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Dutch Bros Inc. (NYSE:[BROS](#)) Q1 2025 Earnings Conference Call May 7, 2025 5:00 PM ET

Company Participants

Paddy Warren – Senior Director, Investor Relations and Capital Markets

Christine Barone – Chief Executive Officer and President

Josh Guenser – Chief Financial Officer

Conference Call Participants

David Tarantino – Baird

Brian Harbour – Morgan Stanley

Dennis Geiger – UBS

Andy Barish – Jefferies

Andrew Charles – TD Cowen

Chris O'Cull – Stifel

John Ivankoe – JPMorgan

Gregory Francfort – Guggenheim Securities

Sara Senatore – Bank of America

Jeffrey Bernstein – Barclays

Jeff Farmer – Gordon Haskett

Operator

Thank you for standing by, and welcome to the Dutch Bros Inc. First Quarter 2025 Earnings Conference Call and Webcast. This conference call is being recorded today, May 7, 2025 at 5:00 p.m. Eastern Time and will be available for replay shortly after it has concluded. Following the company's presentation, we will open up the line for questions and instructions will be provided at that time.

I would now like to turn the call over to Paddy Warren, Dutch Bros' Senior Director, Investor Relations and Capital Markets. Please go ahead at this time.

Paddy Warren

Good afternoon and welcome. I'm joined by Christine Barone, CEO and President; and Josh Guenser, CFO. We issued our earnings press release for the quarter ended March 31, 2025, after the market closed today. The earnings press release along with the supplemental information deck have been posted to our Investor Relations website at investors.dutchbros.com.

Please be aware that all statements in our prepared remarks and in response to your questions, other than those of historical fact are forward-looking statements and are subject to risks, uncertainties and assumptions that may cause actual results to differ materially. They are qualified by the cautionary statements in our earnings press release and the risk factors in our latest SEC filings, including in our most recent annual report on Form 10-K. We assume no obligation to update any forward-looking statements.

We will also reference non-GAAP financial measures on today's call. As a reminder, non-GAAP measures are neither substitute for nor superior to measures that are prepared under GAAP. Please review the reconciliation of non-GAAP measures to their comparable GAAP results in our earnings press release.

Now with that, I'd like to turn the call over to Christine.

Christine Barone

Thank you, Paddy. Good afternoon, everyone. I am pleased to share that Dutch Bros continues to operate from a position of strength. We are well positioned to thrive in this dynamic environment. The enthusiasm for our brand, the loyalty of our customers, the passion of our team and a clear vision for our future give us great confidence.

On February 7, we opened shop number 1,000 in Orlando, Florida, 33 years after our founding and 3,000 miles from our original push cart in Grants Pass, Oregon. With a long runway ahead and conviction in our brand, we aim to open the next 1,000 new shops with the goal of 2,029 total shops in 2029. We see a long-term opportunity to drive sustainable transaction growth by addressing structural barriers, bringing in new customers, enhancing frequency with existing customers and sustaining ongoing momentum in the productivity of our newer shops.

Q1 results provide further evidence that we are well positioned on the journey to capture the growth opportunity that lies ahead of us. We delivered exceptional results in Q1. The momentum we saw exiting 2024 carried forward into the new year. During Q1, total revenue increased 29% when compared to the same period last year. Q1's strong top line momentum was driven by a healthy balance of new shop growth and productivity, coupled with strong system same-shop sales and transaction growth.

The Dutch Bros brand continues to resonate with our customers, demonstrated by Q1 systems same-shop sales growth of 4.7%. Transactions grew for another consecutive quarter, reflecting strong momentum in a highly dynamic external environment. Company-operated same-shop sales grew 6.9%, including exceptional transaction growth of 3.7%. Our foundational transaction-driving initiatives continue to propel us forward. We have a coordinated plan and we are executing with tenacity across each of these initiatives. We are still in the early innings of these efforts with significant runway ahead of us.

We are seeing the benefits of order ahead, while successfully balancing transaction growth and ensuring customer satisfaction. These changes fit seamlessly in our current model without negatively impacting operational flow. This initiative serves as a prime example of addressing structural barriers and driving success in a key area of opportunity, the morning daypart. Our efforts are yielding not only revenue growth but also strong adjusted EBITDA growth, which grew 20% as compared to the same quarter last year.

Now let's talk about the driving force and key differentiator behind our brand. The broistas in our shops that serve our customers each and every day, and our HQ team mobilized to support them. Dutch Bros' exceptional culture, dedicated broistas, and passion for superior service resonate deeply with our customers, setting us apart and widening our most distinct competitive advantages. This foundation is built with each broista in our shop from coast to coast, from the very start of the onboarding process, our training and flow checks ensure every broista is fully trained in our core anchor tenants of speed, quality and service.

A continuous learning playbook allows us to enhance the customer experience. Our shop growth is predicated on the readiness and capabilities within our operations teams. Field leaders are deeply ingrained in the culture, allowing us to create compelling features for thousands of broistas as they advance their careers with Dutch Bros.

It is worth reminding that every new market begins with leaders from inside our system, bringing a level of engagement, experience and consistency to the journey of new employees and new customers. Our current pipeline includes 450 operator candidates with an average tenure of more than seven years, ready to lead a market. As we shared during our Investor Day, this number has more than doubled since our IPO.

Our robust training programs, scalability of our culture and fun energy empower us to deliver an unparalleled customer experience, anchored by speed and quality with exceptional service. We are an employer of choice, and our team is motivated to deliver this great energy and service. This strategic approach is further exemplified in our real estate strategy. When I joined in 2023, we took our new market entry strategy to the next level by adjusting the pace of new market penetration, allowing newer markets the time to build brand awareness and demand.

In 2024, we enhanced our real estate development team by increasing investment in market planning capabilities and expanding with new members in construction and site acquisition. We supported these efforts with enhanced data, tools and processes. Actions such as these continue to deepen and widen Dutch Bros' competitive moat for long-term success.

In February, we welcomed Brian Cahoe as our new Chief Development Officer. Brian brings nearly 25 years of retail experience, most recently serving as Chief Development Officer at Yum! Brands, KFC U.S. division. We are thrilled to have Brian onboard as we continue to invest in our real estate capabilities.

Once again, in Q1, we saw enhanced new shop productivity. This combination of investment in our real estate capability and paid media is driving this positive trend. In Q1, we successfully opened 30 shops and anticipate maintaining this pace next quarter with plans to accelerate the pace in the second half of the year. Our long-term real estate development pipeline is strong, giving us confidence to reiterate our expectation of at least to 160 system shop openings in 2025.

Our strategic investments in development, construction and market planning, combined with our refined site selection process, have enhanced new shop productivity and give us even more confidence in achieving accelerated growth. Our goal of 2,029 shops in 2029 positions Dutch Bros for multiple years of mid-teens annual percentage new shop growth. This goal is supported by those investments in real estate processes and systems, robust new shop economics and the expansion of our total addressable market to 7,000 shops.

Now I would like to discuss our multiyear efforts to grow transactions and develop sales layers. Last year, we outlined a transaction-driving strategy focused on three foundational initiatives to jump-start transaction growth. Enhanced focus on category-wide innovation, increased paid advertising to build and grow brand awareness, and growth in the Dutch Rewards program as the primary avenue for targeted customer marketing. These efforts are working. We are continuing to see success as we execute on each of these elements.

For the quarter, we saw system same-shop transaction growth of 1.3%, which is particularly impressive given we are also lapping two enormously successful LTOs in Boba and protein coffee from the prior year. We are still in the early innings and have considerable runway in our foundational transaction-driving initiatives.

First, innovation. For over 30 years, Dutch Bros has been an innovator. And this will continue to play a pivotal role in our growth story. Relevant innovation helps us deepen our competitive moat and build upon our core menu pillars of coffee, energy and refreshment.

In Q1, we successfully rolled out the Sweet Cereal Sips LTO, offering customers a unique way of enjoying cereal flavors with their favorite latte, freeze or chai. We also launched the Spring Fever Dream Trio, a Hyperchrome Rebel with Blue Raz Poppin' Boba, the Brownie Batter Mocha and a birthday cake latte or freeze with Soft Top and sprinkles. In March, we delighted our customers with a fun rubber duck, adding a playful touch to their visit. Exciting merch drops like this are another way we make each visit memorable. Our ongoing innovation efforts are contributors to these outstanding results, enabling us to lap last year's strong performance from boba and protein coffee.

Second, strategic use of paid advertising. In Q1 we continued our elevated paid advertising strategy in new and mature markets. It's clear to us these efforts are having a positive impact on our business and growth trajectory given the outperformance we have seen and our newer vintages following the ramping up of this initiative. We expect to continue our paid advertising efforts as we see significant opportunity to drive increased aided awareness in all markets, especially newer ones.

And finally, Dutch Rewards. In Q1, we attribute approximately 72% of system transactions to our loyalty program, representing a 5 point improvement versus the same period last year. Dutch Rewards allows us to reach our customers more effectively with a strong focus on a personalized experience. Through this dynamic communication channel, we introduce customers to innovative new products and provide unique Dutch experiences such as surprise sticker days and merch drops.

We strategically incentivize visits across various segments, geographies and day parts. Dutch Rewards serves as a highly effective direct line of communication with our customers, allowing us to gather real-time feedback from our campaigns and continuously improve our customer experience. For context, this program launched in early 2021 and is just four years old. We expect Dutch Rewards to be a strong lever for our future growth.

In addition to these foundational sales driving initiatives, we see a clear path forward with Order Ahead, throughput and food. Our objectives with the Order Ahead rollout were clear, maintain connection throughout the customer experience, remove potential structural barriers and win more in the morning day part, all without losing the broista connection that makes coming to Dutch Bros so special. We are encouraged by the continued success of our Order Ahead program, which saw strong adoption in Q1.

As of the end of the quarter, Order Ahead accounted for approximately 11% of transaction mix, representing a 3 point improvement versus Q4. In many new markets, we observed transaction penetration rates nearly 2x higher than the system average driven by this easy way for new customers to discover our brand. Our Order Ahead thesis is playing out as anticipated at this early stage with transactions over indexing in the morning, a day part where many customers are more time sensitive. This is encouraging as we recognize that at times we have long lines.

Order Ahead also meets our need of increasing speed with better throughput outcomes, opening up the underutilized walkup window channel. We are pleased by the initial throughput driving initiatives we have implemented and they are already showing promising results. Our throughput work is focused on fundamental blocking and tackling with an emphasis on specific actions to address bottlenecks, remove unnecessary steps and elevate our productivity.

Our objective right now is making sure that we have the right people in the right place, doing the right things at the right time to deliver speed and quality with exceptional service. At this early stage, our efforts are aimed at driving incremental throughput during peak hours because it is simple, clear and measurable. We are challenging our shops to exceed their base targets and early results from a small pilot have been promising.

We believe this initiative will enhance our ability to improve speed of service across our shop base as we implement a set of simple and proven techniques. We are thrilled with the success of our limited food test launched late last year and are excited to continue testing and refining this initiative throughout 2025.

Building on the success we are having with our Order Ahead initiative, we believe food can generate incrementality in the morning day part and drive frequency. Our approach to this test is both strategic and deliberate. We recognize the potential multi-year growth opportunity with our current food mix at less than 2% of sales. Our goals for this test are clear, maintain existing high levels of broista job satisfaction, continue to support throughput efficiency, minimize complexity and offer a targeted assortment that allows us to satisfy our customers craving for food while capturing incremental beverage opportunities.

The pilot test has informed our decision to now offer eight SKUs, including four hot food offerings. With the completion of an initial pilot, we recently expanded this initiative from eight to 32 shops. Looking ahead, expanding the food test pilot is a crucial step towards a broader test and rollout anticipated to occur throughout 2026. This expansion aims to reach a wider potential audience and positions Dutch Bros more competitively in high value routinized beverage occasions.

In closing, momentum in the business is strong and our strategies to build our business are working. We have the most passionate people who are well positioned to succeed and grow our brand. We have top tier growth that we see sustaining well into the future. In Q1 we delivered 29% year-over-year revenue growth and opened 30 new shops. We have a multi-year roadmap with visibility to the path ahead. Our foundational transaction driving initiatives are working and we have clear plans on Order Ahead, throughput and food.

Our real estate strategy is working and we are building momentum. New shop productivity is strong and system wide AUVs were \$2 million. We have enormous confidence in our future anchored by our passionate team, our loyal customers and a clear roadmap to grow Dutch Bros. Together, we are poised to achieve remarkable success and drive our vision forward.

With that, I'll turn it over to Josh.

Josh Guenser

Thanks, Christine. I'll provide a recap of Q1 results and a view of our outlook for 2025. Our Q1 performance has reinforced the confidence we have in our growth prospects. First quarter revenue was \$355 million, an increase of 29% or \$80 million over the first quarter of last year. We opened 30 new shops in the quarter of which 25 were company operated, bringing total system shop count to 1,012 shops. We expect to open approximately the same number of shops in the second quarter before accelerating throughout the back half of the year. Our pipeline is strong and we remain confident in opening at least 160 system shops in 2025.

System same shop sales growth was 4.7%. In the quarter we saw 1.3% transaction growth and 3.4% ticket growth, which gives us confidence in our full year same shop sales expectations. While we're cognizant of the potential uncertainty in the broader consumer environment, we've seen strong traffic trends into April, which remain in line with our expectations. Our full year guidance contemplates 3% to 4% system same shop sales growth in the second quarter, which includes the roll off of approximately 150 basis points of price.

In the quarter adjusted EBITDA was \$63 million, an increase of 20% or \$10 million over the first quarter of last year. This represents 140% growth on a two year basis. As a reminder, we experienced lower adjusted SG&A in Q1 2024 before ramping up spend throughout the remainder of the year as a part of our overall restructuring efforts.

Transitioning to our company operated shops. Revenue for Q1 was \$326 million, an increase of 32% or \$78 million over the first quarter of last year. Company operated same shop sales growth was an impressive 6.9% of which 3.7% was transaction growth. Company operated shop contribution was \$96 million, an increase of 30% or \$22 million year-over-year. During the quarter, company operated shop contribution margin was 29.4%. Beverage, food and packaging costs were 25% of company operated shop revenue, which is 70 basis points favorable year-over-year driven primarily by pricing.

Looking ahead, we evaluated the estimated impact of tariffs within our COGS basket and believe our exposure is limited with less than 10% of our current COGS basket being sourced internationally. Coffee is the majority of this sourced from Brazil, Colombia and El Salvador, which as of today face a 10% import tariff. Based on what we know now, we believe we can navigate this cost pressure in 2025 within our existing guidance as we have now substantially locked in coffee prices for the remainder of 2025.

Considering this, we continue to expect approximately 110 basis points of net COGS margin pressure for the full year, which now includes the estimated impact of tariffs. Our full year guidance contemplates beverage, food and packaging costs of approximately 27% of company operated shop revenue in Q2.

Labor costs were 27.4% of company-operated shop revenue, which is 100 basis points unfavorable year-over-year, driven primarily by wage investments made last April in California. As we look ahead, we made strategic investments in our shop leadership compensation in early April of this year, which would offset any benefit from sales leverage for the remainder of the year.

Occupancy and other costs were 16.5% of company-operated shop revenue, which is 20 basis points favorable year-over-year, driven primarily by leverage from sales growth. Preopening expenses were 1.7% of company-operated shop revenue, which is 30 basis points unfavorable year-over-year, driven primarily by new shop training and travel. Considering all of this, our full year guidance contemplates a company-operated shop contribution margin of approximately 29% in Q2.

Let me turn to other P&L items. Franchising and other revenue was \$29 million, up \$1.7 million or 6.4% year-over-year. Franchise and other contribution was \$20 million, up \$1.2 million or 6.4% year-over-year.

Adjusted SG&A was approximately \$54 million or 15.1% of total revenue, roughly in line with our expectations. We now expect approximately 90 basis points of leverage on adjusted SG&A for the full year 2025.

In the quarter, interest expense net increased \$722,000 year-over-year to \$7.1 million. The increase is primarily driven by higher interest expense on long-term debt and finance leases for new shops, and partially offset by higher interest income on invested cash. For the quarter, we delivered \$0.14 of adjusted EPS, up from \$0.09 in Q1 of last year.

Let me now provide an update on our balance sheet, cash flow and liquidity. As of March 31, we had \$316 million in cash and cash equivalents and \$281 million in drawn term notes, resulting in a net cash position of approximately \$36 million. Relative to Q4 of last year, this represents a decrease of approximately \$23 million, which is largely related to working capital timing. The combination of strong cash generation from our core business, cash on our balance sheet and access to additional liquidity through an existing credit facility gives us great confidence in continuing our growth trajectory.

In Q1, our average CapEx per shop was approximately \$1.67 million, a decline of approximately 10% from Q4. We are pleased with the progress we are making towards shifting our portfolio to more capital-efficient build-to-suit lease arrangements. As of March 31, we had over \$658 million in total liquidity. This total liquidity is comprised of \$316 million in cash and cash equivalents, \$342 million in our undrawn revolver.

Shifting to guidance. We have a strong runway ahead and are well positioned to continue producing healthy financial results in this dynamic macro environment. Given the strong performance in Q1 and continued momentum into Q2, 2025 total revenues, system same-shop sales growth and adjusted EBITDA are trending towards the top half of the previously communicated ranges.

As a reminder, those were total revenues between \$1.555 billion and \$1.575 billion; system same shop sales growth in the range of 2% to 4%. Adjusted EBITDA between \$265 million and \$275 million. We would expect 60 basis points of net adjusted EBITDA margin pressure, driven primarily by elevated beverage, food and packaging costs, and partially offset by the benefit of approximately 90 basis points of adjusted SG&A leverage.

Additionally, we continue to expect to open at least 160 shops, representing 16% systems shop growth. Capital expenditures remain at our estimated range of \$240 million to \$260 million, primarily made up of new shop construction costs. We are very proud of the results the business delivered in Q1 and the continued momentum into Q2. We believe the combination of strong four-wall economics and strong cash-on-cash returns will allow us to continue delivering incredible results. We are well positioned to deliver fantastic returns from our new shops and remain bullish on our near-term goal of 2,029 shops in 2029.

Thank you, everyone. We'll now take your questions. Operator, please open the lines.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] The first question comes from David Tarantino with Baird. Please proceed.

David Tarantino

Hi good afternoon. I had a couple of clarification questions on how you're thinking about the second quarter. Josh, I think you said, your plan had contemplated, comps up 3% to 4%. And I just wanted to maybe ask, several times you mentioned momentum into this quarter. So I wanted to maybe understand what exactly that means on how you started the quarter relative to what your plan looks like?

Josh Guenser

Yes, David, thanks for the question. Yes, we're feeling really good about the momentum, as you pointed out into Q2 really coming in line with our expectations. The piece I'd remind is, as we think of, rolling from Q1 into Q2 as we are rolling off about 150 basis points of price coming into Q2. So like I said, feel good about that traffic trend continuing into Q2 and really sticking in line with our expectations.

David Tarantino

Got it. And the traffic trend from Q1 continues into Q2. Are you -- I think you had a negative impact on the traffic in Q1 from the leap day lap. But is that -- are you making an adjustment for that as you think about the underlying traffic? Or should we just think about reported traffic is the right way to think about the expectation?

Josh Guenser

Yes. We are making an adjustment for the leap day. So thinking through the kind of the normalized run rate trend there is what we're seeing continue into Q2.

Christine Barone

Yes, we're feeling really good about the underlying traffic and what it's looking like in the early part of Q2.

David Tarantino

Excellent. Thank you very much.

Christine Barone

Thank you.

Operator

The next question comes from Brian Harbour with Morgan Stanley. Please proceed.

Brian Harbour

Thanks, good afternoon guys. I mean, new store productivity, as you mentioned looked very good again in the quarter. I guess, are you assuming that, that sort of persists through this year? Is there anything sort of lumpy about the stores that we might have seen in the 4Q and the 1Q? Or could you just talk about more about what's driving that?

Christine Barone

Yes. So if we look at the new shop productivity, we had a really great Q1. We were really pleased with the openings. We had some of the top openings of all time in this quarter. So it was definitely a great signal, I think, of how the brand is being received as we're opening these new shops. So I think as we look throughout the year that we really contemplate what we shared with Investor Day about having strong new shop productivity and strong new shop AUVs. We did see some particular strength in Q1 that we were really pleased with.

Brian Harbour

Okay. Cool, thanks. Josh, was -- just on the food and beverage cost line was -- was 1Q more favorable than you expected? And I guess, because the comment about the full year impact, I think, is the same. So are you building a little bit more pressure into the balance of the year? Or is this kind of consistent with what you would have thought before?

Josh Guenser

Yes. This is actually right in line with what we had expected. So most of the pressure that we're expecting for the balance of the year is really coming from coffee prices. And as I highlighted in my prepared remarks, given how we've been able to lock in price, we took a look at the expected tariff impact and do believe we can absorb the tariff impact in that overall guidance range. But we had always contemplated that it would be stepping up more significantly in Q2 and then into Q3. So I think this is getting right in line with what we expected. And like I said, really stepping up more meaningfully beginning in Q2.

Brian Harbour

Okay, thank you.

Operator

The next question comes from Dennis Geiger with UBS. Please proceed.

Dennis Geiger

Great, thanks guys. I wanted to touch on mobile order and just if there's any more color to share sort of on what you're seeing there, if you have any sense for kind of incrementality there perhaps or perhaps how notable some of the throughput benefits through the mobile order channel are?

Christine Barone

Yes. So we are seeing incrementality from mobile order. And as we look at what we're seeing there, I think it's coming from a couple of things. So what we are measuring is, we're looking at when a customer either joins the rewards program or was a rewards member, we look at what happens. And so that pre and post behavior, we are seeing a lift in frequency.

The other thing that we're seeing, which is really nice, is that we are increasing the rewards sign-ups. And so as we open new markets, we're seeing a quicker kind of adoption of the rewards program of our customers. And it's -- so there's both a rewards benefit to that and a mobile order benefit from that. And I think that, that increased functionality as a reminder, it was the number one thing that our customers were asking for. And so I do think we're seeing that in those increase downloads and that increased adoption of the app.

Dennis Geiger

Very helpful. I think...

Christine Barone

Yes, go ahead.

Dennis Geiger

Oh, keep going, please.

Christine Barone

The other thing I was going to add is just what we wanted to see was that strength in the morning daypart with mobile order, and we are seeing that. So as we look throughout our day, our traditional traffic has been really even throughout the day with 1/3 in the morning, 1/3 in the midday and the 1/3 in the afternoon. And mobile order is really driving that additional morning daypart traffic, which is great to see.

Dennis Geiger

That's great. Just a follow-up then. Just as it relates to maybe some of the promotions and offers, I know there's different channels here. Has that changed much to the intensity which you sort of have pushed those offers or that your customer has utilized those offers? Is that the right way to think about it? And is there any kind of notable change that you've seen in the business from that perspective? Thank you.

Christine Barone

No, we haven't seen a notable change in that. When we look at kind of the contribution from that discount space, it was really kind of very even versus where it was last year. And so we're not seeing an increase. However, what I would share is, I think our sophistication of how we are making this offer is, how we're thinking about points that has increased. So I think that although if we are not kind of spending more to get there, we are seeing kind of increased efficacy from our efforts.

Dennis Geiger

Great. Thank you.

Operator

The next question comes from Andy Barish with Jefferies. Please proceed.

Andy Barish

Hey, good afternoon, guys. Just wanted to get the sense of labor, Josh. I know first quarter was still absorbing California. Is the understanding that you'll kind of be flattish going forward in that some of the shop leadership investment should be offset by some of the same-store sales leverage. Is that what you were kind of implying year-over-year going forward?

Josh Guenser

That's right, Andy. Yes. I mean, like I said, we made some investments, smart investments in our shop leadership at the beginning of Q2 here, and we would expect that to offset in the labor line, what otherwise would we see for sale leverage so...

Andy Barish

Okay. And then just on coffee costs, as it all kind of rolled in, and I think you guys were sort of modeling off of sort of somewhere around \$4 on the C. Is that kind of where things wound up as you finished up locking for the year?

Josh Guenser

Yes. So we were – we did price at a variety of different points during the quarter at a rate slightly below the four that allowed us to absorb the estimated impact of tariffs. So that's how we were able to really kind of reaffirm the estimated impact from coffee and now inclusive of tariffs to be on the company shop level at least 110 basis points of margin pressure.

Andy Barish

Okay. Thank you very much.

Operator

The next question comes from Andrew Charles with TD Cowen. Please proceed.

Andrew Charles

Great. Thank you. Christine, you talked about increase in the new food pilot to 32 stores from eight stores. If this passes your stage gate process, how do you envision the pacing of rolling this out to the remainder of your system in 2026? Do you think it will be pretty even or perhaps weighted to one half or second half of next year?

Christine Barone

Yes. So our goal right now was to get to this broader market test piece. So really testing 32 shops. So we can look at kind of what we think our assumptions are and then how we need to change those. So that is really the first step that we're doing here before we really fully map out what we think we're going to do from a rollout perspective. The initial signs from those eight shops, we were very pleased from and that gave us that confidence to roll it out, inclusive of those eight to 32 shops.

And so now we have a broader market test to see what we can do in a market that fully has food in it and really test some of the – all of the operational protocols we've put in place. We've done a lot of work on the distribution front. We've gotten really nailed down the equipment that we think is the right equipment for our teams to be using and are super pleased with what we're seeing initially.

Andrew Charles

Okay. That's great to hear. I want to follow up an earlier question around measuring the incrementality of mobile. And you talked about increased frequency as well as increased loyalty sign-ups. I'm wondering if you could make you think of it through another lens, which is the mix of walk-up sales. About – at the Investor Day, you talked about how this is about 50% of mobile sales and growing well above the roughly 10% level or so pre mobile. Is that another way that you guys think about gauging the incrementality of mobile as well?

Christine Barone

So I think the benefit of the walk-up window is really from a production perspective. And so we have these two main production zones, one is at the walk-up window and one is at the drive-thru window. And so balancing out that production and that demand is quite helpful. From an incrementality, we're obviously looking at what's happening at the walk-up window. But we really need to look more before and after what's happening. We can – we're doing all different types of cuts to really understand what the incrementality is. But that in itself shows us how much is going to the walk-up window, but doesn't necessarily measure incrementality in the best way.

Andrew Charles

Okay. Thank you.

Operator

The next question comes from Chris O'Cull with Stifel. Please proceed.

Chris O'Cull

Yes, thanks. Good afternoon, guys. Christine, I had a question about operational improvements. I was hoping you could describe what tools or processes you're developing to improve productivity and throughput and how you expect to roll it out across the system?

Christine Barone

Yes. So we're doing a couple of things. One of the things is really bringing visibility to our peak hours. And so allowing our teams to kind of see what was your highest Friday hour over the last couple of months? And there's a fun in trying to kind of beat that hour and to see how quickly you can go. So part of what we're doing right now is really just bringing enhanced visibility through very easy to use kind of speed dashboards and things like that. The other piece we're doing is we're working with our teams so they can kind of identify where there might be bottlenecks in their shops. And so as you think about kind of the cars coming through the drive – through our drive-thru and really timing where beverages are going out the window with that.

Our teams are working through an exercise where they can look and understand kind of what part is actually causing a bottleneck – and sometimes that's unique depending on the shop itself or the makeup or the way the traffic might arrive with the red light, things like that. And so then we have a system – a series of tools you can use and really, it's more deployment of thinking through when do you want to make sure that you've got more of the team staying in production, when do you want to send one runner out to start taking orders? When do you want to send that second runner out to taking orders. And so it's a flexible system of deployment is how I would best describe it.

Chris O'Cull

Okay. That's helpful. And then can you describe what you've learned that has helped activate consumer trial in your markets. It sounded like from your presentation that paid advertising still has an opportunity to drive trial further. So just curious if that just requires additional spending to the message or offer or what seems to be working the best?

Christine Barone

Yes. I think there's a couple of things as we approach new markets. So I do think paid advertising is very effective there and just kind of giving a broad description of who Dutch Bros is and getting you excited to come into the brand. I also think as we continue to gain momentum and pass that thousand shop mark that there are more potential customers who just know who we are before we come into a market.

We are also the rewards program getting folks rapidly into that. Part of the thought behind mobile order with getting that full menu online, so there could be some exploration of the menu before we go into new markets. So that other piece seems to be working as well because we are seeing accelerated adoption in many of our new markets of the rewards program.

And I think it's kind of that interplay between everything. The other piece is I think some of the fun merch drops we're doing, some of the – I think, really meet innovation that's going on that, that is driving just engagement even in markets where we're not in. And so all of that kind of just works together to bring that broader brand awareness as we go into a new market.

Chris O'Cull

Great. Congrats on the great start to the year.

Christine Barone

Thank you.

Operator

The next question comes from John Ivankoe with JPMorgan. Please proceed.

John Ivankoe

Hi. Thank you. When I think about the past four years, I think about how much has changed in terms of Dutch Rewards in terms of order ahead, in terms of food, in terms of some of the operational deployment that you've been making. But at least from my perspective, the 900 square foot box from the past four years really hasn't changed very much. It's not a criticism, but just an observation, certainly, correct me if I'm wrong. Do you think there might be an opportunity as some of these initiatives really get to be kind of fully deployed and really firing on all cylinders that maybe we can be thinking about a gross box that looks slightly different or may be very different as we fully evolve into 2026, 2027 and beyond?

Christine Barone

I think that that's always something that we're looking at. One of the things I would share, though, is we do have a wide variation in volumes across our system right now. And we also have the ability to add different production zones and different makeups of those production zones. So in some of our highest volume shops, we'll have dedicated what we call pit zones to allow for the making of smoothies and other kind of unique blended beverages. And so we already have a bit of modularity within our shops that allows for that customization.

The other piece that we have, is that we know our product mix by market. And there is some variation in product mix. I think we've shared before, we've got higher Rebel sales in some of our mature markets. We've got higher Golden Eagle sales in some of our new markets. And so we're really thoughtful about placement of syrups and placement of tools and things like that within our shops. So although it may look the same, we're actually pretty good at adjusting depending on the volume and the makeup of our beverage mix.

John Ivankoe

Thank you.

Christine Barone

Thank you.

Operator

The next question comes from Gregory Francfort with Guggenheim Securities. Please proceed.

Gregory Francfort

Hey, thanks for the question. Christine, I'm just trying to think about the food opportunity. I think a bunch of your competitors do 10% to 20% food mixes. And I'm curious, do you have a reason for maybe why you would be in line or higher or lower than any of those long-term. And as you look at the margin of that business, I'm curious what the margin profile looks like versus the beverage profile? Thanks.

Christine Barone

Yes. I think as we really kind of launch more fully into a food business, we're being very thoughtful about kind of what the strategic intent there is. And it is really to capture additional beverage opportunities. And so what is the lowest amount of complexity kind of required to capture those beverage opportunities. So I do think that compared to potentially others out there, we're thinking about this limited SKU count that's really going to help us, manage throughput, manage the complexity in our business, but still provide some of those really important hot protein options in the morning that drive those routinized beverage routines. So I think that as you look at that, we're really thoughtful about exactly what we want the food program to do and feel that we've landed in a good place to kind of fulfill that strategy.

And then I think you asked a question two on the margin side. So on the margin side because there are fixed costs within the business that although food margins are a bit lower than beverage margins overall, it actually plays out quite nicely. And then if you add into that, that there's this incremental beverage opportunity that goes along with the food, we're actually excited – quite excited about what this could do from a business perspective.

Gregory Francfort

Thank you.

Operator

The next question comes from Sara Senatore with Bank of America. Please proceed.

Sara Senatore

Thank you. I have two questions about mobile order, one is really just a clarification. The first – the clarification is, I think, Christine, you mentioned increasing frequency. Do you see higher check too? I know you referenced kind of menu discovery, and I wasn't sure if you were getting benefit from that with the order ahead or sometimes you see the opposite just because it creates sort of higher frequency and maybe a little bit less spend per visit from our regular. So I guess that was the clarification if they're seeing implications for check.

And then you mentioned it really benefiting the morning daypart. Does that have any, I guess, implications for the demographics of your customer base? I just think the sort of morning routinization wondering if the sort of younger SKU that you've historically had, if that changed that?

Christine Barone

Yes. So as we look at all into the younger first, I don't think that what we're seeing right now is any difference there. But that's something that we'll continue to look into. I think we're – we actually have a customer base that spans across different demographics. We do happen to resonate quite well with Gen Z, but I don't think we're seeing something there. And then on the check makeup piece for mobile order – we do typically see that the items per transaction, so the beverage makeup is a little bit lower in mobile orders, which makes a ton of sense that they're more in the morning daypart, you might be on your way to work, you're driving a loan. So all of that kind of makes sense with what we thought we would see. The other piece is, I think, typically where folks might see that checklist is when you have things like food. And so that actually, over time, could change as we broaden our assortment.

Sara Senatore

Thank you.

Christine Barone

Thank you.

Operator

The next question comes from Jeffrey Bernstein with Barclays. Please proceed.

Jeffrey Bernstein

Great. Thank you very much. Christine, I had more of a macro question for you. You mentioned that the brand can thrive despite the dynamic environment that is contrary to obviously some peers. And I think it's contrary to the long-held view that a beverage-led concept which targets more modest income and a younger consumer is perhaps more vulnerable to a slowing macro. Obviously, you have lots of idiosyncratic drivers and initiatives right now, which are allowing you to put up these strong results. So I'm just curious your thoughts on that perspective that a brand like yours might be more vulnerable to a slowing macro that we might be entering into now? And then I had one follow-up.

Christine Barone

Yes. Thanks, Jeff. I think from what we are seeing Q1 was super strong. Q2 is off to a great start. And we are looking at this from multiple different dimensions and are really seeing strength across the brand. I think that we are just rooted in an excellent value proposition right now so we continue to look at that and see how the brand is resonating with customers. And all of those things really give us confidence in what we're seeing right now despite what we're hearing in the broader macro environment.

I do think, too, we are in this unique position in that even with things like innovation and Dutch Rewards and the paid advertising that we still are kind of peeling the layers back on that and driving the efficacy across those programs. So I think that and then being able to layer mobile order on top and then going into 2026, being able to layer food on top of that, that we do think we are in a unique position in this environment.

Jeffrey Bernstein

No doubt, you definitely have those idiosyncratic drivers. And just my follow-up is on the CPG channel. I know you dropped that news at the Investor Day. Just wondering if there's any incremental color you can share on your vision for Dutch Bros within the CPG channel or whether or not it's just kind of more of a longer-term view, but not much has been formulated just yet. Thank you.

Christine Barone

So thanks on the CPG, we are excited about that opportunity. It is more of a longer-term opportunity. As we look into next year and think about the strategy behind this – it's that as we did a lot of research with our customers in contemplating this idea, it really does appear to be a separate occasion. And then I think there are broader opportunities to drive brand awareness in being in both places. And so having these two channels. And so that is one of the things that as we continue to grow this brand, that beverage is such a frequent occasion that the more that you're reminding of your brand, we think that there could be some great benefit there.

And as a quick reminder on this. It's a license deal. So it's a light touch from our perspective, but we feel it will be an important part to grow the brand as we grow. Thanks for your question.

Operator

Next question comes from Jeff Farmer with Gordon Haskett. Please proceed.

Jeff Farmer

Thank you. Just wanted to follow-up on one of the questions Jeff just asked and not just about the environment. So you guys did point to the high end of your guidance ranges, but I am curious if there was an impact that you were taking into account as it relates to the more uncertain consumer.

Josh Guenser

Yes. So great question. What we've seen – we saw in Q1, we're really pleased with the momentum we saw into Q2. Again, we've been just reaffirmed our confidence in the underlying business. We certainly are very mindful of what's going on in the environment around us and listening to what others are experiencing. We're not seeing that with our customer today. But certainly, as we think about our guidance, we want to be mindful of how everybody else is experiencing the consumer today.

Jeff Farmer

Okay. And then just a second final question. I'm just looking at the case. It looks like you do have 70 Texas shops entering the comparable store base at some point in 2025. I could have that plus or minus. But – how should we be thinking about the impact that these Texas shops have when they enter the comparable store base? So I know you can't share too much about the waterfall. But I think most investors I've spoken to are expecting a nice tailwind from those Texas shops. What can you share with us as it relates to the potential impact they have as they enter the comp base?

Josh Guenser

Yes. So I might just step more broadly and talk about newer markets. I think we shared both at the Investor Day and I have shared in the past that we continue to see really strong performance from those newer vintages. – we really believe that's the sum of the great marketing efforts we've put in to drive brand awareness, that higher adoption of mobile order in newer markets. combined with just the maturation of those shops as they come into the comp base. So we do see outsized performance coming from the newer vintages, although see strong and strength across all vintages. So we do – it's not isolated to those vintages, but certainly, we see stronger performance out of those.

Jeff Farmer

All right. Thank you.

Operator

Thank you. At this time, I would like to turn the floor back to Christine Barone for closing remarks.

Christine Barone

Well, thank you for your questions. In Q1, we proudly embodied our core values of radiate kindness get up early, stay up late and change the world. During our annual Dutch Luv Day of Giving on February 14, one of our three company-wide giveback days, we supported local organizations committed to creating compelling futures. This year, we were thrilled to support over 200 organizations nationwide, contributing more than \$1 million to the local communities we serve.

Additionally, more than 250 shops hosted local giveback days this quarter, creating another way to make an impact in the communities where our [indiscernible] live and work. As we embark on an exciting multiyear journey, it is the impact we make with our people and the communities around us that fuels the heartbeat of our great company. We are excited to continue on this clear path forward, making a massive difference one cup at a time.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation. Have a great day.

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