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Sweetgreen, Inc. (SG) Q4 2024 Earnings Call Transcript

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Q4: 2025-02-26 Earnings Summary

Play Call

 PR 10-KEPS of -\$0.25 **misses by \$0.04** | Revenue of \$160.90M (5.15% Y/Y) **misses by \$1.03M**Sweetgreen, Inc. (NYSE:[SG](#)) Q4 2024 Earnings Conference Call February 26, 2025 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

Jon Tower – Citi

Andrew Charles – TD Cowen

Dennis Geiger – UBS

Sharon Zackfia – William Blair

Rahul Krotthapalli – JPMorgan

Katherine Griffin – Bank of America

Brian Mullan – Piper Sandler

Christine Cho – Goldman Sachs

Brian Harbour – Morgan Stanley

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. Fourth Quarter 2024 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the call over to Rebecca Nounou. Please go ahead.

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 webcasted 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 the 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 everyone. At Sweetgreen, we're redefining fast food through superior sourcing, culinary excellence, innovative technology and a consistent hospitable experience. In 2024, we expanded our menu, opened 25 new restaurants and ended the year with 12 Infinite Kitchens. We elevated our sourcing and culinary practices as well as took meaningful steps to improve the team member experience leading to the lowest turnover levels in company history.

Our full year financial results reflect this work and exceeded our expectations coming into 2024. Sales grew over 15% to \$676.8 million and restaurant level margin expanded more than 200 basis points year-over-year to 19.6%. Adjusted EBITDA of \$18.7 million was a \$21.5 million improvement over the prior year period. Since our IPO in 2021, we have delivered four consecutive years of double-digit revenue growth. Our restaurant level margin has expanded from 12% to 20% and G&A, excluding stock-based compensation, has gone from 28% of sales to 16% of sales in 2024. Most importantly, 2024 marked the first full year of positive adjusted EBITDA in our company's history. A key milestone that confirms our strategy is working. We are committed to leveraging our G&A all while we scale our real estate footprint with the Infinite Kitchen, increase the pace of menu innovation and strategically invest in additional marketing.

Looking ahead, we see significant opportunities to optimize operations, broaden our customer base, grow guest frequency and expand our footprint. With these focused areas in mind, our three strategic pillars for 2025 are: one, revolutionizing fast food through menu and technology innovation; two, strengthening guest connection and operational excellence; and lastly, strategically expanding and evolving our footprint. These strategies are designed to increase traffic and expand restaurant level margin.

In 2024, we introduced grass-fed, pasture-raised steak, which quickly became a guest favorite and helped drive traffic in check. We deployed the Infinite Kitchen in seven new restaurants and retrofitted three existing restaurants, leveraging automation to improve speed and consistency, all while reducing labor intensity. We continued expanding menu relevancy and building brand awareness as evidenced by double digit comps in the Midwest, Texas and the Southeast.

Furthermore, the strength of our 2024 restaurant class has laid a solid foundation for continued footprint expansion. We opened 25 new restaurants last year bringing our total to 246, 12 of which are now Infinite Kitchens. We also expanded into three new markets with some of the strongest opening weeks in our history: Seattle, the Short North area of Columbus and Uptown Charlotte. Our 2024 class of new restaurants is on track to hit \$2.8 million in year one sales, right in line with our year two target. This reaffirms our confidence in our real estate strategy and the long-term opportunity ahead.

We're also pleased with the financial and operational performance of our Infinite Kitchens. These locations are delivering at least 7 percentage points in labor savings and 1 point in improved COGS compared to restaurants of similar age and volume. Additionally, our class of Infinite Kitchens is driving higher native digital sales due to their high throughput and consistency, which leads to a better guest experience. We believe that Infinite Kitchen, together with our revamped loyalty program launching this year, can accelerate our industry leading digital presence.

While we don't disclose individual store level performance, we have seen some standout proof points. For example, our Hingham, Massachusetts Infinite Kitchen had a 30% margin in its first full month compared to 26% for Naperville in its first full month in 2023. We continue to see proof points of operational efficiency, throughput and improved guest experience from the Infinite Kitchen. This is reflected in our January guest survey with 90% of guests surveyed expressing a positive overall experience, including the food and ingredient quality at Infinite Kitchen locations.

As we move into 2025, we plan to accelerate unit growth by at least 15%. Our 2025 pipeline includes three new markets, Sacramento, Phoenix and Cincinnati, and we are opening at least 40 new restaurants. Half of the 40 will have Infinite Kitchens and we are planning on one to three Infinite Kitchen retrofits of existing restaurants. We recognize the need for newness. Last year we had two major launches: caramelized garlic steak and air fried Brussels Sprouts with six weeks of heightened marketing support.

During that time, the business saw highly incremental and accelerated same store sales, contributing to sustained momentum beyond the initial launch. As a result, in 2025 we are significantly increasing the pace of innovation across multiple areas of the business to create a steady drumbeat of newness to increase frequency, broaden our customer base and deepen brand loyalty. This includes an accelerated approach to menu innovation and the introduction of a new loyalty program supported by strategic investments in personalized CRM and paid media. These efforts will ensure we remain top of mind for our guests while creating more meaningful touch points throughout their journey with Sweetgreen.

Let me take a moment to share with you one of the most exciting things we are rolling out next month, Ripple Fries. Over the past year, we've been hard at work reimagining fries, a fast food classic in a way that is authentically Sweetgreen. Made with just five simple ingredients, Ripple Fries are hand cut daily in our restaurants and air fried in avocado oil. We are excited to lead the movement away from the deep frying of French fries. Each order comes with a side of new house made pickled ketchup or garlic aioli. Fries and salad have long been an iconic duo. Ripple Fries are Sweetgreen's take on this classic pairing, offering our guests a signature craveable side that complements our vibrant produce driven menu.

In 2025, we're building on our layered menu calendar with exciting new additions starting with Ripple Fries and the collaboration with a Michelin-starred chef. We're also reintroducing three to four seasonals across summer and fall. With strong marketing support to drive traffic, we are excited to continue 2024 new product growth momentum into 2025. Another big moment for us in 2025 is the launch of our reimagined loyalty program, SG Rewards, rolling out nationwide in April. SG Rewards is our points based loyalty program where customers earn 10 points for every eligible dollar spent with opportunities to redeem free menu items and access unique offers and member exclusives. We designed these changes based on customer feedback that offers more compelling benefits to a broader set of customers. As we look forward, we have shifted capital internally towards more menu innovation and strategic media investment. We believe this combined with personalized CRM and our revamped loyalty program will accelerate transactions.

Turning to operations. We have made great strides over the past couple of years. In 2024, our progress is evidenced by expanding margins 200 basis points and improving the team member experience. Our focus on our team members has resulted in strong stability and tenure at the head coach level and the lowest turnover levels in company history. Having stability at the head coach level and a strong pipeline of future leaders gives us a solid foundation as we continue to grow our footprint. We've designed a clear and structured career path that creates opportunities for professional development and advancement, allowing us to promote high performing talent while scaling Sweetgreen's culture.

Our team members can grow into a head coach in as few as three years. This year more than half of our open restaurant leadership roles were filled from within, reinforcing our commitment to developing and growing our people. Our goal is to increase this percentage even further as we continue investing in internal talent and leadership development. In 2024, we made significant improvements to our labor optimization and deployment practices and we see further opportunities for improvement in 2025.

A key part of this is our new AI powered Workforce management system designed to optimize forecasting, scheduling and overall efficiency. This system gives team members an optional, user-friendly mobile platform to manage their schedules, aligning their availability with restaurant needs. By leveraging AI, we are streamlining labor planning and improving shift coverage, freeing up our head coaches to focus more on team development and the guest experience. We've already deployed this system across nearly half our fleet and the early results are promising.

On average, team members receive 10% more hours per week while reducing overtime expense. Additionally, absentee rates have dropped by a third. Initial results like these reinforce our commitment to using technology to create a better, more seamless experience for our teams. We are on track to complete the rollout of our tool across all locations by the end of the second quarter.

At Sweetgreen, technology and innovation have always been at the heart of our DNA, driving us to create smarter, more connected experiences for our guests and team members. We are always looking for ways to raise the bar on the quality and convenience a guest can expect from Sweetgreen, while strengthening our financial performance. For example, we continue to selectively upstream parts of our cold prep, these changes may seem small, but they free up our team to focus on service and speed, helping us drive throughput.

In addition, we continue to make investments in elevating our culinary pro position along with optimized cooking recipes and hot holding times to elevate the quality and freshness of our food, a key to driving frequency. As we continue to refine our operational strategy, we see significant opportunities to capture additional peak demand across both our front and digital make lines. We have a number of initiatives designed to improve throughput while also improving consistency and portioning in our non-IK restaurants. While we've made progress, further executional improvements are needed to fully unlock this potential and we have several initiatives underway.

Before I turn over the call to Mitch, I want to acknowledge the devastating wildfires in Southern California and the impact on our community. As a Los Angeles native, this is deeply personal to me. Our team members are safe and our restaurants are fully operational again. However, we recognize the challenges facing the local restaurant industry and community. In response to the fires, we have provided fresh meals to first responders and those displaced. We continue to work with local partners to support recovery efforts. Just as we did last year with our support of LA's local farmers markets, we're committed to standing by the farmers, team members and guests, who make up our community, because food is about more than what's on the plate, it's about the people behind it.

From day one, our mission has been about more than just serving food, it's about creating a better future by putting health, quality and communities at the center of our food system. We believe fast food should mean convenient access to real, high quality food that's both nourishing and sustainable. That's why we remain committed to sourcing from farmers we know and trust, supporting their transition to organic and regenerative practices, and ensuring the integrity of the land and food we serve. Most importantly, we do all of this because it makes our food taste better.

As we look forward, we believe that our culinary pipeline, loyalty launch and strategic investments in media and marketing will help us drive sales. Our focus is clear strengthen the brand, drive guest engagement, expand our footprint strategically and operate with excellence. We believe that by staying true to our mission and executing with discipline, Sweetgreen, will continue to redefine fast food for years to come.

I'd like to thank our team for their hard work and dedication in 2024.

Now I'll turn the call over to Mitch, who will take you through our financials in more detail.

Mitch Reback

Thank you, Jonathan. And good afternoon everyone.

Total revenue for the quarter was \$160.9 million, up from \$153 million in the fourth quarter of 2023. Same-store sales for the fourth quarter grew 4% against the prior year period. This consisted of a 4% benefit from menu price increases and flat traffic and mix. Our fourth quarter results lap the highly successful protein plates launch in Q4 of 2023. For the fiscal year 2024, same-store sales grew 6%. This consisted of a 4% benefit from menu price increases and 2% traffic and mix.

Our average unit volume in the fourth quarter was \$2.9 million. During the quarter we opened 10 restaurants, only almost half of which opened during the holiday season. We ended the year with a total of 246 restaurants.

Additionally, in the fourth quarter, we retrofitted two high-volume restaurants with the Infinite Kitchens, Willis Tower in Chicago and Wall Street in New York City. At the end of 2024 we operated 12 Infinite Kitchens.

Restaurant level profit margin for the quarter was 17.4% compared to 16.2% a year ago and more than 100 a basis point improvement. This marks our eighth consecutive quarter of year-over-year restaurant-level margin expansion. For the fiscal year, restaurant-level profit margin was 19.6%, expanding over 200 basis points year-over-year. Restaurant level profit for the fourth quarter was \$28 million, up 13% year-over-year. For a reconciliation of restaurant-level profit and restaurant-level margin, comparable GAAP figures, please refer to the earnings release.

Food, beverage and packaging costs were 27% of revenue for the quarter, a 100 basis point improvement from the prior year period.

Labor and related expenses were 29% of revenue for the fourth quarter, favorable with the prior year period.

Occupancy and related expenses were 9% of revenue, remaining relatively consistent versus the prior year period.

Operating support center costs in the fourth quarter were relatively flat to the prior year period on a dollar basis. As a percentage of revenue, year-over-year, operating support center costs for the fourth quarter went down slightly to 16.3% from 16.7%.

Net loss for the quarter was \$29 million as compared to a loss of \$27.4 million in the prior year period. This change was mainly due to a \$1.7 million increase in impairment associated with one restaurant and a \$1.2 million rise in pre-opening costs with 10 new restaurant openings this year compared to just one last year.

Adjusted EBITDA, which excludes stock-based compensation and certain other adjustments, was a loss of \$600,000 for the fourth quarter, a \$1.2 million improvement from the fourth quarter of 2023. 2024 marked our first full year of adjusted EBITDA profitability. For the fiscal year we delivered an adjusted EBITDA of \$18.7 million versus a \$2.8 million loss in 2023. This is a \$21.5 million improvement. As a reminder, the 2023 loss of \$2.8 million includes a one-time employee retention credit of \$6.9 million. Adjusting for this retention credit, adjusted EBITDA grew by \$28.4 million.

At the end of the year we had an available cash balance of \$215 million. We generated a positive operating cash flow of \$43.4 million, an increase of \$16.9 million year-over-year.

Now turning to our 2025 outlook. While the year started with many external challenges, including holiday shifts, extreme weather and the impact of wildfires in Los Angeles, we remain confident in the fundamental strength of our business. Our full year guidance reflects first quarter shaped by these disruptions. Extreme weather in January and February affected guest traffic across approximately 60% of our fleet. The LA wildfires, while not causing physical damage to our locations, significantly disrupted operations. Given that the Los Angeles market represents nearly 15% of our revenue, the temporary closures and ongoing shifts in customer behavior have created a near-term headwind. To put this in perspective, LA delivered high single-digit comps in 2024, while quarter-to-date in 2025 we have seen a decline to negative double digit comps.

Additionally, we've made the strategic decision to shift the nationwide launch of Ripple Fries and its associated marketing from late winter to early spring. We believe this decision will help maximize the impact of this menu innovation and effectiveness of the associated marketing.

For the fiscal year 2025, we anticipate the following: At least 40 net new restaurant openings, revenue ranging from \$760 million to \$780 million, same-store sales growth between 1% and 3%, restaurant-level margins between 19.8% and 20.5%, adjusted EBITDA between \$32 million and \$38 million.

On the development front, 20 of our 40 restaurants will feature the Infinite Kitchen. In terms of pipeline timing, 30 of our 40 planned new restaurants will open in the second half of the year. For the first quarter, we anticipate five net new restaurant openings, revenue ranging from \$163 million to \$166 million. Same-store sales declined between 5% and 3%. Restaurant level margin between 16.4% and 16.8%, adjusted EBITDA loss between \$3 million to \$1 million.

Despite the near-term challenges, we are confident in our ability to execute against our long-term strategy while continuing to leverage our G&A. Our focus on loyalty, menu innovation and strategic investments in paid media position us to drive improved comps as the year progresses. We have built a strong business, a differentiated brand and a flexible omni-channel platform that allows us to adapt and drive sustainable growth. 2024 was a strong year for Sweetgreen and our success would not have been possible without the dedication of our team members.

And now, I'll turn the call back to the operator to start Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question comes from the line of Jon Tower with Citi. Please go ahead.

Jon Tower

Hey, great. Thanks for the update and happy to hear that in L.A., things are okay for your stores and your team. Just maybe pivoting to the marketing message, it sounds like you're changing some things quite a bit in 2025. Can you speak specifically to what you're doing from a media and marketing perspective and how – from a dollar basis, that's going to end up impacting your P&L?

Jonathan Neman

Hey Jon, good to hear from you. So a lot of changes in marketing. I think one of the biggest lessons from 2024 was the importance of newness and creating that drumbeat specifically around new menu launches. As many of you know, we used to have a seasonal menu with five menu changes a year. Last year, we made the decision to go to two launches with stake and harvest and really use the rest of the time to stabilize a lot of the rest of the operation.

What we realize is that our frequent users really do love that newness and that seasonal menu. And so this year, we will be bringing back not only the seasonal menu but a number of other big launches, so chef collaborations. We have fries that we talked about coming as well as the loyalty program that will underpin a lot of this.

With that, from a capital perspective, while we've been able to hold G&A relatively flat year-over-year, we are shifting more dollars towards marketing. So each launch will get more support. And you'll see a full funnel approach around that from top of funnel out of home to a lot of social. And we've also made more investments in social media and owned content, which we think can be a big lever for us. So expect to hear a lot more from Sweetgreen, a lot more newness and a lot more new products, which we think our customers will really love.

Mitch Reback

Hey Jon, it's Mitch. Just want to have one quick build on Jon's comment. Most of the increase in marketing support will begin in Q2 and run through the balance of the year. We were actually pretty light in Q1.

Jon Tower

Got it. Thank you.

Operator

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

Andrew Charles

Great. Thanks. Mitch, I was wondering if you could provide a little bit more texture around how 2025 is going to unfold? It sounds like the devastation in L.A. creating about a 300 basis points overall headwind to start the year within that 3% to 5%, I would love to better understand what you're seeing from weather that's been impacting 60% of the stores. And then if I'm understanding it right, it sounds like you're expecting sales to build throughout the remainder of the year. So just confirming that's the case. And Jon, just one question for you. Within the guidance, are you embedding a handheld later in the year? I know it's been talked about on past calls, but it was still in the recipe phase.

Jonathan Neman

Sure. I'll take the handheld. So one of the things – another change around our menu innovation is we've decided to really innovate a lot more, which means testing a lot more through our stage gate process. So handhelds are not built into the guide for the year. It is something that we will test this year.

Depending on the success and how we can operationalize it, we may see that come in. But right now, it is not built in at all and again, look forward to the test and learning more. Early tests with consumers have been very, very positive. We know it's a big opportunity for us. But again, that is not built into the guide for the year.

Mitch Reback

Hi Andrew, it's Mitch. Thank you for the question. Let me begin by saying that I think in retrospect, we're a little bit fortunate with our timing. But in the first quarter, certainly in Jan, Feb, company had very little to no new menu news and very little marketing support. We have pushed our calendar really starting in March to the back 10 months of the year.

In retrospect, I think that turned out to build fortuitous. In the first two months of the year, as everyone has articulated, we had a number of external factors that were honestly just much more severe than anything we've ever seen. Started off with the holiday week shift in the first week of the year, moved on to the L.A. fires, which I'll comment on in a minute and then the weather factors throughout February.

What we saw with the L.A. fires I commented in the script, that approximately 15% of our business. And we went from really comp in high-single digits in 2024 to be negative double digits in the first month of January 2025.

When we look at the pace of where we're at through February, the business has comped negative 6% and we believe 700 basis points of that is attributable to these three factors. So without our – any menu innovation or marketing, the business would have been positive around 1% through February. The business has improved considerably in February from January, and we see a sequentially building throughout the year. And to round out with your last comment, we do see Q2, Q3 and Q4 continuing to strengthen as we get further away from these events.

Andrew Charles

That's very helpful. Thanks for the color.

Operator

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

Dennis Geiger

Great. Good afternoon, guys. I wanted to ask about throughput. I guess, both throughput within the traditional stores and that opportunity, if there's any way maybe I know it's early days, but any way to kind of contextualize the potential impact there. And then I guess, somewhat related, maybe just on the IK side, as we think about the AUV potential there, I know you guys have spoken to the kiosk benefit and then the lift there. Is it still too soon? Or is there anything to start to touch on as it relates to what throughput within IK could mean and what those AUVs might mean relative to a standard restaurant. Thank you.

Jonathan Neman

Sure. So hey Dennis. So on throughput, as you mentioned, we kind of look at it in two different ways. One is on the classic stores and then separately on the Infinite Kitchen restaurants. On the classic side, there's two things that we are working on to drive throughput. One is we've been changing a lot of our labor deployment, getting more labor at peak and moving around getting prepped on earlier, so you have all hands on deck at peak. And we've seen some success in our test stores doing that. We've also been testing some planted positions which we've seen some considerable benefits. It's what most of the fast casual does, and it's something that we will do in many of our high-volume stores.

The other thing that we're testing is something that we call Project Turbo. And the idea of Project Turbo is being able to leverage both the digital and front line at different points in the day. So take the morning period where you have high demand on the digital make line, but not a lot of demand in – on the front line, being able to leverage the front line to create – to make digital orders. Then moving into the lunch period, being able to leverage the digital line to line bust the frontline orders via handheld. And then as you go later in the day, being able to leverage the front line again and find some labor efficiency as the digital orders drop off. So effectively being able to take advantage of the double engines in all of our restaurants and efficiently route the orders to where it makes sense. So it should allow us to capture more peak demand and do it in a more labor efficient way.

As it relates to the Infinite Kitchen stores, we've talked about it before that the IK can do about 500 orders per hour. So the throughput potential is amazing. We've done a lot of work on the finishing station which is every bowl has to be finished, and that's really where sometimes the bottlenecks arrive. We've actually redone our finishing stations really kind of thinking about the ergonomics of those and how do we make it so we're more accurate and faster on those. And we've seen some really great results. So the throughput on the IK should be a huge benefit for us as we get – we put it in some locations with higher volumes.

And in many of the locations that we already have live with the IK, we're seeing that. If you go to some of those restaurants, you go to Willis Tower today, you go to Penn Plaza. You'll see the ability for us to capture and get through a peak line quickly is pretty amazing. I mean, in those IK stores, even when you have tons and tons of demand, you're getting orders in sub-five minutes. And so really excited about the potential that we'll offer as we continue to scale.

Dennis Geiger

Good stuff. Thanks, Jonathan.

Jonathan Neman

Thank you.

Operator

Your next question comes from the line of Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia

Hi. Thanks for taking the question. I wanted to kind of double back to the 1% underlying comp trend through February, was the delta between the 4% and the 1% that you've seen so far this year. Is that all traffic that you've lost? Or did you roll off some price as well? As we entered 2025, I think you may have less price.

Mitch Reback

Thanks, Sharon. We did roll off one point in price, and we'll continue to see some gradual roll off throughout the year.

Sharon Zackfia

Okay. And then if I think about the bridge from that 1% underlying to kind of the implied 3% to 5% for the rest of the year, can you help us think about that bridge in terms of kind of marketing and loyalty and Ripple Fries and how that kind of builds and the – what you expect for the benefit for those initiatives?

Mitch Reback

Let me say at a high level. When we look at on the balance of the year, we have Ripple Fries launching in March, loyalty launching in April. We are doing a major chef collaboration with the Michelin star chef in month of May. And then we are returning our summer seasonals, which we dropped last year in 2024. And these were consistently some of our biggest selling items and then we will have seasonals for fall and winter. We believe as we return these items that we know our customers have asked for that the transactional side of the business will grow and lift the comps sequentially throughout the year.

Sharon Zackfia

Okay. Thank you.

Operator

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

Rahul Krotthapalli

Good afternoon guys. As you make changes in your marketing strategy, how are you planning to approach the brand positioning, specifically from a value standpoint and communicating this attribute more effectively as this increasingly seems to be a key driver for organic traffic growth? And I have a follow-up.

Jonathan Neman

Hey, Rahul. Good to hear from you. So a couple of things on that. One, we feel very good about our price value. Given what we do from a sourcing perspective and it made from scratch, we feel that we are offering terrific value but we do see some opportunities to continue to improve there. One is going to be our loyalty program. The other is going to be how we start to introduce more menu items in kind of lower mid-tiers, and that's oftentimes where the seasonal menu played. So you'll see us with the seasonal menu start to bring in some items kind of in more mid-tier price ranges, which we think will again offer some value to our customers.

The other thing that was important about the seasonals was it was a huge part of the story and brand positioning. The fact that you're supposed to kind of eat food with the season, that's a huge part of the – what the Sweetgreen brand stands for, again, in terms of the resonance and a reason to talk to consumers and a positioning of who we are and what makes us special, we believe that, that will be – that's something that our consumers will really value and will resonate. So I think the combination of these new menu items, thinking about price and how we can continue to deliver on price combined with loyalty, will continue to make us competitive in this space.

Rahul Krotthapalli

And the follow-up is on the Ripple Fries test you have had. What were some of the learnings? And what kind of attach rate did you see on the incidences from the customers? And also, did you test the loyalty app in those stores? Just curious to hear your thoughts here.

Jonathan Neman

So we're not commenting on the attach rate, but what I could say is it's the highest attach side that we've ever had and tested and totally incremental. The feedback has been pretty amazing from consumers. It's craveable. It's a permissible indulgence, where you can have your salad and get the fries on the side. And not only are the fries amazing and done only with five ingredients, no seed oils, cooked in olive oil, baked and air fried, but we're also – the price will be pretty attractive for those. So we feel good about the price value of those.

I think some of the learnings around it, and I talked about this a little bit in my prepared remarks, was around optimizations we're making around our culinary pro and our – and how we more consistently cook food and hold it for less time. And I think that was one of the big lessons with Ripple Fries. It's one of those products that we have to cook continuously throughout the day for them to be fresh. And what that has done is made the whole operation stronger because it's forced us to strengthen that muscle, really elevate that culinary proposition, certify them and make sure that cook and hold times are optimized. So we've seen some pretty – we've seen a lot of delight from our customers as we've continued to improve the quality of our food through the hot prep.

Rahul Krotthapalli

Thank you.

Operator

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

Katherine Griffin

Hi, thank you. Mitch, I was hoping you could walk through your expectations around the different components of restaurant level margin, maybe how sustainable is 27% food costs? And how much more benefit can you get from some of the labor productivity and operational improvements that Jon was speaking to earlier. Just trying to get a sense for, yes, the components and I guess even the – how you expect like sequential margin progression to play out.

Mitch Reback

Thanks, Katherine. Let me say that our restaurant level margins have increased annually, really since the company went public at a pretty fast pace, and we feel pretty confident in maintaining increasing margins on an annual basis going forward and that is absent the Infinite Kitchen, which are just being an accelerator to that. When we look at what's going to drive the margins, we break it into three big buckets: Labor, cost of goods and occupancy.

In labor, we see continued opportunities with improved scheduling and deployment of labor throughout the store, much of which we've seen in the past, and we have a lot of opportunity going forward. We've seen our labor situation improve to really the best it's been in the several years with the lowest turnover and lowest absentee rate, all which contributes to higher productivity in the store.

Our cost of goods always improves as we obtain scale in markets. And as our markets are developing and growing, and we're especially happy with the new market performance in the business right now, we see great opportunities to let more leverage in our cost of goods and distribution.

And finally, our occupancy expense, which frankly run a little bit high to the industry, is a function of the urban centricity of our footprint. As the company grows in areas outside of New York City, we see our occupancy continuing to come down over the next several years. So we feel pretty good about where we're at, really at that 20% level and see the opportunity for the margin absent the IK to continue to progress into the low-20s and then getting a big acceleration as the IK gets deployed across the fleet.

Katherine Griffin

Thank you.

Operator

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

Brian Mullan

Thank you. Question on development. I think one of your goals is to get the cost to build down of the base store independent of whatever the additional Infinite Kitchen equipment might cost. So, can you just talk about where you are in those efforts? What's a good way to think about cost to build for the class of 2025? And could that maybe even be lower in 2026?

Jonathan Neman

Yes. Great question. It's something we're hugely focused on. We as you mentioned, we have about at least 40 stores planned this year. We've done a lot of work on our core build out costs, really getting our – the core prototype right and allowing us to buy more in bulk as well as optimizing a lot of other pieces of the build out.

Our goal is, we're tracking from somewhere between 1.4 and 1.5 on the core build out. We do see opportunity to continue to bring that down and are hopeful that in 2026, we'll see even more improvements there. So, overall, really good progress and shout out to our development team that's been working really hard to continue to drive this down.

Brian Mullan

Okay. Thank you. And then, a follow-up, a lot of talk of menu innovation on this call, which is exciting. I'm wondering, do you need to kind of dual track any kind of menu simplification or SKU reduction? Or if not that maybe accelerate some of the upstreaming you've been doing on the food prep side? Really just asking for your assessment if the restaurants are set up to handle all this innovation that's coming?

Jonathan Neman

Yes. It's a great point. And the short answer is yes. We're always looking at how we can kind of simplify the restaurant and make room for some of the innovations. We have only so many hours and so much complexity we have in the box. So whether it be upstreaming initiative, tools to make their job easier or looking at other recipes, just kind of simplify, we constantly look at how we can better simplify and optimize the menu. And as we continue to innovate, expect more simplification to come to allow us to streamline the operation.

Brian Mullan

Thank you.

Operator

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

Christine Cho

Thank you for the opportunity to ask the question. So now with 12 IKs live in different trade zones, I'm just wondering if there is any new learnings that you've took away. So for instance, it seems like consumers now have the choice to decide whether they want their food prepped by an employee or IK at the Willis Tower location. So could you walk us through the considerations in this decision and the impact on the margin, whether there's any differential versus your earlier IKs? And lastly, just also any plans for retrofits this year in your plans? Thank you.

Jonathan Neman

Hi Christine, thanks for the question on the IK. Let me begin by saying the company remains very pleased with the IK and the IK performance. At the end of Q4, we had 12 up and running, and I should say six of those 12 opened in the fourth quarter. So we're particularly pleased at how we've been able to accelerate the pace of deployment. And you're correct, they're across a wide variety of geographies. They continue to show pretty consistently 7 points of labor savings and 1 point to cost of goods improvement, and we're very pleased with them.

In terms of customer satisfaction, we just did a survey and I believe we had a 90% customer favorable approval of the IK stores. So that's probably most important for us. We're seeing pretty decent comp growth in them. Our Penn Plaza, which is a retro that was completed in mid-July is comping around 15%, I would say on its digital lines, which is really the critical line for an IK.

And, the other stores are really a little bit too new to really add much about how they're performing from a comp perspective, except to say that Willis Tower is just on pace to set all sorts of records for us. Very, very focused on where we deploy the IK in 2025. We have at least 20 new IKs being in new stores, and that's around a 50% of the 40 new stores we're going to open.

I should say the vast majority of those will be in the back half of the year. We have at least one to three retros coming and we plan on relocating two stores both in New York and they will contain the IK in their relocations. So altogether, at least 25 new IKs being deployed in 2025.

Christine Cho

Thank you.

Operator

[Operator Instructions] Next question comes from the line of Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour

Yes. Thanks. Good afternoon, guys. Mitch, I guess, just to that point, is there not a desire to do some retrofits faster? Or do you think that might be the case in 2026, 2027? And I assume that kind of the margin number – you talked about kind of IK being an accelerant for margins. I assume that what you're talking about for this year includes all the Iks that are already operating and will be by the end of the year, right?

Mitch Reback

Hi, Brian. Thanks for the question. Yes, the guide on the margins certainly includes the Iks. I think you're right, there is a desire to do more renovations of stores and place the IK in them, that's particularly too in high volume stores. I think you'll see that accelerate in 2026 and 2027. I think it's really a few things. One is the amount of – just constraints on the IK team with how fast they can deploy Iks and getting them better balanced throughout the year. As I said, they're really back end loaded in 2025.

And the second thing about the remodels is there is a disruption to the store for some period of time. And we're trying to balance that as we select exactly which stores to go into and how to do it in kind of slower time periods for the store, so we don't disrupt them in the height of their season. And that's because we really want to prioritize high volume stores for the remodeling.

Brian Harbour

Sounds good. Thanks.

Operator

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

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