Noodles & Company (NDLS) Q2 2026 Earnings Call Transcript

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Q2: 2026-07-24 Earnings Summary

EPS of $0.18 beats by $0.23 | Revenue of $127.04M (0.48% Y/Y) beats by $7.64M

Noodles & Company (NDLS) Q2 2026 Earnings Call July 24, 2026 8:30 AM EDT

Company Participants

Michael Hynes - Chief Financial Officer
Joseph Christina - President, CEO & Director

Conference Call Participants

Todd Brooks - The Benchmark Company, LLC, Research Division

Presentation

Operator

Good morning, and welcome to today's Noodles & Company's Second Quarter 2026 Earnings Call. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to introduce Noodles & Company's Chief Financial Officer, Mike Hynes. Thank you, sir. You may begin.

Michael Hynes
Chief Financial Officer

Thank you, and good morning, everyone. Welcome to our second quarter 2026 earnings call. Here with me is Joe Christina, our Chief Executive Officer.

I'd like to start by going over a few regulatory matters. During the call, we may make forward-looking statements regarding future events or the future financial performance of the company. Any such items should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Such statements are only projections, and actual events or results could differ from those projections due to a number of risks and uncertainties, including those referred to in this morning's news release and the cautionary statement in the company's annual report on Form 10-K and subsequent filings with the SEC.

During the call, we will discuss non-GAAP measures, which we believe can be useful in evaluating the company's operating performance. These measures should not be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP. A reconciliation of these measures to the most directly comparable GAAP measures is available in our second quarter of 2026 earnings release. To the extent that the company provides guidance, it does so only on a non-GAAP basis and does not provide reconciliations of forward-looking non-GAAP measures. Quantitative reconciling information for these measures is unavailable without unreasonable efforts.

With that, I'd like to turn the call over to Joe Christina, our Chief Executive Officer.

Joseph Christina
President, CEO & Director

Good morning, everyone, and thank you for joining us. This quarter marks one of the strongest performances since Noodles became a publicly traded company. That's a milestone our entire team is incredibly proud of and one that reflects just how far we've come in the past year. More importantly, these results showcase that progress is happening faster than even we anticipated, and they reinforce our confidence in the long-term sustainability of the improvements we are making in the business.

When we spoke with you last quarter, our strong momentum had become consistent across the system. Our second quarter results proved we've not only sustained it, but we have further accelerated it to yet another important milestone as our restaurant-level margins expanded by more than 400 basis points year over year to over 17%, a level of margin not seen at Noodles in the past 5 years.

Adjusted EBITDA increased approximately 80% in the second quarter, and through the first half of the year, we more than doubled adjusted EBITDA compared to the same period last year. Our comparable restaurant sales have now been positive and increasingly positive for the last 18 months. And our comparable restaurant sales and positive traffic growth have far exceeded the fast casual Black Box Index for the last 12 months.

The strong sales performance has continued in the third quarter, with quarter-to-date company-owned comparable sales up approximately 10%. The accelerated comparable restaurant sales, significantly improved margins, the success of our portfolio optimization plan, and resulting in dramatic improvement in profitability are all evidence that the operating model we built is working well.

As Mike will describe in more detail, given our results to date and our outlook for the second half of the year, we have raised our fiscal 2026 guidance for revenue, margins, and adjusted EBITDA. When combined with our expectations to further pay down debt with free cash flow, we now expect our year-end debt balance to be at or below 3x 2026 adjusted EBITDA.

What gives me confidence is how we've achieved those results. We've got here by consistently executing the fundamentals that we know can drive this business. First, we're running better restaurants. Everything starts with delivering a consistently great guest experience, and our teams continue to raise the bar every day. Second, we've created great food that gives guests more reasons to choose Noodles by bringing relevant, craveable innovation to the menu while staying true to what makes our brand unique. Third, we're engaging those guests through a more disciplined and connected marketing approach that builds awareness, strengthens loyalty, and attracts new guests to the brand. Fourth, we have and will continue to close restaurants that predominantly are in proximity to higher performing nearby restaurants.

Given our high mix of off-premise sales combined with strong brand recognition, this is resulting in a transfer of approximately 1/3 of the sales from the closed restaurant on average, which further raises the Average Unit Volume at the nearby restaurants, improving efficiencies and resulting margins. I should add that a significant majority of the sales and traffic growth has been realized over and above the sales transfer benefit from closed restaurants, as evident that our initiatives and the implementation of our strategy is working across the board. Together, those priorities reinforce one another, creating a business that's more profitable, more resilient, and positioned for sustainable long-term growth.

The biggest difference today is the culture we build across the organization. Our team members believe they can influence outcomes. They take great ownership of the guest experience, holding themselves and one another accountable, and embracing a mindset of continuous improvement. That's creating better execution in our restaurants every day, and it's the reason we believe that progress we're making is not only sustainable, but will further grow.

Let me start with our restaurants. Everything begins with the guest experience. The commitment we've built to running more consistent restaurants hasn't changed. We're still focused on the new operational playbook introduced last year, because we know it's the right one. Better hospitality, better execution throughout the day, particularly during dinner, greater accountability, consistently doing the fundamentals well. What has changed is how deeply those behaviors have taken hold across the organization. Our teams have embraced the idea that every interaction with a guest matters, and that the small decisions they make every day directly influence restaurant performance.

We aren't looking for one big breakthrough. We're focused on making hundreds of small improvements every day, and together, those improvements create a meaningfully better guest experience. The culture shift within the organization is shining through to a new and focused mindset. Winning is no longer something our teams hope for. It's become what they expect. They believe they can influence outcomes, and that confidence is spreading across the organization. You can feel it in our restaurants. There is a renewed sense of pride, ownership, and energy throughout the system.

We're also seeing that momentum reflected in the strength of our teams. During the quarter, nearly 3 quarters of our general manager openings and approximately 70% of all restaurant manager positions were filled through internal promotions. That tells me we're building a strong leadership pipeline and creating new opportunities for our team members to grow their careers with Noodles. We're also continuing to improve hourly retention, creating greater stability in our restaurants and helping our teams deliver a more consistent experience for our guests.

Running a better restaurant is more than an operational initiative. It's the foundation of everything else we do. When we consistently deliver a great restaurant experience, we strengthen our brand, earn more repeat visits, and create long-term relationships with our guests. Second, we're continuing to strengthen demand through a disciplined approach to menu innovation. Our goal isn't simply to launch new items. It's to build a predictable innovation pipeline that keeps Noodles relevant, gives guests new reasons to visit, and reinforces what makes our brand unique.

During the quarter, we leaned into one of our greatest strengths, our Asian menu. While guests know us first and foremost for great Mac & Cheese, we long offered a diverse lineup of globally inspired noodle dishes, and this quarter we intentionally celebrated that heritage. Guided by guest feedback and historical performance, we've complemented our core Asian offerings with the return of favorites like Indonesian peanut sauté and chili garlic ramen, 2 dishes guests had been asking us to bring back.

The response reinforced that this strategy is resonating. Our Asian category mix increased by 42% during the promotional period, with that percentage of guests ordering an Asian entrée growing from 12.5% before the promotion to 17.8% during it. Just as importantly, our core entrées remained strong while these limited-time offerings drove incremental growth for the category, demonstrating that thoughtful innovation can expand guest choices without sacrificing the performance of our everyday favorites.

We were also encouraged by the quality of the guests we attracted. Approximately 65% of guests who participated in the promotion were new to the brand, while the remaining 35% were existing guests who tried an Asian entrée for the first time. We look forward to reinforcing the learnings and success of this strategy and creating a stickiness to these new guests by launching new ramen dishes in the fourth quarter. We're excited to be giving more detail on that front as we get closer to the launch.

We saw the same disciplined approach with our chicken artichoke and asparagus rigatoni LTO that launched in May. The dish combined fresh seasonal ingredients with a flavor profile that resonated with guests. And we amplified that relevance through our partnership with Chrissy Teigen's Cravings brand, which especially attracted a target guest demographic. By pairing compelling culinary innovation with the right brand partner and a strategic marketing plan, we created a launch that generated excitement, expanded awareness, and reinforced that Noodles can deliver food that's both craveable and culturally relevant. That's exactly the role we want innovation to play.

Our limited time offerings are becoming more than promotional events. They are helping tell the Noodle story, keeping the brand culturally relevant, celebrating the strength of our core menu, and reintroducing guest favorites when the timing is right, all of which create reasons for both loyal and new guests to engage with the brand and visit us more often.

We also continue to sharpen how we communicate what makes Noodles different. Through ongoing guest research, we know that fresh prepared meals and fresh ingredients remain among the strongest drivers of quality and value perception, particularly with younger consumers. That led us to launch our Made Right, Right Now campaign, which highlights something that's always been true about our restaurants. Every bowl is prepared to order, cooked over an open sauté pan, and doesn't begin until the guest places their order. Rather than simply telling guests we're fresh, we're showing them the care, craftsmanship, and real-time preparation that makes every meal distinctly Noodles.

That message has clearly resonated. Made Right, Right Now was our strongest performing creative campaign of the quarter across paid media, delivering our highest video completion rates while driving more website visits and more attributed digital and in-restaurant purchases than any other creative across Meta, TikTok. To me, that validates that when we pair meaningful consumer insights with authentic storytelling, we create evergreen brand messaging that not only builds awareness, but also drives guest actions. It's another example of how we've strengthened our brand positioning while reinforcing the reasons guests choose Noodles over traditional fast food.

That momentum has continued into the third quarter with the launch of Mac Month, including our exclusive partnership with Coca-Cola to introduce the Fanta Vanilla Cherry Spritz, a beverage developed specifically to pair with our Mac & Cheese lineup. Guest response has been encouraging, particularly among younger consumers, and the exclusive offering has generated meaningful earned media and social conversation that continue to shine a spotlight on our Mac & Cheese platform throughout the month. More importantly, it has demonstrated how we're creating differentiated experiences that generate excitement around the brand while giving guests new reasons to choose Noodles.

Before I move on, I'd like to leave you with a quick preview of what's ahead. Next week, we'll introduce our newest limited time dish, inspired by strong guest demand for a baked offering that performed exceptionally well in testing. We look forward to officially sharing it with our guests on August 5, and we believe it reflects the disciplined, guest-led innovation pipeline we're building at Noodles. It should help further boost our reach and results in the third quarter, and I hope you'll keep an eye out next week to see what's coming.

Finally, we're seeing the benefit of a more disciplined and connected marketing engine. Over the past year, we've built a marketing system where brand performance and consumer insights all work together rather than operating independently. That allows us to move beyond one-off campaigns and create an ongoing dialogue with our guests. More importantly, the system is driving a healthier and more balanced growth model, especially through our digital channels, where second quarter digital channel comparable sales increased 18%. As part of that digital channel growth, we're growing traffic among our rewards members while continuing to attract new guests through relevant brand messaging, compelling food news, engaging social content, and smarter media investments rather than relying primarily on discounting.

We're also seeing continued success in reaching younger consumers by aligning our media strategy with how they discover brands today. Whether it's leaning into culturally relevant partnerships, engaging creators and influencers, or investing in channels where younger audiences spend their time, such as TikTok, YouTube, and Pinterest, we're expanding awareness while making our marketing dollars work harder. In the second quarter, we nearly doubled total media impressions compared to a year ago while increasing spend only by approximately 6%, a reflection of both greater efficiency and more disciplined execution.

Just as importantly, every campaign, every offer, and every menu innovation now fits within a broader strategy. Each touchpoint is designed to build the brand, deepen guest relationships, and create sustainable traffic over time, not simply generate a short-term sales lift. Another example of that is our Boost Weeks. These are strategically timed loyalty events that serve a very specific purpose, bringing more guests into our reward ecosystem and creating opportunities for them to experience the brand. Unlike broad-based discounting, these targeted offers allow us to reward loyal guests, attract new and lapsed guests, and encourage repeat visits during key periods throughout the year. They're an important part of our strategy because they help build lasting guest relationships while remaining disciplined in how we invest our promotional dollars.

Based on the success of these Boost Weeks to date, we plan on continuing them into the second half of the year and beyond. That's the marketing organization we're building. It's more disciplined, more connected, and more accountable. And as these capabilities continue to mature, we believe they're becoming an increasingly important competitive advantage for Noodles.

When I step back and look at the progress we've made, I believe it's clear that Noodles is back. Not because of one quarter or one campaign, but because we've built an organization that's consistently executing. We're running better restaurants, creating food guests crave, and engaging them with smarter marketing. That's the foundation for sustainable growth, and it's what gives me confidence in where we're headed. There's still work ahead of us, and we're never going to declare victory. Continuous improvement remains part of who we are. But quarter after quarter, we're proving that progress we're making is sustainable. I'm incredibly proud of the team for the commitment they've shown and the results they've delivered. And I'm excited about the opportunities we see as we move throughout the second half of the year.

With that, I'll turn the call over to Mike to review our financial results.

Michael Hynes
Chief Financial Officer

Thank you, Joe. In the second quarter, our total revenue was $127 million, which was a $600,000 increase compared to last year, driven by strong comparable sales growth, mostly offset by the closing of certain locations. System-wide comp restaurant sales during the second quarter increased 10.3%, including an increase of 11.4% at company-owned restaurants and an increase of 5.5% at franchise restaurants. Company comp traffic during the second quarter increased 7.6%, and average check increased 3.8%, inclusive of 2.1% effective price during the quarter.

Company Average Unit Volumes in the second quarter increased 15.9% to $1.57 million. Our strong comp sales growth, which was a further acceleration from our first quarter sales growth, continues to drive impressive year-over-year margin growth. Our restaurant contribution margin in the second quarter increased 440 basis points to 17.2% from 12.8% in the second quarter of 2025, resulting in a much strengthened operating model. Cost of sales in the second quarter was 24.9% of sales, a 160 basis point decrease from last year, which was driven by menu price, favorable menu mix shift, and lower food waste, partially offset by modest inflation. Our overall cost of sales inflation in the second quarter was 0.7%.

Labor costs for the second quarter were 29.4% of sales, which was down 230 basis points from the prior year, primarily due to the benefit of sales leverage and labor efficiencies, partially offset by wage inflation. Hourly wage inflation in the second quarter was 1.6%. Occupancy costs in the second quarter decreased to $10.2 million compared to $11.4 million in 2025 due to a reduction in our company-owned restaurant count over the last 12 months. Other restaurant operating costs for the second quarter were 20.3% of sales, which was up 60 basis points from the prior year. The increase was primarily driven by higher third-party delivery fees from higher third-party delivery channel sales, partially offset by lower marketing spend.

G&A in the second quarter increased to $13.9 million compared to $12.4 million in 2025, primarily due to an increase in incentives-based compensation, partially offset by decreases in wages and professional fees. Net loss for the second quarter was $4 million, or a loss of $0.67 per diluted share, compared to a net loss of $17.6 million, or a loss of $3.04 per diluted share last year. The loss in the second quarter of 2026 included a $4.8 million non-cash impairment charge, primarily related to our decision to close certain restaurants. Our adjusted EBITDA in the second quarter increased 79% to $10.8 million compared to $6 million in the second quarter of 2025.

Our second quarter capital expenditures totaled $1.5 million compared to $3.4 million in 2025. At the end of the second quarter, we had $1.3 million of available cash and our debt balance was $105.4 million, which was a reduction of $1.4 million from our debt balance at the end of the first quarter, despite having an extra payroll cycle in the second quarter. In the second quarter, we closed 2 company-owned restaurants and 2 franchise restaurants. Our portfolio optimization project continues to be an important lever in our overall business improvement.

In the second quarter, we continue to see a significant transfer of sales from recently closed restaurants to nearby Noodles locations, which we estimate to have benefited our second quarter comp restaurant sales by approximately 250 to 300 basis points. This sales transfer also creates a step change and an ongoing increase to the AUVs at the restaurants that were in proximity to the closed restaurants, which results in efficiencies across the board, helping our margin level to grow to a very respectable 17.2% for the quarter. In fact, we have seen a greater reach in sales transfer to other restaurants than we originally estimated, which is attributable to our strong off-premise sales mix.

While portfolio optimization provided a meaningful benefit, the significant majority of the comp restaurant sales increase was driven by the improvement in our menu innovation and other underlying business fundamentals that Joe highlighted. Overall, we are extremely pleased with our results, which continue to exceed our expectations. Our accelerated sales growth and effective cost management are delivering contribution margin, adjusted EBITDA, and free cash flow improvements that are well ahead of what we originally expected coming into 2026.

As we look forward to the rest of the year, we're raising our full year 2026 guidance to the following: Total revenue of $485 million to $500 million, including comp restaurant sales growth of 8% to 11%. Restaurant contribution margin between 16% and 17%. General and administrative expenses of $51 million to $54 million, inclusive of a stock-based compensation expense of $2.5 million to $3 million. Depreciation and amortization expense of $24 million to $25 million. Interest expense of $10 million to $11 million. Adjusted EBITDA between $34 million to $38 million. One new franchise restaurant opening. Restaurant closures, we expect 30 to 35 company-owned restaurants and 5 franchise restaurants. And we estimate total 2026 capital expenditures of $9 million to $10 million.

We continue to expect to be free cash flow positive and have the opportunity to reduce our debt balance in 2026 by approximately $10 million, inclusive of the $4.8 million reduction year-to-date through the second quarter. Based on our full year adjusted EBITDA guidance and a projected debt balance of approximately $100 million at the end of 2026, we expect our debt balance to be at or below 3x adjusted EBITDA, which is a substantial improvement to our overall financial strength from where we were a year ago. And in connection with our ongoing review of strategic alternatives, we are continuing to review options with respect to the maturity of our credit facility in the third quarter of fiscal year 2027. For further information regarding our 2026 expectations, please see the business outlook section of our press release.

With that, I'd like to turn the call back over to Joe for final remarks.

Joseph Christina
President, CEO & Director

Thank you, Mike. As we close today, I'll leave you with this. When we began to implement our new strategies over the last 12 months, we committed to building a stronger Noodles by having better food, running great restaurants, making smarter investments and executing with discipline. Today it's clear, we're delivering on those commitments. As stated earlier, our restaurant level margins expanded by more than 400 basis points year over year. Adjusted EBITDA increased by approximately 80% in the second quarter, and through the first half of the year, we more than doubled adjusted EBITDA compared to the same period last year.

We've also delivered the strongest second quarter comparable sales performance since becoming a publicly traded company, which is far exceeding the industry Black Box results. Those results reinforce what we've been saying all year. The momentum at Noodles is real. Our operating model is working, and consistently executing is translating into stronger financial performance. When considering our further menu innovation and focus on additional improvements in the second half of the year and beyond, we are very excited at what lies ahead for Noodles & Company.

Thank you for your continued confidence in Noodles. We look forward to updating you next quarter.

I'll turn the call back over to the operator.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question is from Todd Brooks with Benchmark StoneX.

Todd Brooks
The Benchmark Company, LLC, Research Division

Congrats on the continuing improvement in the results that you're seeing. It's very impressive. So kudos to you guys.

Joseph Christina
President, CEO & Director

Thank you, Todd.

Michael Hynes
Chief Financial Officer

Thank you.

Todd Brooks
The Benchmark Company, LLC, Research Division

Joe, I wanted to spend some time on innovation, and I know we're not going to get a lot of detail about specific items, but you were talking about the success that you're seeing with some of the Asian inspired dishes and the fact that that's bringing really kind of a new audience to the brand as well. As you talked about a broader ramen platform going out, two things. One, how much can we broaden out this offering? And two, is there a point where it becomes, instead of LTO driven, more of a permanent menu item?

Joseph Christina
President, CEO & Director

Well, thanks for the question, and yes, I think part of what I'm very proud of from the innovation team is we have now a consistent testing process out in our restaurants and we've got an 18-month calendar for items that we believe can be relevant to the brand, whether it's an LTO or a permanent item. And you're going to see some great news for our Q4 ramen launch. We're finishing up the testing of multiple ramens, ones that we believe can be part of the fourth quarter launch, as well as future LTOs that keep that very important innovation going in our restaurants. And so we haven't determined whether it's an LTO or a permanent item yet, but the offerings that will be coming in Q4 are going to be very exciting and it's going to be multiple offerings at that time.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay, great. Thanks. And can you remind us, and you talked about the baked launch coming up in early August, and then you've talked about the ramen launch in Q4. What are we lapping against from an innovation standpoint last year in the second half? And how much stronger do you feel like these offerings may look relative to what you guys rolled out menu-wise last year?

Joseph Christina

President, CEO & Director

Yes, we're lapping against the chili garlic ramen launch from last year at the end of September and into the back half of Q4. And we're really confident in the items that we've been testing, that our innovation is very strong, and we believe that ramen is going to be part of the conversation of where you go when you want ramen in the restaurants. And so we feel really strong and good about what's coming in the back half of the year.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay, great. And then when you're talking about just the improvement you made on the marketing side of the operation, and really that growth in impressions on a 6% dollar increase in spend is really impressive, but you talked about Boost Weeks also as a component and how you can lever that loyalty base that you've built. Can you remind us where the loyalty base stands? And, Mike, I don't know if you can give me kind of a comparison, how many Boost Weeks we're running this year versus prior years, and do they match up, or -- just trying to figure out if this is a tool that we're kind of pulling that lever more here in '26.

Michael Hynes

Chief Financial Officer

Yes, our rewards program is about 25% of our sales currently. And just as a reminder, digital in total is just about 60% of our sales, so a real strength for the company. Boost Weeks is something that we really leaned into in the back half of last year, and so we are going to have, for the full year '26, more of those. We've seen great results with them, great engagement with our rewards members, and it's something we want to continue doing.

Todd Brooks

The Benchmark Company, LLC, Research Division

Okay, great. And then just a final one if I can. If you think about the company's same-store sales versus the franchisee's same-store sales, it seems like the spread really kind of grew this quarter. Is there something that drove the strength at the company level? Or just can you help explain kind of that 600-basis-point delta?

Michael Hynes

Chief Financial Officer

Yes, we're watching that too, Todd. And I think what we can say right now is that we see a lot of variability in the franchise group and their performance. And it really depends by market. It's still a relatively small group to the overall system. And so it doesn't take much variability to create that disconnect with the company. But we see overall health across the system. We see some of our franchise groups that are outperforming the company average, and so we're encouraged by just the breadth of the same-store sales growth and what it means to the strength of our system.

Operator

With no further questions, this will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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