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EPS of \$0.13 **beats by \$0.08** | Revenue of \$51.43M (-0.86% Y/Y) **beats by \$1.73M**

European Wax Center, Inc. (NASDAQ:[EWCZ](#)) Q1 2025 Earnings Conference Call May 14, 2025 8:00 AM ET

Company Participants

Bethany Johns - Director of Investor Relations
Chris Morris - Chairman & Chief Executive Officer
Tom Kim - Chief Financial Officer

Conference Call Participants

Dana Telsey - Telsey Advisory Group
Jonathan Komp - Baird
John Heinbockel - Guggenheim Securities
Korinne Wolfmeyer - Piper Sandler
Kelly Crago - Citigroup
Simeon Gutman - Morgan Stanley
Scot Ciccarelli - Truist Securities

Operator

Good morning ladies and gentlemen and thank you for standing by. Welcome to European Wax Center's First Quarter Fiscal 2025 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. In order to facilitate as many participants as possible, we ask that you please limit yourself to one question and one follow-up during the Q&A session. If you have additional questions, you may re-join the queue.

On the call today are Chris Morris, Chairman and Chief Executive Officer; and Tom Kim, Chief Financial Officer. I would now like to turn the conference over to Bethany Johns, Director of Investor Relations. Ma'am, you may begin.

Bethany Johns

Good morning, everyone. Thank you and welcome to European Wax Center's first quarter fiscal year 2025 earnings call. On today's call, Chris Morris will provide an update on its first full quarter with the company and discuss additional details regarding progress made on our priorities. Then, Tom will discuss our first quarter performance and fiscal 2025 outlook. Following the prepared remarks, the team will be available to take questions.

Before we start, I would like to remind you of our legal disclaimer. We will make certain statements today which are forward-looking within the meaning of the federal securities laws, including statements about the outlook of our business and other matters referenced in our earnings release issued today. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please refer to our SEC filings, as well as our earnings release issued today for a more detailed description of the risk factors that may affect our results. Please also note that these forward-looking statements reflect our opinions only as of the date of this call and we take no obligation to revise or publicly release the results of any revision to our forward-looking statements in light of new information or future events.

Also during this call, we will discuss non-GAAP financial measures which adjust our GAAP results to eliminate the impact of certain items. You will find additional information regarding these non-GAAP financial measures and a reconciliation of these non-GAAP to GAAP measures in our earnings release. A live broadcast of this call is also available on the Investor Relations section of our website at investors.waxcenter.com.

I will now turn the call over to Chris Morris. Chris?

Chris Morris

Okay. Thank you Bethany and good morning everyone. Thank you for joining us to discuss European Wax Center's first quarter 2025 financial performance. I'm pleased to share that we delivered solid first quarter results of \$225.9 million of system-wide sales, 70 basis points of positive same-store sales growth and \$18.8 million in adjusted EBITDA. These results demonstrate that our guests value our unparalleled waxing services and our business is on the right track, enabling us to reiterate our outlook today.

At the same time, we recognize the consumer backdrop and supply chain environment remain uncertain. I want to emphasize that the fundamentals of our model remain strong and we are actively managing these dynamics which Tom will speak to in the second half of today's call. But first, I'd like to take a moment to share a few reflections from my first 100 days with EWC. Over the past few months, I spent a lot of time visiting centers across some of our largest markets, coast-to-coast from New York and New Jersey to Florida and California and several states in between. I've been interfacing heavily with our franchise partners, associates, guests and stakeholders with the goal of understanding our competitive advantages and setting the priorities for sustainable growth. As a result, my belief in EWC's potential has never been stronger. I'm invigorated by the passion we all share for this iconic brand and the incredible work our talented franchisees and associates do each day to deliver the unparalleled guest experience unique to European Wax Center.

My first 100 days haven't just been a period of listening and learning, they've also been a time of action. As I mentioned last quarter, it's evident that we have a lot of opportunities to solidify the foundation of this business. We've already taken a lot of steps designed to improve execution, strengthen operations and build momentum. I believe 2025 is a reset year but let me be clear, what we need to do to reignite our growth isn't complex because the core of our concept remains strong. We need to focus on the basics, bring energy back to the brand and ensure we have the tools needed to execute flawlessly. This includes modernizing the marketing engine, making sure franchisees are set up for success and being disciplined and strategic in our approach to new center expansion.

Together with my new executive team, we are sharpening our vision for the future. We continue to ground our actions in driving sales, improving 4-wall profitability and reigniting unit growth which I believe are critical to delivering near-term results and best positioning us to revitalize our long-term growth story. I'm incredibly proud of the progress we've made on each of these priorities over the past 2 months and I'm excited to walk you through our accomplishments and our action plans for Q2 and beyond.

First, driving sales through traffic growth. Our core guests continue to love European Wax Center and remain stable. But to increase 4-wall sales and profitability, we need to drive more new guests and get noncore guests to visit us more often. And to do that well, we are building a data-rich digital-first marketing engine underpinned by a clear and relevant brand identity. Our marketing team is acting with conviction to deliver near-term wins while laying the groundwork to fuel sustainable long-term sales growth. We are methodically and deliberately approaching this effort from a few angles. We began in Q4 by building the measurement foundations to truly understand our advertising effectiveness and support a modern approach to marketing. We introduced that technology in Q1. And as a result, we are leveraging our data with our digital and social media partners better than ever before, enabling our media dollars to be more efficient and lowering our cost per acquisition.

Most importantly, we're seeing early signs of traction with new guests. On a 2-year basis, 2025 new guest trends have improved each month, giving us confidence that we're headed in the right direction. In terms of noncore guests, we're significantly increasing our ability to engage with them through e-mail and SMS which should enable us to unlock additional visits. This is a great example of the kind of basic sharpen the edges opportunities we have uncovered which we anticipate will result in better guest engagement. We're still not where we need to be but we're pleased with the progress we've made so far.

To drive new guest acquisition for the long term, we are redefining our target guest profile and reinvigorating our brand identity. We performed extensive research and testing in Q1 that has given us 3 valuable insights. First, out-of-home waxing still represents a large and stable addressable market. Second, we can cast a wider net with new guests by leaning into those who offer a higher lifetime value and are more profitable and more likely to be retained. And third, we can deliver a clear message that better resonates with the high-value guests I just described. Armed with this new information, we are taking immediate actions to improve marketing content this quarter. The initial phase of refining our message and creative assets is already underway with a new champion ad expected to be live for the peak summer waxing season. We plan to launch bigger, more holistic brand strategy work later this year. Together with improvements we've made leveraging data and lowering our cost of acquisition, we expect to refine our marketing mix and more effectively drive traffic in the second half of 2025. As a reminder, this is a key assumption in the high end of our outlook.

Our second area of focus is cultivating a more effective corporate infrastructure to support franchisees, facilitating higher 4-wall profitability through operational excellence. We realize franchisees are the primary customers we serve and their success drives our success. Our immediate priority is to narrow the gap between underperforming centers and the broader network. We've increased the capacity of our franchisee support team and we're spending more time working hand-in-hand with operators. We recently deployed new tools that offer enhanced tracking, accountability and transparency, making it easier than ever for both us and our franchise partners to see opportunities and action plans. Our operations team is also driving 50% more engagement with our learning management system. Combined, these actions have started to generate KPI improvement in underperforming centers.

Regarding our long-term goal of operational excellence, we've made progress on our search for a strong Chief Operating Officer to evolve our structure and processes. We also look forward to engaging with our partners next week at our annual franchisee event where we will reinforce our aligned focus on reigniting sustainable, profitable growth, both at the individual center level and across the network as a whole.

Moving to my third focus area, implementing a more sophisticated development approach focused on thoughtful, profitable expansion. We continue to partner closely with franchisees to evaluate near-term growth plans while prioritizing long-term network health. To prepare for 2026 new center openings, we've identified underpenetrated trade areas with strong existing demand for out-of-home hair removal which we believe will pave the way for franchisees to resume unit growth while best positioning their centers for success. Longer term, we plan to utilize a more strategic development approach. We've upgraded our market planning tool to a purpose-built solution with enhanced analytics and forecasting capabilities. This leap and sophistication should enable us to more accurately model new site potential moving forward. We've also implemented a rigorous site approval process for new centers. We believe that both of these actions should enable better new center performance and support more sustainable growth over time. Ultimately, we remain confident that our efforts to drive sales and improve 4-wall profitability will best position the network to return to net unit growth by the end of 2026.

And last but not least, we've made substantial progress in assembling a team of seasoned leaders who will help execute these priorities for 2025 and beyond. Our Chief Commercial Officer, Katie Mullen; and Chief Information and Digital Officer, Chris Andrews, officially joined at the end of Q1 and are off to a running start and they've done a tremendous amount of work in the short time they've been with us.

And finally, I'm excited to introduce Tom Kim, our new Chief Financial Officer, for the first time today. Tom joined us last month and is a strategic CFO with franchise experience and a history of driving profitable growth. He will be a valuable and impactful partner in executing our strategic priorities and reigniting growth for European Wax Center and I look forward to all of you getting to know him better in the coming weeks and months.

So with that, I'll pass things over to Tom to review our Q1 financial results and our outlook for 2025. Tom?

Tom Kim

Thank you, Chris. I'm excited to be on my first earnings call as part of the European Wax Center team. With my background leading finance for consumer and franchise businesses, it was easy to see that EWC's category leadership position, meaningful white space and strong free cash flow profile offer a compelling and attractive opportunity. I look forward to partnering with the team and our franchisees to capitalize on our opportunities as we solidify our foundation and reinvigorate our unit growth.

Before I begin my remarks, I'd like to remind everyone that our discussion of growth rates on this call will refer to the first quarter of fiscal 2025 compared to the first quarter of fiscal 2024. For comparability purposes, please note that our centers are closed on Easter Sunday which fell in Q1 fiscal 2024 but shifted to Q2 fiscal 2025.

Now, to our results. We ended Q1 with 1,062 centers, representing 1% growth year-over-year. We had 5 gross openings during the quarter and 10 closures, resulting in 5 net center closures. We were expecting 6 to 7 net closures but benefited from an opening that shifted forward into Q1. System-wide sales increased 2.1% to \$225.9 million from \$221.4 million, with year-over-year growth driven by the shift in the Easter holiday and payment timing. Same-store sales grew 70 basis points. Adjusting for the Easter shift, we estimate it would have been approximately flat. While transaction growth remains pressured, as Chris mentioned, we're starting to see some improvement in new guest trends. We are still in the early stages of enhancing our marketing and operational capabilities under the leadership of our new executive team and we're excited about the work we're doing to drive top line momentum.

Total revenue of \$51.4 million decreased approximately \$400,000 or 90 basis points, primarily due to lower retail and wholesale product revenue. Additionally, this is the final quarter we are lapping a COVID-related surcharge with product revenue that we eliminated early last year. Q1 revenue exceeded our internal expectations due to franchisee order patterns and a successful retail promotion, both of which we believe pulled forward some demand. As expected, gross margin increased modestly to 74.2%, primarily due to a higher mix of royalty and marketing fees.

SG&A expenses increased \$1.9 million to \$15.3 million, primarily driven by higher stock-based compensation and executive severance costs that we exclude from adjusted EBITDA. Advertising expense decreased \$1.4 million due to the timing of spend within the fiscal year. Adjusted EBITDA of \$18.8 million increased 7.2% from \$17.5 million in the prior year period. Adjusted EBITDA margin increased to 36.5% from 33.7% and was higher than our full year expectations of approximately 33% due to the revenue, advertising and SG&A expense timing that benefited Q1.

Net interest expense increased slightly to \$6.6 million and income tax expense increased to \$1.4 million from \$1.2 million last year. Adjusted net income increased 10.3% to \$9.5 million from \$8.6 million last year. We have updated our definition of adjusted net income to better align the metric with management's review of our core ongoing operations by excluding noncash amortization of intangible assets. Please refer to the earnings release for further details and a reconciliation to adjusted net income as reported in prior periods. Lastly, as a housekeeping item, as of May 9, 2025, there are 43.3 million Class A common shares outstanding and 22.1 million potentially dilutive shares related to Class B shares and outstanding equity awards.

Now, turning to the balance sheet. Our \$40 million revolver remains fully undrawn and we ended the quarter with \$58.3 million in cash and \$389 million outstanding under our senior secured notes. Our net leverage ratio at quarter end was 4.3x and would have been approximately 3.8x, excluding the \$41.2 million in stock buybacks we executed during the trailing 12 months. As of quarter end, we had \$8.8 million remaining under our \$50 million share repurchase authorization.

In terms of our capital allocation priorities, our attractive asset-light and capital-light franchise model continued to generate healthy free cash flow that we believe will enable us to remain opportunistic. Q1 was yet another strong quarter as net cash provided by operating activities was \$12.7 million compared to \$700,000 in investing cash outflows. We remain comfortable meeting our debt service obligations under our flexible whole business securitization and we value the optionality to invest in reigniting our core business while maintaining a strong balance sheet to position us well through a variety of macroeconomic conditions.

Turning now to our outlook for 2025 which we are reiterating today. Let me start with our underlying assumptions which are based on a stable consumer environment in 2025. As a reminder, in March, we shared that the high end of our outlook assumed that our marketing efforts would begin to drive more traffic in the back half of 2025, with trends improving through the second half. The lower end of our outlook assumes that while we make progress against our priorities, the modest transaction decline we continue to see in mature centers persists throughout this year. While we normally do not comment on quarter-to-date trends, we recognize that the macro environment has been incredibly dynamic over the past few weeks. Normalizing for Easter holiday shift, mature center transaction trends have been stable year-to-date and our outlook assumptions for the full year remain intact.

Importantly, our unit expectations for the year remain unchanged. We expect 10 to 12 gross openings and 40 to 60 center closures or 28 to 50 net center closures. In Q2, franchisees have opened 1 and closed 2 centers so far and we expect 7 to 8 net closures for the quarter.

We continue to expect system-wide sales between \$940 million and \$960 million, representing approximately flat year-over-year growth at the midpoint. Same-store sales is expected to be flat to positive 2% which assumes some sales recapture for comp stores closures during the year. We expect that Q2 same-store sales could be flat to down slightly due to the Easter shift, implying expected improvement in the 2-year stack from Q1 to Q2.

Consistent with last quarter, our outlook for full year revenue remains between \$210 million and \$214 million and approximately 22.3% of system-wide sales. As I mentioned earlier, we expect that franchisees shifted product purchases into Q1 due to April's tariff announcement and a successful retail promotion which will likely impact revenue recognized in Q2. On this topic, let me take a minute to discuss the potential impact of increased tariffs on our business in fiscal 2025. Approximately half of our product cost is currently subject to the 10% global tariff. While the majority of our retail products are sourced domestically, a portion of our medical supplies and retail product components are sourced from China and our proprietary wax is sourced from Europe.

That said, our cross-functional team is doing an excellent job acting quickly with our suppliers to mitigate the risk of cost increases and identifying alternatives where it makes sense. We recognize that this is a highly fluid environment and we are still working through several options. But based on what we know today, we feel confident in our ability to manage the estimated tariff impact within our current outlook.

We continue to plan advertising expense slightly higher than 3% of system-wide sales in fiscal 2025 to support the traffic-driving initiatives Chris described earlier. Compared to 2024, our current plans are to spread advertising expense more evenly throughout the year. Our adjusted EBITDA outlook remains at \$69 million to \$71 million and reflects our expectation of SG&A growth primarily driven by personnel to help us achieve our strategic goals and normalize incentive compensation.

Finally, we expect adjusted net income between \$31 million and \$33 million which is consistent with our previous guidance of \$16 million to \$18 million plus approximately \$15 million of intangible asset amortization expense, net of an approximately 23% effective tax rate before discrete items.

As we look to the back half of the year, European Wax Center is certainly not unique in navigating an uncertain macro environment. We are acting thoughtfully and swiftly to drive sales, improve 4-wall profitability and reignite unit growth. Our pursuit of these priorities is within our control, even if the environment is not. While it's still early days, we believe we are putting the right people and actions in place to drive near-term results and long-term growth for European Wax Center, its franchisees and its shareholders.

With that, operator, please open up the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Dana Telsey with Telsey Advisory Group.

Dana Telsey

Chris, as you think about the game plan going forward in Wax Pass customers, can you talk a little bit about what changed this quarter, the outlook for the second quarter in the frequency of the Wax Pass customers, what's happening with your promotional rates? And then just expanding on the potential tariff impact, is there other places to source from? And what are you seeing from franchisees in ordering patterns? And then I just have a quick follow-up.

Chris Morris

Okay, great. Dana, we had a little bit of trouble on the audio. It was choppy but I'm pretty sure I captured your 2 questions. If not, just please clarify. In terms of what's changed, I'll tell you -- the first thing I'll tell you is that, we're very pleased with the progress that we've made just in this short period of time since our team has been assembled. We've got a very clear line of sight on where the opportunities are, where we need to focus. And I feel very good about how things are progressing.

With respect to Q2 outlook, I would say, overall, we're moving in line with kind of where we expected to be at the very beginning of this year which is one of the reasons why we feel so comfortable reiterating our annual guidance for the full year. So things are progressing along according to plan. A lot of the things that we're working on are a little bit longer term in nature. It takes time for these things to build. And so, we've always viewed this year as a year where, as our strategies start to take hold, that will benefit more of the second half of the year than the first half of the year. So all in, we feel great. There's still a lot of work ahead of us but our team is -- we're getting our feet under us. We know exactly where to focus and we're making a lot of progress.

In terms of promotional activity, there hasn't been any material change at all in promotional activity over the last few months. And we don't expect that, that's going to change as we move forward. We see our biggest opportunity is just being more effective with the use of our marketing dollars, being smarter and more targeted with the way we're approaching paid media and having just a relentless focus on new guest acquisition. So I don't believe at this point in time, we're not sitting here thinking that that we're going to have to move into a heavy promotional period. That's not where the opportunity is at all. So there hasn't been any change on that. We don't expect there to be any change.

And then with respect to Wax Pass sales, as the business -- as we've mentioned, we're very pleased that on a 2-year stack, we've seen steady improvement in our comp store sales, as well as steady improvement in new guest acquisitions. We've also seen something similar on Wax Pass sales. So we had a nice Q4. We're feeling good. I think the way we think about the business right now is, it's the word right now that we use is stability. So the business appears to be stabilizing and we're starting to see some early tractions on all of our strategies.

With respect to tariffs, yes, I mean, I can tell you our -- just like every other company in the U.S., our team is maniacally focused on looking at all ways of managing through tariff exposure. Tom took the time today to walk you through where that exposure exists in our business. We still feel very comfortable that we can manage this year, manage around tariffs and still deliver on our annual guidance. But we're -- basically, our approach is, we're leaving no stone unturned. We're looking at every single possible scenario, including looking at other sources for some of our medical equipment.

I would not look for us to change our Comfort Wax formula. That's fundamental to our brand and it would be more challenging for us to find a different supplier. But for all other areas of the business, we're actively exploring all those opportunities.

Dana Telsey

And just on the net -- the center closures out there, what are you hearing from franchisees? Is it how to think about the return to unit growth by the end of fiscal '26? What are you learning?

Chris Morris

Sure. No, you bet. The first thing I'll say, I said this in February, I'll say it again. We just -- we are so blessed to have such high-quality franchise partners who care deeply about our brand. There is just an undeniable passion for what we do. And all of our franchisees want us to win, all of them. And I think that is such a great place to start. But the reality is that, the past couple of years have been tough. And as you know, it's been tough for us to consistently grow our transactions on a sustainable basis month-to-month. And when transactions are declining, that puts pressure on the bottom line. Combined with that, we have -- as we've discussed with you before, we went through this period of time where we were in high-growth mode for all the right reasons. We were outgrowing units at a very rapid pace. And now with the benefit of hindsight, we grew a little too quickly. And so, the combination of those 2 things happening at the same time is kind of what's led to closures.

Our franchisees, they're fighting the good fight and doing everything they can to kind of manage through this. The range of closures that we've identified, 40 to 60, those are just simply underperforming units. Those are units that just have yet to really kind of breakthrough on top line. And so, those units are still under pressure. But that's precisely why we are really focused very heavily on building these strong partnerships with our franchisees, really dialing in on the tools that's going to help us focus on where there's opportunities to improve profitability to give the franchisees the support they need and give us the time to continue to build out this marketing engine to where we can be smarter and more effective about the use of our marketing dollars to drive new guest acquisition. And we believe that managing the business that way is going to put us in the best possible position to support our franchisees and minimize closures.

So overall, not much has changed since the last time we talked about this but I can tell you that this is a very strong partnership with the franchisees to improve the business.

Operator

Our next question comes from Jonathan Komp with Baird.

Jonathan Komp

One question I want to ask, just looking at the latest financial disclosure documents, it looks like the high end of the cost to build disclosed in those documents increased pretty substantially compared to recent years. Could you just give a current view of sort of key investments, anything driving inflation? And then over time here, the return to net unit growth, would you say it's more based on optimizing the cost and the operations or more about the top line initiatives?

Chris Morris

Yes, you bet. So let me -- Jonathan, let me kind of go in reverse order. So as we focus on returning to NCO growth, there are 2 guiding principles that we're following. Number one, in the near-term, where we're focused is, let's focus on markets where we believe there's enough density to support the volumes we need for our franchisees to get an effective return and where we have an opportunity to open in those markets without impacting our core. So basically, identifying kind of the low-hanging fruit where there's still opportunity for us to expand while protecting our core, so no risk of any cannibalization. And the good news is, there's still -- there's plenty of markets out there where we have the opportunity to grow. That's the first guiding principle.

The second guiding principle is, working closely with our franchisees to ensure that in these markets that they're going to be able to achieve a return on investment that they find compelling and exciting to put dollars at risk. And so, when we're working through that, similar to tariffs, we're leaving no stone unturned. So we're working very hard at the entire unit economics profile and seeing where we have opportunities to improve. And that's ensuring that our franchisees are set up for success on the top line, working closely with them on franchise profitability and also addressing the overall capital investment.

The reason you've seen our capital investment go up, it's not something that -- there's no fundamental changes in our model. That's just simply inflationary pressure that everybody has been feeling.

Jonathan Komp

Okay, great. That's really helpful. And just one follow-up. I know you talked about the annual franchisee convention coming up here. Could you just maybe share, Chris, more when you think about the key themes you hope to get across during that event, anything you're willing to share?

Chris Morris

Yes, sure. So it's next week. We have -- I'm sure many franchise partners listening to this call today. So, I guess, I will be giving them a sneak peek into what they're going to be hearing next week. Number one, we're going to just go through a full situation assessment, so we're all on the same page on where we are as a brand and as a network. We're going to discuss where we see opportunities in front of us. We're going to talk a lot about our plan to win. And we're going to spend time on our partnership between the brand and our franchise network on how we're going to work together to maximize our potential. And I think our goal is everyone walks out of that meeting feeling very informed, feeling very supported and that there's a clear plan of attack, not only in 2025 but 2026 and beyond. And we've got a unified vision and a commitment to one another to get out and drive this business in a very smart and profitable way.

So really looking forward to spending time with our partners next week and sharing that message and then hearing what's on their mind.

Operator

Our next question comes from John Heinbockel with Guggenheim.

John Heinbockel

So Chris, after you end up sort of cleaning up the centers that are underperforming, I'm curious how much of the remaining base do you think would be characterized as underperforming, right? And is that solely -- the ones that are underperforming, is that solely an AUV issue? And then if that's true, how do you think about -- I guess, marketing is the answer but how do you think about -- and this has been an issue for getting the AUV sort of accelerating faster? How do you -- what's the 1 or 2 things that do that?

Chris Morris

Yes. So great questions. It's mainly an AUV issue. The challenge that we have is, the centers that we've identified as risk of closure, it's an AUV issue. There's always room for improved profitability. But make no mistake, top line is what kind of led to these units being on that closure list. And as you know, top line is everything in a multiunit business, especially a business with high labor cost because the more you can grow your top line, then the more leverage you're going to get on that labor investment. Our -- so our focus is on, first and foremost, partnering directly with our franchisees on developing effective strategies to grow new guest acquisition. So that's all the work that our new Chief Commercial Officer is leading. It's the investments that we've made in building out a digital platform, a data analytics platform to get smarter about how we're deploying those marketing dollars. And we're very pleased with what we've been able to see so far.

As I said, we've -- period-to-period on a 2-year stack, we've seen improvement in our comp store sales, as well as steady improvement in new guest acquisitions but we're still a long ways away from where we need to be. So our very first focus is on continuing that work on growing new guest acquisition. Where we see the opportunity is, not only getting smarter about digital marketing, performance marketing but also our brand identity. So we've done, over the last few weeks or the last, say, 13 weeks, we have done a deep dive into our business, commissioned a tremendous amount of research to really understand better about how our brand is showing up and against different target audiences. And so, through that segmentation work, we feel that we've identified some opportunities to reach a different group of guests, maintain the guests that we have but also reach a new group of guests. And we feel like that we've got a clear line of sight on what the message needs to be to resonate with that guest, as well as the service model to deliver on that brand promise.

So I think going forward, where we see the opportunity is twofold, really sharpening our skill set on driving performance marketing and then combining that with a new brand identity that -- or refine, I should say, refined brand identity that we think is going to be more effective in the market. So we're excited to work on that. And then just continue to work with our operators on profitability just to continue to get smarter and smarter about areas of opportunity to drive efficiency at the unit level.

With respect to how -- once we get through this round of closures, how the health of the system, I believe we're going to learn a lot as we move throughout this year. But our belief is, we're focused on the right things. And as our strategies unfold throughout this year and we execute on getting momentum on the top line, we execute on improving profitability. We execute on returning to growth without impacting our core. We believe when all that comes together, we're going to have a very healthy portfolio of centers and we'll be poised for ongoing growth from that point forward.

John Heinbockel

And one quick one follow-up. You mentioned high-value guests. I'm curious, some of this may be intuitive but the characteristics of a high-value guest and are there high-value guests' potential that you weren't targeting before, right, that you now will?

Chris Morris

Yes. Yes, the short answer is yes. I mean, that's the answer. Yes, we've identified -- we believe and we're testing. We're going through -- I think the thing to keep in mind with our management team is the skills that we are building internally are around doing a deep dive into the research, gain -- gather insights from that research and then go through a rigorous test and learn process. And so, the -- with that in mind, the research identified a group of high-value customers that we believe that we can target and have quite a bit of success with. So now that we've gathered that insight, we're going through a testing and learning process and we're excited about it. We think that there's an opportunity there. And we think that it's an opportunity where we can build on what we have. It's not substituting what we have.

Operator

Our next question comes from Korinne Wolfmeyer with Piper Sandler.

Korinne Wolfmeyer

I want to touch a little bit on what you're seeing just in the general market conditions with your consumers. Obviously, a very dynamic macro backdrop right now. And I want to understand what kind of trends maybe changed or stayed stable throughout the quarter? And then how are you thinking about the market as it relates to the high end and the low end of the guidance range?

Chris Morris

The thing I'll tell you is, that's so compelling about our brand is just how resilient our core guest is. And that is such a strength that -- and so rare in multiunit consumer businesses. So I'll -- that stability and resilience of our core guest has continued throughout, as you know, a very difficult and challenging consumer environment. So we really haven't seen any change and no negative change at all in our core guests. As you've heard me say now a few times that one of the things that has us pleased is, we are seeing sequential improvement in both comp store sales and new guest acquisition on a 2-year basis, a 2-year stack. And so, that's telling you that we're seeing overall improvement across all guest profiles, not only our core but our episodic guests.

It's not -- keep in mind, these are minor sequential improvements. So just tempering your expectations but we are seeing stability and an underlying trend that is upward sloping. And that has us very encouraged, again, just given the backdrop in the consumer environment. And what was...

Tom Kim

And then on the guidance for the high end, just to reiterate the things that Chris mentioned that we're diving deeper into research and learning and implementing on the marketing side with new guests and other marketing initiatives, the high end of the guidance assumes that some of these green shoots that are taking place really build out in the latter half of this year and that starts to take us to the higher end of the revenue range versus if these marketing initiatives take more of a foothold in the beginning of 2026, well, then subsequently, that puts us at the lower end of the range. Nevertheless, we have taken into account where we're headed based on both of those ranges and we are very confident in managing to the guidance which is why we've reiterated it today.

Korinne Wolfmeyer

Very helpful. And then I want to touch a little bit on the advertising spend in the quarter. It did come in a little bit lighter and it seemed like maybe there was some timing shift. Can you just give us a little bit more color on what exactly was going on there and how we should be thinking about the cadence of ad spend for the remainder of the year?

Tom Kim

Yes, good question. It is worth a call out that as we've looked at this year's budgeting and the efforts and also with Katie joining us and thinking through efficiencies of marketing spend, what we've budgeted for this year is much more of a leveling of marketing spend in comparison to prior quarters and prior years. And so, it is worth to call out that as we think about a quarter-over-quarter spend, you are going to see a little bit more of a matching to the revenue system-wide nature of the business versus I think there was some lumpiness in prior quarters and spending in those quarters.

Operator

[Operator Instructions] Our next question comes from Kelly Crago with Citi.

Kelly Crago

I guess, just a follow-up on an earlier question. Is there any way to sort of flesh out the performance of underperforming stores versus healthy stores within the base to kind of understand the drag that you're seeing on the total comps? And then, just on -- as you've seen stores close, just curious if you can quantify or talk about at this point, any sales transfer, what happens to that customer when a store closes in a given market? Are you seeing that transfer to other units? Or -- and just any other detail there? And I just have 1 follow-up.

Chris Morris

Okay. All right. Yes, thanks, Kelly. Yes. Well, first, I'll go in reverse order. So on sales transfer, it really depends. It's store -- it's center-by-center. There are certainly cases where we do see sales transfer. You're never going to transfer 100% of the sales but there are some cases where you do see some fraction of your sales transfer into the existing base. It really just depends on where that unit is located and the unique dynamics of that market. One of the benefits we have is our Wax Pass. And so, when you have Wax Pass holders and a center closes, those Wax Pass users will look for other nearby centers so they can continue to redeem their Wax Pass. But it's just -- it's -- as I said, it's on a case-by-case basis.

In regard to your very first question, I'd rather not just get into those details in this platform. What I can tell you is that, we've factored in everything that you mentioned into our guidance for the year. So we obviously have a very good feel for how underperforming centers are performing relative to our core. And I've mentioned that those underperforming centers have lower AUVs which is why they're on that watch list. But I'd rather not get into like the granularity of the impacts that they're having on the total system. Just know that, that's all factored into our annual guidance.

Kelly Crago

Got it. And then, just -- could you just provide us an update on where -- what percentage of your sales are coming from core Wax Pass guests versus non-Wax Pass customers? And what is the right place or a goal for where you'd like to be with that longer term?

Chris Morris

Sure. So, we're still -- we continue to run right around 75% of our sales are Wax Pass holders. So it's a substantial part of our business model. And at this point in time, we're comfortable with that. I wouldn't look for us to make material changes. As we move forward, as you heard me say, as we're building out our commercial office and really getting really smart about how we're using our marketing dollars, there -- it's very possible that we're going to test and learn and find some other ways of driving revenue into the business that might impact that ratio. But at this point in time, we have no immediate plans to change. So I would expect that 75% to continue throughout the remainder of this year.

Operator

Our next question comes from Simeon Gutman with Morgan Stanley.

Simeon Gutman

Chris, so we spent some time on this call. We talked about the marketing funnel and some targeting. And then we talked about franchisee execution. I wanted to take your temperature on both of those and put a couple more up on the board, the waxer consistency and then the value that the business is conveying to the consumer. So if you take all 4 of those, I wanted to see where the priority sits. It sounds like there's more focus on the marketing and the franchisee execution, less so on those other 2 but just wanted to see if there's an opportunity with them as well.

Chris Morris

Yes. No, really good insight into the business. And I would say the priorities are exactly how you laid it out. The very first priority is on the marketing funnel. The second priority is working closely with our operators on the execution. And by the way, that goes hand in hand. In terms of execution, there's 2 things that we're focused on. One is, working directly with our partners on improving profitability. The other side of it is really being very focused on managing the guest experience in the best possible way to grow top line. So that would be the next priority. The third would be waxer consistency and the fourth would be the value to the consumer. From -- based on all of our research, we don't believe we have a value problem. So we feel comfortable with the value in the market. So that's good news.

Waxer consistency, there's always -- given that, that's the core of our business and it's the biggest item on our P&L, there's always opportunity to improve. But we've got to first focus on marketing and execution those are the top 2. But then a very fast follow is continuing to work closely with our franchise partners on creating a world-class environment for our wax specialists to thrive and to be fulfilled and which would drive retention and execution.

Simeon Gutman

Okay. And then a follow-up on the underperforming franchises or franchisees. Can you talk about what you've uncovered? And is there -- is it a situation in which franchise businesses are generating cash and there isn't that spark to get better? Or is it more location and not enough staff at these sites? Like what are you finding is the diagnosis?

Chris Morris

Well, I hate to say it's a combination of all but that is the answer. It's kind of a combination. It's like there's different circumstances across each individual unit. I do think what happens is, when top line -- when you don't see top line, the natural instinct is to really manage your business differently. And in some cases, you don't end up making the best decisions for the business but it's just simply because you're in survival mode. So it's just -- you've got a variety of different reasons. You've got -- when the unit was opened, one, we grew too quickly and we just opened some units in bad locations. In some cases, they were too close to each other. In other cases, the franchisee was just spread really thin and didn't have the infrastructure in place to support that unit. And then in other cases, we just didn't follow the right plan to set the center up for success. So we didn't invest the right money in local marketing. We didn't invest the right money in having the team members trained. There's just really just -- again, it's just all symptomatic of just going really fast.

So where we see the opportunity is in kind of a few areas. One, last year, towards the end of 2024, our team, the team before we got here, rolled out a new center playbook. And that playbook provided specific initiatives around the right LSM investment, making sure that the unit didn't open until we had the right staffing, a good game plan on how to engage in the local community to ensure the marketing was there. And we have seen that those units are ramping faster than before the playbook. So that's number one that we're focused on.

And then secondly is, all these other initiatives, just being really smart about where we open, how we manage that opening, the partnership that we have with the franchisees and the support we're providing. And I think that's going to -- that's really going to make all the difference.

Operator

Our next question comes from Scot Ciccarelli with Truist.

Scot Ciccarelli

Can you provide some specific examples of the changes you've made or are making on the marketing front to drive new customer acquisition? I mean, the goal certainly sounds logical but maybe a few examples might help the group here. And then secondly, a follow-up on tariffs. You said tariffs are included in your guide but what is the strategy for dealing with higher input prices? Like let's just assume that you do have higher prices? Like is it to pass on higher prices to the customer? Are you going to eat it? Is the franchise going to eat it? Just kind of high level there.

Chris Morris

Yes, sure. Okay. So on tariffs, Scot, yes, we're looking at all available options to us right now. And so, we're not prepared to say specifically which lever we're going to pull. I can tell you, we're looking at everything that you said. The guiding principles around tariffs is, we want to do the right thing for the brand. We want to do the right thing for our franchise partners and we want to do the right thing for all of our stakeholders. So, we're looking at all those different options. But what I can tell you is, based on everything we know, we feel very confident we're going to be able to manage through -- navigate through tariffs to be able to deliver on our annual guidance. So -- but not prepared to tell you exactly what that plan is because it's being developed as we speak.

And the first question -- remind me again, Scot, what was your first question?

Scot Ciccarelli

Yes. Just some specific examples on the changes you're making to the marketing front for new customer acquisition.

Chris Morris

Okay. Yes. So keep in mind, we're in the early stages of building out this marketing engine. So a lot of what you're going to hear from me is just blocking and tackling but it's things that, as I've said, we feel very good about the work that we're doing. The first thing is, we talked about implementing this technology in the fourth quarter and that we've been able to leverage that in Q1. And that's just simply being able to see -- to develop a link between when a guest receives the marketing impression versus what the guest behavior is in center. That's something a lot of consumer brands have had, we have not had. And so, what that does is that gives us incredible insight into the best use of our paid media dollars. It also puts us in the best possible position to run through a test-and-learning process to get smarter and better at paid media. So we've been able to really drive efficiency on our paid media which has really helped our CPAs. So that's been kind of first and foremost.

And then on the other items that we've been doing is, we've been testing different creative messages. We've been testing different aspects of the creative. So how guests feel about different images, how guests feel about different messages. And we're really starting to hone in on that right combination that's going to drive the greatest incrementality. So just as I said, just very early innings. We've done a lot of research during this period of time that's also helped inform where we're going from this point in time.

Operator

That concludes today's question-and-answer session. I'd like to turn the call back to Chris Morris for closing remarks.

Chris Morris

Okay. Thank you, everybody. We really appreciate the interest. We look forward to continuing to share our results as we move forward. Have a great day. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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