

Seeking Alpha^α

Transcripts

First Watch Restaurant Group, Inc. (FWRG) Q4 2024 Earnings Call Transcript

Mar. 11, 2025 9:19 AM ET | **First Watch Restaurant Group, Inc. (FWRG) Stock** | FWRG

**SA Transcripts**

152.89K Followers

Q4: 2025-03-11 Earnings Summary

[Play Call](#)[Slides](#)[PR](#)[10-K](#)

EPS of \$0.05 **beats by \$0.02** | Revenue of \$263.29M (7.63% Y/Y) **beats by \$218.32K**

First Watch Restaurant Group, Inc. (NASDAQ:[FWRG](#)) Q4 2024 - Earnings Conference Call
March 11, 2025 8:00 AM ET

Company Participants

Steven Marotta - VP, IR

Chris Tomasso - President and CEO

Mel Hope - CFO

Conference Call Participants

Jeffrey Bernstein - Barclays

Andrew Charles - TD Cowen

Sara Senatore - Bank of America

Andy Barish - Jefferies

Jim Salera - Stephens

Gregory Francfort - Guggenheim Securities

Brian Vaccaro - Raymond James

Operator

Thank you for standing by, and welcome to the First Watch Restaurant Group Incorporated Fourth Quarter Earnings Conference Call occurring today, March 11, 2025 at 8AM 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, VP of IR of First Watch to begin. Thank you.

Steven Marotta

Hello, everyone. I'm joined by First Watch's CEO and President, Chris Tomasso and Chief Financial Officer, Mel Hope. This morning, First Watch issued its earnings release for the fourth quarter of fiscal 2024 on GlobeNewswire and filed its annual report on 10K 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 10K.

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.

During today's call, references to same restaurant sales and traffic growth compares to the 13 periods ended December 29, 2024 and December 31, 2023 in order to compare like for like periods. Otherwise, any reference to percentage growth when discussing fourth quarter performance is a comparison to the fourth quarter of 2023 unless otherwise indicated.

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

Chris Tomasso

Good morning. Thank you all for joining us to discuss our fourth quarter 2024 financial results and our outlook for 2025. And thank you to our more than 15,000 employees who wake up early every day to make days brighter for our customers and each other. These results are the product of their extraordinary efforts. 2024 was a pivotal year for First Watch, just not in a typical way.

I'm particularly proud of how our teams operated during the year, driving our total revenue to over \$1 billion and our adjusted EBITDA to over \$100 million for the first time in the company's more than forty year history. Despite the adverse conditions faced by consumers, which pressured restaurant industry sales, we controlled the controllables and in the process, increased labor efficiency, improved restaurant level operating profit margins, reduced ticket times, improved employee turnover and raised our already exceptional customer experience scores. I'm also proud of what we did not do in 2024. We differentiated ourselves by refraining from aggressive price promotions, which were widespread across all dayparts. Above all, we stayed true to who we are, which is a trait that has served us well through every environment.

And as a result, the First Watch brand entered 2025 in a position of strength, committed to serving an elevated daytime dining experience and to providing our customers with value. Importantly, we opened 50 new restaurants in 2024, including a record 25 in the fourth quarter alone. On average, restaurants we opened in 2024 are on pace to generate third year sales of \$2.6 million or about 20% above our current system average unit volumes, with a projected cash on cash return above 35% and IRR above 22%. The pace of our new restaurant development and our proven site selection principles creates a formidable growth engine that contributes to our ability to fulfill First Watch's long-term annual goals of mid-teens percentage increases in revenues and adjusted EBITDA. We've identified vast white space for First Watch throughout the US, which continues to affirm our strategy to reach 2,200 locations in the Continental US.

It's not a matter of if, it's a matter of when. For more than four decades, First Watch has grown largely via word-of-mouth. While we're proud that loyal customers love and recommend us, as our national footprint has grown, we recognize our opportunity to raise brand awareness via smart targeted marketing efforts. After several years of technology investments and associated data collection aimed at improving our marketing efficiency, combined with learnings from tests conducted in 2024, we are meaningfully scaling our marketing spend in 2025. This effort represents the next step in the continued evolution of our marketing capabilities, which has been years in the making and was not a reaction to the more recent challenging industry traffic.

Our broad based iterative approach utilizes various media strategies that target current customer frequency, as well as attract new consumers to the First Watch brand. Historically, marketing campaigns aimed at increasing our restaurants brand awareness were anchored by a significant investment in advertising on national media. You should not expect to see First Watch commercials on traditional broadcast television. Instead, our approach utilizes a variety of channels to connect with consumers at various stages of the marketing funnel and nurtures that relationship to a first party connection. Our investments in technology have led to greater tracking, measurement and targeting, resulting in more informed results, and we believe the potential for greater per dollar return than previously achieved.

Given these new capabilities, we are funding the cost of our 2025 customer targeting strategy with both the reallocation of existing dollars and increased investment and expect to drive a return to positive guest counts in 2025. While this investment represents a significant step up for us, we believe that as a percent of sales, our planned investment in marketing remains below the industry average. We view this as a natural part of our brand's evolution and see it as a lever to support our long-term growth targets. We do not expect our campaigns to result in traffic related peaks driven by price promotions, rather an ongoing drumbeat to scale awareness alongside our new restaurant growth. Later this year, we also plan to launch enhanced customer facing technologies as part of our ongoing journey to improve both the customer and employee experience.

These include, but are not limited to, a custom built waitlist experience, a new menu experience with dynamic nutrition and allergen tools, new ordering capabilities and a personalized offer wallet. We will build on these levers for continued growth over the next several years. As I mentioned on our third quarter conference call, in an effort to stabilize traffic in the third party delivery channel, we partnered with our platform providers to modify our approach and improve our effectiveness. These modifications, which we instituted early in the first quarter of this year, immediately improved our visibility within the delivery apps and subsequently reversed our trend. I'm pleased to report that traffic is now positive in this channel year to date.

We know that the consumer is facing a lot of pressure everywhere they turn these days. Our instinctive response is to reinvest in the customer experience through innovation, heightened hospitality and enhanced value. Our highly anticipated seasonal menus continue to delight our customers, which was on full display with our current jumpstart menu and its eye catching and craveable Parmesan Prosciutto toast. We will soon test an expanded line of beverages and have already tested exciting new menu innovations, which have delivered positive early results. We increased meat and potato portions on some of our top selling menu items and replaced honeydew with more premium fruit such as strawberries, pineapple and blueberries in our fruit bowls.

And we brought back complimentary coffee while you wait, something our customers loved and we did for more than thirty years before it was discontinued for safety reasons during COVID. This invest in the guest philosophy is nothing new for us. It's yet another way in which we extend hospitality and a key factor in how we've remained relevant and driven a high value perception with our customers for many years. Being the category leader in the daytime dining segment has many advantages. Scale is the top of the list.

This is where our scale matters. Scale is the difference between new restaurant openings at A locations in the epicenter of the trade area versus openings in second rate B or C locations. Scale is the difference between accelerating unit growth and expanding our footprint, while others in our segment pull back or close underperforming units. Scale is the difference between an elevated menu offering with dynamic seasonal menus, highlighting fresh in season ingredients versus highly commoditized breakfast offerings. And scale is the difference between a strong supply chain versus scrambling for key ingredients in challenging times.

Quite simply, in good times and not so good times, our scale positions us to power through challenges better than anybody else in our space, especially those that are highly franchised, which inherently have less control over menu pricing. Strategically and historically, our disciplined approach considers pricing only to long-term inflationary trends, not to transitory commodity spikes and we will do the same in 2025. Similar to the avian flu experience in 2022, after taking no price in 2021, our modest pricing that year looked through the short lived spike in egg costs, which rolled off in the following year and spurred market share gains for us in the meantime. I'm also excited about the opportunities that lie ahead in 2025. Our real estate and people pipelines are robust and well positioned to support our ambitious yet highly achievable unit growth targets.

We're bullish on our ability to bring our unique breakfast brunch and lunch offering to new markets such as New England, where we've already been welcomed with open arms and Las Vegas, where we expect to open in the second half of the year, while we continue to build out our core and emerging markets. We spent several years focusing on serving more demand, and in doing so have raised our AUVs from 1.6 million in 2019 to 2.2 million today. We now turn our efforts to creating more demand through our continued new restaurant unit growth and burgeoning marketing efforts to expand our presence, increase our awareness and drive our comp restaurant base. Every year inevitably presents unique challenges, whether it be a pandemic, supply shortages, traffic malaise, national and global crises or outsized inflation. We approach them all the same way with a long view. We control the controllables year in and year out and along the way take share and expand scale to set up a stronger tomorrow.

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

Mel Hope

Thank you, Chris, and good morning. As Chris referenced in his opening remarks, our restaurant managers and crews continued the efficient operation of our restaurants in the fourth quarter as they did throughout all of 2024. They further improved our employee turnover, generated faster ticket times and posted better customer service scores compared to the prior year.

Total fourth quarter revenues were \$263.3 million, an increase of 16.8%, excluding the impact of the 53rd week in 2023. Our top-line growth in the fourth quarter is attributed to the 145 non-comp restaurants, including the 43 company owned new restaurant openings and the 28 acquired franchise locations since the third quarter of 2023. This was partially offset by negative same restaurant sales of 0.3%, which includes a same restaurant traffic decline of 3%.

In the fourth quarter, our in restaurant dining traffic was stronger than our off prem traffic. However, as Chris mentioned early in 2025, we implemented changes to our delivery program. This has driven improvement in the third party delivery sales channel, resulting in higher traffic year to date and is now positive year-over-year. On the food cost front, food and beverage expense was 22.7% of sales compared to 22.5% in the same period last year. As a percent of sales, costs benefited from carried pricing of 2.9%, offset by commodity inflation of 2.4%.

Excluding marketing incentives in the first month of the quarter, food and beverage as a percent of sales would have been flat versus the same period a year ago. During the quarter, restaurant level labor inflation was 4.3%. Labor and other related expenses were 33.7% of sales in the fourth quarter, a 20 basis point improvement from 33.9% reported in the fourth quarter of 2023. Our increased labor efficiency combined with carried pricing offset the impact of labor inflation in the fourth quarter. We achieved restaurant level operating profit margin of 18.8% in the fourth quarter of 2024.

Excluding the impact of the 53rd week in 2023's, restaurant level operating profit margin would have been even with the fourth quarter of 2023. Income from operations margin was 1.5%. At \$30.7 million, general and administrative expenses were 11.7% of fourth quarter revenue, which was favorable to the prior year by 50 basis points. Adjusted EBITDA was \$24.3 million, a nearly \$5 million increase versus the \$19.6 million reported last excluding the contribution of the 53rd week. Adjusted EBITDA margin grew to 9.2% as compared to the 8.7% margin we realized in the fourth quarter of 2023, again, excluding the impact of the 53rd week in 2023.

Net income was \$700,000 and net income margin was 0.3%. With the 25 new system wide restaurants opened during the fourth quarter, of which 23 are company owned and two are franchise owned, we ended the fourth quarter with 572 restaurants. Our new restaurant openings are a key contributor to our growth. Not only did new restaurants increase our revenue and profits, they extend our leadership in the daytime dining segment. They increase our brand awareness and they provide attractive personal and professional growth opportunities for our employees, which we believe also contributes to our leading retention and turnover rates.

For your financial modeling purposes, the net effect of acquisitions, which includes only the impact of purchases made within the last 12 months, increased fourth quarter revenue by about \$12 million, and adjusted EBITDA by about \$3 million and full year by about \$58 million and \$13 million respectively. For further details on our fourth quarter, please review our supplemental materials deck on our Investor Relations website beneath the webcast link.

Before providing guidance for 2025, we'd like to offer some additional color on the inflation in key commodities. Although we contract annually for our eggs, which ensures our supply and protects us from the most severe price volatility. The continuing impact of the avian influenza has necessitated that our egg supply will be supplemented with purchases subject to spot market pricing. This obviously increases our overall egg cost. Additionally, prices of avocados, bacon and coffee beans are elevated as well. Year to date, our commodity inflation is tracking at high single digit percent inflation, and we expect much of the higher pricing to be sustained throughout the year. Our full year expectation for commodity inflation and adjusted EBITDA have contemplated these higher costs as well as the recently announced tariffs.

Now, I'd like to provide our initial outlook for 2025. We're expecting same restaurant sales growth to be positive low single digits with flat to slightly positive same restaurant traffic. Our same restaurant sales growth guidance includes a 1.3 price action implemented in January, which implies carried pricing of around 2.8% in the first quarter and 2% for the full year. As a reminder, historically, our disciplined price actions aim to offset what we perceive to be permanent inflation, not transitory spikes.

We expect total revenue growth of around 20% with a net 400 basis point impact from acquisitions completed or announced, assuming the timely closing of announced acquisitions. We expect a total of 59 to 64 net new system wide restaurants, including 55 to 58 company owned restaurants and seven to nine franchise owned restaurants, with three planned company owned restaurant closures due to lease expirations. Our company owned new restaurant development pipeline is weighted in the second half of 2025, Q4 in particular. We expect full year commodity inflation percentage increase in the high single digits, driven by recent increases in eggs, pork, coffee and avocados as well as the tariffs. Restaurant level labor inflation is expected to be in the range of 2% to 4%.

Our adjusted EBITDA guidance range is \$124 million to \$130 million, with the net impact from acquisitions expected to contribute about \$8 million to our adjusted EBITDA this year, assuming the timely closing of announced acquisitions. We expect a blended tax rate in the range of 31% to 33%. We expect capital expenditures of \$150 million to \$160 million not including the capital allocated to franchise acquisitions. While we do not typically provide quarterly earnings guidance, we believe you may find a number of current considerations helpful to your models. As we have discussed, our new restaurants operate at less efficient margins with the 120 days having the steepest climb to maturity.

The company's overall profitability in the first quarter of 2025 will be affected by the record number of new company owned restaurants opened in the fourth quarter of 2024, in addition to the 10 or so expected in the current quarter. Combined with the recent spikes in key commodity prices, we expect adjusted EBITDA in the first quarter of 2025 to be around \$4 million below the first quarter of 2024. Note also that we expect 50% to 55% of our adjusted EBITDA for the year will be generated in the second half of 2025. Additionally, we enjoyed positive same restaurant traffic in the month of January, though with unseasonably cold weather and a weaker industry backdrop. February proved more challenging, posting negative low single digit same restaurant traffic. While we expect same restaurant traffic to be slightly negative for the first quarter, our guidance contemplates positive traffic for the balance of 2025.

Lastly, we remain highly confident in our growth prospects. As such, we're reiterating our long-term annual financial targets, including MRO percentage growth in the low double digits, same restaurant sales growth of around 3.5%, restaurant sales and adjusted EBITDA percentage growth in the mid-teens.

And so, operator, if we could open the line now for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question is from the line of Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Two questions. The first one just on the current comp trends. Many have spoken of weather and holiday shifts pressuring the first quarter quarter-to-date comps. And it sounds like you had some impact in February. But any concern of a slowing macro beneath the surface that is perhaps being masked by these transitory headwinds? Because that would seem to be contrary to your assumption for a return to positive traffic rest of the year. Just trying to gauge whether there's something more going on than perhaps just something transitory. Maybe you've seen something in consumer behavior, income levels or anything along those lines that you can share in terms of your confidence in those comps? And then one follow-up.

Chris Tomasso

Sure. It's hard to say, Jeff, but we feel good about the direction that we've seen for our business. Our Q4 traffic was better than Q3, and our Q1 to date traffic is better than Q4. So, we're seeing a positive trend.

Jeffrey Bernstein

Understood. And then in terms of the marketing you talked about, I think you mentioned meaningfully scaling that. So definitely an area of interest. Obviously, you seem pleased with your fourth quarter test. I'm just wondering how 2025 is going to look different than 2024. Maybe what components have you most excited or how you're thinking about the dollars to spend? I think you said percentage of sales is still below peers, but any color you could share in terms of the spend you're going to be doing and where you think you're to get the best bang for the buck? Thank you.

Chris Tomasso

Sure. I'll take that one too. Yeah, we're really excited about the results that we've seen from the marketing campaigns and initiatives that we tested in 2024. As I said on our last call and at ICR, we've basically taken the best of what we tested and put that into our plan. It's fully contemplated in our plan, the expenses. It's a big step up for us from a spend standpoint. You've been following us for a long time, you know how that's been. It's been a pretty low percent of sales for us. But really encouraged by the results we got. So, we've got that built into the plan. And that's kind of one of the major factors that drove our guidance.

Operator

Our next questions are from the line of Andrew Charles with TD Cowen. Please proceed with your questions.

Andrew Charles

So very helpful details strong high single digit commodity inflation. Just on the egg side, what are you specifically seeing there? I know you said you had to go outside of your outside the network to buy some spot prices as well. And just remind us, I guess, on the egg side, I believe in the past you quantified eggs and potatoes together as a mixture of commodity basket. Can you provide an update of that as well?

Chris Tomasso

Yes, the eggs and potatoes roughly run about 15% of our market basket. And what was the I'm sorry, Andrew, what was the first question? Just any color on the eggs?

Andrew Charles

Yes, just eggs in particular. As you guys guided to high single digit inflation for the full year, you're seeing that quarter to date. How much of that is just being driven by the eggs component of it?

Mel Hope

Well, the overall inflation we're not breaking down into components, but we do eggs. I don't know the portion that we're buying on the open market right now, but overall, our eggs, we contract for that price on an annual basis. And then during this time when there is diminished flocks, then we're having to supplement the supply and that's causing some additional adder cost or a surcharge on top of our negotiated price. And that's really where the inflation associated with the eggs are concerned. In terms of timeframe, I've said before, we're pretty finicky about the quality of our eggs and the type of eggs. And therefore, in order for the flocks that produce the sort of the eggs that we use, it'll take the better part of the year, we understand, before we see some sufficiently mature flocks to start producing the kind of eggs that we look for assuming there's no more flock depopulation.

Andrew Charles

That's helpful. And then Chris, quick follow-up. I think you articulated well the reason why you want to keep pricing modest, only taking 1.3% pricing in January despite the severe amount of inflation you guys are seeing. Just curious, how open minded are you that if this persists, your level of willingness to potentially revisit the pricing decision later in 2025?

Chris Tomasso

Yes. We're going to follow the same cadence we do every year. It has served us well for a number of years where we take a price increase at the beginning of the year based on what we expect the commodity or just the overall inflation labor and commodities to be. And then we are always planning to take a mid-year look and see where we are, see if anything has changed for the good or the other way and we'll approach it that way. In years of what I would call outsized inflation, as I mentioned in the opening, we may or may not price to cover all of it.

We may make a strategic decision based on the long-term health of the business, again, not to make a permanent pricing decision on something that we see as a transitory issue, which we feel avian influenza is right now. We experienced that in 2022. I talked about that a little bit. We certainly didn't price to cover that inflation, which I think was over 13% that year. And that helped us grow traffic since then.

We're going take that same kind of approach midyear here. But we're open to it, Andrew. We just we know what the pressure that the consumer is under and we want to make sure that we're thoughtful about it.

Operator

The next question is from the line of Sara Senatore with Bank of America. Please proceed with your question.

Sara Senatore

Thank you. I wanted to ask about your approach to value. I guess you said and maybe it's a two part. You're emphasizing value without doing deep discounts. I guess, do your customers recognize that? Is that the feedback you're getting? Or how can you tell that that's the case versus something that's a little louder? And I guess, in that same vein, even though you do have to buy on the spot, I suspect your inflation is still a lot lower than maybe what your competitors are seeing who haven't locked in any and certainly what we're seeing in grocery stores. Is that an opportunity for you to kind of emphasize your value gap or expand it further? And then I'll have just a quick follow-up on advertising, please.

Chris Tomasso

Sure. I'll take the first part and then let Mel speak to the inflation. I'll just say that the focus on communicating our everyday value was something that kind of came to light in the marketing testing with the messaging. Tested a number of different messages, creative and those type of things. And in the past where you've seen us focus on our seasonal menus and perhaps some of the more, I'd call them more of the specialty items that we do on the seasonal menus.

The messaging that we use that focused on the core menu and frankly some of our top sellers, top three or five sellers is really what resonated with the consumer. So that's what we've leveraged going forward. And so, when you ask how do we know that the consumer is recognizing that, we've got results from tests that we've done on a number of different creative executions.

Mel Hope

And on the egg front, our size and our annual egg contract really for us, it secures the supply, right? We don't have any outages or shortages of eggs in the restaurants. But I don't think in terms of just pricing, we are still paying more and we have a premium product that we use in terms of eggs. So, while you go to the grocery store and maybe you're seeing egg outages or just thin shelves and that sort of thing. We don't procure our eggs from the same place that grocers do. Principally because of the business that we're in. But it's not a place for us to look for value right now. It is very, we're paying a premium, and I think everybody else is probably paying a premium, too.

Sara Senatore

So, as you think about competitors who may be -- surcharge, things like that, your view is that it still may not be the place that you want to emphasize value just because your input costs are so high?

Mel Hope

I think that's right. Yes.

Sara Senatore

Okay. And then just quickly on the advertising. I guess when you talk about one like the delivery in the 3P, is that what you were doing better as you think about transaction growth? Is it the marketing piece or is there something else that you were referring to as you're able to turn that trend around?

Chris Tomasso

Yes. If you remember what we talked about previously, the third party channel was the biggest headwind on our customer accounts and traffic. And we also talked about how quickly it turned. And so, we just worked very closely with our providers on kind of a new arrangement that helps with our visibility and we've seen the results that we expected from it. So, our partners leaned in with us and worked with us. I mean it's good for them too. Our daypart is one that we're a big player in and it's not as robust I guess from a number of restaurants that are in that space. So, we're important to them, they're important to us and we work together to put together a true partnership that works for both.

Operator

Our next questions are from the line of Andy Barish with Jefferies. Please proceed with your question.

Andy Barish

Just wanted to kind of go through -- restaurant level margins are in 2024 and 2023 for that matter at the high end of your kind of targeted range and it looks like there'll be some decline this year. I'm kind of guessing anywhere from 25 to 75 bps. I guess is that all in the food cost line? And where just in terms of geographically on the P&L, where will the higher marketing costs wind up showing up the most?

Mel Hope

Yeah. Marketing would be in the G&A line item. And if we have margin pressure, Andy, I think what we're trying to dial into is we're focused on growing traffic and growing margin dollars even if the margin comes under some pressure as a result of the inflation that we're seeing. I really wouldn't want to confirm kind of your percentage range that you expressed there. But again, we're focused on growing those dollars even if we have to take a little bit of the inflation on the margin. Because if we look and we see that the inflation appears to be transitory, we're pleased to take some on the margin as long as we're growing our margin dollars.

Andy Barish

Got you. And then just a quick follow-up on the labor efficiencies. I know that worked really well. Are you at a point where there is more productivity improvements? Or will it kind of potentially come from just the leverage of getting back to positive comps and positive traffic?

Mel Hope

Yes, that's the always work of the heart of restaurant managers. And so, we claimed some low hanging fruit last year and kind of the teams worked hard to incorporate some of the new information and to adjust more swiftly in terms of staffing. There are more things that they'll continue to add. I don't know that we can expect the kind of efficiencies to flow through that we saw last year just because the volume of things to focus on is smaller. But they're constantly looking for ways to either change the staffing or the choreography of the restaurants so that we can better serve the customers, but also to optimize the labor efficiency as well.

Chris Tomasso

And Andy, I'd say that the restaurants performed exceptionally well in a down traffic environment. And so, we think we have leverage opportunity if and when we see the improved customer counts.

Operator

And the next question will come from the line of Jim Salera with Stephens. Please proceed with your question.

Jim Salera

Thanks for taking our questions. Mel, I wanted to maybe disaggregate if I can some of your commentary on the commodities. Given that you're factoring in tariffs, is there a way for you to break out how much of that high single digit commodity impact is from tariffs? And if we were to see those roll off, kind of what you would expect from an improvement? And I guess would that happen immediately, maybe if I'm not thinking about that correctly?

Mel Hope

We believe that furnish and the inflation is just a combined range is most helpful because that's how we think about it. Management considers it one pool of costs that we manage to. And as we go through the year, I mean, we'll be updating where we come out on inflation and we'll know more about the tariffs when we issue in May.

Jim Salera

Okay. And then maybe shifting gears and thinking about the traffic commentary. If we think about flat to positive traffic for the year, obviously, lot of people in the industry are kind of talking about maybe flat to down traffic, which would imply you guys gaining a little bit of share. Is that the marketing driving new guests to the restaurants and kind of discovering First Watch for the first time? Or is there a frequency component in there as well that's supporting guests that are already familiar with the concept coming on a more frequent basis?

Chris Tomasso

I think our expectation of our marketing is -- we're certainly very optimistic about it. I think it drives both frequency and new guests.

Operator

Our next question is from the line of Gregory Francfort with Guggenheim Securities. Please proceed with your question.

Gregory Francfort

I think a couple of quarters ago when traffic was maybe in a little bit softer spot, you talked about pressure on kind of the weekday daypart in certain times. Has that changed? And has that been what's maybe helping traffic the last couple of quarters get a little bit better spot? Any change in terms of what you're seeing from a daypart perspective?

Chris Tomasso

I think it's pretty much stayed the same from a mix standpoint. Weekend traffic is still better than weekday. And the daypart mix has been about the same. I think the input flow of the consumer at the different dayparts hasn't changed. It's just that we've seen more.

Gregory Francfort

Chris, for a company of your size, I think you guys are doing more with customer data and analytics than some of your peers. Can you share how you think about that? And do you need customers to be in a loyalty program to be able to use customer data? Can you do it outside of that? Just any perspective on how you do that? Thanks.

Chris Tomasso

Yeah, I'll tell you that if I have to answer your question, yes or no, the question is no, you don't have to. As long as you have ways in which you can collect consumer data, both your customers, customers of competitors, lapsed users, those type of things. It's really about the way you go about speaking to them and reaching out to them, the frequency, the messaging and those type of things. And our team does an incredible job of cutting up that data and using it. We've been talking about it for a long time building that data lake and we're at a point now where we can really start to leverage it. But the way in which our team goes about it is high level.

Operator

Our next question is from the line of Chris O'Cull with Stifel. Please proceed with your question.

Unidentified Analyst

This is Patrick on for Chris. Good morning. I wanted to ask about the anticipated mix impact of the marketing investments going forward. Mel, I know you don't typically have an explicit forecast in the guidance for the underlying mix, if I remember correctly, and you can correct me if I'm wrong there. But are you assuming any negative mix impacts from those marketing investments you plan to make? And is the underlying mix still positive if you kind of back that out in the current results?

Mel Hope

I don't think we anticipate and first of all, confirm you're right, we don't typically break out mix in our guidance, but we don't expect a negative mix impact.

Unidentified Analyst

Okay. And then Chris, I had a quick follow-up on the marketing investment. So, is the plan to distribute the spend equally across the system? Or is there any intent to lean into specific markets or regions where you think you could see a disproportionate impact? And then in the testing that you guys did, was there any major difference in the result of reaching your own customers versus I know you had some efforts where you were looking to reach customers who had not ever used the brand yet, maybe customers of competitors? I'm just curious kind of the relative distribution there as well between targeting your own customers versus targeting customers outside the brand and if there was any learning from the test that influenced kind of how you distribute those investments across those buckets? Thanks, guys.

Chris Tomasso

Sure. I'll start with the first part of your question, which is we're obviously focusing on markets where we have the greatest density and penetration for obvious reasons. The outlets we have for customers to be able to engage with us, the more efficient our spend is going to be. And that was a big learning from our test. It's obvious, but we also wanted to test it that way. And on the second part of your question, we saw the results that we expected from when we targeted our own customers and when we targeted customers of competitors because it was based on frequency and basically trying to get one more visit out of our customers and also getting in the rotation for customers of competitors in our dayparts. And so, both of those approaches were successful, obviously at different levels, but both of those approaches are also built into our plan for 2025.

Operator

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

Brian Vaccaro

You guys highlighted the strong performance of some of your new unit openings. Could you just elaborate on some of the common threads driving that outperformance versus your targets? And is there anything worth highlighting in terms of average square footage, new versus existing markets or any inflections you're seeing in certain markets around brand awareness?

Mel Hope

Probably on average, the new restaurants that we've opened the last recently and that frankly, the last couple of years, probably the square footage has exceeded the legacy fleet. I think if you go back a few years, the legacy restaurants on average were probably under 4,000 square feet. And most of the projects that we open now are above 4,000 square feet, 4,500. There's also Brian, I think you and I have talked about this before that there's second generation space that we have proven that we can go into and sort of nimbly change restaurants, which are in great locations for our customers, but another brand or another type of concept maybe wanted to move out of their lease or relocate or something like that. And so, some of those are actually quite large. And we'll take those spaces generally, they provide for a much larger dining room and larger kitchens, larger patios or more prominent appearance in the restaurants. I do think that those are well received when we add them to the fleet.

Chris Tomasso

And Brian, I'll add that one of the things I'm excited about and we've talked about it before is our ability to open across geographies and have similar performance. So, we know that when our teams stick to the data, the diligence, the site selection criteria, and the evolution that we've seen in our prototype, that we work everywhere. And so, our ability to enter new markets like we've done this year in New England and in years past with Chicago and other markets is very encouraging to us because we can kind of have a diversified geographical footprint of where we open. And if you look at, we've talked about there's no two first watches that look alike. We're constantly iterating and improving our prototype and how they look, for example, the patio features and those type of things. So, we continue to get smarter and better at this and have been really pleased with the results that I talked about in the opening from our NRO standpoint.

Brian Vaccaro

All right, that's helpful. Thank you. And maybe just one quick follow-up if I could on the guidance. Mel, obviously a lot of moving pieces with commodity inflation, the advertising investment. Are there any high level guardrails you could help us with in terms of what your guidance assumes for store margins and G&A spend?

Mel Hope

The guidance that we gave, I think the guardrail I'd refer you to is the adjusted EBITDA in the range of \$124 million to \$130 million for the year. Everything that we've considered for the year in terms of inflation, in terms of our marketing spend, in terms of restaurant margins, all of that is baked into those numbers. And that's where we have our enthusiastic plan addressed.

Operator

Thank you. At this time, I'll turn the floor back to Chris Tomasso for closing remarks.

Chris Tomasso

Thank you for your thoughtful questions and for participating in our call today. We appreciate it. Once again, I also want to say a special thank you to our entire First Watch team for standing shoulder to shoulder and making days brighter for all of our customers every day. And I hope you all have a great day.

Operator

This will conclude today's conference. Thank you for your participation. You may now disconnect your lines at this time.

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

View all [earnings call transcripts](#)

Comments

Newest  