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Q4: 2025-03-06 Earnings Summary

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EPS of \$0.13 **beats by \$0.06** | Revenue of \$116.63M (-7.25% Y/Y) **beats by \$253.50K**

Potbelly Corporation (NASDAQ:[PBPB](#)) Q4 2024 Earnings Conference Call March 6, 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

Todd Brooks – The Benchmark Company

Matt Curtis – William Blair

Operator

Good afternoon, everyone, and welcome to Potbelly Corporation's Fourth Quarter 2024 Earnings Conference Call. Today's call is being recorded. At this time, all participants have been placed in a listen-only mode and the lines will be opened for your questions following the prepared remarks.

On the call today, we have Bob Wright, President and Chief Executive Officer; Steve 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 fourth quarter 2024 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 tab on 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. In 2024, we took yet another step toward achieving a long-term growth opportunity ahead for Potbelly. Our team did a tremendous job executing against our five pillar strategy. We were especially pleased with our comp sales growth momentum to the end of the year, which exceeded our initial expectations.

For the year, we reignited unit growth with 23 new shop openings during the year, added 115 units to our open and committed shop total, drove adjusted EBITDA growth of 15% through expanded shop margins and prudent corporate cost management, and developed the foundations for the long-term growth drivers that strengthened operations and improved customer experiences, the re-launch of our Perks loyalty program and significant menu innovation work.

While I'm thrilled with what our team has accomplished to date, I'm even more excited about what lies ahead for Potbelly. Through the first quarter thus far, we've been affected by the same unusual weather impacts you've heard about from our peers. Steve will further contextualize that a little bit later.

That said, excluding the weather impacts, we are very pleased with the underlying strength and trends of the business and the consumer demand for Potbelly, which we believe sets us up well for the remainder of 2025.

But before I dive into the specifics, I want to take a moment to say thank you to our over 5,000 team members and franchise groups. Without your hard work and dedication every day to make Potbelly truly special, none of our accomplishments to date would be possible.

For 2025, you will see us further solidify our operations positioning Potbelly for growth both now and into the future. We will do this by focusing on several key aspects of our business. First, we will drive comp sales growth through menu innovation and investments in our consumer facing digital assets as well as data and analytics. Second, we will continue to grow and modernize our footprint through accelerated unit openings by our franchisees as well as remodeling and market densification efforts on the company side. And lastly, we will continue to exercise prudent cost controls to ensure that we achieve balanced growth while also allowing incremental flow through to our corporate earnings.

With that, let's dive in starting with our menu innovation work. As we spoke to last quarter, we conducted research with our customers and the results indicated that we had some gaps in our menu in trending areas like flavorful sauces and spicy offerings, as well as in additional heartier whole muscle proteins.

To address these areas of opportunity, in early November of last year, we added innovations to our core menu aimed at giving customers even more reasons to choose Potbelly and more ways to customize their experience. These innovations included the introduction of two new signature sandwiches, both made with our new slow cooked pulled pork, one of which was our fan favorite LTO the Cubano, two new proprietary signature sauces that address customers desires for more craveable and spicy flavors.

Our new Hot Pepper Ranch and Sweet Heat Barbecue sauces are custom-made with our signature award winning Potbelly hot peppers and two additional sauces that customers have asked for on the Potbelly menu including Roasted Garlic Aioli and Red Wine Vinegar. We also updated and expanded our available sandwich toppings to include cucumbers and roasted red peppers.

We believe this focus on our core menu would expand our appeal to an even broader customer base and I'm proud to say that we were right. First, we're very pleased with the mix of the new products and sauces. Also, customers have commented on the new pork sandwiches and that they are a specific reason to order from Potbelly and the new sauces have delivered another level of flavor and customization to the menu.

On the beverage side, consumption of non-carbonated cold beverages has increased substantially in the industry in recent years. To capitalize on this, we rolled out our Potbelly Craft Refreshers system-wide at the end of September in partnership with Tractor Beverage Company. In keeping with our brand, these beverages added more interesting and flavorful options to our customers beyond traditional fountain drinks and they have a better-for-you profile as they are both organic and non-GMO.

Importantly, the rollout continues to meet our expectations for customer satisfaction and is driving additional beverage instance rates. Overall, we believe we have an opportunity to further drive growth in our business through menu innovations and we're enthusiastic about the developments in our innovation pipeline across our menu, including our catering offering. We look forward to sharing more soon.

Turning to digital, we remain pleased with our Potbelly Perks loyalty program and believe it is a core tenant of our success, both now and into the future. During the fourth quarter, our digital business represented over 40% of total shop sales, an increase of approximately 100 basis points versus last year.

As you recall in early 2024, we relaunched our enhanced Perks loyalty program, but we're not standing still. Throughout 2025, you'll see us continuing to invest in two main areas of digital. The first continues to be our consumer facing digital assets. While we already have a great digital experience today, we believe we can do better and we are investing in our consumer facing digital to drive features and functions that make Potbelly even more attractive in this competitive space and ultimately drive top line. The second area of investment is in data and analytics.

As we've spoken to previously, once customers are in our digital funnel, we have had great success moving them up the frequency curve quickly and a big part of that is our ability to drive customer behavior. We believe continued investment in data and analytics not only advances this type of digital marketing, but it can make us more efficient and effective across other areas of the business going forward.

Next, let me update you on our unit growth. 2024 was the year we plan to reignite our unit growth engine and I'm proud to say we did just that. During the year, we opened 23 shops across 10 different states. We also added 115 new shop commitments to our pipeline, bringing our year-end total open and committed shop count to 727. As we look to 2025, we expect this momentum to continue.

If you recall, we announced earlier this year ahead of the ICR Conference that we already have 38 new shops in various stages of development for the year. We believe we've taken a prudent approach to this guidance and use these 38 new shops as our baseline for our unit growth expectations. Although, it's possible to anticipate more new shops based on pipeline activities, we believe it's best to set expectations only on what we can clearly see and assess at this time.

We also continue to see a very active pipeline of new franchise candidates driven by our overall success and our unit level economics. Moreover, the quantity, quality and scale of our franchise candidates continues to improve, including larger franchisees. In support of these larger franchise candidates that can grow at a much faster pace, we were excited to announce a program earlier this week designed to incentivize them to build more shops and to build them faster.

In addition to our accelerating franchise development, we're adding another layer to the Potbelly growth story by leaning into the development of additional company shops in some of our current geographies over the coming years. This includes a handful of company shops later this year, which are incorporated into our unit growth guidance.

I want to emphasize that this is in addition to our accelerating franchise development. We plan to do this for three reasons. First, we believe we have an opportunity to better leverage our existing infrastructure in existing company markets, where we're currently generating above system average returns and can further densify those underpenetrated markets.

Second, given our strong unit level economics and the strength of our balance sheet, we believe additional company shops are good investment for the business and provide us with the ability to thoughtfully accelerate our company EBITDA growth in the coming years. And finally, we want to lead by example and develop shops utilizing our new prototype continuing to improve on its cost and efficiency for us and our franchisees to ensure the returns meet our elevated expectations.

Again, make no mistake, Potbelly is a franchise focused company. While we plan to open up to 20 company operated shops annually, including a handful later in 2025, we continue to expect the vast majority of new shops for the foreseeable future to be driven by our franchise partners and believe this additional layer of growth only accelerates our race to scale.

In addition to new shops, we have the opportunity to drive returns through smart investments in our existing shops with targeted remodels. I'll caution you that we are in the early stages of this initiative. But we're planning to test four different levels of remodels this year and prove out their return profiles before considering a larger scale effort. In summary, I hope you see that our careful and targeted investments in technology and shop assets have the potential to further accelerate our growth and to benefit all stakeholders.

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

Steve Cirulis

Thank you, Bob, and good afternoon, everyone. As a reminder, when making year-over-year comparisons for this quarter and fiscal year, the fourth fiscal quarter of 2024 was a 13-week quarter, while the same quarter of 2023 was a 14-week quarter. System-wide sales for the fourth quarter of 2024 were approximately \$142.6 million a decrease of 3.3%. Excluding the impact of the 53rd operating week in 2023, 2024 system-wide sales increased 1.9% from the prior year.

Total revenue in the fourth quarter was \$116.6 million, 7.3% lower year-over-year driven by the impact of the 53rd week and refranchising. Excluding the impact of those two items, total revenue was flat versus the prior year. Company operated shop revenue was \$112.3 million, 8% lower year-over-year. Excluding the impact of the 53rd week in refranchising, company operated shop revenue decreased only 0.9%.

Franchise revenue, a component of total revenue was \$4.3 million in the fourth quarter, up 24% relative to the fourth quarter last year, inclusive of the 53rd week and refranchising. This increase was driven by a 22% increase in franchise units.

Over the past two years, we have successfully used refranchising as a catalyst to drive new franchise unit development commitments. Throughout 2024, we deemphasized refranchising our company shops due to our strong pipeline of franchise unit sales in new markets. Accordingly, the negative impact on revenue growth from last year's refranchising transactions is largely behind us as we only refranchised one shop in 2024 versus 33 in 2023.

Average weekly sales were approximately \$25,230 and company operated same store sales were up 0.3% in the quarter above the high end of our expectations. The same store sales growth was attributable to an increase in average check of 2.2%, partially offset by 1.9% decrease in transactions. The higher average check included an approximate increase of 3.5% in gross price, although we did not implement any new price increases in the quarter.

Turning to expenses, food, beverage and packaging costs were 26.7% of shop sales, a 50 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 28.9% of sales, a 5 basis point increase versus the prior year period. This was predominantly due to increases in employee group insurance that more than offset favorability from ongoing optimization of our hours based labor guide.

Occupancy was 10.8% of sales, a 25 basis point increase versus the prior year period. This was predominantly due to increases in common area maintenance and in variable rent charges as many shops with those types of lease arrangements like airports continued to outperform prior year, partially offset by leverage on our fixed rent. Other operating expenses were 17.6% of sales, a 10 basis point decrease versus prior year period due to numerous small scale offsets.

Top level margins were 16.0%, an increase of 30 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 9.1%, a decrease of 100 basis points versus the year ago period, driven by our focus on corporate expense management and a lower bonus accrual.

These reductions more than offset two unique items recognized during the quarter. The first was a legal accrual of \$1.8 million which we are expected to incur to settle a Washington state class action lawsuit. The second was cost related to non-recurring professional services. We reported net income of \$4.6 million for the quarter. Adjusted net income was \$3.9 million, a \$3.2 million increase versus the prior year period.

Fourth quarter adjusted EBITDA was \$9.7 million or 8.3% of total revenue. This 30% growth year-over-year was driven by the improvement in shop level margin, continued strong performance of our franchise shops and ongoing disciplined management of G&A. This includes adjustments to our EBITDA for the legal settlement and professional services included in G&A that were unique to the quarter and not related to the ongoing operations of the business.

The strength of our balance sheet, debt structure and 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 fourth quarter, we purchased approximately 48,000 shares of our common stock for a total of approximately \$450,000. For the year, we repurchased approximately 164,000 shares totaling approximately \$1.4 million. We anticipate repurchases throughout our three-year program approved in 2024.

Finally, I would now like to provide you with the following guidance items. For the full year 2025, we 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 first quarter of 2025 we anticipate the following. Same store sales growth of negative 1.5% to negative one-half-of-one-percent [ph], which includes approximately 150 basis points impact due to weather in January and February. Unit growth of at least 4 units with 3 already open. Adjusted EBITDA of \$3.5 million to \$4.5 million, which includes approximately \$600,000 of weather impacts thus far into the quarter.

Overall, excluding the weather impact, we are encouraged by momentum and the anticipated sequential improvement in comps from January into March and believe it sets a solid foundation for the remainder of the year.

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

Bob Wright

Thanks so much, Steve.

Let me close by reiterating how excited I am with our growth prospects in 2025 and beyond. We believe our five pillar strategy has allowed us to lay down the foundation for success as a growth company. And through our menu innovation work, a strong unit development pipeline and smart cost management efforts, we are on the right track to capitalize on the opportunities ahead. More importantly, our team is energized and ready to carry out our mission to delight customers with great food and good vibes and to achieve our vision to be the most loved sandwich brand in every neighborhood.

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

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] Our first question is from Jeremy Hamblin with Craig Hallum Capital Group. Please go ahead.

Jeremy Hamblin

Thanks and congrats on a really strong year and execution. I wanted to start by coming back to the commentary around Q1 comp trends. The weather impact, I think you said 150 basis points. Can you elaborate or share a little bit more color on that in terms of obviously you have kind of an outsized exposure in the Midwest, particularly in Chicago area, but can you give us a sense for kind of how you generate that kind of 150 basis point impact?

Bob Wright

Good to hear your voice, Jeremy. Yes, the January period was I think hit by a couple of weeks, week two for us, week four for us was pretty severe. And we have shops in a couple of places where the winter weather hit pretty hard, Chicago, other places in the Midwest and Texas actually got hit pretty hard too and then a couple of weeks in P2. And then as you look at – as you look at that, but for the weather I think our period one same store sales would have been positive.

And if you look then at how we're working through P2 and into P3, still a little bit of a drag from the weather into P2, but we're seeing in some of these weeks where we have more common weather or expected weather that the momentum of the business is quite strong. So as we hope to put a lot of that kind of choppiness behind us, we're excited about where we're headed from a same store sales and a traffic standpoint to kind of finish the quarter.

Jeremy Hamblin

Great. That's helpful. Let's switch gears and talk about kind of unit growth. So 38 plus units for the year significant step up and getting towards that kind of 10% or double-digit unit growth moving forward. I want to see if you could share a bit of color on first, how the 2024 new units are performing? And two, how you expect the cadence of openings to happen kind of over the course of the year? Is this kind of 30% first half of the year, 70% back half of the year? Any color you could share there would be super helpful?

Bob Wright

Yes. Thanks, Jeremy. Yes, we're pleased to provide that level of clarity on the guidance. And I think that if you think about the curve of unit openings, the curve itself will probably look very similar to what we saw last year. As we mentioned, we already have three of those units in Q1 that are open and obviously have one or two more that we can do there. And I think we'll see that pace be similar, just it will build in Q2 and build again in Q3 and likely be level or so as you get into Q4.

And what I'm pleased about, you asked about new unit performance too. We're encouraged. Look, by and large the results are in line with our average shops in our portfolio, both sales and shop level profitability. We're not satisfied. We're never satisfied. We want to see that these new shops continue to outpace the brand and we want our existing shops obviously to continue to grow there too, but very, very pleased.

And I think it's really important for us to all remember with new shops too. It's a multi-variant equation when it comes to what's driving that success. These are different franchisees. We've got different shop types with the prototype. We push the size to some small sizes and certainly we're testing our real estate development model as well. And when you put all that together in operations, the grand opening efforts that we have I'm really pleased that each part of that equation is working really well for us.

So when I say that we're not satisfied, I think we just want to keep pushing execution across the board. And I think we keep learning from every open, how we can make the next ones even stronger, but they've been performing really well for us.

Jeremy Hamblin

Great. And from a cost perspective, I think you've discussed about \$650,000 on kind of an 1,800 square foot to 2,200 square foot prototype. Is it our cost coming in on plan as well?

Bob Wright

Yes, we've had, I mean, there are some parts of the country that are seeing more pressure on costs and it's primarily related to the contractor costs, not so much the supplies, the equipment, the FF&E [ph]. I believe that we continue to do a good job of providing that kind of oversight and support for our franchisees when they build. And some of this really is just getting even better at that contracting phase and getting our contractor bids, maybe multiple bids and so on. There are some regional differences that are just always going to exist and you can pick a lot of the markets that are going to be a little less expensive to build in versus more expensive, we're seeing the same thing. But again, on balance, they're behaving like the average portfolio, so yes.

Jeremy Hamblin

Great. Last one for me. Just in terms of the momentum that you're building here on your comp trends and being driven at least in part by the new menu items and product innovation, is that something that you're looking to step on the gas a bit here as we go through 2025? And what's the timing I would ask on any new menu items that you might roll out this year?

Bob Wright

Yes, you're so right. I mean, I know we talked about this when we had our pre-release information we shared back at ICR, same in today's prepared remarks. We're really pleased with what our menu innovation work is doing for our top line. We continue to be pleased with digital as a big driver of top line and I never want to miss the chance to celebrate the ops execution at the shop level at the end of the day. That customer experience is what drives people back in.

And what I think you heard is the innovations around a new protein, the new beverages that we have and of course the sauces that adds to the customization and so on. Those are pretty big moves for us that we're really pleased with. We want to do things with our menu that pass a few tests for us. Are they going to drive traffic? Are they going to give – is the brand going to get credit for menu innovation?

Do we have those relevant adjacencies that make sense that customers already know and understand and enjoy Potbelly? Would they come in for a Cubano, if they're already coming in for a rec occasionally? That's a good example of that. Can we execute it? Because we don't want to do is drive ops complexity into the menu.

And then of course, will it help us expand profitability? So with that testing framework in place, yes, and we tried to say that very clearly in the prepared remarks, we have more. We have a pipeline now that we're very excited about for competitive reasons, as you can imagine we don't like to announce what those things are or the timing of them. And as we get them into test, we're happy to start talking about them then and we've got some of that work coming around the corner very soon.

Jeremy Hamblin

Great. Congratulations and best wishes this year.

Bob Wright

Thanks Jeremy.

Operator

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

Alex Sturnieks

Hey guys, you got Alex Sturnieks on the line for Mark Smith today. Thanks for taking my questions. The first one, I just want to go over back to the behavior of the consumers. You mentioned the weather impacts in January and February. Are you seeing different behavior from customers now than you did in Q4, cutting check size or maybe fewer visits? Also curious on how digital sales and loyalty program have been impacting same store sales in the quarter so far?

Bob Wright

Yes, Alex, great to hear your voice too and it's good to talk to you. Yes, the consumer, I mean the momentum suggests that the underlying demand for the brand seems strong and seems that it's directionally unchanged once you strip out that weather. So for us that's kind of the core thing. We all like to try to play economists occasionally and figure out exactly where every consumer is at, but we see some continued strength and optimism that is showing up in our business.

Now, to your point about what are we doing and how can we support that with our internal activities? Yes, I think digital business continues to be real strength for us. We mentioned 40% digital this quarter is up another 100 basis points over the same quarter a year ago. Our Potbelly Perks program continues to deliver for us and it went into great lengths to talk about how we're taking another step there too.

If you think about launching Perks and then re-launching Perks inside of four years, that pace of the next new developments with data and analytics and our ability to really start to influence a smaller subset of those Perks customers, those digital customers, and move them up and through those frequency funnels, so they become more regular customers of ours and continue to drive that top line.

Without going into the level of detail that would put us at a competitive disadvantage, I can tell you that every version of that data that we're looking at makes us very happy with that piece of the business, very happy with it.

Alex Sturnieks

Okay. That's helpful. And then just kind of switching over, could you provide us an update on the competitive landscape especially competitors in the sandwich space or those expanding into hot sandwiches? Are you seeing any behavioral shifts from the consumer that might impact your positioning there?

Bob Wright

No, I don't think so. I mean, I think we're going to see that forever. It's obviously a densely competitive space. Sandwiches and fast casual both [ph], we're at the intersection of those two and we think that that's part of uniqueness. We are a sandwich based menu, fast casual restaurant in a sea of sub shops.

And so when we're looking at our customer, it's an occasion as much as it is a food type. And we really are known for and loved for our hot food, our 500 degree ovens. The fact that others are seeing value in some of those characteristics doesn't surprise me, but it also doesn't suggest that there's some – we're seeing anything showing up in significant shifts as a result.

Alex Sturnieks

Okay. That's great. And then just the last one for me. You've nailed it down before that you have some pretty good visibility into inflation with commodities. But just wondering if there's any potential impacts of tariffs on your commodity basket. And then what does your guidance build in for food inflation for the year?

Steve Cirulis

Sure. We're looking at overall inflation for the year when you include food and you include labor, packaging and some other items related to some other OpEx components of about 2.2%, maybe mid-2s when the – when it's all said and done. On the commodity side, somewhere between 2% to 3% and I say that because the tariff situation changes every day, right? But we're 99% locked here for the quarter, as we usually are within a quarter in fact we're two-thirds of the way through the quarter. So that's to be expected.

And for the year, we're locked 60%. So we've got some protection in our exposure to some of those things avocados and so forth. It's not a big part of our mix. Overall, food inflation kind of sits in the middle of, I should say the higher end of that 2% to 3% range. But labor inflation then to kind of round things out is going to be about 2%, 2.2% kind of similar to overall inflation for our entire business.

So you can't predict the future. In fact, if you go to sleep and wake up, things sometimes are different. But like I said, we're fairly well locked in. And now that labor rates are in a area where they've been pretty stable here over the last year and somewhat predictable, that, that helps us with some of the confidence around how we're going to be able to kind of work that through over the course of 2025.

Alex Sturnieks

Perfect. That's very helpful. Thank you, guys.

Bob Wright

You're welcome.

Steve Cirulis

Thanks, Alex.

Operator

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

Todd Brooks

Hey, good evening, guys. And I'll add my congratulations on a great 2024. I had a couple follow-up questions and a couple of incremental ones, just on the menu side, I know you kicked that around already, but you said you had done some work last year, Bob, that identified holes that you addressed with some of the saucing solutions with the pork as a heartier protein.

As you're looking at the innovation pipeline, are there as meaningful of opportunities as the first wave of innovation that you addressed in Q4 or is this more we're iterating around that and it's kind of let's hold the hill from the gains that we got out of innovation here in 2024 as we lap it later in the year.

Bob Wright

Thanks, Todd. I appreciate the follow-on. And you're right, I think part of the reason that we are so excited about what's going on with food innovation is that it's rooted in consumer insights. That's part of our stage-gate process that really gives us those insights to start exploring.

You can imagine that if you're working off of consumer insights and you've got a broad array of things that you may start to more clearly understand about your brand, the most difficult to address insights will have the longest tail on them. And so we've got a multi-quarter and a multi-year view of what we think we can do with the menu and that's why we're happy to tell you that we're still working on what comes next.

But until you test it, until you develop it and until you commercialize it, test it operationally, it's hard to say whether it is coming next at all. Now we've got a lot of great experience on this team and we've got a lot of industry experience and we're using talent that's I think top notch to help us in this area. So I feel really excited to believe that there is something coming in the future. But whether it's breakthrough or it's incremental, the answer is likely a little bit of both.

Todd Brooks

Okay. Perfect. And then a quick follow-up on the customer facing platforms and the data analytics, is the right read that this is an investment across 2025 to the benefit of 2026. I know you're not going to tell us launch timing on the new platforms, but just trying to understand the fruit from these efforts. Is it right to think about that in the out year versus 2025?

Bob Wright

No. I think that you see the impact of the work that we're doing in our guidance for the remainder of 2025. We started working on this towards the end of last year. So we think that there are some benefits that we can pull into 2025 and – both in the digital assets as well as the data and analytics work.

And I mentioned the same thing about the remodels. That's a project that got underway towards the end of last year that we think we can test rather quickly and learn quickly and potentially have some real stand up tested solutions that give us some real insights for the long-term, but had those this year too.

Todd Brooks

Okay. Perfect. And then the two incremental questions, one, Steve, you talked about mix being down 130 basis points in the fourth quarter. In the Q1 guide, what's the assumption for pricing and mix in that and has mix degraded at all or is it held steady? I'm just trying to figure out if this truly is just traffic or if there's anything else going on in the same-store sales guidance.

Steve Cirulis

Let's start with price and I'll just – I'll give you an overview on price for the year. So we're looking at total gross menu price of about 3.3% incremental for the year. That includes almost 1% of carryover from 2024. And so I'll remind everyone we didn't raise price at all in Q4 last year. And this year, we're looking at kind of what we traditionally done, which is three price increases throughout the year just had one in P2.

These are all going to be kind of in the mid-1% range. And obviously as we kind of read the business and the consumer and our performance, we obviously can adjust some of those downfield price increases throughout the year just like we did last year.

And as it relates to kind of how we're looking at guidance and then what's implied by guidance, we don't typically guide the traffic and some of the other components, but you can – if we're – at the midpoint of our guidance, for the year is 2% and we've got an average check of 3%, right? You can or I should say, yes, you can kind of see what the traffic would look like. It's probably kind of slightly negative for the year as we're looking at it. But we obviously have these things that Bob is describing that's going to push us hopefully into positive territory on that.

But our mix is holding pretty steady. We've got, as you remember from last year, some things that are kind of influencing our mix as it relates to our Tractor Beverage program, the new sandwiches that we've got and the \$7.99 deal all have had some impact on our mix. But we're not looking at it as anything other than kind of what we expect. And it's working for us as we move through the year and as implied by our guidance, positive to on how we finished last year is strong growth and strong performance.

Todd Brooks

Okay. And then the final one, I swear. You talked about, I think the quote was several company stores later in the year. I guess, what determines – I know I'm parsing several for detail, but as far as sites, is this something that you guys have been working on for a while, so you've got good visibility into these locations certainly being opened in 2025 or this is – that kind of okay, units announced in the first quarter and often get opened in kind of that nine-month timeframe and we think that the incremental company units will fall very late in 2024 – 2025, sorry. Thanks.

Bob Wright

Yes. Thanks for asking about that, Todd. We're really excited about this year's development and we wouldn't want this company in a development thing to be confusing. We expect that company shops this year being in that mid to high single digit count. And they are mostly backloaded for the year. And just like I said, a moment ago about sales, any impact to positive impact to adjusted EBITDA this year, you've got that baked into our guidance because we think we see clearly enough where those are and how many there are and when they would open.

And that's – if you think about it last year, we opened five company units, we were replacing a couple of closures and a relocation. So the mix of company units in 2025 to franchise units in 2025 is roughly the same as it was last year. I think the new news that we talked about is that as we see the power of the unit level economic model working for the brand as hard as it is – excuse me, as hard as it is, we think that there is an opportunity to say, maybe up to 20 units a year as you get into 2026 and beyond because of the – it'll be another layer of growth on top of all that same franchise unit trajectory that we're talking about and a layer of growth that has an outsized impact, positive impact on our adjusted EBITDA. That won't begin until 2026.

And to be really clear, we're very focused on the markets for these company units. I'd have you think about markets primarily in the Midwest and in Texas and although we are finalizing that a longer term version of that. And the reason why is those are markets that have some very strong performance at the unit level. Cost to build in those markets is quite attractive. They're under penetrated. And candidly, we haven't really had a lot of franchise interest in some of these markets that are under penetrated, but already have company units in them. So it's kind of the perfect combination for us to just add that additional layer of well invested capital.

Todd Brooks

Okay. Thanks for the color guys. Appreciate it.

Bob Wright

You're welcome.

Steve Cirulis

Thanks Tom.

Operator

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

Matt Curtis

Hi, good afternoon. Just to start with a question on the franchisee incentive plan you just released. Is that something that could provide upside to development this year or is it more likely to be something that benefits results in two years given the time to open a site? So I think in the past you've said it's about three quarters roughly. And then relatedly, maybe you could tell us what the early reception has been to the plan from the franchisees?

Bob Wright

Yes. Matt, I'm really glad you asked about it. We were excited to announce that program. We already have what we call our 50-50 incentive program, which is 50-50 in every way, it's a win-win for the franchisee and for the brand and it's all about a 50-50 split on a couple of key fees. That is for all franchisees that we have that program and it ends in 2026. But for any franchisee that opens their shop on time or early, they get to participate in a discounted royalty rate for the weeks that they open early. Obviously for us, that's still upside for us because we didn't have those weeks planned in our plan anyway for the franchisee, what a great way to increase their return on investment and they can get 50% off their initial franchise fee again if they open on time or early.

It's not a terribly rich incentive. It actually doesn't cost us much of anything except for that IFF. And all we really did in the most simplistic terms with the large developer agreement is took similar incentives and ensure that our large developers knew that they could plan to enjoy those same incentives during the duration of their development agreement. We're seeing a broader array of larger and more financially savvy and very sharp investing franchisees and franchise candidates that are coming into the system.

And as they're looking at their long range plan and thinking about building two or three or in some cases considering territories where they need to build four units a year, everything for them is about longer term planning. And putting this incentive in place means that they can start to look forward and see real value if they're supposed to open two a year, opening 2.3 or 2.5 a year and layering that year on year on year can be really lucrative for the long-term for them and their business.

And they want that ability to plan longer term, not just through the end of 2026 and then see if we're going to extend it. So we basically bake that in. Your question about reception, we announced this at our recent system summit where we bring all of our multi unit operators and franchisees together and the reception was very, very exciting. Franchisees that were in the midst of looking at additional development for themselves. And since we announced it, it was just earlier this week, we have had a couple of inquiries from people that wanted to hear more about it, because they see it as recognition that not every franchisee at every scale really looks at their business the same way. And they're pleased that we recognize that and put something unique and special in place for those that are going to invest the most.

Matt Curtis

Okay. So it sounds like, I guess, this is more something that would create upside over the longer term as opposed to something that we necessarily boost franchise development this year?

Bob Wright

Well, part of the 50-50 incentive would help us and has been helping us have franchisees push to stay on track with their development agreements last year, this year and 2026 because of the 50-50 that we've had. The large franchisee version of that, yes, you shouldn't expect a ton of benefit in 2025. We just announced it. But I think you'll see the underpinnings of long-term benefit that certainly we will see it anyway with our franchisees as they make plans for each of their markets that they're growing.

Matt Curtis

Okay, understood. Thanks. And then, separate question on G&A. As we move through 2024, we kind of saw a step down from \$11 million to \$12 million per quarter in the first half of 2024 to more like \$10 million to \$11 million in the second half of 2024. So at this point, how should we think about what the right G&A run rate is for 2025?

Steve Cirulis

Sure. I think what you'll see is this – we'll continue to be prudent with our G&A, right? As we – last year, we focused on kind of as we described metering G&A to make sure that we could hit our commitments to profitability. I think the important thing to notice, we'll have G&A that will still be some investment G&A into our development plans and programs. So you should expect to see some G&A increase on a dollar level from 2024's amounts, mainly because we've got some inflation that's baked in, right, for wages, some new hires to support this rapid growth that we're continuing to experience. And if you look at the way that G&A would lever off of system wide sales, you'll see that rate start to decrease even into 2025. So slightly higher dollar amounts coming into the year, but better leverage as we increase sales.

Matt Curtis

Okay, understood. Thanks very much.

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 all again for your time this evening. We really look forward to talking to you again. I hope you have a great night.

Operator

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

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