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Monro, Inc. (MNRO)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Felix Veksler
Senior Director-Investor Relations, Monro, Inc.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.

Brian J. D'Ambrosia
Executive Vice President & Chief Financial Officer, Monro, Inc.

OTHER PARTICIPANTS

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Bret Jordan
Analyst, Jefferies LLC

David Lantz
Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Monro, Inc.'s Earnings Conference Call for the First Quarter of Fiscal 2025. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer section and instructions will follow at that time. [Operator Instructions] And as a reminder, this conference call is being recorded and may not be reproduced in whole or in part without permission from the company.

I would now like to introduce Felix Veksler, Senior Director of Investor Relations at Monro. Please go ahead.

Felix Veksler
Senior Director-Investor Relations, Monro, Inc.

Thank you. Hello, everyone, and thank you for joining us on this morning's call. Before we get started, please note that as part of this call, we will be referencing a presentation that is available on the Investors section of our website at corporate.monro.com/investors.

If I could draw your attention to the Safe Harbor statement on slide 2, I would like to remind participants that our presentation includes some forward-looking statements about Monro's future performance. Actual results may differ materially from those suggested by our comments today. The most significant factors that could affect future results are outlined in Monro's filings with the SEC and in our earnings release. The company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Additionally, on today's call, management's statements include a discussion of certain non-GAAP financial measures which are intended to supplement and not be substitutes for comparable GAAP measures. Reconciliations of such supplemental information to the comparable GAAP measures will be included as part of today's presentation and in our earnings release.

With that, I'd like to turn the call over to Monro's President and Chief Executive Officer, Michael Broderick.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.

Thank you, Felix, and good morning, everyone. This morning, I'd like to share an update with you on our first quarter accomplishments. After that, I'll outline several objectives that we plan to achieve in the second quarter. Before I begin, I'd like to recognize and thank all of our teammates for their dedication to Monro and our customers.

Turning to slide 3, starting with our accomplishments in the first quarter. While we are not satisfied with our top-line results, we are confident that we have begun to see our recently implemented initiatives take hold. We drove a significant acceleration in our comp store sales trends as the first quarter progressed. Importantly, we turned the corner in our tire category with a return to growth in units in the month of June. We continue to leverage the strength of our manufacturer-funded promotions, which allowed us to meet the needs of a value-oriented consumer, while also optimizing the profitability of our tire assortment.

And although we have more work to do to improve the performance of our higher-margin service categories, the combination of our ConfiDrive digital courtesy inspection process, service coupon, and oil change offer allowed us to drive growth in both battery units and sales dollars in the month of June, as well as an improvement in our service categories as the quarter progressed.

In parallel with our top line initiatives, we continue to drive gross margin expansion in the first quarter with labor optimization through actions to reduce non-productive labor costs, including overtime hours in our stores, labor efficiency through productivity improvements, including scheduling, training, and our attachment selling initiatives, and lower material costs. Our gross margin expansion in the quarter represents another major step toward restoring our gross margins back to pre-COVID levels.

Now on to our objectives for the second quarter. We will leverage the traction from our initiatives in the first quarter to achieve our second quarter objectives, which include: improving store traffic trends driven by a keen focus on oil change services, as well as continued growth in tire units; accelerating the performance of our key service categories; and optimizing labor and efficiencies through continued improvements in productivity and maintaining prudent cost control.

In summary, our recently implemented initiatives are beginning to drive an improvement in our top-line results. Our comp store sales trends accelerated as the first quarter progressed, led by our tire category, which returned to unit growth in June. While we have more work to do to improve the performance of our higher-margin service categories, growth in batteries in June as well as an improvement in our service categories as the quarter progressed, serve as evidence that our initiatives are working. Our gross margin expansion in the quarter through labor optimization, labor efficiency through productivity improvements, and lower material costs gives us further confidence that we remain on a path to restore our gross margins back to pre-COVID levels, with double-digit operating margins over the longer term. The initiatives we've put in place will enable us to achieve our second quarter objectives.

And with that, I'll now turn it over to Brian who will provide an overview of Monro's first quarter performance, strong financial position, and additional color regarding fiscal 2025. Brian?

Brian J. D'Ambrosia

Executive Vice President & Chief Financial Officer, Monro, Inc.

Thank you, Mike, and good morning, everyone. Turning to slide 4, sales decreased 10.3% year-over-year to $293.2 million in the first quarter, primarily driven by a 9.9% decline in comparable store sales. As Mike just walked through, we drove a significant acceleration in our comp store sales trends as the quarter progressed. For reference, comps were down 13% in April, followed by a slight improvement to down 11% in May, and we exited the quarter down 5% in June.

While tire units were down 5% in the first quarter, we returned to mid-single-digit growth in units during the month of June. Our tire market share improved as the quarter progressed, and we maintained share in our higher-margin tiers. Comp store sales in our 300 smaller underperforming stores were consistent with our overall comp in the quarter.

Turning to slide 5, gross margin increased 220 basis points compared to the prior year, primarily resulting from lower technician labor costs and lower material costs as a percentage of sales, which were partially offset by higher fixed occupancy costs as a percentage of sales. Total operating expenses were $95.9 million or 32.7% of sales, as compared to $97 million or 29.7% of sales in the prior-year period. The decrease on a dollar basis was principally due to lower store direct costs compared to the prior-year period.

Operating income for the first quarter declined to $13.2 million or 4.5% of sales. This is compared to $17.3 million or 5.3% of sales in the prior-year period. Net interest expense decreased to $5.1 million as compared to $5.2 million in the same period last year. This was principally due to a decrease in weighted average debt. Income tax expense was $2.3 million, or an effective tax rate of 28.5%, which is compared to $3.4 million, or an effective tax rate of 27.6% in the prior-year period. Net income was $5.9 million as compared to $8.8 million in the same period last year.

Diluted earnings per share was $0.19. This is compared to $0.28 for the same period last year. Adjusted diluted earnings per share, a non-GAAP measure, was $0.22, and this is compared to adjusted diluted earnings per share of $0.31 in the first quarter of fiscal 2024. Please refer to our reconciliation of adjusted diluted EPS in this morning's earnings press release and on slide 9 in the appendix to our earnings presentation for further details regarding excluded items in the first quarter of both fiscal years.

As highlighted on slide 6, we continue to maintain a very solid financial position. We generated $26 million of cash from operations during the first quarter. This has reduced our cash conversion cycle by 15 days at the end of the first quarter compared to the prior-year period. Our AP-to-inventory ratio at the end of the first quarter was 172% versus 164% at the end of fiscal 2024. We received $4 million in divestiture proceeds, we invested $9 million in capital expenditures, spent $10 million in principal payments for financing leases, and distributed $9 million in dividends. At the end of the first quarter, we had net bank debt of $93 million, a net bank debt to EBITDA ratio of 0.7 times, and total liquidity of $477 million.

Now, turning to our expectations for the second quarter as well as the full year of fiscal 2025 on slide 7. Although our preliminary comp store sales are down 7.6% in fiscal July, we expect to continue to deliver higher levels of profitability relative to our sales in the second quarter. Similar to the first quarter, we expect to deliver this through higher gross margins than the prior-year period, primarily from lower technician pay as a percentage of sales from continued gains in labor efficiency and productivity as well as prudent cost control.

For full year fiscal 2025, we expect gross margin expansion versus fiscal 2024. We also believe our fixed occupancy costs within cost of goods and operating expenses will be approximately flat on a dollar basis when compared to the prior year. Please note that fiscal 2025 is a 52-week year, while fiscal 2024 was a 53-week year that benefited from an extra week of sales in the fourth quarter. We expect to generate at least $120 million of operating cash flow, inclusive of continued working capital reductions in fiscal 2025. The strength of our financial position, including our cash flow, positions us to fund all of our capital allocation priorities, including our dividend during fiscal 2025. Regarding our capital expenditures, we expect to spend $25 million to $35 million in fiscal 2025.

And with that, I will now turn the call back over to Mike for some closing remarks.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.

Thanks, Brian. Our business has long-term durability in an industry that remains fundamentally strong. We've implemented initiatives that are beginning to drive an improvement in our top-line results. This, along with our foundational progress to expand margins and generate cash flow, will enable Monro to reap benefits as tire volumes continue to recover. We are poised to win with our scale, strategic relationships, and our experienced management team.

With that, I will now turn it over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Broderick. [Operator Instructions] The first question is from Brian Nagel with Oppenheimer & Co. Your line is open.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Hey, guys. Good morning.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.
A

Good morning, Brian.

Brian J. D'Ambrosia
Executive Vice President & Chief Financial Officer, Monro, Inc.
A

Hey, Brian.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Congrats on the progress here. So, the first question I have is, Michael, just, I mean, maybe you talk a lot about the – probably Michael and Brian, you both talked a lot about the improvement in sales, the top-line improvement as the quarter progressed. But could you go into a little more detail about really what, from your perspective, how to drive that – the more significant improvement in the month of June? And it sounds like it was more in the tire category. I guess the question I'm asking is that, did you see – is your initiatives and maybe you can describe them more. Are you starting to see also an improving sector backdrop? Because I know this over the last few quarters, you talked about a really difficult backdrop for the sector.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc. A

Yeah. Brian, I'll take it. It's Mike. First of all, we are on a journey for a profitable growth, so I kind of looked at it. We started with tires going through this. I would say the consumer, we don't see anything different in the consumer from the last time we talked. But we did talk about the fact that the tire category is very much in our control. And the decisions that we made going back to when we last presented in May is that we were going to become highly promotable and we were going to lead with tires, and we were going to go get the tires back. Although we were – tire units are down in the industry, we talked about that, that still hasn't changed. There's still a lot of tires being sold, and we were going to get more than our fair share. That was the decision that we made. We were going to rely on our vendor partners to help support us, making sure that they are helping us drive value with the tire category.

I would say that we started seeing unit growth in June. We expected that. And I would say that we're going to continue literally, as long as the consumers, the way they're acting right now, we're going to stay very promote – very high promotions or strong promotions in order to drive the tire category.

Now, let's turn the conversation, which really is the focus of my attention, my organization's attention, the service categories, highly profitable service categories are still underperforming. I like what batteries are doing. I actually consider, hey, did we have a little weather bump in June because we got a lot of hot weather? And I think I credit a little bit of that to weather, but we also really put together an inspection process, we call it ConfiDrive, driving a better process in the store, and we continue in the month of July strong battery performance. So, I really do credit a lot of the focus on batteries to just a better inspection process. But I'm not happy with our service category.

I don't think the consumer is – has changed. Just like we've done with tires, we're going to go get back to our service categories. And that's across the board. And I really feel that's very much in our control, has nothing to do about the consumer. There's still a lot of brakes being sold in the marketplace, and we're going to go get more than our fair share of brakes.

And last, Brian, just none of this has to do with the staffing. We're in good shape. We have more technicians than we did last year. When I talk about technicians, these are flat rate technicians. Most of our productivity initiatives that we've put in place are making our hourly employees become more productive. In the past, I've talked about them. It's taken as long as 90 days to get them productive, and now we're talking about 3 weeks. And that's the big change in our organization, and it's really a Monro story. And I've talked about this before, Brian, it's a self-help story, and I still believe it's a very much of a self-help story.

Brian Nagel
Analyst, Oppenheimer & Co., Inc. Q

Mike, that's helpful. If I can just follow up, so, if I'm hearing you correctly, in the tire category, you got more promotional, and that's helping to drive this better unit demand. So, I'll make sure I heard that correctly, but, I guess, help me understand, what big bright spot in the quarter was, in my mind, the gross margins, because you're driving gross margin gains despite being more traditional in the tire category?

Brian J. D'Ambrosia
Executive Vice President & Chief Financial Officer, Monro, Inc. A

Yeah. That's right, Brian. So, as Mike mentioned, we are promoting more in our Tier 1 through 3, so we've got great offers across our screen, but we're really doing it, led by manufacturer funded promotions. There are some Monro funding, but it's happening primarily through our manufacturer partners, which is allowing us to preserve and expand material margins in our tire category and more preserve our material margins on the tire side, while also driving more units through providing a better value at those tiers. And so, our tire unit growth that we saw as the quarter went on really was led by an accelerating Tier 1 through 3 category based on those promotional activities that our vendors funded.

Brian Nagel
Analyst, Oppenheimer & Co., Inc. Q

Got it. Thanks, Brian. Thanks, Mike. Appreciate it.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc. A

Thank you.

Operator: Thank you. The next question is from Bret Jordan with Jefferies. Your line is open.

Bret Jordan
Analyst, Jefferies LLC Q

Hey. Good morning, guys.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc. A

Good morning, Bret.

Bret Jordan
Analyst, Jefferies LLC Q

Could you talk about, I guess, what the price versus unit or traffic impact was on the Q1 compass?

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc. A

Yeah. Price was slightly up, and you can do the math on the rest and ticket was – when I look at traffic, it was significantly down, and that's what we're focused on. When I look at June, and specifically on the tire category, it was basically flat in units and flat in ticket.

Bret Jordan
Analyst, Jefferies LLC Q

Okay. And then, on the oil price promotional strategy, I think Bridgestone and Firestone is doing similar. Do you see sort of a broader traffic driver in the oil category? And is it sort of a – is it a managed discounting or are things getting more competitive out there?

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc. A

To manage discounting, it's really very much of a focus on making sure that we say yes to our consumers. I would say that as the consumers are looking for more value, they can see the promotions that we have, and then, really, the work that we have to do, Monro has to do, is making sure that when these customers walk in that we can take care of their needs within 45 minutes.

Bret Jordan
Analyst, Jefferies LLC

Q

Okay. And [indiscernible] (00:18:29).

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.

A

And then, we get rewarded with sales.

Bret Jordan
Analyst, Jefferies LLC

Q

Yeah. Yeah. On the 300 units you call out in line with the company average, I guess what was the two-year stack for those? Are they generally in line with the company that they're no longer underperforming or was that – are their – two-year basis still this version.

Brian J. D'Ambrosia
Executive Vice President & Chief Financial Officer, Monro, Inc.

A

We didn't disclose the two-year numbers, but I mean, there's still opportunity in those stores. So, the run rate has slowed down versus the outsized performance that they saw relative to the chain when we launched the initiative. But we expect that over time, and in a – an improving tire environment moving forward, at least the tire productivity from Monro, we'll see those stores respond in an outsized way from a top line. So, those are still multi-year comp growers.

Bret Jordan
Analyst, Jefferies LLC

Q

Great. Thank you.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.

A

Thanks, Brian.

Operator: Thank you. The next question is from David Lantz with Wells Fargo. Your line is open.

David Lantz
Analyst, Wells Fargo Securities LLC

Q

Hey, guys. Good morning, and thanks for taking my questions. I guess, in relation to gross margin being up 220 basis points in the quarter, curious if you can talk about how that shook out relative to internal expectations? And for guidance in Q2 being up, curious if you can give a little bit more color there as well?

Brian J. D'Ambrosia
Executive Vice President & Chief Financial Officer, Monro, Inc.

A

Yeah. It exceeded our expectations. So, obviously, when we talked last, we said that if we continue to run where we were running through the first half of the quarter, we expected to be flat in EPS. And really, the bridge between flat EPS and then the $0.22 adjusted for the quarter was driven by, first of all, a [ph] comp B (00:20:21). So, we didn't run down 12%. We ran down 10% relative to that run rate, and that's about $0.07. And then, the balance is gross margin that exceeded our expectations. It was really driven by really strong productivity in the back half for technician productivity. The team did a great job of responding to those higher tire volumes than we were running in a really productive way without having to add a lot of labor to meet that demand. And so, we saw productivity really increase in the back half.

What I would say is that there is still durability to that productivity – those productivity levels, and that our expectations are that we can continue to achieve similar gross margin results as we move forward here into Q2.

David Lantz
Analyst, Wells Fargo Securities LLC

Q

And just to clarify that, the similar gross margin results, are you talking about on a year-over-year basis or a rate basis?

Brian J. D'Ambrosia
Executive Vice President & Chief Financial Officer, Monro, Inc.

A

More of a rate basis. The year-over-year fluctuates a little bit. Mostly, they stay in the 35s for the balance of the year, but more on – so the delta isn't too different either way you look at it. But, 37s is something that we have our sights on for the quarter as well for Q2. And that certainly will be supported by what Mike was talking about earlier with improvements in our higher margin service categories.

David Lantz
Analyst, Wells Fargo Securities LLC

Q

Got it. That's helpful. And then, on – can you help with the gross margin buckets in a little bit more detail, too, just between D&O, material costs and technician labor [indiscernible] (00:21:59)?

Brian J. D'Ambrosia
Executive Vice President & Chief Financial Officer, Monro, Inc.

A

Yeah. Absolutely. Yeah. Absolutely. So, labor was a 240 basis point improvement year-over-year as a percent of sales. The material costs was a 100 basis point improvement year-over-year as a percent of sales. That was largely driven by our service categories and improvement in margin in our service categories and a flattish margin year-over-year in our tire category. Like we answered earlier, preserving those margins, despite the promotional activities we undertook on the backs of our vendors, and then we saw 120 basis points of deleverage in our occupancy costs relative to the lower sales against the fixed occupancy costs.

David Lantz
Analyst, Wells Fargo Securities LLC

Q

Got it. That's really helpful. And then, last one from me, the quarter-to-date comps for July are a bit weaker than June. Curious if you can talk about the drivers of that and if it's just really a function of compares or if there's something else going on.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.

A

David, it's Mike. I'll take that. There's nothing going on. I would say that it is a softer compare, but we're very focused on just continuing to get – to improving quarter-over-quarter, since I don't have a crystal ball of what's going to happen for the rest of the year. And last but not least, I want to leave with happy with the tire. We'll continue with the tire unit story, and now, it's all about moving to service categories that obviously have significant margin opportunity for our company.

David Lantz
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.

A

Thank you.

Operator: Thank you. We currently have no further questions. So, I hand back over to Mr. Broderick for closing remarks.

Michael T. Broderick
President, Chief Executive Officer & Director, Monro, Inc.

Thank you for joining us today. This continues to be an exciting time to be part of Monro. We have a strong foundation to build upon to create long-term value for all of our stakeholders. I look forward to keeping you updated on our progress. Have a great day.

Operator: Thank you. This concludes today's call. Thank you, all, for joining. You may now disconnect your lines.