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El Pollo Loco Holdings, Inc. (LOCO) Q3 2026 Earnings Call Transcript

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Q3: 2026-11-05 Earnings Summary

Insights

EPS of $0.24 beats by $0.00 | Revenue of $126.31M (3.94% Y/Y) misses by $721.14K

El Pollo Loco Holdings, Inc. (LOCO) Q3 2026 Earnings Call November 5, 2026 4:30 PM EST

Company Participants

Ira Fils - Chief Financial Officer
Elizabeth Williams - CEO & Director

Conference Call Participants

Jeremy Hamblin - Craig-Hallum Capital Group LLC, Research Division
John-Paul Wollam - ROTH Capital Partners, LLC, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the El Pollo Loco Third Quarter 2026 Earnings Conference Call. [Operator Instructions] Please note, this conference is being recorded today, November 5, 2026.

And now I would like to turn the conference over to Ira Fils, the company's Chief Financial Officer. Thank you, operator, and good afternoon.

Ira Fils
Chief Financial Officer

Thank you, operator. And good afternoon.

By now, everyone should have access to our third quarter 2026 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 new products and growth opportunities, strategic and operational initiatives, expectations regarding sales and margins, potential changes to our product platforms, capital expenditure plans, the ability of our franchisees to drive growth, expectations regarding commodity and wage inflation, remodel plans, our restaurant development plans, including new market entry and our 2026 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.

For a more detailed discussion of the risks that could impact our future operating results and financial condition, we refer you to our recent SEC filings, including our Form 10-K for the year ended December 31, 2025, as well as our Form 10-Q for the third quarter of '26, which we expect to file tomorrow and encourage you to review at your earliest convenience.

During today's call, we will discuss non-GAAP measures, which we use for financial and operational decision-making and as a means to evaluate period-to-period comparisons and which we believe can be useful to investors 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 adjusted EBITDA and 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 net income and income from operations as a percentage of total 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.

We are pleased to report another strong quarter for El Pollo Loco. System-wide same-store sales grew 5%, our fourth straight quarter of positive comps and restaurant contribution margin came in at 18.4%. What's encouraging is that this growth was a combination of expanding sales layers together with operational improvements that we've focused on over the past 2 years. And that is why we are thrilled with how durable our growth has become.

Our positive traffic for the quarter is another proof point that more guests are choosing El Pollo Loco and that our quality chicken at an affordable price is resonating with existing and new guests.

I'm proud of this momentum, and I'm even more excited about where it takes us next. From our expanding product calendar to our improving operations and expansion to new states, we still have so much ahead for El Pollo Loco. Ultimately, our goals have not changed, drive sustainable traffic growth across our system, hold on to the margin discipline and unit economics we've worked hard to build over the last 2 years and keep expanding El Pollo Loco thoughtfully across the country.

Let's start with what's driving our sales. Our brand that wins pillar is anchored by menu innovation. Q3 featured our Loaded Quesadillas available in 2 flavors, Queso and Street Corn, both are loaded with citrus-marinated, fire-grilled chopped chicken breast and grilled to order. We designed these for portability and value, giving guests a satisfying eat even when they're on the go at a price of less than $10 a la carte or $10.99 for a combo meal. This combination of innovation and value resonated with guests. The Loaded Quesadillas were incremental to our base quesadilla business and grew check overall. Given the popularity of these quesadillas, they have remained on our menu as a Loco Rewards member exclusive available in our app.

In addition to Loaded Quesadillas, we also launched our Chatacoffee lineup featuring our signature horchata, iced coffee, and cold foam. This was the perfect leadup to our Caramel Apple Chatacoffee that launched in late September. These new beverages are accretive to check and also show the potential for incremental afternoon visits.

We carried our approach of offering abundant quality at compelling value into the fall as we launched our Cheesy Enchilada Double Chicken Bowls at the end of September. These bowls featured our fire-grilled chicken, double the cheese and a choice of red or green chili and enchilada sauce. They are delicious and hearty and are incremental to our existing bowl business.

We also introduced Pumpkin Pie Mini Churros, a seasonal [indiscernible] dessert, which has grown our overall churro business. Guest response has been very positive, and we expect to bring back even more dessert and churro innovation in 2027.

In terms of what's next, we continue to test exciting new menu items as we plan for 2027, including new crunch salads, deluxe wraps with grilled and crispy chicken and a line of grilled chicken sandwiches. More than ever, people are looking for protein-forward meals and fire-grilled chicken is what we do best and fits perfectly. We believe these new items give us even more ways to deliver what new and existing guests are craving.

Turning towards marketing and becoming a nationally recognized brand, nothing captured the energy of the quarter in our Let's Get Loco spirit quite like our National Grilled Chicken Day. After a year-long campaign that included a Times Square billboard, petitions and AI-fueled social contest, the National Day Calendar officially named September 9 National Grilled Chicken Day. We have been celebrating fire-grilled chicken every day for more than 50 years, so it only felt right that we should be the ones to own this holiday.

To commemorate the day, we offered a free 2-piece chicken meal with a drink purchase on September 9 to all Loco Rewards members. But the celebration didn't stop there. We kept the party going all month long with our Loco Hall of Fame Music Challenge, where fans created their own tracks over a beat inspired by the sound of our grills for a chance to win free chicken for life. Fans jumped in and the holiday and the challenge drew meaningful earned coverage across social and traditional media.

It was a perfect example of how a fun, culturally relevant marketing campaign can bring new energy to the brand and drive traffic at the same time. The result exceeded our expectations. Not only did we attract new guests into the Loco Rewards program, but September 9 was our highest transaction day ever for Loco Rewards. With 56,000 redemptions and 25,000 new sign-ups to Loco Rewards on that single day, it was a clear reminder of how much guests love our bone-in fire-grilled chicken. It's these big brand moments anchored by menu innovation that will continue to drive relevancy and create momentum as we expand nationally.

Turning to our digital business. This expanding channel was a big part of why this quarter was so successful. Traffic growth was led by digital with our own app and third-party marketplaces, both increasing notably. Digital sales, including our app, web and kiosk represented 31% of system sales, up from 27% of sales in the same quarter last year.

Our Loco Rewards members continue to be our most engaged guests visiting twice as often as nonmembers each year. Membership grew almost 11% year-over-year, and our rewards members now account for 14% of all visits. While we are pleased with the results, we believe there is still a lot of runway ahead for growth. Building our loyal fan base in our Loco Rewards program has many benefits from connecting with guests to offering personalized experiences. We are committed to expanding this fan base with big and small moments.

In addition to National Grilled Chicken Day this fall, we launched the first-ever Loco Days earlier in the quarter, a 4-week summer celebration just for Loco Rewards members. Guests completed challenges, built around activities we love the most in the summer, like a pool day, a road trip, a backyard barbecue with the chance to win free food and prizes, including a grand-prize VIP trip to the iHeart Music Festival.

Loco Rewards members earn contest entries by purchasing Tostadas, quesadillas, drinks and other favorites. The engaging summer-themed game was successful in driving over a 40% increase in daily Loco Rewards sign-ups along with 16% loyalty transaction growth. In this economic environment, guests are looking for deals, and we are building our Loco Rewards program as the place for the best deals.

Our weekly Loco Friday drops offering deals on fan favorites like buy-one-get-one-free Tostadas or 3 chicken tacos for $5 and our evergreen 2-for-$5 Taco Tuesday promotion are prime examples of how we bring guests in with real value. For the remainder of the year, we will continue to deploy this thoughtful value strategy, and we will keep the momentum going with even more deals as we prepare for our 12 Days of Pollo event this upcoming holiday season.

As we look to 2027, we will continue to invest in Loco Rewards and the in-app experience as we work to enhance usability and use data even more to understand our guests. This will help us further tailor our guest experience to be more relevant to each member and give us a real opportunity to reach a broader set of guests.

In short, we are excited about the opportunity that lies ahead with our digital business, and we are in the early innings of this growth.

Next, I'd like to turn our focus to operational excellence and the guest experience, which starts with our people. During the quarter, we hosted our El Pollo Loco Brand Conference that brought all of our general managers, above restaurant leaders and franchise partners together and the energy was incredible. Our GMs are the heart of every restaurant, and this was a chance to show them how much we value what they do and our commitment to hospitality, notably through Loco love, small moments that win our customers day, from little gestures that delight to fixing a problem to make it right.

As we continue to elevate our service, we also celebrated the progress we have made this year on ops metrics. Our overall satisfaction scores are up meaningfully from a year ago, and the key operations measures we track continue to improve. Our restaurant leaders and franchise partners left the conference energized and proud to be part of the brand, and we're already seeing that enthusiasm translate in our restaurants as we set bold goals to get even better.

Building on that energy and knowing it will take an experienced leadership team to take our operations to the next level, we are thrilled to welcome Damon Thomas as our Chief Operating Officer. Damon has led operations at high-growth brands like Shake Shack and Raising Cane's, and he is already working side-by-side with our SVP of Operations, Rick Pepper; and SVP of Franchise Operations, Christina Camara, who are best-in-class operations leaders. This team is aligned around one North Star, a great guest experience, delivered consistently, and I believe it's the strongest operations team we've had.

We also continue to elevate our training systems and tools to support our field team. We recently upgraded our learning management system, Pollo Zone, to a modern training platform that makes it easier for our team members to learn the fundamentals and train for new menu items. Early data shows that restaurants that complete the training are more accurate with orders, and we know as we expand our innovation and product pipeline, this will be a huge enabler of operational excellence.

In short, operations are a key part to how we grow. Our delicious food brings guests into our restaurants, but accuracy, speed and value are the basics that bring guests back and consistent execution in the restaurant turns a first visit into a recurring one. It's central to our goal of driving sustainable traffic growth across the system. And I look forward to talking more about this in upcoming calls.

That focus on execution also supports our unit economics. Restaurant level margin was 18.4% this quarter, within our long-term target range of 18% to 20%.

As we've said this year, our focus at this stage is holding a healthy margin range while we keep investing in things that drive growth, including value, innovation, technology and new restaurants. Ira will walk you through the details in a moment.

Healthy economics and a proven business model are the foundation for new unit growth, which brings me to our next pillar, development, where the momentum is building fast. In June, we entered our 10th state, Idaho, where our franchise partner opened just outside of Boise in the town of Meridian, followed by their second site in October in Nampa.

Sales and guest feedback have been extremely positive in both restaurants. The first site in Meridian was an NCAS drive-thru and the second in Nampa was ground-up development. We also opened 4 restaurants in Q3 in Dallas, Lubbock, Albuquerque, and Ceres, California. All were second-generation conversions. Our pipeline continues to be a healthy mix of ground-up development and second-generation development, which is helping to reduce new build investment costs and strengthen the overall business model.

In September, we announced our planned entry into New York, a big step in becoming a national brand. Our franchise partners operated by Al and Liz Amiri and Mina Behboudi signed a lease for our first restaurant in Queens, which we're targeting to open in mid-2027. And in total, we entered into development agreements with 2 other franchise groups for a total of 15 restaurants in the area over the next 5 years.

The group opening our first restaurant in Queens is a long-time franchise partner with restaurants in Southern California and Denver. They know El Pollo Loco extremely well and have experience opening in a new market and delivering excellent service while also building brand awareness. Since the announcement, we have heard from more potential franchise partners in joining the El Pollo Loco family.

New York is just one proof point and the interest extends beyond it. We have several additional new market development agreements in progress with both new and existing franchise partners. Importantly, all new partners have restaurant backgrounds are mostly experienced operators from well-known national brands with a few regional concepts. This tells us that our winning economics and brands are resonating with industry veterans who know this business well.

We are excited that our existing franchisees are also looking to expand and new development incentives we recently put in place for 2027 and beyond is adding to that enthusiasm with existing and new partners, especially in markets outside of California.

Our development leader, Tara Hinkle, and her team have been central to all of this. And with Damon on board leading operations, we have the right leadership in place to support our partners as they grow as well as supporting corporate openings in markets outside of California.

Through the end of the third quarter, we've opened 12 new restaurants. Since then, we've opened 2 more, bringing us to 14 new restaurants to date with additional restaurants for the year under construction. Absent any unexpected delays, we will still expect to open 18 to 20 new restaurants this year.

Looking ahead to 2027, we are encouraged by our robust pipeline and expect to accelerate our opening cadence further with 25 to 30 new restaurants.

To sum it all up, this quarter was where the individual pieces of our strategy came together. Our menu innovation, our value, our brand building, all brought guests in, while our loyalty and our service gave them reasons to come back.

With New York on the map and more partners lining up, we're taking the brand into new parts of the country with confidence.

As we look forward into 2027, we are focused on the right balance of value and innovation to build traffic at last, protecting the margin discipline and strong unit economics that we've worked hard to build and bringing El Pollo Loco to new communities, one great restaurant at a time.

I want to thank our restaurant teams, our support center team members and our franchise partners whose hard work has made this quarter possible.

With that, I'll turn the call over to Ira to walk you through our third quarter financial results in more detail.

Ira Fils
Chief Financial Officer

Thank you, Liz, and good afternoon, everyone.

For the third quarter ended September 30, 2026, total revenue was $126.3 million compared to $121.5 million in the third quarter of 2025. Company-operated restaurant revenue increased 4.6% to $105.4 million from $100.7 million in the same period last year. The $4.7 million increase in company-operated restaurant sales was primarily driven by a 4.4% growth in company-operated comparable restaurant sales as well as sales from 3 company restaurants opened since the third quarter of 2025, partially offset by the impact of transferring one restaurant to a franchisee in the second quarter of 2026. The growth in comparable restaurant sales included a 4% increase in average check size and by a 0.3% increase in transactions.

During the third quarter, our effective price increase versus 2025 was about 3.9%.

Franchise revenue decreased 3% to $12.5 million from the third quarter, driven by franchise IT pass-through revenue in the prior year quarter related to the new point-of-sale franchise rollout completed in 2025 and the prior year royalty true-up. This decrease was partially offset by a 5.3% increase in comparable restaurant sales and revenue associated with 14 franchise-operated restaurant openings during or subsequent to the third quarter of 2025. The 5.3% increase in comparable franchise store sales consisted of a 4.4% increase in average check size and a 0.9% increase in transactions.

For the third quarter, system-wide same-store sales were up 5% as system-wide traffic grew 0.7%. We are very pleased to report that the sales momentum we experienced in Q3 has continued into the fourth quarter. System-wide comparable store sales for the fourth quarter to date through October 28, 2026, increased 3.6%, consisting of a 3.7% increase in company-operated restaurants and a 3.6% increase in franchise restaurants. Looking ahead, we believe same-store sales for the full year 2026 will finish at approximately 4.5%.

Turning to expenses. Food and paper costs as a percentage of company restaurant sales decreased 30 basis points year-over-year to 24.4%, primarily due to higher menu pricing and cost management initiatives, partially offset by approximately 200 basis points of commodity inflation as well as menu mix shifts. We expect commodity inflation to be a little over 3% for the full year 2026.

Labor and related expenses as a percentage of company restaurant sales was flat year-over-year at 30.4%. Menu price increases and lower health insurance costs were offset by increases in workers' compensation expense, higher incentive compensation, higher wage rates and higher other direct labor-related expenses. Wage inflation during the third quarter was less than 1% for all company-owned locations. For the full year 2026, we expect wage inflation of approximately 1%.

Occupancy and other operating expenses as a percentage of company restaurant sales increased 20 basis points year-over-year to 26.7%, primarily due to an increase in other operating expenses related to higher delivery and mobile order fees, higher utility costs and an increase in repairs and maintenance expense, partially offset by lower insurance costs.

Our restaurant contribution margin for the third quarter improved slightly to 18.4% compared to 18.3% in the year ago period. We now expect our restaurant contribution margin for the full year 2026 to be between 18.25% and 18.5%.

General and administrative expenses increased to $14 million compared to $12.3 million in the prior year. The increase was primarily due to higher incentive compensation expense and other labor-related expenses, higher stock compensation expense and higher other general and administrative expenses, partially offset by lower shareholder activism-related matters. As a percentage of sales, G&A increased to 11.1% or 90 basis points.

To enable our continued growth in 2026 and beyond, we continue to strategically invest in resources to drive new store development, operational excellence and technology that drives improved business performance.

During the third quarter, we recorded a provision for income taxes of $2.8 million for an effective tax rate of 28.6%. This compares to a provision for income taxes of $3 million or an effective tax rate of 28.8% in the prior year period.

We reported GAAP net income of $6.9 million or $0.23 per diluted share in the third quarter compared to GAAP net income of $7.4 million or $0.25 per diluted share in the prior year period.

Adjusted EBITDA for the third quarter of 2026 was $17.1 million compared to $17.4 million in the third quarter of 2025.

Adjusted net income for the third quarter was $7.3 million or $0.24 per diluted share compared to adjusted net income of $7.8 million or $0.27 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 efforts, during the third quarter, we completed 10 franchise restaurant remodels and 11 company remodels, bringing our year-to-date completed remodels through the end of the third quarter to 22 franchise restaurant remodels and 23 company remodels.

In terms of liquidity, as of September 30, 2026, after a net paydown of $7 million during the third quarter on our revolver, we had $23 million of debt outstanding and $3.4 million in cash and cash equivalents.

Subsequent to the end of the third quarter, we borrowed a net additional $4 million on our revolver, resulting in our debt outstanding of $27 million as of November 4, 2026.

In addition, during the third quarter, the company repurchased approximately 177,400 shares under the 2026 share repurchase program for approximately $2,655,000 with $37.3 million remaining available for purchase under the authorization.

With that, we would like to provide you with the following updated guidance for 2026. We expect our system-wide comparable store sales growth to be approximately 4.5% for the full year 2026. G&A expenses between $52.5 million and $53.5 million, excluding onetime charges and including approximately $6.5 million in stock compensation expense. Capital spending between $33 million and $35 million. We also maintain the following guidance for the full year, the opening of at least 3 to 4 company-operated restaurants and 15 to 16 franchise-operated restaurants. We are reiterating our adjusted EBITDA guidance of between $68 million and $70 million with the expectation we will finish near the middle of the range based on current trends. And finally, an estimated effective income tax rate of approximately 29% to 29.5% 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

Thank you. We will now be conducting a Question-and-Answer Session. [Operator Instructions] Our first question is from Jeremy Hamblin with Craig-Hallum.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Thanks for taking the questions. And congrats on the momentum in the business.

Just starting with same-store sales here, off to a very strong start. I think you said up 3.6 which I think is on top of like a plus 2.1% from a year ago. So it looks like you've got your best 2-year stack of the year here in a somewhat choppy environment. Can you just discuss what you feel like is driving those results here in terms of LTOs? I think it sounded like Loaded Quesadillas were really good.

Can you speak to Cheesy Enchilada Double Chicken Bowl? Is it you have more stackable options, more affordability in your options? Or is this more about having value on your menu?

Elizabeth Williams
CEO & Director

Yes. Thanks for the question, Jeremy. And your math is right, and we're really pleased with the start of the quarter and the trend in the business, particularly in a challenging environment.

And as we look forward, we believe the trends are largely consistent with what we've seen all year. We attribute it to that combination where we've had a nice balance of innovation and value. The consumer in this environment is really looking for new, great options and the fact that our options are high quality and they are a good eat in terms of portion size and then what they're paying for it is a competitive value-oriented price. We continue to see our value scores versus the competition be very strong.

And then also, we're using value in a very targeted way with our loyalty program. So being able to offer some of the best deals in the app, as I mentioned in the remarks, loyalty is really important right now for us with just being able to have that value proposition.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Got it. Switching gears. New unit growth, pretty exciting, what you laid out for 2027, 25 to 30 units. Can you discuss the cadence that you expect for openings in 2027? What does the mix look like in terms of new markets versus existing markets?

And then lastly, what should we anticipate, if any, cannibalization as you think about driving a bit more unit growth than you've had the last few years?

Elizabeth Williams
CEO & Director

Yes. So we expect as we build through next year, it seems to be the habit oftentimes that things end up going towards the back end of the year, second half of the year, no matter how much we try to bring them in earlier in the year, that pace does sort of occur that way. But as the pipeline gets bigger and bigger, I do think we'll see more the first half of the year.

In terms of the markets where we'll see them, about 1/3 will be in our California market, 2/3 outside of California in the 9 to 10 other states that we're operating in or will operate in. And we'll also see that balance in terms of about 1/3 of them will be ground-up first generation and about 2/3 will be second generation.

And I also think as we look across the franchise system, we'll develop company in proportion to what our company mix is, and we'll see about 1/4 of the new restaurants will be with new franchise partners in the system.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Just a clarifying question on that.

Elizabeth Williams
CEO & Director

Yes.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Just a clarifying question here before you get to the other point. You mentioned you expect to have more in the first half of the year. You're seeing a higher portion than you've had in the past, more than 60% in the first half of the year. Okay.

Elizabeth Williams
CEO & Director

That's exactly right. We will try to continue to open more than we historically have in the first half, but the majority of the openings will be weighted towards the second half typically is the pattern.

And then cannibalization was your other question. We look really carefully as we're planning for new units to make sure there's not too much and there really is a good demand ring around the restaurant that can substantiate that new restaurant. I don't have an exact number for you, but I think that cannibalization will be lower, especially in those markets that have a lot of green space.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

And then just the last one on the same topic. You signed some new franchise agreements in the New York market, pretty significant, especially for the long-term growth potential of the concept. My understanding is one of those deals is with an existing franchisee.

Assuming things go well in New York, how should we be thinking about geographic expansion in the future? Are you still going to focus maybe on the 10 existing states? Or are you thinking about more expansion, let's say, in the Mid-Atlantic Northeast markets?

Elizabeth Williams
CEO & Director

Yes. There's a lot of white space in the 10 states that we operate. Even in California, there's still white space, but certainly in the other states. So we will continue to grow there, and we're looking for franchise partners in many of those states as well. We're excited about New York because that really will show that this brand is not a regional brand. I think we've already shown that being in Texas, being in Denver, being up in Washington, in Vegas, but New York is just one more proof point.

People love fire-grilled chicken. We think they're going to love it in New York. And then we'll set up the distribution for the New York metropolitan area, but that same distribution can serve up and down the Eastern Seaboard. So we think there's a ton of potential to unlock that.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Thanks so much. I will now hop out of the queue.

Operator

Our next question is from JP Wollam with ROTH Capital Partners.

John-Paul Wollam
ROTH Capital Partners, LLC, Research Division

If we could just start in terms of the sort of traffic durability, I just want to understand a couple of components there. So first, on the last call, you talked about, I think, some new customer cohorts kind of coming in, I think that younger customer, and that was maybe around some of the tender innovation.

But just first, are you seeing those new customers returning for sort of your broader menu? Or what do you need to do to kind of continue growing frequency with those new customers?

And then just on the loyalty, great growth there. But I guess as you look into 2027, what's the opportunity still there around loyalty?

Elizabeth Williams
CEO & Director

So we're pleased that both reach and frequency are growing with that younger consumer. We can see that reach among the younger consumer is above last year and frequency also continues to improve. And we've seen that throughout the year. And I think that is attributed not only to our menu and some of the more portable, delicious craveable menu items. So whether it was the tenders or the Loaded Quesadillas, both of those and many of the other products, the bowls are resonating. Also, the value is resonating with the younger consumer.

And then just the brand positioning. We continue to sharpen our brand messaging with our Let's Get Loco campaign, and you'll see us do that even more in the next couple of months. So all that together, we're feeling really good about our ability to reach that younger consumer.

And then moving on to the question of loyalty, that also bodes well with all consumers, but certainly, a younger consumer likes to do a lot of things in their app and our loyalty program really speaks to them the deals in the app also as well. But we're seeing just across all age cohorts, there is a lot of growth opportunity with loyalty. Loyalty today is only about 14% to 15% of our transactions. There's a lot of room for growth there. So we're just getting started.

John-Paul Wollam
ROTH Capital Partners, LLC, Research Division

And then just on the -- you mentioned the development incentives back in place for 2027 and beyond. Just curious if you can touch at all on how those compare to, I think, what was in place for 2025 and '26 unit growth -- or sorry, new units. And just, I guess, what that means for your franchisee cash-on-cash returns as they deploy new units?

Ira Fils
Chief Financial Officer

Yes. So if you think about what we did with our returns, we're having great -- I'm sorry, for the incentives, we're having great success in California and we're seeing good development there. So we pulled back on the incentives in California. Our franchisees already have great economics as do we in California. So we were able to pull back on that. We believe that won't slow any growth. And in the newer markets, because we're seeing good momentum, and I'd say the developing kind of new markets, but markets that we already have stores in, we pulled back slightly on those incentives. They're still very good incentives. and franchisees will be developing there.

Where we got a little more aggressive was in the brand-new markets, i.e., the New York market. We actually increased those incentives as we're looking to set up the brand, all the operating efficiencies needed and a new distribution center, we got a little more aggressive to get that market up and running.

John-Paul Wollam
ROTH Capital Partners, LLC, Research Division

Okay. Great. And one last one, if I could squeeze it in. Just understanding that you're now sort of in that 18% to 20% restaurant level margin target you've talked about. But just any kind of puts and takes as we think about margin heading into next year? I think you've talked about pre-marinated chicken in the past and maybe some upstreaming of some salsas or other things. But any just kind of puts and takes as we think about margin for next year?

Elizabeth Williams
CEO & Director

Sure. I'll start and then Ira can finish. So as we look at margin finishing out this year and next year, we really do see this as an and in terms of wanting to invest in value, invest in the consumer and some of that does come at the expense of margin, but also continuing to find ways to build back the margin. And so as you thoughtfully pointed out, some of those are finding efficiencies in the kitchen.

And so in terms of taking some things upstream that, quite frankly, are a win also for our consistency and our quality of our products, and they also make our team members' jobs easier and they allow our team members to spend more time with our customers. And so some of those improvements, I'm excited to see those next year, but we're really trying to balance not taking too much back to margin and making sure we're investing in the consumer and in value.

Ira Fils
Chief Financial Officer

Yes. And to that point, we're going to be very thoughtful as we move forward. And we're always thoughtful. But in this environment, we're going to be more thoughtful and really balance taking price next year versus what we're seeing in inflation just to make sure that we're not overtaxing the consumer, which can be a little stretched right now and really take advantage of these opportunities Liz is talking about to grow the business through efficiency and grow the margin through efficiency.

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

I just wanted to thank everyone for joining us today. We are really excited about the momentum in the business and where the El Pollo Loco brand is going, and we look forward to talking with you next quarter. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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