

Seeking Alpha^α

Transcripts

Consumer

Shake Shack Inc. (SHAK) Presents at UBS Global Consumer and Retail Conference Transcript

Mar 11, 2026, 12:02 PM ET | **Shake Shack Inc. (SHAK) Stock**

**SA Transcripts**

159.2K Followers



Shake Shack Inc. ([SHAK](#)) UBS Global Consumer and Retail Conference March 11, 2026 9:00 AM EDT

Company Participants

Robert Lynch - CEO & Director

Conference Call Participants

Dennis Geiger - UBS Investment Bank, Research Division

Presentation

Dennis Geiger

UBS Investment Bank, Research Division

Good morning. I'm Dennis Geiger, restaurants analyst at UBS, and I'm pleased to be joined on stage by Rob Lynch, Shake Shack's CEO. Also in attendance Alison Sternberg, who runs Investor Relations.

Shake Shack is a modern-day roadside burger stand with over 400 domestic locations and over 230 international locations. Shake Shack maintains one of the industry's largest growth opportunities and a robust global unit development opportunity, a focus on digital and menu innovation, and a margin expansion story, even in an elevated cost environment. With that, Rob, thanks so much for being here. We appreciate it.

Robert Lynch
CEO & Director

Thank you, Dennis. I'm super happy to be here.

Question-and-Answer Session

Dennis Geiger
UBS Investment Bank, Research Division

Great. Terrific. So maybe let's start, Shake Shack had another really strong year in 2025, off to a very strong start again in 2026, strength across both the top line and the bottom line. Could you kind of first talk about the top line momentum in the U.S. that you've been seeing? And how you're thinking about maintaining that top line momentum going forward?

Robert Lynch
CEO & Director

Yes, for sure. It's been really exciting to see the business resilience given the type of weather we've had in the last 3 months. And I keep saying, I want to stop using the W word, but it just keeps coming back and coming back, especially with our footprint as it sits today. But I might surprise you by saying the thing -- the most foundational thing driving our top line performance is our operation. We have spent an inordinate amount of time building an operations capability that it shows up a lot on the margin and the bottom line.

But what people may not necessarily always take account of is operation is a foundation of sales growth. If you send your guests to the restaurant, and you have a throughput issue, obviously, that's costing you sales at that moment, but it's actually costing you more in lifetime value of that guest because the time that it's going to take them, the experience they're going to have is going to decrease their frequency. And we've seen that a lot on our business in the past, where we open new restaurants. We have a huge clamoring, whether it's in New York or now in our new markets, a huge number of people show up and they have an experience that they love the food, but it took them 30 minutes, especially when we started opening drive-thrus.

So the biggest unlock for our sales growth has been our operational improvement. And there's the process improvement, but there's also a lot of other things that we're doing that are going to continue to be a solid, sustainable growth engine for us. I'll talk about some of the -- right now, we're developing new packaging. This brand went through a really tough time in the pandemic, everybody did in the short term, but for this brand, which was dine-in only back then, they had to make a lot of tough decisions just to survive. And I give them all credit.

I think there's some talk of us taking some quality out because we've improved our supply chain or taking labor out. Well, a lot of that -- a lot of things were done during the pandemic for this brand to take some cost out because the margins got impacted in such a bad way. We're actually looking at everything across our supply chain and our operations to deliver the absolute best quality we can possibly deliver.

So we're actually adding cost in, in a lot of regards, packaging being one of them, ingredients being one of them, another, time. We're still focused on decreasing our speed of service. Yes, we increased our cook time on our fries 15 seconds, just to make sure that they're crispy and golden brown because fries used to represent 30% of our guest complaints, and today, they're less 10%.

So I tell you all that because it really is the foundation and the sustainable part of baseline volume sales growth. You have bad operations, you can't grow. We can -- I can tell you probably what the question was more focused on, like the marketing and stuff and I'll talk about that. But you can only invest in marketing when you have confidence that those investments are going to deliver return. And it's not just about driving foot traffic that day when you turn on an ad or you send out a promotion, it's about the lifetime value of that guest.

And so when -- given our -- we're comfortable in our operations, we are delivering great margins, now is the time where we can make those investments with confidence, and we are making those investments. We're making them across a lot of different platforms. So paid media, first time ever we've done top of funnel media. Really, all the marketing that has been done at Shake Shack in the past has been very low-funnel, conversion type of marketing that is really just about search and getting people with an offer to come in and trigger it that day.

Like we're actually investing and creating the positioning of the brand in the marketplace because we believe that we are an N-of-1. Like we believe -- and I used to talk to my friend who ran Chipotle for a long time and he'd say, "Rob, we're an N-of-1, we don't compete with anybody". And I may not have that point of view, but we really believe that we have the best food in the world, and we are a different experience. When you go to Shake Shack, you feel different than when you go to traditional QSR.

So we believe that if we bring people in, we take care of them, they're going to come back and it's going to create lifetime value. So that's all about the top funnel media. But the biggest thing that is driving our traffic right now is our \$1-\$3-\$5 promotion in our app. And people are like, well, is it the right guess? Are you just buying the traffic? Like it's absolutely the right guess. Our app adopters are highest lifetime value adopters. They have the highest frequency. They have the highest check average. So we are leveraging our highest-margin items. So when we promote drinks at \$1, fries at \$3, we're still making money on that.

So it may be a bit -- a little bit margin dilutive, but it's profit accretive. So we're making penny profit while bringing in people into our most valuable ordering channel. And I'll tell you, I've been in marketing for a long time. I can't believe how effective it's been. Our traffic on our app since we launched is up over 50%. The guests that are coming in, this is what refutes the idea of like these are just value users that you're buying. Our guests that are coming in, we're already seeing a significant increase in frequency, 900 basis points increase in frequency since we launched this in the app.

So it really is about the foundation of operations, and then you layer on these things to bring in people to a great experience with great assets and that's the recipe for long-term sustainable sales.

Dennis Geiger

UBS Investment Bank, Research Division

Terrific. A lot going on, and I want to unpack some of that, Rob, but that's a great start here. Let's focus on innovation, menu innovation. You've done a tremendous amount since you joined the brand. Maybe can you comment on Shake Shack's LTO strategy for those in the audience that maybe are a little bit less familiar, already seeing very good success with that strategy, and perhaps anything on the high level on how extensive that menu pipeline is for 2026 and beyond?

Robert Lynch

CEO & Director

Yes. I mean Shake Shack has always done LTO and has always been about culinary innovation. I mean, that's been kind of their bread and butter. I know that everyone loves the burgers and that's our core, but Shake Shack has always been a culinary forward recipe-driven innovator. And part of that is because everything we make is made to order. So when we bring an LTO, when we bring culinary innovation, it's not as disruptive to the assembly line because we don't necessarily have an assembly line, right? It's a lot harder for some of our larger scaled assembly line, assembled food, QSR competitors to do innovation because it has to fit in their assembly line.

When we launch innovation, so I learned this at Taco Bell, that's where I started in the restaurant business, where they were launching 12 LTOs a year, fast-cycle innovation, never seen anything like it. I started at Procter & Gamble. We did a lot of innovation. It was nothing like Taco Bell. I took that model. I brought it to R-B. We turned R-B around with innovation. We're doing that here, but we're not doing it at the same thing. Like we're launching big protein, big sandwich innovation, 3 or 4x a year.

Some of those are going to be evergreen, tried and true like we have the Korean menu in right now, which always does well for us. The truffle is always going to be something that we bring back on a regular basis. Some of those are going to be new to the world. We've got a new to world innovation coming in Q2 that I am so excited about. I cannot wait. This is being webcast, right? So this is public domain, so putting it out there.

And then we do supplemental innovation, I call it supplemental, which is such a weird word, but it's not like the focus of our LTO, but it's amazing when you hit that right, what it can do because there's a lot of incrementality in that supplemental innovation. I'll use the Dubai Chocolate Shake as an example of that. That was something -- I was actually in Dubai, and they brought it out and they're like, 'Look, we've built this thing'. It's going to -- and I'm like holding it and I start cracking, I'm like, 'Oh, my, there's a marker', I was like a kid in a candy store. So now we've taken that innovation, and we've built a whole platform around it, right?

So we had the True Love Shake for Valentine's. We're going to have an amazing Halloween crackable shake. So those are not going to be the thrust of our LTO calendar, but they're definitely complementary and very incremental. And then lastly, what I'll tell you about product innovation, and I'm the first to admit when I screw up, and I screwed up a little bit in Q4. We launched Big Shack, which was an amazing hit. We had sold a ton of them. And I was like, okay, great.

Like when I launch innovation, I want it to be a mix benefit, right? I want people trading up. So that reduces your need to take pricing. And you can get people to self-select out of lower-priced things and the higher-priced things because they want to versus charging the same people more for the same stuff. That's a very healthy model. That's been my model, my whole career.

So I launched the Big Shack and huge demand for it, but I priced it at \$10 and did that for a reason, \$10 is kind of a threshold. I want everybody to try it. We're so excited about it. And I anticipated a lot of people trading up from a \$8 single Shack burger, and that would be mix accretive and profit accretive. And what we saw was that we had a lot of people trade in from the double and we -- our double prices range anywhere from \$10 to \$14. So we had a little bit of mix dilution in December because of that.

I learned from that. I should have -- I learned it 15 years ago and I shouldn't have made that mistake. But moving forward, like our intention is to bring premium innovation across the shakes, across the beverages, across our sandwiches and burgers and proteins and sides where we are going to allow people to self-select into premium products, which will drive mix benefit, which will further decrease our reliance on pricing.

And I just want to make that point now. We are doing everything we can to improve our value equation. And I've always thought of the value equation as B equals benefits over price. That's what P&G teaches you, right? Here, I talk about it as B equals, EH over price, enlightened hospitality. And everything in enlightened hospitality goes into that numerator. So whether it's your product quality, whether it's your culinary innovation, whether it's the hospitality that we deliver, that all goes into that numerator, right?

And obviously, the denominator is price. And we are doing everything we can to be as fiscally disciplined corporately in our supply chain and our operations. So we don't have to take price. And we took less price last year than we've taken in the last 5 years. And we talk about it as 4%, and that's kind of what the base increase was, but we also increased our promotions and our discounts, the battle for the traffic in that -- in the industry. And so our net pricing was actually only 3%. And this year, we're talking about kind of trying to get to about 2% with net pricing would probably get us down in around 1%.

So we have been able to mitigate -- not only mitigate the highest level of beef inflation that we've seen in 20 years, while taking less pricing. We've actually -- we actually drove 120 basis points of margin growth last year. So we are going to stay disciplined in our operations. We are working hard on our supply chain, and we are going to hold on our pricing while delivering all these additional things into that numerator to improve our value equation and take share from the competitors.

Dennis Geiger

UBS Investment Bank, Research Division

Terrific. I want to pivot for a minute just as you talked about the price piece there and the mix. And just again maybe for a reminder for those that are less familiar how you think about that breakdown of the comp going forward between the traffic and the price and the mix, sort of what the target looks like for you guys going forward?

Robert Lynch

CEO & Director

Yes. I mean we have a long-range guide of low single-digit comp growth. I didn't come here to do low single-digit comp growth, like we aspire to do a lot better, and we're working every day, but that's right now where we see our forecast. And the composition of that comp is call it, 1% to 2% pricing, 1% to 2% mix improvement and 1% to 2% traffic. So if all those hit on the high end, then we have the greatest year ever. If all those hit kind of on the low end, then we deliver kind of 2-3%. And if I can take 0% pricing, I will.

Now that being said, we have pricing power. We have not seen significant traffic decreases when we take in our pricing. We took pricing back in December, and we have really strong traffic in Q1. So we have a great deal of confidence in our ability to take pricing if we see other unforecasted inflation. But we're doing so much in our supply chain right now that we have a plan to mitigate all of this beef inflation. And so this is -- if anybody -- if people could take something away from this, hopefully, you take it all the way, but one of the biggest bear cases for our stock right now is beef prices.

I would tell you that that's the biggest bulk because we've mitigated all of the beef inflation. We've delivered margin growth while dealing with all of this inflation. And anybody who's been in this business long enough knows they're called commodities for a reason, right? They go up, they come down. As the supply goes down, the prices go up, the supply goes up, the prices go down. And I don't know when that's going to happen. I don't know what the next war is going to be. I don't know what screw worm is doing in Mexico. I'm not down there on the order kind of checking that out.

But like I do know that at some point, there's going to be incentive for ranchers to raise more cattle. And it's right now if they can do it. But as that happens, the beef prices are going to come down. And we are going to flow all of that through. Now we're going to make decisions on how much of that would drop in the margin and how much of that we reinvest in top line growth because I think there's a huge amount of continued potential in driving our top line.

And these last 3 quarters where we've grown traffic, the first time we've grown traffic for 2 quarters in a row in the back half of 2025, and I think since 2021 when everyone was growing traffic because there were \$7 trillion to be spent. That is a testament to the marketing we made, and we're just like dipping our toe there. It's the least amount of marketing I've ever had to work with in my career, but that's what makes it interesting, right?

Just trying to figure that out. So as those beef prices come down, we're going to have a great opportunity to determine do we continue to flow that into our restaurant margins? Or do we reinvest that back into the business?

Dennis Geiger

UBS Investment Bank, Research Division

Let's talk about marketing maybe because that was a big kind of initial focus last year as you ramped that some and great results in the back half of the year, as you mentioned. How do you think about marketing as far as leaning in more on the marketing side? What's the potential longer term as you think about the marketing opportunity for the brand?

Robert Lynch

CEO & Director

So we have to earn it. Like marketing is a privilege, not a right. So we have to grow our revenue and grow our profit in order to have the investment. We don't have a franchisee marketing fund to go out, right? It comes straight out of our P&L. So every dollar I spend has to deliver returns. And those may not be like returns that day, but returns on bringing in people who create lifetime value, right? So -- and we look at it from top to bottom. Some top funnel stuff that has lower return on advertising spend today but can create greater long-term returns and looking through the funnel at the conversion cycle and where we do things to drive traffic that day.

So the other thing about the marketing is hit my G&A line. And so I get tagged with this G&A growth guy, right? And look, once again, this is an amazing brand that Danny started and built this beautiful thing. And the fact that this company persevered through the pandemic is a testament to the leadership in place at that time, but also need to recognize that while it's scaled, it's scaled with the people who kind of built the company. They didn't have a lot of the processes and capabilities and infrastructure necessary to get where we aspired to be.

So my G&A line is a reflection of investments in operations, which we are -- have gotten 100x return on, investments in supply chain, which we are -- which is making the year for us this year with the beef prices, investments in marketing, which is driving our traffic, investments in tech. I mean, we have an unbelievable CIO that has changed the game for us. I hired him, it's been about a year now, and he is a get things done -- a lot of tech people are like, "ah, it takes so long. Oh my gosh, it's going to cost so much. How are we going to resource this, we're going to have to not do this to do this".

This person is like, "show me the problem, and I'm going to show you how tech's going to solve that ". So we've invested in our technology platforms and our people. So yes, my G&A is inflated versus when I got here. But we have built the foundation. We've built the model. I committed in the last earnings call that '26 will be the last year that, that happens. We have the plan in place. We will start to get leverage in '27, and we will continue to deleverage moving out as our revenue grows even faster and we hold and don't have to build out these incremental capabilities.

So I tell you all that because marketing is a function of G&A. Right now, we're planning for -- to be between 2.5% and 3% on a run rate basis. We see that we're getting great returns, it will probably be up near 3%. If we see that we're getting less, it may drop below 2.5%. But that's kind of the target. And the amount that the marketing will grow every year will be dependent upon the amount of revenue growth that we drive. And the thing that makes it really excited -- sorry, the thing that makes me really excited is we're going to drive a lot of revenue.

Because the #1 driver of revenue growth is new store opening. And you may have a question for that when we get deeper on it, but like we're going to open -- we opened 45 Shacks last year. It's the most we've ever opened in a year. We're going to open up 55 to 60 this year. That will obviously be the most ever, and it's just going to keep going because we also invested G&A in building out that capability. Our real estate teams, our design teams, our construction teams, all in place, all executing in an unbelievable level.

We took 10% of our costs out of our restaurants last year, where we went from \$2.2 -- it's gone from -- in 2 years, we've gone from almost \$2.5 million to \$2 million in a period, I don't know if any of you are building any structures lately, but it's not a deflation environment in construction. And we have decreased our costs dramatically, increasing our cash-on-cash returns because margins are up, revenue comps and revenue are up, costs are down.

Like if this was a private company, that's the biggest story. I mean, that's where we -- our return on invested capital is just going through the roof, and that's exciting, but it's also exciting because it's driving a ton of revenue, which will then allow us to increase our marketing investments on -- while keeping the rate the same or even lower which will drive even more top line growth.

Dennis Geiger

UBS Investment Bank, Research Division

I want to unpack the development opportunity in a few minutes as well, of course. Let's tap it maybe over just to the macro, lots of focus, obviously, from investors there. Shack's done extremely well in a difficult macro, very resilient versus most in the industry. How are you thinking about the macro and where we go from here, how it impacts the brand? And maybe on that stimulus question, anything that you're thinking about on the stimulus side of things, how it impacts your customer and potentially your business this year?

Robert Lynch
CEO & Director

Yes I think I know, given Shake Shack's history, we always had a kind of over penetration in New York, L.A., Miami, Chicago, and that's always created -- it's wonderful and it's challenging at the same time. Obviously, the weather in the Northeast this year has disproportionately impacted us, which is why I'm so excited about doing 4.3% in January. But it also can color your lenses on value and pricing because when your whole executive team is in New York and most -- a lot of your Shacks and revenue are in New York and Los Angeles and Miami, you start thinking like, hey, a \$10 burger isn't that big of a deal, right.

I'm from Pittsburgh, Pennsylvania. Like nobody at Pittsburgh wants to spend \$10 for a cheeseburger. So like -- I like to think that -- I am sorry. It's an amazing burger. It's the best burger in the world. So -- but -- and also in a lot of these markets, these expansion markets, we haven't necessarily told our story as well like historically. So people don't necessarily know that we use 100% Angus, no hormones, no antibiotics. And if I'm being honest, some of those people don't really care about that. They just want a great tasting burger that fills them up for \$10 or less, right?

And so we are really focused on going into these markets and diversifying our footprint, which is really important for us. And I think historically, the belief there is that we couldn't do it because of our price points and our cost structure and all those things. We've proven that we can. I mean we are succeeding in this macro environment in Rochester, New York; Pittsburgh, Pennsylvania; Oklahoma City, Oklahoma, like we're going into markets that people never thought there'd be a Shake Shack and blowing it out of the water.

So we have a lot of confidence that we can go into these markets. And even though the household incomes are a bit lower, we believe that we're creating value, not necessarily we've got the right price for these folks, but we've got the right value equation. Our Shacks are beautiful that we're opening up, our hospitality is on point. Our price points are -- we're holding on them. We're giving promotions and incentives to bring the right people into the Shacks. So these macros have been challenging for everybody, and there's been this value war and to a certain extent, we're a little insulated from that because of our current footprint, right?

We have New York and L.A., higher household incomes. Everyone knows the higher-income folks are doing a little better and spending a little bit more. But we don't want our brand to be an exclusive brand. I'm not the marketing guy that says, "I need an exclusive lifestyle brand". Like our company started in a park, raising money for charity with an art installation. Like if that's not inclusive, like I don't know what it is. Everybody had to wait in line for those burgers. I get stories from every -- people that are billionaires telling me about the stories about waiting in Madison Square Park.

Like we want to create an inclusive company where everyone in the world can come and experience the best food in the world. That we truly believe that we sell the best burgers, whether it's taste or quality. And so I want everyone to be able to experience that, whether you're in New York or Oklahoma City, and that's why I focus so much on getting that value equation.

Dennis Geiger

UBS Investment Bank, Research Division

And just diving into that a bit, and you talked about \$1-\$3-\$5 earlier and how successful that's been. How do you think you are positioned on value now? Between the \$1-\$3-\$5 and everything you talked about earlier, are you where you want to be from a value perspective? Do we see a bit more in the way of new value strategies this year? Or for the most part, are you pretty comfortable with how you're positioned where the scores are and what the strategy is?

Robert Lynch

CEO & Director

Yes. I think that's another thing. A lot of people talk about like, "Oh, my gosh, Shake Shack is doing discounting. That's not Shake Shack and they were just buying traffic or something like that". But we sell 10% of our business on discounts. The average in QSR is 25%, and that doesn't even count combos, right? I mean everyone in here knows that drive-thru business is all combos. They don't count that in that percent discount, even though there's a discount applied to combos.

So like we're at 10%. We are doing it in a surgical strategic way. We didn't come out and say, "Okay, McDonald's doing \$5 meal deals. So we're going to do \$5 Shack burger" and crater our business and that on the comp, that our traffic was going to offset the check decrease and the margin impact. Like we went out and we figured out a way to deliver a promotion that drives an inordinate amount of traffic without cannibalizing our core business.

So \$1-\$3-\$5 has -- and while it's doing that, it's laying the foundation for future lifetime value. And every one of those new app users is going to seamlessly move into our loyalty platform that we launched at the end of the year. So we are going to have loyalty, there will be an incentive structure in that loyalty. So we're going to continue to use the right level of tactical surgical promotions and incentives to bring the right people into the restaurants because we believe when we get people there, they're going to keep coming back because we have the best food and now it doesn't take 10 minutes to get a burger.

Our service times have gone from over 7 minutes to under 6 minutes in the last year. And we are never going to be as fast as QSR because we make everything fresh when you order it. It takes 3 minutes to cook a burger. So -- but all of those things are contributing to a great guest experience that if we -- the more people we drive in, we know it's going to be sticky. We know that they're going to come back and our frequency is going up as a result of that. So we'll use the right amount of incentives to make sure we get the right amount of traffic.

Dennis Geiger

UBS Investment Bank, Research Division

Anything else on the loyalty side of things, to your point there, for those of us that are high-frequency users? [indiscernible] any thoughts on initial benefits yet? Or it's a little bit early and there's not a whole lot more to say on the loyalties?

Robert Lynch

CEO & Director

Yes. I would say it's still early. The only thing I would say is that my vision for our loyalty platform is that we can deliver enlightened hospitality through digital. Like I don't want it to be just applying like points to an app. We already have or just discounting and sending e-mails, who needs another e-mail. Like it really is -- I really want to find a way to build a comfortable connection with our guests. And so loyalty, I think you have to have an incentive structure. I don't know if anybody in here has kids or teenage kids, I have 3 teenage kids. They're like, "Dad, like we love Shake Shack, but you got to give us some points. We don't go places that don't give us points".

And I'm like -- and these are not like super price-sensitive kids. So trust me. They are at college and I'm getting DoorDash 3 times a day. So yes, so we are -- I want it to be a connection point. That's kind of the essence of our company and where we started and - - so if it just becomes transactional, we will have failed. And I've laid down the gauntlet and told everybody we're launching it this year. So it's hard because we could pop in a points-based program and we'll start to see some traffic improvement or what have you, but I don't -- that's not good enough for us. We have to build that connective tissue with our guests to create that lifetime value.

Dennis Geiger

UBS Investment Bank, Research Division

Great. Makes good sense. One more on same-store sales, and I want to shift over to development. Maybe just as it relates to 1Q guidance, you had a terrific January, as you mentioned, even with the weather pressures. February sounds like it's off to a really good start as well. Anything more to kind of highlight, you touched on it a little bit earlier around the strength that you've seen so far year-to-date and kind of where we go from here given the strong start to the year already?

Robert Lynch

CEO & Director

Yes. I mean I would just tell you our guidance, look, there is nothing but volatility right now in everything. I mean I'm really excited that we've been able to deliver consistent, strong traffic growth, consistent strong margin growth. We do a lot of heavy lifting every day to make sure that happens. But I'm also just aware, we gave that guidance before what happened last week. And the week before that, it was Mexico and like all these things.

So we're trying to be transparent and our beliefs on what the business can do, but we're also trying to be cognizant of the fact that we're not in control of everything that impacts our business. I've got a lot of questions on gas prices. What's that going to do to your business? You're a high premium priced burger shop. I actually think we're insulated more from the gas prices because of our footprint. Out drive-thrus is only 10% of our business. Drive-thrus is 80%, 90% of the business for a lot of the QSR folks. So we don't have a lot of drive-thrus and people in New York and -- Los Angeles everybody has a car, but people in New York don't necessarily have a car.

Like -- and we are at the higher income group. So I do think that the gas prices, there's always been a correlation between QSR and gas prices. If you go back and look at when gas prices are high and how our brand performed, we've always kind of done well. So -- but it's just another example of the volatility that it can't be foreseen, so we're trying to be transparent, but we're also trying to be conscientious of the volatility.

Dennis Geiger

UBS Investment Bank, Research Division

Perfect. Shifting over to development, and we talked about some already, but as you mentioned, doing more new opens this year than last and last than the prior year. How about on the TAM side of things on that 1,500-plus TAM on the company-operated Shack side of things. Just talking about the confidence there, you talked about going into some of those smaller markets, et cetera. But just kind of sharing thoughts on returns and what gives confidence to that sizable number and the long runway that you still got to reset on?

Robert Lynch

CEO & Director

So I have 100% confidence, not even -- not a shred of doubt. And I want to see that come to fruition while I'm still here, and I plan to end my career here. So this brand can go into every market and be successful. And right now, the work that we've done on creating a spectrum of formats affords us the opportunity. They not only to go into every market they go into every piece of real estate. Meaning we can go in and build a 2-acre pad next to Chick-fil-A and Raising Cane's and run double drive-through or we can go into a street side, walk up, shop with a storefront with a limited dining room and do primarily takeout and delivery.

Like we have all of those formats. And now we've built a standard kitchen, that works. And I know it sounds crazy, but we've never had that. Like every Shack that was built in the past was some different, fit it in here, do it in here. We'll make this work when we open, like literally. And once again, that's not disparagement. I have nothing but respect for everybody that came before me. It's just the model is different. And so now as we look to scale to 1,500 plus, like it needs to be -- we need to balance standardization and customization.

And our kitchens need to be standard. We need to be able to train one GM in one kitchen. And if they move to another restaurant, they shouldn't have to learn the kitchen all over again, like they need to show up and know how it works. When our new opening -- when our opening restaurant teams come in, everything is set up, they know how it works. That's never been that way. So our flows, our processes are all going to improve once we launch this kitchen at the end of this year.

And that gives us like an engine to go out and build these things everywhere rapidly at lower cost. And -- but I also mentioned we're balancing customization. So the dining room needs to feel like Shake Shack. It's not -- can't feel like a standard box. I talk about clean, comfortable, cared for, right? Whether it's brand new or 20 years old, got to be clean, got to be comfortable, got to look like it's cared for.

Everything doesn't have to have fresh coat of paint on. Sometimes you walk into a restaurant, it's not like all white and bright, and airy and it feels warm like that's amazing. They have a lot of Shacks like that. And there was like a little bit of idea, well, we need to go remodel these Shacks and make them light and bright. I'm like, "No, you don't. Go over my dead body". When I walk into the Shack in Atlanta that is -- has all the beautiful wood on the walls, music playing and TV up there with Sports Center on. I'm like give me -- never forget, it was my first experience, Korean chicken sandwich, and a pomegranate [indiscernible]. I'm like, "Man, this does not feel like QSR, I want to do this".

Anyways, I'm sorry. So I off tracked there, down memory lane. But development look, with the TAM 100% confidence, we've got multiple formats, give us access to real estate everywhere. We've shown that we can make money at different levels of AUV given the different formats, our cost structure to build is down. Now I want to also make -- I want to make everyone aware the cost to build will be something that we evolve how we report because as we do launch these new formats, like this year, we're going to build more drive-thrus and the year after that, we're going to build more drive-thrus and the year after that we're going to build more drive-thrus, and they cost more.

So you may see the average cost go up, but that's because of the mix of the format. It's not because we've gotten sloppy. So my challenge to my team is like, look, "Don't worry about the mix. If we get great real estate, don't worry about our average cost going up". We'll report out average cost by format. So people can see that we're still disciplined and still driving cost out for each of these different types of units. Let's put the Shacks where they need to go that are going to work.

And so when you couple that lower cost and better operating kitchens, higher margins, which we've committed to 50 basis points again this year, despite the inflation and comp sales growth, like the returns just I mean you can't invest your capital better than what we're doing right now. So yes, the development is the thing that nobody really talks about, but if you're underwriting this business as a long-term investment, I mean that's the engine.

Dennis Geiger

UBS Investment Bank, Research Division

To that point, and you just talked about the importance of the restaurant itself and then the dining room itself, and speaking from experience, you know the kids love eating in the dining room. But there are times where, "Hey, would, that drive-thru would be really convenient"? You touched on it a little bit. But just how you think about the drive-thru, how that's gone so far and sort of what the potential is? Clearly, if you can figure this out and you're starting to, this can be a big unlock, it feels like it's all development and...

Robert Lynch

CEO & Director

For sure. Last year was the first year that the drive-thrus delivered incremental revenue. So for 3 years, we have been building drive-thrus that cost more that didn't deliver any revenue above kind of our core Shacks. The reason was because we didn't know how to operate drive-thrus and the experience is terrible. We were looking, when I got here, pick at times, I don't even want to disclose. The most improvement in speed of service has happened in our drive-thrus.

So we -- despite our restaurants and our legacy drive-thrus, not the kitchens, not necessarily being built correctly to flow everything to the distribution point at the window. They're still making all that product. Our new standard kitchen for our drive-thru blows everything to that window. So we're only going to get better. So we have a lot of confidence in the drive-thrus, in making the investments, the incremental investments to build a drive-thru, which will deliver commensurate returns with our core business.

Dennis Geiger

UBS Investment Bank, Research Division

Great. You touched on margins a few minutes ago, driving great margins this year targeted despite all the inflation that you're seeing. So maybe we could talk about some of the key initiatives, some of the key buckets where you're getting the savings? I know you touched earlier on the quality hasn't actually gotten worse. It's actually improved even as you're kind of finding these savings opportunities. So can we just talk about that the margin opportunities and how you look at it this year and over the coming years?

Robert Lynch*CEO & Director*

Yes. So '25, the cost mitigation happened in the restaurants on the labor line. We just got way more efficient with how we allocate our labor, now over time, consistent attainment, all those things led to significant flow-through in the restaurants. On the supply chain, we have done a lot of work on the procurement side. We've RFP-ed almost every major ingredient. We brought in new suppliers that increases competition. And I'm a sports guy, played sports my whole -- competition makes you better.

And the competition we've created in the supply chain has improved our quality because we've got new suppliers bringing new ideas and new capabilities. It's significantly derisked our business. When you have a single source of supply, they get hit by a cyber attack or something happens like you are left standing there without a solution. And the outcome of all that is we've also increased the competition driven down costs. So we are mitigating the inflation this year with procurement savings through the supply chain, but make no mistake, there is an absolute baseline of bringing on any new supplier needs to at least hit our quality threshold.

There cannot be a decrease in any of our quality of any of our ingredients. If there's an increase, wonderful, we look for that, but no decrease in the quality of our ingredients. So that's procurement. Moving forward, we're just scratching the surface on our distribution and logistics and freight. That's been managed the same way since we had three Shacks. We have 400 company Shacks. So obviously, it's more productive to [review] to our company today than it was back then.

So we should be driving value from the productivity of that. But also, we should be getting better fill rates, better service levels. As we penetrate these markets with more restaurants, it becomes easier to get full truckloads to go from our distribution centers to all of our Shacks. And once again, when you bring in competition, it makes everyone up their game. And so that -- we're just scratching the surface there, but that's going to be beneficial kind of later this year and heading into 2027.

Dennis Geiger*UBS Investment Bank, Research Division*

Terrific. Well, we are just about out of time. So Rob, Alison and team want to thank you guys very much for spending time and sharing insights with us, terrific momentum. And looking forward to continuing this year. So thank you so much.

Robert Lynch*CEO & Director*

Well, thank you, Dennis. And hopefully, next time we meet, I'll have a new CFO in place. We've got a great search going. We have a ton of interest in that. I mentioned last earnings that we plan to have that position filled by the -- in the first half of this year. We've got great candidates with public company experience, CFO experience, restaurant experience. So it's going to be a lot of fun. That's the last member of our executive team that we have to fill. We've got a world-class team, every one of them I put up against anybody in their functional areas of expertise. So we hire a great CFO, we're ready to go.

Dennis Geiger*UBS Investment Bank, Research Division*

Great stuff. Great story. We appreciate it very much, Rob, thank you. Appreciate it.

Read more current SHAK [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Sort by

Newest ▼



If you type a company or ETF ticker symbol in capital letters we will automatically link to the symbol page. You can remove the link by deleting the \$ in the comment.