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Sweetgreen, Inc. (SG) Q1 2024 Earnings Call Transcript

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Q1: 2024-05-09 Earnings Summary

Play Call

Press Release

10-Q

EPS of -\$0.23 **misses by \$0.01** | Revenue of \$157.85M (26.22% Y/Y) **beats by \$5.88M**Sweetgreen, Inc. (NYSE:[SG](#)) Q1 2024 Earnings Conference Call May 9, 2024 5:00 PM ET

Company Participants

Rebecca Nounou - VP, Head, Investor Relations

Jonathan Neman - Co-Founder & Chief Executive Officer

Mitch Reback - Chief Financial Officer

Conference Call Participants

Brian Bittner - Oppenheimer

Sharon Zackfia - William Blair

Jon Tower - Citigroup

Andrew Charles - TD Cowen

Brian Mullan - Piper Sandler

Katherine Griffin - Bank of America

Brian Harbour - Morgan Stanley

Operator

Thank you for standing by. My name is Katherine, I will be your conference operator today. At this time, I would like to welcome everyone to the Sweetgreen Incorporated First Quarter 2024 Earnings Call.

All lines have been placed on me to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. To ensure that we can accommodate as many participants as possible, we kindly request that each participant limit themselves to one question and one follow-up question. [Operator Instructions] Thank you.

I would now like to turn the call over to Rebecca Nounou, VP, Head of Investor Relations. Please go ahead.

Rebecca Nounou

Thank you, and good afternoon, everyone. Here with me today are Jonathan Neman, Co-Founder and Chief Executive Officer; and Mitch Reback, Chief Financial Officer.

Before we begin, we have a couple of reminders. Our earnings release is available on our website at investor.sweetgreen.com. During this call, we will be making comments of a forward-looking nature. Actual results may differ materially from those expressed or implied as a result of various risks and uncertainties.

For more information about some of these risks, please review the company's SEC filings, including the section titled Risk Factors in our latest annual report on Form 10-K filing and subsequently filed quarterly report on Form 10-Q. These forward-looking statements are based on information as of today, and we assume no obligation to publicly update or revise our forward-looking statements.

Additionally, we will be discussing certain non-GAAP financial measures, which are in addition to and not a substitute for measures of financial performance prepared in accordance with GAAP. A reconciliation of these items to the nearest US GAAP measure can be found in this afternoon's press release available on our IR website.

With that, it's my pleasure to turn the call over to Jonathan to kick things off.

Jonathan Neman

The momentum Sweetgreen had at the end of 2023 is continuing to build as we begin 2024. With the focus on guest experience, we are driving growth and adjusted EBITDA profitability exceeding the high end of our first quarter guidance. Our strategy is working. We have a strong foundation to build on and multiple levers to drive long-term capital efficient growth.

The results today wouldn't be possible without the hard work of our team members. I want to take a moment to extend my gratitude to each of them for their unrelenting passion to further our mission of connecting people to real food.

We reported sales of \$157.9 million, representing 26% year-over-year growth. Same-store sales were 5%. Total digital sales represented 59% of our total first quarter revenue with 56% of those sales coming via our own digital channels. Restaurant-level margin for the first quarter was 18.1%, expanding over 400 basis points year-over-year, making this one of the highest first quarter restaurant level margin performances in the company's history.

Restaurant-level profit for the first quarter was \$28.5 million, a nearly 70% increase from a year ago. Additionally, we generated positive adjusted EBITDA for the quarter. As I shared on our last call, our strategies are simple: one, continue building our brand by creating great products and guest experiences; and two, expand our connection to guests by building and operating great restaurants.

Over the past 1.5 years, we've been focused on these strategic priorities to improve our financial model with the goal of driving both revenue growth and profitability. Our Q1 results demonstrated revenue growth, expanded margins and adjusted EBITDA profitable growth.

Let me share some of the highlights from this quarter. During the first quarter, we opened six new restaurants, including two of these in a new market, Seattle. We also opened restaurants in San Francisco, Miami, Denver and Austin. Our Q1 2024 cohort of new restaurant openings, have an average weekly revenue, already outpacing the existing fleet average.

Building on the momentum of the Totem Lake opening, which has quickly become one of our top-performing restaurants, the South Lake Union location in Seattle, had one of the strongest opening weeks in the company's recent history. Both restaurants are operating at volumes akin to our large urban restaurants.

Openings like these, demonstrate that our brand has significantly greater reach than our current physical footprint, and that there is massive white space for our category defining concept. We remain pleased with the performance of our two Infinite Kitchens.

At the end of the first quarter, the two Infinite Kitchens located in suburban trade areas are tracking to an average year, one average unit volume of \$2.6 million, and they delivered an average first quarter margin of 28%, 10 points above the fleet average, giving us confidence in our go-forward deployment strategy.

They also continue to demonstrate additional benefits to our operating model, such as faster throughput, better order accuracy, portion consistency and substantially lower team member turnover. Additionally, we continue to see higher average checks than the markets they operate in.

In 2024, we remain on track to open approximately seven new Infinite Kitchen restaurants as well as retrofit three to four large urban restaurants with the Infinite Kitchen. Our first retrofit will be in New York City this summer.

In 2025, we plan to deploy an increasing number of new restaurants powered by the Infinite Kitchen. As we build our future real estate pipeline, we see tremendous white space opportunities across the United States in both new and existing markets.

Starting next year, we plan to return to a growth rate of 15% to 20% new unit growth per year with 2025 being at the lower end of this range and 2026 and beyond targeting the upper end of the range.

We continue to execute our culinary road map to broaden our menu, drive menu innovation, traffic, mix and check. Protein plates continue to over-index at dinner and as well in the Southeast and Texas markets.

In February, we launched a test of our Caramelized Garlic Stake across the Boston market. Our Caramelized Garlic Stake features tender cuts of grassfed steak, seasoned with the garlic spice blend, expertly roasted and finish in a blend of all of oil and herbs.

Guests can order stake in any of our Chef-Crafted Entrée, including The Steakhouse Chopped and The Steakhouse Chopped plate as well as have the option to add the new protein on any existing or custom item.

During our testing phase in Boston, we saw Caramelized Garlic stake become a dinner time favorite, with stake included in nearly one in five dinner orders. Having successfully completed our market test process and exceeding our internal expectations, we launched Stake Fleet-Wide this past Tuesday.

As we innovates our menu, we've always believed in listening to our customers to deliver more of what our guests want. Incorporating stake into our menu provides customers with something they've been seeking for years, with a deep commitment to sustainable practices, finding the sweetening way to source stake in our restaurants to time.

We are proud to introduce 100% grass-fed, pasture-raised steak from ranches who align with our commitment to high-quality, nourishing ingredients and high sourcing standards.

Turning to operations. At Sweetgreen, our people are the most important ingredient to running great restaurants. They are on the front lines connecting guests to our mission by serving real food, sourced from local farmers and prepared in-house daily.

Our organization is rallied around prioritizing the guest experience and driving throughput. We've aligned our incentives around these priorities, including bonuses for our head coaches and tipping for our team members.

As a result of the investments we are making in our talent and culture, our turnover is 19 points lower than it was in the first quarter of 2023 and has stabilized at the lowest level we've seen since prior to COVID.

Our 90-day retention is 10 points higher compared to the first quarter of 2023. Over 50% of our Head Coach's are internal promotions. And as we move forward, our goal is to increase this percentage. As we plan to ramp our restaurant openings in the years to come, we have a strong pipeline of future Head Coaches and are excited about the growth opportunities for all of our team members.

We remain focused on capturing additional urban lunch time demand, where we know we have a walkaway factor. We have made meaningful progress over the last few quarters with improvements in labor scheduling and having Head Coaches spend more time on the floor with customers. Over the coming quarters, there are opportunities for further labor deployment improvements by reducing time on routine in-restaurant tasks and improving deployment across all dayparts. Across the organization, we remain focused on hospitality and operating great restaurants, leading to growth and expanding margins.

Today's consumer is increasingly selective with how they spend their discretionary income. Customers are choosing Sweetgreen, given our mission-driven brand, unparalleled quality of our product and the value we offer with our menu innovation. Our commitment to sourcing permeates every aspect of our menu. We partner with farmers we know in trust, ensuring the highest quality ingredients and scratch cook every day in each of our restaurants. This dedication is our promise to guests.

The positive results both on the top line and our restaurant level profitability is evidence that the investments we are making in our people, our operations and financial model are the right one. I'm very proud of what our team has accomplished together. You see their accomplishments in the financial results today and also in the experience in our restaurants through their exceptional hospitality and high-quality food we serve.

Looking ahead, we have a massive opportunity to bring real food to more communities and disrupt the industry with the rollout of the Infinite Kitchen. We are building a durable business and shaping a healthier future for the next generation.

Now I will turn over the call to Mitch to review our financial results in further detail.

Mitch Reback

Thank you, Jonathan, and good afternoon, everyone. As you just heard from Jonathan, the first quarter demonstrated that the groundwork related in 2023 is driving strong momentum across the business. Total revenue for the first quarter was \$157.9 million, up from \$125.1 million in the first quarter of 2023, only 26% year-over-year.

For the first quarter, same-store sales grew 5% year-over-year. This consisted of a 5% benefit from menu prices and flat traffic mix. Same-store sales sequentially improved each month within the quarter. Our Q1 traffic was impacted both by January weather and the inclusion of two additional holidays in the quarter. Our average unit volume in the first quarter was \$2.9 million. Restaurant level profit margin in the first quarter was 18.1% compared to 13.5% a year ago. This is greater than a 400 basis point improvement from the first quarter of 2023.

Our restaurant level margin of 18.1% was the result of several factors, including strong revenue growth and margin improvement in our new restaurants. The restaurants that are excluded from our comparable restaurant base that is the non-comp in restaurants had substantial restaurant level profit margin expansion from the first quarter of 2023 and collectively had a margin that was close to the fleet average of 18.1%.

Additionally, we saw some of our fastest sales growth in our newest markets. In particular, our new Southeast markets collectively grew double-digits as they continue to accelerate their ramp. We also expanded margins across our legacy markets as a result of disciplined labor scheduling and having head coach to spend more time on the floor to improve both hospitality and guest throughput.

We continue to focus on margin expansion across our portfolio of restaurants. Our fleet-wide restaurant level margin on a trailing 12-month basis is 18.5%. Restaurant level profit for the first quarter was \$28.5 million, a nearly 70% increase from a year ago. For a reconciliation of restaurant-level margin to comparable GAAP figures, please refer to the earnings release.

In the first quarter of 2024, we opened six restaurants, including two in Seattle, South Lake Union and Totem Lake, ending the quarter with a total of 227 restaurants. In 2024, we anticipate opening between 23 and 27 new restaurants, approximately seven of which will contain the Infinite Kitchen. Our new restaurant openings are weighted toward the back half of the year.

As Jonathan mentioned earlier, in 2025, we plan on a unit growth around 15%, accelerating towards 20% in 2026. We're pleased with the early reads from the Infinite Kitchen and our results in new markets, giving us confidence that we have the opportunity to capture the considerable white space both in existing and new markets.

Food, beverage and packaging costs were 28% of revenue for the quarter, an 80 basis point improvement over year-over-year. This improvement was primarily due to menu price increases. Labor and related expenses were 29% of revenue for the first quarter, a 240 basis point improvement year-over-year. This improvement is primarily attributable to menu price increases and improvement in labor optimization.

Occupancy and related expenses were 9% of revenue, a 95 basis point improvement year-over-year. General and administrative expenses were \$36.9 million or 23% of revenue for the first quarter of 2024 as compared to \$34.9 million or 28% of revenue in the prior year period. This increase in general and administrative expenses was primarily due to a \$5.1 million benefit received in fiscal year 2023 from the employee retention tax credit that was partially offset by a \$4.6 million decrease in stock-based compensation expense.

We continue to demonstrate operational leverage in the support center in the first quarter. Excluding the one-time benefit of the 2023 retention credit of \$5.1 million, our support center costs grew 6% year-over-year as sales grew 26%. Our net loss for the quarter was \$26.1 million compared to a loss of \$33.7 million in the prior year period. The \$7.6 million improvement in net loss is primarily due to an \$11.6 million increase in our restaurant level profit and a \$1.9 million decrease in pre-opening costs.

The increase in our restaurant level profit and the decrease in pre-opening costs were partially offset by an increase in other expenses related to the change in fair value of our contingent consideration from our acquisition of Spyce, increases in general and administrative expenses as described previously, as well as an increase in depreciation and amortization associated with additional restaurants.

Adjusted EBITDA, which excludes stock-based compensation expense and certain other adjustments, was \$113,000 million for the first quarter, an improvement of \$6.8 million from the first quarter of 2023. Adjusting for the one-time employment credit in the first quarter of 2023. The

Adjusting for the onetime employment credit in the first quarter of 2023, our adjusted EBITDA year-over-year improvement was \$11.9 million. We ended the quarter with a cash balance of \$244 million.

Now turning to guidance. For the fiscal year 2024, we updated our guidance to reflect the strength of the first quarter, 23 to 27 net new restaurant openings. Revenue ranging from \$660 million to \$675 million, same-store sales growth between 4% and 6%; restaurant level margin between 18.5% and 20% and adjusted EBITDA between \$10 million to \$19 million.

In closing, we saw strong revenue growth of 26%, expanded restaurant-level margins by over 400 basis points and delivered positive adjusted EBITDA of \$113,000.

Looking ahead, Sweetgreen remains committed to innovation, including expanding our menu offering and deploying the infinite kitchen. These initiatives, together with our focus on running great restaurants are poised to drive traffic, create better customer and team member experiences as well as unlocking long-term value for our shareholders. Our unwavering focus on sustainable profitable growth, coupled with a healthy balance sheet positions us well for the opportunities that lie ahead.

With that, I'll turn the call back to the operator to start Q&A.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Brian Bittner of Oppenheimer. Please go ahead.

Brian Bittner

Thanks for taking the question. This quarter was impressive as is the guidance raise. And I just want to dig into the update on your same-store sales guidance range for 2024, now 4% to 6%. And at its midpoint, it would suggest the rest of the year looks very similar to 1Q, which was up 5%, and you had some tough weather in the first quarter and now you have state rolling out, which did not really impact the first quarter. So is there perhaps some conservatism baked into the new same-store sales guidance? Or is there anything else you can unpack regarding your assumptions for the remainder of the year?

Mitch Reback

Thank you, Brian, for the question Yeah I understand the way you're looking at it. I think what I would simply say is if you recall for the prior two years, as we came through the holiday period, the company saw a lot of negative traffic particularly starting around Memorial Day and then through the summer. And I think that really what we're doing is taking the approach that says we're uncertain as to how the holidays impact the business.

And frankly, we had a major launch on Tuesday with stake and really have not factored that heavily into our guidance given the fact that we've only had two days of history.

Brian Bittner

That's really helpful. Thanks, Mitch. And my follow-up is just -- I'm hearing a lot of positive commentary on new unit sales volumes and on new unit profitability more so than past earnings calls, what do you believe has led to the inflection in the performance of units that are outside the comp base? And how does this inform you about -- how you're going to open new units and the strategy behind that moving forward?

Jonathan Neman

Sure. Hi, Brian, Thanks for the comments. And just want to start off by thanking our team for all the amazing work with putting together a great quarter. As we look at new units, I think there's a few things that we've done. One, we've adjusted our real estate targeting, and I think taking a lot of the lessons of the past and how we target real estate, especially as we look at our suburban expansion and what are the attributes for successful stores.

Secondly, we've clearly had an unlock in brand awareness as we've continued to grow. And there's markets that are waiting for us to open. Seattle being a great example. I also -- you can see the unlock in the brand and some of the performance you've seen and some of the markets that were once struggling, places like Texas, Atlanta and Florida. And as the brand has unlocked there from an awareness perspective, we're seeing a lot of positive growth.

We've also adjusted and taken a lot of our learnings around how we operate those restaurants, how we staff them, the head coaches that we have to lead those stores, how we train them. And really the training and the internal promotion focus of bringing head coaches that understand our business, understand our culture and having them open up those new restaurants.

And then lastly, as we've talked about in past calls, we've adjusted a lot of our marketing strategies. So as we've shifted how we market and open new stores as well as how we could support those new restaurants, not just for the launch, but for the first 90 -- to three to six months, we've seen really positive results. So we feel really good about the new stores. I think we're getting a lot of momentum here and it gives us a lot of confidence as we look to reaccelerate our pipeline.

Operator

Your next question comes from the line of Rahul Kumar [ph] of JPMorgan. Your line is now open.

Q – Unidentified Analyst

Good afternoon, guys. Thanks for taking my question. It's on the supply chain optimization side, and it's not an increasing focus. I think we discussed this in the past on how certain ingredients can be less local if it's not worth the cost or quality perception. What inning would you say we are on this exercise? And I understand it's an evolving process, but can you discuss the opportunity set with some examples currently underway? And I have a follow-up.

Jonathan Neman

Sure. Thank you, Rahul. So we're constantly looking in ways to continue to innovate our menu, book bringing new items that our guests will love but also making it easier for our team members to execute so we can deliver on our promise every -- with every single meal. And so as you know, with this steak launch, it was a very big launch for us, first time first time having meat on the menu, very proud of the offering that we put forward with the grass-fed pass arrays. And in that process, we also simplified some of our menu. So we moved a couple of SKUs and optimized a few things to continue to make it easier. So I'd say we're always -- we're continuously looking at what is the customer value, where do we want to double down.

I'll give you an example. Last year, we made the upgrade to olive oil for all of our cooking and then sometimes we look at some rationalization around SKUs of things that are not heavily used or customers don't value. So we're going to continue to look at things as things evolve. But we like -- one of our philosophies of Sweetgreen is how do we get better as we get bigger. And so we really are looking to continue to protect our supply chain and the quality of our food because that's really what people love about us. And as we scale, we should continue to see efficiencies there.

Q – Unidentified Analyst

Perfect. And on a similar note, like what earnings are you on the labor scheduling and streamlining the labor prep hours today, which I believe is 10 points of labor you can talk from a current compliance or other opportunity standpoint on this aspect?

Jonathan Neman

I'd say we're still very much in the early innings around labor. So, I'd say we've made a lot of headway, but as we've seen this quarter in Q1 and as we're starting to see in Q2, how we deploy labor, not just from an efficiency perspective, but to better capture peak demand and offer that hospitality that our customers expect, there is a ton of opportunity. So today, we've put a huge focus on both of those things on staffing for the peak and being ready to serve as many customers as we can in those periods. But we are looking at investments around different labor deployment systems that we think over time can continue to drive more efficiencies in how we deploy labor.

In the past, we've also talked about efficiencies in what we prep in restaurants, what we upstream and how do we make it easier to make that job easier and more efficient in the back of house. And again, we'll consistently look at both tools and products that will make it easier to provide the experience that customers expect.

Operator

Your next question comes from the line of Sharon Zackfia of William Blair. Your line is now open.

Sharon Zackfia

Hi, good afternoon. I guess two questions, my allotment. In California, I don't think you did take price when minimum wage went up, but I know you already pay a healthy wage in California, but did you see kind of incremental labor pressure in California? Maybe give us an idea of where you expect labor inflation to be in the second quarter relative to what you saw in the first?

Mitch Reback

Thanks, Sharon. In the first quarter, we saw very little. As you know, the California Wage Act took place April 1st. It's really hit in the second quarter. Our wages did go up in kind of mid to high single-digits in California, and we offset that with a 5% price increase in California, which took place February 21st.

And the more broader question, do not see a lot of labor pressure anywhere else for the rest of the year at this point in time.

Jonathan Neman

Yes. So just anything I could add, Sharon. As I mentioned on the call in the prepared comments, we've actually seen a lot of momentum with our team as we've focused more on the stability of our Head Coaches as well as the internal promotion, we've made huge strides in getting fully staffed at all levels.

And I think we're seeing really great quality talent come in. And I think how we train them and continue to grow them through the system, you'll see a much bigger focus over time of continuing to drive that internal promotion rate. That is our people flywheel and so much of what we can offer at sweet things is really part of what I call the American Dream of starting somewhere as a team member and within three years being a Head Coach making over \$100,000 a year. So it's a huge part about what we're trying to do is not only create something great for our customers, but create great opportunities for our team members.

Sharon Zackfia

Great. And then on Infinite Kitchen, just considering the metrics there remain very healthy at the margin level. Ultimately, kind of where do you see the overall fleet as it relates to Infinite Kitchen? I mean is this something where eventually all locations are retrofitted?

And separately, if not, would you consider just adding kiosks all locations over time, just given the check lift you're getting?

Jonathan Neman

Sure. So, thank you for the question. So we're very excited about the results we're seeing with Infinite Kitchen. Not only are we seeing great feedback from a customer perspective. We're seeing -- we're delivering on what we expected from a unit economics perspective.

So, as I mentioned, the two stores that the two pilot stores we have, which are kind of trending towards \$2.6 million AUVs, ran 28% margin in the quarter so about 10 points ahead of the rest of the fleet.

Last quarter, we had shared that we expect about 7 points of leverage on Infinite Kitchen stores. So we're seeing a little bit higher than that, and that's very promising for us.

As we think about what the Infinite kitchen could look like going forward, we do think it's going to be a huge part of our go-forward strategy. As we get manufacturing set up and get more confident in this in both the -- what -- how we design those experiences and continue to drive down the cost of the machines to fit into more places, you'll see a much higher mix of our deployment in new stores.

We talked about retrofitting three to four stores this year. We're going to learn a ton from those experiments. As we learn about how much downtime there is, what the cost of the renovation is and what the uplift is we'll start to understand how much more of the fleet we think we can retrofit.

We've talked in the past that there is definitely a huge chunk of very high-volume stores that we think have an opportunity for retrofit, but I think we have a little bit more to learn in terms of understanding does it go everywhere and at what time frame and do they -- do we wait for the renovation cycle? Or do we pull it forward.

So there's a lot to learn, but I'd say we're very bullish on the technology and the experience, we expect it to be a huge part of future deployments and probably increasing the percentage of NROs that feature Infinite Kitchen each year. And as we learn more about the renovations, we'll start to go back and tackle that as well.

Sharon Zackfia

Okay. Thank you.

Operator

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

Jon Tower

Thanks. Thanks for taking my question. Hoping you could -- we've heard from others in the industry that second quarter -- first quarter itself was kind of choppy. Second quarter also kind of going in the wrong direction for a handful of concepts. I was kind of curious to get your perspective on what you're seeing with respect to consumer demand, specifically on the traffic side?

Jonathan Neman

Thank you, Jon. Let me spend a minute and first talk a little bit about the first quarter and what we saw, and then I will end with a few remarks on the second quarter, although we're still under halfway through the second quarter. Like other people, the first quarter started off a little bit slow and I would say, January, we were very slightly negative, really attributable in our view to weather something many people have commented on.

February, the business was somewhere in the mid single-digits. And by March, we were in very high single-digits, and that averages itself out to about 5%. Also in the first quarter for us, with our shift in calendar, we did pick up two additional holidays that we didn't have last year.

As we start off in the second quarter, we're tracking a little bit ahead of the high end of our guidance halfway through the quarter. On the positive, that's also prior to our state launch and prior to us really turning on media. So we feel pretty good about where we're at in the second quarter at this point.

Jon Tower

Great. Thank you for the color. I appreciate it. I was hoping maybe drill a little bit into the Infinite Kitchens and specifically, the stores you're seeing that you've got in Naperville as well as Southern California. Maybe you could speak about the traffic versus check perspective. I know you had mentioned on the last earnings call, you were seeing a nice lift in check. Just curious to know how traffic has trended as those stores have kind of matured a little bit more in those markets, as awareness is built around the technology and what you're serving has that led to increases in traffic at the level you were expecting?

Jonathan Neman

So both stores are -- thank you, John. Both stores are under one year old. So we're not able -- obviously -- actually neighbor just hit its one-year anniversary. I think it was yesterday. So we're just going to start to understand what that looks like year-over-year. But overall, we've seen momentum in those stores. And so as awareness has continued to build the stores are strengthening, not weakening. So we're pretty -- we feel very good about those restaurants and the experience we're putting forth. And as I said before, we actually think

a lot of people have asked about the Infinite Kitchen, how we feel about it and what our confidence level is. And what I've shared in the past, and I'll reiterate is that we feel very good about the technology and what -- the scalability of the technology it works, our teams love it and it delivers. I think there is a lot of opportunity for us around how we continue to elevate that experience featuring the Infinite Kitchen.

So how do we add more of that sweeping magic within that experience and more hospitality components and those sorts of things, you'll see us continue to iterate on store designs and experiences to just -- something that we always do is just try to make a better experience. So overall, very pleased continued momentum, and we'll continue to iterate to improve.

Operator

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

Andrew Charles

Great. Thank you. I wanted to ask about stake that in test markets, you mentioned that was included in one of five orders. Given the robust data you have from loyalty users, can you help us understand the incrementality of stake sales and repeat usage that you observed in test?

Jonathan Neman

Sure. Hi, Andrew. So we're very excited about the stake at lunch. Two days ago, we ran a test in Boston. That was very encouraging, as we mentioned, one in five business dinner orders. We're also, I think one of the good things about stake and one of the intentions was to broaden the consumer, bring more customers in, broaden the daypart and also expand that customer base. A lot of the surveys, consumer insights that we had is there's a lot of fast casual customers that won't go somewhere unless there is a meat option and especially with the huge focus on protein, which we've been leaning on with our protein plates, it's a big opportunity.

So we're seeing a wonderful reception. We have seen a really, really nice repeat rate as well, which is why it gave us confidence in moving from a test to a launch. So it wasn't just trial. We saw people coming back and ordering it. And we did throughout the pilot period, the test period make some changes, and we saw improvements as we started to iterate on the actual recipes and build -- so it's still very early, only two days in media has not even turned on yet, but we're very encouraged by the early results. And so what you'll see with stake is probably a few things. One, given the price, you'll see some tailwinds from a mix perspective. But we should also hopefully see some transaction growth as we bring in more new customers and hopefully drive that extra occasion specifically around dinner.

Andrew Charles

Okay. Super. And then my follow-up was just, you talked about the incremental throughput opportunities through more productive staffing and better staffing, no doubt a product of Rosen's initial observations of the brand. Can you help us identify the ultimate opportunity, the ultimate unlock on traffic that you think this can also provide once you're able to fully optimize this?

Jonathan Neman

Are you asking what's the ultimate unlock on traffic in general?

Andrew Charles

Yes. From the improved staffing and the more efficient staffing that you recently were talking about?

Jonathan Neman

Yes, I think it's a few things. One, there's the immediate pickup of those additional transactions. So as you go faster, you can pick up those additional transactions. But I think what you get over time is a change in perception around the brand. So you think about lunch or dinner and you think about your -- how much time you have and there's brands that are in your consumer -- in your consideration set, and then there's one that's not. As we start to pick up throughput, you start to enter that consideration set for people that have more limited time, and we know that over time that drives transactions. So already we're seeing some really nice moves there in terms of both how we train our teams around throughput, how we deploy our labor, and a huge, why we talk about our turnover, why we think about our turnover and head coach stability and internal promote, is those are leading indicators for our ability to drive throughput and hospitality. So I really just want to thank our head coaches, our whole field team, and our operators for the amazing job they're doing, and I think we're really just getting started here.

Operator

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

Brian Mullan

Hey, thank you. Just to follow up on Infinite Kitchen, Jonathan, clarification on that 28% margin in Q1. Is that a fair way to think about the margin on an annual basis at those 2.6 million volumes, what it might be? And then separately, is it fair to think if an Infinite Kitchen location in an urban setting happened to see AUVs above the system average, maybe something above 3 million, would that urban location potentially see restaurant-level margins that were higher than 28%? Just any thoughts on that idea would be great.

Jonathan Neman

Thank you, Brian. Thank you for the question. Yeah, let me first answer the first part. Yeah, I would probably say I think the 28% margin that we saw in the first quarter for Huntington Beach and Naperville is probably a good margin for an AUV, suburban \$2.6 million IK. There was absolutely nothing in the first quarter performance for those two stores that would lead us to think anything else. With the potential maybe exception that Huntington Beach is still a very new store, that was its first quarter. So maybe a little bit of upward momentum under Huntington Beach as we roll forward.

We believe your second question is largely correct, that as the IK gets deployed in higher AUV stores, particularly in busy urban stores, that the margin improvement will be greater than we're seeing in the suburban stores. And we also believe that we will see a big uptick in throughput driving up the AUV. And of course, on that higher throughput, the flow through will be approximately 70% as the only kind of cost that will drag us, cost of goods with no additional labor. That is part of the reason we're doing the retro. And hopefully in the next call or the call for the third quarter, we'll be in a position to kind of give more accurate and complete numbers around that.

Brian Mullan

Okay. That's great. Thank you for that. And just a question on development. Last quarter, you mentioned you were looking at potentially exploring a smaller format unit as well. Could you just talk about that? What's some of the work you're doing? How far along are you? Is that perhaps part of the plan for the next year or two? Or is that a bit further out? Any color?

Jonathan Neman

Sure. That kind of plays into my comments earlier around how we're thinking about continuing to evolve the actual experience. And so we have a few designs and prototypes ready that we've iterated on. And you should expect to see those smaller format units begin testing early next year. So they're pretty -- we're about a year away from those kind of hitting, we're starting to see, starting to understand how they perform. And we think that will be one of the levers as we think to accept, as we look to accelerate our pipeline.

I'd say beyond the smaller format, we do see other formats as a huge part of our playbook. So we do believe drive-throughs are a really big opportunity and something we are looking at. And we have some opportunities, especially powered with the IK. As you know, we've seen very, some great success with our current suite lane. We also have a pickup kitchen that does phenomenally well, which is a super small, you know, just a pickup only mobile order and pickup only store. Again, adding the IK into that unlocks a lot of TAM for us. So, as we look forward for our pipeline, we actually see a lot of densification opportunities in markets that we already -- we do already very well in as we're able to kind of fill in with some of these smaller formats and different types of formats.

Operator

Your next question comes from the line of Katherine Griffin from Bank of America. Please go ahead.

Katherine Griffin

Hi, thank you. First, I just have a quick clarification and then a question. So just to clarify because I think the previous revenue guidance had some assumptions baked into it in terms of the downtime associated with the retrofit, that's still the case. I think even though you haven't -- it sounds like you haven't really like quantified exactly what that downtime might be. It's still baked into the guidance?

Jonathan Neman

Yes, that's correct, Katherine.

Katherine Griffin

Okay. Great. And then the question is just on Protein Plates as a pretty meaningful traffic driver, it seems like. Can you help me just frame or even like quantify how much of the transaction -- growth that you've seen is from Protein Plates over the last couple of quarters? And then, I guess, how much of that do you think is like trial versus something that's more sustainable going forward?

Jonathan Neman

Sure. So I can take that. We've been very pleased with Protein Plates. I think, again, it's created -- it's made Sweetgreen something that people now want at dinner, it's expanded our customer base and is definitely over-indexing in new markets as well. So some of the performance we're seeing, as I mentioned earlier, around the newer markets where we're seeing double-digit comps. Much of that is coming from Protein Places. And the dinner growth we're seeing and the weekend growth we're seeing is really, really promising. So still, again, it's less than 6 months in with Protein Place, but we see a lot of opportunity. And as we've talked about before, we see Sweetgreen is more than just the solid place, and we're going to continue to build on these warm hearty craveable, but still healthy options for our guests.

Operator

Your next question comes from the line of Brian Harbour of Morgan Stanley. Please go ahead.

Brian Harbour

Thanks. Good afternoon. Mitch, could you just update us on pricing for the rest of the year? I think you had previously said about 4%, is it still the right number looking forward? Or is it going to be closer to 5%?

Mitch Reback

Thank you, Brian. It's going to be closer to 4. There's one point that's going to be rolling off, I think, in April. And at this point in time, we don't plan any more price moves for the rest of the year.

Brian Harbour

Okay. Got it. And then just on the topic of throughput and operations, is there anything you could say about -- any way you could quantify it in terms of speed of service or in terms of like digital order throughput, other things that might frame for us, the improvement you've seen relative to last year?

Jonathan Neman

So there's a few ways we think about throughput. We think about throughput, both on our frontline, and then we measure that in a 15-minute period. And what we talked about before is that with an additional five transactions in a store that's about one point in comp. So there's a very big frontline opportunity.

And then on the backline, our digital make lines we have much better data, because the way it's managed is through what we call a throttle, and where we see the huge opportunity in that is we see -- we understand what the lines theoretical throttle are, we understand what the line max throttle is, and then we know where we're running. And if you look at the stores that are running at max versus things running, where the average is there is a ton of room on those throttles, which we manage for 15 minutes.

So the best stores can do up to 90 orders for 50 minutes, and then you have many stores more in the 40% to 50% range. So there is a big opportunity as we get staffed and trained and deployed correctly to continue to unlock throttles on our digital make line, which we think is a really big opportunity.

And again, I'll take this opportunity to talk about so much of our focus right now its just on running great restaurants. It's about delivering a consistent, hospitable experience to our guests, which we know brings them back. They tell their friends, it drives that word of mouth. And given the type of food that we serve and the feeling that it gives you, it really -- it has this habitual nature to it. So when we do what we need to do, things really work out well, and we're very, very much focused on this. And as we've invested in our operations team, very excited to have Rossann here with us under her leadership, as well as Ann, our VP of Operations, we feel very good about the work they're doing to continue to drive great consistent experiences.

Brian Harbour

Thanks.

Operator

There are no further questions at this time. I will now turn the call back over to Rebecca Nounou for closing remarks. That concludes our Q&A session.

Jonathan Neman

Yeah, I'll just take this opportunity again to thank our team. Thank you for all that you do every day in delivering our mission. And we'll see you next quarter. Thanks, everyone.

Operator

This concludes today's conference call. You may now disconnect.

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