

Transcripts

Consumer

Dutch Bros Inc. (BROS) Q2 2025 Earnings Call Transcript

Aug. 06, 2025 9:04 PM ET | **Dutch Bros Inc. (BROS) Stock** | BROS

**SA Transcripts**

154.78K Followers

Q2: 2025-08-06 Earnings Summary

Insights



EPS of \$0.26 **beats by \$0.08** | Revenue of \$415.81M (27.97% Y/Y) **beats by \$12.21M**

Dutch Bros Inc. (NYSE:[BROS](#)) Q2 2025 Earnings Conference Call August 6, 2025 5:00 PM ET

Company Participants

Christine Barone - CEO, President & Director

Daniel P. Warren - Director of Investor Relations &

Corporate Development - Corporate Participant

Joshua Guenser - Chief Financial Officer

Conference Call Participants

Andrew Marc Barish - Jefferies LLC, Research Division
Andrew Michael Charles - TD Cowen, Research Division
Brian Hugh Mullan - Piper Sandler & Co., Research Division
Brian James Harbour - Morgan Stanley, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Gregory Ryan Francfort - Guggenheim Securities, LLC, Research Division
Hyun Jin Cho - Goldman Sachs Group, Inc., Research Division
Jacob Aiken-Phillips - Melius Research LLC
Jeffrey Andrew Bernstein - Barclays Bank PLC, Research Division
Jeffrey Daniel Farmer - Gordon Haskett Research Advisors
John William Ivankoe - JPMorgan Chase & Co, Research Division
Logan Paul Reich - RBC Capital Markets, Research Division
Sara Harkavy Senatore - BofA Securities, Research Division
Sharon Zackfia - William Blair & Company L.L.C., Research Division
Christopher Thomas O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division
David E. Tarantino - Robert W. Baird & Co. Incorporated, Research Division

Operator

Thank you for standing by, and welcome to the Dutch Bros Second Quarter 2025 Earnings Conference Call and Webcast. This conference call and webcast is being recorded today, August 6, 2025 at 5:00 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 Paddy Warren, Dutch Bros Senior Director, Investor Relations and Capital Markets. Please go ahead.

Daniel P. Warren

Director of Investor Relations & Corporate Development

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 June 30, 2025, after the market closed today. The earnings press release, along with a supplemental information deck have been posted to our Investor Relations website. 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 our 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 our 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.

With that, I'd now like to turn the call over to Christine.

Christine Barone

Thank you, Paddy, and good afternoon, everyone. Dutch Bros continues to fire on all cylinders, guided by a focused strategy, strong execution and our amazing people. Our second quarter performance underscored our continued momentum and reaffirm the strength of our brand. We are encouraged by our significant multiyear runway and the opportunities we have to deliver sustained results and continue scaling this company with our tenured and passionate team.

In Q2, once again, we delivered on our mission to be a fun loving, mind-blowing company that makes a massive difference 1 cup at a time. Our business momentum remains strong, and our second quarter results were outstanding across multiple fronts. We delivered revenue growth of 28%, system same-shop sales growth of 6.1% and company-operated same-shop sales growth of 7.8%.

Our transaction-driving initiatives are working as system comp was primarily driven by transaction growth of 3.7%, marking yet another consecutive quarter of transaction growth. This growth was fueled by a coordinated effort of our long-term multiyear transaction drivers. Our new shop opening cadence is on track and we remain confident in our ability to open at least 160 system shops in 2025.

New shop productivity is at elevated levels. And in Q2, we opened 31 new shops and entered Indiana, our 19th state. Our confidence in this year's trajectory continues to grow, reinforced by the strong performance we have seen so far this year. It is very clear that our efforts are working in unison to propel us forward. These efforts translated into strong financial results in the second quarter.

System-wide AUVs were \$2.05 million in the quarter, in line with record levels. Revenue grew at 28% and with exceptional flow through generating an impressive 37% adjusted EBITDA growth for the quarter. Based on these outstanding results across the board, I am very pleased to announce that we are raising our full year guidance for total revenues, same-shop sales growth and adjusted EBITDA. Josh will share additional details in a few minutes.

Let's begin today's business update by spotlighting our greatest force multiplier, our exceptional people. Since 1992, we have been trailblazing a category-defining people-first culture within the drive-through beverage industry. When combined with our relentless focus on speed, quality and service, our people-first culture is not only our differentiator, but it is our most powerful competitive advantage.

Every senior leader in our business has passed their flow checks, and every new Broista begins their journey grounded in our culture before learning to handcraft beverages. This approach ensures our leaders are fully immersed in the heart of our business building empathy, strengthening connection to the field and enabling more informed people-first strategic decisions.

Our commitment to culture is also reflected internally with ongoing field surveys. We consistently score high on overall job satisfaction and our values of radiate kindness, get up early, stay up late and change the world. When we recently expanded into Indiana, our opening MOB team was on the ground delivering a track record of consistency and service to jumpstart the Dutch Bros brand in the state.

This approach ensures every new market, every new shop and every new future in the field reflects the culture that has defined us for over 30 years. Our current operator pipeline includes over 450 candidates with an impressive average tenure of over 7 years, each one ready to carry forward and scale the Dutch Bros culture. This homegrown pipeline built over time with intention ensures a consistent high bar across markets that is difficult to replicate.

Our operator pipeline is central to scaling our shops and more importantly, to scaling the Dutch Bros culture consistently. These individuals are deeply aligned with our values and bring a strong foundation of experience, positioning us for long-term people-driven growth. Shifting to development. We opened 31 system shops in the second quarter and are energized by the accelerating momentum into the back half of the year to open at least 160 shops in 2025.

Thanks to the robust tools, streamlined processes and exceptional talent we've invested in thus far, we are well positioned to achieve our goal of 2,029 shops in 2029. If there's one takeaway from today's call, it is this. Dutch Bros is in growth mode, and we are just getting started with a long-term addressable market of 7,000 shops nationwide and just north of 1,000 shops today, the runway ahead is expansive.

We continue to broaden our real estate capabilities by making key hires who will execute on our long-term pipeline. With refined systems and a disciplined market planning approach in place, we continue to scale our presence nationally and accelerate an ambitious growth strategy. New shop productivity remained at elevated levels in Q2, driven by our refined approach to market planning.

With new locations opening in the right areas in the right sequence, customers are lining up from day 1. These strategic investments in planning, tools and processes have improved system-wide AUVs and new shop productivity, positioning us for long-term success.

Now let me share how we're expanding our competitive advantages through a focused set of clear and well-defined transaction-driving initiatives. We are delivering transaction growth through a 3-part plan, which includes an enhanced focus on category-wide innovation and increase in paid advertising efforts designed to build brand awareness, and an emphasis on the Dutch Rewards program for one- to-one customer connection.

We saw a steady progress across each of these initiatives during the quarter with clear signs that our efforts are working, evidenced by a sequential improvement in transaction growth. We are only beginning to unlock our full potential with significant runway ahead. Here is an update on each.

First, innovation. Innovation has been a cornerstone of our brand for over 3 decades, and it will continue to play a pivotal role going forward. This quarter, we responded to strong customer demand by bringing back Lavender and we introduced Dulce de leche using ingredients from our existing pantry. We also introduced sour Berry and Matcha showcasing how we simultaneously innovate across our menu categories. These launches reinforce our commitment to delivering bold, exciting flavors that resonate with our customers.

In May, we elevated the customer experience with a thoughtful touch, returning the friendship bracelets from 2024 that highlight our engaging customer-first approach in a fun way. Then in June, we kept the excitement going with the Dutch Cozy, bringing something fresh, relevant and most importantly, fun for our customers. Second, paid advertising.

During the quarter, we continued to step up execution of our paid advertising strategy, and the results have been clear. As we highlighted during our Investor Day, the strong performance of newer vintages has been driven in part by our laser focus on paid media and brand awareness. We are proud to share that based on recent survey data, both our aided and unaided awareness have shown significant improvement when compared to last year.

We are seeing clear momentum and we're energized by the positive trajectory. This progress reflects the strength of our brand and the impact of our continued efforts. Looking ahead, we see a clear and compelling runway to further close the awareness gap in new and existing markets, both in relative and absolute terms, unlocking even greater potential for our brand. As we scale and maintain a higher elevated paid advertising stance, the benefits of our awareness driving initiatives are clear to us. Additionally, we believe the

planned launch of our CPG line in 2026 can provide a meaningful tailwind to brand awareness, providing an expansive runway for our brand to grow.

And finally, Dutch Rewards. In Q2, approximately 72% of system transactions were attributed to our loyalty program. Representing a 5-point expansion versus the same period last year. We are just starting to tap into the full potential of this data to enhance our segmentation strategies. Recently, we have become more precise in the way in which we tailor communication to specific customer cohorts based on their rewards behaviors. This streamlined approach helps us build stronger, more personalized relationships across each customer segment.

In addition to these foundational transaction-driving initiatives, we see a clear path forward with our strategic growth drivers, order ahead, throughput and food. We remain enthusiastic about order ahead as we believe it is contributing to our transaction growth. As of the end of the second quarter, order ahead accounted for approximately 11.5% of transaction mix. In select new markets, we are seeing transaction mix more than double the overall average.

Order ahead awareness has been driven primarily by customer exposure to the program through shop signage and our mobile app. This deliberate steady approach remains our focus as we continue to prioritize driving the business forward while ensuring that our Broista's are set up to deliver fantastic service. We are seeing our strategy come to fruition as order ahead gains momentum in the morning daypart.

We are focused on eliminating structural barriers, driving better throughput outcomes, and opening up the underutilized walk-up window channel. These results reinforce our confidence in our multiyear journey. We remain focused on increasing transaction potential at our shops by increasing speed and capacity through a series of throughput-based initiatives. Transaction growth continues to be healthy in Q2, and our shops are intentionally designed to support high volumes, aiding our throughput efforts. This enables us to meet rising demand while consistently delivering an exceptional customer experience.

Recently, we introduced enhanced dashboards, which provides shop management greater visibility into speed-based KPIs. We know that when our field clearly understands and easily see measurable goals they take meaningful action to improve throughput. We are also continuing to refine our labor deployment model, ensuring that staffing better matches demand expectations during the day.

While it is still early innings, these initial low-hanging fruit wins represent a strong start to what we recognize to be a multiyear journey to unlock transaction growth. We remain excited about the progress of our food pilot and look forward to continuing to test and refine throughout 2025. Early results suggest that an expanded food offering is driving incremental growth in the morning daypart, much like our order ahead initiative.

During the quarter, we expanded the pilot to 64 company-operated shops, extending beyond Arizona into select markets in Kansas, Missouri and Oklahoma. The initial results from our pilot test are exceeding expectations and reinforcing the potential of this initiative to drive AUVs. We are seeing encouraging signs of both ticket and transaction lift within the Test group. Early performance in new markets has been especially strong, adding to our confidence to continue testing, ensuring we scale thoughtfully over time.

We are pleased with customer and Broista survey data as well, particularly around feedback from customers on quality and likelihood to recommend and are encouraged by early results indicating our ability to maintain high throughput levels. We're well positioned to expand this test in 2025 and pursue a broader system rollout throughout 2026. This expansion will enable Dutch Bros to capture additional white space in the morning daypart, which is a routinized high-value occasion with strong growth potential.

In closing, momentum in our business is strong, and we remain confident in the multi-year growth runway ahead. We have the most passionate people who are deeply engaged in the business. Our Broista's energized every interaction with the customer, fueling momentum across our brand and our operator pipeline is ready to grow with us. We have clear visibility on our growth drivers.

In Q2, we achieved 28% year-over-year revenue growth and 6.1% system same-shop sales growth, reflecting the strength of our business. We are clearly resonating with our customers, as demonstrated by healthy transaction growth. With over 30 years of brand love behind us, we continue to open shops with lines that stretch well beyond our drive-thrus, underscoring the strength of our strong demand.

We are operating at the intersection of a powerful set of secular trends which are shaping our industry from the rising demand for cold beverages, energy drinks and enhanced customization, we are exceptionally well positioned to continue the pursuit of our strategic vision. Our new shop productivity remains elevated, and we're excited about the cadence of openings throughout the remainder of the year.

To be over 1,000 shops in with the amazing love we see for our brand gives me so much optimism in our future, our team and the strength of this amazing company. I'll now turn it over to Josh who will discuss our financial performance and updates on guidance.

Joshua Guenser

I'll provide a recap of our second quarter results, along with an updated outlook for 2025. Our Q2 performance built on the strong momentum from Q1 and clearly demonstrated that our transaction-driving initiatives are continuing to work. These efforts, along with the maturation of our new vintages, fueled our transaction growth and reinforce the confidence we have in the long-term growth potential of our business.

Second quarter revenue was \$416 million, an increase of 28% or \$91 million over the second quarter of last year. Systems same-shop sales growth was 6.1%, driven by 3.7% transaction growth. We are very proud of the transaction outperformance delivered this quarter. It is a clear testament to the strength of our transaction-driving initiatives, which are working in unison to propel the business forward and serve as the primary driver of comp performance.

I want to take a moment to recognize our field and marketing teams. Their execution allowed us to outperform our Q2 expectations. We continue to see strong traffic trends through July. With Q3 off to a great start, we are raising our full year same-shop sales growth guidance to approximately 4.5%. For the third quarter, this contemplates 3.5% to 4% system same-shop sales growth, which includes approximately 60 basis points of net price roll off.

The impact of the July 4 day of week shift and continued underlying transaction growth with a more normalized benefit from marketing activity in the third quarter. During the quarter, we opened 31 new shops, of which 30 were company operated bringing total system shop count to 1,043 shops. We are confident in our ability to accelerate our pace throughout the back half of the year with approximately 40 openings expected in Q3 and approximately 60 in Q4, positioning us to open at least 160 system shops in 2025.

In the quarter, adjusted EBITDA was \$89 million, an increase of 37% or \$24 million over the second quarter of last year. Moving to our company-operated shops, revenue in Q2 was \$381 million, an increase of 29% or \$85 million over the second quarter of last year. Company-operated same-shop sales growth was outstanding at 7.8%, with 5.9% coming from transaction growth. Company-operated shop contribution was \$118 million, an increase of 30% or \$27 million year-over-year.

Company-operated shop contribution margin was 31.1%. Beverage, food and packaging costs were 25.3% of company-operated shop revenue. The 20 basis points of year-over-year favorability reflects beneficial dairy pricing, which more than offset increases in coffee costs. We expect these dairy savings to continue through the remainder of the year. Coffee costs were roughly in line with expectations for the quarter.

With that said, we do expect to see the impact from coffee to accelerate in the back half of the year. As a reminder, we are substantially price locked on coffee for the remainder of 2025. Tariffs remain an area we are actively monitoring. And at this point, coffee accounts for 10% of our total COGS basket with approximately 50% of our coffee sourced from Brazil.

With all this in mind, our full year outlook assumes beverage, food and packaging costs of approximately 26% of company-operated shop revenue in the back half of the year. This reflects the higher impact of tariffs mitigated by savings we achieved on dairy costs. Labor costs were 26.6% of company-operated shop revenue, which is 60 basis points favorable year-over-year, primarily driven by sales leverage.

Our full year guidance continues to contemplate labor as a percentage of company-operated revenue remaining flat year-over-year for 2025. Occupancy and other costs were 15.8% of company-operated shop revenue which is 80 basis points unfavorable year-over-year, driven largely from the impact of occupancy rates from new shops. Preopening expenses were 1.2% of company-operated shop revenue which is 30 basis points favorable year-over-year.

Given the accelerated shop opening cadence in the back half, we expect preopening expenses to be higher than the first half of 2025. Considering all of this, our full year guidance contemplates a company-operated shop contribution margin of approximately 28.5% for Q3. Adjusted SG&A was \$58.7 million or 14.1% of total revenue. We continue to expect approximately 90 basis points of leverage on adjusted SG&A for the full year 2025.

In Q2, we announced that we are transitioning the majority of the remaining headquarter staff to Arizona. We expect to incur up to \$8.5 million in nonrecurring costs which we anticipate will be excluded from our adjusted SG&A. In the quarter, interest expense net was approximately flat year-over-year at \$7 million.

For the quarter, we delivered \$0.26 of adjusted EPS, up from \$0.19 or 37% from Q2 of last year.

Now I'll provide an update on our balance sheet, cash flow and liquidity. In May, we successfully refinanced our credit facility, securing \$650 million in total capacity. This includes a \$500 million revolving credit facility, of which \$50 million was drawn at close and a drawn term loan facility of \$150 million.

The refinancing extends the duration of our available liquidity and provides more flexibility to support our long-term growth. As of June 30, we have approximately \$694 million in total liquidity, consisting of \$254 million in cash and \$440 million in our undrawn revolver. During the quarter, we increased our net cash position by approximately \$19 million, which was driven by strong cash flow from operations.

With a solid cash position on our balance sheet, and enhanced liquidity through our recently refinanced credit facility, we are well positioned to pursue our growth with great confidence. In Q2, our average CapEx per shop declined approximately 15% from Q1 levels to approximately \$1.4 million demonstrating the progress we continue to make in transitioning our portfolio to more capital- efficient build-to-suit lease arrangements.

Turning over to guidance. In light of our recent strong business performance, we are raising our full year guidance for total revenues, system same-shop sales growth and adjusted EBITDA. Total revenues are now projected to be between \$1.59 billion and \$1.6 billion. System same-shop sales growth is now expected to be approximately 4.5%. Adjusted EBITDA is now estimated to be between \$285 million and \$290 million.

There are no changes to our guidance for total system shop openings and capital expenditures. We continue to expect to open at least 160 new shops, representing 16% system shop growth. Capital expenditures remain within our estimated range of \$240 million to \$260 million, primarily made up of new shop construction costs.

We are excited by our business momentum and maintain strong visibility into our multiyear growth runway. We are very well positioned to continue delivering incredible results backed by a robust 4-wall shop economic model and exceptional unit level returns. Thank you, everyone. We will now take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] First question comes from Andy Barish with Jefferies.

Andrew Marc Barish

Just wondering on the CPG strategy for next year. Is that kind of going to roll out in newer markets? Or any -- just any color on how you expect that to go forward in 2026 to support growing brand awareness.

Christine Barone

Great. Thanks for the question, Andy. So as we look at the CPG rollout, we're focused on areas where we have shops. So we want to introduce our customers to the brand through the shops first, and we'll have -- we'll be rolling out CPG in the markets where we have shops. And as we look at how that rollout will go, it's a little bit aligned depending on where the resets are by each retailer but we would expect to start seeing some early rollout in Q1 of '26 with kind of a more substantial rollout through the rest of the year.

We're really excited by what we're hearing so far. I think the excitement in this market for having a new brand with a lot of energy behind it is something that we're really -- it's being reflected in those conversations that we're having with retailers.

Operator

Next question, Sharon Zackfia with William Blair.

Sharon Zackfia

Congratulations, Steve and the team on really good results again this quarter. I know you're doing a lot of work on speed and throughput, and I'm sure that's manifesting some in these results we're seeing. And I know you mentioned labor deployment and ongoing initiatives there. Can you kind of give us an update on where you are on speed and throughput, maybe some metrics and what you're finding to be the best levers to pull to improve that further?

Christine Barone

Yes. So I would describe where we are on throughput as we are still working on some basic blocking and tackling. And I think we have a long runway ahead of us from a throughput perspective. One of the things we're really encouraged by is if you look at those results in Q2, led by that 3.7% transaction growth, that is really everything working in concert. And one of the most important areas is really that labor deployment. So some of what we're seeing there as we roll out a new LTO, just having great training, making sure our teams are really well staffed against demand as we do special merch drops and sticker drops. Those are focused on different parts of the day.

So our team's ability to really understand where we're going to see those demands, match our staffing against it so that we can really provide exceptional service is one of the things I'm most excited about that I'm seeing from a throughput perspective. We've also rolled out speed dashboard. And this is one of our first times that our teams get to see in a very easy way. How am I doing right now? How did I do on my best weekend or my best hour? And can I motivate and drive the team to see if we can deliver one extra smile during that time period.

So that's -- those are the primary things we're doing right now, and I think it's really neat to see just how well the team is doing with labor deployment and ensuring that we're staffed really well to meet those high peaks, especially during some of those merch drops.

Operator

Brian Harbour with Morgan Stanley.

Brian James Harbour

Obviously, as you mentioned, new store productivity remains very good. Can you talk about, I guess, some of the market specifics that you're seeing there? And is -- is it still your expectation that, that holds up quite well into the second half of this year?

Christine Barone

Yes. So as we look at new shop productivity, it does remain elevated, and we're actually seeing really nice strong results across our different markets. We actually are strongest performing shop last week with a very new shop in Georgia. And so we really just need to see that these long lines are holding as we move across the country. I think the strength of this brand, it's just really evident as we open new shops and get to see this amazing demand even in markets very far from our home market of Grants Pass.

Operator

Next question, Christine Cho with Goldman Sachs.

Hyun Jin Cho

Congrats on a great quarter. You've really led innovation in protein coffee and customized energy drinks, but it seems like some of your competitors are trying to catch up. Could you help us understand how you prioritize investments and allocate resources across your beverage and food platforms kind of to maintain that competitive advantage. And what framework guides your decisions when identifying some of the new white space opportunities?

Christine Barone

Yes. So as we look at innovation, it's really this cool mix of art and science. I think it is understanding what is going on more broadly in the market, where there might be an idea that could work with our customers. Then we do a series of testing where we bring in some -- a customer panel and we'll have them try different things. We'll also do name testing, concept testing, so we bring some science in to see how we're doing.

And then as things start to make it through that process, we'll even do some market testing just to really understand what is the best way in as we look at innovation. I think the other thing that we're really focused on is our customers are drinking across platforms and I think that the growth in the beverage market is really being driven across various different platforms.

So for us, we're really simultaneously trying to understand what is going on in the coffee market with like the introduction of protein or what is are we going to do next on the protein side. We're also looking at customized energy. What is the way to ensure that our customers really understand the breadth of the offering there, what are some drinks that we can highlight to really drive that.

And then we'll also have innovation in some of our sparkling beverages, or physics. And we can pop that throughout the quarter in different ways, both through LTOs and through bringing in secret menu items or showcasing a part of the menu over the weekend.

Operator

Next question, Logan Reich with RBC Capital Markets.

Logan Paul Reich

Congrats on the solid print. I just had a question on the mobile order mix. It looks like it was up 50 basis points this quarter versus about 300 last quarter. I know there's going to be some sort of tapering off on the ramp. But just longer term, where do you see that mix getting to, I don't know if you have like an internal target or expectation, but just trying to get a sense of the ramp over the next several quarters in the mobile order mix.

Christine Barone

Yes. We feel really good about where mobile order is. And I think especially with how our teams are embracing it and how our customers are embracing mobile order. So the 11.5% is really where we would expect it to be. I think if you look across our system, we do have some of our newer markets that are double that mix and part of the overall mix that we look at is really driven by just kind of the historical setup of some of our shops.

As a reminder, we've been around for over 30 years, and a lot of our original shops are double drive-throughs. And so kind of that speed of mobile order and being able to go to the walk-up window, just _____ 36.49 death is as the same thing in some of our newer markets where we've got that walk-up window channel. One of the things we have seen, and it was something that we were trying to do is that walk-up window channel now represents approximately 15% of the mix when we started out on the mobile order journey, it was about 10%.

And so really being able to balance that demand between those two windows is working incredibly well for us.

Operator

Next question, Andrew Charles with TD Cowen.

Andrew Michael Charles

Christine, thanks for sharing the details of the expanded food test and the positive learnings you're seeing so far from the pilot. I'm curious with all the positive details, what's driving the decision to roll this out throughout 2026 rather than all at once?

Christine Barone

Yes. So as we look at the food program, I think, similar to how we looked at mobile order, the primary factor is ensuring we really take the time to do the training correctly, set up our teams for success, ensure that they are really ready to share this with our customers. And we found that stage process really working through everything as we rolled this out, worked very well for mobile order. In addition with food, there are a number of equipment, things that have to go into our shop, right.

So we're putting freezers into our shops. We're putting ovens into our shops. We're putting in different racks and things that make it really easy for our teams to execute on the food business. And so just the physical part of putting that into the shops, will happen over time.

The other pieces as we bring food in, we are working with each of our distributors in each of our markets to ensure that we're really rolling this out in the correct way. So we are just incredibly pleased with what we're seeing we feel really good about the training cadence that we're establishing as we roll out into markets.

And then we're also ensuring that we're testing the food business across a lot of different parameters. So this move in, starting in the market in Arizona and then going into some of our newest markets with food and seeing the results that we're seeing. We're just incredibly pleased kind of at the -- as we expand this under different circumstances to continue to see really great results.

Operator

David Tarantino with Baird.

David E. Tarantino

I had a question about maybe clarifying what you're seeing so far in Q3, Josh, I think you guided to Q3 comps of 3.5% to 4%, but you indicated that you entered the quarter with good momentum. So I just wanted to understand if you're running in a way that's ahead of that guidance and you're planning, your marketing in a way that maybe you expect it to settle for the rest of the quarter?

And then I guess the second and bigger follow-up for Christine would be if marketing is working, which it seems like it is generating a really good return for the business, why not lean in a bit more to keep that momentum going?

Joshua Guenser

Yes, David, I'll take the first part of the question there. And just to highlight, Q2, we felt really good about our performance overall. We saw a really strong underlying transaction trends and then on top of that, we just had some just incredible promotional activities, stricter drops, merch drops, LTO offerings that really just drove outperformance. I would really describe Q2 as firing on all cylinders, really outperforming our expectations.

So as we move into July, we saw that underlying traffic trend continue. So we saw a really strong health in our customer there as we move into Q3 and as we think forward, I think we have a lot of great initiatives planned for marketing for the balance of the year. We

would plan those at a more normalized run rate and expect those to do well, but at a more normalized level, certainly wouldn't plan for them just to knock it out of the park like they did in Q2.

So I have a really good sense and feeling for the momentum coming in through Q3 and off to a great start. The performance we've seen through July is certainly factored into the guidance range that we provided for Q3.

Christine Barone

Yes. And for the second part of your question on marketing and leaning in more, we feel really good about how the business is performing right now. July was another great month for us. And if we look at marketing, I think that there is very thoughtful and delicate mix of making sure that our customers love what we're doing and it also does not become too predictable. And so if you think about all of the different ways that we are speaking to our customers are sharing new ideas with them with merch drops, with sticker drops, with point days, we really want to make sure that it is that right balance of those things. And we feel like we're in a really good cadence right now, but want to make sure that we aren't doing so much that the business becomes predictable or that is not as fun as it is right now.

Operator

Next question, Dennis Geiger with UBS.

Dennis Geiger

Congratulations. Just one follow-up on mobile order. As it relates -- or 2 parts on mobile order. As it relates to the mix piece, Christine, is it something where maybe you lean in on marketing a bit more to highlight the mobile order dynamic to kind of increase or accelerate that adoption? Or are you pretty comfortable with the adoption that you're seeing?

And the second part of the mobile question really is that contributing to the transaction growth, encouraging to hear that, could you impact that a little bit? Is that a throughput benefit? Is it repeat customers coming more because of the experience? Any kind of unpacking of how it's driving the transaction growth would be great.

Christine Barone

Yes. So we're very happy with the mobile order adoption rate and where we are today. And again, we are seeing in some new markets quite a bit over that 11.5% in some markets double. And I think that if you look at what we're trying to do, one, this was the #1 thing that our customers were asking for through the app. So it was really a customer-driven innovation.

The other piece is we were trying to balance some of the demand across the shop, which is working quite well and then to drive transactions. So we are seeing a frequency lift as customers come in and use mobile order. And we are also seeing that strength in the morning daypart. And I think if you look at where we had untapped demand in that morning daypart, it was both the lack of having mobile order and the lack of having protein-based food options that were really highlights and where some of those bigger opportunities are for us in the morning daypart.

And so we're seeing that very much play out with mobile order. What we're doing is we continue to look at how we drive mobile order, it needs to really be driven by our customers. This needs to be how they want to order. And so we're continuing to make the app and the order process easy. We're continuing to do surveys every week just to understand are we meeting our customers, are there time expectations? Do we have the menu items on the app that they want to have.

So all of those things are working quite well, and we're getting continuous feedback. And so we're really focused on just providing an absolutely exceptional customer experience through mobile order and are very happy with the slow and steady approach that's working well for our teams.

Operator

Next question, Sara Senatore with Bank of America.

Sara Harkavy Senatore

I guess one housekeeping and then a question. The housekeeping is, I just want to make sure I heard right about pricing. So like 2.5 points of price, I guess, would imply perhaps a slightly negative mix. So just wanted to confirm that. And then my question is, I think Josh mentioned how the maturation of new vintages has been contributing or fueling the transaction growth.

So I wanted to understand, is there some kind of maturity curve that you're seeing now that as you think about growing restaurants, you get sort of a tailwind just from that maturity curve? Or was that rather a reference to maybe perhaps some of the more recent vintages that may be opened at lower AUVs, '22, '23 are seeing outsized benefits from the advertising. Just because I know, Christine, you said everything is working together, but it does seem like there's a step change.

Joshua Guenser

Yes. Thanks, , for the question. On your housekeeping, you're right, there's a slight offset with mix. We've historically seen that in items per transaction, and that's continued through Q2. As you think about the newer vintages, I would broadly answer your question is yes. We're seeing performance from some of those older vintages -- not sorry, older, but the more recent vintages that we've opened in new markets and even some of the a few years ago, openings as well, we're seeing strength across the board.

So we've had really strong comp performance coming out of all the new vintages, both from the maturation curve and those that we open several years ago. So I feel really good about the strength really seeing it across all cohorts. It's just even stronger in those newer cohorts.

Christine Barone

Yes. And I would add, we continue to focus more of our paid marketing spend into those newer markets, and that really is helping to continue to grow the brand and to build brand awareness. If you think about kind of the Dutch Rewards program and paid marketing, they're really working in concert together. So we're using that paid advertising to build the brand awareness to bring customers into the brand for the first time, then we want them to experience the brand and very quickly join our Dutch Rewards program. So we have that very easy channel to talk to them, share with them all the new news that's coming.

Operator

Next question, John Ivankoe with JPMorgan.

John William Ivankoe

I wanted to revisit the marketing question. And if you could remind me or tell me what marketing is as a percentage of sales versus 24, for example. And how high could we take that? I mean some companies, for example, spend 4% of system sales and marketing. I don't know if that's a magic number. So I guess address it in that context.

And Christine, I asked the question because over a couple of billion dollars of system sales now, you might be opening some new marketing efficiency windows that you didn't have as a smaller company where a lot of it had to be local and a lot of it had to be digital. So do you have any bigger reach marketing efforts that perhaps you can reach being a bigger company with just more aggregate dollars to spend.

Joshua Guenser

Yes. Thanks, John. So we haven't given the specific total kind of holistic marketing budget as a percent of sales, our footnotes disclose advertising, which is a smaller piece of that total. What I would say is we have continued to lean into marketing efforts. As we've talked about last year and into this year, just given the performance we've seen from that, we do continue to lean into marketing. I'd say we're generally probably on the lower end of how others might spend as a total percent of revenue. So I think we have a lot of strength and efficiency we see from the marketing dollars that we spend spent today. I'll let Christine kind of talk about the second part of your question there.

Christine Barone

Yes. And John, what I would add to that is I do think it is an area that we continue to look at. Given what we are seeing, we're continuing to test new ways, understanding if more spend would make a difference. And what I would share is I just think some of the

things that we're doing with merch drops and really the earned kind of reach that we're getting from all of the other activities that we're doing that's performing so well that we haven't seen the need to increase marketing spend too much further right now. It is something we will continue to monitor.

But again, I think that the team is just doing an incredible job of having everything work really well together. And then I would also highlight, I think that if you look at how strong the Dutch Rewards program is having 72% of our total transactions going through that program, the success that we are seeing in getting new shops and new customers really quickly ramped up in Dutch rewards is really allowing us to be super efficient with our marketing resources and so I think that, that is something that's really unique to us with the strength of that program.

And we would prefer always to just talk directly to our customers. And so very, very pleased with what we've been seeing in Dutch Rewards. And what the team is doing to continue to just segment our customer base further, talk to customers in unique ways depending on their patterns. So really excited by what we're seeing there. And I think that allows us to be super efficient with our marketing spend.

Operator

Next question, Chris O'Cull with Stifel.

Christopher Thomas O'Cull

Congrats on a great quarter. Christine, I guess I also had a follow-up question on marketing. And it may just be me, but I've noticed fewer e-mail offers from the company as the quarter progressed. Just given the strength of the sales trend -- have you -- do you think you -- I mean, have you been able to pull back on some of the marketing and offers and save them for a later time is just the benefit of the advertising in the past several quarters builds -- and I was also hoping you could maybe elaborate on the awareness study, maybe the time frame and magnitude of the improvement in aided and unaided awareness.

Christine Barone

Yes. Thanks, Chris. So specifically on Dutch Rewards, I think more of what you're seeing right now is our segmentation. And so where a year ago, we were doing primarily just mass offers, everyone receiving the same thing. The team has made just incredible progress in starting to really segment the customer base, send out specific offers to specific individuals depending on their patterns. And so I think that, that's actually more of what you're seeing as you look at the activity overall. And then your -- what was your second question, Chris?

Christopher Thomas O'Cull

I was just hoping you could elaborate on the awareness...

Christine Barone

[indiscernible] awareness...

Christopher Thomas O'Cull

The time frame and magnitude of the improvement you mentioned?

Christine Barone

So if you look at the awareness study, that's something that we're doing right now on an annual basis. so that we can really see movements in what's happening there. So we're looking at where we stand from an unaided awareness. We haven't shared the exact improvements there, but we are seeing quite material improvements, especially in some of those new markets.

Operator

Next question, Jacob Aiken-Phillips with Melius Research.

Jacob Aiken-Phillips

Yes. So another marketing question, could you give any more color on the personalization and segmentation with such rewards like what inning are we in? What's the next phase of that personalization and then kind of how relates to the operational focus and more top of funnel paid advertising you're doing?

Christine Barone

Yes. So on the Dutch Rewards, I would say we are still in early innings of the segmentation. In addition to segmentation, we are also looking at what is the right functionality to have in the app? What are some things we can do to make some of those rewards offers even more fun, some of it that can make it more social, things like that.

So I think that there -- the team has a lot of plans to continue expanding in Dutch Rewards, continue making that an even more fun experience for our customers. And then as we compare like top of funnel marketing and how we think about that, really, I think it's the separation of those 2 channels and thinking through that the paid advertising is more to build brand awareness and brand awareness that can drive some action. So this -- what is Dutch Bros, what are those offerings that we have?

So you might have driven past the shop, seen the wind mill. Now you see the advertising, you kind of connect what that shop is with what we serve and that can drive your first visit. And we find once we get customers in for that first visit, they're oftentimes coming back. So it really is focused on driving kind of that first visit or 2. And then we focus at the shop level and making sure that you're aware that we have Dutch rewards so that we can get you into that program.

Operator

Next question, Gregory Francfort with Guggenheim Partners.

Gregory Ryan Francfort

Christine, I think you guys are now entering some markets where in this kind of maybe smaller format coffee box, you are second rather than first. And I guess I'm curious, how do you approach those differently and do you ramp the same way? I guess I'm just curious, as you look at the rest of the country and kind of the need to be first or second or third in some of these markets, just how that might play out differently.

Christine Barone

Yes. Thanks for the question, Greg. And so I do think every market that we enter for sure has a coffee shop in it. And so I think as you look at where we enter, there might be other sorts of new competitors, things like that, it is something that we look at closely. What we are increasingly finding is that when we come into a market, customers know who we are. It doesn't really matter what order we're entering the market in.

And the lines that we are seeing in our new shop openings, the excitement for the brand really continues to build. It's something that, as I look at this brand past 1,000 shops, to see the lines actually building as we scale is just a really, really encouraging thing to see as we go. And so I just -- I feel like the brand is in such a great place. I think that our customers are potential new customers, really understand what Dutch Bros is. They build that excitement. They're driving from long distances to come to those shop openings in an area.

As I mentioned at the start of the Q&A to have our top-performing shop last week was in Georgia, which is a new market. Absolutely amazing. So really, really cool to see the strength of the brand.

Operator

Next question, Brian Mullan with Piper Sandler.

Brian Hugh Mullan

I wanted to come back to the food test. You've talked about having a few important goals with this. Broista satisfaction not disrupting throughput, minimizing complexity and then having the right assortment to make sure you satisfy the food but get that beverage occasion. So question is, as you go through the test and evaluate through the lens of each of your goals, which one is proving to be maybe a little more seamless or easy? And then maybe on a relative basis, is anything proving to be a little more challenging or taking longer? Any thoughts on that would be great.

Christine Barone

Yes. Thanks, Brian. We're really happy with what we're seeing across the board on all of those metrics. And we are doing both frequent surveys with our teams and with customers to understand where we are. We're also obviously seeing kind of the demand and how that's going with our customers. So we are pleased across the Board. We are seeing really nice throughput. Our teams are able to execute the food within the time frame of the beverage.

Our Broista satisfaction is high and actually has continued to grow as we've rolled out to new markets with that really systemized training that we've gotten down to. And then the customer satisfaction is really high. I think we've got the assortment just right. And it is as we've shared, it's an assortment of just 8 items. So it makes it really simple for our teams and I think, very easy for our customers to understand and know that there's this assortment that they could order from and it matches the beverages that they're ordering.

So we're really pleased with what we're seeing from a food perspective across the Board. The other piece that we just shared was we are seeing a ticket lift as well in early days and a transaction lift. And so seeing that transaction lift really validates what we thought we would see in the morning that our customers will sometimes share with us that they love us but might go somewhere else because they want that food in the morning. And so now that having food in those test markets, seeing that little bit of transaction lift is something we're incredibly encouraged by.

Operator

Jeffrey Bernstein with Barclays.

Jeffrey Andrew Bernstein

Great. Christine, I do hate to ask this question, but it is a complement as you are firing on all cylinders and so early in attacking the TAM. I think you mentioned 160 units this year, 16% growth but when I think about that growth, the new and existing markets seem to be doing well. You've got 450 or more candidates read a lead. I think, Josh, you mentioned that the CapEx to build has eased pretty significantly over the past quarter or 2, which seems like the opportunity to accelerate would be prime being more on offense versus defense in such a competitive category.

I'm just wondering what would keep you from ramping up whether it's the growth this year or how you think about the pipeline for next year. Again, it just seems like all things are working for you, this would seem to be the time unless there are some gating factors that maybe we don't fully appreciate.

Christine Barone

Yes. No, thanks so much for the question. And we feel really good about where we are. We have continued to build out the real estate team really excited about getting to that 2029 and 2029, and I think that the steps that we took 2 years ago to really get us into this position where we can continue to accelerate the growth. We're incredibly important and are playing out in such a great way.

So we wanted to focus on market planning. We're seeing those elevated AUVs in those new shops. We wanted to focus on building out but in a more capital-efficient way. We are seeing those reductions in CapEx as we open the new shops. We wanted to get our teams really ready to open those new shops, ensure that we had a marketing plan to quickly build brand awareness so that we could open out of the gate really strong, and we're seeing that as well.

So as we look across all of those things that we went and said, hey, we would love to make a little bit of a tweak here. We're actually now seeing results across all of those areas, and I think are in just a great place to continue to accelerate our growth.

Operator

Next question, Jeff Farmer with Gordon Haskett.

Jeffrey Daniel Farmer

Consumers increased focus on value has come up, I would say, on almost every call over this earnings season. So with that is sort of to lead in, I'm curious what your thoughts are on Industrial's sort of value positioning or offering and how you guys are competing for those customers who are looking for value. So clearly, you're doing well, but I am curious how you're competing for those customers who are looking for value right now.

Christine Barone

So we think we're in a fantastic position from a value proposition perspective. This is something we continue to test and survey with our customers. We've been very thoughtful. We've taken very minimal price this year. I think that, that has put us in a fantastic position. And it's something that we would want to continue to be a leader in I think our customers really appreciate the sizes that we have.

I think they appreciate the ability to really customize freely within their beverages. And we feel like we have the formula right to really be delivering on what the customer expects. And I think you add to that, that when you come through our drive-thru lane, you just leave in such a great place. You leave with your day being a little bit brighter. And I think that's ultimately what customers are looking for in this market.

Operator

I would like to turn the floor over to Christine Barone for closing remarks.

Christine Barone

Thanks for your questions. In May, we hosted our 19th Annual Drink One for Dane Day, a company-wide initiative that raises awareness for ALS and honors our Co-founder, Dane Boersma. In support of this event, the Dutch Bros Foundation donated \$1 million to the Muscular Dystrophy Association, our long-standing partner in the fight against ALS. In the quarter, many of our shops also held local giveback days, each one driven by the passion and energy of our crews.

The heart of Dutch Bros remains unchanged. Moments like Drink One For Dane reflect our commitment to community impact, connection and purpose-driven growth and values that have guided us since 1992. I want to thank our teams who may Drink One For Dane Day and all of our local givebacks truly special. Your efforts allow us to keep showing up for our customers and communities in meaningful ways every single day. Thank you.

Operator

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

Read more current BROS [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Newest  