

SHAKE SHACK®

FOURTH QUARTER 2018
SUPPLEMENTAL EARNINGS SLIDES

FEBRUARY 25, 2019

Q4 2018 Highlights

+2.3%

Growth in Same-Shack Sales[1]



$124M

Total Revenue



$179M

Shack System-wide Sales[2]
+27% YoY

New Innovation Kitchen Items



+29%

YoY Total Revenue Growth



20

Company-Operated and Licensed Shacks opened in Q4

$27.2M

Shack-Level Operating Profit[3]

1. "Same-Shack Sales" represents Shack sales for the comparable Shack base, which is defined as the number of domestic company-operated Shacks open for 24 full fiscal months or longer.
2. "Shack System-wide Sales" is an operating measure and consists of sales from domestic company-operated Shacks, domestic licensed Shacks and international licensed Shacks. The Company does not recognize the sales from licensed Shacks as revenue. Of these amounts, revenue is limited to Shack sales from domestic company-operated Shacks and licensing revenue based on a percentage of sales from domestic and international licensed Shacks, as well as certain up-front fees such as territory fees and opening fees.
3. "Shack-level Operating Profit" is a non-GAAP measure. Definitions of Shack-level Operating Profit, the most directly comparable financial measure presented in accordance with GAAP, is included in the appendix of this presentation.

FY 2018 Highlights

+1.0%

Growth in Same-Shack Sales[1]



$459M

Total Revenue
+28% YoY



$672M

Shack System-wide Sales
+26% YoY[2]

One of two US Burger chains to receive an "A" for our antibiotic free policy[3]

A

+14%

YoY growth in Adjusted EBITDA[4]



208

Licensed & Domestic Shacks Worldwide[5]

Operating in

13

Countries[5]

1. "Same-Shack Sales" represents Shack sales for the comparable Shack base, which is defined as the number of domestic company-operated Shacks open for 24 full fiscal months or longer.
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3. Source: NRDC Chain Reaction Report
4. "Adjusted EBITDA" is a non-GAAP measure. Definitions of adjusted EBITDA to net income, the most directly comparable financial measure presented in accordance with GAAP, is included in the appendix of this presentation. Actual Adjusted EBITDA in FY 2018 was $73.9M vs. net income of $21.9M.
5. Represents company-operated and licensed Shacks at the end of Fiscal Year 2018.

We are relentlessly focused on excellence, experience and hospitality

2019 Strategic Commitments :



Committing to excellence in our people

1,151
Internal Promotions in 2018

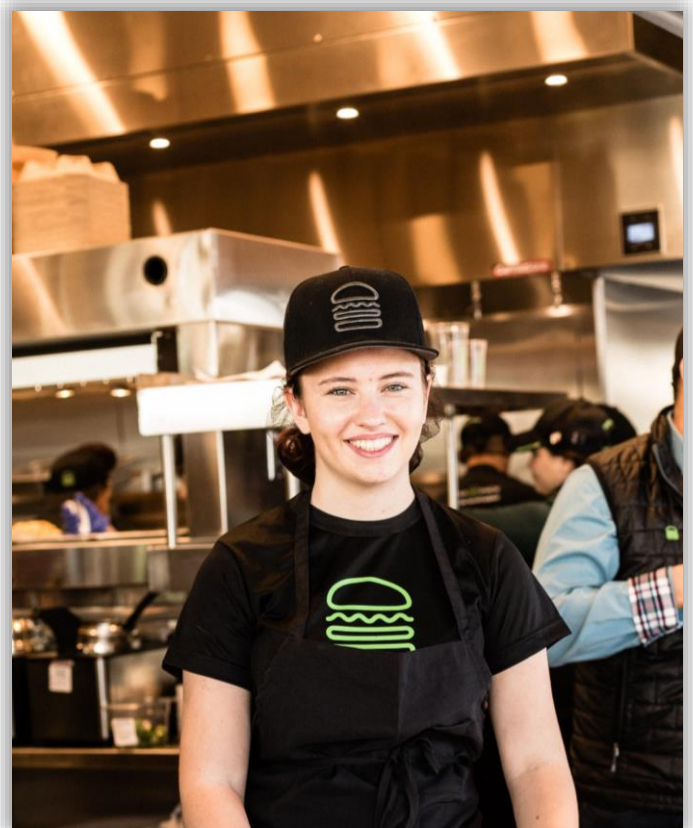
2,000
Jobs created in the US in 2018

GMs
Receiving equity in Q1 '19, first time since IPO

Leadership Development
Remains a top priority in 2019



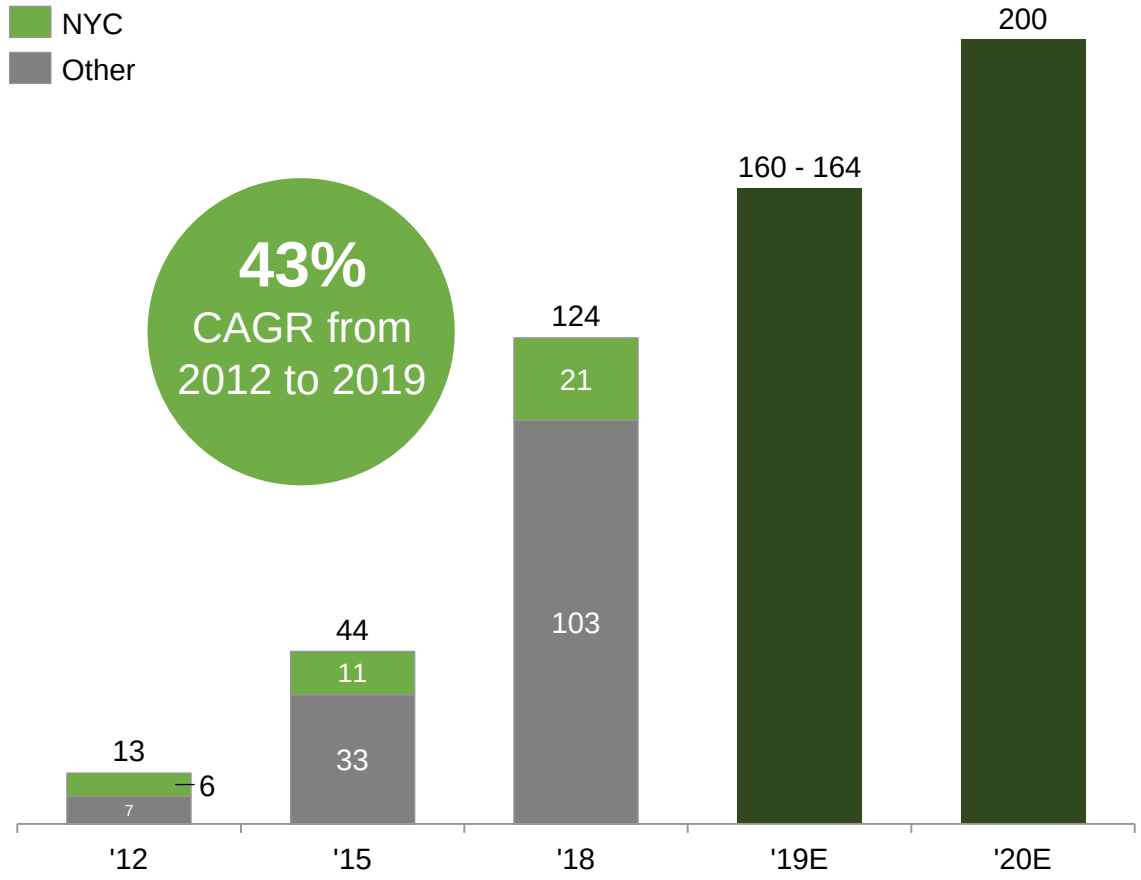






Company-operated domestic development continues with largest class of Shacks in 2019

Domestic Company-Operated Shacks



36 to 40

New Shacks in 2019 in multi-formats

>80%

of our company-operated Shacks outside of NYC[1]

5 to 6

New markets including Salt Lake City and New Orleans

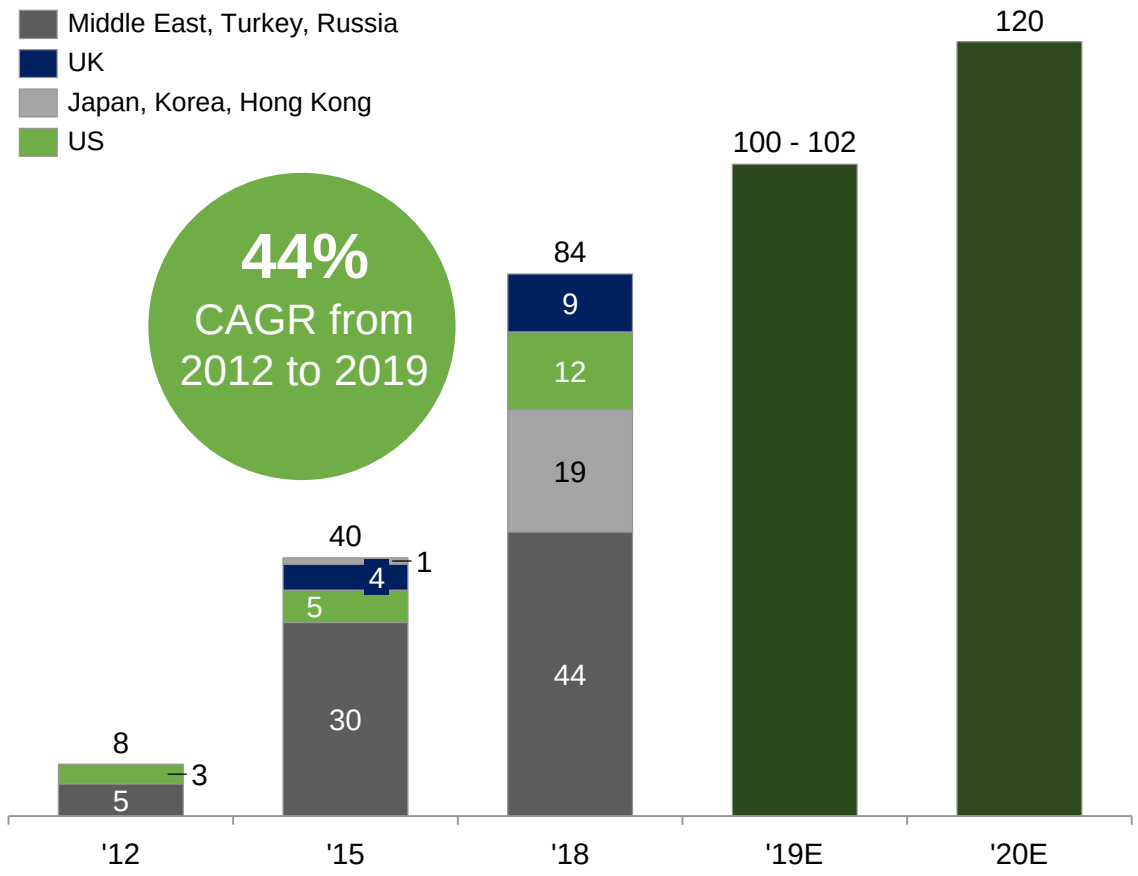


Salt Lake City, Utah

Note: CAGR is the compounded annual growth rate represented by the midpoint of the '19 range in relation to number of Shacks at end of '12
1. Represents number of Shacks outside of the New York City area at the end of Fiscal Year 2018

Licensed business growing with focus on Asia

Licensed Shacks



16 to 18

Net new licensed openings planned in 2019

1

Shack in Shanghai, Mainland China opened in Q1 2019

3

New countries include Mexico, Singapore, and the Philippines



XinTianDi, Shanghai, China

Note: CAGR is the compounded annual growth rate represented by the midpoint of the '19 range in relation to number of Shacks at end of '12

Digital innovation focused on guest experience and expanded convenience

In-Shack

Constantly innovating in-Shack guest experience



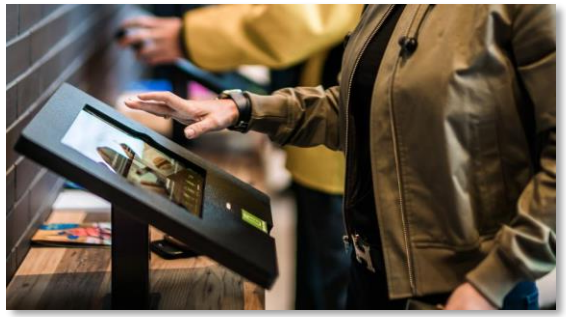


App

Refreshed app experience, reducing friction in the path to purchase and adding guest-centric functionality

Kiosks

Testing self-order kiosks as part of the in-Shack experience





Delivery

Testing Delivery through ongoing pilots with multiple partners



Web

Launched web ordering for digital orders outside of the App and with higher order limits

Innovating around our core menu



Moving to monthly Shake program to drive excitement and frequency



Chick’n Bites launched nationally as a Limited Time Offering



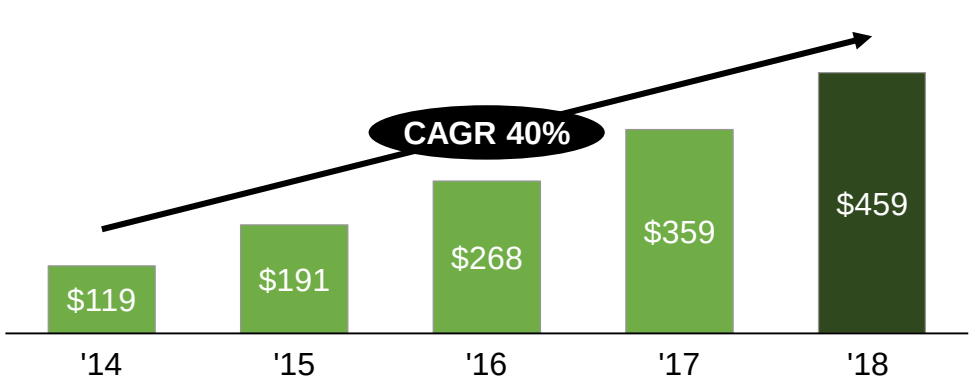
Commitment to Stand for Something Good by removing plastic straws and eliminating high fructose corn syrup in nearly all of our food products. Working toward full elimination by end of 2019



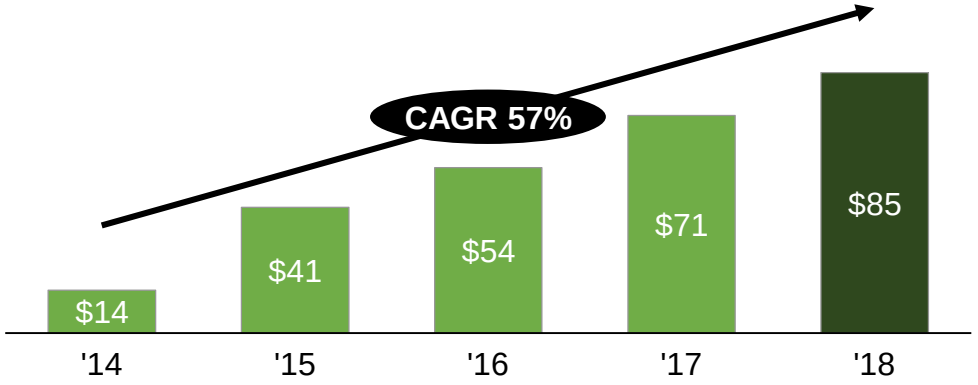
Exciting slate of collaborations and partnerships lined up for 2019, starting with EMP Winter House in Aspen, CO

Consistent, strong performance

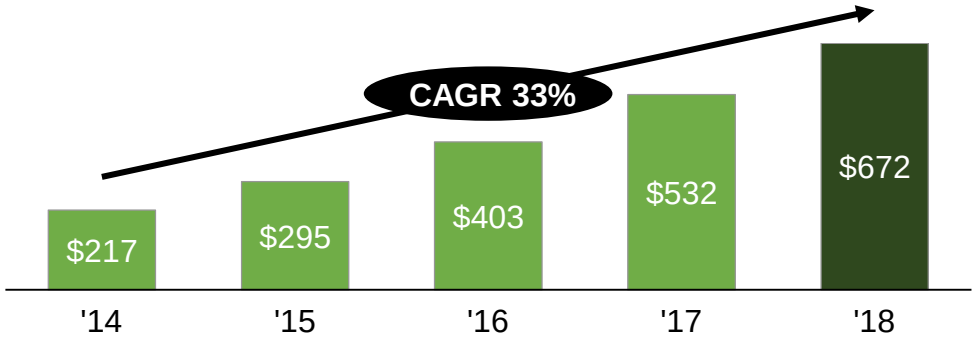
Total Revenue ($M)



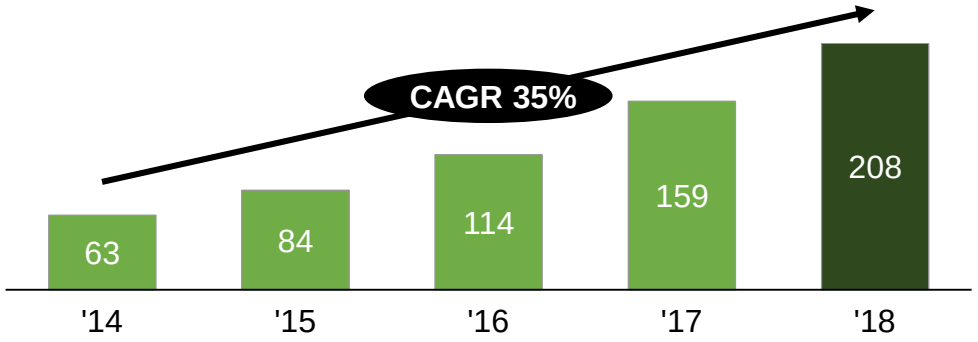
Cash Flow from Operations ($M)



Shack System-wide Sales[1] ($M)



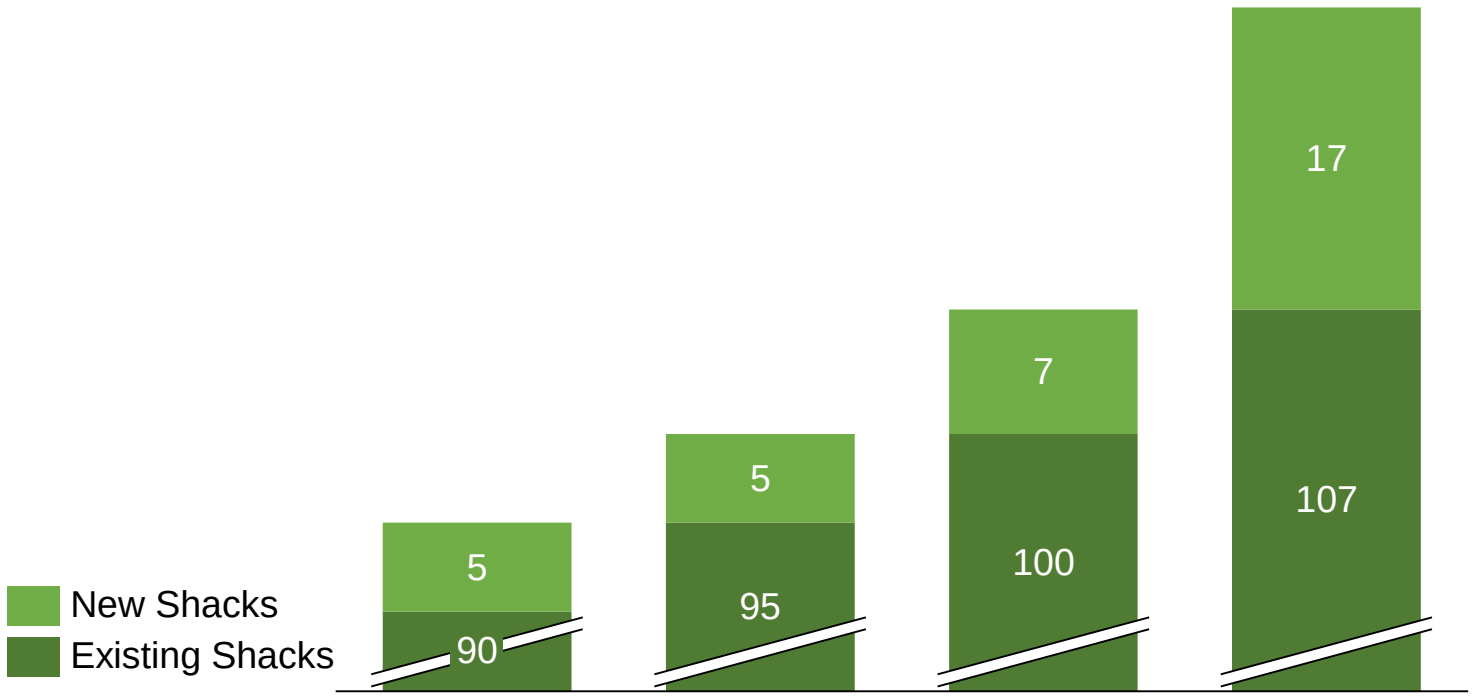
System-wide Shack Count



1. "Same-Shack Sales" represents Shack sales for the comparable Shack base, which is defined as the number of domestic company-operated Shacks open for 24 full fiscal months or longer.
Note: CAGR for total revenue, cash flow from operations, and system-wide sales is the compounded annual growth rate between '14 and '18
Note: CAGR for system-wide Shack Count is the compounded annual growth rate between '14 and '18 at year end

Back-weighted Q4 Shack openings amplified costs, which level out over time

Company-operated Shack Openings by Quarter, FY 2018



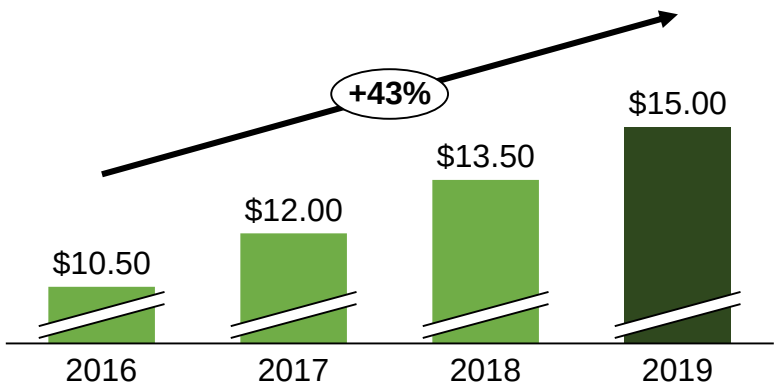
	Q1	Q2	Q3	Q4
Quarterly SLOP[1] %	25.0%	28.2%	25.8%	22.5%

- 50% of 2018 new Shacks were opened in the fourth quarter with 7 of those opening in the last 2 weeks of the year
- New Shacks typically carry a higher labor rate during initial operating periods prior to settling into normalized operating rhythm

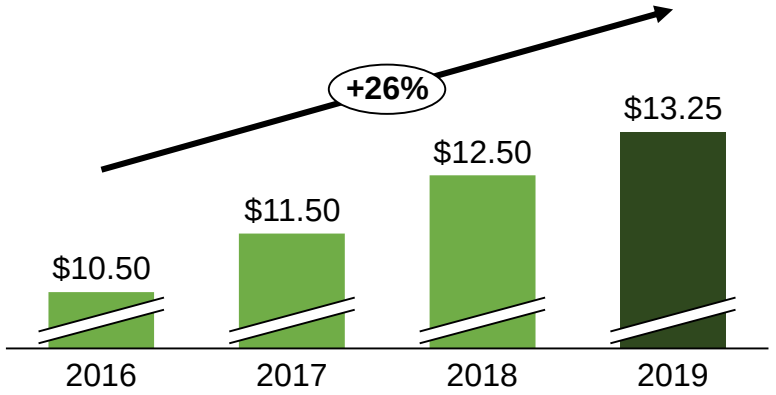
1. Shack-Level operating profit (SLOP) is a non-GAAP measure. A definition and reconciliation of Shack-level operating profit to operating income, the most directly comparable financial measures presented in accordance with GAAP, is included in the appendix of this presentation.

Key markets face significant ongoing labor headwinds

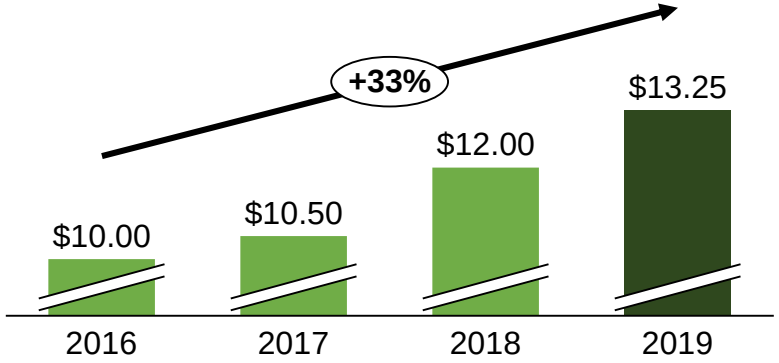
New York City Fast Food Workers Minimum Wage Trend



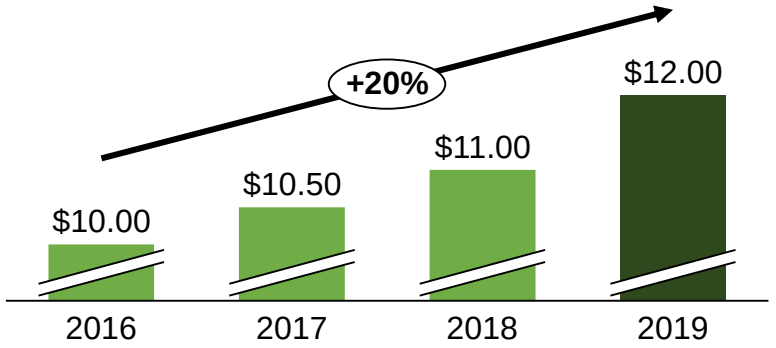
District of Columbia Minimum Wage Trend



Los Angeles Minimum Wage Trend



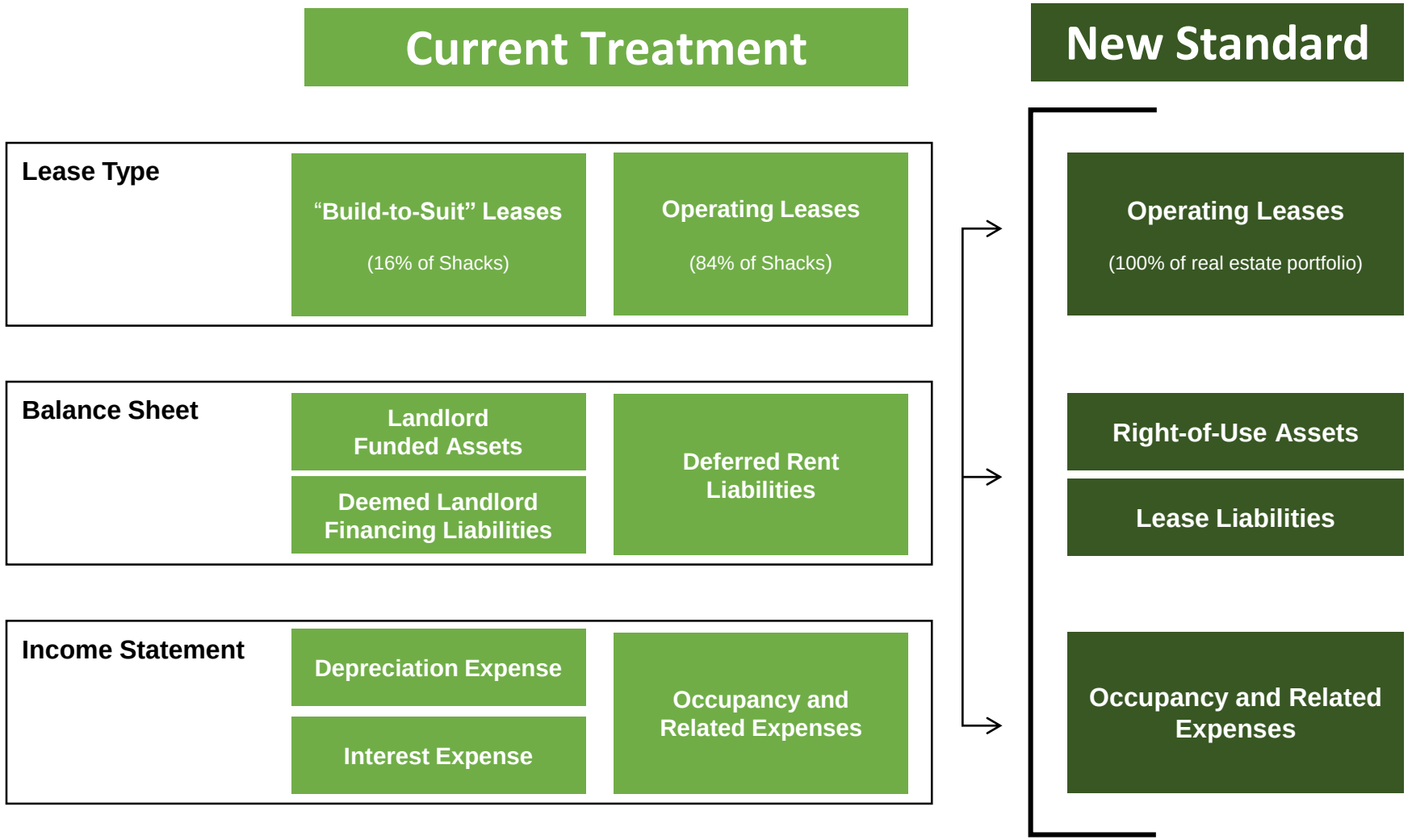
Chicago Minimum Wage Trend



- Ongoing development in markets with high wage inflation and increasing levels of regulation results in significant labor headwinds impacting Shack-level operating margins
- Opportunities to streamline and optimize labor are a key focus and include kiosks, scheduling tools, kitchen design and process changes

Note: All minimum wage are represented as of January 1st in each year
NYC Source: https://labor.ny.gov/workerprotection/laborstandards/workprot/MW%20Updates/fast-food-faq.shtm#0
DC Source: http://dcwagelaw.com/laws/minimum-wage-overtime/dc/
Los Angeles Source: https://paywizard.org/salary/minimum-wage/California#los-angeles-city-and-county-minimum-wage
Chicago: https://www.littler.com/publication-press/publication/chicago-minimum-wage-ordinance-goes-effect-july-1-2015

Real estate leases: Impact of new accounting standard



- Under the new lease accounting standard (ASC 842), effective in 2019, we will recognize all real estate leases on the balance sheet
- Our existing "Build-to-Suit" leases (BTS) will be considered operating leases
- We will derecognize all amounts currently on our balance sheet relating to BTS leases, including landlord funded assets and deemed landlord financing liabilities, as well as deferred rent related to our existing operating leases
- New Right-of-Use assets and lease liabilities will be recorded for all real estate leases
- All expenses associated with our real estate leases will now be recognized in Occupancy and related expenses under the new standard, whereas previously expenses relating to our BTS leases were recognized in Depreciation and Interest

Overall impact of new accounting standard

Balance Sheet changes

- ↑ Right-of-use asset & lease liabilities
- ↓ Landlord funded assets & deemed landlord financing liabilities
- ↓ Deferred rent liabilities

→

Net resulting Balance Sheet impact

- Net increase to total assets of $207 to $217 million
- Net increase to total liabilities of $202 to $212 million

Income Statement changes

- ↑ Occupancy and related expenses
- ↓ Other operating expenses
- ↓ Interest expense

→

Net resulting Income Statement impact

- **Unfavorable impact** to Shack-level Operating Profit margin of **approximately 50 basis points**
- Unfavorable impact to Adjusted EBITDA; minimal net impact to Net Income

Fiscal Year 2019 Guidance

	FY 2019 Guidance	FY 2020 Targets
Total Revenue	$570M to $576M	$700M+
Licensed Revenue	$15M to $16M	
Same-Shack Sales growth	0% to 1%	
Average Unit Volume (includes all domestic company-operated Shacks)	$4.0M to $4.1M	
Domestic company-operated openings	36 to 40	200+ Shack Count
Licensed Shack openings	16 to 18, net	120+ Shack Count
Shack-level operating profit	23% to 24%	
General and administrative expenses (includes Project Concrete, equity-based compensation, and other one-time charges)	$66.4M to $68.2M	
Core general and administrative expenses	$56M to $57M	
Equity-based compensation	$7.4M to $7.7M	
Project Concrete	$3M to $3.5M (G&A) $4M (Capex)	
Depreciation expense	$41M to $42M	
Pre-opening costs	$13M to $14M	
Interest expense	$0.3M to $0.4M	
Adjusted pro-forma tax rate	26.5% to 27.5%	



APPENDIX

INCLUDING GAAP & NON-GAAP MEASURES

Definitions

Fourth Quarter & Fiscal Year 2018

“Adjusted EBITDA,” a non-GAAP measure, is defined as EBITDA excluding equity-based compensation expense, deferred rent expense, losses on the disposal of property and equipment, as well as certain non-recurring items that the Company does not believe directly reflect its core operations and may not be indicative of the Company's recurring business operations.

“Adjusted EBITDA margin,” a non-GAAP measure, is defined as net income before net interest, taxes, depreciation and amortization, which also excludes equity-based compensation expense, deferred rent expense, losses on the disposal of property and equipment, as well as certain non-recurring items that the Company does not believe directly reflect its core operations, as a percentage of revenue.

"Average unit volumes" or "AUVs" for any 12-month period consist of the average annualized sales of all domestic company-operated Shacks over that period. AUVs are calculated by dividing total Shack sales from domestic company-operated Shacks by the number of domestic company-operated Shacks open during that period. For Shacks that are not open for the entire period, fractional adjustments are made to the number of Shacks open such that it corresponds to the period of associated sales.

"Same-Shack Sales" represents Shack sales for the comparable Shack base, which is defined as the number of domestic company-operated Shacks open for 24 full fiscal months or longer.

“EBITDA,” a non-GAAP measure, is defined as net income before interest expense (net of interest income), income tax expense, and depreciation and amortization expense.

"Shack-level operating profit," a non-GAAP measure, is defined as Shack sales less Shack-level operating expenses including food and paper costs, labor and related expenses, other operating expenses and occupancy and related expenses.

"Shack-level operating profit margin," a non-GAAP measure, is defined as Shack sales less Shack-level operating expenses, including food and paper costs, labor and related expenses, other operating expenses and occupancy and related expenses as a percentage of Shack sales.

"Shack sales" is defined as the aggregate sales of food, beverages and Shake Shack-branded merchandise at domestic company-operated Shacks and excludes sales from licensed Shacks.

“Shack system-wide sales” is an operating measure and consists of sales from domestic company-operated Shacks, domestic licensed Shacks and international licensed Shacks. The Company does not recognize the sales from licensed Shacks as revenue. Of these amounts, revenue is limited to Shack sales from domestic company-operated Shacks and licensing revenue based on a percentage of sales from domestic and international licensed Shacks, as well as certain up-front fees such as territory fees and opening fees.

Income Statement

Fourth Quarter & Fiscal Year 2018

	Fiscal Quarter Ended				Fiscal Year Ended			
	December 26, 2018		December 27, 2017		December 26, 2018		December 27, 2017	
Shack sales	$ 120,720	97.1%	$ 93,130	96.9%	$ 445,589	97.0%	$ 346,388	96.5%
Licensing revenue	3,545	2.9%	3,006	3.1%	13,721	3.0%	12,422	3.5%
TOTAL REVENUE	124,265	100.0%	96,136	100.0%	459,310	100.0%	358,810	100.0%
Shack-level operating expenses[1]:								
Food and paper costs	34,760	28.8%	26,691	28.7%	126,096	28.3%	98,337	28.4%
Labor and related expenses	34,443	28.5%	25,048	26.9%	122,094	27.4%	91,740	26.5%
Other operating expenses	15,247	12.6%	10,425	11.2%	51,783	11.6%	35,805	10.3%
Occupancy and related expenses	9,089	7.5%	7,456	8.0%	32,710	7.3%	28,197	8.1%
General and administrative expenses	15,173	12.2%	11,651	12.1%	52,720	11.5%	39,003	10.9%
Depreciation expense	8,095	6.5%	6,094	6.3%	29,000	6.3%	21,704	6.0%
Pre-opening costs	4,248	3.4%	2,642	2.7%	12,279	2.7%	9,603	2.7%
Loss on disposal of property and equipment	374	0.3%	291	0.3%	917	0.2%	608	0.2%
TOTAL EXPENSES	121,429	97.7%	90,298	93.9%	427,599	93.1%	324,997	90.6%
OPERATING INCOME	2,836	2.3%	5,838	6.1%	31,711	6.9%	33,813	9.4%
Other income, net	444	0.4%	127,501	132.6%	1,514	0.3%	128,123	35.7%
Interest expense	(645)	-0.5%	(499)	-0.5%	(2,415)	-0.5%	(1,643)	-0.5%
INCOME BEFORE INCOME TAXES	2,635	2.1%	132,840	138.2%	30,810	6.7%	160,293	44.7%
Income tax expense	3,183	2.6%	143,872	149.7%	8,862	1.9%	151,409	42.2%
NET INCOME (LOSS)	(548)	-0.4%	(11,032)	-11.5%	21,948	4.8%	8,884	2.5%
Less: net income attributable to non-controlling interests	410	0.3%	1,431	1.5%	6,769	1.5%	9,204	2.6%
NET INCOME (LOSS) ATTRIBUTABLE TO SHAKE SHACK INC.	$ (958)	-0.8%	$ (12,463)	-13.0%	$ 15,179	3.3%	$ (320)	-0.1%
Earnings (loss) per share of Class A common stock:								
Basic	$ (0.03)		$ (0.47)		$ 0.54		$ (0.01)	
Diluted	$ (0.03)		$ (0.47)		$ 0.52		$ (0.01)	
Weighted-average shares of Class A common stock outstanding:								
Basic	29,408		26,305		28,299		25,876	
Diluted	29,408		26,305		29,179		25,876	

(1) As a percentage of Shack sales.

Shack-Level Operating Profit Definitions

Fourth Quarter & Fiscal Year 2018

Shack-Level Operating Profit

Shack-level operating profit is defined as Shack sales less Shack-level operating expenses, including food and paper costs, labor and related expenses, other operating expenses and occupancy and related expenses.

How This Measure Is Useful

When used in conjunction with GAAP financial measures, Shack-level operating profit and Shack-level operating profit margin are supplemental measures of operating performance that the Company believes are useful measures to evaluate the performance and profitability of its Shacks. Additionally, Shack-level operating profit and Shack-level operating profit margin are key metrics used internally by management to develop internal budgets and forecasts, as well as assess the performance of its Shacks relative to budget and against prior periods. It is also used to evaluate employee compensation as it serves as a metric in certain performance-based employee bonus arrangements. The Company believes presentation of Shack-level operating profit and Shack-level operating profit margin provides investors with a supplemental view of its operating performance that can provide meaningful insights to the underlying operating performance of the Shacks, as these measures depict the operating results that are directly impacted by the Shacks and exclude items that may not be indicative of, or are unrelated to, the ongoing operations of the Shacks. It may also assist investors to evaluate the Company's performance relative to peers of various sizes and maturities and provides greater transparency with respect to how management evaluates the business, as well as the financial and operational decision-making.

Limitations of the Usefulness of this Measure

Shack-level operating profit and Shack-level operating profit margin may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of Shack-level operating profit and Shack-level operating profit margin is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. Shack-level operating profit excludes certain costs, such as general and administrative expenses and pre-opening costs, which are considered normal, recurring cash operating expenses and are essential to support the operation and development of the Company's Shacks. Therefore, this measure may not provide a complete understanding of the Company's operating results as a whole and Shack-level operating profit and Shack-level operating profit margin should be reviewed in conjunction with the Company’s GAAP financial results. A reconciliation of Shack-level operating profit to operating income, the most directly comparable GAAP financial measure, is set forth below.

Shack-Level Operating Profit

Fourth Quarter & Fiscal Year 2018

	Fiscal Quarter Ended		Fiscal Year Ended	
(dollar amounts in thousands)	December 26, 2018	December 27, 2017	December 26, 2018	December 27, 2017
Operating income	$ 2,836	$ 5,838	$ 31,711	$ 33,813
Less:				
Licensing revenue	3,545	3,006	13,721	12,422
Add:				
General and administrative expenses	15,173	11,651	52,720	39,003
Depreciation expense	8,095	6,094	29,000	21,704
Pre-opening costs	4,248	2,642	12,279	9,603
Loss on disposal of property and equipment	374	291	917	608
Shack-level operating profit	$ 27,181	$ 23,510	$ 112,906	$ 92,309
Total revenue	$ 124,265	$ 96,136	$ 459,310	$ 358,810
Less: licensing revenue	3,545	3,006	13,721	12,422
Shack sales	$ 120,720	$ 93,130	$ 445,589	$ 346,388
Shack-level operating profit margin	22.5%	25.2%	25.3%	26.6%

Adjusted EBITDA Definitions
Fourth Quarter & Fiscal Year 2018

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before interest expense (net of interest income), income tax expense and depreciation and amortization expense. Adjusted EBITDA is defined as EBITDA (as defined above) excluding equity-based compensation expense, deferred rent expense, losses on the disposal of property and equipment, as well as certain non-recurring items that the Company does not believe directly reflect its core operations and may not be indicative of the Company's recurring business operations.

How These Measures Are Useful

When used in conjunction with GAAP financial measures, EBITDA and adjusted EBITDA are supplemental measures of operating performance that the Company believes are useful measures to facilitate comparisons to historical performance and competitors' operating results. Adjusted EBITDA is a key metric used internally by management to develop internal budgets and forecasts and also serves as a metric in its performance-based equity incentive programs and certain bonus arrangements. The Company believes presentation of EBITDA and adjusted EBITDA provides investors with a supplemental view of the Company's operating performance that facilitates analysis and comparisons of its ongoing business operations because they exclude items that may not be indicative of the Company's ongoing operating performance.

Limitations of the Usefulness of These Measures

EBITDA and adjusted EBITDA may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of EBITDA and adjusted EBITDA is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. EBITDA and adjusted EBITDA exclude certain normal recurring expenses. Therefore, these measures may not provide a complete understanding of the Company's performance and should be reviewed in conjunction with the GAAP financial measures. A reconciliation of EBITDA and adjusted EBITDA to net income, the most directly comparable GAAP measure, is set forth below.

Adjusted EBITDA
Fourth Quarter & Fiscal Year 2018

	Fiscal Quarter Ended		Fiscal Year Ended	
(in thousands)	December 26, 2018	December 27, 2017	December 26, 2018	December 27, 2017
Net income (loss)	$ (548)	$ (11,032)	$ 21,948	$ 8,884
Depreciation expense	8,095	6,094	29,000	21,704
Interest expense, net	645	479	2,407	1,565
Income tax expense	3,183	143,872	8,862	151,409
EBITDA	**11,375**	**139,413**	**62,217**	**183,562**
Equity-based compensation	1,691	1,800	6,067	5,623
Deferred rent	355	216	876	983
Loss on disposal of property and equipment	374	291	917	608
Legal Settlement	—	—	1,200	—
Executive transition costs[1]	60	—	340	664
Project Concrete[2]	684	181	1,292	181
Home Office relocation expenses[3]	—	264	1,019	264
Other income related to the adjustment of liabilities under tax receivable agreement	(78)	(1,362)	(78)	(1,362)
Other income related to the remeasurement of liabilities under tax receivable agreement due to the enactment of the TCJA	—	(125,859)	—	(125,859)
Adjusted EBITDA	**$ 14,461**	**$ 14,944**	**$ 73,850**	**$ 64,664**
Adjusted EBITDA margin	11.6%	15.5%	16.1%	18.0%

(1) Represents fees paid in connection with the search for certain of the Company's executive and key management positions, non-recurring signing bonuses and other transition costs, including related equity-based compensation.

(2) Represents consulting and advisory fees related to the Company's enterprise-wide system upgrade initiative called Project Concrete.

(3) Costs incurred in connection with the Company's relocation to a new Home Office.

Adjusted Pro Forma Effective Tax Rate

Fourth Quarter & Fiscal Year 2018

	December 26, 2018					
	Fiscal Quarter Ended			Fiscal Year Ended		
	Income Tax Expense	Income Before Income Taxes	Effective Tax Rate	Income Tax Expense	Income Before Income Taxes	Effective Tax Rate
As reported	$ 3,183	$ 2,635	120.8%	$ 8,862	$ 30,810	28.8%
Non-GAAP adjustments (before tax):						
Legal settlement		60			1,200	
Executive transition costs		684			340	
Project Concrete					1,292	
Home Office relocation					1,019	
Other income related to the adjustment of liabilities under tax receivable agreement		(78)			(78)	
Remeasurement of deferred tax assets in connection with other tax rate changes	(3,782)			(3,919)		
Tax effect of change in basis related to the adoption of ASC 606				311		
Tax effect of non-GAAP adjustments and assumed exchange of outstanding LLC Interests	1,463			2,415		
Adjusted pro forma	$ 864	$ 3,301	26.2%	$ 7,669	$ 34,583	22.2%
Less:						
Windfall tax benefits from stock-based compensation	142			1,910		
Adjusted pro forma (excluding windfall tax benefits)	$ 1,006	$ 3,301	30.5%	$ 9,579	$ 34,583	27.7%



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