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PRESENTATION

Operator

Hello, and thank you for standing by. Welcome to Portillo's Fiscal First Quarter 2022 Conference Call and Webcast. (Operator Instructions) And the conference is being recorded. (Operator Instructions) I would now like to turn the conference over to Barbara Noverini, Director of Investor Relations at Portillo's, to begin. .

Barbara Noverini

Thank you, operator. Good morning, everyone, and welcome to our fiscal first quarter 2022 earnings call, which is also my first call as Portillo's new Director of Investor Relations. I'm looking forward to working with our analysts and shareholders both current and future and learning more about what resonates with you. With me on the call today is Michael Osanloo, President and Chief Executive Officer; and Michelle Hook, the company's Chief Financial Officer.

And 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 more detailed discussions 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. Let me now turn the call over to Michael Osanloo, President and Chief Executive Officer.

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

Thank you, Barb, and welcome to the Portillo's family. Barb joins us after spending over 10 years in equity research and Investor Relations at Morningstar. Barb is also a lifelong Chicagoan, so she's going to be a great resource to help our analysts and our shareholders better understand Portillo's and our growth journey. And what a journey it continues to be.

I'm pleased with Portillo's strong top line performance in the quarter. We grew total sales 14.6% to $134.5 million. Same restaurant sales grew 8.2%, which reflects strong demand for Portillo's, demand that comes from our continued focus on delivering a great experience and amazing food at an unbelievable value. We continue to produce healthy profitability, generating almost 21% restaurant level EBITDA margins, which puts us in a unique class in the restaurant industry. Michelle will provide a lot more detail on our most recent quarterly results in a moment.

But I'd first like to remind everyone where we're headed as a company. We're on track to grow same restaurant sales. We've got the runway to sustain long-term adjusted EBITDA growth and, more importantly, we're a growth company. We're on track for 10% annual unit growth and we're excited about it. While we may be new to the public markets, we're a 59-year-old brand with a long history of success and a solid foundation upon which we'll continue to build.

Let's talk a little bit about that growth pipeline. We're proud of the in-restaurant Portillo's experience and are thrilled to see guests return into our dining rooms this year. But we're also really excited about the direction of our off-premise business. Our first Portillo's pickup location in Joliet, Illinois just celebrated its 3-month anniversary and continues to perform above our expectations. That's despite opening in the dead of winter in Chicago. This small box footprint has managed to impress us and continues to impress. We also recently celebrated the opening of a beautiful restaurant in St. Petersburg, Florida. It's absolutely gorgeous. We used our retro diner style design but it fits into the local environment. It's early, but we're thrilled about how this restaurant is performing and how guests in St. Pete have responded to us. Similar to Joliet, it's also performing above our underwriting expectations. We now have 4 restaurants in Central Florida, and we'll continue to build that market in '22 and beyond.

We're also on track to continue growing in the Sun Belt. We're scaling operations in Arizona with another restaurant in the Phoenix suburb of Gilbert and our first entry into Tucson, both slated to open later this year. And of course, we can't wait to open in Texas at Grandscape in The Colony. That's the name of the town, The Colony. We opened that restaurant in the fourth quarter and will continue to grow in Dallas-Fort Worth in 2023. We've already identified some of our next sites and, even more importantly, we've identified the operators who will grow and build that market for us. And you may have noticed recently that we've announced openings in the Orlando suburb of Kissimmee and Schererville, Indiana. That will take us to 7 restaurants this year, meeting our 10% commitment.

I can't talk about our exciting development pipeline without sending my thanks to Sherri Abruscato, our inspiring Chief Development and Supply Chain Officer who's retiring this summer after 44 years of service. Sherri started with Portillo’s as a teenager and her hard work, dedication and ambition led her to the C-suite. We want all of our team members to realize that kind of success is possible here. To fill her shoes, we're actively searching for a Chief Development Officer who will execute our rapid growth pipeline with the same unwavering commitment to our values.

It's those values, family, greatness, energy and fun, that allow us to be this confident about our growth trajectory. People are the heart of Portillo’s, and we know they're the linchpin to our success so we prioritize our team members' experience. We know that our teams are more engaged when in a fun, supportive and efficient work environment. And you can see the proof of this in our retention statistics. Our hourly turnover rate is 20 to 30 percentage points below the current industry average. This is a reflection of the work we put into being an employer of choice. We're creating unrivaled team member experiences, treating them like family and it's working.

So how do we win in the long term beyond having beautiful well-staffed restaurants? Today, I want to highlight 3 main points about our resilience both as a company and as a high-growth restaurant concept. First, we have very attractive profitability predicated on great revenue. We generated $8.3 million in AUV in the 12 months ended Q1 '22. That revenue drives plus-sized profitability, which gives us the financial flexibility we need to continue investing for growth. Second, we focus on what we can control. As experienced restaurant operators, we're able to categorize cost pressures into those we see as transient versus those that are likely more permanent. We see commodity market volatility as a transient pressure brought on by external market shocks. Our response is to continue to limit the magnitude, duration and timing of input cost increases through fixed-price contracts. We're now covered for over half our spend throughout the rest of the year. Michelle will talk more about this.

Occasionally, we do see a stair step change in cost that signals a more permanent change. And as you know, wages in the restaurant industry are resetting to reflect the more demanding, competitive labor environment, and that's not changing anytime soon. So again, focusing on what we can control, we ensure that as a company, one, we offer our team members a compelling opportunity they can only get a Portillo's; and two, our team members are as productive as possible. In fact, we've implemented some operational efficiencies this year that have had a measurable impact.

Third, we don't wait until times are tough to look for efficiencies across our business. We're an operations company. And it's our operators who oftentimes help us come up with and implement great ideas. One of the more recent developments comes from streamlining our digital ordering experience. By upgrading the user interface, guests who order through our app or website can now customize their orders in just a few clicks. The early results show a significant upward trend in order completion with our cart conversion rates already improved by 50%. What that means is we now have more guests who complete their orders instead of abandoning their carts. Bottom line, this translates into more digital sales and this improvement is holding. We see this as early evidence that we've successfully reduced friction in that experience for our digital guests.

And finally, as I mentioned in the past, the commitment to our Portillo's family is why our turnover continues to trend better than the industry average. At the start of the first quarter, we were still understaffed at a few locations. Now, we're very proud to say that we're back to pre-COVID staffing levels. The importance of that is that well-staffed restaurants on average produce higher guest satisfaction scores. We see better order accuracy, speed of service and overall satisfaction. And we know guest satisfaction scores act as a leading indicator of same restaurant sales. When you have a good experience, you'll be back. It's that simple.

In March, we achieved the highest order accuracy and the highest customer satisfaction scores that we've seen in the past 24 months. This is not an accident. This has everything to do with the attention our managers and team members have been giving the overall guest experience. On last quarter's call, we talked about being an oasis for our guests. We want to be that respite even in the face of high inflation, high gas prices and increased concern over global volatility. We will remain that fun, welcoming place that our guests can take their family for a convenient, delicious, high-quality meal at a great price point.

But I want to be clear about something. This doesn't mean we're not taking pricing. It means we're being very thoughtful and methodical about how we take pricing. While we've raised prices to counteract some of the input cost pressures we've seen, we're still mindful of preserving value for our guests. As I said earlier, we have healthy margins. We don't have to overshoot inflation to shore up our profitability. That said, when we have taken price, there's been little to no resistance or elasticity effect. We are very confident in our pricing power.

At the end of the day, we're on track. We're executing the playbook we shared with you during our IPO. We're confident in our long-term growth algorithm. The restaurant industry is cyclical. It's going to have its ups and downs, but we know how to manage our business for that. With that, I'll hand it off to Michelle to share more details of the quarter.

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

Great. Thank you, Michael, and good morning, everyone. During the first quarter, we saw strong top line growth, but cost pressures did impact our bottom line. However, we remain confident in the fundamentals of our business model and remain committed to our long-term strategy.

Let's discuss the details of our first quarter results. Revenues were $134.5 million, reflecting an increase of $17.2 million or 14.6% compared to the first quarter of '21. This was driven by an 8.2% increase in same-restaurant sales, combined with the opening of new restaurants in '22 and '21. The same-restaurant sales increase of 8.2% was primarily driven by a 7.5% increase in average check and a 2.9% benefit from the change in recording third-party delivery pricing. This was partially offset by a decline in traffic of 2.2%. The higher average check was primarily driven by a 7.1% increase in menu prices combined with a 0.4% increase due to menu mix.

As previously mentioned on our last call, we did see a negative impact on our sales during the first several weeks of January as a result of Omicron. Sales trends and transactions improved from January to February. In March, our same-restaurant sales grew 2.5% as we began to roll over a tougher comp of 24.6% in March of '21. This tougher comp will continue as we will lap a 25% comp in the second quarter. When you look at our first quarter cap on a 3-year stack basis, we grew 6.8%, which is in line with our long-term target and speaks to the consistency and durability of our brand.

Cost of goods sold excluding depreciation and amortization as a percentage of revenues increased to 34.4% in the first quarter of '22 from 29.9% in the first quarter of '21. This increase was largely driven by a 15.7% average increase across all commodity prices with higher impacts in pork, chicken and beef prices. Additionally, cost of goods sold was negatively impacted by 1.9%, resulting from the change in recording third-party delivery pricing. These increases were partially offset by the increase in our average check.

As Michael stated earlier, we ultimately view commodity market volatility as transient, but we are taking measures to limit the magnitude, duration and timing of cost increases in key input categories. We have locked in pricing on almost 80% of our beef flats, and we continue to actively look to fix pricing in other areas when opportunities arise. As of today, we have almost 55% of our commodity basket locked in for '22.

As a reminder, in March, I provided a range of 13% to 15% expected increase in our commodity basket in '22, and we are currently forecasting to be at the higher end of that range in the second quarter and for the full fiscal year.

Now moving on to labor. Labor as a percentage of revenues increased to 27.7% in the first quarter of '22 from 26.5% in the first quarter of '21. This increase was primarily driven by hourly rate increases. Rates were up approximately 13% versus Q1 of '21. New restaurant openings in '21 and the first quarter of '22 and continued expansion of our dine-in capacity also drove higher investments in labor. This was partially offset by an increase in our average check. All told, we are doing a lot to mitigate the more permanent labor cost pressures that Michael described earlier. Labor does continue to be more productive versus pre-COVID levels, and more recently, we have put additional efficiencies in place to further optimize our labor. We staff our restaurants with exceptional team members who live our values each and every day. We do this by prioritizing our culture.

Other operating expenses increased $0.5 million or 3.1% in the first quarter of '22, and occupancy expenses increased $1 million or 14.3%, both the result of new restaurant openings in '21 and '22. Restaurant level adjusted EBITDA decreased 6% to $28 million in the first quarter of '22 from $29.8 million in the first quarter of '21. Restaurant level adjusted EBITDA margins were 20.8% in the first quarter of '22 versus 25.4% in the first quarter of '21. The decrease of 460 basis points was driven by the impact of increased commodity costs, which we believe to be transient and, to a lesser extent, labor inflation. To combat these headwinds, during the first quarter, we increased menu prices approximately 1.5%, and we expect additional menu price increases during the second quarter of '22.

As you may recall, we had taken 2.5% of price last April. And if we did nothing in Q2, we would be at approximately 4.5% pricing for most of Q2, which in this environment, does not meet our objectives. So we will strategically be taking pricing in the next few weeks. Our goal is to remain a great value for our guests while mitigating some of these cost increases.

Our G&A expenses increased $3.9 million to 11.7% in the first quarter of '22 from 10.1% in the first quarter of '21. This $3.9 million increase was due primarily to a $3.3 million increase in equity-based stock compensation expense and approximately $0.7 million of transaction-related expenses. The majority of our G&A increase was due to these specific items, and we are carefully managing underlying expenses in this inflationary environment. Preopening expenses decreased $0.7 million to 0.4% in the first quarter of '22 from 1.1% in the first quarter of '21. This decrease was due to the timing and geographic location of restaurant openings in the first quarter of '22 versus '21.

All this led to adjusted EBITDA of $17.6 million in the first quarter of '22 versus $18.5 million in the first quarter of '21, a decrease of 4.9%. Below the EBITDA line, interest expense was $6.1 million in the first quarter of '22, a decrease of $4.6 million from the first quarter of '21. This decrease was driven by the payoff of our second lien term loan in the fourth quarter of '21 and lower outstanding borrowings under our first lien term loan. We ended the quarter with $32.2 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 on track. The structure of our business allows us to grow same-restaurant sales by low single digits on average, check. Our solid development pipeline is on track to deliver 10% unit growth this year, check. Our revenue growth is in the high single to low double digits, check. And while our EBITDA performance is a bit wonky this year and is under some industry-wide pressures, we haven't had to slow down and we certainly feel confident in our long-term growth algorithm. We're pressing on so that we can continue to lay the groundwork that will sustain that low teens adjusted EBITDA growth over the long run.

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 we open for questions, I just want to revisit our commitment to our guests. As experienced operators, we understand what it takes to build and sustain an obsessed fan base. We know it's crucial to deliver our delicious menu, our value-driven price point and our unrivaled experience. we prioritize quality and strive for consistency. This foundation has allowed Portillo's to be a success for the last 59 years through multiple recessions, oil embargo, the dot-com bust, 9/11, housing market crashes, wars, pandemics, et cetera. Portillo's has not only survived, we have thrived. We have persevered through all of these challenges and uncertainties. And we're confident in our ability to weather the pressures we face today. Like we said in March, we have demand. Consumers are choosing Portillo's.

Thank you. And with that, let's turn it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from John Glass with Morgan Stanley. .

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

Can you talk a little bit about the performance of the stores that were opened in the fourth quarter Indiana, and I think it's West Madison? How are those trending versus your initial expectations? You talked about a very successful operation down in St. Pete. How do you think operations are doing from a speed of service standpoint or retention? Maybe just talk a little bit about how that opening has gone from an operations standpoint.

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

Yes. Let me -- I'll give you some overview, John, and I'll let Michelle give you a little bit more detail. In general, I'd tell you we're very, very happy with all of our openings. So even opening in the winter, out of season in Westfield, we're very happy with that restaurant. We're happy with all of our new openings. We -- as I think you know, we changed dramatically the way we open new restaurants to make sure that we are aggressively training management at those new restaurants so they know the Portillo's way, they know what our guests expect.

The training of our team members is all about training them on handling Portillo's volume, right? We will do $5,000, $6,000 hours which, in some businesses, is a good day. And so we train them on speed. We train the management on the Portillo's way. We've had exceptional openings. And I think St. Pete might be the best yet.

We paid at the very top of the market. We feel like we got fantastic team members who are deeply engaged in our business. We handled enormous volumes with grace, and that business is really doing well for us. And it's important because, as you know, Central Florida is a big growth opportunity. So every time we open successfully, we continue to enhance our brand and continue to expand our opportunities.

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

Yes, John, just to add on to what Michael was saying. So in terms of Westfield, West Madison and Joliet, when you think about when those restaurants opened during the winter months and given the locations, there's definitely some seasonality we saw during the first part of those openings. But to Michael's point, what I will tell you is that they are performing above our underwriting expectations and we feel really good about that. With St. Pete, having their grand opening on April 5, early indications are very good there as well.

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

And Michelle, just on wages, I understand there's pressure industry-wide. You took a big step up last year, though. Do you think the wage inflation therefore should moderate to your business in the back half of this year, just given that? Or do you think maybe there's another round of bigger increases needed just to continue that high retention that you have?

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

Yes, John. And we did obviously signal this in the filing this morning that we do expect additional rate increases later this year. But to your point, we put substantial increases in place in June of last year. And so I do expect, as you look at the comparability year-over-year when you get towards that back half of the year for that comparability to ease some. But we do expect to put in some more rate increases this year, but not to the extent that we had to do in June of last year.

Operator

The next question is from Nicole Miller with Piper Sandler.

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

If you've done this, and I'm not sure you have, but if you can look at the performance of the fully staffed stores versus those that have lagged a little bit of late, what could we expect in the model going forward as the enterprise is now fully staffed? Would that produce like a higher comp on the demand you're seeing? Or would it produce a better margin with operational excellence? What might happen?

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

I think -- so I don't think we have looked at that specifically. It's actually a great insight on your part, so we will do that. But anecdotally, I can tell you it's exactly what you described. When we have fully staffed restaurants, we see that the guest satisfaction measurements, things like order accuracy, speed of service, all of those metrics tick up, which in turn yields better comp sales and better profitability. So your intuition is 100% right, and we will certainly look that number up.

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

Okay. Great. I know it's kind of detailed, so thanks. And then just wondering if there was any purposeful reason on calling out 1Q comp on a 3-year basis? Essentially, maybe start with 1Q, could you talk a little bit about price mix and traffic? And then do you want us to look at the rest of the year on a 3-year basis? Because that could be kind of interesting and helpful knowing that things ease as you go through 2Q.

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

Yes. Absolutely, Nicole. The reason why I wanted to make sure to call out a 3-year stack was because if you go back and even look sequentially, when you look at what the 3-year stack was in '21, I think you truly do see the consistency of our performance on a 3-year stack basis. And so it does take out some of that noise when you look at the comparability on a 2-year stack and then rolling over the COVID period in '20. And so that's where we wanted to really look at that consistency of the brand. So for me, I'm going to continue to look at all metrics, Nicole. We're going to look at, obviously, the cap, the 2-year stack to 3-year stack. But yes, I think that, for me, is a good metric that kind of removes some of that noise, and to me, looks at what we want to deliver on a long-term comp basis and us being able to do that and deliver that.

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

And how is price and mix in 1Q again?

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

Price in the first quarter, we were up 7.1%, and the next was 0.4%, Nicole.

Operator

The next question is from David Tarantino with Baird.

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

Michelle, just kind of revisiting the commentary on the 3-year comps. I was wondering if you could comment specifically on what you saw in March. You gave the number on a 1-year basis. Our math would indicate it might have been a little lower than the full quarter on a 3-year comp, but I know there's all kinds of wonky comparisons. So wondering if you could clarify that for me.

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

Yes. I definitely wanted to make sure, David, that on a 3-year stack basis, right, that -- to the point I made with Nicole earlier, that we made sure you guys understood that consistency. And then March, the point I wanted to get across there was when you look at the comparison on what we were rolling over, we started to comp over a tougher comp compares starting in March, which is going to continue in Q2. But to your point, like if you just were to look at March alone, the 3-year stack is very healthy, if you just were to isolate March alone. It would be roughly around 9%, David.

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

Got it. Okay. So our math there wasn't correct. Okay. And then -- and is that -- I guess, the second question I have -- that helps very much. And then the second question I have is just on the pricing, I don't think you mentioned the amount that you're planning to take in the second quarter. And I was wondering if you could maybe give some context even directionally on how much that might be.

And then related to that, is the strategy on the pricing to address inflation that's occurred since the last time we spoke? Or is this more of a catch-up for what you haven't taken given the inflation that you saw in the first quarter? So I guess, in other words, do you think that pricing that you take in Q2 will start to flow through to a bit better margins than what you had in the first quarter?

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

Yes. I think, David, we didn't give the Q2 pricing because it's still TBD at this point. And so we're still having those conversations and it's still fluid. We have not put those price increases in place. And so that's why we didn't give the numbers. So obviously, I'll let you guys know what that is next quarter. But our goal remains what Michael had talked about. We want to definitely continue to price at or below inflation, and so that's how we're thinking about it.

But like I said, if we did nothing, right, we would be at about 4.5% pricing when you look -- when that pricing started to roll off. And so we want to make sure we get back up to the levels that we were at before, and again, with the guiding principle that we want to be at or below inflation.

Operator

The next question is from Sara Senatore with Bank of America.

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

And just a couple of clarifying questions, please. The first is on the traffic. And so I know that you said you don't -- the value proposition is still very strong. Omicron seems to have had an impact on mobility. But just trying to understand the idea of kind of negative traffic in the quarter, given that Omicron, I think, was primarily dissipated by the middle of January.

So is this a shift between channels, like still more drive-through or delivery and things that might have order aggregation? So that's the first clarifying question, and then I just have a quick question about labor, please.

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

Yes. Well, thank you for answering your own question because you're 100% right, Sara, that it is -- it's still an order aggregation thing. What we say is traffic, to be more accurate, is transaction. So what I look at to feel -- to know whether or not we should feel good about our business or not as good, is underlying sales of entree sandwiches and salads, right? The argument being that consumer behavior isn't changing a whole lot. You're not going to eat 2 burgers versus 1.

So how many burgers, chicken sandwiches, beef sandwiches, things that we sell? And the aggregate of all of our underlying entrees is up about 1.7% in the quarter. That gives me confidence that we're actually feeding more people. right? And so I think that the transaction noise is exactly what you were implying, which is that when people go through the drive-through, it tends to be you're feeding more people per transaction. When people come into our restaurant, it tends to be you're feeding fewer people per transaction. So that -- us still being down a little bit inside the restaurant means our transactions are artificially suppressed. I look at that number of 1.7% up on entree, sandwiches, salads, et cetera, and that gives me solace to know that we're feeding more people. Does that make sense?

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

Yes. And then just on labor, Michelle, can you just help me think through, like going forward, if I look at the change in your labor as a percentage of sales, it kind of looks like exactly what I would expect in terms of high single-digit pricing and low double-digit labor inflation. So when should we see productivity? Is the issue that the productivity improvements are being offset by having it fully staffed versus last year? I guess when might we start to see that delta be a little different than just kind of net pricing or net inflation?

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

Yes. No, Sara, we started to put things in place in March and started to see in March some, what I would describe as meaningful improvement in labor efficiencies. And so I would expect us to continue to see those trends within Q2 and beyond, but understand too that, like I mentioned before, there are additional rate increases that we do have to put in place yet this year. But we are definitely seeing improvements in labor through the efficiencies we put in, in March.

Operator

The next question is from Andy Barish with Jefferies.

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

Just wanted to check, I appreciate the deck that you put out with the quarter. It looks like unit openings may be one in the third quarter and then a little bit more back-end loaded. Is that just -- given what's going on with supply chain and equipment and things like that?

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

Yes, that's exactly right. Although I wouldn't necessarily put it on supply chain equipment. I'd put it more on the permitting process. Municipalities have been slow to rebound, and so that's what's slowing us down. But we had 1 slide a couple of weeks and it would just happen to be it was going from the third quarter to the fourth quarter. So we're either -- got shovels in the ground, actively building the other 5 still, Andy. So we're confident about 7 for the year.

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

Got you. And then I guess just to ask straightforward with the -- address the elephant in the room, I mean, April comps, are you willing to share if -- a number or if you're still positive given the ramp?

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

Yes. We're going to leave that elephant in the room still. And I think what Michelle shared, which I think is important to recall, is that we're lapping some lofty numbers. And just -- that's an important thing to keep in mind. We're lapping 25-plus percent comp numbers. Our goal for the year stands. We're confident in the performance of our business. We're confident about the consumer demand that we have, but you got to be cognizant of the fact that we have some big numbers we're lapping.

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

Yes. And Andy, I mentioned lapping the 25% in Q2. April alone, we were lapping a 34-plus comp. So April was a challenging one. And then it's obviously -- the lap becomes a little bit easier to get to the 25. So as Michael said, we're going to keep that elephant in the room but want you all to be mindful of those tougher laps in Q2.

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

Got you. Appreciate the color there. And anything, Michelle, on sort of more kind of onetime costs hitting the labor line in the 1Q with Omicron still there on overtime or even COVID exclusion, pay or stuff like that, that was noticeable?

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

Yes. We had a little bit of that in there, Andy, that did impact us in terms of some labor pressures in Q1. And nothing that I would call significant on the margin. But definitely a little bit of that in Q1 that we don't expect to see in Q2 and beyond.

Operator

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

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

I was hoping you could dig in a bit more in the wage investments you plan to make later this year. Is there anything you can share in terms of around the magnitude of the investment and whether there are certain positions in the field that you want to address or support?

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

Here's what I'd say, Chris, is we are -- we want to take wage off the table for employees as they make decisions on where to work. And we see pockets in our system where we might be a hair behind some of our competitors, and so we are going to make some investments.

It's certainly less than what we've made in the last 24 months. So I definitely feel like the pace of inflation is slowing. But there are places where we need to make some modest investments. The key to our success, our algorithm when it comes to labor is take wage off the table as they come in and then provide fantastic culture, training and development so that our turnover is lower than everybody else's in the industry. That creates really great outcomes on labor. When you have turnover that's just higher than average, you're spending a lot of money to recruit, train, bring in new people. And so that's how we're approaching this situation. Take wage off the table. There are some pockets where we have to make some small investments and then train the heck out of people, make sure that they are loved and appreciated and are enjoying their experiences at Portillo’s.

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

That's very helpful insight. And then, Michael, you mentioned measurable efficiency improvements. Can you review what those initiatives were and then what were you able to drive in terms of productivity gains?

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

I'll give you one example, and I give a ton of credit to our operators because this is something that they found. A traditional Portillo’s has this L-shaped series of production lines. On the long part of the L is the traditional sandwiches, burgers, hotdogs, beef, et cetera. On the short side, we had what we call our salad bowl, where we assemble salads -- scratch salads, and they're amazing. Our team members said, "You know what, we would be a lot more efficient if we could move the salad bowl over to the main part of the L. There's some space in the back near where the drive-through lanes are. And so we've been doing that. And we took the salad bowl area, we moved it to the back of the line in a bunch of restaurants. It creates labor efficiencies because if those folks are slow, they can slide over and work on another station. It creates guest efficiencies because in a traditional Portillo’s, if you ordered a burger and a salad, you actually had to pick it up in 2 separate places. So this is a huge guest win. And we're able to staff the salad bowl with 2 fewer people than we used to currently.

We have seen a tick up in our items per labor hour productivity because of that. And so it's early going. We have some creative ideas on what to do with some of that space we vacated that we think will create further efficiencies for our business. But that's one example of real tangible savings.

Operator

The next question is from Sharon Zackfia with William Blair.

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

Just a question on the restaurant level margins. Can you talk about kind of where March was relative to the full quarter given some of those Omicron-related disruptions early in the quarter? And then if I look at 2018 and 2019 before the pandemic, typically, you would seasonally see a couple of hundred basis points or more lifts second quarter relative to first quarter. Is that going to be the pattern this year? Is there something we should think about to temper that? And then last question, can you talk about Chicago and kind of what you saw when the vaccine mandate lifted on, on-premises?

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

Yes, Sharon, I don't want to get into intra-period margins, so I'll -- I'm going to punt on that one. But I will say to you, when you look at the trends -- and I think you hit it. When you look at our Q2 trends and you look at higher revenues traditionally in Q2 and Q4, in those periods for us, you start to leverage a little bit more. I think when you look at that and given some of the things Michael just mentioned, from a labor efficiency standpoint, my expectation would be, again, and not getting into detailed numbers, that we would see improvement in margins in Q2. And then what was your third question, Sharon? Sorry.

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

I think the...

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

Sorry, go ahead.

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

The trend -- you were asking about what's happened in Chicagoland with the lifting of the vax mandate, et cetera. And so look, we're seeing some -- I would describe it as positive momentum, right? In Q1, what we saw is that our inside sales came up to 40% of our mix. And that was in the 20s, a year ago. So we're really happy with that trend. It's not back up to the low 50s that it used to be, but it's improved. And so we're cautiously optimistic that there's more improvement, more people coming into the restaurants. But you never know. There's now places where people are afraid of a new variant of Omicron -- of COVID. So we're cautiously optimistic, but I would -- I'm hesitant to bank on it or plan for it.

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

Okay. We'll try to order in today to help you out at Chicago. On the G&A line, Michelle, you had originally, I think, expected $70 million to $75 million this year. You were kind of well below that run rate in the first quarter. Is $70 million to $75 million still the right number for the year?

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

I'm not going off of that yet, Sharon, because we do have investments. Remember, we're definitely in growth mode. We have investments that we do want to make in the back half of this year. So if we are -- if we continue to trend at those levels, and we're definitely carefully managing that line like I mentioned, I'll update you all next quarter. But we still have investments coming in the back half of the year. So right now that's still a good range to use. But to your point, we're trending more lower than that, but I still believe for the full year that's a good range.

Operator

(Operator Instructions) Our next question is from Dennis Geiger with UBS.

Dennis Geiger - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Restaurants*

Michael or Michelle, I'm curious if you could touch a bit on kind of what you're seeing from customers of late. Any changes in behaviors, perhaps how they're using the menu? I know, Michael, you mentioned no pushback on the pricing at all. But any other changes or shifts in behavior or purchase shifts to call out? I assume customers can't do without their cake shakes, but if there's anything notable that you would mention of late, be interested there.

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

I would say overall, there is very little change in mix and sales patterns, et cetera. We are seeing a slight -- very slight uptick where people are going from a regular beef sandwich to a big beef sandwich, from a regular burger to a double burger. Delivery continues to grow. We're seeing both our own self-delivery as well as third-party delivery growing. That's a continued trend. But the underlying consumer demand, the frequency with which they visit, how much they're eating, all that's pretty stable, Dennis.

Dennis Geiger - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Restaurants*

That's helpful. And then just one other as it relates to the new units and the returns. And I know last quarter, I think we talked about the higher build costs that you and the industry are seeing, and despite all that, your ability to kind of continue to see those solid returns. So I'm just curious, as we think about the strength, early days that you're seeing in Joliet and St. Petersburg, is it sort of stronger sales? Is it better margins, a combination of the 2 things that even in this kind of elevated new build environment support those really solid returns?

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

Yes. I think -- so both Joliet and St. Pete were not particularly expensive builds. So we're -- we have been cautious and I think pretty careful about what we say about our new builds. But I think Joliet certainly was on the low end, given its size. And even St. Pete came in at a relatively attractive build for us. So it wasn't the build cost of those necessarily. Builds weren't problems. But the consumer has been very, very strong for both of those. Joliet, as I think everyone knows, is a drive-through-only concept for us. It's a triple lane drive-through. And so it is a bit of a pilot and experiment, and it's been fantastic so far.

So we think there's something there to this drive-through-only concept. And then St. Pete is just -- I feel like it's one of those where we did everything really well. It's in a great trade area. It is a beautiful restaurant. It reflects the local environment. We hired really effectively. We trained the heck out of our folks who are super happy to be there. And the volumes came in strong, and we did a great job in handling that volume. So I think St. Pete is an example of executing our playbook effectively. And when we do, we expect to beat our numbers. .

Operator

Next question is from Gregory Francfort with Guggenheim Securities.

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

My question, there's been a bunch of talk about the most recent couple openings, but maybe even the 4 or 5 that, Michael, that you had a hand in before the most recent few, how are those continuing to trend? And are you -- because I mean, those were a great class of stores, and I'm curious if kind of you held on the sales and margin front on those?

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

Yes. I mean, the short answer is yes, Greg. We're very happy with the class of '20 and '21. As a class, they're performing very, very well. And I would say, as a class, they're performing above our underwriting expectations. So they can -- some are just plowing ahead of ridiculous revenue levels and some have slowed down a hair. But as a class, we're very, very excited by the classes of 2021 and the early '22s.

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

Got it. And then maybe just on the labor side. I think you touched on staffing improving. How has turnover been? Has turnover started to tick down at all? Or is that kind of staying at elevated levels?

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

Yes. So obviously, turnover in the restaurant industry are some lofty numbers. So what we like to do is we very assiduously track ourselves against the rest of our industry. And I can tell you that we are 20 to 30 percentage points lower than the rest of our industry, right? You see some restaurant companies, very, very high turnover levels approaching 200%. We're still in the low 100%, which in this industry and at this time, represents a 20 to 30 percentage point benefit versus others. So we think that we're a little bit more sticky than others in the restaurant industry.

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

Got it. Maybe if I could sneak one last one in. Just on the hedging, Michelle, that you mentioned, I think it was -- you were 50% for the rest of the year. Are you significantly below or above the futures curve as we kind of look out to '23 and '24 in terms of what the commodity impact could be?

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

Yes. And Greg, just to be clear, so for the full year, we're locked in at that almost 55% market basket. And so -- and I will tell you that our biggest concentration, which I mentioned being the beef, we're locked in at a rate that was below our own internal budgeted projections. So we feel good about that. And obviously, when you look at the other commodities, most of those are locked in, in Q2. And when we look at the Q3, Q4 locks on those, you obviously weigh what the cost is of locking in at that given certain prices. And so like I said, when opportunities arise, we're going to lock in. But I think when you look -- to your question on forward projections, right, that's where I'm not going to lock ourselves into something now knowing that there could be opportunities in the future.

Because, as you know, when you look at forward projections, we do expect some easing. And like we said, we know these pressures are more transient. So we're not locking into really longer-term numbers because we do think, as you look into '23 and '24 that, again, we would expect and hope to be some easing there.

Operator

And with that, we will conclude today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.