



Sweetgreen, Inc. (NYSE: SG)

Recommendation: **LONG**

Price as of November 11th, 2024: **\$39.26**

Implied Upside: **29.39%**

Time Horizon: **1-3 Years**

Sons of Saban

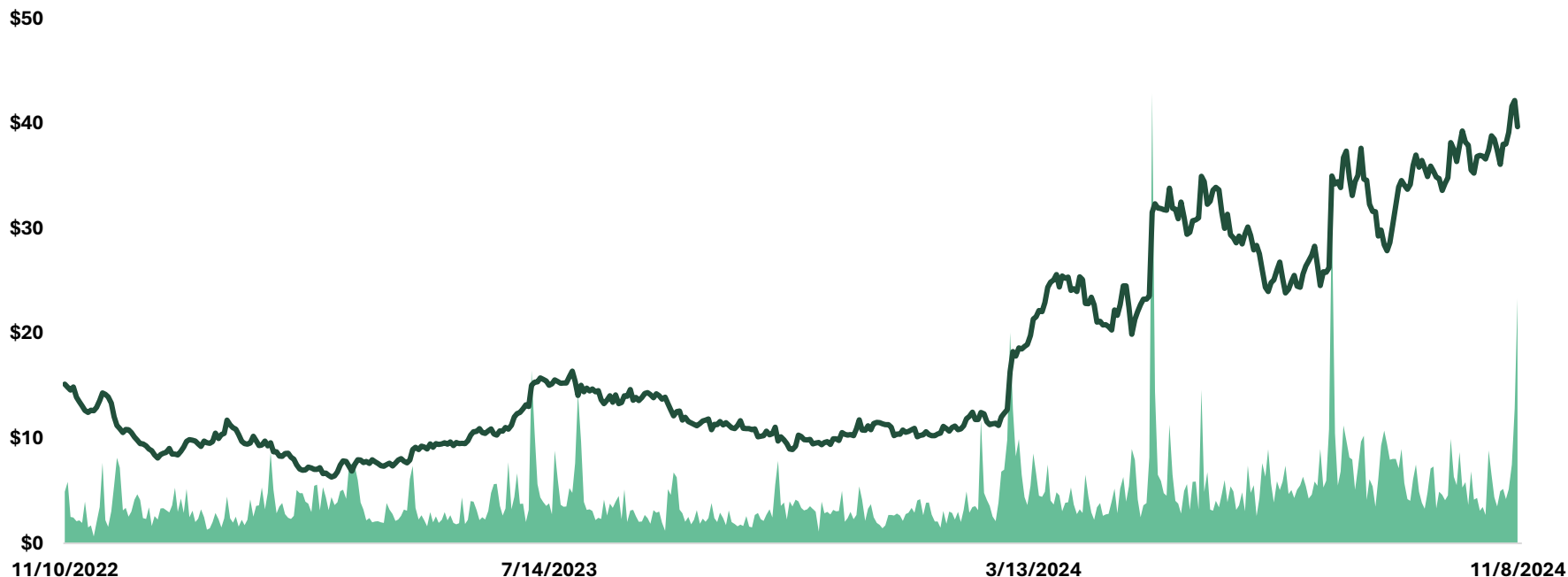
Team Members:

Noah Moyer

Colin Carpenter

Jon Hanson

Sweetgreen Is About to Get a Whole Lot Sweeter



Infinite Kitchen Is Revolutionary

- The market **underappreciates the downstream benefits of IK**, including **volume growth** and **perfect portioning**
- We believe management will make the **rational choice to retrofit urban locations**, which have **much faster payback periods** due to higher volumes from reduced walk-away traffic

But Is Misunderstood by the Street

- Uncertainty surrounding **retrofit guidance** has led to incomplete sell-side models that **neglect** the volume and margin profiles of **urban retrofits**
- We model the **separate AUV/Margin** profiles of retrofits, IKs, and regular stores to understand how an increased rate of retrofits would impact **SG's earnings power**

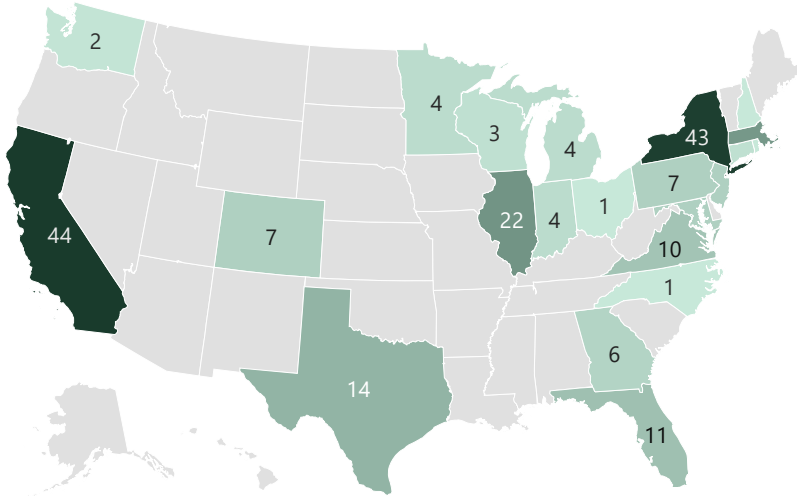
Huge TAM + Operating Leverage

- TAM is **significantly larger** than sell-side analysts currently model because of underappreciated growth in **suburban and Southern/Midwestern markets**
- Suburban economics will inflect upwards as **densification creates scale, expertise, and brand awareness**

Sweetgreen's Is Adapting Its Strategy to Conquer New Markets

Sweetgreen Currently Serves Big Cities

Locations by State – 236 Total⁽¹⁾



Value Proposition Perfect for Core Customers



Locally Sourced: Partners with over 200 local farmers and bakers



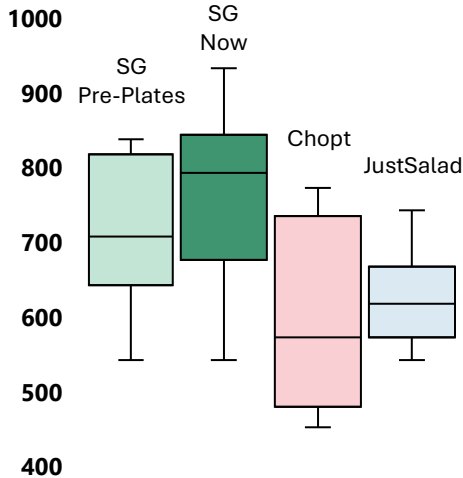
Health Priorities: Emphasizes regenerative and humanely-sourced food



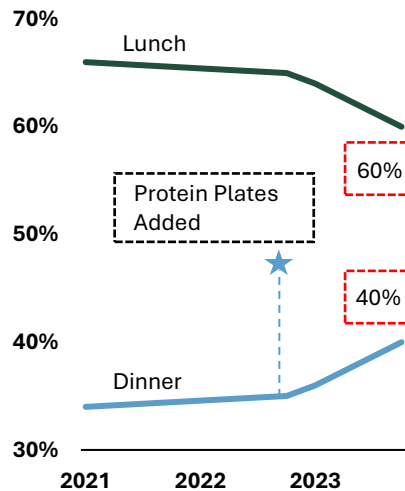
Convenience Focus: Optimal for working lunches with easy delivery options

Brand Unlock From Combining Salad and Bowl Concept

Bowl & Plate Calorie Distribution⁽²⁾

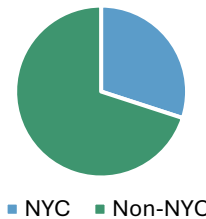


Lunch / Dinner Mix⁽¹⁾



We See Evidence of Broadening Appeal⁽¹⁾

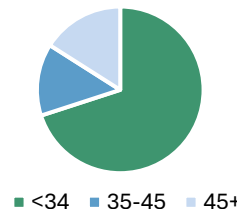
NYC Revenue Share



Shifting Dayparts and Demographics

“We’re seeing more men come in. We’re seeing the **dinner business grow significantly**. And it all gives us a lot of confidence in the overall white space and TAM opportunity”
— Jonathan Neman, CEO

Age Mix



Appeal in New Geographies

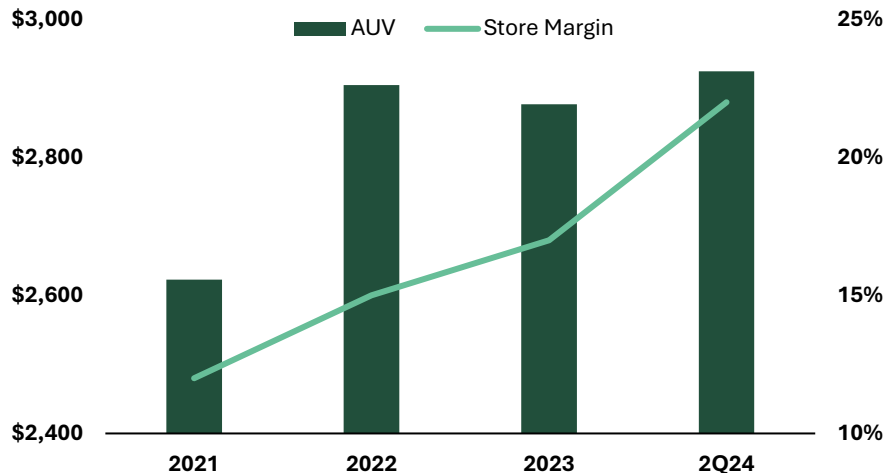
“[Protein plates] really **over-index** in some of our **Southeastern markets**, almost **doubling** what we expected [in] certain markets like Texas and the Southeast”
— Jonathan Neman, CEO

(1) Company Filings (2) Company Websites & Sons of Saban Analysis

Best-in-Class Operator Poised to Capture New Markets

Excellent Unit Economics and Volume Growth

AUV (000s) and Restaurant-Level Margins⁽¹⁾



Founder-Led With a 100% Company-Owned Strategy



Jonathan Neman
Chief Executive Officer
Co-Founder



Nathaniel Ru
Chief Brand Officer
Co-Founder



Nicolas Jammet
Chief Concept Officer
Co-Founder



Mitch Reback
Chief Financial Officer
Since 2015

“We wanted to control our **supply chain**, we wanted to control our **technology**, and we wanted to control the **restaurant**, of course”
— Jonathan Neeman, CEO⁽²⁾



Opened shortly after graduating from Georgetown



Goal to make Sweetgreen a staple for healthy eaters

Revolutionizing QSR Industry With Infinite Kitchen



SG acquired startup Spyce in 2021 to develop the infinite kitchen technology⁽¹⁾



Currently have 10 locations providing vast throughput improvements



Building IKs in new and existing locations

Infinite Kitchen is a robotic assembly line for Sweetgreen bowls that promises to **greatly reduce labor** in addition to **increasing speed and customer satisfaction**

First Mover and Quality Leader in Automation

The Rollout Is Beginning



May 2023
First IK opened in IL suburb



2Q24
First retrofit location NYC



Today
10 IK units running



2025 Unit Growth
>40 new units and ~50% IK



Retrofit Optimization
Targets busy urban units

Competitors Crave Throughput

“We have mentioned this in the past, but it’s important to say it again, **throughput is a core focus** for Chipotle because it is the outcome of a strong operational engine that delivers a great experience for our guests and teams”

— Scott Boatwright, CMG CEO⁽³⁾



CHIPOTLE

Rolling out “Autocado” – 9/16/24
Automated processing of avocados

Stake In Vebu & Hyphen
Aggressively investing in automation for throughput and cost efficiencies

(1) Company Filings (2) This Week In Startups Podcast (3) Chipotle Q3 2024 Earnings Call

The Market Does Not Understand IK's Immense Downstream Benefits

Expanded Capacity Increases SG's Throughput

2016 Columbia University Study⁽¹⁾



Observed wait times of up to 20 minutes



When the line grew to 15, customers began to abandon the queue



Dinner rush had an abandon rate of 12.7% and lunch is likely worse



Can only be fixed via capacity expansion

Still a Problem 8 Years Later

"We believe the **higher throughput will translate into higher revenue**. That's particularly true in our **urban stores** where we believe we have a **high walk-away factor** at lunch"

— Mitch Reback, CFO⁽²⁾

Why This Matters

The street **only models labor benefits** from IKs, neglecting all volume growth. We believe that IK expansion has a **significant throughput upside** and conservatively estimate **6% volume growth** in urban locations

A Variety of Second-Order Benefits

100% Accuracy & Proper Portions



Accuracy means happy customers & fewer refunds



Proper portioning saves on food costs over time

Portions Matter - CMG Example⁽³⁾

Chipotle tightly controls portion sizes, and increasing portions to a standardized level resulted in a **60bps cost increase**. We assume 60bps in savings for Sweetgreen after customer reviews indicated IK **slightly reduces portion sizes**

The Classic Kiosk Effect



Customers order more when they aren't rushed



Average ticket up 10% in tested locations

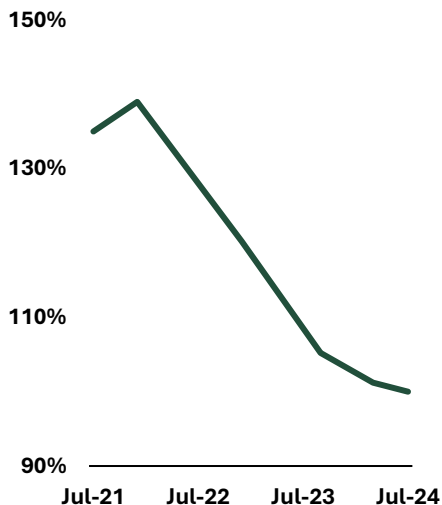
With At Least 10% Volume Uplift⁽⁴⁾

"We've also seen the average ticket at both locations, **more than 10% higher** than their respective markets. As a result, we are seeing the IK continuing to deliver margins **well ahead of internal projections**"

— Mitch Reback, CFO⁽⁴⁾

Social Proof: Managers & Employees Love IK

SG's Labor Turnover Struggles⁽⁴⁾



IK Solves This Issue

50%

Labor turnover reduction in Naperville, IL IK location

"The team members really prefer the IK store, they're cleaner, they're quieter. They're easier to operate, and it gives them more time to engage with the guests, which, frankly, is a little bit more enjoyable of a job than working the frontline"

— Mitch Reback, CFO⁽⁴⁾

We Project Significant Downstream Benefits

Retrofit **high-volume** stores with Infinite Kitchens, with a total cost of **~\$600k⁽⁴⁾**

Increase maximum throughput to **~500 bowls/hour**, supporting the lunch rush and catering

Shorter lines and more efficient stores diminish the **walk-away effect**

IK generates **higher tickets** and **volumes** in addition to **cost savings**

(1) Columbia University Study 2016 (2) BofA Securities Consumer and Retail Conference Mar-24 (3) Chipotle Filings (4) Company Filings

It Certainly Will Be a Number!

Urban Retrofits Will Come First and Fast

The Market Is Confused by Vague Guidance

“We’re working on the retrofit, kind of guidelines for 2025. It certainly will be a number”
– Mitch Reback, CFO⁽¹⁾

“IK, I believe, will **supercharge the margin expansion**, particularly if we can **retrofit very high-volume stores rapidly**”
– Jonathan Neman, CEO⁽²⁾

Our Take on Retrofits



Heightened Throughput



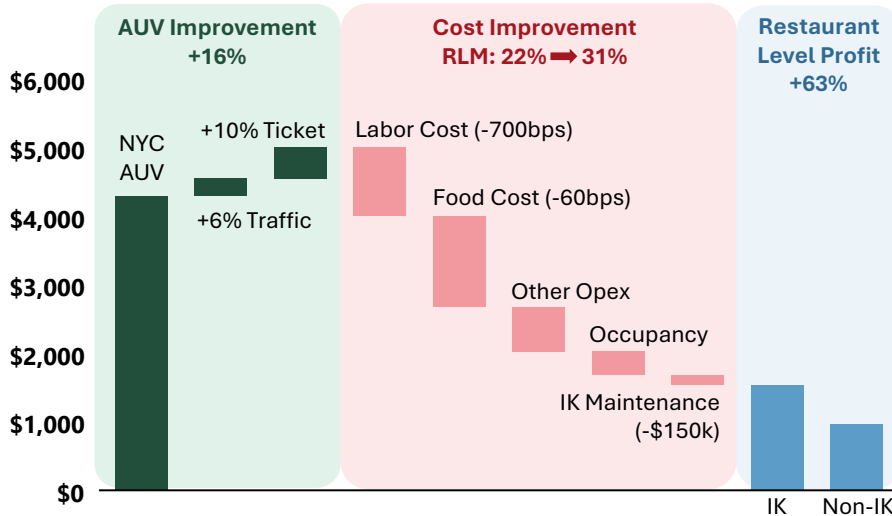
Downstream Benefits



We believe management will make the **rational choice of retrofitting** urban locations **as quickly as possible** due to favorable economics

Urban Retrofits Have Incredible Economics

NYC IK Cost Waterfall (000s)⁽⁴⁾



Sell-Side Models Ignore Downstream Benefits

The Street’s View (Or Lack Thereof)

“We now assume 18 new IK units in FY25 in addition to 10 retrofits, followed by 20 new IK units and 13 retrofits - and **do not model incremental AUVs/store margins** in our model – **leaving potential upside optionality** to our F25/26 estimates”
– JPM 2Q24⁽³⁾

This Gives Us an Opportunity

SG lists **percent of revenue from NYC** in **10-K Risk Factors**, allowing us to **back into NYC AUV**. We then account for walk-away traffic, labor benefits, and perfect portioning to arrive at an **assumed NYC restaurant-level margin**, supporting the argument for retrofits

NYC AUV & Payback Period ⁽⁴⁾

Millions USD	
2023 Revenue	\$584
% NYC	28%
NYC Units	38
NYC AUV	\$4.30
RLM:	22%
Assumed IK RLM	31%
Retrofit Outlay	\$0.6
NYC Payback Period	1.55

With Accretive ROICs That Will Inflect for SG as a Whole

ROIC Math⁽⁴⁾

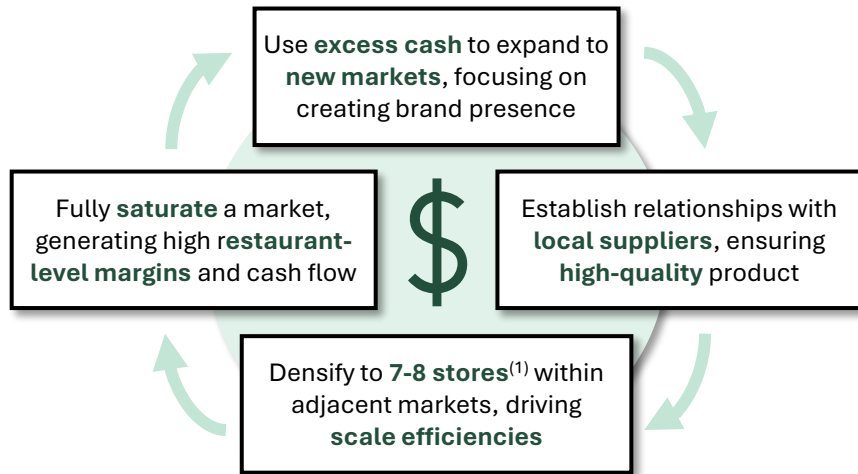
Millions USD	2024			2028		
	Regular Store	IK	Urban IK	Regular Store	IK	Urban IK
Invested Capital	1.5	2	2.1	1.5	2	2.1
AUV	2.87	3.33	4.3	3.29	4.40	4.99
RLM	21.0%	27.5%	28.5%	24.0%	30.0%	31.5%
Store Profit	0.60	0.92	1.23	0.74	1.32	1.57
Store Level CoC	41%	46%	58%	53%	66%	75%
D&A	0.31	0.39	0.40	0.40	0.48	0.49
G&A per Store	0.60	0.60	0.60	0.42	0.42	0.42
Tax	-	-	0.04	0.00	0.09	0.13
NOPAT	(0.30)	(0.08)	0.16	(0.03)	0.33	0.52
% of Total Stores	95.1%	3.7%	1.2%	39.4%	30.2%	30.4%
Segment ROIC	-20%	-3%	8%	-2%	17%	25%
Company ROIC		-19%			12%	
Consensus ROIC		n/a			2%	

We see an **inflection in Sweetgreen’s ROIC** profile as it transitions to predominantly IK and retrofitted units. Consensus estimates fail to understand how volume benefits will **accelerate the leveraging of G&A and provide incremental margin uplift**

(1) Piper Sandler Conference (2) Company Filings (3) JPM 2Q24 Report (4) Sons of Saban Analysis

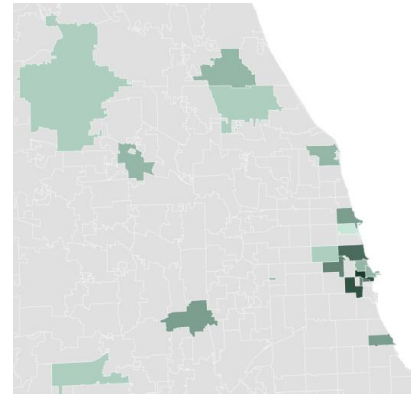
Densification Following Huge Push Into New Markets Will Scale Quickly

New Market Flywheel Drives Total Restaurant Level Profit



Replicable Model of Densification Poised to Continue

Case Study: Chicago, IL



Store Locations Opened in:
2016 2020 2024

Not Just an "East Coast Brand"

- 1st market in the Midwest, paving expansion in WI, MI, IN, and MN
- 10 new stores in 2 years shows speed in densifying urban areas
- 12 new markets with < 3 stores where SG will densify next

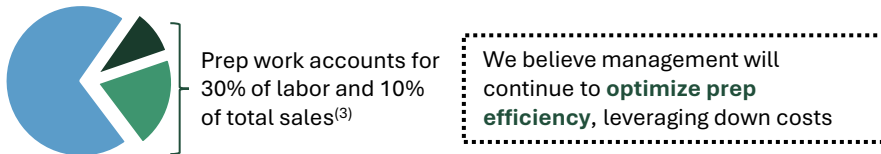
"We have less than 20 stores in Texas. We should have 200. Places like Milwaukee or Michigan are all markets that have three or four stores and should have 10 to 20 stores in the next few years"
– Jonathan Neman, CEO (2)

Densification Can Drive Labor Efficiency

Just Copy Cava: Upstreaming Is the Rational Choice

- All of Cava's condiments are made in central kitchens
- Regional central kitchens cut costs while maintaining local supply chains

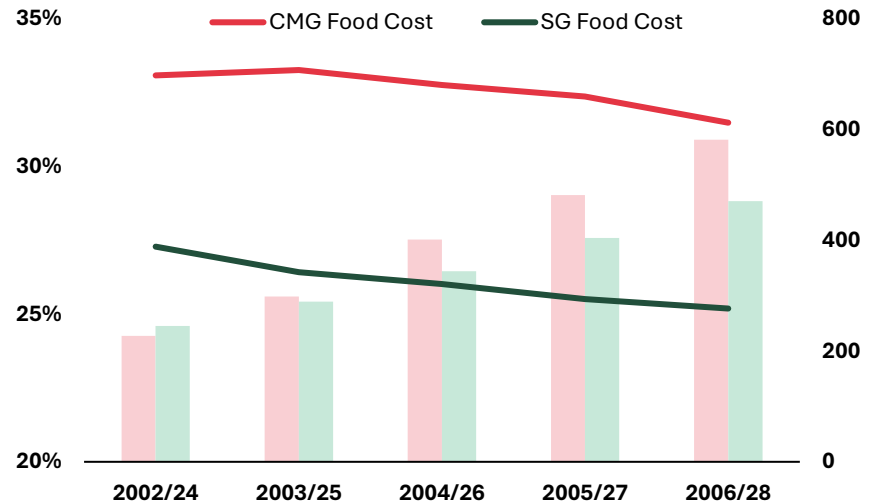
Less Prep Is a Tailwind to Margins



"During the third quarter, we removed the prep of 5 of the most popular dressings from our restaurants, to create a more consistent product. While on the surface, it sounds like a small initiative, this was a year's long decision that was done with much thought and care" – Jonathan Neman, CEO (3)

SG Can Lower Food Costs If History Is Any Guide

SG / CMG Unit Count and Food Cost Margin(4)



(1) JP Morgan Management Access Conference – March 2024 (2) William Blair 44th Annual Growth Stock Conference – June 2024 (3) Company Filings (4) CMG/SG Earnings Reports

How We See Our Thesis Playing Out

Catalyst Path and Risks to Our Thesis

Short-Term

4Q24 or 1H25

- Guide of at least **15 retrofits in 2025**, expressing a focus on **high-volume locations**
- **>12% AUV** lift from **reduced walk-aways** and ticket kiosk bump. RLM in Penn Plaza or Chicago Retrofit **>28%**

Medium-Term

2025-2026

- **Few or no hiccups** with IK contract manufacturer, reaching scale and a **possible volume discount**
- Gross Margin lift of at least **50 bps** due to perfect portioning and **densification in new markets**

Long-Term

2026+

- **15-20% yearly unit growth**, with approximately **2-3 new markets annually**
- Growth in **Southern and Midwestern markets** instills confidence in a **larger TAM**

How Could Sweetgreen Sour?

- **Weak or no guide** on high-volume retrofits
- Walk-away traffic **proves persistent** despite **increased throttle**, or is not as prevalent as we model

- **Difficulty** ramping production of **IK machines** from contract manufacturer, with no decline in unit costs.
- **Deleveraging of COGS** due to local supply chains in new markets

- **Hiccups with capital** available to invest in **new units** or difficulty finding markets
- **Issues** expanding store count as **aggressively** as expected

We See Upside as the Market Digests and Correctly Models Out Retrofits

Our Approach

2028 EBITDA Multiple	
2028 EBITDA	302.34
Assumed Multiple	28x
Terminal Value	8,466
PV of Terminal Value	5,659
Implied Enterprise Value	5,659
(-) Debt	0
(+) Cash & ST Investments	235
Implied Equity Value	5,893
Shares Outstanding	116
Implied Share Price	\$50.80
Current Price	\$39.26
P/V	0.77
Upside	29.39%

		Terminal RLM				
		24.8%	26.8%	28.8%	30.8%	32.8%
2028 EBITDA Multiple	24x	-13%	-1%	12%	24%	36%
	26x	-6%	7%	20%	34%	47%
	28x	1%	15%	29%	44%	58%
	30x	8%	23%	38%	54%	69%
	32x	14%	31%	47%	64%	80%

		# of Retrofits Done Through 2028				
		68	93	118	143	168
2028 G&A / Revenue	8.3%	20%	32%	44%	55%	67%
	9.3%	14%	25%	36%	48%	59%
	10.3%	7%	18%	29%	40%	51%
	11.3%	1%	12%	22%	32%	43%
	12.3%	-5%	5%	15%	25%	34%

WACC Calculation

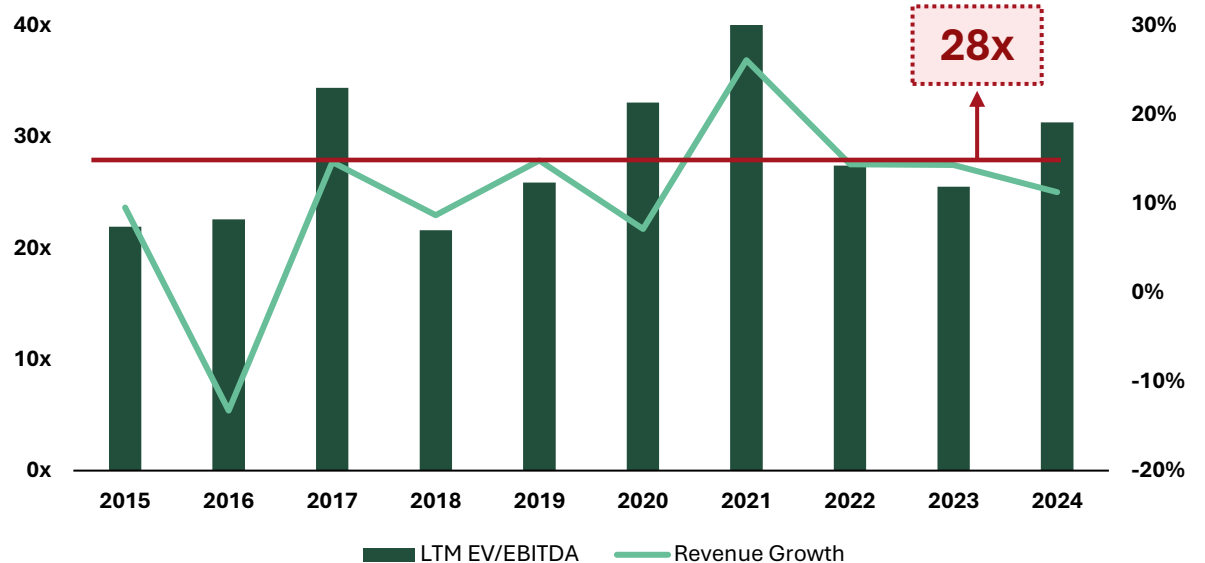
Risk Free Rate	4.31%
Equity Risk Premium	4.05%
Beta	1.47
Cost of Equity	10.26%
Cost of Debt	n/a
% Debt	0.00%
% Equity	100.00%
% Preferred Stock	0.00%
WACC	10.26%

Risk/Reward and Implied Multiple

	PT	Probability	EV	R/R
Base:	\$50.87	60%		
Bull:	\$54.74	20%	\$48.29	2.24x
Bear:	\$34.12	20%		

Long-Term Growth Rate	7.0%
Cost of Capital	10.3%
Implied Multiple	30.3x
2024E Revenue Growth	16%
Trailing 3 Year Avg Revenue Growth	28%

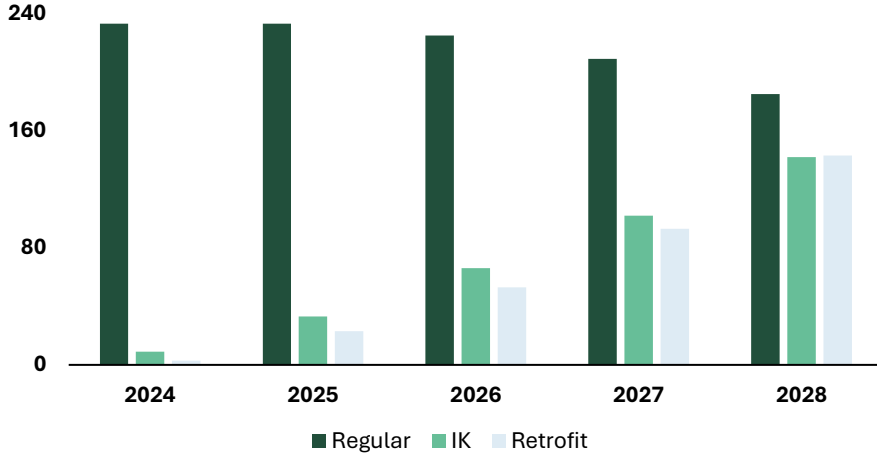
Multiple Justification – Using CMG as a Guide



Thesis in the Model

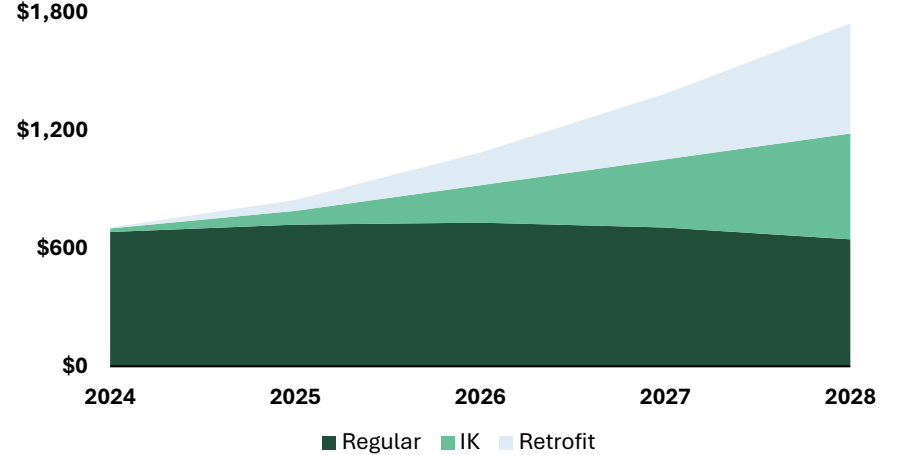
Retrofits and Infinite Kitchens Will Come Quickly

Unit Growth by Store Type



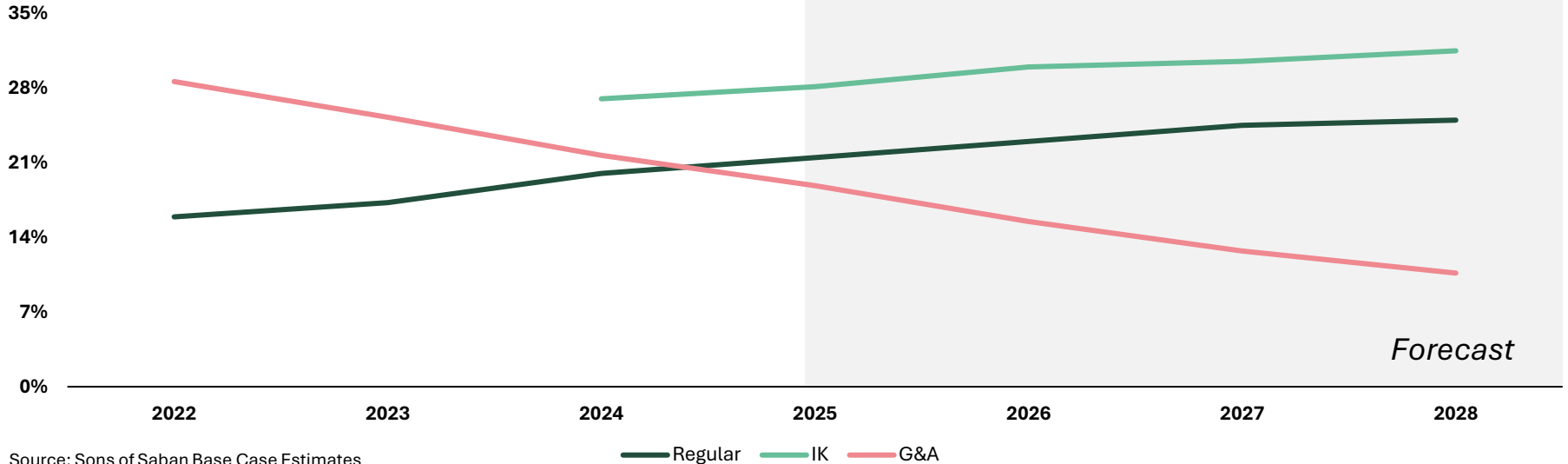
Supercharging the Top-Line

Revenue by Store Type (mil)



Leveraging G&A Margin Down as RLM Rises

RLMs vs. G&A Margin



Source: Sons of Saban Base Case Estimates