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The Wendy's Company (WEN) Q4 2024 Earnings Call Transcript

Feb. 13, 2025 11:58 AM ET | **The Wendy's Company (WEN) Stock****SA Transcripts**

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EPS of \$0.25 **beats by \$0.01** | Revenue of \$574.27M (6.22% Y/Y) **beats by \$12.28M**

The Wendy's Company (NASDAQ:[WEN](#)) Q4 2024 Results Conference Call February 13, 2025
8:30 AM ET

Company Participants

Aaron Broholm - Head of Investor Relations

Kirk Tanner - President and Chief Executive Officer

Ken Cook - Chief Financial Officer

Conference Call Participants

Dennis Geiger - UBS

David Palmer - Evercore ISI

Jon Tower - Citi

Brian Mullan - Piper Sandler

Danilo Gargiulo - Bernstein

Brian Bittner - Oppenheimer

Chris O'Cull - Stifel

Jim Salera - Stephens

Andrew Charles - TD Cowen

Eric Gonzalez - KeyBanc

Rahul Krotthapalli - JPMorgan

Jim Sanderson - Northcoast Research

Christine Cho - Goldman Sachs

Logan Reich - RBC Capital Markets

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

Today's conference call and webcast includes a presentation, which is available on our Investor Relations website, ir.wendys.com. Before we begin, please take note of the safe harbor statement that appears at the end of today's earnings release. This disclosure reminds investors that certain information we discuss today is forward-looking and reflects our current expectations about future plans and performance.

Various factors could affect our results and cause those results to differ materially from the projections set forth in our forward-looking statements. Also, some of today's comments will reference non-GAAP financial measures. Investors should refer to our reconciliations of non-GAAP financial measures to the most directly comparable GAAP measure at the end of this presentation or in today's earnings release.

If you have questions following today's conference call, please contact me. I will now hand the call over to Kirk.

Kirk Tanner

Thank you, Aaron, and good morning, everyone. I'm going to start by discussing our results for the fourth quarter and highlight progress we made in 2024 and I'll then share our updated capital allocation policy and some of the initiatives underway to deliver sales and EBITDA growth in 2025.

Our Q4 results were in line with the expectations that we shared with you on our last earnings call. I am pleased to report global system-wide sales increased over 5% and same-restaurant sales grew over 4%. In the U.S., our traffic and dollar growth outpaced the QSR burger category. Growth was led by the success of our collaboration with Paramount, celebrating SpongeBob's 25th anniversary.

At its peak, this fan favorite drove an impressive 20% lift in same restaurant sales with increased traffic and an average check, including a Krabby Patty with nearly double our typical size. This was a great example of what sets Wendy's apart showcasing our approach to partnerships, innovation on our core offerings, supported by strong marketing and execution capabilities.

Growth in the quarter was also supported by innovative limited-time offerings, including our Salted Carmel Frosty and Mushroom Bacon Cheeseburger. The morning daypart continued to be a strong contributor to U.S. growth with sales up over 4% compared to the prior year. Internationally, we achieved 11% system-wide sales growth on a constant currency basis led by strong net unit growth.

We continue to gain momentum with our strategy to increase digital mix, which grew 130 basis points from the prior quarter to 19% globally. This generated valuable insights, which we use to enhance the customer experience and provide more relevant in-app offers for our customers. Global Digital sales grew nearly 40% year-over-year, and loyalty member growth was up 25% from a year ago.

We now have over 46 million reward members enrolled and continue to scale this program. We strengthened our system footprint by opening 113 new restaurants in the fourth quarter. In addition, we delivered on the initiatives we announced last quarter to close underperforming restaurants.

Moving on to our full year 2024 results. We delivered full year sales growth driven by breakfast, innovation and technology, achieving our 14th consecutive year of global same-restaurant sales growth. Additionally, we delivered profit growth and restaurant level margin expansion. Importantly, we also opened 276 new restaurants across the globe.

Total system-wide sales reached \$14.5 billion, reflecting over 3% growth compared to the prior year. The U.S. business delivered 1.4% same-restaurant sales growth and we maintained or grew dollar and traffic share in the QSR burger category in every quarter.

Our international system-wide sales grew 9% and same-restaurant sales grew 2.8%. This overall sales performance drove adjusted EBITDA and free cash flow growth, and we returned over \$280 million to shareholders through dividends and share repurchases.

For the full year, our breakfast sales grew over 6%, which outpaced the QSR burger category. This was driven by increased awareness and impactful innovation. Our innovation extended beyond the breakfast daypart with a series of new menu items, including our Saucy Nuggs that expanded our chicken offerings.

We also featured new limited-time Frosty flavors tailored to each season to provide fresh, exciting experiences that resonated with our customers throughout the year. We invested in our mobile app to improve the customer experience and accelerate growth in our loyalty program. This resulted in full year digital sales growing by nearly 40%.

We also advanced our digital journey with the implementation of digital menu boards at over 300 company and franchisee locations. We deployed voice-enabled AI order taking at nearly 100 locations. And we are pleased with the results we are seeing in improving accuracy and driving labor efficiency.

Our execution in all of these areas drove a higher average check and provided labor efficiency that led to an 80-basis point improvement to our global company-operated restaurant margin compared to the prior year. We also made great progress on our strategy to expand the Wendy's brand to more customers around the world, opening 276 new restaurants.

As planned, we closed underperforming restaurants. This is a headwind to sales growth in 2025, but absolutely the right thing to do to strengthen the Wendy's system as many closures will be replaced by new restaurants in stronger trade areas and where we expect to see double the AUVs of the restaurants that we closed.

We are supporting franchisees with incentives to develop higher-performing restaurants that will enhance the customer experience and increase profitability. As expected, we ended the year with flat net unit growth and are well positioned to accelerate unit growth in 2025. In 2024, we established a new Wendy's promise, Fresh Famous food, made right for you. This is a commitment we are making to our customers to build more love for Wendy's.

Our team is committed to deliver on the shared goals of always putting the customer first, making every restaurant, the star operating the one best way and owning the responsibility to grow the Wendy's brand. In 2024, we achieved our results in a year, we adopted a new organizational structure and onboarded a new leadership team for the Company.

These changes will drive improved accountability and operational excellence long into the future, and our new structure is already yielding positive results. While we are proud of our progress in 2024, we have a lot of work ahead of us.

We will deliver on the Wendy's promise by continuing to provide the highest quality food in QSR and increasing operational intensity to deliver an exceptional experience for our customers. These two areas of focus will drive long-term value for the Company, franchisees and our shareholders.

To support our growth initiatives and ensure their success, it's critical that our capital allocation strategy aligns with our objectives. As such, we have made the decision to right size our quarterly dividend payment. Our updated dividend policy provides the flexibility to increase growth investment in 2025 and beyond.

This year, we will increase our investment in unit development around the world through both traditional CapEx and by increasing our build-to-suit program. We will also accelerate investments in technology to enhance the customer experience and drive productivity. In addition, our updated capital allocation policy enables us to flex up share repurchases when the market provides attractive opportunities, and we believe an attractive opportunity exists today.

As a sign of confidence in our growth plans, we are increasing share repurchases in 2025. And Ken will share more details shortly. We are confident this updated policy enables us to maximize shareholder value over the long term.

Now let me share our outlook for 2025. Our plan is built to drive continued sales and adjusted EBITDA growth and accelerate net unit development. We have three strategic initiatives to execute on in 2025. Fresh famous food delivering an exceptional customer experience and accelerating global unit development.

Our fresh famous food strategy we'll focus on craveable core items, impactful innovation and relevant value. This year, we have plans to expand in fast-growing categories, including chicken and beverages. We know customers will continue to look for value throughout 2025, and Wendy's is uniquely positioned to lead with this important customer need.

At Wendy's value starts with quality. Our iconic Biggie Bag is uniquely Wendy's, delivering industry-leading quality at attractive price points. We have plans to further strengthen our value leadership position through continuous innovation and the strategic expansion of our Biggie Bag platform.

We will deepen connections with our loyalty members and attract new ones by offering exclusive limited time, unbeatable deals available only through the Wendy's app. Breakfast remains a top priority at Wendy's and will provide a tailwind to our growth. In 2025, we will invest in innovation to drive continued momentum around this daypart.

Breakfast will continue to receive a higher share of total advertising dollars compared to its percentage of sales. We expect the next stage of growth in breakfast to be driven by product innovation, which we will share more about later this year. You also see us continue to leverage strategic partnerships and promotions that inspire customer passion points and attract new audiences.

An example is our partnership with the Girl Scouts of the U.S.A. on a new limited time Thin Mints Frosty. This is another example of how we can delight customers with core offerings by bringing together our innovation, marketing and outstanding execution capabilities. As part of our commitment to deliver a perfect every time customer experience, we are increasing operational intensity across every restaurant.

This includes a framework of operating the one best way with clear standards, consistency and accountability. We are investing in field resources to provide enhanced support for franchisees, their teams and their restaurants. These initiatives will provide an exceptional experience for our customer and drive restaurant level margins.

We are accelerating the implementation of digital menu boards, AI voice-enabled ordering and digital kiosks in 2025 across company and franchisee restaurants. This technology simplifies ordering and frees up crew members to focus on quality and accuracy.

Now let's talk about new unit growth. based on new builds underway and franchisee commitments to add additional restaurants this year, we are confident in our goal for net unit growth of 2% to 3% in 2025. At the midpoint of the range, this represents our highest net unit growth rate in over 15 years, and I'm excited to share some recent news.

In Australia, Flynn Restaurant Group opened the first Wendy's earlier this year and it's off to an amazing start. In closing, we have a clear vision for Wendy's to reach the full potential of this great brand. You will see our resources allocated to drive long-term growth and our plans executed with a heightened operational intensity.

I have confidence in our franchisees and the team we have assembled to lead this growth. I look forward to sharing more details about our plans for 2025 and beyond at our Investor Day on March 6. I want to thank our Wendy's employees, our partners at QSCC and our franchisees for their outstanding efforts in delivering for our customers every single day.

With that, I'll turn it over to Ken.

Ken Cook

Thank you, Kirk, and good morning, everyone. I am thrilled to be here with you today as Wendy's Chief Financial Officer. It is an honor to be part of the Wendy's team, and we are committed to acting decisively and driving operational excellence to unlock our full potential. I will cover four topics with you this morning.

First, I will share our fourth quarter results followed by details on our updated capital allocation policy. Next, I'll review our 2025 outlook for sales and profit, and I'll finish by discussing our CapEx and cash flow expectations.

In the fourth quarter, results were in line with our expectations. Global systemwide sales increased 5.4% on a constant currency basis and reached \$3.7 billion, driven by same-restaurant sales growth of 4.1% in the U.S. and 4.9% in our international business. U.S. SRS growth was driven by increases in traffic and average check with growth across all dayparts.

U.S. SRS was strongest in October, up over 10% year-over-year, driven by the SpongeBob collaboration. This was the strongest monthly SRS growth since 2021 and demonstrates what we can accomplish when we combine two iconic brands with multigenerational appeal. For the last two months of the quarter, our SRS performed in line with the category.

Company-operated restaurant revenue grew 2.7% year-over-year to \$232.8 million. Franchise royalty revenue increased \$6 million year-over-year to \$133.8 million, driven by the increase in systemwide sales. Franchise fees increased \$13.7 million to \$34.2 million, primarily due to the termination fees from restaurants that closed during the fourth quarter.

Our U.S. company restaurant margin was 16.5%, a 300 basis point increase compared to the prior year, driven by a combination of sales leverage from a higher average check and customer count growth and savings from productivity initiatives.

G&A expense was \$67.2 million, and the Company's investment in breakfast advertising was \$7.1 million in the quarter. Adjusted EBITDA increased 8.6% to \$137.5 million. Walking through the rest of the income statement, we had \$33.2 million of depreciation expense, \$4.1 million of cloud computing amortization, \$31.1 million of interest expense and other income of \$5.5 million.

Our adjusted tax rate for the quarter was 32.4%, and which was 1.8% higher than last year, primarily due to a discrete state tax item. This resulted in \$50.5 million of adjusted net income. Adjusted earnings per share was \$0.25, which was a \$0.04 increase over the prior year.

Moving on to cash flow and our balance sheet. On a full year basis in 2024, we generated \$355.3 million of cash from operations. We invested \$94.4 million in capital expenditures, including \$53.4 million to accelerate our digital strategy and \$24.9 million on development of new company-owned restaurants, bringing our free cash flow to \$279 million.

Additionally, we invested \$41.2 million in our build-to-suit program which supported the development of over 50 new restaurants with 23 of them opening in 2024. And as a reminder, build-to-suit cash flows are reflected on their own line in the investing section of our cash flow statement and are currently not part of our free cash flow calculation.

Through the end of fiscal year 2024, we repurchased approximately 4.3 million shares and had approximately \$235 million remaining on our \$500 million share repurchase authorization, which expires in February 2027.

We ended the year with an unrestricted cash and cash equivalents balance of \$451 million and net debt of approximately \$2.3 billion, which equated to a leverage ratio of 4.3x our full year adjusted EBITDA of \$544 million. Next, I'd like to share with you our updated capital allocation policy.

As Kirk mentioned, in order to maximize long-term shareholder value, we are updating our policy to ensure we have sufficient flexibility to invest in the opportunities we have identified to drive growth. Our first priority continues to be investing in our business.

We are increasing CapEx in 2025 to between \$100 million and \$110 million as we invest in building new restaurants globally and add technology to our existing restaurants, including digital menu boards and kiosks to enhance the customer experience, drive loyalty and increase efficiency.

In addition to our CapEx investments, we plan to invest around \$70 million through our build-to-suit program in 2025 to accelerate new restaurant development. Build-to-suit is one of our incentive programs where the Company co-invests in new restaurants with our franchisees in exchange for higher royalty and rent payments, expanding the pool of franchisees to build more restaurants.

Our next priority is paying an attractive dividend. This morning, we announced our first quarter dividend payment of \$0.25 per share. The Company's new target dividend payout ratio is 50% to 60% of adjusted earnings. Beginning in the second quarter, this equates to a quarterly dividend payment of \$0.14 per share. For the full year 2025, we expect to pay out \$0.67 per share in dividends.

Our third priority is to maintain a strong balance sheet. We have established a target net leverage ratio of 3.5x to 5x adjusted EBITDA. And lastly, we will return excess cash to our shareholders through share repurchases. This morning, we announced our plan to increase share repurchases to up to \$200 million in 2025 with the majority of this activity happening in the next few months.

We believe that cash belongs to our shareholders and through the combination of dividends and share repurchases, we expect to return up to \$325 million of cash to shareholders in 2025, which represents an increase of \$40 million compared to 2024. We view the changes to our capital allocation policy and this year's increase in planned share repurchases as a demonstration of the confidence we have in our growth plans for 2025 and beyond, and we look forward to sharing more with you at our Investor Day on March 6.

Before diving into our financial outlook for 2025, I'd like to share my approach to guidance. We want to strengthen our credibility with investors. To do that, we will set realistic and achievable targets and then execute our plans with an increased level of intensity to deliver them. Let's turn to our financial outlook.

We began planning for 2025 by looking at multiple third-party forecasts for both food away from home and industry traffic. These indicate that consumer spending for food away from home is expected to remain pressured and traffic in the QSR burger category is expected to be flat to down 1% compared to last year. Our 2025 outlook does not include any impact from new tariffs.

Based on those forecasts, we anticipate full year 2025 global system-wide sales growth of approximately 2% to 3%, driven by the combination of same-restaurant sales and new unit growth. As a reminder, our system-wide sales growth rate in 2025 is negatively impacted due to the actions we took in the fourth quarter to close underperforming restaurants and strengthen our system.

Additionally, we expect global net new unit growth to be between 2% and 3% in 2025. We expect U.S. company-operated restaurant margin of around 16%, plus or minus 50 basis points. Margin performance will be supported by restaurant productivity initiatives and sales growth leverage.

We are redeploying company breakfast advertising spend to investments in field operations that will improve the customer experience across all dayparts and drive efficiency in our restaurants. As such, we anticipate G&A to increase to between \$285 million and \$290 million.

In addition to the investments in field resources, we expect higher incentive compensation in 2025, assuming payouts at target levels, compared to the favorability we experienced with incentive compensation in 2024. We will continue to maintain discipline in this area and anticipate G&A to represent approximately 1.9% and of 2025 system-wide sales.

We expect adjusted EBITDA to increase to between \$550 million and \$560 million. We anticipate interest expense of approximately \$127 million as we plan to refinance \$400 million of debt maturing in 2025 and 2026. Taking all these items into account, we expect adjusted EPS to range from \$0.98 to \$1.02 per share.

Free cash flow is expected to be between \$275 million and \$285 million, driven by earnings growth, partially offset by capital expenditures of \$100 million to \$110 million. The increase in CapEx is primarily related to investments in new company restaurants and technology, both of which help accelerate sales and earnings growth.

In closing, we are proud of our fourth quarter results and the strong foundation we are building for sustainable, profitable growth. In 2025, we are setting realistic and achievable goals and taking decisive action on what we can control including increasing our operational intensity and elevating the customer experience.

Throughout the year, we will take advantage of opportunities that strengthen the business and drive long-term success. I'm excited about the road ahead and look forward to sharing more at our upcoming Investor Day.

I'll now hand it over to Aaron to share our Q1 Investor Relations calendar.

Aaron Broholm

Thank you, Ken. The Company is hosting an Investor Day at our corporate headquarters in Dublin, Ohio on March 6. If you are an institutional investor and would like to join us in Dublin, please reach out to me. The event will be webcast live and can be accessed through our Investor Relations website at ir.wendys.com.

On March 11, we will participate in the Citi Global Consumer and Retail Conference in Miami, followed by the UBS Global Consumer and Retail Conference in New York City on March 12. On March 25, we will be in Chicago for an NDR hosted by Piper Sandler.

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 first quarter earnings and host a conference call on May 1, 2025.

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 Jeff Bernstein of Barclays. Your line is now open. Please go ahead.

Unidentified Analyst

Thanks for the question. This is [Pradak] on for Jeff. Ken, just a quick question on just your embedded comp expectations for the year. You had mentioned that within the 2% to 3% system sales growth guidance embedded within that was a net unit growth expectation of 2% to 3%. So, I'm just wondering what you're assuming in your forecast for comp growth? And then, especially in the first quarter trends to date. Just anything -- any color you can provide on just how things have been trending with kind of all this weather noise and whatnot?

Ken Cook

Yes, happy to. So proud that we achieved our 14th consecutive year of global SRS growth in 2024 and fully expect to make 2025 the 15th consecutive year. So, in terms of an SRS guide, I would say positive for 2025. In terms of the shape, we do expect SRS to be down year-over-year in the first quarter.

So, we've started the year facing some overall industry traffic headwinds exacerbated by significant weather events across the country. The good news is we do expect Q1 to be the trough. We expect our growth rate to improve as we move throughout the year, driven both by improvements in industry traffic and our exciting programming to drive winning in the market.

Operator

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

Dennis Geiger

Wondering if you could talk a little bit more about the unit development outlook, including maybe how much of the '25 targets are covered at this point by development agreements or any more detail on sort of what that pipeline looks like? And maybe just broadly, franchisee demand overall sentiment to grow in the current environment, considering some of the headwinds out there, but I guess, offset by some of the positive drivers that you guys called out.

Kirk Tanner

Thanks, Dennis. Appreciate that. Let me take this question. We have a high level of confidence in our two to three guidance on net unit growth. We have those agreements in place. We can see the close-in build. So, we have a high level of confidence. And this will represent the most restaurants we have built in 15 years or more than 15 years.

And well, look, we expect that to continue. We'd also like to walk through our long-term unit growth outlook and exactly where we're going to build those restaurants at our March 6 Investor Day. So, we hope many can attend so that we can walk through our long-term outlook on building more restaurants.

Operator

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

David Palmer

I'll just try to squeeze in two in quick succession here. Kirk, I know you've done a lot of consumers. You and the team have done consumer insight work and audited the brand and menu opportunity. I know you don't want to front run your entire Analyst Day, but if there's any sort of big bucket opportunities to drive comps that you're most excited about, where your energies are being applied love to hear maybe a teaser on that, if you could.

And then also, in what ways -- I know this is also another area for the Analyst Day, but in what ways have you restructured and rewired the organization since you've joined, which I think is about a year ago now. And in what ways are maybe changing incentive compensation to metrics that really will change the priorities of the Company.

Kirk Tanner

Yes. Two really good questions, David. Appreciate that. First, let me just talk a little bit about things that you will see at the Investor Day on the menu. A couple of things that we're looking at that drive continued momentum and I'd say consumer relevance. So, you saw in Q4, we certainly had a lot of momentum. We have in 2025, collaborations that we will share that will, again, tap us into culture that will drive momentum.

But we look at the menu in three distinct areas. One, our core portfolio, our core menu. We expect that to grow. We have to invest in that. You'll see innovation off that, pure innovation, things like Saucy Nuggs that we did last year, you'll see us innovate and we'll share those details as well.

And then last, value. We have to have a relevant value. We think we have an amazing proposition that's really based in quality on value, especially with our Biggie Bag platform. We think we have the highest quality in the industry as far as value and buy starts with quality at Wendy's.

So, we will unpack those three things and share the innovation pipeline. We'll actually, if you're here in person, we'll be handing that innovation out, you can try it. So come hungry, come ready for Investor Day. Separately, operationally, operational intensity is really important. Our expectation is to deliver a customer experience that is perfect every single time.

So, we have wired our organization to deliver just that. We have an organization that is really focused on delivering execution excellence at every single restaurant. And we will align our priorities, our compensation, our metrics all around delivering that great customer experience. So, both things we will talk about in greater detail.

Abigail will walk through the new U.S. deal structure and some of those operational scorecards and how we bring that to life and work with franchisees. We'll do all that on March 6, but I appreciate the questions.

Operator

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

Jon Tower

Hopefully, you can hear me okay. I was just curious, the dividend cut that you announced today, curious why you decided to go down the path of repurchase activity rather than perhaps reinvesting back in the business considering the success that the brand has had, say, in reallocating some of the advertising dollars to breakfast in the past when you're building that out? And then separately, why refinance the debt in this year rather than perhaps just paying some of that down.

Kirk Tanner

Yes. Thanks, Jon. Appreciate the question. Look, I'll handle the first part of that and kick it over to Ken to talk about financing. Look, our policy on capital allocation, I think, is an important one. One, it starts with an attractive dividend. We still have an attractive dividend. And second, it allows us to accelerate our growth plan. That is critical. And when I think about growth plan, I'm thinking about net unit development, building more restaurants investing in technology and winning in the marketplace.

So, then you asked the question, it was like, well, we have a -- we're in a position in time where we have a very attractive stock price. So, we're going to take advantage of that. What I'm saying is we can do both. We have flexibility to grow in our long-term growth plan, and we're going to bet on ourselves by accelerating our stock repurchase. With that, I'll turn it over to Ken to talk about that.

Ken Cook

Yes, Jon, in terms of the debt activity we planned for 2025. We have \$50 million that matures in December of this year. We also have about \$350 million of WBS securities that mature in September of 2026. Right now, we've drawn up the plan to refinance that total of \$400 million in late 2025. Obviously, we'll continue to evaluate whether it makes sense to pull that forward or push that further into the future.

From an overall debt perspective, I would expect our total gross debt to decline a little bit both in 2025 and beyond through the amortization of the principal of the WBS security. So, I'd expect it to decrease by, call it, \$20 million to \$30 million a year as we march through. And then at the same time, we plan to increase EBITDA to drive that -- our net leverage ratio to the lower end of that range.

Operator

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

Brian Mullan

Just a question on the breakfast day part. Kirk, I think one of the first decisions you made was to recommit to this business. I think you said in the prepared remarks, breakfast sales grew 6% last year. So, if you could just give us an assessment thus far, what have you learned? And how does that inform your strategy with breakfast over, say, the next three to five years? And is that going to require ongoing investments from corporate over a longer period of time? I know you're pulling a little this year, but just over the next several years.

Kirk Tanner

Brian, thanks for the question. Yes, we're -- if you reflect on 2024 performance with breakfast, our breakfast business grew about 300 basis points faster than the category. It was a tailwind to us. It's still a large priority for us because of our potential, the potential that we can reach over the next several years makes it a priority for Wendy's. I think about it in two ways. We'll continue to invest in driving awareness. It will still receive an outside investment in A&M versus the rest of the business.

But we'll have to do other things, and we have plans to do just that. We have to innovate and you'll see some innovation on our breakfast daypart later this year that accelerates the daypart continue to drive executional excellence with our field organizations, and that will also enhance the experience that customers have with breakfast. All in all, it still remains an important strategy for Wendy's, and we have a long way to go to reach our full potential. In the meantime, that will be a tailwind for our top line and our business growth.

Operator

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

Danilo Gargiulo

Great. Ken, I was wondering if you can offer your early observations on the business being relatively new to the organization. And maybe if you can expand on which best practices do you think you can bring over to the organization from topping from your past experience from, let's say, UPS?

Ken Cook

Thank Yes. Thanks for the question, Dan. First of all, I'm thrilled to be part of the Wendy's team. I'm really grateful for how the people here have welcome me on board over the last 2.5 months. And I am here ultimately to create value for shareholders and create value for franchisees. My early observations are Wendy's has all the components we need to create tremendous value.

We have the best product in the industry. We have a great global brand, passionate employees and a very strong franchise system. Where I can add value is driving operational excellence throughout the business. And by that, I really mean focus, execution and speed. In terms of focus, that means allocating resources to the handful of items that are going to drive the biggest long-term gains for us.

An example of that is the investment we're making in field resources in 2025 to enhance the customer experience. On execution, it's ensuring we have detailed plans in place and are constantly tracking our progress against those plans, and holding people accountable for delivering the targets that we have.

And then in terms of speed, it's increasing a sense of urgency, empowering people to make decisions faster so we can use a watch, not a calendar to track the pace of our progress. So that's why I laid it out and it really comes down to two things. It's about building more restaurants and it's about increasing restaurant profitability.

Operator

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

Brian Bittner

Your 2025-unit growth guidance is 2% to 3%. But last quarter, I think you talked about growing 3% to 4% in 2025. So, can you talk about what shifted over the last few months, if it's related to less openings or more closures? And maybe perhaps this is part of your under-promised approach, Ken, as unit growth guidance historically has been on the optimistic side. So, can you just help us understand the change?

Kirk Tanner

Yes. Let me take that one and Ken can add comments from a guidance standpoint. But look, yes, some of the timing has shifted. That's still -- those restaurants will still be built in the future. We're looking at this year, again, 2% to 3%. We can see those units being built. They're underway. That -- so we have a high level of confidence.

And that again, it represents more restaurants than we've built in the last 15 years. And I'd say this year is foundational. So, we fully expect that to build and continue to accelerate in the years to come. Again, we'll share the details at our March 6 Investor Day, we'll get very specific about unit growth development beyond '25 that I tell you in '25 we feel confident about that number.

Brian Bittner

And then in terms of the guidance philosophy, yes, it is very important that we build credibility with investors. And so, the 2% to 3% net unit growth target for 2025 is an example of that. We're very confident and net unit openings of 150 to 200 units, and this will include some of the additional CapEx and build-to-suit investments that we're making.

Operator

Our next question comes from Chris O'Cull from Stifel. Your lines are open. Please go ahead.

Chris O'Cull

My question relates to just the timing of investments. And I apologize if I missed this, but Kirk, I was hoping you could elaborate more on which investments you can make quickly that would impact the customer experience?

Kirk Tanner

Yes, Chris, I think the most important customer experience is the investment we're making in our field organization, the frequency in which we're in our restaurants, the standards in which we reach delivering that great customer experience every single time is the most impactful short-term gain in momentum.

Of course, that comes with great menu innovation and all the things that we continuously talk about, we are focused on operational intensity and delivering that great customer experience, and we have organized ourselves and gotten back to the fundamentals and really aligned ourselves in '24 so that we can start gaining that momentum in '25 by delivering that great customer experience.

Ken Cook

Yes, that's right, Kirk. And the only thing I'd add is technology is also a piece of that customer experience. So, we're going to accelerate the rollout of our FreshAI digital menu boards across the system, which improves the customer experience and enable some labor efficiencies in our restaurants.

Operator

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

Jim Salera

You mentioned earlier, 1Q should be the low point for same-restaurant sales and then build there with improvements in industry traffic and some of the programming you have winter in the year. If I could maybe parse that out, do you expect the traffic improvement to be driven by Wendy's specific efforts or just kind of taking your fair share of overall improvement in QSR?

And maybe if I could add a second part on that question. Obviously, in '24, we saw a very kind of value-focused environment, especially in a lot of the marketing from QSR and even some full-service restaurants. You give me assumptions around how the industry progresses in '25 and how that messaging looks maybe, if we shift a little bit back more to kind of experiential focus versus just kind of dollar price points?

Kirk Tanner

Yes. Look, I think it's a really good question. Yes. As Ken mentioned, we talked about Q1 being a soft start, a lot driven by weather. Consumer pressure. We see that improving in the balance of the year. I think a couple of things of how we think about that. One, we think that the industry will continue to improve. And look, our attitude is to always win in the marketplace. So, winning in the marketplace against the category is priority number one.

Number two, we think that we can create that experience in the rest of this year. We have activities planned to do both that. We have investments in our core innovation and value, but we also have collaborations that we'll talk about that, again, connect Wendy's into culture and create that exciting moment that we think that, that creates a high value for Wendy's we showed that we could do it in Q4. We'll continue to do those things in 2025. So, it's a combination of those things.

Let me talk a little bit about value. Obviously, consumers are still looking for value. That's going to be an important part of our strategy, just like it is to keep solutions for customers and consumers. We have a terrific brand in Biggie Bag. And I can tell you that value starts with quality at Wendy's, absolutely.

We have the highest quality value proposition that has got great brand equity a biggie. We look to continue to innovate on this platform. We'll find new ways to bring value to customers through this big platform. It already has a lot of equity, but we plan to lean in on that equity and continue to move and elevate that experience for our customers, like no one can in the business. But I think value continues to be an important part of the strategy.

Operator

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

Andrew Charles

Great. Kirk, what are the early learnings from the voice of the drive-thru pilot. In particular, I'm curious what you guys are seeing with speed of service as well as check lift as you expand the pilot to more stores.

Kirk Tanner

Yes. Great question. Look, we really like the results. We've expanded it to over 100. We're going to expand it to 500 to 600 in this year. So, we have a lot of confidence. One thing I love about it, it continues to get better. Look, I put it to the test almost 3x or 4x a week. We have one close to us here in the office. And the experience is exceptional. What I would tell you is it drives sales as well. It gives customers the opportunity to build their orders. It understands what to ask for and the accuracy definitely is improving.

And that experience, we want to be remarkable. So, we started with 100. We're going to move that. And then once we prove out where you have 500 restaurants that have this -- that allows us to have a real strong proof point to take it to the rest of the system. I think it's definitely cutting edge. I think it's important you'll get to experience that FreshAI when you come to the Investor Day here on March 6. So, it's something that we're really excited about. It's got a bright future, and we're moving forward.

Operator

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

Eric Gonzalez

You clearly had a strong October with the SpongeBob activation. Were you able to retain a decent portion of the customers that you acquired during that promotion? And I think I heard you said you should expect some additional collapse this year. Do you think you need to do anything different with regards to how you execute around the shoulders of something like the SpongeBob promotion such that you could see a longer tail?

Kirk Tanner

Yes. Look, in Q4, I think that we were very excited about the performance. Obviously, we learned a great deal. If I just reflect on 2024 in total, look, we grew faster than the category. We continue to do that in Q4. We learned a lot. You think about when you have an exciting event like that, how do you get the supply chain grooved, how do you create that great experience? How do you have that be a part of what Wendy's is famous for? We learned all those things. And you think about how we take that into 2025.

Again, we'll share a lot of that at the Investor Day on the fifth but we're going to start an early collaboration that we talked about a little bit with the Girl Scouts of the U.S.A. on the Thin Mints Frosty. That's an example of partnering with the Girl Scouts bringing in iconic flavor into Wendy's and moving that forward. We'll continue to do those things in 2025, and we have those planned right now.

And we'll talk about those in the near future. But we think that's an important driver of being a part of culture and delivering a great experience. We also are -- we have a healthy dissatisfaction of always getting better. How do we create that better customer experience, execution, supply chain? All those things are really important to us, and we continue to learn from these experiences.

Operator

Our next question comes from Rahul Krotthapalli of JPMorgan. Your line is now open. Please go ahead.

Rahul Krotthapalli

Can you discuss the average U.S. franchise profitability and how the cash-on-cash returns for some of the new stores have tracked over time probably compared to pre-COVID? I mean the context here is acceleration in the U.S. development. And given the fact that around 40% of U.S. system is owned and operated by around 15 franchises who are also multi-brand operators. I'm curious to see how this cohort is going to contribute to unit growth versus the rest of the system as they prioritize capital allocation? And a quick follow-up, is the 200-plus franchisees the right mix for the brand? Or do you see some room for consolidation as you move forward?

Kirk Tanner

Yes. Thanks for the question, Rahul. I would start by saying, in terms of franchisee profitability in 2024, we're currently collecting that data, and we will share it with you later in the year. We saw good improvements in franchisee profitability in 2023. And if you look at our global restaurant margin as a proxy for those franchisees, we would expect further improvement in 2024. In 2024, we expanded our global restaurant margin by 80 basis points to 15.4%, and at the high end of our range, we'd expect to expand that again in 2025. So, we like what we're seeing from a unit economic perspective.

And then we talked a little bit about the actions we took in the fourth quarter to strengthen our system. We also mentioned that the average AUVs of the new restaurants that we will be about double the ones that close. That's another testament to the strength, especially what we're seeing in the new restaurant openings that we have. We'll continue to expand the pool of franchisees that we have. Build-to-suit is an important part of that. where the Company co-invest with the franchisees on the front end, which expands the pool of franchisees that can open Wendy's. And we're happy with the returns that we see there.

Operator

Our next question comes from Jim Sanderson of Northcoast Research. Your line is now open. Please go ahead.

Jim Sanderson

I wanted to go back to the discussion on breakfast. I think you mentioned achieving 4% growth year-over-year, which I think gets you to about 8% sales mix in the U.S. Just wondering how you expect the daypart mix to trend in 2025, what's embedded in your guidance? And if you're expecting a little bit of a step back as you divert investment into other areas?

Kirk Tanner

Yes. So, on the full year, we grew 6%, 4% in we expect breakfast to be growing faster than the rest of our business. That is part of how we're guiding. We know that we still have a lot of potential. We're driving awareness. We will innovate on the platform. We've got operational excellence. And we're learning how to deliver a great experience to our customers with the food that we have. We think we have the highest quality food in the industry with breakfast. So, we know we have a lot of potential that we still are counting on, and it will be a tailwind for us in 2025 and beyond.

Operator

Our next question comes from Christine Cho of Goldman Sachs. Your line is now open. Please go ahead.

Christine Cho

Great. So, it was really encouraging to see close to 5% comps in the international markets. So, would you be able to add some texture to what drove the acceleration here? And within the 2% to 3% net unit growth that you're expecting for 2025, could you talk to the expansion you're in the international side, especially given kind of the new European markets that you're planning to enter and the key priorities here?

Kirk Tanner

Yes. Great question. I think in terms of driving the international comp sales growth, innovation was an important part. We've seen good uplift in Canada from the collaboration that we launched in the fourth quarter and continue to get smarter and smarter about how we go to market in these new markets. We've learned a lot in the U.K. this year. We're changing the strategy in terms of delivery and digital there. So excited about the progress that, that will bring.

In terms of our new units, we expect to open between 150 and 200 new units in 2025. About 2/3 of those will come from international markets. And within that international bucket, I'd expect about 1/3 coming from a combination of Canada and Europe. We'd expect about half coming from APMEA. And also see some good growth in other places around Latin America. We're going to share a lot of those details with you on March 6. We'll break it down to the most attractive countries and give you a lot of details about how we are winning in those markets and what drives unit growth, both in 2025 and beyond.

Operator

Our next question comes from Logan Reich of RBC Capital Markets. Your line is now open. Please go ahead.

Logan Reich

I have a quick follow-up on the composition of the same-store sales outlook for 2025. Can you provide any sort of breakdown from international versus U.S. that's baked into your expectations?

Kirk Tanner

In terms of system-wide sales growth, I would expect the U.S. to deliver kind of low single-digit system-wide sales growth. We would expect international to deliver high single to low double-digit systemwide sales growth. And again, in terms of the shape, we've kind of benchmarked our plans on the assumption that industry traffic in the U.S. is flat to down 1%, and we expect to perform in line or better than that as we win in the marketplace.

Operator

Our final question for today comes from [Gerald Lubinski] of BMO. Your line is now open. Please go ahead.

Unidentified Analyst

Hoping to get your thoughts on the level of commodity inflation you're expecting in the U.S. for 2025? And some of the puts and takes there, specifically as it relates to beef costs, which one of your peers recently called out as a risk for 2025.

Kirk Tanner

Yes. So, embedded in our 2025 guidance is commodity inflation of about 1% and wage rate inflation of about 4%. In terms of commodities, you're right, we think beef will be the biggest driver of that increase year-over-year. We think we'll also see a little bit of pressure from bacon, partially offset by improvements in other areas. So, beef, as you know, we're proud of our fresh never frozen beef. Domestically sourced here in the U.S. So, it enables us to provide the best quality food in the industry.

So that's what's embedded in the guide. In terms of tariffs, right now, we wouldn't expect any significant impact to cost of goods sold as a result of tariffs, but it is something that we're watching closely, working with our partners at QSCC to make sure if there are incremental headwinds on what we guided to, that we're doing what we can to offset that in other areas of the commodity basket.

Aaron Broholm

That was our last question of the call. Thank you, Kirk and Ken, and thank you, everyone, for joining us this morning. We look forward to speaking with you again at our day on March 6.

Have a great day.

Operator

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

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