Shake Shack Tosses an Initial Public Offering on the Grill

Continued from the prior page

themed restaurant, is up 97% from its IPO in April. Mexican-style chicken chain **El Pollo Loco Holdings** Inc. is up 38% since its July offering.

More restaurant IPOs are in the works for 2015. Chicken-wing chain **Wingstop Restaurants** Inc. and chicken-and-biscuit chain **Bojangles Restaurants** Inc. are working with banks on potential IPOs, The Wall Street Journal has reported, citing people familiar with the plans.

The IPO could value Shake Shack at more than $800 million, based on the trading of one of the company's publicly traded peers. Habit Restaurants trades at about 55 times its 2013 earnings before interest, taxes, depreciation and amortization, according to FactSet. Both companies earned about $15 million by that measure.

Bloomberg News

Shake Shack, under Danny Meyer, above, has seen revenue in the first nine months of 2014 surge 41%, to $84 million. The company said in its IPO filing that it has been focused on new-store openings.

Some investors and analysts expect 2015 to be a strong year for U.S. companies that depend on consumer spending, which could rise on falling gasoline prices and an expanding economy. In addition, relatively few restaurant companies are publicly traded.

"There's a lot of pent-up investor demand," said John Gordon, principal at Pacific Management Consulting Group, which researches restaurants.

Shake Shack started out as a hot-dog cart in New York's Madison Square Park in 2001. It now sells burgers, hot dogs, shakes, french fries and other items at 63 restaurants, or shacks, around the world.

Revenue in the first nine months of 2014 surged 41%, to $84 million, over the same period last year, while its profit decreased 20%, to $3.5 million. Same-store sales growth—dubbed "same Shack sales" by the company—has moderated this year from 2013, rising in the low-single-digit percentages in the first three quarters of 2014. The company said in the IPO filing it has been focused on new-store openings.

While the company has a relatively straightforward business, its IPO has a complex structure.

According to the filing, Shake Shack plans to use the IPO proceeds to buy shares in a private partnership owned by Mr. Meyer and private-equity firms Leonard Green & Partners LP and **Select Equity Group** LP, all of which own more than 5% of Shake Shack. (Alliance Consumer Growth, which invested in 2013, also owns a stake of at least 5%.)

That partnership then will use some of the money it receives to repay a credit facility led by **J.P. Morgan Chase** & Co., which is a lead bank on the IPO with **Morgan Stanley**.

The credit facility will be used in part to fund a $22 million payout to private investors before the IPO.

Some of the money going to the partnership also will be used to fund new restaurants and renovate existing ones, the company said. It said it plans to open 10 new U.S. Shake Shacks a year starting in 2015 for the "foreseeable future."

After the IPO, the private investors also will continue to get payments from Shake Shack equal to 85% of certain tax benefits the company might receive, an arrangement known as a "tax receivable agreement," according to the filing. The company said it expects the payments to be significant.

Robert Willens, an independent tax analyst in New York, said the arrangements are common and can be controversial. But, he said, if they are "fully disclosed and...reflected in the IPO price, it's probably not that objectionable."

Shake Shack plans to have two classes of stock, though it is eschewing the traditional setup that has been used to give insiders control over their companies. Shake Shack's Class B shares, which will be given to insiders including Mr. Meyer, Leonard Green and Select Equity, will have the same voting rights as Class A shares offered to the general public, according to the filing.

The company's owners aren't handing over the reins to public investors entirely. They will control a majority of votes immediately after the IPO, according to the filing. And as long as groups affiliated with Mr. Meyer, chief executive of Gramercy Tavern-owner **Union Square Hospitality Group** LLC, own at least half of the shares they receive in the offering, he can nominate five directors. Leonard Green and Select Equity are each entitled to one seat under a similar arrangement, according to the filing.

The number of shares to be offered in Shake Shack's IPO and the price range for the planned offering haven't been set.

—Chelsey Dulaney, Laura Saunders and Liz Hoffman contributed to this article.