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Monro, Inc. (MNRO)

Q4 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to Monro's, Inc.'s Earnings Conference call for the Fourth Quarter and Full Year Fiscal 2026. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session 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, Vice President of Investor Relations at Monro. Please go ahead.

Felix Veksler

Vice President-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'd 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 are 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, Peter Fitzsimmons.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Thank you, Felix, and thanks to everyone for joining us. Great to be with you today.

This morning I'd like to update you on our progress and the momentum we've continued to build at Monro despite a challenging fourth quarter. Since we completed our store closure program nearly a year ago, my comments today will focus on the three remaining key performance improvement initiatives you are already familiar with, which are driving profitable customer acquisition and activation, improving our store-based customer experience and selling effectiveness and increasing merchandising productivity, which includes mitigating tariff risk. After that, I'll briefly touch upon our fiscal fourth quarter results as we continue to implement our performance improvement plan to enhance Monro's operations, drive profitability, and increase shareholder returns.

Let's start with driving customer acquisition and activation on slide 3. During the fourth quarter, we continued to refine our marketing program by adjusting digital marketing spend, further refining our CRM outreach and optimizing call center support to more than 830 stores. We are more knowledgeable today about how to adjust our ad spending as a result of all the information we have gathered since we first introduced digital marketing last July. We use industry-standard and company-specific metrics to determine where our marketing dollars have the most impact.

Our objective is not to only continue driving new guests to our store locations, but also to improve our ability to retain existing customers, especially those of highest value to Monro. And as a reminder, these are repeat customers that visit us over a number of years, and they choose us because we provide both the tire and auto aftermarket services that meet their vehicle needs.

We have also enhanced our ability to allocate the appropriate method of advertising, that is, digital, CRM and other media, as well as the specific content, tires, front end/shocks, et cetera, to meet specific market or customer needs. For example, extra tire marketing in one district, incremental oil traffic building in another, and cross-category marketing through CRM, that is, brakes, tires, oil, to the multi-service need customers that we've already identified as particularly attractive. This does not require us to increase marketing spend from our current run rate, and our efforts to optimize may trim current spend. Nine months ago, our marketing effort was similar across our entire store network. Now, we have the capabilities to customize our approach to a variety of regional needs.

Now, let's discuss the things we're doing to improve the customer experience and selling effectiveness in our stores. Our ConfiDrive inspection tool has become the cornerstone of our customer experience transformation. We've successfully expanded its usage to nearly every customer vehicle that enters our service bays, ensuring comprehensive vehicle assessments across our entire network.

During the fourth quarter, we intensified our training efforts with technicians to guarantee both the completion and accuracy of these critical inspections. The ConfiDrive process enables our store managers to provide transparency about vehicle condition to our customers. Our goal is to help our guests identify and prioritize what they need to do to keep their vehicles safe. Our ConfiDrive process is designed to build trust with our customers through a quality diagnostic supported with pictures to truly show areas that require attention.

Safety, trust and confidence on the road is what we want to deliver for our customers. This transparency isn't just about building trust; it's about fundamentally changing how customers perceive automotive service. When customers can understand exactly what we're seeing through detailed visual documentation, it eliminates the skepticism that has historically plagued our industry.

In addition to ConfiDrive, we have further developed our District Manager Toolkit, which we first described on a recent earnings call, to more precisely identify which levers to pull to generate incremental sales, improve gross margin, or adjust staffing levels. We believe this has allowed us to evolve our analysis from simply identifying sales trends to a more holistic view of how we would improve store contribution by enabling our district managers to better coach each of their store teams.

These tools, coupled with our efforts to steadily increase the quality and capabilities of our field teams, will allow us to drive greater accountability with sales improvement and higher store contribution over time. For example, we have recently rolled out an enhanced District Manager Toolkit to approximately 150 stores. This enhancement focuses on gross margin opportunities at underperforming stores, and enables us to adjust operating performance at the local level. We are encouraged by the profit improvement we've seen in many of these store locations. We expect this process to improve store profitability across the network as we roll this initiative out further.

Now, let's turn to merchandising, including mitigating tariff risk. During the fourth quarter, we nearly completed the reset of our tire inventory across stores, shifting to a more focused assortment and guest-aligned offering that is resonating with customers despite challenging market conditions. The new assortment has helped us navigate an ongoing customer shift to lower-cost tier 4 and opening price point tires, a trend that continues to pressure the overall industry.

To the fourth quarter, we turned our focus to improving assortments and offerings across our parts categories applying a strategic category management framework to develop consumer-centric product and service offerings. This isn't just about having products on shelves; it's about ensuring we have the right products available when customers need them, backed up by strong in-stock and on-demand inventory availability.

A key driver of our assortment progress has been our intensified work with vendor partners. We strengthened strategic relationships with our core suppliers while simultaneously working with our supplier base to improve inventory availability to ensure our stores remain consistently stocked. We're investing in new demand and inventory planning capabilities, which are enabling us to manage supply more precisely at the same time as we expand in-store and same-day availability. This balance requires sophisticated forecasting and rapid response capabilities that we're still building out.

As it relates to potential pricing adjustments, we continue to work closely with suppliers to understand and manage costs in what has become an exceptionally dynamic environment. As in the past, we expect to deliver competitive prices for the services we offer also taking into account market conditions. We're closely monitoring potential product cost impacts from new tariffs as well as ongoing geopolitical tensions in the Middle East and we're proactively developing strategic pricing scenarios to protect profitability while also remaining competitive.

We're particularly focused on expanding our share in tires and oil, two of our key traffic driving categories, but we're doing so in an environment where consumers are demonstrably continuing to defer their spend on high ticket categories such as tires. This creates a challenging dynamic where we need to drive volume while managing margin pressure. Pricing will continue to be a critical lever as we work to maintain the right balance between customer value and margin performance.

Now, let me briefly touch on our fiscal fourth quarter results, which Brian will cover in more specific detail in just a few moments.

Turning to slide 4 of our presentation materials. Our fourth quarter was challenging with comparable store sales declining 2%. This performance reflects the difficult operating environment in the full-service auto aftermarket we've been navigating, but it also demonstrates the resilience of our operational improvements in the face of significant headwinds. As we believe was the case with other tire sellers, the primary driver of our comp store sales decline was persistent weakness in tire units that began in fiscal January and continued throughout the quarter. We experienced a 5% decline in tire units during the quarter, which we believe aligns with broader industry trends.

Our tire category was pressured as consumers continued to defer spending in higher-ticket categories and gravitated toward lower-cost alternatives. Further, fiscal February presented additional challenges when severe winter weather across our geographic footprint forced temporary store closures and significantly reduced customer traffic. Similar to what other automotive service companies experienced, the extreme weather disrupted normal service patterns and kept customers off the roads during what would have been a busy winter maintenance period. However, we saw improvement as we progressed through the quarter. Both comparable store sales and tire units showed sequential improvement in fiscal March, partially recovering from the February weather disruptions. Store traffic also improved sequentially, giving us confidence that the underlying demand for our services remains intact despite a challenging backdrop.

One of our most significant accomplishments during the quarter was the transformation of our tire screen across our store network. This wasn't simply a cosmetic change. We fundamentally reimagined how we present tire options to customers, making the selection process more intuitive and aligned with customer needs and budgets. Despite the overall sales challenges, our higher-margin service categories continued to deliver value to our many full-service customers and reinforces our strength as a full-service provider. This capability serves as proof that our store teams are effectively utilizing ConfiDrive to identify and communicate service needs to customers. When customers can see documented evidence of their vehicle's condition, they're more likely to spend on necessary maintenance and repairs, even in a constrained spending environment.

Our gross margin performance was a bright spot, expanding 90 basis points year-over-year to 33.9%. This improvement demonstrates productivity gains from our labor force even as we navigate cost pressures and shifting consumer preferences towards lower-tier products. Importantly, we maintained our marketing investment throughout the quarter despite the sales headwinds. While it might have been tempting to reduce marketing spend during uncertain times, we firmly believe that backing away from marketing during challenging periods would be counterproductive to our long-term growth objectives. Our customers need to know we're here and available to serve them, particularly when economic uncertainty makes them more selective about where they spend their automotive dollars.

As a reminder, Monro delivered positive comp store sales in fiscal 2026 for the first time in three years, closed 145 stores that were not going to reach our performance expectations and dramatically improved our inventory position. And while the fourth quarter tested our resolve, our results for the full year of fiscal 2026 also validate that our strategic initiatives are working well over time and position us to capitalize when market conditions improve. And while our business rebounded in April with comp store sales that were up almost 1%, our May month to-date comps are down approximately 3%. We believe the primary driver is that certain customers are feeling increased pocketbook pressure as a result of recent increases in gas prices as well as other related costs.

Before I hand the call over to Brian, I'd like to take a moment to say that none of the progress we've made would be possible without our more than 6,000 valued teammates across 1,115 stores who execute these initiatives every day. They're the ones implementing ConfiDrive inspections, having difficult conversations with customers about needed repairs and maintaining service excellence despite a challenging macroeconomic environment. Their commitment during this transformation period has been exceptional.

We've also significantly strengthened our leadership team in the last year, adding key talent and promoting from within across merchandising, marketing, stores and finance. These additions haven't just filled positions. They've elevated our capabilities and brought fresh perspective to long-standing challenges. The depth of our leadership bench today is substantially stronger than it was when we began this transformation.

Finally, the traction we're seeing in some districts across our chain in tires and service categories reinforces that we have the ability to drive significant value for our customers that we believe will translate to sales and profit growth.

And with that, I'll now turn it over to Brian, who will provide an overview of Monro's fourth quarter performance, strong financial position and additional color regarding fiscal 2027. Brian?

Brian J. D'Ambrosia

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

Thank you, Peter, and good morning, everyone. Turning to slide 5. Sales decreased 7.2% to \$273.8 million in the fourth quarter. This was primarily driven by a reduction in sales from the closure of 145 underperforming stores in the first quarter of fiscal 2026, as well as a 2.4% decrease in comparable store sales from continuing store locations. For reference, comp sales were up 1% in January, down 5% in February, and we exited the quarter down 2% in March. Tire category was down 2%, driven by a 5% decline in tire units in the quarter.

Gross margin increased 90 basis points compared to the prior year. This primarily resulted from lower technician labor costs as a percentage of sales, which were partially offset by higher material costs and higher occupancy costs as a percentage of sales.

Total operating expenses were \$98.1 million or 35.8% of sales, as compared to \$121.1 million or 41.1% of sales in the prior-year period. The decrease was primarily driven by \$22.5 million of higher store impairment costs in the prior-year period related to certain owned and leased assets, \$6.9 million of lower costs from the closure of 145 underperforming stores in the first quarter of fiscal 2026, and a decrease of \$1.8 million in management restructuring and transition costs. These were partially offset by \$6.9 million of increased marketing costs to support our top line and \$2.7 million of costs incurred in connection with consultants related to our operational improvement plan.

Operating loss for the fourth quarter was \$5.2 million or negative 1.9% of sales. This is compared to operating loss of \$23.8 million or negative 8.1% of sales in the prior-year period. Adjusted operating loss, a non-GAAP measure, for the fourth quarter was \$2.6 million or negative 0.9% of sales, as compared to adjusted operating income of \$1.4 million or 0.5% of sales in the prior-year period.

Net interest expense decreased to \$4.1 million, as compared to \$4.4 million in the same period last year. This was principally due to a decrease in weighted average debt.

Income tax benefit was \$2.6 million or an effective tax rate of 28.6%, which is compared to an income tax benefit of \$6.8 million or an effective tax rate of 24.3% in the prior-year period. The year-over-year difference in effective

tax rate is primarily related to a decrease in unrecognized tax benefits, as well as the impact from other adjustments, none of which are significant, on the change in pre-tax loss.

Net loss was \$6.6 million, as compared to net loss of \$21.3 million in the same period last year. Diluted loss per share was \$0.23. This is compared to diluted loss per share of \$0.72 for the same period last year. Adjusted diluted loss per share, a non-GAAP measure, was \$0.16. This is compared to adjusted diluted loss per share of \$0.09 in the fourth quarter of fiscal 2025.

Please refer to our reconciliation of adjusted operating loss and income, adjusted net loss and adjusted diluted loss per share in this morning's earnings press release and on slides 9, 10 and 11 in the appendix to our earnings presentation for further details regarding excluded items in the fourth quarter of both fiscal years.

As highlighted on slide 6, our financial position is strong. We generated \$70 million of cash from operations during fiscal 2026. Our AP to inventory ratio was 202% at the end of fiscal 2026 versus 178% at the end of 2025. We received \$3 million in divestiture proceeds, invested \$32 million in capital expenditures, spent \$39 million in principal payments for financing leases, and distributed \$35 million in dividends.

As it relates to our closed store real estate dispositions, we have continued our process to exit the real estate at these locations, which includes 40 owned stores. During fiscal 2026, we successfully exited a total of 72 leases and sold 26 locations, which resulted in cumulative proceeds of \$25 million. This leaves us with a remaining balance of 47 stores that have the potential to be monetized during the next several quarters.

At the end of the fourth quarter, we had net bank debt of \$45 million, availability under our credit facility of approximately \$410 million, with cash and cash equivalents of approximately \$15 million.

Now, turning to our expectations for the full year of fiscal 2027 on slide 7. We expect to deliver year-over-year comparable store sales growth in fiscal 2027, primarily driven by our performance improvement initiatives. We expect the results of our store optimization plan will reduce total sales by approximately \$9 million in the first quarter of fiscal 2027.

Given continued cost inflation, we expect that our gross margin for the full year of fiscal 2027 will be consistent with fiscal 2026. We expect higher selling, general and administrative expenses as we invest in additional marketing to support top line growth. We expect to generate sufficient cash flow and have ample liquidity to fund our capital allocation priorities during fiscal 2027. Regarding our capital expenditures, we expect to spend \$25 million to \$35 million.

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

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Thanks, Brian.

Through our national retail network, economies of scale and durable business model, we continue to believe we can both provide our customers with the services they need and generate meaningful value for our shareholders in any economic environment. Our balance sheet is strong and our business generates healthy cash flow. We remain encouraged by the progress we've made on executing our plan to improve operations, drive profitability and enhance total shareholder returns.

Consistent with that and as part of our commitment to continuously evaluate opportunities that enhance shareholder value, the board determined that now is the right time to conduct a broad review of strategic alternatives, which we also announced this morning.

But, before we turn to Q&A, I would like to take a moment to address this announcement. With the support of our independent financial and legal advisors the board will consider a full range of potential opportunities including but not limited to asset sales, refinancing of the business, strategic acquisitions and operational improvements or sale of the company. We are in the early stages and as is typical in this type of process, there is no deadline or definitive timeline set for the completion of the strategic review and there can be no assurance that the review will result in any particular transaction or other strategic outcome. We do not intend to make any further public comments on the process unless and until we determine that further disclosure is appropriate or necessary. We remain focused on delivering great service for our customers while we explore all options to maximize value for our shareholders.

As such, please note that the purpose of today's call is to discuss our fourth quarter and fiscal 2026 financial results and our expectations for the full year of fiscal 2027, and we ask that you keep your questions focused on these topics.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Thomas Wendler from Stephens. Your line is open. Please go ahead.

Thomas Wendler

Analyst, Stephens, Inc.

Thank you and good morning, everyone. Just want to...

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Hey, Tom.

A

Brian J. D'Ambrosia

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

Hi, Tom.

A

Thomas Wendler

Analyst, Stephens, Inc.

[indiscernible] (00:25:58). Maybe just want to kick things off with what you're seeing in retail material costs right now, have you seen any increases in pricing from the increases in crude flowing through? And then maybe what's your expectations are as that does eventually flow through to material costs and the impacts to your gross margin?

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Sure. Thanks for the question, Tom. I think, as everybody probably knows, there's a likely increase in oil costs and so we're expecting that to have an impact. We also have very good relationships with all of our vendors and we're watching, as we said in our presentation, where we might see other inflation or input cost increases and we're prepared to adjust whatever we need to in order to continue to make money.

Thomas Wendler

Analyst, Stephens, Inc.

Perfect. Thank you. And then maybe just touching on fiscal quarter 1Q 2027. As you mentioned, you saw some strength in April, but May looks a little bit soft. Maybe can you provide any additional color there, the drivers, maybe on the traffic and the ticket front?

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Well, as we indicated and as we know from what's going on in the industry, there's certainly pressure on certain customers and the impact of that on our business is that we have some increased volume in tier 4 tires. I would point out that we're also doing quite well in selling tier 1 tires. So, not unlike past times, there's a barbell effect here in play. So that's one factor. We know that the combination of tires and service that we offer is valuable to our customers. They may have deferred some maintenance in the last month or two, but we continue to see significant strength in a number of our districts and regions across the country. And so, we're optimistic that as time passes, we'll get through this current uncertainty and the value of our service offering will continue to be powerful to our customers.

Thomas Wendler

Analyst, Stephens, Inc.

Perfect. Thank you. Maybe I'll try to sneak one more in here quick, actually. You mentioned the trade down into the tier 4 tires. Can you maybe provide us some color on what percent of the tires were in tier 4 in 4Q 2026? And then maybe just remind us the price difference between those, tier 1s and the tier 4 tires.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Sure. No problem. Brian, do you want to take that one?

Brian J. D'Ambrosia

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

Yes. Our percentage in Q4 was about 30% in tier 4. Just for reference, historically, and a year ago, that was about 25%. So we have seen, as Peter said, growth in the tier 4 category. And the price differential across tiers is typically \$20 to \$30 up and down the assortment.

Thomas Wendler

Analyst, Stephens, Inc.

All right. Thanks, guys. Appreciate all the color.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Yes. Thanks, Tom.

A

Operator: Thank you. Our next question comes from David Lantz from Wells Fargo. David, your line is open. Please go ahead.

David Lantz

Analyst, Wells Fargo Securities LLC

Hey. Good morning, guys, and thanks for taking my questions. In light of quarter-to-date comps tracking down, let's say, 1% or so, curious if you can walk through the drivers of your expectations for positive comps for the full year?

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Hi, David. Thanks for the question. The combination of our initiatives, marketing, merchandising and store performance, we think enables us to drive positive comp store sales for the year. That is our goal, hasn't changed. So, while the realities of the current market have interfered with the timing, we still expect to generate positive comps for the full year.

A

David Lantz

Analyst, Wells Fargo Securities LLC

Got it. That's helpful. And then, SG&A dollars are expected higher year-over-year. So, curious if you could talk through kind of the shape of the year in terms of Q1 through Q4?

Q

Brian J. D'Ambrosia

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

Yeah. Absolutely. David, thanks for the question. As you know, our marketing really started to increase year-over-year in our Q3 and Q4. So, I think it'll be in our Q3 when we lap that incremental spend. So, I would say that there's probably a little bit more opportunity for SG&A pressure in the first half of the year until we lap that marketing spend.

A

David Lantz

Analyst, Wells Fargo Securities LLC

Got it. That's helpful. And then can you just break out ticket and traffic for the quarter as well?

Q

Brian J. D'Ambrosia

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

Sure. Ticket was up kind of mid to high and traffic was down high-single.

A

David Lantz

Analyst, Wells Fargo Securities LLC

Thank you.

Q

Operator: Thank you.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

You're welcome.

A

Operator: Our next question comes from Bret Jordan from Jefferies. Your line is open. Please go ahead.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Hi, Bret.

A

Bret Jordan

Analyst, Jefferies LLC

Good morning, guys. On slide 7...

Q

Brian J. D'Ambrosia

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

Hi, Bret.

A

Bret Jordan

Analyst, Jefferies LLC

...you just talked about cash flow to fund the capital allocation priorities. Where does the dividend play out here if we're looking at sort of some pressure on EBIT margin in 2027?

Q

Brian J. D'Ambrosia

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

Yeah. Bret, appreciate the question. As you know, our board looks at the dividend on a quarterly basis. As we look at our cash flows, we have the intention to continue to fund our historical capital allocation priorities, including the dividend, but the board will review that on a quarterly basis, look at our current performance, projected performance, obviously compliance with debt facility, all those things, and make a determination on a quarterly basis.

A

Bret Jordan

Analyst, Jefferies LLC

Okay.

Q

Brian J. D'Ambrosia

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

That won't – it hasn't changed.

A

Bret Jordan

Analyst, Jefferies LLC

And I guess when we think about...

Q

Brian J. D'Ambrosia

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

That's how it's been and that won't change.

A

Bret Jordan

Analyst, Jefferies LLC

Okay. And I guess when we think about the ConfiDrive and sort of the push the marketing of service, what percentage of cars that you're seeing are in for service only versus getting service attached to the tire sale? Like, what's the traction on the service initiative, or has that changed?

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Not really. As you know, on an annual basis, about half our business is tires and half of our business is service. We probably have a little bit more service traffic, and that's important to driving the overall value to our customers.

A

Bret Jordan

Analyst, Jefferies LLC

Okay, great. And then, I guess, just the timing of the conversion, I think it's coming up this summer, is that – what's the date that that Class C will go away?

Q

Brian J. D'Ambrosia

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

That'll be when we – at the announcement date of our annual meeting, which is typically end of June or early July.

A

Bret Jordan

Analyst, Jefferies LLC

Okay. Thank you.

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

You're welcome.

A

Operator: Thank you. Our next question comes from Brian Nagel from Oppenheimer. Your line is open. Please go ahead.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Hey, Brian.

A

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Hey. Good morning. How are you? I apologize...

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

We're well. How are you doing?

A

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

I'm doing well. Thank you. I apologize I've joined the call a little late here, so my questions may be repetitive, so I apologize. Just as you look at the business – I mean, look, there's been a lot of talk about the kind of the health of the consumer broadly and then within your category. This most recent quarter, did the overall consumer demand environment get more challenging for Monro, or is it about the same?

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

I think it's been similar in the quarter that just ended. As we indicated, one of the challenges we had in the quarter was the February weather disruption and as we commented in our opening remarks, we saw a sequential increase in performance in March over February. I think the consumer has continued to prove to be resilient, but I think it's a reality that they're experiencing pressure on the pocketbook. And as a result, they're going to continue to evaluate exactly how to spend their automotive dollars very carefully.

A

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Then, I guess, my follow-up question related to that, with gas prices having climbed significantly, I guess, oil prices may be pulling back a little bit at the moment, but, I mean, it's still up significantly from where they were. How should we think about higher gas prices as a factor for Monro, both from a consumer demand standpoint as well as from an input cost?

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Well, as it relates to input costs, we know that oil costs are going up, and that may affect oil pricing and it could affect input prices on tires. We, as we have mentioned previously and again today, expect that we'll continue to monitor the impact of cost increases on our overall strategy.

A

Brian, do you want to add to that?

Brian J. D'Ambrosia

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

Yeah. I would say that there's obviously other input costs outside of materials that are embedded in our material costs, like freight and logistics costs. So those are all things that increased, and we need to find places to pass along during the period of rising costs.

A

But at the same time, to your point, you have a consumer who is dealing with higher energy across the board, not just in gas prices and higher other related costs across their budget that is more discerning about how they spend their money, particularly that lower to middle-income consumer. And so, I think that's why we're seeing the strength we are in tier 4 and lower tiers. And at the top of that K-shaped kind of recovery, you see the barbell that Peter talked about in tier 1 being a point of strength as well.

So it's a balancing act like we mentioned in our comments about price and volume and attracting a consumer who is price-sensitive, while we're kind of facing some cost pressures. But we have the enhanced capabilities in our merchandising team and merchandising tools to be able to manage that.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

A

And I would just add to that last point that in the fourth quarter and now, the combination of things that we've been doing for 9 or 12 months, which is investing in marketing, improving our performance in the store using our inspection tool and improving our assortment of tires, is meeting customer needs, and I think that's really important. As you know, we enhanced our tier 4 tire offering in the last few months, and that was timely, because the market needed that tires. But again, at the same time, we enhanced our tier 1, tier 2 and 3 also, but tier 1 tire offering, and we've seen growth there.

So, in order for us to continue to be successful, I think those initiatives that we put in place about nine months ago will need to impact our entire network but we absolutely are seeing improvement in positive comp store sales in the fourth quarter and as we sit here today, in a number of our regions and districts across the country.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

Well, thank you. I appreciate all the color.

Brian J. D'Ambrosia

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

A

Thanks, Brian.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

A

Thanks, Brian.

Operator: Thank you. Our next question comes from John Healy from Northcoast Research. Your line is open. Please go ahead.

John Healy

Analyst, Northcoast Research Partners LLC

Q

Thanks for taking my questions. I would love to get your guys' thoughts about kind of what you saw through Q4 as it related particularly to weather. I think for a while we've been hoping for a winter weather season that would spur demand and felt like we got it but didn't see it in the industry. So trying to understand, kind of why that didn't catch up, I understand stores could be closed, but you would think that the business would catch up in the week or two proceeding it, and now in the six, seven weeks after even the spring has arrived here. So just what are your thoughts on weather and why has it not helped the industry this calendar year?

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

A

So, a comment or two about the cadence of the fourth quarter. We were up a little bit in January, but towards the end of the month we began to see the impact of winter weather. Remember, our February is five weeks and there was a storm in the very early part of our fiscal February and another storm that affected at least half the country in

the last week of that five-week month. And our stores were closed for a short period of time. It was less store closings and more the consumer just wasn't going to come out in many parts of the country given the severity of the winter weather. In March, we saw improvement. In April, we saw improvement. And so I think the weather impact on our fourth quarter was primarily the month of February and the way that February timing worked.

John Healy

Analyst, Northcoast Research Partners LLC

Q

Understood. And wanted to ask about the SG&A dollars. For a long time this has been a company that hasn't increased its SG&A spend annually for a number of years. I feel like it's always been a pretty steady state. And I know you guys have had some success recently with same store sales kind of popping up slightly positive on a quarterly basis. But for this business to really get what I would say [indiscernible] (00:40:01) same store sales that can move the EBIT dollars, let's say, 4% or 5%, my guess is that's where you need to get to, before you really grow earnings per se. What sort of like SG&A do you think the company needs to invest in the business to drive that? And when you spend on SG&A, how long does it take to actually get a return on it, do you think?

Brian J. D'Ambrosia

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

A

Well, John, as it relates to SG&A, you're right, the company has done a good job of finding cost reductions, productivity improvements to offset inflationary pressures, particularly in that – that post-COVID time period where inflation was peaking, we did things in the back office like offshoring and outsourcing some of our non-customer facing and transactional work across the business, and it had meaningful \$10 million plus cost savings benefits over time.

So, you're seeing the benefit, a lot of that. I would call it non-demand impacting SG&A is really where we've been able to save. I don't think that we've – I would say underspent in other areas outside of the places where the performance improvement plan has started to put investments in place, like people and tools around merchandising, marketing, the ConfiDrive tool and the field – District Manager Toolkit. And the largest of those being the incremental marketing spend that we're now spending relative to where we were spending before.

So, I would say that the investments that we think that we need are baked into the outlook that I gave relative to higher SG&A expenses, particularly in the first half of the year until we lap the incremental marketing and I think that we believe that that marketing is important to keep in place in order to do exactly what you just said, which is to drive positive comparable store sales.

Peter, I don't know, if there's anything to add?

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

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Yeah. I do have a comment, John, with respect to marketing investment. You'll remember that last year we provided digital marketing support to more and more stores from July through December, and a lot of that was Google Search and pay-per-click, and that absolutely drove sales and gross margin dollars throughout the second half of last year. This year, in addition to continuing our investment in digital, we're investing in customer relationship marketing, which has always been part of what we do, but we're able to be more targeted.

And so the interesting thing about what we've seen in the first number of months this year is the combination of different types of marketing is driving in many regions incremental sales over prior year. It doesn't work every month, but when we say we're optimizing marketing, what we mean is we're using all that information we've

collected over the last 9 or 10 months to make the right decisions about where we need to invest either digital or CRM or even more call center support to drive improved performance in those parts of the country that need it most.

So, I would say one thing we emphasized on our call today, it's really important for us to continue that very specific type of marketing investment and as it relates to digital, we really didn't do much of that until July of last year and we saw the impact in the second half of last year, we saw it in the first quarter and we're continuing to invest, but we're able to make better decisions based on data about exactly how we allocate those marketing dollars.

John Healy

Analyst, Northcoast Research Partners LLC

Understood. Thank you, guys, and good luck.

Q

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Thanks, John.

A

Brian J. D'Ambrosia

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

Thanks, John.

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Operator: Thank you. [Operator Instructions] We have no further questions. So, I'd like to hand back to Peter for any closing remarks.

Peter D. Fitzsimmons

President, Chief Executive Officer & Director, Monro, Inc.

Thanks very much, and thanks again, everyone, for joining us today. We're pleased with the progress Monro has made in fiscal 2026, and we're optimistic about the opportunities in front of us. I'm confident that the company is well positioned to capitalize on the additions to the team and the operating improvements we've put in place during fiscal 2026. I look forward to keeping you updated on our progress in the quarters to come. Have a great day.

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

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