

Seeking Alpha^α

Transcripts

Consumer

The Wendy's Company (WEN) Q1 2025 Earnings Call Transcript

May 02, 2025 11:15 AM ET | The Wendy's Company (WEN) Stock | WEN

**SA Transcripts**

153.5K Followers

Q1: 2025-05-02 Earnings Summary

Transcript Insights



Play Call



EPS of \$0.20 **misses by \$0.00** | Revenue of \$523.47M (-2.11% Y/Y) **misses by \$3.16M**

The Wendy's Company (NASDAQ:[WEN](#)) Q1 2025 Earnings Call May 2, 2025 8:30 AM ET

Company Participants

Aaron Broholm - Head of IR
Kirk Tanner - President and CEO
Ken Cook - CFO

Conference Call Participants

Jeffrey Bernstein - Barclays Bank
David Palmer - Evercore ISI
Dennis Geiger - UBS Investment Bank
Jon Tower - Citigroup Inc.
Sara Senatore - Bank of America
Brian Bittner - Oppenheimer & Co.
James Salera - Stephens Inc.
Lauren Silberman - Deutsche Bank
Margaret Binshtok - Wolfe Research
Andrew Charles - TD Cowen
Danilo Gargiulo - Sanford C. Bernstein
Rahul Krotthapalli - J.P. Morgan
Christopher O'Cull - Stifel, Nicolaus & Company
Brian Mullan - Piper Sandler
Brian Harbour - Morgan Stanley

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. You may begin your conference.

Aaron Broholm

Good morning, and thank you for joining our fiscal 2025 first quarter earnings conference call. After this brief introduction, Kirk Tanner, President and Chief Executive Officer, will provide a business update and then Ken Cook, Chief Financial Officer, will review our first quarter results and share our 2025 financial outlook and capital allocation priorities. From there, we will open up the line for questions.

Today's conference call and webcast includes a presentation, which is available on our Investor Relations website, ir.wendys.com. Before we begin, please take note of the Safe Harbor Statement that appears at the end of today's earnings release. This disclosure reminds investors that certain information we discuss today is forward-looking and reflects our current expectations about future plans and performance. 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 today's earnings release. If you have questions following today's conference call, please contact me. I will now hand the call over to Kirk.

Kirk Tanner

Thank you Aaron and good morning everyone. We appreciate you joining us today. I am going to start with some comments on our first quarter performance and then provide an update on the progress we are making against the strategic priorities we outlined at our Investor Day in March. I will then turn it over to Ken to provide some more details on our financial results and outlook for the rest of 2025. But first I want to thank all of our employees and franchisees on delivering for our customers in the first quarter and opening 74 new restaurants across the globe.

As we shared on our earnings call in February, we anticipated same restaurant sales would be negative in the first quarter. Global same restaurant sales declined 2.1% which drove a 1.1% decline in global systems sales. We stayed focused on delivering for our customers and competed well as we held traffic and dollar share in the U.S. with same restaurant sales down 2.8% and system-wide sales down 2.6%. This was driven by adverse weather in January and February, coupled with a weaker than expected consumer environment throughout the month of March. Internationally, we delivered solid results with same restaurant sales growth of 2.3% and system-wide sales growth of 8.9%. We increased productivity at the restaurant level and managed our cost prudently, which allowed us to deliver adjusted EBITDA and earnings in line with our expectation and we returned more than \$173 million to shareholders through dividend and share repurchases.

Moving to our strategy, we are focused on strengthening The Wendy's brand by executing on three strategic pillars. First, we will deliver on our fresh, famous food. Second, we will provide an exceptional customer experience through personalization, convenience, and hospitality. And third, we will accelerate global net unit growth. In the first quarter, we made progress against these three strategic priorities to fuel long-term sustainable growth. Let me walk you through how we are executing on these initiatives.

The first leg of our strategy is providing our customers with fresh, famous food. We do this in three areas; cravable core, impactful innovation and collaborations, and relevant value. This starts with using fresh ingredients sourced close to home to provide the highest quality food in QSR at great value. In the U.S., approximately 95% of our ingredients are sourced domestically, including 100% fresh, never frozen beef. We apply the same sourcing principle in many of our largest international markets. For example, in Canada, we use 100% Canadian beef. This is particularly advantageous in the current environment as tariffs have minimal impact on our supply chain.

Our core and iconic menu items are the perfect platform for innovation to drive traffic. We've dialed up our approach to innovation by elevating core offerings and leveraging collaborations that tap into culture and consumer passion points. Our strategic programming in 2025 launched with one of Wendy's most beloved products, our Frosty. We launched a Thin Mint Frosty in partnership with the Girl Scouts that resonated with multiple generations of customers and drove positive results for the business, increasing both traffic and attachment rate. This collaboration was intentional to spotlight Frosty and tee up our next phase of Frosty innovation, giving customers more of what they love. We're taking a similar approach with future collaborations by teaming up with consumer favorite brands to strengthen other parts of our core menu. And we've already kicked it off with perfect summertime treat, our fresh ways to Frosty platform. Frosty swirls is off to an exciting start and Frosty fusions will be coming soon on May 12th.

I'm personally most excited about our two new brand collaborations, Oreo, Brownie Batter, and Strawberry Pop Tart. Building on the successful foundation of our iconic Frosty and collaborations with consumer favorite brands unlocks a win-win for our customers and our brand. But in this environment, we know that customers are looking for an even more compelling reason to visit restaurants. In response to changing consumer behavior, we're launching a new 100 Days of Summer campaign to provide customers even more of our fresh, famous food through core innovation, collaborations, and value offerings at a time when our customers need it most.

Summer is when customers are most on the go and will feature compelling offers across all day parts to meet their needs. Memorial Day weekend is the official start to summer and we'll start the season the way we start our day, which is with a Wendy's breakfast. We'll offer a great deal on all beverages at breakfast. Later in the summer, we will revamp our entire coffee and cold brew lineup. Then, as temperatures start to rise, we'll bring the heat with a Takis collaboration, partnering with one of the fastest growing snack brands and a standout favorite with Gen Z. The Takis meal will include a spicy chicken sandwich and Fuego fries that are sure to become a customer favorite. And for our most loyal and engaged Wendy's fans, 100 Days of Summer will be 100 days of savings through our digital app with deals like National Friday to provide customers with more of our fan favorite hot and crispy fries.

As the summer ends, our innovation and collaborations won't. We'll be launching a new collaboration with one of this fall's most anticipated entertainment properties. The 100 days of summer will be the perfect lead-in to a fall and winter calendar packed with equity-building core offerings, accessible deals, and innovation that only Wendy's can bring. While customers come to Wendy's for fresh, famous food, they come back when they have a great visit. That's why our next strategic pillar is delivering an exceptional customer experience. We're bringing this to life through our new operations vision, the model of excellence. We've defined what excellence looks like through the eyes of our customer and are increasing our operational intensity to improve their experience. Our best performing restaurants define the Wendy standard and we're investing in resources, training and technology to replicate the same height and operational intensity at every restaurant. Our goal is to ensure we're consistently delivering an excellent experience for all customers, no matter which restaurant they visit.

We recently completed the roll-out of our new field structure and added resources to double the number of in-restaurant visits annually. We are already under way conducting individual restaurant assessments, which are key to improving visibility and benchmarking against model performance. These early results have enabled us to pinpoint specific improvements that we can make to improve the customer experience and productivity, including increasing focus on training. Our franchisees agree that we have opportunities to make improvements that will support growth and they are excited to partner on this journey towards excellence.

Alongside operational improvements, we're investing in technology to improve the customer experience and restaurant level economics. From enhancing our mobile app and scaling our loyalty program to implementing digital menu boards and fresh AI order-taking, we are making technology an integral element of our strategy to deliver a seamless, physical and digital experience. In the first quarter, we continue to deploy digital menu boards and fresh AI across the system and are on track to expand the implementation to more than 500 restaurants by the end of the year. This technology provides curated suggestions based on customer's order, often resulting in an increased check size. It also raises productivity and gives crews more time to focus on hospitality. Customers and franchisee feedback has been encouraging and we're continuing to make advancements to improve technology even further.

We're also enhancing the Wendy's app for a better customer experience. In the first quarter, we introduced gamification to our app giving customers a compelling reason to engage with the brand beyond the point of purchase. Additionally, we continued to enhance personalization features, including the ability to deliver each customer digital messaging that is most relevant to them. These updates are driving improvements across app engagement metrics, including conversion rate which reached an all-time high in the first quarter and drove our digital mix to a record of over 20% of total sales.

Customers tell us that order accuracy is the most important driver of satisfaction and we're deploying tools to improve accuracy across all channels. We're rolling out two initiatives to drive accuracy, menu item label printers and smart delivery scales. Item labels help ensure every sandwich is customized exactly how the customer wants it and delivery scales ensure customers receive every item ordered. In restaurants that utilize these tools, order accuracy has significantly improved. While we are still in the early innings of delivering on our promise of a perfect every time experience, we're already making progress, taking the right steps to reach our full potential.

Shifting to our third strategic pillar, accelerating net unit growth, it's all about building new restaurants and we made significant progress in the first quarter. We opened 74 new restaurants across the globe, over 60% of which came internationally in line with our long-term strategy. Beginning with international, I am pleased with the changes that we have made to our structure enabling us to better execute on being globally great, locally even better. Our new restaurant openings came from a combination of stronghold markets such as Mexico and Canada and new markets like Australia. We had a record number of openings in Canada adding the most restaurants in the first quarter over the past 25 years. We also hit a milestone with the opening of our 500th restaurant in Asia Pacific and the Middle East and Africa which continues to be our fastest growing region. In the U.S., we opened 28 new restaurants including eight that were company-owned. We are pleased by the pace of openings to start the year and remain on track to meet our 2025 net unit growth target.

In addition to restaurant openings in the first quarter, we continue to add development commitments that strengthen our long-term pipeline. In Mexico, we are building scale and find a development agreement for 25 new restaurants in Guadalajara. Our restaurants in Mexico have strong economics with some of the highest restaurant level margins in our system, engaged franchisees, and are supported by a well-established supply chain. Mexico will serve as a key foundational market to support the further expansion into Latin America. Additionally, in Latin America, our franchisee in Chile has signed up to build 30 more restaurants, bringing their total commitment to 50 new restaurants over the next five years. We are excited about the progress we are making to expand our footprint globally and look forward to continued growth ahead.

In closing, we remain confident in our strategy and the strength of our brand to deliver long-term profitable growth. We are focused on controlling what we can control and adapting to the current environment through both value and innovation. The innovation on our menu means changing consumer preferences and creates experiences through collaborations that tap into customer passion points. And our 100 days of summer campaign will provide compelling value offerings combined with the highest quality food in the industry.

As the consumer environment remains more challenging than we anticipated, we have updated our full-year outlook. We now anticipate full-year global system wide sales to be flat to down 2%. Adjusted EBITDA between 530 million and 545 million and adjusted EPS of \$0.92 to \$0.98. Importantly, we are well on our way to delivering full-year net unit growth of 2% to 3%. We are taking a prudent approach to operating the business but remain fully committed to investing in our strategic initiatives to drive long-term growth despite the current macro environment. Over my more than 30-year career, I found that listening to the customer will always steer you in the right direction. This is why we are putting the customer at the center of everything that we do and are confident that delivering on our strategic plans will allow us to win in the marketplace. With that, I will pass it over to Ken to discuss our financial results and outlook in more detail.

Ken Cook

Thanks, Kirk and good morning, everyone. I will start by covering our first quarter results including an update on our operational initiatives followed by our capital deployment during the quarter. And last, I will share some comments on our outlook for the remainder of 2025. Our first quarter financial results included adverse weather impacts early in the quarter alongside a challenged consumer environment exiting Q1. Global system wide sales declined 1.1% on a constant currency basis driven by global same-restaurant sales, which were down 2.1%. U.S. same-restaurant sales were down 2.8% driven by a decrease in traffic partially offset by a higher average check.

Performance in January and February was impacted by adverse weather resulting in reduced traffic and temporary restaurant closures across the country. As the effects of winter weather subsided, we launched our Thin-Mint Frosty collaboration on February 21st, which drove U.S. SRS into positive territory as we exited February and entered March. We anticipated this trend to continue throughout March underpinned by consistent consumer behavior. However, as the month progressed, consumer confidence deteriorated, leading to a reduction in demand.

Shifting to our international segment, the Wendy's brand continued to gain momentum around the globe delivering system wide sales growth of 8.9% and a 2.3% same-restaurant sales growth in the first quarter. System wide sales growth was positive across all regions, led by Europe and the Asia-Pacific, Middle East, and Africa region. Early results from our expansion into Australia have exceeded our expectations and are another proof point of our ability to execute on our globally great, locally even better strategy. Our Canadian business also grew year-over-year in line with our expectations as we have amplified our fresh, famous food messaging for our 100% Canadian sourced fresh, never frozen beef. Our localized supply chain in the country also includes domestically sourced produce and Frosty ingredients minimizing the direct impact from tariffs to our Canadian restaurants.

Shifting to margin, global company restaurant margin was 14.3% for the first quarter, and U.S. company operated restaurant margin was 14.8%, a contraction of 50 basis points year-over-year. The change in U.S. company operated restaurant margin was driven by sales deleveraging, higher commodity cost, and wage rate inflation. These were partially offset by higher labor productivity compared to the prior year.

Let me provide some color on the operational initiatives that Kirk discussed. We have continued to deploy fresh AI to the system and are now at 168 locations throughout the U.S., and we remain on track to hit our target of more than 500 by the end of the year. Through the end of the first quarter, we are encouraged by the continuous improvement in the platform driven by both enhancements that we've introduced to the system and learning from additional customer interactions. We are excited to leverage this platform on a larger scale to improve restaurant productivity and the customer experience.

At our Investor Day, we talked about the importance of helping our franchisees enhance their profitability. One of the ways we're doing this is implementing a system to collect franchisee profit and loss statements on a monthly basis at the restaurant level. This tool enables proactive partnership to leverage insights and perform benchmarking of restaurants with similar demographic and economic profiles to share learnings across the system. We have completed onboarding and training for the franchisees who are in the process of uploading financials into the system. Feedback has been positive and I look forward to sharing more about franchisee performance and additional learnings from this initiative later in the year. Early progress on these initiatives give us confidence that we are on the right path to improving productivity and enhancing restaurant level economics for both company owned and franchisee locations.

Moving to the P&L, total adjusted revenue was \$423.1 million, a decrease of \$6.7 million due to lower company operated restaurant sales and lower franchise royalty revenue, partially offset by an increase in franchise fees. Adjusted EBITDA was \$124.5 million, a decrease of \$3.3 million, resulting primarily from lower adjusted revenue and a \$4.4 million increase in G&A expense. This was in line with our expectations and driven in part by the investments to support our technology and operational initiatives. These items were partially offset by a \$3 million increase in other operating income and a \$2.3 million decrease in company advertising expense. Adjusted earnings was \$0.20 per share, a decrease of \$0.03 from the prior year, driven by a decrease in other income, lower adjusted EBITDA, and a higher effective tax rate. These were partially offset by fewer shares outstanding as a result of our share repurchase program.

Turning to free cash flow, we are updating our definition of free cash flow. As we shared last quarter, we planned to increase our investments in the build the suit program to accelerate global net unit growth. Given this planned increase, we believe changing our definition of free cash flow is beneficial to investors. Our new definition of free cash flow is net cash provided by operating activities, less capital expenditures, less build-to-suit franchise development fund investments. Under this new definition, free cash flow was \$68 million in the first quarter. Overall, free cash flow improved by \$12 million on a comparable basis to the prior year.

Moving on to capital allocation. Investing in the business is our first capital allocation priority, and during the first quarter, we invested \$17.7 million in capital expenditures and \$5.8 million in our build-to-suit program. During the first quarter of the 74 new restaurants opened, 14 included investments from the build-to-suit program. Half, coming from the U.S. and the other half, internationally in the UK and Canada. In addition, to build-to-suit investments, capital expenditures included \$9.9 million towards the development of new company-owned restaurants. We also invested \$6.1 million towards our technology initiatives, including continued investment in our digital menu board rollout.

Our second priority is paying an attractive dividend. In line with our capital allocation policy, today, we announced our second quarter dividend payment of \$0.14 per share. Our next priority is maintaining a strong balance sheet. We ended the first quarter with over \$335 million of unrestricted cash on the balance sheet and a net leverage ratio of 4.5 times. This includes the impact of the share repurchases during the first quarter. Finally, we believe cash belongs to our shareholders and we will use share repurchases to return excess cash to shareholders.

During the first quarter, we repurchased 8.2 million shares for approximately \$124 million and a year-to-date through April 25th have repurchased over 12 million shares for approximately \$175 million. We continue to believe an attractive opportunity exists to repurchase our shares as they remain undervalued compared to both our own history and relative to our peers. We are continuing to buy and anticipate repurchasing up to an additional \$25 million of shares in 2025. Through share repurchases and dividends, we plan to return up to \$325 million of cash to shareholders in 2025 an increase of up to \$40 million compared to 2024. This return to shareholders highlights our focus on disciplined capital allocation that supports our long-term strategy.

Now, let's turn to our financial outlook. On the fourth quarter call, we shared that our outlook for the year was grounded in multiple industry forecasts, which modeled QSR burger traffic to be flat to down 1% for 2025. During the first quarter, QSR burger traffic was below these industry forecasts driven by the combination of adverse winter weather in the first half of the quarter and a pullback in consumer demand. Based on the changing consumer behavior we saw in March, we are updating our outlook for the full year 2025. Due to the high degree of uncertainty in the market, our updated outlook assumes that the current consumer environment persists throughout the remainder of the year.

Our outlook also reflects the strong programming we have for the remainder of the year, including our new Frosty swirls and fusions, our upcoming Takis collaboration, our 100 days of summer programming, and new collaborations in addition to our menu later in the year. Before diving into our updated outlook, I want to reiterate that despite the challenging environment, we continue to manage the business for the long term, investing in our strategic priorities to deliver value for our customers, our franchisees, and our shareholders.

Now, let's move on to the details. We are reaffirming our global net unit growth target of 2% to 3% for 2025 and are pleased with our results in the first quarter. For the full year 2025, we now expect global system wide sales to range from down 2% to flat year-over-year. U.S. company operated restaurant margin is expected to be 15%, plus or minus 50 basis points. This includes an updated commodity inflation outlook for the year of 2.5%. We expect G&A to be between \$265 and \$275 million and continue to represent approximately 1.9% of system sales for the full year. We will continue to invest in the resources and technology needed to deliver on our strategic priorities. Additionally, we will tightly manage discretionary expenses and expect incentive compensation will be lower than our initial outlook.

Adjusted EBITDA is expected to be between \$530 million and \$545 million. We continue to anticipate interest expense of approximately \$127 million as we expect to issue \$400 million of whole business securitization notes in late 2025 and use the proceeds to pay off the \$400 million of debt that matures between December 2025 and September 2026. Taking all these into account, we now expect adjusted EPS to range from \$0.92 a share to \$0.98 per share. We expect full year free cash flow under our new definition to be between \$185 million and \$205 million for the full year. This includes approximately \$65 million of build-to-suit investments. We continue to anticipate capital expenditures of between \$100 million to \$110 million for the year.

In closing, despite the uncertain macro environment, we remain focused on controlling what we can control. We are confident in delivering the highest quality food in QSR and believe that our programming for the remainder of the year will provide customers with compelling reasons to eat at Wendy's and allow us to win in the marketplace. We have a focused strategy and are executing to elevate the customer experience and investing to expand our global footprint to drive profitable growth. I'll now hand it over to Aaron to share our Q2 Investor Relations calendar.

Aaron Broholm

Thank you, Ken. On May 19th, we will participate in the Virtual Wolfe Research Investor Conference. We will participate in the Bernstein Strategic Decisions Conference on May 29th and on June 11th, we'll participate in the Evercore Consumer and Retail Conference. If you are interested in joining us at any of these events, please contact the respective Sell-Side Analyst or Equity Sales Contact at the host firm. We will now transition to the Q&A part of the call. Due to the high number of covering analysts, please limit yourself to one question only. Operator, please queue up the first question.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. Our first question for today comes from Jeffrey Bernstein of Barclays. Your line is now open. Please go ahead.

Jeffrey Bernstein

Great. Thank you very much. Just looking at the 2025 guide, I know you sounded bullish in early March at your Investor Day. You are tempering it this morning after just the first quarter, it seems like by a fairly good amount. So it does seem to demonstrate you expect the first quarter weakness to prevail for the year, just wondering if you could maybe share your thoughts being new to the quick-service restaurant space, it would seem like QSR would benefit or would hope to benefit from retaining the lower-income consumer and/or trade down from middle and upper-income consumers has historically been the calling card for quick service being more defensive in a slow macro. So I'm just wondering, Kirk, how you see quick service positioned currently and tied to that, just I think you mentioned value a couple of times, so I'm just wondering if you're still confident in your current platform kind of led by that Biggy bear or whether you need to refresh that platform or maybe increase the mix of marketing on value? Thank you.

Kirk Tanner

Hey, thanks for the question, Jeffrey. The consumer certainly is under pressure. I think that's reflected in the Q1 numbers, and we see that persisting. We thought it was prudent to plan if the consumer is under pressure for the full year, what do we do to control what we can control. And we like the second half of the year for the activity that we have. And we think that we have every right to win the consumer, win in the marketplace. I feel really good about our 100 days of program, our 100 days of summer program. And I think it reflects the balanced approach of getting after the customer and solving customer issues and opportunities. Starts with focusing on our core, we have core innovation. Innovation platforms like our Frosty, value is important, as you mentioned. We do have the best quality value meal in the industry. But we will also provide value every single week for our customers through this 100 days of the summer off of our core menu. And then I'd say the collaborations that we have in the summer also drive passion points with customers. They drive traffic. I'm really excited. Our program starts in June with Takis and it will definitely create consumer love and noise and it'll drive traffic.

I think that our approach is one of balance. Being able to balance value, innovation, focus on our core and deliver that with a great customer experience. We're very focused on hospitality and delivering that execution in the restaurant as well. We've deployed those resources and we like the improvements we're seeing. So it's a couple of things that we see. And we do think that QSR has the right to win in this economic environment. but we're really focused on what we can do to bring customers into Wendy's and deliver a great customer experience. I know that was a long answer but that's how we feel. We're very optimistic with what we're doing in the marketplace, but we wanted to have a prudent approach of how we plan.

Operator

Thank you. Our next question comes from David Palmer of Evercore ISI. Your line is now open. Please go ahead.

David Palmer

Yes. Thank you. Kirk, definitely, you guys are working on a lot of things. And also, you made that comment about putting the consumer at the center. I'm wondering maybe you could touch on the consumer data, what it's telling you and the key metrics that you care about, drive through speed, value perception, quality of your premium items, of course, you mentioned something about accuracy there, too but based on your initiatives, where do you see the biggest improvement happening, where are you starting out versus maybe where the brand has been in the past, where do you see the biggest improvement happening, it feels like you're doing a lot maybe on the quality side through the rest of the year but I'd love to get your thoughts about where you see the most improvement coming from where you're starting? Thanks.

Kirk Tanner

Yes, I appreciate the question, David. Operational excellence and creating a great customer experience and driving hospitality at Wendy's is the focus of the investment we put behind our field resources. Getting into our restaurants twice with a twice the frequency, coaching and training and elevating that experience is key. We're focused on a few big drivers of customer satisfaction. One is accuracy. So deploying tools in the restaurants and training in the restaurants. So delivery scale is one thing that we're working on where you can quickly evaluate the weight that ties to the accuracy of the delivered meal. That is one that we're deploying. Two label printing. These seem very straightforward, but these things drive focus on accuracy and execution in the marketplace. The other thing is friendliness and hospitality, measuring those things drive customer satisfaction and the early results that we see are good. So when we think about the accuracy from a delivery scale and label printers, those things that we've deployed have dramatically improved accuracy. And so as we take those across our U.S.-owned businesses and the franchise system, we're going to do that.

I think the other thing is this is one system. Our franchisees, our customer, our personally owned, our company-owned restaurants doing this together is critical. We spent the last three weeks visiting with our franchisees rolling out the summer program, reinforcing the programs of driving execution at the restaurant level, and we have alignment. There's a high sense of urgency to do that. So what we measure is our customer satisfaction, and we see improvements with the things that we're focused on, and we like where we're going.

David Palmer

Thank you.

Operator

Thank you. Our next question comes from Dennis Geiger of UBS. Your line is now open. Please go ahead.

Dennis Geiger

Great, thanks, good morning guys. I was wondering if you could talk a bit more about the unit development outlook, including any information maybe on the pipeline and sort of overall franchisee demand in the current environment, a solid start to the year, good to see a reiteration of the full year development targets, anything sort of on how the current environment might impact demand and plans for 2026 looking ahead? Thank you.

Kirk Tanner

Yes, we like what we see. Right now, we're off to a good start. I would tell you, it's right on our strategy. So a little over 60% of those units came from international, our international market. Believe our international strategy is working, and we see that pipeline and commitments in our international plants. And then domestically, we had a strong start domestically with the unit growth, and we have a pipeline that we can see for this year. And the pipeline for 2026 and beyond. We're confident in what we're doing. And again, it goes back to the things and the fundamentals that we're driving, restaurant-level economics, driving the top line and lowering the build cost. We're focused on all those things. And then engaging with our franchisees to help them drive those solutions. Again, we're also investing more capital in our build-to-suit program. So we feel really good about our unit growth in 2025. That's why we're sticking to our guidance. We feel really good about that. And we feel good about the future post 2025.

Dennis Geiger

Great, thank you Kirk.

Operator

Thank you. Our next question comes from Jon Tower of Citi. Your line is now open. Please go ahead.

Jon Tower

Great, good morning. Thanks for taking the questions. I'm just curious if you could dig in a little bit to what transpired during the quarter for your business and specifically, it did sound like obviously, on that in February, you were expecting a soft quarter and then March came along and was worse than you had anticipated, can you just dig into how that showed up in your business, was it broad-based, did you see it specifically show up in certain day parts, weekdays, weekends, and if you can parse out maybe did you see it specifically at certain income levels, I'm just curious if you could provide any more flavor to that? Thank you.

Kirk Tanner

Yes. Thanks for the question, John. You're right. Q1, it was a noisy quarter. Five of the first eight weeks of the quarter had significant weather events in our system. And then things turned around as we exited February and into March. We launched Thin Mints Frosty on February 21st. We saw our own same-restaurant sales turn positive as we exited February and entered March. And our original outlook assumed that it would stay that way throughout the month of March. However, we saw a significant shift in industry consumer behavior as we move throughout March. Consumer confidence fell and customers increasingly pulled back from QSR industry. And we performed in line. We continue to win in the market, but we saw those same trends in our results. So given the uncertainty around industry demand going forward, we grounded our full year outlook into what we were seeing over the past several weeks. Then we applied normal seasonality to that, and that kind of gets you to the low end of the guidance that we provided.

We're not standing still. We have a lot of additional incremental programming through the rest of the year that Kirk talked about, including our 100 days of summer. We think as we execute that, that will help us continue to win in the market and then climb our way towards the midpoint of the guidance range that we provided. And then in the event there is some additional consumer recovery later this year from an industry perspective, then we could be talking about the high end of the guide.

From an income cohorts perspective, we measure household income above \$75,000 and household income below \$75,000. And we saw broad-based pressure in the quarter. I would say the pressure was more acute with those households under \$75,000, and we did see industry traffic with those households pull back by high single digits, low double digits, especially in the month of March. We continue to hold share. Obviously, as you can expect, in this environment, both from a weather environment and a consumer pullback environment, Breakfast performed a little bit worse than rest of day. Breakfast performed worst than rest of day, as consumer behavior changed. So that's kind of what the layout of our guidance is. We're focused on controlling what we can control. We're excited about reaffirming our net unit growth outlook of 2% to 3% and also reaffirming CAPEX guidance. We're investing for the long term, and we feel confident about building more restaurants, winning in the market and enhancing restaurant level economics.

Jon Tower

I appreciate the color, thank you.

Operator

Thank you. Our next question comes from Sara Senatore of Bank of America. Your line is now open. Please go ahead.

Sara Senatore

Oh, thank you. Last quarter, I think you said that in 2025, you were redeploying some of the advertising spend to investments in field operations. I was wondering if you think this pullback in spending might have influenced an effect on your performance, I know you mentioned maintaining share, but I think the conventional wisdom is the share of voice to lead your share of market, and we did see some other restaurants improve in March and April so, do you have thoughts on advertising spend or maybe pressing the lever a little bit harder? And then just curious what was burger traffic down last year, QSR burger traffic, I know you had expected it initially to be flat to down in 2025, down 1%. I'm just curious if yields can benchmark for last year?

Ken Cook

Yes, happy to. In terms of QSR burger traffic for the last several years has kind of been down in the low single-digit range. We expected this year in total to be a little bit better than that based on the industry forecast we were looking at of 0% to minus 1%. Obviously, the first quarter from an industry perspective, performed worse than that. We saw industry traffic down mid-single digits in the first quarter, which was worse than we expected. And we do expect those industry forecasts to come down as we move throughout the rest of the year. And obviously, that is embedded in our guidance because we assume that the current consumer pressure persists throughout the remainder of the year. In terms of advertising spending, I think when you look at what the industry traffic did relative to what we did, again, we continue to hold share in total on traffic and dollar-wise. So I don't think that the advertising spend had a big impact on us. The other thing I'd say is we do see significant opportunity in our restaurants as we enhance the customer experience. We think that, that ultimately drives frequency. It enhances the Wendy's value proposition and will ultimately allow us to continue to win in the market. So we feel good about the decisions we make.

Sara Senatore

Thank you.

Operator

Thank you. Our next question comes from Brian Bittner of Oppenheimer. Your line is now open. Please go ahead.

Brian Bittner

Thanks, good morning. Just around the industry and within your own business, I think we've seen very successful LTOs or promotions such as your time with SpongeBob last quarter and others around the industry, are doing similar things. Why do you think that is so effective and how do you think about how to convert those successes into sustainable future comp growth moving forward? And do you have any catalysts like that set for 2025?

Kirk Tanner

Brian, great question. Look, I think it's a balanced approach. I think you have to focus on your core, your innovation has got to be incremental and you have to have compelling value. I'd say that's foundational. So that's what we're focused on. Collaborations like SpongeBob I think, connect you to culture and drive excitement through passion points. They bring customers into the restaurant. I think that is for sure. We are focused on the learnings that we took from SpongeBob into the future collaborations that we have coming up. We have a collaboration on our Frosty lineup, starting with Strawberry Pop Tart and Oreo Brownie Batter. Those two are collaborations with brands that we know consumers are going to love. So that's going to elevate the Frosty platform.

Shortly thereafter, we've got a partnership with Takis. Takis -- why Takis is so important. It connects with Gen-Z customers. It's multicultural, it's a customer group we're going after. It drives traffic into our restaurants, and we give customers a great experience through the collaboration of our chicken sandwich. We have a Takis chicken sandwich, meal. We have Fuego Fries. Customers are going to be looking for these things. The secret is how do you build on that, how does that become innovation off of your core menu, and you create brand love through those experience. But I think it's so important to stay customer-focused that customer focus, tapping into passion points through these collaborations, I think is really important.

Now for us, we're very intentional on who we partner with and we ask ourselves, does that help us get the customers that we're looking for to drive traffic and share and win in the marketplace. But I like the frequency in which we have planned collaborations. We have Takis. We have one, again, at the end of the summer, that's tied into an entertainment property. We're not going to talk about it right now, but that will be coming as well. Again, we're taking our learnings, tapping into passion points and going after specific customer groups that build our brand for the long term.

Operator

Thank you. Our next question comes from Jim Salera of Stephens. Your line is now open. Please go ahead.

James Salera

Hello guys, good morning. Thank you for taking my question. I wanted to ask a little bit about the engagement from the consumer with some of these branded partnerships, particularly if we kind of assume maybe a softer consumer for the remainder of the year. We've heard competitors talk about extending value offerings and like QSR pizza is seeing, I think, a higher frequency of discounting. And so do you have any concern that some of these offerings are like the Frosty platform and any other collaboration you might have might get ground out by all of the other value offerings in the channel or do you still think that they can bring incremental traffic to the store even with kind of more value noise out there? Thank you.

Kirk Tanner

I think it's an important question. I think that balance on our menu is important. So we have compelling value across our Biggie platform, plus we'll have value on our core. But when you talk about consumer passion points, that is -- I'd like to think about that. That is a value proposition. When you can ignite customer passion points, that drives traffic. I think you only have to look back to the SpongeBob event in October. That ignited a passion and it tied into culture, that drove traffic. I believe we have those collaborations that are very intentional. I think that those are valuable, of value, and I don't believe value meals or deep discounting will overshadow how you connect with customers. My experience has been, when you ignite customer passion points, that's a major driver of enthusiasm for your brand, and I like where we're going with that.

James Salera

Great, thank you.

Operator

Thank you. Our next question comes from Lauren Silberman of Deutsche Bank. Your line is now open. Please go ahead.

Lauren Silberman

Hi, thanks a lot. So I wanted to follow up on one of the comments from Sara's question. You said burger traffic was down mid-single digit in Q1. Does that imply traffic is down close to the high single digit exiting the quarter and in April? And then my actual question is on the comp guide. Just on a level set expectations in terms of what you're embedding for the cadence of comps as we move through the year. It sounds like 2Q may be similar to the first quarter improvement in 3Q given the initiatives and not sure on the fourth quarter, given the tough compare. Any color you can give on cadence and perhaps what you're expecting for the international segment versus U.S. would be helpful? Thank you.

Ken Cook

Great question, Lauren. Thank you. Starting off with the shape of the year, you're right. I would say we would expect the second quarter to look very much like the first quarter in terms of total system-wide sales growth, in terms of SRS, in terms of the profitability side. So year-over-year, expect the second quarter to look a lot like the first. To Kirk's point, we do have a lot of exciting programming coming out through the summer and at the end of summer. So we do expect to see momentum as we exit the second quarter to propel us into the third. We expect that momentum to continue in the fourth. But like you said, we do have some tough comps there.

From an international perspective, we really like what we're seeing in the market. So international system-wide sales grew 8.9% year-over-year on a constant currency basis, with all regions contributing. So Europe and APMEA both grew high teens, low 20% system-wide sales year-over-year. We saw Latin America and the Caribbean, plus 10% on a constant currency basis. And Canada grew mid-single digits from a system-wide sales perspective. So broad-based strength internationally in the business, which is what we like to see.

In terms of traffic for the industry, yes, I do think it will be -- it will remain pressured. So we did see the consumer behavior change across the industry throughout the month of March and the guidance, the low end of the guidance assumes that, that behavior and that traffic pattern persists throughout the remainder of the year.

Lauren Silberman

Thank you.

Operator

Thank you. Our next question comes from Margaret Binshtok of Wolfe Research. Your line is now open. Please go ahead.

Margaret Binshtok

Good morning guys and thank you for taking my question. So you launched your revamped Frosty platform in mid-April. Can you discuss any early readings and the opportunity you see here, especially when it comes to driving awareness? Thank you.

Kirk Tanner

Margaret, thank you for the question. Yes, we just launched Frosty Swirls, and we launched Frosty Fusions May 12th. We've seen really good results early with Frosty. And I can tell you our experience has been when we get it right with Frosty, it definitely delivers traffic. We saw this when we did Girls Scouts Frosty with our collaboration earlier this year that set us up for this platform. We have a lot of confidence in building out our Frosty business. We think that this is a place where we're tying into, again, customer passion points with one of our most iconic brands. So yes, we plan on that being a differentiator and helping us win in the market and take share. Frosty will definitely be a platform. We have a lot of confidence and early results are really encouraging.

Margaret Binshtok

Thank you.

Operator

Thank you. Our next question comes from Andrew Charles of TD Cowen. Your line is now open. Please go ahead.

Andrew Charles

Great. Kirk, there's an increased focus on chicken across the industry in 2025, particularly in the medium term. So I'm curious if we look past the current Cajun Chicken limit time offering, the Takis limit offering in June. Are you happy with your chicken portfolio or do you believe there are opportunities to bring permanent news to the menu via strips or revamp Chicken Sandwich? And Ken, if I could just sneak one more in. It didn't come up during the call or prepared remarks, but the \$4 million claim that was cited in the Q. Can you just talk a little bit more about that just given the increase that drove in other operating income?

Kirk Tanner

Yes. So let me talk about chicken. One, that we're very intentional about putting the Takis collaboration with our Chicken Sandwich. And we do see chicken as a major opportunity. We will announce later this year, our plans to holistically look at the chicken. We have been working on it. I've tried these products. We have a lot coming your way from a chicken standpoint. I would think about delivering the best Chicken Sandwich in the industry, plus we're looking at other chicken innovations that go with that. That will be coming shortly. I'd say we're very intentional about, again, setting up our chicken, getting momentum in that part of our menu. We know that is critically important to our customers and attracting customers. So we are very focused on it. You'll see much more from us in the latter half of the year.

Ken Cook

Yes. In terms of the \$4 million claim settlement, that was associated with a settlement with credit card providers. We won't get into the details on that, but it was planned for as we exited 2024. We expected this to happen in the first quarter, and it came in in line with our expectations.

Andrew Charles

Thank you.

Operator

Thank you. Our next question comes from Danilo Gargiulo of Bernstein. Your line is now open. Please go ahead.

Danilo Gargiulo

Good morning. Usually around this time, you update on the franchisee cash flows. So I was wondering if you can provide an update on the franchisee cash flows, how much it grew on a year-over-year basis? And more importantly, as we look into 2025, we have the balance of your guidance embedding some past macro environment, while Abigail is leading operational excellence in the stores, which hopefully is going to be leading to greater EBITDA for franchisees. So can you comment also on what's your expectation for 2025 on the balance between these two things? Thank you.

Ken Cook

Franchisee profitability. We normally give an update on the second quarter call in terms of what that looked like. And we'll plan to do the same this year, provide an update on franchisee financials. I talked a little bit in my prepared remarks about the P&L benchmarking tool that we're rolling out. So we are in the process of collecting data from franchisees for both full year 2024 results as well as 2025 results. One of the things we're really excited about this P&L benchmarking tool is it is going to provide franchisees with more data so they can uncover opportunities in the restaurant to further enhance the economics there. So historically, now that we will be collecting it at a restaurant level, we'll be able to compare across the system with restaurants that are most similar to each franchisee, from an AUV perspective, from a wage environment perspective, from a demographic perspective. So we're really excited about the ability to do that and helping our franchisees who are our most important customer enhance the economics of their individual restaurants.

Operator

Thank you. Our next question comes from Rahul Krotthapalli of J.P. Morgan. Your line is now open. Please go ahead.

Rahul Krotthapalli

Good morning. The question is on the 300 U.S. units planned for the next four years of which I believe 75% of them you are co-investing in. Given the current trends and outlook revision and if these headwinds were to persist, would you still think this is the right level of development for the U.S. and at what point would you revisit this, given the fact that sales to investment still continues to be around one times? And to follow up here is, would you take the opportunity of this current environment to manage the U.S. store portfolio more aggressively or asked another way, would the bar for Abigail's performance metrics we discussed in March be notably higher? Thank you.

Kirk Tanner

I guess two things. We'll start with the second half of the question. We are looking at opportunities to accelerate all those initiatives throughout the year, both from a productivity perspective in the restaurants and from a hospitality perspective in the restaurants. So yes, we're going to take every opportunity we can, and we're going to implement those initiatives as quickly as we can. In terms of new unit development beyond 2025, so we're not going to make any changes to that today. I think the important thing to think about when you think about Wendy's unit development is about 70% of those new restaurants are going to happen outside the United States. And our international business is firing on all cylinders. We're really happy with the performance there. When you look at the U.S., we think the hospitality culture, the model of excellence that we're implementing and rolling out now is going to drive significant improvement to both the top and the bottom line for company-owned and franchisee restaurants. So really excited about sharing progress on that as we move throughout the year and into 2026.

Rahul Krotthapalli

Thank you.

Operator

Thank you. Our next question comes from Chris O'Cull of Stifel. Your line is now open. Please go ahead.

Christopher O'Cull

Thanks, good morning guys. Kirk, can you give us a sense of the early operational impacts the company is seeing from the fresh AI voice system and maybe any metrics to help frame the systems benefit to labor, order accuracy or any other KPI?

Kirk Tanner

Yes, Chris. We like what we're seeing. I think we focused on two things. One is the opportunity to see an increased check size, and we're seeing that. We see that through the customer because there is this opportunity when Wendy greets you at the drive-through. She knows what to ask you to get the opportunity to enhance your order. Maybe you forgot that, but she'll remind you, and so we see that uptick in sales and then accuracy is also a big driver. Taking an accurate order is the key in driving accuracy, and you have a perfectly accurate order that's right in front of the customer that we've seen work. We've also seen efficiency in the restaurant. Driving efficiency around being able to get working on the order and providing speed of service and accuracy from a delivery standpoint. So we like what we see. The economics are encouraging and it continues to roll out. We talked about we'll be in over 500 restaurants this year. So we like where we're going with fresh AI.

Christopher O'Cull

Great, thanks.

Operator

Thank you. Our next question comes from Brian Mullan of Piper Sandler. Your line is now open. Please go ahead.

Brian Mullan

Thanks. A question on the breakfast day part. In the past, you've referenced that maybe the next leg of growth could come from innovation. Just wondering if you could remind us really any components of the offering where you see the biggest opportunity and how you'll be addressing that either this year or longer term? And related to that, if you could just address the beverage offering at breakfast as you talk about it, would love to get your thoughts? Thanks.

Kirk Tanner

Yes. I think it's a really important question. Breakfast remains a priority for us. A top priority for us because we have a way to reach our potential and it will be upside. We are innovating on our beverage platform. And this summer, we will have a new coffee lineup of cold brew coffees that are exceptional. I've tried them. They're fantastic. We'll also drive value at beverages in the morning as part of our 100 days of summer program. We know and we've done some beverage tests in the past, and we've learned that we sell a high level of beverages in the morning and we're tying that to some value offerings that we can -- so we can drive traffic against that daypart. So we're encouraged. We'll continue, though, in the future to innovate on breakfast and bring that into our restaurants so that we remain competitive and again, grow to our full potential, which is a long-term strategy, but there is a pipeline of innovation.

Operator

Thank you. Our next question comes from Brian Harbor of Morgan Stanley. Your line is now open. Please go ahead.

Brian Harbour

Yeah, thanks, good morning guys. As -- just for your industry comments about kind of March and whatnot. I guess we've more recently, as we think about March and April, I think there's some of the top 10 QSR chains that are up year-over-year, solidly, right, and there's others that are more challenged. So it seems like there's kind of a clear share shifting dynamic more recently. And is that the case, are you kind of seeing that based on your data, and what do you think will make the most difference from your perspective to take back some of that share this year?

Kirk Tanner

I think that's a really important question. Yes, there is -- what it shows is winning in the marketplace in challenging conditions is what we're focused on. I think from a planning standpoint, we prudently planned, but our expectation is to win in the marketplace. And I think it goes to some of the things we've talked about with this 100 days of summer. You go after a highly seasonable time for customers and you deliver against what I think are critical checkmarks for the customer. One, your core menu has to stand out and be exceptional. Value is important and you have to deliver value worth paying for. Exciting collaborations that drive consumer passion points I think is really important. And innovation that's incremental. And if you think about our plans, this is the plan we believe will win in the marketplace, innovation that drives our core brands, excitement plus collaborations keeps our brand in mind share of the customer. I think that's really important. You deliver -- those that are winning are delivering against these elements every single day with great customer experience and hospitality. And we know we have opportunities to drive great customer experience and hospitality. That's why we deploy the resources that we did to do just that so that you can have that great customer experience in Wendy's. That, I think, is the plan. That's our recipe for success in our moving forward, and we really like where we're going in the second half of the year and our 100 days of summer.

Aaron Broholm

That was our last question of the call. Thank you, Kirk and Ken and thank you everyone for joining us this morning. Have a great day.

Operator

Thank you all for joining today's call. You may now disconnect your lines.

Read more current WEN [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Newest  