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RESEARCH PORTAL

EQUITY RESEARCH NOTE

CAVA Group, Inc.

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Investment Thesis

Rating: BUY — Medium Conviction

12-month price target: \$62

Reference price: \$51.62 as of October 14, 2026

Expected total return: 20.1%; no dividend assumed

CAVA is a premium-growth restaurant operator whose operating evidence remains stronger than its sharply de-rated equity narrative. In fiscal Q2 2026, CAVA restaurant revenue grew 31.3%, same-restaurant sales increased 9.0%, guest traffic increased 5.3%, AUV reached \$3.1 million, and new-restaurant productivity remained above 100%. Those are not merely price-led or accounting-driven results; they indicate genuine customer acquisition, frequency, and geographic portability. ([sec.gov](#))

The investment case is not that CAVA is conventionally cheap. At the reference price, the company trades at approximately **30.5x the midpoint of FY2026 adjusted EBITDA guidance on an enterprise-value basis** and approximately 94x trailing earnings. Rather, the case is that the current price embeds excessive skepticism regarding the durability of traffic and new-unit productivity while assigning insufficient value to a debt-free balance sheet, an increasingly self-funded development model, and a restaurant base that reached 500 units in September 2026—already halfway to management’s former 2032 objective. ([sec.gov](#))

The principal constraint on conviction is valuation asymmetry. CAVA must continue producing high-teens unit growth, positive traffic, and mid-20% restaurant-level margins to justify even the current multiple. A slowdown to low-single-digit same-store sales with 21%–22% restaurant-level margins would cause substantial multiple compression, even if consolidated revenue remained positive.

Key Actionable Takeaways

- **Traffic—not merely price—remains the central strength.** Q2 same-restaurant sales of 9.0% comprised 5.3% guest traffic and 3.7% menu price/mix. Year-to-date same-restaurant sales were 9.4%, including 6.1% traffic. ([sec.gov](#))
- **Margin dollars are expanding, but margin rate is not.** Restaurant-level profit increased 28.1% to \$93.8 million, while restaurant-level margin declined 60 basis points to 25.7% because of salmon input costs, third-party delivery mix, and wage investments. ([sec.gov](#))
- **The development engine remains ahead of plan.** CAVA had 476 restaurants at the end of Q2, reached 500 on September 23, and stated that it is ahead of schedule to surpass 1,000 restaurants by 2032. ([sec.gov](#))
- **Capital allocation has shifted toward repurchases.** The board authorized up to \$100 million of share repurchases through September 17, 2027, funded from cash and operating cash flow. The authorization equals roughly 1.6% of current market capitalization and is discretionary, not obligatory. ([sec.gov](#))

Valuation Snapshot

Metric	Value
Current price	\$51.62
12-month target price	\$62.00
Price upside	20.1%
Dividend yield	0.0%
Expected total return	20.1%
Current market capitalization	\$6.10 billion
Approximate enterprise value	\$5.67 billion
EV/FY2026E adjusted EBITDA	30.5x
52-week range	\$43.41-\$98.79

The shares trade approximately 48% below their 52-week high but only 19% above their 52-week low. CAVA remains a high-duration equity: the valuation is significantly above Chipotle and Wingstop on trailing P/E, although below Sweetgreen and closer to Shake Shack. These comparisons are directionally useful but imperfect because the companies differ materially in franchise mix, growth capital requirements, profitability, and tax profiles. (finance.yahoo.com)

2. Company Deep Dive & Business Model

Business Segmentation

CAVA is overwhelmingly a **company-operated restaurant business**, not a franchise royalty model. FY2025 consolidated revenue was \$1.180 billion, of which \$1.169 billion came from restaurant operations and approximately \$10 million from CPG and other activities. CPG therefore represented less than 1% of revenue and should not be assigned a material standalone valuation at present. No major customer represents a meaningful concentration because sales are dispersed across individual restaurant guests. (sec.gov)

The primary economic drivers are:

1. **Restaurant count growth:** 439 restaurants at FY2025 year-end, 476 at Q2 FY2026, and 500 by September 2026.
2. **AUV growth:** \$2.934 million in FY2025 and \$3.088 million in Q2 FY2026.
3. **Same-restaurant sales:** driven by traffic, menu price, and product mix.
4. **Restaurant-level profit margin:** revenue less food, packaging, restaurant labor, occupancy, and other restaurant operating expenses, excluding depreciation, pre-opening costs, and corporate overhead.
5. **Digital mix:** 39.0% in Q2 FY2026, versus 37.9% for FY2025.
6. **Development capital intensity:** company-owned openings require construction, equipment, training, and pre-opening expenditures, making consolidated free cash flow structurally lower than restaurant-level profit. (sec.gov)

CAVA's first quarter contains 16 weeks, while the second and third quarters contain 12 weeks; investors should not compare sequential quarterly revenue without adjusting for this fiscal-calendar distortion. Seasonal traffic also tends to be weaker in the first and fourth fiscal quarters. (sec.gov)

Competitive Moat

CAVA's moat is **emerging rather than impregnable**. It rests on five interacting advantages:

- **Category ownership:** CAVA is the only scaled, national, publicly traded Mediterranean fast-casual concept with sufficient density to support national advertising, digital infrastructure, food innovation, and centralized production.

- **Menu architecture:** customizable bowls and pitas permit broad dietary appeal and a large number of combinations without requiring an unmanageably large core ingredient inventory.
- **Centralized preparation:** dips, spreads, and selected dressing bases are centrally produced, supporting consistency and limiting certain restaurant-level preparation tasks.
- **Brand and digital engagement:** digital revenue mix reached 39%, while management is using loyalty, kitchen display systems, and data tools to increase frequency and improve order accuracy.
- **Real-estate and development capability:** new units continue to exceed management's initial expectations, including in newer Midwestern markets, materially reducing the probability that CAVA is only a coastal or high-income-market concept. ([sec.gov](#))

Pricing power is credible but not unlimited. Q2's 3.7% price/mix contribution coexisted with 5.3% traffic growth, indicating that current pricing has not impaired demand. Management nevertheless stated that it did not intend to take near-term incremental pricing, preferring to preserve traffic and value perception. That discipline is positive for brand durability but transfers inflation risk to margins. ([sec.gov](#))

The weakest element of the moat is switching cost: consumers can easily substitute Chipotle, Sweetgreen, independent Mediterranean restaurants, grocery prepared foods, or home consumption. CAVA's defense is brand habit, convenience, perceived healthfulness, and differentiated flavor—not contractual lock-in.

Management & Governance

CEO Brett Schulman is a co-founder, and the company remains meaningfully founder-influenced. Schulman beneficially owned approximately 1.8% of shares as of the 2026 proxy date; directors and executive officers collectively controlled approximately 6.7%. Former Panera CEO Ron Shaich owned approximately 3.9%, providing experienced restaurant governance but also creating a significant individual board-level ownership concentration. ([sec.gov](#))

Execution has been strong on restaurant expansion and unit productivity. The company opened 72 net new restaurants in FY2025, guided to 75–77 in FY2026, and reached 500 restaurants in September 2026. FY2025 new restaurants were trending above \$3 million in AUV, while Q2 2026 new-unit productivity remained above 100%. ([sec.gov](#))

Governance is not risk-free. The organization has experienced executive transitions, including changes in legal, operations, and marketing leadership. John Ludeke became chief marketing officer effective October 12, 2026, with a mandate spanning brand differentiation, loyalty, digital engagement, and restaurant experience. Leadership additions may professionalize the next phase of growth, but multiple transitions during rapid expansion increase execution and cultural risk. ([investor.cava.com](#))

Capital-structure philosophy has been conservative: no funded debt, a \$150 million undrawn secured revolver, and more than \$435 million of cash and fixed-income investments at Q2. The September repurchase authorization, however, deserves scrutiny. Repurchasing a high-multiple growth stock is only accretive if management's intrinsic-value assessment is correct or if the program primarily offsets equity compensation. Growth capex should retain priority over buybacks. ([sec.gov](#))

Sentiment Analysis

Institutional ownership is high: the 2026 proxy identified Vanguard, BlackRock, Capital Research, AllianceBernstein, and Artal as major holders, while current market data indicates roughly 90% institutional ownership. This is no longer an undiscovered small-cap growth story; the shareholder register is dominated by institutions capable of rapidly repricing duration and execution risk. ([sec.gov](#))

Sentiment is unusually polarized. Long investors emphasize visible restaurant demand, traffic growth, national whitespace, and a potential "next Chipotle" trajectory. Skeptics focus on a

roughly 94x trailing P/E, capital-intensive company ownership, traffic normalization, and the possibility that current new-unit productivity reflects temporary opening enthusiasm. Short interest reached approximately 15.85 million shares, or 14.4% of float, as of September 30, 2026. That positioning can amplify both downside on a miss and upside on sustained traffic. (marketbeat.com)

3. Market Dynamics & Recent Events

Key News Flow

Q2 FY2026 results

Q2 consolidated revenue was \$368.4 million, while the more frequently cited CAVA restaurant-revenue figure was \$365.4 million. Net income was \$23.0 million and diluted EPS was \$0.19. Adjusted EBITDA reached \$54.7 million, representing a 14.9% margin. (sec.gov)

Management reaffirmed FY2026 guidance:

FY2026 guidance	Range
Net new restaurant openings	75–77
Same-restaurant sales	4.5%–6.5%
Restaurant-level profit margin	23.7%–24.3%
Pre-opening costs	\$22.0–\$22.5M
Adjusted EBITDA	\$181–\$191M

The guidance is deliberately conservative relative to first-half performance. Management indicated that the low end could correspond to slightly negative second-half same-store sales, while the upper end would require mid-single-digit performance. At the time of the call, trends had recovered to mid-single digits after temporarily declining to approximately flat-to-positive. (sec.gov)

Food-safety read-through

CAVA stated that broad consumer concern over a Cyclospora outbreak temporarily pressured fresh-produce consumption, even though the company did not source implicated leafy greens and was not directly involved. This is an important reminder that restaurant equities are exposed not only to company-specific food-safety events but also to category-level contagion. (fool.com)

500th restaurant and development acceleration

CAVA opened its 500th restaurant on September 23, 2026, entering Minnesota and bringing its footprint to 30 states plus Washington, D.C. Management now says it is positioned to surpass 1,000 restaurants ahead of its previous 2032 objective. This is strategically positive, but the market should demand that restaurant-level returns, manager development, food safety, and throughput remain intact as annual openings increase. (investor.cava.com)

Share repurchase authorization

On September 18, CAVA authorized a \$100 million repurchase program expiring September 17, 2027. The board retained complete discretion over timing and amount. The authorization is financially manageable but should not be interpreted as a commitment to deploy all \$100 million. (sec.gov)

Stock Performance

CAVA's 52-week range is \$43.41–\$98.79. At \$51.62, the stock is approximately 48% below the high and sits in the lower 15% of that range. Its 50-day and 200-day moving averages recently stood near \$60 and \$72, respectively, reflecting material negative price momentum despite strong reported fundamentals. (finance.yahoo.com)

Current trailing P/E comparisons are instructive:

Company	Approx. trailing P/E
CAVA	94x
Shake Shack	73x
Sweetgreen	101x
Chipotle	27x
Wingstop	29x

CAVA deserves a premium to slower-growth operators, but the spread remains wide. The stock's rerating therefore requires earnings growth—not simply multiple expansion.

Macro Impact

The macro environment is mixed. September CPI increased 3.7% year over year and 0.6% month over month, while food-away-from-home inflation remained positive. The Federal Reserve raised the federal-funds target to 3.75%–4.00% in September, increasing the discount rate applied to long-duration growth equities even though CAVA has no funded debt. ([bls.gov](https://www.bls.gov))

Consumer spending remains resilient: August nominal personal consumption expenditures increased 0.9%, but disposable personal income rose only 0.3%, and the personal saving rate was 4.1%. This combination can support near-term restaurant sales while simultaneously increasing the probability of later consumer fatigue. ([bea.gov](https://www.bea.gov))

September payroll growth slowed to 29,000 while unemployment was 4.2%. A softer labor market can reduce hourly wage pressure and improve restaurant staffing availability, but it can also weaken discretionary demand. CAVA's claim that lower-income cohorts were generating its strongest same-store sales is encouraging, yet it increases the importance of preserving value and avoiding aggressive pricing. ([bls.gov](https://www.bls.gov))

USDA forecasts 2026 food-away-from-home inflation of approximately 3.6%. CAVA's premium proteins, fresh produce exposure, delivery mix, and fuel surcharges create company-specific inflation risk above the headline category average. (ers.usda.gov)

4. Financial Statement Analysis (Forensic Detail)

Source Reconciliation and Data Integrity

The supplied SEC XBRL reference table contains material discrepancies and should not be used as the controlling source where it conflicts with CAVA's filed 10-K and 10-Q. The audited FY2025 10-K reports consolidated revenue of **\$1.180 billion, \$963.7 million, and \$728.7 million for FY2025, FY2024, and FY2023**, respectively—not \$0.7 billion, \$0.6 billion, and \$0.5 billion. It reports diluted EPS of **\$0.54, \$1.10, and \$0.21**, not \$0.22, negative \$44.41, and negative \$51.06. ([sec.gov](https://www.sec.gov))

Likewise, official Q2 FY2026 diluted EPS was **\$0.19**, while \$0.20 was basic EPS; CAVA restaurant revenue was \$365.4 million and consolidated revenue was \$368.4 million. The supplied \$0.16 figure is not the filed Q2 FY2026 diluted result. For avoidance of doubt, all conclusions in this memorandum use the filed financial statements as controlling evidence. ([sec.gov](https://www.sec.gov))

Revenue & Earnings Quality

Historical operating profile

Fiscal year	Revenue	Operating income	Net income	Diluted EPS
FY2023	\$728.7M	\$4.7M	\$13.3M	\$0.21
FY2024	\$963.7M	\$43.1M	\$130.3M	\$1.10
FY2025	\$1,179.7M	\$55.3M	\$63.7M	\$0.54
Q2 FY2026	\$368.4M	\$26.8M	\$23.0M	\$0.19

Revenue quality is high because growth is predominantly generated by restaurant sales, with no major customer concentration and negligible acquisition accounting. The primary accounting issue is not revenue recognition; it is the distance between restaurant-level profit and shareholder-level earnings. ([sec.gov](#))

FY2024 GAAP net income was materially inflated by an **\$80.1 million deferred-tax valuation-allowance release**. Adjusted FY2024 net income was \$50.2 million, not \$130.3 million. Thus, the apparent decline in FY2025 net income was primarily optical: adjusted net income actually increased approximately 27%. Investors using unadjusted FY2024 EPS as a growth base would reach a false conclusion. ([sec.gov](#))

Restaurant-level profit is economically useful but incomplete. It excludes:

- Corporate G&A;
- Depreciation and amortization;
- Pre-opening expenses;
- Impairment and disposal charges;
- Stock compensation; and
- The capital expenditures required to build and refresh restaurants.

FY2025 restaurant-level margin was 24.4%, while consolidated operating margin was only 4.7%. In Q2 FY2026, restaurant-level margin was 25.7%, but operating margin was 7.3%. The approximately 18-percentage-point gap is the cost of corporate infrastructure, depreciation, pre-opening expenses, and other non-store costs. ([sec.gov](#))

Cost structure

Q2 FY2026 restaurant cost ratios were:

- Food, beverage, and packaging: **30.0%**
- Labor: **25.3%**
- Occupancy: **6.3%**
- Other restaurant operating expense: **12.8%**
- Restaurant-level profit margin: **25.7%**

Food costs rose because of salmon; labor reflected an approximately 3% wage investment; and other restaurant costs rose because of third-party delivery. Occupancy provided leverage. The mix is important: delivery and premium proteins can add gross profit dollars while diluting percentage margins. ([sec.gov](#))

Interest income also flatters pretax earnings. Q2 interest income of \$3.3 million represented approximately 11% of pretax income. This is genuine income, but it is not restaurant operating profit and will decline if cash is deployed or interest rates fall. ([sec.gov](#))

Balance Sheet Health & Leverage

At July 12, 2026, CAVA held:

- Cash and equivalents: **\$322.8 million**
- Fixed-income investments: **\$112.8 million**
- Combined cash and investments: **\$435.6 million**

- Funded debt: **\$0**
- Undrawn revolving capacity: **\$149.1 million net of letters of credit**
- Stockholders' equity: **\$841.3 million** ([sec.gov](#))

The revolving facility was increased from \$75 million to \$150 million and extended to March 20, 2031. It is secured by substantially all company and guarantor assets, but there were no borrowings at quarter-end. Refinancing risk is therefore immaterial under the base case. ([sec.gov](#))

The absence of funded debt should not obscure lease leverage. Current and long-term operating lease liabilities totaled approximately **\$520.7 million** at Q2, and all restaurants and major operational facilities are leased. Typical restaurant leases have initial ten-year terms with renewal options. Cash lease payments were \$43.7 million during the first 28 weeks of FY2026. ([sec.gov](#))

At FY2025 year-end, contractual operating lease payments totaled approximately \$624.9 million, including \$255.0 million due after 2030. These obligations are economically debt-like and become problematic if unit productivity deteriorates, because restaurant leases are substantially fixed while traffic is variable. ([sec.gov](#))

Cash Flow & Capital Allocation

FY2025 operating cash flow was \$184.8 million and capital expenditures were \$158.7 million, producing approximately **\$26.1 million of conventional free cash flow**. That is positive, contrary to the supplied reference table. FY2024 free cash flow was approximately \$52.9 million, while FY2023 was negative by approximately \$41.7 million. ([sec.gov](#))

Through Q2 FY2026, operating cash flow was \$134.5 million and capex was \$89.7 million, resulting in **\$44.8 million of year-to-date free cash flow**. Cash flow conversion has improved, but part of the increase came from working-capital timing, including accrued incentive compensation and operating lease accounting. ([sec.gov](#))

Reported free cash flow understates mature economic cash generation because expansion capex is substantial. Conversely, simply adding back all growth capex would overstate economics because restaurant refreshes, technology, production capacity, and maintenance are recurring requirements. Management does not separately disclose maintenance and growth capex with enough precision to permit a clean owner-earnings calculation.

Stock-based compensation was \$13.4 million including payroll taxes for the first 28 weeks of FY2026, versus \$11.2 million in the prior-year period. Issued shares increased from 116.1 million at FY2025 year-end to 116.8 million at Q2. The \$100 million repurchase could offset dilution, but the program is less attractive if executed indiscriminately at elevated multiples. ([sec.gov](#))

CAVA also capitalized \$9.0 million of internal payroll costs related to restaurant construction and technology in FY2025, up from \$6.0 million in FY2024. This treatment is permissible, but it shifts selected labor costs from current operating expense to depreciation over future periods. The amount is not thesis-breaking, but it should be included in forensic monitoring. ([sec.gov](#))

5. Valuation & Price Target

Method 1: Discounted Cash Flow — \$54 per share

The DCF assumes:

- FY2026 revenue near \$1.53 billion;
- FY2026-FY2031 revenue CAGR of approximately 17%;
- Restaurant count growth moderating from the high teens toward low double digits;
- Consolidated adjusted EBITDA margin expanding from approximately 12% in FY2026 to 16% by FY2031;
- Continued heavy expansion capex through 2029;
- 9.0% weighted-average cost of capital;

- 3.0% terminal growth; and
- Approximately 118.5 million diluted shares.

The model produces an equity value of approximately **\$54 per share**. The low DCF result relative to the target reflects the economic burden of company-owned development and the high discount rate applied to cash flows that remain back-end weighted.

The model becomes highly sensitive beyond FY2029. A 50-basis-point reduction in WACC or a 50-basis-point increase in terminal growth raises value materially. That sensitivity is itself a risk signal: a substantial portion of intrinsic value depends on units not yet opened.

Method 2: Forward EV/EBITDA — \$64 per share

Base-case FY2027 adjusted EBITDA is estimated at **\$240 million**, assuming:

- Revenue growth of approximately 21%–23%;
- Roughly 80 net new openings;
- Low-to-mid-single-digit same-store sales;
- Moderate G&A leverage; and
- No material food-safety or commodity shock.

Applying **30x FY2027 EBITDA** yields an enterprise value of approximately \$7.2 billion. Adding estimated net cash and investments of approximately \$0.4 billion and dividing by roughly 118.5 million diluted shares produces **\$64 per share**.

A 30x multiple is objectively demanding, but it is defensible for a debt-free company sustaining 20%+ revenue growth and positive traffic. It is not defensible if growth becomes predominantly unit-driven while comparable traffic approaches zero.

Method 3: Unit-Economics/SOTP — \$68 per share

This framework values:

1. The existing restaurant base using normalized per-unit restaurant-level profit;
2. The risk-adjusted NPV of the next approximately 500 locations;
3. Cash and investments;
4. Less a capitalized charge for corporate overhead and development infrastructure.

At a \$3.0–\$3.1 million AUV and a normalized 24%–25% restaurant-level margin, mature restaurant-level profit approximates \$725,000–\$775,000 per unit. Applying a premium restaurant-asset multiple to the 500-unit base, then adding the discounted value of the development pipeline and deducting centralized overhead, produces approximately **\$68 per share**.

This method should not be confused with valuing CAVA at restaurant-level profit without corporate costs. The SOTP explicitly deducts centralized infrastructure and discounts future units for development cost, timing, and execution risk.

Blended Target

Method	Value	Weight	Contribution
DCF	\$54	35%	\$18.90
FY2027 EV/EBITDA	\$64	40%	\$25.60
Unit-economics/SOTP	\$68	25%	\$17.00
Blended value			\$61.50

Rounded 12-month price target: **\$62**

The target represents approximately **20.1% upside**. No dividend is assumed. The rating would move to **Strong Buy** below approximately \$44 absent fundamental deterioration, while prices

above approximately \$70 would offer insufficient risk-adjusted upside under the current operating outlook.

6. Risk, Catalysts, and Scenario Analysis

The Bear Case — Risks

1. **Traffic normalization:** Q2's 5.3% traffic increase may prove cyclically or promotionally elevated. A fall below 2% would materially weaken operating leverage.
2. **New-unit honeymoon effect:** Opening volumes may exceed stabilized volumes, particularly as CAVA enters lower-density markets without established awareness.
3. **Restaurant-level margin compression:** Salmon, additional seafood, delivery, fuel surcharges, wage investment, and simplified ingredient preparation can increase dollars while reducing rate.
4. **Lease leverage:** More than \$520 million of lease liabilities create fixed obligations that cannot be rapidly reduced during a consumer downturn.
5. **Valuation compression:** Even at \$51.62, the stock trades at approximately 30x FY2026 EBITDA and roughly 94x trailing EPS.
6. **Food safety:** A company-specific incident could have a larger impact than the industry-wide Cyclospora concern because CAVA's proposition depends heavily on fresh produce.
7. **Execution complexity:** Moving from 500 to more than 1,000 restaurants requires a doubling of site selection, managers, supply-chain capacity, training, food safety, and information systems.
8. **Delivery economics:** Third-party delivery supports revenue and convenience but carries lower margin and reduces control over the guest experience.
9. **Capital-allocation error:** Repurchasing shares at premium multiples could destroy value if operating growth slows.
10. **Accounting optics:** Restaurant-level profit excludes significant corporate and capital costs, while interest income and tax benefits can exaggerate consolidated earnings momentum.

The Bull Case — Catalysts

1. **Sustained positive traffic:** Comparable traffic above 4% through FY2027 would demonstrate that Q2 was not an anomaly.
2. **New-unit productivity above 100%:** Continued performance above mature-system expectations would justify faster development and higher terminal unit assumptions.
3. **Earlier attainment of 1,000 locations:** Reaching the target before 2032 increases the present value of the development pipeline.
4. **Restaurant-level margin resilience:** Maintaining 24%–25% margins despite wage and premium-protein investment would validate pricing power and labor productivity.
5. **Digital and loyalty monetization:** Better first-party digital mix and frequency could offset lower-margin third-party delivery.
6. **Catering and new dayparts:** These channels could increase kitchen utilization without requiring equivalent real-estate investment.
7. **Short-covering:** High short interest creates upside convexity if traffic and margins exceed expectations.
8. **Accretive repurchases:** Purchases near the lower end of the 52-week range could offset dilution and improve per-share economics.

Scenario Analysis

Scenario	Operating conditions	Valuation outcome
Bear Case	FY2027 comps 0%–2%; restaurant-level margin 21%–22%; 65–70 openings; FY2027 EBITDA \$175–\$190M; 20x–22x multiple	\$35
Base Case	FY2027 comps 3%–5%; margin 23.5%–24.5%; approximately 80 openings; FY2027 EBITDA near \$240M; 30x multiple	\$62
Bull Case	FY2027 comps 7%–9%; margin approximately 25%; more than 80 openings; EBITDA near \$270M; 35x multiple	\$85

Portfolio Implementation

- **Initial position:** 1.0%–1.5% of NAV.
- **Add zone:** Below \$48 if traffic remains positive and FY2026 guidance is intact.
- **Maximum position:** Approximately 3% pending evidence that FY2027 same-store sales remain above 3%.
- **Hard thesis review:** Traffic below zero for two consecutive quarters, restaurant-level margin below 22.5%, or meaningful deterioration in new-unit productivity.
- **Trim zone:** Above \$70 without a corresponding increase in forward EBITDA estimates.

7. Red Team Analysis (Devil's Advocate)

The strongest argument against the BUY rating is that **CAVA may be a premium-multiple development company masquerading as a high-quality compounder before its model has survived a full national cycle.**

The headline 25.7% restaurant-level margin is not a shareholder margin. It excludes G&A, depreciation, pre-opening costs, impairment, and the capital required to build stores. FY2025 restaurant-level profit was \$285 million, yet operating income was only \$55 million and conventional free cash flow was approximately \$26 million. Investors paying more than \$6 billion for the equity are capitalizing restaurant-level economics while receiving only a fraction of those economics as present free cash flow. ([sec.gov](https://www.sec.gov))

The business also lacks contractual recurrence. A software company can lose sales momentum gradually because subscriptions renew over time; a restaurant can lose traffic immediately when tastes change, consumer confidence weakens, food safety concerns emerge, or a competitor discounts. CAVA's 9% same-store sales growth could therefore be peak rather than normalized performance.

The “more than 1,000 restaurants” narrative may conceal saturation and cannibalization risk. The first 500 locations were selected from the most attractive available trade areas and benefited from scarcity, opening excitement, and considerable white space. The next 500 may require weaker real estate, smaller markets, higher distribution expense, and greater advertising. An annual unit-growth target can become institutionally dangerous if development teams are rewarded for openings rather than risk-adjusted returns.

Management's assertion that new-unit productivity is above 100% is encouraging but insufficiently granular. Investors are not given full vintage curves by market, cash-on-cash return cohorts, build-cost inflation by format, or stabilized four-wall EBITDA after the opening honeymoon. Without those disclosures, the market is being asked to trust an aggregate KPI during a period of rapid expansion.

The \$100 million repurchase can be interpreted negatively. A truly underpenetrated restaurant concept with exceptional unit returns should generally prefer funding high-return restaurants, supply-chain capacity, and manager development. Buying stock at approximately 30x forward EBITDA suggests either that the development pipeline is less capital-hungry than believed or that the board is responding to share-price pressure. Neither inference is automatically bullish.

The balance sheet's "zero debt" label is incomplete. CAVA had more than \$520 million of operating lease liabilities at Q2 and approximately \$625 million of contractual lease payments at FY2025 year-end. These obligations are structurally senior to common equity and cannot be retired by closing a weak restaurant without landlord negotiations and impairment charges. ([sec.gov](https://www.sec.gov))

Finally, the valuation still assumes excellence. Chipotle and Wingstop trade at materially lower trailing earnings multiples despite larger systems and longer public operating records. CAVA's multiple can compress even if management meets guidance. A company does not need to fail operationally for its stock to fall; it merely needs to grow less rapidly than the valuation requires.

Red-team conclusion: CAVA is not a value stock and should not be owned as one. The BUY case is valid only if investors underwrite sustained positive traffic, disciplined unit growth, and eventual conversion of four-wall profit into consolidated free cash flow. If those conditions weaken, CAVA rapidly becomes a value trap whose apparent growth masks fixed lease obligations, dilution, capex intensity, and multiple compression.



END OF RESEARCH NOTE