

Sweetgreen

SG carves a new culinary path with steak test

Reiterate Rating: BUY | PO: 16.00 USD | Price: 10.91 USD

Testing steak part of a culinary sea change

Starting Feb 6, Sweetgreen (SG) is testing a steak option (caramelized garlic steak) in 22 stores across Boston, MA. Caramelized garlic steak will be featured in 3 ways at SG: in a protein plate, bowl, and salad. Testing steak is meaningful, in our view, as steak is highly differentiated from SG's core proteins of chicken and fish and is only the second-ever red meat offered in SG's near 20-year history (SG introduced salami about 6 months ago). In August 2023, SG hired Chad Brauze and Michael Kotick, two former Chipotle executives, to head culinary innovation and marketing. We believe SG's steak test augurs well for the brand's ambitions to expand the menu and widen appeal.

Recent culinary innovation has broadened appeal

As we noted after 3Q earnings ([Additional thoughts on SG following 3Q results](#)), we think investor skepticism for SG is centered on the question of concept portability. We view SG's decision to test steak as another step forward in the brand's continued effort to add flavor profiles, increase heartiness, and ultimately, broaden consumer interest as the brand expands into new markets. SG's October launch of protein plates has met with success, especially in markets in Texas and the Southeast. Given that these markets may have less of a natural affinity for the core salad offering than markets in the Northeast or California, the success there is particularly encouraging. Recent innovation on the platform (BBQ Salmon plate launched in January) could also boost traction.

History points to success with steak in fast casual

Chad Brauze was formerly the director of culinary and menu development for CMG when the brand first launched Carne Asada (2019) and Smoked Brisket (2021). Both steak items proved highly successful for CMG, resonating well with consumers, and driving SSSG (Exhibit 1); CMG brought back Carne Asada for the third time in its most recent quarter. We see potential for SG to benefit similarly from adding a steak option and expect the limited launch to generate excitement among consumers.

Maintain Buy rating and \$16 PO

We set our \$16 PO assuming SG's steady-state normalized earnings discounted back to present. Based on \$2.8mm AUVs (the low end of SG's LT AUV guidance), 18% RLMs, and 8% G&A ratio, we estimate EBITDA of \$274mm. Applying a 16.5x terminal multiple (in line with mature growth restaurant peers), we arrive at an enterprise value of \$4.7 bb. Discounted back, we arrive at a present value of \$16.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(5.51)	(1.01)	(0.61)	(0.45)	(0.33)
GAAP EPS	(5.51)	(1.70)	(1.00)	(0.76)	(0.49)
EPS Change (YoY)	NA	81.7%	39.6%	26.2%	26.7%
Consensus EPS (Bloomberg)			(1.03)	(0.65)	(0.55)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	NM	NM	96.6x	33.2x
Free Cash Flow Yield*	-13.7%	-12.9%	-8.1%	-8.2%	-5.8%

* For full definitions of *IQmethod*SM measures, see page 5.

07 February 2024

Equity

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Stock Data

Price	10.91 USD
Price Objective	16.00 USD
Date Established	3-Nov-2023
Investment Opinion	C-1-9
52-Week Range	6.10 USD - 16.58 USD
Mkt Val (mn) / Shares Out (mn)	1,084 USD / 99.4
Free Float	85.4%
Average Daily Value (mn)	14.56 USD
BofA Ticker / Exchange	SG / NYS
Bloomberg / Reuters	SG US / SG.N
ROE (2023E)	-13.5%
Net Dbt to Eqty (Dec-2022A)	-61.3%
ESGMeter TM	NLA

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Glossary of terms

Sweetgreen: SG

AUV: average unit volume

RLM: restaurant-level margins

G&A: general & administrative expenses

CMG: Chipotle

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Timestamp: 07 February 2024 05:00AM EST

iQprofileSM Sweetgreen

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-25.6%	-20.1%	-11.7%	-9.7%	-6.6%
Return on Equity	-36.0%	-18.6%	-13.5%	-11.3%	-9.2%
Operating Margin	-39.5%	-37.8%	-20.3%	-13.6%	-8.1%
Free Cash Flow	(149)	(140)	(88)	(89)	(63)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	2.3x	2.1x	1.8x	1.5x	1.3x
Tax Rate	NM	NM	2.0%	NM	NM
Net Debt-to-Equity Ratio	-72.3%	-61.3%	-50.6%	-36.2%	-23.6%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	340	470	582	681	793
% Change	54.1%	38.3%	23.7%	17.2%	16.4%
Gross Profit	40	69	99	126	153
% Change	NM	70.8%	44.0%	27.0%	21.2%
EBITDA	(94)	(49)	(4)	12	34
% Change	16.5%	48.1%	91.2%	NM	191.2%
Net Interest & Other Income	19	3	10	12	12
Net Income (Adjusted)	(153)	(111)	(69)	(51)	(38)
% Change	NA	27.3%	38.1%	25.5%	26.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(153)	(187)	(112)	(86)	(56)
Depreciation & Amortization	36	47	59	69	81
Change in Working Capital	0	(25)	18	1	(2)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	53	122	53	34	20
Capital Expenditure	(85)	(97)	(107)	(107)	(107)
Free Cash Flow	-149	-140	-88	-89	-63
% Change	-7.6%	6.0%	37.3%	-0.8%	28.8%
Share / Issue Repurchase	526	5	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	472	332	244	155	92
Trade Receivables	3	3	4	5	5
Other Current Assets	32	11	28	31	34
Property, Plant & Equipment	181	235	282	320	342
Other Non-Current Assets	75	328	328	328	328
Total Assets	763	909	885	838	801
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	48	73	108	113	116
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	62	295	295	295	295
Total Liabilities	110	368	403	408	411
Total Equity	653	541	482	429	390
Total Equity & Liabilities	763	909	885	838	801

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Restaurants

Company Description

Sweetgreen is a fast casual chain with a seasonal, primarily plant-based menu that prioritizes sustainably sourced and minimally processed ingredients. In addition to developing a proprietary customer-facing digital platform, Sweetgreen has invested in automation technology to optimize labor and kitchen operations. As of FY 2022, Sweetgreen had 186 company-owned stores in 16 states and Washington, D.C.

Investment Rationale

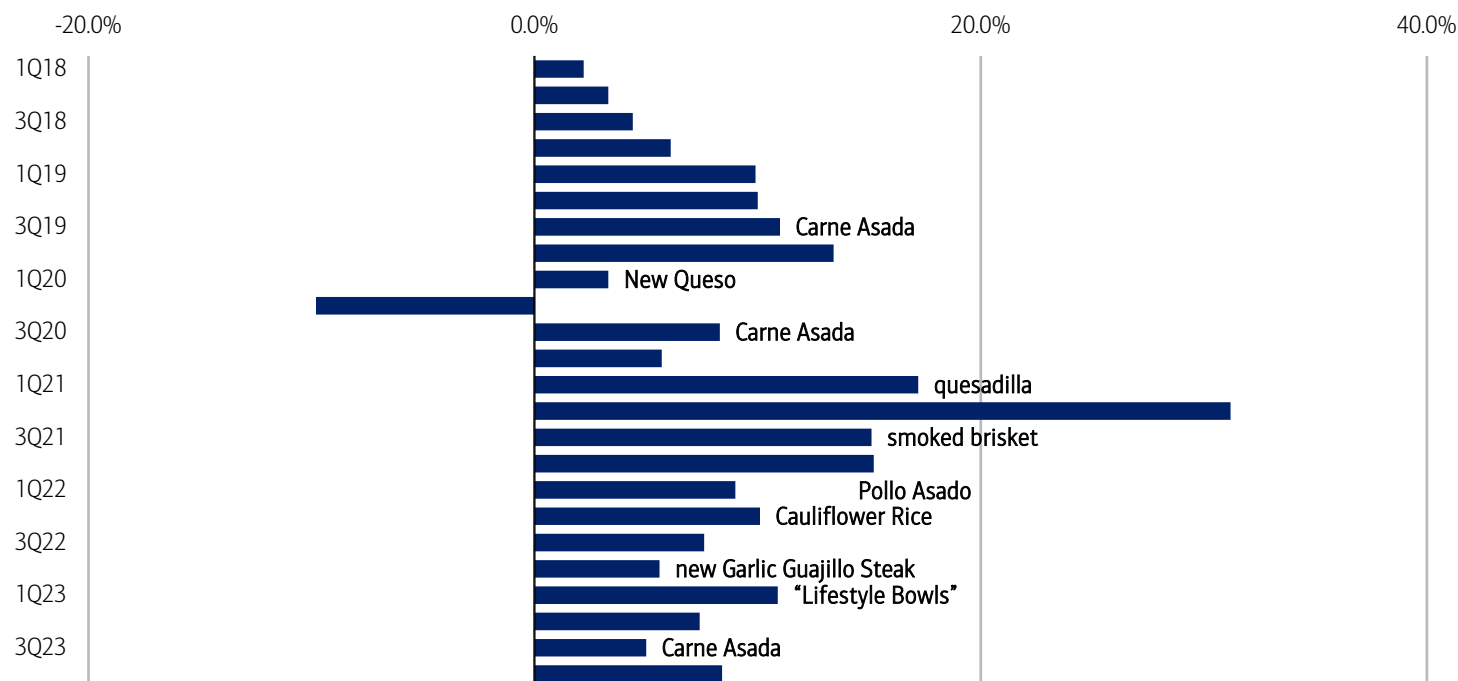
Sweetgreen is a digitally native, high growth fast casual concept with a distinct urban core market. Based on our saturation analysis, we see potential for SG to achieve its 1,000 LT store growth target. SG has high unit-level returns (40% in Yr-2) and store productivity (over \$1,000/sq ft). We see upside to unit economics as SG continues to leverage investments in labor optimization technology (including automation).

Stock Data

Average Daily Volume 1,334,560

Exhibit 1: Chipotle has launched several successful steak menu items

Chipotle menu innovations vs SSSG

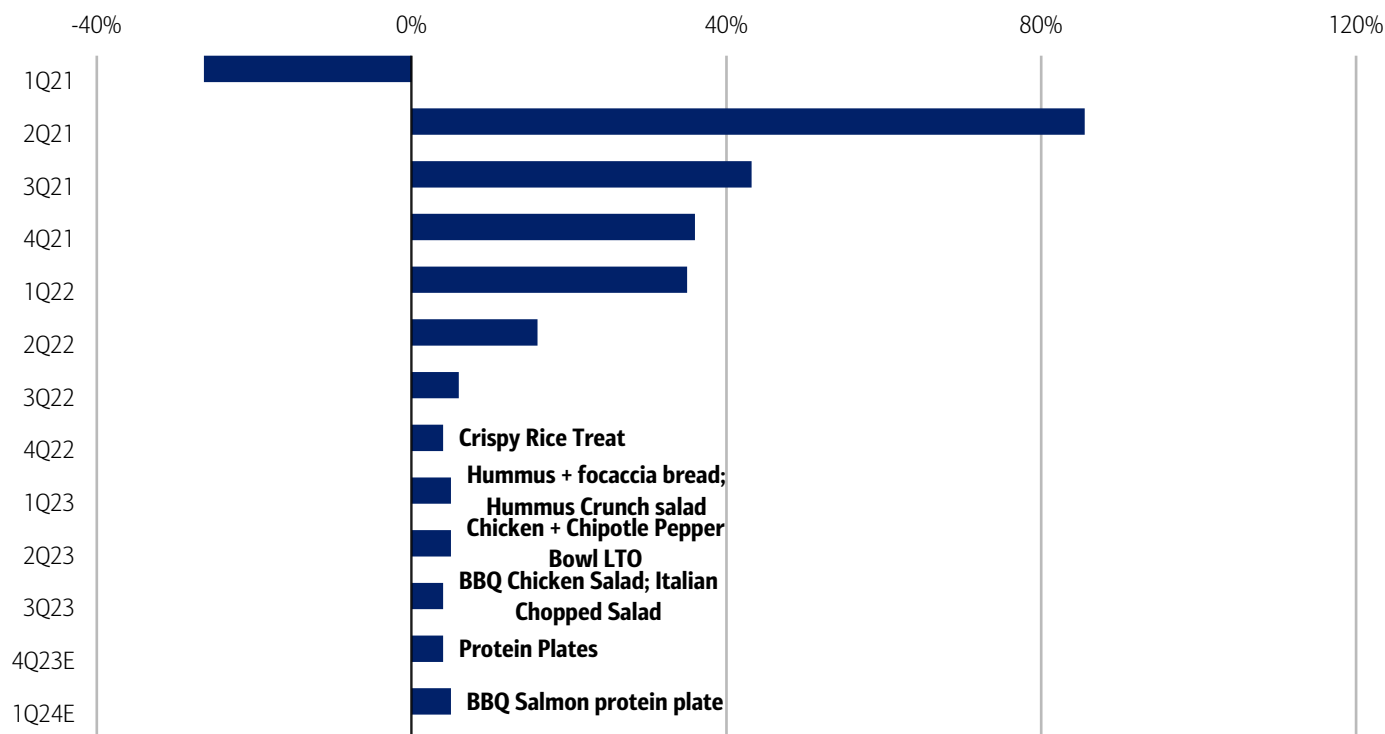


Source: Company reports

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Exhibit 2: Sweetgreen has ramped up menu innovations since late 2022; protein plates are a new platform

Sweetgreen menu innovations vs SSSG



Source: Company reports

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Price objective basis & risk

Sweetgreen (SG)

Our \$16 PO is based on normalized earnings power. Assuming SG is able to reach its long-term target of 1000 stores in ten years, with 18% restaurant-level margin and 8% G&A, we arrive at \$274mm EBITDA. We apply a 16.5x terminal multiple - consistent with mature growth restaurant peers - after adjusting for SG's domestic, company-operated status - to arrive at EV of \$4.5 bb, or \$1.5 bb discounted back to today at 12%.

Downside risks include i) slower SSSG as a result of lower discretionary spending, ii) inability to gain traction in new markets outside of the urban core, iii) failure to offset food and labor cost inflation through pricing and volume growth, iv) worse than expected development challenges (construction costs, permitting) which could limit unit growth.

Analyst Certification

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US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BROS	BROS US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa John's International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
NEUTRAL				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK.US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
UNDERPERFORM				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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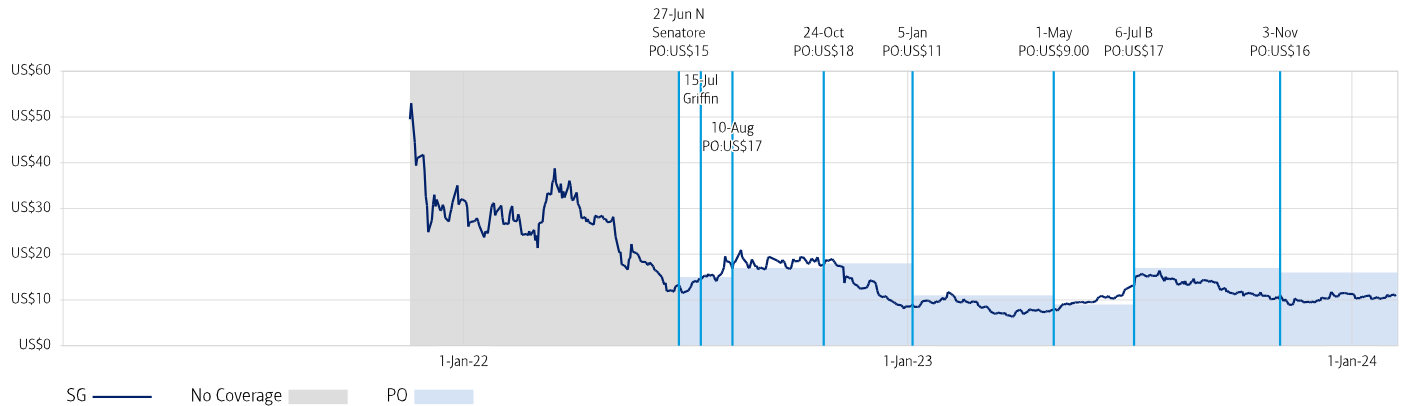
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Sweetgreen (SG) Price Chart



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Equity Investment Rating Distribution: Restaurants Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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