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Sweetgreen, Inc. (SG) Q2 2024 Earnings Call Transcript

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Q2: 2024-08-08 Earnings Summary

[Play Call](#)[Press Release](#)[10-Q](#)EPS of -\$0.13 **misses by \$0.01** | Revenue of \$184.64M (21.06% Y/Y) **beats by \$3.86M**Sweetgreen, Inc. (NYSE:[SG](#)) Q2 2024 Earnings Call August 8, 2024 5:00 PM ET

Company Participants

Rebecca Nounou - Investor Relations

Jonathan Neman - Co-Founder and Chief Executive Officer

Mitch Reback - Chief Financial Officer

Conference Call Participants

Sharon Zackfia - William Blair
Katherine Griffin - Bank of America
Brian Mullan - Piper Sandler
Logan Reich - RBC Capital Markets
Jon Tower - Citi
Brian Bittner - Oppenheimer & Co.
Andrew Charles - TD Cowen
Christine Cho - Goldman Sachs
Brian Harbour - Morgan Stanley
Dennis Geiger - UBS

Operator

Thank you for standing by. My name is Jeannie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sweetgreen Inc Second Quarter 2024 Earnings Call. [Operator Instructions] Thank you. I would now like to turn the conference over to Rebecca Nounou, Vice President, Head of Investor Relations. You may begin.

Rebecca Nounou

Thank you and good afternoon everyone. Speaking on today's call will be Jonathan Neman, Co-Founder and Chief Executive Officer, and Mitch Reback, Chief Financial Officer. Both will be full of questions during the Q&A session following the prepared remarks. Today's call is being webcast live and recorded for replay. 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 statement, we'd 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.

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

Jonathan Neman

Thank you, Rebecca and good afternoon everyone. We had a strong second quarter, a testament to the groundwork we laid in 2023 the impact of our growth strategies and the strength of our team. We reported sales of \$184.6 million representing 21% year-over-year growth. Team source sales grew 9% this consisted of a 5% benefit from menu price and 4% positive traffic and mix. Restaurant level margin for the second quarter was 22.5% expanding over 200 basis points year-over-year, making this one of the highest restaurant level margin performances in the company's history.

Additionally, we generated an adjusted EBITDA of \$12.4 million for the quarter. We delivered a strong second quarter due to several factors, including the launch of Caramelized Garlic Steak, disciplined operational execution and strong restaurant openings, all part of our simple two prong strategy. One, continue building our brand by creating great products and guest experiences. Two, expand our connection to guests by building and operating great restaurants. Let me share some of the highlights from this quarter.

During the second quarter, we opened 4 new restaurants, one in Washington, DC, Chicago, Morristown, New Jersey and Salem, New Hampshire. New Hampshire being a new market for us. Our 2024 cohort of new restaurant openings are ramping nicely and continue to have an average weekly revenue that already outpaces the existing fleet average. As we shared a few quarters ago, we relaunched our intimacy at scale playbook to execute new openings. This playbook prioritized choosing the best real estate, having the right leaders in place, and strategically investing in brand awareness, which is paying dividends. Additionally, we saw strong top line performance in emerging markets such as the Midwest, Texas and the Southeast. Our results continue to show that our brand's relevancy extends far beyond our current footprint, with considerable white space in both new and existing markets.

Sweetgreen's high quality offering and compelling value is clearly resonating with consumers in today's industry backdrop. On July 15, we completed our first Infinite Kitchen retrofit at Penn Plaza, which is now the fastest way to get Sweetgreen in New York City, the retrofit began in June and took seven weeks to complete. We were able to keep the restaurant partially open during six of the seven weeks of renovation for online ordering and delivery, the restaurant was fully close to one week. It is the first Infinite Kitchen made by our contract manufacturer, which was delivered on time and at target cost. Since reopening, we are seeing some of the highest throughput levels we have seen at the store. While less than a month in operation, we are pleased with the performance of the restaurant. We remain on track to open a total of 7 new restaurants featuring the Infinite Kitchen, as well as retrofitting two to three existing restaurants with the Infinite Kitchen in 2024.

Looking ahead, we are resuming a new unique growth rate of 15% to 20% annually, with 2025 being at the lower end of this range, and 2026 and beyond, targeting the upper end of the range. The majority of our 2025 pipeline is identified, and we are working on our 2026 pipeline. Our menu innovation has attracted new guests driving traffic and check sizes. Caramelized Garlic Steak, which launched in May and protein plates have been particularly successful at driving same store sales at dinner and on weekends in the second quarter. Dinner now represents 40% of sales, excluding the 2 p.m. to 4 p.m. midday day part. This was an expansion of 3 percentage point's year-over-year.

Additionally, in June, weekend Same-Store sales grew by double digits. We've also seen our share of nail guests acquired steadily increase since the fourth quarter of last year. We believe our culinary innovation will allow us to further grow our dinner mix, as well as be a driver of long-term traffic. With respect to operations, our teams remain focused on prioritizing the guest experience and increasing throughput. We saw progress across the fleet, and it reflected in our results this quarter. This will continue to be an area of focus for us moving forward. Part of our culture is creating an ownership mindset, and our incentives are aligned to these values. These incentives include bonuses and equity grants for our head coaches. As we prepare for more restaurant openings in the coming years, we are building a solid pipeline of future head coaches, and are thrilled about the growth opportunities for all of our team members. This is why we've been focused on investing in the employee experience, including upgrading our learning path with an emphasis on leadership skills like performance management, culinary skills and hospitality. We believe that Sweetgreen offers a career and not just a job. Many of our best head coaches are developed from within, and we are proud that over 50% are promoted from within.

As we move forward, our goal is to increase this percentage. We've been focused on investing in head coaches to improve stability, because keeping leaders in place can reduce restaurant turnover, which has stabilized at a new post pandemic low. Last week, Sweetgreen turned 17. Since day one, we've had a vision to redefine fast food by creating a concept that is committed to being fresh, craveable, convenient and sustainable. Our unique sourcing model, partnering with farmers and suppliers we know and trust, combined with our commitment to delivering compelling value at scale, has made Sweetgreen a category leader. We plan to continue to lead and define this category by thoughtfully expanding our menu, building out our digital program, introducing new formats and innovating how restaurants of the future will operate via the Infinite Kitchen. I want to thank all of our team members for their hard work. Over the past two years, we've been focused on strengthening our operations and financial model and positioning ourselves to accelerate profitable growth.

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 Jonathan just shared our hard work over the past several quarters, and commitment to disciplined capital efficient growth is demonstrated in our second quarter results. We achieved our 13th consecutive quarter of over 20% revenue growth, with Same-Store sales reaching its highest level in two years, this flow through to restaurant level margin and adjusted EBITDA. For 2024, we remain on track to be adjusted EBITDA positive on an annual basis.

Total revenue for the quarter was \$184.6 million, up from \$152.5 million in the second quarter of 2023, growing 21% year-over-year. For the second quarter, Same-Store sales grew 9% year-over-year. This consisted of a 5% benefit from increased menu prices and a 4% increase due to positive traffic and mix. All markets comped positively with very strong growth led by newer markets, Texas, Florida, Atlanta and the upper Midwest. Year-to-date, Same-Store sales change is running at 7%. Our average unit volume in the second quarter was \$2.9 million. Restaurant level profit margin in the second quarter was 22.5% compared to 20.4% a year ago. This is more than a 200 basis point improvement from the second quarter of 2023, margins were strong across all regions and age cohorts.

Year-to-date, restaurant level profit margin is 20.5%. Restaurant level profit for the second quarter was \$41.5 million and more than 30% increase year-over-year. For reconciliation of restaurant level margin to comparable GAAP figures, please refer to the earnings release. In the second quarter of 2024, we opened four restaurants, including restaurants in Washington, DC, Chicago, Morristown, New Jersey and Salem New Hampshire, a new market for us. We ended the quarter with a total of 231 restaurants. Our Infinite Kitchens continue to deliver on our financial, operational and customer service metrics. Naperville just crossed its one year anniversary in May, with \$2.8 million in sales. For the second quarter, the restaurant level margin was 31.3% in its first year team member turnover was around 45% less than what we see in a classic restaurant at a similar stage. Our Huntington Beach IK is 6 months old and following a similar trajectory, our Penn Plaza retrofit, open for a few weeks, has shown strong performance on its second day, the Infinite Kitchen produced nearly 200 bowls in 30 minutes with 100% on time reliability, and has the potential to reach 500 bowls per hour.

As Jonathan mentioned, Penn Plaza offers the fastest way to get Sweetgreen with an average order completion time of just under 3.5 minutes. For 2024, we are on track to open between 24 and 26 new restaurants, 7 of which will contain the Infinite Kitchen. These seven restaurants are scheduled to be opened in Q3, and Q4 of 2024 one of which was open this week in Fashion Island in Newport Beach, California. Food, beverage and packaging costs were 27% of revenue for the quarter, flat year-over-year. Labor and related expenses were 27% of revenue for the second quarter, a 200 basis point improvement year-over-year, while we experienced wage rate increases, this was more than offset with improvements to labor optimization. Occupancy and related expenses were 8% of revenue, 100 basis point improvement year-over-year. General and Administrative expenses, \$39.2 million or 21% of revenue for the second quarter of 2024 as compared to \$40.4 million or 26% of revenue in the prior year period. The decrease in general and administrative expenses were primarily due to a \$3.6 million decrease in stock based compensation expense, which was partially offset by an increase in our investment in advertising.

Net loss for the second quarter of fiscal 2024 was \$14.5 million as compared to a loss of \$27.3 million in the prior year period. The decrease in net loss is primarily due to a \$10.4 million increase in our restaurant level profit and a \$4.5 million decrease in restructuring, a \$1.2 million decrease in pre-opening and a \$1.1 million decrease in general and administrative expenses described above. These decreases were partially offset by an increase in depreciation and amortization expense, primarily associated with an increase in restaurants as well as an increase in other expenses related to the change in fair value of our contingent consideration. Adjusted EBITDA, which excludes stock based compensation and certain other adjustments, was \$12.4 million for the second quarter, an improvement of \$9.1 million from the second quarter of 2023. We ended the quarter with a cash balance of \$245 million. During the first six months of 2024, we generated a positive operating cash flow of \$22.5 million.

Now turning to guidance. For the fiscal year 2024, the raising guidance reflects our strong performance in the first half of the year, we remain cautious for the second half of the year, given what we are reading about, the uncertainty U.S. economic backdrop. Additionally, our guidance reflects the retrofitting of 2 high volume restaurants with the Infinite Kitchen, including Willis Tower in Chicago. 24 to 26 net new restaurant openings, revenue ranging from \$670 million to \$680 million. Same-Store sales growth between 5% and 7%, restaurant level margins between 19% and 20% and adjusted EBITDA between \$16 million and \$19 million. As we shared before, we remain committed to disciplined capital efficient growth and driving profitability, so that we can accelerate the Sweetgreen flywheel. We remain focused on building our brand culinary innovation, leveraging our unique supply chain and delivering operational excellence. With this focus, we believe you are well positioned to deliver long-term growth for our stakeholders.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia

Hi. Thanks for taking the question. The corner comp was really impressive, and obviously had this nice uptick sequentially in transaction and mix. Can you talk about what was the primary driver between those two components? Because I recognize steak was probably a mixed benefit. So I'm not sure how much we should really attribute to traffic versus mix. And then secondarily Mitch, when you're talking about the uncertainty in the macro environment. It doesn't seem like you're seeing anything, but I just want to clarify if that is, in fact, the case.

Mitch Reback

Thank you very much, Sharon for the question. So let me break the question apart into two buckets to take the first one, which was on the second quarter. We have any kind of comments about the traffic and mix and how it's sequentially built. Let me just say that for the quarter, our traffic was positive and is sequentially built each month during the quarter. The mix benefit was largely attributable to the launch of steak. Your second question, I believe, was, what are we seeing in terms of the cautious guide. And I guess I'll translate that a little bit to what are we seeing early on in Q3, like a lot of other people have reported, the first week of the quarter was soft around the 4th of July. As we moved away from the 4th of July, our business picked up, and for the last 3 weeks of July, our business comped at the top end of our guidance.

I think what I would say, in a kind of making an overall comment, is we feel really happy and comfortable with the things that we control in our business. We're very happy with the menu innovation and most importantly, the customer acceptance of our new items. We're very happy with our marketing that we've moved to more out of home, and it's showing very strong results. We talked in the past about improving our labor scheduling and deployment in order to improve hospitality and lower labor costs as a percent revenue. And we're very pleased with our results, and we alluded to in the script, very pleased with our new market response and the strong comp growth rates we're seeing across all of our new markets. And the class of 2024, opened up very strong, with higher weekly revenue than we're seeing in the fleet.

However, we feel like we do not control the outside world, and we kind of read the same stuff in the same papers everybody reads and reports on and I think we have a degree of kind of cautiousness around the external environment having said that, we are pleased with the fact that July, last three weeks of July, came in at the top end of our guidance.

Sharon Zackfia

Thanks for that. And as my follow-up on the IK at Penn, are you seeing customers discover the improved throughput via walk-in, or does it happen more in the digital channel first? Thanks.

Jonathan Neman

Sure. Hi, Sharon, good to hear from you. And thank you for the question. So just before I begin, I'd love to just thank our, the whole Sweetgreen team for a phenomenal quarter, a lot of hard work to get to this point. And I just want to take a moment to thank every single person, especially our frontline team members, our head coaches that really bring the Sweetgreen mission to life every day. As it relates to Penn Plaza, I think if you go and experience it, it's pretty amazing. I mean, we're delivering food in under an under 3.5 minutes. If you had gone to that store before at peak, you would have waited in line, 10 minutes to 15 minutes, and then once you started your order, probably, you're about another 3 minutes until you get your food. So you can now pretty much walk-in. There's almost, the way we've designed it, with the kiosk ordering, as well as the concierge ordering, practically zero wait to order, and your food is out in a 3.5 minutes.

So that is, aside from the digital orders, which, again, if you're ordering on your phone, it's also that fast. So very encouraged. We're seeing some really positive feedback from consumers, also seeing some great positive feedback from our team members, which is really important. This is the first restaurant where we had team members that worked in an old and existing Sweetgreen that are now working in the new model. So we get an interesting test on seeing how they view the experience, and they're really thrilled. It's just a lot more fun and easier place to work for them. And so really excited about it. I think it's early, but encouraging. And I think over time, as customers understand how fast they can get through and get their Sweetgreen, I think we will continue to see some traffic driving potential there.

Sharon Zackfia

Thank you.

Operator

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

Katherine Griffin

Hi, thanks for the question. First, I wanted to ask another question, I guess on marketing. It's been a different tack for Sweetgreen, the advertising around the Caramelized Garlic Steak launch. It's clearly been successful. It seems like you're seeing a return on it. So I'm curious if this is something you're thinking about incorporating in your, go forward strategy, or if it's more something that's reserved for, a big, culinary launch. Is there any thoughts, I guess, on advertising for Sweetgreen and going forward?

Jonathan Neman

Sure, thank you for the question. So I'd say it's much more of how you can expect us to go forward. We've made some good investments in the talent around our marketing team. So shout out to our marketing team done a great job, really thinking about 360 campaigns, including, how we leverage out of home digital community, and we're seeing some really great results around it. So we will be incorporating this into our go forward strategy. We've also, many people still think about Sweetgreen as a salad company. We've never viewed it that way. From the very beginning, the idea was to create a company that leveraged in a really unique, fresh supply chain craft around how we make our food, and then applied that to different types of food. Of course, we started with salads, and that's what we're very much known for. But as you're seeing, we're starting to branch out and leverage that license the brand has around the quality, craveable fresh food, and then apply it to plates. And over the next year or so, you're going to see a lot more menu innovation.

And one of the things that we're really excited about that we've seen in this quarter, which is something we've been working on for a while, is that broadening of our consumer and broadening of our day part. So, we've seen a nice shift in dinner with huge growth of that dinner day part, we brought in the consumer. And some of the results we've seen a lot, a lot of the success was actually from a lot of the emerging markets that, at one point were, a little bit questionable for us. We saw some massive comps in those markets, and I attribute that to a combination of the great culinary innovation we've had with this new approach to marketing.

Katherine Griffin

That's great. Thank you. And then on the menu innovation that Sweetgreen's been executing. I'm curious how it's resonating with your existing, more like habitual customer base. And I guess what that means for how you're thinking about balancing menu innovation going forward in order to appeal to your, new cohorts versus existing.

Jonathan Neman

Yes, we've seen success across both. If you look at the both the customer acquisition and the frequency trends, we've been pretty pleased about both how it's brought in new customers, and removed that veto vote in many ways, and created that occasion where I want that Sweetgreen experience. I may not want a bowl full of greens, but now I can get a steak bowl with wild rice and Caramelized Garlic Steak, and it's a really hearty dinner option with a really great value, especially in this environment. And our existing guests are loving it too. So I'd say we're seeing it in both existing and with new customers.

Katherine Griffin

Great. Thanks, Jon.

Operator

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

Brian Mullan

Hi, thank you. Just question on development, as you look to next year, do you have visibility yet in terms of how many of those locations might have Infinite Kitchens, or is that still yet to be determined? And really just wondering if that answer has more to do with the way you're constructing your pipeline, or if there are any contract manufacturer constraints to think about as well?

Jonathan Neman

Sure. So the short answer is, expect a much higher percentage of Infinite Kitchens in the pipeline. We're not yet disclosing exactly how many, as we're finalizing design, but expect, I'd say a majority, more than 50% of new units would include an Infinite Kitchen next year.

Brian Mullan

Okay, thank you. And then just follow-up, Jon, more of a strategic question for you. But, if the Infinite Kitchen continues to progress the way you hope, you just talk about the strategic optionality that gives the company over the next 5, 10 years or even longer. What does that help you do with development, and does it also give you opportunities to do anything with the value perception, with consumers and the value proposition?

Jonathan Neman

Yes, absolutely. I mean, one of the reasons – the reason we were so excited about this is we saw this as a huge tool for us, and especially as labor becomes more challenging and more expensive, and today, we're seeing a lot of success, but to your point, over time, there's a lot of optionality, whether that be things we do from a price value perspective. The unlocking TAM that it allows us for with the margin increase and the fewer employees that we can run it with, it should unlock a lot of white space for us. And the way it's been designed and the innovation team we have around innovation – around automation is we believe that there's applications outside of this core bowl application as well. So, I'd say there's a lot of option value around automation, and what we've built with the Infinite Kitchen. And I just want to take a moment to thank the whole Spyce team, who've done just an incredible job leading this project.

Operator

Your next question comes from the line of Logan Reich with RBC Capital Markets. Please go ahead.

Logan Reich

Hey, thanks for taking the question. Congrats on the really solid results. My question was on restaurant margins, obviously, really impressive growth this quarter or margin expansion this quarter, year-over-year. Obviously steak is coming in the mix more so going forward. But I guess, just like, how do you sort of think about restaurant level margins, sort of trending, and what are the puts and takes beyond sort of this year that you guys are most looking out for? And then I have a follow-up.

Mitch Reback

Thanks, Logan. I think, let me answer that question more in the broader term over the next few years. Since, I think that's the way the question was phrased, we continue to see our margins expanding near-term, and I think most of that is going to come from a few areas, continuing to see more improvements around labor and labor deployment. And I think we've seen great success in the past few years, but we could see a lot of opportunity coming forward. There's going to be some opportunity, of course, in our occupancy. As a small company, our occupancy was heavily influenced by deep urban areas. And as we grow and grow in newer markets, our occupancy will steadily come down. And I think the other area, the P&L basically, in the area of other expenses, we continue to find leveraging opportunities throughout them, and you'll see us continue to drive some of those so I believe over the next few years, you'll see our margins increase. I want to caution it may not be on an exactly at a quarter-by-quarter basis, but on an annual basis, they should improve over the next few years, and this is absent the deployment of the IK. The IK, I believe, will supercharge the margin expansion, particularly if we can retrofit very high volume stores rapidly.

Logan Reich

Great. Thanks. And then on the Penn Plaza retrofit, I guess. What are the sort of key learning's there that sort of instruct your views going forward on the retrofits, whether that be sales performance through that 6 or 7-week period, how does that sort of impact your guy's views on the retrofits going forward?

Jonathan Neman

So is the question, what are – what did we learn? Or what are we trying to learn?

Logan Reich

Yes, I guess, like, what were your learning's relative to expectations during that retrofit?

Jonathan Neman

Yes, I'd say, first of all, I think it was impressive that we were able to keep the store operating during that time. So we were able to do for the first one, we were able to turn that store in 7 weeks and keep it running from a - with a digital ordering so delivery and pickup running during that time for 6 of the 7 weeks, we made the decision to close for 1-week, really to focus on hospitality training for the team in that week, but I think it was an encouraging start for us, and I think over time, we should be able to bring that down. Other learning's, I think we're under we're learning continuously with each new Infinite Kitchen, we just opened one this week on Tuesday. Like I've said many times in the past, we feel very good about the technology, and that will continue to improve and will continue to scale the cost down. We're still working to perfect the overall experience. And I think with each new one, you see, you'll notice a lot of things that we're trying and testing as we start to really perfect. It's really that feeling that you get the look and feel the vibe of that restaurant when you walk in, as well as the team member experience and making sure we just nail down all the right adjacencies from a labor perspective and the right flow from a customer perspective, all while trying to bring our build out costs down pretty significantly as we look to accelerate opening. So, it's a huge focus area for us. We are learning both about new builds and retros, but I would say, with four under our belt, we have learned a ton and I am very pleased with the results thus far, which is what has given us the confidence to continue to accelerate this year seven more, will open a bunch more this year and next year, we are going to open a lot more and we wouldn't have that confidence if we didn't see the results we are seeing today.

Logan Reich

Thank you very much.

Operator

Your next question comes from the line of Rahul Chow [ph] with JPMorgan. Please go ahead.

Unidentified Analyst

Good evening, guys. Congrats on excellent results and execution. As Sweetgreen expands from being regional to truly national over time, can you share some of your early thoughts or your philosophy of reinvesting some of the margins you realize back into customer bowls [ph] or menu price? How are you as an organization thinking about this today as you build out into your TAM and I have a follow-up?

Jonathan Neman

Sure. So, thanks for the question, Rahul. So, to your point, one of the – one, I think for me, one of the most encouraging things that we have seen over the past couple of quarters has been the momentum across the company, the breadth and depth of the sales growth, specifically a lot of the momentum we have seen in the emerging markets in the Upper Midwest, where we grew a lot. We planted a lot of restaurants last year, in Texas and Florida and Atlanta, all markets that we are seeing really robust growth. I think that, once we get to a scale, I mean people have a different number, whether that's 400 units or 500 units in national. I think it does unlock a lot of marketing efficiencies as we are able to advertise more nationally. We are still a couple of years away from that, but we do think that over time we are seeing a lot of success with our marketing activities and brand awareness and as we continue to drive our margin to get scale, I think there is a lot of opportunity to get more people aware and trying Sweetgreen, because one thing that we know is once consumers try Sweetgreen, they are very sticky. There is a natural flywheel built in given the habitual nature of the food. Something that we just got to do is just get more people to know who we are and give us a try.

Unidentified Analyst

Perfect. And then considering the labor savings we discussed in the past on the infinite kitchen, longer term, would you expect to build any stores without infinite kitchens at all?

Jonathan Neman

So, I think I heard the question being would you build any stores without an infinite kitchen, the way to answer that question, is that correct, Rahul?

Unidentified Analyst

Yes.

Jonathan Neman

Yes. So, I would say the vision would be to get to a place where all stores in the future do feature an infinite kitchen. At this moment, we are very – we are still learning a lot and we are trying to make sure we meet our capital return threshold. So, you are seeing it put into more stores that have higher volume or higher throughput needs or maybe have more challenges from a labor perspective, is where you are – where you will see us prioritize. But over time, as we bring down the overall build out costs around the, not just infinite kitchen, the cost of the automation, but the entire build, I think it will unlock the ability to be in really most and eventually all restaurants.

Unidentified Analyst

Thank you, Jonathan.

Operator

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

Jon Tower

Great. Thanks. Maybe just a little bit more on Infinite Kitchen and one other after, just on the retrofit itself, can you maybe give us a range of the cost to retrofit the store? Obviously, you gave us the timing and specifically on the machine, I think you had mentioned that you have now moved on due to the contract manufacturer and originally you talked about a cost of roughly 400K to 550K for the machine itself. Are you seeing that begin to bend a little bit lower?

Jonathan Neman

Hi Jon. Let me say the costs are coming right in line with the guidance that we gave. These are early machines that are just kind of rolling off for them. In fact, I think Penn Plaza was the first unit made at the contract manufacturer. So, by no means have we obtained any type of scale and manufacturing. We would anticipate some of that to come down the road. In terms of the total cost of Penn, we really don't want to give out the CapEx numbers on an individual store-by-store basis. But the number you have is what the IK get costs. There were, of course other modeling done at the same time when we had store available.

Jon Tower

Okay. And then just maybe pivoting to pricing, I know this year you are running about 5% price, given some of the inflation that you are seeing across the model. But I am just curious, as you alluded to earlier, Mitch, there is some softness seemingly forming with the consumer. And how do you guys think about pricing in the 2025, if we are kind of in a backdrop where consumers are a little bit more pinched on their spend?

Mitch Reback

Jon, yes, first, let me just make a comment that in the month of July, we did have one point to price roll off. So, we are currently running at about four points in price. We really haven't begun to finalize our view of 2025 or certainly at the pricing level, but I can certainly say that we take a – from this vantage point today, taking a slightly more cautious view than maybe we have in the past couple of years. Like a lot of people and reflected in our guidance, we are kind of watching the outside world pretty closely.

Jon Tower

Got it. Awesome. Thanks for taking the question.

Operator

Your next question comes from the line of Brian Bittner with Oppenheimer & Co. Please go ahead.

Brian Bittner

Thanks. On the restaurant margins, the upside that you are demonstrating in restaurant margins relative to expectations, it's continuing to be driven by significant leverage on labor. As it relates to this quarter and moving forward, is that just a result of the strengthening same-store sales as there maybe some other strategic factors that keep you optimistic about this line item? As you execute moving forward and secondly to that Mitch, can you help us understand what's going on with the other restaurant operating expense line item, there is some deleverage there this quarter despite the very strong comp?

Mitch Reback

Yes. So, I will – let me talk about labor for a minute and some of the things that we are seeing. So, yes, obviously we are seeing some leverage with sales. We have also seen the addition of steak and a lot of positive developments there. But beyond that we have been very, very focused on finding and developing the best head coaches and improving the retention of our teams. And we really believe by having the greatest – the best head coaches that stay with us and that are promoted from within, they create a stable great working environment for their teams and that reflects in the results and we had a lot of improvements over the past year there. So, our turnover has continued. It has stabilized at lows. We continue to see our head coach stability grow and our head coach tenure grow. And we are working on some very exciting things that we think can continue to drive that. Beyond that, we are working on some things around labor deployment that we think can help us, not just on hospitality and throughput, making sure we are staffing the peaks properly, but also in terms of continuing to leverage that labor line. So, also say, I think we have some really – some exciting things in the works to continue to drive leverage on labor and drive our restaurant level margins.

Jonathan Neman

And Brian, I will take the second part of your question, which I think was on the other expenses. The other expenses were largely the result of channel mix shifts in the business and really a higher level of our repair and maintenance, particularly around HVAC, not unlike what other people have reported as things have heated up across the country.

Brian Bittner

Okay. Thanks for that and my follow-ups on Infinite Kitchen surprise. I know the math behind these basically says every story open should be an Infinite Kitchen. And ultimately, even Jonathan, you just said to a question, yes, that's true. But I guess the question is, we are obviously still in the early stages of the learnings here, but are you starting to gain more and more confidence that this prototype can work in more and more trade areas than maybe you originally thought? And I just think it's an important thing to understand because that only 230 units, the vast majority of the scaling of this brand remains in front of us and the portability of this prototype is how you are thinking about the portability of this prototype is obviously very important to the long-term future of the company.

Jonathan Neman

Absolutely. And I would say that the short answer is yes. And I think you will start to see that this year. So, already very intentionally with the deployments of the Infinite Kitchen, we have piloted in very unique environments and in neighborhoods. So, whether it would be Penn Plaza, heavily urban fast-paced environment to just this week in Fashion Island and then Huntington Beach in Naperville, being more suburban. You will see us, this year open, try to open in a new market, first store in a market with an Infinite Kitchen. We will open in other more urban markets, more suburban markets. Really perfect this, and we do believe it's going to help us a lot on the portability. And I think it's, what we are really waiting to learn is again less about the technology, more about perfecting the overall experience, including how we make sure we get the experience right with the broadening of the menu and the broadening of the brand position that we are pushing for beyond salads. So, we are excited to share more about where that's going in coming quarters, but with the success of plates and steak expect us to continue to push to broaden what really Sweetgreen needs from a format perspective to consumers and how we can leverage the Infinite Kitchen to power that.

Brian Bittner

Thank you.

Operator

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

Andrew Charles

Great. Thanks. Mitch, on the positive track for the quarter, I am first, I am curious if first you can just disclose what that was within the 4% combined mixed traffic. I know you said it was positive and picked up for the quarter, but first off, we could skip the number. And then second, can you help just rank order the drivers of positive traffic, it's obviously a rarity right now in the industry, but you have got a couple of tailwinds between outsized contributions from new stores, sales ramps that historically grow substantially in their second year, the buzz around steak, speed of service improvements from more streamlined operations. So, how do you help rank order, what drivers of that positive traffic was in the quarter?

Mitch Reback

Thank you, Andrew. Let me say that in a high level, I think you kind of hit it. Everything that we seem doing have fired and also Andrew as I say in the second quarter. The stores that came into our comping days were very, very positive. Our new markets had very strong comp growth and very strong traffic. The menu was very well received and broadly well received. And I think it was really just a combo and of course the labor deployment picked up on our throughput. And I think it was just a question that all of these things trying to color less, it had very positive trough. And as I have said earlier on the call, the traffic grew sequentially throughout the quarter, something that we are really happy with.

Andrew Charles

Got it. And then just a follow-up question is around that labor deployment driving speed of service enhancement. Can you help us quantify what you are seeing there, is it transactions per peak labor hour or peak 15 minutes? How are you monitoring that, and what kind of improvement did you see to help us better understand how those efforts are resonating?

Jonathan Neman

Andrew, I would say it's a little bit too early. I would like to come back and share more on that. But we would expect to see higher throughput at peak as well as the overall labor leverage through better scheduling. You see things like less overtime, better management around Fair Work week, etcetera. So, I would say there is a lot – I think we see a lot of benefits from this new way of deploying labor. And we have also really done a lot of work. We have talked about in the past around simplifying both the role in the restaurant, whether it would be at the head coach level, how do we make that job easier, more joyful across all their – everything they do, whether that would be administrative tasks, or in-store tasks, and similarly for our team members. How can we make that continue to make that job a little bit easier to do and that's through, micro changes like we could do things like up-streaming tools, systems, layouts, adjacencies, the restaurant businesses that's it's a game of inches and we just continue to optimize and look to be better every single day. So, we see, as Mitch mentioned earlier, steady path to continue to leverage our margin over the next few years.

Andrew Charles

Very good. Thank you.

Operator

Your next question comes from the line of Christine Cho with Goldman Sachs. Please go ahead.

Christine Cho

Hi. Thank you. First off, congrats on a great quarter. Firstly, could you help us under a bridge of the gap between kind of really solid same-store sales growth averaging kind of 6% in the last four quarters versus kind of a flattish AUV of \$2.9 million since second quarter of last year? I think I would imagine some of this is coming from the new store dynamics, but if you look at the new store mix, it's actually coming down a bit on a year-over-year basis. So, it would be great if you can help us understand the factors that are driving that, and also what you need to see in terms of AUV increasing again. That's the first question and then I will do a follow-up.

Mitch Reback

Thank you, Christine. You are right. The same-store sales has grown about 6% over the trailing 12 months. It's been up 7% in the first half of 2024 and our AUVs remained at about \$2.9 million. It's really just two factors. One is the one you articulated, it's just a new store dynamics as we are bringing in more stores every quarter into that comping base. And the second one is just the degree of rounding and the fact that we take it to \$2.9 million. There is some build underneath it and we are mindful of it.

Christine Cho

Great. Thank you. And Jon, I think you – I have heard you highlight attachments as kind of a largely untapped opportunity for Sweetgreen. Is this something that you are increasingly thinking about and whether there are any kind of specific products or marketing initiatives we can look forward to in the near future? Thank you.

Jonathan Neman

Absolutely. I don't want to share too much because we are not quite ready to announce everything, but we do have a very robust culinary roadmap and some of that includes how we tackle both attachments, whether that be a signature side dish, how we think about beverage, which if you look at our business, we do not put index near the industry, where we should from a beverage perspective. And we think there is opportunity around kind of like treat, the treat occasion as well. So, all things that we have really nice robust innovation going on, a lot of testing and piloting across the country that we are learning from and expect to see some exciting things next year both. Within the core, kind of core entree format of innovation there, but also as you mentioned, kind of outside of the bowl, around size and beverage and treats.

Operator

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

Brian Harbour

Yes. Hey guys. Good afternoon. A quick one, Mitch, would you mind citing wage and food inflation into Q4?

Mitch Reback

Yes. Thanks Brian by the way. What we really saw was very low level of inflation in the second quarter. Wages were in – both wages and COGS were in very low-single digits.

Brian Harbour

Okay. Thanks. Yes. Curious about sale in New Hampshire, I think you call it new market, it's sort of on the periphery of one of your existing strong markets. How is that one done kind of out of the gate? How much of your pipeline is sort of that expansion into kind of peripheral towns of some of your core markets as you think about this year and next year. Are you finding it, easier to open some of those units given your scale I mean in New England?

Jonathan Neman

Yes, I am actually glad you asked. It's actually something that we are seeing a lot of success in as we think about how to expand out of really strong core markets. And if you look at Sweetgreen today, we are in most major metros at this point and very intentionally when we set out, we wanted to build the nation brand, as a category leader. And so we went out and we planted flags across all these major cities. But if you look at a lot of them, you got, you are very – you are just really not dense in a lot of these places. All of Texas we have sub-20 restaurants. And if you look at the Midwest, it's just brand new and there is so much room to run. So, as we look forward, we actually see a huge opportunity of densifying existing markets and tackling more of the adjacent markets. And the benefits there is we will see a lot of leverage around our food costs, our supply chain, a lot of the economies of scale happen regionally. So, we will see some leverage there. Obviously anyone in the restaurant business knows opening in existing markets is a lot easier from an operations perspective. We will be able to leverage management and build a really robust bench of leaders. And we also get to leverage a lot of our marketing spend and within those markets and kind of the overlapping eyeballs between places like Boston and New Hampshire. So, we think that in some ways we did the hard part first, planting flags in all these places. And as we look forward, you will see fewer new markets and more going back and going deep in existing markets, where we see a lot of room and kind of expanding, just out into these other adjacent markets. So, I am actually quite excited for this way and it's how we think we can accelerate our footprint and do so in a really profitable and disciplined way.

Operator

And your last question comes from the line of Dennis Geiger with UBS. Please go ahead.

Dennis Geiger

Hi guys. Can you hear me?

Mitch Reback

We can hear you.

Dennis Geiger

Great. Terrific. Congrats to the team. Two quick questions, the first one as it relates to the IK margin versus the non-
IK, helpful to get the Naperville solid number there. It sounds like Huntington Beach seeing something, I assume
probably somewhat similar. Just wanted to get a sense on sort of that margin spread if it's sort of in the ballpark of
what we saw in the last quarter, how you would kind of frame that up, if there is anything more to add there.

Jonathan Neman

Thanks Dennis. I would say it is certainly in the ballpark or slightly better than we thought in all of our modeling. And
what we have seen in the past, largely coming out of the labor line, obviously which you can see when you visit an IK
store with some additional benefits in cost of goods. So, very pleased with the early results.

Dennis Geiger

Appreciate that. And then just second one, just as relates to thoughts on average unit volumes on the IK stores, now
that we have another quarter kind of under your belt. I know it's early days, but thinking about kiosks, thinking about
throughput, any kind of latest views on where that potential could go at this at this early juncture, from an AUV to non-
IK AUV? Thank you.

Jonathan Neman

Yes, I would say on the suburban stores, we will continue – on the two original pilots, we continue to see similar trends with the higher ticket. We do believe with the better experience that customers are having, it's more accurate, it's on time. We are – we just have Naperville, the first store to now hit a year to start to see common numbers. But we do expect based off a better experience to see some comp opportunity in those restaurants that will drive AUV. The real test of this is when we go into urban environments where we do have long lines and we can capture more customers. And that first time, we are seeing this is now with the Penn Plaza, Fashion Island should be a pretty heavily traffic store as well. But I think that's when we are really going to start to understand in these high traffic locations, can we get an AUV lift just by serving more customers in those peak periods. So, in some ways, I would say we are very encouraged, think better experience will help us continue to drive comps. And in more high traffic locations, definitely an opportunity, but pretty early to say for now.

Dennis Geiger

It's great. Thank you.

Operator

This concludes today's Q&A session and today's conference call. Thank you for attending. You may now disconnect.

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