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EPS of \$0.01 **misses by \$0.03** | Revenue of \$282.24M (16.41% Y/Y) **misses by \$1.04M**

First Watch Restaurant Group, Inc. (NASDAQ:[FWRG](#)) Q1 2025 Earnings Conference Call May 6, 2025 8:00 AM ET

Company Participants

Steven Marotta - Vice President, Investor Relations
Chris Tomasso - President and Chief Executive Officer
Mel Hope - Chief Financial Officer
Matt Eisenacher - Chief Brand Officer

Conference Call Participants

Andrew Charles - TD Cowen
Jim Salera - Stephens Inc
Brian Vaccaro - Raymond James
Jeffrey Bernstein - Barclays
Sara Senatore - Bank of America
Jon Tower - Citi
Todd Brooks - The Benchmark Company
Andy Barish - Jefferies
Brian Mullan - Piper Sandler
Gregory Francfort - Guggenheim Securities

Operator

Thank you for standing by, and welcome to the First Watch Restaurant Group Inc. First Quarter Earnings Conference Call occurring today, May 6, 2025 at 8 AM Eastern Time. Please note that, all participants are currently in a listen-only mode. Following the presentation, the conference call will be open for analyst questions and instructions on how to ask the questions will be given at that. This call will be archived and available for replay at investors.firstwatch.com under the News and Events section.

I would now like to turn the conference over to Steven Marotta, Vice President of Investor Relations of First Watch to begin.

Steven Marotta

Hello, everyone. I'm joined by First Watch's Chief Executive Officer and President, Chris Tomasso and Chief Financial Officer, Mel Hope. This morning, First Watch issued its earnings release for the first quarter of fiscal 2025 on GlobeNewswire and filed its quarterly report on 10-Q with the SEC. These documents can be found at investors.firstwatch.com.

This conference call will include forward-looking statements that are subject to various risks and uncertainties that could cause the company's actual results to differ materially from these statements. Such statements include, without limitation, statements concerning the conditions of the company's industry and its operations, performance and financial condition, outlook, growth plans and strategies and future expenses. Any such statements should be considered in conjunction with cautionary statements in the company's earnings release and the risk factor disclosure in the company's filings with the SEC, including our annual report on Form 10-K and quarterly reports 10-Q.

First Watch assumes no obligation to update these forward looking statements whether as a result of new information, future developments or otherwise, except as may be required by law. Lastly, management's remarks today will include references to various non-GAAP measures, including restaurant level operating profit, restaurant level operating profit margin, adjusted EBITDA and adjusted EBITDA margin. Investors should review the reconciliation of these non-GAAP measures to the comparable GAAP results contained in the company's earnings release filed this morning.

Any reference to percentage growth when discussing the first quarter performance is a comparison to the first quarter of 2024, unless otherwise indicated.

And with that, I will turn the call over to Chris.

Chris Tomasso

Good morning, everyone. Thank you for joining us today to discuss our first quarter results, and a very special thank you to our entire team across the country, over 16,000 strong.

At First Watch, regardless of the season or the economic cycle, we are about growth, bringing our unique breakfast brunch and lunch offering to more customers more often and in more markets. Our first quarter of 2025 delivered better than 16% total revenue growth, positive same-restaurant growth, 13 new system-wide restaurant openings and the launch of new marketing campaigns across multiple markets.

We also realized a lift in our traffic as the improvement in that trend we shared with you in March continued with our first quarter results. As always, our teams continue their high standard of consistent execution on our service objectives.

As recent headlines attest, the broader macro environment appears even more volatile than when we spoke in March with rapidly shifting expectations for both consumer demand and input costs.

Last year, in describing our organization's primary focus, we often use the phrase controlling the controllables with regard to our customer and employee experiences as well as our management of the business day-in and day-out. This approach served us well through 2024 and will continue to be a guiding principle.

Now on to Q1 in more detail. 2025 got off to an encouraging start with a return to positive traffic in January, followed by a widely reported weather-driven decline in February and then a return to positive traffic in March. Then in April, we posted the best monthly same-restaurant traffic result in over two years, giving us optimism that we're on track to achieve positive traffic for the year.

Our better than 16% total revenue growth in the first quarter, driven by a powerful combination of positive same-restaurant sales and continued success of new restaurants illustrates the strength of First Watch's growth strategy. The commitment of our culture to improving operational efficiency has led to the adoption of new technologies and streamlined processes, ensuring we deliver exceptional customer experiences, while remaining competitive and agile in an ever-changing macro backdrop.

Ticket times, for instance, are an important KPI for us, and they improved once again in the first quarter compared to the year ago period. Our investments in the development of our people and their well-being continue to pay dividends, fostering a highly motivated and skilled team as evidenced in part by our continued reduction of turnover rates.

Indeed, the first quarter of 2025 represented the eighth consecutive quarter of improved field level employee turnover. Our people are a key brand differentiator. And because we recognize the importance of maintaining a positive and productive work environment, we will continue to introduce and prioritize programs that support their personal and professional growth, like our GM Council, for instance, where a select few of our general managers are chosen to act as sounding boards and problem solvers for their counterparts across the system.

Our enhanced strategic marketing efforts began rolling out across multiple markets in March, and we are pleased with the results thus far. We have tactically targeted various consumer touch points, including social media, digital advertising and connected TV to positively influence both reach and engagement. This multifaceted approach is allowing us to connect with a broader, but more targeted audience, driving brand awareness and fostering deeper connections with our existing customers. These campaigns are already exhibiting promising results in targeted geographies. As we continue to refine and expand our marketing strategies as the year progresses, we will be able to increase our reach, retention and frequency to support sustained same-restaurant traffic growth.

Turning to new restaurant development. We opened 13 company-owned and franchised restaurants during the quarter across 10 states, ending with 584 First Watch locations. In January, we opened our first New England location in Hanover, Massachusetts. In only its first few months, this restaurant is performing well above our expectations and is often on a wait even on weekdays. Hanover's success is yet another proof point that supports the fact that the First Watch brand is highly portable and that our total addressable market of at least 2,200 locations in the continental United States is not only realistic, but highly attainable. And just 2 weeks ago, we announced that we will open a flagship location in a high-profile site on Boylston Street right at the finish line of the Boston Marathon and Boston's Back Bay.

The entire New England market represents a significant opportunity for our continued expansion. Towards that end, we recently signed a lease in Nashville, New Hampshire, representing our very first in that state. Speaking of new markets, in addition to our previously announced entry into Las Vegas later this year, we recently signed our first lease agreement in Memphis, Tennessee, where we expect to open our first restaurant in Q3 of this year.

Our strategic expansion into Memphis is also set to advance our footprint across the region, complementing our presence in Nashville, a market we entered more than a decade ago and now have 14 restaurants. And just yesterday, we put our 31st state on the map with our first restaurant in Idaho, specifically in Meridian, a suburb of Boise, yet another market with a lot of white space that also helps us fill in the Northwest and builds upon our expansion into Nevada and Utah.

One last word on development. As a group, the 2024 and 2025 classes are currently tracking 10% or above both the comp cohort and our first year sales expectations. This relative outperformance underpins our confidence in delivering double-digit percentage unit growth targets and in our capital allocation strategy targeting cash-on-cash returns of around 35% and an IRR of greater than 18%.

Additionally, we are pleased to share the completion of our previously announced franchise acquisition of 16 restaurants in North and South Carolina on April 28th as well as the acquisition of three franchise restaurants in Missouri on April 14th. These strategic acquisitions bolster our presence in these key states and the accompanying development rights provide several high-quality trade areas for continued new company restaurant growth.

Every year, our strategic planning focuses on innovative methods to create more demand, improve throughput, enhance customer satisfaction and at the same time, support our entire team.

I'd like to highlight a few key initiatives that aim to further strengthen our leadership position and contribute to our continued growth. Last quarter, we mentioned working more closely with our third-party delivery partners to better accommodate the demand dynamics in that channel given the macro pressures facing the consumer.

Working in partnership with the largest of our two third-party delivery providers, we developed and implemented a strategy that reversed our negative traffic trends in this channel. The channel's traffic lift has outperformed our expectations. And as a result, we are driving more margin dollars, albeit by design at a lower PPA and at a somewhat lower margin.

To enhance customer satisfaction and deliver increased value, we doubled the amount of meat in one of our top-selling classic dishes, the trifecta, and chose not to take price in order to maintain original margin.

The timing of an outsized increase in bacon costs, combined with the significant demand shift by customers into this menu item has placed additional pressure on our margins. We believe taking selective steps like this will ultimately lead to increased customer frequency at the short-term cost of a tighter margin for this high mixing item.

Our general managers are at the forefront of our customer service. To demonstrate our commitment to hospitality, inspire their creativity, and positively impact their communities, we have empowered and encouraged them to make days brighter for certain customers through surprise and to life acts of kindness. These come to life in the form of a complementary juice, shareable, or entrée.

While there is an impact to our per person average check, with these actions, we are making an investment in long-term customer retention. Small acts such as these create an emotional connection for our customers and build loyalty in ways points-based loyalty programs simply can't.

We believe that the way to effectively manage through uncertain times is to focus on the customer, deliver exceptional value and meet the customer where they are. By optimizing our third-party delivery program, amplifying our invest in the Guest initiatives, and empowering our leaders to make days brighter for our customers, we are doing just that and building a stronger foundation for future growth at the same time.

Inevitably, every year presents a new set of challenges. While our overall first quarter traffic was a bit lower than our own expectations, specifically as it relates to the in-restaurant channel, we're pleased to see same-restaurant traffic growth displaying sequential improvement. April was better than the first quarter, which was better than the fourth quarter, which was better than the third quarter.

Near-term, our margin profile is being pressured by higher inflationary headwinds in our market basket since our last earnings call, the impacts of new tariff implementation, and the incremental cost of the previously listed initiatives.

We believe that the multiple challenges affecting our current margin profile are transitory and that our daypart dominance, market share, unit growth, competitive positioning, and customer service experience are unmatched across the industry.

We have a lot to look forward to in 2025. With our increased marketing activity this year, we're actively building customer awareness in core, emerging and entirely new markets. Our new restaurant openings continue to exceed expectations. Our growth plan is solid with both our real estate and people pipelines in place to support our continued expansion.

Our top-performing restaurants span 14 states and 22 DMAs, showcasing the adaptability and appeal of our brand across diverse regions and illustrating First Watch's widespread popularity. We have nearly 600 system-wide restaurants serving breakfast, brunch and lunch in 31 states. We believe that with the higher sales potentials represented in our new openings when compared to the existing portfolio, our future restaurant classes will perform even better.

And now I'd like to turn it over to Mel.

Mel Hope

Thank you, Chris, and good morning. Total first quarter revenues were \$282.2 million, an increase of 16.4%. Our top line increase results from positive same-restaurant sales growth of 0.7% and the contribution of 115 non-comp restaurants, including 46 company-owned new restaurant openings and 22 locations we've acquired since the fourth quarter of 2023.

Same-restaurant traffic was negative 0.7%. We're generally pleased that both January and March posted positive same-restaurant traffic, though the headwinds experienced industry-wide applied pressure on February results.

For the quarter, our in-restaurant traffic was below our expectations. However, changes we made to our third-party delivery program yielded immediate results with this channel experiencing percentage traffic growth in the mid-teens and offsetting much of the traffic decline of our in-restaurant dining and direct off-prem sales channels. We also experienced positive sales mix during the quarter.

Before moving on to specific income statement inputs, I want to draw your attention to two independent factors that impacted multiple income statement line items. First, growth in the per person average check was lower than carried pricing in the first quarter due to both the surcharge adjustments we made to our third-party delivery program as well as various in-restaurant marketing initiatives, not check management.

Second, and as we've shared before, our new restaurants operate at less efficient margins with the first 120 days having the steepest climb to maturity. During the quarter, the contribution from our new restaurants was more pronounced than usual, considering that we've opened 33 new company-owned restaurants in the last two quarters. Food and beverage expense rose to 23.8% of sales compared to 21.8% in the first quarter last year.

Costs as a percent of sales benefited from carried pricing of around 2.5%, though this was more than offset by commodity inflation of 7.7%. Eggs, bacon, coffee and avocados, which comprise four of our top five food cost inputs are all trading at remarkably high prices and so are increasing our commodity costs. Additionally, food and beverage costs as a percent of sales were impacted by our decision to increase certain portion sizes, as Chris mentioned earlier.

Labor and other related expenses were 34.6% of sales in the first quarter, a 130 basis point increase from 33.3% reported in the first quarter of 2024. Higher health benefit costs were the primary reason for the year-over-year percentage increase due to higher enrollment and higher claims.

Restaurant level labor inflation was 4.1% in the first quarter and labor efficiency was in line compared with last year. Restaurant level operating profit margin was 16.5% in the first quarter compared to 20.8% in the first quarter last year. Income from operations margin was 0.4%. We leveraged G&A expenses. As a percentage of total revenue, these expenses declined to 10.7%, a 70 basis point improvement compared to the same quarter last year. The \$2.5 million increase versus last year was driven by investments in marketing and in headcount.

Adjusted EBITDA was \$22.8 million, \$5.8 million below last year with adjusted EBITDA margin slipping to 8.1% from 11.8%. Adjusted EBITDA results were lower than our prior expectations, due to three factors; first, while March traffic improved from February, both months were weaker than we expected. Second, as Chris mentioned, we empowered our managers to surprise and delight certain customers and the costs associated with this program were higher than anticipated. And lastly, adjusted EBITDA was affected by the increased cost of our healthcare benefit programs. We reported a net loss of \$829,000.

There were 13 new system-wide restaurants opened during the first quarter, of which 10 are company-owned and three are franchise-owned, and we ended the period with 584 restaurants in the system. The net effect of acquisitions, which includes only the impact of purchases made within the last 12 months, increased first quarter revenue by about \$10.5 million and adjusted EBITDA by about \$1.9 million. For further details on the quarter, please review our supplemental materials deck on our Investor Relations website beneath the webcast link.

Before moving on to guidance, I want to offer some further context on our commodity costs. Four of our top five market basket items, including eggs, bacon, coffee and avocado are experiencing high rates of inflation in 2025. While slightly higher since our last earnings call, our consolidated commodity inflation expectations remain in the high single-digits for 2025, and we expect the inflated cost to peak in the second quarter. In our experience, outsized inflation tends to be transitory. And as such, we do not intend to fully offset the inflation with increased menu pricing.

Now I'd like to provide an outlook for 2025. As I do, please note that our updates incorporate our estimates of the impacts of announced tariffs, which account for roughly 30 basis points of additional costs as a percentage of total revenue. We're maintaining our estimate of percentage same-restaurant sales growth at positive low-single digits with flat to slightly positive same-restaurant traffic. Our estimate includes the consideration of a 1.3% price action implemented in January and implies carried pricing of around 2.6% in the second quarter and 2% for the full year.

As a reminder, our menu pricing disciplines target the offset of what we perceive to be permanent cost inflation, not transitory spikes. We expect total revenue growth of around 20% with a net 400 basis point impact from completed acquisitions. We expect a total of 59 to 64 net new system-wide restaurants, including 55 to 58 company-owned restaurants and 7 to 9 franchise-owned restaurants with 3 planned company-owned restaurant closures. Our company-owned new restaurant development pipeline is weighted in the second half of 2025, Q4 in particular.

We expect full year percentage commodity inflation in the high single digits, driven largely by increases in the 4 commodities I discussed earlier, as well as the tariffs. Restaurant-level labor cost inflation is expected to be in the range of 3% to 4%. We're lowering our adjusted EBITDA guidance to a range of \$114 million to \$119 million, which includes the estimated net contribution of about \$7 million from acquired restaurants.

Our updated estimate of full year adjusted EBITDA considers the first quarter's underperformance, our lower-than-expected in-restaurant traffic, costs associated with invest in the guest measures and incremental inflation expectations, among other items. We expect a blended tax rate of 45% to 50%. We expect capital expenditures of \$150 million to \$160 million, not including the capital allocated to franchise acquisitions.

And finally, a couple of reminders about the current quarter to help with your financial models. As Chris mentioned, April's consolidated same-restaurant traffic was positive and though the consumer backdrop remains highly uncertain, our expectation of positive same-restaurant traffic in the back half of 2025 remains unchanged. Also, we currently expect the second quarter will represent the peak of our commodity inflation for the year with some relief in the second half of the year. With a strong pipeline of new restaurant openings and plans to continue driving traffic, we're looking forward to serving our current customers more frequently, as well as introducing new customers to First Watch.

Operator, if you please open the line for questions.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Andrew Charles with TD Cowen. Please proceed with your question.

Mel Hope

Good morning, Andrew.

Andrew Charles

Good morning, Mel. Thank you, guys. Can you expand on the comment that sales turned positive in March and then traffic turned positive in April? I'm wondering, just given the Easter shift, you can speak to 2-year underlying sales improving from March to April.

Mel Hope

I think what we're seeing across -- I don't have the 2-year comp in front of me, but the shift this year caused some favorability, but we're seeing the trend is even through the holidays, pulling out the holiday effect, our traffic continues to be positive across both periods.

Chris Tomasso

Andrew, it's Chris. I'll say that we had sequential positive dine-in traffic improvement for all four quarters last year. And in Q1, taking out February, that trend would have continued.

Andrew Charles

Okay. And then, Chris, wondering if you could talk more about the trade-off between driving traffic through third-party actions and other initiatives, but doing so at a lower margin. What gives you confidence this is the right approach for the business?

Chris Tomasso

That it's working. The results that we're seeing are encouraging for us. So our focus right now in this environment, obviously, we've got cost pressures. We'll talk about that some more, I'm sure. But our focus is on driving traffic in our channels and specifically in our dining rooms and in the third-party channel. So as you know, we had certain headwinds that we spoke about very often in 2024, and our team got to work on addressing those, and we're pleased with the results we're seeing.

So if you look at what we reported today, a lot of confidence here around our ability to move the needle and get the consumer engaged with us, whether it's the marketing efforts, the moves we make in partnerships with our third-party providers. But the costs that we're dealing with, we are confident that they're not permanent. So we're really focused on the top line. And that's really what's driving the guidance and why we kept a lot of the elements from a top line perspective of the guidance in place because we are seeing some positive inflection there.

Andrew Charles

That's helpful. Thank you.

Chris Tomasso

Sure.

Operator

Our next question comes from Jim Salera with Stephens Inc. Please proceed with your question.

Jim Salera

Hey, guys. Good morning. Thanks for taking our question. I wanted to drill down a little bit on some of the learnings from the increased media spend and particularly engagement that you've seen following some of the new media efforts in March and if that has any sort of learnings that you can apply more broadly across the network and help support traffic as we have kind of this consumer malaise that we're confronting.

Chris Tomasso

Yeah. Again, we're iterating as we go along, but we're pleased with the results we've seen. I think it comes to life in the form of the improved traffic trends that we're seeing. And so we're chipping away at it. And we're only in, call it, the second month of that effort. We launched it really February, March. So we're starting to see the benefits of that now, which gave us the confidence to hold some of the guidance as it relates to that because we are happy with what we're seeing. So the team is just doing a really good job of, a, harvesting the data, leveraging it for the messaging, the timing, all of those things. And it really is a highly iterative process where we're making a lot of positive adjustments as we go along. So...

Mel Hope

We're also -- we're learning from markets, what are the characteristics that are -- where the response is quicker than others. And so it's helping us to dial it in more directly.

Jim Salera

Okay. Great. And then if I can maybe ask one on commodity. I believe you guys said 2Q should be the peak on commodity costs. Just any thoughts on -- is that just you have better visibility into commodities in the back half of the year? Or are there some things you're doing on sourcing that help mitigate those costs? Just any color around why that.

Chris Tomasso

A lot of -- Jim, the thing -- one thing I would point to is, first of all, we have commodities that are crop related. So some of them have to do with when the crops come in. And so where we've gone through a season where crops haven't -- have suffered, we don't expect that to be a permanent sort of item. Then where eggs are concerned, for example, that's been a large part of the discussion around our inflation for quite a couple of quarters here.

So as the flocks are still rebuilding for our -- we're picky about our eggs, there cage-free, pasteurized extra large shell in eggs that we use. And in order for the flocks to lay extra large eggs that hens have to be a certain maturity and they're replenishing those flocks now. So at some point in time, I have to believe that there's going to be a sufficient supply of our kind of specialty bird in order to see some relief there.

Operator

Our next question comes from Brian Vaccaro with Raymond James. Please proceed with your question.

Brian Vaccaro

Hi. Just a quick follow-up on the marketing spend and just thinking about the potential benefit through the year. Could you elaborate on sort of what percentage of the system had support in the first quarter? Or any color on how that could increase in the second quarter or second half or anything around spend levels? I'm just trying to gauge what we've seen versus what we could see rest of the year.

Chris Tomasso

Thanks, Brian. It's Chris. I mean, basically, almost the entire system is receiving some kind of support. Obviously, there's heavy ups in certain markets that we're not disclosing. But there are efforts, whether it's digital, social or some of the more targeted things that are impacting the entire system and then an elevated level in certain markets where more of the spend is being allocated.

Mel Hope

And Brian, every market, every restaurant has always received some level of marketing support. So this is more of an emphasis in certain markets.

Brian Vaccaro

Okay. And then I guess maybe a high-level question. I guess I'm curious to get your thoughts just on the breakfast category in the US. And it seems like quick service weakened quite a bit in the first quarter and then legacy Family dining continue to have its challenges. Are there macro factors that might be weighing there that you are less exposed to? Or maybe you do see some evidence of the broader headwinds sort of beneath the surface, whether that be softness during the weekdays or any pullbacks you're seeing in the lower range of your income cohorts? Just curious to get your lay of the land on the category.

Chris Tomasso

Yes. We do believe that our higher income profile customer provides some protection for us against that. I think there's been a lot of discussion around the lower income consumer pulling back. And you know that the type of customer that we appeal to and that makes up the majority of our demographic profile of our customer. So we think there's some protection there.

Brian Vaccaro

Thank you.

Operator

Our next question comes from Jeffrey Bernstein with Barclays. Please proceed with your question.

Jeffrey Bernstein

Great. Thank you very much. My question is on the 2025 guide. So you tempered the EBITDA by roughly \$10 million or 8%, but all of the components effectively reiterated. Mel, I know you talked a lot about a variety of headwinds that don't seem to be top-line related, at least in your view. I'm just wondering, it's all about costs over sales here. I'm just wondering if you could prioritize or bucket for us. Again, you mentioned a number of them, but the primary drivers in order of magnitude, I guess, for that significant EBITDA reduction. And then I had one follow-up.

Mel Hope

I think almost certainly, the cost-related issues are the piece that motivated us to bring down our guidance for the full year, more sustained more sustained inflation and then obviously, the consideration of tariffs, which we hadn't included in our guidance before.

Chris Tomasso

And Jeff, this is Chris, I mean, I've been here, as you know, almost 20 years and at least in my time, unprecedented that we'd have four of our top five commodities be under pressure at one time. The diversity of our market basket has been a benefit to us for -- throughout the history of the company. And so this is certainly a unique time.

Jeffrey Bernstein

Got you. And my follow-up is just on the comp trend. I'm wondering whether you've seen any change in consumer behavior, whether it's frequency or weekday versus weekend. It does seem like you're encouraged by the sequential traffic uptick, but I know there are some that are concerned. It looks like you're saying you expect to sustain that positive traffic in the second half despite the consumer volatility. So I'm just wondering if you can prioritize the primary driver to give you that level of confidence. Thank you.

Chris Tomasso

Sure. Yes. I mean we are encouraged by the trends that we're seeing. And again, it goes back a little ways here as we're chipping away at it. But as far as like the high-level trends, we're not seeing any big shifts or anything. We're not seeing any check management, as Mel mentioned, which is great. So at least all the signs that we're seeing in our business, we see a healthy customer for us.

And I'm choosing the word customer because they're the ones that come to us rather than consumer. Obviously, there's some challenges in the environment. But in our four walls and our restaurants and the customers that we're serving, we're encouraged by the trends we're seeing right now.

Jeffrey Bernstein

Great. Thank you.

Operator

Our next question comes from Sara Senatore of Bank of America. Please proceed with your question.

Sara Senatore

Thank you. I have two questions. I'll start with the first one. Just on the closures this year, I think it's been a while since you've closed restaurants or certainly this number. Can you just talk about the ones that you're closing and especially in light of how good the new unit economics seem to be, anything worth noting there? And like I said...

Mel Hope

Yes. I mean, look, we're a system of 500 restaurants. And every year, one of the leases or a couple of the leases run to term. And if the trade area has moved or something like that, then we might choose to not renew the lease or to relocate the restaurant or something like that. But there's nothing remarkable about the three closures that we anticipate having this year. The -- but in terms of new units, you asked, new units continue to outperform the rest of the system in terms of their sales volumes and meet our expectations on their pathway to full maturity over time.

Sara Senatore

Right, right. So these aren't relos. These are just like you said, a system of 500, you're going to invariably have maybe a couple more closures than you would have a couple of years ago.

Mel Hope

Yes, across 40 years, we've got restaurants that have leases that are maybe 25, 30 years old. And so occasionally, things move or trade areas go through a regentrification or something like that.

Sara Senatore

Okay.

Chris Tomasso

Sara, I'll be even more specific. Sometimes there's -- there are restaurants in what at the time we opened them, say, 20 years ago was really the only trade area to open in and new trade areas have emerged. And sometimes by closing one, we can open two in adjacent trade areas now whereby having one in the middle, locks out the other two. So, we just -- we constantly do a review of our assets. And as leases expire, we look to be as proactive as we can about optimizing the markets and ideally shooting for the penetration in the market and the density in the market that we believe sets us up best for success.

Sara Senatore

Okay. Thank you. That's very helpful. And then just on the surprise and delight, I know you said that was a little bit -- the pressure on margin was a bit higher than you had anticipated. It sounds like maybe some of the customer sort of choice too in terms of shifting to the higher COGS item with the portion investment. Is there anything maybe in particular with the surprise and delight piece that you can do to perhaps manage that or maybe guidance that you can give to your managers about how to do that most efficiently?

Chris Tomasso

Yes. I mean it was something we rolled out at our annual conference, and you hear us use the term making days brighter. And this was a way to bring that to life, and our managers got way behind it. They got really excited about it. I mean we're recognizing first responders and teachers and our neighbors, and Little League teams, and really putting a big focus around 2.5 miles around the restaurants, which is where our customers come from.

And so, yes, I mean, it's not -- this is something that we'll continue to do for the rest of the year. Obviously, there's conversations that goes on about managing it appropriately. But we think it's a great program. We think it's a great way to build loyalty. And I think our teams are doing a great job with it, and we'll just manage it appropriately with them as the year goes on.

Operator

Our next question comes from Jon Tower with Citi. Please proceed with your question.

Jon Tower

Great. Thanks. I know it's early in the process in terms of some of the marketing stuff and even some of the surprise and delight ramping. But I'm curious maybe if you've seen any improvement in some of the consumer scores regarding your value proposition for the guest as you've been ramping some of these things through the system?

Chris Tomasso

No, I think you're right. It's early. I mean we've been probably 13 weeks with some of this. So there's -- we're going to have a longer period and more cohort to analyze.

Jon Tower

Okay. And then maybe just on the labor front, I know it was higher this quarter. You called out health benefit costs kind of ticking higher. But is there anything else that we should consider going forward aside from the underlying labor inflation to consider? Is there any investment here that...?

Chris Tomasso

The other part of the uptick is one that we always have, which is that we carry extra managers, because we're opening so many restaurants at such a rapid pace that we carry extra managers so that when we do open a restaurant, we can put a veteran manager into the restaurant. And so we tend to carry some higher costs there. And as we're opening more restaurants each year and opening more rapidly, the fact of the matter is that we're carrying more managers.

Jon Tower

Got it. And then just last one quick. On the tariff pressure, can you just tell us exactly where that came from? Is that coffee and maybe avocados? -- curious where...?

Chris Tomasso

A lot of it has to do with supplies that we get from Asia. And there's some on food products, but really a great deal of it has to do with our packaging supplies and paper goods, napkins, that sort of thing.

Operator

Our next question comes from Todd Brooks with The Benchmark Company. Please proceed with your question.

Todd Brooks

Thanks for taking my question. First, wondering -- and Mel, you gave us some color on the pricing waterfall over the balance of the year. But if we think about the mix impacts that you highlighted between the GM, Surprise and Delight and DoorDash, the kind of new algorithm around how that business is priced. What do you see as the mix offsets for those pricing impacts as we look forward?

Mel Hope

Todd, when you say mix offsets, help me understand what you're trying to drill to?

Todd Brooks

I'm trying to get from the menu pricing that you talked about to what the actual average check growth would be in the forward outlook?

Mel Hope

We generally don't guide to mix. Generally speaking, we consider it sort of a flattish in our own projections. So if that's helpful.

Todd Brooks

Yeah. I didn't know if there's been any delta with that with what you called out with Surprise and Delight and kind of big growth you saw in third-party delivery and the new structure there. Okay, great. Thanks.

And then -- and this is more of a just management philosophy question. But in an environment like we're in now, it seems like relative to most that are maybe struggling with the guidance strategy, you guys -- the top line seems fairly sturdy relative to others. So when you're looking at the revised EBITDA guidance, is there a thought of, okay, let's take our swipe at this and really work to incorporate everything plus some cushion? Or this is basically best snapshot of where things stand now and what's a pretty fluid cost environment for you?

Mel Hope

In terms of just management, I think, look, we're pleased with what we've -- with the investment that you mentioned. I think the thing that propels our growth over a long period of time is growing share. It's increasing our in-restaurant dining, which is our most profitable and our proudest representation of our brand. And so I think those things that we do that create more loyalty, more frequency, remind the guests that we're thinking about them personally and celebrate their attendance in the restaurants. I think those things are management decisions that we believe are going to pay dividends over the long-term.

Chris Tomasso

As it relates to the cost, though, what's included there is all based on our best information right now. We started the year with a higher inflation estimate than others maybe in the -- on their calls, and it's based on what we've seen. And like I said, we're in a little bit of a unique situation with the top four of our top five commodities being under some of them double-digit inflation pressure. So if you're asking if there's cushion in there, I'll just tell you, I think you know how we operate. We base it based on what we're experiencing now. But as Mel said, we expect Q2 to be the piece of that.

And a lot of it has to do with the repopulation of the eggs of the hens and the weather-related pressures that we've had, whether it be on coffee or other commodities. So again, it's just -- it's based on our best information at the time.

Operator

Our next question comes from Andy Barish with Jefferies. Please proceed with your question.

Andy Barish

Hey. Good morning guys. Wondering if you could comment kind of on the Florida market relative to the system, I know there's been a lot of dynamics down there in that large market for you. Anything you'd like to call out?

Mel Hope

Florida has been great. It's outperformed the rest of the country. I think we've talked a lot about that when it wasn't -- when it was underperforming and why we thought it was. I would -- I mean, I'd like to think that we had a really good handle on it when we were explaining in 2024 that it was kind of a re-leveling, if you will, of post-COVID euphoria and kind of inbounds into Florida and now it's leveled off. That has and performing really well. And we continue to open new restaurants here. And I'll use the same phrase we used all last year. We're bullish on Florida and nothing's changed.

Andy Barish

Yeah. Good to hear. And then, Mel, just one other cost item. It looked like you called out an increase I think it was \$2.5 million in R&M and utilities. Was that kind of a variance on the bad side to what you guys expected? Or is that -- was that sort of in line with what you had been thinking in that area?

Mel Hope

Repair & Maintenance has been a little bit, I would say, a little bit of a growth area for us in terms of increased costs, but it's not too surprising for us.

Operator

Our next question comes from Brian Mullan with Piper Sandler. Please proceed with your question.

Brian Mullan

Hey. Thank you. Just a question on menu innovation, last call, you discussed testing an expanded line of beverages. Can you just elaborate a bit on those efforts? What are you seeing in test? And maybe what the next steps would be with that idea if you wanted to move it across the system?

Matt Eisenacher

Yeah. Hey. Thanks for the question. This is Matt Eisenacher, Chief Brand Officer. This is Matt Eisenacher, our Chief Brand Officer. We've continued to iterate on different formats for our menus.

We are still in the final stages of moving into test for those expanded beverages. We obviously want to see those in market for quite a bit of time. But obviously, our goal is to continue to drive incremental beverage attachment.

Brian Mullan

Okay. Thanks. And just a follow-up, a question on the franchise store base, after this most recent acquisition closes this quarter, just remind us what you have left in terms of options to purchase stores, if anything, just an update.

Mel Hope

There'd be about -- well, there are 67 franchise locations and eight of those are subject to purchase rights.

Operator

Our next question comes from Chris O'Cull with Stifel. Please proceed with your question.

Unidentified Analyst

Great. Thanks guys. Good morning. This is Patrick, on for Chris.

Mel Hope

Good morning.

Unidentified Analyst

Hey. I wanted to follow-up on the mix conversation. And I was just curious if you could talk about, Mel, the timing of the investment and portioning changes in the Trifecta and then the DoorDash change or the 3P delivery change that you made, just in terms of timing in 1Q. And I'm really just looking to understand whether that mix impact we saw in the first quarter is reflective of essentially a full quarter of impact.

Mel Hope

It would have been early in January on both of those fronts. Is that right, Matt? Okay. Yes. So it's -- if it's not all 13 weeks, it's at least 11 of them.

Unidentified Analyst

Got it. That's helpful. Thank you. And then I think you mentioned, Chris, that ticket times improved again. And I was just curious if you have a sense of sort of the disaggregation of that between KDS system and pay at the table and kind of what those drivers are. And I think you guys made some other changes in terms of table utilization as well in the stores. And I was just curious how all that's coming together. And if you could kind of rank order the impact that's having on service times.

Chris Tomasso

Yes. One, two and three is KDS. And I would say then the dining room optimization and the enhanced bussing procedures and again, what I call the unsexy things that are part of the blocking and tackling, but really help with the throughput. I also don't want to not mention the waitlist on the app. That's a big component of us being able to quote more accurate wait times, stop that look and leave, keep people from falling off the list, those type of things.

And then the pay at the table really isn't a ticket time driver. It's more of a consumer benefit, if you will, because it happens after the meals are out. So we're really focused on, as I've said before, the time of the experience that we control. We want to be as efficient as possible.

Of course, our customers can sit as long as they like. But whether it's getting them seated as quickly as possible, getting their food out to them as quickly as possible, allowing them to pay as they want to and when they want to, which is why we put the check down halfway through the meal so that now the power is in the hands of our customers to pay when they want to pay. So it is -- it really is a toolbox that we've put together that all works really well together.

And we've actually done some time and motion studies in the back of the house that we've removed a lot of steps and a lot of latency in different positions. So we've really been on for the past couple of years, a serve more demand focus, and it's pretty much touched every part of our 4-wall experience. And if you consider the app just outside the 4 walls. So that's all worked really well.

Operator

Our next question comes from Gregory Francfort with Guggenheim Securities. Please proceed with your question.

Gregory Francfort

Hey, thanks. I had two questions. The first one, I guess, is for Mel. Just how are you thinking about long-term margins, restaurant margins within the context of maybe your 20% in 2024. I think your guidance would suggest it's going to be down to some degree this year. What is your target for long-term margins and kind of where you want to be in that range? Thanks.

Mel Hope

Yes. I think we've always said that we try to, over the long-term, target between 18% and 20% on the restaurant level operating profit margins, and that hasn't changed.

Gregory Francfort

Okay. And then just maybe digging in a little bit more on aggregator performance and the third-party sales being as strong as they were in the quarter. Are you seeing anything different from the consumer in terms of how they're responding or the offers that they want to see or just kind of how the aggregators might be dealing with placing First Watch versus other brands? Just any thoughts there?

Chris Tomasso

Not necessarily for us. I think our -- the biggest benefit that we received was really through the partnership with DoorDash and having them lean in and us lean in on realizing that we could really help each other. We serve a daypart that's not as crowded as lunch and dinner per se. And so -- but from a consumer standpoint, we haven't really seen much change as far as what the order looks like. And again, we're not big on discounting on that channel. So that's not really a game that we're in.

Operator

Our next question comes from Brian Vaccaro with Raymond James. Please proceed with your question.

Q – Brian Vaccaro

Yes. I just had a quick follow-up kind of high level on just thinking about relative pricing within the category. It seems like some of the family diners have gotten even more aggressive on value in recent months and quarters. But at the same time, they've maintained elevated menu pricing for maybe a higher for longer strategy, many of them are my franchisees, et cetera. So their core menu prices, they don't appear to be much different than yours and in some cases, are even higher based on some of our checks. I'm curious if that fits with what your pricing studies and internal analytics would show and just sort of how much that pricing differential may have narrowed over the last few years?

Chris Tomasso

Yes. It does line up with our research, Brian. And it's actually a big part of our strategy, which is why we are working really hard to keep our menu prices down and maybe taking -- having some impact on our margins right now because we think our relative value has improved significantly when you think about the quality of the ingredients that we use and what we offer as compared to family diners.

And I'll go back to what I've said before, with the highly franchised systems, the mothership doesn't have a lot of control over the menu pricing, which is why us being, call it, 90-plus percent company-owned allows us to make those long-term strategic decisions that ultimately, we believe will be the best decisions that we've made.

So as we prioritize traffic right now and deal with the commodity costs that we're dealing with, we've got two drivers for our growth, right, our unit growth and our same-store sales growth. And to us, the best way to build the same-store sales is through increased traffic, not through pricing.

We're looking to be that everyday occasion. We want to be approachable. We don't want price to be a limiter to us being able to build traffic. So we believe we're strengthening the system by acquiring franchisees and by the strategic moves we're making to differentiate ourselves in a challenging environment.

So we know we're taking share. Our new restaurants are performing really well. And I think that's why we're just so optimistic about where we are right now and actually using this macro environment as an opportunity to strengthen our position and widen our lead.

Q – Brian Vaccaro

All right. I'll take the rest offline. Thanks so much.

Chris Tomasso

Thank you.

Operator

There are no further questions at this time. I would now like to turn the floor back over to Chris Tomasso for closing comments.

Chris Tomasso

Great. Thanks, everyone, for joining us this morning. We appreciate it. It really is an exciting time for First Watch, and we're looking forward to continuing to make days brighter for our customers and our employees in our nearly 600 First Watch restaurants across 31 states now. And a special thank you again to our entire team across the system for making days brighter for everyone. Thanks, everyone.

Operator

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

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