

Seeking Alpha<sup>α</sup>

Transcripts

# Shake Shack Inc. (SHAK) Q2 2024 Earnings Call Transcript

Aug. 01, 2024 12:55 PM ET | Shake Shack Inc. (SHAK) Stock

**SA Transcripts**

149.26K Followers

## Q2: 2024-08-01 Earnings Summary

Play Call



Slides



Press Release



10-Q

EPS of \$0.27 **beats by \$0.00** | Revenue of \$316.50M (16.44% Y/Y) **beats by \$2.22M**Shake Shack Inc. (NYSE:[SHAK](#)) Q2 2024 Earnings Conference Call August 1, 2024 8:00 AM ET

### Company Participants

Michael Oriolo – Vice President, FP&amp;A and Investor Relations

Rob Lynch – Chief Executive Officer

Katie Fogertey – Chief Financial Officer

### Conference Call Participants

Brian Mullan – Piper Sandler  
Lauren Silberman – Deutsche Bank  
Brian Vaccaro – Raymond James  
Michael Tamas – Oppenheimer & Company  
Andrew Charles – TD Cowen  
Christine Cho – Goldman Sachs  
Brian Harbour – Morgan Stanley  
Peter Saleh – BTIG  
Jake Bartlett – Truist Securities  
Sara Senatore – Bank of America  
Daniel Guglielmo – Capital One Securities  
Jeff Farmer – Gordon Haskett  
David Tarantino – Baird  
Andy Barish – Jefferies  
Sharon Zackfia – William Blair  
Jim Sanderson – North Coast Research  
Chris O’Cull – Stifel

## **Operator**

Greetings. Welcome to Shake Shack Second 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, FP&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, 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 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 second quarter 2024 shareholder letter, which can be found at [investor.shakeshack.com](https://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**

Thank you, Mike, and good morning everyone. I'm very excited to be here today speaking to you as the new CEO of Shake Shack. Thanks to all of you for joining us on the call today. First, I want to take a moment to recognize Randy Garutti for leading Shake Shack since the inception and for his many accomplishments in building this great brand. I also want to thank him for how he thoughtfully transitioned the CEO role to me. His wise counsel and generous commitment to my success has absolutely helped me get off to a fast start. Speaking of fast starts, I'm happy to share with you that Shake Shack had a strong second quarter, growing Same-Shack sales by 4%, expanding restaurant level profit margin by 100 basis points to 22%, the strongest quarterly results since 3Q 2019 and growing adjusted EBITDA by 27%. There's great momentum in the business and that momentum has continued into July where we finished the month up 4.1% on Same-Shack sales.

In my first 90 days I spent a lot of time in the field learning how to make the best burgers in the business, hand bread or 100% all natural and antibiotic-free chicken, hand-spin our premium frozen custard shakes and perfectly fry our beloved crinkle cut fries, all while learning to embody the enlightened hospitality that is this company's special sauce.

I would like to give a shout out to the great people in the Shacks in Houston and San Diego for being patient with me while training. It truly is our people that make Shake Shack so amazing. My first official day in the job was a dream come true as I opened Shake Shack's first restaurant in my hometown of Pittsburgh, PA. I couldn't have written the scripts any better. I'm happy to report that it is doing fantastic and I can't wait to open many more successful Shacks there. We are opening a lot of great Shacks right now, including the twelve new company operated Shacks in Q2, exceeding our expectations and continuing the development momentum critical to our future growth.

There are so many things to be excited about right now at Shake Shack, the Same-Shack sales growth, our improvements in restaurant level profit margins, and the unit growth across the globe to name a few. But what initially attracted me to this opportunity was the simple fact that Shake Shack has my favorite burger on the planet. As I dug further into the brand's DNA, I was drawn even more to the founding principles around enlightened hospitality, particularly the uncompromising commitment to our team members, guests, communities, suppliers and investors. I love that we use premium ingredients, stay focused on ensuring the best customer experience, and facilitate strong team member engagement.

Shake Shack truly is the standard for how our industry should and can operate. My excitement and conviction has only increased in my first couple of months as CEO. The strong foundation that Danny and Randy built has positioned Shake Shack to perform incredibly well and is one of the few restaurant companies growing revenue, units and adjusted EBITDA, all at double digits and I see even greater potential for this unrivaled brand. As I've dug into the business fundamentals, I've spent lots of time with our executive team learning both the what and why across all aspects of the business.

While still in the early stages of forming our long range growth strategy, I do want to share some of my early learnings and provide the three key areas where I'm focused which are driving healthy Same-Shack sales and building brand awareness and affinity, opening more Shacks globally with great returns for us and our licensed partners, and improving profitability through improved productivity at our restaurants and corporate operations.

I would like to talk a little bit about each of these important areas of focus. First, driving healthy Same-Shack sales and building the Shake Shack brand. The team has done a great job driving Same-Shack sales, especially in the current challenging macroeconomic environment, and we are proud to report this past quarter with the 14th straight quarter of positive Same-Shack sales. Our ability to maintain our premium products and premium positioning while continuing to meet the ever changing needs of our guests is paramount to the long-term success of our company. There has been much discussion about customers moving to a more value oriented mindset and that the industry has started to wage value wars in a fight for transactions.

In this environment many believe that Shake Shack's premium positioning is a liability, but to the contrary, I believe that is truly one of our strengths. Our team has been nimble and begun to employ strategic promotions to earn more than our fair share of transactions, and it is remarkable that we've been able to do this while also growing our restaurant level profit margins. Our teams have truly struck the right balance between product innovation, pricing to mitigate inflation, technology implementations and strategic promotions.

This is the model that we will leverage moving forward regardless of the macroeconomic environment and given results so far I have a lot of confidence in this team's ability to keep the momentum going. Shake Shack celebrated its 20th anniversary in the second quarter and the company is still in early innings with an amazing amount of growth on the horizon. As you know, Shake Shack has built a strong brand and has an unbelievable story, beginning as a single hot dog cart, serving fine dining quality food in Madison Square Park and flourishing to more than 550 Shacks worldwide today.

That said, it has been very eye opening to see how many people across this country don't yet know what Shake Shack is. We believe there's still a great deal of untapped potential for this brand in domestic and global markets, which makes me incredibly optimistic for the future. As I work with the team to understand this opportunity, I'd like to share my framework for building a successful marketing strategy. It is based on answering three questions, who is our target audience, what is going to either increase or change their behavior and how do we efficiently and effectively reach them? Our marketing team has done a very good job at answering many of these questions already, as evidenced by their ability to deliver strong Same-Shack sales in a tough environment.

As we continue to operate in this ever changing consumer landscape, it will be critical for us to challenge ourselves to further optimize our approach as we continue to increase our investments in marketing. These investments in marketing and media will drive greater awareness and trial as the company scales. However, I want to be clear it is not simply about spending more advertising dollars at the expense of profitability. We will ensure that our marketing investments continue to generate the same significant returns that they do today. Our profit objectives will not come at the expense of marketing spending for the sake of marketing.

Our second area of focus is opening restaurants with best-in-class cash on cash returns. As you know, the team has been very focused on taking costs out of our new builds and have committed to approximately a 10% reduction in build cost in 2024 and building a 2025 pipeline with further improved build costs. This productivity will afford us the opportunity to explore new real estate options while aiming to maintain the same levels of return and profitability. I'm also working closely with our development, marketing and operations teams to optimize our drive through format, which will be an unlock for us to enter into markets where our traditional foot traffic will be replaced with car traffic.

The third area of focus I will speak to is our focus on driving profitability. The team has done an incredible job expanding restaurant margins over the last few years. From 2020 to 2023, Shack restaurant level profit margins expanded 560 basis points and we expect to generate another 70 to 110 basis points of margin expansion in 2024. Adjusted EBITDA margins expanded nearly 800 basis points from 2020 to 2023. Despite this great progress, I see even further opportunity to become more efficient across regions and formats. Shake Shack is a brand that has been built primarily on foot traffic in areas like New York City, San Francisco and Chicago, where we have larger units built to capture existing traffic just from people walking by.

As we continue to build out and diversify formats, including drive-throughs, and leverage third party delivery as a component of our revenue model, there's an opportunity to get more efficient in how we operate and deliver across channels with the utmost productivity. As part of this effort, I'm excited to have hired Stephanie Sentell as our Chief Operations Officer, who has been in her seat for just a few weeks now. Having worked with Stephanie in the past, I can vouch for her proven track record of driving profitability, leading high performance teams and spearheading operational innovations. But the momentum at Shake Shack is evident and I see significant opportunity to further enhance the already great work being done.

Our three focused areas are directly related to driving strong unit level economics and increasing ROI, which will ultimately lead to long-term shareholder value creation. I'll be working further with the executive team on shaping our long range strategic plan with a focus on continuing our strong momentum into 2025. I'm extremely optimistic about the future of Shake Shack and look forward to sharing more in the coming months.

With that, I'll turn the call over to Katie for a more detailed discussion on second quarter financial results. Katie?

**Katie Fogertey**

Great, thank you Rob and good morning everyone. We're proud of our second quarter results which continue the trend that we have seen in each quarter over the past three years, generating positive Same-Shack sales and double digit revenue, restaurant level profit and adjusted EBITDA growth. And this quarter we achieved the highest level of Shack sales, total revenue, restaurant level profits and adjusted EBITDA on record along with the highest restaurant and adjusted EBITDA margin since 2019. In the second quarter, relative to last year, we grew total revenue by 16.4%, expanded restaurant level profit margins by 100 basis points, grew adjusted EBITDA by 27.4% to 14.9% of total revenue, that's up 130 basis points, and we generated \$20.6 million in free cash flow. This is the highest on record. We are on a solid path to once again generating positive free cash flow on an annual basis.

Onto the details of our second quarter results. We grew total revenue by 16.4% year-over-year to \$316.5 million and system-wide sales by 13.5% to \$483.7 million, marking two record achievements for Shake Shack. We opened 23 Shacks system-wide with strong sales performance out of the gate and achieved the 14th consecutive quarter of positive Same-Shack sales. In just the past three years, we have nearly doubled our trailing twelve month system-wide sales to now \$1.8 billion. In our license business, we grew sales by 8.4% year-over-year to \$178.3 million with 11 new licensed Shack openings and a low single digit sales headwind from foreign exchange. We saw strong growth in our domestic business led by airports and roadway travel plazas.

We also opened our first Shack in Canada up in Toronto with very strong performance and a line outside the Shack starting at 05:00 a.m. on opening day. We are proud of our entrance in this market and offering locally inspired menu items like the maple salted pretzel shake. Our strong domestic performance was matched with growth in Mexico as well as the UAE and the Philippines and Japan. However, this was somewhat offset by continued macro pressures in mainland China and pockets of EMEA that we will expect to persist for the foreseeable future. In our domestic company operated business, we grew Shack sales 16.7% year-over-year to \$305.5 million with 12 Shacks openings and 4% year-over-year growth in Same-Shack sales. Traffic was down 80 basis points and check rose mid single digits as pricing was partially offset by planned marketing strategies that resulted in a negative low single digit mix.

We continue to see a positive impact from stronger kiosks mix driven by higher attach rates, especially on beverages and custom add-ons. During the quarter we lapped about 2% pricing mid-May and exited the quarter with approximately 4% in check menu pricing and a blended approximately 6% menu pricing across all channels. As a reminder, we will lap the additional 1% of price in October. Throughout the quarter we remain focused on driving sales through our marketing initiatives and culinary innovation as well as operational improvements. In April, we launched an exciting new promotion highlighting our no antibiotics ever and no added hormone Chicken Shack sandwich. We saw strong incremental sales and a lift in brand awareness.

Then, right as Memorial Day weekend hit, we launched our summer barbecue menu highlighting two limited time offering sandwiches and our barbecue spiced fries. Our sandwich offering includes the Smoky Classic Barbecue Burger, which features a smoky barbecue sauce and crispy onions and then we also had the Carolina Barbecue Burger, which has a tangy barbecue sauce topped with our hand battered and made to order fried pickles. These two sandwiches and our barbecue fry offerings have been a hit and we hope that everyone gives our LTO burgers a try.

Compared to the first quarter, we drove improvements in our Same-Shack sales trends in all regions. We grew Same-Shack sales by mid teens in Florida and Arizona and high single digits in markets such as Washington, D.C. and Michigan. In California, our Same-Shack sales improved sequentially from negative low single digits to positive as we implemented approximately 7% menu price to help offset the mandated increase in wages.

Finally, in New York City, our shacks remain impacted by inflow pressures, particularly in third-party delivery. We showed continued improvement on restaurant-level profit in the quarter as we achieved \$67.1 million or 22% of shack sales, 100 basis points better than last year. We did this with menu price and cost savings, mostly in labor, and food and paper, that are helping us grow our profitability and unlock additional investments for marketing strategies to drive greater brand awareness against a challenging industry backdrop. We are pleased with our current improvements on operations, and execution on cost savings, and have a strong line of sight to a substantial opportunity ahead for added efficiencies and profitability.

Food and paper costs were \$85.1 million or 27.8% of shack sales, down 120 basis points versus last year and down 80 basis points versus the last quarter as menu price and strategic cost savings and our supply chain helped us offset underlying low-single digit inflationary pressures including beef and fries, up mid-single digits and certain costs related to our sales driving initiatives.

Labor and related expenses were \$86.6 million, or \$86.2 million, excluding \$445,000 of expense related to California health care charges for fiscal 2020 through 2023 that do not represent fiscal 2024 labor and related expense. Excluding this expense, labor was 28.2% of shack sales, down 50 basis points versus last year as we benefited from menu price, sales leverage and operational strategies. This was offset by a 90 basis point impact from wage inflation, mostly in California.

Other operating expenses were \$44 million or 14.4% 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 \$23.2 million, or 7.6% of shack sales, approximately in line with last year's levels.

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 levels, which is vital to our long-term growth.

G&A was \$36.3 million. Excluding \$2 million in one-time adjustments, G&A was \$34.3 million or 10.8% of total revenue, 20 basis points favorable to last year. The increase in GNA was driven by significant growth in marketing to drive higher brand awareness and sales, as well as strategic investments in our people to support our growth and executive transition.

Pre-opening costs were \$4 million in the quarter, down 28% year-over-year as we showed strong progress against our target to reduce pre-opening expenses per Shack by at least 10% this year.

All in, we grew adjusted EBITDA by about 27% year-over-year to a second quarter record high of \$47.2 million, or 14.9% of total revenue. This is up 130 basis points from last year and the best second quarter adjusted EBITDA margin since 2019.

Depreciation was \$25.5 million, up 14.6% year-over-year.

We realized net income attributable to Shake Shack Inc. of \$9.7 million, or \$0.23 per diluted share. We reported an adjusted pro forma net income of \$12.1 million or \$0.27 per fully exchanged and diluted share.

Our GAAP tax rate was 23.4%. And our adjusted pro forma tax rate, excluding the tax impact of equity-based compensation was 22.7%.

Finally, our balance sheet remains solid with \$304.4 million in cash and cash equivalents and marketable securities at the end of the quarter. This is up \$19.6 million versus the prior quarter as we grew operating cash flow by approximately 26% year-over-year and made investments in the approximately 40 Shacks that are currently opened and under construction today.

Now onto our guidance, which reflects a degree of uncertainty around the macroeconomic outlook. We are planning to hold onto many of the trends that we've seen in the first half of the year, with mid-teens growth in Shack sales, positive same-Shack sales and expanding restaurant-level profit margins in the second half of the year.

For the third quarter, we guide total revenue of \$311.6 million to \$317 million up 12.8% to 14.8% year-over-year, with \$11.6 million to \$12 million of licensing revenue with approximately seven license openings. Same-Shack sales to be up low-single digits year-over-year with low-single digit price mix and six to seven company operated openings and restaurant-level profit margins of 20% to 20.5%.

For the fiscal year 2024 guidance we guide total revenue of approximately \$1.24 billion to \$1.25 billion, growing about 14% to 15% year-over-year.

Same-Shack sales to grow by low-single digits year-over-year. Approximately 40 company operated new Shack openings and approximately 40 license openings. We expect licensing revenue to reach \$44 million to \$45 million.

Restaurant-level profit margins of 20.6% to 21%, this represents 70 to 110 basis points of expansion year-over-year.

Our 2024 G&A guidance is \$143 million to \$146 million. And equity-based compensation expense is approximately \$18 million. The G&A guidance does not include the \$5.1 million in nonrecurring costs that are excluded from adjusted EBITDA year-to-date.

We guide full year pre-opening of \$17 million, depreciation of \$103 million to \$105 million and adjusted pro forma tax rate that excludes the impact of equity-based compensation to be 20% to 23%.

Our fiscal 2024 adjusted EBITDA guidance is \$165 million to \$170 million, representing approximately 25% to 29% growth year-over-year, nearly double our expected total revenue growth rate and representing a margin of approximately 13.3% to 13.6%, at least 120 basis points higher than the prior year and the highest adjusted EBITDA margin since 2019.

## **Rob Lynch**

Thank you, Katie.

It's a great time to be an investor, team member or guest of Shake Shack. I am so thankful to our amazing people for all that they do to make Shake Shack a company that we can all be proud of. I look forward to continuing our strong start to the third quarter and to working with our team to build this brand for years to come.

And with that operator, please open up the call for questions.

## **Question-and-Answer Session**

**Operator**

Thank you. [Operator Instructions] Our first question is from Brian Mullan with Piper Sandler. Please proceed.

**Brian Mullan**

Hey, thank you. I just wanted to ask about the broader advertising and brand awareness opportunity. There was a line in the letter that talked about sharing your premium ingredient story as a key differentiator. So Rob, maybe that gives a clue what you have in mind for the coming years, but would love if you could just elaborate on that? How you're going to get that message out there to consumers? And how you see this evolving over time as the company continues to get bigger?

**Katie Fogertey**

Yes, great question, Brian. Obviously, driving profitable comp growth is priority number one for us. And I believe there is a huge amount of opportunity to do that, and it's in multiple ways. One of those ways is what you are highlighting our ability to drive brand equity, and greater awareness and understanding of our premium ingredients and premium experience that we offer through enlightened hospitality. But there is a lot of other levers too. Product innovation is a huge opportunity for us to drive both new customers as well as frequency. I think we have a lot of trial driving opportunity by going out into these new markets where we don't currently serve. But once we get there, we really don't have a problem driving trial.

When we open these shacks, we have lines around the corner. Our first couple weeks of sales are bigger than I've ever seen in any concept. So, people really come to try Shake Shack. Our job is to drive frequency. And brand marketing, and how we position the brand will help that. It will also be helped by strategically building a product innovation calendar that brings our best customers back more often. One of the biggest levers that we have – to drive comps is not actually marketing at all, it's improving our speed of service and our throughput.

Our service times are still kind of in that range of where we have been in the early days, where we were kind of a New York brand and people would wait a long time. We have to get faster. We're shining a light on that, on operations. That's going to drive comps as well.

We've talked a lot about value perception and, you know, I think that was one of the big question marks around could we, you know, persevere through these value-oriented times? I think the last four or five months have shown that value isn't just about price. It's about the benefits that you offer to your cut to your guests at a fair price. And I think our comps show that we're able to do that, and I think we can get even better at that.

And then the last piece that we're doing to drive comps moving forward is we're building out a loyalty marketing platform. That's a big part of the opportunity here at Shake Shack.

I think the team has done a great job on tech, kiosks, implemented in all of our shacks have really been a big positive for us, but we still are unable to execute against a one-to-one marketing platform. That's going to be a big part of that model, too. So we have a lot of different levers, untapped opportunities to drive Same-Shack sales moving forward. Brand positioning is just one of them.

## **Operator**

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

## **Lauren Silberman**

Thank you very much. And congrats again Rob. You mentioned working with the development team on optimizing the drive-thru format. Can you just give your initial assessment on the success of the drive-thru thus far? And then obviously there's a 450-unit potential number out there, which is viewed as bit stale given at the time of the IPO. Do you think drive-thrus are the key unlock to increasing that addressable market or any initial assessment?

## Rob Lynch

Yes, great question, Lauren. I mean, I – if you ask anybody in this building, you will know that I am like the biggest drive-thru pusher in Shake Shack. So, I do think it's a huge unlock. I have framed it up internally and externally is moving from a business that used to deliver against walk up traffic to a business that's going to need to deliver against drive-up traffic.

You talk about success of the drive-thru. We really haven't had that yet. I got to give credit to the team. Shake Shack was primarily, almost exclusively a dine-in business when the pandemic hit. And that was obviously a tough time for this company and for everyone involved. And they moved quickly to try to mitigate that and incorporate things like third-party delivery and drive-thrus into the business model. And they did that without having a lot of drive-thru expertise.

So today, our drive-thru times are exceedingly too long, and we're going to fix all of that. And it's a part of there's multiple facets there. One is the ordering process. Today, the menu on the drive-thru boards looks exactly the same as the menu in the dining room. We don't have tools like combos and other things really implemented at scale that can improve the speed of ordering and the lack of stress on the kitchens and how they make things. So that's a big part of it.

We don't have standardized, linear lines across all of our drive-thrus, and so people are moving around, it's a lot of steps to get to the drive-thru window. So there are a lot of opportunity in drive-thru to get it faster.

We execute pretty good accuracy. The team does a great job making food fresh and making it right. We got to get faster, and we will. And once we get that unlock solved, we'll have a lot more confidence building these things in a lot more markets.

Today, given the current speed, I think, there has been a hesitancy because we haven't seen the returns on the drive-thrus yet, because they haven't drove a lot of incremental throughput. That's going to change. We're going to focus on drive-thrus. Stephanie is going to help the team evolve our drive-thru strategy, and it will be an unlock for us to get that TAM where I think all of you expect us to go.

## **Operator**

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

## **Brian Vaccaro**

Thanks and good morning. Yes, I had a follow-up just on ops and margins, and I realized Stephanie's only in for a few weeks. But Rob, you've obviously got experience on the ops side. So as you've dug in the last couple of months, I'm just curious to get your take on what some of the biggest opportunities are to optimize the back of house and improve the guest experience. To what degree might there be opportunities on the equipment side to reduce cook times or make your shakes more efficiently? Or any tools to better anticipate demand, understanding your cook to order. Just anything there would be great.

And the second question on that would just be at \$4 million AUV's, is there any structural reasons that you couldn't meaningfully narrow the gap in your store margins versus best-in-class, fast casual peers? Thank you.

## **Rob Lynch**

So, great questions. What I would tell you is that Stephanie, I almost don't even know that Stephanie started, because all she is doing is spending all of her time in our Shacks. I mean, she is digging in and she is visiting a lot of our major markets. She is training, she is learning, and I probably get about five texts from her every day about opportunities for us to get better.

So, the answer to your first question is absolutely yes. There are opportunities for us to improve operational efficiencies in almost every way. What we won't do is compromise the quality of our food. This brand has been built on the best burgers in the business and making food that people are willing to stand in line for. And that's not going to change. But if we can leverage equipment, technology, if we can leverage operational processes, if we can just change some of the things that we measure and focus on, all of those things are going to have an impact on speed is my primary focus, and Stephanie's primary focus is increasing throughput. And then labor productivity is a secondary focus.

So we got to get our great food out faster. And once we get those processes in place that allow for that, we'll be able to really explore how we can get more efficient and effective with our labor. So that's the first question.

And it kind of rolls right into the second question. \$4 million AUVs that's – there's a handful of brands in the industry doing that level of sales. And so, yes, we should be able to deliver great margins. We're really happy with the margins that we delivered in Q2. And I think there's aspirations for us to continue to get more productive. So, yes, there's upside for sure in the operations of the business.

### **Operator**

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

### **Michael Tamas**

Hi, thanks. Good morning. I just wanted to ask a near-term clarification and sort of a bigger picture question. On the nearer-term traffic in June turned negative relative to the flat that you saw in April and May, and you called out some of the slowing marketing investments. Then you said your July traffic had turned positive, which I think is also a little bit better than what we're hearing from a lot of restaurants. So can you impact for us what you think is going on in July, particularly against the industry?

And then Rob, I'd love to hear your thoughts on what you think the most impactful drivers that you can unlock on the sales side over the next 12 months versus those that might be a little bit longer-term, maybe the next two or three years. And how you think you can achieve this without handcuffing future margins, like you mentioned. I mean, does that require some cost reductions in other areas of the business or how you think about that? Thanks.

## **Rob Lynch**

Great questions. We're really happy with our traffic in July, and it's really representative of the power of this brand when we get the model right, which is kind of what we've continued to optimize over the last four or five months. And that's I got to hand it to the marketing team, for a long time, this brand didn't have a lot of activations and a lot of promotions and a lot of marketing.

And they have in a short period of time, figured out some real unlocks for how we can drive incremental traffic in this business. And so in June, it was a little bit of a fall off in kind of our marketing push and we did see commensurately a little bit of the traffic impact from that. And it's really encouraging that in July, when we came back full steam, we saw it bounce back. So I feel really confident that in the short-term we're going to be able to leverage those tools and those capabilities to continue to garner more than fair share of traffic.

Which ties to your second point around near-term sales, we're going to continue doing that. We have a very strong back half calendar plan from both a marketing standpoint as well as a product standpoint. So that's why we're comfortable reiterating our guide for positive comps in the back half. And the fact that we've been able to do that while drive those comps, while still delivering really strong margins and we're committing to delivering strong margins in the back half is a testament to the strength of that balanced approach that the team has been employed in Q2.

## **Operator**

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

**Andrew Charles**

Great. Thank you. I had a question to follow-up for Katie. Katie, I'd love to better understand the early learnings from the labor scheduling tool. How many stores now include this? And in the early stages, the tool delivered the efficiencies you're hoping it would.

And then just as a follow-up on the marketing, the G&A guidance was nudged a little higher while stock-based comp was nudged a little lower. So we think about this, right? There's about an incremental \$2 million to \$3 million investment in G&A for marketing in 2024.

**Katie Fogertey**

Hi, so first of all, on labor. So just to remind everybody, we are in the process of kind of refining our labor allocation in our Shacks to really account for the unique channel, menu mix and peak periods and of all of our restaurants. So we started that test early this year and we have – we're really pleased with the results from that. We've talked about rolling that out. We have a commitment to roll that out by the end of this year, and we are well on track for that.

And then also on your point around G&A, we are making additional investments in marketing. We also have had room in there for an increase around we talked about investments in our people and executive transition expenses. When you take out executive transition expenses, we are still on a path excluding our increase in marketing and advertising investments. We are still on a path to lever that versus last year.

**Operator**

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

**Christine Cho**

Thank you. So congrats on a great quarter. It's really great to see in the shareholders letter you mentioned that your recent units are exceeding your sales expectations, but at the same time you're effectively lowering your build costs. So what are some of the things that you've done that has driven this success? So are you picking the right markets? Are you benefiting from the brand awareness, finding the right formats, et cetera?

And how do you plan to keep this momentum going forward while keeping the returns in check as you think about further expansion? And also just how does the increased drive-thrus also fit into this equation as well? Thank you.

### **Rob Lynch**

Yes, great question. I am very focused on the cash on cash returns that we're going to garner from our Shacks moving forward. The team has done a great job. It's been benefited to a certain extent just on some of the cost of materials and the build outs coming down. So we've benefited from that. But its also our team has taken a very thoughtful approach to RFP in a lot of the things that go into building Shacks from the contractors that we use, the architects that we use.

So across all facets of building a new Shack, the team has really challenged themselves on how they can get better. The equipment that we're putting in, we've RFP. There's a lot of things that the team has done by taking a really focused approach on getting those costs down.

The other thing that's going to drive those returns is we have moved to a more standardized kitchen model. For a long time, every Shack was kind of a unique Shack that the ops teams had to kind of figure out. We – a lot of times, we were going into pieces of real estate that made it hard to standardize.

We've moved to a bit more of a model. As we scale, we're going to have to be more standardized. So we're building standard formats for larger Shacks with larger real estate, and standard formats for places where we have to go in with smaller footprints and those that standardization is going to make it easier and more efficient and productive for us to build and operate our Shacks on a run rate basis.

## **Operator**

Our next question is from Brian Harbour with Morgan Stanley. Please proceed.

## **Brian Harbour**

Yes. Thanks. Good morning, guys. In your letter, you did kind of mention wait time improvements. And I was just curious what's been kind of most impactful there. And then I mean, Rob, having spent more time inside of Shacks lately, what do you think could really kind of continue to drive kind of that, that improvement in speed of service.

## **Rob Lynch**

So I'll talk at the macro level and then Katie can weigh in on some of the recent results and improvements. But at the macro level, I mean, look, Shake Shack, as we all know delivers high AUVs and there's always been strong demand and strong trial of our restaurants and our Shacks when they open up.

There – I think speed of service is always something we kind of talk about, but hasn't necessarily been a religion. It's kind of fallen secondarily to some of the innovations that we can deliver. And some of the way we make our products is more important. And we're just kind of maybe reprioritizing, I think, once again as you move from all of your Shacks being in Manhattan and the New York City area where a lot of folks are walking up to the Shacks and they're used to kind of waiting in line to get Shake Shack and we start to compete against other brands in other markets in Ohio and Georgia and Texas and all these other places.

Speed becomes something that is part of the overall guest experience and is a big part of that, especially as you move into more drive-thru formats. So we've really just kind of changed the way we think about it, like it's about holistic guest experience. Food quality, taste is part of that, enlightened hospitality and how we make the guests feel is part of that. The convenience, accessibility and speed are also part of the holistic guest experience. And we're just kind of putting those up the ladder in the order of prioritization.

So as we move forward, we're going to start making some strategic decisions on how we operate, the equipment we use, how we think about the kitchen in regards to making sure that we're delivering better speed. So that's the big picture. I'll let Katie talk to us specifically what's happened in Q2.

### **Katie Fogertey**

Yes. Great. So we – it's just for everybody's benefit. Starting this year, we started to really talk about speed of service as a KPI for our operators. And we've shown continuous improvement on it. We did again in the second quarter, a lot of this is through reporting and just making sure that we're on top of it and identifying opportunities. But I think what you're hearing from Rob is that, that opportunity to really move the needle is more on the transformational side. And so I think that's what we're really excited about addressing going forward.

### **Operator**

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

### **Peter Saleh**

Great. Thanks for taking the question and congrats on another strong quarter. I did want to come back to the conversation on the marketing and advertising. Over the past year, you guys have been sprinkling in this marketing into different regions of the country. I was hoping you could give us a sense on where you spent some of these ad dollars this quarter and where you anticipate spending some of the ad dollars in the back end of the year.

And then just on the return hurdle, what are you guys looking for in terms of return for this investment? I know in the past, we've heard brands talk about \$3 of sales for every dollar invested. Can you give us a sense of what your return hurdle is on the advertising, marketing, spending that you are doing now? Thank you.

## **Rob Lynch**

Thanks, Pete. So we obviously still have a very big part of our system located in and around the greater New York City area. And that's where we're going to get. The most return on our investment in the near-term, we are exploring how we can most effectively market in these other regions to drive growth. Our fastest growing region right now is the Southeast, and we're building a lot of Shacks there.

And so we definitely want to continue to propagate that. We want to go in and win in markets that are most conducive with structural economics that are most likely to drive the highest margins, right? So strong real estate at an affordable cost, good construction costs, good labor costs, strong market growth. So we're going to continue and invest in markets where we derive the best returns.

I don't think we've disclosed our marketing ROIs, and I don't know that we're ready to do that. But I can tell you that that three to one number that you put out there is low relative to what we see. So I think there's a huge upside potential on marketing here because there's just been such a lack thereof in the 20 years that Shake Shack has been around, like the brand hasn't had the market.

The brand's products and Danny's reputation, and a lot of these things have driven a lot of brand heat, a lot of excitement, a lot of trial. As we enter into these new markets, it's going to take more than that. And we are really excited about the fact that the returns that we see on our marketing investments are some of the best I've seen in the industry.

And we're going to continue to double down there because we believe that it's going to drive profitable growth. As we mentioned in our earlier discussion, we're not just spending marketing because that's we want to drive top line at all costs. We are taking a very plan full approach, making sure, testing that when we go in and we invest in a market, we're going to get strong returns and it's going to be profit positive.

## **Operator**

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

## **Jake Bartlett**

Great. Thanks for taking the question. Mine is on cadence, the first part of that is on the restaurant level margins. I think guidance for the third quarter implies maybe flat, maybe a little bit down at the mid-point. But you raised the year, so it looks like there's another expectation for acceleration or bigger increase in the fourth quarter. So maybe just help us understand what's going on from the third quarter to the fourth in terms of the year-over-year change. And then I had another question about the sales momentum.

## **Katie Fogertey**

Great. Yes. We're really excited about the margin expansion path that we're on here. And our guidance implies still some pretty substantial increase in margins in the second half of the year. Our guidance calls for 70 to 100 basis points of margin improvement year-over-year for the full year. There are a little bit of unique dynamics in the third quarter versus the fourth quarter. And just also highlight we are lapping in the third quarter very substantial improvement versus the prior year. We had about 390 basis points of improvement in the third quarter of last year. So there's some shift around with food and paper inflation and some investments that we're making in to drive brand awareness. But the second half of the year is shaping up to be another very strong margin expansion opportunity for us.

**Operator**

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

**Sara Senatore**

Thank you. I guess, clarification and then a question, if I may. So one, the first clarification, I mean, Rob, you said that there's been some questioning about the premium positioning, but as a problem in the current environment. But I guess, I would actually think it would be a positive given – we've seen higher income consumer spend much more robustly than lower income consumers. So is the clarification is, am I wrong in assuming that the Shake Shack customers perhaps higher income than others and maybe particularly higher income than perhaps the traditional fast food hamburgers.

And then the question is maybe more philosophical nature. But can you help me understand, I always think of Shake Shack's kitchen as perhaps more like a full service restaurant, just in the sense of everything is made to order and less like a traditional fast food restaurant. So as I think about what the margins should look like or what the throughput should look like, should I be comping it more to full service as I think about restaurant level margins or more towards your fast casual peers who tend to have more like an assembly line approach to production? Thanks.

**Rob Lynch**

Great questions. I would tell you that, yes, we do have an over representation of higher income guess, which I think protects us from the current economic environment. That being said, I think Shake Shack can appeal to everyone. I think that we have to find ways to get more efficient, more productive, so that we can bring Shake Shack and penetrate more deeply into some of the lower income opportunities.

My vision coming here is to scale this thing and really bring Shake Shack to every market across the globe. And in order to do that, we have to be broadly appealing. So the answer to your question is yes today, what you said is an exact representation of what we're seeing, that we do have some protection against the kind of the challenge up against the lower income segment. But we're working to make merely broaden our brand to not be only for the highest income burger eaters.

On the second question, the Shake Shack kitchen, you're absolutely right. It is a fine dining model. We've got stations. It's almost like a symphony in the back of the restaurant where we got lots of people doing different stuff. And it kind of all comes together in a beautiful crescendo at the expo line and then we take it to our customer, our guests. And I'm not saying that all of that's going to change. We're not going to change the fact that we make burgers when you order them. We're not going to change the fact that we use the highest quality ingredients. We're not going to change the things that make Shake Shack special.

But there's definitely an opportunity for us to streamline the operations, move to a bit more of an assembly line model. Not necessarily, because in a way that we're going to have a lot of different things sitting around and the quality of our products are going to go down. But just to make sure that we are able to meet the customer's expectations, that pulls up to a drive through in Kansas City, Missouri. Like, they're not going to – they're not the same appetite for waiting for their food is in Madison Square Park. So we have to do things that are going to meet the customer's needs holistically on guest satisfaction and enlightened hospitality. So that's work to be done, but so much upside there. And Stephanie is laser focused on that right now.

## **Operator**

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

## **Daniel Guglielmo**

Hello, everyone. Thank you for taking my question. Rob, you mentioned the untapped potential in the global markets. What percentage do you think is a good long-term target for the licensing revenue line, and what are some risks you all think through if you take that percentage up too high, too fast?

### **Rob Lynch**

Yes. I don't think we're disclosing exactly what the growth rate or the percent business is going to be on the licensing business. But what I will tell you is that my background, a lot of it has been spent in franchise businesses. And I know the power of getting great licensees or franchisees excited about growth, and we are focused on that. Our team, led by Michael Kark, who leads our international and licensed business, is energized by the fact that I have kind of challenge them to take the reins off and grow that licensed business.

We have a lot of white space internationally to go out and open Shake Shack's where a lot of people want them and don't yet have access to them. So new market potential is a big opportunity for us internationally, but there's also a lot of remaining opportunity in markets that we've already penetrated where we have great partners. I would tell you that in my experience, Shake Shack has some of the best franchise partners that I've been around. Just looking at the business model, looking at the way this team has worked with our partners to grow and foster this brand. So license revenue will be a big part of our plan moving forward.

### **Operator**

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

### **Jeff Farmer**

Good morning, and thank you. You've noted that Shack is in the early stages of what kiosk can do for the business, "sort of". I'm just curious if you can provide a little bit more color on what you see as sort of the – either the near-term or intermediate term opportunities with the kiosks.

**Rob Lynch**

Yes. I mean, when I think about the kiosks business, I think about two primary contributions to our business. One is upsell. When you go through a kiosk experience, we can guarantee that the upsell opportunities are made.

Sometimes, we have amazing team members, but sometimes that is not always a priority, when you've got 40 people in line, you're trying to get through it as quick as possible.

So there is, I think, a strong opportunity continue to optimize the way we execute that, to drive items per check and mix improvement. And then the second piece is how we think about our labor model, and how we think about taking orders and how many people we need to do that, and how we execute enlightened hospitality in the best way, right? We may redistribute that labor from taking orders once the kiosks have proven to be the optimal way to making sure that those folks are out in the dining room, taking care of our guests or contributing to the team in the kitchen. So upsell, mix benefit and labor optimization are two long-term benefits for the kiosk business.

**Operator**

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

**David Tarantino**

Hi. Good morning. My question is on speed of service and throughput, which has been mentioned several times on the call. And I was just wondering if you have any way to frame up what you think the sales opportunity from that is – I guess, do you have examples that would give you confidence that this is a few points of sales, maybe ten points of sales? I don't know if there's any way that you can frame up how big of an opportunity this might be. And then Rob, I'm curious as a second part of this, whether you think menu simplification could be part of the strategy to accomplish that.

**Rob Lynch**

So, thanks, David. I mean, what I would tell you is we don't have a crystal ball to know exactly what the throughput is going to do, but I'll just give you our speed of service and our drive-thrus, which are only in 30 to 35 Shacks today, is 2x what it needs to be. And so we – there's so much opportunity for us to drive improvements there. I mean, you've heard on some other calls during this earnings season about the negative impact that a lack of throughput can have on comps and can have on revenue in general.

I don't know that there is another brand that has more upside opportunity on throughput than we do. And so I don't think we're going to tag a same Shack sales number on that and guide to that. But I think you can have a lot of confidence that we are hyper focused on improving throughput across a lot of different dynamics. When you talk about menu simplification, I actually don't think our menu is overly complex. I mean, you're talking to a guy who was at Taco Bell. We had 150 items on the menu, like, we don't have that level of complexity.

We do have opportunities to optimize the complexity of the ordering process through the drive-thru. So I don't know that we're necessarily looking at removing a lot of things from the menu holistically, but we are absolutely going to explore how we can make the best use of what we have on the menu through the drive-thru to make sure that we're optimizing speed of service in that channel.

## **Operator**

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

## **Andy Barish**

Hi, Rob and Katie. Two quick ones. I was wondering, as you dug in, Rob, just back to the point on sort of the value seeking guest or the competitive \$5 meals out there, what do you think the overlap is? I mean, clearly there are some aspirational guests who want to enjoy Shake Shack. Have you kind of teased that out in terms of that lower end consumer?

**Rob Lynch**

Yes. I mean, it comes back once again to this discussion around trial and frequency. I would argue that every human in their right mind wants Shake Shack. I mean, it's literally the best burger, fries, shake, drink you can get. I mean, just like, maybe I'm biased, but that's why I'm here, because that's how I feel. And so, once again, we do not have a problem driving trial. I think, when we opened that Shack in Pittsburgh, where I'm from, there's a lot of hard work and blue collar people in line to try Shake Shack, when we opened that day, when I was there.

The problem or the challenge, I should say, and the opportunity is really what it is, is for us to be able to mitigate the barriers to frequency. And those two barriers are the speed of service and some of the value perception. And we're working on both of those things. And once again, we're not going to degrade the quality of the experience. We're not going to degrade the quality of our products. But I do think there are opportunities for us to evolve our menu strategy, evolve our LTO strategy, evolve the way we approach how we position things across our revenue model and our menu to drive a better value perception.

I think those are the two things that are really going to help us to drive frequency. So I don't think it's like, hey, lower income customers don't want Shake Shack. They do. And frankly, they show up and try it and they love it, but it becomes more of a special occasion. I don't want to be a special occasion. Like, I want to be something that is a Friday night staple for the family, that is a after work stop on the way home. And in order for those things to happen, we got to work on our speed of service and we got to work on our value perception. So from a brand positioning standpoint, that's where a lot of our effort is.

**Operator**

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

**Sharon Zackfia**

I see we're going in alphabetical order. So happy to be busy here. I guess a question on the speed of service in tandem with loyalty. Is there a natural sequencing where you would want to attack speed of service before you would actually implement a loyalty program? And within loyalty, what is a peer that you would want to emulate? Or how do you think about how loyalty would manifest for Shake Shack?

## **Rob Lynch**

Yes, great questions. I don't know that we're necessarily thinking about it as speed of service versus loyalty. I mean I am a big believer, Sharon. I think that the overarching point is a good one. If you spend a ton of marketing dollars driving people to your Shacks and the experience holistically isn't the best it can be, you're probably not getting the same ROI on those marketing dollars. And the fact that we do get such a high ROI on our marketing dollars with longer wait times and maybe some of those challenges that we've talked about is really encouraging that when we do solve some of those challenges, we're going to get even higher ROIs on those marketing investments.

So that's the first piece, the second piece in terms of loyalty, I mean as everyone knows, I mean I came here from Papa Johns, and Papa Johns is an e-commerce business that has, I think, at this point, and I could throw a number out there because, I don't know, because I haven't been there for 90 days, but they have somewhere between \$25 million and \$30 million loyalty customers. And I know that those customers are their most valuable customers.

And so I was there as we built that loyalty program from \$12 million to today, probably close to \$30 million, and I saw the power of that. And so that's what we aspire to. We aspire to be able to build a platform that has a capability that allows us to build one-to-one relationships with our guests.

It's not just about discounts. I mean a really awesome loyalty program as – it delivers more value than just discounts. It allows access to early product offerings. It allows access to swag that customers, our most loyal customers, really want. So there's a lot of other things to build that relationship and drive loyalty/frequency besides just discounting. So that's the kind of model that we're working on building here.

**Operator**

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

**Jim Sanderson**

Hey, thanks for the question. Just wanted to clarify unit growth. I think it was a little bit softer in third quarter and is going to put a bit of pressure on fourth quarter as far as getting to the 40 units for company and license. Anything to call out there of concern or is this just timing market issues?

**Katie Fogertey**

Yes, so we opened 12 on the company operated side. We opened 12 restaurants in the second quarter that was a little ahead of our guidance range. We're going to be opening about six to seven in the third quarter.

And we are, targeting to have approximately 40 for the full year. So, just a little bit of timing shifts on that side. We're on a very solid path on the development, both for company operated and also for our license business.

**Rob Lynch**

Yes, and I'll just layer in there that we are really excited about how these Shacks are opening. I mean, the Q2 openings have been really strong performance and I think it's a testament to the development teams building Shacks that are easier to operate. The operations team making sure that we get off to a good start, have a lot of team members and managers lined up in the queue to open these Shacks with excellence.

We're not just opening Shacks to get to an opening number. We're being thoughtful and planful about making sure that these Shacks get off to a great start. And the sales results from our new Shack openings in Q2 are indicative of that strategy. So really positive results year-to-date on new store openings.

**Operator**

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

**Unidentified Analyst**

Good morning. Thanks for the question. This is [indiscernible] on for Jeff. Rob, just a high level question on QSR discounting. Again, you were sitting on the other side of the fence not too long ago in your prior role, what did you see it play out when QSR went up against fast casual? Did fast casual historically see traffic with those price sensitive guests, or did it respond with greater value or bundling of its own? Just any perspective you can share from your days in the pizza category – would be really helpful. Thank you.

**Rob Lynch**

Yes, it's an interesting question. There's so many nuances across this great industry that we all cover and work in. I mean, pizza is kind of a unique animal in the sense that it is hyper value driven and there's not a huge amount of pricing power there. People shop it like they shop, e-commerce and retail, they're looking at multiple different options and looking for deals. Right.

QSR is very different than that. You know, as a Taco Bell and Arby's, that industry, most people, it's not a pre-planned purchase. Most people, it's an impulse purchase. They're driving down the road, they make a decision on where they're going to stop within one minute of executing that transaction. I would say that Shake Shack and its lifecycle today is kind of in the middle there. I mean, Shake Shack is still a little bit of a destination, special occasion type restaurant concept.

And so people are planning to go there. And so it is like, okay, I know what I'm getting and I'm willing to pay for it, and I'm going to go there. And that's great. And like I said earlier, that insulates us a little bit from some of these value wars that are going on in QSR. That being said, I think we have the opportunity to play on both fronts. I think we have the opportunity to still be that special destination in this industry.

But we can pick up a lot of volume by opening up our aperture to be more in line with some of the more traditional QSR impulse purchases. And as we build, Shacks on sides of highways with drive-throughs, we have to be. So that's really the growth opportunity for us. And we're going to strike the right balance.

We're going to continue to build Shacks that do \$4 million and \$5 million AUVs and have kind of this neighborhood walk up feel. But we're also going to be investing in Shacks that are more appealing to kind of that QSR, traditional QSR customer. We feel like we're going to have the strategy to be able to do both well.

## **Operator**

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

## **Chris O'Cull**

Thanks. Good morning, guys. Rob, how are you thinking about pricing as you go through this year? And do you believe the promotional and LTO offers that you're planning need to limit check growth in the current environment?

## **Rob Lynch**

So very top line. I will tell you, I come from working at Procter & Gamble up against Walmart, and I ascribe to kind of Sam Walton's pricing philosophy. Like, we. I believe that you take pricing to hold margin. I believe that pricing is a tool to mitigate inflation, whether that be commodity inflation or wage inflation or any other form of inflation like we've seen over the last three years at scale.

Pricing is not a way to drive sales like it can, that can be an outcome, but that's not a strategy. We need to drive sales by doing all the things we talked about earlier, delivering great product innovation, delivering our brand promise, and building our brand equity focused on throughput, and delivering some type of one-to-one loyalty platform.

So that's what's going to drive our top line. We're going to use pricing to mitigate inflation. And so, I mean, probably as well as we do what inflation looks like over the upcoming 12 to 18 months, our plan will be to leverage pricing to mitigate that.

So that's kind of how we think about how I think about pricing in terms of this value customer and what's going on in QSR. I actually think that we've probably benefited from the hyperinflation in QSR. It's kind of narrowed a little bit of that span of absolute price point between the likes of traditional burger QSR players and Shake Shack. So I actually think we're in a. We're really well positioned to be competitive. And I'll tell you like, we just had a great.

I say we. I mean, I got to experience six weeks of it. I'm sitting here talking to you about all the great work that this team's doing that I can't take any credit for. They've been able to really find a way to be not just hang on during \$5 meal deals, but actually thrive. And so we're learning from that. We're learning from what worked and what didn't.

And I think we're only going to get better at competing in that environment and then looking forward. Our ability to impact our menu in a strategic way, to open up our aperture to be more appealing to both the middle and potentially lower income customers is all upside opportunity for us.

## **Operator**

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

## **Unidentified Analyst**

Good morning, guys. Rob, good to meet you. I'm just curious on your philosophy on how you plan to grow the core G&A over time. I mean, how do you view this from both as an investment and an expense standpoint at this stage of Shacks lifecycle? And if you can dive into the growth components, moving in relation with the mid-teens or double digit revenue growth runway you have down the line? And what are some of the core buckets where you can focus on more outside marketing?

## **Rob Lynch**

Yes, so I come from Arby's, where we were private equity owned. And so I have a very strong desire to be a good steward of the P&L. I think when I joined, everyone talked about me as a marketing guy and hey, I'll take it. I love marketing. I love delivering on the needs of our guests.

But I also am very return on investment focused. And so, G&A is a tool for us and it's a bit unique in the sense that, we're a company owned concept, right? So similar to a Chipotle or Starbucks. Like when we invest in marketing, those dollars come directly out of our income line and so we better get a good return in order to justify that investment.

So that's really how I think about it. And, earlier question was a great question. Like as we continue to improve our operations and our throughput, we're just going to get more and more return from our marketing investment.

So we'll continue to test and learn, we'll continue to optimize on the marketing investment. G&A overall, we're at a point now, I feel like we're at a point now where we've got enough scale where we should be starting to get more and more leverage on our G&A. So both at the corporate level, we should get more leverage, but also at above restaurant level, as we build, we're building Shacks, we're growing our units, double digits every year on a percent on a rate basis. Like that has to scale. That has to leverage. We have to get leverage there.

So I actually think we're going to get more productive and more efficient moving forward while we continue to increase our marketing investment because we're getting such great returns. I hope that answers your question.

### Operator

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

### Rob Lynch

So I just want to thank everybody for joining on the call today. It's obviously an incredibly exciting time to be here at Shake Shack. I'm humbled and thankful that they allowed me to come and be a part of building this great brand and this great story that is really just getting started. So I look forward to working with all of you on helping you understand really what's in store and look forward to speaking again on our next quarter results.

### Operator

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

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

View all [earnings call transcripts](#)

## Comments

Newest  