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The Wendy's Company (WEN) Q3 2025 Earnings Call Transcript

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Q3: 2025-11-07 Earnings Summary

Insights



EPS of \$0.24 **beats by \$0.04** | Revenue of \$549.52M (-3.04% Y/Y) **beats by \$15.01M**

The Wendy's Company ([WEN](#)) Q3 2025 Earnings Call November 7, 2025 8:30 AM EST

Company Participants

Aaron Broholm - Head of Investor Relations

Ken Cook - CFO & Interim CEO

Suzanne Thuerk - Chief Accounting Officer

Conference Call Participants

David Palmer - Evercore ISI Institutional Equities, Research Division
Jeffrey Bernstein - Barclays Bank PLC, Research Division
Brian Mullan - Piper Sandler & Co., Research Division
Rahul Krotthapalli - JPMorgan Chase & Co, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division
Margaret-May Binshtok - Wolfe Research, LLC
Danilo Gargiulo - Sanford C. Bernstein & Co., LLC., Research Division
Jake Bartlett - Truist Securities, Inc., Research Division
Eric Gonzalez - KeyBanc Capital Markets Inc., Research Division
Isiah Austin - BofA Securities, Research Division
Brian Bittner - Oppenheimer & Co. Inc., Research Division
James Salera - Stephens Inc., Research Division
Andrew Strelzik - BMO Capital Markets Equity Research
Gregory Francfort - Guggenheim Securities, LLC, Research Division
Andrew Charles - TD Cowen, Research Division

Presentation

Operator

Good morning. Welcome to the Wendy's Company earnings results conference call [Operator Instructions] Thank you. You may begin your conference.

Aaron Broholm

Head of Investor Relations

Good morning, and thank you for joining our fiscal 2025 third quarter earnings conference call. After this brief introduction, Ken Cook, Interim Chief Executive Officer and Chief Financial Officer, will provide a business update; and then Suzie Thuerk, Chief Accounting Officer and Global Head of FP&A, will review our third quarter results, share capital allocation priorities and our updated 2025 outlook. 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 Ken.

Ken Cook

CFO & Interim CEO

Thanks, Aaron. Good morning, everyone, and thank you for joining us today. Before I begin, I want to thank our employees and franchisees for the passion they bring to the Wendy's brand and their continued commitment to unlocking its full potential. This morning, I'll provide an update on Project Fresh, which we announced in October and then review our third quarter results, which were broadly in line with our expectations.

Across the globe, Wendy's continues to resonate well with our customers as we execute our globally great, locally even better approach. Our international business once again delivered strong system-wide sales growth, supported by an increase in same-restaurant sales and new restaurant openings. Momentum continues to build across our markets, and we expect international net unit growth of over 9% in 2025.

I am pleased by the strong performance as we continue to prioritize accelerating international expansion. In our U.S. business, sales remain under pressure, and we are acting with urgency to return U.S. comp sales to growth. We are making meaningful progress on key actions to enhance the customer experience, and we are seeing this pay off in our U.S. company-operated restaurants, which significantly outperformed the overall system in the third quarter.

On our last earnings call, I outlined 3 key initiatives: knowing our customers better, simplifying our programming and execution and working more closely with our franchisees as One Wendy's. In addition to these initiatives, we made the strategic decision to prioritize growing average unit volumes over net unit growth in our U.S. business. As part of this strategic shift, we launched Project Fresh, a comprehensive turnaround plan to drive profitable growth and long-term value across our U.S. system.

Project Fresh is structured around 4 strategic pillars: brand revitalization, operational excellence, system optimization and capital allocation, designed to attract new customers to Wendy's through more compelling marketing and to increase guest frequency by providing an exceptional customer experience, which increases AUVs, improves restaurant profitability and creates value for franchisees, the company and shareholders.

We began discussing these initiatives with our franchisees earlier this fall, and we have received overwhelmingly positive feedback, a great reflection of the confidence in the Wendy's brand and our One Wendy's approach. Let me take a few minutes to highlight some of the specific actions underway. The first pillar of Project Fresh is revitalizing the Wendy's brand. This is about positioning Wendy's as the freshest and highest quality choice in QSR by celebrating what makes us stand out from the competition.

This includes using the highest quality ingredients like our 100% fresh, never frozen beef, our Applewood smoked bacon and our new barrel breaded chicken tenders. It's about telling our quality story with a greater focus and relevance for today's consumer. To accomplish this, we're combining our internal expertise with an industry-leading consulting firm, utilizing a proven data-driven process to strengthen our brand positioning and enhance marketing effectiveness. This starts by listening to our customers.

In October, we launched a needs-based customer segmentation study that is well underway. The feedback we gather from customers will clarify which attributes drive their purchasing decisions and help us refine how we deliver and communicate value across every touch point. At the same time, we are expanding the use of advanced data analytics to deepen our understanding of customer behavior.

We now have visibility to how consumers behave both inside the Wendy's system and with the competition, which will enable us to focus our media efforts on high-value audiences and allow us to adapt quickly to shifts in consumer behavior. The next 2 pillars, operational excellence and system optimization are both focused on elevating the customer experience.

Operational excellence starts with putting our customers first. Our investments in people, training and hospitality are driving measurable results with U.S. company-operated restaurants outperforming the system by 400 basis points in same-restaurant sales during the third quarter. We're proud of this progress and are scaling these initiatives across the system to generate higher AUVs and deliver an even better customer experience.

For example, we've enhanced our training programs, including additional training for all customer-facing employees to improve hospitality and deliver exceptional customer experiences. This has supported higher customer satisfaction scores this year, particularly in accuracy and friendliness, 2 key factors that keep guests coming back. These efforts have also helped lower employee turnover in the company restaurants, building a solid foundation for consistent, high-quality service.

We've made progress with our digital and delivery business with key measures like conversion, satisfaction and App Store ratings all increasing in 2025, with corresponding declines in cancellation rates, missing items and refunds. These improvements are the direct result of enhancements we've made to the customer experience from the welcome journey in our app to using geolocation data to help with pickup location accuracy to DoorDash delivery skills to improve order accuracy.

We still have work to do and are testing additional changes to create an even better experience for our digital customers, an important segment of our business with significant opportunity for further growth. And we're leveraging technology, including digital menu boards and Fresh AI to deliver more consistent, high-quality drive-thru interactions. It's improving upselling and productivity. And while still early, the results are promising for both our teams and customers.

The third pillar of Project Fresh is system optimization, which is about having the right restaurant footprint in each market to maximize profitability for our franchisees and deliver exceptional food and experiences for our customers. This is a significant strategic shift that we believe will drive stronger growth over time. Let me share some details on the process.

We are working with our U.S. franchisees to evaluate each and every underperforming restaurant in our system from both a financial and a customer experience perspective and developing action plans for how to improve both. For some locations, it's about making operational changes or deploying technology. For others, we're improving productivity by aligning operating hours to better match demand, particularly in the morning and late-night dayparts.

In other cases, the solution will be to close consistently underperforming restaurants. These actions will strengthen the system and enable franchisees to invest more capital and resources in their remaining restaurants. Investments include new kitchen equipment to ensure the highest quality, best-tasting food and technology upgrades such as digital menu boards to enhance productivity and give our teams more time to focus on hospitality. Consistent with what we've seen in our company-operated restaurants, we expect these actions to elevate the customer experience, increase AUVs and improve restaurant economics.

Also, closures of underperforming units are expected to boost sales and profitability at nearby locations. We're partnering closely with franchisees guided by a clear set of criteria to ensure a thorough review process. Together, we'll complete this assessment over the next several months with some closures expected to begin later this year and continue into 2026. We believe these actions focused on revitalizing our brand and elevating the customer experience will drive sustainable growth powered by the Wendy's core differentiators, high-quality food with fresh ingredients and authentic customer connections.

And we are aligning our capital deployment, our fourth pillar, with these strategic priorities. In the U.S., capital will be directed towards initiatives that drive profitable AUV growth rather than net unit growth. Reflecting this focus, we've reduced our 2025 U.S. build-to-suit capital by approximately \$20 million from the outlook we shared at the beginning of the year, and we expect to continue this approach in 2026.

Internationally, expansion remains a top priority, and we'll continue leveraging build-to-suit investments to drive net unit growth in key markets, including Canada and the U.K. Turning to our third quarter results. Although we are not satisfied with our U.S. sales, overall performance was in line with the expectations we shared last quarter. Global system-wide sales declined 2.6%, driven by a 4.7% decline in U.S. same-restaurant sales, reflecting heightened industry competition and consumer pressure.

As we shared on our last call, during the third quarter, we reduced programming complexity to focus on the most important initiatives. This included our Wednesday collaboration with Netflix, launching new beverages and providing relevant value to customers with our 2 junior bacon cheeseburger meal for \$8. This offer includes 2 of our iconic and customer favorite JBCs with fresh, never frozen beef, 4 pieces of Applewood smoked bacon, hot and crispy fries and a drink.

I'm pleased with our more focused and disciplined execution in the quarter. In September, we continued this focused approach by preparing our restaurant teams to launch a new core menu offering, chicken tenders along with 6 new sauces. Wendy's Tendys debuted at the beginning of the fourth quarter, and as expected, customers love them. Demand was so strong that some restaurants sold out even before the national media support, which fully launches next week.

We're looking forward to continuing that momentum, and this is an encouraging first step as we look to reestablish our leadership position in chicken. This successful launch highlights the progress we've made in simplifying programming and strengthening execution across our system. It also reinforces the exceptional quality of our products and the improved operational execution across our system, supported by enhanced training and sufficient preparation time for our restaurant teams.

It's a clear example of what Wendy's can achieve when we're focused and aligned as one Wendy's. Turning to our international business. System-wide sales grew 8.6% in the third quarter with growth across all regions. We also celebrated several milestones, including the opening of our first restaurant in Ireland and our second restaurant in Australia, which delivered the highest opening day sales in our history.

This year in Canada, we remain on track to deliver our highest number of openings in the past decade. We also continue to strengthen our long-term development pipeline, having signed new agreements for more than 320 international restaurants year-to-date, including a recent agreement to open 50 restaurants in Central Mexico. Mexico remains our strategic growth hub for Latin America, where our investments in local resources, supply chain and marketing are laying the groundwork for sustained expansion across the region.

International remains a growth engine, delivering 100 new restaurant openings and 77 net new units through the third quarter. Globally, we've opened 172 new restaurants through the third quarter and added 123 net units, reinforcing the growing strength of our global footprint. Wrapping up our third quarter results, adjusted EBITDA rose 2.1% to \$138 million, and adjusted EPS was \$0.24 per share versus \$0.25 per share last year.

We returned more than \$40 million to shareholders in the quarter through dividends and share repurchases and over \$300 million year-to-date, keeping us on pace to exceed \$325 million for the full year, up more than \$40 million from a year ago.

Now turning to our outlook. We are maintaining our outlook for full year global system-wide sales, adjusted EBITDA and adjusted EPS. Additionally, we are increasing our outlook for free cash flow by \$35 million to \$195 million to \$210 million, reflecting a reduction in capital expenditures and build-to-suit investments, along with tax benefits related to the 2025 Tax and Reconciliation Act.

Our strong free cash flow underpins our ability to fund investments in the business and the company remains committed to our dividend and returning capital to shareholders. Finally, we are also maintaining our outlook for net unit development growth of between 2% and 3%.

International development in 2025 is tracking in line with our prior expectation for net unit growth of over 9%. In the U.S., while we expect around 100 new restaurant openings for the year, we anticipate that our system optimization initiative could result in our global net unit growth coming in around the low end of the range. Before I close, I will turn it over to Suzie to provide more details on our third quarter results.

Suzanne Thuerk

Chief Accounting Officer

Thank you, Ken, and good morning, everyone. I'll start with our third quarter results, including an update on capital allocation before closing with more detail around our outlook for the remainder of 2025. In the third quarter, global system-wide sales decreased 2.6% on a constant currency basis, primarily driven by a decline in U.S. same-restaurant sales of 4.7%. This was partially offset by continued strength in our international business with 8.6% system-wide sales growth.

The decline in U.S. same-restaurant sales was driven by a decrease in traffic, partially offset by a higher average check. Same-restaurant sales at our U.S. company-operated restaurants outperformed the U.S. system by 400 basis points, declining 0.7%. The stronger performance in company-operated restaurants was driven by our actions focused on operational excellence as well as stronger delivery growth and the implementation of our digital menu boards and Fresh AI automated ordering technology.

As we execute on our U.S. turnaround initiatives under Project Fresh, we're planning to scale these actions across the broader system to elevate the customer experience and drive profitable AUV growth. We're also making progress scaling our U.S. digital business with sales up 14.9% compared to the prior year, bringing U.S. digital mix to an all-time high of 20.3%.

Shifting to our International segment. In the third quarter, the Wendy's brand continued its strong momentum around the world, delivering system-wide sales growth of 8.6% and 3% same-restaurant sales. System-wide sales grew across all regions with some of the fastest-growing markets, including Mexico with over 18% growth and Puerto Rico with over 10% growth. Our Canadian business also continued to deliver solid results with over 7% system-wide sales growth in the third quarter and has gained traffic share in the QSR burger category for 17 consecutive quarters.

These results demonstrate the strength of our global brand, enabled by the investments we are making in regional capabilities. Moving to the P&L. Total adjusted revenue was \$442.5 million, a decrease of \$1.1 million compared to the prior year, driven by both lower franchise royalty revenue and franchise rental income, partially offset by an increase in franchise fees.

Global company-operated restaurant margin was 12.4% for the third quarter and U.S. company-operated restaurant margin was 13.1%, a contraction of 250 basis points year-over-year. The decline in U.S. company-operated restaurant margin was primarily due to cost inflation with continued pressure on both beef and labor costs as well as a decline in traffic. These were partially offset by an increase in average check size and labor productivity, which was driven by lower turnover and improved training, reflecting the benefits of our operational improvement initiatives.

Adjusted EBITDA was \$138 million, which was up 2.1% versus the prior year, primarily driven by decreases in the company's funding of incremental advertising spend and G&A expenses of \$6.4 million and \$4.9 million, respectively. These items were partially offset by the decline in U.S. same-restaurant sales. Adjusted earnings per share was \$0.24, \$0.01 below prior year.

And turning to free cash flow, which continues to be a hallmark of the Wendy's brand. We've converted more than 100% of net income, generating \$195.6 million of free cash flow through the first 3 quarters. This strength enables us to fund strategic investments while continuing to return capital to shareholders through share buybacks and dividends.

Moving on to capital allocation. Our first priority continues to be investing in the business. And as we've said with Project Fresh, that means prioritizing AUV growth in the U.S. and net unit development internationally. In the third quarter, we invested \$31.6 million across capital expenditures and our build-to-suit development program. Capital expenditures included \$15.1 million in technology initiatives like our digital menu boards. We also invested \$12.7 million in restaurant development across company-operated new builds and investments in our build-to-suit program.

Our second capital allocation priority is paying an attractive dividend. And today, we announced our fourth quarter dividend payment of \$0.14 per share. Our third priority is maintaining a strong balance sheet. We ended the third quarter with \$326 million of cash on the balance sheet and a net leverage ratio of 4.5x, which is in line with prior quarter.

Year-to-date, we have paid down \$21.9 million of our whole business securitization debt principal. Our capital allocation policy gives us the flexibility to be opportunistic with our share repurchases. And during the third quarter, we repurchased \$1.4 million shares for approximately \$14 million. And year-to-date, we have repurchased \$14.4 million shares for approximately \$200 million, completing our planned share repurchases for this year.

Through the first 3 quarters of the year, we have returned over \$300 million of cash to our shareholders through dividends and share repurchases. We remain on track to return over \$325 million in 2025, an increase of more than \$40 million compared to the prior year.

Now let's turn to our financial outlook. We are reaffirming our full year outlook for system-wide sales, adjusted EBITDA, adjusted EPS and net unit growth, and we are increasing our outlook for free cash flow. Our outlook assumes the dynamic consumer behavior and challenging competitive environment persists throughout the remainder of the year.

For the full year 2025, we continue to expect global system-wide sales to range from down 3% to 5%. Our outlook assumes that system-wide and same-restaurant sales in the fourth quarter will be lower year-over-year than the third quarter, primarily driven by a decline in U.S. SRS given the tough prior year comparison.

We continue to expect U.S. company-operated restaurant margin of 14%, plus or minus 50 basis points. This includes an updated commodity inflation outlook for the year of approximately 5%, primarily reflecting continued inflation in beef prices. We continue to expect labor inflation for the full year of approximately 4%. We now expect G&A to be between \$250 million to \$260 million and represent approximately 1.8% of system-wide sales for the full year.

We are reaffirming our adjusted EBITDA outlook of \$505 million to \$525 million. We continue to expect approximately \$130 million of interest expense. As a reminder, we plan to issue \$400 million of whole business securitization notes in the fourth quarter. The proceeds will be used to pay \$50 million of debt, which mature in December of 2025 and refinance \$350 million of whole business securitization notes, which mature in September of 2026.

Taking all of these items into account, we are maintaining our outlook for adjusted EPS of \$0.82 to \$0.89 per share. We now expect capital expenditures and build-to-suit investments to total between \$135 million to \$145 million, reflecting a decline of \$30 million at the midpoint of the range from our previous outlook. This is primarily driven by a reduction in U.S. investments in the build-to-suit program as we prioritize AUV growth.

We are increasing our expectation for free cash flow to be between \$195 million to \$210 million, an increase of \$35 million at the midpoint of the range compared to our prior outlook. This increase is driven by the reduction in capital expenditures and build-to-suit investments, along with cash tax benefits related to the 2025 Tax and Reconciliation Act. Finally, we continue to expect net unit growth between 2% to 3%, primarily driven by the momentum we're building internationally.

Our system optimization initiative in the U.S. could result in net unit growth coming in around the low end of this range. In closing, we are focused on a disciplined financial approach to advance the strategic initiatives of Project Fresh. As One Wendy's, we are taking decisive actions to strengthen our financial foundation, and I'm confident this will better position our business for long-term growth. And with that, I'll now turn it back to Ken.

Ken Cook*CFO & Interim CEO*

I am pleased with the continued strong performance internationally and the progress we are making in the U.S. Our actions are focused on long-term success, and we are confident that our strategic shift toward AUV growth will strengthen the overall system. Project Fresh is underway. And together as One Wendy's, we are executing initiatives with urgency to revitalize the Wendy's brand and enhance the customer experience.

While these changes will take time to deliver their full impact, we believe that the actions we are taking today will build momentum and deliver sustainable long-term growth, creating value for all key stakeholders. I'll now hand it over to Aaron to share our upcoming Investor Relations calendar.

Aaron Broholm*Head of Investor Relations*

Thank you, Ken. On November 20, we will participate in the Stephens Investment Conference in Nashville. On December 4, we will be in New York City for the Barclays Eat, Sleep and Play Conference. And then on December 11, we will participate in the Virtual KeyBanc Capital Markets Consumer 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**

[Operator Instructions] Our first question for today comes from David Palmer of Evercore ISI.

David Palmer*Evercore ISI Institutional Equities, Research Division*

I wanted to ask you about franchisee cash flow and balance sheet levels today and what you're hearing from the franchisees? And importantly, what quick wins do you think you have within Project Fresh? What elements might be there to help franchisee cash flow, either from sales drivers or other operational changes that you're contemplating?

Ken Cook*CFO & Interim CEO*

Thanks, David. Great question. In terms of franchisee financial health, overall, the U.S. franchisee system remains healthy, although there are pockets of more acute financial pressure. We're working with those franchisees on a case-by-case basis to figure out the best path forward.

System optimization, which is one pillar of Project Fresh, is an important tool in the toolkit that we have, and we're focused on improving restaurant-level economics, taking a hard look at underperforming restaurants in our system from both the financial and customer experience perspective and working with franchisees to improve those, transfer those to another operator or potentially closing them, which will help unlock capital for franchisees to further reinvest in the system.

In terms of quick wins, we're really focused on the long term. So over the past couple of months, we've taken a hard look at our U.S. business and identified the big moves that will create the most long-term value for shareholders. And the result of that work is Project Fresh. At the core, it's about making our restaurant-level economics more compelling by increasing AUVs in the U.S. So how do we do that? It starts with revitalizing the brand.

Wendy's was built on having the highest quality food in QSR and using the freshest ingredients, and that hasn't changed. Revitalizing the brand is about retelling our quality story to today's consumer. It's about leveraging the things that are distinctly Wendy's to stand out from the competition, and it's about better understanding our customers and how to reach them more effectively. To help with this, we've engaged an industry-leading consultant, and we are pleased with the early progress.

The next 2 pillars are really about enhancing the customer experience. Operational excellence is about bringing the quality perception to life in our restaurants by ensuring that we serve our guests great food with a great experience every time they visit Wendy's. We're seeing the results of this pay off in company-operated restaurants, where we're outperforming the system by 400 basis points in terms of SRS in the quarter. And most of that outperformance is coming from traffic, where we've seen satisfaction scores increase, friendliness and accuracy scores increased.

So we'll be working on rolling that out throughout the system to help increase frequency there. And then system optimization really is about strengthening the brand, enhancing the customer experience and unlocking capital for our franchisees to reinvest in the system. The other thing I'd say is in terms of quick wins, we are very pleased with the launch of chicken tenders.

So as we talked to you about last quarter, we simplified the programming calendar for the back half of this year to focus on doing fewer things better. And so far, that's been a success. We're very pleased with the launch of chicken tenders. We think that, that is going to generate momentum as we move throughout the fourth quarter and provide an important pillar for us to build on in 2026.

Operator

Our next question comes from Jeffrey Bernstein of Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Great. Ken, just curious, as I think about the quick service landscape, it seems like Wendy's recent underperformance came about fast. Wondering what do you think were the primary factors leading to the widening underperformance relative to your largest QSR burger peers?

And if value is one of them, it really didn't get much attention on the call this morning relative to dominating most everyone else's call. So I'm just wondering whether you think peers are taking share on the value side of things. Do you think your \$5 and \$8 meals are enough to protect your value share in this aggressive environment?

Ken Cook

CFO & Interim CEO

Yes. Thanks for the question, Jeffrey. I would say the back half of the year is playing out as we expected on the last call. So part of this is focusing on building long-term sustainable growth instead of launching essentially buying traffic in the short term. We're pleased with the performance from a customer experience in the U.S.

Specific to your question about value, we do see more pressure on the lower-income consumer. We continue to see that in the third quarter, and we expect that to continue into the fourth. We believe we have a compelling value proposition on the menu. So our Biggie Bag, you get a junior bacon cheeseburger, 100% fresh, never frozen North American beef, a 4-piece nugget fries and a drink, all for \$5. That is really compelling.

We know that price is becoming an increasingly important component of the value equation, which is why we launched our \$8 meal deal, which included 2 junior bacon cheeseburgers, fries and a drink. We saw both of those perform well in the quarter. But using the new data analytics capability, we did take a look at the \$8 JBC meal specifically, and we were able to determine that it is doing a great job bringing back some of our customers more frequently.

It didn't do as good of a job as we wanted attracting new customers. So that tells me we have an opportunity to tell our value story in a different way by focusing on both price and the quality of the ingredients we get. And we'll look, we have strong equity in the Biggie Bag from a value perspective. We'll look at using that construct in new and interesting ways to help better resonate with consumers as we move forward in 2026.

Operator

Our next question comes from Brian Mullan of Piper Sandler.

Brian Mullan

Piper Sandler & Co., Research Division

Just a question on the system optimization initiative. Wondering if you could just put some numbers or some guardrails around how many closures you might expect next year in the U.S. even if it's just a range? And then related to that, is there anything worth considering as we think about potential impacts to your franchise rental income stream? Not sure if that's relevant here or not. So if you could just address that.

Ken Cook

CFO & Interim CEO

Yes. Thank you for the question, Brian. In terms of system optimization, based on the information we have today, I'd estimate around a mid-single-digit percentage of U.S. restaurants would end up closing. I think we'll work through a detailed and programmatic process with our franchisees to determine the best pace of that and make sure that we are making the best decisions for the long-term health of the overall system.

When we look at the system today, we have some restaurants that do not elevate the brand and are a drag from a financial -- from a franchisee financial performance perspective. The goal is to address and fix those restaurants. So in some cases, that's going to mean deploying operational improvements, deploying additional technology or equipment. In other cases, it will mean transferring those restaurants to a different operator who's better suited to be successful in that restaurant.

And in other cases, we ultimately will close that restaurant, which will put money back in franchisees' pockets and enable them to reinvest both capital and resources in their remaining restaurants. So we'll update you more on the next quarter call as we work through this process. I would expect those closures to start in the fourth quarter of this year, which could result in us coming in around the low end of our net unit guide for the year.

Operator

Our next question comes from Rahul Kro of JPMorgan.

Rahul Krotthapalli

JPMorgan Chase & Co, Research Division

I'm just curious on how we should calibrate around your comment on growing U.S. AUVs over development. Is this -- does this target translate to just positive AUV growth or like more than 1%? And just -- I wanted clarification around the gross or net U.S. development you're talking about.

And the follow-up is, can we get a time frame of how you think about the compression between the company and franchise store headline performance and maybe address a couple of areas in more detail where typically you might have less control over one, menu pricing architecture and then two, in-store operations?

Ken Cook

CFO & Interim CEO

Yes. Thank you for the question, Rahul. We're really talking about net unit development coming around the low end of our net unit development. Gross unit development is still on track. We will continue to build restaurants in the U.S. from a gross perspective. This is really about taking a long-term view, looking forward and asking ourselves, hey, 3 years from today, what decisions do we wish we would have made? And then having the courage to make them today, which is what we're doing.

We've worked closely with franchisees to make sure that they're aligned with this and they are. Response has been overwhelmingly positive there. It's about addressing the fundamentals and improving the fundamental restaurant level economics in the U.S. At the same time, by doing this, we will enhance the customer experience across the system, increasing the consistency of the customer experience, which is ultimately going to result in more demand, not less for both Wendy's hamburgers in our system and ultimately, more Wendy's restaurants as we do that.

The second part of your question in terms of operational excellence, we started investing in this in a big way earlier this year. So we focused on training. We focused on making sure we have the right people in the right seats and putting in place processes to make sure we're holding ourselves accountable for delivering for our customers day in and day out.

We've outperformed the franchise system for the last couple of quarters. Obviously, that differential has been growing, which has significantly increased interest from franchisees. So now this becomes a pull, not a push. They're interested. We're going to be rolling that out, and we think that will help in a big way in 2026.

Operator

Our next question comes from Dennis Geiger of UBS.

Dennis Geiger

UBS Investment Bank, Research Division

Just wanted to touch on -- can you -- you kind of just touched on it a bit there, but that outperformance of the U.S. company-owned in the quarter again, just kind of the franchisee feedback and sentiment on that. And in particular, I think you talked about scaling that. It sounds like it's a '26 type of benefit. Any more sense on the timing of the scaling of the actions and the activities to kind of get the franchise system more aligned with where the company stores are?

Ken Cook*CFO & Interim CEO*

Yes. Thank you for the question, Dennis. We are very pleased with the outperformance, and we think this is a very strong indication of the importance of enhancing the customer experience across the system, which is why that's one of the key pillars under Project Fresh.

In terms of the timing, so we are in the process. We are working with franchisees today to scale that. We do believe that we'll see benefits from that as we look into 2026. We'll get into more specifics in terms of the cadence and shape of 2026 on our next call, but I think this is a real area of opportunity for us.

And we combine that with our initiatives around revitalizing the brand, which ultimately helps bring more new customers into Wendy's restaurants, we think that creates a powerful long-term cycle that continues to elevate AUVs. I think we have room for significant AUV growth over the next few years, which will enhance franchisee level economics and then fuel the virtuous cycle.

Operator

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

Christopher O'Cull*Stifel, Nicolaus & Company, Incorporated, Research Division*

Ken, can you elaborate on the work you're doing with Creed UnCo? Specifically what new insights or analytic capabilities the company is seeking to implement from their work?

Ken Cook*CFO & Interim CEO*

Yes. So thank you for the question, Chris. It starts with listening to the customer. So in order to do that, we've launched a comprehensive customer segmentation study in conjunction with the Creed UnCo team. Thousands of surveys are being completed by our consumers to help us understand the attributes of Wendy's that resonate most with our consumers.

We're segmenting the consumers in several different ways to make sure we have the most relevant segmentations to drive growth and how to communicate those attributes over the long term. So that -- the first step is the customer segmentation study. Then we go into relevance, ease and distinctiveness and understanding how it fits into that framework. And the culmination is a brand essence.

So basically, how we want -- who we are and how we are going to tell that story to our consumers, which then serves as a filter for everything else we do from menu to marketing to social, and we think we have significant opportunity to improve effectiveness across all of those levels. One of the early learnings from this is just the importance of balancing sales overnight and brand over time.

I think when we take a look back at what we've been focused on in the U.S. over the past few years, we focused on sales overnight and not enough on brand over time. So we have some work to do to reestablish Wendy's as the leader in quality and freshness in the industry. And by doing that, we're confident that we're going to drive AUVs higher.

Operator

Our next question comes from Margaret-May Binshtok of Wolfe Research.

Margaret-May Binshtok

Wolfe Research, LLC

You guys have talked a little bit about beverage as another pillar of the focus of the innovation pipeline. Can you give some color on the recent work you guys have done to the beverage platform, what the reception has been? And if you've seen any improvement in breakfast performance sequentially in conjunction with some of these rollouts?

Ken Cook

CFO & Interim CEO

Yes, Margaret, thank you. So we did launch some pretty exciting beverage products in the third quarter. We launched our cold brew and cold foam offerings, and we also launched a sparkling energy lineup. Those launches performed in line with our overall expectations. We did not put media behind them to prioritize the Wednesday promotion and the value promotion around the \$8 JBC meal deal, but they do add some compelling reasons for folks to join us at breakfast.

Overall, breakfast in the quarter continued to underperform rest of day as it has across the industry, given the consumer -- the pressure that consumers are under. But we feel good about the beverage lineup that we offer our customers today and how it has enhanced the overall breakfast offering.

Operator

Our next question comes from Danilo Gargiulo of Bernstein.

Danilo Gargiulo

Sanford C. Bernstein & Co., LLC., Research Division

And it's very encouraging to hear that franchisee profitability is even more on top of your agenda. I'm wondering how you're thinking about breakfast because on the one hand, it expands AUV in absolute dollars, so it's part of your plan. But on the other hand, you're talking about doing fewer things better and breakfast is the daypart that arguably is most under pressure and historically, the one that might be delivering the lowest profit margin. So will you make it optional for franchisees? Are you working with them to assess it on a case-by-case basis? Or are you going to maintain the national mandate?

Ken Cook

CFO & Interim CEO

Great question, Danilo. So breakfast remains an important part of our overall strategy, and we're committed to providing nationwide breakfast in the Wendy's system. We have worked on a case-by-case basis with franchisees who have very low sales at the breakfast daypart. And this is for several reasons.

One example, as I first got out and started speaking with franchisees was, "Hey, Ken, I have a restaurant that's situated on the outer perimeter of a mall. That mall doesn't open until 10:30. I do almost no breakfast business, but I have to staff it and I have to be open at 6:00 a.m." This doesn't make sense.

If you let me have flexibility and open that restaurant later, I'd be able to redeploy this labor to other dayparts, enhance customer experience and ultimately make more money for the franchisee. So we took a look at that across the system, and we did allow certain restaurants to opt out of breakfast and adjust their operating hours. In many cases, they started serving lunch earlier, have seen some positive results there. Another thing that they did is when we look at hours optimization is, okay, if we're going to open a little bit later in the morning, then maybe we stay open a little bit later at night and have seen positive gains from that.

But breakfast remains an important part of the overall strategy for us in the U.S., and we remain committed to nationwide breakfast. But we will work with franchisees. And that's the other thing I'll say about franchisee profitability. As we focus on significantly enhancing franchisee profitability and putting more money in the franchisees' pockets, we believe that ultimately leads to a much stronger system, much stronger customer experience and ultimately drives demand for both our hamburgers and our restaurants.

Operator

Our next question comes from Jake Bartlett of Truist Securities.

Jake Bartlett

Truist Securities, Inc., Research Division

Zeroing in on the fourth quarter here. And I know there's a lot of moving pieces in October as you lap the Krabby Patty success, I think as some macro headwinds build that we've heard from others. If you can try to give us a sense of what you think your underlying momentum is at this point. Help us out in terms of -- you mentioned that the fourth quarter would be lower than the third, I think, probably considerably lower.

If there's a way you can help us just maybe some guardrails around what the fourth quarter U.S. comp should be. And then lastly, within all that, the [indiscernible] launch, I think you mentioned that you're going to start the national advertising next week. Is that the kind of the big push for the remainder of the quarter? Or are there any other sort of marketing initiatives or innovation that you expect to come down the pike?

Ken Cook

CFO & Interim CEO

Thanks, Jake. Great question. So we were happy with reaffirming our full year guidance today. Like we talked about on the last call, the second half of this year was about simplifying the programming calendar so we could focus our execution on a handful of things that were going to make the biggest difference. Instead of trying to throw too much at the fourth quarter, which may have resulted in some short-term sales gain at the expense of long term, we pushed a couple of product launches out of the second half of the year into 2026.

And so all that is playing out as we expected, which is why we reaffirmed our full year guidance today. That has a couple of benefits for us. So number one, significantly strengthens the marketing calendar in 2026. and then provides time now to start building up this tested cohort of ideas that we can then use to further enhance the calendar as we move throughout 2026.

So this was about focusing on a couple of things. The big thing is Tendys. So we launched that at the beginning of the fourth quarter. Customer feedback has been very, very strong. We're pleased with the way that, that promotion is going. We think it will provide momentum as we move through the fourth quarter and into 2026. And that also provides us some exciting ways how we can further innovate on that new core menu offering.

Operator

Our next question comes from Eric Gonzalez of KeyBanc Capital Markets.

Eric Gonzalez

KeyBanc Capital Markets Inc., Research Division

Related to an earlier question about closures, I think you said mid-single-digit percentage, which I believe is about 300 units. Do you still charge a closure fee to franchisees when they close their stores? And to the extent that you do, is that embedded in the EBITDA outlook this year? And maybe if you could touch on what the expectation related to those potential fees are next year?

Ken Cook

CFO & Interim CEO

Yes. So thank you for the question, Eric. I think historically, we have charged fees for restaurant closures. That is not the intent. So the intent is to make sure that we are strengthening the system for the long term. We are going to approach this on a case-by-case basis and work with our franchisees for what makes the most sense. So allowing a franchisee to close a restaurant or 2 in response for that, we're going to ask them to invest in their remaining restaurants.

That can be equipment upgrades, technology, digital menu boards. There's a whole range of prioritized investments that we would ask them to make. It can also include building new restaurants. We have really good operators in the system that may have a restaurant in the trade area that has moved, a highway exit has closed or changed.

And that restaurant is a financial drag on their portfolio, but they're a great operator, allowing them to close that restaurant and then open a new one the next year or the year after, that could also be on the table. But we are going to evaluate this on a case-by-case basis, working through this with each franchisee to make the best long-term decisions for the system.

Operator

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

Isiah Austin

BofA Securities, Research Division

This is Isiah Austin on for Sarah. Just a quick question about the 4.7% U.S. comps in the quarter. I think that was better than what was anticipated. Do you guys mind just speaking about maybe from like a concentration standpoint on what drove that, whether it was more effective marketing or the menu innovation? Or do you feel like hamburger QSR demand might have just been better than anticipated? Just curious for some color on that.

Suzanne Thuerk

Chief Accounting Officer

Yes. This is Suzie. Overall, our Q3 was in line with our expectations. As we stated on our prior call, July was down more than 5%. The balance of the quarter improvement was supported by a reduction, as Ken mentioned, in the program complexity, which allowed our restaurants to focus on the execution of Wednesday, which did perform in line with our expectations as well.

And then also, as we head out of the quarter in September, we allowed time for training and preparation for our chicken tenders launch, which coming into the fourth quarter provided strong results, and we are happy and pleased with those results, not only from an execution standpoint, but also how it's resonating with our consumer.

Operator

Our next question comes from Brian Bittner of Oppenheimer.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

You're talking about this strategic shift in capital allocation in the United States from unit growth towards initiatives that will drive AUV growth. And I'd just love for you to unpack this comment further. Like what can specifically be done with this redirected capital to improve same-store sales? Are we talking about doubling down on remodels, digital menu boards? If you could talk more about that? And does this capital -- is this franchisee capital? Or does this include capital that you'll be investing at the corporate level to support these franchisee investments?

Ken Cook

CFO & Interim CEO

Yes. So thank you for the question, Brian. So this is a strategic shift in the near term to focus on AUVs. Fundamentally, if we improve AUVs, we are going to significantly enhance the franchisee profitability, improve the overall restaurant level economics and drive better customer experience and more demand for Wendy's and Wendy's restaurants. So that's ultimately what we're after here and what we think we can achieve.

From a capital deployment perspective, we are shifting capital out of the build-to-suit program and towards initiatives that will support overall AUV growth throughout the system. A couple of things that we're focused on is technology and marketing. From a technology perspective, that can include anything that makes our -- makes life easier for our restaurant teams. One example of that, that we're working on now is improving the kitchen view system that we have in back of house, basically the screens that the sandwich makers use to build our orders.

We're investing in improvements there to make it easier for the sandwich makers to deliver an accurate customized burger every single time. That's one area. Another area is marketing effectiveness. So that includes the data analytics capability that we're investing in, which includes a lot of technology investment and also the outside consulting work that we've procured this year and the partnerships that we have there. So it's really taking a holistic view. We'll provide more updates about that when we give you the 2026 guide, but that's how we're looking at it.

Operator

Our next question comes from Jim Salera of Stephens.

James Salera

Stephens Inc., Research Division

Ken earlier, you had called out company-owned same-restaurant sales outperforming, I think it was by 400 basis points. I was curious if you could maybe just give us some color among the franchisee base, if there's any characteristics or geographic tilt or tenure or anything that you can talk about your outperforming restaurants within the franchisee base? And are there learnings that you can incorporate to kind of the broader store base as you think about that mid-single-digit U.S. restaurant closing?

Ken Cook

CFO & Interim CEO

Yes. Thank you for the question. So in terms of the outperformance, there wasn't -- the biggest correlation that we saw with the outperformance was really around the customer satisfaction scores that we saw in the U.S. company. Now we have a lot of franchisees in the system that run phenomenal restaurants as good or better than the company.

But we're really proud of the improvements that we've made by focusing on getting the right people in the right seats by enhancing our training and then holding ourselves accountable. 75% of that 400 basis point outperformance came from traffic growth. And so that gives us an important proof point of how important that customer experience is and the type of guest frequency that we can drive by focusing on accuracy and friendliness.

Operator

Our next question comes from Andrew Strelzik of BMO.

Andrew Strelzik*BMO Capital Markets Equity Research*

I had a question about how you're thinking about restaurant margins going forward. And implicitly, what that means for franchisee profitability and their willingness to invest. And so I think your U.S. company-operated margins were down about 250 basis points, even though the comps were down less than 1% and appreciating you want to get the comps at an even better level than that.

It doesn't seem like beef is going to be getting any better anytime soon. And so I guess I'm just curious how you're thinking about restaurant margins moving forward? Is there anything that you're doing from an ops perspective that you've already talked about that we should think about cushioning some of that margin compression potentially next year? Any color on that would be helpful.

Suzanne Thuerk*Chief Accounting Officer*

Yes. Andrew, this is Suzie. So from a margin perspective, let me just say, we did reiterate our outlook of 14% company-operated restaurant margin for the year, but we do continue to see pressures on beef. So beef drove our commodity outlook up from that 4% previously stated outlook up to 5%.

And we now have 96% of our commodity basket locked for the year. So we feel good about where we'll land this year. In terms of the future, you can expect to see us finish out the year with low single-digit pricing as we've seen throughout the remainder of the year. We know that, that lower income consumer continues to remain under pressure, and we'll be disciplined about our approach to pricing. I just want to point out, too, we have a diverse menu.

So while beef and our hamburgers play a huge role in our messaging, as you saw from the chicken tenders launch, we have a great chicken offering, and that's part of our brand story that we'll continue to tell here in the fourth quarter and into 2026 as tenders start to pick up momentum as part of our core offering. So it's about balancing our menu. But lastly, it's focused on that profitable AUV growth, and that's really at the heart of Project Fresh and the biggest lever to offset inflation and improve margins is focusing on that profitable AUV growth.

Ken Cook*CFO & Interim CEO*

Yes, that's right. And that's why that is the cornerstone of Project Fresh -- improving profitable AUVs in the U.S. So we are laser-focused on working with our franchisees to improve overall restaurant level margins. We believe the most effective way to do that in the long term is about revitalizing the brand, reestablishing Wendy's as the highest quality and freshest food in QSR, improving the effectiveness of our marketing, which those initiatives are well underway and then deploying operational excellence throughout the system.

Another area where that will help franchisee margin perspective is the system optimization. We have franchisees that are fantastic operators, and they may have 1 or 2 stores that are in bad areas that are dragging down their financial performance. So allowing them to close those will free up capital, improve their margins and allow them to invest in the remaining restaurant, which then enhances the customer experience and enables us to grow faster and increase those AUVs profitably.

Operator

Our next question comes from Gregory Francfort of Guggenheim Securities.

Gregory Francfort

Guggenheim Securities, LLC, Research Division

I wanted to just ask, I think you have almost 800 properties where you own either the land or the building on your books. Can you remind me how many of those stores you have the land for and whether or not you would consider monetizing some portion of that portfolio to reinvest in the business for this brand revitalization.

Ken Cook

CFO & Interim CEO

Yes. Thanks for the question, Gregory. So we have about 645 properties where we own the land. I think in total, we're in the lease chain on about 1,600 restaurants across the U.S. That is not going to be a disqualifier for looking at these restaurants to optimize. Just because we're on the lease chain does not mean that we wouldn't look to significantly improve performance in those restaurants, including potentially closing them.

And you're right, if we do close a restaurant that's on Wendy's property, then we would look to optimize and create value from that transaction, potentially selling the land under there, which creates more capital for us to reinvest in the system to accelerate the AUV and franchisee profitability flywheel. So that's something we're looking at as we work through with franchisees on a restaurant-by-restaurant basis, and we will provide additional updates on that on our fourth quarter call.

Operator

Our last question for today comes from Andrew Charles of TD Cowen.

Andrew Charles

TD Cowen, Research Division

Just want to understand within the 4Q guidance that sales are likely to decline -- or sorry, decelerate on a 1-year basis. What's your level of confidence on a 2-year basis, you could see some improvement just given some of the initiatives you're putting into place?

Ken Cook

CFO & Interim CEO

Yes, Andrew, we were able to reaffirm the guide because the back half of the year is playing out as we expected. I think when you look at the strategic decisions we made to pull some of the programming complexity out of the fourth quarter and push that into 2026, that does create a little bit of pressure on the fourth quarter from an SRS perspective. But we're confident that it's the right long-term decision, and we are focused on optimizing long-term value.

So by pushing some of that programming into 2026, it enabled us to focus our restaurant teams on the successful launch of chicken tenders in the fourth quarter that is going to build momentum as we move throughout the back half of the fourth quarter and into 2025 and sets us up to have a much more successful 2026. So yes, the Q4 is going to be the trough. October was the month that's going to be the trough, and we look forward to continuing to improve from here as we move into 2026.

Aaron Broholm

Head of Investor Relations

That was our last question of the call today. I want to thank everybody for joining us this morning. Have a fantastic day.

Operator

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

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