

First Watch Restaurant Group, Inc. (FWRG) Q1 2026 Earnings Call Transcript

May 05, 2026, 1:41 PM ET | **First Watch Restaurant Group, Inc. (FWRG) Stock**

**SA Transcripts**

160.26K Followers

Q1: 2026-05-05 Earnings Summary

Insights



EPS of -\$0.02 **beats by \$0.01** | Revenue of \$330.96M (17.26% Y/Y) **beats by \$1.61M**

First Watch Restaurant Group, Inc. ([FWRG](#)) Q1 2026 Earnings Call May 5, 2026 8:00 AM EDT

Company Participants

Steven Marotta - Vice President of Investor Relations

Christopher Tomasso - CEO, President & Director

Mel Hope - CFO & Treasurer

Conference Call Participants

James Salera - Stephens Inc., Research Division

Jeffrey Bernstein - Barclays Bank PLC, Research Division

Brian Vaccaro - Raymond James & Associates, Inc., Research Division

Zachary Ogden - TD Cowen, Research Division

Sara Senatore - BofA Securities, Research Division

Brian Mullan - Piper Sandler & Co., Research Division

Jon Tower - Citigroup Inc., Research Division

Todd Brooks - The Benchmark Company, LLC, Research Division

Gregory Francfort - Guggenheim Securities, LLC, Research Division

Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division

Presentation

Operator

Thank you for standing by, and welcome to the First Watch Restaurant Group, Inc. First Quarter Earnings Conference Call occurring today, May 5, 2026, at 8:00 a.m. Eastern Time. [Operator Instructions] 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 at First Watch to begin.

Steven Marotta

Vice President of Investor Relations

Hello, everyone. I am 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 2026 on Globe Newswire and filed its quarterly report on Form 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 condition 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 on Form 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 2025, unless otherwise indicated.

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

Christopher Tomasso

CEO, President & Director

Good morning, everyone. Thank you for joining us to discuss our first quarter results as well as our plans for the balance of 2026. First, I want to express my appreciation to our entire team across the country, more than 17,000 dedicated employees whose commitment to making days brighter drives our success. We're pleased with our first quarter performance as several of our key growth initiatives supported solid financial results.

We delivered same-restaurant sales growth of 2.8%, generated restaurant-level operating profit margin of 18.5% and expanded the system to 648 restaurants with the opening of 16 new locations.

We believe our first quarter results and the benefits we are realizing from our growth initiatives line up well with our full year expectations. As a result, we are reiterating our fiscal 2026 same-restaurant sales growth and total revenue growth guidance. We're also raising the low end of our adjusted EBITDA guidance.

Early last year, we began investing in digital marketing programs and accelerated that effort in the first quarter of 2026. We expanded the rollout of our digital marketing campaign to approximately 75% of our restaurant base, up from roughly 1/3 in 2025.

Based on early analytics, we are already realizing a positive ROI on the increased expense in the markets receiving support for the first time in addition to the positive ROI in markets benefiting from a second year of investment, reinforcing our conviction in the strategy and plan.

The campaign is built around a targeted multichannel approach that spans paid social, online video, paid search and connected TV, allowing us to reach consumers in a relevant and engaging way. We're encouraged by the engagement across several key measures. The campaign is attracting first-time customers who may not have previously considered the brand, reengaging customers who had lapsed in frequency and driving greater frequency among our existing customer base.

At the same time, we are seeing improvement across key metrics, including gains in both unaided brand awareness and future purchase intent, which we believe are critical indicators of First Watch's long-term growth potential. These early results demonstrate that our increased investment is not only driving near-term traffic and engagement, but also strengthening the brand and building a higher lifetime customer value, so much so that we are pulling forward several million dollars of marketing spend into the second quarter from the back half of 2026.

We're also pleased with the performance of our new core menu. As we discussed on our last conference call, we conducted extensive testing of the menu in 2025, our first comprehensive menu update in more than a decade. The primary objective was to elevate the overall guest experience while also simplifying execution and improving efficiency for our restaurant teams. Following the positive test results, we rolled out the new core menu system-wide by late February.

Early reads have been positive across a host of KPIs. For instance, the 2 prior seasonal menu fan favorite items we highlighted, the Barbacoa Breakfast Tacos and the Barbacoa Chilaquiles Breakfast Bowl are both mixing above our expectations and both are higher-margin entrees.

In addition, the menu enhancements are driving positive mix of our fresh juices, shareables and add-ons. The new core menu is constructively impacting our consolidated sales mix and overall check composition. We're seeing higher attachment rates and more frequent trade-ups, which have translated into per person check average growth in the first quarter that was incremental to our carried pricing. That dynamic indicates that customers are not only responding well to the updated menu, but also that the new design is encouraging them to explore deeper into our offerings, validating both the strategic intent and the financial discipline behind this important initiative.

We also made a tactical decision to extend the duration of our Jumpstart seasonal menu from the traditional 10-week to 20 weeks, a first for our company. This move was motivated by 3 key objectives.

First, the increased repetition realized in the longer LTO menu window enables our operators to focus on the exceptional execution of the new core menu. Second, we are using the extended time frame of our Jumpstart seasonal menu to evaluate how a longer-tailed marketing campaign could influence future seasonal menu mix as a percentage of consolidated sales.

Encouragingly, attachment of our seasonal menu items has improved alongside the launch of the new menu. Even alongside the positive mix we are seeing from the core menu, it's exciting to see attachment to our seasonal offerings strengthen as customers respond enthusiastically to both.

Third, we brought back several of our most successful limited time offerings to the menu in order to generate excitement and strengthen customer engagement. Among these returning favorites were the BEC, a Bacon Egg and Cheddar sandwich served on thick artisan Sourdough and the Strawberry Tres Leches French Toast.

The newest introduction, the Chimichurri Steak & Eggs Hash is now our highest performing seasonal entree of all time. Successful innovations in our restaurants, like those I've been sharing on this call, illustrate the power of the entrepreneurial First Watch culture. Promising ideas quickly rise to in-restaurant testing, which provides for optimization through the working partnership of our culinary and operations teams.

The result is our rich portfolio of new initiatives and upcoming offerings. We recently wrapped up testing of the highest mixing new shareable item is Million Dollar Bacon, which will launch in just a few weeks. Moreover, a suite of offerings that are driving higher attachment and boosting the guest experience is going into test now with an expectation that they will earn their way under the core menu early next year.

Shifting the spotlight to development and growth. We remain the fastest-growing full-service restaurant brand in the United States and the success of our recent classes reflects the benefits of following our disciplined real estate site selection criteria and our broad appeal.

Our preopening period marketing builds anticipation and trial, which has been supported by our operations teams, who work together to ensure we are executing at a high level upon opening in the critical early months following and for years to come. The class of 2025 annualized sales remains solidly ahead of both our underwriting targets and our comp base. And while still early, our recent class of 2026 NROs is performing even better.

Looking ahead, our priorities for 2026 and beyond are focused on driving durable, profitable growth. We're going to expand our presence in the new markets we've recently entered, moving briskly from market entry to market densification. By increasing restaurant density within a local market, we enhance regional efficiencies, broaden our customer base and build additional brand awareness.

At the same time, we will continue to be disciplined about where we expand. We are strategically filling in core markets where we already have strong operating leverage while also expanding in emerging markets where we have identified compelling long-term demand and significant white space. The bottom line is First Watch works everywhere.

Considering our proven portability, we have the competitive advantage of opening new restaurants in a balanced fashion across core, emerging and new markets on our march to 2,200 locations. We have established ourselves as the leader in daytime dining and continue to grow market share, strengthening our leadership position.

When one looks across the landscape, there is simply no other daytime dining brand that brings together our scale, our discipline, our proven ability to grow consistently and the size of the white space still in front of us.

Taken together, these attributes truly differentiate First Watch. We're energized by what lies ahead with ongoing innovation leading to growth, and we remain focused on doing what we do best, creating a wonderful place to work for our teams and delivering an experience that keeps customers coming back.

And with that, I'll turn it over to Mel.

Mel Hope*CFO & Treasurer*

Thank you, Chris. Total first quarter revenues were \$331 million, an increase of 17.3% with positive same-restaurant sales growth of 2.8%. Our top line growth results from the positive same-restaurant sales growth, coupled with contributions from 194 noncomp restaurants, including 68 company-owned new restaurant openings and 19 franchise locations acquired since the fourth quarter of 2024.

Same-restaurant traffic growth was negative 2%, with weather negatively affecting the quarter by around 100 basis points in addition to our customary planned sales transfer. Excluding those impacts, underlying traffic trends remain consistent with our expectations.

Food and beverage expense was 22.6% of sales compared to 23.8%. As a percentage of sales, costs benefited from carried pricing of around 4% and commodity deflation around 1.6%. The commodity deflation was driven primarily by eggs, avocados and a brief favorable market trend in bacon prices.

Labor and other related expenses were 33.7% of sales in the first quarter, a 90 basis point improvement from 34.6% reported in the first quarter of 2025. Carried pricing offset 3.7% of labor inflation, while our labor efficiency was essentially flat as compared to last year. We realized restaurant-level operating profit margin of 18.5% in the first quarter of 2026, a 200 basis point improvement over last year.

We realized a percentage margin of 0.3% this quarter at the income from operations line. At \$39.9 million, general and administrative expenses were 12.1% of total revenue. The increase compared to last year was largely due to the scheduling of our leadership conference in the first quarter and the expansion of our 2026 equity compensation program.

First quarter G&A expenses were lower than our plan due largely to the timing of certain activities. Although, our full year G&A expense plan remains unchanged, we are applying to the second quarter a portion of the marketing expense planned for the back half of the year, leading to our expectation that total second quarter G&A expenses will approximate the first quarters.

Adjusted EBITDA increased 22.2% to \$27.8 million, a \$5 million increase versus the \$22.8 million reported last year. Adjusted EBITDA margin was 8.4% as compared to the 8.1% margin we realized in the first quarter of 2025.

Net loss was \$2.7 million. We opened 16 new system-wide restaurants during the first quarter, of which 13 are company-owned and 3 are franchise owned and ended with 648 restaurants across 32 states. The net effect of acquisitions in the quarter, which includes only the impact of purchases made within the last 12 months, increased revenue by about \$8 million and adjusted EBITDA by just over \$1 million. For further details on the first quarter, please review our supplemental materials deck on our Investor Relations website beneath the webcast link.

Now, I'll provide our updated outlook for 2026. We are reiterating the 1% to 3% range of same-restaurant sales growth, and we continue to expect positive same-restaurant sales growth in each quarter of 2026.

Our guidance includes carry pricing of around 4% in the first half of the year, which blends to 2% for the full year. As a reminder, we did not take any price at the beginning of 2026. And as we have done in the past, we'll revisit menu pricing in the coming months. We continue to expect total revenue growth of 12% to 14% with around 100 net basis points of impact from acquisitions.

We are reaffirming a total of 59 to 63 net new system-wide restaurants, which will result from 53 to 55 company-owned restaurants and 9 to 11 franchise-owned restaurants. We also plan to close 3 company-owned restaurants this year.

Our company-owned new restaurant development pipeline is weighted to the second half of 2026 Q4 in particular. We continue to expect full year commodity inflation of 1% to 3%. Restaurant level labor cost inflation is expected to be in the range of 3% to 5%. We're raising the lower end of our 2026 adjusted EBITDA guidance range.

Our new range is \$133 million to \$140 million, up from \$132 million to \$140 million previously. We're reiterating the net impact from the 19 restaurants we acquired in April last year, which are expected to contribute about \$2 million to our adjusted EBITDA this year. We continue to expect capital expenditures of \$150 million to \$160 million.

I want to acknowledge the execution across our entire organization this quarter. I'm proud of our operators, our field leaders and our home office staff who navigated a dynamic environment, including weather impacts, welcoming and training a host of new employees, opening high-volume new restaurants and adjusting to our new core menu.

Our updated outlook for the year underscores our confidence in our operators and in our new restaurant development pipeline. We appreciate your continued interest in First Watch.

And operator, we'd now like you to open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Jim Salera with Stephens Inc.

James Salera

Stephens Inc., Research Division

Chris, I wanted to start by just asking if you could give us some detail around the outperformance that you guys have seen relative to maybe the overall perception of breakfast. I think a lot of investors are concerned that breakfast is one of the more pressured daypart in restaurants given the kind of economic backdrop and yet you guys continue to deliver pretty durable same-store sales. So can you just help us kind of bridge that delta you guys are doing versus kind of the broader breakfast category?

Christopher Tomasso

CEO, President & Director

Sure. Thanks. I think for us, it comes down to really 3 things: experience, execution and value. So I think a lot of the news and noise around breakfast and the softness around breakfast really has been targeted more and coming more from QSR. And I think you've seen a lot in the environment here about consumers really looking for value, consistency and the experience. And I think we bring that every day. And so I just think that the consumer is putting a high value on that and finding time in their mornings and middays to come see us.

James Salera

Stephens Inc., Research Division

If we think about some of the potential impacts on the commodity front, given the energy cost increase following the Iran conflict. Is there anything you are keeping an eye on or we should be keeping an eye on as you start to contemplate pricing in the back half of the year? I know eggs have still come down significantly, but there's been some fluctuation on some other commodities.

Christopher Tomasso

CEO, President & Director

Yes, we'll be collecting all that information, and it's part of the consideration. We need to know where the customer is, and we consider that as part of the pricing philosophy and thinking that we'll go through. So it's -- the short answer to your question is absolutely, we think about the pressures that are on the customer from either gas or any other inflation that we see out there.

Operator

Our next question comes from the line of Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Great. Just following up from the comp trend perspective. Obviously, there was a spike in gas prices later in the quarter with the geopolitical concerns and the Iran conflict. I'm just wondering if you could maybe share your thoughts on your ability to work through that, whether there was any change in trend late in the quarter and perhaps into 2Q, if you're willing to share April, just related to the gas price spike. If you can share those sequential trends, that would be great. And then I had one follow-up.

Christopher Tomasso

CEO, President & Director

Yes. I think a couple of things from kind of what we just said that I could expand upon. One is the traffic pressure that we felt really was impacted more by weather than gas prices and fuel prices and other pressures. So -- and then when you heard me talk about the performance of our menu and our seasonal menu and how the guests are electing to spend more and go deeper on our menu and add shareables and things like that. That came a little bit later, obviously, because we didn't launch that menu until February.

So we've actually been very pleased with how our consumer has interacted with us despite what's going on in the macro. So we're fortunate that we -- our core demographic is higher income. And I think we have a little more insulation to that. And I think the behavior that we're seeing from our customer, certainly as we innovate and give them new reasons to come in and work around our menu has been something that we've been very encouraged by.

Mel Hope

CFO & Treasurer

And Jeff, our development team does a really good job of locating our new restaurants and the business is close to our customers. So in terms of just convenience, I think that's a helpful attribute that our system enjoys in terms of being near the customer and convenient to them.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Understood. And then just a follow-up. Well, first of all, whether you're willing to share April trends or whether there's been any change in trajectory. But otherwise, you did reiterate that you expect positive comps each quarter of this year. The compares are clearly much more difficult. In fact, the third quarter, they're like 600 basis points more difficult than the quarter you just completed.

So just wondering your confidence in that. Maybe there are particular initiatives to support such confidence. I'm assuming marketing is near the top, but your willingness to guide to positive through the rest of the year and what gives you that confidence?

Mel Hope

CFO & Treasurer

Yes. We haven't seen a big shift in the trend in terms of the overall growth or what we have planned for the year.

Operator

Our next question comes from the line of Brian Vaccaro with Raymond James.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Just to ask on the First Watch value proposition and kind of your thinking on menu pricing. And maybe you could just talk about how you view the relative value proposition and price points kind of specifically versus some direct peers of the broader category. And when you think about menu pricing, assuming something material doesn't change in terms of the consumer backdrop, do you plan to take something in the second half, given there's still some underlying inflation, whether it be food, labor, et cetera?

Christopher Tomasso

CEO, President & Director

Brian, you know us well. You know you're not going to get that answer, but I appreciate you asking. Our philosophy does not change despite the macro environment. You saw what we did when we had record inflation. We will always lean towards the consumer whenever we can. And sometimes that means taking it on the margin. And sometimes it means we catch up a little bit later on.

So I'd just tell you that we go into the beginning of the year and the middle of the year, really looking at things that we control. I think you heard me say that the seasonal menu is driving mix above our carried pricing. We love that, obviously. It's -- that's very different than taking price on a like-for-like item and a consumer paying one price one day and another price another day. So -- that's how we like to build check is through innovation and things like that.

That said, we see the realities of inflation and other things, labor and all of that, and we try to keep that nice balance. We do know from our research that we have tremendous pricing power, but we also know that the consumer is under pressure. So we really try to walk that fine line. But we go into, and we're about to do it here in the next couple of weeks, a full evaluation of that. And I will say that we feel good that our consumer, our customer is behaving a little bit differently than what we're seeing and hearing out there.

And I think it's because of the cocktail of things that we've put out there and put in place 18 months ago. The menu that we launched now has been something we've tested for 18 to 24 months. Same with the marketing and media. You know how we've kind of done the crawl walk run on that.

Well, that's all leading to kind of bring together of all those things for our benefit and for the consumer's benefit. So the direct answer to your question is we're going to evaluate it here for a midyear price increase, and we'll do what we think is best.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

All right. You know, I had to take a shot at it, but I appreciate that. On commodity inflation, just a quick follow-up. Obviously, nice to see a little bit of year-on-year relief here in the first quarter, Mel, you noted some brief bacon relief maybe, but you obviously reiterated the guide for the year. So can you help us square those 2 a bit? And any color you can provide sort of on your Q2 expectations versus what's embedded in the second half?

Mel Hope*CFO & Treasurer*

So we did have some first quarter relief. The pork prices were a little bit unexpected relief in terms of price for us because our contracts are priced off published agency rates. And during the period that the government shut down, the agency prices were held flat rather than continue to ascend during the period. So that was a little bit of a surprise to us on an important commodity, but also our crop-related commodities of avocados and coffee continue to be expected to rise some through the year. So even though we enjoyed some relief in the first quarter, we are seeing sort of the seasonal increases in some of those. So we're -- our 1% to 3% guide on inflation in COGS, we're standing on that pretty firmly.

Brian Vaccaro*Raymond James & Associates, Inc., Research Division*

All right. And then maybe just one more quick one. Thanks for the color on the G&A pull forward into Q2. Pretty clear on that. But can you just remind us what your expectations are for G&A for the year?

Mel Hope*CFO & Treasurer*

We don't guide to G&A for the year. It's just embedded in our adjusted EBITDA guidance.

Operator

Our next question comes from the line of Andrew Charles with TD Cowen.

Zachary Ogden*TD Cowen, Research Division*

This is Zach Ogden on for Andrew. So you talked about the 1Q mix being driven by the new menu, but that was only fully rolled out for about a month. So is your expectation that mix can actually accelerate further in the balance of the year relative to 1Q?

Christopher Tomasso*CEO, President & Director*

Yes. Just for clarity, it was about 2 periods in the quarter. So -- and again, it's also -- that mix is also driven by the seasonal menu that is out right now that has our highest mixing item ever. So that's driving it, too. But yes, we don't plan for mix, but based on what we've seen as long as the rest of our seasonal menus deliver the way the first one has or similar to it or on a year-over-year basis, I wouldn't be surprised to see positive mix.

Zachary Ogden

TD Cowen, Research Division

Got it. And then you talked about the class of 2026 actually being even stronger than the class of 2025. So can you talk about what's driving that? Is that more of a function of the second-gen sites you're shifting into this year? Or is that a separate factor?

Christopher Tomasso

CEO, President & Director

I think the mix of second-gen sites is similar from a percentage standpoint, about half. So I wouldn't say it's necessarily that. I just -- to Mel's point, we're just -- that's an area where we are constantly learning and adapting as we either in site selection or prototype execution, design, those type of things. And that's one of the beauties of our model where we can kind of do those things. We have a kit of parts that we apply to each restaurant. So no 2 of them look alike, but they have very recognizable elements.

And we're just constantly getting better. I think if you go back and look at our -- the performance of our new restaurants over the last 7, 8 years, you'll see that every year has gotten better than the last, and we have some standouts in each class. And so that's something that we just continue to innovate around and get better.

Actually, I want to add one more thing to that. We've also -- with that comes the evolution of our preopening marketing and building the anticipation for the openings and that type of thing. So we're seeing stronger openings than we've ever seen before, and then they just carry on from there as well.

Operator

Our next question comes from the line of Sara Senatore with Bank of America.

Sara Senatore

BofA Securities, Research Division

I wanted to ask about marketing. You mentioned that you're pulling forward marketing, but your annual G&A target is unchanged. I guess is the implication that even if the ROI remains quite high, you wouldn't increase the annual spend on marketing? I'm just looking at -- I think last year, I know what you report in your 10-K is maybe not comprehensive, but it looks like you kind of doubled marketing last year. So just trying to understand, given how high the ROI appears to be, whether you would think about just stepping up the marketing budget for the full year? And then a quick follow-up.

Christopher Tomasso

CEO, President & Director

I guess -- probably an easy way to think about it is that G&A is the cocktail of a lot of different items, too. So when we maybe throttle up or down the marketing spend. There may be some other areas where we can dial back or push it out. So we manage G&A throughout the year. So the timing shifts from time to time based on what we think is important and what people will respond to at certain times of the year. So those adjustments, I mean, they're ordinary and normal. So we are continuing to manage our G&A inside what our full year plan is.

Mel Hope

CFO & Treasurer

But specific to marketing, what I would say is by pulling that forward and getting more time to read the results of those dollars being spent gives us the flexibility and optionality to consider doing what you mentioned, Sarah, later in the year should the environment be conducive to that.

Sara Senatore

BofA Securities, Research Division

Okay. Got it. And then, Mel, just on the -- you also mentioned that the G&A in the first quarter was slightly below to the same point, below your expectations. And is that the reason your EBITDA beat was a little bigger this first quarter than the full year guidance raised at the low end. Is that how I should think about it, which is some of that beat was maybe timing of G&A?

Mel Hope

CFO & Treasurer

Yes, that's right, some favorability.

Operator

Our next question comes from the line of Brian Mullan with Piper Sandler.

Brian Mullan

Piper Sandler & Co., Research Division

Just a question on marketing also. If you look at the restaurants that have had the enhanced marketing tactics in place for longer, so maybe the first third of stores, are those performing differently than the stores they got it only more recently? I think what I'm really trying to ask is do the benefits build over time, do you get an initial lift and maybe followed by more benefits? Any color you could shed on that?

Mel Hope

CFO & Treasurer

Yes. The lift in the restaurants that enjoyed some additional marketing spend last year has been sustained. So we're continuing to spend in those as well. So it's been effective for them not only last year when it was introduced there, but now in this year as well.

Christopher Tomasso

CEO, President & Director

And obviously, that was part of what we wanted to evaluate was the cumulative effect of a class, if you will, or a group receiving support and then receiving it again the following year what we should or could expect when that happens. And so that's part of our overall marketing planning as well, certainly as we go through the rest of the year and then into next year.

Brian Mullan

Piper Sandler & Co., Research Division

Okay. And then as a follow-up, could you just comment maybe on the delivery channel broadly or generally speaking, really strong growth last year, you have to lap it. Is that kind of in the base now and you can grow more slowly? Or would you expect a little mean reversion this year? Just any comments on the balance of the year?

Mel Hope

CFO & Treasurer

We've continued to see growth there, not to the level that we saw last year. But what we said earlier was that it's kind of in the base now, and we expect it to grow similarly to the rest of the system. And we're pleased that we kind of set a new level that we're growing from organically at this point.

Operator

Our next question comes from the line of Jon Tower with Citi.

Jon Tower

Citigroup Inc., Research Division

Chris, this one is for you. I'm just curious, obviously, you mentioned earlier that your new stores are performing exceptionally well, and they continue to build new class year after year after year, getting better in terms of productivity. The backdrop, though, within the competitive set has certainly weakened, at least based on what we can look at in terms of where you guys were thinking around the time of the IPO versus today.

So I'm just curious if you can comment on the company's thinking around development over time and the commitment to that long-term low double-digit percent growth for units that you've spoke to over time.

Christopher Tomasso

CEO, President & Director

Sure. I think if you look back at how we've grown and how we got to this leadership position over the years, it was through our organic company-owned growth, acquisitions, sizable ones for that matter, external M&A and franchising at some point. This was really at a time when we had a lot of players in our space, in our direct space, at least espousing that they were going to have aggressive growth.

And so we absolutely took the opportunity to take footholds in markets -- key markets for us and did so aggressively, and we continue to do that now. But that said, we're always looking at our capital allocation, what's the best strategy for the next 5 years, that type of thing. And so we're comfortable with our current unit growth outlook right now, but we are always evaluating. And if that changes, we'll obviously communicate that appropriately.

Jon Tower

Citigroup Inc., Research Division

Okay. And then maybe just switching up a little bit. In terms of -- you talked about the new menu and the marketing helping with building brand awareness and it sounds like traffic too, to some extent. Can you speak to maybe any complexion of the customer base that you're drawing in with the new marketing campaigns? Are you seeing maybe younger guests come in relative to your existing base? Are you seeing less affluent consumers move into the stores for the first time versus kind of the core base that you have out there?

Christopher Tomasso

CEO, President & Director

Yes, that's a great question. We have seen our average age go down for the entire system. And a lot of that's driven by the new market entries, the new restaurants. And if you look -- I mean, if you look at the way our marketing is the channels that we're using, it's a little bit of a self-fulfilling prophecy with our focus on digital and social and that type of thing. So it's something that we're targeting.

But we've actually seen quite a bit of growth in millennials. And so just the overall mix of our customer base now is dynamic and is changing, but it's going in the right way. And that's why we talk about attracting the next generation of First Watch customers so that we've been around 43 years and to kind of set us up for the next couple of decades by having a strategy like this. And as we've seen with other concepts, that's not an easy thing to do to keep your current customer base happy and engaged and coming while you engage and onboard, if you will, that next generation.

So I think our teams have done an incredible job doing that. And I'm really pleased with the mix of our consumer. We haven't seen anything from -- you mentioned about higher income and that type of thing. Obviously, millennials from an income standpoint, act more like a high-income cohort in the way they choose to prioritize certain things that are important to them. And I think experience is one of those things. So that's a group that's willing to lean in on that.

So I just think our offering is so ideal for this kind of transition to broadening our demographic appeal, the social occasion, the social gathering, group dining, brunch, those type of things. So yes, just long answer to it, we are seeing our customer cohort skew a little younger.

Operator

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

Todd Brooks*The Benchmark Company, LLC, Research Division*

Chris, you had said on the last call that you were equally as excited about the potential for the new menu versus the expansion of the enhanced marketing activities to be drivers of the business. here in fiscal '26. I guess, a, any surprises in how things performed across Q1 that either increased or maybe have you favoring one of the initiatives as a driver versus the other? And b, how is kind of the Q1 performance and what these key tactics are delivering kind of bolstering your confidence to still maintain the commentary about positive same-store sales in each quarter for the balance of the year?

Christopher Tomasso*CEO, President & Director*

Yes. My comment comes from my philosophy of the menu being really the #1 marketing tool. It's something every one of our customer touches. We can -- there can be a cause and effect relationship immediately that you can see and how customers respond to what you've done, how you've innovated. And so I'm not surprised by what we're seeing from the new menu. I think even before we got it in test, there was a level of excitement around here about how it's being presented.

We derisked it by bringing on some customer favorites from the past. And so I'm just really pleased that the consumer responded the way we expected them to. We've been very pleased by some of the add-ons like potatoes becoming million potatoes and add an egg and adding salmon to your avocado toast. And these aren't things that we just sat around and talked about. These are things that through our Y tour in speaking with our hourly employees, we hear that customers were adding salmon to the avocado toast.

And so why not put it out there and see, okay, if people are willing to ask for it when it's not on the menu, if we put it on there and raise the profile of that, would we see the penetration and we absolutely have. So building the check that way in a way that the consumer wants to do it, again, versus just increasing prices on like-for-like items to me is the most healthy way to drive check, and we've seen that.

I will say that, I think all of these things together, whether it's all the work that we did a couple of years ago with the KDS system and the dining room optimizations and the digital waitlist management improvements now coupled with the evolved menu and the increased marketing, I think, is all a really nice mix that's helping us to outperform the industry and deliver results like this.

Todd Brooks

The Benchmark Company, LLC, Research Division

That's great. My follow-up and then I'll jump back in queue. Obviously, a really strong opening quarter here in Q1. And I think, Mel, you talked about still looking for a second half and fourth quarter focused balance to the openings for the year. Any cadence you give us first half versus second half on openings? And you talked about densifying markets here in '26. You had the strong same-store sales performance, almost up 3%. But what -- can you share with us kind of the anticipated sales transfer that you plan to absorb this year with more of a focus on backfilling in existing markets?

Mel Hope

CFO & Treasurer

Yes. So in terms of the cadence of openings, we historically kind of have a big fourth quarter just because human nature tends to push projects a little bit heavier into the fourth quarter. And so I think at least for the average throughout each of the remaining quarters of the year, it's probably pretty similar this year to last year as we continue to try and improve that over time so that we can eliminate bulges in the development that put strain on our operators.

So I would -- I'd kind of look to the cadence that we had last year as pretty similar for us this year. And then in terms of densification and sales transfer, when we underwrite new projects, we always consider the sales transfer and we -- and the new restaurants need to cover for that. They need to perform a little bit better in order to sort of pay back the other restaurants that experienced some temporary sales transfer. But that's all pretty planful for us and built into our overall underwriting.

So when we say that, restaurants are outperforming or they're doing according to plan, we've already determined what we believe is the sales transfer. And it's generally within our range of expectations overall. We don't typically quantify it, because there's lots of factors that go into the success of building out a market or fortifying a market or cutting off competition or some of those other advantages as well. So we know what it is internally. We don't speak to it publicly very much. But generally, it's part of all the strategic consideration of how we build out a market and how we fortify the brand against a competitive intrusion as opposed to our own sales transfer.

Christopher Tomasso

CEO, President & Director

And Todd, I think that's one of the things that -- the point that sometimes gets lost on us because there aren't many, if any, high-growth full-service concepts out there that we do have -- we're a high-growth concept. We have sales transfer as we fortify these markets and do that. It's not immaterial, and it's just a natural headwind to restaurant traffic. But we view it as a positive one rather than any weakness in the core business because for us, same-restaurant traffic is certainly one of the metrics we look at, but there are so many other ones that we do as well. But for us, the profitable market share growth, the attractive new unit returns, all of those things together for us is what we look at and evaluate. So as Mel said, we model for it. We plan for it in the new restaurants, and it's something we've had for a while.

Operator

Our next question comes from the line of Gregory Francfort with Guggenheim Partners.

Gregory Francfort

Guggenheim Securities, LLC, Research Division

I have 2 questions. My first is just labor per operating week growth and it was obviously a lot slower this quarter. And anything to call out maybe besides wage rate, just any other kind of onetime drivers?

Mel Hope

CFO & Treasurer

Of the labor inflation, you kind of got garbled at the first part of your question on our phone. Can you just say it again?

Gregory Francfort*Guggenheim Securities, LLC, Research Division*

Yes. Sorry, just labor operating week growth. You got more leverage on that line than maybe I expected. Any call-outs or anything else that might continue through this year?

Mel Hope*CFO & Treasurer*

No. I think our operators -- just compared to the first quarter of last year when there was -- when our traffic was under so much pressure and the inflation was affecting everybody. I think our operators had to adjust, but it wasn't sort of a linear adjustment. This year, we have a better operating environment, and that makes it a little bit more predictable in the restaurants in order to manage the crews and to drive operational initiatives through the organization that are efficiencies or staffing, that kind of thing. So nothing remarkable. It's the hard work in elbow grease of a good operating crew.

Gregory Francfort*Guggenheim Securities, LLC, Research Division*

Got it. That's helpful. And then maybe this question is for Chris. Obviously, the stock has been maybe more pressured than you or I would have expected. And the returns are still better to develop than they are maybe to buy back stock. But I guess, have you considered potentially doing that? And are there other ways to maybe signal to the market your enthusiasm? And I'm just curious kind of how you think through that piece of the capital allocation, maybe the returns on buying stock versus developing stores, even if it's a lower return, maybe it's more certain. Just any thoughts there?

Christopher Tomasso*CEO, President & Director*

I'd say the answer to your question is that I agree with you on the stock performance. And I'll just go back to my point that we are evaluating capital allocation. And we have very good returns on our new restaurants. We're creating a vast network of cash-producing machines at high returns and something that the consumer is interested in, right? So we wanted to take advantage of that. But overall, I'd say that from a capital allocation standpoint, we, as a management team and our Board, always look at opportunities to optimize that. And so we'll continue to do that.

Mel Hope*CFO & Treasurer*

And I think Chris is exactly right. Right now, the right thing for the company to do and our strategy is to continue to grow that cash engine, cash production engine. And the day that there is a shift in strategy, we owe the market a lot of explanation about how we -- how that would take place. But you want that cash engine to be as big as it can be. Therefore, you have more options of what to do with the excess cash at the time you make that shift.

So I think continuing to build with the kind of returns we get out of our restaurants, the -- our capacity, the way we're building out markets, I think taking advantage of that now is important in the life cycle of the company right now. So building that cash engine is building a lot of value for the future.

Operator

Our last question comes from the line of Chris O'Cull with Stifel.

Christopher O'Cull*Stifel, Nicolaus & Company, Incorporated, Research Division*

Chris, can you just elaborate on the decision to eliminate the COO position? And maybe what you see as the biggest areas of opportunity with operations to drive efficiency and maybe even improved guest experience?

Christopher Tomasso*CEO, President & Director*

Yes, absolutely. I think as we looked at our overall G&A setup, and there were a couple of things. It was just a natural evolution for us. And -- but more specifically, it got me closer to operations, which I think is important. It's something that I've done for a long time here in this company and the opportunity to work more closely with the operations leaders. The way we restructured it, it only added one direct report to me.

We created 2 SVPs of operations and basically split the country, and I'm able to now be more involved in a day-to-day basis on ops execution and ops strategy, frankly, and kind of be that one foot here, one foot in the field. And I'm excited about it. I think the team is excited about it, but I know we'll be a lot more efficient and effective because I can be more involved.

Operator

Thank you. This now concludes our question-and-answer session. Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines, and have a wonderful day.

Read more current FWRG [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Sort by

Newest



If you type a company or ETF ticker symbol in capital letters we will automatically link to the symbol page. You can remove the link by deleting the \$ in the comment.