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The Wendy's Company (WEN) Q3 2024 Earnings Call Transcript

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The Wendy's Company (NASDAQ:[WEN](#)) Q3 2024 Earnings Call Transcript October 31, 2024
6:00 PM ET

Company Participants

Aaron Broholm - Head of Investor Relations

Kirk Tanner - President and Chief Executive Officer

Gunther Plosch - Chief Financial Officer

Conference Call Participants

David Palmer - Evercore ISI
Dennis Geiger - UBS
Danilo Gargiulo - Bernstein
John Ivankoe - J.P. Morgan
Jeffrey Bernstein - Barclays
Brian Mullan - Piper Sandler
Chris O'Cull - Stifel
Lauren Silberman - Deutsche Bank
Brian Harbour - Morgan Stanley
Jon Tower - Citi
Jim Salera - Stephens
Sara Senatore - Bank of America
Andrew Charles - TD Cowen
Gregory Francfort - Guggenheim
Jake Bartlett - Truist Securities
Peter Saleh - BTIG
Christine Cho - Goldman Sachs
Alex Slagle - Jefferies
Jim Sanderson - Northcoast Research
Logan Reich - RBC

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 2024 Third Quarter Earnings Conference call. After this brief introduction, Kirk Tanner, President and Chief Executive Officer, will provide a business update, and then Gunther Plosch, Chief Financial Officer, will review our third quarter results and share our updated financial outlook. From there, we will open up the line for questions.

Today's conference call and webcast include the presentation, which is available on our Investor Relations website, ir.wendy's.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 it over to Kirk.

Kirk Tanner

Good morning, everyone, and thank you, Aaron. As many of you know, Aaron joined us in September to lead Investor Relations, and we are excited to have him aboard. I'm going to start with some high-level results and drivers in the quarter and then we'll get into some of the initiatives we are working on to strengthen the Wendy's brand and its operations across the company and our franchisees. I'll then hand it over to GP to talk more about our third quarter performance and updated outlook.

During the third quarter, our restaurants continue to grow sales as global systemwide and the same- restaurant sales grew 1.8% and 0.2% respectively. In the U.S., we remain competitive as we held traffic share within the QSR Burger category, which has been a bit more challenging than we anticipated coming into the third quarter. Our team's focused execution allowed us to also maintain dollar share driven by consumer demand for our craveable core items, our impactful innovation, and relevant value. The morning daypart continues to be a compelling growth opportunity, delivering a mid-single digit sales increase compared to the prior year. Late night sales also delivered strong performance, growing sales at a high single-digit percentage compared to the prior year, driven by momentum in our delivery and digital businesses.

In our International segment, we achieved high single-digit systemwide sales growth driven by nearly 100 new restaurant openings through the end of the third quarter. International same-restaurant sales growth was led by our Canadian market, including a high team percentage growth in breakfast traffic.

Now, turning to our digital business, global digital sales grew almost 40% year-over-year led by our U.S. segment, delivering over 17% digital sales mix. This growth was supported by enhancements to the Wendy's app that have enabled us to deliver an improved user experience. We now have about 45 million reward members enrolled. Now, that's up from 43 million at the end of the second quarter. In addition, we opened 64 new Wendy's restaurants globally during the third quarter and remain on track to meet our goal of 250 to 300 openings for the full year.

Turning now to some of the initiatives I'm working on with the team. As most of you know I have now been in the role nine months and I can tell you I'm even more optimistic today on the potential for our brand and opportunities for the near and long-term growth. As we look ahead, we are focused on continuing to build love for Wendy's by delivering on our new brand promise, fresh famous food, made right for you, every time in every restaurant for every customer every day. It means that we're doubling down on operational excellence ensuring customers receive the same excellent experience across every Wendy's restaurant. Our Wendy's promise is foundational to our culture and it's delivered by inspiring our employees to always put the customer first, make every restaurant the star, operate the one best way and own the responsibility to grow the Wendy's brand.

We have shared the brand promise with employees and franchisees at our recent convention and it has been met with enthusiasm. This promise is embedded in the framework I've established that will serve as our blueprint to relentlessly pursue long-term profitable growth. The framework consists of four key elements drive same-restaurant sales and share growth, accelerate digital growth and improve restaurant profitability all of which will drive net unit development. Achieving these goals will strengthen the Wendy's brand and reach more Wendy's fans worldwide with a consistent and high quality experience.

Let me expand a bit on the actions we are taking beginning with global unit development. Our enhanced U.S. incentive programs rolled out in July are resonating with franchisees and are expected to support continued progress on our new restaurant pipeline. In September, we also announced new development incentives in Canada and Latin American countries, which are already sparking many development and renewal conversations. As we continue to open new restaurants, we are using data-driven insights to target high-growth trade areas. These new restaurants have delivered an exceptional customer experience, enhanced by technology and improved drive-through and delivery experiences, higher employee satisfaction levels under a more efficient labor model, and U.S. AUVs above \$2 million and operating margins above the system average.

Overall, the Wendy's system is incredibly healthy, and our restaurant re-imaging has been completed at 89% of restaurants globally, and we want to further improve our restaurant footprint and overall system health. In order to do so, we conducted a robust review of individual restaurants to ensure they meet our expectations for sales, have the profitability to fuel growth, and deliver the Wendy's brand experience for customers. Following this review, I have made the strategic decision to close additional restaurants this year that are outdated and located in underperforming trade areas. These restaurants have AUVs of approximately \$1.1 million and operating margins well below the system average. We have designed this initiative to ensure that over time, many of these units will be replaced by new restaurants at better locations with significantly improved sales and profitability. We anticipate that total closures in 2024, including additional closures in the fourth quarter, will be offset by new restaurant openings this year, leaving our net unit growth approximately flat compared to the prior year. By the end of 2024, we will have opened more than 500 new restaurants over the last two years and have the confidence we will deliver an elevated growth in 2025 and the years to come. As we shared last quarter, we have development commitments in place to meet our 2025 new build goal, which supports our previously stated outlook for 3% to 4% net unit growth.

Now let's turn to our plans to drive growth in the fourth quarter and beyond. We continue to expect sequential improvement in year-over-year sales growth from the third to the fourth quarter. This will be driven by our commitment to putting the customer first in everything we do to deliver our craveable menu, impactful innovation, and relevant value. We have strong momentum, as earlier this month we launched the Krabby Patty Burger and Pineapple Under the Sea Frosty, celebrating SpongeBob's 25th anniversary. We were excited to bring this fan favorite to life through innovation on two of our iconic core menu items, and we are executing this promotion in a way that only Wendy's can deliver. This programming is resonating with consumers, generating a powerful response that is driving significant sales growth and earned media for the Wendy's brand. We are very pleased that the initial performance has exceeded our expectations. This is a great example of what we can deliver when we bring our innovation, marketing, and execution capabilities together.

Looking ahead, we are building on this momentum with a strong lineup of campaigns launching in the upcoming weeks. We will feature an innovative new salted caramel frosty flavor, the return of a customer favorite mushroom bacon cheeseburger, and national media showcasing our iconic spicy chicken sandwich. Building on our marketing efforts, we are evolving our national advertising and digital strategies. Our new campaigns incorporate the [inaudible] Wendy's tagline and highlight our delicious food as the hero. We're pleased with the traction this approach has gained and look forward to sharing more as we progress.

Moving on to our commitment on restaurant profitability, I see significant potential to strengthen our position in profit accretive categories like beverages. Extending our partnership with Coca-Cola is one of the ways we are doing this. Our new agreement enables us to grow this highly profitable segment, leveraging the Coca-Cola freestyle platform which offers more than 100 drink choices. We also have plans to add beverage options aligned with modern consumer preferences. And right now, we're giving our beverage business a boost as we kick off the fourth quarter with \$1 any size drink promotion. Another category where we will drive margin improvement is through breakfast sales growth, which we anticipate will continue to outpace the rest of day. As part of our company investment in breakfast advertising, we recently launched national media for our breakfast burritos and are encouraged by the consistency of our breakfast growth.

In addition, our fresh AI voice enabled order taking provides us with another opportunity to enhance margins. This technology boosts labor efficiency and allows crew members to spend more time on activities that elevate the customer experience. We are encouraged by the results of testing at select company restaurants, and we will broaden the implementation in 2025 across more company and franchisee restaurants that will unlock margin expansion opportunities. Our pursuit across these initiatives gives us the confidence in our outlook for accelerated growth and profitability to close out 2024 and beyond.

Looking ahead, I'm excited about the future and our vision for Wendy's to reach its full potential. Our ability to deliver profitable growth and create shareholder value is grounded in our focus on the execution of our strategic priorities that build on our brand promise. We look forward to sharing more details about our long-term growth strategy and execution plans at our Investor Day, which will be held on March 5, 2025. Finally, I want to express my appreciation to all of our employees, franchisees, and suppliers for their dedication and outstanding contributions. I'll now turn it over to GP to share more details on our third quarter results.

Gunther Plosch

Thanks, Kirk. In the third quarter, our global systemwide sales grew 1.8%, 6.6% on a two year basis, supported by global same-restaurant sales growth across both our U.S. and international segments, and contributions from new restaurants opened this year. Our U.S. company restaurant margin was 15.6%, flat to prior year. The impact of higher average check and labor efficiencies was offset by labor rate inflation and customer account declines. The increase in G&A was primarily driven by an increase in employee compensation and benefits and an increase in professional fees. These were partially offset by a decrease in incentive compensation accruals. Adjusted EBITDA decreased 2.9% to approximately \$135 million, resulting primarily from an increase in the company's incremental investment in breakfast and the increase in general and administrative expenses. These were partially offset by increases in franchise royalty revenue, other operating income, and net rental income. The decrease in the adjusted earnings per share was driven by low adjusted EBITDA, an increase in depreciation, and a high effective tax rate. These were partially offset by fewer shares outstanding due to the company's share repurchase program. Finally, the increase in free cash flow resulted primarily from a decrease in cash paid for cloud computing arrangements and a decrease in capital expenditures. These were partially offset by the company's incremental investment in breakfast advertising.

Now let's turn to our expectations for 2024. As Kirk said, we are competing well and are pleased to have maintained traffic share in the third quarter. However, given a softer category environment in the third quarter, we now expect full year global systemwide sales growth of approximately 3%, made up of 1% to 2% same-restaurant sales growth and contributions from new restaurants opened this year. We have strong momentum to start the fourth quarter with October U.S. same-restaurant sales accelerating significantly compared to the third quarter, giving us confidence in achieving our updated 2024 same-restaurant sales outlook. Our adjusted EBITDA outlook of \$535 million to \$545 million remains unchanged. The impact of our updated systemwide sales outlook is being offset by incremental franchise fees related to the additional restaurant closures in the fourth quarter and lower general and administrative expense.

With one quarter left to go in the year, we have narrowed our U.S. company-operated restaurant margin expectation to 15% to 16%, and our outlook for adjusted EPS to \$0.99 to \$1.01. Finally, we continue to expect capital expenditures of \$90 million to \$100 million and free cash flow of \$275 million to \$285 million.

Now, I'd like to highlight our capital allocation policy, which remains unchanged. Our first priority is still investing in profitable growth, which we will continue to do while holding true to our asset-light model. Secondly, today we announced declaration of our fourth quarter dividend of \$0.25 per share, reflecting a full year dividend of \$1 per share in 2024. This represents an industry-leading, mid-single digit dividend yield and aligns with our commitment to sustain an attractive dividend.

Lastly, our capital allocation policy gives us the flexibility to use excess cash to repurchase shares and reduce debt. Year-to-date through October the 24th, we have repurchased approximately 3.6 million shares and have approximately \$248 million remaining on our \$500 million share repurchase authorization expiring in February of 2027. We continue to anticipate total share repurchases in 2024 of approximately \$75 million. We are fully committed to delivering our simple yet powerful formula. As an efficient growth company, we drive systemwide sales growth supported by positive same-restaurant sales and expanding global footprint. This is translating into significantly 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 Aaron to share our upcoming IR calendar.

Aaron Broholm

Thank you, GP. On November 19th, we will be in Chicago for an NDR hosted by Morgan Stanley, after which we will head to the Stephens Investment Conference in Nashville on November 20th. On December 3rd, we will participate in the Barclays Eat, Sleep and Play Conference in New York City. 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. Lastly, we plan to report our fourth quarter and full year earnings and host a conference call on February 13th, 2025. And as mentioned earlier, we will hold an Investor Day on March 5th with more details to come later. 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

[Operator Instructions]

Our first question for today comes from David Palmer of Evercore ISI.

David Palmer

Thanks. I'll try to squeeze in a two parter, really unrelated. But the unit growth outlook, I wonder how you're thinking about that now. I know you had some closures that might prove temporary as a drag to net unit growth in the U.S. And at the same time, it looks pretty bright what's going on in terms of international development. I'm wondering if you're thinking about a more of an international skew to your development going forward, how you're thinking about that. And as far as the marketing goes, Krabby Patty has clearly been a big win. I'm wondering how you're thinking about more platform-ish type renovations, innovations, things that seem to have more of a longer curve to them. I mean, these types of activations are great. But I'm wondering if you're also working on some bigger stuff that we should be thinking about around the corner. Thanks.

Kirk Tanner

David, good morning, and I appreciate the question. First, I'd like to talk about the unit growth question that you asked. And look, the overall strategy and initiative here is to build on an already strong system. This initiative makes us even stronger. And I just want to point out a few things about our system. One, if you look at Wendy's system, 89% of our restaurants have already gone through this image activation. And we've built 500 new restaurants over the last two years. We'll build almost 250 to 300 restaurants this year. When you think about strengthening our system, we're looking at closing a few restaurants that underperform. They have AUVs of about \$1 million dollars. Their margin is under the average of the business. And they're just in locations that don't build our brands. And so those are the opportunities that we've taken a look at to truly make our system much stronger.

Now, when you think about development for the future, we're guiding at 3% to 4%. Now, I'd like you to think about that as 70% being international and 30% being domestic. That's kind of how we're thinking about our development goals. This strengthens our development progress over the next several years, not just in '25, but we're looking at it as '25, '26, '27, and beyond. So that really is the development strategy in strengthening our system. Let me turn the focus to our menu. Yes, we've seen some success with Krabby Patty. And what I really attribute some of the success is it's really built off our core menu. The Krabby Patty Burger is built off that square, fresh, never frozen burger. And of course, leveraging our Frosty is always a game changer. And the combination of those two things really hit the mark. As we look into the future of continuing to focus on our menu, we do that in three ways. One, build our core. And we're looking at how we energize our core menu. I think that's incredibly important.

We'll continuously talk about the fresh, never frozen quality of the ingredients that we put into our menu. We think that's an advantage over our competition. But we'll continue to look at areas to build our core up. We'll always have an innovation pipeline. We've seen that this year. If you look at our business this year, you've seen us innovate on Saucy Nuggs. You've seen us bring frosty innovation to the forefront. That's always going to be a place where we can delight our consumers. And then the last part, we'll continue to have a value offering that delivers the highest quality at the best value. And we do that today through Biggie Bag. So those kind of three things we're thinking about as far as our menu ongoing. We always have this opportunity to get even better and that's our focus.

Operator

Our next question comes from Dennis Geiger of UBS.

Dennis Geiger

Great, thanks guys. I wanted to come back to the breakfast and it seems like you're continuing to see good performance at that daypart given the initiatives that you've got in place across advertising, some of the offers, innovation, et cetera. Just curious, Kirk, if you could kind of touch a bit more on that, on how plans are progressing and how progress is progressing against your plans and how we think about 2025, perhaps from a breakfast perspective, if anything to highlight there. Thank you.

Kirk Tanner

Yes, Dennis, thanks for the question, appreciate it. Yes, breakfast is an important part. We've really set out, we launched breakfast in 2020, but we've invested in breakfast this year and continue to invest in breakfast in the years to come. We feel like this is still a real opportunity for us to build the potential of Wendy's. We like the tailwind that it's giving us right now. It is growing faster than the category and it's growing faster than our business. So it's a nice tailwind to us. We look at this opportunity as profit accretive, leveraging the restaurant. It's also an incremental daypart as we build that. So it gives us the traction that we need for the long haul. We do see this as a long-term strategic initiative. It's not going to be something that we just do this year or next year. You can look forward to us continuing to develop our breakfast strategy over the years to come.

Operator

Our next question comes from Danilo Gargiulo with Bernstein.

Danilo Gargiulo

Great, thank you. You mentioned that the macro was a bit more challenging than you were expecting coming into Q3. So can you help us understand the health of the consumer, both domestically as well as internationally and whether you've seen any softening of these macro pressures getting into the fourth quarter. So any inter quarter commentary might be helpful. Thank you.

Kirk Tanner

Yes, look, I would talk a little bit about Q3. We're still in a very challenging environment, I would say, with the consumer. I would tell you that there's kind of Q3, there's two halves to Q3. We saw some momentum in the second half of Q3 that gives us some confidence. And of course we've seen that picked up in Q4 as well. That gives me the confidence that one will deliver against our guidance and then it's a little bit brighter moving into 2025. That's kind of how I would shape it. So still under pressure Q3, the second half of Q3 felt a little better than the first half. And then we're seeing some momentum in Q4. That's kind of how I would architect what's happening with consumers.

Operator

Our next question comes from John Ivankoe of J.P. Morgan.

John Ivankoe

Hi, thank you very much. The question is on prime costs, food and paper plus labor, which in the most recent quarter ran around 63. I probably don't have to tell you. I mean, that screen's actually very high relative to most public restaurant companies. In fact, I can only think of one that's higher and that brand is not in quick service and doesn't have advertising. So I guess, have you Kirk, as you came into the Wendy system, kind of benchmark that number relative to the peers? And if there are kind of a couple of easy and I really do mean to say that easy ways to kind of fix that number. What are the types of opportunities that we should be thinking for you to significantly improve that ratio and get it closer to a more typical 60 type of number where I know the industry typically long-term tries to target? Thank you.

Kirk Tanner

Yes, of course, we've definitely gone through some benchmarking exercises and are focused on delivering that restaurant level margins. It's really important that we do that. I see this in two buckets, one is driving that efficiency that's why you see us investing in things like AI with our drive-through that allows us to have our employees in the restaurant working the orders efficiently, it saves time et cetera, that drives the labor number down. As you know, that the split between food and labor is almost equal in restaurants. And so our opportunity is to drive labor costs down and to improve the food costs. So you'll see us do that. I think the last thing, you'll see us focus on some categories that drive positive mix. One is beverages. We've got a new agreement with Coca-Cola. This allows us to aggressively grow our beverage business, which is profit accretive from a mixed standpoint. You'll see us focus on menu accretion from a profitability standpoint. So those are three areas we're looking at. Looking at labor efficiency. We're looking at food costs. And we're looking at growing those categories that are more profitable than the rest of the business faster.

Operator

Our next question comes from Jeffrey Bernstein of Barclays.

Jeffrey Bernstein

Great. Thank you. I had one question and then one follow-up. Follow up, actually, just GP reiterated the adjusted EBITDA guidance despite the comp and the system sales shortfall. I was wondering if you could just maybe just talk high level as to what you think of the offsets to allow to maintain that EBITDA. And then my question is more just following up on the unit growth side of things. Wondering in terms of international and I guess US franchisees receptivity. And you guys seem confident in, I guess, 2025 accelerating to that 3% to 4% net. Presumably it is on a base reduced by the closures. I'm wondering if you'd share how many closures there were or maybe how many absolute number of openings you're expecting in '25. Because I know you mentioned 100% of the new build goal is tied to development commitments. But so it was a question of whether or not those are executed on. So any color there would be great. Thank you.

Gunther Plosch

Good morning, Jeff. So first on the adjusted EBITDA guidance, you're right. Obviously, the tightening of the sales range created a headwind for us in the EBITDA side that was offset by increased franchise fees, why that's we allowing franchise fees to close the restaurant, we are earnings a fee that is helping our EBITDA, and secondly, we are slightly lower G&A. The overall guidance range of \$255 million to \$265 million of G&A is unchanged, we are just sliding a little bit to the lower end of it. So that's how we were able to keep adjusted EBITDA unchanged. Little bit more closures, as we said previously it was 2% net unit growth rate, the additional closure about other 400 additional units, so basically, we are closing overall as many unit as we are opening. That's why we are ending up overall slightly flat. That obviously gives really good confident for really significantly accelerated unit growth rate 3% to 4% in 2025. And then as Kirk said I think in one of his answers already these additional closures didn't all come out of 2025, these are closures that would have happened in '25, '26 and '27, so it gives us a longer term visibility on accelerated net openings to come.

Operator

Our next question comes from Brian Mullan of Piper Sandler.

Brian Mullan

Thank you. Just back to the breakfast daypart. Kirk, can you talk about the beverage component of the offering? Do you feel good about the beverage platform? Is that an area where you'll be spending more time, where you think perhaps could be innovated from here? Just any thoughts on that component of the offering would be great.

Kirk Tanner

Yes, thanks for the question, yes. My heart is still with beverages a lot. This is an opportunity for us, for sure, with breakfast. I think we've done a really good job building an unbelievable menu with the kind of highest quality ingredients, a menu that really delivers for our customers. Beverages are an opportunity. As I mentioned before, it drives profitability. Yes, look for us to innovate across our beverage portfolio for breakfast and the rest of the dayparts. You'll see a lot from us in the beverage category.

Operator

Our next question comes from Chris O'Cull from Stifel.

Chris O'Cull

Yes, good morning, guys, and thanks for taking the question. Kirk, it's good to hear the Krabby Patty promotions performed really well. Can you discuss what customer segments it's appealed to, and if there are plans to collaborate with any other brands in the future?

Kirk Tanner

Yes, this is one that has reached a lot of folks. You think about the 25-year anniversary of SpongeBob has definitely struck a chord with a large population, and that excitement has driven clearly a lot, and it's the best of kind of what Wendy's can bring to the table. I think that's what I take away is a great partnership, one plus one equals three, and I think we got that with Paramount in this regard. I think this also is kind of a celebration of the quality of the menu that we have that delivered against the expectation of customers. I think, yes, this is an opportunity for us to continue to find ways to excite our customers and drive traffic. I think this is an example where others will want to partner with us to do that. We're always open-minded to drive growth, drive traffic, and excitement leveraging our menu. I think this is an example of what we can do and what good partners we can be to drive growth.

Operator

Our next question comes from Lauren Silberman of Deutsche Bank.

Lauren Silberman

Thank you very much. One more developed follow-up on the recent trends, clearly the acceleration that you've seen. As the launch comes to an end, would you expect trends to normalize at a sustainably higher level than what we've seen in recent quarters? And then can you just talk about the performance that you're seeing across the low, middle, and high-income cohorts? Thank you.

Gunther Plosch

Good morning, Lauren. Yes, so October, as we said, in the prepared remarks, we really significantly accelerated growth versus the third quarter. As you do the math on our guidance, it implies that obviously we are sequentially stepping up our performance in the fourth quarter. So that obviously was a great start to the year. We have, as we said, a lot of additional really impactful programming out there for the rest of the quarter with the salted caramel frosty, the mushroom bacon cheeseburger that our consumers really love. And we're putting mainstream national media against the spicy chicken sandwich. And clearly our \$1 promotion on any size drinks is continue to run through the quarter. So, we're very confident with that outlook, and we think it's a pragmatic guidance, and we were very confident to achieve the step-up in performance in the fourth quarter versus our year-to-date performance. As far as income cohorts is concerned, as you know, a research agency is splitting income cohorts in households that earn less than \$75,000 and those that are maintaining more than \$75,000. Overall, we are, as we overall, maintaining share in the category, dollar and traffic share, the same thing happens in those income cohorts. We're maintaining traffic and dollar share with both the lower and the higher income cohorts.

Operator

Our next question comes from Brian Harbour of Morgan Stanley.

Brian Harbour

Thanks. Good morning, guys. Sort of a random one, the voice AI and drive-thru, are you in fact seeing kind of like labor hour savings? I guess like if you could quantify that or sort of tell us more about what you're seeing and what's like the accuracy rate on that or what do you usually look for?

You've obviously sort of expanded it, so you must be seeing things you like, but could you tell us more about that?

Kirk Tanner

Yes. Look, we're still developing this. We like what we see. If you think about the efficiency that we're driving through the drive-thru, that's the key component of that. That has a direct correlation to the efficiency in which we can drive in the drive-thru, which if you think about the transactions that go through a Wendy's today and 70% of those transactions going through the drive-thru, this is kind of the first place you want to get right. I tell you; we're delighted with how this continuously gets better. We're seeing improvements in accuracy, efficiency, and it gives us the confidence that we're going to see some efficiencies in the overall labor model in the restaurant. So we'll leverage the restaurant, the employees in the restaurant to deliver against a more efficient execution, and that is enabled by AI. Look, this is one of those things you go slow to go fast. Right now, we're in this continuous improvement, learning, getting our accuracy to a place where we like, and then you'll see us deployed across the system.

Operator

Our next question comes from Jon Tower of Citi.

Jon Tower

Great. Thanks for taking the question. Maybe specifically in the quarter, I'm just curious, starting, how did your Biggie Bag platform perform during the third quarter knowing that one of your larger competitors decided to do a value meal deal throughout the period? And then more broadly speaking, similar competitors talking about relaunching a new everyday value platform likely in early 2025. So can you speak to how your brand has performed in the past when large competitors kind of revamp their value message and frankly how you might plan to respond this go around?

Gunther Plosch

Good morning, Jon. Biggie Bag, yes, is a national recognized platform. It's resonating really very well with consumers. So as our competitor launched their meal deal, we obviously supported ours. The mix year-over-year was up a percent or so. So it did well for us and helped us perform well and maintain share on a dollar and traffic basis in the third quarter. As we are thinking about value, right, we absolutely believe that value in an environment of value-seeking consumers is not about only executing price-pointed promotions and value deals and value bundles. There's more to that. For us, we believe, to be competitive. We need to continue to innovate. We have demonstrated this in the third quarter. You see the innovation lineup in the fourth quarter. We're going to continue to do this to delight the value-seeking consumer.

Top of it, as Kirk already said, we are not letting go on the core menu. The core menu needs to delight also in the value environment. Again, we are executing accordingly to that in the fourth quarter. And let's don't forget operations, right. We are laser-focused for the restaurant to be the star and really have a customer-centric mindset. We are working really hard on having that value-seeking consumer having an outstanding experience at the restaurant. So this whole package of great value, great core menu. We are innovating, and then we are really executing well when it matters. When we're meeting the consumer, this is how we can think, we can be very successful in the value environment.

Operator

Our next question comes from Jim Salera of Stephens.

Jim Salera

Hey guys, good morning. Thanks for taking our questions. In your prepared remarks, you mentioned the October accelerating and obviously the implied acceleration 4Q in the guidance. Can you just maybe offer some more color around what components of the menu are driving that acceleration? I know I've seen a lot of Saucy Nuggs advertisements during football games this season. Maybe some color on how that's contributing. And then just any thoughts on bridging kind of the back half of the quarter, assuming that you see the Krabby Patty benefits start to roll off.

Kirk Tanner

In quarter four what I like to see about the momentum is the balance across our menu. We've seen our large sandwich perform very well. Our innovation with Saucy Nuggs has done very well. And our value platform, as GP just talked about, it's that balanced approach across our menu that gives us a confidence that the momentum will continue. But that's kind of, if you take a look at it, it's not one of those areas, it's a combination of the three. The core menu, Krabby Patty's been a nice shot in the arm, but it's built off of a terrific core menu that is delivering the growth. We'll continue to do that. And again, we won't iterate -- you can't iterate enough the excitement in innovation drives, you'll see us continue to drive innovation, as we've talked about. You'll see a salted caramel frosty come out this timely for the season. You'll see us deliver again a great quality hamburger in our mushroom bacon cheeseburger. I mean those are the kind of things you can expect from us. Continuous innovation, focused on our core and delivering the best value in the marketplace.

Operator

Our next question comes from Sara Senatore of Bank of America.

Sara Senatore

Thank you very much. I'd like to go back to the store closures just in the sense of are there any kind of themes around the types of markets that they're in geographically. The reason I ask is it feels like a lot of restaurants that are accelerating unit growth are kind of shying away from the Rust Belt or the Northeast and really targeting the Sun Belt and faster growing cities and MSAs. I'm trying to figure out if there's room for everybody and also what this means in terms of net growth. Are this just sort of population shifts and as you follow them, we should think about it from that perspective or is there really kind of room to densify further or to grow beyond just the sort of moves in the economy or the population that we've seen over time in the U.S.

Kirk Tanner

Yes. Let me answer that. Thanks for the question, Sara. Look, if you look across the entire U.S., these are really spread out. It's not one geography in particular. When you think about strengthening our system, you look at a brand that's 55 years old and some of those restaurants are quite out just out of date and that's really kind of the punch line on that one. It's not one particular area. It's across the board. It's not that many in the scheme of things. It is really about strengthening our system. When I look at our potential, though, I look at we still have runway in the U.S. to have another additional couple thousand restaurants that would allow us to kind of hit our potential. And then internationally, of course, there's a great deal of potential to reach the penetration that we aspire to. So if you think about the strategy was to strengthen our system to get high performing restaurants moving.

Our focus is on building new restaurants because we know they deliver well over the average of these poor performing restaurants. So poor performing restaurants, about \$1 million. These new restaurants that we're building do \$2 million AUVs. That's kind of the mentality that we've taken in this approach, and then we overall want the best restaurant for the customers and that customer experience we want to deliver. So that's kind of how we have structured this strategy.

Operator

Our next question comes from Andrew Charles of TD Cowen.

Andrew Charles

Great, thank you. I wanted to reconcile the breakfast performance of [inaudible] with the comps over all around flat. So can you talk about the incrementality of breakfast sales and what you're seeing there versus incrementality in recent years?

Kirk Tanner

Yes, it's highly incremental from a daypart standpoint. It also leverages the labor model in the restaurant and leverages the restaurant itself. So you think it's highly incremental to anything else that we would do. And again, we see the mid-single digit growth that's ahead of our growth. It's ahead of the category. So you think about gaining momentum on competition and building out this daypart, it gives you the confidence to stick with it. And that's exactly where we're at. We'll continue to build this daypart. It's an important part of our strategy. It's important for our franchisees as well. So that's kind of how we're looking at the breakfast daypart, but it is, to answer your question, incredibly incremental to the rest of our business.

Operator

Our next question comes from Gregory Francfort of Guggenheim.

Gregory Francfort

Hey, thanks for the question. I just had a kind of cost question, GP. Can you maybe just frame up what you're seeing from the commodity side and the labor side on an inflation basis and how you expect that to play out kind of in the near to medium term? Thanks.

Gunther Plosch

Good morning, Greg. A couple of things. So, on the commodity front, a little bit more inflationary. Last time I told you we would be flat. We have got a little bit more inflation on beef. So, we see about a 1% commodity inflation for the year. It's obviously contemplated in the restaurant margin guidance we issued. Labor rate is stable. We told you 3% to 5% last quarter and continued tracking that way. So, we have full visibility now. Price is locked down for the year. So, I don't expect any other movements in that area. We're obviously turning our focus now to lock down and get visibility for commodities for 2025.

Operator

Our next question comes from Jake Bartlett of Truist Securities.

Jake Bartlett

Great. Thank you very much. Kirk, my question was about your comments on operational improvements. You talked about doubling down, and I'm wondering how large an opportunity, improving operations is, whether you rank that as one of your kind of largest sales driving potentials in the near, in the longer term into '25. How would you frame that opportunity as a sales driver?

Kirk Tanner

Yes, good, very good question, something close to my heart. When you think about our overall strategy and our promise of putting the customer first, making every restaurant the star, operating one best way, and owning it, those kinds of behaviors that we want. And if you think about what we're doing with our marketing, our innovation, our menu to deliver top line growth, our digital acceleration, all those things are underpinned by operational excellence. That's kind of how I think about it. I think that operational excellence is what delivers against your strategy, right. And that's how important it is to us. We are very focused on it. We want to deliver that amazing experience for our customer every single time. That's why we're overt about the Wendy's promise. So that's kind of the essence of how we're putting focus on that. We've organized ourselves to do that. We've recently had our convention with our franchisees. We focused our energy on this operational excellence. I think this is what all great companies do. They operate with excellence and deliver a great experience for their customers. And that's kind of the essence of what we're talking about.

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Our next question comes from Peter Saleh of BTIG.

Peter Saleh

Yes, thanks for taking the question. I wanted to ask about the dollar, any size soft drink promotion that you guys are running. That's been a proven strategy. I think we've seen many of your competitors run this in the past, and it's definitely worked. So can you just talk about the early success that you're seeing there, and is this a promotion that's limited to the fourth quarter, or will this carry into 2025? Thank you.

Kirk Tanner

Yes, thank you. Beverage is the main focus, like I mentioned before. We have this terrific partnership with Coca-Cola. We have the freestyle machine, which we love. It has the ability to deliver over 100 different beverages. What I like about it is it definitely delivers the portfolio that Coca-Cola has, and it delivers it in both full sugar and zero sugar, giving customers real choice. That's an advantage at Wendy's. And we wanted to celebrate that and remind people of that. That's when the \$1 promotion definitely is effective. We see that in quarter four. Well, we won't talk about '25 moving forward. But that's kind of the intention about, one, celebrating we have beverages. Beverage is a real profit opportunity for us in the future. We have a platform and freestyle that allows us to deliver choice for customers. And you'll see us settle down on that. So we've got some momentum on beverages right now. We expect that will continue.

Operator

Our next question comes from Christine Cho of Goldman Sachs.

Christine Cho

Great. Thank you for taking the question. So we saw some announcements on executive leadership changes in major hires, including the Chief Legal Officer and senior VP of US operations. And I'm perhaps looking forward to meeting some of them at your Analyst Day in March. But Kirk, do you feel you have all the right people in place now to kind of drive accountability and accelerate growth globally? And what are some of your key priorities in our organization perspective? Thank you.

Kirk Tanner

Yes, thanks for the question. Yes, we've made some changes that we are very excited about here at Wendy's. I think that I want you to take away that one, we have a high level of talent that is focused. And when I say focused, we've structured ourselves to drive our US business from a development and execution standpoint. We structured our international business to accelerate our international development and operations. So we are organizing ourselves and supporting that organization with great talent. And that I'm very confident will drive future growth for us. And that is, I think, a very deliberate strategy that we've engaged in.

Operator

Our next question comes from Alex Slagle of Jefferies.

Alex Slagle

Thanks. Just going back to the success you're seeing with the SpongeBob collaboration and what seems like a really big jump in recent weeks. I just wanted to kind of see if you could elaborate on what you're doing differently, just to drive engagement, whether there's something on the digital or social or any specific changes on that front that are working and you can carry on future promotions and innovations.

Kirk Tanner

Yes, this is another example of when a lot of things are working at the same time. One, you build off a great menu. It's a great collaboration. The networks have been working, right. So our social game on this has been very impactful. Our digital business growing through both our loyalty program and delivery has been elevated. So it's kind of ticking a lot of boxes. You got something that's exciting that our customers and our fans are interested in. And then you deliver the execution against it with the best menu in the business coupled with a great advertising, great digital platform, and great social media. It's really all come together on this one.

Operator

Our next question comes from Jim Sanderson of Northcoast Research.

Jim Sanderson

Hey, thanks for the question. And just following up on the discussion of promotional support, given the success of the Krabby Patty promotion, do you plan to add more partnerships or potentially celebrity endorsements, something that would actually promote the product innovation you've described that you're launching later this quarter?

Kirk Tanner

Yes, well, the success definitely gives us the encouragement to do more things of this nature. I think it also shows that Wendy's can be a great partner in this regard, I think that's important that both partnership or both parties in the partnership win. And I think in this case, that is true. Of course, we look at every opportunity to elevate what is the best menu at Wendy's. We think that the future is bright when it comes to these opportunities. We'll certainly look for those opportunities that make sense for us and that only builds the brand to new places and that's kind of how we think about this in the future.

Operator

Our final question for today comes from Logan Reich of RBC.

Logan Reich

Hey good morning. Thanks for taking the question. I just wanted to ask the follow-up just about the improving trends through the quarter and into October relative to income cohorts. Are you guys seeing improvement in the lower income cohort as well as the middle and higher income cohorts or is there any sort of divergence between those brackets within the quarter and into October?

Gunther Plosch

Good morning, Logan. Yes, as I said previously one of my answers from a market share point of view in quarter three. We maintain share with the lower end to higher income cohorts October numbers. This sounds like a cop-out answer the data is not available so I really can't answer your question.

Aaron Broholm

That was our last question of the call thank you Kirk and GP. And thank you everyone for joining us this morning. We look forward to speaking with you again on our fourth quarter call in February. Have a great day.

Operator

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

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