Healthy salads are now publicly listed: Sweetgreen goes public to fuel its expansion

Introduction

On Thursday November 18th, the fast food restaurant chain serving salads, Sweetgreen (SG) debuted on the New York Stock Exchange. The IPO was priced at an initial offer price of $28 per share. On the first day of trading, Sweetgreen's opened with a stock price of $52 per share, reflecting a market value for SG of more than $5.5 billion. The newly listed company raised $364 million, selling 13 million shares.

About Sweetgreen

Sweetgreen is a fast-casual restaurant chain founded in 2007 by three graduates of Georgetown University. The company is now based in Washington D.C., after moving the headquarters from Los Angeles in 2016. SG aims to reach those users who look for both a healthy and a cheap option for their meals. They created a strong customer loyalty that lies on their menu of personalized salads and bowls. It is a seasonal menu that changes five times a year, trying to capture the season ad local's preferences of the customers.

Sweetgreen has now more than 4000 employees and 140 restaurants across 13 states and Washington. In the next five years, following their objective of building "the McDonald's of our generation", the company plans to double its restaurants' presence. However, most of SG's revenues come from online sales. The company developed its mobile app in 2015, and continuously updates and improves it to create the best possible experience for the customer. For example, a client can easily enjoy a tailor-made meal based on his dietary preferences and health parameters from Apple's health app. Sweetgreen also implements valuable CSR strategies that include a lot of initiatives like the delivery of free meals to hospital workers during Covid emergency. In addition, in line with its plan-forward menu, the company is committed to becoming carbon neutral by 2027.

The financial performance is not as good as the sustainable one. In 2020 Sweetgreen reported $220.6 million in revenue and a net loss of $141.2 million, with a 26% decrease in sales in one same store. Data from 2021 Q3 seem to reflect an ongoing recovery from the previous year's lows. As of September 2021, the company reported $243 million in revenue, close to the $274 million of pre-pandemic levels. However, the company is not profitable yet. Founders state that the reason for that relies on SG's investments in new technology for operations. In line with the purpose of improving automation, in August 2021, Sweetgreen acquired MIT startup Spyce. The Boston-based restaurant provides meals prepared by service robots through a very innovative business model.

Industry Overview

For the past 20 years, fast casual has been the growing star of the food industry, combining the time-convenience of fast food with the quality and freshness of traditional dining. The US market is currently valued at around $20B in 2021, growing at a CAGR of 8%, and is expected to reach $28B by 2025. Within the industry, besides Sweetgreen some key players are Chipotle Mexican Grill Inc., Shake Shack Inc., or The Halal Guys. Like fast food, fast casual is typically order-at-the-counter and offers no table service. However, the atmosphere is generally a little more upscale, with fresh food prepared on site and often includes real cutlery and plates. The prices are also higher- an average fast-food order is around $6, while a fast casual bill is around 12$, putting it closer to traditional dining prices.

Fast casual targets the business lunch crowd, people between 30 and 44, upper middle-class consumers that are looking for a healthier option, and for restaurants offering locally sourced food. The value of healthier and broader choices appeals also to the millennial cohort in their 20s and 30s, and that preference is what leads many fast casual trends. About 84% of millennials orders from restaurants at least once a week. What impacts consumer satisfaction the most is the quality of food, followed by the waiting time.

The industry is driven by the demand for innovation and customization in food menus, and the growing demand for gluten-free dining. The increase in usage of food delivery apps plays an important role in the development of this industry, as customers are discovering less known restaurants that offer exotic tastes, "free-from" foods (highly customizable plates), and healthier options. Moreover, the fast casual market as a whole was hit hard by the pandemic and the lockdown that followed, forcing many restaurants out of business. Covid-19 also forced fast casual restaurants to innovate and adapt to the hybrid world by focusing more on digitalization, delivery to door services, and increased kitchen automation.

Deal structure

In its recent IPO, Sweetgreen (SG) offered 12,500,000 of its Class A common stock on the New York Stock Exchange, with the possibility to issue up to 1,850,000 more shares; in the end, it offered 13,000,000 shares. After the offering, Sweetgreen had two types of common stock: Class A and Class B, both having the same rights, excluding votes, conversions, and transfers. Shares of the Class A common stock are entitled to one vote, while Class B shares are entitled to ten votes. Class B is exclusive to the founders of the company, Jonathan Neman, Nicolas H. Jammet, and Nathaniel Ru, who will control 58,9% of the voting power, despite having only 11.6% of the capital.

	Shares Beneficially Owned Prior to Offering					Shares Beneficially Owned After Offering				
	Class A Common Stock		Class B Common Stock		% of Total Voting Power	Class A Common Stock		Class B Common Stock		% of Total Voting Power
Name of Beneficial Owner	Shares	%	Shares	%		Shares	%	Shares	%	
5% Stockholders										
Entities affiliated with Fidelity(1)	10,766,229	13.4%	—	—	5.0%	10,766,229	11.6%	—	—	4.7%
Entities affiliated with T. Rowe Price(2)	8,524,197	10.6%	—	—	4.0%	8,524,197	9.2%	—	—	3.7%
Entities affiliated with Revolution Growth(3)	6,241,521	7.8%	—	—	2.9%	6,241,521	6.7%	—	—	2.7%
D1 Master Holdco I LLC(4)	5,756,771	7.2%	—	—	2.7%	5,756,771	6.2%	—	—	2.5%
Jonathan Neman and affiliates(5)	2,147,337	2.6%	4,684,133	34.8%	22.8%	2,147,337	2.3%	4,684,133	34.8%	21.5%
Nicolas H. Jammet and affiliates(6)	837,951	1.0%	4,398,149	32.6%	20.8%	837,951	*	4,398,149	32.6%	19.7%
Nathaniel Ru and affiliates(7)	837,951	1.0%	4,395,021	32.6%	20.8%	837,951	*	4,395,021	32.6%	19.7%
Entities affiliated with Anchorage Capital Group, L.L.C.(8)	4,775,250	5.9%	—	—	2.2%	4,775,250	5.1%	—	—	2.1%
Entities affiliated with Lone Pine Capital LLC(9)	4,213,875	5.2%	—	—	2.0%	4,213,875	4.5%	—	—	1.9%

Source: Sweetgreen's Pricing Statement

Biggest Class A shareholder, Fidelity Investments, a private equity fund that invested $200Mn in Sweetgreen back in 2018, with a 11,6% stake in the company, experienced a 2.8% dilution as a result of the offering; same was for T. Rowe Price.

The range suggested by the underwriters, Goldman Sachs, and JP Morgan, was between $23 and $25 per share. In the end, Sweetgreen was priced at $28 per stock, higher than the marketed range. As such, The Los Angeles-based company, becomes the 12th largest restaurant chain by market capitalization, with a value of $4.3Bn and raising $364Mn in its IPO. One key aspect of the IPO structure was the involvement of retail investors, who had an opportunity to buy shares in advance as long as they were customers of Sweetgreen. This openness to retail investors comes as online trading platforms such as Robinhood are becoming increasingly popular. As a result, Sweetgreen decided to offer 1% of its Class A shares to eligible customers, through Robinhood in a "Directed Share Program". The company opted for a confidential filing, a popular strategy among tech companies, that allows a company with less than $1 billion in revenue to privately file for an IPO with the Securities and Exchange Commission (SEC). This was done to keep information from competitors.

Deal Rationale

As Covid-19 pandemic continues to evolve, the restaurant industry is becoming more competitive and it is experiencing major disruptions. The pandemic has rattled supply chains, raised labor and product costs, and kept people out of offices, a key source of traffic at Sweetgreen's urban locations during lunch hours.

However, the company managed to "use the crisis in a lot of ways to reset", said Sweetgreen's co-founder and Chief Executive Jonathan Neman. The company has added more stores in suburban areas, which have generally done better during the pandemic as more people worked from home. The company has invested in technology to help with its to-go and online sales.

Sweetgreen is expected to get $364 million in proceeds from its IPO. The company is planning to spend the raised capital on general corporate purposes, including working capital, operating expenses and capital expenditures, as well as developing the technology acquired in its recent acquisition of robotic-powered fast-food restaurant, Spyce Food Co. It said it might also use a portion to buy other complementary businesses or technologies, adding that it doesn't currently have any targets.

As Sweetgreen continues to expand across different locations, the IPO definitely provides capital to support the expansion. It plans to open at least 30 company-owned restaurants in the U.S. this year, and roughly double its total number of locations over the next three to five years. CEO Neman also said in an interview, "The major focus is continuing to expand our footprint into as many communities as possible." It currently has 140 restaurants across 13 states and Washington, D.C, with the latest one opening in Dallas this week.

Market Reaction

Sweetgreen was priced at $28 as of its IPO last Wednesday, but it jumped 77% in their market debut and closed at $49.5. On Thursday, stock of the salad chain opens at $52, nearly doubling its IPO price, showing great optimism from investors. It is currently trading at $39.38, lower than last week but still 40% above its IPO offer price.

Last year, Sweetgreen lost $142 million on revenue of $220 million, double the net loss of $67 million in 2019. Despite the lack of profitability, investors still decided to feast on Sweetgreen's IPO, mainly due to its unique positioning on healthy salad and a big customer base mainly consisting of office workers in big cities like New York.

Their latest financials had been proven - trailing 12-month revenue rose 50% to $240 million as of September 30 2021, while restaurant-level profit margin increased to 12%. Almost half of that new growth comes from digital channels. With the uncertainties around Covid-19 and the increasingly competitive restaurant industry, it will be interesting to see Sweetgreen's performance in the coming years.

Deal Advisors

Goldman Sachs & Co. LLC and J.P. Morgan will act as lead book-running managers and as representatives of the underwriters for the proposed offering. Allen & Company LLC and Morgan Stanley will be book-running managers. Citigroup Global Markets Inc., Cowen and Company, LLC, Oppenheimer & Co. Inc., RBC Capital Markets, and William Blair will also be book-running managers. Amerivet Securities and Blaylock Van LLC will act as co-managers for the proposed offering.

TAGS: IPO, Sweetgreen, NYSE, listing, fast food, salads