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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 27, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission File Number 000-50972

**Texas Roadhouse, Inc.**

(Exact name of registrant specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-1083890**

(IRS Employer  
Identification Number)

**6040 Dutchmans Lane, Suite 200**

**Louisville, Kentucky 40205**

(Address of principal executive offices) (Zip Code)

**(502) 426-9984**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                       | Trading Symbol(s) | Name of each exchange on which registered |
|-------------------------------------------|-------------------|-------------------------------------------|
| Common Stock, par value \$0.001 per share | TXRH              | NASDAQ Global Select Market               |

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒      Accelerated Filer ☐      Non-accelerated Filer ☐      Smaller Reporting Company ☐  
Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒.

The number of shares of common stock outstanding were 66,914,751 on October 26, 2022.

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**PART I — FINANCIAL INFORMATION**  
**ITEM 1 — FINANCIAL STATEMENTS**  
**Texas Roadhouse, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**(in thousands, except share and per share data)**  
**(unaudited)**

|                                                                                                                                                                                    | <u>September 27, 2022</u> | <u>December 28, 2021</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------|
| <b>Assets</b>                                                                                                                                                                      |                           |                          |
| Current assets:                                                                                                                                                                    |                           |                          |
| Cash and cash equivalents                                                                                                                                                          | \$ 185,315                | \$ 335,645               |
| Receivables, net of allowance for doubtful accounts of \$53 at September 27, 2022 and \$17 at December 28, 2021                                                                    | 37,804                    | 161,358                  |
| Inventories, net                                                                                                                                                                   | 32,905                    | 31,595                   |
| Prepaid income taxes                                                                                                                                                               | 1,121                     | 10,701                   |
| Prepaid expenses and other current assets                                                                                                                                          | 20,233                    | 24,226                   |
| Total current assets                                                                                                                                                               | <u>277,378</u>            | <u>563,525</u>           |
| Property and equipment, net of accumulated depreciation of \$943,087 at September 27, 2022 and \$869,375 at December 28, 2021                                                      | 1,237,345                 | 1,162,441                |
| Operating lease right-of-use assets, net                                                                                                                                           | 626,551                   | 578,413                  |
| Goodwill                                                                                                                                                                           | 148,732                   | 127,001                  |
| Intangible assets, net of accumulated amortization of \$17,208 at September 27, 2022 and \$15,092 at December 28, 2021                                                             | 6,304                     | 1,520                    |
| Other assets                                                                                                                                                                       | 68,741                    | 79,052                   |
| Total assets                                                                                                                                                                       | <u>\$ 2,365,051</u>       | <u>\$ 2,511,952</u>      |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                                                        |                           |                          |
| Current liabilities:                                                                                                                                                               |                           |                          |
| Current portion of operating lease liabilities                                                                                                                                     | \$ 24,977                 | \$ 21,952                |
| Accounts payable                                                                                                                                                                   | 98,678                    | 95,234                   |
| Deferred revenue-gift cards                                                                                                                                                        | 182,265                   | 300,657                  |
| Accrued wages and payroll taxes                                                                                                                                                    | 85,846                    | 64,716                   |
| Income taxes payable                                                                                                                                                               | 1,391                     | 85                       |
| Accrued taxes and licenses                                                                                                                                                         | 37,391                    | 33,375                   |
| Other accrued liabilities                                                                                                                                                          | 85,145                    | 86,125                   |
| Total current liabilities                                                                                                                                                          | <u>515,693</u>            | <u>602,144</u>           |
| Operating lease liabilities, net of current portion                                                                                                                                | 672,774                   | 622,892                  |
| Long-term debt                                                                                                                                                                     | 75,000                    | 100,000                  |
| Restricted stock and other deposits                                                                                                                                                | 8,060                     | 8,027                    |
| Deferred tax liabilities, net                                                                                                                                                      | 16,770                    | 11,734                   |
| Other liabilities                                                                                                                                                                  | 84,121                    | 93,671                   |
| Total liabilities                                                                                                                                                                  | 1,372,418                 | 1,438,468                |
| Texas Roadhouse, Inc. and subsidiaries stockholders' equity:                                                                                                                       |                           |                          |
| Preferred stock (\$0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding)                                                                                  | —                         | —                        |
| Common stock (\$0.001 par value, 100,000,000 shares authorized, 66,914,586 and 69,382,418 shares issued and outstanding at September 27, 2022 and December 28, 2021, respectively) | 67                        | 69                       |
| Additional paid-in-capital                                                                                                                                                         | 7,136                     | 114,504                  |
| Retained earnings                                                                                                                                                                  | 970,372                   | 943,551                  |
| Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity                                                                                                                  | 977,575                   | 1,058,124                |
| Noncontrolling interests                                                                                                                                                           | 15,058                    | 15,360                   |
| Total equity                                                                                                                                                                       | 992,633                   | 1,073,484                |
| Total liabilities and equity                                                                                                                                                       | <u>\$ 2,365,051</u>       | <u>\$ 2,511,952</u>      |

See accompanying notes to condensed consolidated financial statements.

**Texas Roadhouse, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Income and Comprehensive Income**  
(in thousands, except per share data)  
(unaudited)

|                                                                                              | 13 Weeks Ended        |                       | 39 Weeks Ended        |                       |
|----------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                                                              | September 27,<br>2022 | September 28,<br>2021 | September 27,<br>2022 | September 28,<br>2021 |
| Revenue:                                                                                     |                       |                       |                       |                       |
| Restaurant and other sales                                                                   | \$ 986,999            | \$ 862,757            | \$ 2,986,028          | \$ 2,550,124          |
| Franchise royalties and fees                                                                 | 6,299                 | 6,186                 | 19,362                | 18,236                |
| Total revenue                                                                                | 993,298               | 868,943               | 3,005,390             | 2,568,360             |
| Costs and expenses:                                                                          |                       |                       |                       |                       |
| Restaurant operating costs (excluding depreciation and amortization shown separately below): |                       |                       |                       |                       |
| Food and beverage                                                                            | 342,032               | 298,164               | 1,026,469             | 845,150               |
| Labor                                                                                        | 330,219               | 286,593               | 985,132               | 832,776               |
| Rent                                                                                         | 16,703                | 15,089                | 49,785                | 44,497                |
| Other operating                                                                              | 146,036               | 127,769               | 442,714               | 386,754               |
| Pre-opening                                                                                  | 5,701                 | 6,740                 | 15,315                | 17,327                |
| Depreciation and amortization                                                                | 33,735                | 31,627                | 101,775               | 94,146                |
| Impairment and closure, net                                                                  | 772                   | 29                    | 537                   | 550                   |
| General and administrative                                                                   | 42,812                | 41,234                | 132,319               | 114,807               |
| Total costs and expenses                                                                     | 918,010               | 807,245               | 2,754,046             | 2,336,007             |
| Income from operations                                                                       | 75,288                | 61,698                | 251,344               | 232,353               |
| Interest expense, net                                                                        | 85                    | 604                   | 877                   | 3,039                 |
| Equity income from investments in unconsolidated affiliates                                  | 190                   | 266                   | 1,069                 | 288                   |
| Income before taxes                                                                          | \$ 75,393             | \$ 61,360             | \$ 251,536            | \$ 229,602            |
| Income tax expense                                                                           | 11,430                | 7,144                 | 35,708                | 31,031                |
| Net income including noncontrolling interests                                                | 63,963                | 54,216                | \$ 215,828            | \$ 198,571            |
| Less: Net income attributable to noncontrolling interests                                    | 1,635                 | 1,610                 | 5,879                 | 6,335                 |
| Net income attributable to Texas Roadhouse, Inc. and subsidiaries                            | \$ 62,328             | \$ 52,606             | \$ 209,949            | \$ 192,236            |
| Other comprehensive income, net of tax:                                                      |                       |                       |                       |                       |
| Foreign currency translation adjustment, net of tax of \$-, \$-, \$- and (\$3), respectively | —                     | —                     | —                     | 10                    |
| Total comprehensive income                                                                   | \$ 62,328             | \$ 52,606             | \$ 209,949            | \$ 192,246            |
| Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:          |                       |                       |                       |                       |
| Basic                                                                                        | \$ 0.93               | \$ 0.75               | \$ 3.09               | \$ 2.76               |
| Diluted                                                                                      | \$ 0.93               | \$ 0.75               | \$ 3.08               | \$ 2.74               |
| Weighted average shares outstanding:                                                         |                       |                       |                       |                       |
| Basic                                                                                        | 66,886                | 69,808                | 67,875                | 69,745                |
| Diluted                                                                                      | 67,159                | 70,146                | 68,140                | 70,148                |
| Cash dividends declared per share                                                            | \$ 0.46               | \$ 0.40               | \$ 1.38               | \$ 0.80               |

See accompanying notes to condensed consolidated financial statements.

**Texas Roadhouse, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands, except share and per share data)  
(unaudited)

| For the 13 Weeks Ended September 27, 2022                                |            |           |                            |                   |                                      |                                              |                          |            |
|--------------------------------------------------------------------------|------------|-----------|----------------------------|-------------------|--------------------------------------|----------------------------------------------|--------------------------|------------|
|                                                                          | Shares     | Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Texas Roadhouse, Inc. and Subsidiaries | Noncontrolling Interests | Total      |
| Balance, June 28, 2022                                                   | 66,853,296 | \$ 67     | \$ —                       | \$ 938,825        | \$ —                                 | \$ 938,892                                   | \$ 15,127                | \$ 954,019 |
| Net income                                                               | —          | —         | —                          | 62,328            | —                                    | 62,328                                       | 1,635                    | 63,963     |
| Distributions to noncontrolling interest holders                         | —          | —         | —                          | —                 | —                                    | —                                            | (1,704)                  | (1,704)    |
| Dividends declared (\$0.46 per share)                                    | —          | —         | —                          | (30,781)          | —                                    | (30,781)                                     | —                        | (30,781)   |
| Shares issued under share-based compensation plans including tax effects | 88,641     | —         | —                          | —                 | —                                    | —                                            | —                        | —          |
| Indirect repurchase of shares for minimum tax withholdings               | (27,351)   | —         | (2,444)                    | —                 | —                                    | (2,444)                                      | —                        | (2,444)    |
| Share-based compensation                                                 | —          | —         | 9,580                      | —                 | —                                    | 9,580                                        | —                        | 9,580      |
| Balance, September 27, 2022                                              | 66,914,586 | \$ 67     | \$ 7,136                   | \$ 970,372        | \$ —                                 | \$ 977,575                                   | \$ 15,058                | \$ 992,633 |

| For the 13 Weeks Ended September 28, 2021                                |            |           |                            |                   |                                      |                                              |                          |              |
|--------------------------------------------------------------------------|------------|-----------|----------------------------|-------------------|--------------------------------------|----------------------------------------------|--------------------------|--------------|
|                                                                          | Shares     | Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Texas Roadhouse, Inc. and Subsidiaries | Noncontrolling Interests | Total        |
| Balance, June 29, 2021                                                   | 69,830,389 | \$ 70     | \$ 153,248                 | \$ 893,613        | \$ (96)                              | \$ 1,046,835                                 | \$ 15,848                | \$ 1,062,683 |
| Net income                                                               | —          | —         | —                          | 52,606            | —                                    | 52,606                                       | 1,610                    | 54,216       |
| Distributions to noncontrolling interest holders                         | —          | —         | —                          | —                 | —                                    | —                                            | (2,025)                  | (2,025)      |
| Dividends declared (\$0.40 per share)                                    | —          | —         | —                          | (27,917)          | —                                    | (27,917)                                     | —                        | (27,917)     |
| Shares issued under share-based compensation plans including tax effects | 94,971     | —         | —                          | —                 | —                                    | —                                            | —                        | —            |
| Indirect repurchase of shares for minimum tax withholdings               | (28,925)   | —         | (2,647)                    | —                 | —                                    | (2,647)                                      | —                        | (2,647)      |
| Repurchase of shares of common stock                                     | (161,034)  | —         | (14,683)                   | —                 | —                                    | (14,683)                                     | —                        | (14,683)     |
| Share-based compensation                                                 | —          | —         | 10,980                     | —                 | —                                    | 10,980                                       | —                        | 10,980       |
| Balance, September 28, 2021                                              | 69,735,401 | \$ 70     | \$ 146,898                 | \$ 918,302        | \$ (96)                              | \$ 1,065,174                                 | \$ 15,433                | \$ 1,080,607 |

See accompanying notes to condensed consolidated financial statements

**Texas Roadhouse, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands, except share and per share data)  
(unaudited)

|                                                                          | For the 39 Weeks Ended September 27, 2022 |           |                            |                   |                                      |                                              |                          |              |
|--------------------------------------------------------------------------|-------------------------------------------|-----------|----------------------------|-------------------|--------------------------------------|----------------------------------------------|--------------------------|--------------|
|                                                                          | Shares                                    | Par Value | Additional Paid-in-Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Texas Roadhouse, Inc. and Subsidiaries | Noncontrolling Interests | Total        |
| Balance, December 28, 2021                                               | 69,382,418                                | \$ 69     | \$ 114,504                 | \$ 943,551        | \$ —                                 | \$ 1,058,124                                 | \$ 15,360                | \$ 1,073,484 |
| Net income                                                               | —                                         | —         | —                          | 209,949           | —                                    | 209,949                                      | 5,879                    | 215,828      |
| Noncontrolling interests contribution                                    | —                                         | —         | —                          | —                 | —                                    | —                                            | (5,841)                  | (5,841)      |
| Acquisition of noncontrolling interest                                   | —                                         | —         | (1,395)                    | —                 | —                                    | (1,395)                                      | (340)                    | (1,735)      |
| Dividends declared (\$1.38 per share)                                    | —                                         | —         | —                          | (93,328)          | —                                    | (93,328)                                     | —                        | (93,328)     |
| Shares issued under share-based compensation plans including tax effects | 390,996                                   | —         | —                          | —                 | —                                    | —                                            | —                        | —            |
| Indirect repurchase of shares for minimum tax withholdings               | (124,823)                                 | —         | (11,108)                   | —                 | —                                    | (11,108)                                     | —                        | (11,108)     |
| Repurchase of shares of common stock                                     | (2,734,005)                               | (2)       | (123,057)                  | (89,800)          | —                                    | (212,859)                                    | —                        | (212,859)    |
| Share-based compensation                                                 | —                                         | —         | 28,192                     | —                 | —                                    | 28,192                                       | —                        | 28,192       |
| Balance, September 27, 2022                                              | 66,914,586                                | \$ 67     | \$ 7,136                   | \$ 970,372        | \$ —                                 | \$ 977,575                                   | \$ 15,058                | \$ 992,633   |

|                                                                          | For the 39 Weeks Ended September 28, 2021 |           |                            |                   |                                      |                                              |                          |              |
|--------------------------------------------------------------------------|-------------------------------------------|-----------|----------------------------|-------------------|--------------------------------------|----------------------------------------------|--------------------------|--------------|
|                                                                          | Shares                                    | Par Value | Additional Paid-in-Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Texas Roadhouse, Inc. and Subsidiaries | Noncontrolling Interests | Total        |
| Balance, December 29, 2020                                               | 69,561,861                                | \$ 70     | \$ 145,626                 | \$ 781,915        | \$ (106)                             | \$ 927,505                                   | \$ 15,546                | \$ 943,051   |
| Net income                                                               | —                                         | —         | —                          | 192,236           | —                                    | 192,236                                      | 6,335                    | 198,571      |
| Other comprehensive income, net of tax                                   | —                                         | —         | —                          | —                 | 10                                   | 10                                           | —                        | 10           |
| Distributions to noncontrolling interest holders                         | —                                         | —         | —                          | —                 | —                                    | —                                            | (6,448)                  | (6,448)      |
| Dividends declared (\$0.80 per share)                                    | —                                         | —         | —                          | (55,849)          | —                                    | (55,849)                                     | —                        | (55,849)     |
| Shares issued under share-based compensation plans including tax effects | 493,479                                   | —         | —                          | —                 | —                                    | —                                            | —                        | —            |
| Indirect repurchase of shares for minimum tax withholdings               | (158,905)                                 | —         | (14,842)                   | —                 | —                                    | (14,842)                                     | —                        | (14,842)     |
| Repurchase of shares of common stock                                     | (161,034)                                 | —         | (14,683)                   | —                 | —                                    | (14,683)                                     | —                        | (14,683)     |
| Share-based compensation                                                 | —                                         | —         | 30,797                     | —                 | —                                    | 30,797                                       | —                        | 30,797       |
| Balance, September 28, 2021                                              | 69,735,401                                | \$ 70     | \$ 146,898                 | \$ 918,302        | \$ (96)                              | \$ 1,065,174                                 | \$ 15,433                | \$ 1,080,607 |

See accompanying notes to condensed consolidated financial statements

**Texas Roadhouse, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(in thousands)  
(unaudited)

|                                                                                   | <b>39 Weeks Ended</b>     |                           |
|-----------------------------------------------------------------------------------|---------------------------|---------------------------|
|                                                                                   | <b>September 27, 2022</b> | <b>September 28, 2021</b> |
| <b>Cash flows from operating activities:</b>                                      |                           |                           |
| Net income including noncontrolling interests                                     | \$ 215,828                | \$ 198,571                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                           |
| Depreciation and amortization                                                     | 101,775                   | 94,146                    |
| Deferred income taxes                                                             | 5,246                     | (435)                     |
| Loss on disposition of assets                                                     | 3,635                     | 2,312                     |
| Impairment and closure costs                                                      | 772                       | 512                       |
| Equity income from investments in unconsolidated affiliates                       | (1,069)                   | (288)                     |
| Distributions of income received from investments in unconsolidated affiliates    | 817                       | 729                       |
| Provision for doubtful accounts                                                   | 36                        | 3                         |
| Share-based compensation expense                                                  | 28,192                    | 30,797                    |
| Changes in operating working capital:                                             |                           |                           |
| Receivables                                                                       | 123,551                   | 46,395                    |
| Inventories                                                                       | (990)                     | (5,420)                   |
| Prepaid expenses and other current assets                                         | 2,831                     | 5,311                     |
| Other assets                                                                      | 10,313                    | (11,553)                  |
| Accounts payable                                                                  | 1,941                     | 13,667                    |
| Deferred revenue—gift cards                                                       | (119,338)                 | (72,142)                  |
| Accrued wages and payroll taxes                                                   | 21,130                    | (8,120)                   |
| Prepaid income taxes and income taxes payable                                     | 10,886                    | 2,078                     |
| Accrued taxes and licenses                                                        | 4,016                     | 8,700                     |
| Other accrued liabilities                                                         | (8,916)                   | 27,252                    |
| Operating lease right-of-use assets and lease liabilities                         | 3,950                     | 5,797                     |
| Other liabilities                                                                 | (9,549)                   | 10,397                    |
| Net cash provided by operating activities                                         | <u>395,057</u>            | <u>348,709</u>            |
| <b>Cash flows from investing activities:</b>                                      |                           |                           |
| Capital expenditures—property and equipment                                       | (174,194)                 | (139,001)                 |
| Acquisition of franchise restaurants, net of cash acquired                        | (33,069)                  | —                         |
| Proceeds from sale of investment in unconsolidated affiliate                      | 316                       | —                         |
| Proceeds from the sale of property and equipment                                  | 2,262                     | —                         |
| Proceeds from sale leaseback transactions                                         | 9,078                     | 5,588                     |
| Net cash used in investing activities                                             | <u>(195,607)</u>          | <u>(133,413)</u>          |
| <b>Cash flows from financing activities:</b>                                      |                           |                           |
| Payments on revolving credit facility, net                                        | (25,000)                  | (50,000)                  |
| Debt issuance costs                                                               | —                         | (708)                     |
| Distributions to noncontrolling interest holders                                  | (5,841)                   | (6,448)                   |
| Acquisition of noncontrolling interest                                            | (1,735)                   | —                         |
| Proceeds from restricted stock and other deposits, net                            | 91                        | 642                       |
| Indirect repurchase of shares for minimum tax withholdings                        | (11,108)                  | (14,842)                  |
| Repurchase of shares of common stock                                              | (212,859)                 | (14,683)                  |
| Dividends paid to shareholders                                                    | (93,328)                  | (55,849)                  |
| Net cash used in financing activities                                             | <u>(349,780)</u>          | <u>(141,888)</u>          |
| Net (decrease) increase in cash and cash equivalents                              | <u>(150,330)</u>          | <u>73,408</u>             |
| Cash and cash equivalents—beginning of period                                     | 335,645                   | 363,155                   |
| Cash and cash equivalents—end of period                                           | <u>\$ 185,315</u>         | <u>\$ 436,563</u>         |
| Supplemental disclosures of cash flow information:                                |                           |                           |
| Interest paid, net of amounts capitalized                                         | \$ 1,091                  | \$ 2,632                  |
| Income taxes paid                                                                 | \$ 19,591                 | \$ 29,388                 |
| Capital expenditures included in current liabilities                              | \$ 32,468                 | \$ 28,363                 |

See accompanying notes to condensed consolidated financial statements.

**Texas Roadhouse, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(tabular amounts in thousands, except share and per share data)**  
**(unaudited)**

**(1) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Texas Roadhouse, Inc. ("TRI"), our wholly-owned subsidiaries and subsidiaries in which we have a controlling interest (collectively the "Company," "we," "our" and/or "us") as of September 27, 2022 and December 28, 2021 and for the 13 and 39 weeks ended September 27, 2022 and September 28, 2021.

As of September 27, 2022, we owned and operated 587 restaurants and franchised an additional 98 restaurants in 49 states and ten foreign countries. Of the 587 company restaurants that were operating at September 27, 2022, there were 567 wholly-owned restaurants and 20 majority-owned restaurants. Of the 587 restaurants that we owned as of September 27, 2022, we operated 545 as Texas Roadhouse restaurants, 38 as Bubba's 33 restaurants and four as Jaggers restaurants. Of the 98 Texas Roadhouse franchise restaurants, there were 62 domestic restaurants and 36 international restaurants.

As of September 28, 2021, we owned and operated 555 restaurants and franchised an additional 99 restaurants in 49 states and ten foreign countries. Of the 555 company restaurants that were operating at September 28, 2021, there were 535 wholly-owned restaurants and 20 majority-owned restaurants. Of the 555 restaurants that we owned as of September 28, 2021, we operated 517 as Texas Roadhouse restaurants, 35 as Bubba's 33 restaurants and three as Jaggers restaurants. Of the 99 Texas Roadhouse franchise restaurants, there were 69 domestic restaurants and 30 international restaurants.

The Company has been subject to risks and uncertainties as a result of the global COVID-19 pandemic. These include federal, state and local restrictions on restaurants, some of which limited capacity or seating in the dining rooms while others allowed to-go or curbside service only. As of September 27, 2022 and September 28, 2021, all of our company and franchise locations were operating without restriction.

As of September 27, 2022 and September 28, 2021, we owned a 5.0% to 10.0% equity interest in 23 and 24 domestic franchise restaurants, respectively. Additionally, as of September 28, 2021, we owned a 40% equity interest in two non-Texas Roadhouse restaurants as part of a joint venture agreement with a casual dining restaurant operator in China. These unconsolidated restaurants are accounted for using the equity method. Our investments in these unconsolidated affiliates are included in other assets in our unaudited condensed consolidated balance sheets, and we record our percentage share of net income earned by these unconsolidated affiliates in our unaudited condensed consolidated statements of income and comprehensive income under equity income from investments in unconsolidated affiliates. The investment balance related to our joint venture agreement in China was fully impaired in late 2021 as the related restaurants closed. All significant intercompany balances and transactions for these unconsolidated restaurants as well as the entities whose accounts have been consolidated have been eliminated.

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reporting of revenue and expenses during the periods to prepare these unaudited condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill, obligations related to insurance reserves, leases and leasehold improvements, legal reserves, gift card breakage and third party fees and income taxes. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial statements for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with GAAP, except that certain information and footnotes have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. Operating results for the 13 and 39 weeks ended



September 27, 2022 are not necessarily indicative of the results that may be expected for the year ending December 27, 2022. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 28, 2021.

Our significant interim accounting policies include the recognition of income taxes using an estimated annual effective tax rate.

## **(2) Recent Accounting Pronouncements**

### ***Reference Rate Reform (Accounting Standards Update 2020-04, "ASU 2020-04")***

In March 2020, the Financial Accounting Standards Board issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting. These changes are intended to simplify the market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates. This guidance is effective upon issuance to modifications made as early as the beginning of the interim period through December 31, 2022. We do not anticipate that the impact of adopting this standard will be material to our condensed consolidated financial statements.

## **(3) Long-term Debt**

On May 4, 2021, we entered into an agreement to amend our revolving credit facility with a syndicate of commercial lenders led by JPMorgan Chase Bank, N.A. and PNC Bank, N.A. The amended revolving credit facility remains an unsecured, revolving credit agreement and has a borrowing capacity of up to \$300.0 million with the option to increase by an additional \$200.0 million subject to certain limitations, including approval by the syndicate of lenders. The amendment also extended the maturity date to May 1, 2026.

The terms of the amendment require us to pay interest on outstanding borrowings at LIBOR plus a margin of 0.875% to 1.875% and pay a commitment fee of 0.125% to 0.30% per year on any unused portion of the revolving credit facility, in each case depending on our leverage ratio. The amendment also provides an Alternate Base Rate that may be substituted for LIBOR.

As of September 27, 2022, we had \$75.0 million outstanding on the amended revolving credit facility and \$213.3 million of availability, net of \$11.7 million of outstanding letters of credit. As of December 28, 2021, we had \$100.0 million outstanding on the amended revolving credit facility and \$189.1 million of availability, net of \$10.9 million of outstanding letters of credit. These outstanding amounts are included as long-term debt on our unaudited condensed consolidated balance sheets.

The weighted-average interest rate for the \$75.0 million outstanding as of September 27, 2022 was 3.69%. The weighted-average interest rate for the \$190.0 million outstanding as of September 28, 2021 was 0.96%.

The lenders' obligation to extend credit pursuant to the amended revolving credit facility depends on us maintaining certain financial covenants. We were in compliance with all financial covenants as of September 27, 2022.

#### (4) Revenue

The following table disaggregates our revenue by major source (in thousands):

|                            | 13 weeks Ended     |                    | 39 weeks Ended      |                     |
|----------------------------|--------------------|--------------------|---------------------|---------------------|
|                            | September 27, 2022 | September 28, 2021 | September 27, 2022  | September 28, 2021  |
| Restaurant and other sales | \$ 986,999         | \$ 862,757         | \$ 2,986,028        | \$ 2,550,124        |
| Franchise royalties        | 5,559              | 5,449              | 17,029              | 15,977              |
| Franchise fees             | 740                | 737                | 2,333               | 2,259               |
| Total revenue              | <u>\$ 993,298</u>  | <u>\$ 868,943</u>  | <u>\$ 3,005,390</u> | <u>\$ 2,568,360</u> |

We record deferred revenue for gift cards which includes cards that have been sold but not yet redeemed, a breakage adjustment for a percentage of gift cards that are not expected to be redeemed, and fees paid on gift cards sold through third party retailers. When gift cards are redeemed, we recognize restaurant sales and reduce deferred revenue. We amortize breakage and third party fees consistent with the redemption pattern of the associated gift card, a significant portion of which occurs within a year from when the gift card is sold. We recognize these amounts as a component of other sales. As of September 27, 2022 and December 28, 2021, our deferred revenue balance related to gift cards was \$182.3 million and \$300.7 million, respectively. We recognized sales of \$30.3 million and \$171.9 million for the 13 and 39 weeks ended September 27, 2022, respectively, related to the amount in deferred revenue as of December 28, 2021. We recognized sales of \$23.2 million and \$123.4 million for the 13 and 39 weeks ended September 28, 2021, respectively, related to the amount in deferred revenue as of December 29, 2020.

#### (5) Income Taxes

A reconciliation of the statutory federal income tax rate to our effective tax rate for the 13 and 39 weeks ended September 27, 2022 and September 28, 2021 is as follows:

|                                                     | 13 Weeks Ended     |                    | 39 Weeks Ended     |                    |
|-----------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                     | September 27, 2022 | September 28, 2021 | September 27, 2022 | September 28, 2021 |
| Tax at statutory federal rate                       | 21.0 %             | 21.0 %             | 21.0 %             | 21.0 %             |
| State and local tax, net of federal benefit         | 3.8                | 3.8                | 3.8                | 3.8                |
| FICA tip tax credit                                 | (9.6)              | (10.5)             | (10.1)             | (9.2)              |
| Work opportunity tax credit                         | (1.0)              | (1.7)              | (1.3)              | (1.1)              |
| Stock compensation                                  | (0.2)              | (1.2)              | —                  | (1.7)              |
| Net income attributable to noncontrolling interests | (0.3)              | (0.5)              | (0.4)              | (0.5)              |
| Officers compensation                               | 0.8                | 0.8                | 0.6                | 0.9                |
| Other                                               | 0.7                | (0.1)              | 0.6                | 0.3                |
| Total                                               | <u>15.2 %</u>      | <u>11.6 %</u>      | <u>14.2 %</u>      | <u>13.5 %</u>      |

For the 13 and 39 weeks ended September 27, 2022 and September 28, 2021, we recognized income tax expense using an estimated effective annual tax rate. Our effective tax rate was 15.2% and 14.2% for the 13 and 39 weeks ended September 27, 2022, respectively. Our effective tax rate was 11.6% and 13.5% for the 13 and 39 weeks ended September 28, 2021, respectively. The increase in our tax rate for the 13 weeks ended September 27, 2022 as compared to the prior year period was primarily driven by the lapping of favorable adjustments to FICA Tip and Work Opportunity tax credit benefits and a decrease in the tax benefit for stock compensation. The increase in our tax rate for the 39 weeks ended September 27, 2022 as compared to the prior year period was primarily driven by a decrease in the tax benefit for stock compensation partially offset by an increase in FICA Tip and Work Opportunity tax credits.

**(6) Commitments and Contingencies**

The estimated cost of completing capital project commitments at September 27, 2022 and December 28, 2021 was \$155.3 million and \$135.0 million, respectively.

As of September 27, 2022 and December 28, 2021, we were contingently liable for \$11.5 million and \$12.2 million, respectively, for seven lease guarantees. These amounts represent the maximum potential liability of future payments under the guarantees. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of September 27, 2022 and December 28, 2021 as the likelihood of default was deemed to be less than probable and the fair value of the guarantees is not considered significant.

During the 13 and 39 weeks ended September 27, 2022, we bought most of our beef from four suppliers. We have no material minimum purchase commitments with our vendors that extend beyond a year.

Occasionally, we are a defendant in litigation arising in the ordinary course of our business, including "slip and fall" accidents, employment related claims, claims related to our service of alcohol, and claims from guests or employees alleging illness, injury or food quality, health or operational concerns. None of these types of litigation, most of which are covered by insurance, has had a material adverse effect on us during the periods covered by this report and, as of the date of this report, we are not party to any litigation that we believe could have a material adverse effect on our business.

**(7) Acquisitions**

On March 30, 2022, we completed the acquisition of one franchise Texas Roadhouse restaurant located in Nebraska in which we previously held a 5.49% equity interest. Pursuant to the terms of the acquisition agreement, we paid a total purchase price of \$6.6 million, net of cash acquired for 100% of the entity. The transaction was accounted for as a step acquisition and we recorded a gain of \$0.3 million on our previous investment in equity income from investments in unconsolidated affiliates in the unaudited condensed consolidated statements of income and comprehensive income.

Additionally, on December 29, 2021, we completed the acquisition of seven franchise Texas Roadhouse restaurants located in South Carolina and Georgia. Pursuant to the terms of the acquisition agreements, we paid a total purchase price of \$26.4 million, net of cash acquired.

These transactions were accounted for using the acquisition method as defined in Accounting Standards Codification ("ASC") 805, *Business Combinations*. These acquisitions are consistent with our long-term strategy to increase net income and earnings per share.

The following table summarizes the consideration paid (in thousands) for the acquisitions, and the estimated fair value of the assets acquired, and the liabilities assumed at the acquisition date, which are adjusted for measurement-period adjustments through September 27, 2022.

|                                                     |                  |
|-----------------------------------------------------|------------------|
| Inventory                                           | \$ 321           |
| Other assets                                        | 222              |
| Property and equipment                              | 4,841            |
| Operating lease right-of-use assets                 | 1,221            |
| Goodwill                                            | 21,732           |
| Intangible assets                                   | 6,900            |
| Deferred revenue-gift cards                         | (947)            |
| Current portion of operating lease liabilities      | (47)             |
| Operating lease liabilities, net of current portion | (1,174)          |
|                                                     | <u>\$ 33,069</u> |

The aggregate purchase prices are preliminary as the Company is finalizing working capital adjustments. Intangible assets represent reacquired franchise rights which will be amortized over a weighted-average useful life of 3.5 years. We

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expect all of the goodwill and intangible asset amortization will be deductible for tax purposes and believe the resulting amount of goodwill reflects the benefit of sales and unit growth opportunities as well as the benefit of the assembled workforce of the acquired restaurants.

Pro forma operating results for the 13 and 39 weeks ended September 27, 2022 have not been presented as the results of the acquired restaurants are not material to our unaudited condensed consolidated financial position, results of operations or cash flows.

**(8) Related Party Transactions**

As of September 27, 2022 and September 28, 2021, we had four franchise restaurants and one majority-owned company restaurant owned in part by a current officer of the Company. The franchise entities paid us fees of \$0.5 million and \$1.4 million for the 13 and 39 week periods ended September 27, 2022, respectively. The franchise entities paid us fees of \$0.4 million and \$1.2 million for the 13 and 39 week periods ended September 28, 2021, respectively.

**(9) Earnings Per Share**

The share and net income per share data for all periods presented are based on the historical weighted-average shares outstanding. The diluted earnings per share calculations show the effect of the weighted-average restricted stock units from our equity incentive plans, except during loss periods as the effect would be anti-dilutive. Performance stock units are not included in the diluted earnings per share calculation until the performance-based criteria have been met.

For all periods presented, the weighted-average shares of nonvested stock that were outstanding but not included in the computation of diluted earnings per share because they would have had an anti-dilutive effect were not significant.

The following table sets forth the calculation of earnings per share and weighted-average shares outstanding (in thousands) as presented in the accompanying unaudited condensed consolidated statements of income and comprehensive income:

|                                                                   | 13 Weeks Ended     |                    | 39 Weeks Ended     |                    |
|-------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                   | September 27, 2022 | September 28, 2021 | September 27, 2022 | September 28, 2021 |
| Net income attributable to Texas Roadhouse, Inc. and subsidiaries | \$ 62,328          | \$ 52,606          | \$ 209,949         | \$ 192,236         |
| Basic EPS:                                                        |                    |                    |                    |                    |
| Weighted-average common shares outstanding                        | 66,886             | 69,808             | 67,875             | 69,745             |
| Basic EPS                                                         | \$ 0.93            | \$ 0.75            | \$ 3.09            | \$ 2.76            |
| Diluted EPS:                                                      |                    |                    |                    |                    |
| Weighted-average common shares outstanding                        | 66,886             | 69,808             | 67,875             | 69,745             |
| Dilutive effect of nonvested stock                                | 273                | 338                | 265                | 403                |
| Shares-diluted                                                    | 67,159             | 70,146             | 68,140             | 70,148             |
| Diluted EPS                                                       | \$ 0.93            | \$ 0.75            | \$ 3.08            | \$ 2.74            |

**(10) Fair Value Measurements**

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date.

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|         |                                                                                                                            |
|---------|----------------------------------------------------------------------------------------------------------------------------|
| Level 1 | Inputs based on quoted prices in active markets for identical assets.                                                      |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly. |
| Level 3 | Inputs that are unobservable for the asset.                                                                                |

There were no transfers among levels within the fair value hierarchy during the 13 and 39 weeks ended September 27, 2022.

The following table presents the fair values for our financial assets and liabilities measured on a recurring basis (in thousands):

|                                        | Fair Value Measurements |                    |                   |
|----------------------------------------|-------------------------|--------------------|-------------------|
|                                        | Level                   | September 27, 2022 | December 28, 2021 |
| Deferred compensation plan—assets      | 1                       | \$ 59,153          | \$ 67,512         |
| Deferred compensation plan—liabilities | 1                       | \$ (58,969)        | \$ (67,431)       |

The Second Amended and Restated Deferred Compensation Plan of Texas Roadhouse Management Corp. (as amended, the "Deferred Compensation Plan") is a nonqualified deferred compensation plan which allows highly compensated employees to defer receipt of a portion of their compensation and contribute such amounts to one or more investment funds held in a rabbi trust. We report the amounts of the rabbi trust in other assets and the corresponding liability in other liabilities in our unaudited condensed consolidated financial statements. These investments are considered trading securities and are reported at fair value based on quoted market prices. The realized and unrealized holding gains and losses related to these investments, as well as the offsetting compensation expense, are recorded in general and administrative expense in the unaudited condensed consolidated statements of income and comprehensive income.

The following table presents the fair value of our assets measured on a nonrecurring basis (in thousands):

|                                          | Level | Fair Value Measurements |                   | Total gain (loss)  |                    |                    |                    |
|------------------------------------------|-------|-------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
|                                          |       | September 27, 2022      | December 28, 2021 | 13 Weeks Ended     |                    | 39 Weeks Ended     |                    |
|                                          |       |                         |                   | September 27, 2022 | September 28, 2021 | September 27, 2022 | September 28, 2021 |
| Long-lived assets held for sale          | 3     | \$ —                    | \$ 1,175          | \$ —               | \$ —               | \$ 690             | \$ (470)           |
| Operating lease right-of-use assets      | 3     | \$ —                    | \$ —              | \$ (314)           | \$ —               | \$ (654)           | \$ —               |
| Investments in unconsolidated affiliates | 3     | \$ —                    | \$ —              | \$ —               | \$ —               | \$ —               | \$ (531)           |

Long-lived assets held for sale include land and building at a site that was relocated and had a carrying amount of \$1.2 million as of December 28, 2021. These assets were included in prepaid expenses and other current assets in our consolidated balance sheet and were valued using a Level 3 input. These assets were sold during the 39 weeks ended September 27, 2022 and resulted in a gain of \$0.7 million which is included in impairment and closure, net in our unaudited condensed consolidated statements of income and comprehensive income.

Operating lease right-of-use assets as of September 27, 2022 includes the lease related asset for one restaurant that was relocated and the lease related asset for one restaurant which is scheduled to be relocated in 2022. These assets were reduced to a fair value of zero in 2022. This resulted in a loss of \$0.3 million and \$0.7 million for the 13 and 39 weeks ended September 27, 2022, respectively, which is included in impairment and closure, net in our unaudited condensed consolidated statements of income and comprehensive income.

Investments in unconsolidated affiliates included a 40% equity interest in a joint venture in China which was fully impaired in late 2021. This asset was valued using a Level 3 input, or the amount we expected to receive upon the sale of this investment. This resulted in a loss of \$0.5 million and is included in equity income from investments in unconsolidated affiliates in our unaudited condensed consolidated statements of income and comprehensive income for the 39 weeks ended September 28, 2021.

At September 27, 2022 and December 28, 2021, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying values based on the short-term nature of these instruments. At September 27, 2022 and December 28, 2021, the fair value of our amended revolving credit facility approximated its carrying value since it is a variable rate credit facility (Level 2).

#### **(11) Stock Repurchase Program**

On March 17, 2022, our Board of Directors (the "Board") approved a stock repurchase program under which we may repurchase up to \$300.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on May 31, 2019 that authorized the Company to repurchase up to \$250.0 million of our common stock. All repurchases to date under our stock repurchase programs have been made through open market transactions. The timing and the amount of any repurchases are determined by management under parameters established by the Board, based on an evaluation of our stock price, market conditions and other corporate considerations.

For the 13 week period ended September 27, 2022, we did not repurchase any shares of our common stock. For the 39 week period ended September 27, 2022, we paid \$212.9 million to repurchase 2,734,005 shares of our common stock. This includes \$133.1 million repurchased under our current authorized stock repurchase program and \$79.7 million repurchased under our prior authorization. For both the 13 and 39 week periods ended September 28, 2021, we paid \$14.7 million to repurchase 161,034 shares of our common stock. As of September 27, 2022, \$166.9 million remained under our authorized stock repurchase program.

#### **(12) Segment Information**

We manage our restaurant and franchising operations by concept and as a result have identified Texas Roadhouse, Bubba's 33, Jagers and our retail initiatives as separate operating segments. Our reportable segments are Texas Roadhouse and Bubba's 33. The Texas Roadhouse reportable segment includes the results of our domestic company Texas Roadhouse restaurants and domestic and international franchise Texas Roadhouse restaurants. The Bubba's 33 reportable segment includes the results of our domestic company Bubba's 33 restaurants. Our remaining operating segments, which include the results of our domestic company Jagers restaurants and the results of our retail initiatives, are included in Other. In addition, corporate-related segment assets, depreciation and amortization, and capital expenditures are also included in Other.

Management uses restaurant margin as the primary measure for assessing performance of our segments. Restaurant margin (in dollars and as a percentage of restaurant and other sales) represents restaurant and other sales less restaurant-level operating costs, including food and beverage costs, labor, rent and other operating costs. Restaurant margin also includes sales and operating costs related to our non-royalty based retail initiatives. Restaurant margin is used by our chief operating decision maker to evaluate restaurant-level operating efficiency and performance.

In calculating restaurant margin, we exclude certain non-restaurant-level costs that support operations, including pre-opening and general and administrative expenses, but do not have a direct impact on restaurant-level operational efficiency and performance. We also exclude depreciation and amortization expense, substantially all of which relates to restaurant-level assets, as it represents a non-cash charge for the investment in our restaurants. We also exclude impairment and closure expense as we believe this provides a clearer perspective of the Company's ongoing operating performance and a more useful comparison to prior period results. Restaurant margin as presented may not be comparable to other similarly titled measures of other companies in our industry.

Restaurant and other sales for all operating segments are derived primarily from food and beverage sales. We do not rely on any major customer as a source of sales and the customers and assets of our reportable segments are located predominantly in the United States. There are no material transactions between reportable segments.

The following tables reconcile our segment results to our consolidated results reported in accordance with GAAP (in thousands):

| 13 Weeks Ended September 27, 2022                                    |                   |                  |                |                   |
|----------------------------------------------------------------------|-------------------|------------------|----------------|-------------------|
|                                                                      | Texas Roadhouse   | Bubba's 33       | Other          | Total             |
| Restaurant and other sales                                           | \$ 931,683        | \$ 51,993        | \$ 3,323       | \$ 986,999        |
| Restaurant operating costs (excluding depreciation and amortization) | 785,546           | 46,368           | 3,076          | 834,990           |
| Restaurant margin                                                    | <u>\$ 146,137</u> | <u>\$ 5,625</u>  | <u>\$ 247</u>  | <u>\$ 152,009</u> |
| Depreciation and amortization                                        | \$ 27,757         | \$ 3,198         | \$ 2,780       | \$ 33,735         |
| Capital expenditures                                                 | 55,158            | 8,107            | 2,363          | 65,628            |
| 13 Weeks Ended September 28, 2021                                    |                   |                  |                |                   |
|                                                                      | Texas Roadhouse   | Bubba's 33       | Other          | Total             |
| Restaurant and other sales                                           | \$ 814,239        | \$ 46,198        | \$ 2,320       | \$ 862,757        |
| Restaurant operating costs (excluding depreciation and amortization) | 686,437           | 38,779           | 2,399          | 727,615           |
| Restaurant margin                                                    | <u>\$ 127,802</u> | <u>\$ 7,419</u>  | <u>\$ (79)</u> | <u>\$ 135,142</u> |
| Depreciation and amortization                                        | \$ 26,178         | \$ 3,236         | \$ 2,213       | \$ 31,627         |
| Capital expenditures                                                 | 44,369            | 5,930            | 3,633          | 53,932            |
| 39 Weeks Ended September 27, 2022                                    |                   |                  |                |                   |
|                                                                      | Texas Roadhouse   | Bubba's 33       | Other          | Total             |
| Restaurant and other sales                                           | \$ 2,818,565      | \$ 157,830       | \$ 9,633       | \$ 2,986,028      |
| Restaurant operating costs (excluding depreciation and amortization) | 2,357,910         | 136,837          | 9,353          | 2,504,100         |
| Restaurant margin                                                    | <u>\$ 460,655</u> | <u>\$ 20,993</u> | <u>\$ 280</u>  | <u>\$ 481,928</u> |
| Depreciation and amortization                                        | \$ 83,402         | \$ 9,690         | \$ 8,683       | \$ 101,775        |
| Capital expenditures                                                 | 146,151           | 21,898           | 6,145          | 174,194           |
| 39 Weeks Ended September 28, 2021                                    |                   |                  |                |                   |
|                                                                      | Texas Roadhouse   | Bubba's 33       | Other          | Total             |
| Restaurant and other sales                                           | \$ 2,415,444      | \$ 126,964       | \$ 7,716       | \$ 2,550,124      |
| Restaurant operating costs (excluding depreciation and amortization) | 1,997,303         | 105,000          | 6,874          | 2,109,177         |
| Restaurant margin                                                    | <u>\$ 418,141</u> | <u>\$ 21,964</u> | <u>\$ 842</u>  | <u>\$ 440,947</u> |
| Depreciation and amortization                                        | \$ 78,081         | \$ 9,399         | \$ 6,666       | \$ 94,146         |
| Capital expenditures                                                 | 114,274           | 17,729           | 6,998          | 139,001           |

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A reconciliation of restaurant margin to income from operations is presented below (in thousands). We do not allocate interest expense, net and equity income from investments in unconsolidated affiliates to reportable segments.

|                               | 13 Weeks Ended        |                       | 39 Weeks Ended        |                       |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                               | September 27,<br>2022 | September 28,<br>2021 | September 27,<br>2022 | September 28,<br>2021 |
| Restaurant margin             | \$ 152,009            | \$ 135,142            | \$ 481,928            | \$ 440,947            |
| Add:                          |                       |                       |                       |                       |
| Franchise royalties and fees  | 6,299                 | 6,186                 | 19,362                | 18,236                |
| Less:                         |                       |                       |                       |                       |
| Pre-opening                   | 5,701                 | 6,740                 | 15,315                | 17,327                |
| Depreciation and amortization | 33,735                | 31,627                | 101,775               | 94,146                |
| Impairment and closure, net   | 772                   | 29                    | 537                   | 550                   |
| General and administrative    | 42,812                | 41,234                | 132,319               | 114,807               |
| Income from operations        | <u>\$ 75,288</u>      | <u>\$ 61,698</u>      | <u>\$ 251,344</u>     | <u>\$ 232,353</u>     |



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAUTIONARY STATEMENT

*This report contains forward-looking statements based on our current expectations, estimates and projections about our industry and certain assumptions made by us. These statements include, but are not limited to, statements related to the potential impact of the COVID-19/Coronavirus pandemic and other non-historical statements. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. The section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 28, 2021, and in Part II, Item 1A in this Form 10-Q, along with disclosures in our other Securities and Exchange Commission ("SEC") filings discuss some of the important risk factors that may affect our business, results of operations or financial condition. You should carefully consider those risks, in addition to the other information in this report, and in our other filings with the SEC, before deciding to invest in our Company or to maintain or increase your investment. We undertake no obligation to revise or update publicly any forward-looking statements, except as may be required by applicable law. The information contained in this Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that discuss our business in greater detail and advise interested parties of certain risks, uncertainties and other factors that may affect our business, results of operations or financial condition.*

### Our Company

Texas Roadhouse, Inc. is a growing restaurant company operating predominantly in the casual dining segment. Our late founder, W. Kent Taylor, started the Company in 1993 with the opening of the first Texas Roadhouse restaurant in Clarksville, Indiana. Since then, we have grown to three restaurant concepts with 685 restaurants in 49 states and ten foreign countries. As of September 27, 2022, our 685 restaurants included:

- 587 "company restaurants," of which 567 were wholly-owned and 20 were majority-owned. The results of operations of company restaurants are included in our unaudited condensed consolidated statements of income and comprehensive income. The portion of income attributable to noncontrolling interests in company restaurants that are majority-owned is reflected in the line item entitled "Net income attributable to noncontrolling interests" in our unaudited condensed consolidated statements of income and comprehensive income. Of the 587 restaurants we owned as of September 27, 2022, we operated 545 as Texas Roadhouse restaurants, 38 as Bubba's 33 restaurants and four as Jagers restaurants.
- 98 "franchise restaurants," 23 of which we have a 5.0% to 10.0% ownership interest. The income derived from our minority interests in these franchise restaurants is reported in the line item entitled "Equity income from investments in unconsolidated affiliates" in our unaudited condensed consolidated statements of income and comprehensive income. Additionally, we provide various management services to these 23 franchise restaurants, as well as five additional franchise restaurants in which we have no ownership interest. All of the franchise restaurants are operated as Texas Roadhouse restaurants. Of the 98 franchise restaurants, 62 were domestic restaurants and 36 were international restaurants.

We have contractual arrangements that grant us the right to acquire at pre-determined formulas the remaining equity interests in 18 of the 20 majority-owned company restaurants and 58 of the 62 domestic franchise restaurants.

Throughout this report, we use the term "restaurants" to include Texas Roadhouse and Bubba's 33, unless otherwise noted.

### **Presentation of Financial and Operating Data**

Throughout this report, the 13 weeks ended September 27, 2022, and September 28, 2021, are referred to as Q3 2022 and Q3 2021, respectively. The 39 weeks ended September 27, 2022 and September 28, 2021 are referred to as 2022 YTD and 2021 YTD, respectively. Fiscal years 2022 and 2021 will be 52 weeks in length, while the quarters for the year will be 13 weeks in length.

### **COVID-19 and Other Economic Impacts**

The Company has been subject to risks and uncertainties as a result of the COVID-19 pandemic (the "pandemic"). These include federal, state and local restrictions on restaurants, some of which limited capacity or seating in the dining rooms while others allowed to-go or curbside service only. As of September 27, 2022 and September 28, 2021, all of our company and franchise locations were operating without restriction.

As a result of a significant increase in sales, the lingering impact of the pandemic and other supply constraints, we have experienced and expect to continue to experience commodity inflation and certain food and supply shortages. The commodity inflation, with higher costs across the basket, is mostly due to increased demand and increased costs incurred by our vendors related to higher labor, transportation, packaging and raw material costs. To date, we have been able to properly manage any food or supply shortages but have experienced increased costs. If our vendors are unable to fulfill their obligations under their contracts, we may encounter further shortages and/or higher costs to secure adequate supply and a possible loss of sales, any of which would harm our business.

In addition, as our dining rooms have returned to operating without restriction, our ability to attract and retain restaurant-level employees has become more challenging due to an increasingly competitive job market throughout the country. To the extent these challenges persist, we could continue to experience increased labor costs and/or decreased sales.

As a result of the pandemic, legislation referred to as the Coronavirus Aid, Relief, and Economic Security Act was passed in 2020 to benefit companies that were significantly impacted by the pandemic. This legislation allowed for the deferral of the social security portion of the employer portion of FICA payroll taxes from the date of enactment through the end of 2020. In total, we deferred \$47.3 million in payroll taxes, of which \$24.3 million was repaid in 2021 and \$23.0 million is required to be repaid at the end of 2022. The amount due in 2022 is included in accrued wages and payroll taxes in our unaudited condensed consolidated balance sheets.

### **Long-Term Strategies to Grow Earnings Per Share and Create Shareholder Value**

Our long-term strategies with respect to increasing net income and earnings per share, along with creating shareholder value, include the following:

*Expanding Our Restaurant Base.* We continue to evaluate opportunities to develop restaurants in existing markets and in new domestic and international markets. Domestically, we remain focused primarily on markets where we believe a significant demand for our restaurants exists because of population size, income levels, and the presence of shopping and entertainment centers and a significant employment base. In recent years, we have relocated several existing Texas Roadhouse locations at or near the end of the associated lease or as a result of eminent domain which allows us to move to a better site, update to a current prototypical design, construct a larger building with more seats and a greater number of available parking spaces, accommodate increased to-go sales and/or obtain more favorable lease terms. We continue to evaluate these opportunities particularly as it relates to older locations with strong sales. At our high volume restaurants, we continue to look for opportunities to increase our dining room capacity by adding on to our existing building and/or to increase our parking capacity by leasing or purchasing property that adjoins our site. In addition, we continue to execute and pursue opportunities to acquire domestic franchise locations to expand our company restaurant base.

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In 2022 YTD, 13 company restaurants, including two Bubba's 33, were opened and our franchise partners opened five international restaurants. We currently plan to open as many as 23 Texas Roadhouse and Bubba's 33 company restaurants in 2022. We currently expect our franchise partners will open as many as eight international Texas Roadhouse restaurants in 2022. Also, in 2022 YTD, we completed the acquisition of eight domestic franchise Texas Roadhouse restaurants for an aggregate purchase price of \$33.1 million.

Our average capital investment for the 23 Texas Roadhouse restaurants opened during 2021, including pre-opening expenses and a capitalized rent factor, was \$5.7 million. We expect our average capital investment for Texas Roadhouse restaurants opening in 2022 to be approximately \$6.6 million with the increase over 2021 due to a larger building prototype and higher supply costs. Our average capital investment for the five Bubba's 33 restaurants opened during 2021, including pre-opening expenses and a capitalized rent factor, was \$7.4 million. We expect our average capital investment for Bubba's 33 restaurants opening in 2022 to be approximately \$7.8 million with the increase over 2021 due to higher supply costs. In addition, we continue to experience delays in acquiring restaurant equipment and supplies that has contributed to these higher supply costs.

We remain focused on driving sales and managing restaurant investment costs to maintain our restaurant development in the future. Our capital investment (including cash and non-cash costs) for new restaurants varies significantly depending on a number of factors including, but not limited to: the square footage, layout, scope of required site work, geographical location, cost of materials, type of construction labor, local permitting requirements, hook-up fees, our ability to negotiate with landlords and cost of liquor and other licenses.

We have entered into area development and franchise agreements for the development and operation of Texas Roadhouse restaurants in numerous foreign countries and one U.S. territory. We currently have signed franchise and/or development agreements in nine countries in the Middle East as well as Taiwan, the Philippines, Mexico, China, South Korea, Brazil and Puerto Rico. As of September 27, 2022, we had 15 restaurants in five countries in the Middle East, six in the Philippines, six in South Korea, five in Taiwan, three in Mexico and one in China for a total of 36 restaurants in ten foreign countries. For the existing international agreements, the franchisee is required to pay us a franchise fee for each restaurant to be opened, royalties on the sales of each restaurant and a development fee for our grant of development rights in the named countries. We anticipate that the specific business terms of any future franchise agreement for international restaurants might vary significantly from the standard terms of our domestic agreements and from the terms of existing international agreements, depending on the territory to be franchised and the extent of franchisor-provided services to each franchisee.

In 2021, we entered into our first area development agreements for Jaggers, our fast-casual concept. These agreements allow for the development and operation of restaurants in specific territories in Texas, Oklahoma and North Carolina. As part of these agreements, the franchisees are required to pay us a franchise fee for each restaurant to be opened, royalties on the sales of each restaurant and a development fee for our grant of development rights in the named territories. We currently expect our first Jaggers franchise restaurant to open in Q1 2023.

*Maintaining and/or Improving Restaurant-Level Profitability.* We continue to balance the impacts of inflationary pressures with our value positioning as we remain focused on our long-term success. This may create a challenge in terms of maintaining and/or increasing restaurant-level profitability (restaurant margin), in any given year, depending on the level of inflation we experience. Restaurant margin is not a U.S. generally accepted accounting principle ("GAAP") measure and should not be considered in isolation, or as an alternative to income from operations. See further discussion of restaurant margin below. In addition to restaurant margin, as a percentage of restaurant and other sales, we also focus on the growth of restaurant margin dollars per store week as a measure of restaurant-level profitability. In terms of driving comparable restaurant sales, we remain focused on encouraging repeat visits by our guests and attracting new guests through our continued commitment to operational standards relating to food and service quality. To attract new guests and increase the frequency of visits of our existing guests, we continue to drive various localized marketing programs, focus on speed of service, increase throughput by adding seats and parking at certain restaurants and continue to enhance the guest digital experience. In addition, with the increase in sales, we have made changes to our building layout and size to better accommodate higher volumes at our restaurants.

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We also continue to look for ways through various strategic initiatives to drive awareness of our brands and increase sales and profitability. At the onset of the pandemic, we began selling ready-to-grill steaks for customers to prepare at home. Based on the success of this program we developed Texas Roadhouse Butcher Shop. This on-line retail store allows for the purchase and delivery of quality steaks that are similar to those available in our restaurants. This non-royalty-based product launched in late 2020.

We also further expanded our retail business in 2021 with the introduction of our non-alcoholic Margarita Mixer, and our canned cocktail Margarita Seltzer, which rolled out in test markets. These Texas Roadhouse branded products are subject to royalty-based license agreements. In 2022, we announced the roll out of additional non-royalty-based retail products including Texas Roadhouse branded apparel and other accessories.

*Leveraging Our Scalable Infrastructure.* To support our growth, we have made investments in our infrastructure across all critical functions, including the development of new strategic initiatives. Whether we are able to leverage our infrastructure in future years by growing our general and administrative costs at a slower rate than our revenue will depend, in part, on our new restaurant openings, our comparable restaurant sales growth rate going forward and the level of investment we continue to make in our infrastructure.

*Returning Capital to Shareholders.* We continue to evaluate opportunities to return capital to our shareholders including the payment of dividends and repurchase of common stock. In 2011, our Board of Directors (the "Board") declared our first quarterly dividend of \$0.08 per share of common stock which has consistently grown over time. The payment of a quarterly dividend was suspended in 2020 to preserve cash flow due to the pandemic. In 2021, the Board reinstated the payment of a quarterly cash dividend of \$0.40 per share of common stock. In 2022, the Board declared a quarterly cash dividend of \$0.46 per share of common stock representing a 15% increase compared to the quarterly dividend declared in the prior year period.

The declaration and payment of cash dividends on our common stock is at the discretion of the Board, and any decision to declare a dividend will be based on many factors, including, but not limited to, earnings, financial condition, applicable covenants under our amended revolving credit facility, other contractual restrictions and other factors deemed relevant.

In 2008, the Board approved our first stock repurchase program. From inception through September 27, 2022, we have paid \$633.5 million through our authorized stock repurchase programs to repurchase 21,041,442 shares of our common stock at an average price per share of \$30.11. On March 17, 2022, the Board approved a stock repurchase program under which we may repurchase up to \$300.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on May 31, 2019 that authorized the Company to repurchase up to \$250.0 million of our common stock. All repurchases to date have been made through open market transactions. The Company suspended all share repurchase activity in 2020 in order to preserve cash flow due to the pandemic. On August 2, 2021, the Company resumed the repurchase of shares. For both the 13 and 39 week periods ended September 28, 2021, we paid \$14.7 million to repurchase 161,034 shares of our common stock. For the 13 week period ended September 27, 2022, we did not repurchase any shares of our common stock. For the 39 week period ended September 27, 2022, we paid \$212.9 million to repurchase 2,734,005 shares of our common stock. This includes \$133.1 million repurchased under our current authorized stock repurchase program and \$79.7 million repurchased under our prior authorization. As of September 27, 2022, \$166.9 million remained under our authorized stock repurchase program.

### **Key Measures We Use to Evaluate Our Company**

Key measures we use to evaluate and assess our business include the following:

*Number of Restaurant Openings.* Number of restaurant openings reflects the number of restaurants opened during a particular fiscal period. For company restaurant openings, we incur pre-opening costs, which are defined below, before the restaurant opens. Typically, new restaurants open with an initial start-up period of higher than normalized sales volumes, which decrease to a steady level approximately three to six months after opening. However, although sales

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volumes are generally higher, so are initial costs, resulting in restaurant margins that are generally lower during the start-up period of operation and increase to a steady level approximately three to six months after opening.

*Comparable Restaurant Sales.* Comparable restaurant sales reflects the change in restaurant sales for all company restaurants over the same period of the prior year for the comparable restaurant base. We define the comparable restaurant base to include those restaurants open for a full 18 months before the beginning of the period measured excluding restaurants permanently closed during the period. Comparable restaurant sales can be impacted by changes in guest traffic counts or by changes in the per person average check amount. Menu price changes, the mix of menu items sold, and the mix of dine-in versus to-go sales can affect the per person average check amount.

*Average Unit Volume.* Average unit volume represents the average quarterly or annual restaurant sales for Texas Roadhouse and Bubba's 33 restaurants open for a full six months before the beginning of the period measured excluding sales of restaurants permanently closed during the period. Historically, average unit volume growth is less than comparable restaurant sales growth which indicates that newer restaurants are operating with sales levels lower than the company average. At times, average unit volume growth may be more than comparable restaurant sales growth which indicates that newer restaurants are operating with sales levels higher than the company average.

*Store Weeks.* Store weeks represent the number of weeks that all company restaurants, unless otherwise noted, were open during the reporting period. Store weeks include weeks in which a restaurant is temporarily closed.

*Restaurant Margin.* Restaurant margin (in dollars and as a percentage of restaurant and other sales) represents restaurant and other sales less restaurant-level operating costs, including food and beverage costs, labor, rent and other operating costs. Restaurant margin also includes sales and operating costs related to the Company's non-royalty based retail initiatives. Restaurant margin is not a measurement determined in accordance with GAAP and should not be considered in isolation, or as an alternative, to income from operations. This non-GAAP measure is not indicative of overall company performance and profitability in that this measure does not accrue directly to the benefit of shareholders due to the nature of the costs excluded. Restaurant margin is widely regarded as a useful metric by which to evaluate restaurant-level operating efficiency and performance. In calculating restaurant margin, we exclude certain non-restaurant-level costs that support operations, including pre-opening and general and administrative expenses, but do not have a direct impact on restaurant-level operational efficiency and performance. We also exclude depreciation and amortization expense, substantially all of which relates to restaurant-level assets, as it represents a non-cash charge for the investment in our restaurants. We also exclude impairment and closure expense as we believe this provides a clearer perspective of the Company's ongoing operating performance and a more useful comparison to prior period results. Restaurant margin as presented may not be comparable to other similarly titled measures of other companies in our industry. A reconciliation of income from operations to restaurant margin is included in the Results of Operations section below.

### **Other Key Definitions**

*Restaurant and Other Sales.* Restaurant sales include gross food and beverage sales, net of promotions and discounts, for all company restaurants. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from restaurant sales in the unaudited condensed consolidated statements of income and comprehensive income. Other sales include the amortization of fees associated with our third party gift card sales net of the amortization of gift card breakage income. These amounts are amortized consistent with the historic redemption pattern of the associated gift card or on actual redemptions in periods where redemptions do not align with historic redemption patterns. Other sales also include sales related to our non-royalty-based retail products.

*Franchise Royalties and Fees.* Franchise royalties consist of royalties, as defined in our franchise agreement, paid to us by our domestic and international franchisees. Franchise royalties also include sales related to our royalty-based retail products. Domestic and/or international franchisees also typically pay an initial franchise fee and/or development fee for each new restaurant or territory. The terms of the international agreements may vary significantly from our domestic agreements. These include advertising fees paid by domestic franchisees to our system-wide marketing and advertising fund and management fees paid by certain domestic franchisees for supervisory and administrative services that we perform.

*Food and Beverage Costs.* Food and beverage costs consists of the costs of raw materials and ingredients used in the preparation of food and beverage products sold in our company restaurants. Approximately half of our food and beverage costs relates to beef.

*Restaurant Labor Expenses.* Restaurant labor expenses include all direct and indirect labor costs incurred in operations except for profit sharing incentive compensation expenses earned by our restaurant managing partners and market partners. These profit sharing expenses are reflected in restaurant other operating expenses. Restaurant labor expenses also include share-based compensation expense related to restaurant-level employees.

*Restaurant Rent Expense.* Restaurant rent expense includes all rent, except pre-opening rent, associated with the leasing of real estate and includes base, percentage and straight-line rent expense.

*Restaurant Other Operating Expenses.* Restaurant other operating expenses consist of all other restaurant-level operating costs, the major components of which are utilities, dining room and to-go supplies, local store advertising, repairs and maintenance, equipment rent, property taxes, credit card fees and general liability insurance. Profit sharing incentive compensation expenses earned by our restaurant managing partners and market partners are also included in restaurant other operating expenses.

*Pre-opening Expenses.* Pre-opening expenses, which are charged to operations as incurred, consist of expenses incurred before the opening of a new or relocated restaurant and are comprised principally of opening team and training team compensation and benefits, travel expenses, rent, food, beverage and other initial supplies and expenses. On average, approximately 70% of total pre-opening costs incurred per restaurant opening relate to the hiring and training of employees. Pre-opening costs vary by location depending on many factors, including the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the availability of qualified restaurant staff members; the cost of travel and lodging for different geographic areas; the timing of the restaurant opening; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants.

*Depreciation and Amortization Expenses.* Depreciation and amortization expenses ("D&A") include the depreciation of fixed assets and amortization of intangibles with definite lives, substantially all of which relates to restaurant-level assets.

*Impairment and Closure Costs, Net.* Impairment and closure costs, net include any impairment of long-lived assets, including property and equipment, operating lease right-of-use assets and goodwill, and expenses associated with the closure of a restaurant. Closure costs also include any gains or losses associated with a relocated restaurant or the sale of a closed restaurant and/or assets held for sale as well as lease costs associated with closed or relocated restaurants.

*General and Administrative Expenses.* General and administrative expenses ("G&A") are comprised of expenses associated with corporate and administrative functions that support development and restaurant operations and provide an infrastructure to support future growth including certain advertising costs incurred. G&A also includes legal fees, settlement charges and share-based compensation expense related to executive officers, Support Center employees and market partners and the realized and unrealized holding gains and losses related to the investments in our deferred compensation plan.

*Interest Expense, Net.* Interest expense, net includes interest expense on our debt or financing obligations including the amortization of loan fees reduced by earnings on cash and cash equivalents.

*Equity Income from Unconsolidated Affiliates.* Equity income includes our percentage share of net income earned by unconsolidated affiliates and our share of any gain on the acquisition of these affiliates. As of September 27, 2022 and September 28, 2021, we owned a 5.0% to 10.0% equity interest in 23 and 24 domestic franchise restaurants, respectively. Additionally, as of September 28, 2021, we owned a 40% equity interest in two non-Texas Roadhouse restaurants as part of a joint venture agreement with a casual dining restaurant operator in China. We fully impaired our equity investment related to this joint venture in late 2021 as these restaurants closed.

*Net Income Attributable to Noncontrolling Interests.* Net income attributable to noncontrolling interests represents the portion of income attributable to the other owners of the majority-owned restaurants. Our consolidated subsidiaries include 20 majority-owned restaurants for all periods presented.

### **Q3 2022 Financial Highlights**

Total revenue increased \$124.4 million or 14.3% to \$993.3 million in Q3 2022 compared to \$868.9 million in Q3 2021 primarily due to an increase in average unit volume driven by comparable restaurant sales growth, along with an increase in store weeks. Store weeks and comparable restaurant sales increased 6.1% and 8.2%, respectively, at company restaurants in Q3 2022 compared to Q3 2021. The increase in store weeks was due to new store openings and the acquisition of franchise restaurants. The increase in comparable restaurant sales was due to increases in our per person average check along with an increase in guest traffic.

Restaurant margin dollars increased \$16.9 million or 12.5% to \$152.0 million in Q3 2022 compared to \$135.1 million in Q3 2021. Restaurant margin, as a percentage of restaurant and other sales, decreased to 15.4% in Q3 2022 compared to 15.7% in Q3 2021. The decrease in restaurant margin, as a percentage of restaurant and other sales, was due to commodity and labor inflation partially offset by higher sales.

Net income increased \$9.7 million or 18.5% to \$62.3 million in Q3 2022 compared to \$52.6 million in Q3 2021 primarily due to higher restaurant margin dollars partially offset by higher income tax expense. Diluted earnings per share increased 23.7% to \$0.93 in Q3 2022 from \$0.75 in Q3 2021 due to the increase in net income and the benefit of share repurchases.



## Results of Operations

|                                                                                              | 13 Weeks Ended     |       |                    |       | 39 Weeks Ended     |       |                    |       |
|----------------------------------------------------------------------------------------------|--------------------|-------|--------------------|-------|--------------------|-------|--------------------|-------|
|                                                                                              | September 27, 2022 |       | September 28, 2021 |       | September 27, 2022 |       | September 28, 2021 |       |
|                                                                                              | \$                 | %     | \$                 | %     | \$                 | %     | \$                 | %     |
|                                                                                              | (In thousands)     |       |                    |       | (In thousands)     |       |                    |       |
| Consolidated Statements of Income:                                                           |                    |       |                    |       |                    |       |                    |       |
| Revenue:                                                                                     |                    |       |                    |       |                    |       |                    |       |
| Restaurant and other sales                                                                   | 986,999            | 99.4  | 862,757            | 99.3  | 2,986,028          | 99.4  | 2,550,124          | 99.3  |
| Franchise royalties and fees                                                                 | 6,299              | 0.6   | 6,186              | 0.7   | 19,362             | 0.6   | 18,236             | 0.7   |
| Total revenue                                                                                | 993,298            | 100.0 | 868,943            | 100.0 | 3,005,390          | 100.0 | 2,568,360          | 100.0 |
| Costs and expenses:                                                                          |                    |       |                    |       |                    |       |                    |       |
| (As a percentage of restaurant and other sales)                                              |                    |       |                    |       |                    |       |                    |       |
| Restaurant operating costs (excluding depreciation and amortization shown separately below): |                    |       |                    |       |                    |       |                    |       |
| Food and beverage                                                                            | 342,032            | 34.7  | 298,164            | 34.6  | 1,026,469          | 34.4  | 845,150            | 33.1  |
| Labor                                                                                        | 330,219            | 33.5  | 286,593            | 33.2  | 985,132            | 33.0  | 832,776            | 32.7  |
| Rent                                                                                         | 16,703             | 1.7   | 15,089             | 1.7   | 49,785             | 1.7   | 44,497             | 1.7   |
| Other operating                                                                              | 146,036            | 14.8  | 127,769            | 14.8  | 442,714            | 14.8  | 386,754            | 15.2  |
| (As a percentage of total revenue)                                                           |                    |       |                    |       |                    |       |                    |       |
| Pre-opening                                                                                  | 5,701              | 0.6   | 6,740              | 0.8   | 15,315             | 0.5   | 17,327             | 0.7   |
| Depreciation and amortization                                                                | 33,735             | 3.4   | 31,627             | 3.6   | 101,775            | 3.4   | 94,146             | 3.7   |
| Impairment and closure, net                                                                  | 772                | NM    | 29                 | NM    | 537                | NM    | 550                | NM    |
| General and administrative                                                                   | 42,812             | 4.3   | 41,234             | 4.7   | 132,319            | 4.4   | 114,807            | 4.5   |
| Total costs and expenses                                                                     | 918,010            | 92.4  | 807,245            | 92.9  | 2,754,046          | 91.6  | 2,336,007          | 91.0  |
| Income from operations                                                                       | 75,288             | 7.6   | 61,698             | 7.1   | 251,344            | 8.4   | 232,353            | 9.0   |
| Interest expense, net                                                                        | 85                 | 0.0   | 604                | 0.1   | 877                | 0.0   | 3,039              | 0.1   |
| Equity income from investments in unconsolidated affiliates                                  | 190                | NM    | 266                | NM    | 1,069              | NM    | 288                | NM    |
| Income before taxes                                                                          | 75,393             | 7.6   | 61,360             | 7.1   | 251,536            | 8.4   | 229,602            | 8.9   |
| Income tax expense                                                                           | 11,430             | 1.2   | 7,144              | 0.8   | 35,708             | 1.2   | 31,031             | 1.2   |
| Net income including noncontrolling interests                                                | 63,963             | 6.4   | 54,216             | 6.2   | 215,828            | 7.2   | 198,571            | 7.7   |
| Net income attributable to noncontrolling interests                                          | 1,635              | 0.2   | 1,610              | 0.2   | 5,879              | 0.2   | 6,335              | 0.2   |
| Net income attributable to Texas Roadhouse, Inc. and subsidiaries                            | 62,328             | 6.3   | 52,606             | 6.1   | 209,949            | 7.0   | 192,236            | 7.5   |

NM — Not meaningful



**Reconciliation of Income from Operations to Restaurant Margin**  
(in thousands)

|                                                                   | 13 Weeks Ended     |                    | 39 Weeks Ended     |                    |
|-------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                   | September 27, 2022 | September 28, 2021 | September 27, 2022 | September 28, 2021 |
| Income from operations                                            | \$ 75,288          | \$ 61,698          | \$ 251,344         | \$ 232,353         |
| Less:                                                             |                    |                    |                    |                    |
| Franchise royalties and fees                                      | 6,299              | 6,186              | 19,362             | 18,236             |
| Add:                                                              |                    |                    |                    |                    |
| Pre-opening                                                       | 5,701              | 6,740              | 15,315             | 17,327             |
| Depreciation and amortization                                     | 33,735             | 31,627             | 101,775            | 94,146             |
| Impairment and closure, net                                       | 772                | 29                 | 537                | 550                |
| General and administrative                                        | 42,812             | 41,234             | 132,319            | 114,807            |
| Restaurant margin                                                 | <u>\$ 152,009</u>  | <u>\$ 135,142</u>  | <u>\$ 481,928</u>  | <u>\$ 440,947</u>  |
| Restaurant margin \$/store week                                   | \$ 20,001          | \$ 18,865          | \$ 21,332          | \$ 20,757          |
| Restaurant margin (as a percentage of restaurant and other sales) | 15.4%              | 15.7%              | 16.1%              | 17.3%              |

See above for the definition of restaurant margin.

**Restaurant Unit Activity**

|                                    | Total      | Texas Roadhouse | Bubba's 33 | Jaggers  |
|------------------------------------|------------|-----------------|------------|----------|
| Balance at December 28, 2021       | 667        | 627             | 36         | 4        |
| Company openings                   | 13         | 11              | 2          | —        |
| Company closings                   | —          | —               | —          | —        |
| Franchise openings - Domestic      | —          | —               | —          | —        |
| Franchise openings - International | 5          | 5               | —          | —        |
| Franchise closings                 | —          | —               | —          | —        |
| Balance at September 27, 2022      | <u>685</u> | <u>643</u>      | <u>38</u>  | <u>4</u> |

|                                             | September 27, 2022 | September 28, 2021 |
|---------------------------------------------|--------------------|--------------------|
| Company - Texas Roadhouse                   | 545                | 517                |
| Company - Bubba's 33                        | 38                 | 35                 |
| Company - Jaggers                           | 4                  | 3                  |
| Franchise - Texas Roadhouse - U.S.          | 62                 | 69                 |
| Franchise - Texas Roadhouse - International | 36                 | 30                 |
| Total                                       | <u>685</u>         | <u>654</u>         |

### Q3 2022 compared to Q3 2021 and 2022 YTD compared to 2021 YTD

*Restaurant and Other Sales.* Restaurant and other sales increased by 14.4% in Q3 2022 compared to Q3 2021 and 17.1% in 2022 YTD compared to 2021 YTD. The following table summarizes certain key drivers and/or attributes of restaurant and other sales at company restaurants for the periods presented. Company restaurant count activity is shown in the restaurant unit activity table above.

|                                                                | Q3 2022    | Q3 2021    | 2022 YTD   | 2021 YTD   |
|----------------------------------------------------------------|------------|------------|------------|------------|
| <b>Company Restaurants:</b>                                    |            |            |            |            |
| Increase in store weeks                                        | 6.1 %      | 5.2 %      | 6.3 %      | 4.8 %      |
| Increase in average unit volume                                | 7.9 %      | 29.9 %     | 10.2 %     | 38.3 %     |
| Other(1)                                                       | 0.2 %      | 1.9 %      | 0.5 %      | 2.6 %      |
| Total increase in restaurant sales                             | 14.2 %     | 37.0 %     | 17.0 %     | 45.7 %     |
| Other sales                                                    | 0.2 %      | 0.7 %      | 0.1 %      | 0.3 %      |
| Total increase in restaurant and other sales                   | 14.4 %     | 37.7 %     | 17.1 %     | 46.0 %     |
| <b>Store weeks</b>                                             |            |            |            |            |
| Store weeks                                                    | 7,600      | 7,164      | 22,592     | 21,244     |
| Comparable restaurant sales                                    | 8.2 %      | 30.2 %     | 10.5 %     | 39.5 %     |
| <b>Texas Roadhouse restaurants:</b>                            |            |            |            |            |
| Store weeks                                                    | 7,062      | 6,675      | 21,004     | 19,843     |
| Comparable restaurant sales                                    | 8.2 %      | 30.6 %     | 10.4 %     | 39.2 %     |
| Average unit volume (in thousands)                             | \$ 1,705   | \$ 1,578   | \$ 5,240   | \$ 4,752   |
| <b>Weekly sales by group:</b>                                  |            |            |            |            |
| Comparable restaurants (511, 485, 499 and 473 units)           | \$ 131,378 | \$ 121,633 | \$ 134,565 | \$ 122,629 |
| Average unit volume restaurants (23, 18, 20 and 18 units)(2)   | \$ 125,421 | \$ 118,703 | \$ 129,283 | \$ 103,792 |
| Restaurants less than six months old (11, 14, 26 and 26 units) | \$ 143,801 | \$ 128,001 | \$ 136,358 | \$ 124,110 |
| <b>Bubba's 33 restaurants:</b>                                 |            |            |            |            |
| Store weeks                                                    | 486        | 449        | 1,433      | 1,284      |
| Comparable restaurant sales                                    | 6.2 %      | 25.6 %     | 11.6 %     | 46.9 %     |
| Average unit volume (in thousands)                             | \$ 1,395   | \$ 1,281   | \$ 4,243   | \$ 3,797   |
| <b>Weekly sales by group:</b>                                  |            |            |            |            |
| Comparable restaurants (31, 28, 30 and 25 units)               | \$ 104,669 | \$ 99,768  | \$ 108,692 | \$ 100,531 |
| Average unit volume restaurants (5, 3, 4 and 5 units)(2)       | \$ 123,760 | \$ 86,993  | \$ 109,656 | \$ 81,559  |
| Restaurants less than six months old (2, 4, 4 and 5 units)     | \$ 95,312  | \$ 140,011 | \$ 126,600 | \$ 114,347 |

- (1) Includes the impact of the year-over-year change in sales volume of all Jaggers restaurants, along with Texas Roadhouse and Bubba's 33 restaurants open less than six months before the beginning of the period measured and, if applicable, the impact of restaurants permanently closed during the period.
- (2) Average unit volume includes restaurants open a full six and up to 18 months before the beginning of the period measured, excluding sales from restaurants permanently closed during the period, if applicable.

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The increase in restaurant sales for Q3 2022 and 2022 YTD is primarily due to an increase in average unit volume, driven by an increase in comparable restaurant sales, along with an increase in store weeks driven by the opening of new restaurants and the acquisition of franchise restaurants. Comparable restaurant sales growth for both periods presented was driven primarily by increases in our per person average check as shown in the table below.

|                                    | <u>Q3 2022</u> | <u>Q3 2021</u> | <u>2022 YTD</u> | <u>2021 YTD</u> |
|------------------------------------|----------------|----------------|-----------------|-----------------|
| Guest traffic counts               | 0.5 %          | 23.6 %         | 2.2 %           | 29.1 %          |
| Per person average check           | 7.7 %          | 6.6 %          | 8.3 %           | 10.4 %          |
| Comparable restaurant sales growth | <u>8.2 %</u>   | <u>30.2 %</u>  | <u>10.5 %</u>   | <u>39.5 %</u>   |

The increase in Q3 2022 guest traffic counts was due to an increase in dining room traffic partially offset by a decrease in to-go traffic. The increase in 2022 YTD guest traffic counts was primarily driven by all of our company locations operating without capacity restrictions for the entire 2022 YTD period. To-go sales as a percentage of restaurant sales were 12.6% for Q3 2022 and 13.5% for 2022 YTD compared to 15.1% for Q3 2021 and 18.0% for 2021 YTD.

Per person average check includes the benefit of menu price increases of approximately 3.2% implemented in Q2 2022 as well as increases of 4.2% and 1.8% implemented in Q4 2021 and Q2 2021, respectively. We also implemented a menu price increase of 2.9% in early Q4 2022.

In 2022 YTD, we opened 13 company restaurants and acquired eight franchise restaurants. As of September 27, 2022, an additional 15 restaurants were under construction. In 2022, we plan to open as many as 23 Texas Roadhouse and Bubba's 33 company restaurants. In addition, we opened one Jagers company restaurant in Q4 2022. In 2022, we expect store week growth of approximately 6% across all concepts, including the impact of the eight franchise restaurants acquired at the beginning of the year.

In 2023, we plan to open approximately 30 Texas Roadhouse and Bubba's 33 company restaurants and three Jagers company restaurants. We currently expect store week growth of approximately 5% across all concepts, excluding the impact of potential franchise acquisitions.

Other sales primarily represents the net impact of the amortization of third party gift card fees and gift card breakage income. Other sales was \$3.4 million in Q3 2022 and \$2.1 million in Q3 2021 as breakage income exceeded the amortization of third party gift card fees in both periods. The change was driven by favorable adjustments of \$6.6 million and \$4.8 million recorded in Q3 2022 and Q3 2021, respectively. These adjustments related to a change in our estimate of breakage due to a shift in our historic redemption patterns which indicated that the percentage of gift cards sold that are not expected to be redeemed had increased. This shift in redemption patterns is primarily due to the increase in sales through our third party gift card program. As a result, we adjusted our expected breakage assumptions on unredeemed gift cards.

Other sales was (\$6.1) million in 2022 YTD and (\$5.6) million in 2021 YTD as the amortization of third party gift card fees exceeded breakage income. The change in other sales was driven by an increase in amortization of third party fees due to an increase in sales through our third party gift card program.

*Franchise Royalties and Fees.* Franchise royalties and fees increased by \$0.1 million, or by 1.8%, in Q3 2022 compared to Q3 2021 and increased by \$1.1 million, or by 6.2%, in 2022 YTD compared to 2021 YTD. The increase in both periods was due to higher average unit volume, driven by comparable restaurant sales growth and new store openings. Franchise comparable restaurant sales increased 7.6% and 11.7% in Q3 2022 and 2022 YTD, respectively. These increases were partially offset by decreased royalties related to the eight franchise restaurants that were acquired.

In 2022 YTD, our existing franchise partners opened five international Texas Roadhouse restaurants and we anticipate that they will open as many as eight international restaurants in 2022. In 2023, we expect as many as nine Texas Roadhouse international and domestic franchise openings and three Jagers domestic franchise openings.

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*Food and Beverage Costs.* Food and beverage costs, as a percentage of restaurant and other sales, increased to 34.7% in Q3 2022 compared to 34.6% in Q3 2021 and increased to 34.4% in 2022 YTD compared to 33.1% in 2021 YTD. The increase in both periods was primarily due to commodity inflation partially offset by the benefit of a higher guest check. Commodity inflation was 8.8% and 12.4% in Q3 2022 and 2022 YTD, respectively, with higher costs across the basket.

For 2022, we currently expect commodity inflation of approximately 10.5% for the year with prices locked for approximately 70% of our remaining forecasted costs and the remainder subject to floating market prices. For 2023, we currently expect commodity cost inflation of 5% to 6%.

*Restaurant Labor Expenses.* Restaurant labor expenses, as a percentage of restaurant and other sales, increased to 33.5% in Q3 2022 compared to 33.2% in Q3 2021 and increased to 33.0% in 2022 YTD compared to 32.7% in 2021 YTD. The increase in both periods was primarily due to wage and other labor inflation of 7.7% and 7.4% in Q3 2022 and 2022 YTD, respectively. Wage and other labor inflation is driven by higher wage and benefit expense driven by labor market pressures along with increases in state-mandated minimum and tipped wage rates and increased investment in our people. In addition, a higher mix of dining room sales versus to-go sales also contributed to the increase. The increases in both periods were partially offset by the benefit of a higher guest check. We also benefited from a decrease in group insurance and workers' compensation expense due to favorable claims experience of \$2.7 million and \$6.1 million in Q3 2022 and 2022 YTD, respectively, as compared to the prior year periods.

For 2022, we anticipate our labor costs will be pressured by wage and other labor inflation of approximately 8% driven by labor market pressures, increases in state-mandated minimum and tipped wage rates, and increased investment in our people. For 2023, we anticipate our labor costs will be pressured by wage and other labor inflation of 5% to 6%.

*Restaurant Rent Expense.* Restaurant rent expense, as a percentage of restaurant and other sales, remained flat at 1.7% in all periods presented. The increase in average unit volume was offset by higher rent expense, as a percentage of restaurant and other sales, at our newer restaurants.

*Restaurant Other Operating Expenses.* Restaurant other operating expenses, as a percentage of restaurant and other sales, remained flat at 14.8% in Q3 2022 compared to Q3 2021 and decreased to 14.8% in 2022 YTD compared to 15.2% in 2021 YTD. The YTD decrease was primarily due to the increase in average unit volume and lower supplies and bonus expense partially offset by higher credit card charges and repair and maintenance costs. We also benefited from a decrease in general liability insurance expense due to favorable claims experience of \$1.2 million in Q3 2022, as compared to the prior year period.

*Pre-opening Expenses.* Pre-opening expenses were \$5.7 million in Q3 2022 compared to \$6.7 million in Q3 2021 and \$15.3 million in 2022 YTD compared to \$17.3 million in 2021 YTD. Pre-opening costs will fluctuate from quarter to quarter based on the specific pre-opening costs incurred for each restaurant, the number and timing of restaurant openings and the number and timing of restaurant managers hired.

*Depreciation and Amortization Expense.* D&A, as a percentage of total revenue, decreased to 3.4% in Q3 2022 compared to 3.6% in Q3 2021 and decreased to 3.4% in 2022 YTD compared to 3.7% in 2021 YTD. The decrease in both periods was primarily due to the increase in average unit volume partially offset by higher depreciation at new restaurants and increased amortization of intangible assets.

*Impairment and Closure Costs, Net.* Impairment and closure costs, net was \$0.8 million in Q3 2022 and was not significant in Q3 2021 and was \$0.5 million in 2022 YTD and \$0.6 million in 2021 YTD. For Q3 2022, impairment and closure costs, net included the impairment of an operating lease right-of-use asset at a restaurant that is currently scheduled to be relocated in Q4 2022. For 2022 YTD, impairment and closure costs, net included this impairment, an impairment of an operating right-of-use asset recorded in Q2 2022 as well as a gain of \$0.7 million associated with the sale of land and building that was previously classified as assets held for sale. For 2021 YTD, impairment and closure costs, net included the impairment of land and building at a site that was relocated and was classified as assets held for sale.

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*General and Administrative Expenses.* G&A, as a percentage of total revenue, decreased to 4.3% in Q3 2022 compared to 4.7% in Q3 2021 and decreased to 4.4% in 2022 YTD compared to 4.5% in 2021 YTD. For Q3 2022, the decrease was primarily driven by the increase in average unit volume and a decrease in our managing partner conference expense partially offset by increased incentive compensation. The decrease in managing partner conference expense was driven by a favorable adjustment to our 2022 managing partner conference, which was held in Q2 2022, of \$2.5 million that was recorded in Q3 2022 as well as lapping our 2021 managing partner conference, which was held in Q3 2021, and totaled \$2.9 million. For 2022 YTD, the decrease was primarily driven by the increase in the average unit volume and lower legal settlement expense partially offset by increased managing partner conference expense and meeting and travel expense.

*Interest Expense, Net.* Interest expense, net was \$0.1 million and \$0.6 million in Q3 2022 and Q3 2021, respectively, and was \$0.9 million and \$3.0 million in 2022 YTD and 2021 YTD, respectively. The decrease in both periods was primarily driven by decreased borrowings on our amended revolving credit facility as well as increased earnings on cash and cash equivalents.

*Equity Income from Unconsolidated Affiliates.* Equity income was \$0.2 million in Q3 2022 compared to \$0.3 million in Q3 2021. Equity income was \$1.1 million in 2022 YTD and \$0.3 million in 2021 YTD. The YTD fluctuation was driven by a gain on the acquisition of one of these affiliates recorded in Q2 2022 as well as an impairment charge of \$0.5 million recorded in Q1 2021 related to our investment in a joint venture in China.

*Income Tax Expense.* Our effective tax rate increased to 15.2% in Q3 2022 compared to 11.6% in Q3 2021 and was 14.2% in 2022 YTD compared to 13.5% in 2021 YTD. The increase in our tax rate for Q3 2022 as compared to Q3 2021 was primarily driven by the lapping of favorable adjustments to FICA Tip and Work Opportunity tax credit benefits and a decrease in the tax benefit for stock compensation. The increase in our tax rate for 2022 YTD as compared to 2021 YTD was primarily driven by a decrease in the tax benefit for stock compensation partially offset by an increase in FICA Tip and Work Opportunity tax credits. For 2022, we expect our effective tax rate to be approximately 14%, excluding the impact of any legislative changes enacted. For 2023, we expect our effective tax rate to be approximately 15%, excluding the impact of any legislative changes enacted.

## **Segment Information**

We manage our restaurant and franchising operations by concept and as a result have identified Texas Roadhouse, Bubba's 33, Jagers, and our retail initiatives as separate operating segments. Our reportable segments are Texas Roadhouse and Bubba's 33. The Texas Roadhouse reportable segment includes the results of our domestic company Texas Roadhouse restaurants and domestic and international franchise Texas Roadhouse restaurants. The Bubba's 33 reportable segment includes the results of our domestic company Bubba's 33 restaurants. Our remaining operating segments, which include the results of our domestic company Jagers restaurants and the results of our retail initiatives, are included in Other.

Management uses restaurant margin as the measure for assessing performance of our segments. Restaurant margin (in dollars and as a percentage of restaurant and other sales) represents restaurant and other sales less restaurant-level operating costs, including food and beverage costs, labor, rent and other operating costs. Restaurant margin also includes sales and operating costs related to our non-royalty based retail initiatives. Restaurant margin is used by our chief operating decision maker to evaluate restaurant-level operating efficiency and performance. A reconciliation of income from operations to restaurant margin is included in the Results of Operations section above.

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The following table presents a summary of restaurant margin by segment (in thousands):

|                 | 13 Weeks Ended     |        |                    |        |
|-----------------|--------------------|--------|--------------------|--------|
|                 | September 27, 2022 |        | September 28, 2021 |        |
| Texas Roadhouse | \$ 146,137         | 15.7 % | \$ 127,802         | 15.7 % |
| Bubba's 33      | 5,625              | 10.8   | 7,419              | 16.1   |
| Other           | 247                | 7.4    | (79)               | (3.4)  |
| Total           | \$ 152,009         | 15.4 % | \$ 135,142         | 15.7 % |

|                 | 39 Weeks Ended     |        |                    |        |
|-----------------|--------------------|--------|--------------------|--------|
|                 | September 27, 2022 |        | September 28, 2021 |        |
| Texas Roadhouse | \$ 460,655         | 16.3 % | \$ 418,141         | 17.3 % |
| Bubba's 33      | 20,993             | 13.3   | 21,964             | 17.3   |
| Other           | 280                | 2.9    | 842                | 10.9   |
| Total           | \$ 481,928         | 16.1 % | \$ 440,947         | 17.3 % |

For our Texas Roadhouse reportable segment, restaurant margin dollars increased \$18.3 million or 14.3% in Q3 2022 and increased \$42.5 million or 10.2% in 2022 YTD. The increase in both periods was primarily due to higher sales which were offset by commodity and labor inflation. In addition, restaurant margin, as a percentage of restaurant and other sales, remained flat at 15.7% in Q3 2022 and Q3 2021 and decreased to 16.3% in 2022 YTD from 17.3% in 2021 YTD. Restaurant margin in both periods was negatively impacted by commodity and labor inflation which was offset by the benefit of an increase in comparable restaurant sales.

For our Bubba's 33 reportable segment, restaurant margin dollars decreased \$1.8 million or 24.2% in Q3 2022 and decreased \$1.0 million or 4.4% in 2022 YTD. In addition, restaurant margin, as a percentage of restaurant and other sales, decreased to 10.8% in Q3 2022 from 16.1% in Q3 2021 and decreased to 13.3% in 2022 YTD from 17.3% in 2021 YTD. The decrease in both periods was primarily driven by commodity and labor inflation which was offset by the benefit of an increase in comparable restaurant sales.

### Liquidity and Capital Resources

The following table presents a summary of our net cash provided by (used in) operating, investing and financing activities (in thousands):

|                                                      | 39 Weeks Ended     |                    |
|------------------------------------------------------|--------------------|--------------------|
|                                                      | September 27, 2022 | September 28, 2021 |
| Net cash provided by operating activities            | \$ 395,057         | \$ 348,709         |
| Net cash used in investing activities                | (195,607)          | (133,413)          |
| Net cash used in financing activities                | (349,780)          | (141,888)          |
| Net (decrease) increase in cash and cash equivalents | \$ (150,330)       | \$ 73,408          |

Net cash provided by operating activities was \$395.1 million in 2022 YTD compared to \$348.7 million in 2021. This increase was primarily due to an increase in net income, non-cash items such as depreciation and amortization and a favorable increase in working capital.

Our operations have not required significant working capital and, like many restaurant companies, we have been able to operate with negative working capital, if necessary. Sales are primarily for cash, and restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverages and supplies, thereby reducing the need for incremental working capital to support growth.

Net cash used in investing activities was \$195.6 million in 2022 YTD compared to \$133.4 million in 2021. The increase was due to the acquisition of eight franchise restaurants for a net purchase price of \$33.1 million as well as an increase in capital expenditures, driven by an increase in new company restaurants and refurbishments and relocations of existing restaurants.

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We require capital principally for the development of new company restaurants, the refurbishment or relocation of existing restaurants and the acquisition of franchise restaurants, if any. We either lease our restaurant site locations under operating leases for periods of five to 30 years (including renewal periods) or purchase the land when appropriate. As of September 27, 2022, we had developed 148 of the 587 company restaurants on land that we own.

The following table presents a summary of capital expenditures (in thousands):

|                                                       | 39 Weeks Ended     |                    |
|-------------------------------------------------------|--------------------|--------------------|
|                                                       | September 27, 2022 | September 28, 2021 |
| New company restaurants                               | \$ 99,249          | \$ 79,200          |
| Refurbishment or expansion of existing restaurants    | 60,404             | 50,154             |
| Relocation of existing restaurants                    | 11,965             | 5,880              |
| Capital expenditures related to Support Center office | 2,576              | 3,767              |
| Total capital expenditures                            | \$ 174,194         | \$ 139,001         |

Our future capital requirements will primarily depend on the number and mix of new restaurants we open, the timing of those openings and the restaurant prototype developed in a given fiscal year. These requirements will include costs directly related to opening new restaurants or relocating existing restaurants and may also include costs necessary to ensure that our infrastructure is able to support a larger restaurant base. In 2022, we expect our capital expenditures to be approximately \$230 million and we currently plan to open as many as 23 Texas Roadhouse and Bubba's 33 restaurants. We intend to satisfy our capital requirements over the next 12 months with cash on hand, net cash provided by operating activities and, if needed, funds available under our amended revolving credit facility. For 2022, net cash provided by operating activities should exceed capital expenditures, which we plan to use, along with cash on hand, to pay dividends, repurchase common stock, pay down our amended revolving credit facility and acquire franchise restaurants, if applicable. In 2023, we expect our capital expenditures to be approximately \$265 million.

As of September 27, 2022, the estimated cost of completing capital project commitments over the next 12 months was approximately \$155.3 million. See note 6 to the unaudited condensed consolidated financial statements for a discussion of contractual obligations.

Net cash used in financing activities was \$349.8 million in 2022 YTD compared to \$141.9 million in 2021. The increase is primarily due to the resumption of, and significant increase in, share repurchases as well as the reinstatement of our quarterly dividend payment in Q2 2021. These increases were partially offset by a decrease in repayments made on our amended revolving credit facility.

On August 2, 2021, the Company resumed the share repurchase program that had been suspended at the onset of the pandemic. On March 17, 2022, the Board approved a stock repurchase program under which we may repurchase up to \$300.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on May 31, 2019. All repurchases to date under our stock repurchase programs have been made through open market transactions. The timing and the amount of any repurchases will be determined by management under parameters established by the Board, based on an evaluation of our stock price, market conditions and other corporate considerations.

For the 13 week period ended September 27, 2022, we did not repurchase any shares of our common stock. For the 39 week period ended September 27, 2022, we paid \$212.9 million to repurchase 2,734,005 shares of our common stock. This includes \$133.1 million repurchased under our current authorized stock repurchase program and \$79.7 million repurchased under our prior authorization. For both the 13 and 39 week periods ended September 28, 2021, we paid \$14.7 million to repurchase 161,034 shares of our common stock. As of September 27, 2022, \$166.9 million remained under our authorized stock repurchase program.

On April 28, 2021, the Board reinstated the payment of a quarterly cash dividend. This was the first dividend since the Board voted to suspend the payment of quarterly cash dividends at the onset of the pandemic. On February 17, 2022, our Board authorized the payment of a quarterly cash dividend of \$0.46 per share of common stock. The payment of these quarterly dividends totaled \$93.3 million and \$55.8 million in 2022 YTD and 2021 YTD, respectively.



We paid distributions of \$5.8 million and \$6.4 million to equity holders of our majority-owned company restaurants in 2022 YTD and 2021 YTD, respectively.

On May 4, 2021, we entered into an agreement to amend our revolving credit facility with a syndicate of commercial lenders led by JPMorgan Chase Bank, N.A. and PNC Bank, N.A. The amended revolving credit facility remains an unsecured, revolving credit agreement and has a borrowing capacity of up to \$300.0 million with the option to increase by an additional \$200.0 million subject to certain limitations, including approval by the syndicate of lenders. The amendment also extended the maturity date to May 1, 2026.

The terms of the amendment require us to pay interest on outstanding borrowings at LIBOR plus a margin of 0.875% to 1.875% and pay a commitment fee of 0.125% to 0.30% per year on any unused portion of the amended revolving credit facility, in each case depending on our leverage ratio. The amendment also provides an Alternate Base Rate that may be substituted for LIBOR.

As of September 27, 2022, we had \$75.0 million outstanding on the amended revolving credit facility and \$213.3 million of availability, net of \$11.7 million of outstanding letters of credit. As of December 28, 2021, we had \$100.0 million outstanding on the amended revolving credit facility and \$189.1 million of availability, net of \$10.9 million of outstanding letters of credit. These outstanding amounts are included as long-term debt on our unaudited condensed consolidated balance sheets.

The weighted-average interest rate for the \$75.0 million of borrowings outstanding as of September 27, 2022 was 3.69%. The weighted-average interest rate for the \$190.0 million of borrowings outstanding as of September 28, 2021 was 0.96%.

The lenders' obligation to extend credit pursuant to the amended revolving credit facility depends on us maintaining certain financial covenants. We were in compliance with all financial covenants as of September 27, 2022.

#### **Guarantees**

As of September 27, 2022 and December 28, 2021, we are contingently liable for \$11.5 million and \$12.2 million, respectively, for seven lease guarantees. These amounts represent the maximum potential liability of future payments under the guarantees. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of September 27, 2022 and December 28, 2021 as the likelihood of default was deemed to be less than probable and the fair value of the guarantees is not considered significant.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from changes in interest rates on variable rate debt and changes in commodity prices. Our exposure to interest rate fluctuations is limited to our outstanding bank debt. The terms of the amended revolving credit facility require us to pay interest on outstanding borrowings at London Interbank Offering Rate ("LIBOR") plus a margin of 0.875% to 1.875% and pay a commitment fee of 0.125% to 0.30% per year on any unused portion of the revolving credit facility, in each case depending on our leverage ratio. The amended revolving credit facility also provides an Alternate Base Rate that may be substituted for LIBOR. As of September 27, 2022, we had \$75.0 million outstanding on our amended credit agreement. This outstanding amount is included as long-term debt on our unaudited condensed consolidated balance sheets.

The weighted-average interest rate for the \$75.0 million outstanding on our amended revolving credit facility as of September 27, 2022 was 3.69%. Should interest rates based on these variable rate borrowings increase by one percentage point, our estimated annual interest expense would increase by \$0.8 million.

In an effort to secure high quality, low-cost ingredients used in the products sold in our restaurants, we employ various purchasing and pricing contract techniques. When purchasing certain types of commodities, we may be subject



to prevailing market conditions resulting in unpredictable price volatility. For certain commodities, we may also enter into contracts for terms of one year or less that are either fixed price agreements or fixed volume agreements where the price is negotiated with reference to fluctuating market prices. We currently do not use financial instruments to hedge commodity prices, but we will continue to evaluate their effectiveness. Extreme and/or long-term increases in commodity prices could adversely affect our future results, especially if we are unable, primarily due to competitive reasons, to increase menu prices. Additionally, if there is a time lag between the increasing commodity prices and our ability to increase menu prices or if we believe the commodity price increase to be short in duration and we choose not to pass on the cost increases, our short-term financial results could be negatively affected.

We are subject to business risk as our beef supply is highly dependent upon four vendors. To date, we have been able to properly manage any supply shortages but have experienced increased costs. If these vendors are unable to fulfill their obligations under their contracts, we may encounter further supply shortages and/or higher costs to secure adequate supply and a possible loss of sales, any of which would harm our business.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to, and as defined in, Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of our management, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of September 27, 2022.

##### **Changes in Internal Control**

During the 13 weeks ended September 27, 2022, the Company implemented a significant update to the general ledger and accounting system. This update caused a change to certain processes and procedures that affected the Company's internal control over financial reporting. While management believes the Company's internal control over financial reporting for affected processes and procedures are effective, management will continue to evaluate and monitor these changes and assess the effectiveness of our internal control over financial reporting as of the end of our fiscal year.

Except for the changes noted above, there were no other changes in the Company's internal control over financial reporting that occurred during the 13 weeks ended September 27, 2022 that materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Occasionally, we are a defendant in litigation arising in the ordinary course of our business, including "slip and fall" accidents, employment related claims, claims related to our service of alcohol, and claims from guests or employees alleging illness, injury or food quality, health or operational concerns. None of these types of litigation, most of which are covered by insurance, has had a material adverse effect on us during the periods covered by this report and, as of the date of this report, we are not party to any litigation that we believe could have a material adverse effect on our business.

### **ITEM 1A. RISK FACTORS**

Information regarding risk factors appears in our Annual Report on Form 10-K for the year ended December 28, 2021, under the heading "Special Note Regarding Forward-looking Statements" and in the Form 10-K Part I, Item 1A, Risk Factors. There have been no material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 28, 2021.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On March 17, 2022, our Board of Directors (the "Board") approved a stock repurchase program which authorized us to repurchase up to \$300.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on May 31, 2019. The previous program authorized us to repurchase up to \$250.0 million of our common stock and did not have an expiration date. All repurchases to date under our stock repurchase programs have been made through open market transactions. The timing and the amount of any repurchases through this program will be determined by management under parameters established by the Board, based on an evaluation of our stock price, market conditions and other corporate considerations.

For the 13 week period ended September 27, 2022, we did not repurchase any shares of our common stock. For the 39 week period ended September 27, 2022, we paid \$212.9 million to repurchase 2,734,005 shares of our common stock. This includes \$133.1 million repurchased under our current authorized stock repurchase program and \$79.7 million repurchased under our prior authorization. For both the 13 and 39 week periods ended September 28, 2021, we paid \$14.7 million to repurchase 161,034 shares of our common stock. As of September 27, 2022, \$166.9 million remained authorized for stock repurchases.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                     |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1               | <a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>                                                 |
| 31.2               | <a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>                                                 |
| 32.1               | <a href="#">Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>  |
| 32.2               | <a href="#">Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>  |
| 101.INS            | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH            | Inline XBRL Taxonomy Extension Schema Document                                                                                                                         |
| 101.CAL            | Inline XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                           |
| 101.DEF            | Inline XBRL Taxonomy Extension Definition Linkbase Document                                                                                                            |
| 101.LAB            | Inline XBRL Taxonomy Extension Label Linkbase Document                                                                                                                 |
| 101.PRE            | Inline XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                          |
| 104                | Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)                                                                               |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEXAS ROADHOUSE, INC.

Date: November 4, 2022

By: /s/ GERALD L. MORGAN

\_\_\_\_\_  
Gerald L. Morgan  
Chief Executive Officer and President  
(principal executive officer)

Date: November 4, 2022

By: /s/ TONYA R. ROBINSON

\_\_\_\_\_  
Tonya R. Robinson  
Chief Financial Officer  
(principal financial officer)  
(principal accounting officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT**

I, Gerald L. Morgan, certify that:

1. I have reviewed this report on Form 10-Q of Texas Roadhouse, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ GERALD L. MORGAN

Gerald L. Morgan  
Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT**

I, Tonya R. Robinson, certify that:

1. I have reviewed this report on Form 10-Q of Texas Roadhouse, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ TONYA R. ROBINSON

Tonya R. Robinson  
Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350**

I, Gerald L. Morgan, Chief Executive Officer of Texas Roadhouse, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 27, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2022

By: /s/ GERALD L. MORGAN

Gerald L. Morgan  
Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350**

I, Tonya R. Robinson, Chief Financial Officer of Texas Roadhouse, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 27, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2022

By: /s/ TONYA R. ROBINSON

Tonya R. Robinson  
Chief Financial Officer