

Dine Brands Global, Inc. (DIN) Q1 2026 Earnings Call Transcript

May 06, 2026, 3:31 PM ET | Dine Brands Global, Inc. (DIN) Stock



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Q1: 2026-05-06 Earnings Summary

Insights



EPS of \$1.07 **beats by \$0.07** | Revenue of \$225.20M (4.85% Y/Y) **beats by \$2.82M**

Dine Brands Global, Inc. (DIN) Q1 2026 Earnings Call May 6, 2026 11:00 AM EDT

Company Participants

Matthew Lee - Senior Vice President of Finance & Investor Relations

John Peyton - CEO, Applebee's President & Director

Vance Chang - Chief Financial Officer

Lawrence Kim - President of IHOP

Conference Call Participants

Jeffrey Bernstein - Barclays Bank PLC, Research Division

Nerses Setyan - Mizuho Securities USA LLC, Research Division

Dennis Geiger - UBS Investment Bank, Research Division

Allison Arfstrom - Piper Sandler & Co., Research Division

Todd Brooks - The Benchmark Company, LLC, Research Division

Brian Vaccaro - Raymond James & Associates, Inc., Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Dine Brands First Quarter 2026 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your host, Matt Lee, Senior Vice President, Finance and Investor Relations. Please go ahead, sir.

Matthew Lee

Senior Vice President of Finance & Investor Relations

Good morning, and welcome to Dine Brands Global's First Quarter Fiscal 2026 Conference Call. This morning's call will include prepared remarks from John Peyton, CEO and President of Applebee's; and Vance Chang, CFO. Following those prepared remarks, Lawrence Kim, President of IHOP, will also be available, along with John and Vance to address questions during the Q&A portion of the call.

Please remember our safe harbor regarding forward-looking information. During the call, management will discuss information that is forward-looking and involves known and unknown risks, uncertainties and other factors, which may cause the actual results to be different than those expressed or implied. Please evaluate the forward-looking information in the context of these factors, which are detailed in today's press release and 10-Q filing. The forward-looking statements are as of today, and we assume no obligation to update or supplement these statements.

We will refer to certain non-GAAP financial measures, which are described in our press release and available on Dine Brands' Investor Relations website.

With that, it's my pleasure to turn the call over to Dine Brands' CEO, John Peyton.

John Peyton

CEO, Applebee's President & Director

Good morning, everyone, and thanks for joining us. Today, I'll walk through Dine's Q1 results and share insights on consumer behavior as well as our brand's performance in the current environment. And then I'll hand it over to Vance for a deeper dive into our financials.

We started the year building upon the momentum from last quarter, achieving flat to positive sales growth across all 3 brands for the first time in several years. This performance reflects progress against our key priorities, which include enhancing the guest experience through operational improvements, strengthening and simplifying our marketing to better connect with guests, particularly through more targeted culturally relevant engagement and advancing menu innovation and everyday value platforms to meet evolving consumer needs.

As the quarter progressed, the operating environment became more dynamic and in many ways, more challenging as inflation for food away from home and higher gas prices put a strain on households. With consumer sentiment declining to historically low levels, discretionary spending has become harder to justify, prompting some guests to more carefully evaluate lower-cost alternatives across restaurants, grocery and other food channels. We're seeing the most pressure on lower-income consumers. And as a result, this is driving greater focus on offerings that combine compelling price points with quality, abundance and differentiated experiences like Applebee's 2 for \$25 platform and IHOP's everyday value menu.

Against this backdrop, the importance of our strategy and the relevance of our brands becomes even more central to our performance. We operate scaled, well-recognized brands built around value and everyday occasions and offering experiences that can't be easily replicated at home, delivered at an accessible price point. This remains a strength of our business even within a more challenging landscape. And while we recognize there's more work to do to strengthen our financial performance this year, we are pleased with our first quarter sales performance and believe our focus on value, cultural relevance and disciplined execution positions us well to compete and deliver sustainable results.

So I'll turn now to our key financial highlights for the quarter. All of our brands outperformed Black Box on comp sales. Applebee's reported a 1.9% increase in comp sales and IHOP posted flat comps despite weather impacting Applebee's by 94 basis points and IHOP by 80 basis points in the quarter. Our EBITDA was \$50.8 million compared to \$54.7 million in the same quarter last year. Our decreased profitability reflects our investments in our dual brands and company-owned portfolio initiatives, and we expect these current investments to create value over the long term. And last, we returned \$24 million of capital back to shareholders. Overall, our results reflect the balance between continued investment in the business and solid top line performance across the portfolio.

And now with that, I'll share some updates across our portfolio, starting with Applebee's. Building on our sales momentum from 2025, Applebee's posted positive comp sales in the first quarter, outperforming Black Box. The continued focus of our 2 for \$25 value platform and new menu innovation serves our primary sales drivers as these initiatives continue to resonate with our guests. Our strategy this quarter remained consistent, communicating new menu innovation through the high-impact targeted marketing and maintaining strong execution in the restaurants. Rather than relying on broad-based campaigns, we're leaning into our 2 for \$25 value platform and demand-led activations tied to cultural moments, allowing us to connect more efficiently and compete more effectively for share of wallet.

The O-M-Cheese Burger launch is an example of our value strategy in action. Since its introduction in January, the burger has driven high interest and engagement, supported by its compelling \$11.99 price point and inclusion on our 2 for \$25 value platform. In just a few months, it became the highest ordered burger on that platform, reinforcing Applebee's everyday value positioning. Because O-M-Cheese Burger launched in time for Valentine's Day, we further pushed our 2 for platform to deliver an affordable yet experiential date night occasion.

The O-M-Cheese Burger news generated more than 9 billion impressions, reached 96 million people on social media and sparked nearly 80x more organic reviews than typical campaigns. By providing guests with incredible value during this seasonal moment, it drove the highest single day sales volume in Applebee's history with the full week ranking among the top 5 sales weeks ever. Across digital channels, off-premise comp sales increased approximately 3.5% in the quarter, supported by third-party delivery and targeted promotions tied to key occasions like the Super Bowl and the NCAA basketball tournament.

From an operations standpoint, our strategy is centered around driving excellence through simplicity, focus and accountability. We are implementing initiatives that simplify kitchen operations, increase manager presence in the dining room and improve off-premise order accuracy. In fact, during the quarter, manager visibility contributed to higher guest satisfaction scores as reflected in improved guest surveys and Google review scores. As part of these efforts, we're also preparing for a system-wide launch of a new Toast point-of-sale platform. We expect this to meaningfully increase beverage order incidences, reduce voids and increase tips while providing better data and tools for our teams.

Collectively, these efforts position us to operate more efficiently and support long-term growth. And while April sales have softened against tougher prior year comps, our focus on value, targeted marketing and operational discipline will support our performance in a dynamic environment.

And now turning to IHOP. For the second consecutive quarter, IHOP outperformed Black Box in both sales and traffic, and that's in a category where traffic remains under pressure. This reflects the brand's focus on great value, product innovation, culture-driven marketing and an improved guest experience, all of which are helping to build momentum. Comp sales were primarily supported by check improvement as we balanced IHOP's everyday value menu with increased awareness of premium offerings. Breakfast combos tied to our bottomless Pancakes campaign performed well alongside limited time offerings, including this quarter's featured spotlight stack, New York Cheesecake Pancakes.

This approach continues in Q2 with the promotion of IHOP's signature Stuffed 'N Stacked Omelettes, including the new Bold Barbecue Pulled Pork Omelette and the launch of a new proprietary coffee blend, the first new coffee introduced at IHOP in almost 20 years. IHOP continued to see momentum in off-premise with comp sales increasing 2.6% year-over-year, largely driven by incremental third-party delivery volume. Beyond driving comp sales, third-party channels enhance brand visibility and enable engagement with guests across multiple channels. Off-premise represents 22% of sales with continued opportunity across delivery, digital ordering and emerging areas like catering.

And while early, we're already seeing an approximately 16% improvement in comp sales in catering, and we've made targeted investments over the past year in digital ordering, packaging and local store marketing to further support the catering channel. IHOP's differentiated breakfast offering translates well to group occasions, and we're seeing meaningful upside on this channel as it continues to scale.

Beyond expanding how guests access the brand, we're also focused on how to connect with them. We're showing up in culturally relevant moments that have resulted in incredible buzz for IHOP, allowing us to engage with new fans and consumers. Initiatives like National Pancake Day and the Bottomless Pancake campaign with NFL star Malik Nabers have been successful in driving engagement and keeping the brand top of mind with guests. During National Pancake Day, we saw a 316% year-over-year increase in engagement across social channels, demonstrating the effectiveness of our investments to reach a broader audience.

Underpinning all of this is a relentless focus on operational excellence and the guest experience. Speed is progressively improving with table turns that are approximately 6% faster than they were in Q4. Guest complaints are down year-over-year, reflecting strong execution and consistency across the system, while investments in our new POS and handhelds continue to enhance order accuracy and efficiency in our restaurants. Overall, IHOP continues to deliver steady performance in a challenging environment with April sales holding steady behind our value menu and barbell strategy with premium offerings.

And now to discuss Fuzzy's, the momentum from our Q4 promotions carried into Q1, contributing to Fuzzy's posting positive comp sales for the first time in 3 years and enabling the brand to outperform its competitors in sales every month in Q1. This progress is a result of the hard work we've done to strengthen the business with a focus on improving technology, streamlining the menu and enhancing the in-restaurant experience. We're encouraged by Fuzzy's performance this quarter and remain focused on sustaining and building on this progress.

And now for dual brands. It's been 1 year since we opened our first domestic dual brand in Seguin, Texas, and our confidence in the platform continues to grow. Across the system, most of these restaurants are generating about 1.5 to 2.5x the sales of the original stand-alone restaurant while maintaining a healthy check balance across both brands. The Seguin restaurant is still delivering roughly 2x its pre-conversion sales levels. Today, we've got 43 dual brand restaurants open with 13 additional locations under construction, and we remain on track to have approximately 80 open domestically by year-end.

Interest in our dual brands remains strong among existing and new franchisees. In fact, we now have 10 different operators that have opened a dual-brand restaurant and of these, 2 are new franchisees to the Dine system. The dual brand model provides a flexible path to unlock additional value across our existing footprint. It allows franchisees to reposition lower-performing restaurants, including those that may have otherwise reached the natural end of their life cycle while also enhancing performance at higher sales restaurants.

In fact, a long-standing Applebee's franchisee opened its first dual brand in Hawthorne, New York just a month ago. The successful conversion of a high sales single-brand restaurant validates the dual brand model is adaptable and scalable across a range of sales profiles. The unit was already a strong performing restaurant. And since converting and reopening in March, it has delivered an approximately 1.8x sales lift.

During the last few months, we've learned more about these restaurants from a guest perspective. A few highlights include that guests are excited to have the option to choose between 2 complementary iconic brands. 62% of our dine-in tickets contain at least one item from each brand. Guests who do purchase from both brands are spending on average 24% more than those who purchase from just one brand, leading to an overall higher check average at the dual brand restaurants.

And lastly, sales remain balanced across all dayparts, proving our thesis about the complementary nature of these brands. We also made operational improvements, including updating our online ordering flow to make the experience more seamless for guests, which has driven an increase in average off-premise check and improving efficiencies in back-of-house operations such as kitchen design. We continue to improve our preopening training at restaurants and are seeing newer restaurants achieve faster table turn times. Taken together, these results reinforce our confidence in dual brands as a big idea and a compelling growth vehicle, driving strong unit economics and continued franchisee demand.

Now turning to our broader development initiatives. We maintained momentum this quarter in new restaurant openings, opening 24, up from 10 at this time last year. We remain on track to meet our full year domestic development guidance. Development remains a key priority for long-term growth driven by our dual brand formats, the Applebee's Lookin' Good remodel program and targeted investments in our company-owned portfolio.

In addition to new unit growth, we're also seeing meaningful opportunity within our existing footprint through relocations and real estate optimization. Two recent new restaurant openings are relocations within their existing markets. And while early, in both cases, sales increased over 50% compared to the prior location, highlighting both the continued relevance of the brand and the importance of site selection in unlocking incremental growth. We made progress on the Applebee's Lookin' Good remodel program, completing 11 remodels this quarter. This program has consistent engagement among franchisees and early results remain encouraging with, on average, a mid-single-digit percent sales lift, and we expect about 1/3 of the system to be remodeled by year-end.

At IHOP, we're beginning a 3-year renovation cycle with a fresh, modern design called California Heritage. It's a light, bright and joy-filled design that brings a warm, welcoming feel to the restaurant while staying unmistakably IHOP. So before turning the call over to Vance, I do want to note that while we expect to see some near-term headwinds, we remain focused on executing against our priorities and positioning the business to drive sustainable long-term growth in this challenging environment.

And now I'll turn the call over to Vance.

Vance Chang

Chief Financial Officer

Thanks, John. On the top line, consolidated total revenues increased 4.8% to \$225.2 million in Q1 versus \$214.8 million in the prior year, and it's primarily driven by the acquisition of company-owned restaurants since Q1 of 2025. And if we take out advertising revenues, franchise revenues in Q1 decreased 2.1%, primarily due to a decrease in proprietary product sales and performance of our international franchisees. Increases in comp sales for the quarter were offset by closures.

Rental segment revenues for the first quarter of 2026 were consistent with the prior year period. G&A expenses were \$53.1 million in Q1 of 2026, up from \$51.3 million in the same period of last year due to annualization of last year's investments in training, development and operations to support our remodeling, dual brand initiatives and our larger company restaurant portfolio.

Adjusted EBITDA for Q1 of 2026 decreased to \$50.8 million from \$54.7 million in Q1 of 2025, primarily driven by the following factors: First, IHOP's proprietary product sales decreased due to sales timing to our distribution partners; and second, we have more company restaurants and dual brand restaurant openings than last year that resulted in higher G&A and preopening support costs. In addition, EBITDA was impacted by restaurants taking back since the prior year quarter, which are still in turnaround stage and not yet at steady state.

I'll touch further on the progress we have seen in our company restaurants, particularly around the dual brand conversions in a moment. Adjusted diluted EPS for the first quarter of 2026 was \$1.07 compared to adjusted diluted EPS of \$1.03 for the first quarter of 2025.

Now turning to the statement of cash flows. We had adjusted free cash flow of negative \$3 million for the first 3 months of 2026 compared to \$14.6 million for the same period of last year, primarily driven by higher CapEx for company restaurants and year-over-year impact of performance plan compensation payments. CapEx through Q1 of 2026 was \$12.1 million compared to \$3.3 million for the same period of 2025. Nearly 2/3 of the CapEx year-to-date is tied to remodels and dual brand conversions of company-owned restaurants. Our lower adjusted free cash flow and increased CapEx this quarter is timing as we expect to end the year with CapEx being in the range that we previously provided.

We finished the first quarter with total unrestricted cash of \$104.2 million compared to unrestricted cash of \$128.2 million at the end of the fourth quarter last year. On buybacks and dividends, we returned \$24 million of capital to shareholders in Q1, including \$22 million of share repurchases, which was approximately 5% of our shares outstanding at the beginning of the year. Our total shares repurchases during Q4 and Q1 were \$52 million, which is above what we had committed to on our Q3 2025 call. We continue to believe our shares are undervalued and remain committed to share repurchases.

Next, let me discuss Applebee's performance. Q1 same-restaurant sales increased 1.9% year-over-year. Domestic average weekly franchise sales per restaurant were \$56,300, including approximately \$13,500 from off-premise or 23.9% of total sales, of which 11.9% is from to-go and 12.1% is from delivery. Off-premise saw a positive 3.5% lift in comp sales in 2026 compared to the same period last year. IHOP's Q1 same-restaurant sales were flat. Domestic average weekly franchise sales per restaurant were \$38,300, including \$8,300 from off-premise or 21.5% of total sales, of which 7.5% is from to-go and 14% is from delivery.

All right. Turning to commodities. Applebee's commodity costs in Q1 increased by 6.3% and IHOP commodity costs increased by 3% versus the prior year. Our supply chain co-op CSCS continues to expect commodity costs in 2026 at mid-single digits for Applebee's and low single digits for IHOP. The primary driver for both brands commodity costs is higher beef prices, including the lapping of favorable beef contracts at Applebee's. To date, in 2026, we implemented projects resulting in over \$4 million of annualized savings across both systems, and we continue to partner with CSCS to leverage our scale.

Lastly, our company-owned portfolio remains instrumental in strengthening brand performance and supporting the overall health of our system, and our goal is to ultimately refranchise the locations at the right time. At the end of Q1, we operated 86 company-owned restaurants, totaling about 2% of our system, which is in line with our asset-light model. And this includes 12 Applebee's restaurants that we opportunistically took back in February of this year in the Virginia area with the potential to complete approximately 5 dual brand conversions out of this portfolio.

As it's been reported, one of our franchisees, Neighborhood Restaurant Partners, filed for bankruptcy protection and as part of its proposed plan, they're selling approximately 53 restaurants. Dine is stepping in as a stocking horse bidder because we believe that securing these restaurants gives us direct operational insight and allows us to invest in the units through our development initiatives. Although closures for construction impacted profitability of our company-owned portfolio, we're making progress.

In Q1, comp sales outperformed system with close to a mid-single-digit comp sales improvement year-over-year. And during the quarter, we completed 6 remodels and 2 dual brand conversions, bringing our total to 20 remodels and 4 dual brand conversions since taking back these restaurants. By the end of 2026, we expect to have completed or under construction over 30 remodels and 8-plus dual brands. While early, we're seeing success at our 4 company dual brand restaurants with sales lift of approximately 2.5x, which further supports our confidence in our dual brand strategy.

Before turning the call back over to John for Q&A, I'd like to add that we are maintaining our full year financial guidance at this time. With that, I'll hand it back over to John.

John Peyton

CEO, Applebee's President & Director

Thank you, Vance. To wrap up, we're pleased with the start to the year and are confident that our strategy will enable us to navigate near-term headwinds. We remain focused on disciplined execution, supporting our franchisees and investing in initiatives that position us for sustainable long-term growth.

Thank you so much for your time today. We look forward to your questions. And now, operator, I'll turn it back to you for instructions on how to access our queue.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question for today comes from the line of Jeffrey Bernstein from Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

My first question is just on the comp trends more recently. John, I think you mentioned that the Applebee's comp slowed, but you referenced perhaps it was due to a tougher compare. So I'm just wondering how you think about that maybe on more of a relevant 2-year basis, kind of what the underlying trend is. you did talk about, I guess, the lower income, which is a focus for your brands, perhaps a little bit more vulnerable. So just wondering if you could talk a little bit about that and maybe whether the spike in gas prices you think had an outsized hit or maybe what you've seen in the past in such instances. And then I had one follow-up.

John Peyton

CEO, Applebee's President & Director

Jeff, it's John. That's exactly the answer. Our value-conscious guest, our price-sensitive guest is very sensitive to increases in gas prices and the basics and the cost of living. There's a lot of statistical data broadly and within our company that demonstrates that. And that's exactly what we think we saw happening in April. We're encouraged by even today's news where it seems to be lessening a little bit.

But more broadly, that just reinforces our strategy around making sure that we have the right value message at Applebee's for those guests that are price sensitive. We continue to lean into the 2 for \$25 message, strengthened by new and exciting news. Last quarter was on Cheeseburger, and we'll have something new in this quarter as well.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Got it. And my follow-up is just on the asset base. One, just the dual brands, I think you confirmed 80 in the U.S. by year-end. Just wondering where you think that could go over time. seemingly, you're picking some markets where you think it will work best, but clearly, that is a very strong sales lift you're seeing. So where the dual brand mix could go over time? And just more broadly, that franchisee since they're the ones driving it, presumably how their engagement has been of late, whether they seem to be more open to the idea, whether just opening more Applebee's on their own or opening more of the dual brands in future years.

John Peyton*CEO, Applebee's President & Director*

Yes. So we've done work where we've looked at and modeled the opportunities across the country. And we've concluded based upon our analysis and that analysis includes, I think, what you would expect, right? We look at the size of the market, we look at the demographics, we look at the competition.

We look at the traffic in and out of the market during the day, et cetera. And we've identified 900 opportunities in the U.S. to open a dual brand restaurant or convert an existing restaurant to a dual that would have minimal to no impact on an existing restaurant. And of those 900 restaurants, Jeff, 450 would be new builds and 450 would be adding a second brand to an existing restaurant. And we think that, that's achievable over the next 8 to 10 years.

In terms of franchisee enthusiasm, it's actually growing. So our pipeline is strengthening. We are very confident in the 80 that we've talked about for this year, and we're building a pipeline that goes into 2027 and beyond. We are -- that pipeline includes franchisees that are going to be new to the dual brand system and it's becoming equally balanced between existing Applebee's and existing IHOP franchisees.

Operator

And our next question comes from the line of Nick Setyan from Mizuho.

Nerses Setyan*Mizuho Securities USA LLC, Research Division*

The guidance, I guess, the EBITDA guidance, can you just update us on approximately how much in terms of investments in company-owned stores is embedded in that guidance?

John Peyton*CEO, Applebee's President & Director*

Yes, Nick, Vance will take that question.

Vance Chang*Chief Financial Officer*

So with company specifically, right, we said we're keeping the guidance and Q1 EBITDA was a little bit softer, but we're maintaining guidance for really 2 reasons, right? So we have the franchise business, and we have the company restaurants, as you said. Overall, the franchise business is steady, right? Even though it's a complicated operating environment, we believe our formula of value targeted marketing and operational execution will improve the sales trends in the coming quarter. And company restaurants will continue to improve. It's not going to be a straight line, but we have more work to do in terms of construction and in-store execution, et cetera.

So the short-term EBITDA pressure should moderate over time as we start to leverage the investments we've made in our system. With company restaurants, one thing worth pointing out is that in Q1, we had more than 75 closure days due to remodels and program conversions. Obviously, this is not going to happen for the rest of the quarter. We'll have less closure days for the rest of the year. So that's what's baked into our guidance.

Nerses Setyan

Mizuho Securities USA LLC, Research Division

And in terms of the alcohol licenses, et cetera, is that behind us? Or is that still an ongoing headwind?

Vance Chang

Chief Financial Officer

That's mostly behind us at this point. So that's a tailwind for us.

Nerses Setyan

Mizuho Securities USA LLC, Research Division

Got it. And in terms of just the company-owned mix going up, you talked about sort of the potential acquisition post the bankruptcy. Are we comfortable with the mix now? Or is that something that could continue to go up through the rest of the year and potentially into 2027?

John Peyton

CEO, Applebee's President & Director

Nick, it's John. I'll take that question. The way we think about it are 2 parts I'd answer. The first is we are certainly more amenable today than we were in years past. to taking back restaurants or a portfolio of restaurants in order to strengthen them, strengthen the system, prevent closures and then to rebrand them, which we think we can typically do in about 3 years after we acquire them. And so we will continue to do that when we think it's the right portfolio and it's right for the brand and that we can use those restaurants to advance our initiatives like proving out the remodel, converting to duals, testing our programs and technology.

What we've also said is that while our goal is not to get to 5% of company -- of the portfolio's company-owned, I'm comfortable getting to 5% and still being asset-light and having all of the benefits of being asset-light. So that's about the threshold you should think about in terms of where I'm comfortable going, but that's not the goal to get there.

Operator

[Operator Instructions] Our next question comes from the line of Dennis Geiger from UBS.

Dennis Geiger

UBS Investment Bank, Research Division

I wanted to come back to the focus on quality and price points. I guess, value in particular. You guys spoke to sort of having the right value message at Applebee's, the 2 for \$25, something new coming this quarter as well. I guess the question is where that value mix was maybe for both brands in the quarter?

And then just kind of on the go forward, again, is 2 for \$25 plus something new? Is that kind of going to be the playbook over the balance of the year? Do you think you have to do even more there based on some of the consumer pressures that are out there that you're observing currently? Just any thoughts on that front, please?

John Peyton

CEO, Applebee's President & Director

Yes, Dennis, it's John. I'll start with Applebee's and then Lawrence is going to address it for IHOP. In terms of the mix for the quarter, about 26% of our tickets had value items on it, which would either be 2 for \$25 or an LTO. That number is down from about 1/3, which is what it's been for many, many quarters. And the reason there is because we had the Ultimate Trio as a national promotion in Q1, and we moved it out of the national price point to being priced individually by franchisees. So technically, we don't count it.

But I would say in terms of the trend and even what we see in the Ultimate Trio sales, we still are running at about 1/3 of our tickets include some sort of value item, and that's been consistent now for 5, 6, 7 quarters.

When it comes to 2 for \$25, yes, that is our primary message in terms of the way we're communicating value. Two entrees, an appetizer for \$25 or \$12.50 per person. And the way we're keeping it fresh in addition to the consistent message throughout the year is by introducing a new item to it. In addition, we will have LTOs from time to time, including next quarter, also value-driven LTOs designed to drive traffic.

And the last thing I'll mention, which I think is interesting about the 2 for \$25 program, Dennis, is that almost 62% of the items on 2 for \$25 are the upsell. So it's not the entry-level \$25. It's guests that are paying \$2, \$3 more for Tier 2 or \$2, \$3 more for Tier 4. Remember, the franchisees set those increments based upon their market. So it's doing what it's supposed to do. It's driving traffic with the 2 for \$25 message. And then 2/3 of the time, it's actually upselling beyond the \$25. And then Lawrence, can you address the value question for IHOP?

Lawrence Kim

President of IHOP

Absolutely. Dennis, let's go in. In regards to the value mix at IHOP, it has been around 20 -- for Q1, it's 22%. That's slightly higher than Q4, which is at around 20%, but it's remained fairly consistent. The uptick in Q1 was primarily due to a big promotion we had with bottomless pancakes that John referred to earlier. And this promotion is part of our value mix, which our value mix consists of the everyday value menu at \$6 in addition to other promotions like the bottomless pancake or the free pancake promotion that we have on National Pancake Day as well as our senior menu.

In terms of moving forward, we are staying consistent with the \$6 value message. It resonates extremely well with our guests ever since we launched the \$6 value message with House Faves, which is Monday through Friday in October '24 and then evolved it into the \$6 everyday value menu in September '25. And even this past March, we evolved it even further by adding a new item, our BLT to expand the daypart propositions. We've outperformed Black Box in traffic every month in 2025 and continue to do so into 2026. And we're going to continue that momentum with that everyday value menu.

And similar to Applebee's, we are balancing that with innovation. not only did we do the BLT adding to the \$6 value menu, but with the barbell strategy, we would complement that with new product introductions, whether it's our Stuffed 'N Stacked Omelettes, new coffee introduction that we had this past March, and there's obviously more to come.

Dennis Geiger

UBS Investment Bank, Research Division

Great. As a quick follow-up, and you touched on it some, but we've heard from some of your peers a little bit about check management in recent months. And I know you just kind of touched on kind of the value mix there, so that could certainly somewhat answer the question. But anything beyond what you just touched on, on check management, thinking about appetizers, beverages, desserts and otherwise that you've observed over the last couple of months in particular?

Lawrence Kim

President of IHOP

In regards to IHOP, and I'll start that and John, I'll pass it to you for Applebee's. In regards to check management at IHOP, we have -- in 2025, we were laser-focused on driving value. And our primary messaging across the board was value because at that time, we did not have a strong equity in the value landscape. And so we maintain that consistency. It's why we've seen our traffic growth, especially in Black Box every month in 2025. As we've gone into 2026, we've now complemented that because we've complemented our value messaging with the barbell strategy and driving our innovation layers. It's why we see different messaging right now even within our social platforms, TR, et cetera, with that of innovation, whether it's our omelettes.

But we have different layers that we're going to balance with coming up this summer as well as into the fall and winter. And you'll see a cadence of both value combined together with innovation to really go after that barbell strategy and create awareness across both platforms.

John Peyton

CEO, Applebee's President & Director

Yes. At Applebee's, Brian (sic) [Dennis], average check remained at about \$39. That included a slight menu price increase that the franchisees put in place in Q1. And we did see some migration toward lower-priced items or at the expense of a drink or an appetizer. But like I said, we did maintain the average check at \$39.

Operator

And our next question comes from the line of Brian Mullen from Piper Sandler.

Allison Arfstrom

Piper Sandler & Co., Research Division

This is Allison Arfstrom on for Brian. At IHOP for the California Heritage remodel, I just wanted to ask in a very open-ended way, but can you talk more about what we should expect to see with the remodel, maybe the cadence of how many units are eligible, how you expect to anything like that?

John Peyton

CEO, Applebee's President & Director

Thanks, Alex. Lawrence will take that.

Lawrence Kim

President of IHOP

Yes. So at IHOP for the California Heritage redesign and remodel, this design is based on a platform which we've seen across international as well as in our dual brands, which is what we incorporated this bright, modern design that is distinctively IHOP. And we are very early in the process actually. And we're working with our franchisee partners on the incentive program similar to that of Applebee's. And we'll have more to come over the next several quarters. But we're excited because we're starting to see some of the remodels happening currently. But again, we're very early in the stage, and we'll have more in the upcoming quarters to share.

John Peyton*CEO, Applebee's President & Director*

And Allison, I would add 2 things. One is, if you haven't had a chance, we have a dual brand video on our IR section of our website. And on that video, when you look at the IHOP portion of the interior, that is the California Heritage design. So to give you a sense of what it looks like and how fresh and modern and contemporary it is. And since you asked, I'll comment that the Applebee's remodel program, refresh program continues. We're in year 2, and the franchisees are enthusiastically participating, and we expect that we'll be at about 40% of the portfolio by the end of this year that is considered to be current.

Operator

And our next question comes from the line of Todd Brooks from Benchmark StoneX.

Todd Brooks*The Benchmark Company, LLC, Research Division*

John, I wanted to start off. I mean, you talked about stalking horse situation with the franchisee with the 50-plus units. But if you look at the base, and I guess this applies to both brands, your assessment of kind of franchisee health as we're maybe getting to a little tougher consumer environment here? And would you expect to -- you talked about a willingness, not necessarily wanting to force yourself there, but would you expect more growth in the corporate-owned base, not necessarily getting to the 5% kind of cap that you talked about, but just with the environment and wanting to keep those stores in operation?

Because at this point, I don't know that there's really a lot to learn from running the stores. It's kind of that willingness to invest and convert the dual. So I just wanted to get the thoughts on franchisee health and if we should see an acceleration in corporate store or corporate taking back franchise locations.

John Peyton*CEO, Applebee's President & Director*

Yes. I'll talk specifically about NRP and some of your questions, and Vance can talk more broadly about franchisee health. But a couple of thoughts, Todd. The first is that the NRP situation is very specific to that owner and what was going on within their fund and decisions they made about financing. In fact, the restaurants that we're potentially taking back via the stalking horse bid, it's a healthy portfolio. So it will be accretive to us. So I don't think it's appropriate to project the NRP situation onto the portfolio.

The other point you made about, is there anything left to learn? I disagree with you there. I think that there is still a lot left to learn from walking in our franchisees' shoes and owning restaurants. As many of you know, we have not owned restaurants in the last couple of years, and it's been a while. And so to have 100 or so restaurants that we are running where we can be testing the new POS technology, we can be putting our menu innovation into the restaurants faster and sooner than if we're running tests across the country and test kitchens, when we can be rolling in our guest service programming and our training materials, all of that is beneficial to us, and I have a high value in that.

In addition, as you suggested, to being able to renovate them and convert them to duals. We also think that we can see the progress we're making in the restaurants that we own. They're all trending in positive directions, particularly when it comes to growing EBITDA and profit. And we think that they'll be accretive to us when we refranchise them in 3 years. So I'm all in on that.

And now I'll pass it to Vance to talk about franchisee health more broadly.

Vance Chang

Chief Financial Officer

Todd, so with franchisee health, a reminder, these are franchisees self-reported financials, and we collect them a quarter in the [indiscernible], right? So -- as we've said in the past. Based on what we're seeing is that the franchisees have steady margins on average and it's because of the steady sort of sales performance and cost management initiatives that CSCS and the franchisees are doing together, our supply chain co-op. Franchisees are aligned with our strategy, and they remain committed to growing with us.

We're also just proactively making -- we have workout programs with franchisees to accelerate incentives to accelerate modeling relocations and various workout programs to promote and really unlock dual brand territories, right? So you're seeing all of this is happening behind the scene. And ultimately, as John and I have said before, we believe dual brands will provide that step function change to franchisees' unit economics outside of normal comp growth. So we're very enthusiastic about pushing that agenda and franchisees as well.

Todd Brooks

The Benchmark Company, LLC, Research Division

That's great. And just my follow-up, if I can, on the duals, you talked about kind of that range of 1.5 to 2.5 type of sales lift relative to the individual branded location. You talked about the strong lift at Hawthorne, which I think you said was a strong restaurant going into the conversion. But what type of lift do you need for the conversion to a dual to really pencil? Does the 1.5x lift get the return that you are franchisees looking for on the dual? Do you need closer to the 2x? Just if you could frame that up a little bit, that would be helpful.

John Peyton

CEO, Applebee's President & Director

Vance, you can address that.

Vance Chang

Chief Financial Officer

Of course. Todd, so the way you think about the unit economics for the conversion of dual brands is that the flow-through on that incremental sales that you're generating is going to be a lot higher than the traditional 4-wall margins, that's because you're not really paying more rent, and you're not necessarily increasing your labor by that much to compensate for the increase in sales. So that flow-through is probably -- should be in north of 30% margin. So if you just take -- do the simple math of assuming a \$2 million restaurant adding another \$1 million on top of it, that's a \$300,000 flow-through to the franchisees' bottom line.

And then what we're seeing is that the cost of the conversion is about a little over \$1 million. It depends on if there's any deferred maintenance and structural work that you have to do, which is site specific. But just again, using simple math on \$1 million with a \$300,000 flow-through, that's very attractive payback math for franchisees -- simple company restaurants for that matter.

Operator

And our next question comes from the line of Brian Vaccaro from Raymond James.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

I was hoping we could just double-click on the underlying consumer dynamics that you're seeing. You obviously noted the softness within lower income. But I'm curious if there's anything worth noting from a daypart perspective or even weekday versus weekend for either brand? And then the follow-up question is just also, could you comment on the average check and traffic trends that you saw within the comps in Q1 for each brand?

John Peyton

CEO, Applebee's President & Director

Yes, Brian, it's John. On the consumer dynamic, I can talk about both brands since the consumer behaves similarly over time as well as last quarter. The first thing I'll say is reiterating the point that you mentioned, which is when it comes to looking at income cohorts, higher earners, lower earners, the only real change that we've seen this quarter and the last couple of quarters is that our price-sensitive, more value-oriented guests seem to be staying home a bit more and/or looking for lower cost alternatives. When it came to other cohorts, we didn't see a significant change in behavior that is worth noting.

When we look at dayparts, when we look at weekdays, when we look at geography, it's - there's no pattern there either. It's largely consistent this quarter to the past couple of quarters. And so I would really just target that consumer behavior issue on the guest that's really most impacted by gas prices and the economy in general.

And then when it comes to average check and traffic trends, I'll turn it to Vance.

Vance Chang

Chief Financial Officer

So Brian, good to hear from you. John talked about average check for Applebee's was \$39. For IHOP, it's about \$35. Menu pricing for Q1 was about 4% for Applebee's and 3% for IHOP. Applebee's actually saw positive PMIX this quarter. IHOP was negative PMIX. And then both brands saw negative traffic, but IHOP beat Black Box for every month for the quarter.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Okay. Great. And then I guess last question for me was just around closures. I just wanted to touch on that. It seemed to step up here a bit in Q1. I think 20 at IHOP and 32 at Applebee's. But I believe you maintained the net development targets for the year. So could you just help us square that up a bit?

John Peyton

CEO, Applebee's President & Director

Vance, we'll let you wrap up with that question.

Vance Chang

Chief Financial Officer

Sure. Brian, so we've said that closures, usually, what we see is sort of that 1% to 2% of the system. That's kind of the average closure rate. In the last year and this year, it's slightly elevated because we do have more franchise agreements come due than normal years. So that's reflected. But also, as I've mentioned before, we're proactively making deals, work out programs with franchisees to accelerate relocations and unlock dual brand territory. So that's also reflected in the closure numbers. We're maintaining the net development number because we have a pretty strong pipeline of dual brand that we're opening and stand-alone IHOP that we're opening. And so that's what's baked into to our guidance.

One other thing we've said before is that typically, what we see is the closures tend to be lower sales volume restaurants, right? And then the openings are bigger sales restaurants. So it's not 1:1, right, in terms of unit count. So there is accretion happening there as we relocate and build a new restaurant versus and closing down an old restaurant that's in the old part of the town, for example.

Operator

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to John Peyton, Dine Brands CEO, for any further remarks.

John Peyton

CEO, Applebee's President & Director

Jonathan, thank you for guiding us today. Your expertise is valued as always. Thanks, everybody, for your questions. We appreciate it and the time you spent with us. And like we said in our release and on this call today, we are pleased with the Brands' performance during the quarter despite tough environment, and we've got the plans in place to continue to appeal to our guests, particularly those who are increasingly value-oriented over the next quarter, and you'll see some new news in the next couple of weeks that we think is going to drive a lot of traffic to both brands.

So thanks, everybody, and have a great day.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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