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CAVA Group, Inc. (NYSE:[CAVA](#)) Q1 2024 Earnings Conference Call May 28, 2024 5:00 PM ET

Company Participants

Matt Milanovich - Head of IR

Brett Schulman - Co-Founder and CEO

Tricia Tolivar - CFO

Conference Call Participants

Chris O'Cull - Stifel
Andrew Charles - TD Cowen
David Tarantino - Baird
Sharon Zackfia - William Blair
John Ivankoe - JPMorgan
Ivan Yu - Jefferies
Brian Harbour - Morgan Stanley
Jon Tower - Citigroup
Jeffrey Bernstein - Barclays
Brian Mullan - Piper Sandler
Maggie Juarez - Raymond James

Operator

Good afternoon, ladies and gentlemen, and welcome to CAVA's First Quarter 2024 Financial Results Conference call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions]

I would now like to turn to conference over to Matt Milanovich, Head of Investor Relations. Please go ahead.

Matt Milanovich

Good afternoon, and welcome to CAVA's first quarter 2024 financial results conference call. Before we begin, if you do not already have a copy, the earnings release and related 8-K, furnished with the SEC, are available on our website at investor.cava.com. The purpose of this conference call is to give investors further details, regarding the company's financial results as well as a general update on the company's progress.

You will find reconciliations of any non-GAAP financial measure discussed on today's call to the most directly comparable financial measure calculated in accordance with GAAP to the extent available without unreasonable efforts in today's earnings release and supplemental deck, each of which is posted on the company's website.

Before we begin, let me remind everyone that this call will contain forward-looking statements. For this purpose, any statements made during this call that are not statements of historical fact may be deemed to be forward-looking statements. Investors should be aware that any forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those discussed here today.

These risk factors are explained in detail in CAVA's most recent annual report on Form 10-K and other filings of the SEC. Please refer to these filings for a more detailed discussion of forward-looking statements and the risks and uncertainties of such statements. All forward-looking statements are made as of today and except as required by law, CAVA undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

And now I'll turn the call over to the company's Co-Founder and CEO, Brett Schulman.

Brett Schulman

Thanks, Matt, and welcome everyone to the call. In the first quarter of 2024, we once again demonstrated the strength of our category-defining brand and our clear leadership position in Mediterranean. With a proven, highly affordable concept, we continue to expand our presence in new and existing markets. At a time when consumers are increasingly discerning in how they spend their income, they are choosing to dine at CAVA.

Our differentiated cuisine, where taste and health unite, and our compelling value proposition are resonating more than ever. And with our powerful unit economic engine continuing to gain momentum, we generated our fourth consecutive quarter of net income and our first ever quarter of positive free cash flow.

Our first quarter highlights include a 30.3% increase in CAVA revenue, CAVA's same restaurant sales growth of 2.3%, or 30.7% on a two-year basis, 14 net new restaurants ending the quarter with 323 restaurants, a 22.8% increase year-over-year, adjusted EBITDA of \$33.3 million, a \$16.6 million increase over the first quarter of 2023, net income of \$14 million, more than all of 2023, and \$4.7 million in free cash flow.

After our recent Chicago opening in Q2, we now have a presence in 25 states and the District of Columbia. And our strong balance sheet and ability to self-fund growth, puts us in a position of strength to continue gaining market share. With every new restaurant we build, CAVA is getting stronger. In April, we opened our first restaurant in Chicago in Wicker Park, marking our entry into the upper Midwest.

The restaurant is delivering exceptional results and generating significant buzz. Our team once again showed the power of our category defining brand, and how we are amplifying the passion of existing fans, engaging new consumers, and rapidly converting them to customers. Our Chicago launches a microcosm of what we see across the country. As CAVA grows, so does the passion for our brand, and we are increasingly becoming part of the cultural conversation.

We recently had a TikTok creator visit one of our LA locations, and ask one of our team members to make him their favorite bowl. Our team member Grayson didn't know the customer was a creator, but recognized it was his first time visiting CAVA, and that he was unsure about what to order. Grayson used the opportunity to hit the love button, a staple of our Mediterranean hospitality, which empowers team members to comp a guest's meal.

The creator scored his meal at 10 out of 10 on food and experience, and the video went viral. As of today, the post has more than 35 million views. It's great content, and he's a popular creator, but we believe it's resonating, because it tells an authentic story about how much people love our food and how much our team members care about our guests. In a time when people are craving that kind of connection, but also want convenience, our value proposition is meeting the moment.

We don't think of value solely in terms of price or discounting. We view it as a combination of quality, relevance, convenience, and experience. Consumers are responding to our robust convenient digital channels, and our hospitable and experiential physical channels, paired with our differentiated, relevant, high quality Mediterranean cuisine.

To deliver on our value proposition and drive sustainable long-term results, we are executing across four key strategic pillars. One, expand our Mediterranean way in communities across the country. Two, develop personal relationships with guests even as we scale. Three, run great restaurants every location, every shift. And four, operate as a high-performing team.

Beginning with our strategy to expand our Mediterranean way in communities across the country, we opened 14 net new CAVA restaurants during Q1, with growth across new and existing markets in California, Florida, Maryland, Oklahoma, Texas, and South Carolina. Thus far in the second quarter, we have opened an additional five restaurants.

On the culinary front, I am excited to announce that next week, on June 3, we will launch our new grilled steak offering across the chain. Our exceptional culinary team, including my Co-Founders, have been working on this new main item for two years. As part of our disciplined stage gate process, we have been testing steak in our Boston and Dallas markets since early December, and are very pleased with the results.

Grilled steak complements our existing mains, fills a perceived gap on our menu, and enhances our already strong dinner occasion, which now makes up approximately 46% of our sales. With our Mediterranean take on this beloved protein, we have created a unique and highly differentiated offering.

Our grass-fed, pasture-raised steak is fired on the grill, seasoned with bold, unique flavors like sundried tomato, herby oregano, and a touch of Aleppo pepper that come from our heritage and can't be found anywhere else. We expect steak to provide a tail into comp sales, while delivering consistent penny profit. The updated guidance, Tricia will share shortly, incorporates some of the expected impacts from the steak launch.

Our second strategic pillar, is develop personal relationship with guests, even as we scale. Over the past decade, we completed a digital transformation that permeated through our business. With everything from an in-house, highly scalable digital order ecosystem to second make lines for dedicated digital production, to digital drive-through pickup lanes, we use technology to create a seamless multi-channel experience.

While we continue to innovate our digital capabilities, we believe we are now in the precipice of another decade of transformation, this time data transformation. Whether restaurant operations, enterprise insights, or relationships with our guests, we believe modern data technologies have the potential to unlock meaningful positive change in our business.

One way to do that, is by leveraging data to develop personal relationships with our guests, even as we scale. A foundational component of that idea is our reimagined loyalty program. We believe this work can significantly grow our first-party audience, help us create more frequent, relevant experiences that drive traffic, mix, and check, and share our Mediterranean warmth and hospitality, across platforms and occasions in ways that resonate with guests on a personal level.

At the end of 2023, we transitioned all loyalty members to a bankable points model, and in the Houston market, began testing new types of rewards and new ways to engage guests. The test, which we recently expanded to the Carolinas, is showing early signs of the program's ability to drive frequency and increased revenue, and we continue to target a company-wide rollout, by the end of this year.

Our third strategic pillar, run great restaurants, every location, every shift, is focused on making our restaurants more efficient and easier to run. Our connected kitchen initiative is a multi-year journey focused on using data-driven, and generative AI technologies to drive quality and consistency, increase order accuracy, and boost speed of service.

We believe these tools, used the right way, can simplify the complexities of restaurant operations and allow our team members to focus on great food, great service, and creating connections with guests. We are on schedule to begin a test pilot of this initiative later this year.

Additionally, our labor deployment test continues to progress with 30 restaurants now in pilot. This initiative is net-neutral from a labor dollars and labor hours standpoint. The focus of this test, is on reallocating hours to deliver better food, better hospitality, and more efficient speed of service. Early results are promising, and we are hearing excellent feedback from the team, such as more time to coach and train, more time to interact with guests, and an even more positive work environment. We expect to continue testing throughout 2024 with a company-wide rollout in 2025, if results meet our expectations.

Our fourth and final pillar, operate as a high-performing team, includes deepening our culture of accountability, developing enhanced data capabilities to unlock powerful actionable insights, and implementing programs and tools to further engage, retain, and connect our teams.

As part of our restaurant health initiative, we have begun testing technology that gathers guest feedback proactively at the restaurant level and in nearly real-time. This tool can help us keep our finger on the pulse of the business down to specific locations, and support our teams in consistently delivering on an exceptional guest experience. We recently launched the test in 28 restaurants.

Since our earliest days, we have been committed to investing in and developing team members, giving them not just a job, but a pathway to a career. A great example of this is Sergio Montsalve, who I ran into at a grand opening celebration in Chicago where he was supporting our market launch. I first saw Sergio when he was a general manager in training at our Jersey City location, and we talked about that if he had the will and we worked with us to develop the skill, he could become a general manager.

Now, four years later, he is running one of our Greenville, South Carolina restaurants. Sergio was excited to remind me of our conversation back in Jersey City, and let me know that in the coming months, he is working to become certified as one of our Academy General Managers. Speaking of our Academy GMs, I was able to spend time with them at our annual Academy GM Summit in Dallas a few weeks ago.

At this summit, we worked with our leaders on professional development skills, including our seven core competencies, as well as communication and leadership. Hearing about Sergio's progress and witnessing the growth, development, and enthusiasm of our Academy leaders are inspiring reminders that CAVA's success will always be a byproduct of our team members' success.

Before wrapping up my remarks and turning the call over to Tricia, I want to welcome Jeff Gaul, who has joined our executive leadership team as our Chief Development Officer, a new role in the organization. Jeff has over 25 years of experience across real estate, store design, construction, and facilities, with world-class retailers, most recently Nike and Sephora. We are very excited to have Jeff leading our team to bring CAVA to more markets across the country.

I want to finish by thanking our team members for their passion and commitment, to delivering on our mission to bring heart, health, and humanity to food every day. Our incredible start to 2024, is a testament to their authenticity, talent, and ability to operate at the highest level.

As we define the next large-scale cultural cuisine category, we have a massive white-space opportunity ahead of us. The passion for what we are building is clear, and, as is evidenced by the incredible results from this quarter, we are not just scaling a business, we are creating long-term value for our guests, team members, and shareholders.

With that, I'll let Tricia walk you through the financials.

Tricia Tolivar

Thanks, Brett, and good afternoon, everyone. CAVA revenue in the first quarter of 2024 grew 30.3% year-over-year to \$256.3 million. During the quarter, we opened 14 net-new CAVA restaurants or 86 net-new CAVA restaurants during, or subsequent to the first quarter of 2023, bringing our total CAVA restaurant count to 323. We are pleased with our new restaurant openings, which are exceeding expectations in both top-line and margin performance.

CAVA's same restaurant sales increased 2.3%, driven by a 3.5% increase from menu price and product mix, partially offset by a decline in traffic of 1.2%. On a two-year stack basis, same restaurant sales increased 30.7%, driven by traffic growth of 17.2%, trending up from approximately 13% in the fourth quarter of 2023.

To achieve an optimal comparison of fiscal weeks in the CAVA same restaurant sales calculation given consideration to holiday periods, each week of fiscal 2023 was shifted by one week. As a result of this shift, approximately \$3.9 million of revenue is not included in CAVA's same restaurant sales growth. Had this shift not been made, CAVA's same restaurant sales growth would have been 4.3%.

CAVA restaurant-level profit in the first quarter was \$64.6 million or 25.2% of revenue versus \$50 million, or 25.4% of revenue in the prior year, representing a 29.3% increase. The slight margin contraction in the quarter was largely the result of planned investments in labor, partially offset by lower food, beverage, and packaging costs, as well as sales leverage.

CAVA's food, beverage, and packaging costs were 28.2% of revenue, lower than the first quarter of 2023 by 50 basis points, due to the impact of higher sales and lower input costs. We anticipate CAVA's food, beverage, and packaging costs to increase as a percent of revenue for the rest of the year, as a result of our stake launch in June.

CAVA labor and related costs were 26% of 30 basis points from the first quarter of 2023. The increase reflects investments in our team member wages of 8% year-over-year that we discussed on prior calls, partially offset by leverage from increased sales, compared to the prior year.

CAVA occupancy and related expenses were 8% of revenue, and improvement of 20 basis points from the first quarter of 2023, due to increased sales leverage. CAVA other operating expenses were 12.7% of revenue, an increase of 70 basis points from the first quarter of 2023, reflecting further investments in the integrity of our physical spaces.

Shifting to overall performance, our general and administrative expenses for the quarter excluding stock-based compensation were \$28.7 million, compared to \$27.8 million in Q1 of 2023. This \$900,000 increase is primarily driven by investments to support our growth, and recurring public company costs partially offset by higher performance-based incentive compensation in the prior year quarter.

As a percentage of revenue, G&A excluding stock-based compensation was 11.1% in the current quarter, a decrease of 260 basis points from the prior year quarter driven by lower performance-based incentive compensation in the current year and sales leverage. Adjusted EBITDA including the burden of pre-opening costs for the quarter was \$33.3 million, which was \$16.6 million higher than Q1 of 2023.

The increase in adjusted EBITDA was driven by 2.3% CAVA same restaurant sales growth and the number and strength of the performance of new restaurant openings. We reported \$14 million of net income, compared with a net loss of \$2.1 million in Q1 of 2023, representing an increase of \$16.1 million. The power of the model is evident with net income in the first quarter of 2024 exceeding total net income generated, in all of fiscal year 2023.

We reported diluted earnings per share of \$0.12 in the quarter, compared with a diluted loss per share of \$1.30 in Q1 of 2023. Shifting to liquidity, at the end of the quarter we had zero debt outstanding, \$329.1 million in cash on hand and access to a \$75 million undrawn revolver, with an option to increase our liquidity if needed.

We delivered cash flow from operations of \$38.4 million for the quarter, compared with \$25.7 million in the prior year quarter. The increase was primarily driven by our improved operations generating increased profitability across the fleet. Total company free cash flow was \$4.7 million, the first quarter of positive free cash flow in CAVA company history.

Now to look to our outlook for full year 2024, we expect the following, 50 to 54 net new CAVA restaurant openings. CAVA's same restaurant sales growth of 4.5% to 6.5%. CAVA restaurant level profit margin between 23.7% and 24.3%. Preopening cost between \$12 million and \$13 million, and adjusted EBITDA including the burden of preopening costs, between \$100 million and \$105 million.

I want to share some additional context related to our revised 2024 outlook. CAVA's same restaurant sales growth of 4.5% to 6.5%, implies a mid to high single-digit same restaurant sales for the remainder of the year. Additionally, same restaurant sales guidance includes the current same restaurant sales strength we are seeing, the expected mix impact of the steak rollout, as well as the potential traffic headwind as we anniversary, the IPO buzz in the summer of 2023.

At this time, nothing is included in our outlook for loyalty, which we expect to rollout prior to the end of the year. CAVA restaurant level profit margin guidance reflects the anticipated impact of the steak rollout in June, and potential future restaurant level investments to support our growth. As previously discussed, we expect steak to be a margin rate headwind, while pricing will drive penny profit neutrality.

Adjusted EBITDA guidance includes G&A spend as a percent of revenue on a full year basis, to be slightly higher than the first quarter of 2024, due to additional investments to support growth and the timing of certain costs. While our adjusted EBITDA guidance does not include the impact of stock-based compensation, the first quarter actual results included payroll tax impacts from vestings that reflect the strong performance of our stock.

This will take place to a lesser extent again in Q2, and we expect the remainder of the year, will be at a more normalized run rate. Our opportunity and the strength of our business is clear. In a difficult time for many in the restaurant space, our unique Mediterranean cuisine continues to resonate with consumers. And with our proven, portable concept and powerful unit economics, we are getting stronger with every new restaurant we open, and every new market we enter.

Now, I will turn the call back over to the operator and open it up for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question is from Chris O'Cull from Stifel. Please ask your question.

Patrick Johnson

Thanks guys. This is Patrick on for Chris. Tricia, I wanted to start with a comp guidance and ask if you even qualitatively disaggregate what you are building in for the steak step up. How much different is the trend, than what you were expecting from what you initially guided earlier in the year? And what are you seeing in the current business trends that give you confidence, as you look at maybe the underlying traffic performance by income cohort, or any other aspect that gives you confidence there, and is it stronger than what you had previously expected?

Tricia Tolivar

Thank you for the question. So we said a little bit on the call and I'll add a little more color here, but our guidance reflects the strength that we're seeing in our results through the year. And what that means is that for the rest of the year it implies a mid-single-digit to high-single-digit same restaurant sales guidance. So in fact, we raised our guidance and the low end of the range is 200 basis points higher than what we reported in the first quarter.

What we're seeing around the low income consumers' when we look at our restaurants and stratify them, based on median household income, we're seeing strength across all categories. In fact, when we look at the top decile of restaurants, we have representation from every income strata in that group of restaurants.

So really seeing strong performance across the board, no real change over time in the strength and power of that lower income strata. We're also not seeing any change in delivery mix and we're certainly also seeing PPA or per-person average strength even when adjusting for a normalized price.

Unidentified Analyst

Thank you, guys.

Operator

Thank you. Your next question is from Andrew Charles from TD Cowen. Please ask your question.

Andrew Charles

Great, thank you. Brett wanted to ask about the initial learnings on steak tests that lead you to be excited to roll this out through the system. It sounds like it skews more to dinner, but I hope you can help us understand things like incidents, incrementality, and repeat usage?

Brett Schulman

Yes, hi Andrew. I'm really excited to launch this main item. It is a perceived gap on our menu since we took beef meatballs off the menu over a year ago. We've been working on steak for two years now, led by our excellent culinary team, including my Co-Founders. And we have been methodically testing this in a small market test, and then expanded it to market tests in Boston and Dallas, where it's been testing for over seven months now.

And really pleased with the performance, it's obviously filling up the perceived gap on our menu. We are seeing a positive mixed shift that Tricia referenced. We haven't spoken to necessarily incrementality, but it certainly helps lean into the dinner day part, which is now approximately 46% of our business. So we cook with fire, we roast, we grill, we braise. This is grilled steak, and we think this is not only an opportunity at lunch, but certainly an opportunity to keep driving that dinner strength - of that occasion.

Operator

Thank you. Your next question is from David Tarantino from Baird. Please ask your question.

David Tarantino

Hi, good afternoon. Tricia, I wanted to come back to the full year guidance and as I'm not quite clear, on how you're framing it up. So I guess the first question is, maybe could you comment directionally on whether you're seeing a step up in the business, or whether you saw a step up in the business exiting Q1, and into Q2, as maybe the comparison got a little less difficult. And then as part of that, maybe you can comment on whether the current run rate in the business would be enough to get you to that guidance range for the rest of the year, or whether you need the lift from steak to get there. I guess, I just wanted to get a clarification on that? Thanks.

Tricia Tolivar

Sure, David. So as we said before, we don't give insurance to quarter guidance, but what we have communicated and what we're seeing is strengths in our performance throughout the year itself, which gives us the confidence in our approach and the guidance at - 4.5% to 6.5% on a full year basis.

When we think about steak, what we've embedded in our guidance, is the only the mix impact related to steak, and certainly reflect of what we're seeing in our tests that Brett mentioned. But it's not a significant component of the overall increase in guidance overall.

Operator

Thank you. Your next question is from Sharon Zackfia from William Blair. Please ask your question.

Sharon Zackfia

Hi, good afternoon. I wanted to talk about new unit productivity, because even if I adjust for the calendar shift, it looks like your new units are absolutely killing it, and killing it to an even greater extent than we saw in '23. I guess, Tricia, are you still kind of looking at \$2.3 million in year two as the right bogey, because it feels like that might be low just given how new units are opening. And I also wanted to talk about kind of what you're learning in Chicago, because God knows I can't get into the restaurant. I need a fast pass. So how does Chicago kind of inform how you think about new markets going forward? Thanks.

Tricia Tolivar

Appreciate that, Sharon. So in fact, our new units are performing very well. One thing to keep in mind as you think about the first quarter, much of the new restaurant openings that we had were in the beginning of the quarter. So that has some impact when you're factoring in new unit productivity. But when you actually look at restaurant operating weeks themselves and looking on that basis.

Yes, those new units are performing very well. At this point, we haven't changed our overall view on year one and year two, the \$2.3 million in AUV that you mentioned. But we're keeping a close eye on it, and monitoring their performance as they go into their second year. And as we learn more and understand if that's a more normalized run rate, we'll certainly communicate and change our expectations going forward.

But right now, we're very pleased with what we're seeing. Certainly the Chicago performance has been phenomenal. Brett and I were both there with many others for the opening of the market. And so, if that's an indication of what Greenfield markets can give to CAVA, we'll share more as we move on, but that could influence the approach as we move forward.

Operator

Thank you. Your next question is from John Ivankoe from JPMorgan. Please ask your question.

John Ivankoe

Hi. Two parts if I may. Perhaps the results speak for themselves, but I was wondering if you could comment on changing competitive intensity in some of your legacy urban markets, whether positive or negative. Just as a competitive landscape is changing, how that might be influencing CAVA is the first question. And secondly, as you do kind of pursue a much more tilted suburban development and do look to drive-throughs, I wanted to get a sense of some of the initial performance around your drive-through units, how that mix might be evolving in '24, '25, get cost of those units relative to your expectations, and very importantly the sales lift of those units just as we, again, think about new unit volumes for maybe a changing mix towards drive-throughs? Thank you so much.

Brett Schulman

Hi, John. It's Brett. I'll take the first part of your question and hand it to Tricia for the second part of the question. What we've seen in the urban environment, is a sense of that we're getting a larger piece of a smaller historical pie as it relates to pre-COVID with return to office still creeping back pretty slowly. And so as we've stated, we're kind of a 90-10 pipeline, 90% suburban, 10% urban, and being very thoughtful about where we take advantage of our urban opportunities, because they do exist. They are there.

Our location in Chicago that we open that's been a big success, is an urban environment. It's not an office dependent location. We've never been office dependent even in our urban location, so we look to take advantage where there is some residential component. I think, again, there's been less historical competition in the past couple years, coming out of the pandemic.

As I think most of the capacity that came out of the restaurant industry, happened more in the urban market than the suburban market. So, again, looking with our leadership in Mediterranean, to continue to take advantage of those opportunities in the urban core, while leaning into our suburban expansion, I'll hand it to Tricia for the drive-through question.

Tricia Tolivar

Hi, John. So at the end of Q1, we had 38, actually, as of today, we have 38 pickup lanes that are open. And so, we're really pleased with that performance. Very similar to what we've talked to in the past, 10% to 15% higher AUVs, slightly higher restaurant level margins in those pickup lanes. And we want to continue to add them to the portfolio and we'll just be very opportunistic as we do.

I may have mentioned this before. We don't want to get into bidding wars, or get into competing with others that have higher opportunities for underwriting. So, the likes of Chick-fil-A or Raising Cane's when you're looking at those locations. And so, when I look at mix in '25 and '26, it'll be coming an increasingly higher portion of our mix, but not chasing a specific target overall as a percent of mix, for pickup lanes in total.

Operator

Okay. [Operator Instructions] Your next question is from Ivan Yu from Jefferies. Please ask your question.

Ivan Yu

Yes, thanks for the question. Just wanted to touch on labor. You guys had mentioned some incremental wage investments being made. I guess maybe outside of price, could you expand on some of the workings just within the four walls where you're seeing some offset on the dollars that you mentioned? Is it throughput? Is it connected kitchen? And then, would you be able to parse out the impact just in California with the recent mandated wage increases? Thank you.

Tricia Tolivar

Yes, hi, Ivan, from a labor perspective, we have increased average wages 8% year-over-year. We talked about that and as it related to the fourth quarter investments we made last year. And we continue to evaluate our wages on a quarterly basis, to make sure that we're really maintaining that employer choice competitiveness in the marketplace. And so, while we said we want to make sure that we continue to leave an opportunity for investments in our people.

There's nothing significant planned in the rest of the year, but just want to underscore how important it is for us, particularly in this stage of growth, to make those re-investments in our team members and our guests, which we believe will drive long-term value for investors as well. And so when - you also mentioned California. So as you know, wages went up in California in April.

Fortunately, we had been making investments in wages across the country and in California. So there wasn't a large gap to fill. And as a result, we did not increase pricing in California to offset the impact. And while the impact had some overall impact overall, we're certainly seeing a strong performance in California and really seeing the consumers respond in a very positive way.

It appears based on our maintenance of menu pricing there. And then you asked about throughput and connected kitchen and why don't I turn it on to Brett to share a little bit more about those initiatives.

Brett Schulman

Yes Ivan, we have a labor deployment initiative that is going through our stage gate process. It's in 29 restaurants now. We've gotten great response as Tricia noted from our GMs, really a reallocation of hours. So the same net hours, same net dollars, but much more effective and efficient in their deployment. And that's freed up our team members to be much more forward facing during peak lunch, be able to coach and train our shift leaders being able to coach and train.

And that ultimately drives a better guest experience, drives better speed of service. We're seeing good results in that test. So, we are expanding that test to another roughly 30 restaurants in the next month. And then if the test continues to progress on its current track, we would roll that out across the fleet around the end of the year, early beginning of next year. So again, we're looking at that. We're looking at connected kitchen, which we will launch a four restaurant pilot, before the end of the summer.

So that's kind of the first stage of the stage gate as far as operations tests. And again, these are all initiatives looking to support our team members, take some of the complexity off their plate, put them in the right role in the right position, the right deployments, and have the right predictive ordering, predictive prep, to be able to then deliver that great guest service, that great hospitality as well as improve the speed of service and the accuracy of service.

So excited at the progress on these initiatives, the connected kitchen is a multi-year initiative. We're just getting started on our first four restaurant pilot. That will come behind the labor deployment, which is more formative as I mentioned will be in 59 restaurants in the next month or so. And then if things go well, we'll roll that out across the fleet.

Operator

Thank you. Your next question is from Brian Harbour from Morgan Stanley. Please ask your question.

Brian Harbour

Thank you. Good afternoon, guys. Tricia, can you just talk more generally about store margins? So on the commodity side, you explain the steak thing, but is there any change in kind of underlying food cost trends as we think through the balance of the year? Was the comment about investments, is that just anything you could potentially do on labor? Is there anything kind of in the other operating expense line that we should consider? I know that's been up a little bit year-over-year. Would that kind of continue through this year?

Tricia Tolivar

Sure, Brian. Happy to. So when we think about restaurant level margins, I'll start with COGS first. We're not anticipating significant inflation within COGS. I did mention that steak itself has been priced - to deliver penny profit neutrality, but that will have some headwinds, as it relates to COGS itself as a percentage of revenue. We are seeing a little bit of pressure in the chicken space.

Despite being under contract, there's strong demand for our chicken and there's lower than expected production. So that may have a very modest impact overall on COGS, for a short period of time. Overall, when you're thinking about other line items, we talked about labor a little bit already, and then other operating expenses have been a little higher.

We're continuing to invest in the integrity of our physical spaces, and we see an opportunity to continue to do that for the rest of the year. But the other thing, I'd like to keep in mind as we think about restaurant level margins, and we said this before, but when you're thinking about restaurant level margins. I would look at the shape of the restaurant level margin by quarter in 2023.

And then layer in the steak impact to understand, how we're thinking about restaurant level margins on a quarterly basis in 2024. And remember that Q1, now has less weather sensitivity as it relates to margins, given the shifting geographic portfolio that we have. We're rated more across the Sunbelt than our historic Northeast presence in the past.

Operator

Thank you. Your next question is from Jon Tower from Citigroup. Please ask your question.

Jon Tower

Great. Thanks for sneaking me in. Just a couple maybe. In terms of the success you're seeing today in Chicago, I know it's very early days, but in terms of your thinking about new market mix going forward, does this alter perhaps where you think you can go, or open new stores in future windows, perhaps not the balance of '24 but into '25 and '26? And then second part of the question is on throughput, I'm curious - if you could speak to where the brand is today, with respect to entrees per peak 15, and where you think the opportunity is there over time. I'm assuming some of this labor shift will help you improve that?

Brett Schulman

Hi, Jon, it's Brett. Certainly the strength of the opening in Chicago and what we've seen is, Tricia noted earlier on the strength of new openings in general that we've seen if that trend continues to persist and the growing awareness that we've seen in the past 18 months helps drive those unit openings, gives us the optionality, as we go into - late '25 and '26 to think about the weighting of our portfolio and our pipeline as we build it.

And maybe potentially have a greater weighting on the Greenfield side, because we are seeing improved efficiency of the unit productivity out of the gate. So, we'll continue to monitor the data and see how those trends unfold over the next year, and help that inform whether we take advantage of that opportunity in our expansion plans. As it relates to your second question on speed of service, look we know we've got latent demand at a lot of restaurants.

We've seen even in our labor deployment tests, some of the most effective restaurants in the test group, have been high volume units that have unlocked another level of volume, with the labor deployment test. So we know it's out there, but we really want to focus on - in our brand-building phase, guest experience. What we don't want to get into is as speed of service increases, guest experience metrics decrease.

So, we're very focused on that balance, and we want to take a thoughtful approach, which is why we're moving the labor deployment to the next stage of the stage gate, and bringing connected kitchen behind it, to really equip our team with the tools to create a seamless experience for our guest, improve that speed of service, but not at the expense of guest satisfaction.

Operator

Thank you. Your next question is from Jeffrey Bernstein from Barclays. Please ask your question.

Jeffrey Bernstein

Great. Thank you very much. Just following up on the top-line trends, and I mentioned there's been no sign of change in consumer behavior despite Brett you noting I guess the consumer perhaps being more discerning, more broadly. So encouraging that you're not seeing it, but if you were to see a change, or if maybe traffic didn't revert back positive what levers would you pull if any to drive traffic? Is that something that you would consider doing, or would you kind of let it ride without looking to change your approach? Just within that as you say the '24 guidance for comps has been increased. I'm just wondering if you share the components of that assumption for the new comp guidance in terms of traffic, pricing, mix, any color that would be great? Thank you so much.

Brett Schulman

Yes, thanks for the question. I'll take the first part and hand the second part over to Tricia for the complexion of the mix. What we don't haven't done historically and what we don't plan to do is, to get into discounting. We try and put the best everyday value proposition forward to our guests. The best quality of food, the best quality of service, the best value, and bang for the buck.

And we'll continue to do that and we'll continue to lean into the activities and in our strategic plan to be able to deliver that to guests. We opened our new production facility this quarter, fully operational that is able to produce our chef-crafted dips and spreads using fresh dill, fresh garlic, fresh cucumber. And these ingredients at scale that take that complexity out of the four walls of our restaurants that allow us to deliver it across the country with quality, cost, effectiveness and consistency at scale.

So I think what we've really seen, getting back to my comment about the consumer being discerning, we've seen challenges of the full service model struggle to deliver a relevant value proposition to the modern consumer. That's why we're leaning into product. So, we think we see 64%, 63% of our guests coming into our dining rooms, coming into our restaurants wanting that physical experience.

And we see, CAVA as being a great dinner option and some trade-down from full service dining. And then we see there was a survey out today from LendingTree where 78% of guests that you know, fast food, traditional fast food has gotten expensive and has become a luxury. And as those prices have gotten close to our prices, it's made - it's increased our value proposition and we've seen trade up, from a healthfulness from a food quality standpoint.

So we're going to continue to lean into those equities, lean into our differentiated Mediterranean cuisine, and that's proven to be the best driver of traffic over the long-term for us.

Tricia Tolivar

As it relates to the components of our guidance, we don't share the breakdown between price, traffic and mix. But what I will say is that we took less than 3% in price at the beginning of this year, and we don't have any plans to take additional price at this time in the rest of 2024. And so, the rest of that mid to high-single-digits expectation as it relates to same restaurant sales, for the rest of the year is a combination of traffic and mix.

Operator

Thank you. Your next question is from Brian Mullan from Piper Sandler. Please ask your question.

Brian Mullan

Hi, thank you. My question is on catering. I know you referenced it a little bit in the prepared remarks. I'm just hoping you could expand a bit on this piece of the business. I believe you're looking at this in various different stored formats. Just wanted to give you an update there. And if you're zeroing in at all on what you think the optimal way to approach this is, and if not, maybe what you're still evaluating? Thank you.

Brett Schulman

Yes, Brian. It's Brett. Thanks for the question. We're very pleased with the progress of our catering test. We're being very patient with it. We've learned a ton. We've expanded our test of regular CAVA restaurants to understand daily capacity, any potential hot holding or ancillary equipment that we need to add to units or what are the thresholds of certain AUVs from a catering weekly sales capacity standpoint.

So, we've seen the hubs. We've learned a ton about our hybrid and our digital kitchens. We have a really good read on how we want to utilize them. Now it's that last layer of understanding how the main line CAVAs interact with those hubs. And we're parallel pathing other aspects of the initiative including packaging and technology that are progressing well.

And we have not spoken to a date on full national rollout, but we continue to see this go through the stage gate process as expected. And look, we've catered now every major league baseball team. And we're getting teams that now when they're on the road they want us to cater them. Many professional sports and college teams let alone office headquarters and schools.

So clearly this - our food is a great fit for the catering channel, and we want to make sure that when we roll it out on a wider scale that, we've got our operators ready from a production capacity standpoint, are able to deliver that great CAVA experience that they get when they interact with us in our four walls or through our digital channels.

Operator

Thank you. Your next question is from Maggie Juarez from Raymond James. Please ask her a question.

Maggie Juarez

Hi, and good afternoon. This is Maggie Juarez on for Brian Vaccaro. So our question is just on your 1Q sales performance. It looks like average recluse sales were up high-single-digits. And you talked about your new unit performance. Could you also help us understand the sales lift you're seeing and the converted so easy [ph]? You completed in '21, '22. Or could you help us with where the absolute AUVs are on some of those conversions completed versus the de novo CAVA units?

Tricia Tolivar

Yes, Maggie. Our conversions are actually performing fairly consistent with a de novo trend on conversions were slightly lower in their initial year of opening, but see a similar ramp and that slight lower AUV was largely result of how we entered markets with many locations in one market at the same time. And so really no discernible differences between the performance.

Very pleased with our new openings, whether they're de novo units or conversion locations. And keep in mind all the conversions are complete. We completed them last year and there were a number of them that entered into the same restaurant sales base in Q1, but very key changes going forward.

Operator

Thank you. There are no further questions at this time. I will now hand the call back to Brett Schulman, CEO and Co-Founder for the closing remarks.

Brett Schulman

Thanks everyone for joining the call today. Before we sign off, I want to reiterate how pleased we are with our Q1 results, how proud I am of our team and how excited we are about the year ahead. With two years same restaurant sales growth of 30.7%, quarterly net income that was higher than all of the prior year, and our first ever quarter of positive free cash flow, we once again demonstrated the strength of our Mediterranean category defining brand.

We're making thoughtful investments to support our growth, and our powerful unit economic engine continues to drive impressive results. As we expand our presence across the country, and execute across our four strategic pillars, we're in a strong position to capitalize on the significant white space opportunity in front of us, and to deliver growth, profitability and shareholder value over the long-term. Thanks again for joining us. Have a happy summer and I look forward to speaking with you next quarter.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect.

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