

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): January 9, 2023

Potbelly Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-36104
(Commission
File Number)

36-4466837
(IRS Employer
Identification No.)

111 N. Canal Street, Suite 325
Chicago, Illinois
(Address of Principal Executive Offices)

60606
(Zip Code)

Registrant's telephone number, including area code: (312) 951-0600

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	BBPB	The NASDAQ Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

- Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On January 9, 2023, Potbelly Corporation (the “Company”) issued a press release providing preliminary fourth quarter and full year 2022 results. A copy of the Company’s press release is attached to this Current Report on Form 8-K as Exhibit 99.1 and is incorporated herein by reference.

Item 7.01 Regulation FD Disclosure

The Company will participate in the 25th Annual ICR Conference on January 9, 2023. A copy of the presentation to be used is attached to this Current Report on Form 8-K as Exhibit 99.2 and will also be available on the “Investors” portion of the Company’s website at www.potbelly.com.

All information contained in this Current Report on Form 8-K, including Exhibits 99.1 and 99.2, shall not be deemed “filed” with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that Section, and shall not be deemed incorporated by reference into any filing under the Exchange Act or the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.**(d) Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press release dated January 9, 2023.
99.2	Presentation dated January 9, 2023.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

POTBELLY CORPORATION

By: /s/ Steven Cirulis
Name: Steven Cirulis
Title: Senior Vice President, Chief Financial Officer and
Chief Strategy Officer

Date: January 9, 2023



Potbelly Corporation Provides Fourth Quarter and Full-Year 2022 Business Update

Accelerating business momentum drives strong preliminary Q4 and FY 2022 results, exceeding expectations across all guidance metrics

Significant progress against Franchise Growth Acceleration Initiative supporting the Company's 2024 and long-term growth objectives

CHICAGO, January 9, 2023 – Potbelly Corporation (NASDAQ: PBPB) (“Potbelly” or the “Company”), the iconic neighborhood sandwich shop, today provided an update on its business and financial results during the fourth quarter and full year ended December 25, 2022, in conjunction with the Company’s participation at the 25th annual ICR Conference.

Fourth Quarter 2022		
Metric	Guidance as of 11/3/2022	Preliminary Results
Revenue	\$ 114M - \$119M	\$ 119M - \$120M
Shop-level margins	10% - 13%	13.4% - 13.9%
Same-store sales	—	18.5% - 19.0%
AUVs	—	\$24,100 - \$24,200
Full Year 2022		
Metric	Guidance as of 11/3/2022	Preliminary Results
AUVs	\$ 1.14M - \$1.16M	\$1.16M - \$1.17M
Same-store sales	16% - 18%	18.4% - 18.5%
Shop-level margins	~10%	10.2% - 10.4%

Bob Wright, President and Chief Executive Officer of Potbelly, said, “I am extremely pleased by our strong preliminary fourth quarter and year-end results, which allowed us to conclude 2022 and enter 2023 with great momentum. Our team’s execution of our Five-Pillar Strategy initiatives enabled us to surpass our previously stated fourth quarter and full-year 2022 guidance based on our preliminary results. We also made meaningful progress against our Franchise Growth Acceleration Initiative, having signed agreements for 51 new shops so far, with more deals in the pipeline. I am highly confident in Potbelly’s unique brand and its ability to continue on its path of growth and profitability.”

The expected financial results are preliminary and unaudited, have not been reviewed by the Company’s independent registered public accountants, and remain subject to the completion of normal year-end accounting procedures and adjustments and are subject to change. The Company expects to release final financial and operating results for its fiscal fourth quarter and fiscal year ended December 25, 2022, during March 2023.

About Potbelly

Potbelly Corporation is a neighborhood sandwich concept that has been feeding customers’ smiles with warm, toasty sandwiches, signature salads, hand-dipped shakes and other fresh menu items, customized just the way customers want them, for more than 40 years. Potbelly promises Fresh, Fast & Friendly service in an environment that reflects the local neighborhood. Since opening its first shop in Chicago in 1977, Potbelly has expanded to neighborhoods across the country - with approximately 384 locations shops in the United States including approximately 45 franchised shops in the United States. For more information, please visit our website at www.potbelly.com.

Definitions

The following definitions apply to these terms as used throughout this press release:

- **Revenues** – represents net company-operated sandwich shop sales and our franchise royalties and fees. Net company-operated shop sales consist of food and beverage sales, net of promotional allowances and employee meals. Franchise royalties and fees consist of an initial franchise fee, a franchise development agreement fee and royalty income from the franchisee.
- **Company-operated comparable store sales or same-store traffic** – represents the change in year-over-year sales or transactions for the comparable company-operated store base open for 15 months or longer.
- **Average Unit Volumes (AUV)** – represents the average sales of all company-operated shops which reported sales during the associated time period.
- **Shop-level profit (loss)** – represents income (loss) from operations excluding franchise royalties and fees, franchise marketing expenses, general and administrative expenses, depreciation expense, pre-opening costs, restructuring costs and impairment, loss on the disposal of property and equipment and shop closures.
- **Shop-level profit (loss) margin** – represents shop-level profit expressed as a percentage of net company-operated sandwich shop sales.

Non-GAAP Financial Measures

We prepare our financial statements in accordance with Generally Accepted Accounting Principles (“GAAP”). Within this press release, we make reference to shop-level profit and shop-level profit margin, which are non-GAAP financial measures. The Company includes these non-GAAP financial measures because management believes they are useful to investors in that they provide for greater transparency with respect to supplemental information used by management in its financial and operational decision making.

Management uses shop-level profit and shop-level profit margin as key metrics to evaluate the profitability of incremental sales at our shops, to evaluate our shop performance across periods and to evaluate our shop financial performance against our competitors. The Company is not able to reconcile preliminary shop-level profit and shop-level profit margin to their most directly comparable GAAP financial measures without unreasonable efforts because the Company is unable to predict with a reasonable degree of certainty the type and extent of certain items that would be expected to impact GAAP measures but would not impact the non-GAAP measures. Such items may include franchise marketing expenses, general and administrative expenses, depreciation expense, and impairment, loss on disposal of property and equipment and shop closures and could have a material impact on the Company’s GAAP financial results.

Accordingly, the Company believes the presentation of these non-GAAP financial measures, when used in conjunction with GAAP financial measures, is a useful financial analysis tool that can assist investors in assessing the Company’s operating performance and underlying prospects. This analysis should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. This analysis, as well as the other information in this press release, should be read in conjunction with the Company’s financial statements and footnotes contained in the documents that the Company files with the U.S. Securities and Exchange Commission. The non-GAAP financial measures used by the Company in this press release may be different from the methods used by other companies. For more information on the non-GAAP financial measures, please refer to the table, “Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures.”

Forward-Looking Statements

This press release may contain statements that might be considered as forward-looking statements or predictions of future operations including with respect to the Company’s ability to continue to make meaningful progress against its Franchise Growth Acceleration Initiative, sign additional agreements for new shops and sustain positive momentum into 2023. Such statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are based on management’s belief or interpretation of information currently available. These statements and assumptions involve certain risks and uncertainties including that it is unable to successfully execute its growth plans and that the Company is not able to achieve its planned expansion. Actual events may also differ from these expectations as a result of the risks identified from time to time in our filings with the Securities and Exchange Commission. We assume no duty to update these statements as of any future date.

Investor Relations Contact

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Alpha IR Group
312-445-2870
PBPB@alpha-ir.com



ICR Consumer Conference
January 9, 2023

Cautionary Statements

Forward-Looking Statements

In addition to historical information, this presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended and the Private Securities Litigation Reform Act of 1995. Forward-looking statements, written, oral or otherwise made, represent the Company's expectation or belief concerning future events. Without limiting the foregoing, the words "believes," "expects," "may," "might," "will," "should," "seeks," "intends," "plans," "strives," "goal," "estimates," "forecasts," "projects" or "anticipates" or the negative of these terms and similar expressions are intended to identify forward-looking statements. Forward-looking statements included in this presentation may include, among others, statements relating to our (i) 2024 strategic growth targets related to AUVs, shop-level margins, refranchising of company shops and franchise unit growth, (ii) ability to successfully execute against our Five-Pillar Strategy and Franchise Growth Acceleration Initiative, (iii) business strategy, including investments in G&A growth, the refranchising of shops, expansion and deployment of high-return strategic marketing, (iv) ability to strengthen sales through the use of promotional campaigns, (v) ability to recruit and retain employees, (vi) ability to successfully grow our digital channels, increase guest acquisition and brand loyalty and accelerate our franchise development pipeline. By nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or implied by the forward-looking statement, due to reasons including, but not limited to, risks related to compliance with our Credit Agreement covenants; competition; general economic conditions; the COVID-19 outbreak; our ability to successfully implement our business strategy; the success of our initiatives to increase sales and traffic; changes in commodity, energy and other costs; our ability to attract and retain management and employees; consumer reaction to industry-related public health issues and perceptions of food safety; our ability to manage our growth; reputational and brand issues; price and availability of commodities; consumer confidence and spending patterns; and weather conditions. In addition, there may be other factors of which we are presently unaware or that we currently deem immaterial that could cause our actual results to be materially different from the results referenced in the forward-looking statements. All forward-looking statements contained in this presentation are qualified in their entirety by this cautionary statement. Although we believe that our plans, intentions and expectations are reasonable, we may not achieve our plans, intentions or expectations. 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 speak only as of the date hereof. See "Risk Factors" and "Cautionary Statement on Forward-Looking Statements" included 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 or other subsequent filings, all of which are available on our website at www.potbelly.com. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

The financial results included in this presentation are preliminary and unaudited, have not been reviewed by the Company's independent registered public accountants, and remain subject to the completion of normal year-end accounting procedures and adjustments and are subject to change. Further information learned during that completion may alter the final results. Accordingly, you should not place any undue reliance upon this preliminary information.

Note Regarding Non-GAAP Measures

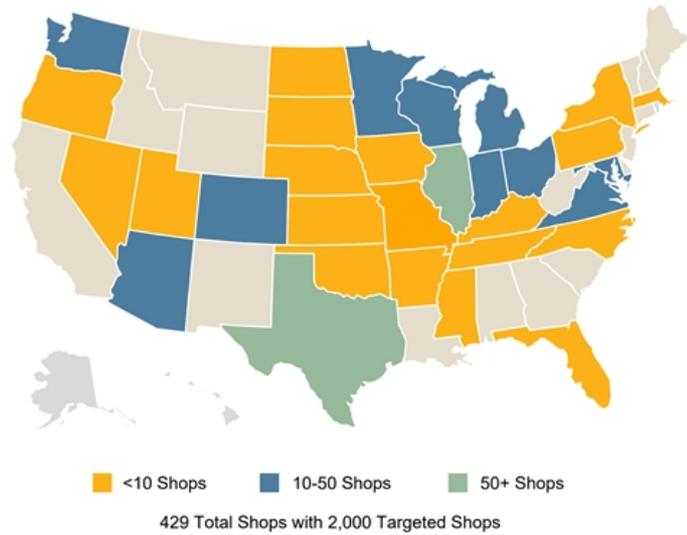
This presentation includes financial measures, including shop-level profit margin that are derived on the basis of methodologies other than generally accepted accounting principles ("GAAP"). We offer these measures to assist the users of our financial statements in assessing our financial performance under GAAP, but these measures are non-GAAP measures and investors should not rely on these measures as a substitute for any GAAP measure. In addition, our non-GAAP financial measures may be different from non-GAAP measures used by other companies, limiting their usefulness for comparison purposes.

The Company is not able to reconcile preliminary shop-level profit and shop-level profit margin to their most directly comparable GAAP financial measures without unreasonable efforts because the Company is unable to predict with a reasonable degree of certainty the type and extent of certain items that would be expected to impact GAAP measures but would not impact the non-GAAP measures. Such items may include franchise marketing expenses, general and administrative expenses, depreciation expense, and impairment, loss on disposal of property and equipment and shop closures and could have a material impact on the Company's GAAP financial results.

Welcome to Potbelly

Potbelly is the sandwich shop with the craveable quality and good vibes of a first-class dive.

- Strong heritage – founded in a Chicago antique shop in 1977
- 429 locations today, including 45 franchise shops in the U.S.
- Delicious, craveable food made-to-order with fresh, high-quality ingredients
- Authentic concept with loyal customer base:
 - Inviting neighborhood feel
 - Fresh, Fast & Friendly service
 - Unique brand position



Why Invest in PBPB?



NASDAQ: PBPB

- **Strong Brand, Differentiated Experience**
Authentic fast casual concept, with fresh, fast, & friendly service and high brand recognition across 400+ locations
- **Strong Leadership Team**
Highly experienced executive leadership team with deep restaurant roots and a reinvigorated results-oriented culture
- **Executing Against Five-Pillar Strategy**
Positive momentum driven by renewed focus on food innovation and promotions, leveraging of tech stack to drive an increase in user base and heightened engagement
- **Focus on Volume and Profitability Targets**
2024 strategic growth objectives including \$1.3M in annualized AUVs, shop-level margins of 16% with continued recovery across shop portfolio, targeted marketing/advertising and cost discipline
- **Franchise Growth Acceleration Initiative**
Capital light franchise growth targets of refranchising ~25% of company-owned shops, achieving at least 10% franchise unit growth with long-term goal of ~2,000 shops

Brand Position



Potbelly is the sandwich shop with the craveable quality and good vibes of a first-class dive.

Strong Leadership Team: Deep Restaurant Experience



Bob Wright
President & CEO



Steve Cirulis
Chief Financial Officer



Adam Noyes
Chief Operating Officer



Adiya Dixon
Chief Legal Officer



Jeffrey Douglas
Chief Information Officer



Larry Strain
Chief Development Officer



David Daniels
Chief Marketing Officer



Executing Against Five-Pillar Strategic Plan



Pillar 1: Craveable Quality Food at a Great Value

1



- Increased promotions and offerings
 - Growing catering business to compliment a multitude of social gatherings
 - Unique LTO menu items such as The Pastrami sandwich, Eggnog Shake and S'mores cookie
- Redefined sandwich sizes and increased meat and cheese portions have improved value for customers
- Increased pick your pair combination options



Pillar 2: People Creating Good Vibes

2



- Continue to embrace 'Hire for attitude, train for skills' mantra
- Hours-based labor management improves deployment and employee performance while reducing cost
- Implemented new employee retention and acquisition initiatives including referral bonus programs, pay band modifications, and digital tipping feature
- Balanced score card system at shop level to align incentives around driving traffic and profitable growth



Pillar 3: Customer Experiences that Drive Traffic Growth

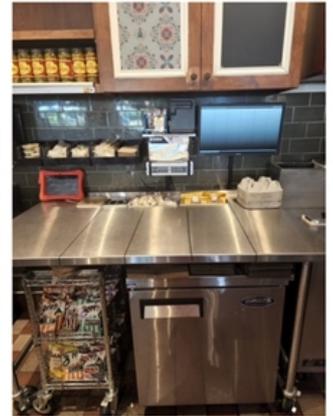
3



- Focus on food quality, speed, throughput and cleanliness driving customer satisfaction and sales
- Leveraging two-line kitchen to deliver digital and off premise business while maintaining in shop line speed and experience
- Expanded testing and implementing in shop technology innovation platform 'Potbelly Digital Kitchen', designed to improve the employee experience and enhancement of speed, thru-put, accuracy and food quality
- Staffing & training systems and materials simplified and updated for associates and managers
- Successful campaigns with third-party partners like Grubhub and Uber Eats



GRUBHUB
Uber Eats
DOORDASH



Pillar 4: Digitally-Driven Awareness, Connection & Traffic

4



- Continued positive customer response to app, website and digital order integration
- Strong Perks loyalty program allowing for more personalization, easy re-ordering capability and targeted offers
- Continual improvements in digital channels, with digital revenue representing ~38% of sales
- Strong digital marketing campaign drives a balance of awareness, traffic, sales, and ROI



Pillar 5: Franchise Focused Development

5



- Escalating new shop development with a focus on franchise development
- Compelling franchisee financial returns
 - Highest AUV in its category*
 - Strong and improving shop margins
 - ~ 2:1 Sales to investment ratio
- Each refranchising contract will have an additional agreement to develop new shops over an eight-year period
- Signed multiple new franchise development agreements in 2022, adding 51 new Potbelly locations over the next 7-8 years



THE POTBELLY DIFFERENCE

With the Highest AUV in its Category*



*According to Nation's Restaurant News

400+
Shops

32
States

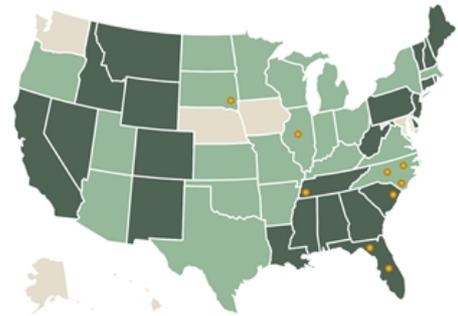
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Year History

WHY FRANCHISE WITH POTBELLY?

Excellent Sales to Investment Ratio

- Double-digit comp growth
- Flexible shop formats that include:
 - In-line, Endcap, Drive-thru and Non-traditional
- Diverse menu with multiple dayparts
- Seasoned leadership team with 100+ years combined experience





- Available
- Limited Availability
- Unavailable
- New Franchise Development Agreements

*Highest AUVs among national sandwich competitors over 150 units as reported in Nation's Restaurant News in 2022



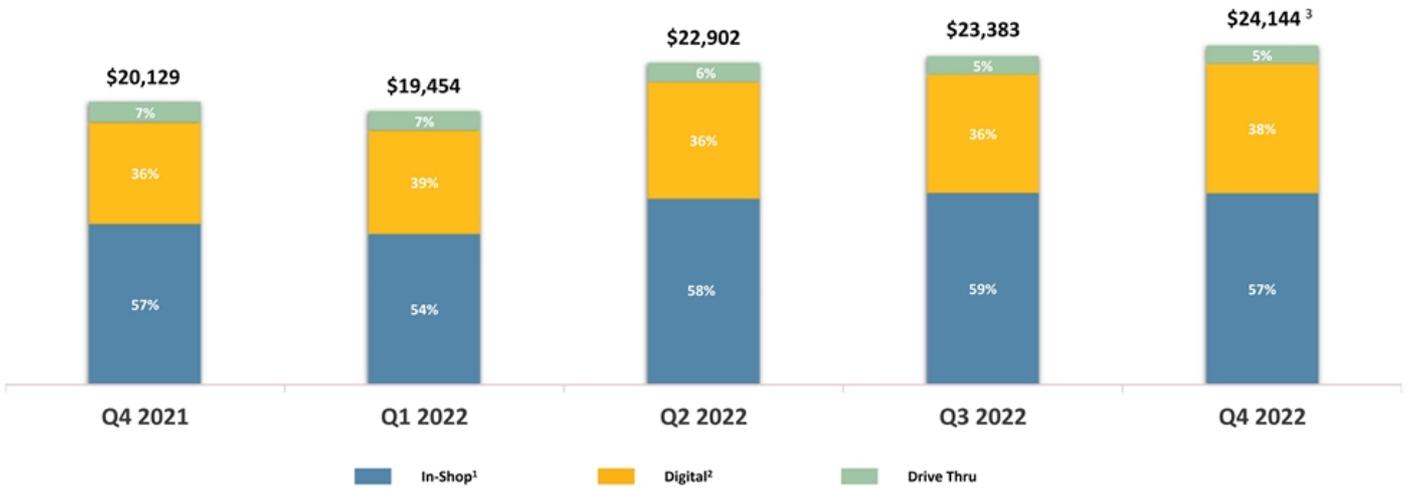
SSS and AUV Trends Sustain Positive Momentum



1. Represents preliminary figures

Consistent Order Mode Mix with Ongoing Digital Strength

Average Unit Volume and Order Mode Mix



- 1. "In-Shop" includes all revenue for orders placed at the counter or via phone/fax.
- 2. "Digital" includes all revenue for orders placed through the mobile app, website, and third-party delivery partners.
- 3. Represents preliminary figures



Exceeding Q4 & FY 2022 Guidance



Fourth Quarter 2022		
Metric	Guidance as of 11/3/2022	Preliminary Results
Revenue	\$114M - \$119M	\$119M - \$120M
Shop-level margins	10% - 13%	13.4% - 13.9%

Full Year 2022		
Metric	Guidance as of 11/3/2022	Preliminary Results
AUVs	\$1.14M - \$1.16M	\$1.16M - \$1.17M
Same-store sales	16% - 18%	18.3% - 18.5%
Shop-level margins	~10%	10.2% - 10.4%

2024 Strategic Growth Targets & Long-Term Unit Potential

Volume & Profitability Targets



AUVs → \$1.3 Million

- Continued customer experience enhancements and refreshed corporate branding
- Increased digital marketing and targeted loyalty engagement
- Expanded advertising investment
- Continued catering sales growth
- Food innovation and LTOs

Shop-Level Margins → > 16%

- Sales leverage through execution of Five-Pillar Strategy
- Effective management of supply chain and food costs
- Continue roll-out of Potbelly Digital Kitchen, improving operations
- Lower labor and shop operating costs through efficiency and technology

Franchise Growth Acceleration Initiative



Refanchise ~ 25% of Shops

- Provides catalyst for franchise unit growth
- Drives new shop development in market – refranchising delivers 2-5:1 new shops : existing shops
- Appeals to high quality franchisees
- Focuses company capital and resources

Franchise Unit Growth → 10%

- Franchisees attracted to strong Potbelly brand and economics
- Shop Development Area Agreements (SDAAs) of 10-20 shops per agreement
- Franchise First organizational mindset
- Market and trade area planning in existing and new markets

Long-term goal of 2,000 total shops

Why Invest in PBPB?



NASDAQ: PBPB



Strong Brand, Differentiated Experience

Authentic fast casual concept, with fresh, fast, & friendly service and high brand recognition across 400+ locations



Strong Leadership Team

Highly experienced executive leadership team with deep restaurant roots and a reinvigorated results-oriented culture



Executing Against Five-Pillar Strategy

Positive momentum driven by renewed focus on food innovation and promotions, leveraging of tech stack to drive an increase in user base and heightened engagement



Focus on Volume and Profitability Targets

2024 strategic growth objectives including \$1.3M in annualized AUVs, shop-level margins of 16% with continued recovery across shop portfolio, targeted marketing/advertising and cost discipline



Franchise Growth Acceleration Initiative

Capital light franchise growth targets of refranchising ~25% of company-owned shops, achieving at least 10% franchise unit growth with long-term goal of ~2,000 shops



APPENDIX:

Q3'22 FINANCIALS & GAAP TO NON-GAAP RECONCILIATIONS



Q3'22 Performance Review: Y/Y

<i>In Millions</i>	Q3 2022	Q3 2021
Revenue	\$117.6	\$101.7
Same Store Sales (SSS)	15.0%	33.7%
GAAP Net Income (Loss)	\$9.0	(\$2.9)
Adjusted Net Income (Loss) ¹	\$0.3	(\$1.5)
Adjusted EBITDA ¹	\$4.7	\$2.7
Shop-level Profit ¹	\$12.3	\$8.8 ²
G&A/Sales	8.1%	7.1% ²
Food, Beverage, & Packaging Costs/Sales	29.9%	27.9%
Labor/Sales	30.9%	32.8%
Other Operating Expenses/Sales	17.0%	17.3% ²
Shop-level Margin ¹	10.6%	8.7%

1. See Appendix to this presentation for GAAP to Non-GAAP reconciliations; Shop-level margins now include allocation of marketing and advertising expenses.
2. Q3'21 includes reclassification of marketing and advertising expenses from Advertising and G&A to other operating expenses, which is a component of shop-level profit.

Q3'22 Performance Review: Adjusted Net Income (Y/Y)

<i>In Millions</i>	Q3 2022	Q3 2021
Net Income (Loss)	\$9.0	(\$2.9)
Impairment, Disposals & Closures	\$1.6	\$1.1
Gain on Debt Extinguishment	(\$10.2)	\$0.0
Income Tax Adjustments	(\$0.2)	\$0.3
Adjusted Net Income (Loss)	\$0.3	(\$1.5)

Q3'22 Performance Review: Adjusted EBITDA (Y/Y)

<i>In Millions</i>	Q3 2022	Q3 2021
Net Income/(Loss)	\$9.0	(\$2.9)
Depreciation Expense	\$2.9	\$3.6
Interest Expense	\$0.4	\$0.2
Income Tax Expense	(\$0.0)*	\$0.02
EBITDA	\$12.3	\$0.9
Impairment, Disposals & Closures	\$1.6	\$1.1
Stock Compensation	\$1.0	\$0.6
Gain on Debt Extinguishment	(\$10.2)	\$0.0
Adjusted EBITDA	\$4.7	\$2.7

Income Tax Expense was (\$4,000) for the third quarter of 2022

Q3'22 Performance Review: Shop Margin (Y/Y)

<i>In Millions</i>	Q3 2022	Q3 2021
Income/(Loss) from Operations	(\$0.7)	(\$2.6)
Less: Franchise Revenue	\$1.2	\$0.7
Franchise Marketing	\$0.1	\$0.1
G&A Expense	\$9.6	\$7.3
Depreciation Expense	\$2.9	\$3.6
Impairment, Disposals & Closures	\$1.6	\$1.1
Shop-level Profit	\$12.3	\$8.8
Total Revenues	\$117.6	\$101.7
Less: Franchise Revenue	\$1.2	\$0.7
Sandwich Shop Sales, Net	\$116.4	\$101.0
Shop-level Margin	10.6%	8.7%

Use of Non-GAAP Measures

Note Regarding Non-GAAP Measures

We prepare our financial statements in accordance with Generally Accepted Accounting Principles ("GAAP"). Within this presentation, we make reference to EBITDA, adjusted EBITDA, adjusted diluted EPS, adjusted net loss, shop-level profit, and shop-level profit margin, which are non-GAAP financial measures. The Company includes these non-GAAP financial measures because management believes they are useful to investors in that they provide for greater transparency with respect to supplemental information used by management in its financial and operational decision making.

Management uses adjusted EBITDA, adjusted net income and adjusted diluted EPS to evaluate the Company's performance and in order to have comparable financial results to analyze changes in our underlying business from quarter to quarter. Adjusted EBITDA, adjusted net income and adjusted diluted EPS exclude the impact of certain non-cash charges and other items that affect the comparability of results in past quarters and which we do not believe are reflective of underlying business performance. Management uses shop-level profit and shop-level profit margin as key metrics to evaluate the profitability of incremental sales at our shops, to evaluate our shop performance across periods and to evaluate our shop financial performance against our competitors.

Accordingly, the Company believes the presentation of these non-GAAP financial measures, when used in conjunction with GAAP financial measures, is a useful financial analysis tool that can assist investors in assessing the Company's operating performance and underlying prospects. This analysis should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. This analysis, as well as the other information in this press release, should be read in conjunction with the Company's financial statements and footnotes contained in the documents that the Company files with the U.S. Securities and Exchange Commission. The non-GAAP financial measures used by the Company in this press release may be different from the methods used by other companies. For more information on the non-GAAP financial measures, please refer to the table, "Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures."

Information reconciling forward-looking shop-level profit margin to GAAP financial measures is unavailable to the Company without unreasonable effort. The Company is not able to provide reconciliations of shop-level profit margins to GAAP financial measures because certain items required for such reconciliations are outside of the Company's control and/or cannot be reasonably predicted. These items include but are not limited to impairment charges, gain or loss on asset disposals, shop closure costs, and restructuring costs that are difficult to predict in advance in order to include in a GAAP estimate and may be significant.

Definitions

The following definitions apply to these terms as used throughout this presentation:

- **Revenues** – represents net company-operated sandwich shop sales and our franchise royalties and fees. Net company-operated shop sales consist of food and beverage sales, net of promotional allowances and employee meals. Franchise royalties and fees consist of an initial franchise fee, a franchise development agreement fee and royalty income from the franchisee.
- **Company-operated comparable store-sales or same-store traffic** – represents the change in year-over-year sales or transactions for the comparable company-operated store base open for 15 months or longer.
- **Average Unit Volumes (AUV)** – represents the average sales of all company-operated shops which reported sales during the associated time period.
- **EBITDA** – represents income before depreciation and amortization expense, interest expense and the provision for income taxes.
- **Adjusted EBITDA** – represents income before depreciation and amortization expense, interest expense and the provision for income taxes, adjusted to eliminate the impact of other items, including certain non-cash and other items that we do not consider representative of our ongoing operating performance.
- **Shop-level profit (loss)** – represents income (loss) from operations excluding franchise royalties and fees, franchise marketing expenses, general and administrative expenses, depreciation expense, pre-opening costs, restructuring costs and impairment, loss on the disposal of property and equipment and shop closures.
- **Shop-level profit (loss) margin** – represents shop-level profit expressed as a percentage of net company-operated sandwich shop sales.
- **Adjusted net income (loss)** – represents net income (loss), adjusted to eliminate the impact of restructuring costs, impairment, loss on the disposal of property and equipment, shop closures, and other items we do not consider representative of our ongoing operating performance, including the income tax effects of those adjustments.
- **Adjusted diluted EPS** – represents adjusted net income (loss) divided by the weighted average number of fully dilutive common shares outstanding.



Investor Relations Contacts



Investor Relations Contacts:

Lisa Fortuna or Ashley Gruenberg

Alpha IR Group

312-445-2870

PBPB@alpha-ir.com