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The Wendy's Company (WEN) Q2 2024 Earnings Call Transcript

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Q2: 2024-08-01 Earnings Summary

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Press Release

10-Q

EPS of \$0.27 **misses by \$0.01** | Revenue of \$570.73M (1.63% Y/Y) **misses by \$6.05M**

The Wendy's Company (NASDAQ:[WEN](#)) Q2 2024 Results Conference Call August 1, 2024 8:30 AM ET

Company Participants

Kelsey Freed - Director of Investor Relations

Kirk Tanner - President and Chief Executive Officer

Gunther Plosch - Chief Financial Officer

Conference Call Participants

Jeffrey Bernstein - Barclays
Brian Bittner - Oppenheimer
John Ivankoe - JPMorgan
Alex Slagle - Jefferies
Eric Gonzalez - KeyBanc
Jared Hludzinski - BMO Capital Markets
Dennis Geiger - UBS
Danilo Gargiulo - Bernstein
Jon Tower - Citi
Gregory Francfort - Guggenheim Partners
Brian Mullan - Piper Sandler
Lauren Silberman - Deutsche Bank
Brian Harbour - Morgan Stanley
David Palmer - Evercore ISI
Sara Senatore - Bank of America
Tyler Klaus - Stephens

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.

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](https://ir.wendys.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 review our second quarter results and share our financial outlook. From there, we will open up the line for questions.

With that, I will hand things over to Kirk.

Kirk Tanner

Thanks, Nick. Good morning, everyone. During the second quarter, our restaurants across the globe continue to deliver system-wide and same-restaurant sales growth, reaching 2.6% and 0.8%, respectively.

Our performance was competitive in the U.S. with our dollar and traffic share holding steady with the QSR burger category during the quarter. This performance was driven by sales growth at the breakfast and late-night dayparts and our focus on surrounding our customers with their Wendy's favorites, exciting innovation and compelling value done the Wendy's way with fresh, high-quality ingredients.

The International segment delivered another quarter of strong system-wide sales growth reaching over 8%, driven by continued same-restaurant sales growth and net unit growth across each region.

Turning to our digital business. Everything we are doing in this space is with the goal of creating and building loyalty and personalized experiences for our customers. Our digital business continues to perform well, and we've made really good progress. We grew global digital sales by over 40% year-over-year in the second quarter, delivering 17% global digital sales mix. Global digital sales growth was driven by the U.S. segment, which grew sales dollars over 40% year-over-year and international, which grew over 30% year-over-year.

Our focus on driving sales through our Wendy's app and loyalty platform continues to be successful, and our loyalty business is now almost as big as our third-party delivery business. You will see us continue to focus on improving the experience for customers. We are confident that this will drive loyalty even further and create more growth for the brand in the years to come.

Finally, our Q2 development progress achieved our expectations. We have now opened 99 brand-new Wendy's restaurants through Q2, a more than 20% increase versus the first half of 2023. Looking ahead, the team has made meaningful progress towards solidifying our sales growth plan for the second half of 2024 and setting us up for unit growth acceleration in 2025 and beyond, driving our confidence in delivering strong results over the near- and long-term.

Before diving into our year-to-go plans, I'd like to briefly touch on the leadership and structural changes that we recently announced. With the elevation of Abigail Pringle and E.J. Wunsch to the roles of President, U.S. and President International, we now have a structure that drives focus and clear inability for accelerated unit growth and operational performance in both segments.

This evolution also provides one voice for the franchisees in each segment, streamlining our communication and enhancing our engagement. I am confident this change will accelerate progress across our strategic focus areas, including franchise profitability, unit growth, customer satisfaction and executional excellence.

Now let's turn to our plans to drive growth during the rest of the year and beyond. We are leaning in even further across the growth pillars to drive sales while expanding restaurant margin. Our balanced approach focuses on elevating our craveable core menu, delivering impactful innovation and offering relevant value. We believe we are in a position of strength, offering menu items that deliver across this spectrum.

When it comes to our craveable menu, our fresh, never frozen beef, fresh produce and full optimization of every sandwich on the menu are key differentiators for us. We will continue to capitalize on opportunities to drive impactful innovation. In the second quarter, we launched Triple Berry Frosty and Saucy Nuggets, both resonating with consumers. And you can expect to see a continuous stream of innovation from us in the second half of the year. As it relates to value, consumers continue to seek relevant value.

Wendy's is the original when it comes to bundled value meal deals in QSR, and you'll see us continue to lean into this competitive advantage. Breakfast remains an incredibly important daypart. It is highly profitable, and we have not yet reached our potential. We continue to outperform competitors by driving breakfast dollar growth ahead of the category in the second quarter. We have now optimized the level of our investment in 2024 to allow us to extend our existing breakfast advertising investment horizon beyond 2025.

We continue to expect that breakfast sales growth will outpace rest of day at Wendy's, and those sales continue to be accretive to overall restaurant margin for the Company and franchisees. Turning to our overall sales outlook. As we assess the current consumer and category, we now expect to deliver global same-restaurant sales growth of 1% to 3% for the full year.

Now let's turn to the great momentum we've built towards achieving our development goals. The team has made great progress solidifying our new restaurant pipeline as we continue our mission to bring more Wendy's to more fans across the globe. We remain on track to deliver global new restaurant openings of 250 to 300 units, providing a strong foundation to accelerate from in 2025 and beyond.

Additionally, I am pleased to share that we have added more than 250 global new restaurant commitments year-to-date. Our European expansion is accelerating we recently announced that the brand will enter the Republic of Ireland and Romania with strong franchisees who will begin opening restaurants in 2025.

Ireland is a natural expansion of our current footprint, and we intend for Romania to act as an anchor for further expansion across other areas of Europe. These new development agreements layer on top of an additional increase in our U.K. franchise commitments, all supporting our plans to build hundreds of restaurants on the European continent in the coming years.

Now turning to New Zealand. We recently shared that the Flynn Group has acquired the current New Zealand restaurants with plans to further expand the market in addition to their existing development agreement or 200 restaurants in Australia through 2034. The Flynn Group continues to be an outstanding operator, and we are confident in our ability to grow these high potential markets, beginning with new restaurants in Australia in 2025.

In Asia, our franchisee in India has increased our development commitment with a mix of both traditional locations and delivery kitchens. This will build upon our current footprint of 150 open restaurants.

Finally, in Canada, we have finalized a new agreement in Quebec with plans to double our footprint in the province this year. We have also recently announced an enhanced incentive program to appeal to franchisees of all sizes and increase the reach of our new restaurant development program.

We expect that these incentives, along with our continued focus on expanding restaurant margin and improving profitability will boost new build returns and further build out our long-term restaurant pipeline.

As a result of the team's work, 100% of our new build goals through 2025 are tied to development commitments which is up from 90% we previously disclosed. We are well on our way towards rapid expansion over the long term.

I'll now turn it over to GP to share our second quarter financial results.

Gunther Plosch

Thanks, Kirk. In the second quarter, our global data made sales grew 2.6%, 9.5% on a two-year basis, supported by global same-restaurant sales growth across both our U.S. and international segments and continued global net unit growth.

Our U.S. company restaurant margin reached 16.5%, decreasing 80 basis points year-over-year. This was primarily due to an increase in labor costs driven by rate inflation and customer account declines, partially offset by the benefit of a higher average check.

The decrease in G&A was primarily driven by a decrease in incentive compensation and lower outside professional services as we lapped implementation cost for the Company's human capital management system in the prior year. These were partially offset by an increase in employee compensation and benefits.

Adjusted EBITDA decreased 1% to approximately \$143 million, resulting primarily from an increase in the Company's incremental investment in breakfast advertising spending and the decrease in U.S. company-operated restaurant margin, partially offset by higher franchise royalty revenue and lower general and administrative expense.

The decrease in adjusted earnings per share was driven by lower adjusted EBITDA and increasing depreciation and higher cloud computing amortization costs. These were partially offset by fewer shares outstanding as a result of the Company's share repurchase program and lapping a decrease in investment income in the prior year.

Finally, the decrease in free cash flow resulted from an increase in the Company's incremental investment in breakfast advertising and an increase in capital expenditures. These were partially offset by a decrease in cash paid for cloud computing costs. Now let's turn to our expectations for 2024.

After flowing through our year-to-date results and refining our category forecast for the remainder of the year in the United States, we now expect full year global system-wide sales growth of 3% to 5%. And made up of 1% to 3% same-restaurant sales growth and 2% global net unit growth.

Our adjusted EBITDA outlook of \$535 million to \$545 million remains unchanged. The impact of our updated system-wide sales outlook is offset by lower expected G&A of \$255 million to \$265 million, primarily driven by lower expected incentive compensation and optimization of our investment in breakfast advertising as we now plan to spend approximately \$22 million this year.

As a result of the updated system-wide sales outlook, we have now widened our U.S. company-operated restaurant margin expectations to 15% to 17%. We are reaffirming our outlook for adjusted EPS of \$0.98 to \$1.02, And capital expenditures of \$90 million to \$100 million. Finally, we now expect free cash flow of \$275 million to \$285 million, driven by the impact of our updated system-wide sales outlook.

To close, I'd like to highlight our capital allocation policy, which remains unchanged. Our first priority remains investing in profitable growth and our continued investments across our growth pillars showcase exactly that. Secondly, we are committed to sustaining an attractive dividend. We announced today the declaration of our third 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. Year-to-date, through July 25, we have repurchased approximately 2.9 million shares and have approximately \$260 million remaining on our \$500 million share repurchase authorization expiring in February of 2027. Due to current share price levels, we now expect share repurchases in 2024 of approximately \$75 million. We are fully committed to delivering our simple, yet powerful formula.

We are an 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 is translating into significant free cash flows, which supports meaningful return of cash to shareholders through an attractive dividend and share repurchases.

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

Kelsey Freed

Thanks, GP. To start things off, we will hold an investor call hosted by Bernstein on August 27. On September 12, we will attend the JPMorgan Conference in Miami. We'll then head to Canada for an MDR with Stifel in Toronto on September 24th. If you're interested in joining us at any of these events, please contact the respective sell-side analyst or equity sales contact at the host firm. Lastly, we plan to report our third quarter earnings and host the conference call at the same day on October 31. As we transition into our Q&A section, I wanted to remind everyone that due to the high number of covering analysts, we'll be limiting everyone to one question only.

With that, we're ready to take your questions

Question-and-Answer Session

Operator

Thank you. Our first question for today comes from Jeffrey Bernstein of Barclays. Please go ahead.

Jeffrey Bernstein

Great. I just had a question on the U.S. comp trends kind of in two parts, I guess. The first part is just you mentioned the quick service category discounting. And I know you talked about your \$5 Biggie Bag. Just wondering if you could talk about any change in consumer behavior you've seen I'm assuming the mix of that has gone up and how you differentiate when it seems like everyone has a very similar \$5 offer?

And a follow-up was just on the franchisee feedback from those conversations. I'm sure the conversations have been active with, I know, some pushback in terms of making sure everything is profitable, but just wondering how the conversations are going with franchisees as you talk about being more aggressive from the value side of things?

Kirk Tanner

Yes. Jeffrey, this is Kirk. I appreciate the question very relevant right now, of course. Yes, look, the first thing I would point to is, we've got this nationally recognized famous platform called Biggie Bag that we've had on the menu prior to others coming in and doing something similar on the menu. So, we have traction with that value proposition that's relevant. Our franchisees are certainly on board with that. And of course, that is a concern for everyone.

But our franchisees are on board. They help build this platform over the years. This has been a very effective tool. And it is in line with the rest of the things that we offer on our menu. We're very focused on three things: delivering our core, having exciting innovation that drives traffic and relevant value. The balance of our portfolio and our menu allows us to work really hard in times like we're in. And we're really excited about the traction that we have and the balance that we have across our menu.

Operator

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

Brian Bittner

I just wanted to ask a question about your updated same-store sales guidance for 2024. It's now 1% to 3%. And I think the math suggests that this assumes a kind of 2% to 5% comp range in the second half of the year, which is obviously a meaningful acceleration from where your trends have been in the last couple of quarters.

I know you're expecting to stimulate some breakfast growth, but is the easy comparisons a big enough factor to drive this acceleration that you're baking into the outlook? Or what does drive your confidence that the second half can showcase this acceleration.

Gunther Plosch

Good morning, Brian. Yes, we are confident with our 1% to 3% guidance range. Clearly, easier comparison is one part of the story. Second part of the story is that we definitely expect that the category is going to be slightly, slightly improve in the back half. And thirdly is confident in the programming we have out there.

As Kirk just said, our program is focused on showcasing our core and all the goodness we have in there, plus you will see a meaningful stream of innovation in the second half. Plus, our national recognized Biggie platform and our digital offerings and acquisition strategies, the combination of all three will, as you point out, drive a slight acceleration on a one-year basis. If you look on a two-year basis, it's actually very, very comparable.

Operator

Our next question comes from John Ivankoe from JPMorgan. Your line is now open. Please go ahead.

John Ivankoe

Sorry about that. I don't know what happens. Hopefully, this number is correct. That's what I have in front of me, so please correct me if it's wrong. Your prime cost, food and paper plus labor running 63%, generally investable in the industry, companies' kind of want to be around 60%, even lower, obviously, negative traffic.

And the question that I ask is not just in terms of unit development, but as we kind of think about the system over the next couple of years in terms of rent renewals, if you will, of properties that are coming up to their 20-year term. How are we feeling about just overall capacity in the U.S.? I mean the economics would certainly suggest that you keep stores open, but in some cases, it's actually not the choice the tenant, it's the choice of the landlord.

So, I just really wanted to get a sense as we think about the U.S., not just in '25, but a couple of years after -- just kind of -- how we're thinking about net overall unit count in this important market?

Gunther Plosch

Yes, we are very confident and bullish about the U.S. market. We are highly underpenetrated. We have a lot of interest from U.S. franchisees to continue to expand. We announced that in the first half, we added about 250 development agreements. It was a good amount in international, but that's also additions in the United States.

As you might have also picked up, I think, two weeks ago, we issued a new FDD. And in the new FDD, we launched an optimized incentive program. Our commitment to keep working on the restaurant economic model plus the incentives that are out there making the decisions for franchisees to build much, much easier.

So, we think we have not reached our potential in the United States. We're helping with incentives that we just launched, continue the incentive program around build to see then feel confident that the contribution of the U.S. market to the overall unit growth, which is about 30% is very feasible for us.

Operator

Our next question comes from Alex Slagle of Jefferies. Your line is now open. Please go ahead.

Alex Slagle

All right. I guess to follow up on that, of Canada, your biggest international market, and you talked to the new commitments and plans for accelerated growth in Quebec. And I know the profitability and economics there have improved significantly versus 2019. So curious if you think there could be even greater opportunity to expand that development beyond just Quebec, maybe look at Ontario, Alberta, perhaps you feel pretty well penetrated at this point, but curious if you think there's greater opportunity there.

Gunther Plosch

Yes, Alex. We're very excited about the Canadian market. We have a very engaged franchise base. As you pointed out, they're making great progress on sales and profits right back in 2023. They grew sales by 9%, and the system was up in profit by about 25%. So obviously, a great economic environment.

We definitely expect that Canada on its own is going to double their growth rates. very attractive AUVs. therefore, economic is also very good. So, we are excited about that, combined, obviously, with all the other international markets that we continue to highlight. But yes, there is definitely a lot of growth to be had.

Operator

Our next question comes from Eric Gonzalez of KeyBanc. Your line is now open. Please go ahead.

Eric Gonzalez

Maybe if you could talk about how same-store sales trended throughout the quarter? I know it's not something you typically do, but there are a lot of competitive cost currency during the quarter, and I suspect the month-to-month trends were a little bit lumpy. So maybe it could be helpful if you could explain how the quarter unfolded and some of the things that were done to lift sales when trends softened. And while we're at it, the day you could tell us about the exit rate in June or how you fare in July, it would be very helpful.

Kirk Tanner

Yes, the sales over the quarter, there was some ebb and flow overall, but pretty consistent. I would just say, if you look at our business, we continue to compete extremely well in this environment. We talked about holding share and the proposition that we have for consumers on our balance across value, our core business innovation. I think that kept our business fairly steady through that cycle that we just went through.

That's critically important. The other thing that I think is helping us is our digital performance. We're continuing to lean into our digital. We added about 6% more loyal users to our platform, our loyalty platform, taking us to \$42 million, which I think also is really important as we build a personal relationship with our customers.

Operator

Our next question comes from Andrew Strelzik of BMO Capital Markets. Your line is now open. Please go ahead.

Jared Hludzinski

This is Jared Hludzinski on for Andrew Strelzik. I was hoping you could walk us through the drivers behind the updated 2024 U.S. company margin guidance? And if you could also provide us with an update on food cost and your visibility there as we look out to the balance of the year?

Gunther Plosch

Yes, on the restaurant margin, it seems to be obviously widened the guidance range for sales. We consequently obviously also widened the range for company restaurant margin to 15% to 17%. So, the midpoint is about 16%. As you might have seen, our year-to-date margin is also 16%. We are expecting flat commodities for the year.

Labor inflation, that's unchanged, labor inflation in the 3% to 5% range. That's also unchanged. And we definitely expect with the slight acceleration of sales lift in the in the second half, plus a small price action we took at the end of the second quarter. all of that gets us very comfortably into the guidance range we have just issued.

The picture on commodities hasn't really changed. Beef and fries are inflationary for us. Chicken is deflationary. We obviously made no progress in the last quarter to lock down price visibility on the commodity basket. We are slightly north of 90%, 9-0 locked down, it's comparable of the visibility we had last year at the same time.

Operator

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

Dennis Geiger

Great. Wondering if you could talk about breakfast performance in the quarter a bit more, seems like the advertising the offers and the innovation has been resonating. But just curious if you could speak to any more observations around breakfast -- around your breakfast customer and sort of how that's shaping your breakfast growth goals going forward?

Kirk Tanner

Yes, Dennis. Yes, breakfast is really an important opportunity for us. We've talked about this in the past as reaching our full potential, and we're about halfway there, which is the exciting part. It is certainly a tailwind in our business right now. It's growing faster than the rest of our business, and it's growing faster than the category.

We're gaining share in this daypart. We continue to invest. When we will continue to invest through the horizon of 2025 and beyond in breakfast -- and I just -- what I really like about breakfast is it's more profitable. It's incremental to our business. It leverages the restaurant's labor model, and we've got a great menu. So, it is something that we'll continue to stay focused on. We'll continue to build momentum on, and it will be a tailwind for our overall SRS performance.

Operator

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

Danilo Gargiulo

Gunther, I wonder if you can give us a little bit more context on the development centers that you have enhanced. Specifically, your expectations on the cash-on-cash returns on unlevered basis that you're expecting franchisees to be getting out of it? And if you can also put that into context versus the other programs that you're running and their utilization rates.

Gunther Plosch

Yes, we are happy with the incentive programs we have just launched. So, remember, you've heard us talk about build-to-suit and about the pacesetter. The pacesetter actually has expired and is one of the driving forces for the additional development commitments that got signed. So, we worked in the last couple of months with the franchise community in terms of renewing the incentive program. It's a little bit different now. It's a tiered system.

The basic idea is the more you commit from a building point of view, the higher of an incentive you're going to get, so it's obviously a win, win. We have to deal with less builders that are building more per franchise unit and the franchisees that want to build more, obviously get rewarded for a bigger incentive. I'm not looking that much on cash-on-cash returns. I look at levered payback periods. The build-to-suit program, which is unchanged from a design point of view, is still our best program. delevered payback on that on is about two years.

The top builder, which is our richest incentive, in exchange, you need to sign up for about 15 units you get a levered return of about 3.5 years. So very, very, very attractive. The franchise community that we worked the program with was very excited, and we're confident that as we're rolling this out, that we'll get the franchise base excited and sign up for development agreements. I'm sure we are going to give an update on the sign-ups on these programs in the next couple of quarters.

Operator

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

Jon Tower

Just maybe circling back to the practice conversation, Kirk, I think you had mentioned in your prepared remarks, this year, you're only going to be spending about \$22 million in breakfast spend or incremental spend from the Company contribution side. I think it was closer to \$27 million previously. Maybe I'm mistaken, but you also made some comments about extending it potentially beyond \$25 million. So, are you contemplating incremental investment above that \$55 million you had originally outlined earlier this year?

Kirk Tanner

John, thanks for the question. Yes, to clarify, breakfast is something that, again, we're very bullish on. We do think that it's important to be to look at the horizon, the investment horizon on a little longer than we originally communicated. So, I think about it as pushing that same investment, some of that into beyond \$25 million. That's how we're thinking about it.

I think this is one where we're going to build it over time. It's again, our potential is at about \$3,000 a week per restaurant over that -- over a horizon. We're going to be very diligent about doing that. But it's prudent to push that investment past \$25 million. We'll continue to build it past that.

Operator

Our next question comes from Gregory Francfort of Guggenheim Partners. Your line is now open. Please go ahead.

Gregory Francfort

Kirk, I think in the prepared remarks, you made a comment about increasing the pace of innovation. Can you maybe help frame up, obviously, without tipping your hand too much, what that's going to look like? Is that just going to be shorter calendar windows, a greater number of new products? Just any thoughts there.

Kirk Tanner

Innovation is such an important part of what consumers are looking for and our customers expect from us. You've seen us do things like Saucy Nuggs. We've also been very successful leveraging our Frosty brand. It's a brand that consumers love, and we've continued to innovate off those platforms. you'll see us innovate in the second half of the year.

We'll innovate off of our core, we'll continue to innovate on platforms like Frosty, and I think innovation is an important part that kind of celebrates both our core business and our new to this world's consumer propositions that have some breakthrough.

I think that's really important right now. We talk a lot about value and value is critically important. Innovation is also important. Customers are looking and loving innovation. So we are going to stay focused on that.

Operator

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

Brian Mullan

Just a question on the efforts to expand the digital menu boards at the drive-through. Where are you in that -- in the rollout at the Company stores? And just maybe remind us how much of the franchise system has that capability today? Is there anything you could do to potentially accelerate that process across the franchises?

Gunther Plosch

Brian, yes, digital, digital ecosystems are super important, and that's what the consumer expects. As you know, we have set aside \$20 million in capital to complete the digital menu board rollout in the Company restaurants in '24 and '25. We are currently 30 to 35 units installed. We're obviously accelerating in the second half.

We like what we see. It's a good experience for our consumer. It's a good experience for our crew members since you obviously don't have to go out anymore and change our menu boards between Rest of Day and the Breakfast menu. So yes, committed to the investment. It's contemplated in the cash flow and capital forecast.

Operator

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

Lauren Silberman

Just on the guide, I want to confirm. The EBTIDA and EPS being reaffirmed, it's primarily due to less breakfast advertising contribution this year. And then specific to the advertising, how'd you come to the decision to reduce the level of investment this year? Are you not seeing the returns as high as you would've expected?

Gunther Plosch

Good morning, Lauren. Just to clarify our EBITDA and EPS guidance, so it is unchanged with previously. So, obviously, we had headwinds on the sales side since obviously the midpoint of the guidance range shifted down a little bit. It's not because we are not competitive, right? We are maintaining share, it's because the category is a little bit softer than we expected. How did we overcome? The profit headwinds coming out of the sales shortfall is the optimization on the breakfast advertising investment of \$5 million, and we also shifted the G&A outlook range down to \$255 million to \$265 million, a good portion of that was incentive comp rules, and a little bit of timing of new hires.

Your specific question around, the breakfast investment levels. We are obviously winning in the category. We have outgrown the category in the first half, so we are happy about that. But in the context of the whole environment, we absolutely believe, and we worked this a little bit with the media agencies, we believe that in that environment we are better off stretching the investment over. Our planning assumption is now three years into 2026, and obviously the reduction this year allowed us to stretch the investment out.

Operator

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

Brian Harbour

Just a quick one on the development side. I think you said 2Q was in line with your expectations. Was that also true of just the closures that you had in the U.S. or could you kind of comment on that?

Gunther Plosch

Good morning, Brian. Yes, absolutely. It's in line with our expectations, right? As I said in the prepared remarks, our sales guidance for the year is 1% to 3% SRS and 2% net unit growth. That's unchanged vice versa what we have told you previously. We have reaffirmed again our gross openings 250 to 300 units. So, it's all kind of where we thought it would be.

Operator

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

David Palmer

I'm wondering, if we could maybe take a step back and think about the biggest opportunities and challenges, Kirk, that you see for the brand in the U.S. What are you hearing from franchisees about what you want to improve upon and they want to improve upon? And what are you seeing about these changes that can be made this year versus perhaps some longer-term changes that you see the brand making?

Kirk Tanner

Yes, David, thanks for the question. Look, the team is focused on this positive flywheel, right? And I think that makes a lot of sense for both the brand and our franchisees. That positive flywheel starts with being very relevant in the present, which is right now, we're competing well in the marketplace. We have to stay focused on delivering and gaining share, working what Wendy's is famous for.

So, that's certainly a big part of it. But you'll see us -- we're working very diligently on driving the economic model at the restaurant level, improving our margin performance because we know that is critical. We're very focused on our long-term unit performance and building new restaurants. I think that we talk about the 99 new restaurants we've built this year and the 250 to 300 restaurants we'll build in 2024. Those are all very brand-building they perform and outperform current restaurants.

So, those are the big things. You think about this business, its top line, growing share, improving our margin and building new restaurants. Those are the critical things that we are focused on and working side-by-side with our franchisees to make that happen.

Operator

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

Sara Senatore

Great. One, I guess, clarification and then a question, please. The first is on just, you mentioned that the industry was perhaps a little softer than you had expected at your holding share. Could you talk about any of the sort of underlying dynamics there that you saw, which is to say, is it traffic that's a bit slower? And if so, if there are specific groups -- or is it ticket, some of the promotional activity perhaps dragging on that.

So that was just a sort of clarification. And then, with respect to the restaurant mobile margins, I know you talked about a wider range of sales. Is there any change or any impact that is from the - like the U.K. restaurants? I know that they had previously been a diminishing drag but anything there that may be changed.

Gunther Plosch

Sara. So, a little bit of the composition of our sales growth in the United States. So, we have realized -- the system has realized about 4% pricing. We have seen traffic down about 2%, a little bit less than 2% and with slightly negative mix of a little bit more than 1%. So, a little bit of context.

So again, traffic down is a function of the category being down as well, right? As we said in the prepared remarks, our classic and dollar share, we are in line with the category. I want to point out also within the income cohorts, right, our research company split them into below and above \$75,000.

We see the same trend that we have seen in the last couple of quarters. The lower income consumer is reducing the frequency the higher income consumer is increasing their frequency. We are competing with both income cohorts and maintaining share there. In terms of mix, actually, the biggest headwind, a little bit more than 1% is driven by the fact that we drove last year relatively hard to mid to create premium sandwich, which we didn't do this year.

And secondly, we continued our digital acquisition strategy this year, right, it resulted in a 6% increase in our loyalty base, and that created a little bit of mix headwinds for us. Our value offerings, Biggie Bag, year-over-year had no material impact on our mix and profitability year-over-year since obviously, is nationally recognized. We have it for several years. It was obviously sitting in the base already.

Operator

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

Tyler Klaus

This is Tyler Klaus on for Jim. Several peers in the industry, you've mentioned headwinds to same-store sales in California due to the recent price increases. Just going to see, if you could give us an update on the market and if you had any particular callouts? And then I had one follow-up.

Kirk Tanner

Yes. I think that clearly, the consumer across the country has been well documented. There's certainly certain cohorts in consumer bases that are under pressure and more discerning in their decisions. As far as California goes, this is something that is unfortunate from a wage and labor standpoint, but the team is working against it.

We've focused on driving more productivity and delivering the Wendy's promise in this light. These are opportunities where we feel like we still have to win, and we have a plan in place to do that. We have a proposition on our menu to do just that. But I think that if you look at where consumers are, our focus is on winning in this environment, winning and competing well in this environment.

And we're doing that just with that strategy, including places like California. It goes to delivering our core, having compelling innovation and having relevant value, and this relevant value has allowed us to stay very competitive and win in this marketplace.

Operator

Thank you. At this time, we currently have no further questions for today. So that concludes today's conference call. Thank you all for joining. You may now disconnect your lines.

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