

EWCZ Earnings Call Transcript

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Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to European Wax Center Second Quarter 2025 Earnings Results Call. [Operator Instructions] On the call today is: Chris Morris, Chairman and Chief Executive Officer; and Tom Kim, Chief Financial Officer. I would like now to turn the conference over to Tom Kim, Chief Financial Officer. Sir, you may begin.

Thomas Kim: Good morning, everyone. Thank you, and welcome to European Wax Center's Second Quarter Fiscal Year 2025 Earnings Call. On today's call, Chris Morris will provide an update on the company's performance and discuss additional details regarding progress made on our priorities. Then I will discuss our second quarter results and fiscal 2025 outlook. Following the prepared remarks, we'll be available to take questions. Before we start, I would like to remind you of our legal disclaimer. We will make certain statements today, which are forward-looking within the meaning of the federal securities laws, including statements about the outlook of our business and other matters referenced in our earnings release issued today. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please refer to our SEC filings as well as our earnings release issued today for a more detailed description of the risk factors that may affect our results. Please also note that these forward-looking statements reflect our opinions only as of the date of this call, and we take no obligation to revise or publicly release the results of any revision to our forward-looking statements in light of new information or future events. Also during this call, we will discuss non-GAAP financial measures, which adjust our GAAP results to eliminate the impact of certain items. You will find additional information regarding these non-GAAP financial measures and a reconciliation of these non-GAAP to GAAP measures in our earnings release. A live broadcast of this call is also available on the Investor Relations section of our website at investors.waxcenter.com. I will now turn the call over to Chris Morris.

Christopher D. Morris: Thank you, Tom, and good morning, everyone. Thank you for joining us to discuss European Wax Center's Second Quarter 2025 financial performance. In Q2, we delivered \$257.6 million in system-wide sales, 30 basis points of same-store sales growth and \$21.6 million in adjusted EBITDA. The second quarter brought encouraging early signs that our strategies are beginning to take hold even as we remain in the initial stages of our broader effort to further strengthen the foundation of the business and position EWC for sustainable growth. Though our results do not reflect our long-term potential, they showed improvement over the course of the quarter, reaffirming the stability of our core business and the importance of the foundational work underway. This all reinforces my confidence in the fundamentals of European Wax Center, the resilience of our model and the long-term potential of the brand. As I've shared before, this is a transitional year during which we are implementing new tools, investing in our capabilities, building a new management team and refining how we show up in the market and in our centers. We are increasingly grounded in data, research and a test-and-learn mindset, an approach that's helping us uncover what works, what doesn't and where to focus our energy moving forward. That work is beginning to translate into clearer execution and more consistent operating performance across several fronts. To that point, in a rapidly shifting macroeconomic environment, having the right data is critical and so is knowing how to use it. Today, we're sharing a deeper view into key data points and what it tells us. We don't plan to share this level of detail every quarter, but we thought it was important to do so now given where we are in the business.

In recent weeks, we've seen an uptick in our performance, primarily driven by an improvement in year-over-year transaction growth, with same-store sales up 1.7% in June and through the first 5 weeks of Q3, up 1.5%. While we recognize this is a short period of time and there's still much work to be done, these early indicators are promising. With that in mind, we will continue to remain prudent in our outlook, which Tom will cover in detail in a few moments. To help build on this momentum and accelerate many of the changes already underway, we've added 2 exceptional leaders whose experience aligns closely with our priorities. Angela Jaskolski as Chief Operating Officer; and Kurt Smith as Chief Development Officer. Their leadership brings critical depth in operations and development at a time when execution and discipline are central to our strategy, and I'll share more about their respective focus areas shortly. With this expanded leadership team in place, we believe we are better positioned to advance our 3 strategic objectives: driving sales through traffic growth; improving 4-wall profitability for our franchisees through operational excellence; and implementing more sophisticated development approach focused on thoughtful, profitable expansion. Turning first to traffic and sales growth. Our goal is to develop a robust data-informed marketing engine that consistently drives traffic to centers, and we're encouraged by the progress we've made to-date. Our core guests consistently demonstrate their loyalty to European Wax Center and the value they place on their waxing experiences. We've learned a great deal about our business through a rigorous test-and-learn process and have made substantial strides in how we deploy marketing resources to acquire new guests and engage existing guests, including those who may have visited once but haven't yet developed a regular habit. We've been pleased to see this work translate into early indicators of improvement in visit frequency and consistency among our existing guests. While new guest acquisition hasn't accelerated at the same pace, we're beginning to see traction from our initiatives, and we believe we will see this area improve more meaningfully in the latter part of 2025 and into 2026. We've continued to refine our media strategy to be more efficient and data-driven, and we're now better able to see which creative assets and placements are actually driving incremental traffic. That improved visibility paired with smarter guest targeting has led to as much as an estimated 40% improvement in cost per acquisition since the beginning of the year. Building on this, we partnered with our franchisees to implement the same tactics with their local marketing dollars, helping them achieve greater efficiency and effectiveness with their marketing spend as well. In Q2, we launched our Champion ad test, evaluating over 100 creative variations and identifying 4 top-performing assets now running in markets across high visibility channels. This test-and-learn approach is a key building block of our evolving marketing engine. Additionally, we have worked closely with our franchise partners to double down on efforts to turn our loyal guests into brand advocates. These focused efforts have led to a meaningful improvement in guest referrals, one of the most powerful and cost-effective drivers of new guest acquisition. Referrals also help drive energy and deepen engagement across our system. Let's now turn to existing guests. We've made considerable progress in our ability to retain existing guests and improve frequency. One area of focus has been our contactability percentage, which is the share of our guests that opt into our SMS and e-mail database. This is a key lever in driving frequency and reactivation. Through this focused effort, we've seen our contactability rate improve from 38% at the beginning of the year to now 57%. We're using this increase in our engagement platform to deliver personalized messaging tailored to each guest history with us and have evolved our creative and language through testing. On average, we've been successful at driving 0.5 increase in visit frequency from guests who have opted into our SMS and e-mail engagement platform. To build on this momentum, we are working closely with our franchise partners on the importance of retaining guests and helping guests build routines. We are showing them the link between enhanced guest experiences and traffic to our centers. We still have work to be done here, but I'm excited about the progress we're making and the level of engagement from our franchise partners. Looking ahead, we're beginning to reshape our brand identity to better engage high-value audiences, work that will scale in 2026, but is already informing how we show up today. The insights we gained in Q2 on our traffic and sales growth priority have sharpened our focus and made us smarter in how we attract and engage new and existing guests, and we believe this foundation positions us well in the quarters ahead. Next, turning to our second strategic focus, improving 4-wall profitability for our franchisees. This priority is cultivating a more effective service-based corporate infrastructure that enables operational excellence and sets our

franchisees up to succeed. We aspire to be the premier franchisor of choice, and that starts with a partnership mindset. Over the past quarter, we've continued to work closely with franchisees to deliver targeted support and hands-on partnership at the center level. The tools we introduced earlier this year designed to improve tracking, accountability and transparency are now fully operational across the system. Consistency and engagement are critical drivers of a turnaround, and our actions are taking root. This year, we've already delivered over 2,000 touch points, including 400 field visits, implemented local marketing campaigns in 450 centers and provided nearly 200 labor analytics reports. We're seeing encouraging signs of margin and other KPI improvements across the network, particularly with centers that are highly engaged, where EBITDA margins have improved 170 basis points. With the appointment of Angela as Chief Operating Officer, we expect to take this work even further. She officially joins us next week and will oversee all aspects of franchise operations, training, learning and development. She brings a demonstrated track record of operational transformation at scale, combined with deep industry and franchise experience, and I'm confident she'll make a significant impact on center performance. Under her leadership, we expect to further evolve our support structure and refine the tools our operators need to drive execution. I also want to take a few moments here to discuss our annual franchisee brand conference that we hosted a few months ago. I came away incredibly energized by the quality of our franchisees and their level of engagement and alignment across our franchise network. We spent time listening to their feedback, level setting where we are and most importantly, where we're going. Franchisees were enthusiastic about the data-driven mindset our new management team is bringing to the table and survey feedback showed a meaningful increase in confidence around the company's direction. There is a clear understanding of our opportunities to drive traffic and 4-wall profitability and a shared commitment to capturing them together as one team. Finally, our third strategic focus is on implementing a more sophisticated development approach focused on thoughtful, profitable expansion. As we've said before, our goal is to return to net unit growth by the end of 2026, and we've continued to make active progress toward that. In the near term, we're laser-focused on successfully opening the centers in our 2025 pipeline. To-date, we've opened 7 centers and continue to be on track for 10 to 12 openings in 2025 with all of the remaining 5 NCOs currently under construction. I'm pleased to report the class of 2025 openings, while still early, are ramping above pre-pandemic levels, which we believe is a testament to the commitment of our franchise partners and our newly launched grand opening playbook. As we continue laying the groundwork for 2026 center openings, we further refined our view of underpenetrated trade areas with strong demand for out-of-home hair removal. We expect these insights to help franchisees resume unit growth in markets with the highest potential for long-term success. With Kurt Smith now on board as Chief Development Officer, we're enhancing this work through his almost 20 years of global leadership experience in strategy and franchising, including overseeing Pizza Hut's nearly 1,500-unit network across Latin America and the Caribbean. His deep understanding of franchise relationships, the importance of unit profitability and thoughtful expansion is already informing our approach. We continue to upgrade our market planning platform, which strengthens our site approval process to help ensure that each new center aligns with performance expectations and network health. Together, these improvements position us to support more consistent unit performance and enable thoughtful, profitable growth over time. As we look ahead to the second half of the year, we believe we're better equipped today than we were 3 months ago with clear priorities and a leadership team ready to execute. We're also increasingly confident that we are focused on the right things and beginning to make an impact. We have the right people, the right tools, the right franchise partners and a clear understanding of where to focus our efforts moving forward. With that, I'll turn it over to Tom to walk through our Q2 financial results and share more about our outlook for the year.

Thomas Kim: Thank you, Chris. Before I begin my remarks, I'd like to remind everyone that our discussion of growth rates on this call will refer to the second quarter of fiscal 2025 compared to the second quarter of fiscal 2024. Now to our results. We delivered a solid quarter, marked by a stable top line trend and strong profitability even as we continue to operate through a transitional year. Our performance reflects disciplined execution, a resilient business model and early traction from the strategic initiatives we put in place. Same-store sales grew 30 basis points year-over-year. System-wide sales decreased 1% to \$257.6 million, driven by a decrease in same-day services and

retail sales, partially offset by an increase in cash collected from Wax Pass sales. We're still in the early stages of strengthening our marketing and operational capabilities under the leadership of our new executive team with clear priorities in place designed to improve guest engagement and ultimately strengthen our top line performance. We ended Q2 with 1,059 centers, flat year-over-year. We opened 2 growth centers during the quarter and closed 5, resulting in 3 net center closures. While we had anticipated 7 to 8 net closures in the quarter, we benefited from some timing shifts, and these closures now expected in Q3 and Q4. Total revenue of \$55.9 million decreased approximately \$4 million or 6.6%, primarily driven by lower contributions from wholesale product and retail revenue as a percent of system-wide sales. Additionally, as noted last quarter, we believe Q1 revenue was favorably impacted by the pull forward of franchisee orders in anticipation of tariffs, a dynamic that was consistent with our expectations heading into Q2. As expected, gross margin increased modestly to 74.6%, in part due to a higher mix of royalty, marketing fees and product margin improvements. SG&A; expenses increased \$1.6 million to \$14.5 million, primarily driven by an increase in payroll and benefits and higher professional fees in addition to higher stock-based compensation that we exclude from adjusted EBITDA. Advertising expense decreased \$3.4 million due to the timing of spend within the fiscal year. Adjusted EBITDA of \$21.6 million increased 4.7% from \$20.6 million in the prior year period. Adjusted EBITDA margin increased 420 basis points to 38.7%. This reflects our continued focus on profitability, cost discipline and operational efficiency, all of which contributed to significant margin improvement despite top line performance. Net interest expense increased to \$6.6 million from \$6.4 million in the prior year, and income tax expense increased to \$2.1 million from \$1.7 million last year. Adjusted net income increased 5.6% to \$11.8 million from \$11.1 million last year. Lastly, as a housekeeping item, as of August 8, 2025, there were 43.4 million Class A common shares outstanding and 22.1 million potentially dilutive shares related to Class B shares and outstanding equity awards. Now turning to the balance sheet. Our \$40 million revolver remains fully undrawn, and we ended the quarter with \$63.9 million in cash and \$388 million outstanding under our senior secured notes. Our net leverage ratio at quarter end was 4.2x and would have been approximately 3.8x, excluding the \$31.6 million in stock buybacks executed over the trailing 12 months, which includes \$0.4 million in excise tax related to 2024 buybacks. As of quarter end, we had \$8.8 million remaining under our current \$50 million share repurchase authorization. Our asset-light, capital-efficient franchise model continues to generate strong free cash flow, supporting our ability to remain agile and opportunistic in our capital allocation priorities. Q2 was yet another strong quarter as net cash provided by operating activities was \$15.2 million compared to \$0.7 million of investing cash outflows. We remain confident in our ability to meet debt obligations under our flexible whole business securitization and view it as a strategic advantage, allowing us to invest in our core business while preserving balance sheet strength through varied macroeconomic conditions. Now turning to our current outlook for the balance of 2025. Starting with our unit expectations for the year, which remain unchanged. We continue to expect 10 to 12 gross openings and 40 to 60 center closures or 28 to 50 net center closures. As I mentioned earlier, some planned closures were delayed and now expected to occur in Q3 and Q4. To-date, in Q3, franchisees have opened 0 and closed 3 centers so far, and we expect 15 to 16 net closures for the quarter. Moving to our financial outlook. As we shared during our March and May calls, the high end of our outlook assumed that our efforts would begin to drive more traffic in the back half of 2025. The low end of our outlook assumes that while we make progress against our priorities, our initiatives begin to meaningfully drive the top line in 2026. With more than half the year actualized, we have a clearer picture of how our transformation efforts are taking shape. With a new leadership team in place and in the early innings of a turnaround, we recognize the importance of setting clear expectations and being transparent as we track progress. We are narrowing our top line guidance for 2025 and now expect system-wide sales to be between \$940 million and \$950 million, and same-store sales are now expected to be flat to up 1% for the full year. Our adjusted EBITDA guidance remains unchanged. I'll walk you through how we came to this conclusion. As Chris mentioned, in recent weeks, we've seen encouraging improvement in transaction trends during June and the first 5 weeks of Q3. These results validate that our strategic initiatives are gaining traction with our existing customers and our enhanced analytics are giving us sharper visibility into how our guests are making purchase decisions and what they are responding to. This deeper insight is allowing us to fine-tune our approach in real time and

reinforces our confidence in the strategies we put in place. Our data is showing that we're delivering better against our existing customer base. However, it's taking a bit longer than expected for our initiatives to show comparable momentum with the new customer acquisition. We believe we'll begin to see stronger impact from these efforts in the back half of the year and into 2026. Well, with 5 months remaining in the year, we believe it's prudent to narrow our full year revenue outlook to reflect a more conservative view on timing. We expect full year revenue between \$205 million and \$209 million, which reflects a modest shift in revenue mix driven by transaction trends and our continued efforts to support the health of our franchise network. While these results in slightly lower contributions from wholesale product and retail revenue as a percentage of system-wide sales, these actions are intentional, and we view them as long-term investments in system-wide performance. We continue to plan advertising expenses slightly above 3% of system-wide sales in fiscal 2025, spread more evenly across the year to support ongoing traffic-driving initiatives. Importantly, as noted, our adjusted EBITDA outlook remains unchanged at \$69 million to \$71 million. This reflects disciplined execution and strong operational efficiency even as we fine-tune revenue expectations. We've maintained a sharp focus on high-impact investments and support long-term value creation, and we're doing more with less, a clear signal of our team's operational rigor and strategic clarity. On tariffs, our teams remain proactive. We partner closely with suppliers to mitigate potential impacts through diversified sourcing and ongoing supply chain optimization. We remain confident in our ability to manage these pressures as reflected in our sustained EBITDA outlook. Finally, we continue to expect adjusted net income between \$31 million and \$33 million, net of an approximately 23% effective tax rate before discrete items. As we enter the second half, we're focused on what matters most, driving sales, improving 4-wall profitability and reigniting unit growth. These are our priorities, and they're within our control. What gives us confidence is the alignment we're building across the business to execute against them. With the right leadership now in place and a clear sense of urgency, we're acting with discipline to turn our strategy into results and value for our guests, our franchisees and our shareholders. We have high conviction in our updated outlook, which reflects the visibility we now have and the tangible progress we've made. As Chris shared earlier, recent trends are encouraging. And while we know there's more work ahead, there's a lot to be excited about as we build momentum in the months to come. Operator, please open the line for questions.

Operator: [Operator Instructions] The first question will come from Randy Konik with Jefferies.

Randal J. Konik: I wanted to kind of -- you talked about the opening of the class of 2025 openings, I guess, thus far, you've been very happy with the ramps. I think you talked about the opening playbook has changed. That's been very positive. Just kind of give us the overarching kind of changes that you've kind of made there and what types of ramp differentials you're seeing versus what that was in place in the last year or 2?

Christopher D. Morris: Yes. No problem, Randy. This is Chris. Really excited about what we're seeing with our ramps, and we are certainly seeing an impact on our 2025 openings from our new grand opening playbook. But I think it's also important to note, we started to see a shift, a material improvement in ramping back in October 2024. So really, since October 2024 through where we are today, we've opened about 18 units and that class of 18 units are all performing at our expectations or a little bit higher. So there are a couple of things happening. Number one, the previous management team under the leadership of David Berg implemented some new tools directly with our operators on ensuring that our centers were set up for success before they opened. So making sure that staffing levels that they're going to be staffed, that we had the right training certified, and then there was an LSM playbook. That really kind of created momentum that we've been able to build on in 2025. And so we simply just took that great work and further refined the playbook that we've branded as a G-O, GO -- grand opening playbook and just we're a little more precise in the tactics and the focus that it takes in order to set a center up for success. But it's a combination of strict operating standards and LSM effort.

Randal J. Konik: Really helpful. And then you gave us guidance on the closure pace. Based on the better ramps since October of last year, combined with some things you're doing, you talked about efficiencies being on the marketing side of things, better strategies, et cetera. How do we think about closure pace or maybe into next year and beyond? Like how do you want us to kind of think about this? Maybe not quantitatively -- or maybe qualitatively if you don't want to kind of give us numbers or just

kind of how we should be thinking about this going forward would be super helpful.

Christopher D. Morris: Yes. Sure. Well, I mean, your instincts are spot on. The initiatives that we're focused on are not mutually exclusive. All these initiatives help work with each other. So they all build -- and our plan is that they're going to create momentum as we move forward. And so when we think about -- everything you cited, when we think about all the great work that we're doing with our marketing engine and getting -- fine-tuning our approach of being able to take a nonroutine guest and convert them into a routine guest. All the work we're doing and partnering with our operators on the onboarding process and engaging with our guests and implementing the right steps of service that we know will lead to greater frequency. All the steps that we're doing, partnering with our franchisees to improve profitability, all of that work will work towards minimizing any negative impact from closures. And so we're very focused on building out these foundation building blocks because we -- not only will it put us in a position to drive sustainable traffic, but it's also just going to improve the overall health of the network. So as we've said many times before, our goal is -- 2026 will be the year we return to net unit growth. By the end of 2026, we -- our plan is to be back to net unit growth. And so all the work that we're doing this year is done to improve the overall health of the network, and we believe will put us in a position to hopefully be at the low end -- closer to the low end of the range that we've been providing versus the high end, and then really set us up for success in 2026.

Operator: And the next question will come from Scot Ciccarelli with Truist.

Scot Ciccarelli: So a lot of your comments have really centered around data analytics and marketing effectiveness. I guess the question is, are you or maybe specifically your franchisees making any notable store level changes or in-center execution changes? Or is the primary focus really just centered on the marketing side?

Christopher D. Morris: Well, I would say it's kind of yes and yes. So -- and just know that Angela is starting next week, we fully anticipate that her partnership with our franchise partners will lead to just sharper focus in all the right areas to help support them to drive the business forward. But where we -- on the marketing side, we really kind of view our approach to marketing and there's the approach that we're taking on new guest acquisitions and then there's the approach that we're taking on our existing guests. We know that to get the most out of our existing guests, it's a combination of marketing tactics as well as operational tactics. So we are partnering closely with our franchisees to identify the right sequence of service, the right approach, the right guest interface to be able to drive frequency with our existing guests. And so we're getting smarter. We've learned a lot over the last 3 months. And the good news is we're seeing that it's impacting the business. We're able to see a direct link into the work that we're doing both through marketing and operations. to really drive the business. And we believe that, that's just going to continue to grow from this point forward because we're just getting started. So our -- this team is a team that's going to be very focused on a strong partnership with our franchise network to drive the business forward. We know that our future is -- we can't get to where we want to go without having that strong partnership. And so there is a lot of work that we will be doing in the future around bringing more support, more focus in the areas that we know drive the business. And the reason we know it drives the business is because of the focus that we have on data analytics.

Scot Ciccarelli: Got it. And then just a quickie, hopefully. At least historically, you've provided some more details around behavior of different customer cohorts. Any color on the performance as you look at your different customer sets?

Christopher D. Morris: Yes. I'll tell you a couple of things. Number one, we still -- this brand is such a resilient brand, and we have such a loyal guest base. So the first thing I'll say is that we have not seen any material shift in our core guest. The second thing is we are -- part of the improvement in the analytical platform is all around identifying a set of guest routines, and then segmenting those routines to where we start to gain intelligence around the right tactics to improve the level of engagement with those guests in that particular routine. So we've -- part of what you're going to hear from us going forward is speaking more to those bands of guests that we've been able to identify. And again, what has us really encouraged is part of -- one of the areas where we've made the most improvement on engaging with our existing guests to start to change the trajectory of transaction counts is in the downtrend guests. So guests who had a routine, but now are starting to fall out of that routine. We're able to identify those guests and then we have been successfully able to get the right message to them

at the right time to return them back into a routine set of behaviors. And so that work is still -- we're still very early, but what we've seen so far is very encouraging. So stability -- kind of to summarize, stability with our core; and tools and data that we believe will allow us to even leverage that loyalty even more.

Operator: And the next question comes from Dana Telsey with Telsey Advisory Group.

Dana Lauren Telsey: As you think about the data that you've been garnering, what is the data telling you exactly? What are you seeing regionally? Obviously, we've always heard about California. What are you seeing about the new product launch you had [at] deodorant and how that's performing? And what are the markers of data that lead to the turnaround in either more store closures, less store closures and openings?

Christopher D. Morris: All right. Thank you, Dana. With respect to regional performance, we're seeing -- you cited California. California is -- there's a lot of challenges in the West Coast. It's been soft for a while now. So there continues to be challenge there, but we're bringing a lot of focus. We've got some very strong franchisees on the West Coast. And I'm confident that we're putting the right energy against those opportunities, and we're going to start making progress as we move forward. But that is an area that continues to be challenging. Where we've seen some improvement across the region here of late is, we've seen some nice improvement in Texas and Florida, even seeing some improvement in New York. But overall, where we're most excited is -- kind of some of the commentary I provided, Scot, a few minutes ago, where we're most excited is using our data analytics platform to identify our guests based on their set of routines and then engaging with those guests to deliver messages and content in a way to drive more business that's meaningful to them to drive more frequency. And in particular, where we've made some very significant progress is on our guests that had routines that were falling into a nonroutine. So a downtrend in guest, we've been able to intercept that and start to see progress on returning them back to routine. So that is -- gives us -- we're very encouraged by that because we think there's a lot that we can do with that type of approach, especially given just the amount of our business that's in that core guest. So we're encouraged by that.

Dana Lauren Telsey: Got it. And then new product acceptance and how you're thinking about the product pipeline?

Christopher D. Morris: That's -- we're pleased with the product acceptance. So nothing really there to report. We've seen -- our retail team here has just done a phenomenal job this year, and that's an area that we're going to continue to put emphasis against. But as of right now, our greatest priority is on transaction counts and continuing to really focus on that side of the equation. But retail will always be part of what we do. And so far, we've been pleased with what we've been able to deliver this year.

Dana Lauren Telsey: And just lastly, Wax Pass, what are you seeing from trajectory of Wax Pass and frequency? Has there been any change at all?

Christopher D. Morris: So we're just wrapping up our -- as you know, Dana, we're just wrapping up our busy period of time where Wax Pass sales are kind of at the forefront, and we had a really nice season. Our Wax Pass sales were up almost 2% year-over-year. So not seeing any material change there. So Wax Pass continues to be a fundamental part of our product offering and the way our guests engage with us. And so, we're pleased. And as we move forward, we're just going to continue to figure out different ways of being able to package our product and use our Wax Pass in a way to drive the business.

Operator: And the next question will come from Jonathan Komp with Baird.

Jonathan Robert Komp: If I could just ask about the second half comps outlook. It looks like at the midpoint, you're not assuming the trend over the last 5 or 9 weeks continue at the same rate. So just how are you thinking about the back half? And as you look forward here, visibility to some of the comps drivers?

Christopher D. Morris: Go ahead, Tom.

Thomas Kim: Yes. In actuality, we're looking -- we're very pleased, as Chris mentioned, with the recent trends. And we do expect that as that continues through the rest of the year, we expect that to guide to the higher end of that range as we continue that progress. But again, reiterating, we felt it was prudent just where we stand today. And then it's more of just being careful about the timing outlook of all the tactics and initiatives that we're putting in place, particularly on the new guest acquisition side that the trends -- we're tempering it slightly to be conservative to make sure we're well within the range of

delivering the \$940 million to \$950 million by the end of the year, which, again, guides us within that comp range of 0% to 1%.

Jonathan Robert Komp: Okay. That's helpful context. And then Chris, maybe just a broader question again as you think about the barriers or the biggest challenges to get back to net unit growth. Just what do you think the biggest hurdles you see here near term to maybe getting back to net unit growth sooner? And as you look at really the makeup of the franchisee system today, do you think you have the right types and the right operators to help you achieve those goals?

Christopher D. Morris: Yes. You bet. It's a great question, Jonathan. So let me kind of just step through it. I would say when -- so I'm 7 months now into this role. And when I joined the company, new unit development for the most part, was stalled. Franchisees -- just given the state of the business, franchisees kind of hit pause and we weren't seeing a lot of NCO development as evidenced by 10 to 12 being our target for openings this year. So the first barrier is just going from a pause situation back into an accelerated situation. So it's always harder to go from kind of 0 to something. And so that would be the first barrier. So then the next question is, well, how do you ramp that engine back up. And what we've been doing is focusing on the basics. Let's first and foremost, focus on putting the foundation building blocks in place to support sustainable traffic growth across the network and doing that in a highly transparent way with our franchise network in close partnership. We believe that, that's a very critical component to returning to growth is just building -- earning the credibility to grow and instilling confidence throughout our network that this is a management team that's going to be thoughtful, deliberate and have the right data to get back to growth. And I'm very pleased with where we are today and that trajectory. The third part to your question is, do we have the right franchisees. And we believe we spent a lot of time going through and looking at where we have pockets of opportunity to continue to grow. And the good news is there's still plenty of runway for us to grow for multiple years hereafter. And most of that growth, we believe, will be with our existing franchisees. This is a business that has its own little complexity to it. On the surface, it seems simple. But when you get into it, it's more complicated. And we've got a lot of dedicated franchisees who are doing the right things that are -- we believe with the right support, they're ready to grow. But it's got to be something that we're doing hand-in-hand, and we need to make sure that we're setting them up for success, both with the tools that they have to be able to open a center and making sure that they're picking the right sites and they're timing everything the right way. And so that's the work that we're doing right now. And then finally, with Kurt Smith joining, he's been with us now for 3 weeks and has already just made tremendous strides in the last 3 weeks. I believe, Kurt is just going to do an outstanding job of being able to match the right franchise partner with the right development opportunity and to be able to communicate across the network why we're excited about these opportunities and why that makes sense. The last thing I'll say is, we're having -- we're actively involved in conversations with our franchisees to identify where we see the greatest opportunities in 2026. And those conversations are starting to pick up some momentum. But we really -- there's a lot that we need to do here over the next 3 to 4 months to really get things moving in 2026. So that is going to be one of our top priorities here over the next several months.

Operator: The next question comes from John Heinbockel with Guggenheim.

John Edward Heinbockel: Chris, do you yet have an idea? You think about the 4-wall or the studio level -- the center level model, right? And year 1 AUV, I know you -- the idea was you mature by year 5, get to \$1 million of AUV and I think maybe doing \$500,000 or a little less in year 1. To what degree can you accelerate that? Do you have an idea in mind? Can you accelerate maturity by a year? Can you do \$600,000 in year 1? Or is that a big ask?

Christopher D. Morris: I don't yet know to what degree we can accelerate it. I can tell you that we talk about that often. And as we -- we're very focused on it. So as we build out this marketing engine, develop the right capabilities, we work closely with our franchise partners on what it takes to set the unit up for success to have the most successful opening and then what type of engagement do we need to have with our guests to be able to drive the most frequency, I fundamentally believe the intersection of that is a faster ramp. But it's -- right now, it's a belief. We need to prove it. And I can't articulate to the extent that we'll be successful, but I can just tell you that we're focused on it, and I believe that we will get there at the right time, which is why you keep hearing from me, our approach is having the right sequence, putting the right building blocks in place, focusing on things at the right time because doing

that will set ourselves up for success in the future.

John Edward Heinbockel: Just maybe as a follow-up to that, because the biggest cost, right, for 4-wall cost is labor, but you don't want to skimp on labor, right? So how do you think about the labor model? And then because I don't think other pieces of the cost structure can really make up for that. Can you be more efficient with labor without impacting the fundamental experience?

Christopher D. Morris: Well, you're absolutely right. Labor is by far the greatest cost in our business. And we certainly don't want to change the wax specialist. And so, I think given the wax specialists more and more tools to be able to be successful at growing their own business, is very important. So where we have a little bit of flexibility is just the way that the guest experience kind of flows, that guest journey and interaction with our GSA at the very front of the experience. But the greatest way of improving labor margin is to drive more volume. And because driving more volume, there's just tremendous flow-through to the bottom line. And so our focus is on those items. Our focus is on what does it take to drive more volume to be able to get more frequency out of our existing guests. And part of that answer is the investments that we're making in our business and our technology to be able to give our operators the right tools and the right information to be able to do that. So I think kind of summarizing, short term, there might be some labor efficiencies that we can drive through the GSA possibly. Long term, it's really just getting to sustainable traffic volume and being smart about our unit expansion.

Operator: I show no further questions at this time. I would now like to turn the call back over to Chris Morris for closing remarks.

Christopher D. Morris: All right. Well, thank you. Thank you for the time this morning. We're excited to share with you the progress that we're going to make over the next few months, and we continue to be excited about the future. We've got the dominant brand in a very exciting category, and we've got the right team to make all this happen. So thank you very much, and I look forward to future updates.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.