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El Pollo Loco Holdings, Inc. (LOCO) Q4 2025 Earnings Call Transcript

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Q4: 2026-03-12 Earnings Summary

Insights



EPS of \$0.25 **beats by \$0.05** | Revenue of \$123.52M (8.08% Y/Y) **beats by \$934.17K**

El Pollo Loco Holdings, Inc. ([LOCO](#)) Q4 2025 Earnings Call March 12, 2026 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

Todd Brooks - The Benchmark Company, LLC, Research Division

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

Andrew Barish - Jefferies LLC, Research Division

Tania Anderson - William Blair & Company L.L.C., Research Division

Matthew Curtis - D.A. Davidson & Co., Research Division

Presentation

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the El Pollo Loco Fourth Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note that this conference is being recorded today, March 12, 2026.

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

Ira Fils

Chief Financial Officer

Thank you, operator, and good afternoon. By now, everyone should have access to our fourth quarter 2025 earnings release, which can be found at 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, the ability of our franchisees to drive growth, expectations regarding commodity and wage inflation, remodel plans 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. We refer you to our recent SEC filings, including our Form 10-K for a more detailed discussion of the risks that could impact our future operating results and financial condition. We expect to file our 10-K for 2025 tomorrow and encourage you to review that document 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 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'm pleased to report strong fourth quarter results that cap off a transformative second year in our brand turnaround journey. In Q4, we delivered a positive quarter of same-store sales growth, including stable traffic despite the ongoing macroeconomic challenges that persisted across the industry. This top line momentum, combined with our team's relentless focus on operational excellence also enabled us to achieve better-than-expected restaurant level margins.

Before we move on, let me quickly recap what we accomplished in 2025. Building on the foundation we established in 2024, we made strategic investments and executed with discipline across our 5 pillars, achieving meaningful results that we believe position us for accelerated growth in 2026 and beyond. What began as a transformation effort has now evolved into sustained momentum that validates our long-term growth strategy for El Pollo Loco.

During the year, we successfully expanded our restaurant level contribution margins again, demonstrating our ability to drive profitability even while investing in customer value and traffic-driving initiatives. We accomplished this through a methodical approach to cost savings and enhanced labor productivity, including leveraging technology and industry best practices. We are also encouraged by the operational transformation that took hold in 2025, allowing our team members to focus more on guest serving activities. In addition, we made substantial progress improving our unit economics by successfully reducing our new build costs with our iconic prototype design and driving even higher cash-on-cash returns by utilizing second-generation sites where available.

As we look ahead, our priorities for 2026 are clear: to drive sustainable traffic growth across our system while maintaining the margin discipline and unit economic improvements we've accomplished over the past 2 years, and to thoughtfully grow El Pollo Loco across the country. We will achieve this by continuing to execute against our 5-pillar strategy. Ultimately, we believe our focused approach will accelerate our growth trajectory and further strengthen El Pollo Loco's position as the nation's favorite fire-grilled chicken restaurant.

With that, let me provide you details on our pillars. At the heart of brand that wins is a breakthrough culinary innovation. Together with value, innovation is critical in driving transaction growth, and I am thrilled to share the exciting momentum in our culinary pipeline. Leveraging our unique fire-grilled chicken platform that showcases premium quality at accessible price points, we are able to satisfy our legacy guest preferences while also introducing El Pollo Loco to entirely new consumers across multiple occasions. Over the last 18 months, we have identified the opportunities to bring more portable and craveable options to our menu. This is translating to improvements in our core customer feedback scores when asked questions regarding menu variety and have innovative foods I want to try.

Before I discuss how we capitalize on this opportunity further in 2026, I want to take a moment to celebrate the success of our Double Chicken Street Corn and Queso Crunch Burrito Bowls that we launched in late September. These bowls were instrumental in driving our fourth quarter performance, exceeding our expectations in both guest response and sales contribution. The popularity of these hearty, value-driven, high-quality offerings was so positive that we made the strategic decision to keep both bowls as permanent menu items. This success continues to validate our approach to creating a menu that delivers superior value and portability while maintaining the bold flavors and premium ingredients that differentiate El Pollo Loco. During the quarter, we also launched our \$29.99 Fam Feast, an 8-piece fire-grilled chicken meal with 5 tortillas, salsas and churros, providing quality and value for families and groups.

Turning to 2026. We are pleased with the momentum from our Double Pollo Salad that launched in January with fresh options to meet new year resolutions. Featuring Street Corn, Mexican Caesar and Bacon Ranch options, each salad delivers over 50 grams of protein with a double portion of our signature fire-grilled chicken. Given the consumer appeal of Street Corn and Mexican Caesar Salads, both have earned a permanent placement on our menu and continue to resonate well with our guests, seeking nutritious and craveable options with fresh ingredients.

Building on our salad success, in mid-February, we launched Baja Double Tostadas, reimagining our beloved tostada with bold new flavors and notably a seasonal seafood option. Our Baja Double Tostadas featuring chicken and shrimp demonstrate our willingness to innovate across the core platform while maintaining our commitment to quality and flavor. While still early, the initial response has been very encouraging with guests embracing both the limited time seafood protein and enhanced flavor profile delivered through our Lime Crema Sauce. In addition to new salads and tostadas, we also continue to promote our core fire-grilled chicken on the bone with the return of Mango Habanero Chicken, which was available for a short time and also the continuation of our \$29.99 Fam Feast.

Turning to protein. We are proud of our position as a true protein leader. We further capitalized on the macro trends by launching our version of a protein menu, which is a collection of menu items with more than 20 grams of protein. We did this with a playful nod to the fact that we have been the legitimate place for protein for over 50 years. The February launch culminated with social media content illustrating a drumstick in a protein bar wrapper, messaging that our chicken is the original protein bar, a clever way to connect with today's youthful and protein-focused consumer mindset. The best part of our protein menu is it requires no new operational lift. Rather, it simply showcases what we are known for, high-quality, delicious chicken packed with protein.

As we look toward our future innovation pipeline, we are excited about our upcoming Loco tenders launch in a few weeks. Our all-white meat boldly seasoned tenders feature our signature dipping sauces, Pollo Loco Sauce, Baja Lime and House Ranch. They also represent our entry into the rapidly growing chicken tender category. Loco Tenders provide a unique El Pollo Loco twist on a classic tender, which we believe will make them a standout and have strong appeal for new and existing customers.

We are currently in the final stages preparing for this launch. We are also testing new loaded quesadillas and a crispy grilled chicken sandwich that delivers all the crunch and flavor of a fried sandwich, but it is grilled, not fried. Both entrees are flavorful, portable and under \$10. Also in test are beverages with Horchata iced coffee featuring our delicious Horchata with notes of cinnamon and vanilla and cold foam coolers, which are Aguas Frescas topped with sweet creamy cold foam. Both beverages are planned to launch later this year. These are just a few of the products across our innovation pipeline, which is the most robust we have delivered in years.

To support all of this menu innovation and growth, we have implemented an internal process with several stage gates to ensure our restaurant operations are minimally impacted and that we can deliver the quality that defines El Pollo Loco. Best of all, our ability to foster innovation has been enhanced recently by our new culinary kitchen at the heart of our restaurant support center.

Our menu innovation strategy works hand-in-hand with our targeted marketing efforts to further amplify the El Pollo Loco brand and drive meaningful guest engagement. By emphasizing our unique heritage of fire grilling chicken and actually cooking in our restaurants, we believe we have a true competitive advantage in the QSR landscape that few brands can claim. We stand firmly behind our commitment to quality. And while others might think our dedication to fire-grilled chicken is Loco, we believe this passion is exactly what sets us apart. We are proud of what our Let's Get Loco campaign accomplished in 2025. From a distinct tone and look in our advertising to leveraging our passion to build brand affinity, Let's Get Loco positions us as an authority in authenticity.

Beyond advertising, this came to life through our brand activations like our Loco AI challenge, which invited fans to create chicken-centric content using AI or our December 12 Days of Pollo activation, where we introduced fans to our Chicken in the Kitchen, which was our version of Elf on the Shelf. The momentum continued as we kicked off the new year where we officially declared Monday as Leg and Thigh Day, a fun play on a leg day at the gym. We did this by providing gymgoers and Loco Rewards Members free Leg and Thigh Meals for the perfect post-workout meal. These buzz-building moments amplify our brand beyond the menu and create moments for real fandom and loyalty.

In addition to larger brand activations, we have also shifted our local marketing approach to include more grassroots efforts to support our fundraising and catering program. This has been especially beneficial in new and growing markets and will become increasingly important part of our marketing toolkit as we expand. We are focused on growing reach and frequency across all consumer groups. And while it's still early, the data suggests that we are seeing momentum with the younger consumer, particularly the 25 to 34 age bracket, driven by our brand relaunch and marketing efforts. There is still much work to do, but this is an early indicator our initiatives are gaining traction.

Looking ahead, our integrated marketing and menu innovation strategy will continue to focus on our passion for chicken and our commitment to showcasing quality and affordability across multiple consumer occasions in a relevant way. Whether we're launching new menu innovations, creating memorable brand moments or taking a local approach in new markets, our marketing will consistently reinforce our differentiator of fire-grilled chicken while meeting the evolving consumer demand for portable, flavorful and protein-rich options.

Shifting to hospitality mindset. I want to highlight the immense focus we have placed on operational excellence to drive sustainable traffic growth. In 2025, we recognized an opportunity to invest in driving standards and accountability through third-party measurement and direct customer feedback and benchmarking. The investments we've made are being noticed by customers. Our overall satisfaction, or OSAT scores are now outpacing the QSR industry as measured by SMG. And we have shown improvement across all measures from accuracy to quality, friendliness, cleanliness and speed. While this sequential improvement has continued into the first quarter, I do believe we still have room for improvement, which will drive additional future growth.

I want to give special recognition for the improvement we saw in friendliness, which was the largest sequential increase. This was made possible by our team members embracing our opportunity and delivering excellent service each and every day. I want to take a moment to say thank you to our restaurant team members and our franchise partners. We are excited about the opportunity to continue raising the bar. El Pollo Loco is consistently recognized for our exceptional food. We are motivated to earn that same recognition for our operational excellence. With our focus on operational excellence and fundamentals, we are combining innovative tools and AI applications to further drive team member efficiency and customer experience.

Throughout the year, we will continue to deploy tools, systems and new ways of training that help us deliver robust culinary calendar while also elevating customer service. I would like to note that these strategic investments in operations and technology will naturally translate to an elevated G&A in the near term, on which Ira will provide further detail in a moment. However, we view this investment as a critical foundation that will allow our brand to scale efficiently and maintain our high standards as we expand.

This brings us to our next pillar, enhanced capabilities with our digital-first mindset. We are pleased that our digital business continued to gain momentum during the fourth quarter. Our more aggressive approach offering app-based promotions and targeted value through our Loco Rewards program drove significant engagement and transaction growth. As an example, our 12 Days of Pollo campaign in December exemplifies this strategy perfectly, delivering exclusive daily deal. This limited time promotional event not only generated immediate sales lift, but it also attracted new app users and increased the frequency among existing loyalty members, demonstrating the power of creating urgency and exclusivity within our digital ecosystem. We are pleased with the increased engagement as both loyalty revenue and participation rate grew by more than 20% year-over-year.

In January, we launched a program refresh that introduced boost or seasonal offers exclusive to rewards members. We believe that these types of enhancements to the program will help us maintain our strong momentum in 2026. We have also continued to grow our reach and frequency through our third-party delivery partners, expanding our digital offers and utilizing paid advertising with these platforms. We successfully grew delivery by 12% year-over-year in 2025, and we will continue to focus on offers and advertising in 2026 as our data suggests that these transactions are incremental and do not cannibalize existing traffic.

We also made several substantial technology investments in our restaurants in 2025 that will continue to enhance customer and team member experience in addition to productivity. As an example, in the last few weeks, we completed a project to upgrade all of our company and franchise restaurants to a cloud-enabled point-of-sale platform that is easier and faster for team members to use, and it unlocks insightful reporting capabilities.

The importance of technology and AI is rapidly increasing across all facets of our business. Just about every project team depends increasingly on technology for a program success. With this rapid increase in technological needs and importance to operational excellence, we are investing in technology leadership with the addition of a new Chief Technology Officer, Vadim Parizher. Vadim joins us with a rich background from Taco Bell, Allergan and Amgen. Together with a strong tech team already in place, Vadim will shape our technology investment to provide a powerful foundation to support our growth.

As we pivot now to growth through new development, 2025 proves that we are a brand that is ready to grow again with a business model that supports sustainable expansion. We achieved our goal of opening 9 new restaurants in 2025, including our 500th El Pollo Loco restaurant in Colorado Springs. As a reminder, this is the largest system-wide unit growth since 2022, and we are just getting started. More importantly, we aren't just opening restaurants. We are opening successful ones. The restaurants we've opened since 2024 are averaging over \$2 million annually, 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 2025, we opened restaurants in 2 new states, Washington and New Mexico, bringing our footprint to 9 states in total. Of the 9 restaurants opened, 6 were outside of California and 7 of the 9 were built leveraging second-generation restaurant assets with significantly lower build costs than traditional ground-up units.

Let me highlight a few standout locations that showcase the breadth of our success across the country. In Dallas, we opened a company-owned location in the former Arby's site with a build cost of \$1.4 million with early sales results in line with our expectations. This is a perfect example of how we are derisking our capital outlay through second-generation sites. Our franchise partners have also delivered exceptional recent openings with strong performing locations in Colorado, Texas and Washington. These second-generation site construction costs were typically in the low to mid million dollar range and all have been averaging above \$2 million in annualized sales volume.

These successes reinforce our confidence as we look towards 2026, where we are targeting approximately 18 to 20 new restaurant openings with 3 to 4 being company-owned locations. Similar to last year, the vast majority of the 18 to 20 new openings in 2026 are expected to be outside of California. This growth trajectory is being supported by key organizational enhancements, including our new VP of Franchise Recruiting, who will help accelerate our franchise development efforts and our robust investments in incremental field training and new store opening teams.

Turning to our restaurant remodeling program. We continue to progress as planned. For the year, we completed the 69 planned remodels, and we continue to see consistent mid-single-digit sales lift in company-operated locations. For 2026, we plan to remodel 25 to 35 company-operated restaurants and 30 to 40 franchise-operated remodels, putting us on track to meet our goal of updating approximately half of our total system over 4 years. The combination of successful remodeling program and the strong performance of recent openings has positioned us well for continued expansion in 2026 and beyond. We remain focused on disciplined growth that delivers strong returns while building lasting brand presence in new markets across the country.

Before I turn the call over to Ira, let me provide you with one more update that is more long term in nature. In addition to the day-to-day hires we've made, we've also materially reshaped our Board with substantial industry expertise over the past 2 years with the addition of 4 new Board members with extensive restaurant experience. These industry leaders are not only strengthening our corporate governance, but also providing valuable best practice sharing and guidance on all topics from marketing to operations and development strategies. With the support of our Board and the momentum we've built across our strategic drivers, we have tremendous confidence in our ability to accelerate growth over the next several years.

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

Ira Fils

Chief Financial Officer

Thank you, Liz, and good afternoon, everyone. For the fourth quarter ended December 31, 2025, total revenue was \$123.5 million compared to \$114.3 million in the fourth quarter of 2024. Company-operated restaurant revenue increased 7.1% to \$102.4 million from \$95.6 million in the same period last year. The \$6.8 million increase in company-operated restaurant sales was driven by a 0.4 percentage growth in company-operated comparable restaurant sales as well as \$5.3 million of sales from the additional operating week in 2025. As a reminder, our fourth quarter of 2025 included 14 weeks compared to 13 weeks in the same period last year.

The growth in comparable restaurant sales included a 2.7% increase in average check size, partially offset by a 2.3% decrease in transactions. During the fourth quarter, our effective price increase versus 2024 was about 3.2%. Franchise revenue increased 15.5% to \$13 million during the fourth quarter, driven by a 3.2% increase in comparable restaurant sales, \$0.5 million from the additional operating week in 2025, \$0.4 million in revenue recognized related to terminated franchise development agreements and revenue associated with 9 franchise-operated restaurant openings subsequent to the fourth quarter of 2024. The 3.2% (sic) [3.3%] increase in comparable franchise store sales consisted of a 2.4% (sic) [2.5%] increase in average check and a 0.8% increase in transactions.

For the full year 2025, our system-wide comparable store sales increased 0.1%, driven by a 0.7% increase in average check, which was partially offset, including Q3 true-ups by a 0.6% decrease in transactions. As we move into 2026, we are pleased that our sales momentum has continued into the first quarter. System-wide comparable store sales for the first quarter to date through February 25, 2026, increased 2.4%, consisting of a 1.8% increase in company-operated restaurants and a 2.8% increase in franchise restaurants.

Turning to expenses. Food and paper costs as a percentage of company restaurant sales decreased 70 basis points year-over-year to 24.4% due to higher menu pricing and approximately 100 basis points of commodity deflation during the fourth quarter, which was partially offset by higher discounting. We expect commodity inflation to be in the 1% to 2% range for the full year 2026. Labor and related expenses as a percentage of company restaurant sales decreased about 90 basis points year-over-year to 31.5% as we continue to benefit from improvements in operating efficiencies, primarily driven through enhancements in labor deployment and scheduling, combined with continued use of technology and equipment to simplify team member roles along with menu price increases. Wage inflation during the fourth quarter was 0.6% for all our company-owned locations. For the full year 2026, we expect wage inflation of between 2% to 3% for all our company-owned locations.

Occupancy and other operating expenses as a percentage of company restaurant sales increased 80 basis points year-over-year to 26.6%, primarily due to higher utilities, software maintenance fees related to our kiosk and new POS rollouts and higher rent and higher liability insurance costs, partially offset by lower repairs and maintenance expense. Our restaurant contribution margin for the fourth quarter improved to 17.5% compared to 16.7% in the year ago period. As we continue our path of margin improvement, we expect our restaurant level margin for the full year 2026 to be between 18% and 18.5%. In addition, we expect our margins in the first quarter of 2026 to be between 17.5% and 18%.

General and administrative expenses increased to \$13.1 million compared to \$11.1 million in the prior year. The increase was primarily due to \$1.2 million in incremental labor and related costs, \$0.7 million in severance and executive transition costs, \$0.8 million in other general and administrative costs, partially offset by \$0.7 million in lower management bonus expense. As a percentage of sales, G&A increased to 10.7% or 100 basis points. As we move into 2026 to achieve our accelerating new store growth objectives, we are continuing to strategically invest in resources to drive new store development, operations excellence and technology to enable our growth in 2026 and beyond.

During the fourth quarter, we recorded a provision for income taxes of \$2.8 million for an effective tax rate of 30%. This compares to a provision for income taxes of \$1.8 million and an effective tax rate of 23.5% in the prior year period. We reported GAAP net income of \$6.5 million or \$0.22 per diluted share in the fourth quarter compared to GAAP net income of \$6 million or \$0.20 per diluted share in the prior year period.

Adjusted EBITDA for the fourth quarter of 2025 was \$16.9 million compared to \$14.3 million in the fourth quarter of 2024. Results for 2025 included 14 weeks of operation compared to 13 weeks in 2024. The impact of the extra week of operation increased adjusted EBITDA by approximately \$770,000. Adjusted net income for the fourth quarter was \$7.3 million or \$0.25 per diluted share compared to adjusted net income of \$5.9 million or \$0.20 per diluted share in the fourth 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 fourth quarter, we completed 25 franchise restaurant remodels and 10 company remodels, bringing our total completed remodels for the year to 17 company and 52 franchised remodels. In terms of liquidity, as of December 31, 2025, we had \$51 million of debt outstanding and \$6.2 million in cash and cash equivalents. Subsequent to the end of the fourth quarter, we paid down an additional \$3 million (sic) [\$5 million] on our revolver, resulting in our debt outstanding of \$48 million (sic) [\$46 million] as of March 12, 2026.

With that, we would like to provide you with the following guidance for 2026. System-wide comparable store sales growth of 2% to 3%, the opening of 3 to 4 company-operated restaurants and 15 to 16 franchise-operated restaurants, capital spending between \$37 million to \$40 million; G&A expenses between \$52 million to \$54 million, excluding onetime charges and including approximately \$6.5 million in stock compensation expense. Adjusted EBITDA between \$66 million and \$68 million and an effective income tax rate of approximately 29% before discrete items. In addition to our guide for 2026, we are introducing the following guidance for 2027 and 2028. System-wide comparable restaurant growth percent in the low single digits, system-wide restaurant growth percent in the mid-single digits and adjusted EBITDA growth percent in the high single digits.

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] And our first question comes from Jake Bartlett with Truist Securities.

Jake Bartlett

Truist Securities, Inc., Research Division

First question was on the consumer. You guys are in a -- I think, because of your regional or less weather than we've had on the East Coast. And one of the phrases that we talk about these days is underlying demand. And I think you guys might be in a good position to tell us about what you think kind of the underlying demand is out there without weather. So what are you seeing? I know you're doing a lot to influence your results, which is encouraging, but I'm hoping you can kind of talk about your confidence in the consumer, which direction you think the consumer has been moving in the last few months and few quarters?

Elizabeth Williams

CEO & Director

Thanks for the question. So the consumer is still looking for great food at a great value. So wanting to have a meal that is healthy, better for them, quality ingredients, all indulgent at times, but wanting to do it within their budget, so certainly more budget conscious. So we're seeing that we're able to serve that for the consumer. We are seeing increasingly the consumer -- in Q4, we saw the consumer responding to value, particularly with our Burrito Bowls and with some of our offers in our app and then also with third-party delivery.

And then as we've gotten into the beginning of this year, the consumer where we are predominantly on the West Coast, we are lapping some of the activity from last year where the consumer stayed home more, whether it was because of they didn't have the money to come out as much, but then there were also some of the events going around with just [ice] and everything else out there. So not seeing as much of that this year. So the consumer is certainly still looking though for just a great experience at a great value.

Jake Bartlett

Truist Securities, Inc., Research Division

Great. That's good to hear. The other question was, it sounds like you're doing a lot. You're testing a lot. You're coming up with some nice menu innovation. You're adding a lot of items or a number of new items to the permanent menu, adding a little complexity. So I'm wondering whether -- what you're taking off the menu, for instance, but also how you're going to market all this effectively? It seems like there's a lot to talk about and you have a limited -- maybe a limited voice. So what's the approach to marketing in terms of trying to accomplish all that you're trying?

Elizabeth Williams

CEO & Director

Sure. Thoughtfully pacing and sequencing is really key. And doing a lot of testing, which is what we're doing right now. And if you think about having also a nice mix of products that we've had before that consumers love and then just doing a twist on some of those menu items, as an example, our tostadas that are wildly popular. The twist right now is the Baja Lime element with shrimp and with chicken, whereas in the past, we've done that with Mango Habanero where we've done that without flavoring. Same thing is true with the Burrito Bowl that we launched in Q4. We had a twist there with the Queso Crunch.

We had always had Burrito Bowls on our menu. However, we innovated on 2 new flavors. And those -- some have unique ingredients, some use ingredients we already have in the restaurant. And so when we made the decision to keep those on the permanent menu, what we did is we looked at the Burrito Bowl lineup and said, does this replace a Burrito Bowl on there? And indeed, it did. And so in many instances, as we're adding, we're also removing or as an example, on the Pollo -- the Double Pollo Salad, we made an update to one of the salads where we made a small enhancement, but it was one in, one out in that sense.

Operator

Our next question comes from the line of Todd Brooks with Benchmark StoneX.

Todd Brooks

The Benchmark Company, LLC, Research Division

Congrats on really strong results and solid momentum carried here into the new year. So congrats on that. Two questions, if I may. One, you talked about work in getting the prototype cost down and the success with the second-generation locations, and you gave guidance for -- I think it implies 14 to 17 new franchise locations in '26. Can -- Liz, can you talk about the mix of growth with existing franchisees versus new-to-brand partners? And are we to the point yet that you feel like you're ready to give us color into what the franchising pipeline looks like so that we can start to understand what you're building on to drive that flywheel of longer-term unit growth that you guys guided for, for '27 and '28?

Elizabeth Williams

CEO & Director

Sure. And as we go along throughout the year, we'll certainly provide more detail in the richness of that pipeline in terms of where those units are and with different franchise partners and company units. So we figure at least 20% of those new builds will be with company capital. And in terms of the franchise partners, I'm excited because it's a lot of our existing franchise partners who have seen the improvement that we've made with the economics, and they have that enthusiasm and love for the brand, and they know how to grow with the brand. They have the infrastructure to grow with the brand.

So we have a healthy pipeline of existing franchise partners, but then there's also new franchise partners. So as an example, we've got new partners up in Washington that are driving growth, new partners in New Mexico, as an example. So it really is a mix. And then we're not done. We -- as I mentioned, we just brought on a new leader guiding our new franchise recruitment. And we have a good amount of interest, but I think there's more interest out there as we tell the story of the brand and we work our way across the United States. So simple answer is it's a nice combination of new but also existing complemented by corporate growth.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. And my second one, and I'll jump back in after this. I don't ever remember this type of annual guidance from Loco in the past and certainly not a multiyear framework. It's great to get. Thank you for it. But what are you seeing in the business that gives you the confidence to actually give us this given the current consumer environment?

Elizabeth Williams

CEO & Director

It's a great question. I now are going in -- or concluding the second year of the turnaround, heading into year 3, have a really terrific leadership team alongside me and also just team around us. And we've all been at this for decades. And we've seen a lot of restaurant growth turnarounds, turbulent times. And we see in our business, we've worked through so much over the last couple of years. We have gotten this brand to a place that's so much healthier than where it was. We've stabilized and improved -- dramatically improved the margins and the profitability of the brand. We've got -- we figured out what works in terms of driving sales, what formula works when it comes to innovation or value.

Now there's always the consumer element, which is the big surprise, like you mentioned, it's harder to predict what's going on with macros and consumers. But there's just some fundamentals that I think I'm more comfortable and our leadership team is more comfortable knowing that formulas that drive growth. And so now as we look out to a longer term, we're able to make longer-term decisions such as investing some very thoughtful G&A in places that we know is going to drive growth. And so when we put that all together and you've got a great CFO like Ira and team with him, you feel more comfortable being able to articulate that 2- to 3-year plan.

Operator

Our next question comes from the line of Jeremy Hamblin with Craig-Hallum.

Jeremy Hamblin

Craig-Hallum Capital Group LLC, Research Division

Congratulations on a really strong year and the momentum you have in the business. I thought I would start by just understanding in terms of the system, really strong results from the franchise business in Q4, but about a 300 basis point difference between your company-operated locations and franchise on traffic. And wanted to get a sense for why you think that difference exists. It does sound like in Q1, that gap has closed, but likely still some sort of a gap there given that franchise is trending a bit higher. Any color you might be able to share and what you might be able to learn from kind of the franchise operators?

Elizabeth Williams

CEO & Director

Yes. So I wouldn't read too much into it as it does go back and forth from time to time and quarter-to-quarter. Sometimes some of the factors, we do pick it apart and look at it. Some of the factors can be geographies, but they also could be lapse in terms of amount of pricing that either franchise or corporate might have taken and then lapping that and implications that has with transactions. It also, at times, can be -- the geography piece has some of the weather implications as well.

And then in addition, it can occasionally be operationally driven. I do think our franchise partners are terrific operators. And in some instances, they have operated more strongly than corporate restaurants. But I wouldn't say in this case, it's any one of those, like that's the defining reason. It's usually a multitude of factors.

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

Understood. And then coming back to the point about menu innovation, that really stands out where it looks like you guys are testing more and more frequently. In terms of what is in place from a corporate level to drive that type of innovation, what's changed on that front? And in terms of thinking about what your pipeline looks like, right, you've had a lot of exciting launches and successful launches here. Should we expect this type of innovation and the number of new products to continue here as you go into '27 and '28 as well?

Elizabeth Williams*CEO & Director*

I think we should expect that. We have a belief that the category loves innovation. The consumer loves to try new things, and we think that our brand leans into that exploration. And some of the things that we've done on -- from the restaurant support center standpoint is to build back that muscle of being able to do innovation and do it well and within our operational footprint. Because the worst thing is when companies go and try to do innovation, they don't do it well. And operationally, it just breaks the restaurant.

And so some of the things that we've put in place, we have an op services team that we didn't have a couple of years ago, led by Rick Pepper, outstanding team. They really work closely with our operations team to field test. I've talked many times about our culinary team led by Rene, Chef Rene, he does a fabulous job on the innovation side. That team was not as robust a couple of years ago. And then I spoke briefly in the prepared remarks about having a culinary kitchen. We recently moved our corporate headquarters after 20 years and our #1 priority in looking for space was having a culinary kitchen at the center, the heartbeat really of the support center. And even little things like that signal to the organization how much we care about culinary and about innovation.

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

Follow-on to that question. Just to confirm, you said that the full launch of tenders is coming in a few weeks. And then I wanted to get that confirmed. And then just thinking about when with the chicken sandwich, kind of the rollout of that.

Elizabeth Williams*CEO & Director*

Yes. So we'll see our tenders later this spring. I haven't released the exact date yet, but later this spring, we're really excited. And then the sandwich is still in test, and we're testing other types of sandwiches. So that's something we're looking at later this year, so in the second half of the year.

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

Got it. Last one for me. The balance sheet really improved in 2025, right? I think your net debt now is down to like \$45 million. Is -- and you're continuing to build cash or cash flow, I should say, -- is the plan to get that down to no debt? And then after that point, as you have a bigger system in total as you grow units, thinking about other things that you might be able to do with that cash flow on a go-forward basis? Or any insight you might be able to share into the kind of the multiyear plan on that?

Ira Fils*Chief Financial Officer*

Yes. I think that's a great question, Jeremy. Thanks. So as you move into 2026, the good news of us being able to have so much cash available, we are turning around and investing that in the business as we move into 2026. We -- as Liz talked a lot about, we are increasing our pace of new unit development on the corporate side. We are investing it as we're in this kind of second year of our image and look and feel of the brand. We're upping the pace of our remodels. We're taking these dollars, and we're investing it into operational improvements in the restaurant to help us drive both sales and drive margins.

And so we're going to spend a little more in CapEx this year as we talk about in '26. And so that's one thing we're doing with it. And as we continue to move forward, we will also be evaluating ways how we can -- from a capital allocation standpoint, potentially return that to shareholders as well. So I think we are comfortable with our level of debt, but we're also looking for ways to take those dollars and invest it in the business to continue to drive profit growth over time.

Operator

Our next question comes from Andy Barish with Jefferies.

Andrew Barish*Jefferies LLC, Research Division*

You guys are kind of in the, I guess, enviable position of having reported after the Middle East stuff has erupted. Have you seen sort of a consumer reaction with gas prices above \$5 in California? Just kind of wondering sort of what you're willing to discuss there, just given you guys have been one of the few if only reporters since everything sort of started up.

Elizabeth Williams*CEO & Director*

Yes. Thanks for the question, Andy. Surprisingly, we haven't. We're all very familiar that typically, QSR and fast casual are tightly correlated with gas prices. So we are watching closely, but haven't -- I wouldn't say we've seen anything of note as of late.

Andrew Barish*Jefferies LLC, Research Division*

Good to hear.

Elizabeth Williams*CEO & Director*

I don't know if it trickled through.

Andrew Barish*Jefferies LLC, Research Division*

Or if it does, people adjust hopefully fairly quickly and get back to prior spending patterns, which I guess has been sort of what we've seen historically, at least in terms of food away from home. On the comp -- the same-store sales composition, can you kind of go through that with us? I know traffic is a focus, but I'm assuming pricing is going to kind of be in line with inflation, which looks like it's kind of 2% to 3% when you combine commodities and labor. Just any more color on price? And then is the goal to get traffic positive this year?

Ira Fils*Chief Financial Officer*

Yes. Well, that's always our #1 goal, is to drive traffic positive. And we feel good so far about our trend that we've seen in the quarter. We were a little soft that first week of the quarter with -- we had some holiday timing and some weather issues. But we've been very pleased with the way the quarter has played out with us so far.

And again, to the second half of your question, we are going to keep pricing similar to last year. We were -- I think we came in at about 3.5% last year, and our pricing will be similar to that as we move forward into '26, obviously, subject to how the year plays out. But we feel a combination of the innovation that we have going and the products that we're bringing to bear and where the business is right now, we feel like we do have the ability to take a little bit of pricing as we move forward this year.

Andrew Barish

Jefferies LLC, Research Division

Got you. And then on -- just on the assumption kind of starting in '27, it looks like adjusted EBITDA growth will be higher than revenue growth just on a high level. So is that still kind of moving restaurant level margins? Or do you expect G&A to start to lever a little bit maybe in '27 again after the investment spend in '26?

Ira Fils

Chief Financial Officer

Yes. No, great question. We've always said we believe this business can get into the 18% to 20% range from a store level margin standpoint. And this year, we're guiding 18% and 18.5%. So we believe we have continued opportunities to drive our margins higher, and that is reflected as we think about the '27 and the '28 guidance. That in concert with -- we are making a lot of G&A investments this year, and we'll start to see some G&A leverage as we move into '27 and '28 as well.

Elizabeth Williams

CEO & Director

And some of those G&A investments, as we remarked, are across the business and things like new unit development. So as we're building corporate restaurants and also all the training to make sure franchise restaurants open successfully, we see those investments as having a direct payback. Technology, things that drive not only innovation, but productivity are also areas of investment. So things that are very laser-focused that over time, have a strong return.

Operator

Our next question comes from the line of Tania Anderson with William Blair.

Tania Anderson

William Blair & Company L.L.C., Research Division

I was just wondering if you could talk about the cadence of the openings this year.

Ira Fils

Chief Financial Officer

We've got a couple of open. The great news is we've already got 2 open so far this year. And as we move forward through the year, it will be not as backloaded as we've had our openings last year. But typically, as you move forward, they will be a little backloaded as we move kind of through the year. But we're excited. We have -- I think we have 8 stores under construction right now. So we feel really good about our new unit development this year.

Tania Anderson

William Blair & Company L.L.C., Research Division

Okay. And then previously, you talked about having some like input and COGS initiatives that were going to happen this year. Can you talk about any specifics there?

Ira Fils

Chief Financial Officer

Yes. No, we -- this has been a multiyear project for us in regards to leveraging what we're buying to improve margins. And as we think about the focus for 2026, it's taking things and having the supplier do some of the -- we do a lot of prep today in our restaurants and having our suppliers do some of that prep for us, taking some of that labor and complexity out of the restaurant and the combination of that will drive efficiency and margin for us. And so that's our big -- these are the main focus of our initiatives this year to help us drive the margin improvement.

Operator

Our final question comes from Matt Curtis with D.A. Davidson.

Matthew Curtis

D.A. Davidson & Co., Research Division

I just wanted to ask some questions about the new markets you've entered recently like Washington and New Mexico as well as some of the other openings outside of California. I was just wondering if you could share what initial sales volumes have been like and what you've been doing to support these new openings, either in terms of marketing support or in other areas?

Elizabeth Williams

CEO & Director

Great. Thanks for the question. We're really proud of these new openings, in particular, the Washington -- so in Kent, Washington is where this unit is, and it has just exceeded every expectation more -- well, well, well above our system average, lines to the point where we've had to dial back some of our hours so that we could make sure we had chicken for everyone. We haven't turned on -- this will tell you something. We haven't turned on the third-party delivery partners because we have so much demand in the restaurant. We want to serve the customers that are in front of us rather than even turning on delivery.

Now this is the first unit in the state, but it just shows you how much pent-up demand there is for El Pollo Loco. And when we support the restaurant well and we find great franchise partners, it's a magical combination. And so the training that we're doing is many months in advance. We spend a lot of time with folks training. We send teams up to these restaurants, and there's a lot of ongoing support.

New Mexico, also a new franchise partner also performing really well, above average, so much so that the franchise partner has been looking for additional sites in the market because they have so much excitement and are very pleased with the results. So I think that's the very testament that one unit isn't enough. They want to do several in the DMA to me is a testament of growing outside our home market.

Matthew Curtis

D.A. Davidson & Co., Research Division

Okay. Well, that's certainly encouraging to hear. So I guess the next obvious question is, where do you think the pent-up demand is coming from, given that these are your initial sites in those states? I mean would this be basically demand coming from California expatriates or something else?

Elizabeth Williams

CEO & Director

I think that certainly helps with the familiarity of the brand, but there's certainly not enough. As many people as might have left California, I don't think there's that enough to substantiate all this demand. So I do think it's the fact that we really don't have a true national competitor.

And when you think about fire-grilled chicken, when we open in these markets, we serve our chicken in the delicious way that everyone knows and loves it. There's just the same consumer type that loves the food, whether they're in California or Arizona or Nevada, they love it in New Mexico and Washington and eventually across the country. So back to your other part of the question in terms of how we're marketing things, we're using local marketing. We're using digital marketing, all different types of marketing tools to drive awareness.

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

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

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