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Wingstop Inc. (WING) Q3 2024 Earnings Call Transcript

Oct. 30, 2024 5:54 PM ET | **Wingstop Inc. (WING) Stock****SA Transcripts**

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Q3: 2024-10-30 Earnings Summary

Play Call



Press Release



10-Q

EPS of \$0.89 **misses by \$0.06** | Revenue of \$162.50M (38.76% Y/Y) **beats by \$2.63M**Wingstop Inc. (NASDAQ:**WING**) Q3 2024 Earnings Conference Call October 30, 2024 10:00 AM ET

Company Participants

Alex Kaleida - SVP & CFO

Michael Skipworth - President & CEO

Conference Call Participants

Jeffrey Bernstein - Barclays
David Tarantino - Baird
Andrew Charles - Cowen
Sara Senatore - Bank of America
James Salera - Stephens
Brian Harbour - Morgan Stanley
Danilo Gargiulo - Bernstein
Andrew Barish - Jefferies
Jeffrey Farmer - Gordon Haskett
Gregory Francfort - Guggenheim
Christine Cho - Goldman Sachs
Brian Vaccaro - Raymond James

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Wingstop Fiscal Third 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, October 30, 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 our fiscal third 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. We appreciate everyone joining our call. Our third quarter was another industry-leading quarter that showcases the staying power of our strategies and the multiyear benefits they provide.

Before I dive into our results, I want to acknowledge that these results could not have been achieved without the tremendous effort by the entire Wingstop team. I want to thank team members in the restaurants and in our global support center, our brand partners and our supplier partners for their relentless focus on executing our long-term strategy that has translated into another record quarter.

Q3 domestic same-store sales growth was 20.9%, which continues to be primarily driven by transaction growth, putting us well on our way to our 21st consecutive year of same-store sales growth, an unprecedented track record. The AUV for our restaurants has now surpassed \$2.1 million. This compares to \$2 million just last quarter and \$1.8 million in the prior year quarter, fueling our confidence in our ability to scale AUVs to \$3 million over time. This AUV growth, combined with our supply chain strategy, continues to strengthen our industry-leading unit economics.

The average investment to open a Wingstop remains at around \$500,000, and our brand partners are seeing unlevered cash-on-cash returns in excess of 70%. This overall strength in the Wingstop business has translated to a record level of demand for growth from our brand partner community. And as we saw that excitement come to life in the third quarter, where we had a record Q3 for new restaurant development. We opened over 100 restaurants in the third quarter, delivering a unit growth rate of 17%, truly remarkable.

We are also seeing new unit productivity come out of the gates well ahead of the prior year vintage, which was already strong at roughly \$1.6 million AUVs in the first year. This has translated into the strongest development pipeline on record for the brand. The effectiveness of our strategies and the excitement of our brand partner community to reinvest in Wingstop has allowed us to increase our net new restaurant target again. We now expect to open between 320 to 330 net new restaurants in 2024.

Last quarter, we shared new targets for system AUVs and our total global restaurant opportunity. I'll spend a few minutes today discussing our path to achieving those targets, starting with our new AUV target of \$3 million. While we have delivered some pretty remarkable growth over the past couple of years, we have incredible confidence in our long-term strategies as we look to the runway in front of us. These strategies consist of scaling brand awareness, menu innovation, expanding our delivery channel, data-driven marketing and our digital transformation.

Brand awareness remains a huge opportunity for Wingstop. As we work toward our opportunity to scale brand awareness, we are leaning into our media strategy, focused on live sports and a very targeted approach in streaming and online video placements, combined with breakthrough creative that is proving to be highly effective. And this media strategy is being fueled by an ad fund that is growing at the same growth rate as system sales of approximately 40%.

You've seen us show up in major events, including the start of the NFL and NBA seasons as well as Thursday Night Football and Amazon Prime's pregame show. These media placements are helping us increase brand awareness, and have contributed to record levels of new guest acquisition. While we've delivered industry leading same-store sales growth through the first three quarters of 2024, we have only moved brand awareness by a couple of percentage points, highlighting the opportunity and potential we have in front of us.

As we look to close out 2024, we're going to continue to invest our advertising dollars to expand our reach across platforms such as the NFL and NBA. We'll be on a lot more NFL and NBA games this year, and we're finding new ways to partner. A great example is an exciting new partnership we announced last week. Wingstop is now the official chicken partner and the official wing of the NBA. This is our first official sponsorship with a major professional sports league. The partnership will unlock opportunities we haven't been able to access in the past within the NBA, and it fits perfectly within our strategy.

The past quarter marked our first full quarter with our proprietary tech stack, MyWingstop, which launched earlier this year. While we're still in the early days, I couldn't be more excited by what we're seeing in the results. As we have shared before, the first step was to operationalize the platform, moving over \$2.5 billion of digital sales through our tech stack. Since the launch, we have introduced greater operational capabilities for our brand partners that increased visibility into their digital business and provide advanced analytics platform that drives insights across a variety of KPIs to drive restaurant level profitability. I'm proud of the team and how seamless this transition was for our restaurants.

MyWingstop also included enhancements to the guest experience that focused on many of the insights we've developed over the years. We've made investments in our first-party database, building out rich guest profiles that allow us to unlock a whole new level of hyper personalization. We're now beginning to welcome guests on our website and app with relevant personalize and optimize content that will only further improve over time.

During the quarter, we hit a record level of app downloads and user sessions, both within our app and website. We measured a 10% improvement in order efficiency times, and product or flavors are now featured in AI enabled personalized content. Digital sales mix is now at 69% and our first-party database has increased by more than 35% compared to the prior year. Our technology investments advance an already best-in-class digital experience for our guests, and while enabling our aspirational goal of digitizing every transaction.

I highlighted a couple of examples that give us confidence in our path to \$3 million AUVs, which will just further strengthen our industry-leading unit economics. We also have made tremendous progress with our supply chain strategy in 2024 to mitigate the volatility in our core commodity. This is the first full year that strategy has taken effect. Historically, we had been anchored to a weekly spot market purchase for classic bone-in wings, and the spot market this year experienced a peak inflation window of nearly 200%.

Our restaurants have been able to avoid that level of inflation and are seeing food cut within our targeted range of mid-30%. And we have line of sight into wing pricing into 2025 and 2026 as we continue to execute our strategy. This, coupled with our AUVs exceeding \$2.1 million has translated into record cash flows for our brand partners. And as a result, we are experiencing an unprecedented pace of growth for Wingstop.

Q3 showcased this with a record 106 net new restaurants. To highlight the breadth and depth of our development, over 70 different brand partners have opened a restaurant this year, covering 28 states in 10 countries. To support our brand partners' aspirations for growth, we are executing market level playbooks that match the trade area level opportunities in our 6,000 plus domestic unit target to a schedule, we feel will be sustainable as brand partners scale their infrastructure.

Our international business also continues to be on fire. We recently capitalized on an opportunity to make our global presence known in France during the Olympics, showcasing our flavor in a big way by opening a pop-up restaurant that we called House of Flavor. We gave away nearly 0.5 million wings in just 10 days, with long lines of flavor fans, wrapping around the venue, waiting to get into the pop-up to experience Wingstop for the first time. With the amount of excitement we generated, we believe this event will be a catalyst for future expansion in Western Europe.

Shortly after our pop-up restaurant, we opened our first restaurants in Paris, as we continue to execute a more aggressive development plan for the city and broader France. The opportunity in France is as large, if not greater than what we're building towards in the U.K. And we -- and when we combine our opportunity to expand France with other markets recently signed, we believe we can deliver over 750 restaurants across these new international markets alone.

We have a clear playbook for international markets, and I truly believe our international business is super charged for growth, which we expect to become a bigger part of our story as we scale Wingstop to more than 10,000 restaurants across the globe. It's pretty incredible to see the demand for growth from our brand partner community as well as how guests are responding to the brand as we expand our footprint across the globe.

Before I turn the call over to Alex, I'm excited to announce a new partnership for Wingstop. During the month of October, 100% of contributions received from our roundup program will be donated to St. Jude's Children's Research Hospital. As our business continues to drive industry-leading growth, our obligation to give back grows as well. The work that is happening at St. Jude's is remarkable, and we believe our brand partners, team members and fans will embrace the opportunity to contribute to St. Jude's life-saving mission: finding a cure for childhood cancer.

2024 is shaping up to be another record year for Wingstop. But yet, we feel like we are just getting started. Our strategies have proven staying power, and we are laser focused on execution as we scale Wingstop into a top 10 global restaurant brand. It is truly an exciting time at Wingstop.

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

Alex Kaleida

Thank you, and good morning. The momentum and the amount of growth in front of us here at Wingstop is incredibly energizing. Our third quarter results are another proof point in Wingstop's Category 1 positioning. Domestic AUVs increased to \$2.1 million in Q3, driven by a 20.9% increase in domestic same-store sales, primarily driven by transaction growth. This translates to a 36.2% comp on a two year basis, which also includes the majority of the growth driven by transactions, a true demonstration of the underlying health and strength of the Wingstop brand.

This same-store sales growth, combined with opening over 350 restaurants in the last 12 months, delivered 39.4% system-wide sales growth in the third quarter. This top line growth gives us the fuel in our advertising fund to work against a double-digit gap in brand awareness when benchmarked to more mature QSR brands. While we continue to hear from consumers as they will prioritize restaurants that offer both high quality and value in their experience, and we believe Wingstop is clearly delivering as our quality and value scores are an outlier relative to industry trends.

Our best-in-class unit economics continue to strengthen, which is driving the pace of our growth, and has surpassed our expectations this year. We opened 106 net new restaurants, achieving a record for Q3, which follows record set in each of the prior four quarters. Our brand partners are leveraging the cash generated from our best-in-class unit economics and are eager to invest in more Wingstops.

Brand partner excitement is apparent as we are attaining record levels in our development pipeline. A great testament to the strength of our returns is that we continue to see 95% of our store openings coming from existing brand partners. The visibility we have into our pipeline today gives us the confidence to raise our development outlook to a range of 320 to 330 net new restaurants, which was previously set at 285 to 300 net new restaurants for 2024.

Total revenue for the quarter increased 38.8% to \$162.5 million, an increase of \$45.4 million versus the prior year. Royalty revenues, franchise fees and other revenue increased by \$21.2 million in Q3, driven primarily by net franchise restaurant openings since the prior year comparable period and same-store sales growth of 20.9%. Company-owned restaurant sales totaled \$31.3 million in Q3, an increase of \$7.4 million, primarily due to 10 net new restaurants and a 7.3% increase in company-owned same-store sales, driven by transaction growth versus the prior year comparable period.

Over the past couple of years, we've been discussing our supply chain strategy, and 2024 marked our first full year showcase the impact it's having on our unit economics. As a reminder, our strategy is centered around creating predictability and minimizing volatility in food costs. In the past, as the spot market price for bone-in wings reached north of \$2 per pound and when the inflation is over 100% just as what happened in the market this year, food cost could have surged well into the 40% range.

However, today, with the execution of our supply chain strategy, we are providing our brand partners with predictability and food costs, further strengthening our unit economics. As we have shared at the start of the year, we targeted food costs in the mid-30% range, but we are on track to deliver that mid-30% target for this year. Due to the effectiveness of this strategy, we also have visibility into system-wide average food cost to be in the mid-30% range into 2025. The excitement and confidence in our strategies among our brand partners continues to fuel a record demand in our development pipeline.

Now shifting to SG&A. SG&A increased by \$9.2 million versus the prior year comparable period to a total of \$32.3 million, primarily driven by an increase in performance-based stock compensation based on our industry-leading performance, and also by investments in headcount-related expenses as we position the company for this next phase of growth.

Adjusted EBITDA, a non-GAAP measure was \$53.7 million during the quarter, an increase of 39.5% versus the prior year. And we delivered earnings per diluted share of \$0.88, a 35.4% increase versus the prior year. Our asset-light, highly franchised model is an enabler for us to enhance shareholder returns. As a reminder, in Q3 of last year, we launched our inaugural share repurchase program, which was authorized at \$250 million.

We continue to make progress this year and have \$61.1 million remaining under the current authorization at the end of the third quarter. Since the inception of our share repurchase program, we have repurchased just over 815,000 shares at a weighted average price of \$276.

Additionally, due to the strong cash flow generation from our asset-light model, our Board of Directors approved a dividend on October 29 of \$0.27 per share of common stock. This dividend, totaling approximately \$7.9 million, will be paid on December 6, 2024, to stockholders of record as of November 15, 2024. We remain committed to enhancing shareholder returns through a combination of our share repurchases and our regular quarterly dividend program.

Moving to our outlook for 2024. We are reiterating domestic same-store sales growth guidance of approximately 20%. In addition to the update for net new restaurants I discussed earlier, we are updating our estimates for SG&A guidance to be between \$117.5 million and \$118.5 million, previously between \$114 million and \$116 million, including approximately \$22.5 million of stock-based compensation expense, previously approximately \$20 million. The increase in SG&A guidance is primarily driven by stock-based compensation as a result of the performance in our business.

Our third quarter results showcase the sustained power of our strategies and gives us the confidence to achieve another record year for Wingstop. I would like to thank our global support center team members, restaurant team members, brand partners and supplier partners for continuing to serve fans our flavor, while providing a best-in-class guest experience.

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] Our first question today is from Jeffrey Bernstein with Barclays. Please go ahead.

Jeffrey Bernstein

Great. Thank you very much. My first question is just on the comp trends. Another strong third quarter north of 20%. But the reiteration of the 20% for the full year does seem to imply, and obviously, it could be in a range, but something closer to 10% in the fourth quarter, which would be a deceleration on a two year basis, which you had been holding. So I'm just wondering maybe you could share some October quarter-to-date trends or to what you might attribute what could be a comp slowdown, whether it's something internally you could be doing different or the competition or the macro or capacity issues? Just trying to get a sense, again, 20% comp is incredible driven by traffic, but obviously, investors are questioning the potential fourth quarter implications? And then I had one follow-up.

Michael Skipworth

Hey, Jeff. Good morning. Thank you for the question. It's one that we definitely anticipated. But what I would say is, we are not managing our strategies or the business to solve for a quarter. And if you take a step back, we're managing the business for the long-term, and we believe we are executing against proven strategies that have multiyear benefits. And again, if you think about it, Q4 will mark the first of four consecutive quarters where we will be lapping same-store sales growth of over 20%. And so as we look at it on a two year basis, to be able to scale our comps, or AUVs by a stack same-store sales growth that's north of 30% is pretty remarkable.

And a couple of other data points that I think just speak to the effectiveness of our strategies and the overall health of the brand is, year-to-date in 2024, we've experienced double-digit same-store sales growth across every single vintage, which is pretty remarkable. And so, this AUV growth that now sits at \$2.1 million is creating incredibly strong cash flows for our brand partners. Combine that with our supply chain strategy, you're seeing it show up in a pretty exciting way from a development perspective. Q3 was a pretty exciting quarter for us from a development front. We opened over 100% more units this year than last year at 106, delivering a 17% unit growth rate, which, at our size and scale, is pretty remarkable.

Jeffrey Bernstein

Understood. And then my follow-up, which is my preferred question because, again, I agree with you on the short-term comp focus. But as you think about the unit growth side of things, the uptick of the openings for '24, now it looks like mid-teens growth well beyond kind of your 10% long-term promise. And would seem like just based on what you did in the third quarter, the demand going into '25 I assume is very strong. So unlike the challenges that maybe company-operated systems have to accelerate growth just from a capital standpoint and a people standpoint, it would seem like with a franchise system, growing in lots of new markets with lots of new franchisees, you have the ability to ramp that up quicker, especially if the momentum is so strong in the brands. So I'm just wondering, directionally speaking, is there any reason why you wouldn't sustain kind of that mid-teen unit growth that you're doing in '24 into '25? Is there any limiting factors or should we look to '25 as another year of well in excess of kind of that 10% promise? Thank you.

Michael Skipworth

Hey, Jeff. Thank you for the question. I appreciate it. And obviously, we are navigating the law of large numbers, but you nailed it, the unit economics continue to strengthen. The demand for growth is extremely strong from our brand partner community. We referenced that our pipeline is the strongest one we've ever had on record for development. And so the pipeline is there to support continued industry-leading growth. But we're very focused on responsible and sustainable growth. And so, you'll see us continue to be disciplined. But we like to take a step back and think about our guide for this year, it really represents the fact that we're opening a small chain on an annual basis, which is something we're pretty proud of.

Jeffrey Bernstein

Thank you.

Operator

The next question is from David Tarantino with Baird. Please go ahead.

David Tarantino

Hey. Good morning. Michael, I wanted to follow up on the question about the comps in Q4. And I know you can look at it relative to year ago comparisons or two years ago comparisons, you can slice it a lot of different ways. But what I wanted to ask is, in your mind, does the implied guidance that you're giving for Q4 represent a big change or a material change in the trajectory of the business or not? I guess, the comparisons are making that a difficult question to answer.

Michael Skipworth

Yeah, David. I know it's difficult to look at stack same-store sales growth on a two year basis when we're delivering growth that's north of 20%. And the way we've actually kind of looked at it is more on a three year basis, which would suggest not a material change in the trend of the business. And I think most importantly, we're continuing to showcase healthy transaction growth in our business as we continue to acquire record levels of new guests. And we continue to see an uptick in frequency across every single cohort, which we're pretty excited to see about. So the overall fundamentals and health of our business are extremely strong.

David Tarantino

Yeah. Thank you for that clarification. And then I think you referenced 750 unit opportunity in some new markets in Europe. So, I was hoping you could elaborate on which markets that applies to? Because I think you had previously laid out a target that was lower than that for Western Europe. So I just wanted to maybe understand why you're more bullish now, and which markets are included in that number?

Michael Skipworth

Yeah, David. Just to clarify, that number is -- it includes some new markets we signed that are outside of Western Europe, but we're super excited about. And we've talked about it over the last couple of quarters how the pipeline of new brand partner interest in the brand has just continued to strengthen, and we're excited to report a handful of signings that, as we mentioned, aggregate to an opportunity of over 750 restaurants long term, but that includes France. It includes several Gulf Coast countries where we actually have a presence in that region with 30 restaurants already that performed pretty similar to our domestic business. And then, we also have Australia as another new market that we signed. But in aggregate, these opportunities roll up to the potential for over 750 restaurants, which are pretty exciting.

David Tarantino

Great. Thank you.

Michael Skipworth

Thank you.

Operator

The next question is from Andrew Charles with TD Cowen. Please go ahead.

Andrew Charles

Great, Thank you. Sticking on the theme of comps. Michael, very helpful context from the way that you guys view this on a three year basis. If I kind of roll these three year trends that you saw in 3Q that were great through 4Q and then 2025, it suggests that the mid-single digit comps for next year should be on track. Just want to make sure that I'm thinking about this kind of the right way that after the great few years that you've seen here, mid-single digits is still the right way to think about 2025 and beyond.

Michael Skipworth

Hey, Andrew. I appreciate the question. I think what I would point to is, the confidence we have and the strategies we're executing against. And how we have highlighted several examples of just the amount of runway we have in front of us as it relates to the strategies we're executing, whether it's brand awareness, whether it's continuing to gain our fair share of chicken sandwich occasions, continuing to expand the delivery channel.

And then we talked about the launch of MyWingstop, which we're really excited about. We have a pretty exciting -- and it's early innings still with MyWingstop, but we do have some pretty exciting proof points that are showing up. And one that we would point to is, we saw the highest level of new digital guest retention we've ever seen in the third quarter, and it's showcasing how we're able to leverage that platform to lean into and invest in those new guest profiles that's allowing us to demonstrate some hyper personalization that's impacting the business. And so long story short, we have confidence in the business. We're not here to guide to 2025, but I think we would just point to the fact that we see a lot of runway in the strategies we're executing against.

Andrew Charles

Okay. That's very helpful. And very encouraged -- my second question, very encouraging to see the new store economics, new store volumes up \$1.6 million. I mean that's nearly \$1 million higher than when you guys went public, roughly 10 years ago. So I'm just curious, do you see a ceiling on this or do you think that just given this is the playbook you have in place, the ability for more third-party delivery sales, the benefits of national advertising, do you think this has more room to run higher?

Michael Skipworth

Yeah, Andrew. I think, we've got a lot of gas left in the tank, if you will, to continue to drive growth. We referenced this current year vintage, this 2024 vintage, obviously, not a full year under our belt, but if you annualize how those restaurants are coming out of the gate, they're performing much stronger than that 2023 vintage that you referenced, which is really encouraging to see.

And then I commented earlier how we did see this year across every single vintage, which includes that original Wingstop opened 30 years ago, that's doing north of \$4 million, we saw double-digit same-store sales growth across every single vintage. So we think there's a lot of runway in front of us to continue to drive growth, and gives us confidence in our target that we set last quarter or revealed last quarter of a \$3 million AUV.

Andrew Charles

Very helpful. Thank you.

Operator

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

Sara Senatore

Thank you. Actually, a follow-up first and then maybe a question. Follow-up was just on the international, those agreements. I think that would put you -- those plus your existing store count gets you like kind of a quarter of the way to the long-term 4,000 that I think you've put out there. I know that you only recently put out there. So I'm not suggesting that you should revise it again. But I'm just curious, did that number contemplate all of these new findings because it seems like a pretty meaningful increase versus what you have on the ground now? And I'm just trying to understand how conservative that long-term side is? And then I gave a separate question, please.

Alex Kaleida

Hi, Sara. This is Alex. That number that we referenced, 6,000 plus domestic units and outside the U.S. 4,000 plus, did contemplate the expansion we discussed today. But I think it also showcases we have a plus sign for a reason on our targets that we haven't found the ceiling and we're still growing and expanding our presence across the markets we're opening. Our U.K. market is a great example.

We have over 50 restaurants and AUVs now are over \$3 million in the market. They continue to showcase that same story. When you stack the vintage, each vintage is comping and growing transaction growth. So I think as we've demonstrated in our past, we'll continue to reevaluate. But for now, we want to put out a target that we have a high degree of confidence in hitting and I think these markets that we just signed showcase that.

Sara Senatore

Certainly, yeah. Thank you. And then the question is about the partnership with the NBA. And I guess maybe more broadly, one of the things that it seemed like we saw this year in 2024 was like this sort of step-up in underlying volumes, if I compare it to pre-COVID, which I know was a long time ago, kind of been very consistently up kind of in that 95% range. And so I was just -- I was trying to understand, like is this -- what does this partnership mean? And is this sort of another opportunity for potentially a step change? I know your awareness has not grown as fast as your comps. But if you could just sort of give a little bit more insight into what you meant when you said such of unlock opportunities you haven't had before as we think about, again, drivers, including visibility?

Michael Skipworth

Yeah. Absolutely, Sara. And we're really excited about this partnership with the NBA. It's a first for us. We think it fits perfectly within our strategy that we're executing. And obviously, to start at the top of the funnel, we think it's going to continue to help drive awareness. But this partnership is going to be built on, as you pointed out, a strong presence on TV already. But from there, we're going to be able to profile our brand in some pretty exciting events like the All-Star game. We're going to be able to own the green carpet event for the celebrity game.

And we're actually going to be able to have a presence in-game. So think of the logo on a court or even outside of the arena. And in addition to that, it's going to allow us to unlock some social content series with the NBA as well as give us access to perhaps some custom TV spots that allow us to leverage NBA talent. And so as we think of the evolution of the brand of continuing to scale Wingstop and drive top-of-mind awareness for the brand, we think this is a pretty exciting evolution in our strategy.

Sara Senatore

Thank you.

Michael Skipworth

You're welcome.

Operator

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

James Salera

Guys, thanks for taking our question. I wanted to ask if you guys would be able to potentially parse out very strong volume trends, but if we can break that into a frequency of -- increasing frequency of existing customers versus new customers, since there's still this huge awareness gap that you're closing and obviously, the increase in advertising this year, I'm sure, is bringing a lot of new people to the platform. So any details you could give on how much of the volume is being driven by people coming more frequently versus new customers?

Michael Skipworth

Hey. Thank you for the question. I think that highlights another unique element of our strategies and our growth story is. That growth, it's actually coming from both, which is pretty exciting. We're seeing an uptick in frequency, and this is something that is pretty new for us this year. We've seen a pretty consistent frequency over my tenure with the brand, and it's pretty exciting to see the profile of these new guests, the addition of Chicken Sandwich, the addition of additional channels or access points with the brand.

And then our advertising are all helping drive frequency, but then it's also helping us acquire a lot of new guests. We continue to set records quarter-after-quarter on new guest acquisition. And so it's the combination of both of those things that are fueling this industry-leading growth, which is pretty remarkable to think about our reiteration of our outlook this year of approximately 20%. And not only is that number impressive by itself, but it also sets us up for our 21st consecutive year of same-store sales growth. There's just nobody else out there doing that.

James Salera

Yeah. I appreciate the context on it. Maybe one more to just kind of double-click on. If we talk about the increasing frequency, is that primarily driven by mix and you're seeing more boneless or sandwich customers who have a higher frequency or are you also seeing the traditional bone-in wing customer purchasing with greater frequency just as the awareness is out there more?

Alex Kaleida

Hi, Jim. This is Alex. Actually, we're seeing both growth in the classic wings and the boneless business. And as we think about, if we step back from our brand health and our funnel metrics, awareness is increasing and moving up year-over-year. We're seeing consideration grow and then that purchase intent as the consumer becomes aware of us. And then we talked about this over prior calls on what we measure more broadly across the industry. We see consumers prioritizing brands that are going to deliver on quality and value, and we're seeing growth in those metrics for our consumers specifically. And we think we're right in that sweet spot of those guest expectations. And frankly, another area that we see in frequencies or growth in across all income cohorts in our database are seeing frequency growth as of the last quarter.

James Salera

Appreciate all the color, guys. I'll hop back in the queue.

Operator

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

Brian Harbour

Great. Thanks. Good morning, guys. Just looking at the company-owned store margins quickly. The food cost I see there has kind of gone from like low to mid-30% to mid to high 30% range. And I guess is that sort of consistent with your system or not? And is that kind of what you expect going forward? And then I guess related to that, like, given that wing prices have moved higher, do you contemplate a bit higher price near term? Or are you sort of happy with that range right now?

Alex Kaleida

Good morning, Brian. Just a call for company restaurants specifically before I address food costs. We did have a little bit of noise related to three restaurant acquisitions we made in the Dallas market that we expect to carry in a bit into quarter four, and that relates to training labor and R&M expenses that we have to set those restaurants up for the long-term and catch up some things there. But to address your question on food cost, it did deliver upon our expectations.

And last quarter is a good example of the effectiveness of our supply chain strategy. We saw the spot market on wings move past \$2.25 per pound. And historically, when our bio was anchored to that weekly spot market purchase, our food cost would have been 500 basis points to 600 basis points higher than what we reported last quarter for the company restaurants of 37%. So we're really excited about this. The excitement is felt among our brand partners.

And to answer your question on the brand partner food costs, they're actually seeing a food cost as 300 basis points lower than what the company restaurants are averaging, purely based on their higher boneless mix relative to the company average. So that excitement has translated, as Michael mentioned, into a record pace in our development pipeline.

Brian Harbour

Okay. Thank you. And your G&A guide, is the change there really just incentive comp driven? Is there anything else that's sort of varied versus planned there? And I don't know if you have any thoughts on what that kind of looks like next year yet?

Alex Kaleida

That's correct, Brian. It's purely based on the performance adjustments associated with our stock-based compensation that you saw in the guidance update for both our stock comp as well as our SG&A, despite – even with those investments, though, we are showing leverage year-over-year. SG&A as a percent of system sales was 2.8%. And then where our guidance would imply about a rate of about 2.6% this year. And so I think we're going to continue to invest behind our strategies and the long-term growth aspirations in our business, but you'll see us also continue to kind of gain leverage over time.

Operator

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

Danilo Gargiulo

Thank you. Can you please talk about the actual pipeline for both domestic and international stores that you have visibility on to? And maybe can you share your updated view on the split stores given the success of the model that you've seen in the U.S.? Thank you.

Michael Skipworth

Hey, Danilo. Can you repeat the last part of your question, please? Our phone broke over here.

Danilo Gargiulo

Sorry, yes. What is your updated view on split stores given that you're seeing some great successes in development in the United States?

Michael Skipworth

What do you mean by split stores? I'm sorry.

Danilo Gargiulo

Stores that are open in aviation, [indiscernible] to existing stores already. So any cannibalization threats that you see in your existing strategy.

Michael Skipworth

Yeah. Infill strategy, yeah. No, I think we mentioned it earlier on the call, the pipeline we have today, it's as strong as it's ever been. There's a significant amount of demand for growth from our existing brand partners in the U.S. And I think one of the testaments that we've said before that remains the same as 95% of the restaurants we opened, our existing brand partners reinvesting. And so we'll update that pipeline at the end of the year on the exact count. But when you combine that, obviously, with these new markets for international, the pipeline is really, really strong.

Now if you take a step back on our updated unit opportunity we see in the U.S. that we provided last quarter of roughly 6,000 or more restaurants, we'd actually built playbooks that are down to trade area-specific identified site locations that ladder up to that overall unit opportunity we see in the U.S. And we contemplated that development strategy in conjunction with our new AUV target of \$3 million and so I think both of those were -- that exercise and the work was completed in conjunction with one another. And so we feel confident in continuing to improve our unit economics for our brand partners, which will inherently fuel continued industry-leading unit growth.

Danilo Gargiulo

Thank you. And earlier, you mentioned that you had a lot of gas in the tank also beyond 2024. So what is the trend and the lever that you're most excited about, specifically for 2025?

Michael Skipworth

I think for 2025, it's really no different in the strategies we've been executing this year and the amount of runway we have. And it's not just one component of the strategy, it's how these strategies work in concert with one another and really kind of fuel each other that give us a lot of excitement and a lot of confidence in our ability to continue to scale AUVs to \$3 million over time. It's pretty remarkable to think we just celebrated last quarter, achieving our \$2 million AUV target, and we're already above \$2.1 million one quarter later. So I think it just speaks to the effectiveness of our strategies and our excitement.

Operator

The next question is from Andy Barish with Jefferies. Please go ahead.

Andrew Barish

Hey, guys. Excuse me, wondering, if you can kind of quantify a little bit more the, maybe the TRP growth, I assume it's in '24 relatively in line with the kind of approaching 40% system sales growth. But if you kind of look out to '25, is there anything different kind of the way it tracks versus system sales growth? Does the NBA sponsorship kind of maybe divert a few dollars from the regular sort of marketing weights or anything like that, that we should be aware of?

Michael Skipworth

Thank you, Andy, for the question. It's interesting. We don't really look at it on a TRP basis anymore when you combine streaming and some of the other platforms where we invest our media dollars. It's a little difficult to just look at it on a TRP basis because it's not comparable. But what I would say is we're on a -- we look at it by spots, and we're on a heck of a lot more spot this year than we were last year. And I wouldn't say this NBA sponsorship really diverts any dollars away from continuing to invest in more placements on live sports.

It really just helps enhance that in and I think bring us more front and center within the NBA programming that we're pretty excited about. And it will all feed back to the opportunity we have around continuing to scale awareness. But I think looking at system sales, obviously, it's a one-for-one increase in our ad fund dollars. But obviously, we get a little bit of efficiency on those dollars as we get bigger and bigger as well. So being able to lean in, in a bigger way as we continue to scale the brand.

Andrew Barish

Cool. And then one quick follow-up on food costs. The 37% is kind of seen an increase during the year. Just to help us understand a little bit on supply chain, is there some lag, kind of a quarter lag or so just relative to the spike in wing costs that you guys absorb a little bit of it, obviously, not the same as historically. And then how do we think about the 4Q company-owned food cost relative to that 3Q level, please?

Alex Kaleida

Andy, there's a slight perhaps lag in our food cost. So what you saw in Q3 was likely the peak for the year, so would anticipate in Q4. We stepped down a little bit more in food costs for company restaurants. But I did flag as well though that there are some additional investments on training labor and repair and maintenance expenses that will flow into Q4 from the acquisitions we made. That's a bit unique to company restaurants specifically as you have.

Andrew Barish

Okay. Thanks, guys.

Operator

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

Jeffrey Farmer

Thank you. Just following up on Andy's question and Sara from earlier as well about advertising. So just big picture, what comes next for a national advertising fund that is growing at that 40% clip? Obviously, the NBA is coming there. You basically got to that always on media strategy a couple of years ago. But what are some of the more aspirational things you guys are looking at on the marketing front over the next couple of years?

Michael Skipworth

Yeah. It's a great question, Jeff. We do think we are showcasing breakthrough creative, and I think we give a much bigger impression that we're on more than we actually are. We're up meaningfully over last year, but we're still not on every game. And if we are in a game, it's still a spot or two a game. So there's still a lot more awareness driving runway in front of us on our current strategy. But I think the NBA sponsorship is a great example of how we can continue to evolve, continue to lean in and drive brand awareness through the size and growth we're experiencing in our ad fund. So I would say more of that. But yes, our current tactics, which are proving to be highly effective, continue to have a fair amount of runway associated with each of them.

Jeffrey Farmer

Okay. And just an unrelated follow-up. You guys touched on it a little bit on the international front. But unit level economics for those international units. Obviously, the U.S. economics are as good as they get. But can you give us or give us some context as to what type of cash-on-cash return, your international franchisees are seeing with those units?

Michael Skipworth

Yeah. You hear us talk about the U.K. and the 50 restaurants there a lot. And I would say, Jeff, the cash-on-cash returns, the unit economics are very similar to those that we experienced here in the U.S., maybe a little bit higher build-out costs. But when you look at the AUVs that Alex mentioned earlier, north of \$3 million, the cash-on-cash returns are really strong there.

Alex Kaleida

And Jeff, just to add as well, markets that have reached near their 10-year development agreement have each re-up to double the size of their footprint in their markets showcasing the returns they're seeing.

Jeffrey Farmer

And just last one, I know I'm sort of pushing the envelope here, but 330-some-odd international units right now, where do you guys think you need to get to before you start reporting comps for those units consistently?

Michael Skipworth

Even though in aggregate, it's a decent-sized number, close to 350, I think, each market or each territory is at a pretty different phase in its growth cycle. So I think we want to see still a little bit more scale and a little bit more representative, a demonstration of the overall health of the business before we start breaking that out. But it's something that's on our radar, and we hear investors and analysts loud and clear.

Jeffrey Farmer

Okay. Thank you.

Operator

The next question is from Gregory Francfort with Guggenheim. Please go ahead.

Gregory Francfort

Hey. Thanks for the question. I just want to ask maybe about G&A and -- if I look at the last two years, revenue is up 80%, G&A is up 80%. And as I kind of think about maybe the opportunity to leverage that going forward, how are you thinking about the growth rate for that line item? And maybe just as a follow-up to that, if you guys count five or 10 or 15, how sensitive will the G&A line be to what could be a pretty wide scenario of same-store sales outlook possibilities next year? Thanks.

Alex Kaleida

Good morning, Greg. What you're seeing in SG&A is us investing in the long-term, scaling capabilities in areas, whether it's in international to invest ahead of growth, technology, the investments we're making there. And then we have had some adjustments connected to the performance. This industry-leading performance we've delivered related to incentive-based compensation. But as I mentioned, that is showing -- our G&A outlook that we have for this year is showing leverage relative to where we were last year.

And if you trace back five years ago, we were probably in more of that low 3 percentage range as a percent of system-wide sales. If you take -- and just to give you additional context for what we're delivering, if you take the top line guidance we provided this quarter and couple that with the expense guidance, we also provided an outlook for, that would imply an approximately 42% rate for adjusted EBITDA growth. And that's on top of a prior year in 2023 that delivered adjusted EBITDA growth of 38%. We believe that's an industry-leading profit picture that we provided, and shows the sustainability of the results we're driving.

Gregory Francfort

Thank you.

Operator

The next question is from Christine Cho with GS. Please go ahead.

Christine Cho

Hi. Thank you for taking my question. So Alex, I think you mentioned in your comments that a majority of your new units are being developed by existing brand partners, and I'm just trying to understand whether this has been a meaningful factor in accelerating the new store ramp compared to the past? And are your partners seeing increased synergies between their stores as they go from a handful of stores maybe three, four years ago to nine now and probably again, a lot higher in a few years? So yes, just trying to gauge the impact of a more experienced and scaled kind of brand partner base on your long-term AUV and unit growth? Thank you.

Alex Kaleida

Thanks for the question, Christine. I think we -- Michael called this on in his prepared remarks earlier, we had over 70 different brand partners open a restaurant this year, which I think is pretty unique in a franchise system relative to others out there. And what that showcase is there's brand partners evolve size and scale that are growing with Wingstop and interested in adding more Wingstops to their portfolios. So we're seeing 5 unit operators scale to 15, 15 unit operators scale to 30 restaurants, which drives this number of 95% of our growth coming from existing brand partners and translate into this record pace of pipeline that we're seeing.

Operator

The next question is from Brian Vaccaro with Raymond James. Please go ahead.

Brian Vaccaro

Hi. Thanks. Just two quick ones for me. Following up on margins, Alex, what was the year-on-year bone-in wing inflation in the third quarter? And could you just level set us on your fourth quarter COGS and maybe company store margin expectations?

Alex Kaleida

Hi, Brian. Yeah. I think that's a great example of what we've been able to navigate and the effectiveness of our supply chain strategy. We had a peak window this year where the inflation was more than 200%. In the last quarter, it was over 100% inflation on that spot market wing price, and we were able to navigate that by -- with the strategies we're executing on supply chain. I mentioned earlier that we do anticipate that the food cost would step down a little bit into the fourth quarter. And I think more importantly, beyond the company food cost is that our brand partners are seeing a food cost that's 300 basis points better than what our company restaurants reported, which is incredibly exciting for us and what they're seeing that's further strengthening their returns.

Brian Vaccaro

Okay. Thank you. And then more broadly, just in light of the more intense industry value environment, including many large QSRs, pushing meal deals and the like. I'm curious if you've seen any changes in your customer order patterns for frequency, and just how you think about your broader value posture heading into year-end? Thank you.

Michael Skipworth

Yeah, Brian. I would say, first and foremost, we're pretty encouraged by what we see in our business. We referenced it earlier, how we saw growth in every single cohort as we cut the data. In addition to that, we continue to measure really strong levels in quality and value. And we've said this before, but our disciplined approach to pricing, we think, has paid dividends for us. And so we believe we're well positioned to navigate this environment and feel confident in our ability to deliver another record year for the brand.

Operator

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

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