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Monro, Inc. (MNRO)

Q1 2027 Earnings Call

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Brian Nagel
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David Lantz
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Bret Jordan
Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to Monro Inc.'s Earnings Conference Call for the First Quarter of Fiscal 2027. 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] . 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 start by acknowledging that this was an undeniably difficult fiscal first quarter for Monro.

The operating environment was challenging under the backdrop of extended geopolitical tensions in the Middle East, leading to higher oil prices, which impacted customer spending and traffic across our store network. We are not satisfied with these results, and delivering improved performance is our top priority. That said, I want to be clear about what we're seeing beneath the surface. While the macro pressures on the consumer are real and significant, the operational improvements we've been implementing are gaining traction. We're building capabilities that are fundamentally changing how we serve customers, how we deploy our resources and how we manage our business.

These are structural improvements that position us to capture market share and drive profitability as conditions normalize. Since completing our store closure program over a year ago, we've been laser focused on the three remaining performance improvement initiatives, which are driving profitable customer acquisition and activation, improving our store-based customer experience and selling effectiveness, and increasing merchandising productivity, including mitigating the impacts of trade and supply disruptions.

Each of these initiatives showed measurable progress during the quarter, even as the top-line environment remained under pressure. We're making the right investments, building the right capabilities and positioning Monro to emerge stronger when consumer spending stabilizes. We believe that the work we're doing now is further solidifying the foundation for sustainable, profitable growth.

In a moment, I'll walk you through the specific progress we've made in each of these three areas. Then, I'll provide some context on our first quarter results and what we're seeing in the current environment as we execute our performance improvement plan to enhance operations, drive profitability and increase total shareholder returns.

Let's start with driving customer acquisition and activation on slide 3. During the first quarter, we continued to strengthen our marketing capabilities by refining how we allocate media, customer outreach and promotional investments across our store network. We are increasingly tailoring our approach to the needs of individual markets, allowing us to deploy our marketing investments more effectively while supporting both guest acquisition and customer retention.

Within our CRM platform, we continue to enhance our AI and machine learning capabilities to help determine the most relevant timing, messaging and promotional offers to our existing customers. These ongoing refinements have improved the efficiency of our customer outreach and contributed to stronger campaign response rates. We also continue to evolve our promotional strategy through the expansion of specific marketing offers to the consumer to drive incremental traffic.

One focus in the first quarter was the enhanced use of our CRM to drive incremental traffic of existing customers through specific offers for high volume services, including oil changes and tire replacements. With regards to our digital marketing investment, we also expanded the use of pay-per-click to drive traffic in districts and regions where our analysis indicated that potential customers had an in-market need for some of our products and services.

We also worked in close collaboration with our tire vendors on the development of promotional programs to meet specific customer needs in all tire tiers, given the current environment. Collectively, these efforts are helping us deliver more relevant value to our guests while strengthening the data and capabilities that support more informed marketing decisions. They also provide greater insight into where and how our marketing investments can have the greatest impact.

On previous earnings calls, many of you have heard us talk about optimizing our marketing spend. During the spring, we continued to refine our process and, as a result, have redirected advertising dollars to customer profiles in different regions of our store network to address both near and longer-term business needs. Our goals are to ensure that we get the most out of our marketing spend by giving certain types of customers motivation to visit us now, which we believe will allow us to add incremental sales.

Now, let's discuss the things we are doing to improve the customer experience and selling effectiveness in our stores. Our ConfiDrive inspection tool remains the cornerstone of our customer experience transformation. With each quarter, our team becomes increasingly skilled at conducting the inspection more efficiently and in presenting the results of our findings so that our customers can better understand their vehicle needs. We also intensified our training efforts with technicians to guarantee both the completion and accuracy of these critical inspections.

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.

Additionally, on our previous earnings call in May, we talked about the recent rollout of our enhanced District Manager Toolkit, which has enabled us to address suboptimal operating performance through a focus on gross margin opportunities at about 150 underperforming locations. Utilizing both the results as well as our learnings from the first 150 stores, we've now expanded the rollout of this toolkit to approximately 340 locations and broadened our scope from gross margins to overall store profit improvement opportunities. We continue to be encouraged by the profit improvement we've seen in some 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 the impacts of trade and supply disruptions. After the reset of our tire assortment in the fourth quarter of fiscal 2026, with the support of our vendors, we delivered a more attractive assortment to the consumer in the current environment. We succeeded in two important ways. In the first quarter, we believe that our updated tire assortment in Tier 1 helped us gain market share versus the industry in this higher margin tier. This comes at a time when some consumers also migrated to lower tier tire products.

And in Tier 4, we believe that our decision to add an opening price point tire enabled us to provide our most price conscious customers with a better set of options. As it relates to parts and service, we saw year-over-year comparable store sales growth in batteries, alignments and front-end shocks. While the use of our ConfiDrive inspection tool certainly helped us to better educate our customers on their vehicle needs, we believe the improvements we've implemented in both our in-store stocking programs as well as our front-of-shop presentation enabled us to drive 8% growth in our battery comps in the quarter. And as it relates to trade, our supply has been largely uninterrupted by the extended geopolitical tensions in the Middle East, at least so far. We continue to partner with our vendors to understand and manage costs in what continues to be a dynamic environment. We expect to continue to strike the right balance between potential pricing adjustments to protect gross margins while also remaining competitive and delivering value to our customers.

Now let me briefly touch on our fiscal first quarter results, which Brian will cover in more specific detail in just a few moments. Turning to slide 4 of our presentation materials. Our first quarter comparable store sales declined 1.7%. This reflects an operating environment which continued to challenge the full-service auto aftermarkets during the quarter. Our comp store sales decline was driven by lower store traffic as well as consumers that continued to defer higher ticket spending decisions in tires and brakes and traded down to lower cost alternatives in our tire category. However, and importantly, in an environment where traffic was down and consumers were cautious, we were able to hold our tire unit volumes flat, and we believe this allowed us to take market share both in our Tier 1 tires as well as in our overall tire category. We believe that this is a direct result of our promotional effectiveness and the timely expansion of our Tier 4 tire offerings, which allowed us to meet the needs of our customers across the price spectrum. And while traffic and sales were under pressure, the effectiveness of our ConfiDrive courtesy inspection process helped us drive average repair order growth in this quarter. This was driven by meaningful improvements in certain of our higher margin service categories, including batteries, alignments and front-end shocks.

This performance reinforces that we continue to deliver genuine value to our full-service customers. We're not just a tire shop. We're a comprehensive vehicle service provider and customers are responding to our value proposition even in a difficult spending environment. Importantly, we maintained our marketing investment during the quarter despite the sales headwinds we faced. When traffic is down and sales are under pressure, there's an obvious temptation to pull back on marketing spend to protect margins in the short term. We deliberately chose not to do that.

We continued investing in customer acquisition, in CRM campaigns, in promotional programs and in building our marketing capabilities. Here's our reasoning. The capabilities we're building in marketing and customer acquisition are critical to our long-term growth trajectory. The market share opportunities in front of us require sustained investment and consistent presence in the market. If we pull back when conditions are challenging, we risk losing momentum in customer acquisition, we risk ceding market share to competitors who maintain their investment, and we risk undermining the progress we've made in building a more sophisticated marketing engine.

We're playing a longer game here, and that requires maintaining investments even when the immediate return is pressured by macro headwinds. And while our preliminary July comp store sales are down approximately 1%, as certain consumers continue to feel increased pocketbook pressure as a result of recent increases in gas prices as well as other related costs. We believe that the operational progress we've made is building the foundation for improved performance as consumer spending stabilizes. We're not satisfied with where we are, but we remain confident in the direction we're heading and the capabilities we're building to get there.

Before I hand the call over to Brian, I'd like to take a moment to once again thank all of our teammates for their commitment to meeting the service needs of our customers across 1,115 stores in 32 states and for their dedication to achieving our business objectives.

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

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

Thank you, Peter, and good morning, everyone. Turning to slide 5. Sales decreased 4.6% to $287.1 million in the first quarter. This was primarily driven by a reduction in sales of $9 million from the closure of 145 underperforming stores in the first quarter of fiscal 2026, as well as a 1.7% decrease in comparable store sales from continuing store locations. For reference, comp sales were up 1% in April, down 2% in May, and we exited the quarter down 3% in June. While our tire category sales were down 1%, we were able to hold our tire unit volume flat in the quarter. Gross margin decreased 50 basis points compared to the prior year. This primarily resulted from higher occupancy costs as a percentage of sales, which were partially offset by lower technician labor costs as a percentage of sales.

Total operating expenses were $96.7 million or 33.7% of sales as compared to $113 million or 37.5% of sales in the prior-year period. The decrease was primarily driven by $17.8 million of lower store closing costs in the first quarter of fiscal 2027, $4.1 million of lower costs from the closure of 145 underperforming stores in the first quarter of fiscal 2026 and $3.7 million of lower costs incurred in connection with consultants related to our operational improvement plan. These were partially offset by $4.9 million of increased marketing costs to support our top line and $4.6 million of increased costs at continuing locations, primarily front-shop labor. Operating income for the first quarter was $3.7 million or 1.3% of sales. This is compared to operating loss of $6.1 million or negative 2% of sales in the prior-year period.

Adjusted operating income, a non-GAAP measure, for the first quarter was $2.2 million or 0.8% of sales as compared to adjusted operating income of $14 million or 4.7% of sales in the prior-year period. Net interest expense decreased to $4.6 million as compared to $4.8 million in the same period last year. This was principally due to lower weighted average debt, which was driven by a decrease in finance lease obligations related to our stores.

Income tax expense was $0.2 million or an effective tax rate of negative 7.7%, which is compared to an income tax benefit of $2.7 million or an effective tax rate of 24.8% 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 $2.1 million as compared to net loss of $8.1 million in the same period last year. Diluted loss per share was $0.08. This is compared to diluted loss per share of $0.28 for the same period last year. Adjusted diluted loss per share, a non-GAAP measure, was $0.09. This is compared to adjusted diluted earnings per share of $0.22 in the first quarter of fiscal 2026. Please refer to our reconciliation of adjusted operating income, adjusted net loss and income and adjusted diluted loss and earnings 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 first quarter of both fiscal years.

Turning to slide 6, our AP to inventory ratio was 185% at the end of the first quarter versus 202% at the end of fiscal 2026. Our cash used for operating activities of $30 million was largely driven by timing of payments that caused accounts payable and accrued expenses to be a use of cash in the quarter. We invested $8 million in capital expenditures, spent $9 million in principal payments for financing leases and distributed $9 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. During the first quarter, we successfully exited a total of six leases and sold four owned locations, which resulted in cumulative proceeds of $3 million. This leaves us with a remaining balance of 37 stores that have the potential to be monetized during the next several quarters. At the end of the first quarter, we had net bank debt of $99 million, availability under our credit facility of approximately $261 million, and cash and equivalents of approximately $10 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. The results of our store optimization plan reduced total sales by $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 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 that we can provide our customers with the services they need and generate meaningful value for our shareholders. We also remain confident that the marketing, store performance and merchandising initiatives that we activated a year ago will make Monro the preferred national full-service provider in the automotive aftermarket.

Before we turn to Q&A, I would like to take a moment to provide a brief update on the review of strategic alternatives that we announced last quarter. The board is working diligently alongside its independent financial advisers, Bank of America and Solomon Partners, and its legal advisers to consider and evaluate 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. That work is well underway. And as you have heard today, we remain focused on delivering service excellence to our customers while we explore all options to maximize shareholder value. I would reiterate that there is no deadline or definitive time line set for the completion of this strategic review, and there can be no assurance that the review will result in any particular transaction or other strategic outcome. As such, we don't intend to make any further public comments on the process unless and until we determine that further disclosure is appropriate or necessary. And we would ask you to please keep today's questions focused on the financial results we shared today.

With that, I will 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. Please go ahead. Your line is open.

Thomas Wendler
Analyst, Stephens, Inc.

Q

Hey. Good morning, everyone. Happy to see the stabilizing tire volume trends, especially kind of what I've been hearing with the industry. You know, you've highlighted the benefits from the change of assortment in Tier 1 and Tier 4. Could you maybe dig a little deeper into the marketing front, the benefits you've seen there, and what's kind of working for you right now on tire volume sales?

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.

A

Hi, Tom. It's Peter. Thanks for the question. I think that the continued combination of digital marketing, which is new customer acquisition oriented, and a use of that for tires primarily with pay-per-click, which only results in a cost to us if a customer is in the market for tires, together with the assortment and the way we presented in the stores has really helped us with acquiring new customers for tires.

As it relates to CRM, which is more focused on the existing customer base, we've worked on specific offers, not only in tires, but also in oil to drive incremental traffic back to the stores from folks who have already visited us. So, I think it's the combination of both digital and CRM that's helped us maximize the performance on tires at a time that the industry has not done particularly well.

Thomas Wendler
Analyst, Stephens, Inc.

Q

Perfect. Thanks for that. And then for my second question, could you maybe walk us through the drivers of the negative 1.2% comp in July? Are there any callouts by product or service we should be thinking about?

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.

A

No. I don't think that there's anything in particular. I think the consumer continues to feel pressured by high gas prices, by high food prices, by healthcare. We've talked about this before, but even though what we offer is a non-discretionary product and service, you got to make a choice about how you're going to spend the dollars that are available to you. It's not true of all of our customers, but it's true of a significant number of them. And I think more than anything, it's that current environment condition that affected our comps in the month that just ended. I do think that all of the things we've talked about, and I want to reiterate it's a combination of marketing, of improving our customer experience in the store, and our merchandising assortment, those things collectively are going to continue to make us the type of full service automotive provider that we want to be and that I think our customers are attracted to.

Thomas Wendler
Analyst, Stephens, Inc.

Q

Perfect. I appreciate all the color, guys.

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.

A

Sure. Thanks, Tom.

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

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Hey, guys. Good morning.

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.

A

Hey, Brian.

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

A

Good morning, Brian.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

So, the question I want to ask, look, I mean, it's no secret that high gas prices have impacted spending broadly, and then particularly in your – the auto category. But I just want to ask the question, we've seen oil prices or gas prices bouncing around a lot over the last few months. So, as you look at your business, again, I know this is short term focus, but just to try to parse out whether, to the extent to which these oil prices are impacting your business versus maybe something else, all right, when oil prices moderate, do you see an uptick? Do you see consumers return?

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.

A

Absolutely. Where you see it affecting our business is in deferral of high ticket investment, mainly tires, but also brakes. We didn't perform as well in brakes in the most recent quarter because that is a higher ticket item, and it's the sort of thing that you can defer if you don't have to do it. So, even though our inspection tool might suggest to a customer that that would be something they would want to give attention to, they don't have to do it immediately. And it's the pocketbook pressure that I think has affected that. With tires, what's happened is the customer has moved towards buying fewer tires per transaction. And even though we continue to do well in Tier 1, where the customer isn't as price sensitive, in Tier 2, 3, and 4, they're thinking a little bit harder about which tire are they going to buy. And so, those two things collectively, I think, impacted where our sales ended up in the most recent months.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

That's helpful, Peter. So, I guess my follow-up question to that, assuming, again, it's hard to say what's going to happen, but assuming that oil prices do stay elevated or, frankly, even climb from here, as you look, going forward, are there other levers that you can pull? And, obviously, you're already doing a lot to enhance the business, enhance those consumer touch points, but are there levers you can pull to sort of say help to offset that dynamic?

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.

A

Yeah. We can continue to optimize marketing. We can look where in our network we need to invest a little bit more in driving traffic into the stores. And so, that's something that having been at this marketing approach for the last year, we have much better information that enables us to target marketing. And we've seen it help us. I'll give you an example.

In South Florida, we invested in incremental pay-per-click and changed the offer price of certain oil products, and we saw a significant increase in units there. You don't see it everywhere, but we have the ability to direct our marketing investment to places that we feel will benefit from it the most.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

And so, one other question, if I could squeeze one more in, in a different topic. So, you know, as a company, you continue to reiterate, I forget the exact language, but to maintain your capital priorities. How should we phase – as we're watching Monro and through this repositioning, given muted results, how should we think about, so to say, the prioritization around funding the dividend?

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

A

Yeah, Brian. This is Brian. Thanks for the question. So, we have, as we said, the intention and expectation to fund our historical capital allocation priorities, and that includes the dividend. But as historically been the practice and what will continue to be the practice is, that's a quarterly review, a review done by management and the board, taking into account everything, cash flows, current performance, projected performance, compliance with covenant requirements in the credit facility. And then we make a determination about the dividend in that quarter. That's how the process has been. That's how it will continue to be. And we'll take into account all those data points in making those decisions.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

That's helpful. I appreciate it. Thank you.

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.

A

Yeah. Thanks, Brian.

Operator: Our next question comes from David Lantz from Wells Fargo. Please go ahead. Your line is open.

David Lantz
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, guys.

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.
A

Hi, David.

David Lantz
Analyst, Wells Fargo Securities LLC
Q

And thanks for taking my questions. You know, within the 55 basis points of gross margin decline in the quarter, curious if you can talk about the buckets in a little more detail across D&O, material costs, and technician labor. And then as you guide for flat for the year, curious if you can talk about the glide path in a little bit more detail from Q2 to Q4 as well.

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

Yeah, absolutely. Thanks, David. So, as it relates to the 50 basis point decline in the quarter, our occupancy costs increased as a percentage of sales by about 90 basis points. That's really reflective of deleverage of those largely fixed costs on the lower comparable store sales levels. Offsetting that, or partially offsetting that, was technician labor costs that were lower by 40 basis points as a percentage of sales. And then with material costs flat year-over-year, that gets you to your 50 basis point decline in gross profit year-over-year.

As it relates to the go-forward, I think it's really the improvement that we expect to see in comparable store sales to deliver the positive comps for the full year really underpin our call on a consistent gross margin year-over-year. And that's because we expect with higher sales, we'll get better leverage and better fixed cost leverage on the occupancy costs, and to a certain extent, technician labor costs. And that'll be the difference between being short of prior year and, you know, being higher than prior year as we move into the back half of the year, allowing us to deliver the consistent full year gross margin number.

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.
A

I would add one more thing. As it relates to tires, I really believe in our assortment, and I think what we've seen is a move to Tier 4 tires industry-wide. When we see a shift back and there's a little bit of evidence in the last month or two that there's been a shift back, we should get a boost in our tire margin. We worked very hard to manage our material costs. Our material costs are well in line with where we want it to be. And with incremental volumes of Tier 1, 2, and 3 tires, we're going to increase the gross margin rate.

David Lantz
Analyst, Wells Fargo Securities LLC
Q

Got it. That's helpful. And then on SG&A, so that's stepped, adjusted SG&A dollars stepped up a little over $5 million year-over-year. Curious if we can talk about, I know you're guiding for higher year-over-year for the full year and marketing investments will start to lap in the second half, but curious if we can talk about the glide path there for Q2 to Q4 as well?

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

Yeah. To your point, Q2 is going to be the most year-over-year continued pressure similar, maybe not to the full order of magnitude that we saw in Q1, but similar to Q1 and Q2, driven by the increase in marketing costs year-over-year. We'll lap that in Q3, and see operating expenses come in more in line with prior year as we get into Q3 and then into Q4.

David Lantz
Analyst, Wells Fargo Securities LLC
Q

That's helpful. And then just last one for me, within the down 1.7% comp for the quarter, can you break out traffic and ticket and any commentary there on quarter-to-date as well?

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

Yeah. The comp was up about low mid-single digits in ticket. So, up about 4% in ticket and down mid-single digits in traffic.

David Lantz
Analyst, Wells Fargo Securities LLC
Q

Thank you.

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

You're welcome.

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.
A

Thank you.

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

Bret Jordan
Analyst, Jefferies LLC
Q

Hey. Good morning, guys. On the...

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.
A

Hey, Bret.

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

Hey, Bret.

Bret Jordan
Analyst, Jefferies LLC
Q

Hey, on the AP to inventory, I guess now it's at $185 million versus whatever you said, $202 million, is there, just given, I think, what was sort of a guide to a lower EBIT margin and a leverage ratio a bit over 3, I guess, on a trailing 12-month basis, is there any pressure on the factoring program? I mean, is there any bias to funding more inventory, just given the factoring costs go up with leverage?

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

A

Yeah. We've seen, in the supply chain program, really good support from the bank group. We've had some turnover of funding sources, but still able to fully fund the program and, obviously, great participation from our vendors as well. So, nothing to really report on the factoring program.

The working capital deficit was really driven by timing, as we said, of payments. Part of that was in accounts payable where we just had some amounts coming due on the factoring program from the prior year purchases, which were elevated, as we know, relative to this year's purchases, which we know have come down. And so, that just caused a little bit of a cash outflow in the current year. And then some timing of insurance payments and payroll at the end of the quarter relative to the prior quarter as our pay cycles kind of shifts because of the odd number of weeks in the quarter. So, all of that we expect to largely kind of retrace over the next couple of quarters. And don't expect working capital to be a significant use of cash for the full year.

Bret Jordan
Analyst, Jefferies LLC

Q

Okay. And what's the risk spread above SOFR on that factoring program?

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

A

It's all negotiated between the vendor and the bank. The company does not have any input into the rates at which that is negotiated. Our current borrowing rate increment in our revolver is SOFR plus 225. So, that's obviously a benchmark that some of those conversations between the vendor and the bank start at.

Bret Jordan
Analyst, Jefferies LLC

Q

Yeah. Great. Thank you.

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

A

You're welcome.

Operator: We have no further questions. I would like to turn the call back over to Mr. Peter Fitzsimmons for any closing remarks.

Peter D. Fitzsimmons
President, Chief Executive Officer & Director, Monro, Inc.

Well, thanks, again, everyone, for joining today. We're pleased with the progress Monro has made, and we're optimistic about the opportunities in front of us. I'm confident that the company is well-positioned to capitalize on the operating improvements we've put in place in the last 12 months.

I look forward to keeping you updated on our progress in the quarters to come. Have a great day.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.