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First Watch Restaurant Group, Inc. (FWRG) Q3 2025 Earnings Call Transcript

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Q3: 2025-11-04 Earnings Summary

Insights

EPS of \$0.06 **misses by \$0.01** | Revenue of \$316.02M (25.60% Y/Y) **beats by \$6.46M**

First Watch Restaurant Group, Inc. ([FWRG](#)) Q3 2025 Earnings Call November 4, 2025
8:00 AM EST

Company Participants

Steven Marotta - Vice President of Investor Relations

Christopher Tomasso - CEO, President & Director

Mel Hope - CFO & Treasurer

Matt Eisenacher - Chief Brand Officer

Conference Call Participants

James Salera - Stephens Inc., Research Division

Anisha Datt - Barclays Bank PLC, Research Division

Andrew Barish - Jefferies LLC, Research Division

Todd Brooks - The Benchmark Company, LLC, Research Division

Brian Vaccaro - CGS International

Jon Tower - Citigroup Inc. Exchange Research

Arian Razai - Guggenheim Securities, LLC, Research Division

Andrew Charles - TD Cowen, Research Division

Presentation

Operator

Thank you for standing by, and welcome to the First Watch Restaurant Group, Inc. Third Quarter Earnings Conference Call occurring today, November 4, 2025, at 8:00 AM Eastern Time. [Operator Instructions] This call will be archived and available for replay at investors.firstwatch.com under the News & Events section.

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

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 third quarter of fiscal 2025 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 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 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 third quarter performance is a comparison to the third quarter of 2024, unless otherwise indicated.

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

Christopher Tomasso

CEO, President & Director

Good morning, everyone. We appreciate you joining us to discuss our third quarter performance. We're pleased to report strong financial results with same-restaurant traffic growth and same-restaurant sales growth sequentially higher for the fourth consecutive quarter and restaurant-level operating profit margin materially improving from earlier this year.

These results are made possible by our more than 16,000 employees nationwide, and we are truly grateful for their commitment. Total revenue increased 25.6% compared to the third quarter of last year, fueled by three growth drivers: strong new restaurant opening performance, positive same-restaurant sales of 7.1% and accretive strategic franchise acquisitions.

Restaurant-level operating profit margins expanded, reflecting solid operational execution across our entire organization. Notably, sales at our newly opened restaurants continue to be very strong across all geographies with some of our newest locations setting first week sales records.

Simply put, despite an increasingly difficult environment, First Watch delivered solid top-and bottom-line results, and we continue to strengthen our leadership position in daytime dining, placing us among casual dining's strongest performers. Our third quarter financial results are representative of our long-standing approach to growth.

Total revenue increasing more than 25% [crown's] nearly 5 years of double-digit percentage quarterly growth. Our aggressive unit expansion, anchored as always, by a very clear set of underwriting standards continues to drive our success with 21 system-wide restaurants opened across 14 states during the third quarter.

We are on pace to meet our target of 63 to 64 new restaurant openings for the year, representing nearly 11% system-wide growth in 2025. At First Watch, we are constantly evolving to ensure long-term relevancy and meet the needs of both the consumer and our employees. We are focused on delivering steady, thoughtful enterprise-wide progress built on a solid operational foundation, giving us the confidence in our ability to continue delivering on our high-growth algorithm.

We prioritize our long-term market position and traffic growth over short-term margin protection. This is particularly evident in menu pricing. With a volatile commodity environment in early 2025, we quickly evaluated the prospects of short- and long-term commodity inflation and carefully considered our competitive value proposition.

As a result, we chose not to implement pricing actions that would have offset what we view as transitory increases in commodity costs. The positive results we reported last quarter and today reinforce our confidence in those pricing decisions. There aren't many metrics where we lag, but we're pleased to be laggard when it comes to pricing. The result of a steadfast pricing strategy is that our long-term margin profile is and always has been secure.

We may experience variances from time-to-time or in any given quarter, but we're confident in our ability to deliver annual restaurant level margins of 18% to 20% over the long-term. Our sustained high-return capital investments continue to deliver, and we are opening restaurants that meet or exceed our underwriting targets. This is a compelling way to use our capital with average cash-on-cash returns of approximately 35%.

In addition to those superior returns, our aggressive unit growth is increasing our market share by expanding our brand presence and overall awareness, thereby widening our competitive moat. As I mentioned, our new restaurants are opening stronger than ever in both new and existing markets.

In fact, 9 of our 10 highest opening week sales in company history were achieved in restaurants opened within the last 12 months. In new markets, too, like Boston, Las Vegas and Memphis, we've opened stronger than anticipated, and it's clear that our brand and our unique offering has enviable broad appeal and proven affordability.

One of the many strengths of our business is that unlike some other restaurant concepts, our new restaurant openings in both new and emerging markets are performing exceptionally well. I spoke last quarter about the strategy of converting second-generation sites into highly productive First Watch restaurants. Of the 21 restaurants we opened in Q3, 13 were second-generation sites.

Of the 10 highest opening week sales, NROs in 2025, 9 have been second generation. For reference purposes, some of these restaurants are opening at volumes that are more than 190% of our average unit volume, which is a powerful proof point for the benefits of this approach and in our ability to operate higher and higher AUVs, powering the brand forward.

I want to highlight one particular NRO that exemplifies the ongoing strength of our brand and our disciplined execution. Our new First Watch location in Dover, Delaware, situated in the state capital and the state's second largest city opened during the final week of the third quarter. This location had opening week sales that exceeded 185% of our comp base average, underscoring the strong demand for our concept and the strategic value of the site.

We signed a lease for this restaurant in January of 2025 and advanced it through our standard construction timeline without delay. The fact that we successfully opened a short 8 months after lease signing reflects the operational rigor and efficiency of our entire team and demonstrates one of the many benefits of these second-generation sites.

These historic opening week sales performances are a result of the alignment of our real estate, construction, talent and development teams, bolstered by the heightened preopening consumer interest and demand generated by our efficient NRO-related marketing initiatives.

In short, our teams collaborate well to ensure that our restaurants are go for launch and that we enter markets, trade areas and neighborhoods in a way that establishes a high baseline that we can build upon for many years to come.

Across the organization, our teams are now even more skillful at opening new locations in core emerging and new markets, and we remain highly confident in our expansion strategy for 2026 and beyond. No full-service restaurant company is opening at anything close to our pace, making it daunting for segment competitors to enter markets where we have an established presence.

Furthermore, even in markets that we have yet to penetrate, our eventual entry often positions them in short order. We are targeting between 63 to 64 gross new locations for 2025 and the breadth of our new restaurant opening successes can be seen in the first three quarters of 2025, where we opened 51 new restaurants in 30 markets across 21 states.

I've shared this before, but I think it bears repeating that our top decile restaurants span 14 states and 22 DMAs with consistent AUVs across all 32 states, giving us confidence in our ability to grow to a total addressable market of 2,200 locations within the continental United States. Our people platform continues to reach new heights as well. Restaurant-level employee turnover, a critical industry metric, has improved for 10 consecutive quarters and continues to outperform industry benchmarks.

We recently completed our annual W.H.Y. Tour and the feedback was overwhelmingly positive with employee satisfaction tying directly to our culture, the quality of life offered and the extensive benefits available to them. There's no question that our daytime dining single-shift scheduling model remains a standout feature.

Our distinctive benefits such as backup childcare and elder care, complementary personal and professional coaching and free telemedicine services also mean a tremendous amount to our team, and we believe differentiates us from other foodservice employers. Team members consistently share that working at First Watch enhances their mental and physical well-being.

Among all of the numerous advantages already cited, the opportunity for career growth most often tops the list. As the fastest-growing full-service restaurant concept in the United States, we believe we provide career paths that are simply unmatched anywhere else in the industry. So where have our efforts led?

Well, First Watch was just recently named America's #1 Most Loved Workplace by the Best Practice Institute for 2025, a recognition we also achieved in 2024. Achieving top honors in any year is a significant accomplishment. Earning this distinction two years consecutively is unprecedented. I'd like to extend my gratitude to our entire organization for their efforts in making this possible and modeling our You First culture day in and day out.

By prioritizing our employees and creating an environment that attracts the best and brightest in our industry, we are proud to provide a wide array of personal and professional growth opportunities. This is a remarkable achievement of which we are all extremely proud of. The performance of our enhanced marketing investments in 2025 has been highly encouraging.

This marks the third consecutive quarter of increased marketing spend versus last year, providing us with three full quarters of compelling evidence. Our integrated campaigns spanning connected TV, paid search, social media and other channels are intentionally coordinated, driving higher aided and unaided brand awareness.

Notably, the markets we targeted for investment in 2025 represent less than one-third of our overall restaurant portfolio, providing us an opportunity to significantly expand our reach in the future. Building on the insights gained from this year's activities, we are optimistic about expanding marketing programs in 2026.

We're also in the midst of a comprehensive relaunch of our digital platform, encompassing both consumer-facing enhancements and back-of-house improvements. As an example, our newly relaunched app introduced in the second quarter has already garnered thousands of positive ratings and reviews and currently maintains a 5-star ranking, supporting favorable customer response to the new interface.

We're in the very early innings of capitalizing on our digital platform. Behind the scenes, we're collecting valuable data on a granular level. We are also making significant upgrades to our customer data platform, geolocation capabilities, order experience and CRM systems.

Our database of identified customers now sits at around 7 million, the majority of which are connected to various social media and online presence platforms, enabling us to better execute targeted micro marketing campaigns.

Technology advancements across our marketing department contributed to the exceptional performance of a targeted digital campaign launched in September, which, despite hitting less than half of last year's recipients, delivered more than 2x the response rate and engagement to last year's campaign.

Depending on where you live or which of our restaurants you may have visited recently, you may have seen our new core menu that's been in test for some time. This new menu has been redesigned and reengineered to improve readability, broaden appeal, optimize mix and streamline operations. It features high-performing previous seasonal menu specials, which replaced some lower mix items.

The qualitative and quantitative metrics thus far have been encouraging, and we are expecting to roll this menu out system-wide early next year. We're acutely aware of recent headlines across the restaurant sector regarding a slowdown in consumer activity, specifically tied to discrete demographics.

Our brand continues to be over-indexed to a more affluent consumer, and we remain underexposed to current demographic pressures. First Watch's menu innovation, consistency and value proposition provide for an unparalleled customer experience. In short, our platform has supported quarterly double-digit total revenue growth for the better part of the last 5 years.

During that same time period we've opened more than 230 restaurants, delivering on our stated goal of low double-digit percentage annual unit growth. Our 3-year NRO AUV targets have risen from \$1.6 million to \$2.7 million, and we were recognized as America's Most Loved Workplace twice.

Our expansion from a little known regional restaurant brand just 10 short years ago to a national chain with dominant segment market share was accomplished by an organization focused on and dedicated to consistent, reliable and quality growth.

Considering our proven track record and abilities across the entire enterprise, combined with a total addressable market that is over 3x our current size, we remain committed to that same consistent, reliable and quality growth for years to come.

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

Mel Hope

CFO & Treasurer

Thank you, Chris, and good morning. Total third quarter revenues were \$316 million, an increase of 25.6%. Our third quarter revenue growth was driven by positive same-restaurant sales growth of 7.1%, including positive traffic of 2.6% and the contribution of 167 non-comp restaurants, including 66 company-owned new restaurant openings and 19 locations we've acquired since the second quarter of 2024.

Our same-restaurant traffic growth and same-restaurant sales growth in the third quarter represent our best quarterly result for both metrics in over two years. Our in-restaurant traffic improved once again, marking the strongest performance in 7 quarters. Traffic growth in the third-party delivery channel increased substantially during the third quarter, a continuation of recent trends and a direct result of the changes we made to that program earlier this year.

The month of September represented our highest rate of same-restaurant sales growth of the entire year. Concurrent with the launch of our fall seasonal menu in late August, we instituted a price increase of 1.1%, bringing our full year carry pricing to around 3.5%. We again experienced positive sales mix during the quarter.

Food and beverage expense in the third quarter was 22.2%, a decrease of 20 basis points from the third quarter last year, benefiting from carry pricing, partially offset by 3% commodity inflation in the quarter. Bacon and coffee were the primary drivers of commodity inflation. Labor and other related expenses in the third quarter were 32.6% of sales, a 100 basis point decrease from the third quarter of 2024.

Restaurant level labor inflation was 3.6%, a combination of carry pricing outstripping labor inflation and marginal labor efficiency contributed to the improvement as a percent of sales. Restaurant level operating profit margin was 19.7% in the third quarter, an 80 basis point improvement from the third quarter last year. General and administrative expenses increased to \$33.7 million from \$27.7 million in the third quarter of 2024.

As a percentage of total revenue, these expenses decreased to 10.7%, representing 30 basis points of leverage when compared to the same quarter last year. The income from operations margin was 3.2%. Adjusted EBITDA was \$34.1 million, \$8.5 million higher than last year, with adjusted EBITDA margin increasing to 10.8% from 10.2%, a 60 basis point improvement from the third quarter last year.

We reported net income of \$3 million. We opened 21 new system-wide restaurants during the third quarter of which 18 were company-owned and three were franchise-owned, and we ended the quarter with 620 system-wide restaurants. The effect of our franchise acquisitions, which includes only the impact of purchases made within the last 12 months, increased our third quarter revenue by about \$9.1 million and adjusted EBITDA by about \$1.6 million.

For further details on the third quarter, please review our supplemental materials deck on our Investor Relations website beneath the webcast link. Based on our quarter-to-date trends and plan for the balance of the year, I'd now like to provide our updated outlook for 2025. We are updating our guidance for same-restaurant sales growth to approximately 4% from positive low single digits in our prior guidance.

We estimate same-restaurant traffic of approximately 1% from flat to slightly positive in our prior guidance. We expect total revenue growth in the range of 20% to 21% with a net 400 basis point impact from completed acquisitions. We expect 63 to 64 new system-wide restaurants, including 55 new company-owned restaurants and 8 to 9 new franchise-owned restaurants with three planned company-owned restaurant closures.

We took advantage of the opportunity to pull forward a few openings into the third quarter and at the same time, push a couple of projects into the new year. We're now guiding fiscal year 2025 commodity cost inflation to be approximately 6% from a range of 5% to 7% in our prior guidance and restaurant level labor cost inflation to be approximately 4% from a prior range of 3% to 4%.

Our annual adjusted EBITDA projection is now approximately \$123 million, the high end of our prior guidance range of \$119 million to \$123 million. This includes the expected net contribution of approximately \$7 million from acquired restaurants. In an effort to assist you in your near-term modeling of our G&A, our annual leadership conference will be held in the first quarter of 2026 compared to our previous conference, which was held in the fourth quarter of 2024.

This is equivalent to just under 100 basis points in quarterly G&A expenses as a percent of sales. Please note, our initial fiscal year 2025 guidance contemplated this timing shift. We expect a blended income tax rate of approximately 45%. We are narrowing our expectations for capital expenditures to approximately \$150 million from \$148 million to \$152 million in our prior guidance. This does not include the capital allocated to franchise acquisitions.

Since our initial public offering four years ago, we've expanded the total of system-wide restaurants from 428 locations to 620 at the end of the third quarter. In that same period of time, our adjusted EBITDA has more than doubled. We're proud of the many growth milestones we've surpassed and are similarly excited to close out a strong 2025. Both our real estate and our people pipelines have never been healthier, providing a high degree of confidence in our ability to execute our near-term and long-term growth strategies.

And with that, operator, would you please 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

I wanted to ask if you guys might help us deconstruct the traffic results given the strength you're seeing relative to the rest of the industry, which has seen pretty muted trends on the traffic side. Can you just give us a sense for how much of the incremental traffic is coming in restaurant versus through the off-prem channel? And then maybe if you could give us some commentary around how much of the traffic is increased frequency with kind of First Watch loyalists versus maybe bringing in some new folks that have a newfound appreciation for your value proposition?

Mel Hope

CFO & Treasurer

Sure. Okay. So with regard to the second part of the question first, the full-service restaurants generally had a frequency that would suggest that we probably need a longer period of time to really read what the response to marketing has been regarding whether or not we've got repeat visits versus new customers.

Our marketing programs have been targeted at increasing occasions without regard to whether or not there are new visits or recurring visits. So I don't have a lot of data on that for you yet. We may over time, but we just need a larger cohort.

Christopher Tomasso

CEO, President & Director

And Jim, once again, we did see improvement in in-restaurant dining. It's continued to improve quarter-over-quarter. And obviously, we have the benefit of the third-party traffic increases as well. So I would say both channels contributed to the growth.

James Salera

Stephens Inc., Research Division

Great. And then as a follow-up, if you could just speak to what's helping bolster the results at some of these new openings. You mentioned Dover significantly ahead of the overall kind of fleet average. Is it just that these are really primo locations that real estate partners are coming to you with? Are you doing some extra work kind of on the front end to make sure there's a lot of fanfare around the restaurant opening? Just anything you can kind of give us there to explain the strength?

Christopher Tomasso

CEO, President & Director

Yes. We -- this is -- our new restaurants outperforming the core has been a trend for us for a number of years now. But we talked this quarter about some record-setting locations. And we talk constantly about how we're evolving our real estate site selection process, evolving the facility itself. So yeah, some of these second-generation sites specifically are -- they're larger. They're right upfront on the road.

We're really making the patio a significant feature that is inviting from the road. And so we benefited from that. That said, we have some restaurants that aren't bigger and are more maybe end caps that we've done that are achieving high volumes, too. So I think it's also a confluence of our brand recognition expanding, the site themselves acting as billboards.

I think our -- the work our marketing team has done on the social and digital channels to create that buzz before we open. I used the term in the prepared remarks of go for launch, like I just feel like in every aspect of these new restaurants, we're set up really well to A, build that preopening demand and then from an operational perspective, really deliver when they come in the restaurant. And it's really important when you're doing those kinds of outsized volumes to Wow people.

Those first reviews are really, really important. And our teams have done just an amazing job of all that. So yeah, this is -- this comes from many years of opening a lot of restaurants. We talk about it as being one of our strongest muscles, and we just continue to flex it and it continues to drive value for us.

Operator

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

Anisha Datt

Barclays Bank PLC, Research Division

This is Anisha Datt on for Jeff Bernstein. I wanted to ask a question on marketing. What are your plans to expand marketing efforts in 2026? And can you share specifics on the strategy? Do you need to reach greater scale in some of your newer markets before rolling out broader marketing initiatives given that about 1/3 of stores benefited from your initial efforts this year?

Mel Hope

CFO & Treasurer

We haven't done any indication about 2026 with regard to the overall plans for the company. So probably need to steer clear of that one for the time being. But the marketing, obviously, the more density you have in markets and in more markets, the marketing can become more efficient in some types of marketing.

But our focus has been very much on social and digital type marketing, which is very targeted. And our team is very accomplished at making sure that we're efficient even in markets where we don't have a lot of density.

Christopher Tomasso

CEO, President & Director

I think the big takeaway from the -- our marketing efforts and therefore, the results is that it's been successful. We're very pleased with it. We've only deployed it to a minority of our markets. And so the opportunity for us to invest and expand that in 2026 and beyond is very encouraging to us and something we're really excited about.

Operator

Our next question comes from the line of Andy Barish with Jefferies.

Andrew Barish

Jefferies LLC, Research Division

Nice results. And I just wanted to go back to that as well. I think September was your toughest lap and you still hurdled that, as you mentioned, with the best quarter. How does the -- and I think the marketing in the 3Q was a little bit lower because of AUVs. Can you just kind of let us know what the fourth quarter plan on that is a little bit more of sort of the near-term look?

Christopher Tomasso

CEO, President & Director

Yeah. Actually, that comment about the lower spend really had more to do with Q4 because of the seasonality of our business when we talked about it last quarter. But Q3 was pretty consistent with the first two quarters. So no step-up or step down there.

Andrew Barish

Jefferies LLC, Research Division

Got you. Okay. And then -- on the operations side, I mean, a lot of things were put in place kind of going back over the last few years. What's sort of really showing through that you would highlight as more demand is now generated and you're obviously handling it with one of the best comps in the industry?

Christopher Tomasso

CEO, President & Director

Certainly, the KDS, the implementation of the KDS system. But I also don't want to shortchange the consumer-facing investments we made around the app and waitlist management and some operational things we did. So Andy, you've heard us talk about this since we first announced that we were rolling out KDS.

We don't look at -- I mean, we look at each one individually from a return standpoint. But as far as what's driving the business, we think it's all of those things, whether it goes back to touches like the complementary coffee, our pricing strategy, the way we've increased portion sizes over this time and that type of thing.

So we're really trying to just make it so that everywhere the consumer and specifically our customer looks, our value gets better and better, whether it's the time it takes for their food to get to the table, the visibility they have into the weight process, opening the front door, just efficiency and execution and consistency.

And we think in turbulent times like this, those are the things that the consumers really value and then turn to, specifically the consistency part. They just don't want to put their dollars at risk.

Mel Hope

CFO & Treasurer

And our operators really have focused a great deal on I'd call it, blocking and tackling in terms of the labor management and focusing on execution in the restaurants. And when you see rising transactions, the labor really benefits from that in a growth company like ours where that transaction growth trickles down to more efficient labor.

Andrew Barish*Jefferies LLC, Research Division*

Yeah. And just finally, what was actual menu price in the 3Q? And then does that look like about 4% in the 4Q?

Mel Hope*CFO & Treasurer*

So in Q3, the carry pricing of all pricing events carried about 5% overall, and we're 3.5% or roughly for the full year.

Christopher Tomasso*CEO, President & Director*

And about 5% in the fourth quarter.

Mel Hope*CFO & Treasurer*

And about 5% in the fourth quarter. Okay.

Operator

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

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

Congrats on some real positive outlier results here in the quarter. I wanted to, Chris, dig in a little bit more on the second-generation sites. If you look at the class of '25, what was the mix of second gen? And then if we start to look out to the pipeline for '26, are we inflecting second-gen openings higher if you look at the mix of total openings?

Christopher Tomasso*CEO, President & Director*

Yeah. So as I mentioned on the last call, we're looking more and more at the second-generation sites. About 50% of what we opened in '25 were second gen, and we expect that to be a similar percentage for '26.

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

Okay. And is the competition -- I'm hearing other concepts try to talk about second generation as well. Does the benefits to the -- that First Watch has as a brand as far as landlord desire for First Watch to be a tenant, are you getting first looks at these type of locations versus kind of new development where they want you in the center or is it more competitive to land these sites in this environment?

Mel Hope

CFO & Treasurer

I think we're -- as a national credit now in our performance, we're probably on the Rolodex of every commercial developer, if Rolodexes still exist. So I do think we get first calls.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay, great. And then just wanted to loop back on the marketing. I know we're not going to get detailed '26 plans yet but is there a -- you guys are very thoughtful in what you've done to drive the growth of the brand.

Is there a thought of this is 1/3, 1/3, 1/3 type of process as far as how much of the base gets touched or how do we iterate out of kind of the -- I think it was Florida plus the Southeastern markets. I guess, tactically, how do we iterate this in '26 if we don't want to talk about how we spend against it in '26?

Christopher Tomasso

CEO, President & Director

Yeah. I think we'll take the learnings that we've gotten from this year's efforts and look at next year, look at the markets. Obviously, still efficiency and density is a factor, seasonality and other things. So it's not necessarily 1/3, 1/3, 1/3. We're not approaching it that way.

We're really just looking at it from an ROI perspective and where we can make the most impact, get the returns we want and drive the traffic. So it's -- the best thing I can tell you is that it's fluid, but it's going to all be based on the learnings that we've received so far.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay. And just a quick follow-up there, Chris, or I don't know if Matt's there as well. But the biggest kind of surprises out of the first real three quarters of leaning into this effort, if you're looking at where the efficacy of the program has been.

Christopher Tomasso

CEO, President & Director

The biggest positive surprises.

Matt Eisenacher

Chief Brand Officer

The biggest surprise -- this is Matt, Chief Brand Officer. So the biggest surprises, I think we have seen a lot of success in targeting our media within the category and using transactions to identify people that are already active in the category and may have lapsed or has not been to a First Watch in a while. So when you ask about kind of the momentum, I think we've built a playbook on not trying to convince people to necessarily build a new occasion within this daypart.

But I think there's a lot of low-hanging fruit by being the leader in the category and simply being top of mind for those that are already going out to full service and especially full-service breakfast. So it's very database and gives us a lot of confidence.

I think as you thought about strategies to go into next year, I think we think we've built a playbook over the last three quarters, and that's given us confidence. So we don't see a lot of derivation in the short-term on changing those strategies. The opportunity is really taking it into more geographies. And I think we'll talk about that over the next few quarters.

Mel Hope

CFO & Treasurer

And Todd, you might remember that we piloted these last year. So in terms of surprises, I think the reason we piloted them was to -- so that we could select those things that would perform predictably. And I think they've been predictably positive.

Operator

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

Brian Vaccaro*CGS International*

Just on the third quarter comps, can you elaborate a little bit on the impact? You talked a lot about the new marketing efforts, but just elaborate a little bit more on the impact you think the marketing is having on your sales trends.

And I heard you say that it covered about 1/3 of your footprint, if I heard correctly. So I was thinking maybe some more color on sort of the regional trends that you're seeing or what that scatter plot might look like kind of mapped against the new advertising initiatives.

Matt Eisenacher*Chief Brand Officer*

So this is Matt again. We haven't really seen much variation. I think the results have been very consistent across geographies. I mean we've talked in the past how important the state of Florida is for us. And our results have been pretty consistent.

And that's, frankly, why it gives us confidence. It's not like we're seeing particular markets succeed and others not respond. I think for us we know our awareness is low. And so simply by being top of mind, being consistently top of mind for category users, we've seen very consistent results, and that will inform how we think ahead in 2026.

Brian Vaccaro*CGS International*

All right. That's helpful. And I want to ask on commodity inflation as well. I think it was around 3% you said in the third quarter, and the guidance implies that that kind of steps back up maybe into the mid-single-digit range in 4Q. Am I reading that right? And maybe you could just walk through some of the puts and takes within your basket moving through the rest of the year?

Mel Hope*CFO & Treasurer*

So it does step up a little bit in the fourth quarter. Kind of the general trend, Brian, this year has been that we started with our four largest commodities all being at historic highs, and we've seen some moderation in most of those, less so in bacon and coffee, but a great deal in terms of the cost we were paying for our [shell in] eggs and for our avocados. And that trend has held pretty steady through the year. The moderating commodities that continue to moderate and then coffee and the bacon have continued to be high.

Operator

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

Jon Tower

Citigroup Inc. Exchange Research

I'm going to go back to the marketing because why not. I'm just curious, in terms of what you're seeing with these new customers that are coming in, in response to the marketing so far, are they using the brand differently than how you've seen other customers come in, say, the first time when they are introduced to the brand?

So for example, are they coming in and say you're marketing in these over social channels a certain piece of the menu, whether it's value-centric or a seasonal piece, are they coming in response to that and ordering that immediately when they come in first time or are they choosing different pieces of the menu versus what you normally see?

So I'm curious to see if it's kind of you're pushing one thing and they're going after that or they're just getting introduced to the brand and coming because they're seeing the brand for the first time and utilizing it differently than what you normally see in the past from other consumers that aren't getting -- haven't been marketed to?

Christopher Tomasso

CEO, President & Director

Yeah. I'd say it's more of the latter, but with a clarification that we're not seeing any difference in behavior. It's more of a reminder of top-of-mind brand awareness, getting them in the door. But our mix hasn't changed much at all.

As a matter of fact, we're still seeing positive mix like we have for a while now, no signs of check management, all healthy signs for us. It's just that we're raising our awareness and getting more customers in the door. Matt, I don't know if you want to add something there.

Matt Eisenacher*Chief Brand Officer*

Yeah, Jon. So Chris is right. We don't see much of a difference in mix. But what I'll go back to the strategy of we're tracking people and staying top of mind for category users. So if you're someone who hasn't been the First Watch in a while, we're not necessarily speaking to you about our seasonal menu. We're establishing that we are breakfast.

We try to communicate breakfast. And then as we see you transact and you moved into our owned audiences, then we start to talk to you about our seasonal menus. So I just wanted to make sure it was clear. It's not necessarily that we're trying to drive new users in behind the seasonal menu, and that might be why we're not seeing a large fluctuation in mix.

Jon Tower*Citigroup Inc. Exchange Research*

Okay. I appreciate that. And -- then maybe on the new stores, and I appreciate all the color around the second-gen locations. Are you guys doing anything differently as you're moving into these new markets and you're building out, I believe somebody in the past, you've spoken to having slightly bigger footprints on these locations.

The back of the house, are you doing anything differently with respect to the kitchen to handle perhaps more capacity with seating in the front of the house or maybe new equipment or anything like that in these new stores, particularly as you maybe move into markets that are slightly denser than what you've had in the past?

Christopher Tomasso*CEO, President & Director*

I think one of the most encouraging things about these volumes that we're seeing is that our line, which is where the food comes right out of and goes to the customer is and has been the same for a long time, save some adjustments here and there as part of our ongoing evolution.

But no. I mean, so the encouraging part is we realize now and know that these lines can do very high volumes, really high sales hours. But when we're taking over these spaces, to be honest with you, most of the time, they have much larger back of houses than we're accustomed to, but we put our standard line in there.

But what it does afford us is a larger walk-in cooler, a bigger dish area, more prep area. So just not as congested perhaps as if we were building our 3,800 square foot restaurant. But no, the line itself being able to handle these types of volumes gives us a lot of encouragement about our ability to do these high unit volumes for a long time to come.

Jon Tower

Citigroup Inc. Exchange Research

Cool. And then just lastly, you've ticked off a bunch of stuff with respect to technology in the past several years, whether it's the KDS, whether it's consumer-facing technology on the wait list or the app. Is there anything else that we should be thinking about in the next several -- maybe in the next 12 months or 24 months that you guys are tackling to either improve the guest experience or the employee experience?

Christopher Tomasso

CEO, President & Director

I feel like you're leading me to say AI. So I'm just going to say AI, it's not, okay. Look, we're constantly innovating, looking at every aspect of our business. And some things are big, some things seem small but have great impact.

And so we'll just continue to evolve. We don't have anything teed up that we're ready to talk about right now. Our focus, as we teased last time was on a new menu, and we talked about it a little bit here. So optimizing the menu and is a big focus for us for 2026.

Operator

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

Unknown Analyst

This is [Isaiah Austin] on for Sarah. Just a broad question about the breakfast daypart. I think earlier, we saw signs that it was stabilizing this year. Is that something that you guys continue to see? And kind of in the same vein, I think previously, we had heard from you all that you guys weren't seeing the same kind of trade-down benefit from dinner to breakfast and brunch that you guys experienced during the Great Financial Crisis. Do you feel like you're starting to see signs of that now? And then I have a quick follow-up after.

Christopher Tomasso*CEO, President & Director*

Actually for us, weekday breakfast was the standout daypart in our growth in Q3. It was the best traffic of all our -- all three of our dayparts, which, as a reminder, we look at weekday breakfast, weekday lunch and then weekends, we just call brunch. So we've been very encouraged by what we saw at weekday breakfast.

Unknown Analyst

Got it. And anything on the trade down just that you guys were experiencing like a couple of decades ago versus now? Do you see similar trends?

Mel Hope*CFO & Treasurer*

I don't think we have evidence of that. Don't really know. I mean some of that -- some of the direct data associated with that, I don't think we see the same thing today.

Unknown Analyst

Perfect. And then just in light of the great quarter, is there anything that you all are seeing as far as your customer metrics, like higher frequency or improved value scores? Maybe if you have any measure of awareness, just kind of thinking about the drivers behind this quarter and where it can go from here?

Matt Eisenacher*Chief Brand Officer*

This is Matt Eisenacher again. You asked about awareness. We have encouragingly seen a steady increase in awareness, which is, again, encouraging for us given our known low awareness. So every quarter, we've seen sequential improvement in awareness and moderation and improvement in our value scores as well. I mean, Mel mentioned it earlier, we are a little more cautious in reporting on frequency in full service I think if you want a longer time horizon.

But we have been able to test the post period in a variety of the channels and tactics we've been employing, and we've seen some indications of positive lift following those, which would tell us that there's likely a resulting in improved frequencies. But again, I think it takes more time to be definitive in that. But we've seen a lot of encouraging signs across all those metrics.

Operator

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

Arian Razai

Guggenheim Securities, LLC, Research Division

This is Ari Razai for Greg. Congrats on a great quarter. I think delivery contributed just over 3% to the same-store sales in the quarter. And it looks like it accelerated from the last quarter. Can you talk about how demand has grown in that channel since you made that pricing adjustment, maybe like any other changes in promotional activity in that channel?

Christopher Tomasso

CEO, President & Director

Sure. Just to clarify, did you say how demand is affected in that channel?

Arian Razai

Guggenheim Securities, LLC, Research Division

Correct.

Christopher Tomasso

CEO, President & Director

Yes. We've seen demand increase significantly over the past, call it, [indiscernible] three quarters, and that trend has held. So we keep -- we talk about the positive impact of the changes we made to that program. And again, that's continued.

Matt Eisenacher

Chief Brand Officer

This is Matt. Chris has made a good point that we did see improvement once we made the changes to the program earlier in the year, but the results have been fairly consistent. There wasn't a meaningful increase in that channel in the third quarter that might have outsized driven the rest of the comp.

Arian Razai

Guggenheim Securities, LLC, Research Division

Got it. Understood. Super helpful. And a quick follow-up. I know it's too early to talk about guidance in 2026, but maybe if you can touch directionally on labor and commodity inflation, that would be super helpful.

Mel Hope

CFO & Treasurer

I can tell you that at present, we're talking with suppliers about our costing for some key commodities for next year. And so we'll probably have more information on that later in terms of labor inflation, I expect it to be -- or I'm hoping that it's a little bit more normal than maybe we've seen in the last few years.

We have some built-in inflation as the regulatory minimum wages are increasing in some of our large markets by another \$1 or so. So there'll be -- there's certainly some labor inflation, but I'm not ready to really guide to what we're building into our models for 2026 yet.

Operator

[Operator Instructions] Our next question comes from the line of Andrew Charles with TD Cowen.

Andrew Charles

TD Cowen, Research Division

Typically, you guys visit pricing around January, around July, give or take. But I guess I'm curious, what drove the decision to take that incremental 1.1% price increase that you mentioned in August following the 2.8% in July?

Christopher Tomasso

CEO, President & Director

Yeah, Andrew, that 1% was contemplated in our pricing strategy early in the year. However, it affected some items that had a relation to the seasonal menu that we were rolling out. So we needed to time it with that so that we maintain those relationships if that makes sense.

There were some items. We look for certain spreads between a seasonal item and a core menu item. And we had that particular situation here. So we just held back 1% so that we could time it with the launch of the seasonal menu.

Andrew Charles*TD Cowen, Research Division*

Okay. I got you. And then separately, Mel, the third-party delivery AUV, if we look at the Q, looked to be up about 40% in the quarter. Can you speak to the flow-through that you're seeing on that profitability and the impact that's having in driving profitability as well?

Mel Hope*CFO & Treasurer*

So the profitability on third-party delivery would be -- we generally view it as a transaction just like any other transaction with a different top line. And so as a result of the fact that oftentimes we have fewer beverage deliveries than we do in the restaurants. I think the profitability, at least [indiscernible] level probably runs pretty close to the standard. If you're fully loaded, maybe it's a little bit more, little bit profitable, a little less. Okay. A little bit less.

Christopher Tomasso*CEO, President & Director*

But in that it's -- we view it as an incremental occasion. I think it's important to keep that in perspective that majority of those transactions we consider to be incremental.

Mel Hope*CFO & Treasurer*

The truth is I don't know that we've ever publicly talked about the RLOP on the different types of different sales channels.

Christopher Tomasso*CEO, President & Director*

But it is a big contributor to our adjusted EBITDA.

Operator

This now concludes our question-and-answer session. I would like to turn the floor back over to Chris Tomasso for closing comments.

Christopher Tomasso*CEO, President & Director*

Great. Thank you. Thanks, everybody, for joining us on the call this morning. We really appreciate it. We're looking forward to connecting with most of you in the coming days and weeks.

And as always, we are grateful for the dedication shown by our entire team, many of whom I know are listening today. So a sincere thank you from all of us here. We look forward to building on our strong foundation throughout the balance of this year and are excited about our prospects for 2026. Have a great day, everyone. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines and have a wonderful day.

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