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The Wendy's Company (WEN) Q1 2024 Earnings Call Transcript

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EPS of \$0.23 **beats** by \$0.02 | Revenue of \$534.75M (1.12% Y/Y) **misses** by \$5.76M

The Wendy's Company (NASDAQ:[WEN](#)) Q1 2024 Earnings Conference Call May 2, 2024 8:30 AM ET

Company Participants

Conference Call Participants

Kelsey Freed - Director of Investor Relations

Kirk Tanner - President and Chief Executive Officer

Gunther Plosch - Chief Financial Officer

Brian Bittner - Oppenheimer

Jeffrey Bernstein - Barclays

Brian Harbour - Morgan Stanley

David Palmer - Evercore ISI

Danilo Gargiulo - Bernstein

Alexander Slagle - Jefferies

Eric Gonzalez - KeyBanc Capital Markets

Dennis Geiger - UBS

Gregory Francfort - Guggenheim Securities

Lauren Silberman - Deutsche Bank

Jared Hludzinski - BMO Capital Markets

Sara Senatore - Bank of America

John Ivankoe - JPMorgan

Operator

Good morning. Welcome to The Wendy's Company Earnings Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. Kelsey Freed, Director of Investor Relations, you may begin your conference.

Kelsey Freed

Thank you, and good morning, everyone. Today's conference call and webcast includes a PowerPoint presentation, which is available on our Investor Relations website, irwendys.com. Before we begin, please take note of the safe harbor statement that appears at the end of our earnings release. This disclosure reminds investors that certain information we may discuss today is forward-looking. Various factors could affect our results and cause those results to differ materially from the projections set forth in our forward-looking statements. Also, some of today's comments will reference non-GAAP financial measures. Investors should refer to our reconciliations of non-GAAP financial measures to the most directly comparable GAAP measure at the end of this presentation or in our earnings release.

On our conference call today, our President and Chief Executive Officer, Kirk Tanner will give a business update and our Chief Financial Officer, Gunther Plosch will provide a franchise health update, review our first quarter results and share our reaffirmed outlook. From there, we will open up the line for questions. And with that, I'll hand things over to Kirk.

Kirk Tanner

Thanks, Kelsey, and good morning, everyone. The momentum we built across our business in the first quarter puts us on track to achieve our 2024 commitments and on path towards unlocking our full potential. But before we dive into the results, I wanted to share some of my thoughts on the business now that I'm almost three months in. The things that brought me to Wendy's still ring true. We have an amazing brand, the highest quality food in QSR and a great foundation for growth.

And after spending time learning from our restaurant support team, listening to our franchisees and customers and working alongside our crew members, I'm even more fired up about the momentum we're building here at Wendy's. As I continue to immerse myself in the business, there's one thing I know for certain. The experience we deliver to our customers is the most impactful driver of our business. I've now had a chance to see that firsthand in so many ways, from working in our restaurants to our incredible activation at the Final Four.

You can expect to see us always put the customer first, with the goal of exceeding their expectations in everything we do. We are committed to ensuring each interaction our customers have with us is brand building. As part of this commitment, we are reviewing every aspect of our business and we'll come back to you later this year with our plans to deliver profitable growth over the short and long-term. Those plans will be centered on three things. Number 1, driving strong same restaurant sales growth in all our restaurants, including continued momentum in our digital channel.

Number 2, a significant acceleration in global net unit growth and Number 3, unlocking meaningful improvements in restaurant level profitability. Progress against these focus areas will provide the oxygen we need to build The Wendy's flywheel, enabling us to bring our ownable propositions of fresh high quality favorites at affordable prices to more people and more places.

Turning now to our first quarter highlights. Global same restaurant sales grew 90 basis points during the quarter. This laddered to 8.9% on a two year basis as we lapped our highest quarter in the prior year representing an acceleration of 120 basis points versus Q4. Our international business achieved 3.2% same restaurant sales growth and 17.1% on a two year basis. This marks a 12th consecutive quarter of double-digit two year same restaurant sales growth for our International segment and continued QSR Burger category dollar and traffic share gains in Canada, our largest international market.

In the U.S, we delivered 60 basis points of same restaurant sales growth and 7.8% on a two year basis, holding our dollar and traffic share position within the QSR burger category. Our Q1 performance was driven by carryover pricing that continued to support average check growth, partially offset by customer count declines. We exited the quarter with momentum as year-over-year customer count improved each month of Q1. Our breakfast strategy began to reaccelerate the day park, driving high-single-digit year-over-year growth in U.S. breakfast sales.

This success was a result of delighting our customers through purpose driven innovation with our breakfast burrito and Cinnabon Pull-Apart. Consistent quality and compelling value with our 2 for \$3 Biggie Bundles and increased media support as we began spending incremental media dollars from our company investments. On the digital front, we continued to gain significant momentum reaching nearly 17% global digital sales mix and over 30% year-over-year increases in digital sales. Our International segment grew to over 20% digital sales mix, with strong digital adoption continuing in the U.K., Canada and much of our APMEA region.

In the U.S., we drove meaningful increases in our mobile order and delivery channels, growing total digital sales by over 15% versus the prior quarter and 35% year-over-year. This supported an acceleration in U.S. digital sales mix each month of the quarter for an average of over 16%. Our digital momentum resulted from the success of our March Madness programming, which highlighted our fresh never frozen beef that our customers know and love alongside compelling offers within our mobile app.

This led to an increase in our monthly active users to over 6 million at quarter end, up over 40% versus Q4. Our total rewards members also increased to over 40 million illustrating that our digital efforts are resonating with our customers. This growth drives the restaurant economic model and our progress across breakfast and digital supported a 60 basis point year-over-year increase in U.S. company operated restaurant margin to 15.3%. Finally, our Q1 development progress achieved our expectations as we opened 35 new restaurants across the globe.

Looking ahead, we remain focused on executing against our plan and investments through a customer centric approach, supporting profitable growth across our system. As we shared during our Q4 earnings call, our growth plans are supported by our breakfast and digital investment alongside our strong development pipeline, all of which support our restaurant economic model.

In 2024, we continue to expect global same restaurant sales growth of 3% to 4%. As we look towards the rest of the year, this expectation implies that our two year growth for the remainder of the year will be roughly in line with what we delivered in Q1, driven by our company investment in Breakfast Advertising, which is already driving a meaningful increase in U.S. Breakfast sales, continued ownership of our biggest quality differentiators through our core menu, craveable innovation that excites our customers and inspires more visits and compelling value that drives customer satisfaction and supports restaurant margin.

We also remain on track to reach over \$2 billion in global digital sales this year, supported by our digital investments, continued improvement of our digital customer experience in our app and our restaurants, and our increased ability to build personalized relationships with our growing base of loyalty members. Finally, our progress through Q1 supports our goal of 2 plus percent net unit growth in 2024, which includes approximately 250 to 300 new restaurant openings. This next phase of our profitable growth journey is just beginning. The progress we made in the first quarter highlights that we have the right investments and plans in place to begin our next chapter.

With that, I'll hand it over to GP to walk through our first quarter financial results.

Gunther Plosch

Thanks, Kirk. Our first quarter results highlight the momentum we are building across our business. Our global system wide sales grew 2.6%, contributing to year-over-year growth across our financials. Our U.S. Company restaurant margin reached 15.3%, increasing 60 basis points year-over-year primarily due to the benefit of a high average check driven by carryover pricing of over 3%, partially offset by customer count declines and an increase in labor cost driven by rate inflation of approximately 3.5%. The increase in G&A was primarily driven by an increase in stock compensation and an increase in employee compensation and benefits. These were partially offset by lower outside professional services driven by lapping implementation costs for the company's Human Capital Management System in the prior year.

Adjusted EBITDA increased 1.8% to approximately \$128 million resulting primarily from higher franchise royalty revenue and an increase in U.S. Company operated restaurant margin. These were partially offset by an increase in the company's incremental investment in breakfast advertising and higher G&A. The almost 10% increase in adjusted earnings per share was driven by fewer shares outstanding from our share repurchase program, an increase in adjusted EBITDA and lapping a decrease in investment income in the prior year.

These were partially offset by higher depreciation and higher amortization of cloud computing arrangement costs. Finally, the decrease in free cash flow resulted primarily from the company's incremental investment in Breakfast Advertising, partially offset by the timing of receipt of vendor incentives.

Now let's turn to our expectations for 2024. Our financial outlook for 2024 remains unchanged as our first quarter performance and plans across the year keep us on track to deliver on all our financial targets. We continue to expect strong global system wide sales growth of 5% to 6%, U.S. company operated restaurant margin of 16% to 17%, and G&A of \$265 million to \$275 million resulting in our adjusted EBITDA outlook of approximately \$535 million to \$545 million. Our capital expenditure outlook for the year remains unchanged at \$90 million to \$100 million.

Lastly, we continue to expect free cash flow to grow to approximately \$280 million to \$290 million and are also reaffirming our adjusted EPS outlook of \$0.98 to \$1.02. Our focus on profitable growth is foundational to Wendy's and our reaffirmed outlook underscores this commitment.

Now I'd like to highlight our capital allocation policy, which remains unchanged. Our first priority remains investing in profitable growth, and our recent investments across our growth pillars showcase exactly that. Secondly, we are committed to sustaining an attractive dividend. We announced today the declaration of our second quarter dividend of \$0.25 per share and continue to expect a full-year dividend of \$1 per share in 2024.

Lastly, our capital allocation policy gives us the flexibility to utilize excess cash to repurchase shares and reduce debt. Due to date through April 25th, we have repurchased approximately 0.6 million shares and have approximately \$298 million remaining on our \$500 million share repurchase authorization expiring in February of 2027.

We are fully committed to delivering our simple yet powerful formula. We are a predictable efficient growth company that is driving strong system wide sales growth on the backdrop of positive same-restaurant sales and expanding our global footprint. This translates into significant free cash flows, which supports meaningful return of cash to shareholders through an attractive dividend and share repurchases.

Lastly, let's turn to our 2023 franchise financial results. Franchisee profitability remains a key focus area of ours that we are committed to providing visibility to. We are pleased that the strong 2023 performance we saw in our company operated restaurants was also experienced by our U.S. and Canadian franchise systems. This growth is driven in part by the strong and productive partnership we continue to have with our franchisees.

Our U.S. and Canadian franchisees achieved 4% and 6% year-over-year sales growth respectively. This momentum contributed to strong EBITDA dollar growth year-over-year of approximately 9% in the U.S. and 25% in Canada. Franchisees strong restaurant EBITDA performance in 2023 supported an improvement in balance sheet health with lease adjusted leverage ratios improving year-over-year.

We expect the sales and profit momentum to carry into this year just as we expect sales and margin expansion in our company operated restaurants. This growth directly supports our new restaurant acceleration plans by putting our current franchisees in an even stronger position to build more restaurants and by continuing to attract new franchisees into the Wendy system. We look forward to achieving continued profitable growth together with our franchisees for years to come.

With that, I will hand things over to Kelsey to share our upcoming IR calendar.

Kelsey Freed

Thanks, GP. This quarter we will attend the Oppenheimer Conference on June 11th followed by the Evercore Conference on June 12th. We'll then hold an Investor Call hosted by Guggenheim on June 18th. Lastly, we plan to record our second quarter earnings and host a conference call that same day on August 1st. As we transition into our Q&A section, I wanted to remind everyone that due to the high number of covering analysts, we will be limiting everyone to one question only.

With that, we're ready to take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. Our first question comes from Brian Bittner from Oppenheimer. Brian, please go ahead.

Brian Bittner

Thanks. Good morning. It seems like the base case assumption from an industry perspective is that many feel that need to get more aggressive on value, which historically has caused more of a street fight dynamic within the quick service industry. And how do you feel that Wendy's is positioned if this is an environment that unfolds with intensity? And what weapons can you use to compete in a more value focused environment? Because historically, you've actually competed pretty well when the industry resorts more to value.

Kirk Tanner

Brian -- good morning, Brian. I think that's a good question and a topic that a lot of folks are talking about. Let me give you my perspective for where Wendy's is. First on a value standpoint, we have a platform that delivers everyday value. It's our Biggie platform. Consumers love that platform. That's an important part of the menu. And then separately, we're leveraging our digital communication to drive value, and it has a double benefit. One, it allows us to build loyalty. It allows us to add customers to our platform. It's an exciting way to engage, drives personalization. So value at Wendy's is going to be done with everyday value like our platform in Biggie, and we'll continue to use digital value to drive loyalty and build our customers on our platform.

I think we're well positioned to deliver on value, but I would say it's a balance for us as well. If you look across our menu, go from premium fresh all the way to the value propositions. And I think that the structure of our menu and how we address customers allows us to win across consumer segments.

Operator

Thank you. Our next question comes from Jeffrey Bernstein from Barclays. Jeffrey, please go ahead.

Jeffrey Bernstein

Great. Thank you very much. I have a question on the unit growth outlook, which for years has been a big priority to accelerate. I think you mentioned the 250 to 300 units this year. Kirk, I'm just wondering if you could talk a little bit about your early conversations with franchisees both U.S. and international, maybe the timeframe you think to accelerate that unit growth. Obviously, it is a more challenged macro and somewhat believe that franchisees might be a little bit more hesitant to put up more capital and accelerate growth. So your early thoughts on the unit growth outlook and the ability to accelerate in terms of franchisee demand would be great? Thanks so much.

Kirk Tanner

Jeffrey, thanks for the question, and good morning. Yes, I've had a lot of opportunities to talk to franchisees about this very topic. We talked a little bit about creating that flywheel and that's why we share profitability for franchisees and GP walked through that in the opening comments. The ability to move faster let me give you just a little background. This year, we're talking about unit growth north of 2%, and then in '25 we're talking about 3% to 4% unit growth. And that's by looking at our development agreements where we have 90% confirmed right now.

So you can see the short term. The long-term for us has the ability to build this profitability. There's still a lot of runway both here in the U.S., and of course internationally, and we see that as a 30-70 split. 30% of our unit growth is going to come from the U.S., so still tons of potential. And 70% of that unit growth is going to come from outside the U.S.

And speaking to the franchisees, opening new restaurants really pay a dividend and they can see it themselves. The AUVs on new restaurant outperform older legacy restaurants, and that's a -- it's a big deal. So you'll see us continue to invest in platforms with our franchise to accelerate that. And there's a really good return when it comes to building new restaurants. There's an ability for us to continue to partner, but I would tell you our outlook is on -- it's on track.

Operator

Thank you. Our next question comes from Brian Harbour from Morgan Stanley. Please go ahead.

Brian Harbour

Maybe just continuing that topic. Could you comment on sort of there were some unit closures in the first quarter. Do you think that that sort of subsides through this year? Or should we expect some of those to continue and just comment on how that factors into your outlook?

Kirk Tanner

Good morning, Brian. Yes, our unit performance was in line with our expectations. We opened 35 restaurants. We had closures. That's all with our rhythm in our business. We're expecting as we said 250 to 300 restaurants to open this year. We're expecting a little bit more than 100 closures for the year. So that then if you do the math, gets you to the 2% plus guidance range that we have. Nothing unusual is happening here. Everything went to plan.

Operator

Thank you. Our next question comes from David Palmer from Evercore ISI. David, please go ahead.

David Palmer

Thanks. Just want to follow-up on the topic of franchisee cash flow, new unit returns in the U.S., what is the franchisee cash flow per restaurant? I think it's north of \$200,000 for '23, but maybe you can give exact number there. And how does that compare to pre-COVID levels? And separately, relatedly, what's the return on new units before considering any incentives? We've heard that the building costs have gone up a lot during COVID, and 30% plus. And so the returns before incentives have gotten quite low out there, at least that's what they're talking about in the lending community. So any visibility on that on those two things would be super helpful. Thank you.

Gunther Plosch

Good morning, David. So on franchise profitability, we haven't given cash flow per restaurant out. What we are watching is definitely the adjusted leverage ratios. Last year that was about a little bit north of 5.5x. By the way for the calculation we're using 8x rent. This time around it is hovering at a little bit more than 5x. So we made significant progress. Our system got much, much healthier. We'd also expect that the EBITDA performance in the franchise system in 2024 will follow the performance of the company restaurants. As you know, we are guiding for the U.S. 100 basis point expansion, so that obviously translates into EBITDA growth and should improve lease adjusted leverage ratios further and obviously helps us on our journey of accelerating unit growth.

In terms of returns, we've done a good job I think to contain building costs, if I remember eight years ago, freestanding building would cost about \$1.9 million. Our Next Gen restaurant that's now the global building standard is also costing \$1.9 million eight years later. So we've contained inflation as best as we could. From a return point of view on a levered basis, the most attractive incentive program is a build-to-suit, where you're getting a levered return in about 3.5 years. And if you have no incentives whatsoever, so that's the other bookend, you're getting to about six years return.

So relatively competitive. We have a lot of interest from franchisees to pick to join the system. And that's obviously a great foundation to accelerate our growth.

Operator

Thank you. Our next question comes from Danilo Gargiulo. Please go ahead.

Danilo Gargiulo

Hi, I would like to continue again on the topic of franchisees. Specifically, Kirk, in your roundtables with franchisees, what is the one area of excitement that you heard most consistently? And what is the one area of opportunity that they're asking of you?

Kirk Tanner

Great question and good morning. Yes, number 1 excitement is building the daypart of breakfast. This gives a lot back to the franchisees. We've talked about it in the past. It allows us to build out and use the restaurant, use the labor model and build out a profitable daypart that where we have still a lot of potential for. So we've got a lot of system excitement around building that daypart that allows us to grow faster and grow our profits.

The big conversation that we're having with our franchisees is driving restaurant level profitability. I think that, again, that's a good part of this flywheel that we want to create. So if we can expand margins by operating more efficiently, driving levels of productivity, those are meaningful partnerships that we are working on with our franchisees, and that's something that we're both in the boat together rowing on, because we feel like that will generate a lot of momentum for our future.

Operator

Thank you. Our next question comes from Alex Slagle from Jefferies. Please go ahead.

Alexander Slagle

Hey, thanks and good morning. I realized we're only four months into the year, but with the 3% to 4% comp guidance and the underlying assumption that QSR burger traffic would be slightly positive, which I don't have hard data on, but no, it's been a soft start. Indications seem to suggest a negative 1Q, maybe negative trend for the year, but just kind of curious if this has an impact on your outlook at this point or I guess the incremental offsets you envision and the flexibility, I know the investments give you a lot of positive optimism, but thoughts there.

Gunther Plosch

Good morning, Alex. Yes, we are very comfortable with our unchanged global SRS outlook of 3% to 4%. As you have heard from the prepared remarks both in the U.S., in international and global, we accelerated versus quarter four on a two year basis, our two year stack in the first quarter was 8.9%. If you take our guidance into consideration, you will find that for the rest of the year our two year stack is about in line with the first quarter. From a programming point of view, we feel really good.

While we started to spend money on breakfast in the second half of the quarter and achieved already high-single-digit sales growth that will accelerate as we're spending more money on it. Also from a programming point of view for rest of day, while we have great focus on core, we are spending a good amount of money on digital. We have more innovation coming out on Frosty's, more innovation coming out on our chicken lineup. So all of that we think there is a good level of momentum, especially since we increased traffic every single month of the quarter. So comfortable with the outlook, like the marketing plan for the year to go and guidance is realistic.

Operator

Thank you. Our next question comes from Eric Gonzalez from KeyBanc Capital Markets. Please go ahead.

Eric Gonzalez

Hi, good morning and thanks for the question. Maybe if you could speak a little bit more about dayparts. You have the high-single-digit growth at breakfast, which I suspect is well above the industry's growth rate, but perhaps expected given the investment. So first, how much of your incremental investment did you deploy in the first quarter? That's the first part. And then the second part is presumably with the low-single-digit comp growth in the U.S., it appears that the other dayparts are underperforming the industry. So perhaps you could comment on how the lunch dinner dayparts fared in the quarter and maybe what are some of the growth drivers in place to reaccelerate those trends? Thanks.

Kirk Tanner

Good morning, Eric and thanks for the question. On breakfast, let me start with that one. We really only spent about \$2.5 million because we activated late in March for breakfast. So we saw that performance, and we just started the investment. And maybe the question is why did you wait that long? I think that it was really important for us to get systemwide alignment with our franchisees. We've added a couple of menu items like Breakfast Burrito and Cinnabon Pull-Apart. So we wanted to get that lined up and then we started to spend the money so that we had great activation in the restaurant.

So we see that momentum continuing. So just really one quarter of investment -- or one month of investment and you've got a lot to look forward to on the breakfast side. We also saw momentum on the evening daypart. That continues, the late night daypart has been successful for us. We saw a lot of momentum in that regard. So we see that continuing and our menu sets up for that as well. Overall, we held share across the dayparts. I think that's important in that there's still opportunities for us to accelerate, but we're in a competitive position right now where we held share across traffic and dollar across all those dayparts.

Operator

Thank you. Our next question comes from Jim Salera from Stephens, Inc. Please go ahead.

Unidentified Analyst

Hi, this is Tyler on for Jim. Thanks for taking the question. I was going to see if we can get an update on consumer and how they might be interacting with your brand by income cohort or daypart?

Gunther Plosch

Good morning. Yes. So income cohort, couple of messages. I would say definitely the consumer is still under pressure. We're seeing this despite that we obviously performed well. We maintained share on the traffic on dollar side. We are splitting income cohorts in income households below \$75,000. They are definitely under pressure. They are reducing frequency and so visitation is down. We're maintaining share with that cohort. On the other side, we are -- there's more traffic and more frequency on the higher income consumer, we are again maintaining share with that income cohort.

So it's not a new trend, it's a trend we have seen in quarter four that we've seen continuing in quarter one. As we are looking at the category outlook, we think it will accelerate for you to go. So there will be a little bit of tailwind that's also kind of shared, that view is also shared together with our research agency that we use.

Operator

Thank you. Our next question comes from Dennis Geiger from UBS. Please go ahead.

Dennis Geiger

Great. Thank you. I just wanted to ask one on the digital side of things, given the impressive results there in the quarter. Maybe just if you were surprised by the digital strength or based on the focus and the investment there, if the digital performance kind of went as planned? And maybe just based on the strength you saw and then maybe some of the compelling value offers on digital that you had in the quarter, what that maybe means going forward over the balance of the year as you think about continuing to attract folks to the app and what that value digital strategy might look like? Thank you.

Kirk Tanner

Good morning and thanks for the question. Yes, we're delighted with the digital performance. We still think we have a lot of runway. I would say it was planned. We put a big effort to do 360 advertising around this digital platform with the Final Four that saw a lot of traction, it saw a lot of loyalty uptick. We added now we're at about 40 million people on the platform. Our average monthly users went up to about 6 million. So we saw some significant momentum. We see it as a really positive tool to create this loyalty and engagement allows us to understand our customer better.

We still think that there's still a lot of runway for us. So we're going to continue to invest in our app. We're going to continue to invest in our loyalty platform, because we think this is certainly an avenue. We like it for a lot of reasons. And one of the reasons I like it the most is when we have a digital order, it's a larger order. It has a nice impact to our profitability in our restaurants. So I'm excited about the potential that we still have and delighted with the traction that we've created in Q1.

Operator

Thank you. Our next question comes from Gregory Francfort from Guggenheim Securities. Please go ahead.

Gregory Francfort

Hey, thanks for the question. GP, maybe this is for you, but can you just talk a little bit about the commodity basket for the balance of the year? We've all kind of seen a big spike in hamburger prices, but you guys had a great quarter from a margin perspective particularly on COGS. So just the pushes and pulls on what you're seeing from that as you go forward? Thanks.

Gunther Plosch

Good morning, Greg. Yes, so on the first quarter, we had flat commodity inflation, and then a labor inflation of about 3.5%. Despite that, we managed to enhance U.S. Company margin by 60 basis points. From an commodity outlook point of view, it's unchanged. I told you last time it's flat, it remains flat. We obviously have gained a little bit more visibility now. About 80% of our commodity basket is now locked down. We continue to expect that beef and fries are inflationary and chicken remains deflationary for us. So overall things are going to plan. Very comfortable with the commodity outlook we have.

Operator

Thank you. Our next question comes from Lauren Silberman from Deutsche Bank. Please go ahead.

Lauren Silberman

Thank you. I wanted to just follow-up on the same-store sales outlook on the two year stack. It implies a pretty meaningful one year acceleration throughout the year. Is it right for us to assume you expect one year trends to build throughout the year? Anything you're willing to share on what you're seeing quarter-to-date? And then are you seeing any differences across regions? Thank you very much.

Kirk Tanner

Good morning, Lauren. Yes, I can give you a little bit of color by quarter. So we're definitely expecting on a one year basis to see a step up in quarter two versus quarter one, and then a further step up in quarter three. So that's how that's going to lay out. As I said for the year to go the two year stack is very well in line with what we had in the first quarter. From a regional difference point of view, as you know there's always regional differences. We don't go into that level of detail, but we are happy with our performance across the whole system.

Operator

Our next question comes from Andrew Strelzik from BMO Capital Markets. Please go ahead.

Jared Hludzinski

This is Jared Hludzinski on for Andrew Strelzik. Thank you for taking the question. So I wanted to touch about -- touch on the planned \$55 million company investment into breakfast advertising over the next two years. And I was hoping to get your thoughts on it more investments might be required there if we kind of remain in a more vocal competitive environment. And just putting that into the context of the high single-digit U.S. breakfast sales growth in the quarter relative to your target to achieve 50% sales growth over the next two years? Thank you.

Gunther Plosch

Good morning. Yes, our perspective on investments needed to reach our potentially in breakfast is unchanged, right? We told you guys about \$55 million, roughly split 50-50 between '24 and '25. That started to ramp up. We are -- basically allows us and always on message to keep reminding consumers that we have the best breakfast in the business, drive trial and repeat out of it. So for the time being, there is no change in opinion.

We are obviously watching the performance closely, the financial returns we get out of it. So far, I feel good about it. And this, as Kirk explained, right, we will not full on from a media pressure point of view -- from an incremental media pressure point of view. In the first quarter, we took our time to line up our innovation for it. And there's obviously more to come. And we know what works in the breakfast business. We need to offer value on a regular basis [indiscernible]. So construct we have out there is resonating well.

Mix in innovation plus remind consumers that, hey, you should try the best breakfast in town. All of that continuing to repeating that will get us on our way to our potential of about \$6,000 per restaurant per week.

Operator

Thank you. Our next question comes from Sara Senatore from Bank of America. Please go ahead.

Sara Senatore

Thank you very much. I had a question about pricing. I think the pricing that you're running is below what your direct competitors are doing. And so I guess I have two questions about that. One is I think your franchisees perhaps have seen more margin compression over the last couple of years. So is the expectation that you can claw back all of the margin or your franchisees kind of willing to wait on that margin percentage if it means that they can underprice competitors. So I guess it's a broader question about value and your franchisees sort of tolerance or willingness to pursue that?

And I guess the second question is, what is your definition of value? Do you see an increasing need for like price point value or these sort of focus on bundled value. And I know you talked about this a little bit at the beginning of the Q&A, but I'm trying to understand sort of the value contract? Thanks.

Gunther Plosch

Good morning, Sara. You packed a couple of questions in there. So on the system, we had a -- we had a little bit more than 4% pricing. So you're right, it was a little bit below food away from home inflation. Most of it was carryover pricing. Franchisees are actually happy with the financial progress they made in 2023, right? When you grow U.S. profits in the system by 9%, the Canadians are really happy. They grow the profit by 25%. So there's definitely good alignment there, and we're not stopping there. We're going to for sure, push profitability further.

I have to say we're going to stay careful on pricing. We've always said that. We are expecting low-single digit pricing that the system is going to execute this year. I don't think we're going to get too greedy. Flow through on pricing remains 70% to 80%. And we need to be careful, right? So we have an external pricing consultant out there that helps the system to make sure we're making the right pricing decisions.

And so that's kind of our outlook in life. From a value point of view. Kirk, do you want to talk a little bit more about that?

Kirk Tanner

Yes. I mentioned it earlier. Look, I think we're positioned well with value. One, we have a menu item that is, I'd say, consumer famous and Biggie so consumers know they can get great value at Wendy's. I think that's in concert with the rest of the menu where we have balance. So we have the ability to reach consumers across multiple demographics. And then I think that you'll see us continue to use our digital platform to drive value. I think those are the key things. I feel like we're well positioned to win customers over in this environment.

Operator

Thank you. Our last question comes from John Ivankoe from JPMorgan. Please go ahead.

John Ivankoe

Hi, thank you so much. The question is on U.K. Europe. First, just remind us how many units we had in the U.K. at the end of the first quarter. And what are you really looking for there to really go for a more scale-driven strategy? I mean I don't need to tell you. I mean, you're a relatively small fraction of some of your peers, which have been in the market in some cases, decades.

But are you seeing the kind of performance where you say you should have hundreds of stores in the U.K. These guys kind of like the first question of the economics would support that. And secondly, Kirk, as you have more time in the seat, how are you thinking about Continental Europe? And as I think about the percentage of your international development that you do expect to come from U.K. and Europe, I know you gave the split between U.S. international, if we can just dive one step further in terms of how important the U.K. Europe strategy is in terms of future contribution to that growth? Thank you.

Gunther Plosch

Good morning, John. Maybe I'll kick it off. So from a numbers point of view, we had 37 restaurants in the U.K. at the end of the first quarter, 12 of which were -- 12 of them were company operations. To give you a little bit on -- from a margin point of view in the U.K. as you probably have seen already the impact of the investments we are making in the U.K. had an adverse impact on our consolidated margin of about 60 basis points. Interesting enough, however, year-over-year, our consolidated margin improved by 90 basis points.

So more of an improvement that we have seen in the U.S. Also we are making progress in U.K. profitability. We continue to expect for the year headwind on the U.K. operations in our consolidated margin of about 50 basis points. From a short-term outlook, we would expect to have by the end of the year, about 48, 45 to 50 restaurants in the U.K. We're building company restaurants and obviously, we have signed up several franchise partners that's very excited investing in the business help us develop that market.

We've always said that U.K. is a key strategic market for us, is kind of the beachhead for the rest of Europe. We absolutely expect that over time, that market should yield 400 restaurants for us. We'll see how long that takes us, but that we believe is our fair share in that market. As you also know, we are exploring Continental Europe with the prime candidates that we've always talked about Ireland and Spain. So that's kind of what we have on that. Kirk, do you want to add anything?

Kirk Tanner

Yes. No, I think you nailed it GP. The opportunity is there for us. I think we have a great deal of potential -- the U.K., as GP mentioned, is a beachhead, and we continue to work across Europe right now. So we do think that that is a significant opportunity for us. And we think by getting the U.K. right, we're in a great position to continue to grow in the U.K. to 400 units. That's the potential.

And then outside the U.K., leveraging the business there to be the beachhead for the rest of Western Europe. So we feel really strong about that opportunity. Thanks for the question.

Kelsey Freed

Thanks, John. That was our last question of the call. Thanks everyone for participating this morning. We look forward to speaking with you again on our second quarter call in August. Have a great day. You may now disconnect.

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