



Dutch Bros Investment Report

Record unit economics, thirteen straight quarters of positive same-shop sales, and a 48% derating while the business kept beating. The drive-thru coffee compounder, priced for the slowdown.

DalalBytes Research · October 2, 2026 · Reference price \$38.59 (October 1, 2026 close) · NYSE: BROS

DALALBYTES VERDICT

Positive, with a competition watch · 74/100

A best-in-class operator with record unit economics, derated 48% while the business kept beating. The multiple now prices the slowdown, and 7 Brew is the variable. FY2029 targets (DalalBytes estimates): bear \$34, base \$68, bull \$95.

The verdict

Dutch Bros is a best-in-class operator with record unit economics that the market derated 48% while the business kept beating. The operating record through Q2 2026: thirteen straight quarters of positive system same-shop sales, eight straight quarters of transaction growth, four straight beat-and-raise quarters, system average unit volume at a record \$2.115 million for 2025, shop-level contribution margins near 30%, and free cash flow inflected positive in 2025 for the first full year since the IPO. The stock fell from a \$74.02 52-week high to a \$38.28 low on September 21, 2026, not because a quarter broke but because the multiple did: trailing P/E compressed from roughly 156x at the May 2026 print to 54-72x by early October, and price-to-sales roughly halved from 7.2x to about 2.5x forward.

The bull case is the unit-level machine. A drive-thru stand costs about \$1.3 to \$1.4 million to build (down from about \$1.8 million), does about \$2.1 million in annual sales, and throws off roughly 30% shop-level margins, with new shops running at fleet-average productivity. Dutch Rewards touches 73% of transactions with 15 million-plus members, the food rollout reached roughly 750 shops ahead of schedule, and growth is self-funded: \$268.6 million of cash plus \$430.6 million of revolver availability against only about \$198.5 million of debt at June 30, 2026.

The bear case is real and it is not the quarter. System transaction growth slowed to 1.7% in Q2 2026 from 3.7% a year earlier, with ticket (+4.1%) carrying the 5.8% comp: the market reads price-led growth. Beverage, food, and packaging costs rose 80 basis points to 26.1% of company-operated revenue, with a 200 basis point coffee headwind flagged in Q1 2026 and 10% tariffs on Brazilian, Colombian, and Salvadoran coffee. And the format Dutch Bros pioneered is being contested: Blackstone-backed 7 Brew went from 14 units in 2019 to 800-plus across 38 states, posted 41.6% visit growth January to August 2026, topped Yelp's fastest-growing brands list, and outbid Dutch Bros (\$143 million vs \$105 million) for the shuttered Salad and Go drive-thru sites in September 2026.

DalalBytes score: 74/100. Verdict: Positive, with a competition watch. FY2029 targets (DalalBytes estimates): bear \$34 (-12%), base \$68 (+76%), bull \$95 (+146%). The base case says the derating is the opportunity: the business never broke, the multiple did.

The business: a stand, not a cafe

Dutch Bros Inc. (NYSE: BROS) is a high-growth operator and franchisor of drive-thru beverage shops, founded in 1992 by brothers Dane and Travis Boersma as a single pushcart in Grants Pass, Oregon. It went public in September 2021 at \$23.00 per share. Two reportable segments: company-operated shops and franchising and other, with the economics overwhelmingly driven by company-operated units: at December 31, 2025, 811 company-operated and 325 franchised shops (1,136 total), and of the 48 shops opened in Q2 2026, 44 were company-operated.

The core unit is a small drive-thru stand, typically 800 to 1,000 square feet, with drive-thru lanes and walk-up windows and generally no indoor seating. That is the structural cost advantage: a fraction of the real estate footprint and build cost of a Starbucks cafe. Average capex per new shop was about \$1.4 million in Q2 2026, reduced to about \$1.3 million in Q4 2025 from about \$1.8 million a year earlier, driven by standardized formats and build-to-suit leases, which management targets at 60% of the portfolio long term.

The menu is built on extreme customization: handcrafted espresso-based hot and iced beverages, cold brew, the proprietary Rebel energy line, teas, lemonades, smoothies, and a food program that reached roughly 750 shops in Q2 2026 ahead of schedule. Flavored syrups, sauces, milk alternatives, and limited-time offerings produce tens of thousands of possible combinations. The company does not serve brewed drip coffee, removing a costly maintenance-heavy line. Energy drinks skew the base younger and drive afternoon and evening dayparts, differentiating from the morning-peaked traditional coffee shop; Myst Energy Refreshers became a permanent menu item in 2026.

Staff are called Broistas. The model pairs high-energy, conversational service with throughput-optimized operations: data-driven scheduling and labor deployment analytics. Labor cost was 25.4% of company-operated shop revenue in Q2 2026, an improvement of 120 basis points year over year on sales leverage.

\$2.115M record systemwide AUV, full year 2025	~30% company-operated shop contribution margin	\$1.3M build cost per shop, down from ~\$1.8M	73% of transactions on Dutch Rewards (Q2 2026)	1,225 system shops at Q2 2026 quarter-end
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New-shop productivity is running in line with fleet averages, which management cites as evidence against cannibalization despite opening 154 shops in 2025 and guiding at least 185 in 2026. Third-party payback estimates range from under 12 months to 2-3 years; the company does not publish a payback figure. Build cost of about \$1.3 million against a \$2.1 million AUV implies a strong unit-level return on invested capital, which is the core of the growth thesis.

Digital is a genuine edge in this category. Dutch Rewards accounted for 73% of system transactions in Q2 2026 with reported membership above 15 million, and management uses the data for customer segmentation and targeted offers. Order Ahead reached about 16% of transactions in Q2 2026. Food is driving both ticket and transactions, particularly in the morning daypart.

Why it is winning, with evidence

Thirteen consecutive quarters of positive system same-shop sales through Q2 2026, and the company cites a 19-year streak of positive annual same-shop sales. Eight consecutive quarters of same-shop transaction growth: traffic is growing, not just prices, though the Q2 2026 deceleration to 1.7% system transactions is the number to watch. Company-operated same-shop sales consistently outrun system comps (Q2 2026: 8.3% vs 5.8% system), showing the core company-operated engine is the strongest part of the fleet.

The company beat and raised in all four quarters of the past twelve months: Q3 2025 revenue \$423.6 million (+25.2%) with guidance raised to \$1.61-1.615 billion; Q4 2025 revenue \$443.6 million (+29.4%) with 2026 guidance set at \$2.00-2.03 billion; Q1 2026 revenue \$464.4 million (+30.8%) with guidance raised to \$2.05-2.08 billion; Q2 2026 revenue \$550.9 million (+32.5%, about \$25 million ahead of consensus) with guidance raised again to \$2.10-2.13 billion. Revenue growth accelerated from 25.2% to 32.5% across the four quarters.

The inflection to cash generation is the quiet bull point. Free cash flow was approximately \$54 million for full year 2025, the first full positive year since the IPO, then \$84.7 million in Q1 2026 and \$39.9 million in Q2 2026

(+11.9% year over year). First-half 2026 operating cash flow was \$196.9 million (+55%). Growth is internally funded: no equity raise since the IPO.

Loyalty is the moat-in-progress. Dutch Rewards at 73% of transactions gives a data and repeat-visit engine that traditional drive-thru competitors lack, and management has begun paid brand marketing to build awareness in newer markets where the brand is less known.

The honest counterweight: the market derated the stock 48% across four straight beat-and-raise quarters. When the business beats and the stock halves, the disagreement is about the multiple and the competitive future, not the quarter. Price that disagreement explicitly: it is the 7 Brew question.

Financial deep dive

Eight-quarter revenue trajectory:

Quarter	Revenue	YoY growth	System same-shop sales
Q3 2024	\$338.2M	(base)	+2.7%
Q4 2024	~\$342.8M (est.)	(base)	+6.9%
Q1 2025	\$355.2M	+29.1%	+4.7%
Q2 2025	\$415.8M	+28.0%	+6.1%
Q3 2025	\$423.6M	+25.2%	+5.7%
Q4 2025	\$443.6M	+29.4%	+7.7%
Q1 2026	\$464.4M	+30.8%	+8.3%
Q2 2026	\$550.9M	+32.5%	+5.8%

Annual revenue: \$966 million in 2023, approximately \$1.28 billion in 2024, \$1.64 billion in 2025 (+27.9%), with 2026 guidance of \$2.10 to \$2.13 billion (+28% to +30%). Growth is accelerating off a tripling base, which is rare for a consumer business at this scale.

Profitability is scaling with revenue. Adjusted EBITDA: \$62.9 million in Q1 2025, \$89.0 million in Q2 2025 (+36.6%), \$78.0 million in Q3 2025 (+22.3%), \$72.6 million in Q4 2025 (+48.8%), \$302.6 million for full year 2025 (+31.4%), \$79.4 million in Q1 2026 (+26.2%), and \$113.7 million in Q2 2026 (+27.8%), a 20.6% margin. Full year 2026 guidance: \$385 to \$390 million. GAAP net income: \$117.3 million for 2025 (vs \$66.5 million in 2024), \$23.7 million in Q1 2026 (+5.3%), and \$51.6 million in Q2 2026 (+34.5%). GAAP operating margin was 12.8% in Q2 2026, down about 40 basis points year over year on commodity pressure.

Balance sheet at June 30, 2026: cash and equivalents \$268.6 million, revolving credit facility with \$430.6 million available (\$50.0 million drawn), current and long-term debt of only about \$198.5 million, lease liabilities of about \$1.01 billion on continued expansion, total assets \$3.38 billion. Total liquidity of about \$699 million

funds the \$350 to \$370 million of 2026 capex internally.

Valuation at about \$38.60 (October 1, 2026): market cap about \$6.6 billion, enterprise value about \$6.4 billion. Trailing P/E is reported between roughly 54x and 72x depending on source, forward price-to-sales about 2.5x, LTM EV/revenue 3.2x, LTM EV/EBITDA 17.6x. For context, at the May 2026 Q1 print the stock traded around \$72 with a trailing P/E around 156x and P/S around 7.2x: the multiple has compressed by more than half in five months while the business kept beating. Perfection is only partially priced out: at 54-72x trailing earnings, the market still demands sustained high-teens to 20s growth.

Competition

The US branded coffee shop market is approximately \$58.5 billion, and Dutch Bros is the third-largest US coffee chain by sales and locations.

Competitor	Scale (2026)	Positioning vs Dutch Bros
Starbucks	~17,000 US locations; \$37.2B annual revenue	The incumbent. Sit-down third-place model under the Niccol turnaround; higher prices, slower. Dutch Bros competes on speed, price, and energy-drink customization.
Dunkin'	~10,000 US locations	Value and breakfast daypart; lower price tier, less customization theater.
Scooter's Coffee	920+ locations, 32 states; \$859M US systemwide sales in 2025	Nearly pure franchise model. Morning and breakfast skewed vs Dutch Bros' all-day energy positioning. Visits per location up 3.7% Jan-Aug 2026.
7 Brew	800+ locations, 38 states; Blackstone-backed	The direct threat. Same drive-thru-stand format, 20,000+ drink variations, proprietary 7 Energy line. Visits up 41.6% Jan-Aug 2026; Yelp's #1 fastest-growing US brand 2026. Just outbid Dutch Bros for the Salad and Go sites.
Black Rock Coffee Bar	Yelp 2026 fastest-growing #8; publicly traded	Smaller drive-thru competitor in the same Pacific Northwest lineage.

Foot-traffic data shows the drive-thru format as a whole gaining share of coffee visits since 2019, led by Dutch Bros but now with 7 Brew growing fastest. Dutch Bros' own transaction growth (eight straight quarters) indicates it is still taking visits in absolute terms. The open question is whether 7 Brew's site-level sprint in overlapping Sun Belt markets begins to contest Dutch Bros' white space rather than just expanding the category. The Salad and Go auction was the first head-to-head bidding contest, and Dutch Bros lost it on price discipline: defensible, but the sites go to the fastest-growing direct competitor.

Past 12 months: earnings and announcements

Q3 2025 (reported November 5, 2025). Revenue \$423.6 million (+25.2%), ahead of about \$414-415 million consensus. Adjusted EPS \$0.19 vs about \$0.17 expected. System same-shop sales +5.7% (transactions +4.7%); company-operated +7.4% (transactions +6.8%). Adjusted EBITDA \$78.0 million (+22.3%). Net income \$27.3 million vs \$12.6 million. 38 new shops (34 company-operated); 1,081 locations in 24 states. Raised FY2025 revenue guidance to \$1.61-1.615 billion.

Q4 2025 (reported February 12, 2026). Revenue \$443.6 million (+29.4%), ahead of \$424.7 million consensus. Adjusted EPS \$0.17 vs \$0.10 expected. System same-shop sales +7.7% (transactions +5.4%); company-operated +9.7% (transactions +7.6%). Adjusted EBITDA \$72.6 million (+48.8%). Net income \$29.2 million vs \$6.4 million. 55 new shops in Q4, 154 in the year; 1,136 locations in 25 states. Full year 2025: revenue \$1.64 billion (+27.9%), net income \$117.3 million, adjusted EBITDA \$302.6 million (+31.4%), record system AUV \$2.115 million. Initial 2026 guidance: revenue \$2.00-2.03 billion, adjusted EBITDA \$355-365 million, at least 181 new shops. Stock rose 12.3% after hours.

Q1 2026 (reported May 6, 2026). Revenue \$464.4 million (+30.8%), ahead of about \$450 million consensus. System same-shop sales +8.3% (transactions +5.1%); company-operated +10.6% (transactions +6.9%). Adjusted EBITDA \$79.4 million (+26.2%). Operating margin 7.4% vs 8.7% a year earlier on a 200 basis point coffee-cost headwind. 41 new shops; 1,177 locations. Record system AUV \$2.16 million. Raised 2026 guidance: revenue \$2.05-2.08 billion, same-shop sales 4-6%, adjusted EBITDA \$370-380 million, at least 185 openings. The stock fell roughly 10-12% after the print on margin-compression concerns despite the beat and raise: the first sign the market was repricing the multiple, not the quarter.

Q2 2026 (reported August 5, 2026). Revenue \$550.9 million (+32.5%), ahead of \$525.4 million consensus. System same-shop sales +5.8% (transactions +1.7%, ticket +4.1%); company-operated +8.3% (transactions +3.4%, ticket +4.9%). Adjusted EBITDA \$113.7 million (+27.8%), 20.6% margin. Net income \$51.6 million (+34.5%); adjusted EPS \$0.33 vs \$0.29 expected. 48 new shops (44 company-operated); 1,225 locations. Company-operated shop contribution \$156.0 million (+31.9%), margin 30.6% vs 31.1%. Raised 2026 guidance again: revenue \$2.10-2.13 billion, same-shop sales 5-6%, adjusted EBITDA \$385-390 million, at least 185 openings, capex \$350-370 million. Dutch Rewards at 73% of transactions; Order Ahead about 16%; food in roughly 750 shops.

Announcements. Clutch Coffee Bar acquisition (early 2026): \$20 million for the roughly 20-unit Carolinas chain, founded by a former Dutch Bros team member, units being converted; the company's first full-brand M&A.; Phoenix East Valley franchise acquisition (announced about May 2026): agreement to acquire 29 shops from retiring franchisee Jim Thompson, expected to close Q3 2026, converting to company-operated. Salad and Go bankruptcy auction (August-September 2026): Dutch Bros bid \$105 million for up to 65 leases across AZ, NV, OK, TX and declined to raise; 7 Brew's roughly \$143 million bid won, with court approval of a \$123.45 million sale for 63 locations on September 29, 2026 and Dutch Bros' bid as backup. Food rollout accelerated to roughly 750 shops ahead of schedule. A CPG retail-coffee launch via a 50,000-outlet licensing partnership was announced in 2025 for 2026; launch status is unconfirmed in sources reviewed. Analyst actions: Mizuho named BROS its top consumer pick for 2026 (May 2026); Goldman Sachs issued a Buy upgrade (mid-2026); Melius cut its target to \$70 from \$95 and TD Cowen to \$59 from \$73 (September 2026).

Risks

- 1. The multiple still prices a lot.** 54-72x trailing earnings after a 48% derating. If growth decelerates toward the mid-teens, the multiple has further to fall.
- 2. Traffic deceleration.** System transactions slowed to 1.7% in Q2 2026 with ticket carrying the comp. If this is saturation rather than noise, the growth story reprices.
- 3. 7 Brew.** The direct threat: same format, faster unit growth, Blackstone capital, and a willingness to outbid Dutch Bros for sites. The competitive intensity of 2027-2029 is the central variable.
- 4. Commodity and tariff pressure.** Beverage, food, and packaging at 26.1% of company-operated revenue (+80 bps); 200 bps coffee headwind in Q1 2026; 10% tariffs on key coffee origins. The 30% shop-margin target is under pressure.
- 5. Execution on 2,029 by 2029.** Roughly doubling the footprint in three years with \$350-370 million of 2026 capex. Site-selection quality at this pace is the operating risk; Eastern markets via the Clutch acquisition are unproven.
- 6. Discretionary exposure.** Premium beverages are deferrable in a consumer downturn.
- 7. Geographic concentration.** The footprint remains West and Southwest heavy; newer markets are unproven at scale.

Valuation: three lenses

Lens 1: relative and historical. At about \$38.60, Dutch Bros trades at roughly 54-72x trailing earnings and about 2.5x forward sales, down from about 156x trailing and 7.2x sales at the May 2026 print. The derating is the opportunity and the warning: the market cut the multiple in half without a broken quarter, which means further deceleration gets punished again.

Lens 2: unit economics. A \$1.3 million build doing \$2.1 million of sales at 30% shop margins generates about \$630,000 of annual shop-level contribution: roughly a 2-year cash payback before considering ramp. That is elite unit economics in consumer, and it is why the 2,029-by-2029 plan is fundable internally.

Lens 3: scenarios. FY2029 targets (DalalBytes estimates): bear \$34 (-12%), base \$68 (+76%), bull \$95 (+146%). Bear: traffic stalls, 7 Brew contests the Sun Belt site-for-site, comps flatten, shop growth slows; about \$3.0 billion of 2029 revenue at a 10x EBITDA multiple. Base: the 2,029-shop plan executes, AUVs hold above \$2.1 million, revenue of about \$4.0 billion in 2029 at a 19% EBITDA margin (about \$760 million), valued at 15x EV/EBITDA, a discount to today's 17.6x. Bull: clean execution, AUVs rising toward \$2.3 million on food and Order Ahead, revenue of about \$4.5 billion at a 20% margin (about \$900 million EBITDA) at 18x, with the market paying up for a proven compounder. The bear case is a multiple event; the bull case is an execution story. The base case remains the highest probability, which is why the verdict is Positive, with a competition watch.

What would change the verdict

To the upside: system transaction growth reaccelerating above 3% for two straight quarters, 7 Brew's unit growth slowing or Dutch Bros winning head-to-head site contests, shop-level margins holding 30% through the coffee-cost cycle, and the 2029 pipeline converting on schedule. Any two of these upgrade the moat pillar and the score. To the downside: system comps turning negative, 7 Brew visibly contesting Dutch Bros' white space in overlapping markets, a cut to the 2029 shop target, or traffic declines forcing discounting that breaks the premium price architecture.

Sources

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All figures DalalBytes research estimates unless attributed; market data as of October 1-2, 2026.

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