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Sweetgreen, Inc. (SG) Q1 2026 Earnings Call Transcript

May 08, 2026, 11:21 AM ET | **Sweetgreen, Inc. (SG) Stock****SA Transcripts**

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Q1: 2026-05-07 Earnings Summary

Insights

EPS of -\$0.21 **misses by \$0.03** | Revenue of \$161.52M (-2.88% Y/Y) **misses by \$2.15M**Sweetgreen, Inc. ([SG](#)) Q1 2026 Earnings Call May 7, 2026 5:00 PM EDT

Company Participants

Rebecca Nounou - Head of Investor Relations

Jonathan Neman - Co-Founder, Chairman, President & CEO

Jamie McConnell - CFO & Treasurer

Conference Call Participants

Michael Tamas - Oppenheimer & Co. Inc., Research Division

Sharon Zackfia - William Blair & Company L.L.C., Research Division

Jon Tower - Citigroup Inc., Research Division

Zachary Ogden - TD Cowen, Research Division

Rahul Krotthapalli - JPMorgan Chase & Co, Research Division

Kelly Anne Merrill - Morgan Stanley, Research Division

Brian Mullan - Piper Sandler & Co., Research Division

Presentation

Operator

Ladies and gentlemen, thank you for joining us and welcome to the Sweetgreen, Inc. First Quarter 2026 Earnings Call. [Operator Instructions]

I will now hand the conference over to Rebecca Nounou, Vice President, Head of Investor Relations. Please go ahead.

Rebecca Nounou

Head of Investor Relations

Thank you, everyone, and good afternoon. Speaking on today's call will be Jonathan Neman, Co-Founder and Chief Executive Officer; and Jamie McConnell, Chief Financial Officer. Both will be available for questions during the Q&A session following the prepared remarks.

Today's call is being webcast live and recorded for replay. The earnings release is available on the Investor Relations section of Sweetgreen's website at investor.sweetgreen.com.

I'd like to remind everyone that the information under the heading Forward-Looking Statements included in our earnings release also applies to our comments made during the call. 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. We also direct you to our earnings release for additional information regarding our use of non-GAAP financial measures, including reconciliations of non-GAAP financial measures mentioned on the call with their corresponding GAAP measures. Our earnings release can be found on our investor website.

And now I'll turn the call over to Jonathan to kick things off.

Jonathan Neman

Co-Founder, Chairman, President & CEO

Thank you, Rebecca, and thank you, everyone, for joining us today. We entered 2026 focused on executing our Sweet Growth Transformation Plan, with a clear priority on strengthening our fundamentals and improving execution across our restaurants. As we communicated last quarter, this work takes time to translate into results, and we expected the first quarter to be the most challenging, given a difficult comparison to the prior year Ripple Fries launch, weather-related headwinds and more work to be done on our transformation plan.

While the quarter was pressured, we saw improvement as the quarter progressed with a further step-up in April, reflecting early progress from the actions we have underway through the Sweet Growth Transformation Plan. As restaurant operations continue to improve, we are bringing innovation to market with stronger discipline.

Yesterday, we launched Wraps nationwide following a rigorous stage-gate process that validated both the consumer opportunity and our ability to execute in restaurants. Test results were strong, driving incremental traffic from new and returning guests while expanding our ability to serve more occasions.

Now turning to results. For the first quarter of fiscal 2026, revenue was \$161.5 million, with comparable sales down 12.8%. We opened 4 net new restaurants, including 3 Infinite Kitchens. Restaurant level margin was 10% and adjusted EBITDA was a loss of \$8.1 million. As we moved into April, traffic trends improved, supported by stronger execution in our restaurants, the performance of our Chicken Sesame Crunch Bowl and early contribution from Wraps in test markets, which ran in about 1/4 of our restaurants, including New York, our largest market. This reflects a deliberate sequencing, strengthening operations first to build a more consistent foundation and then layering in menu innovation to drive more durable traffic.

New York is an important example of the progress we are beginning to see. Given its significance to our footprint, it has been a key focus as we strengthened leadership, improved Head Coach stability and drove more consistent execution through Project One Best Way. While we still have work to do, transaction trends improved in April, supported by better operations in the Wraps test. We view the progress in New York as an early signal of how the broader system can respond as we continue to execute through the Wraps launch and beyond.

We know there is more work ahead of us, and we remain focused on executing against the 5 strategic priorities under our Sweet Growth Transformation Plan: one, operational excellence; two, food quality and menu innovation; three, personalized experience; four, brand relevance; and five, disciplined profitable investment.

Starting with operational excellence, which remains the foundation of our ability to deliver a consistent, high-quality and hospitable experience for our guests. We continue to strengthen consistency across the system through Project One Best Way, which defines what great looks like at Sweetgreen across craveable food, hospitality, operational flow and people culture. The program is grounded in both customer and restaurant level performance data and is focused on building scalable systems and routines that allow every restaurant to execute at a high level, not just the best ones.

Work like this takes time to translate into results, but we are beginning to see improvement in several key operational metrics, including throughput during peak periods, ingredient availability and fewer quality complaints, reflecting stronger operational readiness across the fleet.

At the same time, we recognize there is still meaningful opportunity ahead, and we will continue raising the bar as performance improves. That stronger foundation has been critical as we move into the national rollout of Wraps. We have taken a disciplined stage-gate approach to get here with teams spending months in development and testing, including extensive work in restaurants to build capability, train teams and ensure operational readiness.

One of the core principles for our Wraps experience is that the first bite should be the best bite. To deliver on that consistently, we refined our preparation process through multiple rounds of testing and iteration, including in-restaurant ops shakedowns to validate equipment, positioning and workflows. This work ensured we can deliver on quality while maintaining throughput at peak.

We then validated the concept through a multi-month market test across approximately 70 restaurants, where we saw strong guest response alongside solid execution in the field. The energy in the field is strong, and we are encouraged by how teams are performing out of the gate.

Our focus remains on execution, ensuring every wrap is made right, throughput is strong and the guest experience is consistent from day 1. This quarter, we brought our New York market head coaches together for an Impact Day focused on reconnecting our restaurant leaders to the guest experience through culture and hospitality.

Two weeks ago, we also brought our area leaders together for a 2-day summit to reinforce consistent execution across markets. The focus was on 3 major themes: strengthening head coach performance, building the culture of hospitality where speed and service work together and delivering consistent food quality that drives repeat visits.

Together, these sessions are helping create greater alignment on the experience we want to deliver and the standards required to deliver it every day. To continue this focus, we will bring our head coaches together for impact days across our remaining regions in the coming weeks.

What stood out most to me from Impact Day and the Area Leader Summit was the importance of the connection between our restaurant support center and our field teams. Delivering a better guest experience starts with strong alignment between the teams closest to our guests and those supporting them.

Our head coaches and area leaders are closest to day-to-day operations and their input is critical in helping us refine how we deliver on our standards across food, hospitality and operations. The best ideas come from our restaurants. Building on that operational foundation, one of our key priorities this year is menu innovation, led by the national launch of our Wraps platform. This represents our most significant menu expansion in several years, designed to expand occasions and introduce a more accessible entry point into the brand.

We launched Wraps with a core lineup of craveable flavors, including the Classic Chicken Caesar, Chicken Jalapeno Ranch, and Cali Chicken Club, along with the limited-time KBBQ Chicken. We started with our food ethos, delivering flavors through ingredients that don't just taste good, but also make you feel good. That means preparing seasonal ingredients from scratch every day, cooking our grains, vegetables and antibiotic-free proteins without seed oils and using no artificial flavors, colors or dyes. We were intentional about every component of the wrap, starting with the tortilla.

Early in development, we were unable to find a tortilla in the foodservice market that met our standards. So we partnered to create one made with only 4 ingredients: extra virgin olive oil, unbleached and unenriched wheat flour, sea salt and water, with no preservatives. Guests can taste and feel the difference with social reviews consistently highlighting the quality and flavor of the tortilla.

The energy around the test leading into yesterday's launch has been incredible. Wraps are already appearing in a meaningful share of social content tagging Sweetgreen with positive sentiment of around 85%. Guests are responding to the value with entry price points starting at \$10.45 and ranging up to \$14.95. This launch is supported by one of our largest social marketing campaigns to date, partnering with hundreds of micro and scaled creators who authentically represent culture to drive awareness and engagement across a range of diverse communities.

Our confidence in Wraps is based on the results we saw in testing. Over a multi-month period across approximately 70 restaurants in New York, the Midwest and Los Angeles, Wraps drove incremental traffic from new and returning guests, helped reengage lapsed customers, and showed strong repeat behavior. We are pleased with the combination of incremental traffic and improved customer retention, reflecting strength as a new platform and expanding how guests engage with the brand.

Importantly, execution remains strong with throughput maintained and lower-than-average guest complaints. Taken together, these results give us confidence in both the strength of the Wraps platform and our ability to scale it nationally.

We are also continuing to innovate and strengthen our core menu. The Chicken Sesame Crunch Bowl, which launched in March, is already our second-highest mixing salad and contributed to improving trends as the quarter progressed. It is now a permanent menu item, reflecting strong guest response. At the same time, we have rebuilt our pipeline of both core and seasonal innovation for the balance of the year, including summer and fall menu updates, new core offerings, continued expansion of the Wraps platform and upcoming collaborations with leading chefs, bringing distinctive chef-driven flavors into the menu that reflect the core of our brand. This approach allows us to stay relevant with our existing guests while continuing to bring new guests into the brand.

I'm encouraged by the product innovation we're bringing this year as well as the progress we're making to elevate the quality and consistency of our core menu. We've continued to see an increase in salmon entree sales following our internal Miso My Salmon campaign, which was designed to sharpen execution and elevate quality across the system.

We've taken the same approach to our other core menu ingredients. For example, we've refined our measurement of protein cook cycles and hold times to ensure dishes are served at peak freshness and have elevated 7 of our core ingredients like romaine, quinoa, carrots, napa cabbage slaw and breadcrumbs. This remains an area of focus as we continue to drive greater consistency across the fleet.

Looking ahead, we will begin testing a rearchitected pricing ladder in late June. Central to this work is the introduction of clear entry price points and a new Create Your Own construct that is designed to deliver greater price clarity and a more intuitive ordering experience.

Together, these efforts will make pricing clearer and make it easier for guests to choose and order, supporting incremental transactions across price points. We are pacing these initiatives deliberately using disciplined reads on guest response and P&L impact to guide rollout decisions with a focus on bringing more guests into the brand and increasing frequency over time.

Turning to our personalized digital experience. Our strategy focuses on deepening our connection with customers, driving engagement and increasing customer lifetime value through more targeted one-to-one interactions. At the center of this strategy is our SG Rewards loyalty program, which enables us to deliver personalized offers, incentives and experiences that make it easier for customers to engage with the brand while driving frequency and spend.

At the beginning of the year, we introduced our Craving of the Month program, a key pillar within SG Rewards and a loyalty-exclusive limited time offer available through the Sweetgreen app at a compelling value. The retention and incremental spend signals are encouraging. Of guests who redeemed a Craving of the Month offer, we see higher frequency and higher net average revenue per user. We also see that this program draws in at-risk and lapsed customers, while driving incremental visits with lighter frequency cohorts. While still nascent, this exclusive platform within our loyalty program is helping us win back customers, drive incremental transactions and incremental spend.

Later in the second quarter, we will introduce lower redemption thresholds to our loyalty program, designed to be achievable in fewer visits, making the program more accessible and engaging for a broader set of customers. These new redemption thresholds will include a \$3 credit at 700 points, a \$5 credit at 1,200 points, and a free wrap reward at 2,000 points. Based on the current customer redemption behavior, we expect these changes to drive increased loyalty engagement and higher visit frequency, especially in our lower frequency customer cohorts.

Before I close, we are excited to welcome Ryan Slemons as our new Chief Development Officer. Ryan brings deep experience across real estate, design, construction and portfolio management with a strong track record of scaling high-quality growth across leading retail and restaurant concepts. His focus on thoughtful design and site selection will be critical as we expand our footprint, reimagine our spaces and create better experiences for our guests and team members. We will also reinforce discipline around build-out costs and capital allocation, supporting consistent high-return unit growth.

To close, while the quarter was pressured, we are still in the early innings of our transformation, and we are beginning to see signs that the actions we are putting in place are gaining traction. We are seeing improvement in execution across our restaurants, greater consistency in the guest experience and stronger alignment across our teams. The progress through the quarter and into April, along with the energy in the field, reinforces that we are focused on the right operational priorities and building a stronger foundation for Sweetgreen.

I want to thank our restaurant teams for leaning in and embracing the higher bar we are setting on hospitality and execution, especially as we build momentum coming out of our recent Area Leader Summit.

At the same time, we are operating with greater focus as we rebuild the top line. The national launch of Wraps is an important step forward and a clear example of how we are approaching innovation differently. We took the time to test, learn and ensure we could execute at a high level, and the early response gives us confidence in the opportunity to drive incremental traffic and expand into new occasions.

As we move through the year, we will continue to build on this foundation by improving execution, refining our menu and pricing architecture, strengthening the guest experience and driving greater discipline in our investments. As these actions take hold, we expect to see stronger restaurant level performance over time. We are confident in the path we are on and in our ability to build a more consistent, profitable and durable Sweetgreen brand.

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

Jamie McConnell

CFO & Treasurer

Thank you, Jonathan, and good afternoon, everyone. First quarter results were below our expectations with comparable sales down 12.8%. As Jonathan outlined, we saw improvement as the quarter progressed with trends continuing to improve into April.

Sales in the quarter were \$161.5 million compared to \$166.3 million a year ago. The decline in comparable sales were driven by an 11.2% decrease in traffic and a 2.3% decline in mix, partially offset by approximately 70 basis points of menu price. Traffic was impacted by weather and a difficult comparison to the prior year Ripple Fries launch, which created a headwind to both traffic and mix.

Mix declined in the quarter, reflecting strategic promotional offers to reengage guests as well as the transition to SG Rewards. Traffic improved sequentially through the quarter, supported by menu innovation and targeted loyalty offers with improvement continuing into April.

As we look ahead, we expect comparable sales trends to improve as we continue to execute our transformation plan with Wraps now launched nationally. The comparisons also become easier as we move through the year.

Restaurant level margin was 10%, down from 17.9% last year. Food, beverage and packaging costs in the quarter were 29% of revenue, an increase of 250 basis points year-over-year. The increase was primarily driven by higher ingredient usage, portion investment and targeted pricing and promotional investments, partially offset by supply chain saving initiatives.

Ingredient usage was a headwind of approximately 140 basis points year-over-year. We have taken initial steps to improve visibility into these drivers for our field teams, which is helping us better identify and prioritize the opportunities across the system.

Our focus is on improving the flow of food in our restaurants from receiving orders to inventory management, prep and ensuring accuracy at the point of sale. While we are still early, we see this as a meaningful opportunity to improve consistency and reduce variability over time. We are taking a disciplined approach. While we have made progress on visibility, there is more work to do to strengthen the tools and processes that support the field. This requires alignment between the systems and how our restaurants operate. So we are being thoughtful about how we evolve and roll this out to ensure it works effectively in our restaurant and delivers consistent results.

For the second quarter, we expect food, beverage and packaging costs to be in line with the first quarter with pressure from weather-related produce costs as well as fuel surcharges. We expect the produce-related pressure to be transitory and largely concentrated in the quarter.

First quarter labor and related expenses were 31.4% of revenue, an increase of 250 basis points year-over-year. This was primarily driven by sales deleverage and wage inflation. In our restaurants, we are focused on getting the right labor in the right place at the right time with work underway across staffing and scheduling to better align labor to demand throughout the day, particularly during peak hours where better coverage supports throughput and the customer experience. For the second quarter, we expect labor cost to be in the low 29% range, reflecting low single-digit wage inflation.

Other operating expenses for the quarter were 18.5% of revenue, an increase of 110 basis points year-over-year, driven primarily by sales deleverage. G&A expense in the quarter was \$29.3 million, a decrease of \$9.1 million year-over-year. The improvement was primarily driven by lower stock-based compensation and reduced salary and benefits following our 2025 headcount reduction initiatives.

Underlying support center costs, excluding stock-based compensation and onetime expenses, was \$23.2 million, a decrease of \$4.5 million year-over-year. We are maintaining discipline in support center spending while continuing to invest in the capabilities that matter most to the transformation.

Net income for the quarter was \$125.8 million compared to a net loss of \$25 million in the prior year. This was primarily driven by a onetime gain from the sale of Spyce, which closed during the first quarter of 2026.

Adjusted EBITDA was a loss of \$8.1 million compared to a gain of \$285,000 last year, driven primarily by lower restaurant level profit. We ended the quarter with \$156.8 million in cash. During the quarter, we opened 4 net new restaurants and ended the quarter with 285 restaurants, of which 33 restaurants are powered by the Infinite Kitchen.

Now turning to fiscal year 2026 guidance. We are reiterating our same-store sales guidance with Wraps now and Sweetgreen restaurants nationwide and comparisons easing. We expect same-store sales to be a decline in the range of negative 4% to negative 2%. We expect restaurant level margin to range from 14.2% to 14.7% and adjusted EBITDA to range between \$1 million and \$6 million.

On unit growth, we now expect to open approximately 13 net new restaurants this year, reflecting 18 openings and a handful of lease-related closures, where we mostly see an opportunity to strengthen nearby locations. Our development pipeline is equally weighted this year and nearly half of our openings will feature the Infinite Kitchen.

To close, we are still early in our transformation work, but we are beginning to see progress from the actions we have taken. As execution improves and we bring more discipline to how we operate and invest, we expect to see more consistent performance over time, supported by initiatives like the national launch of Wraps as we rebuild top line momentum and improve restaurant level economics.

Our focus remains on strengthening execution in our restaurants, restoring traffic and managing cost and capital discipline. With that approach, we are focused on building a more consistent and profitable Sweetgreen over time.

And now we're happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Jeff Bernstein with Barclays.

Unknown Analyst

Great. This is Pratik on for Jeff. Very encouraging to hear the April traffic trends improving. And in the release, you referred to the momentum you have. Could you just level set with us what degree of improvement you've been seeing? It'd just be helpful to get kind of an embedded assumption from you for how you see the rest of the quarter playing out, even if you're not explicitly guiding to a comp number in the second quarter?

Jamie McConnell

CFO & Treasurer

Yes. So we saw January and February -- starting with Q1, we saw some pressure with the weather. But as we moved into March, we saw about 100 basis improvement in transactions. We also have price fully rolling off, and we had some mix headwinds due to some of the promotional activities and as we launched SG Rewards. And in April, we improved to about a decline of negative 8%. And we just launched Wraps. And so we're excited about our launch from all the results that we saw in the testing, and we expect that Q2 to land around negative 4%.

Operator

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

Michael Tamas

Oppenheimer & Co. Inc., Research Division

This is Mike Tamas on for Brian. You talked about the improving operations and also like the incrementality from Wraps. So I guess, can you maybe just help us understand what that incrementality look like from the Wraps? And then as the year unfolds, you're talking about doing more menu innovation, but also having all of these improvement in operations that you've done so far and more to come. So what guardrails are you putting in place to sort of make sure that the operations don't deteriorate as you step up that amount of menu innovation?

Jonathan Neman

Co-Founder, Chairman, President & CEO

Sure. Thanks for the question. So as it relates to Wraps, as I mentioned in the prepared remarks, we took a very disciplined approach, starting with an ops shakedown, a rapid ops test in 8 stores and then a multi-month stage-gate process in 3 separate markets. And we were able to both understand the operational impacts as well as the customer behavior.

While I'm not going to guide to an exact number on incrementality, I'll say that we were very encouraged. It mixed in really well. We saw really high return rates of the Wraps. I think most importantly, customers were really delighted with the quality as well as the price. The Chicken Caesar Wrap, in most -- it starts at \$10.45 in certain markets, and no wrap in any market is above \$15. So I think both from a quality, craveability and price value, we are really delivering and customers are noticing it. So it definitely is incremental, and that was all before media. But typically, we do see a pretty nice lift once we advertise things, and we have a really one of -- probably our largest social-first campaign going live right now, getting much more awareness in trial. So we're still very early.

We launched yesterday, but very encouraged by how it's mixing in, the response and the comeback rate on Wraps. As it relates to operations and menu innovation, we really spent last year instituting Project One Best Way, really building the operational foundation with a focus on people, food, feel and flow. And we've gotten much, much better. We've seen our quality complaints come down significantly. We've seen our in-stock percentages, so like our [indiscernible] go down significantly. So more -- much more in stock. So we feel good about how we're operating there.

And the focus has really moved more towards culture within our restaurants and the hospitality and as well as continuing to elevate the quality and consistency of what we do. Given the stage-gate process we have, everything that we're putting out from a menu innovation perspective, both has to meet our ops sandbox requirements in terms of complexity and number of ingredients and any incremental labor hours, but also has to go through a stage-gate process to make sure it doesn't disrupt our core operation.

I think, if I can leave you with anything, it's we are -- the most important thing we are focused on right now is the fundamentals of delivering an excellent customer experience. And the menu innovation is all layered on top of that. And that's what gives us confidence with Wraps and future menu innovation is we believe we've laid the operational foundation to continue to innovate. We have a robust innovation calendar coming for the rest of the year, but done in a way which really limits the complexity for our store teams and should be something that really customers love. So very encouraged by the recent momentum. But as I mentioned, we're still early in the transformation and a lot of work to do.

Operator

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

Unknown Analyst

[Alzera] Austin on for Sarah. Just in the line of menu additions, it kind of seemed like protein plates were an important driver back in 2024, but kind of faded moving into 2025. Are there any learnings on how you guys will manage that with Wraps on the menu now just going through the remainder of the year?

Jonathan Neman

Co-Founder, Chairman, President & CEO

Yes, that's a good question. One of the learnings is to consistently bring new news to a category. So what you'll see us do with Wraps is not only the launch of Wraps compelling, but continuing to support it with media, but also new news and new wrap builds. So today, we have 3 core wraps, 1 LTO. We have a couple of planned incremental wraps that we will introduce throughout the year, whether that be core or LTO. Today, it's 4 signature wraps, all can be modified. We know customers eventually want a build your own wrap, which is something that we're looking at.

And plates have been successful. They've helped us grow our dinner. They have -- some of those plates do exceptionally well like our Miso Salmon plate. And so we do expect to continue innovating on the plates category. So expect some more innovation on plates. It's something that we know our customers love.

Operator

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

Sharon Zackfia

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

You've done so much work over the last year in different efforts to improve your value perception. And I'm curious if you have any kind of quantifiable research on how the consumer has recognized that. Do you think you're getting credit for all of the efforts you've done? And what have you done that's really landed well and where were maybe you a bit more disappointed in something that you rearchitected that the customer just didn't really appreciate?

Jonathan Neman

Co-Founder, Chairman, President & CEO

Thank you, Sharon. So as you mentioned, we have been working on value perception through a number of different initiatives. I think first and foremost, we are proud of the food we serve. And we believe when we execute on our core fundamentals and deliver a great customer experience that given all that we do within -- from a sourcing and scratch cooking perspective, that we offer tremendous value.

Having said that, we do see opportunities to offer more entry-level pricing and kind of a different pricing ladder for different consumers to drive acquisition and repeat behavior. So a few of the things that we've done that we believe are resonating. One is Wraps. If you look at the social commentary on Wraps, some of the lower pricing is really resonating, and we are seeing the comeback rate or the return rate of many of those customers as an encouraging sign.

Two, we're getting more juice out of our loyalty program, both the core program as well as cravings of the month. We're seeing high adoption of that. And as I mentioned on the call, we're seeing the average revenue of those users be incremental. So it's a good activation for both new customers and lapsed customers, but those customers stick with us.

We do not plan on continuing the promo and discount at this level. We do expect to really wean off of this. We are also -- the biggest price moves we're going to make, we're going to go into test come in about a month or so on a whole kind of pricing architecture change, which I described in the prepared remarks, both on our Build Your Own framework as well as testing some more entry-level pricing.

As it relates to data to quantifiable research, we have now done a baseline on price value. And over coming quarters, we'll share more on how that has changed. But to leave you with anything, really the focus is delivering on the fundamentals and delivering a great customer experience. And when we do that, the food -- what we offer is really worth the money, and we're proud of that.

Operator

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

Jon Tower

Citigroup Inc., Research Division

I just maybe you can help us think through, there's a lot of moving parts on the business right now and whether it's Wraps or changing the pricing architecture in the future. Like how you're thinking about incremental flow-through going forward for the business? And specifically, with focusing on lower price points, I would assume that check is going to be a little bit lower. Can you help us think through that?

Jamie McConnell

CFO & Treasurer

Yes. So we still expect flow-through to be around the 40% range. And what we are seeing with wraps is, there is some check dilution, but we are getting the incremental transactions. And what we're also seeing is the prep for the produce that goes into the wraps is less and also the waste is less. So we're actually seeing favorable cost of goods sold on our wraps even with the lower price point. And so as we test, when we look at the menu price architecture, that's something that we're going to be very careful and sequenced about, and that's why we've paced every kind of discount and promotion that we've done because we want to measure the results and making sure that we get the return. So staying with the price architecture, we're going to be disciplined about that approach and make sure that it's working.

Operator

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

Zachary Ogden

TD Cowen, Research Division

This is Zach Ogden on for Andrew. So for the full year restaurant level margin guidance, it does imply about 100 basis points, maybe a little bit more in the second half of the year in terms of leverage. So can you talk about the drivers that will get you back to that margin level leverage? And then maybe talk about any pricing plans as a part of that?

Jamie McConnell

CFO & Treasurer

Yes. So when you look at our margins for the quarter, about half of it is sales deleverage. And then we also have wage inflation of about 40 bps, but the remainder is really within our control. And so there's a lot of work being done behind the scenes, especially as it relates to cost of goods sold. And so we have just introduced visibility to the field on the waste by the different categories, but there's still a lot more work to be done to make sure that they're ordering the correct amount, they're prepping the right amount and that we're giving them the tools to be successful to properly do this.

So we've just unlocked the visibility, but we plan to unlock the tools through the back half of the year, but we are seeing quarter-over-quarter improvements. And so also within labor, we have a labor study going on right now. And so we are looking at our labor as well and making sure that we have the right people staffed during the peak hour to drive the throughput and make sure that we're getting sales leverage on those transactions. So a lot of work being done behind the scenes on the margin.

Operator

Your next question comes from the line of Rahul Krotthapalli with JPMorgan.

Rahul Krotthapalli

JPMorgan Chase & Co, Research Division

Can you update us on where you are in the efforts around reestablishing like the coolness factor, if you will, on the -- as you continue to be a premium and aspirational brand while also being affordable and making progress in democratizing wellness and mindful eating? And I have a follow-up.

Jonathan Neman*Co-Founder, Chairman, President & CEO*

Thanks, Rahul. Yes, one thing I'll just point to broadly is last year, we really rebuilt our leadership team. And underneath Zip, our Chief Commercial Officer, have rebuilt much of our marketing and brand team. So we are taking a new approach to how we invest in the brand and leaning more into the lifestyle elements.

The first thing that I think builds a brand, and our team hears me all the time is word of mouth on delivering a great experience in our restaurants. So first and foremost is just executing on excellent customer experience and living up to our promise around consistency, quality and hospitality. But we're also leaning into some new things.

For example, with our Wraps launch, you'll see a different kind of launch with us more of a bottoms-up approach with social-first content really and other moves getting into culture. As you move into the summer, you'll see us do some really cool things leaning into some collaborations in both culture and -- both culture broadly as well as chefs, something that we've done in the past that definitely resonates with our guests. And you're also seeing us do a lot more kind of events in real life. Even tonight, we're celebrating our Wraps launch with an awesome event here in Los Angeles at our Silver Lake restaurant. So much more with creators, influencers, storytelling and leaning into the lifestyle elements of the brand. So expect to see more as the year continues.

Rahul Krotthapalli*JPMorgan Chase & Co, Research Division*

And then the follow-up is on the owned digital customers, like approaching 40% is good to see. Any insights you can share around the frequency of these customers? I know we spoke about the monthly active users in the past. How is this cohort interacting with the brand directionally?

Jamie McConnell*CFO & Treasurer*

Yes. So I would say there's a lot of work being done on our loyalty channel. So that's why we're beginning to see some momentum there, especially within our native channel. And so with the cravings of the month and then the targeted loyalty actions, we are seeing some improvements in our own channel. And we're actually also seeing increases of loyalty users signing up month-after-month.

Jonathan Neman*Co-Founder, Chairman, President & CEO*

Yes. The other thing where you're seeing the owned -- the other change in the owned digital is we've continued to see really nice momentum on people using loyalty in restaurants from a scan to pay perspective. The scan to pay has reached about 20% of in-store transactions. And that's a positive signal because once we get them into our digital ecosystem, we love them ordering in restaurant, but that gives us the benefit of ordering in restaurant and having a connection digitally where we can market to them directly. So some nice encouraging signs around the frequency, but a lot more work to do.

Rahul Krotthapalli*JPMorgan Chase & Co, Research Division*

Congrats on the Wraps launch. The KBBQ is my favorite and it's fire.

Operator

Our next question comes from the line of Kelly Merrill with Morgan Stanley.

Kelly Anne Merrill*Morgan Stanley, Research Division*

I just wanted to continue on with the digital conversation and see if you had anything else to add as percent digital revenue and owned digital revenue saw a nice tick up sequentially and year-over-year. And then just one more I wanted to ask what trends have you been seeing on third-party delivery as of late?

Jonathan Neman*Co-Founder, Chairman, President & CEO*

Sure. So I mean, just to reiterate what I said before, we've continued to invest in our digital ecosystem. I think it's somewhere where we're probably best-in-class around our digital -- in the digital experience in our restaurants, not only what we do within our app, but how we support it within our restaurants. So we've been very intentional about how to build an omnichannel restaurant where we don't disrupt the in-store experience for those digital customers. And we've done a lot of work on, call it, the back end, where it be our throttle management and working on things like accuracy on time and on-time rates, so people can trust those digital channels.

Continue to A/B test features. We've continued to come out with a number of new features within our app, and we have a robust road map across the rest of this year. We actually have accelerated our digital road map, especially given the advent of AI, we can move faster on a lot of those things. So customers really love and trust our digital experience.

Remind me the second part of your question?

Kelly Anne Merrill

Morgan Stanley, Research Division

Just on trends in third-party delivery recently.

Jamie McConnell

CFO & Treasurer

Yes. So trends in our third-party delivery, that is a channel that we're very focused on right now. So we're looking -- there's a number of work streams under place to, one, make sure that we're delivering a great experience. We're not missing items or inaccurate. So we've been working on that as long -- also with our kind of our time to order and pick up. And so there's a lot of work being done behind the scenes. We've seen some good improvement on our native channel and marketing -- marketplace is starting to improve and we're seeing the trends improve into April.

Jonathan Neman

Co-Founder, Chairman, President & CEO

Yes. Marketplace, we've seen a huge improvement into April. I think we've optimized both the paid side of the marketplace, but also the -- as Jamie mentioned, the organic side. There's a lot we can do to show up higher in the algorithm, especially around wait times, order readiness and even little things around, call it, SEO management on the marketplace. So getting smarter and sharper there, and we expect marketplace to be a strong growth channel for us as we look throughout the rest of the year.

Operator

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

Brian Mullan

Piper Sandler & Co., Research Division

Just a question on development specific to next year. Not looking for precise guidance, but really just trying to understand your current appetite to build new restaurants beyond projects that are already underway during the time period that you're going through this fleet transformation plan process. So just how you're thinking about development right now?

Jonathan Neman

Co-Founder, Chairman, President & CEO

Yes. I'd say we're taking right now a very disciplined approach, really focused on high return on invested capital restaurants that we have a high level of confidence in. We won't be -- I'd say we don't expect an acceleration in development until we start to see the flywheel working here, comps improving significantly and feel much better about the core operation. But we do -- we will continue to develop new restaurants. We're continuing to work on both the design and prototype of those new restaurants. We're really excited to welcome our new Chief Development Officer, Ryan. So expect a tempered year of development, and we'll come back with more as the year progresses.

Operator

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

Unknown Analyst

This is Paul on with Dennis. My first part is just encouraging to see the improvement in April so far. And I appreciate the color that you provided on transactions and pricing. Just wondering if you noticed any shift in consumer behavior during the past few months?

And then the second part was just following up on the development pipeline question, particularly over the longer term, what is the future opening mix between entering new markets and penetrating further in existing markets?

Jamie McConnell

CFO & Treasurer

Yes. In terms of consumer behavior, we are seeing some improvements in our younger cohorts. So the 18 to 35 has really started to pick up, which is good to see. In March, we launched our Chicken Sesame Crunch Salad. That was a huge hit. And then now we have now launched Wraps. So we're hoping to continue to see some of this momentum. And then in terms of development pipeline, I don't know, if there's anything else you want to add.

Jonathan Neman

Co-Founder, Chairman, President & CEO

As it relates to development pipeline, we're really focused on, kind of, building out a lot of the newer markets where we have seen success. One of the bright spots in development recently has been a number of those new markets. For example, we entered Phoenix last year. We're seeing about \$3.2 million AUVs in that market. We're in Sacramento with about \$3 million AUVs. So some really bright spots in some of these new markets, but we still have a number of new markets where we're very lightly penetrated and have a lot of room to grow. So probably not a whole lot of net, like, totally greenfield markets and more building out those lightly penetrated markets so we can get the efficiencies around supply chain operations and brand.

Operator

There are no further questions at this time. This concludes today's call. Thank you for attending. You may disconnect.

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