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PRESENTATION

Barbara Margaret Noverini - *Portillo's Inc. - Director of IR*

Hi, everybody. Welcome. We're so happy to see you here. Welcome to Portillo's Inaugural Investor Day. We have a really great day planned for you. We're going to start off doing a few presentations from the management team. And then we're going to kick off lunch with the Beef Bus, which is right outside in Times Square. So it's going to be a really great time, and we're really excited to see you.

I'm Barb Noverini. I'm the Director of Investor Relations. I just started back in February 2022. So in the short time that I've been here, I've eaten my way through the menu and also gotten to know many of you in the room and as well as many who are undoubtedly dialing into the webcast today, welcome as well.

You'll see these onion rings in the background. These are actually my daughter's favorite item on the Portillo's menu. And of course, she's been indoctrinated into the Portillo's family, much like I have.

So we've got our agenda for you today. And again, we will be hearing from all of our extended executive leadership team today. And we thought that it would be interesting for you to hear from them in their own words on what their strategies are like and how they fit together to form the various aspects of our longer-term growth algorithm.

And of course, here are cautionary statements for you, which you can review at your leisure later on in the presentation.

And with that, I'd like to introduce Michael Osanloo, our CEO and President.

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

Thank you, Barb. Thanks.

So we're supposed to talk about what our favorite food item is at Portillo's. And I feel like that's like saying which one of your kids is your favorite kid. So I love this sandwich, but what I'm going to talk to you about is my love affair with this brand began, no joke, when I was 16 years old. I got my driver's license and the very first thing I did is I took my parents' big, old Bonneville Pontiac station wagon, for those of you who are older like me, it had the sweet wood siding, and I went to Portillo's. That was the very place I ever drove when I got my driver's license. And 40 years later -- I'm 56, 40 years later, I get to run this company. So it's been an incredible journey, and I'm super excited by this.

I'm going to talk to you about -- I'm going to give you an overview of who we are and how we're scaling a very, very solid foundation. The first -- there's a couple of words in that first sentence that I really want to hone on. One is durable. You'll hear about the durability of this brand. Second is obsessed fan base. And then the third piece of that first statement is that unmatched value proposition. We take that very seriously. I think we have the best value proposition in the restaurant industry, and we carefully protect that.

We have a track record unlike most restaurant companies. I'm not going to talk to you -- Michelle's not going to talk to you about when we're going to be profitable or when we generate cash. We make a lot of money. We're self-financing. We're self-funding. We can build plenty of restaurants with our own cash flow.

We have a huge opportunity ahead of us. While we are almost 60 years old as a brand, we're very much in our infancy in terms of scaling up nationally. Mike Ellis will talk about that and why our future looks so incredibly bright from the standpoint of growth.

And then we have built a very capable leadership team. You get to meet them. You'll hear from them. You'll talk to them. I'm exceptionally proud of my colleagues who will be talking to you today. I think that as we were building this team, we weren't building for a small, regional company. We were attracting talent and bringing people in that we said we can scale this business to be a big cap, major U.S. restaurant company.

And then this will be a theme throughout the presentation, this last point. I will talk about it. Jill, our People Officer, will talk about it. Derrick, our COO, will talk about it. But people genuinely are the heart of Portillo's. We collectively believe in a servant leadership model, which means we take great care of our team members, our team members take great care of our guests, our guests take care of our investors. That is the flywheel that makes Portillo's an exceptional and unique brand.

So who are we in a snapshot? First, founded in 1963. Think of how many restaurant companies you know that have that type of longevity. It's going to be a very, very small number. I love this fact that we're -- we went public last year, right here actually, a year ago. So we're almost 60 years old, but we're still brand new. We're babies when it comes to public markets.

Our AUVs of \$8.4 million, those are pretty gaudy by any account. Our \$1.9 million of adjusted EBITDA generated per restaurant is incredible, 23.6% restaurant-level EBITDA margins. We're -- that's a serious business right there. Like if I just showed you some of these numbers, you'd think, geez, high-end steakhouse. No, we're a fast casual restaurant chain. And we're growing.

We have a very, very strong core in Chicagoland, but we burst those seams. We're across the Midwest now. And we have a very strong presence in Florida, Arizona. We're building our first restaurant in Texas, and we're in California. So we now have 71 restaurants across 9 states. It will be 72 as of next week when Schererville, Indiana opens up.

That picture on the far left, I don't know if you can all see it, it's probably in your deck, this is the original Dog House. This is what Dick Portillo founded in. You can actually see Dick peaking out from the side door in this picture. That's just a shack with no running water, and he started the vision for this business 59 years ago in The Dog House. It was Chicago-centric. It was hot dogs. It was soda. It was fries.

By 2022, you can see we're now in 71 locations. We expanded on The Dog House a little bit. We built beautiful, engaging, vibrant restaurants, and we'll talk about that, but we have grown up. We will actually get to 100 restaurants over the next 3 years. You can see that most of that growth will

come in Texas, Florida and Arizona. We'll continue to build scale in the markets that we're in. Michelle will talk about this, but scale is very important. Local scale really drives our economics. And you can see a tipping point when you get past 1 or 2 restaurants. When you get to 4, 5 and 6, margins improve significantly. And so we're not -- it's not lost on us, but this is what it is.

That point in the bottom, we really should have this with like a neon sign, never closed a restaurant in 59 years. Think about how many restaurant companies you know of that have never closed a restaurant. And think about how many restaurant companies have been around for 59 years that have never closed a restaurant. That speaks to the durability of this brand.

Here's how we think about our competitive advantages, and I'm going to walk through these in the next few slides, but we're a values-driven, people-centric culture. It's hugely important to all of us. That values-driven piece, that's a differentiator. That's how you get great team members.

We have an iconic, beloved brand with obsessed fans. Our menu, I like to use the term veto-proof. You guys have all experienced a situation where you want to go to dinner somewhere and somebody in your family says, "Well, I don't want to eat there. There's nothing I like there." That's not us. We've got something for everyone, and we're continuing to get better at that.

We have beautiful restaurants. One of the -- sometimes people ask us -- your restaurants are expensive to build. They are. They're balance sheet marketing. We build beautiful, engaging, vibrant restaurants. They're not some soulless box that but for the name, you have no idea where you are. They're fun to go to. It allows us to compete with casual dining. It attracts families. It attracts all kinds of diverse people.

This robust, multichannel sales capability, we were multichannel before multichannel was a thing. We have powerhouse drive-thrus. We -- I would -- I'm biased. I think we run the best drive-thrus in the country. The fine people at Chick-fil-A have told us that they have come and studied our drive-thrus to see how to do it. They do an amazing job. We run machines in our drive-thrus. We have an off-premise business that is phenomenal. We have a shipping business that's amazing. Talk about all of this, but we have a multichannel capability, and it's one of the things that protected our revenue so well during COVID downturn, during economic downturns. However consumers want to use us, we're there for them.

And then we have an incredible everyday value proposition. There's a number I want to put in your head, it's \$9.75. \$9.75 is what the average person at Portillo's is spending. You can't go out there and get a bagel for \$9.75, okay? So it is an incredibly sharp value proposition. We protect that very, very carefully.

Proven portability and strong unit economics. To my analyst friends out here, every one of you says, "There's a question about Portillo's is, is it portable? Can it translate?" I'm going to show you a slide that I think, for me, definitely answers that question, but you will judge for yourselves.

And then, it sounds braggish, but we have a good leadership team. We're -- I feel really, really great about the team that we've assembled and the journey we're on.

Values-driven. So when I first got here, we went on a journey of defining our mission, purpose and values. And I didn't want this to be something that a bunch of 50-year-old executives sitting a boardroom did, it's something that we invited hourly team members. We had 2-day sessions, hundreds of team members, and these are their words. These values, family, greatness, energy, fun, I love those words, but I can't actually take any credit for them. Those are not my words. Those are the words of hourly team members in the front line. They said, "This is what we want to stand for. This is who Portillo's is. This is the truthiness of this brand that we wanted to tease out."

And as crazy as it sounds, in some ways, COVID was a blessing for us because it allowed us to live up to our values. So what did we not do during COVID? We didn't lay a single person off, not one. We cross-trained people. If you knew how to do -- work the beef station, we taught you to work over here and do table, which is where you make hot dogs. If you knew how to do inside order taking, we taught you how to do it outside. We did deep cleaning. We cross-trained. We invested in our people. We absorbed some extra costs so that we didn't have to lay off team members because that's not what family does, you take care of each other. We did a whole host of other things that Jill will talk about, but I'm incredibly proud of what we did as an organization and our team members paid that back to us in spades. You see it in the productivity numbers that Derrick will discuss, right? They became super productive. Happy people are better team members. It's just the truth in this business.

Greatness. We launched a leadership program this past year that I love. It's called the Ignite program. This is not teaching you, hey, here's the perfect way to make a beef sandwich. It's taking people and teaching them about the next level of leadership skills. It's teaching them, here's how you have a tough conversation with someone, here's when you coach someone and when you just let them do it, here's how to be a great leader. And when I meet with the folks in Ignite, I tell them that this is the truest sense of love a company can have for you, we're teaching you stuff that is totally portable.

We're teaching you how to be amazing leaders and whatever else you do in life, these lessons will behoove you, right? It's going to help you no matter what. This is a company who's helping you be better with no strings attached, that's an awesome thing. The team will talk about some of these other things, but we are values-driven. These are the things that matter. It's how we recruit. It's how we evaluate. It's how we review each other. Do you live up to our values?

The brand is crazy. I've never experienced anything like this brand. My favorite little anecdote is a series of tweets on the far right. So for those of you who followed the WNBA, Candace Parker had come back to Chicago and she was playing for Chicago. And so we tweeted at her, right? So we said just, "Welcome home, Candace Parker." You see Candace Parker's response. "Mama, I made it. Anything is possible." KG, Kevin Garnett, voice, "Portillo's just tweeted at me, you all." That's gold.

You know what made it even crazier is then Dwyane Wade retweeted that. And he says, "Hey, Portillo's. My name is Dwyane Wade, and I'm Candace Parker's friend, and I love you guys as well." Literally, we can't afford to pay D-Wade or Candace Parker for that. They're out of our price league. But we get that because that's who Portillo's is. That's the kind of social media frenzy that we get every time we post something.

Nick likes to say this, it's, "Look, we may not be the biggest on Twitter, but we punch way above our weight." When you think about 71 restaurants and the shadow that we cast on social media, it's extraordinary.

We have amazing fans. Now I have mixed feelings about this slide because we did this a year ago, and we were #1. So we leaked a little bit and Chick-fil-A got even better. Gosh, darn them, they are a very good company. But I'm still proud of the fact that our Net Promoter Scores are this high. For those of you who track Net Promoter Scores, these are all actually really good scores. They're all really good scores. Ours is really, really good in an industry that is battered by challenging customer dynamics. And I'm also especially proud of the fact that whether it is in our core market or outside of our home market, our scores are equally good.

So what this tells me, right, it's not just Chicagoland people who think that Portillo's is great, it's people in Chicagoland, but it's also everywhere else that we are. The delta between our home market and our outside market is one point. Some of these other very, very good companies, all great companies tend to have slightly different scores in their core and outside their core. So we're proud of this. I want to see these scores get better. My team knows that being second to me is just first loser.

So our menu is extraordinary. And there's a pro and a con to this. So the pro is this creates a veto-proof venue. My wife, God bless her, eats salad like 24 meals a week. And she loves Portillo's Chopped Salad. Our Chopped Salad is freshly made. You customize it. You add whatever you want. You take away whatever you want. It is literally an amazing fresh salad. And so she craves it, asked me to bring it home, which is wonderful.

I can take any friends or family to a Portillo's, and there's something for everyone. That's really an awesome thing. And it's crazy to say this, but our average restaurant does \$600,000 of salad sales. Just think about that for a second. That's a salad concept in and of itself, buried within an amazing restaurant that does all these other things. So we're very, very proud of this mix. There's something for everyone.

Now the con is it does create some operational complexity, right? So Derrick and his team have to work frenetically to make all of this work seamlessly and without too much labor expense. It does create a competitive moat because it's hard to knock us off. We're not just a better burger or a taco joint. We do a lot of different things. We're very, very hard to copy.

Our food is ridiculously good. If I was doing this in an hour, I'd feel guilty because I'm going to taunt you with this. But look, that Beef Sandwich -- so that beef is slow roasted for 4 hours. It's thinly sliced. It's -- when it's served, it's simmering in a warm bath of gravy. That gravy is ridiculously good. When you put it on the French bread, there's an art to putting the beef on the bread. When you eat your sandwiches out there, they should

be a little moist, a little damp because that gravy is flavor. And it soaks into that fresh bread, the bread should be crunchy on the outside, soft on the inside. I like mine with hot peppers. It is just a mouthful of heaven. It's unbelievable.

Our Hot Dogs, if you've never tried a Chicago-style hot dog, you should try it. Garrett, our friend here, who runs culinary is a legitimate culinarian as well as a big brain. But he will argue that the Chicago-style hot dog is the greatest food in American gastronomy, okay? He'll -- those are his words, greatest food in American gastronomy. It has 7 ingredients, right? And it's got to be perfectly placed. Even little things like when we do the celery salt, it should actually go right on the tomatoes because it enhances the flavor of the tomatoes. But when you get a Chicago-style hot dog like this, that combination of smokey and sweet and spicy, the different textures, the different mouth feel, every bite is like this little, magical melange of flavors. It's ridiculously good. It's ridiculously good.

And then our fries, I think our fries are the best fries in the industry. I think the science actually backs me up, right? Because, one, they are the best potatoes you can buy. They're a special breed of potatoes produced largely in Idaho or anything else on that lateral. And the crinkle cut allows the surface area to get crispy on the edges, but with a soft, pillowy interior, right? And then it's not a secret because we tell everyone about it, but it's expensive to do, we cook our fries in beef tallow. That's old-school, right? Remember back in the day when everybody used to cook in beef tallow. Beef tallow become expensive. So now that everybody cooks in some Frankenstein mixture of oils versus beef tallow. They're delicious French fries. You will never have a better french fry than a Portillo's Crinkle-cut when it's right out of the fryer.

Our food is great. It's made to order. Nothing is sitting there waiting for you. You order, we make your food, we serve it to you. You eat, you drool.

Our restaurants are really beautiful. Honestly, I still don't think these pictures do it justice, but they're gorgeous. One of the first things Dick Portillo told me when I joined was, he said, "Don't let them screw up these restaurants, Michael." A Portillo's restaurant should appeal to all your senses. And our restaurants do. There's lights. There's sounds. There's smell. There's noise. And it should appeal to everything, and it's purposeful that way. I think of our restaurants as balance sheet marketing.

You build a gorgeous restaurant. You give people delicious food at a really sharp price point. I don't need to pound you with marketing and beg you to come back again. I don't need you to try to forget your last food experience and convince you give us another shot. We -- you want to come back because you had a great experience, because the food was great. The marketing that we do is via operations and development and what we build. That's the best marketing in the restaurant business. Think of where -- when you go to a restaurant, are you going because, you said, "Hey, I saw an ad." No, you're going because you said, "Last time, I had an amazing experience where I'm just craving that Portillo's Beef Sandwich." That's what we do. We build gorgeous restaurants that appeal to the senses, but are also balance sheet marketing.

Multichannel, just highlight a couple of things here. Our average drive-thru in the latest 12 months -- latest 9 months of '22 has done \$3.9 million. Think about that. That's 3x a McDonald's drive-thru. We do \$3.4 million inside the restaurant, that's equal to Chipotle's total AUV. We do almost a Domino's worth of delivery. And we've been doing delivery for 5, 6 years. So in one Portillo's box, you're getting the equivalent of the McDonald drive-thru, a Chipotle and a Domino's. That's how to think about us. The flexibility of that multichannel capability is extraordinary.

We also have a ton of off-premise business. We have catering and carryout and this direct shipping business, which is a sneaky, important business because it's a line of sight to where consumers are, where they love us, where they want us. So it probably wouldn't surprise you that 10 years ago, the #1 place that we shipped food to was Arizona, so we built restaurants there. Currently, the #1 place we ship food to is Texas, so we're building restaurants there. But we have been multichannel before that term was anything in the restaurant industry.

The value proposition, \$9.75 per person. These are the actual prices of our meals, \$12.27 for that Italian Beef Sandwich, \$10.97 for 1/3 pound burger, our small fries are actually still pretty big and a soft drink. That is an exceptional value proposition. Exceptional value proposition. We carefully measure ourselves against the leading competitors in our industry.

And this is -- we took one particular restaurant, looked at all of the competitors nearby and said, "Our most popular meal versus their most popular meals." And so our Italian Beef, small fry, soft drink versus Shake Shack, Potbelly, sweetgreens, Panera, Five Guys and Chipotle. No matter who it is, we're less expensive. I don't want to even get into the fact that our beef sandwich is 0.25 pound, our fries are voluminous. They're bigger than most people's large fry. The volume and the quality of what we do in and of itself, would allow us to charge a higher price, but we create great value

proposition. The quality is amazing. It's made fresh and fast. It tastes great. It's a great experience. And the price point is really, really low compared to other leading fast casuals. We're very proud of this. We protect this.

Now I have gotten some feedback about some analysts implying that, hey, you guys are crazy with this price laggard strategy. What are you doing? Take more price. Let me show you what the price laggard means because that's what we do, we take -- we're a price laggard. It doesn't mean we don't price. It means we allow competitors, everybody else to price and then we follow. We would prefer to keep taking traffic and protect our value proposition than gouge the consumer.

And here's a perfect example. This is -- and this is a great company. Shake Shack is a great company. They do so many things well. But you can see they price, Portillo's follows pricing a couple -- 3 months later. They price. We wait for that cross elasticity effect. We wait until some of their guests give us a trip and then we price. That's what we do.

Our pricing doesn't lag competitors for very long. It's a short period of time that we lag, but we always catch up on our pricing. That's what we do. You can see the impact it's had on consumers on the right side of this chart. Overall, U.S. consumer sentiment in terms of satisfaction, you can see that decline, pretty consistent decline over the course of the last 2 years. That red bar is how consumers think about our value proposition, value for the price paid.

And over the course of the last 2 years -- and we've still taken pricing, our value scores have improved. We like that positioning. We will, of course, protect our margins, but we will do it over a slightly longer arc than perhaps some of our competitors because we want that traffic, we want to protect the value proposition, and we're here for the long haul. We're not going to whipsaw this business in any given quarter.

A lot of you asked about the portability of Portillo's, can you perform outside your core markets? So I thought this was a compelling slide. You can see vertical access is restaurant-level EBITDA margins, horizontal access is average unit volume. And these are great -- Shake Shack is a great company. Chipotle is a great company. sweetgreen's a great company. So you can see where they play. This is where we are Chicago, outside Chicagoland. So this is our total outside Chicago. So those of you -- can you guys succeed outside Chicagoland? Yes, we do pretty good, \$5.8 million AUVs, 19.2% restaurant-level margins. That's all of our outside Chicagoland.

So there's a lot of people like, "Well, sure, but you can succeed in the Midwest. Can you succeed further away from the Midwest?" This is Portillo's Arizona, Florida and California. \$6.4 million AUVs, 20.5% margin, Florida, California and Arizona. That's not close to the Midwest. So we feel like that's a really good indicator of -- that we can succeed.

The only reason people question how well we perform outside Chicagoland is because Chicagoland is absurdly good for us, right, at 9.9 million AUVs and 30% restaurant-level margins. But the truth is that if you were all just looking at investing in a restaurant company, truthfully, wouldn't you invest in the -- in this company or this company? I think those individually, if we just said Portillo's outside Chicagoland, it would be a rock star investment for investors.

Our Chicago units do remarkably well. They have the benefit of 50 years of history behind them and the scale that comes with that.

Our leadership team, a lot of relatively recent faces. I'm exceptionally proud of every one of these folks. You're going to talk to them. But you can see based on their experiences and where they've been, this is not like -- and I love the fact that we have some legacy experiences as well as new experiences, but this is the team that is created for the future. This is a team that is here to help scale this business to be one of the best restaurant companies in America.

And our Board has -- is equally fantastic. We have a very, very talented, diverse board with great experiences. And we'll continue to build our Board up. But Noah Glass is sitting here. I get a lot of questions from investors about what are you guys doing on digital? Do you know how to do off-premise? Have you worked with people like Olo? Yes, yes, and yes. And in fact, Founder and CEO of Olo sits on our Board.

G.J. Hart, who knows more about the restaurant business, who has forgotten more than I'll ever know, is a friend and mentor and sits on our Board. So we have just a rich, diverse Board that adds so much value. So I feel great about both our teams.

Our strategies are actually quite simple. It's not super complicated. We prioritize people, right? Everything begins with that frontline team member. If somebody has a great experience at Portillo, it's really -- it has nothing to do with our executive team, it's because the person at front cash smiled and helped them curate their order. It's the person making their food, who was working fast and there's a little bit of theater in our restaurants where you see someone making food. It's when the person who pushed your food did it with a fun rhyme, number 55 look alive, that's what gives you a great experience. It's the front line, our lead team members. Our job is to take great care of them, they take care of our guests.

We're growing our core business. We have so much opportunity. Such a great company, but we're still in our infancy when it comes to things like operational improvement, getting world-class supply chain, all these fundamentals, we're in our infancy. We get better every single day. And that's our goal, right, continuous improvement.

And then expanding new frontiers, there's a lot, a lot, a lot of runway for Portillo's. Mike will talk about this. He's going to talk about basic restaurants, full-service restaurants. He's not going to really talk much about our drive-thru concept or smaller footprints or doing things in airports or universities or international franchise, that's all above and beyond of what he's going to talk about. There is a ton of opportunity for us going forward.

Our long-term growth algorithm, Michelle will go through this in more detail. But look, we have committed to our investors 10% unit growth per year. Our same-restaurant sales, we're targeting low single digits, high single to low double digits for revenue growth and adjusted EBITDA growth in the low teens. That's what we think is very, very viable for this business over the longer arc.

So durable, obsessed fan-base, unmatched value proposition. That first bullet is hugely important to me. We have a history of doing what we say we're going to do. We make money. This is not a concept that you value on multiples of revenue. We make money. We can fund ourselves. We have a ton of growth ahead of us. We're building restaurants, 72 opening it next week, 600 is sort of the minimum TAM for us. We have a leadership team that is scaled to do this, and people really are the heart of what we do, it's built into all of our DNA.

And so with that, let me introduce my friend and our Chief Operating Officer, Derrick Pratt. Derrick?

Derrick Lee Pratt - *Portillo's Inc. - COO*

Thank you. Thank you. Thank you, Mike.

All right. I hate following Michael Osanloo. Just how do I get this done?

Take a look. Maxwell St. Polish, this is my current favorite. Look at the caramelized onions, the tangy mustard, the juicy pork, the poppy seed roll. It's absolutely amazing. If you haven't tried it, you got to try it. It will not be in our Beef Bus, I apologize. But you'll get wonderful samples of other products that we have.

So I am proud to be the Chief Operating Officer of -- now it's getting close to almost 8,000 people, and we're just -- and we're growing. And it makes me proud. I came to this company -- actually, I was working for Starbucks. And I remember having conversations with Jill and Michael. At the time, I was responsible for labor in U.S. and Canada. It was literally the middle of the pandemic. We were in a situation where we were just about to furlough 22,000 people. And my responsibility was to come up with a deployment scheme that will allow the company to do that and keep the operations flowing.

We were down 45% at the time. And I'm having conversations with Jill and Michael and they're talking about a values-based company, what they're doing, what they just codified in those values and the purpose of the company. And oh, by the way, they were very proud to show me that they were comping at the time, get this, they were down 4%. And I said, what? On top of falling in love with the company back in 1997 when I joined McDonald's, this company was down 4%. Starbucks was down 45%. We were going to furlough 22,000 people, and Portillo's didn't layoff anybody. What the hell? I had to make this move. I moved twice during the pandemic. Who does that on purpose? Who does that? For this company, I did that. And I'm proud about it, very proud.

So I'm going to talk to you a little bit about how we do what we do from an operations perspective. Operations excellence is at the core of this company. Michael talks about it all the time. Our brand affinity is built by our team members who show up every single day, proud to do what we do. We are an accountable organization. I say accountability is care, right? If you really love something, you care about it deeply, you hold yourself and all those who are connected to it accountable.

I'm going to talk to you about relentlessly creating efficiencies, right, by reducing complexity. A quick story, if you ever read Dick Portillo's book, part of it was predicated -- part of his establishing this moat, this competitive protection was creating complexity that Michael talked about that cannot be duplicated. Well, our brand affinity, our product, our great people have already built something that is very special. The fandom is incredible. People would always show me love when I said, "I work for Starbucks," when I got on an airplane. If I wear my garb at the airport, Portillo's, it is ridiculous because they want to know when are we coming to town. It's fandom.

Today, we don't need that kind of complexity. We can actually build efficiencies, make it easier to do the job, and I'm going to talk about that. And then as important, our new restaurant operating apparatus has to be really strong enough to build consistency in our culture and open restaurants from a capability standpoint simultaneously.

So Michael talked about the flywheel. Important to us, team member engagement. We coach them up. We train. We develop. We recognize. We make sure that people are steeped in who we are, what we do and why we do it, most importantly. Our why is extraordinarily compelling, unrivaled food and experiences. We improve operating efficiency, I'll talk about that, so it's easy to do the job right. They become engaged in who we are. The work's not killing them. They satisfy our guests. We drive AUVs, restaurant-level EBITDA, adjusted EBITDA. We can fund our growth. We are a profitable company, and this is the way we do it.

So I'm going to talk to you about the recipe a little bit, right? And here's the way I like to think about being brilliant at our basics. You've heard that term before, brilliant at the basics. Our basics are tried and true, almost 60 years. I'm not here to reinvent this wheel, I'm just trying to get it to turn more true. I'm not trying to reinvent it, I want it to turn more true and pick up momentum. So I'd like to think about the top being our bun. It's our unrivaled food experiences, right? That's the wrapping, right? Our core values and our continuous improvement mindset, greatness is a value of ours, kind of holds it together from a base and foundation standpoint. But in the middle, our operational excellence, and I call it the meat, I call it the meat of this whole thing, is flawless execution. Running great shifts every single day.

When I left Starbucks, they were doing \$30,000, \$35,000 a week. We do \$25,000 to \$30,000 a day. When you're doing that kind of volume, showing up and running a great shift is actually extraordinarily important. And guess what? Our company has codified how it's done. It is not a secret. We just had to synthesize it and make it clear communication for everyone to follow very clearly, right? Writing great schedules using tools that we have. Shift planning in advance. A shift at Portillo's could be 25 to 50 people, a shift, right? You've got to plan for that from a deployment standpoint in advance.

We have codified routines and checklists that help us in an 8,000, as big as 15,000 square foot building, ensure that everything is running just so and it's in the right place. Our pre- and post-meals, this is communication. Across this organization, I can tell you right now, today, everybody's focused on the same thing, same goals, same communication from here to California, right? Codified, indoctrinated, understood, believed in and communicated.

Training execution. You can't have that many people on shift not being trained and coached shoulder to shoulder to make things happen. If we don't see it, we coach to that. And you'll hear me talk about zone leadership. We operate 4 channels clearly. We operate 4 zones. There could be 8, 7, 10, 12, 15 people in a zone. You need leaders leading people by zone to run channels that do as much as \$3.4 million, \$3.9 million, \$1.6 million. These are channels of business inside of our operations. Very critical to building this beautiful bacon double cheeseburger, right, consistently every single day.

So I talked about we hold ourselves accountable because we care deeply. These are some of the metrics that we look at. And when you hear from Jill, you'll hear those underpin our team member engagement and how we look at that. But we're proud of our results. Our team member engagement is up significantly year-over-year. While across the U.S. in the industry, it's falling. Our operating efficiency is unmatched.

If I were achieving this kind of operating efficiency in previous companies that I worked for, there would be a revolt. There would literally be a revolt. But we're finding ways to make the job easier to do right every single shift. We've reduced our labor hours 20% since 2019, 20%. We've increased our items per labor hour -- our productivity -- it's how we measure productivity, over 14%. Michelle's going to talk to you about what we've done since March of this year in the face of rising commodities. We're picking up leverage on increased efficiencies.

Now the question is when you reduce hours, you increase efficiency, are people working hard to the point that, What am I going to do? Are guests getting the service and the experience that our brand portends? Well, if you look at our team member engagement, if you look at our overall satisfaction and speed of service, it's all working well together. Very important to us to triangulate these metrics and uphold the experiences that we commit to.

So I'm going to try to explain our multichannel business a little bit, right? And if you don't have context, this is a little harder. But you could see in our drive-thru, number one, they're double-lane drive-thru. This is predominantly for stackability during our peak. If you're going to do \$4 million in a drive-thru, you've got to have at least 2 lanes and you only have a finite amount of real estate, you've got to be able to get people through. We put people outside to intercept and to get orders in queue early, and we put people outside to run those orders out to cars so that they can move into a fast lane and be on their way. People intercepting people to curate orders, to create throughput and capacity.

Number two, our themed entrances. They really portend what the experience could be all about. They excite our guests before they walk in.

Our online order and pickup. It's a \$1.6 million business between catering and pickup. We have a segmented area at number three that allows us to pull orders together from an online perspective, assemble them and convey them to our guests, whether it be on a shelf for a delivery driver or catering is being picked up or catering is being delivered by us and set up.

Number four, we extend our outdoor dining areas for our guests. 40 to 50 seats with music that you get that sound and that experience. Our energetic and amazing dining areas. All of those create one zone for us, 5, 4, 3, that's our guest service zone, our drive-thru zone, all require a level of leadership.

And then number six, we have 2 people at number six. Our kitchens are about 3,000-plus square feet between production and expediting requires 2 managers to run that business. Our guests can walk down the line and watch that perfectly made Hot Dog or that Italian Beef Sandwich being prepared just for them before they move to our expedite area to pick up.

I'm going to talk about this efficiency and reducing complexity piece, but I want to talk about it through the lens of our guardrails. First, we want to make sure that we ensure better quality when we do this. We're not trying to substitute anything or break things down or be cheaper. We want to make it easier. We want to eliminate the pain points for our guests, pain points for our team members. We talk to them to understand where it's harder to do the work. We want to reduce motion. Why? Reducing motion reduces fatigue, reducing fatigue reduces delay. Throughput is very important to us. So.

We've invested in enhanced workforce tools. We've reduced the amount of time it takes our managers to do a schedule by 75%, from 6 to 8 hours to 1 to 2 hours. The scheduling apparatus allows us to pick up micro improvements and labor change. It used to be that you have to remove a body to get hours out of a shift. We can now make micro adjustments to hour and remove labor. Our Portillo's pickup, we've invested energy, operations, technology to make sure that this is a seamless and frictionless experience for both our team members and guests.

I'm going to talk more about repurposing our legacy salad bowl area and a few demonstrations, and then what we're learning there from our team members and our new design. This isn't a think tank kind of let's come up with a design for Kitchen '23 that's going to make it better for Portillo's. We heard from our team members. We've heard from our guests. If you fix these pain points, it will be easier for us to do the job right, and we've incorporated those into our kitchen design called Kitchen 2023.

So let me give you this case study for what happened in our salad bowl, right? Before, it was very inefficient. We call this kind of the triangle of confusion. A guest would come in, there's 2 or 3 registers, you're lined up, you're queued to 2. They're trying to figure out who should go next

because they're standing next to each other, the salad bowl where we used to make 11 different salads, we now make 5, right? So we reduced that menu, reduced the SKUs, we make 5.

So you could place an order, especially if you had a group that contained a salad, a beef sandwich, a fry and a beer. You would go from point of sale, maybe to pick up, or if the salad was ready sooner, maybe somebody would go to a salad to pick up. And that person, if they had a beer, they would cross about 140 feet on to the other side of the restaurant to pick up the beer. Or if they wanted something to Take & Make home or a dessert, they might pick it up from there.

We call this the triangle of confusion. One point of order, three points of pickup, right? So we had some goals after hearing from our team members. Enhance the guest ordering and pickup experience, create better work environment from our team members, drive pretransaction awareness of our menu. I started and fell in love with Portillo's back in 1997, didn't know they served beer and chocolate cake until I joined the company in 2020. You feel me on this? This doesn't make a lot of sense to me, right?

So we took these goals and we created something different. We created a square of certainty. We moved salad production back into production. We started thinking about what if we took beer, Take & Make, and all those grab-and-go items that we sell that I didn't know anything about, and I guess I'm not the only one, I'm not dumb, right, what if we move those into line of sight during the customer journey? What if we changed this feeling of unfairness as to who goes next to something that everybody understands [and distanced]. And during that journey, they could look at salads and merchandise and cookies, I mean, all the things that we offer, right? Wouldn't that be amazing?

And if I could order my beer where I placed my order, take a sip and all of a sudden, oh, I feel better about my entire experience. Wouldn't that be amazing? Well, we're doing it. We just opened this one. On the left side is the salad bowl. It almost looks sad. It's like -- it looks like a place where salad didn't go to live, it went to die, right? 11 salads down to 5, we couldn't even fill up all of these pans. It wasn't anything we were proud of visually, right?

What if we created a merchandising zone, a guest journey, fairness in how orders are placed, pick up at the point of purchase, right? We moved actually beverages out into our patios, so that our guests could either drink a beer or go fill their beverage and find a seat. Once these things begin to happen, the perception of service, better service and speed all changes, and awareness of our products will inevitably be good for our business. And guess what, it's easier for our teams to execute.

Remember, the hypotenuse in that crazy triangle is 139 feet. Who is sharing that work? No one. They're working independently. We cannot be more efficient when that happens. We have to be able to share the work. So we've incorporated this into Kitchen 2023, and we will begin to build them in Texas.

So no context for you if you've never seen a kitchen design or our kitchen design, I want to tell you how we get more efficiency in everything that we do, in everything we do. First, the results. Our Kitchen 2023 is 17 feet shorter, from 129 feet to 112 feet. Our equipment costs \$100,000 less, 2 less minimum staffing in terms of team members. And guess what? We've increased productivity. We've increased capacity. We spend less, we have less, we do less, and we are more capable. How did we do it? We took things that were long and we turned them perpendicular, and we created triangular work zones. This is expo for dining. This is expo for pickup, takeout, catering. This is expo for drive-thru. This is the beverage station. From here, it would have been over here, it's now here.

French fries. French fries would have been elongated over here, we turned them perpendicular. Drive-thru, takeout, dine in, right? This work triangular is expo drive-thru. If I'm expoing here for dine-in, I can easily walk through and help expo over here for drive-thru. We can share the work. We need less people. We've taken what would have been a production area right here. These folks would have been working with their backs to these people in the center line, you can't share that work. We've moved it to one center line production. [We moved] 10 wells.

Created better work together zones, reorganized our capacity for products we serve. More Beef Sandwiches, 600 plus. Hot Dogs, 500 plus. We have more beef wells, didn't need more hot dog wells. I have more capacity for things that I sell. We've made it easy to do right. We've taken our cooking, prepping and sauteing, and we moved it from way over here to in line with where we produce. Common sense things that our team members tell

us they needed, they wanted, we're doing it, so they can be more productive. They can do it right the first time, less motion, less fatigue, less delay. This is who we are. This is what we're doing.

Quickly on our NRO, yes, I call it the triad of effectiveness in terms of opening new restaurants. It's our operations team, that's our core NRO team. This is their letterman jacket they get after they open 10. This is [Luan], he's opened 40. He's a part of the expertise that leads our core NRO team. Our operations team, they own talent training, development. The NRO team owns the playbook and the project. And then we've built flexible talent capability in markets that we already operate. So we don't have to fly people all over the place to Arizona, we can scale Arizona. We don't have to fly people down to Florida, we can scale Florida. Our next scale area will be Texas. Our next NRO flex team will be in Texas because we're going to build out Texas. So we have the capability to open 4, 5 restaurants currently simultaneously with this team working in flex, and we have the playbook to do it.

So the future for us is doubling down on what we've already done. Running great shifts through 6 critical behaviors. These are our metrics. We are very accountable to them, leading with intent, making sure that we create clarity in roles and expectations. People development, Jill's going to talk about that. It is a core love of mine, and I believe it does create the heart of Portillo's. This is who we are, 2023 and beyond.

So what did I tell you? Ops excellence through our team members. We're accountable to metrics that matter and drive our business and underpin our core values. We're relentlessly focused on creating efficiencies and simplicity because we want people to be able to do things right the first time and be connected to our brand. And then our new opening restaurant teams have to be capable enough to open simultaneously while transporting our culture and our values, this is who we are.

Thank you so much. And I'm going to bring up Mike Ellis, our Chief Development Officer. You want a pointer?

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

No.

Derrick Lee Pratt - Portillo's Inc. - COO

No?

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

I'm okay. Thanks.

Good morning, everyone. That is a Chili Cheese Dog, and that is a little slice of heaven on earth. That is my favorite item at Portillo's. I've been with the company just a little over 60 days, super excited about the opportunities. Have been a Portillo's fan since the early '90s. One of the first markets when I got into real estate was of the Chicagoland market, so I did deals, and I was just amazed at restaurants in the early '90s of our size doing drive-thru and the amount of traffic they did. Have been a huge fan forever. Was extremely excited when I was contacted because I just realized what a great opportunity this brand provides.

I've been in the restaurant space for 35-plus years. Started the first 6 years in FP&A, the last 30-plus in development. Had the opportunity to run Olive Garden development and most recently at Cracker Barrel.

And as Michael talked about, we have a significant white space to grow this building -- this business, excuse me. We're going to achieve that growth, the 600-plus restaurants by scaling in the Sunbelt, continuing to grow in our Midwestern markets and identifying new frontier markets that meet our return hurdles. We're going to do that by leveraging a disciplined approach to development, one of the things that my team has heard many times over the last 2 months, sustainable, replicatable business model. How do we say what we do, do what we say and hit our time lines as we

move forward? And then we're going to focus on the things that we can control and have a robust pipeline to deliver a 25% cash-on-cash return by year 3.

If you look at our foundation for growth, and Michael talked a little bit about it, Nick talked about it, we have -- we punch way above our weight. I can tell you when I accepted this role, I thought I was a raving fan. The people that had contacted me outside -- from outside our organization that are huge fans of Portillo's, we are set up well for growth. We've got a long, established history of growth since the Berkshire acquisition in 2014. We've grown at a compounded growth rate of about 8.4%. We've talked about we'll grow at 10% plus as we move into the future.

So when you look at our white space, and Michael had a similar chart, this shows where we currently are. We're opening additional restaurants before year-end in Arizona, in Indiana and in Florida, which talks about -- a little bit about that Sunbelt growth and growing in the Midwest, and we're extremely excited to enter the Texas marketplace. Texas has been a great market for restaurants. It's been our top shop and ship location. We're -- we'll be opening next month at the Grandscape in Colony, a suburb of Dallas. And very excited about that opening. It's got attributes from our portfolio that I don't think anything else has in terms of traffic generation, eyes on that business and a way to really grow our fan base and expose a tremendous amount of people to the Portillo's experience.

So again, sustainable model for growth. This is something that we'll work with on the team as we continue to do it. We're going to expand aggressively in the Sunbelt. We're going to build local scale in our Midwestern markets. And we're going to identify those new frontier markets for our growth as we move forward.

So let's talk a little bit about scaling the Sunbelt. We have a very disciplined approach to our growth. We use external tools, external partners in terms of form analytics to understand the market opportunities. Our shop and ship, I think Michael mentioned it. Back in 2012 was -- we went into the Arizona market. That was our top shop and ship market, it's now Texas. Not surprisingly, we're going to Texas and we're extremely excited about that.

If you look at our pipeline in '22, you see that Arizona -- that Sunbelt growth. And in '23, our pipeline, 70% of that is going to be made up of that Sunbelt. So that is going to be a huge market that will continue to grow in and drive our business forward as we move into the future.

Building scale in the Midwest. Michelle will talk a little bit about this as well, and I think Michael had mentioned it. We know we hit the sweet spot in our markets when we get 6-plus restaurants in terms of margin and improvement in margin. It's important to us to continue to penetrate and grow in that Midwest -- those Midwestern markets and give us that scale and that efficiencies from an operational standpoint for Derrick and the margin returns that it get us -- that it gets us.

Site selection is always the key. We've continued to add restaurants. We'll add -- the '21, '22 class includes 3 additional restaurants in the Indiana marketplace, which pushes us over that edge and provides us with that margin improvement that we'll get that. Michelle will cover a little bit further in her presentation.

We still have opportunities in sweet home Chicago. Michael talked about our high restaurant volumes in Chicago. It is a very robust market for us. We still feel we have significant opportunities. If you look at our highest volume restaurants from the Chicago marketplace, Canal and Taylor opened up in 2016, Addison and Kimball in 2020. And in that short time, it's moved to our second highest volume restaurant in the system. So we will continue to exploit opportunities in the Chicagoland market, opening 1 or 2 restaurants per year as we move forward.

So our approach in new frontier markets. Again, we're very data-driven. Our shop and ship data, form analytics, placer data, as we get all these, put these together, demographics, we lay out and look at new markets. Whether it's a frontier market, an existing market, we have strategic growth plans for each market where we lay out Tier 1 opportunities, Tier 2 opportunities. What is our road map for growth in these individual markets?

So a look at that is really how we've developed the Arizona marketplace. So we opened 2 restaurants in Arizona, which was in 2012, our top shop and ship location. We opened in Scottsdale and Tempe. We've since added Avondale and Glendale. So we're at 4. And part of our Sunbelt strategy, if you look, here's what we're adding in the bulk of this year and into next year. We'll -- we're in [end channel], we'll be going to Surprise, we're

going in Tucson. So as we get to the end of the year, early next year, we will be at that 6, 7 number in the Arizona marketplace, which then drives that efficiency from a margin standpoint.

And that will be our plan as we enter new markets. Let's identify where we have the opportunities, how quickly can we get to scale so we get efficient in those markets and plan accordingly.

And then here, when we talk about existing restaurants, the pinks are the Tier 1 markets, and then we'll finish our development in Tier 2 markets or the gray areas. So we'll have 10-plus restaurants in that Arizona marketplace when our development pipeline is completed.

So as we talk about a sustainable, replicatable business model, development, really, there's 3 areas that it impacts ROI, that can have a favorable impact on ROI. It starts with our site selection. It's also around our design and construction. And then most specifically, owning that time line. Time is like water, it will fill any void you give it. So we are driving time to deliver these restaurants on time, on budget, so Derrick's team can take them over and run them successfully.

When you talk about new restaurant site criteria, it's a little different when you look at Chicagoland versus outside Chicagoland. First and foremost, we start with a drive-thru. That is -- we are a drive-thru business, it needs to have the proper car stack. You need to be able to logically understand how you get in and out of the drive-thru. It needs to be set up so Derrick's team can execute that for our guests, and we get them in and out. So we always start with a drive-thru.

If you look at markets outside Chicago, what I'd like to talk about is pristine real estate, right? We can have no misses on real estate as we go outside our Chicagoland area. I want to be where people trade in traffic, where I've got multiple eyes on our restaurants, so we can expose as many people as possible to Portillo's brand.

I talked a little bit earlier about Grandscape in Texas. There is a Nebraska Furniture Mart, it draws 10-million-plus people a year to that event. We're on George Bush freeway, which drives 150,000 cars per day going by us. So the exposures and the eyes on that opportunity in Grandscape is like nothing we've seen before. And I want that exposure to kind of drive that Portillo's name and get people exposed to our business. So traffic generators are critically important as we go outside Chicago.

And then we need to have visibility access, parking, all those are critical. We always look to gravitate where the highest volumes are from a competitive set, what's the most robust from a population, from a retail sales perspective, and that's where we'll look to locate our restaurants. Really, from a cannibalization standpoint, not a big consideration at this point as we go outside the Chicagoland market.

In Chicago, from a traffic generator standpoint, we've already got 39 restaurants in Chicago. We've been there for 59 years. People know who we are. I'm less worried about driving, having traffic generators. We'll drive our own traffic in those markets, as you can see from our sales and our results. So it's visibility, it's access.

Cannibalization in the Chicago market is something that -- a filter that we look at and is much more important as we move forward and we add those 1 to 2 restaurants a year to make sure they fit in well. They don't damage other restaurants in their area, and it's accretive and adds to our portfolio in the Chicago market. So we take a couple of different approaches depending on the markets that we're in.

This is, by far, my favorite slide in the deck. I look at development, we're on a continual journey of improvement, right? And if you look at kind of where we are from a design and architecture, the top row is kind of where we've been. 10,000-plus square foot restaurants, multilevel floors, unique designs on everyone, unique kitchen layouts on every building that we looked at. Derrick talked a little bit about Kitchen '23. The kitchen in my mind is the most important part.

It's our largest single investment inside the restaurant. It is the engine. It is the plant that works. And if you look at kind of our top row, kind of where we've been, if you're a market manager and you have 6 to 8 restaurants that you're responsible for, previously, you would be managing 6 to 8 different businesses, right; where as we move forward, it will be 1 kitchen, you'll be managing 6 to 8 businesses one time. It will improve our efficiencies. It will help us measure our performance better. It will be much more efficient from a construction and a design standpoint. So as we

go back down to the bottom row, that's what we're building now. And we'll really start with 2 basic templates, whether it's a diner or a garage-style restaurant, we are an experiential brand. You saw, I think in Michael's presentation, he had the St. Pete restaurant, the interior, it's engaging, the guest loves it.

Derrick, I think, showed Orlando, that entrance that as you look in, we need to keep that experiential nature of the brand. But I think there's ways we can do it and be more efficient by starting with base buildings, really working on the decor and some architectural embellishments to drive it, but standardize what we do and how we do it as we move forward to improve our efficiencies and get some cost savings.

And then the real estate model. Again, we drive a lot of traffic to the restaurants. I'm a big fan of getting information early on in the process so that we can affect the negotiations. And we need to be making deals, not taking deals. We drive -- even in -- specifically in Chicago and other markets, given our volumes what we do, we drive a lot of traffic to centers. We are an important anchor for other retailers. So we need to be in a position to make strong deals.

We should be kind of leading that, driving that, getting those competitive rents, getting that -- those TI dollars that we need and structuring good deals for the business because we add a lot to every center that we go in. And then lastly, value engineering. We don't like that term. I reimagine on what we do is what I like to call it. And it's really -- we've simplified our structural design. We're looking at what materials we use.

Derrick and I have talked about this a few times. How do we transfer money where we're not getting value and how do we put that money in different items that are going to improve the team member experience that's then going to improve the guest experience? And how do we reimagine what we do and how do we think about how we spend money and what can we do to drive value inside the building?

And then owning the construction time line. So in the world that we've specifically been in over the last couple of years, there's a lot of things out of our control. So when that happens, we need to do a great job of controlling what we can control. And that really starts with the construction model. I will tell you that from a material standpoint, the team has done an outstanding job in terms of managing equipment shortages, material shortages.

It has not caused us delays on any of our '22 openings. We've had some city issues, but from a material standpoint, they did a great job in managing that and ensure that we've got the materials and the equipment we need when we needed to open those restaurants. The construction model, I like -- as we build out these restaurants, I like to have as many tools in my box as I can. Currently, we've historically in -- as we've looked in Chicago, that's been more a self-general -- we'll manage our own construction, right?

We've got 59 years of experience. We have a number of trades that we know and have those relationships. We can manage that construction. That helps us from a cost savings standpoint. It kind of cuts out the middleman. We can self-manage those jobs. That's important. More critically important is as we're in that process now and we'll continue to develop a robust group of outside general contractors that will do our openings in the Sun Belt and give us scale. A lot of those groups are going through their first Portillo's build right now, and there's always newness and a little hesitation on what it takes. As they get 1 or 2 restaurants under their belt, they understand they kind of get over their fear factor. Our pricing and costs tend to get better.

And then by this time next year, we'll get that group together because it's a relatively small group, 6 to 10, that build a lot of the national restaurants kind of across the country, whether it's in Olive Garden, whether it's -- whatever it is, they've got that experience. We'd like to bring those people in, and we'll look to bring them in, in about a year from now once they have 2 Portillo's under their belt. They've built tons of restaurants in the industry from all different brands and look at, okay, what can we do better? Where are we making mistakes? What -- how do we look at our design, our staging of the construction?

Let's learn from their experience to shorten our time line, to lower our costs and give us the ability to move forward in a more cost-effective and time-effective way because we save money. On the construction side, fewer weeks on the job is less general conditions, so that's all a win for us.

But we've got the -- we're in uncharted waters in terms of cities and how they work. We've painstakingly built the '23 pipeline with additional weeks in to account for that. We need to -- our hope is the world normalizes as we get into the first quarter, but we're not counting on that. So we're

planning for that in our builds, in our construction schedules, that we've got that accounted for. And some will probably won't need it, some will need more than we have. But on balance, we've got that in and built in, so there's no surprises from a construction standpoint.

And in closing, we're going to accelerate our growth by capturing the significant white space we have to get to 600-plus restaurants. We'll have that growth mainly occurring in the Sun Belt. The Midwest -- our Midwestern markets and as we identify new frontier markets for our growth, that return -- have our returns. We'll be utilizing a disciplined development, sustainable, replicatable model to deliver this growth to ensure that we give the returns of a 25% cash-on-cash return at the end of year 3. Thank you.

QUESTIONS AND ANSWERS

Barbara Margaret Noverini - *Portillo's Inc. - Director of IR*

All right. So we're going to take about 10 minutes for Q&A, and I'm just going to invite Michael and Derrick back on the stage. (Operator Instructions)

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

Sharon Zackfia with William Blair. So I'm intrigued by the square of certainty, and it seemed like it was kind of a no-brainer and you have it at least in 1 location already.

But you referred to it as a test, the '23 layout. Maybe that was more of the kitchen layout than the front-of-house layout. So can you kind of talk about the rollout for the front of house, where it seems like that could benefit attach and improve customer satisfaction and maybe even speed? And if that's in the plan for all 23 units?

And then is there a possibility to retrofit existing units to get rid of the -- I forget what, the triangle of despair, I might have rephrased that. Yes.

Derrick Lee Pratt - *Portillo's Inc. - COO*

Yes. It's a great question. Thank you. The reason I'm calling it a test is because it's been like a little over a month and we're still learning, both the guest behavior, how people react to it, what they're looking at when they kind of work through the journey from a merchandising standpoint. We're kind of -- we're stockers. We're not merchandisers. That's a muscle that we have to build, right? Front-facing, full, ready to sell. Our schemes for actually how to replenish to get that timing right, who's going to zone that area, have eyes on that and then impact it. What happens in the guest journey in terms of purchasing beer? What do they rather do? Would they rather order here or grab here? So the assortment is all these things we're learning, but we can scale and learn that fast, right? So we're working through that.

We have right now 41, including our Barnelli's, which is kind of the pasta concept. We have 41 that we can convert, right? We believe, right now, based on the operations experience, the guest experience and the team member experience, that this is scalable, replicatable and we can do it, I believe, fairly quickly based on what we did at our Bolingbrook site in building it out.

We're happy about the results today. But as we move forward in our Texas market, we want to kind of consolidate everything that we've learned, bring it, incorporate it in Kitchen 2023 while simultaneously putting a plan together to scale in our remaining 40 restaurants, right? And this is our plan going forward. We really like what we see. From a guest experience, we really like what our team members are telling us. And we like the awareness to our product, as I talked about, right? That's really working well for us.

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

(inaudible) This is Sara Senatore from BofA. Can you hear me?

Derrick Lee Pratt - *Portillo's Inc. - COO*

Not really.

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

I believe I can hear you. We'll repeat the question. Sara Senatore from BofA.

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

Good. All right. Really good. I have a question that both Mike mentioned the idea of getting scale like (inaudible). Can you talk about where the benefits are? Are they at the G&A level? Do you have the (inaudible) or does it actually [have an attainment level], it's about hiring, the labor availability, the real estate, the landlords knowing you. If you could just talk a little bit more about sort of essentially how we see that in the P&L as you hit those targets. And then when -- and sort of presumably that's within a certain limited trade area that you're talking about.

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

Yes. So for those of you on the simulcast, the question is, getting to scale, 6, 7 restaurants, where in the P&L does that benefit show up, right? So I'll take the first crack at that. You actually see it all across the P&L, it's exactly what you described. So in a market like Arizona, we have field marketers. For a long time, those field marketers will work in the 2 restaurants. They created great -- they've done some amazing things like vending at the Arizona Diamondbacks stadium, at Arizona State University doing all this great stuff, building brand, building awareness. All of their efforts were for 2 restaurants. When you get to 6,7, all their efforts affect 6, 7 restaurants. Any marketing that you do now affects 6, 7 restaurants. You have a regional person, a market manager we call [multiuniversum].

Historically, we have 1 person for 2 restaurants. That person is scaled. They now work for 6,7 restaurants. Staffing becomes intimately easier because if you have 2 manager, you have a manager on vacation, you have a manager who's on maternity leave, a month-long paternity leave, in Tempe, you can repurpose managers from the other restaurants and move them there. Supply chain gets more efficient. You get better drop sizes. It's easier to get product to all your restaurants. So literally, it's bites and pieces across the entire P&L that are positively impacted by achieving scale.

Michelle will show mathematically what happened over time, but, Sara, it's literally across the entire P&L. You get a demonstrative benefit at 6 or 7. And then beyond that, it's just a little bit of diminishing [returns].

Michael K. Ellis - *Portillo's Inc. - Chief Development Officer*

Yes. And I think from a real estate side, it definitely gets easier as we make a presence. And as we go into Texas and get a couple of restaurants open and we demonstrate the traffic that we drive, that's going to give us more opportunities from real estate as we go because, again, we drive a lot of traffic to centers. So we get efficiencies there as well.

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

It's Chris O'Cull with Stifel. Mike, you've worked with some fairly sophisticated companies in the restaurant industry in the past in terms of development. And I'm just wondering, when you joined Portillo's, what did you see as the biggest opportunities to kind of raise the bar for either the development process or the construction process, the development process? If you could just shed some light on the biggest opportunity.

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

Yes. I mean I think it's just exposing, so we only know what we know, right, from an experience standpoint. And I think I look at just the whole approach to development, the cost of kind of getting to -- what I talked to the team about is we need to remove the cost of what it takes to get a Portillo's built into that money, right, by expanding architects, by leveraging relationships in the past, by managing time, we're -- we've self-GC-ed significantly in the past, building that muscle and that GC networks is going to help us be more efficient, save costs. So it's just leveraging those different looks at the business and bringing new eyes on the business to kind of shed light on where we can get better and pick up some efficiencies.

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

I think Nicole had a question.

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

Nicole Miller, Piper Sandler. The first question is on the Kitchen 2023. Would you remodel the fleet, the current installed base? And now with Mike onboard, Michael, has the process for store, signing off on stores or real estate meeting, has that veto process changed at all?

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

Yes. Two great questions. I don't -- I'll leave it to bigger brains and mind, but I don't think it's viable to reconfigure the fleet with the Kitchen '23 design. I think that's a go-forward strategy because I think the expense and moving everything would just be onerous. So I don't know if, Derrick, if you think we can figure existing restaurants or not. But then the second question was the process in approving restaurants. So we have a fairly involved process. We have a [RESAP] committee where literally, every one of my direct reports, we sit around the table and everybody signs off on a restaurant. Mike's going to pitch the restaurant. Derrick's got to say, "Yes, I can run this restaurant efficiently." Jill's got to say, "Yes, we can hire the talent for this restaurant." Michelle says, "Yes, all this math makes sense. This is not BS. We're not overcooking the numbers. We can return investment to shareholders." We stick with that process.

I want -- I don't know, I think I get in trouble if I made them sign in blood, but I didn't have them sign in blood. Yes, this restaurant is going to be successful because we're not at a stage where we're building 30, 40 restaurants where you can have -- afford a couple of mistakes. We're building 7, 9. We don't want any mistakes. It's too expensive. It's too time consuming. So it's very important to me that we have a lot of critical thinking and challenging going into building every restaurant.

Derrick Lee Pratt - Portillo's Inc. - COO

Yes. Just to add a perspective on remodel/retrofit of Kitchen 2023. We can do it, but Michelle wouldn't like the returns if we did it. And so there are elements of it that are guest-facing and team member accretive that we can actually put into over 40 of our existing restaurants and then the go-forward on kind of our remaining builds. And we're already thinking about and looking at restaurant of the future, that will take into account different ways that people want to engage us from a digital perspective and then build in even more efficiencies. So I think there's just -- there's a lot to get a gain and it's not going back into our existing and kind of trying to mess with all of those iterations of the restaurant.

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

And just a quick follow-up, pivot to value proposition, but also thinking about affordability. And it seems like you might be one of the very few brands that have both. You had a slide early on the presentation about the highly satisfied despite the population, the consumer and the entire population breaking down in terms of confidence.

But I noticed the definition was the most highly satisfied. If you looked across the average or the most satisfied, can you just validate that the breakdown in their less satisfaction is not the price? It could be something else. It could be service or flavor or well, it could be anything. But I'm just curious if you take that top cohort, expand it down to the next, are they price sensitive?

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

It's a -- I don't have all the answer to that off the top of my head. We have all that research, and we'll look into that. I think what I would reiterate though is that the value proposition matters, right? Our value proposition scores have improved over the course of the last 2 years. Let's just think about that for a second. Inflation has been running 8-plus percent over the course of the last year. Prices, most restaurant companies have probably priced somewhere in the neighborhood of 15%, 16% over the last 2 years. Our value scores have improved during this time frame. That's really the key takeaway for me, that what we're doing is working with the guests. They think that we're doing better than we have -- than we did 2 years ago in terms of value in a world where overall satisfaction is plummeting. And I think -- so for me, that's a really good place to be. So I think we have time for what, a couple more questions.

Barbara Margaret Noverini - *Portillo's Inc. - Director of IR*

We can take one more.

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

Okay. Andy Barish? I'll repeat your question for the people online.

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

Just on the development side, I think a couple of things on cannibalization, which I think is really, really important point in the Chicago end market. Could you give us an example? Honestly, Kimball is now #2. Is that tied to anything in the system in terms of impact? Joliet, I think, is a test near another high-volume store. What's going on there? And just lastly, I didn't see Ohio on the development plan for '23, which I thought was initially talked about. Is that just getting pushed off a little bit?

Michael K. Ellis - *Portillo's Inc. - Chief Development Officer*

Yes. I mean I think I can speak definitely to Ohio. I mean we're looking at a number of markets. As we build and evaluate, one of the things that we want to look at is we enter new markets is kind of what we've talked about. How quickly can I get to scale? How quickly can I get to that 6 to 8 restaurants if I -- we have a tremendous amount of white space? If I kind of stack as we extend in the Midwest or we continue to build out in the Sun Belt, how do I prioritize markets? What can I get -- what's going to get me to scale faster? And how do we prioritize those and then build the ones in behind it from a pipeline so that as they hit in, whether it's 24 or 20 but I can make a push into the market, get efficiently quickly and go? So that's some of the work we're starting to look at kind of throughout our opportunity so that we can kind of rank them in terms of speed to efficiency and how does it fit our growth profile and kind of our metrics. But that's how -- so we're -- we'll evaluate a number of markets.

And obviously, it's early in that process with 60 days. But we'll look at that in how we kind of tip over the next domino in the next market we enter.

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

Yes. And Andy, the first part of your question, the cannibalization issue particularly in Chicago. Here's how I think, it's honestly more of an optics issue than anything else because it's real incremental sales and it's real incremental margin. So Addison and Kimball is a perfect example. It's going

to end up being a \$16 million-ish restaurant, right? It's printing money for us. It probably did cannibalize one of our local restaurants, Harwood Heights, by about \$1 million.

Okay. So it's \$15 million incremental, it's still ridiculous levels of EBITDA. What we need to be thoughtful about is that when you have Addison and Kimball and you have Joliet, which will cannibalize a little bit, it creates a little bit of comp headwind that people might misunderstand. We can absorb a little bit of comp headwind in the near term because these restaurants pick right back up again.

But we just got to -- we have to be thoughtful about how much comp headwind we want to absorb in the core market. When we build in -- I mean like we're not going to stop building Addison and Kimball. The economics of those units are such that I would take 2 of those every single year and happily absorb the cannibalization. You just have to be aware that there's a little bit of cannibalization. It might slow your comp growth a little bit and you have to explain it.

Michael K. Ellis - *Portillo's Inc. - Chief Development Officer*

Yes. And typically, my experience with cannibalization, it's really more in the first few years. People want to try the new thing. They change their patterns. They go and then they kind of fall back to their normal pattern. So it's usually more prevalent in the first couple of years as you drive trial to try the new restaurant, the new drive-thru and then it tends to kind of equalize as you move into time.

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

Barb, were you saying -- waving me off, no more? Okay. All right. Thank you very much.

Barbara Margaret Noverini - *Portillo's Inc. - Director of IR*

And then we'll be back in the room at 10:35 for presentations. We have a cake break now, so please go with that.

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

If you have it, I'm going to plug it. If you have not tried a Portillo's chocolate cake, you owe it to yourself to go get a slice of chocolate cake. It's a life-changing piece of cake.

(Break)

PRESENTATION

Barbara Margaret Noverini - *Portillo's Inc. - Director of IR*

All right. Welcome back, everybody. I am pleased to introduce Rick Cook, our next presenter. He is our SVP of Information Technology. Come on up, Rick.

George Richard Cook - *Portillo's Inc. - SVP of Technology*

All right. Thanks, Barb. Hey, everybody. Good morning. Derrick said it was hard to follow Michael, but I have to follow cake. Hopefully, it will be distracting enough while I'm talking. But Barb mentioned, I'm the Senior Vice President of Technology for Portillo's. You'll see here the delectable cheeseburger. I personally believe that it's our most slept-on menu item. It is absolutely delightful. It will forever change your perspective as far as burgers are concerned. So if you haven't had that, I recommend that you do in the very near future. I've been with Portillo's about 3 years at this

point. Came from McDonald's, where I managed the United States point of sale. So that was about 14,000 locations. They have a proprietary solution, which will become meaningful here in a little bit. Then I worked with a digital start-up, and prior to that, I was in the Army for 10 years as an Armor officer and Network Engineer. So that's my background, happy to be here.

So what do we do at Portillo's as far as technology is concerned? Well, I want your macro takeaway to be that we are not a technology company, we leverage technology to drive operations. We're an operations company, first and foremost. What do we do with technology to drive operations? Well, we leverage it to facilitate consistent experiences for our team members and our guests. We drive greater throughput and guest engagement through practical innovation. I'll touch on that a little bit more as well. And we implement proven digital capabilities to strengthen our brand and deliver consistent long-term growth, proven solutions. We are fast followers of solutions that make a difference operationally. So these are the principles of our IT organization. So when people talk about us being a people-centric organization, we are the same way in IT. And it's not lost on us that technology is there to drive operations and make operations more efficient and effective for our team members and our guests.

So how do we do that? Well, first, we've got to know our customer. Our customer and technology is the restaurants and the support center. Operations customer is the guests. So we make sure that we enable our operations folks to perform flawlessly so that the guest experience is flawless. We have to care because we do care, not because we have to care. If you are a people-centric institution, then you are sad when something is not working in the restaurant, and you have to respond to that with a sense of urgency. I stole this one from Derrick shamelessly because I think it's great. But you got to be brilliant at the basics. If you don't do the simple things well, no one is going to trust you to do the big things with any real effect and accountability and ownership.

So working in these restaurants can be a stressful proposition. There's a lot of moving pieces. You've been -- you've learned about the complexity of our operations, even when we're decomplexifying them. If some piece of technology that a team member relies on goes down, they become infinitely more stressed out, and that conjugates directly into a reduced guest experience. We are maniacally focused on that guest experience, and what that means from technology is being maniacally focused on what that technology does to benefit operations and our team members. I'd like to say the restaurants aren't there because of technology, right? It's quite the opposite. The only reason we get to support Portillo's is because team members are making great food and presenting it to our guests in an engaging way.

So how do we leverage technology? So I mentioned the maniacal focus on the guest experience. A happy guest is a returning guest. So how are we thinking about it? Well, we're thinking about it in this sort of 3-pronged approach. These are some initiatives that I'm going to cover in a little bit more detail here momentarily, but we want to focus on increasing restaurant throughput, throughput top line. We want to drive guest digital engagement. So not only do we want to make operations simpler for our team members, we want to get simpler for our guests to engage with Portillo's in a way that they want. And we want to leverage data and insights that we have from our sales and guest interactions to optimize how we drive these restaurants every single day. So here's an example of some practical innovation. So this was our legacy point of sale. You can't really see our new design, but it's incredibly intuitive.

The reason I have this one blown-up is because I call it a cacophony of colors with an anachronistic shorthand labeling system. So what does that mean? Well, this is kind of -- not to overstate but I find the way this looks kind of disgusting and distracting. So I'll give you an example of what we went to and what we came from. So to learn this system took anywhere from 7 to 14 days to train. That's because they had to learn what the shorthand meant and what that meant in terms of what the guest wanted.

So we got rid of the shorthand, turned it into language that humans use, that was pretty innovative. And then we changed screen transitions by 3x. So no longer do they have to engage with 4 screens for 1 item, they can engage with 1, sometimes 2. So I'll give you an example. Up here is the letter E. The reason there's a letter E is because back in the day, you would place your order by getting it written on a bag and E was shorthand for every dog. So that's a Chicago dog. So then the person at the point of sale had to know, okay, E, that's in every dog, so then they would have to go and hit E. So they were doing this conjugation. If you wanted to change it, they had to take things off and then they would put the order in and then the shorthand would go to the KBS and then the person making the food would have to conjugate it.

And so it was just unnecessarily complex. And what that does is it reduces the engagement that, that team member has with the guest, right? So what we did was we changed E to hot dog, okay? So now when a guest orders a hot dog, they say, "I would like a hot dog with onions and mustard." Now what the team member does is they hit hot dog with onion, mustard. What else would you like, right? So it's about removing that stress for

the team member to improve their engagement with our guests. And now the training time went from 7 to 14 days to usually an hour or 2, and the manual was reduced from about 45 pages to a one-pager.

All right. I want to talk about distributed network connectivity, which is IT fancy way of saying Internet and the next-gen tablet point of sale. So the way it worked today is we have a handheld order taker that is not the same as far as an interface as the front counter point of sale. So what does that mean? It means you have a bifurcated training approach. You have people that are efficient on front counter and people that are efficient with the handheld device. We got rid of that.

We flattened the interface so that it's exactly the same in the drive-thru as it is at the front counter. And that gives you basically a virtual increase in team member resource availability. So if you can work the front counter, you can work the drive-thru, and they look exactly the same. What this also allowed us to do was everybody is probably familiar with Tap2Pay, you tap with your card, you tap with your phone, contactless payments.

So we now have extended WiFi, so they can reach further back in the drive-thru line. The point of sale is exactly the same as it is inside. And customers can pay how they want. They can use Apple Pay, Google Pay, Tap2Pay. We're working this out right now. We've got it in 10 restaurants. All indications are positive. All team members that have used the handheld order takers that we're transitioning to refuse to go back to the legacy solutions. So I think that's a pretty good indicator.

Digital menu boards. So this is being deployed right now. On track for this to being complete by the end of the year. It modernizes the experience. It brings Portillo's into the modern day, and it also enables Nick and his marketing team to engage with customers in a more meaningful way. So in the drive-thru now, this drives add-on sales, we're able to show pictures of delicious food that maybe people haven't tried before that could be higher margin, that maybe they'll order that time or next. But the thing that I love because again, we're very operation-centric, the thing that I love is, the menu is always right, the prices are always right. Seasonal offerings, always right. And we don't have team members going outside at 7:00, 8:00 in the morning, in the winter in Chicago to make changes to the analog menu.

It's done. They don't have to think about it. it's those bits and pieces that Derrick was talking about, eliminating the overhead to allow us to focus on operations and the guest experience.

Let me go back. Sorry, I missed one. So digital gift cards. This would have been real bad if I miss this one. All right. So digital gift cards, this is something we implemented in the last few months, relatively new. Our gift cards now have barcodes on the back, so they can be scanned at all of our front counters or all of our drive-thrus. Before, it was a magstripe which was a pain point, particularly in the drive-thru. Since introducing digital gift cards on portillos.com, our gift card sales online have doubled, and digital gift cards now account for 68% of total gift cards sold online. So that's a meaningful impact and it's meaningful for the guest.

So here, you're looking at a schematic that is intentionally similar to Derrick's because the way we look at things is technology doesn't drive innovation. Operations drives innovation, operations defines the play and IT figures out what tools we can leverage to enact that play. So in this case, we wanted to increase guest engagement. We do that with the digital menu boards. We wanted to enable orders to be taken further back in the drive-thru, and we wanted guests to be able to pay how they prefer. So again, I touched on contactless payment, that EMV, which is tech speak for chip and PIN, that enables guests to pay how they want with that contactless approach.

These tablets can also be used indoor to line bust. So if our lines get too long, which they do, the drive -- the tablet allows those lines to be busted. So I want to touch on one thing here that, again, reflects the legacy of our old solutions. So if you look right here, this is the antenna for our old handheld order taker, okay? So to, again, nerd out just a little bit, that's what's called radio line of sight. So imagine you have an antenna here for the drive-thru, sorry, an antenna here for the drive-thru, you can't go beyond this point to take orders. WiFi is omnidirectional, so that's what's going to enable us to go further back in that drive-thru line and take orders from guests.

Nick, our marketing guru, wearing Portillo's Crocs was instrumental in this. We changed our app and website back end. We did that with completely off-the-shelf solutions. And what that did is it increased what we call cart conversion. So the amount of people that start to place an order either through the app or online, it increased cart conversion from 30% to 60%, basically overnight. The retail average is 30% and remains 30%.

So we had said at the beginning of the year, let's invest in a new app, let's invest in a new website. But we said, "You know what, why don't we just see what this off-the-shelf solution does first?" And we doubled our return. And so we decided, hey, let's not do the app. Let's use that money for other initiatives. Because we don't just do technology for technology's sake, if it has a positive impact on guest experience, top line revenue or our team members, that's what we invest in for technology.

So we maintain a fixed approach in buy versus build. I've been part of organizations that built their own solutions, be it point of sale or content management, any number of things. And that introduces a lot of maintenance overhead. We don't want to embrace that maintenance overhead. And so we look for almost exclusively off-the-shelf solutions. Another thing that we do is when we're engaging with a new supplier or service provider, we make it a point to have a component of the agreement be that we get a seat on their customer advisory board. Nick's on the advisory board of Olo, another colleague is on Cartwheel. I'm personally on 2 of our strategic service providers' advisory boards. And what that does is that allows us to define what their off-the-shelf solution looks like. So it's maintained as part of their broader offering as opposed to some bespoke offshoot that we have to maintain individually or pay to be maintained separately.

And then again, just to tell you what I told you, again, the macro perspective here is that technology at Portillo's facilitates operations. We leverage technology to facilitate consistent and frictionless experience for our team members and by association of guests. We want to drive throughput and guest engagement through practical innovation, think back to that point-of-sale change that we put in place. And we want to implement proven digital off-the-shelf solutions to drive operations in business.

So with that, I will introduce Nick for marketing.

Nicholas Anthony Scarpino - Portillo's Inc. - SVP of Marketing & Off Premise Dining

Well done, Rick. Hi, everybody. My name is Nick Scarpino, and I have the pleasure of leading our marketing and off-premise dining businesses. We -- this is a picture of me from 1999 when I was a cashier at Portillo's. I worked at the Naperville location. We have 2 Naperville locations. This is the one on Jefferson Street for anybody who's familiar. I came back to Portillo's. I left after high school. And in college, I was a cashier during summer and winter break. I left, came back 8 years ago to be the first-ever person who's in charge of the marketing team.

And I have the world's greatest job. I brought some custom Crocs. I don't know if you can see them. They are Portillo's custom Crocs. I brought them just so I could say this next line, so bear with me. I don't just wear my love for Portillo's on my sleeve, I also wear them on my feet. And thank you for letting me deliver that line. We'll talk about the Crocs more in a second.

I owe Rick and his team a big debt of gratitude because when I was a cashier and was outside in the drive-thru line and freezing way back then, I had to learn that E meant hot dog, I had to learn all the different shortcuts that I would write with a pencil on a piece of paper and my hands would freeze. So I'm very grateful on behalf of all of our team members that we don't have to do that anymore.

My favorite menu item is the Beef-n-Cheddar Croissant. If you have not tried it, all the wonderful things that Michael said about the beef sandwich are true about it. It's just on a flaky, buttery croissant. And if you haven't had one, you really just haven't lived until you've had one of these things.

All right. So what are we going to talk about? We are going to talk about 3 things. The first one is that Portillo's is a social media and PR machine. We are agile, we are gritty and we don't spend a lot of money. We spend 0.5% of our sales on advertising. And as everybody keeps saying, we keep -- we punch above our weight. We have ravenous fans. They love us. We let them do the work for us.

I'm going to talk a little bit about our approach to new restaurant openings. You will see our secret weapon, the food truck that we call our Beef Bus, later today. It is a huge advantage for us, and I don't know that anybody else is doing anything like this.

And lastly, I want to talk about our Darwinian approach to menu. We call it Darwinian because it is survival of the fittest. We do innovate our menu. We do introduce new items. When we do it, we take something else off, and we will talk about that.

All right. Marketing at Portillo's is a really fun job because our guests love us. I know that lots of brands say that their guests love them. I'm going to prove it to you. We have a wonderful social media following that you can see here. We also do really well on TikTok.

I just want to remind you that we only have 71 restaurants. I would put our numbers against any other brand per restaurant and tell you that we beat all of them in terms of the numbers of people who follow us, like us and share our content. What's not shown here is we have 1.1 million members of our Portillo's Birthday Club. That's our version of a loyalty program. 1.1 million for 71 in restaurants. It's a lot of people per restaurant.

When we do fun things like partner with Crocs on these ridiculous shoes, ridiculously awesome, people go nuts. We worked with Crocs. We said, let's produce 100 pairs of Crocs and let's give them away as a sweepstakes. We have 30,000 people enter the sweepstakes. I had to wrestle these away from one of my team members on Sunday just so I could wear them here today, and I told her I would give them back. People spread the word on our behalf. When these Crocs started selling on eBay for \$300, we knew we had something special, and we're going to bring them back out actually next week. We're going to start selling them. Crocs is going to let us to make some more.

We take an experiential approach to marketing. Michael mentioned earlier that we have field marketers. We have people who live in all the different markets where we have restaurants, and their job is to give people -- put food in people's mouths. We partner with Yelp and Yelp influencers. They call them the Yelp Elite Events. We partner with social media influencers. We partner with the media. Our strategy is give them our food and let them talk about it.

In many ways, we are a very big brand that gets to do things at a local level. So an example here is we get to put people's faces, our biggest fans in our restaurants. When we announced that we were coming to Texas, we told our social media audience, tell us who is the biggest Portillo's fan. And whoever we choose, we will draw your face into a wanted poster in our Texas restaurant. It's cowboy themed, right? We had tons and tons of people enter to win this, and 1 lucky winner is going to have their face forever in our restaurants. We do this kind of thing all the time because we're a big brand but we can compete at a local scale.

And the last thing on here is the Beef Bus. You will sample some food later. It's going to be fantastic. It is our ultimate weapon, and we're super excited about how we use it. I'm going to go through an example here for you. So when we announce a new market, we've talked a little bit about our Shop & Ship business, right? We ship frozen food to all 50 states. We've been doing this for 20 years. We have a big database of guests who have already told us, by buying food and shipping it to themselves or someone that they love, that they're interested in Portillo's. We leverage that database and we spread the word that we're coming to a new location.

In this case, this example is all about the Beef Bus tour that we did for 2 weeks in Texas. We just wrapped it up. We went to 20 different locations, including The Colony where we're going to open our first restaurant, but also including the next 3 locations that we're going to open. It was a PR machine. I'm going to show you a video in a second. You can see the lines. You will see lines. It was like that every single day.

We had social media influencers come, traditional press, 3 million earned social media impressions, 350 million press mentions. Oh, by the way, we also sold food. It's a self-funding advertising model. It's wonderful. And I think most important to me and to the company and especially to Jill, our Chief People Officer, is that we spread the word about why we are an employer of choice. We have already hired in Texas before opening our first location, 15 crew chiefs, which means that we're staffed for the next 3 locations. We can train them up in the first one and get them into the next #2 and #3, and we're extremely proud of that.

Like I mentioned, the Beef Bus is a PR machine. We're taking it later today. We're going to go have Jim Cramer from Mad Money. He will be on the Beef Bus. We're taking it to the Fox Business Plaza tomorrow. It really is our secret weapon, and we're really, really proud of it. So I'd like to show a video. It's a 1-minute video about all the hoopla that happened just on the very first day that we were in The Colony that will illustrate everything that I'm talking about.

(presentation)

Nicholas Anthony Scarpino - *Portillo's Inc. - SVP of Marketing & Off Premise Dining*

And I just want to say it one more because it bears repeating, we paid \$0 to promote that entire tour, right? Everybody came. We have a great database of people who love us. All right. So what are all those people standing in line for? We've talked about this a bunch, but they're standing in line for our food. We're extremely proud of it, as you know. I want to talk about how we approach innovation to the menu because we do evolve and we do new things. When we are going to add something to our menu, we take a look at 3 criteria and they're listed on the left hand of this slide. We want to drive traffic and sales, we want to make something that's uniquely ownable and we want to reduce complexity or at least maintain the amount of complexity that we have.

There's 2 good examples that are shown on this slide, and I'll walk through both. Last year, we introduced the Spicy Chicken Sandwich. Spicy Chicken Sandwich is not new to the industry. We made sure that it wasn't a fad. We do believe that this is something that's going to last into the future. What we did though was we wanted to make something uniquely ownable that wasn't just like everybody else's. We've talked a little bit about our giardiniera relish. We call it hot peppers.

You'll try it on the Beef Bus later. That's what we put in our beef sandwich. We took the giardiniera relish. We blended it up, added some other things, and we've created our own unique sauce. We call it a Portillo's sauce or a spicy giardiniera sauce. So that made it really our own. And we're -- it also is -- replaced an item that was the lowest satisfaction in terms of our chicken category. And the Spicy Chicken Sandwich has, in just a little over a year, become our #1 seller in our chicken category. So it's a tremendous success.

Later, I will tell you that the fourth criteria is that we have to be able to promote it in an extremely creative, agile, gritty way without spending a lot of money. On the right-hand side, you see our Garden Dog. This is our first-ever foray into the plant-based category. Many restaurants have plant-based hamburgers. We felt like we could really own a plant-based hot dog. The only unique skew here is the actual hot dog itself. Everything else, it's built exactly like a Chicago-style hot dog. And we thought we could own it and it also reduce complexity.

We also thought -- Michael talked a little bit about the veto vote. We think that this is something that makes us increasingly veto-proof, right? It happens to be vegan as well as tasting delicious. If you want to try a Garden Dog, we actually have them on the Beef Bus and you can try it as well.

The way we market these things matters. Again, we are not going to go out and spend a whole bunch of money on TV ads, radio ads, that kind of stuff. We have to get scrappy. We have to get innovative. I'm really proud of the work that the team did, especially on the Spicy Chicken Sandwich. For anybody who's ever heard of the company called Cameo. Have you guys heard of Cameo? You can get celebrity shoutout videos, right?

We were the first ones to ever, in the retail space, to use a product that they called Cameo for Business. So we went out and we got a bunch of celebrities like Erin Andrews, Lance Bass, Brian Baumgartner, 25 different celebrities. And the hook was it's the Portillo Spicy Chicken Sandwich featuring our new giardiniera sauce. But nobody knows how to say the word giardiniera. So we actually wanted them to butcher the name if they didn't know what it was. And the hook was, no matter how you say it, it's good. And so we were able to spend a very little amount of money and get a ton of social reach and influence just by doing this one campaign.

I'll talk about the Garden Dog in a second, but I thought I'd bring a 1-minute video that you can see one of the creative executions of this campaign.

(presentation)

Nicholas Anthony Scarpino - *Portillo's Inc. - SVP of Marketing & Off Premise Dining*

Good. So we felt really good about ourselves after this launch, and we decided this past year what can we do to push the envelope a little bit more when we launch our Garden Dog for the very first time. And we thought, let's take a risk. Previously, if you ordered a vegetarian hot dog at Portillo's, we gave you a bun, all the toppings and no hot dog. A lot of people thought because we put a pickle sphere in the middle of the hot dog, that we were giving them a pickle with a bunch of toppings. So we got made fun of a lot on social media for this, right? So we took a risk and we said, "What if, as part of launching our new plant-based Garden Dog, we invited all the people who have hated on us on social media and told them that we

had a new product that we wanted them to try. We didn't warn them ahead of time. We just sat them down in front of a camera, and this is the result.

(presentation)

Nicholas Anthony Scarpino - *Portillo's Inc. - SVP of Marketing & Off Premise Dining*

So that was from our Chicago event that we held, but we also held 6 events also around the country in our different markets, and they were equally well received, and it was a really big win us. Okay. So in summary, what did we talk about? We are a social media and PR machine. We love our fans. They love us, and they help us do the work for us. We have a very unique, impactful approach to new restaurant openings that we are all particularly proud of, especially because it helps promote us as an employer brand of choice. And we take that Darwinian approach to the menu, it is survival of the fittest. But when we do something new on the menu, it is a success.

Thank you very much. And I want to introduce our Chief People Officer, Ms. Jill Waite.

Jill Francine Waite - *Portillo's Inc. - Chief HR Officer*

All right. How do you follow Nick, who is wearing Crocs other than being able to talk about our people? I am Jill. I have been with Portillo's now for 3.5 years. And similar to Derrick, I was living on the West Coast when I opened an e-mail that said, CHRO role in Chicago. I'm in Northern California, it is sunny, it is warm, it is beautiful. And I opened it and it says Portillo's. And I'm like, huh. There's only one company that could ever get me, my 2 boys and my husband out of sunny, beautiful, they say warm, California, and that is Portillo's. And it is because I'm from Chicago.

I left when I was 9, but I had so many memories of being a Shop & Ship. I would buy the food all the time. I would drive 40 minutes out of my way in Southern Cal to find a local Portillo's at Buena Park to get my Portillo's fix. Or when I landed in Chicago to see my family, I would stop at our Bolingbrook location, order a hot dog, a beef, a large fry, eat it in my car on the way to my cousins and not feel guilty about it, which is part of the reason why the Chicago-style hot dog is my favorite.

It has the snap of a hot dog, all the toppings, it is just mouthwatering. And yes, there is no ketchup on a hot dog, which I had to teach my sons not living in Chicago why you don't put ketchup on a hot dog. So it is an honor today to be able to speak about our team members. And this work isn't HR's work, it is all of our work. It is about having a value-centered, people-centered company who truly cares not only about our guests, but our team members.

And today, we're going to show you how we do that and also the proof points that support it. Team members and the workforce are looking for a differentiated experience. They have so many choices, and we're excited to be able to offer an unrivaled team member experience through all the different senses when you walk into a Portillo's.

And last but not least, we are growing. Not only are we growing by opening new restaurants, but we are growing personally and professionally as individuals within the organization. So how are we doing it? Michael spoke earlier about a journey we started 3.5 years ago. The journey 3.5 years ago was just to codify what the company already was. It was an organization that truly cared about creating lifelong memories with unrivaled food and experiences by igniting the senses, with values such as family greatness, energy and fun. And as Michael said, this was not developed by a bunch of executives sitting around the table. This was developed and established by our team members for our team members. And it didn't stop there.

We knew that in order to truly show up living our purpose and values, we had to establish behaviors that reflected what does it truly mean to be a family member. What does it truly mean to bring energy and finding greatness to Portillo's, and we established leadership traits that we all hold ourselves to and live each and every day. And it shows, we believe that doing the right thing for our people is what allows us to become an employer of choice.

In the beginning of the pandemic, one of the things that we learned was many of our team members were the only source of income that their family had. Think about being 17 years old and your parents were laid off or furloughed, and they were the only source of income. It was June of 2020 that we established a Heart of Portillo's Fund. And 2 years later, we have raised over \$800,000 and have provided \$200,000 of 100 grants to our team members, and this was all raised by our team members.

So the Frost for the Fund was the way we created engagement and fund in the restaurants. Who knew that you can frost one of those cakes that you guys ate today in 24 seconds. And it actually looked like a good cake to eat. Some of us tried, it didn't look like a cake they'd want to eat and that went into the cake shakes. That's okay.

Greatness. We are a pay performance organization. We have to deliver financial results, and we included our shift leaders who are hourly, a part of our performance bonus that we award on a quarterly basis for achieving key metrics.

There's an energy about when we bring our general managers together. We bring them together to celebrate their successes from a financial performance, but also how they got the work done. People do not like to work with jerks. They like to work with people who embody the heart of Portillo's and get the results that we need to perform.

And fine, yes, I don't have the snazzy shoes that Nick has or some of the cool videos, but we do have a little fun called the Franks A Lot Fund. We do bring some puns into the people side of the business. And our general managers told us it was important that locally, they wanted to celebrate their team members. And we had a GM that during the senior year of graduation, he created yard signs to put in the drive-thru so all of the local community could recognize those graduating seniors because they had served the community during their time at Portillo's. And our team members told us it mattered to them.

We improved engagement in a time when national engagement has declined the first time in 10 years, first time, and we bucked that trend. And we truly believe it is the dedication to our purpose, our values and how we show up each and every day for our guests and our team members that has contributed to this.

Our general managers with their servant leadership mindset has created an environment in our restaurants where our team members feel like they can do their best every day and bring their strengths to work. They feel like someone has given me feedback on how I'm performing and you can see me. I'm of value and I matter.

And when I feel valued and I matter, I will show that same value and matter to our guests, which is part of the reason we believe our financial results, the guest satisfaction and the speed of service results are some of the highest we've seen in years. And it is due to this engagement of our team members that reflect this.

So how, how does this happen, an unrivaled team member experience? Our team members get to come to work and they get to run. They're on stage. If they don't know a run, they ask a guest. All right, I'm new. What's your number, 8? What can we do? Number 8, you want to go on a date? They come up with them.

So they have fun, they bring who they are to work, their authentic selves, limitless opportunities. Working in Portillo's, whatever you want to accomplish is in their hands, personally and professionally. And we'll show you a couple of ways of how we're doing that, and we got their back.

Team members tell us that they want to have a flexible schedule, whether they're retired and they just want to hang out with some guests or team members, or they are going to school and they want to be able to continue their education but yet work somewhere they care about, and serving our communities.

Team members want to be a part of something bigger than themselves, giving back to one another through our fund or in the local community during -- using fundraisers. And it is an honor that, most recently, we were identified as QSR's best brand to work for this year, just a couple of weeks ago.

So how does this happen? It would be an entire total reward experience. It is about having a multigenerational workforce that is diverse and reflects the communities that we serve.

It is about having the industry-leading compensation packages for our restaurant leadership. Our general managers are all owners of Portillo's stock, and that is an honor. And they will continue to get our stock each and every year because we believe in the work that they do.

And then our team members have also told us, if you're on TikTok, they get a little bored. So they want to learn more, and the more they learn, the more they earn. So it's not just about getting money for money's sake, but they will continue to grow their career as well as their financial wealth with our organization.

So how does this show up? We have industry-leading retention. Our hourly turnover is 25% better than the industry. Our management turnover is 10% better than the industry. And our general managers are stable, and that is a key part of our business. Because we all know, turnover has hard costs and soft costs. And when we have a stable team of team members who are passionate about serving our guests and delivering the experience, we're able to have the efficiencies that we have put into place.

We're able to deliver the financial results that we just delivered. And it allows us to grow into all these new states that we're looking to move into. And it doesn't stop, our talent acquisition. Our team members in our engagement survey told us that they have a best friend at work. So our recruiting strategy, our talent acquisition strategy, along with Nick, has really been focused on our external and internal pipeline. Our best recruiters are our team members.

We hire -- over 31% of our new hires are referrals from our team members. They want to work with friends and family. We showcased our story. Our Beef Bus is a secret weapon when we go into Texas, into new markets. Because it's cool, it's fun, and it smells so good. And you get to taste all the amazing food.

And then how we select our talent, it is about our values. We will teach people how to make the perfect beef sandwich, and we will not hire everybody. And it is okay, but we will welcome them with open arms as guests because being a Portillo's team member is very special, and you have to want to deliver the experience in how we deliver the experience. DJ?

(presentation)

Jill Francine Waite - Portillo's Inc. - Chief HR Officer

So our famous DJ is someone you'll see again in a couple of minutes. He's a perfect example of how you can be a Portillo's team member by day and a rocking DJ by night. And you'll see him in a couple of slides again.

So we believe in identifying, nurturing and promoting our talent. At Portillo's, it is all of our responsibilities to develop ourselves and to develop the people around us. We plan in advance for all of our restaurants that we're opening, and we plan for the successors that we need to have.

We also take into account when our restaurants are opening and how we're going to make sure we have the talent to get there, through different career pathing or experiences. You can go up the french fry or you can dip into some of these other experiences that we have. And it doesn't stop there. We believe that developing our people can happen in a few different ways.

Learning has changed. It is about preparing people for the role that they're going to be moving in through our Ignite program, which you'll see that in a minute. We also believe in continuing education, that creating an environment of continuous improvement is the core of who we are. Through LinkedIn Learning, we provide that to all of our crew chiefs, our shift leads.

And we also have invested in virtual coaching for our general managers. Conversations today are very different. And so being able to have a holistic view of how we invest and develop our people is really critical.

So what does Ignite look like for us? Ignite is an accelerated leadership program that allows us to have predictable graduates who are prepared for the job that they are going in, not the job that -- and in the job that they are in. So we used to promote people and then we would train them how to do their job. So someone would be promoted to a general manager, give them the keys to a \$50 million location, and then we would train them how to run their location.

Today, you go through our Ignite program. And the Ignite program has created a buzz and energy in our restaurants, where everyone is like, when am I next, when can I become the next restaurant manager, because they know they're learning leadership traits, how do I have courageous conversations. Derrick says accountability is care. But those are not easy conversations, so we teach those in advance.

We also teach the Portillo's way. Many of the questions that have come up has been how do you bring Portillo's from Chicago to Texas, how does the operations still feel the same. And that's through the Portillo's way. We teach our heritage, our legacy, the words we use. We call our team members, team members, not employees. We call our restaurants, restaurants, not units. Because these words matter to our culture, and it is embedded in how we go about developing our leaders. And it has created an 87% internal promotion rate, which we're extremely proud of.

So here's an example, meet The Colony. This has been 12 months of work that we planned for once we heard we were moving to Texas -- well, not moving, but moving into Texas, where we asked and had a career goal survey. We asked our team members: are you able to relocate, if so, when; where do you want to go; are you bilingual; what languages do you speak; what's your experience.

Because as we were putting together a team very much like a football team or a soccer team, you want to make sure you're bringing a bunch of different experiences that are diverse, you're being inclusive, and that you are rounding out and having a holistic team. So what you'll see here is a very diverse team. Does anyone look familiar, the DJ? He's right up there, 3 years. He moved from Peoria, and he is now moving to Texas. And he is in line to move into one of our other Texas locations in the future.

We also know we can't do this with just internal talent. We hire talent from the local markets for leadership positions. Just like we do for our team members, we hire based on values and we hire based on our purpose. We do that for our leadership team. But we teach them the Portillo's way.

We teach them, how do you lead 4 zones because that's very different than what you -- if someone would say a Corner Bakery or Whataburger. We have 87 team members in an average Portillo's, 87. In fast casual, the average is 28. So our leaders, when they come inside, come externally into Portillo's, we teach them how do you lead, how do you lead leaders, how do you lead team members.

We couldn't bring all 70-plus GMs and market managers to New York as much as I know they all would have wanted to be here. But we wanted to bring our family here to meet each and every one of you. And I'm proud to say, all of our restaurants have a current GM and we have GMs planned for all of our restaurants into '23. All of our new restaurants are opened with seasoned Portillo's GMs, and we have successors behind all of them. These individuals you see here today are the heart of Portillo's. They are what makes the magic work, and they are what makes us unique and different.

So today, I hope one of the things that you take away is that we are a committed leadership team to a people value-centric culture. Culture cannot be owned by HR or people. It has to be owned by 8,000 team members that are truly passionate about bringing this to life. And it can't be soft and squishy, I get that. We have to deliver financial results, and we have to create the right guest experience, so they keep coming back again and they tell their friends and family about.

We have to create experiences. Our workforce have so many choices today. Everyone is hiring. So for Portillo's, we have to create this unrivaled experience to where they tell their friends and family to come work. And last but not least is empowering our team members to achieve whatever it is that they desire, and it also helps us to grow our business and to fill the pipeline of talent, not only that we need for today, but that we need for our future.

And so thank you for having -- being an honor of being able to share this with you today. And I'm going to call up Michelle Hook, our CFO. [Hi, Michelle].

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

[I was waiting for you. I know].

Jill Francine Waite - *Portillo's Inc. - Chief HR Officer*

[I just, I had to start when Michelle's on].

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

[Yes]. Thank you. Happy to see a lot of familiar faces today and happy that a lot of you could make it to be here in person. So actually, I'm going to go back. So I have been with Portillo's now, I will be celebrating my 2-year anniversary actually next month. In December of 2020, I joined this fantastic brand.

So I started my career in public accounting, but did spend the bulk of my career and my experience within restaurants. I grew up with a brand you probably all know, called Domino's. I did spend the bulk of my career there.

I'm a Midwestern gal, so I'm a Michigander. Spent a lot of time coming to Chicago and experiencing Portillo's. So I had a deep love of the brand and of the food. What you see here is my favorite item on the menu, which is a beef sandwich. I like mine with hot and sweet peppers.

If I'm dining inside our restaurant, I like to get my sandwich dipped, which is amazing, so I would suggest that. If I get my sandwich to go or I get it delivered, I get a side of gravy, so I can douse my sandwich with gravy when I'm eating or enjoying it in the office or at home.

So what I'm here to talk to you about today, I have 4 main takeaways for you today. So you heard from all of our fantastic leaders today. So I'm here to wrap it up and talk to you about how all this plays into executing our financial game plan. We are an almost 60-year-old brand. So we have decades, right? We have decades of track record that show that this is a proven concept. We generate healthy and strong cash flow that gives us the ability to build new restaurants.

When we build those new restaurants, they deliver fantastic unit economics. But we have potential for upside, and we'll talk about that, and you've heard from our leaders as we continue to build local scale and how we can see expansion in that upside. And we'll take a look at our balance sheet. Our balance sheet gives us the flexibility that we need as we move forward to fund our growth. So here, you see, I've snapshotted for you 16 years of comp history, right? And so you really see that durability of the brand.

So a couple of points that I want you to take note of on this slide. You can see, during The Great Recession, that we comped positive, right? And so I think that's a good proof point that, again, the durability during all economic cycles. The second point I'd make is to look at our performance more recently. When you look at post that COVID time period, you can see our same-restaurant sales were up 10.5% last year and over the last 12 months, were up 6.4%.

If you listened to our earnings call last week, you'll note that the most recent quarter, we were up 5.8%, so continuing to comp strong in this challenging environment.

We have a very strong financial profile. So I'll start with the revenue. So when you look at our revenues, you see the growth that we've experienced post that COVID time period. Now our growth is going to come from 2 spots, from a total revenue growth standpoint. We're going to grow through comp growth, so growing sales at existing restaurants, and we're going to build new restaurants.

And you've seen that our long-term growth algorithm is to grow new units at, at least, 10% annually. Those leading AUVs, the AUVs that everyone has talked about, that leads to the margin profiles that you see at the bottom here. So it's leading to that strong restaurant-level adjusted EBITDA,

margins and dollars. And I'm going to talk about in a little bit some of the strategies that we have in place to combat the current inflationary environment.

And our strength is not just within the core, and Michael talked about this. He snapshotted for you what our profile looks like, both in Chicagoland and outside of Chicagoland. And what I wanted to do is at least give you all a sense for the trends within those markets.

And you can see what's consistent post that COVID time period, is you see the AUVs continuing to grow, right, both in Chicagoland and outside of Chicagoland. And as Michael talked about, when you break out those non-Chicagoland units even further and you look at the Midwest, and then you look at, what I'll call, non-Midwest markets, California, Arizona, Florida, those non-Midwest markets actually have a higher AUV profile.

And so when we look at these points, this is just another proof point to me that we are a national brand. This is a brand that already has proven that, and you definitely see that in these data points.

So we all know, this year, we've seen unprecedented inflation, both within labor, within commodities. We're trending up 15% alone on commodities this year. But what are we doing about that? We talked about things that we can control. So these are some examples that you've heard from our leaders today talk about.

So first, you've heard Derrick talk extensively about things that we've done in '22 to drive those operational efficiencies and lead to that 16% items per labor-hour increase, which is our efficiency metric that we're measuring. So that's not just us making numbers up. That's data and facts that support we are driving through operational efficiencies within our restaurants. Not just in '22, but he talked about other things that we're doing beyond -- in '23 and beyond to continue to have that mentality of continuous improvement.

And when we look at our supply chain, we're doing what we can to mitigate the risk in that area. So this year, we took positions on our beef flats, which is the beef used to make our Italian Beef. That's about 20% of our overall commodity basket. And we have fixed pricing on that line item for this year, and we're taking positions into early '23 as well.

So not only are we trying to mitigate some of the risk around the costs, but we're also ensuring continuity of supply, so with a concept that we haven't had to close hours of operation or close channels down because of our ability to manage these type of risks.

And then Michael talked about our price laggard strategy, which I'll talk about a little bit in a minute. So that really sharp price point of \$9.70 per-person average really is helping to drive that relative value score. It's a component of that, and we do remain focused on that extensively.

So the price laggard strategy, Michael described it, so I won't get into those details, but I wanted you just see some of the data around that. And so when you look at how that looks this year, you're going to see Portillo's pricing strategy on the red line. And then you'll see a couple of inflationary indexes. You'll see overall CPI, and then you'll see the food inflation index. We also put together a peer index, which you see here.

And in all of those cases, you see Portillo's is pricing below those inflationary indexes and below our peers. Again, why do we think this is working? It's because of what Michael showed, which is that relative value score, where it is the highest it's been in 3 years.

Our financial profile and the strategies that we talked about are all driving free cash flow. So a couple of points of note you see on the right here, our new restaurants, cash-flow immediately. So this isn't a concept where it takes an extreme amount of time to ramp up. When they open their cash-flowing, and so that's going to continue to drive incremental cash flow as we continue to open those new restaurants.

I'll talk about in a minute where we're deploying capital, but you're going to see that the bulk of the capital we're deploying is for that new restaurant growth. And then when you look at over the long run, so to the extent that we have excess free cash flow, we're going to deploy that in the best interest of shareholders.

So in my mind, that could be we continue to delever. We can look at dividend programs, we can look at buyback programs. That's, again, over the long run. In the short to medium term, we're going to be using our cash flow to fund the growth that you heard about.

So where are we spending our capital? You can see the bar here, we're guiding to \$60 million to \$65 million of CapEx spend this year. And as you'll see, the vast majority of that is going to be on our new restaurant openings, which we've said publicly is back end-loaded into this year. And so you'll see the bulk of that spend coming through in the fourth quarter this year.

The second area we're spending capital is maintaining existing restaurants. And you can see the rough percentage that we're spending there. But I will say this, Portillo's, when we build those new restaurants, these restaurants are built to last. We have 40-plus year-old restaurants in Chicagoland that you would walk into and not think they were there for 40 years.

This is not a brand that has to go through a brand refresh every 5 to 10 years and deploy a bunch of capital into the system to refresh the brand. That's not Portillo's. And then you'll also see us spend an amount of CapEx in other discretionary areas. So think about this year as an example. Rick talked about digital menu boards. He talked about deploying the new tablets in the drive-thru, right, the POS refresh. That's where we're spending discretionary CapEx. Derrick talked about the grab-and-go pilot, right, that we have in Bolingbrook. That goes into the discretionary CapEx.

So I feel very comfortable with this profile, which is going to continue as we go into '23 and beyond, deploying most of our capital into new restaurant builds, but still having the ability to do the other things that we want that you've heard about today.

Okay. I think this is -- this, for me, is an extremely important slide that I want to make sure you all understand. So on the left here, you're going to see what we are targeting as year 3 returns. For those of you that followed us a year ago during the IPO, you're going to see that those targets are not -- they're unchanged. Yes, we've experienced some changes in build costs, et cetera, but that is a year 3 target.

So when you think about year 1, year 1, you're generally going to see higher AUVs, and you're going to see a lower margin percent, roughly high-teens margin in year 1. Year 2, your AUVs are going to dip because we have a honeymoon curve. It's the reason why our restaurants don't go into the comp base until after 24 months because of that honeymoon curve.

You're going to see a little bit of margin improvement in year 2. By the time we get to year 3, we expect these restaurants. And when I say these restaurants, think about them as a class of restaurants, not one specific restaurant. By year 3, we expect the class of restaurants to be at \$5.8 million AUVs. That \$1.3 million of restaurant-level adjusted EBITDA dollars, the buildout costs, we expect to normalize, as Mike Ellis talked about, to deliver those year 3 cash-on-cash returns.

What I wanted to show you is, well, where does the current class stand? So we have 5 restaurants that are in the class of '21. And we have 2 restaurants that we opened earlier this year that are in the class of '22. When you roll those up, you can see the current performance. So we're not going to know where those restaurants stand until 2024 and 2025. But I can tell you, I'm extremely happy with the performance of these restaurants, and that they are on track.

Why do we think that we have upside to the targeted returns you just saw? Well, you've heard from the team today, so I'm going to walk through these to make sure you hear from my perspective, why I think that we have upside. So first, when you look at the AUVs, you heard from Mike that we're building in growth markets. We're building in markets that have growing populations, that have natural comp tailwinds. And there's proof points. You saw the AUVs, as Michael showed in California, Arizona and Florida, are trending higher, right, than the average. So that has potential.

When we look at the margins, we talk about getting that local scale and that ability to expand margins. And I'm going to show you a case study here in a minute. But Sara, you asked the question on, well, how do you do that, how do you expand the margins, right? You're leveraging your distribution, you're leveraging that marketing, you're leveraging that multiunit manager, right? All those things come together when you get that local scale. And again, I'll give you an example in a minute.

And then the buildout costs, we know buildout costs are elevated this year. But we also know, as Mike talked about, we're controlling the things that we can control. And so as we build Kitchen '23 next year, you heard from Derrick that we can pull out \$100,000 of equipment just in the kitchen alone. And as we -- I know you hate using "value engineer," but as we take costs out of the build, right, that's going to drive those build costs down even further as we move into the future. And so when you combine all those together, that's why, to me, I look at the upside that we have to that 25% targeted return you saw on the previous slide.

Okay. So I wanted to give you Arizona. Again, Mike showed you Arizona in terms of a case study of how we approach the market. So here's what the market is doing as we sit here today. So we opened up Scottsdale and Tempe in 2013. We had a number of years go by, and then we opened Avondale in '19 and then Glendale more recently, just over a year ago. So over that period of time, you can see the margin improvement of 370 basis points.

We're not even at scale yet in this market. Remember, scale for us is roughly around 6 to 7 restaurants. And so we have 2 more opening in the fourth quarter this year in Tucson and Gilbert, and we have more in the pipeline in '23 and beyond.

So for me, I look at the performance just over this time period. And remember, Glendale is still new, right? Glendale isn't even at, right, that 3-year targeted -- it's not in its maturity stage yet. And so we still know that there's time to get this up to scale, but what I love to see is that margin improvement over time as we started to add new restaurants.

So balance sheet. So right-hand side, you see our available liquidity. So as of the end of the third quarter, we had \$46.5 million of cash on the balance sheet. We have \$45 million available under our \$50 million revolver. So we have that as available liquidity today. When you look at our debt structure today, we're in a much, much better position than we were pre-IPO.

For those that know us know that we carried a heavier debt load, and we used the proceeds from the IPO last year to delever. So right now, where you see our debt-to-EBITDA ratio at 3.5x, I'm extremely comfortable operating with that leverage ratio. We have plenty of cash to service our debt and fund our future growth.

And so that gives me comfort that, again, as we continue to add on new restaurants that are going to cash-flow immediately, that's going to continue to, again, help fund our growth without even needing to tap into a revolver, as an example.

We're not managing this business for short-term growth. So I think one of the things you'll notice about us is that we're not going to come out and give you comp guidance every quarter or EBITDA guidance every quarter.

We'll guide to certain things in a given year that we do believe are important. But we're managing this business for the long term. And that's what you see here in the long-term growth algorithm, which myself and the rest of the team that you've met today are extremely confident in this algorithm, which is the 10% new unit growth, the low single-digit comp growth. Those 2 add up to create the high single- to low double-digit revenue growth. And then you see the flow-through, and we feel comfortable that, again, over the long run, we can deliver that low-teens adjusted EBITDA growth.

So for me, the takeaways again are this is an almost 60-year-old brand, right? This is not a new brand. We have a long history. I've given you a snapshot of some of that history, that this brand can operate in all economic cycles. So whatever happens next year and beyond, we're going to be fine. We're going to be able to manage through that, and we know that and we've proven that. That durability helps us to generate those cash flows to self-fund our growth. And when we grow, again, those unit economics are attractive, and we're going to be able to self-fund that growth.

And our balance sheet is strong. So we have flexibility as we move forward to fund both our new restaurant growth and the other things that you heard today that we want to do as we continue to move this brand forward.

So with that, I think, Barb, we're going to do some Q&A, and I think the rest of the team is going to come up for Q&A.

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

Before we dive into Q&A, Nick, do you want to just tell everyone logistics about getting lunch in the Beef Bus?

Nicholas Anthony Scarpino - *Portillo's Inc. - SVP of Marketing & Off Premise Dining*

Yes. Okay. So the Beef Bus is in the middle of Times Square. You cannot possibly miss it. [Sarah], can you raise your hand? Sarah has a ticket for you. Please, as you're exiting, grab a ticket from her. She will -- that ticket is required to get in there. We have 6 security guards down there, making sure that other people aren't eating at it so that you can. The menu is a mini Italian beef, a full-size Chicago-style hot dog and a large cheese fries.

There are drinks in coolers that you can also just self-serve, go ahead and grab those. If you would like to try a plant-based Garden Dog, just please let somebody on the team know, we will make one special for you. And if you want more of anything, we have plenty. So please feel free to eat as much as you would like. Did I get it all? Everything? Is there a question?

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

Yes.

Nicholas Anthony Scarpino - *Portillo's Inc. - SVP of Marketing & Off Premise Dining*

Yes. No, okay. Good.

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

Thank you.

Nicholas Anthony Scarpino - *Portillo's Inc. - SVP of Marketing & Off Premise Dining*

[Miles], that means you can have as many beef sandwiches as you want.

QUESTIONS AND ANSWERS

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

Dennis Geiger, UBS. Michelle, maybe Michael, I wonder if you could talk a little bit more about the 2021, 2022 open slide that you mentioned. Strong returns, on good pace right now, the average that you mentioned. Any notable deviations from that average across '21, '22 that you're willing to kind of touch on, either from an AUV or from a margin perspective? And then, again, at this early juncture for those opens, any learnings that you would pass along there?

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

Yes. I think, Dennis, what I'd say is the data points that you saw that -- for the non-Midwest market, so think Florida, you have Orlando in the class of '21, you have St. Pete in the class of '22, those generally are going to outperform at a higher level because they're in those growth markets, right? And so when you look at some of the other markets, we opened our first restaurant in Michigan, Sterling Heights, so it's doing extremely well. We have a restaurant in Indiana. We have a restaurant in West Madison, Wisconsin.

That's more in that Midwest market mold. So I'd say that profile still holds true for me when you think about those non-Midwest markets performing above the Midwest markets.

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

It also -- it informs why we're going so heavy along the Sunbelt, right? Those restaurants come out of the gate really strong and they scale really quickly. And so I think you showed the slide, and Mike did as well, like 70% of our build for '23 is going to be in the Sunbelt. So we're very optimistic about that. You got Greg back there too, who's had his hand up. Hi.

Unidentified Analyst

[Brian Harper] from Morgan Stanley. Just maybe on the build cost, how much of that is associated with kind of the stuff that Mike talked about in terms of standardizing design and stuff like that? And how much of it is like hoped for kind of cost reduction, just based on materials or labor or whatever? And how much of it is perhaps influenced by where you're going to be building?

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

Yes. Well, hope's not a very viable strategy. So that's not part of what we do. It is -- we have taken a really serious look at standardizing, right? So Mike talked about this. Every restaurant we used to build was fairly unique. Now they're cookie-cutter in terms of the kitchen and the equipment. The decor, we try to get it to reflect the local ambiance. But we've gotten really good, I think. We don't like -- I don't like the term "value engineering." It has like a negative connotation. Because we take cost out that's not positive for the guest experience or the team member experience.

So Kitchen '23, we shrunk the kitchen. We took \$100,000 of equipment out. There's a whole bunch of second-order benefits to that. We don't need quite as big of a footprint. We don't need the same electrical grid because we're switching certain things from electricity to gas. There's a whole bunch of second-order things that make the buildout much, much more efficient. So when we're talking about the build costs, there's a bunch of things that we have banked that we know about.

And then we don't know what happens to all the different materials in '23, '24 and beyond. We know that we can flex our build style based on material advantage.

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

Yes. I would say, and Mike touched upon this too, I don't think that we're going back to a world that we saw before the crazy inflation hit this year. But I do think, and Mike, you could probably attest to this, that there is some easing that you're seeing right on the input cost to build, right, that is real, but it's not going back to what it was that we saw pre that time period. I think that's probably fair to say, Mike.

Michael K. Ellis - *Portillo's Inc. - Chief Development Officer*

Yes. We've just gotten some bids in we're kind of qualifying right now. The first look, it looks like it's eased a little bit. And in terms of saving, when we have -- we've been able to -- going forward, we'll cut our design fees in half simply because we're not designing something different every single time. It's off a base building.

So we'll get a lot of savings in just efficiency of standardizing the kitchen, the frame of the building, the structure of the building. And putting decors or putting in unique decor for each market or some architectural embellishments don't really deal with structure and civil engineering and all those things. So we get much better and much more efficient from that standpoint.

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

This is Greg. My question is -- Michelle, helpful details on the new stores. Can you talk about maybe how the stores in Chicagoland or in the Midwest or is outside are honeymooning and if there's a difference in terms of if you're seeing big year 1 sales that maybe are coming down versus year 1 that are building and if that's performing different in Florida and Arizona versus other parts of the country?

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

Yes. I'd say, Greg, I'm not seeing noticeable differences from a honeymoon standpoint. So remember, we tried to do what we could within the process to prevent a drastic decline from that first opening, right, where you -- historically, we'd see openings opening up huge, and then you'd see a massive drop.

Well, as you know, and we've talked about with -- this with some other folks, we're trying to get to a point in the process where we do soft openings. So we kind of let out some of that demand early on, right? And you make sure that, one, you're not killing your team members in the restaurant because we found that to be detrimental to the team members in the restaurant, that put a lot of strain on that.

And so we definitely -- in both situations, Greg, whether it's in Chicagoland or outside of Chicagoland, you still have the honeymoon curve, but it's a lot less drastic than what it was before. And that's kind of what we're modeling in our profile.

Michael K. Ellis - *Portillo's Inc. - Chief Development Officer*

Yes. I think the intentionality around making sure that we're balancing the desired sales experience with what we want our team members to experience, given our volume as we kind of go through this incredible sales ramp is really important. So we start off with 2 days of practice, just so that we can build that kind of -- that muscle memory and -- level of proficiency and comfort, right? Then we shut down for a day, kind of get everybody reset, recharged, communicated with, supported at the levels that they need. And then we open up soft, right, on Thursday, Friday, we get through a weekend, right?

And then we don't have a grand opening until the following week. So we're not really looking to drive these, what I call, boom-splash, right? What we're looking to do is create a consistent experience, where our guests are greeted by team members that feel accomplished, that they can get this volume under their belt and deliver.

And so we start -- we got really intense around this in Orlando, right, where we saw a boom, but not the splash. And then we started to pick up, and the momentum and the trajectory of that business is incredible. So we've learned a lot. We're implementing it from an execution standpoint, and I think we're going to see a longer leg of success.

Brian Hugh Mullan - *Deutsche Bank AG, Research Division - Research Analyst*

Brian Mullan from Deutsche Bank. We haven't touched on it much today, but you've been speaking positively about Joliet, the pickup-only location. My question is would those only work in the Chicagoland area because of the consumer recognition of the brand? Or is that something you could envision over time having in other parts of the country? And then how do you think about that over the long term?

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

Yes. Great question. The question is about Joliet and the pickup-only location. So it is a drive-through only in pickup. So you can do third-party pickup, catering pickup and then the drive-through lane.

It's an experiment to see what it does. I love it so far. It's doing everything that we would have wanted. It's 60% of the cost of a regular build, with more than that of its revenue. It looks like it's a very viable format for us. I'm less eager to try to do it outside of Chicagoland right now because I don't think you want that to be the guest-first experience with Portillo's.

We really want the guest-first experience with Portillo's to be a mainline restaurant, with all the beautiful tchotchke, the service, the noise, the rhyme when you get your food. We want that to be the foundational experience.

Once you have that and you've saturated a market and you have some scale, then I think these pickup locations are very, very viable. So there's certainly a bunch more in the Chicagoland market. And I can imagine doing them in other markets once we achieve scale and saturation.

Michael K. Ellis - *Portillo's Inc. - Chief Development Officer*

Yes. And I think the beauty around the pickup-only concept is what we've learned. We learned a lot about signage, the size of the kitchen. We don't need 3 lines of production. We could actually incorporate some of the 2023 elements in there, reduce the cost footprint, 3 lanes for stackability, not necessary, right?

So the real estate footprint gets a little tighter, the amount of conveyance that we have outside is the definition of fatigue and delay. So we've learned enough to get the efficiencies right, bring the cost down, the operating costs down, and really do a nice job in this complement area.

And if you look at from a development, a Tier 2 perspective, as we fill up these markets and look at Tier 2, there's going to be markets we're going to want to exploit, that we're going to have a very difficult time getting 2, 2.5 acres. I mean the land is just not available. It gives us something that's smaller to fit in to kind of augment what we do once we are established in the market.

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

It's Sharon with William Blair. I'm just curious how you think about the opportunity for other dayparts or extended hours. And how do we think about the time line to when you would consider licensing in airports or internationally?

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

Derrick is going to punch me after this. I think, look, I think a breakfast daypart is a very viable thing for us. You're in Chicagoland, right? We have Pepper and Eggs during the Lenten season. We have Pepper and Egg sandwiches. People love them. It's like one of the biggest complaints we get from guests is why don't you do breakfast. And so in the middle of COVID, with staffing issues, we're not going to try to tackle yet another daypart. But eventually, right, we have an asset that's really attractive.

There's a natural daypart for us that we've already proven we have relevance with our guests. I mean it's a very logical next step. It's really a question of when, not if. Don't model it next year or the year after. But it's an opportunity for us to leverage an expensive asset and drive revenue. So of course, we're going to look at that. And we certainly have airport concessions reaching out to us, and we certainly are considering those things.

But it's very important to us as a team to protect our brand. I'm not sure we like the idea of somebody else operating Portillo's in -- domestically. It's a complicated experiment, and our brand is too important to us to let somebody else operate it, so we want to operate it. And we need to make sure that it's very accretive to our shareholders before we do something like that.

But there are great airport relationships that make a lot of sense for us. There's a lot of -- there's a whole host of alternative relationships that make sense for us, right? Universities make sense for us. International franchise makes sense for us.

Mike's focus right now is the lowest hanging fruit, right? We're building restaurant 72. So until he gets to like 150, 200, let's just keep banging out these great restaurants in A+ locations that print money from go. I think Andy has a question. Mr. Barish?

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

Yes, in terms of -- Andy Barish, Jefferies. In terms of dovetailing on that printing money from the get-go, I wanted to dive into the slide Michelle's shown a couple of times, just in terms of the maturation curve. And wondering if there's a way to kind of tease out those productivity elements that improve margins as you scale in a market versus kind of the way newer units are going to hold back profitability.

So the bottom line of the question is, are more mature units in those markets kind of capable of getting to that mid-20s sort of margin that we've all kind of bounced around since this process began?

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

Yes, Andy, I would say that, yes, those restaurants in those markets that have more years under them are absolutely capable of getting to mid-20%. And we have specific restaurant examples of that, right, that we know exist. So absolutely, yes. I can tell you that, that is the case. And I will say this even -- and you know our numbers for this year, right? We know that in this current year, right, that we're taking some short-term margin hits, right, to keep that value proposition in place and to make sure that we don't get in and over our skis on pricing as we've talked about today.

And so that has been purposeful. And so as you look and we come out of, right, this environment, I think there's even more upside as we get out of this significant inflationary environment. But yes, we have restaurants that do mid-20s.

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

Very helpful. And then, Nick, anything on the 60th anniversary or from a marketing perspective...

Nicholas Anthony Scarpino - Portillo's Inc. - SVP of Marketing & Off Premise Dining

Stay tuned. We have big plans. You'll love them. Crocs for all. It's like Oprah, everybody gets a gift.

Unidentified Analyst

Jill, on one of the slides, you had your turnover versus industry turnover. And the third quarter numbers were not that materially unchanged, but it was a slight tick-up in turnover for the industry, I don't think for you. So just wondering if you could speak to what would be driving that possibly when it seems like the employee really should be going back to work, not the opposite?

And then what kind of total benefits package do you have for your employees in the field today? We hear things like wanting to work less hours or more flex or getting paid the same day versus just being paid more.

Jill Francine Waite - Portillo's Inc. - Chief HR Officer

Yes. So Q3 always sees a tick up as it relates to turnover because people are going back to school. So a lot of organizations see college students, or even high-schoolers, work a lot during the summer and then they go back to school.

For us, we have a lot of college students that come back and then they come back again during the holiday season. So we have a lot of repeats that essentially stay with us, where they will go back and forth between Springfield and then the University of Illinois or different colleges.

I also think it is a tribute to the work that our general managers have been doing. So we've been able to stabilize our workforce in a way where they feel very invested in for who they are as individuals. But also to the benefits package that you're referencing, I think on the last earnings call, we mentioned we did just provide a pay increase. And we do daily pay. We also have enhanced our PTO benefits for our leadership team.

And when I mentioned earlier about LinkedIn Learning for crew chiefs or shift leaders, one of the things that we've been hearing is college admissions are down, so not everyone is wanting to go back to college, but they do want to continue their learning. And so LinkedIn Learning is a way that we're investing in our team members, and they see it as a benefit.

And wellness is another place. So financial wellness, mental health, is something that is near and dear to our hearts with our team members. So we invested in an app called Gympass that allows them to have physical wellbeing, financial wellbeing as well as mental health wellbeing as well.

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

It's Sara from BofA again. I just wanted to ask about the price laggard strategy. I think in that chart that Michelle showed, it sort of converged recently. So I guess, how should I think about the sort of laggard but ultimately catching up, is the idea that you sort of keep the people who have developed this value perception and it's sticky, and so even now, as maybe you're taking the same amount of price, that doesn't change the relative value? Is it sort of a cumulative pricing impact? I'm sort of thinking about how much traffic you get by lagging, if ultimately, you kind of close that gap?

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

Yes. Let me take a crack at that, and I'll let you -- so look, there's a real elasticity effect when people take price. There's a cross-elasticity effect when your competitors take price and you don't take price. What we're allowing to happen is let competition take pricing. Let -- there are competitors out there who price 15% year-over-year right now. It's great. Their businesses can handle that.

I love that then guests turn to us and they see the value that we have. And so we're going to let everybody else price, let the cross-elasticity effect happen. Let them -- let everybody who prices really high lose a little bit of volume. Michelle said this, we grew people count in the third quarter. Third quarter was a tough quarter. We grew people count. We feel really good about that.

Once that elasticity has sort of manifested itself and people have become inured to the pricing, then we can price. And then you get less of an elasticity effect because you're just tailing on what everybody else has already done.

That's our fundamental strategy. It doesn't mean we don't price. It doesn't mean we don't protect our margins. It just means that when everyone else is pricing really aggressively, we're going to take traffic. Once they're done pricing, then we'll catch up and we won't lose that traffic.

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

Yes. I would just add, to Michael's point, just a reminder that we're not a brand that discounts, right? So once we take price, that's price, right? There are other brands out there that can do value menus, et cetera, and do different forms of discounting essentially. We don't do that. So we have to be very mindful of when we pull that pricing lever because, to Michael's point, that value proposition is super important to us. So I love that we grew that traffic in Q3.

We talked about our relative value scores, the highest in 3 years. Our overall guest satisfaction scores, the highest they've been in several years as well. All those factors are leading indicators to me that we're going to grow this business, to Michael's point, the way we want to grow this, which is through traffic growth versus just growing strictly through price.

Derrick Lee Pratt - *Portillo's Inc. - COO*

Yes. And I think one of the things that we haven't really mentioned as it relates to value is every time Michael talks about price or Michelle talks about price, we talk about the experience, right? Directionally, where is our speed of service? Directionally, where is our overall satisfaction? Directionally, where is our percent of problems experienced at the restaurant?

If we're better than stable and growing trend-wise, and you saw the trends that I shared, then it makes it easier to really maintain the price laggard strategy.

Unidentified Analyst

Derrick, I want to ask a bit more about the operational efficiencies and the labor efficiencies that I think you spoke to. I think the numbers were 20% reduction in labor hours since '19. Michelle, I think you spoke to the items per hour that Michael has highlighted quite a few times over the last 12-plus months or so. Where are we now, though, Derrick, on that? Or where can we go, I should say, from where we are now? Can we get more efficient from an items per-hour perspective from a reduction in labor hours?

And then how do you think about balancing that versus kind of just fully restaffing, which I think you generally are, but just the importance of staffing and keeping the teams working together, just kind of marrying up those 2 dynamics, if you could?

Derrick Lee Pratt - *Portillo's Inc. - COO*

Yes. I think the most important -- it's a great question. I think the most important thing to remember is, kind of baked in our DNA right now, is a certain amount of rigor around looking for ways to get better from an efficiency standpoint, right? Greatness kind of being built into our DNA, we're always looking for ways to root out pain points for our guests and our team members.

I want you to think about this. We have 27 job work roles. We have 25 stations we deploy to. We have over 3,000 feet -- square footage in our kitchens alone.

So you asked me the question, is there more to get? I think you can answer the question. I'm not going to put a number on it into the future. However, I will say that our rigor and the way we look at it and the way we keep our ear to the ground relative to our team members and guests puts us in a good position, and we're nimble as a company.

I talked about some of the improvements in efficiency coming off the back of a surprising impact to the rising commodity costs. We were able to turn in a dime and actually implement some of those efficiencies. We have rigor around how we look at our menu. We've reduced our menu and SKUs by over 37%. When that happens, I can automatically move into changing the operating model, which actually feeds the labor model. And we have technology that feeds our capability to do that. So I think with this rigor we have in place and our methodical processes, I think there's a really good look into the future.

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

Yes. I would add to that. It's fascinating, sort of as a student of business, looking at this company and its evolution, right? When Berkshire invested in this business in 2014, they invested in the business where order-taking was done with paper and pencil [on bags].

When Nick joined this company as its first marketing officer, he goes into his desk, he goes into his office and there's a fax machine. And he said, could I have a laptop? Like what do you need a computer for? Just send out coupons. So -- and I'm not -- it's not -- it wasn't that long ago.

And so there are a lot of opportunities for us from a continuous improvement, from operational excellence, from professionalizing this business still ahead of us, right? It's -- in some ways, we're a 60-year-old company that's still really immature in its infancy. Don't forget, we still print money. We can do even better.

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

It's Nicole from Piper. Michelle, in passing, you talked about the strong cash flow, and I understand the spirit of the comment about returning capital, but I was just taking a look at the cash flow statement the other day, and cash flow from ops pretty much equals CapEx, more or less. And my forward projections, not yours, same thing more or less.

So to ratchet up development, you have the human capital, but you would have to draw on a facility, you could, could not, to pay down debt. You'd have to pull back on development, you wouldn't do that. And so it's obvious that it's self-funded development, but it's not obvious it could go a lot faster.

And it's not even necessarily obvious why you would even talk about capital deployment back to shareholders, I guess. It might have just been, again, in the spirit of 5 to 10 years down the road. But I just wanted to hear what you thought about that.

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

No, you're absolutely right, Nicole. So the spirit was in the long term, right, when you get to a point, right, that your restaurants start to mature, right, and as they continue to grow in their maturation and continue to generate growth, right, in those cash flow metrics, right, you could be in a position, like you said, over the long term, right, where you have capital that you're not going to sit on, right, that you have to deploy. But first and foremost, right, I think we want to put cash back into the business, right?

We want to grow this brand. We know, as Michael said, these restaurants print money, right? And so I want to make sure that we're in a position, that if we want to dial up growth, right, that we have a strong cash position to do so. So again, as we open up these new restaurants, and this year, you saw, right, you're seeing a back end-loaded development plan, right, so you're seeing capital come through the restaurants. The vast majority for the class of '22 are yet to be opened this year.

And so that will start to come into the pipeline and generate the cash flows from those -- that class. So you're seeing some of that timing, I'll say, right, in this current year, but very comfortable as we move forward. And again, as the restaurants start to mature in some of these outer markets, the ability to contribute to the cash.

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

Which you're totally right. For the near term, 5 years. Clearly, the best thing we can do is build new units. And that's what we're going to do, build new units.

Nicholas Anthony Scarpino - *Portillo's Inc. - SVP of Marketing & Off Premise Dining*

Barb, while we wait, can I just give one more point about when we go downstairs? So your ticket, in case I didn't say this before, has a number on it. You do not need to order food. If you don't order anything, you're getting a beef sandwich, a hotdog and cheese fries.

We will just call your number with a rhyme as if it was like in the restaurant. We just wanted to take the ordering element out of it so we can get you through faster. So your number is equal to an order that's already been placed on your behalf. If you want a garden dog, just let us know. If you want more, let us know.

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

Great. You're making me hungry. Great. Well, thank you all for attending. I really appreciate the engagement, the questions. As you can tell, we're really excited about this brand. We collectively, as a leadership team, we love this brand. We love this business, and I think our best days are ahead of us. Thank you very much.

Derrick Lee Pratt - *Portillo's Inc. - COO*

Thank you.

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