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First Watch Restaurant Group, Inc. (FWRG) Q4 2025 Earnings Call Transcript

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Q4: 2026-02-24 Earnings Summary

Insights



EPS of \$0.26 **beats by \$0.19** | Revenue of \$316.35M (20.15% Y/Y) **beats by \$34.35K**

First Watch Restaurant Group, Inc. ([FWRG](#)) Q4 2025 Earnings Call February 24, 2026 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

Jeffrey Bernstein - Barclays Bank PLC, Research Division

Sara Senatore - BofA Securities, Research Division

Andrew Charles - TD Cowen, Research Division

Jon Tower - Citigroup Inc., Research Division

Andrew Barish - Jefferies LLC, Research Division

Todd Brooks - The Benchmark Company, LLC, Research Division

Brian Mullan - Piper Sandler & Co., Research Division

Gregory Francfort - Guggenheim Securities, LLC, Research Division

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

Presentation

Operator

Thank you for standing by, and welcome to the First Watch Restaurant Group, Inc. Fourth Quarter Earnings Conference Call occurring today, February 24, 2026, at 8:00 a.m. Eastern Time [Operator Instructions] This call will be archived and available for replay at investors.firstwatch.com under the News and Events section. I would now like to turn the conference over to Steven Marotta, Vice President of Investor Relations at First Watch to begin.

Steven Marotta

Vice President of Investor Relations

Hello, everyone. I am joined by First Watch's Chief Executive Officer and President, Chris Tomasso; and Chief Financial Officer, Mel Hope. This morning, First Watch issued its earnings release for the full year and fourth quarter of fiscal '25 on Globe Newswire and filed its annual report on 10-K 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 fourth quarter or full year performance is a comparison to the fourth quarter of 2024 and fiscal 2024, respectively, unless otherwise indicated. And with that, I will turn the call over to Chris.

Christopher Tomasso

CEO, President & Director

Thanks, Steve. Good morning, everyone. Thank you for joining us to discuss our 2025 results as well as our plans for 2026 and beyond. 2025 was noteworthy for First Watch, and I'm proud of our team's performance throughout the entire year. Our total revenue growth was more than 20% and same-restaurant sales grew by 3.6% with positive same-restaurant traffic. We also opened 64 new restaurants across the system. Our 2025 new restaurant class represents the most openings in our company's more than 40-year history and exemplifies the depth of our development pipeline and our ability to execute against our growth opportunity.

As always, I want to thank our more than 17,000 employees nationwide without whom this would not be possible. I'm particularly pleased with the results considering that according to Black Box, industry traffic was negative and casual dining was only slightly positive as a result of macro environment pressure throughout the year. Despite the headwinds, our teams effectively executed on our growth strategies, and we excelled by focusing on controlling what we can control and by playing the long game. For example, we successfully and patiently navigated through soaring commodity inflation early in the year.

We were able to balance preserving the value proposition for our customers by carrying moderate pricing while still delivering restaurant-level operating profit margins of 18.5%, well within our targeted long-term range. To strengthen our performance in the third-party delivery channel, we enhanced our key partnerships with 2 primary goals in mind: first, to drive traffic in that channel; and second, to do so profitably. We achieved both. We also successfully launched our new digital marketing initiative to roughly 1/3 of our comparable restaurant base, generating a positive return on our investments.

The results were compelling in building brand awareness and driving traffic, and we are excited about rolling it out to a wider base of restaurants in 2026. Stepping even deeper into marketing and our focus on the customer. Throughout 2025, we advanced our multiyear effort to enhance our paid marketing and customer analytics capabilities. Following disciplined testing in 2024, we deployed a more sophisticated marketing strategy across select geographies and drove consistent increases in both aided and unaided awareness and increased customer visits. These results have given us the confidence to expand the program further to the majority of the comp base in 2026, and we're excited to continue leveraging this evolving competency.

Our marketing strategy is data and audience-driven with heightened personalization from what might have been possible for us just a few years ago. We segment our markets using population data, market awareness and competitive intensity. Our objective is to serve the right message to the right consumer at the right time and to nurture that relationship into a first-party connection and ultimately, a restaurant visit. Tangible benefits have been realized from connected TV, online video, paid search and programmatic digital that connects to household and transaction insights as well as our owned data.

Along with our focus on staying top of mind is our obsession with delighting customers the moment they walk into our restaurants. This comes to life through our innovative seasonal menus, warm hospitality and concerted effort to make days brighter. We're proud to see this focus pay off. And in 2025, our restaurants earned a range of awards and accolades that underscore the strength of our execution. We were pleased to be named to Yelp's Most Loved Brands list, ranking #4 among other highly distinguished and well-known consumer brands.

This recognition validates that we have created a welcoming environment known for great food and great service. In the spirit of continuing to raise the bar, I'm happy to announce that earlier this month, we rolled out a new core menu to all First Watch restaurants, the first significant redesign and reengineering of our menu in almost 10 years. Our overarching objective with this redesign is to meaningfully elevate the experience for our teams and our customers.

This effort again reflects the extensive feedback we've gathered over the past several years, reinforcing our commitment to continuous improvement and ensuring the long-term relevance of our brand. We added some of our most popular seasonal menu items to the core menu, including 2 dishes that feature a premium protein in the form of Barbacoa, the Barbacoa Breakfast Tacos and my favorite, the Barbacoa Chilaquiles Breakfast Bowl. Other permanent additions include our best-performing sweet item, Strawberry Tres Leches French Toast and an additional shareable, the Holey Donuts.

We know our customers will be excited by the return of these beloved items and will also appreciate the work we did to improve menu navigation and add common customer requested add-ons. At the same time, we use this effort as an opportunity to address slow-moving items, eliminate single-use SKUs and reduce complexity for our back-of-house teams. We're very optimistic about this initiative. In addition to improving our core menu, we also took the opportunity to elevate the design of our seasonal menu as well.

With inspiration from our food ethos of Follow the Sun, we introduced more color, vibrancy and thoughtful illustrations to better tell the story of our rotating menu and the innovative items that we introduce each season. Currently, we're featuring the Chimichurri Steak & Eggs Hash as well as the return of the Bacon Egg and Cheddar sandwich, otherwise known as the BEC served on thick artisan sourdough. Our new core and seasonal menu initiative is comprehensive and was vetted and tested for more than 1 year in a meaningful number of First Watch restaurants.

One final marketing topic related to our delivery channel. As our industry has continued to rapidly evolve, we too have evolved. We're committed to meeting our customer where they are. Our delivery efforts in 2025 reflected that principle. And while our digital marketing priorities illustrate our primary focus on the direct relationship with our customers, our information indicates that the delivery occasion is largely incremental, but likely not always with a unique customer. Said differently, we believe consumers and our customers specifically seek a variety of occasions in their everyday lives. And by leaning into delivery, we are better positioned to stay top of mind for an eventual in-restaurant occasion.

We continue to test and measure a variety of ways to grow our share of total occasions while driving positive margin dollars. Shifting to real estate development and growth. 2025 was yet another record-setting year, highlighted by our high number of openings and strong in-restaurant performance. As a group, the 2025 restaurant class is exceeding our expectations with first year sales trends running 19% above their underwriting target. We also achieved the highest opening week sales on record at our Cosner's Corner, Virginia restaurant, which generated more than \$90,000 in first week sales, reinforcing the strength of our model.

In Boston, we followed our initial suburban entry with a high-profile flagship opening on Boylston Street in January, helping establish brand visibility in one of the most dynamic urban centers in the country. Our disciplined approach to market analytics and site selection allowed us to confidently enter 5 major markets in 2025: New England, Las Vegas, Salt Lake City, Boise and Memphis, each of which represents a meaningful long-term growth opportunity for our brand.

In fact, as a group, these markets as of today represent up to 155-unit opportunity. Our class of 2026 restaurants are essentially scheduled, and we are already deep into 2027 and 2028 site selection. We remain the fastest-growing full-service restaurant brand in the United States and are exceptionally well positioned to build on our record performance. Our priorities for the year include deepening our presence in newly entered markets as we shift from market entry to market densification while continuing to strategically fill in core and emerging markets.

We know and have demonstrated for many years that when we adhere to our disciplined data-driven approach to site selection, we can meet and even exceed our investment return metrics. These plans, combined with the strength of our team and the proven effectiveness of our development strategies, gives us confidence in our ability to continue to deliver sustainable, best-in-class growth as we march toward our target of 2,200 restaurants. Also, in 2025, we continue to make significant investments in our talent pipeline and leadership development, aligning with our strategic growth priorities.

As I mentioned on last quarter's conference call, First Watch was named America's #1 Most Loved Workplace by the Best Practice Institute for 2025, a recognition we also earned in 2024. And just last month, based solely on employee voting, we were named in Glassdoor's list of 25 Best Places to Work in Consumer Services in 2026. These accolades are welcome, but what matters most is that it represents direct employee feedback and experiences at First Watch. Our general managers play a crucial role in our success.

In 2025, we updated the GM job description to reflect a renewed focus on operational excellence and people development, providing robust tools, techniques and best practices for managing employee development. This comprehensive approach ensures our restaurant-level leaders are empowered to nurture talent and maintain high standards throughout our operations. These initiatives, among others, further strengthen our organization as the results have made clear. Restaurant-level employee turnover declined in 2025, and we realized a 40% increase in applicant volume compared to the prior year.

Looking ahead, industry data from Black Box continues to point to yet another challenging year with their current outlook calling for a roughly 3% industry-wide same-restaurant traffic decline in 2026. Despite that backdrop, we remain confident that the initiatives we have put in place position First Watch to once again outperform the industry just as we did in 2025. We believe our disciplined execution and strategic investments will continue to drive market share gains in 2026.

There is no one in our daypart with the combination of scale, operational acuity, proven growth and total addressable market as First Watch. In fact, with consideration to those attributes specifically, no one even comes close. We are the segment leader and we'll continue to increase our share. There's a lot to be excited about in 2026 and beyond, and we look forward to making days brighter for our employees and our customers every day.

Now before I pass it over to Mel, I want to address the announcement we made this morning regarding Mel's decision to retire later this year. This transition to retirement is much deserved and will be well planned. Mel has been with First Watch since 2018 and was a critical part of our IPO in 2021. While he will certainly be missed, I'm optimistic about our company's promising future and next steps related to his retirement, including an executive search that will start immediately.

Mel will continue as CFO until we have a successor in place and onboarded. He also plans to stay on as an adviser until the end of 2026 to ensure a completely seamless transition. Mel, I want to thank you for your dedicated service and partnership for all these years. We wish you and [Trish] nothing but the best in this next stage of life. And with that, I'll pass it over to Mel.

Mel Hope

CFO & Treasurer

Thank you, Chris. That's very generous. I'm proud and grateful to be a member of your team, and I'm glad to play a role in facilitating a smooth transition. Let's return to the discussion of the company's performance. Total fourth quarter revenues were \$316.4 million, an increase of 20.2% with positive same-restaurant sales growth of 3.1%. Our top line growth in the fourth quarter is attributed to positive same-restaurant sales growth, 179 noncomp restaurants, including the 78 company-owned new restaurant openings and the 19 franchise locations acquired since the third quarter of 2024.

Same-restaurant traffic growth was negative 1.9%. Food and beverage expense was 22.9% of sales compared to 22.7%. As a percent of sales, costs benefited from carry pricing of around 5%, partially offset by commodity inflation of 1.1%. Excluding vendor contributions related to our 2024 leadership conference, which were reported in the prior year results, food and beverage expense as a percent of sales for the fourth quarter of 2025 would have been lower versus the fourth quarter of 2024.

Labor and other related expenses were 33.5% of sales in the fourth quarter, a 20 basis point improvement from 33.7% reported in 2024. Carried pricing offset the impact of 3.1% labor inflation in the fourth quarter, while our labor efficiency was essentially flat compared to the fourth quarter last year. We realized restaurant level operating profit margin of 19% in the fourth quarter of 2025, a 20 basis point improvement compared to the fourth quarter of 2024. Our income from operations margin was 2.9%. At \$31.8 million, general and administrative expenses were 10.1% of fourth quarter revenue, which was a 160 basis point improvement versus the prior year.

The favorability as a percent of total revenue was largely driven by the timing shift of our leadership conference and also benefited from leveraging certain home office expenses. Later on this call, I'll share a bit of good news about our expanded equity compensation program. Adjusted EBITDA increased 38.7% to \$33.7 million, a \$9.4 million increase versus the \$24.3 million reported last year. Adjusted EBITDA margin grew to 10.6% compared to 9.2% we realized in the fourth quarter of 2024.

Our 2025 income tax benefit was \$10.7 million and includes a sizable noncash benefit. Specifically, our year-end 2025 assessment of the future realization of the company's accumulating FICA TIP credits was more favorable than in years prior. The recognition of our net deferred tax assets includes the effect of this year-end determination. Net income was \$15.2 million and net income margin was 4.8%. We opened 13 new system-wide restaurants during the fourth quarter, of which 12 are company-owned and 1 is franchise-owned, and we finished 2025 with 633 restaurants across 32 states.

The net effect of acquisitions, which includes only the impact of purchases made within the last 12 months increased fourth quarter revenue by about \$9 million and adjusted EBITDA by about \$1.5 million and full year by about \$35 million and \$6 million, respectively. For further details on the fourth quarter, please review our supplemental materials deck on our Investor Relations website beneath the webcast link.

Now I'll provide our initial outlook for 2026. We are expecting same-restaurant sales growth to be between 1% and 3%. As a reminder, our pricing philosophy is such that we evaluate menu pricing at the beginning of the year and again around midyear with the objective of offsetting what we view as permanent inflationary pressures. We manage the business with a disciplined focus on sustaining same-restaurant sales growth while protecting the long-term health of the brand. Given our current outlook for commodity inflation and importantly, in keeping with what we believe is in the best interest of our customers, we elected not to take any pricing at the outset of 2026.

Therefore, our guidance includes carried pricing of around 4% in the first half of the year, which blends to about 2% for the full year. We expect total revenue growth of 12% to 14% with around 100 net basis points impact from acquisitions. We expect a total of 59 to 63 new system-wide restaurants, including 53 to 55 company-owned restaurants and 9 to 11 franchise-owned restaurants with 3 planned company-owned restaurant closures. Our company-owned new restaurant development pipeline is somewhat weighted to the second half of 2026, the fourth quarter in particular.

We expect full year commodity inflation of 1% to 3%, driven by increases in coffee and bacon, partially offset by expected deflation in eggs and avocados. Restaurant-level labor cost inflation is expected to be in the range of 3% to 5%. Our adjusted EBITDA guidance range is \$132 million to \$140 million, including the net impact from 19 restaurants we acquired in April last year, which are expected to contribute about \$2 million to our adjusted EBITDA this year.

We expect capital expenditures of \$150 million to \$160 million. While we do not typically provide quarterly earnings guidance, we believe you may find a few considerations helpful to your models. First, we expect positive same-restaurant sales growth in each quarter of the year, including our third quarter when we will face our most robust comp comparison. Second, as it relates to the first quarter, we elected not to take price in January and experienced several weather-related disruptions during the month, which reduced operating days in our comp base.

And third, as noted on our last call, we held our leadership conference in January of 2026 and accordingly expect G&A expense to be materially higher in the first quarter than any other quarter this year. Lastly, as was mentioned earlier, we strengthened the alignment of our operational incentives with the interest of our shareholders by enhancing our equity-based compensation for senior leadership and expanding eligibility to include our divisional operators. These actions reinforce accountability across the organization and better position the company to attract and retain talented colleagues to drive results.

The equity compensation program does not impact our adjusted EBITDA and the related accounting charges associated with the incremental noncash awards will be recognized in G&A, which may limit our ability to lever G&A this year. 4 years after our IPO, I'm proud of the results our company has delivered, and we remain fully committed to driving similarly strong performance ahead. We have grown our system from 428 restaurants at the time of our IPO to 633 at the end of 2025 and nearly doubled adjusted EBITDA along the way, compelling evidence that the growth strategy is working and that our execution remains both disciplined and consistent.

These milestones reflect the strength of our model, the quality of our teams and the momentum we have built. Our real estate and talent pipelines are the healthiest they've ever been, giving us confidence in our ability to achieve our growth objectives for both 2026 and beyond. And with that, operator, will you please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Jim Salera with Stephens.

James Salera

Stephens Inc., Research Division

Mel, first of all, it's been great working with you. Congratulations on an incredibly successful career, and I wish you all the best, whatever comes up next for you.

Mel Hope

CFO & Treasurer

Thanks, Jim.

James Salera*Stephens Inc., Research Division*

I wanted to maybe drill down a little bit on the commentary for FY '26. Mel, I appreciate the commentary around pricing and how that should flow through the year. Can you just give us a sense for what you're underwriting for the industry for '26 and kind of how your expectations layer on top of that? And maybe if you could also provide some color on the mix component of your tickets.

Mel Hope*CFO & Treasurer*

When you say underwriting for the industry, you asked me to speculate about the climate that we're going to be operating in.

James Salera*Stephens Inc., Research Division*

Yes. So I think your guide kind of implies sort of down modest traffic for the industry and you guys being in line to modestly better? Just any details that you could provide?

Mel Hope*CFO & Treasurer*

Yes. I think, Jim, I think there's reason to be cautious about the environment that we're operating in now. I think historically, for our particular category and different cohorts of peer comparisons against Black Box data, we seem to outperform that quarter-over-quarter. So I don't expect that particular characteristic to come to an end, but I do think that the entire category has reason to be cautious here in February about what's going to ensue for the balance of the year.

James Salera*Stephens Inc., Research Division*

And then mix as a component, I know you gave us some details on pricing, but just how should we think about mix progressing through the year that be a relative headwind still or maybe some opportunity for that to turn positive?

Mel Hope*CFO & Treasurer*

Yes. In our guidance, we don't typically project where the different components would come out for the year. What we do with our same-restaurant sales is what we're guiding to is that 1% to 3% for the full year, and we'll take a read on how we defend within that range as the year progresses.

Christopher Tomasso

CEO, President & Director

Jim, I can also give some insights there. I think -- well, I know we saw positive mix from our core menu test rollout. And so taking that to the entire system, we believe we have some mix upside there, which was one of the consideration factors with not taking price in Q1 like we have in years past. And then on the Black Box, to be more specific, in my commentary, I talked about their current projection for the year is roughly a 3% industry-wide same-restaurant traffic decline.

So as we've done in the past, we've outperformed the industry, and that's kind of the position we're taking now that Mel is exactly right. There's a reason to be conservative based on what the industry-wide impact in Q4 specifically and even more specifically in December. But we've been able to outperform the overall industry, and there's no reason for us to believe that we won't do that again for '26.

Operator

Our next question comes from Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Great. I echo the congratulatory comments from Mel. I hope you get to enjoy retirement. My question is just on the 2026 unit growth. It looks like we're looking for maybe 9% to 10% net growth. I know the long-term algo has been for many years, kind of low double digit. I'm just wondering maybe how you think about the constraint to greater growth, whether it's real estate or people, it just seems like on an ever larger base, maybe be worthwhile considering lower the long-term guidance to maybe more of the high single-digit range because the focus is really on getting the operations right.

It's really not about the speed of openings considering you have so much runway ahead. So just wondering whether we should expect more tempered growth or whether there's some reason why 2026 might be a little bit more subdued? And then I had a follow-up.

Christopher Tomasso*CEO, President & Director*

This is Chris. I think we -- our long-term targets of around a low double-digit unit growth. We've exceeded that in the last couple of years. There'll be ebbs and flows as it relates to that. The reality is the absolute number of restaurants continues to increase when you stick to that percentage. So we're always going to look at it in terms of what's best for the overall organization. The #1 priority is the health and performance of the core system.

And so as we continue to grow and that number continues to go up, we'll monitor it and make sure that it's not putting any undue strain on the system. But I will say that regardless of the actual number or the percent, I mean, we're delivering quality growth year after year. Our 24, 25 NRO classes are delivering average weekly sales that are higher than their underwriting targets and our comp base and the class of 2025 alone is 19% higher than their underwriting target. So we're really focused on the quality growth. And the number will ebb and flow, like I said, year-to-year, but I think that's a good long-term target for us, and that's why we kind of restated that.

Mel Hope*CFO & Treasurer*

It's also a good time for me to just kind of slip in here real quick that our earnings release was a little bit awkwardly wording around -- worded about our new restaurant opening guidance, which was 59 to 63 net system-wide restaurants and the net is 3 restaurants that company-owned that we expect to close this year.

Jeffrey Bernstein*Barclays Bank PLC, Research Division*

Understood. And my follow-up, Chris, in your prepared remarks, or I should say even in the press release, you talked importantly about the evolving digital marketing platform. I know it's more focused on direct marketing. But I'm just wondering if you could share maybe since that seems like that's the biggest initiative for this year to drive comp, maybe the greater learnings from the tests, the greatest opportunity this year, maybe the dollar spend? Any kind of broad brush commentary you can share on the excitement around the evolution of that program?

Christopher Tomasso*CEO, President & Director*

Sure. Thanks, Jeff. I'll let Matt talk about the specifics, but I just want to make it clear. I'm excited about a number of levers we have this year. Marketing is certainly one of them. What we saw in the test was very, very encouraging to us, and we're excited to expand it to a majority of the system this year. But I got to say I'm just as excited about our new core menu rollout.

When you think about the transformation of First Watch over the years and the acceleration of our growth, it came about 10 years ago when we did a similar exercise. So what we've seen in test there is also why I'm encouraged about 2026. And Matt, if you want to give some specifics on the marketing.

Matt Eisenacher

Chief Brand Officer

Yes, sure. Jeff, it's Matt Eisenacher. So as Chris said, there's a variety of levers. I echo his sentiment that we're really optimistic about the new core menu. Obviously, we're excited to be able to scale our marketing program from last year where we focused on particular geographies and now we'll be scaling that to the vast majority of our comp base and it allows us to continue to use those things that worked last year and amplify those, starting to put more emphasis into video and driving awareness.

Last year, we saw in those geographies an increase in both aided and unaided awareness. And so you have that and then the relaunch of all of our new digital platforms like our new app, you start to see how you can drive trial and then you have the analytics to be able to get more efficient with that media spend over the long term. So all of those things kind of play together.

Operator

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

Sara Senatore

BofA Securities, Research Division

Maybe just a couple of questions on the commentary about the comp expectations through the year. Not necessarily looking for kind of quarter-by-quarter guidance, but you mentioned that you expect comps to be positive in the first quarter even with the kind of weather. And I assume that's kind of firm only as opposed to taking into consideration the current weather impact. But I just wanted to clarify, as you think through the doors being closed, presumably, traffic will be -- there'll be a headwind but you have 5 points of price.

So I guess, is it safe to assume that it's sort of modestly positive? And then as you get through the year, you mentioned the toughest compare in the third quarter, but I think your pricing implication was that price might be in the low single digits in the second half of the year, just given the average of around 2%. So again, I wanted to understand kind of your confidence or how you're thinking about the drivers of traffic, both with the headwind early in the year and then the more difficult traffic compares in -- at least in the third quarter? And then I do have one quick follow-up, please.

Mel Hope

CFO & Treasurer

So the full year guidance at 1% to 3% is -- already incorporates what we're seeing in sort of in the current environment, as you mentioned. We're deliberately guiding only to same-restaurant sales because we have different timing coming on board with regard to the new menu, with regard to rolling some fairly robust third-party delivery sales last year. So there's -- and then just the general environment. So a little bit harder for us to be confident in exactly what the cadence is going to be. But I do think that we're probably currently looking at maybe a more challenged quarter by weather than the rest of the year. And then we do have some -- it does get a little bit tougher in the third quarter.

Christopher Tomasso

CEO, President & Director

I will say that our year-to-date trends are improved versus December. And so we believe we're on track to meet our annual same-restaurant sales guidance when you kind of carry that forward.

Sara Senatore

BofA Securities, Research Division

Okay. So just sort of thinking about the cadence, I appreciate the color. And then just the follow-up was on the new 2025, and I apologize if I've missed this somewhere. I know you mentioned 19% higher than underwriting targets. I know your sort of underwriting targets are, I think the bar is a little bit lower than what we've been seeing in the past. So how do the AUVs compare, I guess, to previous cohorts to earlier years? Are you still seeing kind of increasing new unit volumes? And is that largely consistent with kind of the size of the footprint? Or anything different there as you think about the returns on the new units?

Christopher Tomasso

CEO, President & Director

As you know, we've grown AUV significantly over the years. And just a reminder of our 2026 unit economics, third year sales expectations of \$2.8 million, the 18% to 20% restaurant level operating profit margins that we talk about that penciling out to an 18% IRR and a 35% actualized cash-on-cash return. So yes, the AUVs continue to increase. So when we talk about a class being higher than their underwriting targets, I can't think of a year where that number hasn't been higher than the year before from an AUV and underwriting standpoint.

So just healthy underlying growth for us on a new unit standpoint. As far as what's driving that, we have talked about the bigger footprints. We haven't necessarily seen a correlation on size of the restaurant per se, but we know that when we stick to our underwriting criteria, our site selection criteria, the data that we use that it sets us up for success. And we've proven that year-over-year, and we feel that we'll be able to do that in 2026. And like I said on the call or Mel said, we're well underway for 2027 and 2028. So I mean, if anything, growth is a strength for us, the unit growth and the performance. And again, it's quality growth.

Operator

Our next question comes from Andrew Charles with TD Cowen.

Andrew Charles

TD Cowen, Research Division

Great. And Mel, best wishes for retirement. I hope the next chapter gives you more time for golf. Chris or Matt, on marketing, you guys talked about a positive return on spend. Can you help us understand what you're observing with the same-store sales outperformance at those 1/3 of stores that are utilizing marketing efforts versus the 2/3 that aren't? And then just really looking ahead, I think you said the vast majority of the comp base will benefit from marketing. How soon is that plan to scale? Is that more of a first half or a second half driver?

Matt Eisenacher

Chief Brand Officer

Yes, sure. Happy to take those. So I think as we stated last year in those select geographies, we did see a several hundred basis point lift in traffic pre-post test control. And so we would -- we're applying the same playbook and strategies to this year with a couple of optimizations. So it's not like we're deploying radically different strategies than we did last year. We're just scaling it to more restaurants.

To your second question on the cadence of the spend, we actually just started moving into markets. Obviously, that takes time to build. And like last year, that will extend throughout the year. We do try to align that with our seasonality. So you can think about the spend following our seasonality. So obviously, you probably have more in the front half of the year and then would taper down as you go throughout the rest of the year.

Andrew Charles

TD Cowen, Research Division

Okay. And then, Mel, can you just help us understand the cadence of commodity and labor inflation as we think about 2026. I was thinking on the commodity side, theoretically, you should see a more tame first half of the year, just given what you're lapping over. On the labor side, you got the Florida minimum wage increase going on for September 30, but any help on the cadence would be helpful.

Mel Hope

CFO & Treasurer

I think that we expect the inflation to be somewhat higher in the second half of the year, so quarters 3 and 4 than we're experiencing right now and in the second quarter.

Operator

Our next question comes from Jon Tower with Citi.

Jon Tower*Citigroup Inc., Research Division*

Maybe starting off, Chris, you had mentioned, obviously, the new menu or the core menu improvements you're excited about. I think you had talked about even 10 years ago or so, seeing some fairly strong growth post changes. So I'm curious, aside from obviously hitting on things that consumers want more of, are there actual operational improvements as well? It sounds like you reduced some of the SKUs, but should we expect better speed of service? Any other benefits that you can speak to from this core menu enhancement?

Christopher Tomasso*CEO, President & Director*

Yes. A lot of those efforts we talked about a lot in '24 and '25 with the back-of-house improvements, improving our throughput, especially during peak sales hours. The efforts around the menu will definitely deliver some efficiencies like I talked about removing some single-use item SKUs, bringing back some of these favorites and things that we -- the teams have executed before as seasonal menu items.

So there's a muscle memory there that will help them execute that. But really, this is much more heavily weighted toward the consumer side and the appeal and bringing back some of these favorites. But it does have some back-of-house benefits like reducing prep time and things like that, but that wasn't the main focus.

Jon Tower*Citigroup Inc., Research Division*

Got it. Makes sense. And maybe just kind of flipping to the backdrop. Curious in your guidance for the year, Mel, how you're thinking about tax refunds and how that might be impacting your business? Or asked differently, in the past, when you've seen elevated tax refunds, how has the business responded?

Mel Hope*CFO & Treasurer*

Yes, that's interesting. Historically, we believed that our typical customer isn't -- doesn't react necessarily to tax refunds in terms of attendance in our restaurants. But we're certainly aware of it, and it's just going to be easier for us to read after it occurs. But our customer demographic tends to skew a little bit higher on the household income scale. And as a consequence, we've oftentimes been a little bit insulated from certain cost pressures in terms of going down and when there's a windfall or a refund -- tax refunds, we may not benefit quite as much as you see in quick service restaurants.

Operator

Our next question comes from Andy Barish with Jefferies.

Andrew Barish

Jefferies LLC, Research Division

Congrats Mel. Just trying to frame up how we should think about the delivery business within the context of your guidance. I know I've seen some free delivery offers and things like that. Can you kind of maintain sales in '26 versus the big growth that you saw in '25? And one quick follow-up as well.

Christopher Tomasso

CEO, President & Director

Sure. Andy, this is Chris. We -- obviously, we've been really pleased with our progress in this channel over the past year. Our teams worked really hard to create a true partnership with those vendors that we work with. And so we're happy with the third party where it is and as a direct off-prem as a percentage of our overall mix. And we -- we're not specifically commenting on future traffic assumptions in that channel, but we also didn't fund free delivery. I mean it was a much deeper partnership on how we got together and aligned on goals, which really is about transactions for both of us and then margin for us. And we achieved both of those, and we'll continue to work to build on that.

Andrew Barish

Jefferies LLC, Research Division

Got you. And then on the new unit growth, so I just want to be clear, on the company-owned side, it will be 56 to 58 gross and then the 3 closures that have been primarily contemplated.

Mel Hope

CFO & Treasurer

That's right.

Andrew Barish

Jefferies LLC, Research Division

Okay. And is the -- is the kind of market densification, I guess, implying you're not going to go into 5 new major markets as you did in '25. Is there a little bit of an NRO margin benefit that we should see? Or is it not as material just given the size of the company now?

Christopher Tomasso

CEO, President & Director

Are you talking about the -- when you say margin benefit, can you expand on that?

Andrew Barish

Jefferies LLC, Research Division

Yes. Just densifying existing markets, which is obviously positive and not going into, I'm presuming as many new markets, which is also obviously positive as it takes a little time to ramp margins in those newer markets?

Christopher Tomasso

CEO, President & Director

Yes. If you will recall, we have very similar performance for our NROs across geographies. So that's not really a large consideration. Where that really shows up, though, Andy, is in preopening costs and training costs. If we do it in a core market, we can pull trainers and staff from around the region, whereas if we're going remote like we did in Las Vegas or when we entered Boston or New England, the preopening costs are higher. But the margin performance is pretty similar across geographies and kind of the maturity of the market.

Mel Hope

CFO & Treasurer

And Andy, I think I misspoke in response to your question. The range of new company restaurants, which is what I think you were asking about is net of the 3 closures that we expect to execute this year. So that range at 53% to 55% is the net range, so it considers the closings.

Operator

Our next question comes from Todd Brooks with Benchmark [Stone].

Todd Brooks

The Benchmark Company, LLC, Research Division

Mel, I add my congratulations on your upcoming retirement. A couple of more follow-up type questions here, but I wanted to dig in on the enhanced marketing efforts. And correct me if I'm wrong, but my understanding of the focus in '26 in the test kind of 1/3 of the base was finding breakfast daypart users that weren't necessarily First Watch customers and stimulating them to try the brand. Is -- was that the case for the entire year? And is there another lever that gets pulled as you broaden the program out where we actually use the enhanced marketing efforts into the existing First Watch customer base in an effort to drive additional frequency there as well?

Matt Eisenacher

Chief Brand Officer

Yes. Todd, it's Matt Eisenacher again. So it's a good question. I was saying we're really taking the playbook of what we saw work last year and applying that this year. The strategy would be the same as you stated, where we're using information and customer data to target those that are already active in the breakfast daypart. I mean we're still in the early stages of a marketing lever here at First Watch.

And so we see that as a responsible way to be efficient with our dollars. Now again, if you look many years out, eventually, you can start to move outside and start to grow the overall occasion. But as we all know, that could be a little bit more difficult. So we are -- for this year. And yes, to answer your question, that was the focus all of last year as well and will be this year as well.

Todd Brooks

The Benchmark Company, LLC, Research Division

So Matt, any pivot to some of the effort being against existing First Watch customers versus just overall category users? Or does that measure of overall category users include your existing customer base?

Matt Eisenacher

Chief Brand Officer

Yes. So as we talked about before, we apply different strategies, channels and creative if we have not seen you before or if you're part of our customer base. If we're trying to introduce the brand to you, we want to establish that we're a great place for everyday breakfast. As we start to get more information on you, we'll start to kind of pulse through our seasonal menu program given that you know who we are. So we have a variety of segmentations and cohorts and our first-party audience is part of that as well.

Operator

Our next question comes from Brian Mullan with Piper Sandler.

Brian Mullan

Piper Sandler & Co., Research Division

I would like to just echo Mel congrats on the retirement. Can you just comment on what you've seen lately across the dayparts between weekday breakfast, weekday lunch and the weekend business? Just curious if there's any notable differences or if they're more behaving similarly and how you expect those to behave in 2026?

Christopher Tomasso

CEO, President & Director

So we talked about, I think, on the last call that we saw strength in the weekday breakfast segment. And we certainly saw that in Q4 and all of last year. And then in Q4, also weekends also slightly outperformed -- sorry, not just Q4, but also for '25 as well. So whereas we saw some weakness, I think, back in '24 in weekday breakfast, we recovered that in '25 specifically.

Brian Mullan

Piper Sandler & Co., Research Division

Okay. And then just menu innovation, just high level, the beverage offerings. Just wondering what the team is working on, if anything? And what's the biggest opportunity over the next few years?

Christopher Tomasso

CEO, President & Director

Yes. The beverage category for us continues to be a big driver. We launched our fresh juice program, I think, almost 10 years ago now, and it still continues to blow us away at the mix of those items. We have a new juice on every seasonal menu. And thoughtfully over the years, we've added a couple of those juices to the core menu. We've also innovated around cold caffeinated beverages, which is now a permanent part of our menu, and those do well. So we're absolutely looking at the beverage category as an opportunity in addition to the alcohol platform that we rolled out a couple of years ago. So we see opportunity there for -- in our innovation pipeline.

Operator

Our next question comes from Gregory Francfort with Guggenheim Partners.

Gregory Francfort

Guggenheim Securities, LLC, Research Division

I guess my first question is just on the pricing. You guys -- I think you guys evaluated pricing twice during the year. And I'm just wondering, as you looked at the guidance, what you embedded? I guess there's no pricing in the first half, incremental pricing, but do you embed an assumption for a pricing increase in the second half?

Christopher Tomasso

CEO, President & Director

So we talked about the carried pricing of -- it will end up being 2% blended for the year. But honestly, for our same-restaurant sales guidance, the 1% to 3%, it's really based on a combination of a number of potential impacts this year that we may not have had in years past and a number of levers that we have, whether it's the new core menu, the increased marketing activity, mix upside from our seasonal menus and pricing is one of those levers as well.

But we'll look at that and see where we are midyear and make that decision. But I think based on the consumer environment right now and doing what's right for the customer, that's why we elected not to take any price at the beginning of this year.

Mel Hope

CFO & Treasurer

In other words, we won't make that call until the second quarter.

Gregory Francfort*Guggenheim Securities, LLC, Research Division*

Okay. Got it. And then just on your margin outlook, I think the implied assumption is maybe just a little bit under 19% for the year. What would it take, I guess, to get back towards the high end of the 18% to 20% long-term range that you guys have targeted maybe in '27 or '28?

Mel Hope*CFO & Treasurer*

There's a lot of influence on the overall margin based on the number of juvenile restaurants that we have in the mix. So our legacy cohort, the comp cohort is consistently delivers 200 or more basis points above the consolidated. And then because we have such high volume new restaurants are getting to mature margins or they currently are on the road to that they kind of -- they have an impact on the margin. And it kind of is outsized because their sales are so large, they tend to over-index on the average.

So really, the -- probably the immediate driver to get margins, you said to the upper end of the range would be to accelerate the growth of the more juvenile restaurants in terms of their margin production during the year. And we see a lot of opportunity in that, but also there's sort of a natural curve when you have a new restaurant and have new crews and you're operating in new areas that we press to get them to mature margins as swiftly as possible, but they also have a life cycle, and we don't want to tarnish the customer experience by being too hasty.

Christopher Tomasso*CEO, President & Director*

And Greg, I think if you think about our philosophy of pricing to defend margins, I mean, if there ever was a year where that was challenged, it was last year, and we were able to deliver 19% margins in Q4, 18.5% for the year, right smack in the middle of that range. And so we've got some relief, hopefully, this year on the commodity side. But I think our ability to hit in that range and our history of doing that is well documented, and I think we'll continue to be able to do that when we leverage our philosophy.

Operator

[Operator Instructions] Our next question comes from Brian Vaccaro with Raymond James.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Mel, congrats on your retirement. I'm still going to e-mail you on egg inflation, so I hope that's okay.

Mel Hope

CFO & Treasurer

I'm your inside informant.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

But just 2 quick ones for me. On the G&A side, you've leveraged that line, I think, about 60 bps in '25. And you did mention the new executive comp plan as well. So could you just level set or give us a ballpark on your G&A expectations in '26, just to make sure we're all on the same page. Any guardrails you could provide there?

Mel Hope

CFO & Treasurer

So we don't guide to G&A, but I would say that we continue to expect to lever our cash-based G&A as we continue to grow and the noncash piece is what would be challenged in order for us to overcome the increase this year. But we'll try and communicate that clearly when it -- as we publish our results going forward so that people understand how we're looking at that cash fixed leverage.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Okay. All right. And on the commodity inflation outlook, the up 1% to 3% for the year, maybe just unpack that a little bit further, just kind of the puts and takes, what that might embed for eggs or other key commodities? And I guess the other question I had, as you lap, I think, around 8% in the first half, and obviously, you finished with closer to 1%. But as you lap that 8%, are there any quarters that you would expect to see deflation on a year-over-year basis?

Mel Hope***CFO & Treasurer***

Among some of our commodities, I do expect that we're going to see some deflation. The egg prices, are we deflating on avocados? But we haven't seen a lot of relaxation in the inflation in terms of our coffee or our pork prices at this point. So we do have some favorability in a couple of big things, still having to wait out what's happening with the market on a couple of others.

Operator

We have now reached the end of our question-and-answer session, which concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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