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European Wax Center, Inc. (EWCZ) Q3 2024 Earnings Call Transcript

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Q3: 2024-11-14 Earnings Summary

[Play Call](#)[Press Release](#)[10-Q](#)EPS of \$0.12 **beats by \$0.06** | Revenue of \$55.43M (-0.52% Y/Y) **beats by \$1.27M**

European Wax Center, Inc. (NASDAQ:[EWCZ](#)) Q3 2024 Earnings Conference Call November 14, 2024 8:00 AM ET

Company Participants

Bethany Johns – Director-Investor Relations

David Berg – Executive Chairman and Chief Executive Officer

Stacie Shirley – Chief Financial Officer

Conference Call Participants

Randy Konik – Jefferies

Dana Telsey – Telsey Advisory Group

Jonathan Komp – Baird

Korinne Wolfmeyer – Piper Sandler

Lauren Ng – Morgan Stanley

John Heinbockel – Guggenheim

Melanie Nunez – Bank of America

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to European Wax Centers Third Quarter 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. [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 Relations. Ma'am, you may begin.

Bethany Johns

Good morning everyone. Thank you, and welcome to European Wax Centers third quarter fiscal 2024 earnings call. On today's call, David Berg will begin with a brief review of our third quarter performance and discuss our strategic priorities. Then Stacie 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 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 David Berg.

David Berg

Thanks, Bethany, and good morning everyone. Thank you for joining us today. When I last spoke with you all three months ago, I had just resumed the CEO role and I shared my excitement and optimism for European Wax Center, a one of a kind brand celebrating 20 years of loyal guests, an asset-light and recurring revenue model that generates strong cash flow and an undisputed leadership position in a highly fragmented industry. As I mark 90 days back in this role, we have sharpened our focus and my enthusiasm for the brand continues. I am also pleased our third quarter financial results were in line with our expectations.

I would like to begin today's call by sharing my assessment of European Wax Center's current state, our evolved priorities and recent actions taken toward unlocking the full potential of this iconic brand. Over the last three months, I've spent significant time diving deeper into the business and meeting with franchisees, corporate team members, in-center associates and external stakeholders including our shareholders. Most importantly, I am regularly meeting with our franchisee leadership, ensuring close alignment with them on both the challenges and opportunities we have.

As I've engaged with these key partners, three things remain clear to me. First, our loyal guests have an enduring passion for and commitment to this brand. Even in a challenging macroeconomic environment our core guests continue to love this brand and the services they receive. Second, we have exceptional team members who are guided by our core values and deliver unparalleled experiences for our guests. And third, we are collaborating and aligning on key priorities to drive success for our franchise partners and the network.

As I mentioned on last quarter's call, we recognize that we have a significant opportunity to drive new guests into the brand and increase ticket growth, which are inextricably linked to improving unit economics and financial returns for our franchise partners. Ultimately, this will enable us to deliver thoughtful growth for European Wax Center, thereby creating long-term value for both our franchisees and stakeholders. To this end, during Q3 we narrowed our focus deliberately pausing the expansion of our laser hair removal pilot and reallocating resources to our core out-of-home waxing business.

We continue to be excited about laser's potential to further enhance four-wall economics and we are taking this opportunity to reflect, refine and improve our laser test in New York as we evaluate when and how to roll it out more broadly. In addition, we've made personnel changes to better align our teams with our priorities. I now have direct responsibility for our development and operations functions. We reorganized our commercial and operations departments and we elevated team members with extensive center level experience into critical operational roles. Our restructured organization prioritizes our attention on our core business to drive performance improvements in our key focus areas.

I briefly introduced these areas during our last earnings call. As a reminder, they are: first, attracting new guests; second, increasing tickets by retaining and reactivating existing guests; and third, improving the productivity of underperforming centers. Today, I would like to take you through more details on the action plans that we have put in place for each. I'll start with attracting new guests. We recently announced our partnership with Dolabra Digital, who is beginning to overhaul our guest acquisition and engagement strategies. Through a pay for performance structure we have closely aligned their financial outcomes with our own. The Dolabra team, in concert with our internal resources, has hit the ground running and will assist us in two primary ways over the coming months.

First, helping us in-source many of our marketing activities that are currently performed by third parties, which we will expect will make us more efficient. We are in the process of streamlining our vendor partnerships and retained relationships to bring that work in house, which should enable us to redeploy more of our marketing funds towards working media in 2025 with the goal of reaching more guests and driving them into our centers.

Second, Dolabra plans to enhance our technology capabilities, elevate our data utilization and refine our measurement practices to make us significantly more effective. In the near-term we are working closely with Dolabra to evaluate, test and improve everything from creative assets to email execution, SMS delivery to KPI reporting. Going forward, we expect to improve media buying and performance measurement using revamp creative and dynamic content across channels to drive engagement from both new and existing guests.

We are also evaluating other new guest drivers including our referral programs and influencer partnerships. Given the team at Dolabra's track record of delivering significant improvements at other customer facing organizations, we look forward to implementing their solutions and providing an update in the coming quarters. In terms of our second focus area, Increasing Tickets, Dolabra's expertise in CRM, guest segmentation and predictive insights should help us reactivate guests, who have lapsed over time. We plan to better leverage our data to build tailored content, recommendations and promotions based on customer preferences and behaviors. Once these messages are fully architected, we will have the ability to deliver highly personalized iterations across email, direct mail, mobile, web and SMS channels, analyzing their effectiveness and optimizing as we go. This is an area of opportunity that I'm incredibly excited about and I have confidence that we have found the right partner to help us execute on it.

To retain guests and keep them coming back, our field training teams, in concert with our franchisee partners, are intent on delivering a consistently phenomenal guest experience. Each guest interaction is an opportunity to create lasting impressions and foster brand loyalty. Through revamped guest journey mapping, we have identified the touch points that matter most to the guests and supply these insights to the network to create additional value for both the center and the guest. Our field operations team also continues to provide hands-on support with the goal of elevating four-wall performance.

I am spending time in centers and have been an active listener on center manager calls where they share best practices, ensure focus on key deliverables and align on how best to delight our guests. Listening to our amazing center managers reinforces the love, commitment and energy these leaders have for the EWC brand. As we move forward, field operations will continue their efforts to drive improved dollars per ticket, Wax Pass sales, product purchases and other KPIs evolving as needed to ensure we best support our franchisees and four-wall profitability.

Turning to our third focus area, improving the productivity of underperforming centers. We know there are some lagging centers in the network that could benefit from hands-on operational and marketing assistance. As part of our organizational restructure, we established a dedicated cross functional team to diagnose and support these centers with operating procedures and local marketing strategies designed to drive tickets, increase productivity and ultimately mitigate potential closures.

We are also in the early stages of deploying learnings from our new center opening playbook in these centers, which we believe can drive top-line and accelerate their ramp to maturity. As a reminder, we rolled out the new playbook earlier this year and we are encouraged that recent 2024 new centers are outperforming previous cohorts. Ultimately, we believe these are the right key focus areas and near-term actions that will best position us to enhance ticket growth and franchisee economics in existing centers and therefore paved the way for us to return to consistent new center openings.

Turning now to my assessment of new unit growth, as I mentioned earlier, I assumed responsibility for the development function during the fourth quarter. As I've dug into the business further, we have intensified a comprehensive review of both our existing network and our pipeline and in the process identified additional centers at risk of closing. We continue to work closely with franchisee partners as they consider closures for a variety of reasons, ongoing macro challenges impacting new guest acquisition and top-line performance, higher than expected cost pressures, portfolio optimization or expiration of lease terms or licenses.

With increased visibility, strong leadership and an expanded team now in place, we are taking decisive action. The team is currently implementing more rigorous processes to manage the portfolio such as proactively tracking upcoming license expirations and renewals, better monitoring franchisee financial health and reevaluating market planning. They are also assessing near-term development plans including renegotiating certain multi-unit development agreements. Lastly, we expect to recruit qualified new franchisees, who are attracted to our model and its solid returns relative to other concepts. Taken together, we believe these efforts will ensure we have the strongest operators to support our future growth while mitigating long-term closure risk.

For fiscal 2024, we continue to have full confidence in opening 43 gross new centers, which was the basis for our previous guidance. From a net opening standpoint, there have been 16 center closures year-to-date and we expect an additional 5 to 10 closures by end of year, translating to 17 to 22 net new center openings in 2024. Overall, while we do foresee an above average closure for this year, we expect the rate to be less than 3% of our existing footprint of 1,064 centers.

While it is too early to give guidance for 2025 at this time, we do expect to have positive new openings on a gross basis for next year. We remain in active dialogue with our franchisee partners as we work to address near term macro related constraints, grow tickets and realign the business to its full potential. As a result, we believe closures may have the potential to more than offset unit growth on a net basis in 2025 and we expect to provide further details during our fourth quarter earnings call in March.

I want to emphasize that we remain committed to long-term, sustainable, reliable and consistent net unit growth. We believe that the review of our network will leave us best positioned to capitalize on the significant white space available for European Wax Center's continued expansion.

As we look ahead, one thing is certain, our franchisees have helped make us the undisputed leader in out-of-home waxing. We recognize the value of maintaining a close connection with them and we are taking action to drive ticket growth, best support our network and achieve our collective priorities.

As I wrap up my prepared remarks, I want to summarize my first three months back in the CEO seat. I've listened intently to our teams and our franchise partners, dove deep into the business to evaluate our strengths and opportunities, defined our key focus areas and updated our teams and external partners to align with those priorities. During this time, we also delivered on our financial expectations for the third quarter.

We look forward to beginning to implement marketing and technology solutions designed to attract new guests and deepen guest engagement, further refine Field Operations to support guest retention and deploy focused actions expected to improve the performance of our underperforming centers. We believe these initiatives will be instrumental in improving existing center productivity and unit economics, and ultimately to resuming thoughtful unit growth.

This is both a transitional and pivotal time for European Wax center and I'm excited for what's to come as we build upon the deep love for this brand shared by our guests, franchisees and associates. It is our commitment to you that above all, we will remain guided by our values and relentlessly focused on driving new guests, reactivating and retaining existing guests and converting them to brand loyalists, improving our financial performance and expanding our leadership position. While it will take us time to do so and achieve our goals, we will not stop, we will keep accelerating forward and we remain confident in the European Wax Center brand and its long-term growth potential.

With that, I'd like to turn the call over to Stacie Shirley to discuss our Q3 financial performance and guidance for the rest of the year. Stacy?

Stacie Shirley

Thank you, David. 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. Note that our third quarter reflects an out of period balance sheet adjustment related to intangible assets. Further details are contained in our 10-Q.

As a reminder, both fiscal years 2022 and 2023 included a 53rd week, but fiscal 2024 returns to a 52-week year.

Now let's begin with our third quarter results. As David noted, our financial performance was in line with the revised expectations we provided on our earnings call in August.

We ended Q3 with 1,064 centers representing a 3.7% growth year-over-year. We had 12 gross openings during the quarter offset by seven closures resulting in a net add of five new centers.

System-wide sales were relatively flat at \$240.2 million compared to \$240.7 million in the same quarter last year.

Total revenue of \$55.4 million decreased half a percentage point, primarily due to guests pulling back on retail products in a challenged macro environment.

Same-store sales also decreased 0.5 percentage point compared to a 3.4% increase in the same quarter last year. And year-to-date same-store sales are flat.

As expected, cost savings continue to drive gross margin which increased 110 basis points versus the same quarter last year to 72.9%.

SG&A expenses, including approximately \$3 million of nonroutine expenses related to executive severance, reorganization and return to office efforts and a prospective debt offering that we decided not to pursue in the third quarter. These nonroutine expenses were the primary driver of a 21.6% year-over-year increase to \$17.5 million.

Advertising expenses increased \$300,000 or 70 basis points to \$8.4 million due to our planned efforts to drive traffic and the timing of seasonal campaign costs.

Adjusted EBITDA of \$18.4 million decreased 4.4% from \$19.3 million in the prior year period. And adjusted EBITDA margin decreased to 33.2% from 34.6%.

With continued favorability from interest income, net interest expense decreased to \$6.3 million from \$6.5 million last year.

Income tax expense decreased to \$800,000 from \$1.8 million last year as our effective tax rate improved to 28.7% from 30%.

And adjusted net income decreased to \$5.5 million.

Turning to the balance sheet, we ended Q3 with \$48 million in cash. Net cash provided by operating activities was \$14.8 million compared to approximately \$60,000 in investing outflows, which highlights one of our biggest strengths. The ability to generate strong free cash flow through our asset-light capital-light model, even in a softer consumer environment.

During the quarter we deployed \$20.1 million of that cash flow to repurchase Class A shares, once again demonstrating our conviction in the underlying value of our business and its long-term potential.

At quarter end we had approximately \$20 million remaining under our \$50 million share repurchase authorization, a fully undrawn \$40 million revolver, and \$391 million outstanding under our senior secured notes.

Net debt was 4.5 times trailing 12-month adjusted EBITDA.

Our strong liquidity position gives us the continued flexibility to consider share repurchases, dividends and debt pay down on an ongoing basis. We are also evaluating the potential to use our balance sheet to purchase select units from franchisees. As always, we remain committed to financial discipline and stewardship as we consider these opportunities.

Turning now to our outlook for the balance of 2024, as David mentioned, our financial performance continues to trend in line with our latest expectations and as a result we are reiterating our financial outlook for fiscal 2024.

We expect system-wide sales of \$930 million to \$950 million; revenue of \$216 million to \$221 million; and same-store sales of negative 1.5% to positive 0.5%.

From a guest standpoint, we are encouraged that our core guests remain committed to our brand and continue to represent approximately 75% of network sales. We are less than halfway through our semiannual Wax Pass promotional period, but we are pleased with the growth in Wax Pass sales so far, which is a positive indicator of future guest loyalty and frequency.

In contrast, the challenging macro environment has had a notable impact on our ability to attract new guests and increase tickets. David outlined our key focus areas and the action plans we have in place to enable stronger ticket growth and we look forward to implementing our new strategies in the coming quarters.

From a profit standpoint, we continue to expect gross margin will improve to approximately 73% for fiscal 2024. And our full year outlook remains \$70 million to \$74 million of adjusted EBITDA and \$19 million to \$22 million of adjusted net income.

Keep in mind these adjusted metrics exclude approximately \$3 million in third quarter SG&A expenses related to the executive transitions, return to office efforts and the debt refinancing that we elected to terminate. However, these metrics do include up to \$4 million of expenses related to our laser hair removal pilot. There is no change to our expectations for interest expense of \$26.5 million and an effective tax rate of 25% before discrete items.

Finally, in terms of new centers, as David mentioned, we continue to expect 43 gross new openings this year, of which 35 are already open. As we continue to manage a dynamic closure environment and review our network portfolio, we expect 17 to 22 net new center openings in fiscal 2024.

Before we open the call for Q&A, I'd like to take a moment to focus on the long term opportunity that remains central to European Wax Center. Our commitment to driving new guests, supporting our franchise partners and generating long term shareholder returns is unwavering. Even in a challenging environment our business generates significant cash flow and our asset light model gives us the flexibility to consider various opportunities to drive value for guests, franchisees and shareholders.

We continue to have a long runway of growth in front of us and an unmatched leadership position in a highly fragmented industry. And as David noted, we have taken decisive action towards fulfilling our clear vision for the future of this enduring brand. We look forward to executing on our focus areas and updating you on our progress in the coming months.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question will come from the line of Randy Konik with Jefferies. Your line is open.

Randy Konik

Yeah. Good morning. And thank you for taking the questions. And David, I appreciate the approach here, you are kind of being thoughtful. You're taking a step back, you're reflecting on the strategies and involving them. [Indiscernible] that function. Obviously it feels like there is some kind of units that are at risk. Is there anything that is common that you're seeing in those units that is different in perhaps the way units were opened or the real estate locations were chosen in the most – in the last couple years versus five years ago or something like that? What are you seeing that is different in that's causing that underperformance and maybe location or something else that you could give us some more color on. Thanks.

David Berg

Yes. Hey, Randy, good morning. Thanks for the question. I don't think this is a real estate issue. There's probably of the 16 closures that we've had year-to-date, there's maybe an instance or two where it was just a bad pick on real estate. I think this is really much more around the macroeconomic conditions that our franchisees have been facing. So, some, certainly higher than expected rent and wage costs in certain areas, folks coming up to the expiration of their leases or licenses and they just elected not to renew given kind of elevated costs and a more difficult macroeconomic pressure and just or potentially a desire to relocate to a different trade area.

Sometimes where we got multiunit owners, they're just optimizing their portfolio. So I wouldn't pin it on real estate. I think what we're doing, Randy, you're sort of just my digging in a lot deeper with the current leadership and the development team to ensure we've got better visibility to what's coming at us, looking at the financial health of our franchisees, seeing when licenses are going to expire, and working with, to be crystal clear, our strong desire is to work with our existing franchisees to renegotiate multi-unit development agreements where that makes sense.

And I think it still continues to be an attractive model that we're very pleased where we've seen franchisees step in and take on transfers. And we also believe that there will be an interest of folks outside of the system given the attractive returns that we have.

At the end of the day, it all comes back to what we've talked about in terms of our priorities, which is we have to drive more new guests and we have to improve tickets for our franchisees, and that will drive the overall four-wall profitability, which is our key focus for our franchisees.

Operator

Thank you. [Operator Instructions]

Randy Konik

Yes. Can you hear me?

David Berg

Go ahead, Randy.

Stacie Shirley

And you're kind of coming in and out. We can't hear you now, Randy.

Operator

Our next question will come from the line of Dana Telsey with Telsey Advisory Group.

Dana Telsey

Hi, just circling back to the units that are being closed. As you go through your franchisee network, is there – are there more that you'd like to close? Are there any metrics that are defining around those that you want closed? And in opening new centers, is there any reframing of what you'd like to look for?

And then secondly, franchise terms, are those at all changing in this landscape? And what are you seeing from your customers regionally? How's California performing? What did you see? And Wax Pass members versus not how would you calibrate the consumer out there for European Wax? Thank you.

David Berg

Dana, I always love that you get four questions in your one question. We'll try to dissect those. Let me take it sort of in slightly reverse order. From a franchise agreement standpoint, we don't anticipate any material changes in the franchise agreement that we have with our franchisees today.

Your question around sort of units being closed and would we like units to be closed? Obviously, we want our preference is that, that units stay open and they ramp successfully and they get to the kind of mid-teens low 20% four-wall EBITDA margins that incense our franchisees to reinvest in the system. And we've certainly historically been very fortunate that our growth has come from our current franchise eBay. So that's our goal.

And again, back to why we're focused on driving new guests and increase tickets into the system. I think the – in terms of our behavior of our guests, our core guest has behaved the same and this has really been pre-COVID, post-COVID, tougher macroeconomic situation. That core guest still accounts for 75% of our revenue. And that recurring revenue model is one of the strongest aspects of the business model that we have.

Here regionally, I think that California, as we talked about even last quarter, that they have seen higher costs there, particularly in rent and labor. And there's been a – so that's been a little bit of a pressure on the production and productivity of the California centers. One of the things that, I'm sure, we'll get asked about is pricing.

We continue to think about are there places where we could take price, do that in a way that makes sense via elasticity studies that, that might help those franchisees see a little bit of improvement given those higher costs, particularly in California.

Stacie Shirley

I think the only thing I would add you mentioned Wax Pass, Dana. So the only thing there is, as we mentioned on the call, we're about halfway through the Wax Pass promo season and so far we're pleased with what we've seen. And again, just kind of reiterates that core guest continues to be very, very loyal and I think is an indication of the future growth as it relates to those Wax Pass as they continue to increase.

Dana Telsey

Thank you.

David Berg

Thanks, Dana.

Operator

Thank you. [Operator Instructions] And that will come from the line of Jonathan Komp with Baird. Your line is open.

Jonathan Komp

Yes. Good morning. Thank you. David, could you maybe just follow-up and share a little bit more of your current thoughts on sort of the range of outcomes for net unit growth in 2025? I know you gave your some directional color. And just as a follow-up, given that I think it's 98% of your openings in the past few years have come from an existing franchisees. Can you give any more insight on the infrastructure in place to attract more franchisees and the success rate so far or the lead time that, that you might need to do so?

David Berg

Yes. So Jon, on 2025, what we just wanted to be clear about is that we do continue to expect that we will have new openings on a gross basis. What we talked about in my prepared remarks was that given sort of the dynamic environment that we're in, closures could exceed gross openings next year and it's possible that we would have a net negative number.

We're not – we'll give more specific guidance on that when we announce Q4 in early March. So that's probably as far as we're going on that guidance, Jon. I think on the – we've been very fortunate, as I mentioned in my response to Dana's question about our growth has come from our current franchisee base. Again, our strong preference is that we have discussions with our current franchisees that have signed multi-unit development agreements or that want to grow with us and continue to do that.

We've got to readjust those that's work that's going on right now within our development team. With respect to bringing on new franchisees, this is still an attractive model given the returns that you have from a four-wall standpoint, the cost of entry, the cash on cash returns. And we have hired in the last month a couple of new folks on that development team that will specifically be working with both our current franchisees, but also talking with other folks about coming into the system, so a little bit too early given that they've just kind of ramped up here in the last 30 days.

But the discipline around our new growth is front and center and we want to make sure that, as I said in my prepared remarks, that we're consistent, it's reliable and we're thoughtful about how we grow the unit count going forward.

Jonathan Komp

Okay. Great. Thank you. And just as a follow-up, David or Stacie, in a scenario where units don't grow in 2025, just could you give any thoughts at a high level how you plan to balance preserving overall profitability of the organization versus keeping the growth infrastructure in place for the longer-term opportunity. Thanks again.

Stacie Shirley

Sure. Yes, yes. Thanks for the question. What I'd say for, obviously, we haven't given any guidance and that will certainly impact the overall results. But when we look at anything below sales, we think about our gross margin. We've shown some tremendous increase or growth this year and so there's no reason we would think that that would change. We should be able to sustain that level that's coming in around 73 basis points.

And then from a cost perspective, we will – we don't require a lot, once we start to leverage – we will leverage our cost structure as we get the top line growing but don't expect to see any increases that would be put us in a position to necessarily deleverage. But more to come when we report our Q4 results as it relates to 2025.

Operator

Thank you. [Operator Instructions] And that will come from the line of Korinne Wolfmeyer with Piper Sandler. Your line is open.

Korinne Wolfmeyer

Hey, good morning, team. Thanks for taking the question. Not to harp on the unit growth too much, but maybe could you provide a little bit of color on some of the criteria you're using to assess if a unit is worth closing or not, if it's not, the franchisee making that ultimate decision. Just what metrics are you looking at? And then at what point would you consider using your cash to bring some of these units under the corporate umbrella? Thanks.

David Berg

Yes. Hey Korinne, good morning. We have a closure policy and we want to work closely with our franchisees to talk to them about where there are opportunities within their P&L that we can be helpful. If there are areas that where we could add additional support or training, we do that. We certainly are monitoring the potential at risk and closure list with a lot more robustness really starting in the last 30 days or so, to make sure that we've got better visibility to that, so that we can work with our franchisees to either help them stay open or in the event that they have to close potentially look for someone to transfer that to or if the ultimate decision is they have to close that, that we've got awareness to that and we can do that in a thoughtful way.

The – on using the balance sheet, I mean, listen, we're – this is a great model, as you know, that generates a lot of cash flow. One of the things that we do think about is using some of our cash to buy up franchisees that might want to close. We're going to do that again in a thoughtful manner. We always want to make sure that we are an asset-light model, but we do – we've got opportunities to deploy cash in places that make the most sense. And given kind of the attractive four-wall returns, there may be instances where that absolutely does make sense.

Korinne Wolfmeyer

Great. Thank you. And then maybe could you touch a little bit on interest from prospective franchisees wanting to come into the European Wax group? Is there opportunity to pass on these closing units to additional interested for potential franchisees? And is that something that you've started to do? Is that we could think about into 2025 and 2026 as a way to keep that unit growth still up?

David Berg

Yes, really early days, Korinne. But – and I think there's two, I think we've certainly seen interest from our current franchisees were – and great partners that have said, hey, here's a franchisee that might want to exit or is struggling a little bit and oftentimes we're able to have a transfer to a stronger operator that, that takes on those centers. That's a great result for all of us. And I think just again reinforces the belief that our franchisees have in the current system.

Again, very early days about sort of soliciting or talking to folks that want to come into the system. But the early read is that given again the low cost of entry and the returns that you can have in our business model, that we expect that we can attract folks where these returns are better than other franchise concepts.

Korinne Wolfmeyer

Great. Thank you.

Operator

Thank you. [Operator Instructions] And that will come from the line of Simeon Gutman with Morgan Stanley. Your line is open.

Lauren Ng

Hi, this is Lauren Ng on for Simeon. I guess, in the press release, you mentioned enhancing unit economics. I was wondering if you could maybe expand or elaborate on this a little bit. Is this maybe because the business has seen comps or declines? Can you give more color on how unit economics are performing relative to your expectations? Thank you.

David Berg

Yes. I think, Lauren, thanks for the question. I think this is really our – as we look at those key focus areas, right, about driving new guests, driving more tickets, that's going to increase the overall productivity from a four-wall standpoint. So I just want to make sure everybody understands that our job here as the franchisor and the corporate team is to be the customer service department for our franchisees to help them perform at four-wall.

I think that the partnership with Dolabra is really focused on doing just what you've talked about. How do we drive more revenue generation that is through driving new guests where we're getting a lot smarter about our creative, how we buy media, how we place, how we message to both new and existing guests? So kind of all those focus areas that we've talked about, that, that there aren't 10 of them. It's really those two or three that we're hyper focused on and have reallocated resources to address is to do just what you said, which is to continue to enhance our productivity at a four-wall basis.

Lauren Ng

Great. Thank you. And then my follow-up is just you mentioned the core guests remain committed to the brand. I guess, how should we think about the base of the core guests specifically? Are you pleased with maybe the retention of the cohort and also just any color on lapsed guests? Thank you.

Stacie Shirley

Sure. I'll start and then David can add. Yes. So as we said, that core guest continues to be about 75% of our system wide sales. So we are pleased with that. The routines have not changed and so they've proven to be a very loyal, loyal guest for us. And so we're pleased with that – certainly pleased with so far with how our Wax Pass promo is going. So that piece of it is good as well. The issue that we have and as we've talked about and the challenge is really bringing in new guests to the center. And so those are the initiatives that we spoke about specifically around marketing as well as the operations team to help drive additional guests into center, which will then overall – help overall kind of continue to fill the funnel and grow that core guest.

David Berg

Yes. And if you think about that journey, it's us driving that core guest and then real hyper focus from our operations team on making sure that the guest experience once they're in the center is amazing, so that we retain that guest and then those lapsed guests that we talk about that haven't visited us in a period of time, being more specific with really hyper personalized marketing and CRM efforts to bring them back into the center. Again, once they get there, ensuring that with – partnership with our franchisees that they're getting an amazing guest experience. So we convert them into a Wax Pass holder into that core guest that drives that recurring revenue.

Lauren Ng

Great, thank you.

Operator

Thank you. [Operator Instructions] And that will come from the line of John Heinbockel with Guggenheim. Your line is open.

John Heinbockel

Hey, Dave. I wanted to start with underperforming centers. You think that number is less than 5% of the network? Is that fair? And I don't know what percent you're working on at any one point in time. And then when you think about non-revenue ways to improve the economic model, right? Are there ways to – I think about capital cost and/or labor, but the Catch-22 being right with the wax specialist, you can't cut back on that too much, right? So you got to address wax specialist productivity. How do you think about doing that?

David Berg

Yes. So John, I think part of underperforming is definitional, right? But if we think about stores that are probably negative EBITDA, it's a small percentage, less 10% or so of mature centers. And again, we continue to work with them about how to enhance that profitability. I mean, your non-revenue question is a really good one as always. I think there's a couple things

From a cost of the box standpoint, we continue to look at ways how do we make opening a new center and construction of that more affordable, so that we can get ramp faster and get to break even faster and drive those cash on cash returns so that work continues to go on again in concert with our franchisees. Labor, we've called out specifically, labor continues to be a challenge as we look at particularly high cost states like California or regions like the Northwest, Seattle and Portland and those areas.

And as I mentioned John, pricing is an area that we've got to be conscious of that can help us offset some of those costs that our franchisees are looking at. But I keep coming back to sort of what our real opportunity is to drive new guests into the system and once we get them there to make sure that we retain them and reactivate those guests that haven't been there. So that truly is our hyper focus. The help of Dolabra and what they're doing, we feel confident we're going to see, we're going to get traction doing that. And that's really the – that flywheel that will get us moving back to the thoughtful growth that we talk about.

John Heinbockel

And do you think just as a follow-up to that, is it too early to think about, right? You had an algo a couple of years ago to think does that algo – does that still apply? Has it changed a little bit? And if it still applies, we kind of out – it's certainly not 2025, but it's sort of 2026 or some part of 2026. Do you see that starting to manifest itself or do we know?

Stacie Shirley

I think at this point, we're really not in a place to provide that guidance as we talked about. We're really just very focused on the thoughtful growth and doing that right. And also the three things that David just talked about, attracting new guests, increasing tickets and improving the productivity. So at this point, I don't think that we can say, 2025 is – we'll know more in the coming weeks, but there's no reason that we don't believe that we won't be able to get back to that in the future. We have a lot of white space in front of us. We have a lot of franchisees that are very supportive and still excited about the brand. And so that's what we're focused on.

John Heinbockel

Thank you.

David Berg

Thanks, John.

Stacie Shirley

Thank you.

Operator

Thank you. [Operator Instructions] Our next question will come from the line of Melanie Nunez with Bank of America. Your line is open.

Melanie Nunez

Hi, good morning. Thanks for taking my question. I wanted to ask, just on promotional efforts, I know you're in the middle of the Wax Pass semiannual. Can you talk about any new efforts on the promotional front? I think you did a six plus two in the past in California and then you've done some other limited time ones for college students. So just anything new to call out or will that be more of a factor after some of these initiatives Dolabra come through? Thanks.

David Berg

Yes. I think, Melanie, it was – thanks for the question. As you know, we have the semiannual Wax Pass sale where the nine plus two becomes a nine plus three. That continues to be a great driver for us, as Stacie talked about in her prepared remarks, even though, we're kind of four weeks, just four weeks into this promotional period, very pleased with the early results of our Wax Pass sales in the past 30 days. We are not a discount brand, right? And we're not going to rely on sort of promotions and discounts. One of the things that we worked – we're working with our marketing subcommittee of our Franchisee Advisory Council is to have real clarity around what our 2025 promotional calendar looks like.

So we'll continue to use those promotions that we know drive profitability at a four wall standpoint. And I think that lens is incredibly important that we keep that in mind, that any promotion that we run, that we both have a franchisor and franchisee lens on it. We'll continue to use LTOs and limited time offers in product to enhance excitement and bring in guests to make additional purchases. But I don't think that our overall promotional mentality is going to change. It's just we're going to have better clarity around it, make sure that we've got the support of our franchisee system and understand the impact from them. Clearly, with Dolabra coming in, again, that better insight into what our guests want to see, what the pricing impacts might be, that's going to be incredibly helpful as we move forward.

Melanie Nunez

Got it. Thank you.

David Berg

Thank you, Melanie.

Operator

Thank you. [Operator Instructions] We do have a follow-up question from Randy Konik with Jefferies. Your line is open.

Randy Konik

Hey, thanks and sorry for the phone issues earlier. I just wanted to – David, back to you. I wanted to kind of just get your perspective on as we're focusing on near-term here and this reset with items. Just give us your thoughts just on the long-term TAM, you still have an industry that's fragmented. You're the largest branded player. How do you want us to think about that – be on the store side. And if it's the same, is there any changes or not, let us know? And just if it is the same, any changes in terms of how you think about where those pins are put in the ground, perhaps less in California, I don't know. Just want to get your perspective on how we should be thinking about long-term as obviously the next couple of quarters are just going to be kind of written off and is already reflected in the stock. Just give us your perspective long-term there. Thanks.

David Berg

Yes. Randy, I think, I would start with the business model is absolutely still solid, right? We feel great about that recurring revenue model that we talk about quite often. From a TAM standpoint, still believe in the opportunity that we have in the U.S. that it's still robust. We still like the fact that we are the leader, six times bigger in terms of unit count than the next biggest competitor or 11 times bigger in terms of system wide sales. And our modality continues to grow at a CAGR that we're very pleased with.

We think that the white space is still there, that we've got plenty of room to grow. Continue to be as we talk about, Randy, thoughtful growth to make sure that we're doing that in a way that as we open new centers they can ramp and be successful. And that's really our focus is to have that thoughtful, consistent, reliable growth as we go forward.

So we, again, feel great about leadership position in a category that's dominated by mom and pops, highly fragmented, get much smarter and better in terms of our working media spend with our partnership with Dolabra that we can put more of those dollars to work, make the investments in the guest experience from a technology standpoint that candidly our competitive set can't do. We didn't get a question about laser today, but we also are going to continue to test that in our New York centers. We think that's another place where both the brand and our guest gives us permission. So we're going to look at modalities that make sense for us and that our guest gives us permission to do. We continue to feel good about the opportunities, Randy, from an overall market standpoint and white space.

Randy Konik

Helpful. Thanks guys.

David Berg

Okay, thank you.

Stacie Shirley

Thank you.

Operator

Thank you. And we do have a follow-up question from Jonathan Komp with Baird.

Jonathan Komp

Thanks. Just to squeeze two last follow ups here. David, I'm wondering if you could talk about or quantify the working media budget in 2025. Could that be up year-over-year just given some of the changes you mentioned? And then Stacie, just to confirm, sorry if I missed this, have you already purchased any corporate units from franchisees? And if you have or if you do, could you just remind us how that would flow through the income statement? Thanks again.

Stacie Shirley

Let me start with that. That's an easy one. At this point in time, no, we have not purchased any units. We've had transfers unit to our franchisees, which is always kind of our first course. But at this point, no, we have not purchased any.

David Berg

And Jon, on the marketing fund, as you know, the franchisees, we're the stewards of franchisees, 3% contribution. They clearly – and we should spend that money in a way that's most effective. We do think there's an opportunity for us to improve that in terms of more dollars towards working media. We got kind of the first cut at that, talking with our franchisee group about how to do that. And I think we can see some fairly significant improvement in that year-over-year. Part of what we talked about was bringing some of this work in house being more efficient. Some of the classic retainer kind of relationships will move away from those and really redeploy those dollars into working media, which is good for us as a franchisor and certainly good for our franchisee system as well.

Jonathan Komp

Got it. That's helpful. Thank you both. Thanks again.

David Berg

Thanks, Jon. Thanks.

Stacie Shirley

Thank you.

Operator

Thank you. I'm showing no further questions in the queue at this time. I would now like to turn the call over to Mr. David Berg for closing remarks.

David Berg

Hey, thanks everybody for listening in today. And we'll certainly look forward to talking to you in the coming days and weeks and more to follow when we talk about Q4 in early March. Thank you all very much.

Operator

This concludes today's program. Thank you all for participating. You may now disconnect.

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