

### Inaugural Issue

It is poetic that we are launching this endeavor right on the heels of the annual Jackson Hole Economic Symposium. Now in its 45th year, the Symposium has become the Super Bowl for monetary policymaking, with hundreds of central bank leaders descending upon western Wyoming to chart the course forward.



With the Federal Reserve on the verge of the first-rate cutting cycle since the outset of 2020, pundits continue the ever-shifting debate of whether the U.S. will achieve a hard or soft landing — are we embarking on this project at the flood tide or the ebb? As we look to answer these questions, and many more, we hope that you will find our insights to be both novel and useful.

#### Macro focus

The IMF estimates that U.S. GDP accounts for 26% of the global economy. It’s an interesting moment in time for the U.S. macro landscape. Inflation is falling, labor markets are weakening, and the Fed is set to make its first rate cut of this cycle in September. Our read of the U.S. economy is one that is slowing, but still growing. The breakneck growth of the post-pandemic economy was never sustainable. In this issue we will take a close

look at the current state of monetary policy and then jump into some thoughts on interest rates and equities. Finally, we examine a broad range of economic indicators to get a sense of how the economy is faring in different areas.

#### Single-name stock highlight

In this issue we will review CAVA Group, the Icarus of fast-casual dining. CAVA was widely viewed as a particularly “expensive” IPO at the time of its public debut in June 2023. Notwithstanding, the share price has appreciated considerably since then, returning +410% through 8/30/24. We review the thesis that the brand and store count will continue to seamlessly and significantly scale across the U.S.

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### RECENT DEVELOPMENTS

- Powell signals start to rate-cutting cycle at Jackson Hole Symposium
- U.S. equities erase all losses from the dramatic JPY / volatility induced sell-off from Aug 1 - 5
- U.S. GDP records 3.0% growth rate for Q2
- NVDA beats once again but guidance disappoints and questions swirl around the sustainability of the AI/GPU capex boom

### KEY UPCOMING EVENTS

- August non-farm payrolls and unemployment rate: Sep. 6
- CPI data release: Sep. 11
- Retail Sales data release: Sep. 17
- FOMC meeting and policy decision: Sep. 18

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Monetary Policy (U.S.A.)

Fed Chair Powell recently spoke at the Jackson Hole conference. His topic: "Reassessing the Effectiveness and Transmission of Monetary Policy." The Fed has a dual mandate: price stability (think inflation) and maximum employment. For the past few years the Fed has been solely focused on fighting inflation and getting inflation back to their 2% target. The labor market has been incredibly tight in the post-pandemic environment and this allowed the Fed to raise rates aggressively.

In the beginning of the hiking cycle, the Fed indicated that they were willing to trade job losses for lower inflation; however, that dynamic today has shifted. Powell commented, "My confidence has grown that inflation is on a sustainable path back to two percent." Related to the labor market he said, "It seems unlikely that the labor market will be a source of elevated inflationary pressures anytime soon. We do not seek or welcome further cooling in labor market conditions." That last sentence is particularly telling. The Chair is being quite clear here that they will use their tools to fight any further weakening in the labor market. To make sure there was no confusion, he went on to say, "The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."

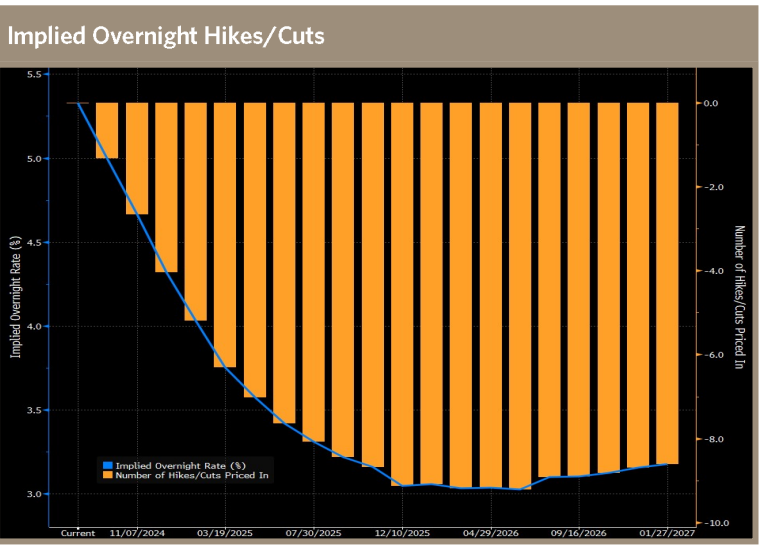
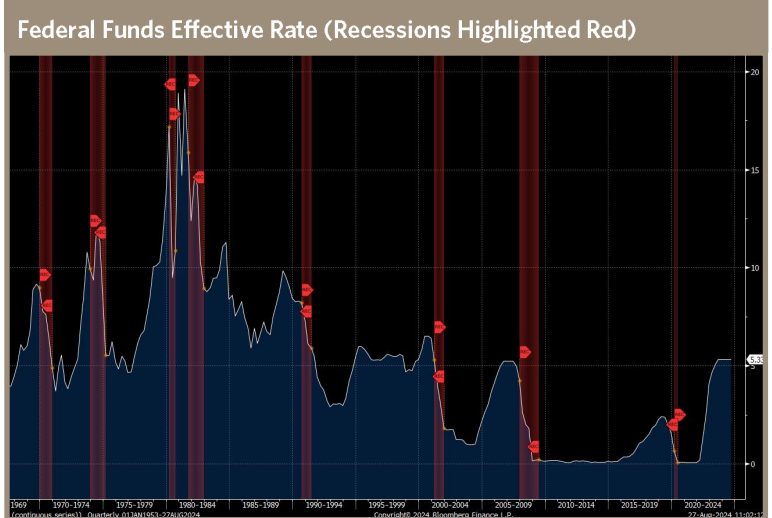
Rates cuts are coming. How many cuts? How fast? And what's the impact? As of this writing, the market is pricing in 32bp of cuts for the September meeting, 100bp by year end, and 225bp by year end 2025. At this juncture, a September rate cut is nearly a foregone conclusion. It would take an incredible jobs number and CPI print to change that. The question is whether they will cut 25bp or 50bp. Powell did not indicate, but he certainly left 50bp on the table by stating, "We will do everything we can to support a strong labor market as we make further progress toward price stability."

The debate between 25 or 50 will likely be settled the first week of September when the non-farm payroll (NFP) data is released. An in-line-to-strong number will mean a 25bp cut and a weak number will likely lead to a 50bp cut. Current consensus for August NFP is 160k.

Soft versus hard landing

Our reaction function to the cuts is quite simple: Slow and steady cuts would align with the soft landing narrative and should support risk assets; whereas large, quick cuts would signal that something is more deeply wrong with the labor market and the economy—and negative for risk assets.

There has been no shortage of charts being posted showing the timing between cuts and the start of a recession. In case you missed it, we've got you covered. Without getting too far into the weeds, the high-level story is simply that historically, recessions have begun some number of months after a cutting cycle began. This is intuitive. However, we can see in both the mid-80's and mid-90's that cuts were made and no recession followed.



In September of 1984 to September of 1986 the SPX rose ~40% while GDP growth remained strong. In June of 1995 to June of 1999 SPX rose 140%, coupled with incredibly strong GDP growth. ***This is all to say that no one knows how these cuts will play out, but we certainly need to be cautious and vigilant in the coming months and year. If the Fed cuts and growth holds up—game on! If the Fed cuts and growth falls—watch out!***

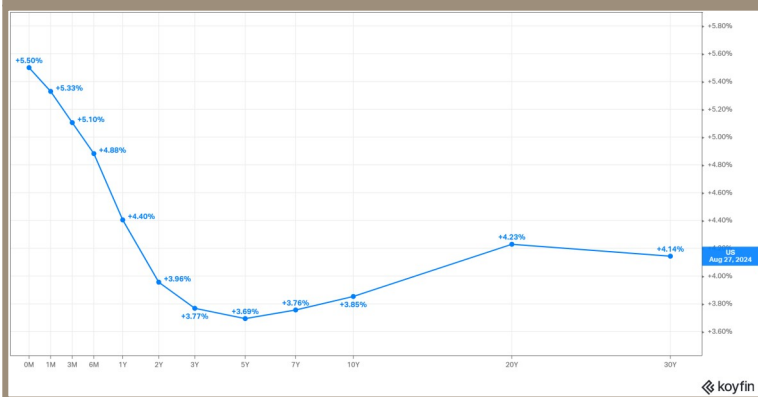
Many pundits are fearful that the Fed is behind the curve—it's possible. However, with equities at the highs and credit spreads at the lows, it's a bit difficult to argue that policy is overly restrictive here. We think rate cuts to adjust policy here in the face of a weakening labor market does make sense, but the Fed is right to be cautious in their cutting approach given the stickiness in service inflation.

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Interest Rate and Equities Markets (U.S.A.)

It's important to keep a pulse on the various asset classes at the macro level. These market indicators are informative in many ways. Throughout these series we will examine interest rates, equity, credit, and FX. For the sake of brevity in this letter we will touch on interest rates and equities and save the latter for future writings. Let's begin with interest rates, and start with the yield curve.

U.S. Treasury Yield Curve



The yield curve remains deeply inverted when looking at the very front end, but is quite flat when viewed from 2y outward. First, let's look at 2y rates which are hovering around 3.9%. We think this is a pretty fair level and have a neutral view.

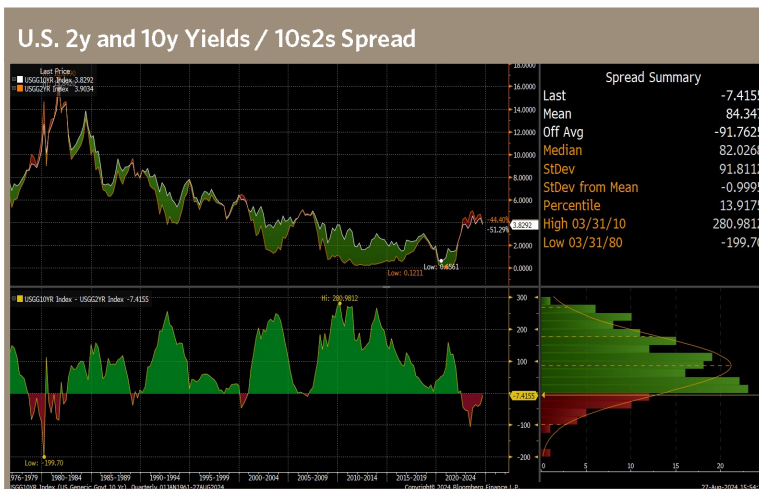
In the previous page where we discussed monetary policy, we showed the market pricing in ~225bp of cuts over the next two years with the policy rate hitting a low of ~3.0%. Therefore, if you want to be long the 2y you have to believe that the Fed is going to cut more than what the market is pricing. It's not a very attractive long given the current forward pricing in our view, but the tricky part about the 2y at this juncture is the tail risk of a hard landing.

225bp of cuts is quite a lot to be realized, but the 2y also has to price in some probability of a hard landing. Over the next two years the market has to assign some probability that in a hard landing the policy rate would get to a 3.0% level much quicker than what is priced—and even beyond. If you are bearish on the economy, a long 2y position can still make sense at this level. On the flipside, if you want to short the 2y here, then you are making a bet that the Fed will not realize the amount of cuts priced into the market. It is a bet that growth continues to hold up and inflation stays above target.

Shorting the 2y on rallies has worked out fantastic the past couple years; however, we think the shift in inflation, labor and the Fed's reaction function make this a much tougher trade now. As mentioned in the previous

section, Powell is intent on beginning cuts, so it's hard to imagine that zero cuts will be realized; however, it's certainly possible that we only get 2-3 adjustment cuts and the labor market regains its strength with inflation staying above target, and the Fed could easily go back on hold. We are therefore sympathetic to those who want to be short the 2y as we believe the trade could work; however, for ourselves, it's not an asymmetric profile. Given where the labor market is trending it's too risky to be short that 2y tail at this point.

Now, let's discuss 10y rates and the 10s2s curve. 10y rates are around 3.8% at the time of this writing. This feels a bit rich to us and on the margin would favor a short 10y position over a 10y long.



The market is pricing in a policy rate as low as 3%. Let's assume that inflation allows the Fed to cut rates down to this 3% level. If policy is set at 3%, then where should 10y rates trade? There are a number of economic factors that we would need to know to really answer that question. However, when we simply look at the 10s2s curve as a benchmark for term premium, over the past ~50 years the term premium has averaged ~84bp. This would imply that if 2y does trade down to 3% following policy rate adjustments we would expect the 10y to be around 3.84%—essentially, right where it is trading today.

We have to question: why you would want to be long? One reason to be long 10y is the same reason as the 2y, but if you want to own rates as a recession hedge, then we'd prefer the 2y over the 10y. We think 10y yields can rise for a number of reasons, which can be delved into in more detail in future writing, but to quickly name some scenarios: a shallow cutting cycle followed by renewed labor and inflation strength; a shallow recession where the neutral rate remains higher than in past regimes; expansion of term premium. And quite simply, when looking at the strength of nominal GDP, this 10y level feels low.



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Putting these 10y and 2y views together, we would be biased toward a continued un-inverting of the 10s2s curve, but it is not a strong conviction, and we don't see this happening rapidly as our base case is not for a near-term recession.

## Equities

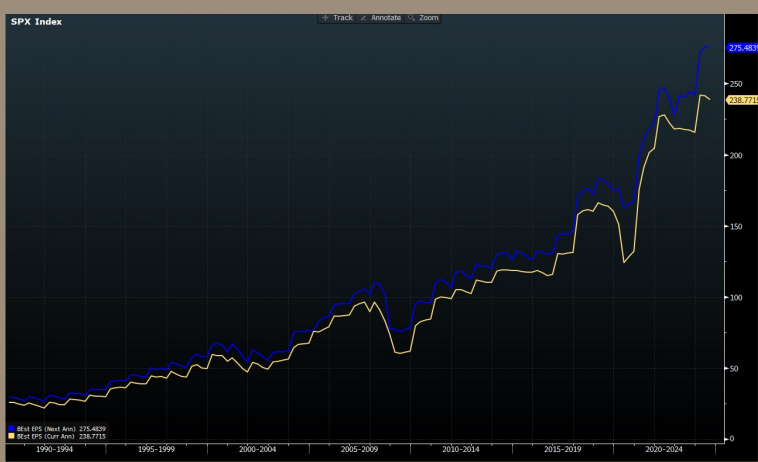
Equities look rich here—we're not really going out on a limb with this statement. Looking at S&P 500 Price to Earnings on a next four quarters rolling basis, we are clearly at the high end.

S&P 500 Forward P/E Ratio



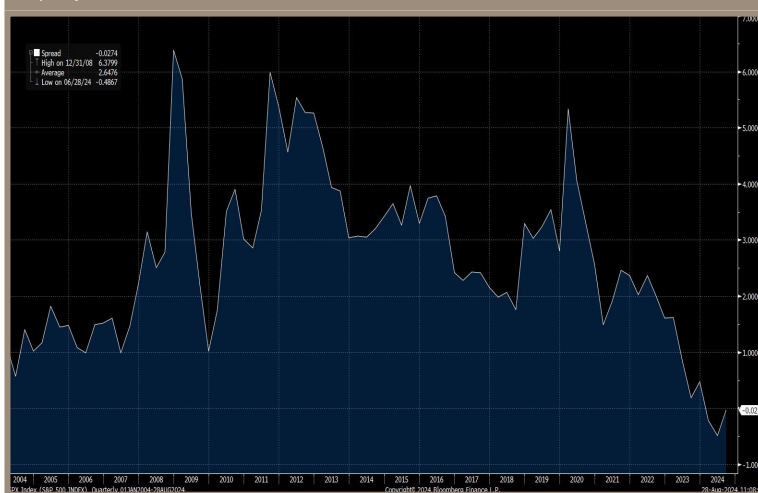
The biggest problem with equities is the forward expectations in earnings. Current-year EPS is expected to finish around \$238 vs 2025 expected EPS of \$275. That represents ~15% expected growth in earnings year-over-year. With the recent slowdown in labor and a consumer that is also showing some signs of slowing, it will prove difficult in our view to achieve such a high growth rate in earnings.

S&P 500 2024 and 2025 EPS Estimates



Looking at Equity Risk Premium (calculated as SPX earnings yield less 10y UST yield for our purposes) it tells us that relative to interest rates, equities look rich. When examining a 20y history, we are at the lows and have only ticked up with the recent rally in rates. To be bullish on equities at this time, we think one is ultimately making a bet that AI is going to deliver outsized earnings growth. This is not to say that we are necessarily bearish equities, but the expectations are so high that it really hurts the profile of expected returns.

Equity Risk Premium



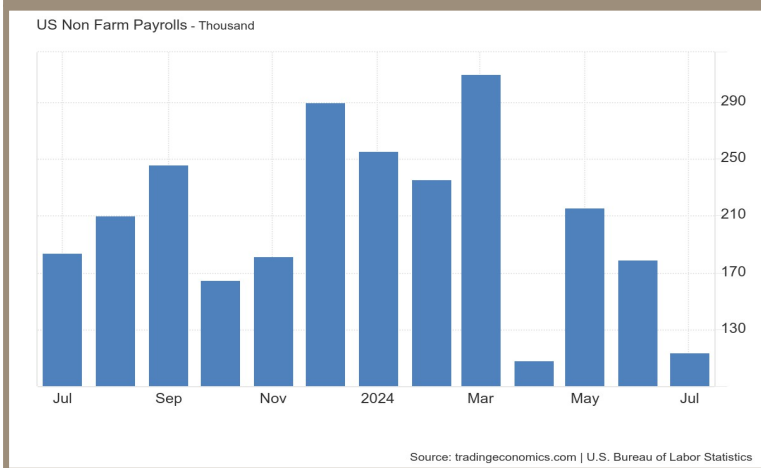


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**Macroeconomic Statistics & Indicators (U.S.A.)**

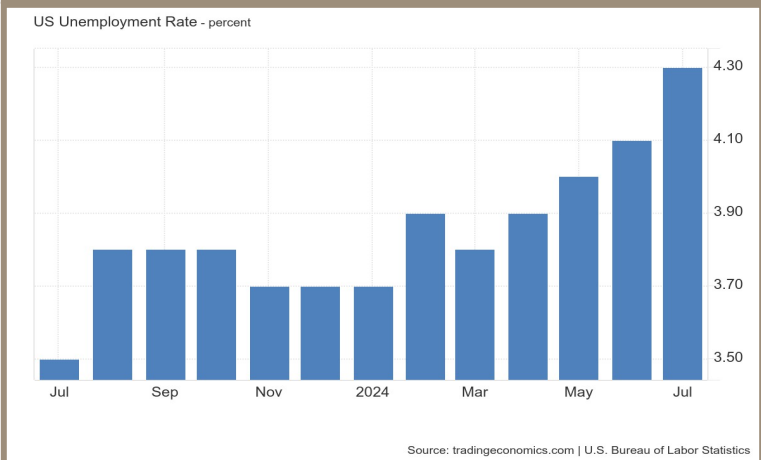
In this first issue we will keep the macro-economic focus to a high level and seek to delve into more minutiae in coming installments. With that said, let's assess where we are at in the current environment. The Fed has recently indicated that future policy will be more heavily influenced by labor data, as opposed to inflation data, so let's start with the labor market.

**U.S. Non Farm Payrolls (thousands)**



Job creation, as measured by NFP, averaged 377k in 2022, 251k in 2023, and now 203k in 2024. The trend is quite clear, with the most recent July report of 114k catching everyone's attention. The unemployment rate has risen from 3.5% a year ago to 4.3%, and while still low by historical standards, it shows a similarly worrisome trend.

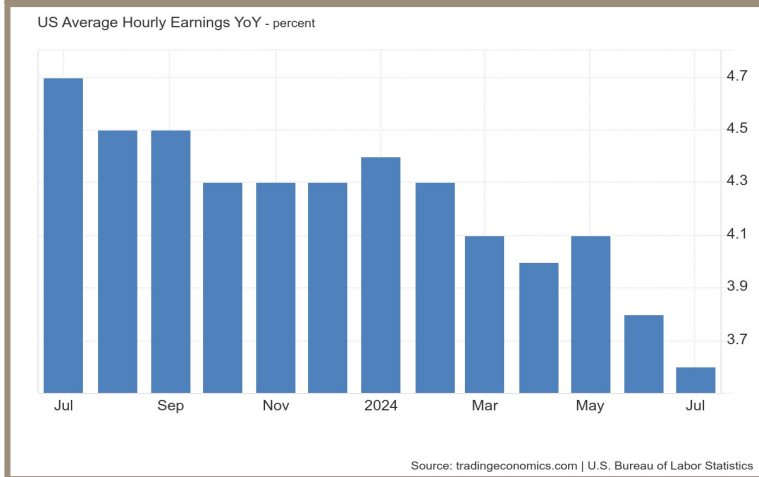
**U.S. Unemployment Rate %**



The newfound softness in the labor market is also manifest in the slowing wage gains. Average hourly earnings have decreased from a 4.7% annual

growth rate a year ago to 3.6% today. Job Openings and the Quit Rate corroborate the same story. Without belaboring the point—the labor market is slowing, that much is clear.

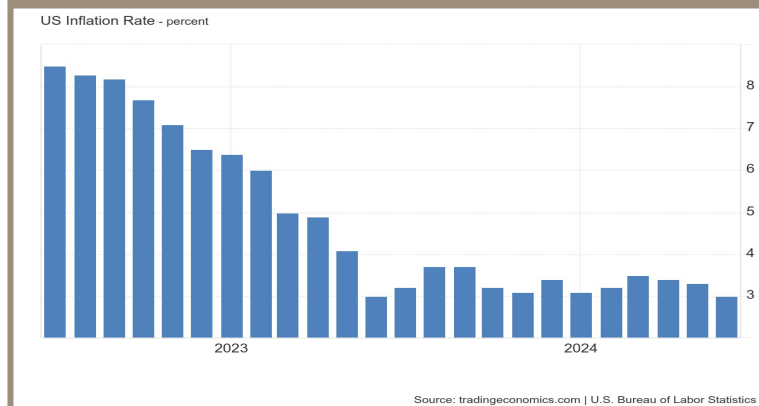
**U.S. Average Hourly Earnings YoY %**



Now let's look at the other side of the Fed's mandate: inflation. Recent weakness in CPI readings have given the Fed increased confidence in their fight against inflation and has allowed them to shift their focus to the labor market. CPI 3m annualized rate is only 0.4% and the 6m annualized rate is 2.4%. However, when looking at the yearly rate over the last two years, while inflation has clearly come down, one could argue that it's starting to settle at a rate still well above the 2% target.

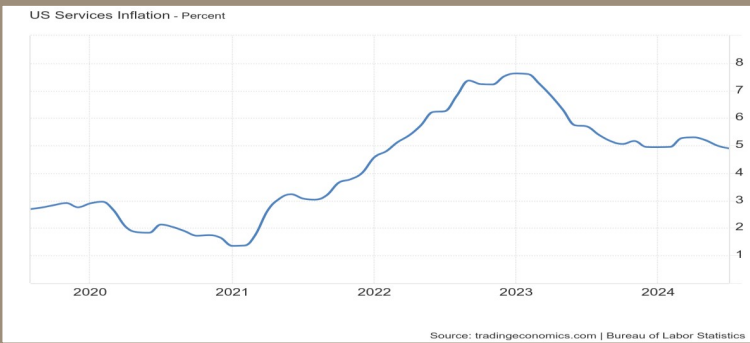
Powell has consistently messaged that he would cut rates prior to inflation reaching target, noting that if they were to wait until the goal was achieved they would be too late. The issue they have been fighting of course is service inflation (particularly shelter) which has continued to be sticky (see next page for services inflation chart).

**U.S. Inflation Rate Annual %**



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U.S. Services Inflation %



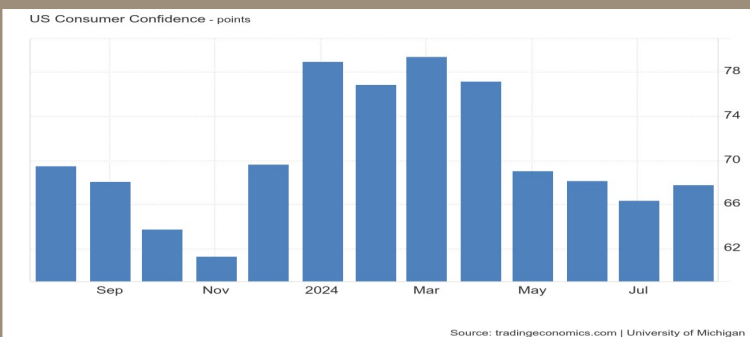
Let us now turn to GDP and the consumer. Given GDP is roughly 70% consumption, it makes sense to look at these together. Despite a weakening labor market and consistently high levels of inflation, the consumer continues to hold up and GDP remains robust with a 3.0% growth rate in Q2, and the Atlanta Fed's GDPNow tracker is currently estimating 2.5% for Q3.

U.S. GDP Growth Rate %

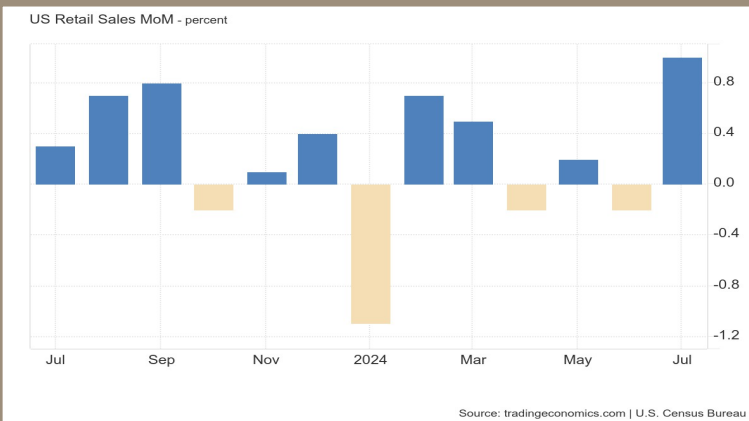


The consumer continues to prove resilient in this cycle. Excess savings and strong household net worth have helped to extend the cycle. This cycle has been one driven by income rather than credit, so we want to be focused on signs that the income and spending may be waning.

U.S. Consumer Confidence (points)



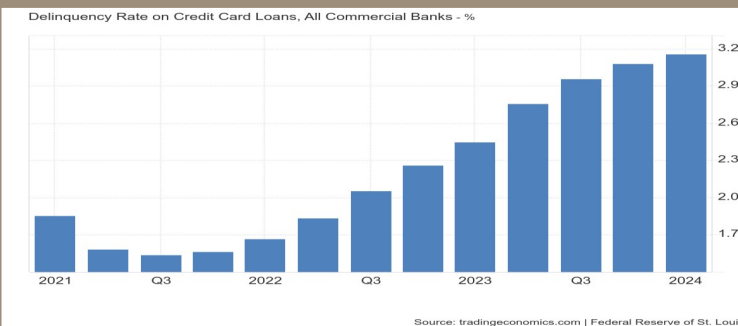
U.S. Retail Sales MoM %



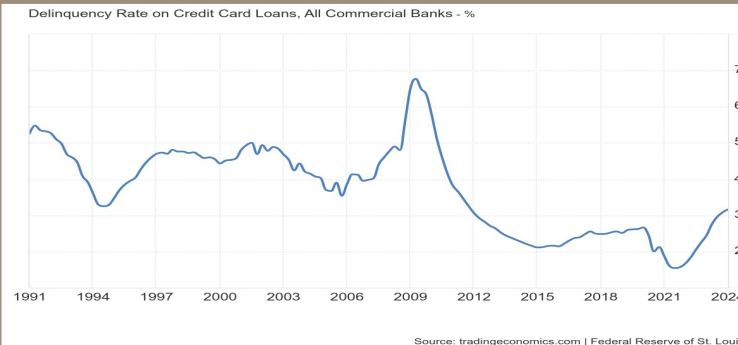
Consumer confidence ticked back up in August and retail sales surprised to the upside. Personal income and spending both seem to be holding up as well.

Credit card delinquency is a common topic, and one that often gets cited when referencing economic fears. The trend in the 3y chart below is certainly worrisome. However, if we expand it out to 30 years, then the level of delinquency does not strike quite as much fear. Now, the trend is cause for concern, and something we need to keep our eye on, but we are coming off of historically low levels in the prior years.

Delinquency Rate on Credit Card Loans % (three-year chart)



Delinquency Rate on Credit Card Loans % (longterm chart)



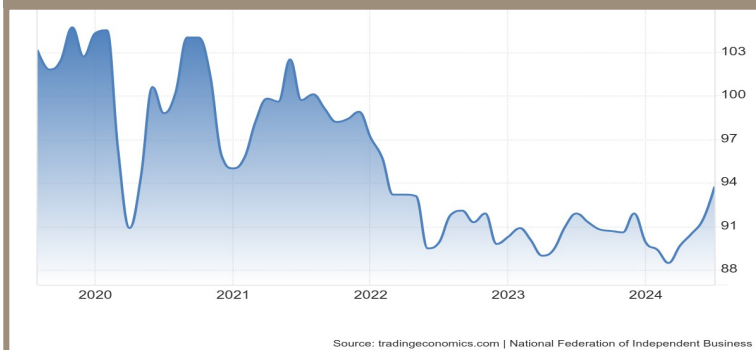
# MACRO FOCUS - 2024, Issue 1

Household debt-to-GDP continues its downward trend, indicating that the consumer and households are still resilient. We will continue to monitor closely the strength of the consumer to see if the weakness in labor may eventually spill over into incomes and spending.

## Businesses

In *A Tale of Two Cities*, Dickens starts by writing "It was the best of times, it was the worst of times..." This describes our sentiment when looking at the ISM Manufacturing and ISM Services reports. The ISM Manufacturing report has printed below 50 (contractionary) for 19 of the last 20 readings. Meanwhile ISM Services has printed above 50 (expansionary) for 17 of the last 20 readings.

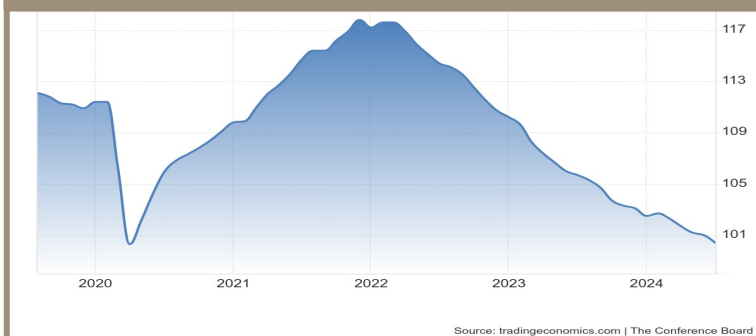
U.S. NFIB Business Optimism Index (points)



U.S. Business Confidence & U.S. Non Manufacturing PMI



U.S. Leading Economic Index (points)



Here are some quotes from the last Manufacturing report:

*"Unfortunately, our business is experiencing the sharpest decline in order levels in a year...It was the first month this year that we had negative net income."* (Fabricated Metal Products)

*"Business is slowing, and we are taking cost actions."* (Electrical Equipment, Appliances and Components)

The Services responses are not dire but necessarily rosy:

*"...the number of members requesting loans has remained relatively stable."* (Finance and Insurance)

*"High food costs are having an impact on customer demand and resulting in flat business overall. Business activity stable."* (Wholesale Trade)

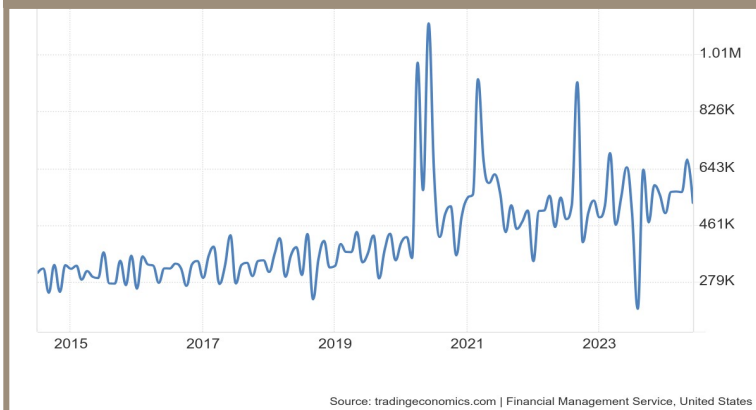
After flatlining for the past two years and hitting a local low in March of this year, the NFIB Small Business Optimism Index has shown great strength recently and is breaking out to the upside.

The mix of regional surveys has mostly been negative and the Conference Board Leading Economic Index continues to flash a warning sign.

Government spending continues to be supportive of the economy. Fears abound in regards to the level of spending and the deficit that is being accrued, but in the near term, spending is positive for the economy. What that means in the longer run is a topic for another time.

Fiscal spending remains very elevated compared to pre-pandemic levels, as seen in the chart below. However, there is some debate on the effect of this spending on a go-forward basis. Although it is elevated, it's not growing anymore, and if it's not growing then it's likely no longer contributing to future growth.

U.S. Fiscal Expenditures (\$millions)







## STOCK DEEP-DIVE - 2024, Issue 1

### CAVA Group: Same-restaurant sales and customer traffic trends bely hope that CAVA can grow into nose-bleed valuation

- CAVA is seen as “the Chipotle of Mediterranean food” with investors anticipating a similarly successful share price appreciation as witnessed by CMG
- But same-restaurant sales trends have been volatile, despite CAVA being a novel offering
- Furthermore, the ability of a Mediterranean-focused chain to scale across the U.S. to the extent CMG has is an open question

### Company background and industry overview

CAVA is the largest chain of Mediterranean fast-casual restaurants. Its first restaurant opened in Bethesda, Maryland in 2011 and they grew to 43 restaurants by the end of 2017. CAVA’s growth was boosted through the acquisition of Zoe’s Kitchen for ~\$300mm (purchased at roughly 1x revenue or \$1.1mm per restaurant for Zoe’s 261 company owned restaurants). The Zoe’s restaurants were subsequently either converted to the CAVA concept or closed.

CAVA completed an IPO in June of 2023 and raised \$318mm for continued restaurant expansion. While CAVA is widely acknowledged to be an “expensive” growth stock, the bull case is that it is essentially a young Mediterranean version of Chipotle, a stock which has been wildly successful and returned more than 120x since its 2006 IPO.

While the U.S. fast-casual and quick-service restaurant (QSR) industry is highly fragmented, it is nevertheless dominated by the well-known burger, sandwich, pizza, and Tex-Mex categories, with other international cuisines occupying a relatively niche space.

### 50 biggest fast food chains by 2021 number of stores in US



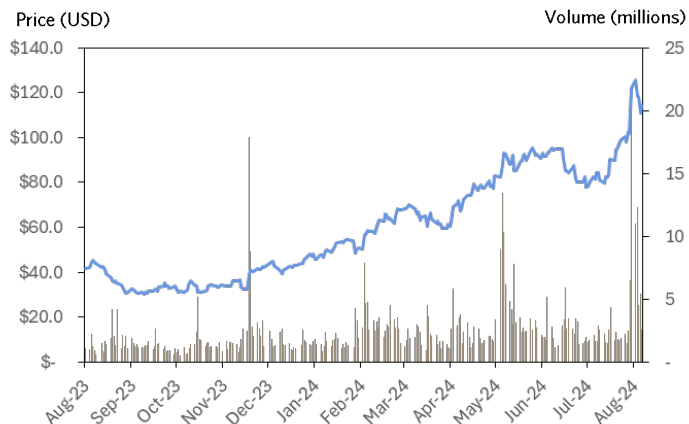
### Financial Summary

Name:	Cava Group, Inc		
Ticker:	CAVA		
Industry:	Consumer Discretionary		
Sector:	Restaurants		
Price (8/30/24):	\$114.00		
Market Cap:	\$12.67B		
Enterprise Value:	\$12.69B		
Dividend Yield:	n.a.		

	2023A	2024E	2025E
Revenue	\$728M	\$933M	\$1,113
EV/Revenue	19.1x	14.9x	12.5x
Adj. EBITDA	\$73M	\$114	\$142
EV/EBITDA	190.9x	122.2x	98.1x

EPS	2023A	2024E	2025E
Q1	\$(1.30)A	\$0.12A	n.a.
Q2	\$0.21A	\$0.17A	n.a.
Q3	\$0.06A	\$0.10E	n.a.
Q4	\$0.02A	\$0.03E	n.a.
<b>FY</b>	<b>\$0.21A</b>	<b>\$0.42E</b>	<b>\$0.51E</b>
P/E	580.9x	290.4x	239.2x

### Share Price Performance





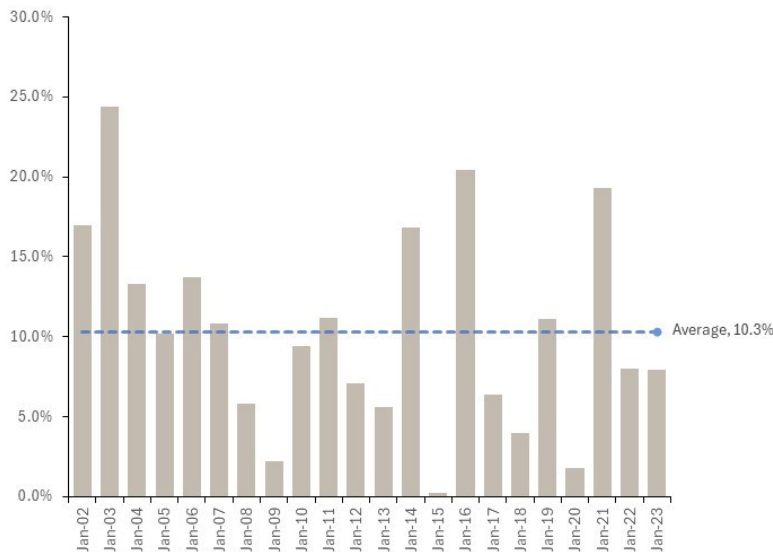
## STOCK DEEP-DIVE - 2024, Issue 1

Successful growth in earnings within the space is dominated by three key factors:

1. Increasing same-restaurant-sales
2. Continually growing (scaling) restaurant count
3. Maintaining or improving restaurant-level profit margins

Again, Chipotle has proven to be the standard-bearer for these factors, having successfully grown restaurant count at a CAGR of 14% from 2002 to 2023 while achieving a +10% average annual same-restaurant-sales growth rate.

### Chipotle Annual Same Restaurant Sales Growth



### CAVA's great expectations

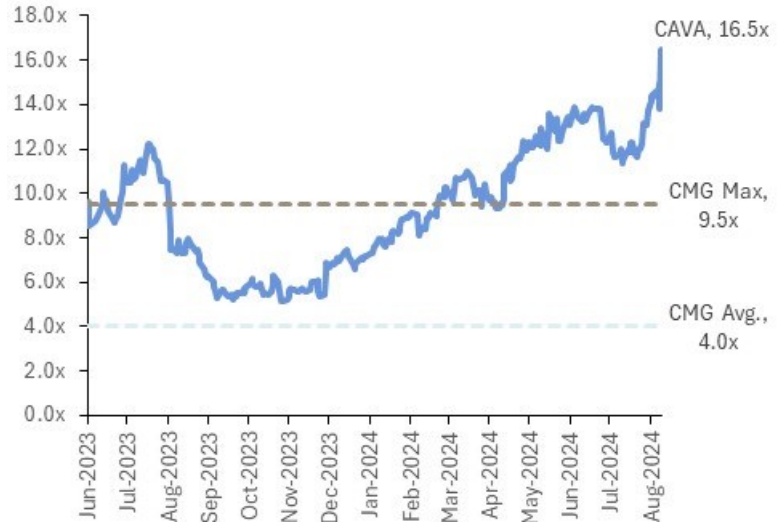
CAVA's stock has appreciated by more than 410% in just over a year following its June 2023 IPO, and the stock is widely acknowledged to be expensive by any measure. From a June 2024 Bloomberg article:

*"The rally has been so extreme that it's starting to cause angst among some Cava bulls. In the span of just four days, two of the 15 Wall Street analysts who cover the company — JPMorgan Chase's John Ivankoe and Piper Sandler's Brian Mullan — cut the stock to neutral from overweight. The per-restaurant valuation 'is unprecedented' in the industry, Ivankoe wrote in his June 3 report."*

CAVA currently trades at more than 15x LTM revenues. By comparison, Chipotle has traded at an average multiple of 4x and has never witnessed a multiple above 10x during its entire tenure as a public company.

In order for CAVA's bottom line to grow into this valuation, the company would indeed need to achieve "unprecedented" growth, the likes of which have not yet been witnessed in the fast-casual space. This would include the

### CAVA Total Enterprise Value / Revenue



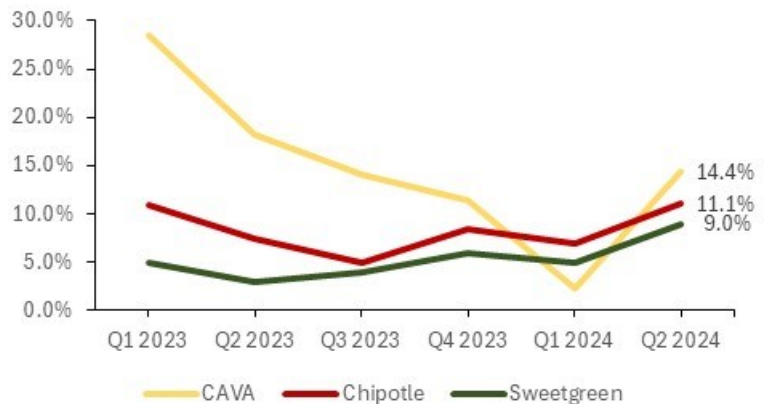
execution of a rapid scaling of new restaurant openings, continued acceleration in customer traffic and same-restaurant sales growth, best-in-class average unit volumes per restaurant, and highly profitable restaurant-level operating profit margins.

### Can CAVA grow into its valuation?

CAVA has already begun to witness a sizeable decrease in same-restaurant -sales growth and customer traffic, suggesting that the brand's novelty may already be beginning to wear off. In fact, Q1 2024 witnessed negative growth in customer traffic while rebounding in Q2.

One factor which may be impacting customer traffic is CAVA's relatively large amount of menu price increases when compared to peers Chipotle and Sweetgreen (see next page). While it's widely known that the restaurant industry at large has had to raise prices to battle inflationary wages and product costs, there is a risk of being too aggressive with price increases, as Starbucks has painfully shown.

### Quarterly Same-Restaurant-Sales Growth



## STOCK DEEP-DIVE - 2024, Issue 1

CAVA's net new restaurant openings have also slowed substantially, with total restaurant growth slowing from 45%, to 30%, and 18% in 2022, 2023, and guided 2024 respectively. This leads to questions on CAVA's true ability to scale the Mediterranean category on a broad level across the United States, with a further limiting factor being the CAVA's existing capital sources for the use of financing the capex and associated new restaurant costs.

When Chipotle was at a similar footprint of ~340 stores, they were opening an annual average of +110 restaurants per year, roughly double the 54 to 57 restaurants which CAVA plans to open in FY 2024. CAVA's goal of 1,000 restaurants by 2032 would imply an average of 79 new restaurants per year.

### CAVA's sheer amount of options is both a blessing and a curse

One of the most enjoyable aspects of ordering from CAVA is the extensive amount of fresh options and toppings available to customers, but this comes at a cost. CAVA offers 42 unique options when building a bowl, with 13 toppings alone (left). By comparison, Chipotle offers 20 unique options.

The heightened number of offerings increases supply-chain and logistical complexity, potentially requires additional labor for food preparation/handling, and presents challenges in optimizing store-level food and packaging expenses. CAVA will be challenged to sustainably match Chipotle's level of restaurant operating margins and supply chain efficiency.



### Key Statistics (\$millions)

	Actual 3 mo. Q1 2023	Actual 3 mo. Q2 2023	Actual 3 mo. Q3 2023	Actual 3 mo. Q4 2023	Actual 3 mo. Q1 2024	Actual 3 mo. Q2 2024	Actual 12 mo. FY 2021	Actual 12 mo. FY 2022	Actual 12 mo. FY 2023	Guidance 12 mo. FY 2024
<b>CAVA</b>										
Same restaurant sales growth	28.4%	18.2%	14.1%	11.4%	2.3%	14.4%	45.2%	14.2%	17.9%	9.0%
<i>Guest traffic</i>	18.4%	10.3%	7.6%	6.2%	-1.2%	9.5%	n.a.	4.1%	10.4%	n.a.
<i>Menu price &amp; mix</i>	10.0%	7.9%	6.5%	5.2%	3.5%	4.9%	n.a.	10.1%	7.5%	n.a.
AUV	\$ 2,547	\$ 2,599	\$ 2,640	\$ 2,639	\$ 2,608	2,689	\$ 2,305	\$ 2,398	\$ 2,639	n.a.
Restaurant-level profit margin	25.4%	26.1%	25.1%	22.4%	25.2%	26.5%	18.3%	20.3%	24.8%	24.5%
End of period restaurants	263	279	290	309	323	341	164	237	309	365
<b>Chipotle</b>										
Same restaurant sales growth	10.9%	7.4%	5.0%	8.4%	7.0%	11.1%	19.3%	8.0%	7.9%	7.5%
<i>Transactions</i>			4.1%	7.4%	5.4%	8.7%		0.9%	5.0%	n.a.
<i>Average check</i>			0.9%	1.0%	1.6%	2.4%		7.1%	2.9%	n.a.
Average restaurant sales	\$ 2,892	\$ 2,941	\$ 2,972	\$ 3,018	\$ 3,082	\$ 3,146		\$ 2,800	\$ 3,000	n.a.
Restaurant-level profit margin	25.6%	27.5%	26.3%	25.4%	27.5%	28.9%		23.9%	26.2%	n.a.
End of period restaurants	3,224	3,268	3,321	3,437	3,479	3,530	2,966	3,187	3,437	3,737
<b>Sweetgreen</b>										
Same restaurant sales growth	5.0%	3.0%	4.0%	6.0%	5.0%	9.0%	25.0%	13.0%	4.0%	6.0%
<i>Guest traffic &amp; mix</i>	2.0%	-1.0%	-1.0%	1.0%	0.0%	4.0%	n.a.	6.0%	0.0%	n.a.
<i>Menu price</i>	3.0%	4.0%	5.0%	5.0%	5.0%	5.0%	n.a.	7.0%	4.0%	n.a.
AUV	\$ 2,932	\$ 2,920	\$ 2,905	\$ 2,900	\$ 2,889	\$ 2,925	\$ 2,623	\$ 2,905	\$ 2,877	n.a.
Restaurant-level profit margin	14%	20%	19%	16%	18%	22%	12%	15%	17%	20%
End of period restaurants	195	205	220	221	227	231	150	186	221	246





## STOCK DEEP-DIVE - 2024, Issue 1

### Where does CAVA go from here?

CAVA's price action brings to mind the fittingly appropriate Greek myth of Icarus, who met disaster after flying too close to the sun. In our opinion, CAVA's extreme valuation makes it an extremely risky investment proposition with little margin for error. With that being said, valuation alone is rarely a catalyst for a change in the trend of share price with growth darlings, and investors who dubbed CAVA to be "expensive" at the \$22 IPO price can only look on in shock as shares now trade \$100 higher. However, valuation is ultimately the element which provides a floor to the share price when the trend inevitably does turn, and we believe that floor for CAVA would be significantly lower than today's levels.

At risk of stating the obvious, it is likely that CAVA's fortunes will turn once it has become clear that the growth story is stalling. CAVA has been averaging quarterly revenue growth figures of ~30% over the last four quarters. Napkin math, this growth has likely been roughly evenly split between new restaurant openings, guest traffic, and price increases.

Price increases of 7% to 10% per year are not sustainable, and we have already seen anecdotal evidence of consumers balking at increased QSR and fast-casual prices. On restaurant count, CAVA should have adequate runway for the time being to penetrate additional new markets. CAVA only recently opened its first Chicago-based restaurant in April and is just now tapping the upper-Midwest region. However, as previously noted, that rate of new restaurant growth is slowing as CAVA is likely to experience increased costs now that it is lapping the Zoe conversions.

This leaves guest traffic as the great open question up for debate. Will consumers tire of the CAVA menu and move on, or does it have the long-lasting staying power of a Chipotle? Time will tell.

As of 8/30/24 (\$ millions)	Public Comps			M&A Comps		
	CAVA	Chipotle	Sweet-green	Chuy's	Buffalo Wild Wings	Panera
<b>TEV</b>	\$ 12,696	\$ 78,973	\$ 3,676	\$790	\$2,862	\$7,597
Restaurants	341	3,530	231	101	638	910
LTM Revenue	\$ 845	\$ 10,663	\$ 649	\$461	\$2,026	\$2,838
LTM EBITDA	\$ 95	\$ 2,142	\$ (40)	\$82	\$256	\$424
<i>TEV per Restaurant</i>	\$ 37.23	\$ 22.37	\$ 15.91	\$7.8	\$4.5	\$8.3
<i>TEV Revenue</i>	15.0x	7.4x	5.7x	1.7x	1.4x	2.7x
<i>TEV / EBITDA</i>	133.5x	36.9x	n.a.	9.7x	11.2x	17.9x
Avg. Unit Volume (\$000's)	\$ 2,689	\$ 3,146	\$ 2,925	\$4,500	\$3,012	\$2,634



## ABOUT FLOOD TIDE CAPITAL MANAGEMENT

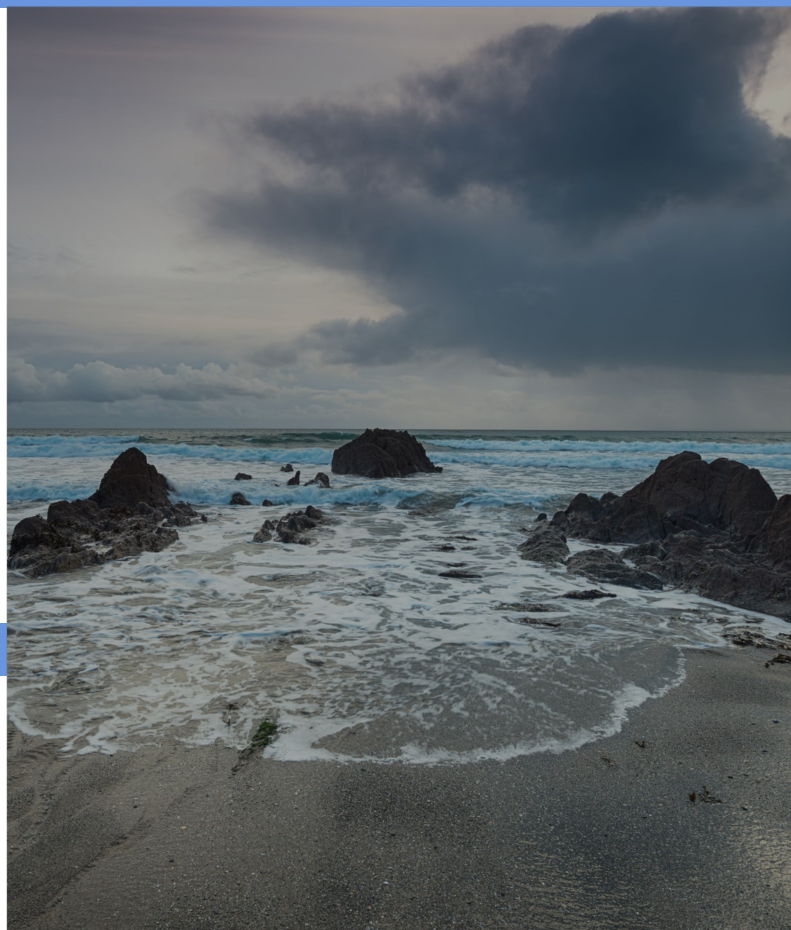
Flood Tide Capital Management was founded in 2024 by co-Chief Investment Officers, William Hyde and Matt Rouse. We take a multi-strategy investing approach driven by fundamentals-based equity investing, developing an edge of insight with a global macro-trading overlay that aims to enhance returns and preserve capital across the business cycle. This approach capitalizes on the unique experience and skillset brought to the table by our founders.

Our inspiration comes from William Shakespeare's Julius Caesar: "There is a tide in the affairs of men, which, taken at the flood, leads on to fortune". This line neatly encapsulates a key component of our investing philosophy: ***market opportunities exhibit ebbs and flows between favorable and hazardous conditions, and that it is up to the skilled navigator to guide the path to fortune.***

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