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EPS of \$1.25 **misses by \$0.03** | Revenue of \$1.44B (12.83% Y/Y) **beats by \$7.07M**

Texas Roadhouse, Inc. ([TXRH](#)) Q3 2025 Earnings Call November 6, 2025 5:00 PM EST

Company Participants

Gerald Morgan - CEO & Executive Vice Chairman

Keith Humpich - Interim CFO, VP of Finance & Principal Accounting Officer

Michael Bailen - Head of Investor Relations

Conference Call Participants

David Palmer - Evercore ISI Institutional Equities, Research Division
Sara Senatore - BofA Securities, Research Division
Gregory Francfort - Guggenheim Securities, LLC, Research Division
Jacob Aiken-Phillips - Melius Research LLC
David Tarantino - Robert W. Baird & Co. Incorporated, Research Division
Brian Bittner - Oppenheimer & Co. Inc., Research Division
Peter Saleh - BTIG, LLC, Research Division
Jeffrey Bernstein - Barclays Bank PLC, Research Division
Brian Harbour - Morgan Stanley, Research Division
Brian Vaccaro - Raymond James & Associates, Inc., Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Andrew Barish - Jefferies LLC, Research Division
Lauren Silberman - Deutsche Bank AG, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
Andrew Strelzik - BMO Capital Markets Equity Research
James Salera - Stephens Inc., Research Division
Zachary Fadem - Wells Fargo Securities, LLC, Research Division
Jake Bartlett - Truist Securities, Inc., Research Division

Presentation

Operator

Good evening, and welcome to the Texas Roadhouse Third Quarter Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

I would now like to introduce Michael Bailen, Head of Investor Relations for Texas Roadhouse. You may begin your conference.

David Palmer

Evercore ISI Institutional Equities, Research Division

Thank you, Julianne, and good evening. By now, you should have access to our earnings release for the third quarter ended September 30, 2025. It may also be found on our website at [texasroadhouse.com](https://www.texasroadhouse.com) in the Investors section.

I would like to remind everyone that part of our discussion today will include forward-looking statements. These statements are not guarantees of future performance, and therefore, undue reliance should not be placed upon them. We refer all of you to our earnings release and our recent filings with the SEC. These documents provide a more detailed discussion of the relevant factors that could cause actual results to differ materially from those forward-looking statements. In addition, we may refer to non-GAAP measures. If applicable, reconciliations of the non-GAAP measures to the GAAP information can be found in our earnings release.

On the call with me today is Jerry Morgan, Chief Executive Officer of Texas Roadhouse; and Keith Humpich, our Interim Chief Financial Officer. Following the prepared remarks, we will be available to answer your questions. In order to accommodate everyone that would like to ask a question, could everyone please limit yourself to one question.

Now I'd like to turn the call over to Jerry.

Gerald Morgan

CEO & Executive Vice Chairman

Thanks, Michael, and good evening, everyone. Before we begin our formal remarks, I want to take a moment to recognize Michael Bailen on his promotion to Vice President of Investor Relations. As many of you know, he has played a pivotal role in shaping our investor outreach and communicating the company's financial strategy. Congratulations, Michael, I am very proud of all you have done for Texas Roadhouse, and I'm excited to see you continue to grow our Investor Relations program.

Moving on to our quarterly results. Our strong top line momentum continued in the third quarter with revenue topping \$1.4 billion. Through the relentless efforts of the best operators in the business, we achieved our highest quarterly growth of the year in revenue, same-store sales and traffic. There's no doubt there is a healthy demand for our brands. Our people first focused value proposition and operational excellence continue to be a winning formula to drive our long-term success.

On the development front, we opened 7 company-owned locations in the third quarter, including 2 Bubba's 33 restaurants and 1 Jaggers. We remain on track to open approximately 30 restaurants across the 3 brands in 2025.

We have also acquired 20 franchise restaurants this year, including 3 purchased at the beginning of the fourth quarter. Our franchise partners opened 2 international Texas Roadhouse restaurants during the third quarter. We expect they will open one more franchise location in the fourth quarter.

Looking ahead to 2026, we expect to open approximately 35 company-owned restaurants, including approximately 20 Texas Roadhouses, 10 Bubba's 33 and as many as 5 Jaggers. Additionally, as mentioned on last quarter's earnings call, we have an agreement in place to acquire our 5 remaining California franchise locations at the beginning of 2026. On the franchise side, our partners are planning to open 10 new restaurants, including 6 international Texas Roadhouses and 4 domestic Jaggers.

Regarding consumer behavior in the third quarter, we are pleased with what we saw from our guests visiting our restaurants, as they continue to favor stakes in larger sized entrees. In addition, we haven't seen any noticeable change in guest behavior since our 1.7% menu price increase at the beginning of the fourth quarter.

The guest is also responding positively to our newer offerings on the beverage side. In addition to mocktails and our \$5 all-day everyday beverage specials, we are also having success with our regional approach to the beverage menu and offerings. For example, we are testing dirty sodas in Utah and Idaho, which have been well received by our guests. The regional approach allows us to be more receptive and responsive to local taste and potential trends.

Our To-Go business continues to show solid momentum. Our operators have done a great job focusing on speed and order accuracy. This focus has improved the overall guest experience and as we become more efficient, our operators can take more orders per hour.

Outside the 4 walls of our restaurants, we are also very excited about the retail segment of our business. Our retail strategy is about building guest awareness and engagement. Over the past several years, we have introduced many roles, buttery spreads, steak sauces and dips.

We are excited that between our gift cards and retail items, we have a presence in over 120,000 retail outlets across the country. We believe having our logo in the grocery store aisles helps keep Texas Roadhouse top of mind to our current and potential guest.

Our success would not be possible without the partners of our vendors. We just recently held our annual Vendor Partner Summit. During this event, we met with many of our key suppliers. There were a number of takeaways around how we continue to work together to strengthen our partnership and ultimately better support our operators.

Moving on to technology. Approximately 95% of our restaurants are currently using a digital kitchen and upgraded guest management system. We expect the rollout of both systems to be completed by year-end.

As we look to next year, our operating philosophies remain unchanged. Despite the current inflationary environment, we will maintain our focus on driving top line through a combination of guest traffic growth and the expansion of our restaurant base. We'll remain an industry leader in all -- in offering high-level hospitality in everyday value to our guests and continue to invest in our Roadies to ensure we remain an employer of choice.

And finally, we will stay true to our mission, values and purpose for the long-term health of the business. This is what has made us successful for over 30 years, and what we believe best sets us up for further success going forward.

Now Keith will provide some thoughts.

Keith Humpich

Interim CFO, VP of Finance & Principal Accounting Officer

Thanks, Jerry. As Jerry mentioned, our operators drove strong sales performance in the third quarter with all 3 brands delivering same-store sales growth. Weekly sales averaged nearly \$162,000 at Texas Roadhouse, \$119,000 at Bubba's 33 and over \$75,000 at Jaggers.

On commodities, inflation in the third quarter was above our expectation due to higher-than-anticipated beef prices in the back half of the quarter. These higher prices have persisted and have impacted our forecast for beef inflation over the remainder of the year. As a result, we are updating our full year 2025 commodity inflation guidance to approximately 6%.

As everyone is aware, there is certainly significant volatility and multiple unknowns related to beef prices. With that said, we are setting our initial 2026 commodity inflation guidance at approximately 7%. At this time, we expect to be above the guidance in the first half of the year and below the guidance in the second half of the year.

Moving on to labor. Wage and other labor inflation for the third quarter was in line with our expectations. Our operators continue to execute at a very productive level as labor hours grew at approximately 35% of comparable traffic growth. Our full year 2025 wage and other labor inflation guidance remains unchanged at approximately 4%. And for 2026, we are guiding to wage and other labor inflation of 3% to 4%, with mandated increases representing approximately 1% of the increase.

With regard to capital allocation, we ended the third quarter with a cash balance of \$108 million. Cash flow from operations was \$144 million, which was offset by \$214 million of capital expenditures, dividend payments and share repurchases.

Also, as previously mentioned, we acquired 3 franchise restaurants at the beginning of the fourth quarter, and we will be acquiring 5 California franchise restaurants at the beginning of 2026.

Finally, with regard to capital expenditures in 2026, we will continue to prioritize new store development and maintaining our existing restaurants. With approximately 35 new store openings and 5 restaurants being acquired at the beginning of the year, we are expecting 5% to 6% store week growth in 2026. And we are establishing our initial 2026 capital expenditure guidance at approximately \$400 million. This excludes the cost of acquiring the California franchise restaurants.

And now Michael will walk us through the third quarter results.

Michael Bailen

Head of Investor Relations

Thanks, Keith. For the third quarter of 2025, we reported revenue growth of 12.8%, primarily driven by a 5.5% increase in average weekly sales and 6.8% store week growth. We also reported a restaurant margin dollar increase of 1.1% to \$204 million and a diluted earnings per share decrease of 0.8% to \$1.25. Average weekly sales in the third quarter were over \$157,000, with to-go representing approximately \$21,500 or 13.6% of these total weekly sales.

Comparable sales increased 6.1% in the third quarter, driven by 4.3% traffic growth and a 1.8% increase in average check. By month, comparable sales grew 5%, 7% and 6.1% for our July, August and September periods, respectively. And comparable sales for the first 5 weeks of the fourth quarter were up 5.4% with our restaurants averaging sales of nearly \$160,000 per week during that period.

In the third quarter, restaurant margin dollars per store week decreased 5.3% to approximately \$22,500. Restaurant margin as a percentage of total sales decreased 168 basis points year-over-year to 14.3%.

Food and beverage costs as a percentage of total sales were 35.8% for the third quarter. The 224 basis point year-over-year increase was driven by 7.9% commodity inflation, combined with shifts within the on-trade category, which was partially offset by the benefit of a 1.8% check increase.

Labor as a percentage of total sales decreased 18 basis points to 33.6% as compared to the third quarter of 2024. Labor dollars per store week increased 5.2% due to wage and other labor inflation of 3.9% and growth in hours of 1.3%.

Other operating costs were 14.7% of sales, which was 40 basis points better than the third quarter of 2024. The improvement was driven by leverage on operator bonuses, partially offset by changes in our quarterly reserve for general liability insurance. These insurance adjustments include \$1.7 million of additional expense this year as compared to \$400,000 of additional expense last year.

Moving below restaurant margin, G&A dollars declined 1.4% year-over-year and came in at 3.8% of revenue for the third quarter. The decline was primarily driven by lower incentive compensation and lapping the additional expense from our change to annual equity grants.

Our effective tax rate for the quarter was 13.1%. Based on our outlook for the remainder of the year, we are updating the guidance for our full year 2025 income tax rate to approximately 14.5%. We are also setting our guidance for the full year 2026 income tax rate at approximately 15%. Finally, as a reminder, in the fourth quarter of 2025, we will be lapping a 14-week quarter from last year. We estimate that this will have an approximately 10% negative year-over-year impact on fourth quarter EPS growth.

Now I will turn the call back over to Jerry for final comments.

Gerald Morgan

CEO & Executive Vice Chairman

Thanks, Michael. We just completed our 20th annual fall tour, where we traveled to 28 cities over a 6-week period gathering feedback from nearly 800 managing partners. While it is called fall tour, it is really about listening to and engaging with our managing partners to learn how we can better support them. There's nothing that feeds my soul more than spending time with the best operators in the industry who continue to create a place where Roadies want to work and our guests want to dine.

And speaking of guests, I want to give a big shout out to some of our raving fans, Mike and Judy McNamara, who have just completed their 530th store visit. We are proud to have Mike and Judy as a part of Roadie Nation.

Michael Bailen

Head of Investor Relations

That concludes our prepared remarks. Julianne, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Sara Senatore from Bank of America.

Sara Senatore

BofA Securities, Research Division

I guess, maybe one question and one clarification. I'll start with a clarification. As you think about the outlook for beef inflation or commodity inflation, I think the implication is that beef inflation might be up kind of mid-teens if your commodity basket is up high single digits. Could you just talk a bit about what you're seeing that's leading you to draw that conclusion. I guess I thought maybe we would start to see some pullback in demand at retail. Just given where prices have gone, it sounds like perhaps that's not the case.

And then I guess the question was more about your beverage program. I know that's something that you've been working on for a while, kind of mocktails and shifting perhaps to address the fact that younger consumers maybe aren't drinking alcohol. Could you talk a little bit about whether you're continuing to see that trend in terms of negative mix?

Michael Bailen

Head of Investor Relations

Sara, this is Michael. I'll start with your commodity question. Were you referring to fourth quarter of this year or next year commentary?

Sara Senatore

BofA Securities, Research Division

Next year. Next year, please.

Michael Bailen

Head of Investor Relations

Yes. So for next year, we are assuming high single-digit inflation when it comes to formula pricing. We also will be lapping some favorable contracts from this year. So the combination of those 2 things is what gets us into low double-digit unweighted beef inflation.

Gerald Morgan

CEO & Executive Vice Chairman

And then I'll, Sara, this is Jerry, talk about the beverage program. I really am excited the last couple of years as we've rolled out our \$5 all day, every day, which is a 10-ounce margarita, a value pint beer and some other things there. And the mocktails have gone very well. Dirty sodas we're testing in Utah and Idaho. And there's a lot of our consumers out there that beverage is a different category for them.

And I think us being aware of consumer trends and how that applies and I think people want a good beverage, maybe not as much the beer and margarita anymore, but they want to have a quality beverage option and so whether it be liquor beer and wine, whether it be soft or iced teas and sodas or mocktail or a dirty soda. And I think we're learning that the better the offering, the more options the guests and the consumer has the better it is for us. So I think the overall blend of the beverage category has clearly been a focus of ours for the last 18 to 24 months, and I'm excited to see that continue to expand.

Sara Senatore

BofA Securities, Research Division

Okay. Great. Very helpful. And just impact on mix, anything to say there on the check mix?

Michael Bailen

Head of Investor Relations

When it comes to mix, we're continuing to see some negative alcohol mix that's really remained consistent through the year, and that's where most of the negative mix that we are -- it's really where all of the negative mix that we're seeing this year is coming from. Some of that is being offset by positive mix of mocktails and soft beverages continue to be flat year-over-year.

Operator

Our next question comes from Gregory Francfort from Guggenheim.

Gregory Francfort

Guggenheim Securities, LLC, Research Division

I guess I'm curious, maybe not to hammer on beef, but what gives you guys the confidence that this is transitory versus structural? And I guess how are you evaluating the structural nature of what's going on versus maybe not pricing against it because it's transitory?

Michael Bailen

Head of Investor Relations

Greg, it's Michael. Thanks for the question. I think the industry, the experts, our purchasing department, all believe that this is -- we are in a cattle cycle and it is transitory in nature. Cattle cycles do last longer, and you tend to -- when you come out of it, settle in probably higher than where you came into it. So certainly, as we take pricing for other structural inflationary pressure, i.e., wage pressure, it does help offset any component that is structural in nature on the commodity line. We're not going to on the front-end guess of what is structural and what is transitory when the cattle cycle ends, or the industry expects something different than we would have different conversations. But right now, everything we're told and believe is that this is a cyclical issue and one that we just need to manage through.

Operator

Our next question comes from Jacob Aiken-Phillips from Melius Research.

Jacob Aiken-Phillips

Melius Research LLC

I just wanted to ask on your take on the consumer. I know traffic was strong, but are you seeing any differences by income cohort, age cohort? And then like other restaurants have said that there's been a bifurcation among consumers and how you manage your menu and your pricing architecture to appeal to both sides of...

Gerald Morgan

CEO & Executive Vice Chairman

Thanks, Jacob, this is Jerry. I'll kick it off, and then I think Michael will have a comment. But there's nothing significant that we can see. We're excited about our traffic growth and our sales growth and our menu has always had value built into it, and we have some offerings on our early dine. And so I think we've always been focused on that from the very beginning. And we do have some larger stakes and some entrees that can go to that side of the menu, but there's also a lot of entrees with our country dinners, our 6-ounce sirloin with 2 sides are still extremely value-oriented.

And I do believe that, that is what allows our menu to be very favorable for all consumers. So we feel like we're in a great position to be able to pride folks. And when we talk about our beef selection, and we have 4 cuts of sirloin that you can choose a 6 and 8, 11 or 16, so that you have options on how much you want to spend and how much you want to eat. And I really do believe that that's always been our philosophy, and it's really served us extremely well.

Michael Bailen

Head of Investor Relations

Yes. And Jacob, this is Michael. When I look at our mix trends from the third quarter and the first part of the fourth quarter, I'm really not seeing anything different than what we've been seeing all year. We don't spend a lot of time separating out income or consumer by cohorts. But there's nothing in there that tells me that we aren't continuing to see a guest that appreciates the value that we're offering.

When I look by region, I'm seeing strong results. When I look 7 days a week, I'm seeing strong results. And when I look by daypart, I'm seeing strong results, and that goes for both our dine-in business and our to-go business. So we're very happy with what we're seeing from the consumer and believe that just goes to the value that we offer and the overall experience that we're offering and the guest still is enjoying what they're getting from us.

Operator

Our next question comes from David Palmer from Evercore ISI.

David Palmer

Evercore ISI Institutional Equities, Research Division

Great. Congratulations, Michael, on the promotion, Crazy, well deserved.

Michael Bailen

Head of Investor Relations

Thank you, David.

David Palmer

Evercore ISI Institutional Equities, Research Division

Yes, 2 questions. Jerry, I was just wondering philosophically about pricing. And I'm wondering how you weigh the potential impact of pricing or not pricing or underpricing the inflation on managing partner pay. You were one in the past and you manage a ton of them now. And then if this is going to be a year where we're getting a spike in beef? And I'm not saying you should chase that with pricing because it won't last forever, but I do wonder how you manage that in a year like what we might be having in '26?

And then separately, I just wanted to ask about Bubba's. The same-store sales, it decelerated a bit, 2.5 points or so, not a massive slowdown, but obviously, Texas Roadhouse really didn't slow at all, it actually accelerated a little bit. So any theories about why those would have been different in terms of the sequential growth?

Gerald Morgan

CEO & Executive Vice Chairman

Thanks, David. Yes, I'll -- as far as the MP compensation, it really has been built around that partnership side of it and you grow your sales, you grow your profits, you grow your paycheck. And I think that philosophy works very well. And when we look at store -- restaurant store margin, those dollars are what they get paid off of. So we continue to monitor and reach that. But again, if you're running a healthy business and you're executing at a high level and you're growing your sales and your profits and your people, then you're going to get compensated for that. And I think that's been a great philosophy for us.

If there are people in our system that might be struggling for whatever reason, then we will continue and have great conversations with them if there's any adjustments. But the overall system works extremely well. When you got skin in the game and you've got ownership and partnership, and we just came off of fall tour, and we talked about they all have their own individual challenges and problems and how can we help them solve them, whether it be sales profits or people and helping them run a healthy business for the long term. And there are ups and downs in business, and that is part of partnership. We're not going to be able to fix everything for you every time, but we will work with you to help you grow that side of the business.

And as far as Bubba's is concerned, I think we are still very excited. There's been a lot of work put in Bubba's in the last few years from a leadership standpoint, from a menu engineering standpoint. There's a lot of things going on in their competitor set. So what we feel have a lot of confidence in what Bubba's is doing in the offerings that we have with our burgers and pizzas and wings and all of those things that go in there, the sports, the rock and roll, Michael, would say that again for me?

Michael Bailen

Head of Investor Relations

Rock and roll.

Gerald Morgan

CEO & Executive Vice Chairman

Yes. So we like what we got going on in Bubba's. It's always been a great. It's our second brand. We believe in it completely. So we'll continue to watch and see if there's anything we need to do differently. But we still have a lot of faith and confidence in Bubba's 33.

Operator

Our next question comes from David Tarantino from Baird.

David Tarantino

Robert W. Baird & Co. Incorporated, Research Division

I wanted to follow up on the last question about the restaurant profit dollars. And if I look at restaurant profit dollars per location or per operating week, which is, I guess, a proxy for the metric that you pay the store managers on, it's been a really long time since that metric has declined in 2 consecutive years. So this year looks like a year where we're going to see a decline. So I'm just wondering, Jerry, if you could comment specifically on the appetite for letting that decline in 2026, given all this inflation or perhaps is there a thought to around the time you make your next pricing decision to price in a manner that would protect that line specifically so that you don't have 2 years in a row of declines in pay?

Gerald Morgan

CEO & Executive Vice Chairman

Yes, David, thank you. I think we'll continue to look at our philosophy on pricing. We've always tried to have a conservative approach, and we do believe that protects that top line and that consumer. And we do understand that the beef is driving a lot of those other results. So -- but as we look at it, we just started our pricing for the fourth quarter. We took the 1.7%.

And as we get closer to the end of the year, our next pricing will be in period 4, which is the start of April. We'll start having conversations with our company and within ourselves and within all of the operators and seeing what they're going up against when their competitive set in their own communities. And then we'll make that decision from that standpoint. So I think, again, we always try to have a conservative approach, and I think it's paid us very well overall. And we want to talk to our partners before we make a decision like that.

Michael Bailen

Head of Investor Relations

And David, this is Michael. Our partners take a long-term view just like we do. And we were -- we look back and know that those restaurant margin dollars per store week are still approximately 35% higher than they were in 2019. So yes, maybe we've given a little bit back and we need to watch and see what happens next year, but where those profit dollars have gone over the last 5 or 6 years is still very impressive.

Operator

Our next question comes from Brian Bittner from Oppenheimer.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

Clearly, you're seeing really resilient traffic trends in an environment where most are seeing choppy or softer trends and that's not surprising based on your track record. But my question is, based on the data and insights you guys have, do you see new customers coming through the door? Are you picking up new customers right now? And if so, where are you stealing those customers from? Are they trading up from QSR? Are you stealing them from the grocery store? How would you frame that up?

Gerald Morgan

CEO & Executive Vice Chairman

I'll kick it off, but it's hard. We don't really measure it that way. We try to get a great reputation in a community and be the talk of the town to some degree. And that's what really drives the excitement around. When you drive into a Texas Roadhouse and the parking lot is full and the energy is going on and the lights are so bright, I mean, that is our attraction. And if you drive to another business and maybe they don't have same the activity, but I think we're drawing from everyone, whether it be a higher-end steakhouse, whether it be QSR, whether it be -- I mean, we got quality made from scratch food. We cut our own steaks and we've got this energy and this vibe in these restaurants.

So I think the American consumer or the consumer across the world is just saying they like what we're doing from an energy standpoint, a hospitality standpoint and the quality of our food always has been in our respect and reputation in the communities all across America and the world is something to be really proud of, and we are extremely proud. And we work really hard to deliver a great experience for our employees and for our guests.

Operator

Our next question comes from Peter Saleh from BTIG.

Peter Saleh

BTIG, LLC, Research Division

Maybe 2 quick questions. Just one on the beef side. Just curious if you can comment a little bit on how much of this beef is already locked for next year, if we do see a rolling over, which I don't think anybody expects of beef. Could there be some moderation in your inflation targets for 2026?

And then just secondly, on the KDS, 95% of the units now have it. Can you talk about what you're seeing on table turns and just how you try and balance speed of going fast, maybe getting a couple of table turns, but not going too fast and not destroying the overall guest experience?

Michael Bailen

Head of Investor Relations

Peter, this is Michael. I'll definitely take the first one. On the commodity basket, I will tell you that the overall commodity basket is approximately 40% locked in the first half of the year. For competitive reasons, we're not going to get into specifics on what percent of the beat has been locked, but I think it's fair to say if there's moderation or a change in expectations, then that could certainly move the needle on our forecast for overall inflation in 2026.

Gerald Morgan

CEO & Executive Vice Chairman

And then on the digital kitchen, I think, like you said, we'll be completely rolled out with the digital kitchen, the guest management system upgrade by the end of the year. There are indicators that show that it does give us more information so that we can make great decisions. We want to balance how fast that we are. We still see the guest experience at about 54 minutes and that's a good spot for us to be. You want them to feel important and that we're hustling but not rushed.

And so I think all of this does is give us some more information about how to make sure that we balance a great experience when it comes to your greet, to your drinks, to your appetizer, salads, your entrees and your -- and obviously, the Roadhouse Pay or the pay at the table has been a huge component where our guests can pay and leave when they're ready and they're wanting and not waiting on us or we're not waiting on them kind of thing. So I think all of technology, if it enhances the guest experience, then we're all about it. And if we learn things once the whole system is on it, then we will share that with our operators and make some decisions on how do we increase speed of service, if needed.

Operator

Our next question comes from Jeffrey Bernstein from Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Great. My question is on the uses of cash. I guess it's a two-part question. The first part, just on the franchise acquisitions. It seems like a clear ramp in activity over the past few years. Just wondering what those conversations are like. Presumably, these are very profitable units. I'm just wondering how many are still outstanding, which could be potential targets for 2026?

And then to balance that, I guess, on the CapEx side, I think you mentioned for '26, it's going to be \$400 million, which is similar to '25, but I know you're opening up more new units, and I'm sure there's inflation on the cost to build and there's larger boxes. So I'm just wondering the offset there, why we're not seeing an increase in that CapEx, whether it's you found a way to be more efficient with the openings or maybe Bubba's is much lower cost to build? Just trying to figure out the balance of CapEx between the 2 years despite greater openings.

Keith Humpich

Interim CFO, VP of Finance & Principal Accounting Officer

Yes, Jeff, this is Keith. Thanks for the question. On the franchise acquisition side, after we complete the California acquisition at the beginning of the year, we will have approximately 30 franchises left. I think it's actually 31 is the exact number. And we just continue to have ongoing conversations with all of our franchise groups. We still have, I'd say, 3 large franchise groups left after this. And we continue to have ongoing conversations with them. And I think you can expect to see other franchise acquisitions in the future.

On the CapEx, I think you have to factor in that this year, we had the Support Center acquisition, was part of our number. So I think you kind of have to back that out. And when you do that, I think the numbers become a little bit more comparable.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

How much was that acquisition?

Keith Humpich

Interim CFO, VP of Finance & Principal Accounting Officer

\$23 million.

Operator

Our next question comes from Brian Harbour from Morgan Stanley.

Brian Harbour

Morgan Stanley, Research Division

I guess I think the beef side is pretty clear. I guess I'm just curious, as you think about sort of labor lines, OpEx lines, which were a bit favorable in the quarter, G&A as well. Is that something you still expect to continue in 4Q? And some of those, I assume, were affected by the extra week. So how should we think about that?

Michael Bailen

Head of Investor Relations

Brian, it's Michael. I'd say, yes, that the fourth quarter, we should still be able to -- if the top line trends continue the way they have for the first 5 weeks, I would expect to see leverage on all those lines, labor, other op and G&A, and those are also lines that potentially could see some leverage into 2026, again, if the top line trends continue. Our operators are doing a great job in staffing the restaurants. And so that those labor hour growth relative to traffic has been very favorable. Other op, again, we continue to see some leverage on that. And G&A, we'll see how that plays out.

Operator

Our next question comes from Brian Vaccaro from Raymond James.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Congrats, Michael. Wanted to ask you this sort of the sticker shock effect in the grocery store. In my local market, Ribeye is over \$23 a pound. And I think for maybe \$6 or \$7 more, I could have you guys cook it and not burn it like I do at home and have great service, and you'll even do the dishes for me. I mean -- so I guess the question is, even anecdotally, are you hearing that from your customers? And do you think that, that's adding some incremental top spin to your comps? Is there any way to flesh that out in your data or any demand destruction you're seeing in the grocery store? I don't think I've ever seen it that pronounced is sort of my point, even 10, 12 years ago. It just seems quite intense that effect.

Michael Bailen

Head of Investor Relations

Brian, it's Michael. I certainly do think that people are aware of what it cost to buy beef in the grocery store. And while maybe we weren't seeing as much retail demand degradation over in the second quarter, in third quarter, we've heard that maybe you're seeing a little bit more of that now. And we certainly have seen this year that more of our guests when they come in are getting a steak when they order from Texas Roadhouse than what we had seen in years past. So I think they are recognizing the value of our stake offerings relative to what they can do at home. And as a company that prepares a tremendous steak, I think that creates loyal guests for us for years to come. So we are aware of that, and I think it is helping us.

Brian Harbour

Morgan Stanley, Research Division

All right. That's helpful. And then just on the unit growth side, I was going to touch on maybe both Jaggers and Bubba's. But Bubba's is opening 10 units, and I think you said 5 on Jaggers. But on Bubba's specifically, maybe, can you talk about any new markets that you're going into? Or is it mostly existing markets? Maybe just elaborate on sort of the growth and how it's accelerating at Bubba's?

Gerald Morgan

CEO & Executive Vice Chairman

Yes, Brian, this is Jerry. We -- I think this year, we'll get 7. And the year prior -- a couple of years, we got 4, a handful. And we've been able to work the pipeline. We are trying to stay primarily with the market partners that we have. We're continuing to look at the future growth. But I would say most of that growth is in pretty existing markets from that standpoint.

And Jagers, we have a homeland or a strategy here of the Heartland, and it's really Ohio, Indiana, Kentucky, Tennessee, Georgia. So our company side stores will be kind of close to the Louisville base. And that's the strategy for now. And -- but we're very excited about the growth. We will be going into Tennessee or in Nashville area and then start looking in a little south of that, but -- and try to even break into Ohio. So that's kind of the strategy that we have with Jagers to stay close to Kentucky and maybe the 2 states north and south from that. And we call that the Heartland strategy for the company side.

Operator

Our next question comes from Dennis Geiger from UBS.

Dennis Geiger

UBS Investment Bank, Research Division

Great. Michael, I'll echo the congrats, well-deserved. I always appreciate all of your help for sure. Great detail on the inflation on your key cost items for '26. Just curious if you would comment at all on thinking about that other OpEx line item looking to '26 G&A. Any notable call-outs there? I know the other OpEx has a gazillion buckets in it, and we're not in '26 yet, but any call-outs on those other items as we're just kind of trying to get a full picture of how the P&L looks in the next year?

Michael Bailen

Head of Investor Relations

Den, this is Michael. I appreciate the kind comments. It's certainly early, but as we think about other operating for next year, it could look grow in a similar fashion to what we've seen this year, low single-digit growth in other operating dollars per store week. We have heard that utility costs are going up and tariffs would be something that maybe flow through there, but not expecting anything dramatic on that line as we know it right now. So assuming our top line continues to grow at a healthy traffic pace, right now, I'm expecting low single-digit dollar per store week growth.

Operator

Our next question comes from Andy Barish from Jefferies.

Andrew Barish

Jefferies LLC, Research Division

I did want to level set on the quarter-to-date, I mean, with the pricing you took, it looks like traffic -- we don't know all the variables, but it looks like traffic is probably running half the rate of the 3Q. Is that in the ballpark? And what may explain that other than maybe comparisons or something else out there?

Michael Bailen

Head of Investor Relations

Andy, it's Michael. Yes. So we reported a 5.4% for the first 5 weeks. I will tell you that the timing of Halloween moving from a Thursday to a Friday had over a 60 basis point negative impact on that number. So I would say if you were to adjust for that, we would be running over a 6%. But within that 5.4%, you do have pricing that's probably running in the -- a little over 2.5%. And so you are seeing traffic that's over 3% at this point, but that 3% would probably be over 3.5% ex the Halloween adjustment.

Andrew Barish

Jefferies LLC, Research Division

Okay. So your menu price kind of layered in through the month?

Michael Bailen

Head of Investor Relations

Well, the 3.1% pricing was fully -- that was fully in effect as of day 1, but we still have some negative mix, call it, 50 to 60 basis points. So you're running 2.5%, 2.6% check increase and the remainder is traffic.

Andrew Barish

Jefferies LLC, Research Division

Okay. Got it. Got it. And then yes, with the beef side of things, I mean, 2015 was your previous high on COGS at 36%. Is that kind of the analog with hopefully, the peak in the cattle cycle, at least the low in the cattle cycle driving peak prices for 2026, at least what we know today in terms of what you've laid out?

Michael Bailen

Head of Investor Relations

Andy, it's Michael again. It's hard to pull. You are right, 2015, I think it was 35.9% and that was the end of the cycle. And the next year when things did turn, we were 200 basis points lower. So we do obviously expect that percentage to increase in 2026. We will see what happens beyond that. But again, we know when the cycle does turn and you get that year of less inflation or deflation that, that COGS line does improve very quickly. And so that's why we're remaining patient. But too early for us to guide and predict what will happen beyond 2026.

Operator

Our next question comes from Lauren Silberman from Deutsche Bank.

Lauren Silberman

Deutsche Bank AG, Research Division

A couple of follow-ups. I wanted to also ask on the quarter-to-date side. There's been a lot of noise around October industry-wide, it's been pretty volatile in recent weeks. It sounds like things have slowed given pressure from the government shutdown. Outside of what you saw with the Halloween, are you seeing any volatility in trends at all more recently? Or it's been pretty stable?

Michael Bailen

Head of Investor Relations

So Lauren, this is Michael. I would say, as I look at each week of the October period, outside of Halloween, it was very stable and consistent. So we saw a strong performance throughout the month of October.

Lauren Silberman

Deutsche Bank AG, Research Division

That's great. And then on the commodity guide, are you guys actually embedding a step-up in underlying costs on a dollar basis in '26? Or is this more about compares? I guess I'm just thinking through commodities up 8%, 9% in the second half of '25. And I guess your guide would imply close to mid-single digit in the back half of next year as well. So just trying to understand that point.

Michael Bailen

Head of Investor Relations

Yes, Lauren, it is a mixture of that. I mean beef does go through cycles of prices or there is seasonality in beef prices. So it is not on every cut that the dollar cost is going straight up from where it was in the third quarter. In some cases, it may be lower in the fourth quarter and then it could go higher and so things move around. So it is not a linear assumption in there.

Our procurement experts in the beef area spend a lot of time thinking about how this will play out and it varies by cut. So a lot of this inflation, certainly in the first half of the year, is simply the fact that formula-based pricing was much lower and really escalated in the back half of the year. So some of this is just the year-over-year lap even if it comes down from where we were in the third quarter.

Operator

Our next question comes from John Ivankoe from JPMorgan.

John Ivankoe

JPMorgan Chase & Co, Research Division

I actually had to remind myself when your IPO was, which I think was in 2004, correct me on that. But shortly after, your unit growth obviously significantly accelerated as a public company. And sometimes in this industry, 20-year-old restaurants, can one kind of lead to lease renewals. So just kind of comment if there are any kind of step-ups in rent as you go from the first 20 years to the second.

And then the question just kind of on -- as you think about the asset itself, do you have an opportunity? Or is there a need to kind of come and say, okay, you can only remodel a restaurant kind of cosmetically to an extent where it actually makes sense to go back and do some more major work for the next 20 years of the restaurants life. Is that something that we should consider as part of the future CapEx cycle?

Michael Bailen

Head of Investor Relations

Yes, John, it's Michael. First on the rent, we do straight line on the rent. So we report similar rent numbers, and so there wouldn't be the step up there. It is certainly possible if we came to the end of the negotiated lease term with a restaurant, whether that's 20 or 30 years or with the landlord, excuse me, that there is a reset that could be higher, but that was going to be on a smaller number of stores, so probably wouldn't have a huge impact on that rent number.

As far as the need for investing in our restaurants, I mean, we continually maintain our restaurants. And certainly, there have been some that we have relocated that maybe in the early days that Texas Roadhouse wasn't the first restaurant to be in that building, and it wasn't something where you could not continue to just take care of the building and we did relocate. And you'll have cases like that, but the fact that we take care of these restaurants, I think prevents us from having any major concern about a huge step-up in the CapEx needs because we're taking care of them year in and year out.

Keith Humpich

Interim CFO, VP of Finance & Principal Accounting Officer

And John, this is Keith. I would just add on the CapEx side, we do have an aging restaurant base now. And that is why you have seen kind of the uptick in the last couple of years as all the projects that we have been doing to maintain our restaurants. So I think you can expect to see it kind of like a level that we've been at going forward.

Operator

Our next question comes from Andrew Strelzik from BMO.

Andrew Strelzik

BMO Capital Markets Equity Research

I had a follow-up and then a question. The follow-up is on the mix shift to larger entrees and steaks and things like that. Can you quantify how much of a margin headwind that created is number one. And number two, on the pricing side, your price increases that you've been taking for the last couple of rounds here have been stepping up a little bit, not a ton, but a little bit. And at the same time, your wage growth expectations have actually been coming down from 4% to 5% to 4% to -- 3% to 4%. So in your conversations with the operators, what are they pointing to that's driving that larger price increase over the last couple of rounds?

Michael Bailen

Head of Investor Relations

Andrew, I'll start on the mix shift. Certainly, the higher percentage of guests ordering a stake has had a little bit of a negative impact on our food and beverage as a percentage of sales, maybe 20 to 30 basis points of impact on that percentage. But I'll tell you it's net neutral by and large, to our profit dollars. Those stakes tend to be -- or larger entrees come at a higher sales price, so we get more sales dollars and their profit dollars are probably equal to what the guests maybe would have ordered otherwise. So from a margin dollar standpoint, not having a huge impact, but you definitely do see a little bit of extra pressure on the food and bev percent line.

Gerald Morgan

CEO & Executive Vice Chairman

And Andrew, yes, this is Jerry. On the pricing, I think we have really candid conversations about what's going on in their local community, what's going on in their state whether it be labor or continued commodity and utilities and all the other factors that come into running a profitable business and then make those decisions based off of that. And sometimes it is about a store or a market or a state, but overall for the company, it's what we feel comfortable with. And it is a little bit about what our competitors are doing. We try to get as educated as possible when we make those decisions twice a year on where we're at and what we're comfortable with. We're not going to be able to price for every beef inflation as of right now. But we want to make sure that we protect the value side of our business and our menu and our perception.

Operator

Our next question comes from Jim Salera from Stephens.

James Salera

Stephens Inc., Research Division

Jerry, if you're looking for a place for new Jaggers in Ohio, I recommend the west side of Cleveland if the real estate team needs some site selection help.

Gerald Morgan

CEO & Executive Vice Chairman

Thank you.

James Salera

Stephens Inc., Research Division

I wanted to ask a little bit about the retail piece of the business that you guys had mentioned earlier. Do you able to quantify how much of an impact that is? I would think given the really strong brand equity that you have, that can potentially be a way to access kind of a whole new group of consumers that I would think is a decent margin for you. But just any color you can offer there? And if you have any thoughts around maybe the potential size of that business?

Gerald Morgan

CEO & Executive Vice Chairman

Well, thanks for the -- obviously, all of our retail initiatives are about the brand awareness and being on the grocery store. And our consumer, they see that logo and they put a smile on their face and they think about their local Texas Roadhouse and all we're trying to do in all of that. Now with that said, obviously, the inspired by roles are really a hit and they are really selling well at the retail outlets out there. And we are extremely happy and so is our vendor partner. So it's still just early on as we wrap up the year and we see what kind of revenue that it provides. But I would tell you there is a demand for that particular product. And so we're excited about it. And we will continue to look at making sure that it's available to folks, and we've had a tough time keeping up with it, but it's exciting to see Texas Roadhouse inspired by many roles flying off the shelf like they are. So we're very proud of that. And I'll let the real estate team know about that selection.

Operator

Our next question comes from Zach Fadem from Wells Fargo.

Zachary Fadem

Wells Fargo Securities, LLC, Research Division

So on the inflation front, you see competitors trying to shift the mix to chicken or less inflationary items, either via promo or other avenues. So philosophically, curious if there's a point where beef inflation gets to so high where you would consider either a menu pivot at the core business or Bubba's, et cetera. Any thoughts there?

Gerald Morgan

CEO & Executive Vice Chairman

Yes. We're kind of a steakhouse and I think that it would be hard. We have a lot of offerings with our chicken and pork and salmon and the country dinners with our country fried chicken and all of those things. So I think we have a lot of other offerings, but America really does believe that we cook a great steak. We serve a great steak and we provide a great steak. And that's what they create. So we're not going to take that away from them.

Operator

Our last question comes from Jake Bartlett from Truist Securities.

Jake Bartlett

Truist Securities, Inc., Research Division

Mine was on your pace of development and nice to see the increase in '26 and kind of putting a number on that, really driven by the Bubba's 33. My question was on the growth at Texas Roadhouse. You've always been very disciplined not wanting to stretch the team, but your 20 openings would be the least amount that you've opened since -- I guess, since COVID or just post-COVID and on the low end of your historical range. So the question is why have it so low? Are there any sort of headwinds or anything to think about of why that couldn't be a little higher? I know bandwidth is something you're very conscious about. But I think -- I would think as you open different brands, the bandwidth is more on a kind of a per concept basis. But any comments there would be helpful.

Gerald Morgan

CEO & Executive Vice Chairman

Yes. I think we said approximately. So that gives us some wiggle room. Some of these deals take a little longer. But I'll tell you, I feel great about the pipeline for '26 and '27 for Texas Roadhouse, for Bubba's and Jaggers. We obviously know that, that Roadhouse is what drives a big part of the business. So we feel very comfortable at approximately 20. I can't commit too far past that. It's a little early, but I do believe that we will be north of that number.

Operator

We have no further questions. I would like to turn the call back over to Jerry Morgan for any closing remarks.

Gerald Morgan

CEO & Executive Vice Chairman

Thank you, everyone. Congratulations, Michael, for all your hard work with everyone, and we appreciate the support. It's been a heck of a year. And let's go Roadhouse.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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