

## SHAKE SHACK INC. (NYSE: SHAK) BUY

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DREW LOJEWSKI



- I. INTRODUCTION
- II. COMPANY BACKGROUND
- III. INVESTMENT DRIVERS
- IV. VALUATION
- V. RISKS AND CATALYSTS
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# I. INTRODUCTION

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• 12 Month Price Target:

**\$97.09**

• Appropriate Entry Price:

**\$84.89**

**1**

• Company investment and brand recognition

**2**

• Expansion into new markets

**3**

• Industry recovery and company adaptability

## **II. COMPANY BACKGROUND**

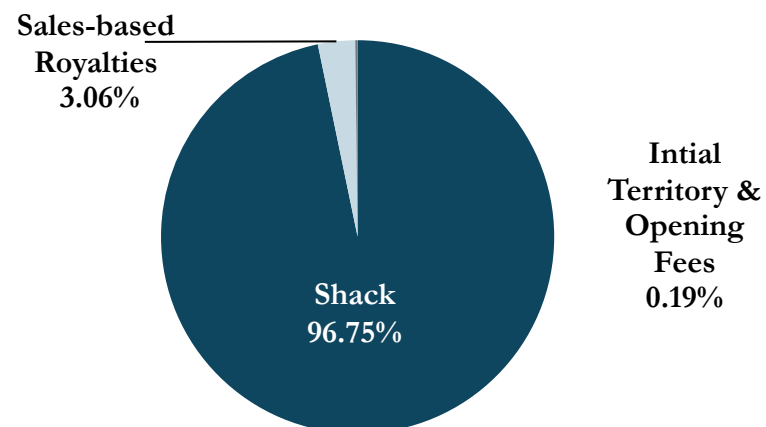
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## BUSINESS DESCRIPTION

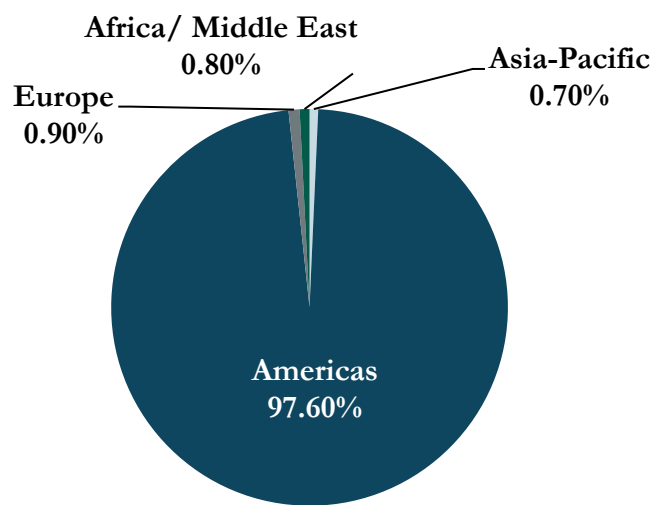
Shake Shack Inc. engages in operating fast food hamburger restaurants

- The Company is involved in the operation about 350 restaurant locations in nearly 15 countries and 30 U.S. states
- Shake Shack sells hamburgers, fries, milkshakes, chicken sandwiches, specialty beverages, and other quick-serve items
- Most locations are company-operated in the United States, but the Company also has franchises and licensing deals
- Mostly dine-in only locations, started deliveries in 2016

## REVENUE BY BUSINESS SEGMENT



## REVENUE BY GEOGRAPHIC SEGMENT



## KEY FIGURES

	2020A	2019A	2018A	2017A
<b>Sales</b>	\$522.87	\$594.52	\$459.31	\$358.81
<i>Growth</i>	-12.05%	29.44%	28.01%	33.64%
<b>Total Expense</b>	\$548.01	\$552.65	\$414.40	\$314.79
<i>Margin</i>	104.81%	92.96%	90.22%	87.73%
<b>Operating Income</b>	-\$25.15	\$41.87	\$44.91	\$44.02
<i>Margin</i>	-4.81%	7.04%	9.78%	12.27%
<b>Net Income</b>	-\$42.16	\$19.83	\$15.18	-\$0.32
<i>Growth</i>	-312.63%	30.62%	-4843.44%	-102.57%







## INDUSTRY OVERVIEW

### Industry Description:

- The fast food restaurant industry comprises of restaurants where customers pay for quick-service food products before eating them. Companies in this industry tend to sell food, beverages, and snack products that are fast to produce and distribute to patrons
- The industry has struggled during the COVID-19 pandemic. Revenue has decreased nearly 13.50% across the industry in 2020, with consumer spending dropping nearly 4.00% as well. Industry revenue is expected to grow about 16.00% in 2021, and 7.00% in 2022.

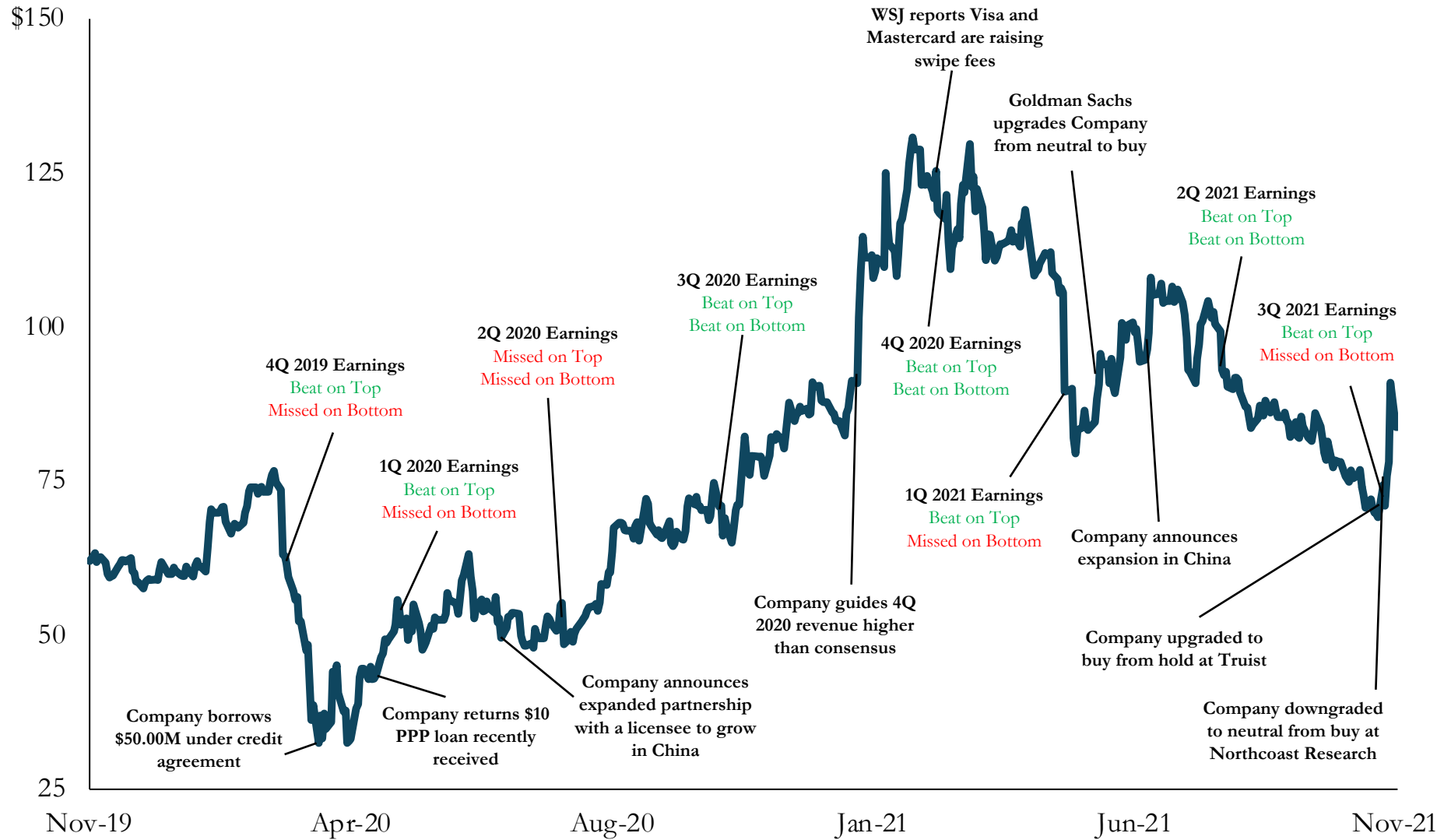
### Industry Trends:

- Most fast food companies are now offering mobile takeout and delivery services, which was expedited by the COVID-19 pandemic
- As governments begin to ease COVID-19 restrictions, restaurants will be able to reopen their dining areas, which will influence revenue growth

	COMPANY	SIZE(BN)	DESCRIPTION
	Shake Shack Inc. (SHAK)	\$3.53	Shake Shack Inc. engages in operating fast food hamburger restaurants predominately in the suburban and urban United States
	Jollibee Foods Corp. (JFC-PH)	\$5.41	Jollibee Foods Corp. engages in developing, operating, and franchising food stores such as Smashburger, Chowking, and Red Ribbon
	Wendy's Co. (WEN)	\$5.11	The Wendy's Co. engages in operating, developing, and franchising over 6,500 quick-serve restaurants in the U.S and around the world
	Jack in the Box Inc. (JACK)	\$2.25	Jack in the Box Inc. engages in the operation and franchising of quick-service hamburger restaurants. The Company has over 2,000 locations
	Noodles and Co. (NDLS)	\$0.54	Noodles and Co. engages in the operation and franchising of quick-casual restaurants. They specialize in noodle entrees with a global menu
	FAT Brands Inc. (FAT)	\$0.17	FAT Brands Inc. engages in the franchising of dining concepts across the world, such as Johnny Rockets, Fatburger, and Yalla Mediterranean

# ANNOTATED STOCK CHART

## SHAKE SHACK INC. NOMINAL PERFORMANCE AND KEY EVENTS

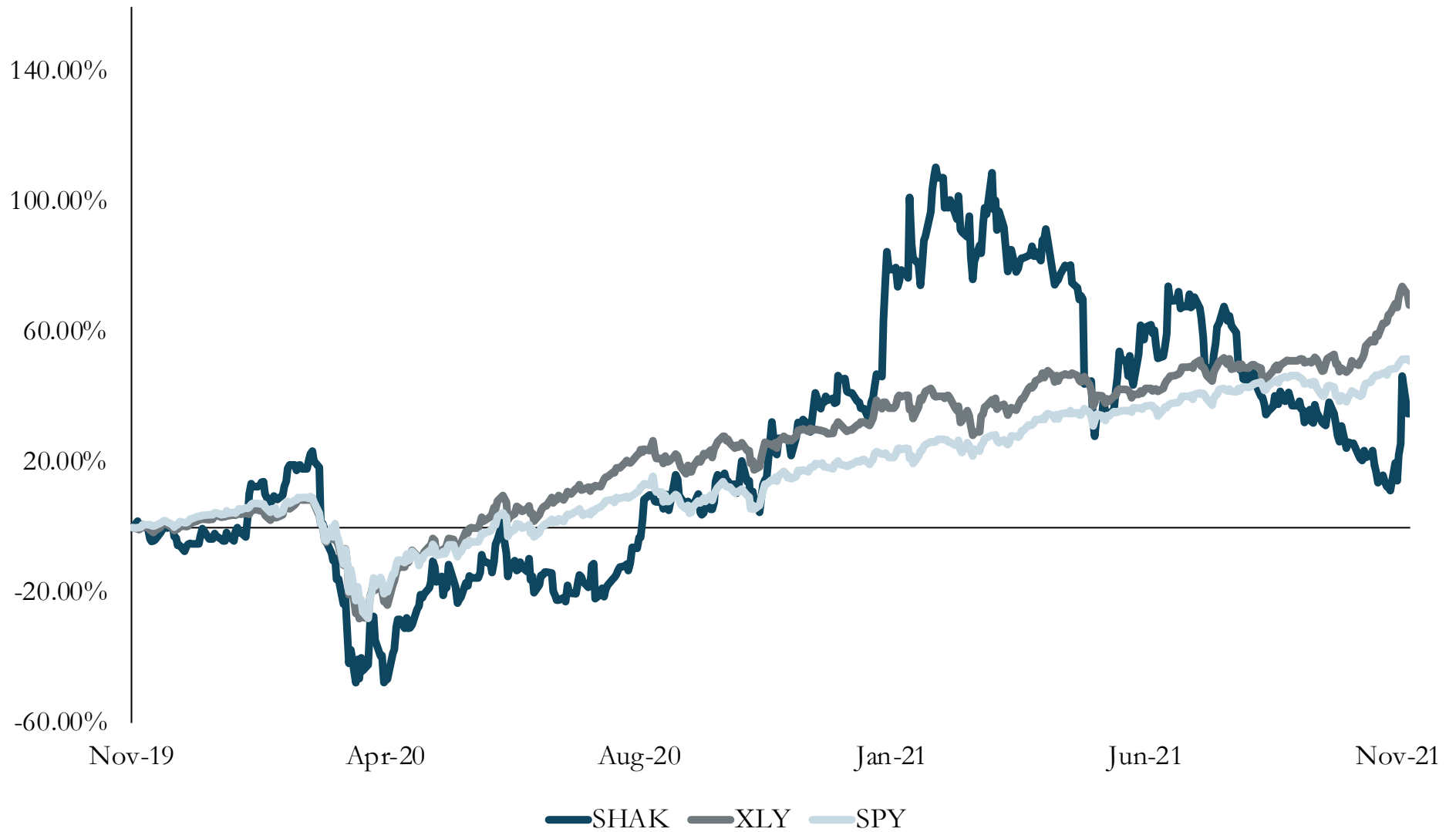


Source: Data from FactSet as of 11/9/21



# RELATIVE PERFORMANCE

## SHAKE SHACK vs. XLY vs. SPY



### **III. INVESTMENT DRIVERS**

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## COMPANY INVESTMENTS INTO CURRENT BUSINESS

Company management makes it a priority to invest in employee and business development to foster growth and maintain satisfaction

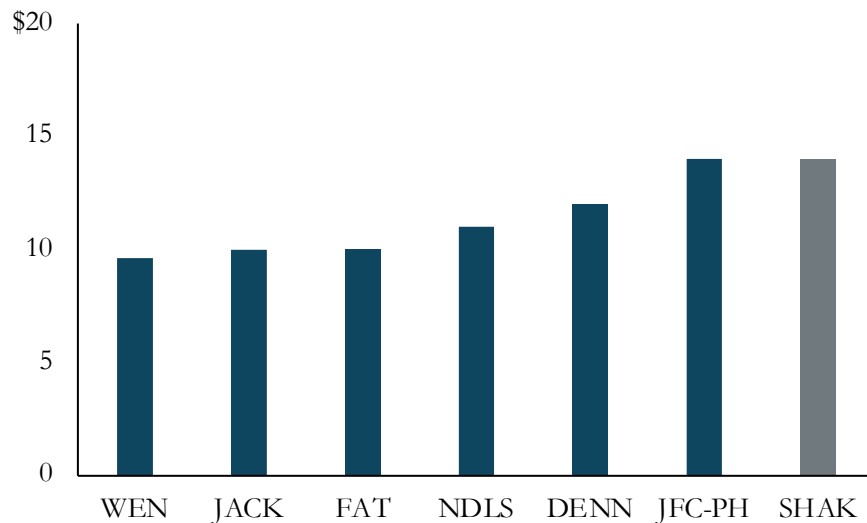
- In Q2 FY2021, Shake Shack’s CEO Randy Garutti announced that the Company will spend \$10.00M in 2021 for wage increases, hiring bonuses, and leadership programs
- This follows a \$6.00M investment in 2020 to increase wages and year-end bonuses for employees during COVID-19
  - The average Shake Shack employee makes about \$14.00 per hour, \$1.57 above the industry average

## STRONG SOCIAL MEDIA AND MARKETING

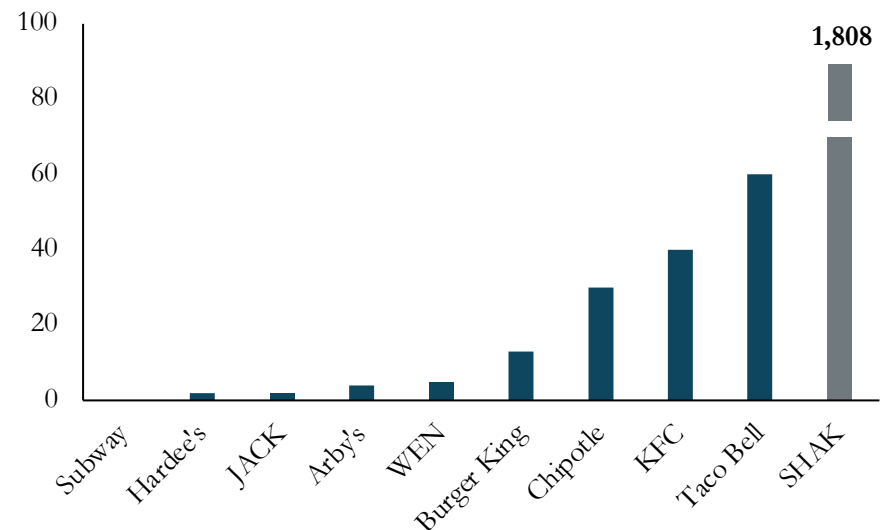
Shake Shack has strong brand recognition in the United States when considering its market value versus other competitors and spends little on marketing

- In FY2017, Shake Shack’s marketing budget was a reported \$400.00K, yet they still generated \$358.81M in revenue
- The company focuses on digital strategies rather than traditional marketing methods to save on costs
- It has been reported that for every dollar spent on email marketing, SHAK generates \$38.00 in revenue

## SHAK AVERAGE STARTING WAGE PER HOUR VS. COMPS



## SHAK FOLLOWERS PER SYSTEM SALES VS. COMPS

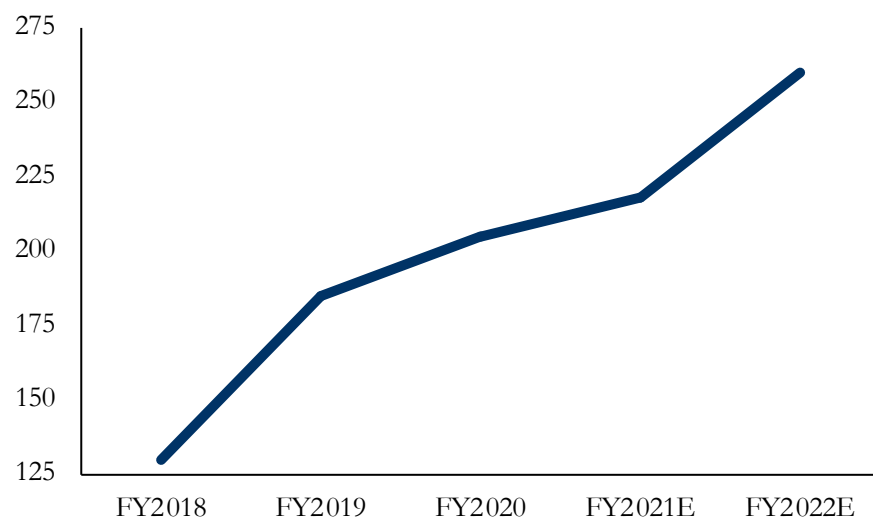


## EXPANSION IN UNITED STATES

**Shake Shack plans to increase its number of locations in the United States to diversify in terms of sub-urban vs. urban restaurant locations**

- The Company plans to develop 45 to 50 more company-operated restaurants in the U.S. by the end of 2022
  - This could bring their domestic-owned store count to about 260 stores, excluding franchise locations
- Shake Shack is exploring increasing the amount of sub-urban stores to curb revenue exposure in urban areas
  - All regions outside NYC surpassed 2019 revenue levels

## COMPANY-OPERATED SHAK LOCATIONS (U.S.)

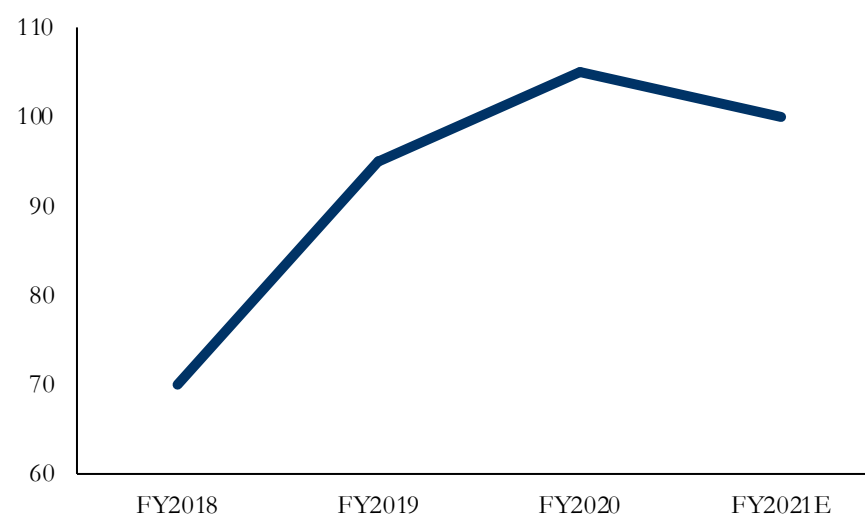


## EXPANSION IN INTERNATIONAL MARKETS

**The Company is planning to grow in international markets in attempt to have similar success compared to when Shake Shack started in New York City**

- In 2011, Shake Shack opened its first two international locations in Kuwait and the United Arab Emirates
  - The company is focusing most of its international growth in Asia, especially metropolitan areas in China
- In June 2021, the Company announced an expanded partnership with licensee Maxim's Caterers Limited to grow locations in China from 16 to 79 restaurants by 2031

## NUMBER OF INTERNATIONAL SHAK LOCATIONS

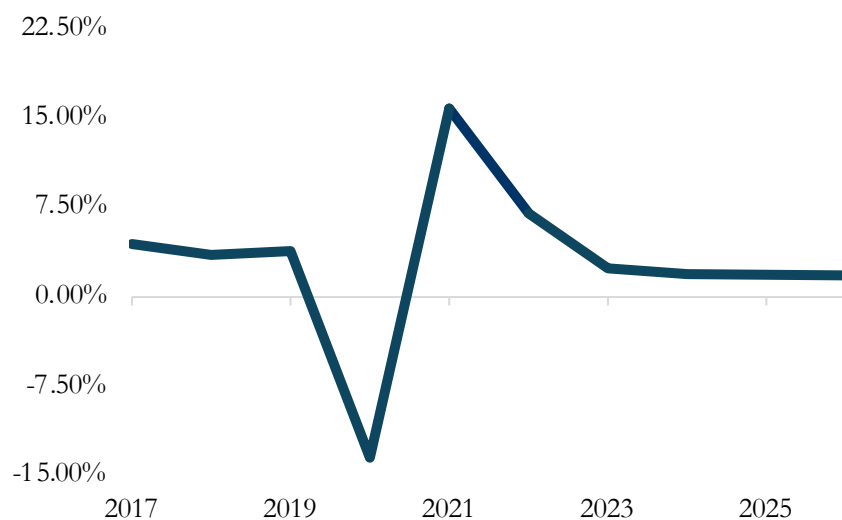


## INDUSTRY RECOVERY DURING AND POST COVID-19

The fast food restaurant industry is expected to recover and grow over the next 5 years

- Industry revenue dropped 13.48% to \$256.03B, but is expected to increase 15.82% to \$296.55B in 2021
  - Fast food revenue is correlated with consumer spending
- Company revenue grew 48.70% YoY as of Q3 FY2021
  - Same-Shack sales decreased 1.00% and sub-urban Same-Shack sales increased 7.00% compared to 2019 levels
  - SHAK announced a 3.00% to 3.50% increase in prices due to the rising cost of ingredients for its products

## FAST FOOD RESTAURANT REVENUE GROWTH PER YR

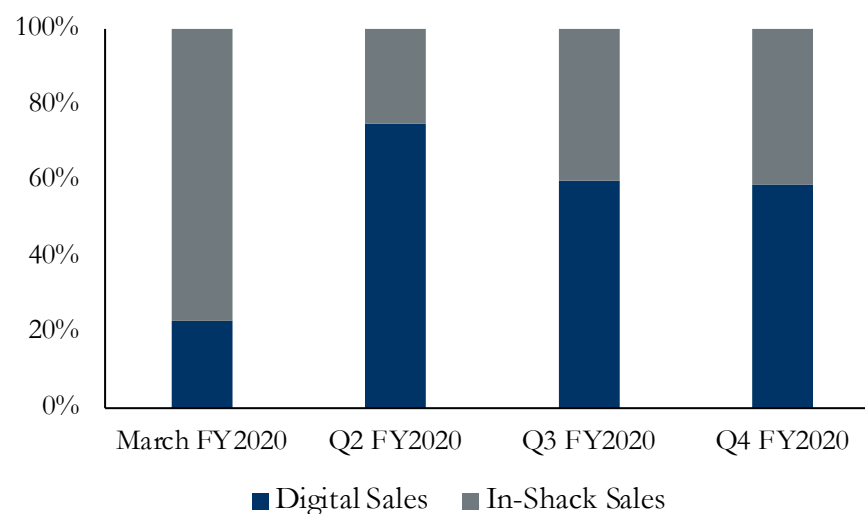


## QUICKLY ADAPTED EXPOSURE TO PANDEMIC LIFE

Shake Shack adapted during the pandemic by digitalizing sales and exploring new revenue methods

- In early 2021, the Company partnered with Uber Eats to offer a robust delivery service across its locations
  - 60.00% of Shake Shack’s Q3 FY2021 revenue was digital
- Shake Shack adjusted to a “to-go” and curbside pick-up model during the pandemic to curb decrease in revenue
  - When new restaurant locations are opened in 2022, about 12 will have walk-up windows, and 10 will have drive-thru areas to increase impulse purchases and diversify revenue

## HISTORICAL SHAK DIGITAL VS. IN-SHACK SALES



## IV. VALUATION

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# COMPARABLES



(\$ in millions)

	% of 52 week high	FY+1 P / E	FY+2 P / E	NTM EV / EBITDA	FY+1 EV / EBITDA	FY+2 EV / EBITDA	NTM EV / Sales	FY+1 EV / sales	FY+2 EV / sales	Annual dividend yield
<b>Competitors</b>										
Jollibee Foods Corp.	2%	85.4x	50.1x	15.4x	18.2x	15.0x	2.1x	2.4x	2.0x	0.40%
Wendy's Company	78%	28.2x	25.3x	16.6x	17.5x	16.5x	4.3x	4.4x	4.3x	1.32%
Jack in the Box Inc.	84%	14.5x	14.4x	13.4x	13.0x	13.4x	3.7x	3.8x	3.7x	1.50%
Noodles & Co. Class A	89%	42.9x	23.2x	14.8x	18.3x	14.4x	1.6x	1.7x	1.5x	0.00%
FAT Brands Inc. Class A	78%	-	22.4x	12.6x	12.6x	-	1.9x	4.2x	1.8x	0.00%
<b>High</b>	<b>89%</b>	<b>85.4x</b>	<b>50.1x</b>	<b>16.6x</b>	<b>18.3x</b>	<b>16.5x</b>	<b>4.3x</b>	<b>4.4x</b>	<b>4.3x</b>	<b>1.50%</b>
<b>Mean</b>	<b>66%</b>	<b>42.8x</b>	<b>27.1x</b>	<b>14.6x</b>	<b>15.9x</b>	<b>14.8x</b>	<b>2.7x</b>	<b>3.3x</b>	<b>2.7x</b>	<b>0.64%</b>
<b>Median</b>	<b>78%</b>	<b>35.6x</b>	<b>23.2x</b>	<b>14.8x</b>	<b>17.5x</b>	<b>14.7x</b>	<b>2.1x</b>	<b>3.8x</b>	<b>2.0x</b>	<b>0.40%</b>
<b>Low</b>	<b>2%</b>	<b>14.5x</b>	<b>14.4x</b>	<b>12.6x</b>	<b>12.6x</b>	<b>13.4x</b>	<b>1.6x</b>	<b>1.7x</b>	<b>1.5x</b>	<b>0.00%</b>
<b>Shake Shack, Inc. Class A</b>	<b>61%</b>	<b>-</b>	<b>721.8x</b>	<b>40.2x</b>	<b>68.6x</b>	<b>37.6x</b>	<b>3.8x</b>	<b>4.8x</b>	<b>3.7x</b>	<b>0.00%</b>

	EPS growth	FY+1 PEG ratio	FY+2 PEG ratio	LTM EBITDA margin	FY+1 EBITDA margin	FY+2 EBITDA margin	LTM profit margin	FY+1 profit margin	FY+2 profit margin	Credit rating
<b>Competitors</b>										
Jollibee Foods Corp.	-	5.8x	3.4x	9.74%	13.12%	13.51%	1.15%	2.22%	3.21%	-
Wendy's Company	15.07%	1.9x	1.7x	27.22%	24.98%	25.97%	9.87%	9.74%	10.42%	B
Jack in the Box Inc.	11.67%	1.2x	1.2x	28.32%	29.22%	27.58%	14.70%	14.27%	13.09%	B
Noodles & Co. Class A	-	-	27.3x	7.42%	9.21%	10.75%	0.98%	2.66%	4.63%	-
FAT Brands Inc. Class A	11.40%	-	-	17.30%	33.55%	-	-38.39%	-18.36%	5.69%	-
<b>High</b>	<b>15.07%</b>	<b>1.9x</b>	<b>27.3x</b>	<b>28.32%</b>	<b>33.55%</b>	<b>27.58%</b>	<b>14.70%</b>	<b>14.27%</b>	<b>13.09%</b>	<b>-</b>
<b>Mean</b>	<b>12.71%</b>	<b>1.6x</b>	<b>10.1x</b>	<b>18.00%</b>	<b>22.02%</b>	<b>19.45%</b>	<b>-2.34%</b>	<b>2.11%</b>	<b>7.41%</b>	<b>-</b>
<b>Median</b>	<b>11.67%</b>	<b>1.6x</b>	<b>1.7x</b>	<b>17.30%</b>	<b>24.98%</b>	<b>19.74%</b>	<b>1.15%</b>	<b>2.66%</b>	<b>5.69%</b>	<b>-</b>
<b>Low</b>	<b>11.40%</b>	<b>1.2x</b>	<b>1.2x</b>	<b>7.42%</b>	<b>9.21%</b>	<b>10.75%</b>	<b>-38.39%</b>	<b>-18.36%</b>	<b>3.21%</b>	<b>-</b>
<b>Shake Shack, Inc. Class A</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8.02%</b>	<b>7.02%</b>	<b>9.77%</b>	<b>-2.64%</b>	<b>-0.94%</b>	<b>0.55%</b>	<b>-</b>

# COMPARABLES

(\$ in millions)

	Market value	LTM sales	Beta	WACC	EPS	ROA	ROE	ROIC
<b>Competitors</b>								
Jollibee Foods Corp.	\$5,765	\$2,758	1.22	9.00%	(\$0.21)	-5.78%	-25.01%	-8.93%
Wendy's Company	\$5,133	\$1,880	1.26	6.10%	\$0.52	2.16%	22.11%	2.84%
Jack in the Box Inc.	\$2,273	\$1,121	1.42	6.67%	\$3.86	5.71%	-	9.43%
Noodles & Co. Class A	\$553	\$468	1.65	9.23%	(\$0.53)	-6.35%	-57.95%	-7.71%
FAT Brands Inc. Class A	\$211	\$51	1.35	6.05%	(\$1.25)	-14.59%	-	-47.52%
<b>High</b>	\$5,765	\$2,758	1.65	9.23%	\$3.86	5.71%	22.11%	9.43%
<b>Mean</b>	\$2,787	\$1,256	0.69	7.75%	\$0.48	-3.77%	-20.29%	-10.38%
<b>Median</b>	\$2,273	\$1,121	0.40	7.84%	(\$0.21)	-5.78%	-25.01%	-7.71%
<b>Low</b>	\$211	\$51	1.26	3.07%	(\$1.25)	-14.59%	-57.95%	-47.52%
<b>Shake Shack, Inc. Class A</b>	<b>\$3,280</b>	<b>\$694</b>	<b>1.27</b>	<b>6.83%</b>	<b>(\$1.14)</b>	<b>-3.97%</b>	<b>-11.94%</b>	<b>-6.19%</b>

	Current ratio	Quick ratio	Price to book value	Debt to equity	Price to LTM sales	Price to FCF	Revenue per share	FCF per share
<b>Competitors</b>								
Jollibee Foods Corp.	1.4x	1.2x	5.6x	3.5x	1.7x	-	117.34	(7.08)
Wendy's Company	1.7x	1.7x	8.9x	6.7x	2.8x	23.2x	7.60	0.94
Jack in the Box Inc.	1.0x	1.0x	-	-	-	-	43.90	5.33
Noodles & Co. Class A	0.4x	0.2x	11.7x	9.6x	1.2x	-	8.89	(0.06)
FAT Brands Inc. Class A	0.3x	0.3x	-	-	-	-	1.52	(1.00)
<b>High</b>	1.7x	1.7x	11.7x	9.6x	2.8x	23.2x	117.34	5.33
<b>Mean</b>	0.9x	0.9x	8.8x	6.6x	1.9x	23.2x	35.85	(0.37)
<b>Median</b>	1.0x	1.0x	8.9x	6.7x	1.7x	23.2x	8.89	(0.06)
<b>Low</b>	0.3x	0.2x	5.6x	3.5x	1.2x	23.2x	1.52	(7.08)
<b>Shake Shack, Inc. Class A</b>	<b>1.9x</b>	<b>1.8x</b>	<b>8.1x</b>	<b>0.9x</b>	<b>-</b>	<b>1,597.8x</b>	<b>14.08</b>	<b>0.05</b>



# INCOME STATEMENT



(\$ in millions)

Year (FY)	Historical			Projected										10-yr CAGR
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	
<b>Revenue</b>	<b>459</b>	<b>595</b>	<b>523</b>	<b>735</b>	<b>977</b>	<b>1,212</b>	<b>1,454</b>	<b>1,745</b>	<b>2,094</b>	<b>2,512</b>	<b>3,015</b>	<b>3,618</b>	<b>4,341</b>	<b>12.5%</b>
<i>% growth</i>	<i>0.0%</i>	<i>29.4%</i>	<i>-12.1%</i>	<i>40.5%</i>	<i>33.0%</i>	<i>24.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	
COGS	(362)	(487)	(485)	(624)	(850)	(1,030)	(1,236)	(1,483)	(1,780)	(2,135)	(2,563)	(3,075)	(3,690)	
<b>Gross profit</b>	<b>98</b>	<b>107</b>	<b>38</b>	<b>110</b>	<b>127</b>	<b>182</b>	<b>218</b>	<b>262</b>	<b>314</b>	<b>377</b>	<b>452</b>	<b>543</b>	<b>651</b>	
<i>Gross margin</i>	<i>21%</i>	<i>18%</i>	<i>7%</i>	<i>15%</i>	<i>13%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	
Operating expenditures	(53)	(65)	(63)	(86)	(69)	(79)	(70)	(70)	(72)	(72)	(69)	(62)	(49)	
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Operating income (EBIT)</b>	<b>45</b>	<b>42</b>	<b>(25)</b>	<b>24</b>	<b>58</b>	<b>103</b>	<b>148</b>	<b>192</b>	<b>242</b>	<b>305</b>	<b>384</b>	<b>481</b>	<b>602</b>	
<i>EBIT margin</i>	<i>10%</i>	<i>7%</i>	<i>-5%</i>	<i>3%</i>	<i>6%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>12%</i>	<i>12%</i>	<i>13%</i>	<i>13%</i>	<i>14%</i>	
Interest income (expense)	(14)	(14)	(20)	(23)	(28)	(35)	(41)	(47)	(54)	(63)	(72)	(83)	(96)	
Tax expense	(9)	(3)	(0)	(0)	(6)	(14)	(22)	(30)	(39)	(51)	(65)	(84)	(106)	
<i>Tax rate</i>	<i>29%</i>	<i>12%</i>	<i>0%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	
<b>Net income attributable to SHAK</b>	<b>15</b>	<b>20</b>	<b>(42)</b>	<b>(2)</b>	<b>19</b>	<b>48</b>	<b>79</b>	<b>109</b>	<b>143</b>	<b>187</b>	<b>241</b>	<b>309</b>	<b>395</b>	
Basic earnings per share	\$0.54	\$0.63	(\$1.14)	(\$0.06)	\$0.52	\$1.30	\$2.14	\$2.95	\$3.86	\$5.02	\$6.49	\$8.33	\$10.65	
Diluted earnings per share	\$0.52	\$0.61	(\$1.14)	(\$0.05)	\$0.45	\$1.13	\$1.86	\$2.56	\$3.35	\$4.36	\$5.63	\$7.23	\$9.24	

# UNLEVERED FREE CASH FLOW



(\$ in millions)

Year (FY)	Historical		Projected										10-yr CAGR
	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	
<b>EBITDA</b>	<b>83</b>	<b>25</b>	<b>96</b>	<b>147</b>	<b>206</b>	<b>251</b>	<b>305</b>	<b>372</b>	<b>452</b>	<b>550</b>	<b>669</b>	<b>814</b>	<b>30.5%</b>
<i>EBITDA margin</i>	<i>14%</i>	<i>5%</i>	<i>13%</i>	<i>15%</i>	<i>17%</i>	<i>17%</i>	<i>18%</i>	<i>18%</i>	<i>18%</i>	<i>18%</i>	<i>19%</i>	<i>19%</i>	
Less: D&A	(41)	(50)	(72)	(89)	(103)	(103)	(113)	(129)	(147)	(167)	(188)	(212)	
<b>EBIT</b>	<b>42</b>	<b>(25)</b>	<b>24</b>	<b>58</b>	<b>103</b>	<b>148</b>	<b>192</b>	<b>242</b>	<b>305</b>	<b>384</b>	<b>481</b>	<b>602</b>	,
<i>EBIT margin</i>	<i>7%</i>	<i>-5%</i>	<i>3%</i>	<i>6%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>12%</i>	<i>12%</i>	<i>13%</i>	<i>13%</i>	<i>14%</i>	
<i>Tax rate</i>	<i>12%</i>	<i>0%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	
Plus: D&A	41	50	72	89	103	103	113	129	147	167	188	212	
Less: capital expenditures	(107)	(69)	(110)	(141)	(145)	(160)	(174)	(199)	(226)	(256)	(289)	(326)	
Less: change in NWC	65	5	(10)	(11)	(11)	(11)	(13)	(16)	(19)	(23)	(27)	(33)	
<b>Unlevered free cash flow (uFCF)</b>	<b>36</b>	<b>(39)</b>	<b>(29)</b>	<b>(17)</b>	<b>28</b>	<b>49</b>	<b>77</b>	<b>106</b>	<b>143</b>	<b>191</b>	<b>252</b>	<b>329</b>	,
<i>% growth</i>		<i>-209.0%</i>	<i>-25.8%</i>	<i>-41.1%</i>	<i>-265.3%</i>	<i>72.1%</i>	<i>58.2%</i>	<i>37.0%</i>	<i>34.9%</i>	<i>33.3%</i>	<i>31.9%</i>	<i>30.9%</i>	

# DISCOUNTED CASH FLOW ANALYSIS

(\$ in millions)

## DISCOUNTED CASH FLOW ANALYSIS

### Assumptions

Tax rate	21.00%	Mgmt. guidance
Risk-free rate	1.44%	10-yr yield
Equity risk premium	4.53%	Damodaran
Beta	1.27	BBG 5-yr adj.
Cost of debt	1.87%	Weighted avg int rate
Terminal growth rate	2.00%	Assumption

### Implied values (MM)

Terminal value	6,962				
PV of terminal value	3,367	P / E	2021	2022	2023
% enterprise value	84%		-1461.3x	160.6x	64.3x
PV of uFCF	657	EV / EBITDA	42.1x	27.5x	19.5x
% enterprise value	16%				
<b>Implied enterprise value</b>	<b>4,025</b>	EV / uFCF	-137.7x	-233.9x	141.5x

### Share price sensitivity table

		Long-term growth rate						
		1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%
W	5.58%	\$119.12	\$125.46	\$132.63	\$140.80	\$150.20	\$161.13	\$174.00
	5.83%	\$110.97	\$116.49	\$122.68	\$129.68	\$137.66	\$146.85	\$157.52
	6.08%	\$103.71	\$108.54	\$113.92	\$119.97	\$126.81	\$134.61	\$143.57
	6.33%	\$97.19	\$101.44	\$106.16	\$111.42	\$117.33	\$124.01	\$131.63
A	6.58%	\$91.32	\$95.08	\$99.24	\$103.85	\$108.99	\$114.76	\$121.28
	<b>6.83%</b>	\$86.01	\$89.35	\$93.03	<b>\$97.09</b>	\$101.59	\$106.61	\$112.25
C	7.08%	\$81.18	\$84.16	\$87.43	\$91.02	\$94.99	\$99.39	\$104.29
	7.33%	\$76.77	\$79.45	\$82.37	\$85.56	\$89.07	\$92.94	\$97.24
C	7.58%	\$72.73	\$75.14	\$77.76	\$80.61	\$83.74	\$87.16	\$90.95
	7.83%	\$69.03	\$71.20	\$73.56	\$76.12	\$78.91	\$81.95	\$85.30
	8.08%	\$65.62	\$67.59	\$69.71	\$72.01	\$74.51	\$77.24	\$80.22

# WEIGHTED PRICE TARGET

## Price targets

DCF

Discount rate	Implied share price	Price target	Weighting	Blended price target
6.33%	\$111.42	\$97.09	100%	\$97.09 15.84%
6.58%	\$103.85			
<b>6.83%</b>	<b>\$97.09</b>			
7.08%	\$91.02			
7.33%	\$85.56			
		Comments		

## Price targets continued

FY+1 P / E - Median

FY+1 P / E - Median	Implied share price	Price target	Weighting	FY+1 P / E - Median override
33.6x	-\$1.93	-\$2.04	0%	
34.6x	-\$1.98			
<b>35.6x</b>	<b>-\$2.04</b>			
36.6x	-\$2.10			
36.6x	-\$2.10			
		Comments		

FY+2 P / E - Median

FY+2 P / E - Median	Implied share price	Price target	Weighting	FY+2 P / E - Median override
21.2x	\$50.37	\$54.83	0%	
22.2x	\$52.60			
<b>23.2x</b>	<b>\$54.83</b>			
24.2x	\$57.06			
25.2x	\$59.29			
		Comments		

FY+1 EV / EBITDA - Median

FY+1 EV / EBITDA - Median	Implied share price	Price target	Weighting	FY+1 EV / EBITDA - Median override
15.5x	\$37.60	\$42.06	0%	
16.5x	\$39.83			
<b>17.5x</b>	<b>\$42.06</b>			
18.5x	\$44.29			
19.5x	\$46.52			
		Comments		

FY+2 EV / EBITDA - Median

FY+2 EV / EBITDA - Median	Implied share price	Price target	Weighting	FY+2 EV / EBITDA - Median override
12.7x	\$31.41	\$35.87	0%	
13.7x	\$33.64			
<b>14.7x</b>	<b>\$35.87</b>			
15.7x	\$38.10			
16.7x	\$40.33			
		Comments		

## V. RISKS AND CATALYSTS

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## RISKS

- Competition in the fast food restaurant industry is high, and further innovation by competitors may force the Company to invest more into research and development to compete on top of Shake Shack's planned investment to open more locations
  - The Company's gross margins may change as its core business is sensitive to changes in food costs
  - Shake Shack's management is considering to increase prices again in 2022 if macroeconomic conditions remain unchanged
- The Company's Free Cash Flow is sensitive to the success of the locations Shake Shack plans to open in the long-term
  - If new locations were to fail or unfavorable market conditions prevent expansion, the Company will struggle to grow
- With COVID-19 cases declining, Shake Shack will be able to fully re-open their locations worldwide over time
  - If pandemic conditions worsen, the Company may revert back to its digital-first sales approach, which can impact sales
  - As restrictions are loosened, urban Shake Shack locations' revenue may rise with the rebound in tourism, especially in NYC

### BULL CASE

**\$133.02**

- Shake Shack successfully opens more locations worldwide
- Tourism in the U.S. rebounds to pre-pandemic levels, causing revenue for urban Shake Shacks to rise exponentially
- The Company continues to innovate and anticipates new trends before competitors

### BASE CASE

**\$97.09**

- Rising food costs last for the next 1-2 years, improving Company margins long-term
- Shake Shack locations continue to fully re-open as COVID-19 cases decline worldwide
- Shake Shack continues to innovate and maintain product quality to remain competitive

### BEAR CASE

**\$74.27**

- Unfavorable food costs cause dramatic increase in prices, affecting revenue and margins
- COVID-19 infections rise, forcing Shacks to remain reliant on to-go orders long-term
- Competitors overtake Shake Shack in competitiveness and brand recognition

## **VI. APPENDIX**

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