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PRESENTATION

Operator

Greetings, and welcome to the Portillo's Second Quarter 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Barbara Noverini. Please go ahead.

Barbara Noverini

Thank you, operator. Good morning, everyone, and welcome to our fiscal second 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 begin our formal remarks, let me 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 measures. Any non-GAAP financial measures should not be considered as an alternative to GAAP measures, such as net income or operating income or any other GAAP measure of our liquidity or financial performance.

Finally, after we deliver our prepared remarks, we will open the lines for your questions. This morning, we also announced the date of our inaugural Investor Day, which will be held in New York on Tuesday, November 8. We're excited to share more about our growth story with you. So please stay tuned for more information on how to participate.

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.

Let me first start by thanking all of our incredible team members. Our collective focus on the guest experience and operational excellence led to another quarter of revenue growth and strong profitability for Portillo's. In the second quarter of 2022, we grew total sales 7.0% to $150.6 million. Same-restaurant sales grew 1.9% even against a very tough comp of 25.0% from the same quarter last year. Average unit volumes remained strong at $8.3 million. Our ability to handle that kind of volume resulted in 25.5% restaurant-level adjusted EBITDA margin.

Our labor savings initiatives early in the quarter helped drive these results. We expect these changes to have a long-term impact and we'll continue to look for efficiencies within our operating model. Michelle is going to detail our financial results in just a moment. But first, I'd like to go over the major drivers of our success and why I'm so confident in the sustainability of our approach.

First, let's talk about our profitability levers. We generated 470 basis points of sequential margin improvement at the restaurant level in a tough environment. There's no question that inflation, commodity prices and labor volatility remain challenging. So we continue to focus on what we can control, factors that largely fall into the buckets of strategic price management, labor efficiency and team member engagement.

By sticking with our price laggard strategy earlier this year, our value proposition is stronger than ever. Portillo's is known for offering high-quality, delicious food at an affordable price. We view the cost of that high-quality food as a reinvestment in our guests. Even in a year like this one, when commodity prices have gone wild. We will not gouge our guests or lower our standards on food quality just to manage short-term margins.

Across our menu, by carefully pricing at or below inflation, we have preserved the value proposition that we offer our guests. We also saw a benefit from labor efficiencies that we implemented in late Q1, early Q2. And we shared these stories about moving the salad bowl, trimming sausages, using pre-cut onions and many more. These ideas start with our team members. We empower them to embrace the spirit of continuous improvement both for the business and themselves. And those little improvements, in aggregate, improved labor hours, which in turn had an impact on our bottom line in the quarter.

But I'd like to stress that these are not 1 quarter efforts that lead to 1 quarter results. We know that offering our guests a consistent, efficient experience has long-term benefits. If a guest has a positive experience, they come back and they bring their family and they bring their friends. This is evident from our guest satisfaction scores. Our order accuracy and overall satisfaction scores from Q2 remain the highest we've seen in the past 24 months. We consider these leading sales indicators that bode well for the back half of the year. Our guests have had positive experiences and they will be back.

At Portillo's, we prioritize a robust dynamic culture, which is an important part of the value proposition we offer our team members. Of course, we offer a variety of benefits at above average pay, but we know it's culture that wins. By leaning into our values of family, greatness, energy and fun, we create an environment that brings people in and keeps them as part of the Portillo's family.

We're also developing our next generation of leaders. Over the past year, we filled approximately 80% of our leadership openings internally. We gave them resources to excel and have fun at work. This leads to a culture that attracts and retains some of the best team members in the industry. Our folks are efficient, disciplined and deliver the Portillo's experience while eager to learn and grow with us.

Now I want to be clear, we will continue to pay at/or above market. So while we implemented cost savings initiatives early in the quarter, we did raise wages at the beginning of the third quarter in order to stay competitive. The labor efficiency piece can have a benefit to margins like it did this quarter, but we'll also continue to feel the impact of wage increases over the coming quarters.

We're also continuing to execute against our 10% new unit growth commitment for the year. In Q2, we opened St. Petersburg, Florida, a beautiful restaurant that's a testament to the power of strategically great real estate. It has high visibility off the well trafficked Tyrone Boulevard and a fantastic set of co-tenants. It's the perfect place for your family to stop after they've had a great day at the beach, and we're thrilled by how well it's performing.

We're also very excited about our development plans for the rest of the year. We have shovels in the ground in Schererville, Indiana and at the Grandscape development in The Colony, the site of our highly anticipated first restaurant in Texas. We're also starting construction on 3 more sites: our restaurant in West Kissimmee marks the second in the Orlando, Florida area, and we continue to build scale in Arizona with upcoming restaurants in Gilbert and Tucson. All 5 of these restaurants will be opened by the end of the year.

Portillo's is still a relatively new public company, and we've stayed true to the commitments that we've made, and we're doing what we said we're going to do. By focusing on what we can control, we produce consistently strong financial results. This is evident in our margins, which remain best in class despite the unpredictability of the broader environment.

We remain hyper focused on our value proposition, the guest experience and our team members' engagement and efficiency. In doing so, we create an environment that guests want to visit, that team members want to do well in and that allows us to self-fund the exciting development pipeline that will generate new obsessed fans.

So with that, let me hand it over to Michelle to share some more details of the quarter.

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

Great. Thank you, Michael, and good morning, everyone.

Our second quarter results highlight the effectiveness of our business model, which showed up in particularly strong restaurant level adjusted EBITDA margins on consistently high average unit volume. We delivered these strong financial results even in the face of material cost increases.

Let's now dive into the second quarter results. Revenues were $150.6 million, reflecting an increase of $9.9 million or 7.0% compared to the second quarter of 2021. This increase was driven by the opening of 4 new restaurants in the second through fourth quarters of 2021 and 2 new restaurants during the first half of 2022, combined with a 1.9% increase in same-restaurant sales.

The same-restaurant sales increase of 1.9% was primarily driven by a 4.8% increase in average check and a 2.7% benefit from the change in recording third-party delivery pricing. This was partially offset by a decline in transactions of 5.6%. The higher average check was primarily driven by a 6.8% increase in menu prices, partially offset by lower items sold per transaction.

When you look at our second quarter comp on a 3-year geometric basis, we grew 6.2%, which is in line with our long-term target of low single digits and continues to speak to the consistency and durability of our brand. Throughout our 59-year history, our brand has historically done well throughout all economic cycles.

Cost of goods sold, excluding depreciation and amortization as a percentage of revenues increased to 34.4% in the second quarter of 2022 from 30.0% in the second quarter of 2021. This increase was largely driven by a 15.2% average increase across all commodities. We saw higher impacts in pork, chicken and beef. Additionally, cost of goods sold was negatively impacted by 1.7%, 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 78% of our commodity basket for fiscal 2022. We continue to forecast our commodity basket to increase at the higher end of our previously guided 13% to 15% range for fiscal 2022.

Now moving on to labor. Labor as a percentage of revenues increased to 25.2% in the second quarter of 2022 from 24.5% in the second quarter of 2021. This increase was primarily driven by investments to support our team members, including hourly rate increases made in June of 2021, higher equity-based compensation and new restaurant openings in 2021 and 2022. These increases were partially offset by operational efficiencies, lower variable-based compensation and an increase in our average check.

As Michael discussed, all the continuous improvement efforts can make a difference, and we saw that this quarter in our labor numbers. However, we will continue to see headwinds in our labor rates. At the beginning of the third quarter of 2022, we made additional wage investments in our hourly team members. This, combined with the expected commodity inflation, will have an impact on our restaurant level adjusted EBITDA margins during the second half of 2022.

Other operating expenses increased $1.3 million or 9.0% in the second quarter of 2022. Occupancy expenses increased $0.3 million or 3.8%, both primarily the result of new restaurant openings in both 2021 and 2022. Restaurant level adjusted EBITDA decreased 10.9% to $38.4 million in the second quarter of 2022 from $43.1 million in the second quarter of 2021. Restaurant level adjusted EBITDA margins were 25.5% in the second quarter of 2022 versus 30.6% in the second quarter of 2021. The decrease of 510 basis points was driven by the continued impact of increased commodity costs and to a lesser extent, labor inflation. We are partially offsetting these 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%. These increases, combined with pricing actions taken in 2021, resulted in an effective increase in price of approximately 6.8% in the second quarter of 2022 and 7.0% year-to-date.

We will continue to monitor the existing environment and remain flexible and strategic in our pricing approach moving forward. Our goal remains providing a great value for our guests. As a result of menu venue price increases and operational efficiencies, restaurant-level adjusted EBITDA margins sequentially increased from 20.8% in the first quarter of 2022 to 25.5% in the second quarter of 2022.

Our G&A expenses increased $3.3 million to 10.3% in the second quarter of 2022 from 8.6% in the second quarter of 2021. This increase was primarily driven by increases in equity-based compensation expense of $3.4 million. Preopening expenses decreased $0.2 million to 0.3% in the second quarter of 2022 from 0.5% in the second quarter of 2021. This decrease was due to the timing and geographic location of restaurant openings in the second quarter of 2022 versus 2021. All this led to adjusted EBITDA of $27.6 million in the second quarter of 2022 versus $32.5 million in the second quarter of 2021, a decrease of 15.1%.

Below the EBITDA line, interest expense was $6.1 million in the second quarter of 2022, a decrease of $4.6 million from the second 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. Income tax expense was $2.3 million in the second quarter of 2022, and our effective tax rate for the quarter was 17.9%.

We ended the quarter with $49.7 million in cash. We will be using our cash balance plus operating cash flow to support our continued growth in new restaurant openings. So like Michael said, we're doing exactly what we said we're going to do. We are focusing on what we can control, which is strategic price management, labor efficiency and team member engagement. Our value proposition is stronger than ever, and we are well positioned for continued growth.

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

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

Thanks, Michelle.

Before opening for questions, I want to reiterate what we've shared over the last few calls. Portillo's has been around for 59 years. We persevered through a wide range of external pressures throughout these past 6 decades. We're able to do this and still continue to grow because we remain focused on what we said we would prioritize. It starts with our people-centric values-driven culture.

We care for and invest in our team members, who, in turn, care for our guests. They're committed to delivering our delicious menu at a value-driven price point and creating an unrivaled experience while doing so. We know that's what it takes to sustain this business. It's how we built a national following of loyal fans. It's our quality and our consistency that wins consumers over and keeps them coming back.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) is. Your first question comes from David Tarantino with Baird.

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

I had a couple of questions. First is on the sales trends you're seeing. And I was wondering, Michael, or Michelle, if you could comment on kind of what you're seeing as the quarter progressed, as Q2 progressed in terms of consumer behavior and the strength of the consumer as you sort of see it evolving here as we get into the early part of this quarter as well?

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

Yes. It's -- I think a couple of points I want to make, David. So recall that in Q2 of '21, we had a 25% comp. So we're actually really, really happy with our performance in Q2 and the way we lap that comp with a positive comp. So we feel really, really good. I think everyone in the industry has seen a little bit of softening or tightening with the consumer. I'd say that our value proposition and the -- and our consumer overindexing a little bit above average income, et cetera, probably insulated us from that a hair. But overall, I don't -- we feel really good about where we are. We think that we're getting some trade-down customers and that our value proposition is really resonating with consumers right now.

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

Great. And then on the labor line, very impressive, I guess, performance in light of kind of where you were in the first quarter. So I wanted to ask, are the productivity savings that you brought in towards the beginning of the second quarter, were those fully developed as you got into the second quarter? Or is there more benefit to come in the second half of the year from those? And then I guess relatedly, how do you think about the margin outlook for the second half of the year in light of the investment you made in labor, Michelle?

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

Yes, David, I'll take that one. So the bulk of the efficiencies, you would have seen that come through in Q2. So I don't expect to see any incrementality in terms of those benefits in the back half of the year. I think we called out what you will see is a little bit of headwinds given that we put in another round of rate increases at the beginning of the third quarter.

But having said that, when you look at the compare, right, which as you know, we did put in a round of wage increases in June of 2021. I think when you look at our hourly rates, we're up about 12.5% in Q2. I think when you get into the back half of the year, we do expect to see some easing of that compare. And so that was already expected, but it's going to be mitigated to an extent by those rate increases. And that's what we expect to see in the back half.

Operator

Next question, Sharon Zackfia with William Blair.

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

Just a few questions. Your value proposition to me seems like it's maybe better today than it's ever been relative to the [growth] and where other restaurants are. Do you have any quantitative measures on how consumers are rating Portillo's on the value proposition? And kind of concurrent with that, are you seeing any trade down around the menu?

And then one other item as well. I think last quarter, you talked about kind of people served as opposed to transactions kind of looking at entrees or items. Is there a way to contextualize that for the June quarter?

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

You bet. So let me start with our value proposition. I think the most important stat that we track is what we call overall satisfaction score, OSAT, because it embeds things like how accurate you are speed of service, value proposition, all of these things. And what I'm excited by is that our OSAT score is at a 24-month high. And so we feel great about where we are, and I think that's a good leading indicator. And as you know, I think broader inflation, depending on what you see, prices have gone up 9-ish percent. There are restaurant companies that have priced in the low teens. And where our pricing is slightly below 7%. So we have lagged inflation.

So yes, I personally feel great about where we stand versus the grocery stores, versus competition and versus what the consumer is seeing. And I think it's helping us.

The metric that we had talked about last quarter was sandwiches and entrees sold. And so we were slightly positive for the first quarter. We're slightly negative for the second quarter and were basically flat for the year. And I think given the broader macroeconomic dynamic, the traffic that we're seeing at other restaurant companies, we feel really good about that. I feel really good to be flattish in terms of total people served year-over-year for the first half.

Operator

Next question, John Glass with Morgan Stanley.

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

First, Michelle, just following up on a question about restaurant margins. When you say easing, I want to make sure I understand the context because the first quarter and the second quarter were very different. Are you seeing easing from the second quarter level or the first half average? And maybe if you can just quantify what the rate of increase of labor dollars or labor increase -- wage increase was just so I understand that.

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

Yes, John. What I'm referring to in the back half of the year is compared to what we saw in Q2, right, where we had a full round of efficiencies, right, that were essentially built into that quarter without any additional incremental rate increases. And so when you -- if you take that same logic and say, okay, in the back half of the year, right, I continue to see those efficiencies, but I'd layer on top, right, additional investments in wages, that's where I think we'll see some pressure in the back half compared to Q2.

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

Okay. And the increase -- what is the increase in wages?

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

We're not disclosing that.

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

Okay. And then, Michael, the development schedule has not changed versus last quarter. I think there's one that slipped. There are a lot of brands that are seeing some slippage in development. I understand that you've got things under control and from a construction standpoint. Do you have all the equipment, everything you need to open the remaining restaurants? Or is the risk that you can't get some items and that creates risk? And how are you thinking maybe differently about your development strategies for '23 as a result of this current environment? Are you warehousing more equipment earlier on, for example? Anything that's changed just given where there have been some delays from a variety of issues in the supply chain?

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

Yes. Those are -- that's a very insightful question, John. So we definitely have lost a few weeks this year on our development cycle. So we were hoping to get one in Q3, it split a hair. And so we've lost weeks, but we haven't lost -- it's not like we've lost months and it's not like any of our restaurants are at jeopardy of not opening this year. And it's a lot of what you were describing. We have been, I think, appropriately conservative in buying equipment as soon as we can.

So our HVAC kits, we have a bunch of those already slotted for 23 openings because of the dynamic that you're describing. So we're trying to derisk it as much as possible. The other thing that we've seen is the permitting process has just taken longer than any historical norms. And so for '23, we have been budgeting significantly more time for permitting. Still, the construction process, we feel really good about, and we can get that done in an appropriate amount of time.

But we frankly have doubled our budgets for amount of time it takes to permit restaurants. And so that's how we derisk our '23 pipeline. We're still very comfortable with our commitments for '23. We're going to get 10% new unit count, and we already have a number that are signed, permitting's underway, all that stuff. So -- but it is derisking it by building in more time for permitting and derisking it by sourcing all the critical equipment way in advance.

Operator

Next question, Nicole Miller, Piper Sandler.

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

Thanks for the update. Just asking store-level margin question here a different way. If we think about around 25% in the second quarter and then seasonality would be maybe a couple of hundred basis points lower in 3Q and then 4Q can be, historically, looking at seasonality, equal to 2Q. Do we start there and then just make a little haircut for the inflation you talked about? Or is it something much more significant?

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

No, Nicole, I think you nailed it. It's not something I would deem to be much more significant. I think when you talk about the revenue, as you mentioned and you look at Q2 being at the higher end. And then as you know, Q4 picks up with that catering business, right, which is, at this point, still TBD in terms of what that looks like given the environment and where we're headed. And so that's -- you pretty much said it all. So I don't have much more to add other than absolutely, we expect to see a little bit of those headwinds come through in both quarters on that labor line.

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

Okay. And then I just wanted to ask about staffing levels. It's a little bit of a 2-part question, but maybe they kind of go together. In the second quarter, I imagine it seemed like everyone kind of entered with really good staffing levels and then kind of became understaffed as seasonality kicks in, like you need more and more people. And I don't know where you ended up there. And then, of course, like 3Q is not a seasonally strong, so staffing can be recalibrated. So I'd be curious about that. But then also, when you speak to the efficiencies, it's interesting you can hire more, spend more but then do better on labor. So how are you doing in terms of items sold per labor hour?

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

So great questions. I would tell you that our staffing, we feel great about, and we are at pre-COVID levels of staffing at this point. So we've got plenty of people. We benefit. We have a lot of loyal team members who return home from college, from school and want hours and want to work at Portillo's. So we actually bulk up staffing over the summer quite well. And this year has not only not been an exception to that, but it's been a great driver of that.

And then IPLH, hugely important. We're seeing great performance. We are way ahead of where we were pre COVID. And we're nearly as efficient as some of the COVID months. And keep in mind, during those COVID months, we really weren't open for dine-in. And so when you've opened up dine-in and you're maintaining that efficiency, we feel really good about it. There's a lot that we learned during COVID about how to share stations, how to get team members to move from one station to another to help out. Lots of little things that we have retained and that have just made us more efficient operator post COVID.

Operator

Next question, Andy Barish with Jefferies.

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

On the -- just a question on the new restaurant opening kind of impact/inefficiencies, as much as you're willing to share, is that coming in kind of in line with what you've kind of thought internally? Or is it a little bit better just given it seems that new store productivity is coming out of the gates at a little higher volume?

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

Yes, Andy, I think Michael commented on the performance, particularly of our new restaurants, we've opened this year in Joliet and St. Pete. And so we're really pleased with the performance there. But I'd say we're on track in terms of what we've talked about when you look at the margin profile of year 1 of those restaurants and getting up to a year 2, year 3 profile. So we feel really good about that performance.

And as you know, that starts with the top line and making sure that we have a healthy top line and we are doing that in those new restaurants, which then, in turn, is flowing down to the bottom line. But those restaurants like our existing restaurants, right, are challenged with the same things that we've been talking about, whether that's commodity inflation or labor inflation, right? You're going to see that flow through there, but we are really pleased with the performance of the new units.

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

Fantastic. And can you give us an update on some of the tech initiatives you've talked about with POS and handhelds? And I think labor scheduling, which maybe is still to come or I might have kind of forgotten how that was layering in here.

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

Yes. So we actually have deployed a new labor scheduling tool which we're having great -- it's great because we're getting a ton of efficiency, but we're also automating it so that it's saving a lot of time for our managers who can focus in on other more value-added things. So the labor scheduling tool is great. It allows for peer-to-peer communication. Our team members can trade shifts much more easily.

And so it's having both an economic impact, but an even more important cultural impact on how our team members engage with each other and with management. So we feel great about that. We are on our -- we are well on our way to getting what I would describe as best-in-class POS capabilities, right? So we're on a path, hopefully, to get to Apple Pay, Google Pay. However anybody wants to interact with us from a pay standpoint, our goal is, hopefully, by the first quarter of '23 to have everything in place so that we can do that.

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

Yes, I would just add to that, Andy. We've also begun deploying -- we've talked about digital menu boards at the front of that implementation and getting digital menu boards across all of our restaurants with the goal to have those in -- within this fiscal year. Some might flow into Q1. But we feel good about that initiative as well.

Operator

Next question, Sara Senatore with Bank of America.

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

I wanted to follow up on the -- a couple of comments on the demand and traffic in particular. I think we've actually heard from a couple of restaurants now that customers -- unique customers is flat or up, but you're seeing transactions that are down. And I'm trying to understand the dynamic there as people order more or continue with the group ordering, something I thought we might see reverse post COVID. And in particular, with respect to your comp, how should we think about price and check versus traffic? Because the traffic declines, I know you had a tougher compare, but they did accelerate. And I just want to sort of understand how much of that is sort of industry versus your calibration of check and traffic?

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

You bet. I think one of the things to be cautious of is when people are talking traffic, I think no one's actually quoting any traffic numbers. What they're all quoting is check or number of transactions through their POS. And that is heavily skewed by your channel mix. So for us, for example, when we have somebody going through the drive-thru, that typically is feeding more than one person, and it tends to be multiple people going per order in the drive-thru. Whereas on dine-in, it tends to be each person is ordering for themselves. So there's just a slightly different dynamic.

Historically, you'll recall, we were like 50-ish percent dine-in and roughly 45-ish percent through drive-thru and delivery. Our dine-in is still only 38%. It has not come back fully. And so drive-thru is still very, very strong, and dine-in is artificially a little suppressed. I think that channel mix is what you're seeing reflected in the transaction count. So there are just fewer checks going through the -- fewer checks -- fewer bigger checks in the drive-thru equate to people.

And that's why we like to make sure we're paying attention to entree sandwiches sold, entree salads sold. I think for us, that's probably the best proxy of how well we're doing in terms of people eating at Portillo's. And that's the number I quoted earlier. We were up just a little under 2% in the first quarter. We're down a little under 2% in the second quarter. We're basically flat for the year in terms of entree sandwiches sold, entree salad sold. And that's what we're looking at that gives us optimism about our people trends, guest trends, not necessarily transaction or traffic. Did that make sense?

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

It does. And just to clarify, when you talk about that channel mix, is it the same as it was a year ago? I guess that's sort of the real question is -- to the extent that it's different from pre COVID, I understand, but it's relatively stable year-over-year?

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

No. So think of it this way, that in 2019, inside the restaurant was 53%, drive-thru was 41%. At the peak of COVID in 2020, inside the restaurant was 27% and drive-thru was 63%. '21, inside was 31%, drive-thru was 58%. And now today, drive-thru is 49%; inside is 38%. So you can see from the 2019, which is a more normal year, we're still down 15 percentage points in terms of our mix. And of course, delivery has doubled during that time frame. That's the difference in all of that. But like -- so 38% dine-in versus 53% from 2019, that's still -- it's probably not going back to 53%, but it should go up from 38%.

Operator

Next question, Chris O'Cull with Stifel.

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

Michelle, I believe on the last call, you mentioned the total build costs had increased by about $1 million from the plan. I'm just wondering if you're still seeing that level of inflation. And if there anything you guys are looking at for '23 that might help reduce the investment costs for build?

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

Yes, Chris, we're -- for the '22 builds, I still expect to see those inflationary pressures in the '22 build. For '23, we're working on that to Michael's point, as we speak. But absolutely, we're looking at ways that we can reduce that and not just stand by. And so we're looking at different prototypes, a smaller prototype to build. We're looking at different options within the layout in the kitchen. And just different build materials as well, Chris, we're looking at as well. And so I think as Michael and I sit here today, our expectation is that, that will come down for the builds in '23. I don't have that exact number just yet, but that is my expectation. But I don't expect that to be the case for the 5 builds that we have remaining in '22.

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

Excellent. And then, Michael, we're starting to hear more companies talk about the need for value and promotion. And I obviously appreciate Portillo's value proposition remains very strong. But if you do start to see consumer spending environment continue to weaken, weaken further at least, and competitors become more aggressive discounting and offering promos, how could you adjust Portillo's marketing plan maybe to adapt to that more challenging environment?

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

Yes. Great question. I mean I think the first thing is that we are not a high-low type of retailer. We're not going to -- Portillo's, we don't like going on sale, discounting. Once you start on that discounting path, I think you are stuck on it, and I think it has very strong negative repercussions for your business longer term. And it's why we have been so cautious about pricing and making sure that we are not getting ahead of inflation or we're not pricing ahead of the value that we provide.

I think the combination of pricing slightly behind inflation and also improving service levels is a really powerful one, too, because value is not just price, as you well know, Chris, right? Value is the whole package of experience. And we're providing, according to our guests, the best experience that they have had with us in 24 months with great speed of service and great value.

That's a winning proposition. And so it's making sure you're not overpricing, making sure that you're providing guests a great experience, great food, hot, fresh and fast. And so that's our formula for success. I don't want to get into the business of price really high and then discount, do BOGOs or whatever. That is -- that erodes and destroys the brand over time.

Operator

(Operator Instructions) Next question, Gregory Francfort with Guggenheim Securities.

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

My first question is just the Investor Day that you have coming up. What are the goals for that? I guess what are you trying to communicate? Or just maybe if you can kind of tease out what we should expect for that?

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

Yes, absolutely, Greg. We want an opportunity clearly to engage with our investors and lay forth our -- as we think about our strategic outlook, our plans, talk about development, which we know is significantly important to our investors and our shareholders. And the goal is to do all those things, to showcase our leadership team as well. I think you all get to hear from myself and Michael quite a bit, but we want to make sure you get to hear from other leaders in their areas and some of the good work that we're doing there as we think about the future of Portillo's. So it's as simple as that. I don't know, Michael, anything you'd add?

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

Yes. And I have one very mundane goal, which is I want to put Italian beef sandwiches in the mouth of all my investors. There's a lot of investors in New York who sort of understand us on paper, but don't understand us with their mouth and gut. And so Greg, if you're in New York, we are going to bring our beef butts out. We're going to feed people. It will be a really fun event. And I think once people taste our food, they understand -- they understand what makes us special.

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

No, that's helpful. And then just maybe on kind of the numbers. Where would you shake out on pricing for the third quarter if you don't take new pricing? And can you maybe talk about how and when your -- or what you're thinking through as you evaluate kind of pricing in the balance of the year?

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

Yes, Greg. So we'd be at about 8.3% price in Q3 if we took no other pricing action. And when we look at Q4, if you recall, we took up pricing at the beginning of Q4 as well. We took about 3% at the beginning of Q4 of '22. And so if we did nothing, that 8.3% would become 5. And so we're going to continue to evaluate, obviously, the landscape of what's going on. And if we're going to pull that pricing lever any further. But just know that, that 3% that we took in Q4 of 2022 -- or '21, sorry, would lap off. And then there would be a drop off if we continue to do nothing in Q4.

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

Got it. Got it. And maybe just my last question is on delivery. Can you maybe talk a little bit about how you're approaching like the pricing strategy there? I think it's been interesting watching Chipotle widen out the price on the delivery business really substantially the last 12 to 24 months. And I think you guys have similar menu pricing on delivery versus carryout, but maybe correct me if that's wrong. And do you see an opportunity to kind of widen that over time?

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

So I don't want to comment on what anybody else does. What we do -- what we believe is look, if guests want that third-party delivery option, that's great. But we're going to do our best to maintain that as a margin-neutral business for our investors. And so overall, on third-party delivery, whoever it is, we are margin neutral right now. And that's where we like to be. And that's a fine business. I do think that, that business, with the total cost of that business, is likely to feel more pressure earlier than our drive-thru business or our other channels.

But our goal is, for our investors, to remain margin neutral on third-party delivery. And Greg, you will recall, right, we do our own delivery as well. So high-value orders, higher price orders, Portillo's delivers with Portillo's team members. And we get great feedback from our guests. We give them an amazing experience. They have somebody who comes in and sets it up. It's a very nice dynamic. And that works really well for us.

Operator

(Operator Instructions)

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

Great. Thank you, everyone. I appreciate you participating in the call.

Operator

This concludes today's teleconference. You may disconnect your lines at this time, and thank you for your participation.
