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Sweetgreen, Inc. (SG) Q2 2025 Earnings Call Transcript

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Q2: 2025-08-07 Earnings Summary

EPS of -$0.08 misses by $0.04 | Revenue of $185.58M (0.51% Y/Y) misses by $6.19M

Sweetgreen, Inc. (NYSE:SG) Q2 2025 Earnings Conference Call August 7, 2025 5:00 PM ET

Company Participants

Jonathan Neman - Co-Founder, Chairman, President & CEO
Mitch Reback - Chief Financial Officer
Rebecca Nounou - Head of Investor Relations

Conference Call Participants

Andrew Michael Charles - TD Cowen, Research Division
Brian Hugh Mullan - Piper Sandler & Co., Research Division
Brian James Harbour - Morgan Stanley, Research Division
Brian John Bittner - Oppenheimer & Co. Inc., Research Division
Christopher Emilio Carril - KeyBanc Capital Markets Inc., Research Division
Hyun Jin Cho - Goldman Sachs Group, Inc., Research Division
Jeffrey Andrew Bernstein - Barclays Bank PLC, Research Division
Jon Michael Tower - Citigroup Inc., Research Division
Logan Paul Reich - RBC Capital Markets, Research Division
Rahul Krotthapalli - JPMorgan Chase & Co, Research Division
Sara Senatore - Unidentified Company
Sharon Zackfia - William Blair & Company L.L.C., Research Division

Operator

Hello, and thank you for standing by. My name is Lacy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sweetgreen Inc. Second Quarter 2025 Earnings Call. [Operator Instructions].

I would now like to turn the conference over to Rebecca Nounou. 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 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

Thank you, Rebecca, and good afternoon. For the past 18 years, we have been building a generational brand, one that reimagines fast food to be healthy, craveable and rooted in the highest standards of sourcing. The brand resonates broadly across geographies, demographics and dayparts, reinforcing our conviction in the significant white space ahead and our long-term potential.

For the second quarter, we reported sales of $185.6 million and a same-store sales decline of 7.6%. Restaurant-level margin for the quarter was 18.9%, and we posted an adjusted EBITDA of $6.4 million. Let me be clear, we are not satisfied with the results we're reporting today. These results reflect the convergence of several external headwinds and internal actions, which were a more cautious consumer environment starting in April, lapping a tough comparison with last year's successful Steak launch and the transition of our new loyalty program at the beginning of the quarter. I want to take a moment to provide more context around these dynamics and the steps we're taking in response.

In the second quarter, we operated in a subdued industry backdrop, particularly in several of our largest urban markets. To address this, we've made thoughtful changes to enhance our value proposition, including increasing our chicken and tofu portioning by 25%, updating our chicken and salmon recipes to improve taste and quality and addressing price perception through strategic LTO pricing, menu board architecture and loyalty exclusive $13 menu ball drops. These initiatives are already driving an impact in the third quarter. Our summer menu, which launched July 7, is mixing at 15% of all entrees and 1 in 3 customers who tried a seasonal entree returned within 2 weeks.

We've also seen a meaningful uptick in guest satisfaction with a 30% improvement in feedback related to our new protein portion sizes. We are focused on elevating the quality and freshness of every item we serve by reducing hold times and improving consistency. To support this, we're thoughtfully evolving our menu strategy to balance innovation with operational excellence. Looking ahead, we have 2 more seasonal menus slated in 2025 and are planning at least 8 seasonal or LTO moments in 2026. We remain focused on strengthening our value proposition and driving frequency through both menu innovation and our reimagined loyalty program, which launched at the start of the second quarter.

The transition to SG Rewards created around a 250 basis point headwind to our second quarter same-store sales. This was driven by 2 factors: First, deferred revenue recognition tied to the structure of the new program; and second, a falloff in revenue from a small but highly important cohort of former Sweetpass+ members following the discontinuation of the subscription program. We believe these impacts from the loyalty program are temporary. Active membership in the program is growing and 90-day frequency trends have steadily improved. We're also seeing early signs of frequency recovery in our former Sweetpass+ cohort as a result of our personalized

CRM offers. While we recognize that broadening benefits across a larger base of customers has brought some near-term headwind, we're confident this trade-off will deliver positive results starting in the fourth quarter.

In the last 100 days, we made 2 significant hires to our executive team. On September 2, we will welcome Zipporah Allen as our new Chief Commercial Officer. Zipporah brings deep experience in brand building and customer engagement, having led digital at Taco Bell and marketing at Strava. She will play a critical role in sharpening our brand positioning and menu, driving demand and strengthening the overall guest experience. In May, Jason Cochran joined us as Chief Operating Officer, and his positive impact is being felt all across the organization. As Jason has spent time in the field, he's been inspired by the strength of our team and the culture we've built. At the same time, he sees clear opportunities to raise the bar. The fundamentals like sourcing, cooking and throughput are there, but they're not always delivered with the consistency our guests expect or deserve.

Today, about 1/3 of our restaurants are consistently operating at or above standard, while the remaining 2/3 represent a meaningful opportunity for improvement. Jason's assessment is grounded in a set of 6 operational metrics related to P&L, people, customer health and throughput that allow us to objectively measure restaurant performance and identify where support and focus are most needed. He has launched [Project One Best Way], a system-wide effort to elevate operational excellence by implementing clear operating standards, performance-based leadership, accountability and measured execution. [Project One Best Way] isn't about reinventing our operations. It's about applying the standard of excellence with operational process, building on what's already working and ensuring every restaurant delivers to our highest standard.

We expect to see substantial improvement over the coming quarters. Customer satisfaction has improved, especially around accuracy, food quality and portioning, thanks to focused actions we've taken to drive consistency and reinforce value. This momentum reflects the resilience and determination of our teams to deliver the best guest experience, along with the clarity, urgency and operational discipline Jason has brought to the organization. His leadership is already making an impact, and we're confident in his ability to drive lasting change across the fleet.

We remain highly encouraged by the financial and operational performance of the Infinite Kitchens, which continues to outpace comparable restaurants in both age and volume. These units are delivering significant labor savings driven by greater efficiency, throughput capacity and consistent execution. Our current cohort is also seeing elevated native digital sales, reflecting the model's ability to deliver fast, high-quality food at scale. While this quarter doesn't reflect the standard we set for ourselves, we're energized by the early traction we're seeing from the return of our summer seasonals to the momentum and loyalty.

At Sweetgreen, everything starts with the guest. We're relentlessly focused on delivering a superior experience through every touch point with a focus on reinvesting efficiencies from G&A and other areas to make investments in protein portions, delivering value through loyalty and investing in our team to create faster, more hospitable experiences. This will create a flywheel of increased traffic and frequency as we continue to delight and deliver increased value to our guests. Thank you for believing in Sweetgreen.

Mitch Reback

Thank you, Jonathan, and good afternoon, everyone. Total revenue for the quarter was $185.6 million, up from $184.6 million in the second quarter of 2024. Same-store sales for the quarter declined 7.6% compared to the prior year period. This reflects a 2.5% benefit from menu price increases and a negative 10.1% impact from traffic and mix. Our average unit volume in the second quarter was $2.8 million, we opened 9 restaurants, 4 of which were Infinite kitchens, ending the second quarter with 260 restaurants. Notably, Forest Hills in Queens, New York opened as one of the strongest in the company history.

Our 2024 class of new restaurants continues to track towards the Tier 2 metrics in year 1, delivering a second quarter margin well above the fleet average. Notably, 40% of this class is located in legacy markets and 60% in new markets. This reaffirms our confidence in the effectiveness of our real estate strategy and the significant long-term growth opportunity that lies ahead. We are taking important steps to sharpen our portfolio in New York City. In July, we closed 2 restaurants, Bleecker and Astor Place. These were older, smaller footprint locations, and we strategically redirected volume to 3 newer larger restaurants nearby. In just a few weeks, those receiving locations have seen same-store sales increase by 15% to 20%, an early sign that we've successfully recapturing demand.

While we've done relatively little to our footprint in New York City since the pandemic, we're now actively reinvesting in the market. This summer, we opened Forest Hills, Park Slope and 23rd & Park with the lower East Side expected this fall. We're also relocating Union Square, which opened in 2015 and Nomad, our first New York City location, which opened in 2013. We are relocating them to improved locations and both will contain Infinite Kitchens. As leases mature on a small number of older locations, we see opportunities to consolidate volume into newer units, particularly in established urban markets where the footprint no longer aligns

with our strategy. We expect this disciplined approach will strengthen AUVs, same-store sales and margins as we scale towards 1,000 domestic locations.

For 2025, we anticipate opening at least 40 new restaurants and plan to enter 4 new markets: Arkansas, Sacramento, Phoenix and Cincinnati. We continue to expect at least 20 new restaurants will have the Infinite Kitchen with an additional 2 relocations that will be upgraded with the Infinite Kitchen. This year's pipeline also includes 2 new sweetlane locations, one Classic and our first with an Infinite Kitchen.

Restaurant-level profit margin for the quarter was 18.9% compared to 22.5% a year ago, primarily driven by sales deleverage and some tariff impact. Restaurant-level profit for the second quarter was $35.1 million, down 15% year-over-year. For a reconciliation of restaurant-level profit and restaurant-level margin to comparable GAAP figures, please refer to the earnings release. Food, beverage and packaging costs were 27.7% of revenue for the quarter, roughly 70 basis points above the prior year period, primarily driven by a 40 basis point increase due to tariffs and duties on packaging. This is a level we expect to persist in the near term.

Labor-related expenses were 27.5% of revenue for the second quarter, a 60 basis point increase year-over-year. This year-over- year increase is attributable to deleverage from the change in sales volume and wage rate increases. Offsetting these pressures is improvements in our labor optimization. Occupancy related expenses were 8.9% of revenue, 80 basis points higher than the prior year period. Operating support center costs in the second quarter decreased versus the prior year period on a dollar basis. As a percent of revenue, year-over-year operating support center costs for the second quarter decreased to 14.1% from 15.2%.

In the third quarter, we restructured parts of our team and eliminated 10% of open and existing roles. Net loss for the quarter was $23.2 million as compared to a loss of $14.5 million in the prior year period. The increase in net loss is primarily due to a $6.4 million decrease in our restaurant level profit and a $5.3 million impairment charge due to the closure of 2 restaurants and 3 other restaurants that we will continue to operate. Adjusted EBITDA, which excludes stock-based compensation and certain other adjustments, was $6.4 million for the second quarter compared to $12.4 million in the prior year period. We ended the quarter with a cash balance of $168 million.

Now turning to our fiscal year 2025 outlook. For the fiscal year 2025, we are anticipating the following: at least 40 net new restaurant openings, revenue ranging from $700 million to $715 million, negative same-store sales of 6% to 4%, restaurant level margin of approximately 17.5% and adjusted EBITDA between $10 million and $15 million. On the development front, half of the 2025 pipeline is opening in the fourth quarter. We do not anticipate any price increases for the rest of the year.

Q2 was a challenging quarter, shaped by a combination of internal and external headwinds. Several pressures converged at once, but the actions we've taken are already beginning to show positive results. We brought back fan favorite seasonals and chef collaborations, introduced more moderate price points to strengthen value perception, made strategic adjustments to our New York City footprint, and we are making improvements in our operations. On the loyalty front, we're seeing steady weekly improvement in guest frequency since the April relaunch, an encouraging sign. While we're not yet where we want to be, we're confident that these actions position Sweetgreen to emerge stronger, more focused and better aligned with what our guests and investors expect from us. And now I'll turn the call back to the operator to start Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Sharon Zackfia with William Blair.

Sharon Zackfia

I guess maybe 2 questions. First, there was a lot in the prepared commentary that kind of indicated reasons for hope, if you will. And I'm wondering if you are actually seeing comps improve so far in the third quarter? And then secondarily, Jonathan, you had a lot there about operations, and it sounds like the bulk units are not kind of hitting the standards where you want them to be. I guess at this point, what is the biggest issue? Is it accuracy? Is it portion? Is it speed? And is there incremental labor that you need to invest to kind of get to where you want to be at those units?

Jonathan Neman

Thank you, Sharon. So on your first question, the answer is yes. We see some encouraging signs so far in Q3. We have seen a modest improvement in same-store sales. And I think a lot of that has been due to the rollout of the seasonal menu as well as the loyalty program. So that's one in terms of comp. And despite what we see as a really, really rough quarter, I am very confident in the plan ahead. As to your second question, absolutely believe that us delivering an excellent guest experience is how we're going to win.

And for us, that means a few things. One, it's a focus on people and culture. I've said many times, the head coach and our General Manager is the most important role inside of our restaurants, a huge focus on hiring, training and developing the best head coaches. Today, some kind of early indicators of that success is our head coach stability is higher than it's ever been. It's continued to increase. Head coaches enroll for over a year, our stability metric is up to 57%. So some early indications of that working. We're also seeing team member turnover at its historic low. We should end the year in somewhere in the 80-ish percent range. So huge, huge focus on people and culture, and we believe that, that is going to be the #1 driver of delivering an excellent guest experience.

With that, a huge focus on internal development because we know when we develop leaders internally, not only do they deliver better guest experiences, it creates a great culture and it creates that people flywheel. Second, I want to talk about Project One Best Way Jason Cochran, our new COO. So we're very encouraged. He's been here just 90 days, but already his impact has been felt. And we've launched what we call Project One Best Way. Really 2 major focuses there. One is throughput. And for us, the reason throughput is so important is it's not just about the speed of service. But in order to deliver fast throughput, it means you have to be fully staffed, trained, properly deployed, food prepped and energized to deliver for our guests.

So we have goals of increasing our throughput for every 10% increase in our peak throughput, we see about a 1% comp lift. And we know there's a lot of room for us to increase our speed of service. Second is around elevating food standards. For us, there's a couple of things underneath that. One, we talked about portioning. We made a strategic decision to reinvest in the guest experience and increase our chicken and tofu portions by 25%. I'm really giving back to the guests. We've found many offsets to fund that through G&A and working on other productivity efficiencies within the restaurant to offset that investment. But already, it's being felt. I mentioned in the prepared remarks that we're seeing about a 30% lift in the satisfaction around portioning, and we haven't even spoken about it yet. This is the first time we've talked to our customers about it.

And then lastly, it's really about how we elevate our food standards. We've looked really closely at our hold times, our freshness standards and how do we make sure in all of our recipes and making sure that we're delivering our best. We buy the best food from great farmers. And the idea is we need to make sure we are delivering on that promise. And the stores that we are doing this are doing fantastically well. We see them comping. So when you have that all working and we're delivering an excellent guest experience, we're seeing comps and transactions grow. So that -- if I could leave with one thing, our main focus is on executing brilliantly with a focus on people, throughput and quality food standards.

Operator

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

Jon Michael Tower

Maybe just a couple real quick, hopefully. Mitch, I think you touched on something earlier in the commentary, prepared remarks regarding labor. And I'm just curious if you could follow up on it because your labor cost per store week were down pretty nicely year-over-year. Obviously, you delevered on sales being down. But I'm just hoping you could flesh out what's going on there and if we can expect that to continue going forward this year and into next year and what those driving forces are?

Mitch Reback

Thank you, Jon. Yes, we're real happy with the improvements we've seen in labor. Our workforce management is working really, really well. And as you commented, our productivity in the second quarter actually held with where we were last year despite some of the challenges in sales. We're seeing the lowest level of turnover the business has seen since COVID. And some of the hiring we've done has really driven up our retention at the team member level. And our headcount stability is probably at an all-time high. So we're just very encouraged by the systems we put in place, the processes, the hiring and the headcount stability. And we anticipate further gains as we kind of look out on the future. But really pleased with the progress we've been able to make and I think it would only improve as we get to our sales flywheel a little bit faster.

Jon Michael Tower

Got it. Okay. And you had spoke too in Manhattan closing down a few stores and hopefully consolidating some of the sales into other stores in the market. But as you look across the rest of your store base, are there other kind of troubled markets or maybe markets where you feel like there's a few more stores that perhaps need in that bottom 2/3 of the underperforming store base in terms of the operations that you feel like might be on that chopping block for closure?

Mitch Reback

Jon, let me qualify that a little bit. I don't think the store closure was related to problems in the market. I think the store closures were related to the fact that the stores were coming up on 10 years, and most of our leases are 10 years. And in this particular instance, roughly the stores are approximately 1,500 square feet. So we had newer, larger locations that were -- when I did it, probably within a 5-minute walk of these stores. So it was more a function of moving the volume to newer stores that would have a better customer experience and a better team member experience and closing the older smaller footprint stores.

I would say, as we look out, there remains opportunity to do that, particularly in the urban centers that were opened up around 10 years ago, but you're probably on balance talking, if I had to guess, a handful of stores, not a dramatic change in the footprint. And we're very pleased with what we're seeing right now, as I think was in the prepared remarks, the volume is transferring to the 3 nearby stores. So instead of having 5 stores, we now have 3 very strong stores.

Operator

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

Andrew Michael Charles

Jon, despite the strong performance of new stores and the guidance for 40 openings in '25 that was maintained, why not consider a slowdown in development to focus more intensely on the same-store sales turnaround and to help better preserve cash?

Jonathan Neman

Thank you, Andrew. So first, I'd like to say we have very strong conviction in the long-term TAM of the company of at least 1,000 stores and our algo of at least 15% to 20%. We're continuing to build the 2026 pipeline and are really being super disciplined around the stores, taking the learnings from the past few years, how we choose real estate, making sure we're operationally prepared to run them and also have a huge focus on build-out costs. So as we -- we believe as we're able to continue to drive down build-out costs, we'll be able to continue to drive our return on capital. Also say going to be super disciplined. We'll come back more on what our pipeline is for 2026, but the focus is only on doing stores that meet our thresholds and hopefully, where we can actually improve our unit economics as we continue to grow.

Andrew Michael Charles

Okay. And then, Mitch, as a follow-up, can you help contextualize what's driving the restaurant level margin guidance down by 200 basis points? Is this more of a function of sales deleverage? Or would you attribute more to the portioning investment or perhaps something else?

Mitch Reback

No, Andrew, I think you caught it. It would be largely sales deleverage. The portioning impact is roughly 120 basis points, and we are continuing to look for offsets to that, both in the restaurant level margin area as well as G&A, and there were 40 basis points for tariffs.

Operator

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

Sara Senatore

I guess maybe I just wanted to go back to maybe the 2Q trends. I know you're making investments in portion. It looks like some of the margin compression was actually from higher restaurant-level advertising spend, but you didn't see it in transaction growth. And I guess I'm trying to understand, do you think that the issue was that people didn't recognize the portion investments and the marketing perhaps didn't work. Typically, I would have expected maybe a little bit of a sequential improvement, but actually trends got worse on a stack basis even after you had some of these idiosyncratic headwinds in the first quarter. So if you could maybe talk about what didn't work if you think about the traffic driving initiatives you had in place versus your expectations? And then I do have one more follow-up, please.

Jonathan Neman

Sure. Thank you, Sara. So first of all, the protein increase was made in July. So it was not something that we saw in Q2. And from -- since July with both the protein portioning, loyalty and frequency continuing to increase as well as the rollout of our seasonal menu, we have started to see sequential improvement.

Sara Senatore

Okay. But the advertising piece, that was present in the quarter, right?

Mitch Reback

Sarah, I want to make a comment on the advertising. The total advertising in the company was up marginally in the quarter. The amount of advertising through the 4-wall margin went up a lot more as the allocation between G&A and 4-wall switched this quarter as more of the advertising was geared towards local stores versus national brand.

Sara Senatore

Okay. And I guess on that point, do you rethink how you allocate national versus local? Again, just -- it doesn't seem like you have a lot of payoff from that, whether it was by channel or dollar amount?

Jonathan Neman

Yes. I'd say I mentioned in the prepared remarks, we have a new Head of Marketing joining in September, and we really continue to look at our marketing mix. I think one of the shifts that -- one of the things we're seeing is much more -- much greater ROI on social kind of influencer-led marketing. And so you'll see us continue to lean in there more, but we'll come back with more on that in future calls.

Sara Senatore

And then, sorry, just a quick follow-up. Last year, and I apologize, I joined late on the call last year. And then last quarter, you talked about sort of maybe pressure on white collar workers, how the central business is doing perhaps more pressure than further out in the suburbs. Do those dynamics persist? I'm trying to reconcile those with maybe some of what we've heard from your peers.

Jonathan Neman

Yes. I'd say our trend is probably similar to what you've seen across the industry, where we've seen most of the pressure in the urban Northeast environment, very -- again, very similar to others. And we do see kind of like you said, pressure on consumer spending for many of our consumers has persisted longer than we expected.

Operator

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

Rahul Krotthapalli

The question is on marketing strategy outside the loyalty program, I understand like you have a new executive coming on board, but is there a thought process to rethink the strategy or the approach to broaden the brand appeal? Were you able to see and dissect what is landing or resonating with the target demographic and then also like get them into the store before getting on the app? And I have a follow-up.

Jonathan Neman

Yes, Rahul, we are continuously looking at our marketing strategy. One of the things, and I mentioned on calls before, is moving away from our seasonal menu is something that we really missed and our customers have told us that. We've seen, again, huge engagement on our seasonal menu. And we think one of the best ways for us to drive acquisition. Acquisition and frequency of our guests is newness on our menu. But we've learned a lot about what kind of newness works and how we can -- what we can put on our menu that we can consistently execute. So that's where you'll see us do 2 more seasonal menus this year with a 2 fall beats. We have a great lineup. So newness and great menu items work. We did see really great reaction with our quote KBBQ as well.

And as I mentioned on the prepared remarks, we're expecting at least 8 moments next year, again, leaning into what people love about us. We will continue to broaden from salads and kind of continue to introduce other warm bowls as well, which have resonated really well. But if I could take it really, the #1 thing we can do is create excellent guest experiences in our restaurants. Our #1 driver of best marketing is word of mouth and creating great experiences.

You did mention an opportunity around getting people to eat more in stores. We do see that as an opportunity. Like most restaurants, when you eat dine-in, it is probably the best experience as the food is made fresh right in front of you. So the loyalty program is one way of continuing to do that and driving more customers to try our product in-store before they become a digital customer. So that is another focus area for us.

Rahul Krotthapalli

And the follow-up is on the loyalty headwind. You guys discussed a 250 bps headwind in second quarter. How did this trend as we moved across the quarter and exit rate of it? And what are we currently seeing on the headwind today given like some of the reversals should have been happening as people are coming back?

Mitch Reback

Rahul, yes, we did talk about the loyalty headwind coming in 2 big areas. One was the deferred revenue. And the second one was a decline in frequency from Sweetpass+ that small group of customers that were high frequency. What we really find is the deferred revenue piece, which was negative in the second quarter when we started the program, will turn more neutral as we get to the back half of the third quarter and will be accretive thereafter. And that is largely just a timing and accounting issue with starting up the program and pretty much as we expected. So that piece will dissipate.

And we're finding with our frequency with our former Sweetpass+ members as we continue to reengage them. We continue to see them and have them as customers and their frequency appears to be moving up. So as we look out over the following quarters, we believe that the loyalty impact will move from a headwind in the business to a tailwind, certainly as we get closer to year-end.

Operator

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

Brian John Bittner

I just -- I think the primary question on investors' minds is, ultimately, do you believe the sales weakness that you've witnessed this year has anything to do with degradation in the price value perception of Sweetgreen. I realize there's a lot of external headwinds, but it does sound like you're pivoting towards trying to put more value on the menu, you're creating bigger portion sizes, et cetera. But I do think it's worth further unpacking whether your data and your insights suggests that this is a dynamic that is a headwind to demand trends that you're trying to improve.

Jonathan Neman

So I think it's pretty obvious that the consumer is not in a great place overall. But for us, when we think about price, it's really around price value. And we know that when we deliver on our product and we tell our story the right way that the price value is there. So what I'd say is, yes, we would like to continue to give more value to the guest, larger proteins -- larger portions on protein sizes, a better experience in stores. But the #1 thing is going to be just delivering great guest experiences, which again starts with an amazing team and leaders in our stores, a great culture, us driving throughput and elevating our food standards.

That's really going to be how we continue to drive our price value. And then things like our seasonal menu again, reinforce our positioning. What we do, the product we serve is superior to much of our competition, both from how we source it and how we make it in store. It's mostly -- it's almost entirely made from scratch, and it's a very high-quality product that not only tastes good, but makes you feel good. And I think our opportunity is just executing more consistently so we can deliver on that promise. So I'll say we don't see it as a large price value issue. We see it more of executing to our standards.

Brian John Bittner

Okay. And Mitch, I appreciate the EBITDA outlook change for '25 kind of marking the market just for the current environment. But how are you positioning the model for 2026? Because I think consensus have been modeling a pretty dramatic step-up in EBITDA generation in '26 relative to '25? And look, I know you're not giving '26 guidance, but any guardrails you can put on consensus for next year would probably be helpful.

Mitch Reback

Thanks for the question. Let me first begin by saying what you commented on that we generally give our 2026 guidance on the, I believe, the February earnings call for year-end. So we'll have a lot more to say at that point in time. Let me just speak for a minute about 2025, which may help shape the thoughts on 2026. We think a lot of what we're seeing in 2025 in our business today as temporary headwinds as the business kind of adjust its loyalty program, comps over certainly in the second quarter where we had our fastest comp growth in 2024 in Q2 with the launch of Steak, all coinciding with really a very significant change in the external environment, which happened kind of suddenly around the beginning of April.

What we believe happens to the business kind of looking out is that the company grows through these things and that these headwinds prove to be more temporary in the business and many of them like loyalty convert to tailwinds. And I think echoing what Jon said, as we get our operational standards to really, really drive them and improve the execution at the store level, return our menu to more of our seasonal core, we're convinced that we will see the business kind of get back to the trajectory we were on.

Operator

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

Logan Paul Reich

I was just curious what the sort of average cost would be for those relocations. I don't know if you're able to provide any sort of estimate or color on what we should be putting in our models for those relocations.

Jonathan Neman

Are you talking about the 2 relocations in New York?

Logan Paul Reich

Yes. And sort of the other handful of stores that Mitch alluded to that are in other urban centers.

Mitch Reback

Logan, I'm trying to -- I want to make sure I understand the average cost of them?

Logan Paul Reich

Yes, for the store closures and the reopening.

Mitch Reback

I think what I would typically say is there was no cost to the, call it, receiving or beneficiary store. They just continue to carry on as they were previously operating. The closure cost for these stores is directly related to whether there was any outstanding leases on them or if they were at the terminal value at the end of their 10-year lease. So it's a long way of saying, it really depends upon the rent structure and the fixed asset, but generally, no real cost to the movement of the store.

Jonathan Neman

Yes. And just to add, if you're referring to the stores that are relocating, those are stores where the lease is up, and the new stores will be just the cost of any store in that market. We don't guide to the exact cost per store, but both of those stores will be Infinite Kitchen stores, and they should be within the average of what those stores usually cost.

Logan Paul Reich

Got it. Okay. That's helpful. And then I guess just on the same-store sales in Q2, just any way you can sort of slice that out between maybe income cohorts, urban versus suburban? Any way you can provide some additional color on where the weakness is coming from or if it's more just broad-based across the entire portfolio?

Mitch Reback

Logan, I think what we could say is that what we found was as we were in the prepared remarks, about 250 basis point impact from the loyalty changeover and certainly a more pronounced impact in the Northeast as other people have stated and largely that's coming through the macro environment and customer concerns that we saw.

Operator

Your next question comes from the line of Brian Harbour with Morgan Stanley.

Brian James Harbour

I wanted to come back to just the operations question. You mentioned that sort of people and training manager stability is key to it. It sounds like that's actually pretty good though, right? So I guess the question is, what do you think is sort of lacking currently? And then in the -- these 2/3 of stores that are sort of below standard, I guess I'm curious as to whether -- does that include a lot of new stores? Do you think to some extent, there's like a lack of consistency in the newer stores you've opened? Or is that not the case perhaps?

Jonathan Neman

Yes. So in terms of your first question, yes, we've seen improvements in terms of our stability and turnover, which you've seen in some of our productivity. But there's been a lack of clear standards and a real focus on the 2 things I mentioned, which is throughput and food quality. And so as we really double down on those things under new leadership, we believe that the people component is

going to be a leading indicator for what we should see with the performance of those stores. That's typically what we've seen as stores get stable once Head Coach, for example, hits a year, the store begins to perform better. So we feel -- we believe strongly that as we continue to stabilize our people and drive more internal promotion that we'll continue to see better experiences in our stores, which will lead to transaction growth.

As it relates to the second part of your question around the 2/3, yes, obviously, many of those are newer stores that are still ramping. So some of that is normal and expected, but our goal is to tighten the variance between our best and worst stores significantly by the end of the year, and we have action plans in place to get that done.

If I could just mention one other thing is no one's asked about Ripple Fries, but I do think it's important to bring it up. Ripple Fries is something that we've learned -- consumers love. We had a great reaction from. But as we studied what it was doing to the restaurant operation and the distraction for our teams, we realized that it became a complexifier for us delivering on our core. So one of the other big changes we've made is starting next week, we will be discontinuing Ripple Fries in order to focus on our core.

And in stores where we have tested this, we've seen huge improvements in customer satisfaction because, again, teams can really focus on the core products, making sure all of our hot food, whether it be our chicken, our cooked vegetables, et cetera, are -- we're cutting our hold times. And as we cut our hold times, the product quality improves. So just -- the focus is really focusing in our core and delivering on that with a focus on what we can control within our 4 walls.

Operator

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

Brian Hugh Mullan

Just a follow-up on a prior price value question. Can you just talk about the Monday LTOs you ran in June, what you saw from a consumer behavior perspective? I'm wondering if you feel like this price -- this price point could be a traffic driver or motivator for your guests, but I'm also wondering if it causes any kind of trade down from those digital guests that are getting the offer. Any color would be great.

Jonathan Neman

Yes. It was -- overall, I'd say, very successful. There was really strong reception for them. I think it was a combination of price and newness. So it's something we're going to continue to double down on. You should see more of them coming, maybe not always at that price point, but really the focus on bringing more newness to guests. You got to -- I think one of the interesting things about the Sweet remodel is it's a very high frequent habitual model.

So offering ways to offer -- figuring out ways to offer newness to our frequent guests without complexifying our operations is something that can drive frequency. And we did see this newness and these Monday drops drive frequency for our guests and again, very high mix. So it's something we're going to continue to push on. And it can be a good way for us to offer a value lever for our guests as well.

Brian Hugh Mullan

Okay. And then a question about menu innovation. Just talk about the opportunity you might see on beverages or desserts or handhelds over time, and you might have answered this with the Ripple Fries commentary, but I was curious if you could test anything at the same time you have Project One Best Way going on? Or would you want to kind of pause on all new innovation for a bit as you focus on the operations?

Jonathan Neman

Yes, great question. So we do believe that menu innovation is going to be very important for us. And under Jason's leadership, we've rebuilt our stage gate process. So how we test things and understand both the consumer reaction to it, but also what are the second order effects to the rest of the operation. So if anything, we're actually increasing our top-of-the-funnel menu innovation, but being much more thoughtful in how we test and truly understand it. As it relates to housemade beverage, we actually are live, and I believe by this September, we'll be in 3 markets on a housemade beverage test. It's 4 housemade beverages. They're doing really, really well. We're very encouraged by it, and it is something that we will continue to roll out over the balance of this year and through 2026.

As it relates to other sorts of menu innovation and things like wraps, again, those are things that we will continue to test. We will get it -- we will do -- we will follow our stage-gate process. We do see a huge customer desire for us to continue to expand our menu, but the focus on is to make sure whatever we put in our menu, we can execute really, really well and continue to execute the rest of the menu, really learning from a lot of the innovation we've done. So we've gotten much clearer on what our -- what the op sandbox is for us, what can we execute and how can we equip our teams with the right tools and trainings to execute whatever we do. So expect a lot more menu innovation, but expect a much tighter stage gating process for us to make sure that not only does it work from a consumer perspective, but we can continue to deliver excellent guest experiences within our 4 walls.

Operator

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

Hyun Jin Cho

So in the last call, I think you mentioned about 20,000 new loyalty members joining each week as of May. I was wondering if there are any updates you can share on kind of customer acquisition and how it's faring versus your prior expectation? And more importantly, how do you plan to kind of convert those sign-ups into more sustained increases in guest frequency? Are there any specific customer cohorts that are responding more positively to the revamped loyalty program?

Jonathan Neman

Thank you for the question. So yes, we've continued to see around 20,000 new members joining. So it's been strong. Like most restaurants, one of our best acquisition drivers is in the store. So we continue to push that in-store and convert in-store customers into loyalty. One of the big improvements that we will be rolling out later this year will be the ability to scan and pay in-store. So today, it's -- it's -- you have to scan and then pay. We will be moving into a scan pay single transaction, which again will help our throughput, but also gives another reason for our guests to sign up for loyalty and get through our lines quicker.

And we've been very encouraged, as I mentioned earlier, and I think Mitch spoke about as well around the loyalty program and the increases in frequency. We continue to test and learn all sorts of different canvases and journeys and are getting more and more personalized on what is -- what are the different types of offers we can leverage for different cohorts in order to drive frequency. So we've learned a ton, and we're doubling down on the things that are working and do expect loyalty to create this digital flywheel for us as we continue to perfect.

Operator

Your next question comes from the line of Jeffrey Bernstein with Barclays.

Jeffrey Andrew Bernstein

Great. My first question is just on the restaurant margin. I know you mentioned earlier kind of the back half reduction that's implied based on your guidance. I know it's in large part due to deleverage. I'm just wondering, as you think about it over the next few years, your confidence in that reacceleration back towards the 20% or maybe past margins, you've maybe over-earned a little bit and it would be wise to maybe reinvest more in the operations and the execution you're talking about, how you think about the balance of getting back to the higher margin versus investing for the long term? And then I had one follow-up.

Mitch Reback

Thank you very much. No, I would say we see the margin expanding over the next several years and continuing to grow. We think a lot of that's going to come from improved operations, as Jon has been talking about during the call as well as the reacceleration in the growth in sales that we see happening as we get past some of these near-term headwinds. So as we look out on the business, we think we still remain with a lot of opportunity for margin expansion in our core operations, and that will also happen -- be accelerated by the deployment of the Infinite Kitchen. So just in even the classic stores, we think that the margin trajectory remains pretty good.

Jeffrey Andrew Bernstein

Understood. And then just following up on a comment you guys made earlier about the new units that you're opening and kind of stepping up the scrutiny in terms of these new units to increase the likelihood of success and being a lot more diligent and careful. Just wondering if there's any current learnings that help drive that decision or maybe change your decisions in terms of new units, whether they're in new versus existing markets. I got the impression that you were maybe implying that for next year, it could potentially fall to sub 15%, 20% if this added scrutiny leads to a few less potential sites.

Jonathan Neman

Well, one of the things that we're really -- there's a couple of things that we're really focused on there. One is the actual store design and experience. We've made -- we've done a lot of work over the past year and are going to be opening stores with updated designs and flows for both our classic restaurants as well as our Infinite Kitchen restaurants. The idea with these designs is to create not only a better customer experience, but a better experience and easier flow for our team members, which should lead to both better food quality as well as better labor deployment given some of the adjacencies put in.

So we're very excited about those. And then there's been a huge focus on build-out costs. We think that there's an opportunity to really drive build-out costs down. Some of that is going to be through these new prototypes as well as attacking our size of store. One of the lessons has been smaller -- kind of keeping our stores on the smaller side, actually, they do better. It creates a better environment. The teams are happier and the stores are less expensive to build. So a huge focus on targeting stores a bit smaller square foot with lower cost to really focus on expanding the return on capital of our investments.

Jeffrey Andrew Bernstein

Got it. But the idea of getting back to or being married to that 15% to 20%, you don't see a problem in being able to achieve that next year even with this greater scrutiny?

Jonathan Neman

We're still building the pipeline. So I do believe that can be -- that is a long-term algorithm. We have a very robust pipeline, but we're looking at it very carefully and making sure that every single store is vetted and we can deliver on our return on capital. So we'll be coming back more on that in future quarters.

Operator

Your final question comes from the line of Chris Carril with KeyBanc.

Christopher Emilio Carril

So could you talk maybe a bit more about what you're seeing in IK stores relative to your classic stores, particularly from a sales perspective? And if there is a meaningful delta between the performance of IK versus Classic, is there anything there that informs your thought process and strategy here moving forward?

Jonathan Neman

Sure. As we mentioned in the prepared remarks, we are seeing higher AUVs for the Infinite Kitchen stores. We do see -- we also see better customer satisfaction scores. You have better accuracy, faster throughput. And as we've mentioned previously, we've continued to see our team members be more engaged and stay with us longer and much lower turnover in those stores. So overall, we're very encouraged about those. The focus with the IK stores is really making -- is putting them in the shop selection of where we put it, making sure we put it in stores that have the volume where the return on capital makes sense.

But overall, we're very encouraged. And as I mentioned on the previous question, some new updated designs with featuring the Infinite Kitchen that we think are going to create an even better store experience. So stay tuned for some more on that as those begin to open.

Christopher Emilio Carril

Got it. And then just following up on Jeff's question, what's your latest thinking about development from a market perspective? I mean, just in light of the changes that you're making in the New York market specifically, how are you thinking about those opportunities for further growth in your core legacy markets versus newer Sweetgreen markets?

Jonathan Neman

We continue to see opportunities in our core legacy as well as new markets. New markets have done really well for us over the past few years. One of the, I think, changes in some of the markets that we had opened years ago is we have now -- we have delivery in the business. So now a lot of those stores share delivery rates. And so we're much more careful about the dilution of stores in existing markets, so looking kind of for net new white space, but there's plenty of white space for us in all of our legacy markets.

And some of that may not be all in the downtown core, but kind of expanding out from the core, and that's where we've seen a lot of success. So going from Boston to the suburbs of Boston, for example, it's been very successful for us. Similar in the Bay Area, very successful in the Bay and extremely successful as we've worked our way down the Peninsula in the East Bay. So really leveraging the brand we've built in these core urban markets and kind of expanding out from those still within those markets, but out into the suburbs.

Operator

Thank you for joining. This concludes today's conference call. You may now disconnect.

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