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Potbelly Corporation (NASDAQ:[PBPB](#)) Q1 2025 Earnings Conference Call May 7, 2025 5:00 PM ET

Company Participants

Adiya Dixon - Senior Vice President, Chief Legal Officer and Secretary

Bob Wright - President and Chief Executive Officer

Steve Cirulis - Senior Vice President and Chief Financial Officer

Conference Call Participants

Jeremy Hamblin - Craig-Hallum Capital Group

Alex Sturnieks - Lake Street Capital Markets

Matt Curtis - William Blair

Todd Brooks - The Benchmark Company

Operator

Good afternoon, everyone, and welcome to Potbelly Corporation's First Quarter 2025 Earnings Conference Call.

Today's call is being recorded. [Operator Instructions]

On today's call, we have Bob Wright, President and Chief Executive Officer; Steven Cirulis, Senior Vice President and Chief Financial Officer; and Adiya Dixon, Senior Vice President, Chief Legal Officer and Secretary of Potbelly Corporation.

At this time, I'll turn the call over to Adiya Dixon. Please go ahead.

Adiya Dixon

Good afternoon, everyone, and welcome to our first quarter 2025 earnings call. By now, everyone should have access to our earnings release and accompanying investor presentation. If not, they can be found in the Investors section of our website.

Before we begin our formal remarks, I need to remind everyone that certain comments made on this call will contain forward-looking statements regarding future events or the future financial performance of the company. Any such statements, including our outlook for 2025 or any other future periods, should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not guarantees of future performance nor should they be relied upon as representing management's views as of any subsequent date. Forward-looking statements involve significant risks and uncertainties, and events or results could differ materially from those presented due to a number of risks and uncertainties.

Additional detailed information concerning these risks regarding our business and the factors that could cause actual results to differ materially from the forward-looking statements and other information that will be given today can be found under the Risk Factors heading in our filings with the Securities and Exchange Commission, which are available at sec.gov.

During the call, there will also be a discussion of some items that do not conform to U.S. Generally Accepted Accounting Principles or GAAP. Reconciliations of these non-GAAP measures to their most directly comparable GAAP measures are included in the appendix to the press release and investor presentation issued this afternoon, both of which are available in the Investors tab on our website.

And now I'll turn the call over to Potbelly's President and CEO, Bob Wright.

Bob Wright

Thank you, Adiya. Good afternoon, and thank you for joining our call today.

I'm excited to outline a strong start to 2025 here at Potbelly. Our finish to the first quarter continued to showcase Potbelly as the growth company that we've become. We delivered system-wide sales growth, positive same-store sales, growth in our franchising efforts as well as another quarter of strong profitability.

Before we dive deeper into the results, I'd like to personally thank all of our Potbelly team members from our frontline associates to our support center employees as well as our franchisees and their teams for making all of this possible. The combination of our years-long consistent strategy and the team's tenacious focus on execution and success is at the heart of our growth. They are the backbone that make Potbelly the most loved sandwich brand in every neighborhood.

Like I said, I'm very pleased with how we closed the quarter. As the negative impacts of January and February weather abated, the underlying demand of the Potbelly brand was on full display. We delivered same-store sales growth of 0.9% for the full quarter, well ahead of our expectations with the March comp growth exemplifying what we know this brand is capable of. In addition, through our team's disciplined approach to managing both shop level and corporate costs, we were able to drive year-over-year shop-level margin expansion to 13.7% and posted a healthy corporate profitability with adjusted EBITDA of \$5.5 million, again, well above the high end of our guidance.

Our first quarter results are a testament to the underlying strength and trends of our business, including consumer demand for Potbelly. They further demonstrated that deepening relevancy with our customers and continued operational excellence are critical to our success. We're taking the actions necessary to drive accelerated growth now and into the future.

First, driving comp sales growth through menu innovation and investments in our customer-facing digital assets as well as data and analytics. Second, growing and modernizing our shop footprint, particularly through accelerated unit openings by our franchisees. And lastly, exercising prudent cost controls to ensure that we achieve balanced growth while also pushing incremental flow-through to our corporate earnings.

Let's start with menu innovation. On our last call, we talked about more flavor offerings with the introduction of two new signature sandwiches as well as two new proprietary signature sauces. As you can see from our first quarter performance, our customers responded positively. To keep the excitement going, in mid-April, we launched another exciting addition to our iconic core menu of sandwiches with the all-new Prime Rib Steak Sandwich, our first-ever steak sandwich added to the permanent menu.

Our customers have been asking us for a craveable steak sandwich for a while, and we believe we have delivered. We loaded the sandwich with high-quality prime rib and the perfect complementary ingredients, including melted Swiss cheese, house-made caramelized onions and roasted garlic aioli, oven toasted to perfection at 500 degrees. It's a delicious sandwich, and our customer reception has been very encouraging.

To complement our legendary sandwich lineup, we also introduced two new items to our menu earlier this year with the all-new Chili Mac, which brings together our Famed Chili and our Signature Mac and Cheese and the Banana Pudding Shake. We believe these innovations expand our appeal to an even broader consumer base. The innovations you've seen over the past six months are just the early outputs of our stage-gate development process, and I'm excited to bring this level of focus to our menu, including some potential future items that are currently in test.

Our efforts in menu innovation are consistent with our three-part value delivery. The intrinsic value of our core menu is all the better with these exciting new menu items. We also continue to support our everyday value layers with Pick Your Pair, \$7.99 Skinny Combos and meal deals, and we continue to use our digital channels as our primary method to drive promotional value, especially with our most loyal customers. Our balanced use of these three layers of value help us meet customers' needs in all the ways they use Potbelly.

Speaking of digital, I am once again very pleased with our digital efforts this quarter. Our digital advertising, consumer-facing digital assets and our Potbelly Perks loyalty program all work hand-in-hand with our menu innovation to drive top line growth. I'm very pleased to report that the combination of these digital programs continue to perform well. Our digital business represented over 42% of our total shop sales during the first quarter, an increase of approximately 200 basis points versus last year.

As we look ahead, we're making incremental investments in two main areas of digital; consumer-facing digital assets and data and analytics. Ultimately, we believe these investments will not only make us more attractive in this competitive space, but also more efficient and effective in our digital marketing efforts.

Now I want to continue to emphasize that operational excellence remains critical to the success of Potbelly, and I couldn't be prouder to see this on full display as our operations team rallied to deliver a strong end to the quarter. We see year-over-year improvements in management and associate staffing and turnover, yielding improved overall customer experience scores as well as specific measures for speed, accuracy, food quality and friendliness.

Our operations and people teams take a continuous improvement approach, not only to execution, but to the systems that support our growing franchise organization. Our mission to delight customers with great food and good vibes is rooted in our ability to scale our unique Potbelly service. We're confident that the quality and experience of our operations will prove a long-lasting competitive advantage as we strive to be the most loved sandwich brand in every neighborhood.

Now let's turn our attention to our franchise growth acceleration initiative. During the first quarter, we continue to make significant progress across all phases of our unit growth funnel. If you recall, we announced on our last call that we would open at least four new restaurants during the first quarter, and I'm pleased to report that we delivered on that promise.

These new shops are in two different states and were developed by three different franchise partners, along with one company-operated shop, demonstrating our broad-based development efforts. More importantly, we continue to have a clear line of sight to open at least 38 new shops in 2025. For the second quarter, we expect to open at least six new shops.

In addition, our franchise team continues to make great progress in filling our development pipeline as we build towards our goal of 2,000 units in the U.S. After adding 115 new shop commitments in 2024, we're thrilled to add 40 new shop commitments during the first quarter, bringing our total open and committed shop count to 766. Eclipsing 40 new shop commitments is the best Q1 we've ever had, showcasing our ability to attract high-quality franchisees interested in developing Potbelly shops. Again, Potbelly is a franchise-focused company, and I'm proud to be working alongside these great franchise partners who are as passionate about Potbelly as we are.

We now have 104 franchise shops operating around the country. In addition, over 70% of our franchisees are developing new shops across 19 different states. Acceleration in new shop openings, developing franchisees, new franchisees signing new shop development area agreements and existing franchisees adding to their development commitments only further strengthens our expectations of franchise growth acceleration in 2025 and beyond.

We also believe we have the opportunity to drive compelling returns through limited investment with select company market densification and smart investments in our existing shops with targeted remodels. Specifically regarding remodels, we carry some older assets in our shop portfolio and have witnessed refresh initiatives deliver strong ROI at other brands. We believe we have constructed sensible test parameters and are encouraged by early progress. Of course, we will evaluate returns among tiers of remodel investment and always consider such investments versus other potential uses of capital.

In summary, our performance to close the quarter truly demonstrates what the Potbelly business model is capable of when our five-pillar strategy is firing on all cylinders, and we intend to utilize this momentum to take Potbelly to the next level of growth in 2025 and beyond. With our focus on driving top line growth through menu innovation and investment in digital, accelerating franchise unit development and smart cost management, we believe Potbelly is primed to capitalize on the immense opportunity ahead of us.

With that, I'll now turn the call over to Steve to detail our financial performance for the quarter.

Steve Cirulis

Thank you, Bob, and good afternoon, everyone.

System-wide sales for the first quarter of 2025 increased approximately 4.8% year-over-year to \$140.7 million, with total revenue increasing approximately 2.3% year-over-year to \$113.7 million. First quarter adjusted EBITDA was \$5.5 million or 4.9% of total revenue, a 2.8% decrease year-over-year as the prior year benefited from a \$1.1 million settlement payment received from a third-party software vendor. Despite this benefit in Q1 2024, Q1 2025 showed improvement in shop level margin, continued strong performance of our franchise shops and ongoing disciplined management of G&A.

Diving in further, company-operated shop revenue increased approximately 1.3% year-over-year to \$109.0 million, while franchise revenue increased approximately 30.8% year-over-year to \$4.7 million in the first quarter. This increase was driven by a 26% increase in franchise units. Average weekly sales were approximately \$24,550. And as Bob mentioned, company-operated same-store sales were up 0.9% in the quarter, above the high end of our expectations.

The same-store sales growth was attributable to an increase in average check of 1.1%, partially offset by a 0.2% decrease in transactions. The higher average check included an approximate increase of 2.8% in gross price, including an effective 0.6% price increase during the quarter. In addition, the shift of Easter to the second quarter drove a 40 basis point benefit to the first quarter comp.

Turning to expenses. Food, beverage and packaging costs were 26.1% of shop sales, a 110 basis point improvement versus the prior year period. This was driven primarily by slight commodity deflation of 40 basis points in the quarter. Labor expenses were 30.4% of sales, a 40 basis point increase versus the prior year period. This was primarily due to lapping the previously mentioned settlement payment benefit from Q1 last year. Occupancy was 11.0% of sales, a 10 basis point increase versus the prior year period. This was predominantly due to an increase in variable rent charges as many shops with those types of lease arrangements like airports continue to outperform prior year.

Other operating expenses were 18.8% of sales, a 40 basis point increase versus the prior year period due to lapping the previously mentioned Q1 2024 settlement payment benefit. Shop level margins were 13.7%, an increase of 20 basis points versus last year. General and administrative expenses, which are best viewed as a percentage of system-wide sales as they are used to support every one of our shops, were 8.8%, an increase of 20 basis points year-over-year, driven by investments to build and scale our team in support of development as well as increased bonus accrual aligned with our year-to-date performance.

We reported a slight net loss of \$62,000 for the quarter, an improvement of \$2.7 million over the prior year as the prior year was negatively impacted by the write-off of debt issuance costs from our refinancing. Adjusted net income was \$43,000, a \$186,000 decrease versus the prior year period. We believe the strength of our balance sheet, debt structure and the liquidity under our credit facility provide us the flexibility to fund our growth, strategic initiatives, participate in our share repurchase program and align with our broader capital allocation strategy. During the first quarter, we purchased approximately 117,000 shares of our common stock for a total of approximately \$1.1 million. We anticipate repurchases throughout the 3-year program approved in 2024.

Before I turn to guidance, I'd like to address the topic that has come up more frequently due to the recent economic policy changes; the impact of tariffs and the possibility of a more challenged consumer environment. As you know, this is a very fluid situation. We're keeping close tabs on the news of the day as we estimate the impact to our supply chain and consumer demand.

While we may see some modest pressure on our build costs if the current tariffs remain in place, we're no less confident in our long-term growth plan and believe our unit level economic model remains very compelling. Regarding the consumer and our customer base specifically, as we said last quarter, during non-weather weeks, we've seen solid consumer demand for Potbelly. While we recognize there's always uncertainty, we believe our strategic plan continues to create a compelling option for consumers in a competitive marketplace.

Finally, I would now like to provide you with the following guidance items. For the full year 2025, we are reiterating our guidance and anticipate the following: same-store sales growth of 1.5% to 2.5%, unit growth of at least 38 openings, adjusted EBITDA of approximately \$33 million to \$34 million.

Incorporating our quarter-to-date results for the second quarter of 2025, we anticipate the following: same-store sales growth of 1.5% to 2.5%, which includes approximately 40 basis points of pressure from the Easter holiday shift, unit growth of at least six units and adjusted EBITDA of \$8.25 million to \$9.75 million.

With that, I'll turn the call back over to Bob.

Bob Wright

Thanks so much, Steve.

Following the extensive work we've done over the past four years to rejuvenate this beloved brand, I'm proud to be able to call Potbelly a growth company again. The litany of comp growth drivers at our disposal gives us great confidence in the future. More specifically, we've developed an industry-leading digital platform, including our rapidly expanding Potbelly Perks loyalty program.

In the past year, we have reintroduced menu development to the brand and have seen great success, including the recent Prime Rib Sandwich. And we continue to enhance our catering channel with revamped bundles and packaging as it continues as a growth driver for our business. And this doesn't include any potential benefit from the other initiatives we are currently testing. All these combined give us great confidence in our ability to continue to drive comp growth over the long term.

On new shop growth, we have substantially improved our shop-level margins and delivered 2024 shop-level margins of over 15%. We reengineered our prototypical design last year to create operating efficiency, better service our digital business while also reducing the required lease space needed to build new Potbelly shops. And we built a world-class franchise sales team that's helped us grow our future committed shop pipeline to over 300 shops. Combined with a clear line of sight into delivering at least 38 new shops in 2025 and an improved shop pipeline for 2026 that is stronger than the 2025 pipeline at this point last year, we continue to be confident in our ability to deliver upon our 2,000 shop long-term potential and deliver double-digit annual new unit growth.

We expect the culmination of these efforts across comp growth and unit growth, along with prudent management of our corporate costs have the potential to deliver outsized EBITDA growth for many years to come. While we do not believe we are currently getting credit for being a growth company, our focus continues to be on delivering results that leave no doubt that Potbelly is a compelling long-term growth story.

With that, we're happy to answer any questions. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question is from Jeremy Hamblin with Craig-Hallum Capital Group. Please go ahead.

Jeremy Hamblin

Thanks, and congratulations on the strong results. I wanted to start with same-store sales for a second. And just as we can get maybe a little bit color of what you think might be driving the outsized performance. So you're lapping tougher compares here in Q2. You have a negative drag from the Easter shift, and yet you're expecting compares to be quite a bit better than Q1. And that's really kind of the opposite of what we're seeing in the industry where many other concepts are seeing sales falter. I want to get an understanding of what you think might be driving that? Is it the new menu items? Is that the primary driver? Is it a shift in your kind of digital marketing? Or is it kind of having better value offerings now than you did a year ago?

Bob Wright

Yes. Thanks for the question, Jeremy. We're pleased as well, and you're right to peg our Q2 guidance even with the pressure that Easter brings in April versus the benefit that it gave in Q1. And I'll tell you this, we're -- our comps are in line with that quarterly guidance. So we feel very good about kind of that momentum that we started in the first quarter and how we're continuing to see that. The important thing is the question -- the part of your question around drivers. So you did hit on some of them.

We definitely believe that the menu innovation that we brought forth last year and then you saw us bring some more here with this Prime Rib Steak Sandwich. But even the things that maybe aren't sandwiches, but you see some innovation with us with our Chili promotion during the first quarter, our Butter Brickle Cookie was a big success. We added the Banana Pudding Shake to the permanent menu and Chili Mac to the permanent menu as well, and those have been really well received and supported by our customers. But it's kind of a one, two, three punch, too.

So yes, the value efforts that we put in last year, we think those continue to deliver. And as I mentioned in the prepared remarks, it's kind of a 3-pronged value approach that we just keep pushing on, the intrinsic value of the menu itself. That's where you see things like our permanent menu items that are just great sandwiches. They bring value because what you get for what you pay really hits the mark with our customers.

Then there's the everyday value with those \$7.99 Skinny Combos. Remember, there's only three sandwiches you get there, but it's starting to be understood as something customers can count on. And Pick Your Pair is still a significant part of our everyday value. And then, of course, the promotional value through our promotional activity. A lot of our -- a lot of people watching Potbelly see the big things that we do across the brand.

So if we do a BOGO during the quarter, you need that promotional code, but you can get that regardless of how you access the brand. But I do believe we're getting smarter and more effective and efficient at some of the other promotional activity that you don't see unless you're in our perks environment or the digital environment. And so we're very pleased with how that continues. It's why we talk about continuing the investment in those consumer-facing digital channels too, because it unlocks our capacity to be better at that and continue to drive that traffic.

And overall, I think these things are coming together to make a big difference. Even our Meatball Madness promotion for the second year this year, during March Madness, we have Meatball Madness and that reinforces things that are becoming stronger for us like our underground menu. As I mentioned in our remarks, we don't tend to promise a lot. We just -- we try to keep delivering.

And that same stage-gate development funnel that has brought us some of the products that we have rolled out, we're still working that, and we've got some other things in test that we -- we'll see how it goes in test, but we believe we have continued ability to push on a number of those same fronts as we go through the remainder of this quarter and into the rest of the year.

Jeremy Hamblin

Great. Thanks for the color. And then I want to switch gears and talk about your franchising initiatives. So as you said, sold 40 new locations in the quarter, second best quarter, I think, ever. And you're doing it in a really challenging macro backdrop with a tremendous amount of uncertainty. So I wanted to see if you could provide a little bit of color there. I think kind of related to this, you did sell look like four units to refranchise four units. But just wanted to get a sense for as you have these conversations with potential franchisees, is it improved unit level economics? I mean, given the uncertainty in the macro, I would -- I'm surprised by just how strong the franchising was in the quarter. Any color?

Bob Wright

Yes. It's -- look, the core of attracting franchisees is having a great brand, having -- they do look very, very carefully at the other franchisees that have already joined the system and certainly the management team and the field teams that we deploy. And then, of course, unit level economics, both the OpEx and the investment economics that they're looking at. And they continue to like what they see. They also are a favor of the positive -- in favor of the positive trends that we continue to show.

So these year-over-year, quarter-on-quarter margin expansion deliveries that we're able to provide and we always talk about our company shops because it's such a big part of the portfolio. And they are -- as they talk to and discuss the potential of joining the system with existing franchisees, they get even more color on the fact that those franchisees are enjoying that same expansion and in many cases, off of an expense base that's lower than ours.

We've talked very publicly about the burden that we carry and occupancy costs because of the fleet of shops that we have, so many of them in CBDs, expensive markets, expensive rents and traditionally much larger Potbellys than we're building today. So they're doing their homework, and they start checking those boxes across all of those things. And you add to that, the last piece is that this is still a brand that's got those volumes, those margins and the investment economics that still has white space that they can sign up for, for exclusive development. I mentioned last year, with 115, we're proud of that number.

Pleased but not satisfied is kind of the tone that we shared. And we continue to share that we saw the pipeline of interest exceeding the deals that were sold during 2024. And we expect 2025 to be a good year. We still see that pipeline of interest strengthening, and it's rooted in those core decision criteria that franchisees bring.

Jeremy Hamblin

Thanks for all the color. I'll hop out of the queue.

Bob Wright

Thanks Jeremy.

Operator

The next question is from Mark Smith with Lake Street Capital Markets. Please go ahead.

Alex Sturnieks

Hi guys. You got Alex Sturnieks for Mark Smith today. First one for me. You've highlighted ongoing growth in the digital ordering and loyalty penetration. Could you just update us on trends in the Potbelly app orders versus third-party delivery and whether you're seeing continued migration toward your own channels? Any new initiatives planned to further drive that mix in 2025?

Bob Wright

Yes. The -- first of all, as we said, we were better than 42% digital total in our quarter, which is a really strong quarter for us. And we're pleased with that's another 200 basis point improvement over last year. We didn't break down the channels in first-party versus third party and certainly even the digital orders that are ordered for pickup and catering, but all of those things are driving that growth year-over-year. I think the important part of your question is one of the things we're excited about. We started talking about it at the end of the year last year that the two primary categories for investment for us are in technology and in our facilities because the face of this brand is delivered in large part by the shops themselves.

So on the technology side, we said that we are making another significant investment this year in our consumer-facing digital assets. So we're not trying to be cryptic with that language, but that is the app, that's the web and it's the Perks loyalty program. Our current Perks loyalty program just eclipsed a year since we put out the enhancements where you could trade in your coins for various menu items that used to only be a sandwich, and we continue to see that working really well for us. But the interface itself that we're making the investments in this year is going to make that even easier and even better.

And then the underpinnings of the data and analytics platform work that we're doing means that we can be smarter about how we access all of that data, and we can be even more discrete with the way we communicate with smaller and smaller groups of customers that really behave very differently.

So we absolutely believe that the broad-based digital advertising and social media work that we do is the best way to bring people to the digital environment. But then once we get them in, all of this work that we're doing on the engines, the core and the MarTech stack to support it means that we can bring them in and move them up and through that frequency funnel even better in the future, we believe, than we are doing today.

Alex Sturnieks

That's great. And then last one for me, just switching back over to the franchisee incentives. Could you provide some more color on like the uptake of the 50-50 incentive program since its rollout? Specifically, how much interest have you seen from both new and existing franchisees? And then are you observing a meaningful acceleration there in terms of time line? And then additionally, are there any particular markets or regions where this initiative is gaining the most traction?

Bob Wright

First of all, it's early days for the large area developer agreement and their version of that 50-50 incentive. But we're into -- we've now had the original 50-50 incentive for a couple of years. It is very meaningful to the franchisees, and they love the idea that if they can meet or exceed their development schedule that they can benefit a little bit from that.

And just a reminder for everybody, the 50-50 is you can get half off of your IFF for opening on time or early, and you can get half off your royalties for the weeks that you do open early. There's no downside for us because they're ahead of schedule, even 3% for those weeks is still money we hadn't considered as part of the development agreement. And 3% for them can be meaningful.

Why I said early days is on the large area developer version of that franchise agreement, the thing that we bake into their development agreement, if they sign up for 15 units or more is we bake that commitment of that incentive through the entirety of the franchise agreement, that development agreement. That's valuable because the larger, more financially savvy franchisees that are going to sign up for significant investment to grow out of market, they're going to look forward deeper into their development schedule and say, okay, if I can get started now, I may not get much off of my first one or two or even three sites.

But by the time I get to sites number 9 or 12 or 13, 14, 15, if they can get ahead of schedule by a year or two or some have even told us they're looking at it, they think they can beat some of those later shops by two or three years, they are factoring in that potential benefit into their capital allocation modeling. And yes, it's getting their attention.

That's how these true multiunit developers are thinking on a multiyear time line, and they think they can get way ahead. So yes, it's the type of thing that should build. And I would tell you that as we've seen some of those larger, more financially savvy franchisees, show interest in the company. They see this as a big deal, especially because it's us recognizing how they think about the business and how they can gain some benefit down the road. I think it will help us.

Alex Sturnieks

That's excellent. Thanks for taking my question, guys.

Bob Wright

You're welcome.

Operator

The next question is from Matt Curtis with William Blair. Please go ahead.

Matt Curtis

Hi. Good afternoon. I guess I was a little surprised to see your commodities be slightly deflationary in the first quarter, given that I think your guidance calls for 2% to 3% inflation for the full year. So maybe you could just update us on any changes to your inflationary expectations this year for both commodities and labor.

Bob Wright

Thanks, Matt. Yes, it's one of those situations where we're all hearing the word tariff and there's a lot of uncertainty that's out there. I think for a business like ours, we have a few advantages as it relates to tariffs. Number one, the tariffs don't seem to be as directed at food products, right? And we have, I think, also the benefit of having a diverse food basket like we've discussed in the past. Yes, we're kind of holding to our overall inflation rate for the year on food and paper because we feel like with the benefit that we got in Q1, which is slightly deflationary, we will see some inflation come back, natural inflation come back.

And as it relates to tariffs, we watch it on a daily basis. We collaborate with our distributors and of course, setting in place the potential to do things like others might try to mitigate things should they come aggressively at us. We, again, don't have a lot of exposure to those things that are going to be potentially tariff hard on the food side. We feel like the back half is going to be a little bit different than the front half, but nothing at least that we can foresee given the current tariff climate that's really going to take us off our full year mark.

So that's important for you as you think about it, and we always have, I think, some contingencies in place should things move on us. As it relates to labor inflation, that's moving at about the same rate that we anticipated when we last spoke a quarter ago, which is kind of in that kind of low 2% range. So that's also good for us to see as we kind of lived through that tough inflationary period on labor a couple of years ago.

Matt Curtis

Okay. Understood. And then relatedly, could you maybe update us on what your pricing expectations are for the rest of the year, ideally by quarter?

Bob Wright

Yes, of course. Look, we always maintain what we've discussed before, Matt, around kind of this philosophy that we're going to try to keep pace with input cost movements, and we're going to keep our pricing increases kind of related to that. And that's reflected in the way we talk about price for the year. So in the first quarter, our total gross price was up about 2.8%, and that was mostly carryover from the prior year. We had about 2.3% lapped from last year. So we had a price increase in P2, which was a modest one, about 1.2% and that's what we will keep for the rest of the year is something in kind of the mid-1s. We have another price increase kind of summertime. That will be again sort of in that mid-1s and another one in the fall.

So the full year gross will probably be just north of 3%, which again keeps us pretty close to those inflation numbers that I described for you. Of course, we reserve the right to change that should we need to, given the environment and what might evolve. If you remember last year, we issued our third price increase, which happens in the fall as the consumer was telling us there's some challenging components to the way that they're managing their visits.

And so we supported them by not raising price in that last go round. But this year, we're holding fast to that plan that we outlined at the beginning of the year with no major changes unless we do see things, like I said, on the tariff front or on the consumer front.

Matt Curtis

Okay. Got it. And then I guess just the last one for me. You guys didn't directly talk about PDK today. But I think you're expanding Potbelly kitchens to be system-wide by the end of the year. Is that still on track? And basically, how much improvement have you noticed at PDF locations -- on PDK locations on things like throughput and labor costs so far?

Steve Cirulis

Go ahead, Bob.

Bob Wright

Yes, I was just going to say on the rollout, first of all, I think we did mention this last quarter, so not much of an update this quarter to that plan. But [PDX] is what we're calling the newest version of PDK because it comes with a new POS. So we're not just going to finish rolling out PDK, but we're changing out the POS and installing that kitchen system that gives us that digital advantage. And there's some additional advantages with the new combination of the Toast POS and QSR automations back office. So both of those products were NCR in the past. And that's nothing against NCR. It's just the future move that we're doing.

We've got that slated, Matt, to be half of the shops, half the company shops this year, half of the company shops will be retrofitted next year. Franchisees would be slightly behind that because they've got some newer shops in place, and there's no need to rush the replacement of those. And then predominantly all of our new shops this year will roll out with that new system as well.

So to the benefits, and that's in our capital plan, too, by the way, and Steve can talk about that, too, if you'd like. But to the benefits of it, we're still seeing when we roll it out, we're getting about five hours of labor savings almost instantly because of how we configure the labor guide to take advantage of the efficiency on the back line. This digital efficiency really does streamline the back line. And so we'll have that roughly 100 locations. We ended the year with plus 175 gets converted and then the rest of the system will be converted next year.

On throughput, it's early, but -- and we didn't bake any of that upside into our plan this year, but we are looking at the advantages of the handhelds with the new version of that solution that could be very beneficial to the inside flow. And obviously, our ops team is working to extract as much of that as possible because we've always talked about having this device we call an iLot and PDCX comes with iLots as well, but they have more functionality and they're more flexible for us to do some more things with the service line. So more to come on that, but we are excited to look forward to the end of next year and having a completely new in-shop digital system.

Matt Curtis

Okay. Got it. And I guess, Bob, since you opened the door, I'll step through. What do you anticipate for CapEx this year?

Steve Cirulis

Sure. Thanks, Matt. I think I'll jump in on it in terms of how we're thinking about the overall envelope. We're pretty close to in a position of around \$30 million for a CapEx budget this year. We think about it in terms of multiple areas, right? One is technology, right? We talked earlier about the business being 42% plus digital, and that requires continued innovation, right, as well as maintenance. Bob mentioned the replatforming. He mentioned the ability that we're going to have to add features and functions to the web and app, the underpinnings of a really exciting data and analytics capability that's coming our way later this year. So that's a component of how we think about it.

You just talked about [PDX], right? So that kind of restaurant technology that isn't exactly customer-facing, but certainly benefits the customer in terms of throughput and the customer experience. And then we spend capital on our facilities, right, our asset base. And that is consisting of things like routine maintenance that tends to be a large part of our overall capital envelope.

But then we also -- as we've discussed in prior conversations, we've earmarked some CapEx to rejuvenate some of our more tired assets in some of the remodel work that we're doing. We mentioned that we have three remodel sizes kind of akin to our sandwich menu with the Skinny, the Original and the Big. And we're testing some of those as we speak. So that will be a portion of our capital spend.

And as we've discussed, too, where it makes sense, there'll be new unit development for us on the company side to densify some of our target company markets. So it's really a fairly straightforward story as it relates to how we want to push that capital. And so far, our biggest and most important philosophy around all of this is that we're going to put our capital in places that we're going to see returns above our cost of capital.

Matt Curtis

Okay, great. Thanks again and best of luck.

Steve Cirulis

Thanks Matt.

Operator

The next question is from Todd Brooks with The Benchmark Company. Please go ahead.

Todd Brooks

Good evening, guys. Congratulations.

Bob Wright

Thank you. Good to see you.

Todd Brooks

Yes. Good to talk to you. I want to talk about innovation. And as we think about it, there's two strong quarters of innovation and customer response to it. As you're looking internally at where you are in different parts of stage-gate, how would you characterize the year from maybe an innovation engine and what we should see on the product newness side? How do we think about newness against all the newness that you brought in Q4 last year? And then how operationally are we managing the menu so that we don't get kind of item creep and we're able to keep the efficiency in the box?

Bob Wright

Yes. Thanks for the question. Look, the process is rooted in what we see in the consumer insights and our own customer insights for where we think that there are opportunities to make sure our menu best reflects and best reflects what would be best for our business and for them. And that's where these things have been coming from. And it takes a while to develop them and then test them. And we have to be really judicious with that too, because we don't have hundreds of millions of dollars like some really large companies have to put that testing in place.

I would tell you that it continues to be a focus for us to support that LTO cadence that we've had in the past. We want to continue to do that. We've done it with cookies and with shakes and with sandwiches too. Here recently, as we described last year, the focus on the core menu was addressing things that we thought were gaps on the core menu and that we wanted to take the time to develop a great solution to. And we've now added two whole muscle proteins that are really ringing the bell with what we think customers are looking for from a sandwich expert like us and still taking advantage of all the great things that are Potbelly.

The Banana Pudding Shake is -- we used to have a banana shake. It was not consistently delivered to our satisfaction. So having a banana shake is something that makes sense to us. But I'll tell you the customer reception for that has been terrific. And that's a premium shake item that we put in place too. I wouldn't expect that you'll see us add a new protein every quarter. That's obviously probably an unrealistic expectation. But we do have some more menu item things that we have in test, and we'll read those tests and decide if we want to expand.

The second half of your question is, of course, I think the thing we got to really watch out for is, first of all, can we integrate these items into our menu and not disrupt operations and particularly not put barriers in the way of throughput. You're talking to my operations routes at that point. We may love the product, but if it slows the line, even if we do sell incremental copies of those products, then -- but we hurt throughput, we don't get the benefit from it. So every one of these is designed with that set of financial, consumer and operational hurdles that they must clear. Those are quite typical in that stage-gate process.

The culmination of the additions is something we're going to watch for, too. And we do what most companies do. We watch the product mix and the velocity of that mix and certainly the quality and the waste and consumer reception for it, and we will make adjustments. Many of the things that we did, Todd, way back when we rebuilt the menu put in place the foundation to be able to build on top of it like we're doing today.

So the sizes, the portioning, the consistency of that portioning for proteins and the like makes it easier for us to train our line workers to add these products and it makes sense. And I will tell you, this is something you don't often think about when you think about how difficult these jobs are, but when you look at it through the other lens, you think about how exciting it is.

Our employees love delivering new flavors and new things to their customers because the customers are enjoying the visit, the job is more enjoyable. And so far, I think we've struck that balance really, really well. We'll be careful. We're going to be really careful, but I'm excited about the work.

Todd Brooks

That's all great color. And then my second and final question, if you talked about the digital investments this year and as we think about Perks, if we fast forward a year, so we're on the Q1 call in '26, what are we talking about from a perks standpoint as far as different capabilities, how much more enhanced personalization efforts are with the data and analytic capabilities that you're looking to build out? What's kind of the return in '26 from these investments in '25?

Bob Wright

Yes. Thank you. I think most of it will be things we see, and we'll be talking to you about those things that we see. What we don't want to do is reengineer what the customer sees in their basic Perks loyalty program. And so the big move for us a year ago was very consumer-facing. Coins that you accumulate, you can redeem those coins for all the various items.

You've asked us in the past about the patterns that we see for different types of customers redeeming for different items and so on. What we're talking about now with the investment in those consumer-facing digital platforms will unlock additional capabilities for the customer to use their familiar Perks program in ways that they can't yet do it today. They don't know that. We haven't exposed them to that. But you will be -- I love your question, fast forward a year, what are you going to hear from us?

We're going to talk to you about all the new ways that customers were able to access their Perks account and engage with it, use it, work with it, redeem for their coins in ways that bring in additional visits. See the underpinnings of this is that when someone converts coins to an item, a perk, that perk really often turns into a visit. And that's our secret to unlocking that additional traffic with those Perks customers.

The other thing is on the promotional level, there are things we can't do with the current foundation that we'd like to unlock with the future structure that we're building that allow us to be much more discrete with our promotional activity. Other very large brands have already done this. But in our size and scale, I think we're going to be out on the front of this.

Our ability to -- they call them -- they used to call them segmented groups or campaigns. I think the new language in the digital world is automated customer journeys because automation is making its way into here and things that we can more discretely talk to smaller groups of customers in a way that really resonates with them. And when you can do that well, you actually can do it more efficiently, meaning discount less to get more activity. And those are the types of areas of focus that these investments should be able to deliver for us down the road.

Todd Brooks

That's great. thanks for the color, Bob.

Bob Wright

You're welcome.

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn the call back over to Mr. Bob Wright for closing remarks.

Bob Wright

Thank you, operator, and thank you all for your questions and certainly your time this evening. As you hear from us, we're very enthused about our first quarter and very pleased with where we are in the year. And we thank you all for your engagement and your time. We look forward to talking to you again soon. Have a great night.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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