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Texas Roadhouse, Inc. (TXRH) Q3 2026 Earnings Call Transcript

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Q3: 2026-11-05 Earnings Summary

Insights

EPS of $1.36 misses by $0.10 | Revenue of $1.57B (9.52% Y/Y) misses by $9.20M

Texas Roadhouse, Inc. (TXRH) Q3 2026 Earnings Call November 5, 2026 5:00 PM EST

Company Participants

Michael Bailen - Head of Investor Relations
Gerald Morgan - CEO & Executive Vice Chairman
Mike Lenihan - Chief Financial Officer

Conference Call Participants

Jacob Aiken-Phillips - Melius Research LLC
Peter Saleh - BTIG, LLC, Research Division
Lauren Silberman - Deutsche Bank AG, Research Division
Brian Harbour - Morgan Stanley, Research Division
Andrew Charles - TD Cowen, Research Division
David Palmer - Evercore ISI Institutional Equities, Research Division
James Salera - Stephens Inc., Research Division
Christopher O'Cull - Robert W. Baird & Co. Incorporated, Research Division
Andrew Barish - Jefferies LLC, Research Division
Andrew Strelzik - BMO Capital Markets Equity Research
John Ivankoe - JPMorgan Chase & Co, Research Division
Logan Reich - RBC Capital Markets, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Christopher Carril - KeyBanc Capital Markets Inc., Research Division
James Sanderson - Northcoast Research Partners, LLC
Arian Razai - Guggenheim Securities, LLC, Research Division
Sara Senatore - BofA Securities, Research Division
Brian Vaccaro - Raymond James & Associates, Inc., Research Division
Zachary Fadem - Wells Fargo Securities, LLC, Research Division

Presentation

Operator

Good evening, and welcome to the Texas Roadhouse Third Quarter Earnings Conference Call. Today's call is being recorded. [Operator Instructions] I would now like to introduce Michael Bailen, Vice President of Investor Relations for Texas Roadhouse. You may begin your conference.

Michael Bailen
Head of Investor Relations

Thank you, Kenneth, and good evening. By now, you should have access to our earnings release for the third quarter ended September 29, 2026. It may also be found on our website at texasroadhouse.com in the Investors Section. I would like to remind everyone that part of our discussion today 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 Michael Lenihan, 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.

Gerald Morgan
CEO & Executive Vice Chairman

Thanks, Michael. Good evening, everyone. For the third quarter, we are pleased to report that all 3 brands delivered positive comparable sales and traffic growth. We generated $1.6 billion in revenue and same-store sales increased 4.3%, including 0.7% traffic growth. We are proud to say that each of our brands have reported positive comparable sales for every quarter in 2026.

Our third quarter results, specifically in September, were negatively impacted by what was determined to be a social media hoax that occurred at the end of August. Through our investigation, which included an external forensic analysis, we were quickly able to determine that the allegations made in the social media post were completely false. Our recently completed annual fall tour allowed us to speak directly to our operators across the country.

I can tell you that overall sentiment is positive, and we are seeing momentum in the restaurants that were affected. There's no doubt that our operators are doing what business owners do. They're doubling down on legendary food, legendary service, local store marketing and being great partners in their communities. Looking forward, our development pipeline continues to be strong. We opened 5 company locations in the third quarter, which included 2 Bubba's 33 restaurants and 1 Jaggers.

We have over 15 openings scheduled for the fourth quarter and remain on track to open approximately 35 restaurants across the 3 brands in 2026. Today is a significant milestone for the original Texas Roadhouse restaurant in Clarksville, Indiana. We opened the doors to its newly relocated building, which is just down the road from the original location. Clarksville is where Kent's dream of Texas Roadhouse became a reality.

The new building includes memorabilia honoring our first store as well as a very special Kent's Corner, which pays tribute to our founder's vision and success. Looking ahead to 2027, we expect to open approximately 35 company-owned restaurants across the 3 brands. We currently expect a more balanced cadence to next year's openings with 18 restaurants already under construction. We also have momentum on the international front.

Our franchise partners opened 3 Texas Roadhouse restaurants during the third quarter and expect 3 openings in the fourth quarter. This will bring our international total to nearly 70 restaurants in 11 countries. In addition, we are excited to announce that we have recently come to terms on development and franchise agreements in Vietnam and Japan. In 2027, our franchise partners are planning to open approximately 10 new restaurants, including as many as 8 international Texas Roadhouses.

There are also exciting things happening on the menu at all 3 brands. For example, Texas Roadhouse added Chicken Alfredo Pasta to over 600 restaurants. The feedback from operators and guests has been positive, and we expect pasta to be system-wide by the spring menu. While we are currently focused on Chicken Alfredo, there is interest from our guests to add other proteins or vegetables, which gives us confidence in the offer going forward.

On the beverage side, we are seeing positive results from our nonalcoholic offerings with mocktails and dirty sodas. We are also testing energizer options at all 3 brands. As for everyday value at the bar, we are continuing to promote our all-day everyday -- our $5 all-day everyday Ice-Cold Beer, Long Island Iced Tea and Legendary Margaritas. On the technology front, our mobile POS test is currently in approximately 100 restaurants. We will continue to be deliberate as we customize the technology to make sure the rollout is successful for our guests and operators.

Finally, as I have mentioned before, there is nothing more energizing than meeting face-to-face with nearly 800 managing partners on fall tour. Seeing the business through their eyes and feeling the passion they have for legendary food, legendary service and our purpose of serving communities across America and the world is always inspiring. Now Mike will provide some thoughts.

Mike Lenihan
Chief Financial Officer

Thanks, Jerry. During the third quarter, traffic trends through August were strong on both a 1- and multiyear basis and guest behavior within our restaurants remains healthy. Mix improved sequentially throughout the third quarter with both dining room and to-go mix positive in August and September. Through the first 5 weeks of the fourth quarter, our comparable sales have grown 1.5%, which includes an approximately 30 basis point negative impact from Halloween shifting from a Friday to a Saturday.

Most importantly, we are encouraged by the sequential improvement in both sales and traffic we saw throughout October and into the beginning of November. While consumers remain selective and value conscious, we have not seen signs of a meaningful shift in our guests' ordering behavior since implementing our 1% menu price increase at the beginning of the fourth quarter. Moving on to commodities. Inflation in the third quarter came in at 2%, which was at the lower end of our expected range.

While our outlook for the fourth quarter inflation has improved, we are maintaining our full year 2026 commodity inflation guidance at approximately 5%. At this time, we are also setting our 2027 commodity inflation guidance at approximately 4%. On labor, third quarter inflation of 4.1% was in line with our expectations. We are narrowing our full year 2026 wage and other labor inflation guidance to 3.5% to 4%.

And for 2027, we are guiding to wage and other labor inflation of approximately 3%. With regards to our capital position, we ended the quarter with $141 million of cash. Cash flow from operations for the third quarter was $147 million, which was offset by $197 million of capital expenditures, dividend payments and share repurchases.

Based largely on the health and timing of our new store development pipelines for 2026 and 2027, we are updating our 2026 capital expenditure guidance from approximately $400 million to approximately $440 million. And we are establishing our 2027 capital expenditure guidance at approximately $425 million. And now Michael will provide the third quarter financial update.

Michael Bailen

Head of Investor Relations

Thanks, Mike. For the third quarter of 2026, we reported revenue growth of 9.5%, driven by a 4.2% increase in average weekly sales and 5.1% store week growth. We also reported a restaurant margin dollar increase of 11.9% to $229 million and diluted earnings per share increase of 8.6% to $1.36. Average weekly sales in the third quarter were $164,000 with to-go representing $23,500 or 14.4% of these total weekly sales.

Comparable sales increased 4.3% in the third quarter, driven by a 3.6% increase in average check and 0.7% traffic growth. By month, comparable sales grew 5.9%, 6.8% and 1% for our July, August and September periods, respectively. In the third quarter, restaurant margin dollars per store week increased 6.4% year-over-year to $24,000. Restaurant margin as a percentage of total sales increased 30 basis points to 14.6% as compared to the same period last year.

Food and beverage costs as a percentage of total sales were 35.5% for the third quarter. The 32-basis points year-over-year improvement was primarily driven by a 3.6% check increase, which more than offset commodity inflation of 2%. Labor as a percentage of total sales increased 8 basis points to 33.7% as compared to the third quarter of 2025. Labor dollars per store week increased 4.4% due to wages and other labor inflation of 4.1% and growth in hours of 0.4%.

Other operating costs were 14.6% of sales, which was 8 basis points better than the third quarter of 2025. Higher sales were the primary driver of the leverage. Moving below restaurant margin, G&A dollars increased 9% as compared to the third quarter of 2025 and came in at 3.8% of revenue for the quarter. For full year 2026, we continue to forecast a low double-digit percentage increase in our total G&A dollar expense.

Depreciation expense increased 14.6% year-over-year in the third quarter and came in at 3.8% of revenue. For full year 2026, we continue to expect a low teen percentage increase in our total depreciation dollar expense. Our effective tax rate for the quarter was 12.2%. At this time, we are updating our guidance for the full year 2026 income tax rate to approximately 13%. We are also setting our guidance for the full year 2027 income tax rate at approximately 13%.

Lastly, as a reminder, we expect same-store sales growth in the fourth quarter will be negatively impacted by several holiday shifts. Year-over-year, Halloween shifted from a Friday to a Saturday and Christmas Day is shifting from a Thursday to a Friday. In total, we estimate an approximately 75 basis point negative impact to fourth quarter same-store sales growth from these shifts. Now I will turn the call back over to Jerry for final comments.

Gerald Morgan
CEO & Executive Vice Chairman

Thanks, Michael. In closing, I want to thank the best operators in the industry for their commitment to being owners of their business and serving over 200 million guests so far this year. Our company was built on an ownership mentality of executing the fundamentals. This mentality has driven our success over the years and will continue to keep us Roadhouse strong for years to come. There's no doubt Roadie Nation is on the job.

Michael Bailen
Head of Investor Relations

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

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Jacob Aiken-Phillips, Melius Research.

Jacob Aiken-Phillips
Melius Research LLC

So you mentioned the CapEx increase largely reflects timing of the development pipeline, but with roughly 35 openings planned in the year, how much of the increase in spending -- how much of it is increase in spending ahead of future openings versus higher opening cost per restaurant? And then as a corollary, given the pace of openings and the timing in 4Q, 1Q, would -- why not an increase in the hours per week or the store hours?

Mike Lenihan
Chief Financial Officer

Jacob, on the CapEx for both this year and next year, Jerry mentioned, we've got approximately 35 restaurants that will open this year and another 35 that will open next year approximately across the 3 brands. The '27 openings will be more evenly spread throughout the year.

And so some of our CapEx for next year is hitting our Q4 number this year as well as, obviously, the Q4 numbers. That is driving it. We are very excited about that prospect of having more restaurants open sooner in the year next year. I think the other thing driving the 2026 number is we did purchase a neighboring property next to our support center that will further support our growth in the years to come.

Operator

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

Peter Saleh
BTIG, LLC, Research Division

I did want to ask about the comp slowdown in September. If maybe you guys could give us a little bit more color. Was this more confined to certain regions? Was it more national? And is there anything that you guys are doing differently from a marketing or a promotional standpoint to try and reaccelerate some of that traffic back into the stores?

Mike Lenihan
Chief Financial Officer

Yes, Peter, I'll start, and I'll let Jerry weigh in on some of the things we're doing. In terms of the impact, we always have stores that either over or underperform the national average in any given quarter for a variety of reasons. That was the case that happened in September in Q3 and what we're seeing in Q4. Importantly, as we talk about our sequential improvement thus far in Q4, we are seeing it across all of our restaurants. I'll let Jerry talk to some of the things we're doing.

Gerald Morgan
CEO & Executive Vice Chairman

Yes. Thank you. Obviously, we had the opportunity to be face-to-face with our operators during the fall to really talk about how do we strengthen our position in the market. So it's been about our food, our value, the trust we have with our guests and getting out in our communities. And so I think that was the real marching orders. We'll continue to focus on our early dine offering, our Wild West Wednesday and things that we can do.

But mostly, it's about making sure that every guest that walks through those stores, we're taking great care of and that we're going out in our communities and shaking hands with folks we might not have seen in a little while and trying to engage. And so I think that has been our strategy, and it's obviously working as we can tell in the numbers now.

Operator

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

Lauren Silberman
Deutsche Bank AG, Research Division

So I wanted to just dig into the comp side. There's been a lot of noise in October broadly across the industry. Can you just help unpack how trends have progressed and perhaps more recently, September, you said was 1% underlying ex Halloween quarter-to-date, I think, 1.8%. So just trying to understand how things are building and any changes in the consumer environment?

Mike Lenihan
Chief Financial Officer

Lauren, I'll start with what we've seen in Q4, then I'll hand it over to Michael for some commentary on the consumer. We exited the month of October higher than what we entered it. And thus far in November, we have seen a further increase from where we exited October. Michael, I'll turn it over to you on the consumer.

Michael Bailen
Head of Investor Relations

Thanks, Mike. Yes. So the consumer environment, it still feels very similar to what we've seen throughout the year. Sentiment is still not the highest amongst the consumer, but I still believe the behavior when it relates to casual dining remains the same. People want to be out.

They want food service and value and those who can deliver on that are continuing to drive people into their restaurants. And that's what we're focused on. That's what we've always been focused on. So it's kind of business as usual here at Texas Roadhouse and don't feel anything that's really different from the consumer environment.

Operator

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

Brian Harbour
Morgan Stanley, Research Division

Can you elaborate on the 4% commodity inflation guidance for next year? I mean it actually seems like it's a little bit more favorable right now. So what are some of the drivers behind what you're seeing for next year?

Michael Bailen
Head of Investor Relations

Brian, it's Michael. Thanks for the question. I'll tell you that 4% number, about half of that is driven by beef and the other half is coming from nonprotein items, specifically oils and produce items. So you are correct. I think it was referring to maybe an improving or less inflationary beef environment, but there are other items within our basket that have been fairly benign for multiple years that are seeing some pressure at present given what's going on in the world today and freight costs add to that as well.

So we expect to maybe be on the higher side of that commodity inflation guidance early in the year. Q1 could be in that 5% range and then seeing a step down. But I think the important thing to realize is it's not all beef in the expected inflation for 2027.

Operator

Your next question comes from the line of Andrew Charles with TD Cowen.

Andrew Charles
TD Cowen, Research Division

You guys talked about the hoax weighing on sales, and it's definitely encouraging to hear about the sequential increase you guys are seeing through October and November. But there's a lot of investor concern that with beef disinflation, this is working against you, that the retail demand destruction that benefited sales for the better part of the last 12 to 18 months is starting to wane. So I'm curious to get your thoughts on that idea.

Michael Bailen
Head of Investor Relations

Andrew, it's Michael. I hear the concern. I don't know if I believe that, that's really what's going on. And I don't know that -- I think that retail beef prices have come down. Maybe they aren't inflating as much as they have. But beef as a protein is still very expensive at the grocery store and the relative value of coming to Texas Roadhouse for that steak is still very attractive.

We've talked about -- yes, our traffic trends do tend to outperform in times of higher commodity inflation. That does not end beef inflation. That doesn't mean that we're not going to perform when beef is not as inflationary. But again, I don't think we're yet in an environment where beef relative to other proteins looks cheap in the grocery store.

Operator

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

David Palmer
Evercore ISI Institutional Equities, Research Division

Just wanted to ask you a technology question. I guess it's not unreasonable at this point to review what has transpired with your digital kitchens and to think about what that has done for you? And maybe a little bit of a review on that would be helpful.

It's obviously been an enabler in terms of fueling your confidence to take on that off-premise business during peak hours, but maybe you have some other comments about that. And related to that is the handheld ordering. It sounds like there's a lot of enthusiasm from the managing partners out there. What do you think that could be? And could you give us a sense of the timing of that?

Gerald Morgan
CEO & Executive Vice Chairman

Yes. Thank you. This is Jerry. Yes, on the digital kitchen, we're completely rolled out. I think we really have gotten used to the system and how it is helping our operators with the orders and the assembly of the food to go out together. So I think there's a lot of wins from that standpoint, just the calmness in the kitchens and how everybody has adjusted to it so well.

And so completely rolled out, really continuing to learn about what it can do for us outside of just making our orders more consistent and concise. To your point, the digital kitchen and to-go orders being able to really work that into the dining room flow has been extremely helpful. So we've obviously seen our dining rooms grow sales and our to-go business. That is absolutely a part of it. The mobile POS is in 100 stores, as I think we mentioned. It's on version 2.

We're currently writing that software ourselves, and we're having a lot of success with it. We do have a plan for 2027 to roll out approximately 200 more restaurants, and then we'll finish up probably in 2028 if everything continues to go well. And obviously, that handheld mobile POS does help us in many ways. I think there's a generation of servers that absolutely love the tablet. And I think there's others that still want to have the hardwired POS and be able to write down an order and interact in that fashion.

So us being able to have the flexibility to do both, I think, will serve Roadie Nation extremely well. But we're very pleased with the rollout of the 100 stores that we currently have. We're getting our game plan and strategy for the 200-plus in 2027. It could ramp up a little higher from that depending on how well it's received. And then we will anticipate if everything goes well, that we would be able to wrap up by the end of 2028.

Operator

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

James Salera
Stephens Inc., Research Division

To ask about the Alfredo menu innovation. Just if you could walk us through, is that something that you had guests come to you asking as an expansion or maybe some of your folks in the field at the restaurant level? And then just any thoughts on how we might think about that impacting mix? Is that kind of positive, negative? Do you think it will bring incremental people in? Is it more of a kind of entry or opening price point for guests? Just any color around that would be helpful.

Gerald Morgan
CEO & Executive Vice Chairman

Yes. Thank you for the question. We're excited about the pasta. It's been on one of our region's menu in a market for probably 20-plus years. I had an opportunity to really sit with the operator and ask them why. And we were getting some questions from our operators about additional menu enhancements and what that could be. We obviously added the fried cheese mozzarella sticks a few years ago, which has been a real big hit.

And so we really expanded from that market and tested it in 100 stores, and it went really well. Our servers love it. The guests are loving it. Our operators are really feeling good about it. So we expanded that test to another 100. So I think by the -- going into the summer, we had a little over 200. We got to our pricing calls; our operators are really excited about it. The word had gotten out that they felt great about the quality, that the guest was really excited about a new additional menu item.

We don't do a lot of things like that. So it's been received very well. We had 400 more stores opt in on our October menu. And the sales have been very strong and very solid. Maybe Michael could speak to a little bit about how many stores or how many units we're moving. But I will tell you, it's a great product. We're very proud of it. And it's exciting to have some refreshing menu items.

And it may be a little bit of that game changer when people are driving in the car, and we haven't had pasta on the menu on a national level for a long time. So this could be a real win for us in the long term. It's still early on, I think, to have that many stores to know the impact, but it is a great product, and we're really excited about it.

Michael Bailen
Head of Investor Relations

Jerry, to your point, I probably won't get into an exact number. I mean we're selling a good number. It's probably not going to be one of our top 10 mix entree items that we offer, but it rounds out the menu and it's a great choice for somebody who wants something a little bit different. And so I don't really expect it to change anything with our mix trends or margin trends from it. But again, it was something that we thought fit well into the menu.

Operator

Your next question comes from the line of Chris O'Cull with Baird.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Jerry, what would cause the company to conclude that it might need to shift its recovery plan or strategy beyond just local store marketing outreach? And then what maybe could that look like? And then one other question, this may be for you, Michael. The pace of the slowdown you've seen, how should we be thinking about the company's ability to manage labor hours relative to the sharp falloff in traffic?

Gerald Morgan
CEO & Executive Vice Chairman

Thanks, Chris. I do believe having the conversation with our operators face-to-face and really understanding what we do. I feel -- if I look at July and August, and then I look at September and then I look at where we're at today, we are a very trusted brand out there. And I do believe that people understand that.

And so I think the confidence of us really doubling down on running great shifts, running open in our business, being great community partners is really the way to go. Will we lean into other avenues if we need to? Absolutely. We're not -- we are definitely business people, but the trends and the signs show that we believe that were -- those were false accusations and that absolutely, our sales are coming back.

Our relationship with our communities across the nation are strong and people believe that. And we're just going to continue to open our doors and serve our food and show them high-level hospitality and show them that we're loving partners in that community. And I believe that we will continue to get back to exactly where we were going into it.

Mike Lenihan
Chief Financial Officer

And then on the labor question, this is Mike. I think it's safe to say our operators are managing the business for the long term. They've got a second to none ownership mentality. And so quarterly results are less important to them, the long term is. And so from a labor efficiency perspective, I'll repeat something we say a lot, and that is our MPs, they staff for the sales and the traffic they want in the long term. And so I don't think you'll see much of a change from us in that approach at all.

Operator

Your next question comes from the line of Andy Barish with Jefferies.

Andrew Barish
Jefferies LLC, Research Division

Can you just give us kind of a Bubba's 33 update? And does the pipeline for '27 continue to contemplate a higher number of openings with that brand?

Gerald Morgan
CEO & Executive Vice Chairman

Yes. Thanks, Andy. It's Jerry. I'll kick it off and then one of these guys will take over. But really excited about the opportunity for Bubba's 33. I think we've got 8 openings left this year. And so we have had been pushed off a little bit, but we're continuing to see great success with the brand. And I love the food. I love what we're doing on the operations side and really the results that we're getting. We've seen some very positive trends here as of recent.

Our new store openings are doing really, really solid. So I feel really good about the brand and the positioning of it representing one of TXRH's brands. And Bubba's 33 obviously has a huge role in our company today and going forward. And we'll keep the cadence. I believe we're trying to get around 10 to 12 a year is what we're striving for. We've got a strong pipeline for '27 and '28. So we are -- and obviously working on '29. So we feel very good about what we've currently got and what we're doing with the brand.

Mike Lenihan
Chief Financial Officer

Yes. And Andy, just to give you a little bit more color on the pipeline stuff. This is Mike. I think the really encouraging thing on that is that Bubba's is being able to take advantage of ground-up opportunities as well as some conversions. We will open 3 or 4 conversions this year, and we've been pleased with those results.

I'll go up a level too, and that is the learnings that are being applied at Bubba's are really, really encouraging with only 60-some-odd restaurants, hardly any advertising and the spend and to generate weekly average sales of nearly $126,000 year-to-date puts them near the top of the casual dining space. So you put those 3 things together, and it does mean the future is very bright for Bubba's.

Operator

Your next question comes from the line of Andrew Strelzik with BMO Capital Markets.

Andrew Strelzik
BMO Capital Markets Equity Research

I wanted to ask about the to-go business. At 14% of sales, it's already a pretty decently sized business. But is there anything you're thinking about doing incrementally to grow to-go in '27 that we should be aware of or longer-term things on your radar to continue to build that business over time?

Mike Lenihan
Chief Financial Officer

Yes. Andrew, we don't necessarily have a target mix on our to-go business. We like the way it's growing. Weekly sales dollars in to-go grew 10% in Q3 over last year. The mix is growing nicely. We think that the investments in technology that Jerry mentioned earlier, some of the labor efficiencies that we see allow us to deliver those legendary experiences through the to-go business. We also think our operators can and will continue to support growth in both the dine-in as well as the to-go. So I think it's more of the same in 2027 there.

Gerald Morgan
CEO & Executive Vice Chairman

Andrew, it's Jerry. I think we have been working on a program with our family packs, and some have been received extremely well. Not all of our stores need them, but I think there are some areas that -- where you can get a family pack that feeds 4 is definitely something that we're continuing to look at. We have it in the system now. It is working. There's a lot of stores that are using it. So that could be something that we could use that lever if we needed to from that, but it's already in the system, having some success. So we could be leaning into that a little heavier.

Operator

Your next question comes from the line of John Ivankoe with JPMorgan.

John Ivankoe
JPMorgan Chase & Co, Research Division

I was in a store a couple of weeks ago and had the physical menu in my hand. And I was really kind of struck by how much it reminded me of the menu from 20 years ago. It might even be exactly the same, you can tell me. So as we kind of think about maybe over time, menu enhancements might be more of an incremental opportunity in the future than it was in the past.

Do we have an opportunity to kind of make some enhancements to the physical menu, keeping all the good, of course, and just making it better, especially as I imagine, many of your most frequent customers probably don't even use the menu and more modern menu actually might benefit new customers to explore some new things a little bit better. What are your thoughts on that?

Gerald Morgan
CEO & Executive Vice Chairman

John, this is Jerry. That's a great question. You're right. I mean we -- if I go back to all the beginning days, we didn't have a lot, we only had a 6-ounce and 8-ounce and 11-ounce sirloin. So we've added a 16-ounce sirloin, a 16-ounce ribeye, a bone-in ribeye. We've added a lot of bigger steaks by keeping our value and our options to that point. So -- but I think when over time, we have adjusted, we used to have trout on the menu and now I believe we went to shrimp. And that shrimp has been a huge seller.

We used to have baked beans and we have corn. So not only are healthier options. So we continue to look at. We have test items that are out there. Obviously, the pasta is something that will be -- we'll see how that continues to go, the fried cheese mozzarella sticks. So we have definitely evolved the menu. We continue to test some things. We've got shrimp cocktail out there and deviled eggs.

We've got some fun things that are working, and we may -- they may be more regional items. But I'll tell you, we've got a heck of a chef that continues to throw things our way. But in order to make it on that menu, it's got to be a really good product to bump something out of a slot because you just can't keep adding and adding.

I think we're in a really good place where we currently are, and we'll continue to talk to the operators in the spring about if there is the ability to expand or not, we'll have some options for them. But really, they got to tell us how much they can handle. But I love our menu. We're steaks and potatoes and ice-cold beer, baby.

Michael Bailen
Head of Investor Relations

And John, this is Michael. I just want to add on from a design of the menu, we certainly -- a lot of it is very similar, but I think a big enhancement we've added pictures on the menu and a panel that shows a number of the items. And that's something we learned from our international team that really added value to the menu. A lot of people use that to help determine what they want to buy. So we definitely have enhanced the design of the menu over the years and with the pictures being probably the biggest change.

Operator

Your next question comes from the line of Logan Reich with RBC Capital Markets.

Logan Reich
RBC Capital Markets, Research Division

I personally love pictures on the menu, so I appreciate that. My question is going back to the quarter-to-date comp and just how to think about the Q4 balance of the quarter. I guess just like what would you chalk up the slowdown to -- I mean, obviously, the hoax was a headwind, but I think some investors maybe had expected sales to improve a little bit faster than they have.

And then I believe compares get easier through the balance of the quarter. Like is there a right way to think about maybe some acceleration on easier compares for the rest of the quarter? Or is that not the right way we should be thinking about it?

Mike Lenihan
Chief Financial Officer

Yes. Logan, it's Mike. I think I'd like to not necessarily provide -- we don't provide quarterly guidance, but I will remind you of a couple of things that may help out with how you're looking at it. We do have 2.9 points of pricing in the quarter and point you back to Michael's prepared comments with regard to the negative holiday shift.

And then lastly, just kind of reiterate the comments I had earlier, I believe it was to Lauren with regard to how October and thus far in November, where we exited October stronger than we entered it, and we're entering November stronger than we exited October.

Operator

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

Dennis Geiger
UBS Investment Bank, Research Division

I wanted to ask a little more on beef visibility into '27. If any commentary you can give on loosely where you're locked? And if any additional updates on the supply-demand side of things? Anything you could share that's shifting at all on the supply side? And any update maybe on where you think demand is, retail demand, et cetera, if we've seen much shift there?

Michael Bailen
Head of Investor Relations

Dennis, it's Michael. Appreciate the question. I don't know if I think that the demand at retail has changed much since we last spoken in the second quarter of the year. I think people are still looking for value, and there are some that probably are shifting to other proteins, but beef is still certainly selling in the grocery store in retail. Supply is tighter. The packers are slaughtering more cattle right now, but we expect supply will tighten into the end of the year and early next year.

The benefit of the Mexican border reopening is probably a mid- to late year impact if things continue to go well with that reopening. We are locked on about half of our overall commodity basket. We never talked specifically on beef, but with beef being about half the basket, they're not going to run too far different from each other. So we have our supply locked in for the majority of our beef, and we have prices locked in on about half the overall commodity basket right now.

Operator

Your next question comes from the line of Chris Carril with KeyBanc Capital Markets.

Christopher Carril
KeyBanc Capital Markets Inc., Research Division

I just wanted to follow up on Bubba's. Your commentary around volumes and around new locations sounds really encouraging. But just maybe following up on this, can you speak to the progress you're seeing from margins and/or returns perspective at the brand?

Mike Lenihan
Chief Financial Officer

Yes, I can start with that, sure. I think as it relates to returns because it's a good follow-on to the development comments earlier. We are seeing nice returns in our Bubba's locations. That generally equates to high teens cash-on-cash returns. And what's nice is that we are seeing that in both the ground-ups as well as the conversions that I mentioned.

And as it relates to profit margin, the Bubba's operators have the exact same mentality that the Roadhouse operators do, and they manage and get paid off of margin-related dollars, not percentages. And so the increases that we're seeing in their top line is flowing through in a way that we're happy with at Bubba's.

Michael Bailen
Head of Investor Relations

And Chris, this is Michael. I'll just add on. I'll tell you, we're seeing some really encouraging comp trends at Bubba's of recent. So very excited about what we may continue to see from those sales flowing through to margin.

But do remember, when you have approximately 60 locations and you're opening 10 new restaurants, you do get some pressure from those new stores, taking a little bit of time to ramp up to profitability that can weigh down on the margin on a quarter-over-quarter basis. But over time, we are very encouraged by what we're seeing.

Operator

The next question comes from the line of Jim Sanderson with Northcoast Research.

James Sanderson
Northcoast Research Partners, LLC

I wanted to go back to international. I think you mentioned signing agreements in Vietnam and Japan. I wanted to get a little bit more feedback on the size and scale, duration of the agreements. And then also wondering if you're actively pursuing franchise agreements in Latin America or Canada.

Michael Bailen
Head of Investor Relations

Yes. Jim, this is Michael. Probably not going to get into a lot of details right now on the size or scope of those agreements. We think there are some huge opportunities in both those countries that we have agreements in place with, but probably not going to get too specific there.

Also probably don't want to comment too much on where we may be focusing our attention. We do have franchise restaurants in Mexico. So we do have some Latin America presence already, and we'll continue to look for new opportunities going forward.

Mike Lenihan
Chief Financial Officer

I'll just add to that, that we made a comment in the last quarter on the World Cup and the interest that we got internationally on an inbound basis from some of the viral social media posts that were made by international guests coming to the U.S. That has resulted in some additional inbound interest in our international business as well.

Operator

Your next question comes from the line of Gregory Francfort with Guggenheim.

Arian Razai
Guggenheim Securities, LLC, Research Division

This is Arian Razai on for Greg. I wanted to double-click on the consumer slowdown. There's softness in the past couple of months across the industry. Did you see any trade down in steak cut during that as well? If I'm not mistaken, you hit the soft patch last December when there was like a trade down in steak. Any additional color would be super helpful.

Michael Bailen
Head of Investor Relations

Yes, this is Michael. Yes, I don't think we're seeing a consumer slowdown, a macro slowdown at this point. We're not seeing anything in our mix trends that tell us the consumer is behaving any differently in the 5 weeks of the fourth quarter than it behaved in September or August or July. So we continue to see guests trading to -- more of our guests getting a steak or a bigger entree. So nothing there right now that is raising a concern for us.

Operator

Your next question comes from the line of Sara Senatore with Bank of America.

Sara Senatore
BofA Securities, Research Division

Just a quick follow-up on the mix question. And it looks like maybe it was flat for the quarter, which is better than it's been for, call it, 6 or 7 quarters. So I was just curious what's driving that? It sounds like that you're still seeing that trade up, maybe alcohol has moderated, maybe non-alcoholic and that's part of maybe what's inspiring the mocktails and dirty sodas or rather the energizers.

So I just wanted to sort of understand that. And broadly speaking, is there an opportunity or maybe it's just too small for mix to actually impact your margin? Because obviously, food margins on beef tend to be lower than pretty much anything else. So just trying to understand kind of the margin complexion if you do start to see a pickup in your beverage business or even pasta or it's just too kind of small to move the needle?

Michael Bailen
Head of Investor Relations

It's Michael. You laid out some of the answers to the question as far as what's driving the mix. Entree mix, as you kind of look from sequentially Q1 to Q2 and Q2 to Q3, entree mix has gotten more positive and alcohol mix has gotten less negative. And that's really the driver of getting to that flat mix. You were correct, Q3 mix was flat. All of our pricing flowed through to check. As far as your question on can mix impact margins, I think it depends.

Certainly, on the beverage side, getting positive mix on beverage, whether that's soft beverage, alcohol, dirty sodas, mocktails, you name it, beverage is profitable, and that would probably be the biggest one that could improve margins, whether mix moves enough to move that needle is to be determined, but beverage would be the one that have the largest impact there. I don't think pasta, as I kind of alluded to before, is going to be a big enough mix item to move the margin numbers.

Operator

Your next question comes from the line of Brian Vaccaro with Raymond James.

Brian Vaccaro
Raymond James & Associates, Inc., Research Division

Just following up on the food cost inflation. And sorry if I missed it earlier, but what is your expectation for the fourth quarter specifically? And then my question is on wages and other inflation. I think you guided to up 3% in '27. It's been a long time since we've seen it that low. So could you just provide a little more color on some of the dynamics contributing to that?

Michael Bailen
Head of Investor Relations

Sure. Brian, it's Michael. Fourth quarter commodity inflation, we're now expecting about approximately 4.5%. And that's down from, I would say, approximately 5% that we were expecting when we updated you all last quarter. So a little bit better there. And you're right, the labor inflation has come down. The wage component of that inflation continues to moderate.

Now some of that is also because the last 2 years, we acquired some of our California franchise stores where wage rates are much higher, that was adding some pressure to wage inflation. We don't have that in 2027. But I'd say 2/3 of the wage and other inflation expected for 2027 is coming from the wage side of it, and the remainder is coming from health insurance costs and other components of labor.

Operator

Your next question comes from the line of Zach Fadem with Wells Fargo.

Zachary Fadem
Wells Fargo Securities, LLC, Research Division

I think there's still some confusion on the trajectory of the recovery. So just to get a little more detail, is it fair to say that the comp exited flat or perhaps a little negative in late September and then gradually improved through October and now roughly 3 or 4 points better versus the trough? Is that a fair characterization?

Michael Bailen
Head of Investor Relations

Zach, I would say we certainly -- I'm probably not going to get you as specific an answer as you may like. But certainly, we have seen sequential improvement every week, certainly through the 5 weeks of the fourth quarter. And so yes, we are continuing to see those numbers get better. I'm not going to put a specific number around it, but every week has gotten better, and we're encouraged by what we're seeing right now.

But sometimes maybe the recovery takes a little bit -- has taken a little bit longer than some would have expected, but our operators are out there busting their butts, and they've doubled down on everything they're doing. And if there's any group of managers and operators out there who are up for this challenge, it's the Texas Roadhouse managing partners and the whole teams out there who are compensated off their restaurants. So they're out there and working and not sitting back just waiting to see what might happen.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back to Jerry Morgan for closing remarks.

Gerald Morgan
CEO & Executive Vice Chairman

Thank you. And I want to thank you all for joining us tonight and a special thanks to our management team and all of our Roadies at our new Clarksville restaurant on their first day serving Clarksville, Indiana, in that brand-new store. Let's go Clarksville, Indiana.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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