

Seeking Alpha^α

Transcripts

Consumer

Portillos Inc (PTLO) Q1 2025 Earnings Call Transcript

May 06, 2025 3:40 PM ET | **Portillo's Inc. (PTLO) Stock** | PTLO

**SA Transcripts**

153.5K Followers

Q1: 2025-05-06 Earnings Summary

Transcript Insights



Play Call



EPS of \$0.06 **beats by \$0.02** | Revenue of \$176.44M (6.40% Y/Y) **misses by \$4.28M**

Portillos Inc (NASDAQ:[PTLO](#)) Q1 2025 Earnings Conference Call May 6, 2025 10:00 AM ET

Company Participants

Kyle Nelson - Vice President, Investor Relations

Michael Osanloo - President and Chief Executive Officer

Michelle Hook - Chief Financial Officer

Conference Call Participants

Sharon Zackfia - William Blair

Brian Harbour - Morgan Stanley

David Tarantino - Baird

Jim Salera - Stephens Inc.

Andy Barish - Jefferies

Chris O'Cull - Stifel

Brian Mullen - Piper Sandler

Dennis Geiger - UBS

Arian Razai - Guggenheim Securities

Operator

Hello, and thank you for standing by. Welcome to the Fiscal First Quarter 2025 Portillo's Conference Call and Webcast.

I would now like to turn the call over to Kyle Nelson, Vice President, Investor Relations at Portillos to begin. Please go ahead.

Kyle Nelson

Thank you, operator. Good morning, everyone, and welcome to our fiscal first quarter 2025 earnings call. You can find our 10-Q, earnings press release, and supplemental presentation on investors.portillos.com.

With me on the call today is Michael Osanloo, President and Chief Executive Officer and Michelle Hook, Chief Financial Officer.

Any commentary made here about our future results and business conditions are forward looking statements, which are based on management's current expectations and are not guarantees of future performance. We do not update these forward looking statements unless required by law. Our 10-K identifies risk factors that may cause our actual results to vary materially from these forward looking statements.

Today's earnings call will make reference to non-GAAP financial measures, which are not an alternative to GAAP measures. Reconciliations of these non-GAAP measures to their most comparable GAAP counterparts are included in this morning's posted materials.

Finally, after we deliver our prepared remarks, we'll open the lines for your questions.

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

Michael Osanloo

Thank you, Kyle. Good morning, everyone. Thank you for joining us today. Before we get into the results, I want to first thank our dedicated team members. Their hard work and commitment to the Portillo's experience is what keeps us moving forward, no matter the challenges. Our first quarter was similar to most others in the restaurant industry. We started strong in January and we faced some weather challenges in February. In March, we rebounded. Same restaurant sales increased 1.8% with total revenue reaching 176.4 million for the quarter. Restaurant level adjusted EBITDA for Q1 was 36.7 million with a margin of 20.8%. Despite declining consumer confidence, bad weather, and on again-off again tariffs we performed well. Guests are still choosing Portillo's, and we've supported our restaurants with initiatives like the launch of our loyalty program called Portillo's Perks and our Dallas, Fort Worth advertising campaign.

That said, we're not immune to the macro pressures. Our newest restaurants that opened in Q4 2024 experienced a slower start. In markets where we have strong brand awareness, we're more insulated against these types of macro pressures, but newer markets remain a little more vulnerable until they find their footing. As we move into Q2, we have carried good momentum from March into April, and our traffic driving strategies are intended to keep us on that path. Our four tactics are first, advertising beyond Chicagoland to increase brand awareness. Second, the launch of our Portillo's Perks loyalty program. Third, continuous improvement in operations, and fourth, further optimizing our kiosks.

Advertising in Dallas-Fort Worth has proven effective. Our Q1 campaign there combined traditional and digital media using crowdsourced content and a social media-inspired approach to showcase why Portillo's is 'iconic' every time. This campaign increased brand awareness by about 10% and drove high-single-digit increase in sales for Dallas-Fort Worth restaurants. We're running a similar campaign right now in Phoenix.

Second, our Portillo's Perks loyalty program launched near the end of Q1. Perks aims for a personalized data-driven approach to loyalty based on guest behavior. In its first few weeks, we focused on driving enrollment with a free fry signup offer. We've also tested our first surprise and delight offers in Chicagoland and Dallas, offering either a free Italian beef sandwich or a free burger. We saw solid redemption and we're excited to build on this momentum. In Q2 we're continuing to test broader offers to all Perks members. In new markets these offers are designed to drive trial and awareness. In existing markets we're testing which offer types can drive incremental visits. As we build a data set around our most loyal fans, we will shift to more targeted offers in the back half of the year.

To recap on Perks, we rolled it out in early March with a focus on enrollment. In Q2, we'll continue driving enrollment, while also testing broad offers to drive traffic. Then in Q3 and Q4, we'll leverage insights to deliver more targeted offers. We're excited about the future of our loyalty program and learning what it can do for us.

Shifting now to operations, we've renewed our commitment to delivering an exceptional experience for every guest every time. For every great restaurant brand, operations are the hallmark of success and the key to driving sustainable long-term traffic. So, we're focused on hospitality, speed and accuracy at every touch point. We continue to test camera vision technology to enhance drive thru speed and we're evaluating its long term potential. Our kiosks are performing well and we've been working to further optimize their benefits.

We've studied the top quartile of our restaurants with the highest kiosk performance and applied those insights across the other restaurants in our portfolio. This data-driven approach ensures that we continue to enhance the guest experience while maximizing the impact of our kiosks. We'll continue to monitor and refine their performance.

We've also recently launched a small test of breakfast at five Chicagoland restaurants. While still in its first few weeks, early feedback has been positive. Guests are excited about freshly scrambled eggs, made-to-order breakfast sandwiches and our rich chocolate cake donut inspired of course by our famous chocolate cake. We'll continue to monitor the progress of this test throughout the summer and then provide updates as we move forward.

Moving on to new restaurants, we still plan to open 12 this year. 10 of the 12 will be our new restaurant of the future, one point zero format, which is our 6,200 square foot concept. We'll also open one Portillo's pickup location in Plainfield, Illinois, as the fourth of that format, and I'm excited to open our first in-line walk-up restaurant in Central Florida. It's a smaller box with no drive thru and it's intended for dense locations with lots of foot traffic. We're excited to see the unit economics of this new format and share the potential that that provides for us. We're confident in the foundations we've laid and the strategies we have in place. While economic uncertainty makes it hard to predict the rest of the year, we're a resilient brand and we believe we have the right tools to succeed.

With that, I'll hand it over to Michelle.

Michelle Hook

Great. Thank you, Michael, and good morning, everyone. During the first quarter, revenues were \$176.4 million reflecting an increase of \$10.6 million 6.4% compared to last year. Our revenue growth in the first quarter was driven by growth from non-comparable restaurants and same restaurant sales growth. Restaurants not in our comparable restaurant base contributed \$7.9 million in revenue growth during the quarter.

Same restaurant sales increased 1.8%, which drove revenues up approximately \$2.6 million in the quarter. The same restaurant sales were attributable to an increase in average check of 4.9%, partially offset by 3.1% decrease in transactions.

The higher average check was driven by an approximate 4.4% increase in certain menu prices and a 0.5% increase in product mix. Same restaurant sales on a two-year stack basis were 0.7%. To address inflationary cost pressures, we increased select menu prices by approximately 1.5% in January and by approximately 1% in April. Our effective price increase for the second quarter is estimated to be approximately 3.5%, which includes the estimated impact of our Portillo's Perks loyalty program. We'll see 1% of pricing roll off in mid-June as we lap last year's pricing action. We will continue to assess pricing in relation to our costs, the competitive environment, and our value proposition to our guests.

When diving into comp trends during the first quarter, we experienced improved trends in January versus the fourth quarter of 2024. We saw a significant decline in February, primarily attributable to the impact of weather. In March, we saw a comp performance bounce back as we had benefits from the launch of our Portillo's Perks program, as well as the timing of Easter. In April, when excluding the headwind from Easter, we continued to see positive momentum.

Turning to our financial outlook for 2025, we have updated certain metrics to reflect our first quarter results and the expectations for the remainder of the year. We now expect cap sales growth in the range of 1% to 3% versus our previous range of flat to up 2%. We expect our total revenue growth to be in the range of 10% to 12% versus our previous range of 11% to 12%. As Michael mentioned, our newer restaurants experienced a slower start, which is driving the change in our total revenue growth outlook. During the second quarter, we plan to open one of our 12 targeted new restaurants, with the remainder opening in the third and fourth quarters.

On the cost side, we are now estimating general and administrative expenses in the range of 80 million to 82 million versus our previous range of 82 million to 84 million. Given the change in our revenue and G&A outlooks, we now estimate adjusted EBITDA growth to be five to 8% versus our previous range of 6% to 8%.

Moving on to our costs, food, beverage, and packaging costs as a percentage of revenues increased to 34.6% in the first quarter of 2025 from 34.3% in the first quarter of 2024. This increase was the result of a 3.4% increase in our commodity prices, partially offset by the increase in our average check. In the quarter, we experienced increases in beef, dairy, and chicken products. We continue to forecast commodity inflation of 3% to 5% in 2025, with the most significant pressures coming from beef. Included in our commodity forecast are the estimated direct impacts from tariffs, which are forecasted to be minimal to our business.

Labor as a percentage of revenues increased to 26.6% in the first quarter of 2025 from 26.1% in the first quarter of 2024. This increase was due to lower transactions, increase in benefit expenses, and incremental wage rate investments, partially offset by an increase in our average check and labor efficiencies. Hourly labor rates were up 2.7% in the first quarter of 2025. We continue to estimate labor inflation of 3% to 4% for the full-year of 2025.

Other operating expenses increased 1.9 million or 9.7% in the first quarter of 2025 compared to the first quarter of 2024, which was primarily driven by the opening of new restaurants and an increase in repair and maintenance and utilities expense. This was partially offset by lower cleaning spend due to vendor renegotiation. As a percentage of revenues, other operating expenses increased to 12.4% from 12% in the prior year. Occupancy expenses increased \$0.7 million or 7.3% in the first quarter of 2025 compared to the first quarter of 2024, primarily driven by the opening of new restaurants. As a percentage of revenues, occupancy expenses increased 0.1% compared to the prior year.

Restaurant level adjusted EBITDA increased \$0.3 million to \$36.7 million in the first quarter of 2025 from \$36.4 million. Restaurant level adjusted EBITDA margins decreased 110 basis points to 20.8% in the first quarter of 2025 versus 21.9% in the first quarter of 2024. We continue to estimate our restaurant level adjusted EBITDA margins to be in the range of 22.5% to 23% in 2025.

Our general and administrative expenses increased by \$0.4 million to \$18.9 million or 10.7% of revenue in the first quarter of 2025 from \$18.5 million or 11.2% of revenue in the first quarter of 2024. The increase was primarily driven by higher software license fees related to our recent system implementations and advertising expenses driven by ad campaigns in the Dallas-Fort Worth and Phoenix markets.

Pre-opening expenses decreased by \$0.9 million to \$0.5 million in the first quarter of 2025 compared to \$1.4 million in the first quarter of 2024, primarily due to the number and timing of activities related to our planned restaurant openings. All this led to adjusted EBITDA of \$21.2 million in the first quarter of 2025 versus \$21.8 million in the first quarter of 2024, a decrease of 2.6%.

Below the EBITDA line, interest expense was \$5.7 million in the first quarter of 2025, a decrease of \$0.8 million from the first quarter of 2024. This decrease was driven by lower effective interest rate, partially offset by additional borrowings on the revolver facility. At the end of Q1, we had \$73 million drawn on our revolving credit facility. This includes amounts we moved over from our term loan as part of the debt refinancing we completed in January. Our total net debt as of Q1 was \$320 million compared to \$312 million at the end of last year. We have approximately \$72 million of available capacity on the revolver.

Our effective interest rate was 7% versus 8.4% for 2024. Income tax expense was \$1.4 million in the first quarter of 2025, an increase of \$2.5 million from the first quarter of 2024. Our effective tax rate for the first quarter was 25.4%. We expect the full-year tax rate to be approximately 25% to 27%. Cash from operations increased by 4.1% year-over-year to \$9.5 million year-to-date. We ended the quarter with \$12.9 million in cash. We will continue to use our cash generated from operations to fund new restaurant growth this year and beyond.

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

Michael Osanloo

Thanks, Michelle. Despite the uncertainty in the macro environment, we're proud of the progress we've made. Our focus remains on accelerating revenue, expanding margins and ensuring strong returns on every dollar we spend. We're leveraging our durable traffic driving initiatives to deliver these results and we're doing this while taking great care of our teams, because we know that when we take great care of our teams, they take care of our guests, who in turn take great care of our investors. This is a virtuous cycle that drives our long-term success.

Thank you. And with that, let me turn it back over to the operator for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question is from Sharon Zackfia with William Blair. Please proceed.

Sharon Zackfia

Hi, good morning. Thanks for taking the question. I guess when I think about the fourth quarter openings, I know about half of those were in Houston, so how do you kind of get comfortable that it's an economic kind of slower to adopt kind of new concepts issue because of the economy versus some sort of portability issue in Houston, assuming that that's, you know, part of the issue with the fourth quarter openings, and then do you have any kind of action plans to help jumpstart the Houston market?

Michael Osanloo

Morning, Sharon, thanks. Thanks for your question. It's a good question, and it is not just Houston. It really is new restaurants and newer markets, just they were just not as well known. And so you can almost see a perfect correlation between awareness and the performance of these restaurants. So when I compare the start of the Dallas restaurants versus the Houston restaurants, that just totally plays out. The guest satisfaction scores, all the guest metrics with the food, are eerily consistent with our best markets. So, when I look at it, it really does signal that we're just the relative unknown in a market like Houston, still, and we're building our awareness. So, what, how do you fix that? Well, we are doubling down on all of our field marketing activities.

We're going to be very aggressive in using our beef bus in Texas, make sure that we're continuing to do field marketing, but it really is just a pick and shovel effort to build awareness over time in these markets. And really not to panic. Everything that we see in Houston suggests that these businesses are going to be fine. They just came out of the gate a little bit slower than maybe we hoped.

Sharon Zackfia

And then Michelle, can I ask a follow up question? So when you think about that widening of the revenue range for this year, I assume part of that is handicapping those recent openings, but are you also handicapping kind of new units in new markets for the class of '25 as well? Like how are you thinking about those AUVs just given kind of the uncertainty we're facing right now?

Michelle Hook

Yeah, good morning, Sharon. I think primarily that change in the range is more related, I would say to the class of '24 and what Michael just talked about, than necessarily what we're projecting for the class of '25. And to Michael's point, when we look at those restaurants, you mentioned the three in Houston, remember one of the restaurants was a drive through only in Chicagoland. So, that obviously comes with a little bit lower volumes. But to answer your question directly, it's primarily related to the class of '24 than it is our expectations for '25.

Operator

Our next question is from Brian Harbour with Morgan Stanley. Please proceed.

Brian Harbour

Yeah. Good morning, guys. Michelle, maybe just a follow-up on that question. I think, the timing of openings this year is also slightly different, at least than we had expected prior. So, I think it's going to be one of the more back half weighted years in your recent history. Could you comment on that as well? And if there's any kind of location specific issues that drove that?

Michelle Hook

Yes. We obviously, Brian, this has changed on us and it's been very fluid for our one opening in Stafford that we had estimated to come in the first quarter. So that's been delayed until Q2 due to some local permitting challenges within that market. Outside of that, we are still at 5% to 6% for Q3 and Q4. There is nothing right now that we see that is causing concern of those openings coming in Q3 and Q4, and remember those are all primarily going to be in Texas as well with several openings in Houston within Dallas as well. And as Michael mentioned one of the drive thru only and then a walk up format. So, a little bit of shift in the timing, mainly because of the one that I mentioned, but the back half, we always knew coming into this year, Brian, that we were going to be back-end loaded, and as we get into '26, you're going to see a more smoother cadence in the process next year and you're going to see several restaurants are going to be under construction in the back half of this year as we look to open more in the front half of the year in 2026.

Brian Harbour

Okay, thanks. What drove the decision to test breakfast in Chicago? Could you talk more about that?

Michael Osanloo

Yes, there's always been a lot of consumer demand for breakfast. We do Chicagoans know that we do a pepper and egg sandwich during the Lenten season? It gets incredible pickup. People really love it and they ask for that for breakfast. So we decided to do a test. We've got a big asset sitting there empty for four hours in the morning. Obviously, the incrementality of breakfast can be fantastic if it works. So, we're conducting a five-restaurant test. We want to make sure that the food works, that the operational execution is flawless. We also want to make sure that we're not negatively affecting lunch and the prep for lunch. And so far, it's a test. There's a lot of positive feedback. There's some constructive feedback. We're going to keep testing, see how it works throughout the course of the summer and then we'll make a decision on whether to expand or not by the end of the summer.

Operator

Thank you. Our next question is from David Tarantino with Baird. Please proceed.

David Tarantino

Hi, good morning. I had a couple of questions about the new unit performance for the Q4 opening. I think you had a couple of restaurants of the future prototypes in that quarter and you also went in with a streamlined menu I believe in Houston. So, I was wondering as you diagnose some of the sales softness if you thought it was related to either of those two factors?

Michael Osanloo

So, David, good morning. I would tell you, I don't think it has anything to do with that. I mean, I could get into the specifics of each site. There's one of those sites has massive construction in front of it. The road is torn up. It took me 15 minutes to go a block. It's affecting everybody in the area. It's going to be fine. There's like little idiosyncrasies. You open a restaurant in a tumultuous macro environment, and then you have odd idiosyncrasies happen. We're not alarmed. I'm not alarmed by this. Our food has worked very well in Texas. I have no reason to believe that the Houston palette is different than the Dallas palette. So, we're confident that these restaurants will pick up as our awareness picks up and as we begin really to turn on field marketing. We didn't do a lot of field marketing in Houston, going into that market, unlike what we did in Dallas. And so, you know, we had extraordinary openings in Dallas that really tested our operational abilities, and we wanted to have a more stable opening to build momentum, and maybe we under-marketed it, so, but we're going to fix that quickly and really not worried about Houston.

David Tarantino

Great. Thank you. And then my, my other questions on Portillo's, the Perks program. I was wondering if you would be willing to share any initial metrics on how you're measuring the success of that program, just in terms of whether it's signups or frequency you're seeing here around the people that are in the program or anything you could offer.

Michael Osanloo

Yeah, when we talked about this I think I said that our public goal was to get to 1.6 million signups by end of June, early July. I don't want to get into the habit of reporting every month on this. Let's just say that I'm really confident that that will not be a problem, and that right now we're still, we've only been enrolling people for a little over a month. We feel great about the performance of this. I love, it's like a new toy almost. We get to test how people respond to different offers, how people respond to badging, how signups are working, and we're testing all that and we'll continue to test it through Q2, and then I think we have an opportunity to do some really interesting, innovative one-to-one marketing in the back half of this year. Really, it's probably the most exciting thing that we're doing as an organization, and it is certainly meeting all of our expectations internally.

Operator

Our next question is from Jim Salera with Stephens Inc. Please proceed.

Jim Salera

I wanted to drill down a little bit on the new same store sales guidance. If I think through, you know, 1Q was in terms of the year-over-year lap, the easiest lap for the year, and then it kind of gets a little bit progressively harder as the year goes on. Can you just give us some of the components that give you confidence in raising that, given the consumer backdrop, and particularly any color you can offer on the kiosk lift to 1Q, and then how you kind of expect that to phase in through the year?

Michelle Hook

Yeah, Jim, I'll take that one. So, as we look at the remaining three quarters and you kind of decompose how we're comfortable with one to 3%, I think we've been pretty transparent on pricing. We're going to be around 3.5% in Q2, and we haven't made any decisions further out into the year, into Q3 and Q4, but Michael and I have been very much aligned that we're going to keep pricing in place to offset those inflationary cost pressures, and so that's how we view pricing. You saw the benefit of kiosks come through in the mix line this quarter where you saw the positive 0.5% in the mix. Our expectation is that we're going to continue to drive kiosk adoption. We were at adoption of 25%, that we reported on earlier in the year, we're now getting closer to 30% adoption rates, and so those benefits are still in place as we go into the back half of the year and continue to drive that kiosk adoption.

And then you saw, despite some of the headwinds we mentioned in Q1 with weather, that we still improved our transactions versus Q4, and so our expectation is as we continue to look to utilize the advertising in the outer markets as well as particularly the Perks program driving that transactions towards further improving that to something that can be improved on in the back half of the year. Not saying necessarily that we expect to get fully deposited that's ultimately our goal is to continue to drive positive traffic, but that's the lever Jim is that primarily that Perks program and some of that advertising we're doing to drive the transactions in a favorable direction versus what we saw in Q1, and so, when you put all of that together, you can see a world where we can definitely play within the 1% to 3% range for the remaining three quarters this year.

Jim Salera

Great. That's helpful. And then maybe just a follow-up to continue the discussion on breakfast. If we think about like what you'd mentioned kind of testing through the summer and seeing where that goes and go forward, what would you view as kind of a successful test there? I mean, is there a certain comp hurdle rate or certain guest count, or just help us think through some of the metrics that we should be thinking about that would lead you to expand that broader across the footprint?

Michael Osanloo

Yes, Jim, it's a great question. We absolutely have internal metrics, which we believe would define success, and it's the things that you can imagine. It's what's the comp impact, what's the average price, what's the guest satisfaction score, what's the likelihood to return, but also just as importantly, what's the impact to lunch, what's the guest satisfaction score at lunch. We don't want to screw up our business, right? There's plenty of restaurant companies out there that have tried to expand to breakfast and it hasn't worked.

So, we have a number of internal metrics that will define success, and I think we want to make it as clean and clear as possible for us. And just to be super transparent and precise, a successful test doesn't mean it's a nationwide thing for us. A successful test would mean that we feel we have the legs to do breakfast in Chicagoland. We would probably want to do a test outside Chicagoland if we were to expand there.

Operator

Our next question is from Andy Barish with Jefferies. Please proceed.

Andy Barish

Hey, guys. Can you kind of give us an update on the efforts in the drive thru and is that channel still a little bit more pressured, I guess, just given the price point advertising that continues pretty aggressively in the broader QSR category?

Michael Osanloo

Yes. That's a great question, Andy, and I appreciate that. I'm actually it's actually one of the sneaky things that are going really well for us. So, I think our operations team has picked up momentum in everything that we're doing in operations. We're seeing continued improvement in speed of service, but I'm seeing huge improvements in problem resolution. So, one of the bugaboos in our business is you've got tens of thousands of people interacting with guests every day. You are going to screw up occasionally, but what's important is that you resolve that very quickly and make the guests happy, and I'm seeing great improvement in guest satisfaction in problem resolution, and so it does excite me more to be marketing a little bit more heavily, to use Perks to bring guests to the business, because I think we all feel that they're going to get a great experience. And I think that's something that kind of positive energy and momentum will be very, very helpful for us in Q2, Q3, and Q4.

Andy Barish

And then just, the thoughts on pricing and replacing some price. Is there something in your basket, it seems like the inflation expectations remain relatively constant. I assume you're locked on your beef items, although inflationary, is there something in the tariff side of things or something like that, that we should be aware of?

Michael Osanloo

So, Michelle and the supply chain team has done a great job of dissecting all of the impact that we could potentially have on tariffs. And I would say that it's, for us, we believe that it's largely manageable, right? There's a couple of areas that we're, let's say a little vulnerable, you know, but we have those under control, and I, but I don't know what I don't know, right? I think three, four months ago if we were having this conversation, we would've given you a very different perspective on commodity inflation and where we see things happening.

So, part of the reason that we expanded some of our ranges is just that we're in a very volatile and uncertain environment and it's hard for us to commit to something not knowing how some of the tariff situation will play out, not knowing whether consumer confidence will bounce back, et cetera. And so, when it comes to pricing, I think Michelle said it well, our intent is to be modest, but price away any idiosyncratic inflation, but not more than that.

Operator

Our next question is from Chris O'Cull with Stifel. Please proceed.

Chris O'Cull

Yeah, good morning, guys. Michael, what's the company doing to sustain the sales lift in Dallas and maybe how are you thinking about future marketing or advertising in these non-core markets?

Michael Osanloo

It's a great question. So what I love about the last marketing campaign we just did in Dallas is we tapped into something that's really I think relevant in today's consumer. We use a lot of social media clips to influence our advertising campaign. So, if you're on Insta, TikTok, whatever your social media feed is, you would look at our advertising and say, man, this really, this is relevant to me, and, so, we sourced it that way. It worked really well. We're very happy with the results of it, and we will continue to pulse advertising like that in new markets. You know, when we go into, well, we're starting it up in Phoenix right now, but we're going to be smart, we're going to put a QR code in some of the TV and billboard advertising that links back to the Portillo's Perks program.

So, I think we've gotten very contemporary in the way we market and talk about ourselves. We're linking it to our Portillo's Perks program and trying to make sure that we've got people like really working in a beautiful virtuous cycle. They hear about us, they try us, they have a great experience, they sign up for loyalty, they have multiple ways of seeing us and signing up for loyalty and it creates that frequency that we want, and we've, I don't know if I've, I don't know if we shared this earlier, but look, we advertise in Dallas in Q1, we're in Phoenix in Q2, we're going back to Dallas in Q3, and so there will be a steady pulse of advertising in our newer markets to drive trial and awareness.

Chris O'Cull

Okay. And then I had a couple of questions around the new units. Michelle, is there any way you can help us understand the magnitude of the underperformance compared to your all's expectations for the units you mentioned? And then, Michael, I've noticed some of the new locations seem to be opening before the retail area around them open, such as Katy, Texas. Do you see that strategy as an issue opening up early?

Michael Osanloo

Katy was not a strategy. That was, I would say that the developer is way behind on some of the other sites, and so we had an option of do I sit there with a built restaurant waiting for everything else to open, or do we go ahead and open and start building roots in Katy? So, we chose to go ahead and open anyway and keep our roots planted and start developing awareness, trial generation, etcetera, and so it is certainly not a strategy to be that far in advance of the development. In fact, if anything, we like to be contemporaneous with other like high quality retailers or even a little bit late to the party.

Michelle Hook

Yes. And Chris, to answer your question on the new units, so I would guide you to our revenue tables that we put out there. You can see them in our earnings supplement, but you'll see that the Class of '24, which is a clean quarter, right, because they were all fully opened in Q1. So, you can see the performance of the 10 restaurants on average within the quarter, and you'll see that they're tracking annualized.

Again, this is just straight math. If you annualized them, they'd be doing around \$4.8 million, which is clearly under what our expectations are. And as you know, what we guide to is a year three restaurants to do \$5.9 million to \$6.3 million with 22% margins. So, to Michael's point, do we think that the class will not be able to perform at that level? The answer to that is no. We're four months into these restaurants. To Michael's point, yes, there are some nuances around specific restaurants in the class, but nothing that gives us pause or an indication that this brand is not resonating in these markets, but that's what I would direct you to see, where the numbers are for the current classes.

Operator

Our next question is from Brian Mullen with Piper Sandler. Please proceed.

Brian Mullen

Thanks. Just follow-up on Brexit. Can you talk about how you're communicating awareness during the test? And I'm just wondering if this is something where you would really need to advertise it for quite a while before you'd really know what the true demand is likely to be in Chicagoland over the long term. So just any thoughts on how you'll be thinking about that as you evaluate the results of the test that would be helpful to understand?

Michael Osanloo

Yes. It's a great question, Brian. We're not right now being super aggressive on advertising yet because really we want to make sure that it's an operational test first and foremost, so that we can execute it. So, any marketing that we have done has been in restaurant collateral. Our digital menu boards will show breakfast. We've got some table tents that show breakfast, some signs that show breakfast. It did pick up a lot of PR in Chicagoland. So, the news media picked it up, and we had a number of camera crews at our restaurants that first week, but it's almost been a stealth mode rollout of breakfast, and as we keep going, for sure, if we expanded this to the entire Chicagoland area, we would want to market it. So, and then all the metrics that we have take that into account that it's a stealth mode. We're not going to. I don't expect X, Y, and Z massive lift because we haven't marketed it as well. Did that make sense?

Brian Mullen

It does. Thank you. And then just a second question, just come back to the limited menu in Houston, I got asked about earlier, but, Nick, I had asked about earlier, but yeah, are you happy with the menu overall? And I'm just asking, I'm trying to understand if you still might want to take this approach with new restaurant openings going forward, or even potentially put it in existing restaurants outside of Chicagoland at some point if you're still contemplating that.

Michael Osanloo

We're, we definitely see some improvements. We see some improvements in the P&L in how we operate that restaurant. We see some improvements in labor. We see some improvements in OpEx. So, I think there's a lot to like about it, and we're continuing to evaluate it, you know, as I think we added back a couple of things. We added back the Italian sausage, people, and the Maxwell Street people. That was something clearly guests were missing, and so there was a nice little reaction to that. But I think it's something that we will very seriously consider as we open new restaurants, having a little bit of a leaner menu that still satisfies people's cravings for the amazing food that we serve.

Operator

Our next question is from Dennis Geiger with UBS. Please proceed.

Dennis Geiger

Morning, guys. Thank you. Michael, just to beat a dead horse, one quick follow up on the newer stores. Sounds like no overreaction from you there, which makes sense. Just curious if any, as it relates to the observations you talked about, maybe that the marketing could, I think, could be something that could be tweaked, anything as it relates to operations, staffing, et cetera, learnings in some of those newer stores, or is that not something that needs to be tweaked or anything?

Michael Osanloo

No, look, I would tell you, Dennis, I've visited those stores. I look at all the guest metrics in those stores. They're very well run. The staffing is if anything, it's generous. We have plenty of people there to help take care of guests. We're really cognizant that the first visit to a Portillo's will set a tone for people, and we want that first visit to be as good as humanly possible. So, we definitely invest in labor, food costs to generate loyalty on first visit in. So I think that we nailed, I really think it's as simple as we're still a relative unknown, and we didn't market as aggressively pre-opening as we did in Dallas, and you compound that with an uncertain economic environment, and you get off to a slower start. I think, I don't, I think it would be very easy to overreact to this, and we're not going to.

Dennis Geiger

Great. Makes good sense. Then just anything else to highlight as it relates to sort of observed customer behavior changes, be it day part, date of the week, the on-premise, off-premise, anything across channel, particularly as it relates to some of the strength you're starting to see now in March and into April?

Michael Osanloo

I think there was a question someone asked a little bit earlier, which is a truism. I think our drive-throughs have picked up some momentum across the board, and so I think that the efforts we've put in place around improving speed, improving guest satisfaction and problem resolution would imply that, we're getting really back to where we should be in the drive-throughs, but I think there's still momentum ahead of us with improved performance in the drive-throughs.

Operator

[Operator Instructions] Our next question is from Gregory Francfort with Guggenheim Securities. Please proceed.

Arian Razai

Hi, this is Arian Razai for Gregory Francfort. Thanks for taking our questions and thanks for the color on the new store performance. Michael, could you quantify the brand awareness in your markets? That'll be super helpful. And a quick follow-up for Michelle. So, it seems like mix turned positive in almost three years. Anything to unpack there? And I had one more follow-up. Thank you.

Michael Osanloo

I don't know if our brand awareness, as you can imagine, is exceedingly high in Chicagoland. It's actually relatively good in Arizona. What I would tell you is it grows very quickly when we're investing in a market and when we are trying to develop a market, generate trial, generate awareness, and so the best example is in Dallas, with three months of marketing, our brand awareness grew 10 percentage points, and that was material. We see a positive impact on sales, and we actually see a direct correlation between brand awareness and sales, and so we think that there's something to this that we will continue to push.

Michelle Hook

Yes. And to answer your question on the mix side, I have mentioned kiosks before. That continues to drive at least a 15% increase in our average check from that kiosk adoption, and so we're seeing a lift there. We're also seeing some additional attachments, specifically on drinks within all of our channels. So, it's not specific to a channel. So those are the two call-outs I would put out there on mix.

Arian Razai

Got it. Super helpful. And a quick follow-up on loyalty. It seems like there's a lot of data collection and testing. Any surprises you can call out?

Michael Osanloo

That's an interesting question. I don't think there's I think the responsiveness to guests I guess here's I'm very pleasantly surprised by how quickly guests respond to some of our offers. And so, I think there is something to that, that guests really does love us, but they are highly motivated when we put an offer to them. So, it's exceeding my expectations on how well they respond when we offer them something.

Operator

With no further questions in the queue, this will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

Read more current PTLO [analysis and news](#)

View all [earnings call transcripts](#)

Comments

Newest  

