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Dine Brands Global, Inc. (DIN) Q3 2025 Earnings Call Transcript

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Q3: 2025-11-05 Earnings Summary

Insights

EPS of \$0.73 **misses by \$0.26** | Revenue of \$216.17M (10.84% Y/Y) **misses by \$4.41M**Dine Brands Global, Inc. ([DIN](#)) Q3 2025 Earnings Call November 5, 2025 11:00 AM EST

Company Participants

Matthew Lee - Senior Vice President of Finance & Investor Relations

John Peyton - CEO, Applebee's President & Director

Vance Chang - Chief Financial Officer

Lawrence Kim - President of IHOP

Conference Call Participants

Eric Gonzalez - KeyBanc Capital Markets Inc., Research Division

Dennis Geiger - UBS Investment Bank, Research Division

Jeffrey Bernstein - Barclays Bank PLC, Research Division

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

Nerses Setyan - Mizuho Securities USA LLC, Research Division

Todd Brooks - The Benchmark Company, LLC, Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to Dine Brands' Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your host today, Matt Lee, Senior Vice President of Finance and Investor Relations. Sir, you may begin.

Matthew Lee

Senior Vice President of Finance & Investor Relations

Good morning, and welcome to Dine Brands Global's third quarter conference call. This morning's call will include prepared remarks from John Peyton, CEO and President of Applebee's; and Vance Chang, CFO. Following those prepared remarks, Lawrence Kim, President of IHOP, will also be available, along with John and Vance to address questions 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.

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

John Peyton

CEO, Applebee's President & Director

Good morning, everyone. Thanks for joining us today. As usual, I'll start with an overview of Dine's Q3 performance and key brand updates and then turn it over to Vance, who will discuss our financial results in more detail. Afterwards, I'm going to spend some extra time before the Q&A to share more details about our dual brand program, how it's unlocking a new lever to grow and ultimately, why we're putting our money behind it. Vance will then cover our capital allocation priorities and how our asset-light model is designed to create long-term shareholder value.

Now to provide an overview of the third quarter and trends we've seen in consumer behavior. In Q3, we sustained the sales and traffic momentum from Q2, driven by new menu innovation and targeted marketing campaigns. While we continue to operate in a competitive environment, Applebee's and IHOP held their ground, underscoring the strength and relevance of our brands as guests continue to seek value, variety, and an exceptional dining experience. These are the same expectations that have been driving consumer behavior throughout the year.

While spending patterns remained relatively consistent, we're observing slightly higher macroeconomic anxiety, leading to more intentional decision-making, where every dollar spent must feel justified across the entire dining experience. Guests continue to manage their check by trading down to lower price for value items on our menus. IHOP's value mix remained at about 19%, while Applebee's value mix slightly increased to about 30% in Q3. Despite the industry headwinds, our focus on everyday value platforms, operational simplification and high-impact guest-centric marketing is delivering results. Lastly, I'll add that we recently completed our annual franchisee conferences that included participation from the leaders of each of our franchisee councils. And across all 3 of our brands, the biggest takeaway is that our franchisees are aligned with our strategy and remain committed to grow. Reinforcing this sentiment is the fact that franchisee health remains resilient with clear improvement in Applebee's, given the sales growth we're seeing and encouraging momentum at IHOP.

Now while there's still more work ahead, I'm grateful to our team and franchisees for their ongoing dedication and unrelenting belief in the strength and potential of our iconic brands. So with that, I'll walk through our financial results for the quarter.

Applebee's reported a 3.1% increase in comp sales and IHOP posted comp sales of negative 1.5%. Notably, positive comp traffic was an important driver for both brands. Our adjusted EBITDA was \$49 million compared to \$61.9 million in the same quarter last year, and year-to-date adjusted free cash flow was \$68.2 million compared to \$77.8 million in the same quarter last year.

Now I'll share some updates across our portfolio, starting first with some leadership updates at Applebee's. In September, we welcomed our new Chief Marketing Officer, Michelle Chin; and Chief Operating Officer, Jay Wong, to Applebee's. Both leaders are passionate fans of the Applebee's brand, and they bring fresh perspectives to elevate the guest experience as well as strengthen franchisee and team member relationships. Michelle spent 2 decades shaping consumer marketing and brand strategy for global brands like Starbucks, Godiva and Unilever, where she built high-performing teams and launched impactful insight-led campaigns. And Jay has led global teams and transformations at top-tier brands, including Four Seasons, Starwood Hotels, and Exclusive Resorts. His focus on seamless guest experiences will help Applebee's further enhance how we serve our guests. I'm looking forward to working closely with both of them to continue to promote innovation, operational excellence and long-term brand relevance.

Now into the Applebee's results. In Q3, Applebee's achieved its second consecutive quarter of positive comp sales and traffic, continuing the gains in traffic that started in March. New menu items are driving this traffic by appealing to core Applebee's fans while also attracting new guests. Guests should expect to see this continued menu innovation, driven by a robust menu pipeline, with a new appetizer and a new entree added to our menu each quarter.

As we shared last quarter, we're introducing new entrees via the 24 section of our menu, which is a pillar of our everyday value platform. In Q3, we launched Chicken Parmesan Fettuccine, which became our best-selling stand-alone pasta dish, representing approximately 13% of transactions and was a key contributor to our traffic and sales growth. Another important menu innovation from this quarter was the launch of our new Ultimate Trio appetizer sampler as part of our second season as the official grill and bar of the NFL. This offer has over 80,000 flavor combinations, highlighting the power of choice that younger guests love without adding more SKUs or complexity to the kitchen, and it's been wildly popular. The Ultimate Trio has become one of the best-selling appetizers, averaging 13.5% of transactions and contributing meaningfully to check growth.

As a part of our off-premise strategy, the Ultimate Trio is also available for to-go and delivery, contributing to a 9% increase in off-premise sales in Q3, building on 3.7% growth in Q1 and 7.6% growth in Q2. Our success in the off-premise channel is driven by pairing LTOs with digital promotions to encourage off-premise occasions. Our off-premise remains a growth opportunity for Applebee's, and we're pleased with the momentum and our capabilities to meet guests where they are.

An important way to connect with both our dine-in and off-premise guests is reaching them on social media. Throughout the year, we've expanded our marketing capabilities and social media prowess to deepen engagement and reach a broader audience. Since Q3 2024, Applebee's has increased postings by over 300%. And as a result, we've seen a 266% increase in engagement, proving that we are more effectively reaching our guests in real time. And this ties into our ongoing efforts to modernize the brand and elevate the guest experience. Over the past year, guest satisfaction scores are improving, and it's a direct result of our focus on efficiency across both the front and back-of-house functions.

The look and good remodel program also continues to progress. Franchisees are reporting strong post-remodel sales lifts and an increase in guest frequency. Approximately 80 restaurants have been remodeled to date, and we expect to exceed our 100-remodel target by year-end. There's more to do and plenty of opportunity ahead, and we're committed to strengthening the brand's relevance, sharpening our competitive edge and driving long-term growth.

Now moving to IHOP, where positive traffic trends continue to be the highlight for the brand. IHOP outperformed Black Box traffic metrics every month in 2025, making Q3 our third straight quarter of traffic outperformance versus industry benchmarks. More importantly, this was IHOP's first quarter of positive traffic in many years. I want to take a moment to fully recognize the significance of IHOP returning to positive traffic comps. This is a big win, especially in a category where traffic has been challenged for years. Traffic is a core indicator of customer connection and demand.

Our steady industry outperformance, now further supported by positive absolute gains, shows that we're successfully connecting with guests -- especially as they seek exceptional value, abundance, and a great dining experience. In fact, recent third-party research on search trends identified IHOP as the most searched diner chain in the U.S., underscoring its continued relevance with consumers.

As it relates to traffic trends, the momentum really accelerated when we launched our IHOP Value menu and expanded and rebranded version of the House Faves menu now available 7 days a week. Notably, this is the first time IHOP has introduced an everyday value menu as part of its core offering. Early results are strong with positive impacts on sales and traffic since its launch in mid-September, and we're seeing continued momentum into the fourth quarter. The IHOP Value menu is one of the largest launches in the brand's history, made possible through strong partnership with our franchisees. As always, this platform was designed and tested to be profitable, and we continue working to improve margins and protect profitability for our franchisees.

While our value offerings are important for bringing guests through our doors, we're also focused on increasing check and margin. In Q3, our updated barbell strategy improved check month-over-month by drawing more attention to some of our higher-priced menu offerings, resulting in a decrease in value incidents on weekdays from about 25% of checks to roughly 15%. Looking ahead, we're continuing to optimize check through upselling sides and introduce premium offerings, like our limited time breakfasts in Q4. Operationally, we remain focused on strengthening our foundational basics. As a result, table turn times have reached multiyear lows, and we continue to identify potential for further improvement.

Now to discuss Fuzzy's. We saw modest improvements across sales and traffic at Fuzzy's as we work diligently alongside our franchisees to improve technology, streamline the menu, and enhance the in-restaurant experience for our guests. In Q3, new delivery campaigns exceeded expectations, driving growth in off-premise channels. This is one of the many benefits of our multi-brand platform, the ability to use learnings from one brand and apply it to another to enable further growth.

Turning to our international business. We continue to have positive engagement with both new and existing international franchisees around development, and we remain on track to double our total international dual brand restaurants by the end of the year. The increase in unit growth is helping offset some macroeconomic headwinds impacting sales, and we remain bullish on the growth opportunities across our key international markets.

Now I'll quickly touch on our company-owned portfolio. As a reminder, we now have 70 company-operated restaurants, representing approximately 2% of our total restaurant count. Our strategy is to invest in these restaurants to improve the health of our brands, but ultimately rebrand the restaurants back to our franchisees. We're seeing our strategy deliver results at our company-operated restaurants with sequential comp sales improvement versus Q2.

Assuming all restaurants have alcohol licenses, Applebee's locations are now performing in line with the system average and IHOP locations are now outperforming the system average. Although profitability in the quarter continues to be impacted by temporary closures for remodels and dual brand conversions and onetime costs related to catch-up of repairs and maintenance and training, we are optimistic about the upside potential of these initiatives. 12 restaurants have now been remodeled, and we are seeing traffic-driven sales growth, validating the brand's core strength when paired with refreshed physical environment. Additionally, 60% of restaurants now have alcohol licenses, which is supporting check growth.

We also recently completed our first company-owned dual brand conversion and -- while early, are excited to see sales increase to 4x pre-conversion levels. This further adds to our confidence around the potential of dual brands, which I will detail later.

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

Vance Chang

Chief Financial Officer

Thanks, John. On the top line, consolidated total revenues increased 10.8% to \$216.2 million in Q3 versus \$195 million in the prior year, primarily driven by an increase in company restaurant sales, offset by a decrease in franchise revenues. Our total franchise revenues decreased 3% to \$161.3 million compared to \$166.4 million for the same quarter of 2024. Excluding advertising revenues, franchise revenues decreased 3.6%.

Rental segment revenues for the third quarter of 2025 decreased \$1 million compared to the same quarter of 2024, primarily due to lease terminations. G&A expenses were \$50.2 million in Q3 of 2025, up from \$45.4 million in the same period of last year, primarily due to compensation-related expenses and an increase in travel and conference expenses. Adjusted EBITDA for Q3 of 2025 decreased to \$49 million from \$61.9 million in Q3 of 2024. Adjusted diluted EPS for the third quarter of 2025 was \$0.73 compared to adjusted diluted EPS of \$1.44 for the third quarter of 2024.

Now turning to the statement of cash flows. We had adjusted free cash flow of \$68.2 million for the first 9 months of 2025 compared to \$77.8 million for the same period of last year, driven by an increase in additions to property and equipment, primarily related to CapEx investments in our company-owned restaurants. Cash provided by operations at the end of the third quarter of 2025 was \$83.3 million compared to cash provided from operations of \$77.7 million for the same period of 2024. The increase was primarily due to a favorable change in working capital due to the timing of federal tax payments postponed due to wildfire relief and of interest payments postponed in connection with our June 2025 debt refinancing, offset by the decrease in segment profit and higher G&A expenses. CapEx through Q3 of 2025 was \$21.3 million compared to \$10.3 million for the same period of 2024 due to investments into our company-owned restaurants. We finished the third quarter with total unrestricted cash of \$168 million compared with unrestricted cash of \$194.2 million at the end of the second quarter.

Regarding capital allocation, I'll provide an update and a more detailed overview of our framework later in the call, but I want to mention that we continue to make progress on our key initiatives, including remodeling the Applebee's system, which includes providing an early adopter incentive for franchisees and remodeling and/or converting company-owned restaurants to dual brand restaurants.

On buybacks and dividends, we repurchased \$22.5 million in stock and paid \$7.8 million in dividends in Q3 of 2025. As a reminder, as a franchisor, we obtained debt financing through the whole business securitization market, which allows us to have investment-grade cost of debt capital. This is evidenced by the successful refinancing a few months ago of our \$600 million senior secured notes with a fixed rate coupon of 6.72%. We continue to monitor the WBS market, and we'll look to refinance our 2023 senior secured notes when the economics are more favorable given the current make-whole premium of approximately \$20 million, and the par call window does not open until December of 2026.

Next let me discuss Applebee's performance. Q3 same-restaurant sales were positive 3.1%. Average weekly franchise sales in 2025 were \$52,600, including approximately \$12,000 from off-premise or 22.9% of total sales, of which 11.7% is from to-go and 11.1% is from delivery. Off-premise saw a positive 9% lift in comp sales in Q3 compared to the same period last year. IHOP's Q3 same-restaurant sales were negative 1.5%. Average weekly franchise sales were \$36,700, including \$7,500 from off-premise or 20.4% of total sales, of which 7.8% is from to-go and 12.5% is from delivery.

Turning to commodities. Applebee's commodity costs in Q3 increased by 0.3% and IHOP commodity costs increased by 5.7% versus the prior year. Our supply chain co-op CSCS, now expects commodity costs in 2025 at Applebee's to be roughly flat versus prior outlook of flat to slightly down due to higher beef and seafood costs. At IHOP, we continue to expect commodity costs to increase by mid-single digits for the full year, driven by elevated egg pricing, pork and coffee.

As we mentioned on our prior call, the tariff situation remains fluid. As a result, our forecast for commodity costs incorporates the effects from existing tariffs to date, but do not reflect the potential impact of future tariff changes or trade policy. CSCS continues to work across both systems to identify additional cost savings opportunities and support restaurant profitability initiatives through both operational improvements and input costs. To date, in 2025, we have implemented projects resulting in over \$42 million of annualized savings across both systems, and we continue to partner with CSCS to leverage our scale and make progress on our cross-functional restaurant profitability initiatives.

Before turning the call back over to John, for a strategic update on our dual brand opportunity and our capital allocation framework, I'd like to add that we are maintaining our full year financial guidance at this time. Specifically, with our EBITDA guidance, we are anticipating to be on the low end of the range due to investments to improve our company restaurants, which includes remodeling and dual brand conversion process.

In Q3, approximately 10% of our restaurants were temporarily closed due to remodeling and dual brand conversion for a portion of the quarter, impacting our performance, and we expect an even greater number to be temporarily closed in Q4.

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

John Peyton

CEO, Applebee's President & Director

Thank you, Vance. Now I know we've talked about our dual brand strategy before, but today, I'd like to provide more insight into the opportunity we see, what it is, why it's unique and why we and our franchisees are excited about it. We've done extensive research into how exactly dual brands fit into our long-term growth without cannibalizing the independent growth trajectories of the individual brands. The results, as I'll walk through today, are compelling.

To start, we are the only franchisor with 2 iconic full-service brands that serve guests across all dayparts, IHOP in the earlier hours of the day and Applebee's in the later hours. Our thesis is that combining these 2 complementary daypart brands into 1 dual-branded restaurant will drive higher sales and create efficiency, resulting in increased profits for our franchisees and growth for Dine through higher system sales and unit growth. After an early prototype in Detroit, we began testing this idea in earnest internationally 2 years ago. And since then, we've opened 20 international dual-branded restaurants that have proved our thesis. These restaurants are delivering 1.5x in sales versus single branded restaurants and are generating significant incremental margin. This year, we're on our way to doubling our international dual-branded restaurant count to 40.

With these compelling results, we brought this concept to the U.S. in February. For those who haven't yet had a chance to see it from the exterior, both brands are prominently displayed around the building, and there is one shared entrance. Inside, the aesthetics and seating for each brand are represented in different sections, one being Applebee's iconic red and the other is IHOP's iconic blue. The guest can choose to sit on either side and is presented with one menu organized by daypart that has been simplified to include the best of both brands. The menu also includes some dual brand exclusive items like our popular Buffalo Chicken Omelet. To experience our dual brand concept, you can find a video explaining and touring the first 2 domestic locations on the Dine Brands investor website.

There are several key highlights that support our belief in this opportunity. First, from the restaurant operator's perspective, there is one kitchen, POS, a cross-train staff, and the same number of menu items as a single branded restaurant. The simplification of operations allows our team members to focus on our guests and ensure they have a great experience that is representative of both brands' core values.

From a guest perspective, feedback is strong. In particular, they're enjoying the expanded choice provided by the combined menu from both brands. In fact, for each daypart, the off brand represents at least 15% of sales. For example, Applebee's items represent at least 15% of sales in the morning and IHOP items represent at least 15% of sales in the evening. And so far in terms of financial performance, we have seen sales performance approximately 1.5x to 2.5x higher post conversion. Sales are relatively consistent throughout the day with no daypart exceeding 1/3 of total sales, further showcasing the complementary nature of the 2 brands.

We're seeing a meaningful increase in franchisee profitability with 4-wall margins nearly doubling, and we've seen a reduction in construction costs and time lines for dual brand conversions as the process becomes more efficient and standardized, which we expect will result in a payback period of less than 3 years. Our initial target was to have 12 to 14 domestic dual-branded restaurants open in 2025. And as of today, we can share that we expect to have approximately 30 opened or under construction by year-end and that we expect to achieve at least 50 dual brand openings in 2026.

From a long-term perspective, our internal analysis of the U.S. white space opportunity shows potential for approximately 900 dual-branded restaurants over the next decade. While near-term openings will primarily be conversions, we also see potential for approximately 50% of these opportunities to be new builds. It's important to note that dual-branded restaurants are only one strategic development lever for us. It's not a solution for all markets, and we continue to greenlight single-brand restaurant concepts.

To summarize, the dual-branded opportunity is a big one. Guest and franchisee feedback is strong. It significantly enhances the unit economics for a franchisee by potentially doubling 4-wall revenue and margin. It represents an approximately 900-unit white space opportunity. We expect to have approximately 30 open or under construction by year-end, and we expect to achieve at least 50 dual-branded openings in 2026.

Now I'll pass the call back to Vance, who will discuss our updated capital allocation.

Vance Chang

Chief Financial Officer

Thanks, John. Given that we are one of the largest franchisors in the full-service restaurant segment, our asset-light model generates best-in-class return on invested capital and margins. We take a disciplined approach to capital allocation to drive shareholder value, focusing on 3 key priorities: organic investments, balance sheet management, and returning capital to shareholders.

This financial strength gives us the flexibility to invest in our brands, our company-owned restaurant portfolio and development pipeline while also returning meaningful capital to our shareholders, something we have consistently done over the past several decades, and that will not change. Current time, however, we believe our stock price is currently undervalued, which represents a unique opportunity to be more aggressive with share repurchases to create long-term shareholder value. As a result, the Board has declared the reduction of our dividend from \$0.51 per share per quarter to \$0.19 per share per quarter, which would imply an annual dividend yield of approximately 3% based on today's stock price. This will continue to generate one of the highest yields amongst our peers.

We allocate our capital towards a larger share repurchase program. We will commit to buy back at least \$50 million of shares over the next 2 quarters, which will represent a share reduction of approximately 11% to 13% at the current price. This is on top of the approximately 8.5% shares that we have repurchased year-to-date, which would total a nearly 20% reduction in shares versus the beginning of 2025. We're maintaining our current investments into the franchise system either as an ongoing or as needed basis, such as our Applebee's good remodel incentives or IHOP franchisee egg subsidy earlier this year.

I want to reiterate that the dividend reduction, increased share repurchases and investments into our business are proactive changes we're making to our shareholder return strategy to drive increased shareholder value. It demonstrates confidence in our plan and our principal view that the stock is undervalued, affirming the Board's alignment with investors. With the momentum that we continue to see in the business and the alignment and shared excitement from our franchisees, now is the right time to be aggressive in investing in our own stock.

I will now pass it back to John to close.

John Peyton

CEO, Applebee's President & Director

Thank you, Vance. I'll end the call by summarizing our key initiatives that will create long-term value for our shareholders. At the brand level, our focus is on menu innovation, high-impact marketing and social media, simplified operations, and enhanced guest experience. In terms of development, we will drive unit growth by capitalizing on our dual-branded opportunity, continuing to open single branded restaurants, especially at IHOP, which has for over a decade, consistently opened double-digit restaurants every year and introducing a new lower-cost Applebee's prototype. And last, we will remain prudent with our capital allocation and accelerate share buybacks to take advantage of a significant discount in our valuation, which we believe will be highly accretive to our shareholders.

Now with that, we'll turn the call back to the operator and open up the line for Q&A.

Question-and-Answer Session

Operator

[Operator instructions] Our first question comes from the line of Eric Gonzalez with KeyBanc.

Eric Gonzalez

KeyBanc Capital Markets Inc., Research Division

Congrats on the positive traffic in both brands. I want to ask about the company-owned stores. You had a decent sized loss, maybe \$4 million or \$5 million in the quarter. I recognize we had some catch-up expenses in repair and maintenance and training and remodels, et cetera. But do you have a sense of how much of a drag we should expect from these stores going forward and maybe when you kind of -- when that maybe goes away?

John Peyton

CEO, Applebee's President & Director

Thanks, Eric. Vance can address that question.

Vance Chang

Chief Financial Officer

Good morning, Eric. Just to give you a little bit more context on the sort of the disruption. So year-to-date, we had close to 50 restaurants without liquor license for 30-plus weeks per restaurant. And then on the construction side, year-to-date, we had approximately 500 days of construction closures across 30-plus restaurants or if you do the average math of roughly 15 days of closure per restaurant So that's what happened year-to-date.

I point that out to let you know that although that's noise and the headwinds this year, we're comping -- by and large, those factors won't be there next year, right? So it's a onetime investment that we're making to improve the restaurants. For this year, we're expecting roughly \$9 million to \$10 million of segment profit hit from the company restaurants to answer your question specifically. And then that includes about \$2 million of D&A. So hopefully, that helps.

Eric Gonzalez

KeyBanc Capital Markets Inc., Research Division

Then maybe just a question on the IHOP side. Again, congrats on the positive traffic. But the overall comps they were down a little bit. So just wondering, you're leaning pretty heavily on value. What are you doing to address the check side? And do you think you can get that mix up in the quarters ahead?

John Peyton

CEO, Applebee's President & Director

Thanks, Eric. Lawrence will take that.

Lawrence Kim

President of IHOP

Eric, so as I shared probably in earlier calls or earnings calls, we have a 3-pronged approach when it came to driving transactions and traffic. The first was, of course, launching the value platform, which we did last October. And actually, we've now evolved, as John shared earlier, where we launched an everyday value menu this past September. So we're continuing to drive that transaction. And as John shared, we've continued to do so since the beginning of this year. But to your question, in regards to check and overall sales, the third phase of it is actually balancing the value and the transaction growth from that with our barbell strategy to drive check. And so we're doing that in multiple ways from upsell strategies with our tablets and our servers, but of course, also featuring some premium priced items such as our premium priced pancakes, like our pumping spice and our coffee cakes pancakes in addition to combo features, which are primarily displayed in our restaurants with POP, like our recent breakfast, which performed really well last year. So we brought them back this past September a few weeks ago as well.

So this is helping to already drive our check balance, improve check flow and overall profitability for our restaurants, and we're going to continue to drive this as we drive value in the next quarter.

John Peyton

CEO, Applebee's President & Director

Eric, it's John. I would just add one more point to what Lawrence said, which is since they moved into Phase 3, which is driving the barbell strategy and featuring the higher-priced items in the restaurants, the incidence of the value was 25% of checks weekdays. And since they started this new program, it's fallen to 15%. So we're seeing a good response to the program to upsell once they're in the restaurant.

Lawrence Kim

President of IHOP

Great. Maybe just the last one for me. I think you said 3Q momentum sustained. Did you talk about fourth quarter at all yet? I think you said momentum sustained, but I couldn't tell if that was either an Applebee's and IHOP comment or both.

John Peyton

CEO, Applebee's President & Director

Vance?

Vance Chang*Chief Financial Officer*

Eric, so what we're seeing is that the sales volume for Applebee's really sustained from Q3 into Q4, and then it's accelerated for IHOP from Q3 into Q4.

Operator

Our next question comes from the line of Dennis Geiger with UBS.

Dennis Geiger*UBS Investment Bank, Research Division*

Encouraging to hear some of the insights there on the dual-branded concepts. I appreciate that. And what sounds like good franchisee demand. Could we unpack a little more the franchisee demand? Are there certain characteristics for those that have kind of signed up already for the dual-branded box? And then maybe what are the biggest hurdles that you're finding from those that you feel should but aren't yet? Do they just want to see the proof point? Anything on that, John, would be great.

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

Yes. Sure, Dennis. Happy to talk about that. So in terms of franchisee demand, I would characterize the initial wave of dual brand restaurants as, #1, conversions versus new build, which makes sense. #2, more IHOPs than Applebee's. And we attribute that to the fact that Applebee's -- I'm sorry, that IHOP is currently open for dinner, right? And dinner has always been a challenge for that brand. So to add an Applebee's solves an existing challenge for that brand.

For Applebee's, they're not open for breakfast. So they're not trying to "fix an issue". And so it's a different decision for an Applebee's to add the IHOP and grow the revenue. What we're seeing now in what I would call sort of Phase 2 as we move toward a robust pipeline of at least 50 for next year is we're seeing our Applebee's franchisees begin to explore 1 or 2 opportunities among the more major franchisees.

In terms of the hurdles, I think it's less about the franchisee and more about what we're learning as we go. So for example, we're learning that IHOP franchisees who don't typically have bar experience, we need to give them extra training and support to run a really great bar, which is a key element of an Applebee's. And so we're learning things like that along the way, which is the kind of things we expected to learn and that we can address with our training and our coaching.

Dennis Geiger

UBS Investment Bank, Research Division

Then one more, if I could. Just more broadly, I guess, you touched on it some, but in thinking about franchisee sentiment more broadly in this environment that we're in, you touched on the commodities piece. Just if you could touch on that, both across Applebee's as well as IHOP right now. And maybe just tying broader new open demand in and how you're kind of thinking about net growth maybe longer term, if there's anything to share there across either closures as well as gross opens, would appreciate anything there.

John Peyton

CEO, Applebee's President & Director

We're not putting a firm date or time line on net unit growth, Dennis, but we're getting close. That's for sure. What we like about our program now is we have multiple products and almost a product to fit every situation. So to develop a single unit IHOP, which we've been doing 30 to 40 a year for the last several years, 80% of those are conversions. So IHOP is a great conversion brand and a good solution for opportunities to repurpose buildings.

As I mentioned, Applebee's, we've got a new prototype that takes about \$1 million in cost out of it for a much better return, and we're going to build one of those next year to prove that out. On the international side, same thing. We've been opening about 40 restaurants a year consistently, increasingly dual-branded restaurants there. And now we have the dual brand concept here in the U.S. And each market is unique and each solution has to make sense for that market. But the dual brand is giving us a catalyst to get back to net unit growth sooner rather than later.

Vance Chang

Chief Financial Officer

Dennis, this is Vance. One more point I would add is that even without net development growth, just the context is that the closures that we've had are obviously lower AUV boxes, right? So they're averaging sort of 1.2, low 1s. And then the new restaurants we're opening are \$1.8 million, \$2 million. So it's not a 1:1 ratio, even though the net development number, as you pointed out, has not been positive. So I just want to make sure that point is clear.

Operator

Our next question comes from the line of Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

First question is just on the broader consumer backdrop, hearing from lots of restaurants as they look at their data. More and more companies, I guess, have data on the age of their consumer, the income level, the ethnicity, and there's been seemingly a big change in trend in recent quarters. I'm wondering, one, whether you have any degree of data on any of those cohorts and whether you've noticed any change in trend among any of those for better or for worse? And then I had a follow-up.

John Peyton

CEO, Applebee's President & Director

Yes. Sure, Jeff, it's John. I can take that and speak to both brands because our observations are consistent with both IHOP and Applebee's. We're seeing a slight shift in the guest mix this quarter. We've had more higher-income guests joining us than lower income guests leaving us, which is what's -- the net of that is what's driving our traffic growth. So that is good news.

The 2 cohorts that we're seeing who are most price sensitive right now are the lower-income guests and Gen Z. They're dining out less than they have in the past. But all of our guests, that being said, are hyper focused on value, and that hasn't changed all year or for last year as well. And that's our plans for the future as we think that that focus on value is what's going to be on consumers' minds throughout the rest of this year and into next. And that's why we believe the everyday value program at IHOP and the Super 25 program enhanced at Applebee's is driving our traffic right now because it's the match that consumers are looking for.

Jeffrey Bernstein*Barclays Bank PLC, Research Division*

Then just following up on that value mix. I think you kicked off your commentary by saying Applebee's was at 30% mix depending on the way you define it. But you said that was up modestly. So just curious what that was up from. And IHOP at 19%, I think you said was unchanged, which was surprising considering the negative check, which seems significant. So just wondering how to kind of balance the significant negative check with no increase in their value sales mix.

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

So Applebee's is at 30%, which is pretty close to where it's been. It's been 28%, 29% last quarter. So consider that about flat. We define value. We calculate that as the 2 for 25 menu plus LTOs. So any incidence of those as a ticket is about 1/3, 30% of what we see. At IHOP, just to clarify, the value mix grew to 19%. It wasn't down. It grew to 19% during the quarter because of the rollout of House Faves and then turning that into everyday value. So it grew to 19%, and we expect that 19% to be a little bit higher next quarter because we're going to 7 days a week, and that only happened the last 2 weeks of the quarter.

Jeffrey Bernstein*Barclays Bank PLC, Research Division*

It grew to 19% from what was the number that you most recently talked about?

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

Last quarter, I'm going from memory.

Vance Chang*Chief Financial Officer*

It was like 18.9% to 19.1%, slight increase.

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

But pre-everyday, pre-House Faves, it was more like 10%, right before we introduced.

Vance Chang*Chief Financial Officer*

Yes, yes, about low to mid-teens last year is where we're averaging.

Jeffrey Bernstein*Barclays Bank PLC, Research Division*

Just lastly, just to clarify, you said the dual brands that there would be 30 open or under construction by year-end this year. So I'm just curious how many actually you think would be open by the end of this year? And then you said something about 50 for next year. I wasn't sure if that's just the cumulative total number or whether that's incremental openings. So just trying to get a sense for how many actually will be open end of this year and how many in total will be open end of next year.

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

So it's 30 plus 50 for a total of 80. And in terms of this year, the vast majority of that 30 will be open. But as you know, sometimes opening dates slip from December to January. So not giving a precise number, but the openings will be much closer to 30 than not.

Operator

Our next question comes from the line of Brian Vaccaro with Raymond James.

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

I just had a quick question on the guidance, Vance. I just wanted to confirm, has there been any change to your previously communicated comp guide at either Applebee's or IHOP or any change to your unit growth expectations that you gave us in the second quarter?

Vance Chang*Chief Financial Officer*

No, those are staying the same. No change to guidance, yes.

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

I guess I heard some of your comments about how IHOP has accelerated and Applebee's seems to be holding in. I guess if I do the quick math on Applebee's, and I think my notes are right on this, but I think your previous guide on comp was down 2% to up 1% at Applebee's, if I have my notes correct. So that would embed, I think -- go ahead, sorry. Basically trying to get at what is -- yes, what's a reasonable expectation for 4Q on comps, just to level set, because we didn't have the guide in the release.

Vance Chang

Chief Financial Officer

Yes. The Applebee's guidance, we actually bumped it up from positive 1% to positive 3%. So that didn't change. We changed that last quarter. And then for IHOP it's negative 1% to positive 1%, and we didn't change that either. So that implies a sort of a decent Q4 for Applebee's and a strong Q4 for IHOP.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Great. You also obviously highlighted the traffic being positive at both brands. Could you firm up just the comp components within that sort of where average check was versus traffic for each brand in Q3?

Vance Chang

Chief Financial Officer

Yes. So for Q3, I think our check -- so let's see. So traffic was positive for both brands. We have negative P mix for IHOP and sort of flat P mix -- no, actually negative P mix for Applebee's as well. And then about 2-ish percent menu price increase. So that kind of gives you the rough breakdown.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Great. Then last one for me. You talked about the Applebee's remodel program with over 100 planned for this year, I think you said. I'm just curious how you see that potentially accelerating into '26 and beyond? What sort of a reasonable rate on remodels might be?

John Peyton

CEO, Applebee's President & Director

Yes, Brian, it's John for that question. Yes, we said over 100 this year, and we expect to do at least that number next year, if not more. And our goal is to have 2/3 of the portfolio renovated by the end of '27.

Operator

Our next question comes from the line of Nick Setyan with Mizuho.

Nerses Setyan

Mizuho Securities USA LLC, Research Division

Just on the remodels, I'm not sure if I missed this, but did you say the kind of lift you're seeing?

John Peyton

CEO, Applebee's President & Director

Nick, it's John. Welcome back. We're glad you're here. Vance will take that question.

Vance Chang

Chief Financial Officer

Nick, so it's obviously early days, right? A lot of the restaurants that's been remodeled are pretty new, but we're -- franchisees are very happy with what they're seeing. And from company restaurants, the ones that we've done, we're seeing sort of double-digit lifts for our own portfolio. Now again, one caveat is early. Two is that I think the starting point for our restaurants are a little bit lower than system average. So I'm not underwriting that sort of lift for the entire portfolio. But so far, we're very encouraged by what we're seeing as well as the franchisees.

John Peyton

CEO, Applebee's President & Director

Vance, it's fair to say that -- I'm sorry, Nick, it's fair to say that the franchisees that have renovated recently following the renovation package that we have are seeing lifts that more than cover the cost. The return is good.

Vance Chang

Chief Financial Officer

Definitely.

Nerses Setyan*Mizuho Securities USA LLC, Research Division*

Thank you for the kind words, John. It's good to be back.

Vance Chang*Chief Financial Officer*

Yeah, good to have you back, Nick.

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

You've had a couple quarters to think about it.

Nerses Setyan*Mizuho Securities USA LLC, Research Division*

Well, I mean 4x on the deal conversion, that's a great number. In terms of just the number of like actual conversions, where it gives you confidence that that kind of lift is possible, is that something that we can commit to? Or is that also kind of too early and the numbers of conversions are too small to really be able to project that out?

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

Well, we can't speculate on forward-looking data, right? And we can't make a firm commitment. All we can do is report on what we've seen so far. What we've seen so far in the close to 40 international dual brands is a 1.5x improvement in revenue or more. And what we're seeing here in the 15 or so that are open in the U.S., we're seeing a range of 1.5 to 2.5 in sales lifts. But again, it's a sample set of 15 in the U.S.

Nerses Setyan*Mizuho Securities USA LLC, Research Division*

Then just in terms of pricing and how we're thinking about just menu price versus mix going into 2026. Is there any kind of early indication you can give us in terms of what we can think of as the right price number in 2026 for both brands?

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

Vance can provide an update there.

Vance Chang

Chief Financial Officer

Nick, as you're seeing and as we're seeing sort of with menu pricing right now, we're -- both sets of franchisees are in the low -- around low middle -- low single-digit range, which we do expect that to be the case going forward, given the fact that commodity costs have sort of come under control, egg pricing is still elevated, but it's come under control and it's getting better. So that's what we're expecting. Now obviously, the disclaimer we always have is that we don't control pricing. So it's the franchisees that said this. But there's -- we're not anticipating any outsized menu pricing for next year though, having said that.

Operator

[Operator Instructions] Our next question comes from the line of Todd Brooks with The Benchmark Company.

Todd Brooks

The Benchmark Company, LLC, Research Division

Vance, I wanted to start off with the capital allocation update and just walk me through why we needed to cut the dividend to fund the \$50 million in share repurchase. Is there a third component around additional franchise keeping firepower dry for additional franchisee location acquisitions. I think you guys said you'd be willing to take that portfolio up to maybe a couple of hundred at a premium? Or just kind of walk me through why one lever had to be pulled to accomplish the share repurchase.

Vance Chang

Chief Financial Officer

Sure, Todd. So first of all, our dividend yield implies a dividend yield of approximately 3%, as we said, and it's still one of the highest amongst our peers, right? And second, our asset-light model really generates healthy free cash flow. So it allows us to return meaningful capital to shareholders consistently, and that's not going to change. So it has nothing to do with cash flow or ability concerns on that matter.

Lastly, the goal -- to hit your point, the goal is always for us to deliver strong returns to shareholders. Currently, given how undervalued the stock is, right, especially given what we're seeing with the momentum with our business, the best way to increase TSR over time is through buybacks. And while we invest in company restaurants and franchisee restaurant remodeling and development. So we just think at this point in time, this is the most efficient way to increase shareholder return over time.

Todd Brooks

The Benchmark Company, LLC, Research Division

So price dependent, obviously, but this -- you signed up for the 2-quarter commitment, but it sounds like share repurchase is a bigger component of returning capital to shareholders going forward?

Vance Chang

Chief Financial Officer

Price dependent, but that's a fair statement, price dependent, yes.

Todd Brooks

The Benchmark Company, LLC, Research Division

Great. Then I wanted to ask Lawrence about with House Faves expanding to 7 days a week, how has the brand been able to handle that operationally? I know that typically, those weekend periods are peak periods for IHOP to begin with. Now you're bringing potentially a value-seeking customer to try to get to the box during those peak periods as well. How are the units handling it? And is there an efficiency gain to happen as we get more than 6 weeks into having the menu available 7 days a week?

Lawrence Kim

President of IHOP

Yes. So thanks for the question, Todd. One thing that we're very methodical about is ensuring our franchisees and our restaurants are equipped to handle any new type of promotion and especially when it comes to something like an everyday value menu. So we tested this across several months and across different markets to ensure not just is it a transaction and traffic driving, but also profitable program for the franchisees. And also, that ties to your question, which is the operational capabilities.

So the main focus of our value platform, in particular, is leveraging core items. So I cook a lot in the restaurants and it's back with the cooks and the chefs back there. And we want to make sure they focus on our core items, pancakes, eggs, bacon, omelets, items that from a speed standpoint, could be managed thoroughly and have no impact whatsoever in terms of speed. And so that's why, as John alluded earlier, our speed has actually improved continuously even with the everyday value menu because we've optimized it based on our core. And so from a cooking standpoint, they're just masters at the trade there.

Todd Brooks

The Benchmark Company, LLC, Research Division

Just a follow-up there, Lawrence. If customers were coming anyway on the weekend and the House Faves is focused around core items, that kind of transference into the value bucket, is that greater on the weekends at peak periods? Is it less? Is it pretty consistent with what you've seen during the week?

Lawrence Kim

President of IHOP

It's still early as we've only been in the everyday value menu launch since mid-September. And so we're continuously tracking. But even throughout the test data as we did it for several months, it stayed fairly consistent. Actually, with the barbell strategy, we are seeing potentially value increasing on the weekends, but the check counter, which is our barbell strategy, introducing new premium items and featuring them on the table with POP and even with the menu inserts, we're seeing a good balance in terms of check growth, even including on weekends.

Operator

Ladies and gentlemen, I'm showing no further questions at this time. I would now like to turn the call back to John Peyton, Dine Brands' CEO, for closing remarks.

John Peyton

CEO, Applebee's President & Director

Thanks, Towanda, for taking such good care of us, as you always do. And thanks, guys, for your questions. I'll just sum up with a few key points. We know we've got more work to do, but we are pleased with the effects of the retooling and the refocus that both brands have put in place. We're pleased with the performance from the last 2 quarters. We're pleased with the potential that dual brands is posing to accelerate our return to net unit growth.

As Vance mentioned, our stock is undervalued in our opinion, and we are directing our shareholder return strategy through this buyback program because we believe in our strategy, we believe in the future of the company, and we think that's a very good investment right now. So I appreciate your questions and look forward to talking to you later today.

Operator

Ladies and gentlemen, that does conclude today's conference call. Thank you for your participation. You may now disconnect.

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