



Sweetgreen \$SG

Underweight



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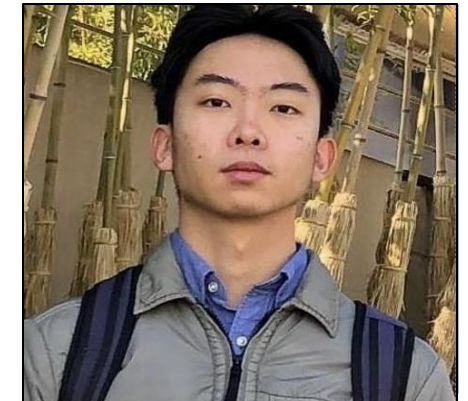
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Section	Page
1. Executive Summary	4
2. Variant Thesis and Market View	5
3. Industry Overview	6
4. Company Overview	9
5. Key Drivers	11
6. Financials	15
7. Valuation	18
8. Risks and Mitigants	21
9. Appendix	22
A. Revenue and DCF Details	23
B. Trade Execution and Option Analysis	27

Valuation Summary

Target Price:	\$7.18
Market Capitalization:	\$1.16 Bn
10-Year Revenue CAGR:	13.69%
2032 Revenue Projection:	\$1.695 Bn
2032 EBITDA Projection:	\$176.91 MM
2032 FCF Projection:	\$39.83 MM
Net Debt:	\$27.8 MM
WACC:	12.00%
Assumed Exit EV/EBITDA:	20.0x
Implied Terminal Growth Rate:	10.8%

Key Statistics

Stock Price (11/14/2023):	\$10.32
52 Week High:	\$16.58
52 Week Low:	\$6.10
LTM Revenue:	\$549.6 MM
LTM EBITDA:	\$(86.8) MM
LTM Free Cash Flow:	\$(71.4) MM
EV/Revenue:	2.16x
P/B:	2.29x

3 Yr. Price History



Key Drivers

- Key Driver 1:** Sweetgreen has been and will continue to face a disproportionate increase in organic food prices due to persistent inflation, which could further exacerbate the negative impact on its margins
- Key Driver 2:** The market is naively pricing future rate cuts despite a continued robust labor market
- Key Driver 3:** People are moving from city offices to the suburbs, which can hurt Sweetgreen since most of its restaurants are located in the large cities
- Key Driver 4:** Sweetgreen grapples with the decision of increasing food prices to safeguard its bottom line as wage inflation continues

Our View



- Decreases in consumer wealth during the pending economic downturns are likely to result in reduced discretionary spending on premium dining options like Sweetgreen
- As a company focused on fresh & high-quality ingredients, any surge in input costs may further squeeze profitability, potentially leading to financial challenges for a company that is already unprofitable
- Wall Street is still too optimistic about Sweetgreen's prospects and ignores the worsening cash flow picture, thus leaving room for significant downside when the financing environment isn't so great

The Street View

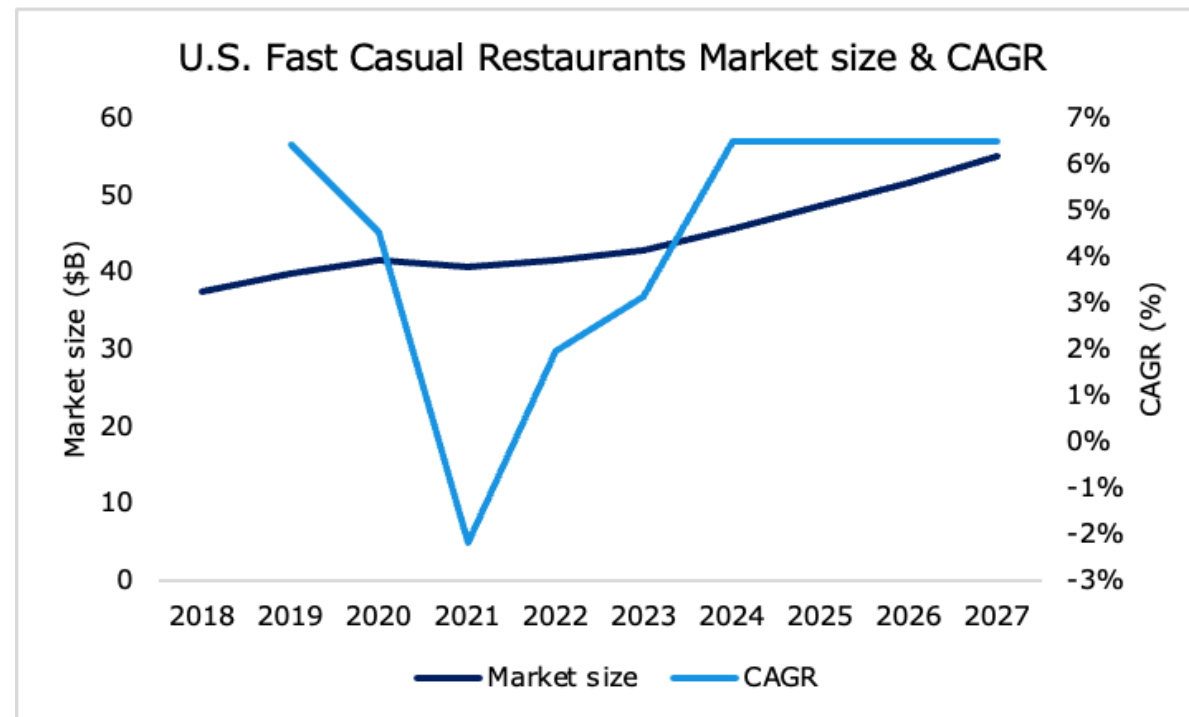


- Sweetgreen's entry into new markets like Cranston, Milwaukee, and Tampa is expected to tap into untapped consumer bases
- Anticipated urban recovery and heightened consumer demand are poised to boost existing store performance, potentially leading to increased foot traffic and sales
- Introduction of new menu items and implementation of the Infinite Kitchen aim to broaden the customer base and enhance store margins
- The Wall Street-anticipated TAM valuation of 1000 stores by 2036, discounted at 10% annually, underlines a lot of confidence in Sweetgreen's growth trajectory

Fast-Casual Restaurant Industry

- **Market Size & Growth:** Estimated at \$42.8 billion, the U.S. fast-casual restaurant market is projected to grow by \$28.8 billion from 2020 to 2025, growing at a CAGR of 8%
- **Consumer spending:** Consumer spending is slowing down, decreased by 0.1% Y-o-Y in October, emphasizing the need for fast-casual restaurants to offer compelling value propositions to attract price-sensitive customers
- **Operational Costs:** The industry faces pressure on operating margins from rising food and labor costs. Food price increased by 3.7% and labor cost increased by 4.3% YoY
- **Impact of Office Vacancy:** Higher office vacancies lead to reduced foot traffic in business districts, directly impacting store turnover and profitability for fast-casual establishments reliant on office worker patronage
- **Technology Integration:** Essential for scaling to meet surging online demand, collaborating with food delivery services, and ensuring a seamless customer interface
- **Challenges:** Intense competition from quick-service restaurants (QSRs) and Cloud Kitchen, which offer lower prices and faster service, poses a threat to market growth potential

Industry Market Size Projection



The U.S. fast casual restaurant sector is capitalizing on the shift towards health-conscious, value-driven dining. With quick and cost-effective offerings, the sector's agility in embracing plant-based trends amidst rising environmental awareness is also expanding its consumer base, positioning it well for sustained growth.

Factor 1

- **Consumer Behavior Shifts:** Fast-casual diners increasingly prioritize health, driving demand for quality, nutritious offerings. Restaurants must innovate with organic, locally-sourced, and diet-diverse menus, balancing speed with culinary excellence. Transparency in sourcing is also crucial. This evolution necessitates strategic menu development, crucial for brand loyalty and competitive differentiation

Factor 2

- **Rising Costs and diminishing Consumer Spending Power:** Fast-casual restaurants face margin pressures from high food costs and labor inflation, alongside decreased consumer spending. These factors necessitate cost-effective innovation to maintain competitive edge and market share. Failure to adapt could lead to valuation declines, warranting investor caution

Factor 3

- **Digital Transformation:** Fast-casual restaurants must adopt advanced digital ordering platforms to meet rising demand for online and app-based orders. This strategic shift, essential for customer retention and streamlined operations, also leverages data analytics for targeted marketing and menu optimization—key drivers of industry growth

CAVA

Cava

Market Capitalization: \$3.89bn
LTM Revenue: \$681,456,000
LTM Revenue Growth: 23.60%
Gross Margin: 36.42%
Key Products: Bowls, Spreads/Dips, Salads

Cava is a fast-casual restaurant chain specializing in Mediterranean cuisine, with a particular emphasis on modern, health-focused, and customizable dining experiences. Cava launched its IPO on June 15th, 2023.



Shake Shack

Market Capitalization: \$2.64bn
LTM Revenue: \$1,039,819,000
LTM Revenue Growth: 20.18%
Gross Margin: 36.37%
Key Products: Burgers, Fries, Shakes

Shake Shack is a modern-day "roadside" burger stand known for its delicious, high-quality food with a focus on premium, sustainable ingredients. Shake Shack launched its IPO in 2015.



Noodles & Company

Market Capitalization: \$135.69M
LTM Revenue: \$515,555,000
LTM Revenue Growth: 5.69%
Gross Margin: 16.87%
Key Products: Noodle dishes, Soups

Noodles & Company is a fast-casual restaurant chain that specializes in a variety of noodle dishes inspired by cuisines from around the world. Noodles & Company launched its IPO in 2013.



Key Statistics

Valuation

Market Capitalization: \$1.16 Bn
 EV / Revenue: 2.16x

Income

LTM Revenue: \$549.6 MM
 2024 WS Estimated Revenue: \$667.3 MM
 LTM Revenue Growth: 22.7%
 LTM EBITDA: \$(86.8) MM
 2024 WS Estimated EBITDA: \$11.8 MM
 LTM Net Income: \$(135.2) MM
 2024 WS Estimated Net Income: \$(85.7) MM

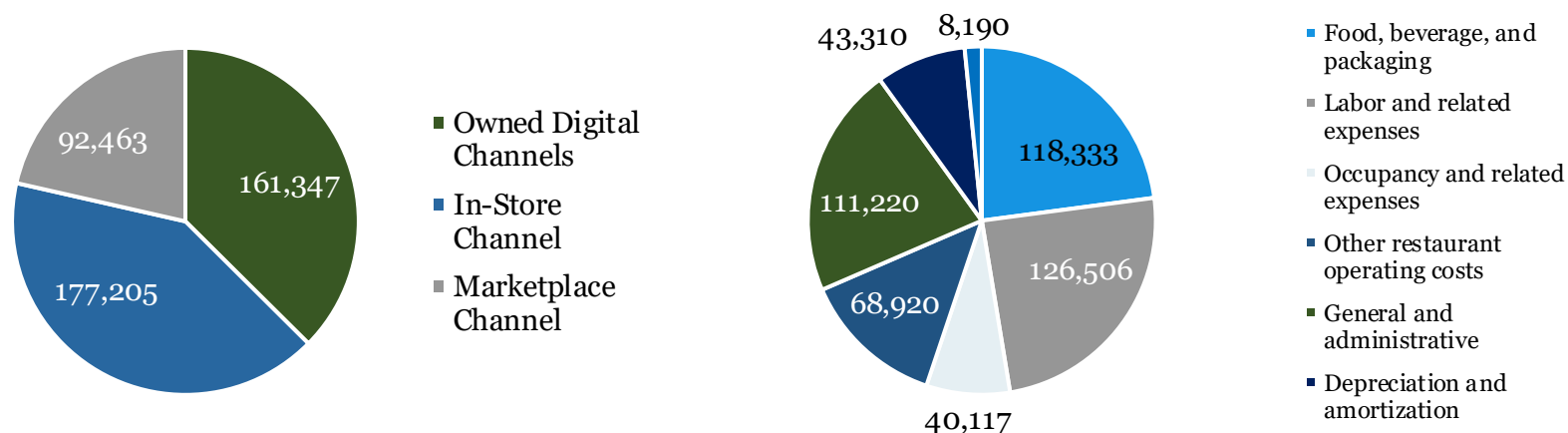
Profitability

LTM Gross Margin: 16.9%
 LTM EBITDA Margin: (15.8%)
 LTM Net Income Margin: (24.6%)

Business Model Overview

- Sweetgreen operates as a fast-casual restaurant chain specializing in healthy and customizable salads, bowls, and other fresh food options with its menus catering to health-conscious consumers
- The company adheres to a farm-to-table model, which sources ingredients directly from local farmers, demonstrating a commitment to sustainability by prioritizing environmentally friendly sourcing practices
- Sweetgreen’s core menu features 11 signature items that are offered year-round with their most popular item being the customizable salad bowl
- Their sales channels are broken down into: Owned Digital Channels, In-Store Channel (Non-Digital component), and Marketplace Channel
- Infinite Kitchen is an automated system that helps Sweetgreen robotically assemble the salads and bowls their customers crave—up to 500 of them an hour and 50% faster than the humans can

Last 9-Month Revenue and Cost Mix



4. Company Overview - Management



Jonathan Neman
CEO and Co-Founder

Founded Sweetgreen alongside college friends during his senior year of college at Georgetown University. Helped open the first location of Sweetgreen just 3 months after graduating in 2007. Transitioned into CEO role in 2017.



Nathaniel Ru
CBO and Co-Founder

Founded Sweetgreen alongside college friends during his senior year of college at Georgetown University. Helped open the first location of Sweetgreen just 3 months after graduating in 2007. Was the former CEO before transitioning into new role in 2017.



Nicolas Jammet
CCO and Co-Founder

Founded Sweetgreen alongside college friends during his senior year of college at Georgetown University. Helped open the first location of Sweetgreen just 3 months after graduating in 2007.



Mitch Reback
CFO

Has served as the CFO since 2015, overseeing finance, corporate strategy, and institutional funding. Prior to joining Sweetgreen, held CFO roles at Neutrogena from 1998 to 2012 and Drybar from 2014 to 2014.



Wouleta Ayele
CTO

Has served as the CTO since 2021, leading supply chain enhancements, talent acquisition, and digital platform development. Prior to Sweetgreen, held tenure as the SVP of Starbucks Technology of 16 years. Held other roles in Coca Cola and Hyundai even prior.



Chris Carr
COO

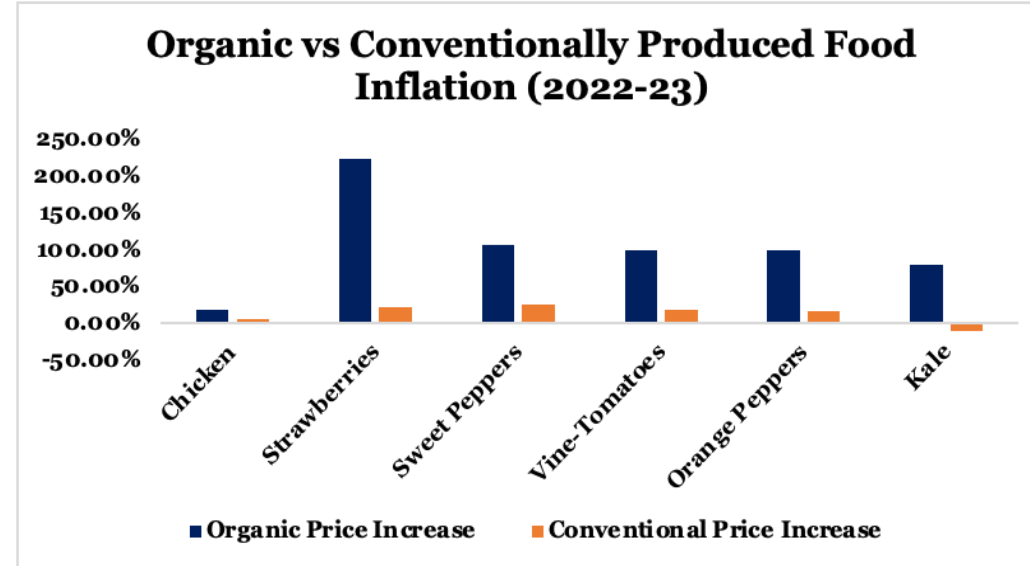
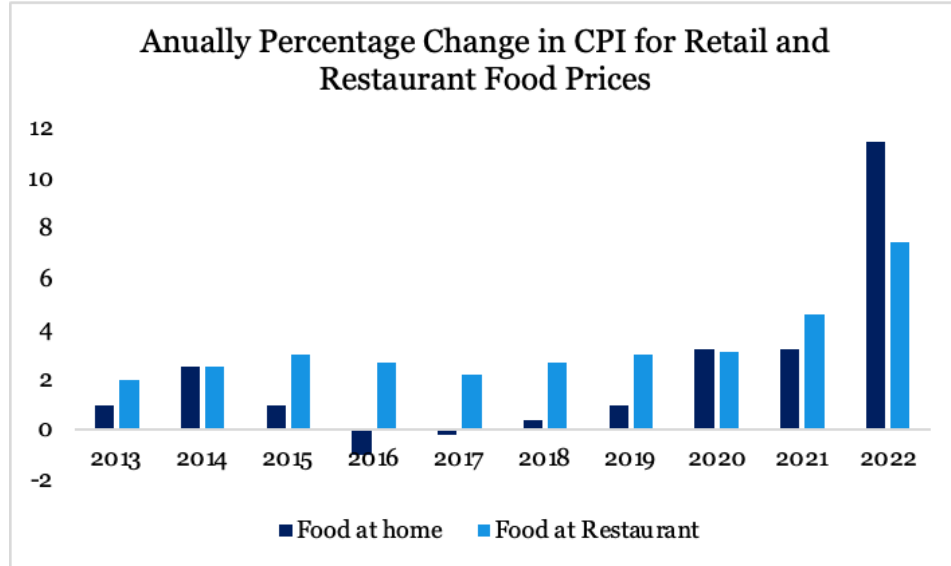
Has served as the COO since 2020, offering operational guidance and strategy optimization. Prior to Sweetgreen, has spent significant time in senior operational roles at both Starbucks and ExxonMobil.



5. Key Driver 1 (Food Costs)

Over the past year, surging inflation, particularly in food prices, has elevated Sweetgreen's input costs. On top of that, organic food prices have risen disproportionately. Even if overall inflation subsides, there remains a consistent upward pressure on organic food prices.

- Organic food prices are far more volatile than conventionally produced food inputs
- In 2022 and early 2023, food prices rose by approximately **9.9%**
- Organic fruits and vegetable prices rose by **13.1%**
- Organic chicken prices increased by **19.5%** (a very important input for Sweetgreen)
- Prices for conventionally raised chicken rose by **5.9%** in the same time period
- Food price inflation has tapered off since 2022 but that has been caused by rising interest rates
- This increases Sweetgreen's cost to borrow and therefore they are faced with another hurdle



5. Key Driver 2 (Financing Environment)

The market perceives a bleak outlook for corporate earnings growth, anticipating further rate cuts, yet the Federal Reserve, hindered by the U.S. resilient labor market, has yet to meet its mandate.

- **Tightening Consumer Budget:** Consumer spending on premium or health-conscious dining options, such as Sweetgreen, may be affected if individuals are more conservative with discretionary spending during periods of economic uncertainty
- **Negative Guidance from S&P500 Companies:** 64% of S&P500 companies have issued negative guidance, which indicates worsening consumer confidence that can impact foot traffic and sales at Sweetgreen locations
- **Strong Labor Market Despite Fed Efforts:** A robust labor market may lead to increased competition for skilled workers and prevent the Fed from implementing rate cuts, potentially impacting Sweetgreen's labor costs and worsening the financing environment
- **Market Implies Soft Landing and Rate Cuts into 2024:** Expectations for a soft landing and rate cuts are considered naïve in our outlook given where inflation has been recently

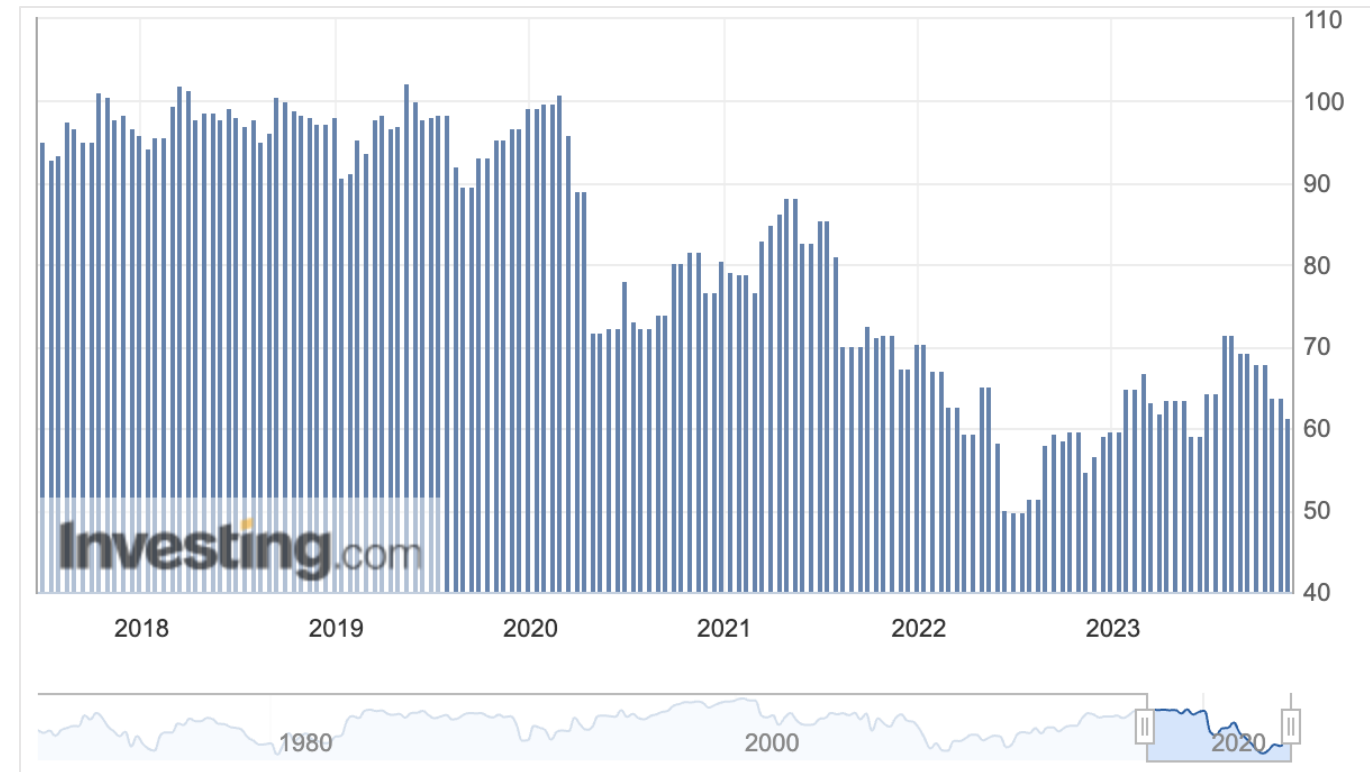
CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
12/13/2023			0.0%	0.0%	0.0%	0.0%	0.0%	95.0%	5.0%	0.0%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	93.0%	6.9%	0.1%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	27.9%	67.2%	4.8%	0.1%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	12.2%	45.1%	39.9%	2.7%	0.0%
6/12/2024	0.0%	0.0%	0.0%	0.0%	6.4%	29.5%	42.4%	20.4%	1.3%	0.0%
7/31/2024	0.0%	0.0%	0.0%	3.6%	19.3%	36.7%	30.1%	9.8%	0.6%	0.0%
9/18/2024	0.0%	0.0%	2.3%	13.5%	30.2%	32.5%	17.3%	4.0%	0.2%	0.0%
11/7/2024	0.0%	1.2%	8.4%	22.7%	31.5%	24.2%	10.0%	1.9%	0.1%	0.0%
12/18/2024	0.9%	6.3%	18.5%	28.9%	26.3%	14.1%	4.3%	0.6%	0.0%	0.0%

5. Key Driver 3 (Macro Environment)

The continuous trend of people are moving from city offices to the suburbs can hurt Sweetgreen since most of its restaurants are located in the large cities.

- Office vacancy rates are increasing (**17.8%** vs last year **16.3%**)
- The surrounding metropolitan areas are growing faster than the core cities for most of the largest U.S. cities, indicating a trend toward suburban and exurban growth
- Major cities in the Midwest and Northeast, like New York City, are experiencing population declines, both in the cities and their surrounding metro areas
- Since the mid-2010s, the 100 largest cities in the U.S. have seen declining annual population growth, a trend influenced by lower immigration rates, declining birth rates, and outmigration to suburbs and exurbs
- U.S. consumer sentiment fell for the fourth straight month, reaching its lowest level since May, due consumers expecting higher inflation (3.2%) in the foreseeable future

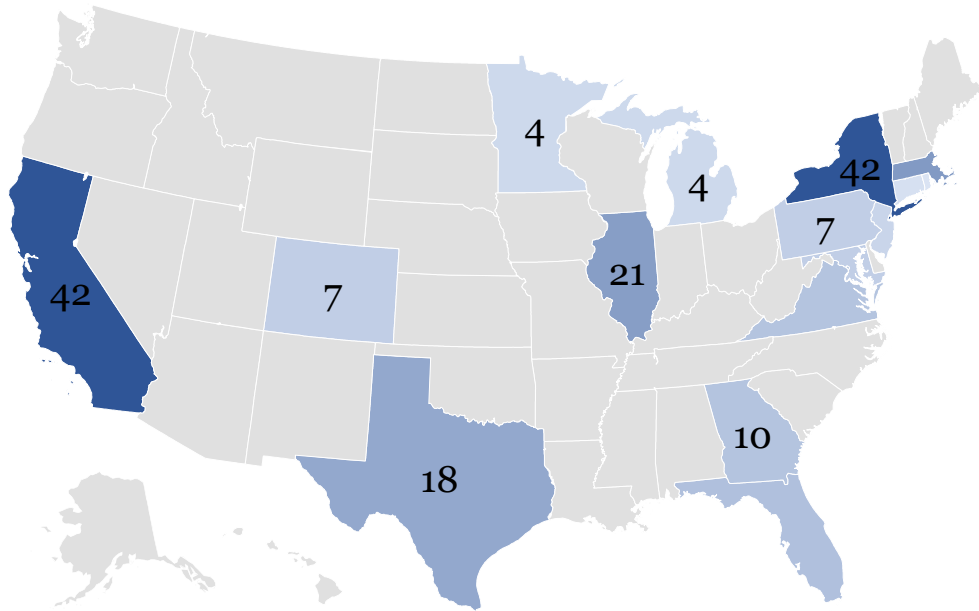
Michigan US Consumer Sentiment Index



5. Key Driver 4 (Wage Inflation)

Sweetgreen grapples with the decision of increasing food prices to safeguard its bottom line while facing negative impact on customer sentiment that could worsen the existing decline in demand for its offerings.

Sweetgreen Locations in the United States



Number of locations

42

1

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Number of Stores Breakdown in % Term			
California	18.42%	Minnesota	1.75%
Connecticut	0.88%	New Jersey	2.19%
Colorado	3.07%	New York	18.42%
Florida	4.82%	Texas	7.89%
Georgia	4.39%	Pennsylvania	3.07%
Illinois	9.21%	Rhode Island	0.44%
Maryland	3.07%	Virginia	4.39%
Massachusetts	9.65%	Washington DC	5.26%
Michigan	1.75%	Wisconsin	1.32%

- According to data from [Indeed](#), kitchen team members at Sweetgreen in California are currently earning an average hourly wage of \$17.96
- Gavin Newsom has signed [AB 122](#), which mandates a \$20 minimum wage for fast-food workers starting from April 1, 2024
- As the new minimum wage regulations approach, competitors like [Chipotle already plan price hikes in California](#). But for Sweetgreen, with its average bowl priced at \$18, faces the dilemma of potential customer resistance to further increases

Income Statement Highlights

- The company has pursued an aggressive growth strategy with a revenue CAGR of 14.43% over these past four years
- Despite positive revenue growth and improved restaurant level profit margin, the company continues to operate at a substantial loss, which can be primarily attributed to a considerable increase in operating expenses, particularly in labor-related costs and general administrative expenses post-IPO
- The Marketplace Channel, representing sales through third-party delivery marketplaces, has experienced remarkable growth, suggesting a rising preference for online pick-up orders and indicating a shift away from traditional in-store customer presence

4 Years of Income Statement Results

Fiscal Year (in \$ thousands)	2019	2020	2021	2022
Owned Digital Channels	117,679	124,271	156,513	191,129
In-Store Channel (Non-Digital component)	137,009	55,669	110,850	177,996
Marketplace Channel	19,463	40,675	72,511	100,980
Total Revenue	274,151	220,615	339,874	470,105
Food, beverage, and packaging	(83,966)	(66,154)	(93,699)	(130,136)
Labor and related expenses	(86,547)	(83,691)	(110,368)	(147,474)
Occupancy and related expenses	(37,050)	(43,775)	(35,863)	(45,238)
Other restaurant operating costs	(22,613)	(35,697)	(59,539)	(77,971)
Total restaurant operating costs	(230,176)	(229,317)	(299,469)	(400,819)
Restaurant Level Profit	43,975	(8,702)	40,405	69,286
General and administrative	(88,818)	(99,142)	(125,040)	(187,367)
Depreciation and amortization	(19,416)	(26,851)	(35,549)	(46,471)
Pre-opening costs	(5,405)	(4,551)	(9,193)	(11,523)
Impairment of long-lived assets and closed-store costs	-	(1,456)	(4,915)	(2,542)
Loss on disposal of property and equipment	(409)	(891)	(107)	(278)
Restructuring charges	-	-	-	(14,442)
Total operating expenses	(114,048)	(132,891)	(174,804)	(262,623)
Total operating profit (loss)	(70,073)	(141,593)	(134,399)	(193,337)
Interest income	2,724	1,018	450	5,143
Interest expense	(88)	(404)	(87)	(83)
Other expense	(480)	(245)	(18,992)	(819)
Pretax profit (loss)	(67,917)	(141,224)	(153,028)	(189,096)
Benefit from (provision for) income taxes	-	-	(147)	(1,345)
Net income (loss)	(67,917)	(141,224)	(153,175)	(190,441)

3 Years of Balance Sheet Results

Fiscal year (in \$ thousands)	2020	2021	2022
Cash and cash equivalents	102,640	471,971	331,614
Accounts receivable	1,087	2,644	3,244
Inventory	620	903	1,383
Prepaid expenses	5,387	13,763	8,161
Tenant improvement receivable	5,523	16,695	-
Current portion of lease acquisition costs	384	525	93
Other current assets	218	155	1,654
Current Assets	115,859	506,656	346,149
Operating lease assets	-	-	254,059
Property and equipment, net	127,211	180,666	235,257
Goodwill	6,275	35,970	35,970
Intangible assets, net	10,942	32,868	30,562
Lease acquisition costs, net	3,248	4,391	518
Security deposits	2,023	1,770	1,528
Other assets	-	-	4,767
Restricted cash	125	328	125
Non-Current Assets	149,824	255,993	562,786
Total Assets	265,683	762,649	908,935

Fiscal year (in \$ thousands)	2020	2021	2022
Other Equity Values	501,638	-	-
Common stock	17	109	111
Additional Paid-In Capital	19,662	1,129,224	1,212,716
Retained earnings	(323,041)	(476,216)	(671,601)
Total equity	198,276	653,117	541,226

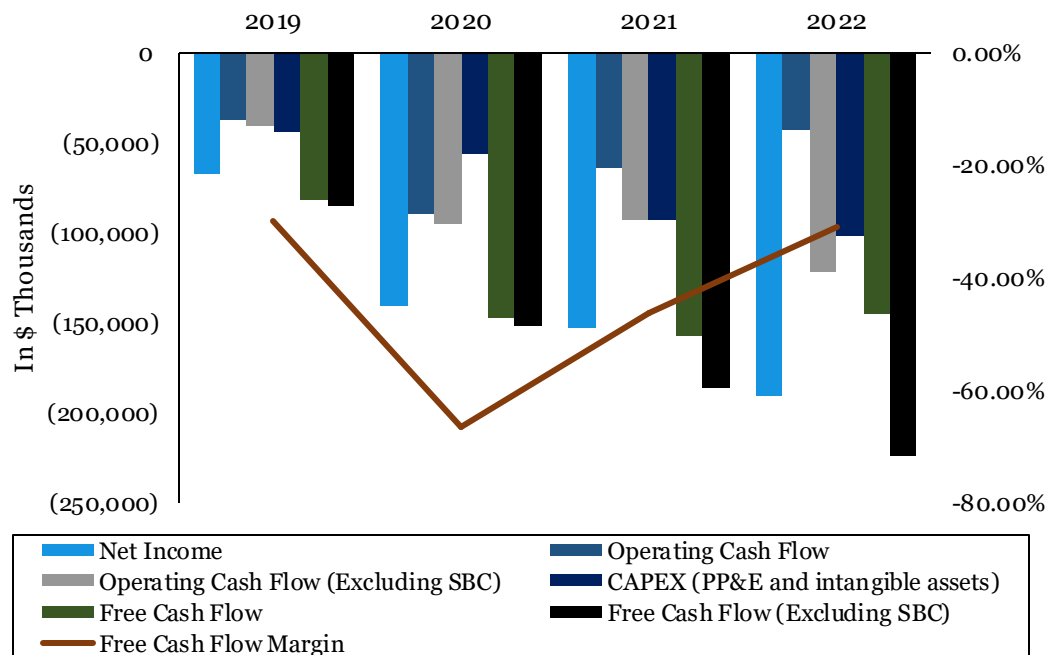
Fiscal year (in \$ thousands)	2020	2021	2022
Current portion of operating lease liabilities	-	-	29,642
Accounts payable	6,232	11,197	12,242
Accrued expenses	17,893	16,338	22,069
Accrued payroll	6,764	12,093	6,580
Gift cards and loyalty liability	2,337	1,839	2,016
Current portion of deferred rent liability	3,092	6,061	0
Current Liabilities	36,318	47,528	72,549
Operating lease liabilities, net of current portion	-	-	271,097
Deferred rent liability, net of current portion	24,241	38,402	-
Accrued payroll, net of current portion	5,000	2,500	-
Contingent consideration liability	-	20,477	21,296
Other non-current liabilities	1,848	500	1,353
Deferred income tax liabilities	-	125	1,414
Non-Current Liabilities	31,089	62,004	295,160
Total liabilities	67,407	109,532	367,709

- Continuous trend of reduction in cash balance as the company continues to expand rapidly
- Company doesn't have any other debt besides its operating lease liabilities
- Q3 2023 Balance Sheet highlights that the company only has 274.7 million on its cash balance and the total operating lease amounting up to \$302.6 million

Cash Conversion and Use

- Management has pursued an aggressive growth strategy, which leads to a significant depletion of cash reserves to fund expansion initiatives despite currently facing a more challenging economic environment for securing financing
- Shareholder value is continuously destroyed due to the substantial use of SBC to enrich management team

Cash Flow Analysis



4 Years of Cash Flow Results

Fiscal Year (in \$ thousands)	2019	2020	2021	2022
Net income (loss)	(67,917)	(141,224)	(153,175)	(190,441)
Depreciation and amortization	19,416	26,851	35,549	46,471
Amortization of lease acquisition	288	344	402	93
Amortization of loan origination fees	88	96	95	126
Amortization of cloud computing arrangements	-	-	-	224
Non-cash operating lease cost	-	-	-	28,447
Loss on fixed asset disposal	409	891	107	278
Stock-based compensation	3,904	4,912	28,897	78,736
Impairment and closure costs	-	1,456	4,915	2,542
Non-cash restructuring charges	-	-	-	13,026
Deferred income tax expense	-	-	125	1,290
Change in fair value of contingent consideration	-	-	4,037	819
Change in fair value of preferred stock warrant liability	480	245	14,955	-
Changes in Working Capital	6,134	16,077	(436)	(24,780)
Net cash (used in) / provided by in operating activities	(37,198)	(90,352)	(64,529)	(43,169)
Purchase of property and equipment	(39,288)	(48,146)	(84,511)	(96,889)
Purchase of intangible assets	(5,403)	(8,748)	(8,264)	(5,376)
Acquisition, net of cash acquired	(4,795)	(791)	(3,340)	-
Security and landlord deposits	(323)	30	253	242
Lease acquisition costs	(659)	(750)	(1,686)	-
Net cash used in investing activities	(50,468)	(58,405)	(97,548)	(102,023)
Repayment on long term debt	-	(15,000)	-	-
Proceeds from long term debt	-	15,000	-	-
Proceeds from preferred stock issuance, net of issuance costs	148,906	-	113,811	-
Proceeds from stock option exercise	890	2,145	26,028	4,758
Proceeds from exercise of common stock warrants	-	-	119	-
Proceeds from issuance of common stock in IPO	-	-	384,692	-
Proceeds from issuance of Series F warrants	-	-	1,803	-
Proceeds from related party loan	-	-	5,158	(126)
Net cash provided by financing activities	149,796	2,145	531,611	4,632

7. Valuation – Overview

Key Points

DCF Summary

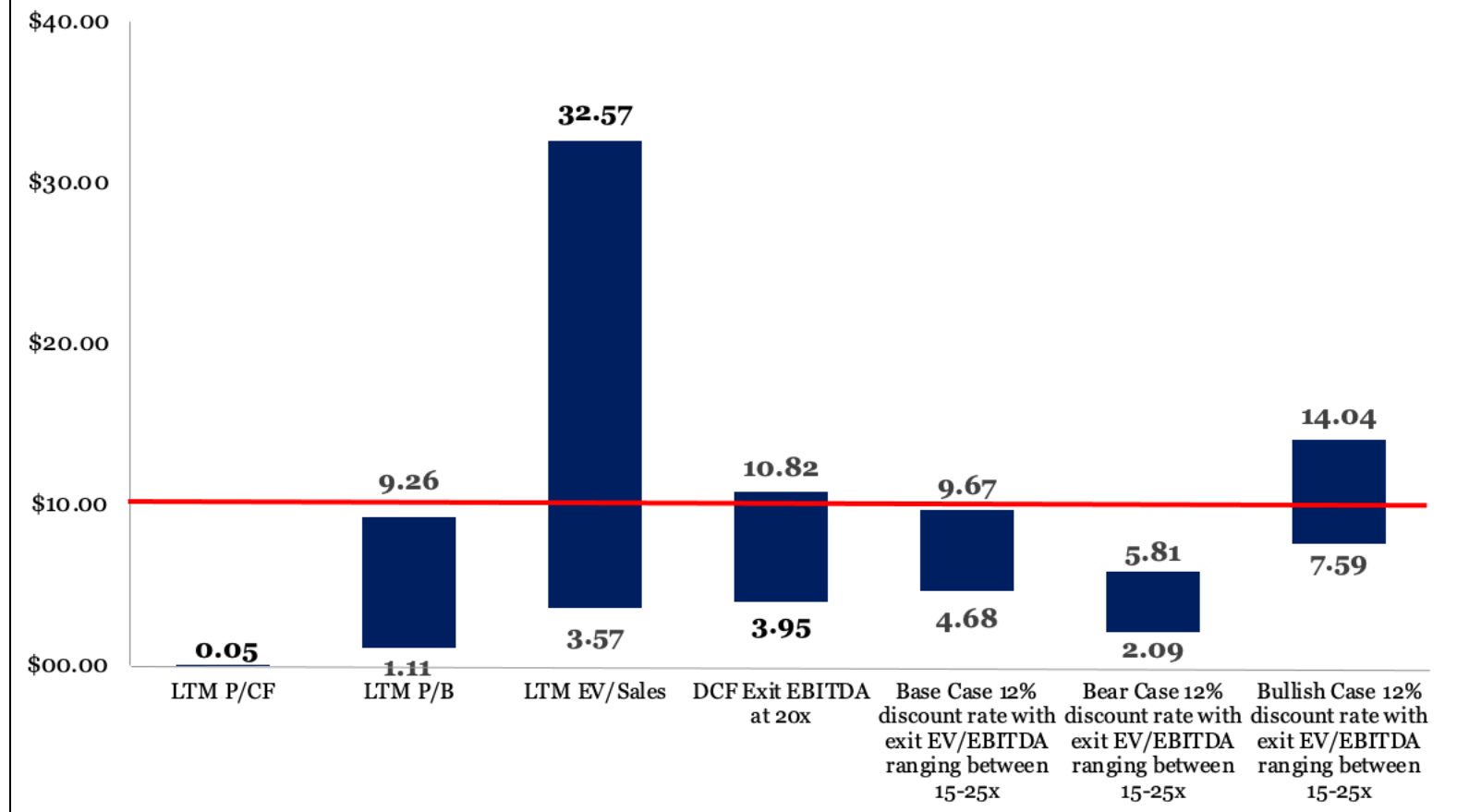
Final Valuation	7.18
Premium to Current	-30.43%
WACC	12%
Exit Multiples	30.00x
Implied Growth Rate	0.19x

Comps Implied Price Summary

	EV/Sales	P / CF	P / B
High	32.57	0.05	9.26
75th Percentile	31.30	0.03	6.58
25th Percentile	6.00	0.02	3.68
Low	3.57	0.00	1.11
Mean	19.23	0.02	5.15
Median	3.62	0.02	5.12

Valuation Summary (Football Field)

Football Field Analysis (Stock Price at \$10.32)



7. Valuation – Public Comps Analysis

Company Names		Market Values			Profitability	Revenue Multiples	EBITDA Multiples
Company	Ticker	Share Price (1)	Equity Market Value (2)	Enterprise Value (Million)	Operating Margin (LTM)	EV/Revenue (2023 LTM)	EV/EBITDA (2023 LTM)
CAVA	\$CAVA	33.88	3,848	3,621	8%	5.3x	67.9x
Chipotle	\$CMG	2186.69	60,013	60,552	19%	6.3x	33.0x
Shake Shack	\$SHAK	61.9	2,619	2,504	9%	2.4x	27.9x
Noodles & Co	\$NLDS	3.06	137.8	217	6%	0.4x	6.6x

Sweetgreen	25th	Median	75th	Chosen Range	Implied Equity Value	Implied Price Per Share
EV/Sales	0.9x	1.7x	3.8x	0.9x – 3.8x	\$649 – \$2233 million	\$5.78 – \$19.86
EV/EBITDA	6.5x	22.6x	34.6x	6.5x – 34.6x	\$(2830) – \$(397) million	\$(25.17) – \$(3.53)
P/B	92.1x	128.0x	164.7x	92.1x – 164.7x	\$733 – \$410 million	\$3.58 – \$6.58

1. Price data as of the market on 11/20/2023

2. Market Values (in \$US million)

7. Valuation – DCF Analysis

Key Points (Base Case)

- 10-Year Revenue CAGR: 13.69%
- 2032 Number of Restaurants: 492
- 2032 AUV: \$3.66 MM
- 2032 Revenue: \$1.695 Bn
- 2032 EBITDA: \$176.91 MM
- Net Debt: \$27.8 MM
- Weighted Avg. Shares: 125.9 MM
- WACC: 12.00%
- Exit EV/EBITDA Multiple: 20x
- **Price Target: \$7.18**

Discounted Cash Flow Projections (Base Case)

Fiscal year (in \$ thousands)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenue	586,594	694,030	793,303	901,661	1,018,934	1,144,829	1,278,822	1,416,139	1,555,081	1,695,579
% growth	24.78%	18.32%	14.30%	13.66%	13.01%	12.36%	11.70%	10.74%	9.81%	9.03%
EBITDA	(63,997)	(46,174)	(20,542)	11,005	35,929	63,851	90,144	120,750	149,473	176,911
% margin	(10.91%)	(6.65%)	(2.59%)	1.22%	3.53%	5.58%	7.05%	8.53%	9.61%	10.43%
EBIT	(122,486)	(108,486)	(89,886)	(65,516)	(48,118)	(29,302)	(11,710)	10,886	31,996	52,430
% margin	(20.9%)	(15.6%)	(11.3%)	(7.3%)	(4.7%)	(2.6%)	(0.9%)	0.8%	2.1%	3.1%
Tax on EBIT	-	-	-	-	-	-	-	(2,613)	(7,679)	(12,583)
NOPAT (aka EBIAT)	(113,836)	(97,252)	(85,795)	(61,487)	(39,478)	(16,385)	(11,710)	8,274	24,317	39,847
D&A	58,489	62,313	69,344	76,520	84,048	93,153	101,855	109,864	117,477	124,481
Changes in NWC	9,870	6,004	2,818	7,753	5,010	6,520	7,800	6,974	7,513	7,689
Capital expenditures	(105,374)	(79,796)	(87,201)	(97,051)	(107,683)	(119,175)	(124,824)	(127,257)	(129,768)	(132,187)
Unlevered FCF	(159,500)	(119,966)	(104,925)	(78,293)	(66,744)	(48,804)	(26,880)	(2,146)	19,538	39,830

Sensitivity Analysis

Bear Case

Exit EV/EBITDA Multiple

Discount Rate	Exit EV/EBITDA Multiple				
	15.00x	17.50x	20.0x	22.50x	25.00x
14.00%	1.42	2.21	3.00	3.79	4.58
13.00%	1.74	2.60	3.45	4.31	5.16
12.00%	2.09	3.02	3.95	4.88	5.81
11.00%	2.49	3.50	4.50	5.51	6.52
10.00%	2.92	4.02	5.11	6.21	7.30

Base Case

Exit EV/EBITDA Multiple

Discount Rate	Exit EV/EBITDA Multiple				
	15.00x	17.50x	20.0x	22.50x	25.00x
14.00%	3.66	4.72	5.78	6.84	7.90
13.00%	4.15	5.30	6.45	7.60	8.75
12.00%	4.68	5.93	7.18	8.42	9.67
11.00%	5.27	6.63	7.98	9.33	10.69
10.00%	5.92	7.39	8.86	10.33	11.80

Bull Case

Exit EV/EBITDA Multiple

Discount Rate	Exit EV/EBITDA Multiple				
	15.00x	17.50x	20.0x	22.50x	25.00x
14.00%	6.18	7.55	8.92	10.29	11.66
13.00%	6.85	8.34	9.82	11.31	12.80
12.00%	7.59	9.20	10.82	12.43	14.04
11.00%	8.41	10.15	11.90	13.65	15.40
10.00%	9.30	11.20	13.10	15.00	16.90

Risk Factor 1

- Sweetgreen plans to expand to 1000 stores by 2036 (instead of 2034 as was previously stated). If they grow as they (and JP Morgan) think they will, with AUV and store margins growing, that could hinder our short. However, this outlook assumes the progression of Sweetgreen's automation, and that is something that they have not been able to accomplish so far
- Neman predicted that all Sweetgreen locations would be automated by 2024 but now states that Sweetgreen will open 7-8 automated locations next year. Additionally, the automation would require massive upfront investment and Capex, which would be hard to achieve given their current margins
- They have not been able to make satisfactory progress thus far and we believe that this is unlikely to change drastically in the near future

Risk Factor 2

- Both Sweetpass (free) and Sweetpass+ (paid) were launched in April of this year and given Sweetgreen's emphasis on its digital model this could be a massive driver for the company
- Thus far, the subscription services have created no revenue of note as noted in their most recent 10-Q. They are late to the game with several competitors (including Panera and PF Changs) already dominating the space
- The company also defers revenue associated with the products they are selling net of rewards (offered as part of the subscription) that are not expected to be redeemed, so it is yet to be seen how this will affect their financial statements as well
- There is far too much speculation on this front and there will likely be no significant results in the near future

Risk Factor 3

- Currently Sweetgreen is focused on expansion and its margins are low because of that. But if they pivot to a model of cost cutting this could increase margins and hurt our thesis
- But this is unlikely simply because of Sweetgreen's business model. They are currently spending \$75-100 million a year on expansion. They have always prioritized expansion (number of restaurants as well as automation) and this is unlikely to change in the near future
- Also, if they were to pivot and switch their model that would signal weakness to the street as well. The street view is predicated on Sweetgreen's expansionist policies and that is why the market is so bullish about Sweetgreen

Appendix

Fiscal Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Average Unit Volume Change %										
Bull Case	3.00%	3.50%	3.25%	3.00%	2.75%	2.50%	2.50%	2.50%	2.50%	2.50%
Base Case	3.00%	3.00%	2.75%	2.50%	2.25%	2.00%	2.00%	2.00%	2.00%	2.00%
Bear Case	3.00%	2.50%	2.25%	2.00%	1.75%	1.50%	1.50%	1.50%	1.50%	1.50%
Net New Restaurant Openings										
Bull Case	35	27	29	31	33	35	35	34	33	32
Base Case	35	25	27	29	31	33	33	32	31	30
Bear Case	35	23	25	27	29	31	31	30	29	28
Food, beverage, and packaging as % of Sales										
Bull Case	27.00%	26.75%	26.50%	26.25%	26.00%	25.75%	25.63%	25.50%	25.50%	25.50%
Base Case	27.50%	27.25%	27.00%	26.75%	26.50%	26.25%	26.13%	26.00%	26.00%	26.00%
Bear Case	28.00%	27.75%	27.50%	27.25%	27.00%	26.75%	26.63%	26.50%	26.50%	26.50%
Labor and related expenses as % of Sales										
Bull Case	29.50%	30.50%	29.50%	28.50%	28.00%	27.50%	27.00%	26.50%	26.25%	26.00%
Base Case	30.00%	31.00%	30.00%	29.00%	28.50%	28.00%	27.50%	27.00%	26.75%	26.50%
Bear Case	30.50%	31.50%	30.50%	29.50%	29.00%	28.50%	28.00%	27.50%	27.25%	27.00%
Occupancy and related expenses as % of Sales										
Bull Case	8.75%	8.25%	7.75%	7.50%	7.25%	7.00%	6.75%	6.50%	6.25%	6.25%
Base Case	9.00%	8.50%	8.00%	7.75%	7.50%	7.25%	7.00%	6.75%	6.50%	6.50%
Bear Case	9.25%	8.75%	8.25%	8.00%	7.75%	7.50%	7.25%	7.00%	6.75%	6.75%
Other restaurant operating costs as % of Sales										
Bull Case	15.75%	15.50%	15.25%	15.00%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%
Base Case	16.00%	15.75%	15.50%	15.25%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Bear Case	16.25%	16.00%	15.75%	15.50%	15.25%	15.25%	15.25%	15.25%	15.25%	15.25%
General and administrative % of Sales										
Bull Case	26.00%	22.50%	20.50%	18.50%	17.50%	16.50%	16.00%	15.50%	15.00%	14.50%
Base Case	26.50%	23.00%	21.00%	19.00%	18.00%	17.00%	16.50%	16.00%	15.50%	15.00%
Bear Case	27.00%	23.50%	21.50%	19.50%	18.50%	17.50%	17.00%	16.50%	16.00%	15.50%

A. DCF & Revenue Assumptions (Bear Case)

Fiscal year (in \$ thousands)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Number of Restaurants	221	244	269	296	325	356	387	417	446	474
Net New Restaurant Openings	35	23	25	27	29	31	31	30	29	28
Average Unit Volume (in thousands)	2,992	3,067	3,136	3,199	3,255	3,303	3,353	3,403	3,454	3,506
Owned Digital Channels	222,018	282,757	308,197	345,210	391,867	432,791	479,895	528,536	575,101	622,847
In-Store Channel (Non-Digital component)	235,525	253,555	297,282	335,463	369,829	415,464	459,946	504,237	550,642	595,841
Marketplace Channel	129,051	151,267	170,776	191,985	214,837	239,252	265,084	291,295	317,517	343,733
Total Revenue	586,594	687,579	776,256	872,658	976,533	1,087,507	1,204,925	1,324,068	1,443,260	1,562,420
Food, beverage, and packaging	(164,246)	(190,803)	(213,470)	(237,799)	(263,664)	(290,908)	(320,811)	(350,878)	(382,464)	(414,041)
Labor and related expenses	(178,911)	(216,588)	(236,758)	(257,434)	(283,195)	(309,940)	(337,379)	(364,119)	(393,288)	(421,854)
Occupancy and related expenses	(54,260)	(60,163)	(64,041)	(69,813)	(75,681)	(81,563)	(87,357)	(92,685)	(97,420)	(105,463)
Other restaurant operating costs	(95,322)	(110,013)	(122,260)	(135,262)	(148,921)	(165,845)	(183,751)	(201,920)	(220,097)	(238,269)
Restaurant Level Profit	93,855	110,013	139,726	172,350	205,072	239,252	275,627	314,466	349,991	382,793
General and administrative	(158,380)	(161,581)	(166,895)	(170,168)	(180,659)	(190,314)	(204,837)	(218,471)	(230,922)	(242,175)
Depreciation and amortization	(58,489)	(61,421)	(67,594)	(73,965)	(80,743)	(89,102)	(97,089)	(104,402)	(111,320)	(117,637)
Pre-opening costs	(11,203)	(7,362)	(8,002)	(8,642)	(9,283)	(9,923)	(9,923)	(9,603)	(9,283)	(8,963)
Restructuring charges	(6,448)	-	-	-	-	-	-	-	-	-
Total operating profit (loss)	(134,217)	(120,352)	(102,765)	(80,426)	(65,612)	(50,087)	(36,222)	(18,009)	(1,533)	14,018
EBITDA	(75,729)	(58,931)	(35,171)	(6,461)	15,131	39,015	60,867	86,392	109,786	131,655
Changes in net working capital	10,491	5,638	2,283	7,168	4,399	5,820	6,990	6,116	6,549	6,635
Capital expenditures	(105,374)	(74,025)	(81,159)	(90,690)	(100,969)	(112,073)	(117,295)	(119,268)	(121,281)	(123,173)
Unlevered Free Cash Flow	(170,611)	(127,318)	(114,047)	(89,982)	(81,439)	(67,238)	(49,439)	(26,759)	(4,946)	11,754

A. DCF & Revenue Assumptions (Base Case)

Sweetgreen

Fiscal year (in \$ thousands)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Number of Restaurants	221	246	273	302	333	366	399	431	462	492
Net New Restaurant Openings	35	25	27	29	31	33	33	32	31	30
Average Unit Volume (in thousands)	2,992	3,082	3,167	3,246	3,319	3,385	3,453	3,522	3,592	3,664
Owned Digital Channels	222,018	285,410	314,966	356,683	408,882	455,603	509,327	565,289	619,659	675,930
In-Store Channel (Non-Digital component)	235,525	255,934	303,811	346,612	385,887	437,363	488,154	539,300	593,304	646,621
Marketplace Channel	129,051	152,687	174,527	198,365	224,166	251,862	281,341	311,551	342,118	373,027
Total Revenue	586,594	694,030	793,303	901,661	1,018,934	1,144,829	1,278,822	1,416,139	1,555,081	1,695,579
Food, beverage, and packaging	(161,313)	(189,123)	(214,192)	(241,194)	(270,018)	(300,518)	(334,092)	(368,196)	(404,321)	(440,850)
Labor and related expenses	(175,978)	(215,149)	(237,991)	(261,482)	(290,396)	(320,552)	(351,676)	(382,358)	(415,984)	(449,328)
Occupancy and related expenses	(52,793)	(58,993)	(63,464)	(69,879)	(76,420)	(83,000)	(89,518)	(95,589)	(101,080)	(110,213)
Other restaurant operating costs	(93,855)	(109,310)	(122,962)	(137,503)	(152,840)	(171,724)	(191,823)	(212,421)	(233,262)	(254,337)
Restaurant Level Profit	102,654	121,455	154,694	191,603	229,260	269,035	311,713	357,575	400,433	440,850
General and administrative	(155,447)	(159,627)	(166,594)	(171,316)	(183,408)	(194,621)	(211,006)	(226,582)	(241,038)	(254,337)
Depreciation and amortization	(58,489)	(62,313)	(69,344)	(76,520)	(84,048)	(93,153)	(101,855)	(109,864)	(117,477)	(124,481)
Pre-opening costs	(11,203)	(8,002)	(8,642)	(9,283)	(9,923)	(10,563)	(10,563)	(10,243)	(9,923)	(9,603)
Restructuring charges	(6,448)	-	-	-	-	-	-	-	-	-
Total operating profit (loss)	(122,486)	(108,486)	(89,886)	(65,516)	(48,118)	(29,302)	(11,710)	10,886	31,996	52,430
EBITDA	(63,997)	(46,174)	(20,542)	11,005	35,929	63,851	90,144	120,750	149,473	176,911
Changes in net working capital	9,870	6,004	2,818	7,753	5,010	6,520	7,800	6,974	7,513	7,689
Capital expenditures	(105,374)	(79,796)	(87,201)	(97,051)	(107,683)	(119,175)	(124,824)	(127,257)	(129,768)	(132,187)
Unlevered Free Cash Flow	(159,500)	(119,966)	(104,925)	(78,293)	(66,744)	(48,804)	(26,880)	(2,146)	19,538	39,830

A. DCF & Revenue Assumptions (Bull Case)

Sweetgreen

Fiscal year (in \$ thousands)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Number of Restaurants	221	248	277	308	341	376	411	445	478	510
Net New Restaurant Openings	35	27	29	31	33	35	35	34	33	32
Average Unit Volume (in thousands)	2,992	3,097	3,198	3,293	3,384	3,469	3,555	3,644	3,735	3,829
Owned Digital Channels	222,018	288,075	321,823	368,396	426,381	479,231	540,021	603,876	666,750	732,397
In-Store Channel (Non-Digital component)	235,525	258,323	310,425	357,994	402,402	460,045	517,572	576,113	638,393	700,640
Marketplace Channel	129,051	154,112	178,326	204,879	233,759	264,924	298,295	332,818	368,117	404,190
Total Revenue	586,594	700,511	810,574	931,269	1,062,542	1,204,200	1,355,888	1,512,807	1,673,261	1,837,228
Food, beverage, and packaging	(158,380)	(187,387)	(214,802)	(244,458)	(276,261)	(310,082)	(347,446)	(385,766)	(426,682)	(468,493)
Labor and related expenses	(173,045)	(213,656)	(239,119)	(265,412)	(297,512)	(331,155)	(366,090)	(400,894)	(439,231)	(477,679)
Occupancy and related expenses	(51,327)	(57,792)	(62,819)	(69,845)	(77,034)	(84,294)	(91,522)	(98,332)	(104,579)	(114,827)
Other restaurant operating costs	(92,389)	(108,579)	(123,613)	(139,690)	(156,725)	(177,620)	(199,993)	(223,139)	(246,806)	(270,991)
Restaurant Level Profit	111,453	133,097	170,221	211,864	255,010	301,050	350,836	404,676	455,964	505,238
General and administrative	(152,515)	(157,615)	(166,168)	(172,285)	(185,945)	(198,693)	(216,942)	(234,485)	(250,989)	(266,398)
Depreciation and amortization	(58,489)	(63,204)	(71,095)	(79,077)	(87,355)	(97,209)	(106,628)	(115,338)	(123,654)	(131,352)
Pre-opening costs	(11,203)	(8,642)	(9,283)	(9,923)	(10,563)	(11,203)	(11,203)	(10,883)	(10,563)	(10,243)
Restructuring charges	(6,448)	-	-	-	-	-	-	-	-	-
Total operating profit (loss)	(110,754)	(96,364)	(76,324)	(49,420)	(28,852)	(6,055)	16,062	43,969	70,758	97,245
EBITDA	(52,265)	(33,160)	(5,230)	29,656	58,502	91,154	122,691	159,308	194,411	228,597
Changes in net working capital	9,249	6,357	3,341	8,333	5,625	7,235	8,636	7,870	8,529	8,812
Capital expenditures	(105,374)	(85,566)	(93,245)	(103,418)	(114,409)	(126,298)	(132,385)	(135,292)	(138,319)	(141,285)
Unlevered Free Cash Flow	(148,390)	(112,370)	(95,134)	(65,430)	(50,281)	(27,909)	(4,913)	21,333	47,640	72,784

Trade Execution

Sweetgreen



- **Downside Protection Demand:** The volatility surface model shows a higher demand for downside protection over upside exposure, indicated by steeper volatility beyond strike 10.
- **High Implied Volatility at Strike 1:** The Jan 17, 2025 expiry shows a notably high implied volatility at the potential bankruptcy strike (1) compared to neighboring strikes.
- **Volatility Trends:** The model reveals a pattern of decreasing implied volatility with increasing strikes and an increase in implied volatility as expiration dates extend.
- **Liquidity Concerns:** Longer-dated tenors may have reduced liquidity, which could diminish the effectiveness of options analysis in these periods.
- [ANALYSIS ON 1/19/2024 EXPIRATION OPTIONS \(THE MOST TRADED ONE\)](#)

