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PTLO.OQ - Portillos Inc at Jefferies Winter Restaurant, Foodservice, Gaming, Lodging & Leisure Summit (Virtual)

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CORPORATE PARTICIPANTS

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

Michelle Hook *Portillo's Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Andy Barish *Jefferies LLC - Analyst*

PRESENTATION

Andy Barish - *Jefferies LLC - Analyst*

Thanks, everybody. Really happy to have Portillo's with us for this fireside chat for the next 25 minutes or so. Michael Osanloo, the CEO; Michelle Hook, the CFO. I think many of you remember Portillo's coming public this past fall. Seems like a while ago, just given all the events and how quickly things move these days.

But for those of you that don't know the brand, I thought I'd turn it over to Michael for a couple of minutes, just kind of on the background and what people should know about amazing, craveable Chicago street food.

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

Thank you, Andy. Thanks for having us. Sorry we couldn't be in person this year; I look forward to doing this next year. Look, those of you who've invested in us, who've heard Michelle and I talk about this, I'm going to be a bit of a boring, broken record. Portillo's is a special, special concept. Whether you look at the economics of our business, which I think are absurd would be the appropriate characterization, well over \$8 million average AUVs, high margins. Whether you look at our AUVs in our core, outside our core, they're kind of impressive.

The volume of business that we do in our restaurants -- think about this: our average price point per person is about \$9.60, which, given the volume, gives you a sense of the frenzy of traffic and people coming into our restaurants. We were multi-channel before multi-channel was a thing. We historically had a 50/50 balance of on-premise and off-premise. Obviously, with COVID and the lagging effect of COVID, we have a very, very robust off-premise business, and it candidly allows us to flex as necessary depending on what the world throws at us. Those of you who've been following us know that during the first year of COVID, our comp was down 8%, but we actually grew EBITDA by 8%. We take a lot of pride in that, and it was a lot of labor productivity and efficiency that got us there. So we love this concept.

We're growing. Our long-term guidance is -- we're going to grow at 10% a year, and we're growing in places that I think will provide structural tailwind for us. So you'll see a lot of Portillo's coming in Florida, in Texas and in Arizona, places where there's both population tailwind and a very business-friendly environment. It's less expensive to build, it's easier to build, it's faster to build. And so we're excited by the prospects of what we can do and what we've been doing.

When you think about the concept, it's -- number one, it's people and values, right? We believe in family, greatness, energy, and fun. We think that having great culture translates into better guest experiences, which further translates into better investor experiences.

So when you come to a Portillo's, you're going to have a human being help cater your order. You order one of those Italian beef sandwiches behind Michelle. That's how I like mine, with hot peppers; they're amazing. The order taker will help you figure that out. You walk along a glass wall in the kitchen, and you see people working feverishly to make all your favorite dishes. When you go down to expo, where they push the food to you, you get your food with a rhyme: number 55, look alive. And then our food just tastes great. Our chocolate cake is homemade; it's baked fresh in our restaurants every day. That beef is produced in-house. Those hot dogs are world-class. We make really good food in an incredible operational environment at great prices. So that's Portillo's in a quick nutshell, Andy.

QUESTIONS AND ANSWERS

Andy Barish - Jefferies LLC - Analyst

I wanted to -- as we've been asking everybody starting out the year and doing more work on human capital. You mentioned the values. Give us a few data points, if you could, on kind of manager turnover, hourly turnover versus the category. And then to some extent, just some of the stories on the tenure of your team members is unbelievable, just how you kind of keep people and allow them to grow and flourish in the organization.

Michael Osanloo - Portillo's Inc. - CEO & President

Yeah, it was breathtaking to me. I think I joined the Company, I was here for a month, and I went to my first anniversary dinner. And the anniversary dinners are full of pomp and circumstance, but it's celebrating our hourly folks and our salary folks. We celebrate 10-year, 20-year, 30-year. We even celebrated a 40-year anniversary person at that first dinner. And it's mind boggling. I'm just not used to that in this industry, to see that kind of retention and dedication to the job.

We spent a lot of time investing in people during COVID. You recall this, we didn't lay off a single person, not one single person. And keep in mind, half our business is in dine in, and so that business disappeared for a few months. Instead, we cross-trained people. We had them do deep cleaning. We had them working outside to put even more focus on our drive through. We built muscles, like curbside and self-delivery during that time, and we started our own 501-3c (sic -"501(c)3"). We call it The Heart of Portillo's Fund, but we built a 501(c)3 to help take care of our team members. We pay discretionary bonuses all through 2019 and 2020 to people in the field because they put themselves in harm's way.

Overall, I tell you that -- what that does for us. We're nice people, but we're also very thoughtful of our shareholders and our investors. What that does is it creates stickiness. I would tell you that our hourly retention is probably 10 to 20 percentage points better than the rest of the industry. So when the industry is at 100%, we're at 80%. When the industry goes up to 130%, we hover around 100%. You guys know this industry has high turnover, but we get better retention because of that.

Our manager turnover is better because of that. Not as much differentially, but it's better. We tell our managers that we want them to be the best paid, best compensated managers in fast casual or QSR and even in some casual dining. We provide them fantastic salaries. They have an opportunity to get up to half their salary in bonus, which is based on revenue. And we're giving them annual stock grants, now that we're a public company. We want to create stickiness because, again, this is no secret, but you want to see a great restaurant? Look for long tenured staff and long tenured management. That's what creates great restaurants.

And so us, I think, being thoughtful, taking care of our people, showing them love results in better hourly turnover, better management turnover. There's hard cost savings, but there's a lot of soft cost savings when you do things like that as well.

Andy Barish - Jefferies LLC - Analyst

We're just coming through Omicron. How should we think about your ability to staff and get through some of the disruptions that's obviously caused for everybody?

Michael Osanloo - Portillo's Inc. - CEO & President

Yeah, well, you've seen major mega cap companies announcing 10% reduction in hours, things like that. So knock on wood, we have not reduced any hours; we are operating as normal. I'm not going to lie, we're taxing our people a little bit because we're asking people to work even more hours than normal. The first month has been kind of wonky. We're very thoughtful and careful about testing folks, making sure that if you're sick, you're not coming in. And we had Omicron during the month of January; I think we had three times as many people out on sick leave as the worst of Delta or the original version, three times as many people.

The good news is, over the last seven days, that numbers come down dramatically; it's less than half. The other good news is our folks, while they were testing positive for Omicron, they were not being hospitalized. No one has been seriously ill. God forbid, no one passed away. You got to have hope. I'm hopeful that we're past the worst of it, and that we're seeing people coming back to work.

If the numbers get back to normal, then I feel really good. We're not 100% staffed, but we're staffed enough that we don't negatively affect the business, that we don't have to shut down hours, we don't have to shut down dining rooms. We don't have to do anything wonky because of staffing shortfall.

Andy Barish - Jefferies LLC - Analyst

What do you think -- you mentioned your dine-in business used to be half a sales, and your dining rooms are built out with a lot of interesting design and elements to make it fun and enjoyable for the guests to have a dine-in experience. How do you see that coming back over the next few years? I mean, can you get back to those levels of absolute dine-in dollars you used to show, or is it just a permanent change that digital and drive-through has driven with consumer behavior?

Michael Osanloo - Portillo's Inc. - CEO & President

Well, as you well know, Andy, there has been a macro shift over the last 10, 20 years for restaurants to move from dine-in to off-premise. This has been an ongoing trend. COVID, in the last couple of years, have exacerbated the trend or accelerated the trend. I don't think we go back to 50/50, but I think we certainly get better than where we are today. I don't know exactly what the new -- for us, I don't know what the new equilibrium will be, but I think dine-ins will continue to grow.

There's still a human dynamic that people want to break bread together. They want to sit next to each other, and they want to do it in a warm, welcoming environment. For those of you who don't know us as well, we spend a lot of money on decor; we make our restaurants really beautiful. We have people who take selfies with memorabilia and stuff in our restaurants. It's the kind of place where it's not a soulless, antiseptic box. If you want to go with your family and sit down, Portillo's feels good.

And we think that that is a very important differentiator for us. One fun fact, we just finished building our first drive-through-only concept. And as you can imagine, like a drive-through-only concept, you still want to maintain the soul of the restaurant. You want to have it be experiential. And so as you're going through the drive-through, we've got a Dale Earnhardt Jr. NASCAR car on the side there; it's the car that he won a race at the Joliet Speedway, like five years ago. And so we want to even make our drive-throughs experiential because we think that that's an important dynamic in differentiating yourself from people who are commoditizing food and experience.

Andy Barish - Jefferies LLC - Analyst

Maybe that's a good opportunity to kind of shift to improvements you guys are focused on in the digital and technology realm. Just given the sheer volume and number of cars, little changes can actually free up some nice throughput and opportunities. So give us a couple of things on sort of where you're investing in the tech stack over the course of 2022.

Michael Osanloo - Portillo's Inc. - CEO & President

Yeah, it's actually a very exciting time for us. The first thing is we are migrating from a very, not antiquated, but an old order -- it's called an Orderman from NCR. We're going to a tablet-based ordering outside. It's much easier to use. It's really intuitive. It's got a new skin on the POS. It's what we implemented this last year inside our restaurants. So I love it from a labor flexibility because you can work outside, inside. You're using a similar device with a similar interface that will expedite the guest experience. So we love that.

This sounds kooky, but we've had to install an enhanced WiFi capability in our restaurant. And it's because literally the physical distance that our team members were moving to go take guest order as far out as possible in the drive-through, we were constrained by WiFi. So expanding it lets our team members get further down the line, get the guest order, and then start moving the cars up.

And then thirdly, we tested digital menu boards in some of our outer markets as we built restaurants. And we love the way -- they look great. It actually helps guests out, but it also lets us highlight certain things. And everybody knows this, right? Pictures sell. So when we're rolling out our spicy chicken sandwich, we put a picture of that beautiful sandwich up there, and it sells. And it sells, and it's a good thing. Our guests love it. It tastes great, but my investors love it because it's got better penny profit and percent profit than the things that's killing. And so it's a win-win. We can put it on a digital menu board. People see it, they buy it. Everyone wins with that. And so we can do more things like that. So I'm really excited, in particular about those things outside the restaurant.

Andy Barish - Jefferies LLC - Analyst

Is there a risk? I know you did the outer markets before Chicago. Obviously, most of your patrons in Chicago are very familiar with the brand. Is there a risk of unintended consequences with menu board driving certain behavior, or will it be curated that it's kind of margin positive, sales positive?

Michael Osanloo - Portillo's Inc. - CEO & President

Yeah. Great question. That was part of our test outside. So we saw certain things. When we put certain bundles, like our Portillo's favorites, when we put them out there, the Famous Five, people bought them. The good news was you got better attachment. So when you put a Famous Five with beef sandwich, fries, and a soda, you got a better attachment; you sold more fries. The negative was we sold less of our big beef sandwiches. We sold more small beef, and we cannibalized the big beef. It was still economically advantaged, but we've learned from that experience.

And in markets where they don't know us as well, the Famous Five now is a big beef sandwich and fries, as opposed to the standard beef sandwich. Our hot dog bundle is two hot dogs and fries. And so we've curated all of those bundles to make sure that we're getting the incrementality that we want on size, and we're maximizing the guest experience and the bundle.

And a part of that, too, is like, look, when you don't know us, we want you to try the things that are amazing. Don't want you to go to Portillo's and get -- I love our Caesar Salad, but I don't want that to be like how you define -- I want you to go get a beef sandwich. And if you want a salad, I want you to get our Chopped Salad, which is iconic and amazing. So we love the ability to use the Famous Five and steer guests to an experience that we think is going to be great for them but also great for our investors.

Michelle Hook - Portillo's Inc. - CFO

Yeah, just going to add that. I like what that does too, Michael, to, as we talked about price changing and how often we do that, our ability to change. Andy, when you think about that, a digital menu board allows you to do that capability pretty quickly versus kind of shifting out the old menu boards and using labor to do that. So if you think about a little bit of labor efficiency you get from that as well, I like that as well with a digital menu board and our ability to do that, and not use labor to change out every menu board inside and outside.

Andy Barish - Jefferies LLC - Analyst

Yes. If you can continue on that, I was going to eventually get to price, just what you're running currently. When do you typically take price during the year, as we look forward to 2022?

Michelle Hook - Portillo's Inc. - CFO

Yeah, now, we're definitely in not normal times. And so if you think about what's normal is -- Michael and I are being very thoughtful and flexible with when and how we take price in 2022. And so we're not pegged to, hey, we're going to take price this quarter, that quarter, this time, or that. We're going to monitor the landscape, look at our cost inputs, whether that's food or labor, and we're going to make decisions based off of that, as well as how the competitive landscape looks with pricing.

As you know, Andy, we've talked to you about our philosophy of being price laggards. So we're not going to be on the forefront of taking price in the industry. We're going to scrape that competitor data. We're going to look at the landscape. Again, we're going to take all that into consideration, and then we're going to make pricing decisions based off of that. So that's kind of how we're thinking about it right now in 2022 and for the foreseeable future.

Now, what we have said we've done is we took around 3% pricing at the beginning of Q4. And so when you think about that, with the other pricing actions that we've taken, we're running above that. But generally, the first part of the year, we took around the same percent as well, Andy. So we'd be rolling into the year at around that 6% range, and then we'll have some pricing kind of drop off, right, as we go into the first part of 2022.

So depending on what we do, that'll look how the year looks and what we're rolling over. But we're going to maintain that optionality on pricing, given where the current landscape is looking and how it's going to continue to behave.

Andy Barish - Jefferies LLC - Analyst

I wanted to get to -- you guys took some proactive measures on wages to maintain your, I'll call it competitive gap, or where you like to be versus the marketplace and various geographies. How is that playing out? I mean, it's big numbers like mid to high teens. So how does that roll through as we lap at kind of the middle of this year?

Michelle Hook - Portillo's Inc. - CFO

Yeah, no doubt. And I said this last quarter, in Q3 we were rolling over close to 20% quarter-over-quarter increases on our average hourly rates. We don't expect that to continue at that rate and pace as we go into 2022. But as we start to lap over that in the fourth quarter, you're going to see that high teens as well when you look at the rate. And then I expect that will come down as we go into the first part of 2022, Andy. And depending on what we decide to do on rate, we're going to be in that kind of low teens rate during the first part of the year from an average hourly rate increase, again, looking at year over year, quarter over quarter.

But again, we're continually monitoring wages in our markets, making sure we're staying competitive. And if we need to take an action then we're not going to be afraid to do that, similar to what we did in 2021. So again, it's something we're monitoring, but we feel like it's not going to be at the rate and pace that it was that we saw in 2021. But we're still going to see some headwinds on labor.

Andy Barish - Jefferies LLC - Analyst

Just one last one for you, Michelle, on the long-term growth algorithm, just for those that are not familiar, new to the story, please weigh that out for us.

Michelle Hook - Portillo's Inc. - CFO

Yeah, no problem. So as we think about that long-term growth algorithm, I'll start with unit growth. We're thinking about that at 10%-plus. Our same restaurant sales growth, low-single digits. And then when you roll all that up, our revenue growth, high-single to low-double digits is what we're planning for again in the long term. And then our adjusted EBITDA growth in the low teens.

Clearly in 2022, we're going to have some headwinds on that adjusted EBITDA numbers as we're a newly minted public company. And so we're going to have some incremental costs there. But that's what we expect to do over the long term.

Andy Barish - Jefferies LLC - Analyst

Excellent. And, Michael, our last couple of minutes, the speed round over to you. Joliet, when does that open? How are the couple of fourth quarter openings doing out of the gate? And when do we see -- or when do the folks in Texas see their first Portillo's?

Michael Osanloo - Portillo's Inc. - CEO & President

Yeah. Joliet has been turned over to ops. They're doing test meals and getting warmed up. It should open, honestly, next week. We expect it to have a grand opening next week, which will be exciting.

The two restaurants that you alluded to, we opened in Westfield, Indiana, and West Madison -- a second Madison restaurant -- doing everything that we wanted and hoped for them. They're doing well. They're doing exactly what we modeled. Texas -- look, for Texas, I'm hoping that we can announce something in the next month, but look for our first Texas restaurant in the fourth quarter of this year.

Andy Barish - Jefferies LLC - Analyst

Good to hear. And your confidence pipeline-wise, just given everything going on out there, 10% a year. How should we think about that?

Michael Osanloo - Portillo's Inc. - CEO & President

I'm very confident that we are going to execute what we said we're going to do. It's a lot of work. I'm not going to kid you that it's easy. There's a lot of being agile, adapting, overcoming that has to happen, but we will deliver on our 10% growth.

Andy Barish - Jefferies LLC - Analyst

Yeah, I think that's a mantra we've all learned, being flexible here over the last couple of years.

Michael Osanloo - Portillo's Inc. - CEO & President

Yeah, totally.

Andy Barish - Jefferies LLC - Analyst

I'm sure the pipeline of people and sites is in good shape to see a bunch of new Portillo's in some of the newer markets as well. We look forward to checking some of those out over the coming year. Thank you very much, Michael and Michelle.

Michelle Hook - Portillo's Inc. - CFO

Thanks, Andy.

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

Thank you very much. Thanks for hosting this.

Andy Barish - *Jefferies LLC - Analyst*

Okay. See you soon.

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

Take care.

Michelle Hook - *Portillo's Inc. - CFO*

Bye.

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