

About



POTBELLY
SANDWICH SHOP®

INVESTOR PRESENTATION – DECEMBER 2014

CAUTIONARY STATEMENTS

Forward-Looking Statements

This presentation includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, “forward-looking statements.” These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “strives,” “goal,” “seeks,” “projects,” “intends,” “forecasts,” “plans,” “may,” “will” or “should” or, in each case, their negative or other variations or comparable terminology. They appear in a number of places throughout this presentation and include statements regarding our intentions, beliefs, goals or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate. Our forward-looking statements are subject to risks and uncertainties, including those highlighted under “Risk Factors” and “Cautionary Statement on Forward-Looking Statements” in our most recent annual report on Form 10-K and other risk factors described from time to time in subsequent quarterly reports on Form 10-Q, which may cause actual results to differ materially from those projected or implied by the forward-looking statement.

Forward-looking statements are based on current expectations and assumptions and currently available data and are neither predictions nor guarantees of future events or performance. You should not place undue reliance on forward-looking statements, which only speak as of the date hereof. We do not undertake to update or revise any forward-looking statements after they are made, whether as a result of new information, future events, or otherwise, except as required by applicable law.

Note Regarding Non-GAAP Measures

This presentation includes financial measures, including adjusted EBITDA, adjusted net income, and shop-level profit margin, that are derived on the basis of methodologies other than generally accepted accounting principles (“GAAP”). We offer these measures to assist the users of our financial statements in assessing our financial performance under GAAP, but these measures are non-GAAP measures and investors should not rely on these measures as a substitute for any GAAP measure. Reconciliations of these measures to the GAAP measures we consider most comparable are included in the Financial Appendix.



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POTBELLY STRENGTHS

- ⚙ Differentiated customer experience that delivers a neighborhood feel
- ⚙ Simple, high-quality food at a fair price
- ⚙ Strong shop economics with attractive returns
- ⚙ Successful development model with significant whitespace opportunity
- ⚙ Proven management team with substantial operating experience
- ⚙ The Potbelly Advantage – distinct, deep-rooted culture



HOW WE DIFFERENTIATE....

PRODUCT



Simple, high-quality food at a fair price



Prepared fresh every day

+

PEOPLE



“Hire nice people and teach them the Potbelly way”



Our culture is the foundation

+

PLACE



Your “Neighborhood Sandwich Shop”



Music, décor elevates experience



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SIMPLE MENU: FRESHLY-MADE FOOD WITH HIGH QUALITY INGREDIENTS

TOASTY WARM SANDWICHES — made with — HAND-SLICED MEATS & CHEESES

SANDWICH EXTRAS

MUSHROOMS 10cal	CHEESE 50cal	(.50)
EXTRA MEAT 25-80cal		(.75)
NUESKE'S BACON 140cal		(1.25)
DOUBLE MEAT 90-410cal		(2.00)


TOPPINGS

MAYO 100/150cal
MUSTARD 15/20cal
HOT PEPPERS 40/60cal
LETTUCE 5/5cal
ONION 5/5cal
TOMATO 5/10cal
PICKLE 5/5cal
OIL 25/35cal
ITALIAN SEASONING 0cal

NEW

FLATS

A DIFFERENT WAY TO POTBELLY



ORDER ANY "ORIGINALS" SANDWICH "FLATS"

Just 20¢ more!

SALADS

UPTOWN 500cal	(7.30)
ALL-NATURAL GRILLED CHICKEN, GRAPES, APPLES, DRIED CRANBERRIES, CANDIED WALNUTS, BLUE CHEESE & RED ONION	
FARMHOUSE 410cal	
ALL-NATURAL GRILLED CHICKEN, HARD-BOILED EGG, BACON, BLUE CHEESE, CUCUMBERS, TOMATOES & RED ONION	
CHICKEN SALAD SALAD 500cal	(6.35)
A WRECK® SALAD 390cal	
CHICKPEA VEGGIE SALAD 270cal	

ORIGINALS (4.70) BIGS (6.00)

GRILLED CHICKEN & CHEDDAR
470/630cal (5.30/6.60)
HAND-SLICED CHICKEN BREAST WITH CHEDDAR CHEESE

MEDITERRANEAN
480/630cal (5.10/6.40)
ZIPPY HUMMUS, FETA CHEESE, CUCUMBERS, ARTICHOKE, & ROASTED RED PEPPERS
ADD CHICKEN 70/110cal (1.00)

CHICKEN SALAD
600/780cal
WITH PROVOLONE CHEESE

TUNA SALAD
550/720cal
WITH SWISS CHEESE

A WRECK®
530/700cal
SALAMI, ROAST BEEF, TURKEY & HAM WITH SWISS CHEESE

ITALIAN
660/880cal
CAPICOLA, MORTADELLA, PEPPERONI, SALAMI & PROVOLONE CHEESE

PIZZA SANDWICH
590/850cal (5.10/6.40)
PEPPERONI, MEATBALL, CAPICOLA, MARINARA SAUCE, PROVOLONE CHEESE, MUSHROOMS & ITALIAN SEASONING

A 2,000 calorie daily diet is used as the basis for general nutrition advice; however, individual calorie needs may vary. Additional nutrition information available upon request.

TURKEY BREAST
450/590cal
WITH SWISS CHEESE

SMOKED HAM
500/660cal
WITH SWISS CHEESE

ROAST BEEF
460/610cal
THIN SLICED ANGUS BEEF & PROVOLONE CHEESE

MEATBALL
680/870cal
MARINARA SAUCE & PROVOLONE CHEESE

SKINNYS (4.20) ALL UNDER 400 CALORIES | Less meat, cheese & bread

T-K-Y
300cal
TURKEY BREAST WITH SWISS CHEESE

MUSHROOM MELT
350cal
MUSHROOMS, SWISS, PROVOLONE & CHEDDAR CHEESES

HAMMIE
340cal
SMOKED HAM WITH SWISS CHEESE

SKINNY PAIR (6.80) SIDE SOUP & SANDWICH 360-650cal



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THE POTBELLY ADVANTAGE

OUR VISION

We are creating the Potbelly Nation. We want our customers to feel that we are their neighborhood sandwich shop and tell others about our awesome products, people and place.

OUR MISSION

Make people really happy
Make more money
Improve every day

OUR PASSION

Be the best place for lunch

OUR VALUES

HOW WE LEAD
DELIVER RESULTS
THROUGH EXECUTION
BUILD AND INSPIRE TEAMS
CREATE POTBELLY "FANS"

HOW WE BEHAVE
INTEGRITY
FOOD LOVING
TEAMWORK
ACCOUNTABILITY
POSITIVE ENERGY
COACHING

STRATEGIC FRAMEWORK



OUR #1 BUSINESS DRIVER

- ☀ People driven culture driven from the Potbelly Advantage

3 parts to *The Potbelly Advantage*

- ☀ Part 1: Leaders Intentions: Vision, Mission and Passion
- ☀ Part 2: Our Values
 - How We Lead: Values we expect our leaders to exhibit
 - How We Behave: Expectations we have of everyone
- ☀ Part 3: Our Strategic Framework is how we run the business



POTBELLY FINANCIAL MODEL

Financial Ops Model

- ☀ Increase cash flow from shops annually
- ☀ Price to cover inflation
- ☀ Annual productivity improvement
- ☀ Shop Margins above 20%



Investment Model

- ☀ Existing shop cash flow funds development
- ☀ Ongoing investments in existing shops
- ☀ Return on investments > 25%

Overhead Model

- ☀ Salary cap mentality at Support Center
- ☀ Invest closest to the customer
- ☀ G&A less than 10% of sales



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PRIMARY DRIVERS OF PROFIT GROWTH

- ☒ New Unit Development
- ☒ Operational Productivity
- ☒ G&A Management and Leverage

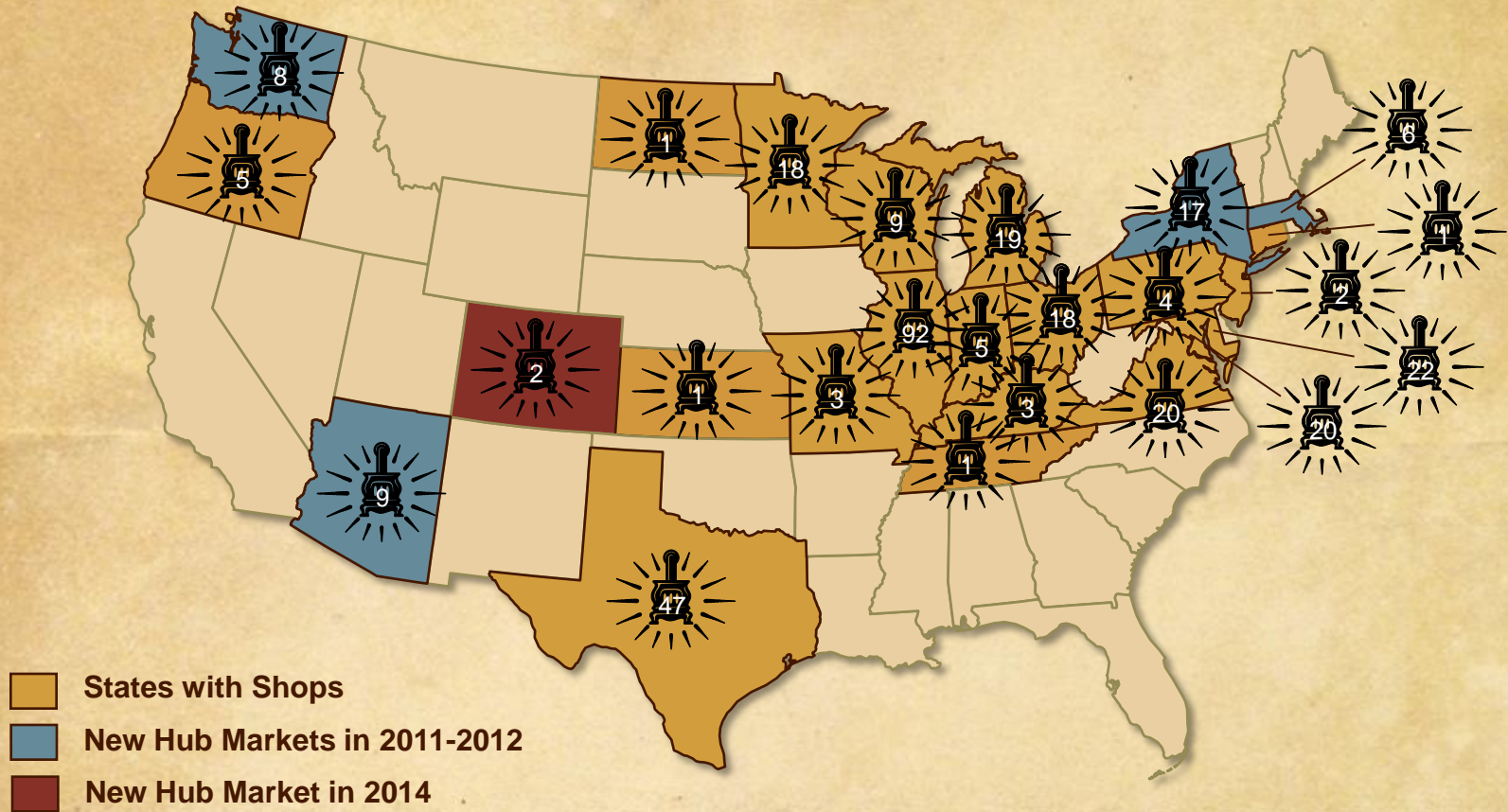
☐ Comparable Store Sales

- ✦ Primary opportunity is comparable store sales growth
- ✦ Taking steps to address our known sales opportunity
- ✦ Positive momentum in Q3'14 as comps increased 0.5%, driven by improvement in traffic trends



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SIGNIFICANT WHITESPACE OPPORTUNITY



Includes 319 Company-operated shops and 14 franchised shops as of September 28, 2014.

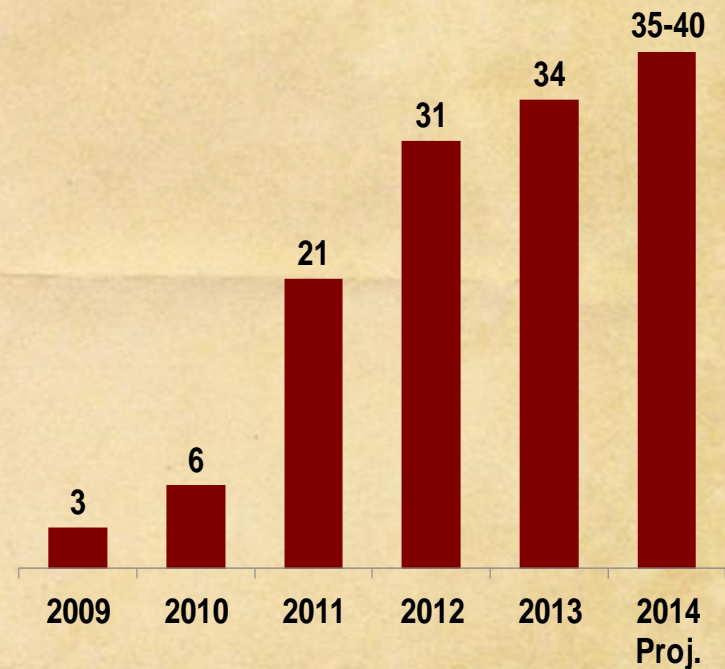


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WE CONTINUE TO EXPAND OUR GEOGRAPHIC FOOTPRINT

- ☀ In early stage of unit growth story
- ☀ Next phase of growth: 10%+ annually expected well into the future
- ☀ Strong track record of opening shops in new and legacy markets
- ☀ Successfully entered key markets over the last two years
- ☀ Well positioned to develop at least one thousand domestic shops over time

New Company-Operated Shops



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PROVEN AND FLEXIBLE NEW SHOP MODEL

New Shop Model Economics

Target Shop Size (sq. ft.)	1,800 – 2,200
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Cash-on-Cash Returns	25%+
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Average Capital Required	\$600
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Disciplined site selection balancing art and science



CEO, CFO, COO, and Development Leader see all sites



Successful development in various geographic markets, population densities and real estate settings



New store AUVs may vary; focus is on 25%+ cash-on-cash return



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FLEXIBLE DEVELOPMENT MODEL

SHOP EXAMPLES

Market	Real Estate Type	Sq. Feet	Cash Build-Out Cost	Avg. Weekly Sales
Wash. DC	Suburb	2,200	\$467	\$17
Chicago	Urban	1,500	\$505	\$18
Houston	Drive-Thru	2,450	\$724	\$23
New York	CBD	2,462	\$1,017	\$30
Chicago	Urban	2,000	\$454	\$17

Cash build-out costs = Construction Cost - Tenant Improvement Allowance + Pre-Opening Expense - Pre-Opening Rent. \$ in thousands.

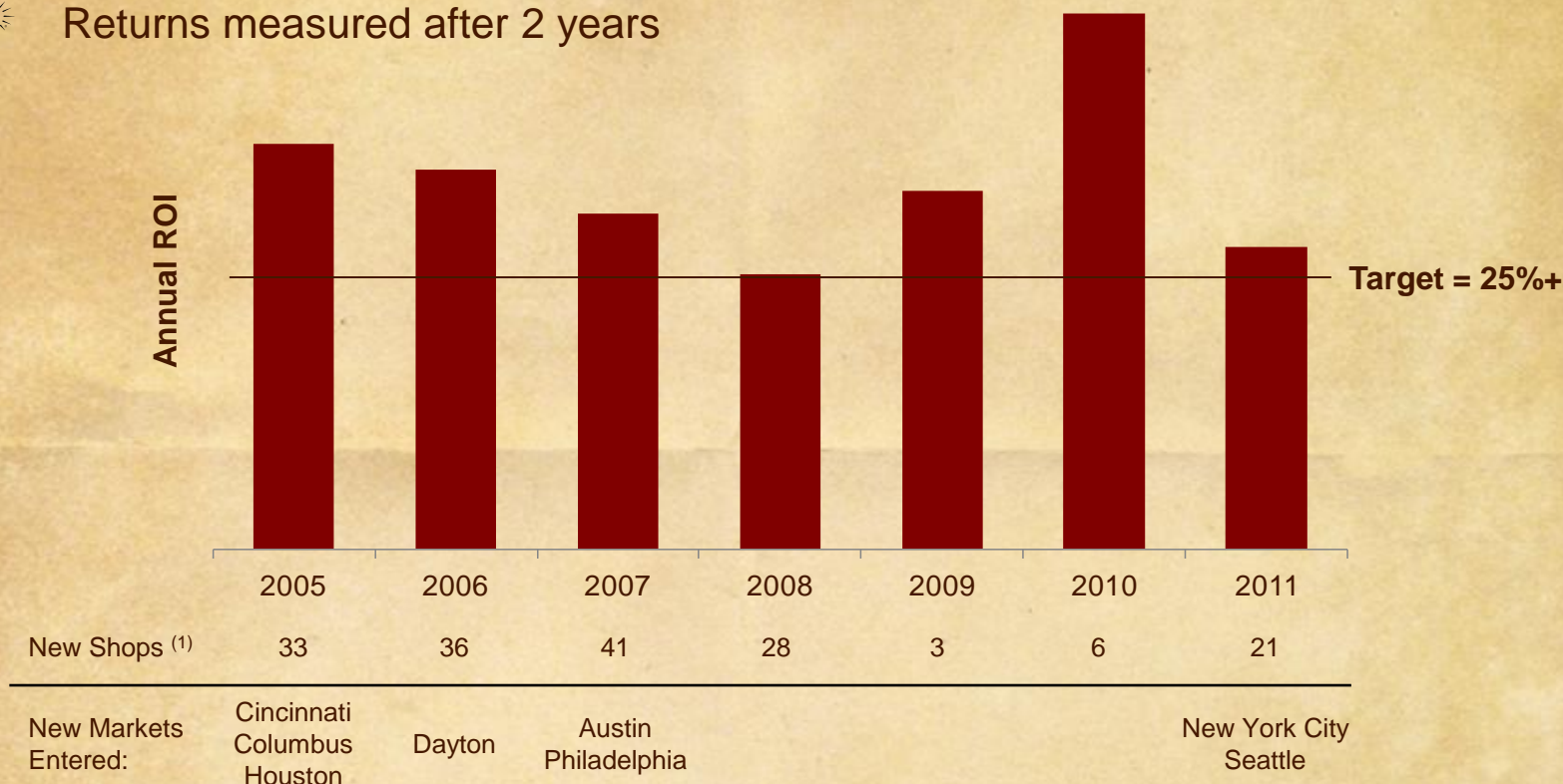


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ATTRACTIVE AND CONSISTENT SHOP LEVEL RETURNS



Returns measured after 2 years



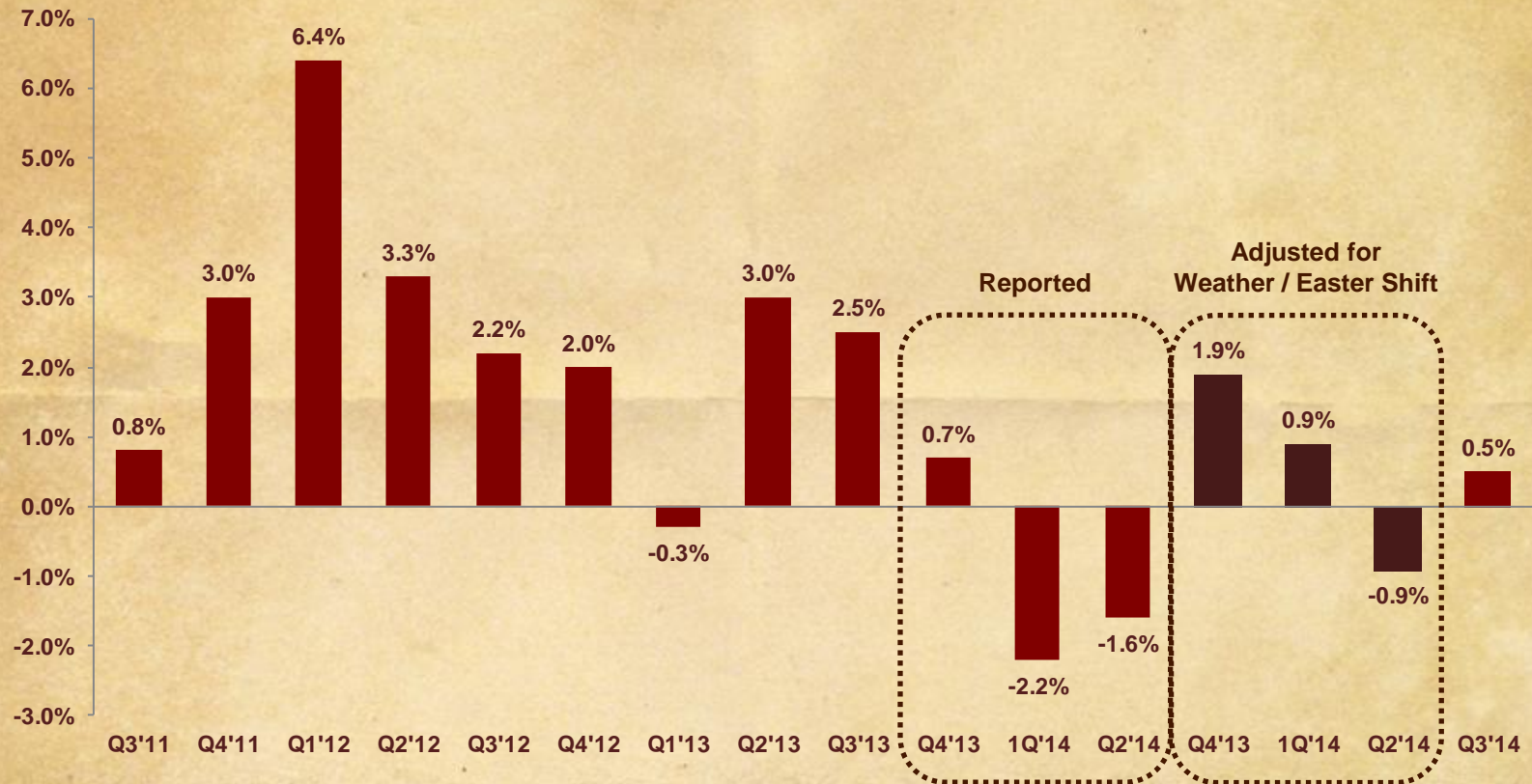
Note: As of September 28, 2014. ROI calculated as LTM free cash flow / cash investment measured after two years of opening.

(1) Represents company-operated shops only.



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HISTORICAL COMPARABLE STORE SALES TRENDS



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COMP GROWTH INITIATIVES



Service model enhancements



- People driven operational model



- Continue to invest in technology, equipment and people to drive throughput and enhance customer experience



Marketing



- Continue to drive neighborhood approach



- Expand digital, mobile and social tactics



Menu innovation



- Balance simplicity with innovation based on customer feedback



- Flats as a promotional platform



Research



- Customer segmentation analysis to drive targeted messaging



IN SUMMARY...

- ⚙ Shop level economic model generates strong cash flow and high returns on investment
- ⚙ Significant long-term growth opportunities: 10%+ annual new unit growth and 20%+ annual net income growth
- ⚙ An organized, mission-driven team that is operationally focused
- ⚙ The Potbelly Advantage – Our #1 Business Driver



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FINANCIAL APPENDIX



LONG-TERM FINANCIAL GOALS

Annual New Unit Growth: 10%+

Comparable Store Sales Growth: Low Single Digits

Shop-level Profit Margin: 20%+

Annual Adjusted Net Income Growth: 20%+

Return on Capital (after 2 years): 25%+

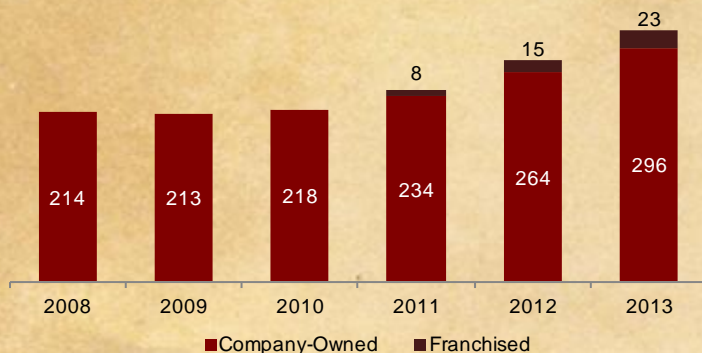
These goals are forward-looking, are subject to significant business, economic, regulatory and competitive uncertainties and contingencies, many of which are beyond the control of the Company and its management, and are based upon assumptions with respect to future decisions, which are subject to change. Actual results will vary and those variations may be material. For discussion of some of the important factors that could cause these variations, please consult the "Risk Factors" and "Cautionary Statement on Forward-Looking Statements" in our most recent annual report on Form 10-K and other risk factors described from time to time in subsequent quarterly reports on Form 10-Q. Nothing in this presentation should be regarded as a representation by any person that these goals will be achieved and the Company undertakes no duty to update its goals.



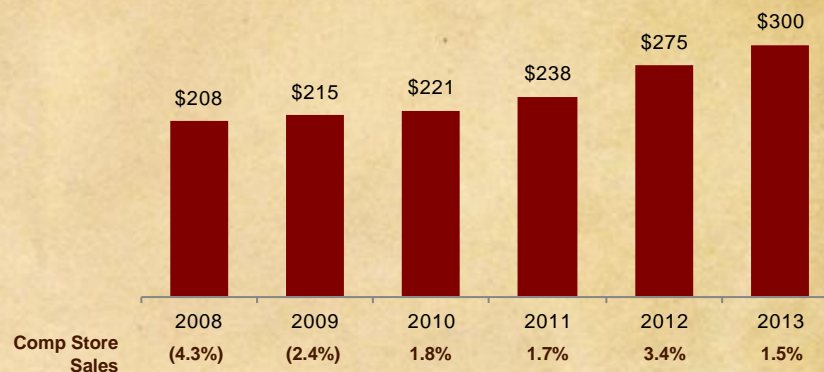
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HISTORICAL FINANCIAL PERFORMANCE

Shop Count (end of period)



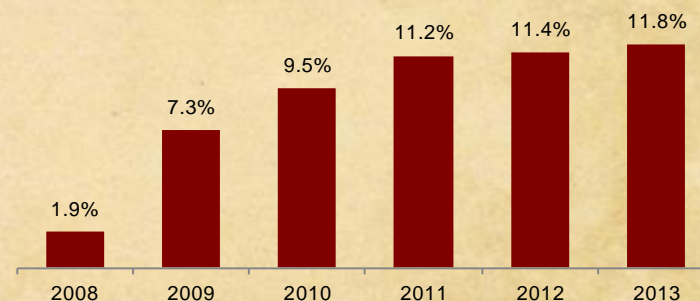
Total Revenues



Adjusted EBITDA (1)



Adjusted EBITDA Margin (1)



Note: Dollars in millions.

(1) Adjusted to exclude impairments, asset disposals, closures, pre-opening expenses, stock compensation expense and costs associated with the IPO.

(2) Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by Total Revenues.



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THIRD QUARTER 2014 FINANCIAL PERFORMANCE

Total New Shops	8 shops
Revenue Growth	8.5%
Comparable Store Sales Growth	0.5%
Adjusted EBITDA ⁽¹⁾	\$11.0MM
Adjusted Net Income ⁽²⁾	\$2.8MM
Adjusted Net Income per Diluted Share ⁽²⁾	\$0.09

(1) Adjusted to exclude impairments and closures, pre-opening costs, stock-based compensation expense and public company costs.

(2) Adjusted to exclude one-time costs related to the initial public offering as well as impairment, gain or loss on disposal of property and equipment store closure expense, and costs associated with our plans to move our corporate headquarters.



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BALANCE SHEET

- ☛ New shop growth funded using cash flow from operations
- ☛ Investments made closest to the customer
 - ☛ Revenue enablers
 - ☛ Shop refresh
- ☛ Strong liquidity supported by revolving credit facility
- ☛ Infrastructure in place to support future growth
- ☛ \$29.2 million available under \$35.0 million authorized share repurchase program

Balance Sheet ⁽¹⁾

Cash	\$69MM
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Total Debt	\$1MM
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Total Liquidity ⁽²⁾	\$103MM
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(1) As of September 28, 2014.

(2) Represents cash of \$69MM plus \$35MM revolver capacity less \$1MM debt.



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FULL YEAR 2014 GUIDANCE

Total New Shops	40 - 48 shops
Company-Operated	35 - 40 shops
Franchise	5 - 8 shops
Comparable Store Sales Growth	Flat to negative low single-digits
Adjusted Net Income per Diluted Share ⁽¹⁾	\$0.18 - \$0.21
Tax Rate	Approximately 41.0%
Diluted Share Count	30 to 31MM
Capital Expenditures	\$30 – 35MM

(1) Adjusted to exclude one-time costs related to the initial public offering as well as impairment, gain or loss on disposal of property and equipment, store closure expense and costs associated with our plans to move our corporate headquarters.



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REPORTED NET INCOME TO ADJUSTED NET INCOME ⁽¹⁾

	(amounts in thousands)	
	13 Weeks Ended Sept. 28, 2014	13 Weeks Ended Sept. 29, 2013
Net income attributable to Potbelly Corporation, as reported	\$1,947	\$2,165
One-time costs associated with IPO	-	1,473
Tax benefit of one-time costs associated with IPO	-	(564)
Impairment and closures	1,421	250
Tax benefit of impairment and closures	(584)	(96)
Adjusted net income attributable to Potbelly Corporation	\$2,784	\$3,228

(1) Adjusted net income attributable to Potbelly Corporation as presented in the table titled, "Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures" in our earnings release filed with the SEC on November 4, 2014.



REPORTED NET INCOME TO ADJUSTED EBITDA ⁽¹⁾

	(amounts in thousands)	
	13 Weeks Ended Sept. 28, 2014	13 Weeks Ended Sept. 29, 2013
Net income attributable to Potbelly Corporation, as reported	\$1,947	\$2,165
Depreciation expense	5,039	4,460
Interest expense	42	97
Income tax (benefit)	1,260	905
Impairment and closures	1,421	250
Pre-opening costs	314	364
Stock-based compensation	581	1,228
Public company costs	442	566
Adjusted EBITDA	\$11,046	\$10,035

(1) Adjusted EBITDA as presented in the table titled, "Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures" in our earnings release filed with the SEC on November 4, 2014.



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