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EPS of \$1.65 **beats by \$0.14** | Revenue of \$369.17M (-7.00% Y/Y) **misses by \$2.64M**

Jack in the Box Inc. (NASDAQ:[JACK](#)) Q3 2024 Earnings Conference Call August 6, 2024 5:00 PM ET

Company Participants

Chris Brandon - Vice President, Investor Relations

Darin Harris - Chief Executive Officer

Brian Scott - Chief Financial Officer

Conference Call Participants

Sara Senatore - Bank of America
Lauren Silverman - Deutsche Bank
Jon Tower - Citi
Chris O'Cull - Stifel
Brian Mullan - Piper Sandler
Alex Slagle - Jefferies
Andrew Charles - TD Cowen
David Tarantino - Baird
Dennis Geiger - UBS
Logan Reich - RBC Capital Markets
Nick Setyan - Wedbush Securities
Christine Cho - Goldman Sachs

Operator

Thank you for standing by. My name is Liz and I'll be your conference operator today. At this time, I would like to welcome everyone to the Jack Third Quarter 2024 Earnings Webcast Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn a call over to Chris Brandon, Vice President of Investor Relations. Please go ahead.

Chris Brandon

Thanks, operator and good afternoon, everyone. We appreciate you joining today's conference call highlighting results from our third quarter 2024.

With me today are Chief Executive Officer, Darin Harris and our Chief Financial Officer, Brian Scott. Following their prepared remarks, we will be happy to take questions from our covering sell-side analysts.

Note that during both our discussion and Q&A, we may refer to non-GAAP items. Please refer to the non-GAAP reconciliations provided in the earnings release which is available on our Investor Relations website at jackinthebox.com.

We will also be making forward-looking statements based on current information and judgments that reflect management's outlook for the future. However, actual results may differ materially from these expectations because of business risks. We therefore consider the safe harbor statement in the earnings release and the cautionary statements in our most recent 10-K to be part of our discussion. The material risk factors as well as information relating to company operations are detailed in our most recent 10-K, 10-Q and other public documents filed with the SEC and are all available on our Investor Relations website.

A quick note on conferences and events between now and our fourth quarter earnings, we plan to attend the Piper Sandler Conference on Tuesday, September 10 in Nashville. Hope to see many of you there.

And with that, I would like to turn the call over to our Chief Executive Officer, Darin Harris.

Darin Harris

Thank you, Chris, and good afternoon, everyone. We appreciate you joining today's call to discuss our third quarter 2024 performance. I want to start by thanking everyone within our organization for their efforts and continuing to manage through our challenging environment for our industry, while driving meaningful progress on our key long-term ambitions of targeting top tier AUVs, driving digital growth, delivering industry leading restaurant level economics and building new restaurants with best-in-class returns for franchisees.

Our industry is operating in an unusual consumer environment and we're quickly responding with initiatives intended to drive transactions and win share. With an enhanced focus on reconnecting with the lower income value oriented guest, we realize that what you get for what you pay is more important than ever and continue to feel confident in our barbell and hook and build strategies to achieve that for all guest segments. Innovation, variety and value will continue to be an important part of our offering at both Jack in the Box and Del Taco, and we will pursue messaging that breaks through to our guests.

The third quarter results reflect the combined effect of a tougher sales environment, while lapping a high single-digit same store sales comparison at Jack in the Box. We took action to address many of our guest needs with innovation and quickly adapting offers to be relevant with value. I'd like to highlight a few areas where we demonstrated a dual commitment to addressing both the current environment, while remaining steadfast and driving towards our long-term ambitions.

First, and in partnership with franchise operators, we took action to enhance and highlight our value offerings with the launch of our Munchies Under \$4 platform with two objectives. This offering provides a compelling price point and value offer to grow transactions and it achieved pricing and menu consistency across our system for potential add-on items with the outcome of increasing items per check.

To begin the fourth quarter, we have also brought back a \$5 price point called Jack's Big Deal Meal, as a relaunch of the Jack Pack. Our differentiated menu uniquely positions us to provide a wide range of value offers in the future, including our famous two Tacos Jack Wraps, \$5 meals for Munchies Under \$4, our \$10 Fan Favs Boxes, and our late night Munchie Meals.

Speaking of late night, we successfully executed on our commitment to a day part where we win. We partnered with Ice Cube to develop a unique Munchie Meal featuring our late night fan favorite, the Chicken Tater Melt. We certainly faced a tough comp from last year's Snoop Dogg promotion and the popular spicy chicken strips LTO. I am glad to say it met the challenge and performed above expectations with order volume for the Munchie Meal outperforming year-over-year.

This result is a great example of offering a significant value for the dollar, although the price point is higher than other meal combos. We continued pairing value offerings alongside our innovation capabilities, including the launch of wings, our continued success with Smash Jack and now Mini Chimi, because of the success of Smash Jack, which mixed above 5% in the quarter, two of our fan favorite premium burgers just got even better. The Classic and Bacon Swiss Buttery Jack have rolled out featuring the Smash Patty, now available system wide. We are excited to deliver it as an upgrade to our already existing strong duo of buttery burgers, and it is only the beginning of our ability to keep innovating around the Smash line.

The launch of Wings debuting in the third quarter through digital and social channels was very well received, while providing a solid operations knowledge for larger campaigns and future promotions. After simplifying our breakfast menu last year and impacting top line, we wanted to enhance our breakfast offering by making French Toast Sticks, a fan favorite LTO, permanent on the menu and part of our breakfast platters. Plus, we will incorporate breakfast value promotions into each marketing window like we did during the third quarter, while adding innovative options like our recent introduction of chicken and waffle sticks.

As part of our ambition to drive digital growth from 14% to 20% of sales, we made progress in first party, which increased 80% versus last year. First party enables us to build our loyalty membership and directly engage with our guests. At the start of next month, we will be releasing a redesign version of our Jack app, which will provide an enhanced experience for our guests, setting the foundation for personalization and targeted loyalty offerings.

As we continue to enhance our marketing and restaurant technology stack, it's important that I provide an update on the progress of our new point of sale rollout at Jack with nearly 100 restaurants completed and a plan to be at approximately 450 by the end of 2024 and fully deployed in 2025. This POS system includes kiosk capability and will support seamless loyalty experience, while unlocking future operational innovation, including enhanced inventory and labor management, along with automation AI to reduce costs and improve speed.

I want to say thank you for the outstanding effort of our IT and operations teams as well as our franchise technology committee for their tireless efforts to launch this program. We will continue to update you on the progress of this rollout, and as always, we are showing our commitment to cultural relevance and putting our Challenger brand in the bright lights in unique ways. Our promotional partnership with the biggest movie of the summer, Deadpool and Wolverine is underway with two new products and is exactly the type of brand partnership that continues to make Jack in the Box relevant and high profile.

I'm encouraged by these areas of commitment and our improving momentum heading into the fourth quarter, with a high profile partnership, continued innovation emphasis on value and easing comparisons. Our goal is to improve transactions and demonstrate sales growth led by strategic, fundamental approaches rather than short term actions or temporary discounting.

Turning to restaurant level economics, our restaurant level margin decline as expected this quarter with the increased California wages from AB 1228. Over time, we will regain this margin and more through improved sales and our ongoing equipment technology and financial fundamentals initiatives. We have a solid line of sight to these margin enhancement opportunities, which in Q3 included increased adoption for a new oil management process, hydro rents and labor tools. The addition of our second Fryer automation test restaurant in Dallas and our latest restaurant training programs focused on food and labor management that have the potential to drive meaningful cost savings.

The team continues to work with urgency to roll these out to our entire system to maximize both our franchisee four wall EBITDA and our company owned restaurant margins. As it relates to restaurant growth, interest to develop from both existing and new franchisees is being driven in part from our strong new market performance. We opened our second restaurant in Mexico during Q3 and our five Salt Lake City restaurants continue to collectively achieve over \$100,000 in weekly AUVs. With now an average of 40 weeks open between the five locations and our two Louisville restaurants are averaging nearly 70 K in weekly AUVs with performance sustaining nicely during the nine months since we entered the market.

All-in-all, our new market restaurants continue to thrive, demonstrating that this brand is craved by customers across the country and south of the border as well. I'm also thrilled about our exciting news related to Chicago. We plan to rapidly enter this key market with a plan to open up to 10 company locations in fiscal year 2025, with an eye on partnering with franchisees to continue to expand in the market with significant growth potential. This in addition to our entry into Florida in 2025 sets us up for an exciting year for the brand and our team is ready to make it happen. I also want to provide an update on our re-image program, which has been enthusiastically received by our franchisees.

As a reminder, Jack in the Box has committed \$50 million towards this multi-year program. We ultimately receive request to remodel over 1,000 restaurants, and we believe we can support approximately 25% to 30% of these with incentives. Our franchisees are now prioritizing which restaurants to re-image and gearing up for executing on the approved remodels at a more accelerated pace. This program will yield meaningful same store sales growth and enhance the overall brand image.

Shifting to Del Taco. We were disappointed with the third quarter same store sales and margin results, but are recently seeing some early signs of improved sales performance. The new leadership team is making good progress on multiple fronts to optimize our marketing, media and menu strategy, along with implementing operational changes to improve margins and speed of service. The Del team is moving quickly on these efforts, while adeptly dealing with the recent changes in consumer buying behavior and wage increases in California.

I've been part of many brands transformation projects in my career, and similar to the changes we have been making at Jack in the Box, it takes time. I'm confident that we have the right team in place and I'm encouraged by their progress in executing a strategy to improve sales and profitability at a brand that stands for incredible quality and value. As an early example, we are encouraged by Del's new menu simplification test, which has received very favorable guest feedback and has shown increased sales speed of service and margins. We're expanding this test in Q4 to a few markets to validate the results and gain additional learnings, with a plan for a full system wide rollout next year.

Another example is Del's testing of kiosks, which are producing increased ticket and labor savings and guest adoption has been even higher than expected. We will utilize the best practice knowledge we've gained at Del as we introduce kiosks to both brands, and Jack isn't the only brand demonstrating successful new openings. In fact, our most recent three Del Taco restaurant openings in Tallahassee and Port Orange, Florida, as well as Chesapeake, Virginia, each set new records for first week sales.

As we set at the time of the acquisition, development and new market entry are initiatives where both brands can combine resources, share best practices and use similar proven strategies from Jack in the market playbook to provide early performance momentum for our new Del restaurants. I look forward to updating you on Del Taco's strategy execution, notably top line sales, RLM improvements, result of our menu simplification as well as more new restaurant success stories as we take the brand into untapped territories. I believe strongly, particularly as we close in on being an asset light model and the brand's ability to deliver shareholder value in the long run and add to an even stronger growth story we are creating.

In closing, we are pursuing the right initiatives with the right teams to manage through this unprecedented consumer environment for our industry. We have so much upside and opportunity within both of these brands, and we will stay focused on making the right investments executing on the unique Jack and Del experience that our guests expect, and doing everything we can to navigate the short-term while never losing focus on supporting our ambition to create sustained long-term value for our shareholders.

Thank you, again, and I'll now turn the call over to Brian.

Brian Scott

Thanks Darin, and good afternoon, everyone. I will start by reviewing our two brands individually, followed by details on our consolidated performance and capital allocation.

Beginning with Jack in the Box, our third quarter system, same store sales declined 2.2% with franchise restaurant comps decreasing 2.4% and company in sales up 0.1%, while price continues to be positive, both mix and transactions were negative, although transactions approved modestly from last quarter.

As Darin mentioned, we continue to work on delivering the right mix of value, innovation and compelling LTOs across our day parts to improve transactions and attachment rates. This was the first full quarter of operating under the increased minimum wage law in California and we are proud of how our teams executed through this change, using very strategic price increases to counter the higher labor costs. For example, for a Jack in the Box company on restaurants, which are predominantly in California, same store sales performance was better than an all but one other market. I'll also note that Del Taco had a very similar result with California being one of their top markets in the quarter.

Regarding product categories, notable sales contributions came from chicken and burgers, promotional windows including wings and popcorn chicken drove the increased chicken sales with Smash Jack driving our burger category. Smash Jack continues to perform very well, even as consumers are more discriminating in their purchasing decisions, demonstrating a willingness to pay for a high-quality item.

As Darin noted, we continue to deliberately drive increases on our own channels of mobile and web, which is essential in our efforts to increase active loyalty program membership and create personalized targeted promotions to this high value channel. We are excited by the early signs from our kiosk tests at both brands, which will ultimately help drive higher average ticket via upsell. We'll continue to make investments in technology and marketing as we work towards achieving our ambition of 20% of sales through digital channels.

Turning to restaurant count, there were three Jack restaurant openings and three closures in the quarter. Year-to-date, Jack has opened 14 restaurants and is still expecting to open between 25 and 35 restaurants for the fiscal year, and we are heading into 2025 with a strong development pipeline and two exciting new market openings on the way. Jack's restaurant level margin percentage decreased year-over-year by 80 basis points to 21%. This decrease was driven primarily by higher costs for labor, partially offset by lower food and packaging costs.

Food and packaging costs declined 220 basis points from prior year to 29.2% with a 0.5% commodity deflation. Labor costs were 32.4% of company on sales, reflecting a 200 basis points increase from prior year due to wage increases to comply with California's new minimum wage law. Franchise level margin was \$74.6 million or 41.1% of franchise revenues compared to \$75.3 million or 41.1% a year ago. The decrease in dollars was mainly driven by the sales decline and the resulting decrease of royalty and revenue.

Turning now to Del Taco, system same store sales declined 3.9%, with a franchise sales decline of 4.1%, and a company-owned comp decrease of 3.5%. The lower sales was a result of the decline of transactions and a non-favorable mix, partially offset by price. As Darin noted earlier, transactions have been impacted by both external and internal factors and we are executing several initiatives to reignite traffic for the brand. Del Taco restaurant level margin was 13.4%, down 400 basis points in the prior year. The decrease was due mainly to increase costs for labor and utilities, partially offset by favorable commodity cost trends relative to price increases.

Food and packaging as a percentage of sales decreased 210 basis points to 25.6%, with modest commodity inflation of 0.2%. Labor as a percentage of sales increased 460 basis points to 38.6%, with this increase also due to the new California minimum wage. Occupancy and other operating expenses increased 160 basis points, driven primarily by higher utility costs and an increase in technology support costs. Franchise-level margin was \$5.8 million or 27.1% of franchise revenues compared to \$5.5 million or 36.7% last year. The increase in FLM dollars was due to re-franchising 58 restaurants since the third quarter last year, while the decrease in margin percentage was primarily driven by these re-franchising efforts and the resulting impact of a direct pass-through of rent and marketing fees.

Del Taco restaurant counter-quartered in was 597, with five openings and three closures during the quarter. With 12 openings year to date, Del Taco expects to hit the higher end of our original guidance of opening 10 to 15 restaurants this fiscal year. Subsequent to quarter end, we re-franchised 27 Del Taco restaurants to a strong Jack and Del operator, which included a development agreement for 25 additional restaurants. With this transaction, we have re-franchised 40 restaurants this year and Del Taco is now over 75% franchise owned. We also have a seven restaurant deal expected to close this quarter with continued strong buyer interest.

Moving now to our consolidated results, SG&A for the third quarter was \$29.6 million or 8% of revenues, as compared to \$39.6 million or 10% a year ago. The decline was due primarily to a favorable workers' compensation and general liability reserve adjustment, lower incentive based compensation and gains on the cash surrender value of our company owned life insurance policies. Excluding the net-coded gains along with company owned marketing expenses, G&A was \$24.5 million or 2% of total system wide sales. Consolidated adjusted EBITDA was \$78.9 million, down from \$81.6 million in the prior year, due primarily to the impacts from Del Taco re-franchising and the decrease in sales, partially offset by the lower SG&A.

During the quarter, the company recorded a non-cash goodwill impairment of \$162.6 million for the Del Taco reporting unit. This charge resulted from the lower current performance and other assumption updates impacting our long-term forecast and related cash flows. Despite this forecast reset, we continue to see significant opportunity to grow this brand due to market expansion and sales and margin increases. Due to the non-cash goodwill charge in the quarter, we reported a consolidated gap diluted loss per share of \$6.26 compared to earnings per share of \$1.41 in the prior year.

Operating earnings per share, which included adjustments for certain items was \$1.65 for the quarter versus \$1.45 in the prior year. The effective tax rate for the third quarter was a negative 0.1% compared to positive 32.6% for the same quarter a year ago. The effective tax rate for these periods were impacted by the impairment of non-deductible goodwill recorded this year and the disposal of non-deductible goodwill in conjunction with refranchising transactions last year. The adjusted tax rate used to calculate operating EPS this quarter was 26.2%.

Cash flows from operations for the quarter were \$45.3 million. On the investing front, our capital expenditures were \$24.7 million for the quarter, and included investments in our technology and digital initiatives, as well as development of new company restaurants and remodeling existing restaurants. During the quarter, we repurchase 272,000 shares of our common stock for \$15 million. And on August 2, our Board of Directors declared a cash dividend of \$0.44 per share to be paid on September 19. As of quarter end, we had available borrowing capacity of \$175 million under our variable finding notes and credit facility. Our total debt outstanding at quarter end was \$1.7 billion, and our net debt to adjusted EBITDA leverage ratio was 5.2x.

Lastly, I would like to provide certain updates to our guidance for the current fiscal year. Based on our year to date performance and expectations for the fourth quarter, we are now anticipating full year adjusted EBITDA of \$320 million to \$325 million and operating EPS of \$6.10 to \$6.25. Consolidated SG&A excluding COLI gains and losses is expected to be approximately \$160 million.

For our Jack in the Box segment, we are expecting fiscal year same store sales of approximately minus 1%, and a company owned restaurant level margin of approximately 22%. And for Del Taco, we are anticipating same store sales of approximately minus 1.5% and a restaurant level margin of approximately 14%.

Before we take any questions, I want to take a moment to thank all of our restaurant and corporate team members, along with our franchise partners across both brands for bringing their a game every day on behalf of our guests and each other. Thanks again for your time this afternoon.

Operator, please feel free to open up the line for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of [Brian Bittner].

Unidentified Analyst

Darin, you announced you're entering the Chicago market with a bang in 2025, 10 company owned units including utilizing conversions. How are you positioning the brand to succeed with this type of a rapidly scaled opening, which is pretty unique strategy for a new market? So if you could touch on that.

And Brian, your same store sales guidance for Jack in the Box for the full year. It does give us an implied 4Q outlook, I guess of around a 1% same store sales decline. Is the math in my model, is that the accurate way you want us thinking about the fourth quarter for Jack in the Box based on where you've put the full year guide, any updated thoughts on that would be helpful as well?

Brian Scott

Maybe I'll take your second question first and then we can talk about Chicago. In terms of the full year guidance update and where we sit today, for the quarter to date, we are running slightly negative for Jack, but definitely improved from where we were in the third quarter, which was not surprising to us. And so, the implied fourth quarter guidance, I'd say it's kind of flattish to slightly down. We do think there's some opportunity for the remainder of the quarter to improve from where we are today with some easier comps and then some of the, just some carry through of some of the activities we had during the summer months here. But you're right in the right ballpark there.

Darin Harris

I'll take the second part of the question. Also, I'll talk Del continues to find improvement throughout the quarter from our low point last quarter, which we knew we were going to have a tough quarter in the third quarter due to some media lapse that we were making year-over-year. So we're seeing an improvement into the fourth quarter, and like Brian said, just slightly negative here at Jack with some improving trends and that we were enthused about.

With that said, let's lean into development. And I think your question related to Chicago goes all the way back to our strategy that we shared in investor day, which is, we're continuing to invest in growth and we have seen a tremendous increase in our pipeline of development agreements and sites and Chicago is another one of the new markets we had targeted. And we went in aggressively by working through an opportunity to convert, quite a few locations in a very short period of time. So we see we could open up to 10 locations, up to 10. We'll see how many we get open in 2025 in the Chicago market. And it's a way for us to get quick penetration and then follow through with what we've done in other markets like Louisville and Salt Lake, where we surround that with additional franchisees and company builds to make sure we make impact in the market very quickly.

Operator

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

Sara Senatore

I wanted to ask about Darin's comment that the improving momentum heading into fourth quarter, and you talked about how just now that is better than 3Q. I guess, can you sort of help me understand like when you talk about improving momentum, what is it in particular? Is it the value piece? Is it the advertising? And I guess in that context, how confident are you in the momentum given? I think, 3Q started a little bit stronger and then it decelerating through the quarter. So just trying to understand kind of the underlying demand and also how you're thinking about your ability to respond to it given that I think you have to be kind of reactive.

Darin Harris

I think, what we've been doing with the balance of our barbell strategy, when we rolled out Munchies Under \$4, what we saw is it increased our ticket. It didn't drive as much of the traffic as we wanted, so it increased ticket to over \$14. It also, we saw a higher unit per transaction. We know the Munchies Under \$4 is working, it just hasn't moved enough of the traffic we needed to comp positive.

In addition to that, we also have the \$5 Big Meal Deal in the fourth quarter. So we have a good value strategy. You add those two things together, you add that along with what we're doing on our \$5 or our \$10 Fan Faves Box, we have enough value options in their digital offers to come -- to really focus on that part of the barbell.

And then we roll out things like we've done with this promotion with Deadpool and Wolverine where we've done the Mini Chimi and a popular fan favorite with our chicken strips. And so, we have both ends of the barbell, so we feel confident in the fourth quarter calendar along with what we're doing. We also know that we had softer comps at this time last year. So we feel good about the back end of the quarter.

Brian Scott

This is Brian. Just to add, we've had obviously several weeks now into this quarter and we've seen pretty consistent, better trend than we had in the third quarter. So it really doesn't take much of a change from what we're currently running to still end up with a better performance than we had in the third quarter and getting near to that flattish that we talked about a while ago here. So, and I think the comps, the comps get, they get progressively easier each period in this last quarter.

Operator

Your next question comes from the line of Lauren Silverman from Deutsche Bank.

Lauren Silverman

A follow-up on the comp side, can you talk about the cadence of comp as you moved through the quarter, any discernible changes in consumer behavior? And then a big peer of yours launched a \$5 Meal Deal in July. Did you see any impact on your trends from that? It sounds like perhaps not, but just trying to think about breaking through the noise as the industry presumably gets more aggressive.

Darin Harris

Yes, I don't think that we saw a major impact related to just one competitor. I think it's all of the competitors combined trying to shout value is tougher to break through. But overall, nothing that I would say is demonstrable that we've seen dramatic change as a result of any of the competitive pressure. It's more overall the competitive pressure on the consumer is what we're feeling in the lower income guest. And then, Brian, you want to take the question?

Brian Scott

Yes, I mean, as it relates to the comps, I don't think there was anything significant to point out in terms of the comps. They were a little bit tougher in the second half of the third quarter, but we were relatively consistent. We had a little bit weaker in the very last part of the quarter, but then we kind of expected that just from what we were lapping. And then we turned as we were exiting the third quarter into the fourth quarter and this trend that we've talked about more recently.

Operator

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

Jon Tower

Maybe just a quick clarification and then a question. The clarification just, I know you've talked about gross units for the year at Jack in the Box, sustaining at the same level you had previously, too, but are you still anticipating net unit of growth this year and perhaps what you think for next year? And then I can ask my question after.

Darin Harris

Yes, we definitely are continuing to believe that we will come in within our guide and also be net unit positive. So we feel good about the numbers we put in from a development standpoint as we've talked about both at Del and Jack. Del, I think will be closer to our high end of our guide on gross openings. And then also we feel good about net openings together on both brands.

Jon Tower

And then just on the value side, you Darin had highlighted earlier in the call just I think the \$5 price point, the Jack's Big Deal LTO. And then I think you talked about relaunching Jack Pack and then a few different others. You've got the \$4 Munchie platform and the famous Two Tacos Jack Wraps. And I guess my broad question is, does this get a little too confusing for consumers? I mean, you've got a lot of different platforms, different price points. And like what have you guys picked up that suggests that's what should work with consumers rather than sticking with a \$5 price point for a year or whatever it might be?

Darin Harris

Yes, I think the key differentiation for us is LTO value versus everyday value. And so think of Munchies under \$4 as everyday value. Think of the \$5 Big Meal Deal as more of a promoted value. And then we utilize some of these other ideas such as, our digital offers to also drive transactions and be a discount play to really drive motivation on a particular day to drive traffic via digital means. So it's really about LTO versus everyday value.

Brian Scott

And I think some of the work we've done on the menu with the munchies in our four, kind of putting it all in one place in the menu, it is easier for our guests to navigate and know that they've got a place to look if they want value, but then we've also created more clarity across all of our different menu items. So, they know value's there, they're seeing on it at -- maybe at the promotion at the restaurant. But then often though we're still paying that trade up two to more premium items

Darin Harris

With what Brian said, our promoted value on the LTO is to drive people off the couch and get them to trade up into something else on our menu. And that's been our strategy with the hook and build.

Jon Tower

And then just last one for me. In terms of California, you spoke to at least the company stores having some pretty good success there. Just curious, is there any way, how did your share in California hold up during the fiscal third quarter?

Darin Harris

California fared better than our system and I think, we're continuing to see price offset the some of the transaction declines. So we definitely saw California fared substantially better than we thought. And I think it's franchisees worked with us when we rolled out our plan for AB 1228, where we looked at pricing by menu item across every market by every store. We took specific surgical pricing on individual items and we did it in a time fashion. So I think we made the right moves in California.

Jon Tower

And the same would be true as we mentioned in the prepared remarks with Del Taco. Again, with taking some incremental price there some impact on traffic negative impact but the net was a better performance for Del overall in California. It just speaks to the brands being really well regarded here, but I think also the team's working really surgically to price appropriately to manage against too much traffic decline.

Operator

Your next question comes from the line of Chris O'Cull with Stifel.

Chris O'Cull

Given the geographic concentration of the company owned stores, it's difficult to use them as a proxy for franchisee profitability. So could you give us an update on where you think the average franchisee profits are relative to last year for the brand year to date?

Darin Harris

I think in our last quarterly data, we're a quarter behind, we saw profitability up year-over-year and trailing 12 months for franchisees by about 2 points. Now we know that information doesn't have AB 1228 and what I would say with AB 1228, we think there's somewhere between 1% and 2% that probably has impacted some of the P&L from a labor standpoint. But we've had offsets against that with pricing. So, definitely, it's probably somewhere in the 1% to 2% range that franchisees have felt and we've already seen that improve into Q4.

Brian Scott

The other thing I'd add is if you look back kind of pre-COVID and where we are today, our franchisees overall from a profitability standpoint are stronger than they've been. So we do have this near-term headwind but we also, Del Munchie -- we have a lot of initiatives in place beyond growing sales, which you think there's a distinct opportunity there but to drive more operational improvement.

The POS is the kind of starting point of that. We'll be able to now offer a kiosk with our new point of sale system and then other initiatives we have around technology to drive improved labor management, inventory management and more automation in the restaurant. We talked before about the opportunity to gain margin there. Those are all very good opportunities. Many of them are in flight right now. And so again, as we see our sales stabilize and implement more of those, our franchisees are in a really good place now and we think, and they're very optimistic about what they've got ahead of them as well.

Chris O'Cull

And then, does the decline in Del Taco sales and store level cash flows change your timing or maybe any of the economics of reach franchising the remaining 70 or so units?

Darin Harris

No. We will continue. We've got many deals in the pipeline that we anticipate closing. We just post quarter closed on a transaction with Del Taco from a refranchising standpoint for 27 locations with a development agreement for 25. And when then we have other LOIs that we're working through closing in the back of the quarter. So our plan is to continue on the refranchising program and we have plenty of demand.

Brian Scott

Yes, as I mentioned, we have another seven unit deal that's very close to closing that will put us just right below 80% franchise at that point. And there the largest percentage of the remaining restaurants are still in California. As we mentioned, the performance has been better there. And I think there's a lot, again, of optimism about not only the brand here, but also the opportunities to grow sales and margins at Del Taco as well. So that's the interest has remained strong, we'll do it at our pace. We think it's appropriate with the right partners, but in terms of our ability to do it, we still see a lot of opportunity.

Darin Harris

We have recently both at Jack and Del had some of the most successful openings in the history. We're still signing new development agreements because people see the opportunity for growth and know that this is a transitory kind of cycle in the -- with same store sales. And we believe that as our pipeline continues to build our interest in refranchising also continues to build.

Operator

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

Brian Mullan

Just question on your remodel and refresh initiatives that you have going on with the Jack in the Box franchisees. Can you just talk about the uptake you're seeing for some of the programs you're offering and if the current environment has any influence on the demand for that, maybe for some, maybe capital is tight in this environment, but maybe others want to invest in an environment like this. So just any color you could offer it would be great.

Darin Harris

Yes, so when we rolled out the industrial -- that was our industrial remodel program a year and a half or so ago. We have nine of those completed, another eight under construction and 72 in design and permitting. So we're making progress there. Once we rolled out the crave, we saw a very high demand from the system to say we want the craved image and we're excited about that and the performance we're seeing. And so, we sent it back out to the system and their ability to nominate for re-image and we saw over 600 forms submitted for desire to re-image and refresh the restaurants.

And so we're, we believe the system is very excited about and we hear this from franchisees about the opportunity and the incentive program we provided alongside of them to help get some of these stores re-image. And so, we're working through prioritization of what locations of those 600 will be selected for the incentive, but there's a substantial demand is the point behind the desire to re-image a Jack in the Box. And in the industrial re-image, we're seeing a lift of anywhere 15% to 16% of sales on the re-image that have been completed of the industrial image over the last two or three years.

Operator

Your next question comes from the line of Alex Slagle with Jefferies.

Alexander Slagle

I wanted to ask on the Jack new market performance and curious if you could offer a few more highlights, kind of what you've seen now that you've had these new markets open, some of them in the ground six, 12 months but what you're learning in terms of how to effectively drive the sustained frequency and the excitement and then operationally drive speed and throughput execution. Just any other dynamics you're seeing there that help inform the playbook.

Darin Harris

Yes, and I think the last statement on the playbook is, but what's been working. We rolled out our new market playbook, it involved everything from how do we select real estate, how do we develop a market alongside of franchisees, what image we go in with, how do we start to create demand prior to entering, our awareness driving campaigns and then post-opening how do we roll out our current menu without LTOs, then implement a digital strategy later on and all the tools right now are working. And we're seeing that and then replicating it Del Taco and I say that Salt Lake City now, we've got 40 weeks of average opening for the five locations that are there. We're averaging over a 100,000, right at a 100,000 right now. So tremendous success.

We have six additional locations opening in 2020 -- by calendar 2024 and then 17 total we see throughout 2025. So we're excited about what's happening Salt Lake City or at least we have that many sites in process, whether they'll all get open in the calendar year. We're still working through that. Louisville, we have eight total by 2025 that should be opened and the two current locations, nine months in the market are averaging between \$60,000 and \$70,000. And then Mexico has two locations open and is performing well.

So we continue to see performance in all the new markets. We're signing development agreements. We've now signed 18 new franchisees at Jack in the Box for 156 restaurant commitments. So they're seeing the performance and the desire to get into the market. It's led to Florida having 31 agreements or commitments to build locations. Chicago, as we mentioned, we're going into Chicago. So we feel good about the new market playbook and that it's working because the sales are sustaining themselves over time.

As I mentioned, Del has now started to follow the same process. We're signing more franchise agreements for Del as well, more sites in process than we've ever had. Our last three openings and when you combine the two Florida locations in Virginia, set first week records. And so clearly, we need some more time with those locations because there are recent openings. But what were our early indications are the playbook is working. The teams are excited. We're attracting outside capital from new franchisees. So we feel really good about what we're building from a growth standpoint at Jack. And we'll get through kind of this same store sales environment -- the consumer environment with all the other things we're doing to drive the business.

Operator

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

Andrew Charles

I want to take the flip side of the California outperformance. We're for both the brands, we're seeing the underperformance. Is this in any of the new markets? Or perhaps not, just given that they're not yet in the comp base, at least from markets that didn't take as much price. You're just kind of curious about where the underperformance in the store base is?

Darin Harris

Yes. I think geographically at Jack, we're seeing mostly underperformance, a little heavier weighted to Texas and the Northwest, whereas we see California and the Midwest performing better at Jack. So I think that's the key at Jack in the Box. Texas, I think, is a little bit from a price standpoint. A lot more aggressive from a pricing standpoint and the same in the Northwest.

Brian Scott

Yes, I think because they probably took some price earlier in those markets and they're holding price more now. So, they're doing some of that industry traffic decline. It's not just for us. And so they're not really seeing much of an opportunity to offset with price because to make sure we have good discipline there. And so you've seen a little more of that traffic impact hitting their overall performance. I think as we kind of work through that near-term, I think we're taking, again, good discipline on pricing. And as we with our menu and some of the changes we've made we think that'll, as any traffic and improves will drop straight through to better sales performance.

Operator

Your next question comes from the line of David Tarantino with Baird.

David Tarantino

Darin, I have a question on Jack in the Box value proposition. I was wondering, if you could frame up how you're tracking the value proposition of the brand. I know the brand, you and your franchisees have taken a lot of pricing as have others in the industry. I'm not sure you're disconnected from what others are doing, but I'm just wondering if the absolute level of pricing is changing the value perceptions of the brand in a way that might make you think about an action plan related to your kind of structural pricing going forward.

Darin Harris

I think we're always looking at market data, assessing it and trying to make decisions on what is the right price. We're using plenty of the same tools our competitors are to see how do we stand and as we've talked about our pricing discipline, how do we stand by item in each and every market, and how do we make changes accordingly. So I think overall from a pricing standpoint, we now have the right discipline to pivot to what we need to do by each market, by each store, by each item. It's now about our everyday value and driving transactions and about our LTO value. And so we feel from a premium standpoint, we've done the right things for hook and build.

Now it's about how can we continue to drive transaction with the lower income guest into this \$5 big meal deal and trade them up into item. We're having other items on the menu like our Munchies Under \$4 that can be added to items. The last two things and I think the whole industry is feeling this. We're seeing attachment rates and that's what we have to figure out is how do we continue to get attachment up or additional drink sales, because that's where a lot of the industry is seeing some decline in overall transactions and impacting sales.

So that's what we have to figure out on. So Munchies Under \$4 had a strategic initiative. How do we either drive people to come in and say that's a value or add-on or we're seeing more as an add-on. And so now we have to -- that's why we wanted to roll the \$5 Big Meal Deal alongside of the LTO is to get people off the couch and then trade into something else.

Operator

Your next question comes from the line of Dennis Geiger with UBS.

Dennis Geiger

Encouraging to see the continued Jack gains on the development agreement side of things and the solid initial performance in those newer markets. But Darin, just kind of building on some of your comments, anything more to share on where franchisee sentiment broadly is with respect to development timelines? Any of the macro pressures that we spoke to, is any of that impacting timelines at all or for the most part? Is it folks are on track and it's all systems go broadly as we think about the development trajectory.

Darin Harris

From quarter-to-quarter, we continue to approve more sites. We're now at 103 sites that are in permitting and construction at Jack in the Box. So we just approved a substantial number a couple weeks ago. So we're still seeing people fill the pipeline and we'll continue to add development agreements and sites. And so we haven't seen across the systems both at Jack or Del, a decline in interest. Yes, there's natural time on some of the back end of the development agreements that may be pushed out a bit, but for the coming 18 to 24 months, we feel really, really good about the pipeline and how rapidly it's building.

Operator

Your next question comes from the line of Logan Reich with RBC Capital Markets.

Logan Reich

Just sort of a follow-up on the prior question, you guys have, it looks like over or close to 400 Jack in the Box restaurants in the pipeline. I guess my question is, sort of given everything that's been happening in the macro pressures, how much visibility do you have in the next 18 to 24 months? And any sort of guidance relative to the sort of long-term guide you guys gave at the analyst day in terms of unit growth per Jack in the Box, and then separately, so that's on the franchise side, and then separately on the company own side, any sort of guidance you guys could give on your expected openings for next year, just given all the new markets, just any sort of update there would be great.

Darin Harris

We'll provide guidance at the -- at next quarter for next year, but right now we've stayed true to our 2027 guide, long-term guidance on unit growth that we're on track for the 2% that we had commented on and we feel even more confident based upon what we've seen in the number of sites being submitted at both brands.

Brian Scott

Yes, I just add, at the same, just reiterating that if you look at the Investor Day presentation, we did give our roadmap to '27, and if you look at the fiscal '25 expectations between the two brands, we feel confident that we're on track to fall within that range. And as we have line of sight into the following year with the number of development agreements we feel like we're heading in the right direction for '26 as well. So I'd say nothing's really changed.

Darin Harris

And beyond that, just to add onto what Brian said is, we're signing more development agreements every day. So we signed three new development agreements at Jack during the quarter for 28 more restaurants. Del Taco, we signed one for three restaurants but post the quarter we've signed I think four for 33 more. So we continue to add development agreements, which builds the top of the funnel, which then has our team focused on then how do we get sites in process and then eventually get these locations open. And so, the key here is how do we continue to drive leads sites and into the process so we can eventually get these restaurants open.

Operator

Your next question comes from the line of Nick Setyan with Wedbush Securities.

Nick Setyan

I think earlier in the year and even going into this year, there were some conversations around a more wholesale approach to value at Jack in the Box, potentially taking some learnings from Del Taco, et cetera. Where do you think you are now? Do you think that maybe the menu today is appropriate or do you think there's some more sort of holistic permanent change coming in the near future?

Darin Harris

I think we're always trying to innovate and look for different ways to drive both sales and profitability at the restaurant level. So at both brands, we have a menu simplification test and process and that involves everything from design to what are the right items to have on the menu, how they're placed, how they're combined with other items. And we're seeing -- we're getting really good guest feedback. We've seen at Del, in our early reads of our menu tests, we're seeing both sales and margin improvement and speed has significantly improved. So it's pointing in the right direction for us.

Jack is still early in the process, but we now have it. Well, let me back up to Del. We're also now in three markets with this menu simplification test and if we continue to have the same results we've been having then we'll roll it out in 2025 because we're seeing just enough of an improvement in margin and sales that all signs point to the positive. And Jack in the Box, which is still too early to tell but the early read is that both the same thing is happening at Jack and that is both sales and margin improvement by doing some of the menu simplification that we've tested so far.

Operator

Your final question comes from the line of Christine Cho with Goldman Sachs.

Christine Cho

So there were a number of big launches in new products over the last few months, as you've called out in the prepared remarks, but would you be able to share any color around the reception of these products, as well as the impact on market share in different day parts, such as late night and breakfast, as well as any color on different income cohort spending?

Darin Harris

So we definitely saw good movement. Our Smashed Jack burger platform continues to do well, mixes it over 5% of sales and is adding incremental margin. So it's really performing well. It gives us the opportunity to use it as a platform to innovate around into other items and so we intend to do that in the next year. So we'll go on the offense with our Smashed Jack burger that is getting just rave reviews from our consumers. The late night Cube Meal actually sold more volume than our Snoop Meal last year because it was lower.

So from a tier standpoint, we had positive transactions at late night plus 13.6%. So, some of these tools are working that we've rolled out. It's really the lower income cohort that we haven't driven enough of to offset the positive things we're doing or to balance the positive things we're doing. So the Wings drove material check increases of over where our check with Wings had over \$20 and we're going to run it again in the near future because it performed so well. It wasn't enough to drive us to the positive territory because, again, the low-income cohort or our breakfast, but these things that we're doing are the right things to actually move momentum.

From a breakfast standpoint, we'll go permanent on our French toast sticks and then we're also now rolling over this quarter Q4. I think this week is the first week where we will roll over the items that we eliminated from the breakfast menu and I think that had about a 170 basis point impact on Q3 on same-store sales.

And so going forward, we will feature a breakfast item in all marketing windows, and then we'll continue to look for what is everyday value at breakfast. So those are the big rocks, but overall, we felt that the initiatives that we had were resonating. It's more now about how do we continue to drive value in a way that the lower income cohort will continue to visit us more frequently.

Operator

Thank you. And ladies and gentlemen, that concludes today's call. Thank you all for joining. You may not disconnect.

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