

Seeking Alpha^α

Transcripts

Dine Brands Global, Inc. (DIN) Q3 2024 Earnings Call Transcript

Nov. 06, 2024 1:24 PM ET | **Dine Brands Global, Inc. (DIN) Stock** | DIN

**SA Transcripts**

152.47K Followers

Q3: 2024-11-06 Earnings Summary

Play Call

 PR 10-Q

EPS of \$1.44 **beats by \$0.10** | Revenue of \$195.03M (-3.73% Y/Y) **misses by \$3.37M**

Dine Brands Global, Inc. (NYSE:[DIN](#)) Q3 2024 Earnings Conference Call November 6, 2024 9:00 AM ET

Company Participants

Matt Lee - Senior Vice President, Finance and Investor Relations

John Peyton - Chief Executive Officer

Vance Chang - Chief Financial Officer

Jay Johns - President, IHOP

Tony Moralejo - President, Applebee's

Conference Call Participants

Eric Gonzalez - KeyBanc

Pratik Patel - Barclays

Nick Setyan - Wedbush

Dennis Geiger - UBS

Brian Vaccaro - Raymond James

Jake Bartlett - Truist Securities

Todd Brooks - The Benchmark Company

Operator

Good day, and thank you for standing by. Welcome to the Dine Brands' Third 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 host today, Matt Lee, Senior Vice President of Finance and Investor Relations. Please go ahead.

Matt Lee

Good morning, and welcome to Dine Brands Global's Third 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 Brand's Investor Relations website. For calendar planning purposes, we are tentatively scheduled to release our Q4 2024 earnings before the market opens on February 25, 2025, 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 thanks for joining us for our third quarter earnings call. I'll begin by discussing our plans for IHOP's leadership transition. As we announced in September, after 16-years at Dine and the last six as IHOP's President, Jay Johns has announced his retirement. Jay will step down from his role in January and will remain involved with IHOP in an advisory capacity until March of 2025. Jay's tenure is marked by IHOP's strengthened market position, now operating over 1,800 restaurants globally. And while we'll miss his daily presence, we're tremendously grateful for his continued support during the transition period.

And two weeks ago, we officially welcomed Lawrence Kim, and he will assume the title of IHOP President on January 6th.

Lawrence joins us from Yum! Brands, where he was most recently Chief Innovation Officer. Lawrence has over 20 years of senior leadership experience at leading consumer brands and he's got a proven track-record in driving global brand strategy, marketing and digital innovation. Lawrence brings valuable experiences and fresh perspectives to support IHOP's long-term growth and as IHOP President, he'll oversee the continued expansion of the brand, focusing on driving development and sales growth, pioneering innovation and improving the guest experience. We're excited to have Lawrence on-board and we wish Jay all the best for his retirement.

Now, moving on to our results. Today, I'll discuss Dine's Q3 results, including performance and operational updates from our three brands. I will also dig into some important consumer insights we've learned this year and how it's informing our strategy for Q4 and into 2025. And then, I'll hand the call over to Vance to discuss our financial results in greater detail. The third quarter was challenging for our brands with results falling short of our expectations. Industry headwinds have persisted, and our operating environment continues to be highly competitive and promotional.

Our consumer demographic remains under financial pressure and is still pulling back on discretionary spending with the biggest impact coming from the lower-income consumer, as they're choosing to eat at-home more often. There's no doubt that macro challenges continue to impact performance, but the bigger question for us is how we can be more forceful in pushing back against these headwinds and more effective at drawing guests to our brands. We know we're capable of more and while the underlying strength of our business provides assurance of resilience through market cycles, we are diligently working to identify and address the missing ingredients in our strategy to refine our offerings and move forward.

For the purpose of today's call, I'll provide an overview of what we know today, what we know is working and where we see opportunities to refine, reorient and accelerate our strategy. We already know that today's environment demands promotions that deliver value, menu variety, great food and drinks and an outstanding experience. However, there are also areas that require further refinement and reorientation to better address evolving consumer needs.

At a high-level, we know the following about our guests in today's changing market. First, guests are placing a higher value on consistency, knowing what to expect and a seamless interface with the brand in every interaction. Guests are increasingly seeking out simplicity in a market with overwhelming choices and guests continue to trade-down and some are seeking all-encompassing value that extends to the entire dining experience.

Despite current challenges, market data tells us that our guests continue to have a strong affinity with our brands. Our brands have delivered value at scale for generations, supported by a robust network of some of the most loyal and dedicated franchisees in the industry. And in fact, our opportunity now is to better capitalize on our brand equity to enhance the impact for all of our stakeholders.

Now, for an overview of the numbers from the quarter, adjusted EBITDA increased \$1.3 million to \$61.9 million in Q3 compared to Q3 of 2023. Total consolidated revenues decreased \$7.6 million to \$195 million in Q3 2024 compared to the same period last year. Applebee's reported negative 5.9% comp sales and IHOP reported negative 2.1% comp sales. Vance will provide more details on financial performance in a moment.

And so, with that, I'll turn to the brand updates, beginning with Applebee's. Applebee's continued to face tough conditions in Q3, paired with a tough rollover of our successful all-you-can-eat wings promotion from a year-ago, this resulted in comp sales and traffic falling short of our internal expectations.

In Q3, we kicked-off our partnership as the official grill and bar of the NFL with a new ad campaign that featured current players and coaches and highlighted our \$0.50 Boneless Wings campaign. At this early stage of our partnership, we're encouraged by the strong engagement around our advertising campaign, showing the power of the brand alliance between the NFL and Applebee's. Further work is needed to leverage the potential of the partnership and drive traffic.

The Applebee's NFL partnership provides a platform for us to demonstrate all-encompassing value to our guests and we're making the necessary menu refinements to better package our offering to capitalize on the potential we continue to see here, and we'll provide further updates next quarter. As we do this, we'll build-on the quarter's bright spots, including the positive impact on our off-premise sales during the NFL promotion.

As we said before, we believe there is significant opportunity to improve our off-premise business. Extending our promotions and limited time offers to off-prem channels is an important pillar in advancing this strategy. In fact, we've seen guest satisfaction metrics improve versus previous quarters, driven by enhanced off-premise offerings and improved order accuracy.

Working with a prominent brand like the NFL helps us provide exciting opportunities to connect and drive engagement with our guests, both in-person and online. And I believe significant upside exists when paired with the consistency, simplicity and all-encompassing value we know our guests want and our brands are capable of delivering. So looking ahead, you can expect to see a combination of immediate refinements to our offerings.

For example, we launched two value initiatives in October to drive traffic. On Mondays, we now have our Pick 6 promotion, which will run-through the Super Bowl, and we recently introduced our new Burger Tuesday LTO that offers a handcrafted burger with fries and a drink for just \$9.99.

Our Real Big Meal deal is also launched in this quarter, which will include the choice of a new big entree or a fan favorite and a beverage at an attractive price point. We're applying our learnings to this with a shift to more full meal value offers and we'll continue to evolve our value propositions to keep our guests engaged.

Now, moving to IHOP. IHOP's performance was challenged, as we were also lapping last year's successful double value offerings of Kids Eat Free and All You Can Eat Pancakes. In the middle of June, we leveraged our barbell promotion strategy to meet our guests' needs, and we saw some positive results from those efforts this quarter. An example of this was our All You Can Eat Pancakes promotion, which featured a menu handout with our value-priced All You Can Eat Pancakes on the front and higher-margin abundant combos on the back. This year, we once again decided to run the campaign around back-to-school season to help families when schedules are tight, and wallets are pinched.

Last year was the first time we offered All You Can Eat Pancakes in the third quarter, which was based on guest feedback and proved to be successful. In an increasingly crowded space for value, our messaging is taking a bit longer to capture the attention of guests. Despite this, our All You Can Eat offering had a positive impact on sales in August and September with comp sales performing at or above family dining for three weeks during the promotion.

On the menu innovation front, IHOP unveiled its fall menu in September and launched its new Anytime Tacos as well as updated a variety of favorites, including IHOP's Breakfast Burrito, which is performing well-above expectations. We're promoting these new menu items as well as our combo tiers to support a balanced barbell strategy and continue to drive profitability for franchisees.

And in October, we launched our brand new House Faves menu with four high-demand breakfast dishes available Monday through Friday for \$6 or \$7 depending on the market, giving families an expanded way to save when dining out during the week. This value platform has been in the works for over a year, and it offers craveable menu items at attractive price points.

We're pleased to see our efforts around enhancing the guest experience are having positive impact across our system. Over the past year, we've seen improving guest satisfaction scores and guest complaints have gone down as a result. We attribute this to our improving operations and focus on efficiency in the front and back of house.

Recently, more IHOP restaurants are offering 24-hour locations. We're working with franchisees to take a disciplined approach to reintroducing 24/7 or 24/2 and making sure the economics make sense and there is demand for it. Year-to-date, we added 42 additional 24-hour locations, bringing the total to 860 restaurants.

As we said earlier in the call, we're excited about the opportunities that lie ahead for IHOP. Value will remain our focus for the rest of the year, and we have a strong pipeline of promotions, marketing campaigns, and menu innovation that will keep our guests engaged during the busy holiday season.

Shifting now to Fuzzy's. In October, we announced that Patrick Kirk was promoted to President and Chief Marketing Officer. Patrick has made an immediate impact, and we're excited about the fresh perspectives and creative thinking he brings, as he leads the brand's future growth. In Q3, Fuzzy's comp sales and traffic were pressured, but introductions of new value promotions helped improve performance towards the back-half of the quarter. We continue to get positive feedback from guests on new menu items and Fuzzy's expanded promotions that are leveraging the benefits of the Dine platform.

During the quarter, Fuzzy's launched its Hot Honey Chicken Tacos and Spicy Watermelon Margarita combo developed in collaboration with Country Music star Thomas Rhett's tequila company, Dos Primos. Traffic and sales improved during the run of this limited time offer and guests' feedback to this combo offering was very positive. As a result, we're going to leverage Fuzzy's bar and beverage capabilities to lean more into taco and margarita combo platforms moving forward.

Late in the Q3, Fuzzy's has announced a first-of-its-kind partnership among its Dallas-Fort Worth franchisees to launch a regional happy-hour deal. This was significant moment for the Fuzzy's brand because first, the Dallas-Fort Worth area is Fuzzy's biggest market with over 50 restaurants. Second, having a happy-hour deal expands our daypart between lunchtime and peak dinner hours, which also contributes to higher traffic. And third, this is another chance for us to show and expand the strength of our bar business.

Looking toward the rest of the year, we have new promotions and new menu items in the pipeline as we continue to reinforce our value-driven positioning at Fuzzy's. Now on the international side of the business, we're driving growth in both our core markets as well as strategically looking at opportunities in new markets with eight net openings year to date.

In the Q3, we opened three dual-brand locations, two in existing markets, Peru and Mexico, and one in a new market, Honduras, bringing us to 13 total dual-brand restaurants. The restaurants have performed well, and we continue to see this portfolio achieve on average approximately 1.5 times to 2 times the revenue of a single branded restaurant. We're pleased with the growth of the dual brands concept internationally and we're excited about the potential of this opportunity domestically. We've already received strong interest from existing U.S. franchisees on adding a second brand into their restaurant.

As we mentioned last quarter, we have 15 sites targeted and continue to remain on-track to open our first U.S. domestic location in Seguin, Texas in Q1 of 2025. Having two iconic brands in our portfolio that complement each other as a competitive advantage, and we plan to leverage this to improve the economics and drive growth across our system.

I'll wrap-up by reiterating our commitment to driving growth, innovation and exceptional guest experiences. I'm confident in our team's ability to navigate the evolving market landscape and capitalize on new opportunities.

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

Vance Chang

Thanks, John. While our top line results were challenging this quarter, we continue to generate strong free-cash flow and EBITDA and remind shareholders that our asset-light business model positions us well to navigate these volatile environments.

On the top-line, consolidated total revenues decreased to \$195 million in Q3 versus \$202.6 million in the prior year, primarily driven by a \$6.2 million decrease in franchise revenue and a \$1.1 million decrease in rental revenues.

Our total franchise revenues decreased 3.6% to \$166.4 million compared to \$172.5 million for the same quarter of 2023. Excluding advertising revenues, franchise revenues decreased 2.6% to \$96.6 million compared to \$99.1 million.

Rental segment revenues for the third quarter of 2024 decreased compared to the same quarter of 2023, primarily due to operating lease terminations and a decrease in percentage rent. G&A expenses decreased 6.6% to \$45.4 million in Q3 of 2024, down from \$48.6 million in the same-period of last year, mostly due to lower compensation-related expenses, offset by an increase in depreciation expense.

Adjusted EBITDA for Q3 of 2024 increased to \$61.9 million from \$60.6 million in Q3 of 2023. Adjusted diluted EPS for the third quarter of 2024 was \$1.44 compared to adjusted diluted EPS of \$1.46 for the same period of last year.

Now, turning to the statement of cash flows. We had adjusted free cash flow of \$77.8 million for the first nine months of 2024 compared to \$54 million for the same period of last year, driven by a \$21.7 million decrease in capital expenditures.

Cash provided by operations by the end of the third quarter of 2024 was \$77.7 million compared to cash provided from operations of roughly \$79.3 million for the same period of 2023. The decrease was primarily due to a decline in segment profit, offset by a decrease in G&A expenses and a favorable increase in working capital.

CapEx through Q3 of 2024 was \$10.3 million, compared to \$32 million for the same period of 2023. The company increased spending in information technology and other projects in fiscal year 2023. We finished the Q3 with total unrestricted cash of \$169.6 million compared with unrestricted cash of \$153.5 million at the end of the second quarter.

Additionally, we paid \$7.8 million in dividends in Q3 of 2024. We continue to remain committed to our current dividend, which has a dividend yield of nearly 7%.

Next, let me discuss Applebee's performance. Q3 same-restaurant sales were negative 5.9%. Average weekly sales were over \$49,500, including over \$10,700 from off-premise or over 21% of total sales, of which 11% is from to-go and 10% is from delivery.

IHOP's Q3 same-restaurant sales were negative 2.1%. Average weekly sales were \$37,000, including \$7,100 from off-premise or 19% of total sales, of which 7% is from to-go and 12% is 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 continue to stabilize. Our expectations for the full-year are consistent with what we said in Q2, which was 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 2.4% and IHOP commodity costs grew 3.7% 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 \$42 million of annualized savings across the system.

Before turning the call back over to John for Q&A, I'd like to quickly provide an update on our financial guidance for 2024. We remain committed to the guidance we provided during last quarter's earnings call with the exception of G&A. Our revised G&A guidance is in the range of \$195 million to \$200 million, including non-cash stock-based compensation and depreciation of approximately \$35 million.

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

John Peyton

Thank you, Vance. Our solid financial footing, our loyal franchisees network and dedicated team members all comprise our strong foundation. Together, we'll continue to build on our strengths, we will refine our strategies, and we will deliver value to stakeholders. I certainly appreciate our shareholder support and belief in our plan, and I want to thank you for joining us today.

And so, with that, we'll turn it over to the operator and we'll be open for questions. As a reminder, in addition to Vance, Jay and Tony are also with us today and are happy to answer any questions you have. So operator, please go to the queue and open the line for the first question.

Question-and-Answer Session

Operator

Thank you. At this time, we will conduct a question-and-answer session. [Operator Instructions] Our first question comes from Eric Gonzalez of KeyBanc. The floor is yours.

Eric Gonzalez

Thanks. Good morning. As I reflect on what's been done to drive strong results at your largest peer, it's clear that its success was tied to a heavy focus on operational improvements, including a significant investment in labor and rethinking of the menu architecture. This was all contemplated before the brand decided to pour additional dollars into the ad fund. So my question is, do you think you need to make similar operational adjustments?

And relatedly, the fact that your franchise business and impediment towards getting that done and what is the appetite among your franchisees to reinvest in labor, ingredient quality and perhaps stepping up on value?

John Peyton

Okay. So we'll try to unpack. So I'll start with our performance, right. So in 2021, 2022 and '23, Applebee's, which you're referring to in your question, it did overperform in same-store sales and it's relative to black box and relative to its peers. And clearly, as you alluded to, traffic is an issue for us this quarter and so far in 2024. And our focus and what we're seeing is that we just -- we need to be more consistent. We need to be more consistent in operations and service and quality of food as you mentioned, but in particular, we'd be more consistent with our promotions and our advertising, making sure that they perform well more often or all the time and not as sort of hit or misses we had during the quarter.

Our learning is that we've got to meet guests where they are and the guest definition and expectation of value shifted over the last couple of quarters, Eric. And really, they started to focus on the total cost of the meal and where Applebee's and IHOP for that matter were focused on primarily promoting an element of the menu or menu item, it became clear that guests want to know the total cost of dining in a restaurant for argument's sake, the cost of your sandwich plus fries and a drink.

And so, we are very aware of that insight and have made corrections going-forward and as recently as rolling out IHOP's House Faves last quarter. Most importantly, our brands are highly regarded. We have a high-affinity for both brands, and we're really focused on getting the value right and making sure that our offerings match-up against what guests expect.

And in terms of franchisees' willingness to invest, our franchisees, we believe are among the best on the planet and they -- many of them have been in this business for decades, as you know, on the Applebee's side and have substantial portfolios, we work very closely with them on all of our plans, marketing, renovations, operations and we are hand-in-hand together working to address the moments and they're making the investments they need to make.

And I think your last point, if I hit them all, is you asked about if our model, I think you're referring to our asset-light model, meets the times. And that's been our model and our strategy for a very long-time and it's one that we believe is the right model going-forward. As you know, we generate a lot of cash consistently. We have minimal CapEx and we have less exposure to the upward or downward swings of the market.

So what it does enable us to do -- what it does enable us to do is we do have the cash and the resources to help our franchisees when and where they need it, whether that might be renovations, marketing or even taking back restaurants. And so that's our view about our model and the work we have to do going-forward.

Eric Gonzalez

So one part of this topic is really -- comes down to frequency. So if you're driving a lot of customers in with, say the NFL partnership or \$0.50 boneless wings, are the customers coming into the promotion and are they coming back, because if there's an operational problem, they might not come back. If the services falling short of expectations, they might not come back. And I think what we're seeing at your competitor is that they spend a lot of time fixing the operations before -- to drive that frequency. So I'm just wondering if you're seeing anything in the trend-line around your frequency of occasion that would tell you that there needs to be some sort of change made.

John Peyton

Our -- the guest satisfaction scores actually at both brands, not just Applebee's, are both up this year into the last quarter and both brands have spent a significant amount of effort over the last year focusing on operations, service and quality of food. So we don't see that as the issue, Eric. What we see is that our marketing strategy, the messages that we're sharing and the value that we're communicating were not as compelling as they needed to be the last couple of quarters and it's really the consistency guests coming in.

What we're seeing is that it is a very promotion-driven environment right now. And there's a lot of quote noise out there for consumers to sort through when there are so many brands and so many categories offering so many promotions and deals. And so, we have to make sure that we are very sharp in the right promotion, communicated the right way to drive traffic and repeat traffic.

Eric Gonzalez

All right. Thanks. I'll pass it on.

Operator

Thank you for your question. As a reminder, please limit to one question. Our next question comes from Jeffrey Bernstein of Barclays. The floor is yours.

Pratik Patel

Thanks. Hi, this is Pratik on for Jeff. Good morning, everyone. I just wanted to dig a little bit deeper into the value messaging. It seems like both brands have always had it yet are seemingly struggling to break-through right now. John, just what do you see as the biggest roadblock right now? What can you tweak in the near-term beyond your recent promos and LTOs? And just how do you tackle that whole messaging around consistency and simplicity? Is there a potential opportunity to revamp the menu a little bit some others in your space as well?

John Peyton

Yes, Jeffrey, I just -- I don't have much to add past my last answer. So I'm going to ask Jay and Tony to speak more specifically about their brands' plans. But I will reiterate that our focus is on consistency and clearly simplicity and all-encompassing value and that does include looking at our menus, which Tony and Jay can address. So Jay, why don't you begin for IHOP talking about the way, in which you're thinking about value and your menu going forward and then we'll go to Tony.

Jay Johns

Yes, sure, John. I think one of the things that we strongly feel that we've improved our execution in our operations over the last year and that value piece, as John said, hasn't been quite right. One of the things that we've always had value, as you said, but sometimes it's been a lot of limited time offer value. It's here today, gone six weeks later. And the thing we've really been missing is kind of a more stable everyday type value and that's why exactly we rolled-out our new House Faves program in the fourth quarter, so it doesn't show-up in the third quarter results.

But for Q4, we did roll-out our House Faves program and we're encouraged by the early results of that program. It's a weekday value program. We tested it earlier this year and launched it on 1 of October. It leans directly into our strength around breakfast. It has four breakfast full meals, all priced at \$6, \$7 in some of the more expensive markets. It includes pancake combo, French toast combo, an omelet, a house scramble with hash brown.

So they're full meals like the guest is wanting right now at a price point that's very competitive. And we feel like this being more of a stable thing on our menu of that guests can count on will make a difference for us, as we go-forward. So too early for results, but we're seeing positive signs right now we're pleased with.

Tony Moralejo

Yes, thanks, Jay. This is Tony. Good morning. So looking back at this year, one of the key learnings for us is we know that we can no longer rely on what worked so well for us in the past, right? So we're building a new, what I'll call an integrated value platform that's going to create more consistency. That's going to enhance what's already working for Applebee's and it will help us unlock some new ideas. And this value platform is going to serve as a catalyst that should kickstart a new cycle of traffic, of sales growth for the entire Applebee's system. And you're going to see a glimpse of our new approach starting next week with our new campaign.

Pratik Patel

Thanks for that. I appreciate it. And then I know it's a little bit early and you're definitely not going to give guidance today, but just in terms of net unit growth in 2025, at a high-level, just are there -- is the closure activity largely behind us and kind of what opportunities do you see to incentivize franchisees to open up more units and are you considering some alternative measures, perhaps opening some co-op units yourself to kind of just refranchise later, but just to demonstrate the viability of these units, just at a high-level, how do you turn the tide in 2025?

John Peyton

Yes, Nick, it's John. I'll take that because it really it pertains to both brands. And you're correct, we're not giving guidance for 2025 yet. But a couple of things I'd like to say about development. The first is, as you all know, we devoted more resources earlier this year to both recruit new franchisees to bring deals to existing franchisees and resources to assist in the speeding of the construction process for those who are building.

And we are seeing the beginning of the fruits of that work and the impact it's having on the pipeline for the brands. It's always worth noting that IHOP is consistently opening 40 or so restaurants a year, which is a remarkable achievement for a 66-year-old brand with the large footprint that it has and we're confident that that will continue.

And Applebee's, as we've talked about, the biggest barrier to growth for Applebee's has been the cost of building a new Applebee's. And the brand has made very good progress against a new prototype that I'll ask Tony to talk about in one moment. But where we're seeing a lot of success right now that we think will also fuel our growth rate next year is in the dual brand.

And it's important to note on the dual brand that the driver for it is not necessarily the consumer proposition, it's really the economics for our owners and our developers. It's really a B2B product, in the sense that it's got complementary dayparts, a shared kitchen, a common menu, cross-train staff. As I mentioned in the comments, they're doing 1.5 times to 2 times the revenue. We've got 13 open internationally and we're on-track to do a dozen-plus next year domestically starting just outside San Antonio.

And most of those restaurants in the U.S. are existing IHOPs that are adding an Applebee's. So that's going to be a big driver of Applebee's beginning to reverse its net closure numbers. It will also help us mitigate closures to your point next year, Nick, because there are sometimes restaurants that are on the border, but if they have the ability to add a second brand, it makes their economics much more favorable. It also enables developers that we have in the system who want to develop, but their territory doesn't have any room left for them to start to add one of the other brands as well. And so, we see that as a big catalyst for growth.

In terms of our willingness to in terms of our willingness to invest, Jeff, I'm sorry. -- In terms of our willing -- in terms of our willingness to invest, we are always -- we are willing to take back restaurants. And when and if we do, we would invest in renovating those restaurants just as our franchisees would.

Pratik Patel

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

Operator

Thank you for your question. Our next question comes from Nick Setyan from Wedbush. The floor is yours.

Nick Setyan

Thank you. You know, in April, you guys had that burger deal I think that was the only month that you were positive for the year in terms of Applebee's. Do you think this sort of price certainty that comes with this big meal deal in Q4 and the actual deal itself, is that enough to turn the tide or just to stem the tide, right?

I mean, can we actually see some positive comps start to materialize in Q4 or is it enough to maybe just kind of stem the tide and maybe increase it slightly? And then on the IHOP side, are we happy with sort of what we have in Q4 or is there more to be done to again kind of reverse the tide and turn positive? I'll just leave it there. Thank you.

John Peyton

Okay. Thanks, Nick. Tony, why don't you address the big meal deal and what you see for the fall?

Tony Moralejo

Yes. So we've got a new campaign that kicks off next week and I'm not going to give too much away, but there are similarities with the whole lot of bacon burger promotion that we had so much success with earlier this year that you alluded to. I will say this is more all-encompassing value. I will say it's a much more comprehensive campaign than the whole lot of bacon Burger and we've adjusted our media contact -- our content, we've adjusted our social media strategy for this campaign. So there are high expectations across the system for this new campaign, which kicks off the middle of next week.

John Peyton

And Tony, to respond directly to Nick's point this is designed not to stem of the tie. This is designed to drive positive comps, as we did in the last couple of years.

Tony Moralejo

Correct.

John Peyton

And then Tony, may I ask you one other thing is Jeffrey had asked about the Applebee's plan, I alluded to the prototype work, I think it's helpful for you to explain the status of the prototype.

Tony Moralejo

Yes, happy to, John. So the new prototype is on track in terms of timing and in terms of targeted savings. If you recall, we had mentioned on an earlier call that our goal was to reduce the build cost by 30%. And so, we're well on our way to achieving that target. The new design was assessed with consumers back in September and we received really high marks. So they really love it. The ops test of the new back-of-the-house kitchen that we designed was just completed in October and we're now in what I will call the refinement and adjustment stage, and the goal is to introduce the new prototype early in 2025.

John Peyton

Great. And then, Jay, can you address Nick's question about IHOP?

Jay Johns

Sure. Hey, Nick, how you doing? You know, I think as I just said in the last answer I gave about House Faves, we think in the Q4 and on into next year, that's going to be a big driver for us to get traffic going again, having the right value that is a full meal weekday value to get guests coming in. But remember, we've been pretty successful in activating our barbell strategy as well. And that means not only having value, we've got some more innovation coming in the fourth quarter for the holidays.

I'm not going to get into exactly what that is yet, obviously, but we have innovation that's full price along with that. So again, we're trying to make sure we balance the -- any potential negative trade-down for franchisees' P&Ls on-going to driving traffic and not having to trade-down on more expensive items to those value things, we counterbalance that with new innovation and full-price items and steering people towards their most favorite items and then guests can choose what they want. It's up to them. If they need the value by all means, we want to have the right value propositions.

But if they aren't necessarily looking for value and they just want their favorite item at IHOP or want to come try the new thing, we've got that for them as well. So we think we're well-positioned in the fourth quarter to improve our results compared to where we've been so far this year.

Nick Setyan

Thank you.

Operator

Thank you for your question. Our next question comes from Dennis Geiger from UBS. The floor is yours.

Dennis Geiger

Hey guys, thank you. One housekeeping item and a question if I could. On the housekeeping item, just on value, could you speak to what the value incidence was in the quarter relative to maybe where it's been on a percentage basis? And then the question is on the off-prem opportunity, can you talk a bit about where that initiative is right now and kind of what the timeline looks like to where you want to be on the off-premise opportunity, as you've kind of outlined it in recent quarters? Thank you.

John Peyton

Thanks, Dennis. It's John. I'll address the first part of your question about value and then I'll ask Jay and Tony to each address their brand strategy for off-prem. So remember, we just, I'm defining this as the number of tickets that were LTOs and/or our everyday value. So at Applebee's in the quarter, 31% of the tickets were our LTOs are everyday value. For example, the two for \$20 portion of our menu and that number was 33% the prior quarter, so about the same.

And then for IHOP, that number was 16% and about 12% same time last year, so slightly up and it's a good opportunity to reinforce what Jay said about everyday value and the House Faves program. Now, that's not meant to be an LTO that comes and goes. It's meant to be a longer-term portion of the menu that we haven't had before, where guests can expect everyday value when they come into IHOP the same way they have the -- an everyday value menu portion at Applebee's. The brand has been testing it and tweaking it and we'll continue to do that. But I wanted to give you that context. And so why don't we ask Jay to talk about off-prem at IHOP and then Tony, just follow on.

Jay Johns

Yes. Hi, Dennis. Look, I'm going to before I get in off-prem, I'll just add one more thing on to what John Peyton was just referencing on the stats. We were up a little bit in the amount of value transactions. If you recall last quarter when we talked about this, I even said I thought we were too low on this number. So we were successful in getting this to move a little bit and activating more value. It might still be a little too low for us, which is why we're going to this more extensive value program that's not an LTO. It's more of a program to get people there and to count on the value that we have.

So I think that's important to note. We're trying to get that up a little bit and then using the barbell strategy to balance that out. As far as off-premise, we've been pretty stable at 19%. We clearly like to get our off-premise sales improving to move that up. Our stat so far this year as we look at it internally, where we've had the biggest challenge has been on phone orders coming in. And while we've tried to convert as many people as possible to use our direct channels and use our website or use their mobile phone to order, the reality is there are a set of people out there in the world that still like talking to a human being when they place their order.

And those sales have been somewhat challenged and obviously, we want operations in the restaurant to be executed exceedingly well and that's been improving. So we have been rolling out a call-center solution for our guests and we mentioned that heavily and taught franchisees throughout the system what the benefits of that were at our global conference recently.

And immediately after conference, we had 400 more restaurants signed-up to do call-center. So that's one of our big initiatives right now to help improve the execution for those guests that still want to talk to somebody as well as just the everyday, let's make sure we get the food rights and execute as well as we can on that to improve execution.

Tony Moralejo

Yes, thanks, Jay. So from the Applebee's perspective, some of the improvement that John mentioned in his opening comments in our off-premise business, I think it's attributable to the three different factors. The first one is that we know that when we make available, but historically well-performing dine-in only promotions to the off-premise guests that we improve our performance.

And you saw that in Q3 with three of our LTOs. We also know that the off-premise guest is different, right? They're younger, they're a little bit more affluent than the typical dine-in guests. So we adjusted our marketing strategy and social digital content strategy a little bit different.

And then finally, we improved operational efficiency, right? We saw an improvement in our overall guest satisfaction scores. And when you do that, that tends to correlate highly with order intent. So a combination of all three of those things is what helped us move the needle in our off-premise business. And we think I'm not going to quantify the ceiling, but we think there's room for further improvement.

Dennis Geiger

Great. Thanks.

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. I was hoping to get just a couple of questions on pricing. Can you help level-set where pricing or average check for that matter, but either one was for each brand in the third quarter? And could you also just give us an update how much each brand has taken in the recent quarter? And what a reasonable expectation on kind of year-on-year pricing or check might look like for each brand thinking about the next couple of quarters?

John Peyton

Okay, Brian, that's -- all those pricing questions for both brands, Vance can tackle that.

Vance Chang

Hey, Brian. So for Applebee's, Q3, we saw the franchisees took 2.7% on pricing and then for IHOP, it was 6% on pricing. Applebee's roughly had a flat P mix and IHOP had a slight negative P mix for the quarter.

Brian Vaccaro

Okay. And Vance...

Vance Chang

I guess your second question was expectation...

Brian Vaccaro

Sorry, I was just going to clarify, that's year-on-year pricing, right? That's not they took in the current quarter, that's year-on-year pricing. Just to clarify.

Vance Chang

Yes. That's year-on-year pricing, effective pricing versus last year.

Brian Vaccaro

Thank you. Sorry, keep going.

Vance Chang

And your other question -- your other question was expectation going-forward. I think Applebee's has been fairly steady in terms of menu pricing increase for the franchisee. It's been this way for a few quarters now in the low single-digit range. So we don't expect that to change much. On the IHOP side, we're also expecting menu pricing to increase to come down in the Q4. I think I mentioned this last quarter, the most recent pricing bump was, I think the IHOP franchisees did a 3% to 5% hike in October of 2023. So that's sort of the last bump we have to overcome. So after that point, we should also be back to the normal low single-digit menu pricing hikes going forward.

Brian Vaccaro

Okay. That's very helpful. Thanks. And if I could just follow-up on franchisee health, can you provide any perspective on sort of where average franchisee store margins are here in the Q3 or whatever the most recent update you might have at your fingertips or any perspective on the percent of units that might be generating negative store-level EBITDA, just trying to think about potential closures into 2025 and beyond? Thank you.

Vance Chang

Yes, Brian. We -- as I've mentioned before, we collect our franchisees financials a quarter in the rare. So what I have right now is Q2, not Q3, but on average, based on self-reported franchisee financials, the restaurant four-wall EBITDA dollars is holding fairly steady, but EBITDA percent is pressured. And of course, as with any system, we have some franchisees that are doing better than others as a normal belt curve. We talk about the franchisees' cost pressure has come down as inflation and labor come under control. But obviously, we're facing top-line pressures right now.

But in the meantime, right, the franchisees are as engaged as ever to work with us on value campaigns while implementing the restaurant profitability initiatives. I talked about in my prepared remarks, it's \$42 million of annualized savings in the system for the franchisees and that helps improve their P&L than offsetting increases elsewhere. So it's relatively stable is the high-level takeaway.

John Peyton

And Vance, we did reiterate our development guidance for the year, which includes closures, right. So Brian, if that helps you. There's no news there because we reiterated our guidance.

Brian Vaccaro

Yes. Thanks very much.

Operator

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

Jake Bartlett

Great. Thanks for taking the question. My first is on the just the trajectory of same-store sales throughout the quarter at Applebee's. When I look at reiterated guidance, same-store sales guidance for the year, at the low-end, it does imply an acceleration in the fourth quarter, I believe, so I'm trying to understand, one, what was the cadence throughout the quarter and should that give us some confidence that things are -- that will improve in the fourth quarter?

John Peyton

Thanks, Jake. Vance will take that.

Vance Chang

Jake, what we saw in Q3 was fairly consistent pressure across our brands throughout the quarter and actually even early -- into the early part of Q4, although we are starting to see some improvements in the middle of Q4 and we've baked-in on the latest trends into our guidance and hence sort of the reason why we're reaffirming the range that we provided last quarter.

Jake Bartlett

Okay. That's helpful. And my other question was on, Jay talked about barbell strategy at IHOP and how that's been a long-term focus and fairly effective. What I'm hearing in Applebee's is much more of a focus on value and less about innovation. I think, so in the past, you've talked about a very strong innovation pipeline. How do you view innovation as a driver to same-store sales? It seems like innovation within the fast-food segment and specifically has been really powerful recently. So how do you view innovation as a catalyst for improving trends at Applebee's?

John Peyton

Yes, Jake, just one sentence before I turn it over to Tony to address that. If we somehow deemphasize innovation that's surely not our intent because innovation, particularly of the menu is a crucial part of our strategy and Applebee does have an exciting pipeline and some recently rolled out innovations. So Tony, it'd be great if you could add some color to that.

Tony Moralejo

Yes. I mean, look, innovation remains an important part of our strategy going forward. But just to take a step back, so I think at the heart of the question is sort of this relationship between innovation and value. And the challenge at Applebee's, it isn't just to figure out like what is the next DOLLARITA, but it's to build more brand relevancy and saliency with our guests. And we're going to do that with this new platform. And the -- when -- the platform will then allow you to spike it up, right? You spike it up with offerings that will feel more promotional and that will be product-specific, and they'll be innovative new products.

We've developed 14 new products that we now have in our pipeline that have gone through a very stringent testing protocol that are ready to be utilized, right, but we need to be smart on how we utilize them. You'll see one beginning next week. But it's these innovative products that allow you to drive additional transactions. But the key is that all of it has to be consistent. It has to be integrated as part of an overall value platform.

Jake Bartlett

Great. That's really helpful. And then my last question is on G&A and nice to see the savings and the reduced guidance. I'm just wondering how sustainable that is. Was that really incentive comp, something that would just snap-back in 2025, wondering how the savings that you're finding in G&A now might support margins longer-term?

Vance Chang

Jake, this is Vance. You know, truth be told that our G&A savings right now, it's a combination, a part of it is incentive comps and that will come back over-time as performance improves. But they are savings, true savings that we've realized from just wrapping up of the initiatives that we've launched in the prior few years. And also, we're constantly sort of looking at our cost infrastructure to make sure that we can find efficiencies out of it. So what you're seeing this quarter is the combination of all those things.

And the other point I would add is that I've said it before, we really look at the full-year G&A numbers for this year, as a sort of general run-rate number for us. Of course, you know, over-time, there's going to be some inflation built into it. But for the most part, we're looking for reallocation of G&A buckets within our current budget to support the growth going-forward.

Jake Bartlett

Great. I appreciate it. Thanks.

Operator

Thank you for your question. Our next question comes from Todd Brooks of The Benchmark Company.

Todd Brooks

Hey, thanks for squeezing me in. One question in two-parts. If you take the new kind of methods and tools of delivering value that you're employing across both brands, I guess, A, as we look-forward to those average check trends that Vance was talking about, do you expect an incremental mix drag as we look out to the Q4?

And then the second part of the question is, as we're rolling in new platforms and tactics like the Big Meal deal, can you remind us what we're lapping in Q4 of last year from more of the traditional value playbook? And will those offers be repeated or replaced with the new approach in the fourth quarter? Thanks.

John Peyton

Okay. Thanks, Todd. We'll let Vance address average -- your question on average check and value and then we'll go to Tony, if you could answer the question what promotions were lapping from the prior year.

Vance Chang

So, Todd, on P mix, we don't provide specific guidance on mix, but I would say that if you look at what's been happening this year. Applebee's P mix has been fairly flat all year round. IHOP has been fairly, not -- it's slightly down in terms of trade-down, so low-single digits. So we don't see that trend to be interrupted in Q4. That probably will continue. So that's what we're seeing.

Tony Moralejo

Yes. Hey, Todd, this is Tony. In terms of Applebee's, what we're lapping over, we had holiday skillets that we're lapping over and those -- that promotion is being replaced with the new promotion that kicks off next week. So it's, they're not similar. They're completely different strategies and targets that was more of a platter. This is more of an all-encompassing value sort of promotion.

Todd Brooks

Okay, great. Thank you both.

John Peyton

Thanks all of you for your questions. We appreciate as always and wish you all a great day. And Gerald, we are adjourned. Thank you for your help.

Operator

Thank you. This does now conclude our conference. You are free to leave.

Read more current DIN [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Sort by

Newest ▼

⋮