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Shake Shack Inc. (SHAK) Q3 2025 Earnings Call Transcript

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Q3: 2025-10-30 Earnings Summary

Insights



EPS of \$0.36 **beats by \$0.05** | Revenue of \$367.41M (15.93% Y/Y) **beats by \$3.70M**

Shake Shack Inc. ([SHAK](#)) Q3 2025 Earnings Call October 30, 2025 8:00 AM EDT

Company Participants

Alison Sternberg - Head of Investor Relations

Robert Lynch - CEO & Director

Katherine Fogertey - Chief Financial Officer

Conference Call Participants

Hyun Jin Cho - Goldman Sachs Group, Inc., Research Division

Michael Tamas - Oppenheimer & Co. Inc., Research Division

Brian Vaccaro - CGS International

Sharon Zackfia - William Blair & Company L.L.C., Research Division

Jake Bartlett - Truist Securities, Inc., Research Division

Jeffrey Bernstein - Barclays Bank PLC, Research Division

Andrew Barish - Jefferies LLC, Research Division

Presentation

Operator

Greetings. Welcome to Shake Shack's Third Quarter 2025 Earnings Call. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to Alison Sternberg, Head of Investor Relations. Thank you. You may begin.

Alison Sternberg

Head of Investor Relations

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, and our other SEC filings. 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 third quarter 2025 shareholder letter which can be found at investor.shakeshack.com in the Quarterly Results section, or as an exhibit to our 8-K for the quarter.

I will now turn the call over to Rob.

Robert Lynch

CEO & Director

Thanks, Alison, and good morning, everyone. We are extremely proud of our third quarter results, which showcase the important foundational work we've been doing to position ourselves for growth in the achievement of our long-term goals. Despite the strength of the outstanding quarter, we will not be complacent. Our focus remains to build a resilient long-term business, one that's not defined by any single quarter. We are making the necessary strategic investments today that set us up for long-term success. This means continuing to prioritize initiatives that strengthen our foundation and support sustainable growth.

We have been executing with purpose against the deliberate strategy inspired by our mission to deliver enlightened hospitality to our team members and guests. Collectively, our efforts have resulted in stronger team retention, better guest service, operational improvements and productivity, a steady cadence of culinary innovation and the foundation of a brand marketing model.

The engine behind our success in the heart of our brand is our team. We have assembled an incredible group of talent who bring a wealth of experience from both inside and outside the company. Our external hires come from well-established multiunit organizations where they have learned how to implement best practices that can help us as we continue to scale. And we are equipping our managers with tools to develop high-performing teams from within that are building a culture of hospitality, productivity and excellence. It's no surprise to us that we are seeing a reduction in turnover, leading to more tenured, higher-skilled hourly team members, which, in turn, is having a direct impact on the productivity of our labor in our Shacks.

We're also building a brand marketing model. We recently announced that we appointed Michael Fanuele as Chief Brand Officer. In this role, he will oversee advertising, paid media and insights and analytics, working in close collaboration with the broader team to advance our marketing strategy and steward our brand in the marketplace. Michael has been supporting our team as a consultant since earlier this year, where he played a pivotal role in helping to build our strategic brand positioning and in making the selection of our new creative agency partner.

We're extremely excited to take this next step in evolving our marketing model, which we believe is a critical component for us to build an enduring and powerful comp engine for growth. Michael's creativity, experience and leadership will help us continue to build demand for our culinary innovation, optimize our media investments and strengthen the Shake Shack brand.

Over the past year, we have made important strides in improving operations, and I want to spend some time walking everyone through what we are seeing. I'm incredibly thankful to our operations team and our support center for all the work that they have done to advance our business. This year has been an important year across our operations as we establish new practices that will help us scale our business with hospitality, efficiency and excellence. While we do not report this way, we recognize that many in the industry analyze our cost trends on a per operating week basis. We are aware of the fact that we are currently operating with fewer labor hours than we used to, and that our labor costs on an absolute dollar basis per operating week are down, however, still high relative to the fast casual industry.

Our historical labor model and the execution of that model was not well positioned to achieve the operating excellence that we need to deliver on our aspirations. In fact, the reduction in hours necessary to operate our Shacks with excellence has improved our ability to serve our guests because we are using those hours in a more productive way. We will continue to optimize our operations and get even more efficient in areas where we're simply overstaffed, while at the same time focusing on and delivering on better hospitality.

As we have discussed over the course of 2025, we implemented a new labor model that is an activity-based labor model moving off of the sales-based labor model. We also took a hard look at how we were deploying the hours that our Shacks were allocated and streamlined a lot in the service of the guest experience. We have built a disciplined approach and our Shack leaders are showing real accountability and using the tools and processes provided to attain our labor goals. I am pleased to share with you that nearly all of our Shacks met or beat labor targets in the third quarter. This is a meaningful improvement versus last year where approximately half of our Shacks met their labor targets. We are doing a better job of supporting our managers with strong above store leadership, data and analytics, and recruiting and training tools as they work to optimize the operations of their restaurants and deliver on their goals.

But our work is not done. Team members are at the heart of everything we do and the lifeblood of our company. One of the things that I'm most proud of is how much longer we are seeing our team members stay with us. We believe this improvement reflects our ongoing focus on creating an environment where team members can grow and succeed. We have included retention as a key metric on our operator scorecard, and our leaders are focused on training and development to help build a more tenured team. We are seeing improved throughput across all dayparts, including peak, from our team members that have more experience and tenure. This is not surprising as we make many items fresh from scratch and there's a natural and longer learning curve to our process versus traditional fast food. Simply put, the more experience our team has the better they can execute against our operational model.

Our top priority is guest satisfaction. We will continue to seek out ways to help our team members become more productive, that it won't come at the expense of guest and team member satisfaction. The evidence of that commitment can be found in our improvement in operating metrics, which we measure as a way to hold ourselves accountable for our North Star, our guests.

At Shake Shack, we cook our food to order. That is a big part of why it tastes so good. I am proud that our speed of service has improved from approximately 7 minutes in 2023, to now approximately 5 minutes and 50 seconds. We are going to continue to get even better here. Our guest satisfaction scores across meal taste, cleanliness of our Shacks and likelihood to return has all improved. And finally, with our optimized deployment, we are seeing higher throughput in all dayparts versus last year.

In addition to our work in operations, we're also driving improvements across our supply chain, and we are just starting to see the benefits from this. We have identified a long runway of opportunities ahead including, firstly, we are diversifying our supplier base, making sure that we have the right partners and enough partners to mitigate business risk and optimize costs. Second, we are diversifying our supplier footprint and optimizing logistics. Our supplier geography needs to grow as we grow. We're doing a lot of work to reduce time and miles from our suppliers to our distributors and to our Shacks. Lastly, we continue to invest in technologies that support our supply chain department in the critical functions as we scale.

As we continue to improve our supply chain, we will also continue to prioritize product quality and innovation, as we have onboarded additional suppliers across several key categories we're making sure that we can continue to procure high-quality ingredients. The work we are doing today in our operations and supply chain is also critical to helping us address a volatile beef market as we expect to face mid-teens beef inflation in the second half of 2025. Going forward, planned savings in our supply chain and continued improvements in operations afford us the opportunity to offset a meaningful part of beef inflation without having to take outsized price and still expanding our restaurant margins. This hasn't been the case historically for Shake Shack.

Another exciting part of our evolution is on the equipment side, where we are actively testing multiple solutions designed to make our Shacks easier to operate with an emphasis on improving product quality, consistency and speed. We plan to roll out the first of these solutions towards the end of the year, starting with new fry holding equipment that will allow us to serve crispier hotter fries every day. There is a lot more to come over the course of 2026 and beyond.

We are also investing heavily in our technology infrastructure, particularly our kiosk and digital channels, which will continue to be critical parts of our comp sales growth. In our kiosks and our digital platforms, we are driving positive check growth from improved merchandising of our core menu. As I've stated in the past, we are focused on delivering enlightened hospitality to our guests. Big part of that long-term commitment will be a strong loyalty platform, which we are working to deliver in 2026. As we build this best-in-class loyalty platform, we are currently leveraging our app with value and frequency offers. We have seen success from these initiatives and are tracking of approximately 50% more app downloads this year than last. This is important to our long-term growth as our app guests have higher frequency and lifetime value than our nondigital guests.

At the end of the day, we know what really excites our guests is our culinary innovation. Our made-to-order model affords us the ability to deliver food that other QSRs and even fast casual concepts cannot easily replicate. Culinary innovation has always been a part of our fine dining heritage and DNA, but the cadence of innovation in place now is unprecedented for us. Our Dubai Chocolate Shake was a powerful illustration. Dubai was highly incremental and drove a positive impact on all key brand measures with the largest brand perception gains on ingredient quality and innovation.

Beverage is obviously an important and growing segment within our industry. We have always offered high-quality, innovative teas and lemonades alongside of our world-famous custard shakes. Our goal is to significantly grow our beverage business across soft drinks, teas and lemonades, and to simply own the shake innovation space. With inspiration drawn from global recipes, seasonal occasions, unique textural elements and flavor trends.

Following on the success of our Dubai Shake, we've established a shake innovation pipeline with exciting crackable shake offerings as a plus up to our typical Shake LTO lineup. We're also continuing to fuel our pipeline of new sizes with fried pickles and onion rings and we are seeing strong attachment rate. But our crinkle cut fries continue to be the crown jewel of our sides platform. And alongside our new hot holding equipment, we are about to launch new procedures that will make them crispier, hotter and more consistently seasoned, making them the best we've ever served.

We are also going to continue to innovate across burgers and sandwiches. This includes our summer barbecue menu, which we launched in mid-Q2, and our limited time French Onion Soup Burger that launched in September. We're pushing the envelope and currently have a French dip Angus steak sandwich and a baby back rib sandwich in test markets. These innovations are part of our ongoing strategy to balance premium sandwich offerings with value platform so that we can continue to drive traffic growth. Once again, our made-to-order model affords us the culinary flexibility to make things that no one else can deliver with the type of premium quality that our guests have come to expect from Shake Shack.

While we're focused on developing traffic-driving LTO innovation, we're also continuing to invest in our core menu. These include fry improvements mentioned earlier, new chicken bites, which deliver a more consistent guest experience, and rolling out an improved cheese sauce for our fries that increases cheese coverage and has performed much better in test than our current offering. Our culinary innovation, as well as improvements to our core menu and operations are enabling us to serve our guests better and has prepared us to amplify our brand through new advertising and paid media.

In the third quarter, we invested in paid media at scale for the first time. We shared with you last quarter that we were starting to make some investments in that capability, and I'm happy to report that we are delivering results while learning a lot. We invested media behind Dubai Chocolate Shake as well as our dollar soda and app-only promotion, and these investments are a reason why we are delivering the sales growth that we shared with you today. Our brand positioning work is now complete, and we will launch new advertising starting later this quarter. We are working with one of the most awarded creative agencies in the world to bring our brand story to life through advertising throughout 2026.

Turning to development. We have significant white space to open new Shacks in the U.S. and around the world, and we are doing so at lower costs in spite of inflation. As part of our development work, we are also focused on new kitchen prototypes and equipment that could have a significant impact on improving our throughput and quality. This year, we are on track to open our largest class of company-operated Shacks. And next year, we expect to open at least 55 to 60 Shacks as we accelerate our rate of new Shack growth, and continue to build our strong pipeline of Shacks to come.

Turning to our licensing business. With 23 new store openings as of Q3, we are well on our way to 35 to 40 openings this year, and we plan on opening 40 to 45 more in 2026. This business is healthy and growing. Our existing markets are performing better than expected despite global macro headwinds with strength coming from new openings in the U.S., Canada, Israel and Turkey. This year, we have announced 4 new license partnerships, most recently with Union Mak in Hawaii to bring the Shake Shack experience to the Aloha state. We are building great momentum in the license business, and there is much more to come.

As we reflect on the most recent quarter and what is to come, Q3 was an example of our sales model at work. Multiple great LTOs in Dubai Chocolate Shake and summer barbecue and an in-app value message with support from advertising and media complemented by a healthy digital business that collectively drove strong traffic in a tough environment.

Now going to October. Our sales trends, although positive, were not consistent with what we saw in the third quarter. Macro headwinds to the industry did intensify and we are lapping one of the most iconic LTOs in our history, Black Truffle. We continue to invest in advertising and media to support the business. However, our French Onion Burger LTO, while loved by the media, has not been as accretive to traffic or check as was the case for our LTOs in Q3. After 3 weeks of analyzing the data, we pivoted and shifted support to our in-app value platforms. Over the last week, our in-app traffic is up 85%, and our overall traffic has seen over a 400 basis point change.

Looking ahead, we will need to deliver newsworthy LTOs complemented by a strong value platform and a healthy app and loyalty platform, as well as a strong delivery business. That is exactly what we expect from the balance of Q4 and our plan for 2026. We will also need to mitigate the continued traffic declines in the DC and New York Metro, which we believe to be macro in nature with outpaced growth in other regions.

I am really proud of the progress the team has made on the plan that we laid out at the beginning of 2025. And the quarterly results show that we are focused on the right strategic priorities moving forward despite the macro challenges. We have a long way to go to realize our full potential, but the progress is certainly heartening, and will allow us the opportunity to continue to gain share against the challenging industry backdrop.

And with that, I'll turn it to Katie for more details on the quarter.

Katherine Fogertey

Chief Financial Officer

Thank you, Rob, and good morning, everyone. We are pleased with the results of our third quarter that marks the 19th consecutive quarter of positive same-Shack sales growth, along with strong restaurant level and adjusted EBITDA margins, and double-digit adjusted EBITDA growth. Considering the macro environment, we feel especially proud of our results that reflect solid momentum and execution across both our company-operated and licensed businesses.

We grew total revenue by 15.9% year-over-year to \$367.4 million, led by strong new Shack openings and growth in our comp Shack base. We grew licensing revenue by 21.1% year-over-year to approximately \$14.6 million, and license sales by 15% to \$218.7 million. As we opened 7 licensed Shacks in the quarter and saw broad-based strength across most of our regions. In our company-operated business, we grew Shack sales by 15.7% year-over-year to \$352.8 million. We opened 13 new Shacks in the quarter, bringing the total as of the end of the third quarter to 30 openings, well on our way to opening our largest class on record, and we have plans to open 55 to 60 new Shacks in 2026.

We grew average weekly sales by 2.6% year-over-year to \$78,000. We delivered 4.9% positive same-Shack sales growth that represents a 390 basis point improvement from our first half 2025 run rate. This acceleration was led by improved traffic from initiatives that Rob described earlier in his remarks. We grew traffic by positive 1.3% in the quarter and all months saw positive traffic growth.

We had positive comps in traffic in nearly all of our regions. However, we continue to see macro pressures in New York Metro and Washington, D.C. that are weighing on our overall results. New York Metro and D.C. represent over 1/4 of our sales, and we have been experiencing a higher degree of macro pressures in these regions than many industry peers given our footprint today. So a challenging macro backdrop here continues to have an outsized impact on our overall performance.

But in spite of those pressures in a few of our markets, we still delivered nearly 5% in same-Shack sales growth with positive traffic. And that's really a testament to our strong success in other markets we're actively growing our footprint and scaling. In fact, we drove 7% to 8% comps in the South, West and the Midwest, with double-digit comps in San Francisco, Orlando, Dallas and Denver among a lot of other major metros. As our development pipeline has significant tilt away from growing in New York City and D.C., I am optimistic that over time, we can lessen the impact that 1 or 2 markets with specific pressures can have on our overall trends.

And Shack menu price was up approximately 2% and blended across all channels up approximately 4%. We took approximately 2% in menu price in the quarter to help offset the cost pressures from the mid-teens percent price increase in the beef market, and rolled off last year's nearly 2% price increase in October. With this, we will exit the year with approximately 3% menu price. We drove 1.4% of positive mix, led by kiosk merchandising efforts. Items per Shack declined 1.6%, consistent with our trends last quarter.

Turning to restaurant-level profitability. We generated \$80.6 million of restaurant-level profit, reaching 22.8% of Shack sales, a 180 basis point improvement over last year. Overall, the strong performance by our operators and the advancement of our strategic initiatives underscores the momentum we've built and our commitment to sustainable margin expansion over time, all while delivering on better guest metrics that Rob outlined earlier.

Food and paper costs were \$103.5 million, or 29.3% of Shack sales, up 110 basis points versus last year. The increase was primarily driven by mid-teens inflation in premium beef, which remains the largest part of our commodity basket. Historic low supply and sustained demand are contributing to a volatility in this category, and we expect elevated beef costs to persist through year-end and into next year.

In the third quarter, our blended food and paper inflation after factoring in our cost savings was in the mid-single digits range. As we shared in our shareholder letter, while we are planning for these costs to still be up mid-teens percent year-over-year in the fourth quarter, we anticipate only a low single-digit net impact on food and paper costs. This is an improvement from the levels we showed in the third quarter, and this is due to the positive impact from our ongoing supply chain strategies. We expect cost savings from our supply chain to grow and be even more impactful in 2026.

Labor and related expenses were \$88 million or 24.9% of Shack sales, down 310 basis points year-over-year, reflecting continued operational efficiencies, improved retention and gains in our throughput. Other operating expenses came in at \$53.8 million, or 15.2% of Shack sales, up 30 basis points year-over-year. This increase was primarily driven by higher digital sales. Occupancy and related expenses were \$27 million or 7.7% of Shack sales, flat year-over-year.

G&A was \$44.4 million, or 12.1% of total revenue, and up 24.3% year-over-year as we made incremental marketing and people investments to support our growth. Equity-based compensation was \$4.4 million, up 6.4% year-over-year, with \$3.9 million in G&A. Preopening costs were \$4.6 million, up 26.3% year-over-year as we opened 13 new Shacks and prepare for a strong opening schedule in the fourth quarter and into next year. We have approximately 30 Shacks under construction today.

We grew adjusted EBITDA by 18.2% year-over-year to \$54.1 million, or 14.7% of total revenue, a 30 basis point improvement compared to last year. Depreciation and amortization expense was \$27.1 million. Net income attributable to Shake Shack, Inc. was \$12.5 million or \$0.30 per diluted share. Adjusted pro forma net income was \$15.9 million or \$0.36 per fully exchanged and diluted share. Our GAAP tax rate was 35.2%, and our adjusted pro forma tax rate, excluding the tax impact of equity-based compensation, was 25.1%.

Our balance sheet remains strong with \$357.8 million in cash and cash equivalents at the end of the quarter. This is up approximately \$47 million year-over-year, and \$21 million sequentially. We grew operating cash flow by 50% year-over-year to \$63 million. We invested \$39 million in CapEx to support the strong opening calendar, and are on track to deliver another approximate 10% reduction in our build cost this year.

I'm going to now provide our guidance for the fourth quarter and the implications for our fiscal 2025 guidance. Our outlook assumes no major changes to the macro or geopolitical environment. Additionally, our fiscal 2025 includes a 53rd week. Due to the calendar impact from the 53rd week, the Christmas holiday closure falls outside of our comp measurement period this year, resulting in an extra sales day in our fourth quarter and full year comps. Our fourth quarter 2025 guidance, we expect system-wide unit openings of 27 to 37, with 15 to 20 company-operated and 12 to 17 licensed. Total revenue of \$406 million to \$412 million with same-Shack sales up low single digits year-over-year, and license revenue of \$15.4 million to \$15.7 million. Restaurant level profit margin of 23.3% to 23.8%.

For the full year 2025, we expect total revenue of approximately \$1.45 billion, up approximately 16% year-over-year, with same-Shack sales up low single digits year-over-year and license revenue of \$54.1 million to \$54.5 million. Restaurant level profit margin of approximately 22.7% to 23%, G&A to be approximately 12.3% to 12.5% of total revenue, equity-based compensation expense of \$20 million, preopening costs of \$19 million, net income of \$50 million to \$60 million, and adjusted EBITDA of \$210 million to \$215 million, reflecting the impact from the macro headwinds and increased marketing investment. Please see our shareholder letter for the full details on our fiscal 2025 guidance.

Additionally, as a housekeeping note, next year, we are moving to a guidance framework that better conforms with general industry practice, and we look forward to sharing this with you when we provide our fiscal 2026 outlook.

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

Robert Lynch

CEO & Director

Thank you, Katie. I want to thank our team again for their hard work and passion for Shake Shack, which is the engine behind our strong third quarter performance and our ability to achieve our long-term goals. 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

[Operator Instructions] Our first question is from Christine Cho with Goldman Sachs.

Hyun Jin Cho

Goldman Sachs Group, Inc., Research Division

Congrats on the strong quarter, and I appreciate all the color. I'd like to better understand your supply chain initiatives as a key driver of the margin expansion going forward. So first, how do you size the opportunity in the midterm?

And two, how do you really plan to track and respond to consumer feedback regarding some of these product modifications that may arise due to your supplier changes, and to ensure kind of consistent quality across regions and stores?

Robert Lynch

CEO & Director

Katie, maybe I'll answer the second question first and then you come back to the expectations. Christine, so there will not be any spec or product modifications. We are committed to delivering the same quality that we have delivered. And it has made Shake Shack's reputation for culinary excellence what it is. So when we're looking at bringing on new suppliers, we go through a very thorough testing and validation process to make sure they can deliver the specs that meet our standards and that the quality is consistent or better than what we have used in the past. And that's across every component of the supply chain, whether it's the beef that we're using, the buns that we're using, our custard that goes to our shakes, our fries, everything has to meet our standards or else we will not add that supply to our system.

Katherine Fogertey

Chief Financial Officer

Christine. So how we would think about the savings potential here? We started to roll out some more material cost savings in the fourth quarter. We're expecting that to build into next year. We've talked about -- as you saw in the third quarter, we had a pretty big step up in our food and paper costs as a percentage of sales. That was largely led by the mid-teens inflation in the beef market. And what we're seeing now with being able to mitigate some of that cost pressure through negotiations with our current suppliers and some additional supply chain strategies is that next quarter we're anticipating that food and paper as a percentage of our sales will moderate to more normalized levels with this low single-digit inflation.

This is really powerful for us, and we expect that these benefits will grow into next year, especially considering historically, when we've had big swings in the beef market, our main lever has been to pull price to help offset that and protect margins. Now we just have a much bigger aperture of tools that we can use to help navigate these waters. And part of it is for -- to help optimize our cost structure. But also, as Rob talked about, we need to add more suppliers. We need to have multiple sources of supply on our critical items. And we need to make sure that we're really pushing ourselves to make sure that we have the right suppliers.

And so I believe all of that work is underway here. It's really exciting to see that also translate into an ability to help navigate what is likely to be a challenging market for the foreseeable future on beef and still have net overall pretty muted inflation in our business.

Hyun Jin Cho*Goldman Sachs Group, Inc., Research Division*

And I think we've heard about kind of that broad deceleration in the macro intra-quarter and also softening trends into October. Could you kind of provide us with some thoughts on how you think about that setup in the fourth quarter? I know you pointed to D.C., New York travel pressures. But have you seen any pressures on the spending of the younger consumers under age 35 et cetera, that you would call out?

Robert Lynch*CEO & Director*

Yes. I mean I would just say that I think it's pretty broadly understood that there's definitely some pressure on the lower income consumers. And I think there's also been some commentary about the unemployment rates of younger populations as well, which obviously impacts our industry. But we have taken those challenges and incorporated them into our strategy.

I called out in the commentary that we launched French Onion LTO at the beginning of October. And we weren't delivering the incremental growth that we had anticipated in what we were seeing in Q3. And so we did a lot of analytics to understand what was happening and what the challenges were. And everyone knows, and it's everyone's talking about it, there's obviously a push to value in this industry. And so we leverage something that worked really well for us in Q3. Over the last week, 1.5 weeks, we went back to our in-app value platform and shifted our media, and shifted our awareness building to that platform. And we have seen dramatic change in the trajectory of our business over that time. We've seen over 80% growth in our app traffic -- traffic sales.

So it's been really transformational for us. And that's a big part of our plan moving forward. We need to have a balanced approach. We are the premium player in the burger market and we will continue to offer a great culinary innovation that plays in that premium space, but we need to have a balanced approach where we also have a value offering that can be very attractive to our guests, but also be accretive to us both on top and bottom line. And by leveraging our -- which represents a relatively small portion of our business, the traffic that we're driving and the check that we have to give up to drive that traffic is much less cannibalistic of our holistic business. So it's really driving the performance that we're seeing right now in Q4 and what we anticipate will help us deliver strong results again in Q4.

Operator

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

Michael Tamas

Oppenheimer & Co. Inc., Research Division

Actually, Rob, I wanted to follow up on that last point a little bit. You talked about how French Onion Burger didn't perform up to what you thought it was going to. So maybe what surprised you relative to what you thought was going to happen? And how does that change the way that maybe you're testing, or that innovation calendar? Because the message has been pretty clear that you're excited about the innovation calendar going forward. And so is there anything about what you're doing that might need to change to drive that innovation going forward?

Robert Lynch

CEO & Director

Yes. Great question. What I would say is that French Onion was another flavored burger. And it's not that there's not room for flavored burgers in our innovation calendar. But it's - - that is kind of our standard based form of innovation. Moving forward, including another big idea that we have coming this quarter, it's much more of innovation that we haven't done before. Ideas that bring a new story, not just a new flavor to the ticket. And so we're focused on trying to bring things we've never done before, complemented by some of our historic LTOs that have been our biggest winners.

So Truffle was a huge success for us. You're going to see Truffle again. For the Korean menu, a huge success for us, you're going to see that again. And we'll continue to innovate on our burgers. But right now, we're really focused on -- if we're going to be advertising and marketing a premium price point, it needs to be something that can generate, earn media, be newsworthy outside of just the launch a couple of days, a couple of articles written about it. We want our guests talking about our premium innovation similar to Dubai Shake, things that really create virality around the ideas that we're bringing. So that's the premium part.

The other innovation that we're delivering, I just mentioned, is on the -- in our digital platforms, particularly in our app. Like we have never seen the kind of growth that we're seeing right now in our app. We both in the form of downloads as well as actual sales. And it's driving traffic growth on our business. And so that is going to be a focal point for us. We're going to continue to double down there. We just launched our new platform, which is our 1, 3, 5 platform \$1 drinks, \$3 fries and \$5 shakes. And I think that this is a transformational thing for Shake Shack.

It shows -- and we really built this and we talked about it, is how we show empathy to our guests during some challenging times. And I think that's resonated and that's going to -- that balance is going to be the holistic innovative way we approach the marketplace. It's not just about the premium offerings. It's about having a balanced approach, particularly in this time where we need to make sure that we're delivering value to our guests.

Michael Tamas

Oppenheimer & Co. Inc., Research Division

And it's sort of like you knew my next question was going to be about value. Do you think that the 1, 3, 5 on the drinks, the fries and the shakes, do you think that's powerful enough for the consumer to recognize the value while you're still running premium burgers and sandwiches? Or do you think you need to sort of pivot a little bit on more of those like center-of-the-plate entree items to really give the consumer a little bit more value?

Robert Lynch

CEO & Director

Well, I can tell you, I have 10 days of data that would suggest it's extremely impactful. So I'm really excited about what we think this can do for us through the balance of the quarter and heading into 2026. And I can't wait to share those results with you next year when we're reporting on Q4.

Operator

Our next question is from Brian Vaccaro with Raymond James.

Brian Vaccaro

CGS International

I wanted to ask about operations and sort of the guest experience and really appreciate the color you provided on average ticket times now below 6 minutes. I was wondering if you could elaborate just on what you're seeing in terms of other guest satisfaction metrics? Obviously, speed is very important, but it does sound like you're seeing improvements in the experience, quality, maybe taste metrics, that sort of thing. Are there any other metrics worth highlighting?

Robert Lynch

CEO & Director

Brian, I had a call with Stephanie last night at like 9:00 after she wrapped up. She's in Atlanta with our entire senior operations leadership team. We built this Atlanta center to bring our teams from all over the United States and be able to collaborate and plan and train and develop our teams. And it's amazing everybody is using this space right out of the gate, our operators, our development teams.

But she had our operations team there over the last couple of days, and they are doing their quarterly business planning. And they are building plans to close the year really strong and they're also building plans to make sure that we have a pipeline of talent to be able to open up 60 Shacks next year. So our operations have really never been at this level. And every time I think we can't get better, we get better.

And it's as much about the mindset and the culture as it is about the specific components of the plan. We -- our team, our operators right now are not talking about the macros. They're not talking about the challenges. They're talking about how we can serve our guests better. They're talking about how we can get faster. They're talking about how we can get better at deploying our labor where it needs to be. They're talking about how now we can extend hours to better service our guests in the Shacks where it makes sense. So -- and they're doing that with excitement and pride. And winning begets winning. And these guys have knocked it out of the park for the last year and have gotten better every month.

And we've had some turnover and brought in some external leaders that have really brought great perspective to kind of the middle to higher end of our operations team. But it's also the folks who have been here for a long time and have been a part of Shake Shack for a long time. Sometimes when you bring in change and you try to transform something in 12 months there's resistance. And my discussion with Stephanie last night is like, look, everybody is on board. Everybody is full go. They're not talking about how tough it is. They're talking about how great we're doing. And that gives me the confidence that we're going to be able to continue to improve on our speed, accuracy, particularly in the delivery channels is a big core focus for us. We want to make sure that we're getting those orders right because those guests aren't in our dining rooms. They're not able to bring up something if it's not right. So we're focused on accuracy. We're focused on speed.

And something that Katie talked about, and I talked a little bit about in the comments, we are significantly increasing the tenure and retention of our team members. You would think as we hold our teams more accountable, that, that might create an environment where people don't want to be a part of it. It's just the opposite. They're seeing success. They're seeing opportunities for them to advance their careers and they're staying longer. And that tenure builds experience, which makes them more productive and makes us a better operating units. So all of those things are moving in the right direction.

On the guest sat -- yes, I mean get satisfaction across restaurant cleanliness, friendliness, all of the things that you measure have all moved in the right direction despite less labor hours. So we're just getting better. We're not ripping out labor to just drive savings. We're building models that optimize our labor pool, and that's delivering better guest satisfaction.

Brian Vaccaro

CGS International

All right. That's very helpful. And just a follow-up, if I could. Just Katie, a question on the G&A guidance. I think if we did our math right, it implies maybe a \$10 million increase in the quarterly spend versus what we saw in Q3. And I understand you've added a lot of new talent to the organization. But could you just elaborate on what's driving the uptick in the fourth quarter?

Katherine Fogertey

Chief Financial Officer

Yes. Yes. So as Rob talked about, we are making some meaningful investments here in marketing and media to drive the business. We're really excited about the stuff that we have lined up. We started kind of marketing this 1, 3, 5 platform that you talked about on the value side and seeing extremely strong results on the back of it. And we also have some exciting steps planned for later this year. These investments that we're making are all really geared at driving traffic, driving sales which, in turn, we expect to drive profitability at the restaurant level and beyond. So we're really excited about that.

For those who haven't followed us as closely last quarter, we did talk about kind of embarking on this new strategy, new for us, kind of common place for the industry. But new for us of investing into paid media to better expand and grow the awareness and our message, and our ability to drive traffic at our restaurants. The results that we showed in the third quarter with 130 basis points of positive traffic growth and some really strong comps, especially relative to a challenged industry give us the confidence that this is indeed the model that we should be doing, and we're excited to make these investments here today.

Operator

Our next question is from Sharon Zackfia with William Blair.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

I wanted to delve in a little bit more on that improvement you've seen in speed. And 5 minutes and 50 seconds is obviously a big improvement, but I'm curious what that bell curve looks like when you look across the Shacks, and what you would view like an ideal speed over time for the company to get to?

Robert Lynch

CEO & Director

That's a great question. And I think when you think about speed of service, averages can be very -- even though that's what we shared. Averages can be a little bit vague. I mean, what we are focused on right now is mitigating the tickets over 7 minutes. We want to make sure that we are not executing in a way that frustrates our guests. People don't get real upset about 5 minutes and 30 seconds versus 5 minutes and 50 seconds. They get upset when it's 8 minutes to get their food. So our plan to continue to drive down the average ticket time is to minimize our exceedingly long tickets. And that usually happens in rush when we've got super busy Shacks. Obviously, we do high-volume hours. And so some of the ways we're going to mitigate that is through some of the equipment technology that we talked about.

One of the things that holds us up is we're making fries to order. And that takes a lot of time. And it's not like we can't hold fries. It's what everybody does. It will make them hotter, and it will give us better access to those fries. And so like fry holding is a simple way for us to make sure that, that doesn't become a bottleneck while still delivering the same or better quality. So there's equipment solutions that we can impart. There's also labor deployment.

We used to -- part of what we're doing and how we're driving labor savings is we used to have like standard deployment schedules where when we opened, we always had in every Shack 5 or 6 people show up. We don't need 5 or 6 people every minute of opening. We're staggering the approach. We're bringing people in when we need them. What that does is it frees up some labor for us to deploy during the peak hours. So as we move underutilized labor off the shoulders and into the peaks, we're going to be able to get faster and be better.

So there's equipment solutions, there's labor deployment optimization that are all going to drive improvement. But I think if we're in that 5-minute zone, 5 to 6 minutes like we're making our customers happy. They know it takes longer. We're cooking to order but we can't have the 8 minutes to 10 minute orders. That's where -- that's the danger zone.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

I also wanted to ask a follow-up on the menu innovation. Clearly, I think a lot of it has been on the premium end, and it sounds like French dip and ribs might be there as well. Is the idea that you can keep kind of your base price at a very affordable kind of hurdle for the consumer and allow them to self-select into these kind of higher price points and drive check that way? I'm just curious how you're thinking about kind of balancing premium versus value?

Robert Lynch

CEO & Director

I mean, you absolutely nailed it. We have pricing power. I want to make it really clear that if there is some significant inflation, we could execute price increases to mitigate that inflation. We are approaching pricing in a very disciplined way and challenging ourselves to not take pricing, especially in this environment. So we will continue to utilize pricing in the most productive way. But we want to hold -- we want to keep our core menu prices as low as we can possibly keep them. And the way to do that, is to get more efficient in our supply chain, more efficient in our operations, and to bring this innovation that allows us to have people, like you said, self-select into more premium price points and drive check growth.

But I will tell you, we're also being very judicious on how we price those premium innovations. We have a big innovations coming here in the next couple of weeks that we're really excited about. And we are being very aggressive on the price point for what we're offering. And we're doing that because right now in this environment is the time to take share. Right now, when there's a challenging environment, that's the time when great companies get better. And we are focused on taking share. We are focused on making investments. We're not -- excuses and results are negatively correlated. Like we are not blaming macros. They are out there. We'll acknowledge them. It'd be naive not to do so. But we're building plans to address them. And we are focused on delivering value at every price point, whether it's our premium innovation, our core menu or the value offerings that we're putting into our app.

Operator

Our next question is from Jake Bartlett with Truist Securities.

Jake Bartlett

Truist Securities, Inc., Research Division

My first is on COGS and the impact of, obviously, beef inflation. You expect it to go into - - continue into '26. My question is that you've had some nice offsets this year, even aside from the supply chain savings, but you've seen some lower costs on the other items. So I guess if you can kind of give us a base case or roughly what we should and what you're thinking about for overall inflation -- food cost inflation in '26, including the items outside of beef, that would be helpful? And I have a follow-up.

Katherine Fogertey

Chief Financial Officer

Jake. So how we're thinking about next year, we have this long-term guidance that we're going to be able to continue to expand our restaurant margins that's consistent with our 3-year outlook. We've reiterated that today, calling for 50 basis points a year in restaurant margin expansion. How we get there, and as we've talked about, we're expecting a lot of that next year to come from supply chain and through kind of the natural leverage from growing the business.

We are embarking on kind of an accelerating path of supply chain savings. And also, as you've called out, there are some items that are moving more favorable as well in the commodity basket. We are planning for beef prices to still be a pressure though, next year. And we are working with our suppliers to help navigate through that environment, still meeting our objectives and our guidance for continued margin expansion next year without having to lean on a significant amount of price to offset the beef markets.

I will share all of the details on how 2026 will -- how we're expecting that to shape up when we give our annual guidance in January.

Jake Bartlett

Truist Securities, Inc., Research Division

Great. And then I had another question about the labor savings that you've been realizing. You're going to be lapping some right about now the labor deployment and then in January that the new scorecard. So the question is how much more you have kind of in the tank for labor efficiency? I know the message is you're kind of switching much more to the supply chain to drive the margin expansion. But is there any opportunity still to drive efficiencies with labor into '26 and beyond?

Robert Lynch

CEO & Director

So one of the big opportunity, untapped opportunities is on equipment. So we have built essentially an equipment innovation center in Atlanta. And our teams are doing work that we've never done before at Shake Shack to bring a standardized kitchen model that leverages equipment, that is really all about making our teams more efficient through increasing the ease to execute our model and delivering higher-quality hotter items faster.

And we just had our global team come into Atlanta last week, and we shared some of these ideas with them, and they were blown away. And their remark was all the kitchen innovation used to come from our licensees internationally because they were going out and doing things that Shake Shack wasn't necessarily exploring. And now we are bringing the ideas to our restaurants, but also bringing them to our license partners so that they can operate their kitchens more efficiently, drive higher margins and build more Shacks at a more rapid rate globally. So equipment is a big untapped opportunity for us to be able to continue to drive operational efficiency and increase our speed.

Operator

Our next question is from Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Just wanted to build on the marketing discussion. I know you mentioned building a foundation of a brand marketing model. I'm just wondering what new do you think we'll see into '26? I mean it sounds like a ramping on the paid media, which just began and wondering how that will tie in with the new loyalty program being rolled out in '26? How you think the interplay on those will drive incremental traffic? And then I had one follow-up.

Robert Lynch

CEO & Director

Yes. I mean our product innovation supported -- our product innovation and our value platforms, supported by media are what we are focused on delivering new guests, creating awareness and traffic, right? Our loyalty platform should increase frequency. And right now, what we are doing with 1, 3, 5 and the amount of adoption and downloads. And the -- all of that increased application user base is going to transfer directly into our loyalty platform. So we will launch our loyalty with a built-in user base and we will be able to leverage that loyalty platform to drive frequency with our most valuable guests.

So both of those work in a symbiotic way together. We're going to advertise and bring people in with exciting new innovation and value platforms. They come in into our -- over the next 6 to 9 months as we build out our loyalty platform. They transition into the loyalty platform, and we leverage that to drive frequency. And that's the model that we're going to employ next year and moving forward.

Jeffrey Bernstein*Barclays Bank PLC, Research Division*

Understood. It does seem like there's confidence around the comp trajectory and initiatives there. And obviously, the unit growth that is accelerating in terms of openings and the restaurant margin, Katie, you just mentioned, kind of margin expansion. I guess it's the G&A that's therefore getting a lot of the attention and hopefully, that gets a good return. But because of the significant uptick in the full year spend this year, I know you said paid media starting in the fourth quarter. Should we therefore assume that, that uptick is sustained in 2026, presumably more like the fourth quarter of '25? Is it a good run rate to assume for that? How should we think about the -- at least directionally, that G&A spend, which seems to be the only area that's maybe working counter to all the other things that have that positive trajectory?

Robert Lynch*CEO & Director*

Yes. No, it's a great question. I mean, we will obviously be providing guidance on 2026 in January. So I'm not going to necessarily speak to what we're forecasting in sales. But what I can tell you is the G&A is the fuel that's going to drive the comps. And obviously, we are going to make investments that we believe we're going to get returns from.

And so this, as I said earlier, this environment, where we're seeing a lot of competitors be challenged and lose traffic. This is our opportunity. This is our opportunity to take share. This is our opportunity to gain customers at a disproportionate rate. So we are all in. We are -- we believe ourselves to be a hyper growth company, right? And now we have the operations excellence to have 100% confidence that when we're sending new guests, or infrequent guests who may have had a bad experience in the past, back to our Shacks, they are going to have a balanced options in terms of value and premium. They're going to have the highest quality that we've ever delivered, and it's all going to be served fast and accurately. So that creates lifetime value.

So yes, I mean, we're investing G&A because that's the fuel. And over time, we should be able to scale that investment. We should be able to grow our revenue faster than we grow the rate at which we invest marketing and G&A, and that's going to create margin expansion. So this is a first in time we've invested at scale on paid media. And so yes, right now, it isn't scaled. It isn't necessarily at the point where we're able to decrease our G&A as a function of revenue, but that's the plan. And so it's either that or we kind of batten down the hatches. And we're not prepared to like issue a dividend anytime soon. This is a growth company. We're going to invest in growth. We believe that we have the right model in place.

Operator

Our next question is from Andy Barish with Jefferies.

Andrew Barish

Jefferies LLC, Research Division

Rob, just a question kind of from your background in QSR and sort of taking a higher-level approach to what's been sort of an unrelenting discounting promotional environment, both below you guys as well as above. How do you kind of see that playing out in '26? And is that informing any of your decisions on driving the Shake Shack business? Or do you guys think you can do what you can do if you execute on the plans you've given us today?

Robert Lynch

CEO & Director

Yes. I mean we're in the thick of it right now. I mean, everybody is pushing value. You've got \$5 meals. You've got \$11 casual dining meals where you sit down and get waited on, like there's value of plenty. And we are executing our model in the thick of that and delivering, I think, outpaced results.

We're not optimized yet. We are going to continue to learn. We're going to continue to get better. Some of our things we're doing have better results than other things we're doing. But we are very well prepared to deliver a balanced growth engine into 2026. And we -- like I said, are continuing to identify what works, what doesn't, what price points make sense, how to execute things, which target audiences to go after? All of that is feeding our plan moving forward.

And I'll just tell you, it never feels good to get on a call and say, hey, we ran something for 3 weeks, and it didn't work, but -- as well as we wanted it to. But what I want everyone to take away from that is that we have an agile business model. We are going to evaluate everything in real time with data and analytics. And when we see an opportunity to improve our results, we can shift into something that we believe will give us higher returns and deliver better outcomes.

So we have our plan already in place for 2026. We know what we're launching. We know when we're launching it, we know how we're doing it. We'll continue to assess the environment, the competitive environment as well as the results that we see and optimize on an ongoing basis.

Operator

We have reached the end of our question-and-answer session. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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