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Red Robin Gourmet Burgers, Inc. (RRGB) Q3 2026 Earnings Call Transcript

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Q3: 2026-11-18 Earnings Summary

EPS of -$0.54 misses by $0.20 | Revenue of $232.10M (-12.46% Y/Y) misses by $21.54M

Red Robin Gourmet Burgers, Inc. (RRGB) Q3 2026 Earnings Call November 18, 2026 4:30 PM EST

Company Participants

David Pace - President, CEO & Director
Mark Graff - Chief Financial Officer

Conference Call Participants

Alexander Slagle - Jefferies LLC, Research Division
Jeremy Hamblin - Craig-Hallum Capital Group LLC, Research Division
Todd Brooks - StoneX Financial, Inc., Research Division

Presentation

Operator

Good afternoon, everyone, and welcome to the Red Robin Gourmet Burgers, Inc. Third Quarter 2026 Earnings Call. This conference is being recorded. During management's presentation and in response to your questions, they will be making forward-looking statements about the company's business outlook and expectations.

These forward-looking statements and all other statements that are not historical facts reflect management's beliefs and predictions as of today, and therefore, are subject to risks and uncertainties as described in the company's SEC filings. Management will also discuss non-GAAP financial measures as part of today's conference call. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles but are intended to illustrate alternative measures of the company's operating performance that may be useful. Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures can be found in the earnings release. The company has posted its third quarter 2026 earnings release on its website at ir.redrobin.com. On today's call are Dave Pace, President and Chief Executive Officer; and Mark Graff, Chief Financial Officer.

Now I would like to turn the call over to Dave Pace.

David Pace
President, CEO & Director

Good afternoon, everyone, and thank you for your interest in Red Robin. When I stepped in as Red Robin's CEO in April 2025, I had 2 priorities to address. One was to improve our operating performance and the second was to strengthen the financial foundation of the company. In July of 2025, we launched our First Choice plan that outlined how we are going to achieve success on both fronts.

Over the past year, as we've executed against the First Choice Plan, we've made significant progress in improving the execution at the restaurant level, which has translated into improved financial performance in restaurant level operating profitability and ultimately, our adjusted EBITDA. We also made a concerted effort to rightsize our capital structure, reduce debt, improve our terms and as a result, enhance our overall financial flexibility. Our plan to do this was simple: raise proceeds by refranchising restaurants, pay off our existing debt facility before we went current, refinance a lower amount of debt at commercial terms and reduce our interest expense and secure a 5-year term to give us the stability needed to refocus on the core business. I'm pleased to report that during the third quarter, we completed the execution of this plan and secured success across each of our objectives.

In the quarter, we closed on 3 refranchising agreements that collectively generated over $89 million in gross proceeds. Once completed in Q4, these transactions will have generated approximately $96 million in gross proceeds. These proceeds were used to retire our previously outstanding debt before going current. We then executed a process that resulted in the successful refinancing of our credit facility on attractive commercial terms for a 5-year period. The new interest rate of SOFR plus 325 basis points represents a more than 400 basis point improvement from our prior facility. Together with a significantly lower overall debt balance, it's expected to generate meaningful interest savings. These transactions mark an important milestone for the company and provide greater financial stability as we continue to execute our First Choice initiatives and advance our long-term strategic priorities.

As important as the achievement of our financial objectives is the opportunity to welcome the new franchise partners who joined the Red Robin system through this process. We told ourselves when we began that we would not compromise on the quality of our partners that we engage during our process, and we're delighted to introduce 3 new teams to the Red Robin family of franchisees. Each bring years of substantial multiunit restaurant experience and are seasoned operators with a strong hospitality-first mindset. They also possess the resources needed to accelerate growth across these markets while continuing to deliver an exceptional guest experience.

We look forward to partnering with them to strengthen the Red Robin brand and unlock the full potential of their markets. Now turning to the quarter and an update on our progress against our First Choice priorities. Same-store sales grew 3.9% in the quarter with traffic down 170 basis points. Our same-store sales result outperformed the industry by 70 basis points as measured by Black Box and represented our best same-store sales performance since Q1 of 2023. In addition, we increased our share of visits by 10 basis points in trade areas where competitors are located, and we remain positive year-to-date in share gains. Lastly, our average check was outsized as it benefited from lapping the 1-year anniversary of our Big Yummm value platform, which launched in July of 2025. Value remains a key area of focus for us given the pressures we're seeing in the broader macro and consumer environment.

Consumers continue to be more discerning about where they spend their discretionary dollars. Our Big Yummm value platform provides a clear accessible entry point for guests while preserving the full Red Robin experience that guests have come to expect. We achieved these results while remaining disciplined on pricing in order to build traffic and frequency while protecting the value guests associate with Red Robin. The top line momentum, combined with disciplined cost management enabled us to drive 4-wall efficiency, including a 90 basis point increase in restaurant level operating margin to 10.8%. Adjusted EBITDA was in line with our expectations. With that as the backdrop, let me give you a brief update on our progress against each of the First Choice priorities. First, let's start with Hold serve.

Our Hold Serve pillar is about sustaining the operational progress we've made and continually building on it. I'm pleased to report that this momentum continued into the third quarter as our labor efficiency initiatives delivered approximately 40 basis points of year-over-year savings, contributing to the 90 basis point improvement in restaurant level operating profitability margin I just mentioned. Our operators are running smarter and more efficient shifts that are being aided by the adoption of AI and technology. Importantly, these efficiencies are not compromising quality as our satisfaction scores remain at strong levels. Moving to our drive traffic pillar. I first want to thank Russ Klein for his partnership and support over the last 1.5 years and welcome Scott Hudler, who joined us in September as our Chief Marketing Officer.

Russ joined us initially as an interim adviser and ultimately played an increasingly active role through our reversal of negative traffic trends to a position where we are once again competing among the leaders of our industry. Scott comes to us with deep restaurant experience and a data-first approach that fits well into how we run our business. In his first weeks, he's reached the same conclusion we have. The First Choice strategy is the right one, and it's working. As we look ahead, we're focused on getting sharper about where and how we target our future efforts. Value remains foundational to our strategy. For us, value means more than simply offering the lowest price. It means delivering a compelling overall experience at a price guests can feel good about. The Big Yummm platform remains a central element and has continued to perform well and is mixing at healthy levels.

We'll keep evolving it and find ways to strengthen our relevance with value-seeking guests. Going forward, you'll see us put more focus on dinner and family occasion. This is a part of our business with room to grow and an area where our guests see a natural fit for Red Robin. We continue to explore offers and innovation that targets the dinner occasion. Beyond dinner, we see a similar opportunity with families and are testing new ways to make Red Robin an even easier choice for them. What we're testing and learning from is helping us shape our plans for 2027. Menu innovation is the third area of focus. We want to do more of what Robin does best with burgers, chicken and other craveable entrees and to give guests reasons to visit us more frequently.

In October, we launched our Prime Rib Stack Burger as an indulgent holiday offering. This craveable offering showcases the innovation and craft burger expertise Red Robin has been known for over the past 80 years. By pairing indulgence with value, we're providing guests with the flexibility to choose Red Robin on different occasions and at different price points. Turning to our find money pillar. Beyond our refranchising and refinancing efforts that I talked about earlier, we continue to look at how we can be increasingly more efficient. Our IT team is leveraging our commitment to AI to identify redundant systems that can be eliminated and consolidated. Our supply chain team continues to find cost savings across our ingredient basket without compromising quality.

We've adjusted our organization design to align more closely with the needs of our growing franchise system. And also, as discussed, our operators continue to leverage our AI tools to fine-tune our operating environment to improve unit level economics. Looking at our fixed restaurants pillar, the goal is straightforward: improve the guest-facing elements that matter most to the dining experience while maintaining a disciplined approach to capital. We're continuing our 2026 Light Touch refresh program, but have now also engaged a design firm to develop the next evolution of our restaurant prototype. This guest-first approach will preserve the signature elements that make Red Robin distinctive while modernizing the environment to strengthen our brand identity and create a more welcoming connected guest experience. The work is designed to establish a repeatable, cost-conscious format that can be adapted across our restaurant base and support both reimaging the existing fleet as well as supporting new unit expansion.

We'll report further on this as this initiative advances. Lastly, I'll address the Win Together pillar. There have been a number of strategic changes over the past few months, and I've been impressed with how well our team has adapted while remaining focused on our central priority, putting our guests first in everything we do. Completing our refranchising and refinancing initiatives was a total team effort, and there were too many people at the center of this work to call them out individually. The sense of ownership and pride I see across our restaurants and support center is incredible and a testament to the culture and sense of belonging that exists at Red Robin. We remain focused on building a collaborative and supportive work environment that provides the training, support and communication that enable our team members to succeed.

Despite a level of change that would have unsettled the best organizations, we continue to see historically low hourly and restaurant management turnover, while employee engagement scores continue to track above industry benchmarks. In a hospitality business, team stability is a competitive advantage. Efficient execution, a focus on guests, reduced recruitment and training costs all lead to a continuous improvement on restaurant level operating profits. To every Red Robin team member, thank you for your continued commitment to our guests and to each other. Your focus, discipline and guest-first mindset are helping us build a stronger culture, a better restaurant experience and a more durable business.

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

Mark Graff
Chief Financial Officer

Thanks, Steve. I'd like to start by providing a recap of our financial performance for the fiscal third quarter of 2026. Total revenues in Q3 were $232 million, a decrease of $33 million from the prior year. This change in revenue was primarily due to the impact of refranchising 108 stores, restaurant closures, offset by an increase in comp sales and franchise revenue.

Comp sales, excluding the impact of deferred loyalty revenue, were up 3.9% in the quarter. Q3 comp sales included a 5.6% increase in average check, offset by traffic that was down 1.7%. This was our best comp sales performance since Q1 2023. The 5.6% increase in average check consisted of a 3.4% increase in price and a 2.2% increase in mix and discounts, driven largely by lapping the 1-year anniversary of our Big Yummm value platform, which launched in July 2025. This is consistent with our strategy of maintaining compelling value while using pricing prudently. As it relates to other aspects of our Q3 financial performance, restaurant level operating margin was 10.8%, an increase of 90 basis points compared to the third quarter of 2025. Benefits from average check, cost savings and labor efficiencies were partially offset by inflation and higher general liability expense.

As it relates to our commodity basket, as of the end of the third quarter, we were approximately 70% locked on our 2026 commodity needs. General and administrative costs were $17.2 million as compared to $16.9 million in the prior year quarter. The $0.3 million increase is primarily due to stock-based compensation, partially offset by reduced people costs from our corporate efficiency initiatives. Selling expense was $9.4 million compared to $6.8 million in the third quarter of 2025. The increase reflects our decision to invest behind the Big Yummm value platform and our personalization efforts to improve local market awareness and reach.

Adjusted EBITDA was $7.3 million, down $0.3 million versus the third quarter of 2025. This was primarily driven by the net impact of the refranchising transactions and a year-over-year increase in marketing spend. We view marketing spend as an intentional investment behind the traffic-driving initiatives Dave discussed. As it relates to our balance sheet and capital structure, we ended the third quarter with $24 million of cash and equivalents. Total liquidity was $29.5 million, consisting of cash and equivalents plus $5.7 million of available borrowing capacity under our revolving credit facility. Turning to our outlook. We are updating our guidance to reflect changes to our business from the recently completed refranchising transactions.

As it relates to Q4, we expect comparable restaurant revenues of approximately 2.75%, excluding the impact of deferred royalty revenue. Second, restaurant-level operating profit margin of approximately 10%. Third, we expect adjusted EBITDA of approximately $6 million. The restaurant level operating profit margin and adjusted EBITDA includes certain transition-related costs associated with the refranchising transactions, including approximately $1.5 million of general liability expense related to our refranchised restaurants.

In addition, the outlook reflects our current overhead structure and does not yet include the full run rate benefit of the cost optimization opportunities associated with our higher mix of franchised restaurants. As the transition progresses, we expect to address these opportunities and further improve the earnings profile of the business. In summary, our third quarter performance reflects continued improvement in the core operating fundamentals of the business. As we look ahead to finish the year strong, our priorities remain focused on investing behind traffic-driving initiatives while being disciplined in our execution of the First Choice plan.

Dave, I'll now turn the call back to you.

David Pace
President, CEO & Director

Thanks, Mark. To summarize, our third quarter results reflect continued improvement as we execute against our First Choice plan. Our progress reflects focused and disciplined execution by our team. Over the past year, we've meaningfully strengthened our financial foundation. The completed refranchising transactions and subsequent refinancing provide greater financial flexibility and a stronger platform from which to invest in our restaurants, support our franchise partners and execute the First Choice plan.

We're investing behind multiple traffic initiatives and innovation to drive frequency across dayparts and occasion. We continue to provide guests with compelling menu offerings and value platforms like our Big meal that includes our signature bottomless sides and beverages. Looking ahead, our priorities remain clear: continue building traffic and frequency through value, dinner and family occasions, menu innovation and more targeted marketing, improve the guest experience through disciplined restaurant investments. and further align our people, operations and franchise capabilities with our increased portfolio of franchise restaurants. Once again, I want to thank the entire Red Robin team for your trust, commitment, care for each other and focus on the guest. We're encouraged by the progress we've made and remain focused on consistent execution and long-term value creation.

With that, we're happy to take your questions. Operator, please open the lines.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question is from Alex Slagle with Jefferies.

Alexander Slagle
Jefferies LLC, Research Division

All right, thanks. Hey, guys, congrats on the progress here with the re-franchising and the refi. So that's very encouraging. I guess first just on the re-franchising, if there's just some initial metrics you could give us or color just kind of potentially the average operating metrics of the restaurants you've re-franchised. Maybe that would help us recast our models and just how to think about the offsetting rental income and royalties. I'm not sure if the royalties start out at the full amount or if you have any color there.

David Pace
President, CEO & Director

Yes, Mark, do you want to take that?

Mark Graff
Chief Financial Officer

Yes, sure. So, Alex, we filed some pro forma results about, I don't know, two months ago that give you some of the volume impacts. And so these stores were about $3.4 million AUVs. And so when you look at the contribution level of those stores pretty healthy, a little bit higher than the average system. We think after you kind of net on a full-year basis, it'll be a little bit less than a 100 basis point drag on the overall system from an RLOP perspective.

As you think about the incrementality we'll get from the franchise revenue, there were a little bit differences in royalty, but for all intents and purposes, if you kind of take a blended royalty of 4.5% and a blended marketing, which will be a pass-through of call it 1.5%, that's kind of your franchise revenue components. And then, as you kind of go down the P&L, obviously, you've got some G&A savings of the transition of the stores from the operations, and then there will be some G&A optimization opportunities.

And we kind of called that out, Alex, on just our guidance, right, that, that number is not obviously embedded there. But if you want to kind of frame something from a run-rate perspective, as you think about G&A, as you just looked at maybe G&A as a percent of sales in Q3 as kind of a proxy, and we got to last year, that's about a 100 basis point difference on G&A. And so if you kind of do that math, that gives you the kind of proxy for some of the magnitude that we're talking about.

So I think if you kind of do that and you add back that $1.5 million of general liability, which again, is just associated with the tail of some of those restaurants, so you think about the actuary costs of some of the claim and severity impacts of general liability, that'll eventually dissipate, but I think if you kind of add those components back with kind of what I framed, I think that kind of hopefully gives you some context about kind of total year impact and where maybe kind of Q4 can triangulate to.

Alexander Slagle
Jefferies LLC, Research Division

Okay. Helpful. Thank you for that. And the other thing I wanted to touch on was the check growth. I know that accelerated through Q3, and it seems like it was mostly a result of just lapping the initial promotion of the Big Yummm last year. But I mean, it looks like the menu refresh recently heading into the holidays here, it seems to point customers more on the premium side of things with the $16.99 tier, I guess, added to the Big Yummm to help trade up to. Kind of curious what the initial response has been, sort of how you're thinking about highlighting that barbell opportunity further in the quarters ahead.

Mark Graff
Chief Financial Officer

Dave, do you want to maybe kick the barbell strategy, and then I can go into some of the specifics of the PPA?

David Pace
President, CEO & Director

Alex, in terms of that, I think, look, if you look back through across the year, so we took pricing at the beginning of the year. We did not take pricing since then. So one pricing action, as we started to lap the Big Yummm, obviously we got the advantage of the value, lapping the value discounting, which gets added back in, that helped us on PPA. And then we did a lot of menu work around mix and offering and platform structure in the menu that also drove up PPA.

So we were consciously going after three different things. One was limited control pricing at the beginning of the year. Second was the advantage that we got from lapping Big Yummm. And then third is the menu work that we did around what we thought we could do with mix on PPA. All three of those things worked, which is why you saw the inflated PPA numbers that we felt really good about.

I think you'll continue to see us do that going forward. I think it's going to be a combination of how do you present a value offering that's compelling to consumers and then how do you -- what do you introduce around that to execute the barbell strategy. So I don't think you'll see that. You may see kind of variations on a quarter-to-quarter basis, but as a fundamental strategy, that's going to continue in '27.

Mark Graff
Chief Financial Officer

And then Alex, as it relates to, you know, just kind of the magnitude, you're right. A lot of it's just the anniversary of the Big Yummm. We did see some attachment, did some less discounting that helped. As you think about the go-forward with Q4, we are going to lap the Triple Yummm app and the Two For You Combo.

I would say that's going to probably knock about 100 basis points off our offset, the mix piece. If you think about just your modeling kind of where we're guiding, I think that can help triangulate some of the components for you.

Operator

Our next question is from Jeremy Hamblin with Craig-Hallum.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Thanks, and I'll add my congratulations on getting the deals done and the strong momentum in the business. I wanted to approach this. Obviously, all the consensus numbers have kind of the legacy business model. You don't snap your fingers and kind of change your cost structure overnight.

But just in terms of looking at -- if you kind of had those 116 locations that you re-franchised or the 108 that were completed in the quarter, can you discuss what the estimated impact was to revenues for Q3, in other words, the negative impact to revenues from selling those locations, and kind of the range of EBITDA impact associated with that, just so we can help to normalize versus where consensus forecasts were?

David Pace
President, CEO & Director

Mark, do you want to take this?

Mark Graff
Chief Financial Officer

Jeremy, I'll have to get back to you just on the Q3 piece. The way we were kind of modeling was a little bit different for the board of like some of the adjustments. So I'll get back to you on the specific Q3 impact. Remember, it happens kind of 2/3 through the period, so I don't want to just quote you a wrong number. So sorry, I'll have to get back to you on that number.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Okay, no problem.

Mark Graff
Chief Financial Officer

Jeremy, just to clarify, were you looking for a quarterly number or were you looking for the annualized impact?

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

No, I think probably more on the quarterly number. As you noted, these are, on average, are better-performing stores, $3.4 million on an annual basis. So I think those deals closed roughly September 1. So 5 weeks of the quarter that you didn't have those stores, but all the, I think, consensus numbers had those stores in there for 5 weeks.

So that's kind of the gap, even though you had significant upside on comps. That's kind of just helping to understand the build-back or the discrepancies between revenue and EBITDA versus the reported results.

Mark Graff
Chief Financial Officer

Yes, understood.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

In terms of on a go-forward basis, I wanted to see if we could attack a couple of things. So, what would you expect your annualized interest expense to look like, assuming no further re-franchising transactions? What would you expect the reduction to be in your CapEx investment on a go-forward basis?

And then the last one is, as you said, you don't change the entire business model overnight just because you sold a bunch of stores. How long would you expect it to take, again, just based on the current transactions, to get your cost structure in line with where you would want it to be, because this quarter obviously was always going to have a ton of noise in it?

David Pace
President, CEO & Director

I'll take the first -- or the second part and I'll hand it back to Mark on the specific interest expense number and CapEx number. In terms of the transition, Jeremy, you're absolutely right. This is not a linear process. So when we complete the transactions, we've got an existing organization that's both standing up the new franchisees, transitioning the work from company-operated to franchisees, and ensuring that, that transition goes smoothly.

We've already begun to realign the organization to support the franchise company-owned mix that these transactions present us with. It'll probably take us -- for the most part, I think we can get after it in Q1 or by Q1. Some of it may run over to Q2, as you think about year-end close and you think about getting the 10-K filed, some of those things will have an impact on our business. But for the most part, I think you'll see us make a lot of those transitions in Q1.

Mark Graff
Chief Financial Officer

Hey, Jeremy, and then I'll just unpack a couple of these for you. So related to Q3, it was a little over $30 million and about $3 million of EBITDA. So that's your kind of Q3 pro forma. As it relates to interest expense, you're probably talking between $11 million and $12 million for the year on a run-rate basis.

And then on a CapEx perspective, for Q4, we'd expect about $4 million, call it $3 million-ish of kind of maintenance, somewhere in there, but you're looking probably in that kind of $18 million to $19 million range, right, on like '27 basis, with the majority of that being maintenance. You're going to have some technology rebates, refresh for handhelds and some dollars for refreshes, but the majority of that's going to be maintenance-related.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Right, that's super helpful. And then just one more, in terms of same-store sales here, 2.75% guide, so 3 straight quarters of positive comps that you're looking at. We've had some other restaurants talk about the impact of Halloween falling on a Saturday night this year, some distraction that casual diners have talked about related to kind of the intensity of the election and the advertising spend on the election. What would you call out in terms of kind of estimated range of impact for some of those things on your Q4 expectations?

David Pace
President, CEO & Director

I don't know. Mark and I aren't together, so we're not looking at each other, but there's no question, Jeremy, that Halloween had an impact, calling it out on the quarter. And look, I'd love to not have it on a Saturday night, but we did and that's the reality. And so we build that into our work and our targets and our planning. And we go out to make it work.

For us, I don't think the election issue, because we don't spend as much on advertising, it's not like other businesses where you see ad rates go up and availability go down during particularly intense political periods. I don't think that had as much impact on us, but Halloween certainly did. Mark, do you want to add to that?

Mark Graff
Chief Financial Officer

Yes, I agree. I think election was more of a minimal impact for us. But I think on the psyche of the consumer, maybe you start to see a little more variability just from a sentiment perspective, Jeremy. But I think, look, that's just something that everyone in the industry is watching. The last couple -- last week certainly has been a little bit crazy, but we're just kind of head down, plowing along.

Jeremy Hamblin
Craig-Hallum Capital Group LLC, Research Division

Great. And then as you look at menu innovation moving forward, you've had success with the towering double cheeseburgers, sliders have been strong. What should we be looking for here in Q4 and into 2027? Are there particular areas where you feel like you want to build out your menu pipeline?

David Pace
President, CEO & Director

Well, I think first of all, our menu pipeline looks really strong. Our innovation pipeline, Mark and I sat through some innovation review last week where we saw innovation across every aspect of the menu. So we saw app innovation, we saw salad innovation, we saw main entree innovation, burger innovation, beverage innovation. I feel really good about the level of innovation and creativity that our culinary team is bringing forward with products.

I think where those end up showing up on the menu could be any or all of those, but it's also going to be oriented to the things that we talked about earlier, which is we want to guide toward how do we impact the dinner experience and kind of figure out how to get the performance at dinner that we've seen around particularly the responsiveness to the Big Yummm deal at lunch. So we'll be looking at what can we do to impact dinner.

We'll be looking at what can we do to impact families because we're getting very favorable responses from families, and so what can we bring forward in that innovation pipeline that is attractive to families, again, giving them more reasons to come to the restaurant? So I think within the context of the marketing kind of areas of emphasis was where we'll introduce the innovation. But I would tell you we've got a lot of bullets in the ammunition to fire from an innovation standpoint.

Operator

Our next question is from Todd Brooks with StoneX.

Todd Brooks
StoneX Financial, Inc., Research Division

I'll add my congratulations as well, guys. Well done. A few tag ends left here. Alex and Jeremy covered a lot of this, but Mark, as we think about, I think you said mix stepped down about 100 basis points in Q4. What's the commodity pricing outlook? What's the early read on that for '27, and Mark or Dave, thoughts on given where the consumer is and that your pricing rolls off at the start of the year. Any thoughts on early reads on pricing going into '27?

Mark Graff
Chief Financial Officer

I'll take pricing, Dave, if you want to talk about pricing. So from a commodity perspective, yes, I mean, look, we were over 3%. I think we can do a little bit better on the commodity environment. I think you'll see a little bit less inflation on the beef side for us. Poultry is an opportunity. I think you're still going to have inflation in some other buckets with some fry oil and seafood being a little bit higher, but I think we can be a little bit better.

I don't think it's monumental, but I think it's nice to see that number come down a little bit because certainly, inflation has been running hot this past year. Dave, I don't know if you want to jump in on pricing.

David Pace
President, CEO & Director

Let me just jump in for a second. So, Todd, thanks for that. I think as you know, Red Robin has kind of leaned in a little more aggressively on pricing in the past than other businesses. And so as a consequence of it, we are being careful about pricing now, which is why we took pricing one time in '26. As I look at '27, I want to be equally cautious and try and figure out how can I get us positioned back to where I want to be within the competitive set of the industry, but still cover inflation, still make sure we've covered our cost structure and protected it.

So, I mean, I don't have a number for you right now. We're literally talking and debating that internally every day to try and figure out where we're going to land. But I think as a rule, I want to be more cautious on pricing than perhaps we've been in the past, and I just want to get us back to the right position within the industry.

Todd Brooks
StoneX Financial, Inc., Research Division

Okay, fair enough. Secondly, I'm wondering, I know the three deals closed at the start of September, experienced franchisees. You're managing the transition aggressively for a strong outcome. I'm just curious, when you went through the cycle of exploring re-franchising, appetite from other parties and the thoughts are, okay, you want these three to go well, but what is the thought going forward on further re-franchising transactions? And is there a pipeline of interested parties when you all decide that the existing 3 are in a good place and that you're ready to proceed with future partners?

David Pace
President, CEO & Director

So great question, Todd. And it's the actual -- it's the obvious question that we need to be able to articulate. I will tell you that the kind of role of re-franchising shifts as you have completed these deals and goes forward. What do I mean by that? So if you think back, this was a very tactical exercise to raise proceeds in order to pay down existing debt and then refinance. So we went through these transactions with the idea of how do we generate a specific amount of funds and how do we do that with the right partners and with the right markets, and so all of those things.

As we go forward, the positive news I would share with you is that there continues to be a lot of inbound interest. So there are people that are interested in buying Red Robin restaurants, and that's encouraging that, that interest level is there. People feel good about the future of the business, people feel good about the direction of the First Choice plan. And so there's interest.

So then that puts us in a completely different environment where as we look at this, it's like, who are the potential partners? Are these people that we want to partner with? Do we feel good about them? What are the valuations that we think we can get over the existing businesses? Is it sufficient to justify a transition? What geographies are they interested in? Are these strategic geographies for us one way or the other? What does RemainCo look like?

And so as we transition through this work, we have to be conscious about what is the business that remains and what's the cost structure that is associated with that? How do we get to that? Can we see our way there? So all of those things go into the pot right now, and Mark and I and the team are spending quite a bit of time trying to figure that out.

The encouraging piece that I would emphasize again is the line of sight to the buyer pool is encouraging and we feel very good that there's sufficient interest to go down that path should we decide to do that.

Todd Brooks
StoneX Financial, Inc., Research Division

Okay, perfect. And then my final one. Dave, you talked about new leadership and marketing after 18 months here of the prior regime and maybe some thoughts on incremental investment being beneficial for the brand. I know it's early days to talk about a new strategy, but as you're thinking about '27, is there a level that we should be thinking about from a selling cost standpoint to accomplish what you're all hoping to do in the out year?

David Pace
President, CEO & Director

I think what you'll see because of the transition is that the total selling expense might be close to or slightly below current selling expenses. Mark, correct me if I'm wrong on this, but I think you'll be maybe slightly below. Now, what we are working on and spending a fair amount of time on is how do you translate the total dollars from non-working to working? So how do you increase the percentage of working dollars you have available?

So it could be a scenario where we have as much or more spend on the working side as we did in 2026. But the construct of that selling expense line is different than what it was this year. But I think in a total from a total standpoint, probably same to slightly lower. Mark, is that fair?

Mark Graff
Chief Financial Officer

Yes. That's fair.

Todd Brooks
StoneX Financial, Inc., Research Division

Can you give us a framework of kind of that non-working to working split or what it was tracking towards in '26?

David Pace
President, CEO & Director

In terms of percentages?

Todd Brooks
StoneX Financial, Inc., Research Division

Yes.

David Pace
President, CEO & Director

Higher than we wanted it to be.

Operator

This concludes today's conference call. You may disconnect your lines at this time. We thank you again for your participation.

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