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PRESENTATION

Operator

Hello, and thank you for standing by. Welcome to the Fiscal Fourth Quarter 2021 Conference Call and Webcast for Portillo's Inc.

I would now like to turn the call over to Mr. Fitzhugh Taylor, Managing Director at ICR, to begin.

Fitzhugh Taylor - *ICR, LLC - MD*

Thank you, Rob. Good morning, and welcome, everyone. With me on today's call is Michael Osanloo, President -- Portillo's President and Chief Executive Officer; and Michelle Hook, the company's Chief Financial Officer.

Before we begin our formal remarks, let remind you that our -- part of our discussions today will include forward-looking statements. These statements are not guarantees of future performance and should not be unduly relied upon. We do not undertake to update these forward-looking statements unless required by law and refer you to today's earnings release and our SEC filings for a more detailed discussion of the risks that could impact Portillo's future operating results and financial condition.

Our remarks also include non-GAAP financial measures, such as adjusted EBITDA and restaurant level adjusted EBITDA. We direct you to our earnings release issued this morning, which is available on our website for the reconciliations of these non-GAAP measures to their most comparable GAAP measures. Any non-GAAP financial measures should not be considered as an alternative to GAAP measures, such as net income or operating income or any other GAAP measure of our liquidity or financial performance. Finally, after we deliver our prepared remarks, we will open the line for your questions.

Let me now turn the call over to Michael Osanloo, President and Chief Executive Officer of Portillo's. Michael?

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Thank you, Fitzhugh, and good morning, everyone. We appreciate you taking the time to join us on our year-end earnings call. 2021 was a milestone year for Portillo's. We're thrilled with the completion of our IPO and the investor reception that we received, and we're very proud of how we ended the year. I'm happy to share that Portillo's posted strong top and bottom line growth in the fourth quarter, resulting in a successful fiscal year for us.

We grew total sales 17.5% or $79.5 million, and we grew restaurant level EBITDA 16.5% or $20.1 million. Michelle will give you a lot more detail on the numbers, but I wanted to highlight our great results for the year. We added 5 new restaurants in 2021, all of which opened well-staffed and have performed at or above our expectations. This included our first entry into Michigan as well as our first restaurant in the Orlando market, both places that we're going to continue to fill out in the near term as we expand.

Portillo's recognize this success despite the volatility in the restaurant industry faced all through '21. Our multichannel model proved yet again to be a competitive strength. Even in the face of the great resignation, continuing COVID restrictions and ever-changing commodities costs, we continued to perform. This is reflective of our dedication to delivering an unrivaled experience to our guests through our unbelievable team members.

We regularly say that people are the heart of Portillo's and I'm so grateful to our team members who through all these challenges have embraced our purpose and lived our values of family, greatness, energy and fun.

Now the fourth quarter is always big for Portillo's, and it was again this year. We have so many loyal fans that make Portillo's part of their holiday celebrations and their gatherings. This remains true, and we saw heavy catering sales over the holidays. Still, Omicron did impact us, both from a sales and staffing perspective. We saw a greater number of cancellations and an increased number of team members out because of COVID. Despite that, we had a very strong fourth quarter and closed the year out well. We delivered against all of our growth commitments.

We're very happy with our recent performance. But what's even more exciting is our future. We have one of the best teams in the restaurant industry, all of whom are dedicated to delivering greatness on every front. We're committed to our Portillo's family. Staffing continues to be a challenge for the industry, but we believe in taking care of our team members who, in turn, take great care of our guests.

Not only do we offer competitive pay, we invested another $12 million last year to have a total rewards package that includes shift meals, extra pay on key holidays, flexible scheduling and a more affordable health care program. We offer an experience unlike any other, and our team members clearly agree. About 1/4 of our new Portillo team members come to us through internal referrals.

We provide a full spectrum of training and leadership development opportunities for those team members. First, we've implemented new training materials, offering a blended approach to learning that includes both hands-on activities as well as e-learning modules. This is the way people want to learn today.

Second, we've launched a leadership development program we call Ignite. It emphasizes leadership training for our team members who want to take the next step in their career with Portillo's. This includes skills like leading change, having difficult conversations, building relationships, things that our team is going to use throughout their entire career. What we found is that this dedication to their growth keeps team members with us. And we've seen an internal management promotion rate of over 80%, a metric that we're extremely proud to share.

While many restaurant brands have had to close doors or rope off tables because of staffing, our doors have remained open. We've also invested in making technological improvements, but they have to be real changes and upgrades that positively impact the guest or team member experience. For example, we rolled out a new version of our POS system that's easier for our team members to use. It increases throughput and reduces training time for new hires. Traditionally, we had 3 different systems for order taking, one inside, one in the drive-thru and then a handwritten process for line busting when the lines get long. Our new system is the same throughout the restaurant. So we only need to train the team member once to be able to take orders anywhere.

When it comes to our food, our culinary approach is to have an ownable veto-proof menu. And that means we scrutinize anything we add to the menu. It needs to be a significant improvement over existing items. It has to add meaningful traffic and it has to reduce operational complexity. Now that's a very high bar.

But one of our most successful new items ever was the Spicy Chicken Sandwich that we launched last year. It was a massive win that met all of our criteria. First, it tested off the chart with our consumers. Our guests simply love it. Second, it's been incremental to our business. And third, it's operationally very simple to execute.

On top of being a delicious sandwich, we've got a lot of buzz for it with our guests. We use world-class digital marketing that was clever and witty and cost effective. And if you haven't seen any of our spicy chicken marketing, please check it out. Just Google Portillo's Spicy Chicken.

Innovation also extends within our restaurants themselves. Not only have we identified ways to reduce the size of our back-of-house without impacting operations, but we've also implemented a third drive-thru lane as a way to offer increased convenience to the growing number of guests who choose a digital ordering experience.

Our drive-thru is already one of the most efficient in the business. Now this dedicated third lane draws consumers to our direct ordering channels, our website and our app by offering a rapid pickup option for guests who use those channels. We first launched it in West Madison, Wisconsin, and it's also in place in Joliet, Illinois at our first off-premise-only restaurant, which we call Portillo's pickup.

We're super excited by the early results of this Portillo's pickup prototype. It opened on February 1. It's a fraction of the size of our typical restaurant, and it's still serving an unbelievable amount of food for drive-thru, take out, third-party delivery and catering. Due to the smaller size and format, this new model has the potential to unlock whole new real estate options for us and help infill existing markets to better serve our guests, however and whenever they want to get their Portillo's.

Importantly, we're confident in our ability to deliver sustainable and profitable growth. With new restaurants opened successfully in Indiana and Wisconsin in the fourth quarter and the recent opening of Joliet in February, we are now at 70 restaurants and we're not slowing down.

Our second restaurant for 2022 is scheduled to open in St. Petersburg, Florida in early April. And then next, we look forward to opening an additional 5 restaurants in the third and fourth quarters. We'll continue to build scale in existing markets as well as the growing Sunbelt.

Now I'm sure you saw a recent announcement around our first Texas restaurant. It's located in the Grandscape complex in The Colony on the north side of Dallas. This restaurant is going to be a showstopper. It is our garage style theme with a Texas twist. And importantly, it's going to be a place where our Texas guests will get the true Portillo's experience. I'm confident this restaurant will be a home run for us and pave the way for future growth in Texas.

For each one of our new restaurant openings, we have a very prescriptive hiring strategy that allows us to find values-driven team members who then in turn, deliver the Portillo's experience for our guests. The hiring environment we create and the great frontline leadership we developed enabled us to hire over 100 team members for our Joliet restaurants, and we're currently at over 120 hires for St. Petersburg already. This gives us tremendous confidence that we can find staff for all of our new restaurants with amazing values-based team members.

We're also really conscious of the cost environment right now, including labor cost, food costs, distribution, energy and build costs. We don't have a set date that we take price, but we stay flexible. We look at cost and pricing daily to evaluate our menu and our competitive position. Yet, our strategy is to be a price laggard.

We intentionally price below inflation, and we haven't priced as aggressively as many other restaurant brands. And that's because we believe in offering strong value to our guests. In times of economic uncertainty, we know people are seeing prices increase all around them. We want to be a respite from that. A comforting place where people don't have to think about that. We want them to come, have a beef sandwich and a great experience leaving those stresses at the door. That's our priority.

As we continue on the path of a new public company, we're excited about the future. There's a lot happening for Portillo's in 2022, and we're only just getting started.

So with that, I'm going to hand it off to Michelle to share more details of the quarter and our expectations moving forward.

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Great. Thank you, Michael, and good morning, everyone. I want to thank our amazing team members in our restaurants, at our commissaries and at our restaurant support center for the work that they do as we continue to work together and navigate this challenging landscape. Our people-centric culture is centered on working together to create a fun, energetic atmosphere while living our values.

As I discussed on our third quarter earnings call, we completed our successful IPO in late October. You can find all the details on that transaction in our 10-K filed this morning. This transaction did have a onetime effect on our G&A in the quarter, and I'll touch upon that later.

Now turning to our results for the fourth quarter and full year 2021. We are extremely proud of our performance as we saw strong and balanced top line growth. The second half of the year proved challenging with Omicron and pressures on our commodity and labor costs. Despite these headwinds, we were able to exceed our expectations on a restaurant level adjusted EBITDA growth and adjusted EBITDA growth in both the quarter and full year 2021.

We remain confident we can continue to deliver healthy top line and bottom line growth in 2022 and beyond. And more importantly, we remain committed to our long-term outlook and metrics that were provided in our earnings release this morning.

Let's now dive into details. Revenues were $138.9 million reflecting an increase of $20.4 million or 17.2% compared to the fourth quarter of 2020. This was driven by a 10.3% increase in same-restaurant sales combined with the opening of 7 new restaurants since the beginning of the fourth quarter of 2020. The same-restaurant sales increase of 10.3% was primarily driven by a 9.5% increase in average check and a 0.8% increase in transactions.

Our higher average check was due to increases in our menu prices of approximately 6.4%, with the remainder being a benefit from mix of items sold. As Michael previously mentioned, we did see a dampening as a result of Omicron in both our sales and staffing levels in the fourth quarter, particularly during the last few weeks of the quarter, and our seasonal catering business.

We continued to see these negative impacts during the first several weeks of January. However, trends in both our sales and staffing levels have since improved and sales trends and transactions improved from January to February. Our same-restaurant sales during period 1 of '22 grew 9.2% and then accelerated to grow at 13.6% in period 2. We estimate same-restaurant sales for the first quarter of '22 to be in the range of 7.5% to 8.5%, rolling over a comp of 24.6% in period 3 of 2021.

For the full year, revenues were $535 million, up $79.5 million or 17.5% year-over-year and an increase of more than 12% compared to 2019 revenues. The increase versus 2020 was driven by a 10.5% increase in same-restaurant sales, combined with the opening of 7 new restaurants since the beginning of the fourth quarter of 2020. The 10.5% increase in same-restaurant sales was driven by a healthy balance of menu price increases of approximately 4.4% transaction growth and mix of items sold.

Before I close out my comments on revenues, I did want to point out a change that will impact certain metrics in '22. At the end of '21, we revised how we account for third-party delivery partners. We now reflect the total price charge for delivery orders versus regular menu prices in revenues. The delivery price differential was previously reflected in cost of goods sold as an offset to commission fees paid to our partners.

As a result, we expect this change to positively impact our same-restaurant sales growth by 2% to 3% in each quarter in '22 and for the full fiscal year, with a corresponding increase to cost of goods sold. This change will not impact restaurant-level adjusted EBITDA or adjusted EBITDA. We will continue to note the impact of this change in future '22 filings.

Cost of goods sold, excluding depreciation and amortization, as a percentage of revenues increased to 32.6% in the fourth quarter of '21 from 30.7% in the fourth quarter of '20. This increase was primarily driven by an increase in our commodity prices, specifically in our beef, chicken and pork prices. This was offset by an increase in our average check.

We continue to see commodity inflation during the first quarter of '22. In January, I provided a range of 5% to 7% expected increase in our commodity basket in '22. We now currently anticipate 13% to 15% inflation across our commodity basket in '22. You can tell we're dealing with real-time changes in commodities, energy, freight and distribution. As a reminder, beef, chicken and pork comprise approximately 50% of our commodity basket, and we are seeing significant increases in all those categories.

Now moving into labor. Labor as a percentage of revenues increased to 26.2% in the fourth quarter of '21 from 24.3% in the fourth quarter of 2020, primarily due to an increase in hourly rates, investments made in training and discretionary bonuses, partially offset by an increase in our average check and the impacts of lower staffing.

The labor market continues to remain extremely challenging and everybody is competing for talent. We made a substantial investment in team member pay in the second quarter of '21 as part of our ongoing commitment to pay benefits, training and talent development. We continue to see the impacts flow through in the fourth quarter as our average hourly rates were up roughly 20% in the fourth quarter of '21 versus the fourth quarter of 2020.

We anticipate making additional wage investments in '22 as the environment continues to be fluid, and we remain committed to ensuring our restaurants are staffed with exceptional team members. We are extremely proud that despite these labor challenges, we've not had to limit service channels or hours of operation. That speaks to the extraordinary productivity of our frontline team members during these challenging times.

We're proud that even with these increases in food and labor, we produced strong restaurant level adjusted EBITDA dollars and margin in the fourth quarter and full year '21.

Our other operating expenses increased $2.5 million or 19.5% in the fourth quarter of '21, which was primarily driven by the opening of 7 new restaurants since the beginning of the fourth quarter of 2020. Additionally, operating expenses were impacted by incremental costs as we expanded our dining capacity.

Occupancy costs were flat as a percent of sales primarily due to the quarter-over-quarter sales increase previously described, inclusive of the opening of 7 new restaurants since the beginning of the fourth quarter of 2020. As a result of all of the above, restaurant level adjusted EBITDA increased 1.3% to $35 million in the fourth quarter of '21. Restaurant-level adjusted EBITDA margins were 25.2% in the fourth quarter of '21 versus 29.2% in the fourth quarter of 2020.

The decrease of approximately 400 basis points was largely driven by the impact of commodity and labor inflation. As mentioned on our third quarter call, we did increase menu prices approximately 3% in early Q4 to combat these headwinds. We do expect these headwinds in both labor and commodities to continue in '22, and we expect our restaurant-level adjusted EBITDA margins to be negatively impacted in each of the 4 quarters.

We plan to partially offset these increases through additional menu price increases as well as operational efficiencies. During the first quarter of '22, we did increase menu prices approximately 1.5%. As a result of this current pricing action, combined with the previous actions taken in '21, we estimate the net pricing effect in Q1 of '22 to be in the range of 7% to 7.2%, which is slightly below inflation.

Our G&A expenses increased $39.4 million to 37% in the fourth quarter of '21 from 10.1% in the fourth quarter of 2020. This $39.4 million increase was due primarily to a $29.3 million increase in equity-based stock compensation expense, a $6.6 million option holder payment and $2.9 million of transaction-related expenses, all associated with the IPO.

The $600,000 remaining G&A increase was due to ongoing costs of the business, largely within wages. We are continuing to invest in G&A this year with an eye on the long-term growth potential for the company and expect to spend between $70 million and $75 million, inclusive of equity-based stock compensation expense.

Preopening expenses were relatively flat in the fourth quarter of '21 versus the fourth quarter of 2020 as we opened 2 new restaurants in both quarters. We expect preopening expenses to be between $6 million and $6.5 million in '22 as we are anticipating opening 7 new restaurants during the year. All this led to adjusted EBITDA of $23.2 million in the fourth quarter of '21 versus $23.5 million in the fourth quarter of 2020, a decrease of 1.2%.

Below the EBITDA line, interest expense was $7.6 million in the fourth quarter of '21, a decrease of $3.2 million from the fourth quarter of '20. This decrease was driven by the payoff of our second lien term loan and lower outstanding borrowings under our first lien term loan. During the fourth quarter of '21, we also recognized a $7.3 million loss on extinguishment of debt due to prepayment penalties and a write-off of debt discount and deferred issuance costs.

Now turning to the balance sheet. As previously mentioned, we used proceeds from the IPO along with cash on hand to repay the redeemable preferred equity in full, repay outstanding borrowings under our second lien term loan and purchase LLC units from certain pre-IPO LLC members. After making all those payments, our balance sheet remains in a strong position, and we ended the quarter with $39.3 million in cash.

We will be using our cash balance plus operating cash flow to support our strong growth in new restaurant openings. In '22, we are expecting capital expenditures to range between $60 million and $65 million.

Thank you for your time. And with that, I'll turn it back to Michael.

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Thanks, Michelle. Before we open for questions, I just want to reiterate what our main goal is as a company. We are committed to taking care of our team members who, in turn, create an unrivaled experience for our guests. That experience is our priority. In a world full of stresses, we want to be the stress relief. Our guests can expect a fun atmosphere and a great meal at an amazing price. We are their oasis. You can see by our sales and comp trajectory that consumers are choosing Portillo's. We have demand. Commodity and labor pressures will come and go. The world may face uncertainties, but we're going to keep the hot dog steaming and the cheese sauce flowing.

So thank you. Operator, turning it over to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of David Tarantino with Baird.

David E. Tarantino - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research & Senior Research Analyst*

My first question is on the margin outlook. Michelle, given all the moving parts, you described on the cost inflation outlook and then this incremental pricing that you took in the first quarter. How are you thinking about restaurant-level EBITDA margins for the near term, I guess, for 2022? If you can give us a sense of the framework that we should be thinking about?

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Yes, David. Obviously, given the fluidity of the situation, right, I mentioned that just in January, we had commodities 5% to 7%, and now we're at 13% to 15%. And so it's a very fluid situation for us. But as we think about that, we know margins are going to be pressured.

And I'm not giving any definitive guidance on margins for a reason and that's because of the uncertainties surrounding that. And -- but I do expect it to be pressured. I expect it to be pressured against what we saw both in the third quarter and fourth quarter coming into the first quarter as well as the out quarters in '22, simply because of that commodity outlook.

And then also, I just want to remind you, like as you think about restaurant-level EBITDA, the labor market, too, continues to remain fluid as well. And so we are looking at potentially making additional investments there. And so Michael and I, as he mentioned, are going to continue to look at pricing as a lever, but also looking at operational efficiencies. But we do want to remain price laggards, as he mentioned. But I do expect the margins to be pressured.

David E. Tarantino - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research & Senior Research Analyst*

And then maybe as a related follow-up, it sounds -- I understand the philosophy on being a price laggard. But do you have a sort of long-term target that you want to manage to on that line? I guess some of this inflation sounds like it's not temporary. So is there a path to -- I think in the past, you've had mid-20s restaurant-level EBITDA. Is that a goal longer term? And I guess, how do you get there over time?

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Yes. Obviously, we want our goal to continue to be to produce the margins that you've -- and we've seen historically, David. And you know the mix of our margin profile is going to vary in terms of our core Chicagoland market versus our outer market. So I'll just remind you that as we continue to build outside of our core market, right, we build those outer markets, margins are going to naturally be pressured as well by us continuing to build in those outer markets. And that will continue to pressure the margin profile overall regardless of what's going on in the inflationary environment. So that's just a reminder as well.

But absolutely, as Michael thinking and I think about the margin profile, right, as we think about cutting, again, that core Chicagoland market, which traditionally has been in the 30-plus-percent margin range versus the outer markets. Yes, the blended range, I would expect to be above the 20% range as we move forward.

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Yes, David, can I just build on what Michelle said. So in times of like uncertainty like this, we -- our belief is while others might be shrinking portions, taking prices above inflation, our philosophy is we're going to take traffic. We want to be a great place for consumers. We're very conscious of all the price pressures that consumers face. And our goal is to drive traffic and drive transactions and drive revenue.

And we're also -- Michelle and I are much more concerned about margin dollars than margin percent. And our goal is to make sure that we're working hard to grow margin dollars. And we're just not quite as torqued up about the percentages.

Operator

Next question comes from the line of Nicole Miller with Piper Sandler.

Nicole Marie Miller Regan - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Just kind of following up on that topic, but asking in a different way. So understanding the leg strategy on price, I was curious if you -- or how you manage the gap. So -- like you said, Michelle, back in January, if you were facing 5% to 7% inflation and still had 7% price, who knows if you were to put all that into effect. But let's say, you're managing at most the 200 basis point gap or no gap, I mean, it could have been in your favor, frankly. And now you could be facing like a mid- to high single-digit gap. What gap is in the model that still allows you to achieve a store level margin percentage or dollar profit growth?

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Yes. I think, Nicole, to Michael's point, the way that we're thinking about it clearly is in terms of dollars. But there was a reason why Michael and I put a pricing action in effect in January, right, because as we saw some of those additional headwinds come into play, right? We put an additional 1.5 points of pricing in play in the first quarter of '22 to combat some of these headwinds.

But remember, pricing is not the only action that we mentioned. We're still looking at operational efficiencies as a means to close that gap. But we don't want to get over our skis on pricing either Nicole, right? We understand, as Michael mentioned in his commentary, that there is inflation going on all around our consumers and our guests, and we want to continue to drive that traffic into our restaurants and be a good value to our consumer.

And so yes, we know there's a gap there. We know we continue to have to address to close that, but we're looking at a couple of different mechanisms outside of just pricing. But I want to be clear that what I said holds true that we do think that margins will take as a percent, they're definitely going to take an impact in the short term as we work through these challenges.

Nicole Marie Miller Regan - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Maybe one other way of looking at it, and it might not be associated, but I'd be curious about, Michael, your comments at the very beginning of the call, the benefits of the multichannel model. So how are employees and/or guests impacted if you were to push one channel over another or turn one channel on or off?

I mean, previously, you've been mandated, for example, to close dining rooms. Is that better to push everybody through a drive-thru? Is there some kind of impact that benefits employees or the customers in terms of speed, service, accuracy or even benefits the enterprise and margins? Or is it really kind of normalized all else equal?

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

To be honest, I'm not -- I don't think we think about directing our customers necessarily to a channel. I think what's important is to be responsive to your customers in how they want to consume Portillo's. So we saw during the bulk of COVID, the importance of having a drive-thru, digital channels, off-premise, all of that was hugely important. But right now, we're seeing consumers start to come back into our dining rooms, right?

Back in 2019, we had 53% inside. In '21, it was about 36%, and it's starting to tick back up. And we want to be there for the consumer however they want to experience us. So I'm going to be a broken record. Our thing is we want to be a consumer-centric company. We want them to enjoy their time at Portillo's. We want to be a destresser in a world full of stresses. And we don't want them to feel like their pocket books are being crushed.

Right now, with fuel costs where they are, their discretionary income is being challenged, and we philosophically believe that a value -- that a great value is going to win with consumers in the near term. When and if prices start to come back down in terms of fuel commodities, et cetera, we'll reevaluate our pricing. But for now, I think, Nicole, we feel really good that we have a very strong P&L. We generate a lot of cash, and we can use this time to take share and invest in guests.

Operator

Our next question is from the line of Chris O'Cull with Stifel.

Christopher Thomas O'Cull - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Michelle, my question is regarding the preopening CapEx. It was a lot higher than we had expected, but unit opening guidance was unchanged. Are you seeing greater inflation there? Or is there some sort of timing issue at the end of the year?

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Both, Chris, to answer your question. So I'll start with the CapEx. So yes, we're seeing inflationary pressures clearly in our build costs. And right now, we're building restaurants. I believe -- you all -- we gave you all a range of $4.5 million to $5 million was generally our build costs. And we're seeing about $1 million higher build costs on the high end of that range, so call it about $6 million build costs that we're seeing today on our CapEx.

The other thing that's in the CapEx is, remember, we're going to start to build restaurants in '22 that are going to open in the early part of '23. So there's some '23 build costs in there as well as we're making significant investments in our technology. Michael mentioned the point-of-sale system. We're also putting in digital menu boards in all of our restaurants. So there's some technology investment in that CapEx number as well.

Christopher Thomas O'Cull - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Okay. That's helpful. And then can you help us understand how the pricing should flow through the rest of the year roll off, I guess, through the rest of the year, absent any additional pricing? And then maybe also comment how you think about the timing of pricing action?

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Yes, absolutely. So I don't know exactly what we're going to do the rest of the year, Chris. As Michael mentioned, right, we want to remain flexible in terms of how we approach pricing. But as Q2 as an example, if we did nothing else, right, and we just rolled forward with the pricing actions that we took in Q1 of this year as well as the pricing actions we did in '21, Q2 would have us at about a 5% price because we do have some of that price dropping off that we took in '21 in Q2 as well.

Looking into the out quarters, it's generally going to run a little bit under that around 4-ish percent. But that -- again, Chris, that depends on what we're going to do and what pricing actions we're going to take in '22. So I can't say for certainty that's going to be exactly what it is, but at least I want to give you some visibility into Q2, which gives us some visibility into the first half of the year. But we want to keep our options open in terms of when and how we take price.

Operator

Our question comes from the line of Andy Barish with Jefferies.

Andrew Marc Barish - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

I would imagine even with some of the challenges late in the 4Q and what I imagine was some overtime spend and things like that, you still saw some pretty decent labor productivity. And talking about operational efficiencies this year, are there a couple of things we can focus on, on that front as wage inflation continue to move higher?

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Yes. First, great to hear from you, Andy. So I would tell you that there's both labor efficiency and productivity. They are 2 separate things. So we've gotten really smart at cross-training our team members. Historically, with COVID, we had a stilted operating model. And now that we're getting back into a healthy operating model, I think we're going to see our productivity measures improve.

We look at items per labor hour. And I think we're going to see our items per labor hour improve to very strong numbers. That gives us some productivity. It's the trade-off. We're paying more per hour, but we're using less hours. So that's one thing.

The second way that we can enable that in a very smart fashion, simple fashion, is little productivity enhancers that just keep adding up, right? I've talked about a couple of things that we've done. We do a lot of catering. This is going to sound crazy, but we used to use these boxes that we'd have to tape up. Now we have these boxes that just basically pop and lock. It saved hundreds of hours. We have catering bread that is precut. Historically, we would get our bread in, we cut it, we package it and then we give it to guests. The bread is going bad the minute you start cutting it, you have inconsistent cut sizes. We now have precut bread in catering sizes. That saves hours.

Another crazy little one, our Maxwell Street Polish. It came into us, and we would hand -- cut hand trim these sausages. It means team members are putting on a cut glove, they're cutting this. Our team members don't enjoy doing that. It's wasted time. We throw the ends of the sausage away. That's food waste. Now those sausages are coming into us, precut and trim.

There is another whole raft of ideas like that, that will take wasted hours away from our team members who can then be focused on much more productive actions. And our ops team is aggressively pursuing all of those things.

Now the caveat is it cannot negatively affect the consumer experience. So we're not going to do anything that negatively affects the consumer experience, but there's wasted effort in our restaurants. There's food waste in our restaurants that we are going to be all over.

Andrew Marc Barish - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

Let me just shift to the top line. Michelle, you talked about obviously the March acceleration last year and kind of the implications of the 2-year trends running in the mid-20s. Is that kind of where you were in January and February as well? Just I know there's a lot of moving pieces, but just trying to get a sense of where things are running currently.

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Yes. I mean, definitely, to your point, Andy, last moving pieces, but yes. I mean, clearly, we were seeing the commodities, as I mentioned in that 13% to 15% range that is impacting us. And as we look at rolling into this year, too, our labor, we're continuing which -- this is a good thing, right? We're continuing to staff up at the levels that we need to be and our labor utilization numbers look very good.

So when you look at some of the performance in the fourth quarter and I think Michael talked about some of the productivity, et cetera, we did see because of Omicron in the fourth quarter, too, some lower staffing levels. So as we start to staff up, right, in the first quarter and beyond, that puts a little bit more pressure on that labor line as well, as well as the commodity line.

So those are 2 things to consider as we look at Q1 versus, say, Q4 and some of those trends that are swing in a direction that's higher than they were in Q4. So that's one thing I'd point to without getting into super specifics on where exactly margins were in January and February, but they were definitely impacted versus what we saw in Q4 on both lines.

Andrew Marc Barish - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

Yes. I was looking more -- but thanks for the color there, I fully understand. But looking more at kind of the -- is there a big difference in the 2-year trend of same-store sales in March that you're -- versus kind of the first couple of months of the year?

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Got it. Yes. No, February, Andy, is traditionally the lowest month for us in terms of sales. So as we see coming out of the colder February into March, our sales trends when we look at average weekly sales and looking at that metric, our trends are definitely improving. But remember, we're comping over, right, 24.6% in -- from period 3 of last year. So we're comping over a big number. But our sales trends remain very healthy and that's a good sign. To Michael's point, we have demand.

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Right. And Andy, if you -- I think the question -- I mean, it's a real wonky set of numbers. So if you go back to January and February of 2020, those are actually really good numbers for us. We came -- we were performing really well and then things fell off a cliff with Omicron in March of 2020. So then when you go to '21, we look good. We look okay in January and February because we're lapping strong numbers with COVID still happening. And then in March of '21, we look really good because we're lapping a complete shutdown from '20.

So this year, the numbers are -- we're lapping decent numbers in January and February and really good looking numbers in March, but the 2-year stack is pretty consistent for us. And we feel the 2-year stack looks pretty good. The 3-year stack looks even better when you compare what we were doing this year versus '19.

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Yes. If you look at -- yes, if you look at the 2-year stack, Andy, right, in Q1 of last year, we did a 0.8% comp. And then we gave the range of 7.5% to 8.5% for Q1 of this year. So to Michael's point, we are very comfortable with the 2-year stack in Q1 of '22 and how that's shaping up.

Andrew Marc Barish - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

Okay. And then just one final one for me, kind of taking a little further look back historically in periods where gasoline prices have been rising. What are some of the long-term operators in the system kind of seen in the Chicagoland market maybe where, obviously, you've had the longest operating and densest presence?

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Yes. When you go back and you look at Portillo's performance, whether it's Great Recession or the recession early 2000 or even in recessions, the short recessions in the '90s, we are a counter-recessionary business. Our business picks up. And I think -- and I'm a student of history, I talked to Dick. His philosophy was always we want to provide a value-based oasis for guests. When everyone else is jacking up prices and fuel prices are going up, we're going to take traffic. And that's exactly the playbook that we're applying today.

We think that the margin pressure is idiosyncratic, but the demand for our business, winning over guests and that long-term it creates more value for us. We will fix the margin stuff, whether it's in quarter 2, quarter 3, I don't know when, but it's going to resolve itself. But demand from your guests is really important and we're blessed because as you know, we have the P&L flexibility to invest in our guests right now.

Operator

The next question is from the line of Dennis Geiger with UBS.

Dennis Geiger - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Restaurants*

Encouraging to hear that because of how you've treated your people and I assume because of your hiring practices, you've not had to limit service channels or hours of operation. And I think, Michelle, you spoke to some -- certainly some nice improvement in staffing levels. But can you just kind of give us the latest on staffing relative to where you'd like to be maybe how short maybe you are, if you're short at all on staffing levels?

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

It's a great question. Let me -- it's a little bit of a nuanced question because I like to think about what's an ideal number of team members for each restaurant versus are we able to staff all the hours that we want at each restaurant. And those are 2 slightly different issues because you can staff the hours, you're just asking a lot of your folks. They're working more than you want them to more than maybe they want to, and you're paying a little overtime. It's ballpark. Current situation is we're probably about 10% light in bodies. And it's -- there's -- that's why Michelle alluded to this, right?

There are markets where minimum -- the entry wage keeps going up. And it's daunting task, but it's like a game of musical chairs, and I want to make sure Portillo's has a chair when the music stops. So we're going to continue to be smart and thoughtful about investing in frontline people. We can live on the down 10% for quite a while, but I don't want that number to go much lower than that.

Dennis Geiger - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Restaurants*

That is very helpful. And then just another one. As it relates to the new build costs, and Michelle, you spoke to the $1 million or so in higher costs. Wondering if you could just clarify if that's basically all inflation versus anything that's unique to upcoming new build restaurants versus what you've built historically.

And I guess the follow-up, which is probably next to impossible to know, is it possible to share kind of how you think about what's sustainable as it relates to the higher cost from the inflation versus maybe where you might have visibility into what might be a bit transitory?

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Yes. It's a great question, Dennis. If I can answer it fully and honestly, I'd be like questioned beyond belief. Here's what I'll tell you. It is truly inflationary costs. And it's things like the price of steel or mason rate or wood or the labor associated with it or the fuel associated with getting that stuff to our build site. So it is truly inflationary costs.

Our team is working smart and hard to make sure that we're value engineering the buildings as wherever. When steel goes up, we're using masonry. When masonry goes up, we're using some other material. But we're trying to be smart on investing in the building appropriately not hurting the guest experience, but not wasting money. So we're doing that on a very, very consistent basis.

And 6 months ago, we didn't see this level of inflation. Six months ago, Michelle and I were like, yes, we've been pretty careful. But we didn't anticipate a war in Ukraine. We didn't anticipate fuel costs where they are. And so we're just being as transparent and honest as possible.

What will happen in 3 to 6 months? I don't know. I would be surprised if the rate of growth of all these costs continued. That would be very surprising to me. But the reality is that we're still building with certain returns on invested capital targets that we are -- we're not going to bend on. We have to return to our investors. And so even now as we're building, we're very comfortable with the return on investment that these buildings will bring and the total cash flow that -- cash-on-cash returns that we generate. That is a nonnegotiable for us.

Operator

Our next question is from the line of Sharon Zackfia with William Blair.

Sharon Zackfia - *William Blair & Company L.L.C., Research Division - Partner & Group Head of Consumer*

I appreciate the color on January and February. I guess I'm curious whether you saw any kind of noticeable impact from the vaccine mandates in Cook County during that time frame. And kind of concurrently, whether you've seen a benefit that's been lifted. And then if you have any -- I just want to clarify, I assume you're floating post the kind of contract for B flats that I think is through March or April. Are you just choosing to float on all the proteins? And are you comfortable that there's going to be enough supply if you don't buck it?

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Yes. Let me -- Sharon, good to hear from you. Let me answer the first part of your question, and I'll turn it over to Michelle. You will -- you obviously -- you know what a situation in Chicago was in December and January with vaccine mandates showing your vax card going -- it was I don't know how to describe that without having to put money in our swear jar. But -- so it was crazy.

And as we saw the vax mandates come off, we have seen the pickup in our performance, right? So you can see that in the underlying demand. You can look at it in terms of comp. I like -- I think comp can sometimes be a misleading number. So I look at just revenues generated, right? Weekly revenues generated, and we have a very, very good trajectory. Our restaurant dining rooms are becoming revitalized again because people want to go to restaurants that they want to go out. And you know that Chicago still represents a very healthy portion of our business.

So the trajectory for our Chicagoland business is very, very good. I think Chicagoans have said that they're done with vax mandates. They want to go out to eat, and they want to enjoy themselves. And that's what we're seeing in our restaurants right now. That's what gives Michelle and I confidence that we have very strong consumer demand and that the idiosyncratic cost issues that we face, we'll deal with, but we're going to take as much of that consumer demand and share as we can.

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Yes. And Sharon, to answer your question on commodities. So as we sit here today, I might have mentioned this before when we talked in January, but we're 100% -- we were 100% in our B flats in Q1. And we have locks in place for the remaining quarters. So Q2 has locked on the flats about 40%. Q3, we're at about 50%, and Q4 we're at about 70%. So you blend all that together about -- call it, just above 60% locked on the flats for the year.

And then the other thing, so that we traditionally have not done, but given the volatility, one thing that we just recently did was we entered into a fixed pricing contract on our hotdogs. And our hotdogs are around 6% of our basket, but we locked into a fixed pricing arrangement on our hotdogs for April through the rest of the year just to mitigate some of the volatility there. Outside of that, Sharon, we're pretty much floating with the market on our other line items.

Operator

Our next question is from the line of Gregory Francfort with Guggenheim.

Gregory Ryan Francfort - *Guggenheim Securities, LLC, Research Division - Director*

I had 2 quick ones. The first one was just on wage inflation. Can you maybe frame up where it is right now, either from a total wage inflation perspective or an hourly wage inflation perspective? And are applications picking up? I think that's what we've heard from some companies I'm curious if you guys have seen that as well.

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Greg, great to hear from you. So I think Michelle said it that Q4 '21 versus Q4 '20, our wages were up about 20% for our frontline hourly workers. And so we think that, that pace of growth will slow down, but it's still -- we're not seeing an end in sight to high single-digit, low double-digit wage inflation. So that's how we're modeling it on a go-forward basis.

We're trying to be very surgical on that. We're thinking about wages being -- we're trying to be very precise on when we do add wages, where are we adding them, right? Are we adding them to nights and weekends, to day shifts, which restaurant has what problem and how do we address that restaurant in a very specific way. I'm very opposed to just spending the money like peanut butter. We've got to be really precise, and I think that will help us.

And then the second part of your question is, like I mentioned this earlier, we opened Joliet. We had no -- I mean, it sounds crazy, but we had no problem getting 100 people to join. We're in the middle of -- right now, we just turned over our St. Petersburg restaurant to the -- from construction team to the new restaurant opening team. We have over 120 team members signed up. And my operators are -- they say that these are amazing people. We have super high-quality people, and they're excited to open this restaurant.

And so I don't -- I think that there is some end in sight because the level of optimism that I'm hearing from our hiring teams and from our frontline teams is unlike anything I've heard in the last couple of years.

Gregory Ryan Francfort - *Guggenheim Securities, LLC, Research Division - Director*

Got it, Michael. And then my other question was just, I think I have to ask on Texas. Really good to kind of see the news, I guess we can talk about a little more freely now that it's out there. Can you maybe talk about what the plan is and is it to kind of encircle Dallas, own the Dallas market kind of coming from the suburbs? Just how you're thinking about that now that the news is out there and you got an exciting opening this year.

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Yes. I just want to take a second. I don't know if the folks on the phone are familiar with the development at Grandscape in The Colony. But it's worth visiting sometime if you want to see what the future of commercial real estate looks like. It's unbelievable. There's a Nebraska Furniture Mart that is a traditional box that does $1 billion of sales. It draws from attachment that is ridiculous. We're in front of a sporting goods store, a shield that blows away any other sporting goods store in America. This is -- and it's an invite-only kind of real estate development. They asked us to join them there.

We have an amazing piece of real estate. It's within 5 minutes of Toyota's North American world headquarters, a huge office complex in Plano and Frisco. This is one of the greatest real estate sites I've personally ever seen. We're super excited. I feel honored and privileged to be part of that development. And I think it's going to be a world-class opening for us. We're investing people and share of mind way in advance of that opening.

From that, we are going to quickly build scale in the Dallas-Fort Worth metroplex, right? That's our strategy. We're going to build in Dallas. I think that there's a lot more restaurants in Dallas-Fort Worth. Dallas-Fort Worth population-wise is right near Chicago and is likely to exceed Chicago in the next year or two. And we have 30-plus restaurants in the Chicagoland market. I think Dallas is going to be an amazing market for Portillo's. Once we achieve scale in Dallas, then we'll look at other markets within Texas. But we're going to Dallas. We're going to make it hugely successful, and we're just going to build scale in Dallas-Fort Worth.

Operator

Our final question is from the line of Sara Senatore with Bank of America.

Sara Harkavy Senatore - *BofA Securities, Research Division - MD in Global Equity Research & Senior Analyst*

Just 2 questions, please. The first is, you mentioned that the store in Joliet, this new prototype is serving unbelievable amount of food through off-premise. Could you give any more color on how you should think about volumes? Is it the type of thing where you actually see volumes that are similar in aggregate to a standing sort of an average store? Or should we think about it more just as an average store ex the dining room capacity in the mix? So that's question one.

And then question two is I think you mentioned that Portillo's is countercyclical. I just wanted to sort of clarify that. I assume when there is pressure on consumer income, your sales slow as all the restaurants do, but maybe less. I'm just trying to -- I don't know if it was just an offing-on comment, but I am trying to gauge sort of how to think about your concept specifically in the context of potentially a consumer that is softening or demand softening or incomes are under pressure.

Michael Osanloo - *Portillo's Inc. - President, CEO & Director*

Yes. We're really happy with Joliet, Sara. It's doing everything that we would have hoped. I mean, keep in mind, it opened in the heart of the winter in Chicago. We've had a couple of really bad snowstorms and bad conditions, and it's still doing over 140,000 a week right now. And I think it's going to just keep building momentum.

So we're exceptionally happy with that restaurant. We think that, that restaurant has a lot of potential. The good news, bad news is it needed to be a little bit of a pressure release valve from Shorewood, which is about 5 miles away. And we're not seeing much pressure release from Shorewood. Shorewood is still busting at the seams.

So we're super excited. It's early going. I don't know if I'd model that number, but it is -- it's -- we're excited. It's exceeding our expectations. It's exceeding what our ROI modeling was. And so we think that we might have found something very special here. And then I'm sorry, the second part of your question was about the consumer...

Sara Harkavy Senatore - *BofA Securities, Research Division - MD in Global Equity Research & Senior Analyst*

Yes, you mentioned...

Michelle Greig Hook - *Portillo's Inc. - CFO & Treasurer*

Yes, I was going to say, Sara, maybe I'll attempt to tackle that one. And if I'm way off point, just tell Michael and I that. But I think Michael mentioned this, during the times that we're in today, high inflationary times and I think Michael mentioned Portillo's wants to be considered good value for our consumers. And I'll point, too, our average per person check is under $10.

So as we look at when people are looking for good value, I think Portillo's provides it. With our average check, with the abundance of food that we provide, I think as people look towards, say, a value proposition in times like this, I think Portillo's is one that Michael mentioned, traditionally has done well in this type of environment, whether you look at prior recessionary-type environments, Portillo's has performed well. And if that was your question, hopefully, that helps. If not, let us know if you have a follow-up.

Sara Harkavy Senatore - *BofA Securities, Research Division - MD in Global Equity Research & Senior Analyst*

Yes, that was perfect. I just -- there's always sort of a debate between kind of what trade down versus trade out of restaurants on the whole. And that's what I was trying to get at.

Operator

Thank you. Ladies and gentlemen, this will conclude our question-and-answer session for today. And this also concludes today's conference. You may disconnect your lines at this time. We thank you for your participation, and have a wonderful day.
