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Dutch Bros, Inc. (BROS) Q3 2024 Earnings Call Transcript

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Q3: 2024-11-06 Earnings Summary

Play Call



Press Release



10-Q

EPS of \$0.16 **beats by \$0.04** | Revenue of \$338.21M (27.87% Y/Y) **beats by \$13.25M**Dutch Bros, Inc. (NYSE:[BROS](#)) Q3 2024 Earnings Conference Call November 6, 2024 5:00 PM ET

Company Participants

Paddy Warren - Senior Director, IR and Capital Markets

Christine Barone - President & CEO

Josh Guenser - CFO

Conference Call Participants

Dennis Geiger - UBS
Patrick Johnson - Stifel
Andrew Charles - TD Cowen
Sara Senatore - Bank of America Merrill Lynch
Gregory Francfort - Guggenheim Partners
Andy Barish - Jefferies
David Tarantino - Baird
Nick Setyan - Wedbush Securities
Rahul Kro - JPMorgan
Jeffrey Bernstein - Barclays
Jeff Farmer - Gordon Haskett

Operator

Greetings, and welcome to the Dutch Bros Third Quarter 2024 Conference Call. [Operator Instructions] At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded. It is now my pleasure to introduce Paddy Warren, Director of Investor Relations and Corporate Development. Please go ahead.

Paddy Warren

Good afternoon, and welcome. I'm joined by Christine Barone, CEO and President; and Josh Gounder, CFO. We issued our earnings press release for the quarter ended September 30, 2024, 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. I would also like to announce that we will be hosting our inaugural Investor Day in early 2025. We will plan to provide updates to our key growth drivers and intend to hold this event in person in the Phoenix, Arizona market. We expect to release further details in the coming months.

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

Christine Barone

Thank you, Paddy. Good afternoon, everyone. I want to start by sharing that we are incredibly excited about the strength of our brand, the love from our customers and our clear path forward. As the industry continues to evolve, we expect that our customers will place an even larger emphasis on iced beverages, on personalization and on speed. We see the increasing relevance of energy, which has been a core component of our menu for over a decade.

We also see the continued importance of genuine connection, which are Broistas embody and has been a cornerstone of Dutch growth since we started with a single push cart in Grand Pass Oregon in 1992. We believe we are uniquely positioned to execute with excellence in this environment. which we did in Q3 as we delivered on key strategic and operational initiatives. We have substantial momentum across the board at Dutch Bros. Our brand is resonating with customers.

In Q3, we had comparatively the highest transaction quarter in 2 years. We accelerated our mobile order rollout, achieving 90% system and 96% company-operated shop coverage as of September 30. We have received great feedback from Broistas and customers, and we are beginning to see the impacts on our business.

Our real estate strategy is working. We are seeing strong new shop productivity as we have shifted our development focus and elevated our site selection process. We see increased white space opportunities as we grow. And we continue to demonstrate remarkable consistency in our shop opening cadence with 38 new shops in the quarter. We are making investments in our development and construction teams and our 2025 shop pipeline is strong, positioning us to accelerate new shop growth. These efforts directly translated to our financial results.

In the quarter, we drove a 28% revenue increase and a 20% adjusted EBITDA increase compared to the same quarter last year. System-wide same-shop sales rose 2.7% and company-operated same-shop sales grew 4%. The both of which exceeded our expectations. System-wide AUVs were \$2 million, in line with the all-time record we posted earlier this year.

Given the strength we saw in the quarter, and our growing momentum, we will be raising our guidance. Josh will share more context in detail in a few minutes. But first, I'd like to walk you through an update on our business. Our people are the cornerstone of our strength. Our exceptional culture, crews and service resonate with customers of all ages and backgrounds. Our talented broistas and the service they provide drive our growth and set us apart from competitors.

Our people pipeline includes more than 400 operator candidates with an average tenure of more than 7 years. Each person in the pipeline is ready to lead a market as an operator. When these new operators receive their assignment, we invest heavily in their success by sending our exceptional and experienced opening team to work alongside them in the new market.

We believe this enables us to scale our culture seeding new markets with a powerful combination of expertise, energy and teamwork. We continue to be pleased with our shop level turnover indicators, which we believe are considerably more favorable than the industry and are in line with our expectations. Our best people are staying and growing with us. Year-to-date, we have received over 400,000 applications to work at Dutch Bros for about 11,000 open field positions. We are honored to be an employer of choice and blown away by the excitement of applicants. Hiring into our office in Arizona have also been swift and we are in the process of building out a permanent location, which we expect to open in the first half of 2025.

Last year, we outlined the key elements of our strategy to continue to drive traffic, which were an enhanced focus on innovation, increased paid advertising designed to build brand awareness and more targeted rewards program efforts. We are executing on all elements of this plan and seeing momentum. Here is a brief update of each.

First, innovation. We believe innovation plays a foundational role in Dutch Bros' growth story. We use innovation to build sales layers and deepen our competitive moat through category-defining products. Our innovation strategy focuses on 3 core mini pillars: coffee, energy and refreshment. In Q3, we introduced a fresh take on fall drinks with the new Cookie Butter Latte and Caramel Apple Rebel and the fan favorite Caramel Pumpkin Brûlée returned.

Our innovation extends to how we surprise and delight with unique sticker drops and special merch giveaways. Physical and digital sticker drops create excitement and strengthen brand loyalty by providing a unique opportunity to connect with our customers, many of whom collect these stickers. We will continue looking for ways to increase this connection like when we released a custom Dutch Bros' Rubber Duck to celebrate National Coffee Day, which drove both excitement and sales volume.

Second, paid advertising, an upsized paid advertising investment is having a positive impact on our business. In late 2023, we began accelerating digital spending in new markets to drive brand awareness. We are encouraged by the results that we are seeing in the productivity of new shops and in the company-operated same-shop transaction growth. These efforts are driving what we believe to be a material change in sales trajectory in new markets. Albeit from a very small base, we have also seen unaided brand awareness triple in Texas. While this is a good start, we have a long runway with unaided brand awareness, still just a fraction of our more mature markets. In Q3, we began expanding our paid advertising efforts into additional markets, including mature markets. We are encouraged by what we are seeing here as well.

And third, Dutch Rewards. We continue to see great traction in our Dutch Rewards program. In Q3, approximately 67% of our transactions were from Dutch Rewards members. And in the quarter, we accelerated our segmentation efforts. We are more efficiently reaching our customers and we'll continue to provide even more personalized and relevant offers going forward.

In the quarter, we set a record for the greatest number of Dutch Rewards registrations since the initial launch of the program with over 1 million customers signing up. We believe our rollout of mobile order is contributing to this growth. As of September 30, 858 shops had mobile order functionality enabled, representing 90% system and 96% company-operated shop coverage. I want to acknowledge the hard work both in our shops and in our IT, operations and marketing teams that made this rollout possible. The completion of this rollout is ahead of our previously communicated time line.

I'd like to share some initial observations and learnings from the rollout. First, our customers are enthusiastic about mobile order. As of October 31, our customers have placed approximately 2.8 million mobile order transactions. Our customers love the functionality and service. We are achieving high customer satisfaction, with more than 9 out of 10 mobile order customers likely to use the channel again and recommended to their friends and family.

Second, our Broistas are embracing mobile order and delivering excellent service within this channel. As a people-centric business, getting this right is of utmost importance. We have positive feedback from our Broistas and almost 95% order accuracy. Furthermore, mobile order tip rates are higher than other channels.

Third, we are seeing order ahead over indexed in the morning daypart and with coffee-based beverages. This gives us confidence that we are on the right track with our strategy to further unlock the morning daypart with greater convenience.

Finally, we are beginning to see the impact of mobile order in our financial results. We observed that customers who utilize mobile order increased their frequency by about 5%. Right now, mobile order makes up about 7% of our channel mix system-wide, and we see runway to steadily grow penetration. In fact, in some of the markets with our U.S. shops, we see mobile order penetration at more than twice the level of our overall system. In these newer markets, we are also seeing same-shop transaction outperformance which we believe is a combination of paid advertising spend, mobile order usage and market planning efforts.

In Q3, we began a limited food test in 6 shops. In this test, we explored a few potential menus, including an expanded bakery offering and sweet and savory hot food options. Based on the early results, it is likely a more robust food venue will play a role for Dutch Bros in the future, and we will continue our testing in the coming quarters. With food making up less than 2% of our sales right now, we clearly see the opportunity. We will be very diligent and measured as we determine the timing and role of an expanded fee program and how we best support our Broistas so that we can execute with speed, quality and service.

Shifting gears to development. We opened 38 shops in Q3, bringing our total shop count to 950. For the year, we have opened 119 new shops, of which 103 are company operated. We are executing our real estate strategy and are very energized by the results. We believe the combination of enhanced market planning and our elevated paid ad spending in new markets is driving improved new shop productivity, which we saw once again in Q3.

Our confidence in our new shop growth prospects is high. Over the past several months, we have made significant investments in our development and construction capabilities. We have invested in new tools, processes and team members, including doubling the size of our site acquisition team. We believe these investments position us to capitalize on an expanding opportunity set and strengthen our competitive moat and new shop development.

Our development pipeline is deeper today than it was at the same time last year. We expect shop openings to accelerate in 2025 to at least 160 shops and further accelerate in 2026. In closing, momentum in the business is strong. We believe our runway is long and our path forward is clear. We have top-tier growth. We delivered 28% year-over-year revenue growth and 38 new shop openings. We expect to open at least 160 shops in 2025 and driven by our investments in our development team, we see an opportunity to further accelerate unit growth in 2026. We demonstrated our ability to deliver transaction growth, through a combination of our innovation, paid ad spending, Dutch Rewards and our growing mobile order capabilities.

We have excellent shop margins, delivering this top-tier growth profitably. We are well capitalized. We believe we have plenty of flexibility upon which to execute our growth plans and capture a considerable white space. Most importantly, we have great people. anchored by outstanding engage Broistas with a strong pipeline of operators ready to grow with us.

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

Josh Guenser

Thanks, Christine. Our financial results in Q3 were outstanding. Revenue grew 28%. We delivered \$338 million in revenue for the quarter, an increase of \$74 million year-over-year. As a reminder, our long-term growth algorithm targets roughly 20% annual revenue growth. We are very pleased with our continued top line momentum.

New shop growth was 20% year-over-year. In the quarter, we opened 38 new shops, of which 33 are company operated, representing continued steady progress. We are encouraged by both our new shop productivity and our overall system AUVs of \$2 million, which is in line with the all-time markets we set earlier this year. Same-shop sales performance in Q3 exceeded our expectations. We delivered 2.7% system same-shop sales growth, of which 80 basis points came from transaction growth and 190 basis points from ticket growth. We are pleased with the underlying transaction trends of the business and transaction growth was the highest in 2 years, excluding the impact of the leap day in Q1.

Adjusted EBITDA grew 20%. We delivered \$64 million in adjusted EBITDA, an increase of \$11 million year-over-year. Our adjusted EPS was \$0.16 per share, up \$0.02 per share from Q3 last year. Moving on to our company-operated shops. Revenue was \$308 million, an increase of \$72 million year-over-year or 30% growth. Company-operated same-shop sales growth was 4% of which 2.4% was transaction growth. Company-operated shop contribution was \$91 million, an increase of \$18 million year-over-year or 24% growth. In the quarter, company-operated shop contribution margin was 29.5%.

In Q3, beverage, food and packaging costs were 25.3% of company-operated shop revenue, this is 60 basis points favorable year-over-year, driven primarily by pricing. Labor costs were 27.6% of company-operated shop revenue, 160 basis points higher than Q3 of 2023. This is primarily attributed to increased compensation expense in California. Occupancy and other costs were 16.4% of company-operated shop revenue, which was 110 basis points higher than Q3 of 2023 and driven primarily by elevated repair and maintenance costs on our existing shop base. Preopening expenses were 1.2% of company-operated shop revenue, 60 basis points favorable year-over-year.

Moving on to other P&L line items. Franchising and other revenue was \$30 million, up \$2 million or 7% year-over-year. Franchise and other contribution was \$23 million, up \$3 million or 16% year-over-year. Adjusted SG&A was \$50 million, up \$10 million or 25% year-over-year. As a percentage of total revenue, adjusted SG&A was 14.9%. This represents approximately 30 basis points in margin leverage. We are pleased by the leverage we have driven in adjusted SG&A during the year while we continue to staff our new office in Arizona and make targeted investments in marketing.

In the quarter, interest expense net declined \$2.5 million from 1 year ago to \$6.9 million. The decline is primarily driven by income received on our investments in marketable securities and reductions in interest paid on outstanding balances in our credit facility. This was partially offset by an increase in interest expense related to finance leases of \$786,000, which rose from \$4.8 million in Q3 2023 to \$5.5 million in Q3 2024.

Regarding our balance sheet. As of September 30, we had \$281 million in cash and cash equivalents and \$238 million in drawn term notes. Yielding a net cash position of approximately \$43 million. As of September 30, we have \$382 million in finance lease liabilities and \$306 million of operating lease liabilities. During the quarter, we added \$3 million in finance lease liabilities and \$23 million in operating lease liabilities.

I'd like to spend a moment on cash flow and liquidity. With approximately \$678 million in total liquidity at our disposal, we believe we have more than sufficient liquidity to support our current growth plans. In the quarter, we added \$20 million in cash to the balance sheet, driven by our operations and aided in part by timing of working capital. This is very encouraging as we move towards having a self-funded business and look forward to providing an update at our Investor Day.

We are pleased with the continued expansion of our large base of profitable shops. We continue to shift the composition of our development pipeline towards more capital-efficient lease arrangements, but we still have work to do as we attempt to lower the per unit development costs. In Q3, average CapEx per shop was approximately \$1.7 million.

Finally, I'd like to provide an update on guidance. Given the outstanding performance, which came in above our expectations for Q3, we are providing the following updates. Total revenues are now projected to be between \$1.255 billion and \$1.26 billion, this represents an increase of \$35 million from our guidance last quarter at the midpoint of the range. We expect to open 150 new shops in 2024, which is consistent with the guidance we provided last quarter.

Capital expenditures are now estimated to be in the range of \$245 million to \$265 million. System same-shop sales growth is estimated to be approximately 4.25% for the full year 2024. We remain encouraged by the underlying transaction trends we have seen so far and expect Q4 same-shop sales growth of 1% to 2%. We expect adjusted SG&A to be between \$195 million and \$200 million. Given the strong performance in the quarter and our outlook for the remainder of the year, adjusted EBITDA is now estimated to be between \$215 million and \$220 million.

Thank you. And now we'll take your questions. Operator, please open the line.

Question-and-Answer Session

Operator

[Operator Instructions] First question comes from Dennis Geiger with UBS.

Dennis Geiger

Great. Congratulations on the results, and thanks for all of the insights on mobile order. Just curious if you could share any insights on those shops that have, I believe it was the 2x channel mix and the even stronger outperformance relative to the rest of the system. Is there any commonalities there that you're able to share?

Christine Barone

Yes. One of the things we're seeing with mobile order is that in some of our newer shops, that we are seeing this higher penetration of mobile order usage. As we think about our new shop and what mobile order is doing, we're really establishing new routines. And so it could be that in new markets as we're getting new customers in, they're really excited to use this and using it quickly. The other thing that we're seeing is we're actually seeing an increase in the registrations in our Dutch Rewards program. And so when we see that Dutch Rewards program usage and then a mobile order, we believe we could be bringing new customers into the brand as well.

Dennis Geiger

That's great. Appreciate that color, Christine. Then just on the food side, recognizing it's super early, but also excited that you rolled that out to some of the stores. Anything more there to share as far as how you think high level about that opportunity where you can go, what permission you have from a food perspective, recognizing early days?

Christine Barone

Yes, absolutely. Definitely early days from a food perspective. I think how we think about this strategically, as we look across our business, we have an opportunity to lift the entire business. And then we also have a very specific opportunity to build morning routines. One thing that's important for building morning routine is mobile order, which we have rolled out this year and believe that we have a long runway.

But the second big thing there is food. And so as we look at the importance of food in that morning routine, we believe we could be missing a beverage occasion. And so as we say strategically about food, we believe it's not only an opportunity to drive attach but the more important opportunity might actually be for that beverage occasion. As we look at food, we really believe it's more of an opportunity for 2026 and beyond. It is super important to us that we get this exactly right for our teams, for our shops, for our customers. And so we expect to expand the test as we go into 2025.

Operator

Next question, Chris O'Cull with Stifel.

Patrick Johnson

This is Patrick on for Chris. Josh, the guidance implies flat comps for the fourth quarter, I believe. And I know in the presentation it said it was reflective of the current trends of the business. So I was hoping you could provide a bit more color on just maybe how comps during the quarter progressed in 3Q.

And in addition to that, could you help us understand what impact you're building in from mobile order and pay in the fourth quarter guidance? And if you have any sense of just the incrementality that you're seeing relative to that 7% improvement?

Josh Guenser

Yes. Thanks for the question. So I guess maybe just to clarify, in my remarks, we did guide Q4 to be between 1 to 2 points of comp. What I'd say is we were very pleased by the performance of traffic during the quarter certainly came in ahead of our expectations. We did see that continue into Q4. We've been pleased with what we've seen so far in October.

What I'd say is that as it's trending to the higher side of that 1 to 2 points for the full quarter. So feeling good about how Q4 is shaping up so far. In terms of what we've layered in for mobile order, what I would share is we've certainly factored in the trends that we saw in Q3. It is still early days. We still have more to learn. So we factored in what we saw in Q3 going into Q4. But certainly, if trends were to change dramatically, that would -- that's not factored into the guidance that we provided.

Christine Barone

Yes. I think the other thing as we thought about that guidance, too, is we do have about 1 point harder lap in Q4, so just reflecting all of those things together.

Operator

Next question, Andrew Charles with TD Cowen.

Andrew Charles

Great . Very helpful commentary on mobile order and the 7% mix that's off to a quick start. I was wondering if you could help us quantify the incrementality behind this and how you are measuring incrementality.

Christine Barone

Yes. So as we look at mobile order, I think that there are 3 dynamics that we're looking at. So the first is the existing customer and what happens when someone makes their first mobile order transaction. And so what we're seeing with existing customers is we're seeing that 5% frequency lift. The second thing we're seeing is we're also seeing new customers come into the brand with mobile order. So we're seeing that uptick in test rewards registrations.

And then finally, we are just beginning to see a little bit of impact from throughput. So one of the things we measure is we measure in our peak hour, how many cars we drive through the line, and we are starting to see an uptick in that as well. So if you think about it, that's really 2 different dynamics. You've got new customers, you've got existing customers and then the hope is that because we are switching some of our volumes from the drive-thru to the walk-up window that, that volume relief allows customers to feel more confident to get into the drive-through line.

Andrew Charles

Okay. Great. And then, Christine, we get the question from investors with some concern that your traffic is benefiting near term for your largest coffee shop competitors headwinds and that they're actively enacting a turnaround. So can you really help dispel these concerns, the traffic gains you are seeing are, in fact, organic?

Christine Barone

Yes, absolutely. So I think if you look at what's happening right now, our brand is really resonating with customers, and I think we are super focused on being who we are. So when I look at what's happening in the industry right now, it is increasingly going to iced, the importance of customization and personalization and being able to do that very quickly is something that's also increasing. I think customers also want great authentic service, and we're seeing continued growth in our customized energy business. And so when you look at all of those things, we really believe what's working for us is being Dutch Bros. We created kind of the drive-through in this category where we're delivering service with convenience. And I think what we've been doing all year is executing on our playbook, and it's working really well for us.

Operator

Next question is Sara Senatore with Bank of America Merrill Lynch.

Sara Senatore

I think you just now shed a little bit of light on this, but I was wondering to the extent that the quarter exceeded your expectations if you could talk a little bit about what exactly went better than you thought. It doesn't sound like you think it was necessarily the demand environment that changed dramatically, but was it the advertising was more effective?

I know there was a little bit of a gap between your stores and franchise, even if I adjust for more difficult comparisons. I wasn't sure if that's where you saw that or if you had just initially maybe guided conservatively because of the volatility in the environment? I'm just trying to understand what exactly you could point to that drove the better-than-expected results.

Christine Barone

Yes. I would say that, one, it was everything resonating together and coming together. So I do think we saw a really nice lift from paid advertising. We're just starting to also doing paid advertising in mature markets. As a reminder, we started in new markets. So we're seeing some nice returns in both of those places. We certainly saw outsized registrations in our Dutch Rewards program. So new customers coming into the brand. And then finally, as we started the quarter, we were still pacing out the mobile order effort. And so towards the end as we were able to accelerate that we're really encouraged by what we are seeing there.

Sara Senatore

Great. And if I may just follow up. When you talk about the paid advertising, are you talking about more dollars spent or just different. If you could just again remind us kind of is this about allocation for dollars and maybe how you think about that with respect to increasing the unnative awareness.

Josh Guenser

Yes. So we've kind of done both actually, but what I'd say is really lean in more dollar spend. We talked a bit about that in terms of the investments we're making in G&A. So that's certainly a step-up in dollars. And I would say there has been a more targeted effort in the segmentation work that we've done to be more effective with the dollars we are spending. So I think the sum of those two is really helping to drive some of our results.

Operator

Next question, Gregory Francfort with Guggenheim Partners.

Gregory Francfort

One just housekeeping question. Can you give pricing and mix for the quarter in the check? And then I have one other question.

Josh Guenser

Yes. So we had -- ticket was about -- was 1.9%. That was about -- sorry, about 4 points of price overall, offset by about 2 points of mix and discounts.

Gregory Francfort

Got it. Okay. And then can you just maybe double-click on the new store productivity a little bit. Christine, I think a lot of the sort of changes you put in place in the second half of last year. Can you maybe just go through a little bit more of what you changed? How is having an impact? And are you seeing significantly better sales transfer as well because of this? Just any thoughts on that would be great. .

Christine Barone

Yes. So taking a step back on our real estate strategy. So we took a look at our pipeline last year. And a couple of things. So one, we have significantly more data than we had in the past, right? We are growing very quickly. So we are more quickly ingesting the data from new shops and getting that into our models as we think about what it looks like going forward.

The second thing is, is that we are building a new process out and so we brought on a market planning team and ingesting more data into our models to get just tighter around AUVs and what we expect our new shop openings to look like. And so when we continue to look at what's happening, it really gives us confidence going forward in our pipeline that we just have a lot more -- we will know what a shop looks like when it opens.

And I think that what you're seeing from a new shop productivity standpoint is just a reminder that a pipeline is usually developed like 12 to 18 months out before we're going to open a shop and so the changes that we're seeing now are really the very initial changes that we were making to the pipeline last year. And then some of the things we did this year, which we shared last quarter, where we took a couple of shops out of the pipeline to really make sure that we've had great confidence in what we had and what we were going to open.

Operator

Next question, Andy Barish with Jefferies.

Andy Barish

Just one quick follow-up on the price mix. That still includes transfer, correct?

Josh Guenser

Andy, sales transfer will be in the transaction number. So included in our transaction number is about 260 basis points of sales transfer. So if you actually look at the underlying traffic, it's quite strong for the quarter.

Andy Barish

Yes. Understood. And then, Christine, if you could maybe just give us kind of early explanation in the marketing between the newer market like Texas, where you're maybe talking about the energy business where your mix is a little bit lower than the system and then how that looks in a more mature market as you start to spread those dollars moving into next year?

Christine Barone

Yes, absolutely. So we are definitely experimenting with the right messages and the right creative all the time from an advertising perspective. And as we think about what we're doing with paid advertising, it's to bring those new customers into the funnel and then get them into the Dutch Rewards program, where we have 67% of our transactions and then can very effectively talk to them through that channel.

And so as we look at what we're doing from a new market and a more mature market and a new market, we're really introducing a brand. We're sharing who we are, the types of products we have. And in the existing market, we're still doing some of that because we absolutely still have room and brand awareness even in our more mature markets. And we're also just reminding people who we are. And so that's kind of how we think about it across markets.

Operator

Next question, David Tarantino with Baird.

David Tarantino

My question, Christine, I just wanted to kind of step back on the unit growth outlook that you gave and if you could maybe elaborate on your thought process on kind of accelerating the growth into next year. I guess, what's giving you the confidence that you're ready to do that?

And I guess, maybe relatedly, just from a real estate perspective, it might be a little early to see a big change in the build-to-suit versus ground lease. But any thoughts on kind of what the mix of that could look like in 2025 and 2026?

Christine Barone

Yes. So I think from a confidence perspective and real estate is, one, as we've made changes and incorporated new real estate modeling in, we've been able to back test that as we open new shops. So, have great data now incorporated into our models, additional data on how different sites are performing and what the real drivers are between different sites.

And then we can back test that as we've been opening shops all year. And so as we look at the confidence in going forward and accelerating that growth, it's really what I would say is our processes, our data, our analytics, our team is all at the right pace to be able to accelerate that growth. We've also made big investments both on our site acquisition process. So bringing in folks to really analyze the sites we want to go after. So there's part of real estate analytics. The other part is finding an awesome site. It has the right entrances, the right exits, is right to the -- it's next to other places that might help drive traffic for Dutch Bros. And so all of those investments are giving us confidence in having a really tight site selection process.

Secondly, we've also been investing in our construction team. And so our ability to really open up shops on a tight time line and all of those pieces and those capabilities we've also been investing in. So I think if you look back at, we really have holistically invested in the real estate process and feel very confident about both our pipeline and our ability to accelerate that pipeline.

Josh Guenser

And maybe, David, I'll take the second part of your question relative to build-to-suit and ground lease. We are making progress in that shift. As I've said before, we're starting with making sure we're picking the best possible site. And when we can do that through a more capital-efficient lease arrangement, we will do that. We have seen our per unit cost come down below what we had originally planned in the year, which contributed to us dropping our CapEx guidance as well. But we're making, what I say is steady progress in improvements, and I would expect that to continue. Certainly, still work for us to do, though, to hit numbers we'd like to see.

David Tarantino

Got it. And then maybe just a follow-up. As you accelerate the number of openings, you're also increasing the cash flow from operations. So do you have any sort of guidance you can offer on when you might get to breakeven or positive on free cash flow? Or is it something that maybe you want to wait until the Analyst Day to share with us. But I guess any thoughts on whether you have line of sight to that?

Josh Guenser

Yes. It is something we would provide to you guys when we meet for our Analyst Day, early part of next year. We were very pleased by the fact that we added \$20 million to our balance sheet during the quarter. We are making progress, as I said, in bringing down that per unit CapEx, and we're heading in the right direction, but not quite ready to provide that net to you yet, but we will at our Investor Day.

Operator

Next question, Nick Setyan with Wedbush Securities.

Nick Setyan

Can we just talk about the mix a little bit and how the mobile order and pay is impacting that and how we should think about it going forward? Are we seeing a lot of preloads, is it maybe the lower number of transactions per ticket because of it?

Josh Guenser

Yes. What I would say is actually the -- and certainly, as Christine shared, it's about 7% of the transactions we saw during the quarter. It's 1 where ticket is looking similar to what we see in the rest of the system. If you think about our overall portfolio, we're a beverage concept. As Christine mentioned, there's not a lot of food attachment that's happening there. So really, what we see is a fairly consistent ticket across the channels. We have seen tips a bit higher in the mobile order channel, which is great for our Broistas. But otherwise, I'd say it looks pretty similar to the rest of our transactions.

Christine Barone

Yes. And I would just share that 7% was towards the end of the quarter as we had everything rolled out. And again, we're seeing more of those transactions in the morning as well. I think over time, we could expect that mobile order might be more single-drink transactions, just given the way that, that channel is used oftentimes on a commute or sometimes when you're in a hurry.

Nick Setyan

And so can we assume that the sort of negative mix we saw in Q3, which sequentially was higher than Q2. That moderates as we go into Q4 into 2025. I guess what was the reason why we saw a mix a little bit the negative mix down two versus, say, down in 1 in Q2?

Josh Guenser

Yes, to your point, we've seen that trend downwards over the past several quarters. It came in largely in line with what we expected. I would expect to get to look similar in Q4 to what we saw in Q3.

Nick Setyan

Okay. And then just menu pricing and your thoughts going forward?

Christine Barone

Yes. So I think if you look at where we are, we have -- we are in a very strong value proposition right now. So we've done a lot of survey work as we think about what we want to do for pricing next year and talking to our customers, and we feel really good about where we are from a value proposition standpoint. We do believe we have opportunities in the portfolio to make some changes. Given the environment we're in right now, I think we'll be very thoughtful about how we think about price for next year. I wouldn't expect big moves on price.

Josh Guenser

Yes. Nick, the only other thing I'd add to that is we typically evaluate that as a couple of times during the year, at the start of the year, really tied to when minimum wage changes take effect, so it'd be at the start of the year in January and the midpoint of the year. Certainly, we're not at the point yet where we're providing guidance for next year.

Operator

Next question, Rahul Kro with JPMorgan.

Rahul Kro

I have a two part question on the mobile order and pay. 7% mix is great at launch. Is this all from the Dutch Rewards and e-mail marketing and when does it make sense to do more store level or at a Broista level and also paid media marketing for MOP? And I have a follow-up.

Christine Barone

Yes. So as we look at that 7% that is coming through our Dutch Rewards program, so we do need to download our Dutch Rewards app in order to mobile order from our shops. And really, the growth right now is coming from word of mouth. It's coming from seeing signage as you're going through the drive-through at point of purchase. We did do a little bit of digital marketing pushes later in the quarter, but I would not say it was significant.

The other piece we're using here is really the app itself and so having kind of always on messaging on that app home screen of the ability to mobile order.

Rahul Kro

Perfect. And there are many examples of mobile order and pay overwhelming the systems, what lessons have you guys learned from others who have done over the past years? And maybe can you discuss an example where it was suboptimal initially and then what mechanisms you guys had to put in place to fix?

Christine Barone

Yes. So I think as you think about how we've approached mobile order this entire time, it really is from the lens of why are our customers coming to Dutch Bros, what makes us special? And it's our service. It's a service that we provide to our customers. And so a couple of things that we're doing from a mobile order perspective to ensure that.

One, we are handling the drink to the customer every single time. So with mobile order, you still always have an opportunity to have a service interaction at the same time. The other piece we've been really thoughtful about is although mobile order does have the potential to reduce some of the labor required in our shops, we have continued to invest in labor and ensure that we have not taken any labor out, and we've reinvested the labor savings kind of back into service.

And so just ensuring that we have great production, we have great service as we go through I think the other thing that's made this really seamless for us is we have kitchen display units within our shops. And so we've got a production bar, both at the drive-through window. We also have a production bar at the walk-up window, and so mobile orders are coming into our shops the same way one of our Broistas who's out running a drink would put a drink into the system.

And so all of those things, I think, have really allowed it to be a seamless experience and then as we've rolled this out and our time line has been really dependent on getting feedback back from our shops and adjusting with that feedback. So as we have the confidence to roll this out more fully in September, it was with all of that feedback and all of those fixes that we are making along the way.

Operator

Next question, Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Great. Two questions. One, just following up on the unit growth topic. I know at the start of this year, you guys were thinking I think, 150 to 165 million. So you tempered it to 150. It sounds like you're comfortable, as you talked about earlier, to bump that up to 160 which seems to be like a mid-teens growth rate. Just wondering if you could talk a little bit more about how you think about new versus existing markets?

And maybe what the gating factor is to faster growth? I mean, it seems like you've got 400 -- I think you said 400 people ready to lead markets, so that doesn't seem like it's an inhibitor. The pipeline is much stronger. And obviously, you have a lot of white space. So just curious to take the opposite side of the argument and discuss the potential for a further uptick than the 160 you talked about? And then I had 1 follow-up.

Christine Barone

Yes. As we look at what we're looking at for next year, we really share that 160 as the floor for next year. So the plan is really to update that guidance as we go into 2025. And then as far as what we're seeing is we are seeing a lot of things that give us confidence to continue to build our pipeline. We've always said that all of our real estate growth is driven by our people. And so you're exactly right that the pipeline that we have of operators who are ready to open new markets is very, very strong, and that will continue to guide our growth. but it certainly is not -- that is something that allows us to have more opportunities to grow because of the size of the pipeline.

And then as we think about the mix of openings in 2025 between new markets and in existing markets, we will open in both. And so we followed a strategy with new markets of continuing to open a contiguous market and so as we build brand awareness really build it across the country into contiguous markets. We also will open a number of new units into existing markets. And with all of the learnings that we've had from a market planning and a site planning, there is a piece of we want to allow a shop to kind of build its customer base in all of those things as we open. So we don't want to put a shop too close too fast. But we can certainly as we build up that line, we build up the community involvement that we have, we can then quickly come in and really fill out that market.

Jeffrey Bernstein

Understood. And then my follow-up is just on the early thoughts around the food test. I'm just wondering what the consumer feedback has been. I mean we've been inside the restaurants that doesn't really have necessarily a kitchen. So I'm just wondering what options you're considering? And I know from back at the IPO days, there was talk that periodically franchisees actually tried food and came back and said, you know what, not worth it. So just wondering maybe what the franchisee pushback had been or maybe how that's, you think, been overcome to make food a viable option?

Christine Barone

Yes, absolutely. So we are -- as we're looking at the food test, it's very initial thoughts. But we are seeing some great enthusiasm from our customers even in the initial shops. And I think as far as our franchisees, our franchisees have been quite eager and excited to hear more about the plans that we have for food. So I would say we've got a lot of enthusiasm from our franchisees.

Operator

Next question, Jeff Farmer with Gordon Haskett.

Jeff Farmer

Just diving a little bit more deeply in some of the things you've already touched on. But with the Rewards customers that roughly 2/3 of transactions. Can you shed any light on the same-store sales trends for that customer cohort relative to the non-rewards customers. Even if it's qualitative, I'm curious if there is a pretty big spread or a modest spread.

Josh Guenser

Yes. So I just -- we don't segment our customers, I don't share the segmentation of our customers in that way. So what I'd say is we've been very pleased by the growth of the program and the adoption of the program as people and certainly as we spread into new markets. This quarter, we had 1 million sign-ups, which is actually the biggest addition we've had since the launch of the program. So impressive addition and present growth of the overall program itself and remain pleased by what is contributing to the business. So like I said, we don't show the segmentation of the customers.

Jeff Farmer

Okay. Understood on that, not providing the segmentation. Just 1 quick follow-up. Some of your peers have pointed to outsized consumer pressure in California just with a lot of the inflation that's going on and some of the increase in restaurant prices. But what's your view on how the Dutch Bros California consumers are holding up relative to the rest of either the West Coast or the rest of the country.

Christine Barone

Yes. So as we look at California, we are quite pleased with the results. We've actually opened a number of new shops in California within the quarter and are seeing strong growth there. So I think that although there is some labor pressure there and that we have taken price, we are still really pleased with our performance in California. It's some of the highest volume shops in our system and the brand really seems to be resonating with our customers in California.

Operator

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

Christine Barone

Thanks for your questions. As I mentioned in my prepared remarks, our business saw strong momentum in the quarter, which translated into our financial results. That momentum is connecting with customers as well. Last week, we were ranked #1 in the coffee category in Newsweek's America's best customer service list. This would not be possible without the efforts of our people who deliver on our mission and values every day. To all of our teams, I say thank you.

Our success enables us to give back to our communities, which has been a core tenet of our organization since the beginning. In Q3, we were proud to hold our annual book for Kids Giving Back day where we supported more than 200 local organizations that enable compelling features in the communities in which we serve.

Furthermore, we announced a generous donation in Grants Pass to aid early childhood education and the families of Southern Oregon. The future of Dutch Bros is bright, and we have confidence in our direction. We look forward to discussing our vision and plan with you in greater detail in early 2025 at our first Investor Day. Thank you for all of your support.

Operator

Thank you. This concludes today's teleconference. We thank you for your participation. You may now disconnect.

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