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Dine Brands Global, Inc. (DIN) Q2 2024 Earnings Call Transcript

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Play Call



Press Release



10-Q

EPS of \$1.71 **beats by \$0.07** | Revenue of \$206.27M (-1.03% Y/Y) **misses by \$4.19M**Dine Brands Global, Inc. (NYSE:[DIN](#)) Q2 2024 Earnings Call Transcript August 7, 2024 9:00 AM ET

Company Participants

Matt Lee - SVP, Finance and IR

John Peyton - CEO

Vance Chang - CFO

Tony Moralejo - President of Applebee's

Jay Johns - President of IHOP

Conference Call Participants

Eric Gonzalez - KeyBanc

Dennis Geiger - UBS

Jeffrey Bernstein - Barclays

Nick Setyan - Wedbush

Brian Vaccaro - Raymond James

Jake Bartlett - Truist Securities

Brian Mullan - Piper Sandler

Todd Brooks - The Benchmark Company

Andrew Wolf - CL King

Operator

Good day and thank you for standing by. Welcome to the Dine Brand Second Quarter Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Matt Lee, Senior Vice President, Finance and Investor Relations. Please go ahead.

Matt Lee

Good morning and welcome to Dine Brands Global's second quarter fiscal 2024 conference call. This morning's call will include prepared remarks from John Peyton, CEO, and Vance Chang, CFO. Following those prepared remarks, Tony Moralejo, President of Applebee's, and Jay Johns, President of IHOP, will also be available to address questions from the investment community 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. For calendar planning purposes, we are tentatively scheduled to release our Q3 2024 earnings before the market opens on November 6, 2024, and to host a conference call that morning to discuss the results.

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

John Peyton

Good morning, everyone, and thank you for joining us for our second quarter earnings call. Today, I'll share Dine's Q2 results and discuss trends in consumer behavior. I'll also discuss operational highlights across the portfolio, and then Vance will discuss our financial results and provide an update on our full-year guidance.

Dine began Q2 with a strong strategy to address economic challenges, broaden our appeal to guests, and build on the positive momentum we experienced toward the end of Q1. Despite this, we saw a pullback from guests as the second quarter unfolded. While this affected our top line growth, we were able to maintain our bottom-line performance. We recognize that our guests are in a tough spot in this economic cycle, and our data indicates that guests are reducing their restaurant visits industry-wide and choosing to eat more at home. When guests do choose to dine at our restaurants, they're managing their check by trading down from higher-priced menu items to less expensive options. This has been a consistent trend over the past few quarters, and we, along with our franchisees, have been actively managing our offerings to adapt to evolving guests' needs and behaviors.

We deliver value through competitive pricing, generous portions, and exceptional experiences. This approach has earned our brand's enduring trust. Our strategy extends beyond temporary discounts, focusing on long-term guest satisfaction. Our franchisees are well versed on how to adapt to evolving market conditions. This isn't the first time we've collectively had to navigate choppy waters, and we have a deep arsenal of profitable promotions, menu innovation, and marketing campaigns that we can deploy in the near term while remaining focused on positioning ourselves for sustainable value creation, in the long-term.

We're making strategic refinements and real-time adjustments to respond to changes in guest behavior, by shifting toward more value-driven promotions for the remainder of the year. We'll continue to refine our approach to address the unique dynamics of the market and the consumer today. Our asset-light model and iconic brands give us a solid foundation to tackle the current headwinds, and this is the strategic advantage of the Dine platform, and you'll hear today how we're leveraging this in the best interest of our guests and our franchisees to create value for all stakeholders.

It's also important to remember that the underlying fundamentals of our business model remain solid and continue to perform with limited impact to our bottom line. Our cash flow is strong and improved year-over-year. Our margins continue to remain solid, and our leverage remains steady. And while we're taking a disciplined approach to manage what we can control around this tough market cycle, we remain focused on our long-term growth objectives and continuing to return value to our shareholders.

Now, for an overview of the numbers from this quarter, we generated EBITDA of \$67 million compared to \$67.3 million in the same quarter last year. Our Q2 revenue was down 1% from the same quarter last year. Applebee's reported negative 1.8% comp sales, IHOP posted negative 1.4% comp sales, and adjusted free cash flow was \$23.2 million. In light of our performance to date in 2024 and our expectation that market pressures will continue throughout the remainder of the year, we are revising our full-year financial and development guidance. Vance will speak to our guidance in greater detail later in the call, but I'll first say that although we're disappointed in the slow momentum on our top line growth, it's driven largely by market conditions. We're applying our learnings from the last two quarters to refine our strategies and we're committed to pulling all available levers to support the top line through the remainder of the year.

So, with that, I'll turn to brand updates and I'll begin with Applebee's. In Q2 Applebee's delivered an improvement on comp sales and traffic versus Q1. Key promotions and limited-time offers like America's Favorite Boneless Wings resonated with our guests, allowing us to outperform Black Box traffic for the third quarter in a row. However, the macroeconomic headwinds we experienced at Applebee's this quarter were significant, putting pressure on the growth and momentum we started to develop at the end of Q1. During the second quarter, we ran a diverse range of promotions that showcased how value at Applebee's extends beyond price while also ensuring that the price is right. This helped us attract the consumer and drive traffic while also testing new menu innovations such as the Whole Lotta Bacon Burger, which will remain on the menu following the success of its performance as an LTO. In June, we unlocked the opportunity for new capabilities with hand-breaded chicken in our restaurants. The launch of our brand new Hand-Breaded Chicken Sandwich to our menu exemplifies Applebee's commitment to menu innovation and paves the way for further menu expansion.

And as we look toward the second half of the year, we're very excited to work with one of the world's strongest brands, the National Football League. The opportunity to combine dining with entertainment, socializing, and connections through our NFL partnership is certainly timely and it's exciting and fun. As the Official Grill & Bar of the NFL, we'll partner with the League to enhance the guest experience and build loyalty for our nearly 8 million club Applebee's members and will provide exciting menu items and engaging content all season long.

Now moving on to IHOP. Similar to Applebee's, sales and traffic improved versus the first quarter. As the quarter progressed, though, Q2 performance was challenged by the increase in competitive pressures and the promotional environment. So in response, IHOP successfully pivoted during the quarter to meet our guest needs, leveraging our operational agility and Barbell promotion strategy to offer more affordable, value-priced menu items. Our Barbell strategy is simple. It balances our offerings to provide both premium menu options like our BreakFEASTS while appealing to our value conscious customers via our \$6 2x2x2 combo. In the first three weeks of the 2x2x2 promotion, which launched in mid-June, IHOP outperformed the Family Dining segment in sales, traffic and check.

Looking at the second half of the year, we have the support of our franchisees to be more aggressive with our value-driven strategies, and we've built a purposeful calendar to help drive sales and traffic. We also plan to deliver personalized offers to our nearly 10 million loyalty members. Our data shows that our promotions are most impactful with our loyalty guests, who, overall, frequent IHOP more often. And importantly, our internal data also shows that IHOP guest satisfaction scores are improving. This is validated by the results of the 2024 American Customer Satisfaction Index Restaurant and Food Delivery Study, which showed that IHOP's guest satisfaction score increased 8% while our peers remained flat.

On the retail front, demand for our CPG coffee line remains strong, bolstered by the recent launch of two new varieties now available in retail locations nationwide and on Amazon.com. And last month, we also expanded our partnership with Kraft Heinz to introduce IHOP syrups to grocery shelves nationwide. Currently, the syrups are available in 3,500 Walmart stores with distribution expected to expand to an additional 3,600 retail locations nationwide. Overall, while we're not satisfied with the performance of the quarter, we're actively pursuing initiatives to mitigate the ongoing headwinds and continue to believe in the long-term opportunity for the brand.

Turning now to Fuzzy's. The brand was also impacted by market conditions during the second quarter, but was in a better position to respond as a result of integration with the Dine platform and our value-driven expertise. Building on the success of its first-ever value promotion in Q1, Fuzzy's launched a new Cali-Style Steak Taco this quarter paired with a 32-ounce soft drink for \$5, which was well received by guests and franchisees. We leveraged insights from successful promotions at Applebee's and IHOP to create this offering at Fuzzy's. Using the proven formula from IHOP and Applebee's, we'll pair future Fuzzy's promotions with exciting innovations in the pipeline for addition to the Fuzzy's menu. A recent example of this is last week's launch of Fuzzy's Hot Honey Chicken Tacos and Spicy Watermelon Margarita combo, developed in collaboration with country music star Thomas Rhett's tequila company Dos Primos.

On the marketing side, we announced at the end of April the appointment of Patrick Kirk as Fuzzy's Chief Marketing Officer. Patrick previously served as Vice President of Bar and Beverage for Applebee's, and we see a significant opportunity to expand Fuzzy's Bar and Beverage platform, and having Patrick's expertise will be critical in supporting that initiative. Patrick has hit the ground running with work to continue to develop the Fuzzy's brand across all channels.

On the international side of the business, we have strong momentum and recently opened two new dual-branded restaurants in Saudi Arabia and Kuwait. These dual-brand locations are a significant point of optimism as they generate, on average, approximately twice the revenue of standalone IHOP or Applebee's restaurants of the same size. We're pleased to see that international dual-brand locations are performing according to our thesis, supporting our strategy for future expansion of dual-brand locations domestically. In fact, we have 15 sites approved for potential domestic dual-brand deals with a target of the first restaurant opening as early as Q1 2025.

Speaking of our development strategy, we're continuing to build our internal capabilities to support development across the entire Dine platform and the team is actively reviewing opportunities for new sites, both traditional and nontraditional, and working closely with franchisees to expand their plans. As shared last quarter, our support team has introduced incentives for our franchisees to make restaurant development more approachable with new programs to provide access to capital. We remain pleased by the cross-pollination of franchisees looking for new opportunities across the Dine system, an important pillar to the Dine's development thesis. The industry is still experiencing headwinds from longer lead times and higher costs for construction and borrowing rates, which has impacted our timeline for openings. As Vance will expand on in a moment, we've adjusted IHOP's full-year development guidance to address these shifts and openings. However, we remain focused on the long-term development opportunity for all three brands to unlock further growth.

And so with that, I will turn the call over to Vance.

Vance Chang

Thanks, John. Despite the challenges faced this quarter, we generated strong free cash flow and EBITDA and continued to return cash to our shareholders while protecting our balance sheet. In difficult environments like we're in now, our attractive asset-light business model positions us well to weather this economic cycle.

On the top line, consolidated total revenues decreased to \$206.3 million in Q2 versus \$208.4 million in the prior year, primarily driven by a decrease in franchise revenue and a decrease in rental segment revenues. Our total franchise revenues decreased 0.8% to \$176.5 million compared to \$177.9 million for the same quarter of 2023. Excluding advertising revenues, franchise revenues remain flat at \$102 million.

G&A expenses decreased 2.1% to \$46.9 million in Q2 of 2024, down from \$47.8 million in the same period of last year, mostly due to stopping the IHOP Flip'd initiative in the prior year, offset by an increase in compensation-related expenses and an increase in depreciation. Adjusted EBITDA for Q2 of 2024 decreased to \$67 million from \$67.3 million in Q2 of 2023. Adjusted diluted EPS for the second quarter of 2024 was \$1.71, compared to adjusted diluted EPS of \$1.82 for the same period of last year.

Now, turning to the statement of cash flows. We had adjusted free cash flow of \$52.9 million for the first six months of 2024, compared to \$24.1 million for the same period of last year, driven by reduced CapEx spending as well as additional cash inflows from operations and principal receipts from notes and equipment contract receivables. Cash provided by operations at the end of the second quarter of 2024 was \$52.2 million compared to cash provided from operations of roughly \$42.7 million for the same period of 2023. The increase was primarily due to a favorable increase in working capital, partially offset by a decrease in segment profit.

CapEx through Q2 of 2024 was \$6.8 million, compared to \$22.8 million for the same period of 2023. We finished the second quarter with total unrestricted cash of \$153.5 million, compared with unrestricted cash of \$145 million at the end of the first quarter. Additionally, we continue to return capital to investors. We repurchased \$6 million in shares and paid \$7.9 million in dividends in Q2 of 2024, which is one of the highest dividend returns in our category.

Next, let me discuss Applebee's performance. Q2 same-store sales were negative 1.8%, reflecting challenging industry headwinds that moderated sales performance. Average weekly sales were over \$53,900, including over \$11,500 from off-premise, or over 21% of total sales, of which 10.8% was from to-go and 10.6% was from delivery.

IHOP's Q2 same-store sales were negative 1.4% due to challenging headwinds and strong year-over-year comps. Average weekly sales were \$38,400, including \$7,600 from off-premise, or 19.8% of total sales, of which 7.9% was from to-go and 11.9% was from delivery. On the labor front, franchisees are reporting that staffing and labor costs have continued to remain steady.

Turning to commodities, we're seeing costs stabilize and our expectations for the full year continue to be consistent with what we discussed in Q1, which is low single-digit inflation at IHOP and low single-digit deflation at Applebee's due to varying market baskets at the brands. As a result of these differences, Applebee's commodity cost this quarter fell 2.9% and IHOP's commodity cost grew 0.6% versus the same period of 2023. Our supply chain co-op CSCS continues to work across the Applebee's and IHOP systems to identify additional cost savings opportunities and support restaurant profitability initiatives through both operational improvements and input costs. To date, in 2024, we've implemented projects resulting in over \$35 million of annualized savings across the system.

Before turning the call back over to John for Q&A, I'd like to provide an update on our guidance for the year. Given what we share today and the continued market pressures we anticipate during the second half of the year, we're revising our fiscal year guidance as follows. Starting with the top line, we now expect Applebee's domestic system-wide comp sales to fall between negative 4% to negative 2% compared to the previous range of 0% to 2%. At IHOP, we expect domestic system-wide comp sales to range between negative 2% to 0% compared to the 1% to 3% range of growth we initially provided. On the bottom line, we're bringing down the top end of our G&A guidance to \$205 million with the bottom end remaining at \$200 million, and this total includes non-cash stock based compensation expense and depreciation of approximately \$35 million. On EBITDA, we're reducing our range to \$245 million to \$255 million compared to our previous range of \$255 million to \$265 million. Lastly, we're lowering our 2024 CapEx spend to be in the range of approximately \$14 million to \$16 million compared to the previous range of \$15 million to \$20 million.

On 2024 development, we now expect zero to 10 net new domestic IHOP restaurants compared to the previously provided range of 15 to 25 net new restaurants, reflecting delays in new store opening timelines and an increase of closures compared to last year. Applebee's guidance of 25 to 35 net fewer domestic restaurants remain unchanged.

With that, I'll hand the call back over to John.

John Peyton

Thank you, Vance. Dine's fundamentals remain strong while our results this quarter reflect the challenging economic landscape we're all navigating, we're committed to our long-term strategy. We believe in the resilience of our business model and remain confident in our strategy recipe for growth. So now, I'm happy to open the call for any questions you may have. As a reminder, in addition to Vance, Tony and Jay are also here with us and are prepared to address your questions. And so with that, please go ahead and open the line for our first question.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Eric Gonzalez with KeyBanc. The floor is yours.

Eric Gonzalez

Hi. Thanks. Good morning. My question is about the competitive environment. It's obvious that the industry is struggling right now as consumers pull back on discretionary spending. But I'm sure it didn't help Applebee's case, having a direct competitor go viral by highlighting the value that it offers relative to fast food. So I'm wondering, first, how much of an impact you think that might have had? Because in the past, I believe you said there wasn't much of a geographic overlap between the two brands. And to the extent that Chile's outsized results did impact your business, I'm wondering if your same-store sales outlook might actually prove conservative, assuming Chile's content normalize after that hype subsides. And relatedly, what can you do to mitigate such an impact in the future? And has Chile's success caused you to reevaluate the way you approach your marketing strategy? And maybe, perhaps there's something you can learn from Chile's and replicate Applebee's? Thanks.

John Peyton

Hey, Eric, it's John. Good morning. Thank you for the multi-part question about Chili's. We'll try to get to as much of it as we can. I'm going to make a couple of comments, then, of course, turn it over to Tony to specifically talk about Applebee's. I would say a couple of things. The first is that we have a strategy for Applebee's. There is certainly more than one way to approach a difficult market, and we're confident with our strategy, not only for Applebee's, but for all of our brands. What we did learn from the first two quarters is that we do need to be flexible and agile. And that -- when we put calendars together 18 months ago for what we thought the right promotions were for 2024, we learned from the first two quarters that we have to lean more toward the value portion of our promotions, and that's what we're doing, and we're making adjustments in that regard. All You Can Eat Appetizers and Endless Fries is a good example of that. And the market has started to sort of conflate in the sense that full service, as you alluded to, select service and quick service, are all becoming closer competitors to one another as prices become closer to one another. And we believe that a \$10.99 burger or chicken sandwich at Applebee's is a very competitive price with a great experience. So we're certainly cognizant of what's happening in the market and that we have an opportunity to go after quick serve, but we're sticking with our plan based upon what we're learning from the first two quarters. I can also say that our data continues to tell us that Applebee's is not losing significant share to Chili's. And that we are actually gaining traffic the last three quarters, particularly because what we believe is our franchisees modest approach to pricing, which will serve well in the long term. Tony, I may have stolen some of your thunder there, but forgive me. And what would you like to add?

Tony Moralejo

Thanks, John. Good morning, Eric. So you're correct. It's a great question. We have seen aggressive promotions by competitors. So as a result of that, we recently conducted a deep dive to determine if any of this promotional activity, whether it was Chili's or any other competitor, to determine if we lost, if we're losing share to any one brand. And from our research and from the modeling that we've done, we've concluded, it's not any single brand. In fact, the most meaningful factors that have impacted our performance, they're external factors, as John mentioned, like household income and pricing. There isn't one single casual dining brand that's impacting our results. It's why today our strategy remains to focus on the guest, right, where our core guest is highly, highly sensitive to pricing based on their income. So in this environment, value becomes incredibly important if we're going to maintain our market share. And as John mentioned, we outperformed the category traffic during the quarter. So, like all of this aggressive discounting and promotional activity that we're seeing, it didn't really materially impact our guest visits during the quarter.

Eric Gonzalez

That's really helpful. And maybe if I could sneak one more in. You said last quarter about 28% of orders were on LTO. I'm just wondering if you could give us an update on that number for this quarter and how you think that might shake out in the second half, given the strategy to lean a little bit more heavily on value.

John Peyton

Yeah, Eric, just to clarify that number, and then Tony can talk about his approach in the second half. The way we're looking at that number is the number of tickets that are LTOs, as well as the everyday value portion of the Applebee's menu, which is the two for \$20 portion of the menu. And so that percentage of tickets is about 33%, which is up from the mid to low 20s the same time last year. And then, Tony, do you want to talk about how you're thinking about the back half of the year?

Tony Moralejo

Yeah. So for the second half of the year, Eric, you can see you're going to count on us to have a heavy dose of disruptive value and abundant value offerings because of the inflationary pressures that we spoke about. But we'll also dial in and on our -- on the playful side of our brand with the NFL partnership, right? We think our relationship with the NFL is going to unlock sort of a playful side of our brand in sort of a fun and unexpected way, and it will feature promotions that will resolidify that the NFL and Applebee's are really a natural partnership for our guests.

Eric Gonzalez

Got it. Thanks. I'll pass it on.

Operator

Thank you for your question. One moment, please. Our next question comes from the line of Dennis Geiger from UBS. The floor is yours.

Dennis Geiger

Great. Thanks very much, guys. First, just wanted to ask about sentiment across both the Applebee's and the IHOP systems right now, particularly, I guess, as it relates to development. It sounds like a lot of this is sort of macro and a challenging development environment. But could you talk for both brands as it relates to sort of demand to build timelines? Just any kind of incremental color on the development side of things for both, please?

John Peyton

Sure. Hey, Dennis, we do have your name pronounced correctly, so we got it, Dennis, and it's John. I'll comment broadly and then ask Jay specifically to talk about IHOP since that's where we did change our guidance. It's important to reinforce that for International, for Fuzzy's, and for Applebee's. We are on track for the plans for the year. It's IHOP specifically where we made an adjustment based upon that, the dynamics of that portfolio. And Jay can give you some more of the details.

Jay Johns

Hey, Dennis, this is Jay. Look, I think to answer your question directly is, we still have a lot of desire and demand by our franchisees to open more IHOPs. We have a challenging timing on trying to predict this. It's one of the toughest things we do from a guidance standpoint, is predicting when these are going to open. We still have similar issues as we've had in past years. I know it becomes an old story, but things have changed since the pandemic. And the situation is that you've got a different set of circumstances every year. It's not like it's the same thing every year. You deal with different municipalities and different contractors and different franchisees. They're not exactly the same ones every [Technical Difficulty] and you got to manage through that. We're trying to do a better job this year to make a correction to our guidance early on. If we see something that instead of hoping they're still going to get in those last weeks of the year, I think we're trying to be a little more realistic with the timeline and what we put out there for guidance, et cetera. So there's a little bit of softening in the number compared to where we thought we were going to be in the fiscal year this year. So we backed off the new openings and our closures have ticked up a little bit this year as well. And that's all kind of cyclical as far as when the renewals come due and how many you have, and how many get activated late in the cycle with leases and things like that. So, we're just trying to be realistic. We still have great demand for IHOPs, and our pipeline is still getting filled up for future years. And we've still already opened almost a dozen restaurants so far this year. So we're going to keep opening IHOPs. We're still bullish on our development and our future.

John Peyton

Hey, Dennis, it's John. Just a little bit of context there is we're talking about the net number for IHOP being zero to 15. And, it's important to also note that -- that means we're going to open about 40 restaurants this year, plus or minus, which is remarkable for a 65-year-old brand. And at the same time, with very little marketing and just reaching out to a couple of franchisees to test the waters on dual brands, we've got a pipeline of already 15 restaurants that are looking to add a second brand to their existing box. So we are encouraged by franchisees' interest and willingness in building restaurants. And as Jay said, in any given year, you've got a unique composition of what's supposed to open as well as closures. And that's an important part of the story is understanding how we get to that net.

Dennis Geiger

That's helpful, guys. And if I could get another one in. Just want to come back to guest satisfaction scores. I think you spoke to the solid scores at IHOP. But I was wondering if there's anything more to add on Applebee's, how the scores are trending? And I guess really what the customers are telling you about -- maybe the biggest opportunities to increase frequency. Tony, you might have mentioned or alluded to a couple of minutes ago that it was kind of mainly macro. Is there anything sort of brand-specific? Anything to share on some of those learnings on feedback scores as it relates to how you can drive frequency in the back half and beyond? Thanks, guys.

John Peyton

Sure. That's a good question for Tony.

Tony Moralejo

Thanks, John, and good morning, Dennis. When we think about frequency, it's obviously, certainly an ongoing focus. But to drive greater frequency, Dennis, you have to provide more access to your brand. And we've been doing that. Like, for example, we've improved the functionality and the convenience of our new website and app. We're working with franchisees to solve some late-night staffing issues so that restaurants can stay open later. We got to make sure we have a compelling calendar and stay top of mind with our valuing or value offerings. And we have to enhance our off-premise offerings, right, to be more inclusive. So, for example, at the beginning of this quarter, we were able to leverage a dine-in promotion, which was America's Favorite Boneless Wings at \$0.50 we made that available to our off-premise guests. So it's really to drive greater -- it's about making to drive greater frequency. It's about making the brand more accessible and meeting the consumers where they want us to be

Dennis Geiger

Thanks, Tony. Thanks, guys.

Operator

Thank you for your question. Our next question comes from the line of Jeffrey Bernstein of Barclays. The line is yours.

Jeffrey Bernstein

Great. Thank you very much. Two questions. The first one just following up on the comp trends. I was wondering if you can share any color in terms of sequential trends through 2Q or into 3Q and maybe the components of the comp at each brand. I know you mentioned that you're outpacing the industry on traffic, just some support or at least the details behind the comps at each brand to kind of -- to support that idea and whether or not the sequential trends changed materially over the past few months. And then I have a follow-up.

John Peyton

Vance will take that first question.

Vance Chang

Good morning, Jeff. So as we said last quarter in Q1, we were really encouraged by the momentum in the second half of Q1 into the early part of Q2. And as Q2 progressed, the macro pressure intensified and persisted. And so, based on the trends we're seeing the last -- in the past two months or so, we anticipate the pressure to continue throughout the year. And so, we've taken this conservative approach to update our guidance. And but, Jeff, it's worth noting that our brands and our franchisees we've been through many, many cycles like this before, right? And our core competency, it's always been about values in up or down cycles. So because that's important to our guests. So - - we may need to turn up our value offering a bit in tough times like this, so we're comfortable running our core playbook.

Jeffrey Bernstein

And the components of the comp for each brand in terms of pricing traffic mix.

Vance Chang

Yes, thank you for reminding me. So, for Applebee's menu pricing increase was 2.6% and then our PMIX was down about 2%-ish as consumers managed their check. And then for IHOP menu pricing increase was 7% and PMIX was also down about, call it, 2%-ish range. So those are the components.

Jeffrey Bernstein

Understood. And then my follow-up is just on conversations with franchisees. I know you mentioned that you've been through these cycles many times, which is actually quite encouraging. And it seems like franchisees, based on your thoughts about more deals in the second half of the year, franchisees are seemingly supportive of this discounting to try and return to stronger traffic. But just wondering, how do those conversations go? I mean, I know some industry peers talk about the damage that more aggressive discounting can cause on a brand, maybe the consumer only comes in for a deal. So I'm just wondering if you could talk about how you avoid that risk and maybe the profitability of these promotions. By all means, if these are profitable promotions, I guess it's just the marketing of them that gets people in and then at the end of the day, they're profitable. So just trying to talk about the bigger picture risk of aggressive discounting and how those conversations go with franchisees. Thank you.

John Peyton

Hey, Jeff, it's John. I can take that for all three brands because the process is the same for all three brands. We have extensive committees made up of franchisees for each brand, including a marketing and advertising committee. And those committees plan promotions like this collaboratively with our brand team at headquarters. And there are some principles that they all follow, which is, number one, promotion has to be profitable, right? There's an art and a science to constructing a promotion. The science part of it is we share a lot of math about what we think that should -- it should drive in terms of traffic, which protein you select based upon the cost in the marketplace. And then we do a post-mortem with our franchisees on did it do what we said it would do? And you make adjustments going forward. So there isn't a promotion that any one of the brands runs that is not in alignment and agreement with our franchisees in support of it. The period on that. I'll leave it there.

Jeffrey Bernstein

Last, can you just comment, I know you said labor inflation was stable. Just wondering, I know you gave us the commodities. But what the inflation was in the second quarter and maybe what you're thinking for the back half or the full year for labor inflation at each brand?

Tony Moralejo

Jeff, the labor inflation is harder for us to predict because it definitely varies by market, and it's the franchisee's labor. It's easier for us to talk about commodity food cost inflation expectations, so -- because that's managed centrally by our supply chain co-op. But what we have seen based on the financials that franchisees are sharing with us is that labor costs is stabilizing, right? It's still elevated, but it's not increasing anymore. And so that's a positive sign. But outside of that, obviously, the pressure franchisees are facing, are top line pressures more than the cost side. So, that has shifted. But as John mentioned, the franchisees are as engaged as ever to work with us on value campaigns while we're -- while they're implementing these restaurant profitability initiatives. And we talked about that being \$35 million of annualized savings in the system, which helps not just improve P&L, but also helps offsetting increases elsewhere under P&L.

Jeffrey Bernstein

Understood. Thank you very much.

Operator

Thank you for the question. Our next question comes from the line of Nick Setyan from Wedbush. The line is yours.

Nick Setyan

Thank you. Just kind of going forward, how are we thinking about pricing decisions, just given the competitive environment? And if you could just talk about franchisee health and profitability overall, I know you said the franchisees are very supportive around the value initiatives and getting even more aggressive, but at the end of the day, would love to get some visibility around their profitability and their margins. Thank you.

John Peyton

Hey, Nick, it's John. Let's start with franchisees health. And Vance can talk to that overall.

Vance Chang

Yeah, Nick, I touched on it a little bit earlier, but the health of the system is relatively steady, right? And of course, we have some franchisees that are doing better than others, as you would expect from a system of our size. But as I said earlier, that the cost pressure has come down as inflation comes under control. And so now, what we're working on is sort of at the top-line pressures. And as I said before, franchisees are engaged with us and we're working on addressing that with the campaigns. And John talked about that, the campaigns we run are profitable campaigns. We don't typically run lost leaders. So that should give you a sense of their health currently.

John Peyton

Yeah. And when it comes to pricing, Nick, what we've said now for a couple of years, right, post-COVID, is that historically our franchisees raise prices 2% to 3% a year. And in the last two years, they've been running at a rate above that. But what we're seeing is that that peaked last year, and the increases, the annual increases are beginning to come back down to that historical run rate of 2% to 3%. In fact, Applebee's is pretty close to that year-over-year, just at -- just 2.6% year-over-year price increase, which we think the franchisees have done a great job in being really moderate and cautious with their price increases. I think that's what's driving the three quarters in a row of over-performance and traffic versus Black Box. And they're thinking about the long term in the future as they take a price at that modest rate.

Nick Setyan

Thank you.

Operator

Thank you for your question. Our next question comes from the line of Brian Vaccaro from Raymond James. The floor is yours.

Brian Vaccaro

Hi. Thanks and good morning. Just following up on the value mix, could you provide the value mix for IHOP as well? And as it relates to the profitability of your recent more aggressive value promotions, what type of a traffic lift do you need for them to be profitable for franchisees?

John Peyton

Hey, it's John, Brian. I'm going to pass it on to Tony and Jay in a moment to talk about the mix that they're looking for, but the corresponding number to Applebee's 33% for IHOP is about 12.5%. And the reason that that number is lower, to give you the context, is that the two for \$20, the 2 for \$25 portions of the Applebee's menu attracts more tickets than the standing portion on the IHOP menu. And that's an area that IHOP is actually focusing on going forward. So, Jay, why don't we begin with you to talk about sort of the value strategy going forward, as well as, how you think about the lift you're looking for on any given promotion?

Jay Johns

Hey, Brian, it's Jay. When you think about what it takes to make these initiatives possible or whatever, number one is the only thing that's a real risk, you make money on all of these items. The risk for franchisees is trade down, right? If someone was coming in to buy a full-price item at \$14 and they trade down to what they see that's on a discount at \$6, that's the risk is what's a trade down and it just depends on what the offer is and what it trades with. So, this is where there's that art and science to figuring this out. But what we do is we do financial analysis based on what we're proposing the offer would be. We look at what the cost is, we look at what the price will be, and based on historical post mortems, looking at what other promotions have done with similar type item, we can pretty much predict what it's going to trade with, which items will it trade out of, which items does it trade on the menu. So you can kind of project a potential impact to check by that trade down. So then it becomes just an algebraic equation to figure out how much incremental traffic does it take to make that break even, and then you flip to positive after that. That's another reason also, though, why we choose to do a Barbell strategy. Because when you put out an offer that's a discount, rather than getting everyone to trade into that discount, you also attract the people that maybe don't need the discount, get them excited about maybe some new innovation or something new that's out there, like right now, we have a Pancake of the Month promotion. So every month we've got a brand new innovation on new pancakes. Those are actually at full price. So while we're running a promotion, we'll also simultaneously be having some new innovations. So we try to balance out guest demand on these different areas of the menu, which makes it very profitable for the franchisees.

John Peyton

And, Tony, would you like to add anything for Applebees?

Tony Moralejo

Yeah, I'll make it brief, but I'll just add that everything that Jay just said, which was a terrific answer, applies to Applebee's as well. It's the same methodology and it's the same approach. What -- I'll add two, I think important additional add-ons to what Jay said. One is that, we're not going to be implementing loss leader promotions. We don't believe in loss leader promotions. Every promotion that we run tends to be profitable. And then the second thing I'll add is because I think it's important in this environment is, we have the full support of our franchisees to be more visible, the support to be more aggressive, where our value-based strategies during the second half. And I think that's important in this environment if you're going to drive profitable sales and traffic.

Brian Vaccaro

All right. That's helpful. Thank you. And at IHOP, if I could just follow up there, could you elaborate on what you're seeing, Jay, from a day-part perspective? Any differences in the most recent quarter versus prior quarters? And I'm also curious, are you seeing any difference in comp trends, weekend versus weekday that might be worth calling out?

Jay Johns

Again, this is usually -- no great difference overall. The one place we have seen a tick-up is actually overnight. That's been our best-performing comp increase over the last few quarters. Most of that's just because we continue to get more and more restaurants open overnight, and we're up to within about 100 restaurants I think of our highest level of 24-hour restaurants. So that helps to keep driving that overnight comp, but no huge difference, part of it though depends on what we're promoting is sometimes we'll do promotions to spur that weekday traffic, that's a Monday through Friday-only promotion. Well, if you do one of those kind of promotions, you'll see an over-indexing toward weekdays as opposed to weekend. But again, it's about managing the guests, the traffic, what their spend is going to be, do you want a discount at your highest volume traffic times on the weekend? So it just depends what promotion we're running and what our strategy is at that moment.

John Peyton

Hey, Brian, it's John, and thanks, Jay. The context I would add there is that for both big brands, Applebee's and IHOP, in-restaurant dining is about flat. It's off-prem for both brands. That's a little bit soft and that's the opportunity for us.

Brian Vaccaro

Okay, great. And if I could just squeeze one more in on the lower development targets at IHOP. Is that due to reduced gross openings or increased closures? Perhaps you could just level-set us on each of those. And kind of more broadly, just your level speak to the level of concern internally just regarding future potential closures at both IHOP and Applebee's. Any stats you can provide on the percent of stores that might be close to negative store level EBITDA or are generating negative EBITDA, any perspective there would be helpful. Thanks again.

John Peyton

Yeah, Brian. It's John. I'll take question number four quickly. It's a little bit of both, a couple more closures, a couple fewer openings. And we are not concerned about the long-term. As I mentioned, our franchisees are continuing to open a significant number of restaurants, particularly for a brand of the tenure in size of IHOP.

Brian Vaccaro

Thank you.

Operator

Thank you for your question. Our next question comes from the line of Jake Bartlett of Truist Securities. The floor is yours.

Jake Bartlett

Great. Thanks for taking the question. Mine was a follow-up on what you're seeing in the trajectory of the business and really underlying demand. And you mentioned that the demand softened in the past couple of months. I'm wondering whether you could characterize it as stable at this point kind of had lowered, but is stable, or is it still very much in flux and kind of uncertain at this point? How do you characterize the stability of demand at this point?

Vance Chang

Yes, Jake. So I suppose we could say that. Just want to make sure, when you say stable, are you implying flat comp that we're not quantifying?

Jake Bartlett

No, no. I'm not -- I'm guessing -- I'm trying to say not getting incrementally worse. Demand seems to have taken a step down over the summer, I think, across the industry. And what we heard from most of the fast food concepts, for instance, was that there was stability. It stepped down in June, but it remained roughly the same level in July. So I'm just trying to understand the trajectory of the business, understanding that the last two months, as you mentioned, had decelerated or kind of stepped down, but wondering whether it continues to step down incrementally over the last couple of months or whether it's stabilized or characterize the demand environment is stable.

Vance Chang

In that context, yes, it's sort of stabilized in that sense. So we are forecasting the rest of the year to be similar trends as what we saw in June and July. Not deteriorating, not getting worse, is sort of stabilizing in the context that you provided. That's helpful, yes.

Jake Bartlett

Okay. Great. And then the other question I had was on menu innovation, specifically at Applebee's, it was part of the story, an incremental driver to same-store sales in 2024 had done a lot of work building the pipeline there. We got the Whole Lotta Bacon Burger, but from what I can tell, kind of not much else. And so the question is, how much menu innovation should we expecting for the rest of the year? And in the context of kind of leaning in on more value in the back half, could there be value around menu innovation or just the value kind of maybe crowd out what otherwise would have been a more heavy pipeline or heavy promotional environment for menu innovation.

John Peyton

Jake, it's John. Before I pass it to Tony, I've got to say, what? Not a lot of innovation. Have you tried the new Hand-Breaded Chicken Sandwich? It's fantastic.

Jake Bartlett

I thought that was an improvement, but not a new concept, but a new product. But, yes, I get it.

John Peyton

The better chicken and the hand-breaded is fantastic. But, Tony, why don't you talk about menu innovation?

Tony Moralejo

I will, and it's an amazing sandwich. Good morning, Jake. So we've actually had a lot of innovation this year, which is John's point. In fact, we've probably rolled out more new products in the first half of this year than we did in the prior four years in total collectively, right? We started the year off with our Cheddar and Bacon Skillet, which was a new item that was part of our two-four campaign in February. Then in April, we had a whole lot of Bacon burger, as you mentioned, which was, again, one of our best-tested new menu items in years. So much so and it performed well, meeting most of our targets, that it's now part of the permanent menu. We followed that with the crispy chicken-loaded fries, which was a new appetizer that we promoted along with DOLLARITA in May. In June, we launched our new Hand-Breaded Chicken Sandwiches. And there's more to come. I mean, I don't want to give away a lot of our promotional calendar for the back half of the year, but just stay tuned because there's a lot more menu innovation on tap later this year and in 2025 and beyond.

Jake Bartlett

Okay. And my last question is on IHOP and the virtual brands, you didn't mention. I don't believe, obviously, you lost a partner last year. I think you're starting to -- you're going to be laughing that I was under the impression that that should be real incremental as you bring on virtual brands or additional kind of -- you cover that business. That would be a significant comp driver potentially in the back half here. Is that still the case? What is the dynamic with virtual brands and IHOP for the remainder of the year?

John Peyton

Jay will take that question.

Jay Johns

Yeah, this is Jay. Just to address virtual, you got the story right from the last time is the next bite brands went away almost at this point last year. At the end of Q2, they went away. We did roll out two new virtual brands kind of late first quarter NASCAR brand or Major League Baseball brand that we rolled out. They have been adapted into quite a few of our restaurants. Again, these are voluntary programs. They're not mandatory. So -- but you got many hundreds of restaurants that have added those on, probably not quite to the level of the next bite restaurants. So don't know if they will cover a full -- making up the difference on that in the second half of the year. We'll have to wait and see what that looks like, but it will help relative to not having that at all at the first part of the year. So, it'll give us a little bit of assistance. It's just too soon to tell how much that's going to actually be.

Jake Bartlett

All right. Thank you so much. Appreciate it.

Operator

Thank you for the question. Our next question comes from the line Brian Mullan from Piper Sandler. The floor is yours.

Brian Mullan

Thank you. Just a question on the balance sheet. Vance, I think you've got until June 26 before you might have to address the maturity or key date on a tranche of debt. So you got plenty of time, but just may or may not be entering a tougher macro environment. So just curious if that influences how you plan to approach this as we move forward and what your current thinking is on that topic. Just any thoughts would be great.

Vance Chang

Yeah, Brian, the market -- the WBS market, whole business securitization market, has actually pretty materially improved based on, if you look at the secondary levels of trading levels for our bonds as well as deals that got printed, the general demand for this product versus other products available for investors. So it's a deeper market. So I'm fairly comfortable and optimistic about the refi -- the upcoming refi for us.

Brian Mullan

Okay. Thank you. And then just a question on Fuzzy's specific to the franchise unit counts. There's been a handful of closures this year. Not a lot, but a handful. Just address that and then speak to whether or not you'd expect to see any more over the balance of this year or entering next. Just -- I imagine it's a cleanup of the system, but any color on that dynamic would be great.

John Peyton

Hey, Brian, it's John. That's exactly right. It's a handful. It's really focused on cleaning up some of the older restaurants, older markets have moved away or they don't really reflect the current prototype that we're building and, particularly outside of Texas. I would reiterate, we signed two large agreements last quarter in Arizona and in Houston for a total of 40 new restaurants. And we are investing in the pipeline and we're pleased with what we're seeing there.

Brian Mullan

Thank you.

Operator

Thank you for your question. As a reminder, please ask one question and one follow-up. Thank you. Our next question comes from the line of Todd Brooks from The Benchmark Company. The floor is yours.

Todd Brooks

Hey, thanks for taking my questions. First question, if I look at the magnitude of the same store sales guidance decline at Applebee's and then try to match it up with what we've heard on the call about better and maybe more novel approaches to value, a little bit more focus on value, and then obviously a deeper partnership with the NFL as we get towards late Q3 and Q4, can you just walk us through what drove the magnitude of the guide down the 400 basis points and how you balance conservancy in a tough environment versus these opportunities that you laid out on the call?

Vance Chang

Todd, this is Vance. So that's part of the reason why we provided a range upside and the lower end of the range. So the magnitude of what's going to happen in the second half largely depends on the macroeconomic headwinds that we saw in June and July. But -- and to the extent that the value campaigns that Tony talked about working out and then there's the easing of pressures, I think that that's how we could see sort of the higher end of the range that we're guiding on. And then the lower end is sort of -- so, it's hard to predict exactly where it's going to land, hence the range we provide.

Todd Brooks

Okay. Great. Thanks, Vance. And then my follow-up, I know we've talked in the past about the need to lower build cost for new units. Just wondering, especially in the Applebee side, but across both brands, what we're seeing as far as efforts bearing any fruit there. And then with these dual-branded boxes, would love to get some color around kind of the build costs there if we hold that kind of revenue lift of 2x that you're seeing in international markets with some of those early dual-branded locations. Thanks.

John Peyton

Thanks, Todd. It's John. For dual brands, we're not prepared yet to reveal the costs because we haven't actually built them in the US. That's part of our test and learn the process with -- in partnership with a couple of franchisees, however, Applebee's is making progress on its efforts. And Tony, do you want to add some color to that?

Tony Moralejo

Yeah, I'm happy to. Good morning, Todd. We're incredibly pleased and encouraged with what we've seen so far with our value-engineered prototype. I'm happy to report that it's on track. The next step is we're going to assess the new value-engineered design with the consumer in September to make sure it resonates with them. And then we're going to conduct an operations test because we've optimized the entire back of the house of an Applebee's. And we'll do that test in October. From there, we'll refine and adjust as necessary. And then the plan is to introduce the new prototype to the system in 2025.

Todd Brooks

Okay. Great. Thanks, guys.

Operator

Thank you for the question. Our last question comes from Andrew Wolf of CL King. The floor is yours.

Andrew Wolf

Great. Thank you. Just wanted to ask also on the NFL partnership that you just -- was announced earlier in the year. If I understand that Applebee's has already been doing like Sunday Night Football night, and maybe not in a partnership, but on an ad hoc basis. So how much of a step up in commitment is this was the prior way of marketing football games, more of a regional basis? And is this going to be more of a national thing? So what kind of scale of magnitude of the increased commitment is this for Applebee's?

John Peyton

That's a question for Tony.

Tony Moralejo

Thanks, John. In the spirit of the Olympics and let's say archery, so the relationship we had before with NBC and Sunday Night in America, it was more about -- we were on the edges, right? We weren't right in the bullseye, we were pre-game, halftime show, postgame, et cetera. And that relationship has worked well for us, and we continue to maintain that relationship. The new partnership with the NFL is the bullseye, right? It's drop-dead in the center, its full access to the entire power of the NFL brand. It's the world's most popular and watched sporting event throughout the year. And so we're going to have the ability to leverage and have access to their full catalog of assets. And you'll see that come to life in September. I don't want to give too much away, but you'll see promotions that bring out the best attributes of both the NFL and Applebee's. And I think our guests are going to enjoy great value, incredible fun, and an incredibly engaging restaurant experience.

Andrew Wolf

Just a bit of a follow-up because it's novel, right? And I think you're the first restaurant brand or bar and grill to partner this way. Is there flexibility within the agreements to expand it if things are going great or contracted or not fulfill it, not do as much or if things don't take off as much? Is it kind of built that way, or the commitments between you to the NFL pretty ironclad?

John Peyton

Yeah. I'm not going to get too much into the specifics of the legal agreement, but it's a multi-year agreement that does give us a certain amount of flexibility. It's not a one year and done, and it's not a long-term five, 10-year commitment either. So we've got some flexibility built in there.

Andrew Wolf

Got it. And just a couple of housekeeping. If Applebee's has had a gap to Black Box casual dining, just give us a sense of on traffic. Is that like a percent or in the basis points, or what the gap looks like of outperform relative outperformance?

John Peyton

Tony, do you want to take that since this is Applebee's question?

Tony Moralejo

Happy to. So we don't share specific traffic numbers. We do provide some color as to the competitive set, specifically using Black Box as a tool. In terms of traffic, Todd, we've outperformed the category in 2023, and we've continued to outperform the category over the last three months as well. And again, as we mentioned earlier on the call, a lot of that credit goes to the pricing that our franchisees have been very, very conservative and strategic with their pricing. So we're happy relative to the category where we stand in terms of traffic. I think that sets us up well for the long term.

Andrew Wolf

Okay. Thanks for the answer.

Operator

Thanks for your question. That concludes the question-and-answer session. I would now like to turn back to John Peyton, Dine Brands' CEO, for closing remarks.

John Peyton

Thanks, Gerald. Appreciate it. And thanks, guys, for all of the questions. I would just add that from my perspective, super excited about the NFL program as well. I particularly like it because in addition to the advertising on television, on their digital channels, we have the ability for great activation in the restaurants because we've got access to teen marks, to the Super Bowl mark, we'll have a trip for one of our guests to go to the Super bowl. So, it's a great way to get our team members and the restaurants involved, and again, create that extra level of fun that Applebee's is all about. And it's actually cost-efficient for us as well. So, we're super pleased with that. And we are the first and only restaurant in the CDR space to take on this partnership. So, thank you all for your questions. Appreciate it. And have a great day.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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