19-Sep-2023

Portillo's, Inc. (PTLO)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Barbara Noverini

Director-Investor Relations, Portillo's, Inc.

Okay. Hello, everybody, and welcome to the 2023 Portillo's Development Day. I am Barb Noverini. I'm the Head of Investor Relations here at Portillo's. And I'd like to welcome those of you who are joining us on the webcast and also those of you who are here with us in-person this morning, thanks so much for taking the trip to spend time with us here in the DFW area. We're going to have a great day planned for you.

So, behind me right here is a picture of our restaurant in Elmhurst, Illinois. And Elmhurst is a small suburb right outside of Chicago, it's really close to O'Hare Airport. And this restaurant is the third one that we had in our system. So, it's been around for a long time, for decades, iconic. It's built to look like a jukebox. You'll see some records in that illuminated part up at the top. This restaurant is special to me for two reasons. The first is because I spent a lot of time here as a teenager and a young adult. So, it's a long time ago, not quite as long as this restaurant's been around, but it's long enough. And the second reason is, I actually went back here for my training when I joined Portillo's a year-and-a-half ago. So, you can see a picture of me there learning how to make a Chicago-style hot dog the Portillo's way. It's not as easy as you might think. Some of you had a chance to try it last night actually, but that's what makes it so delicious. So, I've had a lot of really great memories here at this restaurant. And that's what we're all about, creating lifelong memories for people in our restaurants, and you're going to hear a lot about that in the rest of today.

So, moving on to the agenda, those of you who are on the webcast will be with us through Q&A, and then those of you who are here in-person will proceed to the lobby after Q&A where we get on the bus to proceed to our site tours. And then, of course, I'm going to ask you to review our cautionary note. We will be making forward-looking statements and referring to non-GAAP measures throughout our presentation today. We made the presentation available earlier this morning in filing our Form 8-K and also to download on our website at investors.portillos.com.

And with that, I'd like to pass it on to our President and CEO, Michael Osanloo. Michael?

Michael Osanloo

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

Thank you, Barb. Good morning, everyone. Thanks for being here in Dallas. The weather looks dicey outside. We're supposed to get like 2-inch hail. Yeah. I don't know, Derrick, it's Texas. I wanted to show one of my favorite restaurants as my cover page. This is our Orlando restaurant. I think it's an example of what a beautiful-looking rendition of a Portillo's is. And I think I'll bring your attention to, do you see that awning. That's something that we're doing now in all of our new restaurants, especially the restaurants that have a little bit of weather situations like whether it's rain in the summers, cold, et cetera, but it's protection for our team members and for our guests. But we're building beautiful, beautiful eye-catching restaurants. You've probably heard me say this before, we think of our restaurants as balance sheet marketing. Orlando is one of my favorite examples of that.

We're going to talk about five things today. We're going to talk a little bit about unit growth being the key driver for us, right. You guys know this. We are a growth story. We, of course, have robust economics in our restaurants, gaudy economics in our restaurants. What makes it really powerful, though, is that we also believe that we are one of the best growth engines in this industry. We're going to keep accelerating profitable growth through restaurant discipline. As smart as we're getting on how much money we put into the ground, there're still very expensive restaurants. You'll hear Mike Ellis, our Chief Development Officer talk about this. We're getting really smart about how to spend, when to spend and where to spend. So, you'll hear about that.

We've done a lot of work on strategic revamp of which markets we're going after and why, and site selection. I will talk about it a little bit. Ellis will also give more detail on this. When we put that much capital into the ground and we're building restaurants, remember, we've never in our history closed a restaurant. You want to get out of the gate strong. And so, we have fine-tuned our new restaurant opening processes. We've got SWOT teams that go in there. We know exactly how we want to take care of guests. We know how to train. We can do it in now in scale. Derrick will talk about this. Derrick Pratt, our COO, will talk about this. It's exciting.

And then, we're going to talk about an optimized footprint, right. Our restaurants historically have been big. We've gotten them to a much more manageable size. We think that we can get them even to a more efficient size without risking revenue, right. What's gold for us is we don't want to do anything that puts an artificial cap on the revenue of our restaurants. But we want to get a little bit more compact. We also want the restaurant to reflect what the world wants in terms of off-premises versus in-restaurant dining. We think that we have come very close to cracking the code on that.

When that happens, you're going to hear about what we call MAM, minimum achievable market. It's a little different. TAM is a fairly straightforward calculation based on population density, how much you could have. Our TAM, total addressable market, is an absurd number. Our Head of Strategy, Garrett, will go through this for you. We have a MAM, which we think is the right way to think about this. It's much more precise, much more surgical. That still gets to really attractive economics for investors at Portillo's. Michelle will talk about this, and conclude for us.

So, it's an exciting day. These are sort of the takeaways that I want you to have.

Development is going incredibly well. I wanted to give a quick update on the class of 2023. You can see, we had four that spilled over from 2022. I call them the class of 2022. I promise that's the last time we'll ever do this. But we had four that spilled over. And now, we have eight in the class of 2023. These are actually recent photos of construction, right. Queen Creek is open. Allen is open. Cicero, Arlington, Algonquin are very close to being open. You're going to actually get to see our Kitchen 23 design in Allen, it's super-exciting. You can also see our commitment to growing where the growth is, right. The bulk of our restaurants here that you see are in the Sunbelt, and I'll explain why that's such a powerful way of doing it, you'll see.

And in fact, one of the things that's exciting is you can see in the in the red highlight, we will have opened actually one, two, three, four in the DFW metroplex within a year. We actually already publicly announced the fifth one. Remember, there was one restaurant that we just decided it was going to be too hard to try to open this year. So, we pushed into early 2024, that's in Denton, Texas. And so, we will have opened five restaurants in the Dallas, Texas market within one calendar year. Feel great about that. And that's how we achieve density and scale in a very, very attractive market where we are already crushing it. So, we feel really, really good about that.

Our growth trajectory. Two things I want you to pay attention to. The bottom, from 2004 to 2013, these are sort of when it was still a privately held company, it was roughly 3.5%. Growing, building a new restaurant at Portillo's was a Herculean task. It was an Amish barn raising. You would send hundreds of people to a place. It was ridiculously expensive. I don't even want to talk about how much preopening expense there was. Berkshire bought the company in 2014, got much more disciplined about growth, and how we did things. But you can see, however you want to cut the numbers, we're getting faster, we're getting a better growth rate on our growth on new boxes. We committed at IPO 10-plus-percent as part of our long-term growth algorithm. No huge surprise here. It's going to be a little bit bigger number. I'm going to let Ellis and Michelle highlight that for you. But we're comfortable that we can grow faster than 10% now.

By the way, I do want to highlight again, because it's one of the things that's very unique about this concept. Founded in 1963. We're up to 84 restaurants by the end of this year. Not once have we closed a restaurant. I love the restaurant that Barb showed you, Elmhurst, but it's because I'm a mercenary at heart. Elmhurst does ridiculous amounts of revenue, spits out a ton of cash for our investors, and that has been a fully depreciated restaurant 35 years ago. That's a really nice business model, when you build a restaurant, and then just collect a coupon for 35, 40 years.

I want to talk a little bit about the evolution of our growth strategy. So obviously, we have a very, very strong presence in Chicagoland, right. You will see an example. We can pretty much build anywhere in Chicagoland, and it's going to be a homerun restaurant.

Originally, the thinking was we're going to grow in the adjacent markets, part of the cheese spill strategy. We like – my marketing guy does all these puns, but it's a cheese spill, right. And the logic behind that is kind of solid. Everybody knows us. Midwesterners come to Chicago, they visit Portillo's. We can bring Portillo's back. There is a lot of merit to that strategy. There is also some limitations to that strategy, which I'll show you in a second.

We have pivoted to scaling along the Sunbelt. The preponderance of our growth for the next few years will be Texas, Florida, Arizona. And you can see the next three states that we're targeting. We're already starting to look at sites in Georgia, Atlanta to be specific, Denver, Colorado, and Las Vegas, Nevada. It won't surprise you to hear that those are three very fast-growing states, three states where we have a lot of latent demand for our brand as we know that based on Shop & Ship data. We're going where the growth is. We're going where people are. We're going where people are moving. We're going where people are demanding our food. And so, that is our strategy is to go where the growth is.

You can see how this plays out in population. This is the decade-long population growth across these states. Here's just one fun fact for you, the entire Midwest, if you add up all that population, is less than the population growth of Arizona, okay. I like waking up in the morning and knowing that in Texas, in Florida and Arizona, you've got somewhere in a low-single-digit comp coming just because of population growth. That's our strategy in a nutshell. We're going to states that are growing really fast, that have population tailwind. We've opened 10 in the Sunbelt so far. We're very, very happy with those results, and we think that this is where we are going to be pushing very hard for the next decade.

The other thing that we look at is Shop & Ship orders. So, many of you know, we have this elegant little business where if you want Portillo's at home, which by the way, if you haven't tried, I encourage you to try it. It's really good. Now you have to follow the instructions, but you can make a beef sandwich, and I would tell you it's probably 99% as good as at the restaurant at home for events, it's a ton of fun. People Shop & Ship Portillo's all across the country. And so, some of the states that have the biggest Shop & Ship, we've gone into. One of the reasons we went to Texas, huge Shop & Ship numbers. One of the reasons we're looking at Georgia next, and Colorado next, huge Shop & Ship numbers. So, part of our strategy is, again, go where the growth is in terms of population. Mike will tell you how much easier that makes his life when you're looking for commercial real estate in places where there's already cranes up and developing versus places where you've got to tear down an old building and put something new there.

And don't get me wrong for those of you like, we will still go to the Northeast. We will ultimately go to California because there's just a ton of revenue in those places. But for Portillo's, those are restaurants, I don't know, 500 to

700. They're not restaurants, 100 to 200. The first couple of hundred restaurants for us will be the low-hanging fruit.

We talked about this a bit in the past. There's something special about the box that we have. It is a really profitable box. When you look at – these are some of the most high-multiple restaurant concepts out there, I think they're all considered growth stocks. They do very well. And these are – we don't want to compare ourselves against weak competition. We want to compare ourselves to the very best of fast-casual. I think this is arguably the very best of fast-casual, certainly the highest multiples in fast-casual.

The reality is that when you consider us, we kind of dwarf them. You just got to adjust the slide a little bit because that's where we are. When you look at Portillo's in total, $8.8 million AUVs, 23% restaurant-level margins, which includes all the non-comp. Once they're in the comp base and they've had a chance to mature, we're 27.5% margins. There's no other restaurant concept like this. This is doubly important at times like now, right. When you think about how skittish markets are and how carefully they're watching restaurant company performance, because you all know that marginal revenue in most restaurant companies is a difference between profitability and non-profitability. It's not a problem for us. We're really profitable. Michelle will tell you that we fund all of our own growth internally. We're not going hat in hand to some bank and asking for 7%, 8%, 9% interest to build a new restaurant. We build our new restaurants on our operating cash flows. We are very, very profitable company. It just doesn't compare.

Now, some people say, well, but this is true because of Chicago. Our worst collection of restaurants. So, if you just take the cheese spill, the restaurants adjacent to Chicago, not in Chicago, and you say, what do they look like, Michael? Let's be fair. Those are $5.7 million, 17.8% restaurant-level margins. If we were just that company, we'd be a really attractive company. We'd be a really attractive company if we were our worst restaurants. And then, when you start thinking about Portillo's in the Sunbelt, we're at $6.6 million, 20% margins. But this doesn't include the newest ones that we have built that are not yet in the comp base. When you added them, we go to $7 million and 19.5% margins.

And the message I want you to take away from that is Portillo's actually performs better farther away from its home market than near its home market, right. Our home market, obviously Chicagoland, you have got to do the chart differently to show Chicagoland, right. It's a ridiculous engine that we have in Chicagoland. Now, we love it because it generates so much cash flow for us that we get to invest that cash flow in other high-growth markets. That's our strategy in a nutshell. But the site selection matters. This is Gurnee, Illinois. Does $11.3 million, right. Investors, you love this restaurant. This is a homerun restaurant. It is a homerun restaurant. Happens to be in the backend of a mall, very difficult to access, zero visibility. In any other state, this restaurant is a failure. In Chicagoland, it does $11.3 million.

Here's Orlando. By the way, this is a picture of what Orlando looked like when I got there. This is the first time I looked at Orlando. Being the real estate guy, we walked outside and when you walk back there, it was literally a swamp. Don't quote me on this, but I think there were gators there, right. Now, it is a beautiful restaurant with a development all around it. There's mixed-use tenants behind. There's retail, residential, there's a 5,000-kid high school about 1,000 yards from our restaurant, and it's 2 miles away from Disney. And master project in Orlando is rerouting Highway 4 to dump 1 mile above us so that everybody who's going to Disney with their kids who are irate and tired and cranky and is about to go and spend $200 for lunch at Disney, is going to have to pass Portillo's on the right side. This was a very purposeful decision. This is an example of really thinking through the details of site selection, access, visibility, co-tenancy. Ellis is going to talk to you chapter and verse about how important that is, and how one of the lessons learned is we've got to be really great when it comes to site selection outside Chicago. In Chicago, candidly, we can build anywhere, and they're going to do well. Outside

Chicago, we got to be on our A-game, and that's the lesson here. Great co-tenancy there, great visibility, great access.

Great openings matter, okay. We've learned this the hard way. When you open a Portillo's, it's going to be crazy volumes. You can't help it. But what we don't need to do is throw gasoline on those crazy volumes in the first couple of weeks. A massive, over-the-top, big-bang opening is actually negative for us because what happens is you're breaking the machine, you're doing volumes that the restaurant can't or shouldn't try to handle. You're burning out your teams. You see in some of those crazy big openings, team members literally just walk out because they're overwhelmed. Guests have bad experiences. Lot of those guests, it's the first time they've ever heard of us, and they're visiting us to see what all the hubbub is about, and they have a bad experience.

We have learned how to open restaurants incredibly effectively. We're still going to have a big bang, but we don't want to have a $400,000 week. I want to have a $200,000, $250,000 a week, and then I want to have another one of those. And then another one, and then another one. I don't want this precipitous roller-coaster revenue curve when it comes to new restaurant openings. I want a nice, steady curve, and I want to build quickly. And so, we've learned this the hard way. We've learned experience Portillo's General Managers matter. We've learned you need to have an NRO playbook. Can't spend millions of on preopening expenses. You need to be disciplined about how you're doing that. You want happy guests and happy team members from day one, and that just accelerates all your financial returns.

Derrick is going to talk about this. We've got a brilliant playbook now, and we have a scale capacity with NROs, which I think will be very reassuring. 100% of the restaurants we open this year and next year, we have experienced GMs. We have small, agile NRO teams, dedicated people, but also some people that are like the Reserve Fire Department, right. You can tap into end markets to say, hey, I need you two to come help with this NRO. We're managing our opening so that we minimize the big-bang effect, and we have a steady burn. And then, you'll see the proof is in the pudding, right. We're already seeing improvements in how we return. Here is this proof in the pudding. These three lines represent the percent of month 1 sales in the following months, right. So, just, you always have – your first month is going to be huge. Sales are going to dip.

From 2016 to 2019, you see that by month 6, you're down 45% versus month 1. So, whatever you do in the sales in month 1, you've lost half of those by the sixth month. And it's not surprising, right, because you didn't give a great experience. You have new team members, you're churning people, and you need to build that business back up. That curve is painful to experience in the restaurant industry. It takes a while to do that. We got better, and we keep getting better.

Now, by 2022, the class of 2022, we're down to a 30% decline, and some of our restaurants are really doing quite well. And I think that we used the time during COVID to get good at this, to learn this, to develop our NRO playbook. Again, Derrick's going to talk to you about this in detail, but it's working really well. That matters. The box matters. The company I joined had just built Roseville, Minnesota, it's 11,300 square feet. It has 105-foot production line. In respect to the people watching, I'm not going to walk it out. 105 feet. I'm not a tall guy, so it's like 40 steps, right. Imagine you make a beef sandwich, you got to walk 40 steps. This room is in a 105 feet. You got to walk 40 steps to deliver the beef sandwich to expo. That's one way. Then you got to walk back. That's ridiculous. So, Derrick talks about conveyance being the death of productivity in a restaurant. That's a lot of conveyance.

We've gotten our restaurants down to 7,700 square feet. That's what we're building with a 65-foot production line. That's exciting. Nick is going to talk about the Restaurant of the Future. We think we can get it down to 5,500 to 6,000 square feet with a 47-foot production line. But what's important about that, there's two guardrails against that Restaurant of the Future that are non-negotiable for me. Nick knows them. Right, Nick? Okay. One is it's got to be able to do $10 million to $12 million of revenue. When our restaurants are fully grown, they've got to do $10 million to $12 million of revenue. So, you can't build a box, then all of a sudden tell me, it can't handle the volume. That's one. Second one is we are an experiential brand. We cannot nickel and dime the guest experience. I want them to see food cooking. I want them to see tchotchke on the walls. I want families with kids taking selfies. It's still got to be a fun, exciting, invigorating brand.

Yet with those two constraints, Nick and Michelle, who are co-leading the Restaurant of the Future, they've got a vision for getting it down to a more manageable footprint, subp-2 acres, which opens up different real estate. I'll let them brag about how much capital they can take out of this and what the cash-on-cash returns look like. But it's really good because it's really good the way we do it currently. It just keeps getting better. So, I'm super-excited about this.

The other thing that actually is important to mention is that this restaurant also pivots to how consumers are using restaurants in the future, right. So, think about this. It's going to have side door with some parking, temporary parking. So, if you want to go pick up your own food, and you ordered via app, you go in through the side door, food's right there on a rack, you grab it, you go, takes you a couple of minutes. DoorDash, Uber, all the third-party delivery guys, that's where they go to pick up the food. They don't traipse through the middle of our restaurant, disturbing other guests. They come in through the side, they get their food, they go.

We will be a frictionless environment for guests. Guest want to order via app? No problem. Guest want to order via app and go through the drive-thru? No problem. You want to do a traditional drive-thru? No problem. You want to sit down and eat. Fantastic. You want to bring your kids and sit on a patio and enjoy a nice weather? God bless. We're going to be a frictionless environment that provides very, very balanced and effective dining options for our guests. It's exciting.

We told you about 600 was the – and I referred to it as a TAM several years ago when we talked about this. Garrett is going to give you the details on this. What we're going to tell you, though, today is that we're going to tell you that 800 is the right number for us. And there's full-scale US restaurants, right. 800 full-scale US restaurants. So, if you're modeling Portillo's AUVs, it's 800 times this. That's the meat, that's the reason we use the big beef graphic is because that's the big beef on our plates, our full-scale beautiful restaurants. We think 800 is our revised, and we call this our minimum efficient market. And so, MAM, can we use MAM? It's our MAM. And we're excited by it. We think it's fantastic.

There is obviously more on top of that. It doesn't even include the pick-up, walk-ups, drive-thru only, it doesn't include those. And then, down the road, obviously, there is a international franchise element to us. There are airport locations. There are alternative formats for us. Those are undeniable. But the focus of our growth, the low-hanging fruit, because, again, we're at restaurant 76 right now. So, for the next several 100, it's full-scale US restaurants. That's what we're building. High revenue, high margin, fantastic returns.

So, what I want you to take away? We are a growth concept, admittedly with ridiculously good box economics. We are accelerating our growth, but we're doing it in a very disciplined fashion. We're not chasing growth for the sake of growth. We're still at a very early stage. We're accelerating it because we have the playbook in place now to start to accelerate. Our site selection is driving attractive results. And by the way, and it means a lot to us, because we're still cognizant of the fact that we're putting a lot of capital, a lot of investor money into the dirt. We're not building 50 restaurants, 5 might fail, we'll close down 20 next year, open 60. That's not who we are. We open restaurants. We expect them to be open forever. We don't close restaurants. So, when we build a restaurant, we've got to be incredibly confident that it's going to be a success.

We feel great about de-risking our openings. We're seeing our openings perform better than they ever have. We're seeing flatter penetration curves. We're seeing happier guests, happier team members. And our NRO playbook is there. And we've built that capability ahead of need. So, I feel great about that. And then, this optimized footprint, the new restaurant, the TAM, Michelle will wrap this all up for you. But a very, very, very attractive restaurant company investment should be even more attractive after you hear about this.

So, thank you very much. I'm going to turn – we will do Q&A at the end of this, but I'm going to turn over to Mr. Ellis now. Mike?

Michael K. Ellis

Chief Development Officer, Portillo's, Inc.

Thank you. Good morning. I'm Mike Ellis. I'm the Chief Development Officer for Portillo's. I just celebrated my one-year anniversary with the company earlier this month. In terms of background, I've got 30-plus years in restaurant growth and development, leading organizations like Fridays, Darden, Einstein Noah Restaurant Group, and more recently, Cracker Barrel.

What you're seeing on the screen is a picture of Arlington, Texas, which is under construction. We'll tour that later this afternoon. This one is near and dear to my heart. When I first got married in 1985, we moved to Texas, and we were one exit away from this restaurant. And you'll see and I'll point out as we do the tour, when I was – many years ago when that was there was a McDonald's and the bank that we tore down to put this Portillo's. Now, there's 3 million square foot of retail. It's a totally different thing. So, I'm happy and proud to show you this restaurant and what it means and what it looks like.

What I want to cover for us today in development is how we're scaling the pipeline to scale the brand. How by fortifying our development cycle sets us up to be a much more national growth company than a regional growth company. That when we enter new markets, we're going to aggressively expand in those markets so that we're at scale at six or more restaurants within two to three years of opening our first. And we're going to do that by finding quality A-plus sites with great traffic generators. And then finally, we're leveraging a standardized, scalable process in construction that allows us to build multiple units at the same time.

So, when Michael kind of showed you our growth trajectory a little bit earlier, over the 60-year lifespan at Portillo's, we had historically been much more opportunistic and reactive from a growth standpoint. Over the last few years, we've evolved to be much more planful, proactive and analytical in our approach. We know that driving growth and opening new Portillo's is the key to our valuation, and that the lifeblood to do that in development is a strong pipeline. So, that's been the main focus in the year that I've been here, is building that strong and robust pipeline. We've also changed how we look at our approach. We're looking at development now as an 18-month cycle. And what I mean by that is once a site gets through our real estate site committee approval, till it opens, I want to plan for 18 months. Historically, we've been around 12 months. We've been going quickly. Giving us that extra time, being more planful and proactive has many benefits for us.

First and foremost, it gives us visibility on when we're opening. You've heard Michael speak to this. Michelle has, Derrick has, and spoiler alert, he may mention it again on how critically important it is that we open a new Portillo's with an experienced General Manager. Being 18 months out on the pipeline gives our operating teams and our HR teams clear visibility on where we're going and when, so they can fill that human resource pipeline to have us have successful Portillo's openings.

It also gives me the ability to slot restaurants, right. I'm opening when I want to open in certain markets. It keeps me away from building in Chicago and in the winter in the Midwest. I can build those in the summer. I can build the warm weather markets in the winter. So, it gives me flexibility from that standpoint, and it protects against delays. We talked a little bit about this last night. There was a question our cities getting back to like they were pre-COVID. The fact is they're not. It's a little bit better, but it's still extremely choppy in terms of getting things through the system. The approvals, the process through permitting, the inspections at the end of the job still aren't as smooth as they were pre-COVID. So, we want to allow for that extra time to protect ourselves and still protect all our openings.

So, while the main focus in the first year has been building that pipeline, we've also been working on professionalizing the development function at Portillo's. And over the next few slides, we'll kind of walk through that journey, tell you the progress we've made and how it sets us up well for long-term growth. First of all is we look at new markets. I want to use Dallas as an example. We're here today. we were at Grandscape last night. We will put together this roadmap for growth for every market that we choose to grow in. We'll have the strategic development plan. We'll look at it and how we want to open markets, as we talked about. We want to enter a market with a bang, right. We want to have a opening that tells the world that Portillo's is here. And for us in Dallas, that was Grandscape. It is a high traffic, great retail, great office, great residential population, 200,000 cars going by a day. It really opens up the market and makes a splash for us as we enter a new market.

After Grandscape, we want to continue to fill in with our Tier 1 trade areas. You see, Allen is now open, Denton is under construction, Fort Worth is under construction. And we talk there in the South Arlington, which is under construction that you'll see a little bit later today. And then, we'll continue to fill in on our Tier 1 markets, and then finally at Tier 2 markets to round out the entirety of the DFW area.

Now, we also have talked about before we're doing this in the Chicago with Joliet, we're under construction in Rosemont. As we get to scale six-plus restaurants, eight restaurants, we'll start to look at opportunities to do fill-ins in where we have gaps in the market to utilize our pick-up only location to fill in. Well, you'll typically see those in markets that are a little tighter from a real estate perspective where it's going to be difficult to get 2 acres, where I can do a pick-up-only in a 1-acre site, serve an underserved market and help fill out our real estate pipeline.

So, when I came on board, we really developed a market scorecard, and we're much more data driven in how we approach our growth. We use quantitative and market factors as we lay out these growth plans. And you saw that in Dallas. And not surprisingly, Houston scored well on our market scorecard. It's not surprising. It's got the same positive micro factors that Dallas does. There is great population growth, which drives retail growth, which drives site opportunities for Portillo's, and that's great.

We also know we have raving fans in Houston because we sold a lot of our food through our Shop & Ship program. So, earlier this year in March, we released Houston for growth. We're very excited about our progress there. We anticipate by the end of 2025, we'll have at least six restaurants open in the Houston market. And then, because we love Texas and we're here today, we want to round out our Texas strategy. Just in June, a few months ago, we started releasing for sites in Austin and San Antonio. And you'll see those come online in 2025 and 2026 for our growth. What that does for is it really fortifies our brand strength in Texas and provides us great efficiencies, not only in terms of operationally, but also from a supply chain standpoint. So, we're extraordinarily excited about our growth in the Texas market.

So, while choosing the markets and having a scorecard is great, the availability of real estate, great real estate is really the governor that kind of monitors your growth. So, we need to be able to do a couple of things all at once, right. We talked about when we enter a new market, we want to be at scale within two to three years. I want six-plus restaurants open and operating within two to three years. Michelle's talked about this many times before and the margin benefits we get from that by having that scale in those markets. Now we know all markets aren't created equal.

If you look at Texas and Arizona, we've got those favorable macro factors that we talked about in terms of growth, both population and retail. And relatively speaking, it's easier to get through the permitting process, right, through – going through the entitlements with the city and moving through the development process. And they've got the benefit of great weather, right? Although we'll have 2-inch hail today, generally, we can be – build 12 months a year in those markets and I have no weather issues.

Not all markets are like that, right. So, we need to be out in these markets earlier than we've ever been before to [ph] re-lease (00:35:43) for sites. So, as Michael talked about earlier, we're starting our work in Colorado, Nevada and Georgia. We're hiring local brokers with great national retail restaurant experience to help develop those market plans and we'll be prospecting sites in those markets before year end with growth in for 2026 and beyond.

Let's talk about site selection. We've kind of talked about the pipeline, talked about our new market scorecard. What are the site characteristics that we look for? Michael gave a great example earlier of Gurnee, and I would kindly grade that as a D minus, probably from a real estate perspective, it does not have any of the factors that you really look for.

But we do incredibly well because it's Chicago, right? It's our backyard. And while I love that destination aspect of our brand, I don't want to count on that in any way, shape or form as we go into new markets outside of Chicago. I want to be in the heart of the action where people are working, shopping, dining. I want to eyes on our building, similar to what you saw in Grandscape.

And an example I want to give that kind of illustrates that is from our Class of 22 in Gilbert, Arizona, that's just opened and is estimated to do about $8.4 million. But as you look at Gilbert and its site characteristics and the things that makes it makes it successful for us is we're surrounded by 1.1 million square feet of national retailers, right. So, that's going to drive people, that's going to drive foot traffic, that's going to bring people to that market. We have excellent visibility from the main street. We have great building signage. We have spaces on the shopping center pylon signs. We've got great visibility from that standpoint. I've got two access, an ingress and egress points. I can easily get in and I can get out. I've also got sufficient parking for my dining guests and we've got a great drive-thru stack which helps us efficiently operate our drive-thru.

Another thing that we really liked about this market is we know through our research and our data that the national restaurants and retailers around us perform much better than their average through mass mobile data and understanding that. So, all those, all things being equal, if others are outperforming in the market, we feel we can get that same performance as well.

So, let's talk about how we bring this to life and how a site turns into a deal. We've adjusted some of our work around how we look at leasing, how we look at construction through national contractors. And I'll talk about leasing first. I want our deals to be firm, fair and timely, right. We – time is our most valuable resource. So, it's important for us to have deals that are structured so that we can move these through our pipeline. We have dates that we set up for our real estate people to get leases completed in a certain timeliness, because we want to move these deals along, because I want to get beef sandwiches in our customers hands as quickly as I possibly can.

That does a couple of things for me. One, when we look at a deal from a leasing standpoint, we'll talk about when we're there, hey, this is our 90% deal. There's room on the fringes, but we're not going to spend a lot of time from a negotiation standpoint. So, that either gets – a couple of things, that either gets me to a quick no and it doesn't work out. So, I'm not wasting valuable time on a deal that's not going anywhere. It also establishes, and I've used this more importantly historically, it's kind of sets up a tempo and a cadence on how Portillo's is going to do deals, right?

We'll do them fair, we'll do them fast. We'll say what we do, we do what we say, and we start that and build that reputation on how we are to work with as an organization. So, the developers know what to expect from Portillo's when we come in and what that means to get a Portillo's in their center. We're also – this is incredibly important on leveraging a national GC base to scale our growth and expanding our vendor network.

When I first started at the end of last year, we were working on sites in Tucson and Gilbert and I had one carpenter, one carpentry group. So, I was splitting resources to kind of get those restaurants built. We cannot scale that way. At that time, at the end of last year, we were first starting our first build with the national GCs that can help us scale. We now have multiple, more than a handful of national GCs doing work. And by way of example and kind of draw the contrast in Portillo's history, the most restaurants we've ever opened in a year is five.

As we set here today, we have seven restaurants under construction in three states. And the only way that we can do that is by having a scalable process with national GCs that can help us expand. And then on the vendor side, we have got vendors that have been with Portillo's for the length of the time we've been a company, and they're great. Most of those folks come out of Chicago and they're great for us.

Couple of things with that. One, I want new eyes on the business and let's look at where we're going and what our opportunities are. I also don't want to be single sourced on any critical discipline from a vendor standpoint. So, I want multiple vendors, whether it's architects, sign companies, I want to people bringing new ideas. What that also does for me, it helps mitigate my risk, but it also helps drive my costs down, right, because I've got a competitive situation with other vendors bidding on my work. So, that's critical for us.

And then finally, we've standardized our base prototype building. Historically, if you go back a couple of years ago each Portillo's was a snowflake. You saw some of the unique builds that Barb showed in her, that it looked like a jukebox. And they're lovely and they're wonderful. But they're – each one has a snowflake, they're very expensive to design. You don't get any efficiency from a build because you're doing something different every single time. And so, we're standardizing our base building, the bones of our building is going to be the same every time. With that said, we are experiential brand and we can't lose that ever, right.

So, how we address that, and you've seen it in The Colony, you'll see in Allen. We will use architectural embellishments on the outside to make those restaurants unique through materials that we use, we have a southwest diner, we have a midwest diner, we have a southwest garage, a midwest garage. So, we have variations in theme with materials that we bolt on, if you will, from the outside. That doesn't change my core base building. So, I get those efficiencies in terms of drawing, and these national GCs that we're implementing are building the same building every time. So, I'll get repetition and that will drive my costs down.

And more importantly, not only from the embellishments that will attach to the outside of the building, each Portillo's and you saw it in The Colony, you'll certainly see it later today in Allen and all the new Portillo's that you'll enter, we really gear the interior design to the neighborhood with which we're in. In The Colony, you saw the Toyota pickup truck hanging from the ceiling. Toyota's North American headquarters is one site adjacent to us is right there. So, we pulled a call out to Toyota there. You'll see it in Allen. We really gear that interior design to the local markets in which we're serving. That's going to help us keep and stay unique and also have that element of the brand, that experiential nature that we want to have with the Portillo's brand.

So, what does all this mean? I'm more confident than ever in the development – in the development process and the progress that we have made. It's one of the reasons we wanted to get everyone together today to talk about our progress and what we've accomplished. So, what's that mean for growth?

So in 2024, we'll be at 10-plus growth. That'll mainly be in the sunbelt. And we're going to be much more evenly spread in terms of our cadence of openings. We opened a lot at the end of last year. We are heavily backend loaded this year. We will be much smoother in terms of our opening as we go into next year, much more 50-50 split. In 2025, that's 12-plus-percent growth. That's going to be in the sunbelt and in new markets. And we'll be in a position by 2025 that we won't open anything after Halloween. We'll have those – that pipeline filled early on and we'll really take those last two months of the year off because, one, they're busy times for our restaurants. They're busy time for our team members. And we want to have them focused on their families and on our business. And then in 2026, we'll be growing at 12% to 15%. That will be made up of sunbelt, continued sunbelt growth, sunbelt fill-ins and new markets. And again, we'll also open everything before November.

So in summary, we talked about how we're scaling the pipeline to scale the brand, how by fortifying our cycle time, we've cemented ourselves to more of a national growth brand. We're going to aggressively site prospect in new markets that we enter, so that we're efficient within two years to three years. And we're going to do that by having A-plus sites that really drive our business. And then we're going to leverage, standardize processes through construction that we can build multiple restaurants in multiple states simultaneously.

With that, I appreciate your time this morning. I will hand it over to Derrick Pratt, who's our Chief Operation Officer. Thank you. Derrick.

Derrick Pratt

Chief Operating Officer, Portillo's, Inc.

There I am. Would you forget who the heck I was, Jesus? What the heck, I had good things to say about you too.

All right, all right. Am I doing this right? The green button. All right.

Good morning, everybody. And Mike, thank you. It was really exciting, especially that last slide, [indiscernible] (00:45:25) slide, I call it. And you said, you're not going to be opening restaurants after Halloween, can I quote you on that?

Michael K. Ellis

Chief Development Officer, Portillo's, Inc.

Yes, you can.

Derrick Pratt

Chief Operating Officer, Portillo's, Inc.

Are we good? Because we're going to be really opening a restaurant after Halloween this year.

With all of the great stuff that that Mike talked about. It's really exciting to be able to talk about. I mean, the opportunity to open our restaurants with excellence is something that really excites me. What you're looking at here. Oh, by the way, I am the Chief Operating Officer. I've been with the company for three years now in September, and I've spent over 31.5 years between Starbucks and McDonald's, opening a lot of restaurants and coffee shops. So, I've done this once or twice and I know what great looks like.

This is our Gilbert Restaurant, and I think this is great. And it's not just about the palm trees, but for me it represents our journey to continuous improvement. The way this restaurant turned over, how it sits in the community, it looks like it's been there for years. It was built beautifully, but more importantly – more importantly, the finishes that are in this restaurant represent a partnership between operations and development that I think is going to be accretive to our brand. I know it will be accretive to our brand because not only do we have great finishes, we have finishes that we can maintain. We don't have mosaic tiles that are white, that we cannot make clean this, save our lives. And this is ongoing dialogue that we have about making our buildings beautiful but easier to maintain.

All right. I'm going to talk about a few things here. First is, how do we de-risk the opening process? How do we make sure that we open with excellence, not just in terms of how we operate, but how people feel about how we're setting ourselves up for the future? I'm going to talk about how we shape that demand curve, right? You heard Michael talk about the big bang. I call it a boom and then a splashdown. Not healthy for our business, not healthy for our people, certainly not healthy for our guests and our brand in the marketplace.

And then we're going to talk about how we continuously monitor that right, matching up capability and demand to shape that honeymoon curve in a way that is accretive financially, long term and experientially. I'm also going to talk about our new restaurant opening, our NRO team, their capability. This team was built, right, to do simultaneous openings and it's built out ahead of our pipeline. My commitment to Michael, to our team, to our brand, to you as investors is that we will not let people development, our capability as an operating group to be a gating factor to our growth. We will stay one year, at least out in front of his pipeline from a capability standpoint.

Almost every time in the last several years that people have called me looking for my talent in an organization, it's because they could not develop people to meet their growth aspirations. An experiential brand cannot have that. We have to be creative and maniacally focused on developing people that create the experience at Portillo, and that's what we're going to do.

So, I've talked about this before. I like to call it the sustainable, profitable growth flywheel, which is really important. Michael talked about this. We haven't closed the restaurant. Michelle will tell you, our restaurants are profitable from day one.

So, making sure not only our existing restaurants, whether it be in our core in Chicagoland or outside of it, are running well and creating this flywheel effect. But our new restaurants from day one have to create this flywheel effect, it starts with our team members engaged, coached, supported and just loved at the end of the day. They are the heart of Portillo's. It's about ongoing, fastidious approach to creating operational efficiencies.

It cannot be hard to do our business. It has to be easier to do our business. Easier to do it right. Michael talked about all those steps back and forth, conveyance, waste, not adding value, but more importantly, it creates fatigue and delay. People will walk out. We've seen people at times look at the daunting task of operating our business and have second thoughts. We want to treat those people like gold and help them be successful.

And so, operational efficiency is important. It's about satisfying our guests because when we do that, then we have the underpinning for our people to take care of our guests, right. And it's about fulfilling the obligation we have to our shareholders. And the power of our brand to operate extremely high [indiscernible] (00:50:14) and EBITDAs which feeds our economic engine, our ability to fund our own growth. That's what it's about.

So, our pre-opening processes are designed to instill our culture from day one. Experienced managers is important, and it's not just about years of experience, it's about getting repetitions. It's times at bat, right. Being able to open in intense operating climates. It's about our opening process where we train people to create efficiency. We train people to build confidence. We train people to understand who we are, what our values are, what our mission is, and as important, how can they get ahead, right? Pathways to growth and opportunity.

Our post-opening process is about monitoring where we are today. It's about training and coaching folks. We call them red hats. Our trainers are red hats, training and coaching folks to a point that they can own the restaurant. I was just at Allen recently and our Red Hat team came in to say goodbye, right. Two weeks [ph] and they're out (00:51:21). They shook hands, right. In cases, they hugged the folks and said, we enjoyed our time with you, but you're ready, you got this. You guys are going to see that, right? Two weeks, we're out at the end of the day. And it's about continuously checking the operations to make sure that as it gets better and we are more capable, we can handle more demand. We can layer that on.

Okay. Lessons from the past. Michael talked about we've gotten better over time. Since 2020, right, we've had an opportunity to learn from some of our mistakes. And I think our learnings have created the timeline that you see here today, right. Restaurant leadership assessment eight months in advance, not only who's going, but what are their capabilities. When our NRO team arrives to support our opening process, our soft openings, to build that confidence and efficiency that I talked about, practice days, right? We shut down, we stock, we get ready, we clean, we open soft. We get better and better and better. It's about grand openings that focus on a minimal number of channels, traditional channels, so that we look for excellence. And then I talked about that NRO team, exit two weeks, right? Michael talked about the past where we would stay. We would be the muscle. And our home team would stand back and go, I wish I could do that. Oh, boy, I'm scared if you leave. Not anymore. And it's about those health checks. How are we doing at 30, at 60, at 90, at 120 and beyond and are we ready to take on more demand and help our guests find the way they want to use us expanding the capability to add revenue to the top line, right.

And so again, our lesson said volume and complexity create retention challenges. Michael talked about, we open up, it's crazy volumes, people get nervous. They don't want to work that hard. They can do something, earn similar money for less work. Not a healthy environment, when our culture is fantastic and the opportunity for career growth is even better. It's about day one grand openings with the stream volume spikes creating that boom splash. And we're trying to recover for years in some markets. For years, people remember, they remember when the experience isn't great and it's about reliance on NRO trainers as the muscle, as the skill in the restaurant versus pumping up the home team, so that they can take care of business really from day one.

So, the outcomes here. We staff with seasoned GMs. Soft open controls demand spikes. We grand open after six days to ensure that our teams are ready and our NRO trainers, as I mentioned, they're out in two weeks. We have a restaurant turnover playbook that basically says, how are we doing in every aspect of the business, what are we ready for today and what do we need to work on tomorrow and how will we measure it collectively as a restaurant support team, as a home team, right. How will we measure all of these things and when are we ready for more demand.

So, here's an example of what that looks like from a, from a people standpoint, pre-opening with seasoned GMs. And our pipeline is, I think, the secret sauce that will unlock our growth. Yes, you got to have a great pipeline. But if you don't open great and sustain even greater, what for, so you've heard about this before. Our Ignite

Accelerated Leadership Development Program is really a curriculum. It's a curriculum development, we believe in training people before they get the job. That's novel. But I've worked in organizations, where they were promoting people so fast and then trying to catch up and train them. We are disciplined enough to train people first, to give them the time and the energy and to create seed folks who are flagged for future management. Over 300 people we have ready.

This is Karina [ph] Marquez (00:55:25), she is our GM of The Colony, right. Many of you met her last night. Arguably one of the best GMs in the country. Nation's Restaurant News says this, top 20 GM. She's fantastic. Absolutely fantastic, right. You see how busy that restaurant was? She was ready for this because she opened Addison and Kimball, a restaurant that's doing crazy volume in Chicago as an AGM. This was not by accident. This was intentional. This was intentional that she would be the GM at The Colony. And guess what? Those folks who are wrapped around her as AGMs opened restaurants in high volume. Our current GMs today all are positioned to experience the intensity of The Colony's open because they're going to open restaurants in Texas and guess what they are. Tray is opening Allen. Matt will open South Arlington. Jay is going to run our Denton restaurant and you see Megan [ph] Quirk (00:56:26), a past Starbucks team member is going to open a restaurant in Fort Worth.

This is not by accident. We are not looking for people to open our restaurants. We are intentionally planning people to open our restaurants. Developing them because we see potential. And making sure that our talent is outstripping our pipeline from a capability to grow standpoint.

All right. I talked about opening week, matching capability to demand, what does it look like, right? So, we open our restaurants with two channels, traditional channels, dine-in and drive-thru. All of our NROs open this way. And as we do these health checks and assess where the business is, we then layer on additional channels, whether it be pickup, digital pickup and direct delivery. Those are our internal channels, digital channels or third party delivery and catering, whether we delivery, cater or people come and pick up. We can layer on these additional channels all based on our capability to service them. Our capability to service them. And that's what those health checks are really about. How are we doing, what are we ready for and can we do it with greatness.

Al right. And you see this in practice, right, bottom on the graph is kind of the three cheese sauce spills, as Michael talked about. Our first-in markets, right, aggregate 2016-2017. And then you see the effect of this in Orlando. You notice the curve is changing, the bar is bending. Five months end right when we did our assessment of health check, we opened up internal pickup, right. Another six or seven months down the line, we did direct delivery, right. And then we layered on third party delivering catering when Kissimmee opened, right. All intentionally timed, at The Colony, right. In October, we will open up, activate pick up and catering. And you can see Allen opens up two weeks ago, three weeks ago, and we're going to expand channels.

We believe that, that line will flatten very similar to the Orlando opening. Again, it's about matching capability to demand and intentionally giving our guests new ways to enjoy our brand. And we believe it's having an impact on what we know, it's having an impact on overall satisfaction. The way our people feel about our business, right and ultimately what we're able to do, as you can see, in 30 days to 60 days, we're able to achieve overall satisfaction levels and our Class of 22 and beyond that took us almost a year to achieve prior, right. So, we believe this approach has legs and it's working well for us.

So, RNO (sic) [NRO] (00:59:22) team is designed to open restaurants simultaneously and has tremendous capability and capacity. Why? Because we are intentionally and timely trying to stay out in front of our pipeline. We've just added an additional GM on the team. Our GMs manage each project, we have five GMs on the team. They all run their own projects. We have 50 Red Hat trainers. These are people dedicated, whether they are in the Chicagoland or area or beyond to travel, go in and train their experts. They are vetted and they travel with us. Additionally, we've created some flexibility in market. We have people who don't travel outside of market but are in our growth markets in Arizona, Texas and Florida. We call these flex trainers. We can call on them to help support local markets. We have over 20 of them identified and we will be by 30-plus by the end of the year. This gives us the capability of opening three or four restaurants simultaneously or 20 to 30 restaurants in a year.

We will monitor this capability, again staying [ph] out in (00:01:30) front of our pipeline for demand as well as the internal talent that we have available to us to work in these emerging markets. So, we are also dedicated and very committed to continuous improvement. We're watching the labor market. Less time is less money. Less money is better returns, better profitability, right.

So, we're seeing the labor market balance out. So, maybe we don't need four weeks to hire and train, develop people, maybe three weeks. We've developed a capability to operate training centers, right. There's a lot of distance between The Colony and South Arlington, right. People fall off when you have to drive from The Colony to South Arlington for training, it's very expensive to create shuttle systems. So, we operate training centers in between, so that we can get people up to speed, get them ready to go into restaurants, and we lose less people that way, and we lose a lot less time that way.

And then Kitchen 23, you'll see in Allen and when Nick talks about this that we're creating adjacencies and spaces, where we can work more efficiently, use less people. We can literally put two trainers in between four people and train them simultaneously in a station because the adjacencies make it so. When you take 17 feet or 20 or 30 feet out of your line and you compress that, you make these adjacencies and workspaces function, people can support people much better, less people, less cost, better returns. This is what we do from a continuous improvement standpoint.

So, I'm confident in the capability, I'm confident in your capability. I'm confident in our team's capability to match up talent with our development pipeline. We're going to do that in the marketplace. We're going to de-risk our opens. We're going to shape demand to create the best experiences. We're going to make sure that change in curve creates a financial accretion that is valuable to the health of our brand. And we're going to make sure that our capabilities there, both internal to operate the restaurants and open the restaurants with excellence, so we can grow this brand, as you've seen Michael and Mike talk about for years to come. Thanks, everybody. Let me turn over to Nick.

He is our SVP of marketing. I know exactly who it is.

Nicholas Scarpino

Senior Vice President-Marketing & Off-Premise Dining, Portillo's, Inc.

Thank you, Derrick. It's awesome. Derrick said we are opening better than we ever have in the past. I love it. I'm the marketing guy, it's music to my ears. So, thank you, Derrick. My name is Nick Scarpino. I do lead marketing and off-premise dining at Portillo's. I have been here for eight years, but that does not include the time that I was a cashier when I was in high school. I'd like to think that I have Portillo's beef gravy in my veins, and Portillo's, on my belt buckle. I'm thrilled that you all now have Portillo's on your belt buckle. And later in, Allen, you will also have Portillo's beef gravy in your veins, as well.

Immediately prior to working at Portillo's, I worked at Google in Digital Marketing for four years. What you see here is what, one of my favorite restaurants, which is in Springfield, Illinois. You've heard us talk about balance sheet marketing. It is a very real thing that we do at Portillo's. We invest in beautiful restaurants, both inside the dining rooms and outside of the restaurants as well, the exteriors. And this is a great example, Springfield, Illinois, if you are unaware, sits on historic Route 66. Route 66, stretches from Chicago across the country, all the way out to California. I think it's a wonderful metaphor for what we're doing here at Portillo's, stretching across the country.

And so, the restaurant, we invested a lot of time and effort into making it dedicated to Route 66. So, we have this amazing Portillo's 66 sign on the ceiling, it's awesome. There's tons of memorabilia about Route 66 and the restaurant, and I think it's just a great example of what we do here at Portillo's.

But what I'm here to talk about is two years ago, Michael asked Michelle, Derrick and I to lead a project that we call Restaurant of the Future. And the Restaurant of the Future, the overall goal has been to optimize our build, and so we want to create a restaurant for how guests use Portillo's today, but also how they're using us tomorrow. We see future growth in the off-premise channels especially, but we're not abandoning dine-in by any means, we're reinvesting in it, right.

We want to optimize our footprint for national expansion while we reduce the overall build cost. Michelle will give you some exact numbers on what we're going to be doing here. It's very, very exciting.

We want to improve our efficiency. Derrick talks a lot about conveyance. We have become masters of reducing conveyance. Derrick would say to Nick, what is conveyance? Derrick, conveyance is waste. We don't want to waste time and effort moving food when we don't have to. And we're really nailing that. And you'll see that in Allen today and you'll see in our restaurant of the future.

And we're forming an improved experience for our guests and our team members. And ultimately, we know that, that will provide an improved experience for our shareholders. So, the restaurant of the future has been, it's basically a three stage process.

So, I want to walk you through those different stages. We have poured time, effort and energy are the best minds, both internal at Portillo's and external. We have great consultants that are helping us with this as well. This is how we're approaching this. It's a three stage process. The first stage has been retrofits. The scope of this stage is 40 restaurants that already exist. And we'll have those 40 restaurants completed with this retrofits by the end of next year. We are simplifying and modernizing our existing restaurant base.

So what does this look like? If you're familiar with the traditional Portillo's, mostly in the Chicagoland area, we've traditionally had two production lines of food, an area where we make salads. If you're standing and ordering at a Portillo's, that's often on your right hand side and an area where we make everything else the beef, hot dogs, everything else, right? We've merged those two lines. This was an efficiency play, right. We now produce out of one line on the back, right. In replacements of the area that was on the right hand side where we were producing salads, we replaced that with what something like you see here. We call it a Grab & Go. We described this process at last year's Investor Day. Derrick actually walked through this plan and we're putting it to fruition this year and next year. The Grab & Go is amazing. It has lots of benefits. You can also order beer upfront. Instead of having to order beer at a third area of our restaurant, you can now do it all upfront from one area of the restaurant.

And another benefit that we have for both guests and team members is that we've moved our beverage station. We do a lot of dine-in business. So, we moved our beverage station out from behind the counter to in front of the counter, so that guests can get their own beverages. Others in the industry are going the opposite direction of this. We think that this has been awesome and we have evidence to show it.

So, I mean, do this. Okay? Here is just a very high level results of this work so far. We have seen in our dine-in experience, a 24 percentage point incremental sales growth in desserts and bottled water. That's what we're putting first and foremost in our Grab & Go areas, right? So, as people are waiting in the queue, they can grab desserts, they can grab bottled water. We have things like [ph] Aperol (01:08:00). They can grab a stuffed Portillo's dog. His name is Pokey. They can grab that as they're doing that, right.

Lo and behold, our friend from Starbucks has taught us their craft. When you put items out for people to look at and to see and experience and touch, they learn about new things that they didn't know you had, right? Strawberry Shortcake is a perfect example. It's made in house every single morning. It's amazing, you're going to have some later today. People didn't know that we had it. Lo and behold, they see it, they buy it, right. We're seeing great lift there. And we're seeing a 9-percentage point in our dine-in experience for soft drinks, right. Again, I know it might sound crazy, but when people see it, they buy it, they touch it, they feel it, right, and they can get their own refills. The team members love it. They can focus more on the pickup experience. They don't have to in one example, they don't have to worry about serving beverages. There's also that reduced convenience as well, and the guests love it, too. We've seen a 3 percentage point increase at the restaurants that we've already had the Grab & Go in place in their dine-in guest satisfaction.

So, this is a win for everybody. Stage two of this process has been, what we're calling Kitchen 23, and this is really improving our kitchen efficiency in new builds. The scope of this is new restaurant openings happening this year and next year. This is kind of our bridge period to the restaurant of the future. Again, we've mentioned this, but for those coming to Allen, Texas in the room, you will see this later today.

We were able to, through tons of work with the operations team, reduced our production line by 17 feet. A lot of people in the room were asking Derrick and I, Michelle, last night, how do we do that? A very simple example was the six feet of the beverage line, right? So, when we put that out into the dining room, they're six feet right there. There's been lots of things like that. Derek talks about the adjacencies. We have become so much smarter about putting coolers and equipment in the right places so that at the right time, our team members don't have to walk very far to do things.

And we have off-premise enhancements. I'll show you a picture of that right now. On the right-hand side, you're seeing a picture of the new drive-thru door. This might sound very simple to you, but this has actually been a huge unlock for us. Many of you have experienced Portillo's in the drive-thru where a team member greets you at your car to take your order and a different team member will run food to you. When I was a cashier at Portillo's, we call that – we still do – that's a food runner. That's not a food walker. So, get the lead out, right?

So, when we – in most of our restaurants until the Kitchen 23, we had a door around the corner from where our guests were lining up in the drive-thru queue, right? We moved and put a door there today. Again, this is a very simple example, but something that we're so excited about. Now, our team members – and you'll see this in Allen – have direct access to the cars that they're serving in a very safe way. So, again, it reduces conveyance and increases our speed.

We've reduced the production line, we mentioned, by 17 feet. We've lowered the equipment costs through different efficiency measures by $100,000. And our staffing needs have therefore come down two team members per day. We have improved our production capacity. We are all very, very proud of our AUVs. I've been here a long time. I really love our AUVs. Nobody wants to sacrifice them. We've actually improved our capacity by having better equipment positioning and adjacencies.

Okay. Stage 3 is our Restaurant of the Future. This is really, really important to us and it's important to our entire community of investors, our teams, et cetera. We are reducing our costs. We're looking at everything that we've done in Kitchen 23. We're bringing all that forward. And we're also looking at the overall box size and scope.

We're rightsizing the facility. We're again continuing to look at kitchen layout and processes. We think we have even more efficiencies to gain even from Kitchen 23. And we continue to work with Derrick and the team to optimize our labor management practices. The scope of this is all new restaurant openings from 2025 and beyond.

So, what does that look like? All right. Kitchen 23. Michael talked earlier about how not that long ago we were building restaurants – in Roseville, Minnesota, for example – that were in excess of 11,000 square feet. We got it down to 7,700 square feet without sacrificing anything in the Kitchen 23. We have plans drawn built operator role for restaurants that are between 5,500 and 6,000 square feet, and they do not sacrifice anything. They're going to still look beautiful. It's going to be awesome. The parking spaces, we did a thorough parking space study. We looked at both restaurants inside Chicago and outside. We looked at restaurants that have cross-parking and don't have cross-parking. We do about 120 parking spots for Kitchen 23. We'll be able to, on our smaller footprint, reduce that to between 85 and 100 parking spaces.

From a labor standpoint, team member standpoint, at our peak operating periods in the Kitchen 23, we use 34 team members. In Restaurant of the Future, that number will be between 27 and 32, our peak volume periods. We've gone from that 65-foot production line, which we are very, very proud of and we've done a lot of work to get there, and we're taking it to 47 feet. 210 seats is about what the Kitchen 23 has today. That's both indoor and outdoor. We're moving that to 140 to 170. Again, we've done extensive studies on table utilization, not just the number of seats that are being used, but how they're being used; four tops, two tops, big groups. You saw some of that last night in The Colony. We're being very, very planful about this.

Key benefits, if you haven't figured it out yet. We're still very proud of our AUVs that we are absolutely maintaining our capacity, but as Mike mentioned, we have much greater site availability when we go to a box that looks like this. Right? We today – or in the yester year of Portillo's, we used to say that we needed a two-acre site. We really needed more than two acres to get our entire building on there. Right? In the future, we need under two acres. Right? And that's what opens us up to much more possibilities. And that's another reason why when Garrett talks about that MAM, the minimum achievable market, that number can go up. Right? We're lowering the build cost. Again, Michelle will run through the numbers. We know that we will be increasing our operating speed and guest satisfaction. We're proving it. And we think we'll have a more efficient labor deployment.

So, if I could leave you with a few thoughts, I hope you're as excited about this as we are. We do think that we are creating the Restaurant of the Future for how guests use us both today and will use us in the future. We are optimizing our footprint for national expansion, and we are reducing our build costs. We are working very, very closely with the operations team. They're leading us in an effort to improve our efficiency; of course, without constraining sales. And we know that ultimately this will be an improved experience for our guests, our team members and our shareholders.

So, thank you very much. And I'm going to bring up Garrett Kern, who leads strategy and culinary here.

Garrett Kern

Vice President-Strategy & Culinary, Portillo's, Inc.

Thank you, Nick. Hi, everybody. My name is Garrett. I've been at Portillo's for four years, but as a Chicago area native, I've been a guest and a fan for my whole life. So, as Nick mentioned, I run Strategy and Culinary at Portillo's, two very different functions. I actually got into the business because I wanted to be a chef. I trained and worked as one for many years, but I also have a strategic brain on me. I worked in very strategic and operational roles in the restaurant business. Prior to Portillo's, I was doing some management consulting at Bain & Company for a few years. But I'm really proud to be here. Portillo's is one of the reasons that I wanted to get into the restaurant business, having those magical experiences growing up in the Chicago area.

And what you see here is one of our restaurants in Chicago, Addison & Kimball. It's on the northwest side of Chicago. This is my favorite restaurant for a number of reasons, probably chief among them is that I used to live in this neighborhood when I was younger. I have great memories there. I lived about three blocks away. I always thought this area, this neighborhood needs a better dining option. So, when I joined Portillo's, I found out they were building this and I said, well, that restaurant is going to kill it there. And it has been one of our best units. I go there all the time. I love the decor, I love the ambiance, and the team always does a fantastic job there.

So, I got to talk to somebody last night about one side of my role; hotdogs cheese fries, all of that, but I'm going to talk to you about our addressable market today. Before I dig into it too much, there's a question of, why are we relooking at this? We talked a couple of years ago about 600 restaurants. And the answer is because of what you just heard from Mike how we have a better development and construction process and time line; from Derrick about how we're going to open those restaurants with a lot of foresight and efficiency; and from Nick about how that improved footprint gives us a lot more opportunity in terms of real estate.

So, what I'm going to walk you through today are a few things. First of all, looking at our total addressable market and then comparing that to an approach that I call our minimum achievable market, which I think is tailor-made to our strategies, our needs as an organization. We're going to talk about that expanded opportunity for our full-scale Portillo's restaurant. That's the meat of our strategy, the meat of our opportunity out there, but then also the additional headroom for growth of Pick-Up, Walk-Up and alternate formats give us. And then, we'll look on a page very, very simple way of how we achieve that over the next couple of decades, what that looks like.

So, let me walk you through the total addressable market calculation. Right? This is actually very straightforward, totally rational calculation that a lot of other restaurant retail brands will do. Look at our market in Chicagoland, our historical market, when we are at full scale there, we'll have one restaurant for approximately every 190,000 people. If you just scale that across the US, you get to a number of 1,700, actually a little bit above. So, a really gaudy number for the number of Portillo's that you could open up in the US.

But what we wanted to do was be a little bit more specific and targeted and do something that aligns to all the things you just heard and what we want to achieve in our markets. So, we adopted an approach called our minimum achievable market that solves for a few shortcomings that TAM has. And the first one is that TAM is just strictly population based. Our approach, it identifies and prioritizes markets based on some of that macroeconomic data like population growth that Michael shared and some of our internal data such as Shop & Ship.

TAM doesn't account for population density. This is really important because there are plenty of groupings of 190,000 people across the US that are stretched over huge swaths of land. We take that into account and then we also look at our eventual market maturity in certain MSAs to understand what restaurants we're going to build there, what type they'll be.

And then, most importantly, TAM doesn't restrict your ability to build restaurants right next to one another. We don't want to open up a fantastic restaurant like Addison & Kimball and then open one up three blocks away where I used to live, because we're owned and operated, we want to optimize the top line and the bottom line. Our approach pinpoints specific addresses and optimizes those trade areas. And I'm going to talk to you more about this because this is a really important piece of it.

Now, the result is 920 locations in the US. And what that represents to me is the minimum number of restaurants that I believe we'll be able to open up. We've got 78 today, which means that we are 8.5% penetrated in the US right now. So, that's the minimum achievable market.

Let's look at what that looks like on the map. So, I'm going to put up all of our current locations, all 78 of them across ten states. Those are those red Ps on the page. And then, I'm going to show you what that MAM looks like. These are the black dots. Right? These are specific locations. Now, these aren't the exact locations of every single restaurant that we're going to open up, but they're approximate. Right? Over time, trade areas will shift, populations will move, et cetera, and our goal as we go forward is to convert as many of these as possible to those red Ps.

I want to talk to you about those different restaurant types that have been mentioned, and I'm going to spend a good bit of time here because this is really the meat of our beef sandwich. This is where we are focusing almost all of our resources, time and attention, the full-scale Portillo's restaurant, like the one we were at last night in The Colony. These have everything. So, they have those multilane drive-thrus, the team members taking your orders and delivering your food. The dine-in experience that engages all five senses. If your guests could walk in, order takeout, as convenience play, you can also order ahead for pickup and delivery. These are restaurants that are designed to do between $8 million to $12 million or more in capacity. And as Nick mentioned, starting in 2025, these will be between 5,500 and 6,000 square feet.

So, two years ago, we told you we can build 600 of these full-scale restaurants. And today, we're seeing that we can build 800. So, what is the source of that increase? A few key inputs I want to walk you through. The first is very simple. We want to make sure that these restaurants can meet our unit economic thresholds. So, we look for specific sites that will do $7 million or more on average in year three onward. That's in today's dollars. So, we want to make sure that these are producing for us.

The second one is really key. We create site-specific trade areas. So, a lot of models, including ones we used in the past, they'll put a point on the map, they'll draw a circle around it. That's really – it's fine for approximations, but people don't travel in circles. People drive, they walk, take the bus. We use massive mobile data, essentially cell phone data, to understand where do a lot of people in the market live and work and where do they dine and shop. And you create trade areas around a point that have an amorphous shape to them. It's actually true representation of where majority of people in that market are moving.

And then, this is where the magic comes in and we get to select those 800. We actually put a pretty restrictive input in here, which is to say that we don't want more than 3% overlap between any two of those trade areas. And what that does is it selects the optimum number of sites that kind of fits those puzzle pieces together across the US, which in this case is 800 full-scale restaurants. So, that's how we get to that number.

I do want to talk next about the opportunity for 120 additional restaurants that are in pickup and walkup locations. We've talked about pickup a bit. This is already part of our strategy. We have this beautiful restaurant in Joliet, Illinois, that we opened last year. It does not have a drive-thru. All right, sorry, it doesn't have a dining room. Definitely has a drive-thru. We've referred to these as drive-thru only, but honestly, you can – they're off-premise only. So, you can do drive-thru, you can do takeout, delivery and pickup.

Joliet does extremely well. I'm not going to give you the specific number, but it's in that range shown on the page. We target to build these to do $6 million to $8 million in revenue. And they're in a tight footprint, between 3,000 and 3,500 square feet. We have one additional under construction right now. It's going to be part of our pipeline moving forward. A very key element of this is that this is a mature market strategy. This is a fill-in strategy. So, we want to make sure that people understand the magic of Portillo's that they're using the Portillo's pickup as more of a convenience play when it's already part of their normal routine.

So, one of the restrictions that we put in place is that we only want to look at these for markets where we're going to have scale. Six to eight or more full-scale Portillo's. And we want to make sure that these hurdle specific financial targets of $4 million or more in today's dollars. Added benefit of these, you can build this on an acre. So, in those sites where you have some restrictions in terms of what's available, this opens up the funnel.

And then, urban walkups make up the additional part of the 120. Think of restaurants in the most dense urban centers. They may have a small dining room, but the majority of their business is delivery, pickup and takeout. They actually can do a ton of sales in a relatively tight footprint. There's great opportunities for this across the US. There's just not a ton of them. You're probably familiar with something like this. If you think about Times Square, there's a Raising Cane's, there's a Chick-fil-A there. These are brands similar to ours, drive-thru, suburban-heavy. These are some of their best, if not their best, performing units. So, plenty of opportunity there.

And then, finally, there's a whole world of alternate formats. We're not going to give you a specific number on this, but some day that we will have Portillo's in an airport, think of a Portillo's in a college campus like Chick-fil-A has done. In the student union, you can use your meal card. Or expanding internationally via operating or franchise partner in the future. These have to be really brand-enhancing and opportunistic, and we'll tackle them at a later point in the future.

Now, what does that look like? Here it is on a page. And again, our full-scale restaurants are the big beef here. We have 77 of those today, very focused on those. If you scale that at 12% to 15% unit growth per year, you'd get to the 800 restaurants in about 20 years. And what we're looking to do is exactly what we're doing in Dallas, launch and efficiently scale new markets, rinse and repeat that.

Portillo's pickup and those walkup restaurants are follow-on strategies in those markets to fill in. We already have the one today. We're building more in the Chicago area. This will be a part of our strategy moving forward. That comes after the completion of 800 restaurants. And those alternate formats will be opportunistic, will be brand-enhancing when it makes sense for us in the future.

So, in summary, we have a minimum achievable market in the US of 920 Portillo's restaurants, and the bulk of that is that expanded opportunity going from 600 to 800 in our full-scale restaurants. We have additional headroom especially from pickup and walkup, and a very simple focused strategy to get to that 920.

Thank you very much. I'm going to hand it off to my colleague, Michelle, who's going to walk you through what that means and take us home.

Michelle Hook

Chief Financial Officer, Portillo's, Inc.

Great. Thank you, Garrett. So, my name is Michelle Hook. Good morning, everyone. I'm our Chief Financial Officer here at Portillo's. I joined the brand, celebrating my three-year anniversary in December. Prior to that, I spent the bulk of my career at Domino's.

I'm excited to bring everything home for you today. Everything that you heard from my colleagues and share some financial information with you. But first, what you see here on the side is my favorite restaurant, which is in my home state of Michigan. So, this is our restaurant in Sterling Heights, Michigan. It's our first restaurant and only in the State of Michigan today. It's in a suburb just north of Detroit. A couple of things I love about this restaurant.

One, it's our garage style theme. So, I love that. Mike mentioned all the different formats that we have, but I love the natural light that comes into the garage style theme. Second, I love how it pays homage to the local Detroit community and culture. So, you see a picture here of an old Ford Model T hanging from the ceiling. If you walk into this restaurant, you're going to feel the Detroit, you're going to see Motown memorabilia on the wall, you're going to see décor that's specific to Michiganders like myself. So, I just love this restaurant and I'm excited to continue the cheese sauce spill, Mike, into Michigan as we continue to scale in my home state.

So, with that, what I want to share with you today is a couple of things. So, again, this is Development Day for a reason, because those new restaurants that we're opening are key to the growth, as we talked about, in that compounding revenue growth, which I'll show in just a minute. And we self-fund our growth, right? We cash flow immediately and we have those attractive returns that allows us to take those existing restaurants and that cash flow and reinvest that back into the business.

I'm going to share with you an early look at what that Class of 2022 is doing and how it's performing. So, we're very excited about that. I know we've seen the honeymoon curve, but I'll give some financial data around that. And really, what does this Restaurant of the Future mean for our returns as we move forward and we'll take a look at that as well.

So, this next slide is going to look very familiar to you all. This is what I shared with you and what we shared with you during the IPO process in terms of our long-range and our long-term outlooks couple of years ago. So, given that the world has changed, not just the environment that we live in, but Portillo's has changed and we've continued to evolve, we obviously felt that it was necessary to update these numbers.

And so, this next slide, what you see here are the new targets. And so, Mike talked about that development pipeline, which is really going to be the key to unlocking growth for us. Garrett, you just heard from, talked about our minimum achievable market, our MAM, and other things that we believe are possible as we go from that 600 full-size Portillo's to 800 in the future.

So, all the things that you heard about today, those reasons are why we feel comfortable taking that unit growth number up from that 10-plus percent to that 12% to 15% in the future. You will notice that comp remains the same. We are not getting overly aggressive on our same restaurant sales growth. That remains in that low-single-digits. So, that unit growth is going to drive that revenue growth number up into the mid-teens. Now, when we look at the adjusted EBITDA growth, we still feel very comfortable that we can achieve over the long term low-teens from an adjusted EBITDA growth metric.

Okay. So, we all know that comp is important. Comp is extremely important to us. That gives us the right to grow. So, as we continue our growth and we continue to generate those cash flows, we are going to put those back into the business, and that revenue is going to continue to compound. So, what you see on the chart here is you're going to see our restaurant growth numbers on the right side and then the revenue growth that grows with that. You are going to notice there was definitely a pause in 2020 during that COVID year, but then, as Michael shared in his slide, we continue to accelerate growth to meet that 10% growth target. What you expect from us and what you will see from us, not just historically, but in the future, is really that steady and predictable growth. And the best thing about our growth is its profitable growth.

Now, I know I've shared this slide with you before, so there is no new information on this chart. But I think it's an important point to continue to hammer home that our growth is self-funded. What you don't see on this chart is we do have a $100 million revolver facility at our disposal that we can tap into as needed to continue to fund growth. We don't expect to do that as we continue to grow restaurants that are profitable from day one.

Now, when we look at 2023, which is not on the chart, what are we expecting? We're expecting a very similar trajectory. I've given a range and a guide for our CapEx in 2023 of $70 million to $75 million we expect to spend this year. We expect about 80% of that $70 million to $75 million will go back into our new restaurant openings, about 10% this year we do expect to invest in maintenance CapEx, and then the other 10% in other discretionary CapEx. So, think about things like technology investments in our restaurants. A lot of you saw the new digital menu boards at The Colony last night. We've been putting in those into all of our restaurants over the last year-and-a-half. So, that's in that other discretionary CapEx bucket.

Michael shared this, Derrick talked about this, but this is such an important point that I want to make sure everyone understands, which is why I'm putting it up here again, to continue to hammer home the point that our strategies are working. So, when you think about the things that Mike Ellis talked about in terms of how we approach markets, how we select sites, Derrick talked about the NRO teams, the operating improvements, right, all those things have helped to smooth that honeymoon curve.

And as a reminder to everyone, Portillo's restaurants don't enter our comp base until after 24 months, right, because traditionally we open strong, we see a dip in that year two, and then it starts to build back up in that year three and beyond.

What I love is that we've learned to de-risk that NRO process, as Derrick talked about, and you really see that difference come through for me as we look at that honeymoon curve. And it's really encouraging to know that the very deliberate changes that we have made are working.

So, how is our current class doing? So, what you're going to see on the left-hand side of this chart here is exactly what we shared with you a couple of years ago, which is our year three targets for a class of restaurants. Again, all these numbers are for a class of restaurants. So, keep that in mind.

So, you'll see targeting that 25% cash-on-cash returns. And then, on the right, you're going to see how those seven restaurants in the Class of 2022 are projected for that first year. And you see, obviously, how we've gotten there has changed. We feel very comfortable that we're on pace and on track to hit those year three targets. But you can see, again, the math has changed. So, you look at the top line tracking to $8 million AUVs. And we've talked about some of the rationale for what's driven that. And we knew and I've talked to you all about how build costs have changed. It's no secret that that's been a dynamic in the industry. And so, those came in higher, and I'm going to talk about that here on the next slide.

So, when we look at the build costs going from the IPO target, this is going to walk you from that target, to where we were for the Class of 2022 and that what we're building at today. So, going from the $5 million to the $7 million number, primarily inflation. So, that 30% inflation that we've seen is not abnormal in our industry. And so, that's what we saw as we moved from those costs, $5 million to $7 million.

We did experience some site-specific costs within the Class of 2022. We had The Colony, a flagship restaurant. So, think about costs that were very specific to what we were building. You can see that comes right back out as we're building these restaurants in the Class of 2023. So, we do not expect those costs to recur.

Now, you heard Nick talk through the stages for Restaurant of the Future, and where we are today is we're building those kitchen 23s, which we're excited to showcase when you see Allen today. And so, he talked about really the efficiencies that we're getting in not just the building materials, but really those equipment costs as well, which is where you see us pick up some ground for those Class of 2023 restaurants.

So, we feel really confident that we're going to hit the $6.2 million to $6.5 million build cost for this class; one, because we already have two opened; and two, the other six are already well under construction. So, we have a good handle on those build costs for the Class of 2023.

Now, where are we going? So, this next one is what really excites not just myself, but the rest of our team here today is what that Restaurant of the Future, what that Stage 3, where that can take us. And so, you can see here, we believe that smaller box format going from that 7,700 square feet to the 5,500 to 6,000 square feet can get us some savings. We know that we're already working on equipment optimization. We're working on optimization in those build cost materials. All those things are going to contribute to us lowering the build costs. And it's why we feel those three points are going to lead to at least a minimum of $1 million savings on the build cost as we build out that restaurant in the future.

Okay. So, given the data that you've seen today, all the information that we have, all the things that we know, we feel extremely comfortable about updating our underwriting expectations. So, on the left, those are the old targets that we shared a couple of years ago. The middle column is what we currently expect today. Those are underwriting expectations today.

Now, I will say you've heard about all the work that we've gone through to get to the AUVs that you see there. So, the targets that we set during the IPO process, that $5.8 million target, remember, that was based on historical builds that we have, right, which were primarily targeted right in that cheese sauce spill strategy. So, as we've evolved our development strategy, as you heard today, that's why we feel very comfortable with updating the AUVs and the performance. You've seen where the Class of 2022 is tracking at $8 million. So, we feel comfortable of the top line.

Then when you go down, you'll see we're not getting overly aggressive on the margins that we're expecting in year three. We feel very comfortable with continuing to target 22% restaurant level margins by year three and getting those build costs down currently gets us back to that 25% cash-on-cash return target that we feel comfortable.

But again, what's exciting about this is what this next phase can really lead to. So, as we talk about the Restaurant of the Future, nothing – and you look at the far-right column on the chart – nothing in the first three rows has changed. Right? And so, really driving those build costs down is what's going to bolster and enhance those cash-on-cash returns. And I included – we've a slice of cake there because those enhanced returns really are just icing on the cake for Portillo's.

Okay. So, we do get this question a lot. So, I wanted to make sure you all saw a comparison of our cash-on-cash returns versus those fast-casual competitors that Michael mentioned at the beginning. And really, it gives you a comparison on a like-for-like basis, whether you're looking at how we build today versus how we could build in the future. So, let me just level set for you here.

So, for Portillo's, this is all the information is based on the Class of 2022. So, if you look at the build costs, you'll see the current buildout costs for the Class of 2022 at $7 million. We have our restaurant-level adjusted EBITDA target, and you get to that 23% year one cash-on-cash return number.

Well, what if, unlike we do – today, we pay to build the building and we lease the land. So, what if we had the landlord build the building and we lease the building in the land? How would that look? Right? And so, you look at the buildout costs would go down from that $7 million to we'd have a $1.5 million to put leasehold improvements into the facility, to put the equipment into the facility, that'd be about a $1.5 million. You can see our rent or occupancy costs would double, thus lowering our restaurant-level adjusted EBITDA, and then you do the simple math, our EBITDA over our buildout cost gets you to the 80% cash-on-cash returns.

This allows you all to compare to whatever competitor you're looking at, if you look at a Cheesecake or a Roadhouse, who might put more capital into the ground like we do, or you look at other concepts like Chipotle, CAVA, et cetera, that lease the building as well. It gives you however you slice and dice the information an apples-to-apples comparison of us versus the competition. And we feel very, very good about our returns, not just today, but again, excited about what that restaurant in the future can deliver for us in the future.

So, just to round us out. New growth, building those new restaurants is the story for Portillo's. That's going to continue to compound that revenue growth. We expect to continue to self-fund that growth. We expect the returns to continue to generate substantial cash flow for us as we move forward. Super excited about the early returns of the Class of 2023 and continuing to validate that development strategy that you've all heard about today.

And as we look towards the Restaurant of the Future, this isn't us thinking about pie in the sky things. Nick mentioned we have drawings, we have plans, we have architectural designs for this Restaurant of the Future that gives us comfort that we'll be building these in 2025 and beyond. Mike mentioned the 18-month pipeline. So, it takes time to get these things into the pipeline, but we feel extremely confident that we're going to continue to deliver that future value for our shareholders.

So, I want to thank you for your time today. This does conclude our prepared remarks. We're going to take a quick five-minute break, and then we're going to go into Q&A after that. So, thank you.

[Break] (01:43:45-01:50:55)

QUESTION AND ANSWER SECTION

Barbara Noverini
Director-Investor Relations, Portillo's, Inc.

A

All right. We are ready to get started. So, now we're going to start the Q&A session. If you are on the webcast and you would like to submit a question, you can do so in the chat box. And also, we'll have a mic sort of roaming around the room. So, if anyone has a question, please raise your hand.

Katherine Griffin
Analyst, BofA Securities, Inc.

Q

Thank you. Katherine Griffin with BofA. So, first, I just wanted to ask how we should be thinking about the higher unit growth targets when same-store traffic and mix are negative? I guess, what gives you confidence that new markets are still under-penetrated?

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

A

Well, a couple of thoughts on that. One is the actual experience we're having in our new markets. So, I think we've bragged about The Colony before, it's on pace to do $14 million this year. We have restaurants that are just knocking the roof off of our expectations, especially in the new markets. And so, we're seeing – and I think what she also showed is that the Class – the existing Class of 2022 was trending at $8 million, which is substantially above our expectations and our history in new markets. So, we feel really strong about our new restaurants and new markets.

Brian H. Mullan
Analyst, Piper Sandler & Co.

Q

Hey. Thanks. Brian Mullan, Piper Sandler. It's exciting to hear about the Restaurant of the Future. If I had to summarize a high level you're going to reduce the size of the building, reduce the cost, maybe run with less labor, but the targeted AUVs are the same. So, I think a lot of restaurant companies would love to do that. Could you just maybe elaborate on your confidence on how you're able to pull this off without any kind of revenue degradation? Is it just the size of the dining room? Doesn't make sense for today's mix of sales. Are there still inefficiencies inside of what was a private company for a really long time? Just...

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

A

Yeah...

Brian H. Mullan
Analyst, Piper Sandler & Co.

Q

...how do you want investors...

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

A

Right.

Brian H. Mullan
Analyst, Piper Sandler & Co.

Q

...to build confidence [ph] in them (01:53:01)?

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

A

Well, I appreciate the question, Brian, because you answered your own question, which is that there's just a different way consumers are using restaurant companies. We've seen it, right? Our mix, our channel mix fundamentally shifted. There was a long-term trend towards people eating off-premises versus dining in restaurant. COVID accelerated that and while there's been some correction, it hasn't gone back to pre-COVID times. So, you're seeing more off-premises, and that's really it is that in order to still do the fulsome volumes that you do, your off-premises portion of the business has to be better, more on point, frictionless. And the team has been sweating the details on that.

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

Yeah. And I'd say, Brian, the chart that Michael showed at the beginning, when you look at the AUV performance, so, let's talk about the top line first and then we can talk about build costs, outside of the core Midwest performs better, right, in those Sunbelt markets. And then, we looked at the Class of 2022, which is primarily outside the Midwest. And so, that gives us confidence, right, as we look at that new range of AUV targets by that year three that we can perform that. So, we feel really good about that.

When I look at the build costs and we look at the build costs, again, we already know where we're at today with the Class of 2023 and the Restaurant of the Future isn't something that we hope will happen. Again, we have drawings, we have plans, we've done studies, as Nick mentioned, to feel very comfortable that shrinking the size of the footprint is not going to degrade the brand, number one, or allow us not to perform at those AUV levels.

And Derrick will tell you from an operator standpoint, he's been very involved in terms of us getting that production line shrunk, creating better adjacencies, and feeling comfortable that we've done the testing that we need to do to allow us to perform at those AUV levels.

Derrick Pratt
Chief Operating Officer, Portillo's, Inc.

A

Yeah. I would say that, at the end of the day, the engine has to perform regardless of the channel that people decide to use. Our pressure test up to this point has been our Allen restaurant that you'll see today. I think it topped out at $190,000. I talked to the team as early as yesterday about their experience. I visited during their experiences in the kitchen from three to two lines, the improved adjacencies, the less conveyance, right, the 17 feet we've already taken out is not inhibiting our capacity at all.

In fact, the work together structure of that is allowing us even better efficiency, just something as simple as the door where we have interchangeable jobs between someone who's at expo or coordination versus running. All three of those jobs can simultaneously interchange, right? So, we feel really good about what that engine can produce in terms of this test so far.

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

A

We're responding heavily to this question because it's really sensitive for us as well, right? We don't want to build a restaurant that can't do the volumes that we expect. And just for our edification, want Nick to about, we have an innovation center and we've actually laid this kitchen out and we are testing it in a production-capable setting to make sure we're not going to screw this up.

Nicholas Scarpino
Senior Vice President-Marketing & Off-Premise Dining, Portillo's, Inc.
A

Yeah. We actually built an innovation center, like Michael said, in Aurora, Illinois. It's connected to one of our production plants where we produce our Italian beef, right? We've laid it all out. We brought the team in. Again, the best minds at Portillo's have walked through this time and time again to say, here is what we can do, here's what can't do, just to everybody's point. We have no intention on decreasing those AUVs.

The one other thing I would add is just that we did it in stages on purpose, right? We're talking about this. Derrick talking about this. We knew we couldn't rip the band-aid all at once. We had to be very planful about this, and that's exact what we're doing.

Dennis Geiger
Analyst, UBS Securities LLC
Q

Dennis Geiger, UBS. Thanks to the team for your remarks and for the event. It's been a great event so far. I wanted to ask Michelle. Michelle, you touched on and the team has touched on the increase in unit development, the increase in the revenue growth targets. Keeping that EBITDA growth unchanged, can you talk a little bit – still a good – a very good level...

Michelle Hook
Chief Financial Officer, Portillo's, Inc.
A

Yeah.

Dennis Geiger
Analyst, UBS Securities LLC
Q

...but just a little bit more about maybe what keeps you from getting more aggressive with that EBITDA growth target?

Michelle Hook
Chief Financial Officer, Portillo's, Inc.
A

Yeah. No, Dennis, it's a great question, a question I knew was coming. And when we look at the restaurants – and I know we've talked about this a lot – when we look at growing the restaurants, adding those new restaurants into the portfolio, right, you have to remember that they're coming in at a lower AUV than, right, what we're averaging today, and we know that Chicagoland bolsters that, but then they also come in at a lower margin profile, right, to start. So, as you continue to look at building in a higher number of those new units coming in at a lower margin profile to start, right, you naturally are going to get that mix starting to shift. That's why we still feel very comfortable at the low-teens. I don't feel comfortable getting in over our skis and promising targets that Michael and I and the rest of the team don't feel are achievable. But that's the rationale with why we didn't change that specifically. Yeah.

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

[ph] Sharon I think was (01:58:15)...

Q

Hi, guys. It has been a great event. Learned a lot. So, my first question is for Mike. I think there was a slide, [ph] I want to say it was (01:58:24) slide 28, that showed how the company plans to build out the Dallas market and some of the stores' trade areas were overlapping. I'm just curious what's the company's tolerance for cannibalization? And is it something that you expect to maybe become a – have a bigger impact over the next couple of years as you accelerate development?

Michael K. Ellis
Chief Development Officer, Portillo's, Inc.

A

Yeah. I mean, I think if you look at it, that's a snapshot in time. It'll evolve over time, right, as we look at it. And we're not in a hurry to put restaurants really close to one another. That's how we put together the MAM minimal overlap. So, that's how we want to look at it, because we've got a lot of green space there. And that Dallas market will be built out over the next 10 years before we're fully bright in all those restaurants. So, they'll continue to have that 5% growth every year and those markets will continue to grow and gain population so that will become less of a concern.

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

A

Yeah. Really – [ph] and Chris (01:59:15), the only place that we'll experience any cannibalization as we build for the foreseeable future is really in Chicagoland, right, because we will continue to build in Chicagoland. We open a restaurant in Chicagoland, it's going to do absurdly high volumes with fantastic margins, and there's just demand there. And so, we will see a little bit, a teensy bit of short-term cannibalization in Chicagoland that fixes itself up within 18 months, two years. And so, in Chicagoland, yes, a little bit. Outside Chicagoland, we're really not – we're not worried about it.

Q

Good. And then, Michelle, can you provide a bit more color on the distribution of the 40 retrofits between 2023 and 2024 and then maybe what the CapEx per unit would be and how should we be thinking about the impact to CapEx next year?

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

Yeah. [ph] Chris (02:00:03), I would say that they're fairly evenly split year-over-year. I think we have like 15 to 20 coming online this year with the remainder in 2024. I wouldn't – I won't – I'm not going to go into specifics for each restaurant, but I will say that we continue to target that 10% to 15% of overall CapEx. That's within that maintenance CapEx number that you see there and that will continue in 2024. So, you're not generally going to see a lot of incremental CapEx coming in 2024 for the retrofits because they're fairly evenly split.

Barbara Noverini
Director-Investor Relations, Portillo's, Inc.

A

[indiscernible] (02:00:35).

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

A

I think Sharon has had her hand up for quite a while.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Thanks. So, a question on the restaurant-level margins, Michelle, you had 22%, and the unit economics has been that way for a long time, but you raised AUVs a lot. We heard a lot about labor efficiencies. Are you basically just kind of keeping pace with some of the inflationary elements on labor and occupancy and so on? Is that why we're not seeing [ph] that margin going up (02:01:08)?

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

Yeah. Yeah. And what we've seen, Sharon, even from the IPO targets to the new targets that we've seen a lot of labor inflation, as you know. And so, that's my expectation as we move forward is that those forecasts assume that we're not going to see any sort of relief from that end and it stays pretty steady state with continued increases from an inflationary standpoint on labor and commodities, et cetera. And again, you saw the targets for the Class of 2022, right, in terms of where the margins are today at that 23%. So, I feel very comfortable at the 22% and I don't want to get, again, overly aggressive because we still have to play out the hand. But labor is the primary component that's kind of kept that flat with the growing AUVs.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Can I be greedy and ask another question? So, I mean, I know every day you wake up in Chicago and you're looking at like $11 million AUVs and the population's going down. So, you're just like fighting to hold it. And it's also hard to comp on $11 million because the math is hard, right? Is there any way to talk about kind of non-Chicagoland and how the traffic comp is growing in those areas relative to Chicago?

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

A

I don't want to get into specifics on that, but it is exactly what we said at our IPO, which is think of us as almost two distinct businesses, this ridiculously high AUV, phenomenal margin business with low growth in Chicagoland, right? Negative population. We're happy to compete. We will take share in Chicagoland. But for us to have positive comp really means you're taking share from other fast-casual and QSR concepts. Fine. We can do that in Chicagoland. Outside Chicagoland, it's a much growthier story, right? It's a much growthier story because we are not as well known. And while we start off strong, we don't start off Chicago strong. So, we have a cash flow business in the center of the country that generates a ton of cash flow, but low growth. In the Sunbelt, we are a high growth business that will get to audacious numbers. So, that's exactly our strategy.

Q

Yeah. I had two questions. The first was, I think just when I look at the year one how this class is performing, $8 million AUVs to 20% margins and the path to maybe seven – like, a year three, $7.3 million to $7.5 million with 22% margins. Does that just mean 200, 300 basis points of margin just comes from the fact that you get past the year one opening year and how much cost you put up, 25 workers, [ph] RGMs (02:03:47) maybe initially? Is it just that simple in terms of that's the drag right now on the margins year one and that kind of goes away two or three or you have to get an AUV uplift to get there or...?

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

No, pretty much, [ph] Greg (02:03:59), it's what you said. It's on the cost line, right? When you first start out with the restaurants, you're going to layer in more labor, right, into those restaurants, particularly in that first year. In year two, right, you see that dip in the AUVs that we've talked about, but you pretty much keep your margins flat or slightly up in that second year because, right, then you're getting more efficient with the labor, you're layering off some of the NRO support, et cetera. And so, that's what you see generally in year two. And by year three, you should be humming at a normal run rate, so to speak, for labor. But that's the dynamic that you see within those first couple of years.

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

A

Yeah. And Derrick, can you talk a little bit about our philosophy on food costs and labor costs in the early stages of an NRO, because we don't really worry about those, right?

Derrick Pratt
Chief Operating Officer, Portillo's, Inc.

A

Yeah. I mean, if you take Allen, for instance, right, it opened up a little slower versus The Colony. Right? There was a tragic shooting, as you know, in Texas. The traffic was down quite a bit and folks were asking, they were like, well, what do you want us to do? And I was like, it's all about the experience and let's train up our people, right. I remember texting Michael, it's a little slower. I'm worried. [indiscernible] (02:05:10) I am not worried. By the weekend, our investment met the demand and it was a crazy, it was a fantastic week, right. We did 190,000 in that week because we believe that for the first eight weeks, we're going to invest in our people, we're going to invest in labor, we're going to invest in management. We're going to invest in experience, right? Because we know long term on the minds of our guests, if we don't take care of them experientially, they're not going to be back. They're not going to tell people positive stories who are coming from all parts of the Midwest.

So, that's important. From a cost control standpoint, I mean, we have really, really tight measures. And this is not necessarily about controlling costs as much as it is about quality, right. Our standards for beef and drops and hamburgers and dogs, [ph] they're exacting (02:06:10), right. Because we want the highest level of quality. What it's turning out to be is some of the tightest controls on waste that I've seen, less fries, more often, perfectly salted, [ph] you sell more (02:06:21), et cetera.

So, I think our investment initially drives revenue, ultimately gets our labor in control faster, and our [ph] exacting standings (02:06:30) around quality really helps us over time control cost from an overall expense standpoint.

Q

Thank you for that. And Michael, you talked a little about just the difference in terms of off-prem and on-prem from a few years ago. Do you feel like you're at a normalized level where that's not continuing to drift or change? And can you remind us where you are versus maybe pre-COVID or a few years ago, however you want to frame it?

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

A

Yeah. Let me, I'll let her give the details on where we are. But look, whether I think it's normal or not, it has stabilized over the last six months, so I think it's a new normal. And I think that we just have to acknowledge that there has been a fundamental shift that people want to consume food on their terms, which means that off premises is a bigger portion of what it used to be in – it's bigger in 2023 than it was in 2019 and I think we've gone from like 50% dine-in to 35%.

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

Yeah. We're ranging anywhere between 35% and 40% dine-in today, and so it's fairly stable to Michael's point. We're not seeing significant shifts, [ph] Greg (02:07:32), in terms of dine-in. But I think, Michael and I and the rest of the team all believe, we don't believe we're getting back up to that 50%, which is why as we continue to iterate on restaurant in the future, we know that we're able to remove some of that space inside.

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

A

And think of it as that restaurant of the future. So, just use as a frame of reference, a $10 million. I want it to be a $10 million box, right. Historically, it was doing $5 million inside, $5 million off-premise. Now it's going to do $4 million inside, $6 million off-premise. The manufacturing capacity, food production, still $10 million. But it means we can be [ph] small (02:08:13) because I don't need 240 seats, 120 parks. I need 160 seats and I need 80 parks because that's what inside is. But I still need doubling drive-thrus with a really good stack. I need a fantastic execution of off-premise. We have to be even better on digital and allowing guests to access the thing because that's the difference.

So, we – and that's one of the reasons, I think it's one of the big unlocks for us in how we build the restaurant of the future to reflect that reality. And I don't think that's going back the other way. I don't think all of a sudden you're going to see this renaissance of dine-in. I think you're going to continue to see consumers saying we want off-premises. So, our strategy is to go where the puck is going, not where the puck was. Drew?

Drew D. North
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Drew North from Baird. Michelle, I just wanted to circle back to the EBITDA margin target. I guess could you just quickly touch on the role G&A leverage has in the low-teens, EBITDA growth target and how you're thinking about that G&A line going forward?

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

Yeah, Drew, I'd say, there was no real shifts for me, in terms of how we're thinking about the G&A growth number in terms of, when we put out the target, we said generally we're targeting 75% of that revenue growth number. So, as revenue continues to grow, as we continue to accelerate that growth, the need for investments, right, doesn't go away on the other side of equation.

So for me, do I think that we have an opportunity to get slightly below that and start to leverage that top line a little more in the future? I do, right. We got to continue to see how that plays out, right. But generally speaking, that's our target as we move forward.

Drew D. North
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Thanks for that. And then one more quick one just on the 920 total restaurant opportunity, I guess what percent of that target is expected to come from existing markets that Portillo's is currently operating in versus new markets? And then maybe just touch on the Chicagoland area. Michael, I know you mentioned continuing to grow there. I think previously you had targeted one potential unit a year, is that still the expectation in that 12% to 15% growth algorithm?

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

A

It's a good question. The first part of your question, I don't think we've actually looked at it that specifically to say here's what's coming from the existing markets. Rest assured that if we just said we're going to grow in the states we've showed you Texas, Florida, Arizona, and then add Georgia, Colorado and Nevada, my back of the envelope was, that's like a decade of growth for us. That's like, it's – I don't feel the need like we got to add a [ph] ton more (02:10:45).

And so, it is a long – that is a long tail of growth for a company that's at 76 restaurants today, right. Chicagoland continues to be a home we built. Every time we open a restaurant in Chicagoland, it's a home run. And so, we will continue to be very selective and thoughtful about adding restaurants in Chicagoland. And I can imagine us putting a bunch more of the pickup locations, the drive-thru only. I can see us potentially doing some other big boxes in more of the outskirts of the city, outskirts of call it Chicagoland metro. But I think, one to two a year is a very reasonable growth pattern in Chicagoland for the foreseeable future.

Michael K. Ellis
Chief Development Officer, Portillo's, Inc.

A

Yeah. I mean, we know our holes. It's just when the availability is going to come and we have an opportunity, [ph] and (02:11:37) sites available that we can take advantage of.

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

A

[ph] Malcolm (02:11:41), you yeah, you had your hand up for a while.

Q

I'll just bring...

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

A

You project and I'll repeat it for them. Yeah.

Q

And this is, I mean, historically, when you have a high growth company, the G&A is much higher...

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

A

Yeah.

Q

...than normal. But that is normal for a high growth company. But I'm a little confused as to the where you're doing the where you're signing the cost when it's open and you have extra people to do the [indiscernible] (02:12:22) work...

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

A

Yeah.

Q

...as opposed to the months of [ph] carrying (02:12:28) and training people.

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

A

Yeah.

Q

I'm sure [indiscernible] (02:12:32).

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

A

Right. So for those online, what [ph] Malcolm Knapp (02:12:35) is asking is you're – he's saying our G&A is relatively low compared to other high growth companies. He's trying to understand where does the cost go for all of the training that we do, the people, the NRO costs, et cetera. And so, thank you for noting that, that our G&A is low, [ph] Malcolm (02:12:51). And so, but that's because we believe we need to be exceptionally disciplined in how we spend money.

So, Michelle has talked about how we think about G&A leverage on a go forward basis. We expect to -G&A to be at a fraction of what our revenue growth is. That allows us to grow G&A in prudent ways, right, like there's areas that you need to grow G&A. We are going to add, Mike's going to need help. Development is really important to us. We will continue to add G&A, but otherwise I prefer and Michelle prefers and my team prefers for us to be a lean, agile organization. We don't want to get bureaucratic and huge and have an army of people where it takes you a week to make any decision. Let's be lean and agile and then all of those costs that you're seeing get basically either in the NRO cost as a pre-opening expense that hits.

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

Yeah.

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

A

So

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

And then as you look at [ph] Malcolm (02:13:48), right, as Derrick talked about that NRO team, right, those are operators, right. Those trainers are operators within our restaurants, right. That are coming and when needed, right, pulled out into that NRO team. We actually have dedicated resources, right, that are on the NRO team. But as Derrick talked about, right, we built that scale to be able to handle 20 to 30 restaurants annually, right, three to four simultaneous.

So, I feel like, right, we have the capabilities that we built, but it's not something where if we're not opening restaurants, right, those folks are just sitting around, right. They are actually out there in restaurants and working. So, I don't feel like, I don't see as Drew just asked the question on G&A. I don't see that we're going to continue to have the need to make significant investments in G&A capabilities, right. As Michael mentioned, yes development might have some needs. We might have some needs from some other spots. But we do run fairly lean today and we're comfortable with that.

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

A

What was the guidance we gave, 75%?

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

75% of our revenue growth.

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

A

Right. So, when you're thinking of 10%, then G&A should at worst grow 7.5%.

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

That's at worst. Now, as I just mentioned with Drew, I do expect as we continue to grow the top line, we're going to get more leverage.

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

A

Right.

A

Because I've seen high growth companies usually run closer to 15%.

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

A

Yeah. And it's – and it's – we're blessed because I keep, I'm a broken record about this. We're blessed with ridiculously high AUVs. So, even in a place like Texas, where we have invested so many people to make sure that Texas opened strong, we've had effectively five GMs working in The Colony. We have deployed resources there. Derrick talked about how important it was to us to train those people, so we rented a facility to train. You can do all of that, but when you're doing a $14 million run rate, you're still going to make a lot of money. And it's that incremental revenue, our volumes are so attractive that it allows us to not be, like sort of penny pinching when it comes to training, development and people. We have the benefit of being able to invest heavily in that and still have great margins.

Q

One more question.

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

A

Yeah.

Q

The 40% drop from the first eight weeks.

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

A

Yeah.

Q

That's higher than most companies I know.

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

A

Yeah.

Q

And almost double.

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

A

Yeah.

Q

Why is that?

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

A

Why is our honeymoon curve so steep? It's because we have more pent – every time we open in a market, our pent-up demand is so high and our draw is so high. Like the stories that you hear from when we first opened in Florida, first restaurant in Florida, you had people driving up to Tampa from Miami, from Naples to go visit us. And so, you do – our volumes, those first few weeks in a new restaurant is the catchment for a Portillo's. Is it 5 to 10 miles? It's 200 miles. And so...

Q

You're getting tourists.

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

A

We're getting tourists. We're getting Chicagoans.

Q

[indiscernible] (02:16:56).

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

A

Yeah, exactly. So, we're getting this pent-up huge demand and so you see a more dynamic curve. Now, there's things that we did that made it a little bit bigger than it is. But that's the genesis of it.

Q

But if you took out those people.

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

A

Yeah.

Q

I'm sure you've got market research on, what would be the discount [ph] rate (02:17:20)?

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

A

I think what you're seeing from – my hope is that what you're seeing from The Colony is exactly a much more replicable model for us, which is, I think those numbers are like sub 30%, which is we're still – when Portillo's comes into a place like we had a Facebook page with how many thousands of people?

Michael K. Ellis
Chief Development Officer, Portillo's, Inc.

A

Many, many thousands.

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

A

Signed up in Dallas. So, when we open new in market, it's, it's sort of unavoidable that we're going to have a big bang opening. We can tamp it down, we can be careful...

Q

Yeah.

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

A

...and we try. But you're still going to have people driving hours to come to visit Portillo's those first few weeks. And so, there's always an elevate – our curve is more elevated than any other restaurant company, I'd say. So, the good news is, even at the bottom of the curve, it's still really great AUV. And so, we just need to make sure that the curve is mitigated and it gets back to a steady state as quickly as possible. Thank you.

Q

Thanks.

Joshua C. Long
Analyst, Stephens, Inc.

Q

Yes. Great. Joshua Long with Stephens. We talked a lot about the efficiency of the new box and getting to see it last night was super helpful. When you think about the prior conversation we've had where efficiency and what you're able to do at the volumes that you deliver, I think particularly we've talked about that in terms of items per labor hour. Can you contextualize the new box in the restaurant of the future and maybe how that might compare to some of the older prototypes that we've seen?

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

A

I mean, you've nailed it. And it's – it's like there's this constant dynamic for us which is labor wages keep going up, right. I mean, it's just – and it's – it has slowed down, but not by a lot. The demand for labor is very high. And then, our relative positioning in the labor market in terms of like how attractive Portillo's is to an hourly team member looking for a job has improved dramatically. We pay above market now almost everywhere, right. Our starting wages in Texas are $17 an hour, right. I mean, so, we are a really great employer for hourly team members.

With that, we have to be very purposeful in thinking about labor efficiency, making our team members more productive. This isn't about like squeezing them or anything like that. This is what Derrick keeps talking about. When you ask a team member to take 42 steps this way, drop off a beef sandwich, 42 steps back way, you have made them inefficient, and it's on you, it's not on them. When you ask team members to, oh, I'm out of fries, I got to go to the cooler that's down there as opposed to now, I got fries right here. I just pull them up here, and I get ready. I work the fry station. I can help it set up. I go from here, I walk over here, and I help over here. A fry station is here, I can go outside this way and go inside this way. All of that has dramatically improved the labor productivity. We're not going to specifically say what the number is, but the hedge for us against better wages, labor inflation, and those are fine things because you want people to be happy to work at Portillo's, you want them thrilled, has to be in efficiency and productivity.

And you've got to be mindful of how you think about this. It's not look over someone's shoulder and say, work faster. That doesn't work, right. What it is, is I'm removing hurdles for you so that you can be efficient and have a sustainable path here.

Joshua C. Long
Analyst, Stephens, Inc.

Q

That's helpful. Thank you.

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

And I think, Josh, just one quick example that tie it into what you're going to see today with Kitchen 23 is, a very simple example, is what Nick talked about with self-serve drinks. We don't have team members now, right. Remember I just said 35%, 40% of the business is still dine-in. So, we don't have a team member that's making and serving drinks to the dine-in. The guest does that, which, by the way, is about our guest experience and leads to higher sales. So, you'll see that in Kitchen 23. That's just one example. That reduces team member labor.

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

A

And it's interesting to think that the titan in our industry is going away from self-serve drinks. Here's what it does for us. We are not a drive-thru-only business. We have a very big dine-in business. Guests are happier when they – you're dining. Well, think about yourself, when does your dining experience start when you go to a restaurant. It doesn't go when you sit down or when you order. It's when you get the first beverage in your hand. In casual dining, there's a rule like you got to get a beverage in a guest's hand within a certain number of minutes because then they're starting to relax and enjoy themselves, right.

So, what we have seen is that our guests in the self-server drink place actually view the time they wait for their foods is gotten shorter. It hasn't, but they think it's gotten shorter because they got a drink in their hand, and now they're relaxing, and you can see it. They're like sitting at a table, and they're happy as opposed to queuing in front of expo, waiting for their drink, waiting for this. And then, you've got guests who are like, hey, I like a certain amount of ice in my drink, and you guys screw it up or I want less ice, I want more ice, I want a refill. We've empowered guests. They're happier. They view this as speed of service and they're relaxing. Our team members love it, because now I'm not queuing up a bunch of drinks. The quality of the drinks has actually improved because you don't have at basically times drinks sitting there waiting for the food and the ice melting. So, for us, this is a perfect example of labor efficiency, guest satisfaction. It's a win-win-win.

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

Yeah.

Joshua C. Long
Analyst, Stephens, Inc.

Q

Okay. Very helpful. And then, maybe one quick one, if I can, when we think about those retrofits that you identified, is there any opportunity over time to leverage some of the smaller production line of the newer units? I realize that kind of your classic store markets might be a little bit constrained in terms of just size or framework, but it seems like you're starting with a...

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

A

Yeah.

Joshua C. Long
Analyst, Stephens, Inc.

Q

...larger box in general. Is there an opportunity to maybe optimize that over time, too?

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

A

Well, the grab-and-go is planned for every new restaurant. So, that grab-and-go is, it's part of our design for all of our new restaurants. And I think we've made strides in how we merchandise the grab-and-go. But as retail merchants, we're really good restaurateurs. And so, we will keep getting better and better. And you can think about, we're talking to like some of our beverage partners of, hey, we need like energy drinks, okay. Energy drink is an incremental sale. It's a different demographic. It's not something that's going to compete with our fountain beverage business or a tap. And so, we can get smarter and better with what's in the grab-and-go, right.

Let me get some evolution for...

Derrick Pratt
Chief Operating Officer, Portillo's, Inc.

A

Yeah. And to the efficiencies in our existing restaurants, I mean, the entire universe is probably around 46 restaurants, but we believe we can do 40, like 15 to 20 this year, we'll do another 23 next year. And some of those same line reduction changes that we've made and the current retrofits, we're able to make in our existing restaurants. So, we're able to bring our shake machines back online, bring our salad production area in line, put the grab-and-go in, right, remove drink makers because we're self-serve beverage, that is FTE reduction in those existing units going forward, right. So, to your point, yes, we are moving some of those efficiencies into our retrofits.

Ivan Yu
Analyst, Jefferies LLC

Q

Great. Thank you, Ivan Yu from Jefferies. Just thinking about some of the newer markets that are beginning to scale now, such as Arizona, Florida and, of course, Texas over the next couple of years, could you remind us what you typically see when you reach that six- to eight-unit, mark? Is it benefits on procurement? Is it labor being able to leverage a market manager or some of the flex trainers you talked about? And what do you expect to see kind of going forward as it pertains to Kitchen 23 and Restaurant of the Future?

Michelle Hook
Chief Financial Officer, Portillo's, Inc.

A

Yeah. I think the best example I gave was this time last year when we weren't even at scale in Arizona, but we went from two to four restaurants in that Phoenix market, and we saw 370 basis points of margin expansion. Again, not being at scale yet in that market. Now, we have seven restaurants in that market. So, it goes to your point of us being able to leverage that multi-unit manager.

So, a lot of you met Liz Leen tonight, who is our Market Manager in Texas, while she's got two restaurants today in The Colony and Allen, like leveraging our capabilities across six to eight restaurants, the distribution, right, to get your product into Texas. We still make all our beef, peppers, and gravies in Chicago and ship it across the country. So, leveraging full truckloads as we distribute down there.

As Nick and his team do their local field marketing, leveraging that across not just two restaurants here in Texas today, but is around the path of five by Q1 of 2024, all of those things come into account. But when you think about where we're at in our lifecycle today, right, the only market that we're really at scale today is in Chicagoland, right. We just opened our seventh in Arizona. We're at two today in Texas. I would argue, even though we have eight in Indiana, it's very dispersed across different markets within the State of Indiana. And then, you look at where, again, we have pockets of restaurant in the Midwest. So, we're really just learning this over time. But I think that Arizona example is the one I have that's closest to a proof point that we have today.

Derrick Pratt
Chief Operating Officer, Portillo's, Inc.

A

And then, just from an efficiency standpoint, I mean, conveyance on a grand scale is flying people all over the place, right, flying people from Chicago to come in and run restaurants, et cetera. When you look at Texas alone, we are actually creating a kind of self-generating from a talent perspective, both management and our team members, who will be trainers, who will be a part of the flex team, who will be moving around Texas, helping to support restaurants, as opposed to us bringing what I call red hats in from the Chicagoland market. So, self-generating talent is really a key component. It's both more efficient, right, and it provides people kind of hope in the market. They're starting something I can grow, I can prove, I have an opportunity for growth, right.

And so, I think that's as important as anything else. People get deflated, right, when they don't see additional growth and opportunity in their marketplace, when they feel that this is one restaurant or two restaurants. So, I think it's really important to creating that motivation, that energy.

Ivan Yu
Analyst, Jefferies LLC

Q

That's helpful. Thank you.

Q

Thank you. I just wanted to follow-up on the unit growth outlook. I want to make sure I heard correctly that I think CapEx is expected to exceed operating cash flow in 2023, if that's the case.

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

No.

Michelle Hook
Chief Financial Officer, Portillo's, Inc.
A

No.

Q

No.

Michelle Hook
Chief Financial Officer, Portillo's, Inc.
A

No. I just wanted to say the point being that I expect the same trajectory in 2023 in terms of continuing to self-fund the CapEx in the CapEx range of $70 million to $75 million. So, I expect, therefore, cash flows to be higher so that we can fund that CapEx growth. And then, obviously, as we go into next year, continuing along that path, as we continue to bring new restaurants online that again, continue to contribute to that cash flow pot.

Q

Okay. Thank you.

Barbara Noverini
Director-Investor Relations, Portillo's, Inc.
A

We've got time for one more question.

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

Can you go to the next slide for us? So, I'm just going to wrap up. I'm good. So, look, hope everyone's enjoyed this part of it. For those of you going, you're going to get to see Allen. I mean, it's super-exciting. There is a couple takeaways that I just want to make sure that you all leave with. So, we are a growth concept. We're a 60-year-old growth concept, which sounds oxymoronic to say it that way, but we're a 60-year-old growth concept. And we're at 76 restaurant, however you want to calculate what our full potential looks like, it's an absurdly high number, and we've only – we're not even at the tip of the iceberg. That's point one.

We have the benefit of robust unit economics. Robust unit economics. We can knick-knack all you want about, hey, current, you didn't have the best quarter last quarter in terms of transactions. Fine. The reason people worry about that in the restaurant industry is because there is a lot of restaurant companies that don't make much money. And when transactions soften, those restaurant companies are in a lot of trouble. We have never been in trouble financially. We're building new restaurants, we're funding all of our growth, we're self-funded, and that's not going to change for the foreseeable future.

We're super-excited about our growth. So, hopefully, one of your takeaways is going to be, wow, Ellis, who's got 35 years of experience in doing development, kind of knows what he's doing. I have my days when I'm not sure, but mostly I kind of feel he knows what he's doing. And so, they're getting much more rigorous and scientific about site selection, which de-risks what we do. Mr. Pratt, who's been opening restaurants for pretty good companies, McDonald's and Starbucks, 30-plus years, has an NRO playbook. We're going to open really strong. We're not going to open restaurants, have them implode on us, take five years to get back to year one. We're going to open strong. We know what we're doing. We have NRO teams in place. We know what we're doing. We're operating our restaurants really well.

Restaurant of the Future, candidly, we're a little bit nervous sharing that because sometimes people think, oh, this is all just smoke and mirrors. It's real. You heard our CFO, you heard Nick talk about it, it's real. We already have implemented a big chunk of the improvements in Allen, Texas. You're going to see Allen, Texas. Allen, Texas is 50% smaller than restaurants we were building in 2016, 2017, 2018. The kitchen line is 50 feet smaller. The productivity of that restaurant is going to blow away all of the restaurants we were building before. And then, the next-generation of Restaurant of the Future just gets better and better.

And then, you saw the updated guidance where we think that in a very short period of time, we're going to be growing new restaurants at 12% to 15%. We think that we can generate cash-on-cash returns of 28% to 31%. And on a like-for-like basis, if you think about do you build the restaurant yourself, do you lease, that's financing. The actual return on our investment is the best in the industry. So, I'd love for you to take that away.

Please enjoy yourselves, right. Barb, we're off to Allen. Ask us questions. I wanted you to hear more from the team than just from me, because they're the ones doing all the heavy lifting. And so, please ask questions, engage, and have fun. Thank you.

Barbara Noverini

Director-Investor Relations, Portillo's, Inc.

Thank you, Michael. Thank you. To those on the webcast who submitted questions, much like we do at the annual shareholder meeting, we will address those questions after the event and publish the answers on our website. This concludes the webcasted portion of the event. Thank you very much for joining.

And for those of you who are with us, we are going to be gathering in the lobby. So, if you are planning to take the bus to the airport, take your things with you, we will leave them on the bus. If not, you are welcome to leave at any point throughout the way on your own, right. And we plan to get going by about 10:45. So, if you need to gather your things, go ahead and do that, and then just meet in the lobby. We'll gather there and then we'll board the bus together. And if anyone has any questions, you know where to find me. Thank you, all, for coming today.