BLUEGRASS CAPITAL RESEARCH

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Consumer Discretionary | *Restaurants*
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Sweetgreen Inc

sweetgreen

TICKER:	$SG
RATING:	SELL
PRICE:	$7.00
PRICE TARGET:	$5.00
MARKET CAP:	$770M
52-W RANGE:	$6.39 - $45.12
P/S:	1.19x
IMPLIED DOWNSIDE:	(28.6%)

Not So Sweet After All

SG faces slow same-store sales growth, a competitive sector, and pressure to reach profitability. While its focus on high-quality ingredients aim s to target customer preferences, lack of brand loyalty and high prices continue to weigh on investor confidence. We believe that with inflation and weakening customer spending, SG's path to profitability remains an uphill battle. **We initiate $SG with a SELL rating and one-year price target of $5.**

Thesis Point 1

Sweetgreen's high prices and focus on high-quality ingredients limit its ability to successfully enter the fast-casual sector, which is dominated by big players like Chipotle and Cava. SG focuses on differentiating itself through emphasis on fresh, locally sourced ingredients and direct relationships with farmers. While many customers may prioritize high-quality ingredients, it also drives significantly higher costs. This forces the company to price food much higher than its competitors, narrowing its customer base to the higher-income demographic. Despite sales growth, SG remains unprofitable with an operating margin of -14.1%, while CMG and Cava have operating margins of 17.2% and 5.4%, respectively. Additionally, the company lacks brand loyalty, making it difficult to bring in cost-sensitive customers. SG's small customer base limits will slow expansion efforts, and will lead to deterred investor confidence, which will cause the price to fall.

Thesis Point 2

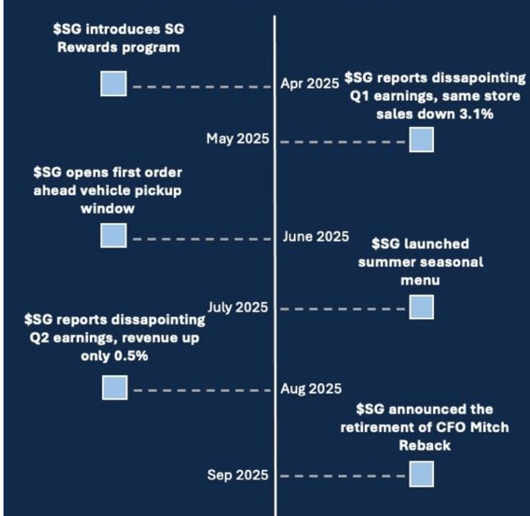
Sweetgreen's aggressive expansion strategy is at risk due to the current government shutdown and economic uncertainty. The company has opened 96 new stores since 2022, signaling a rapid expansion in the US markets. However, expansion depends heavily on regulatory and permit processes, which could have major delays during a government shutdown. Any halt in real estate development will increase financing costs and further postpone revenue growth from delayed store openings. Additionally, current decreases in job traffic in Washington, DC (one of Sweetgreen's most heavily concentrated areas) pose a threat to decreased revenue at DC locations. Given SG's already negative margins and reliance on expansion, these economic pressures reinforce the downside risk for the share price to fall.

Company Overview

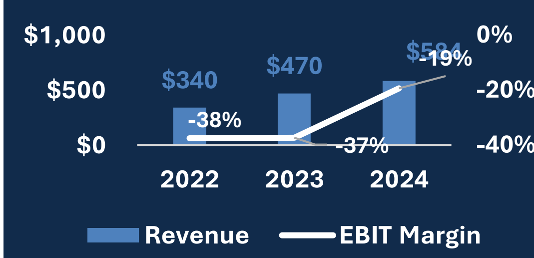
Founded in 2006, Sweetgreen is a next-generation restaurant and lifestyle brand that combines fresh, locally sourced ingredients with new technological concepts through 246 restaurants in the United States. As of recent, in 2021, SG went public through an IPO that raised $384.7 million. SG aims to create the convenience of a fast-food restaurant paired with fresh, high-quality ingredients. The company generates most of its revenue from the in-store channel at 44% compared to 30% from owned digital channels and 26% from the marketplace channel. In the Q2 earnings report, SG's loss from operations was $(26.4) million, and the loss from operations margin was (14.2)%.

1 Year Price History

Recent Events Timeline



EBIT Margin with Annual Revenue



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Risk to our thesis 1 SG's acquisition of Spyce Food Co. in 2021 introduced automated food assembly lines that have since evolved into SG's "infinite kitchen". This technology, already implemented in two of its restaurants in fiscal year 2023 ten of its restaurants in fiscal year 2024, progressed to twenty restaurants in 2025. The infinite kitchen has the potential to simplify the work of team members and eliminate 1/3 of staff without losing efficiency. If management can continue to deploy this technology across a large number of stores in a timely manner, the company could see a significant decrease in labor costs. Such leverage could improve profitability and lead to upside.

Risk to our thesis 2 In the Q2 earnings report, SG had disappointing revenue results. A driving factor for this shortfall was the introduction of the new SG Rewards program, which caused deferred revenue from the conversion of loyalty programs. However, management expects this new loyalty program tradeoff to be successful by the end of Q4. If this turnaround occurs, this initiative could increase customer retention and purchase frequency. A successful rewards program could drive long-term growth for the company.

Catalysts

Catalysts for the stock to move towards our $5 price target include a continued government shutdown, causing unemployment to go up, and forcing customers to be more money conscious. Additionally, continued cost inflation and margin pressure will slow profitability and erode investor confidence in SG's ability to enter the fast-casual sector, ultimately prompting the stock to the downside.

Valuation - Price Target of $5

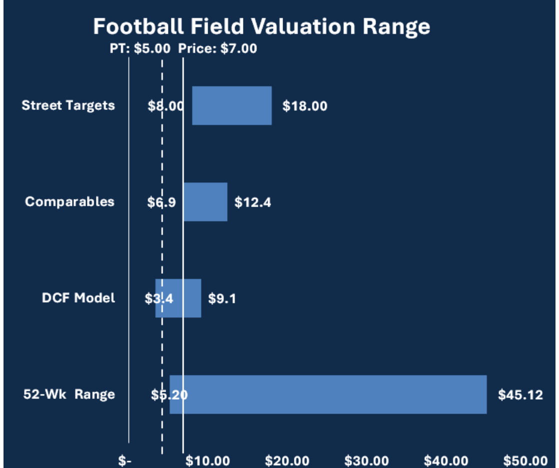
DCF Analysis ($mm)	FY2024 12/31/2024	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/31/2030
Revenue	677	750	833	920	1,012	1,108	1,208
Revenue Growth	*16%*	*11%*	*11%*	*11%*	*10%*	*9%*	*9%*
United States	677	750	833	920	1,012	1,108	1,208
EBIT	(91)	(100)	(100)	(83)	(61)	(33)	0
EBIT Margin	*-13%*	*-13%*	*-12%*	*-9%*	*-6%*	*-3%*	*0%*
Tax Expense	(1)	1	(21)	(17)	(13)	(7)	0
Effective Tax Rate	*1%*	*-1%*	*21%*	*21%*	*21%*	*21%*	*21%*
NOPAT	(89.70)	(101.00)	(78.92)	(65.41)	(47.96)	(26.26)	0.00
D&A	90	100	125	138	152	166	181
Capex	85	92	71	78	86	94	103
Changes in NWC	(13)	10	21	23	25	28	30
UFCF	(71)	(103)	(46)	(29)	(7)	18	48
PV of FCF		(102)	(43)	(25)	(6)	13	32

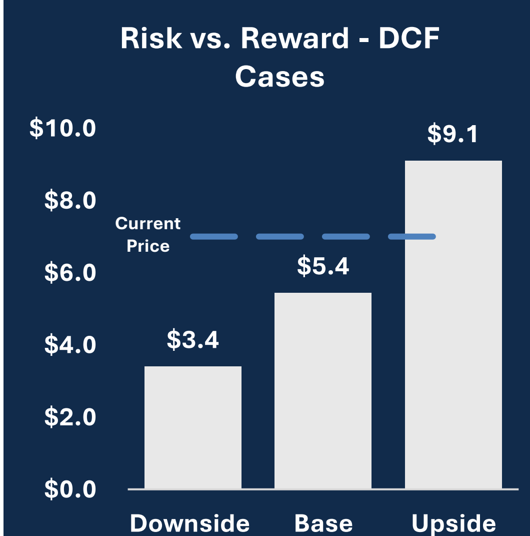
Our 5yr DCF model assumes revenue growth at a CAGR of 10.6% through FY2030 as SG continues its expansion efforts while implementing the infinite kitchen in new locations. We see EBIT margins lowering as labor costs continue to rise, decreasing margins.

Conclusion

Sweetgreen's high pricing, limited customer base, and ongoing unprofitability limit its ability to compete in the fast-casual sector against established players like Chipotle and Cava. The company's rapid expansion strategy faces additional risks from economic uncertainty and potential government shutdown delays, which could further strain margins and slow growth. While innovations like the Infinite Kitchen and the new rewards program offer upside potential, their success remains uncertain, leaving high risks. **Initiate SG with a SELL rating and a one-year PT of $70.00.**

Terminal Value	
Exit Multiple Method	
2034 EBITDA	$181
EV/EBITDA Exit Multiple	8.0x
Terminal Value	$1,449
PV of Terminal Value	$950
PV of Projection Period	-$131
PV of Terminal Value	$950
Implied TEV	**$819**
(-) Debt	$339
(+) Cash	$168
Implied Equity Value	$649
Diluted Shares Outstanding	117
Implied Share Price	**$5.00**
Upside/Downside	-28.6%





Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	677	750	833	920	1,012	10.6%
EBITDA	181	-	25	55	91	-15.8%
EBIT	(91)	(100)	(100)	(83)	(61)	-9.6%
NOPAT	(90)	(101)	(79)	(65)	(48)	-14.5%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	-0.1%	0.0%	3.0%	6.0%	9.0%	3.6%
EBIT Margin	-13.4%	-13.3%	-12.0%	-9.0%	-6.0%	-10.8%
Revenue Growth	15.9%	10.8%	11.0%	10.5%	10.0%	11.6%
EBIT Growth	-19.5%	9.9%	-0.1%	-17.1%	-26.7%	-10.7%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	-10.7x	-7.4x	-16.6x	-26.5x	-101.3x	-32.5x
EV/Sales	1.4x	1.2x	1.1x	1.0x	0.9x	1.1x
EV/EBITDA	-1547.7x	29.7x	37.2x	16.8x	10.2x	-290.8x
FCF Yield	-9.3%	-13.6%	-6.0%	-3.8%	-1.0%	-6.7%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Wingstop Inc. (NasdaqGS:WING)	$7,453	$8,494	44.8x	$670	$199
McDonald's Corporation (NYSE:MCD)	$219,419	$273,432	26.3x	$26,060	$14,170
Chipotle Mexican Grill, Inc. (NYSE:CMG)	$56,800	$60,034	37.5x	$11,578	$2,335
CAVA Group, Inc. (NYSE:CAVA)	$7,592	$7,640	55.5x	$1,084	$126
Sweetgreen	$960	$1,130	-9.7x	$686	$38

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin l	Yr Rev Growth Rate LF
Wingstop Inc. (NasdaqGS:WING)	42.7x	48.1%	29.7%	26.2%	22.7%
McDonald's Corporation (NYSE:MCD)	19.3x	57.0%	54.4%	46.1%	1.2%
Chipotle Mexican Grill, Inc. (NYSE:CMG)	25.7x	40.2%	20.2%	17.2%	8.6%
CAVA Group, Inc. (NYSE:CAVA)	60.7x	37.6%	11.6%	5.4%	28.2%
Sweetgreen	29.7x	19.1%	(5.5%)	(14.1%)	5.7%

High	60.68x	57.0%	54.4%	46.1%	28.2%
75th Percentile	42.66x	48.1%	29.7%	26.2%	22.7%
Average	35.60x	40.4%	22.1%	16.2%	13.3%
Median	29.66x	40.2%	0.0%	17.2%	8.6%
25th Percentile	25.71x	37.6%	11.6%	5.4%	5.7%
Low	19.30x	19.1%	-5.5%	-14.1%	1.2%

Sweetgreen		
Implied Enterprise Value (25th Percentile)	$	979
Implied Enterprise Value (Median)	**$**	**1,130**
Implied Enterprise Value (75th Percentile)	$	1,625
Implied Share Price (25th Percentile)	$	6.91
Implied Share Price (Median)	**$**	**8.20**
Implied Share Price (75th Percentile)	$	12.43

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	1.95
Risk Free Rate	4.39%
Cost of Equity	7.13%
Weighted Average Cost of Debt	6.80%
Tax Rate	21.00%
Cost of Debt	2.39%
Total Equity	$745
Total Debt	$170
Equity/Total Capitalization	55.55%
Debt/Total Capitalization	44.45%
WACC	9.52%

Downside Case: At a multiple of 7.0x our downside case presents 45% downside with a PT of $3. Persistent high costs, economic headwinds, and expansion delays could continue to weigh on profitability, limiting SG’s ability to compete with rivals. Combine this with a less active customer base and deteriorating investor confidence, these pressures could drive the stock price lower.

Upside Case: At a multiple of 9.0x our upside case presents 46% upside with a PT of $9. If SG successfully scales its Infinite Kitchen technology, it could significantly reduce labor costs and improve operational efficiency, driving margins closer to profitability. Additionally, a strong recovery in its new rewards program could boost customer loyalty and customer activity, leading to investor optimism.