

12-Mar-2024

Portillo's, Inc. (PTLO)

Bank of America Consumer & Retail Conference

CORPORATE PARTICIPANTS

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

OTHER PARTICIPANTS

Sara H. Senatore

Analyst, BofA Securities

MANAGEMENT DISCUSSION SECTION

Sara H. Senatore

Analyst, BofA Securities

That's been running around a little bit, apologies for the late start. I'm Sara Senatore, Bank of America's Restaurants Analyst. And I'm very pleased to have with me Mike – help me with the pronunciation.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Osanloo.

Sara H. Senatore

Analyst, BofA Securities

Osanloo, okay. Osanloo and Michelle Hook. Hook, I've got.

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

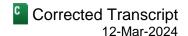
Okay.

Sara H. Senatore

Analyst, BofA Securities

From Portillo's. Portillo's is a fast casual restaurant that specializes in Chicago specialties like Chicago style hotdogs and Italian beef sandwiches, also as well as a more traditional limited service menu items.

Michael, prior to being president and CEO of Portillo's, he was formerly at PF Chang's and before that experience at Kraft Heinz and Caesar's Entertainment. So a lot of experience in the consumer industry. Michelle, I think probably many of you know, certainly I did, from her role at Domino's where she was the Vice President of Finance for Global FP&A before joining Portillo's as CFO in 2020. So again, lots of institutional history, memory



up here. I know you are going to show a few minutes of slides just to introduce the concept to people who maybe are less familiar. So I'll turn it over to you and then we'll kick it off.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Thank you. Thank you, Sara. Thank you. Yeah, I think it's helpful to actually talk a little bit about what Portillo's is. It is in some ways, a little bit of a unicorn. At a glance, here's what we would say. We think there's something craveable for everyone on our menu. If you haven't experience us, our menu is relatively diverse and it's not just there's something good, but there's something that you crave. We are an experiential offering. I'll show you a picture of the inside of our restaurants. It's not like a blank, soulless box that you've come to expect in QSR and some fast casual. It's an engaging, vibrant environment. You see families there. You see people enjoying themselves.

We were multi-channel before it became a thing. We have fantastic motion in the drive thru, in dine-in, in third-party delivery, self-delivery. We do catering events. We do a direct ship business. And we've been doing this forever.

We have obsessed fans. We'll give you a little stat on that. But I think that our fan base is as passionate of us as any fan base in the country. By our fan base, I think there's a misnomer that, oh, Chicago people – nope, people in Texas, in Florida, in Arizona, in other markets are evangelical about us.

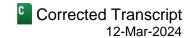
We think our value is ridiculously good. I'll show you the numbers, show you the data. Our unit economics are — they'll speak for themselves when I show it to you. We're growing faster and further than ever. And so we're excited. By the way, that picture, it's a new chicken salad, new spicy chicken chopped salad that we're rolling out nationally at the end of this month. We're excited about it. We think it fills a gap in our portfolio. It's a whole lot of flavors. It's a whole lot of spicy deliciousness, but it's part of what makes us an amazing company, it's the breadth of our menu.

When I talk about something craveable for everyone, it's actually a really nice mix, right. Number one thing in our menus, 21% Italian beef, fries are 17%, hot dogs, burgers, a lot of the traditional stuff, as Sara said. We certainly have our Chicago favorites, which is a beef sandwich, hot dogs, but we also do a great job with our burgers, shakes. And the sneaky thing on our menu are our salads. Most people wouldn't know we sell on average \$650,000 of salad per restaurant. Per restaurant. Our salads are not put in a clamshell sitting around. They're hand-tossed fresh. They're custom made. You want your chopped salad without green onions? We'll make it that way. In another life, we would call ourselves a salad concept, except we have really great margins.

But so we have something craveable for everyone. People love our food. I would say this is a not atypical restaurant of ours. This happens to be our restaurant in Orlando, Florida. You can see it's got a lot of cha-cha-cha going on, right. We have people taking selfies in our restaurants. We have families coming in with their kids. This one happens to be a very successful restaurant, because it's 1 mile away from the front door of Disney. And so after you've spent the afternoon at Disney gone crazy, you come here, you get a great meal at a great price, and you can have a beer and enjoy yourself. But our restaurants are meant to be experiential. I think of this as balance sheet marketing. This isn't just an empty box. It's a beautiful experience.

We're available any way you want it. An average Portillo's does \$3.5 million in the drive thru – in the drive thru. The average Portillo's does \$4.2 million inside the restaurant. We do \$1.2 million per box in delivery just, and then we have all these other off-premise channels. We do carryout, we do catering, we do direct shipping. But what's

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important is that when you're investing in a Portillo's, you're essentially investing in two McDonald's and the drive thru, a Chipotle inside and a Domino's. That's what you get when you do a Portillo's.

Our fans love us. This is the Net Promoter Score study. It's done off of a Qualtrics platform. I'm a little jealous of In-N-Out. I don't like being second, but I think we're in phenomenal company between In-N-Out and Chick-Fil-A which I think – and Raising Cane's. I mean like the truth is these are all largely very, very good concepts with fantastic fandom. Any of you who follow Net Promoter Scores, NPS scores, those are all really good numbers actually. It's a very, very strong benchmark. It's a strong peer group. But we are very much at the top of the list. We have ridiculous levels of fandom. And again, this isn't just a Chicago thing. We have restaurants in Texas, Arizona, Florida, where the fandom is consistent. I'm very proud of our price points.

We take this, we look at what we believe is a typical restaurant for us. This one happens to be in Elmhurst, Illinois. We look at competitors which are near us. All these competitors are within a couple of miles from us, and we take our most popular set. Before you take a picture, wait until I click one. We take our most popular item, our most popular order, which happens to be beef, fries and a soft drink. And we compare it to their most popular order. Unambiguously, we're the most affordable. I'm not even going to get into the fact that how much beef comes in our beef sandwich, the fact that our fries are huge and cooked in beef tallow and delicious. It's not like I'm saying we're less expensive because we're gut fill. We are exceptionally high-quality and less expensive.

But wait, there's more. How many of you have gone to a restaurant and the POS machine does that arm-twisting, make you feel guilty, have to give a tip? If you don't want to give a tip, person says, oh, you just got to hit a few buttons before you finalize and then you got to go find the button to say no tip, et cetera, right? We've all done that. America is getting tip fatigue. It's pricing. Whatever cute way you want to discuss it, it's pricing.

We don't engage in that at Portillo's. We're going to be transparent about pricing. We're not doing surge pricing. We're not doing tip pricing. The price is the price, right? And so when you include the suggested tips for these competitors, the only one that doesn't do a suggested tip is Chipotle. Every one of these others does a suggested tip. We are materially less expensive. I'm making this point because I think value proposition over time wins. Value proposition is why restaurant companies have good or bad traffic. Over time, you could tweak numbers in a quarter, but over time, a great value proposition wins.

It also suggests to me that we have untapped pricing power if and when we need to exercise it. Our unit economics, I think, speak for themselves. I'll highlight a few things, one is we were founded in 1963, which is an interesting factoid, but we really kind of grew up in 2021 when we became a public company and are now more differently managed versus an entrepreneur.

Our average unit volumes are \$9.1 million per restaurant. We have restaurant level EBITDA margins of 24.3%. We generated \$102 million of adjusted EBITDA. It's not on here, but that you can imagine that that EBITDA, that operating income, those numbers translate into very attractive cash flows.

The thing that's not on this is that we finance all of our restaurants with existing cash flow. That's a really good place to be as a growth company, means we don't have to go and borrow from — we don't have to go borrow. We're not paying [ph] users (09:22) interest rates right now. We fund out of the bank. I joke the bank of Michelle Hook.

Part of what underpins these great economics is the fact that we are a really good place to work. Fun fact for you. Where do we pay minimum wage? Nowhere. We pay above minimum wage across the country. We do that because we expect superior performance from our team members.

In our industry, we are a desired employer. We have 20 points lower turnover than the rest of the fast-casual segment, and we're routinely lauded for being a great place to work for our team members. We believe in what I like to think of as an enlightened form of capitalism. Our team members are the brand representative and the person who is the ambassador to the guest. You take great care of your frontline team members, your guests are going to have a great experience. When your guests are having a great experience, your investors will have a great experience. It's a perfectly virtuous cycle, but it does take a leap of faith to take great care of your frontline teams.

We're growing faster than ever before. People think of us as a Chicago concept. There's certainly a lot of truth in that. We're founded in Chicago. Our food is Chicago-inspired street food. We are growing across the nation. We now have restaurants in, what is that, 11 states, 10 states. We're expanding. We've publicly announced it will be growing in Atlanta, Georgia; in Denver, Colorado; in Las Vegas, Nevada. We're growing aggressively in the state of Texas. This slide is actually wrong. We just opened our fifth restaurant in Denton, Texas, and we've announced we're going deeper into Dallas Fort Worth, but also into Houston this year.

So we're growing across what I like to consider the Sun Belt. I call it colloquially the Sun Belt. The reality is it's the growing states in America. This is where population is growing. We would like to make our lives easier by growing in markets that have a tailwind of traffic and comp growth when we get established and that's places like Florida, Texas, Arizona, Nevada; Denver, Colorado; and Atlanta, Georgia.

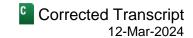
One question people ask is, well, how do these perform? You're a Chicago concept so we would assume that the Midwest is best for you. Actually, that's not quite factually true. We crush in Chicagoland. That's sort of undeniable. We have \$11.4 million AUVs in Chicagoland. But what's interesting is when you look at it, is that our AUVs along the Sun Belt are better than our AUVs in the rest of the Midwest. And the rest of the Midwest, states like Indiana, Wisconsin, Minnesota, Iowa, Michigan, they all know Portillo's because people come to Chicago for business trips, for vacations, for weekends. They experience us. So our brand awareness is actually very high in the rest of the Midwest but the economics and the dynamics of competing in the Midwest are just a little different than the economics and dynamics of competing in the growth states in the South. We don't have the same level of brand awareness, but my goodness, we're already doing significantly better. Our AUVs in the Midwest outside Chicago are about \$5.8 million. Our AUVs across the Sun Belt are \$6.8 million.

Our long-term algorithm, look, we are a long-term growth stock. We have 85 restaurants now on a journey to 900-plus. So we're less than 10% of the way to what full potential looks like for us. So we think the right way to think about us is a long-term algorithm and the long-term algorithm is really simple. We've committed to 12% to 15% unit growth, same restaurant sales growth that's low single digits. You can do the math on what that means in terms of top line revenue.

We think that adjusted EBITDA growth in the low teens, the nuance to think about there is we have really mature, really scale restaurants in a scale market in Chicago that generates a ton of EBITDA. The restaurants we built outside of Chicagoland are going to be great restaurants, but they're going to be at a lower margin to come out of the gate and then they build margin, comp, and traffic over time. So that's why you see adjusted EBITDA growth in the low teens as that leverage is over time.

You could imagine, over time, our expectation is that you get closer to margin parity between Chicagoland and everywhere else. But that's our long-term growth algorithm and I'm going to end with a picture. That's a combo sandwich. It's Italian beef and a sausage with a little bit of [indiscernible] (14:10) in there. So if you had lunch, great. If you didn't, I'm sorry to torture you.

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Sara H. Senatore

Analyst, BofA Securities

It looks amazing. I assume you brought some.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Yeah. No, sorry.

Sara H. Senatore

Analyst, BofA Securities

All right. We'll have to make a trip to Chicago. Actually, not too far now that we're in Florida.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

That's right.

Sara H. Senatore

Analyst, BofA Securities

Yeah. Okay. From New York, it's tougher.

QUESTION AND ANSWER SECTION

Sara H. Senatore

Analyst, BofA Securities

All right. So, thank you for that. That was very helpful. I guess I wanted to pick up. One of the things you said was value.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Yeah.

Sara H. Senatore

Analyst, BofA Securities

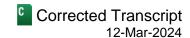
And to your point, value proposition matters, food that tastes really good. There's a lot of it. The price point is right. It always matters. I think now, as I think about the demand environment, it seems to matter even more. At least that's what some of the commentary has been from companies. Maybe you could then talk a little bit about that. Are you seeing trade down? Are you seeing trade up? What are you seeing where in terms of your ability to kind of win, especially when values become so salient?

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

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Yeah. I think it's funny because value – sometimes people conflate value with just pricing. So I think value is – there's four things that really matter in our business: quality, quantity, the overall experience, and pricing. Those all matter. You saw the numbers on pricing. Double-check for yourselves. I think our pricing looks really good compared to everybody else.

I'm exceptionally proud of the quality of what we do. We're not playing games. We haven't degraded. If anything, we've actually improved the quality of items. We've actually improved some of the portions of items and the experience is hugely important to me. Like I want everyone who comes to Portillo's have a great experience.

So I think if you're really focused on quality, quantity, experience, and price, you're going to win over time. The big guys can drive traffic any quarter by just dumping a bunch of things into their low-budget menus, right? We don't do that. We're more of an EDLP restaurant company. We charge you a really fair price and we never go on sale.

When we need to, when we feel like we need to drive traffic, though, Sara, we have a number of tools in our arsenal. We can pulse aggressively. We have a catering business that's continuing to grow. It's a fantastic business for us and over the course of the last 12, 18 months, we've built our own internal sales force who does outbound calling on catering. This doesn't sound like a huge deal, but it's incremental sales. I love catering because I view it as a paid sampling exercise and we pulse that business in the fourth quarter. It helped drive positive traffic, positive comp plus size performance.

We know that when we market Portillo's, it works. And people ask me, well, why don't you market more aggressively, why don't you constantly do it? Well, because the number one thing that drives visitation is a good experience and I'm already paying for management and team members to give guests a great experience. So the most high return activity you can engage in is be excellent operationally to drive traffic.

There are times, though, when we want a pulse and we did that in the fourth quarter. We had some great advertising in Chicagoland. We call it the sounds of Portillo's, right? It's not a discount. It's not a call to action. It's just a reminder of what Portillo's looks like. It's food porn with sound, right? And it was compelling. You could see if you go on to our website, you can see examples of the ads. It worked really well.

It works really well in Chicago because we have scale. The cost of the advertising is leveraged over 38 restaurants and so it makes a ton of sense to do that. We could probably do that in a couple of other markets and as necessary, we will. I mean, Michelle and I are very committed to driving traffic, but I think for us, value, execution are the two key things that are a healthy way of driving consistent traffic. God bless Texas Roadhouse. That's what they do.

Sara H. Senatore Analyst, BofA Securities

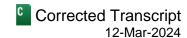
Right. Right. And to your point, yeah, everyday value, price, visibility, consistency and then, as you say, operations and having a good experience. I think about that as sort of a reason that people return, I guess, as I think about advertising. I think of it as bringing people in.

Michael Osanloo	Λ
President, Chief Executive Officer & Director, Portillo's, Inc.	

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Yeah.

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Sara H. Senatore

Analyst, BofA Securities

So, as you said, like the Chicagoland advertising was very effective. I think it was probably some combination of new [indiscernible] (18:50) or I guess from that, how do you think about maybe brand awareness more broadly? Because as you were highlighting there, there's brand awareness, there's brand obsession in Chicagoland and there's brand awareness.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Yeah.

Sara H. Senatore

Analyst, BofA Securities

So maybe talk a little bit about bringing people who are new to the concept or who are maybe have forgotten about it a little bit.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Yeah. Well, in Chicago, it's more about frequency. So we know when we advertise, we'd pick up a little bit of frequency.

Sara H. Senatore

Analyst, BofA Securities

Okay.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

If there's a pivot in Chicago that our marketing team is working on is consistently trying to get a little bit more youthful in our approach in marketing. The good news about – one of the good things about Portillo's is we're a 60-year-old brand, right, with a huge installed base. We've been around forever. We've never closed a restaurant.

The bad news is when you're a 60-year-old brand, you tend to have a little bit older demographic of customer. And so you've got to be smart about filling that funnel with new customers, particularly in a market like Chicago. So for Chicago, it's all about frequency. Outside Chicago, it's trial and awareness, right? And so all of our marketing activities outside Chicago are targeting, generating trial and awareness.

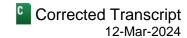
And so we're very aggressive in field marketing, doing events. Like in the past, we've done food kiosks at Diamondbacks stadium in Arizona. We did it at where the Cubs do spring training. We've done it at ASU in Tempe. We do hundreds of non-profit charitable events where we donate food and I like that. It's a powerful form of marketing because you're sampling. You're giving it away. You're not discounting anything, but you're giving people an opportunity to taste your food and you're becoming part of the local culture, right? We prefer to be – in Arizona, I want to be the Arizona Portillo's. I don't want to be a Chicago carpetbagger. And so there's a way of generating trial and awareness through field marketing that really does that for us.

Sara H. Senatore

Analyst, BofA Securities



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Right. And one of the things – and there's a lot, I think, to talk about there, especially when we think about the honeymoon and the big sort of openings and how you think about sequencing that. But before we get too far afield from just sort of the consumer in the operating environment, I did want to ask. You talked about on the conference call [audio gap] (21:13) weather. You talked about the consumer pressure in February as well as in January. But you saw a nice acceleration from 3Q into 4Q. So I guess has anything fundamentally changed in terms of the consumer from 3Q to 4Q into 1Q?

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

Α

I'd say, Sara, I wouldn't say anything fundamentally changed with [audio gap] (21:36) as we sit here today versus some of the headwinds we saw in 2023. I think we had talked about the competitive landscape. I think we have seen more recently and this is coming in the back half of 2023 and into Q1 of this year, you see heavier discounting, and Michael mentioned, by the QSR players. And you see that more pronounced in that space. And look, we've even seen some fast- casual players recently get into some discounting as well and I think that speaks to the environment, just the competitive environment that we're in today.

But I don't think that the consumer is in any, I'd say, worse shape. I still don't think it's great. I think to your point, what we've seen in Q1 is largely some seasonality in the business, right? In terms of weather, we're still heavily concentrated, right, in the Chicagoland market and in the Midwest. And so, yeah, we're going to have some weather impacts. But when we look at – Michael put out the long-term growth algorithm, but we're going to have some quarters that are going to have those dynamics. But over the long-term, we feel comfortable that we can deliver what he showed, but I don't think it's any worse.

Sara H. Senatore

Analyst, BofA Securities



Okay. Yeah, thank you. Yeah, that's helpful. I mean, this is a volatile business in the best of times, I would say. It's always helpful just to get your thoughts.

So on the question, I guess, of Chicagoland and then you have these growth markets and obviously you have the tailwinds, the demographic, the economic tailwinds that you've spoken about and should be – persist for some time, I guess – I know one of the things you get pushed on a lot is if you were to disaggregate Chicagoland from the Sun Belt, would you see dramatically different trends in terms of traffic or same-store sales just as you point out, this is a growth concept and that's where your growth will be?

Sara H. Senatore

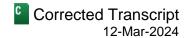
Analyst, BofA Securities



Yeah. I think when you look at them as two different businesses, which they really are. Even as Michael mentioned, the 60-year-old-brand in our core market, that when you think about how the future looks, right, for the core versus outside of the core, it's very different in the core in terms of when you look at population not growing but actually contracting. And then the ability to grow sales is really going to come through a combination of smart ticket, right, whether that's pricing or being able to upsell your guest in your core market and then you're going to have to take share, right, to get that traffic growth. You're going to have to fight your way to traffic growth within the core.

And I think outside the core, it's definitely a different dynamic with a natural kind of tailwinds with population growth. And there's still the ability, right, to take smart ticket growth, whether that's through price or some

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incrementality on mix and upselling and things like that. So I think, yes, they are absolutely two different dynamics and we're still very young in terms of the restaurants outside the core that are actually in the comp base, right?

And so I think that story is still to be told, but we feel really good about the performance of the new restaurants, particularly as we look at the class of 2022, the seven restaurants in that class and then the eight restaurants in the class of 2023 are really newer because they were all opened in the back half of 2023. So that story's still to be told but that's, at least as Michael and I sit here today, what we believe are the dynamics that will exist in the future.

Sara H. Senatore

Analyst, BofA Securities

Okay. So I guess put words in your mouth. So as that comp base shifts away, I think it's 80% Chicagoland, so as it shifts away, you see those tailwinds that you've seen in the other markets will become more evident in the overall.

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

Yes.

Sara H. Senatore

Analyst, BofA Securities

Okay, in the overall comp number. And then maybe we can talk a little bit about the stores are under the comp base, right, till 24 months. And [ph] so (25:29) talk a little bit about the lifecycle of the cadence and what you're doing to maybe smooth that out a little bit and how you think about pre-opening opening.

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

Yeah. Our restaurants definitely have a honeymoon curve to them, which is why to your point, they don't enter the comp base until after 24 months. And so they're going to start out and when you look at the numbers we put out there for a class of restaurants, again, it's a class, not one individual restaurant. By year three, we're targeting \$7.3 million to \$7.5 million AUVs and 22% margins.

So if you walk that back into years one and two, in year one, you'd be looking at like an \$8.2 million AUV, high teens margins. In year or two, you'd dip to about \$7.2-ish million, call it. You dip about \$1 million. You'd still maintain that high teens margin even though your AUVs dip because you're starting to leverage lever a little bit more as you get more efficient in the restaurant. And then by year three, after you're in the comp base, we see the AUVs growing and then the margin continuing to grow. And it doesn't stop there. So beyond that, as we continue to get to scale, our expectation is we continue to see the top line and the margin continue to grow as we get scale in the markets we're in.

Sara H. Senatore

Analyst, BofA Securities

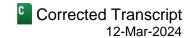
Right.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Α

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And one of the things that we've worked hard on is we used to have this philosophy of a big bang opening. You want as big of an opening as possible and the problem is you actually – it's not good for our business because we had openings that we were doing \$450,000 a week. A week, okay. It was actually not a good experience for the team, not a good experience for the guests. Guests would wait an hour in line to get food that wasn't well prepared. The team you would literally turn over the entire team in that first week. It was a horrible experience. We've very, very purposely metered that down. I don't want a huge big bang opening. There's already going to be excess demand for us. We're still going to have really big openings, but we try to take some of the pressure, the steam off that opening. We have two weeks of what we call just soft opening – friends and family, invited guests, people who've signed up for our birthday club, our version of a loyalty club, first responders in the community, local politicians. We invite all of those people for the first two weeks, take some of the pressure off the restaurant so that when the restaurant opens, it's able to handle the volume. Guests can get through those first few weeks more quickly with better quality experiences. And it imprints on them so that they come back again.

And so our goal is as opposed to have this massive roller coaster penetration curve, you want a pretty good first year, a slight dip, it's unavoidable. And then to start building right back up again by year three. That's our goal. We've executed that really well in Orlando. That worked really well. And part of that was, Orlando was going to be a big bang. There's nothing we could do because it's close to Disney, et cetera. But we did not turn on all of our channels right away. We only had on premise turned on for Orlando and then opened after a year. We then started taking third-party delivery orders, delivery orders and catering orders. And so Orlando is showing sort of a cycle that makes a lot of sense to me, is brand accretive and makes guests happy. We're very purposely trying to flatten that curve a little bit.

Sara H. Senatore

Analyst, BofA Securities

Right. Okay. And so you have sort of a playbook from Orlando.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

We have a playbook. First in market is always going to be hard. We opened in the Colony in North Dallas. We had people driving up from Houston, from Austin, San Antonio. It was just a ridiculously desired restaurant with a massive catchment its first year. So that one's going to have more of a bounce. But the second, third, fourth, fifth openings in Dallas look to be really good sustainable openings.

Sara H. Senatore

Analyst, BofA Securities

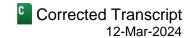
Right. Okay. And I want to talk about that and sort of filling in around – in these markets, you talked about over 900 units. But I guess to start with, maybe you could talk a little bit about the idea of scaling up, getting to I think you said six or seven and then trade areas efficient and in particular like put that in the context of your growth algorithm because, as you said, the units start off – at unit level, lower margin, that's explicitly embedded in your growth algorithm where you have EBITDA growth that's slightly lower than revenue, though the scale help offset that above the restaurant level margin line where actually you do have more of these markets that are scaled maybe get you see that in the G&A. I mean, I guess talk a little bit about that?

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

Yeah, I mean, we're definitely trying to buffer the impact when you look at the restaurant level margin as a percent. We're trying to buffer the impact of bringing all these new units by getting the scale as quickly as possible

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because we know, Sara, there's benefits to scale. Michael talked about our local field marketing efforts. Those are going to benefit more restaurants. The more that you get to scale, you're going to be able to leverage your distribution within that market where you're bringing in full truckloads versus partial loads. You're leveraging your multi-unit manager who has the ability to manage six to eight restaurants versus if you just have a couple in a market today, you're not really leveraging that across the restaurant base that you can be.

So, yeah, absolutely that's where scale matters. Our goal is to get to scale as quickly as possible. So minimum scale for us is six restaurants, six to eight within a market. And you see that example in Dallas where we just opened our fifth restaurant in the span of call it 13, 14 months. And our goal is to get to that six within the span of 18 to 24 months, because that will help buffer against the margin degradation that you see from the new units coming on.

I think when you talk about G&A over time, our expectation is, is we will continue to lever that line item. Right now we're guiding to 75% of the revenue growth number. That's the G&A growth number. I think when you look at the next five years, I think Michael and I both agree that for us getting to that 50% of that revenue growth number over the next three to five years is our goal. It's not going to be a it's going to happen overnight. But you think about it as a trend where maybe you go from 75 to 70 to 65, et cetera, and you get to that 50% in the future. That's the goal.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Sara, can I just add one thing to what Michelle was saying. There's clearly cost synergies as you achieve local scale, right. It's G&A, it's labor. It's our distribution supply chain costs, probably the best example. But there's a revenue synergy that is a little bit more nuanced but real. In Chicagoland, we have a Portillo's – for big part of Chicagoland, there's a Portillo's within 5 miles of you wherever you want. Okay. That changes the usage pattern. So our first restaurant in Texas, great restaurant, crushed it, but it's a special occasion because you might be in a place where in Dallas it takes you an hour to get to The Colony. And now we have five. Dallas is huge. It's a big driving city. But like if you have a craving for Portillo's, there's probably one now within 20 minutes of you. I'd like to get it to the point where we're ever you are in DFW, there's a Portillo's within 12 to 15 minutes.

Then people start using you different. Then you're not just a special occasion. Then you can become more like QSR Plus, I have a craving for a sandwich, you're 12 minutes away, I'm going to go to Portillo's as opposed to so-and-so or [ph] whosits (33:37)? And so there's a revenue kicker that happens once you have a certain level of penetration and saturation. We see that clearly in Chicago. We're starting to see that in Arizona. And that's why scale matters. It's not just the cost synergies, but it's a revenue kicker.

Sara H. Senatore

Analyst, BofA Securities

And you see that that shows up in frequency? So is that sort of...

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

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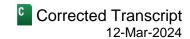
The most simple way is look at the revenues. I mean, there's a reason the revenues in Chicago are what they are. And it's because of frequency.

Sara H. Senatore

Analyst, BofA Securities



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Right. Okay. So just the sheer volume.

[indiscernible] (34:07)

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

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...transactions, right, that you're pumping through those restaurants. And I think we just talked about restaurants not entering the comp base until after 24 months. That if we can get to scale within that period of time then you're not worrying about. Well, is this having an impact on this restaurant and you kind of come in with that game plan. And to Michael's point, the consumer has even more awareness as you're in that market, which is a top line benefit.

Sara H. Senatore

Analyst, BofA Securities

Yeah, right. So it shows up, up and down in the P&L. The time has flown. And so I do want to get to the store unit growth, think about the dynamics there. So one thing is in terms of CapEx per unit, you've talked about trying to bring that down. I guess there are two things. One is maybe you can remind us again what that looks like. But importantly, are we going to see that in CapEx, because restaurant spend on so much other than just the four walls of the restaurant. So maybe help us like as we look at the cash flow statement, will we see build cost coming from I think they were north of \$7 million to now kind of in that \$5.5 million, the goal being \$5.5 million?

Michelle Hook

Chief Financial Officer, Portillo's, Inc.



Yeah. Our cost to build for the class of 2022 was \$7 million and class of 2023 and then what we're building right now in the class of 2024, our expectation is \$6.2 million to \$6.5 million our build cost for those classes. But to your point, Sara, we have a new prototype, our restaurant of the future, we're calling it. And we're going to start building those in the fourth quarter of this year. That our expectation is, is that's going to bring the build costs down by about \$1 million, to \$5.2 million to \$5.5 million.

So that will start showing up more in CapEx per restaurant in the future. But you are going to see some of that come on-line in 2024. And that was a question we got, which was, hey, your CapEx seems a little high to us in terms of the guide we put out. Well, part of that was us getting more ahead of timing, more ahead of the 2025 pipeline as we start building those restaurants in 2024. But yeah, the per build costs in 2025 will all be in the new restaurant of the future prototype.

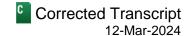
Michael Osanloo

A

President, Chief Executive Officer & Director, Portillo's, Inc.

And let me – can I just add something, though, what's important is I think some people have misconstrued that, oh, you're going to build smaller restaurants with smaller AUVs. No. Our commitment is that those restaurants where think of it as we're right-sizing it for the way people use our restaurants today. We've gone through – we worked with outside people. We've done time motion studies, we've done parking lot studies, how many spots in our parking lot are occupied, how many seats in our dining room are full from 11 AM till 1 PM, from 5 PM till 7 PM. So that you can right-size the restaurant, spruce up your off-premise capability because that's a bigger deal for third-party without giving up revenue. So our target is that these restaurants can all do \$10 plus million and we're building them to do \$10 plus million, but in a lower cost, slightly smaller footprint.

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Sara H. Senatore

Analyst, BofA Securities

Got it. Okay. And when you talked about sort of the pull forward from 2025 into 2024, the reason that, that might look different from, for example, pulling forward 2024 into 2023 is because of the cadence of how [ph] you're building new stores (37:26)?

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

Correct. Yeah, we really have spent – we brought in a new Chief Development Officer, it's about like year and a half or so ago.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

18 months ago.

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

18 months ago. And he's really worked hard to get the pipeline in the shape that it's in. So getting ahead of that and getting a smoother cadence versus what you saw, oh, backend loaded in 2023. 2024 looks better in terms of our opening cadence that we put out there. 2025 will look even better. Our goal is we don't want to be building restaurants in November and December. And so, yes, getting ahead earlier is part of that process.

Sara H. Senatore

Analyst, BofA Securities

Okay. And so as we think about, again, box costs coming down and the cadence more consistent, then we might see this reduced cost per box really materialize in 2025 because you won't have as much of a difference and kind of the pulling forward [ph] and the shifting (38:18).

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

Correct.

Sara H. Senatore

Analyst, BofA Securities

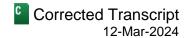
Okay. That's very helpful. Thank you. And then just some sort of the last minute I guess we have. I did want to ask about, you talked about Texas, the opportunity there. It's a big state. How do you think about the penetration there, how many stores you can have and maybe also does that, is that the similar approach to as you think about getting to 950 more broadly, is there something unique about Texas where maybe you can have a higher density than even you think kind of nationally?

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

I think Texas, the size of the prize is bigger just because it's geographically a really big state. There's a huge population base. And when you look at the population growth times the population base, there's more people going to Texas than any other state. Texas by itself added more population by a long shot than all of the Midwestern states combined over the last decade. So that's the number one reason, in Texas. There's also a lot

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of growth and developments, a lot easier, when we're building in some of the places that we are, it's part of the suburban sprawl. So this whole new development. So you get great position on a corner with a light in a beautiful new center backed by like an H-E-B in Texas, which is a great retailer or some other great anchor tenant, it's just easier.

And so with population growth, with comp tailwind, with traffic tailwind easier to get into and full potential in Texas is a really big number of restaurants. So that's why Texas was a great next state to go to, and the margin profile for us in Texas will be fantastic.

Sara H. Senatore

Analyst, BofA Securities

Right. Right. Yeah. So it's growth, good returns. It makes sense that that's where you would be deploying your capital. I think your shareholders are happy about that.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

And I like the joke. We're selling beef on bread that's worked well in Texas.

Sara H. Senatore

Analyst, BofA Securities

Surprisingly. Yeah. They like beef. [ph] That's why you should be (40:18) in Texas. Well, thank you so much for joining us. This has been very helpful to me and I appreciate your time.

Michael Osanloo

President, Chief Executive Officer & Director, Portillo's, Inc.

Thank you very much, Sara.

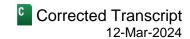
Michelle Hook

Chief Financial Officer, Portillo's, Inc.

Thanks, Sara.



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