic is also returning.

Our Friends with Benefits Loyalty Program continue to gain momentum. Since launching last year, we have added over 8,000 new organic members to the program per week. Newly enrolled guests continue to show strong repeat participation, and we are seeing loyalty members spend more per visit compared to non-loyalty guests.

We will be actively targeting our Friends with Benefits members for Mother's Day and graduation celebrations, leveraging personalized outreach to drive traffic during these occasions. We continue to focus on growing membership, driving organic sign-ups, and increasing engagement within the program to strengthen brand connection and repeat visits.

We are driving growth through seasonal innovation, launching new food and beverage menus 4 times a year across our brands. This keeps our offerings fresh, differentiates us from competitors, and generates strong engagement on social media. We are expanding our off-premises business with a focus on curbside operations.

Highlights include burgers and sides, which continue to drive strong takeout and delivery volume across all brands and Benihana and RA Sushi, fried rice burritos for takeout and delivery, which have performed well.

Priority Two: capital-efficient growth with disciplined expansion. Next, our second priority is capital-efficient growth. We currently have two company-owned STK restaurants and one company-owned Benihana restaurant under construction, an STK in Phoenix, Arizona, a relocation of STK downtown in New York City and a Benihana in Seattle, Washington. We intend to open 6 to 10 new venues in 2026 as we prioritize locations requiring \$1.5 million or less in net capital investment to open.

Capital expenditures, net of TI allowances was 23% lower at \$10 million in the first quarter compared to the year ago period. Of this amount, \$6.5 million was related to new restaurant construction with the remainder supporting existing restaurants. This reduction reflects our disciplined approach to capital allocation as we focus on high-return capital-efficient growth.

On the franchise side, our 10-unit California Benihana and Benihana Express development agreement continues to progress and our commitment for franchise Benihana and a licensed Benihana Express in the Florida Keys remains on track. The Benihana Express format continues to generate strong franchise interest as it delivers the Benihana food experience without teppanyaki tables, making it more labor efficient and more appealing from a cost of entry perspective for potential franchisees.

In January, we completed the relocation of our Kona Grill in San Antonio, Texas to a smaller footprint location. And in February, we converted a franchise Benihana Monterrey, California to a company-owned restaurant to accommodate a long-term franchise partner who wish to retire. Both are tracking in line with our expectations.

Priority Three: portfolio optimization to improve returns. Our third priority is the portfolio optimization to improve returns, and we have made significant progress improving the quality and returns of our portfolio. As we discussed last quarter, we are converting Grill locations to higher-performing STKs and Benihanas. In 2025, we exited 6 RA Sushi and Kona Grill locations. And in January 2026, we exited one additional RA Sushi location that did not fit our conversion criteria.

The remaining Grill locations are healthy, profitable restaurants in quality real estate, and we expect them to generate approximately \$10 million in restaurant level EBITDA and over \$100 million in revenue. 5 Grill locations closed on January 5, 2026, for conversion to either Benihana or STK. Construction is in progress with all 5 expected to reopen by the end of 2026.

Each conversion is expected to cost between \$1 million and \$1.5 million and to be EBITDA accretive. As a reminder, our first conversion, the RA Sushi to STK in Scottsdale, Arizona is currently operating at a run rate of approximately \$7 million in annual sales, delivering an increase of over \$4 million in sales and a return on investment of approximately 4x. This validates our conversion strategy and gives us confidence in the pipeline.

As we have said before, we will continue to evaluate the portfolio as leases expire. We have approximately one to two Grill leases that come up each year as part of the natural end of cycle process, and we'll make decisions on a case-by-case basis.

Priority Four: maintaining balance sheet strength and flexibility. Our fourth priority for 2026 is conserving cash and optimizing the balance sheet. We are significantly reducing discretionary capital expenditures, targeting company-owned development to projects requiring on average, \$1.5 million or less in build-out costs. We are also working through our existing lease pipeline rather than adding new commitments. This discipline gives us flexibility in an uncertain environment and position us to invest selectively in the highest return opportunities.

We finished the quarter with \$6.6 million in cash and cash equivalents and restricted cash. We have \$33.7 million available under our revolving credit facility. Under current conditions, our term loan does not have a financial covenant.

Cash flow from operations was a strong \$22 million compared to \$9 million in the prior year quarter. This improvement was primarily attributable to increased net income and collections on holiday credit card receivables. We also reduced our debt with \$2 million in repayments under the credit agreement and \$7 million in repayments on the revolving facility, bringing our revolving facility balance to 0.

As we discussed on our previous call, we expect to generate free cash flow in 2026. Debt reduction and creating shareholder value remain a top priority.

Before I turn it over to Nicole for the financial details, I want to reiterate, the items that I have outlined today are fundamentally execution-driven and within our direct control. We are focused on strategic initiatives that position us to deliver results regardless of broader economic trends.

With that, I will turn the call over to Nicole.

Nicole Thaung

Chief Financial Officer

Thank you, Manny. As a reminder, beginning this year, we are reporting financial information on a fiscal quarter basis using four 13-week quarters with the addition of a 53rd week when necessary. For 2026, our fiscal calendar began on December 29, 2025, and our first quarter contained 91 days.

Consolidated comparable sales are reported on the same number of days year-over-year. Let me start by discussing our first quarter financials in greater detail before introducing our outlook for the second quarter of 2026 and reiterating our fiscal '26 guidance with the exception of an update to our expected effective tax rate.

Total consolidated GAAP revenues were \$212.8 million, increasing 0.8% from \$211.1 million for the same quarter last year.

Growth was driven by two primary factors: the fiscal calendar shift that moved New Year's Eve into fiscal '26, which added approximately \$8.3 million to our top line as well as contributions from new openings and conversions completed in the second half of 2025. These gains were partially offset by the closure of underperforming Grill locations as part of our portfolio optimization strategy, which reduced revenues by approximately \$1.8 million.

Included in total revenues were our company-owned restaurants net revenues of \$209.3 million, which increased 0.9% from \$207.4 million for the prior year quarter. The increase was primarily due to the change in the fiscal year calendar, which resulted in a shift in New Year's Eve into fiscal year '26 and the sales generated by 8 new restaurants. These gains were partially offset by a decrease in revenue from the Grill restaurants closed, and a 0.3% decrease in comparable restaurant sales.

Management license franchise and incentive fee revenues decreased slightly to \$3.5 million from \$3.7 million in the prior year quarter. The decrease is primarily attributable to the exit of a management agreement in Scottsdale, Arizona in the second quarter of 2025. As Manny noted, we converted a former RA Sushi to a company-owned STK in that market.

Now turning to expenses. We continue to implement targeted cost management initiatives. Last year, we made strategic adjustments to our beef tenderloin sourcing and have contracted pricing through September 2026, eliminating our exposure to significant U.S. beef price fluctuations and providing significant cost certainty. We also optimized our labor structure across the business last year by improving scheduling management, and we are still realizing synergies from the Benihana acquisition.

Company-owned restaurant cost of sales as a percentage of company-owned restaurant net revenue improved 140 basis points to 19.4% from 20.8%. This improvement was primarily due to menu optimization, integration synergies, supply chain initiatives, increased menu pricing and more efficient cost of sales associated with New Year's Eve and our record-breaking Valentine's Day.

Company-owned restaurant operating expenses as a percentage of company-owned restaurant net revenue improved 40 basis points to 61.7% from 62.1%. This reflects improvement in labor costs.

Restaurant operating profit, excluding Grill Concepts restaurants closed, was \$39.9 million or 19.1% of owned restaurant net revenue, improving by 100 basis points from 18.1% in the prior year quarter.

On a total reported basis, General & Administrative costs increased \$1.9 million to \$15 million from \$13.1 million in the same quarter prior year, driven by inflation on salaries and bonus, higher audit-related fees, investments in information technology, specifically AI-related technologies and increased marketing expenses.

When adjusting for stock-based compensation of \$1.1 million, adjusted General & Administrative expenses were \$13.9 million compared to \$11.5 million in the first quarter of 2025. As a percentage of revenues, when adjusting for stock-based compensation, adjusted General & Administrative costs were 6.5% compared to 5.4% in the prior year.

Depreciation and amortization expense was \$10.4 million compared to \$9.8 million in the prior year quarter. The increase is attributed to new restaurants opened during fiscal year '25.

Lease termination and restaurant closure expenses were \$2 million for this quarter, primarily as a result of the Grill portfolio optimization, which included \$500,000 in noncash expenses related to closed restaurants.

Preopening expenses were approximately \$1.5 million, primarily related to preopening rent for restaurants under development, including \$500,000 in noncash rent and payroll costs for Kona Grill Landmark, which opened in January 2026.

Preopening expenses decreased by \$200,000 compared to the prior year period. Transition and integration expenses were \$500,000, down significantly from \$3.7 million in the prior year quarter as we're nearing completion of the integration of the Benihana and RA Sushi acquisition.

Operating income was \$13.9 million compared to operating income of \$10.7 million in the first quarter of '25, an increase of \$3.2 million, primarily due to improved restaurant operating profit and the reduction in transition and integration costs. For a reconciliation, please refer to our press release issued earlier today.

Interest expense was \$9.7 million compared to \$9.8 million in the prior year quarter. Our weighted average interest rate was 10.2% compared to 10.9% in the prior year quarter. Provision for income taxes was \$1.2 million compared to \$300,000 in the prior year quarter as a result of an increase in pretax book income. Net income attributable to The ONE Group Hospitality, Inc. was \$3.2 million compared to net income of \$1 million in the first quarter of 2025.

Net loss available to common stockholders was \$6.2 million or \$0.20 net loss per share compared to \$6.6 million in the first quarter of 2025 or \$0.21 net loss per share. Adjusted EBITDA attributable to The ONE Group Hospitality, Inc. was \$28.8 million compared to \$25.7 million in the prior year quarter, an increase of 12.1%.

We finished the quarter with \$6.6 million in cash and cash equivalents and restricted cash and cash equivalents. We have \$33.7 million available under our revolving credit facility, subject to certain conditions. And as Manny said, as of quarter end, we had no borrowings outstanding on our revolving credit facility nor does our term loan currently require a financial covenant.

Now I would like to provide some forward-looking commentary regarding our business. This commentary is subject to risks and uncertainties associated with forward-looking statements as discussed in our SEC filings. We remind our investors that the actual number and timing of new restaurants for any given period is subject to factors outside of the company's control, including macroeconomic conditions, weather and factors under the control of landlords, contractors, licensees and regulatory and licensing authorities.

Based on the information available now and the expectations as of today, we are issuing the following financial targets for the second quarter of 2026.

Beginning with the top line, we project total GAAP revenues of between \$202 million and \$206 million, which reflects our anticipation of consolidated comparable sales of 1% to 2%. Management license franchise and incentive fee revenue are expected to be approximately \$3 million to \$4. Total company-owned operating expenses as a percentage of company-owned restaurant net revenue between 81% and 82%.

Total G&A, excluding stock-based compensation, between \$13 million and \$14 million; adjusted EBITDA of between \$24 million and \$26 million; and finally, restaurant preopening expenses of between \$1 million and \$2 million.

Based on the information available to us now and our expectations as of today, we are reiterating the following financial targets for fiscal year '26 with the exception of increasing the range of the effective tax rate.

We project total GAAP revenues of between \$840 million and \$855 million, which reflects our anticipation of consolidated comparable sales of 1% to 3%.

Management license franchise and incentive fee revenues are expected to be between \$14 million and \$15 million; total company-owned operating expenses as a percentage of company-owned restaurant net revenue of approximately 82% to 83%; total G&A, excluding stock-based compensation of approximately \$53 million; adjusted EBITDA of between \$100 million and \$110 million; restaurant preopening expense of between \$5 million and \$6 million; an effective income tax rate of approximately 10% to 20%; total capital expenditures, net of allowances received from landlords of between \$38 million and \$42 million. And finally, we plan to open 6 to 10 new venues. With that, I will now turn the call back to Manny.

Emanuel Hilario

President, CEO & Director

Thank you, Nicole. Before we open up for questions, I want to emphasize how excited we are about our business. Although the current environment remains challenging, our future looks bright. With our proven ability to execute, strengthened portfolio and expanded franchise capabilities, we are well positioned to capture the significant opportunities ahead of us.

We thank you for your continued support and look forward to sharing our progress in the quarters ahead. And as always, a special thanks to all teammates all over the globe that live our mission every day, creating great guest memories by operating the best restaurants in every market by delivering exceptional and unforgettable guest experiences to every guest every time. Nicole and I look forward to your questions. Operator?

Question-and-Answer Session**Operator**

[Operator Instructions] The first question we have is from Joe Gomes of NOBLE Capital Markets.

Joseph Gomes

NOBLE Capital Markets, Inc., Research Division

I just want to start. The revenues were a little below what the guide was for the first quarter and the comps were a little off from where the guide was. And just maybe give us a little more color there, Manny, on what transpired during the quarter to cause that slight miss.

Emanuel Hilario*President, CEO & Director*

Yes. I mean I think the only thing that was less than we expected in the quarter was the, our volume at our STKs in malls, really the first year where we've had two restaurants fully operating in the first quarter in the mall. I think that the first quarter is a little different from the other quarters for those restaurants. So, I would say just the seasonality of our mall STKs was a little bit different than what we expected.

But other than that, I think that the quarter was solid. I think the only other noise in the quarter was just spring break this year seemed to have a lot of different changes in terms of how people took their holidays. And then I think just Easter being much earlier, it just is a little bit of a different cadence of sales, if you will, in the year. But overall, I thought that the business was very strong in our brands.

Joseph Gomes*NOBLE Capital Markets, Inc., Research Division*

And then I think also last quarter, you talked about the conversions you were hoping to have them all done by mid-July, and now it sounds like at the end of the year. Anything there? Is it just extended construction cycles or you just being a little more conservative in the conversion opportunity?

Emanuel Hilario*President, CEO & Director*

No, I just think it's just the pacing of resources to reopen them out properly. I mean there are reloads and if you will, conversion sites, but you still have to go through the full training cycle. So, I think the timing of all these restaurants is really based on how we feel about the right pace of opening the units without being negatively impactful to operations. So, it's really just a timing pace, making sure that you're moving your opening teams to the right places at the right time. So, it's just an internal judgment relative to when we want to open the restaurants.

Joseph Gomes*NOBLE Capital Markets, Inc., Research Division*

And then last one for me, and I'll jump back in queue. Anything new on the franchising front or some more of the nontraditional venues that you had some success that we reported on the past couple of quarters, but just wondering if anything new in the pipeline there?

Emanuel Hilario

President, CEO & Director

Yes. I mean I think franchising still lots of interest. We're actively talking to people all the time. We have amped up our resources behind getting new deals. So, I think it's progressing really well and interest is very high. So, I'm very pleased with the progress, and I feel very positive about the outlook relative to franchising, particularly for Benihana.

Operator

The next question we have is from Anthony Lebieczinski of Sidoti & Co.

Anthony Lebieczinski

Sidoti & Company, LLC

So Emanuel, just wondering if you guys saw any notable regional differences in terms of your same-store sales performance in the quarter?

Emanuel Hilario

President, CEO & Director

Yes. I mean I think for us, if there was one market that stood out a little bit differently, was Texas. We did see a little bit of different trends in Texas. But other than that, everything was relatively very similar. So that's probably the only market. And if I have to drill down a little bit more, I think Dallas per se was one of the markets where we saw a little bit more softness in the business. But other than that, as our results show coming into the second quarter, we have a lot of momentum and sales are positive for the company and transactions. So, in this environment, I believe that to be a really strong testament to the initiatives and all the activities that we're doing in building traffic and sales.

Anthony Lebieczinski

Sidoti & Company, LLC

So as it relates to Texas, was there any change in the competitive landscape? Or was it something else that drove some of the softness there, you think?

Emanuel Hilario

President, CEO & Director

I think in Dallas specifically, I think it's just a very competitive market, and there's always a lot of competition coming into that market. So, I just think it's the, at least from my perspective and our perspective in that market is that there's just a lot of people playing in that market. And so, there's, from time to time, you will have a little bit of up and down in the business there just because there's just a lot of people, it's an attractive market. It's a large market, and everybody wants to have a restaurant in Dallas. So, I think it's just a matter of what the competitors are doing in the marketplace.

Anthony Lebieczinski

Sidoti & Company, LLC

Understood. Okay. And then in terms of the commentary about the second quarter same-store sales, which are tracking positive, can you give us a sense as to traffic versus ticket? What's the kind of breakdown approximately?

Emanuel Hilario

President, CEO & Director

Well, we're up in traffic. So, it's a good lead in. And I think that, to me, that's the most important part of that mix of sales is that our initiatives, particularly around value and our continuous messaging around happy hour and some of the great price points we have at lunch and at dinner are starting to really resonate.

And our marketing is starting to really make lots of progress in communicating those value points. So, I feel very good about that. And then Benihana, we also launched our Power Lunch offering, which is starting at \$15 \$15.95, 45-minute guarantee. Lunch is starting to also gain traction. So, I feel really good about all the initiatives, and we're starting to see progress made on building traffic.

Anthony Lebieczinski

Sidoti & Company, LLC

Got it. Okay. And last question for me. Nicole, you mentioned that there were some Benihana cost synergies realized in the quarter. Can you expand on that? And are there any other synergies that you think may be realized this year as it relates to the Benihana acquisition?

Nicole Thaung

Chief Financial Officer

Yes. I think one of the biggest synergies we're still realizing is the beef contracts, combining the different brands that are both very heavily reliant on beef products, we were able to secure a pretty decent contract. So that's something that we'll continue to see through the coming months. We're also seeing some of our other contracts that were placed over the last year or so in terms of linens and other operating supplies that we're still realizing synergies on as well.

Operator

The next question we have is from Mark Smith of Lake Street Capital.

Unknown Analyst

Alex on the line for Mark Smith today. Just first one for me. Looking at capital allocation priorities, you made good progress on the balance sheet with the revolver now paid down to zero free cash flow generation improving as leverage comes down further, how are you guys thinking about balancing debt reduction and conversion investments and potentially becoming more active on share repurchases?

Emanuel Hilario

President, CEO & Director

I mean I think as you saw in the quarter, our focus has been debt, right, because we did pay the revolver as well as term loan. And so that will be, continue to be a priority is really focusing on debt and really balancing that with a growth portfolio of restaurants that is really cost effective. So that's really kind of on the short-term is our primary objectives. Of course, capital allocation and shareholder value creation is always a priority of our Board. So, we always are actively looking at anything and everything that makes sense in terms of creating value for the shareholders.

Unknown Analyst

Okay. And last one for me, just switching over to the restaurants. Benihana Express seems to be getting a lot of traction from a franchise interest standpoint. Maybe just talk about how you view that long-term opportunity for that format relative to the traditional Benihana concept and what you think franchisees are finding most attractive about the model today?

Emanuel Hilario

President, CEO & Director

Yes. I mean, good question. What the franchise interest is around the product itself, the fact that we have fantastic fried rice products and protein offerings going with it. So, there's excitement about the product offering. There's also excitement about the price point positioning of that product because, being a Benihana product, it's a premium in market. So, they do like that.

Then, of course, franchising economics are paramount. So, I think within the Benihana Express, we get the best of Benihana in great COGS, Cost of Goods. And then we also get a very beneficial labor equation, meaning that we don't have service at the table, a teppanyaki table. So there's a really relatively predictable and strong labor model on that.

And then obviously, it goes without saying, the fact that these footprints are small, occupancy is also very effective. And then also the fact that the footprint is smaller allows for a lot more flexibility in terms of what real estate is available for that brand.

So again, you start adding all those things. And of course, the cost of development is also very affordable relative to building other full-sized stores. So I think once you add all those up, the franchisees are very interested in pursuing that.

Operator

The next question we have is from James Sanderson of Northcoast Research.

James Sanderson

Northcoast Research Partners, LLC

I wanted to go back to your update on same-store sales and traffic and build on that. Any feedback on what your bookings are looking like from Mother's Day and graduation events relative to where you were, say, one year ago?

Emanuel Hilario*President, CEO & Director*

I mean, without getting to precise numbers, I would say that traffic is positive coming into the quarter. And I think just in line with that, I think in general, our bookings, because we do manage that very closely, our books in general are very solid. So I would say that I feel very good about the forward look on the books.

James Sanderson*Northcoast Research Partners, LLC*

Excellent. Shifting over to your store margin guidance, I noticed that relative to the first half of the year, you're probably expecting some modest margin compression. Can you walk through how margin is going to progress over the year?

Emanuel Hilario*President, CEO & Director*

I mean for us, it's always the third quarter, right? So, we always have first quarter, second quarter and fourth quarter are always very good margins. And of course, our third quarter is our lowest-volume quarter. And so we do always get that shift in margin in the third quarter just because of seasonality.

So, other than that, everything in the margin, as Nicole reported during her update, is strong, and we have great momentum in COGS. As a matter of fact, our Cost of Goods is the lowest we've ever reported as a company. And I think the margin overall outlook for the year is very solid.

James Sanderson*Northcoast Research Partners, LLC*

And then speaking to margin a little bit more, you mentioned you've got beef visibility until September. Any thoughts on what you're looking at for locking in those prices as we get to the holiday quarter?

Emanuel Hilario*President, CEO & Director*

I mean, always an active dialogue about what we do with beef. I think the thing that we spend a lot, and of course, I don't have a crystal ball, so I wish I could give you an exact fourth quarter look on beef. But again, our view on beef is still a tough market right now. And so there's a lot to manage there.

But our focus really with beef right now is just looking at alternative cuts and promotional windows to try to take advantage of other cuts that might be lower cost than maybe a filet or something else. So, it's really more about P-mix management and starting to really plan out for Q4 promotional windows that are not so reliant on filets because that takes pressure off the cost line.

James Sanderson

Northcoast Research Partners, LLC

Very good. And then I think you also reported your weighted average interest rate was down. Could you walk us through what's driving that and what your outlook for the rest of the year is?

Emanuel Hilario

President, CEO & Director

I think that the Fed rates came down a bit, which impacts overall rates. So I think that's the big part of it. And again, our focus on that right now is to as much as we have free cash flow is to bring it down. And that's our number one objective as we go forward, is to really balance that growth and be effective on growth and still have free cash flow to service debt so we keep bringing that principal down.

James Sanderson

Northcoast Research Partners, LLC

All right. Last question for me. Any feedback on what your off-premises mix was in the first quarter and how that was broken up between delivery and pickup, third-party delivery and pickup?

Emanuel Hilario

President, CEO & Director

As I reported in previous quarters, very low double digits as a percentage of mix in delivery. And I think that the majority of our mix right now is still reliant on delivery. It's more delivery than pickup at the restaurants.

And as you might imagine, our focus right now is building up that pickup at the store because that's more P&L effective. And we think that there's also big opportunities on that.

Operator

The next question we have is from Roger Lipton of Lipton Financial Services.

Roger Lipton

Lipton Financial Services

A great number of my potential questions have been answered. I did want to just explore a little bit more the store-level margin, which it looks like you could have been in a position to bring down the operating expenses, bring up your margin a little bit for the full-year guidance, beating the first quarter by, I guess, 150 basis points, 160 basis points over the mid 80%, the 19.1% instead of 17.5% at the midpoint of your previous guidance.

And in the second quarter, you're 81% to 82% to 83% in terms of expense totals. So, it looks like maybe you've got a little room for the full year to improve upon that 82% to 83%.

Emanuel Hilario

President, CEO & Director

I mean, again, thanks Roger, and good to hear from you. I think our view on this, and as I answered the previous question, is our fourth quarter is really a big quarter, and I just want to make sure that we have numbers that we're super comfortable with. And again, I'm very happy with our first quarter results, and I think that we're making tremendous progress in the second quarter and forward.

But I always want to make sure that we're realistic about the environment. It's still a challenging environment. Lots of noise with gas prices. And as you know, gas prices over time can impact your supply chain. So again, I'm not saying that we believe that that's ultimately going to happen, but we're just being cautious about how we go about guiding for the rest of the year on the margin.

Roger Lipton

Lipton Financial Services

Okay. That's fair. And just, you went over so quickly, the new economics on that Scottsdale conversion. You're saying the ROI, increasing the ROI by 4x. Could you just run by those numbers one more time quickly?

Emanuel Hilario

President, CEO & Director

That's a good question. So just for clarity, that restaurant was doing about \$3 million to \$4 million in revenues. It's now north of \$7 million. So we grew revenues there by about \$4 million, we think, year-over-year on an annual basis, and we spent about \$1 million getting that \$4 million in sales. So it's really a 4x return on sales on the investment we put in the site.

Sales, I'm sorry. The ROI will also be very good because that \$4 million increase in revenues will drive a significant amount of incremental EBITDA. So our ROI on that conversion will be very, very high.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would like to turn the conference call back to Manny Hilario for closing remarks.

Emanuel Hilario

President, CEO & Director

Thank you, everyone. I appreciate everyone taking time to be with us here today. As I said earlier, we're very excited about the future for the company. And as I always tell everyone, none of this would be possible without the incredible contributions from all our teammates who live our mission every day. So I want to thank them all once again.

And then I look forward to running into all of you in our restaurants. So everybody have a great summer. Back to you, operator.

Operator

Thank you. This concludes today's conference. Thank you for joining us. You may now disconnect your lines.

Read more current STKS [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Sort by

Newest



If you type a company or ETF ticker symbol in capital letters we will automatically link to the symbol page. You can remove the link by deleting the \$ in the comment.