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El Pollo Loco Holdings, Inc. (LOCO) Q3 2025 Earnings Call Transcript

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Insights



EPS of \$0.27 **beats by \$0.06** | Revenue of \$121.52M (0.93% Y/Y) **misses by \$1.89M**

El Pollo Loco Holdings, Inc. ([LOCO](#)) Q3 2025 Earnings Call October 30, 2025 4:30 PM EDT

Company Participants

Ira Fils - Chief Financial Officer

Elizabeth Williams - CEO & Director

Conference Call Participants

Jake Bartlett - Truist Securities, Inc., Research Division

Andrew Barish - Jefferies LLC, Research Division

Jeremy Hamblin - Craig-Hallum Capital Group LLC, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the El Pollo Loco Third Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note that this conference is being recorded, October 30, 2025.

And now, I would like to turn the conference over to Ira Fils, the company's Chief Financial Officer. Please go ahead, sir.

Ira Fils

Chief Financial Officer

Thank you, operator, and good afternoon. By now, everyone should have access to our third quarter 2025 earnings release, which 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 2025 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 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 December 25, 2024, as well as our Form 10-Q for the third quarter to be filed, for a more detailed discussion of the risks that could impact our future operating results and financial condition. We expect to file our 10-Q for the third quarter of 2025 tomorrow and would 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 contribution margin outlook we will be providing 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 company-operated restaurant revenue on a forward-looking basis.

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

Elizabeth Williams*CEO & Director*

Thank you, Ira, and good afternoon, everyone. I am excited about the momentum in our business and very proud of our team and franchise partners as I share third quarter results that clearly reinforce the strength of our strategy. Our third quarter results delivered across 3 of our core financial priorities, including positive traffic growth, accelerating unit growth and margin expansion at both the restaurant and corporate level. From menu innovations to improvements in operational excellence to our robust development pipeline, our team is executing across many strategic fronts as we continue to deliver sustainable, profitable growth.

We are particularly pleased with our positive system-wide traffic growth during the third quarter as we implemented targeted innovation and value offerings, beginning with our \$9.99 quesadilla combos, which have a good balance of innovation and value. Throughout the quarter, we also increased our app-only promotions, our targeted couponing and our third-party delivery promotions. Together, these actions successfully drove traffic, while also enhancing brand equity and importantly, without jeopardizing our margins.

At the same time, our ongoing focus on operational excellence and efficiency optimization delivered year-over-year profitability improvement, both on a dollar and margin basis. These results only reinforce my confidence in the strategy that we've put in place. We remain laser-focused on executing against our 5 strategic pillars: brand that wins through marketing and menu innovation; hospitality mindset through operational excellence; our digital-first approach; our winning unit economics; and driving new unit growth.

Now, let me provide more details on how these strategic pillars are driving our results, starting with our brand that wins pillar. Our marketing and menu innovation strategy continues to be anchored by what we believe makes El Pollo Loco truly differentiated, quality chicken served fast and easy. Chicken is our signature protein and the foundation that enables us to innovate across multiple platforms, while staying true to our brand promise. To capitalize on our positioning, we are accelerating our menu innovation strategy to address the evolving needs of today's consumers and expand our accessible customer [size]. We believe we have a unique opportunity to offer portable, flavorful, affordable and quality chicken that is in the bullseye of consumer demand.

Building on the success of our Fresca wraps and salads from the second quarter, in late June, we launched our premium Creamy Chipotle and Salsa Verde quesadillas. Featuring our citrus-marinated all-white meat fire-grilled chicken with 100% Jack cheese and our signature sauces, they were served with handmade guacamole at no extra cost. Notably, these quesadillas continued to mix well within our menu even after the incremental media and marketing support has ended, as they have filled the gap and earned a spot on our permanent menu. We expect the category to continue to build over time. This sustained demand demonstrates that our menu innovation genuinely resonates with our customers, and it validates our strategic approach to creating products that deliver both value and quality.

To build upon this momentum, we recently introduced our new Double Chicken Street Corn and Queso Crunch burrito bowls, both featuring a double portion of our citrus-marinated fire-grilled chopped chicken, layered with slow-simmered, seasoned rice, Jack cheese and freshly made guacamole and salsa. These hearty bowls are strategically priced below comparable offerings from our fast casual competitors, delivering superior value for a high-quality, big eat. They are also yet another example of how we're expanding our portable offerings, while maintaining the bold flavors and premium ingredients that differentiate El Pollo Loco.

Looking ahead to 2026, we have an exciting pipeline of innovation and value that will further strengthen our competitive positioning. We will begin 2026 with a focus on our Double Pollo salads, including 2 new options, Mexican Caesar and Bacon Ranch, alongside the fan favorite, Street Corn. These salads feature double portions of our premium fire-grilled chicken, fresh super greens and are bursting with delicious flavor. These are salads that you will actually look forward to eating.

In addition to these new salads, we have several flavor innovations planned across our signature tostadas, bowls, quesadillas that all leverage sauces and toppings to deliver unique flavor in 2026.

We are also excited to bring more portable options through new forms of chicken to our menu in 2026. We are currently testing Loco Tenders, which are all-white meat, boldly-seasoned tenders with 2 new signature dipping sauces, Baja Ranch and Pollo sauce, as well as testing a new fire-fried chicken sandwich. This sandwich has all of the delicious crunch and flavor of a fried sandwich, but it is grilled, not fried. Both the Loco Tenders and the fire-fried chicken sandwich bring unique and differentiated twists to these growing categories. We look forward to sharing more in future calls.

Beyond these innovative products, we are also supporting our core chicken on the bone. After popular demand, we are bringing back Mango Habanero just in time for the Big Game in February. And in the summer of 2026, we will launch our version of barbecue chicken to our family chicken lineup.

Beyond chicken, we also look to capture additional sales occasions with our comprehensive beverages platform in 2026. We believe beverages represent a significant opportunity for El Pollo Loco as an add-on to increased check average and also to fulfill multiple daypart needs for our customers and drive relevance. We have several drinks in tests and look forward to sharing more in upcoming calls.

In summary, we are excited about our menu and our innovation pipeline. We are using our core differentiator of quality chicken to expand into new consumer occasions and address specific market opportunities. Most importantly, as we execute this road map, we will remain focused on operational excellence to ensure consistent execution across our system.

Turning to our brand transformation. It continues to gain momentum as we execute against our Let's Get Loco brand campaign that we launched in May. What began as an advertising campaign has fully evolved into a complete brand experience, both inside and outside our restaurants. As I've said in the past, at the core of our brand identity is our passion for quality, and this passion is at the center of the Let's Get Loco campaign. For us, passion is our commitment to quality, marinated and grilled in-house over an open flame. Beyond this emotional connection to passion, the Let's Get Loco message also acts as a functional call to action, which we believe is critical in driving sales overnight, while we build our brand over time.

And the great news is that this framework, which guides our brand expression, is resonating with our customers. One example of this is our recent social media campaign, the AI Chicken Challenge. The AI Chicken Challenge invited fans to show us their Loco passion for chicken by submitting chicken-inspired AI-generated videos for a chance to win free chicken for life. This campaign created a tremendous buzz and engagement across social media, further amplified by social influencers, including Fluffie the Pom, an AI influencer, who has worked with major brands like FedEx and Sephora, as well as garnered recognition from [Ad Age], which named El Pollo Loco as one of the 8 marketing campaigns to watch.

We have coupled our Let's Get Loco campaign with our iconic restaurant design, which is being executed on our new-builds and remodels. With our signature vibrant colors and our beloved logo, together with some modern updates, consumers are noticing the glow up of El Pollo Loco. Legacy brands have to strike a balance to honor the generation who put them on the map, while evolving to be relevant for the next one. I believe our approach has put us on the right track, and I'm excited for our future and look forward to sharing more on upcoming calls.

Moving to operations. Our hospitality mindset pillar remains central to our transformation effort. Our goal is to have quality of service match that of our food quality at all times, which ultimately will allow us to build lasting customer loyalty. With this, we have several initiatives underway. These include reinforcing standards and accountability, deploying tools, systems and training to simplify operations for our team members, leveraging data to better listen and respond to customer feedback, and improving customer experience with our Loco Love service model.

Our focus on standards and accountability over the past several quarters is beginning to pay off. This is demonstrated by our improved customer engagement metrics. Our customer complaints are at the lowest point in 3 years, and our overall satisfaction scores continue to rise. We are now utilizing an industry-leading customer feedback system with clear benchmarks, together with an AI tool that provides instant feedback from common review sites. We believe this data-driven approach, together with our Loco Love service recovery model, will be instrumental in identifying specific opportunities and providing actionable insights for our team members.

While we acknowledge that our service consistency still has room to improve to reach the top tier, we are proud of the substantial progress we have made in the last few years. As we look forward, we have a talented team in place to help accelerate our next phase of operational improvement, and I look forward to working more closely with this team as we elevate our focus over the upcoming months.

In terms of our digital-first pillar, I am thrilled with the continued momentum during the third quarter across our app, web, kiosk and loyalty. Loyalty transactions are up 28% year-over-year with frequency of this customer up 15%. For the quarter, our digital business, including kiosks, grew to 27% of system sales compared to 20% in the same period last year, which further validates our focus on meeting our customers where they are and how they want to engage with our brand.

We've made meaningful improvements to our app and kiosk experiences, making it easier for Loco Rewards members to add points to their orders, to customize their meals and easily find add-ons that enhance check averages, all while providing more frequent and personalized offers to our most loyal guests. Our app remains the #1 place to find the best deals for El Pollo Loco, and the digital growth we're seeing validates our strategy.

Beyond our owned digital channels, our third-party delivery business also continues to grow with all app, web and marketplace sales representing 15.1% of our business compared to 13.8% last year, or a 9% year-over-year increase. We believe that the third-party marketplace channel gives us the ability to reach new customers who aren't familiar with El Pollo Loco, and we aim to further drive this behavior through targeted offers for net new customers within the delivery platforms. We view marketplace delivery as a guest acquisition tool for our business, and we continue to test new offers within the various delivery platforms to further drive customer adoption.

In addition, we have completed the kiosk rollout for company-owned restaurants. And together with our franchise partners, roughly 50% of our system have kiosks installed. All in all, we believe our robust digital infrastructure, growing loyalty base and innovative customer engagement creates a powerful foundation for sustainable growth.

Turning to our winning unit economics pillar. We are pleased to have delivered 160 basis point growth year-over-year in restaurant-level operating profit margins to 18.3% during the third quarter. From our methodical approach to cost savings in our supply chain to our enhanced labor productivity through better use of technology and kitchen equipment, our team members are putting more into customer service, while also delivering cost efficiencies. We are proud to have delivered this expansion even as we offer more deals and value for our customers. For the full year 2025, we expect restaurant-level contribution margins of 17.5% to 17.75%. In the long term, we continue to expect that the brand will return to the 18% to 20% range over time.

Lastly, as we continue to build momentum in our unit growth pillar, I'm excited to announce that we successfully opened our 500th El Pollo Loco restaurant in Colorado Springs earlier this month, a remarkable achievement that speaks to the strength and the enduring appeal of our brand and a testament to the hard work and dedication of our franchise partners and team members. After the end of the third quarter, we opened a new restaurant in El Paso, Texas, yet another new market for us, showing the expansion beyond our California roots. Roughly 3/4 of our new openings in 2025 will be outside of California.

Importantly, we're not just opening new restaurants, we're opening successful ones. Our increased focus on standards, training and systems is making a difference from growth efforts in the past. Both our Colorado Springs and El Paso locations are off to extremely strong starts within the first few weeks. Volumes are well above the system average. In fact, all new restaurants we opened in 2024 and 2025 are averaging \$2 million on an annualized basis.

These successes have been driven by our strong franchise partners and our new restaurant training teams who bring our refined brand positioning to life for our customers every single day. In addition, approximately half of our recent openings are utilizing second-generation sites, allowing us and our franchise partners to achieve substantially lower investment costs and deliver an outsized return relative to a new ground-up build. We expect the second-generation sites will continue to be a significant part of our unit development going forward, aided by our flexible unit design. Together with the cost reduction we have achieved with our ground-up new builds, we believe that our formula for winning economics only gets stronger.

For the remainder of the year, we plan to open 1 new restaurant in November with multiple openings in December to end the year with at least 10 new restaurants in 2025, all of which are already under construction. While we remain confident in achieving this milestone, the nature of construction projects means that permitting and other external factors could shift one of these openings into early 2026. Nevertheless, this continues to represent the largest system-wide unit growth since 2022. More importantly, we are positioned to almost double our development pace in 2026 with a strong pipeline that builds every week, reflecting both the strength of our franchise partnerships and the robust demand we're seeing for the El Pollo Loco brand in new markets.

In addition to the investment from franchise partners, we will also be leveraging company capital to increase development in 2026 in the California, the Las Vegas markets where we currently operate, and also in the Dallas and Denver markets, alongside our franchise partners. Following the work we've completed over the past year on build costs, margin improvements and top line sales drivers, we are confident this is an efficient use of company capital. We believe these investments will allow us to accelerate brand awareness in these markets, creating a platform for system-wide unit growth and further cementing the brand's long-term opportunity.

To complement our new unit growth, we continue to make progress in modernizing our existing restaurants through our remodeling program. Through the end of the third quarter, we've completed 34 system-wide remodels with a plan to complete at least 55 remodels for the full year. Looking ahead to 2026, we anticipate remodeling approximately 35 company-operated restaurants, putting us on track to meet our goal of updating approximately half of our total system over 4 years. The remodeled restaurants look fresh and modern, and our team has done a tremendous job balancing our nostalgia, our history and charm with an updated look and feel. The customer feedback we are getting on the remodels remains very positive with a mid-single-digit sales lift from these remodels on average. With significant demand for the remodels, the only constraint is team member bandwidth and being thoughtful about sequencing when the remodels are completed. There's a healthy battle internally with our company operators who are all jockeying to get to the front of the line for a remodel.

Before I wrap up, I want to mention one other highlight from the quarter that embodies the progress we are making in transforming El Pollo Loco and our unique culture. In September, we held our franchise conference with the theme for this year, No Limits, Just Loco. In this meeting, we talked about the opportunities for growth ahead with our franchise partners and suppliers. And we also celebrated our 50th anniversary year, paying tribute to many employees that have had significant tenure with El Pollo Loco. Alongside our founder, we honored 36 employees that are still serving El Pollo Loco after 35-plus years. It was a true testament to the thousands of men and women in our restaurants that deliver for our customers every single day. It was also a reminder of why we have some of the lowest turnover in the industry. Our culture is special and something I have never seen in this industry. We have a passion that you can feel. It is this culture that is fueling results.

In closing, our third quarter results demonstrate the progress we are making across all aspects of our business. We are innovating on food, innovating on our brand and our restaurants. We look forward to a strong finish in 2025 and furthering our position as the nation's favorite fire-grilled chicken restaurant.

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

Ira Fils

Chief Financial Officer

Thank you, Liz, and good afternoon, everyone. For the third quarter ended September 24, 2025, total revenue was \$121.5 million compared to \$120.4 million in the third quarter of 2024. Company-operated restaurant revenue decreased 0.5% to \$100.7 million from \$101.2 million in the same period last year. The \$0.5 million decrease in company-operated restaurant sales was driven by a 1.1% decrease in company-operated comparable restaurant sales, partially offset by additional sales from the opening of 2 restaurants during or subsequent to the third quarter of 2024. The decrease in comparable restaurant sales included a 1.3% decrease in average check size, partially offset by a 0.1% increase in transactions. During the third quarter, our effective price increase versus 2024 was about 2.8%.

Franchise revenue increased 13.5% to \$12.9 million during the third quarter, driven by a \$900,000 in IT pass-through revenue related to the franchisee rollout of our new point-of-sale system, which is offset by a corresponding increase in franchise expenses, combined with an increased revenue, driven by the opening of 5 new franchise-operated restaurants subsequent to the third quarter of 2024 and a true-up of royalty rates. The increase in franchise revenue was partially offset by comparable restaurant sales decrease of 0.6%. Nonetheless, we are very encouraged to see franchise traffic growth continue to accelerate with traffic up 2.5% in the third quarter for our franchise system, which drove the positive system-wide traffic of 1.6% that Liz alluded to earlier.

We are extremely pleased with how the fourth quarter has started with sales turning positive on continued strength in transactions. System-wide comparable store sales for the fourth quarter to date through October 22, 2025 increased 2.2%, consisting of a 1.5% increase in company-operated restaurants and a 2.5% increase in franchise restaurants. While we are mindful that we are rolling over softer results in October of 2024 and the macro consumer environment remains challenged, we are pleased with the sales momentum that we are seeing in our business to start the fourth quarter of 2025 and our return to positive comparable sales growth.

Turning to expenses. Food and paper costs as a percentage of company restaurant sales decreased 40 basis points year-over-year to 24.7% due to higher menu pricing and approximately 100 basis points of commodity deflation during the third quarter, which was partially offset by higher discounting. We expect commodity inflation to be flat for the full year 2025. As a reminder, our commodity base is largely domestic with chicken being the largest component. Internationally, our largest exposures include avocados, tomatoes and packaging.

Labor and related expenses as a percentage of company restaurant sales decreased about 200 basis points year-over-year to 30.4% as we continue to benefit from improvements in operating efficiencies, primarily driven through enhancements in labor deployment and scheduling, combined with the continued use of technology and equipment to simplify team member roles, along with menu price increases and lower workers' compensation expense. Wage inflation for the third quarter was 0.6% for all our company-owned locations. For the full year 2025, we expect wage inflation of between 3% and 3.5% for all our company-owned locations.

Occupancy and other operating expenses as a percentage of company restaurant sales increased 70 basis points year-over-year to 26.5%, primarily due to higher third-party delivery-related expenses, software maintenance fees related to our kiosk and new POS rollouts and higher rent and CAM, partially offset by lower repairs and maintenance expense.

Our restaurant contribution margin for the third quarter improved to 18.3% compared to 16.7% in the year-ago period. As we continue our path of margin improvement, for the fourth quarter, we expect our restaurant-level margin to be in the 16.75% to 17.25% range as compared to 16.7% in the fourth quarter of 2024, which would bring our margin for the full year 2025 to between 17.5% to 17.75%.

General and administrative expenses increased to \$12.3 million compared to \$11.4 million in the prior year. The increase was primarily due to an increase of \$0.3 million in stock compensation expense, \$0.2 million in legal and professional fees related to shareholder activism and related matters, and \$0.2 million in restructuring and executive transition costs, as well as \$0.2 million in expenses related to the implementation of a new ERP system and our corporate office relocation. As a percentage of sales, G&A increased to 10.2% or 70 basis points.

During the third quarter, we recorded a provision for income taxes of \$3 million for an effective tax rate of 28.8%. This compares to a provision for income taxes of \$2.4 million and an effective tax rate of 28.1% in the prior year period.

We reported GAAP net income of \$7.4 million or \$0.25 per diluted share in the third quarter compared to GAAP net income of \$6.2 million or \$0.21 per diluted share in the same prior year period. Adjusted income for the quarter was \$7.8 million or \$0.27 per diluted share compared to adjusted net income of \$6.3 million or \$0.21 per diluted share in the third quarter of last year. Please refer to our earnings release for a reconciliation of non-GAAP measures.

In regard to our remodeling effort, during the third quarter, we completed 11 franchise restaurant remodels and 3 company remodels, bringing our total completed remodels for 2025 to 34 through the end of September. For the full year, we expect to remodel at least 55 restaurants, of which approximately 1/3 will be company-operated locations. As Liz mentioned earlier, we remain pleased with the results of our new iconic remodel image, and we continue to see, on average, a mid-single-digit uplift in sales, which is in line with our expectations.

In terms of liquidity, as of September 24, 2025, we had \$61 million of debt outstanding and \$10.9 million in cash and cash equivalents. Subsequent to the end of the third quarter, we paid down an additional \$6 million on our revolver, resulting in our debt outstanding of \$55 million as of October 30, 2025.

Finally, based on our results to date, we would like to provide you with the following guidance for 2025: the opening of at least 10 system-wide restaurants; capital spending of between \$28 million to \$30 million; G&A expenses of \$47.5 million to \$49.5 million, excluding onetime charges; and an estimated effective income tax rate of 29% to 29.25% before discrete items.

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

[Operator Instructions] The first question comes from Jake Bartlett with Truist Securities.

Jake Bartlett

Truist Securities, Inc., Research Division

My first was about your performance relative to peers. And in terms of -- we can see what your same-store sales were in the quarter. My impression or I think it's been kind of known for a couple of quarters now that California, the markets that you're exposed to the most have been the weakest. So I imagine actually, with your results, you might be actually gaining some share, maybe outperforming peers. If you can give us any sense for that, that would be helpful.

Elizabeth Williams

CEO & Director

Thanks for the question. Yes. So when we do look at ourselves in the California market versus peers, we are pleased to see that we are indeed outperforming on both sales and transactions. So, that would indicate that we are taking some share, which I think is -- we can attribute to getting positioned right on value, on innovation and the brand positioning really starting to resonate. So nice to see. Also, I would add is operational, all of the enhancements we're making operationally. I think, consumers are seeing that better service.

Jake Bartlett

Truist Securities, Inc., Research Division

Got it. And then, I think related to that question, your quarter-to-date nicely positive. And I think on a 2-year basis, it roughly holds the line at roughly about 2%. But we've heard from others in this earnings season so far, a real deceleration in October. So maybe the government shutdown impacts, or it's, I think, somewhat uncertain, but a pretty significant deceleration and you haven't seen it. So I think maybe building on that, what were your tactics near term to offset incremental pressure? Are you seeing those market share gains accelerate near term, and I guess, the level of confidence you have that, that will continue?

Elizabeth Williams

CEO & Director

Yes. So, as we look over the past year, we saw a lot of the customer softness. Really it was last year this time that we started to see that. We saw the customer pulling back and the consumer, for all the reasons, having some trepidation in terms of spending. And we made a lot of adjustments, and we've made them really throughout the year in terms of bringing more value to the menu, our positioning, getting our operations improved so that when they did come in, they had a really great experience. And so, as we sit here today, I would say that the consumer isn't any worse than they've been really all year. I think we're figuring out how to maneuver and how to just give a great experience, given that they are just so stretched. So, as Ira mentioned, as we have seen in October, it is an easier lap. So we will acknowledge that. But even on a 2-year basis, we're proud of what we're accomplishing.

Jake Bartlett

Truist Securities, Inc., Research Division

Great. And then, the last question, you've had some -- your margins have been solid, especially relative to your same-store sales in '25. And you talked about the initiatives you've had in place and the efficiencies you're driving. My question is, how much you have left in the tank on those efficiencies? Should we expect incremental cost savings efficiencies in '26 as we kind of look forward?

Ira Fils

Chief Financial Officer

Yes. Great question. We believe we're not done yet. We still have a lot of opportunity as we continue to gain efficiencies on the labor side. And we have multiple projects that we're working from an input side from COGS where we believe that these things will put us on our path as we move forward to that 18% to 20% target that we always mentioned.

Operator

The next question comes from Andy Barish with Jefferies.

Andrew Barish

Jefferies LLC, Research Division

It is nice to hear about some decent October numbers for a change. Can you sort of level set on sort of these more mainstream menu items that you're in test on with tenders and sandwiches? Sort of where -- what's the goal? Where in the testing process are you? Kind of how does that find its place on to the menu board as we look out to next year?

Elizabeth Williams

CEO & Director

Yes. So we have a lot in the pipeline. The culinary innovation team has been really busy and working together with operations, getting these in front of customers and in test. And this comes from -- a couple of years ago, we made the realization that as the consumer is gravitating to handheld, portable, also a lower ticket, so as much as consumers love our family chicken and chicken on the bone, they want to be able to take a burrito or a bowl. And so, we've migrated to making sure we have that. So these new products that we're excited about, things like the Loco Tenders and a sandwich, as an example, both of those now are in operations testing in the local markets here, and they're about to go into broader market testing so that they could be ready for next year. So, one, probably we're looking at where we would slot them in on the calendar, but could be as early as Q2 and then, of course, into Q3 and Q4. We also -- even though we are doing so much innovation around the more portable single customer, great delicious eats, we're also -- we love our chicken on the bone, and we are bringing new flavors there.

I talked about the barbecue chicken that we're really excited about. That will be something -- there's no better season than summertime for barbecue chicken. So we're thinking that's probably a summer addition. And then, the most requested item that I hear about from consumers are our black beans. Years ago, we had black beans, and it does make sense to have barbecue chicken and black beans with our coleslaw, so again, something that we're about to test with so that we have it ready for the summer.

Andrew Barish

Jefferies LLC, Research Division

Got it. And then just, Ira, over on the cost side, where are you on kind of chicken contracting for next year? Are you in pretty good shape? And is there anything sort of unusual we should be aware of in that market?

Ira Fils

Chief Financial Officer

No. So we're in good shape. We are in the process actually this week of awarding our contracts for next year. And we're pleased with how it's come out. We -- there's a little pressure in the dark meat chicken, but we've been able to offset that in other areas of our chicken buy. So we are very -- we feel very good about our chicken buy for next year.

Andrew Barish

Jefferies LLC, Research Division

Yes. And then, just finally, anything new sort of on supply chain with like pre-marinated as something you guys have looked at or anything we should be aware of like as next steps on the equipment side for '26 to continue to help the labor efficiencies?

Elizabeth Williams

CEO & Director

Yes. So we're testing on many different ideas. We love the cost improvement, but even more so, we love the consistency and the quality improvements that some of the work with our suppliers, our chicken partners have brought to us, so things like how we marinate our chicken so that it is the most juicy chicken in every single experience and really consistent. And we're seeing great results, and we'll have some of that as early as Q1. So in terms of supply chain and doing innovation, not only on bringing new things to the menu, also making the product better, the food better, the quality better and also realizing some cost savings. And really, like you said, the cost savings comes primarily with labor, just making the preparation in our restaurants easier so that our team members really can focus on the cooking that happens over our grill versus some of the activities that just aren't as necessary.

Operator

[Operator Instructions] Our next question comes from Jeremy Hamblin with Craig-Hallum.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

Congrats on good execution here in a pretty tough backdrop. I wanted to start with just kind of the margin outlook here in Q4. And just to get a sense, there is a little bit of pressure on food costs. But just in terms of -- I think what you indicated was a midpoint of about a 17% restaurant-level margin in Q4 versus the 18.3% in Q3. And I wanted to just see if you could kind of walk us through where you expect a little bit of that pressure in the fourth quarter.

Ira Fils

Chief Financial Officer

Yes, a couple of things. I think when you look, first of all, quarter-to-quarter sequentially from Q3 to Q4, a lot of the variance there is driven by the sales volumes. Q2 is actually our highest sales volume quarter, but Q3 is the next highest sales volume and Q4 is the lowest. So just the sales volume difference puts a little pressure on the store-level margins. I think if you look back to where we finished Q4 of last year, our guidance shows us that we will be growing margins year-over-year in the fourth quarter.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

Got it. And then, I just want to come back to your marketing efforts here. And in terms of how you feel like the new tagline is playing out, again, it's -- my peers have noted, it's been a bit of a tough couple of months here in the restaurant industry. You are holding in pretty nicely. But I wanted to get a sense for how you feel like that messaging is resonating in a predominantly value environment. And if you can give us a sense for how you're thinking about some of these new menu items to come here in '26 from a kind of a price point perspective of whether or not they're going to be adding to your average check or potentially lowering your average check?

Elizabeth Williams

CEO & Director

Yes. So we can see in our credit card data that the things we're doing are resonating and bringing in new and lapsed consumers. And I attribute that to not one thing, but many things. And starting with the repositioning with the Let's Get Loco campaign, that certainly has driven awareness and is reaching new consumers, coupled with even better when they can drive by and see a remodeled restaurant. And then, as we shift to the menu and just having things on our -- food on our menu that has a much wider aperture for all consumers, that's helping as well.

When we look at the different price points, doing something like quesadilla this summer, that was an entry-level price point that we haven't seen in years. So \$7.49 a la carte, \$9.99 as a combo, and that combo and even a la carte had a side of guacamole with it. So, so many of our competitors, they charge extra, a couple of dollars for guacamole. So it was a great value. And we saw that in terms of growing transactions. It brought new consumers in that had a very limited price point. And what I love about that product, we've been able to find a way to keep it on our menu. So consumers that have found that can still enjoy it. But as we brought in the burrito bowl, the burrito bowl is at a higher price point. So we're \$10 -- upper \$10 in some restaurants, \$11. And what that's doing, like you pointed out, it's really helping protect check. So what we saw in Q3 was, we drove a lot of transactions, but we did see a check decline. And it was one of those moments where we had to realize this check decline is not going to be forever.

We're driving transactions, and it's healthy transactions. We also did do some discounting, which in this environment, we had to do, which also put pressure on check. But when we are able to combine it with something like the burrito bowls a couple of weeks later and still keep that quesadilla under it, together, it's a really powerful combination, and I think it's helping us. So, as we go into next year, we're looking for ways to balance both the value but also the check protection, which -- I'm excited about our beverages. That's a great check protector. Desserts: we launched flan earlier just in the last couple of months. We had so much innovation. We didn't even talk about flan, but we launched flan. It's a great check protector as well. And it reminds us we need to have additional desserts. Churros do well for us. There's a lot we can do to protect check all over the place.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

And as a follow-up, just on the quesadilla, you noted it's now on the regular menu. How is it mixing today, let's say, over the last 3 or 4 weeks versus when you introduced it, in terms of percent of sales?

Elizabeth Williams

CEO & Director

Yes. So it's dropped down a couple of percentage points, which is typical, given that it was featured so prominently on the menu. So any time we have the main product of the marketing module, it gets the promotional panel, and that promotional panel always drives a lot of mix. And so quesadilla was right in line a little bit -- some weeks, a little bit over what a promotional panel would drive. And then, as we've taken it off, it drops, but it's still -- I'm pleased with how it's mixing. It is still an incremental product on our menu. And like I mentioned earlier, it's solving an entry-level price point that I think is so critical in this economic environment.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

Got it. Last one for me real quick. You've probably had a bit of an outsized impact on kind of a hot button topic here in restaurant land of immigration policies. In particular, Southern California saw a bit of a bigger presence. I wanted to just get a sense from what you're seeing with traffic. Is that issue still a fairly significant obstacle for the business? Do you feel like it's settled down a little bit? Any color you might be able to share on that would be great.

Elizabeth Williams

CEO & Director

Yes. I think it still persists. We see it a little bit more in lunch than dinner. It still persists. Hard to quantify, but it's still there.

Operator

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.

Elizabeth Williams

CEO & Director

Yes. Thank you again, everyone, for your interest in El Pollo Loco. We look forward to talking to you again next quarter. Have a wonderful evening.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.

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