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PRESENTATION

Operator

Greetings, and welcome to Portillo's Third Quarter 2022 Earnings Conference Call. (Operator Instructions)

It is now my pleasure to introduce your host, Barbara Noverini. Ms. Noverini, you may begin.

Barbara Noverini;Director, Investor Relations

Thank you, operator. Good morning, everyone, and welcome to our fiscal third quarter 2022 earnings call. With me on the call today is Michael Osanloo, President and Chief Executive Officer; and Michelle Hook, the company's Chief Financial Officer.

Before we get started, let me remind everyone that we are hosting our Inaugural Investor Day on Tuesday, November 8, with management presentations beginning at 9:00 a.m. Eastern Time. You may register for the live webcast by visiting our Investor Relations website at investors.portillos.com. In addition to viewing our presentations, webcast participants are welcome to submit questions during the live Q&A session with our management team. We look forward to continuing the conversation with you on November 8.

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

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

Now let me turn the call over to Michael Osanloo, President and Chief Executive Officer.

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

Thank you, Barb. We are incredibly proud to share the results of another great quarter with you. Our dedicated team members proved time and again that delivering an exceptional guest experience drives our solid financial performance. We have some of the best team members in the industry, and I want to thank them for living our values and making operational excellence a top priority of Portillo's.

In the third quarter of 2022, total sales increased 9.5% to $151.1 million. Same-restaurant sales grew 5.8%, showing resilience in this macroeconomic backdrop. We ended the quarter with average unit volumes of $8.4 million per restaurant. Our throughput continues to show up in our restaurant level adjusted EBITDA margin, which was 22.6% for the quarter.

Now Michelle will go over our financial results in more detail, but let me discuss the underlying drivers of our performance in the quarter. First, our strong comps serve as evidence that our pricing approach is working. Our pricing philosophy is to slightly lag inflation and our competitors. Let me be clear, we do take price. We just aren't going to be the first to do so. That's the crux of our price laggard strategy. The power of our value proposition is especially apparent during times of economic uncertainty. Our guests expect a high-quality meal at a great price point. This is something we carefully protect. So we've surgically taken price across our menu to keep up with inflationary trends, while ensuring our guests feel that relative value in the quality and abundance of our food.

We have 2 solid indicators that suggest our tactics have been prudent, guest survey data and our guest counts. So first, our guest satisfaction scores have continued to trend higher in Q3. One component of that is a relative value score, which captures guest sentiment with respect to our value proposition. Even in this inflationary period where consumers have undoubtedly felt pinched, we continue to score high with our guests. Our value scores are the highest they've been in 3 years. We've seen that inflation for food at home has outpaced food away from home year-to-date. And further, we've deliberately priced less aggressively than other restaurant companies. Our guests can feel that value, and we're thrilled that they continue to tell us exactly that. Second, our guest count, which we calculate as the number of sandwiches and entree salads sold in the quarter ticked up slightly. In other words, we served more people in Q3. This is proof that our price strategy is working.

Next, our team members handle unbelievable volumes on a daily basis, which drives our restaurant level margins. It's the energy of our people and the consistency of our operating model that translate into the attractive margin profile we enjoy at Portillo's. We see high contribution margins from every incremental beef sandwich, every incremental fry, every incremental hot dog sold, and we wouldn't be able to do that without the incredible frontline team members, who rock our busy shifts and handle our ridiculous volume. Because focus on operational excellence matters, we implemented another round of pay increases in the quarter. For us, attracting and retaining engaged team members is key to our continued success.

In an environment, where talent is hard to come by, our staffing levels are now over 100%, and our turnover has consistently been 20 to 30 percentage points better than the industry average. Investing in our team members is consistent with our values-driven culture, and our team members in turn take care of our guests, who in turn take care of our investors. Finally, we're gearing up to open 5 new restaurants over the next few months. First of these openings will be in Schererville, Indiana. Schererville is our eighth restaurant in Indiana, a market in which we continue to build out local scale. We've already invited fans to get a sneak peek before the soft opening next week.

We'll open 4 more restaurants across the Sunbelt. We're continuing to build out Central Florida with West Kissimmee and we're also on track to open our first location at the Grandscape development in The Colony in Texas. We will add 2 more restaurants in Arizona, in Tucson and Gilbert. We continue to face lengthy permitting processes, which were largely responsible for clustering these builds into the fourth quarter. Our teams have been preparing well in advance to open the last 5 restaurants, but there is a chance that one of them moves into 2023 by a few weeks. We already have line of sight toward opening at least 9 additional restaurants in 2023. Preparations are underway for 3 to 5 new restaurants in Texas, 3 to 4 in Central Florida, 1 to 2 in Arizona, 1 to 2 in Chicagoland and 1 to 2 in Michigan over this time frame.

We had a great third quarter, and we're excited about the future of Portillo's. As we grow, we remain committed to the strategy that's driving these strong financial results. We will continue to take great care of our team members, who we treat like family. We will continue to maintain our value proposition by serving abundant portions of our delicious food at a great price. We will continue to focus on operational excellence, and we will continue to build beautiful restaurants in high-growth markets.

With that, let me hand it off to Michelle to share a few more details of the quarter.

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

Great. Thank you, Michael, and good morning, everyone. Before we discuss our third quarter results, I want to briefly recap our recent secondary offering. This quarter, we completed the offering of approximately 8 million shares of the company's Class A common stock at an offering price of $23.75 per share. All of the shares sold in the offering represented Class A and B shares owned by pre-IPO members. The company did not receive any proceeds from the sale of shares of Class A common stock, but rather use the net proceeds to purchase Class A and B shares from the pre-IPO members. Total number of shares remain the same. To reiterate, this transaction did not dilute any existing PTLO shareholders.

Now turning to the results for Q3, our third quarter results prove again that our dedicated team members are delivering an exceptional guest experience, which is driving our consistently high average unit volumes and strong restaurant level adjusted EBITDA margins. This shows that we are resilient in the face of a tough macroeconomic environment.

Let's now dive into the details. Revenues were $151.1 million, reflecting an increase of $13.1 million or 9.5% compared to the third quarter of 2021. This increase was driven by the opening of 2 new restaurants in the third and fourth quarters of 2021 and 2 new restaurants in 2022, combined with a 5.8% increase in same-restaurant sales. The same-restaurant sales increase of 5.8% was driven by a 6.3% increase in average check and a 2.8% benefit from the change in recording third-party delivery pricing. This was partially offset by a decline in transactions of 3.3%. The higher average check was driven by 8.2% increase in menu prices, partially offset by lower items sold per transaction.

When you look at our third quarter comp on a 3-year geometric basis, we grew 10.7%, which is in line with our long-term target of low-single-digit annual growth. Cost of goods sold, as a percentage of revenues, increased to 35.3% in the third quarter of 2022 from 32.1% in the third quarter of 2021. This increase was largely driven by 15.4% average increase across all commodities. We saw higher impacts in beef and chicken in the quarter. Additionally, cost of goods sold was negatively impacted by 1.8%, resulting from the change in recording third-party delivery pricing. These increases were partially offset by the increase in our average check.

The commodity market continues to remain volatile, and we have and are taking measures to mitigate our risk within key input categories. We have locked in pricing on approximately 57% of our commodity basket for the fourth quarter of 2022. We believe our commodity basket will increase at 15% for fiscal 2022, the higher end of our previously guided range.

Now moving on to labor. Labor as a percentage of revenues decreased to 25.9% in the third quarter of 2022 from 26.8% in the third quarter of 2021. This decrease was primarily driven by the increase in our average check and operational efficiencies. Partially offsetting these favorable variances was labor inflation. We continue to invest in our incredible team members with additional hourly rate increases put in place at the beginning of the third quarter.

Other operating expenses increased $1.3 million or 8.5% in the third quarter of 2022. Occupancy expenses increased $0.6 million or 9.2%. Both increases were largely in the result of new restaurant openings in 2021 and 2022. Restaurant level adjusted EBITDA decreased 0.5% to $34.1 million in the third quarter of 2022 from $34.2 million in the third quarter of 2021. Restaurant level adjusted EBITDA margins were 22.6% in the third quarter of 2022 versus 24.8% in the third quarter of 2021. The decrease of 220 basis points was driven by the continued impact of increased commodity costs and to a lesser extent, labor inflation.

We are partially offsetting these expense increases through menu price increases and operational efficiencies. During the first and second quarters of 2022, we increased menu prices on certain items by approximately 1.5% and 3.5%. In mid-October, we increased menu prices on certain items by approximately 3%. These increases, combined with pricing actions taken in 2021, resulted in an effective increase in price of approximately 8.2% in the third quarter of 2022 and 7.4% year-to-date. As Michael mentioned, our philosophy of the lag inflation and our competitors. By not taking aggressive pricing, we are preserving our value proposition. We will continue to monitor the current environment and remain flexible and strategic in our pricing approach moving forward. Our focus remains providing a great value for our guests.

Our G&A expenses increased $6.3 million to 12.0% in the third quarter of 2022 from 8.5% in the third quarter of 2021. This increase was primarily driven by increases in equity-based compensation expense of $3.2 million, an increase in insurance of $0.7 million and transaction fees related to our secondary offering of $0.6 million. Pre-opening expenses increased $0.4 million to 0.5% in the third quarter of 2022 from 0.3% in the third quarter of 2021. The increase was due to preparation for the planned restaurant openings in the fourth quarter. All this led to adjusted EBITDA of $21.6 million in the third quarter of 2022 versus $24.2 million in the third quarter of 2021, a decrease of 10.7%.

Below the EBITDA line, interest expense was $7.1 million in the third quarter of 2022, a decrease of $3.6 million from the third quarter of 2021. This decrease was driven by the payoff of our second lien term loan in the fourth quarter of 2021 and lower outstanding borrowings under our first lien term loan. This decrease was partially offset by $0.9 million of additional interest expense on our current term loan due to an increased interest rate. As of the end of Q3, the effective interest rate on the term loan was 8.8%.

Income tax expense was $1.0 million in the third quarter of 2022, and our effective tax rate for the quarter was 23.9%. We ended the quarter with $46.7 million in cash. We will be using our cash balance plus operating cash flow to support our continued growth in the near-term and beyond. We remain focused on our strategy, which is driving our strong financial results. We care about our team, who in turn care for our guests. We prioritize our value proposition through strategic price management. We focus on operational excellence, and we will continue to build beautiful restaurants.

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

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

Thank you, Michelle. Portillo's is a brand that is persevered through a wide range of external pressures throughout the past 6 decades without ever closing a restaurant. The broader macro environment is highly unpredictable, but getting a great meal from Portillo's is not. No matter what's going on in the world, we are committed to delivering our delicious menu at a value-driven price point. This is what makes Portillo's special. It's what we excel at. We do this by leading with our people-centric culture and focusing in on operational excellence. Our guests can taste it, they can feel it, and it keeps them coming back. Thank you.

With that, let's just turn to Q&A. Operator, can you please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Andy Barish with Jefferies.

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

Understanding the challenges in the development world, trying to, I guess, hone in on, just opening that many units coming up in the 4Q, sort of how we should think about that impact on restaurant level margins, just with all the kind of moving pieces and dates and stuff like that?

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

Yes. Let me give you -- I suspected that people are going to ask about this. So let me give you a little bit of my 2 sense -- my thoughts on this, and then I'll turn it over to Michelle on what that impact might be. So a couple of things. One, obviously, this clustering of these restaurants this late in the year, we learned a lot about how much permitting time we need to budget and how just -- it's a longer process than it's ever been. So we've been very, very conservative in budgeting, permitting time and total construction time for next year. The good news is all of the restaurants are under construction. Schererville, as we said, is basically done, and we're opening for soft sales next week. We did -- I did mention that one restaurant might slide into '23. And Andy, just to be totally transparent, we're probably being way transparent on this one, because we'll see a lot of you in early January at an investor conference.

And if the restaurant is not open, I don't want you to say, well, you could have told us this in November. So we just wanted to be abundantly transparent about that. It might slip a couple of weeks. When it comes to '23, we are far, far ahead of where we were in the last several years in terms of development pipeline. We've got -- we are well underway to hit our targets. And it's probably going to be still more backend loaded than I think we would ideally like more in the second and third quarters, not -- I don't -- I'm not sure we're going to have any in the first quarter. So we'd like to keep working on that. But development is progressing incredibly well, and we have an abundant pipeline for '23 and even in richer pipeline for '24.

So Michelle, any thoughts on…

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

Yes, I would just add, Andy is, as Michael mentioned, with the openings this year being back-loaded Schererville next week, but then the other restaurants planning to open later in December. And so when you think about the impacts on margins this year, it's really going to be not much of an impact because you're not going to have really that many weeks for the remaining restaurants that you're going to be operating with in fiscal 2022. So that will be more something as we move forward in '23. That will be impactful versus $22 million.

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

Got you. And then along the same lines, can you just give us a quick update on sort of building investment costs? I know that's been an industry-wide issue. Any kind of value engineering that you're looking at to get some efficiencies like you've done on the operations side, which is obviously helping on the labor line as we've seen here in the last couple of quarters?

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

Yes. Let me -- there's probably 3 things that are of interest. One is, we have an initiative going on we're calling Kitchen 23, which is reconfiguring our kitchen. We're testing it in some of the -- we're going to test it in the '23 builds. We're excited by it. It's a more efficient kitchen in terms of both labor utilization as well as cost of equipment. So we think that this could be a very helpful initiative to reducing both the cost but also helping with operating costs. Our operators are doing a great job with this. It was a grassroots effort. We really got some of the greatest ideas from frontline team members, who do this every day. So we're excited by that.

Second thing is we are looking at continuing to -- I hate the word, value engineer, Andy, because it sounds like you're cutting value. Let's say, we're trying to go where the guest is going in terms of what they expect in a restaurant experience. So what guests expect is better access to off-premises. So a killer drive-through, if they want to come in and do take out, it's super easy. If you have third-party people coming in to do off-premise, make it super easy. We're seeing a structural change in how many guests want to sit inside a restaurant and eat in.

And so we're being thoughtful and flexible about rightsizing the dining room, continuing to improve access for everybody off-premise as well as rightsizing the kitchen. The total of that is we should be able to take some space out of the restaurant while actually having a restaurant that is better suited to consumers' changing needs. So -- and then Michelle will talk about this, but we're seeing some amelioration in costs.

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

Yes, I would just add to that, Andy. Yes, my expectation heading into '23 is that we should see some easing on the costs that we saw this year, obviously, to be determined, but that's my expectation heading into '23.

Operator

Next question comes from Sharon Zackfia with William Blair.

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

When you think about the value positioning that you've been able to maintain even in this very inflationary environment, I'm curious on how that impacts both new customer acquisition as well as frequency of returning gas, if there's a disproportionate impact on one of those buckets? And then separately, we've heard from a lot of other companies that trends improved quite a bit in September into October. I'm just wondering if that's something as well that Portillo's has seen.

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

Let me handle the first part of the question, and I will defer to Michelle on the second. I think, it's a great insight, Sharon. I think we have -- as you know, we have such a loyal customer following wherever we are, whether it's Arizona, Florida, California, Chicagoland, that getting that repeat visit and getting that continuation of both our ultra-heavy user and our heavy user is super important to us. So having a sharp value proposition, especially as it relates to the price increases that guests are seeing elsewhere is really important for the base of our customer. That the people who use us, notice these things and they're voting with their feet to stay at or come more frequently to Portillo's.

From a new customer acquisition standpoint, we don't -- we're not -- our first -- sort of our first marketing hook is not trying to say, hey, we're cheaper than everyone. We're not -- there's certainly QSR that are less expensive than we are. Our marketing hook is, we have amazing delicious food. We have an unbelievable guest experience. Oh, and then by the way, it's an incredible value proposition that will keep you coming back for more. So we like to hook them with delicious food, great experience and then keep them coming back with both those things as well as great value.

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

Yes, I can answer in terms of trend, Sharon. I mean, it's early on. We just ended our period 10 on Sunday. And so in terms of how we're looking at things in October, I think, I don't all of a sudden expect that we're going to flip the calendar and you see our numbers. Mix has been pretty consistently negative Q2 and Q3. I think, items per transaction has been consistently down, I don't think that trend will all of a sudden flip. And then we did see some transaction improvement as you saw in the numbers, Q2 to Q3. And so I think that's the one thing I'd point to that at least within the quarter, within Q3 that we saw improvement on and then early innings on Q4 right now.

Operator

Next question comes from David Tarantino with Baird.

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

Just a quick follow-up to Sharon's question, so I guess, we've heard quite a bit about urban recovery or bigger cities starting to see mobility improvement, including in Chicago. And I was wondering, if you could just give some perspective on how that might be impacting your business and whether that was the reason we saw the traffic improvement you saw in the third quarter relative to the second quarter. And then I had a second question related to the fourth quarter, which is really -- I know you have a huge catering business around the holidays, and that's been maybe less robust than the last couple of years. I'm just wondering, how you're anticipating that to play out this year?

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

Yes. Your first question, I would say, in general, David, our trends, Michelle is going to kick me for saying this, but like we're equally positive everywhere. So from the second to the third quarter, it's not -- it's like, yes, the trends improved in Chicagoland, but trends really improved in Arizona. The trends really improved in Wisconsin. The trends really improved in Florida. I mean, the trends improved across the board for us all across the country. So we feel really good about the overall pace of improvement and the trends in our business.

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

Yes. I think when you looked at Q4 in catering, Andy -- or David, sorry, it's still TBD. And as you know, we did have impacts because of Omicron last year. And so assuming nothing else happens, my expectation is, is that we have a chance to outperform versus last year. But again, we won't know that, as you know, until we hit period 12, which is where the bulk of our catering comes into play. So I'm not going to count anything until it actually happens. But yes, I would like to think that hopefully, we'll see some improvement in those trends versus '21.

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

Great. And Michael, if I could squeeze one more in, just could you give us an update on the most recent unit openings? I know you've only done a couple this year, but how they're performing relative to your plan?

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

Yes. I would tell you, I think they're both performing above initial expectations. So we're very, very happy with Joliet. We're very, very happy -- we're very, very happy with St. Pete. St. Pete has been an excellent opening. We think that it's validating a lot of the thinking, ideas. And as you know, Joliet is a bit of a test because it is the drive-through-only concept. It's our Portillo's pickup. And so it's performing really well, but we also see a lot of room for improvement in how it performs. And so as we look at doing more pickup-only locations, I think the next iteration of them will be even better than this one.

Operator

Next question comes from Gregory Francfort with Guggenheim Securities.

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

I had 2 quick ones. The first is, Michelle, I think you talked about CapEx per restaurant maybe coming down in next year. Can you maybe give us what you think that's going to be in the fourth quarter? And then I don't know if there's a chance that maybe roughly framing up how much that could come down in '23, but that would be helpful.

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

Yes, Greg, we're not going to see any easing in 2022 builds. As Michael mentioned, everything is under construction. We're incurring those costs today. It would be more in the '23 builds as we look out to that. We're still putting those exact figures together, I'll probably have more information for you when we talk in January on how '23 is looking and shaping up from a build cost standpoint. But right now, I wouldn't expect significant easing on '22, because we're incurring everything as we speak. And a lot of the materials going into those builds, we're already purchased and bought well in advance before we started putting shovels in the ground.

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

Got it. And then maybe just the other question. As we look out to 2023 in commodities and pricing, I'm curious how you guys are thinking about that relationship. And we've heard a few companies talk about mid-single-digit-ish commodities in 2023. And are you guys still looking at maybe doing kind of 2 pricing actions a year? Are you trying to kind of underprice the wherever commodities shake out? Just how you're thinking about that framework?

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

Yes. I'll take that one, Greg. We're putting together plans for '23. Again, I think we'll have more to share with you in January, when we speak then. But absolutely, the way we're thinking about it is, we don't expect it to be 15% inflation next year. I think more mid-single digits is probably more reasonable a lot of what you're hearing from other concepts as well. We're seeing the same types of things as we look at the data right now. And then as we've always stated, we're going to remain flexible in our pricing approach. So as you know, coming into the year, I mentioned, we took the 1.5% price in Q1, another 3.5% in May and then 3% in mid-October. We're going to continue to evaluate and remain true to our strategies and look at how that's looking and how inflation is looking at that point in time. But we're not set on 2 or 3 actions a year.

Operator

Next question comes from Nicole Miller with Piper Sandler.

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

There was a comment earlier -- I think it was prepared commentary about labor efficiencies. And I just -- every time I go, I appreciate, like the complexity of the business. So I was curious about the labor efficiencies that you spoke to, is that less turnover with more training and just more time in those positions? Or are you able to eliminate something operationally in terms of complexity?

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

First, Nicole. It's a great question. And there's -- and the reality is, I think, in part, you answered your own question, which is there's a ton that goes into labor efficiency. So there's -- everybody knows that there are hard costs associated with turnover, right? You have to recruit someone, you pay for that, bring them on board, etc. But there's a lot of soft costs associated with labor turnover that affects your efficiency line. Tenured employees', seasoned people tend to be faster. They tend to work better. They tend to work cross-functionally better, especially in our environment. So there is definitely, definitely a strong benefit to improve turnover trends and all the training that we've been doing and having engaged team members. So that's a big part of it.

But we're being very, very thoughtful and careful about what we do in the kitchen that makes sense versus what we should have other people do for us. And you guys are probably bored of me saying this, but it's a lot of little things that add up. It's finding a supplier, who can give us beautifully sliced -- pre-sliced red onions. So that creates labor efficiencies. You don't have to have somebody putting on a cut glove, cutting onions for hours. You have beautiful fresh onions that are coming out of sealed bag and you put those on. We have -- we are reconfiguring some restaurants in our older markets, where the salad bowl has become antiquated, removing the salad prep on -- to the main line, it gets complicated.

Good news is, from a labor efficiency standpoint, that creates huge opportunity, less conveyance for our team members, less walking back and forth, easier to slide from station to station. So we're seeing significant labor efficiencies there. So what I can promise you is that we continue to assiduously look for opportunities to remove low value work out of our kitchens and just focus our team members on high value-added activities.

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

Turning to price, assuming you didn't realize perhaps all of the 3% October price. Could you talk about what fourth quarter prices and then its impact on fourth quarter store level margin? There's some seasonality. And I'm just trying to think about year-over-year commodities, the seasonality and at store level margin with that price could be higher than the third quarter and also higher year-over-year.

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

Yes, Nicole. I'll take that. I do expect Q4 pricing to be consistent with Q3. And so I think that pricing will be consistent when we took the action, I think that's at least what I'm estimating as we sit here today. And so the other component that I didn't want to make -- I did want to make sure everyone understood is when you look at the impact of our third-party delivery pricing on the comp as well, remember, we put that change in effect in P12. And so the impact of that in Q4 is going to be less. So we've been trending around 2.7%, 2.8% impact on cap. That's going to be closer to around 2-ish percent in Q4. So that's going to -- that impact is going to come down a little bit.

But in terms of your question on margins, I think from a commodity standpoint, I do expect that we are still going to be pressured in Q4 and will be likely the midpoint of our 13% to 15% range, therefore, coming in at around that 15%-ish for the entire year is, what I'm currently looking at from a Q4 standpoint for commodities.

Operator

The next question comes from Chris O'Cull with Stifel.

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

Sorry about that, I was on mute. I had a follow-up question about -- a couple of them about development. First, how many new projects have signed leases? And then Michelle, you talked about investments for new units being higher, but how do you expect the margin maturation curve to change for new units?

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

So we're really -- I don't want to get in the business of talking about when the lease is signed, when it's an LOI, et cetera. What I would say, Chris is that we have an abundant number that we are excited about, actively working on. And so we're -- as you can imagine, right, to make sure you get 9, you're working on 15, 16 restaurants, and that's kind of what we're doing.

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

Yes, Chris, in terms of the build cost, my expectation is that we will continue to get the returns that we talked about a year ago during the IPO process, right? And so yes, the equation has changed slightly in the current environment where your build costs are higher, but I expect that we're going to continue to generate the top lines to get the returns that we discussed back then. When you look at by year 3, getting into that low 20% margin profile is my current expectation as we continue to build new restaurants. And as you know, we have a very rigorous process that each new restaurant goes through, through our real estate committee. And I will not sign off, and I know Michael will not sign off on any restaurant build that does not deliver those returns.

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

Perfect. And then just, Michelle, you mentioned earlier there won't be much contribution from the fourth quarter earnings -- or from new stores during the fourth quarter. But I suspect there's going to be some costs associated with opening those stores. So can you help us quantify the additional costs you might incur in the quarter maybe from pre-opening, G&A, labor training, et cetera?

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

Yes. Yes, Chris, I still expect, and that's why I didn't come off of the pre-opening expense guide, we'll be at the low end of the $6 million to $6.5 million range. So you're absolutely right. We're still going to incur those pre-opening expenses, because as Michael said, we're running really hard to get all of those up and running with the potential that one does flip, but we're going to run real hard. And so we'll still incur those pre-opening expenses.

Operator

Next question comes from John Glass with Morgan Stanley.

John Stephenson Glass - *Morgan Stanley, Research Division - MD*

Michael, first question is on average unit volumes in Chicago versus non-Chicagoland. In your filing this summer, you put an updated average unit volumes, I thought, what was interesting is that it looks like Chicago is now -- or Chicagoland is now well above pre-COVID levels? Non-Chicago is not yet. But I also know there's a lot of things in there, for example, there's the new stores, but can you just talk about what is going on in that or some of the more legacy stores still not recovered and newer stores are outperforming? Can you just unpack the non-Chicago on AUVs versus pre-COVID? And it might be why they're still below pre-COVID levels, when Chicago is still -- is now above?

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

So great question, John. I actually -- I think the data is a little off. So all of our restaurants -- so if you said trailing 12 months from P9, all of our restaurants in Chicagoland are certainly doing better than 2019. Our restaurants in non-Chicagoland in total are really close to 2019. And then California, Arizona and Florida, which I think is always important to call out, because I think those are sort of the best proof points of the portability of the concept. Those are significantly above 2019. So we're actually seeing great performance in general. We're in some of the markets where it's -- the restaurants, the AUVs are not quite up to 2019 levels, it's totally a function of newer restaurants opening that are just kind of building up scale, building up momentum. So in general, we feel really great about the recovery of our restaurants across the country. Obviously, Chicago is fantastic for us, but we also feel really good about California, Arizona and Florida and the way that they are both have recovered and then exceeded 2019.

John Stephenson Glass - *Morgan Stanley, Research Division - MD*

And then just going back to your comments on entree count, I just want to clarify, you said, it kicked up. Were you talking about its positive now year-over-year? Or did it improve versus last quarter? I think entree counts were -- remind me, but I think they were down still a little bit last quarter. Are they now -- so was that a sequential comment or a year-over-year comment?

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

I can be more specific. So remember, first quarter, our entree counts were up 1.7%. So -- and just for everybody who's not quite sure, we look at entrees, sandwiches sold and entree salads as an indicator of how many people are eating at Portillo's. Everybody knows when most people are quoting transaction or check, that's kind of -- that has a lot of noise in it based on mix, channel, et cetera. So entree counts for us in the first quarter were up about 1.7%. Entree counts for the second quarter were down about 1.9%. Entree counts for the third quarter kicked positive again, 0.1%. So we're basically flat for the year, but we had -- first quarter was good. Second quarter was a little challenged. But the third quarter, our entree counts came back up at a time that I think has been very, very challenging for restaurant industry in general.

Operator

(Operator Instructions)

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

All right. Well, operator, it looks like there's no more questions. So thanks everyone for attending our earnings call. And we'll see many of you in early January in Florida. Take care.

Operator

This concludes today's teleconference call. You may disconnect your lines at this time. Thank you for your participation.
