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# Texas Roadhouse, Inc. (TXRH) Q3 2024 Earnings Call Transcript

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## Q3: 2024-10-24 Earnings Summary

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EPS of \$1.26 **misses by \$0.06** | Revenue of \$1.27B (13.48% Y/Y) **misses by \$1.68M**

Texas Roadhouse, Inc. (NASDAQ:[TXRH](#)) Q3 2024 Earnings Conference Call October 24, 2024 5:00 PM ET

## Company Participants

Michael Bailen - Head, Investor Relations

Jerry Morgan - Chief Executive Officer

Chris Monroe - Chief Financial Officer

## **Conference Call Participants**

Katherine Griffin - Bank of America

Jake Bartlett - Truist Securities

Brian Bittner - Oppenheimer

Eric Gonzalez - KeyBanc

Jim Salera - Stephens

Brian Harbour - Morgan Stanley

Dennis Geiger - UBS

David Tarantino - Baird

Peter Saleh - BTIG

Jeffrey Bernstein - Barclays

Lauren Silberman - Deutsche Bank

Jeff Farmer - Gordon Haskett

Jon Tower - Citi

David Palmer - Evercore ISI

Chris O'Cull - Stifel

Andrew Strelzik - BMO Capital

Rahul Krotthapalli - JPMorgan

Brian Vaccaro - Raymond James

Gregory Francfort - Guggenheim Securities

Jim Sanderson - Northcoast Research

## **Operator**

Good evening, and welcome to the Texas Roadhouse Third Quarter Earnings Conference Call. Today's call is being recorded. All participants are now in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to introduce Michael Bailen, Head of Investor Relations for Texas Roadhouse. You may begin your conference.

### **Michael Bailen**

Thank you, Rob, and good evening. By now, you should have access to our earnings release for the third quarter ended September 24, 2024. It may also be found on our website at [texasroadhouse.com](https://texasroadhouse.com) in the Investors section.

I would like to remind everyone that part of our discussion today we will include forward-looking statements. These statements are not guarantees of future performance and therefore, undue reliance should not be placed upon them. We refer all of you to our earnings release and our recent filings with the SEC.

These documents provide a more detailed discussion of the relevant factors that could cause actual results to differ materially from those forward-looking statements. In addition, we may refer to non-GAAP measures. If applicable, reconciliations of the non-GAAP measures to the GAAP information can be found in our earnings release.

On the call with me today is Jerry Morgan, Chief Executive Officer of Texas Roadhouse; and Chris Monroe, our Chief Financial Officer. Following the prepared remarks, we will be available to answer your questions. In order to accommodate everyone that would like to ask a question, could everyone please limit yourself to one question.

Now I would like to turn the call over to Jerry.

### **Jerry Morgan**

Thanks, Michael, and good evening, everyone. We are pleased to report strong third quarter results, which were highlighted by 8.5% same-store sales growth and approximately \$1.3 billion of revenue. These results are a testament to our operators continuing to create an environment where Roadies want to work and our guests want to dine.

Since last quarter, I had the opportunity to visit with managers in Roadies at a number of our international franchise restaurants. Also, over the past five weeks, I have been traveling the country meeting with our managing partners during our annual fall tour. Both internationally and domestically, I can tell you the pride and passion our operators have for running their restaurants have never been higher. As always, the feedback we received from managing partners during these listening sessions is extremely beneficial as we learn what our owner-operators need to run their business.

On the development front, we opened seven Texas Roadhouse company-owned locations in the third quarter. For the full-year, we expect to open approximately 30 restaurants across all brands. Our franchise partners opened three international Texas Roadhouse restaurants during the quarter. This puts them on track for a total of 14 openings this year, including three Jaggers. I also want to call out the recent October opening of our first international Jaggers location on a U.S. military base in South Korea. This marks our fifth franchise restaurant location on a U.S. military base. Looking ahead to 2025, we are targeting approximately 30 company-owned restaurant openings across all brands.

Additionally, we have a tentative agreement with one of our largest domestic franchisees to acquire 13 Texas Roadhouse restaurants at the beginning of 2025. Our international Texas Roadhouse franchise partners are currently expecting seven openings next year, while our domestic Jaggers franchise partners are targeting three new locations.

During the third quarter, we also completed our normal review of menu pricing with our operators. As a result, we rolled out new menus at the beginning of the fourth quarter, which included a price increase of less than 1%. We remain proud of our everyday value proposition and believe this is the appropriate level of pricing. Also, our technology initiatives continue as planned and we remain encouraged by the positive feedback we are receiving with over 200 digital kitchen conversions completed so far this year.

We feel confident in achieving our target of over 250 conversions by the end of this year. We also remain on track to convert nearly all of our restaurants to a digital kitchen by the end of 2025. Additionally, we are making progress on the upgrading of our restaurant guest management system.

Finally, October has been a very rewarding month for our company. In addition to fall tour, we had the privilege of celebrating 20-years as a public company by ringing the closing bell at NASDAQ. We are very proud of the growth we have seen as a public company. We have expanded from one brand to three. We have increased our footprint from just over 175 restaurants to nearly 775 and we have grown Roadie Nation from over 10,000 employees to nearly 100,000.

Also, we were named the 2024 Brand Icon by Nation's Restaurant News. We are truly humbled to be the first casual dining restaurant to receive this award. All of these events were even more special, because we were surrounded by the best operators and support team in the industry.

Now Chris will provide some thoughts.

**Chris Monroe**

Thank you, Jerry. Fall tour is quickly becoming one of my favorite times of the year. The conversations with our operators have proven to be really important and help us all perform our best. And the NASDAQ bell ringing was such a special moment for all of us. It was especially meaningful that we had 50 of our managing partners on stage with us. We were able to demonstrate in a visible and tangible way just how important our managing partners are to the success of our company.

Now moving to the third quarter. Weekly sales averaged \$153,000 at Texas Roadhouse, \$117,000 at Bubba's 33, and \$72,000 at Jaggers, our quick-service brand. We were especially encouraged to see that all three brands delivered positive traffic and sales growth and this momentum has carried forward into the beginning of our fourth quarter.

As we look forward to the remainder of this year and into next year, we believe the 0.9% menu price increase will allow us to maintain our value proposition and our traffic and mix levels. Additionally, we continue to see a steady to more positive outlook for inflation within commodities and labor. Commodity inflation driven by lower-than-forecasted beef costs was once again below our guidance in the third quarter. This has also resulted in an improvement in our outlook for fourth-quarter commodity inflation and factors into our initial expectations for next year's inflation.

At this time, we are updating our full-year commodity inflation guidance to less than 1%. This adjustment reflects both the impact of lower-than-initially forecasted inflation in the third quarter and our current expectation of relatively flat commodity price levels in the fourth quarter. Also, we are establishing our initial 2025 commodity inflation guidance at 2% to 3%.

Wage and other labor inflation during the third quarter remained in line with our guidance and we believe this trend will continue in the fourth quarter. We were also pleased to see that our labor hour growth relative to traffic growth remained well below our historical levels.

As we approach the end of the year, we are narrowing our full-year 2024 labor inflation guidance to approximately 4.5%. For 2025, we are forecasting wage and other labor inflation of 4% to 5% with mandated increases representing as much as 1.5% of the increase.

With regard to cash flow, we ended the third quarter with \$189 million of cash. Cash flow from operations was \$139 million, which was offset by \$141 million of capital expenditures, dividend payments, and share repurchases. As Jerry mentioned, we do have a tentative agreement in place to acquire 13 franchised restaurants at the beginning of 2025, included in this acquisition will be seven restaurants in Indiana and Ohio and six in California. Our current expectation is to fund this acquisition through existing cash on hand.

Finally, for 2025, we are establishing our initial capital expenditure guidance at approximately \$400 million, excluding the aforementioned franchise restaurant acquisition costs. This should provide sufficient capital to build new restaurants, maintain, expand, or relocate our existing restaurants, and invest in our various technology initiatives.

As always, we believe these investments are a great use of our capital and should result in further shareholder value-creation.

And now, Michael will walk us through the third quarter results.

### **Michael Bailen**

Thanks, Chris. For the third quarter of 2024, we reported revenue growth of 13.5%, driven by a 7.5% increase in average unit volume and 5.8% store week growth. We also reported a restaurant margin dollar increase of 24.1% to \$202 million and a diluted earnings per share increase of 32.5% to \$1.26. Average weekly sales in the third quarter were \$149,000 with to-go representing \$19,000 or 12.7% of these total weekly sales.

Comparable sales increased 8.5% in the third quarter, driven by 3.8% traffic growth and a 4.7% increase in average check. By month, comparable sales grew 8%, 8.1%, and 9.3% for our July, August, and September periods, respectively. And comparable sales for the first four weeks of the fourth quarter were up 8.3% with our restaurants averaging sales of over \$151,000 per week during that period.

In the third quarter, restaurant margin dollars per store week increased 17.3% to nearly \$24,000. Restaurant margin as a percentage of total sales increased 137 basis points to 16%. The year-over-year improvement in the restaurant margin percentage was negatively impacted by approximately 30 basis points due to the change in our annual gift card breakage adjustment to \$0.6 million this year from \$3.7 million last year.

Food and beverage costs as a percentage of total sales were 33.5% for the third quarter. The 107 basis point year-over-year improvement was primarily driven by the benefit of a 4.7% check increase, offsetting the 1.3% commodity inflation for the quarter.

Labor as a percentage of total sales decreased 18 basis points to 33.8% as compared to the third quarter of 2023. Labor dollars per store week increased 6.7%, primarily due to wage and other labor inflation of 4.7% and growth in hours of 1.1%. The remaining 0.9% increase was due to the \$3.5 million net impact from adjustments related to group insurance and workers' comp claims experience. This includes \$2.2 million of unfavorable claims experienced this year and the lapping of last year's \$1.3 million favorable claims adjustment.

Other operating costs were 15.1% of sales, which was 8 basis points better than the third quarter of 2023. Higher operator bonuses as a percentage of sales resulting from increased year-over-year restaurant-level profitability at a 30 basis point negative impact. This was largely offset by the 23 basis point positive net year-over-year impact from general liability insurance reserve adjustments, which includes a \$0.4 million unfavorable adjustment this year and the lapping of a \$2.9 million unfavorable adjustment from last year.



Moving below restaurant margin, G&A dollars grew 15.6% year-over-year and came in at 4.3% of revenue for the third quarter. The majority of the year-over-year dollar increase was due to higher compensation and benefit expense, including the \$2.1 million impact of the timing of our change from quarterly to annual equity grants.

Our effective tax rate for the quarter was 16.7%. The higher tax rate was driven by an increase in our profitability outlook for the full year. Based on this outlook, we are updating the guidance for our full year 2024 income tax rate to approximately 15%. And our initial forecast for the full year 2025 income tax rate is between 15% and 16%.

Finally, as a reminder, 2024 is a 53-week year for us. As such, the fourth quarter will have 14 weeks versus our normal 13 weeks. We estimate that the additional week could benefit full year 2024 earnings per share growth by approximately 4%.

Now, I will turn the call back over to Jerry for final comments.

### **Jerry Morgan**

Thanks, Michael. There's no doubt that reflecting on 20 years as a public company fills us with great pride and gratitude. Speaking of 20 years, we also just celebrated our 20-year partnership with Homes For Our Troops, which provides custom-built homes for severely injured post-9/11 veterans.

We recently had the privilege of funding their 400th home for Lance Corporal Alberto Flores in New Brownsville, Texas. Partnering with such a great organization is what Texas Roadhouse is all about as we strive to serve communities across America and the world.

Finally, as I have said before, we will always honor our path, but our focus will remain on the future. At 31 years young, we are just getting started.

### **Michael Bailen**

That concludes our prepared remarks. Rob, please open the line for questions.

## **Question-and-Answer Session**

### **Operator**

Okay. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Sara Senatore from Bank of America. Your line is open.

### **Katherine Griffin**

Hi, good evening. Thank you. This is Katherine on for Sara. First question, just wanted to ask about the labor leverage in the quarter. Michael, you spoke a little bit about some of the claims and adjustments that were in that number. So just want to get a sense for how much longer we should be considering those adjustments in that labor line going forward. And is there a point at which they are no longer a headwind?

### **Michael Bailen**

Yes. Hi, Katherine, it is Michael. And, a lot of those adjustments have to do with insurance and how those claims come in and so that's something that you really never know how they may affect us one way or another. But that is separate from the labor productivity that we are seeing, which I think can continue certainly through the end of this year.

### **Chris Monroe**

And Katherine, this is Chris. I mean I think we're comfortable being self-insured and that's why we report those numbers every quarter. But also the productivity levels that we talked about have continued to improve. We were in terms of hours of labor versus traffic growth, we're well below our 50% historical averages. And again, in Q3, we were below 30%. So we've had five straight months of that metric improving.

**Katherine Griffin**

Great. Okay. Thank you. And then just want to move to the commodity inflation guidance, which continues to surprise to the downside and it seems like next year's inflation assumption, excuse me -- doesn't anticipate a real step-up in inflation despite concerns about the size of the beef herds. So can you talk about what you're seeing there? What's embedded in that inflation guidance?

**Michael Bailen**

Sure. I mean, obviously, our purchasing department has been hard at work and determining what levels of cost we're going to have in 2025 and why we're not going to get into the specifics of what may be fixed-price contracted versus not. It does include a combination of lock prices and assumptions. And the majority of that inflation guide is coming from beef similar to this year.

**Katherine Griffin**

Thank you.

**Operator**

Our next question comes from the line of Jake Bartlett from Truist Securities. Your line is open.

**Jake Bartlett**

Great. Thanks for taking the question. Mine was another one on the commodity outlook and beef. One thing about the beef picture, it seems like when there's good news in one year, it can be bad news for the next. So supply has been a little less bad this year. And my impression was that means that supply next year kind of kicking the can down the road.

So a little surprised to see kind of two decent years in a row expected within beef costs. And so I guess the question is why, but also just if you could help us understand just what your beef inflation is expected to be in '24? And what's expected to be in '25? Just want to make sure I understand what the beef expectations are in those two years for the commodity guidance.

### **Chris Monroe**

Jake, it's Chris. Beef is roughly half of our basket. And so it drives a lot of the commodity increase. And you're correct in that this year has been a surprise that we didn't see the amount of inflation driven primarily by beef that we expected.

And look, we think that there's a lot going on in that. There's supply-and-demand and these ranchers are just business people and they're looking at the price they're able to get for their cattle and what it costs them to raise the cattle. So -- and as interest rates come down, as there's perhaps more rain, as grain prices have come down, that may inspire there to be more breeding and to rebuild a herd, but it is a challenged environment for sure in beef. We just haven't seen it come to fruition because of the demand side, at least this year and at least what we can see so far into 2025. Michael, did you have some points to add?

### **Michael Bailen**

Jake, to your question of what kind of embedded in the '24 and '25 overall inflation from beef. And this year in 2024, everything and then some is coming from beef with other items being flat to deflationary. For 2025, beef is driving the majority of our assumed inflation with most other items flat to maybe a touch of inflation.

### **Jake Bartlett**

Okay. And just in terms of those other items, and I know we always focus on beef, but there is 50% that's the other. Do you have visibility on that portion? I assume there's maybe a little ability to contract for that portion, but how confident are you in the kind of the flat -- I think you mixed flat for that other 50% of your commodity needs?

**Michael Bailen**

There are certain items that we're probably more locked into than others. There's no one item that is a huge component of our overall basket. So certainly, there is a the potential for those costs to be higher or lower than what we expected, they would have to really be dramatically different to play a big part in the numbers.

**Jake Bartlett**

All right. Thank you very much.

**Operator**

Our next question comes from the line of Brian Bittner from Oppenheimer. Your line is open.

**Brian Bittner**

Thanks. I wanted to ask a question about pricing into 2025 relative to your cost inflation. You took the 0.9% price increase in September. And I think that puts you at a pricing run-rate around 3.1% until you lap pricing from in late March. Please correct me if that's wrong, that's just my math. And you initiated guidance for commodity inflation of 2% to 3%, wage inflation of 4% to 5% for 2025. So how does that inform you about your pricing strategy next year relative to this kind of 3% run-rate you're taking into the new year? And how do you want us analysts thinking about pricing for 2025?

**Chris Monroe**

And I'll start off. Basically, we have the same process that we've used. We will again look at pricing and have conversations with all of our operators after the first of the year. And then as we kind of make that decision based on the environment that we're in at that time, we get feedback from our operators, we talked amongst ourselves and then we will decide on what we believe is the best long-term decision for the business.

So I guess from a bigger-picture standpoint, it's still early to decide, but we will continue to use the process we've used for multiple years of evaluating, talking with our partners, and then making a decision based on that current event, which is many months from now.

**Michael Bailen**

And Brian, this is Michael. Your math is correct. We will have 3.1% pricing in the menu for the fourth quarter. We'll have that same 3.1% for the first quarter and then we would have 2.2% rolling-off and we will go through our normal conversations to see what we may or may not do come the beginning of the second quarter.

**Brian Bittner**

Got it, got it. So when that 2.2% rolls off, for instance, you would have to take, say, 1.6% at that point to be at that 2.5% price range until you lap the 0.9% you just took, right, just confirming that math?

**Michael Bailen**

Yes. The once it combined with the 0.9% will give you 2.5%.

**Brian Bittner**

Okay. Great. Thanks, guys.

**Jerry Morgan**

Thank you.

## **Operator**

Your next question comes from the line of Eric Gonzalez from KeyBanc. Your line is open.

## **Eric Gonzalez**

Hey, good evening, and thanks for taking my question. Maybe if you could help us sum all this up and think about the margin implications of what looks like a more conservative pricing strategy and a relatively benign food cost outlook for prior years. So your plan on taking another pricing mid-year, it seems that you're comfortable letting effective price take lower as commodity inflation moves in the right direction. So given these assumptions, can you help us understand what it means for still a little margin in '25?

## **Chris Monroe**

Yes, Eric, it's Chris. We're always more focused on growing restaurant margin dollars than absolutely trying to hit a margin number. That being said, our 17% to 18% goal is always out there and we're interested in hitting it consistently. But there's a -- I mean that number is highly sensitive, particularly the margin number to traffic, pricing, inflation, both commodity and labor and we've already talked about pricing having another component to it and starting in the second quarter. So it really is going to depend on how all of those things come together. We've been very pleased with our ability to expand the margin this year, but you'll have to -- we'll just have to look at all those elements as they come together in 2025.

## **Eric Gonzalez**

Thank you.

## **Operator**

Your next question comes from the line of Jim Salera from Stephens. Your line is open.

**Jim Salera**

Hey, guys. Thanks for taking our question. Maybe a two-part question on mix. It's part one, if you could just kind of give us an update on the mix contribution in the quarter and particularly on kind of alcohol versus the add-ons? And then part two is, if we think about where you took pricing across the menu, is it basically that 0.9% kind of evenly across? Or are there any particular parts of the menu, whether it's appetizers or desserts that saw a little bit more or less price? And just how you think about that as it impacts mix?

**Chris Monroe**

Yes, maybe I'll touch on the mix here to start. I'll tell you, our mix in the third quarter was very similar to what we had seen in the second quarter, still seeing positive entree mix, positive soft beverage mix, and positive add-ons that alcohol mix is remaining negative. It hasn't gotten any worse, but it is the -- it's really what's driving that slight negative mix. We're probably around 20 basis points of negative mix in the third quarter. So to me, we're seeing good results from our guests, not hearing of any pushback on the menu pricing that we have taken. So I believe we're still screening value.

**Jerry Morgan**

Yes, Jim, I'll take on the 0.9% across the board, there's probably -- I don't have it right here in front of me. But I think in general, as we look at the overall menu, that's how we come up with that. And also, it would be hard for me to break it down at this point now that we're five weeks into it on that side of it. But typically it is spread out through the menu.

**Jim Salera**



Okay, great. I'll hop back in the queue.

**Jerry Morgan**

Thank you very much.

**Operator**

Your next question comes from the line of Brian Harbour from Morgan Stanley. Your line is open.

**Brian Harbour**

Yes, thanks. Good afternoon, guys. I'll ask actually just about the kind of the technology things you mentioned, the digital kitchen and guest management system. I'm sure there's an aspect of that, that sort of improves the employee experience, but do you think, is that starting to contribute to like some of the labor productivity you're seeing? Do you think it sort of helps table turns? Is it sort of showing in other ways that we might sort of observe from the outside?

**Michael Bailen**

Yes. I would say it is still a little early for that, but the indicators are good. And obviously, the number-one reason is the experience of our employee and our managers and really just the cadence that we use in the kitchen and the communication. I do believe that there are going to be some other benefits as we get more-and-more stores on the program and on the digital kitchen. So it's hard for me to quantify that at this time, but the indicators are showing that we should expect some of that return also.

**Brian Harbour**

Thank you.

**Michael Bailen**

You're welcome.

**Operator**

Your next question comes from the line of Dennis Geiger from UBS. Your line is open.

**Dennis Geiger**

Great. Thanks, guys. Wondering if you could speak a little more to labor hours, perhaps into next year after another really strong quarter of managing hours this year. Anything to kind of give on how we should think about the labor hours dynamic heading into next year, again, relative to the gains that we saw this year? Thank you.

**Michael Bailen**

Hey, Dennis, it's Michael. As I said a little bit earlier, I do think we have the opportunity to see that algorithm of labor hours to traffic growth be below that 50% level through the end of this year. And maybe as I've talked about in the past, going into '25, it's something we're probably going to be learning together as we enter 2025 as a well-staffed restaurant, doing high volumes, but lapping being a well-staffed restaurant and with growing volumes. So what we're learning is 50% of kind of the -- still the expectation or maybe something lower can be had.

Our operators are going to be focused on doing what's right for the restaurants and they know being well-staffed helps them grow. And certainly, our turnover continues to trend in the right way and that should help with training and tenure matters. The more experienced you are, the better you are at the job. So hopefully, we can continue to be -- improve our productivity, but we'll be learning that together in 2025.

**Dennis Geiger**

Sounds good. Thanks, Michael. Congrats to the team.

**Jerry Morgan**

Thank you.

**Operator**

Your next question comes from the line of David Tarantino from Baird. Your line is open.

**David Tarantino**

Hi, good afternoon, and congrats on such -- delivering such strong momentum in your business. I wanted to ask about unit growth. I think the guidance for next year is 30 openings, which is for company-operated and it's similar to what you did this year. And I guess as the numbers creep up, I think in the past, you've talked about kind of a 5%-ish unit growth number. But as the base starts to get bigger at 30 openings are going to start to fall below that. So I was just wondering kind of what is your philosophy around unit growth as you look even beyond 2025, is it to stay at the mid-single-digit, or 5% level, or is that going to come down as you -- as the base scales?

**Jerry Morgan**

David, this is Jerry. I don't think we've ever really targeted a percentage. We've always looked at the number of openings for Texas Roadhouse, Bubba's, and now as we add Jagger into the mix about doing it right and balanced for our operations. And I think we will continue to evaluate whether what is the right number for us. And to do it right, you have to send 25 trainers out on the road, you got to hire 200 plus people. We're opening at really high volume.

So we've got -- we believe that if we continue to do these openings properly that they hold their sales and our operational focus. And if we stretch that too far, then I think that risks that. So I guess from my standpoint is, I'm very comfortable in that 30-ish range as we go and I would like to climb up a little bit, but I'm not trying to hit a percentage. I'm really just trying to do it right for our operators and for our guests from a business perspective is kind of our philosophy.

**Chris Monroe**

And David, it's Chris, and always good to talk to you. Don't forget, we're adding 13 via acquisition this year. So it's a 43-unit increase this year.

**David Tarantino**

Yes. Understood. Thank you very much.

**Jerry Morgan**

Thank you for the kind words. We appreciate you.

**Operator**

Your next question comes from the line of Peter Saleh from BTIG. Your line is open.

**Peter Saleh**

Great. Thanks and congrats on another great quarter. Just maybe a question and then I've one clarification. Just on the question in terms of the same-store sales trajectory. September and into beginning of October, there was some pretty nasty weather, but that doesn't seem to be at least in the Southeast, it doesn't seem to be reflected in your comp numbers. Did you guys see any impact on weather? I know you guys don't like to talk about it, but with 9.3% and 8.3% comps, just wondering if you had any sort of impact on weather at the end of September and beginning of October. And then I just had a quick follow-up.

### **Chris Monroe**

Yes. And Michael may clean this up for me. It's Chris here. But basically what we've seen and we had -- you're correct, there were a number of storms that came through. We've seen a -- we had stores closed for a couple of days. We were able to get them -- most of them reopen, if not all of them reopen very swiftly. And then we experienced a bounce back at those stores.

So we got -- there were sales loss for the couple of days we were closed, we saw more people coming to us, first responders and people in the community looking to dine with us. And so you're right, the numbers are -- look very consistent, but there definitely was impact, but it was masked by the fact that, hey, if we lost a couple of days, we got some nice bounce back in the weeks following.

### **Jerry Morgan**

Yes. And I'll just chime in for a second on that. Obviously, in the big machine, it may not look like it impacted, but to our owner-operators that are in those communities and affected, we just -- our thoughts go out to them and how hard they work to get their restaurants back open and take care of their communities. So I just want to say thank you to the operators and the partners out there because it did have a significant impact in many of our communities across that region of the country and we just continue to think about them and be here to support them.

**Peter Saleh**

Great. And then just as a quick follow-up, I just want to understand the message on the labor hour growth into next year into 2025. Michael, I think you said potential to be 50% or below. Last, I think, a couple of quarters, you've been below that 50% hour growth versus traffic. I just want to make sure I understand that we're not talking about a situation where you're growing labor hours above 50%. Just trying to understand the message, maybe I'm missing something there. Thank you.

**Michael Bailen**

Yes. No real message there. It's more of -- we don't have a labor model that we push down to the restaurants, they are going to staff the restaurants, they feel -- the way they feel is appropriate and certainly they are not looking to use more hours than they need, but they do know that staffing the restaurants well helps them grow. And some of the benefit we are seeing this year is because of what we're lapping from the previous year and so we'll be well-staffed going up against well-staffed and doing higher volumes than we've ever done before.

And all I think we're trying to say is, we'll be learning together what that ratio may look like and we can't sit here today and tell you it's going to be 30% or 40%, but we're also not trying to tell you that it's going to be something above 50%. It's something we'll be learning as we go.

**Peter Saleh**

Thank you very much.

**Operator**

Our next question comes from the line of Jeffrey Bernstein from Barclays. Your line is open.

**Jeffrey Bernstein**

Great. Thank you very much. Just a bigger picture question. Jerry, just wondering as you've kind of traveled the countryside and Chris, it sounds like you're along for the ride. I'm just wondering, you mentioned in the press release that from a macro perspective, it's an extremely competitive environment. Just wondering what you're seeing, or what you're learning from your operators. Maybe is there any response you guys implement when you see more aggressive competitive environment to protect your own share?

Again, it doesn't seem like you're seeing much impact. So just curious in terms of some qualitative commentary behind what you're seeing in terms of an extremely competitive environment, whether it's in the state category, whether it's by maybe local operators? And is there anything we should make of the fact that the comp slowed from the 9.3% in September to 8.3% in October? Is there anything to make of that, or is that more just comparisons and perhaps a little bit of weather? Just trying to clarify. Thank you.

### **Jerry Morgan**

Hey, Jeffrey, I'll -- hey, number one, thank you very much for that. I will tell you that from talking with the operators, again, we feel like our operational excellence focus, our environment that we have, our fresh made food and all of the things that we do is just what we need to consistently do and operate at a high level and to do all of the things that a great restaurant does, which is greet people, get them sat, make sure they have a great experience and thank them for coming into our business and supporting us as a locally owned and operated operation.

So we just double down on everything that we do and we try to do it a little bit better. You're trying to create an experience that people absolutely want to reward you for. So I think from a bigger-picture standpoint, the things that we're talking about with the partners are a lot of internal stuff and things that we've got going on. But when it comes to the operation and creating a guest experience, man, we are laser-focused on our food, our service, and our community partnership.

### **Chris Monroe**

I agree with all that. And Jeffrey, before Michael gets you into talk about the sequential performance, I just wanted to add to Jerry's comment. When we do talk with -- it could be an individual situation, I know you're aware that we have our local store marketing. We have -- we try and own the communities that we're in. And so when there's specific competition or something going on in a market, that reaction is coming from the operators in the market. They're not waiting for us to come and come over the top with some sort of program. They're reacting to that and they're competing every day in their community.

### **Michael Bailen**

Yes. And Jeff, this is Michael. With regards to that comp from September to October, I think what you're maybe not fully contemplating is the amount of pricing we had in the menu. In September, we still had 4.9%, October 3.1%. So our traffic actually accelerated from something in the mid-4% range in September to in the mid-5% range in October. So we actually saw an acceleration in our traffic trends from September to October.

### **Jeffrey Bernstein**

Incredible. I didn't fully appreciate that. Thank you. And just to clarify the 30 units that you talked about for next year, first of all, I guess that the three Jaggers are incremental to that. So it's all about 30 core units of Texas and Bubba's. And if that's the case, I'm just wondering roughly how many Texas and how many Bubba's would you think within that 30 for next year? Thank you.

### **Michael Bailen**

Yes, it will probably -- again, that number could move a little bit, but I would say in the mid maybe at the 20 to 20-ish on Roadhouse and then obviously, the rest will be Bubba's and Jaggers.

### **Chris Monroe**



Yes. And Jeff, just to clean that up a little bit, we have set approximately 30 restaurants across all the brands. When we talked about the three Jaggers that -- those were franchise locations. So you may see a couple of Jaggers. And as Jerry said, probably in the low-20s on Roadhouse and 6, 7, 8 Bubba's in there.

**Jeffrey Bernstein**

Thank you.

**Chris Monroe**

Thank you.

**Operator**

Your next question comes from the line of Lauren Silberman from Deutsche Bank. Your line is open.

**Lauren Silberman**

Thank you and congrats. I wanted to ask about comp. The 8.5% incredibly impressive. Have you seen any changes in consumer behavior, differences across regions, dayparts, anything to unpack there? And then a follow-up on the quarter-to-date acceleration. It seems like traffic, I guess, is closer to 5%, which is better than you guys have done all year. What do you think is driving that momentum building?

**Michael Bailen**

Hey, Lauren, it's Michael. I would say as far as the third quarter and kind of any regional differences, I would tell you, North, South, East, West, we saw strong comp performance, nothing that would say one area was meaningfully outperforming another or anyone was lagging. So very strong performance, not only regionally, but by day of the week and by shift.

So very strong performance there and you are right, our comp in October include over 5% traffic growth and that is a little bit of an -- seems to be a little bit of an acceleration. And I think it's just a continuation of us, our operators doing what they always do and making sure that we are providing a legendary experience and being well staffed and priced accordingly and delivering on our promise and that consistency that we've always delivered to them, we're being rewarded for that.

**Lauren Silberman**

Great. Do you think there's anything we should consider in terms of compares getting tougher through the fourth quarter?

**Michael Bailen**

I mean, nothing -- we'll see how it all plays out. And the comps are -- we're strong in November and December, but whether it's looking at one year or multiyear to maybe see what's the right trend is. I'll kind of leave that up to you, but we know we're ready to serve the guests and we believe there's a lot of demand out there for our product.

**Lauren Silberman**

Great. Thank you, guys, so much.

**Operator**

Your next question comes from the line of Jeff Farmer from Gordon Haskett. Your line is open.

**Jeff Farmer**

Thank you. Just following up on Jeff's managing partner tour question, I'm curious what were some of the more interesting or I guess, unexpected things you guys heard from managers and specifically as it relates to pricing power, which you touched on, but also demand across the customer income levels?

**Michael Bailen**

Well, our conversations are like I said, a lot of the internal -- we've got a couple of things that are going on that we're trying to adjust on the system side. You know, pricing, we've already had those conversations. So we haven't seen any or heard any negative on the 0.9% that we took at the end of the -- or the start of the fourth quarter. So I think that most of the conversations are really good right now, which is because obviously, we're having some real success and exciting to share that with the operators and they love what they're doing, they just want to keep getting better at it.

**Jeff Farmer**

Okay. Thank you.

**Michael Bailen**

You're welcome. Thank you.

**Operator**

Your next question comes from the line of Jon Tower from Citi. Your line is open.

**Jon Tower**

Hey, thanks for taking the question. I appreciate it. Maybe just on the inflation outlook for labor next year. Chris, I think you had mentioned that the state-mandated increase is going to add about 1.5% to that of the 4% to 5% that you outlined for '25. Just curious if you could get into what the balance of that will be driven by and specifically in the context of looking across the landscape, it seems as if maybe starting wage rates have inflation in that has maybe come down a little bit certainly versus what we've been seeing in recent years. So just kind of curious if you could flesh out what is driving the balance of that increase?

### **Michael Bailen**

Yes. Hey, Jon, it's Michael. I can maybe do a little bit there. And yes, I mean, there is certainly still an expectation that we will see underlying wage pressure, and as a people-first company, we're going to want to make sure that we are paying our people well and compensating them for the hard work they are doing. And we'll see whether new hire rates change. But again, you want to reward your performers. And so we factored that into the numbers. Obviously, we talked about the mandated increases. The acquisition will add a little bit of pressure with adding some California stores into the mix there. And those are probably up the lion's share of what we're expecting there.

### **Jon Tower**

Okay, cool. And maybe just pivoting to CapEx, the number for next year, the number of stores sitting similar to this year at roughly 30 and I think you're going to have more of the KDS development. So is that kind of the difference between the \$360 million, \$370 million this year, and the \$400 million you're targeting next year?

### **Chris Monroe**

Hey, Jon, it's Chris. Yes, you have it right there. It's -- and again, we're focused on putting money into our stores. Some of them are getting older, we want to make sure that they look fresh, that they're inviting to our guests and they're great places to work as well. And then we are investing, as we discussed in previous quarters, we're investing in bump outs, kitchen expansions, and other things that will provide value as well. And keep in mind, those investments are in-stores that are doing well. So you're expanding somewhere where you already have great business and you're just creating some capacity there. So we feel like that increase makes a lot of sense.

**Jon Tower**

Got it. And then just lastly, curious if you could provide any color on how the bun and butter rollout is going at Walmart so far?

**Michael Bailen**

Well, thanks for asking. It's still pretty early. Indications are it's exceeding our expectations, but it's still -- all the retail business is really to drive awareness of our brands and have some fun with it and see if it's a demand on the consumer side. We've learned a lot since we've kind of gotten into that segment over the last several years, but it's still pretty new. But it's exciting to see that there is still a demand for anything inspired by Texas Roadhouse.

**Jon Tower**

Awesome. Thanks for the questions.

**Michael Bailen**

Thank you.

**Operator**

Your next question comes from the line of David Palmer from Evercore ISI. Your line is open.

**David Palmer**

Thanks, guys, and congrats. I wanted to ask you about pricing versus wages and how you're thinking about that. In recent years, I was beginning to think that you would generally price towards wages rather than towards food inflation cycles that you would sort of price to the consumer that would be sort of represented by the type of wages that you'd be paying your own people.

This next year, it feels like we're navigating towards the two types of price increases and your wage rate will be going up roughly twice that level. So I'm wondering if you're consciously thinking that way that you're either making an investment in labor right now that ways that you think are appropriate or maybe opportunistic or are you making investments in value to the consumer that reflects some realities that you see out there? I'm just wondering how you're thinking about that.

**Michael Bailen**

Yes. Hey, David, it's Michael. I think you kind of hit it on the nose there at the end. We are certainly viewing this as we are investing in the guests. This is not any kind of leap of correlating the pricing that we're taking to the level of commodity pressure that we may be feeling, would probably not be an accurate thought. Those pricing discussions were having -- were happening well before we had a current picture of what we expected for 2025. So the pricing reflects what we think was -- and with collaboration of our operators, what we all think is appropriate for the business right now and making sure that we continue to deliver on that value proposition that has been so important for us for 30-plus years.

**David Palmer**

Yes, part of the reason I'm asking about that is in the past, call it, seven to 10 years, there have been eras where you were either investing in hours and I think a little bit before COVID and then you were started also doing some wage adjustments that you thought appropriate in the business too. So you guys have been very thoughtful in certain areas about your investments in things and maybe there's something opportunistic. I mean, your hours are so efficient versus year-over-year basis, there's maybe something of a good timing in terms of the wages outpacing what is typically what we're seeing out there elsewhere. So I'm wondering how you're thinking about that?

**Michael Bailen**

Yes, again, we're just running the business the way we always have. Really no change. We're going to do what's right for the operators, what's right for the restaurants, and what's right for our guests. And if that means adding people, we want them adding people, but we're going to always be very careful on that on the pricing side and airing on the side and making sure we're screaming value.

**David Palmer**

Thanks, guys.

**Jerry Morgan**

Thank you.

**Operator**

Your next question comes from the line of Chris O'Cull from Stifel. Your line is open.

**Chris O'Cull**

Hey guys, thanks for taking the question. Jerry, it looks like the newer Bubba locations are running at significantly higher volumes than the older store cohorts. I realize you only have three stores open in the last six months, but is there something special about those stores or are higher volumes from new units, something we can expect from Bubba's?

**Michael Bailen**

Well, thank you for noticing. We appreciate that. I think it could be somewhat of where they're opening at, but we are very happy with the success that we've had in our new-store openings over the last 18 months and it does seem to be elevating. And again, as we continue to look at opening these stores with the right amount of support and with operational excellence in mind that could be is that we're executing at a higher level.

There's definitely a demand when we open the stores. So the more efficient that we can be of getting folks in and getting them taken care of and having a memorable experience could be rewarding us from that side of it. So it just tells me we need to continue to put the effort into getting these openings done and executing at a high level because the demand is there. And so that's very exciting news from our standpoint.

**Chris O'Cull**

Great. Thanks, guys.

**Michael Bailen**

Thank you.

**Operator**

Your next question comes from the line of Andrew Strelzik from BMO Capital. Your line is open.



**Andrew Strelzik**

Hey, good afternoon. Thanks for taking the questions. Just two quick ones for me. Can you share how the volumes and margins of the stores that you're acquired for the franchisee, how those compared to the rest of the company's stores? And then my second question and I feel a little silly asking this, I think I know the answer. But we've seen most of the delivery holdouts, I guess, have evolved their thinking around third-party and found structures that work for them. Has your thinking evolved at all? Or do you think there's ever a structure that you could find that might make sense for your brand? Thanks.

**Michael Bailen**

Hey, Andrew, it's Michael. I'll address the first one and then I'll let Jerry chime in on the delivery. As far as those acquisition stores, they actually will drive some nice volume increases for us. Our average weekly sales, as you're modeling that for 2025, you probably want to add about 0.5% evenly mix between traffic and check growth coming from what those 13 stores will deliver volume-wise and they're probably about neutral to margins, maybe a slight increase in margin dollars coming from them.

**Jerry Morgan**

And then on the third-party, we do utilize it at Jaggers. We also have it in most of our Bubba's stores in one Roadhouse in New York City that it does make sense in. So I think our stance is still the same. We will continue to evaluate if it will at this time, add any value to the business. We're comfortable where we're at now and we are paying attention to what's going on out there at all levels of third-party involvement. But right now, I feel very comfortable with us not having to rely on that to grow sales. We really like to try to do it through our dining room and through our to-go business first.

**Andrew Strelzik**

Great. Thank you very much.

**Jerry Morgan**

Thank you.

**Operator**

Your next question comes from the line of Rahul Krotthapalli from JPMorgan. Your line is open.

**Rahul Krotthapalli**

Good afternoon, guys. Thanks for all the color today. I wanted to touch back on the steak consumption trends. It was discussed the demand side of the equation was one of the factors for beef inflation outlook. How do you internally think about the risk of grocery pricing or discounting for beef products in this environment and in case at the margin, if it becomes more attractive for consumers to cook steak at home? And I have a follow-up.

**Chris Monroe**

Yes. Hey, Rahul, it's Chris, and I'll take the first before you get to your follow-up. That's absolutely what I was talking about. There is a retail demand element to this that just wasn't there at least so far this year. And part of that is we haven't seen the discounting that we might have seen in previous years from some of the major retailers, particularly on cuts of steak that would compete with where we are. So yes, that's a risk. If they were to start that, then that would bring demand up from that cohort and that is something we would have to think through.

**Rahul Krotthapalli**

Perfect. And I do understand that you guys don't advertise on TV, but just from a presidential election year or a typical disruption in trends seen across casual diners, anything you guys noted in the past cycles when it comes to foot traffic trends, November, December. And then also this year, there is a shorter holiday period gap between Thanksgiving and Christmas. Is there any positive or negative impact we should be thinking about from these factors? Thank you.

**Michael Bailen**

Yes. First on the election, obviously, 2020 isn't going to be much help to us in looking at any trends, but 2016, 2012 can't recall there being much of an impact from the election cycle. And we also did look back at that shorter timeframe between Thanksgiving and Christmas, I believe 2019 was the last time we had that. There was a lot of noise in there, but I didn't see anything significant that would say that you would -- we'd be experiencing any issues during that timeframe.

**Rahul Krotthapalli**

Perfect. Thanks for the update, guys.

**Jerry Morgan**

Thank you.

**Operator**

Our next question comes from the line of Brian Vaccaro from Raymond James. Your line is open.

**Brian Vaccaro**

Hi, thanks. Just two quick ones for me, if I could. On that labor question and just thinking about the hours next year, can you help us frame what you're seeing currently from an hourly turnover or retention perspective, kind of any perspective on the absolute levels or how that might compare to whatever you view as a normal level? And what other dynamics beyond retention and turnover sort of might cause that relationship to move higher into next year versus what you saw in '24?

**Michael Bailen**

Yes. Hey, Brian, it's Michael. I would tell you, we don't share a -- that turnover number just because everyone calculates it differently. We do look at it on a 12-month basis and it continues to trend in the right direction below historical, certainly back to your historical low levels. And so we're very pleased to be seeing that and it just goes to show when we provide a great experience for our employees and give them the hours that they're looking for and those in the kitchen a calmer experience. It has them sticking with us. As far as what could cause that to change in the '25, I don't know if I really have anything fair to add, unfortunately.

**Brian Vaccaro**

Okay. Okay. Well, fair enough. That's helpful. And I guess one, just following up on the commodity outlook next year. Do you expect much of a difference in your year-on-year inflation in the first half versus second half at this point?

**Michael Bailen**

Yes, Brian, it's Michael again. Maybe a little bit more commodity inflation in the back half of the year, probably just from the standpoint of what we're lapping this year versus last year, but nothing at this point that would say it's dramatically different in the back half of the year than the first half.

**Brian Vaccaro**

All right. Thanks very much.

**Jerry Morgan**

Thank you.

**Operator**

Our next question comes from the line of Gregory Francfort from Guggenheim Securities. Your line is open.

**Gregory Francfort**

Hey guys, thanks for the question. Maybe just the franchise acquisition that happened, how did that come about? And I guess as you think about the rest of your franchise base, is that something you're looking to do more of?

**Jerry Morgan**

Yes, thanks for the question. Yes, we talk to our franchise partners regularly and they've been with us a very long time and we started this conversation a few years back and we were able to get a deal done through a lot of partnership and hard work and we're very excited. And in a lot of these cases, it was always kind of the intention 20, 25 years ago when these groups came with us.

So we were able to get the terms. We were able to get a heck of a deal for them and for us and it just the timing worked out perfectly and how we like to see it roll out at the start of '25. And so it's a very, very exciting transaction for us at Roadhouse. And we will continue to talk to others that are out there. If anything ever comes to fruition, we'll keep you guys posted.

**Gregory Francfort**

Thank you, guys. Appreciate it.

**Jerry Morgan**

Thank you.

**Operator**

Our next question comes from the line of Jim Sanderson from Northcoast Research. Your line is open.

**Jim Sanderson**

Hey, thanks for the question. I had a couple of quick follow-ups on capital expenditures. What do you expect build-out costs to be in 2025? Are they relatively stable or any type of relief, so to speak, relative to past inflationary years?

**Michael Bailen**

Yes. I think they're relatively stable. I think you're just looking at a normal kind of a year in terms of build-out of the buildings.

**Jim Sanderson**

All right. And for fourth quarter, I don't know if you track this or not, but any feedback on whether your advanced bookings on holiday parties or special bank events in the fourth quarter or where they should be, where you would expect, or potentially any pickup in demand that you could comment on?

**Chris Monroe**

Hey, Jim, it's Chris here. And we don't really play in that game. So that's not going to be something that we see.

**Jim Sanderson**

All right. Thank you very much.

**Operator**

And that concludes our question-and-answer session. I will now turn the call back over to Jerry Morgan for closing remarks.

**Jerry Morgan**

Thank you very much. Appreciate all your time and being with us tonight and thank you for all of those that spoke out on our positive quarter. So with Roadie enthusiasm, I bid you a good night. Let's go Roadhouse.

**Operator**

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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