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Shake Shack, Inc. (SHAK) Q1 2025 Earnings Call Transcript

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Q1: 2025-05-01 Earnings Summary

Insights



EPS of \$0.14 **misses by \$0.02** | Revenue of \$320.90M (10.46% Y/Y) **misses by \$6.67M**

Shake Shack, Inc. (NYSE:[SHAK](#)) Q1 2025 Earnings Conference Call May 1, 2025 8:00 AM ET

Company Participants

Melissa Calandruccio - IR

Rob Lynch - CEO

Katie Fogertey - CFO

Conference Call Participants

Brian Vaccaro - Raymond James
Christine Cho - Goldman Sachs
Michael Tamas - Oppenheimer and Company
Sharon Zackfia - William Blair
Zach Ogden - TD Cowen
Brian Mullan - Piper Sandler
Jake Bartlett - Truist Securities
Jim Sanderson - Northcoast Research
Peter Saleh - BTIG
Drew North - Baird
Jeff Farmer - Gordon Haskett
Chris O'Cull - Stifel
Daniel Guglielmo - Capital One Securities
Rahul Krotthapalli - JPMorgan

Operator

Good morning. Welcome to Shake Shack's First Quarter 2025 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]. As a reminder, this conference is being recorded.

It is now my pleasure to introduce Melissa Calandruccio from Investor Relations. Thank you. You may begin.

Melissa Calandruccio

Thank you, operator, and good morning, everyone. Joining me for Shake Shack's conference call is our CEO, Rob Lynch; 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 21, 2025. 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 2025 shareholder letter, which can be found on 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 Rob.

Rob Lynch

Thanks, Melissa, and good morning, everyone.

2025 is positioned to be a year of transformation for Shake Shack. We are making significant progress against our strategic priorities, which will fuel our growth to at least 1,500 company-operated Shacks. While we recognize that many macro headwinds impacted transaction growth across the industry in the first quarter, we are using the current business environment as an opportunity to identify ways to improve our guest experience, grow total revenue, and continue to reduce both our operating and build costs.

Over the past year, I've had the privilege to learn about this great business and collaborate with our leadership team to evolve our culture to support our lofty aspirations. We are in a significant growth phase aiming to more than quadruple the number of company-operated Shacks. To achieve this, it will take innovative thinking, hard work, and a continued commitment to delivering enlightened hospitality.

Through our efforts, we will create lasting value for all of our stakeholders. Our team has worked to evolve into a performance-based organization that can leverage the scale that we are building with each new Shack, while continuing to put our team members and guests first. This evolution has resulted in better guest service, operational improvements and productivity, culinary innovation and menu strategy, and the foundation of a brand marketing model. We are swiftly implementing these improvements and have increased our restaurant-level profit margin guidance for this year and going forward.

We now expect to deliver at least 50 basis points of improvement in our restaurant-level profit margins annually over the next three years and are confident in our ability to continue to become better for years to come. Consider that in the first quarter, despite significant weather headwinds, coupled with industry and macroeconomic challenges, our teams grew restaurant-level profit margins by 120 basis points year-over-year to 20.7%. This marks the highest first quarter restaurant-level profit margin since 2019, which shows the underlying strength of our operational improvements and solidifies our confidence in Shake Shack's long-term margin outlook.

It's remarkable performance from our team, especially considering the traffic headwinds, elevated beef costs that were up mid-single-digits and 3% to 4% wage inflation.

We also exited the quarter with low-single-digit menu price. Our operational agility helped us become more productive, mitigating the need for us to take more price in this competitive, value-oriented macro environment. This makes me especially excited about what this business can look like when macro tailwinds are once again at our backs.

We're remaining focused on excelling in all the areas that we can control, executing against our six 2025 strategic priorities designed to grow our business and drive long-term profitable growth for our stakeholders. As I have stated previously, our first strategic priority is building a culture of leaders. As a domestic company operated business with ambitions to meaningfully grow our footprint, it's crucial to have a strong bench of managers ready to open new Shacks. We are investing in training and development for our future Shack level leaders and are excited about the opportunity that we are providing for our team members to reach their full potential.

Our second priority is improving restaurant operations. And as we stated earlier, our increased productivity helped us deliver 120 basis points of margin improvement in the first quarter. Our new systems and processes have made us operationally agile and allowed us to be in better control of our staffing and food management as weather and macro pressures persisted throughout the quarter.

Our third priority is driving comp sales with a specific focus on increasing frequency. In this highly competitive environment, it is imperative that Shake Shack continues to reinforce the significant value that we deliver relative to the competitive set. We will do this through a mix of operational, culinary, and marketing strategies. Our focus on hospitality and how we operate in our Shacks is having a direct impact on driving higher guest satisfaction scores.

This was the fifth consecutive quarter in which we improved both speed of service and order accuracy year-over-year. We've also significantly improved our labor attainment and waste levels. Leveraging our standardized scorecard across our network of Shacks, we are closely measuring our performance and driving continuous improvements across our system.

On the culinary front, we are reinforcing the quality of our food and our fine casual positioning. In a short period of time, we have developed a robust calendar that is planned 12 months in advance, ensuring that we have compelling innovation in LTOs across our burgers and sandwiches, side items, Shakes and drinks.

Culinary innovation is the heartbeat of Shake Shack and developing ideas that QSR and even fast casual competitors are unable and unwilling to offer is one of the things that drives our competitive advantage.

In mid-April, we introduced the Dubai chocolate Pistachio Shake to 30 Shacks in New York City, LA and Miami. This Shake inspired by the viral Dubai chocolate trend and first introduced in our Middle East Shacks, features real pistachio frozen custard, toasted kataifi shredded phyllo and a crackable dark chocolate shell. While quantities were limited, the response was phenomenal. With lines out the doors of participating Shacks in multiple Shacks selling out within minutes. This innovation is attracting guests, improving that our culinary strategy is critical to driving traffic and mix.

There's a lot more improvements to come like the summer barbecue chicken and burger LTO with four sandwiches that feature some of our best ingredients such as applewood smoked bacon and fried pickles.

Beyond LTOs, we are committed to evolving our core menu strategy across all of our channels. One channel that we have been very focused on is the drive-thru. In particular, we have seen an opportunity to improve our value perception and our operational performance with Shake Shack combos. Over the past month, we tested new digital menu boards that feature clear and simple combo options for our guests, which reduce the time it takes to order.

We are pleased with the results and are on track to offer the new Shack combos across our more than 40 drive-thrus by the end of this month. I'm also excited about the potential to drive incremental traffic with our new guest recognition platforms in our app and web channels where we have recently launched a targeted multi-visit challenge designed to drive frequency and deepen guest engagement. We look forward to evaluating the impact and optimizing the way that we drive increased loyalty.

Our fourth strategic priority is building and operating Shacks with best-in-class returns. Our new Shacks continue to deliver industry-leading cash-on-cash returns and despite a challenging global procurement environment, we're still on track to reduce our cost to build by at least 10% in 2025. Our consistent ability to open new restaurants with excellence has positioned us uniquely to deliver above industry total revenue growth of 10.5% in the quarter, despite weather and macro pressures.

We are confident in our ability to open our largest class on record this year and we'll continue to open even more Shacks in 2026. The strength of our current pipeline is only exceeded by the opportunity of our white space.

Our fifth priority is to grow our license business and we had an outstanding first quarter with sales growing 10.4% year-over-year and seven new Shacks opened. We launched our first ever fish sandwich in Hong Kong, which quickly became our second bestselling protein and it is now coming to Mainland China. The Dubai chocolate Shake success in the Middle East led to its limited introduction in New York, Miami, and LA. We expanded our Delta partnership to four new cities where qualifying domestic flights offer a Shake Shack cheeseburger as a meal option for first class passengers.

In March, Tom Brady, a Delta brand ambassador handed out ShackBurgers at Boston's Logan Airport to celebrate our partnership expansion in the city where it all started. Our license business continues to be a strong, profitable part of our P&L and we have amazing partners that want to continue to grow with us. We also have a significant amount of white space. We're just starting to realize our full potential and are excited about more opportunities on the horizon.

Lastly, we're committed to investing in our long-term strategic capabilities. We're a growth company and we need to continue to invest our capital in high ROI projects that can support our desired growth. This year, we're accelerating our pace of innovation across development, operations, guest recognition and our new kitchen innovation lab.

We've already made progress on a number of our projects including smaller formats, improved layouts and new processes that further optimize our labor. We're excited to share future updates on our transformational initiatives to drive sales, guest frequency, operational improvements and enhanced returns.

I'm going to now turn the call over to Katie for more color on the quarter and our outlook for the next quarter and the full year. But before I do that, I want to thank all of our team members at Shake Shack for all the focus, effort and hospitality that they exhibited to overcome what might otherwise have been a pretty tough quarter. Katie?

Katie Fogertey

Thanks, Rob. Good morning, everyone.

In the first quarter, as we have done in each quarter over the past four years, we grew same Shake sales while also increasing total revenue, restaurant-level profit and adjusted EBITDA by double-digits. In fact, this quarter we grew total revenue by 10.5% compared to last year, expanded restaurant-level profit margin by 120 basis points and grew our restaurant profit by 17.3% to \$64.2 million marking our highest first quarter on record. Additionally, we achieved record high first quarter total revenue and system-wide sales levels as well as the highest restaurant and adjusted EBITDA margin since 2019.

Now for the details of our first quarter results. We achieved total revenue of \$320.9 million and system-wide sales of \$489.4 million with 11 new Shack openings system-wide. In our licensed business, we grew revenue by 11.1% year-over-year to \$11.1 million and sales by 10.4% year-over-year to \$179.6 million with seven new license Shack openings.

In our company-operated business, we grew Shack sales 10.4% year-over-year to \$309.8 million with four Shack openings including two drive-thrus. Our AWS was 72,000 with 20 basis points of same Shack sales growth. Nearly two-thirds of our markets grew same Shack sales in the quarter. However, weather and macro impacts had an outsized pressure in some of our major markets such as Los Angeles and New York City.

Traffic was down 4.6% in the quarter due to unfavorable weather and broader industry pressures. We estimate that these industry impacts plus the long duration of our burger LTO accounted for more than 400 basis points of traffic pressure in the quarter.

Shack grew 4.8% with approximately 4% in Shack menu price and 5% price blended across all of our channels. We exited the quarter with less than 2% year-over-year menu price in Shack. Our Black Truffle LTO drove positive mix. Items per Shack trends improved sequentially and was impacted year-over-year later in the quarter by the timing of the Easter holiday.

Regionally our Southern markets outperformed with Houston, Miami and Orlando achieving at least high-single-digit same Shack sales growth. These are the markets where we had some of the least amounts of weather pressures. However, we did face comp pressures in New York City, Washington D.C. and Los Angeles due to the weather and macro pressures. Our same Shack sales declined by approximately 1% in April while headwinds persisted in April and we rolled off 3.5% menu price in March, we saw material improvements in our trends as the month progressed.

The success of our marketing activations around March Madness and Tax Day as well as our new Dubai Shake Limited offering have been encouraging. In the last two weeks of April with new menu news and improving weather and a strong spring break and Easter week we had positive low-single-digit comp.

Our operators were nimble and did an outstanding job managing through these challenges in the quarter. We generated \$64.2 million in restaurant-level profit or 20.7% of Shack sales, 120 basis point improvement year-over-year. Food and paper costs were \$86 million or 27.8% of Shack sales, down 80 basis points versus last year. Menu price as well as our broader supply chain and process improvements helped offset mid-single-digit increase in feed costs.

Labor and related expenses were \$86.7 million or 28% of Shack sales down 110 basis points versus last year. Our new hourly labor model performed well and our operators quickly adjusted to the challenging weather trends. We delivered stronger throughput year-over-year while also improving speed of service, order accuracy, and guest scores.

Other operating expenses were \$48.3 million or 15.6% of Shack sales, up 70 basis points year-over-year driven by our marketing initiatives. Our digital mix increased to 38% in the quarter, up 130 basis points versus last year resulting in additional expense.

Occupancy and related expenses were \$24.6 million or 7.9% of Shack sales in line with last year's levels. We are very pleased with the margin improvement delivered in the quarter and expect to build upon this momentum throughout this year and over the next several years.

G&A was \$40.6 million excluding \$1.2 million in one-time adjustments; G&A was \$39.4 million with a year-over-year increase led by higher investments in advertising to grow revenue in a tough competitive environment.

Equity-based compensation was \$4.5 million in the quarter, up 24.7% year-over-year of which \$4.1 million was in G&A. Preopening costs were \$3.2 million in the quarter, up 16.9% year-over-year as we opened four new Shacks and prepare to open 14 to 16 in the second quarter.

We grew adjusted EBITDA by approximately 13.5% year-over-year to \$40.7 million or 12.7% of total revenue. We realized net income attributable to Shake Shack, Inc. of \$4.2 million or earnings of \$0.10 per diluted share. We reported an adjusted pro forma net income of \$6.4 million or \$0.14 per fully exchanged and diluted share.

Our GAAP tax rate was 14% and our adjusted pro forma tax rate excluding the tax impact of equity-based compensation was 24.6%.

And finally, our balance sheet remains solid with \$312.9 million in cash and cash equivalents at the end of the quarter.

Now on to guidance. Our guidance assumes no material changes in the macroeconomic or geopolitical landscape and the potential impact on system-wide sales or cost including any outsized impacts from tariffs. The guidance that we are providing today assumes that the current environment holds. However, we acknowledge a wider range of uncertainty around the macro backdrop and consumer spending.

For the second quarter of 2025, we guide total revenue of \$346 million to \$353 million with \$11.9 to \$12.3 million of licensing revenue, 14 to 16 company-operated Shack openings, 5 to 7 license openings, and for same Shack sales to be up low-single-digits year-over-year. We guide restaurant-level profit margin of 23% to 23.5% representing 100 basis points to 150 basis points of improvement year-over-year led by the strong execution against our initiatives to reduce the total cost to serve.

We are planning for low-single-digit year-over-year inflation in food and paper costs after baking in the positive benefits from our supply chain strategies with pressures led by uncertainty in beef pricing that represents 30% to 35% of our blended food and paper basket. Our marketing plan for this year is more evenly split over the quarters versus last year. This is resulting in a higher year-over-year step-up in both other operating expense and G&A continuing in the second quarter but then tapering off in the back half of the year.

On to our full year 2025 outlook, given the wider range of macroeconomic uncertainty and the impacts that we've seen in the first quarter, we expect 2025 same Shack sales to grow by low-single-digits year-over-year. Our pricing plans for this year remain modest with in-Shack prices up approximately 2% year-over-year and overall prices across all channels up approximately 3%.

Our 2025 pipeline for new Shack openings is tracking ahead of plan and we now expect to open 45 to 50 company-operated Shacks this year marking the largest class on record. We expect to open 35 to 40 license Shacks and our guidance reflects growing system-wide Shack count by 14% to 16% year-over-year.

We expect total revenue of approximately \$1.4 billion to \$1.5 billion, reflecting both a wider range of macro outcomes as well as the increased confidence in our 2025 company-operated new Shack opening class and continued strength in our license business. We expect the great momentum we are showing in our operational improvements to deliver restaurant-level profit margins of approximately 22.5%, an increase from our prior guidance of approximately 22%.

Our commodity outlook reflects expectations for flat to low-single-digit inflation led by beef up low to mid-single-digits and does not contemplate any potential outsized impacts related to tariff, which we expect to be minimal at this time. We are planning for labor inflation to be in the low-single-digit range with pressures easing throughout the year.

We are continuing to manage our G&A investments in light of the challenging macro backdrop and reiterate our plans to invest approximately 11.5% of total revenue in growing the business this year. Despite the macro driven sales pressures, with the strength of our operational improvement and execution on cost opportunities, we are reiterating our guidance for adjusted EBITDA of \$205 million to \$215 million representing 17% to 22% growth year-over-year.

When we provided our three-year financial targets in January, we had shared that this was based on our views of the business operational potential at the end of last year. However, as Rob stated, with the operational improvements that we have identified and continue to produce, we now expect to grow our restaurant profit margins by at least 50 basis points each year over the next three years. We're tracking ahead of this plan for 2025 with our guidance today. With this confidence in our trajectory of our margins, we now expect to grow adjusted EBITDA by low to high-teens percentage over that period.

Thank you for that your time and with that, I'll turn it back to Rob.

Rob Lynch

Thank you, Katie.

I want to thank our teams again for their hard work and passion for Shake Shack, which is the driving force behind our ability to navigate this environment and evolve and grow this company to reach new heights. We are getting better every day and uncovering ways to continue to improve the guest experience, push the envelope on our culinary leadership, outperform what guests expect from us and all while reducing our operating and build costs. I'm extremely excited about the potential that lies ahead.

Thank you to everyone on the call today and for your interest in our company. And with that, operator, please open up the call for questions.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions].

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

Brian Vaccaro

Hi, thanks and good morning. My question was just on the store margins. You raised your annual outlook as you said, and you also committed to margin expansion over the next three years. Could you elaborate on what some of the more significant near-term opportunities are that allowed you to boost your 2025 guide, but also some of the new learnings and thoughts on what levers you have at your disposal, giving you confidence in the multi-year outlook as well. Thank you.

Rob Lynch

Thanks, Brian. This quarter really showed us what we can do with operations and managing and controlling and flexing our labor model and how we support our teams and our guests in the restaurants. The new labor model that we put in, in Q4 is definitely having a positive material impact on our productivity.

But even beyond that, just our leadership in the field and our ability to see the trends in the marketplace, to see where the business is going, to see where traffic is and be able to nimbly and with great agile, agility be able to change our labor planning and manage through that. And it's not the easiest thing to do given our footprint where we have a lot of restrictions on how we can change our labor planning in for the first -- for the next two or three weeks.

So we've just gotten really good. I give 100% credit to our operations leaders. They just are knocking out of the park. They have built a lot of discipline and a lot of capability over the last six months and that's going to carry us in the near-term. Over the long-term, we have more operational improvements to make that won't necessarily be significantly reducing labor. We are focused on maintaining the high levels of guest service that we have delivered over the last six months. While we've gotten more productive, we've also increased our guest satisfaction. That is our number one priority.

But we do have processes, we do have equipment opportunities to make us more efficient and in the restaurants. So that's going to contribute. But we're also seeing and exploring some big opportunities in our supply chain. We have uncovered a lot of great ways to get more productive in a lot of different ways, both from a procurement standpoint, a distribution standpoint, a sales forecasting standpoint. So those two things, both operations and supply chain, give us the confidence to evolve a guide that we put out there only four months ago. We know a lot more, we've learned a lot and we have a lot more confidence.

Operator

Our next question is from Christine Cho with Goldman Sachs. Please proceed.

Christine Cho

Thank you for the opportunity to ask questions. So you have tested quite a few things this quarter. I think you've mentioned the rollout of the new digital menu boards, 40 of the drive-thrus by the end of the month. You tried kind of offering the \$9.99 chicken combo promo for a limited time. Could you actually share some of your early learnings and observations so far and how this informs your drive-thru strategy going forward? Thank you.

Rob Lynch

Yes, absolutely. It's been a long time coming for this brand on drive-thru. We've tested a lot of different models to try and improve a unique drive-thru dynamic. I mean, the reality is it takes us longer to make our food than a lot of our competitors and our guests freak at those other competitors as well. And they've been conditioned to expect food that's been sitting there and delivered as soon as you get to the window.

It's obviously not our model. We're making everything fresh when folks order it. And so we've had to evolve both our ordering processes as well as our make processes as well as our hospitality protocol. So we've been testing that really over the last 30 days with combos and eight of our drive-thrus, combo digital menu boards in eight of our drive-thrus and we've seen significant improvements in both ordering time, speed of service, accuracy and guest satisfaction.

So we are all in and are going to deploy those combos, that combo strategy across all of our drive-thrus here with great efficiency over the next month. And we're also looking at potentially combos in our other channels, so potentially looking at kiosks and in-restaurant ordering as well. But we're going to start with the drive-thru, really understand all the implications, both positive and opportunities to improve before we look at the other channels. But we're really excited about what we've seen so far from our most recent testing.

Operator

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

Michael Tamas

Hi, good morning. Thank you. I think your previous same-store sales guidance had assumed a strong back half to the year just given the timing of some of your strategic initiatives. So it seems like you're sort of putting a stake in the ground now that the first quarter is going to be the low point for the year, implying healthier trends, even though your comparisons are actually a little bit tougher as we go forward here, which is a bit unique because I think comparisons for some other companies actually get a little bit tougher, so, or a little bit easier, excuse me. So can you talk about maybe any evolution you're thinking about your internal expectations into the back half of the year and can you unpack for us what some of those drivers are that you're most excited about that underpins your confidence to get to that low-single-digit same-store sales guidance for the year? Thanks.

Rob Lynch

Absolutely. Great question. As we disclosed on our last earnings call, we started off the year really strong. We were up over 5% in comps for the first three weeks of the quarter. And then we had some real challenging weather. And none of us can forget the fires in LA, where we have a disproportionate number of our restaurants. And then obviously, the last two months of the quarter were impacted by the consumer sentiment and some of the other macroeconomic and geopolitical challenges.

So we view those as some of the biggest headwinds that we faced. And those are temporary headwinds. So we do see some of that getting back to normal, if you will. We also -- I also don't want it to get lost that a lot of folks have been down on our story during these times because of our premium positioning. But despite our premium positioning, we've been able to outpace, on comps and transactions, some of the more value-oriented competitors. So we have a high degree of confidence that our premium positioning and the value that we deliver to our guests can weather some of these downturns in consumer sentiment, as evidenced by some of our outperformance this quarter.

But really what gives us the most confidence moving forward is the work we're doing around our menu strategy in our culinary innovation and LTOs. We -- one of the challenges we had in Q1 is we didn't have a lot of new news. We had a great LTO in Truffle, but we ran that for a long time and people loved it and it drove mix for us. But particularly in the first quarter, the last three months of the LTO, we didn't see -- we didn't really see the opportunity to drive a lot of traffic with new news, we're changing that.

We are building an LTO calendar that is full of innovation, not just on our burgers or sandwiches, but on our sides, on our beverages, and on our Shakes, which is kind of -- which is maybe a little bit of a new way to think about things here. I mean, we're coming with real innovation on beverages, which is not normal for this brand.

So we have opened up the aperture of what we can do from a culinary innovation standpoint and we're incorporating into really a holistic go-to-market value proposition that includes our core strategy, our LTOs, our combo strategy, how we think about promotions and how we think about pricing. I don't want it to get lost in Katie's comments that we came out of Q1 with only 2% menu pricing year-over-year.

It's been multiple years since this brand was running that low on year-over-year pricing. And we are really focused on being able to deliver operational and supply chain productivity, so we don't have to take a lot of pricing moving forward. And we can still deliver great comp numbers. So we're committing to higher margins while also focused on not leveraging pricing as much as we have in the past. And over time, that's going to improve our value proposition even more and help us be able to continue to outperform.

Operator

Our next question is from Sharon Zackfia with William Blair. Please proceed.

Sharon Zackfia

Hi, good morning. Thanks for taking the question. I wanted to follow-up on that. What is kind of the ideal frequency for Shake Shack in terms of kind of new product innovation or LTOs? And as you're thinking about building out operational muscle, sometimes that increased frequency of change in the menu can run counter to kind of improved throughput or speed of service. So how are you kind of balancing that?

Rob Lynch

Yes. It's been something that I have focused on my whole career. I learned a ton about that specific challenge at Taco Bell where we could make 450,000 things out of 14 ingredients. And I brought that to Arby's and we built an LTO calendar that had minimal impact on our operations as well as our supply chain and that's what we're focused on here.

Our operators have done an unbelievable job over the last six months. They literally have transformed restaurant operations at Shake Shack. And the margin -- the confidence we have in our margins moving forward are representative of that. The last thing we want to do is penalize them for their efficiency and productivity by dumping a bunch of stuff into the Shacks that, that create an operational nightmare for them.

So we are very focused on our innovation being things that make their lives easier, not harder. We can do that through investments in equipment. We can do that through new processes and procedures. We can also do it through managing our supply chain in a little bit of a different way. So we are committed. Absolutely. That I'll just give you an example. The reason why we did a limited release on the Dubai chocolate Shake was because we had to grill the kataifi. I mean, think of that. We were asking our operators to grill phyllo dough on our flat tops every morning, and we couldn't do that during the day. So we can only prep 25 Shakes and we can only do it in 30 Shacks. We went out and we found an ingredient that is, that doesn't require us to do that. And so now, we can look at opening up that innovation across all of our Shacks and make it easier on our operators at the same time. So those are the kind of solutions that we're focused on and that's the kind of innovation that we're going to bring in the back half.

Operator

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

Zach Ogden

Thank you. This is Zach Ogden on for Andrew Charles. Just curious if you could rank order what drove 1Q's 400 basis points of headwinds that you called out between weather, consumer headwinds and a longer Black Truffle LTO.

Katie Fogertey

Yes. Hi, so what we've called out is, we had a low-single digit headwind from weather and the wildfires and the LTO combined. And then heading into February, we faced an incremental pressure from industry shifts. And so that would be the pressures that we saw in February and March and continuing into April.

Operator

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

Brian Mullan

Thanks. Just clarification on the long-term targets. With the update to your RLM expectations to expand at least 50 basis points per year for the next three years. Could you just remind us or talk about what kind of menu pricing assumption is actually embedded in there? And in the event that traffic proves to be a bit elusive for the industry or for Shake Shack for whatever reason, do you think you've left yourself flexibility to take less pricing if you think that's the right thing to do?

Katie Fogertey

So on our conviction around our ability to and confidence around our ability to continue to expand margins, I'd say it's really bucketed into the two things that Rob talked about. It's about us getting better in our operations and then also exploring additional opportunities within our supply chain. I would say with what the team has uncovered over the past six months, there is a lot of opportunity for us to continue to dive in here.

And as we showed in the first quarter, sticking to this strategy of really focusing on the controllables and getting better in our operations and our supply chain, that's helping us to deliver margin expansion in light of pressured traffic from macros and weather. And so we expect to continue on this trend. And I would just say too, when macros do change, we have built a very incredible efficient machine here that I expect to have a lot of leverage to the bottom line.

Operator

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

Jake Bartlett

Great. Thanks for taking the question. Mine was about your innovation and kind of what you have planned for the rest of the year. You recently brought back the barbecue menu. That's something that you've run before. I'm wondering first part of the question is what is different this time? Should we expect this to you have a greater impact than it's had in the past? Are you particularly excited about what's coming with this barbecue menu?

And then the other question, we have seen some innovation I think kind of being tested. You've talked about the smoked brisket chili; we saw the French onion burger. Should we think about those as is just kind of short-term spot innovation that you're putting in or were those tests that we might see in the future? This all kind of leads to the question of the cadence of your LTO strategy going forward, really throughout maybe 2025, but really long-term whether there should be more consistent innovation or whether it's just these big kind of seasonal LTOs that you've done historically. I know there's a lot there, but I appreciate it.

Rob Lynch

Jake, you're hitting my heart right there, buddy. I got to tell you, as somebody who has taken a lot of pride in bringing new to the world innovation at most places that I've been, I absolutely do not have a passion for running retread innovation over and over and over again. So let's get that out there front and center.

The barbecue platform is a great platform, served us well last year. But I just -- I want to be transparent. A true strategic innovation, culinary innovation calendar doesn't happen in a couple months. And why is that? Because we are not shooting from the hip here. We have built a stage gate process where we are developing new ideas across all of our platforms and then we are testing them, qualifying them, operationalizing them, so that when they hit the calendar and they show up at our Shacks, they're ready to go and drive comp sales growth.

So we are building those new ideas right now. You've called out a couple that we are testing and are looking at. And so the one thing, I will say what we're trying to do while we're working to get there is we're trying to bring innovation even if technically these -- technically these burgers aren't new to the world, it'll be the first time that we offer fried pickles. We've offered fried pickles as a side. We're bringing beverage and Shake innovation over the summer as well to complement this platform.

So we have an absolute drive for new to the world innovation. And Shake Shack has the culinary chops to be able to do that like no one else. So I hear you loud and clear and you can with absolute certainty know that that's our intention to bring new ideas to the world.

In terms of the cadence, I apologize; I didn't answer that on the earlier question. We're still in a quarterly model. We are still going to bring, usually bring three to four big sandwich type hero platforms for an LTO and we're going to supplement that with beverages and sides and Shake innovation as well. So it's usually on a quarterly cadence, but it reserves the right to do that more or less frequently. We're also looking at how does our LTO innovation really hits? How would that potentially flow to the core menu and drive everyday value and drive the baseline as opposed to the incremental volume?

So we're exploring all of those things. As I mentioned earlier, we're going to do all of that without throwing wrench in the mix of our operations. So we want to make sure that the pace and sequence of our LTOs, the amount of innovation, all allows us to continue to deliver the best-in-class operations that our team has built.

Operator

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

Jim Sanderson

Hey, thanks for the question. Just wanted to follow-up on the discussion of promotions and marketing. I think you mentioned mix was slightly positive in the quarter. Going forward, do you expect that mix to be more of a headwind as you launch your marketing plan for the remainder of the year, putting a little bit of pressure on average check?

Rob Lynch

I mean, I think a lot of times mix gets wrapped up in price and as we build out our core menu strategy and complement that with our LTOs, we're trying to drive both traffic and improvement in mix. So we have premium items that, that, that we believe we can bring at premium price points and allow consumers to self-select in and trade up too, right? So some of the things that Jake just mentioned, some of the things we're testing, some of the sandwiches we're looking at are very premium, premium ingredients, premium price points.

And that will afford us the opportunity to drive mix growth without having to take pricing on our core items. I mean, I would be happy if we never had to take another price increase on our Shack Burger. Like can't promise that's going to happen, but that would be amazing. That would allow us to diversify our portfolio of offerings and allow us to open up our aperture to be more appealing to all income levels and all geographies.

So that doesn't just happen by not taking pricing because we have margin growth objectives, we have sales growth objectives. So we have to find other ways combos and the increased attachment rate that we're going to drive on fries and beverages is one way to help that. Launching premium products as LTOs or even on the core menu that allow customers to self-select into without having to take pricing is another way to do that.

Increasing our attachment rate on Shakes, beverages and sides by leveraging innovation is another way to do that. Increasing our party size by creating more reasons for larger parties to come to Shake Shack is another way to do that. So we're looking at all of that. And one of my favorite ways that we're going to increase mix is we're opening up a full bar at the battery in Atlanta at our new Shack this summer. And for all of you that can visit Atlanta, we're going to have the best cocktails at the best prices in the whole place. So like we're exploring all different ways to drive mix without having to take more pricing on the things we already serve every day.

Operator

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

Peter Saleh

Great. Thanks for taking the question. Maybe just two quick questions if I could. First, on just the margin, not sure if I missed this, but comps were well below, I guess guidance and our expectation, but margin was above. So can you just talk about what you were able to flex so quickly in a matter of call it weeks that helped sustain that margin or actually even grow it a little bit more than we expected.

And then two, on the decision to accelerate unit growth, I think 45 to 50, I think prior was around 45. Just are you still expecting costs to come down this year build cost per unit? I think we're seeing a lot of this tariff conversation. Not sure if that's built into your outlook. Is that expected to increase construction costs? We're hearing that from several other operators that we could see construction costs rise. Thank you.

Rob Lynch

Great questions, Pete. It's really exciting to think about what our margins could have been without these headwinds. We have the best labor attainment we've ever had. We have the lowest waste we've ever had. We have the things that go into driving margin that are within our control. We have taken control of those things and that's why we've been able to deliver even while our sales or our restaurants have been deleveraged by the decrease in sales.

We are just measured. We built a scorecard. And I know it's just blocking and tackling, but we are measuring every KPI every day. And we built in just discipline and process around our area directors working with their GMs every week and having a call across all their KPIs and it's just driving performance. It's just driving operating discipline and that's what allowed us to deliver the margins. And we're going to get even better as our revenues and continue to go up.

On the new unit acceleration, I honestly, if you -- I love our culinary innovation that gets me really, really excited. But our new unit growth is the thing that excites me most about this business model. We are going to open up more Shacks this year than we've ever opened up. We are going to decrease our costs despite tariff concerns and construction concerns by at least 10%. We're coming in below what we forecasted for the year at this point.

And I'm happy to tell you that in the last two weeks, we've had two record openings, the highest sales openings in the history of the brand in drive-thrus in the Southwest. So if that doesn't tell you that we are changing what this brand can do, I don't know what will and our ability to open new formats in geographies that haven't been kind of our core geographies in the past outside of New York, and open with that amount of volume, that amount of sales in this consumer environment is really a testament to what's coming.

And so we are not backing off at all on construction and building new Shacks and we are accelerating rapidly. I mean, I'm approving sites that I'm just so excited about. Every site the team brings is an opportunity for us to go and bring Shake Shack to new communities. And the performance on our openings is one of the most exciting things about this business.

Operator

Our next question is from Drew North with Baird. Please proceed.

Drew North

Great. Thanks for taking my question. A lot of the topics I had on the list have been asked, but maybe I'll circle back on a clarification on the Q2 comp outlook. Thanks for the comments on April and the uptick in recent weeks, but I guess with all the movement in the calendar comparisons and seasonality, I was just hoping you could expand a bit on the underlying assumptions embedded in the outlook for the balance of Q2.

I guess, does the low-single-digit guidance simply extrapolate the recent run rate on traffic or anything we should know about from a calendar comparisons perspective for the balance of Q2 would be helpful. Thank you.

Katie Fogertey

Sure. Yes. So Q2 we're expecting to achieve low-single-digit comps. We are -- as we talked about on the call, we're taking the current macro environment that we're seeing and that is the basis for kind of the underlying trend. We do have new menu innovation that's going on right now that just launched with our summer barbecue menu. There's four sandwiches this year versus last year had just two. So we have chicken as well on that platform.

And we have some exciting menu innovation that's also further innovation that's coming this quarter. So that's going to be kind of the bigger incremental positive beyond what we saw in the first quarter. It's really important to go back to what menu innovation can do for Shake Shack and what lack of has done to Shake Shack. It's not just a mix issue; it's not just an IPC issue. It actually is a traffic issue. And we know that when we have compelling LTOs, we drive frequency, we drive new guest acquisition through all of our channels.

And so it's great to finally Black Truffle was great but we ran it for seven months. It's great to have some new food news out there that we expect to help us achieve low-single-digit comps this quarter. And then looking out to the back half of the year, some very exciting menu innovation coming.

Operator

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

Unidentified Analyst

Good morning. This is Parekh [ph] on for Jeff. Thanks for the question. Rob, you pointed to macro headwinds and uncertainty in your prepared remarks. And it seems like in the last few weeks, if anything, things have become even more uncertain with just constant news headlines. But Shake Shack has been laser-focused on providing that predictable everyday value. Just can you share with us any learnings, early learnings you've seen from just the value combos, behavior and the drive-thru, any kind of shift in behavior or how consumers are using the menu, especially if all these QSRs are obviously just constantly pushing these \$5 bundles? Thanks.

Rob Lynch

Yes. I mean, we fundamentally believe that we are the best value in the business. We don't consider ourselves fast food that we absolutely compete against fast food. And so we have to be able to deliver a value prop for those people who are most frequent users of QSR. And so that's why I'm so focused on trying to protect our price points on our core individual and most comparable items.

So if you think about the things that are easily compared to our fast food competitors, it's our Cheeseburger, which is our Shack Burger. It's our fries and it's our CSDs. And so we are doing our best to keep those price competitive because we know that there are two different ways that, that consumers look at value. And it's absolute price points and its value for the money.

And there are customers, there are guests that shop on absolute price points, and we're trying to make sure that we're not out of their consideration set and where we can really win are the guests who shop on value for the money. And that's why we continue to innovate against premium items. I mean, are Dubai chocolate Shake that we had lines around the corner to get to people lining up before we opened. And before we -- and selling out like before like noon and a lot of these Shacks, it's a \$8.49 Shake that's the most expensive Shake we've ever had, the highest price point shake we've had.

And so there is -- there are a lot of guests out there who really value our premium innovation and our premium items. So that's how we're going to continue to drive our traffic despite these challenging competitive traffic environment that we're competing in. So it's not all about discounts and promotions even though we feel like we're getting a lot better at that.

We're doing a lot of targeted incentives. We talked last year about building out our guest recognition capability where we can track our guests' behavior and a much easier way across all of our channels and deliver targeted incentives that launched in Q1, and we're optimizing it, so that we can benefit from that in the back half and moving forward.

And then lastly, we are doing things. I would tell you that the reason for our combos are not necessarily to drive significant value. It's much more about ease of ordering and operational accuracy through the drive-thru. But there is a value halo there. And so as we roll those out 40 drive-thrus this month, we're going to be even more compelling on value for our guests. And as we explore those showing up in our other channels, that's also going to give us a little bit of a value halo there, too. So that's how we think about value. That's how we believe we're going to remain competitive despite what we see as some continued headwinds for the balance of the year.

Operator

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

Jeff Farmer

Thanks. Just wanted to follow-up on that most recent line of questioning. So with that launch of your combo meal LTO in early March, how did customers respond? And what did you learn from that response that you can sort of carry forward?

Rob Lynch

Yes. I mean we're not necessarily disclosing specific mix numbers and those types of details. But what I can tell you is that our order times have improved, our accuracy has improved and our guest satisfaction has improved. So the things that we were really focused on. And some of those things aren't completely 100% attributable to the combos but we've definitely seen the mix of our - I'll just tell you, we made a decision to put in the combo board, we made a decision to put our double combo as the first combo in the combo board.

And just with that change, we've seen a shift in mix from singles to doubles, which is both revenue and margin \$0.01 profit accretive for us. So we're thinking about these things holistically and how we can continue to drive mix and margin benefits without having to take pricing on our core items.

So there's definitely operational improvements from the combos, but there's also sales and profit opportunities from leveraging those combos as well. I think a lot of people think, oh, combos, you're giving up margin and you're giving discounts, so it's going to negatively impact your mix. That doesn't have to be the case. I mean how you place things on the menu and how you incent your guests to increase their attachment rate really can actually do just the opposite. The way we're featuring our Shakes in a prominent way on the panel right next to the combos can drive higher attachment of our Shakes on top of beverage fries and sandwich order. So we're thinking about all of that and our initial results are really strong, but we're going to continue to optimize that.

Operator

Our next question is from Chris O'Cull with Stifel. Please proceed.

Chris O'Cull

Great. Thanks. Good morning, guys. Rob, I wanted to follow-up on your comments around guest recognition. And can you just talk a little bit more around the steps that you mentioned around optimization and learning. And if there's any additional rollouts left this year to get that underlying infrastructure that you need in place to fully utilize that platform?

And I guess, more strategically, can you just flesh out what you hope to get out of it? And what you hope the data unlocks for you in terms of not just targeting existing customers, but does it open up other possibilities in terms of creating better avatars to go out and target maybe customers that aren't users of Shake Shack yet?

Rob Lynch

Yes. Thanks for the question, Chris. Yes, I mean, it helps us understand. What the responses to what we do are, right? So when we put out a promotion or we put out an LTO or we put out any type of guest-facing initiative, we are now going to be able to clearly understand what type of behavior that drives across all of our channels, right?

Before, we didn't have that capability, we had -- we didn't -- we weren't able to tie it all together. So obvious -- the obvious impact of that is for us to be able to drive more frequency and more loyalty across our current guests. By giving them incentives, giving them opportunities, creating awareness of things we know that are going to drive increased behavior.

But it also helps us to understand how to better meet the needs of guests that we haven't yet been able to reach, right? So when we know that an initiative or a promotion that we run is bringing back a guest who hasn't visited us in 12 months. That's similar to gaining understanding of what's going to drive less frequent or even new guests, right? And so we can build marketing programs, we can build ideas around that knowledge base that can attract new guests, both from a current Shack standpoint and also when we go into new markets, it gives us better knowledge base of how different regions react to different things, how different markets react to different things.

And so when we open up a new Shack, we go in with that knowledge base intact and are able to get off to a faster start and be able to deliver better new Shack openings. So yes, the answer -- a long-winded way of saying, yes, it's both going to help our current guests increase their frequency as well as give us a knowledge base that's going to allow us to create programs and ideas that are going to attract new guests.

Operator

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

Unidentified Analyst

Hi, good morning. Thank you for the question. Isaiah Austin [ph] on for Sara. We just wanted to ask, you guys reported 4Q pretty far into the first quarter. So it just sounds like comps slowed pretty sharply going into March, while the industry was broadly starting to recover. Could you kind of talk about that dynamic? And then, just in the same vein of just macro pressures, why do you feel like in the first quarter, you guys weren't insulated as much from your higher income consumer just as you've been in the past? Thank you.

Rob Lynch

So we actually had the biggest comp challenge in February. So March was actually an improvement relatively consistent with the rest of the industry. So we started off really strong in January. February was our worst period. And then March, we started to recover and April has improved since that.

So we have seen a bit of that trend line that, that you're referencing for the industry. And I would argue that our premium positioning and our higher income customers has insulated us. I mean I think our comp performance is better than almost most of our competition. So folks that have reported over the last few days and over the last couple of weeks, mostly negative comps. So we're delivering positive comps without -- with less pricing than we've taken over the last three years. So I would argue that we have been relatively insulated.

And then the last thing I would say is, all of this is even -- gives us even more confidence given our penetration in Los Angeles, in New York and D.C., where these are the markets that have been really disproportionately impacted in Q1 through a number of things whether it's some of the tourism, some of it's the weather, some of it's the geopolitical environment, the macroeconomics, like all of those things are disproportionately impacting those markets and we are saturated in those markets, and we've been able to deliver these results despite that. So I'd actually say that we have exceeded our expectations given the macros that we've been dealing with.

Katie Fogertey

I'll just add on to that. We called out this in the shareholder letter. But if you just look at New York City, Los Angeles, and Mid-Atlantic, which includes Washington, D.C., these areas where we had weather pressures, we had also there were some very unique macro pressures to each of these regions and tourism pressures. That was about 75% of the headwind we had in the quarter, those three places. The rest of the -- of our markets, especially those that didn't -- that had the least amount of weather headwind I mean there were -- where we didn't have weather headwinds, we had comps that were up mid and high-single-digits. So there was very much so a disproportionate impact on those three specific markets from what Rob just described.

Rob Lynch

Yes. And the only thing I'll add on top of that is, as we are building 50 -- between 45 and 50 Shacks this year, I think most of those Shacks aren't in those markets. I mean we are diversifying our portfolio. We are building Shacks in places that are seeing significant population growth in the Southeast and Southwest.

And those are some of our best-performing markets right now and some of our best-performing new Shack openings. So yes, obviously, Q1 was a challenge given the impact of those markets where we have a lot of penetration. But as we grow, and keep the same model where we're able to open these Shacks with excellence in these markets, we're going to be less exposed to some of those geographies.

Operator

Our next question is from Daniel Guglielmo with Capital One Securities. Please proceed.

Daniel Guglielmo

Hi everyone, thank you for taking my question. And kind of on a similar subject, as we just discussed. But around the long-term goal of 1,500 company-operated Shacks and then taking into consideration the macro impacts in February through April. Have there been any changes to the way that you identify or judge potential new U.S. locations? Is there anything from a quantitative or qualitative standpoint?

Rob Lynch

It's a great question. I think we've talked a little bit about the fact that we are much better from a market identification and analysis standpoint on where we're going to go in and where we can be successful with our new Shacks. And that that was in place before some of this recent last couple of months, macroeconomic situation impacting these regions.

I -- we will -- we are a New York-based company. We have a ton of our best Shacks in New York. We will continue to develop and grow in New York City. We have, despite some of the challenges in California around wages and what have you, we have great Shacks in California that do lots of volume and deliver great margins, and we have great teams out there. I was just out there last week visiting our Northern California teams, who have completely transform that market over the last year and are delivering great results.

So our legacy markets, we will continue to find great pieces of real estate in those markets and open up great successful Shacks. But we are really investing resources in places like Arizona, Texas, the Southeast, including Florida, where we are seeing not just great Shack openings, but pretty significant comp growth.

And some of that is driven by macros. These markets are growing populations. These markets are increasing their buying power. But we have really built a model that, that the drive-thru is a big help. It gives us access to real estate in these markets that we didn't typically -- that we didn't historically have. So we are -- I would tell you, our strategy hasn't necessarily changed, but the strategy that we had in place prior to February, I mean development is a long lead time program. It serves us well given kind of where the macros are going and where these different geographies are landing.

Operator

Our final question is from Rahul Krotthapalli with JPMorgan. Please proceed.

Rahul Krotthapalli

Good morning, guys. Thanks for all the color. I have a two-part question. The first, New York and California are over 30% of the store base and probably even more than 40% of sales. Can you discuss what percentage of this 110 stores or so across your system within company operated have higher mix of tourism or over-indexed to that? There have been some reports on like lower bookings in the summer for hotels, slides, et cetera, whatnot. Curious to hear if there is contemplated in your guide.

And then, the second part, like some of the brands have been leveraging social media really well, both organic and paid content, can you discuss your plan to leverage the platform, either through regional or celebrated influences to drive some traffic as you open new Shacks and then also with the LTOs.

Rob Lynch

I'll address the second one first, and then Katie can kind of talk to the dynamics impacting New York and California. Social media is kind of what we do. We don't have the big franchisee-funded media budgets that a lot of our competitors do that are providing big TV campaigns. So our focus is definitely on paid digital, but even more so on earned social.

And we just -- the best example is what we just did with Dubai chocolate Shake. And we had, I don't know, 12, 15 influencers in our Innovation Kitchen, the week before we launched it, and we shared it with them and they were developing their content. And when that thing hit the Shacks, the amount of impressions and the amount of positive social momentum that we got I would argue is equivalent to almost anything that happened with our much larger competitors over the last year. So we leverage influencers in our large markets like New York, but also in our newer markets in smaller markets when we go in and open new Shack openings. So social media is really one of the foundational ways that we connect with our guests.

Katie Fogertey

And then on your question about tourism, yes, certainly, what we've called out in the macro headwinds that we had in New York City, in Los Angeles and Washington, D.C. was impacted by international tourism. And our guidance we have expectations that those pressures persist for the rest of the year. We also acknowledge a wider degree of uncertainty about how the macro environment will play out. And that is also reflected in the wider range of guidance that we gave for this year on top-line.

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 remarks.

Rob Lynch

So I would just like to thank everybody for their -- I know there's a lot of calls happening today, and there's a lot going on in the industry, and I want to thank you for your continued interest in our company.

And I just want to say that our teams are 100% focused on the things we can control. We talk a lot about macro headwinds. We talk a lot about the challenges that we're all facing and the uncertainty that's out there.

But we're mitigating that with staying focused on the foundation of Shake Shack. It's operations, it's supply chain, it's culinary innovation, it's development. And we've never performed at a higher level. This is a testament to the people that are out there working in our Shacks every day, the people that are out there working in our supply chains and the people that are building our Shacks. So I just want to thank them for everything they're doing. It's really amazing what's happening right now at Shake Shack, and we are excited about our future and thankful that all of you are interested in that future.

So with that, I'll say thanks to everybody.

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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