

Transcript of
Rocky Mountain Chocolate Factory, Inc.
Q1 2023 Earnings Conference Call
July 14, 2022

Participants

Rob Swadosh - Investor Relations, Swadosh Group
Rob Sarlls - Chief Executive Officer

Analysts

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the conference call to discuss the Financial Results of Rocky Mountain Chocolate Factory, Inc. First Quarter of Fiscal 2023 ended May 31st, 2022. At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded.

It is now my pleasure to turn the call over to Rob Swadosh, the company's Investor Relations Representative for opening remarks. Please go ahead, Rob.

Rob Swadosh - Investor Relations, Swadosh Group

Thank you, operator. Before introducing Chief Executive Officer, Rob Sarlls, please be advised this conference call 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 revise or publicly release the results of any revision to any forward-looking statements.

Our presentation also includes certain non-GAAP financial measures, including adjusted EBITDA as supplemental measures of performance of our business. All non-GAAP measures have been reconciled to the most directly comparable GAAP measures in accordance with SEC rules. You will find reconciliation charts and other important information in the earnings press release and Form 8-K we furnished to the SEC yesterday, which are available on the company's website, www.rmcf.com/investor-relations.aspx, under Press Releases, RMCF earnings call, July 14th, 2022, approximately 24 hours after the call has ended.

And now, I will turn the call over to Rob Sarlls, Chief Executive Officer.

Rob Sarlls - Chief Executive Officer

Good morning, everyone. Thank you for joining the Rocky Mountain Chocolate Factory First Quarter Conference Call for fiscal 2023. As many of you are no doubt aware, the company has received notice of a potential proxy contest with respect to the Election of Directors at our 2022 Annual Meeting. Please understand that I am not able to address any specific issues relating to the Annual Meeting today. For information regarding the Annual Meeting, please refer to our Definitive Proxy Statement on Schedule 14A filed with the SEC on July 5th, 2022, as supplemented on July 7th, 2022, and other relevant documents filed by us with the SEC.

Apart from that, there is much to report, perhaps most obvious is that barely two months into the job, I'm speaking with you today. This is the first of what will be regular quarterly calls to mark our new calendars and in all future calls, we look forward to conducting meaningful and vibrant dialogue with investors. In fact, enhancing communication is a key strategic element that will help shape the future direction and culture of our entire company.

Communication not only with investors, but with all our meaningful constituencies, including employees, current and prospective franchisees and business partners and the communities where the Rocky Mountain Chocolate Factory name not only represents quality, chocolate and confectionery products and a superior retail and consumer experience. You'll hear much more about this in the weeks and months ahead.

Let me share two examples that reflect our new approach. First, as many of you may be aware, the first step I took upon joining the company was to take a road trip to meet directly the several franchisees in the Midwest and Southwest in their stores, in their communities. To say that they were surprised is an understatement. If they were not bashful, quite the opposite, they were frank and insightful. They provided a clear picture of the struggles, challenges and successes of the last several years. Each was deservedly proud and eager to show me their operations and introduced me to their staff members, customers and fellow business owners.

I learned that while each store faces different market circumstances, as a group, they share a strong dedication to delivering a quality experience to all customers. This is clearly what showed through in Newsweek's list of America's Best Retailers for 2022, naming Rocky Mountain number one in Chocolate and Candy Store category. It's also motivated my pledge to visit 50 stores in 50 weeks during the course of my first year. It is valuable primary research that will contribute meaningfully to crystallizing our future direction.

Second, we have disclosed that I'm working with our team to craft a new strategic direction for the business. Last week, we completed a two-day off-site all-hands senior leadership meeting to review the business from top to bottom. Much work remains ahead of us, but we look forward to sharing and rolling out new initiatives in the weeks and months ahead toward bringing forth the best solutions to improving our franchise business, securing higher and sustainable incremental volume through our plant, identifying opportunities throughout the house for efficiencies and innovation and looking at refreshing and updating our look and exploring external expansion opportunities.

I can assure you that this team is fully committed to change, and many voices are now speaking up, some for the first time about how to get there. And this is at all levels of management. I expect the rate of change within the company and our business network will reach a high and sustainable level in short order.

On a separate and quite exciting note, the company will host for the first time since 2018, its biannual National Franchise Convention in Indio, California in September. The three-day event is themed Connect, Collaborate, Celebrate and will provide franchise store owners, managers, suppliers and corporate staff, the opportunity to gather and to exchange ideas, recognize franchise resilience and look towards its next era of growth and success. I will be the first company head to attend this important gathering in many years.

The company recently introduced several franchisee engagement initiatives designed to spur growth of new franchises and to take advantage of an increasing number of existing franchisees seeking to expand their store portfolios. The company's franchisees and licensees opened six new stores, restoring the pace of openings to pre-pandemic levels. New openings include one domestic Rocky Mountain Chocolate Factory location, four Cold Stone Creamery co-branded locations and one domestic U-Swirl Cafe during the three months ended May 31st, 2022. Interest in new franchises is stronger than it has been since the late 2010.

Turning to financials. Revenue generation, store activity and core profitability remained solid despite a number of old and new headwinds. Total revenue increased 3.1% to \$7.8 million during the three months ended May 31st, 2022 compared to \$7.6 million during the three months ended May 31st, 2021. Factory sales growth for this quarter, which is typically one of our slowest was the highest ready non-pandemic first quarter since 2018.

Factory sales increased 2.3% during the three months ended May 31st, 2022, compared to the three months ended May 31st, 2021, primarily due to a \$613,000 increase in sales of products of the company's network of franchised and licensed retail stores, partially offset by a \$496,000 decrease in shipments of products to customers outside the network of franchised retail stores.

Same-store sales at all domestic franchise locations increased 3.9% during the three months ended May 31st, 2022, when compared to the three months ended May 31st, 2021. Same-store sales at the company's domestic franchise Frozen Yogurt Cafes increased 20.5% during the three months ended May 31st, 2022, compared to the three months ended May 31st, 2021.

Royalty and marketing fees increased 6% in the three months ended May 31st, 2022, primarily due to an increase in same-store sales at domestic franchise Frozen Yogurt Cafes. Net income decreased from \$580,000 or \$0.09 per basic and diluted share in the three months ended May 31st, 2021, to a net loss of \$115,000 or minus \$0.02 per basic and diluted share in the three months ended May 31st, 2022.

As we noted in our earnings release and soon to be filed the 10-Q, expenses associated with the ongoing proxy situation as well as the onboarding and transitioning of CEOs comprised the major increase in expenses. Higher input costs played a secondary role, and we addressed that with price increases implemented towards the end of the quarter.

Adjusted EBITDA, a non-GAAP measure defined in our earnings news release issued yesterday, decreased from adjusted income of \$1,092,000 in the three months ended May 31st, 2021, to adjusted income of \$927,000 in the three months ended May 31st, 2022. The decline in this metric is attributable to those factors I alluded to with respect to net income. In summary, the business performed well in Q1, with continued return to pre-COVID momentum and renewed interest in franchising activity, as evidenced by both our new store activity and in response to the recent Newsweek accolade.

Let's shift back to strategic moves for the short and long-term. We expect to announce the hiring of our Chief Financial Officer soon. Our search is centered on candidates who not only are accomplished at financial task, but also equally skilled by contributing direction and functional skills to the transformation goals and strategies we are developing.

As previously noted, the leadership team has begun a full review of the company geared towards significantly increasing shareholder value. This will require our team and our business partners to put an extra effort to come together and develop strong, actionable and high probability go-forward solutions to the company's perennial areas of opportunity, namely franchise growth and franchise network strength, the right volumes for the Durango plant, efficiencies wherever they can be found and external growth through acquisition.

Finally, we are in the final stages of upgrading the company website. It will enable us to expand our Internet Commerce capabilities and further strengthen the inherent value of the company's brand and reputation. I will close with these three key messages. First, we are moving quickly to determine the exact path we will take to adjust our business model. Second, we will build on the existing strengths of the company, and are prepared to make the changes, some bold, but necessary to build shareholder value; and third, we will communicate our progress on a regular and consistent basis.

Thank you, and good morning. Operator, you may end the call.

Operator

Thank you. Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.