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# CAVA Group, Inc. (CAVA) Q2 2024 Earnings Call Transcript

Aug. 22, 2024 8:40 PM ET | **CAVA Group, Inc. (CAVA) Stock****SA Transcripts**

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## Q2: 2024-08-22 Earnings Summary

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EPS of \$0.17 **beats by \$0.05** | Revenue of \$233.50M (35.05% Y/Y) **beats by \$14.04M**CAVA Group, Inc. (NYSE:[CAVA](#)) Q2 2024 Earnings Conference Call August 22, 2024 5:00 PM ET

### Company Participants

Matt Milanovich - Investor Relations

Brett Schulman - Co-Founder and Chief Executive Officer

Tricia Tolivar - Chief Financial Officer

### Conference Call Participants

David Tarantino - Baird  
Brian Harbour - Morgan Stanley  
Andrew Charles - TD Cowen  
Chris O'Cull - Stifel  
Andy Barish - Jefferies  
Sharon Zackfia - William Blair  
Brian Mullan - Piper Sandler  
Jon Tower - Citi  
Rahul Krotthapalli - JPMorgan  
Jeffrey Bernstein - Barclays  
Brian Vaccaro - Raymond James

### **Operator**

Good afternoon, ladies and gentlemen, and welcome to the CAVA Second Quarter 2024 Earnings Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, August 22, 2024.

I would now like to turn the conference over to Mr. Matt Milanovich. Please go ahead.

### **Matt Milanovich**

Good afternoon, and welcome to CAVA's second 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](https://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 with 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 to the call, everyone.

In the second quarter, we, once again, delivered exceptional results, demonstrating the strength of our category-defining brand, our clear leadership position in Mediterranean, our powerful unit economic engine and the return on investments we continue to make in our business and our people.

CAVA was one of just a handful of publicly-traded restaurant brands with positive traffic growth in the second quarter, and we believe our performance is a reflection of our unique and compelling value proposition. At a time when consumers are increasingly feeling the pressure of an uncertain economy and are more discerning about where and how they spend their money, they are choosing to dine at CAVA.

Consumers have been frustrated and fatigued by higher prices over the past few years. In this post high inflationary environment, traditional full-service chains are struggling to deliver a compelling value proposition, while conventional fast food chains have raised prices at a faster rate, driving the perception that they have become too expensive. The wave of price discounting in response to these trends is now being referred to as the value wars. We believe that's a misnomer. Price is the cost of a meal while value is its worth and driven by a combination of attributes beyond the headline price, including quality, relevance, convenience and experience.

Our value proposition lies in the quality of our food, the relevance of our differentiated Mediterranean cuisine where taste and health unite, the convenience with which our guests can access that cuisine in our multichannel format and the experience they have when they engage with our brand and our hospitality. It's meeting the moment for the modern consumer and positions us at the nexus of consumer convergence where we see guests trade down from traditional full-service chain dining, trade up from fast food and trade over from legacy fast casual players.

As we deliver this compelling value proposition, we continue to invest in our guests and the cost of their meals. One example of this is in California, where we did not take incremental price increases in response to AB 1228. While many have commented on decelerating traffic in the market, we have seen sustained momentum.

Our strong value proposition and highly portable concept are supporting expansion in new and existing markets. Today, we are in 25 states in the District of Columbia, and our powerful unit economic engine continues to gain steam. Our average unit volume, or AUV, rose again in the quarter. We generated more net income than all of last year, and we delivered our second consecutive quarter of free cash flow. We believe our strong balance sheet and ability to self-fund growth allows us to continue to grow market share in this uncertain economic environment.

Our second quarter highlights include: a 35.2% increase in CAVA revenue; driving AUV of \$2.7 million; CAVA's same-restaurant sales growth of 14.4%, with traffic growth of 9.5%; 18 net new restaurants, ending the quarter with 341 restaurants; a 22.2% increase year-over-year; adjusted EBITDA of \$34.3 million, a \$12.7 million increase over the second quarter of 2023; net income of \$19.7 million; and \$22.7 million in free cash flow during the quarter.

Additional highlights include our expansion into Chicago, which has been our strongest new market entry ever. We now have locations in Wicker Park and Vernon Hills, with a third slated to open in Oak Park next month.

During the second quarter, we also launched grilled steak, which is far surpassing our expectations. We were confident in steak's potential that since the national rollout, sales have been significantly higher than we saw in our seven-month market test. This new main protein complements our existing offerings, fills a perceived gap on our menu and is giving guests one more reason to visit CAVA and come back more often. The successive steak demonstrates our authority in culinary innovation and our ability to execute and I want to thank our cross-functional teams that work to bring this successful launch to life.

I'll now turn to an update on our strategic pillars. Our first pillar is to "expand our Mediterranean Way in communities across the country." We opened 18 net new CAVA restaurants during Q2, growing across new markets, including Chicago, and existing markets, including Arizona, California, Connecticut, Florida, New Jersey and Tennessee, among others. Our new restaurants continue to outperform our expectations, giving us even more confidence in the proven portability of our category-defining brand and the significant white space in front of us.

As we capture that white space, we are progressing on our Project Soul initiative. We believe the demise of the dining room has been greatly exaggerated with 64% of our occasions in restaurants and the consumers are seeking great physical experiences. I recently visited our newest freestanding Project Soul location on McPherson Boulevard in Fort Worth, Texas, which has incorporated softer seating, increased greenery and a warmer brand palette to create a comfortable welcoming environment and better express our concept essence. Guests are responding well to the new aesthetic, and we are using what we learn in our iterative process to finalize our go-forward design later this year. With automation and technology increasingly infiltrating the front lines of many concepts, we believe consumers are seeking human connection more than ever. Project Soul provides an environment to foster that connection.

We believe our team's unique ability to tap into emerging trends and make CAVA a part of the cultural conversation is helping to propel our success. Our social media campaign to launch steak, for example, generated more than 8.6 million social impressions and over 300 million PR impressions, displaying the efficiency of our marketing efforts. Our social media campaigns have been effective because they are organic, authentic and express the genuine love guests have for CAVA. Many of our brand partners were passionate fans of CAVA before they work with us, including U.S. women's soccer captain and midfielder, Lindsey Horan. Lindsey not only loves our food and incorporates it into her training regimen, but she also has an extensive and growing following and the unique content she created for us is resonating with consumers. Congratulations to Lindsey and her teammates on their gold medal victory in France.

Our second strategic pillar is to "develop personal relationships with guests, even as we scale." A foundational component of this pillar is our reimagined loyalty program. We expect this project to significantly grow first-party data, 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.

Our pilot has given us confidence in the program's ability to drive frequency and increase loyalty revenue. We now expect a national rollout in October of this year, ahead of schedule. This program will include our new earn and bank points model and a menu of reward redemption options. This initial rewards catalog will be the first phase of a multiphase program, which we expect to build on in the months and years to come.

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 multiyear journey focused on using data-driven and generative AI technologies to simplify restaurant operations and let our team members focus on great food, great service and creating meaningful connections with guests.

We're currently running a small pilot of AI video technology that monitors how quickly ingredients on the in-restaurant make line are being depleted and alerts the team in real time for prep and cook batch amounts. The system is in the learning phase, and we expect it to go live in pilot restaurants in early fall. We'll update you on the initial results in our next earnings call. While this initiative is still in the very early stages, we believe it can drive quality and consistency, increase order accuracy, boost speed of service and simplify prep and planning.

Our labor model test also continues to progress, and we expect more than 75 restaurants to be in pilot by early fall. The focus of this test is on reallocating hours, putting our team in a position to deliver better food, better hospitality and more efficient speed of service. Early results are promising, and we have identified opportunities to strategically invest in lower-volume restaurants to drive increased revenue over time. We expect to continue expanding our tests throughout 2024 with a company-wide rollout planned for the beginning of 2025.

Our fourth and final pillar, "operate as a high-performing team" includes deepening our culture of accountability, developing enhanced data capabilities and investing in programs and tools to further engage, retain and connect our teams. As part of our restaurant health initiative, we're testing technology that proactively gathers guest feedback at the restaurant level and in nearly real time. The test is live in 50 restaurants and we are pleased with the results and expect to launch this new technology company-wide in early 2025.

In addition, we continue to reinvest in team members and by proxy, our guests. Our regular investments in wages and team member development are helping us recruit and retain the top talent we need to support our growth. In the second quarter, turnover was down by approximately 28% year-over-year at the hourly level. We don't just want to retain our talent. We want to continue to develop them. To that end, we now have 62 leaders in our Academy GM network, including nine promoted to higher levels as we grow our ranks to build our future leadership pipeline in support of our new restaurant growth.

I witnessed firsthand the power of our Academy GM program on my recent shoulder-to-shoulder shift at our Laurel, Maryland restaurant. Our shoulder-to-shoulder program enlists corporate team members to work a restaurant shift every quarter. This program not only allows corporate team members a frontline view of the opportunities to elevate our operator and guest experiences, but deepens cultural connections amongst our distributed workforce.

I had the privilege of working alongside Sandra Barrios, our Laurel GM, who is in the process of seeking her Academy GM certification. Sandra pointed out a few high potential team members she is looking to nominate for the GM training program. Possibly the best part of my visit was meeting [Ramon Canales] (ph), our grill champion at Laurel whose spicy lamb meatballs are definitely in the running for the best I've ever tasted. Ramon is a true grill champion.

I want to thank our Laurel team for hosting me, and I want to thank our teams across the country for delivering an exceptional quarter while staying true to our mission every day. In this uncertain time for the consumer, we believe that delivering on our mission to bring heart, health and humanity to food will continue to be a powerful formula for success. Consumers are hungry for flavorful, healthy and innovative food, want the convenience of engaging with brands on their terms and, in an increasingly automated world, crave human connection.

From our relevant differentiated cuisine to the robust digital and physical experiences we provide and our unique brand of Mediterranean hospitality, we are meeting the moment for the modern consumer. As evidenced by our outstanding second quarter results, our value proposition is resonating with guests and, as we define the next large-scale cultural cuisine category, we are well-positioned to create 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 second quarter of 2024 grew 35.2% year-over-year to \$231.4 million. During the quarter, we opened 18 net new CAVA restaurants or 78 net new CAVA restaurants during or subsequent to the second quarter of 2023, bringing our total CAVA restaurant count to 341. We are pleased with our new restaurant openings, which are continuing to exceed expectations. CAVA's same restaurant sales increased 14.4%, driven by a 9.5% increase from guest traffic and a 4.9% increase from menu price and product mix.

Our steak launch at the beginning of June benefited from a highly-productive social media and PR campaign, driving incidents well above test results and original expectations. CAVA restaurant-level profit in the second quarter was \$61.3 million or 26.5% of revenue versus \$44.6 million or 26.1% of revenue in the prior year, representing a 37.3% increase. This increase was due to leverage from higher sales, partially offset by incremental wage investments and the launch of steak on June 3.

CAVA food, beverage and packaging costs were 29.4% of revenue, consistent with the second quarter of 2023, as the increase in input costs related to the launch of steak was offset by other lower input costs compared to the same period of the prior year. 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 steak launch in June.

CAVA labor and related costs were 25.2%, up 40 basis points from the second quarter of 2023. The increase reflects investment in our team member wages of 9% year-over-year, including the impact from AB 1228, which we chose not to offset with many price increases to the guests that we discussed on prior calls, partially offset by leverage from increased sales compared to the prior year.

CAVA occupancy and related expenses were 6.9% of revenue, an improvement of 90 basis points from the second quarter of 2023 due to increased sales leverage.

CAVA other operating expenses were 12% of revenue, which is flat to the second quarter of 2023.

Shifting to overall performance. Our general and administrative expenses for the quarter, excluding stock-based compensation and non-recurring public company costs in the prior year quarter, were \$24.7 million compared to \$20.4 million in Q2 of 2023. This increase is primarily driven by investments to support our growth and recurring public company costs. However, as a percentage of revenue, we experienced an improvement of 120 basis points due to leverage from higher sales, partially offset by the previously noted investments and recurring public company costs.



Adjusted EBITDA, including the burden of pre-opening costs for the quarter, was \$34.3 million, which was \$12.7 million higher than Q2 of 2023. The increase in adjusted EBITDA was driven by the number and strength of the performance of new restaurant openings, 14.4% CAVA same restaurant sales growth and leveraging G&A.

We reported \$19.7 million of net income compared with net income of \$6.5 million in Q2 of 2023, representing an increase of \$13.2 million. The power of the model is evident with net income in the second quarter of 2024 exceeding total net income generated in all of fiscal year 2023. We reported diluted earnings per share of \$0.17 in the quarter compared with diluted earnings per share of \$0.21 in Q2 of 2023, which includes the impact of the lower share count prior to the IPO.

Shifting to liquidity. At the end of the quarter, we had zero debt outstanding, \$343.7 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 \$48.9 million for the quarter compared with \$21.4 million in the prior-year quarter. This increase was primarily driven by our improved operations, generating increased profitability across the fleet. Total company free cash flow was \$22.7 million in the current quarter.

Now to our outlook for full year 2024, we expect the following: 54 to 57 net new CAVA restaurant openings; CAVA's same restaurant sales growth of 8.5% to 9.5%; CAVA restaurant-level profit margin between 24.2% and 24.7%; pre-opening costs between \$12 million and \$13 million; and adjusted EBITDA, included in the burden of pre-opening costs, between \$109 million and \$114 million.

I want to share some additional color around our revised 2024 outlook. Our real estate development and operations teams have done an incredible job during the first half of 2024 to get restaurants open on time and, in some cases, ahead of schedule. As a result, we have a more front-half-weighted opening schedule while still raising our full year guidance and avoiding opening restaurants during the busy holiday season. We continue to feel confident in our real estate pipeline and are excited about our 2025 opening plan of at least 15% annual unit growth.

Guidance for CAVA same restaurant sales growth of 8.5% to 9.5% implies a low double-digit same restaurant sales growth for the remainder of the year. This guidance reflects the strength that we are currently seeing in our business and also contemplates the macroeconomic and election uncertainty in the remainder of the year.

As a reminder, 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 was not included in CAVA same restaurant sales growth in Q1, which would have resulted in 200 basis points higher same restaurant sales growth. Although the impact of this shift was immaterial to Q2 and expected to be immaterial to Q3, an offsetting impact will occur in Q4.

Turning to restaurant-level profit margins, note that about half of Q2 was impacted by the June 3rd launch of steak, which outperformed our expectations. CAVA restaurant-level profit margin guidance for the full year reflects this higher incidence of steak. Additionally, consistent with last year, we anticipate Q4's seasonally affected margins to be around 200 basis points lower than full year 2024 restaurant-level profit margin.

Adjusted EBITDA guidance includes G&A spend as a percent of revenue on a full year basis to be higher than the second quarter of 2024 due to additional investments to support growth and deleverage impacts from lower sales in Q3 and Q4.

Last, I want to spend a moment providing an update on tax expectations. Historically, we have had a full valuation allowance on our deferred tax assets, primarily relating to net operating loss carry-forwards, which has resulted in immaterial tax expense. Based on our positive profitability trends, there is a reasonable possibility that within the current fiscal year, we will be in a position to release the valuation allowance, which will result in a one-time significant P&L benefit as a reduction to tax expense. After this release and valuation allowance, we will begin to have a more normalized effective tax rate in the mid-20%s. Keep in mind, we expect our cash taxes to continue to be immaterial until we fully utilize our net operating losses.

Before turning to Q&A, I want to thank our team members for delivering on our commitments, preparing and serving our amazing cuisine with CAVA hospitality to more and more people across the country, and making CAVA a very special place to work. I recently returned from my first trip to Greece where my husband and I had a chance to walk through the olive groves of our supplier who has been with us since our earliest days and continues to produce the olive and the liquid gold olive oil we use in all our restaurants. It was an exciting trip for our family in part because we were able to see where CAVA's founders came from and experienced firsthand what inspires them. Their vision, coupled with the passion and drive of our team members, lets us deliver powerful unit economics that get 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. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of David Tarantino from Baird. Your line is now open.

### **David Tarantino**

Hi, good afternoon, and congratulations on delivering such strong results. My question is about the second quarter and the strength you saw in the sales. There was quite a big acceleration that seemed from the first quarter. And I just wanted to get your thoughts on the factors that drove that large acceleration. I know you mentioned steak outperforming your expectation, but maybe you could piece together some of the key drivers.

And then, the second part of the question, Tricia, is it looks like the second half, you're not quite assuming -- or assuming quite the same strength to continue. So, just wondering how you're thinking about the second half related to what you just delivered for the second quarter. Thanks.

### **Tricia Tolivar**

Thanks, David. So, certainly, as you look at our second quarter same restaurant sales growth of 14.4% and compare that to first quarter, there is an acceleration. But really looking at on a two-year same restaurant sales basis, two-year same restaurant sales in Q1 of '24 were 30.8% and two-year same restaurant sales in Q2 of 2024 grew to 32.6%. So, there certainly is an increase, and you're seeing that in what we were able to deliver in Q2 with a very strong 9.5% traffic growth.

When you look at what are the drivers impacting the same restaurant sales, I kind of think of it like a CAVA bowl. There are lots of combinations that blend together to create something truly amazing. And it's things like new culinary innovation like steak that you mentioned, it's the strong value perception that we have in the marketplace, increased brand awareness and certainly our team member execution. And so, all of that combined together is delivering an outstanding result in the period and the quarter that we're proud of.

And then, on your second question about the second half and how it's not assuming the same strength, we talked about this in our guidance, while we don't give period-to-period or into the quarter -- following quarter results, we are seeing strength in the business itself, but also wanted to be thoughtful around the uncertain macroeconomic environment and the upcoming election and factor that into our guidance. So, those two things together influencing what we've communicated today.

**David Tarantino**

Great. Thank you for that. And Tricia, is there any way to isolate the impact of steak on the comp in the second quarter? Is there -- I guess, however you look at it from a traffic and mix perspective?

**Tricia Tolivar**

Yeah, there was a favorable impact on mix and certainly some benefit in traffic, but what we're seeing is strength in traffic across in general, and so, it's much broader than steak by itself and is really pleased with the traffic and same restaurant sales strength across all regions of the country, in all of our formats as well as in suburban and urban environment. So, just isn't really one thing driving that traffic strength, it's a combination of factors.

**David Tarantino**

Great. Thank you very much.

**Operator**

Your next question comes from the line of Brian Harbour from Morgan Stanley. Your line is now open.

**Brian Harbour**

Yeah. Thank you. Good afternoon, guys. One question, I guess, I was just curious about on the margin side was, is there anything else -- aside from kind of the steak impact, is there anything else you're doing on food the rest of the year? And then, also, do you plan to make a similar kind of labor investment once we get into the end of the year? How will that kind of play into restaurant margins?

**Tricia Tolivar**

Yeah. Outside of steak, we're not anticipating significant changes in input costs on the food, beverage and packaging cost side for the remainder of the year.

And then, when you turn and look at labor investments, we mentioned that average wage is up 9% year-over-year. We started making fairly significant investments in wages in the fourth quarter of 2023. And that's what you're seeing the benefit of in the increase in average wage as well as the decline in turnover that Brett talked about in the prepared remarks. At this point, while we're always looking at ways to reinvest into our team members as well as our guests, there are no major plans for incremental labor investment for the rest of 2024.

### **Brian Harbour**

Okay. Sounds good. Thank you. And the new labor model that you mentioned, could you tell us more about that kind of what some of the details are? What's kind of been most favorable within that so far?

### **Brett Schulman**

Hey, Brian. It's Brett. I'll speak to that. It's basically taking the same net hours, labor hours and reallocating them in a much more effective, efficient way so that we put our team members in the right places at the right moments during their shift, so they're prepping during downtimes, they're customer-facing during peak times to help with speed of service, to help with quality of guest experience. And we're seeing quantitative improvements in the pilot restaurants as well as qualitative improvements, especially for our general managers or our shift leaders saying now we can really coach our teams and be in a position to manage versus having to jump into a position on the line to fill a gap at peak hours. So, very pleased. We'll be at 75 restaurants this fall with the goal to launch it across all restaurants in early 2025.

### **Operator**

Your next question comes from the line of Andrew Charles from TD Cowen. Please go ahead.

### **Andrew Charles**

Great. Thank you. You talked about the revamped loyalty program, guests visiting and spending more than non-loyalty guests. Is it fair to say the loyalty pilot markets are seeing same-store sales materially outperform the overall system? What I'm really looking to understand is that is the loyalty program same-store sales impact factored into the back half guidance for same-store sales?

**Tricia Tolivar**

Yeah. So loyalty, we mentioned is going to launch in October ahead of schedule, and we are seeing benefits to the program in our test markets, but we haven't factored anything incremental into our guidance for the rest of the year.

**Andrew Charles**

Okay. Very helpful. And then, Brett, just wanted to get an update on catering. Last time we caught up, I believe you talked about 10 production facilities. Is this something you expect to lean more into in 2025? Is this more of a 2026 opportunity for the system of catering?

**Brett Schulman**

It's really more looking towards 2026 on a larger scale. 2025 will be a continuation of progression of our test. Very excited about the catering opportunity, but I want to be very mindful about how it impacts production in our restaurants. And so, we do have 10 digital kitchen hubs and 10 hybrid kitchen hubs in various locations across the country, as well as a cluster of regular CAVA restaurants that we're testing catering in now. We will move in 2025 to a full market test of a major metro market to really inform how we would want to go across the country in 2026 from a more national perspective. But very excited about the catering opportunity. Certainly seeing a lot of demand. We want to make sure we set our operators up for success to deliver on that guest promise.

**Operator**

Your next question comes from the line of Chris O'Cull from Stifel. Please go ahead.

**Chris O'Cull**

Thanks. Good afternoon, guys. Brett, you mentioned new units are exceeding expectations. What factors do you believe are causing the better-than-expected performance?

And then, Tricia, what's been the average investment for new units opened this year? And maybe what's been the trend? What has the inflation trend look like recently relative to your all's target?

**Brett Schulman**

Hey, Chris, thanks for the question. I think it's certainly the execution of our team and the increasing awareness of our brand. One of the things we talked about when going public was that this was an opportunity to put our brand and the category we're creating in the public sphere. And that's certainly amplified awareness around the country. And when we do our community days, we've been able to generate great earned media and organic viral word of mouth in these communities that's driven very strong sales out of the gate. So, it's been a bit of a kind of snowball rolling downhill as we open these restaurants and seeing the momentum of the openings.

**Tricia Tolivar**

And Chris, as it relates to cost for those new restaurants, we are experiencing cost of around \$1.3 million net, which is in line with what we've expected. Really pleased with the team's performance in managing those costs. And when you ask about inflation, there's been very modest inflation that we've been experiencing. That's a lot to do with how our real estate design and construction team address the market, work with our general contractor base to expand and strengthen it and conduct RFPs to really make us more effective in our spend. And then overall, when you combine that, with the strong returns in sales and operating performance that Brett talked about, it really drives a strong cash-on-cash return that's exceeding our expectations as we go into the first and second year and beyond openings.

**Chris O'Cull**

Great. Congratulations, guys.

**Brett Schulman**

Thank you.

**Operator**

Next question is from the line of Andy Barish from Jefferies. Please go ahead.

**Andy Barish**

Hey, guys. Just dovetailing on that last question and answer, just on Project Soul, are there any incremental costs, I mean, we should be thinking about?

And then, also, the other side of that is kind of digital pickup lanes, do you expect any material increase in those as a percentage of kind of the new builds as we look out to '25, '26?

**Tricia Tolivar**

Yeah. At this point, we're not anticipating significant incremental costs, but we're still evaluating the components that we like in Project Soul, and we'll give updates as appropriate as we move forward.

And when you think about digital pickup lanes, we're up to 45 lanes today, and those incremental costs are not significant as we bring those pickup lanes to life. And as a percentage of new builds, it's been an increasing percentage. Again, we're not going to establish a target that's suggesting maybe a certain percentage of our openings. We're being very opportunistic about finding the right sites and making sure -- making the right economic decisions around that site selection process.

**Andy Barish**

Got you. And then just one follow-up on the input costs. Where did you -- I'm assuming there was some deflation in other areas just given the kind of rolling in for part of the quarter. Is there anything you would choose to share in terms of the basket that was deflationary? And looking out to the second half, anything of note there?

**Tricia Tolivar**

Yeah, we're not -- a lot of the improvement was versus prior years, not a lot of change in input costs from Q1 to Q2, necessarily, we're not expecting outside of steak significant changes as we go into Q3 and Q4.

**Operator**

Your next question comes from the line of Sharon Zackfia from William Blair. Please go ahead.

**Sharon Zackfia**

Hi, good afternoon. I know that CAVA has such a wide bandwidth of appeal across different demographics and household incomes, and I'm curious kind of how you did in the quarter across those different income bandwidth, and whether you think you're getting trade up as well as trade down.

**Tricia Tolivar**

Yeah. Hey, Sharon, I hope you're continuing to recover well. I appreciate the question around...



**Sharon Zackfia**

Thank you.

**Tricia Tolivar**

...performance. So, we look at our restaurants based on median household incomes in their areas and we stratify them. And what we're very pleased to see is that there's strong performance in same restaurant sales across all income strata. And in fact, the lowest income strata has the highest level of sales. So, double-digit same restaurant sales strength across all strata. And then, when you drill in and look at the top decile of restaurants, there's representation from every income strata within the top decile. So, really underscoring -- thus far, we've seen a lot of resilience in our guests and what they've been able to deliver and come to CAVA. And we think a lot of that has to do with the strong value proposition that we are presenting for them, and really just pleased with the results overall.

**Brett Schulman**

Yeah, Sharon, it's something I noted in my prepared remarks, and I've talked about where you hear a lot about these value wars, and I think it's a bit of a misnomer. And that people are focused on price, which is the cost of what they're paying versus the value which is truly worth and the worth of their meal or their experience. And it was those attributes I talked about, quality relevance, convenience and experience put together.

And so, when you think about some of the challenges of the traditional full-service model in many markets to deliver on a proposition like that, we're seeing that trade down, and we're seeing trade up below us from traditional fast food where -- if you look at the Department of Labor Statistics, from the end of '19 to the end of '23, fast food prices have increased upwards of 30%, CPI 18% during that timeframe, we only took price about 12% during that timeframe. So, now, you've got a situation where for [\$1 or \$2 more] (ph) often at parity, you can get a bowl of fresh Mediterranean food for the same price as a traditional fast food freezer to fryer meal. And we see that trade up and that positions us at the nexus of this with our differentiated Mediterranean cuisine, which is really helping to fuel that traffic growth.

**Sharon Zackfia**

Thanks for that. And a question on [needed] (ph) productivity. If my math is right, and we kind of always try to back into this, it looks like you're hitting your two targets in the first year of operation, at least for the trailing 12 months. And you talked about, Brett, a little bit about the kind of brand and the cycle you're on. I guess, at what point do you start to think about changing those new unit hurdles when you think internally about what sites to take and what you're willing to pay for rent, and then externally, of course, with us and how you think about that needed productivity?

**Tricia Tolivar**

Yeah. Thanks, Sharon. So, our new restaurants have been performing very well. And we factored that into our internal assessments of sites as we look at them every two weeks as a cross-functional team to make sure we're making the right decisions as we go forward. We do think there is likely an opportunity for us to more broadly communicate how we view new restaurant performance, both the opening year as well as subsequent years, and we'll likely have that to be something to communicate in 2025.

**Operator**

Your next question comes from the line of Brian Mullan from Piper Sandler. Please go ahead.

**Brian Mullan**

Hey, thank you. Just a question on the Connected Kitchen initiative. Brett, you referred to this as a multiyear journey. As you think about it internally, how do you decide how to sequence all the initiatives you have in mind? Is it just the anticipated impact of the business? Or are there maybe - for practical reasons, certain orders that you need to go on what you have in mind? So, just any kind of color on how you expect this journey to evolve?

**Brett Schulman**

Yeah, thanks, Brian, for the question. I think it's the latter. It's definitely from a practical standpoint. You think about our labor deployment test getting down those foundational labor deployments and getting that rolled out. We've talked about new KDS, which has been in test pilot, getting that equipment capability and base capability out there and then bringing behind some of the more sophisticated long-term generative AI-type technologies that we think are at the early stage, but could prove very beneficial over the long term. So, it's kind of crawl walk around, but starting with very base foundation initiatives and then layering on some of the more sophisticated initiatives that we think can ultimately make our restaurants easier to run and set our team members up to deliver on that great guest experience.

### **Brian Mullan**

Okay. And then, a follow-up on development. I believe you just recently, within the last few months, maybe hired a new Chief Development Officer role. So, could you just comment any early insights maybe he's brought to the organization thus far? Anything worth calling out...

### **Brett Schulman**

Yeah, Jeff Gaul joined us. He was formerly the Global Head of Store Development at Nike. He's been just a great addition to our team. He's hit the ground running. It's like he's been here for years with our ELT. And Jeff certainly has deep experience in scaling large pipelines of growth, and has already brought to the table, whether it's on the landlord side, whether it's on the strategic sourcing side, great value add to make sure that we're set up as we ramp up that 15% annual compound unit growth rate translating into more and more units every year.

### **Operator**

Your next question comes from the line of Jon Tower from Citi. Please go ahead.

### **Jon Tower**

Great. Thanks for taking the questions. Just a couple, if I may. First, I am curious, just following up on the new unit performance, that's been obviously well ahead of expectations. And second time this year that the company has taken up its new restaurant opening expectations. I'm curious, as you're looking beyond '25 or into '25, is that at least 15% target that you're speaking to, does that appear just a bit too conservative given what you're seeing in terms of consumer response and new store productivity and profits that you're generating plus the balance sheet that you have today? I mean, why can't that be closer to 20%?

**Brett Schulman**

Hey, Jon, it's Brett. It's really predicated upon developing future leaders. There's certainly the demand out there. Clearly, we kind of talk internally, Chicago has been our best new market opening ever. We need to get more restaurants open in Chicago. But we also don't want to open those restaurants and have bad operations. So, we want to make sure we've got the proper leaders trained, which is why we've invested in our Academy GM network. You heard, we're up to 62 Academy -- certified Academy GMs, and make sure we've got that feeder system of pipeline talent that is properly trained and ready to serve our guests and run our teams in those restaurants.

And we also just want to have commitments that we can deliver on that we feel comfortable with and not overheat the engine, so to speak. And if we see the opportunity to push growth a little bit faster like we have this year, this quarter in particular, then we'll take advantage of that opportunity, but we do not want to get over top our skis on restaurant growth. We are students of history and have seen that has undermined a lot of great growth brands over time.

**Jon Tower**

Fair enough. Maybe just kind of speaking with you, Brett, I noticed you guys are doing a connected TV test. I'm curious how many markets it's in today and maybe what your early results have told you about testing this platform for building brand awareness in the markets that you rolled it out to.

**Brett Schulman**

Yeah. We've only tested in about eight markets today, and it really is just a test. We're testing and learning. I talked about in my prepared remarks about the efficiency and effectiveness of our social media and our earned media marketing to-date. It's very powerful. We get tremendous user-generated content that the team helps amplify or our own content on social media and collaborations, like we noted with Lindsey Horan, that have proven to be incredibly effective, especially with our Gen Z audience. But as we scale across the country and we elevate to a more national stage, we are testing tactics and strategies to understand what really is most effective when we are ready to do a little bit more of that upper funnel activity and out-of-home activity.

**Operator**

Your next question comes from the line of Rahul Kro from JPMorgan. Please go ahead.

**Rahul Krotthapalli**

Good afternoon, guys. How much of this comp performance was driven by the peak or throughput versus the non-peak dayparts or shoulder periods? And also, is there any way we can look at how much of this performance was attributed to existing customers coming more frequently versus the new customers? And I have a follow-up.

**Tricia Tolivar**

Okay. Thanks, Rahul. So, I think your question was around daypart and what we were seeing from performance peak versus non-peak. We certainly thought steak would be a driver of an increase in dinner performance, which it was, but we saw a tremendous response at lunch as well. So, consumers are finding it's just a wonderful option for both times of the day and really creating an opportunity to deliver strong traffic results. As you look at existing and new customers, there's certainly a balance. And so because of the impressions that we've gotten, we've brought in new customers into the restaurants, but because of the perceived gap in the menu around the lack of a beef item, it certainly has resonated with our existing customers as well.

**Rahul Krotthapalli**

Understood. And Brett, as we look at the impressive margin growth trajectory, how do you internally think about the philosophy of reinvesting these margins into what you just defined as the value work or the quality of experience? And where is the limit for -- or threshold for this brand at which you can directly reinvest into the price through in pricing, I mean? Thank you.

**Brett Schulman**

Yeah, Rahul, thanks for the question. That's kind of -- that's our job, right, is to figure out where to make smart investments, and a couple of examples that we've done in the past years, as Tricia noted, 9% year-over-year wage increase to our team, making sure we're positioned to be very competitive in the markets we compete in on wages for our team members, making sure we support them in delivering that great Mediterranean hospitality. And then, another example is on behalf of our guests in California with AB 1228 and absorbing the incremental cost of the legislated wage increases there.

And so, we are looking all the time at different areas of the business whether it's an ingredient spec, whether it's team member benefits, whether it is mitigating price increases. We only took less than 3% in January, which is the only price increase we've taken this year. I noted earlier, from the end of '19 to the end of '23, we only took 12%. And we think that, that's all coming together. All of these investments we make to drive that 9.5% traffic in the quarter. So, we'll continue to look across the business to understand as we grow restaurant-level margin, where we can share some of that wealth across our team members, our guests and, ultimately, create long-term sustainable restaurant-level margin growth and shareholder value.

## **Operator**

Your next question comes from the line of Jeffrey Bernstein from Barclays. Your line is now open.

## **Jeffrey Bernstein**

Great. Thank you very much. Two questions. The first one just on, I guess, sales drivers more broadly. As you mentioned, steak was better than expected, and obviously, a huge protein enhancement. As I look at the menu, it seems like there's less glaring holes for a significant new protein, for example. But wondering if you can maybe prioritize what you think are the two or three biggest sales drivers over the next 12 months, whether it is product or promotion or technology, advertising, social media, you've got so many different levers? I'm just wondering how you prioritize what you think is the next exciting opportunity and whether the system can handle that potential increased traffic. And then, I had one follow-up.

## **Brett Schulman**

Yeah. So, as it relates to the first question, we are launching loyalty in October. That certainly, we think, can be an enhancement to our guest experience and the overall value to the business. We talked about in the longer-term catering can certainly be a driver. And then my co-founder, partner, Ted Xenohristos, our Chief Concept Officer, leads our culinary innovation team. They are working on a multiyear deep pipeline of innovation to bring new and exciting products to our guests. We think there's still some gaps in the menu that we can address and certainly create greater value for our guests. So, there's a number of ways we feel like over the long term can continue to drive value for the business.

And lastly, that you think about awareness and just we are still a newer cuisine and a newer brand. In many markets, we're at a 40% awareness versus many more mature brands in our space that are in the 90%s that as word-of-mouth spreads, as people become more aware of the benefits of eating the Mediterranean way, that's a natural tailwind in and of itself. We think we also have speed of service opportunities, as we've noted in the past. And to the operational piece, we certainly believe we can handle it. I think that's the beauty of our simple operational model, 38 ingredients on the line, offering our guests over 17 billion combination, that walk the line, assembly line, kind of old Henry Ford production line that allows us to do high volumes and do it efficiently.

We see it. We have some restaurants doing very significant revenue volumes, so there's no question that the existing fleet as well as the robust infrastructure we built across the business can handle and scale that growth. We talked about this in the past, whether it's our production facilities that can support upwards of at least 750 restaurants today or our technology infrastructure with our digital order ecosystem and the new microservices architecture that we deployed in 2022 to be highly scalable. We've made investments over time to be positioned to have this growth that we're now embarking upon.

### **Jeffrey Bernstein**

Well, that is sure a lot of levers and a lot of combinations, billions of combinations. I just wanted to follow up, Tricia, on the restaurant margin. I think you've previously talked about long-term guidance for 20% and kind of don't look at the current run rate as sustainable necessarily. It looks like this year's guidance is now for the mid-20% -- 24% range. I'm guessing it's sales leverage. That's the biggest driver of the upside. But the AUVs continue to be growing. I'm just wondering if there's opportunity for further leverage or ability to sustain this best-in-class margin, or do you still believe that over the next couple of years, you should see a maybe a more significant pullback in that margin from current levels. Thank you.

### **Tricia Tolivar**

You're welcome. Certainly, we believe there's the opportunity to sustain this level of margins giving the AUVs that we've been able to deliver out of our restaurants today, but we'll always be looking for the proper investments to make in team members and guests, whether that's in terms of benefits and wages that we're offering to them or investments in price and how we're managing that with the consumers. So, a lot will depend on what we're experiencing in the market and the economy and how we impact that going forward, but we feel good about what we've been able to deliver over the past few quarters.

## **Operator**

Our last question comes from the line of Brian Vaccaro from Raymond James. Please go ahead.

## **Brian Vaccaro**

Hi, thanks and good evening. So, it sounds like you're seeing some pretty broad comp strength. And I think it's been a few quarters, but I was wondering if you might be able to provide maybe a midyear update on where your regional AUVs are. I'm curious to the degree to which you might be seeing the gaps in the Southeast and the Southwest narrow versus other regions, and if the brand might be hitting sort of a higher gear in terms of awareness, et cetera, where those markets could be seeing really an outsized comp lift.

## **Tricia Tolivar**

Yeah. So, we have been experiencing strength in all regions across the country and improving performance. And so, when you look at the Southeast and the Southwest, those are our youngest markets. And so, their AUVs are naturally going to be lower than all of the other regions across the country. And so, really pleased with what we're seeing and the performance that we're delivering and the strength of it throughout the country and every type of format as well. So, really underscores the proven portability that we've been able to demonstrate and the opportunity for us to bring that across the massive white space that's ahead of us and bring CAVA to more and more guests around the country.

## **Brian Vaccaro**



Okay. And if I could just, one quick follow-up on the margins. Obviously, very impressive store margins. But Tricia, I just wanted to ask about the other operating cost line, where we haven't really seen leverage on some pretty big comps. Could you just remind us what types of investments you're making in that line? And if that's expected to sustain the rest of this year? Thank you.

**Tricia Tolivar**

Yeah. It is likely that we'll continue to see other operating expenses on a dollar per period, it'd be fairly consistent through the remainder of the year, and that reflects investments in our restaurants, largely around repairs and maintenance and really keeping up with the demand in the restaurants and the impact it's having on the facility itself and making sure it's meeting our standards from a guest experience perspective. There's also a little bit of marketing associated with the restaurants that's included in other operating expenses, much lower than many others in the space because we've got such powerful results on the social investments and the other PR initiatives that we have. But outside of that, it's got the typical utilities, which you'll tend to see higher and warm summer months and other items like that.

**Operator**

There are no further questions at this time. I'd like to turn the call over back to Brett Schulman for closing remarks. Please go ahead, sir.

**Brett Schulman**

Thanks, everyone, for joining the call today.

As we approach the celebration of Labor Day, I want to once again acknowledge and thank our more than 10,000 CAVA team members who executed our strategies, took care of our guests and delivered another exceptional quarter. With traffic growth of 9.5%, 18 net new restaurant openings and second quarter net income higher than all of 2023, we demonstrated the strength of our category-defining Mediterranean brand and the power of our mission to bring heart, health and humanity to food.

Thanks again for joining us. Have a happy Labor Day weekend, and I look forward to speaking with you next quarter.

**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect.

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