

Transcripts

Consumer

Shake Shack Inc. (SHAK) Q4 2025 Earnings Call Transcript

Feb 26, 2026, 12:17 PM ET | **Shake Shack Inc. (SHAK) Stock****SA Transcripts**

159.2K Followers

Q4: 2026-02-26 Earnings Summary

Insights

EPS of \$0.37 **beats by \$0.02** | Revenue of \$400.53M (21.86% Y/Y) **misses by \$1.45M**Shake Shack Inc. ([SHAK](#)) Q4 2025 Earnings Call February 26, 2026 8:00 AM EST

Company Participants

Alison Sternberg - Head of Investor Relations

Robert Lynch - CEO & Director

Kerry Britton - Sr. Director of FP&A

Conference Call Participants

Brian Vaccaro - Raymond James & Associates, Inc., Research Division

Rahul Krotthapalli - JPMorgan Chase & Co, Research Division

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

Anisha Datt - Barclays Bank PLC, Research Division

Peter Saleh - BTIG, LLC, Research Division

Sara Senatore - BofA Securities, Research Division

Andrew Barish - Jefferies LLC, Research Division

Nerses Setyan - Mizuho Securities USA LLC, Research Division

Presentation

Operator

Greetings. Welcome to Shake Shack's Fourth 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 our Vice President of FP&A, Kerry Britton.

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 fourth 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

Thank you, Alison, and good morning, everyone. Before I begin discussing our 2025 results and our 2026 plans, I want to share why after almost 2 years in this role, I am so excited to be a part of this company.

Firstly, I am thankful for the team that we have in place. My gratitude starts with all of the amazing people in our restaurants who welcome our guests every day with warm hospitality and amazing cooking that makes Shake Shack so special.

I'm also grateful and excited for the executive team that we have built. We have so many talented people on our team, some who have been here from the beginning, who help our company stay focused on our North Star of enlightened hospitality.

We've also added some remarkable new members to the team who bring a lot of external experience and best practices to bear on the foundation that we are building to support our lofty future aspirations. This is a balanced, experienced and very capable group of executives driving our company forward.

I'm also energized by the roster of candidates that we have built for our CFO search, and I'm confident that our process for that search will be completed in the first half of 2026.

Another reason I'm so excited and thankful to be here is because at Shake Shack, we truly believe that we have the best food in the industry, and we endeavor to give access to that food to an ever-growing number of communities throughout the world. In order to do that, we will need to continue to use the best ingredients in our freshly prepared food and conveniently deliver it with value to our guests in every community that we serve.

Our company started as hotdog stand in a park, a park that had fallen into disrepair and needed its community to bring it back to life. So what did our founders do? They raised money for that park by selling premium hot dogs made in one of the world's most acclaimed fine dining restaurants to everyone who is willing to stand in line to order.

And they served everyone with the same principles of enlightened hospitality that they were known for delivering in their fine dining restaurants. We aspire to bring that founder story to life every day and through each new Shack that we build.

We want to provide the entire world access to the quality of food and hospitality that historically has only been found in higher-priced fine dining establishments. In doing so, we will prove that the world's best food doesn't have to be exclusive. In fact, it can be a delicious beacon of hope that brings us all together.

But in order to accomplish this goal, we have to continue to use the highest quality ingredients, turn those ingredients into our culinary forward recipes, prepare our sandwiches, shakes and sides fresh when ordered and then deliver our food in a convenient and timely manner, all at a great value.

Certainly, not a small task, but we are well on our way to proving the food that is prepared fast with approachable price points doesn't have to mean that you are settling for anything less than the best in the world. I believe this endeavor is something to truly be proud of. It's why I'm here.

Now on to our 2025 results. 2025 was a year of strong execution and disciplined growth. Despite a macroeconomic environment that remained uncertain for much of the year, our team delivered solid financial results, expanded our footprint with the largest class to date and made important strides in improving our unit economics and guest value proposition.

These outcomes reflect the hard work of our restaurant teams and the effectiveness of our strategic initiatives. I can't emphasize enough that we are laser focused on becoming a best-in-class restaurant operations company.

What does that mean to us? It means that we will support our team members so that they can accurately and expediently serve our guests the highest quality, best tasting food in the industry at a great value with enlightened hospitality. Our teams have made so much progress in 2025, and I can't wait to celebrate all of their upcoming achievements in 2026.

For the year, we grew total revenue by more than 15%, increased our presence domestically and internationally by opening 85 Shacks system-wide and delivered same-Shack sales growth of 2.3% in our company-operated business, all while we expanded our restaurant level profit margin by 120 basis points to 22.6% and drove 20% year-over-year growth in adjusted EBITDA reaching approximately \$210 million.

Our success this past year reflects an investment in and disciplined execution of a focused set of strategic priorities. We strengthened the fundamentals of the business while continuing to elevate the team member and guest experience, driving improvements in operational excellence, laying the foundation for greater quality and cost discipline within our supply chain, and delivering compelling culinary innovation and value.

At the same time, we enhanced unit economics through margin expansion and meaningful reductions in build costs, positioning the business for more durable and profitable growth.

As stated earlier, operational excellence remains foundational to our strategy. In 2025, we completed the first full year under our new labor model, which is designed to place the right team members in the right roles at the right times to drive both efficiency and more importantly, hospitality.

It is not about cutting labor. It is about the optimized deployment of our talent so that we can maximize the effectiveness of it. We want to make sure that our team members are well prepared to take care of our guests during our busiest times and that they are able to do that in a well-orchestrated results-oriented manner.

We've implemented a performance scorecard across our company-operated Shacks, providing visibility and accountability by measuring key metrics across people, performance and profits. As a result of this, we've seen attainment to the labor guide improved from approximately 50% of Shacks meeting targets in mid-2024 and to consistently above 90% in 2025.

This isn't about driving out costs. Cost reduction is an outcome, not the overarching goal. Our priority is to help our managers become more strategic and less reactionary to their ever-evolving scheduling needs.

It's like any other thing that we do in life. When you align on a plan, measure results, and continue to optimize in a disciplined and consistent manner, it reduces stress that results from unforeseen circumstances and ultimately improves performance.

In turn, you're able to better deal with the unexpected challenges that inevitably come your way. We are highly focused on execution through optimizing deployment, improving throughput and ensuring our teams can deliver great service. We are seeing meaningful success from these efforts, evidenced by reduced wait times across all dayparts and higher team member retention.

Specifically, our wait times improved from approximately 7 minutes in 2023 to under 6 minutes in 2025, and team member tenure has increased nearly 40% since 2023. Those results would not be achievable if we were simply cutting labor and increasing stress on our teams.

Like many in the industry, we faced a challenging commodity environment in 2025 with beef inflation reaching the mid-teens in the second half of the year. Supply chain optimization was a critical focus as we navigated these pressures and we approached it with a long-term mindset, not by reducing portion sizes or negatively impacting quality but by building a significantly improved supply chain.

To mitigate rising costs and protect margins, we accelerated supply chain initiatives focused on diversification and logistics. We conducted the most comprehensive RFPs in our history across key categories and onboarded additional suppliers to foster competition, reduce business risk and of course, to augment quality.

At the same time, we have made significant improvements in our freight and distribution network, reducing the time and distance required to transport goods as our footprint expands. These structural improvements enhanced our resilience, improved purchasing leverage and helped mitigate inflationary pressure without taking outsized price increases. Importantly, the groundwork we laid in 2025 positions us to achieve additional cost savings and further expansion in 2026 and beyond.

Our progress in operational excellence has unlocked a new level of confidence and capability within our culinary organization, allowing us to introduce more elevated menu items and to be highly responsive to evolving consumer preferences and trends.

In 2025, we formalized and strengthened our culinary development process by implementing a disciplined stage-gate framework to ensure every item meets 3 critical criteria. It must deliver our gold standard of culinary innovation and quality, resonate with our guests, and be operationally friendly in our Shacks and our supply chain.

We have a 12- to 18-month innovation calendar in place, giving us greater visibility and time to optimize our go-to-market planning and training which leads to operational excellence and consistency at launch. This enhanced approach delivered tangible results in 2025.

We launched one of our most successful LTO shakes, the Dubai Chocolate Shake, which drove meaningful traffic to our Shacks and generated exceptionally strong guest satisfaction scores. We also leaned into side innovation, introducing items like fried pickles and onion rings, both of which performed strongly. In fact, onion rings resonated so much with our guests that we added them to our core menu, a testament to our ability to test, learn and scale effectively.

But our improvements are not limited to our LTOs. We also improved the quality of our core items as we made meaningful investments in improving the quality of our core sandwiches, fries and beverages. These wins are not short term in nature. They represent the foundation that we are building for the future as we continue to innovate thoughtfully and deliver the highest quality food and hospitality in the industry.

In January, we reintroduced our Korean-inspired menu, building on its previous success, while elevating it with the addition of soft chicken bites that have been very well received by our guests. We believe we have a lot of opportunity to increase our chicken sales. And innovation like sauce chicken bites will help us build new chicken occasions.

We also expanded our crackable shake program with the True Love Shake which added another exciting limited time option to delight our fans. We are extremely excited with the sales of this premium crackable shake platform and will continue to drive innovation there.

Lastly, we introduced our Good Fit Menu, featuring a new way to enjoy Shake Shack and start the new year on a healthy note. The Good Fit Menu items meet the current market demand for differing dietary preferences, including high-protein serving sizes. We have always made these items. We simply package them up and merchandise them as a timely, relevant additional sales layer for our business, a great example of our ability to drive sales growth without significant operational or supply chain disruption.

In late January, we launched our We Really Cook campaign. This campaign spotlights our recipes and the quality ingredients that go into preparing the cook-to-order food we deliver each and every day. In each Shack, every day, our skilled team members Chop, prep, grill, season and build meals we're proud to share with our guests. This marketing platform is an investment in creating awareness amongst current and prospective guests about what really makes Shake Shack special.

We want to reinforce the fact that we freshly prepare fine dining quality recipes in our Shacks every day and deliver them with enlightened hospitality. Over time, this awareness will continue to build our value proposition and make us even more competitive across the restaurant industry.

We will also continue to strengthen our value offering through compelling points within our digital channels. Our \$1, \$3, \$5 in-app promotion platform has proven to be a powerful guest acquisition and engagement tool, driving app downloads up approximately 50% since launch.

Importantly, this platform allows us to deliver targeted value while maintaining pricing integrity across the broader menu. The combination of elevated innovation and strategic channel-driven value resulted in strong traffic trends, improved brand engagement and a more balanced positioning between premium quality and everyday accessibility. The new guests that we are bringing into our app are also the foundation for the launch of our loyalty platform later this year.

On the development front, 2025 was a milestone year for Shake Shack as we expanded our global footprint while materially improving the economics of how we build and scale the brand. We opened 45 new company-operated Shacks during the year.

We successfully entered new domestic markets like Buffalo and Oklahoma City. The viability of these markets for our brand may have been questioned in the past, but we are proving that Shake Shack has the potential to enter every market in the United States.

In 2025, we made significant progress in optimizing our build model. Through disciplined design simplification, value engineering and procurement strategies, we reduced the average net build cost for new Shacks to under \$2 million in 2025, a reduction of approximately 20% compared to the prior year.

By improving build costs, maintaining AUVs and expanding margins, we are generating stronger returns and creating more efficient, profitable growth as we scale. Looking ahead, our pipeline for 2026 is even more robust with plans to open 55 to 60 new company-operated Shacks primarily in markets outside of our historical footprint of the Northeast and in major tourist cities.

Our licensed business also delivered strong momentum with 40 new licensed openings in 2025. We saw particularly strong performance in our new Shacks and markets that we have entered in the past 2 years, such as Canada and Israel. We are also proud of our strong comp performance in the Middle East, Japan, the United Kingdom and in U.S. airports.

We announced several strategic growth partnerships, including expansion into Hawaii, a new partnership with PENN Entertainment to bring Shake Shack to casino destinations, expansion into Vietnam and a new agreement to enter Panama.

Most recently, in January, we partnered with the Australian Open to launch 2 pop-up Shacks at the tennis tournament. Together, these 2 licensed sites did approximately \$1.6 million in sales in just 3 weeks over the course of the tournament. Attendees there were willing to stand in a very long line to get a Shack burger and fries, indicating strong demand for our brand in this market despite having never been there before.

These partnerships expand our global reach, reinforce Shake Shack as a premium internationally recognized brand and give us extreme confidence in our ongoing global growth potential.

As we close out 2025, we are proud of the progress that we've made from delivering strong financial performance and improving unit economics to accelerating development, strengthening our operations and continuing to innovate in our culinary offerings.

The year was truly transformative laying a foundation that positions Shake Shack for sustainable, profitable growth. We are entering 2026 with confidence, guided by a clear strategy and disciplined focus on creating long-term value for our guests, team members and shareholders.

Looking ahead, we are executing against the strategy centered on profitable revenue growth, margin expansion and strategic investments in our brand and infrastructure. We hope to achieve this by focusing on 6 key priorities.

Those priorities are building a culture of leaders, optimizing restaurant and supply chain operations, driving comp sales through culinary, marketing and digital innovation, building and operating our Shacks with best-in-class returns, accelerating our license business and investing in long-term strategic capabilities.

By staying disciplined in these areas, we are confident that we will continue to drive strong operating results, enhanced guest experiences and sustainable growth as Shake Shack scales both domestically and internationally.

The investments we're making in the business in 2025 and into 2026 will position us to start leveraging the capital spend and our P&L in 2027 and beyond. As a result, we expect that by 2027, we will be growing G&A at a lower rate than sales. We plan to disclose our G&A long-range plan that will deliver this leverage in the back half of 2026 after our new CFO joins the team.

Finally, I would like to give some color on our strong start to the year. January same-Shack sales grew 4.3% year-over-year. Despite meaningful weather headwinds in January, we've nevertheless generated solid sales growth, fueled by continued traction in our in-app value platform, increased hours of operations in our Shacks and the launch of compelling culinary innovation.

Our start to the year, coupled with the leadership team that we now have in place, gives me unwavering confidence that our plan is working. We continue to believe that we can deliver on our goals for 2026 and for years to come.

I will now hand the call over to Kerry Britton, who has been an invaluable leader and partner through our CFO transition to discuss our quarterly results and guidance. Kerry?

Kerry Britton

Sr. Director of FP&A

Thank you, Rob, and good morning, everyone. Building on the strong foundation Rob outlined, 2025 was a highly successful year for Shake Shack.

Through our continued focus on operational excellence, the effectiveness of our marketing and culinary initiatives and enhanced guest experience and supply chain optimization, we delivered 15.4% revenue growth to \$1.45 billion, positive same-Shack sales of 2.3%, 120 basis points of restaurant-level margin expansion to 22.6% and 19.5% adjusted EBITDA growth to approximately \$210 million.

We have added nearly \$80 million to adjusted EBITDA in the last 2 years, all while facing significant commodity inflation and a challenging macro environment.

We are very pleased with our fourth quarter results, which reflects strong execution across both our company-operated and licensed businesses. The quarter marks our 20th consecutive quarter of positive same-Shack sales growth alongside continued strength in restaurant level margins and double-digit adjusted EBITDA growth. These results demonstrate solid momentum and the effectiveness of our initiatives.

Fourth quarter total revenue was \$400.5 million, up 21.9% year-over-year supported by the opening of 15 new company-operated Shacks and 17 new licensed Shacks, leading to 23.4% year-over-year growth in system-wide sales. Our licensing revenue reached \$15.2 million in the fourth quarter with licensing sales of \$232.7 million, up 26.4% year-over-year.

In our company-operated business, we grew Shack sales 21.7% year-over-year to \$385.3 million, we generated \$77,000 in average weekly sales. We delivered 2.1% same-Shack sales growth with 0.5% positive traffic and 1.6% price/mix.

Our same-Shack sales grew sequentially each month of the quarter. However, the last 6 weeks of the quarter did not meet our expectations due to inclement weather in some of our most heavily penetrated markets like the Northeast. Despite these short-term challenges, we delivered positive same-Shack sales and positive traffic for the quarter.

In-Shack menu prices rose about 2% while blended pricing across all channels increased approximately 4%. This compares to approximately 6% last year, demonstrating our ability to deliver positive same-Shack sales with less dependence on price increases.

We're off to a strong start in 2026. January Same-Shack sales increased 4.3% year-over-year despite weather-related headwinds that represented an approximate 400 basis point impact during the month. We saw strong year-over-year sales growth across our own channels, led by our app channel and the success of our \$1, \$3, \$5 promotion.

January AWS was \$68,000, down 7% year-over-year. The decline versus prior year was primarily attributable to the 53rd week in 2025. As a result, January 2026 did not include the benefit of the high-volume holiday period between Christmas and New Year's Eve that was captured in January 2025. Excluding this timing impact, January AWS would have been up approximately 1% year-over-year.

Fourth quarter restaurant level profit was \$87.4 million or 22.7% of Shack sales, in line with last year. Strong benefits from our labor management strategies helped offset higher beef costs and investments in sales driving initiatives, highlighting our ability to sustain profitability despite commodity headwinds.

And in the fourth quarter, food and paper costs were \$110.6 million or 28.7% of Shack sales. Blended food and paper inflation was up low single digits with beef costs up low teens and paper and packaging costs flat year-over-year.

Through proactive procurement and cost mitigation initiatives, our teams meaningfully offset industry-wide commodity pressures. Left unmitigated, inflation would have been up mid-single digits.

Labor and related expenses totaled \$97.9 million or 25.4% of Shack sales, representing a 150 basis point improvement year-over-year driven by more efficient scheduling and deployment through our labor management strategies.

Other operating expenses were \$59.9 million or 15.5% of Shack sales, up 70 basis points versus last year, driven by higher delivery sales mix and repairs and maintenance expense as we continue to invest in our company assets. Occupancy and related expenses were \$29.4 million or 7.6% of Shack sales, flat year-over-year.

Fourth quarter G&A totaled \$50.5 million or 12.6% of total revenue. For the full year, G&A was \$176.2 million, approximately 12.2% of total revenue, reflecting incremental investments in marketing and continued investments in our people to support growth and strategic initiatives. Excluding \$1.7 million in onetime adjustments, G&A was \$174.5 million, approximately 12.1% of total revenue.

Looking ahead, we plan to continue investing in marketing and digital capabilities to drive traffic and guest frequency with marketing spend expected to remain in the 2% to 3% range of total revenue, above historical averages of 2% or less. Unlike last year, our marketing plan for 2026 is more evenly distributed across the quarters rather than back-end weighted.

Additionally, we expect our total G&A expense to remain relatively steady each quarter of 2026. This will result in a higher year-over-year G&A step-up in the first half, tapering in the back half of the year. As Rob mentioned earlier, we expect to capture additional leverage in G&A following these incremental investments as the business continues to scale.

Equity-based compensation was \$5.3 million or 21.8% year-over-year with \$4.8 million in G&A. Preopening costs were \$5.2 million, up 1.7% year-over-year, reflecting 15 new Shack openings and investments to support a strong opening schedule for the first quarter and throughout 2026.

Notably, the lifetime preopening expense for the class of 2025 declined approximately 14% compared to the class of 2024, demonstrating continued efficiency gains. The modest year-over-year increase primarily relates to the future opening classes as we advance a robust 2026 development pipeline. We currently have approximately 34 Shacks under construction.

We grew adjusted EBITDA by over 20% year-over-year to \$56.1 million or 14% of total revenue. Depreciation was \$26.4 million, Net income attributable to Shake Shack, Inc. was \$11.8 million or \$0.28 per diluted share. Adjusted pro forma net income was \$16.6 million or \$0.37 per fully exchanged and diluted share. Our GAAP tax rate was 39.6%, and our adjusted pro forma tax rate, excluding the tax impact of equity-based compensation, was 26.1%.

Our balance sheet is strong, and we ended the year with \$360.1 million in cash and cash equivalents and generated \$56.5 million in free cash flow.

Now on to our guidance for the first quarter and full year 2026. Our outlook assumes no major changes to the macro or geopolitical environment. For the first quarter of 2026, we expect system-wide unit openings of 14 to 18 with 12 to 14 company-operated openings and approximately 4 licensed openings. Total revenue of \$366 million to \$370 million with same Shack sales up 3% to 5%; licensing revenue of \$12.8 million to \$13.2 million and restaurant level profit margin of 21.5% to 22%.

As a reminder, our guidance incorporates the year-over-year impact of the 53rd week in 2025 on this year's guidance which results in approximate 250 basis point year-over-year headwind to total revenue in the first quarter, primarily driven by holiday timing.

Additionally, to ensure a more comparable year-over-year analysis, we have shifted our same-Shack sales comparison by 1 week to better align operating weeks and holiday placement between periods. In late February, we rolled off the price we took on our delivery channels last year, an approximate 1% impact. We plan to exit the quarter with approximately 3.5% overall price.

Our inflation outlook reflects our expectations for low single-digit inflation with commodity pressure from beef up mid-teens, partially offset by supply chain savings initiatives. For the full year, we are reiterating our guidance that we provided at the ICR conference in early January.

Our pricing plans for the year remain modest, assuming no outsized macro ranges, as our overall price across all channels will be up approximately 3%. We are planning for low single-digit year-over-year inflation in food and paper costs after accounting for our supply chain strategies.

Excluding these savings initiative, food and paper cost inflation would be up mid- to high single digits, with pressure led by uncertainty in beef pricing that represents approximately 30% of our blended food and paper basket. We expect labor inflation to be in the low single-digit range.

We remain confident in continuing to achieve our 3-year targets for fiscal 2025 to 2027 of total revenue growth in the low teens, system-wide unit growth in the low teens, restaurant level profit margin expansion of at least 50 basis points per year and adjusted EBITDA growth in the low to high teens range.

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

Robert Lynch
CEO & Director

Thank you, Kerry. Building off of a strong 2025, we are excited about the opportunities ahead and look forward to making progress against our strategic priorities in 2026. Above all, I'm so grateful to our dedicated teams for bringing their hearts, minds and focus to their endeavors every single day. Thank you all for your time today.

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

Question-and-Answer Session

Operator

[Operator Instructions] Our first question is from Brian Vaccaro with Raymond James.

Brian Vaccaro
Raymond James & Associates, Inc., Research Division

I appreciate all those details. Just going to ask you about kitchen equipment. I believe you rolled the new fryers in the last several months. And could you just give us an update on where you are in terms of testing new ovens and grills and the shake machines as well? And are there any planned rollouts of any of that equipment in '26, we should be mindful of?

Robert Lynch
CEO & Director

Yes. Thanks for the question, Brian. We've actually implemented our fry hot-holding equipment into all of our Shacks at this point. And I can tell you, I've been out visiting Shacks really all quarter and our fries have never been better.

I'll give you a data point. Fries cold or less than optimal fries used to represent over 30% of our guest complaints and after implementing the new equipment, they now represent less than 10% of our complaints. So a huge transformation in terms of improving the quality of our product through equipment innovation.

We -- as you know, we have our equipment innovation center that we have built here in Atlanta. We have been bringing all of our operators through that innovation center and our license partners through that innovation center for the last 3 or 4 months.

And some of those -- some of that innovation, not just new equipment, but the way we're laying out the format of our kitchens is already starting to show up, particularly in some of our license partner Shacks internationally where they can build -- they have not quite as big of a pipeline and they can build faster.

So yes, there's a lot of progress, a lot of momentum that is coming to fruition from the innovation, both on the equipment side and the design and architecture side of our kitchen. So we are really hopeful that we will have an optimized standard kitchen that will last for years to come, really starting in 2027.

We have to get through our pipeline. We have the longest pipeline of permitted restaurants in the company's history. So once we start getting through that pipeline, we will move to that model, which we anticipate being really transformational for us.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

All right. Well, that's great to hear. And just a follow-up on new unit development, if I could. Could you elaborate on the sales volumes? You touched on it in your prepared remarks, but just elaborate on the sales volumes that you're seeing in the class of 2025? And you talked about really optimizing those build costs. What kind of build cost inflation do you expect for the class of '26?

Robert Lynch

CEO & Director

Yes. We have -- I just can't give our team enough credit. I mean taking 20% out of build costs last year, given, I think anybody who has any interaction with the construction and materials industry and tariffs and everything else, like the costs have not gone down, and our team through their ingenuity and their hard work was able to take 20% of our build costs out. So we are incredibly excited about the opportunity to continue that momentum.

Now I will tell you, the average build cost is a function of the mix of the restaurants that we build in any given year. And as we continue to increase the mix of drive-thrus, the average build cost will not see the same type of incremental decreases in costs simply because the drive-thrus cost more to build and they're going to be a bigger part.

But the reason why we're so excited about that is we're starting to see our drive-thrus in 2025 outperform our core designs from a revenue standpoint. So we are seeing great returns there. So we're going to continue to build those. It's going to help us scale even faster.

So there's a little bit of noise in kind of the average build cost as the mix evolves. So we'll be -- as we build that pipeline, we'll be more adept at being able to kind of break the cost down based on the type of Shack that we are building and not just report out on the aggregate. That's our intention as we move forward here probably in 2027.

Operator

Our next question is from Rahul Kro with JPMorgan.

Rahul Krotthapalli

JPMorgan Chase & Co, Research Division

Rob, I want to touch on the evolution of the loyalty program and how best you can communicate the value of the brand through this program as we move towards the year. And then the follow-up is on the New York City and the Northeast markets, that continue to be a headwind today. Are there any initiatives in 2026 that could potentially turn this into a tailwind?

Robert Lynch

CEO & Director

Great questions, Rahul. I'll go with the first one on loyalty. So one of the biggest bright spots in our business right now is our decision to launch a targeted, strategic value platform in our app. As I called out in my comments, our app is up 50%. Our app downloads are up 50%, and we are seeing huge amounts of traffic growth as a result of that program with minimal sales or margin impact.

So significant incremental sales and profit from that program. And it gives us a huge amount of confidence that when we are able to deliver targeted strategic value, it has an outsized impact on our ability to drive profitable growth.

So as I've mentioned before, our app and the people coming into our app at such an accelerated rate will be the foundation for our loyalty program that we intend on launching by the end of this year. And the confidence in that loyalty program grows every day as we continue to see the engagement with our app that doesn't yet feature some of the added components and value that we will offer in the loyalty platform. So we're extremely excited about launching that and the ability for that to impact our business.

Now I will tell you, our intention in launching loyalty is to launch it in an enlightened hospitality-driven way. So we are going to -- we're not going to rush in. We're going to launch it this year, but we're going to continue to optimize it as we scale it. We're going to continue to make sure that it is Shake Shack specific and deliver the same premium enlightened hospitality experience that we try to deliver in our restaurants.

In regards to your second question surrounding the Northeast, there is no question that we have been impacted by weather each of these last 3 months. And disproportionately, I think relative to the industry, given our current footprint. And that's not always the case. 2024 was a great weather year for New York and the Northeast. And so the brand benefited from that. But we had to lap that in 2025.

And obviously, there's been 2 big weather situations, one in January and one essentially just wrapping up right now where we've had some closed restaurants, and we do everything we can not to close our restaurants, but we got to make sure we put our team members' safety first.

So yes, the numbers that we reported out in Q4 and then in P1 in January this year, we are extremely proud of because those we mitigated some really significant weather impact. And so in our guide for this quarter also is something we're proud of, given the impact we're seeing right now. As we move forward with our development, we will continue to diversify our footprint.

The majority of our development in 2026 is outside of the Northeast. I want to make it clear. That's not because we don't see growth opportunity in the Northeast, and that's not because we don't still love our New York routes. We're absolutely committed and we're starting to remodel a lot of our Shacks in New York City and excited about the impact that's going to have.

But there's just so much white space for us to go into a lot of these other markets. And frankly, the results we're seeing in some of these other markets that we may have thought and others may have thought we couldn't be as successful in are really surprising us with how strong the demand is.

So we are going to build out a lot of markets across the United States, that's going to diversify our footprint and mitigate some of our disproportionate exposure to particularly the Northeastern and Mid-Atlantic weather situations that we are dealing with right now.

Operator

Our next question is from Sharon Zackfia with William Blair.

Sharon Zackfia

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

I think I looked back in my model and your labor is the lowest as a percent of sales since I think, 2013 -- 2016, so a long time. I guess I'm curious, Rob, how low can you drive labor? And as we look at the future restaurant level margin expansion, particularly for this year, is labor a key component of that? Or is it really coming more from supply chain and cost of sales?

Robert Lynch

CEO & Director

Great question. So what I will tell you is we feel really good about where our labor is. And it's really a function of just hard core, disciplined, blocking and tackling operations. We have significantly reduced the amount of over time that our GMs employ in our restaurants. And that really is a key leading indicator.

When you see a lot of overtime in your cost structure, it's a lack of strategic planning on scheduling. It's a function of team member retention issues because you have people calling off or getting terminated, all that stuff.

As our operations have improved and our leadership across our operating footprint has continued to focus on all the KPIs that we put on the scorecard and measuring those every day and holding people accountable, but supporting them and our tech has improved to help us manage labor in a much more sophisticated way, we now have a lot less overtime.

And we have more people in the Shacks at lunch and at dinner and less people in the shoulder hours because we're more capable. We can run those opening, we can open faster and better, we can close faster and better. So we don't need as many people during those lower-volume hours. And that's really been the primary drivers of our improvement on the labor line.

Moving forward, I don't anticipate a significant amount of further labor rate reduction. We have now built a really strong operating model. The any leverage that will come in the labor line will primarily be from revenue increases. As we continue to grow comps, as we continue to drive sales, there may be some rate improvement there and leverage there just from a flow-through standpoint.

I want to make it clear. We always want to get better. We always want to be -- we're laser focused on being best-in-class operators, which means labor management is a big part of that. But we have now really built the model that I think is going to be consistent with where we want to be moving forward.

And lastly, we are really doubling down on hospitality. I hope it came through in the comments, but we have added a couple of KPIs onto the scorecard that are specific to hospitality around whether guests were greeted, whether guests receive a table touch.

So some of the things that we needed to focus on from an ops metric standpoint in the past, we're going to keep focusing on those, but we're adding hospitality metrics to make sure that we are delivering the best hospitality in the industry. And that's going to keep our labor pretty constant with where it is today.

Sharon Zackfia

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

And then on that 6-minute wait time, is there any way to dimensionalize that between walk in and drive through? And is that a happy place for you 6 minutes? Or are you trying to further improve that?

Robert Lynch

CEO & Director

So we're absolutely working to further improve that. There's been a bigger positive impact on wait times through the drive-thru as we've optimized a lot of our drive-thru back-of-house design and just the way we operate drive-thrus. But that -- there has been a decrease in every format and every daypart. So we've gotten better across every component of our business.

We're definitely not satisfied with just under 6 minutes. We continue to strive to get more efficient. And some of that's going to come through process improvement. But a lot of that's going to come through, as I talked about on Brian's question, kitchen design.

We have a significant improvement in our standard kitchen design that we'll be rolling out at the end of this year. We would roll it out tomorrow, but we have permits in place for a lot of Shacks. And don't get me wrong, those are going to great Shacks and there's optimizations that we can make. But really towards the tail end of this year, heading into 2027, we will be launching our optimized, standardized long-term kitchen design.

And we are really excited about both the speed impact of that as well as other operating KPIs, including accuracy, and just overall team member satisfaction, just going to be easier to operate, faster to operate and deliver the food in a much more efficient way.

Operator

Our next question is from Jeff Bernstein with Barclays.

Anisha Datt

Barclays Bank PLC, Research Division

This is Anisha Datt on for Jeff Bernstein. I wanted to ask a question on promotions. Given the stronger January comp, can you break down what portion was driven by promotional activity, including app value initiatives versus baseline demand? And whether those customers are incremental visits or primarily trade up, trade down within existing guests?

Robert Lynch

CEO & Director

Yes. So we don't necessarily disclose to that level of detail. But what I will tell you is that we consider our app part of our base business. I think the incentives that we offer inside of our app are strategic incentives on our highest-margin products.

So we still make money on the things that we discount in there. And those things are particularly beverages and shakes -- or I'm sorry, beverages and fries, those things are the most comparable from a price point standpoint to our peer group, right? We sell the same Coca-Cola as everyone else. But -- so that is really a core driver of our growth right now.

But our in-Shack business outside of the weather weeks that we've had to deal with, our in-Shack business has been really healthy. We've seen a lot of continued traffic and check benefit in our Shacks. I think it's a testament to the focus on hospitality that we're delivering in Shack.

We've done a lot of work. Our tech team has done a lot of work on our kiosks to make sure that we are delivering a great kiosk experience. So we're focused on driving all channels of revenue, whether it's in-Shack, in-app, or delivery, they're all important growth drivers for us. And -- but right now, the app is definitely the highest traffic, most incremental channel that we are deriving benefit from.

Operator

Our next question is from Peter Saleh with BTIG.

Peter Saleh

BTIG, LLC, Research Division

And congrats on a strong start to the year. Rob, I wanted to come back to the \$1, \$3, \$5 menu that you guys, I guess, recently rolled out again. I think you mentioned it's a powerful menu bringing in new guests. Can you talk a little bit about the profile of this guest that you're seeing with this \$1, \$3, \$5? And are you able to retain this guest once the promo ends?

Robert Lynch

CEO & Director

Yes. I mean what I would tell you is these guests look a lot like our normal guests. And our normal guests are taking advantage of the \$1, \$3, \$5 program as well. So it is not significantly changing the profile relative to like household income and those types of things. It really is something that I think just affords everyone the opportunity to come in and improve the value that they are perceiving from our brand.

We want to continue to launch premium, high-end differentiating culinary LTOs. We're continuing to work on improving our core menu. We've invested in our beverages this year, we've invested in our sandwiches this year, we've invested in our fries this year.

So we're making substantive investments in the quality of all of our food. We want to make sure that we're competitive. In this environment, we want to make sure that we are continuing to improve our value.

Now what I will tell you is that we spend a lot less discounting than the fast food industry. Our percent sold on discount is less than half the average in QSR. So we are not out there giving away our food, trying to bring in customers from profiles that may not retain -- we may not be able to retain as things evolve.

We're out there being strategic and targeted. And the only way you get \$1, \$3, \$5 is in our app. And the acquisition cost of getting an app user used to be significantly higher than it is today with this promotion. So if you think about the holistic value creation, lifetime value of an app user, the decreased cost of acquisition in addition to the incrementality of the revenue at a relative -- at a slightly lower margin than our core items, but not significantly lower, I mean, all in all, it's a home run for us.

And so this is not something that we see as a temporary model. We see this as a continued driver of incremental traffic in our model and it's only going to accelerate and expand once we launch an even more premium loyalty experience that offers these types of value-driving programs.

Peter Saleh

BTIG, LLC, Research Division

Great. And then can I just ask on the marketing for 2026? Can you just talk a little bit about how it may be different than 2025? Are you targeting any different channels? Or I know that cadence is going to be a little bit more evenly distributed. But any other details you can provide would be helpful.

Robert Lynch

CEO & Director

Yes. I mean we're going to continue to drive awareness of \$1, \$3, \$5. So we're going to continue to drive that program. It is a huge value creation opportunity for us while also delivering value to our guests in a value-oriented environment.

But we launched our today's special, and We Really Cook campaign here in Q1. We're going to continue to leverage that platform to launch our LTOs moving forward. And a lot of that is top funnel media. I think in the past, what Shake Shack has done is we have invested a lot in the bottom of the funnel, a lot in conversion, right? So a lot of paid search, a lot of e-mail and other campaigns offering BOGOs and other types of discounts to get that conversion.

We're still going to do the right amount of lower funnel conversion marketing but \$1, \$3, \$5 helps us a lot with that. That drives a lot of conversion when we get people into our universe. We have an opportunity to expand our aperture top of funnel. And specifically, as we go into and build our footprint outside of our core Northeastern, West Coast, South Florida, historical markets, there's a big opportunity to create awareness of what makes Shake Shack so special.

So we're striking a bit more of a balance between top funnel and lower funnel marketing and the top funnel is going to just increase the population size. And then if we're still as adept at conversion as we have been with \$1, \$3, \$5 and our other programs, then that's -- a lot more of that top funnel should flow through to the bottom line.

So that's really how we're thinking about marketing moving forward. It's not necessarily a demographic push or a household income push or anything like that. We truly believe that our brand can meet the needs of every stratification of guests in the industry from the teens with the least amount of discretionary income all the way up to the highest household income. So we want to make sure that we're offering solutions for all of them.

Operator

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

Sara Senatore

BofA Securities, Research Division

Can I just go back to sort of the app -- in-app traffic as a traffic driver. I wanted to sort of understand, clearly it looks like the right trade-off, but it looks like negative mix in the fourth quarter was maybe about 2%. And I wanted to know if that was from the sort of app and -- because it sounded like more attach is happening there, but perhaps there's also just some lower ticket transactions.

And I think last quarter, you said that in-app traffic was up 85% and then total traffic was up maybe 400 basis points. So am I right in thinking that as it stands now, app traffic had been at the time maybe 5% of total, just as I'm thinking about kind of where the opportunity is and how much incrementality you might get from that? So you know there's a lot in there, but just sort of quantifying traffic lift or the contribution and how we should think about perhaps mix in the future?

Robert Lynch

CEO & Director

Great question, Sara. So one of the biggest drivers of the mix impact, particularly in P12 was our decision to price our Big Shack at \$10. So there was intentionality around trading guests from single Shack burgers at \$8 up to the Big Shack at \$10.

And what we found and it's not rocket science, and we definitely have learned this lesson for the last time moving forward will be much more optimized. But what we found is we sold Big Shack to a lot of doubles buyers. So the double price points range anywhere from \$10 up to \$14, depending on whether you're buying an avocado bacon burger or just a plain double Shack burger.

And so the mix impact, negative mix impact that we saw in P12 was less about any type of app traffic shift and much more about our LTO cannibalizing some of our higher-priced double burger volume. Moving forward, the app presents a bit of a mix headwind.

Like I said, it's not as significant as you might think given \$1 drinks and \$3 fries. And that's because when they come in, everybody -- we have -- we don't have \$3 checks. I mean everybody that comes in is buying a sandwich, sometimes you have multiple party size people. And so the checks are not as mix -- negative mix as you might think. And the incremental traffic that we're seeing from that program is tenfold any of the mix benefit.

So we'll take that trade-off all day long. And as we move forward and plan our LTOs, particularly in 2026, we're making sure that we have a very clear understanding of where we think that the volume is going to be sourced from, whether it's incremental guests or coming from guests that were purchasing either singles or doubles, so that we can mitigate any type of mix impact moving forward from that.

Operator

Our next question is from Andy Barish with Jefferies.

Andrew Barish*Jefferies LLC, Research Division*

Just wondering on an example or 2 maybe on the supply chain saves for this year, I mean, the implied benefits are quite significant and impressive at like 500 basis points. Just maybe an example for us. And then is it like first half weighted? Or do those saves kind of ratably show up as we move through the year?

Robert Lynch*CEO & Director*

On the supply chain, there's definitely significant savings yet to be to unfold. I mean, I think we talked about it in Q4 as we are just scratching the surface. Well, I would say we're kind of into the surface right now and really excited about the work that the team has done.

And when we talk about supply chain, I think I've reinforced it a couple of times. It's not just about cost. Like our ingredients are not always the same as the rest of the industry. Like we buy different ingredients. We're a 100% Angus, no antibiotic, no hormone beef. The supply of that is not the same as the supply of the beef that everyone else is using.

So by going out and qualifying and diversifying our supplier base, not only has it improved our cost structure, it's also secured our supply to the point where if there is a beef challenge in terms of the amount of supply, we can make sure that we have enough moving forward. And we put 20% brisket into our grind, like we got to be always thinking about the brisket supply.

So our supply chain work is we're -- I would say we're probably in the fourth and fifth innings of that work, and we should benefit from that really significantly here in 2026, but there's still a lot of work to do on our distribution and some of the logistics of our business. So we're going to continue to derive some pretty substantive benefit moving forward.

And I'll just close by saying, I mean, we grew restaurant-level margin 120 basis points last year with unprecedented beef costs and beef inflation. Like this team, I just can't -- I can't reinforce enough how amazing the work this team has done, particularly in the restaurant operations and the supply chain.

Like if we had normalized beef costs last year, we would have expanded restaurant margins astronomically, and that would have flowed through to the bottom line. So as we look, I know that beef markets right now are very unpredictable and there are some -- lots of things going into what we think the beef is going to look like over the next year.

But when we do see a return to normalized beef pricing, like all of this work that this team has done in operations and supply chain is going to flow through at a dramatically improved rate. So I just can't -- I mean, I just want to make sure that everyone recognizes that it is unbelievable heavy lifting by a very competent and hard-working group of people.

Operator

Our next question is from [Samantha Chen] with Goldman Sachs.

Unknown Analyst

This is Samantha on for Christine Cho. You highlighted a development pipeline tilted away from the Northeast with same-Shack sales growth in the Southwest and Midwest outpacing New York City and the Northeast during the quarter. How does the margin and cash-on-cash return profile of these growth regions compare to the legacy Coastal core? And how should that regional mix shift influence system-wide margins over the next 3 to 5 years?

Robert Lynch

CEO & Director

Well, that's a great question. It's an interesting question. What I would tell you is -- as we penetrate some of these markets, they're just -- they're going to be smaller populations and they're smaller tourists, so tourist numbers. So the revenues that we forecast for some of these markets are less than the revenues than when we open up a Shack in New York City.

So in that model, you may think, well, there's AUV compression and we're doing everything we can to mitigate that compression by opening drive-thrus which tend to have higher revenues. So the balance in geography should be, to a certain extent, mitigated by the format.

In terms of the flow-through and the margins, I got to tell you, there's not a lot of franchise systems who are opening restaurants in New York City and Los Angeles because there's a lot of challenging business dynamics there. We do really well there. That's where we grew up. So we know how to operate in those markets.

But the reason why people develop in places like Oklahoma City and Florida and Tennessee is because the real estate is less and the labor costs are less. So if we can hold on to our AUVs through an improvement in the mix of our formats and have lower real estate costs and lower labor costs, we should see continued margin expansion.

And we've guided to 50 basis points a year. We haven't pulled that despite a lot of our peers coming in with margin dilution last year and looking forward, being concerned about margins, like we continue to believe that we can expand margins through continued operating excellence, supply chain optimization and the diversification that we get from our footprint should also help us from a margin standpoint.

Operator

Our final question is from Nick Setyan with Mizuho Securities.

Nerses Setyan

Mizuho Securities USA LLC, Research Division

The January comp of over 4%, obviously, I think you guys said that includes a 400 basis point headwind...

Robert Lynch

CEO & Director

Yes. I lost you, Nick, but yes, it does include the 400 basis points of headwind. Did we lose the call? Or did we just lose Nick?

Operator

We just lost Nick. And we 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

Sort by

Newest



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