First Watch Restaurant Group, Inc. (FWRG) Q2 2026 Earnings Call Transcript

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Q2: 2026-08-04 Earnings Summary

Insights

EPS of $0.05 misses by $0.01 | Revenue of $354.67M (15.20% Y/Y) beats by $3.10M

First Watch Restaurant Group, Inc. (FWRG) Q2 2026 Earnings Call August 4, 2026 8:00 AM EDT

Company Participants

Steven Marotta - Vice President of Investor Relations
Christopher Tomasso - CEO, President & Director
Ashlee Weisser - CFO & Principal Accounting Officer
Matt Eisenacher - Chief Brand Officer

Conference Call Participants

Todd Brooks - The Benchmark Company, LLC, Research Division
Brian Vaccaro - Raymond James & Associates, Inc., Research Division
James Salera - Stephens Inc., Research Division
Allison Arfstrom - Piper Sandler & Co., Research Division
Gregory Francfort - Guggenheim Securities, LLC, Research Division

Presentation

Operator

Thank you for standing by, and welcome to First Watch Restaurant Group, Incorporated Second Quarter Earnings Conference Call occurring today on August 4, 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 call over to Steven Marotta, Vice President of Investor Relations for 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, Ashlee Weisser. This morning, First Watch issued its earnings release for the second quarter of fiscal year 2026 on GlobeNewswire 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 conditions of the company's industry and its operations, performance and financial 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 disclosures 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 references to percentage growth when discussing the second quarter performance is a comparison to the second quarter of 2025, unless otherwise indicated.

The format for today's call will begin with Chris, our Chief Executive Officer, who will provide a review of our operational highlights from the second quarter as well as an overall overview of the business. Ashlee, our Chief Financial Officer, will then discuss our financial results for the quarter and provide the outlook for the balance of 2026. Following these remarks, Chris and Ashlee will jointly provide an update on our long-term targets before we open the call for questions.

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

Christopher Tomasso
CEO, President & Director

Thanks, Steve. Good morning, and thank you for joining our second quarter earnings call. Before I begin, I'd like to express our gratitude to our team of more than 18,000 employees for bringing our "You First" culture to each of our 665 restaurants across 33 states.

We're pleased to report another strong quarter of growth for First Watch, led by a total revenue increase of 15.2%, supported by positive same-restaurant sales growth of 3.4% and the continued strong performance from our new restaurant openings. Our comparable restaurant traffic improved sequentially through the quarter, culminating with positive traffic for the month of June. For the quarter, same-restaurant traffic growth was essentially flat, but represented a 160-basis-point improvement versus the first quarter. We outperformed both the casual dining segment and the industry overall according to Black Box. Benefits from our marketing investments were a significant contributor to our Q2 performance. Since implementing an expanded marketing strategy early last year, brand awareness has been building and, we believe, contributing to our improved same-restaurant traffic trends and overall same-restaurant sales growth.

Our marketing objectives are focused on driving at least one more visit from existing customers while also positioning First Watch squarely in the consideration set for new customers. That focus is showing up in customer behavior. In targeted acquisition campaigns run this year, 17% of new customers have already returned for a second visit, which is tracking higher than average. We're not just reaching new customers, we're bringing them back. To do that effectively, we are leaning into targeted data-informed marketing tactics that allow us to reach consumers where they are, speak to them with greater relevance and evaluate the return on that spend with more precision than traditional broad-based marketing alone. We have built a foundational capability that will continue to serve us well as we grow.

A key aspect of our brand-building strategy is the expanded use of video, including YouTube and connected television. These channels enhance our ability to target specific demographic groups within markets, tailoring the message at a more localized level and tracking response with better visibility down to the restaurant level. Utilizing this test, learn and act model, we have richness of data to analyze, allowing us to evaluate the performance of each tactic. With this knowledge, we're able to shift dollars toward the channels, markets and messages that are demonstrating the highest levels of performance.

Finally, we are continuing to enhance our capabilities when using influencer and social media tactics, allowing us to showcase the brand in a more authentic and customer-centric way. We view these efforts as important building blocks to create awareness, deepen engagement and, ultimately, to convert that into restaurant traffic over time. First Watch continues to rank among the top-tier customer favorites, placing in the top decile for future purchase intent among well-recognized national and regional breakfast competitors. These results demonstrate that our marketing investments are not only increasing awareness of the First Watch brand, but also strengthening occasion consideration and supporting conversion of potential customers into regular customers.

We're encouraged by the performance as indicated by unaided brand awareness increasing more than 50% and aided brand awareness increasing 15% since early last year. This remains a very large opportunity for First Watch as overall awareness of our brand is relatively low from an industry standpoint. We will continue to monitor our suite of metrics, including ROI, to determine the effectiveness of our spend. Our new core menu, launched in February 2026, is contributing to positive sales mix, validating the work we've done to evolve and optimize the menu. From improving navigation to enhancing offerings, we are giving our customers even more reasons to visit.

The new menu delivers precisely the kind of meaningful contribution we anticipated. We find customers engage more broadly across our offerings with increased participation in add-on items and a higher propensity to select more premium options throughout the meal occasion. As a result, we experienced positive menu mix with per person check average growth outpacing carried pricing in the second quarter as it did in the first quarter. Layered on top of a highly productive and optimized core menu is our seasonal menu strategy, which gives us a fresh platform multiple times per year. This allows us to tell a highly relevant and engaging brand story by highlighting the flavors of the season and presenting compelling limited time-only offerings that create menu news and excitement while driving mix.

Culinary innovation remains a significant competitive advantage at First Watch, and we believe this helps keep the brand fresh and relevant and differentiates us from others in our category. Our seasonal Jumpstart menu, which ran from early January to late May, featured our best-selling LTO entree of all time, the Chimichurri Steak & Eggs Hash, and contributed to our positive mix of 50 basis points in the second quarter. We are now in the final weeks of our summer menu and our data shows that the Chipotle Steak and Queso Hash will be our second best-selling LTO item of all time when this menu concludes in mid-August. It also features our newest shareable, Honey Butter Biscuit Bites, which is trending to be our highest mixing shareable since Million Dollar Bacon.

These are great examples of our culinary team's ability to create menu excitement that our customers love. It also provides compelling content for our marketing team to leverage across all channels. Looking ahead, and if you follow our social channels, you'll see our customers are eagerly awaiting the return of our fall seasonal hit, Pumpkin Pancakes. Behind the scenes, innovation remains an important driver of growth and differentiation for First Watch. Our culinary operations and marketing teams collaborate to develop, test and refine ideas that are both compelling for our customers and practical for our restaurants. We are particularly excited about a handful of innovative tests focused on higher capacity dayparts currently in the works.

Now I'd like to shift to new restaurant growth. First Watch remains America's fastest-growing full-service restaurant brand. Our real estate pipeline is as robust as ever with more than 100 projects in various stages of development. In the second quarter, we opened a total of 18 new system-wide restaurants across 15 states, reaching new, emerging and core markets. We also continue to expand our geographic footprint during the quarter. We opened in Nashua, New Hampshire, which not only marks our initial entry into the Granite State, but also represents our third restaurant in the Boston DMA since we entered the market in January 2025. This restaurant has generated weekly sales volumes materially above our expectations since opening.

First Watch's growth in infrastructure remains strong, and I'm particularly pleased with the performance of our newest restaurants. The sales volumes of our 2025 and 2026 restaurant classes continue to outperform both the comp restaurant base and, importantly, their underwriting targets. We have the people pipeline to support our real estate pipeline and the right formula to execute our strategy at the restaurant level to reach our total addressable market of more than 2,200 locations. We believe First Watch occupies a truly distinctive place in casual dining. We're the leader in daytime dining, a category that has disrupted a large segment within casual dining and is expected to continue to experience substantial growth according to Technomic, Inc.

Our unique position continues to strengthen as more customers discover the brand and we capture additional market share. Importantly, there is no other concept in daytime dining that brings together our level of national scale, innovation, operational consistency, proven unit growth capability and meaningful long-term development opportunity.

Before I close, I'd like to again thank Mel for his leadership as CFO over the past 8 years. His contributions are too numerous to list, and we look forward to leveraging his experience as he continues to serve in an advisory role in the months ahead. I also welcome Ashlee to her first quarterly conference call as CFO. Since joining First Watch, Ashlee has made a tremendous impact throughout the entire organization through her disciplined financial leadership, sound strategic judgment and clear focus on execution. We're delighted to have her lead our value creation strategy during our next phase of growth. Ashlee?

Ashlee Weisser

CFO & Principal Accounting Officer

Thank you, Chris, for the warm welcome, and thank you, Mel, for your mentorship, partnership and friendship. I'm honored to take the baton from Mel, build upon the exceptional foundation he helped create and partner with our talented teams across the organization to drive the next chapter of this brand. As I step into this role, I remain focused on disciplined and profitable growth, operational excellence and allocating capital to the highest return opportunities across the business with the goal of creating sustainable long-term shareholder value for all owners of the business, including our investors and employees who share in our success.

Our second quarter reflects the strength of that foundation, highlighted by strong revenue growth, positive same-restaurant sales growth, improving trends in same-restaurant traffic and restaurant level profitability as well as continued momentum across our development pipeline. Total second quarter revenues increased 15.2% to $354.7 million, with same-restaurant sales growing 3.4%. Our top line growth was driven by the positive same-restaurant sales growth, contributions from 132 non-comp restaurants, including 57 company-owned new restaurant openings since the second quarter of 2025 and the 19 franchise locations acquired in the second quarter of 2025.

While same-restaurant traffic growth was negative 0.4%, it does include the impact of planned sales transfer as we continue to make First Watch more accessible and convenient to more customers and increase overall market share. The level of sales transfer we are experiencing is well within our expectations and underwriting standards. Food and beverage expense was 23.5% of sales and improved 10 basis points when compared to the second quarter of 2025. We benefited from carried pricing of around 3.7% and commodity deflation of approximately 1.6%. Commodity deflation was driven primarily by eggs, avocados and bacon, partially offset by an increase in coffee prices.

I want to spend a few more moments providing detail around our food and beverage costs as a percent of sales since the modest improvement we experienced in the quarter masked some notable moving parts. Some good news is that commodity inflation remains below historical trends. The new news is that beef, which was not part of our core menu in the prior year, has become a more meaningful factor in our food and beverage cost performance this year since the introduction of our Barbacoa Breakfast Tacos and Barbacoa Chilaquiles Breakfast Bowl, along with seasonal offerings, which feature premium steak. While our beef costs were in line with our expectations, stronger-than-anticipated demand for our featured beef offerings increased overall COGS by just under 100 basis points year-over-year.

Our current steak LTO has materially outperformed test results, resulting in a larger mix shift than originally planned. We view this as evidence of the appeal of our product innovation and the potential pricing power of highly differentiated offering. This impact is temporary, and we expect it to moderate substantially as the current LTO concludes. Our approach, as always, remains a focus on balancing value, innovation and profitability.

Shifting to labor. Labor and other related expenses were 32.9% of sales in the second quarter, a 30-basis-point improvement from the second quarter of 2025. This favorability was primarily driven by positive changes we implemented in our staffing model, along with leverage from higher sales, partially offset by 4.1% wage inflation. All of this resulted in restaurant level operating profit margin of 18.8% in the second quarter of 2026, a 20-basis-point improvement over last year. Our income from operations margin was 2.3% in the second quarter.

General and administrative expenses were $38.7 million, or 10.9% of total revenue. The increase compared to last year was largely due to timing of marketing spend as well as increased headcount to support our growth objectives. Adjusted EBITDA increased 13.5% to $34.5 million, a $4.1 million increase versus the $30.4 million reported last year. Adjusted EBITDA margin was 9.7% in the second quarter of 2026. Net income was $2.3 million.

We opened 18 new system-wide restaurants during the second quarter, with 14 company-owned, 4 franchise-owned and 1 franchise closure and concluded the quarter with 665 restaurants operating in 33 states. The net effect of acquisitions in the quarter, which includes only the impact of purchases made within the last 12 months, was an increase in revenue of about $2.4 million and an adjusted EBITDA of $0.4 million. For further details on the second quarter, please review our supplemental materials deck on our Investor Relations website beneath the webcast link.

A key priority for me as we share guidance is a disciplined, transparent and accountable approach to how we communicate our outlook and execute against it. This means clarity around the assumptions supporting our guidance, directness about the associated risks, balanced realism regarding the opportunities ahead and consistency in how we measure progress. We recognize that credibility is earned through performance, not promises, and our entire team is focused on delivering those results. Based on what we know today, we believe our plan is achievable, and we are committed to demonstrating that through consistent execution and clear communication each quarter.

Now I'll provide our updated outlook for 2026. Our updated outlook reflects continued same-restaurant sales resilience, strong execution across our restaurants, disciplined cost management and confidence in the opportunities we see for the balance of the year, including a high-quality pipeline of new restaurant openings. With that in mind, we are increasing the low end of our same-restaurant sales growth range to 1.5% to 3% from 1% to 3% previously. Given our second quarter results, combined with the sales trends quarter-to-date, we continue to expect positive same-restaurant sales growth in each quarter of 2026. However, as a reminder, the third quarter does offer by far the most challenging year-over-year comparison of any quarter this year. So while we continue to expect positive same-restaurant sales growth in Q3, we continue to anticipate it to be at or below the low end of our 2026 range. Our guidance includes a price action of 2.9% taken at the beginning of the third quarter and as a result, carried pricing of around 3.6% for the full year.

We are increasing total revenue growth to a range of 12.5% to 14% from 12% to 14% with around 100 net basis points of impact coming from previously completed acquisitions. We are narrowing the range of net new system-wide restaurants to 60 to 62 with 53 to 54 coming from company-owned restaurants and 9 to 10 franchise-owned restaurant openings. 1 company-owned restaurant and 1 franchise restaurant have closed this year. Based on successfully pulling forward a handful of openings into the second quarter, our NRO schedule this year is fairly balanced between the first half of the year and the second half of the year, though our remaining company-owned new restaurant openings remain weighted towards Q4.

We now expect full year commodity inflation at flat to up 1.5%, down from up 1% to 3% in our prior guidance. This is primarily driven by reduced inflation expectations, which will be fully offset in food and beverage expense as a percent of sales by the temporary impact of beef-based menu offerings that I mentioned earlier. Restaurant-level labor cost inflation is now expected to be in the range of 3.5% to 4.5%. We are also adjusting our 2026 adjusted EBITDA guidance to $133 million to $136 million. The guidance revision to adjusted EBITDA is entirely the result of stronger-than-anticipated customer demand for our new premium protein beef-based offerings, which carry a higher cost of goods profile than our broader menu mix.

While heightened demand is creating some near-term margin pressure relative to our original expectations, we view the response as a positive indicator of the strength of our innovation pipeline, the appeal of the product and the perceived value customers experience at First Watch. Moving forward, we will remain disciplined in evaluating margin mitigation opportunities while making decisions that support the long-term health of the brand. Lastly, as a result of the pull forward of marketing dollars into the third quarter from the fourth quarter, combined with the timing of corporate spend, third quarter G&A is expected to be about $1 million less than Q2.

For those that model marketing expense, we are modestly investing around 2% of total revenue this year, up approximately 40 basis points from last year. Due mostly to the timing of certain development spend falling into next year, we are lowering our expectation for capital expenditures to a range of $145 million to $150 million, down from our prior guidance of $150 million to $160 million.

I am incredibly excited about the opportunities ahead. We have a differentiated brand, attractive unit economics, a substantial runway for growth and a team that consistently delivers results. Those strengths give me confidence in our ability to create meaningful long-term value for our customers, team members, franchisees and shareholders.

With that, I'll turn the call back over to Chris before we move to Q&A.

Christopher Tomasso
CEO, President & Director

Thank you, Ashlee. Inasmuch as we are sharing our current thinking about 2026, Ashlee and I would like to spend a few additional minutes on how we are evolving our optimal long-term growth strategy and targets. Since our IPO in 2021, we have exceeded our annual long-term growth targets of low double-digit percentage unit growth, same-restaurant sales growth of approximately 3.5% and mid-teens percentage growth for both revenues and adjusted EBITDA. Historically, achieving those targets provided a solid strategic foundation for us to fund our organic growth and maintain our existing asset base, utilizing cash flow from operations. That industry-leading growth and focus on ensuring our long-term relevance resulted in First Watch capturing substantial market share within our segment and expanding our brand.

As we have often shared, our new restaurants continue to perform exceptionally well across diverse geographies, which now span 33 states. Recent classes have exceeded sales volumes of the current comp group and are also on track to meet or exceed our underwriting return metrics. And while it's early, our class of 2026 is performing even better. As a reminder, our class of 2026 third-year sales target is $2.8 million with $1.8 million in net build-out costs, and our current actualized 3-year cash-on-cash return is around 35%.

This consistent ongoing success validates that investing in new restaurant growth remains a highly attractive use of capital. In recent years, however, maintaining these long-term unit growth targets has required us to access our credit facility in order to fund a portion of our capital expenditures. As we look toward the future, our management team and Board evaluated how best to adapt and optimize capital allocation to current conditions. In framing our approach, we prioritized 2 planning principles: first, to extend our leadership position within the growing daytime dining segment, a category we believe we've come to define. Anchored on the success of new restaurant classes and our proven portability, we are as confident as ever in our ability to achieve our total addressable market of more than 2,200 restaurants in the continental U.S.

And second, to self-fund all organic growth and maintenance CapEx from the robust underlying cash flow from our highly productive base while generating excess free cash to strengthen the balance sheet. To that end, we are modestly revising our long-term targets, reflecting an optimized balance between new unit growth and free cash flow. Our plan to open between 53 and 54 new company-operated restaurants in 2026 remains unchanged, and we are on pace to do so. Beginning in 2027 and for the foreseeable future, our target will be to open 50 company-operated new restaurants annually.

Ashlee Weisser

CFO & Principal Accounting Officer

This modest change to development achieves the principles Chris just outlined, builds on the already strong foundation of our business, supports positive free cash flow, reinforces our balance sheet and provides greater flexibility in how we deploy capital over time. The change will have little impact on adjusted EBITDA in either the short or long term as our plan moderates G&A investment that a more aggressive growth rate would have necessitated and reallocate certain resources to accelerate margin-enhancing initiatives.

In line with the preceding, we are amending our annual long-term targets to be as follows: around 55 new system-wide restaurant openings with around 50 of those company-owned and around 5 franchise-owned; same-restaurant sales growth of 2% to 4%, including positive underlying traffic net of planned sales transfer from new restaurant growth; total revenue growth of 10% to 13%; G&A expense growth lower than total revenue growth; adjusted EBITDA growth of 11% to 14%; positive free cash flow beginning in 2027 and increasing each year thereafter.

Relatedly, we are pleased to announce that we are hosting an Investor Day in Boston on November 12, where we will provide a comprehensive overview of our new long-term strategic plan and the key drivers supporting sustainable growth and long-term value creation. For further details on long-term targets, please review the investor deck on our Investor Relations website, which will be posted following our conference call.

Operator, we would like to now open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question is from Todd Brooks with Benchmark StoneX.

Todd Brooks
The Benchmark Company, LLC, Research Division

Ashlee, welcome to the CFO seat. Good to have you here.

Ashlee Weisser
CFO & Principal Accounting Officer

Thanks, Todd.

Todd Brooks
The Benchmark Company, LLC, Research Division

A couple of questions, if I may. Chris, it was highlighted in the release about the momentum building across the quarter, positive traffic in June. Can you talk about drivers and then continuation? Because I do think -- and it was good to hear the reiteration of the positive same-store sales in each quarter of the year, but I think investors have been worried about the ability to deliver that in Q3. So any talk about exit rate and same-store sales or quarter-to-date trends relative to the exit rate would be helpful.

Christopher Tomasso

CEO, President & Director

Yes. Thanks, Todd. I think I'd start by reiterating what Ashlee said that we feel confident in our statement that we should experience positive sales in every quarter, including the challenging comp quarter of Q3. We did see sequential improvement through Q2 that culminated with positive traffic in June. So we were pleased with that, but we know what we're heading into Q3, but still feel good about it. As far as drivers go, I mean, you heard us talk a lot about the menu, the LTO, the marketing. I think really, it's the combination and the cocktail of all those things kind of working together for us. We just continue to up the ante on ourselves, frankly, from a culinary innovation standpoint, from a unit development standpoint and from a marketing standpoint. So just feeling really good that we have a lot of things going the right way.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay. Great. And just my follow-up, and I'll jump back in. You talked about traffic, and you talked about sales transfer being a drag. I know a lot of people focus on in-restaurant traffic. Is there any way to frame up for us what the delta is? If you don't have the -- or if you adjust for the impact of sales transfer, what type of traffic growth you're generating in the restaurants?

Ashlee Weisser

CFO & Principal Accounting Officer

Todd, we're not sharing the exact sales transfer yet. We're going to give a little bit more color at our Investor Day on the 12th of November. But what we can say is that it would have been positive.

Operator

Our next question is from Brian Vaccaro with Raymond James.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Mel, congratulations on the retirement. And Ashlee, huge congrats on your new role. Look forward to working with you more. On the store margin dynamics, I just had 2 quick ones on that, if I could. So the COGS line, Q2 came in above our expectations, and you highlighted the beef impact there. As we think about the second half COGS outlook, can you help us sort through how much the beef headwind should moderate? I think the LTO ends on August 10, if I'm not mistaken, correct me if that's wrong. But kind of help us sort through the second half beef headwind, but also your commodity guide, I think the inflation, you're still assuming a return to slight inflation in the back half. Maybe you could just parse through some of those second half dynamics for us.

Ashlee Weisser

CFO & Principal Accounting Officer

Yes, absolutely. So I'll start with inflation first. You're correct, we are anticipating a return to some inflation in the second half. If you'll recall, last year, we experienced the really high egg inflation only for the first half of the year. So that's a key driver of the deflation in the first half that we will not experience in the second half. So that's the main driver of the inflation piece.

From a mix shift perspective, you're right, it's largely driven by the LTO. And one way to think about it is we had the LTO for about a month in Q2, so about 1/3 of the quarter. And we'll have it for about 2 months of the second half, so about 1/3 of the second half. I don't know if that gives you enough color to frame up how you might want to model that.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Yes. No, that's very helpful. And then I guess as a follow-up, just shifting back to some of the marketing efforts and the new digital local, a lot of good, I guess, incremental color on that. I appreciate that. But can you talk about the influencer side of things? Specifically, it seems like some brands have had quite a bit of success there in recent years within the full-service space. So can you help frame to what degree you are engaging and seeing some traction on that specifically versus plans to maybe dial that up moving through the next 6 to 12 months?

Matt Eisenacher

Chief Brand Officer

Brian, it's Matt Eisenacher, Chief Brand Officer. I'll speak to that. I think that this was a meaningful step forward this year in influencers and organic being a larger part of our paid media mix. I would anticipate that continuing to increase into next year, but we've seen a lot of traction with that, and so much so that because of the paid efforts, we've actually seen more organic UGC contribution as well. The more people see our brand and see the items on their feeds, they also want to start posting about it as well. So it's been one of the bright spots of our paid media mix.

Operator

Our next question is from Jim Salera with Stephens Inc.

James Salera

Stephens Inc., Research Division

Chris, I wanted to start off and just ask a little bit about the first-time customers and the frequency of returning for a second visit. Just give us some detail around -- are those solo occasions? Do they bring someone with them? And then if I can squeeze one other question into my question. Are they one of the primary drivers of that mix uplift because there's such a strong pull from some of the seasonal offerings?

Christopher Tomasso

CEO, President & Director

I don't think we have the data to answer the first part of your question right here. But I would say the second part, in order to have the mix benefit that we saw, I think it comes across the entire customer base, minus our heaviest users who typically tend to order the same thing every time. But I think the appeal, if you will, of the seasonal menus and of the items on the new menu for that matter, I think, is much more broad, and we're seeing that across the user base.

James Salera

Stephens Inc., Research Division

And Ashlee, I wanted to ask, given the updated long-term guidance, particularly, encouraging to hear the positive free cash flow in FY '27. Have you given any thoughts to what that -- what your capital allocation priorities are going to be as you start to free up more and more resources? Should we expect to see incremental investments on the marketing side given the success you guys have seen in the near term? Does that help support more menu innovation? Can you just kind of walk us through -- or maybe share repurchases, just how you're thinking about allocating that incremental capital you have available?

Ashlee Weisser
CFO & Principal Accounting Officer

Yes. I think everything is on the table. When we think about marketing, we're looking at a lot of different metrics, and we know that marketing, our key area for improvement is awareness. So as we continue to see that improve and we see results and we measure it, it's definitely a conversation we'll have around investing more there. And then when it comes to larger capital allocation decisions, we -- nothing is off the table. We can have conversations with the Board as appropriate next year. But some things in the consideration set, obviously, are debt paydown, investments in the business, share repurchases could be on the table.

Operator

Our next question is from Brian Mullan with Piper Sandler.

Allison Arfstrom
Piper Sandler & Co., Research Division

This is Allison Arfstrom on for Brian. Just curious if you could parse out how much of the traffic strength was attributed to the marketing efficiency and spend changes and how we should think about that impact on traffic going forward?

Ashlee Weisser
CFO & Principal Accounting Officer

Yes, that's a great question. We're not able to parse it out totally in a way that I think would be helpful to your modeling. We do measure it, and we look at it across a variety of things, but I don't think we could give you an answer that would help you to go forward. What we can say that I think might be helpful is our marketing is not call-to-action-based marketing. It's more of a brand awareness, brand building, getting to know the brand kind of approach to the messaging. And so that takes a little bit longer to build, and we expect it to last a little longer as well.

Operator

Our next question is from Sara Senatore with Bank of America.

Unknown Analyst

This is [Grace] on for Sara. You mentioned that marketing objectives are focused on driving at least one more visit from existing customers while also bringing in new customers. And I know you said that 17% of new customers have already returned for a second visit. So does that mean that more of your traffic growth in June came from new customers rather than increased frequency among existing customers? Or is that traffic growth evenly split? And then can you remind us what your average customer frequency looks like? And then I have one follow-up question.

Christopher Tomasso
CEO, President & Director

Yes, I'll take the first part. I think, here, again, we're seeing the benefits across those user groups, both existing customers and first-time customers. We have a really good trial-to-conversion ratio. And so we work really hard to get that first-time visit. We feel like we can -- once we get them in the door and wow them with our experience and our food and our atmosphere that they'll fall into some kind of frequency bucket. So -- but we actually -- in both of those areas, we've seen positive returns on, again, first-time customers and frequency. So we're not discussing the percentages of each one and what the makeup is, but suffice it to say, both those areas are responding well to our efforts.

What was the second question?

Ashlee Weisser
CFO & Principal Accounting Officer

I think your second question, [Grace], was around frequency. Matt, do you want to?

Matt Eisenacher
Chief Brand Officer

Yes, sure. I can take that. Yes. On customer frequency, our studies show that casual dining is somewhere in the range of 2 to 3 times per year, and our frequency is well within that range as well.

Unknown Analyst

Okay. And then my follow-up question is, you mentioned relatively low brand awareness is an opportunity. Would you be willing to share what brand awareness is? And then what does industry average look like? Because you said that aided brand awareness increased by more than 50%, but the gap is still wide.

Matt Eisenacher
Chief Brand Officer

Yes. This is Matt again. We're going to spend a lot of time on that at our Investor Day on November 12. As we said, we saw the unaided grow 50%, which was, as you know, unaided brand awareness is a tough thing to grow. So seeing that grow by 50% is a big deal, and we'll dimensionalize that more on November 12.

Operator

[Operator Instructions] Our next question is from Gregory Francfort with Guggenheim Partners.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

I had 2 questions. The first was, I think you alluded to some changes you recently made to labor scheduling that have been helping on the margins. What were the big changes that you made there?

Ashlee Weisser
CFO & Principal Accounting Officer

Yes. And I wouldn't say it's a huge change in labor scheduling. It was really more around rightsizing the number of managers in our restaurants. So we're still averaging just under 3. I think it moved by a fraction of 1 point, but that fraction of 1 point makes a really big difference on our restaurant base. So just going through and adjusting the par based on what was appropriate on volume.

Gregory Francfort

Guggenheim Securities, LLC, Research Division

Okay. Got it. And then maybe, Chris, one for you. Just the 50 stores and kind of having that number flatlined, how did you come up with that as the right level kind of as you look at the pushes and pulls and going higher or lower than that?

Christopher Tomasso

CEO, President & Director

Yes. I think that's exactly right. We looked at the pushes and the pulls and looked at all kinds of factors related to what the -- maintaining that 10% unit growth rate meant for us. And at some point, we would have had this conversation about kind of level setting on the unit growth. So we ran a bunch of models, as you can imagine, and really felt like this was a really good mix of -- first of all, we're doing this from a position of strength, right? We opened restaurants really, really well. But we wanted to look at that balance and drive the free cash flow and give us some balance sheet strength and some optionality down the road.

And of all the models we looked at, we just felt like this worked the best for us. And we even looked at things, Gregory, like what additional G&A would be needed to maintain that growth rate. I mean when you're opening at our rate, when the percent stays the same and the number of restaurants goes up 10 or 12 per year, you have to start looking at additional folks in development and training and the NRO teams and all those things. And so we considered that as well. So -- and again, I know we keep saying this, but we're going to provide a lot more color on that at Investor Day because I know these are kind of top line philosophies, and we want to really share the thinking behind all of these things because we feel really good about it.

Operator

There are no further questions at this time. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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