

Written Report: Cava Analyst

Macroeconomic Trends

IPO Market Overview

2023's IPO market was cautious amid macro uncertainty and high rates. While activity rose from 2022, conditions were far from the hot market of 2021. Despite this, Cava's IPO stood out as a strong debut.

IPO Market Performance and Cava's Debut

According to KPMG's IPO Insights Q4 2023, "107 IPOs raised a total of \$19.4 billion, with volume up 49% and proceeds up 150% compared to 2022," demonstrating a significant increase in funds raised in relation to the prior year. Overall, 2023 represented a more cautious but not cold IPO market, with Cava's IPO being one of the more prominent and successful offerings amid market uncertainty. Cava went public on June 15th, 2023, on the NYSE with the ticker symbol CAVA. The company's stock debuted strongly, growing over 117% on its first trading day, reflecting strong investor confidence and enthusiasm despite broader market caution.

Industry Trends

Health-Conscious Fast-Casual Dining

The two most significant industry trends for Cava are the surge in consumer demand for health, convenience-oriented fast-casual dining, and the adoption of digital technology and operational innovation to increase efficiency and the customer experience. Of these two trends, the demand for healthy fast-casual food has had the biggest impact on Cava's success.

Cava's alignment with rising demand for healthy, customizable fast-casual meals drove 59.8% revenue growth in 2023 and 72 new stores, illustrating strong market fit. Digital innovations supporting online sales, accounting for over a third of revenue, enhanced operational efficiency and sustained margin expansion. Cava's menu aligns with this by serving protein-rich, vegetable-heavy options that appeal to health-conscious consumers. Cava's adoption and amplification of this trend has contributed significantly to gains in same-store sales and overall brand strength. According to Cava's Fourth Quarter and Full Year Fiscal 2023 Results, revenue rose 59.8% to \$717.1 million from \$448.6 million the previous year, alongside 72 net new restaurant openings during fiscal 2023. This demonstrates the immense growth Cava has seen during the year of its IPO.

Digital Technology and Operational Innovation

Cava's adoption of digital ordering, AI-driven kitchen management, and other in-store operational technology has made restaurants more efficient and responsive to high demand. According to Yahoo Finance, online sales now account for over a third of total revenue, indicating the company's ability to adapt to new technologies and stay ahead of consumer trends. Also, Cava has rolled out "Connected Kitchen" systems and real-time analytics, helping restaurant teams stay on top of orders, reduce mistakes, and use AI tools to make food prep faster and smoother.

Overall Adaptation and Performance

Cava has successfully navigated industry trends and consumer preferences. The company's profit margins and traffic growth have all improved greatly from 2023-2025, which can be attributable to strategic alignment with market trends. Cava has embraced these trends to fuel nationwide growth, open new restaurants quickly, and deliver strong financial results, while other, less adaptable brands have felt the pressure of tougher economic conditions.

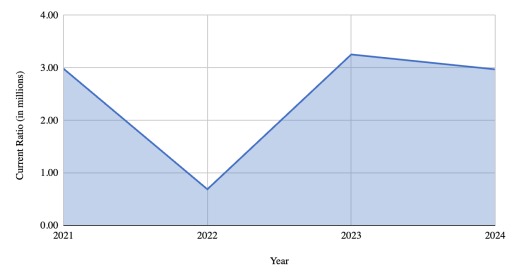
Company Performance and Valuation

Financial Health

Current Ratio

- Cava's current ratio has varied since IPO, dipping below 1 in 2022, indicating tighter liquidity and rebounding to around 3 in 2023 and 2024.
- A current ratio above 1.5 signals healthy short-term liquidity, showing Cava's improving ability to cover short-term obligations while balancing growth investments.

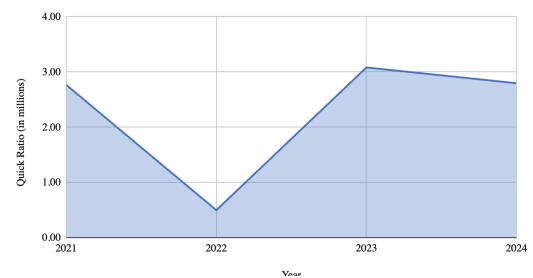
Current Ratio Over The Years



Quick Ratio

- The quick ratio, excluding inventory, mirrors the current ratio's pattern but is typically lower.
- An improving quick ratio over time indicates strengthening immediate liquidity and better capacity to meet sudden cash needs without relying on inventory sales.

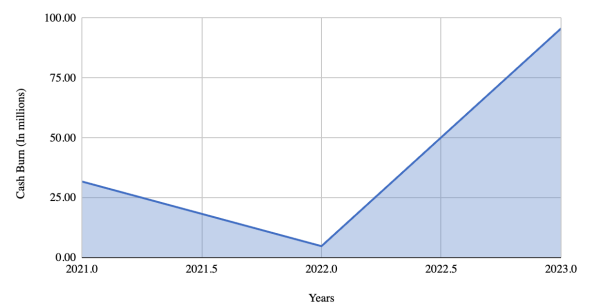
Quick Ratio Over The Years



Cash Burn

- Early post-IPO years saw high cash burn consistent with rapid expansion.
- Operating cash flow improved from near breakeven in 2021–2022 to positive in 2023 and 2024.
- Free cash flow turned positive, indicating growing operational efficiency and sustainable growth management.

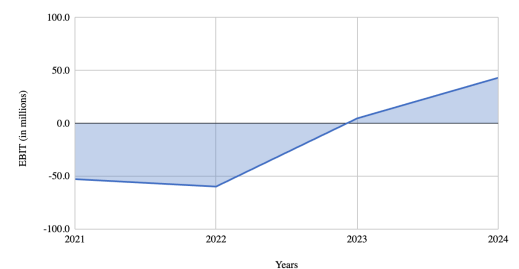
Cash Burn Over The Years



EBIT

- EBIT progressed from negative post-IPO to positive profitability by 2023, continuing in 2024.
- This reflects improved revenues and cost controls as Cava matured financially beyond its initial growth phase.

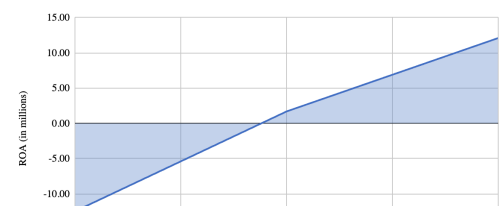
EBIT Over The Years



Return on Assets

- ROA improved from negative to positive as Cava generated profit relative to its asset base.
- Rising ROA suggests better asset utilization and operational efficiency as growth continued.

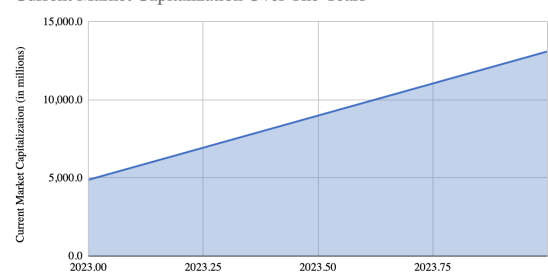
ROA Over The Years



Market Capitalization

- Market cap expanded significantly post-IPO, driven by equity raises and share price appreciation.

Current Market Capitalization Over The Years



- Growth reflects market confidence in Cava’s revenue and earnings momentum, though valuation multiples remain elevated, consistent with growth expectations.

Financial Health Summary

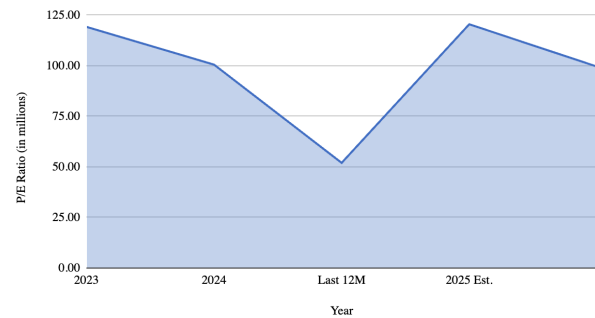
- Liquidity pressures in 2022 eased with current and quick ratios recovering above 2.9, signaling strong short-term solvency.
- Cash burn dropped as operating and free cash flow turned positive by 2023–2024, reflecting better growth management and operational efficiency.
- EBIT turned positive and steadily rose, showing improved profitability driven by growing revenues and cost controls.
- Return on assets improved from negative to positive, indicating enhanced asset utilization with scale.
- Market capitalization grew substantially due to equity raises and rising investor confidence tied to revenue and earnings momentum.
- Collectively, these trends illustrate Cava’s transition from early-stage liquidity and profitability challenges to stronger financial health and growth sustainability

Valuation Trends

P/E Ratio Valuation

- Cava’s valuation evolved from growth-focused to a maturing, profitable brand.
- Early losses made the P/E ratio inapplicable initially.
- With profit emergence, the P/E ratio stabilized but remained elevated due to growth confidence.
- The P/E trend reflects a market shift to earnings-based valuation with growth expectations.

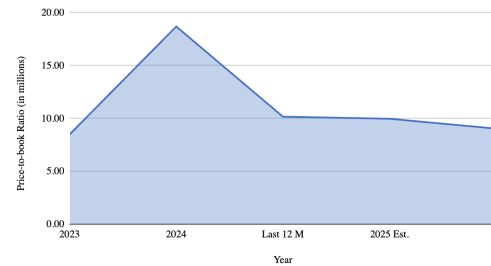
P/E Ratio Over the Years



Price-To-Book Ratio Valuation

- The ratio declined after the IPO as book value rose steadily via capital raises and retained earnings.
- Stable share price plus growing equity compressed the multiple.
- This shows a market shift from asset-based valuation to focus on earnings and cash flow.
- The equity chart illustrates these valuation dynamics.

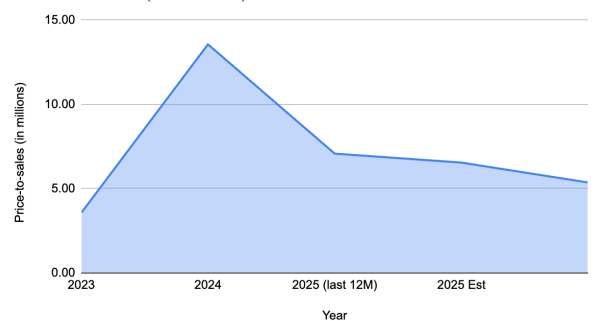
Price-to-book Ratio Over The Years



Price-to-Sales Ratio Valuation

- Important when profits were volatile, the ratio rose with strong revenue growth.
- 2024’s spike reflected rapid sales and store expansion, driving high valuation . In 2025, growth moderates, causing multiple compressions as enterprise value lags revenue increases.

Price-to-sales (in millions) vs. Year



Price-to-Cash Flow Ratio Valuation

- Operating cash flow grew from breakeven to \$172.6M in trailing twelve months of 2025.
- Modest capital expenditure and stronger cash flow reduced external financing needs.
- The ratio fell, signaling sustainable operations and increased investor confidence.

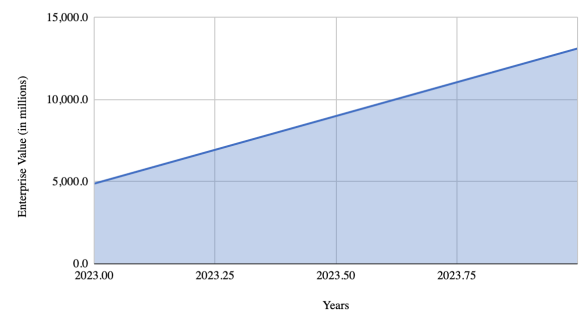
Price/CF Over The Years



Enterprise Value Trends

- Enterprise value grew via equity issuance and share price gains, not debt.
- Net debt moved from negative in 2021 to slightly positive in 2024, but leverage remained low.
- High EV ratios relative to profits reflect growth-driven investor expectations.
- The market's confidence hinges on expansion and scaling revenue prospects.

Enterprise Value Over the Years



Valuation Overall

- Cava's valuation ratios have experienced significant changes, notably the shift from negative net income to sustained profitability, which allowed earnings-based metrics to stabilize.
- There was a large increase in equity capital that expanded the book value significantly, compressing the price-to-book ratio despite growth in share price.
- Operating cash flow steadily improved over the period, leading to a reduction in the price-to-cash flow multiple and reflecting better cash generation efficiency.
- These changes signal a market transition from viewing Cava purely as a growth story focused on top-line expansion to valuing it with more emphasis on profitability and cash flow fundamentals.
- The company's achievement of surpassing \$1 billion in revenue and sustaining operating income supports a more mature valuation framework, even though Cava's multiples remain elevated compared with established industry peers.

Recommendations and Rationale

We recommend a hold rating on CAVA. The company has demonstrated strong operational execution, aligned itself effectively with key consumer and industry trends, and maintained a solid financial position throughout its rapid growth phase. However, given elevated valuation multiples relative to peers, much future growth is priced in, limiting upside. The risk/reward balance favors Hold unless Cava can sustain outperformance or valuation multiples contract.

Supporting Rationale

Since its IPO in June 2023, CAVA has delivered impressive results.

- Revenue grew 59.8% year-over-year in fiscal 2023, reaching \$717.1 million
- Operating income rose nearly ninefold to \$43.1 million in 2024
- Operating cash flow reached \$97.1 million in 2023 and \$161 million in 2024
- Leveraged AI-enabled kitchen systems and online ordering to enhance operational performance.

Financial Health

- Current ratio: 2.72
- Quick ratio: 2.62
- Cash: Declined from \$366 million at the end of 2024 to \$290 million by mid-2025 (reflects deployment toward high-return investments, including new restaurant buildouts and the Verona production facility)
- Operating cash flow (first 28 weeks of 2025): \$98.9 million, covering a significant portion of capital expenditures

Valuation Considerations

- Market Capitalization: \$2.2 billion at IPO to \$7.3 billion in just two years.
- Net Income: \$13.3 million in 2023 to \$130.3 million in 2024,
- Return on Assets: ~11% in 2024 is skewed by a one-time \$80.1 million tax benefit; adjusted for this, ROA would fall closer to 4–5%,
- Price-to-sales and price-to-cash-flow ratios: Moderated slightly as revenue and cash flow increased, but remained elevated.
- Premium valuation multiples relative to mature restaurant peers imply that much future growth is already priced in.

Conclusion

In conclusion, CAVA is a high-quality, well-managed company that continues to grow within a favorable segment of the restaurant industry. It has effectively adapted to industry trends, maintained strong financial health, and executed a scalable growth strategy. However, the current valuation reflects much of this positive outlook, leaving limited room for upside in the near term without continued outperformance. We recommend that existing shareholders maintain their positions and closely monitor key metrics, including same-store sales, new store openings, and margin trends, in the upcoming quarters.

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