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Jersey Mike's Subs Inc. (JMKE) Q3 2026 Earnings Call Transcript

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Q3: 2026-10-28 Earnings Summary

Insights

EPS of $0.23 beats by $0.05 | Revenue of $209.00M beats by $545.62K

Jersey Mike's Subs Inc. (JMKE) Q3 2026 Earnings Call October 28, 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

David Palmer - Evercore ISI Institutional Equities, Research Division
Christopher O'Cull - Robert W. Baird & Co. Incorporated, Research Division
Brian Harbour - Morgan Stanley, Research Division
Andrew Barish - Jefferies LLC, Research Division
Leah Jordan - Goldman Sachs Group, Inc., Research Division
Andrew Charles - TD Cowen, Research Division
Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
Margaret-May Binshtok - Wolfe Research, LLC
Gregory Francfort - Guggenheim Securities, LLC, Research Division
Lauren Silberman - Deutsche Bank AG, Research Division
Sara Senatore - BofA Securities, Research Division
Logan Reich - RBC Capital Markets, Research Division
Sharon Zackfia - William Blair & Company L.L.C., Research Division
Zachary Fadem - Wells Fargo Securities, LLC, Research Division
Jacob Aiken-Phillips - Melius Research LLC

Presentation

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Jersey Mike's Third Quarter 2026 Earnings Conference Call. [Operator Instructions] Please note that this conference is being recorded today, October 28, 2026. And now I would like to turn the conference over to Corey Horsch, SVP, Finance and Investor Relations.

Corey Horsch
SVP of Finance & Investor Relations

Thank you, operator, and good morning. By now, everyone should have had access to our third 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 third quarter conference call. I will be providing an update on our progress against our growth strategy then Michele will review our quarterly financial results and our outlook for 2026. Our third quarter same-store sales demonstrate continued progress against our long-term objective of achieving $2 million average unit volumes, driven primarily by transaction growth, same-store sales grew 3%, accelerating from 2.3% in the second quarter.

We continue to outperform the fast casual segment this year, reflecting the strength of our brand and the value we deliver through the quality, portion size and service our customers count on. Our focus remains on building long-term sustainable traffic growth by giving a broader set of consumers, compelling reasons to choose Jersey Mike's and to visit more often. We believe that approach positions us well in an environment where consumers are increasingly deliberate about where they spend.

We remain confident in our full year outlook and committed to our long-term growth strategy of achieving $2 million average unit volumes, while growing 4-wall cash-on-cash returns for our franchise partners and expanding our footprint domestically and around the world. There are 4 key drivers to our AUV strategy, each centered around growing transactions. The first is broadening our customer base and driving more frequency amongst the broader set of consumers; second, increasing sales for our digital and delivery channels.

Next, leveraging menu innovation, and finally, never losing focus on continuing to make great subs each and every time. While the brand enjoys more than 90% awareness, we see a significant opportunity to convert that awareness into more new customers and driving more frequent visits. We are seeing encouraging results from increasing our digital marketing spend from less than 1% of our media mix to approximately 20% this year.

Year-to-date, purchase consideration has improved significantly among younger consumers in the 18- to 34-year-old range as well as women and Hispanic consumers. Loyalty registrations are also up 21% year-to-date, far outpacing our rate of growth. And while we have already shifted the spend to what we believe is an appropriate level, we are in the very early stages of optimizing our mix within channels and speaking to and acquiring a broader mix of consumers.

We believe this provides a substantial opportunity to support traffic growth for years to come. Expanding our customer base works hand in hand with growing digital and delivery mix. Channels that are particularly relevant to the younger consumers that we are targeting. During the quarter, digital sales mix increased approximately 100 basis points to 43%, progressing towards our long-term target of 60% to 70%.

Separately, catering sales have increased 17% year-to-date, reflecting our focus on driving this high-margin channel and leveraging the morning day part to prepare large orders. We also see meaningful opportunity in first-party delivery or those sales that come direct through our channels. As we continue to capture data about our customers and build our first-party marketing capabilities, we expect to use more targeted engagement to drive adoption and repeat orders through our digital channel.

Menu innovation gives existing customers another reason to visit and we believe, has strong appeal to new customers to the brand. Our summer chicken salad limited time offer was highly successful in attracting new guests and help drive our strong performance. We recently relaunched Mike's Hot Italian, and it is generating similar sales mix as we experienced in the first quarter of this year.

In October, we also introduced a new bundle featuring any mini sub and chips for a $7.99 price point. This mini bundle provides an accessible price point while delivering attractive food costs for our franchise owners.

Two weeks into the promotion, we are pleased with the performance and customers appreciate the value that it provides. Our pipeline of new products and attractive offers allow us to provide customers additional value while preserving our premium positioning, while not impacting our unit economics. Looking ahead, we anticipate 2 to 3 LTOs in 2027. Underpinning all of these efforts is our commitment to making great subs every time.

Customers come to Jersey Mike's for a true Jersey- style deli experience, where we slice our meats and cheese, fresh in front of them and consistently deliver the personalized service they have come to know. Delivering that experience at every visit gives customers a reason to return and remains a core tenet to our strategy for continued transaction growth.

Turning to development. In the third quarter, we opened 80 new stores, bringing year-to-date openings to 210 and ending the quarter with 3,456 stores across the system, representing approximately 9% net unit growth year-over-year. Importantly, we continue to expand while sustaining strong unit economics. Moreover, our 2026 openings are generating higher AUVs than our 2025 openings through the same point last year and our new store openings continue to deliver strong cash-on-cash returns for our franchise owners.

These strong economics continue to drive significant demand for new development. As a reminder, we have line of sight to roughly 5 years of domestic development ahead.

Turning to international development. We ended the quarter with 41 stores in Canada including 20 new openings year-to-date. We also expect to open our first location in the United Kingdom over the next few weeks and are excited to bring Jersey Mike's across the pond. International expansion will become an increasingly important contributor to our growth story over time.

We have identified a number of priority markets and expect to announce additional markets and international partners in the coming months. Our new market expansion will be highly disciplined with a focus on selecting the right partner, establishing strong unit economics and building brand awareness to support sustainable growth in each market. Overall, we have high confidence that our runway for unit growth, both here in the U.S. and across the world remains for many years to come.

Overall, we believe the opportunity in front of us is substantial and truly unique in our space. Jersey Mike's has a proven model with compelling unit economics, substantial white space for global expansion and meaningful opportunities to grow AUVs across the system. We are confident in our ability to execute our growth strategies and create significant long-term value for our franchise owners, team members and our shareholders.

Lastly, I'd like to thank our team members and franchise owners for their exceptional dedication to Jersey Mike's. Their commitment has been instrumental in building the success we enjoy today and their continued focus and passion are what makes us so optimistic about the brand's future.

With that, I'll turn it over to Michele.

Michele Allen
Chief Financial Officer

Thanks, Charlie, and good morning, everyone. In the third quarter, we generated $1.2 billion of system-wide sales, an increased of 11% year-over-year, primarily reflecting 9% net unit growth and 3% same-store sales growth, which, as Charlie mentioned, was an acceleration from 2.3% in the second quarter and importantly, led primarily by transaction growth.

We're very pleased to be delivering positive transaction growth, while traffic across the industry remains challenged. That growth reflects the success of our digital marketing initiatives, and we're still in the early innings. Total revenues grew 10% to $209 million and adjusted EBITDA grew 20% to $125 million, both reflecting a 12% increase in royalties and other revenue.

Adjusted EBITDA further benefited from our transition from the Area Director model to an internally staffed support model, which contributed $9 million year-over-year. In the third quarter, advertising revenues exceeded advertising expenses by $11 million compared to $8 million in the prior year third quarter.

Moving down the income statement. Adjusted net income was $74 million and adjusted earnings per share were $0.23. These are new metrics being introduced this quarter and have not been presented for the prior year period because our pre-IPO capital structure makes the comparison not meaningful.

Adjusted net income reflects the same adjustments used in adjusted EBITDA as well as the noncash amortization of acquired intangibles. We're also applying a non-GAAP tax rate of 25% to derive adjusted net income, which we believe is representative of a normalized long-term tax rate for our business. That rate does not currently reflect the portion of realized tax savings we retain under the tax receivable agreement, which could provide a modest benefit and will continue to be refined over time.

Adjusted EPS further assumes the exchange of all outstanding common units for Class A common stock. We generated $170 million in free cash flow through the third quarter which included $88 million in large special items, including Area Director buyouts. Further, at only $7 million year-to-date, CapEx as a percent of adjusted EBITDA is running at roughly 2%.

Turning to the balance sheet. At the end of the quarter, we had approximately $1.5 billion of net debt, including $325 million of cash, and our net leverage ratio was 3.9x. As announced today, our Board of Directors authorized a share repurchase plan of up to $100 million and a special cash dividend of $0.35 per Class A share to shareholders of record as of November 5.

This represents approximately $200 million of capital return less than 4 months following our IPO or approximately half a turn of our full year adjusted EBITDA expectations, while maintaining an efficient leverage profile and ample liquidity to run the business. We chose to use both tools deliberately. The repurchase authorization reflects our view that our shares represent a compelling value at current levels, and the special dividend allows us to return capital to all shareholders while maintaining a healthy public float in our Class A common stock.

Now moving to outlook. We expect same-store sales growth of at least 2.5% for the full year. We continue to expect net unit growth of at least 8% and adjusted EBITDA growth of at least 20%. Our fully exchanged diluted share count is expected to be approximately 318 million. We also expect that advertising expenses will exceed revenues by $5 million for the full year.

As we look to 2027 and beyond, our expectation remains that expenses will approximately equal advertising revenues on a full year basis with some variability quarter-to-quarter due to the timing of media.

Lastly, our outlook for Q4 net interest expense is approximately $25 million. As a reminder, 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 moving parts as we complete the transition to a corporate-led organization. Most notably, we're benefiting from the shift away from the 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 onetime step down in our G&A cost base, which is pushing our EBITDA growth rate meaningfully above our long-term growth algorithm of double-digit growth. Our third quarter performance demonstrates the strength of our brand and the continued progress against our long-term growth strategy of achieving $2 million AUVs, growing 4-wall returns for our franchise partners and expanding our footprint domestically and around the world. We remain confident in our long-term algorithm. Low single-digit same-store sales growth and high single-digit net unit growth combined to drive double-digit EBITDA growth.

Our asset-light model converts a substantial portion of that adjusted EBITDA into free cash flow, which gives us significant flexibility to return capital to shareholders over time. We believe the compounding effect of that earnings growth and the deployment of that cash will drive significant long-term value for our shareholders. We look forward to updating you on our progress and outlook for 2027 when we report fourth quarter results.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from David Palmer with Evercore ISI.

David Palmer
Evercore ISI Institutional Equities, Research Division

Thanks. Good morning. I had a question, and thanks for your earlier comments on the digital front. I wanted to see if you could give us some more texture about what you're expecting there from the lift in digital. That's the kind of thing that you can do A/B testing on and really give yourself a sense of what the lift can be, particularly as you get certain functionality rolled out. And on that front, we'd love to understand maybe the milestones on when those capabilities rise. So anything on that front would be very helpful since that's so important to our view in '27?

Charles Morrison
CEO & Director

Thanks. Appreciate the question. As we noted previously, before 2026, the company really had no investment in digital marketing efforts of any kind. In fact, it was less than 1% of our total ad spend, which exceeds $200 million annually. This year, we deployed about 20% -- just about 20% of our advertising fund towards digital marketing efforts and paid social search, connected TV and the like.

As we noted, early indications are quite strong. We're seeing heightened levels of engagement amongst a younger audience and a broader, more diverse audience as well. And all of those are good indicators that we believe over the long term, this digital marketing effort is going to continue to drive strong transaction growth for the company well into the future.

As we've noted before, we're in the very early innings of this effort and believe we have a long way to go as we start to acquire more first-party data about our customers and continue to expand that database in a one-to-one marketing effort that we think will drive growth for a long time to come.

David Palmer
Evercore ISI Institutional Equities, Research Division

Is there a time that you think you'll be fully operational on what you would call the hyper personalized marketing capabilities? Is there a quarter where you see that being available? And I'll pass it on.

Charles Morrison
CEO & Director

Well, I think it's continuing to evolve as we go. As we've mentioned before, we have a very strong loyalty program, but it's relatively small in size compared to other brands in our space. We have about 14 million total users in the database, of which about 7 million to 8 million of those are active users. That is very undersized compared to a lot of other brands, yet we're seeing a lot of strong growth in that loyalty program. In fact, we've seen sign-ups this year be up as much as 20% year-over-year, which is good news and an indication that we're bringing those new customers into the database.

When they do, then over time, we expect their frequency to be stronger. In fact, our active database of customers uses us about once a month. People who are not part of our active database or use Jersey Mike's tend to be less than that. As little as 2x a year. And so as we convert more and more people into that database over time, we expect to see strong performance gains from it.

But it's going to take us some time. We're building the infrastructure. We're compiling the data. We're getting smarter about it every day, but I think it will be a reasonably long journey over the course of maybe the next few quarters before we start to see even the meaningful impact associated with that.

Operator

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

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

Charlie, the updated guidance implies, I think, at least 3% comps in the fourth quarter. Are you tracking at that level today? Is there some cushion in the outlook? And I guess, what gives you confidence in that target?

Charles Morrison
CEO & Director

Chris, thanks for the question. Despite what all of the industry saw as some temporary softness late in the third quarter, we feel very good about our performance in the fourth quarter and beyond. And we think that, that particular event was fairly short-lived. And our performance has been very consistent with what we're providing as our fourth quarter guidance overall.

So we feel very good about our recent performance and continue to gain on traffic. And I think it's important to note that our gains are primarily driven by traffic, both during the third quarter and year-to-date and anticipate that continuing in the fourth quarter.

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

Okay. And then how will national media support in the fourth quarter compared with the third quarter? And should we expect maybe social media spending to stay relatively steady each quarter?

Charles Morrison
CEO & Director

Yes. The digital spend is fairly consistent throughout the year, and that involves social spend as well as some other connected forms of media. Definitely, the fourth quarter, we see an uptick in our media spend, where we're involved and engaged in the NFL football baseball playoffs recently and other areas where we spend our TV media dollars. So this is a heightened level of media compared to where we were in the third quarter.

Operator

Our next question comes from Brian Harbour with Morgan Stanley.

Brian Harbour
Morgan Stanley, Research Division

Just with Mike's Hot Italian, did it perform largely kind of as you expected? I guess, how did that -- the timing was a little bit different this time, but how did it differ with respect to marketing and messaging. And I guess the broader question is just how do you kind of make sure that these LTOs build on each other over time?

Charles Morrison
CEO & Director

Thanks, Brian. It did actually and it is performing consistent with what we experienced earlier in the year. As a reminder, we launched this to the market in a short window late in December of last year through essentially February, and we saw really strong performance from that. Notably, about 50% of the customers that use -- that bought that product were new to the business. So net new customers, which we're thrilled with.

Mix levels and performance have been very consistent with that throughout the launch period since. And we always anticipated that would be our fourth quarter hero product. Coming off the heels of a very successful chicken salad promotion over the summer months. And so I think LTOs probably 2 to 3 a year at the most, will be our ongoing cadence and we are developing a pipeline of relevant products that we are testing and gaining understanding on so that when we hit the market, we have confidence in their ability to perform at these levels.

Brian Harbour
Morgan Stanley, Research Division

Okay. How is the delivery channel doing today? I guess, is that growing faster than the overall business? Or is it consistent? And how do you think about that as an ongoing sales driver into next year, for example?

Charles Morrison
CEO & Director

Yes. Actually, delivery is one of our fastest-growing channels. We made some modifications to our approach to both third party and as well first-party delivery as drivers of our business going forward by managing the markup on our products and providing a royalty-free markup to our franchise owners, and we did that last year, which somewhat affects our ad fund, but actually has turned out to be a great decision because it's really driving strong performance and delivery.

I'll also call attention to catering, which is effectively a delivery option for the brand catering sales up 17% during the quarter, which is a good indication as we continue to pull the levers that we have for this business, really strong performance there as we develop both those platforms for the future.

Operator

Our next question comes from Andy Barish with Jefferies.

Andrew Barish
Jefferies LLC, Research Division

Just wanted to understand a little bit more on the mini bundle rationale and the pricing decision. I don't remember that being in the marketing plan. So just how did that kind of come about? And then I have a quick follow-up as well.

Charles Morrison
CEO & Director

Andy, we're always going to have, I guess, a few tricks up our sleeve as we feel like we need them early this year. We tested a bundled offer with our #2 sub plus chips and a drink for a value price point. The mini was something we also had in consideration should we want to leverage that in a value orientation for consumers.

And given what we've seen in consumer confidence that's affected the whole industry. We felt like it was a good time to put that bundle out there only in the digital space, by the way. So it complemented some of our other offerings, notably Mike's Hot Italian.

But the good news on that price point with the mini plus chips at $7.99, it was actually margin friendly to our franchise owners, and we think a very effective promotion that's done its job.

Andrew Barish
Jefferies LLC, Research Division

Makes sense. And then, Michele, just on the fourth quarter guide implies on same-store sales, a deceleration in both the 2- and 3-year trends. Is this just kind of the environment out there that's sort of tricky and choppy or anything else we should be aware of?

Michele Allen
Chief Financial Officer

Yes. I think we delivered that 3% transaction led comp for the quarter, which is a really great result in the environment and meaningfully above the industry. When we think about the fourth quarter comp, what we're really reflecting the continued progression of our marketing strategy as well as some continued softness in the overall consumer confidence.

Operator

Our next question comes from Leah Jordan with Goldman Sachs.

Leah Jordan
Goldman Sachs Group, Inc., Research Division

You talked about a strong line of sight on your new store development for the next 5 years. So curious what you would need to see to consider potentially accelerating the pace of that growth? And then also, how do you think about any impact from the recent rise in interest rates on the ability for franchisees to execute on the time line you've laid out so far?

Charles Morrison
CEO & Director

Well, thank you for the question. Look, first of all, we feel very confident in our ability to continue to accelerate our store development, both here in the U.S. as well as overseas. And I think both were demonstrated during the quarter with 80 openings during the quarter, very strong performance. We expect that to continue to grow. Our guidance is to be at that 8% or more for unit development, which we feel is very, very much in line.

We noted that we had developed a pipeline of over 1,600 stores. What I can tell you is there is strong, strong sentiment amongst our franchise owners continue to accelerate their development. Our real estate pipeline is quite strong, in fact, quite a bit above where it was a year ago. which gives us confidence going into 2027 and beyond that we'll continue to see strong development for years to come.

As it relates to the interest rates, we don't think that has any effect whatsoever on our franchise owners' ability to provide capital to grow. They are generally well capitalized, and our unit development costs are very low. In fact, amongst some of the lowest in the industry at just over $500,000 to develop a store. So much of that development can be generated out of cash flow generated from their operation as much as it relies on financing to be done.

Leah Jordan
Goldman Sachs Group, Inc., Research Division

That's very helpful. And just 1 follow-up. I think 1 of the reasons you highlighted for the new mini sub promo was about managing food costs for your operators. So see if you could catch us up on the commodity basket, how you're thinking about overall inflation for them as we head into next year. I think some proteins have come in, but what remains very inflationary. So puts and takes there to their basket and then just the mitigation tools that you have to support them?

Charles Morrison
CEO & Director

Yes. What I can say is that franchisee margins across the system were generally improved year-over-year and we're happy to see that, and that is driven partly by food costs as well as leverage on our transaction growth that we're seeing in the stores. Our basket has remained quite stable, if not improving in terms of overall cost margin for the business, which is really encouraging, especially given the fact that we've only taken a small amount of price throughout the year.

So I think we're in a great position right now despite what some of the macro commodity challenges have been for others.

Operator

Our next question comes from Andrew Charles with TD Cowen.

Andrew Charles
TD Cowen, Research Division

Great. Two for me. Just first on the catering. What do you attribute to the strength that you guys have seen in catering growth? And given the softer consumer environment that you spoke about, is this an area that you can put the foot on the gas with marketing and start to increase awareness of as well to help overpower the consumer environment?

Charles Morrison
CEO & Director

Yes. Look, I think, Andrew, it's a great lever for us. When we talked about -- historically, it's been about 3% of our sales. We think it can be as high as 10% over time. We've eclipsed 4% at this point. So we're feeling very good about the momentum there. There were a few key unlocks that we recognized in our approach to the market that we've developed against, and we're seeing good performance there. And really, the key here is the focus, encouraging our franchise owners to be outside their stores, engaging in the community, but also leveraging some digital platforms be it DoorDash, ezCater and others that we're partnered with and making sure that we're doing everything we can to capture every opportunity.

Our product is designed for catering and to be only at 3% a year ago, is a little disappointing. So a full court press on that right now should yield growth for the future.

Michele Allen
Chief Financial Officer

Disappointing, but a great opportunity.

Andrew Charles
TD Cowen, Research Division

And Michele, just 1 follow-up. Just what's the implied level of price within the fourth quarter guidance for same-store sales?

Michele Allen
Chief Financial Officer

Yes. We're not breaking out price versus traffic, but I would say consistent with what we've experienced year-to-date.

Operator

Our next question comes from Danilo Gargiulo with Bernstein.

Danilo Gargiulo
Bernstein Institutional Services LLC, Research Division

Charlie, I wanted to ask you about how Walmart entering into the restaurant delivery business could be changing the aggregator landscape in your views, any opportunities also from a catering standpoint. And specifically, like under what circumstances you will be considering partnering with Walmart to expand your delivery reach?

Charles Morrison
CEO & Director

Yes, we learned about that. It's interesting. I'll put it that way. I'm not sure that it means anything meaningful for Jersey Mike's to participate in it. I think we still need to understand what are the economics associated with a partnership like that and whether it's beneficial to Jersey Mike's.

I will say this, I don't think we need that business channel to help accelerate our growth. I think we've demonstrated by way of our more sophisticated digital marketing efforts, our work to attract a broader user base brings them in are working. So we're going to be very thoughtful before we would make a commitment to such a partnership.

Danilo Gargiulo
Bernstein Institutional Services LLC, Research Division

Great. And then on the social media spending. In the past, you were talking about how an increase in social media spending and exposure to younger consumers will be translating to sales lift almost rapidly. I'm wondering how you're determining what is the right media mix today? And under what circumstances do you see opportunity to accelerate the transition to more social media spending going forward?

Charles Morrison
CEO & Director

I think as we've talked about, we have not been spending at all in the social space over the years. And so part of the journey that we are on is learning more and more about the relative engagement of that younger audience, a more diverse audience coming into the brand. And we have been measuring their consideration and seeing meaningful lift in consideration among certain customer segments. There's kind of a complicated way of going about this, but it really comes down to are the messages connecting.

And if they're not, how we modify the message to get them to engage more and when they engage, how often will they transact with us and then when are they buying? How can we reengage with them and bring them back for more frequent occasions.

So this is part of the learning journey that will take quarters or years over time to perfect. But right now, a lot of the leading indicators, as I mentioned, have been really good, notably a sizable increase in consideration amongst women as well as a multicultural audience as well.

Operator

Our next question comes from Dennis Geiger with UBS.

Dennis Geiger
UBS Investment Bank, Research Division

I wanted to ask a little bit more about what you're seeing with your customer as far as any changes in purchase or visit behavior, recognizing you put up strong results in the quarter. But do you think you're seeing any greater impact from the difficult consumer backdrop that you referenced?

Charles Morrison
CEO & Director

Other than what I mentioned was a temporary shift that I think everybody saw in the latter part of the third quarter, which now has -- is behind us. We feel very good. I think we're right on pace from what we've expected. We are seeing customers at all levels enjoying the Jersey Mike's brand and frequency rates have been very consistent, amongst not only just our core customers, but in actively building new customer base and taking those new customers and making them now light, medium and heavy users of our brand.

The journey has been pretty much as we would have expected. So despite the macro backdrop, I think Jersey Mike's has demonstrated we are well outperforming everybody else in the space. And so I think we feel very good about where we sit today.

Dennis Geiger
UBS Investment Bank, Research Division

Helpful, Charlie. And then just one, you've got a bunch of sales drivers that clearly collectively are contributing to the sales and transaction growth strength and consistency. Can you give us a rough sense looking ahead medium to long term? Sort of how you loosely rank some of those drivers across the marketing and the menu innovation loyalty, maybe throughput, et cetera, anyway, to loosely force rank those?

Charles Morrison
CEO & Director

Yes. I think at the end of the day, it's all about frequency and it's frequency amongst various cohorts of our customers. And I'll reinforce that while we have a really robust loyalty platform, the size of that platform is relatively small compared to peers in the industry. And so our primary objective is to use these LTOs, these new products to engage a new set of consumers to bring them in through these digital channels, convert them into high-frequency users of the business.

In fact, again, our most loyal customers use us about once a month, everybody else, maybe twice a year. So there's a great multiplier effect, we believe, over time by bringing people into the brand, engaging them in a more one-to-one fashion and growing that over time. So that's it's all part of a collective strategy where each piece and part really play together.

The only area outside of that would be maybe in catering, which again, we're enjoying some really strong growth in catering. And we'd like to see that platform continue to build over time because a lot of that catering business is done before we even open our doors each morning. So that becomes a valuable use of our space and a great opportunity to grow in the future.

Operator

Our next question comes from John Ivankoe with JPMorgan Chase & Co.

John Ivankoe
JPMorgan Chase & Co, Research Division

The question is on new unit volumes. Certainly, Charlie, I heard your comments fiscal '26 class said to be above the fiscal '25 class. But I just wanted to get your sense as we look forward next 12 months, 24 months, how do you expect the unit volumes to trend relative to average unit volume, should we expect a normal kind of retail/restaurant waterfall that we kind of start low and build up over time?

Or might we be at least thinking about some smaller fill-in type of units that might achieve very high returns. But new unit volumes actually less than average unit volume. So I just wanted to get an update or a refresher of the relationship between new unit volumes and average unit volumes?

Charles Morrison
CEO & Director

Appreciate the question. What I'll say is this, yes, this year, if you compare the 2026 class against 2025 in the same time frame, we have seen our new stores coming out of the gate stronger than a year ago, which we're very excited by. And that's been a trend for the brand over a number of years that each successive vintage of stores continues to get stronger and stronger. And in this case, they're opening at or above the average for the brand. There is not an open low kind of growth mechanism here. We tend to see the stores open fairly strong, stabilize and then grow over time. So I think that will be more of the mix of new stores over the long haul to expect to see that.

But to your question on fill in, though, we don't see that there's much in the way of fill-in that would imply any cannibalization, as we mentioned, we mapped out the entire country. We identified over 1,600 distinct trade areas just for now that we can go develop which represents a lot of white space and derisks any challenge of cannibalization in the future. So all in all, feel very good about our pipeline of growth and the opportunity to accelerate that over time.

Operator

Our next question comes from Margaret-May Binshtok with Wolfe Research.

Margaret-May Binshtok
Wolfe Research, LLC

I just wanted to ask a little bit on the competitive environment. Are you seeing your direct peers leaning into value or discounting more? And how does that, I guess, position you guys in terms of your view on value and discounting going forward?

Charles Morrison
CEO & Director

We look at the competitive landscape as all eating occasions and limited service restaurants. We don't really focus our attention on only sandwich players. That said, I think we see across the entire landscape a lot of value orientation in the form of bundling, price offers, deep discounts and as such, I love the fact that our strategy maintains a value-oriented price point where needed. So our Mike's Hot Italian product, for example, is featured at $8.95. It represents a very positive margin impact for our franchisees as the food cost on that product is quite low.

And so being in that value orientation at a competitive price, coupled with our marketing strategies that are both yielding transaction growth for the business. Is a great place to be.

So we're not feeling that pressure per se, but we know that if we need to lean in on value, our mini bundle is a great example of that. Again, very food cost friendly, very customer-friendly at a $7.99 price point. So we can play in that game where we need to, but we respect and want to maintain that premium positioning for our product based on the quality and care that we put into every Jersey Mike's sub.

Margaret-May Binshtok
Wolfe Research, LLC

And just a follow-up, I just wanted to ask, I think last quarter, you mentioned that you guys were testing late night. Is that something that's still on the table? And any update there would be helpful?

Charles Morrison
CEO & Director

Yes. It's in our mix of opportunities, I'll put it that way. But we're not actively working that just yet. We think the opportunity exists because we do close our doors typically around 9 p.m. across the country today. And we know there is a late-night consumer. I think what we want to do first is broaden the consumer base, invite them into Jersey Mike's, make them active users and then bring them along for those late-night occasions down the road. It won't be every store if we do it. It will be selective based on the market dynamics in each and every market across the country.

Operator

Our next question comes from Gregory Francfort with Guggenheim Partners.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

Thanks for the question. Charlie, my first one is maybe going back to this -- the digital effort that you're doing to go after these new customers. What does your research suggest about the Hispanic, the female, the younger customer, are they eating subs to your competitors? Are they eating maybe sandwiches but not subs? Are you hoping to train them to kind of eat subs of the category? I'm just wondering what your research suggests about that opportunity?

Charles Morrison
CEO & Director

That's a great question. Thank you. They do eat sandwiches quite regularly. I think everybody pretty much on the planet does. And so we're happy about that part. However, what we do find in our research is that they may not know us for the variety we offer in our menu and the variety of flavors and options that we present to our consumers. And so you're seeing us take an active role in introducing really flavorful and relevant products. So a good example was our chicken salad promotion over the summer. Strong appeal to women really performed quite well for the brand. It's a fan favorite and certainly draws a broader consumer set in.

Mike's Hot Italian has strong appeal amongst a much broader and younger consumer base who is looking for strong flavor forward. Although we offer a great authentic deli style sub, our cheesesteak lineup, our hot subs and all of these new products represent the variety that, that broader consumer base is looking for. And it's our job to market those more aggressively to consumers to invite them in for that next occasion.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

Got it. Okay. And maybe 1 for Michele. You've gotten really good expense leverage in '26. And I think you mentioned kind of that's driven the outsized EBITDA growth this year. How much of that maybe rolls forward into next year and maybe the out year versus maybe how much was a rebasing for '26?

Michele Allen
Chief Financial Officer

Yes, there definitely is a rebasing for 2026. When you think about our Area Director transition that we are seeing a favorable impact to EBITDA growth. This quarter, it was about $9 million, and it will have a an impact on our full year growth rate. That's why we're looking at 20% in the third quarter and even a much higher than algo growth rate the full year.

But we will begin lapping that in -- throughout 2027. I would say, a little less in the first quarter and the second quarter, and then there will be no impact on the year-over-year come likely third quarter.

Operator

Our next question comes from Lauren Silberman with DB.

Lauren Silberman
Deutsche Bank AG, Research Division

I want to start following up with Dennis's question. The slowdown that you saw later in the quarter, did that show up more in traffic or check? And as trends have improved in Q4, do you think that's more Jersey Mike's specific? Or did you see the industry also improve the September slowdown?

Charles Morrison
CEO & Director

I can't comment on what the industry has seen in the broader sector other than I think that particular event was a bit short lived. Again, you had some negative consumer sentiment around some macro issues that affected everyone. So for us, check really wasn't the issue. Check's been a small part of our comp over the entire year. So I would just give you that. But as it relates to the broader macro restaurant landscape, I can't comment on where I think everybody else shook out on that.

Lauren Silberman
Deutsche Bank AG, Research Division

Okay. Understood. And then I think you guys are in the process of changing your food distributor to predominantly, I believe, performance. Can you just talk a little bit about the decision behind that and benefits that you see moving distributors, whether that be to franchisees or yourself?

Charles Morrison
CEO & Director

Yes. That is something we looked at and evaluated as we came to the organization. A lot of this centers on the fact that it was an opportunity for us to consolidate and create some efficiencies, quite frankly, in our distribution network over time. And so we have been under some long-standing agreements that were -- that needed to be rebuilt.

And so we did a proper exercise to look at the marketplace and establish what we felt was the right model for this business on a long-term basis. And so we are in the just early stages of that migration. It will take some time to make that happen.

We do anticipate that on the back side of that, we're going to have a fantastic set of partners supporting our business for the long term.

Operator

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

Sara Senatore
BofA Securities, Research Division

Maybe just 2 questions on both kind of follow-ups. One is on the LTO calendar, you brought Mike's Hot back. I guess as you think about the sort of pipeline, is that how you'll think about it sort of the 2 to 3, one is new and one is kind of return from the pantry does your pipeline look pretty full? Or does some of that have to wait until you make the shift wholesale shift to the new distributor as you think about like partnering on some of the -- maybe the upstream kind of production that could happen that maybe benefit from the in-store labor?

I'm just trying to understand kind of the idea of bringing something back when you're still fairly new to having LTOs on a regular basis.

And then just a quick question for Michele. You mentioned financial flexibility in the context of the special dividend. I think as you said, your buybacks are kind of constrained by the need for the float. So what else is there? I don't think that the system needs any kind of infusion of cash from you, but just wanted to understand that comment?

Charles Morrison
CEO & Director

Let me start first on the new product pipeline. First and foremost, the distribution change has 0 to do with any sort of product innovation. That's simply just a transfer of product from one provider to another. So there's no impact whatsoever there. I mentioned earlier about the new product pipeline is one that we've been working on over time. What we love about this brand is we have a lot of flexibility within our menu to be able to utilize existing SKUs to present them in a differentiated way and quite frankly, play on some consumer favorites that they've developed themselves over years while they've enjoyed Jersey Mike's.

So the Mike's Hot Italian is a good example of that. Chicken salad was a product that also we pulled back out of the pantry, so to speak. -- this year. And quite frankly, I think that's a very thoughtful strategy to bring a product back from time to time. Other brands have demonstrated that over many years. And I think for Jersey Mike's, that plays quite well for us.

So I think there is a mix of new. There might be some times where we just feature something that's right on the menu as well. We love our Philly cheesesteaks. We'll put them up against anybody's and consumers need to know that and experience that as well. So a good example of where we have a lot of flexibility to promote our products.

And then Michele?

Michele Allen
Chief Financial Officer

Sara, yes, I think you can expect that we're going to generate predictable cash flow and then consistently return our excess cash to shareholders. And what we mean by maintaining financial flexibility is really that the mix of share repurchases, special dividends, regular way dividends, that's likely going to change depending upon market conditions and the relative valuation.

Operator

Our next question comes from Logan Reich with RBC Capital Markets.

Logan Reich
RBC Capital Markets, Research Division

I just had one on the EBITDA in Q3 came a bit ahead of the guidance of at least 13% in the quarter. Just curious what the driver of that upside was versus your guidance? And any expectation for that driver to continue to flow through the model in Q4 and into '27?

Michele Allen
Chief Financial Officer

Yes. It really was just our advertising fund performing a little bit better than we had initially expected. That drove, I think, of $5 million or $6 million.

Operator

Our next question comes from Sharon Zackfia with William Blair.

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

You mentioned that you expect to have some new international commitments coming up in the coming months. Can you talk about how you're prioritizing what international markets to go into after the U.K.?

Charles Morrison
CEO & Director

I could barely -- I couldn't hear you very well. Sharon. Can you repeat the question?

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

Yes. Can you hear me better now?

Charles Morrison
CEO & Director

Yes. Sorry about that. Yes.

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

Okay. Yes. Sorry about that. You talked about announcing some new international market commitments likely in the coming months. Can you talk about how you're prioritizing what international markets to focus on after the U.K.?

Charles Morrison
CEO & Director

Yes, absolutely. Sorry about that. So we are working actively in multiple markets around the world, seeking partners that we believe are going to be best-in-class for Jersey Mike's to grow the business over time. We had mentioned previously in a study and report we did that we identified 14 priority markets that, quite frankly, are all across the world, so it includes markets in Europe, the Middle East, Asia and the like. I would say the Middle East is a little challenging right now. But if you look across the rest of the world, there's a lot of active interest in Jersey Mike's.

And we do anticipate that over the course of the next 6 to 12 months, we'll be bringing new markets on board. Our primary focus is the right partner, with the right market and bringing those along. So we're not rushing this in any way. We want to do it right. But over time, you will see us continue to build new markets in the international space.

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

And second question, I know -- can you still hear me, okay?

Charles Morrison
CEO & Director

Yes, yes, yes.

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

Okay. Sorry about that. I know you've been working on broadening your brand reach. And I think the macro environment has been more challenging than maybe you would have expected. Is there any particular group, whether it's younger, Hispanic or women where this macro environment is making it a bit tougher for you? Or any of those groups where you're maybe overachieving versus the others?

Charles Morrison
CEO & Director

Yes. I think the answer to that is really no. If you reflect on our historical customer base and the mix of consumers that make up our customer base, it has predominantly been generally a little bit older, a skewed male, higher income, less diverse. And so there really wasn't a market there for us to go -- that we were at risk of. So as we've been inviting this broader demographic in, we're actually seeing good results, both in terms of consideration, in terms of purchase behavior and engagement with our loyalty platform as an example. And so we feel very good about it.

Could it be going faster if there wasn't the macro backdrop, possibly. But we're pleased with the fact that we are acquiring guests across all of those different cohorts.

Operator

Our next question comes from Zach Fadem with Wells Fargo.

Zachary Fadem
Wells Fargo Securities, LLC, Research Division

Could you compare the performance of Mike's Hot Italian versus Chicken Salad in terms of customer response, order mix, maybe new customer incrementality and as you think about the LTO calendar next year, any update and philosophy in terms of going high versus low with respect to the $9 price point?

Charles Morrison
CEO & Director

I would say Mike's Hot Italian and the Chicken Salad sandwich have been quite similar in terms of their overall performance whether it might be a different demographic that each one serves each has generated a strong level of incrementality or finding new customers to enjoy that product.

Mix levels have been relatively similar as well. We enjoyed also in both cases, a long-tenured promotion in the LTO, which I'm very happy about. And so as I think about the future, we really haven't factored in what price looks like on some of these. I think prices is also relative to the food cost impact to our franchisees.

So we always want to present the best and most compelling value to our consumers without negatively impacting the P&L. We've been able to do that at an $8.95 price point for both Chicken Salad and Mike's Hot Italian, which demonstrates the flexibility we have in the brand. So over time, hard to tell where we'll end up on that.

Zachary Fadem
Wells Fargo Securities, LLC, Research Division

Got it. And on the customer diversification strategy, how would you characterize the teams success with respect to shifting the mix towards lower income or value customers? And to what extent maybe we should anticipate any additional actions with respect to value or promo on your part?

Charles Morrison
CEO & Director

Yes. I don't know that we need value to be able to acquire a differentiated group of customers, meaning deep value discounts, if you will. What we've presented is a strong value to a very premium product. And that's how we want to do this over time, and it's been very successful. As we mentioned, I mean, we're driving comps primarily by transactions, not by price as others have seen in the place. So I would submit that over time, we're going to continue to be relevant to those customers in our marketing efforts.

Historically, we haven't even spoken to them. We've only been on national TV. We haven't been engaged in the digital space. And so you're seeing us use influencers, clever means of advertising beyond what the norm has been over a period of time to try and engage consumers and bring them along in the story of the brand and then invite them to try the brand or use our products by way of some of these new products.

So I think over time, you're going to see that continue to play out. It takes time. But again, very encouraged by the increasing level of consideration amongst these cohorts that are relatively new to the brand as well as their actual purchase behavior over time as well.

Michele Allen
Chief Financial Officer

And then I would just add to that, with Q3 outperforming the overall industry and again, primarily transaction led, we're winning today without having to lean in heavily on that value orientation.

Operator

Our next question comes from Jacob Aiken-Phillips with Melius Research.

Jacob Aiken-Phillips
Melius Research LLC

So just first on catering. How broadly distributed is the catering growth across the system? And like what separates the franchisees who have built a meaningful catering business from the underpenetrated ones? And what are you doing to kind of help that second group catch up?

Charles Morrison
CEO & Director

Yes. I think what we've found is franchise owners that are actively involved in their communities, reaching out to schools, churches, businesses and the like and engaging the catering business tend to have overall stronger results for their business as well as a much higher catering mix. And so a lot of it is about getting out in the marketplace.

What we can do to help them is improve the platform overall, provide access to catering opportunities that they may not go out and find outside of their stores through some of the channels we mentioned like ezCater, DoorDash and the like. and those become valuable for us over time.

And so really, the focus there is just the awareness of catering, the importance of what it means to the business. And taking our fair share, quite frankly, of the market for catering out there that we haven't had in the past.

Operator

We've now reached the end of our question-and-answer session. Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. Please disconnect your lines, and have a wonderful day.

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