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European Wax Center, Inc. (EWCZ) Q2 2024 Earnings Call Transcript

Aug. 14, 2024 12:00 PM ET | European Wax Center, Inc. (EWCZ) Stock

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Q2: 2024-08-14 Earnings Summary

Play Call



Press Release



10-Q

EPS of \$0.12 **beats by \$0.03** | Revenue of \$59.87M (1.32% Y/Y) **misses by \$1.47M**European Wax Center, Inc. (NASDAQ:[EWCZ](#)) Q2 2024 Results Conference Call August 14, 2024 8:00 AM ET

Company Participants

Bethany Johns - Director of Investor Relations

David Berg - CEO

Stacie Shirley - Chief Financial Officer

Conference Call Participants

Randal Konik - Jefferies

Josh Young - Truist

Dana Telsey - Telsey Advisory Group

Lorraine Hutchinson - Bank of America

Korinne Wolfmeyer - Piper Sandler

Simeon Gutman - Morgan Stanley

Jonathan Komp - Baird

Kelly Crago - Citi

John Heinbockel - Guggenheim Partners

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to European Wax Center Second Quarter Fiscal 2024 Earnings Call. At this time, all participants on a listen-only mode. After this previous presentation, there will be Q&A session. [Operator Instructions].

On the call today are David Berg, Chief Executive Officer; and Stacie Shirley, Chief Financial Officer.

I would now like to turn the conference over to Bethany Johns, Director of Investor Relation. Ma'am, you may begin.

Bethany Johns

Thank you, and welcome to European Wax Center's second quarter fiscal 2024 earnings call. On today's call, David Berg will begin with a brief review of our second quarter performance and discuss our priorities for the balance of 2024. Then Stacy will provide additional details regarding our financial performance and updates to our fiscal 2024 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'll 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 the call, we will discuss non-GAAP financial measures, which adjust our GAAP results to eliminate the impact of certain items. You'll 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 David Berg.

David Berg

Thanks Bethany, and good morning, everyone. Thank you for joining us today. Let me start by saying how excited I am to be back at European Wax Center. Speaking with you all today as CEO, once again. I first joined EWC six years ago and was energized by the opportunity to build and expand an iconic one-of-a-kind brand. I was most excited about the company's undisputed leadership position, significant white space, passionate associates, and consistent recurring revenue model that allowed our franchise partners to generate strong financial returns and reinvest in the brand.

What I learned over the course of the past six years is there is a deep love for this brand from our guests, from our franchisees, and also from our associates who are guided by our core values while feeling empowered to be their authentic selves, all of which make European Wax Center a great place to work. These unique attributes still exist at EWC today, and I remain excited and optimistic about the potential that lies ahead for our company.

At the same time, I know there is much work to be done to realize our potential and reposition EWC for sustainable long-term growth. We're navigating an ongoing difficult macroeconomic environment that is affecting consumer spending across many categories and income levels. Yet, it is our job to do everything we can do to drive growth despite the external challenges we are facing. There is strong alignment between the board and the executive team on what needs to be done to deliver long-term value to our guests, franchisees, associates, and shareholders. I believe that we have built a solid foundation from which to address those challenges, but it is important to refocus on the strategies that will move the needle and ultimately drive results.

Before I jump into the details of the quarter and our outlook, I would also like to extend a thank you to David Willis for all he's done for EWC in his eight-year tenure and for being an invaluable partner to me over the past six years. He played an integral part of our unit growth and development story, and I truly wish him all the best in his future endeavors.

Now, let me turn to a brief recap of our second quarter performance. Our outlook and my key priorities as I stepped back into the CEO role. During the second quarter, our top line was modestly below our expectations. System-wide sales grew 2.3% to \$260 million. Total revenue was just under \$60 million and same-store sales increased 1.6%. We also opened at eight net new centers in the quarter. I will go into more detail on our unit growth strategy in a few moments.

We manage bottom-line performance well with adjusted EBITDA coming in at \$20.6 million and adjusted EBITDA margin of 34.5%. During the second quarter, we continued to see a challenging macro environment with consumers being more selective with their spend. Last quarter, we highlighted a few key initiatives designed to drive transaction volume in our centers, which we expected to ramp up substantially in the back half of this year, while delivering some improvement. The impact from these initiatives has not been large enough to offset softer transaction and new guest growth in this environment.

As a result, we are reducing our outlook for the back half of 2024. Stacie will cover our updated guidance in a few minutes. We recognize we need to improve the effectiveness of our efforts to better position our franchise partners for long-term success. Driving transaction growth in ramping and mature centers is a top priority for both our franchisees and management, and we are actively collaborating with the network to refine our plans and achieve this objective. In pursuit of our shared goals and in light of the current operating environment, we have been working with our franchise partners over the past several weeks to reevaluate near-term development plans and extend the timeline of new center openings.

As a result, we are lowering our unit growth outlook for 2024, while we don't take this action lightly, it is the right thing to do as we believe it will provide us and our franchise partners with more capacity and resources to address near-term macro-related challenges. Additionally, we are actively working with franchisees in certain geographies who are facing increased rent and labor costs to mitigate potential closures, including facilitating transfers to stronger operators. We continue to be pleased with the desire of our franchisee group to expand with the brand and support the network through these efforts.

Importantly, existing franchisees remain committed to their long-term development plans. The health of our franchisees remain strong, as does our robust pipeline of over 370 locations. We are focused on the long-term success of the network. Our franchisees have helped make us the undisputed leader in out-of-home waxing. They are the ones who serve our guests day in and day out, and our job is to ensure they can do that to the best of their ability. Therefore, we have and will continue to explore ways to support them as we navigate this important time together. So, what are we doing? What are our focus areas? Our financial performance and our new center productivity are inextricably linked and the underlying drivers for the accelerating both to a level that meet our expectations are the same.

Namely, one, driving new guests to the brand; two reactivating lapsed guests; three, fostering an amazing guest experience; and four, prudently investing in capabilities that will enhance financial performance. And above all, maintaining a close connection with our franchisees to confirm we are hearing our guests as we work together to grow four wall profitability. Let me double click on each of these in detail where our opportunities lie. We must first and foremost, stay focused. The business model remains sound. Our franchisees are engaged. Our guests love the brand and the services they receive.

Thus, our focused efforts will be. First, inviting new guests to the brand. Our enhanced data analytics capabilities allow us to verify that we capture a high ROI on our marketing spend, using the right channels and the right creative. We are pleased with the progress we are making and media efforts are driving incremental reservations. But we must build on this. We know as the category leader in what is still a vastly fragmented market, that we have significantly more advertising dollars than the competition to deploy towards attracting new guests.

Specifically, we are targeting both current waxers and those new to waxing. We must continue to optimize our use of franchisees marketing funds to be as efficient as possible in supporting our network so we can put more dollars towards actively recruiting new guests to the brand. Second, we must do better at reactivating last guests. This is our bring them back strategy. We know the ongoing challenging macroeconomic situation has impacted consumers behavior across many categories, including ours. We are fortunate that our core wax pass and routine guests who comprise of approximately 75% of our sales consider out-of-home waxing with EWC to be non-discretionary and their spend and visit frequency has remained stable, providing predictable and recurring revenue for us and our franchisees.

However, we need to be better at re-engaging guests already in our system. We have an opportunity to be more aggressive in our efforts to get lapsed guests back. We believe we have untapped potential in delivering great service to these guests and converting them into core guests over time, thereby increasing their loyalty to both their waxing routine and our brand. Our leadership position provides us with this unique capability.

Our third focused effort, we must foster an amazing experience at center level. We are relentlessly focused on partnering with our franchisees and deepening our relationship with our franchise advisory council so they have the support they need and deserve from us. To start, as you may know, we launched a program referred to as Operation Elevate, the goal of which is to elevate four wall performance and select markets through training, coaching, and ongoing development by our field trainers. We are encouraged by the early results here. On a per center basis, participants are demonstrating sustainable improvement in dollars per ticket, wax pass sales, product purchases, and other key KPIs.

However, we have an opportunity to accelerate adoption. As we continue to scale the program, we're making informed adjustments to enhance its impact. We've also seen promising results from our new center pre-opening playbook, new centers opened in Q2, using the playbook are outperforming the 2022 and 2023 cohorts with notably higher sales and transactions in their first three months. We will take those applicable learnings and operationalize them in mature centers as well.

Next, we will continue to focus on staffing levels. We know that properly staff centers produce better results, so we will do a thorough review and ensure franchisees feel properly supported in this area.

Finally, European Wax Center has always been known for cleanliness, hygiene, efficiency, and expertise. This is demonstrated by our net promoter scores, which continue to be best in class. We must maintain this competitive advantage across all centers and continue to delight our guests with every service, so they can walk in and strut out.

And finally, our fourth and final focus effort. We will make thoughtful investments to support our goals of driving new guests and elevating the guest experience. In the past, I've led successful gain share structured agreements. We plan to evaluate partnerships with experts in marketing and technology, including AI to help drive transactions and incentivize those partners based upon delivering improved performance. We also have the opportunity to leverage our significant customer base and seek brand partnerships that can cast a wider net and introduce EWC to new guests.

Even as the leader in this highly fragmented category, we have less than 15% market share. Gaining market share remains a large opportunity and we are pleased to have already driven a 22% increase in brand awareness year over year. We need to make deliberate investments in our app and website to make it easy for a guest to book an appointment; at the center of their choice; for the time they want and the service they desire.

Finally, we continue to advance our laser hair removal pilot, which has proven to be a valuable opportunity to add new guests to the brand and increase share of wallet from existing customers. We have made specific investments in laser expertise and marketing talent dedicated to this initiative. We plan to further expand the test to Florida, Pennsylvania, and Ohio, bringing us to approximately 30 pilot centers in four states by the end of Q3.

As I mentioned, our financial performance and our new center productivity are inextricably linked, driving and retaining new guests and improving transaction counts feed the flywheel for center development and expansion. When new centers ramp faster, our franchisees can generate higher four-wall EBITDA and in turn continue to reinvest in the brand. In closing, my commitment to our associates, guests, franchise partners and shareholders is that we will continue to be guided by our values and relentlessly focused on driving new guests, retaining existing guests, and making them loyalists to the brand while improving our financial performance and expanding our leadership position. While it will take some time for us to get back to our full potential, we can assure you we are incredibly action-oriented at EWC with a can-do attitude.

I know I can count on our amazing associates and franchisees to keep accelerating EWC forward. I'm encouraged by our franchisees long-term commitments to drive continued predictable unit growth as reflected in our robust pipeline. By narrowing our focus on the key priorities, I highlighted earlier. I am confident that our stays and dues will match as we move forward and earn back your trust. I was excited about this brand's prospects when I joined a CEO in 2018, and as I rejoined a CEO in 2024, I have even more conviction that our best days are ahead of us. We will update you as we progress in our journey.

And with that, I'd like to hand the call over to Stacie Shirley to discuss our Q2 financial performance and guidance for the balance of the year. Stacie?

Stacie Shirley

Thanks David, and welcome back. Before I begin my remarks, I'd like to remind everyone that in some instances I will speak to adjusted metrics on this call. You can find reconciliation tables to the most comparable GAAP figures in our press release and 10-Q filed with the SEC today. As a reminder, both fiscal years 2022 and 2023 included a 53rd week. The fiscal 2024 returns to a 52-week year. Now let's begin with our second quarter financial results. We added eight net new centers during the quarter and system-wide sales increased 2.3% to \$260.2 million.

During our semi-annual wax pass promotional period Wax pass conversion grew solidly year-over-year and demonstrated both the value of our wax pass as well as the continued stability of our wax pass guest. Same-store sales increased 1.6% and total revenue, which includes wax and retail products we sell to the network increased 1.3% to \$59.9 million. As expected, gross margin improved 180 basis points to 73.2%, primarily due to product cost savings versus the prior year. Q2 SG&A decreased 8.7% to 12.9 million and improved 230 basis points to 21.6% of revenue.

SG&A this year benefited from lower incentive compensation expense and the receipt of legal judgment proceeds. Partially, offset by an increase in technology expense, the improvements in gross margin in SG&A I just described were more than offset by a \$2.9 million or 460 basis point increase in Q2 advertising spend year-over-year, which was in line with the expectations we communicated last quarter.

This planned investment largely contributed to the second quarter adjusted EBITDA decrease of 2.6% to \$20.6 million and adjusted EBITDA margin decrease of 140 basis points to 34.5%. with higher interest income in 2024, net interest expense decreased to \$6.4 million from \$6.8 million in the same period last year. Income tax expense decreased to \$1.7 million from \$2.8 million last year as our effective tax rate improved to 22.5% from 33.1%. GAAP net income increased 7.3% to \$6 million and adjusted net income through 4% to \$7.3 million.

Turning to the balance sheet. We ended Q2 with \$55.7 million in cash and net cash provided by operating activities was \$14.4 million compared to less than 200,000 in investing outflows. One of the most attractive characteristics of European Wax Center is our ability to generate strong free cash flow. Even in a constrained macro environment, our asset light capital light model generates excess liquidity.

During the quarter, we deployed \$10 million of that cash flow to repurchase Class A shares demonstrating our conviction in the underlying value of our business model and its long-term financial potential. We have \$40 million remaining under our current share repurchase authorization, and our \$40 million revolver remains fully undrawn. At quarter end, we had \$392 million outstanding under our senior secured notes and net leverage was 4.3 times adjusted EBITDA.

Turning now to our revised outlook for the balance of 2024. As we shared last quarter, our initial 2024 guidance was predicated on both a stable macro environment and the ramping impact of our key early-stage initiatives that would primarily benefit the second half of the year. Our national media, local marketing and operational initiatives are each driving improvement in their respective areas. However, as David noted, that improvement has not been sufficient to overcome the softer macro environment and its impact on new guests and transaction growth.

As a result, we are revising our financial guidance to reflect current trends through the back half of 2024. As we learn more about what is resonating with guests in this environment, we will make adjustments to our current initiatives to increase their effectiveness, while also exploring new opportunities to drive guest acquisition and transactions.

As David mentioned, given lower-than-expected transaction volumes, we have partnered with franchisees to reevaluate near-term development plans, translating to a revised 2024 outlook of 27 to 32 net new center openings. We believe this reset will allow us and the network to devote resources to driving more new guests and increasing transactions, which we expect will support higher average unit volumes. We believe that the re-acceleration of center openings will be closely tied to the rebound and transaction growth at existing centers. I do want to reiterate David's comments that we remain competent in the strength of our 370-unit pipeline, as well as our long-term market opportunity.

Returning to our 2024 financial guidance, our system-wide sales outlook for the year now moves to a range of \$930 million to \$950 million. Adjusting for the 53rd week of fiscal 2023, our revised guidance translates to approximately flat growth at the midpoint. We expect same-store sales to be in the range of down 1.5% to up 0.5% with total revenue of \$216 million to \$221 million. Our current trends are tracking in line with these ranges.

In terms of profitability, we continue to expect that cost savings will drive gross margin improvement to approximately 73% for the year. We now expect adjusted EBITDA between \$70 million and \$74 million, which continues to include an incremental investment of up to \$4 million of operating expenses to support the expansion of our laser hair removal pilot. The majority of which will be spent in the coming quarters.

Higher interest income is benefiting net interest expense, and as a result, our full-year interest expense outlook is now \$26.5 million. We are currently projecting our 2024 effective tax rate will be approximately 25% the four discreet items. Given our capital structure, we expect our blended statutory tax rate will be approximately 20% and expect it to increase over time as pre-IPO shareholders exchange their Class B shares for class A shares.

As a result, we expect adjusted net income between \$19 million and \$22 million. And finally, for modeling purposes, we currently expect that fourth quarter top line and bottom-line dollars will look fairly similar to the first quarter this year. While the majority of our remarks today have been on near-term dynamics, I'd like to take a moment to focus on the long-term opportunity that remains core to the European Wax Center story. We have a highly cash-generative and asset-light model that gives us the ability to invest in our business and drive shareholder value.

Even in a challenging operating environment, we believe EWCZ cash-on-cash returns remain compelling on both an absolute and relative basis, and our franchise partners remain committed to developing their portfolios over time. In turn, we remain committed to driving new guests to the brand, supporting our franchise partners, and generating long-term shareholder returns. With approximately 1060 centers today and a long growth runway ahead of us, we remain confident in our unmatched leadership position in the highly fragmented out-of-home hair removal industry.

We'd now like to turn over the call for questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions]. Now, first question coming from the line of Randy Konik with Jefferies. Your line is open.

Randal Konik

Good morning, everybody. I guess Stacie, as a point of clarification, when I'm looking at the revised guidance, the EBITDA dollar guide is not all that, it's not down significantly. I think you spoke about some cost saves. Are those as we think about beyond this year and into the coming years, are those cost saves kind of temporary? Are they permanent? I'm just trying to get a sense of you have a very high margin structure, that seems sticky and I want to just kind of get some perspective on is it in fact going remain sticky in the out years going forward? Thanks.

Stacie Shirley

Good morning. Thanks, Randy for the question. Yes, so a couple of things. One, as you -- as we've talked about and seen the past couple of quarters, our gross margin, we've seen an improvement there year-over-year and we've talked about that from a cost savings perspective, and we would expect that that would continue. We are expecting to be around that 73% for the full year. And there's no reason for us to anticipate that would go down in future years. And then from an expense perspective, we would expect to leverage that top line. We did have some favorability in the quarter, some of which was timing, and some of it is just trying to be obviously as conscious as we can from an expense standpoint in this very difficult environment.

David Berg

Randy, I think, listen, we've been consistent in this story that as we grow top line, we've got the opportunity to expand EBITDA margin. Our cost structure here at HQ does not require a continued adding of heads and expense. So as Stacy said, as we grow top line, we would continue to believe that that EBITDA margins will expand.

Randal Konik

Got it. I guess, David, just lastly for you, you gave us a couple a number of points that you're focused on. Maybe give us some perspective on the top one or two things you're kind of really focused on day to day prior -- I just want to like the -- how you're prioritizing all the different points to kind of set forth on the call this morning? What's most important to you and to the army of the employee base, what are you most kind of getting? What are the top one or two messages you want to get across to them over the coming six months and year?

David Berg

Randal thanks for the question. Listen, I think, you know me and one of my key tenets in our leadership responsibility is to be crystal clear about what we're focused on and what our priorities are? If I sort of canvas what I've heard from franchisees and what we think is the most important thing in this business, it's two things. And they're really kind of the top two priorities that I spoke to. One is how do we drive more new guests into this brand? How do we attract more?

And then second, how do we drive transactions? If we this flywheel that where we can get centers that have faster ramping, better four wall EBITDA that just is an opportunity for our franchisees to reinvest in this amazing brand. And that flywheel just keeps moving. We've got to do a better job at number one, driving new guests into the brand, retaining them, and increasing transactions. Those are the top two key priorities for the organization.

Randal Konik

Great. Helpful. Thanks Dave.

David Berg

Randal, thank you.

Operator

And our next question coming from the lineup, Scot Ciccarelli with Truist. Your line is open.

Josh Young

This is Josh Young on for Scott. So obviously, the new center openings are down significantly for '24. But can you just give us any idea when you think you might be able to get back to a more normal pace here? Is it something that's happened in '25 or you think that's further out?

David Berg

Listen, I think, it's a great question because we really view the action that we took and as we said, not a decision that we took lightly. This is a temporary reset. We think it's really important in concert with our franchisees to really focus on driving those top two initiatives that we spoke to. Our view is, we get tickets back on track, we get new guest counts moving in the direction that we want, and we will go back to the kind of growth that we're accustomed to in terms of new center openings. We feel incredibly confident as we look long term given our pipeline and given our franchisees real desire to continue to invest in this brand. So, this is a temporary reset, a temporary hold and we expect to get back on track to our normal growth rates and NCOs as soon as possible.

Josh Young

That's helpful. Thank you. And then just one other one. So, it sounds like the four-wall productivity has come down quite a bit for some centers here. Can you just help quantify that decline for us? And then is that widespread across the base or are there more there were specific regions or pockets where you're seeing that more pronounced?

Stacie Shirley

So, I'll start this and David, you can add any color. But yes, certainly the four-wall profitability has been pressured as we've been very challenged from the standpoint of the new guests and the transactions. As it relates to geography, there are certain geographies that are more impacted. We've talked before about the west coast as it relates to higher rents and higher labor costs, and that certainly has put more pressure from a cashflow perspective on some of those particular franchisee's centers.

Josh Young

Okay. That's helpful. Thank you.

David Berg

Thanks, Josh.

Operator

Our next question coming from the line of Dana Telsey with Telsey Advisory Group. Your line is open.

Dana Telsey

Hi, good morning, everyone. Nice to hear from you again, David. David, if you think about your two initiatives of driving new guests to the brand and reactivating lapse guests. At this time, is one weaker than the other? Is the cadence of what you expected from new guests, weaker than what you're seeing and reactivating lapse guests?

Second, you had a new national media agency. You hired -- you were testing some local media agencies. Is that initiative still in place? And what are you learning? And lastly, you mentioned higher rents and potential center closings. Had you seen that at all? And is there any adjustments that you need to make to the franchise model in terms of fees that the franchisees are asking for? Thank you.

David Berg

Yes, thanks Dana. Listen, I think if you look at those top two priorities, probably the driving of new guests outweighs the retention. I think, the opportunity for us with lapse guests, given our enhanced capabilities and data analytics, we can really identify those guests that have and haven't been visited us in six months. That's what we define as a lapse guest. So, we can go back and target that guest very specifically, as I mentioned in my opening remarks. How do we get a bit more aggressive in terms of getting that guest back so that we can wow her with an amazing experience when she comes into the center? But if I had to handicap both of those, or prioritize both of those, really drive new guests, continue to drive new guests into the brand, is the top priority?

We talked about those initiatives that you called out, that help drive new guests, the national media change, as well as an increase focus on local marketing. We have been very pleased with the results that we've seen there in terms of driving reservations. But remember that those marketing efforts are just one piece of, or one leg of the, maybe a four or five-legged stool in terms of driving new guests in. And we'll continue to invest those dollars that have the highest ROI from a marketing standpoint to drive new guests. So, we're pleased with those, Dana. We'll continue those. And it's our job to think of some other opportunities where we can attract new guests into the brand.

I think the higher rents and the closures, we wanted to be open with that and transparent about particularly in California where rent rates have gone up, certainly labor costs. We're all aware of what's going on, even at entry-level positions that is impacting particularly our California centers. The team has done an amazing job where we might have a center or a group of centers that just say, it's got into a little bit too tough that we brought in stronger operators to take over some of those locations that's happened in California. So that gives us great encouragement that we've got franchisees in this brand that love this brand and are absolutely willing to step in and help.

So, we continue to mitigate that. Joel Larkin and his team are working constantly with our franchisees on. If they've got a rent renegotiation, how we manage those labor costs. I alluded to the notion of labor staffing is really critically important for all of our centers. So those are things that we just continue to work with our franchisees on every day. If I got -- if I am not sure, Dana, I understood that the fees comment, but at this point, we don't see any change to our structure in our franchise or marketing fees at this time.

Stacie Shirley

One thing I would add to that as it relates to the centers, let's not forget that from a cash-on-cash perspective, they are still very, very strong plus 50%. And so, although there has been some pressure with the tickets and transactions overall, they're still overall a really incredible four wall profitability model.

David Berg

Stacie, it's a great point. And Dana, I mean, one of the things we really haven't done in a conservative effort, because we've got such great -- a group of franchisees that, that reinvest in this brand. We know that even at 20% four wall EBITDA margins, this is a very attractive model for a franchisee. And as Stacie said, 50% plus cash on cash returns. We've got folks that are continually looking to come into the brand, and we will ramp up our efforts to bring more folks into this franchise network because the business model is so strong and we've got a real high demand. There are folks that want to come in. So that's again, I think a real, real positive for the brand.

Operator

And our next question coming from the line of Lorraine Hutchinson with Bank of America Your line is open.

Lorraine Hutchinson

David, I just wanted to follow up on the decision to delay some of the new center openings. Was that something that was driven by franchisees or purely an EWC decision? And also, are you hearing any pullback or concern in the long-term pipeline of franchisee interest?

David Berg

Thank for the question. As you know, we try very hard to make sure that we've got a great relationship with all of our franchisees and particularly our franchise advisory council. So, we're in conversations with them at all times. We thought the initiatives that we launched in Q1, we're going to have a faster impact. When those things did not quite develop as fast as we thought, given the macroeconomic situation, we started having conversations with our franchisees, and as Q2 results kind of unfolded went back to our franchisees, talked with them and just said, Hey, what makes the best sense?

And we agreed in concert with them that the right thing to do is to focus on the key initiatives that we have to drive our business. I want to reassure you and all the folks on the call that the long-term development goals are the same for us. So, this is just moving things out a bit so that we can focus on this near-term opportunity we've got with the current situation. But we feel incredibly confident of our growth rate, of our franchisees commitment to continue to develop. And as I said in my opening comments, this is really just a short term pause to get us back on track and get the business righted on at sort from a core level.

Operator

And our next question coming from the line of Korinne Wolfmeyer with Piper Sandler. Your line is open.

Korinne Wolfmeyer

You had commented that the economics for the franchisees are actually still pretty good and the cash generation is still pretty good. What are you hearing from them around their motivation to continue growing even further and generate even stronger returns, especially the ones that are just sitting kind of comfortably with where they're currently at? Thanks.

David Berg

I think there's probably two things I would comment on. Number one is that we've got an incredibly robust pipeline of 370 plus locations. We have not had anybody kind of back off those development obligations Korinne in the out years. And then second, as I alluded to in my comments, that we have stronger operators that have stepped up and say, Hey, where somebody wants to exit the system or isn't it performing to the degree that they think they can operate a store, we absolutely have them coming in and taking over. So, we believe that our franchisee base and obviously in close concert with our franchise advisory council, hearing what their concerns are, but we're not hearing a concern about, boy, we don't want to continue to grow with this brand.

We've said it before. We've had, we have franchisees that have multiple concepts and we've seen them exit other concepts and double down their investment in EWC. And we continue to feel very strong about our long-term growth opportunities in terms of unit growth.

Korinne Wolfmeyer

And then if you could just provide a little bit of clarity on around the back half phasing with Q3 and Q4. I think you provided a little bit of color with Q4, looking similarly to Q1, was that on a dollar basis? And then, how should we think about the new unit growth in Q3 versus Q4? Thank you.

Stacie Shirley

Sure. Thanks for the question. So, as it looked, as you think about Q3, Q4, yes, we made the comment about Q4 being similar in dollars to Q1. Obviously, that's going to depend on where you're going to fall out in the overall range, but that is what we intended on that. The only other thing I would say, as you think about the cadence of the quarters Q3 will have a little bit heavier expense-base based on a higher investment in advertising. As we think about, the quarters we want to spend more sooner to drive transactions and try to get those new guests in into the center. And then professional fees will be a little bit higher in Q3 as well. And that's really just a function of timing.

Operator

Our next question coming from the line of Simeon Gutman with Morgan Stanley. Your line is open.

Simeon Gutman

Hi, good morning, everyone. Hi, David. I wanted to ask lapsed guest. Can you talk about if there is a number one reason or if there's multiple reasons why the guest lapses? And I want to also talk about Waxer turnover, it seems like that could be at the crux of it and thinking about the labor model, the pay model, is there anything special in all the years of looking at this business that can be done to ensure that the continuity of the person doing the waxing is still there?

David Berg

Yes, Simeon, thanks for the question. On laps guest as I mentioned sort of our really the enhanced capability, we've got around data analytics and CRM to really get at that lapse guest and find out why she hasn't visited us in six months is much more robust than it has been. So that allows Andrea and her team to really give a tailored message out to those guests. Probably in broad strokes, there is a group of that guests that just, it's got too expensive, it's got into tough in this macroeconomic situation to come in. We hear from our guest surveys that that has impacted their decision and their frequency of visit. So, we've got opportunities Simeon to go address that concern with our with that lapse guest. But I will tell you that the, the, our ability to really hone in on why somebody hasn't come back in six plus months, is much better than has been and allows us to be very specific in the offer and the attraction or the offer to get them back in.

Clearly, we think once we get you into the center, it's our opportunity to show you an amazing experience in the best-in-class environment that at EWC and get you on as a wax pass holder longer term. So that's the goal. And kind of the attract, retain and reward that guest as they come in. Waxer turnover really not an issue. Certainly, coming out of COVID and for many quarters, while I was in the chair, we talked a lot about the supply of wax specialists. We feel great about that. The industry relations team has done an amazing job at fostering relationships so that we feel very good about that pipeline.

My comment in my opening remarks was how do we think about really revenue optimization for per wax suite? And that involves the right labor staffing model. We think we can work with our franchisees to help with that so that we're properly staffed, staffed at the right hours so that we do maximize the return on those waxers.

As you know, legally, the compensation structure for associates in the franchisee wax centers is up to that franchisee. We certainly have conversations with them about what is the best incentive program for those waxers? How do we incent them to rebook guests? How do we incent them to add on a retail product? How do we incent them to get another service? And that's another opportunity for us to take that best-in-class learning for those centers that have had great retention of wax specialists that are driving the most revenue per wax suite. So those are things that we continue to share out with our franchisee network.

Simeon Gutman

And a follow up, thinking about the entire footprint in the US, would we be surprised at how similar performance looks across markets, mature immature geographies? Are there anything --- is there anything stand out thinking about both network footprint franchise development and then overall performance?

Stacie Shirley

I'll start with the performance. I mean, certainly as you cut it into different regions, you're going to see some variation, right? And again, same thing that we've been talking about with the West Coast being more pressured because of their cost structure overall. So, that's probably the biggest call out I would say.

David Berg

Simeon, listen, we're disproportionate in kind of five or six states that really drive a significant portion of our business. I think from a growth standpoint, there are bigger -- we continue to look at those top five, six states where there are growth opportunities. We want to protect and expand where we've got good market penetration and make sure that we're doing what's right in terms of making sure we are the place of choice, but also take our brand and expand it into areas, that makes sense. So, I think the good news about our geographic expansion on new center development is that it's in places where we're well known, but we've also got opportunities in new areas. But I think that we've highlighted kind of those higher cost's areas in California specifically in rent and labor that continue to -- we continue to work with those franchisees on how to best maximize their four-wall.

Stacie Shirley

One real quick follow up. I missed -- when you asked about the split of the NCOs over the balance of the year. As we're looking at that Q3, Q4, it's pretty evenly balanced between the two quarters.

Operator

And our next question coming from the lineup, Jonathan Komp with Baird. Your line is open.

Jonathan Komp

Good morning. Hi, David.

David Berg

Hi, Jon. How are you?

Jonathan Komp

Good. Thank you. I want to follow-up just as you look at the second half performance, I think you're implying same store sales, slightly negative overall, and certainly looks like maybe more pressure on mature stores. Could you maybe just comment a little bit more broadly what you're seeing at mature stores? And then David, as you think about moving the needle, is it really refocusing on a few specific initiatives already in place? Or are there more new initiatives needed within the action plans?

Stacie Shirley

I'll start. That's fair what you've said, more pressure on the mature centers. If you think about those ramping centers, there's more of a tailwind there just based on the function of being new to market, et cetera. And also, we called out that although a small group, our NCOs that have started out with the new playbook have been doing very, very well. But as we look between ramping and mature, definitely more pressure on the mature centers to get that new guest and to build on the transactions. And so that's where you think about the second half exactly what you said is accurate.

David Berg

John, listen, I think at a high level, first and foremost, it's just those focus on like the key three or four things that I outlined in my opening comments. To your question about, are there some things that we need to do differently? The answer is yes. We will continue to focus on those initiatives that we launched in Q1 that are working particularly the national media spend and the emphasis on local marketing, but we know we need to do more. They have not, those initiatives on their own have not produced enough. So that's part of our challenge and our opportunity working with our franchisees to really identify what are those couple of things.

And we've got some ideas that we will certainly keep you apprised of as we move along in our journey. But we're going to stay hyper-focused on those key priorities and not get distracted, but really drive new guests and increase transactions that, again, feeds that flywheel that allows our franchisees to continue to reinvest in this amazing brand.

Stacie Shirley

As it relates to the guide overall, I would also say, when you look at the \$930 million to \$950 million and that second half, it certainly is assuming that there is continued pressure in the second half, the \$950 million would assume that we're basically kind of where we have been on the \$930 million though, that's going to assume that there is some potential allowance for a downtrend and that how we've looked at it.

Jonathan Komp

Okay. That's helpful. Thank you. And then David, since this is the first time to speak with you in a while, could you just maybe share your thoughts on the laser initiative, why is that the right thing to focus on at this stage as you're refocusing on the overall base or so differently? Is that something you think could materially move the needle on unit economics going into next year? Just curious your thoughts there. Thanks again.

David Berg

Yes. Thank you, John. Listen, I think we start with what does the brand give us permission to do and what does our guests give us permission to do? So, as we thought about, and John you know me well enough, that I'm not going to do things that are sort of six rings outside the bullseye. Hair removal via another modality i.e. laser made sense to us, and our guests told us, yes, we would be willing to do that and we would trust EWC to deliver that service. So, we felt like we absolutely had permission from a brand standpoint and a guest standpoint when we did sort of the business case around this. It can have a material impact on the financial health of our franchisees. So, we're excited about just the opportunity to show our expertise in another modality of hair removal. And we're very excited about what this can do from a four-wall standpoint for our franchisees.

That's why we're expanding the pilot. The initial rollout of the pilot in New York has gone very well. We have franchisees that are raising their hand saying, I want to try this. I want to, I want to put this into our center. And we'll continue to, as we've said before, be very thoughtful about the pilot, but we do think this could be a materially positive impact on those centers that take up laser as an additional service.

Jonathan Komp

Great. Thank you.

David Berg

Thank you, Jon.

Operator

[Operator Instructions]. Our next question coming from the line of Kelly Crago with Citi. Your line is open.

Kelly Crago

Thank you, welcome back David. Just a question on the macro, can you just talk about what you're seeing from a customer cohort perspective, maybe an income perspective. What happens throughout the quarter versus your expectations and versus 1Q, just given the call out of the weakening macro. And then just secondly, I'm just curious if you're -- what you're planning to do with the promotional strategy, are you going to use the wax pass promotions as a tool to kind of go after those last and new guests?

David Berg

I think from a macro standpoint, the great news is that still approximately 75% of our revenue is coming from our core guests, that guest that has a wax passer is there on a regular basis. So, we feel good about that portion of it. And candidly, that customer segment for us has higher household income, is probably a bit more immune to the macroeconomic situation. Where we've seen the drop off is in what we historically have called that episodic guest or the guest that comes in on occasion. And through our consumer surveys, we've seen that the macroeconomic situation has impacted that guest. So, we need to be creative about how we get that guest back into the center. But it is a very positive note that the behavior, the frequency, the rate with which our best guests are coming in continue to do so.

We've got to drive new guests into the system that as we talked about a key priority. But that's really sort of how that breaks out from that guest cohort. Promotional strategy, obviously, we have those promotions around the nine plus three. We need to think more creatively about are there other opportunities. We launched a six plus two wax pass out in California to help those folks that might not be able to afford a nine plus three. That was taken up very well. So, we will continue to look at do we have the right pricing? Do we have the right promotional strategy? By no means will EWC ever be a discount brand. We don't need to do that. But where we can get the use of promotion is really to get that guest, that new guest into the center or elapsed guest back into the center, so that, again, with the services that we provide, we can get them on that wax pass and make them a loyal EWC guest.

Kelly Crago

Thank you. And just question on the sort of implied, I guess speaking specifically about your 2024 cohort of new stores, just based on the revised guidance, it doesn't look like you're expecting much of a contribution from new stores. Maybe there's something else offsetting that, but like even excluding the 53rd week impact it doesn't seem like the same source or the system wide sales guidance expects much contribution from that. So just curious, how that 2024 new store cohort is performing versus expectations in your outlook for the year.

Stacie Shirley

Sure. So, let's start with expectations. So, we launched an NCO Playbook late in Q1, and so Q2 with the eight net news centers that we have opened, we've seen really good results from a standpoint of this and white sales as well as their tickets. And that's a function of them really following this playbook, making sure that they were spending money local marketing, that they were staffed appropriately and that they had a strong guest list an opening day. And so that has been very exciting to see, and we feel very good about that.

As far as the overall impact with that number 27 to 32, there's not a huge impact on the top line of what we are expecting from a system-wide sale. So, you are, you're correct in that regard.

Operator

[Operator Instructions]. John Heinbockel, your line is now open.

John Heinbockel

Hey, David, wanted to start with can you -- when you look at new guests, I don't know what the volume is right, that you're bringing in a year, but maybe remind us the percent of new guests that are wax pass, the percent that start episodic and then you've got new content out there. New creative around really focusing on the wax specialist, which I think is, is quite differentiated. When you think about the opportunity, is the message is the right one, but maybe not in the right channels. What do you think the message still needs to be refined? Where's the bigger opportunity? The message or how you're delivering it?

David Berg

Hey John. I was worried when I didn't hear you asking question that maybe you were boycotting me, so it's nice to hear your voice again. John, thanks. Listen, on new guests, we have a very deliberate sort of selling process to get them into a wax pass, and as we've had a first wax free promise since the inception of the brand that that continues to help us drive new guests into the brand. And what we've seen is that there is an opportunity to offer that guest on their first visit a pretty attractive three plus one opportunity. We're testing this. We think that makes sense, while we have the guests in there, they've been wowed. That's a little bit of a departure where from the past, but to try to get them into the system faster.

And we think that's something that we continue to roll out with our franchisees and work on to get them into the back into the center rather than kind of wait to the third or fourth visit. And so, as you know, once we convert those folks to a wax pass, that essentially becomes a membership light model. And we get to enjoy more lifetime value from them. On the marketing piece, we feel great about our creative, as I said in my opening comments that we're going to continue to focus on ROI on our marketing spend, so right channel, right creative, right messaging.

We continue to refine that. Andrea and her team are always looking at what makes sense? We think highlighting the wax specialists made absolute sense. They are the ones that they have the most trusted relationship with our guests and highlight why we're the best -- in the best in the industry to do that. But that's something we continually to continually tweak to make sure we're sending the right message and driving the right results.

John Heinbockel

And maybe because I know lapsed guests are not as important in the scheme of things, as new guests, but can you size that when I think about how many lapse guests you have, I don't know if it's several hundred thousand, it's probably not a million, but maybe it is the size of that. And then what you think is a 10% a fair conversion rate or is that overly optimistic?

David Berg

On new guests or lap guests, John?

John Heinbockel

Laps guest.

David Berg

Yes, I think that's fair. One of the things that we probably got a million plus emails addresses of guests that have not visited us in the past six months. So, our opportunity to go drive that those folks back into the system is critically important. We have new guest targets. We have conversion rate targets that we want to get back to get those folks back into the system. Again, that lapsed guest, a lot of the feedback has been, it's a more challenging economic situation these days for those guests. And we've seen that challenge.

So, we continue to think about how we're creative and how we can be really offer unique opportunities to incent them to come back in. But they're -- I think from a prioritization, because I got asked the question, laps guests are incredibly important to us because they've come to us. It's very rare that we see guests. I'm not coming back there because I had a lousy experience. That's not the situation. So, we know we've got guests out there that would love to come back. We've just got to make it worth their while to come back in.

John Heinbockel

Okay, thank you.

David Berg

John, thank you.

Operator

And I'm showing up further questions in the queue at this time. I will now turn the conference back soon. So, David Berg for any closing remarks.

David Berg

Thank you, operator. Thank you all very much for joining us. Again, as I said at the outset, as excited as I was when I came on board in 2018, that enthusiasm, optimism, and excitement is back in tenfold as I reenter. I've gotten even in a few short hours that I've been here. An incredibly strong welcome from our associates, from franchisees, and we certainly look forward to keeping you all posted on the progress we're making in the coming weeks and months.

So, thank you all for joining us today.

Operator

Ladies and gentlemen that does include our conference for today. Thank you for your participation. You may now disconnect.

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