Jersey Mike's Subs Inc. (JMKE) Q2 2026 Earnings Call Transcript

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Jersey Mike's Subs Inc. (JMKE) Q2 2026 Earnings Call September 9, 2026 8:30 AM EDT

Company Participants

Corey Horsch - SVP of Finance & Investor Relations
Charles Morrison - CEO & Director
Michele Allen - Chief Financial Officer

Conference Call Participants

Andrew Barish - Jefferies LLC, Research Division
David Palmer - Evercore ISI Institutional Equities, Research Division
Brian Harbour - Morgan Stanley, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
Gregory Francfort - Guggenheim Securities, LLC, Research Division
Christopher O'Cull - Robert W. Baird & Co. Incorporated, Research Division
Andrew Charles - TD Cowen, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Sharon Zackfia - William Blair & Company L.L.C., Research Division
Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division
Margaret-May Binshtok - Wolfe Research, LLC
Sara Senatore - BofA Securities, Research Division
Lauren Silberman - Deutsche Bank AG, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Jersey Mike's Second Quarter 2026 Earnings Conference Call. [Operator Instructions]. Please note that this conference is being recorded today, September 9, 2026.

And now I'd like to turn the conference over to Corey Horsch, Senior Vice President, Finance and Investor Relations.

Corey Horsch
SVP of Finance & Investor Relations

Thank you, operator, and good morning. By now, everyone should have access to our second quarter 2026 earnings release, which can be found at www.jerseymikes.com in the Investor Relations section.

Our discussion today includes forward-looking statements. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties that could cause our actual results to differ materially from what we currently expect. Our SEC filings describe various risks that could affect our future operating results and financial condition. We use certain non-GAAP financial measures that we believe can be useful in evaluating our performance. Presentation of such information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. Definitions of these non-GAAP financial measures and reconciliations to comparable GAAP measures are contained in our earnings release.

Now I would like to turn it over to our CEO, Charlie Morrison.

Charles Morrison
CEO & Director

Thank you, Corey. Good morning, everyone, and welcome to our inaugural earnings call. I will be providing an update on our progress against our growth strategy, then Michele will review our quarterly financial results and provide outlook for 2026. Our second quarter same-store sales demonstrate strong progress against our long-term objective of achieving $2 million average unit volumes. Same-store sales grew 2.3%, accelerating from the first quarter, driven by continued momentum in transaction growth. That performance meaningfully outpaced the broader fast casual industry where traffic remains under pressure.

Same-store sales have continued to accelerate into the third quarter, where we are currently tracking above 3% as we continue to broaden our customer base, expand our digital reach, bring thoughtful innovation to the market and deliver the fresh hand-sliced subs and industry-leading quality that define Jersey Mike's.

In fact, in June, we were awarded ACSI's designation as the #1 QSR brand for the country for 2026, an honor that would not have been possible without the tireless efforts of our franchise owners. And earlier this year, our franchise owners voted us the best franchisor in the industry, earning Jersey Mike's the #1 spot on Entrepreneur's Franchise 500. To be recognized by both our customers and franchise owners in the same year is a testament to our franchise owners and team members across the system. That strength provides the foundation for our long-term growth strategy, driving AUVs to $2 million from today's $1.4 million, growing 4-wall cash-on-cash returns for our franchise partners and expanding our footprint domestically and around the world.

Starting with AUVs, our strategy has 4 key drivers, each centered around growing transactions. First, broadening our customer base and driving frequency, increasing digital and delivery, leveraging menu innovation and, of course, continuing to make great subs every time. While the brand has already achieved 90% awareness, we see significant opportunity to introduce Jersey Mike's to more customers and drive greater frequency over time.

Already in the first half of the year, we have increased our digital marketing from less than 1% to over 20% of total spend and are seeing promising early results. Loyalty registrations are up 22% year-to-date, and we've seen our ad awareness among Hispanic guests increase 6% year-over-year. Digital media gives us the ability to reach more diverse Gen Z consumers who are familiar with Jersey Mike's but may not be frequent customers today. It allows us to engage with those customers in a much more targeted and relevant way, ultimately convert awareness into trial and trial into frequency.

Expanding our customer base works hand-in-hand with our strategy to drive higher digital and delivery mix as many customers we are seeking live predominantly in these channels. During the quarter, our digital channels expanded approximately 200 basis points to 43% of our sales mix, on our way to our targeted 60% to 70% sales mix over time. This growth occurred without the benefit of significant contribution from our first-party delivery channel.

As we build out our first-party data capabilities, we will begin to more fully leverage this channel and accelerate penetration further. New product news will also be additive to our strategy of expanding our customer base. Our Chicken Salad sub promotion attracted new guests to Jersey Mike's and proved highly incremental to our business. This week, we relaunched Mike's Hot Italian, which was a fan favorite in the first quarter, particularly with younger flavor-seeking consumers while bringing new guests and incremental visits to our stores. That gives us confidence in the opportunity to use thoughtful innovation to reach new customers.

We intend to be disciplined in how we use innovation. We expect to limit our promotional cadence to just 2 or 3 LTOs per year, allowing us to create excitement and attract new customers without compromising the authenticity of the brand or introducing operational complexity. Most importantly, our stores have the operational capacity to support this growth. Virtually all the system has a second make line dedicated to digital orders, which takes pressure off the front counter experience for our in-store customers. And we already have a meaningful number of stores operating at or above $2 million, so we know the store footprint can support these volumes.

As we drive AUVs higher, we believe the sales leverage in combination with relatively low cost of constructing our in-line stores will drive cash-on-cash returns north of the current 40% plus. As we execute against these growth levers, we are committed to staying true to what has always made this brand special. That's an unwavering commitment to making great subs every time. That means never compromising on fresh ingredients. It means slicing our meats and cheese fresh and making that authentic sub sandwich right in front of our customers.

As our organization evolves, we will remain relentless about protecting the quality, authenticity and customer experience that have defined Jersey Mike's for nearly 70 years. And that matters even more in today's environment where consumers are increasingly selective about where they spend their money. For Jersey Mike's, value doesn't mean compromising on quality or chasing transactions through discounting or overreliance on LTOs. It's about consistently delivering a product and experience that customers believe is worth paying for. Even with our premium pricing position, we continue to grow transactions meaningfully above our peers, one of the strongest indications of the health of our brand.

Now on development. The runway ahead of us is significant. The strength of our unit economics, the depth of our pipeline and the white space remaining in the U.S. give us the ability to continue growing our domestic footprint for many years to come. Over the long term, we believe Jersey Mike's has the potential to support more than 7,500 locations in the U.S. and 15,000 globally. Outside the U.S., we are taking a disciplined market-by-market approach to growth.

Our objective isn't simply to open stores quickly, it's to establish strong unit economics, build brand awareness and build each market the right way with the right partners. In the second quarter, we opened 83 new stores, bringing first half openings to 130 and ending the quarter with 3,378 stores across the system, representing 8% net unit growth year-over-year.

Importantly, we continue to grow without sacrificing unit economics. System AUVs were approximately $1.4 million. Cash-on-cash returns remain above 40%, and our 2026 openings are generating higher AUVs than our 2025 openings through the same point last year. These economics continue to drive significant demand for new development, giving us line of sight to roughly 5 years of domestic development with more than 1,600 units in our pipeline, of which more than 1,400 are currently signed and committed with 200 in final negotiation.

Looking beyond the U.S., we also have a robust pipeline with 600 stores committed and 30 stores opened in Canada as of the end of the quarter. We are also making excellent progress towards the launch of Jersey Mike's in the United Kingdom, where our founder, Peter Cancro, is leading the charge. Several high-quality locations have been secured, including a flagship site on New Oxford Street in London, and the pieces are coming together for a launch in the coming months. Our supply chain is substantially in place. Store design and menu localization are nearly complete, and the first U.K. general manager just completed training here in New Jersey earlier this month. We're thrilled with the progress we're making and expect the first store to be opened by the end of the year.

When you bring it all together, the opportunity ahead of us is substantial. We have significant white space for development in the U.S. and internationally, a proven model with compelling unit economics and meaningful opportunities to continue growing AUVs across our system. We are very pleased with our second quarter performance, encouraged by the momentum we are seeing in the third quarter and believe we are well positioned to capitalize on the opportunities ahead and create meaningful long-term value for our franchise owners, our team members and our shareholders.

Before I turn the call over to Michele, I would like to thank our team members and franchise owners for their outstanding commitment to the Jersey Mike's brand. They have been instrumental in our success and their continued dedication gives us tremendous confidence in the bright future ahead for Jersey Mike's.

With that, Michele?

Michele Allen
Chief Financial Officer

Thanks, Charlie, and good morning, everyone. As Charlie mentioned, same-store sales grew 2.3% in the second quarter, accelerating from 1.7% in the first quarter. And importantly, this growth was predominantly transaction-driven. At the same time, we saw net unit growth of 8.1%. Together, that drove system-wide sales of approximately $1.21 billion in the second quarter, an increase of 10% year-over-year. Total revenues also increased 10% to $208 million and adjusted EBITDA grew 7% to $114 million.

Note that we've seen no material impact from the recent Cyclospora outbreak. We source only whole head lettuce domestically and cut it fresh in our stores rather than using bagged or precut lettuce. Breaking down revenue a little further, Royalties and other revenue increased 11% to $138 million, largely reflecting the growth in system-wide sales. Advertising revenues increased 6%, with that lower growth rate reflecting the change we made to our third-party delivery model in the fourth quarter of last year. Under this new model, we no longer receive advertising revenue on third-party delivery markups.

Sales at company-owned stores increased 18% to $13 million, largely reflecting changes in the composition of our portfolio over the past 12 months. We acquired 10 stores in the New Jersey area, and we refranchised 11 stores in the western part of the country. Because all of those refranchisings occurred near the end of the second quarter, we operated 36 stores for the majority of the quarter, which drove the higher rate of revenue growth.

Turning to profitability. While adjusted EBITDA increased 7%, it's worth noting that the year-over-year comparison is affected by the timing of the advertising spend as well as our transition away from an area director model. Advertising expenses trailed advertising revenue by $3 million this quarter, whereas last year, expenses trailed revenue by $13 million. That $10 million difference reduced our adjusted EBITDA growth by approximately 11 points this quarter. Absent this timing difference, adjusted EBITDA would have grown 18% year-over-year, helped by $8 million in lower costs related to our transition from that area director model to an internally staffed support model.

Subsequent to quarter end, we completed our initial public offering, selling 43.5 million shares of Class A common stock and generating approximately $300 million of primary proceeds, which we used to repay a portion of our outstanding debt. Our debt is structured through a whole business securitization. Following the debt repayment associated with the IPO, we had approximately $1.5 billion of net debt, including roughly $290 million of unrestricted cash, and our leverage ratio was approximately 4.4x. We expect to continue to delever through the remainder of the year through a combination of EBITDA growth and cash generation, creating meaningful capacity to return capital to shareholders.

In the current environment, we believe a leverage range of 3.5 to 4.5x provides an appropriate balance between maintaining financial flexibility and efficiently returning excess capital to shareholders. That range is not static, however, and may evolve over time based on market conditions, the needs of the business and other capital allocation considerations. Similarly, we expect to remain flexible in how we return capital. We will continue to evaluate the most efficient use of our capital and provide updates as appropriate.

Now turning to our outlook for 2026. We expect same-store sales growth of 2.5% to 3% for the full year, including 3% to 4% in the third quarter. We expect net unit growth of at least 8%. Adjusted EBITDA is projected to grow at least 20%, including at least 13% in the third quarter. Our fully exchanged diluted share count is expected to be approximately 318 million. To provide a bit more context on our outlook, we expect adjusted EBITDA growth to outpace revenue growth over the long term with G&A shrinking as a percentage of system-wide sales.

This year, however, there are a number of puts and takes as we complete the transition to a corporate-led organization. Most notably, we're benefiting from the shift away from that area director model. At the same time, we've added expenses to support our new public company infrastructure. On balance, the net impact is a one-time step down in our G&A cost base, which is pushing our EBITDA growth rate this year meaningfully above our long-term growth algorithm.

Through the first half of 2026, advertising expenses exceeded advertising revenues by $7 million, reflecting the timing of media spend. Though we continue to work to shift some legacy media into 2027 to mitigate this overage, we currently expect that imbalance to largely remain through the rest of the year. Our longer-term expectation is that advertising expenses will approximately equal advertising revenue on a full year basis, though the timing of media may result in some variability quarter-to-quarter.

Following the paydown of debt in connection with our IPO, our outlook for Q3 net interest expense is approximately $28 million. We will begin reporting an adjusted net income figure in the third quarter, which will be derived from our reported net income, reflecting the same adjustments used in adjusted EBITDA plus the noncash amortization of acquired intangibles. We will also apply a non-GAAP tax rate of 25%, which we believe is representative of a normalized long-term tax rate for the business.

Our second quarter performance demonstrates strong progress against our long-term growth strategy of achieving 2 million AUVs, driving 4-wall returns for our franchise owners and expanding our global footprint. We remain confident in delivering against our long-term growth algorithm and our mission to be the world's most beloved brand for authentic sub sandwiches.

With that, operator, we can open the lines for questions.

Question-and-Answer Session

Operator

[Operator Instructions]

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

Andrew Barish
Jefferies LLC, Research Division

Nice results. And yes, I hate to start out with a clarification question. But on the 3Q EBITDA growth guide, are you willing to kind of provide a bridge? Is there an advertising spend headwind again that is embedded in there in the 3Q or maybe a dollar range for EBITDA that you're looking at in the 3Q?

Michele Allen

Chief Financial Officer

Andy, I think generally speaking, we would expect the fund to be a couple of million either positive or negative in the third quarter and then the remaining year-to-date overspend to largely reverse in the fourth quarter of this year.

Andrew Barish

Jefferies LLC, Research Division

Okay. And then on the business side of things, just understanding the shift to digital and social, as Charlie noted, that's all kind of taken place like those dollars have been allocated and are working for you at that 20% level already. I just want to be clear on that.

Charles Morrison

CEO & Director

Yes. They are working for us. We made a sizable shift at the beginning of the year by taking the growth orientation of our ad fund, which is about $20 million per year and applying that to purely digital marketing at the beginning of 2026 and then added into that a portion of our -- a redirect of our existing spend to that. So we've been operating at that level for most of the year.

Operator

Our next question comes from the line of David Palmer with Evercore ISI.

David Palmer

Evercore ISI Institutional Equities, Research Division

I was wondering if you could maybe give us an update or updated thinking about your digital marketing capabilities today and contrast for us what they might look like, say, in some intermediate period in 2027. Could you give us a sense of the ramp? What tangible things we would see as consumers and what new consumers might see in terms of a digital manifestation of the brand? And I have a follow-up.

Charles Morrison

CEO & Director

Okay. David, yes, one of the things I think that's important for people to know is that the brand really did not engage in any form of digital marketing, especially that which would be a call-to-action messaging strategy utilizing social media and other tactics that we would take prior to 2026. So when we made this adjustment to start spending more in the digital space, we've seen really positive results associated with that. As we mentioned, our loyalty sign-ups have increased 22% year-on-year. Our digital mix as a percentage of sales has increased 200 basis points. We're seeing a significant increase in our Gen Z consumers as well as Hispanic consumers to the brand. Partly driven by good value promotions we've had behind it, but mostly, we believe, driven by the fact that we've shifted our media that way.

Over the long term, you'll see that we will continue to leverage digital and that call-to-action marketing to bring people through our digital channels, which helps us build a first-party data platform that we can utilize over time to continue to market to those customers on a one-to-one basis. This was all fairly underdeveloped as a brand prior to 2026. So as we advance the ball into 2027 and beyond, you will see us continue to leverage that marketing, that call to action approach to bring new customers in and then engage with existing customers and drive them forward.

And so in the second quarter and really going into the third and fourth quarter, you're seeing a full funnel approach to our marketing, which really, again, is probably the first time in the brand's history where we've really leveraged that to drive not only continued awareness gains, but really engage customers, convert them into trial and then bring them through the funnel to be long-term adopters of our brand and utilizing our loyalty system as well as our digital channels. So we feel very strong that we're in the early innings right now and expect to see that continue to grow over time.

David Palmer

Evercore ISI Institutional Equities, Research Division

So from a capability standpoint, you said full funnel so you're really there in terms of capabilities, but you see the benefits ramping into '27. That's just a clarification question. And then, Michele, you mentioned something about media weights maybe shifting. We're coming up on a very important time, football season. I'm just wondering if there's anything we should know even as people that track your monthly sales, you should be thinking about weights on certain things that you might have traditionally done and anything you want to call out there?

Charles Morrison
CEO & Director

Yes. So to clarify, the answer is, yes, we do expect to see the digital marketing capabilities evolve into a full funnel approach, which we have been using. And when I say full funnel, of course, we have TV. We have digital media. We have a lot of all the different component parts, influencers, everything else that really come into that full funnel strategy that most brands use. Again, Jersey Mike's historically has not leveraged as much of that strategy. And so that is in play. And I'll go ahead and take the answer on the other question, which is we definitely will be ramping up the amount of media that goes out into the market in the third -- late third and fourth quarter. That is typical for a brand like ours and certainly typical for Jersey Mike's.

In fact, our media weights were much lower during the summer months than they will be in the fall. Interestingly, as we've done some work to renegotiate these contracts we inherited that Michele mentioned in her commentary, we've been able to make many more media placements inside the NFL games, which we think is going to be a driver of our continued acceleration in comp performance over the coming months and years and continue to strengthen that over time. And so you will see definitely an uptick in media.

I will tell you that Danny and Eli are back, and we're excited about the promotions that we have coming up with Mike's Hot Italian in conjunction with the continued debate between Danny and Eli as to who's more prominent in our advertising. So it will be a fun fourth quarter for the brand, and I think definitely an improved media positioning for the brand during that time frame.

Operator

Our next question comes from the line of Brian Harbour with Morgan Stanley.

Brian Harbour

Morgan Stanley, Research Division

You mentioned kind of the $2 million AUV target several times, right? The stores that are there today, what kind of defines those? Is that more about location or age of the store? Or as you think about kind of the sales initiatives you laid out, are some of those more advanced at those stores?

Charles Morrison

CEO & Director

Yes. Brian, I think the way to think about those stores that are already operating there is that those franchise owners are really the ones driving the performance in their local markets that have not been supported necessarily by our full funnel advertising approach. And there are a couple of things that I'll call attention to. One, there is no data point that would suggest that the location of the store, the demographics around the store or any other metric we would come up with would be the key driver for that performance. It's really about that franchise owner having engaged in their community. They're driving definitely more catering business. They're definitely engaging younger consumers and a broader audience in those markets than what we have marketed to in the past.

And that has yielded great results for them. And of course, executing against the authenticity and quality of our subs each and every day. But really, there's not a specific differentiator. That's why we have confidence that by opening the aperture and expanding our brand to a much broader segment of customers that can use us more frequently, that will correlate closely to that $2 million target over time.

Brian Harbour

Morgan Stanley, Research Division

Okay. Great. Can you talk also just kind of about like typical LTO response perhaps? I think you had success with Chicken Salad. Did you kind of see that initially was June a very strong period? I think that was when you -- kind of when you brought that back. And what would you sort of expect to see from Mike's Hot Italian? Or is it something maybe it follows advertising a little bit more and therefore, you think that it builds as we sort of get used to this LTO calendar for your brands, what do you typically observe?

Charles Morrison

CEO & Director

Yes. I mean both the Chicken Salad product as well as Mike's Hot Italian are products that we've supported by way of advertising. I think the first entry point for Mike's Hot Italian was early this year. We did some media behind it, not a heavy weight of media, but it was an introduction to make sure that we validated that we were comfortable with the impact it could have. And it was a strong driver of growth for us early in the year, driven primarily by transactions and certainly highly incremental in terms of new customers coming into the business.

When we launched Chicken Salad, we really did that one in a very full funnel approach, so leveraging some TV weight, but predominantly digital and saw a good performance of that product, which drove the acceleration of our same-store sales in the second quarter and then again into the third quarter, as we mentioned on the call. I think when we start getting to the fourth quarter, we have higher media weights much stronger positioning. We're bringing back Mike's Hot Italian. We know it's a fan favorite. It drives a lot of customers that we would consider to be new or less frequent with our business to come into the doors with a great value at $8.95 for a regular sized sub.

We think that's going to be a great driver of continued transaction growth into the fourth quarter. So I think the product itself, the full funnel effect of marketing, leveraging TV, digital and all of the assets in front of us is going to be a collective driver, the relevance of the product plus the advertising, I think, come together quite well. And then over time, as we mentioned, we don't want to be married only to LTOs as a way to drive. As we expand our digital platform, we gain more and more customers into that platform and we start to really expand our one-to-one capabilities, which will be later on into 2027. Then we see the opportunity to really get smarter about one-to-one engagement with our customers by way of products, news and value as we move forward.

Operator

Our next question comes from the line of John Ivankoe with JPMorgan.

John Ivankoe

JPMorgan Chase & Co, Research Division

Two-parter, if I may. As we think about broadcast media beyond '26, NFL, Danny, Eli, do we have an opportunity to kind of introduce like maybe a whole new conversation around broadcast media, maybe outside of -- I say this because I am one, men of a certain age, for example, on the NFL, I mean, do we have an opportunity for a new type of spokesperson or a new type of campaign outside of kind of what's active? That's the first point.

And then secondly, Mike's Hot Italian, which I love, cold cut sandwich on the grill. Do we have an opportunity to do more like that? In other words, grill cold cut subs, which is something really only that Jersey Mike's at scale can do relative to any other competition. Is that something that your franchisees want to operationally execute? And do you think there's incremental customer demand for that beyond the Hot Italian?

Charles Morrison

CEO & Director

John, thanks for the questions. Let me start -- let me reverse the order on that. I'll first say that we have been and always will be building a pipeline of product ideas that we think are differentiated and will expand the brand. We also believe that the flat grill, which is the basis for our hot subs and our Philly cheesesteak products and the like are a great differentiator for the brand and can really drive incremental occasions, especially in flavor-forward presentations amongst new and even younger and a more diverse consumer base.

So the answer to that is yes, we're going to continue to test and innovate around that. We're actively doing that today, and we'll continue to do so well into the future and do believe it is a point of differentiation to expand the brand. I'll further complement that only to say that our protein lineup spans a very broad spectrum beyond just the deli meats, roast beef, our Philly cheesesteaks, chicken cheesesteaks, chicken in general. There's a lot we can work with to leverage our existing product mix without adding complexity or new SKUs to the business as we do this going forward. So very excited about that.

As it relates to the conversation, Danny and Eli are a fantastic fit for the brand. And I think when you see what we have up our sleeve for the fourth quarter, you're going to be pretty entertained and excited about the ongoing debate between who's the more prominent spokesperson in the brand. But what I'll tell you is we love both of them. They both are New Jersey people. They're excited about the brand, and they both fit a unique positioning and posture for the brand.

Obviously, Danny is New Jersey born and bred and absolutely the best possible spokesperson for Jersey Mike's. And what he brings is fun and engagement across a very broad audience to so many people, both younger, older, you name it, his relevance really connects across the board. And we found that, that's been very valuable for us as a brand to have Danny as our spokesperson and love him for that.

Eli connects really well with the NFL, and we love having Eli in that mix and conversation with Danny. So, all in all, I don't see that, that's going to be anything we change. I will say, however, we can expand that a little bit by way of leveraging influencers. And if you may recall, over the summer, we added Bethenny Frankel to our list, who is the self-proclaimed Chicken Salad Queen and evaluator of the best chicken salad in the country and loves and absolutely adores our chicken salad product. And so influencers can be a great add to the business when we think about how we can expand the messaging beyond just the Danny and Eli ongoing conversation. But I think that's worked well for us. All of it has, and we'll continue to leverage those in the future.

Operator

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

Gregory Francfort
Guggenheim Securities, LLC, Research Division

I have one short-term one and one long-term one. Just maybe, Michele, can you remind us how much pricing you would expect to be running through the comp in the back half? And then Charlie, just catering, can you remind us where you stand, where you think that can get to over time? And are there any tangible drivers we should expect in the next 6 to 12 months that you feel like can really unlock sales in that channel?

Michele Allen
Chief Financial Officer

Sure, Greg. I think we're expecting maybe 1 point or less of pricing in the back half, which is pretty consistent with the front half. Most of our growth is going to be transaction-led.

Charles Morrison
CEO & Director

And let me jump on the catering question and expand on price, too. There is -- we made a conscious decision last year in the fourth quarter to reduce the amount of price we took as a brand and focus our efforts on growing transactions for the long term, which we believe is a much healthier way to grow the business. And as we noted, our comp does include a primary growth associated with transactions, which is unique, I think, to the marketplace in today's world.

As we think about catering, we see that as definitely a lever we can pull over time. As I mentioned earlier, our best-performing stores that are operating at that $2 million level or above generally see a much more robust catering business than our average store does. On average, it's about 3% of our sales. We believe and have experience that we can drive that to as much as 10% of sales, especially in stores that are in markets where there's high daytime population and an opportunity to grow it.

And that also falls into our focus on advertising and making sure that we make customers aware of the opportunity for catering and that our restaurants are set up for success on the catering business as well. So over time, we do see that being a growth driver, probably more so in the longer term than the near term.

Operator

Our next question comes from the line of Chris O'Cull with Baird.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Charlie, the company has indicated the last 2 LTO introductions have brought a meaningful number of new customers to the brand. Is there evidence to suggest that you're getting repeat visits from these new guests after that initial trial?

Charles Morrison
CEO & Director

I think it's a little early to -- in the sales cycle to give a confident answer to that. We have seen some repeat by way of these customers, but both were very short-term cycles for those particular products. So over time, I think we'll see that we'll continue to bring back new customers and get them back into the camp with the business.

What I will say is one of the leading indicators there is the significant increase we've seen in loyalty sign-ups to the business. Again, it's up 22% year-on-year through the quarter. And that's a great indicator that not only are new customers coming into the business, they're signing up for our loyalty program, which we know translates to a higher level of repeat.

But we'll continuously be monitoring the level of frequency of our customers over time and especially as we advance our data capabilities as a business, which was fairly underdeveloped prior to 2026, we'll start to be able to give a more precise answer to that question, but it is our belief that those customers are returning to the business.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Okay. And then you mentioned first-party delivery as an opportunity. It seems like consumers gravitate to these 3P apps to order delivery. So I was hoping maybe you could elaborate on how you plan to build that capability over time and what you think the potential is?

Charles Morrison
CEO & Director

Yes. We do think there's real potential there. We've noted that delivery accounts for just under 20% of our total sales, of which third-party delivery -- or first-party delivery, excuse me, is only about 3% of that. And that's underdeveloped compared to most in the industry. What I'll tell you is it goes back to the digital advertising. We have not historically had any form of call-to-action marketing, which for the benefit of all of you, that really shows up in the way of an Instagram post that says click here to order now. And when we do that, they're clicking into our first-party application that can be either mobile web or perhaps the app. And when they do that, then they have a choice of a walk-in for pickup order and/or delivery, which would be a first-party delivery transaction.

We've seen that segment grow this year, but it's from a very low base. But we do know that our marketing efforts are working to drive more customers to that channel and present them with a better value proposition, notably our loyalty program. And so rather than customers using a third-party loyalty or other type of program and platform, we want them on ours. We retain the first-party data, and that becomes a big driver for growth in the future.

So we do believe that business can be as much as 10% of our total sales over time, and it will continue to build as we continue to advance the ball and connect those consumers in that call-to-action marketing and then presenting them with our robust loyalty platform, which provides great value for them in the future.

Operator

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

Andrew Charles
TD Cowen, Research Division

Michele, within 2Q comps and full year 2026 same-store sales guidance, how should we think about what's embedded for cannibalization? And as we look ahead here, with the accelerated unit growth over the medium term, do you expect the magnitude of cannibalization to step up on same-store sales?

Michele Allen
Chief Financial Officer

Cannibalization has been less than 100 basis points over the last several years, and we wouldn't expect any change to that at all.

Andrew Charles
TD Cowen, Research Division

That's helpful. And then one more question for me. Just 3Q same-store sales guidance, very encouraging levels. Do you believe there is a benefit from the IPO publicity that you observed in July that's helping to drive the acceleration here?

Charles Morrison
CEO & Director

Andrew, I don't think the IPO itself was a driver. I think we can go back to the launch of the Chicken Salad promotion, the redirecting of our marketing efforts, the continued build of the digital spend as being key drivers certainly during the quarter in both quarter 2 and quarter 3 and the accelerated momentum. And so no, I don't think the IPO became a catalyst for accelerated growth. You might recall, we also had some really good news as well in the quarter. But I think ultimately, at the end of the day, it really goes down to redirecting our marketing spend and driving transaction growth that way.

Operator

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

Dennis Geiger
UBS Investment Bank, Research Division

Could you talk a little bit more about your implied 2H outlook and specifically how you're thinking about sort of the lower end of the same-store sales range versus the upper end of the guide on same-store sales? I know it is pretty tight, but just curious how you think about key factors that could impact where you land within that range? Is it the macro backdrop? Is it how the LTO hits other sales drivers, other factors?

Michele Allen
Chief Financial Officer

Dennis, I think as we look at the back half, we have definitely built in some flexibility, especially into the fourth quarter where we have less visibility into our estimates around the broader macro environment. And I'd say some potential election-related uncertainty. So you can see that more toward the lower end of the guide.

At the same time, we're seeing a few hundred basis points of pricing roll off from prior year. And Charlie mentioned, we've been very intentional and deliberate about price take this year as we're focused on the transaction momentum and transaction growth there. So we feel really good about the underlying transaction momentum that we're seeing today and feel very comfortable with the third quarter guide being above that lower end and then us being reasonably within the range for the full year comp.

Dennis Geiger
UBS Investment Bank, Research Division

Very helpful. Michele, and then just one more. Just a helpful commentary on the performance among the younger consumer and your Hispanic customers. Just curious if you could talk at all about performance by income cohorts, what you saw in the quarter, if you've got that handy.

Charles Morrison
CEO & Director

We don't have specific data on the income cohort other than to say I don't think it's meaningfully changed. Our general consumer historically has been on the higher income side. I think there's directional indication amongst cohorts that lower-end consumers are growing with our brand, but we have not been anchored on them as other brands perhaps have been. So I would submit that it's remained fairly stable, if not benefiting from the value orientation of our marketing and as evidenced by our same-store sales growth. But we're not feeling any pressure on the low-end consumer as another way to represent that.

Operator

Our next question comes from the line of Sharon Zackfia with William Blair.

Sharon Zackfia
William Blair & Company L.L.C., Research Division

The improvement in loyalty sign-ups is very impressive this quarter. Is that purely a function of the shift to digital marketing? Or is there something else that you're doing that's helping drive that?

Charles Morrison
CEO & Director

I definitely think it's -- there's not a specific driver that would be we could call attention to such as an incentive or otherwise that drives it. We do think it is the shift to the digital marketing to a broader consumer base who only used the brand maybe once or twice a year on average. Now we're inviting them in, including them in the conversation, having a relevant conversation with them. When they transact with us, then there is an opportunity as a follow-up to that digital transaction to come back and introduce our loyalty program to them and help drive those sign-ups. So I think the broadening of the customer base is the key driver of it, and the natural reaction is a significant increase in our sign-ups year-over-year.

Sharon Zackfia
William Blair & Company L.L.C., Research Division

And then as we think about the U.K. launch, is there any sneak peek you can give us on how that format might differ a bit from the U.S. or how the menu might be altered a bit?

Charles Morrison

CEO & Director

Sure. I think you'll see a fairly similar layout to the store. So much the same as we do in the U.S., our 14-foot line focused on hand slicing each and every sub with the flat grill right behind it will be an anchor point for the brand. You'll see a little more contemporary feel to the design than what you see in the U.S.

On the menu, it will be our core menu of deli-style subs anchored by our hot subs and the cheesesteaks on the flat grill. We will bring a couple of products forward, notably a salted beef product, which we think will be beneficial in the U.K. as a starting point. And then we have tuna fish or tuna salad, whichever way you want to call it, on our menu today. And that will be probably something that will be a driver as well in the U.K. But for the most part, you'll see the brand show up in its current form.

Operator

Our next question comes from the line of Danilo Gargiulo with Bernstein.

Danilo Gargiulo

Bernstein Institutional Services LLC, Research Division

I'm wondering as the domestic unit growth begins to reaccelerate, what are the most important constraints on moving from the current high single-digit pace toward maybe the upper end of your development potential given the pipeline that you have, but done in a sustainable way?

Charles Morrison

CEO & Director

I think the answer there is our long-term algorithm is to continue with the high single-digit unit growth. Even at our size at over 3,300 stores, we anticipate we'll be able to maintain that. We'll maintain it 2 ways: one, continuing to drive thoughtful development and growth in the U.S. and driving that at about the rate that we are seeing today, which over the past few years has been about 300 new stores a year. And then as international continues to become a growth vehicle for us over time, you'll see that complement that high single-digit rate.

We certainly understand that we could accelerate that growth rate in the U.S. over time, but we were very thoughtful in our market planning efforts over the past year to put ourselves in a position of having a very robust and predictable pipeline of growth that includes the commitments that we mentioned, roughly 1,600 stores in our pipeline committed over the next 5 years of growth at our current rate. And so we believe that predictability and thoughtfulness in the approach to growth is the right way to drive the brand. But we also have a lot of demand from our franchise owners to continue to add territory and build new stores, which gives us comfort that, that number could grow over time as well.

Operator

Our next question comes from the line of Margaret Binshtok with Wolfe Research.

Margaret-May Binshtok
Wolfe Research, LLC

I just first wanted to ask a little bit on value. I know you guys have said it's not about discounting, but you've also credited some of the marketing with the price point and some of the gains you saw with the Gen Z and Hispanic consumer. So I guess I just wanted to ask first, like how should we think about value strategy from here? And then also, as you've called out some of those gains with that Gen Z and Hispanic consumer, are there any early learnings about how these guests might use the brand differently, whether it's a format, daypart or digital?

Charles Morrison
CEO & Director

Margaret, thank you for the questions. I'll first start on value and state that our value scores have remained quite strong as a business. We have not seen a deterioration. I think that's a really good point from consumers over time because we provide so much abundance in our product for such a great price. Now our new products that we have launched like the Chicken Salad and Mike's Hot Italian are done so in a thoughtful price point that can connect with all consumers. I'll pay specific attention to Mike's Hot Italian and note that even at the price point of $8.95, our franchisees enjoy a food cost for that product that's below 20% of our sales. Our average food cost for the brand is about 27%.

So we can present great value without having it be a negative impact to the P&L, which gives us a lot of flexibility and certainly helps in that call-to-action marketing we're doing on the digital front with our consumers there. And as we think about those younger consumers, that broader base of consumers, we definitely believe the digital occasion is a strong place for us to be. Today, walk-in online orders are only about a little over 20% of our total sales, delivery makes up the other portion of our digital sales.

And we think digital can be as much as 60% to 70% of our sales. And it is the space that, that younger audience is playing in. So from a channel perspective, definitely younger consumers are looking for the digital transaction. They're also consuming media in the connected space more than they are just on live TV. And so we think that is going to be a key channel for growth of that expanded customer base over time.

Operator

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

Sara Senatore
BofA Securities, Research Division

Two quick questions, if I may. The first is about the -- about those loyalty customers. Do you have any data that you can share about frequency or average check? And I guess maybe that applies to both loyalty and digital orders to the extent they're different from -- as you talk about trying to kind of build out both of those channels or capabilities?

And then the other question was about your performance meaningfully outpacing the broader fast casual industry, but then you also referred to kind of premium pricing, which I understood to mean versus, say, other subs or sandwich shops. So as you think about your market share gains, to the extent that you have a sense, where are they coming from? Is it other subs and sandwich shops? Or do people kind of more cross-shop fast casual?

Charles Morrison
CEO & Director

Sara, thank you for the question. On loyalty, we do have data about the frequency of our loyalty customers. And we've noted that our -- we have about, I would say, 12 million, 13 million total users in our loyalty database, of which about 7 million of them are active users in that database. Of those, they use us about once a month on average, which is very high frequency, which is why we want to continue to build the base of customers in our loyalty platform up dramatically from where it is. It's very underdeveloped. We think that number should be 30 million, 40 million, 50 million users in that database.

And over time, as we continue to see the acceleration of sign-ups and bringing people along into our loyalty platform, we believe it will translate to higher frequency and long-term sustainable growth for the brand. As it relates to the digital order being a more -- a higher value order, generally, that is true amongst all restaurants. And for Jersey Mike's, that is the same. Typically, a digital transaction carries a higher check average, and we see that much the same in the business. So it can be an underlying driver of what we would consider to be check growth, not just by way of price.

And then as it relates to our performance on the premium pricing note, we are outpacing fast casual and just about everybody, especially in the form of transaction growth. And I'll reiterate, we made a conscious decision very early in the game to reduce our reliance on price as a driver of comp and focus our efforts on transaction growth, which we believe and everyone would believe is a much healthier way to grow your business, and we're seeing the fruits of that in our overall performance.

While we do maintain a premium price position, as I've noted on other questions, we do have the ability to flex into value by way of product introductions and/or bundling, both of which we've only dipped our toe in the water on these at this point and have a lot of runway for that over time. But that pricing is not a deterrent for how we can gain share in both the sandwich category and broadly across all limited service restaurants.

We do believe we are taking share in the category and have demonstrated that and we don't need to present value in order to do that. I think our brand is best positioned. And I'll note, we commented on this in the earnings call earlier that we were named as America's favorite quick service restaurant by the ACSI, which historically Chick-fil-A has held that title for, gosh, the last 10 or 11 years. Jersey Mike's now is #1.

And so I think consumers recognize that if there even is a premium price position to this product, they love the abundance, quality and execution of what we provide every day. And I think that's a key reason why we are stealing share, not only from sandwiches, but from all of the limited service category, have been over time and will continue to do so in the future.

Operator

Our final question this morning comes from the line of Lauren Silberman with Deutsche Bank.

Lauren Silberman

Deutsche Bank AG, Research Division

I wanted to ask, are you seeing differences in performance across dayparts? And then more broadly, how you're thinking about the daypart opportunity? You guys skew towards lunch, but just explain opportunity perhaps dinner even expanding to late night.

Charles Morrison

CEO & Director

Yes. It's interesting. The only differentiation we see by daypart can be associated with the product that we are promoting at the time. So a good example, Mike's Hot Italian tends to be a product that helps us flex into the dinner daypart, which represents about 30% of our total sales today, and we'd love to see that continue to grow. And we think the hot subs are a key driver of that dinner occasion. And interestingly, there is an opportunity for late night. It's something we've mentioned before, we will test and learn about over time.

Our stores close at 9:00 p.m. every day across America. And we think there is an opportunity to expand that in certain markets where we think there's relevance to deliver a great hot sub to perhaps this younger, broader audience that we're talking about who is consuming a lot of these products late at night. And so more to come on that as we evolve. But definitely, we want to continue to build upon our broad daypart mix. Again, about 50% of our sales come at lunch, another 20% in the form of what we'll call an afternoon snack. And then dinner, again, at 30% of our sales, we think we can broaden all of those dayparts and grow the business.

And then if you think about catering, which we talked about earlier, a lot of that business actually comes in before we even open our doors. And so there's an early daypart opportunity to drive catering as well. So good balance across all the different segments of our business for growth opportunity for the brand well into the future.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session and will conclude our call today. We thank you for your interest and participation. You may now disconnect your lines.

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