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Wingstop Inc. (WING) Q2 2024 Earnings Call Transcript

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Q2: 2024-07-31 Earnings Summary

Play Call

Press Release

10-Q

EPS of \$0.93 **beats by \$0.10** | Revenue of \$155.70M (45.28% Y/Y) **beats by \$10.62M**Wingstop Inc. (NASDAQ:[WING](#)) Q2 2024 Earnings Conference Call July 31, 2024 10:00 AM ET

Company Participants

Michael Skipworth - President and Chief Executive Officer

Alex Kaleida - Senior Vice President and Chief Financial Officer

Conference Call Participants

David Tarantino - Baird
Jeffrey Bernstein - Barclays
Andrew Charles - Cowen
Sara Senatore - Bank of America
Chris O'Cull - Stifel
Danilo Gargiulo - Bernstein
Brian Harbour - Morgan Stanley
Andy Barish - Jefferies
Jim Salera - Stephens Inc
Jeff Farmer - Gordon Haskett
Gregory Francfort - Guggenheim

Operator

Good morning, ladies and gentlemen, [\[Author ID1: at Thu Aug 1 07:32:00 2024\]](#)

] and thank you for standing by. Welcome to the Wingstop Fiscal Second Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note that this conference is being recorded today, Wednesday, July 31, 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 second 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 to 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. Our second quarter results were truly remarkable. I want to start by recognizing the incredible work by the entire Wingstop team, team members in the restaurant and in the global support center, our brand partners, and our supplier partners. Their relentless focus on executing our long-term strategy and living the Wingstop way has delivered another industry-leading quarter.

In the second quarter, we delivered 28.7% same-store sales growth, which was almost entirely driven by transaction growth. This sustained top_

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]line growth continues to strengthen our unit economics and is increasing demand for growth from our brand partners as our development pipeline strengthens.

We opened 73 net new restaurants, a record Q2. And we delivered adjusted EBITDA of \$51.8 million, representing a 50.7% growth rate over the prior year. I am truly humbled to be part of a brand that is experiencing such unprecedented growth.

Earlier this month, we celebrated our 30th anniversary. The first Wingstop opened in Dallas, which began our journey pioneering wings as a center of the plate meal occasion. Over the last 30 years, not a lot has changed with our brand.

We added boneless wings, tenders, and the chicken sandwich. And we have remained focused on our simple operating model and delivering guests that indulgent Wingstop occasion that is centered around quality, cooked-to-order wings, soft and tossed in our bold, distinctive flavors.

That original Wingstop remains open today, doing roughly \$4 million in sales out of that simple, efficient footprint, and is still experiencing transaction growth 30 years later. While we have a lot to celebrate and be proud of over the past three decades, I can confidently say that we are just getting started here at Wingstop.

A little over two years ago at our Investor Day, and shortly after assuming the role as CEO, we outlined several multi-year strategies that supported Wingstop's category of one positioning and AUV growth from the then system average of \$1.5 million to a target of \$2 million.

These are the same strategies we are executing against today that consist of scaling brand awareness, new innovation, expanding our delivery channel, data-driven marketing, and our digital transformation. We were confident that our multi-year strategies would lead to strengthened returns for our brand partners, which in turn would create significant demand for growth.

Fast forward to today, just two years later, and our AUVs are now above \$2 million. Yet, as we look at the success of these strategies we are executing against, we see meaningful runway in front of us. I can sit here today with the same level of confidence in these sustaining sales strategies as I did two years ago at our Investor Day.

And this is what gives us confidence to announce today a new AUV target of \$3 million. Brand awareness is a great example of a strategy we see sustaining same-store sales growth.

We are making great progress in scaling brand awareness as we work towards closing the gap in awareness to more mature national brands, but our opportunity remains meaningful. In 2024, we have been delivering more than 20% same-store sales growth, but yet we have only moved brand awareness by a couple of percentage points year-over-year. The impact from closing this gap is significant.

During the quarter, system-wide sales grew by 45%, which delivers additional firepower in our advertising fund, which allows us to invest meaningful dollars to expand brand awareness.

To provide some perspective, the growth in system sales over the past couple of years has fueled a media investment in 2024 that is double what we invested in 2022. Our media strategy focused on live sports and a very targeted approach in streaming and online video placement combined with breakthrough creative has proven to be highly effective.

We continue to measure strong levels in value and quality scores as our brand partners and team members are focused on operational excellence and delivering a great guest experience.

Our disciplined approach to menu pricing over the years is paying dividends. The consumer is continuing to prioritize quality and value when deciding how to spend their discretionary dollars.

We believe that indulgent Wingstop occasion delivers upon both value and quality and has us uniquely positioned, which is evident in our second quarter results where our 28.7% comp was almost entirely driven by transaction growth.

Our menu innovation with our chicken sandwich is attracting a new guest into the brand who is experiencing our quality and flavor for the first time, which has made Wingstop unique over the years and what's driving an incredible stickiness with this new guest.

While we continue to see growth in our chicken sandwich guests, we still haven't come anywhere close to reaching our fair share of the 2.8 billion chicken sandwich servings annually in the U.S.

What excites me the most about this new guest is they're demonstrating a higher frequency than our traditional guests and index higher on boneless. These guests are moving up the frequency curve faster than what we've witnessed before. For the first time in my 10 years at Wingstop, we're beginning to see frequency tick upwards.

Digital sales for the second quarter represented 68.3% of sales and our database now stands at over 45 million users strong. We have been investing in the technology and data to enrich our digital guest profiles and optimize our engagement with our digital guests.

We recently completed the rollout of our MyWingstop platform in Q2, migrating more than \$2.5 billion of digital sales through our platform. I couldn't be prouder of what the team accomplished and I believe we executed a best-in-class rollout.

MyWingstop is our proprietary tech platform that we started building over three years ago and invested nearly \$60 million. It is a platform that is built for Wingstop with the most modern technology and allows us to more quickly adapt to changing consumer needs.

While early, we are very excited about the long-term impact MyWingstop will have on our digital business. And with the launch of MyWingstop, we believe we can unlock a new level of hyper-personalization that can allow us to increase conversion rates and frequency, something we view as a multi-year sales driver as we continue to execute against our aspirational goal of digitizing 100% of our business.

Delivery occasions remain another core tenet of our strategy to sustain sales growth. We continue to see transaction growth in both DoorDash and Uber Eats and have a lot of white space in our delivery channel as we reach more consumers within their platforms. We view this as an opportunity to make Wingstop more top-of-mind and fill the top of the funnel with new guests.

It's truly been remarkable to see these multi-year sales growth levers in action. While we have made great progress, I'm energized by the amount of growth that lies ahead of us. When you combine this with the team's consistent execution, it gives us confidence in our ability to scale AUVs to our new target of \$3 million.

Based on the strength we see in the business and the effectiveness of our strategies, we are raising our comp guidance for 2024 to approximately 20%, setting us up for our 21st consecutive year of same-store sales growth, further demonstrating that Wingstop is operating in a category of one.

The combination of our AUV growth and strengthening unit economics is fueling a record pace of development. In the last 12 months, we have opened more than 300 net new restaurants, showcasing the excitement of our brand partners to open more Wingstops.

And it is important to note that over 95% of our restaurants were opened by existing brand partners reinvesting. Our pipeline for future restaurant commitments is the strongest it's ever been.

Our brand partners are enjoying industry-leading, unlevered cash-on-cash returns of more than 70%, which has fueled significant demand for growth. As this demand for growth has taken shape in our new restaurant pipeline, we are increasing our outlook to a range of 285 to 300 net new restaurants for 2024.

As we have scaled the brand in a meaningful way over the past couple of years, continued to bring record levels of new guests, and further expand our restaurant footprint, we have taken a hard look at the unit opportunity we have in front of us domestically.

We reevaluated our total addressable market in the U.S. through a combination of a top-down and bottoms-up build from a trade area-specific standpoint. This work has led to refreshed market plans and playbooks, and I'd like to announce an updated unit potential in the U.S.

We now believe we can support over 6,000 restaurants domestically, more than tripling our current U.S. footprint. When you combine this with our opportunity outside of the U.S. and the early success we're having in markets from the Asia-Pacific region to Western Europe to North America, we believe we can scale wings up to more than 10,000 restaurants globally.

Similar to the U.S., we are seeing double-digit same-store sales growth trends, which is primarily driven by transaction growth. Our international AUV growth has grown more than 82% in the last two years. We have a clear playbook for international markets, and I believe our international business is supercharged for growth.

We remain anchored in the foundation of our strategy, investing in our people and our culture, what we refer to as the Wingstop Way. We view our people and our culture as a competitive advantage.

As we look towards Wingstop's opportunity to scale globally, we believe we have clear line of sight to scaling Wingstop into a top-ten global restaurant brand. It is an incredibly exciting time at Wingstop.

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

Alex Kaleida

Thank you, Michael. I could not be more excited by the first half performance we've had at Wingstop. Our second quarter results showcased the resiliency of our proven strategies and further solidified Wingstop's category of one position.

In the second quarter, our domestic AUV exceeded our prior target of \$2 million, and as Michael mentioned, the multi-year strategies we are executing against position us to reach a new \$3 million AUV target.

The AUV growth in Q2 was fueled by 28.7% increase in domestic same-store sales, primarily driven by transaction growth, which is truly remarkable considering the industry backdrop.

We delivered 45.2% growth in system-wide sales in the second quarter, which is fueling and creating a flywheel for our advertising fund as we chip away at our opportunity and brand awareness.

Our best-in-class unit economics have further strengthened in the quarter, creating more demand from our brand partners to open more Wingstops, and our development pipeline sits at a record level today.

We opened 73 net new units, achieving a record for Q2, which follows records set in the prior three quarters. And while not fully annualized yet, our new restaurant AUVs for our 2023 vintage are now approaching \$1.6 million in year one, with 2024 vintages on a pace that's even stronger.

The visibility we have into our pipeline gives us the confidence to raise our development outlook to a range of 285 to 300 net new restaurants. Total revenue increased 45.3% versus the prior year to \$155.7 million.

Royalty revenues, franchise fees, and other revenue increased by \$23.2 million in Q2, driven primarily by roughly 300 net franchise openings since the prior year comparable period and same-store sales growth of 28.7%.

Company-owned restaurant sales totaled \$29.9 million in Q2, an increase of \$7.3 million, primarily due to a 14.1% increase in company-owned same-store sales, driven by transaction growth and seven net new restaurants versus the prior year comparable period.

Our supply chain strategy has proven to be highly effective, a strategy that is centered around creating predictability and minimizing volatility and food costs. In the second quarter, our company-owned restaurant food, beverage, and packaging costs were well in our target range of mid-30% food costs, at a time when bone and wing costs on the spot market have reached north of \$2.50 per pound.

We acknowledge the recent market movement and the price of bone and wings, however, our expectations for food costs have not changed, and we continue to have line of sight to a food cost target in the mid-30% range.

Historically, in an environment where the spot market was north of \$2 per pound, we would experience food costs well into the 40% range. As we continue to lean into our strategy, it is providing us with line of sight into 2025 food costs.

This predictability of food costs is creating a tremendous level of excitement among our brand partners and is fueling this record demand for growth as it further strengthens our best-in-class unit economics.

In the second quarter, SG&A increased by \$6 million versus the prior year comparable period to a total of \$28.1 million, driven by investments to support our long-term strategies and an increase in incentive and performance-based stock compensation based on our industry-leading performance.

Adjusted EBITDA, a non-GAAP measure, was \$51.8 million during the quarter, an increase of 50.7% versus the prior year. This growth is on top of a Q2 2023 adjusted EBITDA growth rate of 47%.

We delivered earnings per diluted share of \$0.93, a 70% increase versus the prior year. Another key tenet in our strategy is to enhance shareholder returns. In the second quarter, we repurchased 75,862 shares of our stock at an average price of \$381.29 per share. At the end of Q2, \$96.1 million was remaining under our current share repurchase program authorization.

Since the inception of our share repurchase program, we have repurchased a total of 721,814 shares at a weighted average price of \$217.32. Another component of our return of capital strategy is through our regular dividend program. On July 30th, our board of directors approved a dividend of \$0.27 per share of common stock, an increase of 23%, which is a demonstration of the strength of our asset light model.

This dividend totaling approximately \$7.9 million will be paid on September 6th, 2024 to stockholders' record as of August 16th, 2024. We remain committed to enhancing shareholder returns through a combination of our remaining \$96 million share repurchase authorization and our regular quarterly dividend program.

Now shifting to guidance for 2024, based on the strong results of the first half of the year and visibility into our pipeline, we are providing the following updates to our outlook. Domestic same-store sales growth of approximately 20% for fiscal year 2024, previously low double digits, net new restaurants between 285 and 300, previously 275 to 295 net new restaurants.

SG&A guidance is estimated to be between \$114 and \$116 million, previously approximately \$111 million, including an approximately \$20 million of stock-based compensation expense. The increase in the SG&A guidance is primarily driven by short-term incentive compensation as a result of the performance in our business.

Our quarter two results are a testament to our proven strategies and focus we have to execute against our long-term vision of becoming the Top 10 global restaurant brand. These results would not have been possible without the extraordinary efforts by our global support team members, restaurant team members, brand partners, and supplier partners.

I'd like to now turn to Q&A. Operator, please open the line for questions.

Question-and-Answer Session

Operator

Thank you. We'll now begin the question-and-answer session. [Operator Instructions] At this time, we'll pause momentarily to assemble a roster. The first question comes from David Tarantino from Baird. Please, go ahead.

David Tarantino

Hi. Good afternoon or good morning and congratulations on a very strong start to the year. Michael, I had a question about your comments on brand awareness. I think you mentioned that brand awareness is up only a couple of percentage points in the GAAP versus maybe where you are now versus where you'd like to be long-term is still pretty wide. I was wondering if you would be willing to share where you are on brand awareness versus some of the bigger national brands just to kind of frame up the opportunity. And within that GAAP, is it mostly some of these new consumers that you've been attracting? I guess any color there would be great. Thanks.

Michael Skipworth

Good morning, David. Thank you for the question. I think you said it well or summarized it well in that year to-date, we've been delivering over a 20% same-store sales growth, but when we measure how much that moved brand awareness over the prior year, [\[Author ID1: at Thu Aug 1 07:51:00 2024\]](#)

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Je're only talking about a few percentage points. And I think we've talked about in the past, the GAAP we have to other more mature national brands is significant. It's meaningful. It's definitely in the double-digit range. And I think as you think about that in concert with these other strategies we're executing against, it gives us a lot of confidence in our ability to achieve over time our new AUV target of \$3 million.

And we are bringing in a lot of new guests into the brand. I think if you look at our results against this industry backdrop where there's a handful of brands that are increasing transactions and a lot more that are losing them, and we delivered in Q2, a 28.7% comp that was primarily driven by transaction growth, I think that really showcases the effectiveness of our strategies and the fact that we are bringing in a lot of new guests into the brand. And we're winning more occasions in addition to just bringing in new guests. We talked about menu innovation, Chicken Sandwich, and how that's allowing us to become more of that consideration set.

And as our team members and brand partners in the restaurant focus on ops excellence and delivering a great guest experience, we're winning more occasions. And so that gives us a lot of confidence in continuing to drive outside top

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]line growth. And you saw that in our updated outlook for this year where I don't know there's many other brands in this environment that are increasing their outlook for same-store sales like we are, much less expecting the year to shape up to be something in that approximately 20% range.

David Tarantino

Great. And just a follow-up, I think one of the big catalysts seems to have been advertising the Chicken Sandwich platform with your national media. And I wanted to sort of get your thoughts on whether that's something you're planning to continue or are there new approaches with the advertising that you're contemplating?

Michael Skipworth

Yes, David, I think it ties back to just that significant opportunity we have around awareness. Obviously,

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] Chicken Sandwich is something that just about every consumer in the U.S. can relate to and understand how to engage with, with 2.8 billion Chicken Sandwich servings annually in the U.S. And so that's created a really easy entry point into our brand. And what we've seen with these new guests that we're bringing in is they enter via Chicken Sandwich and then they learn to navigate the rest of the menu. And we're seeing these new guests come back sooner, come back more frequently. And so we're really encouraged by that. But I think generally speaking around our advertising, it's about just building awareness. And I think it's about showcasing abundance. It's about showcasing the variety of our flavors. And we believe that strategy is resonating well with guests.

David Tarantino

Great. Thank you very much and congrats again.

Michael Skipworth

Thank you.

Operator

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

Jeffrey Bernstein

Great. Thank you very much. My first question was just on the comp trends for the second quarter. Obviously, [\[Author ID1: at Thu Aug 1 07:54:00 2024\]](#)

] there's a lot of industry and investor concerns of slowing comps. It doesn't seem to be evident in your results. I'm wondering if you could share maybe the trends directional or specifically by month and into July. Are you seeing any change in consumer behavior to note, whether it's visitation, mix, [\[Author ID1: at Thu Aug 1 07:54:00 2024\]](#)

] shift, anything along those lines that would either reflect any change in the macro for better or for worse? And then I had one follow-up.

Alex Kaleida

Yes, Jeff. Good morning. As it relates to Q2, we saw a pretty consistent comp throughout the quarter, which I think just showed consistent strength in our business. And as we think about the overall backdrop, I think it really just showcases Wingstop operating in a category of one. And there's a couple of things to point out here. With our guide for 2024 that's setting us up to deliver our 21st consecutive year of same-store sales growth.-[Author ID1: at Thu Aug 1 07:54:00 2024

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And so I think within those couple of decades there, you can clearly see that we've been able to grow same-store sales regardless of the macro backdrop. And I think that highlights the unique position of our brand, how consumers, if they are under pressure and do begin to pull back, what we've seen historically is they'll pull back on more high-frequency occasions, and they'll save up for that indulgent Wingstop occasion. And that's allowed us to retain those visits and continue to grow the business.

And then in addition to that, we have some really unique brand-specific growth drivers that we're executing against, whether it's closing the gap in brand awareness, whether it's bringing new guests in via menu innovation like Chicken Sandwich, continuing to expand the top of the funnel through access via delivery, which remains a significant opportunity. And then all of that supported by a digital business that's close to 70% of sales, a database of over 45 million users strong that we've invested in to be very targeted with how we advertise and then continuing to expand our digital business.-[Author ID1: at Thu Aug 1 07:55:00 2024

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And so, all of that I think just really puts us in a unique spot and puts us in a position to where we can, in this environment, actually increase our outlook this year where a lot of other brands are navigating in a more challenging environment.

Jeffrey Bernstein

Understood. And my follow-up, I mean, I think investors get excited by the comp growth, but hard to imagine you can sustain at these levels long-term. So it's really the unit growth that is the more consistent and stable top_

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]line driver. The fact that you bumped up your target for this year to what looks like 13% to 14%, I think you mentioned it's the strongest pipeline ever. I'm just wondering, as you think out going into next year, I mean, your long-term algorithm is for 10% growth, but on that higher base of openings this year, you have the visibility to see more openings in '25 versus '24 to kind of maintain that elevated percentage growth rate. And within that you talk about a 3 million AUV, but there was no necessarily timeframe to achieve. I'm just wondering if you can give any kind of thoughts as to how many years before we're talking about 4 million? Thank you.

Alex Kaleida

Thanks, Jeff. I mean, I think you highlighted something really important. We often talk a lot about same-store sales, but for us it's really focused on continuing to drive AUV growth. And in just two years to have gone from 1.5 million to 2 million, that's translated to strength in unit economics. And then you combine that with the progress against our supply chain strategy. The demand for growth from our brand partners is really strong, and so it gives us confidence in continuing to be able to deliver on our long-term algorithm as far as unit growth goes.

But I think most importantly, as we thought about the opportunity we have within the U.S., we feel like we're in a position in the work to support increase in that total addressable market to over 6,000 units. And so, as we continue to deliver on that algorithm, obviously that denominator gets bigger, and therefore we'll need to open more units year after year, and we think the demand is there to support that.

Jeffrey Bernstein

Thank you.

Operator

The next question comes from Andrew Charles from Cowen. Please go ahead.

Andrew Charles

Great, thank you. Michael, something clicked this quarter. I mean, you've had very strong traffic growth for the better part of the last two years, but the fact that guest frequency is starting to improve, from that roughly three times a quarter, roughly once a month level. Is there something you can pinpoint around what's changing the frequency? I would think it would be the advertising, but anything you can point to around how you're rationalizing would be very helpful?

Michael Skipworth

Yes, Andrew, good morning. Really the thing driving an uptick in frequency is a couple of things. One is as we continue to become more of that consideration set, and we lean in and focus on delivering on value and quality, where we have measured continued improvements in those categories, the consumers are rewarding us for that. But I think this new guest that we're bringing in, as I mentioned earlier, we're continuing to bring in a record level of new guests quarter after quarter, and these new guests are coming back to the brand sooner than our traditional guests, and they're moving up that frequency curve faster, and so that's starting to impact the overall frequency, which we're really encouraged by, because we think we can continue to broaden how consumers view Wingstop, how we fit in their consideration set, and win more and more occasions over time.

Andrew Charles

Okay, very helpful. And then my follow-up is that this is the second time you've raised a long-term TAM for the U.S. market. Can you talk about how you landed on 6,000 stores? Last time you did this, you went from 3,000 to 4,000, so I'm just curious how you leapfrog 5,000 to get to 6,000?

Michael Skipworth

Yes, Andrew, it has a lot to do with just the progress we've made over the past couple years. Take some of our more mature markets as an example of DFW, where we continue to open more restaurants, and we see a lot of runway in front of us. And so, it ties back a little bit to your prior question of as Wingstop becomes more the consideration set, as we've won more new guests, that's providing an opportunity for more restaurants within the U.S. And so we did a very detailed analysis around the progress we made and how that would develop over time across the broader U.S., and that's how we arrived at a pretty meaningful opportunity of over 6,000 units in the United States, which is over triple our footprint today.

Andrew Charles

Very helpful. Thanks, Michael.

Michael Skipworth

Thank you.

Operator

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

Sara Senatore

Great, thank you. A clarification and then a question. So just in terms of going from 2 million to 3 million that target AUV, is there anything, any constraints that you would need to address from a production standpoint, whether it's the kitchen size or equipment, anything that would limit that based on what you have now, or could you just anticipate seeing continued leverage as you sweat the assets even harder than you have already?

Michael Skipworth

Good morning, Sara. I think I mentioned in my prepared remarks the first Wingstop that opened 30 years ago. And in that same efficient box we're doing roughly \$4 million out of the same kitchen. And that restaurant is still growing transactions. And so I think we don't have a capacity constraint by any means. As we sit here today, roughly 10%, a little bit more of our system is already doing \$3 million or above. So there's a lot of capacity within the restaurant. So we don't see a need for any sort of structural change in the size of the box or the operations to be able to achieve that. And I think it really kind of showcases in the strength that we've seen across all vintages within the brand, who are delivering outsized comps.

Sara Senatore

Got it. Okay, thank you for clarifying. And then the question is about cost of goods. Obviously, you've sort of made a structural shift that's really benefited the business, given these would have been 40% food costs in the past at these bone-in prices. So I just wanted to understand what that means for pricing going forward, because I think the value proposition is very strong, and the longer you continue to take limited amounts of price while everybody else kind of has to cover higher inflation, the greater that is. But so, I guess, how should I think about this going forward? If it truly is kind of fixed at this mid-30s, then presumably your pricing only has to cover kind of wage or other inflation. But I'm also trying to get my head around this idea that even if wing prices go up over time, you can still maintain this mid-30s. So maybe just a little bit more clarity on your input cost? How this works for input cost and then pricing strategy? Thanks.

Alex Kaleida

Good morning, Sara. This is Alex. Thanks for the question. Yes, we view this, Michael mentioned the excitement of our brand partners on the strength of the unit economics, and this strategy is a big unlock for us. And our strategy at the core of our first supply chain is to mitigate the volatility in our food costs. Just to paint the picture a bit of our history as a brand, if you trace back to a year like 2017 in Q3, we had a wing price on the spot market that was just under \$2.10, and our food costs was 43% at that time. Fast forward to today, our quarter just ended below 36%. We saw the spot market move by \$0.60 quarter-to-quarter, and the average market price for wings was about \$2.30.

So something our brand partners are really excited about, and we now have gotten visibility into 2025. And to your question on price, what this allows us to do is remain disciplined on opportunistic pricing increases that we can take to really maximize this transaction growth we're seeing in our business.

Operator

The next question comes from Chris O'Cull from Stifel. Please go ahead.

Chris O'Cull

Yes, Michael, I just had a follow-up question about the TAM changes. I mean, the U.S. system sales goal went to \$18 billion from \$8 billion. So, can you give us a little more color around the research the company did to determine that's a reasonable potential for the chain in the U.S.?

Michael Skipworth

Yes, I mean, I think, Chris, if you think about other more mature brands who have similar footprints but yet don't necessarily operate in a category one like us, I think at a high level, top-down approach, it's pretty easy to get there. But then as we worked from the bottoms up and went trade area specific, understanding the demographics, understanding how restaurants perform that are more mature than maybe some of these new or emerging markets, it was a pretty detailed analysis that gives us confidence in our ability to deliver that.

Chris O'Cull

Okay. And then, Michael, the UK AUVs are now exceeding the U.S. The company just announced a marketing event in Paris with an opening, I think, planned later this year. Can you help us understand how the system plans to expand in Western European countries? And in that response, how many units you believe the system can have in that region, let's say, over the next three to five years?

Michael Skipworth

Yes, Chris, we're pretty excited about the momentum we have in our international business. And I don't think it's – I would narrow the conversation to just Western Europe. If we look across all of our markets, even the more mature ones that we've been in for a while, such as Mexico or Indonesia, we're experiencing double-digit growth similar to what we're seeing in the U.S. And so that gives us a lot of excitement about the overall opportunity that we have. Couple that with the demand in our business development pipeline for new countries. We're pretty bullish about the opportunity we have outside of the U.S.

And you're right. In the UK, the brand is performing extremely well. And that's our proven playbook. And so you're going to see us replicate that across the additional markets that we expand into. We're already doing that in Canada, Puerto Rico. You mentioned us opening a location in Paris later. That's exactly right. We know the playbook. We feel like it's proven. And so it's about just finding the right partner and scaling this thing, and so we're pretty excited about the overall opportunity outside of the U.S.

Chris O'Cull

Thank you.

Operator

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

Danilo Gargiulo

Thank you. And congrats again on an exceptional quarter once again. My question is back onto your AUV growth above the \$3 million going forward. I know you mentioned that there is no kitchen capacity constraint that you're seeing today. But refrigeration space might be a little bit more limited. So can you help us understand whether the most successful stores right now that are having AUVs above the \$3 million are maybe leveraging some increased delivery from suppliers? And if so, how does that change your supply chain strategy going forward? And also if you can give us some context on what percentage of your stores are already above the \$3 million AUV? Thank you.

Michael Skipworth

Thank you and good morning. I think that's one of the unique things about Wingstop is to achieve those AUV levels. It doesn't require a fundamental change to the asset or the kitchen or the back of the house. It may require one additional delivery of chicken a week, but not a fundamental change to the operations. And as we sit here today, I mentioned previously over 10% of our system is already doing \$3 million in AUVs. And really the only difference from those restaurants and the ones that are below \$3 million have to do with tenure.

If you stack up our restaurants by vintage, it's a pretty linear chart up and to the right. And so the reality is, is these are a little bit more tenured restaurants who have had the opportunity to participate in more of those 20, soon to be 21 years of same-store sales growth.

Danilo Gargiulo

Great. And can you talk about the relevance of your bundle strategy? So maybe the positioning of your bundles compared to maybe the price promotion activity that we've seen picking up from competitors. Why do you think this is a winning strategy, at least in the wings category? And are you seeing or are you witnessing any pricing challenges or advertising and elevator promotional challenges now denting on to your ability to attract consumers, reflecting on some of the meal deals that some of your competitors are doing also on chicken sandwiches? Thank you.

Michael Skipworth

Yes, our bundle strategy, I wouldn't say is really anything new or reactive to the current environment. And it's something that's been a part of our playbook over the years. And it allows us to, if you will, maybe do a little bit of the thinking for our guests and provide a group pack, really, which there's plenty of those on our menu today, but provide a group pack that highlights that occasion that Wingstop plays well in. It's that group occasion, two or more off-premise. And so when we do highlight bundles, it allows us to deliver on that and deliver on guest expectations.

As it relates to the competitive environment, I think, as you can see with our Q2 results, there's not a lot that we're too focused on or believe we have to pivot. Quite frankly, we think the strategies we're executing against are working quite well. And we'll just continue to lean into those.

Operator

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

Brian Harbour

Yes, thanks. Good morning, guys. Going from 2 million to 3 million AUVs, what do you think is kind of most impactful of that? Maybe the obvious answer might be just what you're doing, right? But if you think about expanding product assortment or something like that, what do you think will be more material in driving that uplift?

Michael Skipworth

Hey, Brian, good morning. As we think about the strategies we're executing against and the line of sight we believe we have into scaling AUVs to \$3 million, if you kind of oversimplify it, it's really about opening the top of the funnel, bringing more guests in, becoming more of their consideration set and winning more occasions, which is exactly what we're doing and what we're seeing in our Q2 results. And so, I don't think there's this fundamental change that we have to go chase after or do differently. And that was one of the points within our prepared remarks, is we really wanted to highlight just the amount of runway we have in front of us as it relates to these strategies that we're executing against.

I talked earlier about brand awareness, but take delivery as a channel. It's still roughly 30% of our sales mix. And if we benchmark delivery in more mature, heavy off-premise brands, it's north of 50%. And our awareness levels on delivery platforms are really low. And so there's a ton of opportunity there. And another example is the launch of MyWingstop. We believe that's going to be a game changer for us, allowing us to leverage that first-party data that we've invested in to really lean into hyper-personalization and build that digital ordering experience that's customized for our business, which I think, again, when you create ease of access and you create the best-in-class guest ordering experience, you're going to win more occasions. So I think, Brian, it's really about us just continuing to lean into the strategies that are working.

Brian Harbour

Okay, thanks. Your highest-volume stores, your prior answer kind of suggested it's really just about vintage, like you've been open longer, you kind of drive higher AUVs. But do they have any kind of operational advantage in your view? Do those stores have faster service times, or are there other things you can learn from those to drive sales at some of the lower-volume stores?

Michael Skipworth

I wouldn't say there's anything I would call out, whether it's operational efficiencies or impact as it relates to those higher volumes, other than they more likely than not have a more tenured team, because the restaurant's tenured and that allows some improvements in operations there. But generally speaking, it's just about the tenure of the restaurant, and there's not really a fundamental difference. And I think, you ask about some of these higher-volume restaurants. We're seeing really exciting new restaurant productivity in smaller, newer emerging markets where there's this pent-up demand, which gives us a lot of confidence in our ability to continue to expand the brand and continue to grow AUVs.

Operator

The next question comes from Andy Barish from Jefferies. Please, go ahead.

Andy Barish

Hey, guys. The digital sales number stayed the same. I mean, it's obviously impressive at 68-plus percent. But with MyWingstop rolling out in the 2Q, can you kind of help us understand why that didn't start to move that number up? I mean, maybe it wasn't expected initially. And if that's so, kind of how do you think it helps that glide path over the next year or so?

Michael Skipworth

Hey, Andy. Good morning. We did see total digital sales grow. But as a channel mix perspective, it was pretty consistent to Q1. And we're okay with that, because we saw some really strong growth in non-digital carryout, which is just the way some consumers are choosing to engage with our brand and come into the brand. And so, we're pretty excited. And from a year-over-year perspective, we're continuing to see strength in digital sales, which we're encouraged by. And MyWingstop, obviously, we completed the rollout by the end of Q2. So we're excited about how this does position us to have a platform and a digital guest experience that's built for Wingstop and for our guests that we think can continue to drive digital sales growth, which, to remind everybody, does experience about a 20% increase in average check.

But with MyWingstop, we're going to be able to lean into hyper personalization, leverage that database of over 45 million users strong that we've invested in and enrich that data to really drive top of mind consideration and ultimately the very personalized guest experience.

Brian Harbour

Got it. Thank you very much.

Operator

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

Jim Salera

Hi guys. Good morning. Thanks for taking our question. Michael, you talked about the Chicken Sandwich consumer skewing more towards boneless. And we've actually noticed with what seems like some increased marketing around the tender products on TV. Could you just give us an update for the tender mix and maybe what you think the potential is for tenders to kind of help you guys along the pathway to that three million AUV target?

Michael Skipworth

Hey, good morning. Yes, the tender mix is actually lower than Chicken Sandwich. And you're right, we do see that as an opportunity, as a lever we have to pull, as an opportunity to win more tender occasions. I would say if you're seeing tenders in our advertising, it's more about just highlighting that variety and abundance that we offer at Wingstop around that indulgent occasion. So nothing specific or targeted there, but we do see that as an opportunity to. As I mentioned before, become more the consideration set and win more occasions, which we're pretty excited about.

Jim Salera

Okay, great. And historically, we viewed the Wingstop brand as maybe tilting more towards experiential value versus absolute value. But with the relative price taken versus the industry and new offerings like Chicken Sandwich and like the tenders, it seems like maybe it's tilting more favorably to absolute value. And that's supporting some of the strong traffic growth. Can we just talk a little bit more about the supply chain strategy and tilting more towards an absolute value offering again to support going from two to three million AUV?

Michael Skipworth

Yes, I would actually say, our brand positioning hasn't really changed. And I think you can kind of see that and we've sustained, if not seen a little bit of growth in our average check. And so, what we have seen evolve over the last year or so is the consumer's desire for quality and value as they're becoming more selective about how to spend those discretionary dollars. And with Wingstop, it's about an indulgent occasion. It's about flavor and quality. And I think that's the way our food shows up. And so as consumers are leaning more towards experiential and looking for less gut feel when they do dine out, we feel like that's really helping support how our brand is positioned. And it's been a position that we've had for a long time now.

Jim Salera

Great. I appreciate the color guys. I'll hop back in the queue.

Operator

The next question comes from Jeff Farmer from Gordon Haskett. Please go ahead.

Jeff Farmer

Good morning and thanks. Your very strong sales numbers suggest that life's good across all markets, but several of your restaurant company peers have pointed to material softening of demand in California. I'm just curious what the Wingstop system has seen in California on the demand front?

Alex Kaleida

Good morning, Jeff. This is Alex. Yes, we see and hear some of the same comments, but I think this is a good example of Wingstop being different. And in this category of one, we deploy a streamlined operating model that allows us to have lean roster size in the restaurant. And our brand partners were very disciplined on pricing they took to help offset that wage increase that they saw on April 1st. We measured results prior to the wage increase and post, and we did not see a change in our transaction growth. In fact, the trends in California are following a very similar trend to what we see outside of California for our business.

Jeff Farmer

Okay, that's helpful. And just one follow-up on MyWingstop. I think some of the 150 or so test restaurants have been operating for at this point a couple quarters with the MyWingstop platform. I'm just curious what some of the key learnings from those early 150 test restaurants are that you would be willing to share with us in terms of what you're seeing and how the consumers are responding to the MyWingstop platform?

Michael Skipworth

Hey, Jeff, I would say, the biggest the biggest thing I would point out as it relates to MyWingstop in the test and pilot is just the positive feedback from team members in the restaurant from brand partners about the operational capabilities that it provides to them. And as we've talked about before, we launched a BI or business intelligence solution associated with MyWingstop. That's really allowing them visibility into their business real time. That's helping drive over time profitability. But I think from a consumer perspective, it wasn't until we completed the rollout could we launch the consumer facing experience in our new Web and app. And so, early days there, but we're encouraged by what we see.

Jeff Farmer

All right. I appreciate that. Thank you.

Operator

The next question comes from Gregory Francfort from Guggenheim. Please go ahead.

Gregory Francfort

Hey, thanks for the question. My question is, you've actually been making a lot of investments last couple years and maybe recently on behalf of the franchisees in technology and loyalty and supply chain. Do you feel like the current royalty and maybe fee or digital fee structure gives you the right return on investments or those investments you're making? Have you contemplated making changes to that? And how are you thinking about it? Thanks.

Michael Skipworth

Hi, good morning. Yes, it is something that we contemplate from time to time. But I'd say where you see us or where we ask for that investment among our brand partners has been centered around the opportunity to close our gap and awareness. And so increases in our advertising, national advertising fund, or most recently with the increase in our tech fee and the tech fund that we established as part of the MyWingstop rollout. We want our -- we see the opportunity for growth and we feel right now the best opportunity to maximize returns for our brand partners and shareholders is focused on the unit growth ahead for us as a brand now six thousand plus.

Gregory Francfort

Thank you. Congrats guys.

Operator

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

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