

Seeking Alpha^α

Transcripts

Wingstop Inc. (WING) Q1 2024 Earnings Call Transcript

May 01, 2024 2:35 PM ET | **Wingstop Inc. (WING) Stock****SA Transcripts**

147.33K Followers

Q1: 2024-05-01 Earnings Summary

Play Call

Press Release

10-Q

EPS of \$0.98 **beats by \$0.21** | Revenue of \$145.79M (34.09% Y/Y) **beats by \$9.79M**Wingstop Inc. (NASDAQ:[WING](#)) Q1 2024 Earnings Conference Call May 1, 2024 10:00 AM ET

Company Participants

Alex Kaleida - Senior Vice President and Chief Financial Officer

Michael Skipworth - President and Chief Executive Officer

Conference Call Participants

David Tarantino - Baird

Jeffrey Bernstein - Barclays

Jim Salera - Stephens

Danilo Gargiulo - Bernstein

Sara Senatore - Bank of America

Brian Harbour - Morgan Stanley

Andrew Charles - TD Cowen

Chris O'Cull - Stifel

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Wingstop Fiscal First Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note that this conference is being recorded today, Wednesday, May 1, 2024.

On the call today are Michael Skipworth, President and Chief Executive Officer and Alex Kaleida, Senior Vice President and Chief Financial Officer.

I would now like to turn the conference over to Alex. Please go ahead.

Alex Kaleida

Thank you. And welcome to the Fiscal First quarter 2024 earnings conference call for Wingstop. Our results were published earlier this morning and are available on our Investor Relations website at ir.wingstop.com. Our discussion today includes forward-looking statements. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties that could cause our actual results to differ materially from what we currently expect.

Our SEC filings describe various risks that could affect our future operating results and financial condition. We use certain non-GAAP financial measures that we believe can be useful in evaluating our performance. Presentation of such information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP.

Reconciliations to comparable GAAP measures are contained in our earnings release. Lastly, for the Q&A session, we ask that you please each keep the one question and a follow-up to allow as many participants as possible to ask a question.

With that, I would like to turn the call over to Michael.

Michael Skipworth

Thank you, Alex. And good morning, everyone. Thank you for joining our call. Our first quarter results showcase the continued strength and staying power of the strategies we are executing against and further solidify Wingstop's category of one positioning. Coming off of an industry leading year in 2023, the momentum in our business continued into our first quarter as we delivered 21.6% same-store sales growth, which was almost entirely driven by transaction growth.

We opened 65 net new restaurants, a 14% growth rate. Company owned restaurant margins were 25.5%, highlighting the effectiveness of our supply chain strategy and our best-in-class unit economics. And we delivered adjusted EBITDA of \$50.3 million, representing a 45% growth rate over the prior year.

As a result of the strength in our business and the strong start to the year, we are increasing our 2024 comp guidance from mid-single-digits to low-double-digit same-store sales growth. I am extremely proud of our team members, brand partners and supplier partners for delivering these results and truly humbled to be part of a brand that is experiencing such unprecedented growth.

And yet we believe we have so much more growth in front of us. It's hard to believe that just a little over two years ago, we hosted an Investor Day and outlined our path to grow average unit volumes to \$2 million from roughly \$1.5 million at the time. At that Investor Day, we shared our multiyear sales driving strategies of scaling brand awareness, expanding our delivery channel, menu innovation, leveraging our digital guest database to fuel data-driven marketing and digital transformation.

Fast forward to today, two years later, and our AUVs are now over \$1.9 million and quickly approaching our \$2 million target. And while our execution against these strategies has delivered two year stacked same-store sales growth in Q1 alone in excess of 40%, we believe we have meaningful growth in each of these strategies as we look ahead.

It's an incredibly exciting time at Wingstop. As we scale toward our vision of becoming a top 10 global restaurant brand, we remain anchored in the foundation of our strategy, our people and our culture, what we refer to as the Wingstop way. The pillars of our strategy have not changed over the years. Sustaining same-store sales growth, maintaining best-in-class returns and accelerating growth.

We are very pleased with our first quarter results and excited to be measuring record levels within our brand health metrics. Importantly, we continue to measure record levels in value and quality scores as our brand partners and team members are focused on operational excellence and delivering a great guest experience.

And our disciplined approach to menu pricing is paying dividends. The consumer continues to prioritize quality and value when deciding how to spend their discretionary dollars. We believe that indulgent Wingstop occasion delivers upon both quality and value and has us uniquely positioned, which you can see in our first quarter results where our 21.6% comp was almost entirely driven by transaction growth.

We are making great progress in closing the gap in awareness to top QSRs, but our opportunity remains meaningful. During the quarter, system wide sales grew by 37%, which delivers additional firepower in our advertising fund to invest meaningful dollars behind our opportunity to expand brand awareness.

Our increased media investment is providing new opportunities such as advertising in the NFL playoffs and becoming the presenting sponsor for the NBA's Wednesday primetime match up, just to highlight a couple of examples. Our highly effective media strategy focused on live sports combined with a breakthrough creative is driving brand awareness.

We are making Wingstop more top of mind and filling the top of the funnel with new guests. It's especially evident with the expansion of our digital database, which has surged to more than 40 million users. In fact, Q1 marked our highest level of new guest acquisition on record. While we are seeing growth across all cohorts and income levels, these new guests we're bringing into the brand are demonstrating a higher frequency than our traditional guests.

But yet, I believe we are just scratching the surface on the opportunity to leverage our digital database. As our restaurant AUVs expand, digital sales also continue to increase, now accounting for 68% of sales in Q1. This record level of digital sales comes at a time when we are rolling out our proprietary tech stack, My Wingstock, which we believe is an enabler to our aspirational goal of digitizing every transaction. My Wingstop has created a great deal of excitement with our brand partners and restaurant team members.

I'm excited to report our rollout is on track to be completed by the end of the second quarter and early results are encouraging. The investments we are making in technology allows us to leverage our growing database and create an entirely new level of personalization with our guests, one that we believe over time will drive conversion, retention rates and frequency.

We believe the brands that will win drive the most relevant and personalized message as well as create ease of accessibility for the consumer. The database we have amassed, combined with the investments we have made in technology provide an incredible advantage for Wingstop.

Our top line sales growth and AUV expansion has strengthened the Wingstop unit economics. Brand partner returns have also been bolstered by the progress we have made against our supply chain strategy, a strategy that is designed to minimize volatility in food costs and create greater predictability within restaurant margins. With an AUV of \$1.9 million and a low upfront investment of around \$500,000 on average, our brand partners are enjoying industry leading unlevered cash-on-cash returns of more than 70%, which has fueled significant demand for growth.

Our brand partners recognize how unique these returns are and our focus on accelerating growth, which is showing up in our development pipeline. We had a record 1,400 restaurant commitments under development agreements at the start of 2024. Brand partners are eager to put more restaurants in the ground and reinvest back into Wingstop.

Our vision is to scale Wingstop into a global brand. And I've shared in prior calls how we believe our international business is supercharged for growth. There is tremendous excitement across the globe as consumers have the opportunity to experience our flavor for the first time.

Same-store sales trends resemble that of the U.S. business, double digit growth stacked on top of double digit growth in the prior year and primarily driven by transactions. Averaging across all markets outside of the U.S., we have nearly doubled our AUV since the start of 2022. In the U.K., AUVs now exceed \$2.5 million, leading our U.K. brand partner to accelerate growth and expand to more than 40 units.

Our newest markets, Canada, Puerto Rico, Korea are executing that U.K. playbook and achieving record sales weeks. We believe our new markets are scaling awareness on a curve that draws parallel to the success we are experiencing in the U.K. The strength we're having in our global development and visibility into our pipeline gives us the confidence to increase our 2024 outlook to a range of 275 to 295 net new restaurants.

This implies a unit growth rate well above our three to five year target of 10% plus. The strength of the Wingstop business and our execution against our strategy that has proven power continued to position us on a path to achieve our vision of becoming a top 10 global restaurant brand.

I truly believe at Wingstop, we have the most talented team in the industry. I want to thank the entire Wingstop team. All of our team members in the restaurants and in our global support center, our supplier partners and our brand partners for their dedication to serving the world's flavor.

With that, I'd like to turn the call over to Alex.

Alex Kaleida

Thank you, Michael. As you just heard, our first quarter results showcase the incredible momentum of the Wingstop brand and the continued strength and focus we have in executing our strategy. We delivered 36.8% growth in system wide sales in the first quarter, resulting in our first \$1 billion quarter.

Our AUV is now above \$1.9 million and we have clear line of sight to moving past our target of \$2 million. System wide sales growth is providing us with incredible fuel in our advertising fund to invest behind our proven strategy to sustain same-store sales growth. Total revenue increased 34.1% to \$145.8 million versus the prior year.

Royalty revenues, franchise fees and other revenue increased by \$18.9 million in Q1, driven primarily by 276 net franchise openings since the prior year comparable period and a 21.6% increase in domestic same-store sales, primarily driven by transaction growth. Company owned restaurant sales totaled \$28.5 million in Q1, an increase of \$5.5 million, primarily due to a 6.2% increase in company owned same-store sales, driven primarily by transaction growth and seven net new restaurants versus the prior year comparable period.

Included in our company owned restaurant portfolio is the original Wingstop, an almost 30 year old restaurant that is one of the highest owned restaurants in the system and is comping similar to the rest of our company owned portfolio. A testament to the fact we haven't found a ceiling yet. Central to our strategy is maintaining our best-in-class returns.

We are encouraged by the progress we have made in our supply chain strategy. As you have heard us say over the past few calls, creating predictability and minimizing volatility in our core commodity, bone and wings, we believe this can create a flywheel for development. Working with our strategic supplier partners, we have been able to move the majority of our buy away from the spot market to provide our brand partners with more predictable food costs.

Our target remains in the mid 30% food cost range, which translates to those industry leading unlevered cash-on-cash returns of more than 70% that Michael referenced earlier. Q1 results in company owned restaurants showcase the effectiveness of our strategy. In an environment where the bone and wing spot market increased 92% versus the prior year comparable period. Company owned restaurant fuel costs were in line with our targets.

Now moving on to SG&A. In the first quarter, SG&A increased by \$1.5 million versus the prior year comparable period to a total of \$25.2 million, driven by investments to support the long-term growth of the business and an increase in performance based stock compensation and were partially offset by non-recurring consulting fees in the prior year.

Adjusted EBITDA, a non-GAAP measure was \$50.3 million during the quarter, an increase of 45.3% versus the prior year. This was on top of the quarter in 2023 that grew by nearly 60% in the prior year. Adjusting for non-recurring items, we delivered adjusted earnings per diluted share, a non-GAAP measure of \$0.98, a 66% increase versus the prior year.

Another core tenet in our strategy is to enhance shareholder returns. Our highly franchised asset light model continues to deliver strong free cash flows. We are maintaining a strong cash balance that stands at over \$100 million. And since our IPO, we have delivered a total shareholder return of nearly 2,500%, which clearly demonstrates our commitment to our strategy and our category one position.

Following the completion of our \$125 million accelerated share repurchase program in the second half of 2023, we remain committed to enhancing shareholder returns through a combination of our remaining \$125 million share repurchase authorization and our regular quarterly dividend program.

On April 30, our Board of Directors approved a dividend of \$0.22 per share of common stock, a demonstration of the strength of our model. This dividend totaling approximately \$6.5 million will be paid on June 7, 2024 to stockholders of record as of May 17, 2024. Now shifting to our outlook for 2024.

Based on the strong start to the year, we are providing the following updates to our outlook. Domestic same-store sales growth of low double digits for fiscal year 2024, previously mid-single-digit same-store sales growth. Net new restaurants between 275 and 295, previously approximately 270 net new restaurants.

For modeling purposes, we also want to highlight that we anticipate our pace of openings to be weighted more towards the second half of the year based on the visibility into our pipeline at this point in the year. SG&A guidance is estimated to be approximately \$111 million, previously \$108 million including an approximately \$20 million of stock based compensation expense, which was previously \$19 million.

Our Q1 results are a testament to the resiliency of our strategies and focus we have to execute against our long-term vision. These results would not have been possible without the extraordinary efforts by our global support center team members, restaurant team members, brand partners and supplier partners.

We are excited by the start to the year and results that demonstrate the category of one we believe we operate in. With that, I'd like to now turn to Q&A. Operator, please open the line for questions

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question today comes from David Tarantino with Baird. Please go ahead.

David Tarantino

Hi. Good morning. And congratulations on such a strong start to the year. My question is on the brand adoption curve that you're seeing. It seems like you're attracting a very new audience to the brand with all the things that you're doing in advertising and otherwise. I just wanted to ask, Michael, if you could share some metrics on what types of new customers you are attracting, where the brand awareness is with that cohort versus maybe where it was when you began this journey? And how much room for improvement on the brand awareness do you still have relative to the top QSR brands you might have referenced earlier? Thanks.

Michael Skipworth

Hey, David, good morning. Thank you for the question. I think this is one of those really exciting components to our growth story and really what frames up the runway we have in front of us. This is a group we've talked about over the past few years when we started on this journey. This group represented roughly, call it 60% of all QSR occasions and they had never heard of or tried Wingstop. And so we've made a lot of exciting progress with that group. And this group is they're a little bit higher income. They tend to be Gen Z millennial. They're less likely to have kids at home. They over index to or prefer to engage with brands digitally.

They actually over index to boneless, which we really like and they are demonstrating a higher level of frequency. And so we're pretty excited about, as we mentioned in our prepared remarks, Q1 marked yet another record quarter of new guest acquisition. And so we're making great progress there. But yet we have a huge runway in front of us. When we look at just over the last year, the progress we've made in brand awareness, we're talking about moving it a couple of percentage points, David.

And we look at ourselves compared to other more mature QSR brands that are out there and our runway or the gap or opportunity we have in front of us is double digits, high double digits. So a pretty meaningful opportunity that we have to continue to execute against. And we're excited about the progress we've made, the growth that we're seeing in system sales that's fueling growth in our ad fund, allowing us to invest those dollars.

And we are seeing the frequency uptick a little bit, but yet Wingstop still remains a pretty low frequency brand where we are still averaging about three times a quarter once a month. So we see a big opportunity to impact frequency over time.

David Tarantino

Great. Thank you very much.

Michael Skipworth

Thank you.

Operator

The next question comes from Jeffrey Bernstein with Barclays. Please go ahead.

Jeffrey Bernstein

Great. Thank you very much. You guys raised your full year '24 guidance for the comp from mid-single to low-double-digit. It seems like a big increase into what many have noted is a slowing macro. So I'm just wondering if you could talk a little bit about your level of confidence. I'm assuming, first and foremost, that's acknowledging that you've sustained momentum into April and you haven't really seen a change in trajectory.

But as long as that's the case, I'm just wondering within your business and the metrics you track, I mean, what are you looking for as a leading indicator of any kind of slowdown, whether it's mix shift changes, frequency of visitation, just trying to assess how you would anticipate a potential slowdown. And then I had one follow-up. Thank you.

Michael Skipworth

Hey, Jeff. Good morning. We have a lot of confidence in the strength of the business and I think we have a lot of unique, very brand specific growth drivers that we're executing against. I mentioned the one around brand awareness, but there's several other elements to that strategy that we called out in our prepared remarks where we have meaningful runway against those opportunities in front of us. And so we feel confident in our ability to continue to execute our strategy and drive outsized growth.

And I think it really -- Q1 really is a testament to that where you saw us deliver a pretty outsized comp to the rest of the industry that's talking about consumer pullback and a lot of concern. And we delivered a 21.6% same-store sales growth that was almost entirely driven by transaction growth, which I think just speaks to the underlying health of the brand and the effectiveness of the strategy.

As it relates to our outlook for the balance of the year, we're confident in our ability to deliver on that. Obviously, we have considered in that guide the macro backdrop, what you've heard a lot of other brands talk about around a cautious consumer. And so we have contemplated that in our guide.

Jeffrey Bernstein

Understood. And then just as a follow-up, in terms of investing in the business, obviously, with 20% plus comp growth and a lot of that flowing through earnings and cash flow, it would seem like now is the time to double down on investments to strengthen the system for many years to come. And it seems like you guys are all about technology and whatnot?

I'm just wondering if you could maybe prioritize what you think are the best returning investment priorities and whether it's the tech stack still or further supply chain investments or AI or whatnot, again, what would you say are the top priorities in terms of incremental investments you should be making when the cash flow is so strong? Thank you.

Michael Skipworth

Yes. No, thank you. And Jeff, I would say it's a little bit of yes, yes and yes. We think those are all areas that we have a meaningful opportunity to invest technology, one, we feel like we're quite a bit ahead of a lot of others and it's more than just the investments we've made in our proprietary tech stack, My Wingstop that we're in the middle of rolling out. But we've invested over the years in our data in enriching our data that we believe really gives us a competitive advantage for how we place media, how we market and lean into hyper personalization, which my Wingstop will be an enabler of that. And so you'll see us continue to invest there.

And then I think as it relates to the rest of the business, I think that's a little bit of the beauty of our model. We've been a brand when we see an opportunity to invest, we'll put our foot on the gas and position this brand for the long-term and for growth, but the reality is we're an asset light model that's generating a lot of cash flow that puts us in a position to what we believe is deliver outsized shareholder returns.

Operator

The next question comes from Jim Salera with Stephens. Please go ahead.

Jim Salera

Hi, guys. Thanks for taking our question and congrats on a nice quarter. We noticed on the app, at least in my area, \$0.70 boneless wing special to join kind of the boneless meal deal in the all in bundles. At a time when QSR competitors seem to be leaning more into value, can you just talk a little bit more about the strategy there and particularly on the boneless awareness, is that promotion a way to help improve the boneless mix and get it closer to kind of that 50-50 parity?

Michael Skipworth

Hey, Jim, good morning. I would say our \$0.70 boneless promotion that you called out on Monday, Tuesdays, that's actually something that's been around for, I think as long as I've been with the brand, which is at least 10 years. So not necessarily anything new and we that's a day where we can promote boneless wings and it's been something that's been successful for us over the years. But generally speaking, it's not a high mix promotion by any means.

And I think you really hit on a point that highlights the uniqueness of Wingstop in our category of one positioning is with the combination of the quality and the operating excellence that we deliver within the four walls of the restaurant, as well as just the attention to detail that goes into the cook to order made from scratch nature of our products and our disciplined approach to pricing, we've seen our quality and value scores quarter after quarter measure record levels.

And I think that's really just putting us in a unique position in this environment to where that indulgent Wingstop occasion is something that we're able to deliver on. And as you can see in our Q1 results, consumers are choosing Wingstop when they do decide to spend some of those discretionary dollars on dining now. And so we're going to continue to lean in and execute on quality and value.

And I think one other thing I would point out is if we look back over the years, we've been a brand that's been able to demonstrate growth regardless of the macroeconomic backdrop, obviously, 2023 marking our 20th consecutive year of same-store sales growth and then our start to 2024 puts us well on our way to our 21st.

Jim Salera

Great. That's super helpful. And then if I can ask just a follow-up on some of the throughput. Given that the average unit volume has scaled so rapidly. Can you just talk about what's required from kind of a back of the house perspective to support that growth? Should we think about some of the stronger units as having kind of additional back of the house investments to get to that above \$2 million, \$3 million AUV.

Michael Skipworth

Yes, Jim, I think you just need more chicken. The reality is we haven't found the ceiling. We don't have a throughput issue within our brand, which is pretty incredible. Alex called out in his prepared remarks that the oldest restaurant in the system that is one of the highest volume restaurants in the system that is in our company owned portfolio is continuing to grow transactions and comp. And so I think it just highlights the capacity that we have within that efficient box.

And then what we really like is the strength of our model with that low occupancy cost with our small footprint. You can only fit so many bodies in the back of the house. And so at some point, you start to gain some really nice leverage on the labor line as well, which I think you're seeing show up in the strength of our unit economics and the level of demand we have from brand partners for more growth.

Operator

The next question comes from Danilo Gargiulo with Bernstein. Please go ahead.

Danilo Gargiulo

Thank you. I actually wanted to double down exactly on this topic of throughput. Most of your peers are focusing on expediting the service, increasing the speed of service, improving the throughput. And so I'm wondering, what is the average service time today at a typical Wingstop? And what kind of levers do you think you can pull to potentially like increase the speed of service without compromising on the quality of your wings?

Michael Skipworth

Good morning. Thank you for the question. And it's actually an area that we see as we look longer-term, we see as an opportunity for Wingstop is, you're right, we can get faster. There are some opportunities. We focused a lot of our technology investments over the year to the digital order -- ordering experience, the consumer facing experience. And we see an opportunity to leverage technology over time in the back of the house that could improve speed.

But obviously, with our low frequency indulgent occasion, consumers are okay with the speed of service we offer today. But as we look out longer-term and as we're bringing in these new guests into the brand, we do see an opportunity to work on getting faster, which we believe combined with some of the other elements within our strategy could be an enabler to impacting frequency over time, which is a really big opportunity.

But our focus right now is being consistent and we're extremely focused on just operating within excellence -- operating excellence within the four walls of the restaurant to deliver a great guest experience.

Danilo Gargiulo

Thank you. And a quick follow-up on the same vein. Another opportunity that you didn't mention today, but it was mentioned in the past is expanding the relevance of tenders. So can you elaborate how you're planning to do so? Is it a different combination of sausage, is it more on the consistency of the tenders? Is it about awareness? So what is the plan, the specific plans that you have in mind to expand the relevance of tenders?

Michael Skipworth

Yes. I think tenders are a lot like chicken sandwich where we believe we have a unique value proposition where we can not only deliver an incredible product cook to order, but do it at a great price, which I think will continue to differentiate us. And that's the success we've had with chicken sandwich since the launch of chicken sandwich. And you're right, tenders are an opportunity for us down the road. I think it's one of those levers that we have that we can lean into and pull when the time is right, when we feel like it's the right thing for the business. And obviously, that does feed into our supply chain strategy as we continue to use more of the bird.

And so it fits in and works into that the execution of that strategy as well. And as we get closer to the execution around us continuing to try to drive tenders mix, which today is low single digits, a meaningful opportunity for us. We'll obviously, we'll talk about that when the time is right.

Operator

The next question comes from Sara Senatore with Bank of America. Please go ahead.

Sara Senatore

Thank you. I have a quick follow-up on an earlier question from Jeff and then a question of my own, if I may. The first is, I just want to take the other side of the low double digit comp guide because I think it basically implies sort of high-single-digit run rate for the rest of the group. So again, is that more just caution or is it something you're seeing? I know you mentioned being cognizant of the consumer, but I just wanted to kind of understand a little bit further the dynamics there. And then I'll have a question about advertising, please.

Michael Skipworth

Hey, Sara, good morning. I think our guide, I mentioned it to Jeff earlier we remain confident in our strategy. Obviously, that had a lot to do with the guide that we did issue. Obviously, we're one of the few brands out there that's increasing their outlook for the year, much less increasing it to something like low-double-digits.

And so we have been cautious and considered the macro backdrop. You can even layer on top of that the uncertainty around an election later this year. We have contemplated all of that and we feel really good about our ability to deliver on what we guided to. And quite frankly, when you stack it on our results from 2023, it's something we're pretty proud of.

Sara Senatore

Got it. Thank you. And then I wanted to ask about, I guess, advertising in the sense of I think there's sort of a view that and you touched on this a little bit, not only have you seen quantitatively a much bigger ad spend as your system grows, but this was like the first year, I think where qualitatively, you talked about like being in the NFL Playoffs and lead sponsor of NBA Prime Time and it just feels like or there's -- I think a perception that these are -- this is like a step change in visibility and you may have to lap them.

So I guess, is that the right interpretation that this is that you sort of have an unprecedented step up in visibility this year because of what you were able to sponsor and then it will be a little bit slower going forward or do you feel like you still have an opportunity to have other further step changes?

Michael Skipworth

Yes, Sarah, it's a great question. And I'll provide a little bit more context to our the exciting opportunity we had to show up for the first time as a brand in the NFL Playoffs, which was a big deal for us. And we get a ton of feedback around how many people see our spots and they see us everywhere, which is great. But the reality is in a weekend where there were four playoff games, we had one spot on two of them. And so we had two spots that weekend.

So there's still a ton of runway for us, particularly when you look at the opportunity around brand awareness, but we are a long ways away from some point of saturation as it relates to our presence on live sports. I think what you see in a lot of the comments we hear is just the fact that our creative is breakthrough and it's getting people's attention and we're being rewarded for that and it's shown up in the results.

Operator

The next question comes from Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour

Yes. Hi, good morning. Michael, what's -- you mentioned you're sort of encouraged by the My Wingstop tech stack rollout. What's encouraged you? I mean, is it just gone faster than you expected or are you seeing sort of some of the tangible benefits of that so far? I was just curious about that.

Michael Skipworth

Yes, I would say it's a few things, Brian. The excitement within our brand partner community within the team members in the restaurant around the tool, the functionality that it provides them the visibility. That's far exceeded our expectations and it's really encouraging to hear. And then obviously, it's early days in the launch, but the launch is on schedule. We're not ahead of schedule. We're executing our plan and doing it at a very high level.

But we are seeing early results around things like conversion that are exciting for us. And so we're really encouraged by what we see. And we think as I mentioned in the comments earlier as you couple this with the investments we've made in our data, this is an enabler for us to continue to drive our digital business. And we believe over time can impact -- impact frequency. So we're pretty excited.

Brian Harbour

Okay. Makes sense. What your development outlook for this year, is that mainly -- is the delta mainly U.S. or is any part of that international or any kind of new markets that we should look forward to there?

Michael Skipworth

Yes. I think it's the true and honest answer, it's everywhere. As you think about your model, I would consider kind of a similar ratio between international and U.S. as we had in 2023.

Operator

Next question comes from Andrew Charles with TD Cowen. Please go ahead.

Andrew Charles

Great. Thank you. My first question is to follow-up on my Wingstop platform. It's been a month since the start of the launch there. And Michael, you mentioned that just with the improved CRM efforts, it's something over time that can lead to greater guest frequency. I imagine it can also help ticket to as you can mention people, things they can add to their basket. So I'm curious what just needs to happen though between now and ultimately driving guest frequency what's kind of the nuts and bolts of what needs to happen before you can start to realize those check and frequency driving benefits?

Michael Skipworth

Hey, Andrew. Good morning. I would say the main thing is once we complete the rollout of the engine, if you will, that will enable us to turn on or launch the guest ordering app and mobile web experience. So that's obviously a big catalyst for us continuing to optimize the experience with My Wingstop.

Andrew Charles

Okay. And then my follow-up is that just for the better than expected same-store sales and net restaurant growth performance in 1Q as well as the outlook for this year. This is undoubtedly going to help you lead to an ad fund surplus versus what you had budgeted at the beginning of the year. Is the plan to deploy this surplus in 2024? Would you rather hold on to this deploy in '25 to help you lap just another robust year?

Michael Skipworth

Yes. I don't think we have any plans on around building a surplus. Obviously, I mentioned earlier to Sara, there's just a ton of opportunity and headroom for us to continue to lean into a strategy that's working. And I think that's exactly what you'll see us do. We have we believe we have a ton of momentum in the brand and to take these ad dollars and put them to work to continue to expand AUVs and enhance brand partner unit economics, I think will just kind of further fuel the flywheel that we're creating here.

Operator

The last question today comes from Chris O'Cull with Stifel. Please go ahead.

Chris O'Cull

Thanks. Good morning, guys. I had a question about international markets and I was just wondering, are there any international markets where development has slowed or you've run into issues? And also have current events altered the progress, Michael, of just signing new agreements? And then if you could maybe talk a little bit about the commitments. I know you talked about the overall commitments that you have from franchisees, but what about the commitments in the pipeline for international development? That'd be helpful.

Michael Skipworth

Hey, Chris. Good morning. I guess I would actually say it's quite the opposite in that it Raj and I had dinner a few weeks ago with our partner for Canada, just to highlight an example. And that conversation over dinner centered around how happy they were with the returns, with how the brand was resonating. And the conversation quickly moved from well past their current development agreement of call it 100 restaurants to Canada as a much bigger opportunity than that and how can we go faster.

And so we're encouraged by how the brand is resonating around the globe. And I wouldn't say any of the geopolitical or any of the unrest that's around the globe right now is impacting our progress or the level of interest we have from parties that are looking to grow with the brand. And we actually believe we'll have some -- with the strength we've talked about over the quarters in the development pipeline, we believe we'll have a few new deals to talk about over the coming quarters that we're pretty excited about. That will just further grow and strengthen that pipeline of commitments.

Chris O'Cull

Are all these deals going to be direct franchise-to-franchise relationships with you or are you looking at master arrangements?

Michael Skipworth

Yes. I would say, generally speaking, Chris, they're all direct. Obviously, I think use the UK as a great example where we have AUVs north of \$2.5 million, there's no need for us to dilute our economics on that. And so we're looking to just be direct.

Operator

This concludes our question-and-answer session and concludes the conference call today. Thank you for attending today's presentation. You may now disconnect.

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

View all [earnings call transcripts](#)

Comments

Newest  