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El Pollo Loco Holdings, Inc. (NASDAQ:[LOCO](#)) Q3 2024 Earnings Conference Call October 31, 2024 4:30 PM ET

Company Participants

Ira Fils - Chief Financial Officer

Liz Williams - Chief Executive Officer

Conference Call Participants

Todd Brooks - Benchmark Company

Jake Bartlett - Truist Securities

Andy Barish - Jefferies

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the El Pollo Loco Third Quarter 2024 Earnings Conference Call. At this time all participants have been placed in a listen-only mode and the lines will be open for your questions following the presentation. Please note that this conference is being recorded today, October 31, 2024.

And now I'd like to turn the conference over to Ira Fils, the company's Chief Financial Officer.

Ira Fils

Thank you, operator, and good afternoon everyone. By now everyone should have access to our third quarter 2024 earnings release. If not, it can be found at www.elpolloloco.com in the Investor Relations section.

Before we begin our formal remarks, I need to remind everyone that our discussions today will include forward-looking statements including statements related to our growth opportunities, strategic and operational initiatives, expectations regarding sales and margins, potential changes to our product platforms, capital expenditure plans, expectations regarding kiosk rollouts, the ability of our franchisees to drive growth, expectations regarding commodity and wage inflation, remodel plans, and our 2024 guidance among others. These forward-looking statements are not guarantees of future performance and therefore you should not put undue reliance on them.

These statements are also subject to numerous risks and uncertainties that could cause actual results to differ materially from what we currently expect. We refer you to our recent SEC filings, including our Form 10-K for the year ended 2023 previously filed, as well as our Form 10-Q for the third quarter to be filed for a more detailed discussion of the risks and current impact of our future operating results and financial condition. We expect to file our 10-Q for the third quarter of 2024 tomorrow. We encourage you to review that document at your earliest convenience.

During today's call we will discuss non-GAAP measures, which we believe can be useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP and reconciliations to comparable GAAP measures are available in our earnings release, which is available in the Investor Relations section of our website. With respect to the restaurant margin contribution outlook we will be providing today on today's call, please note that we have not provided a reconciliation to the most directly comparable forward-looking GAAP financial measure because without unreasonable efforts we are unable to predict with reasonable certainty the amount of or timing of non-GAAP adjustments that are used to calculate income from operations and comparable restaurant revenue on a forward-looking basis.

Now, I would like to turn it over to our CEO, Liz Williams.

Liz Williams

Thank you, Ira, and good afternoon everyone. During the quarter we drove top line growth through a 2.7% increase in system-wide comparable sales. We expanded restaurant level margins 230 basis points year-over-year to 16.7% and we continue to make great progress on reducing the cost of our prototype to stimulate future restaurant development. While I am pleased with the progress we have made thus far, there is still a lot to do. We have a substantial opportunity ahead of us to become the national fire-grilled chicken brand.

As we approach our 50th year in business with plans to modernize this beloved brand, the foundation is critical. I continue to be impressed with the culinary, operational and people focused foundation that has allowed us to get off to a fast start with our transformation. At the end of September, we invited all of our franchise partners to meet in person for our annual franchise conference. Our team came out of the conference energized and ready to tackle our key priorities, consistent sales growth, improved margins and igniting new unit development. We will do this by executing on our five strategic pillars.

First, brand that wins through our craveable, affordable and better for you chicken offerings. Second, hospitality mindset by embodying the El Pollo Loco culture and providing our guests with fast, friendly and consistent service. Third, digital-first, bringing frictionless experiences to our guests. Fourth, winning unit economics, making sure margins matter. And finally, driving unit growth again with national expansion by becoming flexible and affordable.

With the current macroeconomic environment continuing to put pressure on our guests, it is more important than ever to lean on our strengths, providing portable, craveable, fresh food all for a good value and with the convenience of fast service to ensure we are a brand that win. In Q3, we did this by offering our delicious double chopped salads and our fire-grilled burritos. Our relaunched burritos offered consumers new flavors like, creamy chipotle and delicious queso blanco, both with handmade guacamole included.

All of this was for \$9.99 or \$8.99 in our app. This is a deal compared to fast casual competitors. In Q3, El Pollo Loco also showcased our unique positioning when it comes to better for you. We did this with our double chopped salads featuring our double portion of fire-grilled chicken also with super-green lettuce, avocado and salsas made fresh daily in our restaurant.

Our salads mix at over 20% and are uniquely positioned in that \$9.99 to \$12.79 price point. Truly fast casual quality, but at QSR prices. Something that few QSRs can do. While we are proud of how our salads and our burritos performed. We recognize that the consumer is still under continued economic pressure and that the industry has become even more competitive with value offers at even lower price points. These salads and burritos are great values at that \$9 to \$12 price point, but we realize we need even more value on the low end around that \$5 price point.

To address this, we recently launched our Taco Tuesday promotion that some of our franchise partners had been testing with great success. This Tuesday promotion offers guests two delicious tacos for \$5. The guest feedback has been great, but what's more important is that this promotion creates new trial allowing us to showcase to our guests that we're just really good food that's really good for you with a product that we're not always known for. Not surprising, consumers are asking us to offer this promotion every day, which is something we will consider as we learn more.

To keep the excitement going and to drive more value messaging, we are also launching a \$5 original Hoya bowl promotion in November. The original Hoya bowl is a fan favorite and we believe our guests will be delighted to gain access to this popular product for only \$5. We intend to run this promotion through the end of January 2025. As part of our franchise conference, we also unveiled our 2025 marketing calendar. While we're keeping the details under wraps for now, I truly believe it's the strongest marketing calendar that El Pollo Loco has had in many years.

What I can say is that our 2025 calendar embraces innovation and value combined with what makes El Pollo Loco truly unique. Being known for having the best chicken. Underlying all of our efforts is an acknowledgment that to be successful in the long term, we need to drive improved traffic trends in 2025, and we believe we have the strategy to do just that.

Turning to hospitality. We are pleased with the progress, we have made driving standards, accountability and productivity, which we believe will help in driving transactions as we look ahead to 2025. For example, we are relaunching a standardized development system that makes sure aces are in their places during peak hours, which in turn drives more transactions. We are also continuing to invest in equipment enhancements like warming cabinets to keep our chicken more flavorful and delicious while also reducing team member labor.

Finally, we have recently switched to a new customer feedback system that will enable us to more clearly benchmark our voice of customer feedback with other leaders in the restaurant industry. This will also improve our closed loop customer feedback system. In turn, all of this will drive better accountability with our operations team and franchise partners, ensuring better customer service overall.

That brings us next to the digital-first pillar. We continue to utilize our Loco Rewards app to drive trial and repeat visits, including exclusive offers like our \$9.99 burritos for only 8.99 or our new Taco Tuesday promotion where we've sweetened the deal so that Loco Rewards members can get three tacos for \$5, not just the standard two for five that you can get in the store. Over time, we know that in order to drive sustainable comp growth, we must win with loyalty.

While we are not announcing anything new today, I can assure you of two things. First, our app is and will continue to be the easiest way for customers to interact and order from El Pollo Loco; and second, our best offers will be only in the app, giving customers a great reason to engage. While it's still early, we believe our loyalty program and app will be crucial to driving long term sustainable comp growth.

We are also on track to complete our kiosk rollout by early Q1 of next year. If you recall, we took a step back and slowed down our kiosk rollout earlier this year to ensure we had high touch training and customer service to drive sustainable customer adoption. Not only have we accomplished this, but we have also enabled additional technology enhancements that will further improve our operations and customer experience, including the ability for our kiosks to now accept gift cards, discounts and EBT [ph].

Next, let me touch on delivering winning unit economics through our margin improvement initiatives. I'm going to steal Ira's thunder a little bit here, but today we are raising our margin expectations for 2024 for the third consecutive quarter. We now expect to end 2024 in a range of 16.75% to 17.25% representing an approximately 150 basis point year-over-year improvement at the midpoint. During the quarter, we continued to make progress in our cost savings initiatives with a dedicated team actively looking across the entire P&L from labor productivity to cost of goods sold, repair and maintenance, utilities and other controllable expenses.

Again, we are approaching our cost savings initiatives methodically to ensure high quality food and the guest experience only improves. We expect to see some cost savings benefits in the fourth quarter, but more importantly, all of the work we've done this year gives us increased confidence in our ability to drive further improvement next year in 2025.

Lastly, let's talk about driving unit growth. Before we can drive sustainable long term new unit growth, it is important that we achieve relative brand consistency across our system. We unveiled earlier this week a new iconic restaurant prototype showcasing an enduring yet modern and efficient design. Some highlights of this new prototype are this iconic design that's uniquely El Pollo Loco, a clean and simple design embracing a less is more philosophy, an evolutionary rather than revolutionary design that allows us to coalesce the system around a new prototype design and bring along past prototype designs.

Underscoring all three points is a reduced build cost from where we stand today. As we know, stronger cash on cash returns will drive long term sustainable unit growth across the country. New units are just one signal of modernization. The other is our ability to use remodels to showcase this evolved design. Through a two-tiered approach including a low cost five-year refresh investment and a more extensive 10-year remodel investment, we anticipate being able to touch roughly half of our total system over the next four years in partnership with our franchise partners. We are excited to roll this modernized image across the system and also optimistic with the sales and economic returns that come with remodels.

Turning to new growth, I'm pleased with the progress we have made to reduce the cost of our new restaurant prototype. From reducing the footprint and simplifying the build structure to rethinking equipment packages, decor, signage design, we have a clear path to lowering our new unit build cost to around \$1.8 million. We have company and franchise units in the planning process using these new lower cost beautiful designs that will be open in the next 12 months to 18 months.

In addition to targeting new ground up sites, we have also had success with conversions. As most of you know, there have been a number of restaurant closures in our industry over the past few years. This has created an opportunity for future new unit development. Due to our flexible restaurant format, our franchise partners have been able to take some of these locations and convert them to El Pollo Loco with reduced build costs and outsized returns relative to a ground up build. In fact, our first Denver locations, which has sales volumes above our system average, was itself a conversion from another QSR brand.

So as we move forward into 2025 and accelerate our restaurant development plan, we plan to open at least 10 restaurants. We will further embrace our flexible footprint and drive unit growth through a variety of formats including freestanding, drive-thrus, NCAPs and non-traditional locations. We are excited to get back to growth. We are also excited about what the future holds on our unit expansion and we look forward to providing more updates on upcoming calls.

In closing, let me reiterate how pleased I am with the work that we've accomplished thus far in laying down the foundation to ignite our growth in 2025 and beyond. Through our renewed approach to menu innovation and brand positioning, our methodical cost savings initiatives and flexible and affordable new unit development plan, we are well positioned to capture the growth opportunities ahead and make El Pollo Loco the national fire-grilled chicken brand.

Most importantly, I want to thank our over 4,300 amazing team members and our incredible franchise partners for their hard work and their dedication, without whom none of these accomplishments would have been possible.

With that, let me turn over the call to Ira for a more detailed discussion of our third quarter financial results.

Ira Fils

Thank you, Liz, and good afternoon everyone. For the third quarter ended September 25, 2024, total revenue was \$120.4 million or no change as compared to the third quarter of 2023. Company operated restaurant revenue decreased 1.5% to \$101.2 million from \$102.7 million in the same period last year. The \$1.5 million decrease in company operated restaurant sales was primarily driven by a \$5.3 million decrease in revenue from the refranchising of 19 company operated restaurants to existing franchisees in prior quarters, partially offset by a 2.8% increase in company operated comparable restaurant sales and additional sales from restaurants open during or subsequent to the third quarter of 2023.

The increase in comparable restaurant sales included an 11.3% increase in average check size and approximately 7.6% decrease in transactions. During the third quarter, our effective price increase versus 2023 was 8.4%. Franchise revenue increased 10.5% to \$11.3 million during the third quarter, driven by a 2.7% increase in franchise comparable restaurant sales as well as three new franchise restaurant openings during or subsequent to the third quarter of 2023 and the 19 refranchised restaurants I've just mentioned earlier.

Looking ahead fourth quarter to date through October 23, 2024 system-wide comparable store sales decreased 0.5%, consisting of a 0.8% decrease in company operated restaurants and a 0.3% decrease in franchise restaurants. We believe, we will finish Q4 slightly positive as we expect our same-store sales trends to improve as we are rolling over our 2023 Carnitas LTO in the back half of the quarter, which underperformed our expectations last year, and we continue to innovate with value promotions.

Turning to expenses. Food and paper costs as a percentage of company restaurant sales decreased 170 basis points year-over-year to 25.1% due to menu pricing and lower discounting partially offset by commodity inflation of approximately 4.5%. We expect commodity inflation to be in the 2% to 3% range for the full year 2024.

Labor and related expenses as a percentage of company restaurant sales increased about 15 basis points year-over-year to 32.4%. An increase in wages was partially offset by menu pricing and better operating efficiencies, primarily driven through improvements in labor deployment and scheduling, especially during opening and closing periods. Labor inflation during the third quarter was approximately 14% for all our company-owned locations driven by wage inflation in our California restaurants as a result of the April 1 California \$20 an hour minimum wage for QSR restaurants.

For the full year 2024, we expect wage inflation of about 12% for all our company-owned locations. Occupancy and other operating expenses as a percentage of company restaurant sales decreased 80 basis points year-over-year to 25.8% primarily due to the leverage gained on the same-store sales increase combined with the sale of lower volume restaurants to existing franchisees in the prior year.

Our restaurant contribution margin for the third quarter was 16.7% compared to 14.4% in the year ago period. For the full year 2024, we expect our restaurant contribution margin to be in the 16.75% to 17.25% range.

General and administrative expenses increased 190 basis points year-over-year to 9.5% of total revenue. The increase for the quarter was primarily due to an increase in estimated management bonus expense and other general administrative expenses. During the third quarter, we recorded a provision for income taxes of approximately \$2.4 million for an effective tax rate of 28.1%. This compares to a provision for income taxes of \$3 million and an effective tax rate of 24.4% in the prior year period.

We reported GAAP net income of \$6.2 million or \$0.21 per diluted share in the third quarter compared to GAAP net income of \$9.2 million or \$0.28 per diluted share in the prior year period.

Adjusted net income for the third quarter was \$6.3 million or \$0.21 per diluted share compared to adjusted net income of \$6.4 million or \$0.19 per diluted share in the third quarter of last year. Please refer to our earnings release for a reconciliation of non-GAAP measures. In terms of our development plan during the quarter we opened one new company location in California.

In addition, as Liz mentioned earlier, we are finalizing on a location for our new prototype build that will incorporate the new design elements and cost savings. We've discussed with a plan to open the store over the next 12 to 18 months. Regarding remodels, during the third quarter we completed no company operated restaurant remodels and seven franchise restaurant remodels. We have completed five company restaurant remodels and 35 franchise restaurant remodels through the third quarter.

For the full year, we expect to complete a total of six to eight company remodels and 35 to 40 franchise remodels. We intentionally slowed our remodel program as we are in the process of developing a new more modern look and cost engineered design. We are very excited about this new design and we anticipate completing our first company remodel with the new design in the fourth quarter of 2024.

Turning to liquidity as of September 25, 2024, we had \$76 million of debt outstanding and \$8 million in cash and cash equivalents. Subsequent to the end of the quarter, we paid down an additional \$5 million on a revolver, bringing our current outstanding borrowings to \$71 million as of October 31, 2024.

During the third quarter, we repurchased approximately 92,000 shares of stock for approximately \$1.1 million, leaving about \$3.1 million remaining under our current share repurchase Authorization as of September 25, 2024. And finally, based on our results to date, we would like to update the following guidance for 2024. The opening of two company operated restaurants and three to four franchised restaurants.

Capital spending of \$21 million to \$23 million G&A expenses of \$45 million to \$47 million excluding onetime costs and adjusted income tax rate of 27.5% to 28%.

This concludes our prepared remarks. We'd like to thank you again for joining us on the call today and we are now happy to answer any questions that you may have. Operator, please open the line for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from the line of Todd Brooks with Benchmark Company. Please proceed with your question.

Todd Brooks

Hey, thanks for taking my questions. Appreciate it. First question just looking at kind of the sequential progression in same store sales kind of that north of 300 basis point drop quarter to date versus what you were able to generate in Q3, I guess what are kind of the components of that? Is there some real change in average check that's dragging things down? Is there a change in traffic? Is there something competitively that you've seen that you think has impacted the businesses maybe leading you to, to seek out more of that \$5 value price point that many others are running? I'm just trying to get some color around this slowdown here.

Liz Williams

Yes, thanks, Todd. Fair question. It definitely is that value oriented consumer more than ever telling us that they need more value. And we've been working over the last couple of weeks identifying what we can do to really bring that to bear. So we also came into, if you think about our calendar with 2024, we came in with limited innovation.

So we really had a calendar of reheats [ph] and I'd say the first half of the year through middle of the year, the double tostada, the chopped salads, the stuffed quesadilla, they were on reheat number two or we have value at a higher price point as we talked about over the last couple quarters at that kind of \$9 to \$12 price point. But what we realized as we've moved further into the year is two things.

One, the reheats are losing some steam. So we're running double tostada and for most of the month of October we were running double tostada. We've hit that now a couple times this year and a couple times over the last years.

And it's a great product, consumers love it. But it is still a really high price point and we need more innovation. So the couple things that we've done to do that and to bring what we call new news is the \$5 Hoya bowl.

Of course the Hoya bowl isn't a new item, but that \$5 price point we were able to get our franchise system in pretty quick order to align that. We're going to go on national media with that \$5 price point. So that will be trafficking here in the next couple of weeks.

I think the week of November 11 was the soonest we could get that up. I just saw the commercial today. It looks great. And then the other thing that we've done is two for \$5 tacos and we've been testing that out on Tuesday we had a just two days ago was the first Tuesday it ran. It was really nice to see how quickly transactions in one day respond when you put an offer like that out there.

So again, it's a hint to us on how do we grow that. Obviously it'll grow over the next couple weeks on Tuesdays. And then how do we take that seed and grow it even further and how do we do that all while keeping our products also up at that \$9 to \$12 price point that people love as well. So I think you'll see a continued emphasis on value. And then moving into next year, we have to have more new innovation, which I feel comfortable we do.

Todd Brooks

Okay, great. And then the price mix, does that change or the average check, does that change much as we think about Q4 versus Q3?

Ira Fils

Yes, it starts to soften a little bit. We'll be a little bit under 7% pricing as we move into Q4.

Todd Brooks

Okay, great. Thanks, Ira. The margin performance is so ridiculously strong. It's great to see. Just wanted to frame the question this way. And obviously you've given us that guide up on where you think the Q4 restaurant level margins will be. How high is up on restaurant level margin without generating positive traffic to go with it? So how close do you think we're getting to a margin ceiling until we can get the traffic flywheel working in our favor as well?

Ira Fils

Irregardless of sales, hey, sales are important and we're working hard to improve them. But we have a lot of cost initiatives that we're working on that we feel we have a lot of opportunity as we talked about, to continue to grow the margins next year, especially on the procurement side. We launched a project earlier in the year where we're looking at everything from a total cost to serve basis. And we're really excited about the opportunities and projects that we're working on in place that we know are going to help us drive more margin improvement next year.

Liz Williams

But following on that, I want to be clear we're not going to trade off just getting to some. As much as we'd like to have the highest margins out there in QSR, we're not going to trade that off for traffic. I think getting everyone to invest in the \$5 Hoya bowl and the two for five just shows we're willing to make the investments to drive traffic.

And another place as an example, catering, we just completed signing up a partnership with Easy Caterer as an example and are working with other mechanisms to get our catering out there. Now we will take it is a high ticket. So that's great.

It's a high check. But you do, when you work with these aggregators, you do give up a lot of margin as well. We're willing to do that, to invest, to get our product out there so people can try it.

So want to be clear with everyone. We want to grow traffic and it's a big and. And we want to grow a profit.

Todd Brooks

Okay, that's great. And if I can squeeze one more in and I'll jump back in queue. Exciting to hear the magnitude of the expected remodel cadence. Half the system over the next four years. I know that the, we're still in that, that kind of prototype design phase for what you are planning these remodels to entail, whether it's the, the five year or the 10 year model. But is there kind of a structural lift that franchisees are being told that they can expect or that maybe you're targeting out of each of the versions of the remodel? And I'm just trying to think about this structural same store sales tailwind that you may be creating for Loco with the remodel program. Thanks.

Liz Williams

Right, so what I can say is in the remodels that we've done over the years, we've seen, a mid single digit uptick after a remodel and certainly we're putting a lot of emphasis on remodels next year. I think over the next couple of years.

As an example, we've got almost half of our system will be touched over a couple of years. But next year will be the first year to really have a large quantity of those. And we have with this new prototype that we unveiled earlier this week, we have a few remodels that are actually going to be completed this week with this new design that then we will roll out next year.

And so we'll see, we'll get a new batch of data in here in the next couple weeks on how that looks. But I think it looks like a beautiful restaurant and no reason to believe it would be any different from what we've seen in the past.

Todd Brooks

Okay, great. Thank you both.

Liz Williams

Yes, thank you.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of Jake Bartlett with Truist Securities. Please proceed with your question.

Jake Bartlett

Great. Thank you so much for taking the question. Mine was on the macro environment that you're seeing. Obviously it's still under pressure. You can see that with the volatility of your same-store sales.

But I'm wondering whether you're in different regions, whether you're seeing anything specific just to California itself or whether really the environment is pretty similar across your system.

Liz Williams

California definitely has some of the biggest transaction declines. We don't have the largest samples outside of California, so I will say that.

But in some of our restaurants in Texas, for example, Houston, the Rio Grande Valley, San Antonio, I'm seeing healthier transaction growth there. By and large, though, I think the consumer is under pressure in all of the markets. Las Vegas is an example of the market not in California, but that Las Vegas consumer as an example is hurting as well. So – but, obviously predominantly, we are predominantly still in California. We plan to change that over time. But I definitely think that California consumer has been hurt more than anyone.

Jake Bartlett

Got it. And I'm thinking of just other, factors that might have contributed to the deceleration that you saw. Quarter-to-date and some of your hamburger QSR competitors are running promotions right now that are very, very successful and really getting a lot of attention. To what extent do you think that that could impact demand for El Pollo Loco as consumers are really kind of going a little bit gaga over some of these innovation that the larger QSR players are offering right now?

Liz Williams

Yes, I think it's less about innovation and I think it's more just about what you can get for what you pay at a really low end. And obviously when some of the competitors just have a loud megaphone to be able to put that out there.

And quite frankly, we just haven't competed there as much. We haven't had things down in that \$5 price point up until now. We've had a few things, but not as seriously as we're going to get in there.

So, I think that is certainly part of it also, if you think of, just overall pricing on the menu as well. And, this has been true since I think that the test of time in the restaurant space, even a family meal of chicken as an example, if it's \$29.99 today, but just a couple years ago it was \$21 or \$22, that's a big increase for someone that's under \$100,000 in income. And so I think it all is playing in effect. I wouldn't blame it just on the \$5 value war. I think it's pricing all up and down the menu.

Jake Bartlett

Got it. And last question on the, promotional approach in the near term, but can you remind me what your experience has been with the \$5? I've been hearing about the \$5 bowls for a long time and it seem it comes and gets pulsed in periodically. When's the last time you offered it and you promoted it nationally and what was the outcome when you were doing that last?

Liz Williams

I'll have to do some digging to find out when the last time it was we ran it nationally. From what I understand it has always been a very responsive LTO that we run. I can tell you just from running. Like I said, Taco Tuesday. Just a couple days ago I saw, I woke up and saw in the daily sales a responsive nature there. So I think those two things matter.

The other thing I will say about this brand, we still do coupon drops. So we are one of the few brands that still drops coupons every like six to eight weeks. And again just showcasing the power of value, when we drop the coupons we see a very responsive reaction in terms of transactions.

And those coupons are all over the menu. So they're everything from a couple dollars off of family chicken to a burrito to a salad. So we kind of have something for everyone. Just again reconfirming that there's that value hunter in QSR that is looking for a good deal. So we need to do I would say all of the above in terms of reaching our consumers. It's value in the coupons, in the app, in the \$5 Hoya bowl and Taco Tuesday.

So we're really turning that on. And the nice part is we're doing a lot of cost work on the other side so we can afford to do that. And I think because we're doing all that cost work, we were able to get our franchise system aligned to come along with us.

Jake Bartlett

Got it. And then switching to margins, kind of multi part question but the first is you beat, handily beat your guidance in the third quarter for restaurant level margins. I'm not sure whether you beat your same-store sales, you didn't beat ours.

So something drove that. So what was the surprise, if there was to, that really drove the upside in the margins in the third quarter and then you're raising your guidance for 2024. Is that more of a pull forward or do you still expect and do you still expect to be around the 18% in 2025 or should we think of 18% has increased as well as you've found more efficiencies.

Ira Fils

So great questions. I'll take the second one first and then dive into the first part. We still believe as we look out into next year we will be approaching 18% margins for the full year of next year. So nothing's really changed in our thinking there. We feel really good about the direction we're headed and the opportunities that we have there.

I think where we did see some favorability on the – was on the, A little bit on the commodity side, as well as a little less and a little less discounting and a little bit. A little bit of mix. A little bit of the mix of the products that we were serving had a little less of the.

Had a little more of the [indiscernible] meat item, which is a little less expensive than some of the other meats that we use sometimes. And so that also helped drive a little bit of the upside from a margin standpoint, as well as a little less discounting than we originally thought that we'd see.

Yes. And, coupled with that, our OPS team continues to do an incredibly good job at managing on the labor side. And a lot of the initiatives that we put into place in Q2, they continue to build on those specifically around deployment. Labor deployment. And we saw a little upside on the labor side as well.

Jake Bartlett

All right, thank you so much. I appreciate it.

Liz Williams

Thank you.

Operator

Thank you. Our next question comes from the line of Andy Barish with Jefferies. Please proceed with your question.

Andy Barish

Hey, guys, just wondering if you could share contracting on chicken for next year, Ira, and maybe how that's sort of informing the early feelings around menu price. Obviously, you'll carry some of the California pricing through the first quarter, but just kind of wondering if you've sort of level set on where pricing for next year maybe shakes out.

Ira Fils

Yes, I think we're looking at very moderate pricing next year pricing increases. We haven't landed on it completely, but we definitely feel the opportunities that we have on the commodity side and the product side will give the stability to be really thoughtful about pricing as we look at it next year. We have not locked the chicken yet.

We are in the middle towards the end of the RF prepop. RFP process on chicken, and we feel really good about the direction we're headed there.

Andy Barish

Got it. And then could you just give us a sense of sort of where you are on the. The promotion and discounting has kind of gone back and forth a little bit. The mix really popped this quarter to be plus three.

Just any thoughts on kind of, how that looks for the fourth quarter as you bring in a little bit more \$5 price points and things like that?

Ira Fils

That will moderate some as we move into the quarter, and some of the mix was driven, less discounting was part of it. But some of the innovation that we've been doing around the menu really drove some of the positive places in the mix.

Just a couple points I'll point out would be, we put, we added the crunchy tacos earlier in the year and that's continued to really be, tends to be add-ons and has been a real positive to the mix, we did, when we launched the burrito promotion this year, we put a lot more emphasis on upselling to the combos and that was also helpful in helping, driving our mix. And the other thing that we did, we continued the shrimp component with the tostada promotion we did in Q3. So we did a lot of things from an innovation standpoint which really helped drive that mix and check during the quarter.

Liz Williams

Also with our family chicken, I think we did a better job of showcasing bigger options for families. So, historically we've shown our eight piece we've seen that when we promote on the menu the 10 and the 12, we drive a higher, not surprising. We drive, a higher ticket there.

Andy Barish

Got it. And then, finally just, as we get towards the end of the year, Liz, and you've had time, is there anything sort of on the unit fleet, other than obviously, some of the remodel work you're doing? I mean, are there areas or, store closures that maybe, could help clean things up or you know, anything else on refranchising or just kind of how you view the fleet as you head towards the end of the year and into 2025?

Liz Williams

Sure. We're fortunate in that our system volumes are healthy and we have a pretty tight, I guess when you look at the volumes around the average, it's a pretty tight distribution. We don't have, I know there's some systems that have some that are just, a million or you know, 12, 13 [ph].

We don't have a lot of those out there in our system and if we do, they're an in line with really favorable economics that would allow them to live on at that low end. So relatively healthy system, which I'm super pleased. Our franchise system is a tight group of franchise a very good seasoned long term group that is financially conservative and healthy.

So we feel really good about our system health overall. And the best part about it is I mentioned earlier we had our franchise conference a few weeks ago. We unveiled a lot of the new work that we're working on, not only with the new unit; we shared with them, the new marketing calendar for next year and just a bunch of other growth initiatives.

And the excitement we got from them, the feedback was terrific. They're really starting to lean into a pipeline for the next couple of years in terms of growth again. So I feel like in terms of system health and franchise health, I'd give us a very strong grade there.

Andy Barish

Good to hear. Thank you.

Operator

Thank you. And ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn the call back over to Liz Williams for closing remarks.

Liz Williams

Thank you. And just thank you everyone for taking the time today. It's always good to hear from you and we feel very optimistic about the days and months ahead. We think there's a lot of opportunity still in front of us and we look forward to talking with you again next quarter. Have a great evening and a Happy Halloween to all of you. Thanks again. Bye-bye.

Operator

And ladies and gentlemen, this concludes today's conference. You may disconnect your line at this time. Thank you for your participation.

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