

Rocky Mountain Chocolate Factory, Inc. (RMCF) Q3 2026 Earnings Call Transcript

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Rocky Mountain Chocolate Factory, Inc. ([RMCF](#)) Q3 2026 Earnings Call January 14, 2026 9:00 AM EST

Company Participants

Jeffrey Geygan - Interim CEO & Director

Carrie Cass - Corporate Secretary & CFO

Conference Call Participants

Doug Garber

Peter Sidoti - Sidoti & Company, Inc.

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to today's conference call to discuss Rocky Mountain Chocolate Factory's financial results for the third quarter of 2026. [Operator Instructions]. As a reminder, this conference is being recorded.

Joining us on the call today is the company's interim Chairman, Jeff Geygan and CFO, Carrie Cass. Please be advised that this conference will contain statements that are considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain known and unknown risks and uncertainties as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements.

These forward-looking statements are also subject to other risks and uncertainties that are described from time to time in the company's filings with the SEC. Do not place undue reliance on any forward-looking statements, which are being made only as of the date of this call. Except as required by law, the company undertakes no obligation to publicly update or revise any forward-looking statements.

And now, I'll turn the call over to the company's interim CEO, Jeff Geygan. Jeff, please go ahead.

Jeffrey Geygan

Interim CEO & Director

Good morning, and thank you for joining us. During the third quarter, we continued to execute our margin first transformation strategy, making deliberate decisions to prioritize profitability and long-term value creation over lower quality revenue. While these actions resulted in a near-term revenue pressure and a modest net loss for the quarter, they're foundational to restoring long-term sustainable growth and shareholder value creation.

The results from this quarter reflect important progress in our efforts as we delivered meaningful improvement in gross profit and margin. We continue to believe there's a clear path to maintain and further expand margins as we strengthen the foundation of our business.

Our business transformation is focused on disciplined execution, improving product mix, implementing thoughtful price actions, simplifying our SKU portfolio and building the operational and technology capabilities required to support long-term growth. While we're still navigating some persistently higher input cost and near-term inefficiencies related to our production transition, the actions we've taken are now showing in our financial results.

We are also very encouraged by the momentum we're seeing with our franchise development pipeline. We currently have 2 new stores under construction and 34 stores under recently negotiated area development agreements, demonstrating interest from well-capitalized, financially sophisticated new and existing operators.

Our franchise development team is working on building additional backlog of new franchise opportunities supported by our clear messaging with a refreshed brand direction and targeted digital marketing efforts to identify the right partners to grow and succeed with our brand.

I'll now step through several highlights from the quarter, including our operational progress, franchise development momentum and continued execution across technology and e-commerce initiatives.

During the quarter and past year, we continue to make intentional decisions to exit lower-margin specialty and wholesale revenue streams. While this resulted in a modest year-over-year decline in total revenue that predictably contributed to a significant improvement in gross profit dollars and margin.

We reported a 21.4% gross manufacturing margin for the quarter ended November 30, 2025, compared to 10% for the same quarter of the prior year and a negative 0.6% for the previous quarter ended August 31. We're pleased with this progress while recognizing there is room for further improvement.

We've implemented a series of targeted price adjustments over the past year and as recently as January 2, all designed to achieve a specific margin objective across our 4 core franchise categories, including bulk candies, packaged goods, supplies and ingredients. These adjustments were not uniformly upward. In fact, some prices remained unchanged while others were reduced as we attempt to optimize our sales mix and throughput across our network of over 250 franchised and licensed locations.

Collectively, these adjustments are expected to support margin expansion over time in a balanced way that enables strong economic results for our franchise and licensed partners as well as the company.

In addition to price adjustments, we're beginning to realize the benefits from SKU rationalization and production labor efficiencies. This includes the elimination of hundreds of low contributing SKUs, the elimination of temporary labor and a large reduction in overtime hours and improved production scheduling.

We also added a second production shift at the chocolate factory to provide greater flexibility and efficiencies in scheduling and maintenance. We believe there's an additional \$500,000 to \$1 million of savings that can be realized in our current cost structure. This disciplined rationalization highlights the cornerstone of the new company culture, simplify production, reduce operational complexity and improve manufacturing throughput.

Looking ahead, we expect to recognize the benefit from lower input costs, including the recent elimination of an approximate 10% tariff on cocoa. As cocoa prices have come down in recent months, we have executed a thoughtful and timely purchasing strategy that directly impacts our cost of chocolate and have locked in nearly 20% of our expected annual consumption volume at recent favorable prices.

Franchise development remains a key strategic revenue pillar of our long-term business plan as momentum continued to build during the quarter and beyond. We currently have 2 new stores under construction and 34 stores under area development agreements, reflecting growing interest from experienced multiunit operators aligned with our refreshed strategy and brand direction.

These agreements generally contemplate a 4- to 5-year build-out period with the initial store construction required within the first year and sequenced annually thereafter. We'll provide ongoing details as leases are signed and construction is initiated. Our focus remains on quality over quantity as we partner with operators who are well capitalized, operationally sophisticated and committed to building long-term value within the Rocky Mountain Chocolate Factory network.

At the same time, we are rationalizing our current store base by allowing the closing of underperforming locations that contribute minimal revenue and can negatively impact our premium brand image. While new store openings are conducted in a measured pace, our team is working to reduce overall development costs and shorten the time line from lease signing to opening, which currently stands at about 6 months.

We believe this disciplined approach positions us well to expand thoughtfully into both existing and new markets over time while improving average unit performance across our network.

We hired a new VP of Franchise Development in August. He attended our September National Franchise Convention and engaged with well over a dozen current franchisees to lay out a vision for future growth and area development agreements.

Our franchise development team is working actively through a sizable backlog of new franchise opportunities, supported by improved digital marketing capabilities and a rigorous selection process with prospective partners. We're entering a new era of growth, but not growth for growth's sake. We will be very intentional with every move we make and every franchisee partner we add.

We remain focused on increasing store ownership per franchisee, which improved from 1.34 to 1.39 stores when we first cited this number. We expect our disciplined approach to area development and franchisee recruitment will drive meaningful long-term results for our network performance.

Turning to our rebrand. All stores have fully transitioned to our new packaging with legacy copper packaging phased out on November 30. For the new store layout and designs, full remodels are scheduled to begin after March 1, with the goal of completing the majority of remodels by October 2026, ahead of the holiday season and virtually all stores aligned with our new brand identity within 24 months.

Remodels will include new exterior signage, updated interior layouts, enhanced merchandising designed to create a more consistent and engaging customer experience across all stores, whether new or remodeled. Our newer stores in Chicago, Illinois, and Charleston, South Carolina, continue to meet our expectations. Chicago opened on December 11 and was well received in a community where we have good existing brand awareness due to our multiple locations in the metro area. Daily sales trends are encouraging.

Our Charleston location opened on June 3 and has developed nicely despite it being the first Rocky Mountain Chocolate Factory store in the state of South Carolina. Sales are continuing to trend higher. Our company-owned store in Corpus Christi, Texas, was remodeled in August and has since experienced consistent growth and on several occasions, recognized daily sales results of over \$4,000.

As a reference point, we target \$2,800 per day in sales as a benchmark for a \$1 million location. We've successfully experimented in both our Durango, Colorado, and Camarillo, California company stores with new merchandising strategies to improve store sell-through. The early results have been encouraging. As we learn more, the feedback will allow us to create a template for stores across the network as we work to deploy best practices in all locations as well as with each new store opening.

Our goals continue to be increasing store sales and improving store level profitability. We expect our average unit volume to increase again this year.

We're also advancing our digital initiatives. DoorDash storefronts are now live, a white labeled zero commission model that enhances unit level economics for franchisees. Each store now maintains its own branded online presence, supported by improved social media and digital integration. We recently created a unique store website for 100% of our domestic locations. Those can be easily assessed from rmcf.com's store locator or directly through a web search. This development allows customers to buy online for local pickup or delivery while routing the customer to the store's own white label DoorDash site.

We plan to add additional customer functionality to stores' websites as we continue to develop this important revenue channel. In addition, our loyalty program remains under active development with vendor engagement underway and an expected rollout in the first half of this calendar year. Additional technology initiatives are designed to modernize the way we use technology as an enabler of our transformation.

Over 120 stores are now live on our new POS system, providing significantly richer data flows than we've historically had access to, including customer transaction activity, average ticket size, basket composition and cross-selling activity. As POS penetration increases, we expect to have increased visibility into and a near real-time awareness of customer behavior and store level performance, creating opportunity to benefit from more informed, data-driven decisions that enhance franchisee performance over time.

Our ERP system implementation continues to evolve as we're realizing more efficient operational execution. There's more process improvement under develop that we believe will reduce production costs. While we have seen some benefit to date, we continue to refine and customize the platform to better align with our operating model and internal reporting needs.

These multiple technological initiatives are strengthening how customers experience our brand and how efficient we are at the Chocolate Factory. They represent the next stage of our development, a consistent, elevated engagement that supports the long-term franchisee success and a memorable customer experience.

Subsequent to quarter end, we completed a \$2.7 million equity capital raise, allowing us to pay down \$1.2 million of debt and retain \$1.5 million in additional working capital. While this is not reflected in our financial statements as of November 30, it's important to note that our strengthened balance sheet provides greater flexibility for us to invest in our operations, franchise development and technology initiatives moving forward.

As we step back and look at the big picture, this quarter represents an important inflection point in our transformation. The decisions we've made over the past 18 months, including exiting low-margin revenue sources, simplifying our business strategy, focusing on growing our franchise network, resetting our cost structure and strengthening our balance sheet are beginning to materialize with improved gross profit and margin and a more resilient operating model.

There is still work ahead. However, we believe these actions have materially improved our positioning for sustainable long-term growth and a return to profitability. We believe we have a stronger balance sheet in place to better manage our working capital and return to positive cash flow generation over the coming quarters.

We continue to invest in our people as we add strategically important resources to both our team in and away from our Durango headquarters. People are our greatest asset and responsible for the ultimate realization of our long-term results. We are developing a culture of continuous improvement, which is foundational to our success.

In addition to ongoing executive team professional development, we're also committed to professional development and career advancement for a larger group, our leadership team, who provide essential strategic support and execution alongside our executive team.

Our focus remains on returning to profitability through disciplined execution, supporting franchisees and scaling our network thoughtfully with the right partners as we continue to innovate and expand our premium confectionery franchise business model.

Thank you for your attention. I'll now turn the call over to our Chief Financial Officer, Carrie Cass, to walk you through our fiscal third quarter financial results. Carrie?

Carrie Cass

Corporate Secretary & CFO

Thank you, Jeff. Please note that unless otherwise stated, all comparisons are on a year-over-year basis. For the fiscal third quarter of '26, total revenue was \$7.5 million compared to \$7.9 million in the prior year.

Discipline reflects our intentional exit from low or negative margin revenue streams as part of our margin first strategy. Total product and retail gross profit increased to \$1.4 million in the third quarter of fiscal '26 compared to \$0.7 million in the same quarter last year, driven by pricing actions, improved product mix and labor efficiencies.

While these gains were partially offset by short-term operational inefficiencies related to higher material costs and freight costs, we're continuing to optimize our manufacturing and cost structure and expect to maintain these margins moving forward. Total costs and expenses improved to \$7.5 million, down from \$8.6 million in the same quarter last year, with savings realized across nearly all areas of operations.

Net loss for the quarter was \$0.2 million or negative \$0.02 per share compared to the net loss of \$0.8 million or negative \$0.11 per share in the prior year. EBITDA was \$0.4 million in the third quarter of fiscal '26 compared to a negative \$0.4 million in the same quarter last year, with improvement driven by aforementioned increases in gross profit, lower costs and expenses.

This concludes our prepared remarks. Operator, back to you.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Doug Garber with Westport Alpha.

Doug Garber

Congrats on the good quarter. Jeff, can you talk a little bit about the 34 new stores, the agreement there and the pace of deployment and what else you have in the pipeline for other areas and what you're targeting for store growth in the future?

Jeffrey Geygan

Interim CEO & Director

Thank you, Doug. The 34 current area development agreements are across 4 unique franchisees, 3 of whom are existing franchisees, one of whom is new to the system. Our [Fan dev] department has other prospective area development agreements in queue. We expect to add to the total over time.

The rollout of these will be on a measured basis, but accelerating into the later years. All of the agreements are designed to either have stores started within 3 or 4 years and the total completed within 4 or 5 years.

Doug Garber

How have you lined up the financing for these stores? Do the existing owners have liquidity or debt facilities or equity lined up to execute this plan?

Jeffrey Geygan*Interim CEO & Director*

They do. And as you have noted in our recent comments, we're focused on partnering with well-capitalized and financially sophisticated individuals, necessarily meaning that their need to put significant debt on to build a store is minimal.

Doug Garber

Great. And on the profitability, it looks like your initiatives over the last year are starting to show in the P&L. I'm trying to understand the cocoa price impact as that has come down and how much more of a margin tailwind that will be as the prices normalize from what's happened in the current market into your P&L over the next couple of quarters, how much more margin expansion do you expect?

Jeffrey Geygan*Interim CEO & Director*

Well, as we speak, the cocoa futures are trading at just over \$5,100. Keep in mind that for many years, cocoa traded between \$1,500 and \$3,000 a metric ton. In a relatively short period of time, they spiked to close to \$12,000. And then for the subsequent probably 18 to 24 months, they hover between \$8,000 and \$12,000.

When we began initiating a strategy to lock in future pricing, we really used \$8,000 as a ceiling, and we've been successful with that. Recently, we were able to lock it in at closer to \$5,000 for roughly 20% of our expected production this year. Bear in mind, we consume chocolate, not cocoa, but directionally, our chocolate price moves with the cocoa price.

I don't think we've rendered a view publicly in terms of the potential impact other than to say, as cocoa prices come down, they chocolate represents a substantial part of our raw material cost. So I think you can expect we will have a margin tailwind here.

Doug Garber

And have you disclosed maybe, Carrie, what percent of your raw materials are chocolate or cocoa, if you're able to break it down to the actual raw ingredient?

Carrie Cass*Corporate Secretary & CFO*

That's something we have not disclosed.

Doug Garber

Okay. Last one, Jeff, on the balance sheet, you've added equity now twice. Where are we in that journey of, call it, recapping the balance sheet since you've been the interim CEO? And where are you trying to take that in the future?

Jeffrey Geygan

Interim CEO & Director

Yes. Of course, all these decisions are Board decisions, but we think the next leg of our capital allocation plan will be reducing debt, investing in the company, all of which we presume will be coming from free cash flow as opposed to additional equity issuance.

Doug Garber

Great. Well, it's good to see all your hard work in the P&L now. So congratulations to both of you. I know you've been working very hard. I'll turn it back.

Jeffrey Geygan

Interim CEO & Director

Yes. Thank you very much. And there's more work to be done for sure, but we think directionally, this indicates that we're making progress.

Operator

Our next question comes from Peter Sidoti with Sidoti & Company, LLC.

Peter Sidoti

Sidoti & Company, Inc.

Could you just talk about when do you expect the accelerated franchise effort to begin affecting the top line?

Jeffrey Geygan

Interim CEO & Director

I'm sorry, Peter, you broke up a little bit. Do you -- would you repeat that please?

Peter Sidoti

Sidoti & Company, Inc.

When do you expect the accelerated franchising effort to begin showing up on the top line?

Jeffrey Geygan

Interim CEO & Director

Yes, it's a great question. From opening to maturity, we assume a store will take roughly 3 years. From lease signing to store opening, that takes roughly 6 months. From the lease process takes anywhere from 2 to 4 months. So there's somewhat of a lag in terms of a store being announced to it actually being fully productive.

At this point, I think we've been fairly public, we would have very little interest in supporting the opening of a store that we don't think can generate at least \$1 million in annual sales at retail over 3 years in a 3-year period. So I think you can back into any type of modeling you're doing based upon the flow of stores, knowing that it's critical for us to have new stores, not just to improve the quality of our network, but to drive long-term profitability.

Peter Sidoti

Sidoti & Company, Inc.

Right. So is it fair to say you don't expect any dramatic revenue growth in 2026 at this point and really expect the efforts to start showing up next year?

Jeffrey Geygan

Interim CEO & Director

If you're talking exclusively about additional revenue growth from new stores, I would say yes. But we have a network of 140 stores where there is substantial opportunity for us to have more Chocolate Factory product being represented and sold through those stores.

So we're hyper focused on local store mix and increasing same-store sales. In addition, we do have e-commerce channel, and we also have specialty markets and intend to try to penetrate that further with the caveat being only where we make an appropriate margin.

Peter Sidoti

Sidoti & Company, Inc.

And you've been there for a while and really have done an excellent job. What's the biggest obstacles you now feel that you're facing when looking at growing the business? Is it financial? Is it market? Is it just people?

Jeffrey Geygan

Interim CEO & Director

Execution. We just -- we need to do a better job at executing profitably. As I cited in our call here, we think there's still more cost to come out, but this isn't a cost savings story. This is a top line story. So we have to be able to execute efficiently, but we need to grow our top line, and that's going to come primarily through our franchise system, principally from our existing franchise base supplementally from the new stores.

Peter Sidoti

Sidoti & Company, Inc.

Okay. And congratulations on the financing. It was spectacular in terms of what you accomplished.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to Jeff and Carrie to see if you have any closing remarks.

Jeffrey Geygan

Interim CEO & Director

Thank you, operator. That's all we have for you today. I appreciate your dialing in. Look forward to updating you in the next 3 months.

Operator

Thank you, ladies and gentlemen. This does conclude today's presentation. You may now disconnect, and have a wonderful day.

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