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Shake Shack Inc. (SHAK) Q1 2024 Earnings Call Transcript

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Q1: 2024-05-02 Earnings Summary

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10-Q

EPS of \$0.13 **beats** by **\$0.03** | Revenue of \$290.50M (14.70% Y/Y) **misses** by **\$444.66K**Shake Shack Inc. (NYSE:[SHAK](#)) Q1 2024 Earnings Conference Call May 2, 2024 8:00 AM ET

Company Participants

Michael Oriolo - VP, SP&A and IR

Randy Garutti - CEO

Katie Fogertey - CFO

Conference Call Participants

Sharon Zackfia - William Blair
Lauren Silverman - Deutsche Bank
Brian Vaccaro - Raymond James
Brian Mullan - Piper Sandler
Michael Tamas - Oppenheimer and Company
Peter Saleh - BTIG
Sara Senatore - Bank of America
Jake Bartlett - Truist Securities
Andrew Charles - Cowen and Company
David Tarantino - Baird
Andy Barish - Jefferies
Jeff Farmer - Gordon Haskett
Jim Sanderson - Northcoast Research

Operator

Greetings. Welcome to Shake Shack's First Quarter 2024 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to Michael Oriolo, Vice President of SP&A, and Investor Relations. Thank you. You may begin.

Michael Oriolo

Thank you, and good morning, everyone. Joining me for Shake Shack's conference call is our CEO, Randy Garutti, and CFO, Katie Fogertey. During today's call, we will discuss non-GAAP financial measures, which we believe can be useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. Reconciliations to comparable GAAP measures are available in our earnings release and the Financial Details section of our shareholder letter.

Some of today's statements may be forward-looking and actual results may differ materially due to a number of risks and uncertainties, including those discussed in our annual report on Form 10-K, filed on February 29, 2024. Any forward-looking statements represent our views only as of today, and we assume no obligation to update any forward-looking statements if our views change.

By now, you should have access to our first quarter 2024 shareholder letter, which can be found at investor.shakeshack.com in the quarterly results section or as an exhibit to our 8-K for the quarter.

I will now turn the call over to Randy.

Randy Garutti

Thanks, Mike, and good morning, everyone.

As I wind down my time as CEO of Shake Shack, I want to begin by thanking our team for another solid quarter, sustained execution of our strategic plan, and for building the strong foundation of momentum for what's ahead. This was the 13th consecutive quarter of positive Same-Shack sales, the seventh straight quarter of year-over-year restaurant-level margin expansion, and our highest first quarter restaurant margin since 2019. We achieved a record level of Q1 adjusted EBITDA overall at \$35.9 million, grew total revenue by 14.7% to \$290.5 million, with 1.6% growth in Same-Shack sales, an average weekly sales of 73,000.

The trailing 12-month AUV across our Shacks at \$3.9 million. We grew system-wide sales by 12.3% year-over-year to \$443 million as we built Shacks across new and existing markets. And while we faced weather headwinds in January and throughout the quarter, our trends steadily improved with each month and into the second quarter, ending fiscal April at 4.9% Same-Shack sales with approximately flat traffic and further showing strong ongoing momentum in the fiscal May to date as our sales and profitability initiatives take hold.

In the quarter, we continued to improve profitability, increasing restaurant-level profit margins to 19.5% with expansion of 120 basis points year-over-year. We grew first quarter adjusted EBITDA by more than 30% year-over-year and improved our adjusted EBITDA margin by 150 basis points, growing from 10.9% last year to now at 12.4%. We also continue to grow our footprint around the globe, opening eight new Shacks in the first quarter for company operating and for license. We continue to expect approximately 80 Shack openings this year system-wide, roughly 15% unit growth, and we are building a robust pipeline of growth for the coming years.

Our licensed business grew sales by 8.1% year-over-year despite ongoing challenges in the Middle East and some of the macro pressures in China. It's an area of our business that is asset-light and highly accretive to our bottom line and one where we're confident in the long-term opportunity to go deeper in existing markets, as well as open new markets. And with our licensed partners, we opened four new Shacks so far in the second quarter and eight year-to-date.

In our company-operated business, we opened four new Shacks in the quarter including two new drive-throughs, adding our first in the Greater Chicago area and our first in Metro New York area in North Brunswick, New Jersey. These two sites represent a continued goal of unlocking our TAM as we utilize our multi-format strategy with drive-through.

Today, we have the majority of the class open or under construction as we look to open roughly 40 Shacks this year at an average build cost that's approximately 10% lower than last year's level. That said, it's important to remind you that this class of '24 will be heavily back-weighted with Q3 and Q4 openings. And for next year, we're setting ourselves up well with a solid pipeline into 2025 to grow openings and further lower build costs versus 2024.

I'd like to give an update now on how we're tracking on our 2024 strategic priorities. Our first priority this year, delivering a consistently great guest experience with improved speed of service and standardization across all of our channels being paramount to hospitality this year. We're making solid progress on our goal to reduce wait times in our Shacks with more than half of our restaurants improving their ticket times by at least 15 seconds in the first quarter as compared to last year. We're showing progress across all formats, including drive-through with strong operational focus, Shack visits and assessments and enhanced training.

In the coming months, we're rolling out new key tools to help us improve more on not just wait times but also the total guest experience, including how we take orders and flow food through our kitchen. We've also shown some early improvements on our guest satisfaction scores both in Shack and in our digital channels. And we know that there's still ample opportunity to advance all these metrics, including order accuracy, which we believe will layer up to an even better guest perception and long-term frequency opportunity.

Our second priority, growing sales and strengthening our brand awareness. We're living in a competitive and often discount-based restaurant environment right now. We're also growing in new markets where we have lesser brand awareness upon entering than we do in our core markets. We are materially stepping up our investments in marketing this year in our Shacks and in G&A to help drive, continue to share our brand story, to amplify the quality of our ingredients and communicate what makes Shake Shack so special to so many audiences. We'll continue to do this actively in a thoughtful way that focuses on strong returns.

You'll see this play out in all of our channels, including an upcoming packaging evolution, in Shack designs and throughout our brand marketing. Steady increase in aided brand awareness in the quarter and saw continued strong returns on our advertising spend in performance marketing. These marketing initiatives have shown success in driving both new and existing guests to our omni-channel ecosystem. Through creative brand campaigns, timely offers, promotions and focus on our best-in-class core menu as well as LTO launches. The team's employing a lot of new tactics to maximize impressions, trial and frequency across initiatives, all with an eye towards profitable sales growth.

We're also investing this year in building on the data and guest recognition capabilities to allow for more personalized marketing opportunities in the coming years and to drive more conversion and consideration. We know we're just getting started on these increased marketing initiatives and we're excited to ramp spend here and we're looking ahead.

We continue to drive excitement around our menu offerings with our limited time only menu featuring the Korean barbecue burger, Korean chicken sandwich and our Korean fries. The Korean chicken sandwich was brought back after being a fan favorite in early '21 and we're excited to expand the menu to our burger offering this year, which has had strong performance in guest reception. We're looking forward now to our next round of summer LTOs as well.

Our third priority, continuing to build on our wins from the last two years and make our restaurants even more profitable with a goal now to get between 20.2% and 21% restaurant margins for this year. And Katie will walk through more of this. We're showing clear continued progress at improving the operations of our restaurant and our flow through today is among the highest levels we've delivered since 2019, despite high inflationary pressure.

Additionally, our teams are working on additional operational, supply chain and cost to build opportunities to both build and protect our profitability while focusing on improving the guest experience.

Our fourth priority this year, making improvements on how we build and open our Shacks. We're pleased with the sales levels in our recent openings and believe last year's class was a high watermark in terms of cost to build as we make progress against our goal to bring down the bill costs for the class of '24 by approximately 20% - excuse me, 10%. We've opened eight Shacks year-to-date and have 19 currently under construction as we go to approximately 40 new company operated Shack openings this year. We've generated solid wins here on lowering our build costs with structural redesigns, including steel to wood construction, improving the cost profile on exterior finishes and exhaust systems, as well as making meaningful improvements to interior furniture, kitchen equipment optimization, as well as signage and other opportunities.

In total, we continue to improve the look and feel of our Shacks while being more efficient with our level of investment. And we're building a strong pipeline for 2025 to grow unit openings at an even lower build cost than we expect to achieve in '24. And we're also showing strong progress on lowering our pre-opening costs by at least 10% this year. Opening restaurants in a more reliable manner as we have seen fewer impacts from unanticipated delays and have stronger coordination across the company.

And finally, as you know, Shake Shack is a people first business and our people must always be our focus. We've made great strides to improve our turnover and increase retention. And this year we're building on that strong foundation with strategies to support our great teams. Our team members are at the core of how we execute our '24 strategic priorities. And we'll continue to benefit as team members stay with Shake Shack for longer. We're one of the fastest growing publicly traded restaurant companies. We offer our team members meaningful opportunities for career growth, including providing equity to our general managers and above. We're constantly working on strategies to elevate our people with greater training, development, communication, and collaboration.

I'm really excited to see our strategic plan continue to drive the evolution of Shake Shack. With a string of continued improvements shining a light on our long-term opportunity for our team members and our stakeholders, I'm pleased to transition to my advisor role and hand the baton to our new CEO, Rob Lynch.

I'll now hand it off to Katie to share more about the details of the quarter and expectations for the second quarter.

Katie Fogertey

Great, thank you and good morning.

We're off to a solid start to 2024 with another quarter of continued profitable growth. Relative to the first quarter of last year, we grew total revenue by 14.7%, expanded restaurant margins by 120 basis points and grew adjusted EBITDA by 30.2% to 12.4% of total revenue. That's up 150 basis points versus last year.

Our 2024 strategic priorities build on the tremendous success we showed last year and are designed to bring us continued improvements in our profitability and cashflow, even against macro pressures. And we're showing solid signs of strength so far this year. And each month we have improved sales. April got even better as we grew Same-Shack sales by 4.9% with approximately flat traffic and we carried a momentum into fiscal May.

Now onto first quarter results. Total revenue was \$290.5 million up 14.7% versus last year, driven by strong performance and new Shack openings system-wide and positive Same-Shack sales despite weather impacts in the quarter. We grew system-wide sales by 12.3% to a record high of \$443.3 million with a line of sight to approximately \$2 billion of system-wide sales in 2024.

In license, we are pleased with our strong domestic performance and continue to face macroeconomic headwinds in the Middle East and China. We grew licensing sales by 8.1% year-over-year to \$162.7 million and had a low single digit sales headwind from foreign exchange in the quarter. We opened four license Shacks, growing the global license Shack count to 226. We grew company operated Shack sales by 14.9% year-over-year to \$280.6 million with four Shack openings and 1.6% year-over-year in Same-Shack sales.

Weather pressured our sales in comp in the quarter and our trends improved as weather pressures eased. We estimate that weather alone contributed to a sales loss of about \$3 million that's due to impacted mobility, closures and reduced hours. Traffic was down 2.1% and excluding weather, we estimate traffic would have been approximately flat.

Even with the weather pressures though, we saw strong Same-Shack sales and traffic trends across most of our shacks in the quarter. We generated mid-single digit positive traffic in the Southeast and in Florida specifically, we grew traffic by 9% year-over-year with mid-teens Same-Shack sales growth. Same-Shack sales in our Northeast shacks were also strong up 4% year-over-year with high single digit comp seen in Long Island and Boston. New York City sales however were pressured by weather and infill.

We are encouraged by the building momentum in our business year-to-date as we've worked past these heavier headwinds in the earlier in the year and saw broader impacts from successful marketing initiatives that carried us into April with 4.9% Same-Shack sales growth and approximately flat traffic. First quarter check rose low single digits supported by mid-single digit menu price, partially offset by marketing strategies that drove a negative low single digit mix, our IPC was flat.

On pricing, to address food and wage inflationary pressures which were in particular in California with the move to \$20 per hour and minimum wage, we took the following steps. In January, we raised the menu price on our own delivery by 5% and maintained the 15% premium on third party channels as compared to our own delivery. In mid-March, we raised menu prices by about 3% in total. However, this was comprised of about 7% menu price in California to address the wage pressures and about 2% to 2.5% price in all other regions. That level of pricing is very consistent with historical pricing practices.

And this netted to mid-single digit price in the quarter, we have no current plans to further increase price this year. We're going be lapping about 2% price in mid-May and 1% in October. And importantly, while we expect the inflationary pressures and wages and food and paper to persist, we continue to leverage our operational efficiencies as a powerful tool to help protect our profitability and our value proposition for our guests.

We moved the needle more on kiosk in the quarter, which is now our largest order channel and our most profitable and an important tool for our operators to manage the order journey and focus on delivering a great guest experience. Average order values on kiosks are at least now a high teens percentage over traditional in check with recent digital enhancements to the user experience driving even stronger upsell. Later this year, we're launching new wayfinding and other optimization work to build on our success with this strategy.

Restaurant level profit was \$54.7 million or 19.5% of Shack sales. That's 120 basis points better versus last year as we benefited from higher sales from marketing strategies and improved operations in our Shacks. We had strong flow through in our restaurants, which once again exceeded 2019 trends, a testament to the success of our initiative across both sales and operating costs in our Shacks. And as we continue to build on our operational performance, we were able to look at sales driving initiatives with a wider lens than before.

Food and paper costs were \$80.3 million, or 28.6% of Shack sales, down 80 basis points versus last year and down 50 basis points versus last quarter, as menu price and supply chain strategies helped to offset inflation, weather, and other pressures. Net of our strategic actions, blended food and paper inflation rose low single digits year-over-year. Beef was up high single digits, and we had continued pressures in fries and buns. Paper and packaging costs decreased low single digits year over year.

Labor and related expenses were \$81.5 million, or 29.1% of Shack sales, down 130 basis points versus last year, despite making greater investments in our team members, as we had the benefits of price, as well as operational improvements, such as better forecasting and labor scheduling and kiosk adoption.

Turnover rates remain much better than last year, which is also helping our teams be more efficient in our restaurants. We're going to continue to lean on strategies to improve operations and support our profitability, while keeping an eye on the value proposition to our guests. As an example, we've been testing a new labor model that allows us to be much more targeted in our staffing needs across our Shacks, adjusting for format, menu, and channel mix, including kiosks, to provide a great guest experience. The early tests here have been encouraging, and we expect to roll it out to all of our Shacks by the end of the year.

Other operating expenses were \$41.9 million, or 14.9% of Shack sales, up 60 basis points year-over-year, as we invested more in Shack-level marketing and other expenses to support our sales strategies. Occupancy and related expenses were \$22.2 million, or 7.9% of Shack sales, up 30 basis points from last year's level. All in, we are very pleased with the level of margin improvement we delivered in the quarter, as we continue to build back our profitability, which we know is vital for our long-term growth.

G&A was \$35.9 million, excluding \$3.1 million in one-time adjustments, G&A was \$32.8 million, or 11.3% of total revenue. That's 40 basis points favorable to last year, and up 10.8% year-over-year, compared to total revenue that grew 14.7% year-over-year. G&A excluding advertising expenses and one-time adjustments was up high single-digit percent year-over-year, as we continue to be disciplined and run rate spend, and open additional funds for sales driving strategies and marketing.

Pre-opening costs were \$2.8 million in the quarter, down 22.6% year-over-year, with non-cash rent making up over 40% of this line item. We opened four Shacks in the quarter, versus six in the same quarter last year. We have targeted to reduce our pre-opening expenses per Shack by at least 10% this year, and we're on a strong path to achieve this goal, with enhanced reporting and coordination with finance, development, operations, and people resources. We see the greatest opportunity to improve on our labor expense in pre-opening, and we're encouraged that our strategy is already showing material improvements on this line item.

So all in, despite unfavorable weather in the quarter, continued macroeconomic pressures to the consumer, and inflation, our team's strong execution against our strategic plan was evident in the quarter, as we grew adjusted EBITDA by more than 30% year-over-year, to a first quarter record high of \$35.9 million, or 12.4% of total revenue, that's up 150 basis points from the prior year, and the best first quarter adjusted EBITDA margin since 2019.

Depreciation was \$25.4 million, up 19.3% year-over-year. We realized net income attributable to Shake Shack Inc., of \$2 million, or \$0.05 per diluted share. We reported an adjusted pro forma net income of \$5.6 million, or \$0.13 per fully exchanged and diluted share. Our GAAP tax rate was 19%, and our adjusted pro forma tax rate, excluding the tax impact of equity-based compensation was 2.8%.

Finally, our balance sheet remained solid, with \$284.8 million in cash and cash equivalents, and marketable securities at the end of the quarter. That's down \$8.4 million versus the prior quarter, as we grew operating cash flow by approximately 55% year-over-year, and made investments in recent openings, and the 27 Shacks that we've currently opened this year, and that are under construction. We're well on our way to execute against our target to open approximately 40 Shacks this year, on the company-operated side.

Now on to guidance, which reflects the degree of uncertainty around the consumer spending outlook, and inflationary headwinds. This range does not reflect any additional unknown delays to our development schedule, or any changes to the macro landscape, beyond what we're already experiencing today. For the second quarter, we got a total revenue of \$308.9 million to \$314.3 million. That's up 13.6% to 15.6% year-over-year with \$10.9 million to \$11.3 million of licensing revenue. Approximately ten company operated openings, eight to nine license openings. Same-Shack sales to be up low single digits year-over-year with low single digits price mix.

We guide second quarter restaurant margins to be approximately 21.5% to 22%, with strength driven by operational improvements and menu price with blended food and paper expected to be flat to up low single digits. Beef, which is an area which we do not contract and have a higher degree of uncertainty, is expected to be up mid-single digits year-over-year.

Our full year 2024 guidance calls for; total revenue of approximately \$1.22 billion to \$1.25 billion, that's 12% to 15% year-over-year growth. Same-Shack sales to grow by low single digits year-over-year, we're expecting licensed revenue to reach \$45 million to \$47 million, restaurant margins of 20.2% to 21%, a 30 to 110 basis improvement from 2023.

Reflecting expense from the CEO transition, our 2024 G&A guidance is \$142 million to \$146 million, and equity-based compensation expense is approximately \$20 million. The G&A guidance excludes the \$3.1 million in non-recurring costs that are excluded from adjusted EBITDA year-to-date.

Pre-opening of \$17 million, depreciation of \$100 million to \$105 million, and our adjusted pro forma tax rate excluding the impact of equity-based compensation, we expect to be 20% to 23%. Our 2024 adjusted EBITDA guidance is \$160 million to \$170 million, representing approximately 21% to 29% growth year-over-year. That's nearly double our expected total revenue growth rate, and representing a margin of 13.1% to 13.6%, at least 100 basis points higher than the prior year, and the highest adjusted EBITDA margin since 2019.

Now, before I pass it back to Randy for concluding remarks, I want to thank him for all that he's done to bring Shake Shack to where it is today. To now more than 530 Shacks across the world, generating more than \$1.7 billion in system-wide sales over the past 12 months, and our eye to \$2 billion in system-wide sales this year. I know this is much bigger than you would ever dreamed it would be in the early beginnings of Shake Shack.

So, as a longtime New Yorker, I have marveled in the Shake Shack origin story, being one of our earliest fans and hanging out at the first and at the time the only Shack in Madison Square Park, waiting with friends in very, very long lines, standing for something really good and delicious, like cheese fries, the perfect Shack burger, the excitement around what custard and concrete flavors would be on the menu that day, like Pie Oh My, and of course a cold Shackmeister Ale.

The food and hospitality were always exceptional, and the menu brought me back to my fondest memories growing up in St. Louis. Now, fast forward to them being an analyst covering the stock and learning more about the business and the industry, I had such admiration for what you, Randy and Danny, and the company that you have built, what makes this place truly special and unique and all the potential it has. And I found in the spreadsheets and the deep analysis why what you've created truly set Shake Shack apart from the pack, and I was so excited about your long-term opportunity for growth.

Then coming on as CFO three years ago and working with a great team here that you have led, it's been such a privilege to be here and to continue to expand on this story under your leadership. And we've all grown a lot, and there are many ways and KPIs to measure that growth, but at the core of it all is our teams and the culture that you help seed here. In just three years, we have grown our Shack base by more than 60%. That's more than 200 Shack openings system-wide. We have more than doubled our trailing 12-month system-wide sales and grown our trailing 12-month adjusted EBITDA by over 8.5 fold.

We've also navigated some of the most challenging headwinds in the industry in the history of the restaurant sector. We've had a global pandemic, industry-wide staffing and supply chain pressures, and inflation. And together, everyone here has all made material improvements in the business that set us up well for an exciting future, while still staying true to our roots and focusing on taking care of our teams and our guests.

Our commitment to providing a great opportunity for our people and serving guests with enlightened hospitality, that's what makes us all really proud to work here, and it's a true testament to your legacy and your enduring impact here.

So I'm honored to be a part of your foundational chapter here at Shake Shack and to learn so much from you and wish you the very best in your next adventures. Your impact here is seen not just in every Shack we have across the world or inner P&L or every great LTO. It's in all of the team members here that you have uplifted and inspired to be great leaders and the best versions of themselves. So I know that we can all here at Shake Shack say, thank you, Randy, and cheers to an amazing 20 plus years.

Randy Garutti

Wow, thank you, Katie. Chewing off script there. Katie, you've been an incredible CFO. You've been an amazing partner to me and everybody in this company. So thank you to everybody on our team

I believe this call represents my 38th earnings call as CEO since we went public more than nine years ago. And what this group of people has achieved is a rare, and special accomplishment. And it's exceeded all of our wildest ambitions. Through it all, it's always been about our team.

My greatest joy, and I hope our most significant impact has been to create a place where our people could get a start, could develop, could grow, and give them a chance to do their life's best work while taking care of each other and our communities. As I transition to an advisory role in the coming weeks, it's been a pleasure to get to know and welcome our new CEO, Rob Lynch.

Rob's been spending a lot of time working with me to understand our history, and how we've operated. He's been meeting with team members at every level, leaders across the company, and learning so much of what makes us tick. This company is built upon a strong foundation and we're ready to benefit from the next generation of leadership. And I have no doubt Rob will work with this extraordinary team to build a next set of strategies to take us to even higher heights and continue to drive Shake Shack forward.

Make no mistake, Shake Shack is something special, and this company's future is bright. I want to thank our guests, our communities, our suppliers, and all of our shareholders through the years for having the confidence in me, and our team along every step of this journey.

And lastly and most important, thank you to every single member of this team, who's ever worked here, who's hard work, creativity, and love for this company has made all the difference. It has been the honor of my career to lead you, and to be led by you. Our people are the secret in the Shack sauce, and I trust that they always will be.

With that operator, we can go ahead and open the call for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question is from Sharon Zackfia with William Blair. Please proceed.

Sharon Zackfia

Hi good morning. Randy I got a little teary-eyed while that was being said, so you know I'm sure you did too. We're all going to miss you. I guess, I just wanted to clarify something about the kiosk lift, today. Did I hear correctly that you're seeing a high single-digit now versus I think it was high - I'm sorry high teens now, versus what had been high single-digit in the fourth quarter. And if so, kind of what's helping drive that improvement, and I know you've got a lot of other initiatives underway at the kiosk. So what do you see as you pilot some of the other initiatives, I guess I'm wondering how much more people, are going to add on to their ticket with these kiosks?

Katie Fogertey

Great Sharon, thanks for the question. So, probably with the kiosk strategy we have in place, we had talked about kind of at least a high single-digit lift. And now we're seeing something kind of in the high teens and really it's been some exciting new interfaces that our digital marketing team has developed here to help guide the guests through that order experience. And kind of focus more on the opportunity to trade up to a double add bacon.

Some of the really great ways that our guests can customize their menu items that maybe are more you know intuitive at the cashier. And we brought that over to the kiosk channel. I mean, it's now really kind of on par with where we are on our web offering as well. So then if I look at where the opportunities are going forward, we want to continue to push the envelope and learn and see what we can do from a digital merchandising standpoint to help our guests better understand.

Our LTOs or more premium items continue to drive addition to the cart, but then at the same time the work that the team is doing you know in development and in marketing, is around making sure that we have, exactly optimized way-finding for how guests come into our Shacks make sure that they very clearly see in every instance, where that kiosk is as we want to continue to drive adoption.

But just to bring it back though, we are incredibly pleased with how the retrofit strategy on kiosk has helped, not just - us deliver a great guest experience, it's helped our team members manage their order journey, within the Shacks. And I think it's helping our guests just to understand more about what our menu is and all of the great exciting offerings we have.

Operator

Our next question is from Lauren Silverman with Deutsche Bank. Please proceed.

Lauren Silverman

Thanks so much, and Randy my, congrats as well. It's great to see what you've built. I wanted to ask about the comp, great momentum, in April and to May. The rest of the industry is slowing with negative traffic. What do you see as the most meaningful drivers of relative outperformance? And are you guys seeing any differences across regions? Thank you.

Randy Garutti

Yes, thanks, Lauren. Appreciate that. I'd say it's broadly a few things. Look, we know the industry has traffic pressure. We're not immune to that. And there are certain places where we see that as well. I think what we've done, though, and we've talked a lot about this, is we've continued to employ more and more marketing LTO menu, and guest experience strategies that have really ticked up.

So January was the low point, as we talked about. Kind of flat. But with each successive month, we got better. Comp got better. April even better. And sustaining so far into May, we feel really good about that. And we've just done a lot of fun brand campaigns. If you look at our chicken sundaes campaigns, which are particularly impactful in the month of April, we've done some cool promos.

We've done a lot more day parting opportunities to drive people. And I think - those strategies are the ones that are offsetting what is no question a little bit more of a pressure in the industry right now. So I feel really proud of the entire team for how we've been reacting and driving. And it feels good for the momentum. We also have a little bit of an easier compare in second quarter, and moving on in third quarter as well.

The first quarter we had a tough compare. We were over 10% comp last year. So that was some of the pressure on a two-year basis. But we feel good about how that's been going. So momentum feels really solid in the company right now. So lots of good work. Thanks, Lauren.

Operator

Our next question is from Brian Vaccaro with Raymond James. Please proceed.

Brian Vaccaro

Thanks and good morning. And congrats on all your success and what you've grown the business to Randy over the years. So on labor, can I just ask a question there? You saw some very strong leverage in that line. And I think you said you're rolling Phase 2 changes through the year. Could you just elaborate on the changes that you're making there and maybe how the savings on Phase 2 compare to Phase 1? And did you embed, and I guess how much did you embed on Phase 2 savings within your annual store margin guidance?

Katie Fogertey

Great, Brian. Thanks for the question. So first of all on labor, we did show some pretty good leverage on that line in the quarter. And a lot of that, though, just to remind everybody, in 4Q, 2022, we had about 22 new Shack openings. And really that carried into the first quarter of 2023. And as you know, when we open up a new Shack, it takes a while for that Shack to work its way to full profitability levels.

We just had a very heavy weighted opening schedule in the fourth quarter that had a hangover in the first quarter. Also last year, we talked about the rollout of kind of improved forecasting and working closely with our operators, and some strategies there to help bring in labor and kind of optimize for the current model that we have in place. And that really took hold kind of at the very end of the first quarter into the second quarter, and going forward last year.

So, I think that's a lot of what you're seeing on that side. Now, as far as the new labor model that we're running here and we're testing, just as a reminder, what this does is it really helps us to optimize for the different menu mix, the different channel mix, and the different day part peaks, across all of our restaurants in the system to kind of provide a more bespoke, tailored recommendation for deployment.

And we started testing that, really at the end of last year into this year in a handful of Shacks. You're not really seeing it in the numbers. It hasn't been, it didn't really like move the needle on first quarter, just given the overall size of the base there. But we're really pleased with the results that we saw from the test.

We're taking it a step further. And we're committed to rolling it out to all of the Shacks, company-operated Shacks by the end of the year. We haven't embedded any of that in guidance at this point. And we'll continue to update you as that rolls out through the rest of the year.

Operator

Our next question is from Brian Mullan with Piper Sandler. Please proceed.

Brian Mullan

Hi, thanks. Just want to echo Randy. Congrats on everything you've accomplished with the brand. And it's an amazing story. Wish you the best. Just a question on the advertising opportunity. The letter references an idea you need to learn and grow, into a larger marketing budget over time. I thought that was interesting. My question is just on the organizational side, do you feel like you have the full team in place to take advantage of the size of this opportunity over the long term? Or maybe are there some hires or talent additions you want to make from here? And I know the incoming CEO has a marketing background that would be helpful, but I kind of mean once he gets there over the long term, any assessment?

Randy Garutti

Yes, thanks. Look, I think there -- as we've said now for a little while, we've really been a brand that has done most of our work for 20 years on just being a great brand. And we've spent little to no advertising over those years, and it's new for us to be ramping up. We're super excited about the current marketing team at every level and how they're interacting with the entire company to drive some really cool new things. And you're seeing that progress happen this last year. And we fully expect to continue to double down on that.

Now, listen, I think Rob Lynch, who's coming in, has certainly got a strong background in marketing. I think the company's really excited to benefit from how he's thought about that. And I certainly won't speak for him, but I have no doubt he's going to have a keen eye for the best opportunities. And our team does these things with discipline, with a focus on strong returns and being accretive to our margins. So everything you've seen in this last six months is increasing our brand awareness. It's increasing kind of our brand health. And it's stuff that, it's also part of our strategy. It gets in a little bit off topic here, but on real estate of going deeper into certain markets.

We've increased, let's just take one market like Texas. We've increased our footprint in Texas by more than 30% in the last year. That helps with brand awareness. That helps when we do marketing. That helps whenever we want to execute anything in a single region. So super excited about the opportunities that we can employ from here.

Operator

Our next question is from Michael Tamas with Oppenheimer and Company. Please proceed.

Michael Tamas

Hi, good morning. Randy, congrats on your success with Shack and hope you get to enjoy some more free time going forward. One of the questions we've heard most often recently is about the margin path going forward. Obviously, I understand I'm asking you to speak for Rob a little bit here, but his background is with much larger companies that have greater scale and bigger budgets than Shake Shack does. And obviously that can be a benefit as you just mentioned before, but how's the company, including the board, thinking about the need for potential investments or different sales strategies beyond this year that might limit margins beyond '24? I know there's no formal guidance beyond this year, but just any qualitative commentary would be helpful? Thanks.

Randy Garutti

Yes, look, to be fair to Rob and the team moving forward, I don't think we want to give any guidance other than what we've done today. I think everybody here has seen, look,

this has been a strong company for decades. We have sustained, and we talked about that today on purpose to say, many, many quarters in a row of sustained improvement in our margins, along with our sales, along with our cash flow as a company. All of that is just in the right direction with strength. I fully expect Rob's going to get in and decide how he wants to take it, but I think we've got a great team that has a firm strategic plan for '24 and already eyes on the strong pipeline for '25. So everything you've heard us do is you've seen a strong guide and ticking that up and that the guidance we've given this year, we remain one of the best and most profitable restaurant companies in the space. So we're really proud of where we're at.

Operator

Our next question is from Peter Saleh with BTIG. Please proceed.

Peter Saleh

Great, thanks. Randy, it's been a pleasure working with you and best of luck to you in the future. I did want to ask about the kiosk commentary real quick. The high-teens increase, and yes, it was pretty substantial versus last quarter. Do you think that that is the end point or do you think there's more upside to the check growth going forward? I guess, is there more growth within the kiosk here? And then also, can you put that in the context of the negative low single digit, if I had that correct? Menu mix, just trying to understand how you can have such a large increase in the kiosk check and still see some of that menu mix decline? Thanks.

Katie Fogertey

Great. So first of all, in kiosks, we still believe we're in the early stages of what kiosks can do to our business. And certainly the first step of retrofitting all of our Shacks with kiosks, making sure that they're available for our guests. That was a key foundational thing for last year. And now really, what we're doing is leveraging the talents on our digital merchandising team to optimize for how the guest goes through that order journey. As a key thing here, as what you're pointing out with mixed trends, what we had in the quarter, yes, well, we're continuing to see some great benefits from the kiosk upsell opportunity, and IPC was flat overall to the company.

We took some targeted opportunities in marketing, which did have a little bit of a mixed headwind, however, had a positive traffic benefit on the back of it and really grew sales, and we did this in a way that grew our profitability. And so we talked about that last quarter kind of being embedded in the guide, and when we talk about our guidance for a low single digit check this year, we anticipate to have more of that going forward. But overall, both things, we're really excited by what we're producing here for both our top line and our profitability.

Operator

Our next question is from Sara Senatore with Bank of America. Please proceed.

Sara Senatore

Thank you. I have a clarification and a question, so hopefully that counts as one, but first, obviously, also congratulations, Randy, on your next steps. I wanted to ask about the April, the clarification is, so I'm trying to understand this sequential acceleration. I know you talked about easier compares, although April, I think was a pretty tough compare as of 2Q, but you have, I think, more price than you did in the first quarter, is my understanding, and you have less negative mix. I'm trying to understand if the Delta is, because you said, flattish traffic, so I'm trying to understand where the Delta is? If you're seeing less of a negative mix, or if it's just the improvement or the higher pricing that you have on the quarter. So that's the clarification.

And then just on the margins, obviously, very good food and labor. I was wondering about the third line item, and just sort of perhaps the opportunities you have there in other OpEx. It's not something that I think has been talked about too much. I know there's probably some of that drag from new stores, but anything you can say there? Thanks.

Katie Fogertey

So I'll take the other OpEx point first, and then we'll go back to your question on April. So on other OpEx, we've talked about this, we are investing more in marketing, both at our store level and also at the company and G&A level. And that is kind of where the sales driving strategies, a lot of those costs are born in a restaurant P&L. And our guidance reflects our expectations for that strategy going forward. Again, I think it's important to emphasize that while we're investing more in marketing right now to learn and grow, and we're excited about the sales that we're driving on the back of it, we're also doing this in a margin of creative way. So you might see a little bit of a tick up on that other OpEx line, but overall the sales are accretive to our profitability.

And then on your question on April, overall what I would say is we had some improvements in traffic. We were running at about kind of a 7% to 8% price. As you recall, we're going to be working off of about 2% price in May, so that will come down. And then, we had a couple of really exciting marketing initiatives in April, in particular the Chicken Sunday, where we have offered a free chicken shack with a \$10 minimum spend every Sunday. So that had a little bit of an impact on our mix, but nothing too out of the ordinary versus what we've been seeing.

Operator

Our next question is from Jake Bartlett with Truist Securities. Please proceed.

Jake Bartlett

Great. Thanks for taking the question, and congrats to you, Randy, as well. It's been great working with you. My question is on the margin guidance for '24, and it's nice to obviously, you've seen improvement, and that's encouraging. My question is that it seems a little conservative. I mean, my math is that pricing is going to be about mid-single digits, I think you said low-single digits, labor inflation, flat to low-single digits food costs. That alone should get us, I think to the high end of your guidance. You also have the impact of kiosks, other labor scheduling that you've done over the last year that's been an improvement. So am I missing anything, or is there a level of conservatism built into this guidance?

Katie Fogertey

Yes, so I think you've outlined a lot of the key points there for the fiscal 2024 guide. On kind of the top and the bottom end range there, look, we were very clear about this kind of in our remarks, and also in the shareholder letter. Beef remains a big uncertainty, and we are watching it through the rest of this year. And that's an area of the basket that we do not contract and we're not locked in there. We're going to be kind of subject to what the macro does on that side. And then, just depending on the degree of success that we're having around our marketing strategies to offset what Randy had alluded to is clearly a softening of the overall backdrop. So those are the things that I would look at on that side.

I will say that we're incredibly proud of the work that our teams have been doing to get after all of the improvements that we've been talking about across our total cost of serve, across our supply chain, all the things we've talked about in our restaurants with labor and other ways that we're still providing a great guest experience we've had even pre-COVID. So we're excited by where we're headed and the guidance today is for 20.2% to 21%. That is a 30 to 110 basis point improvement versus last year.

Operator

Our next question is from Andrew Charles with Cowen and Company. Please proceed.

Andrew Charles

Great, thank you. Randy, congrats on building the Shake Shack brand to what it is today and best wishes in your next chapter. It's no secret that we're going to see intensified burger value activity in the coming months. And I'm curious if you believe your digital value tactics that you've utilized so far in 2024 around Chicken Sundays, Refried Fridays, the BOGO shakes during the shoulder periods, et cetera, are enough, or do you believe more is needed to protect traffic amongst lower income consumers?

Randy Garutti

Yes, it's a great question. There's no question we're living in, whether it's us or the largest online companies who are all seeing a consumer who's seeking value, a consumer who's seeking discounts in a lot of cases, promotions. You've seen a lot in our industry. Shake Shack needs to continue to retain its premium brand position. This is what has set us apart from the beginning. Our ingredients, our hospitality, our designs, everything about the Shake Shack experience transcends the traditional fast food burger experience. We're going to continue to do that. And if everything we've done has hit those lines.

So when you see us doing things, they're almost entirely added value. We want to give you something extra. We want you to feel the value. We want you to understand the quality of what you're doing. So when we do things like our chicken Sundays, that hits our channels. It hits our interior. You can come in and use those. So it's not just digital. It's omni-channel, truly. In Shack, in our kiosks in Shack, app, web, and delivery. And I think the strategies that team is just beginning to employ have been so, our learning is just so fast, furious, and fun. I mean, we're really enjoying the process of opening up these budgets a little bit, trying some more things, to see what hits in our guests, see what hits regionally.

Sometimes something hits very different in New York than it does in California or Texas. And we're learning all that. And I think as you build an engine that's based in the data that we now have as we're growing over these years, we can take greater insights into our strategies. And that's really the foundation that the team has been working on to build. So we're super excited. We have a lot more arrows in our quiver as we move forward, regardless against whatever the economic opportunities are going to be. And you've seen that. You've seen that in the trend of continuing sales growth every month, getting better so far this year.

Operator

Our next question is from David Tarantino with Baird. Please proceed.

David Tarantino

Hi, good morning, Randy. Congrats from me as well on a fantastic career at Shake Shack. So I wanted to kind of follow up on your commentary, Randy, since you've been sort of the inventor of this very premium brand and successful brand. And I wanted to ask, a lot of the advertising has been focused on promotional activity, and that's certainly understandable in this environment. But I wanted to get your perspective on how you're balancing the offers that you're making with the need to protect the premium nature of the brand positioning, and specifically, how you're monitoring whether some of the things you're doing are having an influence on consumer perceptions and that related to the brand?

Randy Garutti

Yes, those are great questions. It's something we think a lot about. I think the strength of the Shack brand and its ability that we just have always punched so far above our weight, that's been a strength for us. But as I've said in previous calls, what's also fascinating as we've grown pretty far, pretty fast, globally and around this country is, there's still a lot of people who don't really know Shake Shack. So, we start everything with the education of who we are. Our brand pillars are really about helping people understand the quality of our ingredients that, we're cooking to order, that we're spinning our Shake's fresh by hand. These things are paramount.

Then what we do is we think about whether it's a promo or an afternoon Shake opportunity or sometimes we'll do free Fridays, whatever these things are, they're all based in added value. They're all based in ensuring that we continue to keep that brand positioning. I don't expect you're going to see us do a dollar menu type of promo. That's just never been Shake Shack's thing.

We certainly understand there's a great place for traditional fast food. And we may not get those consumers as often as traditional fast food does at that price point. But we feel like our value is strong. And everything you're going to see and have seen from us is about continuing to help people understand.

Hi, you know, when you choose to eat a burger, chicken sandwich or have a shake, you should choose Shake Shack and here's why. And that's what that's what we've done. That's what I expect we'll continue to do.

Operator

Our next question is from Andy Barish with Jefferies. Please proceed.

Andy Barish

Yes. Hi, Randy. So it's nice to see a Jersey boy do well. So congrats. On just Katie, quick clarification and sorry if I missed it. Just on the 2Q, same store sales guide of low single-digits and you're starting out mid-single-digits. Can you give us kind of a little color about sort of why - it doesn't continue in that range?

Katie Fogertey

Sure. So in May, we're going to be rolling off about 2% price. We're expecting you are trying to kind of - be then you be solid, but rolling off price and just normal seasonality, that's what gets us to our guidance for a low single-digit comp in the second quarter.

Operator

Our next question is from Jeff Farmer with Gordon Haskett. Please proceed.

Jeff Farmer

Great. Thanks. And congratulations to Randy. Definitely looking forward to seeing what you pursue next. What I did want to touch on was the consumer backdrop. So my question for you guys is, do you see the consumer demand headwinds stabilizing or sort of further building, further intensifying in coming quarters? So that's the first part of it. And how has that demand backdrop impacted Shake Shack?

Randy Garutti

Yes, look, it's hard to say where it's going to go from here. I think what we've said has been consistent, with what we've said for probably about a year. We - you definitely see some of that consumer pressure we've - said and shared and we see this today. Some of our lower income consumer, probably trading down from time-to-time. We may lose a little bit about of that. We may lose some of the middle distance consumer in some of our urban centers.

We've talked about that a little bit, but generally those trends have remained similar, for about a year right now. And we kind of expect those, to be where they're at for now. So how that impacts us is, as we've driven traffic through other strategies and through building great restaurants and great places, and continuing to build our brand. And that's what you've heard us consistently say, and that's what we've done against that backdrop. And it's been successful for us.

Operator

Our next question is from Jeffrey Bernstein with Barclays. Please proceed.

Unidentified Analyst

Hi, good morning. This is [indiscernible] on for Jeff. And I'd ask for the same congrats, Randy, on all you've achieved. It's been great partnering with you and I wish you the best of luck. My question is on store level margins. This year you're going to get back to the low 20%. And that's relative to your long-term framework of 18% to 20%. Just do you see an opportunity to expand margins materially higher from here on out, especially with all the great work you're doing with operational efficiency, and taking costs out of the model? Or is that really kind of offset by more muted AUV growth going forward, and just a higher cost environment that makes return to former peak harder? Thank you.

Katie Fogertey

Great. Thanks for the question. We're not providing any outlooks here beyond our guidance for 2024. But what I will say, is that the team has continuously delivered profitable growth here. We have been steadily improving our margin every quarter, and certainly our guidance for this year calls for another year of restaurant margin expansion. Look, we have a number of pressures that are not too unique to us.

We have wage inflationary pressures, supply chain remains broadly inflationary if you take out kind of the benefits that we're seeing here, from the work that our team is doing on strategic cost savings. So that's kind of how I would view the opportunities here. And we're really proud and excited, by the work that our team has been doing, to address opportunities in total cost of serve.

As we get denser in markets, as we kind of grow our footprint, we're able to leverage more suppliers, we're able to optimize freight. We're able to do things that the guest really doesn't see the impact of, but it does help us be more efficient in running our restaurants. On the labor side too, it's been a combination of several things, both things that we've done internally to help improve turnover trends, and keep our team members for longer.

It just helps them be more efficient, as well as all of the work that the finance team and operations have done to partner together, and really be much tighter on how we're operating our restaurants. And then, if I look forward to kind of the next level here, with having even just a more bespoke and optimized scheduling tool for our operators.

I think that that continues to provide great opportunity for us, to navigate inflationary pressures in a way that allows us to also kind of maintain the value for our guests. So, no long-term guidance, but that's the overall framework that we think about here at Shake Shack.

Operator

Our next question is from Jim Sanderson with Northcoast Research. Please proceed.

Jim Sanderson

Hi, thanks for the question. And Randy, congratulations on all your accomplishments over the years at Shake Shack. I wanted to talk a little bit about unit growth and unit development. On the international front, I'm wondering how confident you are that the brand can sustain the 40 units that, you've achieved this year given the macroeconomic headwinds, and the geopolitical issues we're seeing overseas. And then in the U.S., if you're leaning into any specific regions, or states that you believe really are a much better fit for the Shake Shack brand than maybe in the past years? Thank you.

Randy Garutti

Jim, thanks. Two great questions there. Internationally, we feel very strong about the 40 Shack Guide. And look, it's a big world out there. Let's remember too, we've had amazing success. So many places that we've gone. So yes, we acknowledge and a lot of companies say this, there's pressures in certain parts of China right now. Generally, our Asia business has done quite well.

But we're also focused on our domestic licensed business here in the U.S. Our airports, we're growing a lot of our roadsides, which have been a really good new model for us. Stadiums and other opportunities that we feel non-traditional opportunities. We've done some museums, things like that, where we think there's really exciting opportunity. We haven't even hit Western Europe at all, other than the U.K.

We haven't even really hit anything. We have not hit anything South of Mexico. The opportunities for us are really strong. And that is such a critical, important part of our business. And I think undervalued, underappreciated. So it's something I definitely keep an eye on as we go. We really appreciate that part of the business. And then in terms of the domestic opportunities, we really want to balance it out.

We want to go deeper in our current markets. You're going to continue to see us do things in the major markets that we're in, the Northeast, Texas, California, the Midwest. We're going to do a few new markets this year, but they're not too far afield. Pittsburgh is going to be our next big market opening. And by the way, just to jump back to international, we're opening in Canada later this year for our first one.

That's a tremendous opportunity for us. So I think at 300 roughly domestic company operated, and just over a couple hundred internationally in license, like there's a big opportunity for this company in our growth.

Operator

Our next question is from [Rahul Kro] with JPMorgan. Please proceed.

Unidentified Analyst

Good morning guys and thanks for the update. Randy, wish you the best going forward and I'll keep up with your social media updates here. Broader industry question. Can you talk about the state and pace of competition growth out there and how do you think the landscape is changing? There are a lot of new upcoming concepts with national aspiration and also competing locally as well. Appreciate your thoughts here. However, you'd like to describe on a regional basis, or on an urban versus suburban basis?

Randy Garutti

Thanks. Listen, I think there's always going to be great competition. We didn't invent the cheeseburger, and we won't be the last people to create a great one. We've always fit ourselves into a very special place though that sits well above traditional fast food and our quality and our experience and below casual dining. And I think that's been a good home for us. I expect that's where we'll continue to go.

But that does require us to continue to reinvent. We got to get better. We got to have better products, have exciting LTOs, have exciting menu evolution over the years. And I think we've done that. So, when you really think about our ability to compete, we're watching and we're learning.

There's lots of great restaurants out there that we certainly compete with. And we think at our best when Shake Shack does what Shake Shack was built to do, we can be a winner in a lot of places. That's what we've shown for 20 years now.

Operator

Thank you. We have reached the end of our question-and-answer session. I would like to turn the conference back over to management for closing comments.

Randy Garutti

I'll just close it out and if anyone's still listening. Just a lot of people said some very nice things to me, but I hope everybody goes into a Shake Shack, and says those nice things to the employee, who's working hard day-after-day to be a team member of this restaurant and make it what it is. Because it's certainly been them that has made this all happen. So thanks everybody. And we look forward to seeing you for a Shack burger soon.

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time and thank you for your participation.

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