

*About*



**POTBELLY**  
**SANDWICH SHOP®**

**INVESTOR PRESENTATION – AUGUST 2017**



# 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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# OUR BRAND

- ☼ “Neighborhood Sandwich Shop”
- ☼ Best Place for Lunch
- ☼ Our Promise: Fresh, Fast, Friendly



## The Potbelly Promise



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# 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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# WHY POTBELLY?

- ☼ Warm Toasty Sandwiches; Made Your Way
- ☼ Hire Nice People
- ☼ Live Music
- ☼ Daily Baked Cookies
- ☼ Hand Dipped Ice Cream
- ☼ Cookie on the Straw
- ☼ Excellent Price Value
- ☼ Strong Culture / Potbelly Advantage
- ☼ Mission Driven Senior Team
- ☼ Shop-Level Margins / \$1MM+ AUVs
- ☼ Concept / Geographic White Space
- ☼ Best Place for Lunch / Neighborhood Sandwich Place



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# THE POTBELLY ADVANTAGE

HIGH GROWTH

## 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



## THE POTBELLY ADVANTAGE DRIVES OUR PEOPLE CENTRIC CULTURE

### 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



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# CREATING VALUE IN OUR BUSINESS

- ✦ A Strong GM in Every Shop
  - ✦ Focus on retention and development
  - ✦ Coaching and teaching culture
  - ✦ Low associate turnover as foundation
  - ✦ GM conference
- ✦ Driving Sustainable Same Store Sales Growth
  - ✦ Investments in technology
  - ✦ Backline
  - ✦ Menu innovation
  - ✦ Storytelling
- ✦ Open Shops With High Rates of Return
  - ✦ Return on new shop investments (after 2 years) of 25%+



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# INVESTMENTS IN TECHNOLOGY

- ☛ New Mobile App
- ☛ Redesigned Website
- ☛ Potbelly Perks
- ☛ New Shop-Level Tools to Enhance Operations
  - ☛ Recruiting tool
  - ☛ Labor management software
  - ☛ Learning management system
- ☛ Digital Menu Boards



YOUR STATUS: WELCOME  
Earn 10 more 🍪 to unlock Cookie Rookie

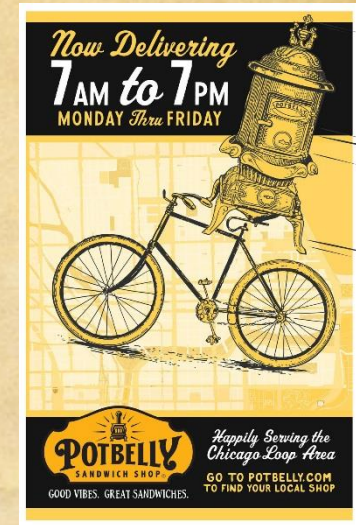
Spend \$2 to Earn a 🍪	Cookie Rookie 10 Smiles	Sandwich Superstar 50 Smiles	Menu Master 250 Smiles
Free Treat after 5 Sandwich Purchases in 1st 5 Weeks*	😊	😊	😊
Personalized Perks	😊	😊	😊
Free Birthday Food & Drink	😊	😊	😊
Order Ahead & Jump the line	😊	😊	😊
Exclusive First Tastings & Member Events		😊	😊
Underground Menu Access		😊	😊
Free Cookie with Purchase from 3-5pm			😊





# INVESTMENTS TO DRIVE BACKLINE GROWTH

- ☼ Catering Kitchens
- ☼ Catering Sales Managers
- ☼ Delivery Models
  - ☼ In-shop resources and third party vendors



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# MENU INNOVATION



All-Natural, Hand-Pulled Turkey with Nüeske's Bacon and Melted Cheddar Cheese



Freshly-made food with high quality ingredients



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# STORYTELLING

- ⚙️ Differentiated Brand with a Rich History of Great People and Exceptional Food
- ⚙️ Refreshing Brand Message
  - ⚙️ New tagline – “Feed Your Smile”
- ⚙️ Enhancing Digital Advertising
- ⚙️ Television Advertising in Chicago
  - ⚙️ Initial test
  - ⚙️ Broad reach
  - ⚙️ Drive awareness and traffic



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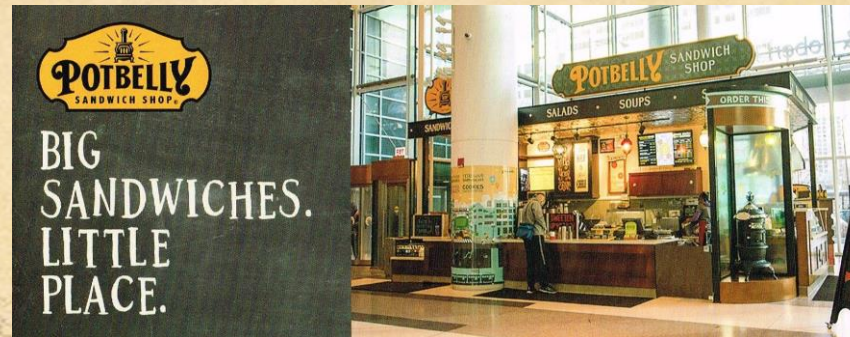
# FOCUSED ON ENHANCING CUSTOMER CONVENIENCE

## ⚙ Shop 2020 Project

- ⚙ “Blank Page” approach – evaluating all opportunities to increase convenience to drive sales growth and improve operating efficiency while maintaining the Potbelly experience of Fresh, Fast and Friendly
- ⚙ Leverage technology
- ⚙ Partnered with outside consultant

## ⚙ Small Shop Concept

- ⚙ 400-800 sq. ft. – ideal for high traffic, non-traditional location opportunities such as hospitals, universities, airports and large office spaces



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# COMPREHENSIVE STRATEGIC REVIEW

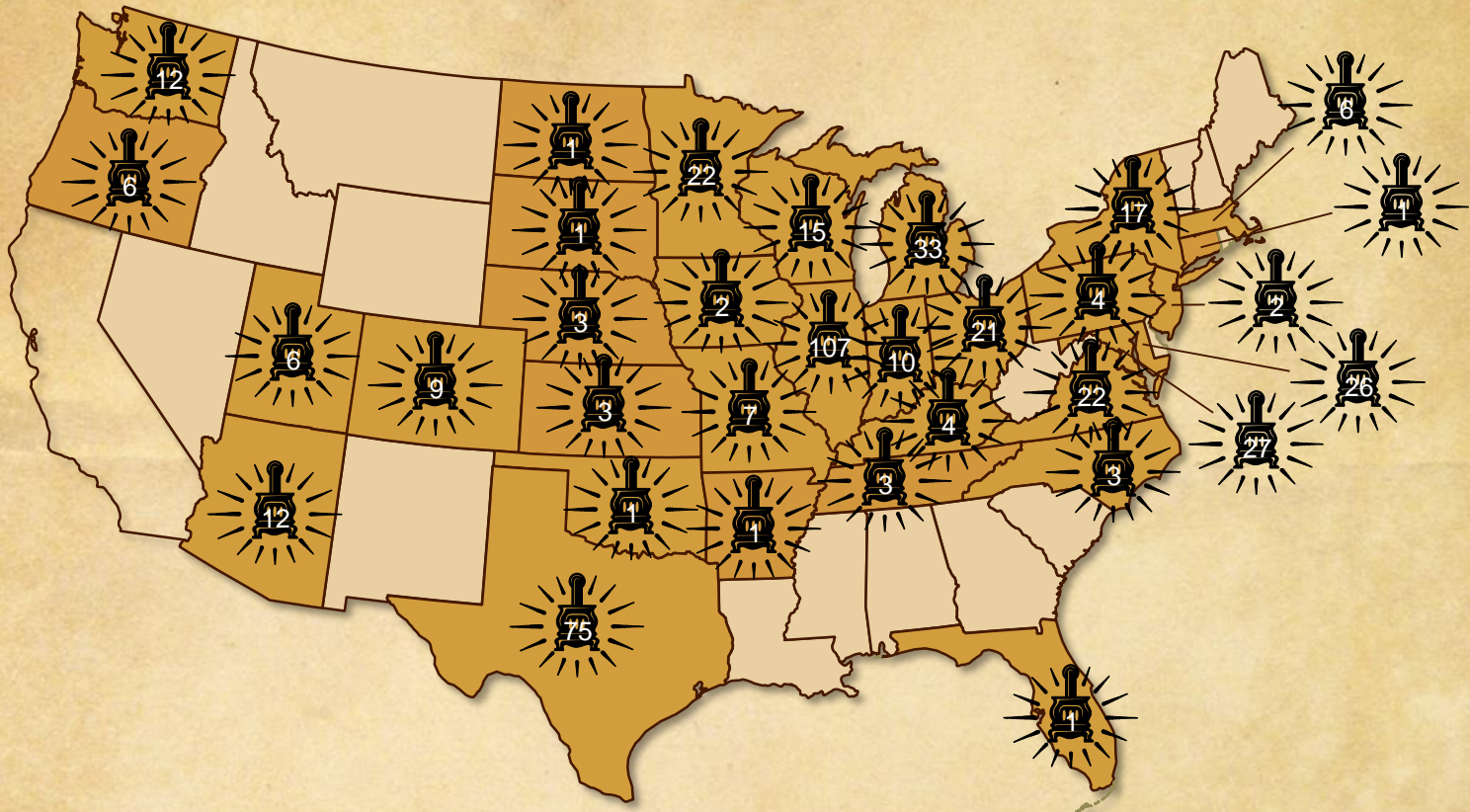
- ✦ Undertaking a comprehensive review of our business strategy, including but not limited to:
  - ✦ Capital structure and allocation
  - ✦ Returns on invested capital
  - ✦ Operational productivity
  - ✦ Marketing strategy
  - ✦ Company-owned unit growth
  - ✦ CapEx
  - ✦ Potential ways to accelerate franchising
- ✦ Engaged J.P. Morgan Securities, LLC as financial advisor to assist in the strategic review



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# SIGNIFICANT WHITESPACE OPPORTUNITY



Includes 424 Company-operated shops and 38 domestic franchised shops as of June 25, 2017.



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# GROWING FRANCHISE OPPORTUNITY



## Domestic Franchise Program

- 38 shops
- Evolved to multi-unit operator model
- Planned entry into California market with a franchise-only strategy



## Committed to International Franchise Growth

Franchise Shops in Selected Domestic Markets



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# 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 shop 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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# IN SUMMARY...

- ☼ Strong brand and differentiated customer experience
- ☼ Shop level economic model generates strong cash flow and high returns on investment
- ☼ Comprehensive review of business strategy to drive sustainable long-term shareholder value creation
- ☼ Significant whitespace opportunity, with self-funded growth model
- ☼ Strong capital position with debt-free balance sheet and over \$71 million in liquidity
- ☼ Our culture is our foundation – embodied in The Potbelly Advantage



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# APPENDIX





# INVESTMENT HIGHLIGHTS

- ⚙️ 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



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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 10 cal  
CHEESE 50 cal **(.60)**

EXTRA MEAT 25-80 cal **(.90)**

NUESKE'S BACON 140 cal **(1.35)**

DOUBLE MEAT 90-410 cal **(2.10)**

### TOPPINGS

MAYO 100/150 cal

MUSTARD 15/20 cal

HOT PEPPERS 40/60 cal

LETTUCE 5/5 cal

ONION 5/5 cal

TOMATO 5/10 cal

PICKLE 5/5 cal

OIL 25/35 cal

ITALIAN SEASONING 0 cal

TRY ANY ORIGINALS ON

## FLATS



JUST 20¢ MORE!  
AND 90 CALORIES LESS!

## SALADS

MADE TO ORDER, SERVED ON A FRESH BED OF ROMAINE, ICEBERG & SPINACH

**MEDITERRANEAN 350 cal (7.60)**

ALL-NATURAL GRILLED CHICKEN BREAST, ARTICHOKE HEARTS, CHICKPEAS, ROASTED RED PEPPERS, CUCUMBERS, RED ONION, TOMATOES, FETA CHEESE & ITALIAN SEASONING

**UPTOWN 520 cal (7.60)**

ALL-NATURAL GRILLED CHICKEN BREAST, GRAPES, APPLES, DRIED CRANBERRIES, CANDIED WALNUTS, BLUE CHEESE & RED ONION

**FARMHOUSE 440 cal (7.60)**

ALL-NATURAL GRILLED CHICKEN BREAST, HARD-BOILED EGG, BACON, BLUE CHEESE, CUCUMBERS, TOMATOES & RED ONION

**CHICKEN SALAD SALAD 480 cal (6.65)**

**A WRECK® SALAD 430 cal (6.65)**

**CHICKPEA VEGGIE 280 cal (6.65)**

## ORIGINALS (5.20)

### GRILLED CHICKEN & CHEDDAR

470/620 cal **(5.80/7.10)**  
HAND-SLICED CHICKEN BREAST WITH CHEDDAR CHEESE

### MEDITERRANEAN

470/630 cal **(5.60/6.90)**  
ZIPPY HUMMUS, FETA CHEESE, CUCUMBERS, ARTICHOKE & ROASTED RED PEPPERS  
ADD CHICKEN 70/100 cal **(1.00)**

### PIZZA SANDWICH

580/840 cal **(5.60/6.90)**  
PEPPERONI, MEATBALL, CAPICOLA, MARINARA SAUCE, PROVOLONE CHEESE, MUSHROOMS & ITALIAN SEASONING

## BIGS (6.50)

### A WRECK®

540/710 cal  
SALAMI, ROAST BEEF, TURKEY & HAM WITH SWISS CHEESE

### ITALIAN

660/870 cal  
CAPICOLA, MORTADELLA, PEPPERONI, SALAMI & PROVOLONE CHEESE

### CHICKEN SALAD

590/780 cal  
WITH PROVOLONE CHEESE

### TUNA SALAD

520/690 cal  
WITH SWISS CHEESE

### TURKEY BREAST

440/590 cal  
WITH SWISS CHEESE

### SMOKED HAM

500/660 cal  
WITH SWISS CHEESE

### ROAST BEEF

510/670 cal  
THIN SLICED ANGUS BEEF & PROVOLONE CHEESE

### MEATBALL

670/870 cal  
MARINARA SAUCE & PROVOLONE CHEESE

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. Before placing your order, please inform your server if a person in your party has a food allergy.

## SKINNYS (4.20)

ALL UNDER 400 CALORIES

Less meat, cheese & bread

### T-K-Y

300 cal  
TURKEY BREAST WITH SWISS CHEESE

### MUSHROOM MELT

350 cal  
MUSHROOMS, SWISS, PROVOLONE & CHEDDAR CHEESES

### HAMMIE

340 cal  
SMOKED HAM WITH SWISS CHEESE

## SKINNY PAIR (6.80)

SIDE SOUP & SANDWICH 360-650 cal



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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, 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

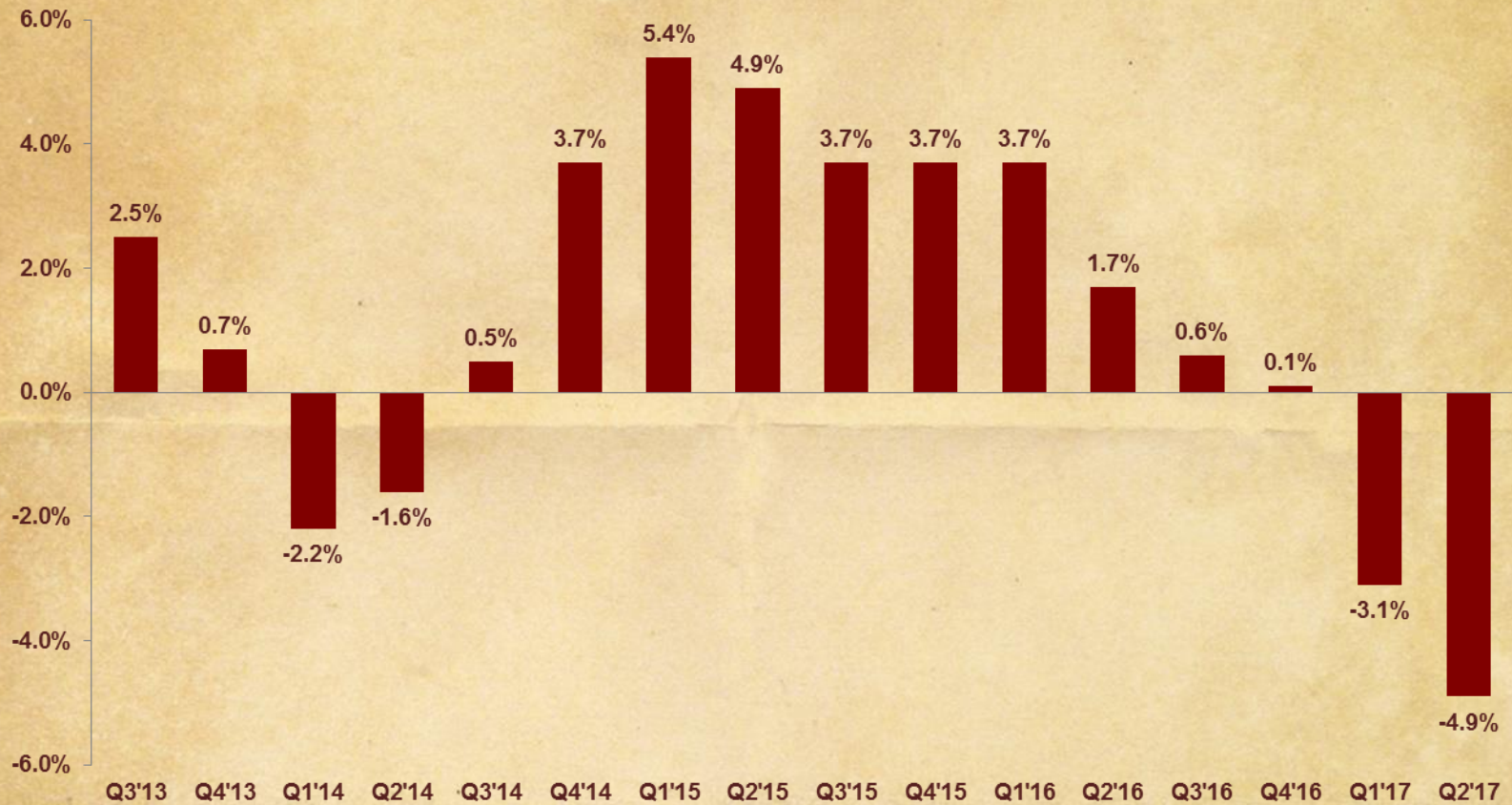
Cash build-out costs = Construction Cost - Tenant Improvement Allowance + Pre-Opening Expense - Pre-Opening Rent. \$ in thousands.



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# HISTORICAL COMPARABLE STORE SALES TRENDS

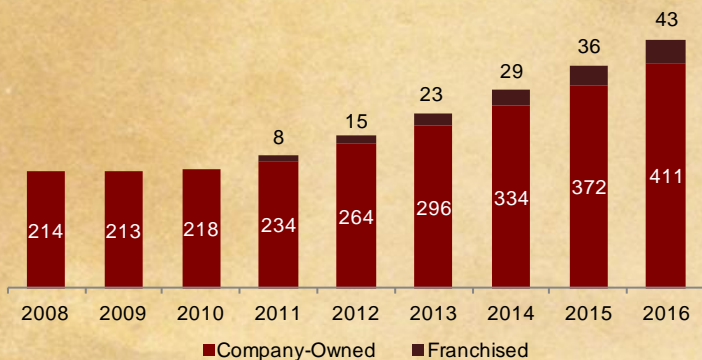


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# HISTORICAL FINANCIAL PERFORMANCE

## Shop Count (end of period)



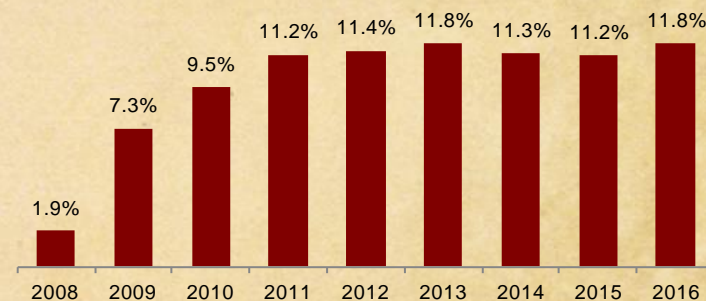
## Total Revenues



## Adjusted EBITDA (1)



## Adjusted EBITDA Margin (1)



Note: Dollars in millions.

(1) Adjusted to exclude impairments, gain or loss on disposal of property and equipment, store closure expense, and stock-based compensation expense.

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



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## SECOND QUARTER 2017 FINANCIAL PERFORMANCE

Revenue Growth	3.0%
Comparable Store Sales Growth	(4.9%)
Total New Shops	16 shops
Adjusted EBITDA <sup>(1)</sup>	\$11.8MM
Adjusted Net Income <sup>(2)</sup>	\$2.7MM
Adjusted Net Income per Diluted Share <sup>(2)</sup>	\$0.11

(1) Adjusted to exclude impairments, gain or loss on disposal of property and equipment, store closure expense, and stock-based compensation expense.

(2) Adjusted to exclude impairments, gain or loss on disposal of property and equipment, store closure expense and the tax benefit associated with impairment and closures.



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# FULL YEAR 2017 GUIDANCE

Total New Shops	45 - 55 shops
Company-Operated	30 - 35 shops
Franchise	Low end of 15 - 20 shops
Comparable Store Sales Growth	Mid-single digit decrease
Adjusted Net Income Growth per Share <sup>(1)</sup>	\$0.30 to \$0.33
Tax Rate <sup>(2)</sup>	36% to 38%
Capital Expenditures	\$33MM - \$35MM

- (1) Adjusted to exclude impairments, gain or loss on disposal of property and equipment, store closure expense and the tax benefit associated with impairment and closures.
- (2) Excludes the impact of FASB's Accounting Standards Update (ASU) 2016-09, which relates to the recognition of excess tax benefits and deficiencies related to stock option expenses.

As of August 4, 2017.



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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

## Balance Sheet <sup>(1)</sup>

Cash	\$21.2MM
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Total Debt	None
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Total Liquidity <sup>(2)</sup>	\$71.2MM
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(1) As of June 25, 2017.

(2) Represents cash of \$21.2MM plus \$50MM revolver capacity.





# REPORTED NET INCOME TO ADJUSTED NET INCOME <sup>(1)</sup>

(amounts in thousands)

	13 Weeks Ended June 25, 2017	13 Weeks Ended June 26, 2016
Net income attributable to Potbelly Corporation, as reported	\$(138)	\$3,373
Impairment, loss on disposal of property and equipment, and closures	3,440	1,011
CEO transition costs	974	---
Tax benefit of impairment and closures	(1,540)	(382)
Adjusted net income attributable to Potbelly Corporation	\$2,736	\$4,002

(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 August 4, 2017.



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# REPORTED NET INCOME TO ADJUSTED EBITDA <sup>(1)</sup>

(amounts in thousands)

	13 Weeks Ended June 25, 2017	13 Weeks Ended June 26, 2016
Net income attributable to Potbelly Corporation, as reported	\$(138)	\$3,373
Depreciation expense	6,446	5,676
Interest expense, net	41	41
Income tax expense	186	2,039
Impairment, loss on disposal of property and equipment, and closures	3,440	1,011
Stock-based compensation	856	789
CEO transition costs	974	---
Adjusted EBITDA	\$11,805	\$12,929

(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 August 4, 2017.



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