

Dutch Bros Inc. (BROS) Q1 2026 Earnings Call Transcript

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Q1: 2026-05-06 Earnings Summary

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EPS of \$0.16 **beats by \$0.01** | Revenue of \$464.41M (30.76% Y/Y) **beats by \$14.82M**

Dutch Bros Inc. ([BROS](#)) Q1 2026 Earnings Call May 6, 2026 5:00 PM EDT

Company Participants

Neil Patel - Senior Manager of Investor Relations

Christine Barone - CEO, President & Director

Joshua Guenser - Chief Financial Officer

Conference Call Participants

Jeffrey Bernstein - Barclays Bank PLC, Research Division
Sharon Zackfia - William Blair & Company L.L.C., Research Division
Brian Harbour - Morgan Stanley, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Andrew Charles - TD Cowen, Research Division
Andrew Barish - Jefferies LLC, Research Division
Christopher O'Cull
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Jacob Aiken-Phillips - Melius Research LLC
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Jeffrey Farmer - Gordon Haskett Research Advisors
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Brian Mullan - Piper Sandler & Co., Research Division
Matthew Curtis - D.A. Davidson & Co., Research Division
Margaret-May Binshtok - Wolfe Research, LLC
Brian Bittner - Oppenheimer & Co. Inc., Research Division
Hyun Jin Cho

Presentation

Operator

Thank you for standing by, and welcome to the Dutch Bros, Inc. First Quarter 2026 Earnings Conference Call and Webcast. This conference call and webcast is being recorded today, May 06, 2026, at 05:00 p.m. Eastern Time and will be available for replay shortly after it has concluded. [Operator Instructions] I would now like to turn the call over to Neil Patel, Dutch Bros' Senior Manager of Investor Relations. Please go ahead.

Neil Patel

Senior Manager of Investor Relations

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, 2026, 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 facts 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 our most recent annual report on Form 10-K and quarterly report on Form 10-Q.

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 comparable GAAP results in our earnings press release.

During the question-and-answer portion of today's call, please limit yourself to one question.

With that, I would like to turn the call over to Christine.

Christine Barone

CEO, President & Director

Thank you, Neil, and good afternoon, everyone. Dutch Bros continues to operate in a category of its own, anchored by a people-led culture that creates authentic customer connection. With disciplined growth and continued investment in our people, the long-term outlook remains incredibly bright. Our first quarter results meaningfully exceeded expectations, driven by the passion of our Broistas, the strength of our all-day beverage platform, category-leading innovation and our idiosyncratic transaction drivers, including the rollout of food. Based on the strengths of our performance throughout Q1 and our industry-leading value proposition and performance into Q2, we are raising our full year guidance.

Turning to our Q1 results. Total revenues increased an impressive 31%, accompanied by strong profitability in Q1 with adjusted EBITDA up 26%. Our transaction driving efforts maintained momentum from Q4, translating to 7 consecutive quarters of transaction growth. Our customers continue to choose us for our customization, innovation and incredible customer service. Our Q1 2026 shop openings were ahead of schedule with 41 system shop openings in Q1. Our path to 2,029 shops in 2029 remains very clear. This reflects the positive impact of our disciplined real estate pipeline work. Moving forward, we remain confident we can continue to accelerate our long-term shop openings as our market planning and real estate investments pay off.

Our AUVs are at record levels and new shop productivity remains in line with system averages as momentum behind our stepped-up brand awareness remains strong, and our customers continue to respond to our focus on speed, quality and service. Our foundation is incredibly strong. Our focus on speed-to-market with best-in-class innovation, a hyper customizable menu, and unmatched customer service play a critical role in delighting customers and building an everyday routine.

It's clear we are poised to continue shaping and commanding a leadership position in the large and growing beverage category. In fact, we are consistently rated the top beverage chain for service. And at the center of that performance, and what truly sets Dutch Bros apart is our people. Our commitment to our people allows us to consistently invest in culture, development and leadership. And that's what enables us to build strong teams at scale. We're a great place to work and to grow. We create a fun, high-energy environment for our Broistas, while also providing clear and compelling futures through internal growth and leadership development. That investment drives strong engagement and retention, and it allows us to develop leaders who build connected, high-performing teams.

Our leadership turnover remains incredibly low with turnover at the operator level in the low single digits. And as we continue to grow, we are able to create new opportunities for the nearly 500 leaders we have in our operator pipeline. To bring this to life, I wanted to share an example of one of our coaches leading our openings in the Greater Chicago market.

[Ellie] has been with Dutch Bros for over a decade, relocating across multiple markets with a team of operators who have continued to follow and grow alongside of her. This model allows us to bring a seasoned team of leaders to build and grow a new market quickly with operational consistency and our signature Dutch Luv. And our results demonstrate this.

Our first shop in the Greater Chicago market is already pacing to a volume of approximately \$4 million. That kind of performance is a direct reflection of the culture and leadership pipeline we've built. This strength also shows up in our ability to attract and engage talent at scale. In 2025, we received over 780,000 applications for just about 19,000 shop roles. And we rank in the top 15% of all companies in employee engagement today according to Gallup. And ultimately, all of this shows up in the customer experience. When our crews are engaged and connected, customers feel it through the energy, the conversation and the genuine care in every interaction.

Our line of sight to 2,029 shops in 2029 remains very clear, and we're energized by our progress so far. We continue to strengthen our development pipeline. Our market planning team has a robust plan to continue executing our strategy of densifying markets while we expand into new. The buzz and excitement around the Dutch Bros brand remains strong. We have no shortage of potential sites for newbuilds and have a healthy pipeline of attractive conversion opportunities.

These include sites from limited service operators, smaller emerging growth concepts and legacy beverage brands. Let me share an update on our Clutch Coffee Bar conversions. During Q1, we reopened 7 converted shops and the early response has been incredible. Lines are forming, communities are buzzing, and our brand is showing up in a big way. These converted shops are already outperforming our system-wide AUVs and generating on average more than 3x their preconversion volumes.

I want to sincerely thank our teams and the Clutch teams for making this transition seamless. Our real estate strategy is centered on building density thoughtfully. We believe that over the long term density drives stronger brand outcomes, establishing customer routine, improving retention and creating frequency. We intend to continue executing this strategy, recognizing while initial openings in new markets may deliver elevated volumes, durability is driven by density and becoming the everyday routine.

And this strategy is working. Our system-wide AUVs are at record levels and Texas, our largest comp state by shop count, drove almost 20% same-shop sales growth in Q1. Now let me share how we are continuing to widen our competitive moat through a focused set of transaction drivers we've introduced over the past several years. These drivers deliver long-term structural benefits as we scale not just the number of shops, but also the number of occasions at each shop.

Our new food rollout continues to perform exceptionally well. And as of Q1, we have completed the rollout across 485 system shops, including 11 franchise shops. The program continues to maintain a high level of operational efficiency, even as we launched a ninth SKU as part of the rollout in Q1. We continue to see elevated Broista satisfaction and positive customer feedback, particularly around likelihood to recommend food offerings.

We are also seeing food attachment rates from the rollout tracking in the low teens, slightly ahead of what we expected from our early test results. And based on the strength of results to date, we now expect the new food program rollout to be largely complete across our company-operated fleet by the end of Q3. Category-wide innovation across our menu continued in Q1. In March, we introduced a trio of nostalgic throwback drinks, which included a brown butter chocolate chip latte, Fruit Punch Rebel with a sour candy straw and Kool Blue Fizz.

Innovation like this is a testament to our ability to spot and activate trends early, bringing unique yet accessible innovation to market in a way only Dutch Bros can. The Q1 LTO window was one of our strongest on record and drove an approximately 30% increase in LTO unit velocity versus the prior year. In addition to our LTOs, we're continually listening to feedback from our customers and Broistas to deliver on-trend merch drops that truly resonate. This quarter, Mini Charm Figurines and Mystery Bag Charms drove high engagement and excitement across the brand and delivered a step change in effectiveness year-on-year with approximately 50% higher sales lift than the comparable drops from last year.

At the beginning of May, we launched Myst Energy Refreshers, a new plant-powered energy platform designed to expand our reach. These beverages are carbonated, light and refreshing with antioxidants, electrolytes and fewer than 100 calories. During testing, Myst saw strong customer demand and notably similar customer retention to our first-to-market protein coffee offering, suggesting potential for this to be part of our longer-term energy platform.

We've seen incredibly strong customer feedback since launch, and we plan to continue driving trial of Myst as the combination of Rebel and Myst enhances our leadership in the customized energy category. Switching to Dutch Rewards, we ended Q1 at an all-time high of 74% of transactions flowing through the program. Our continued success in acquiring new customers into Dutch Rewards has been supported by Order Ahead adoption continuing to climb, which reached approximately 15% of the total transaction mix in Q1.

We are continuing to grow our segmentation capabilities. And in Q1, we saw meaningful improvement in our in-app offer effectiveness and customer engagement as a result. And when we segment our rewards program, transaction growth in Q1 continued to have momentum among Gen Z and millennials. Over the past 3 years, we've strategically increased our investment in paid working media with a clear objective, introduce more customers to the brand.

Our unaided awareness has more than doubled in the past 1.5 years, a testament to the momentum that our investments in media, community-driven events and our best-in-class social media program provide. CPG is our latest initiative to continue building brand awareness. We just completed the first quarter with our CPG products in select retail outlets and are pacing ahead of expectations.

While it's still early for us, initial results have indicated exceptional velocity in terms of units per store per week. In fact, select segments of the CPG business have higher SKU-level velocity than the category leader in our initial wave of retailers. Our efforts to improve throughput continue to gain traction. We've enhanced our labor deployment model by increasing our visibility into hourly and daily staffing levels to match customer demand.

We've also streamlined more efficient beverage production, all while continuing to drive transaction growth and protecting the Broista end customer experience. Notably, we continue to see improvements in orders per peak hour in Q1. In closing, we are excited by what lies ahead. Dutch Bros remains a special brand, and our people continue to be at the heart of everything we do. We are growing our people and building compelling futures.

Through investments in our teams and our tenured operator pipeline, our people remain at the forefront of how we grow. The genuine connections our Broistas create every day are not only central to the experience today, but a leading indicator of the long-term durability and differentiator of this brand. We are growing our occasions, building everyday routine and naturally taking share.

Transaction growth is consistently strong, and we are excited about our innovation road map. Trial continues to rise. Order Ahead is working. Our new food program is heating up, and we believe this is fueling continued engagement through Dutch Rewards. We are building our brand for the long term. The strength of Dutch Bros was evident throughout Q1 with total revenues growing 31%. Our best-in-class value proposition continues to resonate, reflected in 7 consecutive quarters of transaction growth.

We are growing our development pipeline with a clear path to further densify existing markets while expanding into white space markets on our way to 2,029 shops in 2029. Our 2026 shop opening cadence is ahead of schedule, and new shop productivity remains in line with system-wide AUVs, which are at record levels. Lastly, we believe our foundational approach is purpose-built to lead the expanding customized beverage category. Dutch Bros is designed for how customers want to experience beverages, a platform optimized for to-go occasions, cold beverages, customization and consistency. Our confidence to lead and command the category over the long term has never been stronger.

With that, I'll pass it to Josh.

Joshua Guenser

Chief Financial Officer

Thanks, Christine. I'll start with a recap of our first quarter performance and then share our outlook for the remainder of 2026. Our first quarter results exceeded expectations, driven by strong same-shop sales growth, supported by effective marketing initiatives and continued momentum from our new food rollouts. These results reinforce our confidence in our long-term growth strategy and the incredible value proposition we offer. For the first quarter, total revenues were \$464 million, growing 31% over the first quarter of last year. System same-shop sales growth in the first quarter was an exceptional 8.3%, driven by transaction growth of 5.1%.

Many of our markets delivered double-digit same-shop sales growth in Q1, including Texas, as Christine highlighted. This performance reinforces the benefits of market density, continued maturation of newer vintages and strong brand execution across our fleet. With our Q1 same-shop sales results and performance into Q2, we now expect full year system same-shop sales growth of 4% to 6%. Our guidance reflects the performance we have seen thus far in Q2, while being mindful of the fact that our transaction comparisons continue to step up throughout the remainder of the year.

Our full year guidance assumes Q2 system same-shop sales growth approaching 5%. Same-shop sales growth drove AUVs to another record high in Q1, reaching \$2.2 million, while new shop productivity remains in line with system-wide AUVs. In the first quarter, we opened 41 new shops, including 7 Clutch Coffee Bar conversions in North and South Carolina that opened late in the quarter. Based on current inspection and permitting time lines, we expect to have remaining Clutch conversions completed by the end of Q3.

Conversion costs for the Clutch sites remain in line with our original expectations with average CapEx, including an allocation of the purchase price at approximately \$1.4 million per shop. Considering how rapidly we have been able to reopen these sites under the Dutch Bros brand, this is proving to be a very efficient use of our capital. While our development team continues to accelerate the number of leases we are adding to our new shop pipeline, these conversions highlight one of the various tools we have available to continue capturing our sizable white space ahead.

I'm incredibly proud of our teams for executing this project with speed and precision. We remain highly confident in our path to 2,029 shops in 2029 as we continue to see our efforts translate into tangible development momentum. Given the momentum we are building, we now expect to open at least 185 system shops in 2026.

Switching to company-operated shop performance in Q1. Revenue totaled \$429 million, an increase of 31% or \$103 million compared to the first quarter of last year. Company-operated same-shop sales growth was an outstanding 10.6%, primarily driven by transaction growth of 6.9%. Company-operated shop contribution was \$121 million, representing a year-over-year increase of 26%.

Company-operated shop contribution margin was 28.3%. Beverage, food and packaging costs were 26.2% of company-operated shop revenue, which is 120 basis points higher year-over-year, primarily driven by higher coffee costs and costs associated with the continued rollout of our new food program. COGS in Q1 were better than expected due to savings generated in other categories, primarily dairy.

As a reminder, we continue to expect an impact from higher coffee costs as the year progresses. The updated full year 2026 guidance now contemplates approximately 60 basis points of total COGS pressure. This also includes the impact from costs associated with the continued rollout of the new food program. Labor costs were 26.2% of company-operated shop revenue, which is 120 basis points favorable year-over-year, primarily due to sales leverage on better-than-expected same-shop sales.

Occupancy and other costs were 17.8% of company-operated shop revenue, which is 130 basis points higher year-over-year, primarily due to higher rent on new shops as we shift more of our portfolio to build-to-suit leases and higher repairs and maintenance costs. We continue to expect the shift towards build-to-suit leases will drive higher occupancy costs as a percentage of revenues in 2026.

Moving down the P&L. Q1 adjusted SG&A was \$66 million or 14.1% of total revenue. We were able to drive 100 basis points of leverage on adjusted SG&A while continuing to make investments in our people and infrastructure. Our updated 2026 guidance now contemplates approximately 80 basis points of leverage on adjusted SG&A for the full year. In the quarter, adjusted EBITDA was \$79 million, an increase of 26% over the first quarter of last year, and we delivered \$0.16 of adjusted EPS, up from \$0.14 in Q1 of last year.

Let me now provide an update on our liquidity and cash flow. As of March 31, we had approximately \$698 million in total liquidity, including \$264 million in cash and cash equivalents and the balance in our undrawn revolver. During the quarter, our net cash position decreased by approximately \$5 million in Q1, largely driven by timing. We continue to have strong cash flow from operations and remain confident in our self-funded outlook.

In Q1, our average CapEx per shop was \$1.3 million, largely consistent with Q4 and well below the \$1.7 million in Q1 of last year. We continue to have clear visibility to our long-term target of an approximate 60% build-to-suit lease mix. We also continue to see increasing number of sites available as demand for our brand grows across the country. Shifting to our 2026 guidance. We have a long runway ahead and remain confident in producing exceptional results in this dynamic macro environment.

Given the strong performance throughout Q1 and performance we have seen thus far in Q2, we are raising our full year guidance in the following areas. Total revenues are now projected to be between \$2.05 billion and \$2.08 billion, representing 25% to 27% growth year-over-year. Total system shop openings are now estimated to be at least 185 shops. System same-shop sales growth is now estimated to be in the range of 4% to 6%. Adjusted EBITDA is now estimated to be in the range of \$370 million to \$380 million. The midpoint of this range contemplates approximately 30 basis points of net adjusted EBITDA margin pressure.

This reflects the impact of higher coffee costs and increased occupancy costs, partially offset by leverage on adjusted SG&A. There are no changes to our guidance for capital expenditures. It remains within the \$270 million to \$290 million range. We are very proud of the results our team delivered in Q1. Our people, our resilient financial model and our differentiated transaction-driving initiatives continue placing us in a category of our own. We remain very excited by our business momentum and have strong visibility into our multiyear growth runway.

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

Question-and-Answer Session

Operator

[Operator Instructions] And the first question comes from the line of Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

My question is on the broader category, and I guess your core consumer kind of tied to it. But from a category perspective, you mentioned your confidence in the brand is never stronger, the first quarter results and the guidance raise would demonstrate that. But within that confidence, can you just talk about any incremental learnings you have or comfort you have to withstand the intrusion from 2 of the largest restaurant chains that seem to want to get into your categories of energy and refreshers and protein and all the others.

It does seem like it's a major hurdle or potential competitive threat. And just as you think about that, just your very strong results you saw in the first quarter and seemingly into April, any change in trend due to the spike in gas prices? It would seem like the discretionary beverage concept might be more vulnerable than the average. Any color there would be great.

Christine Barone

CEO, President & Director

Jeff, thanks so much for your question. So starting with competition and what we're seeing in that overall energy market, I think that our success in innovation has really led others to recognize that and take a look at us. We've never been stronger in the energy category. And if you look at what we're doing, it's actually quite different than what else is out there. So we are the category creator of customized energy.

We strengthened that category leadership with the launch of Myst, which we just launched over this past weekend. Myst is another type of energy drink that's really complementary to our Rebel energy drink. It has antioxidants, electrolytes. It's under 100 calories. And what we're seeing already is customers actually coming in for both of those beverages and using them in different ways.

And so super pleased to see that and what we thought we would see based on testing is that we launched a Rebel drink that had a great weekend and on top of that, a Myst drink that had a great weekend. So again, really building on our category leadership within energy. And what we are doing is quite different, having it blended, having it iced, a number of different flavor combinations. And we actually see particularly within energy that customers are actually building their own beverages.

And so that importance of customization and being able to customize with speed is incredibly important in that market. So we feel really, really great about where we're sitting on the energy market. And I think, if anything, others recognizing how large this market is and coming in with large marketing dollars really could lead to customers wanting to come and try all of that customization and all of those different ways that you can have energy at Dutch Bros. And then looking at how we've been performing in this environment. So we obviously had an exceptional Q1 with 8.3% system same-shop sales.

We felt really good as we went into April. We saw exactly what we thought we would see from an expectation standpoint and feel like we're incredibly well set up. I think as you look across at all of the things that we have put in place over the last couple of years from a marketing standpoint, our ability to really continue to grow within lots of different market conditions feels like we're incredibly well positioned.

Operator

The next question comes from the line of Sharon Zackfia with William Blair.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

I think I heard you correctly that Texas had a 20% comp in the quarter. Maybe I misheard that, that sounded like a really big number. Christine, can you give us some more thoughts on what's going on in Texas that you're finding to be particularly impactful? And if there's a playbook there that you think is of use in other markets going forward?

Christine Barone

CEO, President & Director

Yes, Sharon, we did share that figure that we saw an almost 20% comp in the state of Texas for Q1. And we shared that number because Texas has become really meaningful in our comp base now. It is our largest comp state by number of shops. And if we look at that performance, I think it's very indicative of kind of as we grow, what things could look like. So one, we've really spent time building brand awareness in Texas.

It's one of the places where we've been really focused on building that brand awareness, enhancing that paid media as we grow. We also continue to densify our markets within Texas. It's one of those markets where actually we see all different flavors of competition. So I know we get a lot of questions about that. I think Texas is a great example to see how we do within all of those different circumstances.

And I think that what we're seeing in Texas is that combination of all of those marketing levers working together along with what happens when you really densify and build a brand within a market. So we're super excited by what we're seeing. It gives us great confidence in our long pipeline to get to that 2,029 shops in 2029 and beyond and what our real estate strategy will do for us.

Operator

The next question comes from the line of Brian Harbour with Morgan Stanley.

Brian Harbour

Morgan Stanley, Research Division

I was curious about that new energy drink, too. What was sort of the catalyst for this? And did you think there was sort of like a different customer need state? And, I guess like, you kind of mentioned -- just more broadly, you kind of mentioned taking share, right? Is energy a big piece of that? Like do you feel like you're kind of taking share from other beverage occasions? Like what -- it does feel like energy is kind of growing faster than the overall beverage category right now. And I was wondering if you see that or what kind of continues that?

Christine Barone

CEO, President & Director

Yes. So I think Myst -- thanks, Brian. I think a great question. When you look at Myst, we actually -- it's a great way that we look at this from an art and from a science perspective. We were really looking at what's going on in that CPG market as energy continues to grow and expand. You see a whole group of new age energy players that are really focused on some of those functional benefits. And so as we looked at the energy market, as we surveyed our customers, we actually did pretty extensive testing of Myst as well before we launched it, looking at those combinations.

We believe it's really a different occasion that our customers have and that actually a lot of customers are going to both have a Rebel occasion and a Myst occasion. So Rebel, I'm getting ready for an exam. I want to get hyped up. I need to stay up. So that's a great occasion for Rebel. And then Myst is something I just need a little pick me up in the afternoon. I want those electrolytes. It's a beverage with lower calories as we look to really play across different markets.

And what we're seeing in this initial launch is really playing out that those different need states and occasions are very important in energy. And then from a taking share perspective, we believe we're taking share both in the coffee market and the energy market and doing both of those at the same time. So as we look at that routinized coffee behavior, especially in that morning daypart, the rollout of food, the rollout of mobile order really important to that, and we're seeing really great growth in that daypart. And then when we look at the energy market, we believe that, that's a very high-growth spot in the market. We are clearly the category leader in the customized energy market. And Myst is just a great addition to allow us to extend that category leadership.

Operator

And the next question comes from the line of Dennis Geiger with UBS.

Dennis Geiger

UBS Investment Bank, Research Division

Kudos on the strong results, guys. A quick clarification and then a question, if I may. Just on the clarification, Josh, I think you mentioned 5% same-store sales for the 2Q. You guys have obviously significantly exceeded same-store sales guidance in recent quarters. So just curious if the trends that you guys alluded to that you're seeing into 2Q so far, if you're sort of trending toward that guide for 2Q or if there's some conservatism perhaps just based on the uncertain macro backdrop?

And then the real question is, Christine, you spoke to some interesting numbers, strong numbers, 30% increase, I think, in LTO unit velocity versus last year. And I think on the merchandise, the 50% sales lift versus last year. So curious if this is more -- just a function of simply the products and the merch that you're rolling out being stronger than last year or if it's something a bit more systematic, maybe related to marketing, media support, overall brand strength building, et cetera, if any comments there?

Christine Barone

CEO, President & Director

Yes. So I'll take the LTO and merch drop velocity question first. Thanks, Dennis. When we look at that, I think this is really just our teams looking at what is working, what is working well and then building on top of that. I also think what you're seeing is that continued strength of our brand. All of the investments we've made in growing brand awareness, the popularity of these merch drops and really, there's a resale market for them afterwards. But I think what it is, is us learning, continuing to get better and what you're seeing show up is just the strength of the brand.

Joshua Guenser

Chief Financial Officer

Yes. And if you -- Dennis, if you think then about what we've seen so far in Q2, what I'd highlight actually in Q1, as Christine highlighted, just given the strength of the LTO performance that we had, that was a large contributor to our outperformance.

We set up Q1 with a pretty high bar, pretty strong expectations for comp performance. We significantly exceeded that, a big part of that being the LTO performance. We launched that at the end of February. So really saw that carry through Q1 and performed really well, exceeded -- obviously, exceeded our expectations. When you cut beneath that, we did see very strong performance, excluding that LTO throughout the quarter. And that performance, we have seen strong performance coming into Q2. So I think as we think about the Q2 performance and the guidance we provided for Q2, that is reflective of what we've seen to date, us approaching that 5% comp level and it is really reflective of the underlying strength of the brand and strength of the transactions.

Operator

The next question comes from the line of Andrew Charles with TD Cowen.

Andrew Charles*TD Cowen, Research Division*

Christine, given the strength that you've cited so far with traffic, new store productivity, free cash flow generation as well as the people pipeline, what's the argument for not stepping on the gas with development as it seems like the system is ready for it, especially with commentary that more sites are becoming available given your scale?

Christine Barone*CEO, President & Director*

Yes, Andrew, thank you so much for the question. So as we look at development going forward, we shared last quarter that we continue to build that development pipeline. We are adding sites into our development pipeline at a much more rapid rate than we were the year prior. We continue to add sites into our development pipeline at a rapid rate. So we are very excited by what we're seeing. We're seeing great growth in the existing base. We're seeing great growth as we open these shops and really strong AUVs, really strong customer reception. We have the operator pipeline. We have an operator pipeline of almost 500 people ready to go open these shops. So we are ready to continue to grow and to expand. And now we just need to continue to get the shops open. So feel really good about where we are.

Operator

And the next question comes from the line of Andy Barish with Jefferies.

Andrew Barish*Jefferies LLC, Research Division*

Wondering if you can give us a little kind of operational shakedown or implementation on food, anything that surprised you? And is the comp lift still sort of tracking in that 4% range or so as you broaden the rollout?

Christine Barone*CEO, President & Director*

Yes. Thanks, Andy. So as we look at the operational rollout, it's going very smoothly. We learned a lot from how we rolled out mobile order, took some of those learnings as we continue to roll out food. And we've done this in stages. So we have basically a lead part of the market that goes first, the shops within that market learn from those shops and see how it's going.

And then we continue to roll it out within markets. We're doing a ton of customer testing and Broista testing just to measure sentiment as we continue to grow and make sure that all of the tools that we're providing the shops are going well. So we continue to see a step-up in that likelihood to recommend and just how smoothly the food offering is going. So feel really confident about that. We now believe that we will have our company-owned shops really the rollout complete by the end of Q3 with how well it's going.

Joshua Guenser

Chief Financial Officer

Yes. Andy, to the second part of your question, we are still tracking on a system-wide basis to the 4% comp lift for shops that will have food. A reminder that there's about 300 shops in our system that won't be able to accommodate the new food program, but we are still tracking to that 4% level. We did see it a bit elevated, as Christine highlighted on the prepared remarks, saw that elevated in the shops we've rolled out to date throughout Q1. But as we continue to roll this to the system, we are still tracking as we expected to about that 4% comp lift.

Operator

And the next question will come from the line of Chris O'Cull with Stifel.

Christopher O'Cull

Congratulations on a great start to the year. Christine, the company's development strategy has some clear advantages, but how do you ensure the faster-growing direct competitors don't beat you to some attractive markets or achieve scale before you can get there? And I'm just wondering if you guys have evaluated how new units perform in markets where direct competitors do have a significant head start on you.

Christine Barone

CEO, President & Director

Yes. So as we look at our market growth, we're really thoughtful about how we plan and grow into a market. We believe it's very important to go into a market and then densify within that market so that we can become that everyday routine. We are able to look very closely at how we perform when we go in first to our market or when someone goes in first behind us or gets there before we do. And we are quite confident that the brand strength is allowing us to go in very strongly.

I think a couple of things that really help solidify that for us, when you look at that Clutch performance, right? So we got to see how another coffee or beverage player that looked a lot like us was performing before we went in. And then we opened the same exact shops and are doing almost 3x the volume of what they were doing before. And I think that really just demonstrates the strength of this brand. We also shared that statistic on Texas, which I think demonstrates a market that's quite competitive and our ability to continue to grow and take share in a market like that.

Operator

And the next question comes from the line of Drew North with Baird.

Andrew North

Robert W. Baird & Co. Incorporated, Research Division

I wanted to come back to the topic of competition. And maybe just ask directly if you think that the recent launch of energy drinks by Starbucks has had any influence on your trends over the last month or so? And maybe just if you could provide some color on what you're seeing at the ground level by category or in that category on the heels of these launches, that would be helpful.

Christine Barone

CEO, President & Director

We don't believe we've seen any impact from that launch. And as we look at the strength of our energy platform and how differentiated it is, we really are the category leader here. We continue to see great trends in our energy business and really solidified that even more as we launched Myst.

Operator

And the next question comes from the line of Jacob Aiken-Phillips with Melius Research.

Jacob Aiken-Phillips

Melius Research LLC

So you mentioned improvements in orders per peak hour. I'm just curious how much of the transaction growth is coming from demand generation versus better capacity capture during those peak periods?

Joshua Guenser*Chief Financial Officer*

Yes. So Jacob, I'll start this, and I'll let Christine chime in. But thanks for the question. We -- what I'd say is the throughput initiatives that we put in place, our ability to drive increased transactions per peak hour has really enabled the great initiatives, the transaction growth that we saw in Q1. So we don't break down and attribute comp growth to the different elements that are driving it, but we do see that as we improve our throughput and enable our Broistas to better serve our customers, it's what allows us to drive the fantastic transaction growth that we saw during Q1.

Operator

And the next question comes from the line of Sara Senatore with Bank of America.

Sara Senatore*BofA Securities, Research Division*

Two, I guess, maybe clarifications or follow-ups. First, Christine, I was interested that you said Myst and Rebel are 2 different use cases. And I think the example you gave suggested they're still speaking to your core customer who I consider or typically think of as perhaps younger. But I was thinking that perhaps maybe the Myst beverage given the plant-based energy and the lower calories it might be bringing in, maybe a different customer, I'll say older perhaps.

So I was just curious if you're seeing any evidence that maybe you are expanding your market that way. And then I wanted to dig in a little bit -- you answered a little bit my question about Clutch, but it's a pretty strong referendum on your brand that you can triple volumes. I guess, can you parse out what -- was it the -- is it brand awareness? Did you have a better product or broader menu, better throughput? I guess anything where you could kind of speak to what exactly it was that translated into such high volumes?

Christine Barone*CEO, President & Director*

Yes, Sara, thanks for the question. So the example I did give was customers using both Myst and Rebel. But we do also believe that this expands the category, expands the customers who can come in the category. And if you look at the CPG example of that and how all of the energy brands play together, that is certainly what's happening as that category is expanding driven by that new age energy drink.

And then looking at Clutch, those volumes really popped off right away. And so as we look at that, that really, to us, speaks to the strength of our brand. So customers excited waiting for us to come into the market. We saw lines as we first open the doors. And then we were able to serve our customers with speed, quality and service. So doing a really great job and then they're coming back. And so I do think it's a great example just speaking to the strength of our brand.

Operator

And the next question comes from the line of Jeff Farmer with Gordon Haskett.

Jeffrey Farmer

Gordon Haskett Research Advisors

Just wanted to follow up on Texas. I'm curious what percent of the comparable shop base the state represents? And do you see Texas continuing to deliver pretty meaningful same-store sales momentum?

Christine Barone

CEO, President & Director

Yes. So Texas is our largest comp base, the number of comp stores within that base. And as we look at how it continues to deliver, we're very pleased with our results in Texas. And again, just I think it highlights our ability to compete across a lot of different areas. In fact, one of the things we actually see not only in Texas, but really across the board is that our highest AUV shops consistently operate in close proximity to legacy competitors, often within a 0.5 mile radius. So we actually see higher AUVs, the closer we get to some of those large legacy competitors.

Operator

The next question comes from the line of John Ivankoe with JPMorgan.

John Ivankoe

JPMorgan Chase & Co, Research Division

I know you mentioned in your prepared remarks, you were looking, I guess, as a conversion opportunity or maybe sites that are just being left by limited service operators, small emerging growth concepts, legacy beverage brands. Obviously, Clutch is one great example. But it really got me to think of the classic Dutch Bros 900 square foot site that we know. If that is really the optimal square footage box going forward, in other words, your average unit volumes have gotten high.

You now have food, you probably will have more of a morning business, your mobile order and pay than you would have had certainly 5 years ago, 10 years ago contemplated in that site design. So as we really think about maximizing the overall return on investment and maybe driving average unit volumes even higher, do some of these conversion boxes that you've been doing maybe give you opportunity to maybe rethink the Dutch Bros square footage of 900 square feet is exactly the right number or if you could get more by being a little bit bigger, for example, by square footage?

Christine Barone

CEO, President & Director

Yes, John, thanks for the question. So as we look at that 900 square feet, I think it's really important to remember that it's all back of house. And so we are able to have multiple beverage stations within that. We have very well fit that food, the whole food platform and all of the corresponding equipment within that 900 square feet. We oftentimes only have a few deliveries each week. So we also are able to fit lots of extra product into that site.

So the 900 square feet actually works well with how we're operating today and in the future. And as a reminder, we do have shops like that walk-up shop in California that are quite small and doing 3x the system volume. So we feel very good that we can operate quite well within that 900 square feet. That being said, these conversion opportunities often already have that drive out -- drive-thru space ready to go. We can quickly open those shops and feel very good about where that is.

Operator

The next question comes from the line of John Tower with Citi.

Jon Tower

Citigroup Inc., Research Division

Great. Maybe 2, if I can slip them in. First, I was just going to ask about the walk-up shop in California. Any updates you can provide on your thinking around perhaps further expansion into other markets over time. But maybe, Josh, for you, on the model, I'm curious, the occupancy and other line was up pretty high this quarter, and you talked about higher R&M and the pivot to build-to-suit. Can you help us think through the 2 pressures there? Like how much of the year-over-year pressure was driven by the build-to-suit versus higher R&M and if the R&M is going to persist?

Christine Barone

CEO, President & Director

Yes, Jon. So the downtown L.A. shop continues to operate quite well and to perform very well and so we are looking for additional walk-up sites to test.

Joshua Guenser

Chief Financial Officer

Yes. On your second question there, so to your point, O&O had 2 impacts during the quarter. We had the higher occupancy costs as a result of our shift to build-to-suit leases that put about 50 basis points of margin pressure in that line. That's right around what we'd expect to do for the year. The rest of that was really related to R&M and some other investments we made during the quarter, not necessarily a run rate thing. But if you look at our history, we will, from time to time, make investments in that space, and we did that during this quarter.

Operator

And the next question comes from the line of Chris Carril with KeyBanc Capital Markets.

Christopher Carril

KeyBanc Capital Markets Inc., Research Division

Can you maybe expand a bit more on Order Ahead? I think you mentioned it reached 15% in the 1Q. And how are you thinking about the channel here going forward? And do you see more opportunities to ramp up marketing around it this year?

Christine Barone

CEO, President & Director

Yes. So we're really pleased with how Order Ahead continues to go. We have been very focused on how do our customers want to use Dutch Bros. And with that, the most important metric we're actually tracking for Order Ahead is, was your order ready on arrival? And so again, with that very high mix of Dutch Rewards customers, we're able to survey lots of customers every week to understand that. We continue to see really positive momentum on that metric. And what happens is we see positive momentum on that metric and customers are very pleased with that experience they just had. They come back and they order more and they use that channel more. So again, we're very thoughtful on making sure we are tracking the metrics we want to be tracking to make sure that, that customer experience remains at the center of everything we do.

Operator

And the next question comes from the line of Nick Setyan with Mizuho Securities.

Nerses Setyan

Mizuho Securities USA LLC, Research Division

I was just hoping you guys would be able to help us think through the CPG contribution. By my math, in Q1, I think the franchise and other line was above by about \$4 million or so. And it would just be great to understand whether most of that was the CPG-led growth and what the flow-through in terms of EBITDA contribution is? And how we should think about that for the rest of the year, even into 2027?

Joshua Guenser

Chief Financial Officer

Yes, Nick, thanks for the question. So the franchise growth actually is predominantly related to product orders to our franchisees, so not driven by the CPG growth. So I'm not sure the math you did there was quite accurate. What I would say, though, is this is early on in the CPG days. We're not even in all the storefronts that we would expect to be in yet. So still rolling this out and still see this expecting to grow into Q2 and throughout this year. So certainly, as it becomes more significant, it's something we will talk about. It is included in that line, as you pointed out, but much smaller order of magnitude than what you highlighted there.

Christine Barone

CEO, President & Director

And I would just add, we're very pleased with what we're seeing initially. So getting great customer feedback on taste and on the products. We're seeing really great velocity across the products. And so very pleased, and we'll continue to roll this out across many retailers.

Operator

And the next question comes from the line of Logan Reich with RBC Capital Markets.

Logan Reich

RBC Capital Markets, Research Division

Just 2, if I may. Within the check, can you break out the price versus mix within that for the quarter? And then I wanted to ask on the regional performance. I appreciate the disclosure on Texas, obviously comping well above the consolidated number. Just curious for markets that are sort of below that consolidated number. Just curious if there's anything in common between those markets and anything you guys can do to bring those up a little bit higher closer to where Texas is performing?

Joshua Guenser

Chief Financial Officer

Yes, Logan, thanks for the question. So on the first, we have about 1.5 points of price in Q1. That will continue into Q2 before we roll off about 1 point of price at the start of Q3. On the broader question on comp performance, so certainly, we see a range across all different markets. What I'd highlight is what we see, generally speaking, the spread is, as we look at our newer markets, they tend to contribute the highest proportion to our comp growth versus the legacy markets.

That's a trend that we've seen. Now what's great is that all vintages continue to contribute positively to comp, but it's those newer vintages that are contributing a disproportionate amount of it. We do have a lot of new shops in Texas. So it certainly is a big part of why Texas is outperforming there. We do feel good about the comp contribution that we're getting across all the vintages though. And certainly, all the different initiatives that we're working to drive will drive transaction growth and is targeted on driving transaction growth across the fleet.

Christine Barone

CEO, President & Director

And the other piece is we are continuing to roll out food. And so food is performing quite well. And so we see differences in the markets that have our new food program rolled out.

Operator

The next question comes from the line of Gregory Francfort with Guggenheim Partners.

Gregory Francfort

Guggenheim Securities, LLC, Research Division

Maybe I'm beating a dead horse on Texas here. But I think you and maybe your 3 other smaller footprint competitors opened up like 500 stores or something in that ballpark in 5 years in Texas. And I think the AUVs were lower than your system. I guess with the 20% comp, are you at or above or below the rest of the system today? And are you seeing maybe some of those competitors close stores? Are you just maybe picking off the sales as maybe they slow? I'm just curious what else is kind of any more context on that.

Christine Barone

CEO, President & Director

So Greg, we continue to be really, really pleased with what we're seeing in Texas. And as we've shared really for the last couple of years, it's been a market that we've been focused on in building brand awareness. So we've seen that investment that we've made in paid media. We continue to drive customers then into our Dutch Rewards program. So we're seeing very high Dutch Rewards penetration within Texas as we grow. And I think what we are also seeing is we have over 200 shops now in Texas, you drive past that windmill that really concentration, that density of shops within Texas is allowing us really to be that beverage player of choice in the state.

Operator

The next question comes from the line of Brian Mullan with Piper Sandler.

Brian Mullan

Piper Sandler & Co., Research Division

Just wanted to ask about the long-term contribution margin goal of 30%. Just to confirm, is that still the goal even taking into account the launch of food and the ongoing mix shift towards the higher rent build-to-suit locations? And if so, would you expect to get back there within the time period that covers the 2029 development plans or maybe it's more over the long term? Just any thoughts on that would be great.

Joshua Guenser

Chief Financial Officer

Yes, Brian, thanks for the question. We do feel very good about our trajectory towards that longer-term margin target of about 30%. The biggest headwind we're facing right now towards that having posted north of 28% in the quarter, really strong margins as we sit today. The biggest headwind we're facing right now is the high coffee costs. Coffee remains in that kind of \$2.80 to \$3 range. It has over the last 3 months since even our last call. So it has remained elevated. Assuming that normalizes to its historical averages, certainly, you see that move us quite a ways back close to that 30% target. We haven't given a specific time horizon on that, but certainly, that target incorporates the shift to build-to-suit leases and everything else we're seeing in our business.

Operator

The next question comes from the line of Matt Curtis with D.A. Davidson.

Matthew Curtis

D.A. Davidson & Co., Research Division

I just wanted to ask about your addition of the ninth SKU to the food platform in the first quarter. I'm just wondering if this suggests you already might be thinking about expanding the food menu more meaningfully, at least once you've completed the initial rollout? And if so, what this might look like?

Christine Barone

CEO, President & Director

Yes. So as we look at food, what we've really built is a platform. And as we added that ninth SKU, we're very thoughtful about what SKUs might actually drive a beverage occasion. And we did add a cake pop. We thought we had an opportunity in the afternoon to help drive in that afternoon business. And so as we look at that, we're going to be very thoughtful. We're really pleased with how successful our teams are with this very limited offering. And as we've shared from the very beginning with food, our goal is to have the lowest SKU count, the lowest complexity possible to really drive our goals and drive those transactions.

Operator

The next question comes from the line of Margaret-May Binshtok with Wolfe Research.

Margaret-May Binshtok

Wolfe Research, LLC

I just wanted to ask, given you've had food in some stores for quite some time now, do you have any detail on how food mix has trended as a percentage of sales at those stores? Or does it plateau? And then anything on what you see in terms of daypart mix? Is it driving that morning occasion, that would be helpful.

Christine Barone

CEO, President & Director

Yes. Thanks for the question, Margaret. So we do -- we are very pleased with how food continues to perform as we see it for longer periods of time in shops. I mean really across the system, it's still quite new in most of the shops. The early testing was in like 6 or 7 shops in Arizona. So we're not even a year into the food rollout yet. But we do continue to build that morning occasion. We are seeing what we thought we would see from a morning occasion perspective, and that food is one of those very important pieces in driving that beverage occasion in the morning.

Operator

The next question comes from the line of Brian Bittner with Oppenheimer & Company.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

Congratulations on great results. As it relates to shop margins, it does seem as though your labor leverage over the last couple of quarters have really showed solid improvements versus the quarters prior. And I know you referenced sales leverage in your prepared remarks. But maybe you can dive into what else you're doing to unlock these improvements? Are you improving your labor productivity tools? Are the newer stores showing better discipline on labor perhaps? Just anything additional to unpack as it relates to labor margins? And how are you thinking about the opportunity there moving forward?

Joshua Guenser*Chief Financial Officer*

Yes, Brian, great question. Thanks for that. Actually, the performance that we've seen and in particular, in Q1, any time we have quarters where we significantly exceed our expectations on a same-shop sales basis, we just aren't able to get the labor to match that. So we didn't anticipate it coming. So we were able to drive fairly meaningful leverage on that line. As we've shared, over the longer term, it's not actually an area that we look to drive a meaningful amount of leverage in. It's actually an area that we will continue to look for opportunities to reinvest in to take care of our people. Certainly, there's leverage throughout the rest of the P&L that we can look to drive over the longer term. But in the labor line, in particular, the moment of time where we've driven outsized labor leverage has really been a function of that outsized same-shop sales performance.

Christine Barone*CEO, President & Director*

I would add that I think our teams are doing an excellent job in really matching customer demand to labor deployment, and we continue to get better at that.

Operator

And the next question comes from the line of Christine Cho with Goldman Sachs.

Hyun Jin Cho

Congrats on another great quarter. You mentioned Dutch Rewards comprising about 75% of the transactions now. But would you be able to share some incremental color on how it's impacting guest frequency, ticket and LTO conversion specifically? And additionally, do you have any plans to evolve the program? For instance, would you ever consider the possibility of introducing status tiers or premium benefits, et cetera?

Christine Barone*CEO, President & Director*

Yes, Christine, thanks for the question. So Dutch Rewards is now at 74% of our transactions. And as we look at the program, we really feel we're still in the early innings of being able to do more personalized segmentation. We started out the program by doing broad offers. We then started doing win-back campaigns. We're now doing frequency level campaigns and have just launched the ability to do streaks, which we're really pleased with the early results. As we continue to add data into that platform and can watch customers as they evolve as Dutch Bros customers, we think that there's real opportunities also to introduce a product layer to that. And so very pleased with what we're seeing and excited about the future of that program.

Operator

This concludes the question-and-answer session. And I'd like to turn the call back over to the Dutch Bros management team for closing remarks.

Christine Barone*CEO, President & Director*

Thank you for your questions. Our first quarter results were exceptional, and I continue to be energized by the progress we are making. What I am most proud of is our community-driven approach and the love our teams have for giving back. We have built Dutch Bros around community since the beginning, and our giveback days are one of the most meaningful ways we live our mission of making a massive difference one cup at a time.

During our annual Dutch Luv Day of Giving in February, we supported more than 240 organizations nationwide, contributing to the local communities we serve. In addition, more than 120 shops hosted local giveback days in Q1, creating lasting impact where our Broistas live and work. Our annual Drink One for Dane Day is next Friday, May 15. We hope you'll join us as we come together with the Muscular Dystrophy Association in the fight against ALS. Thanks again to our teams for bringing joy to our customers each and every day.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.

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